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**2009 Michigan Swine Business Analysis  
Summary**

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and  
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Staff Paper 2010-05

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2009 Michigan TelFarm and Farm Credit Services Data  
Staff Paper No. 10-05

by

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and  
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 by  
 Eric Wittenberg and Stephen Harsh<sup>1</sup>

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*Average of 9 Swine Farms*

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<sup>1</sup> Co-workers in the TelFarm project were: R. Betz, L. Borton, C. Talley, W. Schauer, D. Stein, and V. Varner with the assistance of Michigan State University Extension Agents. Greenstone Farm Credit Services of Michigan co-workers were: Kelly Tobin, Steve Eshelman, Janice Raymond, Anne Gerke, Sonya Pentecost, and Lynette Wood. Farm Credit Services of Wisconsin co-worker was Steve Zimmerman.

## Executive Summary

This report summarizes the financial and production records of 9 Michigan swine farms. To be included, the farms must have produced at least 50 percent of gross cash farm income from one or a combination of fat hogs, feeder pigs and cull breeding hogs sales. The records came from Michigan State University’s TelFarm project and the Farm Credit Service system in Michigan. The values were pooled into averages for reporting purposes.

Farm records were included if a farm financial summary was completed on 2009 data including beginning and ending balance sheets, plus income and expenses. The data were checked to verify that cash discrepancy was less than 10% of gross cash inflow and that debt discrepancy was less than \$1,000. While considerable variation in the data exists, average values are reported in the summary tables below.

### *Summary of Results*

The average size of a swine farm contained in this 2009 business analysis 216 acres owned and 613 acres cropped, Table 1. Additional data on farm characteristics indicated that the average weight for a finished hog was 251 pound and the average price was \$41.90 per hundredweight.

**Table 1. Average Michigan Swine Farm Characteristics, 2005-2009**

	2005	2006	2007	2008	2009
Average number of sows	161	161	N/A	324	N/A
Total acres owned	401	292	355	308	216
Total crop acres	536	555	664	950	613
Average weight of hogs sold (lbs.)	254	250	258	265	251
Average price/cwt.	54.90	46.34	45.86	47.23	41.90
Number of farms	11	14	12	11	9

Net farm income (NFI) is the amount remaining after all cash farm expenses and depreciation have been subtracted from net cash farm income and inventory changes have been recognized. The net farm income value is the return to operator unpaid management, labor and equity capital invested. Income statement data presented in Table 2 indicates that net farm income in 2009 averaged a negative \$89,158. This average somewhat obscures a very large range of net farm income values. The range was a negative \$610,112 to \$93,727 and the standard deviation was \$201,485.

Gross cash farm income averaged \$888,160 in 2009. The largest components of this revenue are finished feeder pigs sales which averaged \$272,872, finished feeder pigs sales which averaged \$215,928 and weaning to finished hogs sales which averaged \$96,844. Government payments averaged \$11,223 per farm in 2009.

Average total cash expenses were \$903,887 in 2009 and average net cash farm income was a negative \$15,728. Inventory levels increased and averaged a negative \$34,767 per farm. Crops, feeds, market livestock, and accounts receivable increased while prepaid expenses, supplies and accounts payable decreased. Depreciation for 2009 averaged a negative \$38,664.

**Table 2. Average Swine Farm Income Statement, 2005-2009**

	2005	2006	2007	2008	2009
	(\$)	(\$)	(\$)	(\$)	(\$)
Gross cash farm income	842,919	728,924	911,706	1,051,242	888,160
- Total cash expense	<u>681,217</u>	<u>612,742</u>	<u>830,744</u>	<u>989,492</u>	<u>903,887</u>
= Net cash farm income	161,703	116,182	80,962	61,750	-15,728
+ Inventory change	5,050	48,017	-18,929	27,742	-34,767
+ Depreciation and capital adjustments	<u>-73,922</u>	<u>-59,548</u>	<u>-57,203</u>	<u>-48,308</u>	<u>-38,664</u>
= Net farm income	92,830	104,651	4,830	41,184	-89,158

Table 3 compares profitability for the years 2005 - 2009 with assets valued at cost. Profitability indicators calculated using assets valued at cost, can be used to compare the same farm over time. The average 2009 swine farm ROA was negative 6.9 percent. Return on equity averaged negative 42.7 percent. Operating profit margin measures the dollars of profit generated per dollar of revenue. In 2009, the OPM was negative 17.0 percent. Asset turnover measures the efficiency with which farm assets generate revenue. In 2009, this ratio was 40.8 percent. All these profitability measures indicate that on the average, 2009 was a very bad year financially.

Four key financial performance indicators are presented in Table 3. The rate of return on assets (ROA) is calculated as if the farm has no debt. ROA indicates the farm earnings, after subtracting out an allowance for unpaid operator labor and management, as a percentage of invested assets. ROA provides the key summary performance indicator for your farm. By multiplying the operating profit margin by the asset turnover rate, the ROA is determined. The ROA for 2009 averaged negative 6.9 percent.

The rate of return on equity (ROE), expressed as a percentage of own equity capital, represents the farm earnings after interest payments. Ideally the ROE should be higher than the ROA indicating that profit is being made on borrowed money. This was not the case in 2009. ROE performance for 2009 averaged a negative 42.7. This farm summary indicates that these farms were losing equity in 2009.

**Table 3. Average Swine Farm Profitability Indicators, 2005-2009**

	2005	2006	2007	2008	2009
	(%)	(%)	(%)	(%)	(%)
Rate of return on assets*	7.0	9.9	0.2	3.1	-6.9
Rate of return on equity	11.8	18.0	-14.2	-1.9	-42.7
Operating profit margin	13.8	18.4	0.5	6.4	-17.0
Asset turnover rate*	50.8	53.9	46.2	49.3	40.8

\* Assets valued at **cost** value (rather than market value).

Table 4 compares profitability measures across the years 2005 - 2009 valued at market. The market value approach includes the impact of price appreciation (inflation) of the asset base overtime. Land is the main reason for price appreciation and reflects a form of income. Financial performance indicators like ROA can be looked upon in this comparison as the “opportunity cost of capital” of farming versus alternative investments. Market value for assets is more appropriate when comparing across different farms (while cost is more appropriate to compare the same farm across time).

The average return on assets (ROA) for 2009 was a negative 5.2 percent. Return on equity (ROE) for 2009 was a negative 12.5 percent. Operating profit margin (OPM) measures the dollars of profit generated per dollar of revenue. In 2009 the OPM was a negative 22.9 percent. In 2009 these swine farms were not profitable per dollar of revenue.

Asset turnover ratio measures the efficiency with which farm assets generate revenue. In 2009, the asset turnover ratio was 22.8 percent. This was a decrease when compared with 2008. Low prices for production or higher total asset value will decrease ATO. This is a slight decrease of 5 percent, meaning that the farm assets generated less dollars per dollar invested in farm assets. The trend with respect to profitability in 2009 was not good.

**Table 4. Average Swine Farm Profitability Indicators, 2005-2009**

	2005	2006	2007	2008	2009
	(%)	(%)	(%)	(%)	(%)
Rate of return on assets*	7.7	7.9	4.0	1.9	-5.2
Rate of return on equity	9.8	9.5	2.9	-0.5	-12.5
Operating profit margin	28.4	26.7	15.6	6.7	-22.9
Asset turnover rate*	27.2	29.6	25.4	27.9	22.8

- Assets valued at **market** value (rather than cost value).

Table 5

## Crop Production and Marketing Summary

**2009 MI Swine**

(Farms Sorted By Rate of Return on Assets - Mkt)

---

	Avg. Of All Farms
Number of farms	9
Acreage Summary	
Total acres owned	216
Total crop acres	613
Crop acres owned	243
Crop acres cash rented	366
Crop acres share rented	4
Total pasture acres	-
Percent crop acres owned	40 %

---



Table 6

Farm Income Statement  
2009 MI Swine  
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	9
Cash Farm Income	
Beans, Navy	16,484
Corn	86,253
Hay, Mixed	233
Soybeans	44,270
Straw	590
Sugar Beets	29,854
Wheat, Winter	15,058
Miscellaneous crop income	7
Beef Finishing	888
Dairy Finishing	212
Hogs, Farrow To Finish, Raised Ho	272,872
Hogs, Feeder Pig Prod, Feeder Pig	25,642
Hogs, Finish Feeder Pigs	215,928
Hogs, Weaning to Finish	96,844
Cull breeding livestock	13,217
Misc. livestock income	353
Direct & CC govt payments	757
Other government payments	10,466
Custom work income	21,473
Patronage dividends, cash	4,895
Insurance income	18,046
Other farm income	13,818
Gross Cash Farm Income	888,160

Table 6

## Farm Income Statement (Continued)

**2009 MI Swine**

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	9
Cash Farm Expense	
Seed	41,144
Fertilizer	41,642
Crop chemicals	20,889
Crop insurance	6,784
Drying expense	10,723
Storage	89
Irrigation energy	49
Crop packaging and supplies	204
Crop marketing	3,531
Crop miscellaneous	3,499
Feeder livestock purchase	104,091
Purchased feed	323,360
Breeding fees	3,116
Veterinary	18,887
Supplies	2,260
Livestock marketing	10,038
Interest	43,871
Packaging and supplies	389
Fuel & oil	23,352
Repairs	25,663
Repair, machinery	1,387
Custom hire	46,367
Repair, buildings	121
Hired labor	38,971
Land rent	31,327
Machinery leases	25,329
Building leases	4,125
Real estate taxes	10,297
Farm insurance	11,781
Utilities	30,846
Dues & professional fees	3,513
Miscellaneous	16,242
Total cash expense	903,887
Net cash farm income	-15,728
Inventory Changes	
Prepays and supplies	3,194
Accounts receivable	-9,178
Hedging accounts	1,856
Other current assets	888
Crops and feed	-19,401
Market livestock	19,975
Breeding livestock	-3,049
Other assets	0
Accounts payable	-33,759
Accrued interest	4,707

Total inventory change	-34,767
Net operating profit	-50,494
Depreciation	
Machinery and equipment	-24,278
Titled vehicles	534
Buildings and improvements	-14,920
Total depreciation	-38,664
Net farm income from operations	-89,158
Gain or loss on capital sales	-
Net farm income	-89,158

Table 7

Inventory Changes  
**2009 MI Swine**  
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	9
Net cash farm income	-15,728
Crops and Feed	
Ending inventory	207,772
Beginning inventory	227,173
Inventory change	-19,401
Market Livestock	
Ending inventory	214,241
Beginning inventory	194,266
Inventory change	19,975
Accts Receivable	
Ending inventory	10,104
Beginning inventory	19,282
Inventory change	-9,178
Prepaid Expenses and Supplies	
Ending inventory	37,714
Beginning inventory	34,520
Inventory change	3,194
Hedging Activities	
Ending inventory	2,667
Withdrawals	1,300
Beginning inventory	2,111
Deposits	-
Gain or loss	1,856
Other Current Assets	
Ending inventory	5,348
Beginning inventory	4,460
Inventory change	888
Breeding Livestock	
Ending inventory	49,082
Capital sales	3,004
Beginning inventory	51,050
Capital purchases	4,085
Depreciation, capital adjust	-3,049
Other Capital Assets	
Ending inventory	27,784
Capital sales	395
Beginning inventory	27,111
Capital purchases	1,068
Depreciation, capital adjust	0
Accounts Payable	
Beginning inventory	18,105
Ending inventory	51,864
Inventory change	-33,759
Accrued Interest	
Beginning inventory	10,030
Ending inventory	5,323
Inventory change	4,707
Total inventory change	-34,767
Net operating profit	-50,494

Table 8

Depreciation  
2009 MI Swine

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	9
Net operating profit	-50,494
Machinery and Equipment	
Ending inventory	117,583
Capital sales	164
Beginning inventory	125,034
Capital purchases	16,991
Depreciation, capital adjust.	-24,278
Titled Vehicles	
Ending inventory	8,683
Capital sales	1,444
Beginning inventory	3,856
Capital purchases	5,738
Depreciation, capital adjust.	534
Buildings and Improvements	
Ending inventory	77,273
Capital sales	-
Beginning inventory	84,629
Capital purchases	7,564
Depreciation, capital adjust.	-14,920
Total depreciation, capital adj.	-38,664
Net farm income from operations	-89,158
Gain or loss on capital sales	-
Net farm income	-89,158

Table 9

## Profitability Measures

**2009 MI Swine**

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	9
Profitability (assets valued at cost)	
Net farm income from operations	-89,158
Rate of return on assets	-6.9 %
Rate of return on equity	-42.7 %
Operating profit margin	-17.0 %
Asset turnover rate	40.8 %
Farm interest expense	39,164
Value of operator lbr and mgmt.	26,689
Return on farm assets	-76,682
Average farm assets	1,105,212
Return on farm equity	-115,847
Average farm equity	271,209
Value of farm production	450,911
	Avg. Of All Farms
Number of farms	9
Profitability (assets valued at market)	
Net farm income from operations	-115,942
Rate of return on assets	-5.2 %
Rate of return on equity	-12.5 %
Operating profit margin	-22.9 %
Asset turnover rate	22.8 %
Farm interest expense	39,164
Value of operator lbr and mgmt.	26,689
Return on farm assets	-103,467
Average farm assets	1,977,826
Return on farm equity	-142,631
Average farm equity	1,143,823
Value of farm production	450,911

Table 10

## Liquidity &amp; Repayment Capacity Measures

**2009 MI Swine**

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	9
Liquidity	
Current ratio	1.92
Working capital	248,339
Working capital to gross inc	28.3 %
Current assets	517,694
Current liabilities	269,354
Gross revenues (accrual)	878,363
Repayment capacity	
Net farm income from operations	-89,158
Depreciation	38,664
Personal income	9,112
Family living/owner withdrawals	-32,315
Payments on personal debt	-
Income taxes paid	-
Interest on term debt	28,082
Capital debt repayment capacity	-45,615
Scheduled term debt payments	-70,744
Capital debt repayment margin	-116,358
Cash replacement allowance	-17,990
Replacement margin	-134,349
Term debt coverage ratio	-0.64
Replacement coverage ratio	-0.51

Table 11

## Balance Sheet at Cost Values

## 2009 MI Swine

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms	
Number of farms	9	
	Beginning	Ending
<b>Assets</b>		
<b>Current Farm Assets</b>		
Cash and checking balance	27,695	39,848
Prepaid expenses & supplies	34,520	37,714
Growing crops	4,460	5,348
Accounts receivable	19,282	10,104
Hedging accounts	2,111	2,667
Crops held for sale or feed	227,173	207,772
Crops under government loan	0	0
Market livestock held for sale	194,266	214,241
Other current assets	0	0
Total current farm assets	509,507	517,694
<b>Intermediate Farm Assets</b>		
Breeding livestock	51,050	49,082
Machinery and equipment	125,034	117,583
Titled vehicles	3,856	8,683
Other intermediate assets	24,905	25,578
Total intermediate farm assets	204,845	200,927
<b>Long Term Farm Assets</b>		
Farm land	305,569	305,569
Buildings and improvements	84,629	77,273
Other long-term assets	2,205	2,205
Total long-term farm assets	392,404	385,047
Total Farm Assets	1,106,756	1,103,668
Total Nonfarm Assets	57,066	62,165
Total Assets	1,163,822	1,165,833
<b>Liabilities</b>		
<b>Current Farm Liabilities</b>		
Accrued interest	10,030	5,323
Accounts payable	18,105	51,864
Current notes	181,244	177,912
Government crop loans	0	0
Principal due on term debt	42,661	34,255
Total current farm liabilities	252,040	269,354
Total intermediate farm liabs	182,122	107,725
Total long term farm liabilities	346,976	509,789
Total farm liabilities	781,138	886,868
Total nonfarm liabilities	11,912	10,244
Total liabilities	793,050	897,111
Net worth (farm and nonfarm)	370,772	268,722
Net worth change		-102,051
Percent net worth change		-28 %
<b>Ratio Analysis</b>		
Current farm liabilities / assets	49 %	52 %
Intermediate farm liab. / assets	89 %	54 %
Long term farm liab. / assets	88 %	132 %
Total debt to asset ratio	68 %	77 %



Table 12

## Balance Sheet at Market Values

## 2009 MI Swine

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms	
Number of farms	9	
	Beginning	Ending
<b>Assets</b>		
<b>Current Farm Assets</b>		
Cash and checking balance	27,695	39,848
Prepaid expenses & supplies	34,520	37,714
Growing crops	4,460	5,348
Accounts receivable	19,282	10,104
Hedging accounts	2,111	2,667
Crops held for sale or feed	227,173	207,772
Crops under government loan	0	0
Market livestock held for sale	194,266	214,241
Other current assets	0	0
Total current farm assets	509,507	517,694
<b>Intermediate Farm Assets</b>		
Breeding livestock	50,872	48,904
Machinery and equipment	339,029	335,228
Titled vehicles	2,556	8,444
Other intermediate assets	24,905	25,578
Total intermediate farm assets	417,362	418,154
<b>Long Term Farm Assets</b>		
Farm land	783,130	796,479
Buildings and improvements	225,320	215,598
Other long-term assets	57,443	14,965
Total long-term farm assets	1,065,893	1,027,042
Total Farm Assets	1,992,763	1,962,890
Total Nonfarm Assets	231,161	237,653
Total Assets	2,223,924	2,200,543
<b>Liabilities</b>		
<b>Current Farm Liabilities</b>		
Accrued interest	10,030	5,323
Accounts payable	18,105	51,864
Current notes	181,244	177,912
Government crop loans	0	0
Principal due on term debt	42,661	34,255
Total current farm liabilities	252,040	269,354
Total intermediate farm liabs	182,122	107,725
Total long term farm liabilities	346,976	509,789
Total farm liabilities	781,138	886,868
Total nonfarm liabilities	11,912	10,244
Total liabs excluding deferreds	793,050	897,111
Total deferred liabilities	0	0
Total liabilities	793,050	897,111
Retained earnings	370,772	268,722
Market valuation equity	1,060,101	1,034,710
Net worth (farm and nonfarm)	1,430,873	1,303,431
Net worth excluding deferreds	1,430,873	1,303,431
Net worth change		-127,442
Percent net worth change		-9 %
<b>Ratio Analysis</b>		
Current farm liabilities / assets	49 %	52 %
Intermediate farm liab. / assets	44 %	26 %
Long term farm liab. / assets	33 %	50 %
Total debt to asset ratio	36 %	41 %
Debt to assets excl deferreds	36 %	41 %

Table 13

## Statement Of Cash Flows

**2009 MI Swine**

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	9
Beginning cash (farm & nonfarm)	27,920
Cash Provided By Operating Activities	
Gross cash farm income	888,160
Total cash farm expense	-903,887
Net cash from hedging transactions	1,300
Cash provided by operating	-14,427
Cash Provided By Investing Activities	
Sale of breeding livestock	3,004
Sale of machinery & equipment	164
Sale of titled vehicles	-
Sale of farm land	-
Sale of farm buildings	-
Sale of other farm assets	395
Sale of nonfarm assets	4,222
Purchase of breeding livestock	-4,085
Purchase of machinery & equip.	-16,991
Purchase of titled vehicles	-5,738
Purchase of farm land	-
Purchase of farm buildings	-7,564
Purchase of other farm assets	-1,068
Purchase of nonfarm assets	-
Cash provided by investing	-27,660
Cash Provided By Financing Activities	
Money borrowed	490,463
Principal payments	-413,785
Personal income	9,112
Family living/owner withdrawals	-32,315
Income and social security tax	-
Capital contributions	-
Capital distributions	-
Dividends paid	-
Cash gifts and inheritances	6,860
Gifts given	-6,095
Other cash flows	-
Cash provided by financing	54,240
Net change in cash balance	12,153
Ending cash (farm & nonfarm)	40,073

Table 14

## Financial Standards Measures

**2009 MI Swine**

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	9
Liquidity	
Current ratio	1.92
Working capital	248,339
Working capital to gross inc	28.3 %
Solvency (market)	
Farm debt to asset ratio	45 %
Farm equity to asset ratio	55 %
Farm debt to equity ratio	0.82
Profitability (cost)	
Rate of return on farm assets	-6.9 %
Rate of return on farm equity	-42.7 %
Operating profit margin	-17.0 %
Net farm income	-89,158
EBIDTA	-11,330
Repayment Capacity	
Capital debt repayment capacity	-45,615
Capital debt repayment margin	-116,358
Replacement margin	-134,349
Term debt coverage ratio	-0.64
Replacement coverage ratio	-0.51
Efficiency	
Asset turnover rate (cost)	40.8 %
Operating expense ratio	101.3 %
Depreciation expense ratio	4.4 %
Interest expense ratio	5.0 %
Net farm income ratio	-10.2 %

Table 15

## Operator and Labor Information

**2009 MI Swine**

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	9
Operator Information	
Average number of operators	1.6
Average age of operators	43.3
Average number of years farming	21.4
Results Per Operator	
Working capital	159,647
Total assets (market)	1,414,635
Total liabilities	576,714
Net worth (market)	837,920
Net worth excl deferred liabs	837,920
Gross farm income	564,662
Total farm expense	621,978
Net farm income from operations	-57,316
Net nonfarm income	5,858
Family living & tax withdrawals	20,774
Total acres owned	139.0
Total crop acres	394.0
Crop acres owned	156.2
Crop acres cash rented	235.3
Crop acres share rented	2.5
Total pasture acres	-
Labor Analysis	
Number of farms	8
Total unpaid labor hours	3,228
Total hired labor hours	3,610
Total labor hours per farm	6,838
Unpaid hours per operator	1,986
Value of farm production / hour	70.01
Net farm income / unpaid hour	-34.69
Average hourly hired labor wage	12.10
Partnerships & LLCs	
Number of farms	6
Number of operators	1.8
Owner withdrawals per farm	-
Withdrawals per operator	-

Table 16

Financial Summary  
2009 MI Swine

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	9
Income Statement	
Gross cash farm income	888,160
Total cash farm expense	903,887
Net cash farm income	-15,728
Inventory change	-34,767
Depreciation	-38,664
Net farm income from operations	-89,158
Gain or loss on capital sales	-
Average net farm income	-89,158
Median net farm income	-73,002
Profitability (cost)	
Rate of return on assets	-6.9 %
Rate of return on equity	-42.7 %
Operating profit margin	-17.0 %
Asset turnover rate	40.8 %
Profitability (market)	
Rate of return on assets	-5.2 %
Rate of return on equity	-12.5 %
Operating profit margin	-22.9 %
Asset turnover rate	22.8 %
Liquidity & Repayment (end of year)	
Current assets	517,694
Current liabilities	269,354
Current ratio	1.92
Working capital	248,339
Working capital to gross inc	28.3 %
Term debt coverage ratio	-0.64
Replacement coverage ratio	-0.51
Solvency (end of year at cost)	
Number of farms	9
Total farm assets	1,103,668
Total farm liabilities	886,868
Total assets	1,165,833
Total liabilities	897,111
Net worth	268,722
Net worth change	-102,051
Farm debt to asset ratio	80 %
Total debt to asset ratio	77 %
Solvency (end of year at market)	
Number of farms	9
Total farm assets	1,962,890
Total farm liabilities	886,868
Total assets	2,200,543
Total liabilities	897,111
Net worth	1,303,431
Net worth change	-127,442
Farm debt to asset ratio	45 %
Total debt to asset ratio	41 %
Nonfarm Information	
Net nonfarm income	9,112
Crop Acres	
Total acres owned	216
Total crop acres	613
Total crop acres owned	243
Total crop acres cash rented	366
Total crop acres share rented	4