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MITIGATING RISK IN THE DAIRY SECTOR
2011 USDA OUTLOOK FORUM
CHERI DE JONG
FEBRUARY 25, 2011

MITIGATE RISKS – THE ISSUES.....

- × *Price of feed (corn and proteins)*
- × Dairy exports / dollar valuation
- × Global economies / dairy exports
- × Debt / leverage
- × Liquidity / bank valuations
- × Increasing costs (insurance / supplies / energy / etc.)
- × Regulations (environmental / regulatory / etc.)

- × *What can we do to mitigate our risks.....*

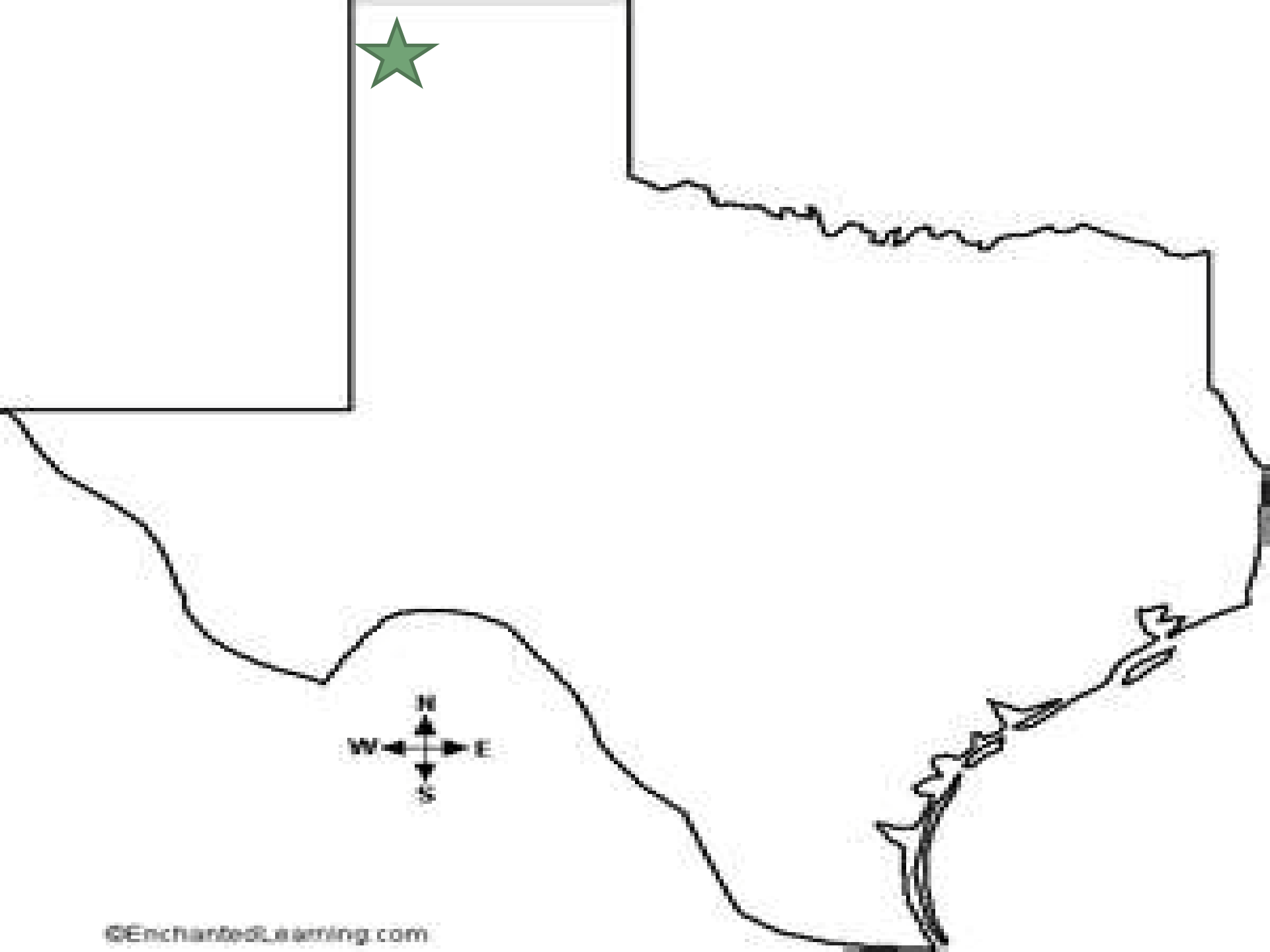
MITIGATE RISKS – OUR MISSION

- + As a dairy farmer, we (our family) are.....
 - × Engaged in the production of high quality milk
 - × Develop and maintain a sustainable model to move forward in today's agricultural climate
 - × Understanding challenges of today's dairy industry
 - × Embrace technology
 - × Mitigate and minimize risks!!!!

- + We are proud to be dairy farmers.....share with you our farms....



WELCOME



DAIRY FARMS – OVERVIEW

- × Northside Farms - Conventional
 - × Milking Cows: 5400
 - × Ship to Select Milk Producers Inc.
 - × Doubled in size in 2002 by moving Central Texas operations to the Texas Panhandle.
 - × Strategic move – environmentally friendly area!

+Mitigate Risks.....Diversify

DAIRY FARMS – OVERVIEW

Diversify - Organic Milk Production

- × Natural Prairie Dairy Farms – Organic
 - × Milking Cows: Large Scale
 - × Build relationship with buyers
 - × “Contract Producer”
 - ✦ Only produce what is contracted
 - ✦ Expansion – 1 year minimum lead time







MITIGATE RISKS - DIVERSIFICATION

+ Organic Milk Production

- × Began in 2005 and has consistently grown
- × Demand for product
- × All milk is contracted
- × Regulations / NOP Rules “tedious at best”
- × Major financial investments

- × Have created a model that is sustainable!!

MITIGATE RISKS - SUPPLIERS

- + Producing a wholesome, fresh product for the consumer is critical
- + Cooperatives strategy
- + Partner with suppliers to know what they want
- + Keeping suppliers happy is key to success for longer term

Natural Prairie Dairy Farms - Supplier of the Year

Northside Farms 1st in Quality (3 years standing)

MITIGATE RISKS – VERTICAL INTEGRATION

Grow as much of your own feed as you can.....

Conventional Farms:

- × Corn (silage), wheat, alfalfa, sorghum
- × 5,042 Irrigated Acres

Organic Farm:

- × Corn (silage and grain), wheat (silage and grain), alfalfa, sorghum, oats, grazing acres (Bermuda/fescue/clover)
- × 20,059 Irrigated Acres





MITIGATE RISKS – VERTICAL INTEGRATION

+ Grow your own heifers.....

- × Better genetics
 - ★ Lower cull rates
 - ★ Better milk production
 - × Lower cost of replacements
 - × More control / better management
 - × Use of sexed semen - more heifers in the system
-
- × We grow our own heifers for both conventional and organic operations on two separate heifer raising operations. A total of 17,000 head for the two operations.



MITIGATE RISKS – MANAGEMENT IS KEY!

- ✘ Creation of a centralized management company called: AgriVision Farm Management
- ✘ Dairy Management
- ✘ Farm Management
- ✘ Businesses are De Jong family owned/operated

MITIGATE RISKS – EFFECTIVE MANAGEMENT

+ Management is KEY to successful operations –
Having the right people in the right positions.

- × CEO - Operations
- × CFO – Finance
- × Farm Managers (2)
- × Risk Manager / Feed Purchasing (2)
- × Accounts Payable Manager
- × Office Manager
- × Efficiency/Purchasing Manager
- × Human Resource Director
- × Interns during summer
- × Dairy managers and supervisors – TEAM approach!

MITIGATE RISK – RISK MANAGEMENT

- ✘ Creation of risk management company: Pedestal Commodity Group
 - + Seeks to manage margins for a dairy entity
 - + Helps minimize some volatility to bottom line
 - + Hedging via futures & options on CME
 - ✘ Farming (crops)
 - ✘ Dairy (milk)
 - ✘ Dairy (inputs)
 - + Cash commodity purchasing and logistics
 - + Hedging Line of Credit



MITIGATE RISKS – SUPPORTING ENTERPRISES

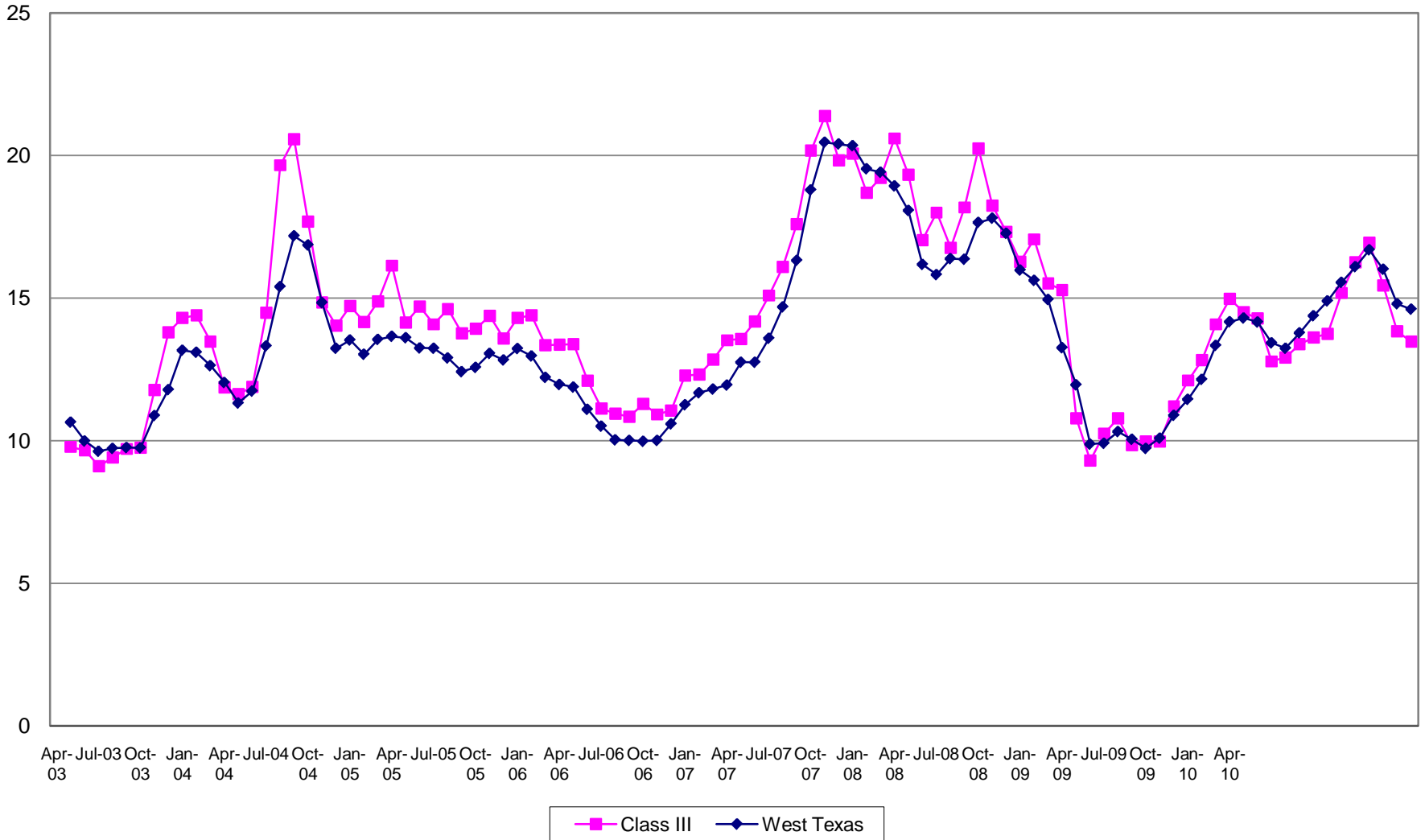
+ Business: Supplies and Parts.....

- × Dairy / farm supplies – bulk ordering of ALL dairy and farm supplies (semi-loads of teat dip..../sprinkler nozzles, etc.)
- × Two full time mechanics – loaders, tractors, irrigation pumps, etc.
- × Parts hunter/order for equipment parts
- × Developed internal software / Equipment # / tracking of all maintenance and repairs.

Make better decisions regarding equipment purchases and when to sell!

MITIGATE RISKS – MILK PRICES

WTX vs. Class III



MITIGATE RISKS – VOLATILITY

Average annual mailbox price:

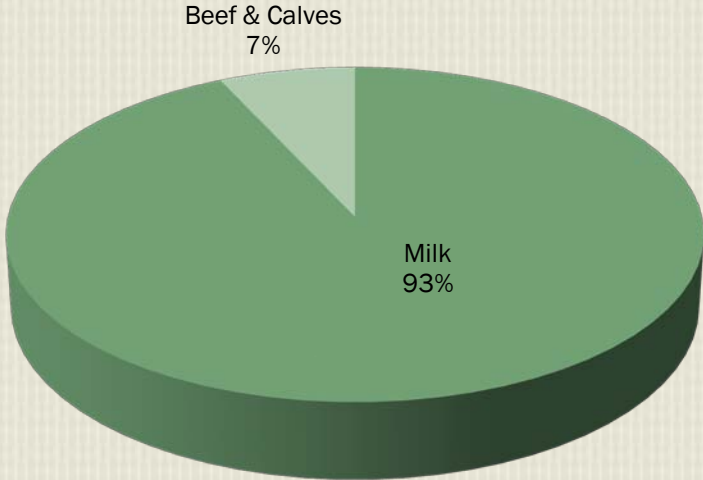
2007	\$17.81/cwt
2008	\$16.63/cwt
2009	\$11.36/cwt
2010	\$15.10/cwt

MILK REVENUE MINUS FEED COST (\$/CWT)

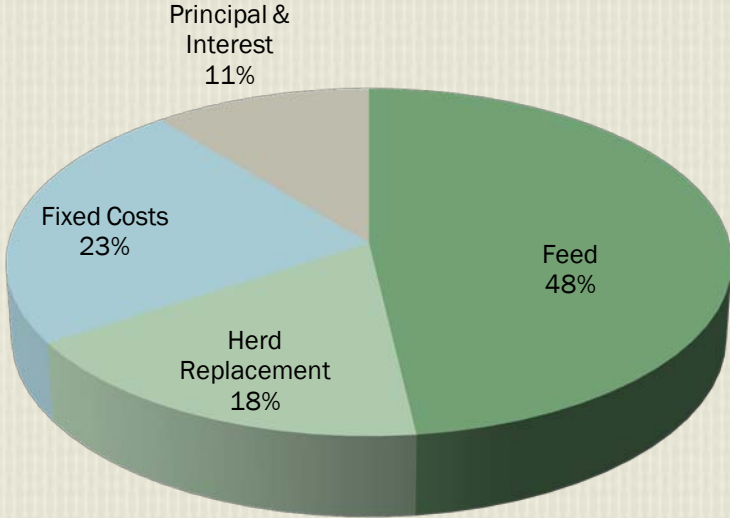


DAIRY ECONOMICS

Dairy Income

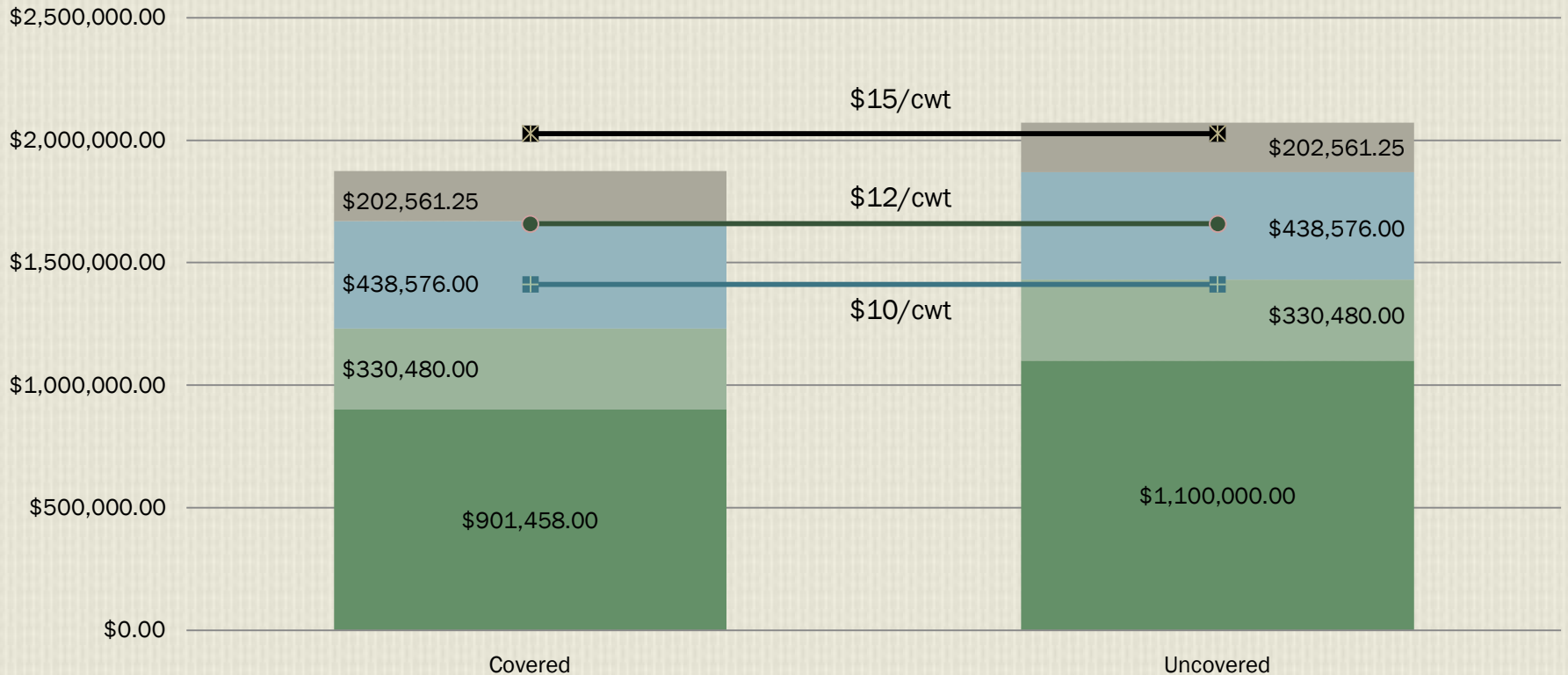


Dairy Expenses



DAIRY ECONOMICS

Advantage of Feed Coverage in Volatile Markets



■ Feed
 ■ Herd Replacement
 ■ Fixed Costs
 ■ Principal & Interest
 —x— Income \$15/cwt
 —●— Income \$12/cwt
 —■— Income \$10/cwt

MITIGATE RISKS – OUR PHILOSOPHY

- ✘ Strategies for long term viability
 - + Maintain cash
 - + Culling – milk per cow efficiency
 - + Interest only real estate notes
 - + Create tools to evaluate and project financial expectations
 - + Continuously evaluate budget / actual
 - + Evaluate equipment repairs / purchasing
 - + Don't ignore the inevitable

MITIGATE RISKS – MOVING FORWARD

- ✘ Feed costs very high – continuing to rise / many not hedged or positioned adequately
- ✘ More dairies are filing for bankruptcy
- ✘ Dairy lenders are “cutting loose” those that have been in special assets for lengthy time period
- ✘ Not a lot of lending options
- ✘ Some dairymen are not looking at long term viability

MITIGATE RISKS – FUTURE CHALLENGES

- ✘ Health care – increased costs
- ✘ Activist groups
- ✘ Immigration
- ✘ Increased regulation
- ✘ Taxes
- ✘ Banking/Liquidity in business
 - + Will dictate spending/saving on farm
 - + Mandated revenue insurance or hedging??

MITIGATE RISKS – FUTURE

- + Why do dairy farmers do what they do??
 - × Way of life
 - × Great lifestyle to raise a family
 - × Values
 - × Rural life

Future Generation – We must be an operation that is sustainable in order to be here for the next generation!

