Aquaculture Farm Financial Management During the Pandemic

Carole R. Engle
Engle-Stone Aquatic$ LLC
Adjunct, VA Seafood AREC
Virginia Tech University
Who would have thought 3 months ago that we would be where we are today...
Financially, how did we get where we are so quickly?

Revenue
There are no easy answers. There is no one answer that will work for everyone.

Let’s first briefly assess the overall context:

➢ We know the key problem:
➢ Lack of revenue = major cash flow deficits

1. New sources of cash
2. Reduce costs
What else do we know?:
Where are the opportunities?

- The economy was strong going into this.
- There is pent-up demand from people having to shelter at home.
- People need to eat.
- People need to stay away from others to buy food.
- People want to be outdoors in the nice weather.
Where are the market opportunities?

Rent an oyster?
Well, maybe not.

What about an oyster truck?

Fish delivered to your doorstep?
- Can you sell online?
- Can you partner with a neighbor who sells online?
- Is there a way to invite people to safely come buy shellfish and fish from your farm?

With discounts, of course: your goal is to get some cash coming in.
The other side of the ledger is managing cash deficits in the absence of new cash revenue.
What kind of interventions will help you get out of this?

- Strong cost controls
- Not allowing operating loans to get out of control
- Off-farm income
Managing cash flow

Short-term

- Find out about the new programs coming out & how to access any federal or state financial relief being made available to businesses.

- Anything that provides cash, defers payments, defers expenses is a help.
New federal programs: Talk with your local lender

- CARES ACT
- Paycheck Protection Program (SBA) (provision for forgiveness)
- Advance Loan (SBA) (Economic Injury Disaster Loan) up to $10,000. Will not have to be repaid.
- Express Bridge Loan Pilot Program (SBA): up to $25,000; term or bridge.
- Small Business Debt Relief Program (SBA)

Be very certain to learn all the rules, what is eligible and what’s not & maintain eligibility for forgiveness!
Short-term: New federal programs

Make sure you’re signed up with all aquaculture news services:

• University Extension
• National Aquaculture Association
• Species associations (ECSGA; PCSGA; CFA, etc.)
• State aquaculture assoc. (MAA, CAA, OAA, etc.)
• State Depts. of Agriculture
• Farm Bureau
• Small Business Administration
Short-term cash management

• Delay large capital purchases i.e., new equipment.
• Slow expansion, renovations.
• Can you find other employment from home to generate short-term cash?
• Do you have any assets that could be sold to generate some cash?
• Can you sell some equipment? Maybe lease it back for less cash outlay.
Short-term cash management

• Talk with suppliers: may get extended terms.

• Choose which bills to pay carefully
  ✓ Payroll first
  ✓ Crucial suppliers second
  ✓ Ask others if payment can be skipped
  ✓ Or make a partial payment

Be very certain to stay within guidelines of all federal programs you are participating in – to maintain eligibility for forgiveness!
Short-term:
What to do about loans?

- New borrowing (line of credit) is standard way of managing cash deficits.

But, care must be taken to not get so far into debt that you cannot get out.
How much debt is too much?

Debt-to-Asset Ratios as Early Warning

- <50%, Low Risk
- >50%, Moderate Risk
- >100%, High Risk
- Foreclosure

Year 1
Year 2
Year 3
Year 4
## Balance Sheet

<table>
<thead>
<tr>
<th>Item</th>
<th>Total Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>1. Current Assets</td>
<td></td>
</tr>
<tr>
<td>Cash on deposit</td>
<td>$15,849</td>
</tr>
<tr>
<td>Checking account balance</td>
<td>0</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>0</td>
</tr>
<tr>
<td>Fish inventory</td>
<td>$266,112</td>
</tr>
<tr>
<td>2. Non-Current Assets</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>$387,570</td>
</tr>
<tr>
<td>Ponds</td>
<td>$357,888</td>
</tr>
<tr>
<td>Wells</td>
<td>$48,000</td>
</tr>
<tr>
<td>Land</td>
<td>$210,432</td>
</tr>
<tr>
<td>3. Total Assets</td>
<td><strong>$1,285,851</strong></td>
</tr>
<tr>
<td><strong>Liabilities = Debts</strong></td>
<td></td>
</tr>
<tr>
<td>4. Current Liabilities</td>
<td></td>
</tr>
<tr>
<td>Payments on debt due &amp; payable over next year</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>$36,368</td>
</tr>
<tr>
<td>Real estate</td>
<td>$19,216</td>
</tr>
<tr>
<td>5. Non-Current Liabilities</td>
<td></td>
</tr>
<tr>
<td>Equipment loan</td>
<td>$84,858</td>
</tr>
<tr>
<td>Real estate loan</td>
<td>$134,772</td>
</tr>
<tr>
<td>6. Total Liabilities</td>
<td><strong>$275,214</strong></td>
</tr>
</tbody>
</table>

**Debt-to-Asset Ratio =**

\[
\text{Total Liabilities} \div \text{Total Assets} = \frac{275,214}{1,285,851} = 0.21 \times 100 = 21\%\
\]
<table>
<thead>
<tr>
<th>D/A Ratio</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 40% to 50%</td>
<td>Low risk</td>
</tr>
<tr>
<td>40% to 65%</td>
<td>Medium risk</td>
</tr>
<tr>
<td>&gt; 65%</td>
<td>High risk, but don’t panic</td>
</tr>
<tr>
<td>&gt; 100%</td>
<td>Banks get worried; might begin to talk about calling in loan</td>
</tr>
</tbody>
</table>
More on new loans: terms of lending

1. Interest rate (%, fixed, variable)
2. Length of loan (no. of months, years)
3. Repayment schedule
4. Payments
5. Collateral

But have a detailed cash flow budget that you use to evaluate the trade-offs.
Cash Flow Budget

Normally, I would not show you a slide with a large amount of numbers, but for those of you who do not keep cash flow budgets, it's important to have an idea what one looks like.

<table>
<thead>
<tr>
<th>Item</th>
<th>Jan.</th>
<th>Feb.</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts, $ inflow</td>
<td>24,500</td>
<td>24,500</td>
<td>24,500</td>
<td>101,500</td>
<td>52,500</td>
<td>73,500</td>
<td>644,000</td>
</tr>
<tr>
<td>Operating Cash Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feed</td>
<td>2,783</td>
<td>5,565</td>
<td>5,565</td>
<td>19,479</td>
<td>13,913</td>
<td>44,522</td>
<td>278,264</td>
</tr>
<tr>
<td>Fingerlings</td>
<td>0</td>
<td>36,416</td>
<td>36,416</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>72,832</td>
</tr>
<tr>
<td>Labor</td>
<td>3,245</td>
<td>3,245</td>
<td>3,245</td>
<td>3,245</td>
<td>4,766</td>
<td>5,780</td>
<td>50,700</td>
</tr>
<tr>
<td>Gas, fuel, oil</td>
<td>1,137</td>
<td>568</td>
<td>568</td>
<td>568</td>
<td>947</td>
<td>1,516</td>
<td>18,944</td>
</tr>
<tr>
<td>Electricity</td>
<td>1,137</td>
<td>1,137</td>
<td>1,705</td>
<td>2,273</td>
<td>2,842</td>
<td>5,683</td>
<td>56,832</td>
</tr>
<tr>
<td>Repairs</td>
<td>2,980</td>
<td>497</td>
<td>993</td>
<td>993</td>
<td>1,242</td>
<td>2,483</td>
<td>24,832</td>
</tr>
<tr>
<td>Telephone</td>
<td>215</td>
<td>215</td>
<td>161</td>
<td>269</td>
<td>269</td>
<td>215</td>
<td>2,688</td>
</tr>
<tr>
<td>Farm insurance</td>
<td>518</td>
<td>518</td>
<td>518</td>
<td>518</td>
<td>518</td>
<td>518</td>
<td>6,476</td>
</tr>
<tr>
<td>Legal/accounting</td>
<td>156</td>
<td>125</td>
<td>125</td>
<td>125</td>
<td>125</td>
<td>125</td>
<td>1,562</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>14,386</td>
<td>50,304</td>
<td>51,427</td>
<td>34,936</td>
<td>29,937</td>
<td>66,655</td>
<td>567,233</td>
</tr>
<tr>
<td>Loan payments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>208</td>
<td>150</td>
<td>433</td>
<td>742</td>
<td>267</td>
<td>0</td>
<td>3,425</td>
</tr>
<tr>
<td>Principal</td>
<td>7,000</td>
<td>0</td>
<td>0</td>
<td>57,000</td>
<td>32,000</td>
<td>0</td>
<td>141,000</td>
</tr>
<tr>
<td>Total Cash Outflow</td>
<td>21,594</td>
<td>50,454</td>
<td>51,860</td>
<td>92,678</td>
<td>62,204</td>
<td>66,655</td>
<td></td>
</tr>
<tr>
<td>Cash available</td>
<td>2,906</td>
<td>-23,048</td>
<td>-16,409</td>
<td>29,414</td>
<td>19,710</td>
<td>26,555</td>
<td></td>
</tr>
<tr>
<td>New Borrowing</td>
<td>0</td>
<td>34,000</td>
<td>37,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>
Terms: Interest rate

• Generally the lower, the better.
• But fixed rate loans tend to have higher interest rates, but less risk to your business over time.
• Variable rate loans: often lower rates, but will only go up over time because interest rates are so low right now.
Terms: Length of loan term

- Lower payments: Greater total interest
- Greater payments: Less total interest

Operating loans:
Lenders & their examiners traditionally want them repaid in less than 12 months.
Terms: Repayment schedule

- Ask for deferred payments.
  - But have a plan (based on cash flow budget) to show how you will make those payments.
  - Auto dealers offering 90 days of deferred payments on new cars.
Terms: Payments

- Amount of each payment depends on:
  - Interest rate
  - Term (length, in months, yrs.)
  - Number of payments

- Use your detailed cash flow budget to determine when and how much you can pay on loans

- Beware of balloon payments
Terms: Collateral

- Frequent types:
  - Land
  - Equipment, boats
  - Other personal assets

- Think long and hard before using your home for collateral
Short-term: If you have existing loans:

Schedule virtual meeting or call with your loan officer

- Have a well-thought out cash flow budget for this year that shows not just current cash deficits, but those that are coming
- Review loan payment schedules for the coming months
- Talk about re-scheduling payments, deferring payments
- Keep your loan officer informed
Keys to getting through the coming months.

➢ Get your financial records in order
  • Federal programs will require business owners to keep detailed records: on sales, revenue, expenses, labor, & how they compare to business as usual

➢ Will improve accuracy in assessing your options now and throughout the coming year
Keys to getting through the coming months.

- Project out various scenarios for the coming months (3, 6, 9, 12)
  - Develop cash flow budget(s)
- Know what your shortfall will be
- Use projections to think about making ends meet now & what that will mean a year from now
Resources:
Southern Regional Aquaculture Center Fact Sheets

https://srac.tamu.edu

4403: Liquidity, cash flow, budgets
4400: Introduction to financial analysis
4401: Financial position, balance sheet
4402: Profitability, income statement

University Extension Specialists
State Aquaculture Associations
Small Business Administration
All participants in today’s webinar will be emailed a Tip Sheet with helpful links to federal programs and the SRAC fact sheets on Cash Flow and Balance Sheets.

Please let us know if there are additional webinar topics that would be helpful to you.
Thanks to:

Paul Zajicek
National Aquaculture Association

LaDon Swann
NOAA Sea Grant

For organizing & hosting this webinar.
Questions and Comments?

Carole R. Engle
cengle8523@gmail.com
Helpful Links:

Paycheck Protection Program:

Small Business Administration:
www.sba.gov/local-assistance/find/?type=SBA District Office&pageNumber=1

CARES ACT
https://home.treasury.gov/cares