



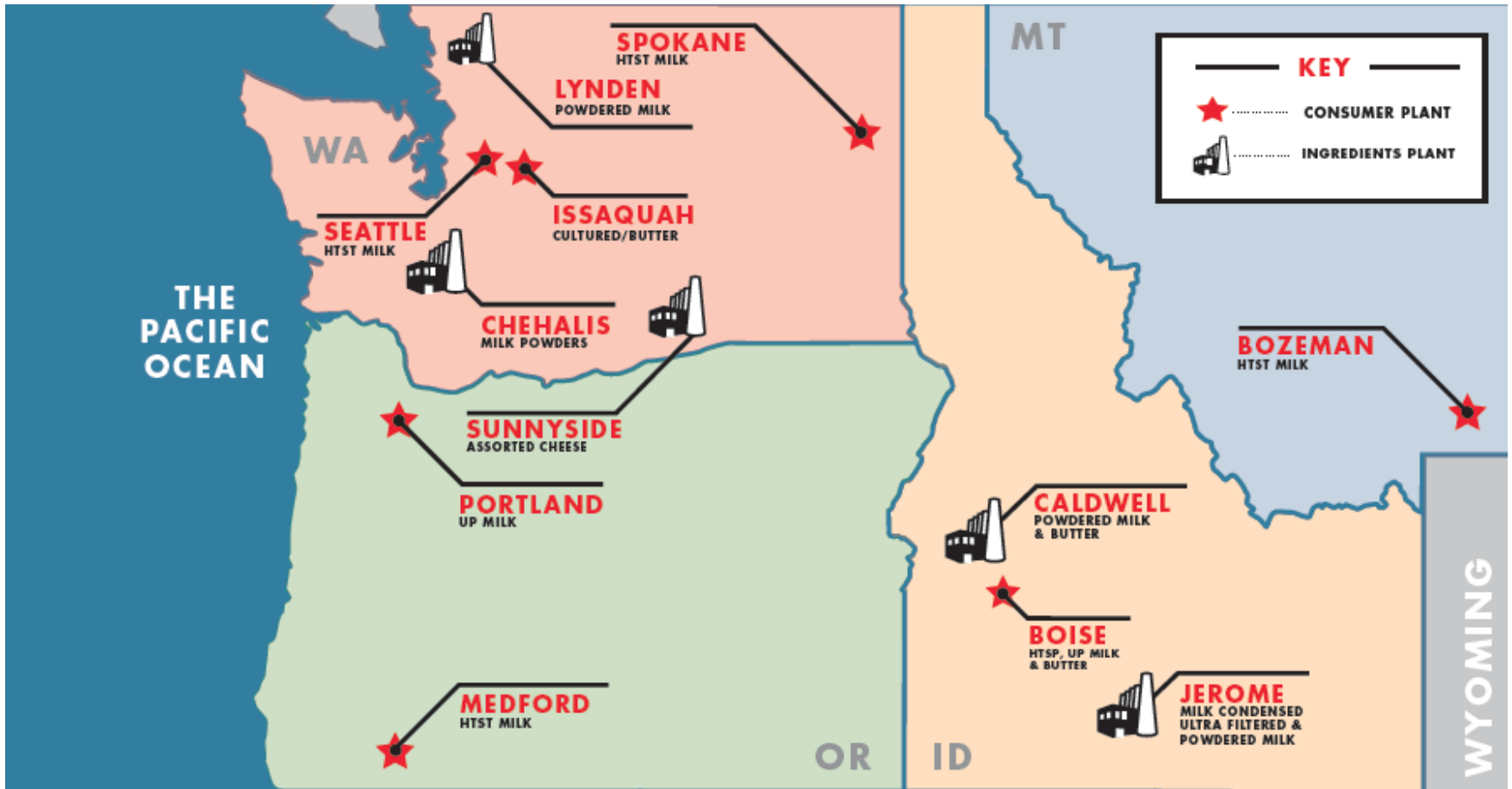
Risk Management Strategies for 2016

4/30/2015

Darigold Overview

- Farmer-Owned Cooperative with 487 Farms
 - 40% Retail and Foodservice business, 60% Ingredients
 - 5th Largest Dairy Cooperative in the US
 - 8.8 Billion Pounds (4.0M MT) of milk collected annually
 - \$2.6 Billion in annual Sales
 - 12 Manufacturing Plants
 - 1467 Employees
-

Plant Locations



Darigold Ingredients Export Focus



36%

Total U.S. American
Style Cheese Exports

18%

Total U.S. Non-Fat
Dry Milk / Skim Milk
Powder Exports

9%

Total U.S. Butter
Exports

14%

Total U.S. Dry Whey
Powder Exports

2012 Data

Risk Management Group

- Use derivatives to protect and optimize margins and inventory
 - Spot CME sales
 - Forward contracting program
 - Market analysis, sales/operations
 - Provide economic analysis, guide strategy/tactics
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Forward Contracting Program

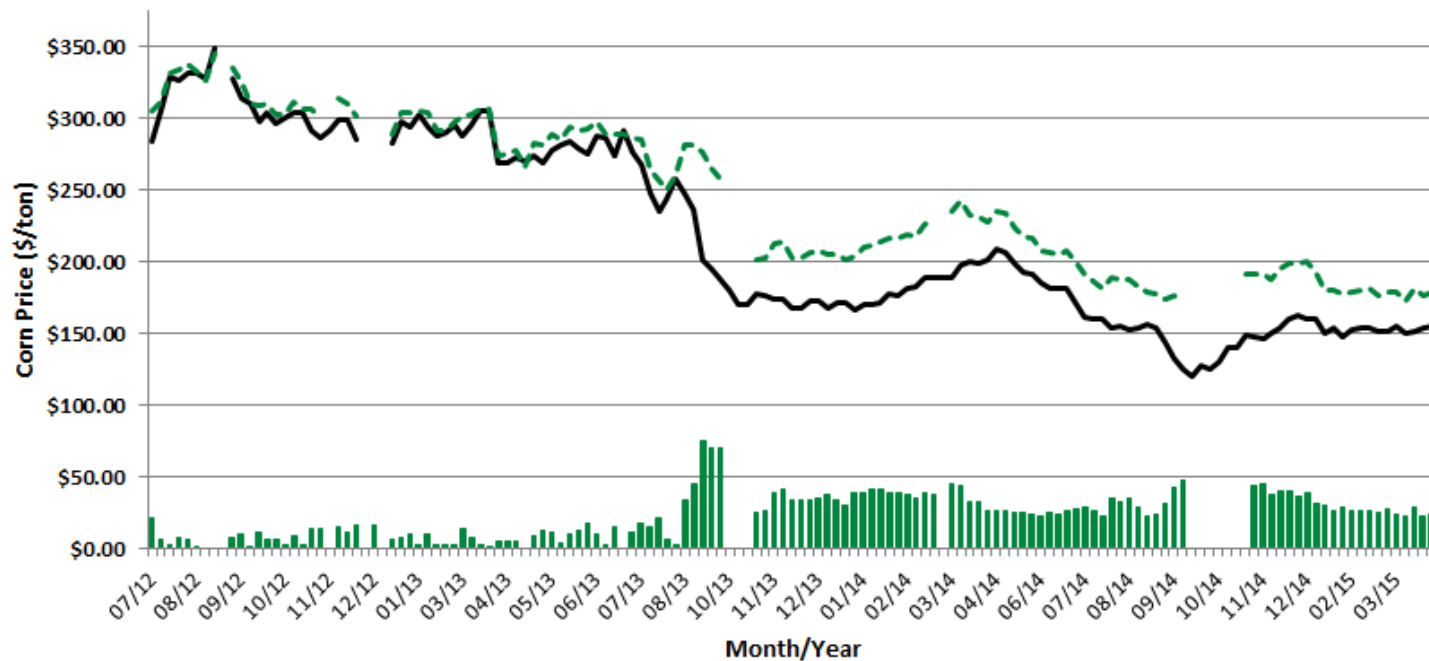
- Work closely with NDA to:
 - Set bid prices for milk
 - Manage risk
 - Create new programs
 - Service to our members and customers
-

Challenges with Risk Management

- Margin analysis is difficult (feed costs)
 - Must develop consistent and disciplined approach
 - Margin calls and funding (could be emotional)
 - Western basis risk (milk price heavily weighted to IV, feed costs have volatile basis)
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Corn Basis

Weekly Corn Price and Basis
2012 - 2015



Source: FeedStuffs.com

Portland Basis Chicago Portland

As of April 8, 2015

USDA's State-by-State 2015 Margin Protection Enrollment by Region and Farm Size

	West	Midwest	NE	Mid Atl	Mid East
No. 2013 operations	3,055	16,755	13,160	1,190	4,990
Avg milk/farm, mil lbs	24.9	2.7	2.0	2.4	2.2
% overall enrollment	67%	57%	43%	52%	40%
% Basic	67%	42%	42%	41%	57%
% Buy up	33%	58%	58%	59%	43%

Take home message: larger farms bought more catastrophic coverage, but less buy up due to higher premium cost.

Source http://www.fsa.usda.gov/Internet/FSA_File/mpp_applications_011515.pdf

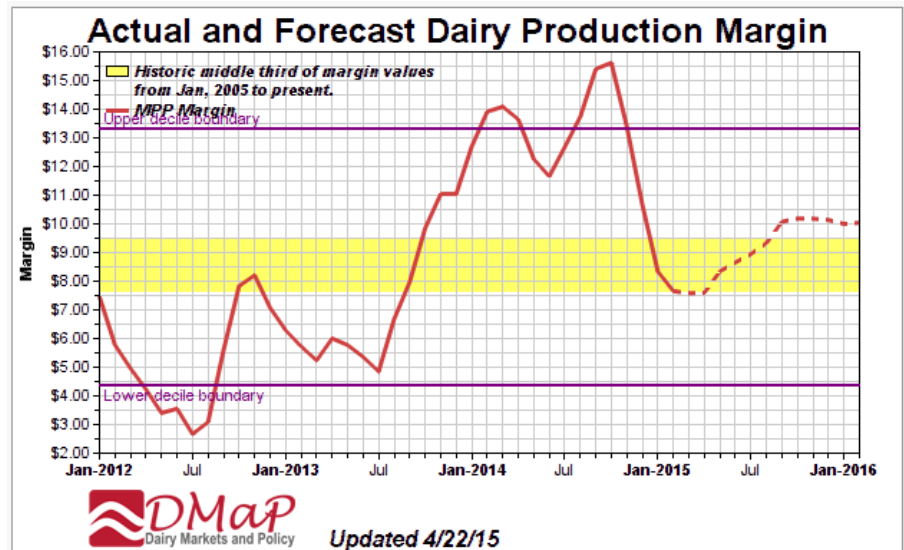
Major Issues That Could Affect the US Milk Market in 2015-16

- Weather, weather, weather
- EU response to elimination of the quota
- China:
 - Will low global prices erode on farm margins and reduce milk supply?
 - When will they come back to the market?
- US consumer demand in response to higher wages, employment, and lower fuel prices
- Global demand in response to 50% reduction in dairy prices



Hedging Strategies for 2015-16

- Take a realistic look at the market relative to year ago margins (don't expect +\$13 margins)
- Know your actual feed costs in relation to CME corn futures
- One sided hedging adds to your risk (e.g. sell milk, leave feed open)
- Avoid hedging all your milk and feed at one time
- Use multiple approaches:
 - MPP
 - Broker (futures/options)
 - Coop forward contracting program
 - Feed suppliers



Note: the above comments are not to be take as advice or recommendations.