



Managing milk price volatility

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Milk price volatility

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Source: Central Statistics Office

¹ Monthly manufacturing milk price, including VAT, actual fat and protein



Significant industry advances in recent years

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Increased dairy exports

- Value + 55% since 2009
- Exporting to 140 countries
(Source: Bord Bia)

01

Increased milk output – 2015 v 2009

- National milk production + 30%
- Dairy cows + 18%
(Source: CSO)



02

04

Improved financial profile

- Total farm debt (dairy & non-dairy) has reduced by c.35% (€1,798m) since peak in Q1 2009
(Source: Central Bank)

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Better herd profile

- €61 increase in Herd EBI (2015 v 2010)
- Higher milk constituents

| | 2009 | 2015 |
|-----------|------|------|
| % Fat | 3.83 | 4.01 |
| % Protein | 3.33 | 3.49 |

(Source: CSO, ICBF)

03



Common traits of those better able to manage volatility

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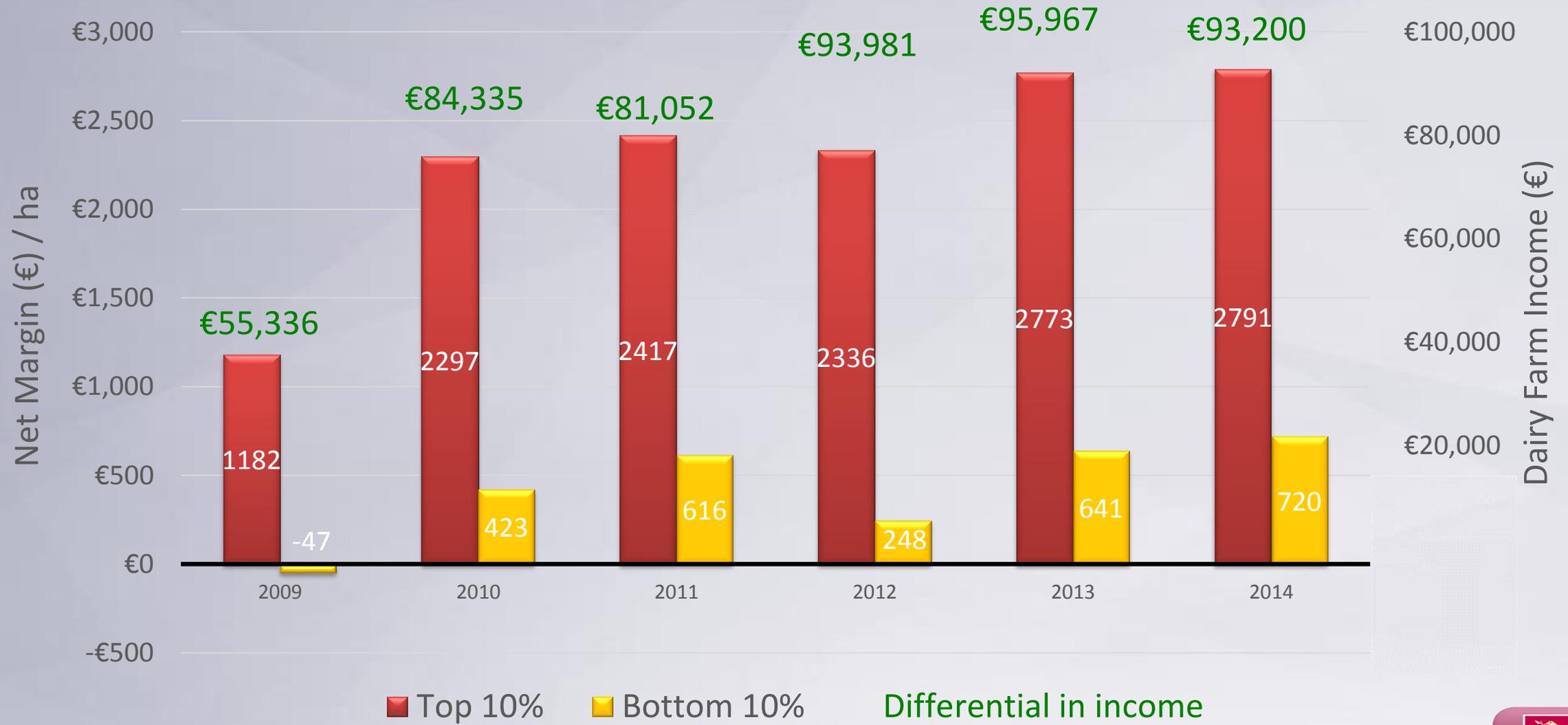
- Have you the skillset to be a top performer?
 - Technical, Financial and People Management skills

Surround yourself with the best people



Managing the cycle – Efficiency is key

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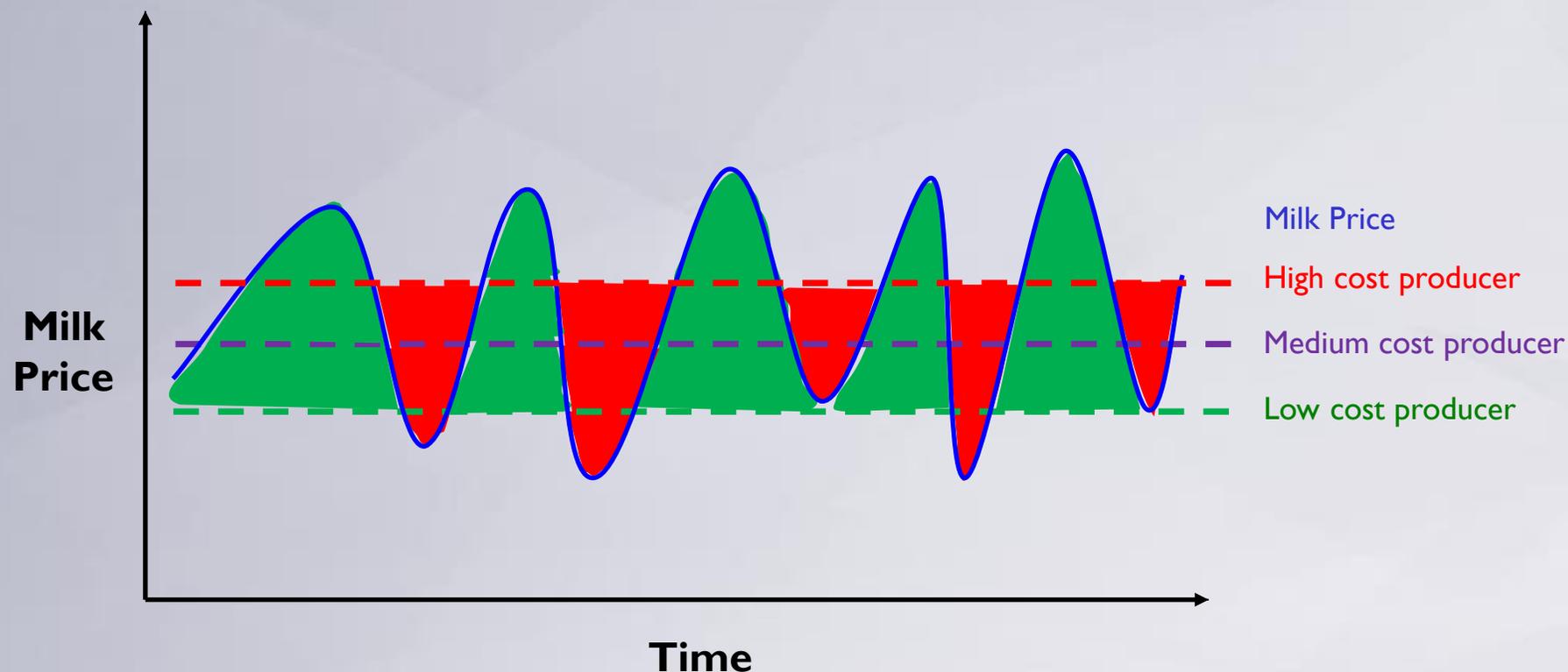
Source: Teagasc Dairy Profit Monitor, various years

ⁱⁱ Based on a Net Margin/litre basis

ⁱⁱ The differential in income assumes an average farm size of 45 ha (2014 dairy profit monitor average farm size for spring milk)



High cost producers most exposed to output price volatility



- ▶ High cost producer makes a profit when milk price is above red line (Competitiveness problem)
- ▶ Medium cost producer makes a profit when milk price is above the purple line (Needs to manage price risk)
- ▶ Low cost producer makes a profit when milk price is above the green line (Can ride out the volatility)

What's your farm's break even cash milk price?

"The milk price needed to meet all cash commitments"

| Example: 100 cow Spring Calving dairy herd | | (€) |
|--|---------|---------------|
| Farm Income (incl €35,950 non-milk sales) | 199,150 | |
| Farm Expenditure | 107,500 | |
| Surplus Before Drawings, Tax & Financials | | 91,650 |
| <i>Less:</i> | | |
| Household Expenses | 44,000 | |
| Taxation | 11,500 | |
| Financial repayments | 18,500 | <u>74,000</u> |
| Net Surplus | | 17,650 |

(Figures used are for indicative purposes only)



| Break-even Calculation | c / litre |
|---|-------------|
| Co-op Milk price received | 32 |
| Less Net Surplus in c/litre (€17,650 / 510,000 litres) | 3.5 |
| Break-even milk price¹ | 28.5 |

¹ Assumes value of non-milk sales remains constant

- Complete analysis for your farm for 2015
- Calculate your estimated b/e milk price for 2016 based on 2015 output/cost parameters
- Outcome will determine your next move

Dealing with cash flow difficulties – Identify root cause



Key Considerations

- ▶ Establish root cause of problem and address it
 - ▶ Output, on-farm costs or non-farm expenditure

Range of support options available

Review of monthly
repayment commitments

Short term increase to
working capital facilities

Short term loan facilities

An interest only period
on existing borrowings

If root cause is not treated the symptoms will re-occur

Conclusion

- ▶ Volatility is the new norm in farming
- ▶ Position yourself for the future – technical, financial & people management
- ▶ Efficiency must come before expansion – Better Before Bigger!!
- ▶ Establish your farm's cash break-even milk price as first step
- ▶ Treat the cause of the problem not the symptoms
- ▶ AIB is committed to supporting development of the sector & supporting the sector through income cycles

Important Information

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Lending criteria, terms and conditions apply. Credit facilities are subject to repayment capacity and financial status and are not available to persons under 18 years of age. Security may be required.

Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland.





Thank You

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