Investing in agribusinesses: What makes an agribusiness attractive from an investor’s perspective?

Planned webinars on agricultural finance

Topic	Date
Mobilizing capital for agricultural development with the Development Credit Authority	September 26th, 10 a.m. EST
Investing in agribusinesses: What makes an agribusiness attractive from an investor's perspective?	**TODAY!**
How best to engage with local banks on agriculture programs	October 24th, 10 a.m. EST
How to use agricultural finance interventions to drive youth employment	November 7th, 10 a.m. EST
Investor perspectives on agriculture in emerging markets	December 5th,10 a.m. EST

Learning objectives

- To **understand why investors invest in agribusinesses**

- To **learn how to determine if an agribusiness is an attractive investment opportunity**

- To **discuss how USAID can catalyze investment into attractive agribusiness opportunities**

- To **walk through a sample case study on a specific agribusiness** where participants will identify the key questions, whether it is a good investment opportunity and the role that USAID can play in facilitating a potential investment

Your presenters today

Shyam Sundaram is an Associate Partner at Dalberg Advisors and leads Dalberg's work in Talent, Trainings and Leadership programs. Shyam also leads much of Dalberg's work on agriculture and food security and previously designed and facilitated a three-day AgFinance Training for USAID staff in Washington, DC.

Mark Pedersen is a Project Manager at Dalberg Advisors where he focuses on inclusive finance, strategy and Base-of-the-Pyramid business models. Mark has worked extensively in emerging markets as both a consultant and an entrepreneur, including as the co-founder and CFO of a for-profit social enterprise in Latin America.

Rules of the Road

- *Ask questions – this is a learning environment!*
- *When not talking, remember to mute yourself!*
- *If anything is unclear ... Please flag! It may be unclear to someone else as well.*

A note on financial terminology in this webinar

- We sent the definitions for the financial terms we will use today to registered participants – if you do not have it, please send a note to Aviva Kutnick (akutnick@usaid.gov) and she can share it with you.
- We will briefly review the definition of each financial term when it is used today but we will not go through the entire list that was sent last week.
- However, if we use a financial term today and the definition is not clear, please let us know! You can ask questions through the chat functionality or asking a question directly.

Agenda for today

1. **What makes an agribusiness investable?**
2. How can an investor tell if an agribusiness is an attractive opportunity from its finances?
3. What other elements do investors examine to determine if an agribusiness is investable?
4. Interactive case study
5. Question & Answer
6. Concluding thoughts

Why do investors invest in agriculture?

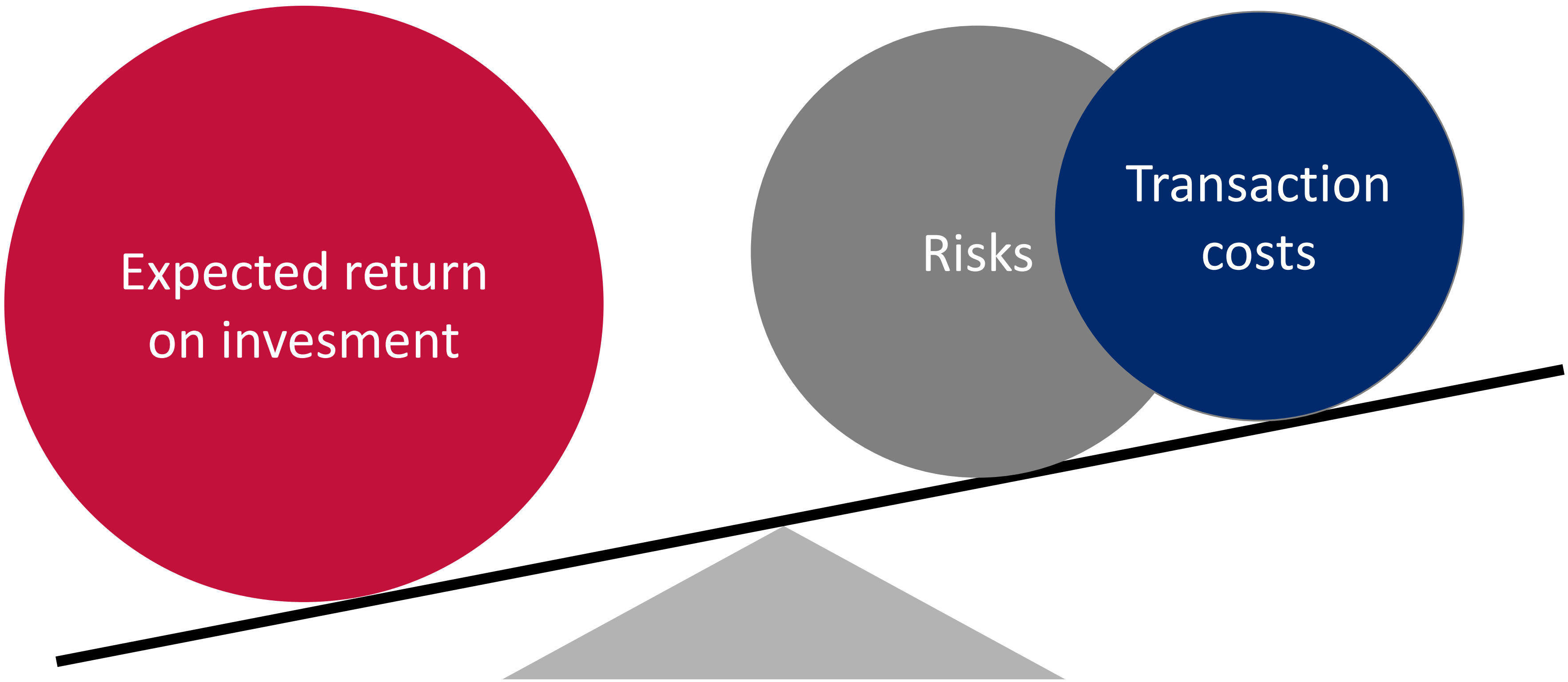
"Pull" factors

- Enormous global agricultural market
- The substantial financing gap in agriculture
- Prior success stories from other investors
- Government provision of subsidies or other forms of support

"Push" factors

- Desire for above-market returns
- Potential to apply innovation to make agriculture more profitable and scalable

All agricultural investors look for opportunities where the expected return outweighs the risks and transaction costs



The required return on an investment is different for each investor; risks and transaction costs need to be quantified

Return

Return, also known as the Cost of Capital (CoC)**,** is the money that could have been earned by putting equal value into a different investment with the same risk

Investors have return expectations above RISK and COST

Risk

Risk is the quantifiable likelihood of loss or less-than-expected returns

Investors increase prices with higher risk

Transaction Cost

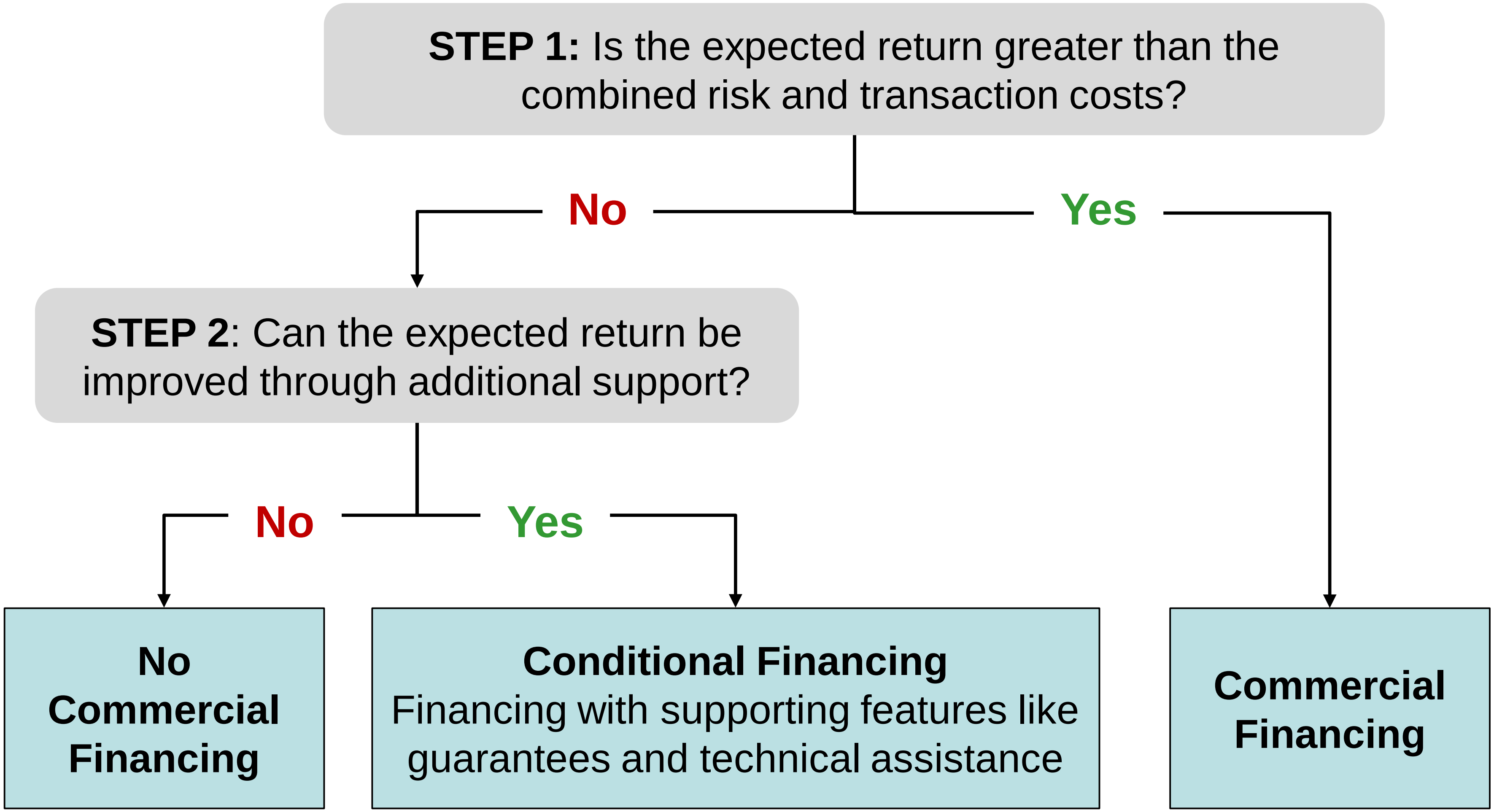
Transaction Cost is the sum of expenses associated with securing financing for an agribusiness

Investors desire to minimize transaction costs

Different investors have different hurdles when it comes to return, risk and transaction costs

	Scenario	*Example*
Return	**High cost of capital.** An investor may have other, more secure investment opportunities	An investment in a distribution center is expected to offer a 20% return but an investor requires 25% to cover costs
Risk	**Low risk appetite.** An investor may not consider investments in certain regions no matter what the potential return	An investor may be unwilling to invest in countries with high foreign exchange restrictions for fear of being unable to repatriate funds
Transaction Cost	**High transaction cost.** The logistics and/or complexity of analyzing a potential investment may be prohibitive	Investors may not consider firms that are in remote areas because it would be too costly to visit them as part of a due diligence

Investors first see if an agribusiness meets its investment criteria; if not, they determine if the barriers can be overcome



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Investable agribusinesses meet two criteria: 1) they are (or can be) financially healthy, and; 2) turn investments into value

1

Financially healthy

✓

- **Profitability**. Revenues are, or expected to be, consistently higher than costs.
- **Manageable debt.** Interest and principal repayments on loans do not place a high burden on the ability to operate.
- **Sufficient liquidity.** There is enough cash on hand to reach key milestones and survive shocks.

2

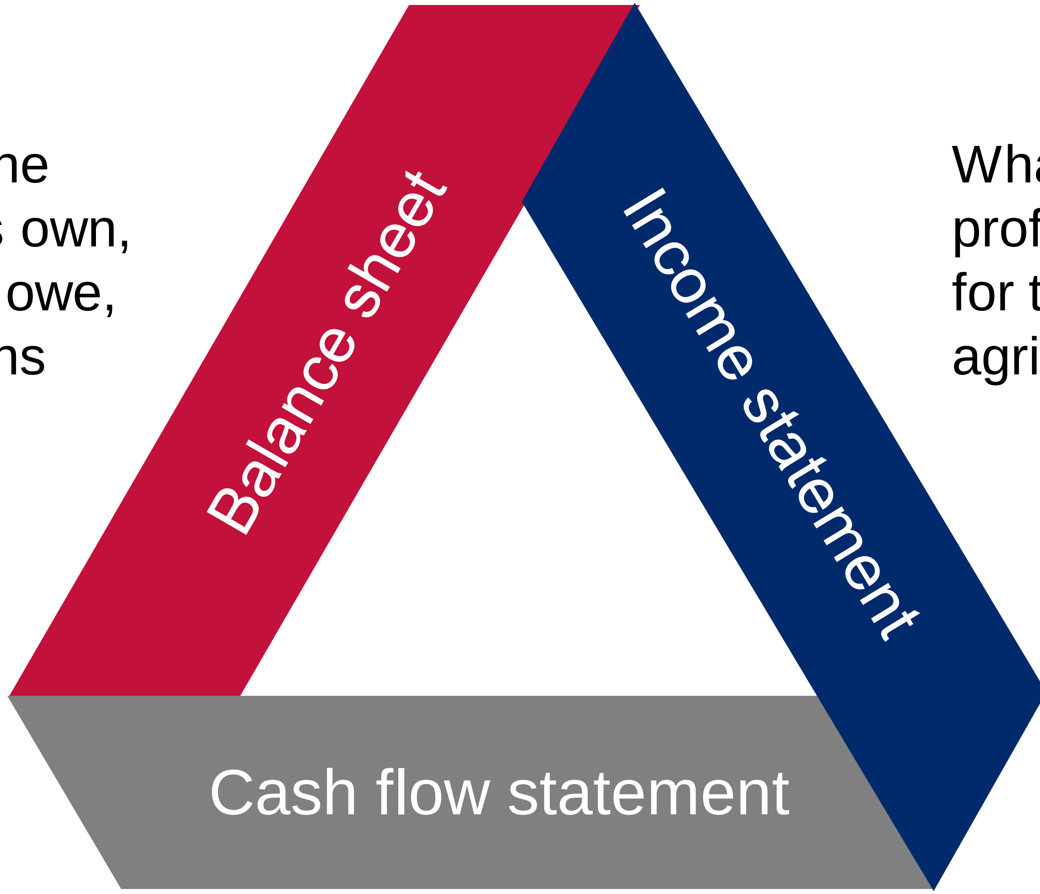
Create value from new investment

✓

- **New investments are used to increase profitability and/or firm value by:**
  - Increasing revenues, and/or
  - Reducing costs.

1 There are three primary financial documents which tell investors if a firm is financially healthy

What does the agribusiness own, what does it owe, and who owns what?



What are the profits and losses for the agribusiness?

How does money flow in and out of the agribusiness?

Each financial statement relates to a different aspect of a firm's business

	Income Statement	Balance Sheet	Cash Flow Statement
Purpose	To show how much profit or loss a firm generated during a specific time period	To show the mix of resources available to a firm and claims against those resources	To show the sources and uses of cash for a firm
Timeframe	Period of time	Snapshot	Period of time
Information contained	• Income • Cost of goods sold • Selling, general and admin expenses	• Assets • Liabilities • Equity	• Cash flow from operations, investing and financing activities
Key question	Is the firm profitable?	What are the total assets and total claims?	Is sufficient cash generated to operate and grow?

1 Investors need to understand all three financial statements to assess the investment attractiveness of an agribusiness

Example

Income Statement

\+ Agribusiness is very profitable

Balance Sheet

− Significant debt

Cash flow statement

− Very sporadic cash flow

Which dominates, + or -?

This is a good opportunity <u>on the condition that</u> there is sufficient cash in the bank to reach milestones and survive unexpected shocks

1 Income Statement

What it tells us: How much a firm earned and spent during a fixed period of time

Basic equation:

$$Revenue - Expenses = Net\ Income$$

What to look for:

- High expenses for operations relative to revenue (>80% of revenue) implying inefficiencies in production
- High amounts of interest paid (>20% of revenue), suggesting high amounts of debt

Income Statement
Revenue (-) Cost of Goods Sold (COGS)
= Gross profit (-) Overhead costs
= Net operating income (-) Interest paid on debt
= Income before tax (-) Taxes
= Net income

1 Sample Income Statement

What to look for:

- Focus on the operating metrics – Net sales, cost of sales (COGS), SG&A
- Look at the biggest numbers, and also the biggest changes per year
- Look for differences in the rates of change between different line items

	2017	2016
Revenue	1,075,565	935,679
Cost of Goods Sold (COGS)	961,021	828,145
Gross margin	114,544	107,534
Selling, general & administrative	56,651	46,440
Operating income	57,893	61,094
Interest expense	(1,023)	(756)
Other income (expense), net	904	(10)
Income taxes	56,989	61,094
Provision for income taxes	20,450	21,869
Net income	36,539	39,225

Positive sign. High growth in revenue (15% per year)

Observation. COGS are high compared to sales but increasing proportionately

Concern. SG&A increased faster than sales (22%)

Concern. Profit decreased despite revenue growth.

1 Balance Sheet

What it tells us: What a firm owns and what it owes at a specific point in time

Basic equation:

$$Assets = Liabilities + Equity$$

What to look for:

- More current liabilities than current assets – implying financing difficulty in the near future
- A large amount of total liabilities which can reduce the return for equity investors if the business is sold

Balance Sheet
Assets
Short-term (current) assets (cash, inventories, accounts receivable, etc.)
Property, plant & equipment (PPE)
= Total assets
Liabilities & Equity
Short-term (current) liabilities (accounts payable, short-term debt, etc.)
Long-term liabilities
Total equity (retained earnings, etc.)
= Total liabilities and equity

1 Sample Balance Sheet

All numbers in thousands (USD)	*Dec. 31, 2017*	*Dec. 31, 2016*
Assets		
Current assets:		
Cash and cash equivalents	6,625	13,842
Accounts receivable, net of allowances	69,750	70,101
Inventories, net	30,858	31,849
Advances to suppliers	4,346	4,425
Income taxes receivable	1,377	334
Prepaid expenses and other current assets	6,872	14,402
Total current assets	119,828	134,953
Property, Plant & Equipment, net	120,072	87,837
Investment in other enterprises	73,381	58,688
Other assets	50,836	46,455
Total assets	**364,117**	**327,933**
Liabilities and shareholders' equity		
Current liabilities:		
Payable to suppliers	39,435	43,412
Accrued expenses	39,946	31,095
Short-term borrowings	20,000	19,000
Other current liabiltiies	16,786	15,834
Total current liabilities	116,167	109,341
Long-term liabilities	3,828	2,752
Total shareholders' equity	244,122	215,840
Total liabilities and shareholders' equity	**364,117**	**327,933**

What to look for:

- Focus on the biggest line items
- Understand current liabilities vs. current assets
- Look for big changes per year

Question: How much cash in the bank is needed for contingencies?

[illegible]tion: Does the firm plan more purchases o[illegible] in 2018?

Positive sign. Current assets are greater than current liabilities

1 Cash Flow Statement

What it tells us: How much cash enters and exits a firm in a specific period

Basic equation:

$$\begin{matrix} Initial \\ cash \end{matrix} \;\; \text{+/-} \;\; \begin{pmatrix} Operating\ CF \\ Financing\ CF \\ Investing\ CF \end{pmatrix} \;\; = \;\; \begin{matrix} Ending \\ cash \end{matrix}$$

What to look for:

- Investments in PPE that may suggest increased future productivity or output
- Repayment of debt, implying financial discipline and good budgeting

Cash Flow Statement
Cash from operating activities
Net income (from Income Statement)
(+) depreciation
(-) changes in working capital
Cash from investing activities
(-) investment in PPE
Cash from financing activities
(-) repayment of debt or equity
= Closing cash balance

1 Sample Cash Flow Statement

	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES		
Net earnings	1,119,874	1,524,561
Noncash Items included in Net earnings		
Deferred income taxes (credit)	(145,000)	(99,300)
Depreciation and Amortization	1,205,353	1,117,029
Interest Expense	3,922	3,923
(Increase) Decrease in:		
Accounts Receivables	(2,308,569)	(848,212)
Inventory	(990,872)	(3,498,109)
Prepaid expenses (incl. income taxes)	(533,959)	201,025
Increase (decrease) in accounts payable	(884,385)	1,774,098
	(2,533,636)	175,015
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in Property, Plant and Equipment	(1,759,746)	(535,721)
(Increase) Decrease in other investments	17,619	133,275
	(1,742,127)	(402,446)
CASH FLOW FROM FINANCING ACTIVITIES		
Lines of credit (notes payable)	12,633,444	14,162,544
Long-term debt	1,000,000	1,650,000
Reduction in debt		
Lines of credit (notes payable)	(9,117,920)	(13,222,349)
Long-term debt	(87,954)	(1,395,615)
Net proceeds from common or prefered stock	416,273	(1,947)
Other financing activities	(828,955)	(805,491)
	4,014,888	387,142
NET INCREASE (DECREASE) IN CASH	*(260,875)*	*159,711*

What to look for

- If the firm is cash-flow positive
- How income compares to cash flow
- How cash enters and exits the firm (ops vs. investing vs. financing)

Concern. Large increase in the amount of income that has not been paid yet

Observation. Large decrease in the amount of inventory purchased in 2017 vs. 2016

Positive sign. Access to line of credit through a bank

Observation. Cash flow is much lower than net income due mostly to investments in PPE and the change in accounts receivable.

1 Investors also use financial statements to create simple ratios which can help to illuminate financial health

	RETURN	RISK		FINANCIAL MANAGEMENT
Ratio category	**Profitability**	**Solvency**	**Liquidity**	**Efficiency**
Description	Shows how well a firm converts sales to profit	Shows how much debt a firm holds relative to its resources	Shows the assets on hand that can be used to fund operations	Measures how well a firm manages its finances
Sample ratio	• **Gross margin**	• **Debt to Equity**	• **Current ratio**	• **Inventory turnover**
Key questions	• How do total costs and revenues relate to profitability?	• Can the firm meet long-term obligations?	• Can the firm meet short-term obligations?	• Does inventory get sold quickly?

1 Investors use ratios to compare one business to another and also track financial performance over time

Trend analysis

Description: Ratios for a single firm are tracked over time to show changes in performance

Pro: A clear way to evaluate performance over time

Con: External factors may negatively impact performance which have nothing to do with the company itself

Benchmarking analysis

Description: Ratios for multiple firms (or an industry index) are compared

Pro: Evaluates a firm’s performance relative to the peers and the broader market

Con: Firms may not report metrics in the same way

1 Profitability Ratios

Significance: Show how well a firm manages costs relative to revenues. Information comes from the **income statement**.

Ratio	Equation	What a higher ratio means
Gross margin	$\frac{Revenue - COGS}{Revenue}$	The firm retains high profits after paying the direct costs of producing the good or service
Net margin	$\frac{Net\ income}{Revenue}$	The firm is profitable after paying all of the costs of the firm

What to look for in an agribusiness

- Commodity agriculture products will generally have low gross and net margins. Compare these firms against peers to benchmark their financial performance.
- The net income of an agribusiness can be highly variable. Be sure to look at several years of financial statements to review profit and profit margins over time.

1 Quick Quiz 1 - Profitability Margins

Income Statement	
Revenue	100,000
Cost of Goods Sold (COGS)	40,000
Gross profit	60,000
Operating expense	50,000
Net operating income	10,000
Interest expense	15,000
Income before tax	-5,000
Tax (tax rate = 30%)	0
Net income	-5,000

Using data from the table, calculate:

- **Gross margin** $\frac{Revenue - COGS}{Revenue} =$
- **Net margin** $\frac{Net\ income}{Revenue} =$

1 Quick Quiz 1 – Solutions

Income Statement	
Revenue	100,000
Cost of Goods Sold (COGS)	40,000
Gross profit	60,000
Operating expense	50,000
Net operating income	10,000
Interest expense	15,000
Income before tax	-5,000
Tax (tax rate = 30%)	0
Net income	-5,000

Solutions:

- **Gross margin** $\frac{Revenue - COGS}{Revenue} = \frac{100{,}000 - 40{,}000}{100{,}000}$ = **60%**
- **Net margin** $\frac{Net\ income}{Revenue} = \frac{-5{,}000}{100{,}000}$ = **-5%**

1 Solvency and Liquidity Ratios

Significance: Show how well operations and debt obligations are financed. Information comes from the **income statement** and **balance sheet**.

Ratio	Equation	What a higher ratio means
Solvency		
Debt to Equity	$\frac{Total\ liabilities}{Total\ equity}$	There is more risk since a lot of the financing has been provided from loans
Liquidity		
Current Ratio	$\frac{Current\ assets}{Current\ liabilities}$	The firm is in a stronger position to pay short-term commitments

What to look for in an agribusiness

- Pay attention to the current ratio as it can be a good proxy for financial risk.
- Look at property, plant and equipment in relation to total debt as they are often linked directly.

1 Quick Quiz 2

Balance Sheet	
Assets	
Current assets (cash, inventories, accounts receivable, etc.)	10,000
Property, plant & equipment (PPE)	35,000
Total assets	**45,000**
Liabilities and Equity	
Current liabilities (accounts payable, accrued expenses, etc.)	10,000
Long-term debt	20,000
Total equity (retained earnings, etc.)	15,000
Total liabilities and equity	**45,000**

From the table, calculate:

- **Debt to Equity**

$$\frac{Current\ liabilities}{Total\ equity}$$

- **Current ratio**

$$\frac{Current\ assets}{Current\ liabilities}$$

1 Quick Quiz 2 - Solutions

Balance Sheet	
Assets	
Current assets (cash, inventories, accounts receivable, etc.)	10,000
Property, plant & equipment (PPE)	35,000
Total assets	**45,000**
Liabilities and Equity	
Current liabilities (accounts payable, accrued expenses, etc.)	10,000
Long-term debt	20,000
Total equity (retained earnings, etc.)	15,000
Total liabilities and equity	**45,000**

Solutions:

- **Debt to Equity**

$$= \frac{10,000}{15,000} = \mathbf{0.7}$$

- **Current ratio**

$$= \frac{10,000}{10,000} = \mathbf{1.0}$$

1 Efficiency ratios

Significance: Show how efficiently an agribusinesses is using its assets. Information comes from the **income statement** and **balance sheet**.

Ratio	Equation	What a higher ratio means
Asset Turnover	$\frac{Revenue}{Total\ assets}$	The agribusiness generates more revenue per asset
Inventory Turnover	$\frac{COGS}{Average\ inventory}$	Products are selling quickly and not sitting on the shelf

<u>What to look for in an agribusiness</u>

- Understand whether the agribusiness is highly dependent on assets such as machinery. If so, compare the firm's efficiency ratios to its peers.
- If the agribusiness keeps inventory on hand, calculate inventory turnover and compare that ratio versus its peers.

1 What to look out for on the financial statements

Scenario	Why it matters	How to identify it
Too much debt	• Too much debt can put a firm at risk of bankruptcy • High interest costs reduce profitability and growth	• Current loans payable on the Balance Sheet are high compared to current assets • Interest expense payments on the Income Statement are high relative to net income
Sporadic cash flow	• Periods with low cash flow can restrict the ability of an agribusiness to pay everyday costs which can disrupt operations	• Look at the Cash Flow Statement by quarter for big variations
Inefficient cost structure	• Firms often overspend to achieve growth targets	• SG&A costs on the Income Statement that are growing faster than revenues and/or COGS could be a sign of overspending

1 USAID can improve the financial attractiveness of an agribusiness by providing different types of support

	USAID Tools	***How can USAID tools be used to improve financial health?***
Financial	**Grants**	• Funding the **development of new products that can increase revenues** • **Subsidizing the start-up costs** of a new initiative with social impact
Financial	**Guarantees**	• **Using loan guarantees to increase the funding available to an agribusiness** which can be used to cover shortfalls with short-term cash flow
Non-financial	**Policy advocacy**	• Advocating for **regulatory changes that would positively affect an agribusiness's finances** such as reducing import-export tariffs that affect the costs for critical inputs and outputs
Non-financial	**Convening**	• **Increasing sales and/or reducing operating costs by building new market linkages** for an agribusiness looking for new suppliers and/or customers
Non-financial	**Technical Assistance**	• **Improving production and efficiency by providing technical trainings** on topics such as helping farmers switch to higher-quality seed inputs

2 In addition to assessing financial health, investors must also understand how an investment will create value

	Description	Example
How does an investment create value?	• Investments create value by **increasing profitability (current or future)**	• A new tractor reduces the cost of harvesting by more than the cost of financing so total profitability increases
How can investors tell if a specific investment will create value?	• **Investors make subjective assessments about how investments create value** through analysis of the industry, competitors, financial statements and the specific business needs	• An agribusiness says they need funding to grow in a new market where their product doesn't yet exist; they have high gross margins and consistent profitability over time

Key takeaways

- **Think about how USAID can – and cannot – improve the financial attractiveness of an agribusiness.** Remember that USAID agricultural finance tools are designed specifically to help catalyze private investment in agribusiness.
- **Ensure you have a holistic financial view.** The three financial statements provide different information; it is important to understand the most important takeaways of each one as well as how they interrelate.
- **Understand conceptually how an investment can create value.** Remember that an agribusiness must be able to put an investment to productive use for the firm to be investable.
- **Recognize that you do not need to be a banker to identify financial concerns**. Missions do not need to be finance experts but rather know just enough to have conversations.
- **Ask questions!** Use the financial statements to formulate questions; it is generally difficult to assess financial attractiveness from financial information alone.

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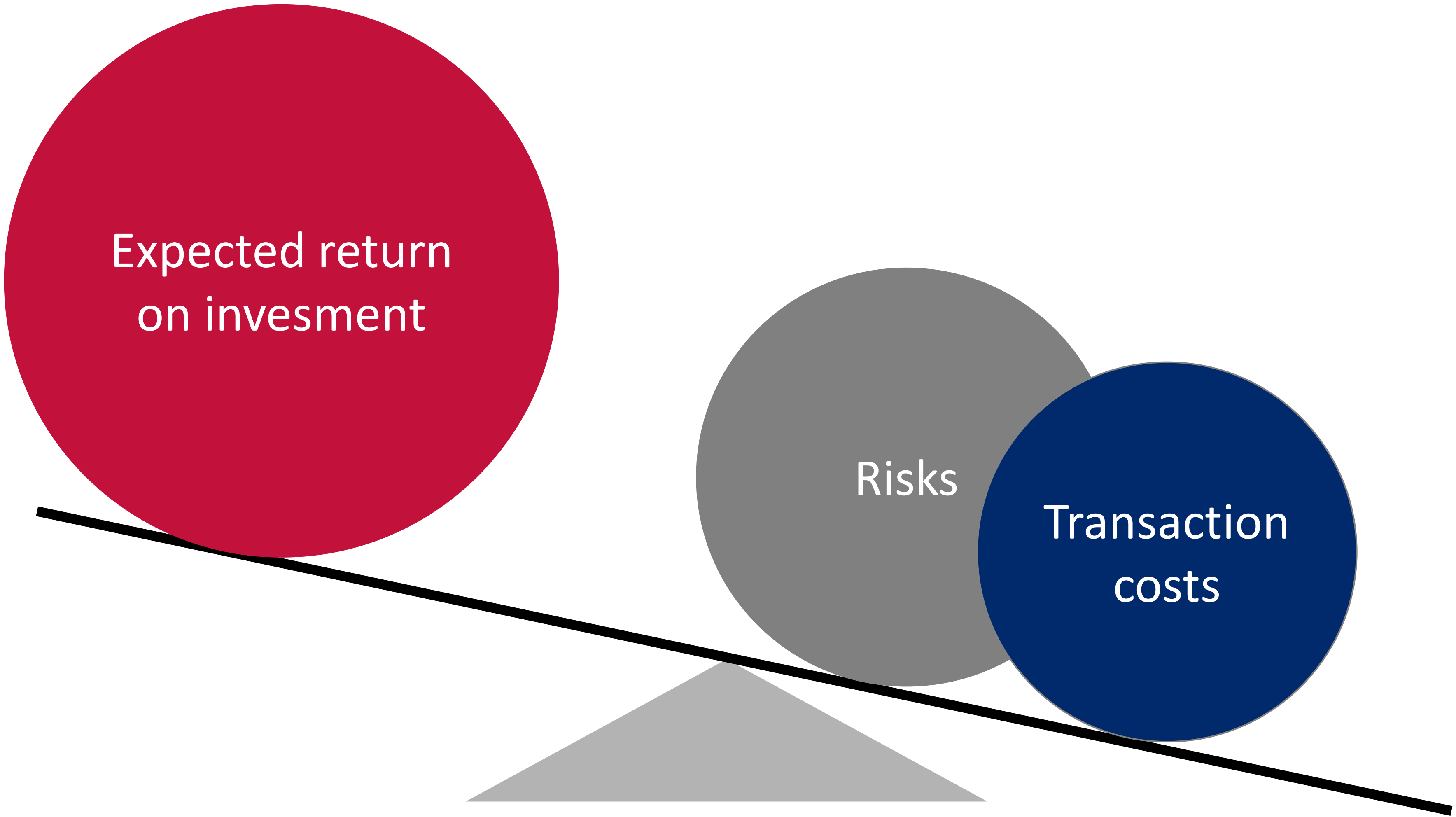
A high projected level of return is not enough if the risks and transaction costs are high



There are many different types of risks in agriculture and they can be either internal or external to the firm…

Non-exhaustive

External risks

	Description
Weather	• Natural disasters and extreme weather (e.g., drought, flooding)
Dependency on partners and markets	• Dependence on other supply chain actors • Commodity market volatility • Disturbance or downturn in the local finance ecosystem
Local infrastructure	• Deterioration of local infrastructure (e.g., roads, port)

Internal Risks

	Description
Management team	• Knowledge, skillset and sector expertise of firm management
Regulatory & reputational risk	• Compliance with local laws and regulations • Reputation with customers • Social and/or environmental impact reputation
Labor	• Labor availability, quality and relations

… but most risks can also be mitigated in a variety of ways

External Risk Mitigation

Risk category	Possible mitigation strategies
Weather	• Weather insurance • Drought-resistance crop varieties
Dependency on partners and markets	• Vertical integration • Fixed price contracts • Currency hedges
Local infrastructure	• Political risk insurance

Internal Risk Mitigation

Risk category	Possible mitigation strategies
Management team	• New hires • Linking investment with tenure • Compensation incentives
Regulatory & reputational risk	• Strong compliance team • Social impact assessments and certifications
Labor	• Compensation incentives

USAID can reduce the risks for investors by providing different types of support to agribusinesses

	USAID Tools	***How can USAID tools be used to reduce risk?***
Financial	**Grants**	• **Funding a feasibility study for a new business or initiative** where there is significant uncertainty about the market demand
	Guarantees	• Providing a **loan guarantee to a local bank** so their losses would be significantly less if the agribusiness was unable to repay the loan
Non-financial	**Policy advocacy**	• Advocating for **more government support in the case of unexpected financial shocks**
	Convening	• **Introductions to new customers and suppliers to reduce dependency on specific firms**
	Technical Assistance	• **Trainings on if, when and how to purchase insurance products** that can be used in the case of unexpected events

Apart from the expected return and risks, investors also examine the costs related to a potential investment

Primary transaction costs

 **Staff costs**	Staff time on due diligence, loan design and issuance
 **Travel costs**	Travel to site for interviews and due diligence
 **Legal costs**	Legal fees for drafting contracts
 **Currency conversion**	Fees and losses for converting foreign currency

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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

Income Statement

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	2,129	242
Provision for income taxes	744	73
Net income (loss)	1,385	169

Positive sign. Strong sales growth (12%)

Positive sign. Gross margin increased proportionately with sales

Observation. Firm is basically break-even despite being young, but also in spite of large sales

PLEASE JOT DOWN: What are your key takeaways?

Balance Sheet for Kosi Avos

All numbers in thousands (USD)	2017	2016
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	62,395	60,848
Property, Plan and Equipment, net	65,000	60,000
Other assets	3,319	581
Total assets	130,714	121,429
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	50,000	42,000
Long-term liabilities	41,500	43,000
Total shareholders' equity	39,214	36,429
Total liabilities and shareholders' equity	130,714	121,429

Concern. Decreasing cash on hand despite profitability

Positive sign. Current assets are greater than current liabilities

Observation. The firm already has significant long-term debt

PLEASE JOT DOWN: What are your key takeaways?

Cash Flow Statement for Kosi Avos

In thousands, USD	2018	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES			
Net income	1,735	169	4,320
Changes to accounts receivable	(3,000)	(2,000)	1,000
Changes to inventory	(4,000)	(1,000)	(2,000)
Changes to accounts payable	9,000	2,000	3,000
Changes to expenses payable	(2,688)	2,295	3,425
Net Cash Provided by Operating Activities	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 Investing Activities	(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 Financing Activities	(1,500)	20,000	(1,500)
Net Increase in Cash	(5,453)	(13,535)	13,245

Positive sign. Positive cash from operations

Observation. Big expenditure on PPE financed through debt

Observation. Firm is now cash-flow negative due mostly to PPE

PLEASE JOT DOWN: What are your key takeaways?

Questions for discussion

Questions		Summary from Financial Statements
• What are the major messages that stand out after reviewing all of the financial statements?	►	• **Strong growth** but **cash flow has been negative due to capital investments in PPE** • There is **already long-term debt on the books** but also **little risk of default in the short-term**
• After reviewing the financial statements, what excites you about Kosi Avos? What concerns you?	►	• **What is exciting** – Growth potential with already-profitable business – Possibility that firm doesn't need more property, plant and equipment • **What is concerning** – Barely profitable – Declining cash reserves – Existing debt

Recap of financial takeaways and additional context

Key financial information

- There is **growth potential** but **low profitability** and **significant debt** are of concern
- It is **uncertain if there is enough cash in the bank** for contingencies
- It appears the firm has **recently upgraded its machinery**

Additional context

- The company has **purchased weather insurance** but this has **increased costs by 5%**
- The company has been **unable to find strong local talent**
- The **debt holder is willing to renegotiate** the terms of the loan

Based on the additional information, do you think Kosi Avos is a better or worse opportunity for an investor than you originally thought?

What type of investor do you think is best suited for Kosi Avos?

Possible answer

Is Kosi Avos investable?

Our answer: Kosi Avos is attractive to an investor who is willing to wait 5+ years to be repaid (a long-term investor) provided additional risks are reduced further. The firm is not attractive to an investor who wants to be paid back quickly as it may take years to generate consistent profits.

What are the main reasons for investing?

- **Returns are positive.** Current profitability + strong existing sales growth and potential for further growth
- **Key risks are being mitigated**. Experienced leadership team + weather insurance as a hedge against potential drought

What are the main risks and concerns that need to be addressed?

- **Returns are still too low.** The firm should look for ways to reduce COGS further (e.g., higher-yield seeds, machinery, etc.)
- **Significant financial and country risks remain.** Low cash reserves + high debt obligation + inexperienced local team
- **Transaction costs are uncertain.** The cost of doing due diligence on this opportunity must be manageable

What is a potential role for USAID in this case study?

Discussion Question

- What tools can USAID use to improve the possibility that Kosi Avos receives funding?

Possible Answer

- **Convening.** Introduce Kosi Avos to other firms in the avocado sector in Mozambique since they are new to the country and may be looking for new suppliers and customers.
- **Technical assistance.** USAID can help train the workers at Kosi Avos to increase management capacity.
- **Guarantee**. Provide a guarantee to the potential investor to minimize the risk of lending.

Agenda for today

1. What makes an agribusiness investable?
2. How can an investor tell if an agribusiness is an attractive opportunity from its finances?
3. What other elements do investors examine to determine if an agribusiness is investable?
4. Interactive case study
5. **Question & Answer**
6. Concluding thoughts

Question & Answer

Agenda for today

1. What makes an agribusiness investable?
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6. **Concluding thoughts**

Concluding thoughts

- **There is a methodology for determining whether a firm is “investable” but it is ultimately a subjective decision and USAID can influence the outcome.** Financial, risk and transaction cost analyses are critical but at the end of the process there is rarely a magic formula that investors use to make a yes/no investment decision. USAID can use agricultural finance tools to increase the possibility of an investment.

- **You do not need to be a finance expert to identify the most important financial issues of an agribusiness.** Look for the key takeaways from and across financial statements, and use ratios to benchmark an agribusiness against prior years as well as competitors.

- **Ask questions!** Missions can learn a lot about an agribusiness from its financial statements but there is no substitute for asking questions to put those numbers in a broader context.