

Original investment costs averaged \$298.9 thousand for container nurseries and \$264.9 thousand for field firms. Subtracting accumulated depreciation left current values of long term assets of \$159.0 thousand and \$172.2 thousand, respectively. Field nurseries had less depleted fixed assets: as a portion of the original investment, these current values represented 53 percent for container and 65 percent for field firms.

Liabilities

Liabilities represented in the Nursery Business Analysis did not include any debt to related parties in closely held or "family" corporations, as these are usually not true debts that must be repaid. Total liabilities averaged \$153.1 thousand for container firms and \$171.4 thousand for field nurseries.

Current Liabilities averaged \$34.1 thousand for container nurseries and \$16.7 thousand for field firms. The ratio of cash and accounts receivable to current liabilities, known as the "quick ratio," is a standard indicator of the ability to pay current operating expenses. This measure averaged 1.58 for container nurseries and 3.78 for field firms.

Long Term Liabilities, including notes payable and mortgages, averaged \$119.1 thousand for container nurseries and \$154.7 thousand for field nurseries.

Net Worth is the difference between total assets and total liabilities, or the value of the owner's share of the assets, as opposed to lenders' claims. Net worth averaged \$608.0 thousand for container nurseries and \$970.9 thousand for field firms.

Financial Leverage

Leverage expresses the ratio between total assets and net worth. Higher values indicate a greater potential for "multiplying" returns per dollar of net worth, but also a greater financial risk. The leverage ratio averaged 1.25 for container firms and 1.18 for field firms (Figure 14). In other words, container firms had a greater value of total assets per dollar of net worth than did container firms. Large and small container firms had the same leverage (1.27). Both large and small field firms had slightly below-average leverage (1.05 and 1.13, respectively). Generally, leverage factors below 2.0 are considered to represent a very safe financial position. There was no indication of any relationship between financial risk and profitability, as the most profitable firms of both types had below-average leverage (1.13, and 1.06).

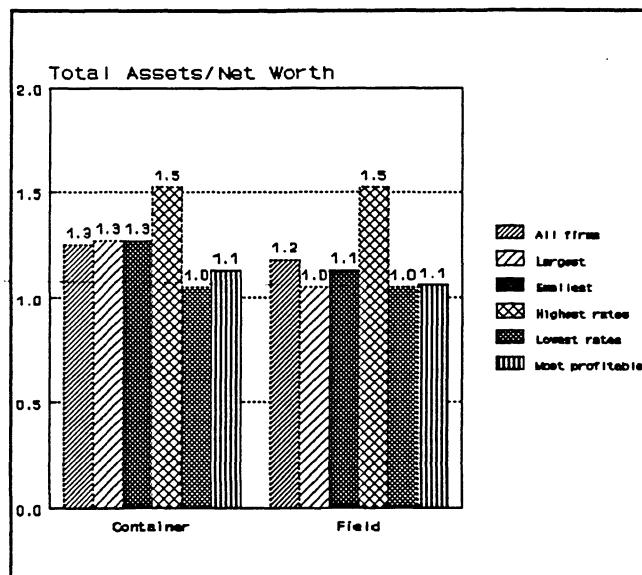


Figure 15--Leverage factor. Expresses ratio between total assets and net worth. Higher values indicate greater potential returns on net worth, but also greater financial risk.

Return on Net Worth

The ultimate measure of profitability is expressed in terms of returns per unit of net worth. This measure takes into account the financial risk embodied in the leverage factor. Leverage is multiplied by rate of return to capital to yield the rate of return on net worth. This is the same as derived by simply dividing return to capital (\$) by net worth. Since leverage is always greater than or equal to one, return on net worth is always greater than or equal to the absolute value of rate of return on capital. Return on net worth averaged minus 0.3 percent for container firms and 14.3 percent for field nurseries. Large firms had returns on net worth averaging minus 4.4% for container and 29.5% for field nurseries, while small firms had 6.4% and 4.1%, respectively. The most profitable firms had returns on net worth averaging 34.0% for container and 27.8% for field nurseries.

SUMMARY

Key Factors Affecting Profitability

Characteristics of the most profitable nurseries are summarized in Table 4, by comparison to the overall averages. Differences between groups are presented as percentages reflecting the deviation of the most profitable firms from the industry averages. Also, qualitative descriptors of this relationship are given, with deviations of 0% to 19% labeled as "normal," 20% to 49% as "high" or "low," and 50% or greater as "very high" or "very low."