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BROILER TIP . . .

New House Costs and Cash Flow Estimates

New broiler house construction has slowed in recent years as a result of the economic recession. Nevertheless, new house construction to primarily replace depreciated facilities, continues across the poultry producing regions of Georgia. Financing for new broiler house construction is dependent on cash flow assessments for these operations. A recent survey of broiler housing costs and cash flow examples (Cunningham and Fairchild, 2009) provides some insight to the current situation for prospective growers. The following is an example of a first year cash flow scenario for a new 50' X 500' tunnel ventilated, solid wall broiler house built in 2009 with a cost of \$217,500:

First Year Grower Income:

Capacity (birds)	34,500
Batches/year	6.0
Bird weight (lb)	4.35
% marketed	96.6
Contract pay (\$/lb)	0.0545
Fuel bonus	<u>\$600.00</u>
Gross Income	\$48,006

First Year Grower Expenses:

Fixed costs (mortgage & interest)	\$24,195
Cash expenses (utilities, litter, etc.)	\$17,104
Income tax (state & federal)	\$0.00

First Year Cash Flow:

Income	\$48,006
Fixed costs	(\$24,195)
Cash costs	(\$17,104)
Income tax	(\$0.00)
Cash flow	\$6,707

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These numbers represent cash flow expectations for the first year of operation. Broiler houses, however, are usually financed for a 15 year period and will have a reasonable life of 30 or more years if maintained properly. Thus, cash flow will change over time as debt is retired and income and cost factors change. The following examples estimate the future cash flow at different times in the life of this broiler house:

<u>Item</u>	<u>Year 1</u>	<u>Year 15</u>	<u>Year 16</u>
Income*	\$48,006	\$64,610	\$65,902
Fixed costs	(\$24,195)	(\$24,195)	(\$6,400)**
Cash costs*	(\$17,104)	(\$23,835)	(\$23,312)
Income tax***	(\$0.00)	(\$13,937)	(\$12,232)
Cash Flow	\$6,707	\$2,643	\$23,958

*Estimated increase at 2% per year

**Allows for a \$45,000 upgrade in year 16

*** State, federal and social security taxes estimated at 35%

The examples here demonstrate the changes in cash flow that are possible at different years during the productive life of an average performance broiler facility. Year one and 15 examples demonstrate differences in cash flow that may be experienced during debt retirement years while year 16 demonstrates the likely increase in cash flow after the bank is fully paid. It is important for growers too understand that cash flow will be moderate and may even be negative for some years during the debt retirement phase (i.e. first 15 years), however, cash flow will generally improve substantially after debt retirement and with above average performance. How much cash flow improves depends on the costs for upgrades that may be required to extend the productive life of the production facility. **Broiler houses represent long term investments with most of their returns generated during the second half of their life.**

The cash flow examples presented here are considered to be reasonable representations of grower's cost and returns for the situation presented, but they are not intended to be representative of all growers' situations. **Economic factors vary greatly for broiler operations, thus individuals considering new construction should consult with bankers experienced in writing poultry loans to assess their specific cash flow projections.**

References

Dan L. Cunningham and Brian D. Fairchild, 2009. *Broiler Production Systems in Georgia Costs and Returns Analysis*. www.poultry.uga.edu, Bulletin # 1240.



Dan L. Cunningham
Extension Poultry Scientist

Extension County Coordinator/Agent

Consult with your poultry company representative before making management changes.

“Your local County Extension Agent is a source of more information on this subject”