



John Brown  
Brown Family Farms  
Anytown, SE USA

January 4, 2020

Dear Mr. Brown:

Per your request, I have reviewed the 2018 and 2019 Brown Family Farms (Operations) Financials as well as the 2020 Operations projection using the Side by Side Analysis. Please recognize that a Side by Side analysis is not a comprehensive evaluation of financial performance, but merely evaluates the proposed operating changes for improved financial performance in the projection year (2020).

### **2018-19 Historical Summary:**

Historical measures of working capital indicate that the business is **VULNERABLE** due to a lack of working capital. Working capital sufficiency was negative at year end for both 2018 & 2019. Cash as a % of Current Assets has declined. The lack of Working Capital hampers the business' ability to pay bills when due without utilizing borrowed funds.

The overall solvency of the business is **RESILIENT**. The equity to asset ratio improved in 2019 to 57%. This is encouraging, but I urge you to seek an independent fair market appraisal of equipment, buildings, and real estate to confirm the resilient solvency position.

The earnings (EBITDA) of the business have been positive both years, but...

1. EBITDA Efficiency is **VULNERABLE**. Too little of revenue remains after paying operating expenses. To get to a **RESILIENT** level, earnings should be 10% or more of revenue.
2. Earnings have been insufficient to meet family living, interest expense, and term debt payments (EBITDA Uses). Therefore, the business has used retained earnings to meet its obligations and reduced the owner equity in the business.
3. The Core Equity of the business is **AGILE** as of 12/31/19. The business could survive burning \$158,745 of equity for 7.72 years before depleting its core equity. However, this would result in a \$1,225,000 reduction in owner equity.

The Debt Efficiency of the business is **AGILE**. It would about 90% of earnings to pay off the remaining long-term loan balance.

The Asset Turnover is also **AGILE**. The assets owned by the business generate excellent revenue.

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The Rate of Return on Assets is **VULNERABLE**. The rate earned the last two years is below the rate of inflation.

Family living withdrawals leave the business in a **VULNERABLE** position. Family living should be less than 25% of earnings.

## 2020 Projection:

The projection indicates better financial performance in 2020. Revenue is projected to increase 15% over 2019 while expenses only increase 3%. EBITDA Uses increase 5%, leaving about \$900,000 for asset & equity growth.

If this projection is reached:

Working Capital would turn positive but remain **VULNERABLE**.

Solvency would improve but remain **RESILIENT**.

EBITDA Efficiency would more than double to be **RESILIENT**.

Core Equity Burn Rate would remain **AGILE**

Asset Turnover would remain **AGILE**

Rate of Return on Assets would jump from **VULNERABLE** to **AGILE**.

Family Living Withdrawals would be **RESILIENT**.

The Brown management team should complete the "Action Plans" worksheet to document how the 2020 financial projections will be met. Fortunately, by focusing on improving EBITDA efficiency, the business can improve all financial measures. Improving EBITDA simply requires you to determine strategies for revenue enhancement and expense management. There won't be a single task that will fix the earnings situation, but rather will take a bundle of \$10,000 and \$100,000 strategies.

However, earnings improvement is not likely to solve the **VULNERABLE** working capital position in 2020. Management should also explore a debt restructure to improve working capital while maintaining a strong core equity burn rate. Preliminary review suggests that terming out \$425,000 of the operating debt would add \$340,000 of working capital and maintain an **AGILE** core equity burn rate.

Finally, review the Management Dashboard to see how Brown Family Farms stacks up in meeting various management tasks necessary to keep the business moving forward.

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Please contact me, if you have any questions. I look forward to helping Brown Family Farms position for success in 2020.

Sincerely,

*Scott A. Mickey*

## Side by Side Analysis

Brown Family Farms - Oper

### Financial Data:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
<b>EBITDA SUPPLY &amp; DEMAND</b>			
Revenue	8,220,445	8,359,627	9,682,845
- Operating Expenses	7,704,912	7,671,545	7,888,446
<b>= EBITDA (Supply)</b>	<b>515,533</b>	<b>688,082</b>	<b>1,794,399</b>
<b>EBITDA Uses:</b>			
Family Living & taxes	260,000	287,450	300,000
+ Interest expense	187,836	194,915	222,164
+ term Debt payments	346,704	364,462	363,779
<b>= EBITDA Uses (Demand)</b>	<b>794,540</b>	<b>846,827</b>	<b>885,943</b>
<b>= Available for Asset GROWTH (Decline)</b>	<b>(279,007)</b>	<b>(158,745)</b>	<b>908,456</b>
<b>BALANCE SHEET</b>			
	<b>12/31/2018</b>	<b>12/31/2019</b>	<b>12/31/2020</b>
Total Current Assets	2,849,602	2,062,400	2,814,938
Total Assets	8,035,252	7,391,800	7,813,088
Total Current Liabilities	3,120,247	2,588,007	2,292,218
Total Liabilities	3,726,495	3,210,476	2,690,779
Owner Equity	4,308,757	4,181,324	5,122,309
<b>OTHER INFORMATION</b>			
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Term Debt Payments	417,441	466,214	413,370
Depreciation	350,800	234,000	331,250
Cash On Hand	466,000	248,352	378,367

Do not include Interest or Depreciation in Operating Expenses

### KEY FINANCIAL RATIOS

Current Equity ( <i>Working Capital</i> )	(270,645)	(525,607)	522,720
Working Capital Sufficiency	-3.5%	-6.9%	6.6%
Cash to Current Assets	16%	12%	13%
WC Burn Rate: Debt Service	(0.6)	(1.1)	1.3
Equity to Asset Ratio:	54%	57%	66%
Debt Efficiency	1.18	0.90	0.22
EBITDA Efficiency	6%	8%	19%
Asset Turnover	102%	113%	124%
Rate of Return on Assets	-1%	2%	15%
Family Living Withdrawals	50%	42%	17%

# Side by Side Analysis

# Financial Dashboard

Practice:	Vulnerable	Resilient	Agile	2018	2019	2020	GOAL Projected
1 Working Capital Sufficiency	< 10 %	10 – 33 %	> 33 %	-3.5%	-6.9%	6.6%	
Formula: (Current Assets – Current Liabilities) / Operating Expenses							6.6%
2 Cash to Current Assets	< 5 %	5 – 15 %	> 15 %	16.4%	12.0%	13.4%	
Formula: Cash / Total Current Assets							13.4%
3 WC Burn Rate: Debt Service	< 1:1	1:1 – 5: 1	> 5:1	(0.6)	(1.1)	1.3	
Formula: Working Capital / Term Debt Payments							1.26
4 Equity to Asset Ratio:	< 40 %	40 – 70 %	> 70 %	54%	57%	66%	
Formula: Total Equity / Total Assets							65.6%
5 Core Equity Burn Rate	< 2:1	2:1 – 5: 1	> 5:1				7.72
Formula: Excess Reserves / (EBITDA - FL - Interest - Debt payments)							(158,745)
	<u>12/31/2019</u>	<u>Loan Max</u>	<u>Borrowing</u>	<u>Long Term Liability</u>		<u>Excess Reserve</u>	
	<u>Market Value</u>		<u>Capacity</u>				
	<u>Assets</u>						
	Breeding livestock						
	Machinery & equipment	3,000,150	21%	622,469	622,469	-	
*	Real Estate & Buildings	1,750,000	70%	1,225,000		1,225,000	
<i>* Real estate is primary core asset in todays economy.</i>							
6 Debt Efficiency	> 7:1	3:1 – 7:1	< 3:1	1.18	0.90	0.22	
Formula: Term Debt / EBITDA							0.22
7 EBITDA Efficiency	< 10 %	10 – 25 %	> 25 %	6%	8%	19%	
Formula: EBITDA / Revenue							18.5%
8 Asset Turnover	< 30 %	30 – 70 %	> 70 %	102%	113%	124%	
Formula: Revenue / Total Assets							123.9%
9 Rate of Return on Assets	< 2 %	2 – 8 %	> 8 %	-1%	2%	15%	
Formula: (EBITDA - FL- Deprec) Total Assets							14.9%
10 Family Living Withdrawals	> 25 %	15 – 25 %	< 15 %	50%	42%	17%	
Formula: FL / EBITDA							16.7%

# Action Plans

Brown Family Farms - Oper

## EBITDA Improvement Plan

Metric:	Vulnerable	Resilient	Agile
EBITDA Efficiency	< 10 %	10 – 25 %	> 25 %

Revenue Strategies:

	2019	% of Revenue
Revenue	8,359,627	100%
- Operating	7,671,545	92%
= EBITDA	688,082	8%
<b>2020 EBITDA Goal &gt;</b>	<b>1,253,944</b>	<b>15%</b>

EBITDA CHANGE Needed:

**565,862**

Expense Strategies:

## Working Capital Improvement Plan

Metric:	Vulnerable	Resilient	Agile
Working Capital Sufficiency	< 10 %	10 – 33 %	> 33 %

Family Living Strategies:

	2019	
Current Assets	2,062,400	
- Current Liabilities	2,588,007	
= Working Capital	(525,607)	
/ Operating Expenses	7,671,545	-7%
<b>2020 WC Goal is</b>	<b>1,150,732</b>	<b>15%</b>

WORKING CAPITAL CHANGE:

**1,676,339**

WC Burn Rate: Debt Service	< 1:1	1:1 – 5: 1	> 5:1
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Liability Strategies:

Working Capital	(525,607)	
/ Term Debt Payments	466,214	-1.13
<b>2020 WC Goal is</b>	<b>932,428</b>	<b>2.00</b>

WORKING CAPITAL CHANGE:

**1,458,035**

**Side by Side Analysis**

**Management Dashboard**

Practice:	Vulnerable	Resilient	Agile	Strategy
1 Product/Service Marketing Plan	None	Written	Written & Executed	
2 Cost of Production by Enterprise	None	In Your Mind	Written Budgets	
3 Business Plan	None	In Your Mind	Written & Used	
4 Succession Plan for Assets & Management	None	Written	Written & Executed	
5 Advisory Team	None	Developing	Established & Used	
6 Risk Management Plan	None	Developing	Written	
7 Lifelong Learning/Training	None	Developing	Definite Plan for Management &	
8 Goal Setting	None	Developing	Written & Executed	
9 Environmental Conservation Plan	None	Developing	Written	
10 Financial Plan	None	Plan in Your Mind & Executed	Written Financial/Investment Plan, Executed & Monitored	
* Business Principles Defined	None	Working on 7 Steps	7 Steps Written & Posted	

Developed by: Dr. David Kohl & Scott Mickey