

2006 Iowa Pork Regional Conferences

*Swine Industry Update  
February  
2006*



*Mark Greenwood*

*Agenda*

- ◆ 2005 in Review
- ◆ Cost of Production
- ◆ What is happening in the country
- ◆ Challenges & Issues

*2005 In Review*

- ◆ Most farms best position ever financially
- ◆ Average owner equity is at 60% GAAP
- ◆ Average profit per head - \$25-\$30
- ◆ Over \$100 MM went out on tax planning notes in December - lots of feed paid ahead

*2005 In Review*

- ◆ Expansion - 70-80,000 added that will hit in 2006
- ◆ Lots of new wean to finish spaces (smaller sites)
- ◆ Many systems increased weaning age 17-20 days
- ◆ Production was excellent until the end of 2005

## Weaned Pig Costs

### Items

Feed	\$6.50
Breeding	\$2.00
Vet Med	\$2.00
Ins., Sup. Util.	\$3.00
Labor	\$6.50
Repairs, Taxes	\$1.50
Replacement	\$2.00
P&I	\$5.50
Mg't fee	<u>\$1.00</u>
Totals	\$30.00

## Nursery 10-50#

- ◆ Death loss under 3%
- ◆ ADG of .9# or greater
- ◆ Weaned pig > 12#
- ◆ FC < 1.55
- ◆ Feed Cost/ gain \$.16

## Nursery Costs 10-50#

### Items

Contract Fee	\$5.00
Death Loss	\$1.20
Feed Cost	\$6.20
Vacc./vet med	\$ 1.00
<u>Trucking</u>	<u>\$1.00</u>
Totals	\$14.40

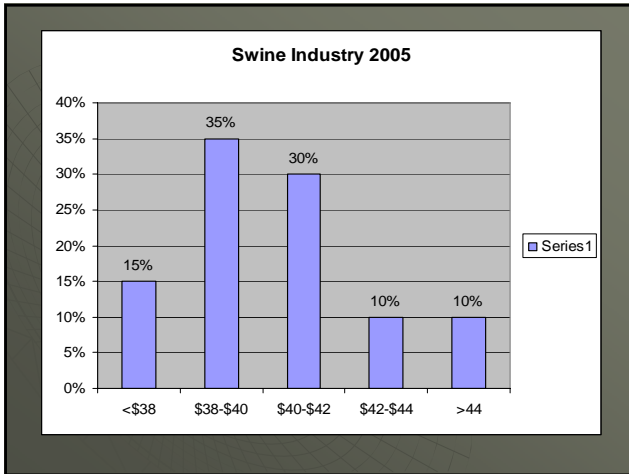
Corn @ \$1.90 & meal @ \$185/ton

## Finish Costs 50-260#

### Items

Contract Finish	\$ 14.25
Feed Cost	\$ 32.50
Vet Med	\$ 2.00
Death Loss	\$ 2.00
Trucking	\$ 2.00
Interest	\$ 1.75
<u>Gen. Admin.</u>	<u>\$ 3.00</u>
Total Cost	\$57.50

Corn \$1.90 meal at \$185/ton



### *Costs per weaned pig*

2500 sow unit

- ◆ Unit produces a \$26 weaned pig
- ◆ 11# weaned pig
- ◆ Death loss W-F is 8%
- ◆ ADG 1.44
- ◆ 8% market light and culls

### *Costs per weaned pig*

2500 sow unit

- ◆ Unit produces a \$32 weaned pig
- ◆ 13# weaned pig
- ◆ Death loss W-F is 6%
- ◆ ADG 1.54
- ◆ 6% market light and culls
- ◆ Which one is better ?

### *Costs per weaned pig*

2500 sow unit

- ◆ Unit produces at \$32 weaned pig
- ◆ Produces \$448,000 more \$ in revenue at \$65 carcass weight or \$8.89 more per pig
- ◆ Net advantage of \$2.89 per head
- ◆ 50,000 hd/yr \$144,500 more revenue
- ◆ It is about #'s sold per sow year

### *What is our potential ?*

- ◆ Currently we market 4245# pork/ sow/ yr
- ◆ Potential for sure is to be at 6000#
- ◆  $6000 / 270\# \text{ pig} = 22.2 \text{ pigs sold/ yr}$
- ◆  $22.2 / 88\% \text{ [deads, lights, culls]} = 25.3 \text{ pigs weaned}$
- ◆ Is 7000# out of the picture ? I don't think so
- ◆ Point - we don't need new sows, we just need to be better with what we have

### *What's happening in the country*

- ◆ PRRS
- ◆ Triumph
- ◆ Where should we put our money ?
- ◆ Lower Prices?
- ◆ Expansion talk

### *What's happening in the country*

- ◆ PRRS- diseases
  - Lots of breaks in the Midwest
  - Flu issues everywhere
  - TGE in the SE
  - The "new virus"
  - Might help markets this summer

### *What's happening in the country*

- ◆ Triumph
  - Plant is finally up and running
  - 2006 will be a single shift (8000)
  - Goal is to double shift
  - Should help producer prices

### *What's happening in the country*

- ◆ Where should we put our money
  - Many producers have invested in other areas (Triumph)
  - Many own more of their system (barns)
  - Many are spending money on Info. Systems and making their systems better

### *What's happening in the country*

- ◆ Lower Prices?
  - First time in 23 months could be negative #'s
  - Futures still show profit
  - Will they lock profits up?

### *What's happening in the country*

- ◆ Expansion talk
  - My guess another 70-80,000 sows will be put down
  - Many smaller producers are doubling 1500 to 3000
  - Many large systems are adding something

### *Issues- Higher Costs*

- ◆ Challenges - Costs
  - Brand new sow unit - \$1300 sow space
  - \$1300 sow space - \$462,700/yr = \$8.90/pig
  - \$1000 sow space - \$355,743 = \$6.84
  - \$750 sow space - \$266,000 = \$5.11
  - (Based on 10 year payback )
  - To have the same cashflow as \$750 you would need a 28 year amortization

## *What does the future hold?*

- ◆ Challenges – Costs
- ◆ Wean to Finish space - \$230 pig space
- ◆ Example 2000 head site = \$460,000
- ◆ \$65,493/year or \$32.75 per space
- ◆ \$180 space (3 years ago) = \$51,255 or \$25.63 per space
- ◆ Need a 14 ½ year loan for the same cash costs

## *Issues*

- ◆ Average age of producer today is 45-50
- ◆ Different mindset versus 10 years ago
- ◆ They have a lot to lose today
- ◆ They don't want to risk what they have built
- ◆ That is also the reason for slow growth
- ◆ Succession issue will be one of the largest issues we face in the next 10-20 years

## *What will lenders do?*

- ◆ Lots of Capital available
- ◆ Good terms and rates for producers
- ◆ Large systems will be prudent in growth
- ◆ What will your new breakeven be in a new system compared to old?
- ◆ Environmental issues slow growth more than anything

## *What does the future hold?*

- ◆ Challenges
  - Product demand
    - US Pork consumption has not grown much the last 20 years
    - Exports have been our savior – how much more can we grow?
    - Food safety is a must
    - Need more creativity on the domestic side to stimulate demand

## *What does the future hold?*

- ◆ Challenges
  - Costs and productivity
    - We aren't the best on productivity
    - Feed costs have been cheap – ethanol will grow and drive feed costs up
    - Will we be competitive with other countries on costs – Brazil & Eastern Europe

## *What does the future hold?*

- ◆ Challenges
  - People and Leadership
    - Average age of owners today is 40-50 years old
    - Who will take over these organizations?
    - Will it be family members or stockholders?
    - Succession planning is critical & developing talent is critical

## *Surviving Company Profiles*

- ◆ Vertically integrated or coordinated – this has to happen
- ◆ Survivors have great information systems to make decisions (costs, production, environmental, traceability)
- ◆ Leaders that want to be better every day

## *You control your own destiny*

