Financing in volatile markets
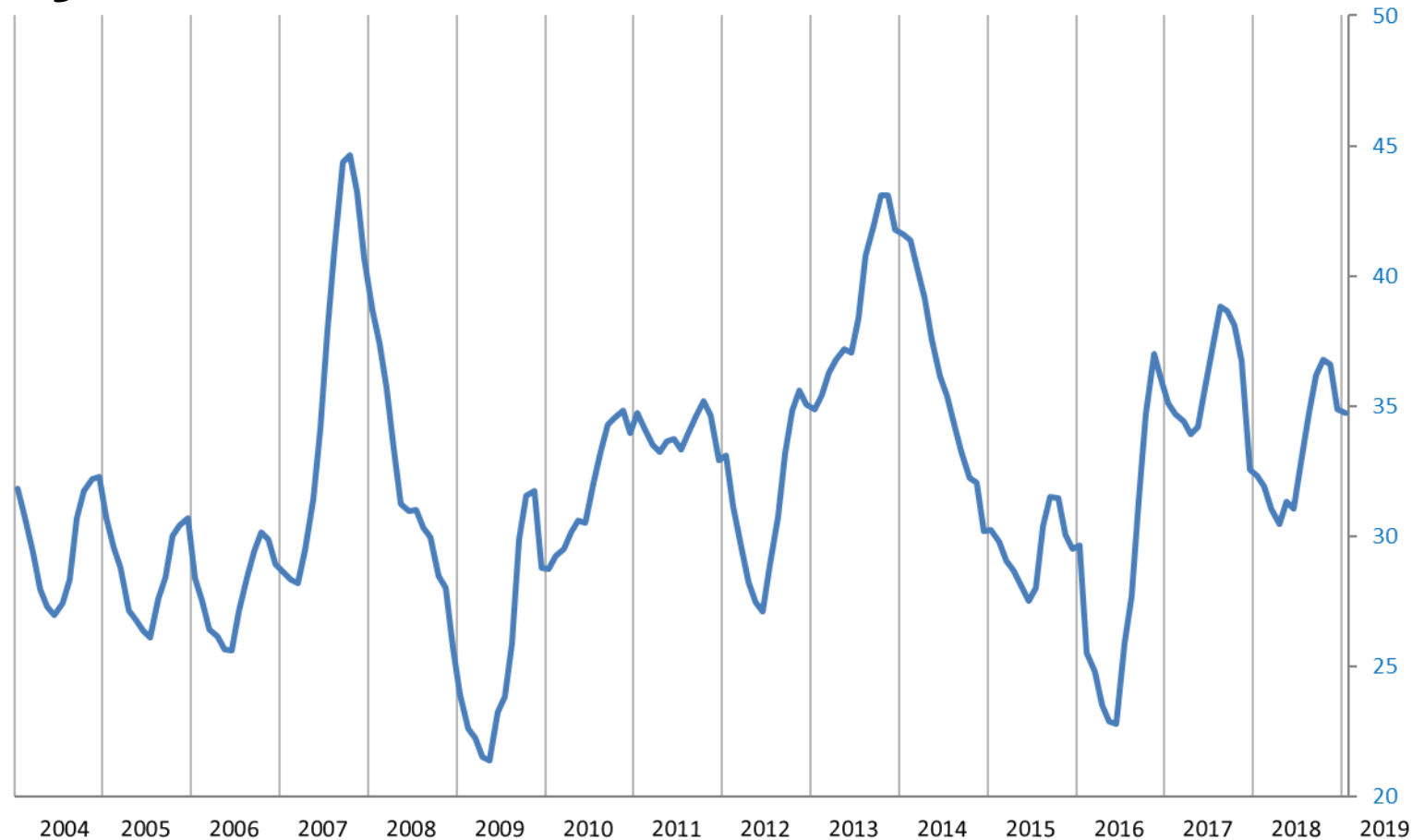
Bart Verstrynge, Agricultural Economist, KBC Bank, Belgium

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Increasing price volatility

Milk (€/100l)

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Lever effects

|	2014		2015
Milk	37,1 cent/l	- 20 % →	29,6 cent/l
Compound feed	290 euro/ton	- 7 % →	270 euro/ton
Cashflow from operations	17,1 cent/l	-42 %	9,9 cent/l
Income*	8,0 cent/l	- 88 %	1,0 cent/l

* Repayment of 9,1 cent/l in 2014; 8,7 cent/l in 2015

- low yields and/or high costs can quickly lead to liquidity problems
- reinforcing effect of inferior technical results
- increasing impact in larger and specialised farms

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Variation in income

Income varies more from company to company than income from year to year!
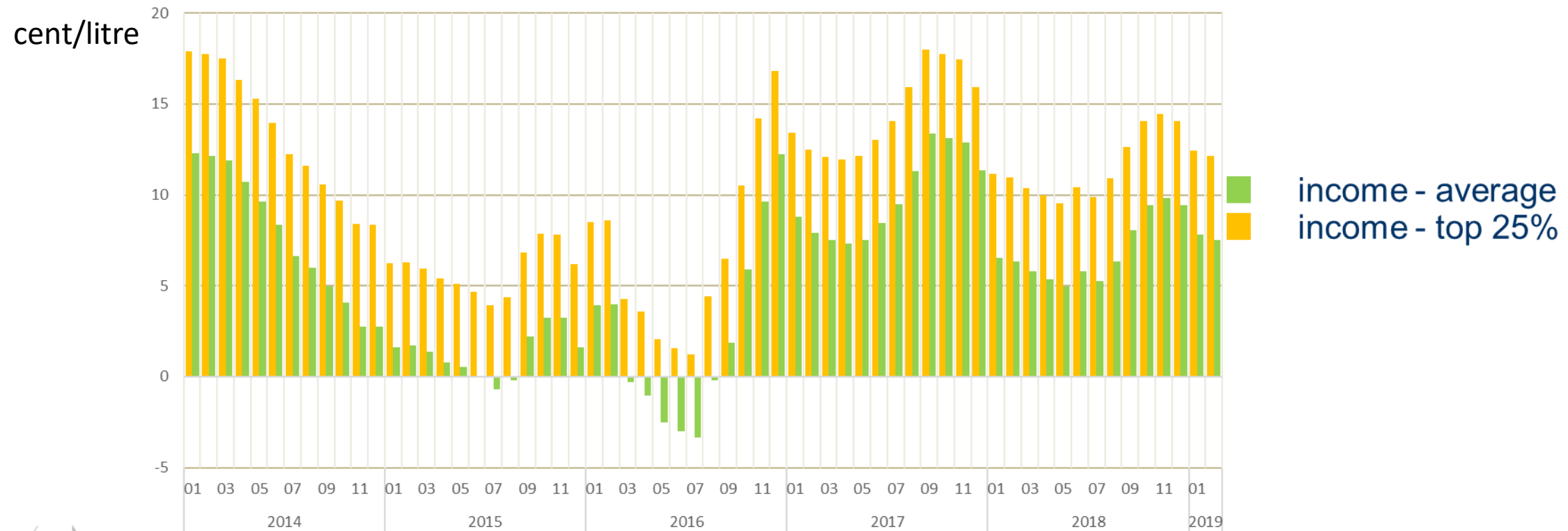
Importance of liquidity planning

- Know your own figures!
- Get involved in cash management!

€/ha	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June
Revenues								10 466	11 608		7 407	6 813	6 281	6 135	8 179
Total								*10 466*	*11 608*		*7 407*	*6 813*	*6 281*	*6 135*	*8 179*
Expenses															
Seed potatoes			7 090												
Fertilisers	1 590	1 590													
Plant protection			1 492	1 492	1 492	1 492	1 492								
Delivery fees							36	36		36	36	36	36	36	39
Maintenance etc.	33	33	33	33	33	33	33	913	457	381	304	228	152	76	89
Contract work	569	569					1 706	1 706							
Lease land									15 000						
Loans												8 550			
General expenses	64	81	81	81	81	81	81	81	81	81	81	81	81	81	81
Pay	404	404	404	404	404	404	404	404	404	404	404	404	404	404	404
Total	*2 659*	*2 676*	*9 099*	*2 009*	*2 009*	*2 009*	*3 751*	*3 140*	*15 941*	*901*	*9 375*	*749*	*672*	*596*	*613*
Cash	-2 659	-2 676	-9 099	-2 009	-2 009	-2 009	-3 751	7 326	-4 333	-901	-1 967	6 065	5 608	5 538	7 567
Cash cum.	-2 659	-5 334	-14 434	-16 443	-18 452	-20 461	-24 212	-16 886	-21 219	-22 120	-24 087	-18 023	-12 414	-6 876	691

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Financing

Short term: operating cycle

Buying
seed potatoes

Production
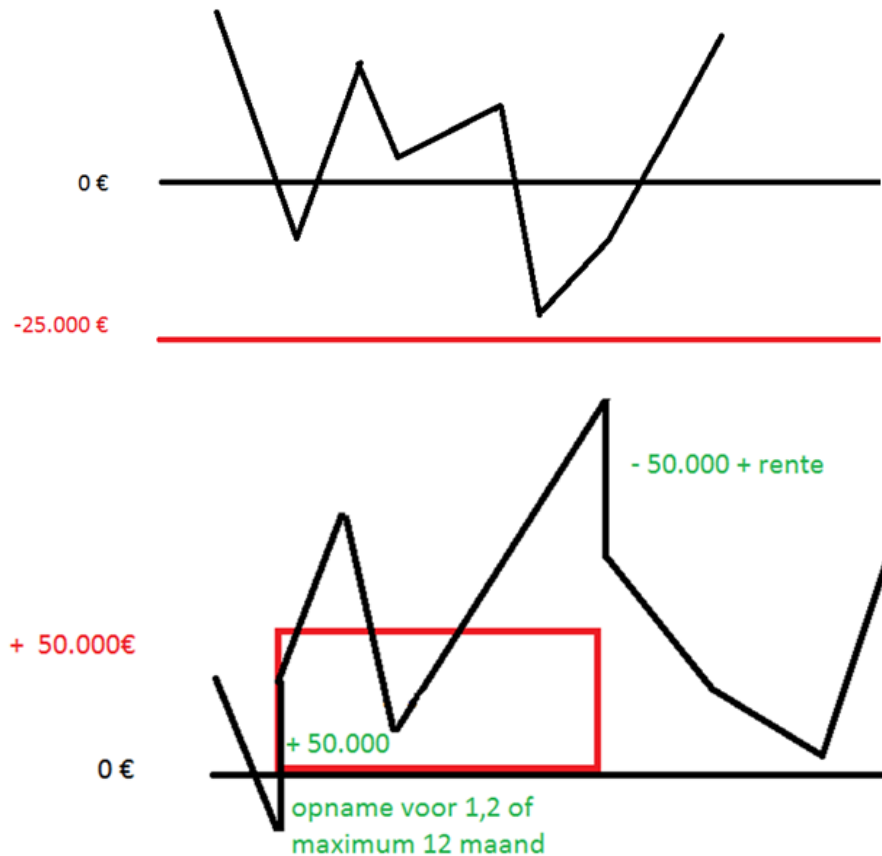costs

Cash

Sale

Storage
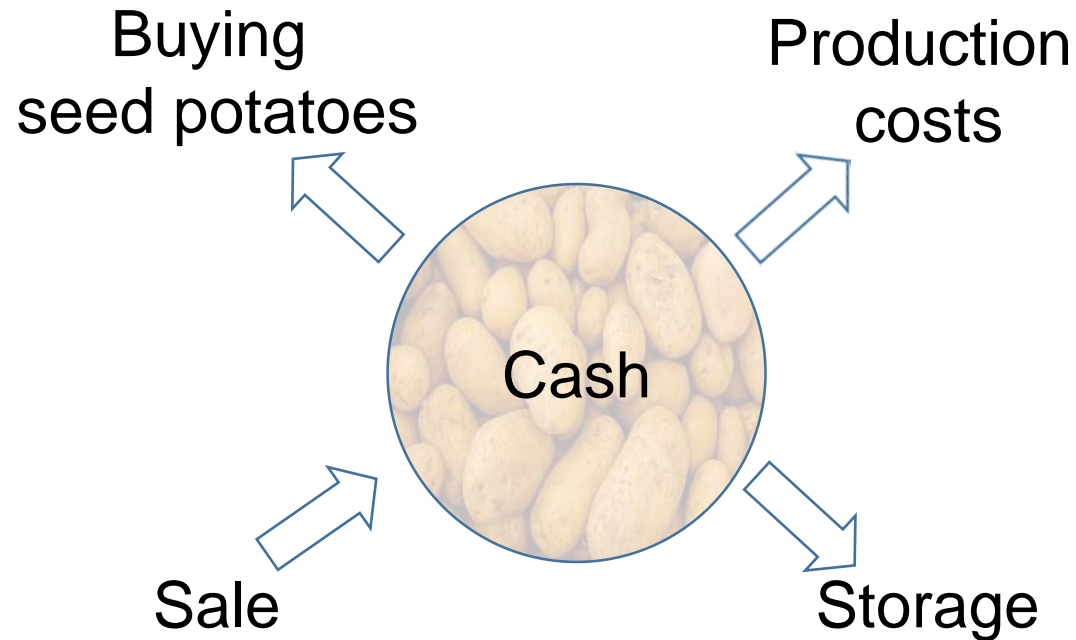
Long term: investments

- stables

- greenhouses

- farmland

- machines

- …

Financing operating cycle

Convertible line

- Cash credit
  - limit up to which the current account may be negative
  - daily interest calculation on used amount

- Straight loan
  - money made available for a certain period
  - interest calculation on total amount for the entire period
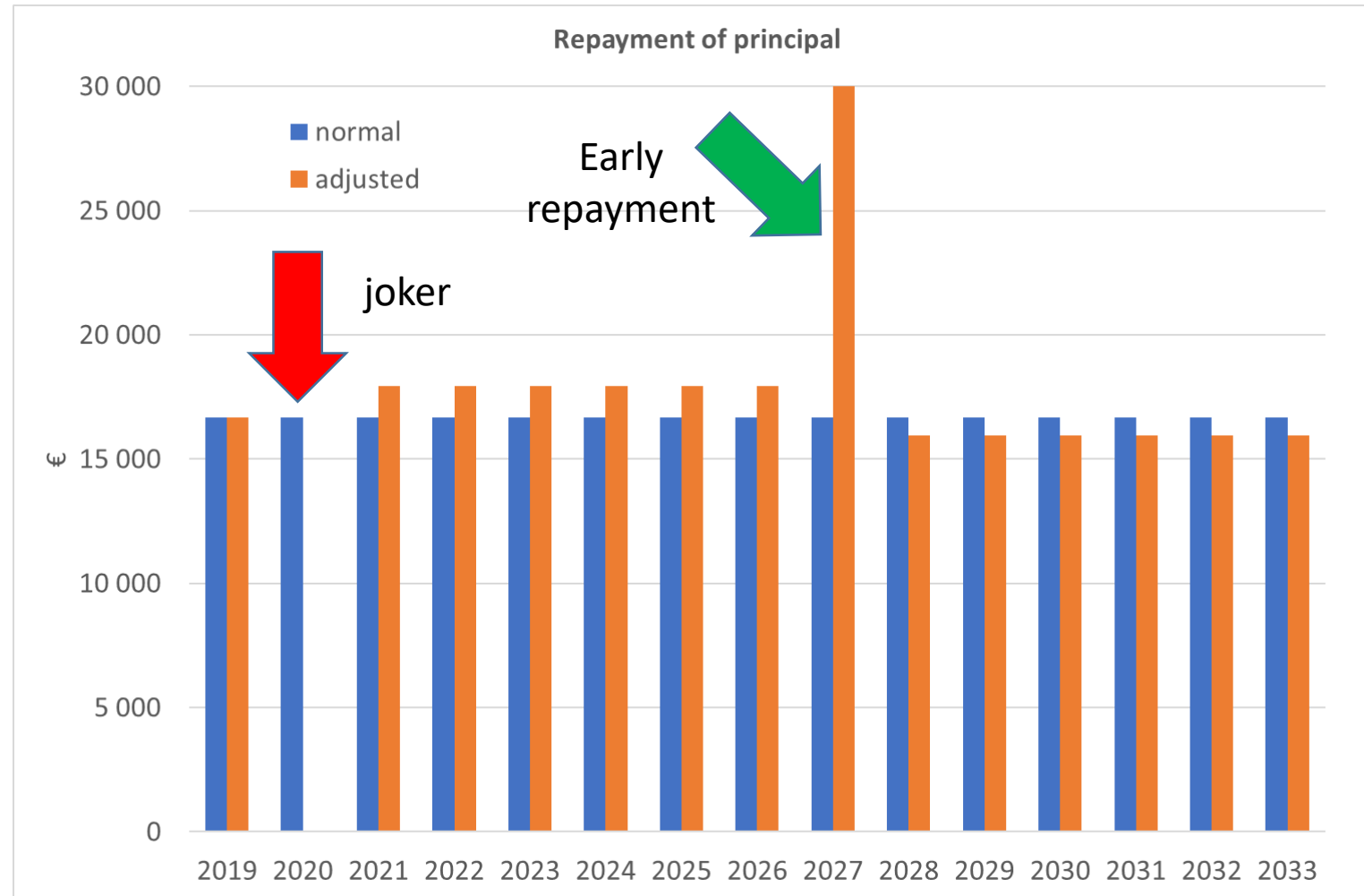
- Correct use!

Financing investments

- According to what can be repaid within normal repayment period

- Equal repayments of principal
- Repayments matched to income and expenditure
- Grace period

- Flexible lending

KBC Agroflex

- Investment loan with interest-rate review after 3, 4 or 5 years

- Max. flexibility on interest-rate review date (no charge):
  - ability to change interest-rate review period
  - early repayment in full or in part

- Joker: 1 year no repayment of principal (while maintaining term), without an adjustment fee

- 1 joker per interest-rate review period
  (max. 3 jokers per loan)

- Borrowers are free to choose when to use their jokers

KBC Agroflex

KBC Roll over Line of Credit

- Min. EUR 250,000 and minimum repayments of EUR 10,000 per roll-over period of 3, 6 or 12 months

- Minimum repayments schedule

- Interest on the amount drawn down, but there is a credit line fee and drawdown fee

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KBC Roll over line of credit

Outstanding capital

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