

2012 Arizona Dairy Report



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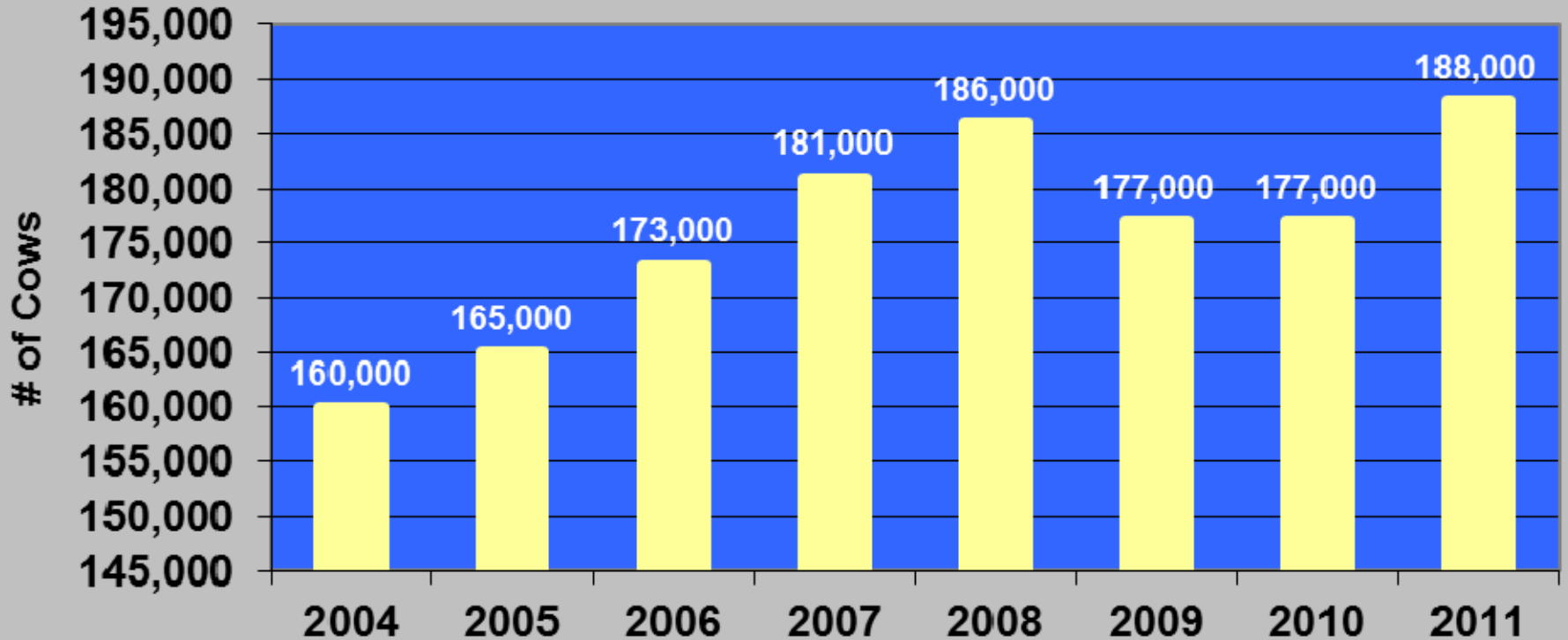
Recent Market Trends

- 2011 was the most profitable year since 2007
- 2011 Arizona cow numbers up from 2010
 - 192,000 milk cows in Arizona in December 2011
 - 183,000 head in December 2010
 - 167,000 head in December 2009
- # of milk cows up 1% in the United States
- Milk production per cow was similar from 2010 to 2011



of Cows in Arizona

per USDA's AZ Agricultural Statistics



UDA Blended Milk Price

50-50 Blend Qouta/Over Quota



Dairy Income & Expense Trends

Data Provided by Frazer, Frost LLLP's "Dairy Farm Operating Trends"

<i>Income/ Cow</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011 (thru 6/30/11)</i>
Milk	\$4,115	\$3,702	\$2,569	\$3,510	\$2,143
<u>Calves-other</u>	<u>82</u>	<u>63</u>	<u>52</u>	<u>22</u>	<u>33</u>
Gross/cow	\$4,197	\$3,765	\$2,621	\$3,532	\$2,176
<i>Expenses/Cow</i>					
Feed	\$1,622	\$1,853	\$1,728	\$1,549	\$1,056
Labor	318	322	323	334	154
Herd Repl.	368	351	399	316	136
<u>Other</u>	<u>1,195</u>	<u>1,153</u>	<u>992</u>	<u>1,036</u>	<u>493</u>
Total Ex.	\$3,503	\$3,679	\$3,442	\$3,280	\$1,893
Net Income/Cow	\$694	\$86	(821)	\$252	\$337
Net Income/Cow/ Month	\$58	\$7	(\$68)	\$21	\$56
Ave. Herd Size	3,302	3,133	NA	NA	NA

Dairy Income/Expenses

- 2011 was profitable year for dairy industry
- 2011 avg blended UDA milk price averaged \$19.46 per cwt in 2011
- Avg expenses were also higher than previous 2 years
 - Due to high feed and fuel costs
 - Competition for local farms to grow dairy feed versus cotton & wheat



Dairy Income/Expenses

- 2012 Projections
 - UDA Blended Milk Price currently projected to be \$16.65 per cwt for the year (as of 2/16/12)
 - down \$3+ per cwt from 2011.
 - Feed and fuel remain high
 - Outlook is profitable but still cautious



Rental Rates

- Leases negotiated in 2010-2011.
 - Recently negotiated leases indicate dairy rental rates have maintained historical rental rate levels despite the downturn in the market
- Newer dairies with Saudi style shades/corrals
 - \$15-\$17 per wet head per month
 - Calf/Heifer facilities increase per cow rental rate



Rental Rates

- Older, conventional style dairies
 - Typical rental rate \$8-12 per wet head/month
- Rental Rates vary within these ranges, depending on quality of cooling, housing and improvement condition
- Dairies with substantial on-site calf and heifer raising facilities command more rent



Dairy Sales

- No dairy sales in 2011
- Prior to 2010, no true dairy sales since 2001
- 4 Dairy Sales in 2010
 - 2 lender owned facilities
 - 2 conventional buyer/seller transactions
 - All 4 were newer, modern at least partially Saudi style
 - These sales indicate estimated external depreciation/obsolescence of -3.23% through -42%, average of -20%



Dairy Sales

- External depreciation in the current market is likely less because of improvement in dairy market (no sales for proof)
- Currently 1 empty dairy (Vicksburg Dairy)
 - Needs considerable work to bring to production stage



2010 Dairy Sales

- Sale prices of the four 2010 dairy sales range from \$1,705 per cow to \$2,727 per COW
 - Depending on condition and quality of improvements at the time of sale
- Cap rates from these 4 sales estimated between 5.24% and 7.57%



New Construction

- No new construction projects in the works
 - Several dairies have added corrals to existing facilities
 - Remodeled existing corrals



Outlook

- Concern over high plateau of fuel and hay prices
- Supply management issues still being debated to prevent such large swings in the market
- Arizona is still considered desirable place to dairy compared with neighboring states

