

Financial Options for Growers

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How many times have you heard this comment in the greenhouse industry – “How am I going to pay for it?” In this time of volatile energy costs and increased competition in the marketplace, greenhouse operators continue to hesitate and ponder about upgrading their present processes

With so many demands on your cash and capital budget, it becomes a challenge to decide which equipment to install and how to pay for it. It is okay for a grower/owner to stop and take a second look at how they might reduce their input costs or increase their yields by taking advantage of technological advances. It may be a great idea with solid paybacks, but installing the new equipment requires the correct financing option, and that requires planning and insight. Therefore, the goal of this article is to ensure that you know what financial options are available to you, the greenhouse grower/owner.

As a greenhouse grower, superintendent and manager from 1970 to 2004 and now a financing specialist for the past five years, I have been welcomed into many agricultural businesses to see how they plan and implement their financing strategies. I believe that this shared experience will help you as an individual grower and benefit the greenhouse/agricultural industry as well.

The main financing options include paying cash, borrowing from the bank or using lease financing. Paying cash seems the easiest and has historically been the chosen option for greenhouse growers who believe in the mantra...”don’t buy, until you can pay for it”. However, with the increasingly sophisticated and significantly larger greenhouse operations of today’s marketplace, leverage (borrowing) has become more of an acceptable and desirable option to use. If you are considering using leverage, then the most common options are bank financing – mortgages/bank loans, or equipment leasing.

Which option is best depends on your individual situation. To explore these financing tools in greater depth, we will explore the option of upgrading your present natural gas fired, hot water boiler with a new biomass fired boiler. (Note: this is just one possibility).

Let’s start with cash. It’s fair to say that many growers in the Canadian greenhouse industry prefer to use surplus cash from operations to finance their new equipment and automation upgrades. This works pretty well when there is lots of extra cash in the company bank account. However, what do you do when the system installation requires more than you have available or if paying cash will deplete your working capital so much that you no longer have sufficient cash for day-to-day expenses or a cushion for those unforeseen costs that can suddenly appear? When you look around, it is obvious that the industry leaders did not wait until they had enough cash, before moving ahead with their expansion or upgrade. They used someone else’s money at a fair rate of return.

The next option to consider is bank financing, which is typically seen in the form of long-term mortgages to finance greenhouse structures and land acquisitions. Low, variable rate mortgages with long amortization periods have given growers access to funds for new construction and expansion projects. These mortgage monies may work for a biomass boiler installation if you want the lowest monthly payments and your equipment paybacks are longer than 10 years. The problem here is that you are going to be paying for the equipment for a long time and final total cost could be double the amount of the original purchase. Works well for an appreciating asset but debatable for an item that may be obsolete or wore out before you finish the payments.

Equipment loans are also an option that typically require a 25% down payment and are usually written with a variable rate and 5 to 10 year terms. The downside is that the lender typically requires your farm as collateral. Also the equipment must be depreciated based on the Canadian Capital Cost Allowance (CCA), which means it takes longer to write off the equipment. Definitely an option, but do you want to give up the farm for a depreciating asset, and what is the equipment payback or return on investment period.

It is only recently that equipment leasing has expanded from its original market of trucks, tractors and forklifts to become a popular equipment financing option in the greenhouse industry. In the past five years, we have completed lease financing for climate control computers, vision grading machines, soil mixing equipment and greenhouse structures, to name a few categories. At the same time, we continue to push the envelope on what kind of equipment is leaseable, including energy screens, biomass boilers, grow lights and labor tracking software.

Equipment leasing can also be custom built to your timelines, seasonal cash flows and the equipment payback cycle, while giving you a fixed borrowing rate with a lower down payment than traditional equipment loans. Additional advantages to equipment leasing include potential tax savings, the ability to access additional capital (over and above your bank line) while not giving up the farm as collateral and using the ongoing realized savings to pay for the new equipment.

Businesses have been embracing leasing as a financing tool for these reasons and approximately 80% of US businesses now use equipment leasing as part of their financing strategy. In the past five years, I have come to the conclusion that the most successful operators/owners in North America, use all the financing tools available to them and they use them in the correct situations.

Each greenhouse operation and equipment project is unique and your variables will be different, so if you are going to use lease financing, it's advisable to work with a leasing specialist that knows your industry and equipment requirements so that you can get the proper advice for your circumstances.

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