



COMPEER
FINANCIAL™

STRATEGIES FOR SURVIVAL

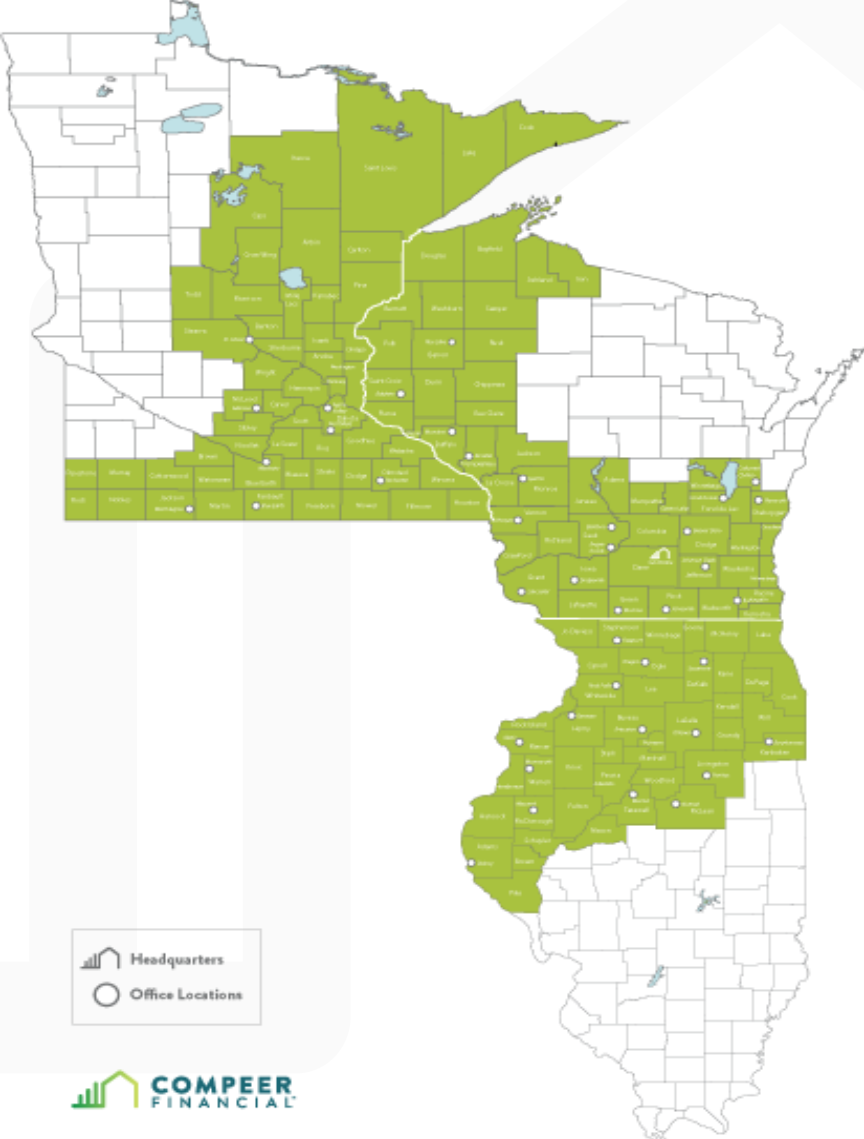
Presented by Matt Lange, Business Consultant & Cassie Monger, Dairy Lending Specialist (MN)

WELCOME

- **Compeer Financial, a member-owned Farm Credit cooperative**
- **Matt Lange, Dairy Business Consultant**
- **Cassie Monger, Dairy Lending Specialist**



COMPEER UPDATE

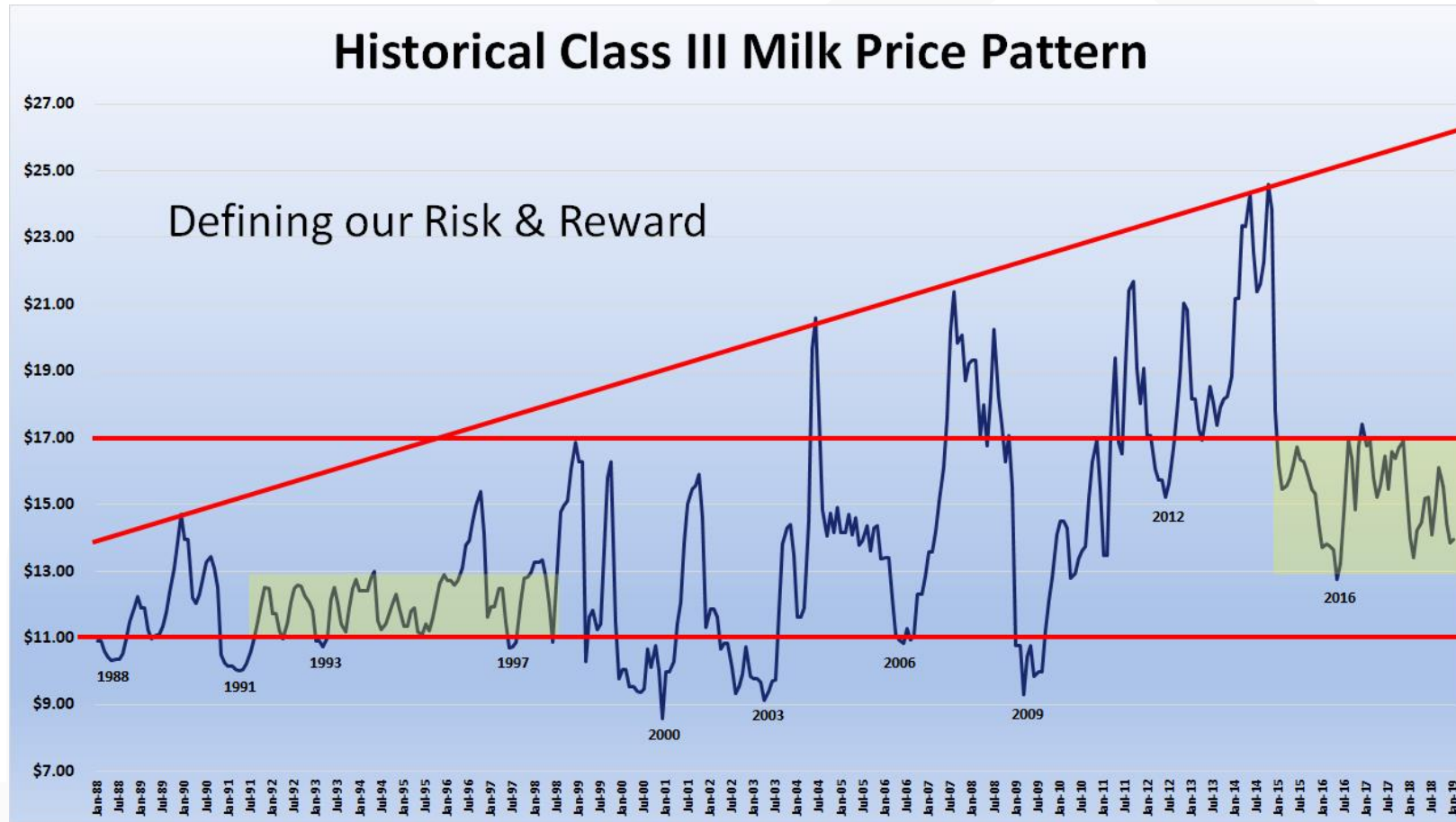




TOPICS TO COVER

- **Strategies to manage cash flow**
- **Ideas to increase on-farm efficiencies**
- **How to best navigate production cutbacks**

THINGS HAVE TO GET BETTER, RIGHT?



Hoping things get better is not the best strategy. Preparation is key.

Understanding the picture...

- **Class III Prices for...**

	2020	2019	Difference Y-O-Y
▪ May	\$11.73	\$16.38	\$4.65
▪ June	\$14.60	\$16.27	\$1.67
▪ July	\$15.30	\$17.60	\$2.30
▪ August	\$15.95	\$18.31	\$2.36
▪ September	\$16.33	\$18.72	\$2.39

- **Timing of Cash Inflows...**

- PPP – may have already. Pre-allocated to labor
- DRP – Q2 payments not until July/August
- DMC – Payout is a month + behind.
- USDA Direct Payments

Cash Needs & Availability

- Timing of cash flows are critical to liquidity.
- 13 week cash flow budgeting can help you understand the timing of your cash needs.
- Delaying payments can assist with cash flows now, but some payments cannot be delayed and those that can could compound later in the year.

	May	June	July	August
Average Monthly Expenses	\$360,000	\$360,000	\$360,000	\$360,000
Seasonal Cash Outlays				
Chemicals		\$26,400	\$26,400	\$26,400
Custom Expense (Cropping)		\$25,000	\$35,000	
Fertilizer				
Land Rent			\$105,000	
Manure Pumping/Hauling	\$85,000			
Seed		\$30,000	\$30,000	\$30,000
TOTAL SEASONAL OUTLAYS	\$85,000	\$81,400	\$196,400	\$56,400
TOTAL MONTHLY CASH NEEDS	\$445,000	\$441,400	\$556,400	\$416,400

STRATEGIES TO MITIGATE FINANCIAL IMPACT

- **Review Cash Flows**

- For the next 3-6 months
- Identify mitigating actions to preserve cash
- How much \$\$\$/operating availability to cover operating expenses?
- Review any price protection in place?
 - Payments/indemnities for DRP: July/August
 - DMC: Payout is month + behind.

- **Monitor Budget**

- Delay discretionary capital purchases if possible
- Evaluate timing for facility upgrades if possible
- Be cognizant of adjustments to reflect current market conditions/outlook

STRATEGIES TO MITIGATE FINANCIAL IMPACT

- **Inventory Management:**
 - Reducing cash outlays for purchased feed
- **Futures:**
 - Can we pull our positions and utilize earnings
- **Vendors:**
 - Timing of payments
 - Payment plans

STRATEGIES TO MITIGATE FINANCIAL IMPACT

- **Communicate with your lender**
 - Review Terms of your loans/obligations
 - Explore flexibilities on finance agreements.
 - Principle deferral options on term payments: 3-6 months
 - Evaluate operating lines/Borrowing base loan availability
 - Assess working capital - Managing this is likely to be challenging
- **Take advantage of low interest rates**
 - Reset or Convert loans to fixed rates
 - Lower interest rate expense
 - Rebalance/Restructure/Consolidate
- **Focus on Costs of Production**

CONTINUED FOCUS ON COST OF PRODUCTION

	2018	2019	Top 25%
Cost of Production			
Feed Cost /cwt.	\$9.07	\$9.36	\$9.12
Labor Cost /cwt.	\$3.35	\$3.34	\$3.12
Net Herd Turnover Cost /cwt.	\$1.46	\$1.43	\$1.21
Capital Cost /cwt.	\$2.73	\$2.79	\$2.38
Other Production Cost /cwt.	\$1.85	\$1.91	\$1.76
Overhead Cost /cwt.	\$6.56	\$6.83	\$6.70
Less Other Income /cwt.	(\$7.54)	(\$8.09)	(\$7.91)
WHOLE BUSINESS /cwt.	\$17.49	17.57	\$16.37
WHOLE BUSINESS/ ECM cwt.	\$16.76	\$16.69	\$15.52



STRATEGIES TO MITIGATE FINANCIAL IMPACT

- **Payroll Protection Program (PPP)**
 - Labor: Second or third highest expense on a dairy farm
 - \$3/cwt over 2-3 months
 - ***Documenting use of funds is KEY

SIX DEGREES OF SEPARATION

1. Somatic Cell Counts

- Top third most profitable herds had 132,000 cells/mL while lowest third of profitable herds at SCC of 284,000 cells for difference of \$.64/cwt. of increased profit.

2. Energy-Corrected Milk

- Spread between 92.7lb/cow/day of energy corrected milk versus 72.9lb/cow/day for high and low herds, this equates to nearly \$.89/cwt. in more profit.

3. Death Losses

- Top 1/3 of herds with lowest death loss were \$.56/cwt. more profitable than lowest 1/3. Target is 4%-5% death loss or better.

4. Net-Herd Turnover Cost

- $NHRC = (\# \text{ of cows removed from herd} * \text{replacement value}) - \text{cull value}.$
- Lower culling decreases NHRC loss and increase milk production.

5. Preg. Rates

- Great profit with greater preg rates in the neighborhood of \$50 more/cow/year.

6. Heifer Survival

MAXIMIZING ANIMAL PERFORMANCE

- **Target: 6lbs. + of combined fat and protein/cow/day**
 - 85lbs. With 3.9% fat and 3.2% protein = 6.04lbs.
 - 91lbs. With 3.7% fat and 3.1% protein = 6.188lbs.
- **Reducing early lactation removals**
 - 1st lactation = 3-4% or less removals in first 60 days in milk
 - 2nd + lactation = 5-6% or less removals in first 60 days in milk
- **Reducing amount of excess heifers**
 - Don't be a heifer hoarder.
 - + (Target Cull Rate + Death Loss)/12months = A
 - + A * Total Milking & Dry * Age at 1st Calving = B
 - + B * (1+ % Heifer Loss) = Total Heifers Needed

INCOME OVER FEED COST IMPROVEMENT

- **Forage Quality**
 - Balancing Yield & Quality
 - High energy, consistent NDF
 - Well mixed feed, calibrate and maintain mixer.
 - Inoculant application
 - Harvest efficiency and processing
- **Shrink – 10%**
 - Bunker management 12 inches off of face.
 - Oxygen barriers and proper sealing. Rodent Control.
 - Feeder efficiency and effectiveness.
- **Refusal Rates**
 - Eliminating “empty bunk at 3am syndrome”
 - 3% to 6%, better quality refusals
- **Water**
 - 28 gallons/day target



WHAT IF I AM REQUIRED TO CUT PRODUCTION

- **Culling**
 - DNB's
 - Historically problematic cows
 - Culling will only get you so far
- **Extending dry cow period**
 - Up to 70 days
- **Feeding milk to calves**
 - Up to 90 days
- **3x to 2x Milking**
 - 7 to 8lb. reduction
- **Late lactation low group diet**
- **Feeding Milk To Cows**
 - 7 to 15lbs./cow/day



PREPARATION IS KEY.....

- **Ongoing communication with Lenders, key-advisors & peers**
 - Work together to retain confidence & receive support
- **Individual financial situations are different**
 - As things evolve evaluate your own circumstances with your financial advisor/lender/consultants
 - Position dairy to survive next several months
 - Prepare to respond to demand as markets open back up
- **Risk management & Pricing protection**
 - Continued volatility & unexpected “Black Swan” events
 - Set targets & seek opportunities

QUESTIONS???

- **Contact Information:**

Matt Lange, Dairy Business Consultant:

- Email: Matt.Lange@Compeer.com
- Cell: (715)977-2669

Cassie Monger, Dairy Lending Specialist

- Email: Cassie.Monger@Compeer.com
- Cell: (320)345-1861



*****Upcoming Webinars*****

- **Thursday, May 21st Sara Dorland, Ceres Risk Management- Dairy Market Outlook**
- **Friday, May 29th “Preparing for Recovery” Looking at Risk Management & DRP Analyzer tool; Michelle Sell, Livestock Insurance Specialist Cassie Monger & Dairy Consultants.**