



COMPEER
FINANCIAL™

FINANCIAL MANAGEMENT WITHIN TIGHT MARGINS

BEST PRACTICES

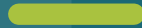
November 4, 2022

TEAM GERRITS – HOCKEY FAMILY MARGIN MANAGEMENT



A stylized, light blue outline of a house is centered in the background. Inside the house, there is a bar chart with four vertical bars of increasing height from left to right. The bars are a slightly darker shade of blue than the house outline. The text is positioned to the right of the bars, within the house's outline.

WHY THE DISCUSSION AROUND TIGHT MARGINS?



MILK PRICE RECEIVED AND NET INCOME

	1 st Half of 2022	2023 Projection***
Milk Price Received/cwt*	\$25.47	\$21.51
Net Income/cwt**	\$4.92	\$1.00 - \$1.50 (or less)

*Includes basis, marketing, government payments, before hauling

**Accrual Net Income

***Projection based on Class III CME as of 11-1-2022

WHAT IS LEADING TO LOWER MARGINS IN 2023?

- Feed Price Increase (\$1.50 - \$2.00 higher in 2023)
- Class III Milk Price Less than in 2022
- Energy Related Expense Hikes
- Labor Availability and Wage Increases
- 25-35% Increase in Building Expenses
- Processing Capacity and Processor Quotas
- Overall Inflation of General Supplies and Materials
- Interest Rate Hikes (Increase in Interest Expense Cost)

DAIRY INCOME TRENDS

Revenue					
	2019 Actual	2020 Actual	2021 Actual	Proj. 2022	Proj. 2023
Class III Price	\$16.99	\$18.18	\$17.08	\$21.90	\$19.51
Mailbox Price	\$19.10	\$18.71	\$18.90	\$23.40	\$21.51

Expense					
	2019 Actual	2020 Actual	2021 Actual	Proj. 2022	Proj. 2023
Feed	\$9.36	\$9.86	\$10.45	\$11.18	\$11.75
Labor	\$3.33	\$3.34	\$3.32	\$3.41	\$3.45
Capital Cost	\$2.79	\$2.52	\$2.45	\$2.34	\$2.55
Overhead and Other	\$10.17	\$9.78	\$9.75	\$9.70	\$9.80
Less, Non-Milk Revenue	\$(8.08)	\$(10.16)	\$(8.54)	\$(6.85)	\$(6.85)



BEST FINANCIAL PRACTICES FOR YOUR DAIRY BUSINESS

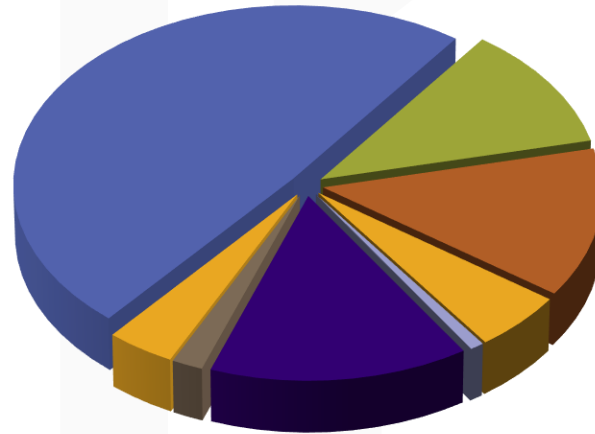


BEST FINANCIAL PRACTICES

- Know Your Numbers – Cost of Production & Cash Flow
- Working Capital
- Equity and Collateral – Where should a dairy business be?
- Loan Structure – Structure for Success
- Risk Management – Understand Your Options
- Working with Your Lender and Professional Team

KNOW YOUR NUMBERS – COST OF PRODUCTION

- Feed
- Labor
- Replacement
- Cull Revenue
- Capital
- Other Production
- Overhead
- Other Income



$$\begin{aligned} \text{Cost of Production} = & \\ & + \text{Feed Cost} \\ & + \text{Labor Cost} \\ & + \text{Replacement Cost} \\ & \quad - \text{Less Cull Revenue} \\ & + \text{Capital Cost} \\ & + \text{Other Production Cost} \\ & + \text{Overhead Cost} \\ & \quad - \text{Less Other Income} \end{aligned}$$

Whole Farm: \$ / EC cwt.

KNOW YOUR NUMBERS – CASH FLOW

- **Cash Flow**
 - What's coming in
 - What's going out
- **Establish Budgets & Business Plans Regularly**
- **Have and Understanding of Areas of Opportunity**

$$\begin{aligned} \text{Cash Flow Breakeven} = & \\ & + \text{Expense Rate} \\ & + \text{Labor Cost} \\ & + \text{Term P \& I} \\ & + \text{Capital Expenditures (Cash)} \\ \hline & \$ / \text{EC cwt.} - \text{Cash} \end{aligned}$$

WORKING CAPITAL

- **Working Capital = Current Assets – Current Liabilities**
- **Current Ratio = Current Assets / Current Liabilities**
- **Cash and Other Current Assets**
- **What to do with Excess Cash (Rule of Thumb)**
 1. Pay all Bills/Invoices
 2. Pay Down/Off Operating Lines of Credit and Other Operating Loans
 3. Pre-Pay Next Year's Inputs Expenses
 4. Pay Down Capital Lines of Credit or Savings
 - ❖ Have Excess Cash and Availability
 5. Pay for Capital Purchases with Cash
 6. Keep Cash On-Hand (prep for the next downturn)

EQUITY AND COLLATERAL

- **Prepare an Annual Balance Sheet**
 - Include Schedules for Each Area
 - Take Time to Assess the Values of Your Assets
- **Equity = (Total Assets – Total Liabilities) / Total Assets**
 - Where Should Your Equity Be?
- **Collateral**
 - Have a good understanding of what is pledged for security and your ability to borrow in the future.



LOAN STRUCTURE

- Are your liabilities structured accordingly to allow for appropriate cash flow during down turns in dairy markets?
- Term Principal Payments per Cwt – where should they be?
- **Ability to Borrow – Availability with Lines of Credit**
 - Operating Lines of Credit
 - Capital Lines of Credit
 - Hedging Lines of Credit

RISK MANAGEMENT – UNDERSTANDING YOUR OPTIONS

- **Types of Risk Management**

- Milk
 - + Forward Pricing
 - + Hedging Options (Calls and Puts)
 - + DRP, DMC, LGM
- Feed and Other Inputs
- Property Insurance
- Life Insurance
- Business Interruption Insurance
- And More.....

- **Risk Management Tips:**

- Be consistent
- Manage Margins – Don't try to get the best price
- Start with a simple plan – become comfortable and knowledgeable with your risk management options



WORKING WITH YOUR LENDER AND PROFESSIONAL TEAM

- Work with a lender who understands your business
- Do not assume the lender understands the financial benefits of a project or change to your business
- Include the lender in discussions early on projects, business plans, and/or opportunities
- Have regular on-farm team meetings
- Have on-farm meetings with your lender, walk your facilities, discuss day-to-day functions of your business



CONCLUSION

- Know your numbers to make informed decisions
- Set yourself up with liquidity during the good times to manage through the tough times
- Work towards and maintain a strong balance sheet
- Establish a loan structure that provides flexibility and ability to borrow
- Create a Risk Management plan that works for you and your business
- Lean on your professional team



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**THANK YOU &
QUESTIONS**
