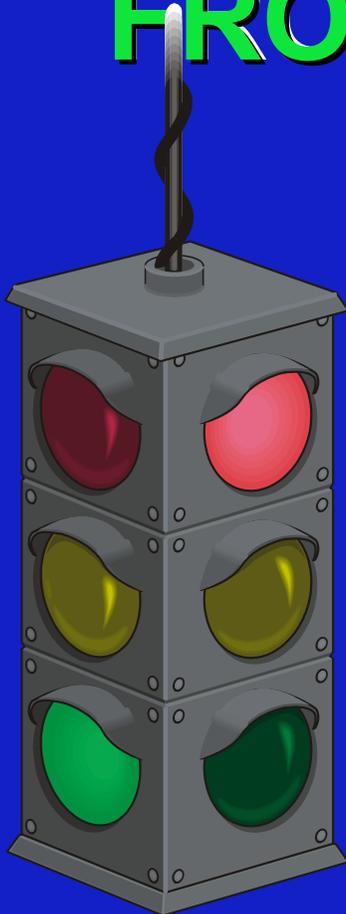


FINANCING VALUE ADDED -- GETTING THE GREEN LIGHT FROM YOUR BANKER



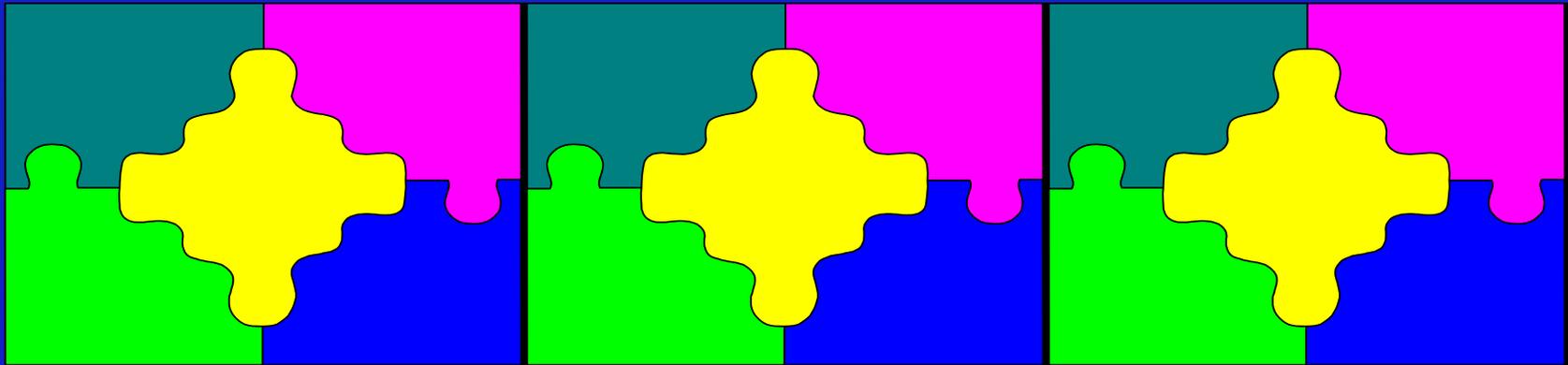
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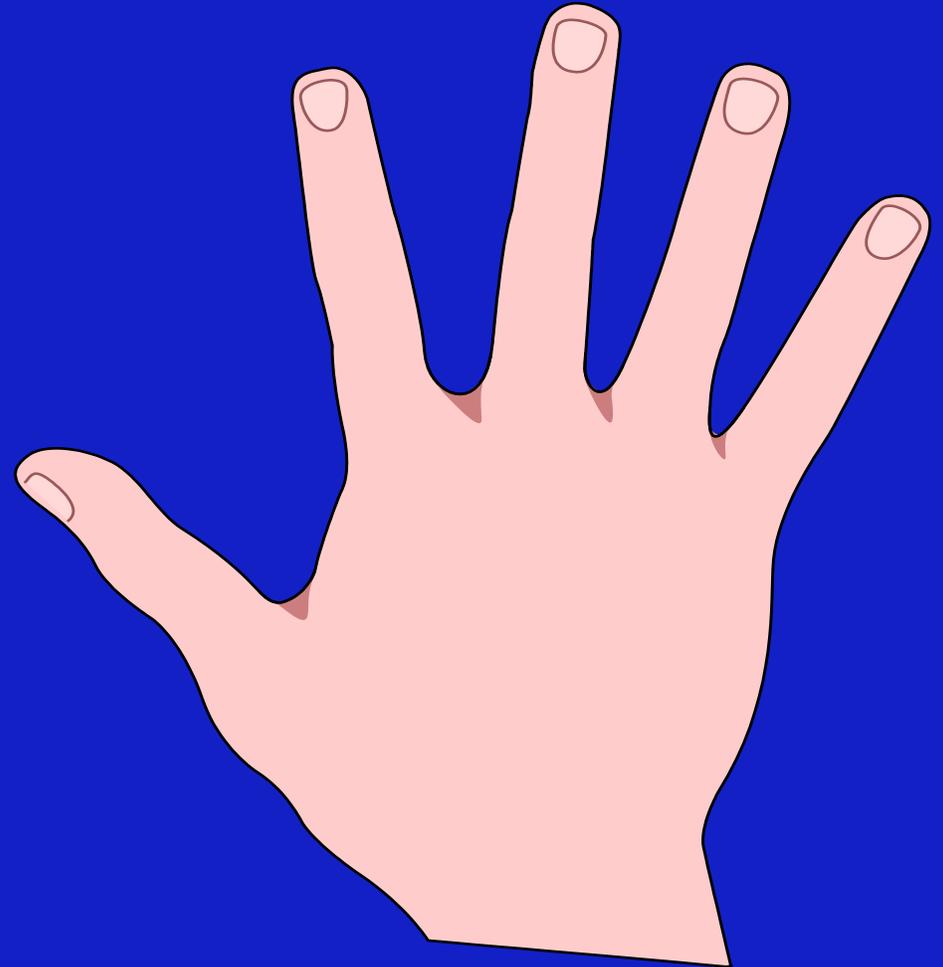
THE ADDED VALUE EQUATION

**Strengths - Weaknesses >
Uncertainties**



WHAT DOES IT TAKE TO ATTRACT FINANCING?

- **C**apacity--Repayment ability
- **C**apital--*Financial condition*
- **C**haracter--Management
- **C**ollateral--*Quality and value*
- **C**onditions--*Purpose, amount and requirements*
 - *External*
 - *Internal*



START UP STAGES FOR ADDED VALUE

- ✓ Initial meeting
- ✓ Organization formed
- ✓ Secure seed money
- ✓ Feasibility study
- ✓ Develop business plan
 - ✓ Operation plan
 - ✓ Marketing plan
 - ✓ Management plan
 - ✓ Financial plan
- ✓ Develop prospectus
- ✓ Membership drive
- ✓ Annual meeting
- ✓ Finance project
- ✓ Hire manager
- ✓ Project construction
- ✓ Begin operation

CONDUCT FEASIBILITY STUDY



- Use third-party assistance
- Market analysis/Marketing plan:
 - Supply and demand characteristics (inputs & output)
 - Market share
 - Pricing trends and sensitivity for finished goods and raw material
 - Transportation of products and raw materials
 - Response of competitors to additional supplies/suppliers
 - Technology employed
 - Relative cost competitiveness

FEASIBILITY STUDY (CONT.)

- **Ease of market entry**
 - **Contracts with buyers**
- **Realistic income projections**
 - **“What if” assessment**
 - **Worst / best case scenarios**
- **Capitalization**



COMPREHENSIVE BUSINESS PLAN

- **Markets**

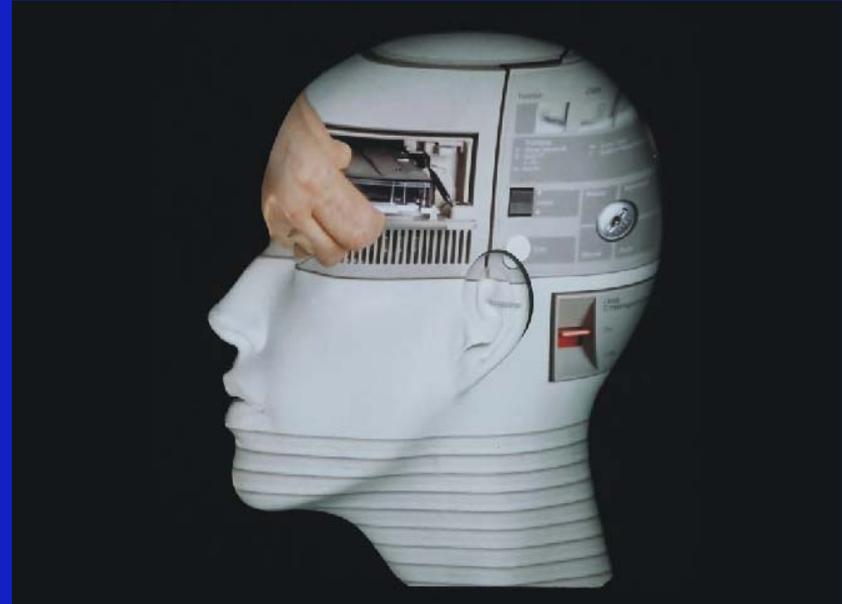
- Who
- What
- How much

- **Management**

- Board or local leadership
- Operational

- **Money**

- Capital
- Cash flow



MARKETING ELEMENTS OF BUSINESS PLAN

- *Marketing plan*
 - Strategic and tactical orientation
 - Who are your customers, competitors?
 - Distribution channels
 - Alliances and partnering
 - Nature of marketing contract(s) - legal review
 - Contingencies / back up plans



MANAGEMENT ELEMENTS OF BUSINESS PLAN

- *Operating plan*
 - Building facilities
 - Utilize engineers and technology experts
 - Plan for cost overruns (minimum of 10%)
 - Select management
 - Broad-based search
 - Employee early in process
 - Compensate to attract the best
 - Reward based on long-term results



MONEY ELEMENTS OF BUSINESS PLAN



- *Financial plan*
 - Return on Investment
 - Equity
 - Debt
 - Guarantees?

And now more about DEBT...

RISK AND RETURN-- WHAT ADDS VALUE FOR YOU?

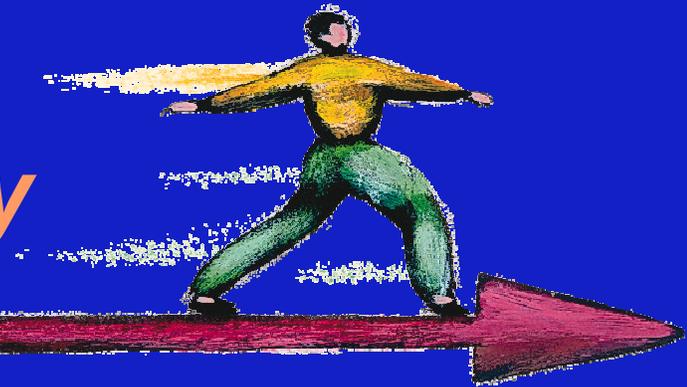
- **Return on investment?**
 - **Should equity investors expect 15% for a value-added venture?**
 - **Higher target w/ venture capital involved - 20%-25%**
- **Return for additional expense?**
- **Investor analysis should not include return from the sale of any raw material input - Project basis only!**
- **Ability to stay on the farm?**

***When should you expect to break even with a new venture?
Three years?***

ITEMS TO CONSIDER WHEN PLANNING A VALUE-ADDED PROJECT

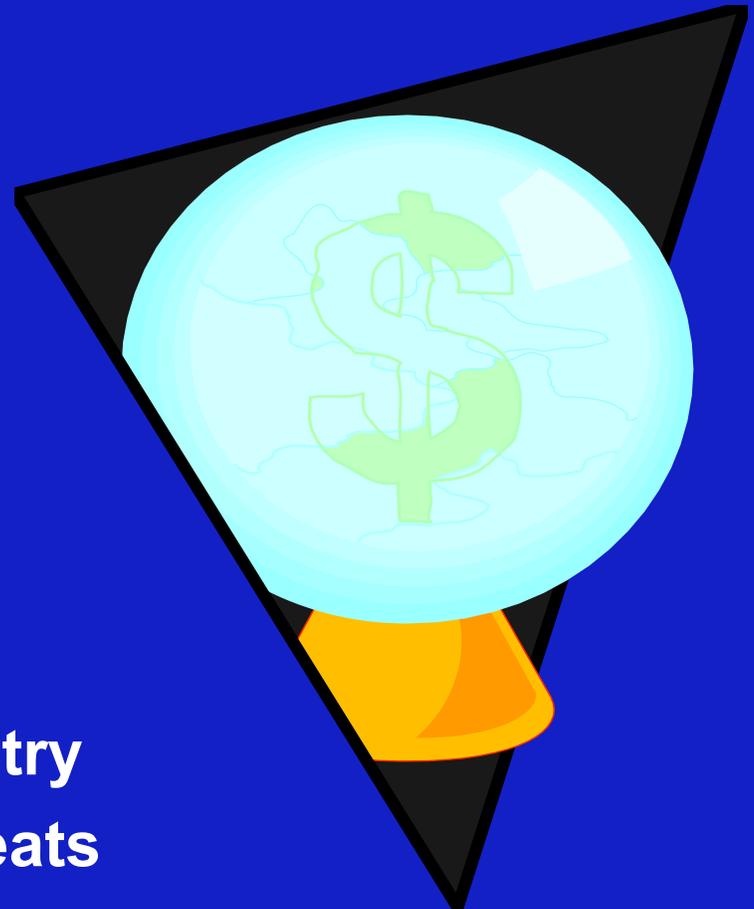
- Total cost of plant, property and equipment
- Start up expense planning to full capacity period
- Beginning working capital

Plan to have 40-60% equity



CAPACITY--REPAYMENT ABILITY DEPENDS ON...

- General condition of the economy
- Competition
- The need for goods and services sold
- Technical changes in the industry
- Regulatory climate
- Cyclical nature of the industry
- Environmental or other threats



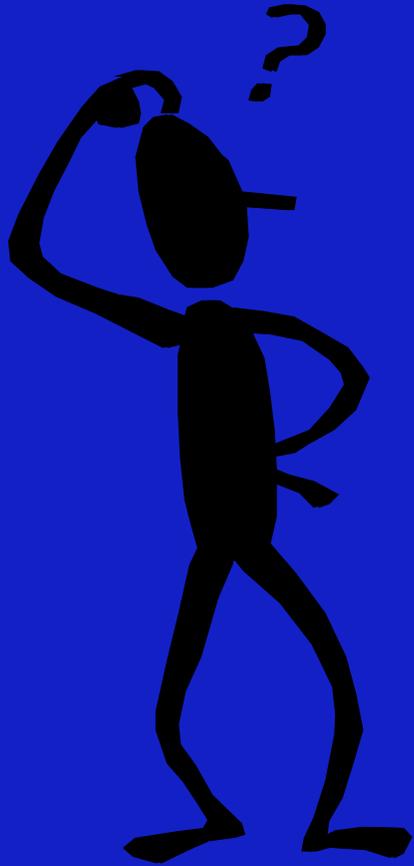
KEYS TO SUCCESS



- **Leadership - Local investors; JV partners; project manager**
- **Excellent management**
- **Sound business and marketing plan**
- **Excellent risk management plan and execution - solid contracts**
- **Well capitalized to cushion unplanned adversity**
- **Communications with investors: frequent, open, honest**
- **Remember to focus on value of your stock, not just return to products committed**
- **Remembering your no longer a commodity or livestock producer, but that added value processor**

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