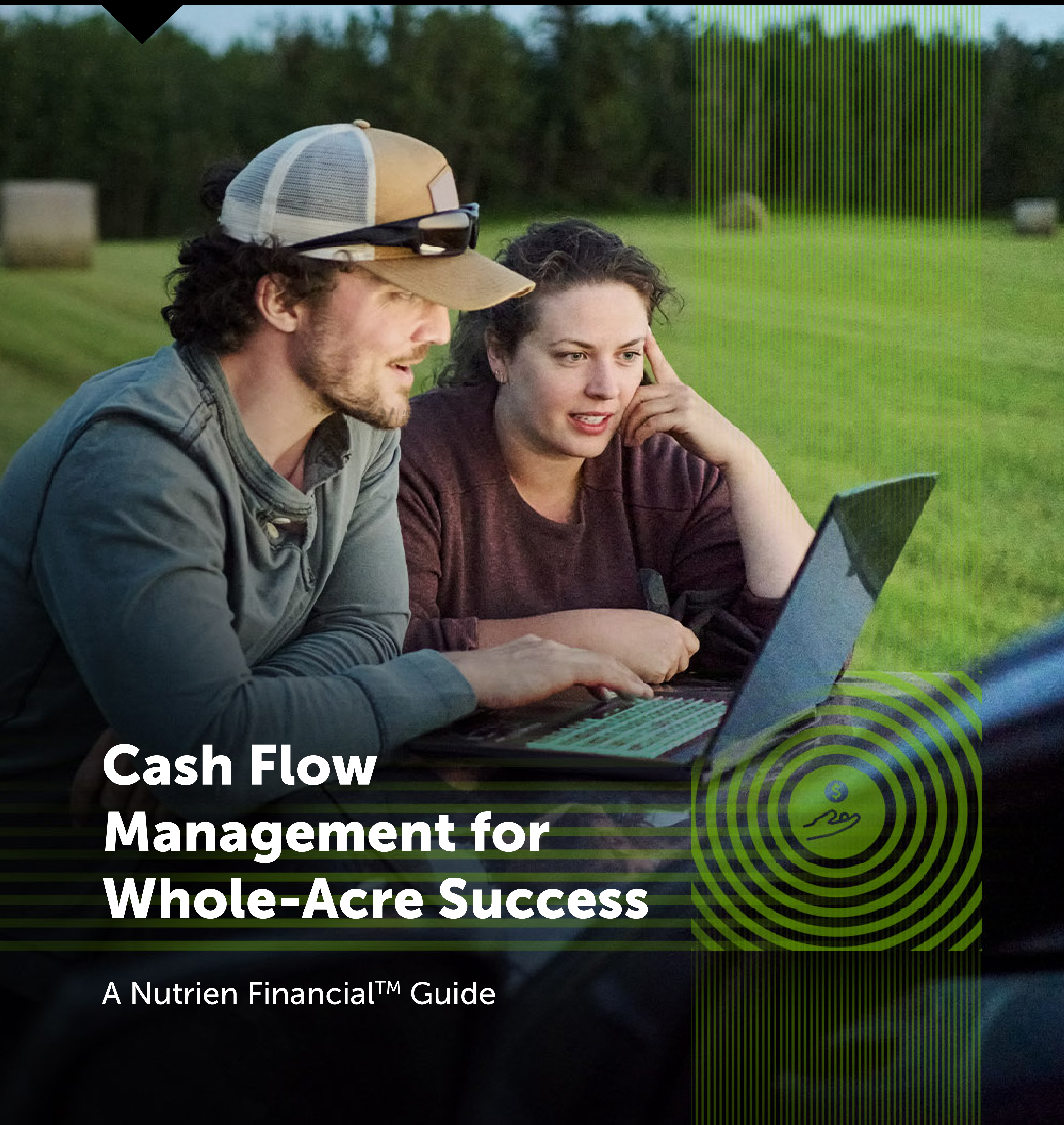

# Cash Flow Management for Whole-Acre Success

A Nutrien Financial™ Guide

# Planning for security and success

Cash has clout. While all business owners know this, many don't fully recognize the importance of cash flow in nearly every function of their operations. This is especially true in agriculture due to growers' fluctuating income, unpredictable weather events and geopolitical pressures.

Furthermore, some of the largest ag expenses, such as inputs and equipment, are both time-sensitive and essential to your business—you need them when you need them regardless of your cash position. This guide outlines the basics of cash flow management and how to optimize it in all economic conditions.

**Key Takeaways**

- Effective cash flow management is essential to the success of agriculture operations.
- Investing the time to develop and monitor a cash flow budget supports more informed financial decisions.
- Financing can be used as a strategic business tool to help build up cash reserves and improve profitability.

# What is cash flow, and why does it matter?

Cash flow refers to the inflow and outflow of money in your operation. This includes the money you receive from sales and other sources of income, as well as expenses such as labor, services, rent, equipment, inputs, interest and taxes.

Cash flow is central to nearly every successful business model. Cash flow is a measure of the income your operation generates after all expenses are considered. It directly affects your ability to pay bills, purchase equipment and supplies, maximize discounts and promotions and invest in growth opportunities. Cash flow is critical to the livelihood of your business and most aspects of your life.

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The basics:

# Know your cash flow

Before we explore how to manage your cash flow, it's important to understand some key terminology:

## Cash flow statement

As implied by its name, a cash flow statement focuses on the past cash activities of an operation, including both the cash inflows and outflows to your business. This flow of money can also include non-farm-related transactions, such as contributed capital or withdrawals from the operation. This statement is a key source of data needed to create a budget with more accuracy and acts as a **historical** summary of your operation's financial transactions over a specific period (usually reported annually).

EXAMPLE CASH FLOW STATEMENT

| | Cash In | Cash Out |
|---|---|---|
| Operating - Cash Provided by Operating Activities<br>- Gross cash farm income<br>- Cash farm expenses | $ – | $ – |
| Investing - Cash Provided by Investing Activities<br>- Sales of capital assets<br>- Purchase of machinery, equipment, and farm buildings | $ – | $ – |
| Financing - Cash Provided by Financing Activities<br>- Money borrowed<br>- Principal Payments | $ – | $ – |
| Cash-on-Hand (from beginning and ending balance sheets)<br>- Beginning of year cash<br>- End of year cash | $ – | $ – |
| **Total Cash-In and Cash-Out** | **$X** | **$X** |

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KNOW YOUR CASH FLOW

## Burn rate

A burn rate reflects the rate at which your operation spends cash over time (usually quoted as monthly). Due to the seasonal and other dynamic factors unique to growing, using at least a full year of financial data is recommended to determine an accurate burn rate. You can run this simple calculation as frequently as you'd like to ensure you are prepared with a backup plan if you ever burn through cash faster than expected.

Here's a simple burn rate calculation formula and example using a quarterly evaluation period:

A burn rate can be particularly useful to start-ups or early-stage growth companies. It helps outside investors evaluate their risk by providing a reasonable timeframe to expect positive returns on their investment. For growers who don't have third-party investors (and many do not), the burn rate helps establish realistic expectations and lets you confidently launch your operation knowing you've planned for the start-up period. Knowing your burn rate will also provide you with advanced insight as to when you might need access to lines of credit to supplement your cash.

$$\frac{\text{(Starting cash – Ending cash)}}{\text{Number of months}} = \text{Monthly burn rate}$$

$$\frac{(\$500 - \$200)}{3} = \$100 \text{ Monthly burn rate}$$

## Cash flow budget (or "Projection")

A cash flow budget establishes a framework to track and manage your cash activities. It outlines your expected income and expenses over a **future** period of time. Again, the budget might need to factor in all types of expenses including yields and secondary income, production expenses (e.g., seed, nutrition, plant protection), land leases, equipment rental, labor, insurance, groceries and medical costs. This helps you identify any potential shortfalls or surpluses so you can make informed decisions about the use of your capital.

## Refine your budgeting process

Chances are you have already created some form of budget to help anticipate future cash scenarios, which can provide a benchmark for a more in-depth budgeting exercise. Here are some questions to ask yourself as you move forward:

### Income/capital resource considerations

1. What are my absolute fixed sources of income?
2. What sources of income routinely fluctuate? Consider the factors that influence these sources of income such as forward contracting ability and exchange rates (quantify each and identify time periods or seasonality).
3. How much crop or livestock revenue is needed to break even? Earn a profit? Grow the business?
4. How much of my lines of credit and operating loans are still available for use? (Calculate in both percentage and dollar amount).
5. Do I have a rainy-day fund? (Calculate how many months of expenses this savings will cover—see burn rate section on previous page).
6. Do I have access to new sources of income such as grants, government-funded programs or even new crops?

### Expense considerations

Remember, you may need to include both farm and non-farm transactions in this process. For example, your paycheck (if you pay yourself) and personal loans or other family expenses like tuition or daycare.

1. What are your fixed expenses, such as mortgages, equipment and rent payments?
2. Which expenses fluctuate (e.g., taxes, insurance and labor)? (Quantify each and identify time periods or seasonality).
3. What additional equipment needs do I have? Which pieces are on the wish list?
4. Are my property taxes increasing (or expected to) over the next year?
5. What major weather or pest event is known to routinely occur in my region?

### Market/personal factors

1. If interest rates are trending upward, what is the impact on interest expense (both long and short-term)?
2. How have my investments performed over the past few years? What is the economic outlook?
3. Are there known geopolitical/other pressures that might impact income or expenses?
4. How are the labor markets?
5. Do I have any major life-changing events that will increase expenses or benefit my income?
6. Am I setting aside funds for longer-term goals such as retirement?

# Applying **the basics**

So, where do these three fundamentals of cash flow management fit into your operation? As described above, a **cash flow statement** is a report of actual income and spending figures over time which helps you create an accurate **cash flow budget**.

Past financial data specific to a cash flow statement isn't always available. For relatively new growing operations or business ventures, the spending and income figures are more guestimates than data points. What you do know, however, is how much cash you have reserved, and with a good business plan and research, you'll have enough information for at least a rough estimate of anticipated expenses. Here's where your **burn rate** comes in—it can help forecast your cash position quickly for a variety of time-sensitive scenarios.

## Burn rate, budget or both?

Sometimes, even in well-established operations, using both the burn rate and budget tools are necessary for accurate forecasting. For instance, if you decide to grow a new crop or dedicate part of your acreage to organic crops, you may want to track those specific expenses separately to assess profitability of the new enterprise.

## Evaluate early and often

The well-known saying "when you know better, you do better" is especially true of your financial plan. Taking proactive steps to understand your spending, learn your burn rate, create a cash flow budget and monitor it regularly are essential to effective financial management.

Given the seasonal and other dynamic factors unique to growing, it's best to use a full year of financial data to determine your burn rate or create a budget. However, more frequent, periodic cash flow assessments (i.e., monthly or quarterly) can help you be flexible and confident when unexpected events arise. Other circumstances that warrant a formal review of your cash flow position include:

- Startup crop initiatives that might take several years to generate revenue.
- New or unplanned replacement equipment or land acquisitions.
- Major investment activities.
- Known cyclical events (e.g., buying inputs in the fall or spring).

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# Cash flow **management 101**

Effective cash flow management ensures your operation has the resources it needs today and helps you plan for the future. Now that you know the drivers of cash flow management and your operation's financial health—for better or worse—it's time to put them into action.

### Budget: Building block or strategic tool?

In addition to helping estimate needs and costs, your budget can be a helpful forecasting and planning document. When updated regularly, the budget is a cornerstone of good cash flow management. For instance, a budget can be used to forecast output prices, assess when you need to replace equipment and monitor other factors that influence your operation's cash flow. It can also help you:

- Test your crop plans, i.e., whether you will produce enough income to meet all your cash needs.
- Project how much operating credit you'll need for specific projects or when you can repay your loans.
- Communicate your operating plans and credit needs to your lender with ease and accuracy.
- Compare your predicted figures against actual cash flows.

### Moving the needle: Tips to improve seasonal cash flow

Although creating a budget and better understanding your cash flow position is important, knowing what to do with this information is essential. Here are steps you can take to ensure you have adequate capital resources in times of abundance and scarcity:

#### When cash is flowing

**Evaluate your income statements.** An abundance of cash does not always mean you're generating a profit.

**Purchase inputs** in advance to optimize potential discounts and promotions. Consider contracting commodities to protect against market fluctuations.

**Assess** expansion plans or value-added investment opportunities.

**Pay** down your loans, prioritizing higher interest balances.

#### When cash is constrained

**Cut costs** and increase efficiencies where possible—a closer look at your fixed and variable costs may reveal opportunities to re-negotiate contracts or explore alternatives.

**Identify sales** or additional revenue-stream opportunities, such as auctioning unused equipment, renting storage space or taking on side jobs.

**Even out seasonal income** spikes by creating revenue activities in slow periods.

**Lock-in interest rates** on loans.

We're here to help. Talk to your local Nutrien Ag Solutions branch today to find alternative ways to finance your input needs.

## Year-round rules of thumb

Whether your reserves are plentiful or scarce, preserving cash for unplanned expenses or opportunities is a healthy business practice. Likewise, capital alternatives like financing, leases or loans can be used strategically in every season to keep your cash flowing and help increase profits. For instance, equipment financing allows you to pay for an asset over time while potentially generating revenue. Financing your inputs with a fixed interest rate allows you to lock in pricing or take advantage of potential product discounts before planting season and align the payments with cash flow needs or crop production schedules.

## The cost of money

While borrowing money is not a new concept for any business owner, not all sources of capital are equal. During times of fluctuating interest rates, it's important to understand the terms of all your debt instruments or other capital resources.

A few things to look for include:

**Variable vs. fixed-rate debt**
Even the slightest change in interest rate can have a significant impact on your budget and/or bottom line. Run a few scenarios to compare variable and fixed rates and different repayment terms for each option.

**Operating lines of credit**
Take inventory of your borrowing position and monitor frequently—you don't want to be surprised with limited reserves and/or high rates in cases of emergency.

**Hidden costs**
Prepayment penalties, adjustable rates, late fees and terms for calculating interest vary greatly with lending products; ensure you have complete pricing details when comparing alternatives.

# Knowing all of this...

With a better understanding of your operation's financial health and having the tools you need to improve it, you can better manage and grow your business. By planning, preserving cash and leveraging flexible, cost-effective capital alternatives, you become the catalyst for building a sustainable growing operation with confidence and peace of mind.

Visit **NutrienFinancial.com** to learn more about our input financing and how we can help with your operation's cash flow requirements.



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