Balance Sheet Outlook: Strong but Deteriorating Financial Positions on Grain Farms

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FBFM

Farm Business Farm Management Association

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Topic

- Examine balance sheet on Illinois grain farms

Lessons

- Cash flow shortages
- Working capital declines
- Solid, declining equity and debt-to-asset position

FBFM

- Farm record-keeping in Illinois

- Over 5,500 farms
- Over 65 field staff
- Around 25% of acres in Illinois

- Representative of commercial grain farms

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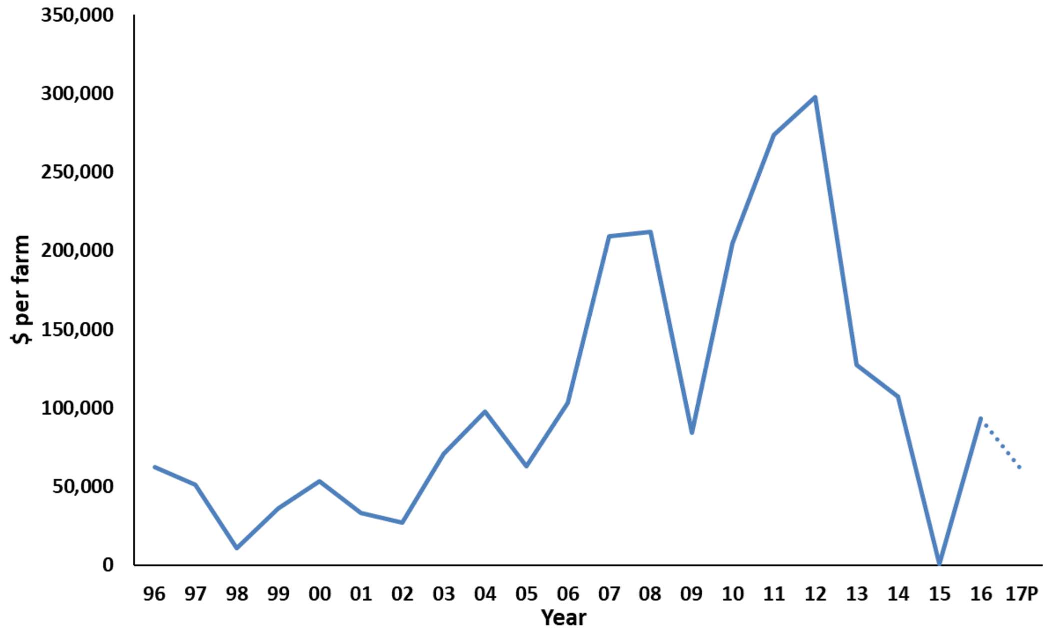
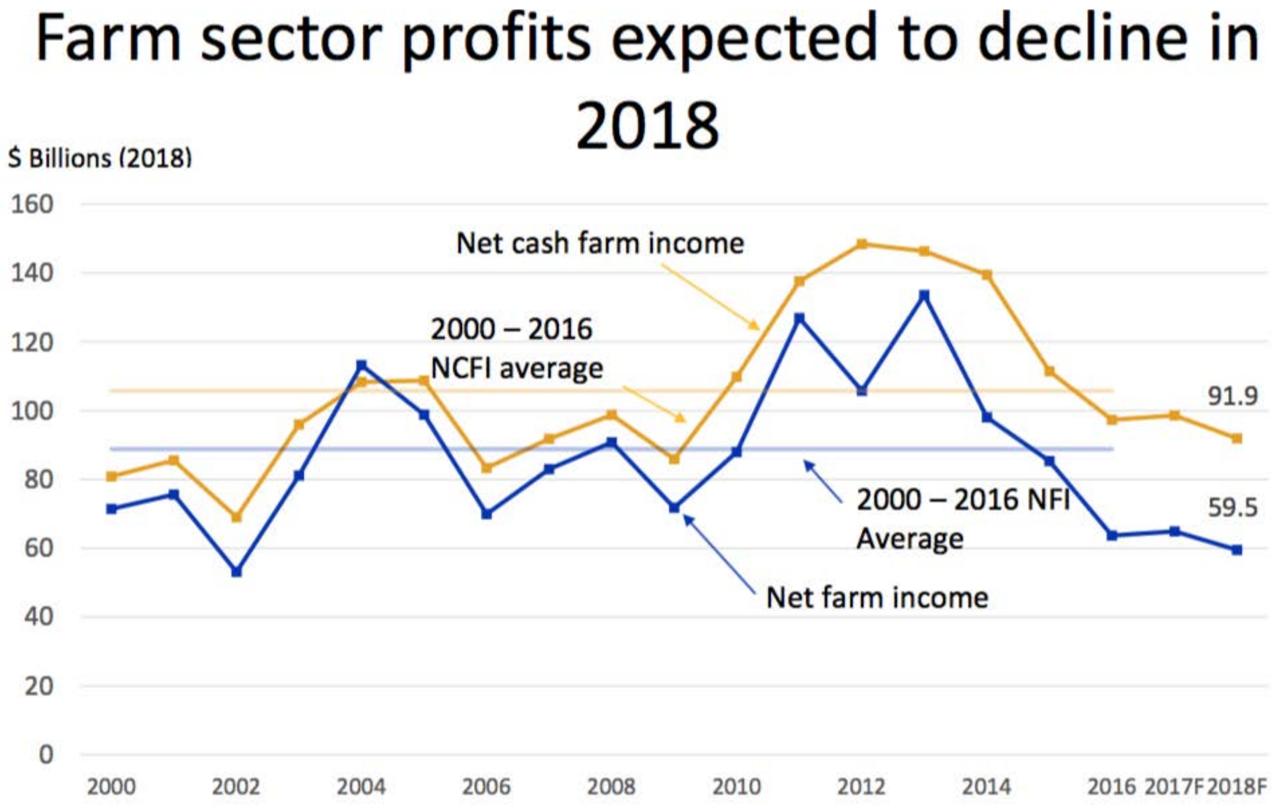
Net Income and Prospects

Net Income, Illinois Grain Farms Enrolled in FBFM

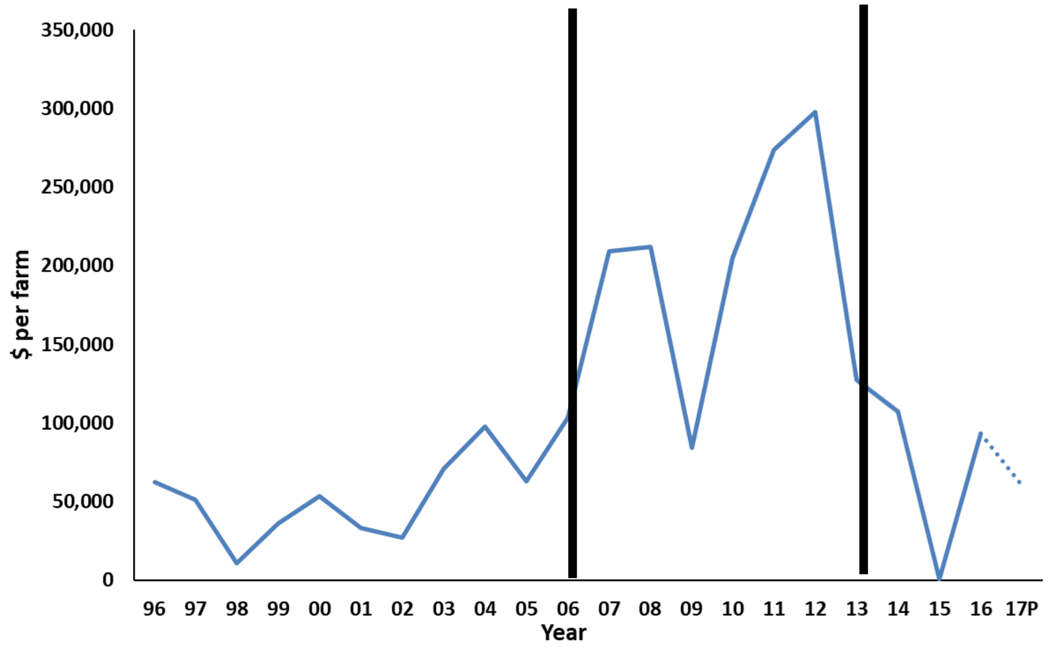




From ERS, presentation by
Carrie Litkowski

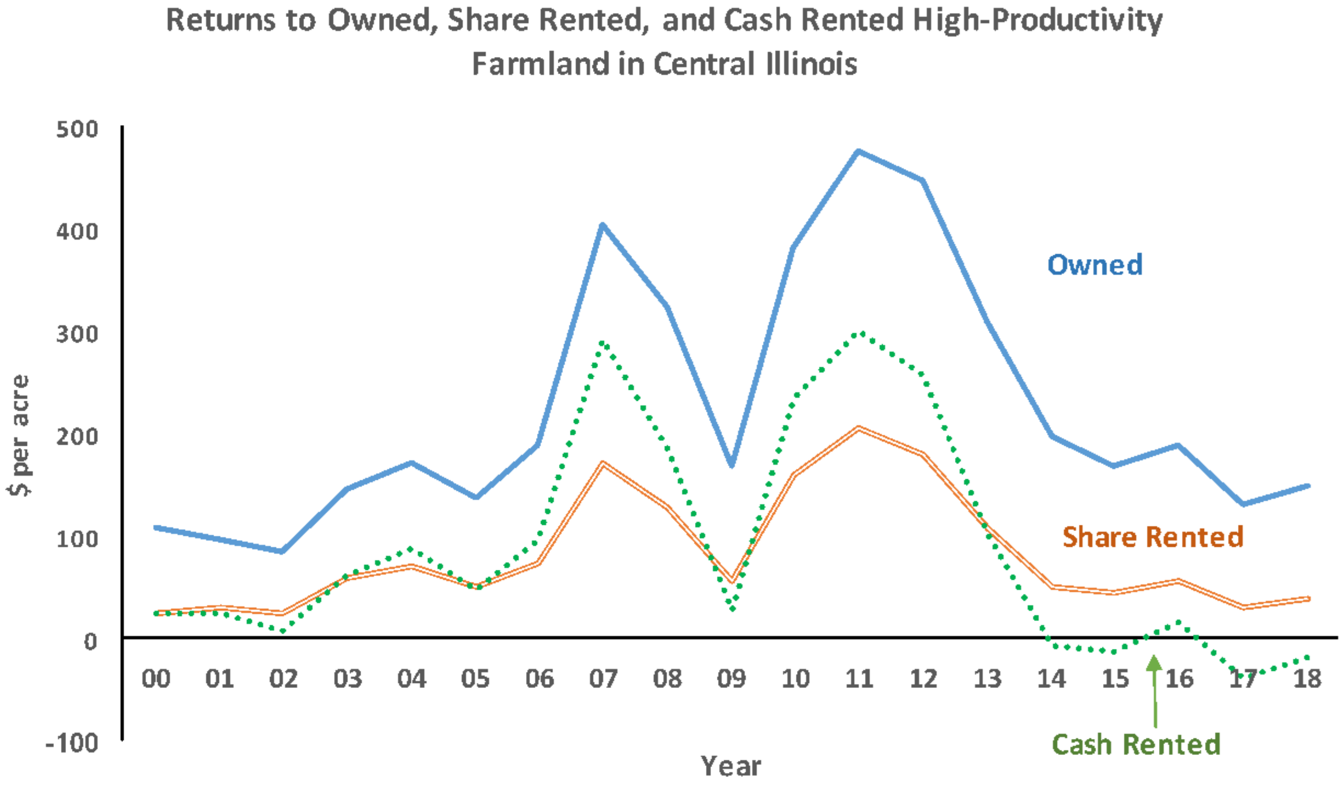
Net Income and Prospects

Net Income, Illinois Grain Farms Enrolled in FBFM



- Fall off in income since 2012
- Low level since 2012 lead to deteriorating financial conditions
- 2015 is trend yields, prices like today

Returns to Alternative Land Ownership



- Generating low/negative returns from cash rented farmland

- Positive returns from owned and share rented farmland

Balance Sheet, Average Non-Corporate, Illinois Grain Farms, End of Year, 2016

	Per Acre			Per Acre	
Current Assets	962	20%	Current Liabilities	469	10%
Intermediate Assets	1,234	25%	Intermediate Liabilities	116	2%
Fixed Asset	2,654	55%	Long-term Liabilities	450	9%
Total Assets	4,850		Total Liabilities	1,035	21%
			Net Worth	3,815	79%
				4,850	

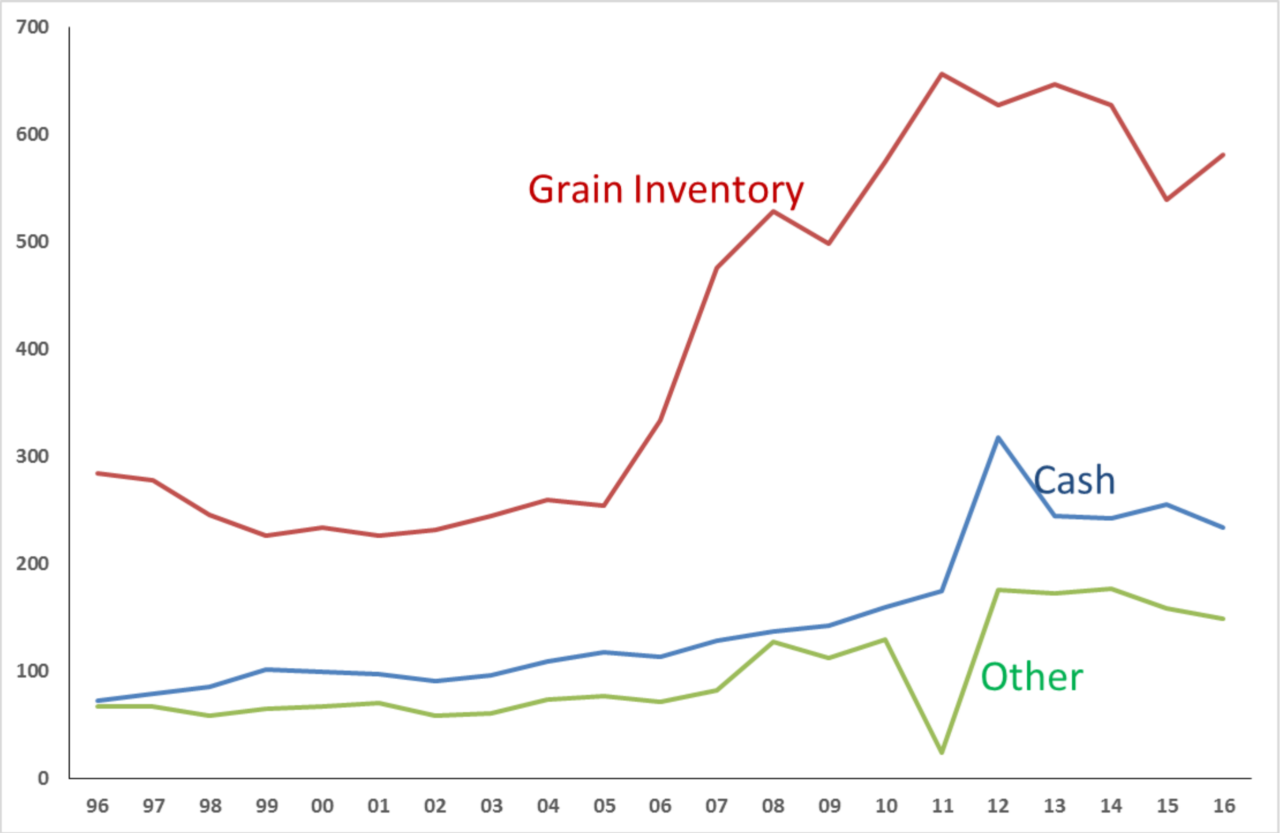
- 26% of acres are owned
- Market value balance sheet from Illinois FBFM
- Land at ¾ market value
- Machinery at full value

Current Ratio

- Significant increases in current ratio and working capital from 2006 to 2012
- Eroding working capital since 2013 but not to levels of 96-06 yet (1.76 average)

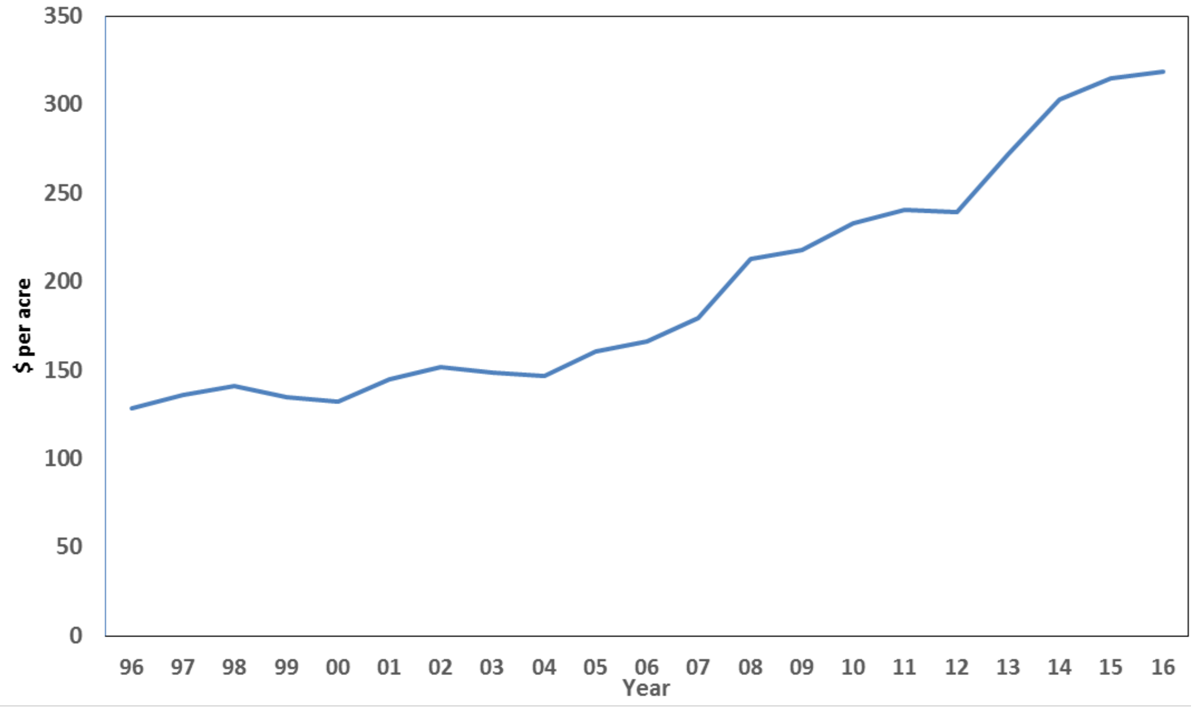
Current Assets (per acre)

All values nominal in this and following slides



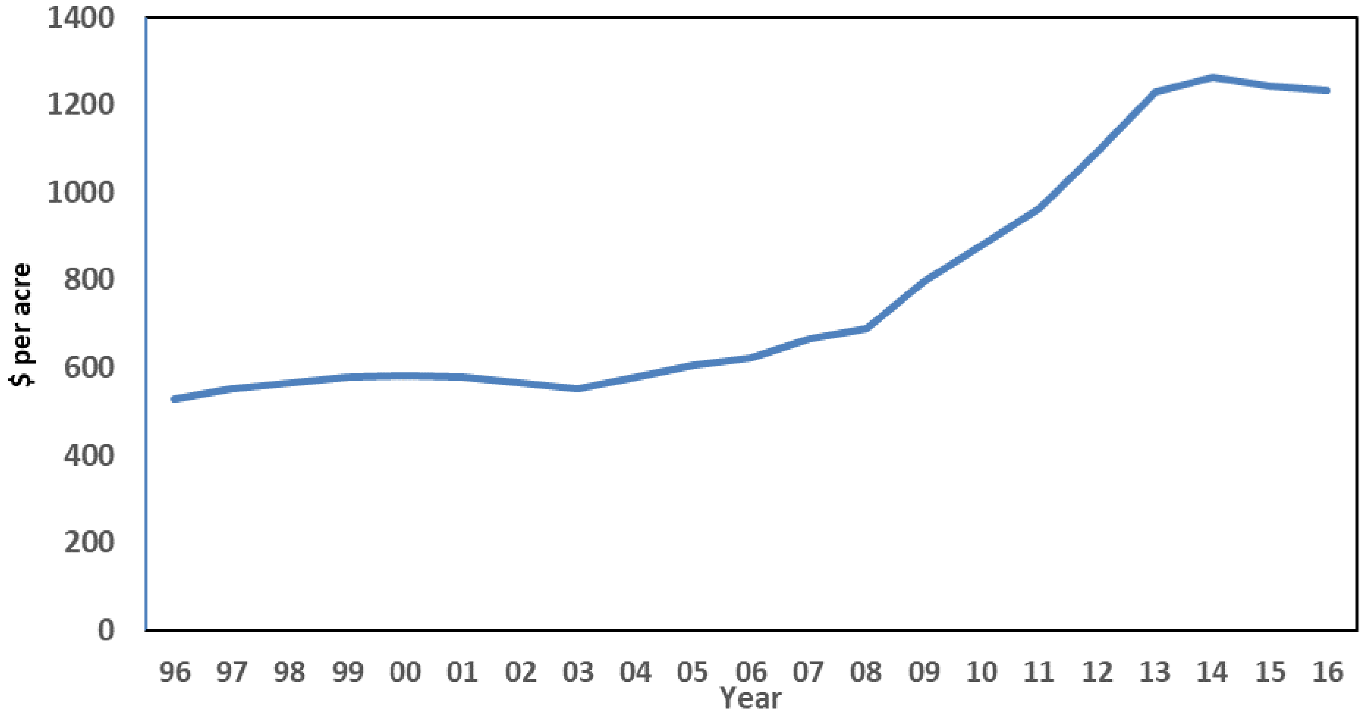
- Large increase in grain inventories because of higher commodity prices, then declines
- Cash increased and stabilized
- Other is prepaid expenses, accrued government payments, accounts receivable

Operating Notes (per acre)



- Increase in operating notes over entire period
- Concerns with terming it out (re-balancing)
- Concerns with dealer financing

Intermediate Assets (per acre)



- Primarily machinery
- Large increases from 2006 to 2013
  - Purchases
  - Increases in prices
- Some concerns with prices of larger equipment (e.p., 24 row and larger planters)

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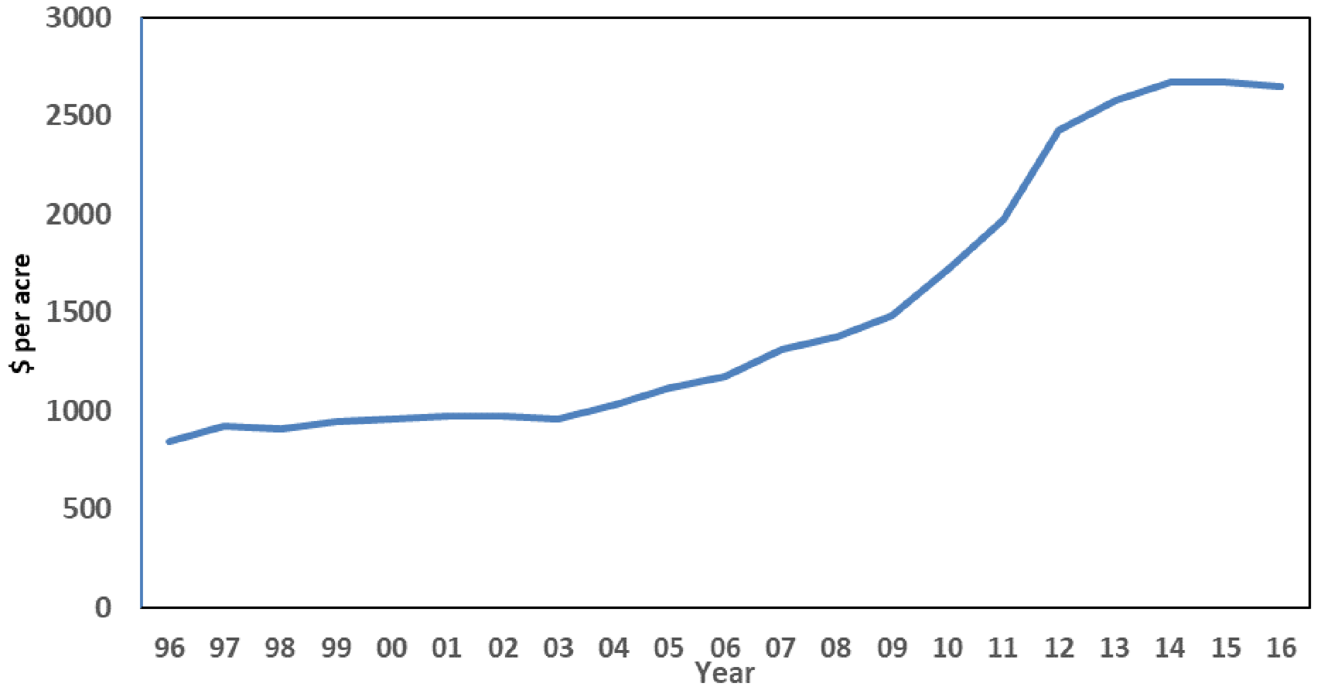
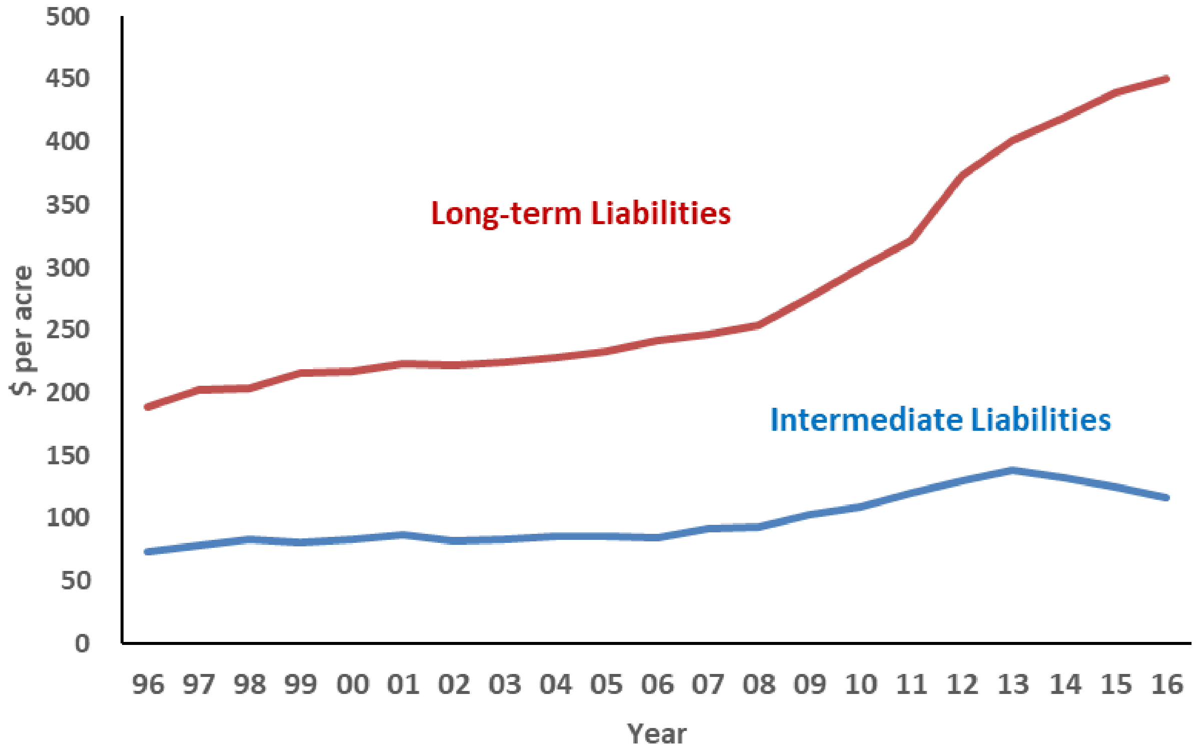
Long-term Assets (per acre)



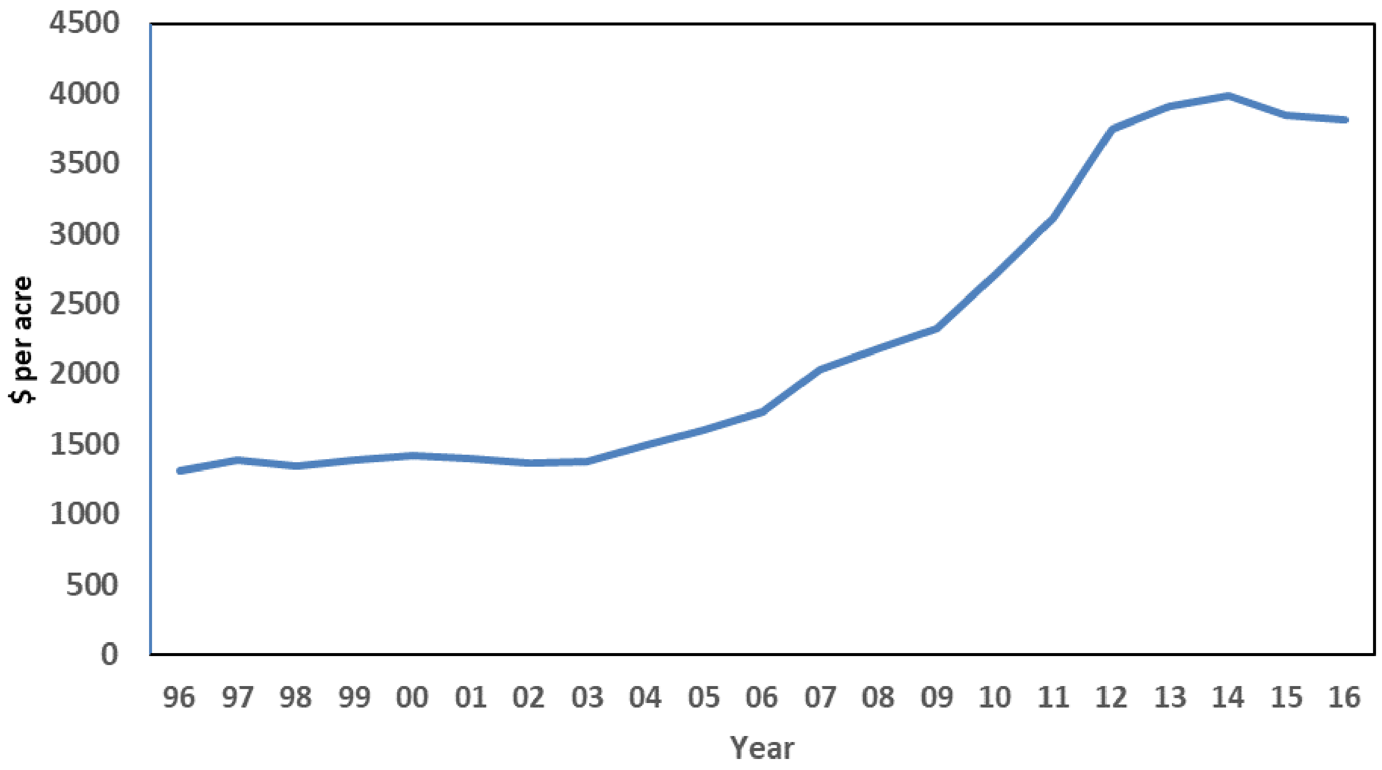
- Primarily land
- Farmland prices stopped increasing

Non-Current Liabilities (per acre)



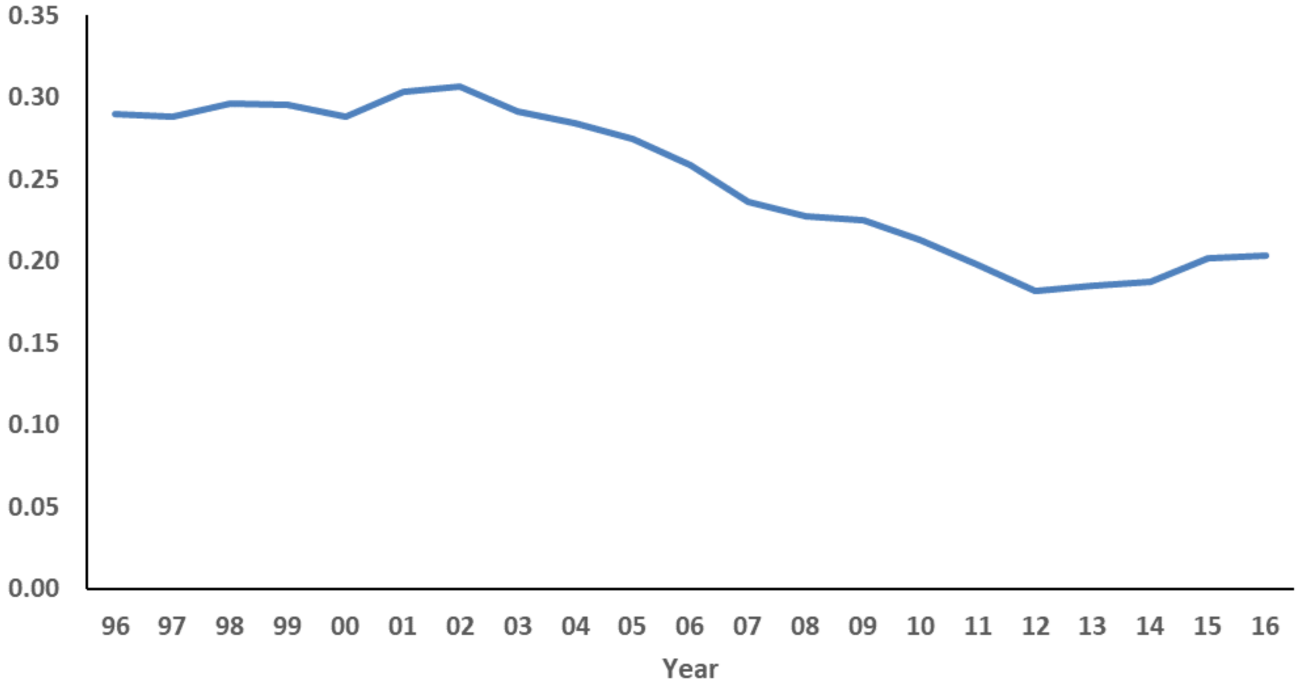
- Increase in long-term liabilities (note low interest rates)
- Decline in intermediate in 2012

Equity (per acre)



- Large increase in equity from 2006 to 2013.
- Stabilizing to slight decreases since 2013

Debt-To-Asset Ratio



- Slight increases in recent years, but still at very low levels

Balance Sheet Items, End of 2016
Age of Operator

Age	Current Ratio	Working Capital ($ per acre)	Debt-To-Asset Ratio	Percent Owned
Less than 30	2.80	$253	.48	7%
30 to 39	1.59	$272	.41	12%
40 to 49	1.57	$327	.31	16%
50 to 60	1.73	$391	.23	19%
Over 60	3.01	$701	.11	35%

Summary

- Financial positons are eroding
  - Working capital fairly rapidly
  - Equity and debt-to-assets declining

- Some financial stress
  - Tough decisions
  - Cash rents will continue to be in focus

- A bad year in 2018:
  - Trend line yields, prices similar to today