

**THE LIMESTONE COAST RED MEAT CLUSTER IS BUILDING INDUSTRY LINKAGES AND PROMOTING A CULTURE OF COLLABORATION TO ENSURE A VIBRANT FUTURE FOR THE REGION'S RED MEAT SECTOR.**

## Regional Profitability and Financial Management Project

# Limestone Coast Red Meat Cluster (“LCRMC”) Regional Profitability and Financial Management Project

## PART A

1. Develop the **methodology** to set industry specific, financial management targets for the Limestone Coast.
2. Undertake **research** and analysis to **set industry specific financial management** targets.



## PART B

3. Design program and curriculum for financial management training for red meat producers, to include:
  - a. In person training for up to 12 participants, over multiple sessions.
  - b. Marketing and promotion plan to attract committed producers to participate.
  - c. Training materials, including software if and as required.
  - d. Structure for ongoing mentorship or support mechanism for participants.
4. Deliver regional financial management training program in the Limestone Coast.

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# Limestone Coast Red Meat Cluster (“LCRMC”) Regional Profitability and Financial Management Project

## 1. Methodology

- Engage with regional and independent financial experts

## 2. Research and analysis

- ABARES Farm Surveys
- Bank lending criteria
- Accounting professionals
- General business benchmarks
- Case studies

## 3. Set industry specific financial management targets.

- Relevant to the LCRMC
- For a given scale
- Within a risk framework

*Whilst scaling up generally is a pathway to greater profitability, operators need to become better managers before they get bigger and to grow within a well managed risk framework*

# Limestone Coast Red Meat Cluster (“LCRMC”) Regional Profitability and Financial Management Project

Setting realistic performance targets for professional farmers requires relevant measures and benchmarks

The “risk for reward” and “reward for effort” equations start from different reference points:

- what is being achieved?
- what can be achieved?
- why does it matter?
- who cares?

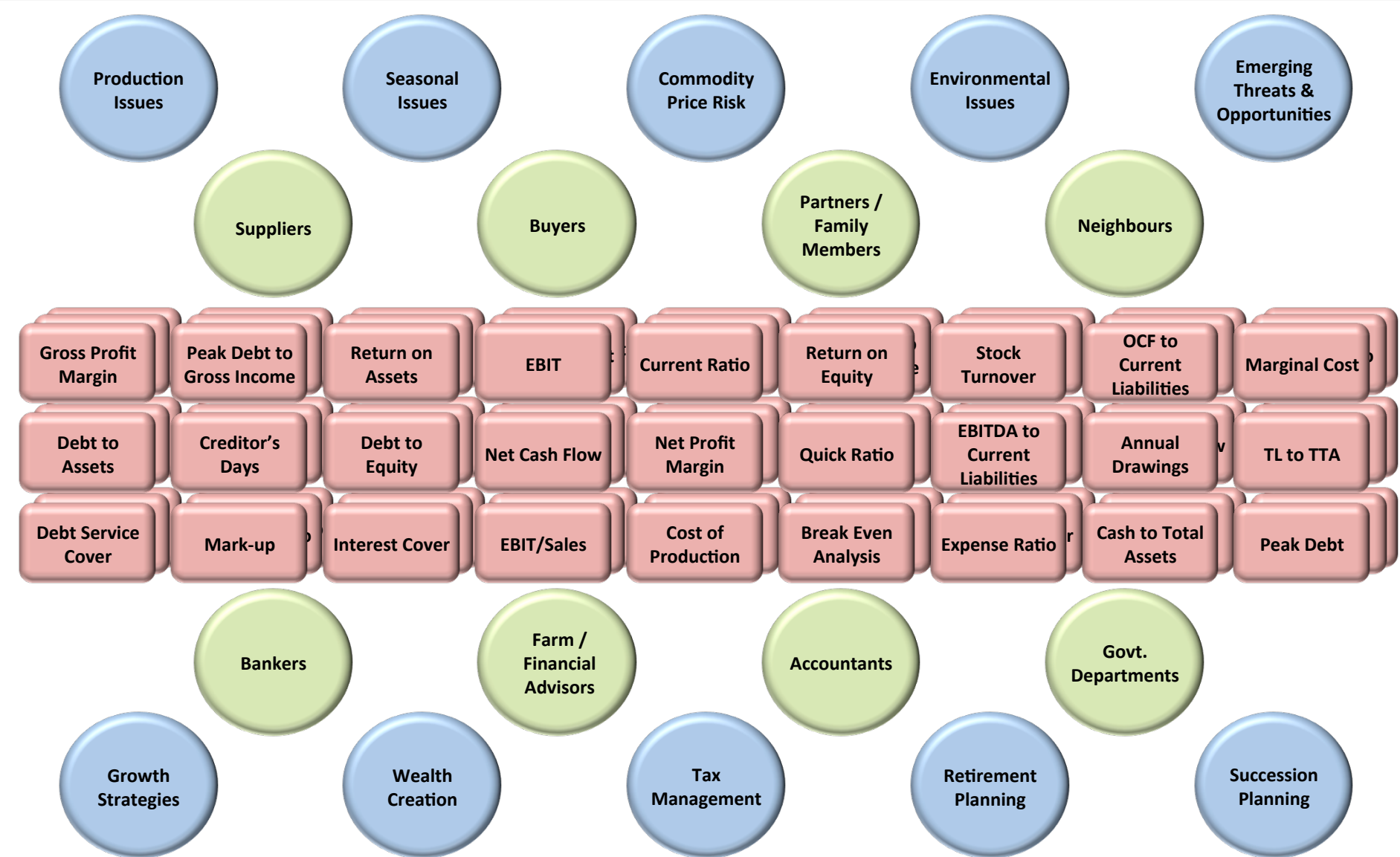
... what can be achieved varies by region, enterprise type and scale of operation coupled with the risk appetite of the farm operator

... and setting a target depends what stage the farm operator is at:

- surviving
- building
- consolidating
- preparing for exit

*There is no single measure or target but a range within which to operate so that an operator can understand what is possible for a given set of circumstances*

# Running a farming business was demanding enough before the introduction of financial ratios



# How to select the key financial measures ...

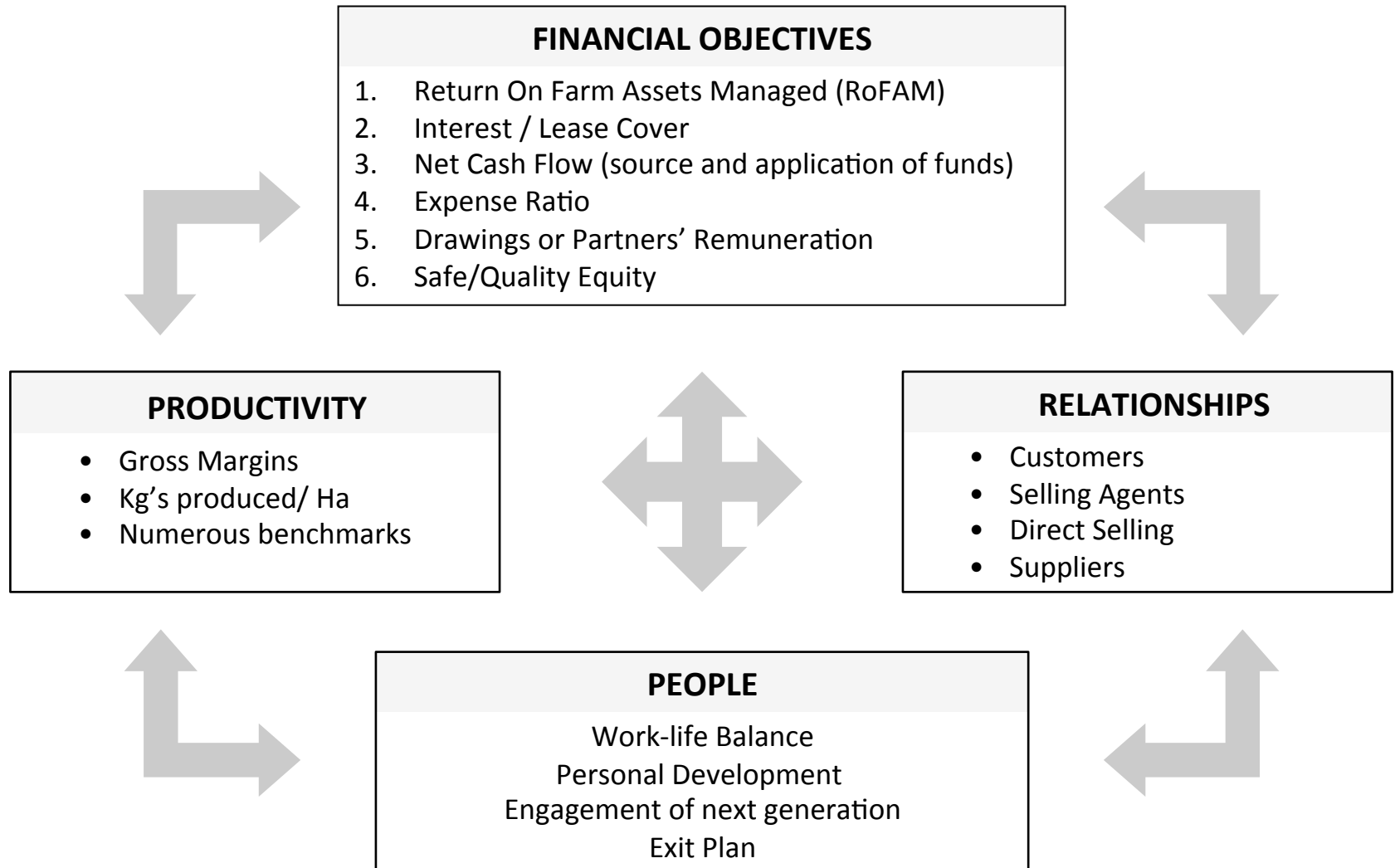
Farm Operator's Perspective	Measures	Type
Am I earning a fair return for my efforts?	Drawings and dividends	Financial
Am I building wealth from my operations?	Farm equity / off-farm investments	Financial
Am I getting enough out of my assets?	Return on farm managed assets	Financial
Where can current performance be improved?	Benchmarks	Financial / Operational
Where do I sit in relation to risk?	Farm equity and interest cover	Financial
Should or can I grow?	All of the above	Mainly financial

Investor & Bank's Perspective	Measures	Type
Can any investment or debt be serviced and repaid?	Interest cover, cash flow	Financial
Are we covered if things go bad?	Farm equity	Financial
Can we increase lending/investment	Equity, performance, related operational risks	Financial

*A focus on maximising return on farm managed assets underpins operational risk management and returns and opens the options for viable scaling of operations*

Measure	
1. Return on Farm Assets Managed (RoFAM)	Formula & Target
2. Interest / Lease Cover	Formula & Target
3. Net Cash Flow (source and application of funds)	Method
4. Expense Ratio	Formula & Target
5. Drawings or Partners' Remuneration	Consideration
6. Safe/Quality Equity Ratio	Consideration

# Using the Balanced Scorecard Approach





## 1. Return on Farm Assets Managed

*Is the farm business meeting operational efficiency target or goals?*

*Am I getting enough from the assets I manage?*

*A target RoFAM of 4% growing to 8% over the long term*

**Return on Farm Assets Managed (RoFAM)**

Scale / Quartile	Q4	Q3	Q2	Q1	All
>1m	0.2%	3.6%	6.2%	12.1%	4.8%
500k-1m	-1.0%	2.0%	4.1%	8.0%	2.7%
200k-500k	-3.2%	0.0%	1.6%	4.3%	0.6%
<200k	-8.2%	-3.7%	-1.7%	0.5%	-2.5%
All	-2.4%	0.5%	2.1%	5.2%	1.3%

Australia  
All Zones

- Nationally, the Top Quartile operators with farm output exceeding \$1m achieve a 12% RoFAM
- The High Rainfall Zone performance is slightly lower than the national average but more appropriate for benchmarking the LCRMC
- Best practice at largest scale achieves an average RoFAM of ~11%
- A realistic first target for producers 4%
- Ideal minimum scale is >\$500k production at farm gate
- A mature target of 8% should be achievable for the progressive operators and this opens the pathway for scaling through equity or lease

**Return on Farm Assets Managed (RoFAM)**

Scale / Quartile	Q4	Q3	Q2	Q1	All
>1m	0.5%	3.3%	5.9%	10.7%	3.4%
500k-1m	-0.5%	1.9%	4.0%	7.2%	2.5%
200k-500k	-2.7%	0.0%	1.6%	4.3%	0.9%
<200k	-8.0%	-3.6%	-1.6%	0.4%	-2.1%
All	-2.4%	-0.1%	1.0%	2.9%	0.0%

Australia  
High  
Rainfall

Measure	Question / Insight	Methodology	Performance Guide
<b>Return on Farm Assets Managed</b>	Is the farm business meeting operational efficiency target or goals? Am I getting enough from the assets I manage?	$\frac{\text{Earnings before interest, lease payments and tax}}{\text{Total assets under management}}$	Minimum acceptable 2%  Target 1 = 4%  Target 2 = 8%
<b>Return on Equity</b>	Is the farm meeting my wealth generation targets?	$\frac{\text{Earnings before tax}}{\text{Net assets under management}}$	Minimum acceptable 2%  Target 1 = 4%  Target 2 = 10%

Target: 4%

Case Study	Result	Target	Variance	Comments Observation
CS 1: A=\$4.5m; R=\$850k	3.0%	T1: 4%	(1.0%)	5 year average range(-2.6% to 8.1%)
CS 2: A=\$10m; R=\$3.0m	8.0%	T2: 8%	0.0	5 year average (range 1.1% to 15.2%)

In the case studies presented A = Farm Assets Managed, R = Total Receipts (value of production). Both case studies taken from the South East region as defined by ABARES

## 2. Interest / Lease Cover

*Is the farm business generating enough profit / earnings to safely meet debt or lease servicing obligations?*

*Do I understand the bankers' perspective in managing debt servicing risk.*

*A target interest cover of 2x (minimum) growing to 3x ...*

**Interest Cover**

Scale / Quartile	Q4	Q3	Q2	Q1	All
>1m	-1.0	1.4	2.7	5.7	2.0
500k-1m	-2.0	0.5	1.8	3.8	0.8
200k-500k	-4.0	-1.3	0.5	2.4	-0.6
<200k	-11.0	-7.0	-4.5	-0.2	-5.3
All	-3.2	-0.7	0.8	3.4	0.0

**Australia  
All Zones**

- The High Rainfall Zone lags the national average but the segments representing safe to strong interest cover are similar
- Interest cover of 2x is considered acceptable while 3x is strong
- Higher than 3x indicates scope to scale further via equity or leasing
- Alternatively the strong interest cover indicates greater capacity to repay capital or fund off-farm investments

**Interest Cover**

Scale / Quartile	Q4	Q3	Q2	Q1	All
>1m	-0.6	1.5	2.9	4.5	1.6
500k-1m	-1.7	0.6	2.2	3.8	1.0
200k-500k	-4.3	-1.2	0.8	2.5	-0.1
<200k	-12.3	-7.6	-5.0	-0.3	-5.5
All	-3.9	-1.3	0.1	2.1	0.0

**Australia  
High  
Rainfall**

*... but subject to your plans and capacity for the future*

Measure	Question / Insight	Methodology	Performance Guide
Interest / Lease Cover	Is the farm business generating enough profit / earnings to safely meet debt or lease servicing obligations?	$\frac{\text{Earnings before interest, lease payments, tax and depreciation}}{\text{Interest and lease payments}}$	<1 = Trouble >1 = Marginal >2 = Good >3 = Strong
<p>Calculated annually; best calculated over multiple years to cater for seasonal fluctuations; over a three (3) or five (5) year rolling calculation appears “the way” for agriculture and business generally.</p> <p>Banks minimum is &gt; 1 Times with a demonstrated plan to increase to &gt; 2 Times</p> <p>Banks generally seek &gt; 2 Times</p> <p>Banks generally want &gt; 3 Times clients who want to increase borrowings</p>			

Target: > 2

Case Study	Result	Target	Variance	Comments Observation
CS 1	Last year 2.06	> 2	Positive	4 year average 2.51 (High of 6 & Low of -1)
CS 2	Latest year 1.23	> 2	Negative	5 year average 0.97 (High 1.57 Low 0.27)

# Bankers' Perspective: Interest Cover / Debt Servicing

Measure	Question / Insight	Methodology	Performance Guide
<b>Debt Service Cover Ratio</b>	Is the farm business generating enough profit / earnings to meet bank debt servicing policy The key number in this calculation is the principal repayment as this will have the largest impact on the ratio.	EBITDA ÷ Interest and Principal Repayments	The DSCR is generally in the range of 1.5x to 2.0x
<b>Debt Service Cover Ratio is dominated by principal repayment policy of Bank</b> <b>A useful indicator of capacity to repay debt</b> <b>Is a unique policy of a Bank</b>			
<b>Debt Service Calculation</b>	Is the farm business generating enough profit / earnings to meet bank debt servicing policy	Cost of Finance ÷ Farming Income	<25% of Farming Income
<b>Debt Service Calculation is a unique policy of a bank</b>			

*Banks lend under policy; Policy is flexible and changed with appetite change in economic and industry cycles for book growth or clean book*

Case Study	Result	Target	Variance	Comments Observation
CS 1 DSC	4%	< 25%	21%	
CS 2 DSC	36%	< 25%	(11%)	

*There is no specific target for equity but it is a critical measure from a financing perspective*

**Farm Business Equity Ratio**

Scale / Quartile	Q4	Q3	Q2	Q1	All
>1m	71%	77%	75%	71%	73%
500k-1m	77%	81%	80%	78%	79%
200k-500k	83%	86%	85%	83%	84%
<200k	87%	89%	91%	90%	89%
All	83%	86%	86%	85%	85%

**Australia  
All Zones**

**Farm Business Equity Ratio**

Scale / Quartile	Q4	Q3	Q2	Q1	All
>1m	78%	76%	73%	71%	76%
500k-1m	81%	81%	81%	79%	81%
200k-500k	85%	88%	87%	83%	86%
<200k	88%	89%	92%	91%	90%
All	86%	88%	89%	87%	86%

**Australia  
High  
Rainfall**

- The High Rainfall Zone has slightly higher average equity than the national average
- Whilst some banks will lend up to 70% of asset value this generally only applies to the high performing farmers (top decile)
- 50% remains the long-term norm for banks, even for the top quartile farmers
- There is no target figure for equity other than to set a level where you are growing rather than eroding your asset base. This is unique for each operation.
- (refer “Safe/Quality Equity” slides)



Measure	Question / Insight	Methodology	Performance Guide
Level of Equity	Is equity within bank policy?	$\frac{\text{Total assets less total liabilities}}{\text{Total Assets}}$	Bank A = 50% Bank B = 55% Bank C = 60% Bank D = 70%

*One could interpret equity as defining the length of a fuse ... unfortunately, the shorter it is the more likely it will get lit!*

Case Study	Result	Target	Variance	Comments Observation
CS 1	78%	70%	+8%	
CS 2	<10%	50%	(40%)	5-year average equity below 10% - over-gearred

NB: Property Assets should be supported by valuation and other assets assessed within current market.

# Bankers' Perspective: Advance to Security Ratio

Measure	Question / Insight	Methodology	Performance Guide
<b>Advance to Security Ratio</b>	Is bank security position within policy?	Secured debt ÷ Security value	Bank A = 70% Bank B = Range 60% to 70% Bank C = 50% Bank D = 60% Land 50% Livestock

Case Study	Result	Target	Variance	Comments Observation
CS 1	25%	< 60%	35%	Capacity Available
CS 2	69%	< 60%	(9%)	No Fat Left

### 3. Net Cash Flow

*If we accept “Cash is King” ...*

*... then cash flow is the blood that keeps the heart  
of the kingdom pumping*

Measure	Question / Insight	Methodology	Performance Guide
<b>Source and application of funds</b> <b>Statement of Cash Flows</b>	Understand the Cash Flow, particularly in relation to maintaining the capacity to service short term liabilities	1. Cash at start of year 2. Operating activities 3. Investing activities 4. Financing activities 5. Cash at end of year	Positive cash flow supported by the right mix of long term and short term debt facilities to meet operational needs

Target: Positive with forecast liquidity

# Statement of Cash Flows

<b>Cash Flow Summary</b>	
Farm Income	650,000
Other Revenues	25,000
Total Farm Income	675,000
Owner/operator wages	-45,000
Other Farm expenses (excl Int)	-595,000
EBIT	35,000
<b>+ / (-) Non Cash Items</b>	
Depreciation	35,000
Provisions - general	2,500
Total Non Cash Items	37,500
<b>EBIT Cash Flow</b>	<b>72,500</b>
<b>Working Capital Flows</b>	
Change in Debtors	-15,000
Change in Creditors	10,000
Change in Inventories	-1,500
Total Working Capital Flows	-25,000
<b>Interest &amp; Tax Payments</b>	
Interest - Operating (Paid) / Rcvd	-15,000
Tax (Payments) / Refunds	-25,000
Total Interest & Tax Payments	-40,000
<b>Total Operating Cash Flow</b>	<b>42,500</b>
<b>Cash Flow from Investing Activities</b>	
Capital Expenditure	-45,000
Sale Proceeds	12,000
<b>Total Cash Flow from Investing</b>	<b>-33,000</b>
<b>Cash Flow from Financing Activities</b>	
Dividend Payments / Operator Drawings	-5,000
Issue of Capital	0
Drawdowns / (Repayments) - Operator Loans	0
Drawdowns / (Repayments) - Bank Loans	-5,000
<b>Total Cash Flow from Financing</b>	<b>-10,000</b>
<b>Total Cash Flow</b>	<b>-500</b>
<b>Summary Cash Position</b>	
Opening Balance	5,000
Net Cash Movement	-500
<b>Closing Balance</b>	<b>4,500</b>

*Start with the EBIT*

*Adjust for non-cash items*

*Add changes in working capital ...*

*... plus interest and tax payments*

*... capital purchases or sales*

*... Dividends and loan repayments / drawdowns*

- The format is an example only and is not based on actual case study numbers *(for confidentiality reasons)*
- The training sessions will cover the preparation and understanding of cash flow – the format can vary but the principles remain the same
- The important consideration is that generating a net profit is not enough to maintain viability – ensuring that working capital, capital replacements and debt reduction can be accommodated is critical for ongoing viability
- Monthly cash flow forecasting and management is recommended to avoid liquidity traps – timing issues and the need for short term facilities or cash reserves

## 4. Expense Ratio

*Is the farm generating enough income to meet ongoing expenses?*

*A target Expense Ratio of 15% growing to 25% in the medium term*

**Expense Ratio (Farm Business Profit / Cash Receipts)**

Australia All Zones	Scale / Quartile	Q4	Q3	Q2	Q1	All
	>1m	-8%	11%	19%	29%	14%
	500k-1m	-18%	4%	14%	25%	7%
	200k-500k	-37%	-10%	4%	18%	-5%
	<200k	-115%	-68%	-39%	-2%	-47%
	All	-29%	-5%	6%	21%	0%

**Expense Ratio (Farm Business Profit / Cash Receipts)**

Australia High Rainfall	Scale / Quartile	Q4	Q3	Q2	Q1	All
	>1m	-5%	13%	21%	28%	12%
	500k-1m	-15%	5%	17%	27%	8%
	200k-500k	-34%	-9%	6%	19%	-1%
	<200k	-120%	-71%	-39%	-2%	-44%
	All	-32%	-11%	1%	15%	0%

- The Expense Ratio is a sound proxy to measure the strength of cash flow – earnings before interest and tax as a % of gross income
- The Top Quartile operators with farm output exceeding \$1m achieve an Expense Ratio of ~30%
- The high Rainfall zone is similar to the national average
- A short term target of 15% growing to 25% over the medium would appear appropriate for the South East region
- Financiers consider 30% an indication of a strong operator

Measure	Question / Insight	Methodology	Performance Guide
<b>Expense Ratio</b>	Is the farm generating enough income to meet ongoing operating expenses?	Earnings before interest, and tax ÷ Gross income	Minimum acceptable = 15% Medium term target = >25% Long term target = >30%
<p>The ratio excludes interest in the calculation – but we also have interest cover ratio to address that issue. It is a simple indicator of business health before gearing impact.</p>			

Target: >25%

Case Study	Result	Target	Variance	Comments Observation
CS 1	25%	> 25%	0%	Over 5 years High 36% Low (16%)
CS 2	28%	> 25%	3%	5 year average (High 48% Low 1%)



## 5. Drawings or Partners' Remuneration

*Is the farm business generating enough profit / earnings to meet minimum remuneration for owners/managers?*

*Will the farm profits meet my drawing and provisioning requirements?*

*Farm operations must provide a fair salary for the operator(s) and leave surplus for provisioning and building growth capacity...*

**Operator and Family Labour Expense (Drawings)**

Australia All Zones	Scale / Quartile	Q4	Q3	Q2	Q1	All
	>1m	83,412	85,759	84,878	81,788	83,940
	500k-1m	75,112	74,006	72,265	67,042	72,079
	200k-500k	67,660	63,095	60,424	56,345	61,862
	<200k	50,539	46,938	44,442	39,674	45,369
	All	61,406	58,396	55,954	51,576	56,810

- Operator drawings are fairly consistent across zones
- ABARES reports the average drawings from the high rainfall zone ~\$53,000
- A suggested minimum target is \$55,000 for the farm manager / operator
- A medium term target of \$70,000 but linked to scale of operation

**Operator and Family Labour Expense (Drawings)**

Australia High Rainfall	Scale / Quartile	Q4	Q3	Q2	Q1	All
	>1m	78,914	78,614	81,417	75,366	79,373
	500k-1m	74,523	72,364	70,577	69,165	71,890
	200k-500k	68,345	63,721	60,774	56,157	61,964
	<200k	49,528	46,236	43,503	41,315	44,880
	All	58,472	55,260	51,784	48,610	53,550

Target: Near term minimum \$55k; Medium term > \$70k

## 6. Safe / Quality Equity

*Is my business debt risk manageable?*

*Do I have the ability to scale?*

- The idea of the “Safe/Quality Equity” is intended to develop a framework in relation to farm performance and debt exposure whereby the farm operator:
  - assesses and manages the risks of current operations
  - objectively reviews the capacity to scale up within a risk management framework

**Return on Farm Assets Managed (RoFAM)**

Scale / Quartile	Q4	Q3	Q2	Q1	All
>1m	0.5%	3.3%	5.9%	10.7%	3.4%
500k-1m	-0.5%	1.9%	4.0%	7.2%	2.5%
200k-500k	-2.7%	0.0%	1.6%	4.3%	0.9%
<200k	-8.0%	-3.6%	-1.6%	0.4%	-2.1%
All	-2.4%	-0.1%	1.0%	2.9%	0.0%

**Farm Business Equity Ratio**

Scale / Quartile	Q4	Q3	Q2	Q1	All
>1m	78%	76%	73%	71%	76%
500k-1m	81%	81%	81%	79%	81%
200k-500k	85%	88%	87%	83%	86%
<200k	88%	89%	92%	91%	90%
All	86%	88%	89%	87%	86%

*How can you use these measures to understand risk and plan expansion ... and incorporate safe levels of debt where rates can vary?*

Source: ABARES - 1989 to 2014 average

- “Safe/Quality Equity” needs to take into account a buffer to cover the bad years and avoid going into debt stress:
  - Understand the operating cash flow impact of three consecutive bad years and ...
  - Factor potential impact into the equity buffer – the banks are more likely to maintain support if adequate equity cover is maintained during the lean periods
  - Alternatively, maintain reserves (e.g. FMD) to cover difficult years

Operating Cash Flow as % of Capital

	Region	Zone	Enterprise Type	Size	Avg 2005-14	Max	Min	Avg -ve Yrs	Additional Equity Buffer (3 yrs)
SA	South East	High Rainfall	All	All	2.3%	3.3%	1.0%	0.0%	
SA	All	All	Sheep	All	2.3%	4.7%	-0.5%	-0.5%	• 1.5%
SA	All	All	Beef	All	-0.7%	5.1%	-5.9%	-2.5%	• 7.5%
SA	All	All	Sheep-Beef	All	0.1%	2.1%	-2.9%	-1.1%	• 3.3%

- *Whilst the average performance for the South East has not been negative over the past 10 years the average may mask negative performance for certain enterprise types.*
- *The State figures indicates the average result in “negative years” was -0.5% and -2.5% for sheep and beef enterprises respectively.*
- *Farm operators should make their own assessment based on actual history to determine the appropriate buffer.*

Source: ABARES - AGSURF 2005 to 2014. Data not available with segmentation by size of operations.

*For a given RoFAM and interest rate you can estimate the minimum level of safe/quality equity for your operations ...*

Breakeven Safe Equity for RoFAM of 3.0% Interest Rate =>									Breakeven Safe Equity for RoFAM of 3.0% Interest Rate =>								
Equity	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	Equity	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%
100%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
90%	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%	90%	0.5%	0.6%	0.6%	0.7%	0.7%	0.8%	0.8%	0.9%
80%	2.0%	2.2%	2.4%	2.6%	2.8%	3.0%	3.2%	3.4%	80%	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.7%
70%	3.0%	3.3%	3.6%	3.9%	4.2%	4.5%	4.8%	5.1%	70%	1.5%	1.7%	1.8%	2.0%	2.1%	2.3%	2.4%	2.6%
60%	4.0%	4.4%	4.8%	5.2%	5.6%	6.0%	6.4%	6.8%	60%	2.0%	2.2%	2.4%	2.6%	2.8%	3.0%	3.2%	3.4%
50%	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	50%	2.5%	2.8%	3.0%	3.3%	3.5%	3.8%	4.0%	4.3%
40%	6.0%	6.6%	7.2%	7.8%	8.4%	9.0%	9.6%	10.2%	40%	3.0%	3.3%	3.6%	3.9%	4.2%	4.5%	4.8%	5.1%
30%	7.0%	7.7%	8.4%	9.1%	9.8%	10.5%	11.2%	11.9%	30%	3.5%	3.9%	4.2%	4.6%	4.9%	5.3%	5.6%	6.0%
20%	8.0%	8.8%	9.6%	10.4%	11.2%	12.0%	12.8%	13.6%	20%	4.0%	4.4%	4.8%	5.2%	5.6%	6.0%	6.4%	6.8%
10%	9.0%	9.9%	10.8%	11.7%	12.6%	13.5%	14.4%	15.3%	10%	4.5%	5.0%	5.4%	5.9%	6.3%	6.8%	7.2%	7.7%
0%	10.0%	11.0%	12.0%	13.0%	14.0%	15.0%	16.0%	17.0%	0%	5.0%	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%

- *From the above table, if the operator is achieving an average RoFAM of 3% and cost of debt is 7.5% then the safe/quality equity level is ~80% in order to maintain Interest cover of 2x. (Left hand table). If the seasons turn against the operator there is an equity buffer of 20% before interest rate cover goes below 1x.*
- *Compare this buffer to that required to cover three consecutive “bad years” and you develop a framework for understanding safe/quality equity.*
- *If your RoFAM and interest rate combination indicates a safe/quality equity lower than your current equity then this is an indication of the operations’ capacity to take on further debt for improvements or expansion.*

*NB: This is indicative only and operators should seek professional advice to determine the debt and expansion options that best suit their business and future plans.*

*What is my capacity to grow? How do I manage risk in this process?*

**Return on Farm Assets Managed (RoFAM): by Scale**

Scale / Quartile	Q4	Q3	Q2	Q1	All
>1m	0.5%	3.3%	5.9%	10.7%	3.4%
500k-1m	-0.5%	1.9%	4.0%	7.2%	2.5%
200k-500k	-2.7%	0.0%	1.6%	4.3%	0.9%
<200k	-8.0%	-3.6%	-1.6%	0.4%	-2.1%
All	-2.4%	-0.1%	1.0%	2.9%	0.0%

**Improvement in RoFAM from each step in scale**

Scale / Quartile	Q4	Q3	Q2	Q1	All
>1m	1.0%	1.5%	1.9%	3.5%	0.8%
500k-1m	2.2%	1.8%	2.4%	2.9%	1.6%
200k-500k	5.3%	3.6%	3.2%	3.8%	3.0%
<200k					
From <200k to >	8.5%	6.9%	7.5%	10.2%	5.4%

Invest Capital ↑

**Improvement in RoFAM from each step in management quartile**

Scale / Quartile	Q4	Q3	Q2	Q1	Q4 to Q1
>1m		2.8%	2.6%	4.8%	10.2%
500k-1m		2.4%	2.2%	3.1%	7.6%
200k-500k		2.8%	1.6%	2.6%	7.0%
<200k		4.5%	2.0%	2.0%	8.5%
All		2.3%	1.1%	1.8%	5.3%

Improve Management →

- Across all scales of operations the increase in RoFAM is ~2% for each step up in management – the better managers get the largest improvement from scale
- **There is no risk in improving management to increase returns**
- Increasing scale is a natural progression for better managers but it must be pursued within a well managed risk framework
- The impact of scale applies to the combined properties not just the additional property acquired or leased
- The evaluation of scaling is outside the scope of this analysis but may be included in the training course to follow

*The selected measures provide a framework to optimise performance within a sound risk framework while assessing growth options if appropriate*

Measure		
1. Return on Farm Assets Managed (RoFAM)	Target	T1 = 4%    T2 = 8%
2. Interest / Lease Cover	Target	T1 = >2    T2 = >3
3. Net Cash Flow (source and application of funds)	Target	Positive
4. Expense Ratio	Target	T1= 15%    T2 = >25%
5. Drawings or Partners' Remuneration	Target	\$70,000 / FTE
6. Safe/Quality Equity Ratio	Target	Tailor for operations

*Most importantly, the proposed training program coupled with a LCRMC internal benchmarking initiative will develop more meaningful targets for operators within the region*



## Q & A