

ST. ALBANS COOPERATIVE CREAMERY



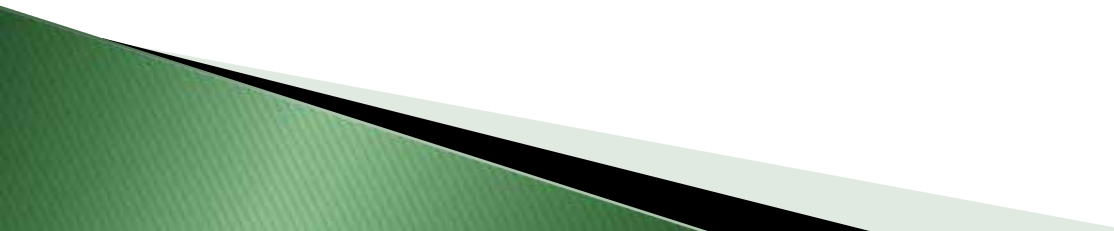
DAIRY PRACTICES COUNCIL PRESENTATION

MILK PRICE VOLATILITY & TRADE

NOVEMBER 5, 2015



Topics

- } St. Albans Cooperative
 - } Why so much volatility?
 - } Impact on Farmers
 - } Risk Management Opportunities
- 

St. Albans Cooperative Creamery, Inc.

2014 Statistics

- 405 Dairy Farmer Members
- Members in VT, NY, NH
- 1.302 billion lbs. of milk
- 85 Employees
- \$462 Million in Sales
- Founded in 1919
- 100% rbST free
- We have three primary operating segments
 - Plant / Milk Operations
 - Retail Store
 - Hauling (McDermotts)

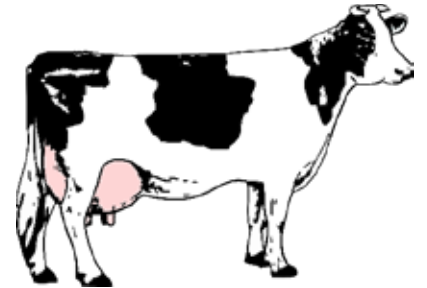


Why are Milk Markets Volatile???

1. Basic Commodity Economics



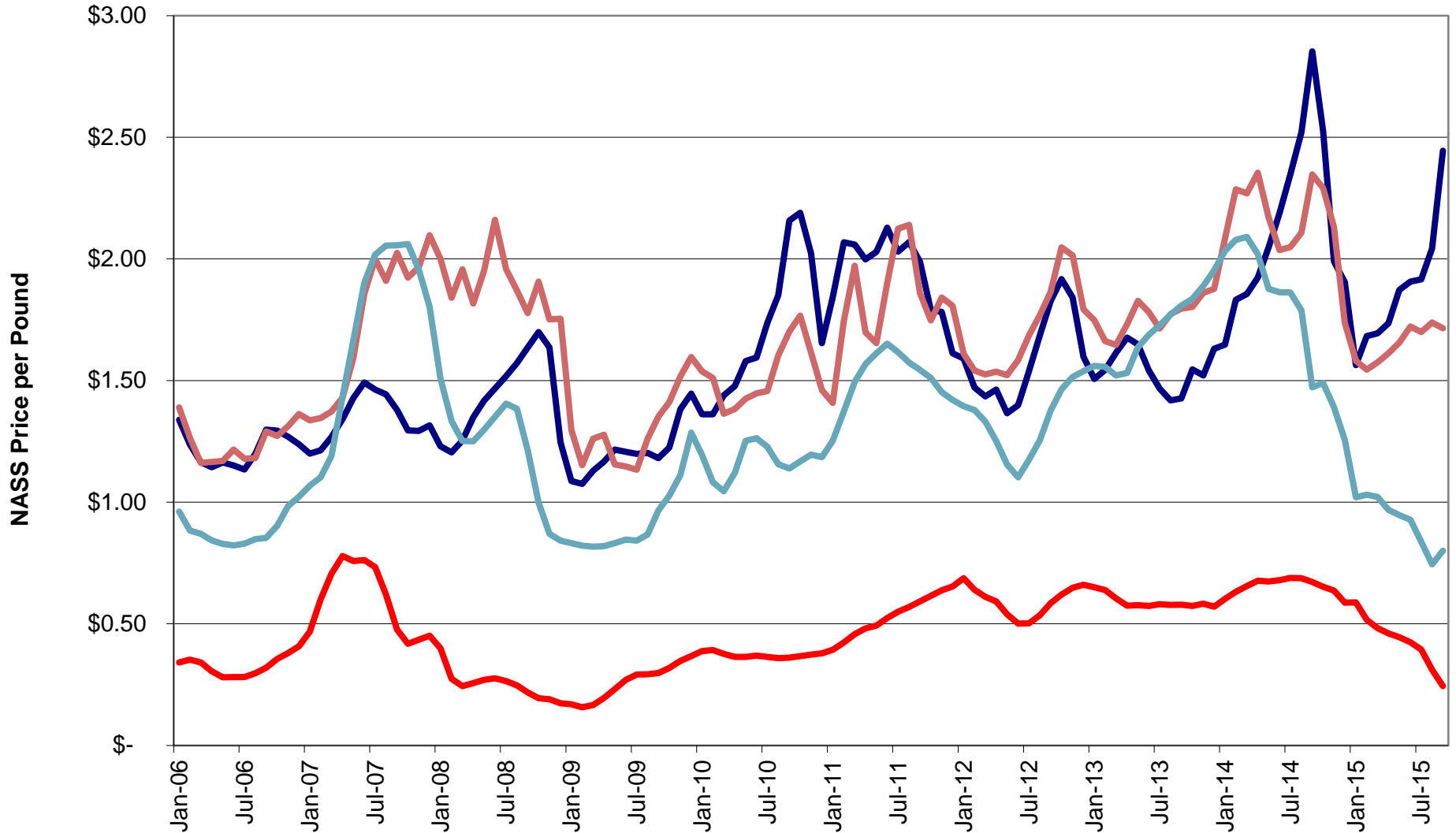
2. Milk is Perishable



3. Other Factors



Monthly NASS Product Prices January 2006 - September 2015



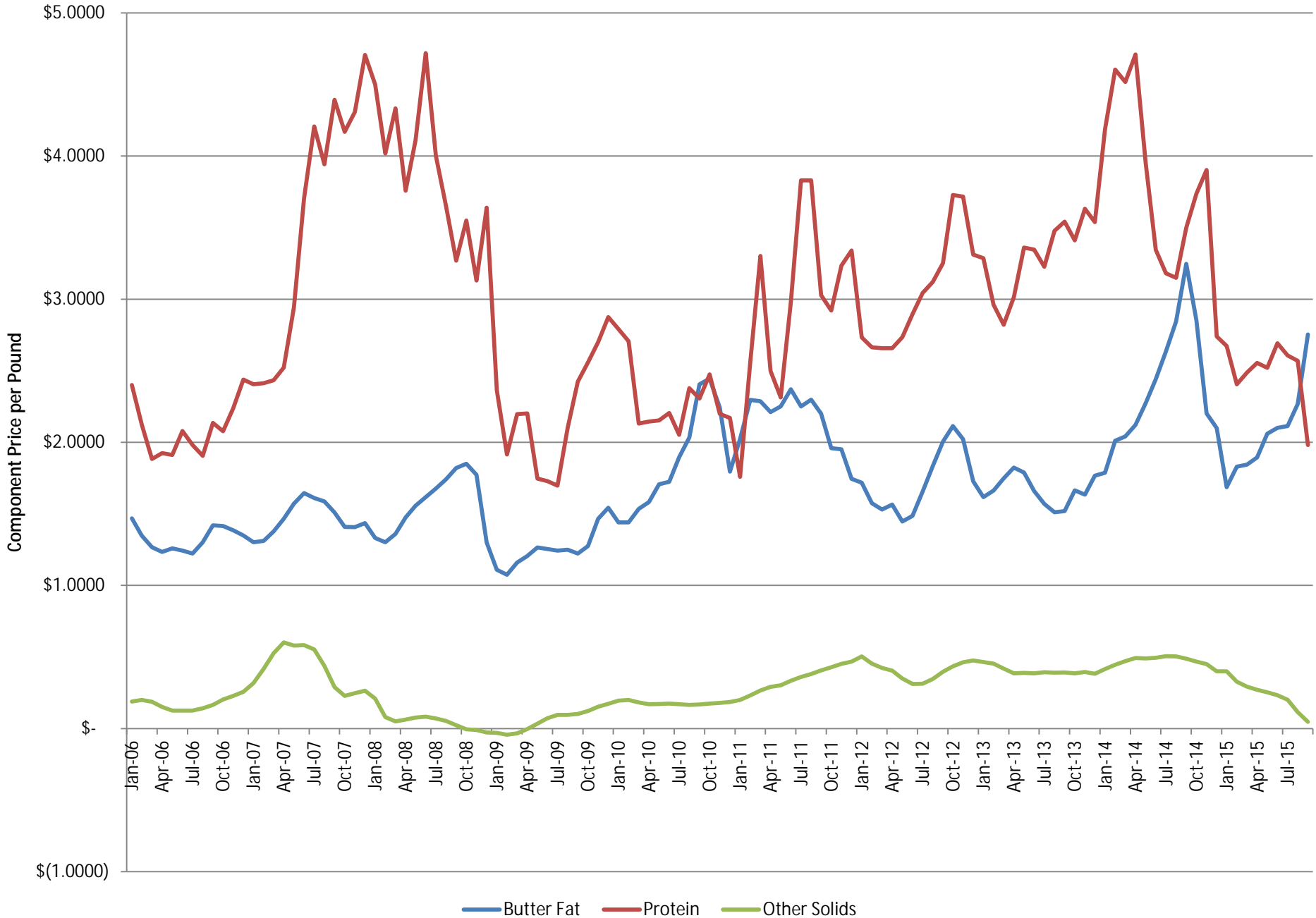
Butter
Price
(\$ per pound)

Cheese
Price
(\$ per pound)

Dry
Whey
Price
(\$ per pound)

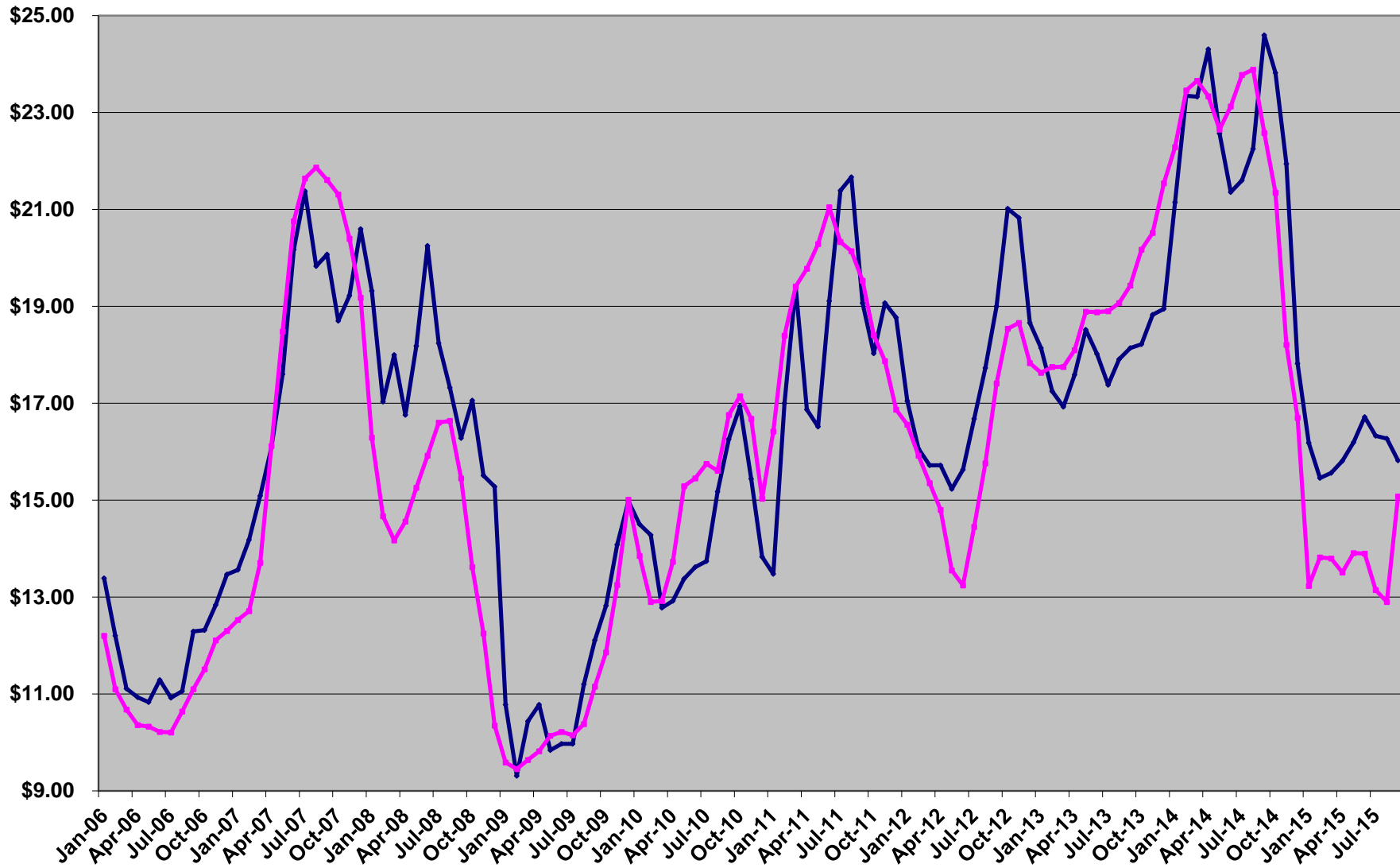
Nonfat
Dry
Milk
Price
(\$ per pound)

Butterfat, Protein, and Other Solids



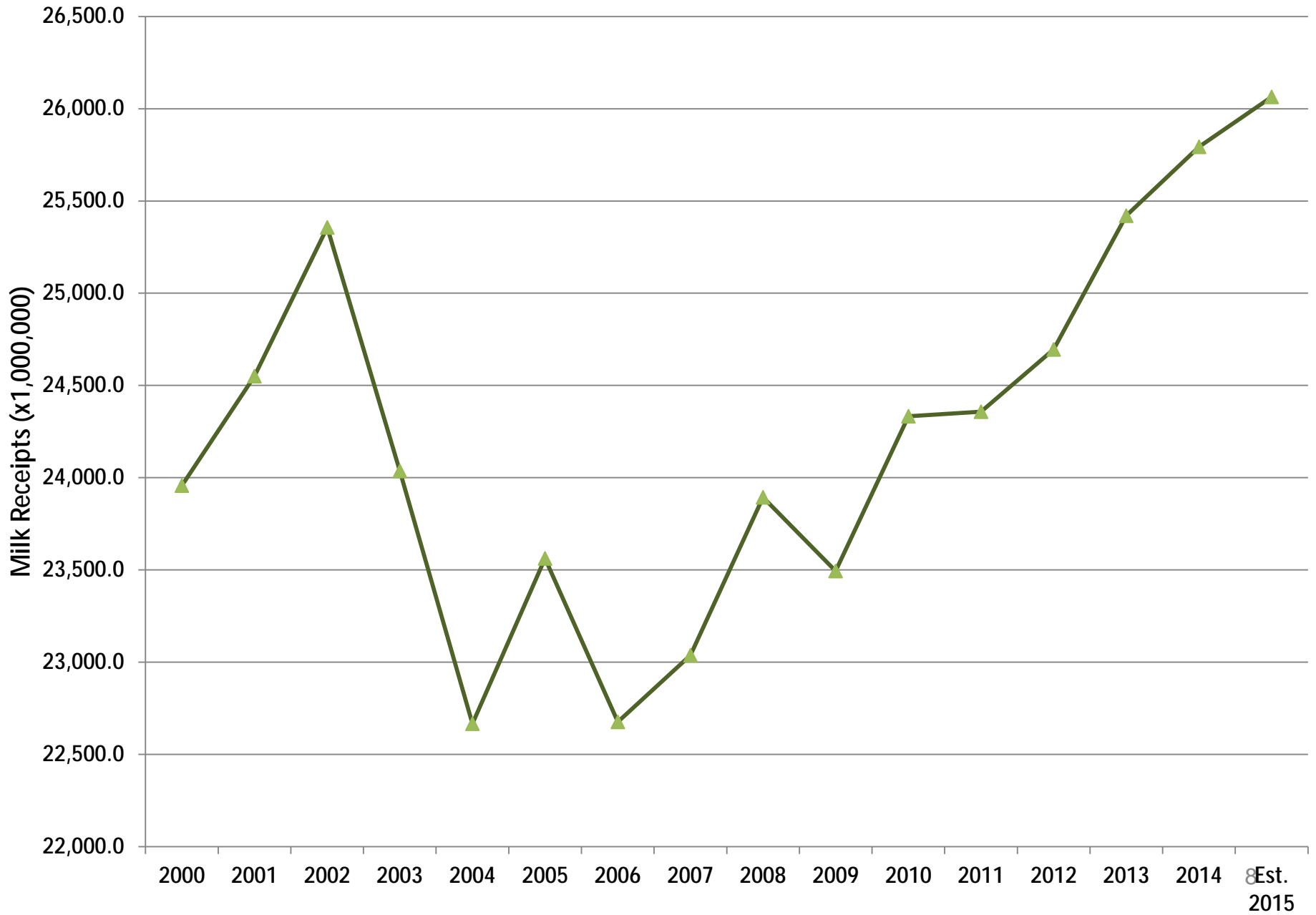
Class III vs. Class IV Milk Price

January 2006 - September 2015

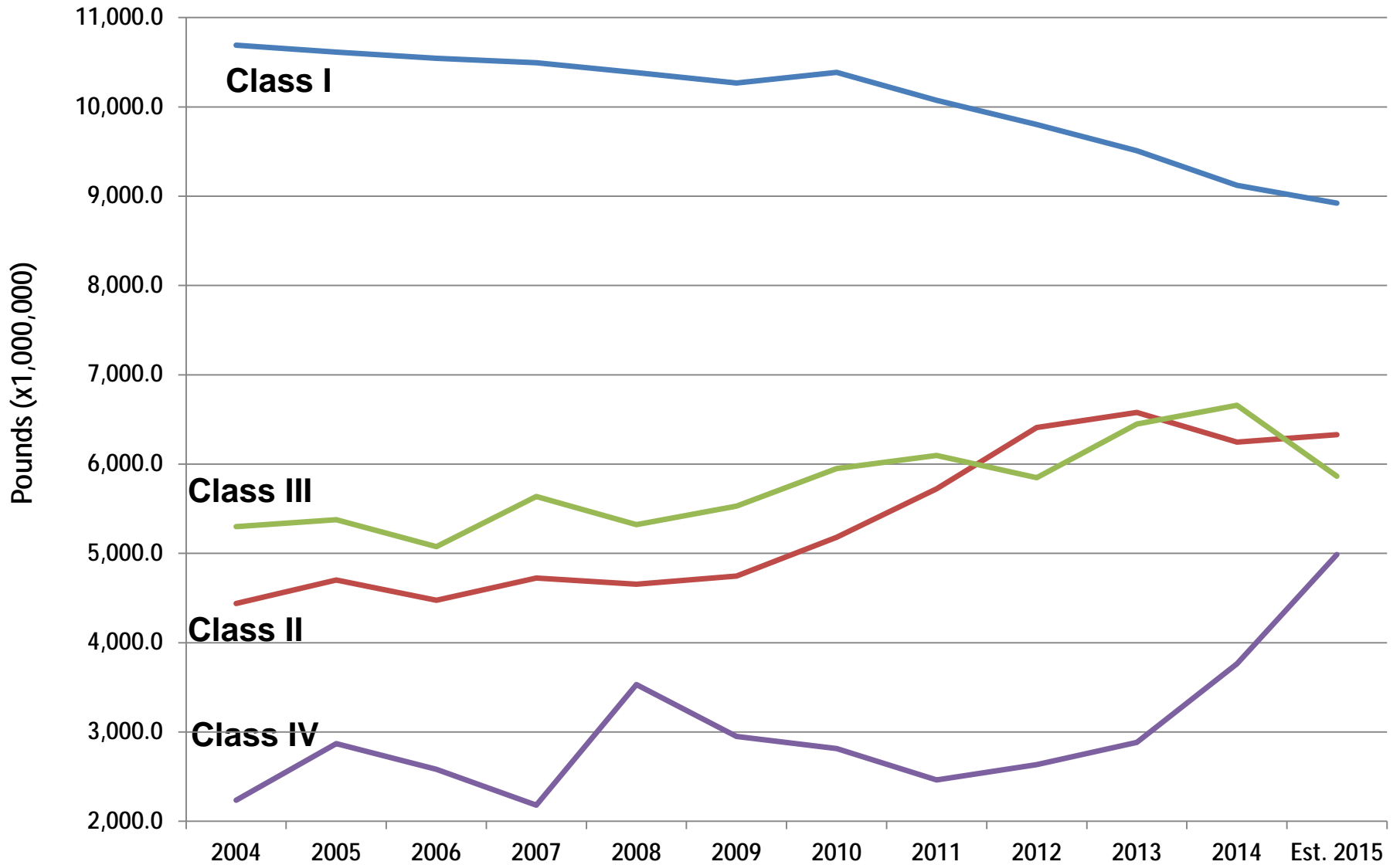


— Class III — Class IV

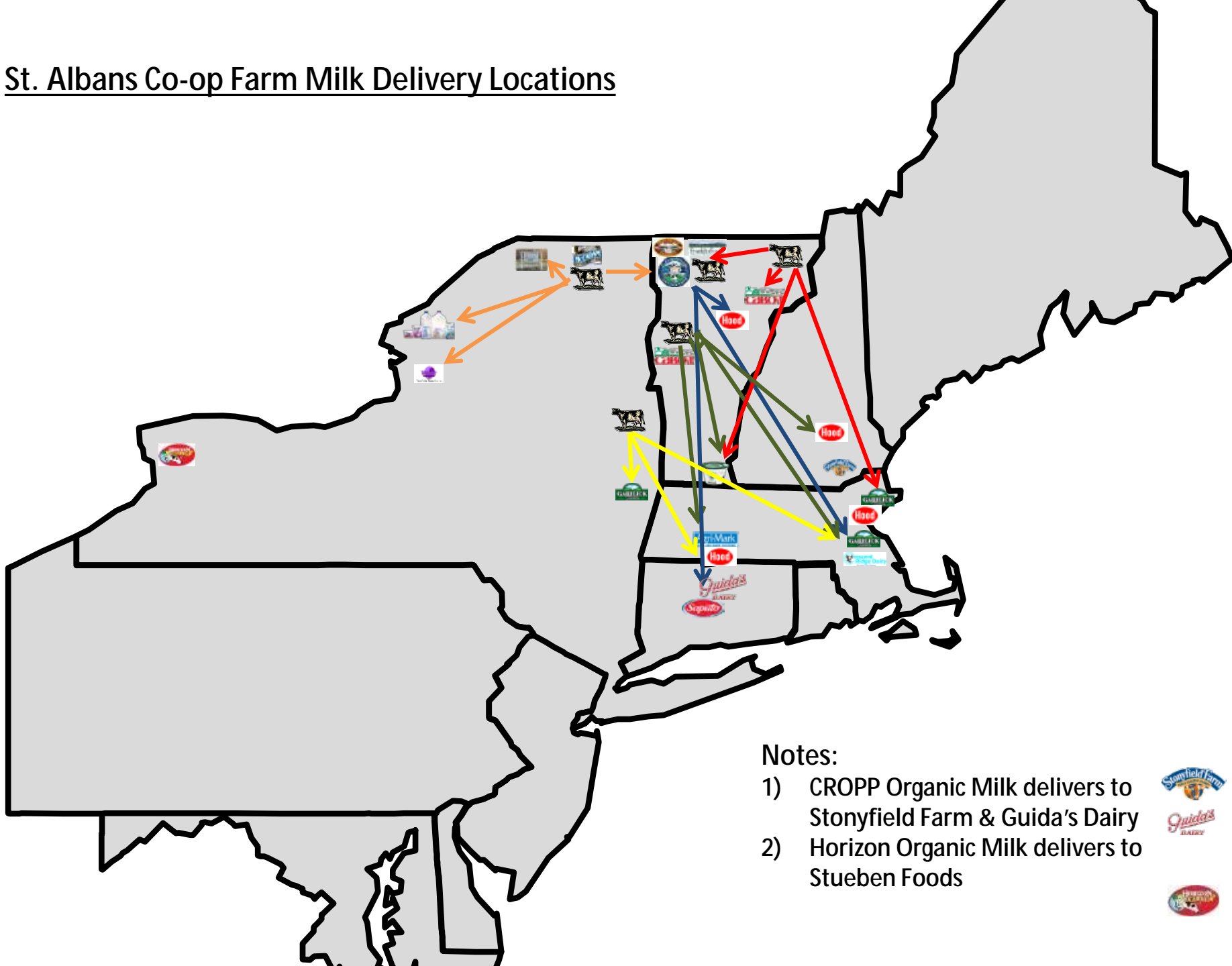
FMMO 1 Milk Receipts by Year



FMMO 1 Utilization by Class



St. Albans Co-op Farm Milk Delivery Locations

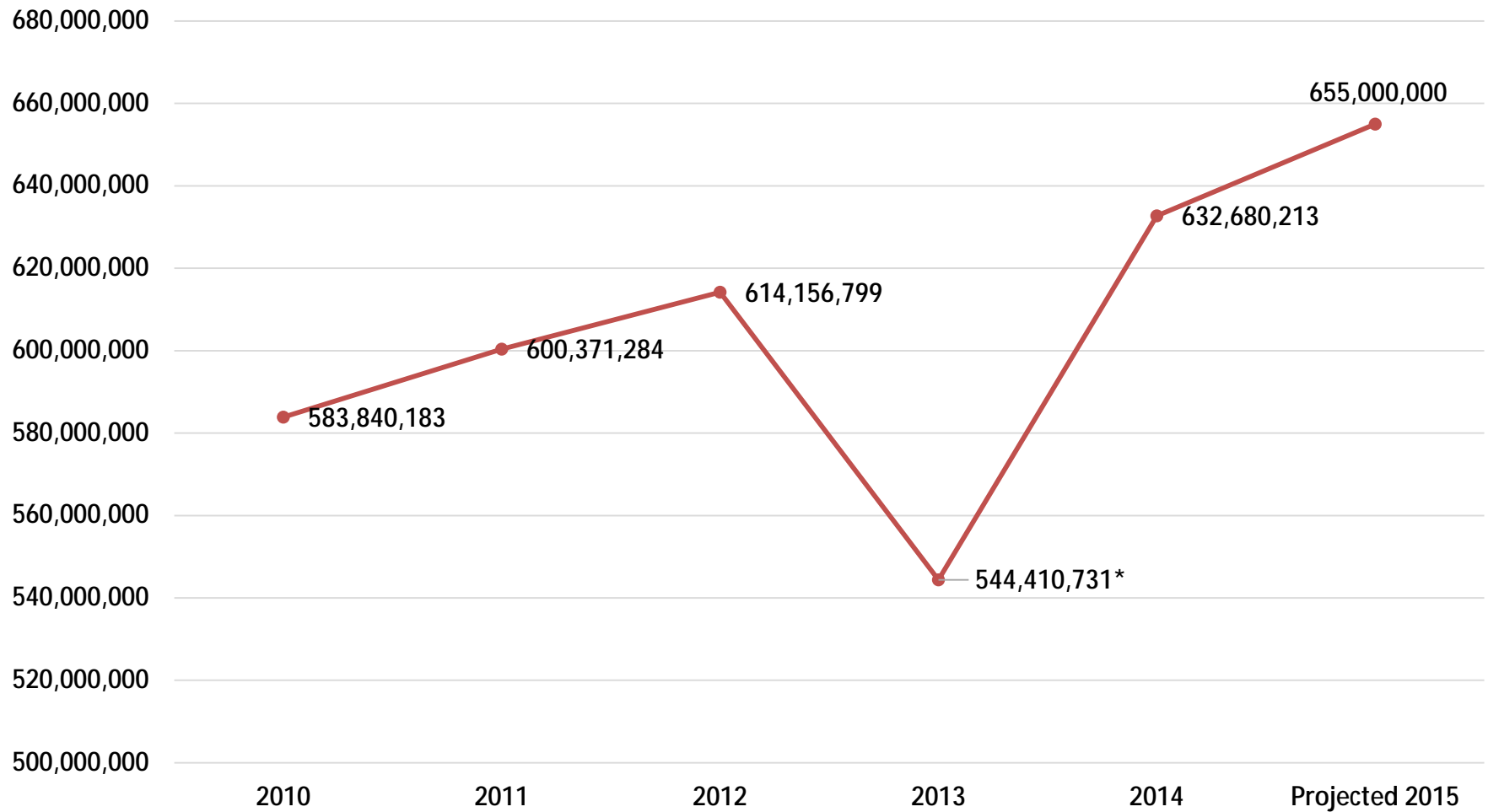


Notes:

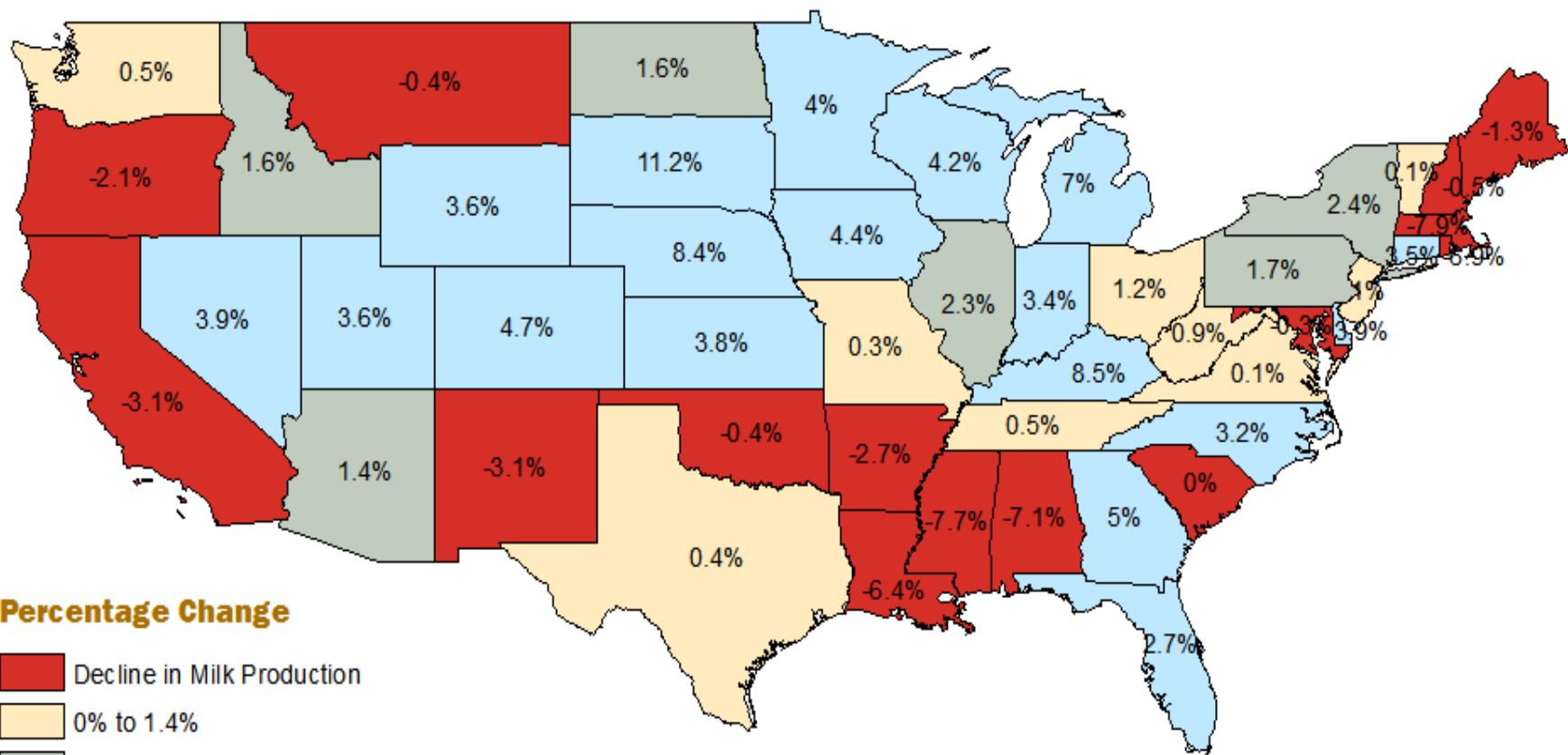
- 1) CROPP Organic Milk delivers to Stonyfield Farm & Guidi's Dairy
- 2) Horizon Organic Milk delivers to Stueben Foods



Milk into St. Albans Plant



Year-to-Date Milk Production Growth Rate January - September 2014 & 2015



Percentage Change

- Decline in Milk Production
- 0% to 1.4%
- 1.4% to 2.5%
- Greater than 2.5%

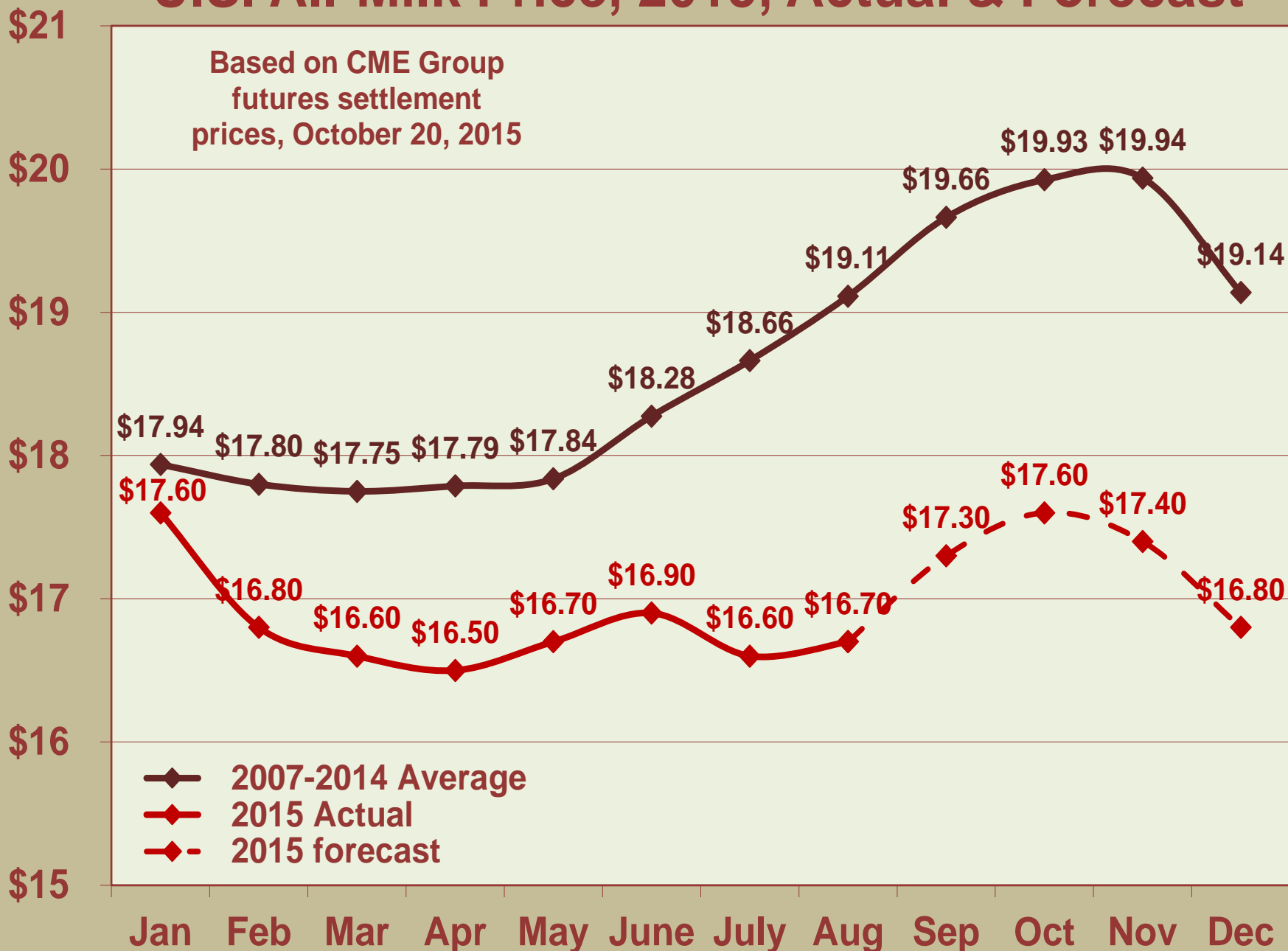
Based on USDA's Milk Production Report

**Year-to-Date U.S. Milk Production
at 157.2 Bil. Lbs. (+1.4%)**

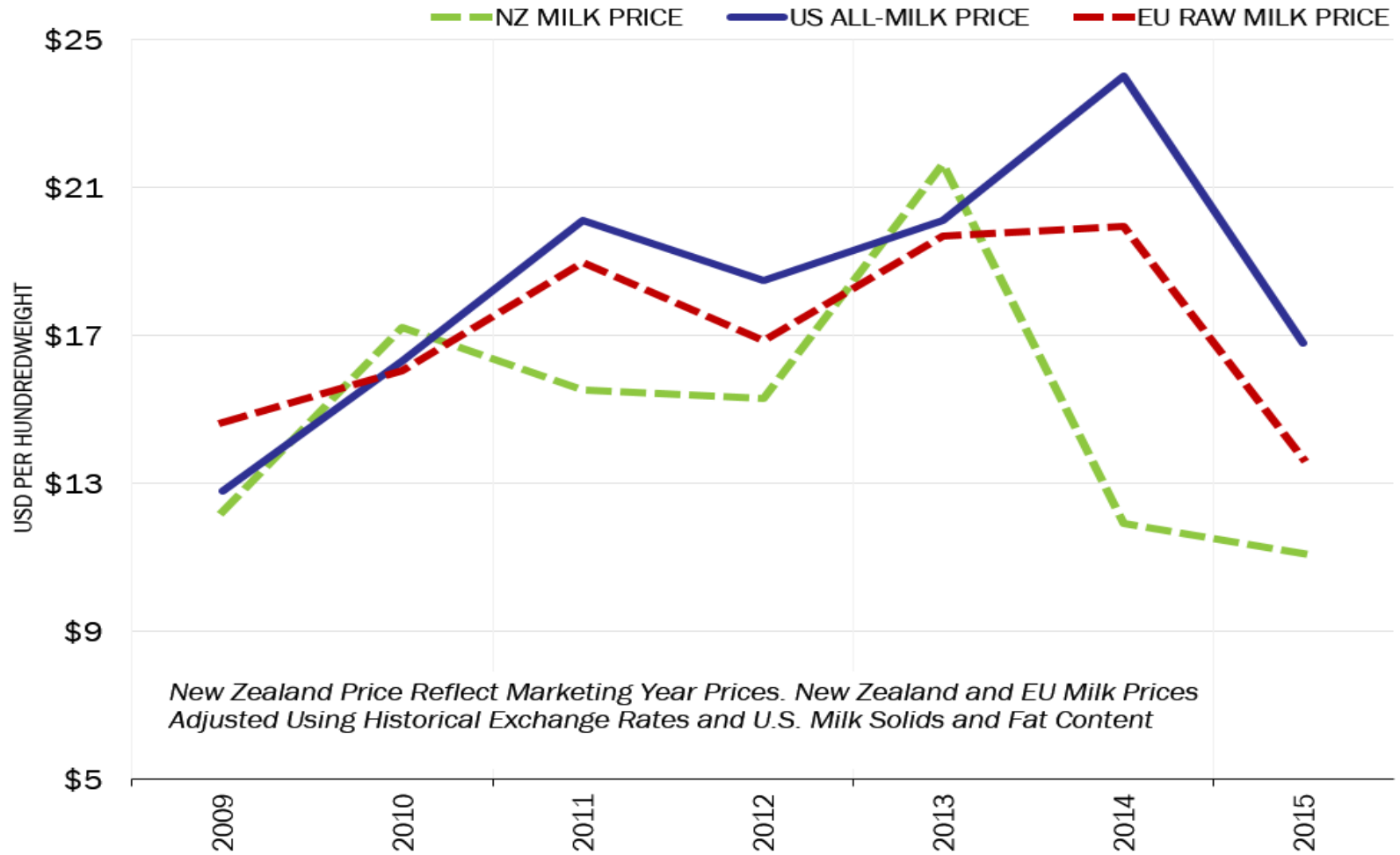
U.S. All-Milk Price, 2015, Actual & Forecast

Based on CME Group
futures settlement
prices, October 20, 2015

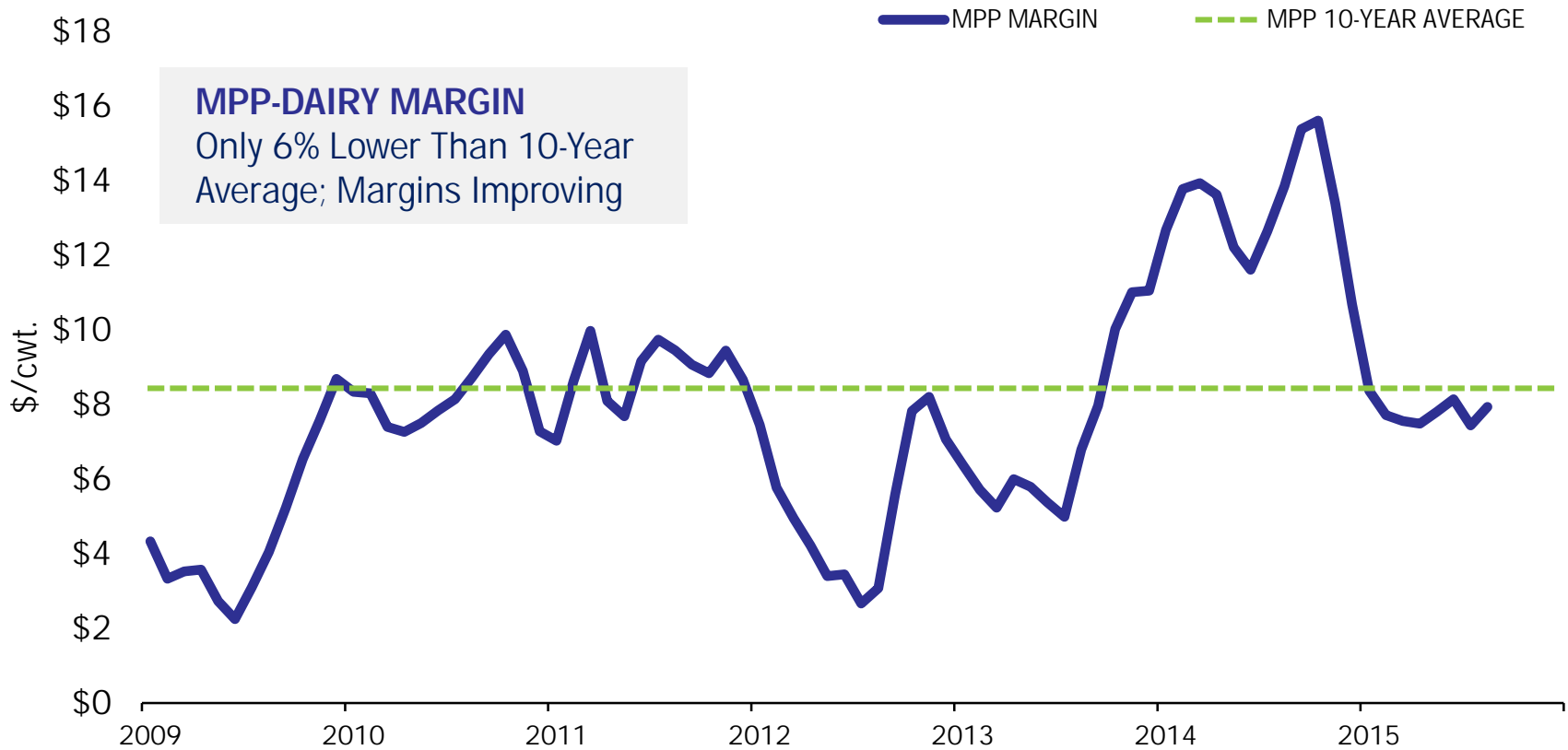
Dollars per cwt. at average test



U.S. Pricing Structure Considerations

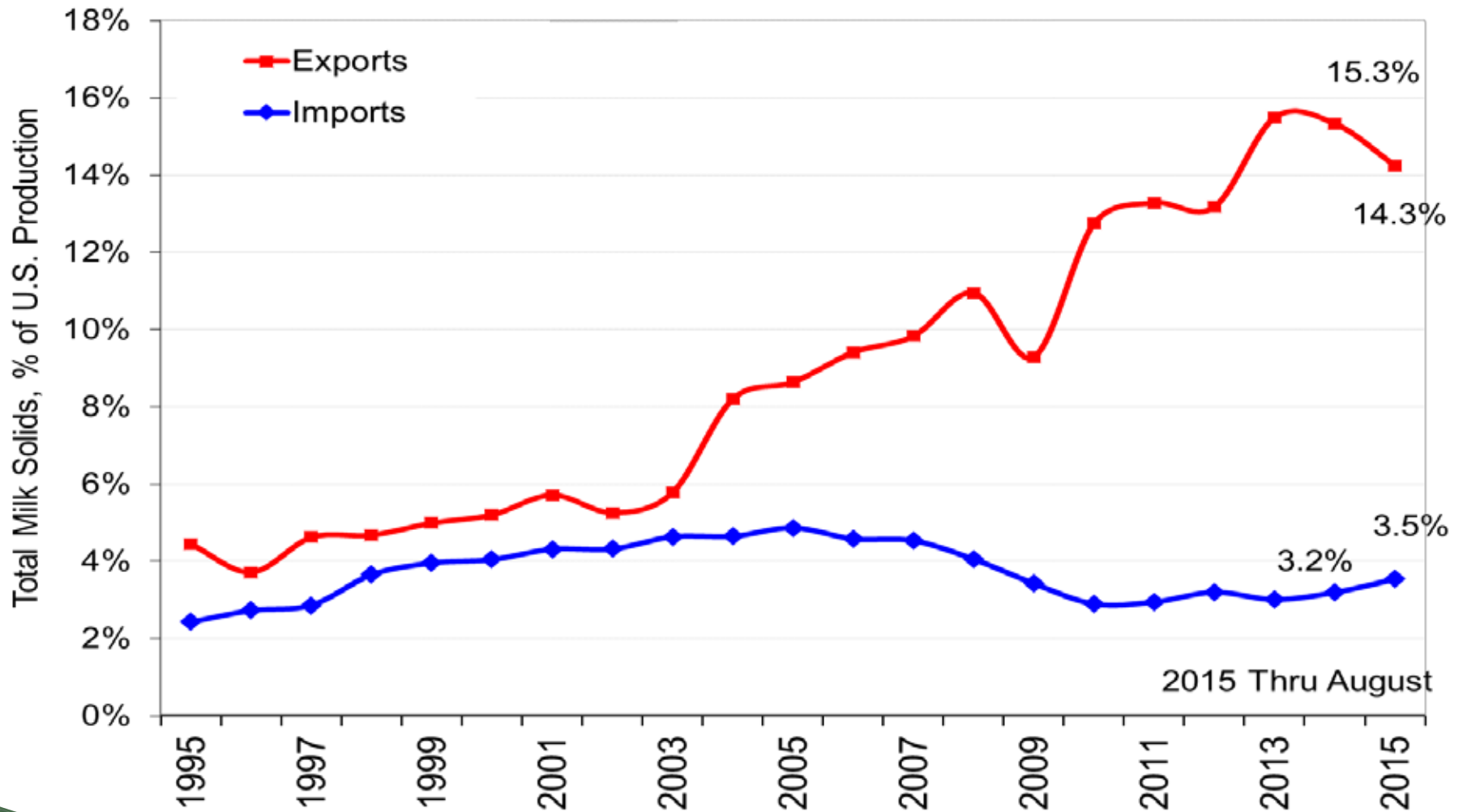


MPP-Dairy Farmer Margin 10-Year Average Level



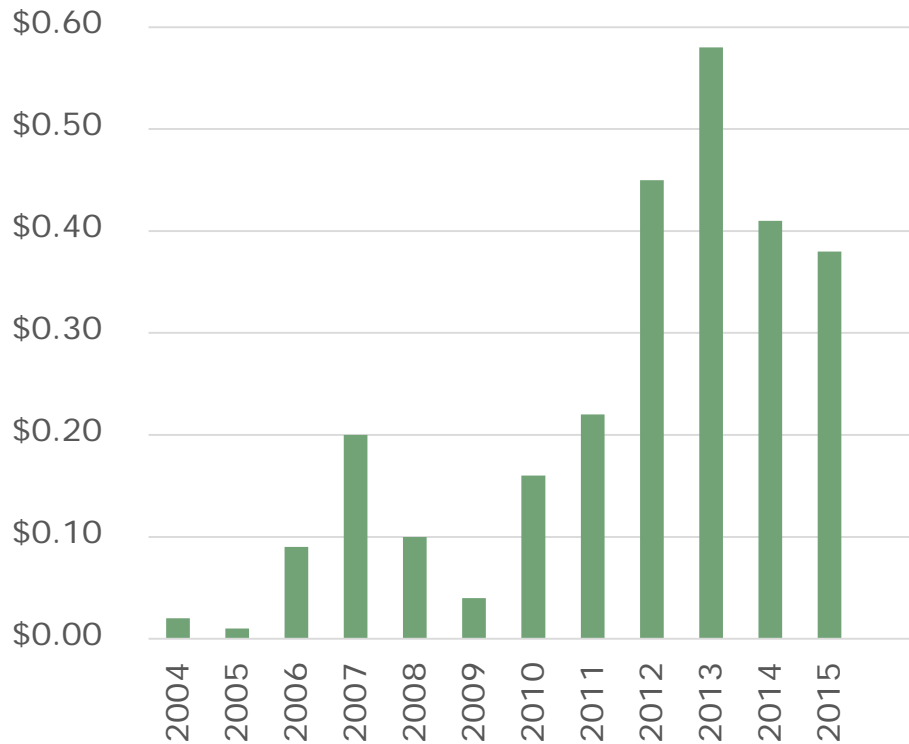
Source: USDA NASS Agricultural Prices

U.S. Dairy Trade Balance

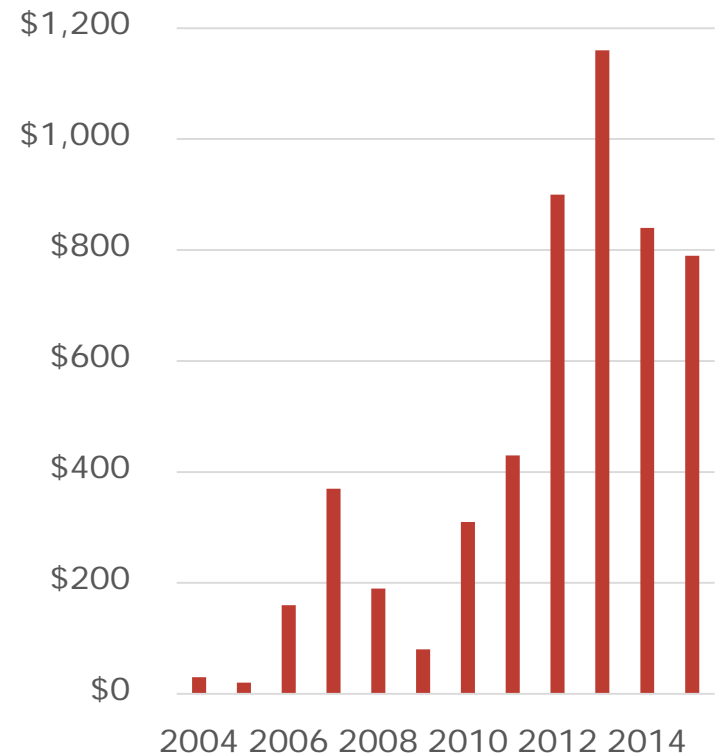


CWT Exports Make a Difference

Producer Price Impact \$/cwt.



Producer Income Mil. \$



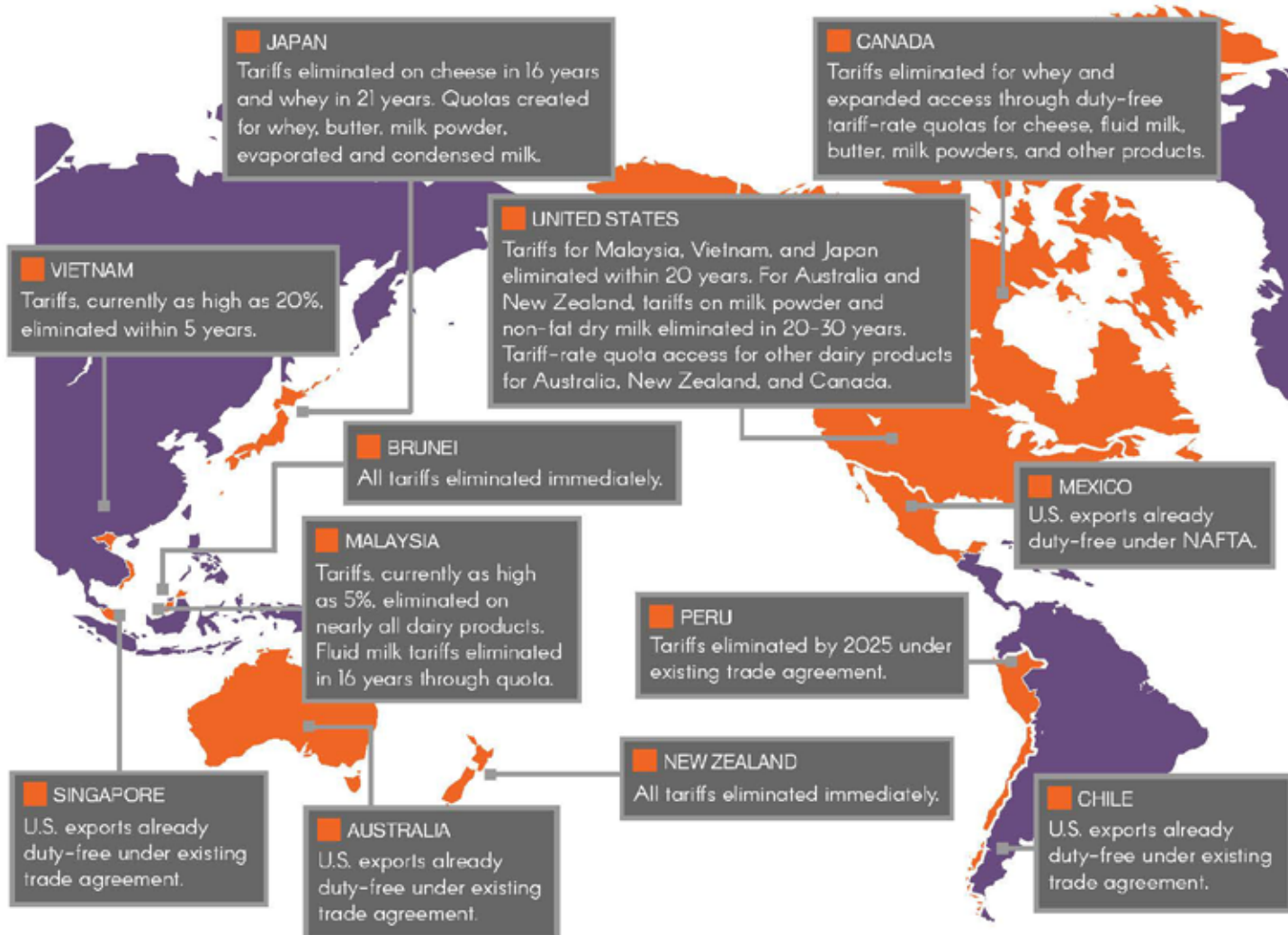
Total Producer Income Impact since 2004
\$5.3 Billion

U.S. FTAs: Historically Positive

U.S. FTA	US Exports Pre-FTA (Millions)	US Exports 2014 (Millions)	U.S. FTA	US Exports Pre-FTA (Millions)	US Exports 2014 (Millions)
Mexico - NAFTA	\$252	\$1,586	Singapore	\$8	\$98
South Korea	\$220	\$410	Morocco	\$0.1	\$97
Central America & D.R.	\$67	\$183	Peru	\$20	\$63
Australia	\$6	\$171	Chile	\$3	\$59
			Colombia	\$8	\$55
			Panama	\$32	\$45

Trans-Pacific Partnership (TPP) DAIRY PRODUCTS

The Trans-Pacific Partnership (TPP) will provide significant new market opportunities for U.S. exporters, promoting economic growth in 11 countries across the Asia-Pacific region and expanding demand for U.S. food and agricultural products among nearly 500 million consumers outside the United States.



U.S. Dairy Exports, 2014
Total = \$7.1 billion



Source: USDA - FAS GATS

The TPP strengthens trade rules and provides new market access for U.S. agricultural exports to Japan, Malaysia, Vietnam, New Zealand, and Brunei.

Top Milk-Producing States

1. California
2. Wisconsin
3. New York
4. Idaho
5. Pennsylvania
6. Texas
7. Minnesota
8. Michigan
9. New Mexico
10. Washington

Source: USDA - NASS, 2012 Census of Agriculture

Impacts on Dairy Farmers

} Business

- Viability
- Investments
- Growth
- Erosion of equity
- Maximize production/add technology
- Tax benefits
- Explore Risk Management



Impacts on Dairy Farmers

Relationships

Vendors

Lenders

Cooperative



Impacts on Dairy Farmers

} Family

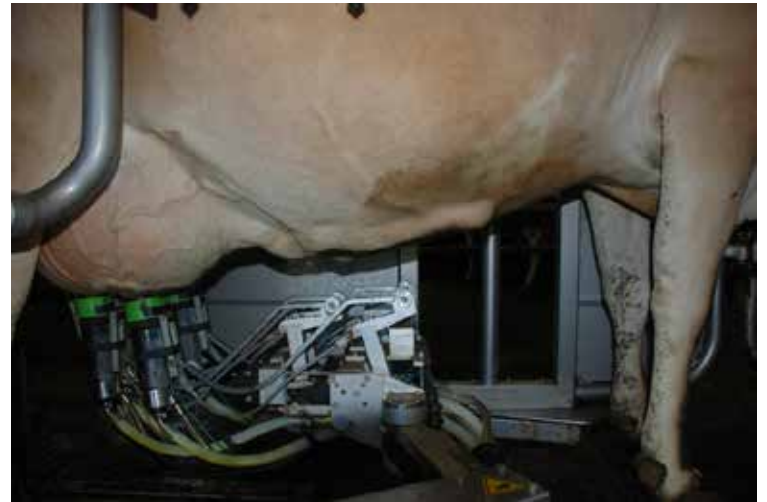
- Mental Health
- Adjust living
 - Health Insurance
- Generational transfer



Impacts on Dairy Farmers

Alternative Business Models

- Farm diversification
- Niche Marketing
- Organic
- On Farm processing
- Cease milk production



Risk Management Options

} Margin Protection Program (MPP)



- Catastrophic insurance

} Livestock Gross Margin Program

- Insures margin

} Forward Contracting

- Lock in milk price and/or feed prices



Risk Management Key Points

} If you want to gamble go to Vegas

} Necessary information

- Cost of production
- Discussions with bankers
- Feed price should be locked in

} Goal of risk management is not to beat market but rather minimize margin fluctuations



Cooperative Services



} Co-op Farm Store

- Direct ship, competitive pricing, dividend

} Grain Program

} Seed & Fertilizer Program

} Outside Vendor Program

} Growing Laboratory Services

} Group Health Insurance

} Forward Contracting Opportunities

} Price forecasting



Conclusions

- } Volatility should be expected in commodity markets
- } Volatility significantly impacts farm business and families
- } Risk Management opportunities are available
- } Need to look at business model
 - Do risk management tools make sense
- } Build strong equity position to weather volatility

THANK YOU

