

The Business of Farming



Phil Journeaux



Farming is 3 businesses:

- 1. Farming Business – cows & grass**
- 2. Real Estate Business**
- 3. Investment Business**

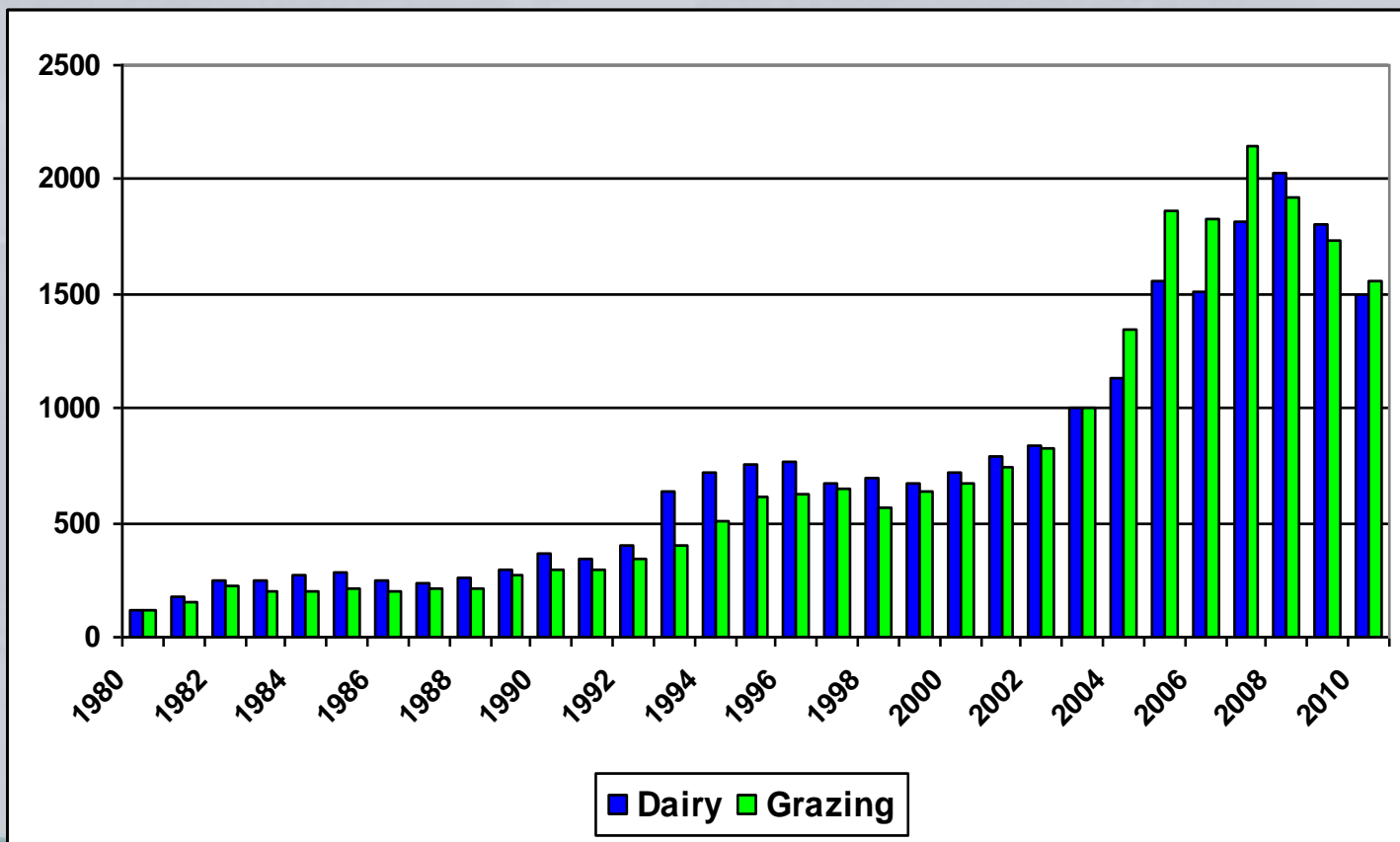


Real Estate

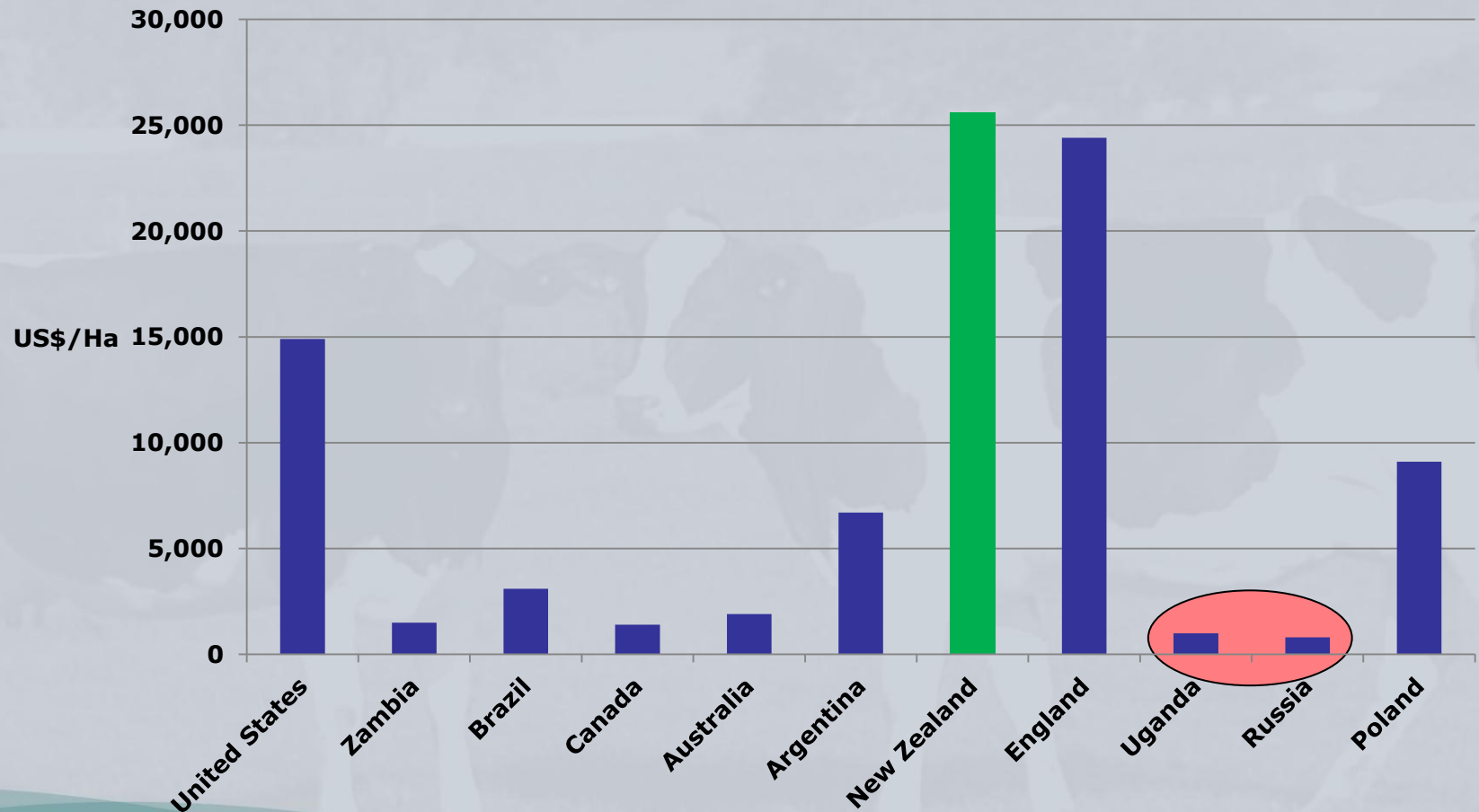


AGFIRST

Land Prices



International Land Prices



Source: The Economist



Farm Spending

Can enhance your real estate business e.g.:

- **Repairs and Maintenance**
- **Environmental Spending**



Real Estate Tip

Don't buy the neighbours property

Why?

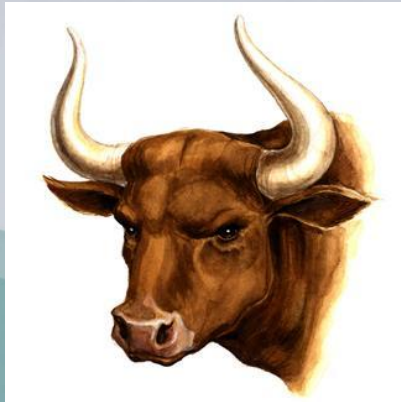
Because you'll pay too much for it, and

**The cost of incorporating it into the home property
will be much higher than you thought**



Your Investment Business

TAF



Your Share Portfolio

Average NZ dairy farm 2011/12:

139ha

393 cows

142,800KgMS

At \$7.10/share – portfolio worth \$1.014 million



The Return

Dividend:

32c	35c	40c
4.5%	4.9%	5.6%

Capital Gain/Loss



Decide to Sell

Sell 10,000 shares at \$7.10 = \$71,000

Use the funds to pay of debt

6%	7%	8%	12%
\$4,260	\$4,970	\$5,680	\$8,520



Income lost

Dividend
\$0.35/share
=\$3,500

Milk Income
\$.05 per KgMS
unshared supply
=\$500

Total = \$4,000



Also need to consider tax implications:

- **Income from dividends is taxable income**
[Tax @25%: Dividend worth \$2,625 post tax]
- **Imputation/tax credit on dividend on wet shares possible**
- **If pay off debt – less interest to offset against tax**
- **Drop in payment for unshared supply – less taxable income**

Sell All Shares & Supply Another Company

New company: what is their payout?

To breakeven with previous income

- depends on the investment return from share money:

- If return is less than Fonterra dividend – new Company payout needs to be higher
- If return is the same – payout needs to be the same
- If return is higher – payout can be lower

[Fonterra Share Price.xlsx](#)

Assessment of risk:

Financial stability of new company – ability to pay

Product mix

Marketing arrangements



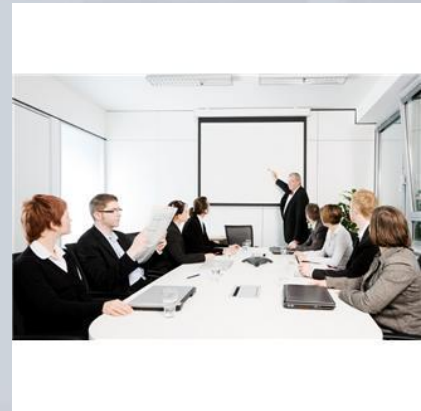
Managing the Portfolio

- **Consider it a separate business & budget so**
- **If you want to buy or sell – why? –
What are the alternative investments**
- **Do a proper financial analysis**

Remember – don't fall in love with your investments

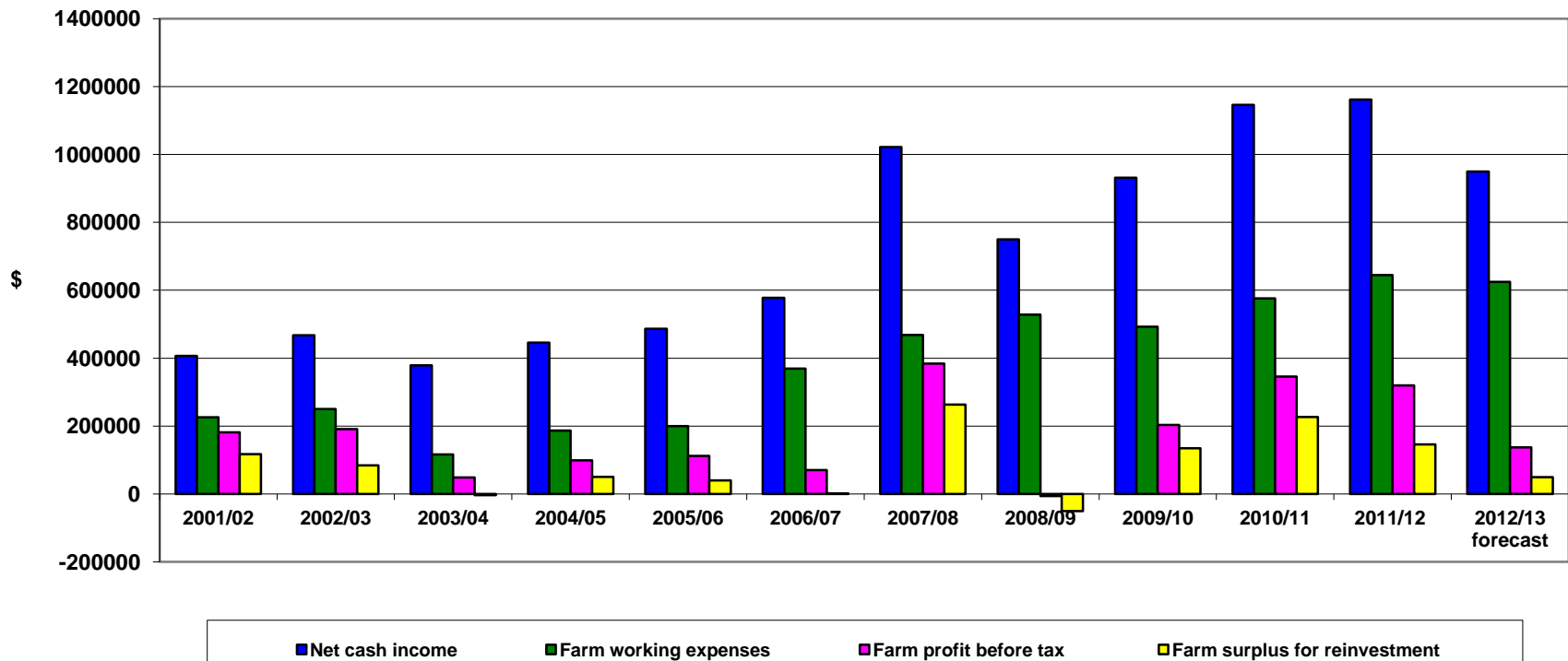


The Farming Business



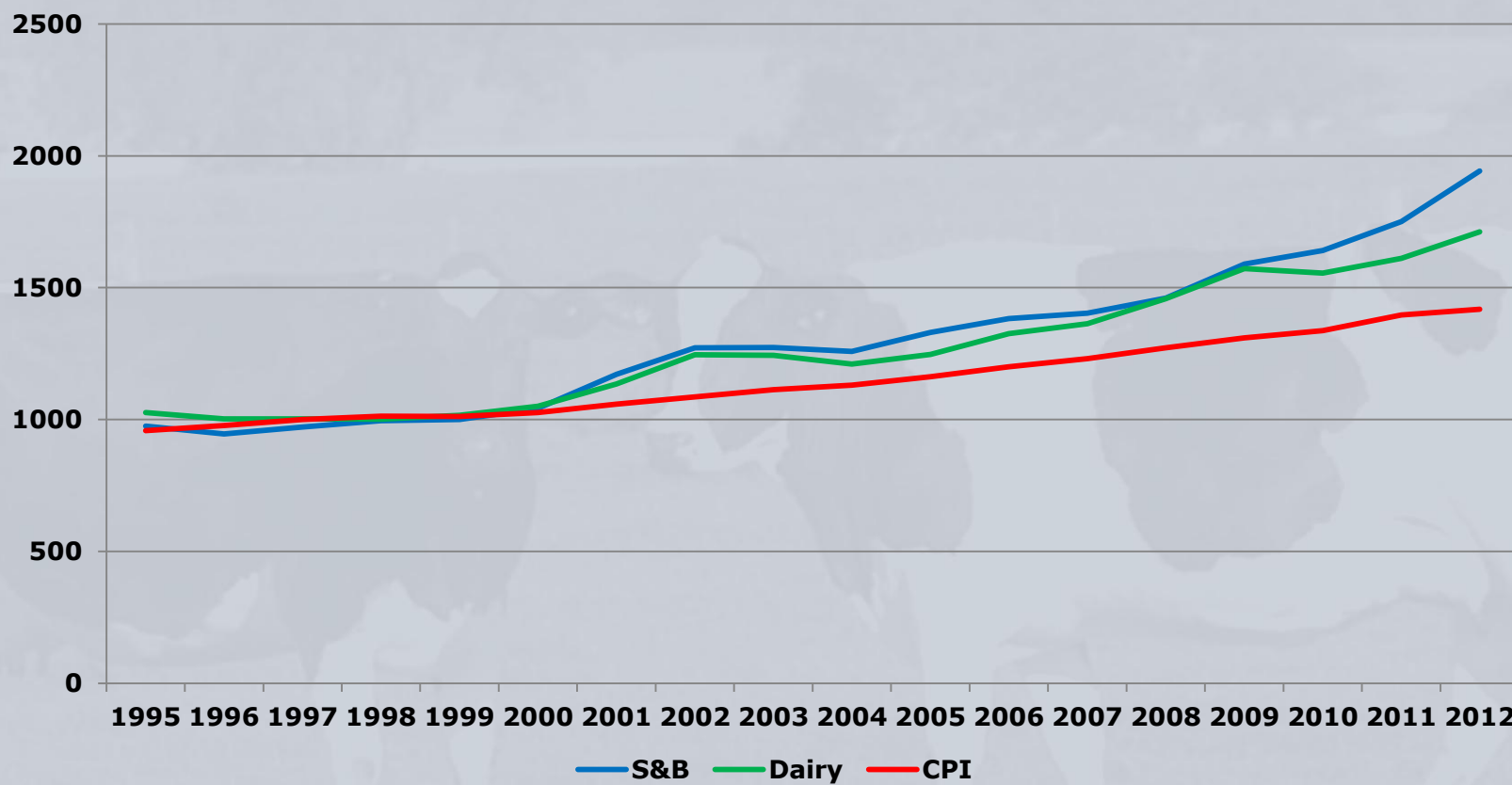
Farm Profitability Trends: Dairy

Dairy: Profitability trends



Source: MPI

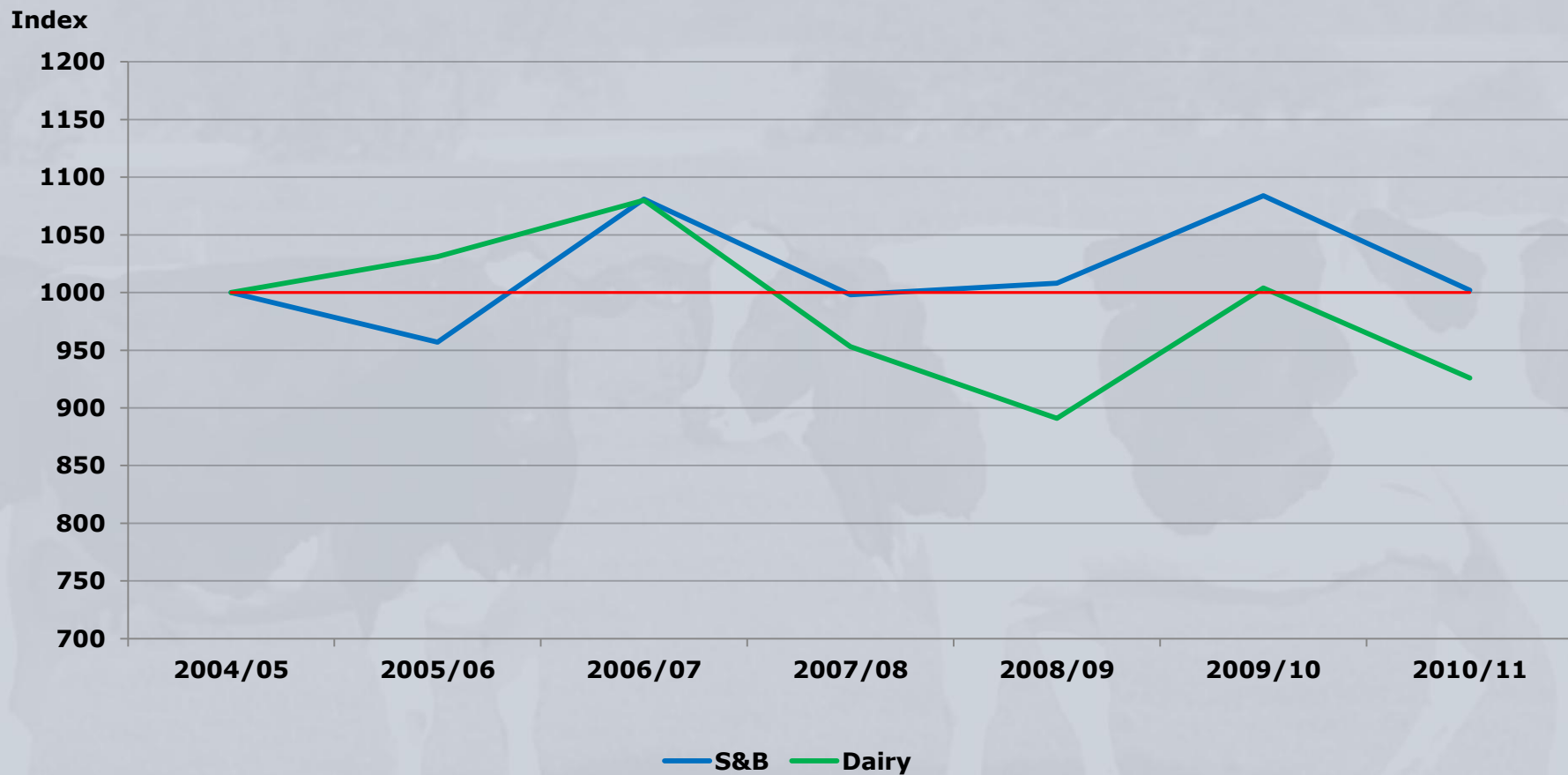
Farm Costs: PPI vs CPI



Source: Statistics NZ



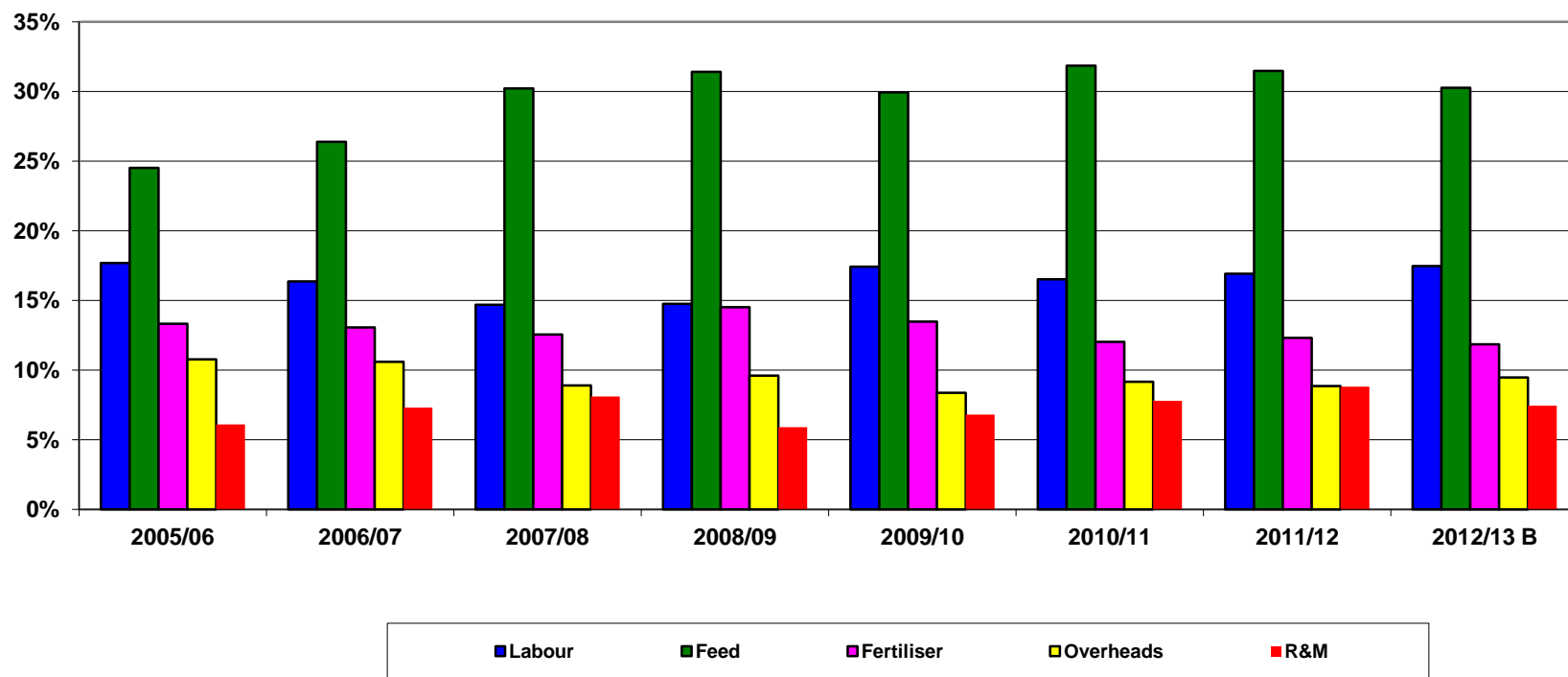
On-farm Productivity:



Source: DairyNZ & B+L Economic Services



Dairy Farm Costs as a % of Farm Working Expenses



Source: MPI

Breakeven: \$/KgMS

2011/12				
	Mean	Median	Bottom 10%	Top 10%
Farm working expenses	3.86	3.77	4.76	3.21
Debt Servicing	1.11	1.11	1.09	1.13
Depreciation	0.33	0.29	0.53	0.20
Drawings	0.55	0.47	0.58	0.25
Total	5.86	5.63	6.97	4.79
2010/11				
	Mean	Median	Bottom 10%	Top 10%
Farm working expenses	3.87	3.78	4.63	3.17
Debt Servicing	1.32	1.23	2.59	0.75
Depreciation	0.37	0.31	0.59	0.24
Drawings	0.60	0.52	0.67	0.39
Total	6.15	5.84	8.48	4.56
2009/10				
	Mean	Median	Bottom 10%	Top 10%
Farm working expenses	3.37	3.26	4.25	2.90
Debt Servicing	1.47	1.44	2.37	0.99
Depreciation	0.31	0.29	0.53	0.20
Drawings	0.50	0.43	0.49	0.37
Total	5.65	5.42	7.64	4.46



Source: MPI

Breakeven: \$/KgMS – Waikato FM

	09/10	10/11	11/12	12/13
FWE	3.41	3.82	3.75	3.85
Interest	1.24	1.42	1.09	1.02
Deprecn	0.32	0.36	0.33	0.21
Drawings	0.52	0.67	0.66	0.63
	5.49	6.27	5.83	5.71



Source: MPI

Farm Working Expenses – \$/KgMS Waikato FM

2010/11

	Min	Max	Median	Mean
Feed	0.14	3.22	1.09	1.14
Labour	0.00	1.50	0.43	0.56
Fertiliser	0.03	0.86	0.42	0.43
Overheads	0.02	1.03	0.31	0.34
R&M	0.03	0.85	0.28	0.31
Total FWE	1.89	5.54	3.92	3.82

2011/12

	Min	Max	Median	Mean
Feed	0.24	2.51	1.04	1.11
Labour	0.00	2.28	0.50	0.59
Fertiliser	0.12	0.94	0.44	0.45
Overheads	0.05	0.94	0.29	0.33
R&M	0.02	0.86	0.23	0.29
Total FWE	2.23	6.02	3.60	3.75



Source: MPI

Economic Farm Surplus - \$/Ha

	Average of			Mean	Median	Average of		
	bottom	bottom	bottom			top	top	top
	10%	25%	25-50%			50-75%	25%	10%
	(\$)	(\$)	(\$)			(\$)	(\$)	(\$)
2011/12	445	1,105	2,280	2,787	2,762	3,096	4,622	5,358
2010/11	1,963	2,105	2,500	3,382	3,138	3,680	5,205	5,856
2009/10	810	1,302	1,927	2,407	2,205	2,716	3,665	4,155



Source: MPI



Discussion

