

BREAKING BARRIERS

Finding Financing Opportunities During Financial Downturns

Jessica Lehman

First Financial Bank

Top Producer
SUMMIT

#TPSummit19

Overview

- Cash flow vs. “Cash Flow”
- Manage the finances like Production
- An Indispensable Partner to Grow the Operation

**BREAKING
BARRIERS**

CASH FLOW VS “CASH FLOW”

Top Producer
SUMMIT

#TPSummit19

Telling the story

- Having a conversation with your lender is more than just “I need a loan”. It’s a combination between your business’s sales pitch and a background of the business
- Start with the question “What keeps you up at night?”
 - Have forethought into risk and mitigation

Telling the story

- Identify long-term and short-term opportunities
 - Don't let a short-term want prevent a long-term need
 - Are you someone's succession plan?
 - What is the opportunity for growth?

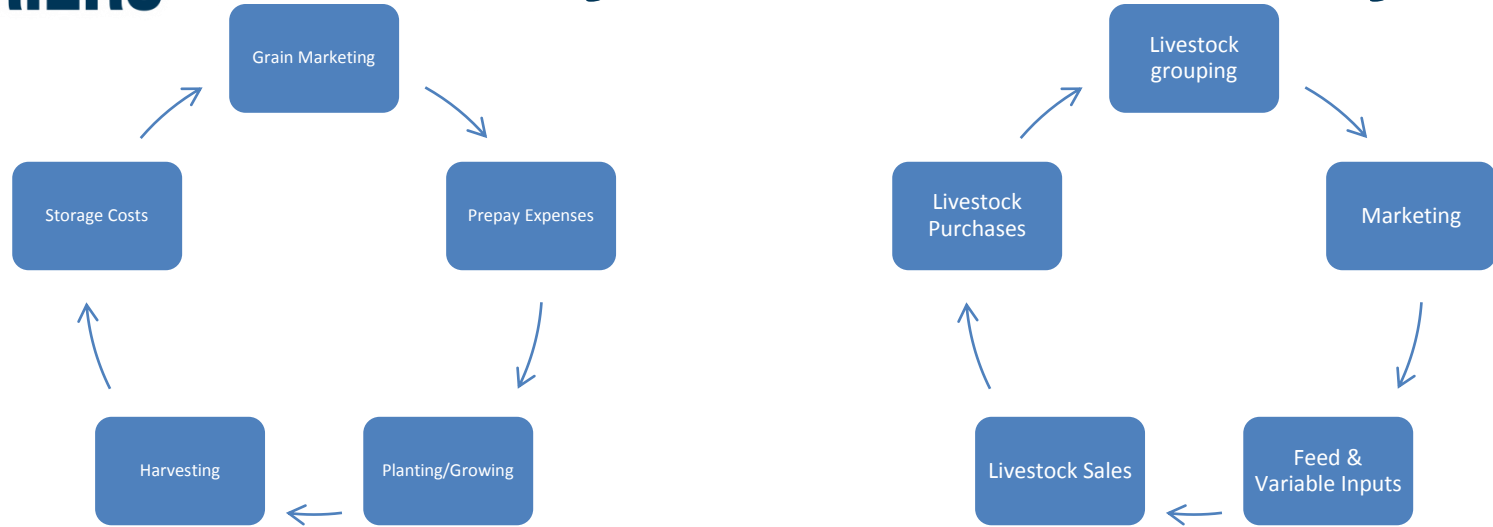
When does growth stop?

Know your borrowing causes

- Short-term growth
- Long-term growth
- Fixed Asset Replacement
- Expansion of Fixed Assets
- Restructuring Liabilities
- Unprofitable Operations
- One-time or unexpected expenses

BREAKING BARRIERS

Know your borrowing cycle



Why these questions?

- From here you can determine both your ability to service debt on an annual basis (Cash flow)
- And your ability to make regular sales and payments throughout the year (Cash flow)
- Future credit requests can also be projected out in a sensitivity analysis

**BREAKING
BARRIERS**

**MANAGE YOUR FINANCES LIKE
YOU DO YOUR PRODUCTION**

**TopProducer
SUMMIT**

#TPSummit19

Fiscal Management

- Accrual Adjusted Income Statements or Fiscal YE Balance Sheets & Tax Returns are the foundation.
 - This should be the norm, not the exception
 - Still isn't the most accurate – is asking for a lot of work by the farmer/bank/accountant
- Focus on true earnings validated by earned equity

Fiscal Management

- The balance sheet is crucial to understanding the operation
 - Think of it in terms of an investment pool; you don't want all stocks or all cash; how can you vary your income producing assets in the right manner

Fiscal Management

- The balance sheet is crucial to understanding the operation
 - Everything flows back to the balance sheet;
 - Family Living
 - Non-income producing assets
 - Debt

Operational & Industry Risk

- Crop cycles used to be 9-10 months. Now it can be up to 24 months, especially with trade issues and pricing/marketing plans
- Different enterprises have different life cycles and margins. They can be risk mitigation or pull down the operation

Structuring your finances

- Understand your margins
 - Plan for Net Farm Income + Interest + Taxes + Depreciation + Amortization
 - Deduct income tax expense, family living & debt service
 - Know your break even points
 - Understand your burn/build-rates
- Fixed costs vs. variable costs

Managerial Questions

Equipment

- Labor vs Equipment
- Does technology bring the right ROI?
- What are my essential needs?
- Do I have Equity?
- Loans vs Leases?

Land

- Percentage owned vs Rented
- Does my cash rent contract match the potential income?
- Debt per acre
- Cap Rates on Farmground

Structuring your finances

- Build your marketing plan and your variable cost expenses around a debt service target + 20%; make profitability the target
- Two trains of thought to avoid
 - Growth at all costs
 - Max yield at all costs

Financial Planning

- Start planning your finances at the same time you start your production plans for the next operating year.
 - Utilize target marketing/pricing dates to double check your budget to your actual performance just as you would spot check fields
 - Plan for worst case scenario.

The Secret Sauce

- Our Chief Credit Officer always says “Ag Credit is an art, not a science, so I need a farmer willing to help us be Picasso and not a 5 year old with broken crayons.”
 - What makes you unique? Why do others want to do business with you? What are your competitive advantages?
 - On the flip side – why do they want to do business with us? What do they want in a lender?

Different financing for different needs

- Banks
- Credit Unions
- The Farm Credit System
- Captive Financing
- Non-traditional lenders
- Investors

Negotiating your operational needs

- Understanding what each type of lender has to offer allows you to negotiate your needs. Think about:
 - Structure
 - Covenants
 - Risk to both lender & operation
 - Value-add vs. lowest interest rate
 - Growing operation vs stable or declining farm

Indispensable Partner

- Find a lender that can have an honest conversation about all these points and more.
- Financial expertise as well as someone who has real world experience that can bring perspective
- Develop relationships with partners who can leverage horizontally across the industry

Recap

- Cash flow vs. “Cash Flow”
- Manage the finances like Agronomy
- An Indispensable Partner to Grow the Operation

A little bit about me...

- Jessica Lehman
 - Director of Agribusiness Banking
 - First Financial Bank, a 14B Bank covering IN, OH, KY & IL
 - 389MM Ag Portfolio; comprehensive suite of products
 - Jessica.Lehman@bankatfirst.com
 - Twitter: @modernagbanker Insta: modernagbanker