

Dairy Farm Profitability and Finance Northeast Perspective

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FARM CREDIT EAST

- New York, southern New England, and New Jersey
- \$1.09 billion of loans to dairy
- Recordkeeping, tax, consulting, and benchmarking services
- Largest provider of credit and services to NE dairy industry
- Proud member of the Farm Credit System

The Northeast Dairy Farm Summary

- Year-end financial records from 544 dairy farms
- New York and six New England states
- Joint project with Yankee and Maine Farm Credit
- 2009 completes our 31st year
- Same farm accounting data used for filing income taxes and loan approvals
- Depreciation calculated on an economic basis

Profile of Average DFS Dairy Farmer

	2009	2008
Number of Cows	277	272
Milk Sold per Cow	22,219 lbs.	22,300 lbs.
Milk Sold per Worker	1,025,783 lbs.	1,010,917 lbs.
Milk Price per Cwt.	\$13.80	\$19.59
Net Cost of Production per Cwt.	\$15.53	\$17.88
Percent Net Worth	68%	72%
Net Earnings per Cow	(\$386)	\$383
Return on Assets	(2.6%)	5.1%

Production Expenses*

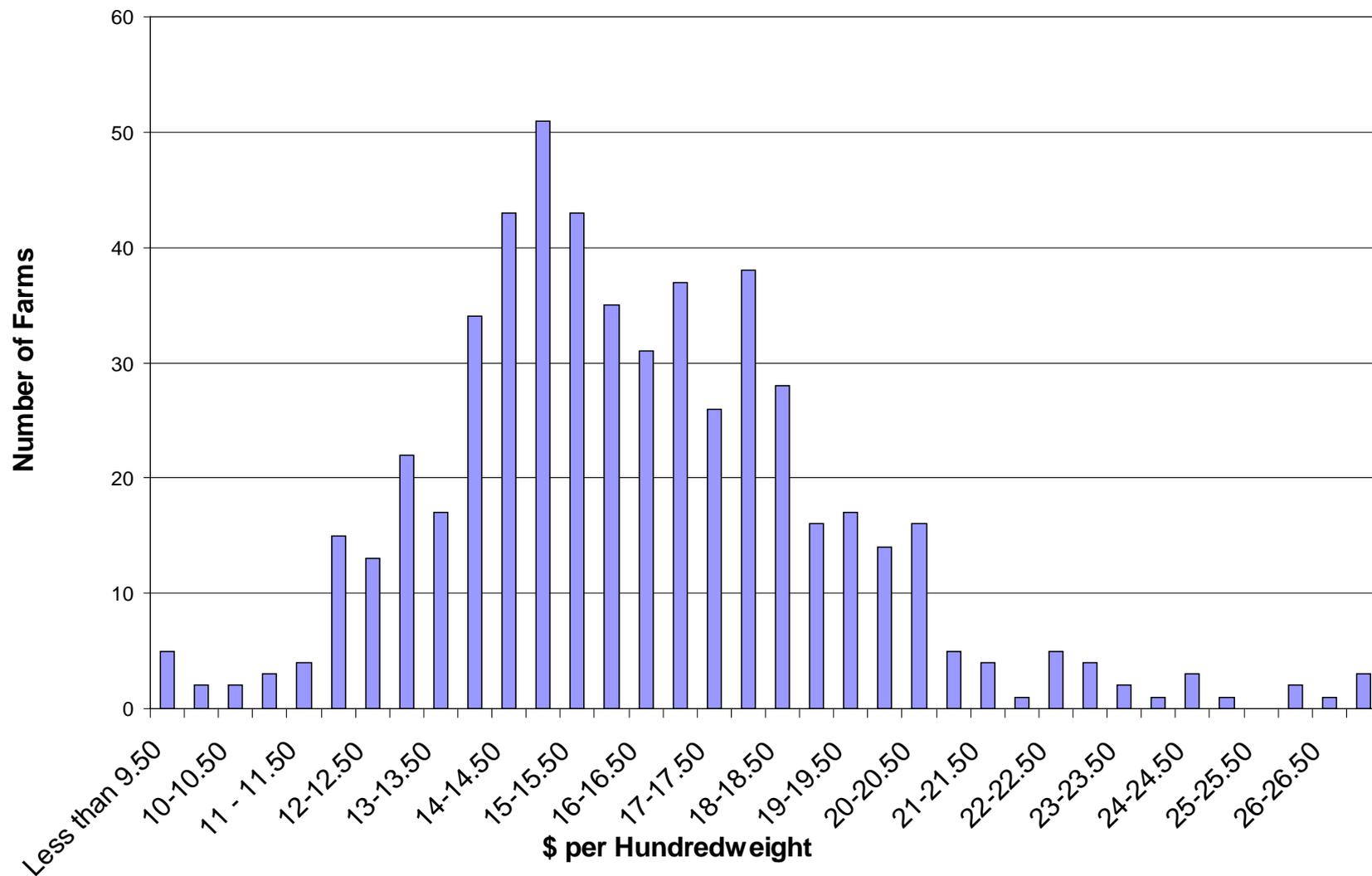
	2005	2006	2007	2008	2009
	<i>Dollars per Cwt.</i>				
Feed	\$ 4.23	\$ 4.25	\$ 5.29	\$ 6.19	\$ 5.58
Labor	2.72	2.71	2.87	2.94	2.88
Interest	0.60	0.78	0.84	0.59	0.55
Marketing	0.82	0.87	0.89	0.98	0.93
Crop	0.97	0.88	1.11	1.30	1.12
Other	5.74	5.56	6.44	6.92	5.78
Adjusted Cash Operating Expenses	\$15.08	\$15.05	\$17.44	\$18.92	\$16.84

*Accrual Basis

Net Cost of Production - Accrual Basis

	2005	2006	2007	2008	2009
	<i>Dollars per Cwt.</i>				
Adjusted Cash Operating Expenses	\$15.08	\$15.05	\$17.44	\$18.92	\$16.84
+ Depreciation	1.27	1.24	1.25	1.40	1.32
+ Family Living	0.89	0.79	0.76	0.87	0.74
Total Costs	\$17.24	\$17.09	\$19.45	\$21.19	\$18.90
- Non-milk Income	2.69	2.99	3.15	3.31	3.37
Net Cost of Production	\$14.55	\$14.10	\$16.30	\$17.88	\$15.53
Net Cost of Production w/o Gov't Payments	\$15.11	\$14.77	\$16.70	\$18.14	\$16.62

Net Cost of Production



Cash Flow Analysis/ Breakeven Milk Price

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
	<i>Dollars per cwt.</i>				
Total Cash Operating Expense	15.1	15.06	17.44	18.92	16.84
+ Family Living and Income Tax	0.89	0.79	0.82	0.87	0.74
+ Debt Principal Payments	<u>1.19</u>	<u>1.32</u>	<u>1.27</u>	<u>1.31</u>	<u>1.56</u>
Cash Required	17.2	17.17	19.53	21.09	19.14
- Nonmilk Income	<u>2.78</u>	<u>3.04</u>	<u>3.15</u>	<u>3.19</u>	<u>3.12</u>
Break even milk price	14.38	14.13	16.38	17.90	16.02

Cash Margin Analysis

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
	<i>Dollars per cwt.</i>				
Actual Milk Price	16.13	13.81	20.52	19.59	13.80
- BEP Milk Price	<u>14.38</u>	<u>14.13</u>	<u>16.38</u>	<u>17.90</u>	<u>16.02</u>
Cash Margin	1.75	-0.32	4.14	1.69	-2.22

Debt Capacity Concept

Measuring a Business's Ability to Repay Debt from Cash Earnings

1. Cash flow first pays operating expenses and family living
2. Anything remaining is “available” to repay debt: interest + principal
3. Backing into the breakeven point where farm would no longer be able to repay debt based on the cash flow of the business
4. Aka establishing repayment capacity
5. Heavily dependent on profitability, interest rates, and payment terms

Debt Capacity and Reserve

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
	<i>Dollars per cwt.</i>				
Debt Capacity	4,448	1,851	7,617	4,837	-383
- Capital Debt	<u>2,369</u>	<u>2,575</u>	<u>2,530</u>	<u>2,691</u>	<u>3,038</u>
Reserve Debt Capacity	2,079	-724	5,087	2,146	-3,421
5 Year Average RDC	1,522	903	2,458	2,347	1,033

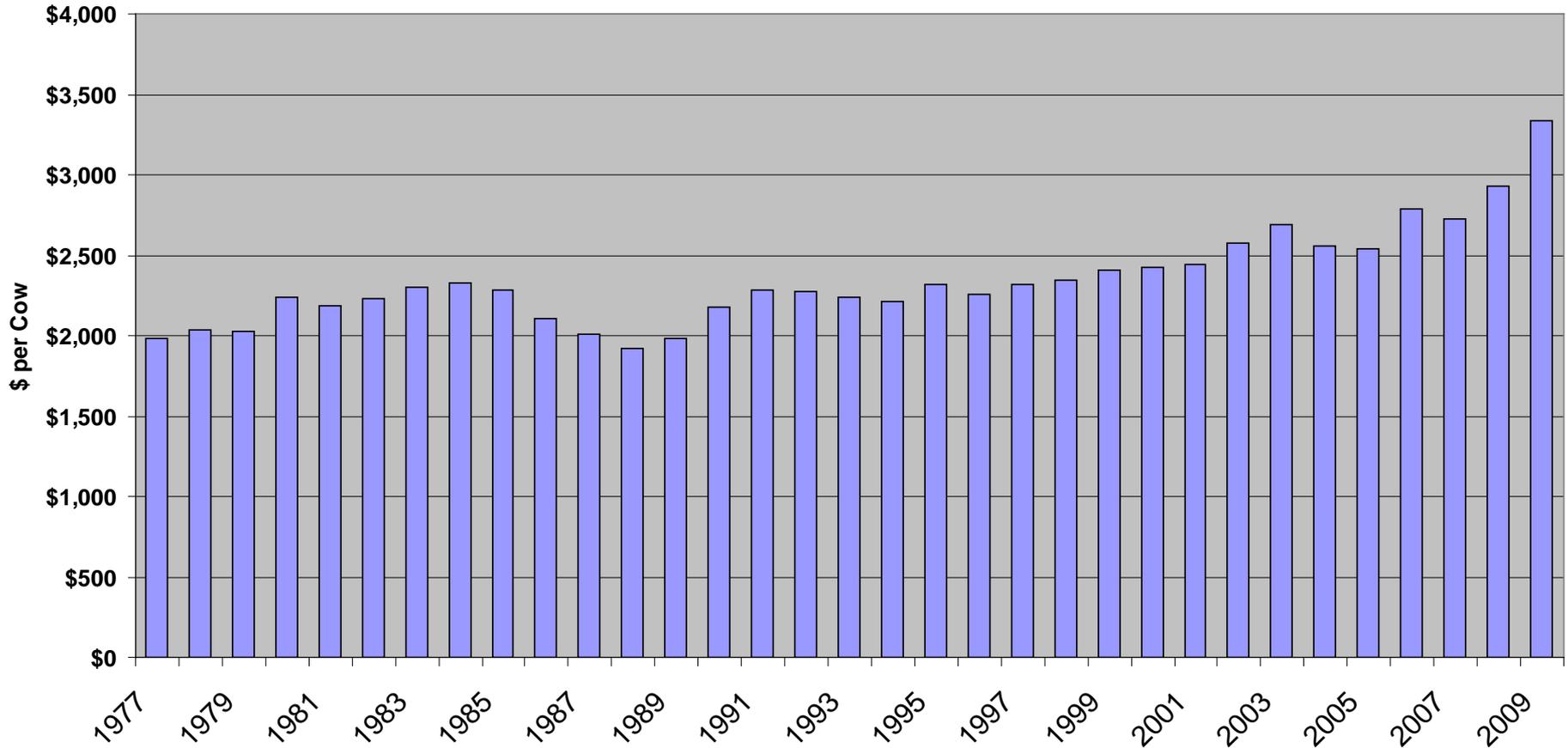
What Did Dairy Producers Do?

- Shut down discretionary spending—capital and operating
- Drew down accumulated liquidity from 07-08
- Budgeted/planned for the worst
- Tough cost control
- Sold unnecessary assets in some cases
- Significantly increased amount of credit
- Relied more on supplier terms

What Did Farm Credit East Do?

- Worked early and closely with customers to evaluate credit needs
- Rescheduled payments where appropriate
- Increased lines of credit
- Extensive use of FSA loan guarantees to make all of this bankable
- Responded to greater demand for business consulting

Debt Per Cow Surged in 2008-09



April 13 – 15 , 2010

Presentation to the Dairy Industry Advisory Committee

Debt Capacity and Risk Profile Changed Significantly

- Record levels of debt and open accounts
- Substantial decline in net worth
- Dairy cattle values very uncertain
- Heightened risk profile—big time volatility

Prospects for 2010: The Average Northeast Producer

- Above breakeven, but not a recovery year
- Start with substantially increased debt payments
- Lines of credit & supplier credit might be maxed out
- Minimal capital replacement last year so probably more this year
- Not much prospect for reduced operating costs...
- Interest rates at historical lows with nowhere to go but up

Credit Availability

- Farm Credit East and other institutional lenders will be there
- Capacity to lend is not an issue
- Customers report a reduction in supplier credit
- FSA guarantees are vital
- In 2010, the borrower's repayment ability could very much be the limiting factor

Conclusions

- 2009 a landmark year
- Most dairy farmers responded as best they could
- Increased volatility in dairy painfully obvious
- Most Northeast farms will survive and move ahead
- Farm Credit East proud to serve Northeast dairy industry



Thank You!