



WEEKLY NEWSLETTER

"For SMART Management"

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MARGINSMART® Sample Farm Profitability Changes From Last Report

	Oct '16	Nov '16	Dec '16	Jan '17	Feb '17	Mar '17	Apr '17	May '17	June '17	July '17	Aug '17	Sep '17
Change From Prior Week	-0.39	-0.22	-0.25	-0.24	-0.25	-0.19	-0.16	-0.17	-0.11	-0.13	-0.08	-0.08

WEEKLY MARGINSMART® Notes From President Mark Linzmeier



The weekly newsletter will keep you up-to-date on various topics such as market news, upcoming events, and getting the most out of MARGINSMART®.

MARGINSMART® Tip of the Week

This week the tip of the week addresses making positive decisions to impact your profitability. I have been asked recently why our sample contracted farm has performed so well compared to the market. Since this is at the core of why MARGINSMART was developed, I thought it made sense to expand this week's tip of the week to explain further. As a reminder, from Jan '15 through Aug '16, the MARGINSMART contracted farm was profitable in ALL 20 months and had an average profitability of \$1.26 per cwt; while the MARGINSMART sample farm completely on the market had losses in 15 of those 20 months and an average loss of \$.91 per cwt. for an average difference of \$2.25 per cwt. While it is difficult for anyone, including professional dairy economists, brokers and others including myself to truly predict where prices will eventually close out for future months, MARGINSMART does an excellent job of providing consistent real-time projections for all of our customers so that they can make informed decisions. When this is blended with reasonable fundamental outlooks on crops, feed prices, milk production outlooks, worldwide milk and grain supply and demand we believe that reasonable decisions can be made.

Tip of the Week (Continued)

With the above in mind, the following were a couple of key items that I factored in when making contracting decisions for our Contracted Sample Farm:

1. We were very accurate on calling the "bottom" of the profitability cycle. In early 2015, we were calling for the bottom between May – Sept '16. The bottom hit in May '16. We also saw escalating Class III prices during 2014 and felt strongly that they would not continue throughout 2015.
 - o On 6/24/14, we contracted just under 50% of all 12 months of 2015 milk production.
 - o On 9/30/14 (which was the peak Class III price) we contracted another 30% of all 12 months of 2015 milk production.
 - o Also on 9/30/14, based on MARGINSMART projected profitability we also contracted (See next page)

MARGINSMART Insight

JUST A REMINDER THAT MARGINSMART WILL BE AT THE 50TH WORLD DAIRY EXPO IN MADISON, WI OCT 4-8. PLEASE PLAN TO STOP AND SEE US IN BOOTH 5010!

Contact us for a FREE MARGINSMART® Demo!

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Market Price Updates (As of 9/30/2016 Close)

	Sep '16	+/-*	Oct '16	+/-*	Nov '16	+/-*	Dec '16	+/-*	Jan'17	+/-*	Feb'17	+/-*	Mar'17	+/-*
Class III Milk	16.39	+0.01	15.21	-0.35	15.63	-0.15	15.50	-0.23	15.38	-0.24	15.50	-0.23	15.64	-0.15
Class IV Milk	14.25	+0.02	14.35	-0.45	14.65	-0.55	14.79	-0.51	15.06	-0.31	15.40	-0.43	15.66	-0.26
Cash Butter	2.06	-0.00	1.94	-0.10	1.97	-0.09	1.95	-0.09	1.95	-0.06	1.97	-0.01	1.99	-0.02
Cash Cheese	1.75	+0.00	1.62	-0.03	1.65	-0.01	1.64	-0.02	1.63	-0.01	1.63	-0.02	1.65	-0.01
Corn							3.37	+0.01					3.47	+0.01
Soybeans					9.54	-0.01			9.59	-0.02			9.65	-0.01
Soybean Meal			298	-5			300	-3	300	-4			302	-3

*Change from the Previous Week Price

Market News (Continued)

Milk Continued

- 95% of all corn needs from January 2015 to September 2016 and 70% of SBM related feed needs for each month of 2015 from January December 2015. We held off on contracting corn beyond the 14-15 crop year.
- All of this locked in profits for this period.

All contracts were done based on showing what we believed was good profitability for that period, even though it was well below what was currently being experienced in the record 2014 profitability year at the time. As mentioned earlier when we looked at the market signals and historical trends we were highly confident that the 2014 bubble would burst significantly.

We also believe that 75-80% is the max amount of milk to commit to unless milk prices are at, or near, historical highs (like portions of 2014) so we maxed out our price protection in the 75-80% range and left the rest open to the market. We take a slightly different approach on feedstuffs and may push that beyond 80% when we believe it is prudent.

2. On 8/25/14 we contracted 75% of milk, 95% of corn and 70% of SBM related needs for January 2016 based on MARGINSMART projected profitability. This locked in profits for this month.

3. Based on watching the market trends and our continued belief that the market would bottom out in May – Sep 2016, and based on MARGINSMART projected profitability, on 4/20/15 we looked forward to 2016 and contracted 60% of all milk for each month of February through September 2016. We also contracted 35% of corn for all months from February through December 2016 and 45% of our SBM related needs from February through December at the same time. All of this locked in profits for February – September 2016.

4. We then filled in various percentages of milk and feed for the balance of 2016 during the rest of 2015 at various times when prices offered profitability options.

5. We also made a significant decision on 2/19/16 when we saw what we believed were low feed prices and we committed to buying 80% of corn, 100% of soybeans and 95% of SBM related needs for the remaining 2016 and all of 2017. We sold only a small percentage of 1Q 2017 milk at the time. Based on this decision, we have been over the price of market corn, but we have been well under on SBM as we committed to SBM prices averaging \$275 per ton through Dec 2017. We currently have only 18.7% of 2017 milk priced and will continue to monitor the market.

In summary, we use MARGINSMART to project out profitability so that we are well aware of the impact of our decisions. We then look at what is happening in both dairy and other industries in addition to dairy to see what we believe will happen in the grain industry; as well as what is happening in the beef, hog and poultry markets in the USA to gain a vision on how those combined may impact feed and grain prices.

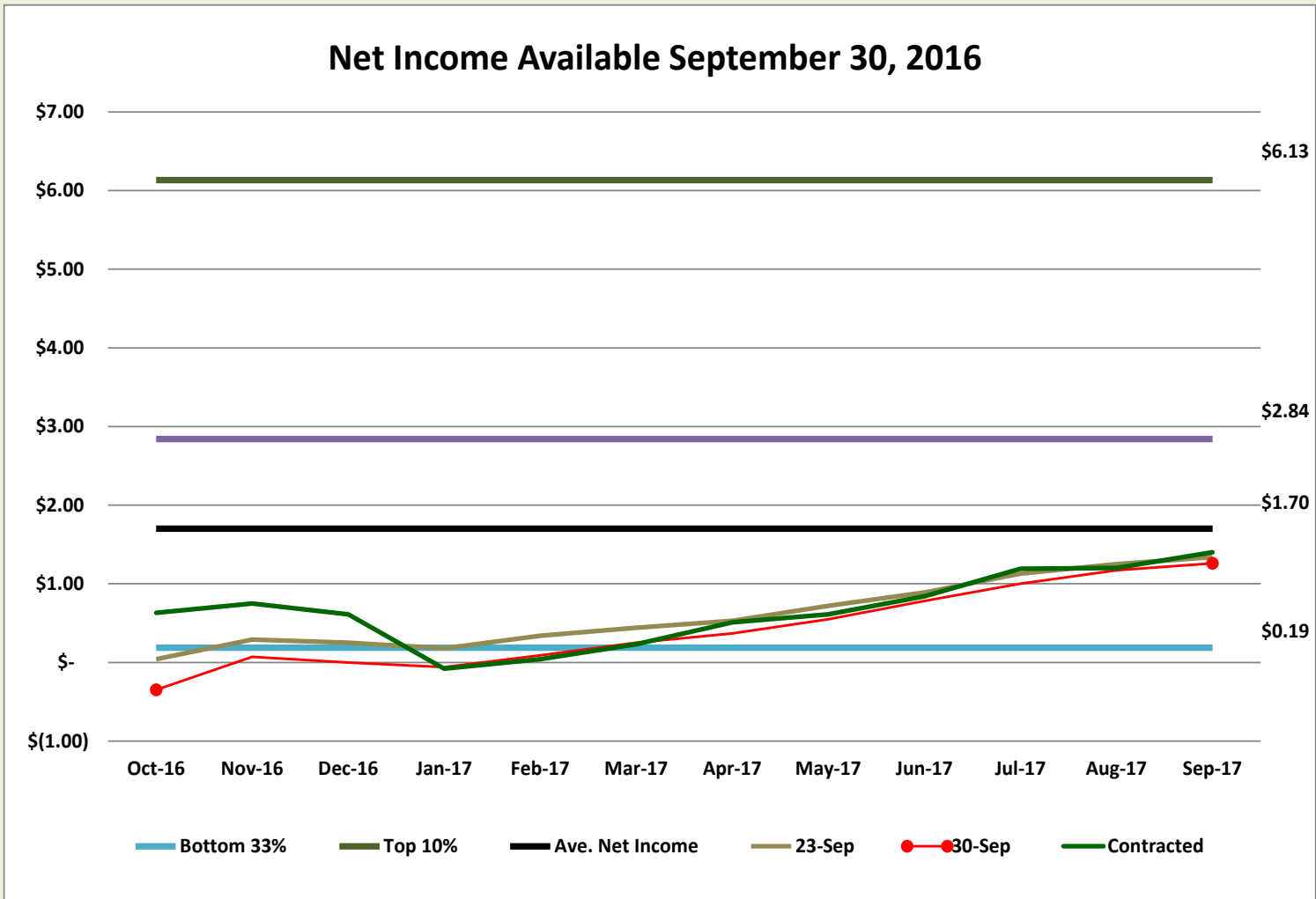
Grains/Feedstuffs/Cattle/Poultry:

Summary of USDA 10/3/16 Crop Progress Report

- Corn condition – 73% Good & Excellent vs. 74% last week and 68% last year
- Corn harvested – 24% vs. 5 year avg of 27%
- SB condition – 74% Good & Excellent vs. 73% last week and 64% last year
- SB Harvested – 26% vs. 5 year avg of 27%
-



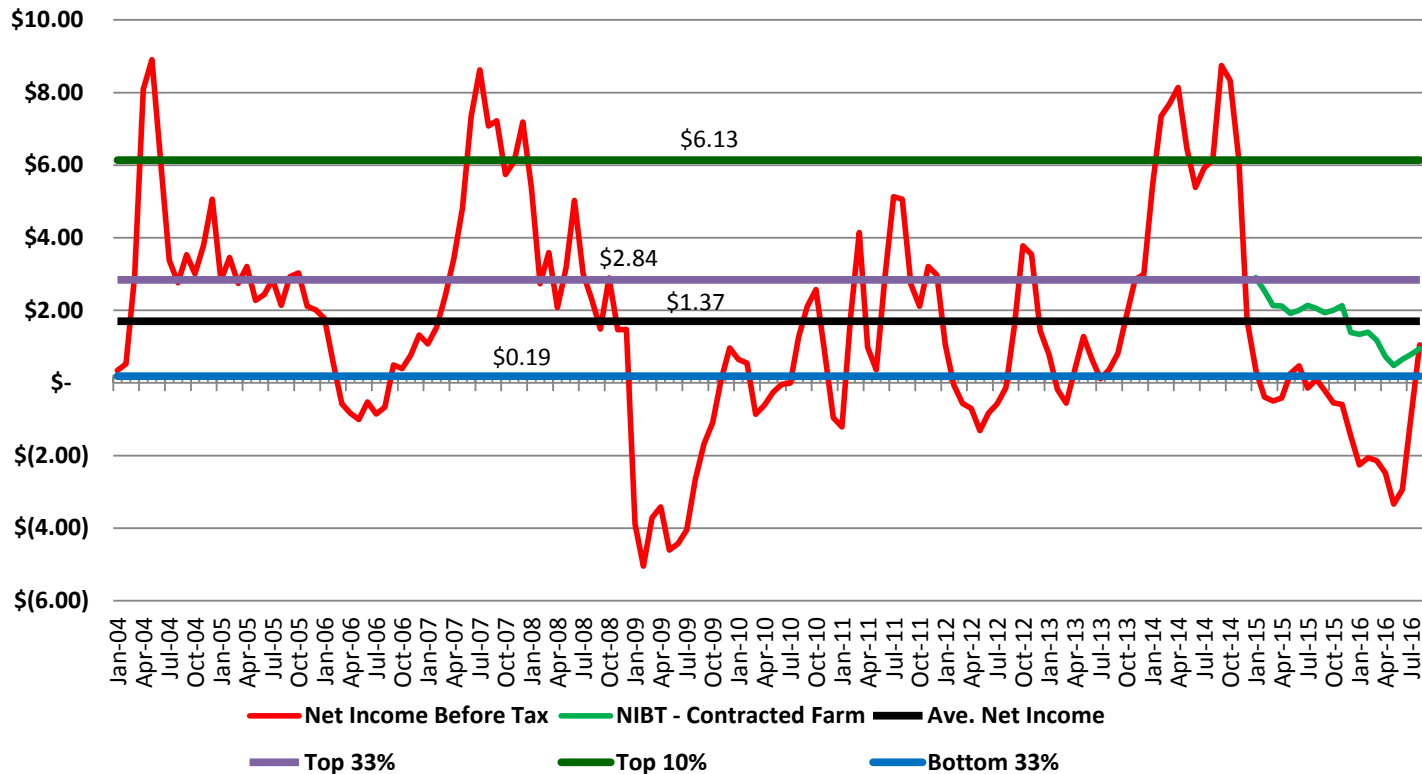
MARGINSMART® maintains a Sample Farm with 1,500 mature cows and 87 #s of milk / head / day shipped average. It buys 100% of its feed at market and its heifers are custom raised. The red line on the Net Income chart below shows the net income / cwt. available last Friday over the next 12 months based on 100% market prices for milk and feed, and full operating activities. We also show a green line for our Sample Farm that has executed milk and feed contracts as part of a price risk management strategy. **Effective 8/8/16, adjustments have been made to transition to no BST use by 3/31/17 which reduces milk production back to 83#s of milk per cow.**





MARGINSMART® maintains a Sample Farm with 1,500 mature cows and 87#s (current level – this has increased over the past 12 years) of milk / head / day shipped average. It buys 100% of its feed at market and its heifers are custom raised. We calculated the past 12 years’ results (with adj. milk / day). The red line on the chart below shows the net income before tax for the last 12 years WITHOUT ANY contracting, and completely subject to market prices. It also shows the Top 10% (90th percentile), top 33% (67th percentage), the average and bottom 33% (33rd percentile.) **Effective 8/8/16, adjustments have been made to transition to no BST use by 3/31/17 which reduces milk production back to 83#s of milk per cow.**

2004-2016 Historical Net Income Before Tax





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Historical Annual Average Net Income Before Tax

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
4.04	2.67	0.07	5.21	2.89	-2.79	0.44	2.52	0.60	0.95	6.46	-.25

Historical Quarterly Average Net Income Before Tax

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
2004	1.27	7.70	3.22	3.95
2005	3.01	2.64	2.64	2.38
2006	0.58	-0.79	-0.34	0.83
2007	1.66	5.19	7.64	6.34
2008	3.90	3.43	2.27	1.95
2009	-4.22	-4.15	-2.79	-0.01
2010	0.11	-0.30	1.13	0.82
2011	1.58	1.42	4.30	2.76
2012	0.15	-0.95	0.30	2.92
2013	0.02	0.77	0.43	2.57
2014	6.82	6.67	6.93	5.41
2015	-.18	.11	-.08	-.87
2016	-2.15	-2.92	0.31	