

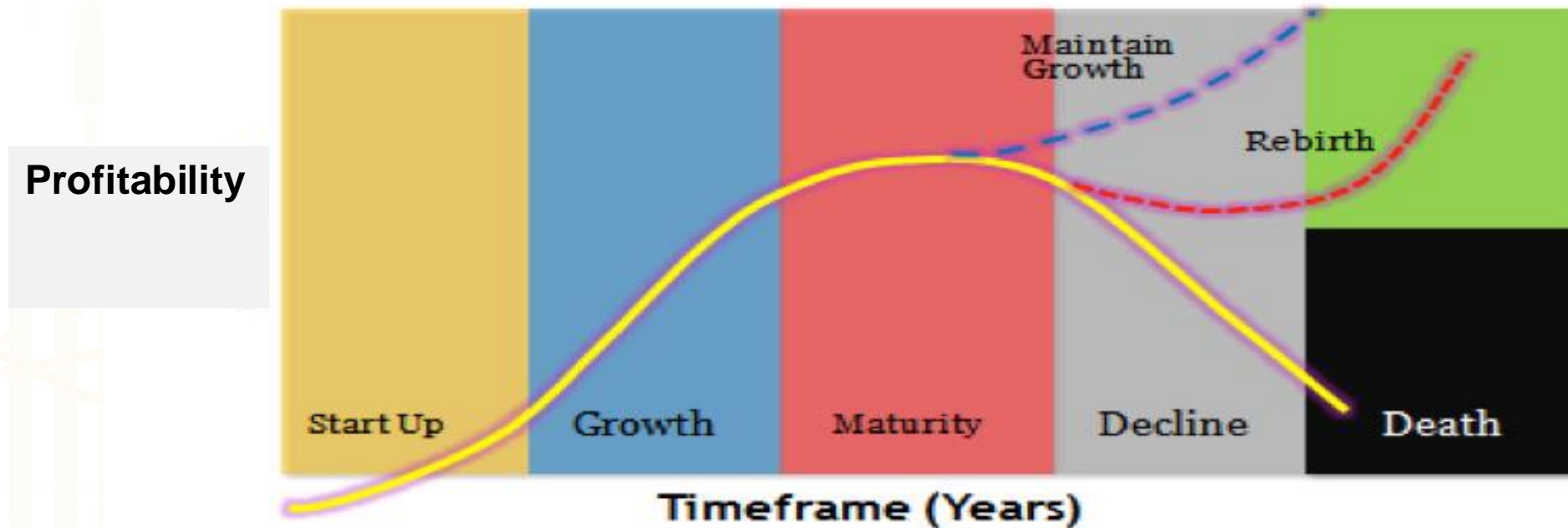


AgriGrowthTM
SOLUTIONS_{LLC}

Business Life Cycle and Capital Decisions

Typical Business Life Cycle

5 Stages of the Business Lifecycle



Business Life Cycle-Start Up

- ❑ Formalization of the business structure
- ❑ Refining business scenarios
- ❑ Executing financial and marketing plans
- ❑ Generally considerable tweaking of the business model
- ❑ Sales are low
- ❑ Cash is very tight
- ❑ Profits maybe negative

Business Life Cycle- Growth

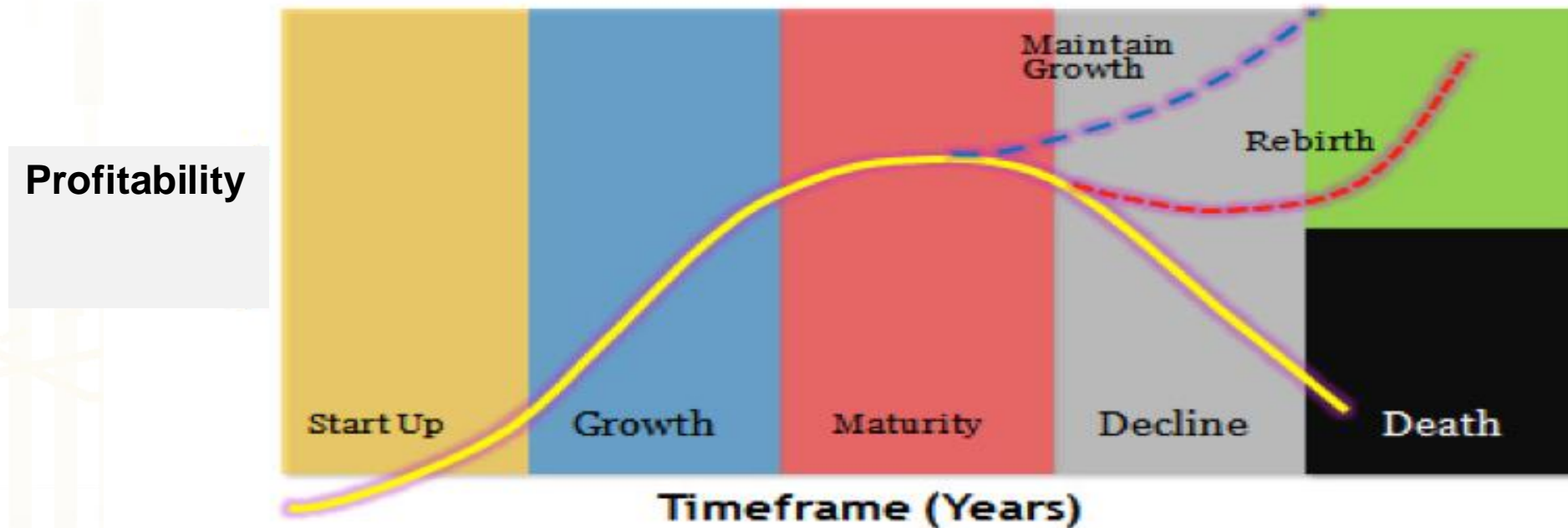
- ❑ Continue to fine tune the business
- ❑ Implementing proven technology
- ❑ Sales increase rapidly
- ❑ Cash remains tight
- ❑ Start incurring profit once revenue surpasses cost of production

Business Life Cycle- Maturity

- ❑ Sales may start to slow
- ❑ Cash flows may become stronger
- ❑ Profit margins begin to thin as costs increase faster than revenue
- ❑ Many businesses reinvest in their business during this time to extend the live cycle

Typical Business Life Cycle

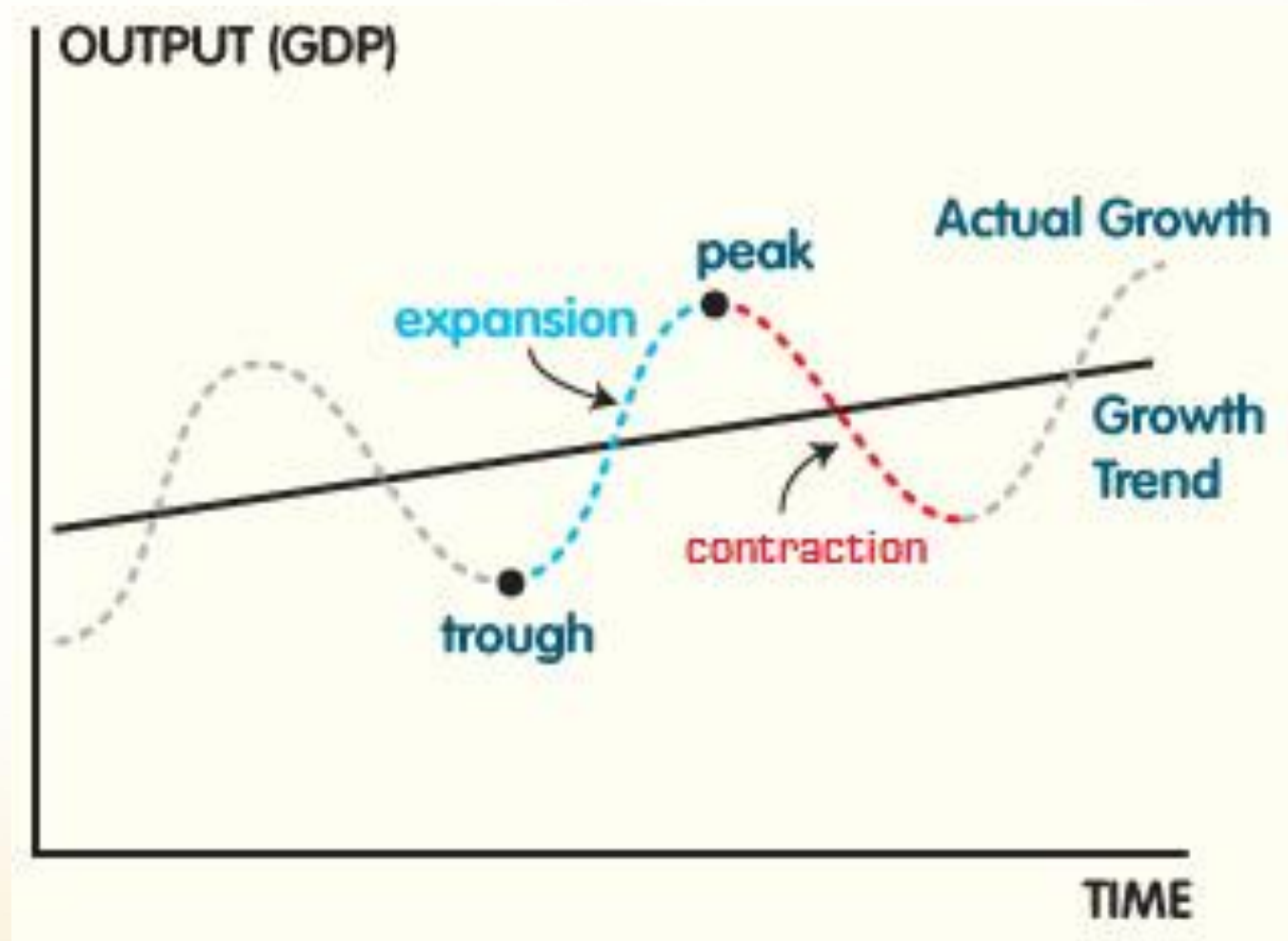
5 Stages of the Business Lifecycle



Business Life Cycle- Decline

- ❑ Sales start to decline
- ❑ Cash flows become softer
- ❑ Profit margins continue to thin as costs increase with flat to declining revenue
- ❑ Businesses are required to reinvest in themselves to be reborn
- ❑ Businesses that don't reinvest will have a terminal outcome

Business Life Cycle



Business Life Cycle

- ❑ The duration within each of the phases can be different for every business
- ❑ Decisions made during the life of the business can expediate or prolong time spent in each phase
- ❑ No one strategy is right for all businesses
- ❑ Timing can be an important contributor to the life cycle

Capital Purchases

- All Capital Falls into at Least One of Four Buckets
 1. Replacement Needs
 2. Expansion Needs
 3. Efficiency Needs
 4. Luxury Wants



Capital Purchases

- ❑ Purchases tend to be critically evaluated when businesses are in the start-up and early growth phase
- ❑ As profits and cash flow increase it is easy to not evaluate capital as critically
 - ❑ Income tax avoidance
 - ❑ Keeping up with the Jones
 - ❑ Bigger is better
- ❑ Excess capital purchases can move the business to the mature and decline phase quicker

Capital Purchases

- ❑ Need to be in good condition to allow for dependability
- ❑ As businesses change, capital needs will change
 - Business need to remain or become more efficient
 - Just because you had an item in the past doesn't necessary mean it's needed in the future
- ❑ Understand luxury buying and the impact on the business
- ❑ Do budgeting to understand the impact that capital purchases can have on the return on investment

Partial Budget

- ❑ Determines incremental change in income from a management or investment decision
- ❑ Only lists the income and expense items that will change
- ❑ Enable focus only on the areas of change that would result from a specific alternative

Partial Budget

Income <u>Increase</u>	Income <u>Decrease</u>
Expense <u>Increase</u>	Expense <u>Decrease</u>

Why Partial Budget

- ❑ Helps us to evaluate income losses and expense increases with decision
- ❑ Calculate the earnings potential of capital decision
- ❑ ROI allows comparison/prioritization of investments

Live Cycle and Capital Utilization

- ❑ Capital utilization and efficiency varies by business
- ❑ Prioritizing efficient capital can extend the business' growth cycle
 - ❑ May move a business from maturity back in the growth phase
 - ❑ Low return capital discissions can expediate transition to the maturity phase
 - ❑ Killer toys
- ❑ All commodity businesses will need to continue to grow to stay competitive
- ❑ Do the capital discissions line up with the vision of the business?

Partial Budget

- ❑ For very large capital decisions a partial budget may only be a first step, and a complete analysis may be necessary
- ❑ Partial budgets generally don't look at the impact to a balance sheet

Evaluation of capital helps allow a business continue to be maintained in the portion of the business life cycle that has the highest level of profitability and extends the longevity of the business