



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 | -0.23 | -0.33 | -0.21 | -0.05 | +0.05 | -0.01 | +0.06 | +0.00 | -0.05 | +0.00 | -0.02 | +0.01 |

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

The tip of the week relates to a few agricultural governmental legislation items in California that will likely have an impact on milk production there going forward.

Item #1 Overtime. Starting in 2019 the work day subject to overtime will decrease ½ hour per day for each year so that after 4 years overtime will be required on any hours over 8 per day, or 40 hours per week.

Item #2 Minimum Wage. On 1/1/2016 the minimum wage was essentially raised to \$10.00 per hour including all agricultural jobs. Therefore overtime rates under the new law would be a minimum of \$15.00 per hour.

These are worth keeping in mind. Water supply issues combined with the items above will continue to put a strain on dairy production in CA. While the new OT rules do not take effect for a few years, they will likely have an impact on any expansion in CA, as well as movement out of the State from now on.

Milk: USDA FMMO estimates are as follows: The milk production forecasts for 2016 and 2017 are raised from last month as the cow inventory has grown more rapidly than previously expected. All milk prices are forecast lower at \$15.80 to \$15.90 per cwt for 2016 and \$15.55 to \$16.45 per cwt for 2017.

Market News

Grains/Feedstuffs/Cattle/Poultry:

Summary of USDA 10/17/16 Crop Progress Report

- Corn condition – 74% Good & Excellent vs. 73% last week and 68% last year
- Corn mature - 97% vs. 5 year avg of 94%
- Corn harvested – 46% vs. 5 year avg of 49%
- SB condition – 74% Good & Excellent vs. 74% last week and 64% last year
- SB Harvested - 62% vs. 5 year avg of 63%

Note that pockets of extremely wet weather will likely impact harvest timing of both corn and soybeans through portions of the Upper Midwest. This could impact yields and quality of grain in the affected areas. The impact on harvest percentages may not be noticed for a couple weeks. This is worth considering as it relates to corn and SB futures prices.

MARGINSMART Insight

WE ARE ENTERING THE ANNUAL "FALL COW RUN" FOR BEEF PACKERS. MANY BEEF COWS WILL BE HEADED TO THE MARKET IN THE NEXT 60 DAYS WHICH WILL LIKELY NEGATIVELY IMPACT CULL COW PRICES FOR THE PERIOD.

Contact us for a FREE MARGINSMART® Demo!

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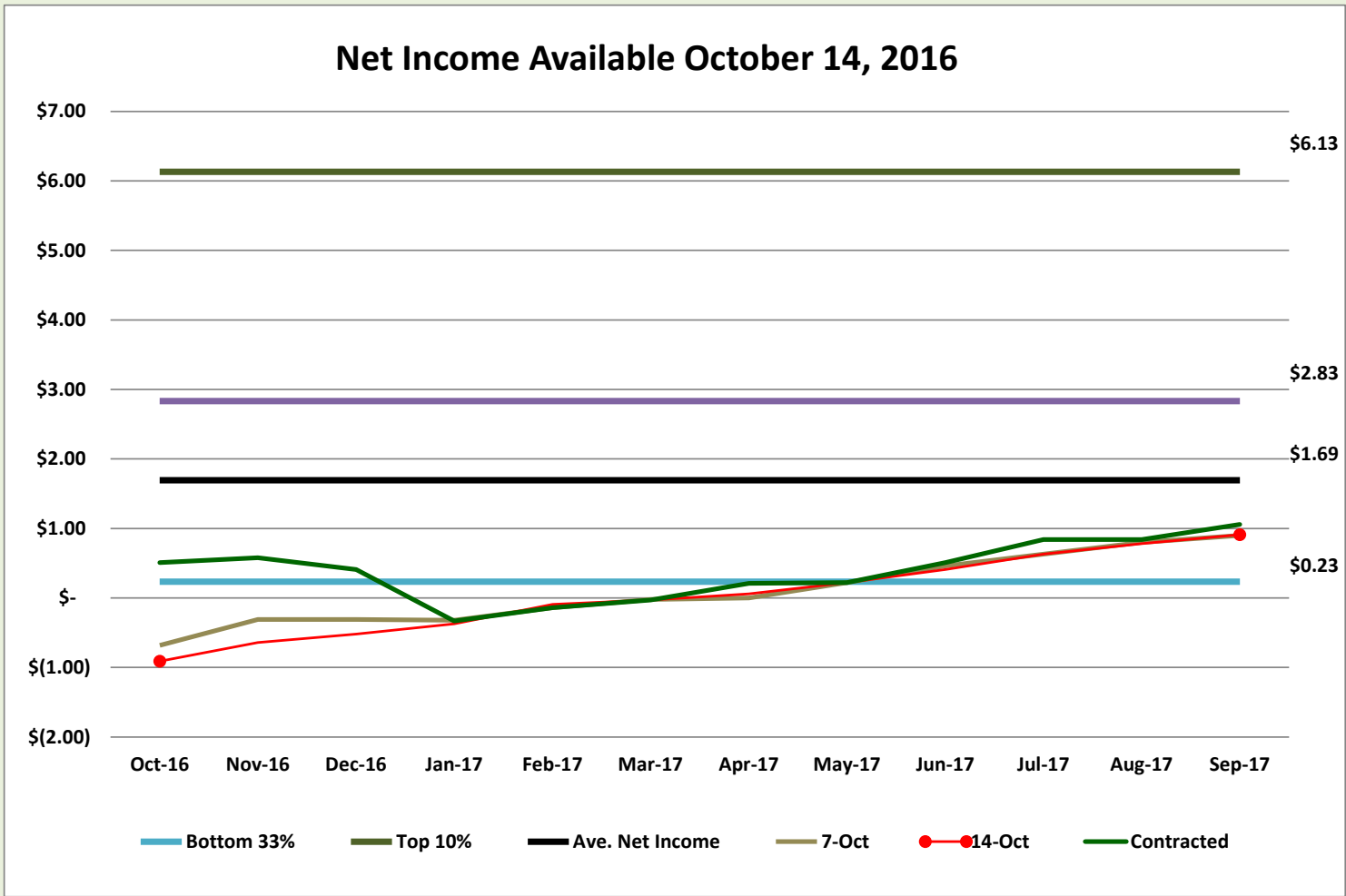
Market Price Updates (As of 10/14/2016 Close)

| | Oct '16 | +/-* | Nov '16 | +/-* | Dec '16 | +/-* | Jan '17 | +/-* | Feb '17 | +/-* | Mar '17 | +/-* | Apr '17 | +/-* |
|----------------|---------|-------|---------|-------|---------|-------|---------|-------|---------|-------|---------|-------|---------|-------|
| Class III Milk | 14.68 | -0.31 | 15.04 | -0.43 | 15.13 | -0.31 | 15.32 | -0.08 | 15.57 | +0.00 | 15.64 | -0.05 | 15.80 | +0.03 |
| Class IV Milk | 13.88 | -0.14 | 13.78 | -0.36 | 14.07 | -0.25 | 14.44 | -0.18 | 14.88 | -0.15 | 15.34 | -0.05 | 15.65 | +0.05 |
| Cash Butter | 1.90 | -0.03 | 1.82 | -0.11 | 1.83 | -0.09 | 1.85 | -0.09 | 1.88 | -0.07 | 1.92 | -0.04 | 1.97 | -0.01 |
| Cash Cheese | 1.57 | -0.03 | 1.60 | -0.03 | 1.61 | -0.02 | 1.62 | -0.01 | 1.64 | +0.00 | 1.65 | +0.00 | 1.66 | +0.00 |
| Corn | | | | | 3.54 | +0.14 | | | | | 3.64 | +0.15 | | |
| Soybeans | | | 9.62 | +0.05 | | | 9.70 | +0.07 | | | 9.76 | +0.07 | | |
| Soybean Meal | 300 | +01 | | | 301 | +01 | 302 | +01 | | | 304 | +01 | | |

*Change from the Previous Week Price



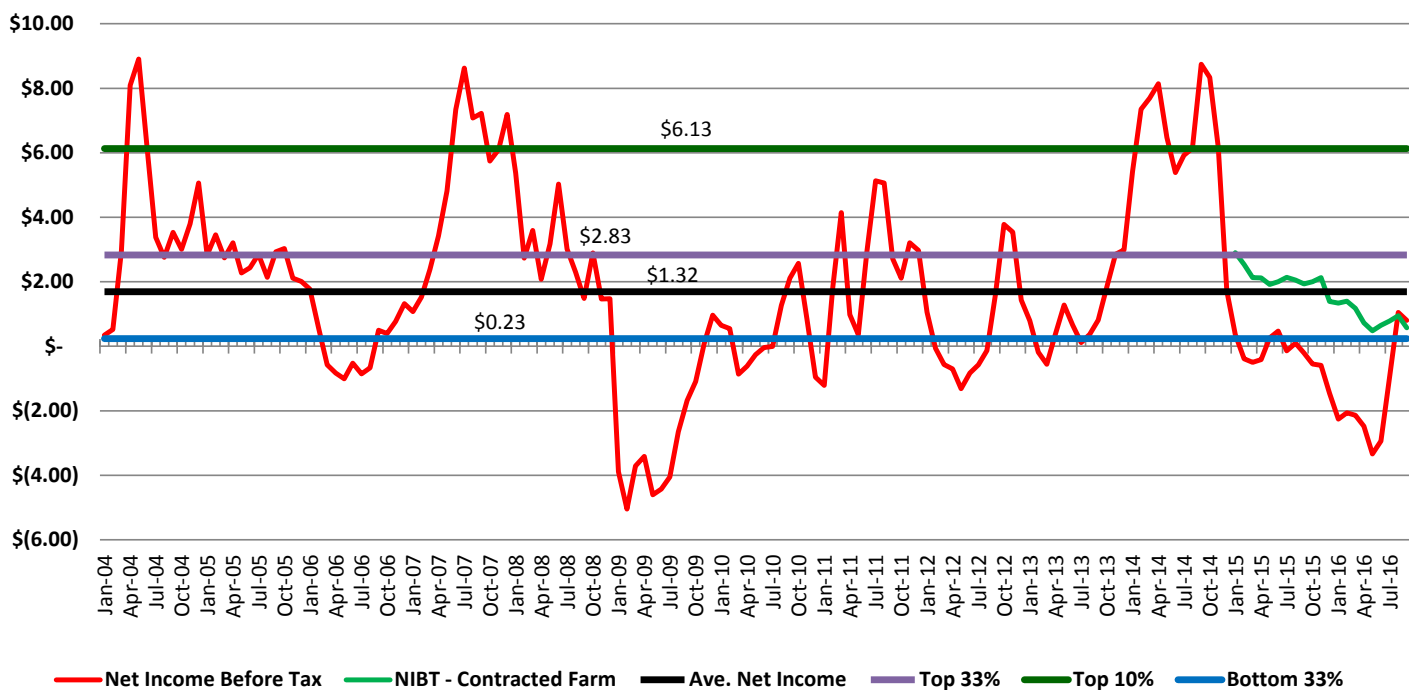
MARGINSMART® maintains a Sample Farm with 1,500 mature cows and 87 #s of milk / head / day shipped average. It buys 100% of its feed at market and its heifers are custom raised. The red line on the Net Income chart below shows the net income / cwt. available last Friday over the next 12 months based 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 | -0.25 |

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 | -0.18 | .11 | -0.08 | -0.87 |
| 2016 | -2.15 | -2.92 | 0.31 | |