Case Study: Ag-Based Business Given Future Growth Potential.

Lender	Borrower
Iowa-based community lender	**Soybean Seed Processor**

Situation:

The owners of a family farming operation, approximately 3,200 acres of various types of row crops, were evaluating their business. They had grown dissatisfied with the return on their investment in land, buildings, machinery and inputs into their traditional farming operation. They felt that for a similar investment in another type of business, they could realize a much higher return on their capital. They explored several operations and decided they should focus their efforts on an industry they already understood, agriculture. Instead of expanding their farming operations, they decided that processing their oilseed crops, such as soybeans, would offer higher returns, greater stability of income and reduce weather-related risks.

The family researched their options, and decided that a three-ton-per-hour non-GMO oilseed processing facility offered the best opportunity to have a successful business. The total project, including building, utilities, storage, automation equipment, processing equipment, raw material and working capital was $1,200,000. The capital investment necessary for a lender to get involved in the project was a minimum of 10% or $120,000. Further research into the industry revealed businesses operating within its NAICS Code had attractive characteristics. Owners of these types of business realized compensation that put them into the top 4% of working Americans, and EBITDA for these types of businesses averaged an additional 5% of annual sales. The average annual sales for the 403 companies contained in the database were slightly more than $6,000,000. The family decided to move forward with the project.

Action:

Credit Facility: In 2013, the borrower turned to VITAL Financial Services to help structure a credit package that would allow them to receive the needed funds, maximize the use of their investment capital and provide an attractive loan for a bank. VITAL worked with the lender and borrower to design a comprehensive credit package that would allow all parties to receive what they needed to win. VITAL proposed an SBA 7(a) term loan for 100% of the project cost of the new business, plus all expenses associated with starting the business and making the loan. The borrower's equity injection would be used for working capital. Since most of the loan proceeds would be used to purchase various types of equipment and inventory, a 10-year amortization on the entire amount of the loan was proposed.

This is the maximum amortization allowed on a non-real estate loan, providing the minimum monthly loan payment. The minimum payment was desired in order to allow the new business time to process outputs of animal feed and oil, ship product to their customers and receive payment after billing. The business owner's personal cash would be used to make monthly loans payments, meet payroll, pay utilities and all monthly operating expenses for the first 60 to 90 days until the new business could collect from its customers.

Risk Mitigation: In addition to implementing a thoughtful debt and equity structure, it was vital for the prospective borrower to increase his knowledge of manufacturing throughput, process management and financial reporting and accounting. The buyer understood the feed and oil markets, but did not have the manufacturing background or financial reporting experience needed to make a lender comfortable with loaning him a large sum of money to start this type of business.

As part of the debt structure, funds were set aside to pay for management and accounting assistance. The borrower needed to understand the cost structures of the business, how pricing was established and what activities drove their margins up or down. In addition, the borrower needed to understand how to manage the various processes of the business such as sales and marketing, accounting, purchasing and customer relations. The lender, on the other hand, needed to manage the risks associated with lending to a first time business owner and to make sure the financial information they received was reliable so they could properly monitor the credit.

Results:

Through the use of personal behavioral analysis, financial analysis of operations, costing and systemization of the business, and working with the business coach, the borrower was able to absorb the myriad of details necessary to successfully launch and manage the entire business. The lender set a goal for the business to build cash and retain earnings of at least $300,000 in the first 36 months. With strategic thinking applied to all aspects of the operation, a clear path was laid by the team for building the business in subsequent years.

The initial year produced 50% of the three-year goal. All parties, the borrower, banker and coach were elated with the results. The borrower began his second year of operation with a great cash position to handle any unforeseen problems and a strong balance sheet for the business. In addition, the new business owner developed a greater understanding of which activities to engage in and monitor to produce positive earnings for years to come.