



Cashflow or cash trickle?

Ciarán Lenehan looks at the cashflow situation on one of the BETTER beef farms

It's profit monitor season for our BETTER beef farmers.

For those unfamiliar with the Teagasc e-profit monitor concept, it's an accounting tool that measures financial performance and includes metrics that give us clues as to a farm's levels of efficiency.

Our BETTER participants are currently working through their farm's financial incomings and outgoing in conjunction with their BETTER advisers and their local B&T advisers.

In previous phases of the BETTER beef programme, the buck stopped with gross margin – that is, sales (including inventory change) less variable costs. While it quantified the level of technical efficiency in a given farm production system aptly, it gave us no clues as to whole-farm viability or peaks and troughs in cashflow.

During 2017, the BETTER participants used Teagasc's cost control planner tool to track farm receipts and expenses, updating the sheet monthly. Not only did this make collating their e-profit monitors much easier but it allowed them to paint a clear picture of their farm's cashflow situation, such as that in Figure 1.

Financials

Figure 1 and Table 1 show the complete financials of an anonymous BETTER participant in 2017. He began the year with a positive cash balance of just under €10,000 and January cow sales helped lift this early on.

Save for lamb sales, the next significant incoming was a loan secured to carry out important building work in a yard – the erection of a shed and the installation of safe handling facilities. This work was carried out in the latter half of the summer and the autumn, and coincided with a significant investment in stock as the team looked to lift stocking rate.

Though the farm's cash balance is firmly in the red moving into December according to the cost control planner, the farmer in question has increased his stock inventory by over €20,000 on 2016 and has a new shed and a revamped yard to boot.

Based on this, his whole farm gross

margin for 2017 is approximately €850/ha, with net profit before subsidies coming in just under €400/ha.

While some dairy farms will carry out building work through their cashflow, in situations like this the capital expenditure is written off over time as a fixed cost.

The planner here is typical of any drystock farm in the country. What's interesting here is that the farm is actually in a good place according to its e-profit monitor results, making a decent net profit pre-subsidy, yet the cashflow situation is abysmal. However, much of this farm's positive output figure is driven by the value stock carried over – positive inventory change.

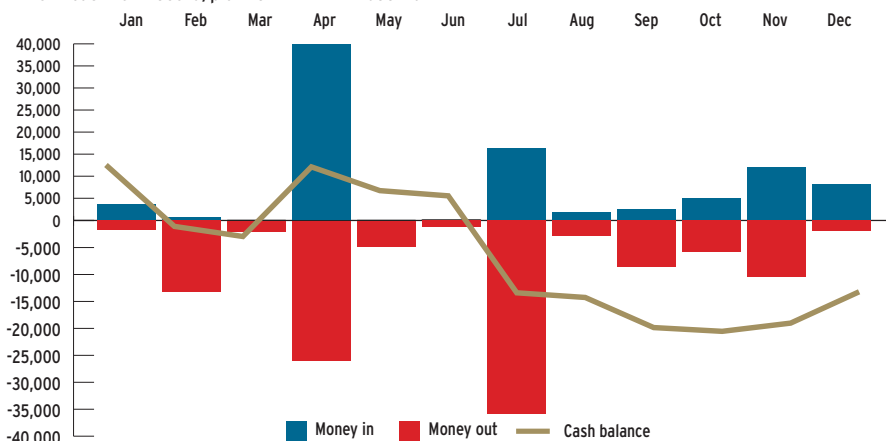
Stock

This is one of the problems on growing beef and sheep farms – lots of money is tied up in stock. It is in a liquid state, but not dairy-level liquid. When this farm hits its peak, this positive inventory change figure will shift to actual cash sales. Margins will increase as the farmer is adding value to his stock via finishing and the cashflow situation will improve dramatically.

As with many small- to moderately-sized drystock operations, the farmer in question here has off-farm employment. If he didn't, a significant credit line would be needed to tide him over until his next sale date.

Moving forward, this farm is in a good

Figure 1
2017 cashflow record/planner - BETTER beef farm



Adviser comment Alan Dillon (Teagasc)

The example of the cost control planner shown in this article highlights how expansion on a beef farm can be so challenging. When beef farmers make the decision to expand numbers, change system or invest they must bear in mind there is in general a two- to three-year time lag in cashing in on extra stock on the farm.

The vast majority of the BETTER farmers would have expansion plans for stock numbers

in place while some may need investment in infrastructure, grass or buildings to accommodate extra heads on the ground. This activity eats into cash reserves in the bank and creates a need for additional cashflow to fund feeding of stock, fertilising new grass, paying contractors or meeting bank loans. All farmers are encouraged to complete a cost control planner or a simple cashflow budget to plan out expenditure for the year ahead. Extra short-term credit facilities from the bank may be

required to alleviate cashflow difficulties until the expanded stock is cashed in.

For the vast majority of the BETTER farmers, as in previous incarnations of this programme, I envisage 2018 to 2020 as being extremely challenging for managing cashflow. Once this initial expansion drive is completed, the farmers should begin to see vast improvements in their bank accounts.

Planning is key for these scenarios. Failing to plan is planning to fail.

Farm 2017 e-profit monitor results:

Gross margin: ~€850/ha
Net margin: ~€400/ha
Inventory change 2017: +€20,000

place to drive on and be one of the big hitters in the BETTER farm programme. The building work is done and should only need minor maintenance for the next decade and beyond. The majority of the stock carried over are to be brought to beef as bulls during the summer, a time when beef price is generally at its

mid-year peak. There is also an investment in dairy beef calves included in the figure. These add another dimension to the system and will be sold at a different point in the year, potentially even live. This flexibility gives the team scope to identify a hole in cashflow that can be filled.

Table 1: Cashflow summary on BETTER beef farm 2017

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Money in	Cow sales	Lamb sales		Loan			AEOS payment	Lamb sales	Headage payment	SFP	Cattle sales	AEOS
Money out	Feed	Feed	Feed	Feed	Feed	Feed	Feed	Vet	Feed	Feed	Feed	Feed
	Vet	Fertiliser	Vet	Seed & spray	Vet	Contractor	Levies and transport	Seed & spray	Vet	Contractor	Vet	Vet
	Repairs	Vet	Machinery	Machinery	Contractor	Machinery	Machinery	Maintenance	AI/breeding	Stock bought	Straw	Stock bought
	Stock bought	Stock bought	Maintenance	Maintenance	AI/breeding	Maintenance	Maintenance	Insurance			Levies and transport	
		Building work	Building work	Lease	Building work		Building work	Building work	Building work		Insurance	
				Building work							Professional fees	
											Lease	
											Stock bought	
											Building work	