

Linwood Management Group, LLC



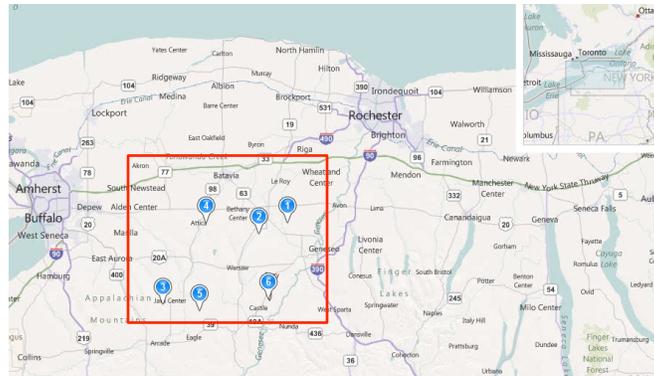
Linwood Management Group, LLC

- Family owned and operated dairy farms located in the western New York milkshed
- Producing high quality raw milk products
- Delivering ~220 million pounds of milk per year to local markets
- Common management which ensures adherence to established quality standards





- 1) Noblehurst Farms
- 2) Synergy – Farm 1
- 3) Synergy – Farm 2
- 4) Baker Brook Dairy
- 5) McCormick Dairy
- 6) Southview Farm



8400 total cows – six sites – within 30 mile radius – 180M people within 10 hour haul



Growth Management

- Root causes of problems
- DPMPP – provide more effective safety net
- DMSP – reduce volatility and gov't outlays
- Voluntary program
- We can't individually influence dairy policy
 - We can influence how we react to policy changes



Background / Industry Structure

- In 2011, 87.7% of the dairy farms in the U.S. (52,600 farms) produced 24.5% of the milk
 - The average farm had 51 cows, with each lactating cow producing 56 pounds of milk per day
 - Producing approximately 76,000 pounds of milk per month or 0.4 (200K) contracts



Background / Industry Structure

- Consider 400K pounds of milk per month to be a minimum risk mgmt level (50% hedged)
 - that is a 250 cow herd
- In other words, 90% of the dairy farms cannot utilize exchange-based dairy risk management
 - They can use LGM-Dairy (if funded)
 - They can use bundled or OTC hedge programs



Background / Industry Structure

- Also in 2011, 2.9% of the dairy farms in the U.S. (1,750 farms) produced 50.3% of the milk
 - The average farm had 2,427 cows, with each lactating cow producing 72.4 pounds per day
 - Producing approximately 4,635,000 pounds of milk per month or 23 (200K) contracts
 - Using current risk management tools is not an issue for this group of farms



Growth Mgmt - Consequences

- What portion of milk supply will participate in DMSP/DPMPP?
 - Too early or perhaps impossible to predict – what does your gut tell you?
 - Trend in dairy margins during enrollment period
 - The decision likely comes down to the attractiveness of the margin insurance to the farm



Growth Mgmt - Consequences

- **What portion of milk supply will participate in DMSP/DPMPP? (cont'd)**
 - Smaller farms more likely to enroll in DMSP/DPMPP (safety net)
 - Producers of all sizes less educated on risk management tools are more likely to enroll
 - Regional pockets of greater participation from large-scale farms (e.g. California, Idaho)



Growth Mgmt - Consequences

- **What are rational strategies for farmers that are vulnerable and enroll in DMSP/DPMPP?**
 - Sending milk to plant costs money, but then again so does getting rid of it
 - Feed milk back to cows or youngstock/calves
 - Cull bottom-end animals to boost feed efficiency but not milk production
 - Fertilizer for crops
 - Transition to less input/output intensive farming system



Growth Mgmt - Consequences

- **Does it matter if the producer is exempt from the DMSP/DPMPP program?**
 - Yes because it matters to the milk buyer (processor/end-user) if that milk doesn't arrive, since they are not running their plants as efficiently as they could have
 - Depending on how processors/end-users react to the new dairy policy, producer enrollment in DMSP/DPMPP could hinder market access to certain processing facilities



Growth Mgmt - Consequences

- **How will DMSP/DPMPP affect milk flow?**
 - Milk will theoretically go to the highest value use
 - Lowest value products (commodities) will see first reduction in milk flow
 - Next tier is milk rationing amongst remaining accounts
 - High demand sectors will pay the most for milk, so they should not be affected



Growth Mgmt - Consequences

- **How will DMSP/DPMPP affect milk flow?**
(cont'd)

- Free-riders will get biggest benefit (opt-out)
 - Large-scale, well risk-managed, low cost farms in markets with high premiums
 - Integrated small and large farms
 - Farms that do not follow the margin calculation model (e.g. grazing dairies)



Growth Mgmt - Consequences

- **How does voluntary nature of DMSP/DPMPP play into regional supply/demand dynamics?**

- Milk buyer (processor/end-user) will have to get more aggressive in securing milk over long-term
 - More upstream integration?
 - Longer-term contracts ?
 - Risk management win-win?
- Will voluntary program be effective enough?
 - Depends on participation



Growth Mgmt - Consequences

- **Our guess?**
 - Participation will be highly regional
 - Northeast 70% of farms / 30% of milk supply ??
 - Southeast 25% of farms / 10% of milk supply ??
 - Midwest 50% of farms / 25% of milk supply ??
 - West/Southwest 50% of farms / 50% of milk supply ??
 - Regional supply/demand imbalances



Looking ahead to 2017

- What metrics do we use to gauge success?
 - Does DMSP/DPMPP help accelerate milk supply growth or slow milk supply growth?
 - Does DMSP/DPMPP accelerate consolidation or slow consolidation?
- Role of U.S. dairy industry as the world's milk balancing plant in a medium dairy cost region