A Bitter Harvest : Farming Outlook 2013

HOW TO REDUCE THE RISK OF FARM BUSINESS FAILURE IN WHAT PROMISES TO BE A TOUGH YEAR FOR AGRICULTURE.

CONTACT US

Moorfields Corporate Recovery LLP
88 Wood Street, London
EC2V 7QF

t +44 (0) 207 186 1143
f +44 (0) 207 186 1177

www.moorfieldscr.com
info@moorfieldscr.com

Increased costs, declining yields, single payment reductions and volatile markets mean that the agriculture sector as a whole faces tough challenges in 2013.

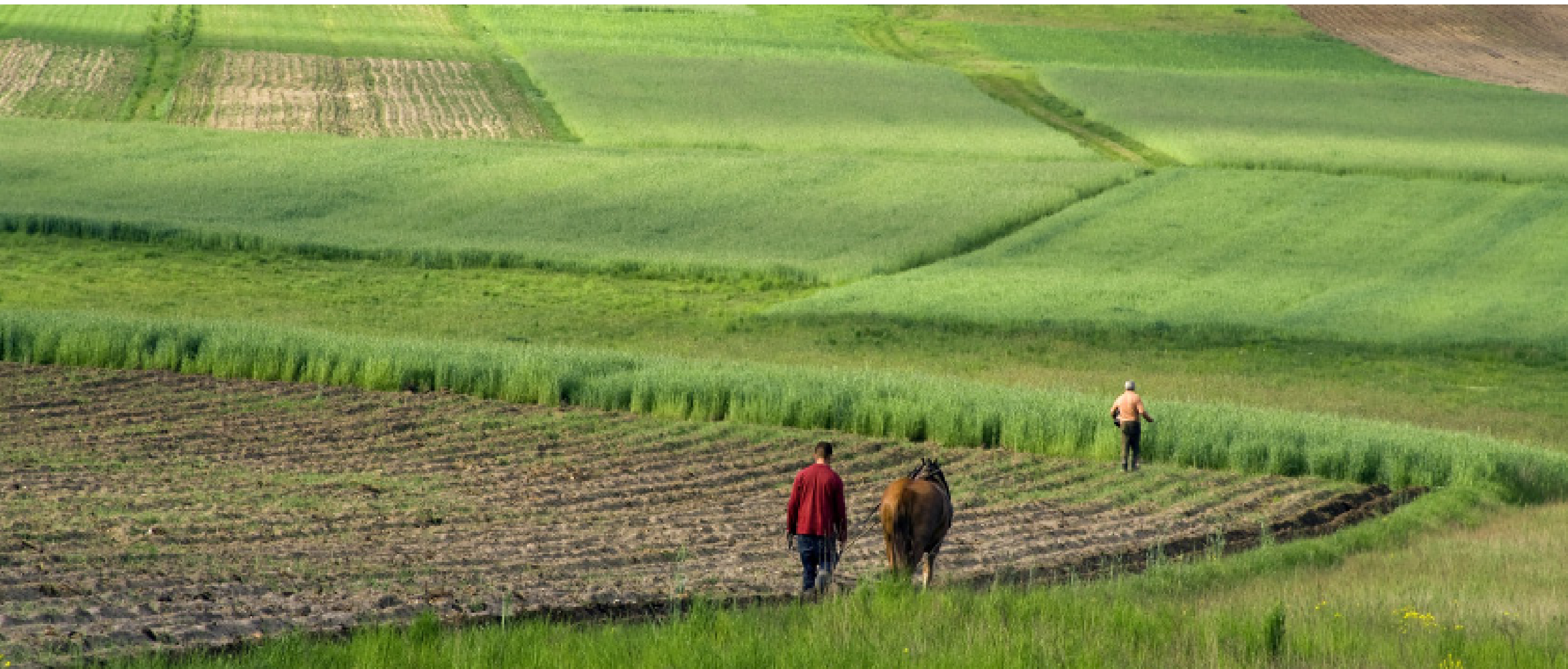
Simon Thomas, Partner at Moorfields Corporate Recovery, examines the key issues facing the sector and explains how financiers can protect their sales ledgers.

All farmers are likely to face tough challenges this year. Higher costs for essential sprays and feeds, diminished output, smaller single payments and tax demands for previously productive years are all placing pressure on many farms to remain focused on ongoing business.

One of the biggest impacts on farming in 2013 will be the state of the eurozone. The exchange rate between pound sterling and euro will impact heavily on average farm income. While the eurozone crisis may have diminished to a certain extent, should the sterling strengthen against the euro, it will have a negative impact on agricultural profitability this year for British farmers.

Many farmers are also reeling from the financial impact of poor harvests in 2012, which forced many to spend more on sprays, crop drying and labour; only to see poorer yields and a significantly diminished income. The weather has had an inevitable impact on farm businesses. Despite higher prices arable farms will produce less in 2013, which will impact on their incomes, while livestock farmers will see significant increases in feed costs.

This is undoubtedly set to leave many farmers with cashflow problems.



Arable

Arable farmers are suffering from lower yields and increased costs after a poor harvest in 2012, which has left some unable to fulfil forward selling contracts. Despite higher prices and a rise in demand this year, their output will be affected, reducing their overall profitability. Defra has already predicted that crop farm incomes for 2012/13 are set to fall slightly from the previous year with the average farm income expected to fall to around £84,000. This is a similar value to the average income in 2010/11.

Dairy

Margins will continue to be put under enormous pressure for dairy farmers. The auction price of milk increased in September 2012 for the first time since October 2011 to above the average farm-gate price implying the outlook is a little more favourable. Whilst in contrast feed and spray cost increases are likely to impact on profitability with DEFRA figures predicting that average Dairy Farm Business Income is forecast to fall substantially by around 40% to £50,000 on average for 2012/13. The single payment made to dairy farmers is down 10% on previous years.

Livestock

Livestock farmers are also set to see major downward pressure on their income levels. Those farming beef stock will do better than sheep farmers, as beef prices have remained strong. Sheep farmers will be impacted heavily; average sheep values are lower now than they were in 2011/12. The single payment made to livestock farmers is also 10% down on the previous year, which will combine with reduced output and increased feed costs to impact on farm business profitability within the sector. DEFRA data predicts that average farm incomes will fall to £18,000 for lowland livestock farmers and to £14,000 for those farms operating in LFA (less favoured areas).

Working to Turn Around Farm Businesses

A recent example of these issues was highlighted in a farm in the South West of England where Moorfields had been assisting with a restructuring. The business was a well established farm, which had suffered from many of the key issues affecting the farming market in general. Rising feed costs, supermarket price pressure, as well as disastrous weather conditions, were all having an impact on the business.

Increased creditor pressure impacted on cashflow and the ability to service existing debts on the farm, diminishing banking appetite to extend lending support. A major feed supplier subsequently issued a winding up petition against the company.

These issues are not uncommon within agricultural businesses across the UK. Of course, when farms such as this fail, financiers can face the prospect of significant losses in unpaid debt and offset claims from those that the farm was supplying.

There are ways that financiers can manage the risks. In this case Moorfields adopted a strategic overall plan that was to the benefit of all stakeholders involved. Acting as mediator we sought to break through the communication barriers and effectively implement measures that managed the expectations of both lender and farmer. From initial review we implemented contingency planning and monitoring as well as managed other key stakeholders in the farm, including HMRC, feed suppliers, DEFRA, agri accountants and solicitors. Additionally Moorfields facilitated the sale of non-core assets reducing the lenders exposure, and enabled the farm to produce a better return on its assets employed.

Take Action Sooner Rather Than Later

Acting immediately can have a significant impact. Recruiting experts that can call upon specialist contacts to make a number of operational improvements, including finding more appropriate lending and delivery on practical solutions within short timeframes is invaluable. At Moorfields, our extensive sector experience provides a constructive environment for engaging with all parties, reducing losses for financiers in the process.

Always look out for warning signs that an agricultural business might be facing difficulties. Keep a close eye on:

- Lack of succession planning
- Poor management accounts
- Arrears rising with feed suppliers
- Falling behind on HP payments
- Irregularities in regular income
- Lump sum payments to creditors
- Reducing headroom on overdraft facility

Each of these factors are indicators that a farming business may be experiencing difficulties – and that now is the time to act. By involving us from the moment warning signs present themselves, we are well placed to create an effective plan and steer a course to a welcome conclusion for all parties involved.

Want to find out more?

To find out more about Moorfields specialist agriculture services contact Simon Thomas on 0207 186 1143

CONTACT US

Moorfields Corporate Recovery LLP

88 Wood Street, London
EC2V 7QF

t +44 (0) 207 186 1143
f +44 (0) 207 186 1177

www.moorfieldscr.com
info@moorfieldscr.com

moorfields
Corporate Recovery