



BMO HARRIS BANK

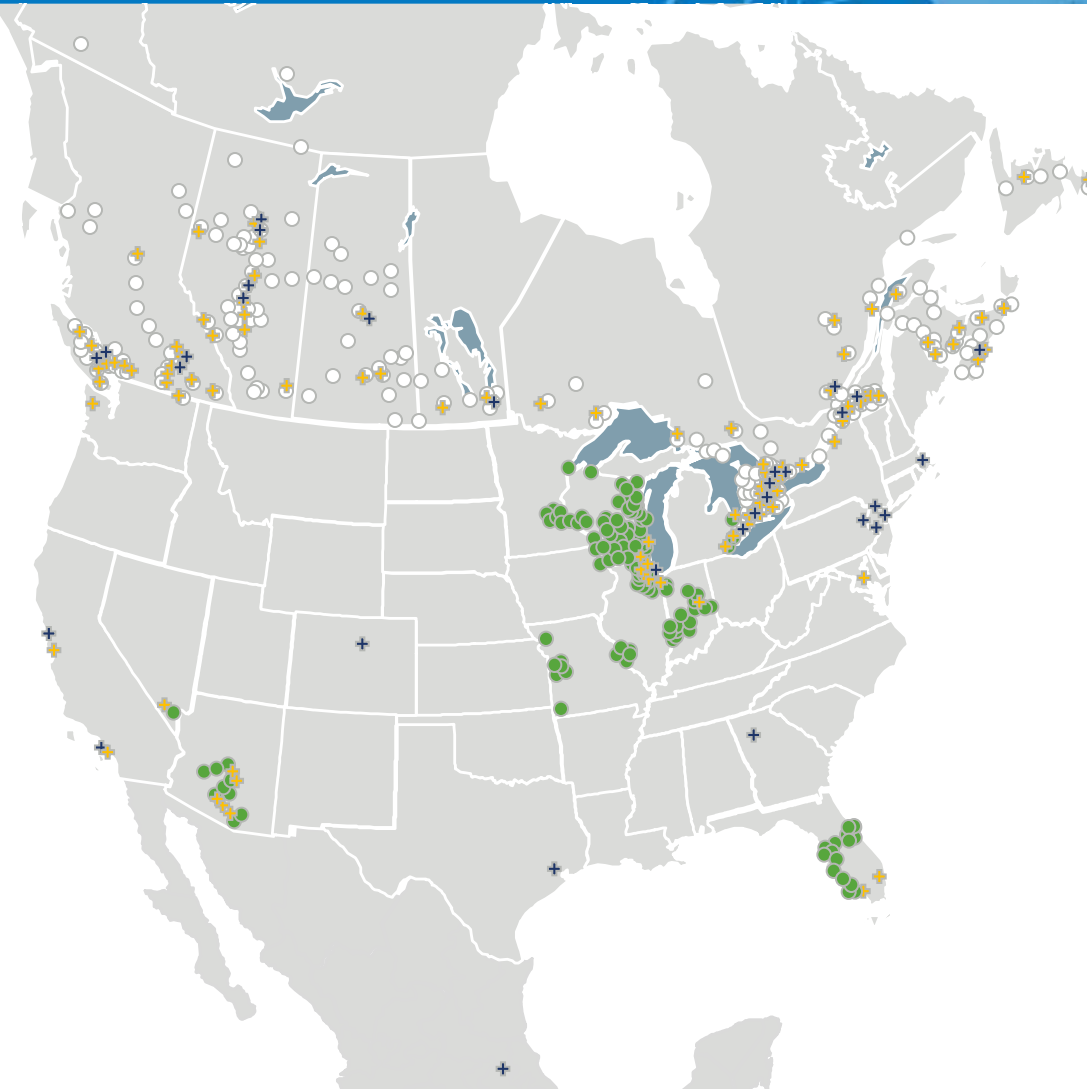
# National Dairy Producers Conference

## Indianapolis

April 8, 2013

S.J. Miller  
Managing Director, Group Head, Agriculture  
BMO Harris Bank.

# Organizational Footprint



- 693 US branches
- 913 Canadian branches
- Offices across five continents:

Beijing	Mexico City
Delhi	Mumbai
Dublin	Paris
Guangzhou	Rio de Janeiro
Hong Kong	Shanghai
London	Taipei
Melbourne	Zurich

- P&C Canada (Bank of Montreal) – 910 locations
- P&C U.S. (BMO Harris Bank) – 680 locations
- ✚ Private Client Group (Wealth Management)
- ✚ BMO Capital Markets

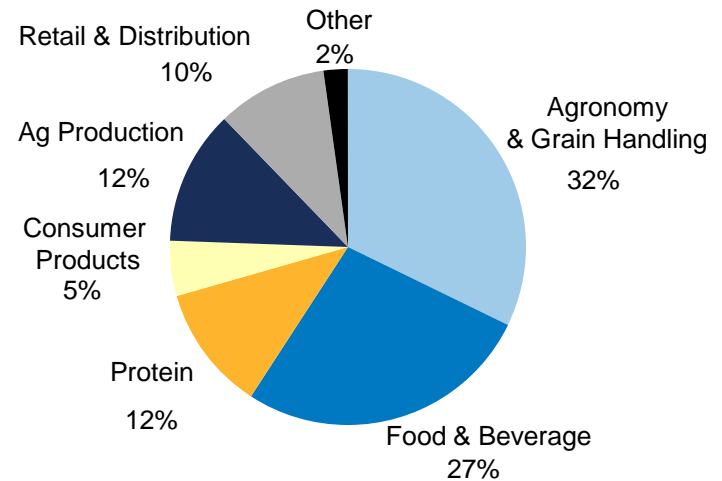
Premier North American financial institution with local, national & global reach

# Deep Institutional Commitment to Food & Consumer

## Team Overview

- 42 professionals in the Food & Consumer Group
  - 21 corporate and 21 investment bankers in Chicago, Indianapolis, Madison, Minneapolis, New York, Phoenix, San Francisco and Atlanta
- Dedicated product partners in:
  - Mergers & Acquisitions
  - Leveraged Finance
  - Debt Capital Markets
  - Debt Capital Markets
  - Debt Capital Markets
  - Debt Capital Markets
- Deep sub-sector expertise in:
  - Protein
  - Ag Inputs & Processing
  - Food
  - Foodservice
  - Beverages and wine & spirits
  - Consumer products
  - Debt Capital Markets
  - Treasury Management
  - Financial Products

## Over \$9 Billion in Capital Commitments



## Deep Subsector Knowledge

### Agribusiness



### Protein & Dairy



### Food & Beverage



### Distribution & Retail



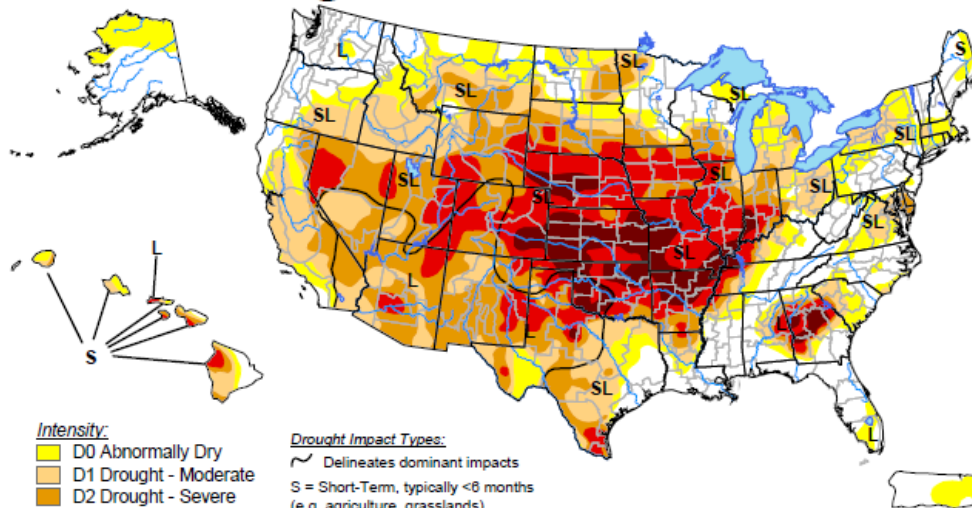
# Financial Health of the Farm Sector

- Brief look back at 2012
- Sector Overviews
- Dairy Trends
- Outlook through a very cloudy crystal ball

# Drought Monitor

## U.S. Drought Monitor

August 21, 2012  
Valid 7 a.m. EDT



**Intensity:**  
 D0 Abnormally Dry  
 D1 Drought - Moderate  
 D2 Drought - Severe  
 D3 Drought - Extreme  
 D4 Drought - Exceptional

**Drought Impact Types:**  
 ~ Delineates dominant impacts  
 S = Short-Term, typically <6 months  
 (e.g. agriculture, grasslands)  
 L = Long-Term, typically >6 months  
 (e.g. hydrology, ecology)

The Drought Monitor focuses on broad-scale conditions.  
 Local conditions may vary. See accompanying text summary  
 for forecast statements.



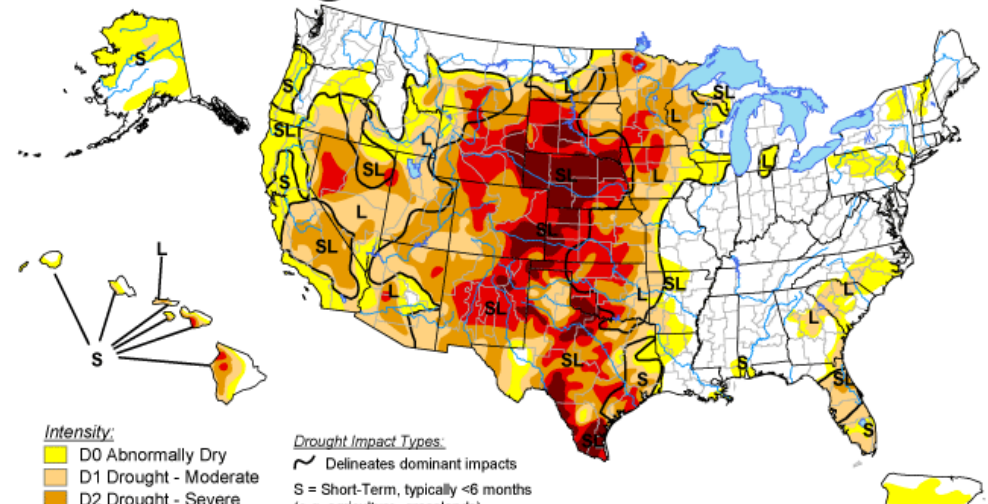
Released Thursday, August 23, 2012

Author: Michael Brewer/Liz Love-Brotak, NOAA/NESDIS/NCDC

<http://droughtmonitor.unl.edu/>

## U.S. Drought Monitor

April 2, 2013  
Valid 7 a.m. EDT



**Intensity:**  
 D0 Abnormally Dry  
 D1 Drought - Moderate  
 D2 Drought - Severe  
 D3 Drought - Extreme  
 D4 Drought - Exceptional

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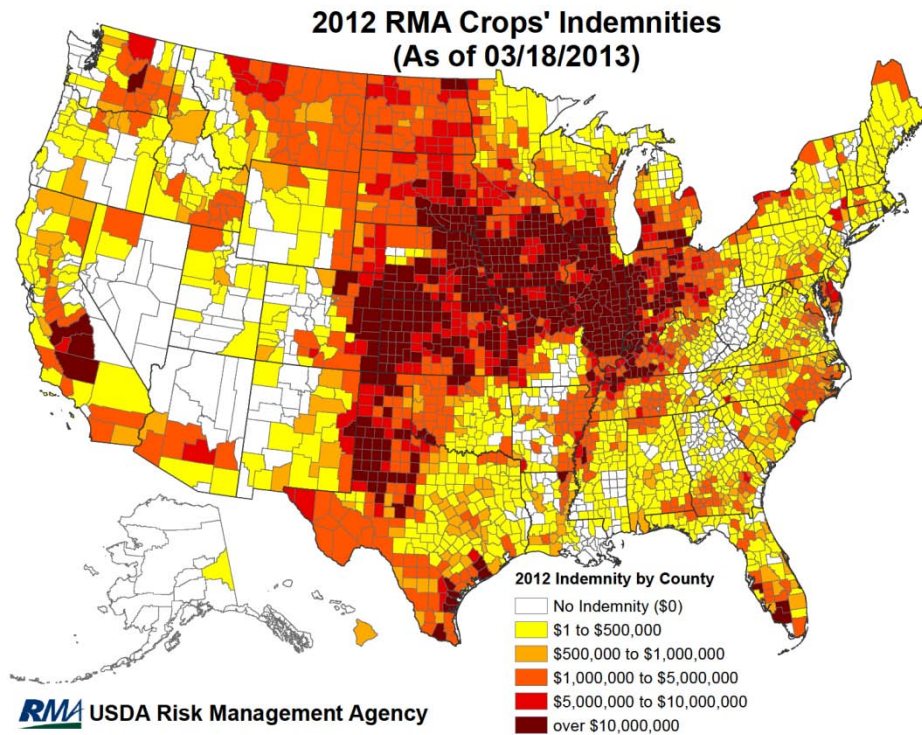


Released Thursday, April 4, 2013

Author: Rich Tinker, NOAA/NWS/NCEP/CPC

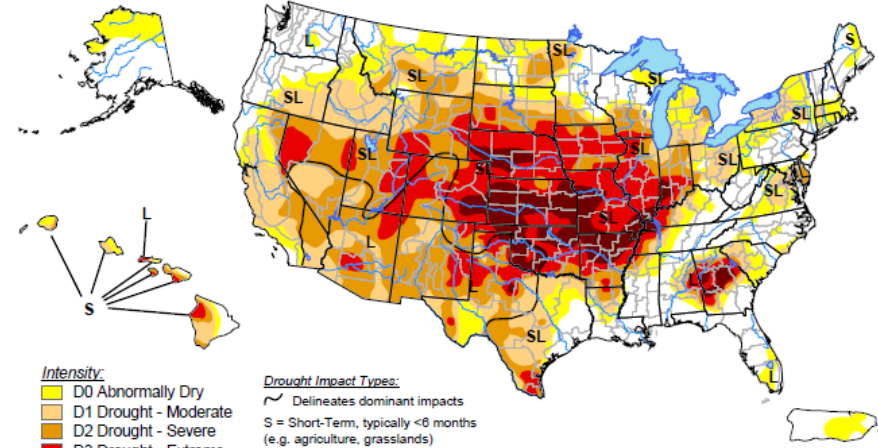
<http://droughtmonitor.unl.edu/>

# Thank God for Crop Insurance!



## U.S. Drought Monitor

August 21, 2012  
Valid 7 a.m. EDT



**Intensity:**

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- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

**Drought Impact Types:**

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- S = Short-Term, typically <6 months (e.g. agriculture, grasslands)
- L = Long-Term, typically >8 months (e.g. hydrology, ecology)

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<http://droughtmonitor.unl.edu/>



Released Thursday, August 23, 2012

Author: Michael Brewer/Liz Love-Brotak, NOAA/NESDIS/NCDC

# Sector Review - “Things that Grow”

- Corn
  - Growers covered by crop insurance
  - Buyers searching for stocks
  - Elevators – no carry, no drying, no blending
  - New crop could be a bin buster
- Soybeans
  - Below average, above expectations for growers in 2012
  - Crop insurance also played a role
  - Bullish exports particularly China
  - Record yield expected in Brazil
- Wheat
  - Summer harvest missed the worst of drought/heat
  - Extremely poor winter wheat conditions in Plains
  - Will have to wait for conditions this spring

# Sector Review - “Things that Eat”

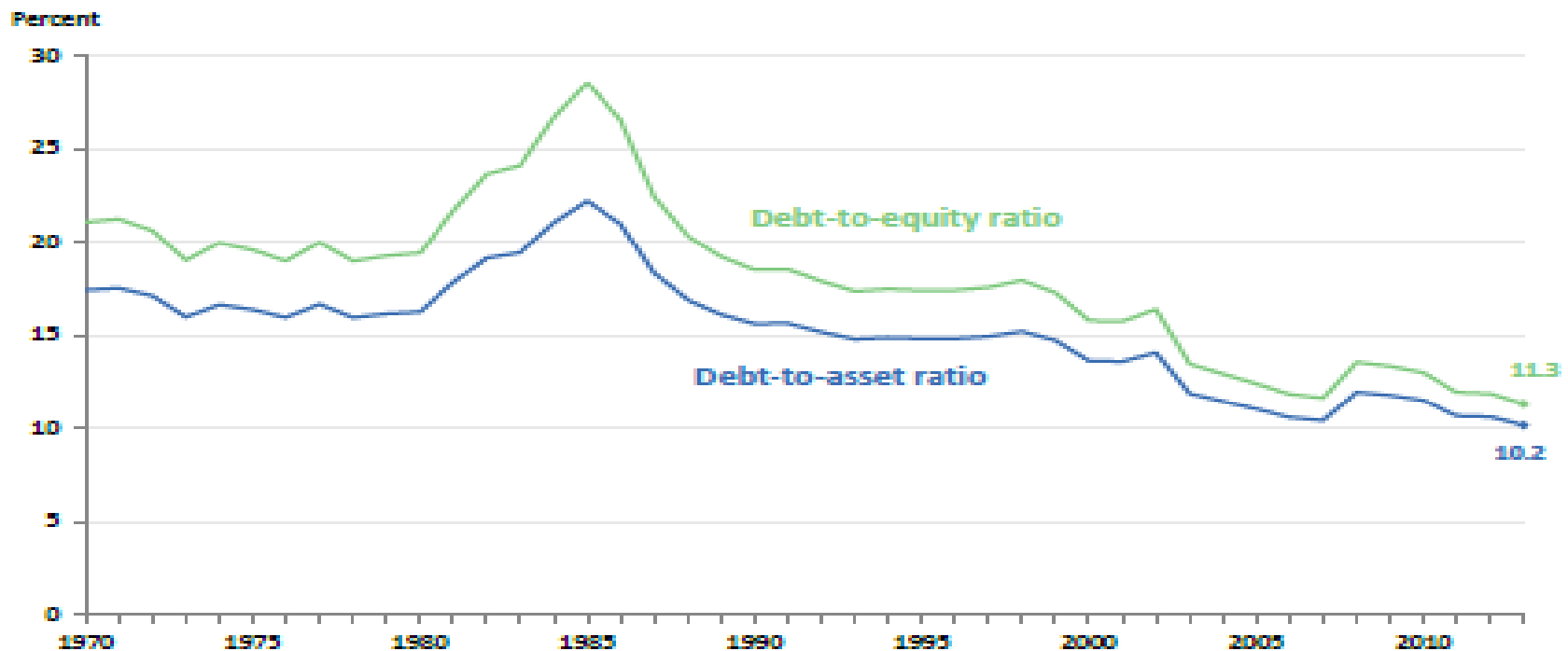
- Beef
  - Tough pasture conditions for cow/calf operations
  - Feed lots drowning with high feed, high feeders, and dropping fat cattle prices
  - Exports were at record highs in 2012
  - Lower supplies ahead with fewer cattle on hand
- Hogs
  - Navigated 2012 with price risk management plans
  - Have kept production steady
  - Strong exports in this sector – storm clouds over ractopamine
  - Will lower feed prices come before forward purchases and hedges run out?
- Chicken
  - Had a tough 2012 with pricing not keeping up with higher feed costs
  - Importing corn in SE US from Brazil
  - Starting to get margins in line
- Milk
  - Heat and drought turned 2012 from a milk price problem to a feed price problem
  - Comparative advantage for dairy producers who grow their feed
  - Exports at record levels – whey to China, cheese and milk to Mexico – 14% of dairy production
  - Cull cows are “worth something” with higher beef prices



# Farm Sector Has Deleveraged

Debt to asset and debt to equity ratios forecast to continue downward trend in 2013

Farm debt ratios, 1970 - 2013F



2013 USDA Ag Outlook Forum

ERS

Source: USDA, ERS  
Note: 2012, 2013 forecast

# Commercial Farms Hold Bulk of the Debt

Farm businesses represent almost 919,000 farms and account for 95 percent of production

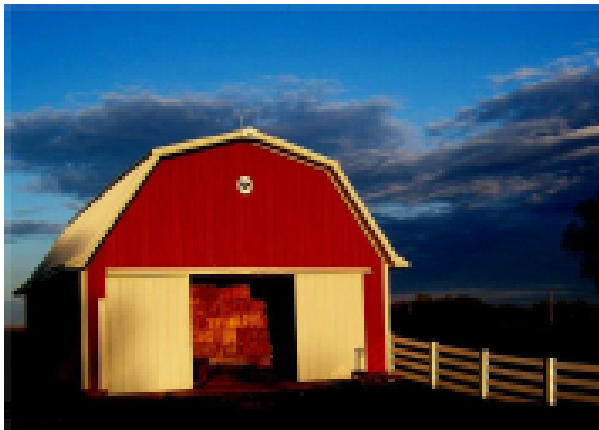
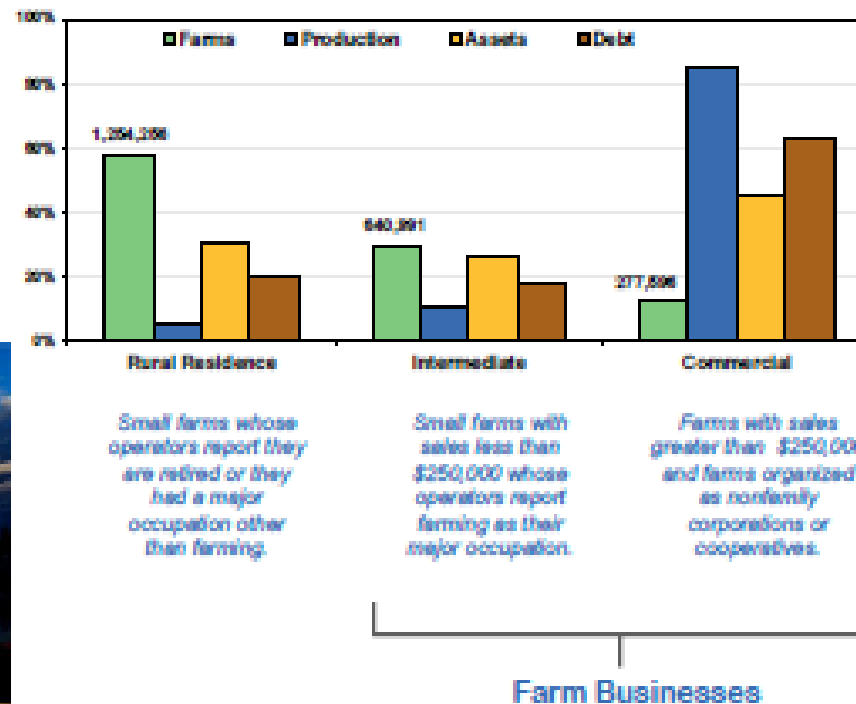


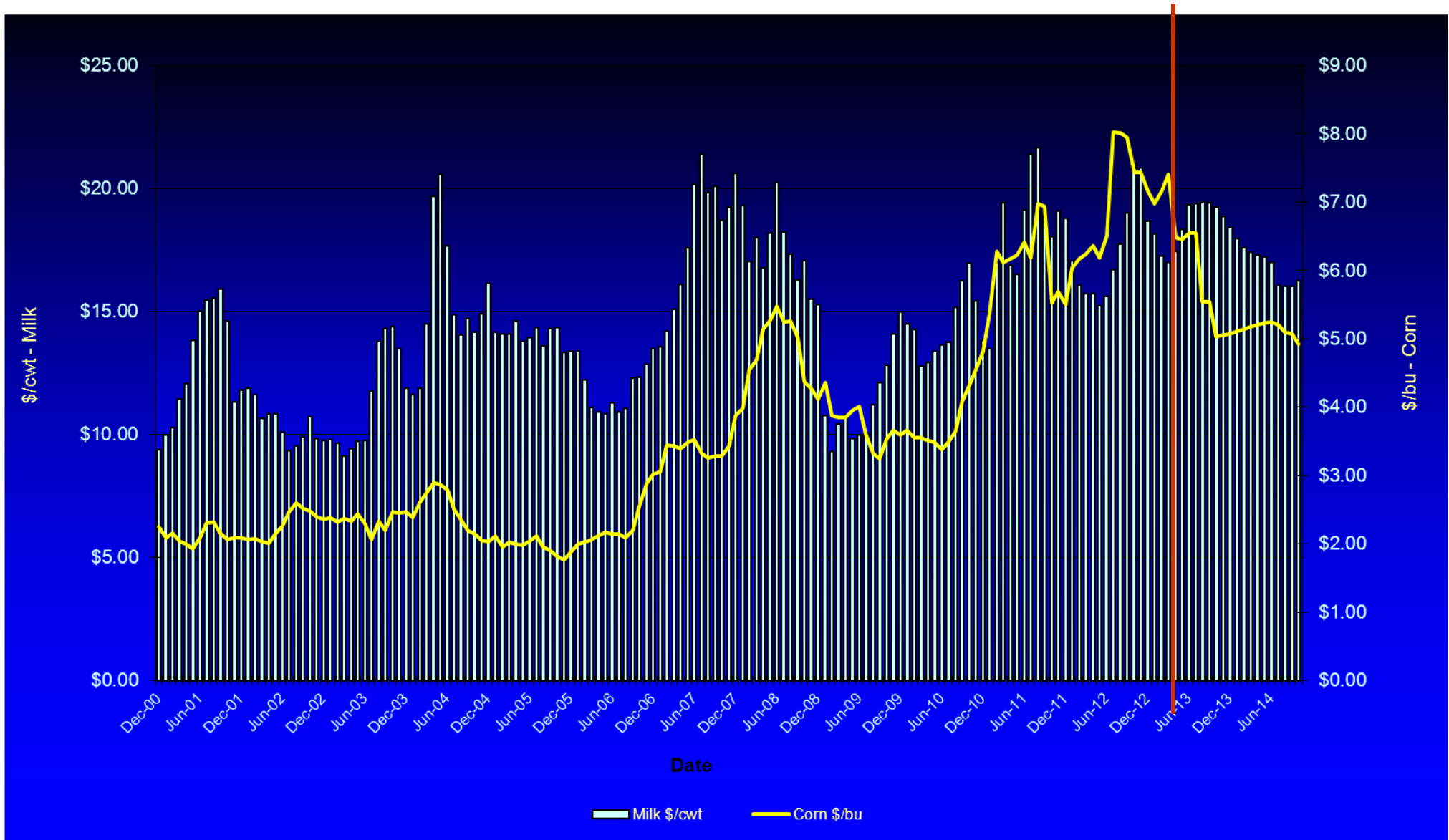
Photo by David Mact

2013 USDA Ag Outlook Forum



Source: 2011 Agricultural Resource Management Survey (ARMS)

# Price Trends



# Fictional Dairy (1,000 cows)

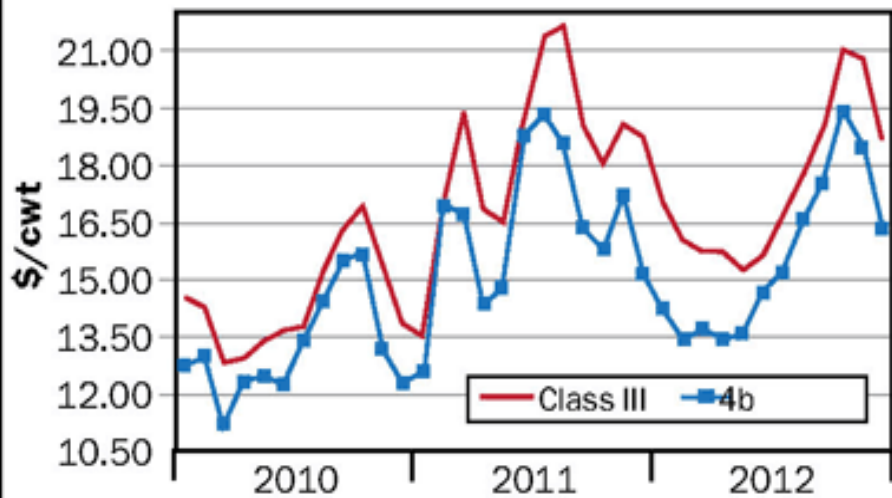
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<b>Forecast <u>2013</u></b>
Leverage (debt/equity)	1.0	.95	1.4	1.25	1.15	1.0	.95
Current Ratio	1.5	1.7	1.1	1.5	1.6	1.6	1.7
Net Income/Cow	\$1,200	\$750	(\$720)	\$300	\$900	\$700	\$700
Debt/Cow	\$4,800	\$5,100	\$5,820	\$5,500	\$5,450	\$5,400	\$5,350
Price Variation/cwt	\$7.82	\$4.97	\$4.89	\$4.16	\$8.79	\$5.79	\$2.27
<b>Loss Cost/cwt</b>	---	---	---	<b>\$.58-.74</b>	---	---	---

# Cost of Production Increases

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Forecast 2013</u>
Corn (180/bu)	\$2.77/bu	\$2.93/bu	\$3.25/bu	\$3.85/bu	\$3.50/bu	\$4.50/bu	\$4.95/bu	\$5.25/bu
- Increase		5.8%	10.9%	18.5%	(9.1%)	28.5%	11.1%	6.1%
Soybeans (55/bu)	\$6.58/bu	\$7.00/bu	\$8.26/bu	\$8.75/bu	\$8.50/bu	\$10.30/bu	\$10.96/bu	\$11.25/bu
- Increase		6.4%	10.7%	5.9%	(2.9%)	21.2%	4.8%	2.6%
Dairy Class III B/E	\$12.48/cwt	\$15.35/cwt	\$16.01/cwt	\$15.50/cwt	\$15.25/cwt	\$16.35/cwt	\$16.93/cwt	\$17.25/cwt
- Increase		23.0%	4.3%	(3.1%)	(1.6%)	7.2%	3.5%	1.9%

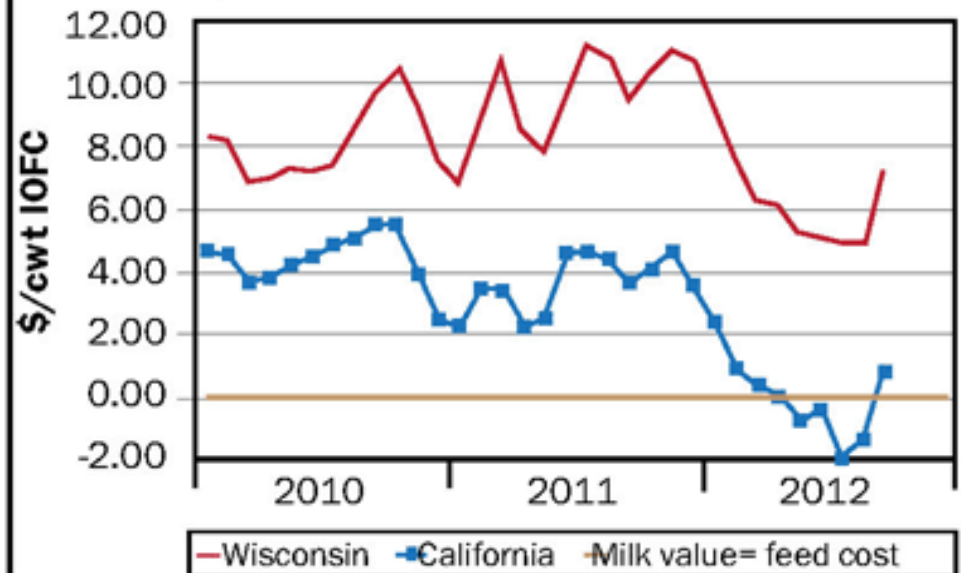
# Wisconsin vs California Class III Income

**Figure 1: Class III versus California 4b prices**



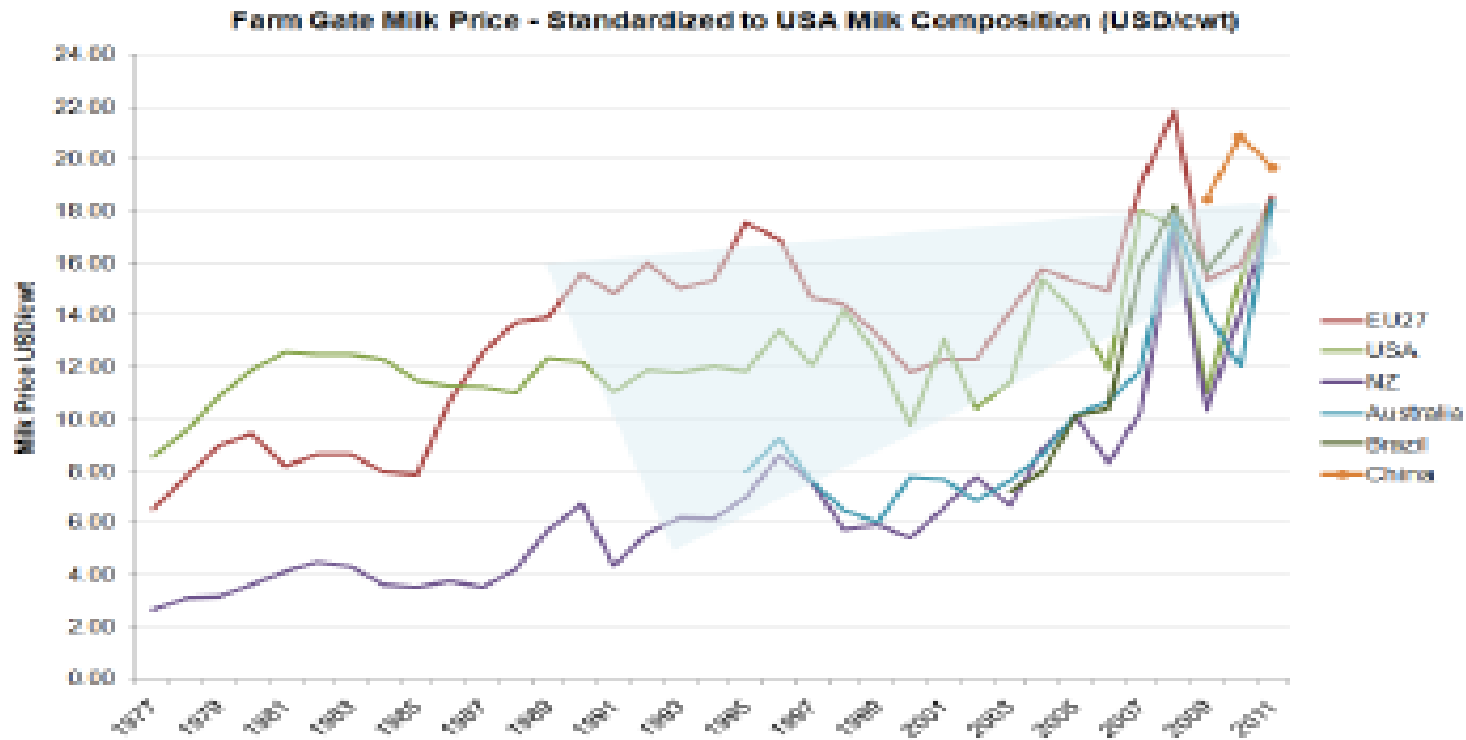
Source: University of Wisconsin's Understanding Dairy Markets website (<http://future.aae.wisc.edu/tab/prices.html>)

**Figure 2: Income over feed costs**



# It's a Global Market!

## Dairy prices are higher, with more convergence and volatility



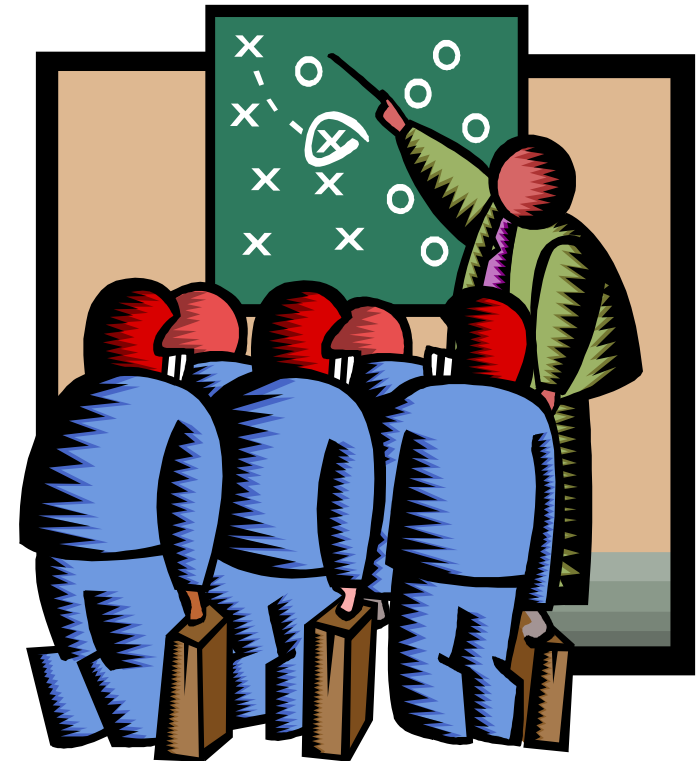
Source: Fonterra analysis

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Confidential - Fonterra Cooperative Group

# Risk Management - Milk and Input Marketing Strategies

- Put option
- Hedge
- Forward contract
  - Call options
  - Hedge
- Fence
- Do nothing
- Crop Insurance
- LGM – Dairy Insurance





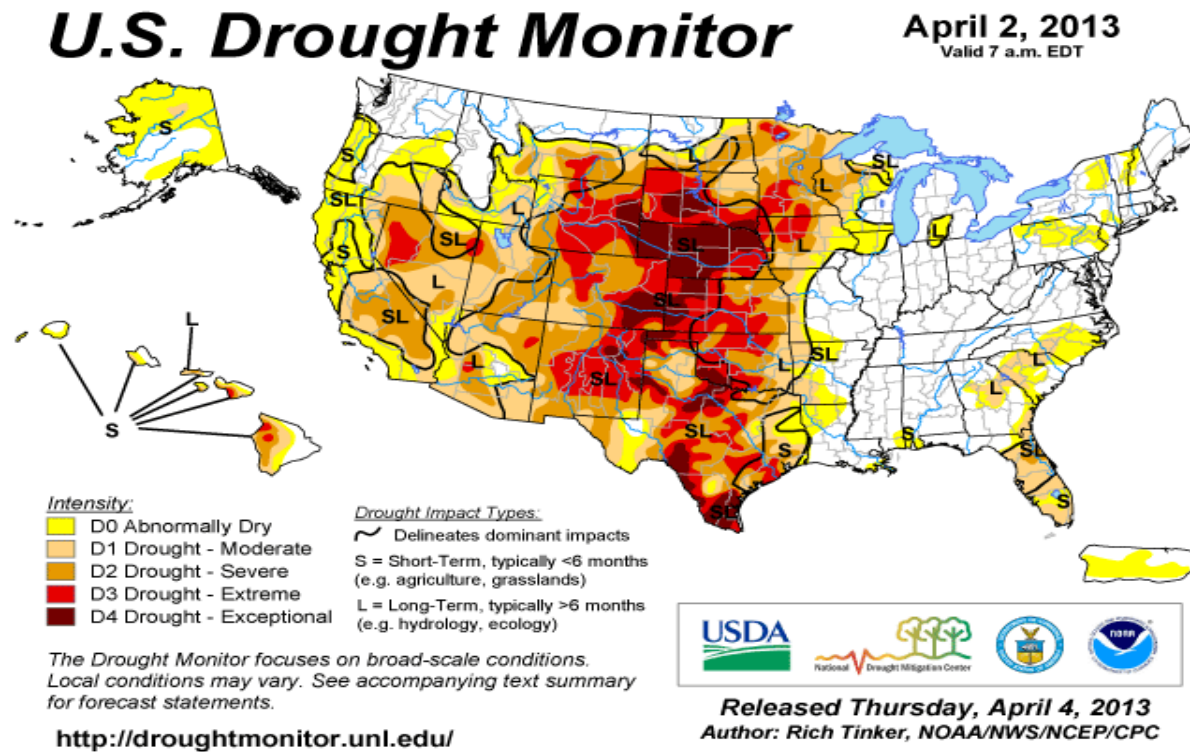
# Regions Matter

Feed – Buy vs. Grow

Markets – fluid, commodity vs. specialty cheese

Exports –

New Products – (can you say Chobani?)



# A Very Cloudy Crystal Ball

- Exports drive the Ag bus
- Crops will get planted – rain must be just-in-time
- Corn could have a 4 or 7 in price by fall
- Scenario planning and risk management are requirements to navigate market volatility
- Ag lenders are interested in well capitalized operations with solid liquidity and ability to manage price risk
- Consolidation continues in the Ag space – producers, suppliers, buyers, retailers
- Growing world population and caloric intake bullish for U.S. agriculture including the dairy sector

- Commercial**
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  - Client Success Stories
  - Insights
  - Newsletters
  - Research & White Papers
  - Webinars and Videos



## Agriculture

**Farm Bill Negotiations Highlight Need for Price Risk Management**  
PUBLISHED: March 27, 2013 | AUTHOR: Sam Miller

The threat of going over the fiscal cliff was particularly daunting for agricultural producers. On the brink of reverting back to 60-year-old permanent legislation, farmers were spared by Congress—for the time being—when legislators extended provisions from the previous Farm Bill as part of New Year's negotiations.

In these negotiations, Congress extended the 2008 bill through September 30, 2013. However, because a new Farm Bill was not ratified for another five years, industry programs could be a part of the debates over widespread reductions in government spending.

[Read more](#)

**Price Risk Management: Strategies and Tools to Mitigate Volatility**  
PUBLISHED: March 20, 2013 | AUTHOR: Sam Miller

The drought of 2012 put stress on nearly every sector in the agriculture industry. As a result, producers are developing a greater understanding of the value of risk mitigation tools. In this white paper, Sam Miller, Managing Director of Agriculture Banking with BMO Harris Bank, discusses price risk management within the agriculture industry. He outlines the key tenets of an effective risk mitigation plan that focuses on the implementation of available tools, education, and advice from trusted third parties and advisors.

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