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UNDERSTANDING COTTON CASHFLOW

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KEY MESSAGES


- Cash is king – so is yield!
- Do not starve your business of cash
- Southern NSW cotton industry is growing
- Cotton is hard on cashflow
- Understand linkage between cashflow and balance sheet
- High cost of cotton production demands scale



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2


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COTTON GROSS MARGIN

10.5 bales/ha @ \$475/bale

- Revenue \$5,750
- Expenses \$3,900
- GM \$/ha \$1,850
- GM \$/ML \$185



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3

COTTON PRODUCTION TIMELINE

Month	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Operations	Prepare Seed Bed		Plant	Grow Crop					Defoliate	Pick	Gin		Paid			
Cost \$/Ha	675		150	1,450					125	600	900					
Cumulative cost			825						2,275	2,400	3,000		3,900			
				Prepare Seed Bed		Plant										

4

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FARM EXAMPLE

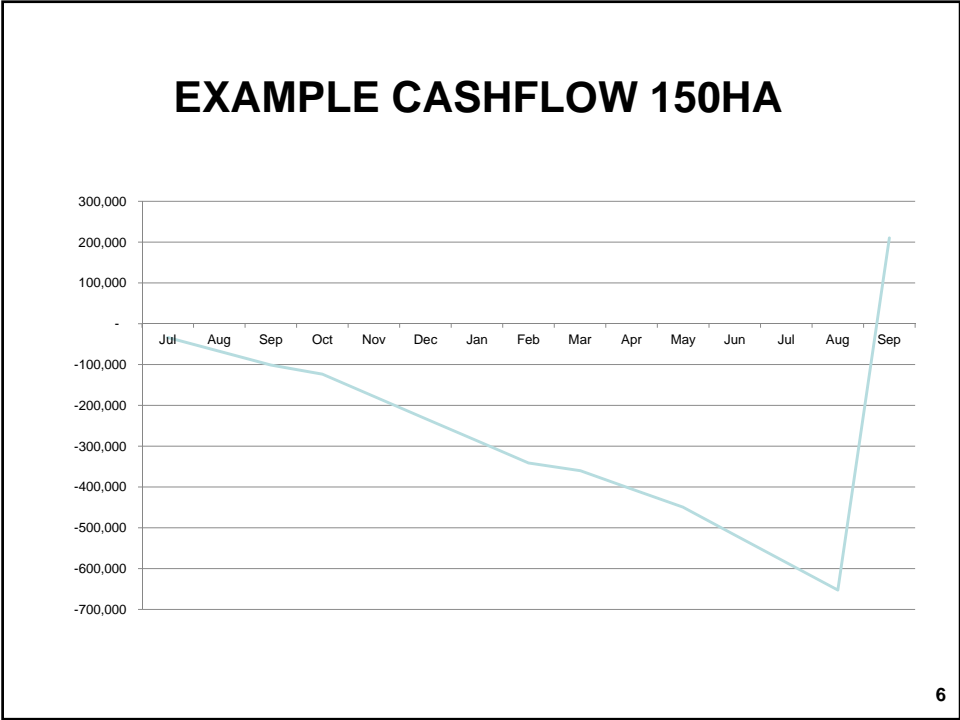
150ha Cotton

- Water required 1,500ML
- Gross margin \$275,000
- Growing costs \$585,000

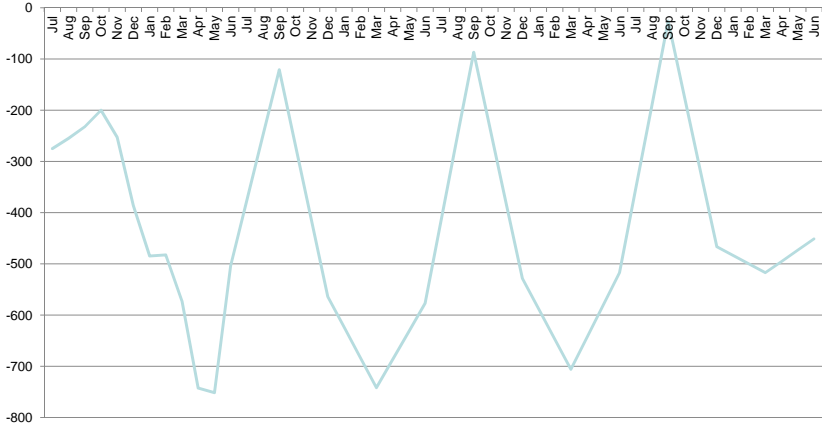


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5

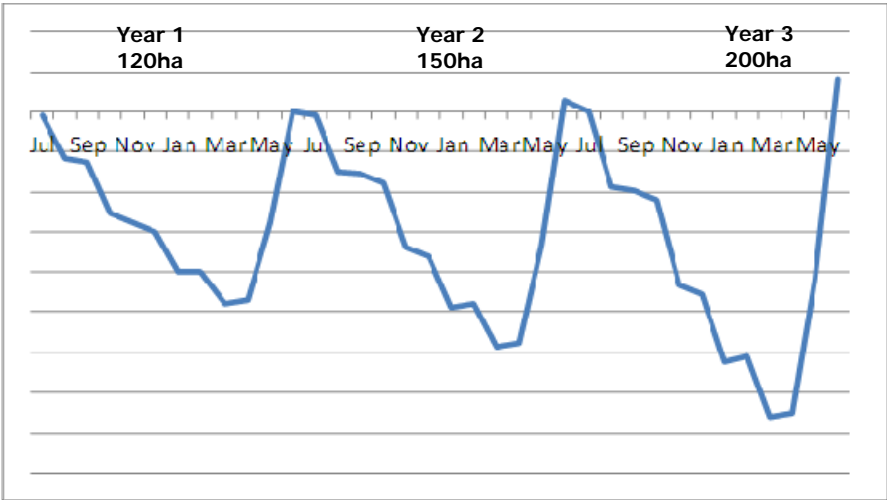


EXAMPLE CASHFLOW



7

EXAMPLE CASHFLOW



8

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CASHFLOW AND BALANCE SHEET

- Budgets are only as good as your assumptions
- Understand the risks – often assumptions of yield and price
- Budget more than 12 months to look beyond cash peaks and troughs
- Include opening and closing balance sheets to ensure strong cashflow is not propped up by an undermining balance sheet eg:
 - change in debtors/creditors and pools

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RISKS

- Marketing
- Production
 - Use agronomist and timeliness of operations
- Harvest
 - Contractors/share or own picker
- Access to cash

– Overdraft	- Trade creditors
– Crop lean	- Merchant


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SCALE OF PRODUCTION

- Full suite of cotton growing equipment costs \$1.5M to \$2.0M
 - Annual repayments \$350K to \$500K
 - Without picker \$175K to \$300K
- Scale required (including picker) >500ha
- Without picker >250ha
- Alternatives have own row crop tractor with cultivation equipment and use contractors for primary tillage, planting and harvest

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SUMMARY

- Cotton is profitable but hard on cashflow
- Budget to understand impacts
- Need scale of production or alternative access to equipment
- Cash is King – Don't starve your business of it!

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