



WEEKLY NEWSLETTER

"For SMART Management"

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MARGINSMART® Sample Farm Profitability Changes From Last Report

| | Aug'16 | Sep'16 | Oct'16 | Nov'16 | Dec'16 | Jan'17 | Feb'17 | Mar'17 | April'17 | May '17 | June '17 | July '17 |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|----------|---------|----------|----------|
| Change From Prior Week | +0.03 | +0.29 | +0.38 | +0.37 | +0.30 | +0.11 | -0.01 | -0.03 | -0.08 | -0.11 | -0.15 | -0.20 |

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

This week we will revisit the bottom end of profitability which I had periodically commented on over the past 18 months in newsletters. I think it is important to revisit predictions. I had continually mentioned that I expected the "bottom" to occur within 20-24 months after the record high. The record high was in Sept. 2014. I can now confirm that the low was in May 2016, or 20 months after the peak. Please see the chart below which fills in the blanks for the past 3 record profitability periods. We used this to contract milk and profit over the past 2 years for our contract farm. From Jan 15 through Aug 16, the MARGINSMART contracted farm was profitable in ALL 20 months and had an average profitability of \$1.26 per cwt; while the MARGINSMART sample farm completely on the market had losses in 15 of the 20 months and an average loss of \$.91 per cwt. for an average difference of \$2.25 per cwt.

| Month | Class III | Profitability Per Cwt. | Net Change | Months to Bottom |
|-----------|-----------|------------------------|------------|------------------|
| May 2004 | \$19.66 | \$9.00 | | |
| May 2006 | \$10.83 | (\$1.01) | (\$10.01) | 24 |
| July 2007 | \$21.38 | \$8.62 | | |
| Feb 2009 | \$9.31 | (\$5.05) | (\$13.67) | 20 |
| Sept 2014 | \$24.58 | \$8.74 | | |
| May 2016 | \$12.76 | (\$3.34) | (\$12.08) | 20 |

Market News (Continued)

Milk: The final August '16 announced Class III price was \$16.91 per cwt. – up \$1.67 from July '16 and up \$.64 from Aug '15. The final Aug '16 Class IV price was \$14.65 per cwt., down \$.19 from July '16, and up \$1.75 per cwt. from Aug '15.

Grains/Feedstuffs/Cattle/Poultry:

Summary of USDA 8/29/16 Crop Progress Report

- Corn condition – 74% Good & Excellent vs. 75% last week and 68% last year
- SB condition – 73% Good & Excellent vs. 73% last week and 63% last year

Beef Production/Price Statistics

- YTD Federally Inspected beef slaughter through 9/3/16 was up 4.3% head from 2015
- YTD cow slaughter alone was up 4.0% from 2015
- Avg. live fed steer price week ending 9/3/16 was \$110 per cwt. vs. \$142 last year - down 22.5%

MARGINSMART Insight

JUST A REMINDER THAT MARGINSMART WILL BE AT THE 50TH WORLD DAIRY EXPO IN MADISON, WI OCT 4-8. PLEASE PLAN TO STOP AND SEE US!

Contact us for a **FREE** MARGINSMART® Demo!

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Market Price Updates (As of 9/2/2016 Close)

| | Aug '16 | +/-* | Sep '16 | +/-* | Oct '16 | +/-* | Nov '16 | +/-* | Dec'16 | +/-* | Jan'17 | +/-* | Feb'17 | +/-* |
|----------------|---------|-------|---------|-------|---------|-------|---------|-------|--------|-------|--------|-------|--------|-------|
| Class III Milk | 16.91 | +0.00 | 16.87 | +0.27 | 16.98 | +0.41 | 16.70 | +0.46 | 16.28 | +0.34 | 15.96 | +0.18 | 15.96 | +0.06 |
| Class IV Milk | 14.65 | -0.05 | 14.53 | -0.07 | 15.28 | +0.12 | 15.70 | +0.20 | 15.56 | +0.26 | 15.57 | +0.37 | 15.79 | +0.35 |
| Cash Butter | 2.22 | +0.00 | 2.11 | -0.03 | 2.15 | -0.02 | 2.15 | -0.03 | 2.08 | -0.01 | 2.00 | +0.00 | 2.00 | +0.00 |
| Cash Cheese | 1.81 | +0.00 | 1.80 | +0.03 | 1.78 | +0.04 | 1.75 | +0.05 | 1.70 | +0.04 | 1.66 | +0.01 | 1.67 | +0.01 |
| Corn | | | 3.16 | +0.00 | | | | | 3.28 | +0.03 | | | | |
| Soybeans | 10.03 | +0.00 | 9.68 | -0.23 | | | 9.52 | -0.15 | | | 9.56 | -0.14 | | |
| Soybean Meal | 333 | +0.00 | 314 | -0.07 | 310 | -0.08 | | | 307 | -0.07 | 307 | -0.06 | | |

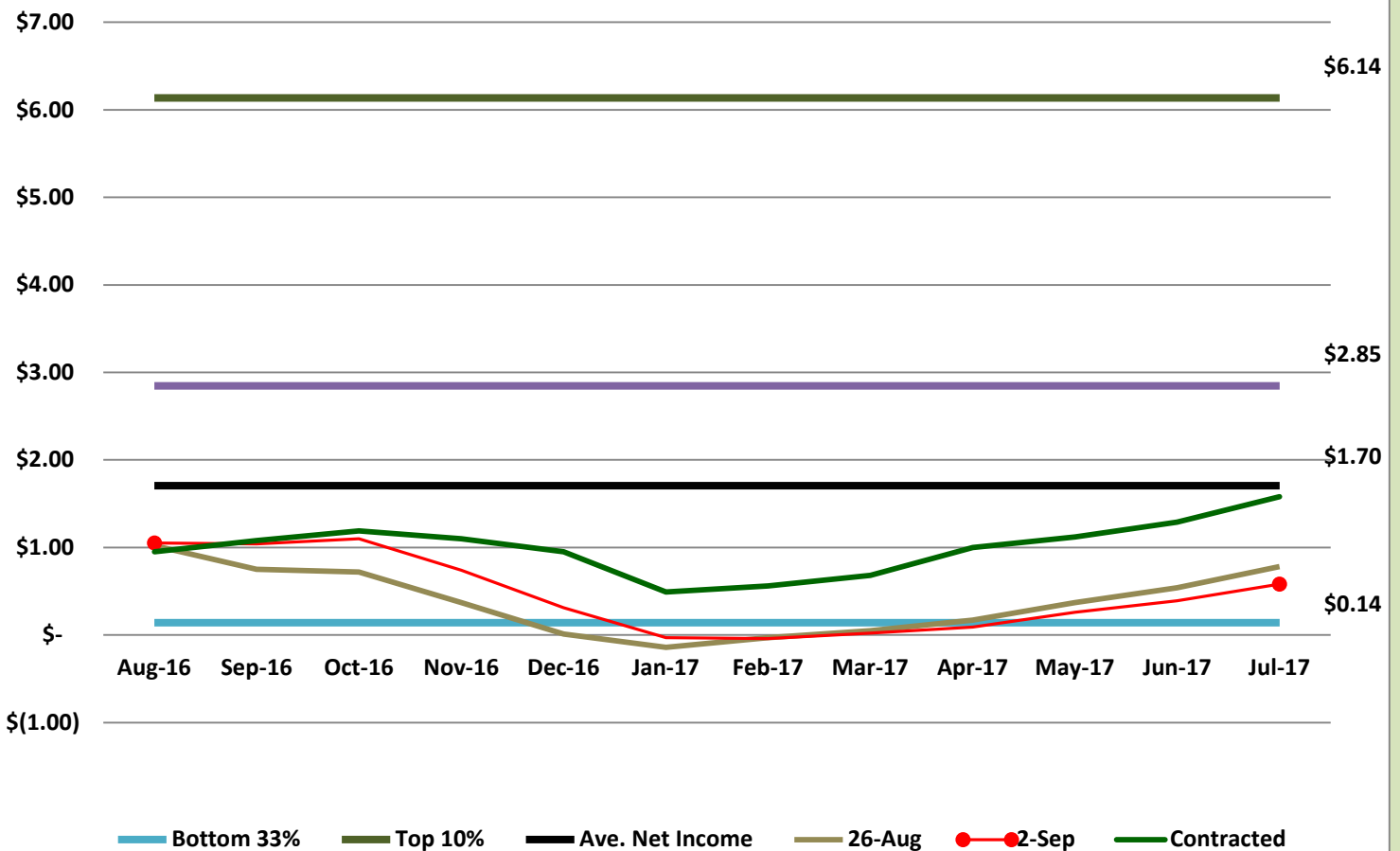
*Change from the Previous Week Price

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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.**

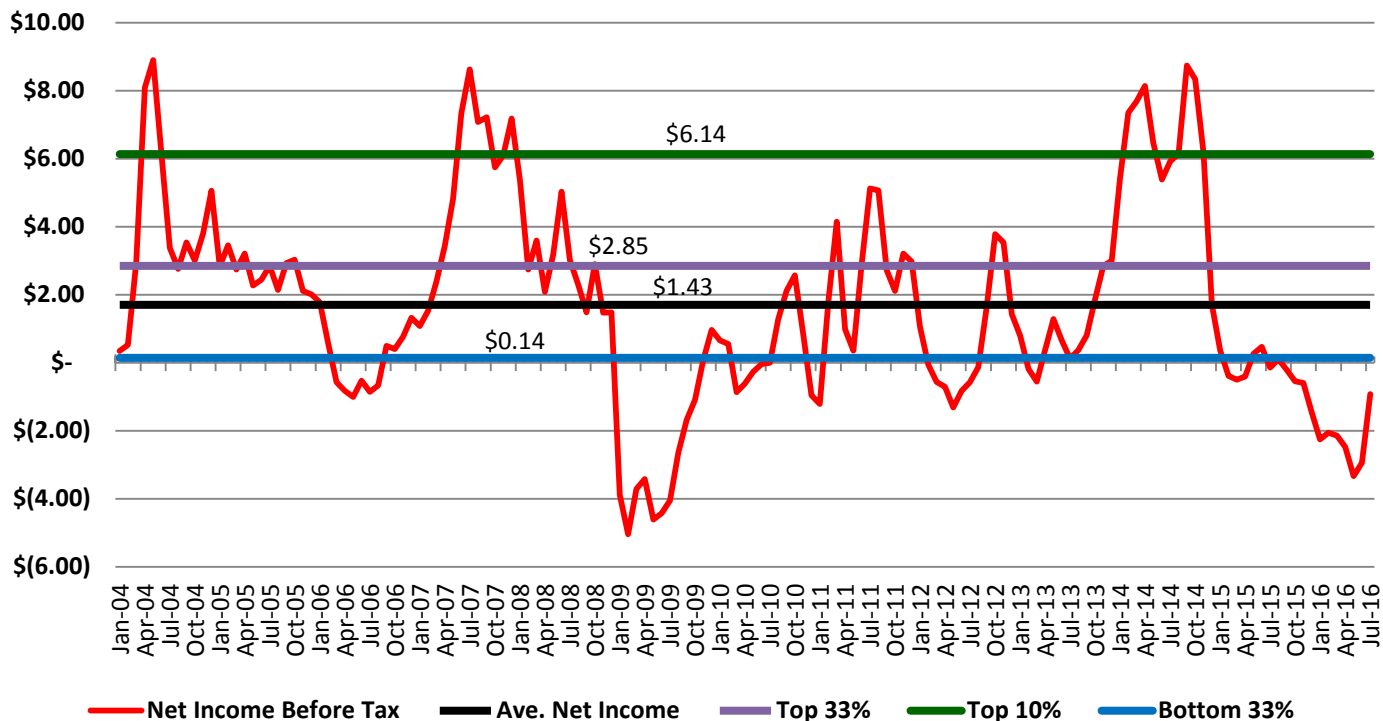
Net Income Available September 2, 2016





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 | -.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 | -.18 | .11 | -.08 | -.87 |
| 2016 | -2.15 | -2.92 | | |