KNOWLEDGE EXCHANGE PARTNER

VOLUME 12 | ISSUE 6 | JUNE 2018

THIS ISSUE:

Editor: Chris Laughton
Chris.Laughton@FarmCreditEast.com

Contributors:
Tom Cosgrove
Chris Laughton
Robert Smith

***"Benchmark Solutions* is provided free of charge, and the data can be used to help members manage their businesses."**

Benchmark Solutions: How Does Your Business Measure Up?

Farm Credit East offers benchmarking data for a number of industries we finance, including dairy, fruit, vegetable, cash field, timber, greenhouse and nursery.

Our largest and longest-running benchmarks program is the *Northeast Dairy Farm Summary* which reports on financial data from hundreds of Northeast dairy farms. Similar to other industry benchmarks, Farm Credit East members can get a customized *MyFarm* report that compares their farm's financials to the benchmark.

This *Knowledge Exchange Partner* focuses on the benchmarks from other industries Farm Credit East serves. For these industries, a customized *Benchmark Solutions* report compares members' financial metrics to those of the benchmark for their industry. This report is provided free of charge, and the data can be used to help members manage their businesses. Figure 1 shows an example from the *Benchmark Solutions* chart series.

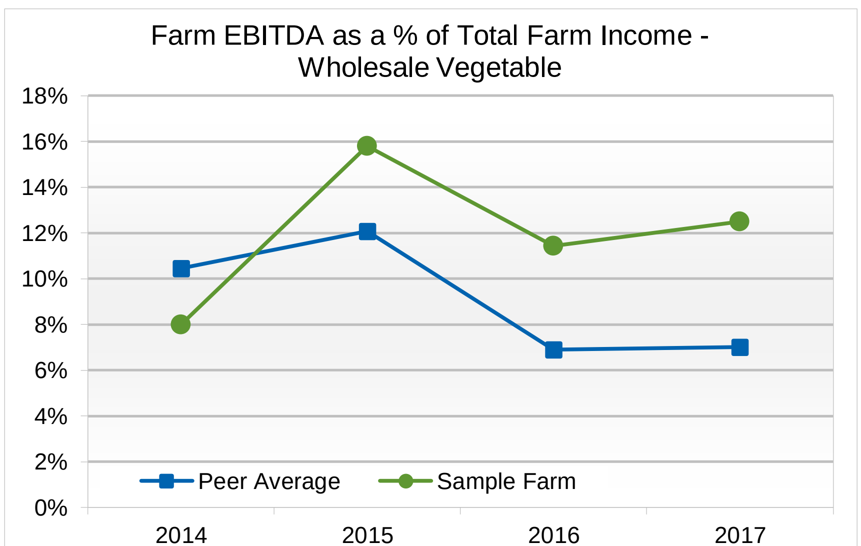

Figure 1: *Benchmark Solutions* chart series sample chart, Farm Credit East

Continued on following page

Continued from previous page

For those customers looking for more in-depth financial analysis of their operations, we offer three comprehensive *Success Strategies* benchmark programs for wineries, dairy farms and agricultural retail operations, including garden centers and farm stands. These are paid programs that offer a deep dive into both finances and operations. Participants receive a comprehensive, customized analysis of their business and a chance to review their results one-on-one with a Farm Credit East business consultant.

For more information on any of Farm Credit East's benchmark programs, contact your relationship manager or your local Farm Credit East office.

Why is benchmarking important?

Benchmarks can be used to identify areas where your business excels, and perhaps areas where there is room for improvement. Each operation is different – and it's unlikely any business matches the benchmark exactly – but these comparisons can be a useful management tool.

So how does benchmarking work? Simply explained, a benchmark compares some aspect of your business to others based on your industry, region, size or all of the above. There are a number of ways to benchmark, but probably the most common is to look at your business's financial indicators (discussed below) in comparison to your peers. This can show you how your business "measures up" to other, similar operations. For those contemplating entering a new area of business or considering an expansion, benchmarks can offer insight into the performance you might expect.

Table 1 displays select data from seven sample industries in the 2017 *Benchmark Solutions* program. This is only a portion of the data available for these industries, but it gives an indication of the kind of information available.

Table 1: 2017 Benchmark Indicators from Sample Industries

Industry	Cash Field Crops	Greenhouse	Nursery	Orchard Fruit	Vegetables	Logging	Timberland Ownership
Gross income per business	$1,443,354	$2,732,742	$4,685,293	$2,059,253	$2,441,380	$3,811,072	$4,419,313
Gross income per unit	$780/ acre	$16.52/ square foot	$13,862/ acre	$7,771/ acre	$3,419/ acre	n/a	n/a
Net income per unit	$118/ acre	$0.55/ square foot	$898/ acre	$788/ acre	$152/ acre	n/a	n/a
Current Ratio	1.92	1.61	2.65	2.04	1.94	1.35	2.07
Quick Ratio	0.44	0.54	0.75	1.28	0.93	0.90	0.74
% Net Worth	66.1%	57.9%	61.1%	66.7%	73.8%	44.7%	67.5%
Debt to Gross Income Ratio	101%	49%	47%	58%	40%	58%	65%
Working Capital as % of sales	34%	11%	34%	22%	10%	5%	23%
EBITDA as % of revenue	25%	7%	10%	16%	7%	15%	11%

Table 1: 2017 *Benchmark Solutions* data, Farm Credit East

Continued on following page

Continued from previous page

Current Ratio

The current ratio equals current assets divided by current liabilities. A ratio above one indicates that the operation has current assets (assets that can be converted to cash within 12 months) that exceed current liabilities (obligations due within one year). The higher the ratio, the greater (and stronger) the liquidity of the business. For most industries, a current ratio over 1.5 is desirable. A cautionary note is that the current ratio includes inventory which may not be immediately saleable, such as in inventory-heavy industries, like nursery. This is why the quick ratio is also important.

Quick Ratio

The quick ratio measures an operation's ability to meet its short-term obligations with assets that can quickly be converted into cash. These are current assets, but excludes inventory, which may take longer to convert to cash. The higher the number, the better the company's liquidity position. It's not uncommon for operations with substantial inventory to have a ratio below 1.0. This means the owners are counting on the sale of inventory or crops to pay suppliers, debt payments and other obligations that will come due within the year. A ratio below 1.0 could mean an operation might have some difficulty if they had to meet all its current obligations right away.

Net Worth

Percent net worth is the net worth, or equity, of the business divided by its total assets. It is a measure of how much of the business the farmer owns clear of any liabilities or obligations. The higher the number, the stronger the overall financial position of the business.

Debt to Gross Income Ratio

This compares how much an operation has in liabilities to its gross revenue. For example, if an operation has $50,000 in total liabilities and brings in $100,000 in revenue each year, its debt-to-income ratio would be 50 percent, or 0.5. While there is no set rule for what is optimal, the higher the number, the more leveraged the business is.

Working Capital as a Percent of Sales

This ratio looks at how much "working capital" (current assets less current liabilities) an operation has in relation to its annual sales. Businesses need working capital to fund operating expenses like payroll, supplies and inventory. The more sales a business has, generally the greater its working capital needs are. The higher this number is, the more flexibility and cushion the business has in funding its operations.

EBITDA as Percent of Revenue

EBITDA stands for Earnings Before Interest, Taxes, Depreciation and Amortization, and is a commonly used measure of cash flow. A significant difference between EBITDA and net income is that it adds back depreciation expense. This is often done because depreciation is a non-cash expense, and can vary significantly from one operation to the next. EBITDA as a percent of revenue, or "EBITDA margin" is a way to measure how much cash flow the operation generates from its sales.

If you would like more information on how your business compares to its peers, contact your local Farm Credit East office to see if you can put the data from one of our benchmark programs to work for you.

CONTACT INFORMATION

We look forward to your questions about Knowledge Exchange Partner and your feedback:

FarmCreditEast.com/KnowledgeExchange

KNOWLEDGE EXCHANGE PARTNER