

Arizona Dairy Summary



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Dairy Farm Statistics

Data Provided by Moore Stephens Wurth Frazer & Torbet LLP.

| <i>Income/ Cow</i> | <i>2004</i> | <i>2005</i> | <i>2006</i> | <i>2007</i> | <i>2008</i> | <i>2009 (through 1st 6 months)</i> |
|------------------------|----------------|----------------|----------------|----------------|----------------|---|
| Milk | \$3,195 | \$3,027 | 2,643 | \$4,115 | \$3,702 | \$1,138 |
| <u>Calves-other</u> | <u>112</u> | <u>100</u> | <u>83</u> | <u>82</u> | <u>63</u> | <u>22</u> |
| Gross/cow | \$3,307 | \$3,127 | \$2,726 | \$4,197 | \$3,765 | \$1,160 |
| Expenses | | | | | | |
| Feed | \$1,262 | \$1,292 | \$1,284 | \$1,622 | \$1,853 | \$859 |
| Labor | 271 | 278 | 282 | 318 | 322 | 143 |
| Herd Replace. | 325 | 325 | 291 | 368 | 351 | 148 |
| <u>Other</u> | <u>875</u> | <u>978</u> | <u>1,136</u> | <u>1,195</u> | <u>1,153</u> | <u>447</u> |
| Total Ex. | \$2,733 | \$2,873 | \$2,993 | \$3,503 | \$3,679 | \$1,597 |
| Net/Cow | \$574 | \$254 | (\$267) | \$694 | \$86 | (\$437) |
| Net/Cow/Month | \$48 | \$21 | (\$22) | \$58 | \$7 | (\$73) |
| Ave. Herd Size | 2,084 | 2,315 | 3,656 | 3,302 | 3,133 | NA |

Dairy Income/Expense

- ◆ 2004-2005 milk prices and profits were up.
- ◆ 2006 milk prices were down \$2/Cwt. (to \$12/Cwt blended) and expenses were up \$120/cow, not a profitable year.
- ◆ 2007 milk prices were up \$6, to \$18.62/Cwt (blended), expenses were up \$300/head. Very profitable year.
- ◆ 2008 milk prices averaged \$17.11/Cwt. (Blended) Costs were up approximately \$100/cow. The year was still profitable for efficient producers.

Dairy Income/Expenses

- ◆ 2009 milk prices were down considerably to \$11.59 (blended). Even most efficient producers had big losses for at least the first 9 months. Prices began to rebound later in the year. Feed and other expenses declined from 2008. Overall 2009 was very bad year and huge amounts of equity were lost, damages maybe irreparable for some producers.
- ◆ 2010 UDA milk prices projected at \$15.85/CWT (Blended). Appears that 2010 will be a breakeven to profitable year for efficient producers. This probably will not be enough to heal the damage done during 2009. Some producers who have not already done so maybe forced out of business if profitably doesn't significantly improve.
 - Currently corn prices are creeping up, could take other feed expenses with it.
 - Milk futures are higher but fluctuating.

UDA Blended Milk Price 40-60 Blend Quota/Over Quota



Cash Lease/Cap Rate Summary

| <u>Wet Cow Capacity</u> | <u>Rent/Cow/Month</u> | <u>Expense Ratio</u> | <u>Vacancy</u> | <u>Cap Rates</u> | <u>Trend</u> |
|-------------------------|-----------------------|----------------------|----------------|------------------|----------------------|
| 1,000 to 3,000 | \$7 to \$18/cow | 13% to 19% | Minimal | 3% to 11% | Stable to decreasing |

-Rental rates at the top end of the range represent modern Saudi Style facilities with extensive high velocity fan/mist cooling or Korral Kooler systems. The low end represents old flat conventional type facilities built in the 70's in poor to fair condition.

-Low end Cap Rates represented by modern higher cost facilities with high underlying land values.

-In 2010 new dairy rentals may soften considering current dairy economy, new leases may include payment indexed to milk prices or other price protection.

CWT- Herd Buyout Program

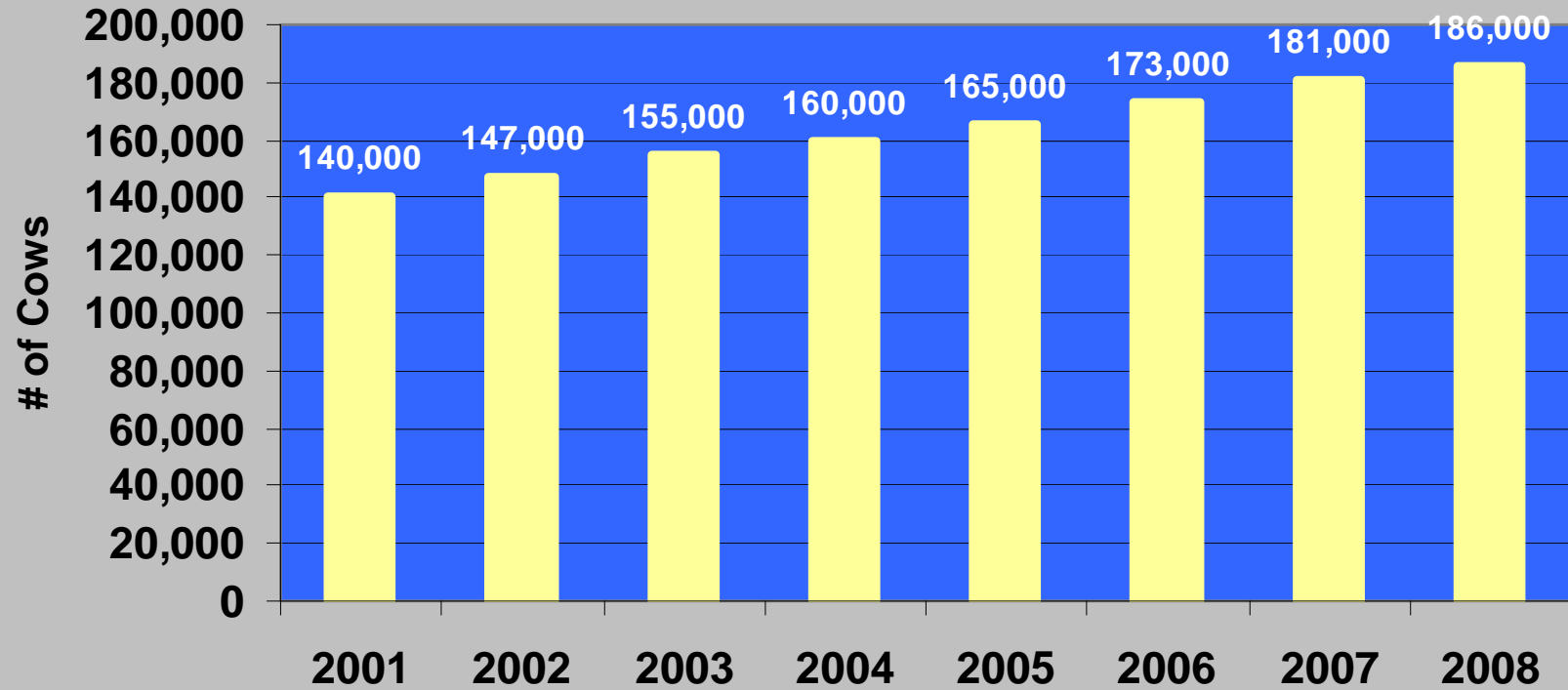
- ◆ Producer funded herd reduction program
- ◆ 3 rounds beginning 04/09
 - Reduced Arizona's dairy herd by estimated 26,500 cows on 18 facilities
 - Over 14% of AZ's dairy herd from 2008 reduced in 2009 from CWT alone
 - ◆ Some facilities repopulated with owned replacements or purchased herds
 - ◆ Older facilities taken out of production
 - ◆ Some facilities for sale or lease
 - Does not include herd reduction through culling

CWT- Herd Buyout Program

- ◆ 20 AZ dairy facilities empty at one point this year
- ◆ Nationwide 201,566 head, 2.16% of dairy cows, have been removed in three 2009 CWT rounds.
 - In 2008 there were 9,315,000 dairy cows in US per USDA/NASS.

of Cows in Arizona

(source- 2008 AZ Ag Statistics Bulletin)



2009 Cow #'s will be significantly lower based on CWT alone.

Dairy Sales Data

- ◆ Sales Prices (600-3,300 cow Dairies)
- ◆ 1991-00 (4-5) \$667 to \$1,457/cow
- ◆ 2001 sale (1) \$2,450/cow (not fully complete)
- ◆ 2006 sale (1) \$4,100-4,300/cow
- ◆ 2007 sale (1) \$4,200/cow (\$55K Land value)
- ◆ 2008 & 2009 no sales
- ◆ 2010- At least 5 dairies being marketed for sale. No escrows yet.

Dairy Sales Data

- ◆ Currently at least 5 dairies for sale
 - Pylman's Buckeye Facility- 6,500 hd
 - Pylman's Avondale Facility- 2,750 hd (high land value)
 - Faria Dairy in Willcox- 6,000 hd (currently occupied)
 - Withrow Dairy- 5,600 hd
 - Vicksburg Dairy- 3,600 hd
- ◆ Totals roughly 24,450 hole space for sale
- ◆ Potentially other dairies on the market either for sale or lease in the coming months.

2010 & Future Expectations

- ◆ Currently several dairies for sale in a down market
 - Negative effect on dairy facility values & rental rates.
- ◆ AZ is still an attractive place to dairy compared to other states.
- ◆ Milk futures currently near breakeven levels allowing efficient producers to be profitable. Milk prices are fluctuating.

2010 & Future Expectations

- ◆ Feed and fuel costs could increase raising the breakeven levels and off setting milk price increases.
- ◆ Declines in land value have decreased ability to borrow money to cover losses.
- ◆ Even small profitability in 2010 will not immediately recover damage done to dairy business in 2009. Some producers may not recover from recent losses and be forced out of business in coming years.