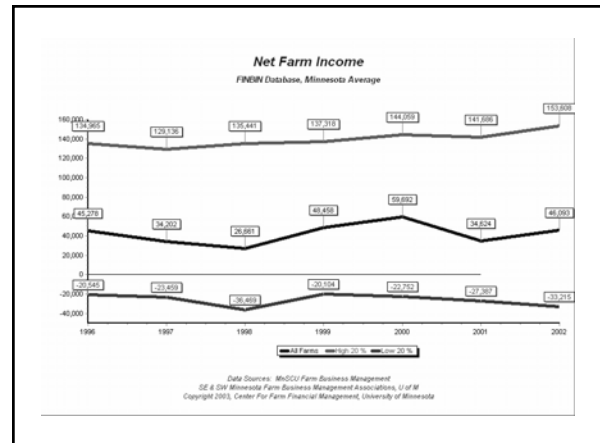
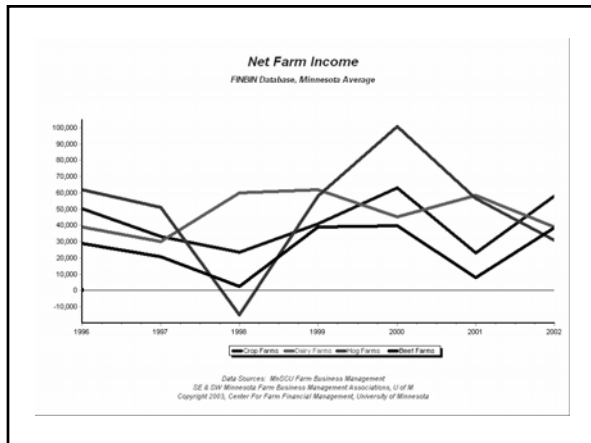
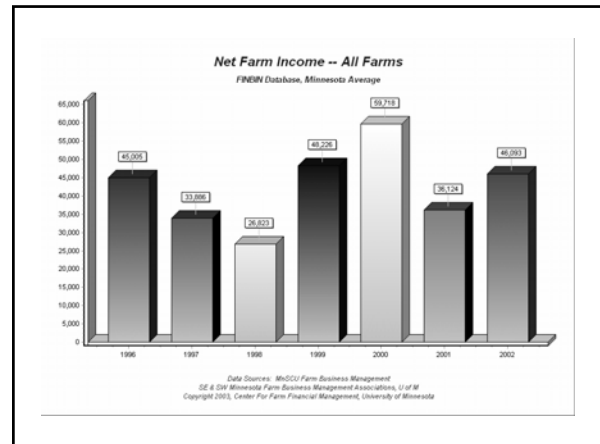


Net Farm Income

- ✓ Return to labor, management and owners equity
- ✓ Available for family living, taxes, and net worth growth (debt repayment or asset acquisition)



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Labor and Management Earnings

- ✓ Returns for investing time and management skills in business
- ✓ Most useful for small, labor-oriented operations



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Rate of Return on Farm Assets

- ✓ Interest rate earned for investing assets in the farm business
- ✓ When based on market values, this is the return to your farm investment compared to alternative investments
- ✓ When based on cost values, this more closely represents actual rate earned on actual investment



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Rate of Return on Farm Equity

- ✓ Interest rate earned for investing owner's capital in the farm business
- ✓ If higher than rate of return on assets, positive leverage is being employed



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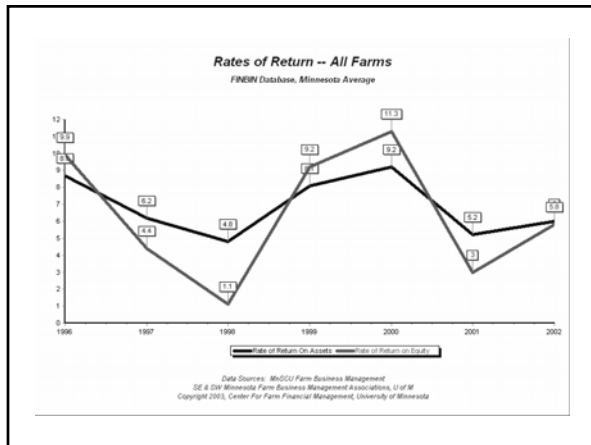
Rate of Return on Farm Equity

$$= \frac{\text{Net Farm Income} - \text{Value of Operator's Labor and Management}}{\text{Total Farm Net Worth}}$$

$$= \frac{\text{Return on Farm Equity}}{\text{Total Farm Net Worth}}$$



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Operating Profit Margin

- ✓ Measure of operating efficiency
- ✓ Affected by efficiency of production, price levels, overhead costs



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Asset Turnover

- ✓ Measure of efficiency in use of capital
- ✓ Affected by volume of production, price levels, under employment of assets



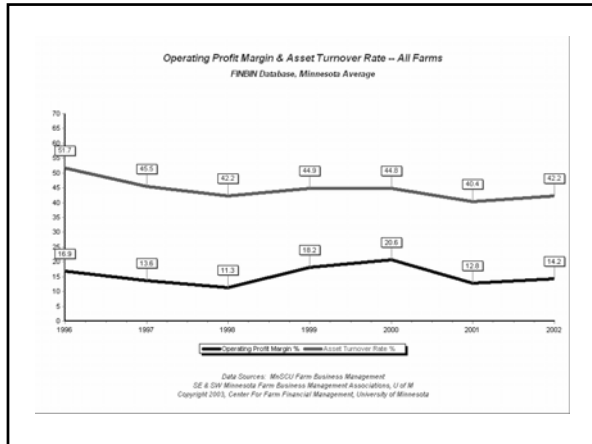
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DuPont Relationship

$$\begin{aligned} &\text{Operating Profit Margin} && \text{Asset Turnover} \\ &\frac{\text{Return on Farm Assets}}{\text{Value of Farm Production}} && \times \frac{\text{Value of Farm Production}}{\text{Total Farm Assets}} \\ &= && \text{Rate of Return on Farm Assets} \end{aligned}$$



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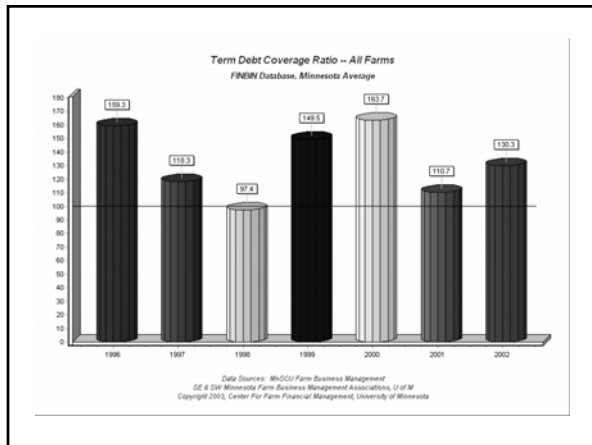


Term Debt Coverage Ratio

- Gross cash farm income
- Cash farm expense
 - + Nonfarm income
 - Family living expense (apparent)
 - Income taxes
 - + Interest paid on term debt
 - = Available for term debt payments
 - ÷ Scheduled term debt payments



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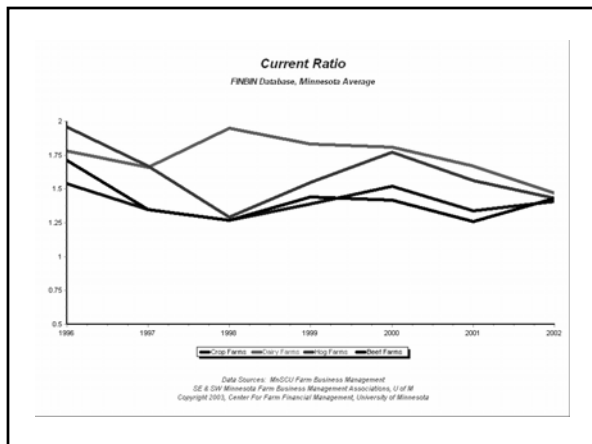


Current Ratio

$$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$$



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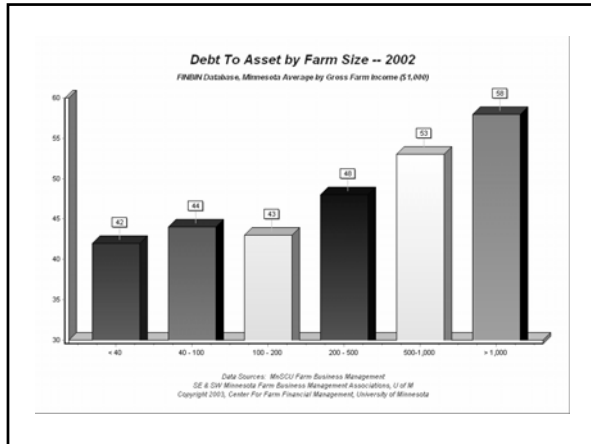


Debt To Asset Ratio

$$= \frac{\text{Total Liabilities}}{\text{Total Assets}}$$



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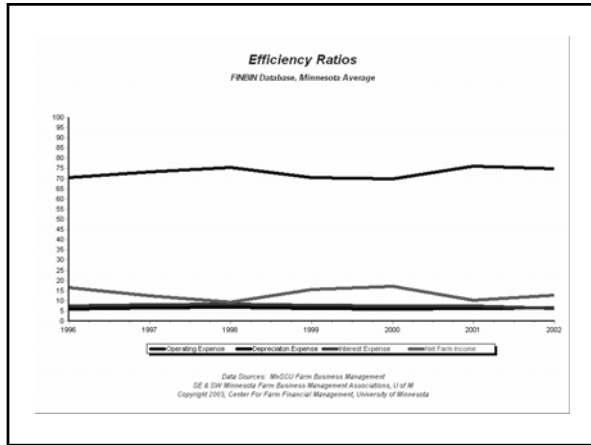


Efficiency Ratios

Operating Expense Ratio
+ Depreciation Expense Ratio
+ Interest Expense Ratio
+ Net Farm Income Ratio

= 100 % of Gross Revenue

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Financial Measures For Selected Companies

Profitability Measures

	Target Corp. 2002	3M 2002	John Deere 2002	Super Valu 2003	FINBIN Average 2002
ROA	11.4 %	19.9 %	5.2 %	9.7 %	6.0 %
ROE	28.3 %	50.1 %	19.1 %	20.3 %	5.8 %
OPM	7.4 %	18.7 %	8.9 %	3.0 %	14.3 %

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Financial Measures For Selected Companies

Efficiency Measures

	Target Corp. 2002	3M 2002	John Deere 2002	Super Valu 2003	FINBIN Average 2002
Asset Turnover	153.5 %	106.5 %	58.7 %	325.0 %	42.0 %
Opr Exp	89.8 %	75.5 %	85.9 %	95.5 %	74.2 %
Deprec	2.8 %	5.8 %	5.2 %	1.6 %	6.7 %
Interest	1.3 %	0.3 %	4.6 %	0.8 %	6.5 %
Net Income	6.1 %	18.4 %	4.3 %	2.1 %	12.6 %

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Farm finance scorecard

Year 20__

Vulnerable 1.0 2.0 Strong

Liquidity

1. Current ratio _____

2. Working capital \$ _____

Solvency (market)

3. Farm debt-to-asset ratio _____%

4. Farm equity-to-asset ratio _____%

5. Farm debt-to-equity ratio _____%

Source: University of Vermont Extension

Farm finance scorecard

Year 20__

Vulnerable Strong

Profitability

6. Net farm income \$ _____

7. Rate of return on farm assets _____%

	1%	5%
	5%	10%

8. Rate of return on farm equity _____%

	20%	35%
--	-----	-----

9. Operating profit margin _____%

--	--	--

Repayment capacity

10. Term-debt coverage ratio _____%

	110%	135%
--	------	------

11. Capital-replacement margin \$ _____

--	--	--

Source: University of Vermont Extension

Farm finance scorecard

Year 20__

Vulnerable Strong

Financial efficiency

12. Asset-turnover rate (market) _____%

	20%	40%
	80%	60%

13. Operating-expense ratio _____%

	20%	10%
--	-----	-----

14. Depreciation-expense ratio _____%

	20%	10%
--	-----	-----

15. Interest-expense ratio _____%


	10%	20%
--	-----	-----

16. Net farm income ratio _____%

--	--	--

Source: University of Vermont Extension

End of Presentation



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