Crude Cost of Production Rises as Demand Grows

(x-axis: total liquids production; y-axis: avg Brent-equivalent breakeven price*, $/bbl)

Source: Rystad Energy, Morgan Stanley Commodity Research estimates
An Employee-Owned Company  •  www.vitaplus.com  •  1.800.362.8334

Figure 1. Seed Costs per Acre

An Employee-Owned Company  •  www.vitaplus.com  •  1.800.362.8334
Mike Boehlje

Real U.S. Corn Revenue (+ Insurance)
Per Harvested Acre (2014 $’s)

$1,300
$1,100
$900
$700
$500
$300
$100
-$100
1973 = $1,252
1946 = $697
1986 = $395
2005 = $373
2012 = $1,024

Monthly Deflated Wisconsin All-Milk Price ($/cwt)

Record low deflated WI All-Milk price

Where Have We Been: WI All-Milk Price

Note: Nominal price deflated using CPI-U (All-City/All Items, 1982-84=100)
### 2015 Nietzke & Faupel Q2

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>&lt;1500</th>
<th>&gt;1500</th>
<th>Top 1/3</th>
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</thead>
<tbody>
<tr>
<td>Gross</td>
<td>20.02</td>
<td>19.87</td>
<td>20.05</td>
<td>20.04</td>
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<tr>
<td>Milk</td>
<td>17.00</td>
<td>17.35</td>
<td>16.92</td>
<td>16.79</td>
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<tr>
<td>COP</td>
<td>19.20</td>
<td>19.31</td>
<td>19.15</td>
<td>18.98</td>
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<tr>
<td>Net</td>
<td>0.82</td>
<td>0.56</td>
<td>0.90</td>
<td>1.06</td>
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<tr>
<td>Cull Cow</td>
<td>1.73</td>
<td>1.63</td>
<td>1.76</td>
<td>1.75</td>
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</tbody>
</table>

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**Annual Class III Futures Average Prices**

Today's close for 2014 average price.

Current 2015 average price already has a significant amount of doom and gloom priced into.
Is $0.24 A Big Deal?

- $0.24 \times 24,000 \text{ cwt} = $57.60 /\text{cow} / \text{year}
- $57.60 \times 25 \text{ cows} = $1,440
- $57.60 \times 50 \text{ cows} = $2,880
- $57.60 \times 100 \text{ cows} = $5,760
- $57.60 \times 500 \text{ cows} = $28,800
- $57.60 \times 1,000 \text{ cows} = $57,600

Rabobank dairy price forecasts: US Wholesale

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<tr>
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</thead>
<tbody>
<tr>
<td>NFDM USD/lb</td>
<td>0.79</td>
<td>0.87</td>
<td>0.85</td>
<td>0.85</td>
<td>0.94</td>
<td>1.17</td>
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<tr>
<td>AA Butter USD/lb</td>
<td>2.13</td>
<td>2.60</td>
<td>1.71</td>
<td>1.64</td>
<td>1.70</td>
<td>1.93</td>
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<tr>
<td>Block Cheddar USD/lb</td>
<td>1.71</td>
<td>1.67</td>
<td>1.46</td>
<td>1.46</td>
<td>1.60</td>
<td>1.78</td>
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<tr>
<td>Whey Powder USD/lb</td>
<td>0.32</td>
<td>0.23</td>
<td>0.26</td>
<td>0.29</td>
<td>0.32</td>
<td>0.40</td>
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<tr>
<td>Class III Milk USD/cwt</td>
<td>16.30</td>
<td>15.37</td>
<td>15.28</td>
<td>15.44</td>
<td>15.10</td>
<td>17.50</td>
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<tr>
<td>Class IV Milk USD/cwt</td>
<td>13.71</td>
<td>16.67</td>
<td>12.58</td>
<td>12.08</td>
<td>13.10</td>
<td>16.10</td>
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Class III: Rabo Forecast vs CME Curve

Class IV: Rabo Forecast vs CME Curve
Federal Milk Order Class Prices (3.5% BF)

Land ‘O Lakes regions
The 4th Largest World Milk Producer 37.7m# to 38m#

China's share of world consumption

- Aluminum: 54%
- Nickel: 50%
- Copper: 48%
- Zinc: 46%
- Tin: 46%
- Steel: 45%
- Lead: 40%
- Cotton: 31%
- Rice: 30%
- Soybean oil: 30%
- Soybean meal: 28%
- Gold: 23%
- Corn: 22%
- Wheat: 17%
- Oil: 12%
- Sorghum: 11%
- Sugar: 10%
- Palm oil: 10%
- Natural gas: 6%
- Barley: 5%
China

- Buying US milk plant in Tulare Co, CA
- China/NZ investment <$44m>, $364m
- De Laval training 150 managers in 5 yrs
EU-28 Dairy Cow Numbers

Farmgate prices remain at or below breakeven for many producers around the world
U.S. October Dairy Product Exports

CME Butter Futures
Global Butter Prices

Bad timing: The Russian embargo

Top 5 includes EU-28, United States, New Zealand, Australia and Argentina. Russia imports exclude Belarus.
Source: USDEC, Global Trade Atlas
What are Lender’s Thinking?

<table>
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<tr>
<th>Rating</th>
<th>Equity</th>
<th>D/R</th>
<th>Liquidity</th>
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<tbody>
<tr>
<td>Ex</td>
<td>+75%</td>
<td>2:1</td>
<td>2:1</td>
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<tr>
<td>Good</td>
<td>+60%</td>
<td>1.75:1</td>
<td>1.75:1</td>
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<tr>
<td>Normal</td>
<td>+50%</td>
<td>1.25:1</td>
<td>1.25:1</td>
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<tr>
<td>Watch</td>
<td>30%</td>
<td>1.00:1</td>
<td>1.00:1</td>
</tr>
<tr>
<td>Sub Std</td>
<td>&lt;25%&gt;</td>
<td>0.90:1</td>
<td>0.90:1</td>
</tr>
</tbody>
</table>
“You Can’t Break the Rules”

- 2:1 Liquidity
- 20% of Milk check to pay P&I
- 85% Expense Rate
- $3K-$5K Debt/Cow ($20/cwt)
- +30% Equity
- 3 Year Asset Turnover Rate
- 8% ROA (Profit)
- Know Your COP

Know How to Keep Cows Comfortable!

- 1. Calf losses <1%
- Heifers freshen at 22-24 months
- Transition cows (+ or -) 30 day care
- Cows, bedding, air, cooled
- 21 day breeding rate at 25%
- SCC 100 or less, Vet
- 100# milk, know the record system
- Each Morning “think about comfort”
Know How to Grow or Buy High Quality Feed!

- Plan in winter, select w/crop advisor
- Harvested at peak Energy & Protein (Q)
- Feed is scaled
- Inoculated, packed, covered quickly
- Bunkers faced, shrink monitored
- 3 – 6 months extra feed on hand
- Feed monitoring system
- High price feed in bins
Know How to Manage Their Money!

- Accurate Balance Sheets
- Budgeting done 3 months before yearend
- Cash Flows monitored quarterly
- Educated on Risk Management
- Monitor Key Financial Ratios
- Off farm investments, 401ks...
- Work w/accountant, consultant, lender

Know How to Work and Train Family and Hired Employees!

- Continue to educate themselves 2 to 3X/yr
- Train & Work w/employees, know the “whys”
- Hire people that share their “values”
- SOP, “Written Job Descriptions”
- Employee & OSHA handbooks
- Pay fair wage with benefits
- Advancement opportunities
- Train the “Next Generation”
What to do?

• Do a Current Balance Sheet
• Do a 2015 Cash Flow (last 3 years)
• Do a 2016 Projection (with logic)
• Do a Business Plan (one page is okay)
• See your accountant (before yearend)
• See your lender (now)