Animal Feed and Husbandry Industry - Key Success Factors

BUSINESS RISK ASSESSMENT

Market Position
The analysis covers risk assessments on the company’s presence and domination in the market, which can be reflected by the company’s business size and its market share including its ability to maintain its share going forward. The product's sales growth is also reviewed to see the sustainability of the business. The scale of production is also an important factor to increase competitiveness as animal feed & husbandry or related products are commodities.

Vertical Integration
The analysis includes risk assessments on the company's level of integration such as from animal feed-mill to animal breeders and meat processing. The vertical integration will be beneficial in order to reduce risks of over supply and to optimize efficiency and profitability. In addition, being able to provide internal raw material needs should lead to low cost producers. The company with high level of vertical integration should be more competitive as it has more barriers to entry than the company with less vertical integration.

Diversification
The analysis covers risk assessments on the company’s ability to manage diversification in terms of products, geographic diversity of production facilities, sales area, suppliers, and customers. The diversification is essential to prevent concentration and stabilize the revenue and profitability. Animal feed and breeding are more regional businesses, and therefore, it is more efficient to have close proximity with final consumers. Hence, minimizing freight cost is important to keep the products competitive.

Operating Management
The analysis includes risk assessments on the company's efficiency and its ability to control costs as the business is driven by demand supply scenario. An assessment on utilized capacity of production facility is one of many factors for efficiency. The economies of scale and large production volume are essential to maintain the cost competitiveness and the profitability margin sustainability. The analysis on operating margins (EBIT and EBITDA) is also assessed by comparing the company's ratios with other players in the same industry or other industry with similar characteristic, which is important in analyzing the company's competitiveness. The analysis is helpful to measure operating efficiency. The implementation of bio-security is also imperative in order to minimize potential outbreak of diseases.

FINANCIAL RISK ASSESSMENT

Financial Policy
The analysis includes a review of management's philosophy, strategy and policies toward financial risk (historical, current and future). It also includes examination of management's financial targets (growth, leverage, debt structure and dividend policy), hedging and other policies in an effort to reduce the company's overall financial risk (historical vs. future). The company's track record on fulfilling its previous financial obligations is also examined to determine the degree of its commitments and willingness and consistency to pay obligations on a timely basis.

Capital Structure
The analysis covers careful examination of the company's historical, current and projected leverage (total and net debt in relation to equity and EBITDA), debt structures and composition (rupiah vs. foreign
currencies, short-term debt vs. long-term debt, fixed rate vs. floating rate). Management of its liabilities is also thoroughly reviewed.

**Cash Flow Protection And Liquidity**
The analysis covers thorough reviews of the company's cash flow generation and capability to meet its short-term and long-term financial obligations. The degree of its debt servicing capability level is measured by the company's interest and debt coverage ratio. The degree of its liquidity in fulfilling its short-term liabilities relative to its sources of cash is also thoroughly assessed. The sources of cash are assessed, which include cash balance, estimated cash from operations, unused credit facilities, and other sources of cash. The uses of cash other than short-term liabilities, such as capital expenditure, are also assessed.

**Financial Flexibility**
The analysis covers combined evaluations of all the financial measures above to arrive at an overall view of the company's financial health. Analysis of other related factors or figures that are not specifically examined above, such as insurance coverage, restrictive covenants in loan/bond agreements or parental linkage and support, are also covered. Other analytical tasks covered are the evaluation of the company's options under stress, including contingency plans and other capabilities and flexibility to deal with various adverse scenarios. Shareholder support and commitment are also greatly considered.
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