



AGRICULTURE AND FOOD DEVELOPMENT AUTHORITY

The Irish Agriculture and Food Development Authority

Sensible Business Decisions – Saying yes or no to Opportunities

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Teagasc Dairy Expansion Service

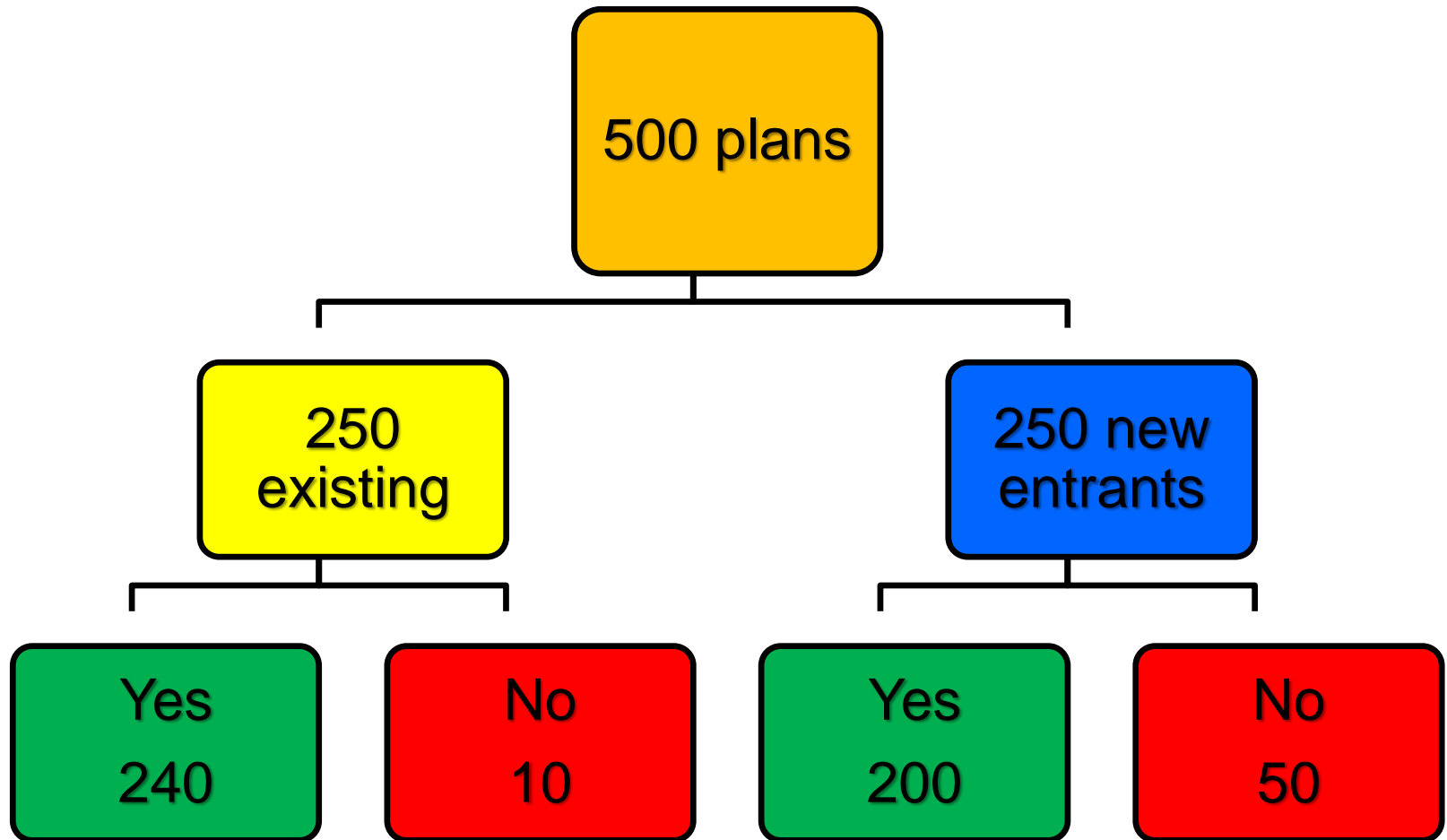
Presentation outline

- Dairy Expansion Service
- Key Principles in expansion
- Leasing Adjoining land
- Second Units
- Joint ventures

Dairy Expansion Service

- Since 2015 ~ 500 business plans completed
 - About half new entrants and half existing clients
- 13% of the plans did not proceed
or 60 potential opportunities were deemed unviable
- Why? Some High input systems but mainly little or no equity

Dairy Expansion Service



Why Expand?

How many dinners do you need to eat in a day?

Key Principles of Expansion

- You need to be profitable and efficient –
- To expand you need:
 - Land
 - Labour
 - Equity – cash or stock
- You need at least 1 of the 3!

Leasing Adjoining Land

How much can I pay an acre?

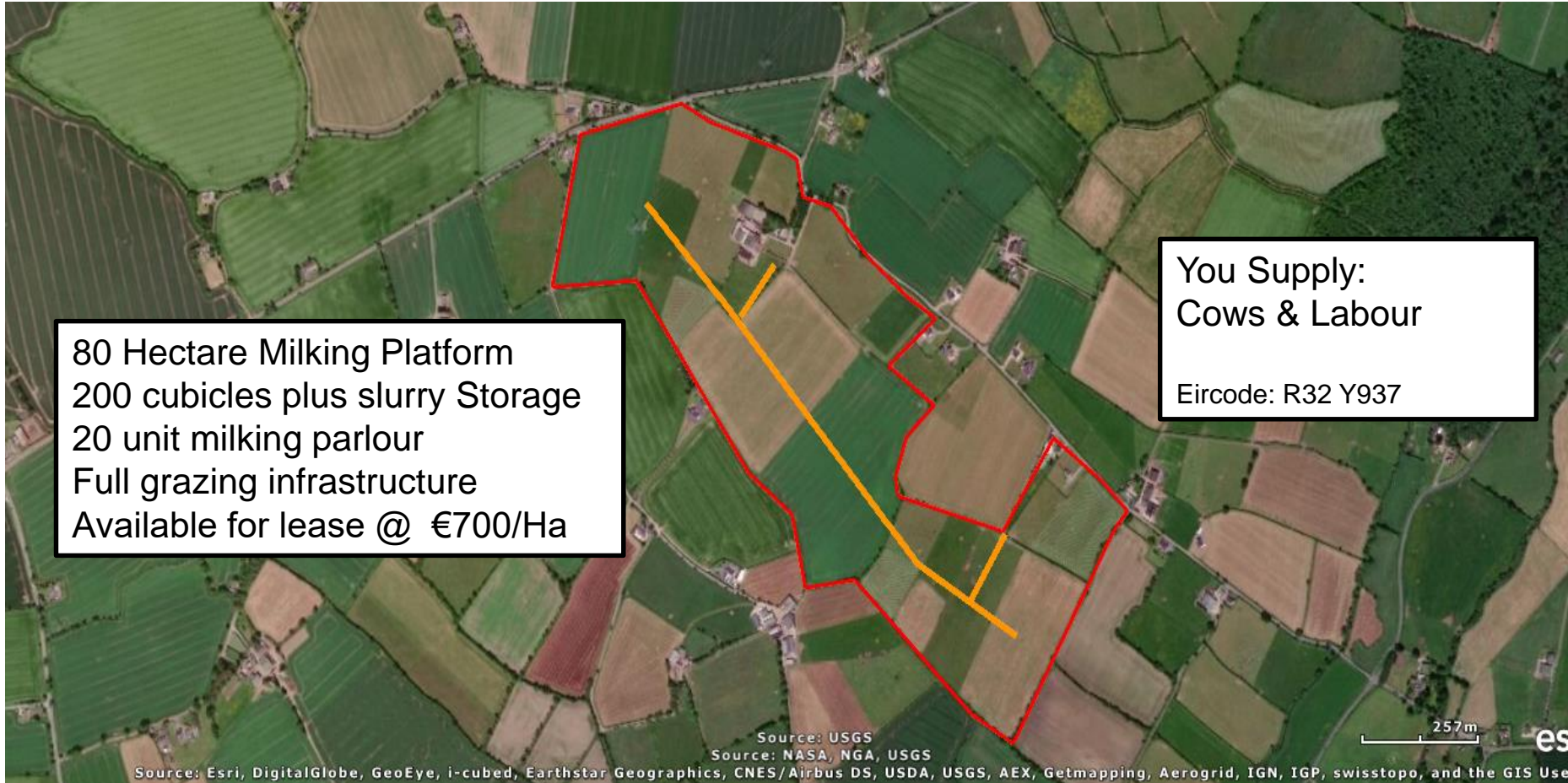
Leasing adjoining land

- Land Price is not the only figure?
 - The success of leasing the land depends on:
 - Land price
 - Stocking rate
 - Herd Performance
 - Investment Cost
 - Cost structure

			Standard
Cost of Leased Land/Ha			400
Proposed stocking Rate on leased land			2
Investment cost of Expansion/cow			800
Cost Of Production			
Variable Cost (c/L)			14
Fixed Costs (Excl extra land&Investment)			10
Net cash on additional hectare (€)			179.2
% Change in net cash/Ha			0%

30% increase

Second Units Example



Second Unit example

- 80 Ha Milking parlour
- 200 cows (SR 2.5 cows/Ha)
- Heifers contract reared
- Cows valued @ €1,350
- Milk price @ 28c/l with MS allowance
- No BPS
- Labour @ €350/cow
- **Is this a good investment?**

Return on Investment

- Using basic calculation for simplicity
- Net Profit / Total Investment
 - €50,456/ €270,000
 - 18.6% Return on investment
 - Average return over 10 years 11.93%
 - Average over 20 years: 15.89%
 - Is this a good investment????

Second Unit example

Land lease @ €700/Ha
Cows Financed over 8 years @ 4%

Year	1	2	3	4	5	6
Net Profit	- 22,359	- 8,537	+ 25,808	+ 33,523	+ 41,330	+ 50,486
Net Cash	- 45,376	- 43,083	- 4,712	+ 1,782	+ 8,320	+ 16,156

Second Unit Example

Land Lease @ €700/Ha
Cows owned – no loan repayments

Year	1	2	3	4	5	6
Net Profit	- 11,959	+ 734	+ 33,906	+ 40,400	+ 46,937	+ 54,773
Net Cash	- 6,759	- 4,466	+ 33,906	+ 40,400	+ 46,937	+ 54,773
Cumulative Net Cash	- 6,759	- 11,224	+ 22,682	+ 63,081	+ 110,018	+ 164,791

Second unit example

Land @ €450/Ha

Cows Borrowed over 8 years @ 4%

€3,000/cow investment cost Over 10 years @ 4%

□

Year	1	2	3	4	5	6
Net Profit	- 54,841	- 38,406	- 1,475	+ 8,727	+ 18,929	+ 30,470
Net Cash	- 73,767	- 71,474	- 28,982	- 19,868	- 13,330	- 5,495
Cumulative Net Cash	- 73,767	- 145,240	- 174,222	- 194,090	- 207,420	- 212,915

Second units

Home business has to be strong enough to carry it

Can get a high ROI but low cash flow in starting years

Increasing herd size key outcome

May allow for future opportunities

Breakeven Milk solids

- All opportunities need to be assessed
 - But not all should be taken
- Use a quick calculation to determine if viable
- Breakeven Milk solids per cow

- Can be completed per cow or per hectare

Break Even Milk Solids

From your EPM get total cash payments

- Divide by the average number of cows
- Gives you the cash cost for your farm per cow
- Typically ~ €1,100/cow
- Add on land charge/cow for the leased land
- Add Additional Labour, and investment costs
- Gives you total cash cost per cow

Breakeven Milk Solids

Item	€/cow
Total cash per cow	€1,100
Land lease charge	€283
Repayments	€191
Labour	€350
Total	€1,924
	Divide by 4
Breakeven Milk solids	481 kg MS

Share Farms

Opportunities exist

- Scale can be an issue – splitting the profits
- Capital investment – who pays?
- Is the herd genetics right?
- Making sure you can work with the other person.

THANK YOU