

# An Interview with R. B. Halaby

A New York agribusiness banking consultant views the industry

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*AgriCapital has been involved in some 325 assignments (M&A), financings and consultancies, many in seed.*

## **SEED TODAY: What is your overall impression of the seed industry?**

Halaby: The mid to small corn and soybean seed companies appear to be doing much better than they were five years ago.

## **What are the indications of this?**

You can tell a lot from the symptoms. When times are tough, we get more requests to sell or refinance. There are fewer companies on the market at the present. Also, bankers don't appear to "belly ache" as much as they used to.

## **Any other positive indications?**

It looks as though the mid to small companies are generally comfortable with the general state of affairs the industry has established with Monsanto. At the beginning of biotechnology licensing and tech fees, these companies were scared to death that Monsanto would abandon them and nail their future to the wall by not allowing them access to the new technology.

Now they are more confident to move forward.

## **I hear managers talk of the challenge of managing success. What problems lurk within their recent prosperity?**

It is not uncommon for a company to go bankrupt when doing well. Cash flow and profitability do not necessarily go hand in hand.

**"Only one thing never changes - the need for integrity."**

— R.B.Halaby

Expansion can tie up a tremendous amount of cash. This is where they get blind-sided. Companies should not lose sight of one of the basic rules of finance: Cash is King!

## **How does this happen?**

Many of these mid to small companies have been land based and production driven. The land provided the capital cushion and many owners did not worry much about budgeting or planning. With rising land values, the bank was always willing to lend more.

As the industry became more complex and customer-driven with greater demands on the companies, the need for working capital increases. You just have to think of the amount of inventory that a seed corn company has to carry in this day and age.

## **Is there a problem with having cash in the bank?**

The problem comes when a manager does not keep an adequate reserve for working capital. Expansion may use unusually large amounts of cash which are tied up in in-

ventory or accounts receivable without maintaining a reserve adequate to meet their growing need for working capital.

The worse case scenario is when a company uses its working capital for capital expansion.

## **How can a manager gauge his progress to avoid these financial mis-judgements?**

Forward planning is critical. They must look at various scenarios for their cash flow. Cash flow is much more important to manage than profitability.

## **You have some suggestions...**

Yes, there are two important moves that these companies should make, especially if they have had successive years of strong growth.

1. Have a good financial type on your management team. You need someone who can use finances as a measuring stick. A financial type should be able to plan one to two years ahead under various conditions and see the red flags if this or that happens. Nothing lasts forever.

2. Keep your banker informed. Nothing upsets a banker more than a surprise, good or bad. If you anticipate greater cash needs, tell him as soon as you can. Bankers want to be a team player, they want to know as much about your business as your planners know. Keep your banker informed.

## **I hear owners say that the business is not as much fun as it used to be.**

If something is no longer enjoyable, then stop doing it. What they are really saying is that they don't enjoy some of the jobs they are now spending more time doing.

They need to segment functions. Let someone manage production. Let someone else manage finances. It is a fallacy to think that as a business grows you can still do everything.

## **So what should the owner be doing?**



*AgriCapital Chairman R.B. Halaby (left), Managing Director Doug Sterkel, Vice President Gregg Streibig and Managing Director Bill Goodbar.*

He should be doing exactly what he enjoyed doing several years ago. My guess is that this is selling, talking with customers and being out in the fields.

Many of the larger companies have gotten into trouble and eventually lost business because they lose sight of their customers. Managers become so busy running a business that they forget their customers.

The same thing can happen to a small company. Talk to your dealers and managers and customers. Listen to what they think. That is still an essential part of running a seed company.

### **How can families best deal with the financial implications of making a generation change?**

That is a tough situation with no ideal answer. Good legal advice on estate and tax planning is critical.

The problem is especially difficult when the next generation is unqualified or unwilling to take over management responsibility. Family members should never be forced to stay in the family business unless it is in their heart to do it. They shouldn't do it just to please Mom and Dad.

### **Do you see any fundamental changes taking place in the corn and soybean seed industry?**

Traditionally, these companies have been totally integrated. Many of them were started in the 1930's and, as I men-

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tioned earlier, were land-based and production driven. They did everything—production, selling and whatever marketing was to be done.

For the next sixty years, they remained fully integrated. Then in the 1990's, a few companies began to specialize. Now there are more companies realizing the value of specialization.

Some of the best, most successful companies are specialized. Examples are Remington Seed in production, Compass Bio in marketing, and SGI in genetics. As some of the smaller companies grow, they may be taking a new look at spe-

cialization. Few companies are the best at everything.

### **What do you see happening on the turfgrass side of the industry?**

Little by little, the waves left by ABT (AgriBioTech) are settling down. Things are going back to normal. But that is a market where you have to count your pennies to make a dollar.

Turfgrass is a very tough market and it will be that way for a while.

### **What words of wisdom would you give to someone entering this industry?**

1. Be adequately capitalized. Adequate capitalization is the cushion to success.

2. Change is never ending. Always be willing to face the challenge of change.

3. Only one thing never changes—the need for integrity.

Finally, put things in perspective. All in all, selling seeds, especially turfgrass, is a tough market. But all in all, any of the problems we face in this country are small compared to the problems others face in other countries.

*Joe W. Funk, Editor*