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

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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
Net Income and Prospects

Net Income, Illinois Grain Farms Enrolled in FBFM

Farm sector profits expected to decline in 2018

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

<table>
<thead>
<tr>
<th></th>
<th>Per Acre</th>
<th>Per Acre</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td>962</td>
<td>469</td>
</tr>
<tr>
<td><strong>Intermediate Assets</strong></td>
<td>1,234</td>
<td>116</td>
</tr>
<tr>
<td><strong>Fixed Asset</strong></td>
<td>2,654</td>
<td>450</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>4,850</td>
<td>1,035</td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Intermediate Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Long-term Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Worth</strong></td>
<td></td>
<td>3,815</td>
</tr>
</tbody>
</table>

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

\[ \text{Net Worth} = 4,850 \times 0.26 = 1,252 \]
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.g., 24 row and larger planters)
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

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

• Financial positions 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