

meatup FORUM

For the latest in red meat R&D

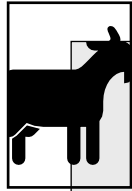
Restocking and moving forward

Dave Brown

Brown's Resource Management



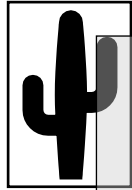
The key considerations



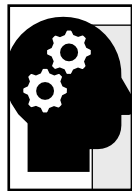
Buy back or breed up?



Are stock too expensive?



What to stock to buy?



Raising the capital



Loss v Gain – how we are wired

“... losses loom larger than gains”

- Fear of loss is about twice that of gain
- I.e., Most people would rather save \$20 than earn \$40
- Concept underpins our approach to making decisions about the future
- Concept can also undermine profitable decision making

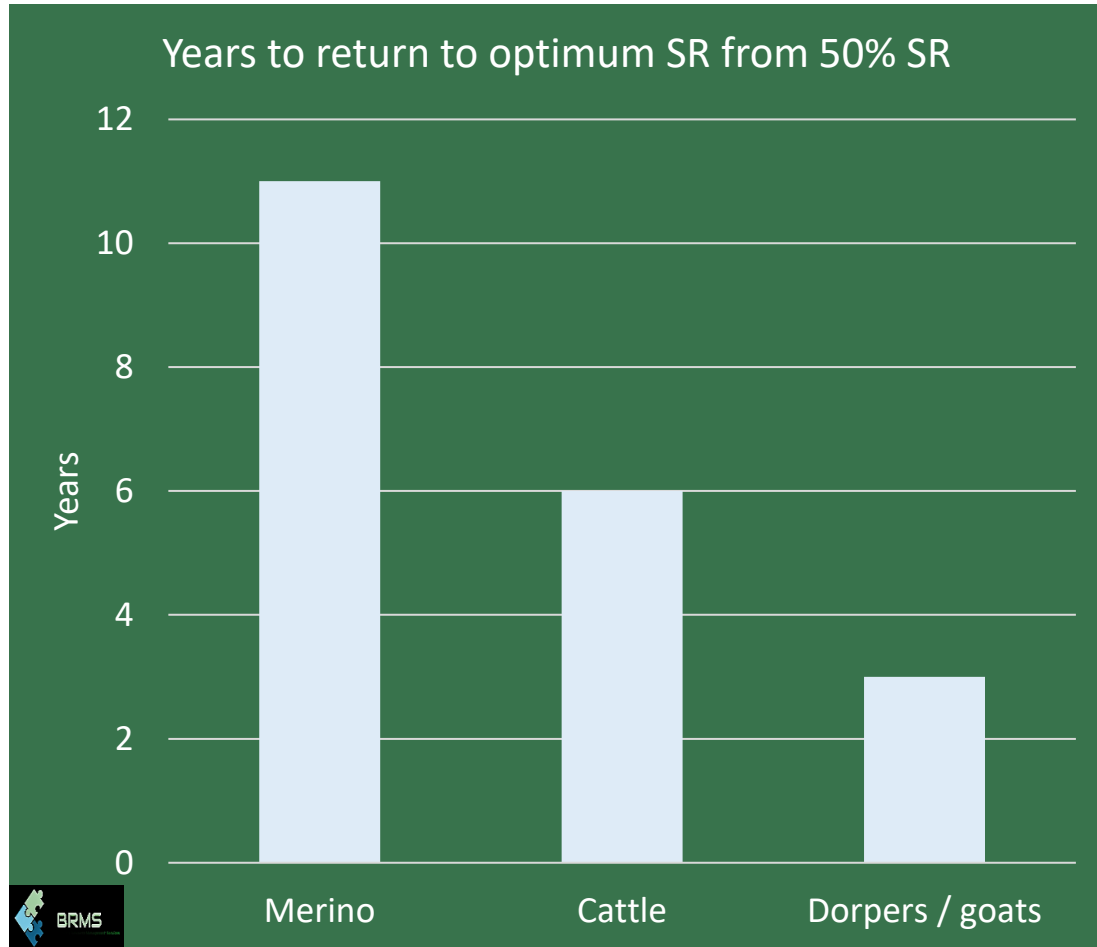
- If stock are too expensive to buy, they are too expensive to retain... and *vice versa*

But... if finance is limiting, breed up

Q1: Buy back or breed up?

- Always buy back, except when:
 1. They are too expensive – Q2
 2. Finance is limiting – Q3
- *Why?*
 - The opportunity cost of being understocked is, generally, high
 - If they are too expensive to buy, they are too expensive to retain
 - Buying back is a matter of principal, not of speculation
 - Current v future price of stock is a matter of speculation – and a separate question

Breeding up takes a long time – prepared to wait?

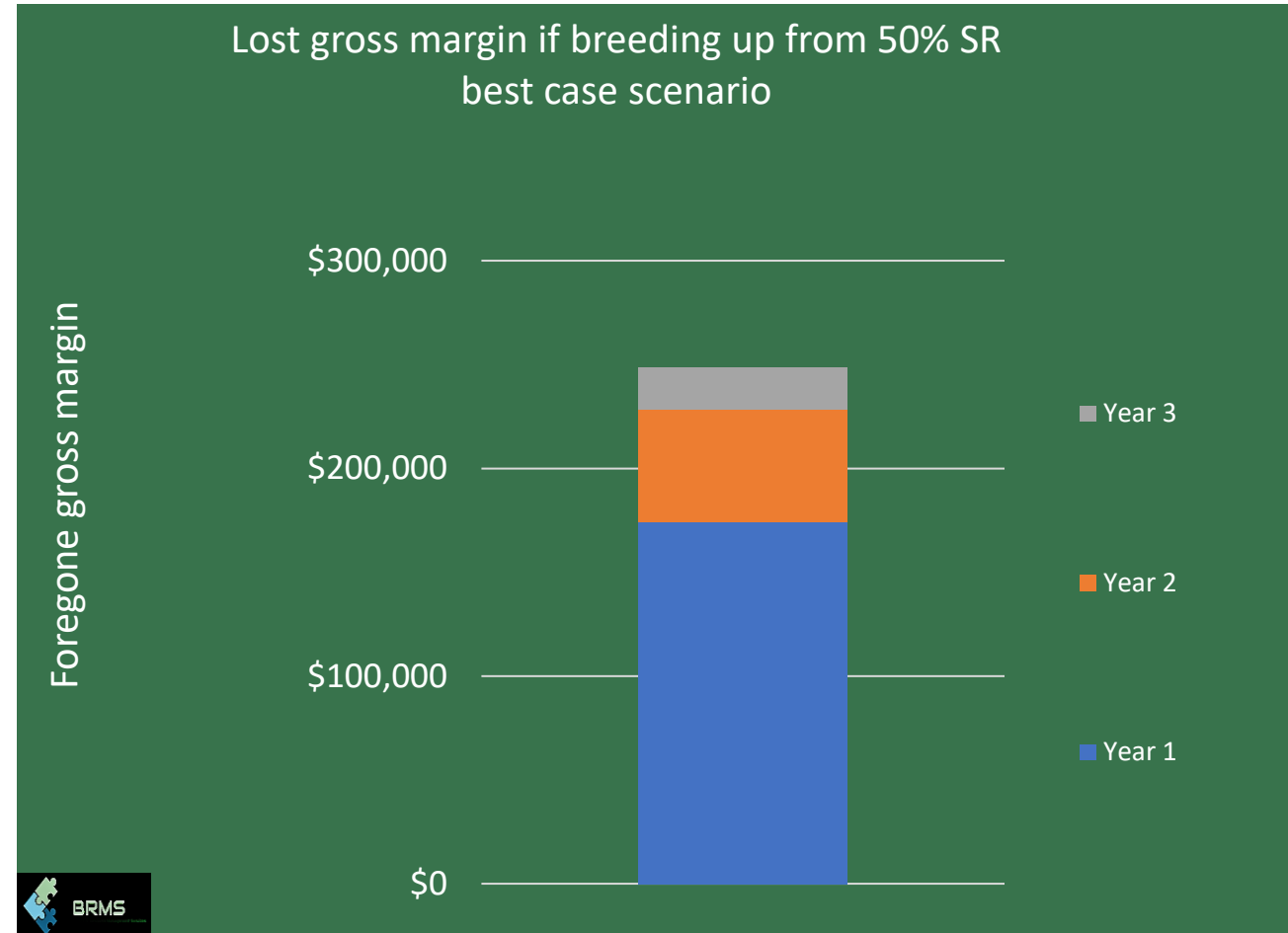


- Merino – CFA @ 5.5 yrs
- Cattle – CFA @ 10.5 yrs
- Dorpers & goats – CFA @ 5.5 yrs

@ \$55/DSE gross margins there is a high opportunity cost of not being fully stocked

- Merino operation
- *BUT principals are same for any enterprise*
- 5000 to 10,000 DSE
- Starting with ewes CFA @ 5.5

- To gain numbers
 - No purchases
 - Retained ewes to 7.5 yrs CFA
 - Retained wethers to 4 yrs CFA
 - 90% retention of ewe and whether hoggets



How to assess buying opportunities

+ Trading margin

Current v future price

+ Production margin

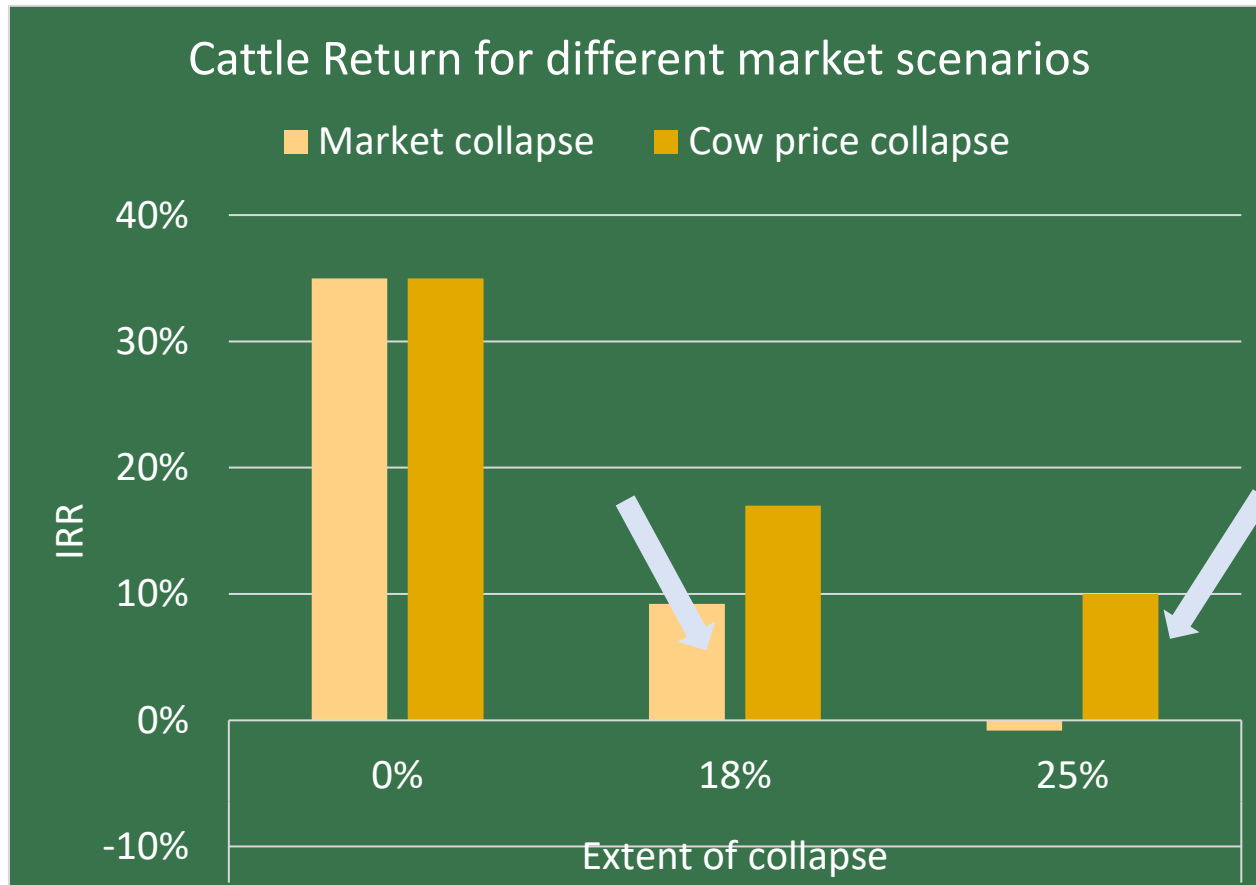
Production over the same period

- Expected costs

= the return

% ROI & Gross margin \$ / DSE

Q2: Are cattle too expensive?



- Using a 10% return as a minimum, not until:
- The weaner and cow market collapses by ~18%
- The cow market collapses by ~25%

But what about longer trades?

Stock

Purchase price
Breeder CFA value
Depreciation on breeder
Depreciation on breeder

PTIC cows

\$2,400
\$2,040
\$360
15%

Value of deal
Years of trade

\$2,694

\$2,354

\$2,770

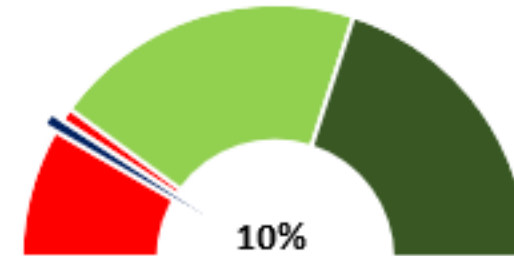
Years of trade	Stock	PTIC cows	Value of deal
0	-\$2,400	\$0	\$0
1	\$886	-\$2,040	-\$2,400
2	\$886	\$886	\$1,042
3	\$886	\$886	\$1,042
4	\$886	\$886	\$1,042
5	\$2,926	\$2,926	\$3,442

Q3: What to buy?

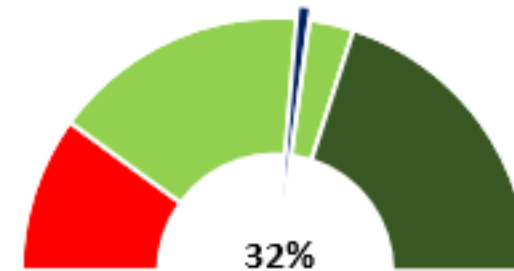
- There's a drink in most trades if the whole market doesn't collapse – you need to take a position
- What is your limiting factor – grass or finance?

Stock	PTIC cows	SIL dorper	Nannies
Purchase price	\$2,400	\$300	\$165
DSE rating	15	3.2	2
Repro rate (%)	92%	130%	130%
Offspring mortality	6%	15%	12%
Weaner weight (kg lwt)	200	42	25
Price received (\$/kg lwt)	\$6.00	\$4.24	\$4.24
Breeder mortality	2%	4%	4%
Total income (\$)	\$990	\$185	\$115
Direct expenses (\$/hd)	\$150	\$15	\$10
Gross margin (\$/hd)	\$840	\$170	\$105
<i>Gross margin (\$/DSE)</i>	<i>\$56</i>	<i>\$53</i>	<i>\$52</i>
Breeder CFA value	\$1,800	\$225	\$124
Depreciation on breeder	25%	25%	25%
Return	10%	32%	38%

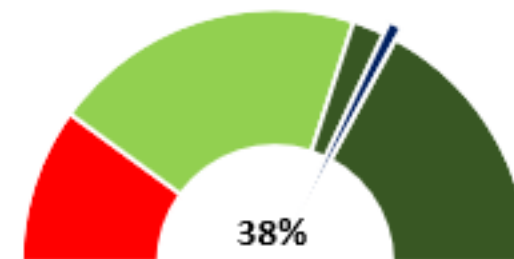
PTIC Cows



SIL Dorper



Nannies



Stock-take – where are we at?

1. Always breed up, subject trading margins (Q2) & finance
2. Are stock too expensive in today's market
 1. Do a simple trading analysis
 2. Currently beef prices can withstand a ~18% hit before the return doesn't warrant the risk
 3. 15% hit affordable on cow prices if we do a 5-yr trade
3. What stock do you buy? I'd buy sheep – but take a position & do your own numbers...

Cash flow implications

Question	Answer
How many stock do I need?	5000 ewes
How much capital do I need?	5000 x 300 = <u>\$1,500,000</u>
What type of debt and interest rate?	Stock loan with landed security – 5%
Loan term?	5 years
Potential extra GM?	\$275k
<u>Annual ammortisation (P&I repayments)</u>	<u>\$346k</u>
Can the cash flow handle it after restocking?	Maybe – will rely on \$75k from existing cash flow
Additional working capital requirements	Use cash flow to check month of peak debt against O/D facility
Timing of first payment	Negotiate with bank – later the better!

Raising the capital...

THE 5 Cs OF CREDIT

- ✓ 1. CHARACTER
- ✓ 2. CAPITAL
- ✓ 3. CAPACITY
- ✓ 4. COLLATERAL
- ✓ 5. CONDITIONS

Other considerations

- Agistment
 - Yes - if the decision is to not buy back because
 1. Stock are too expensive or
 2. Finance is limiting
 - But lower risk = lower returns
 - If you can manage the risk then I'd buy stock
- Lease
- Land stewardship options

Other considerations

- Try to pay out your loans within an agreed term with bank – residual debt at the next drought will make finance hard to get
- Stock loans – trading stock only
- Know your circumstances – on the whole the market is rational but not always for individual businesses
 - Grass / Finance / Resources
 - Hurdle rates of return

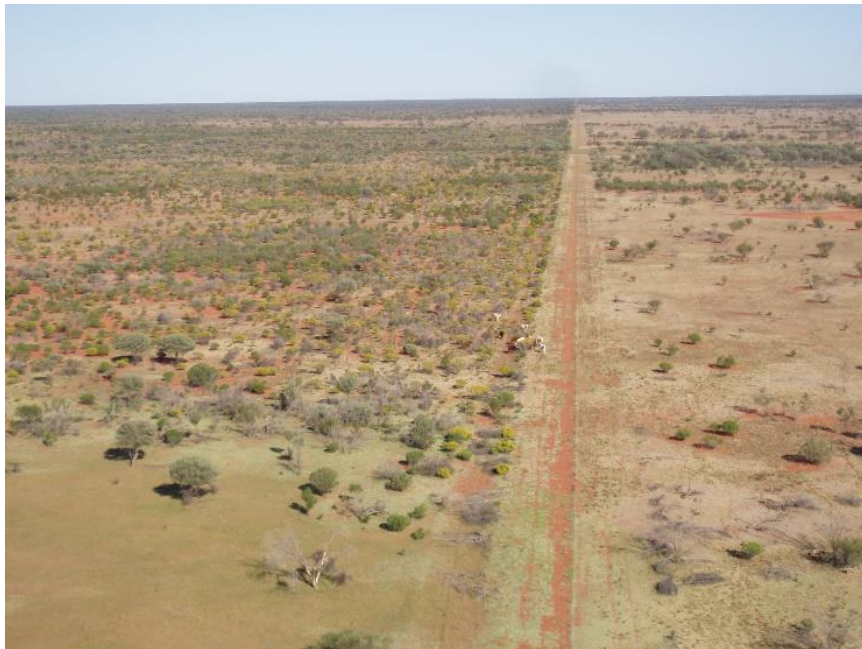
Moving forward...



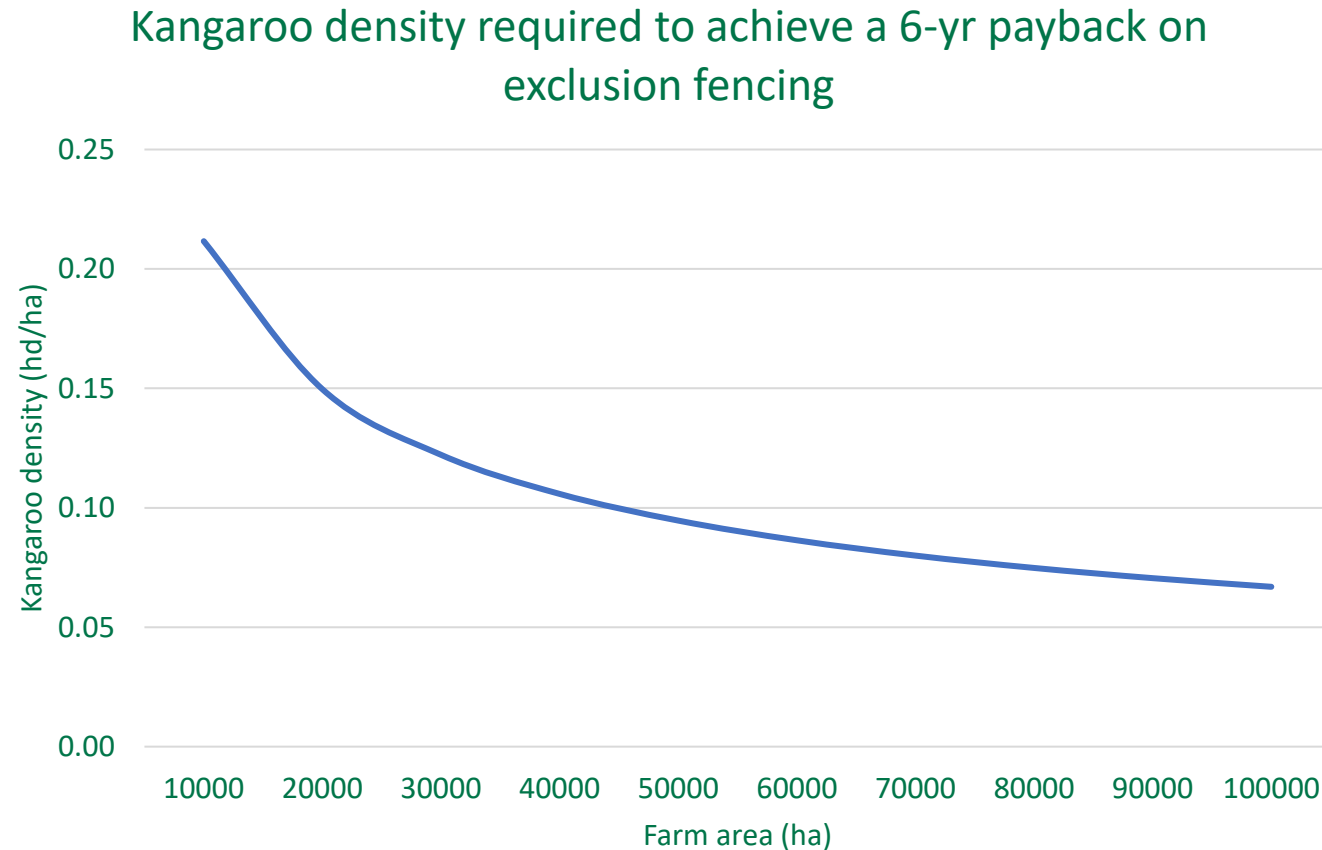
- ✓ Total grazing pressure management
- ✓ Feed utilisation
- ✓ Remote sensing technology

Opportunity: Total Grazing Pressure management

- Economics or environment – your choice
- Expand enterprise choice
- Better balance of grazing pressure
- Ability to rest country
- Manage non-commercial grazing and dogs
- Know where your stock are
- Better biosecurity



Will exclusion fencing pay?



•Assumptions:

- \$45 gross margin/DSE
- Kangaroo = 0.7 DSE
- Farm is square
- Exclusion fence costs \$10k/km

Opportunities: Increasing feed utilization

- 20-30% of years need to be profitable enough to cover for the remaining years - take a long term view
- Invest in systems, resources & planning to get stock on and off the property quickly
- Develop a rapport with your bank manager; do get caught without finance & livestock
- Learn to appraise trading options for returns and risk quickly and confidently



Opportunity: Remote technology

- Conquering long distances
- Minimizing losses in summer
- Reduced labour requirements
- Reduced wear on vehicles
- Partial solution to OH&S issues
- Pest ID & management



Take home messages

1. Don't let the loses loom larger than the gains – assess opportunities rationally
2. Always try to buy back if:
 1. Margins warrant the risk
 2. You have finance
3. Breed up only if you have no finance
4. There are buying options out there – assess them, know your capital limits and future flow of cash
5. Make your business attractive to banks – do the 5-Cs



Resources for your next steps

•Programs

- MLA Profitable Grazing Systems
Making better capital allocation decisions
Business Essentials
- MLA 'cost of production' tools
- MLA livestock webinars
- MLA Business Edge program
- MLA Producer demonstration sites

- Benchmarking programs & groups
- Ram Select – Sheep CRC



Questions

- Dave Brown

- 0455 967 323



BRMS
Brown's Resource Management Services