

What are Lenders Thinking?

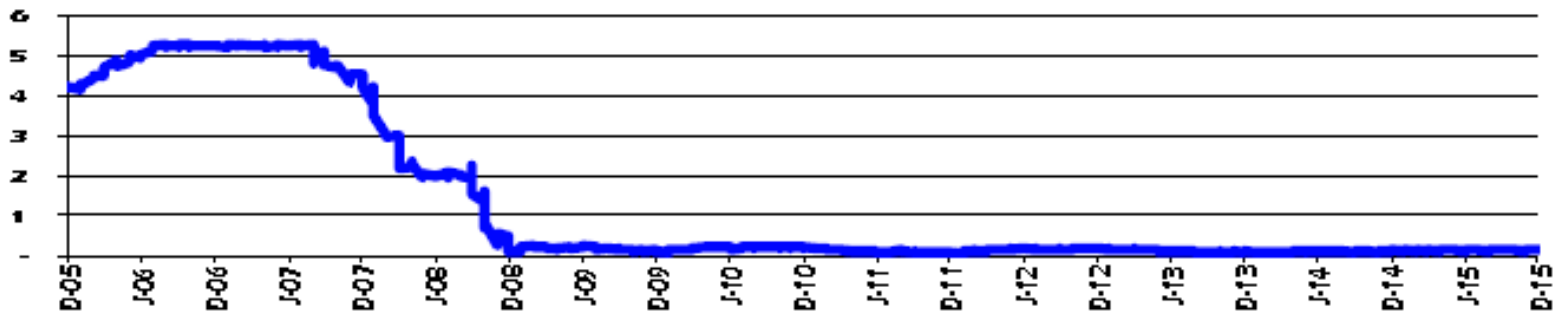
Georgia Dairy Conference
January 21, 2016



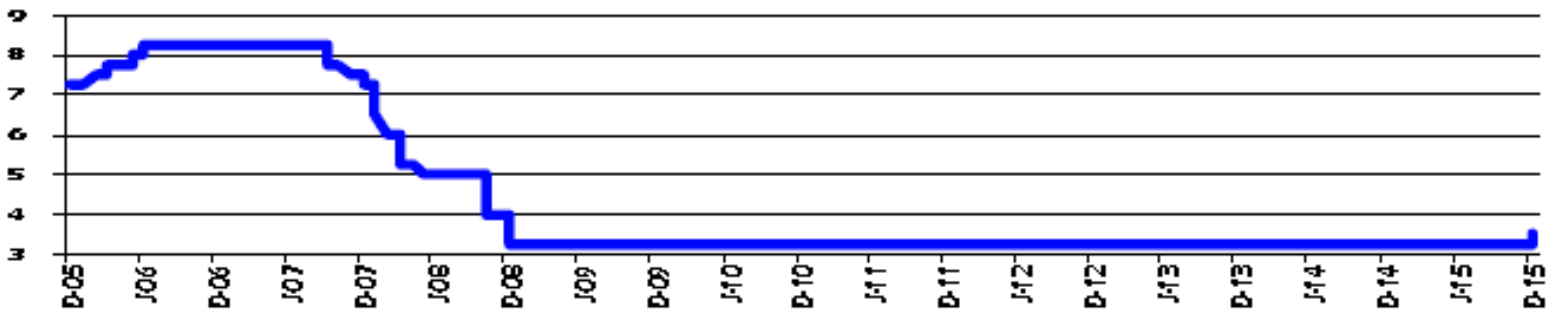
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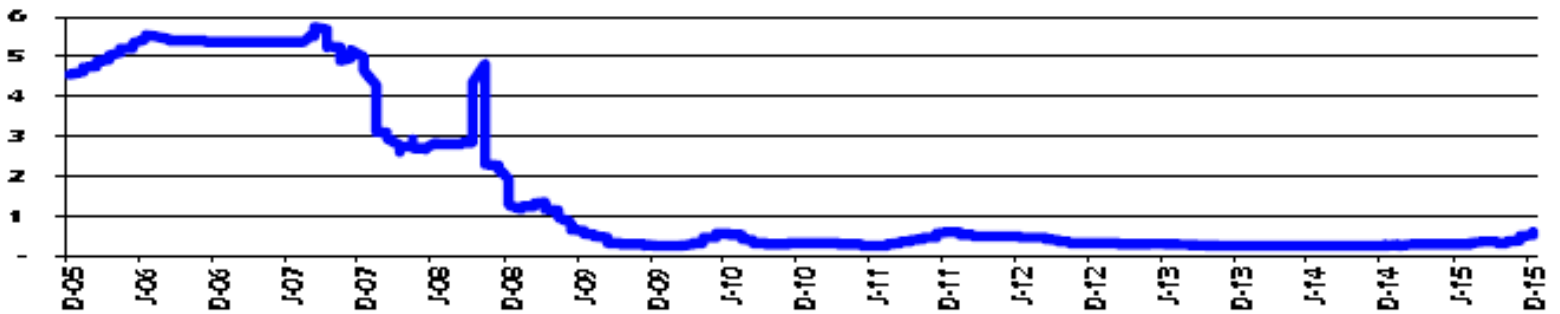
Fed Funds Effective Rate



Bank Prime Rate

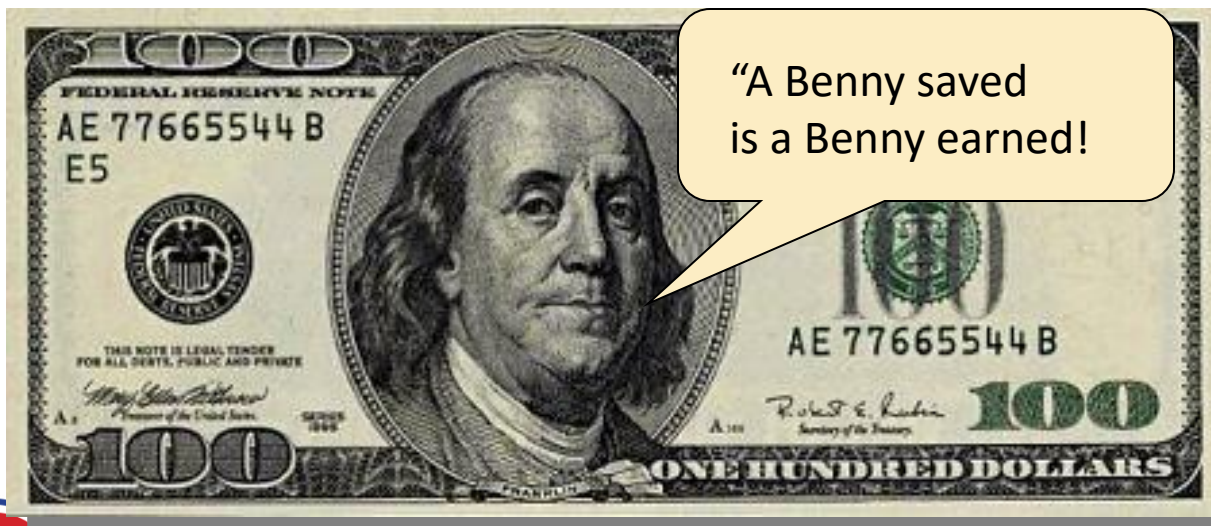


3-Month LIBOR



Here's a hundred bucks

We'll start with a \$100 dollar bill. Currently the largest U.S. denomination in general circulation. Most everyone has seen them, slightly fewer have owned them. Guaranteed to make friends wherever they go.



Serious coin

A packet of one hundred \$100 bills is less than 1/2" thick and contains \$10,000. Fits in your pocket easily and is more than enough for a week or two of shamefully decadent fun.



One Million Dollars!!!

Believe it or not, this next little pile is \$1 million dollars (100 packets of \$10,000). You could stuff that into a grocery bag and walk around with it.



That's what I'm talkin' about!

While a measly \$1 million looked a little unimpressive, \$100 million is a little more respectable. It fits neatly on a standard pallet...

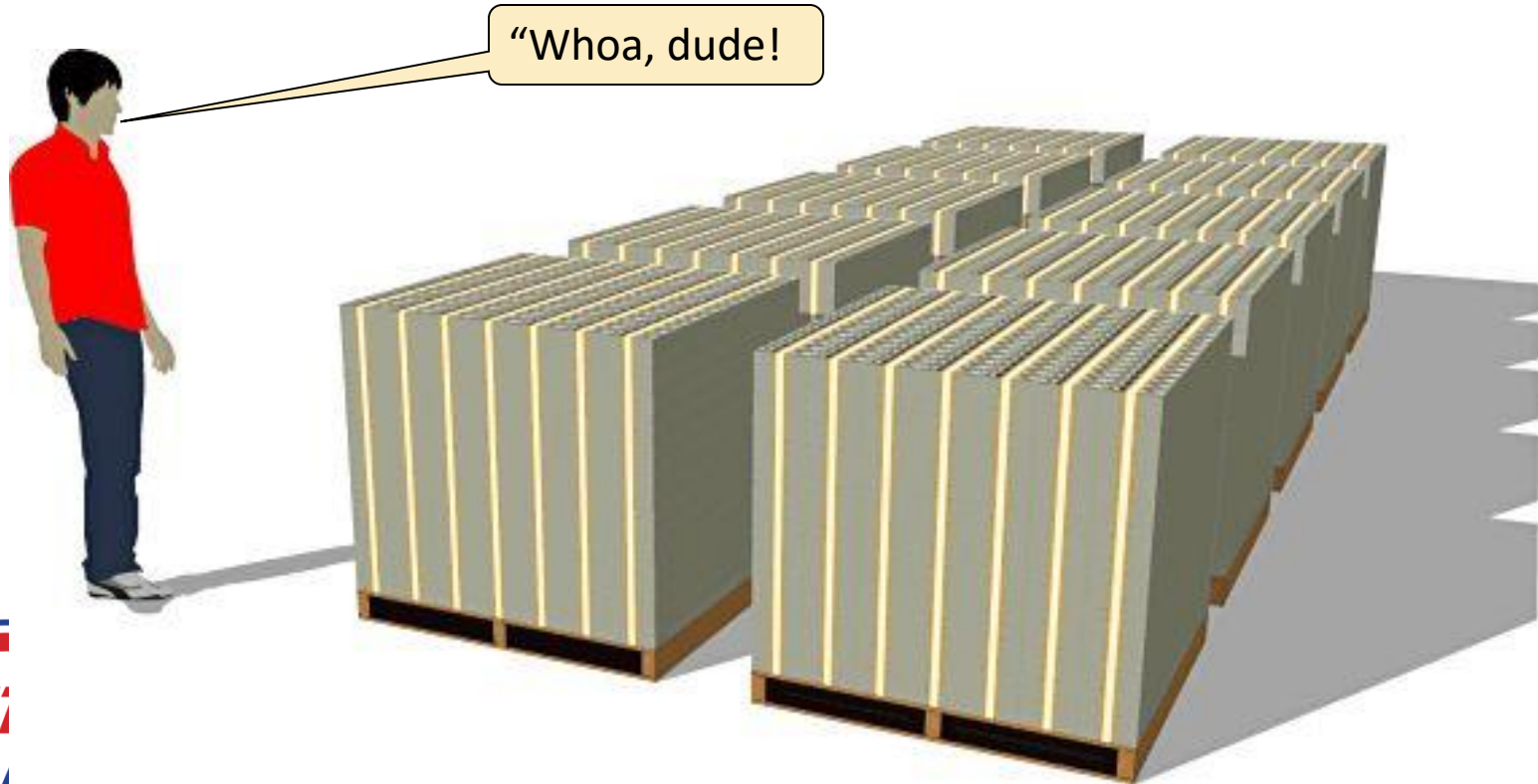


"Lemme get my truck!"



Holy cow!

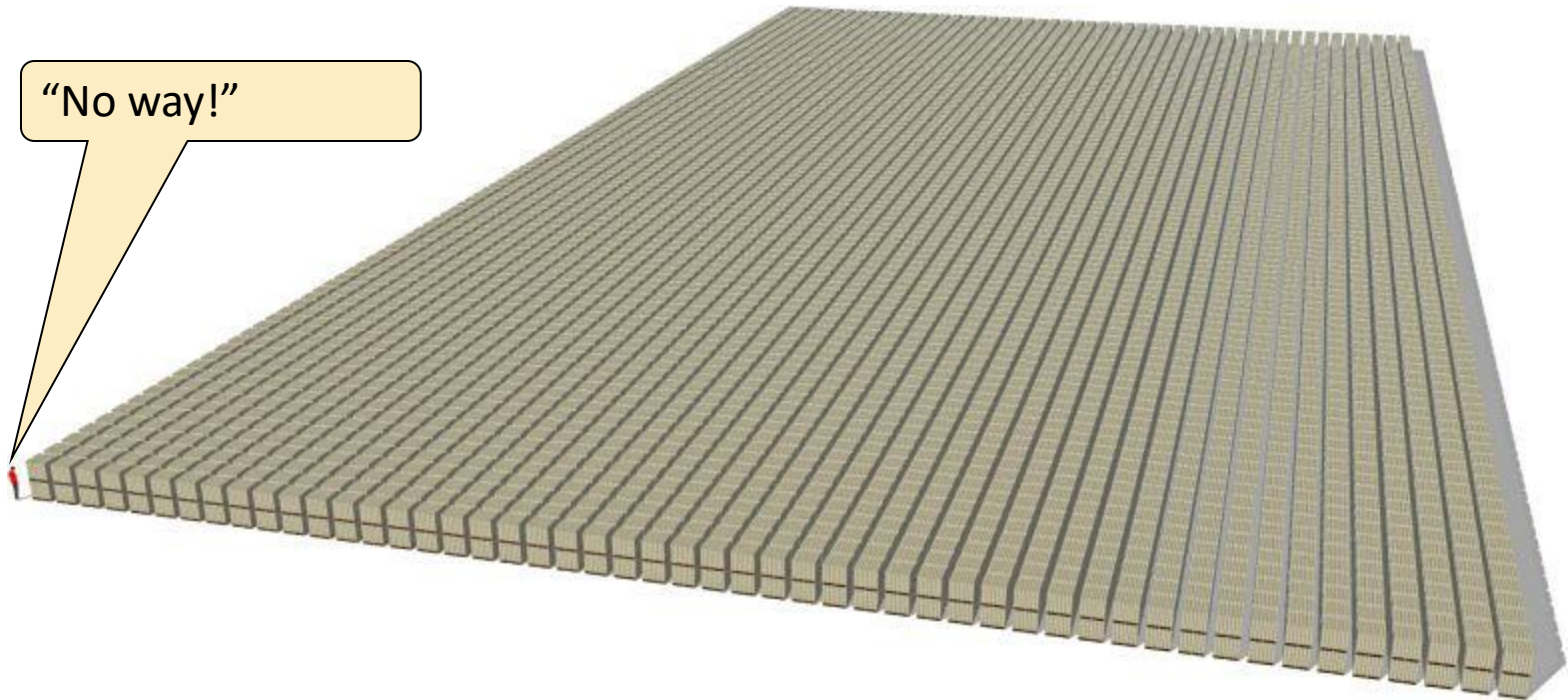
And \$1 BILLION dollars... now we're really getting somewhere...



Ladies and gentlemen...

I give you \$1 Trillion dollars...

"No way!"

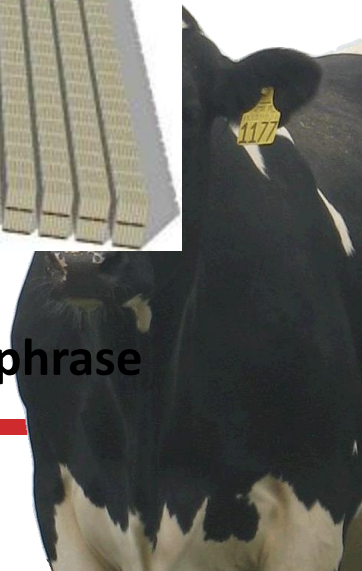


And notice those pallets are double stacked \$100 dollar bills!

So the next time you hear your Congressman toss around the phrase
~~"trillion dollars"... that's what they're talking about. Read on...~~

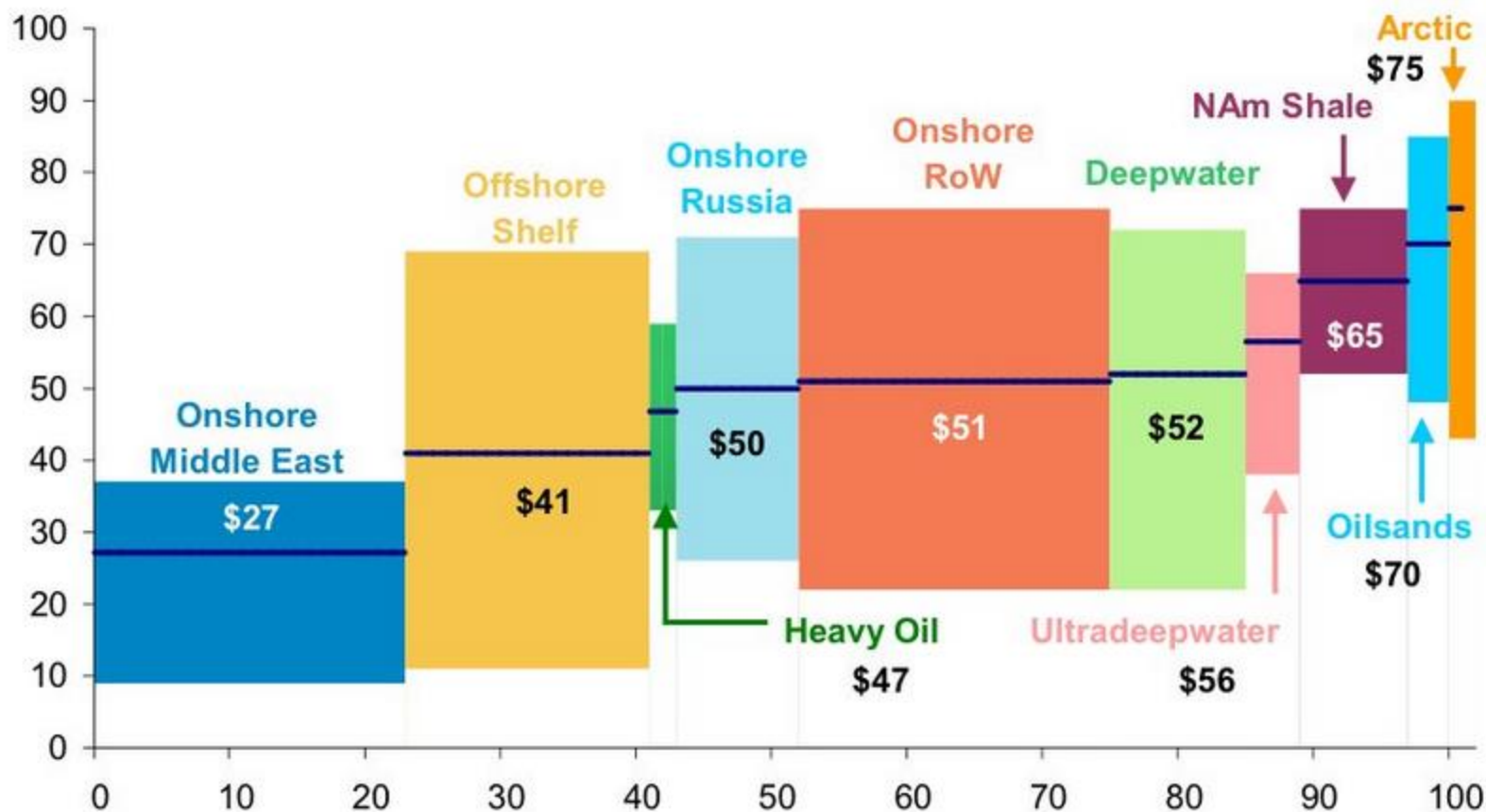


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Crude Cost of Production Rises as Demand Grows

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

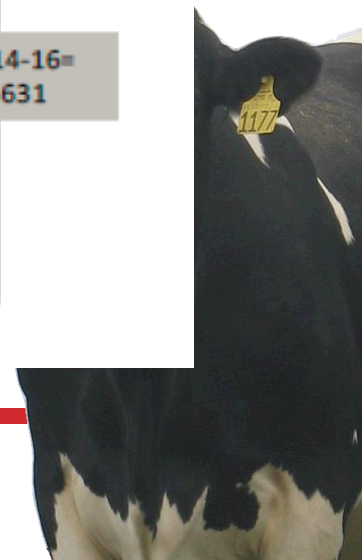
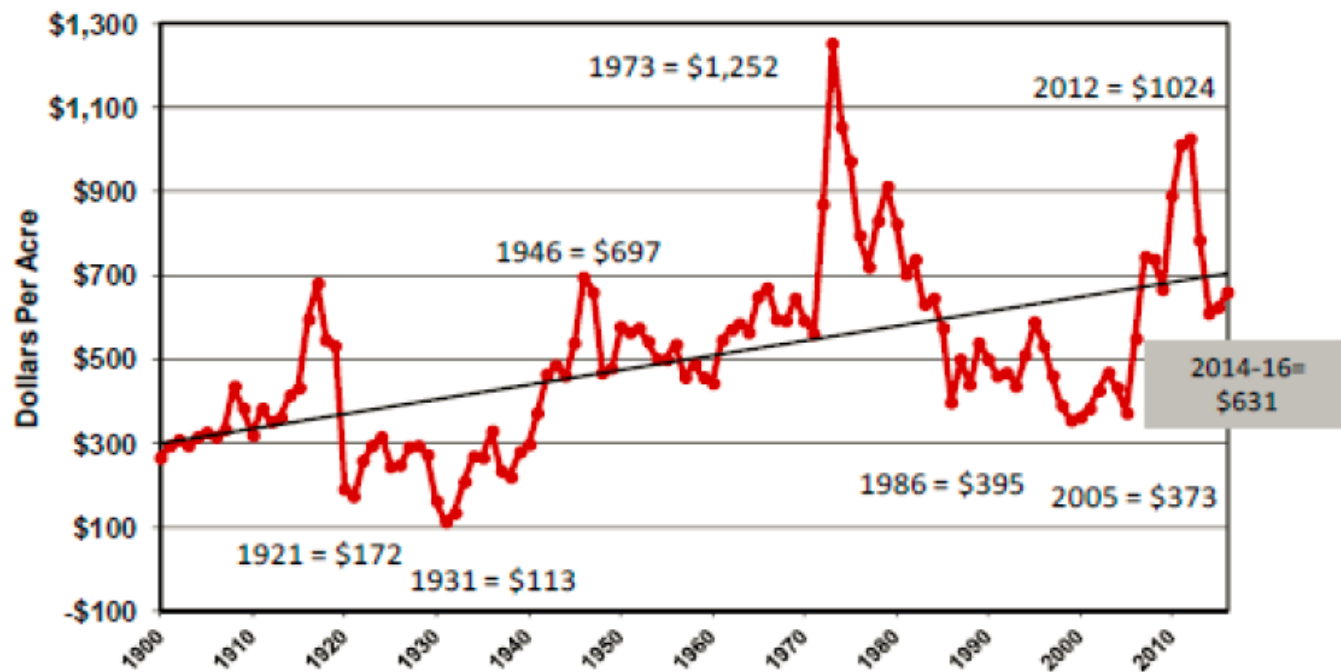


Source: Rystad Energy, Morgan Stanley Commodity Research estimates



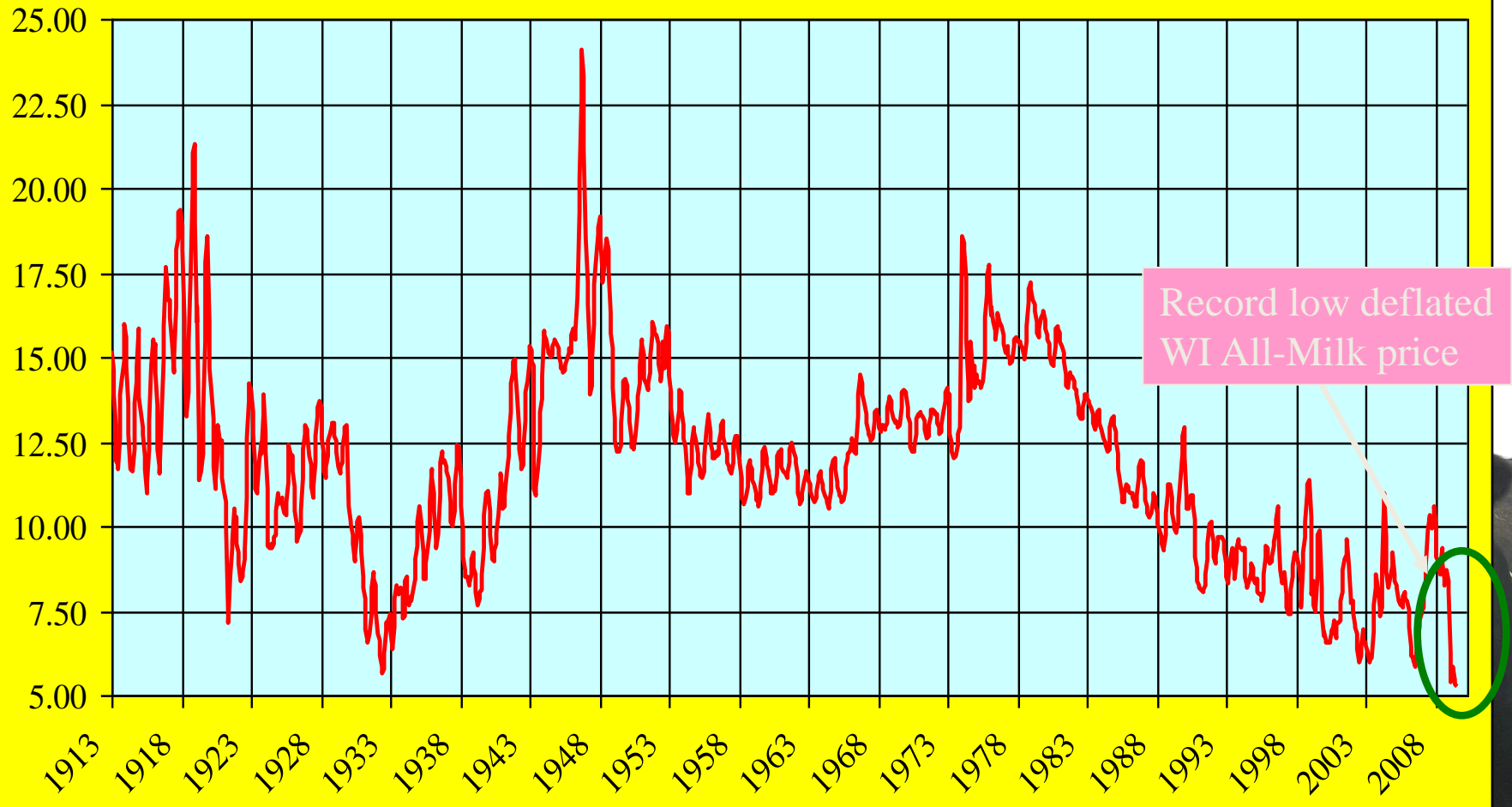
Mike Boehlje

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



Where Have We Been: WI All-Milk Price

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



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Note: Nominal price deflated using CPI-U (All-City/All Items, 1982-84=100)

Annual Class III Futures Average Prices



Matt Mattke

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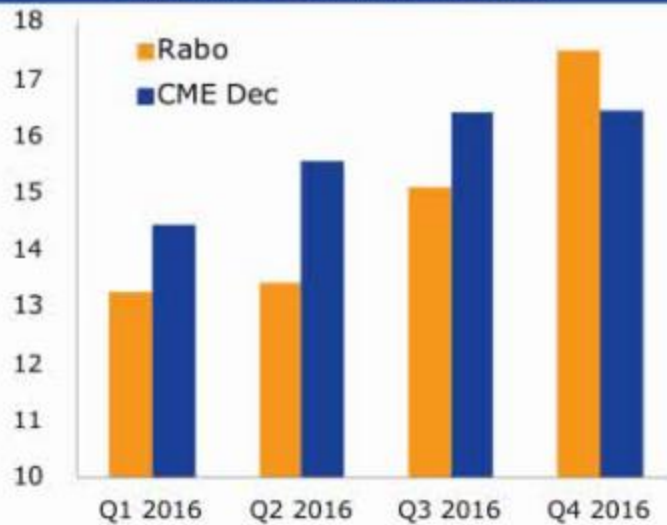
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Rabobank dairy price forecasts: US Wholesale

		Q3-2015	Q4 - 2015e	Q1 - 2016f	Q2 - 2016f	Q3 - 2016f	Q4 - 2016f
US (AMS announced)							
NFDM	USD/lb	0.79	0.87	0.85	0.85	0.94	1.17
AA Butter	USD/lb	2.11	2.60	1.71	1.64	1.70	1.93
Block Cheddar	USD/lb	1.71	1.67	1.46	1.46	1.60	1.78
Whey Powder	USD/lb	0.32	0.23	0.26	0.29	0.32	0.40
Class III Milk	USD/cwt.	16.30	15.37	13.28	13.44	15.10	17.50
Class IV Milk	USD/cwt.	13.71	16.67	12.38	12.08	13.10	16.10

Class III: Rabo Forecast V CME Curve



Class IV: Rabo Forecast V CME Curve



What are Lender's Thinking?

• Rating	Equity	D/R	Liquidity
• Ex	+75%	2:1	2:1
• Good	+60%	1.75:1	1.75:1
• Normal	+50%	1.25:1	1.25:1
• Watch	30%	1.00:1	1.00:1
• Sub Std	<25%>	0.90:1	0.90:1



5 C's of Lending

- Character
- Collateral
- Capital
- Capacity
- Conditions



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Genske, Mulder Q1-2105

• <u>Location</u>	<u>Gross</u>	<u>Feed</u>	<u>Net</u>
• U-MW T-25%	19.88	8.23	2.49
• Texas	17.67	9.63	1.00
• U MW Av	19.00	9.25	0.70
• Lower MW	18.66	9.45	0.69



Genske, Mulder Q1-2015

• NMX T-25%	16.84	10.52	(0.18)
• AZ	16.83	10.06	(0.20)
• Wash St	17.71	9.69	(0.37)
• CO	18.38	9.04	(0.77)
• NMX	16.72	11.05	(2.06)
•			



Genske, Mulder Q1-2015

• ID	17.14	11.64	(2.56)
• CA B-F	16.61	10.57	(0.52)
• CA So-B	14.31	10.31	(1.89)
• CA No-F	16.01	10.74	(2.91)
• All CA	16.12	10.69	(2.34)



2015 Nietzke & Faupel Q2

	<u>All</u>	<u><1500</u>	<u>>1500</u>	<u>Top 1/3</u>
Gross	20.02	19.87	20.05	20.04
Milk	17.00	17.35	16.92	16.79
COP	19.20	19.31	19.15	18.98
Net	0.82	0.56	0.90	1.06
Cull Cow	1.73	1.63	1.76	1.75

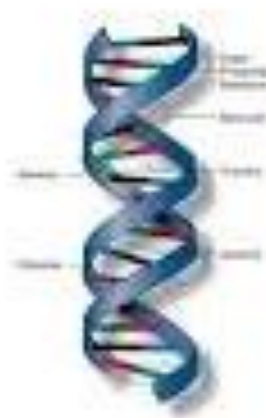


Is \$0.24 A Big Deal?

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







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“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**





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