A NEW CREDIT MODEL

Input Capital makes farm loans, but only if you promise them a share of what you produce

By Andrea Hilderman

Input Capital is a Saskatchewan-based, TSX-traded, public company that is introducing commodity streaming to farmers to finance new and growing operations or even to achieve production goals or yield potential.

Streaming-financing isn't brand new as a concept, but it is quite new to agriculture. It is more often seen in the mining industry where production is capital intensive, and where much of that capital is required long before the first pound of ore is dug.

In mining, not surprisingly, sources of operating capital can be hard to find, and even if you can find credit, the interest rates can be very high. Streaming-financing addresses that by providing up-front funds in exchange for the right to purchase some portion of the mine's output at a predetermined price.

PHOTO: INPUTCAPITAL.COM

With an extra $40 million this year, Input Capital's Nystuen says the company's streaming fund now tops $100 million

Input Capital grew out of another Saskatchewan company — Assiniboia Farmland Limited Partnership (AFLP). As AFLP acquired farmland and rented it to farmers to operate, it attracted a lot of young farmers. "These were under-45-year-old farmers who saw the opportunity to expand their farming operations," says Gord Nystuen, vice-president of market development. "It was not easy to get the financing or working capital to operate the farm to its full potential."

It was from that observation that a pilot was tested in 2009 to determine if there was a way to provide capital that would work for farmers as well as for the financing company and its investors. "That pilot led to the creation of Input Capital," says Nystuen. "We found a way to access financing from public investors in a framework that would work for the farmer at the one end, and the investor at the other by permitting the investor to exit if they wanted to without interrupting the farm business."

The goal of Input Capital is to provide working capital to farm operations outside the normal bank and input-supplier systems. "When farms have sufficient cash on the balance sheet, farm managers can make business decisions that will improve margins," says Nystuen. They might pre-buy nitrogen at lower prices, for instance, or they might buy seed earlier in order to assure access to the best varieties.

It's when farm operations have insufficient cash reserves that trade-offs have to be made, says Nystuen, like having to sell grain to pay bills as opposed to marketing in an orderly fashion with a deliberate strategy.

"Another advantage that is more challenging to see is in the planning and budgeting process," says Nystuen. "If there is a very tight ratio of working capital to farm size, the working capital gets allocated across all acres versus formulating a strategy to optimize returns."

An example Nystuen uses is that rather than capitalize on good wheat and canola prices by boosting fertilizer rates accordingly, a grower will put on only enough N to grow a decent crop. "The grower tends to budget from a scarcity of working capital, as opposed to looking at crop potential based on his analysis of the markets, prices and weather. And these two approaches result in very different outcomes."

An interesting requirement in the contract with Input Capital is the farmer must work with a consulting agrologist. "This is our way of ensuring the farm and the working capital we supply is put to the best possible use," says Nystuen. "We don't hand over the cash and walk away; rather, we are invested in optimizing the operation."

For older, typically well-capitalized farmers this is the norm. But for newer or younger farmers who don't have the cash reserves, it's much more difficult, especially if they are trying to expand the farm year over year. Any increase in margins is just getting spread over a larger land base, and it hinders the optimization of the farm. "It puts guys in a quandary," says Nystuen. Do you stop growing the farm for a period, he asks, recognizing that sometimes you need to be ready to expand when the opportunity presents itself.

Input Capital raised $65 million in capital from investors in its first campaign and has canola-

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DOES STREAMING PASS THE FARM TEST?

Darin Pedersen, his wife Sheri and children Brooke and Kristie farm 4,800 acres north of Nokomis, Sask. The Pedersen's were introduced to Gord Nystuen of Input Capital a few years before Input Capital was created and became part of the pilot testing that led to the formation of the company and have continued to use the streaming-financing model.

"Gord has always wanted to see our farm succeed, first and foremost," says Pedersen. "This financing has lifted a lot of pressure off us. We don't have to worry about loan amounts, payment dates and interest rates. We just produce canola and Input Capital gets their agreed volume to market."

With the financing, he says, he has been able to do a better job of sourcing the right inputs at the right price. "We've been able to focus on making earlier purchases to get much better pricing," says Pedersen. "As well, we've hired local agronomists and now Agri-Trend, and we are starting to really hone our nutrient programs, as well as help with the in-season scouting."

Pederson also believes such a structure helps him apply his skills where they make the greatest difference. The puzzle pieces start to fall into place once sufficient working capital is in place, Pedersen has found. "These guys come to the farm regularly, work with you and push you to farm better and smarter. And no surprise, that's an easier way to farm and we see the results."

Darin Pedersen believes streaming-financing could help more producers focus more of their efforts on producing the best crop in the field

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streaming contracts in place for a six year period with about 26 growers. Now it has raised an additional $40 million in 2014.

"The contract we devised creates a vehicle for us to provide the upfront working capital without taking an ownership position in real estate or assets," explains Nystuen. "Farmers told us clearly that that was not how they wanted to partner with us. So, we invest for a share of the production, a specified number of tonnes of canola over a specified number of years."

This differs from a term loan because the streaming partner, in this case Input Capital, takes on the price risk for the commodity in each year. "If we can sell at higher prices, our investors do better," explains Nystuen. "And if we can't or we do worse, then their returns are lower. We also won't accept tonnes ahead of the contract, nor would we come in and ask for more production if prices were high, for instance."

The goal is to have Input Capital and the farmers' interests aligned with both focused on keeping the business viable over the period of the contract.

Input Capital takes on prospective clients only after extensive discussions. "We meet with growers, conduct a financial assessment to ensure the farm is viable, the right equipment is available to farm, the business strategy is in place and the farmland assets are sufficient for the tenure of the contract," says Nystuen.

"This is far more than checking your credit score," Nystuen insists. "We want to become a partner. The success of our business depends on the success of our relationship with the farmer."

To that end, Input Capital has seasoned ag experts and farmers working on business development. "Some of these guys are long-term farmers themselves, all very capable and successful. For the most part, they've lived this story — starting with limited resources and struggling in those first years to build up their operations. When they sit down at the kitchen table with a prospective client, they know exactly what it's like to be on the other side of that table."

2013-14 was Input Capital's first year of operations and they are planning on significant growth in the next season with more of a presence over the winter months to promote their innovative approach to working capital financing.

More about Input Capital is online at **www.input-capital.com**. The company's shares trade on the TSX Venture Exchange under the symbol "INP." **CG**

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