Surviving to Thriving: Financial management for arid land pastoralists

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Key terminology

- LVR – Loan to Value Ratio - % of Debt against your properties value
- Financial capacity – The unused debt capacity of your operation (+ Cash)
- Boom/Bust cycle the trap of buying high and selling low while trying to navigate seasonal conditions.
- Structure: The legal makeup of your operating and land holding entities
- Management: The family operators, or employed managers making day to day decisions in the business

Defining best practice:

Know your industry:

- How to collaborate with your advisors
- Your value proposition
- What best practice looks like

Know your business model

- The structure of your operations
- What you can control

Know your numbers:

- Manage debt carefully
- Set a goal, have a plan
- Forecast and manage cashflow

Build resilience and strong financial foundations by getting the **fundamentals** right

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Know your industry

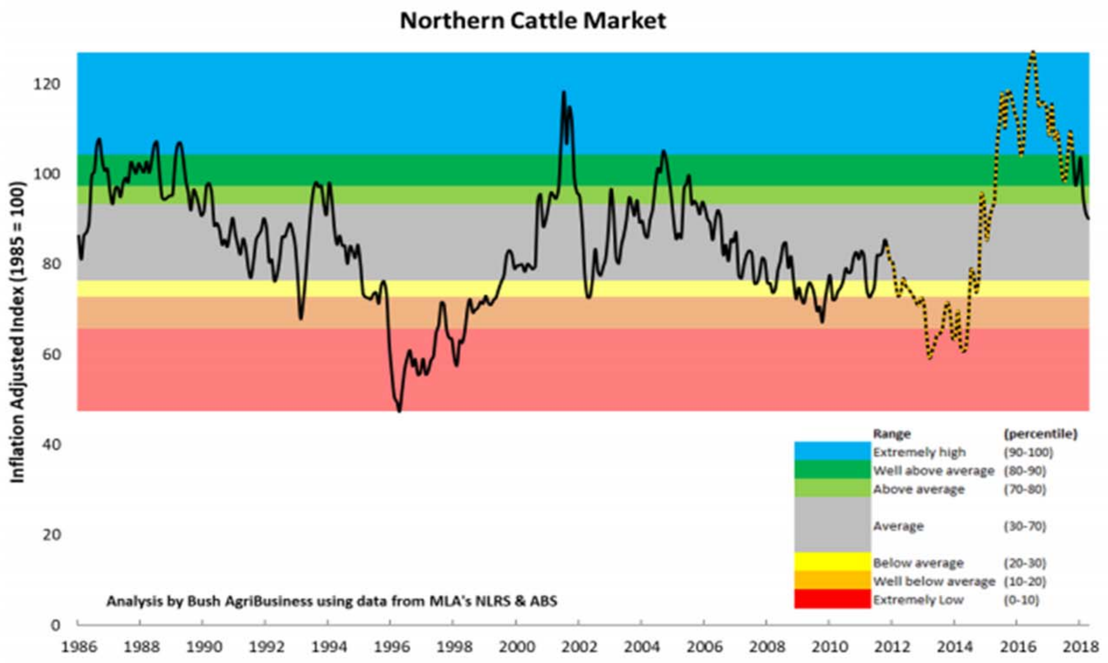

Fig. 1: Long Term Cattle Prices

- Can't control the markets
- Price taker

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Source:https://www.mla.com.au/contentassets/8d84d0f394c143188e2995be535ce445/p.psh.0718_final_reort_.pdf

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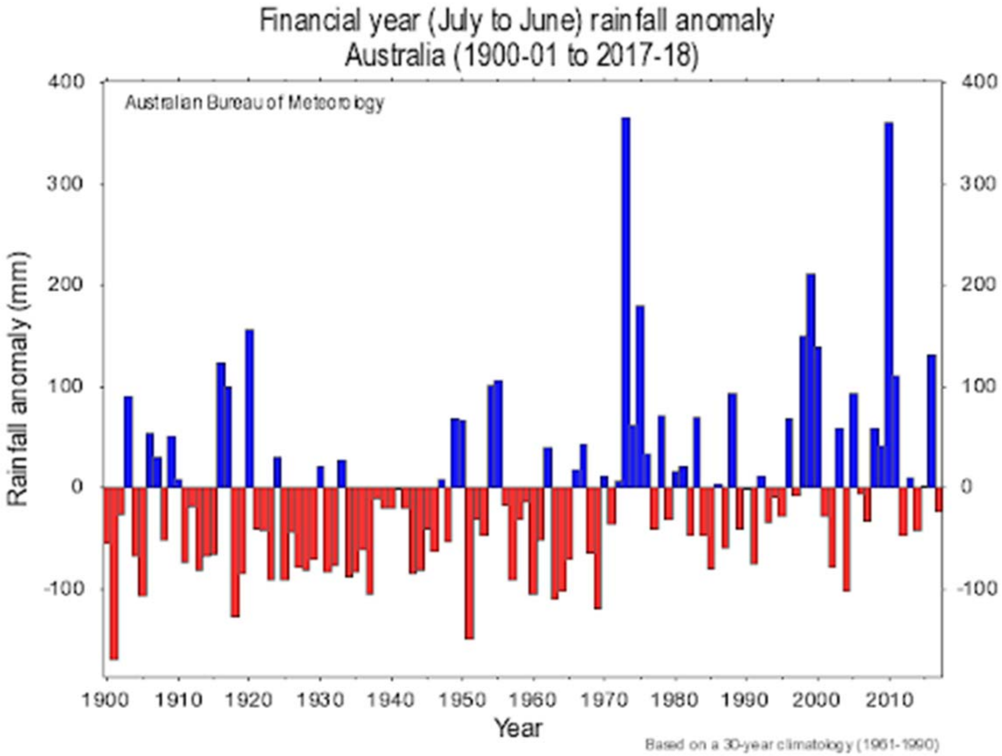
Know your industry



- Can't control the rain
- There is almost no other industry with as many unknowns

bom.gov.au/climate/change/#tabs=Tracker&tracker=timeseries

Know your industry

- Know what you can control and where you can improve
- Use this to plan what you need to spend and where you need to invest to do this
- Understand the finanical benefits of these actions
- Work with advisors in partnership to achieve this

Simply; how to squeeze everything out of your operations and how to plan and set goals to achieve this.

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Know your business model

~~Agri~~ Business

A pastoral business model is where you take your industry knowledge and apply it to your property, weather patterns, soil type, animal type and look to make the most of the situation.

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Know your business model:

There are only 4 ways to grow a business...

1. Increase the number of customers
2. Increase how often those customers buy
3. Increase how much they spend per transaction
4. Increase the effectiveness of each process in your **business**

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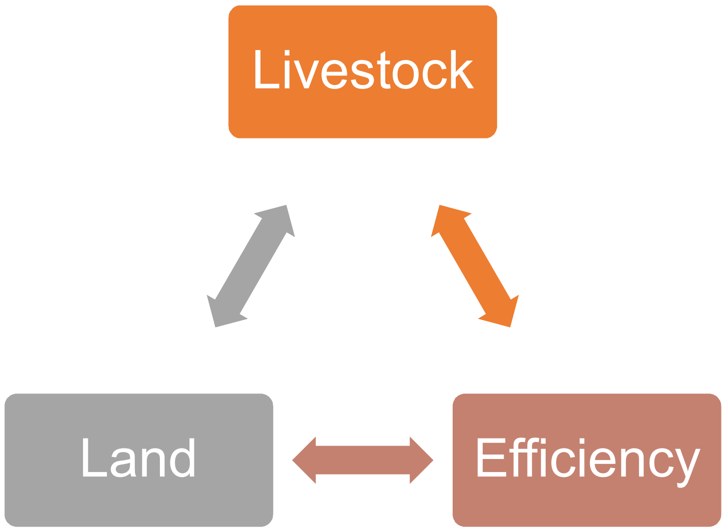
Know your business model



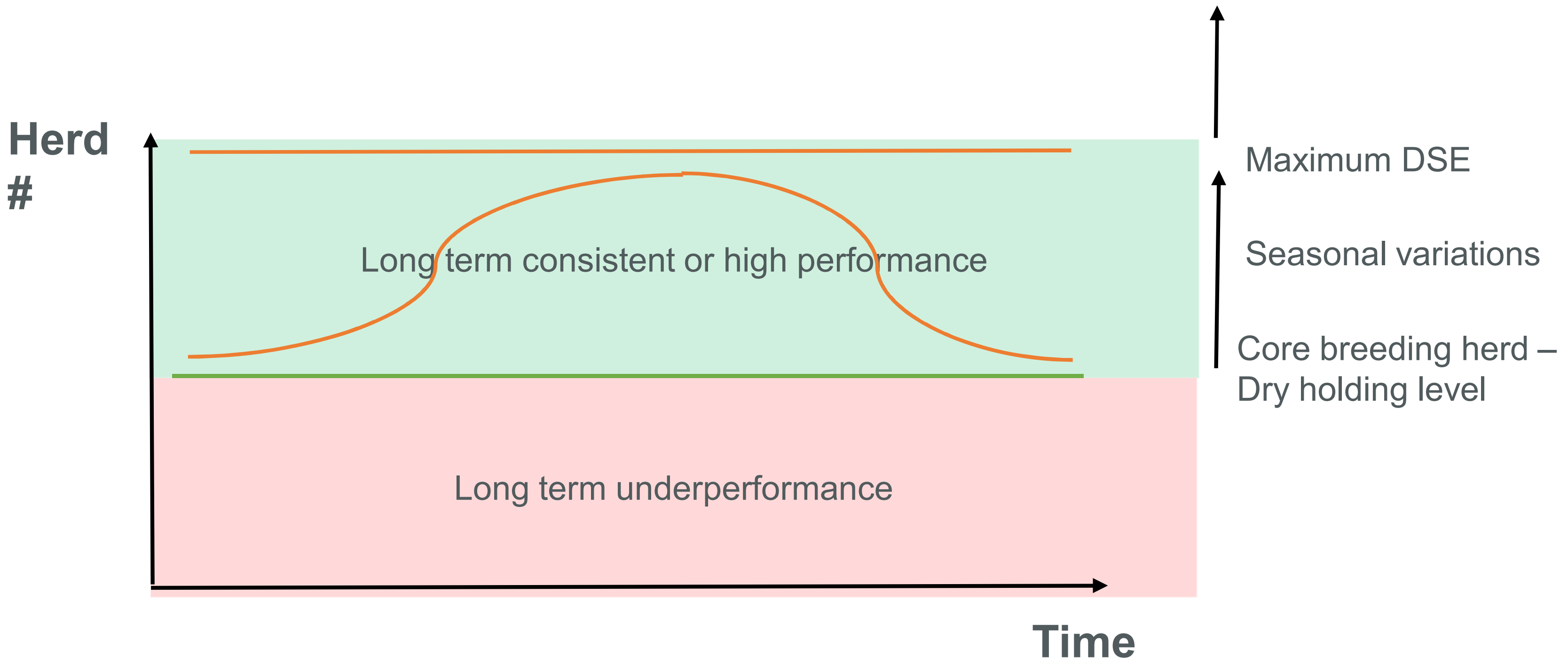
Can control:

- Animal condition
- Herd size
- Animal productivity
- Land productivity
- Key inputs:
    - Labour
    - Overheads
    - Scale

Know your business model

- Once you understand what you can control, your resources are focused in the right way
- You can then make strategic decisions that support what you can control and improve performance
- You will develop an understanding of the financial consequences (short or long term) of what you can change
- Very powerful knowledge for manager, and essential to have a great business

Bringing it all together...



...remember majority of profits in a minority of years...

Know your numbers: Overview

- Have good data
- Have goals and plan to achieve them
- Create a forecast to guide your decision making
- Manage and monitor how you are progressing
- Manage your debt

You cannot achieve your goals without a financial plan to do so

Know your numbers: planning and goal setting

- What do we need to do to lift output, what will it cost and how will we get there?
- Managing stock levels through **rolling** forecasts – 12-18 months
- Cash flow can then be better managed, choices are clearer, target sales on muster are known
- Succession + Other goals extremely important – cannot operate in isolation of your intentions

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Know your numbers: Debt management

- Showing a bank you can execute to a plan – confidence in management
- Stay within your limits, clear overdrafts readily, move core debt to cheaper long term funding rates – improve your ***bank score***
- Maximum LVRs – no higher than 40%
- Bank will lend to 60% giving you room if absolutely required, or strategic deployment for "game changing" acquisition
- Utilising debt to build resilience through the cycle (investment and infrastructure, herd building)
- Ratcheting up debt capacity in good years – banks may not give it to you in the bad years/It will be harder

Know your numbers: Build financial strength

You refined your model to be more profitable, now reinvest profits to:

- Improve key infrastructure, plant and equipment
- Build herd productivity - bloodlines
- Build pastural resilience – holding capacity through the dry
- Build overall holding capacity – to increase financial capacity
- Strategically borrow through the cycle to do this - try not to fall behind
- Off farm assets and alternative income sources

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Consider your structure

- Separate asset ownership from operations
- Exercise caution around FMD's
  - Deferral only
  - No earnings – some banks allow an offset with debt
  - Can delay infrastructure investment or other decisions because of tax
- Why companies can be superior – watching your average tax rate and leaving more money in the business
- Considering succession: Trusts can be passed down without stamp duty or CGT

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Consider your structure

No protection | Joint and several liability | Limited liability

Sole Trader | Partnership | Company | Trust

Simple | Complex

Taxable income	Tax on this income
0 – $18,200	Nil
$18,201 – $45,000	19 cents for each $1 over $18,200
$45,001 – $120,000	$5,092 plus 32.5 cents for each $1 over $45,000
$120,001 – $180,000	$29,467 plus 37 cents for each $1 over $120,000
$180,001 and over	$51,667 plus 45 cents for each $1 over $180,000

Table 1: Progressive changes to the company tax rate

Income year	Aggregated turnover threshold	Tax rate for base rate entities under the threshold	Tax rate for all other companies
2017–18	$25m	27.5%	30.0%
2018–19 to 2019–20	$50m	27.5%	30.0%
2020–21	$50m	26.0%	30.0%
2021–22 and future years	$50m	25.0%	30.0%

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Take home messages

- Understand and apply industry best practice.
- Know your numbers – Get a plan to operate on, check if you are right at the end of the year via variance analysis and if you missed the mark, refine, and improve for next time.
- Control what you can control to avoid being pushed into a decision by the market or otherwise. Be counter cyclical.
- You will make the majority of profits in a minority of years, you need to get to those years, and you need to be in a position to benefit when it happens.
- When those years occur, ensure you reinvest to have the business in good condition and then invest for the future (reduce debt, off farm assets or super)

Tools and resources

- MLA Edge and similar industry papers and resources
- Xero – financial management, BAS etc (Financial year)
- Figured – Farm management, stock monitoring, multiple farms (Seasonal year)
- Any system is better than none, key features:
  - Cloud based – access from anywhere
  - Budget to actual variance report
  - Bank and data feeds – save ourself time
- Work with your advisors

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