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Pre-Read Document: Investing in agribusinesses: What makes an agribusiness attractive from an investor's perspective?

Contents

- **Key financial terms**
- Materials for interactive case study

Most financial terms are associated with one of the three primary financial statements

Financial terms about what a firm owns and owes

Balance sheet

Financial terms about sales, expenses and profit

Income statement

Cash flow statement

Financial terms about how cash enters and exits a firm

Balance Sheet: Key terms

Term	Definition
Accounts Payable	The money a business owes its suppliers when it pays for the good or service after it has been delivered.
Accounts Receivable	The money customers owe a business when they pay for a good or service after it has been delivered.
Accrued Expenses	Expenses that roll over to another time period (in which the expenses were not incurred). Accrued expenses are recognized in the books before they are paid for.
Asset	Any resource that a company possesses or controls that is expected to produce future value or benefit. For example, buildings, machinery, intellectual property or inventory.
Current	“Current” refers to short-term assets or liabilities that can be reasonably eliminated within a year.
Equity	The component of assets that shareholders own, typically the sum of funds contributed by owners added to retained earnings (the money left over after all else has been paid).
Liability	A firm’s debts or legal obligations that arise during the course of business operations. For example, loans, accounts payable, mortgages and accrued expenses.
Property, Plant & Equipment (PPE)	The value of a company’s physical assets. For example, property, buildings, vehicles and machinery.

Income Statement: Key terms

Term	Definition
Cost of Goods Sold (COGS)	The direct costs involve in producing a good or service. This includes the cost of the materials used along with the labor directly involved in production.
Depreciation	Depreciation is an accounting method of allocating the cost of a tangible asset over its useful life and is used to account for declines in value. Businesses depreciate long-term assets for both tax and accounting purposes.
Net Income	Also known as net earnings or the bottom line, net income is the money left over after all direct and indirect expenses have been deducted from revenue.
Revenues	The amount of money that a company actually receives during a specific period, including discounts and deductions for returned merchandise.
Selling, General and Administrative Expenses (SG&A)	Also known as operating expenses, SG&A includes all expenses not directly involved in the production of a good. For example, SG&A includes rent, utilities, administration salaries, marketing and other expenses.

Cash Flow Statement: Key terms

Term	Definition
Cash Flow from Financing Activities	Cash flow from financing (CFF) activities is a category in a company's cash flow statement that accounts for external activities that allow a firm to raise capital. In addition to raising capital, financing activities also include repaying investors, adding or changing loans, or issuing more stock.
Cash Flow From Investing Activities	Cash flow from investing activities is an item on the cash flow statement that reports the aggregate change in a company's cash position resulting from investment gains or losses and changes resulting from amounts spent on investments in capital assets, such as plant and equipment.
Cash Flow from Operating Activities	Cash flow from operating activities (CFO) is an accounting item that indicates the amount of money a company brings in from ongoing, regular business activities, such as manufacturing and selling goods or providing a service.

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Background on the agribusiness (fictional case study)

Background



Kosi Avos, Inc. is a relatively young avocado company in southern Mozambique. Kosi's management team has 20+ years experience working in the South African avocado sector, but is currently pioneering production in neighboring Mozambique.



Drought and sporadic rainfall are chronic risks in Mozambique, especially for fruit trees, as a serious drought can kill trees that take 5-13 to reach fruit-bearing maturity. Mozambique's foreign exchange markets are also volatile due to national debt crises, making agricultural exports significantly more risky.

Financing objective



A positive growth outlook in recent years convinced Kosi to budget for and make major capital investments in new orchards, seedlings and facilities in 2017. Kosi, however, currently faces depleted cash reserves due to low cash flow and needs additional financing to purchase new equipment.



Consequently, Kosi is seeking medium-term debt with a maturity date of 3-5 years to support its scaling efforts.

Income Statement for Kosi Avos

All numbers in thousands (USD)

	2017	2016
Revenues	278,477	248,640
Cost of Goods Sold	250,629	223,776
Gross margin	27,848	24,864
Selling, general and administrative expense	13,924	12,432
Operating income (loss), net	13,924	12,432
Interest expense	11,620	12,040
Other (expense) income, net	175	150
Income (loss) before income taxes	2,479	242
Provision for income taxes	744	73
Net income (loss)	1,735	169

Balance Sheet for Kosi Avos

<i>All numbers in thousands (USD)</i>	<u>2017</u>	<u>2016</u>
Assets		
Current assets:		
Cash and cash equivalents	1,395	6,848
Accounts receivable, net of allowances	40,000	37,000
Inventories, net	21,000	17,000
Total current assets	<u>62,395</u>	<u>60,848</u>
Property, Plan and Equipment, net	65,000	60,000
Other assets	3,319	581
Total assets	<u><u>130,714</u></u>	<u><u>121,429</u></u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	24,000	15,000
Short-term borrowings	17,000	19,000
Accrued expenses	9,000	8,000
Total current liabilities	<u>50,000</u>	<u>42,000</u>
Long-term liabilities	41,500	43,000
Total shareholders' equity	39,214	36,429
Total liabilities and shareholders' equity	<u><u>130,714</u></u>	<u><u>121,429</u></u>

Cash Flow Statement for Kosi Avos

All numbers in thousands (USD)

	2018	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES			
Cash received from sales	278,477	248,640	222,000
Change in Inventory	(4,000)	2,000	2,000
Cash paid to suppliers	250,629	223,776	199,800
Income tax paid	(744)	(73)	(65)
Interest paid	11,620	12,040	420
Accts. rec net accts. Pay	(6,000)	3,000	1,000
SG&A (Op Exp)	13,924	12,432	11,100
Net Cash Provided by Op. Act	1,047	1,465	9,745
CASH FLOW FROM INVESTING ACTIVITIES			
Sales (purchase) of PPE	(5,000)	(35,000)	5,000
Net Cash Provided by Inv. Act	(5,000)	(35,000)	5,000
CASH FLOW FROM FINANCING ACTIVITIES			
Raising of long-term debt	-	20,000	-
Repayment of long-term debt	1,500	-	1,500
Net Cash Provided by Fin. Act	(1,500)	20,000	(1,500)
Net Increase in Cash	(5,453)	(13,535)	13,245