

# **“Building A Financial Management Foundation”**

**Amanda Hammell**  
**Director, CFS Agriculture**







**“If you can't  
measure it,  
you can't  
manage it.”**

**-Peter Drucker**

# What does my Banker look at?





# Market & Competitiveness

- Identify Custom Feedlot or Owner/Operator
- Program Participation
  - Ontario Corn Fed Beef
  - CRSB
  - VBP+
- Production Parameters
  - Pen closeouts/similar report
  - Average Cost of Gain
  - Feed Conversion Rate (lbs of feed /1 lb of weight gain)



# Quality of Management

- Customer understands cost of production and ability to monitor
- Use of professional business advisors
- Capable of Completing Projections
  - Maintain vs Expand
  - Capital budget
  - Realistic Assumptions





What could I have done Differently?



# Risk Mitigation

- Identify & Evaluate your businesses Risks
- Develop Strategies to mitigate major risks to your business.
  - Production, commodity prices, input costs, labor
  - Interest rates, FX, working capital
  - Changing technology
  - Environmental regulation, trade,
  - Changing consumer preferences & demands





# Management Information Systems

- Accrual financial statements
- Internal financial reporting, cash vs accrual
- Marketing/Hedging Strategies
- Ability to formulate cost of production



# Key Financial Ratios

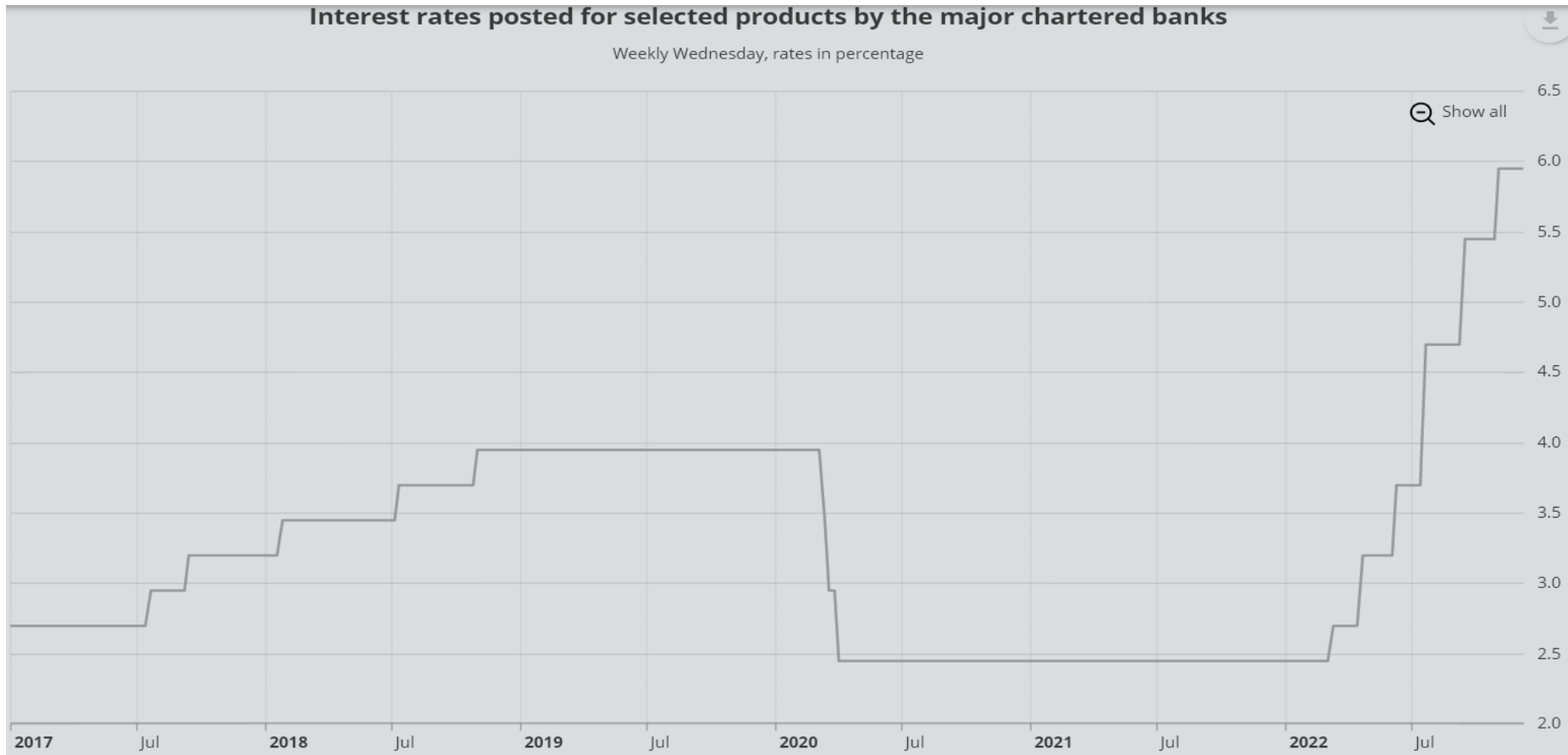
- Working Capital (Current Ratio) (50%)
  - Current Assets/Current Liabilities
- Debt Servicing Ratio (25%)
  - 3 yr EBITDA to scheduled P & I
- Debt/Tangible Net Worth (25%)
  - Assessed on fair market value
- Ask your lender to show you how they calculate these ratios, understand your cash flow statement. Understand the difference between balance sheet and income statement

# Rising Interest Rates, Are we Done???





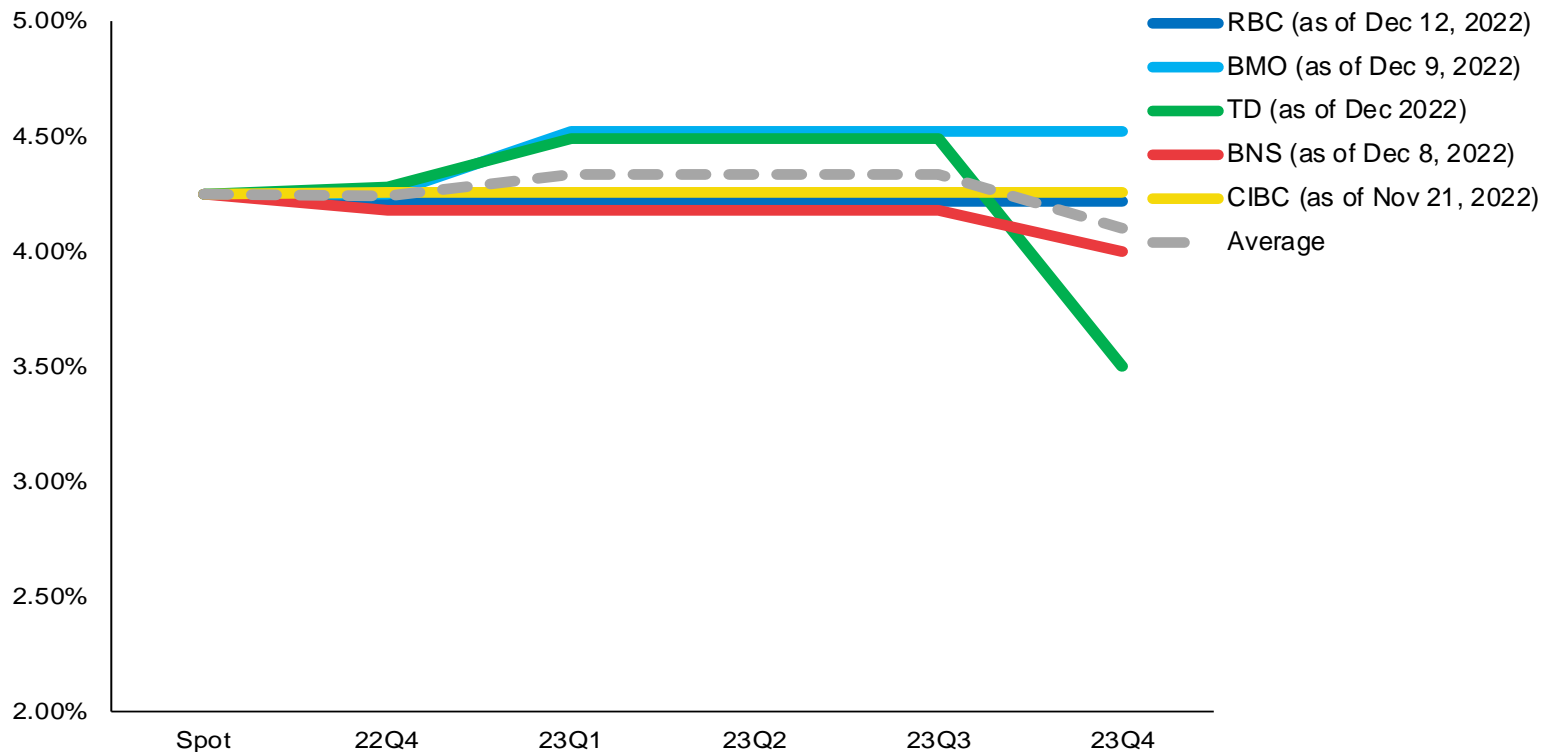
# Interest Rate Historical



# North American Market Update

## Forecasts from the Big Five Banks

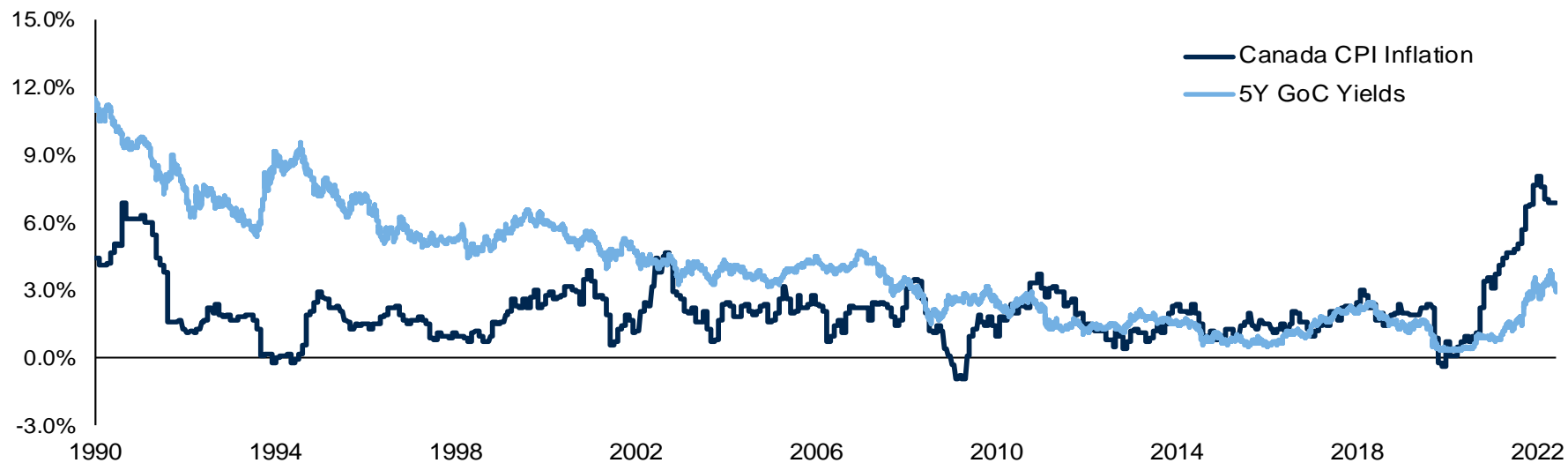
### Overnight Rate Forecasts (2022) 🇨🇦



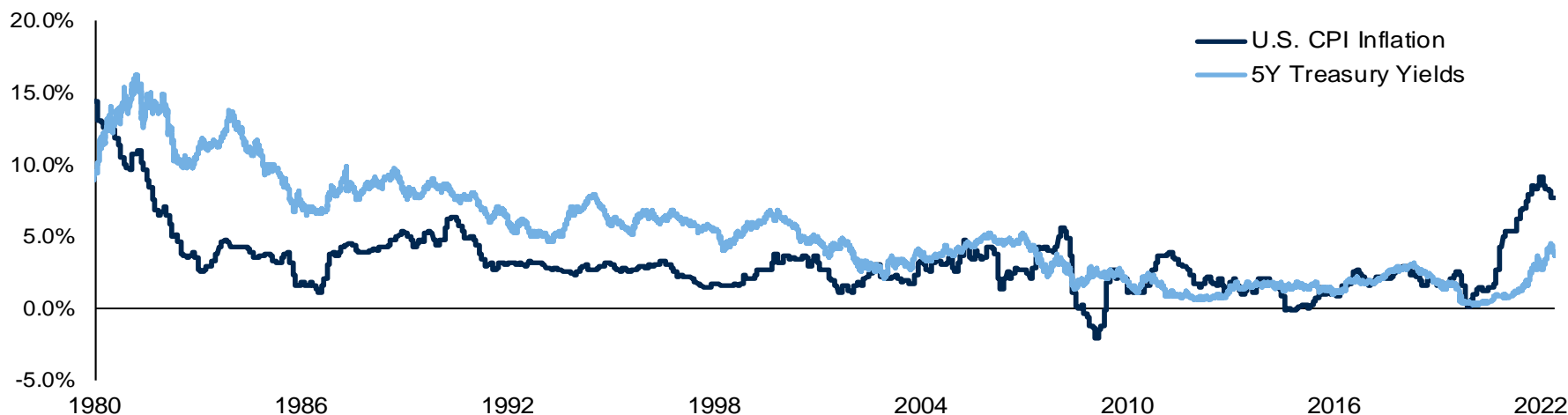
## North American Market Update

### CPI Inflation vs. Government Bond Yields

#### Historical Canada CPI Inflation vs. 5Y GoC Yields



#### Historical U.S. CPI Inflation vs. 5Y Treasury Yields





# Impact on Business Cashflow

## Operating Credit

	Dec-21	Dec-22
Loan Size	\$1MM	\$1MM
Term:	Open	Open
Amort:	On Demand	On Demand
Rate	2.45%	6.45%
Payment Type	Interest Only	Interest Only
Interest Cost Annually	\$24,500	\$64,500
Interest Cost Daily	\$67.12/day	\$176.71/day

Assume \$2,000 replacements, 1MM buys 500 head. On feed for 120 days **\$16.10/head**

Today's interest cost for carrying those same cattle **\$42.41/head**

# Impact on Business Cashflow

Will have Larger impact on Longer Amortizations

	Dec-21	Dec-22
Loan Size	\$1MM	\$1MM
Term:	5 years	5 years
Amort:	25 years	25 years
Rate	2.35%	5.75%
Payment Type	Blended	Blended
Debt Service (1st 12 months)	\$52,992.00	\$75,565.00
Cash Flow (to meet 1.25x DSC)	\$66,240.00	\$94,456.00

Additional cash flow required to support \$1MM new debt (or renewed debt at current market rates - **\$28,216**

Or same cash flow supports less debt: **\$701,300**

# Interest Rate Strategies

- Individual to your farm
- Consider variable vs fixed rates
  - Prime Lending
  - Banker's Acceptance – very specialized, not for everyone
- Forward Fix Options – ask your lender
- Sensitize for increasing interest rates – don't forget to include your operating lines



# Contact Information

Amanda Hammell, Director CFS Agriculture

519-375-1743 (cell)

[Amanda.hammell@rbc.com](mailto:Amanda.hammell@rbc.com)

