



Betsy Jensen

Number Crunching 2020

To Do List

- Discuss Profits vs Cash Flow
- Expenses to Review
- How to incorporate government payments
- Where to find detailed information

Cash Flow vs Profits

- Profitability matters in the long run, but cash is king in the short run
- Make your payments, and hope for profits next year

Cash Flow vs Profitability

Cash Flow

- Total debt payment, principle and interest
- Family draws from farm
- Income taxes
- Can include off farm income
- Government payments

Profitability

- Management Depreciation
- Interest expense only
- Maybe government payments?

Buy land for \$3000? Rent for \$125?

- \$3000/acre for 20 years at 5% = \$242.15
- Put 20% down and it's \$193.72
- 20% down and 4% Interest = \$177.47
- No examples include property taxes
- And principle is after tax money, so add a few bucks for income taxes

A Cash Flow Story



FARM WITH US
Red River Valley Farmer

Long term investment in a finite resource with stable returns. Seeking parties interested in investing in North Dakota farmland. Returns gained through cash rent or sharecrop lease. 1031 Exchange options available. For additional information see:

Cash Flow Solutions

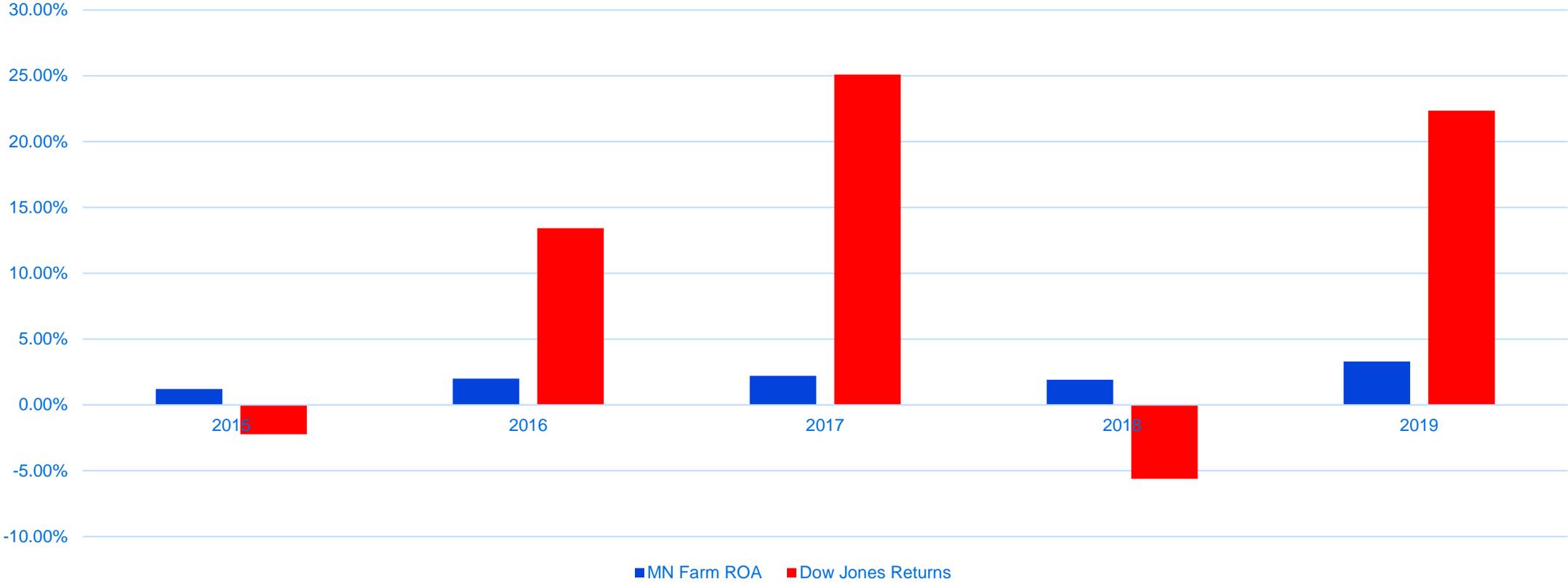
- If cash flow is tight, refinancing is top on the list
- Don't be afraid to sell assets (land?)
- It is common to be profitable, and not be able cash flow. That can be fixed, if you're willing to do it.
- Restructuring can be emotionally hard

Would they invest in your farm?



Take a Business View

Farm Returns vs Stock Market Returns



What if you're not profitable?

- Is it one year or a multi year problem?
- Have you looked at “right sizing” the farm?
- Is it an income or an expense problem?
 - Bad marketing?
 - Poor yields?
 - Expenses too high?

What I hear from farmers

- Repairs
 - I had to buy tires
 - Major unexpected repair
- Input inventory
 - Did you have excess we should move to balance sheet?
- Couldn't sell grain at those prices
 - Operating Interest in 2019 ranged from \$.30 to \$18.65

Biggest Fixes Aren't Easy

- Overhead expenses are tricky to track and not easy to fix
 - \$113.54 to \$13.00
- Overhead farm insurance
 - \$14.00 to \$.97
- Labor expenses
 - \$36.55 to Zero
- Machinery Depreciation
 - \$48.59 to \$3.63
- Total Machinery Expenses
 - \$116.42 to \$43.54

Numbers from 2019 MN Spring Wheat Per Acre Data at Finbin.umn.edu

How about income?

- MN 2019 wheat prices ranged from \$3.76 to \$5.80
 - Falling numbers impacted that price
 - Protein discounts versus high yields
- MN 2019 corn was \$3.25 to \$3.91
- MN 2019 soybean was \$8.00 to \$9.23
 - That excludes seed production

No Quick Fixes

- There are no easy fixes to making the farm more profitable
- We want to blame land rent because it's easy to calculate
- There are huge ranges of expenses, yields and prices

2020 PROJECTED FARM CASH FLOW BY CROP/BEP, Data is p

	<u>WHEAT</u>	<u>SOYBEANS</u>	<u>CORN</u>
ROP INCOME	<u>Acres</u>	<u>Acres</u>	<u>Acres</u>
Acres	1	1	1
Work Units	30	30	55
Yield Per Acre	55.00	37.14	156.66
Price Received per Bushel/Ton	\$ 4.91	\$ 9.29	\$ 3.15
Total Product Return per Acre	\$ 270.05	\$ 345.03	\$ 493.48
Miscellaneous Payments			
Gross Return per Acre	\$ 270.05	\$ 345.03	\$ 493.48
IRECT EXPENSES			
Seed	\$ 19.76	\$ 54.40	\$ 87.54
Fertilizer	\$ 91.20	\$ 25.20	\$ 118.92
Crop Chemicals	\$ 33.02	\$ 29.67	\$ 26.90
Crop Insurance	\$ 10.38	\$ 12.89	\$ 15.32
Fuel and Oil	\$ 13.00	\$ 13.00	\$ 22.00
Repairs	\$ 24.41	\$ 24.36	\$ 44.27
Custom Labor			
Land Rent/Costs	\$ 92.81	\$ 92.81	\$ 92.81
Drying	\$ 2.28	\$ 1.29	\$ 17.95
Operating Interest	\$ 6.85	\$ 8.56	\$ 13.96
Miscellaneous	\$ 1.91	\$ 2.13	\$ 3.40
TOTAL DIRECT EXPENSE	\$ 295.62	\$ 264.31	\$ 443.07

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TOTAL DIRECT EXPENSE	\$ 295.62	\$ 264.31	\$ 443.07
OVERHEAD EXPENSES	No Labor or Management		
Overhead Expenses	\$ 51.14	\$ 53.00	\$ 92.94
TOTAL OVERHEAD EXPENSE	\$ 51.14	\$ 53.00	\$ 92.94
TOTAL EXPENSES/ACRE	\$ 346.76	\$ 317.31	\$ 536.01
NET RETURN/ACRE	\$ (76.71)	\$ 27.72	\$ (42.53)
Estimated Income	\$ 270.05	\$ 345.03	\$ 493.48
Estimated Expense	\$ 346.76	\$ 317.31	\$ 536.01
Profit Per Acre	\$ (76.71)	\$ 27.72	\$ (42.53)
Profit Margin	-22.12%	8.74%	-7.93%
BEP	\$ 6.30	\$ 8.54	\$ 3.42
Net Return \$50/A	\$ 7.21	\$ 9.89	\$ 3.74
Net Return \$100/A	\$ 8.12	\$ 11.24	\$ 4.06
Net Return \$150/A	\$ 9.03	\$ 12.58	\$ 4.38
Net Return \$200/A	\$ 9.94	\$ 13.93	\$ 4.70

Budget Take Aways

Good News

- I didn't include government payments in projections
- Assumes all land is rented
- We have better corn and wheat prices in deferred months

Bad News

- I didn't include any family living
- Land payments and property taxes may be higher than land rent

Government Payments

- They should be included in profitability calculations, if you can accurately estimate them
- Not just disaster payments, but CSP and EQIP
- They may be with us for several years

Best Parting Advice

- Do what's right for your business
- Look at a whole farm picture
 - If there are problems in the whole farm, start digging into the individual enterprises
- Marketing may not be profitable for one enterprise. That's one reason why you raise multiple crops
- Sometimes you have to try and think “business” before farm. What would Warren Buffet do?

For More Information

- Data at finbin.umn.edu
- Agcentric.org
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