

### **Financial Suggestions to Dairy Challenge College Students II**

1. As a financial judge from past Dairy Challenges I have always been impressed with the caliber of the students.
2. The knowledge and presentations in the areas of calf, heifer, cow comfort, housing, management and knowledge of herd records have been most impressive.
3. The weak area of presentations has been in the area of financial analysis.
4. Understanding when talking to university staff and the students' financial areas of instruction does not get as much attention as other management courses.
5. Here are a few areas to note that would greatly improve the score in the financial area.
  - a. Ask for a Balance Sheet of the farm.
    - a. Note the Ownership Equity.
      - i. Calculate the Equity/Asset Ratio. > 70% is strong, < 30% is a concern
    - b. Calculate the Current Assets to the Current Liabilities. A 2:1 ratio is ideal.
      - i. Less than 0.8 (or 1.0) is a concern.
    - c. Note the debt per mature cow, (\$3,500 to \$7,000 should be manageable).
    - d. Note the debt per cwt of milk, (Less than \$20 per cwt should be manageable).
      - i. This rule depends on the milk price. An old rule is that debt outstanding should be no more than gross revenues. So using the Milk Price/cwt might be more appropriate than \$20/cwt)
    - e. What is the Total Farm Debt to Gross Income? 1:1 ratio is good, 2:1 ratio can be a concern.
      - i. A lot of lenders are using Term Debt/EBITDA in place of this ratio (that's why nationwide financial benchmarks are so screwed up!). Term Debt/EBITDA should be less than 3:1, over 5:1 is a concern.
  - b. Regarding the Income Statement
    - a. Expense Rate, (70% of the gross farm income)
      - i. The "official" ratio is the Operating Expense/Receipt ratio, which does NOT include Interest or Depreciation. Less than 70% is strong, greater than 85-90% is a concern.
    - b. Note 3 largest expense:
    - c. Purchased Feed Cost 25% to 45% of gross income. Farms that grow most of their feed will have lower purchased feed costs. Cropping expenses will be higher.
    - d. Labor Cost, \$1.80 to \$2.50 per cwt of milk. Note if the farm is a corporation or if an owner draw is in the labor expense. Family living, partner or owner draw by itself will be \$2.00 to \$3.00 per cwt of milk.
    - e. Does the farm enterprise such areas as calf and heifer costs, forage costs, machinery costs particularly if the farm does some custom work?
    - f. Does the farm know their Cost of Producing a hundred pounds of milk?
    - g. Are the Principal and Interest payments less than 20% of the gross farm income?
    - h. Does the farm know their Asset Turnover?
    - i. Does the farm know their Return on Assets and the Return on Equity?
    - j. Does the farm know their Operating Profit Margin?

- c. Does the farm do an annual budget or projection for the next year? Do they monitor the projections and compare quarterly to the actual income and expense numbers?
- d. Does the farm do a yearend Cash Flow Statement or an Accrual Statement.
- e. Does the farm have an annual Business Plan?
- f. Does the farm have an Estate Plan and a Transition Plan?

These are just a few of the financials that a judge would like to hear discussed. It would be welcomed if 5 or 6 items were picked up on and discussed by the team or a team member.

Gary Sipiorski  
Gary Sipiorski Consulting, LLC  
608-279-8213  
Gary.f.sipiorski@gmail.com