

AN INITIATIVE OF

Making More From Sheep



Extending positive price cycles

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Rural
Directions
Pty Ltd

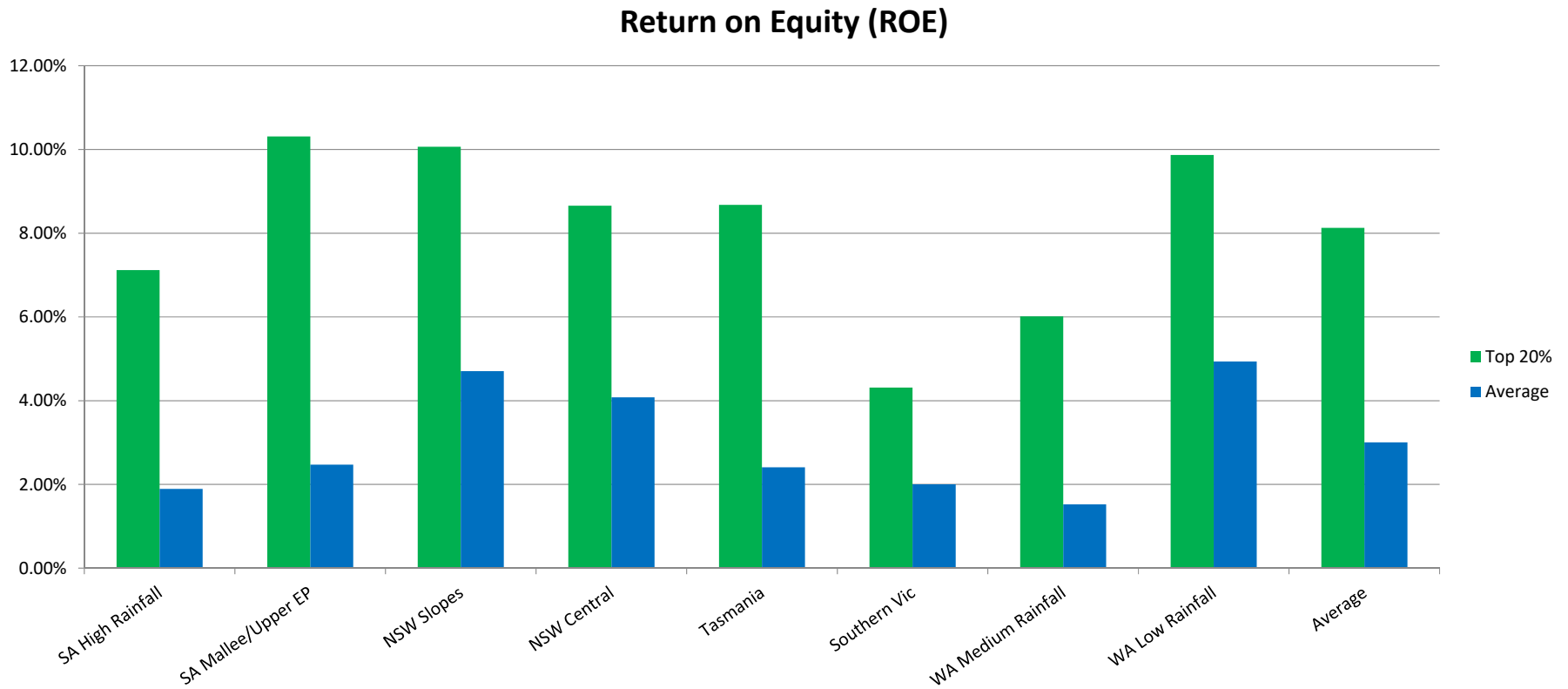
It's ewe time!



1. Background

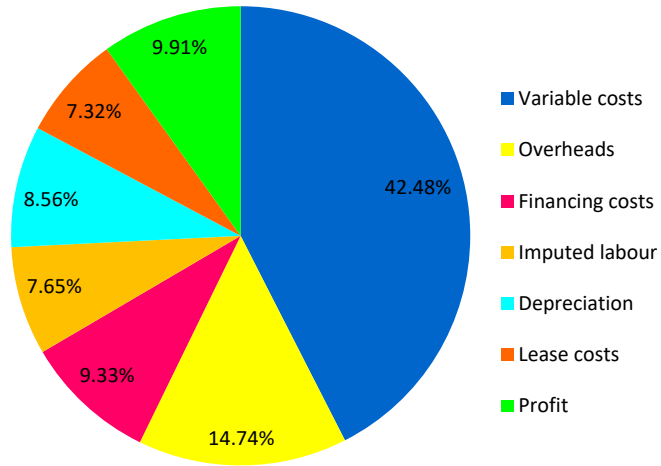
- Red meat and wool pricing currently very strong
- Allowing strong opportunities for profit potential on well managed farms
 - Acknowledging current seasonal constraints!
- No guarantees with commodity price cycles
- Opportunities to invest now to maintain future profit margins or business strength...and be well positioned in the event of any price changes
- Well considered investment of current profits is the key to long term success and sustainability!

Profit variation between Top 20% and average

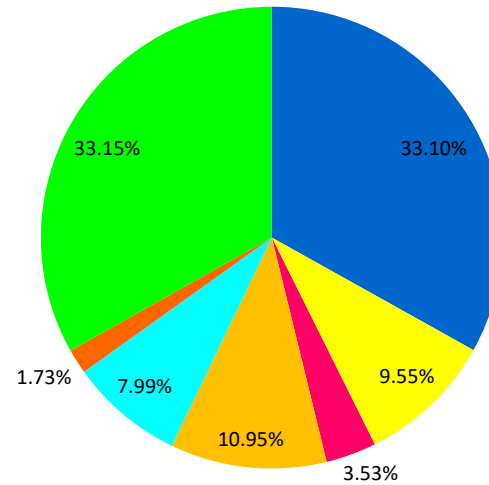


Profit as a % of turnover

Average



Top 20%



Retaining 30% of turnover as net profit

30% (of turnover retained as net profit)

What are these
businesses doing
differently?

2. Profit Driver Framework

- The following four primary profit drivers are relevant to agricultural businesses nationally:
 1. Gross margin optimisation (*Operational*)
 2. Low cost business model (*Structural*)
 3. People and management
 4. Risk management
- It is the interaction of these four primary profit drivers that is resulting in different profit outcomes
- If one of these four is overlooked it will compromise profit potential and long term financial performance

3. Gross margin optimisation – sheep flock

- **Gross margin per hectare**

= Stocking rate per hectare

x individual animal performance

less variable costs per hectare

3. Gross margin optimisation – sheep flock

- **Individual animal performance a function of**
 - Reproduction rate
 - Turn-off weight (or \$ value)
 - Adult fleece value
 - Mortality
- **Variable costs**
 - Most common variations in grazing businesses are in supplementary feed, fodder conservation, and pasture seed costs
 - Also variations in fertiliser costs...however strongly advocate replacement P

Gross margin optimisation – South West Slopes

Benchmark indicator	Top 20%	Remaining 80%
Livestock income (\$/ha)	\$643	\$637
Livestock variable costs (\$/ha)	\$191	\$237
Livestock gross margin	\$453	\$401
Variable costs as a % of income	32%	36%
Average turn-off weight (kg)	58	57
Adult fleece value	\$40	\$40
Supplementary feed (\$/ha)	\$24	\$39
Weaning % (industry estimates)	>100%	<90%

Gross margin optimisation – sheep flock

Behind gross margin optimisation in a sheep flock context are:

- Turn-off weight
- Reproduction rate
- Adult fleece value
- Stocking rate
 - Grazing management
- Pasture costs
- Price received
- Supplementary feed
- Mortality
- Animal husbandry
- Replacement genetics

Dual purpose flock targets

120% weaning

\$120 per head minimum for lambs

\$60 adult fleece value

Wool focus flock targets

100% weaning

\$100 per head for sheep sales

\$80 adult fleece value

Maternal composite flock targets

150% weaning

\$135 per head minimum for lambs

\$15 adult fleece value

Summary of stretch targets by flock type

	Weaning %	Lamb \$ value	Adult fleece value
Dual purpose	120%	\$120	\$60
Wool focus	100%	\$100	\$80
Maternal composite	150%	\$135	\$15



Lamb growth rate – 40kg lambs

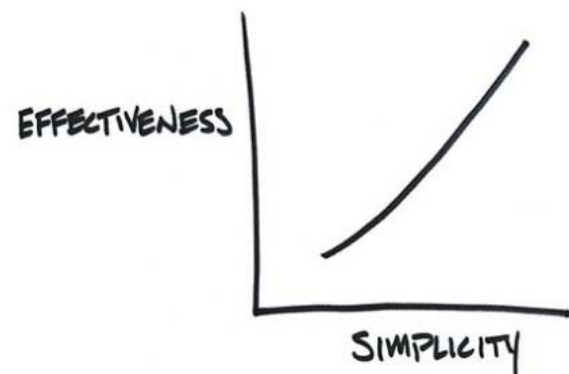
Daily Growth Rate (grams)	Maintenance Intake (kg/day)	Growth Intake (kg/day)	Total Intake (kg/day)	% diet going towards production
100	0.8	0.4	1.2	33%
150	0.8	0.6	1.4	43%
200	0.8	0.8	1.6	50%
250	0.8	1.0	1.8	55%
300	0.8	1.2	2.0	60%

Pasture Principles – A practical guide to pasture management
Doonan B, Sherriff L, Hooper P, Macquarie Franklin

4. Low Cost Business Model

Key principles

1. Achieve high levels of utilisation from labour
 - a) Labour accounts for approximately 70% of overhead costs in a grazing business
2. Avoid unnecessary enterprise complexity
 - a) Complexity increases internal management risk
3. Strive to develop scalable farming systems
4. Stretch target of \$600,000 of turnover per FTI



EBIT per DSE – South West Slopes

Benchmark indicator	Top 20%	Remaining 80%
Revenue (gross profit) per DSE	\$74	\$58
Variable costs per DSE	\$19	\$22
Gross margin per DSE	\$55	\$36
Overhead costs per DSE*	\$15	\$19
EBIT per DSE	\$40	\$17

EBIT = Earnings Before Interest & Tax

EBIT = Profit before finance and lease costs are taken out (& before tax)

* = labour allocation based on revenue (imperfect approach)

5. Opportunities to invest wisely

- Strong commodity pricing is creating additional investment capacity on well managed farms
- Ideally we need to invest wisely now with a view to either create new wealth or be able to maintain profit margins at lower commodity pricing
- Often our wish list is longer than available resources...so there is a need to prioritise!
- Highly recommend MLA Southern BusinessEDGE workshops delivered in NSW by Holmes Sackett

Potential areas to invest

- Skill building
- Debt principle reductions
- Infrastructure investments to reduce or eliminate labour
- Business growth through land acquisition
- On-farm productivity enhancements
- Off-farm investment
- Preparedness for independent retirement and future succession



Use the Profit Driver Framework as a filter

- The following four primary profit drivers are relevant to agricultural businesses nationally:
 1. Gross margin optimisation (*Operational*)
 2. Low cost business model (*Structural*)
 3. People and management
 4. Risk management

Challenge yourself around how the investment opportunity aligns with this framework...critical thinking is required!

On-farm productivity enhancements

- Soil amelioration (correcting soil pH or sodicity)
- Replacement phosphorus
- Genetics aligned with key enterprise profit drivers
 - Adult fleece value, fertility, daily growth rates
- Management of the feed base
- Optimisation of stocking rate



Infrastructure investments to reduce labour

- Laneways
- Grids
- Consistent, low management water supply
- Yards and handling facilities
- Remote water monitoring



Return on investment from livestock grids

# times per day	Grid Cost	Annual benefit	Internal Rate of Return
1	\$5,000	\$608	3.7%
2	\$5,000	\$1,217	20.6%
3	\$5,000	\$1,825	34.6%
4	\$5,000	\$2,433	47.7%
5	\$5,000	\$3,042	60.3%
6	\$5,000	\$3,650	72.7%
7	\$5,000	\$4,248	85.0%
8	\$5,000	\$4,867	97.2%

6. Provisioning for independent retirement...\$2m goal*

# years to prepare	Annual Contribution	After tax rate of return	% contributed
40	\$12,500	6%	24%
30	\$24,500	6%	36%
20	\$52,500	6%	51%
10	\$147,500	6%	72%

Starting early is the key!

EMILY = Early Money Is Like Yeast

Allow compound interest to do the heavy lifting!

*MLA Southern BusinessEDGE principle

Provisioning for future succession events - \$1m goal

# years to prepare	Annual Contribution	After tax rate of return	% contributed
40	\$6,250	6%	24%
30	\$12,250	6%	36%
20	\$26,250	6%	51%
10	\$73,750	6%	72%

Provisioning for future succession events also valuable

Can assist with creating wealth creation opportunities for both farming and non-farming siblings

Again...starting early is the key!

High performing grazing businesses – key indicators

- Retaining 30% of turnover as net profit
- Adult fleece value > \$60
- Average turn-off weight > 48kg LWT in dual purpose and prime lamb
- Stretch target of \$600,000 turnover per FTE
- Robust reproduction rates in accordance with flock type
- Objective and rational allocation of capital
- Robust and early provisioning for retirement
- Provisioning for succession events also starting early
- Replicating Top 20% performance is the key to wealth creation

Summary of key messages

- Replicating Top 20% performance is **within your control**
- Replicating Top 20% performance requires **optimising gross margins** and developing a **low cost business model**
- Be **disciplined** and **objective** with investment choices to create long term value within your business
- Start **provisioning early** to fund independent retirement
- It requires **skill, courage**, and **discipline** to achieve this!