

Farm Financial Ratios and Benchmarks Calculations & Implications

Liquidity Analysis	Calculation	Good	Caution	Danger
Current Ratio	Total Current Assets ÷ Total Current Liabilities	> 1.50	0.80 - 1.50	< 0.80
Working Capital / Total Expenses <i>(expanding business)</i>	(Total Current Assets – Total Current Liabilities) ÷ Total Expenses	> 50%	15 - 50%	< 15%
Working Capital / Total Expenses <i>(stable business)</i>	(Total Current Assets – Total Current Liabilities) ÷ Total Expenses	> 25%	15 - 25%	< 15%
Solvency Analysis	Calculation	Good	Caution	Danger
Debt / Asset Ratio	Total Liabilities ÷ Total Assets	< 30%	30 - 70%	> 70%
Equity / Asset Ratio	Total Equity ÷ Total Assets	> 70%	30 - 70%	< 30%
Debt / Equity Ratio	Total Liabilities ÷ Total Equity	< 42%	42 - 230%	> 230%
Profitability Analysis	Calculation	Good	Caution	Danger
Rate of Return on Assets (ROA) <i>(mostly owned)</i>	(NFIFO* + Interest Expense – Operator Management Fee) ÷ Total Assets	> 8%	3 - 8%	< 3%
Rate of Return on Assets (ROA) <i>(mostly rented or leased)</i>	(NFIFO* + Interest Expense – Operator Management Fee) ÷ Total Assets	> 12%	3 - 12%	< 3%
Operating Profit Margin	(NFIFO* + Interest Expense – Operator Management Fee) ÷ Gross Revenue	> 25%	10 - 25%	< 10%
Financial Efficiency	Calculation	Good	Caution	Danger
Asset Turnover Ratio	Gross Revenue ÷ Total Assets	> 40%	20 - 40%	< 20%
Operating Expense / Revenue Ratio <i>(mostly owned)</i>	(Operating Expenses - Interest - Depreciation) ÷ Gross Revenue	< 65%	65 - 80%	> 80%
Operating Expense / Revenue Ratio <i>(mostly rented or leased)</i>	(Operating Expenses - Interest - Depreciation) ÷ Gross Revenue	< 75%	75 - 85%	> 85%
Net Farm Income From Operations Ratio	NFIFO* ÷ Gross Revenue	Look at trends; varies with cyclical nature of agricultural prices & income		
Repayment Analysis	Calculation	Good	Caution	Danger
Term Debt and Lease Coverage Ratio	[(NFIFO* + Gross Non Farm Revenue + Depreciation Expense + Interest on Term Debts and Capital Leases) – Income Tax Expense – Family Living Withdrawals] ÷ Scheduled Annual Principal and Interest Payments on Term Debt and Capital Leases	> 150%	110 - 150%	< 110%
Term Debt/EBITDA	(Total Non-Current Liabilities + Current Portion of Term Debt) / (NFIFO + Interest Expense + Depreciation Expense)	< 3	3 - 7	> 7

DAIRY INDUSTRY BENCHMARKS		Good	Caution	Danger
Debt Per Cow	Total Farm Liabilities / (Lactating + Dry Cows)	≤ \$5,000	\$5,001 - 7,999	≥ \$8,000
Investment Per Cow	Total Farm Assets / (Lactating + Dry Cows)	≤ \$13,000	\$13,001 - 16,999	≥ \$17,000
Tillable Acres Per Cow	Total Tillable Acres / (Lactating + Dry Cows)	≥ 4	2 - 3.99	≤ 1.99
Machinery Investment Per Cow	Total Machinery & Equipment Value / (Lactating + Dry Cows)	≤ \$2,500	\$2,501 - 3,499	≥ \$3,500
Lbs Milk Sold Per Cow	Lbs Shipped / (Lactating + Dry Cows)	≥ 24,000	18,001 - 23,999	≤ 18,000
Lbs Milk Sold Per FTE Worker	Lbs Shipped / FTE for all dairy-related labor	>1.5 million	1.0 - 1.5 million	<1.0 million
Gross Cash Income Per Cow	(Milk + Culls + Calves & Heifers + Patronage) / (Lactating + Dry Cows)	≥ \$4,500	\$3,001 - 4,499	≤ \$3,000
Interest Cost Per Cow	Total Interest Expense / (Lactating + Dry Cows)	≤ \$270	\$269 - 349	≥ \$350
Net Farm Cash Income Per Cow	(NFIFO + Depreciation) / (Lactating + Dry Cows)	≥ \$600	\$201 - 599	≤ \$200
Cost of Producing CWT of Milk	(Total Dairy-Related Expenses + Interest + Depreciation) / CWT Shipped	≤ \$17.49	\$17.50 - 18.99	≥ \$19.00

*NFIFO = Net Farm Income From Operations: (Total Revenues - Total Expenses, excluding gains or losses from disposal of farm capital assets).
 Financial benchmarks format developed by Dr. David Kohl, Virginia Tech. Industry benchmarks from Gary Sipiorski, Vita Plus Corporation.
 Modified for Dairy Challenge, November 2019.