BREAKING BARRIERS

Checklist for Loan Renewal Season

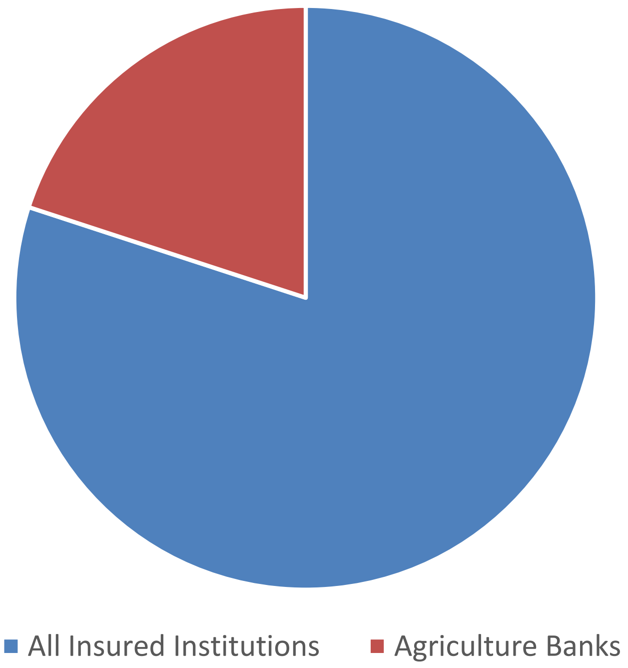
Peter Martin & Kala Jenkins

K·COE ISOM

Insured Institutions in the US

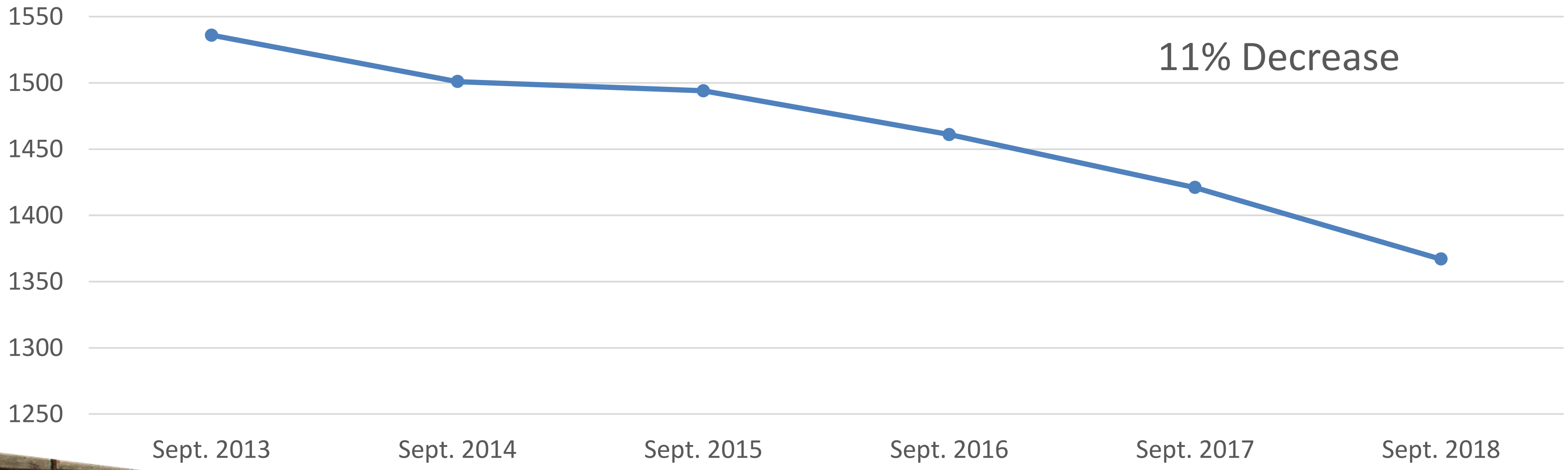
All Insured Institutions:
5,477

Agriculture Banks:
1,367



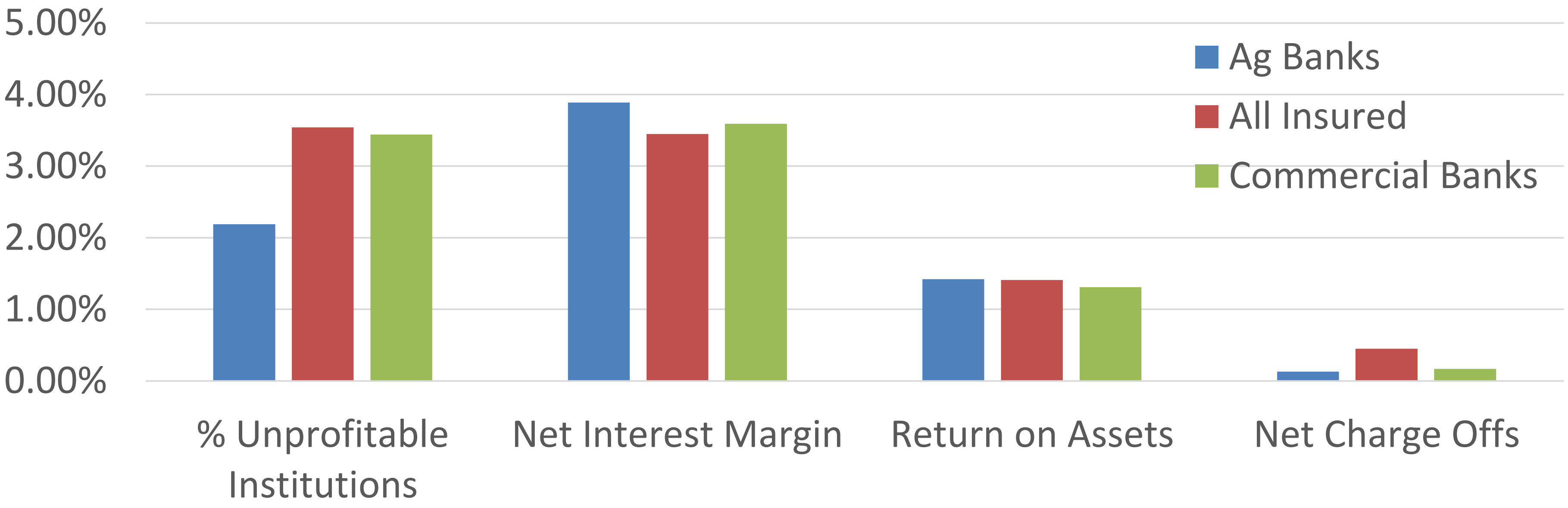
BREAKING BARRIERS

Number of Ag Banks in the US

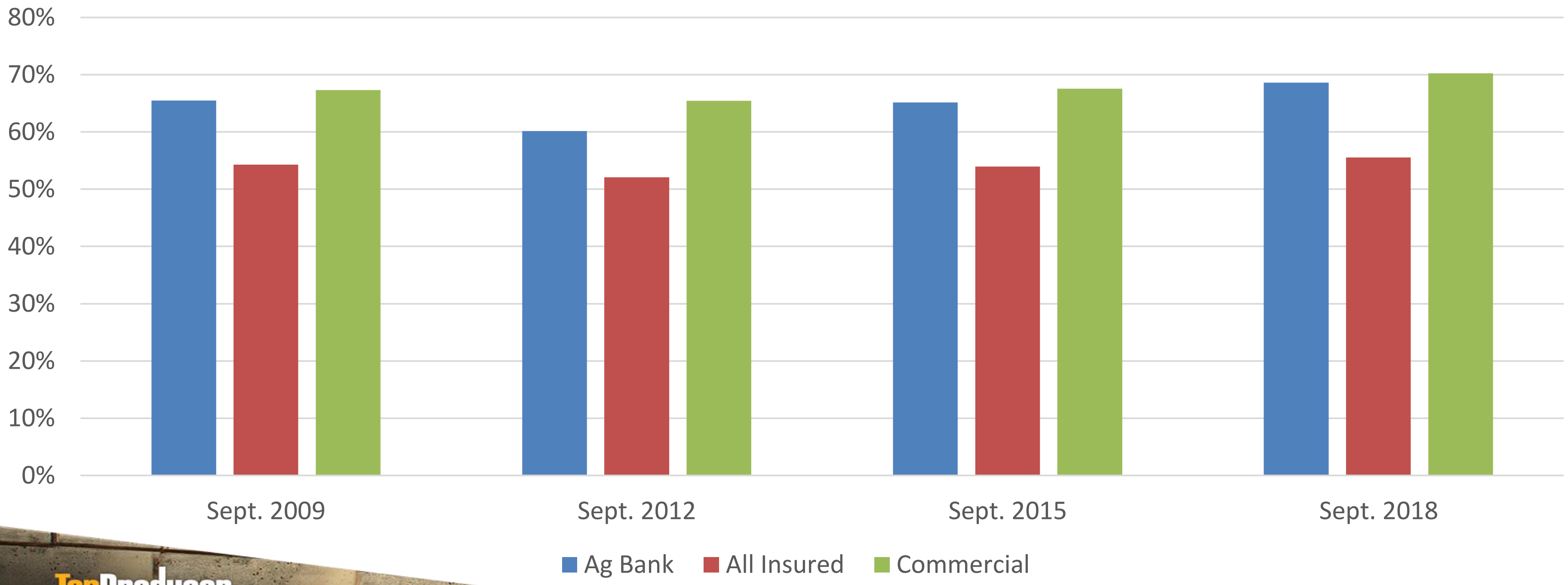


BREAKING BARRIERS

Ag Banks vs Other Banks



Net Loans to Total Assets



Ag Banks Performing Well

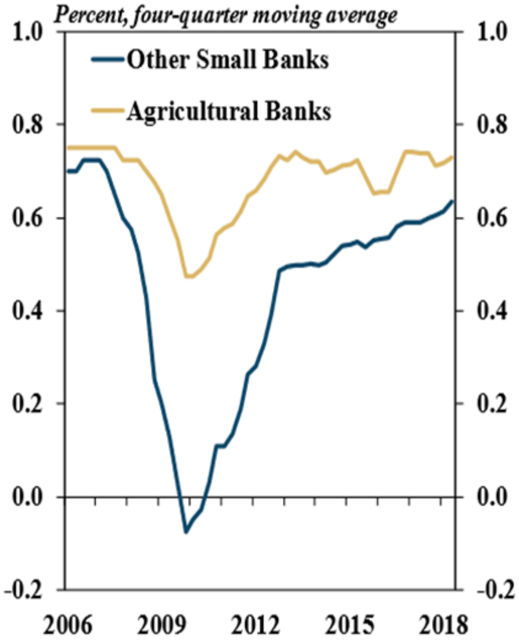
Peter Martin: Where Ag Outperforms Its Peers

JANUARY 20, 2018 03:41 PM

The last time agricultural banks ended the year with a return-on-asset ratio that was lower than their peers was 2006. Except for a few brief anomalies, agricultural banks have routinely demonstrated a better net-interest margin, fewer charge-offs and a much smaller percentage of unprofitable

AGWEB POWERED BY FARM JOURNAL

Return on Average Assets



BREAKING BARRIERS

Things to Watch

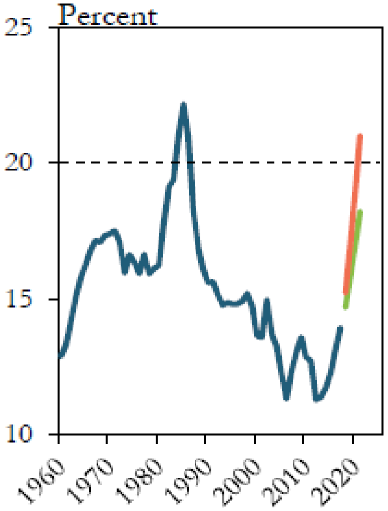
Delinquencies

	Sept. 2016		Sept. 2017		Sept. 2018	
	Ag Bank	All Insured	Ag Bank	All Insured	Ag Bank	All Insured
Loans 30-89 Days Past Due	0.63%	0.65%	0.62%	0.67%	0.65%	0.64%
Noncurrent Loans	0.98%	1.45%	1.08%	1.20%	1.12%	1.02%

BREAKING BARRIERS

Things to Watch

Farm Sector Debt-to-Asset Ratio



Source: USDA and author's calculations.

Number of Years to Reach Debt-to-Asset Ratio of 20%

Annual Change in Farm Debt (columns); Annual Change in Farmland Values (rows)

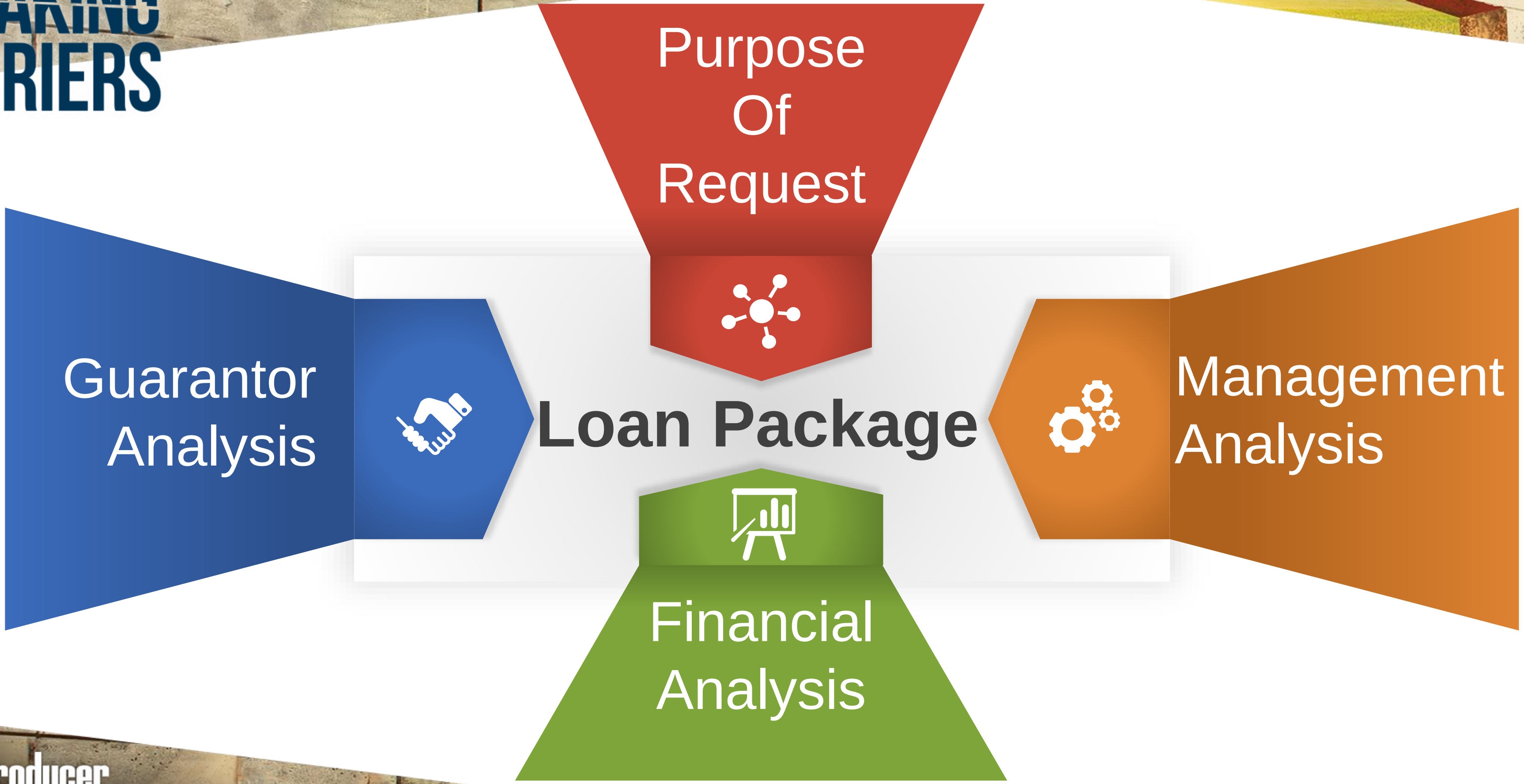
	0%	2%	4%	6%	8%	10%
0%	--	18.2	9.2	6.2	4.7	3.8
-2%	21.9	9.9	6.5	4.8	3.9	3.2
-4%	11.0	6.8	5.0	3.9	3.3	2.8
-6%	7.3	5.1	4.0	3.3	2.8	2.5
-8%	5.4	4.1	3.4	2.9	2.5	2.2
-10%	4.3	3.4	2.9	2.5	2.2	2.0

FEDERAL RESERVE BANK OF KANSAS CITY

Things to Watch

- Keep an eye on bank liquidity (loan to asset), delinquencies, and asset values
- Banks are likely to see a delayed financial impact due to restructure attempts
  - It took about three years for banks in the 80's to show significant impact
- The "trickle-down" effect
- Clarification of lien positions (state specific)

BREAKING BARRIERS



BREAKING BARRIERS

Purpose Of Request

Clear Loan Request

The request is as follows:

$42,000,000 revolving line of credit
~$17,000,000 real estate note
~$2,000,000 equipment note

The revolving line of credit will be used to finance the feedyard and farming operations.

The real estate note will be utilized to:

- Refinance the majority of their existing term debt
- Term out stagnant debt on the operating line
- Prepay and terminate their interest rate SWAP

The equipment note will be used to finance additional term needs not addressed by the real estate note.

- History of the farm
- Ownership structure
- Management overview

Management Analysis

BREAKING BARRIERS

History of Company

Golden Goose Farm, Inc. was started by Donald and Daisy Duck in 1968 with a 2,000 head feedyard in Farmville, CO. The primary business was cattle feeding and corn growing in the late 1960's through the 1970's.

Beginning in 1979 and continuing through the mid-90's, GGF experienced growth from purchasing farm ground with water rights, helping not only the farming operation but also allowing cattle grazing outside the feedyard.

At the end of 2008 Golden Goose Farm, Inc. completed the upgraded lagoon project at the Farmville feedyard and are in compliance with state environmental standards set for the feedyard industry.

Entities

Golden Goose Farm, Inc. a Colorado corporation began business in 1968. The principal business activity of the company is feeding and selling fat cattle for customers.

Golden Duck Farms is a general partnership focused on the farming side of Golden Goose Farm. GDF owns all the farming equipment and is the employer of all the farm employees. GDF is farming 8,600 acres of ground owned by related parties.

Duck Family Enterprises, Inc. is a subchapter S-Corporation that began business in 2009. The corporation is engaged in the business of leasing land to affiliated companies.

BREAKING BARRIERS

Ownership

Entities mentioned earlier are owned by the following individuals:

Alvin, Theodor and Simon Duck are Donald and Daisy's three unmarried sons.

Owners	Golden Goose Farm	Golden Duck Farms	Duck Family Enterprises
Donald	35%	35%	51%
Daisy	35%	35%	49%
Alvin	10%	10%	
Theodor	10%	10%	
Simon	10%	10%	
Total	100%	100%	100%

BREAKING BARRIERS

Management

<ins>Donald Duck</ins>-President and founder of Golden Goose Farms.

<ins>Daisy Duck</ins>- Chief Financial Officer; Founder of Golden Goose Farms and has extensive background in accounting before coming to the farm full time in 1980.

<ins>Alvin Duck</ins>- Risk Manager; Started in 2004. Alvin is Donald’s son and has been on the farm since he graduated from Kansas State

<ins>Theodor Duck</ins>- Feedyard Manager; Started in 2010 with background working at ABC Feedyard for six years

<ins>Simon Duck</ins>- Operations Manager; before rejoining the family operation he worked for Snake Creek Farm for five years.

BREAKING BARRIERS

- Historical financial analysis
- Use accrual basis financials
- Quality of earnings

Financial Analysis

BREAKING BARRIERS

Historical Financial Analysis

Current Assets grew from $43,537,613 in 2016 to $59,673,625 in 2017. This change is the result of a rise in cattle inventory, the overall price of cattle, as well as an increase in margin deposits. GDF has utilized their margin account to hold excess cash so this line item includes both margin deposits and some excess cash.

Current Liabilities increased by $16.7M due to increased borrowing on their line of credit. The line rose from $31.9M in 2016 to $47.3M in 2011 (credit limit was $50M).

Total Equity in GDF decreased from $12,091,422 in 2016 to $10,712,540 in 2017 due primarily to the unrealized loss from their interest rate SWAP.

Balance Sheet Ratios

	2017	2016
Current Ratio	1.16	1.25
Working Capital	$8,116,604	$8,651,275
Debt to Net Worth	5.68	3.63

- Debt service coverage ratio
- Analyze working capital

Financial Analysis

BREAKING BARRIERS

Debt Service Coverage Ratio

$$\frac{\text{(Net Income + Interest + Taxes + Depreciation + Amortization + Other non-cash items +/- Non-recurring expenses +/- Distributions/Contributions)}}{\text{(Principal + Interest payments)}}$$

Know Your Numbers

BREAKING BARRIERS

Theirs

Net Income	$	272,049
Depreciation	$	273,361
Interest Expense	$	99,833
Cash Available to Service Debt	$	-
Interest Expense	$	-
Less: Distributions	$	(1,644,675)
Cash Available for Debt Service	**$**	**(999,432)**
Principal	$	482,999
Interest	$	99,833
Annual Debt Service	$	-
Interest	$	-
Combined Total Debt Service	**$**	**582,832**
Debt Service Coverage Ratio		**-1.71**

Yours

Net Income	$	272,049
Depreciation	$	273,361
Interest Expense	$	99,833
Other non-cash add-backs	$	120,328
Other non-cash add-backs	$	89,395
Cash Available to Service Debt	$	1,704,051
Interest Expense	$	-
Less: Distributions	$	(604,212)
Cash Available for Debt Service	**$**	**1,954,805**
Principal	$	482,999
Interest	$	99,833
Annual Debt Service	$	399,927
Interest	$	-
Combined Total Debt Service	**$**	**982,759**
Debt Service Coverage Ratio		**1.99**
Margin (Shortage)	**$**	**972,046**

Kohl's Working Capital Burn Rate

Revenue	$ 2,000,000	Current Assets	$ 1,000,000
Net Income	$ (200,000)	Current Liabilities	$ 500,000

	Actual	Goal
Current Ratio	2:1	2:1+
Working Capital to Revenue	25%	33%+
Working Capital Burn Rate	2.5	3+

BREAKING BARRIERS

- Projected financial performance
- Risk management & marketing programs
- Collateral analysis

Financial Analysis

Projected Financial Performance

Current Assets are projected to fall slightly to $57,941,000 with a nearly 50% decrease in margin deposits, a rise in prepaid expenses, a reduction in inventories and a corresponding rise in accounts receivable.

Current Liabilities are projected to fall to $41,980,000 primarily on the reduction in GDF's operating line of credit.

Long Term Debt will rise in 2019 to $18,000,000 from $9,342,469. The bulk of this increase will come from the additional term debt being taken out. Further impacting the change in long term debt is the elimination of the long-term liability associated with the SWAP, which is projected to terminate.

As a result in the changes above, total equity will rise from $8,543,318 to $12,107,000.

Balance Sheet Ratios

	Projection	2018
Current Ratio	1.38	1.13
Working Capital	$15,961,000	$6,815,123
Debt to Net Worth	4.95	7.22

Risk Management Plan

GGF & GDF's marketing decisions always start with a break even. These are calculated through KCoe Isom's AgKnowledge team.

- GGF will have the following percentages of cattle hedged within the timeframes
    - February 50% of Cattle on feed
    - May 80% of cattle on feed and 30% of future replacements
    - August 50% of cattle on feed
    - November 70% of cattle on feed
- GDF will have the following percentages of corn hedged
    - August 0%
    - November 70% of anticipated corn usage through July of next calendar year
    - February 30% of anticipated corn usage August through December of current calendar year
    - May 75% of anticipated corn usage August through December of current calendar year

Collateral Analysis

The following shows management's estimate of collateral value for the real estate secured note. Real Estate is shown at estimated market values. Land totals 8,600 acres and is valued at $3,000 per acre for irrigated, $1,250 per acre for dryland, $800 per acre for pasture and each feedyard is individually valued. The chart on the right shows the loan to value ratios for the various term notes. The market value real estate LTV is 97%, assuming a 65% discount. The equipment shows a discounted LTV of 36%. The combined term debt LTV is 82% with over a $4M margin.

Irrigated Land	6,400 Acres	$ 19,320,000
Dryland	1,360 acres	$ 1,700,000
Pasture	480 acres	$ 384,000
Daisy Duck Feedyard	160 acres-20,000 head	$ 1,800,000
Silver Duck Feedyard	160 acres-30,000 head	$ 3,750,000
	8,600 Acres	**$ 26,954,000**

Market Value Real Estate	26,954,000	65%	17,520,100
		Loan	17,000,000
		LTV	97.03%
Machines/Equip	11,178,000	50%	5,589,000
Other	401,000	10%	40,100
		Loan	2,000,000
		LTV	35.53%
	Borrowing Capacity		**23,149,200**
		Debt	19,000,000
		LTV	**82.08%**
		Margin	4,149,200

BREAKING BARRIERS

Guarantor Analysis

- Global analysis
- Market value personal financial statement
- Personal income statement

BREAKING BARRIERS

Peter Martin
970.685.3419
pmartin@kcoe.com
www.kcoe.com

K·COE ISOM

Kala Jenkins
812.620.3046
kala.jenkins@kcoe.com
www.kcoe.com