



Texas Livestock Marketing Association

- ✓ Founded by ranchers as a cooperative in 1930.
- ✓ TLMA is a Texas agricultural cooperative. Members are bona fide livestock producers who do business with TLMA or its subsidiaries.
- ✓ TLMA's members are represented by an elected board of directors who are strategically located throughout Texas and the Southwest.
- ✓ Seven of these member/directors serve on the executive committee that sets policy and reviews the operations and activities of the organization.
- ✓ Management and staff are traditionally experienced in livestock marketing and financial management. Marketed 130,000 head in 2012 valued at \$109 million



National Finance Credit Corporation of Texas

- ✓ National Finance Credit Corporation of Texas (NFCC) is a Delaware corporation. National provides loans to livestock producers ranging in commitment size from \$300 thousand to \$20 million.
- ✓ Currently \$250 million in loan commitments to borrowers in eight states.
- ✓ Approximately 30% of the collateral pledged on our loans is considered cow/calf, 40% stocker/yearlings and 30% cattle on feed. Almost all of our customers are vertically integrated in at least two of the three beef production segments.
- ✓ Four upstream lenders provide funding for lending operations. Offer both variable and fixed rate loan products, and service \$45 million in real estate loans funded by participation.



The Three Legged Stool



A three-legged stool is a very effective way to sit.

Simple design - light weight, durable, with efficient use of material.

Take any leg away however, shorten it or loosen it, and the stool gets wobbly, and the likelihood of a fall increases dramatically.

The cattle business is comparable to a three-legged stool. Each leg is important independently, yet each is also reliant on the strong support from the other two legs.

The first leg, “economics”, the second, “production”, and the third, “finance”.



Production

Production – Do I know how?

We cannot lose sight of *our competitive advantage* in the animal protein business;

Taking a low value material like grass, crop residue or grain byproduct, and converting it into the most nutritious, safest and best tasting protein you can buy.

The problem with production is,

you may do it well, but are you doing the right thing well? “Head down, butt up, going like hell and getting nowhere!”

Stan Parsons



Economics and Finance

The other two legs of the stool, **economics** and **finance**.

Economics is about profit, the way the business is structured, how the “engine” that pushes the business is designed.

Economics – Will it make money?

To generate more profit we must either produce more from the same direct investment, spend less to produce the same pounds, or lower fixed costs.

Finance is the fuel for the engine. No fuel, no business.

Finance – How will I pay for it? (Equity, debt, cash flow?)

“Profit is to business as breathing is to life!” -Dave Pratt



The BASICS OF Cattle Business Management

We have a plan; Now What?

What do you expect (want) to happen?

How do you know if you are on course?

When will you make corrections?

How do you know you need to?



The Three B's of
Cattle Business Management

3 B's - The BASICS!

Budget (*cash flow*)

Benchmark (*comparative analysis*)

Back Up (*liquidity*)



Budget

Establish a cash flow projection to determine what sources of cash are coming into the business and what uses of the cash the business has.

The greatest value of the cash flow is not the plan itself, but the process of completing it. The thought put into reviewing previous revenues and expenses is much more important than the numbers put on paper.

Finally, prices are meaningless unless you know what it cost to produce the product. Do you know your cost of production? Have the cost changed since you started? If your budget is changing, why? Can you fix it, or do you need to?



Benchmark

Utilize time working "**on the business**" to monitor your progress. A healthy person's pulse, blood pressure and other vital signs all fall within a certain range. When one or more of the vital signs is out of whack it suggests something is wrong. A business has vital signs too and the standards for each vital sign that result in a healthy business are called benchmarks. **Update your budget monthly to see the actual movement of cash into and out of the business.** Look for signals that expenses are not in line with projections, or that revenues are coming up short. **Don't stop with the budget; also update your financial statement each month.** **No matter how tedious, sitting down the same time every month to update your assets and liabilities will pay great dividends.**



Back up

Net Worth is important but **liquidity is king!** Working capital is the amount of your worth invested in earning assets! That is why they call it working capital! **Don't get caught in a situation where you have to lean on fixed assets, or worse, the Bank's equity to see your business through.** Be smart about the structure of your balance sheet. We all want to have the land paid for, but retiring long term debt at the detriment of your working capital position is a recipe for disaster.



The 5 C's of Credit

➤ **Your bank is in business to make money.**

Consequently, when a bank lends money it wants to ensure that it will be paid back. The bank must consider the 5 "C's" of Credit each time it makes a loan.

Character	Capacity
Capital	Collateral
Conditions	



Hot Buttons

- Debt per Cow
- Interest Rate Risk
- Weather Risk
- Supplemental Feed certainty

*Your NPV analysis may show a cow is worth \$2,000; and the market may demand it, but your banker **may/will** tremble if you want to borrow \$1,500 from him to buy her!*

Remember the 5 C's of Credit!

Question of the day!

*Do you have the **worth** and **working capital** to manage the increased leverage and RISK?*

Risk management

"We tend to buy when we want to and sell when we have to."

Risk Management: "Being prepared to successfully respond to unforeseen *negative or positive* events."

Types of risk

- Production risk
- Price or market risk
- Financial risk
- Institutional risk
- Human or personal risk

Remember: There is a trade-off between risk and return. If producers knew gains, death loss, costs and prices with certainty, they would bid up the price of calves until costs equaled returns. The factors of production would be competitively priced, but this scenario offers no profit!



Risk management check-up

1. Have I identified my **risk tolerance**?
2. Have I **communicated my tolerance** for risk to the professionals who provide me with risk management services?
3. **Which risks** can keep me from attaining my goals?
4. Which risks am I comfortable **retaining and managing** with my own resources? Which **risks will I shift** to others? Which will I **avoid**? Do I have enough line of credit for margin calls?
5. When was my last **insurance** check-up for health, life, casualty, property, liability, disability, long-term care, rain, and crop insurance?
6. Have I established a **confident and confidential relationship** with reliable risk management advisers so that they can help me assess my business and personal risk exposure?





Basic questions about risk

1. Do you have a will? Do you review it often?
2. Are you the "key person"? If so, what happens if you cannot call the shots?
3. Do you have a plan for management succession?
4. Can you withstand a catastrophe and remain solvent?
5. Are copies of vital records in a safe place?
6. Don't forget the Killer D's! (Disability, divorce, drugs, death, depression, disagreement



**“It is only when
the tide goes out
that you learn who’s
been swimming naked!”**

Warren Buffett





The 12 commandments of an Ag Lender

The most commonly asked questions of many farmers and ranchers are: “What should I look for when selecting a lender?” and “How do I know if I am doing business with a good lender – the right one for me and my business?”


Are you [is your banker] a good professional lender?

Asking yourself how you [he/she] measures up to the following “commandments” will help answer that question.



The 12 commandments of an ag lender

- Be an authority on agricultural financial management.
- Have a good knowledge of agriculture and its people
- Make periodic visits to the customer’s farm or ranch
- Be committed to agriculture and to serving customers
- Be cooperative and sincere and willing to listen
- Provide prompt action on credit requests



The 12 commandments of an ag lender

- Explain reasons for declining a request for credit
- Honor commitments to customers
- Keep all matters confidential and exercise business integrity and professionalism
- Explain to customers all the services the bank can provide
- Make sure customers know other people of authority
- Show appreciation for the customer's business

