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Financial Metrics By Age

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A review of 2017 financial metrics is in order as we look to preparing 2018 balance sheets. There are six financial metrics addressed in this article and further, we will consider how age of the operator is reflected in this data. The six metrics addressed (as a median, not an average) are: 1) working capital, 2) working capital per acre, 3) working capital to net worth, 4) the current ratio, 5) debt to asset ratio and 6) return on farm assets.

Table 1. 2017 Financial Metrics By Operator Age

	Operators Age				
	Under 30	30 to 39	40 to 49	50 to 59	Over 60
Working Capital	$ 60,131	$ 98,951	$ 139,794	$ 204,380	$ 305,260
Working Capital Per Acre	$ 138.55	$ 142.79	$ 138.82	$ 216.05	$ 429.34
Working Capital To NW	11.2%	8.2%	6.4%	6.5%	8.1%
Current Ratio	1.98	1.61	1.42	1.59	2.7
Debt to Asset Ratio	49.6%	40.4%	33.2%	23.6%	11.4%
Return on Farm Assets	3.20%	2.40%	2.00%	0.40%	-0.20%

Working capital (current assets less current liabilities) is measured in dollars and is difficult to compare between farms, but nonetheless tell of the dollar amount of working capital. It is comparable on the same farm from year to year as long as farm size is constant. As you might expect, as age increases, so does working capital.

Working capital per acre ((current assets less current liabilities) divided by operator acres) is a better comparable measure between farms. One can look at the same farm over time and to get an idea of the increase or decrease in working capital that allows for changes in farm size (in acres). In 2017, the three younger age groups are very similar while the two older age groups report an increased level of working capital per acre.

Working capital to net worth (working capital divided by net worth) reveals the percentage of net worth that is liquid and readily available for use in the farm business. This metric indicates that while working capital may increase as age increases so does net worth. The low of 6.4% while the high is 11.2%

A current ratio (current assets divided by current liabilities) greater than 1 tells of positive working capital. Conversely, a current ratio less than one, tells of negative working capital. The current ratio (as is working capital per acre) is a more comparable number than is working capital. The current ratio varies by age of the farm operator and follows the increase in working capital; the older the farm operator, the more likely they are to have a greater level of working capital and a higher current ratio.

Debt to asset ratio (liabilities divided by assets) tells the level of operator ownership of farm assets used in the farm operation. Conversely, it tells the level of ownership of farm assets by the operators' lenders. The under 30 age group shows almost a 50% debt to asset ratio while the over 60 age group tells the farm operator owns near 89% of the assets and the lender only has a claim on 11% of the assets.

Return on Farm Assets ((income from operations less owner withdrawals for unpaid labor and management) divided by average farm assets) is an overall measure of farm profitability; the higher the return the greater the profitability. It measures the return to both debt and equity capital. Returns of farm assets typically seem low as compared to non-farm investments. The older age groups tend to own increased levels of land which lead to lower returns on farm assets for those groups.

As with the financial analysis of any business, there is no one metric that is the 'tell all' metric of health, it takes many pieces to complete the puzzle. These six financial metrics provide good input to the financial management. For additional financial and management metrics to consider, see the website of the Farm Financial Standards Council at www.ffsc.org.

With the current economic and trade conditions, strategizing to maintain financial health provides peace of mind in uncertain times. If you don't have a financial trend analysis that includes a five year history of your liquidity ratios, now might be a good time.

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