

# Securing a Future in Farming

*Paul Fagan, AgriBusiness Consultant, Farrelly & Mitchell*

**Fred from Wicklow has two choices as to how he deals with his €34,000 SFP, he can spend it or through shrewd investment at no cash flow cost and limited exposure to his farming assets earn up to €2.3 million as demonstrated by Paul Fagan, AgriBusiness Consultant, Farrelly & Mitchell.**

With the farm business environment continuing to change rapidly, progressive farmers are taking time out from day-to-day activities to look at their options and plan for change.

In practise the biggest obstacle to investing is finding the right investment to make, according to Paul Fagan. “Our experience has been that only in very rare cases does an individual find an appropriate investment that suits their needs and their timing. The options for someone to invest on their own are very limited.”

Farrelly & Mitchell strongly recommend that individuals look at pooled investments to get over these problems. This has the advantage of professional management, risk spread and, because investments tend to be bigger, returns tend to be greater.

## **CASE STUDY: FRED & FAMILY, CO. WICKLOW**

In practice a rigorous examination and assessment would be carried out including Fred’s family circumstances, financial situation and his attitude to risk. We have assumed that Fred is not risk averse and would be open to borrowing and after persuasion, investing in a pension fund.

### **Farm Business Re-structuring**

1. Focus on dairying enterprise, dispose of all sheep and beef stock, and use any cash released from disposals to build up cows numbers to maximise utilisation of existing facilities
2. Discontinue renting in land and stack entitlements
3. Join REPS 3
4. Look at partnership options going forward to increase the scale and efficiency of the dairying operation

### **Investment Strategy**

What Fred requires is a bold strategy requiring him to borrow €500K and gearing it to €1.9m by borrowing €1.4m in non-recourse funding to his farm assets with no impact on his cash flow.

1. With Fred’s land in Co. Wicklow valued conservatively at €2m, it is proposed to put these assets to work by leveraging as security for a loan for investment purposes. An interest only loan of €500,000 over 10 years is proposed @ 3.9%.

2. €19,500 of Fred's SFP is required to service annual interest charges on the loan with the balance contributing to farm income.

<b><u>INVESTMENT STRATEGY ('000)</u></b>			
<u>Investment Product</u>	<u>Capital Invested</u>	<u>Total Invested (Equity+Debt)</u>	
*Single Premium Self-administered Pension	200	800	
US Geared Property Fund	100	400	
Geared Equity Fund	100	300	
European Property Fund	100	400	
<b>Total Invested</b>	<b>500</b>	<b>1,900</b>	
<b><u>RETURN ON INVESTMENT</u></b>			
	6%	8%	12%
<b>NET RETURN AFTER 10 YEARS ('000)</b>	<b>250</b>	<b>825</b>	<b>2,533</b>

Based on average gearing of 74%

Average cost of capital (equity & debt) at 5%

\* In this case we would co-operate with one of the bigger finance houses to develop a bespoke product for Fred. While these products are not widely available, a tailored product to meet Fred's needs is required.

An investment fund of €300,000 is split between a diversified geared equity fund and carefully selected geared property funds.

“Any business decision contains an element of risk, but none more than standing still in today's farming environment and allowing farm asset values to be eroded over time combined with a very low return on capital,” adds Paul. In this case risk is spread by diversifying the €500,000 investment across a number of options, increasing the potential return and lowering the risk.

<b><u>IMPACT ON ANNUAL CASHFLOW</u></b>		
	<b>Before</b>	<b>After</b>
Gross Dairy Income	€ 40,000	€ 45,000
REPS 3		€ 6,874
SFP	€ 32,000	€ 32,000
Gross Income	€ 72,000	€ 83,874
Farm Loan Repayment	€ 10,000	€ 10,000
Interest-only Loan Interest		€ 19,500
Total loan repayments	€ 10,000	€ 29,500
<b>Net Income</b>	<b>€ 62,000</b>	<b>€ 54,374</b>
Pension Relief against Income	€ 0	€ 13,594
Taxable Income	€62,000	€40,781
<b>DISPOSABLE CASH</b>	<b>€ 44,468</b>	<b>€ 46,135</b>

## Summary

- Fred has put his Single Farm Premium to work and invested his 500K borrowing wisely.
- His disposable cash position has been maintained and strengthened
- At the end of the 10 year investment period he can look forward to banking up to €2.3m net of all loans.

Ends.

For more information contact:

Paul Fagan

**Farrelly & Mitchell Business Consultants Ltd.,**

Roof Garden Offices

Clare Hall

Malahide Road

Dublin 17

☎ 00353 (0)1 8770320

☎ 00353 (0)1 8476052

w: [www.farrellymitchell.ie](http://www.farrellymitchell.ie)