

# What is the impact of current prices and opportunities to maximise livestock profit

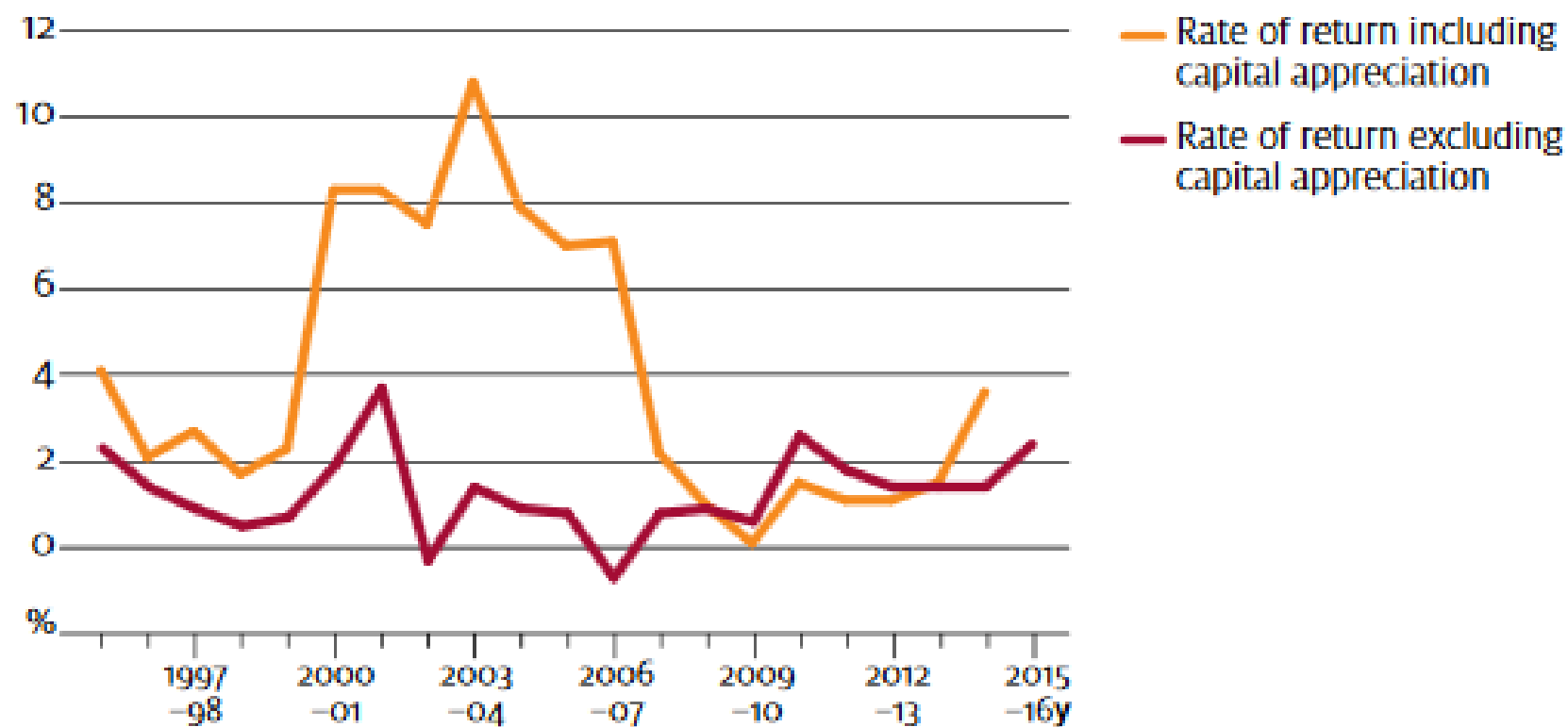
John Webb Ware  
Mackinnon Project



# Agenda

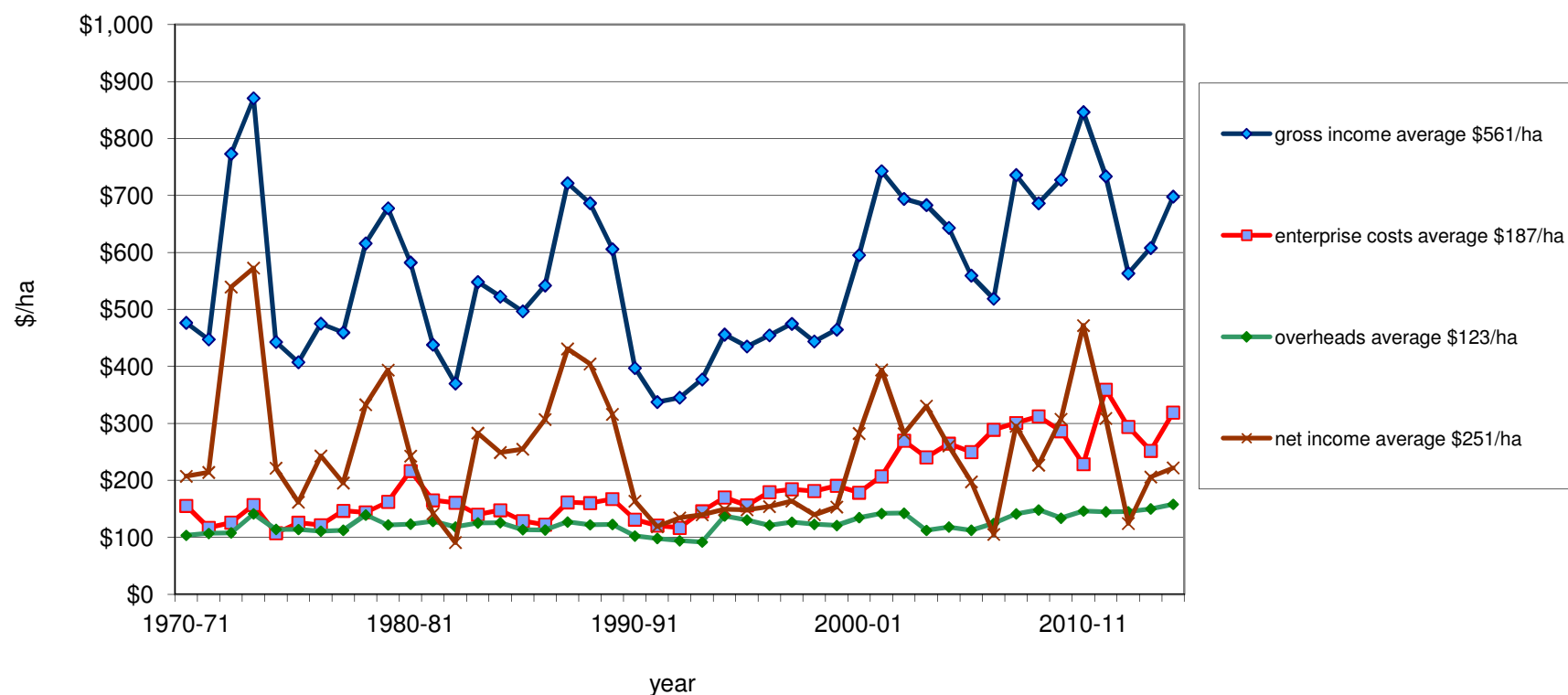
- Livestock enterprise performance
- The current situation
- Opportunities to increase profitability

# Return on capital broad acre farms (ABARE)



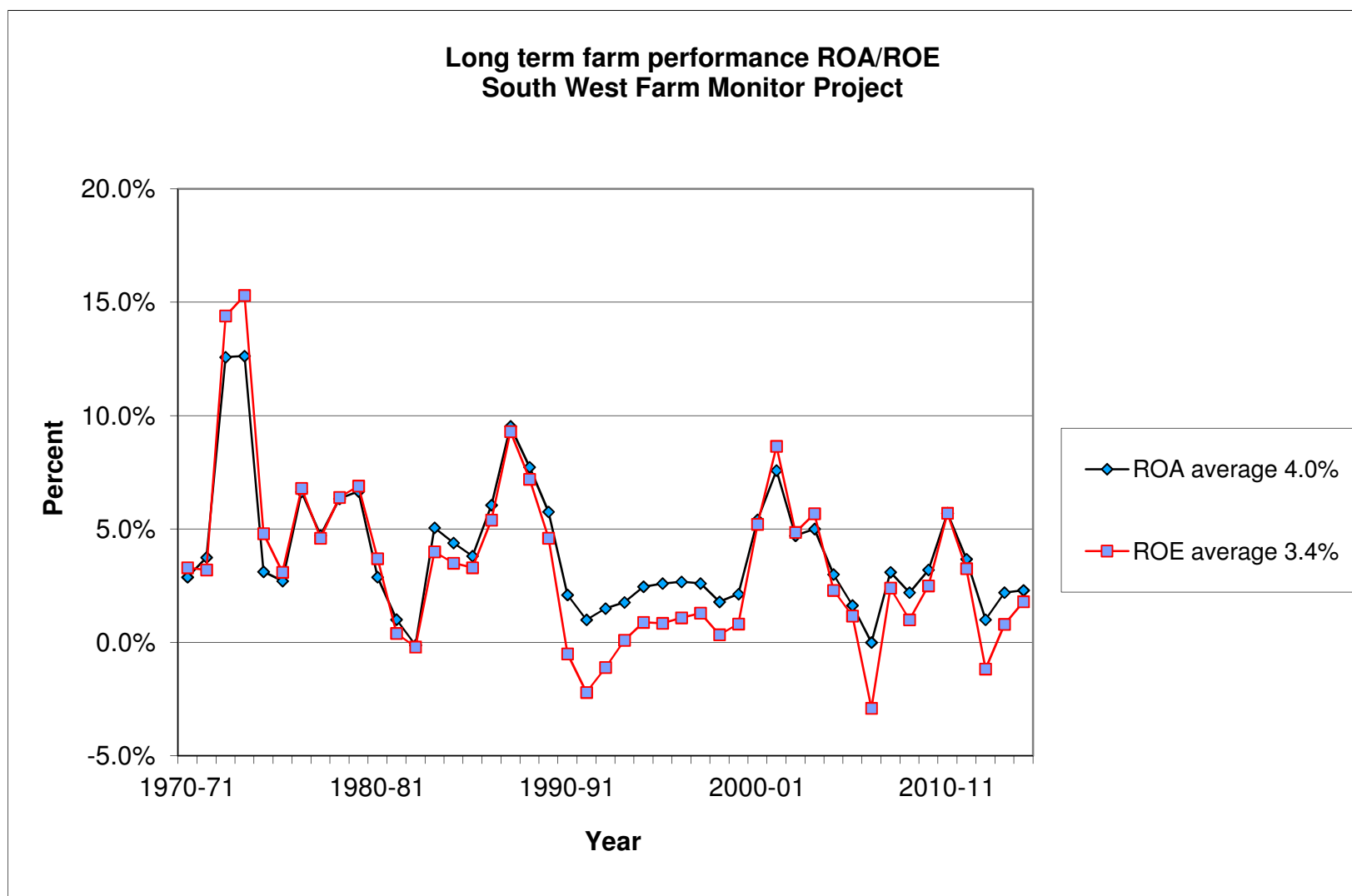
# Historical performance SW Vic Farm monitor project 1971-2015

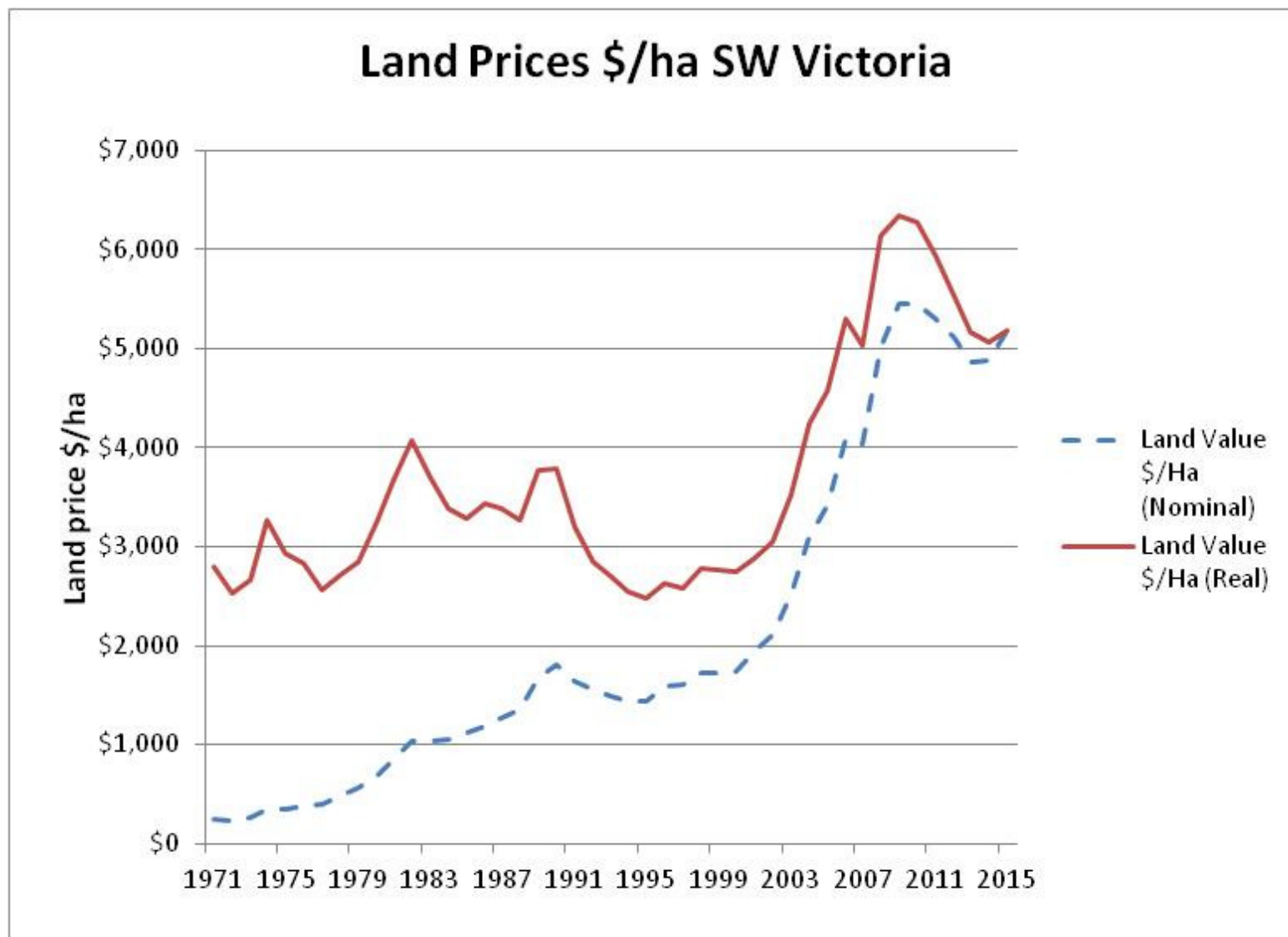
Average farm performance long term (real \$)  
South West Farm Monitor Project



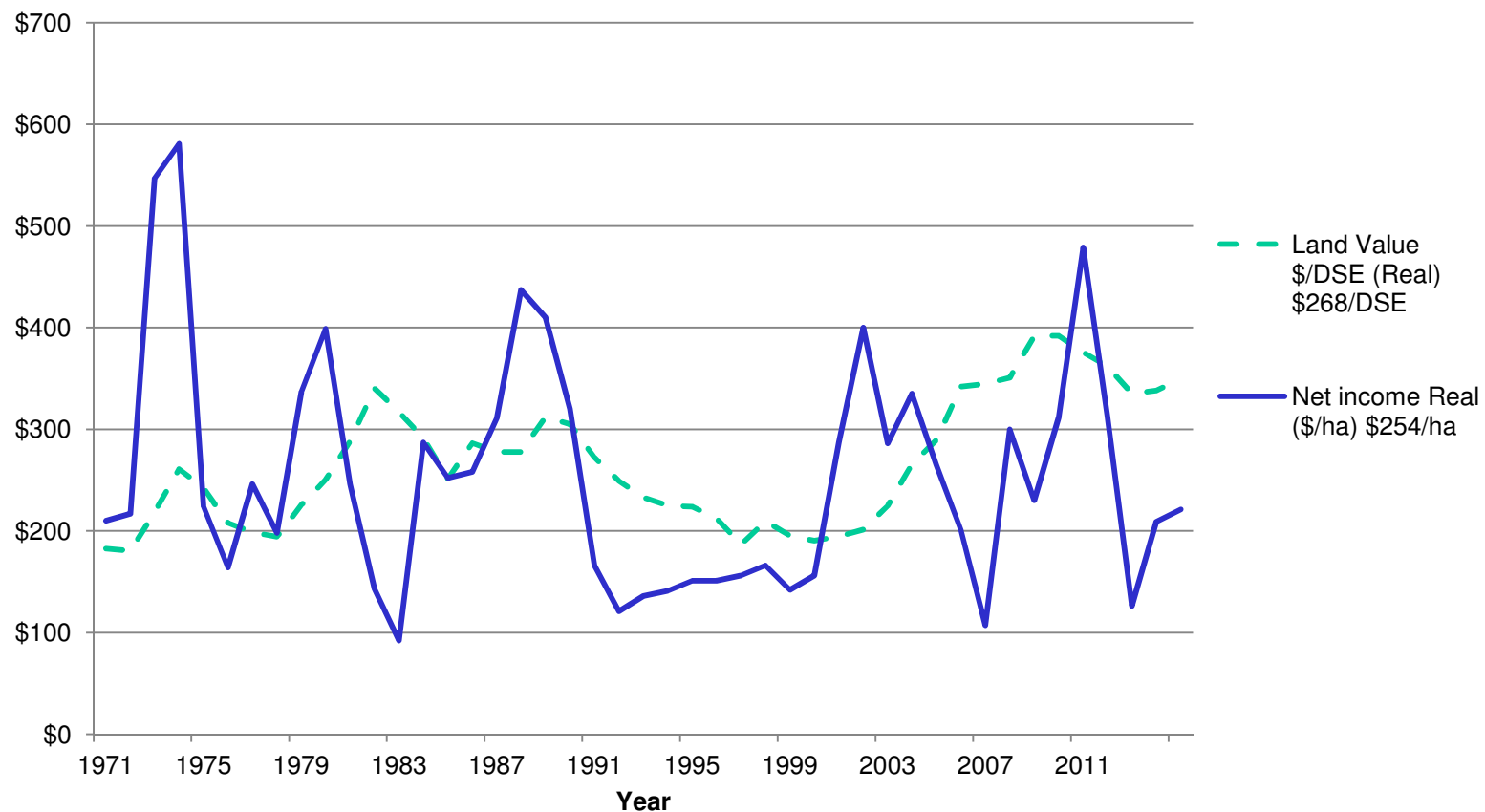
# Return on Assets

## Farm monitor project 1971-2015



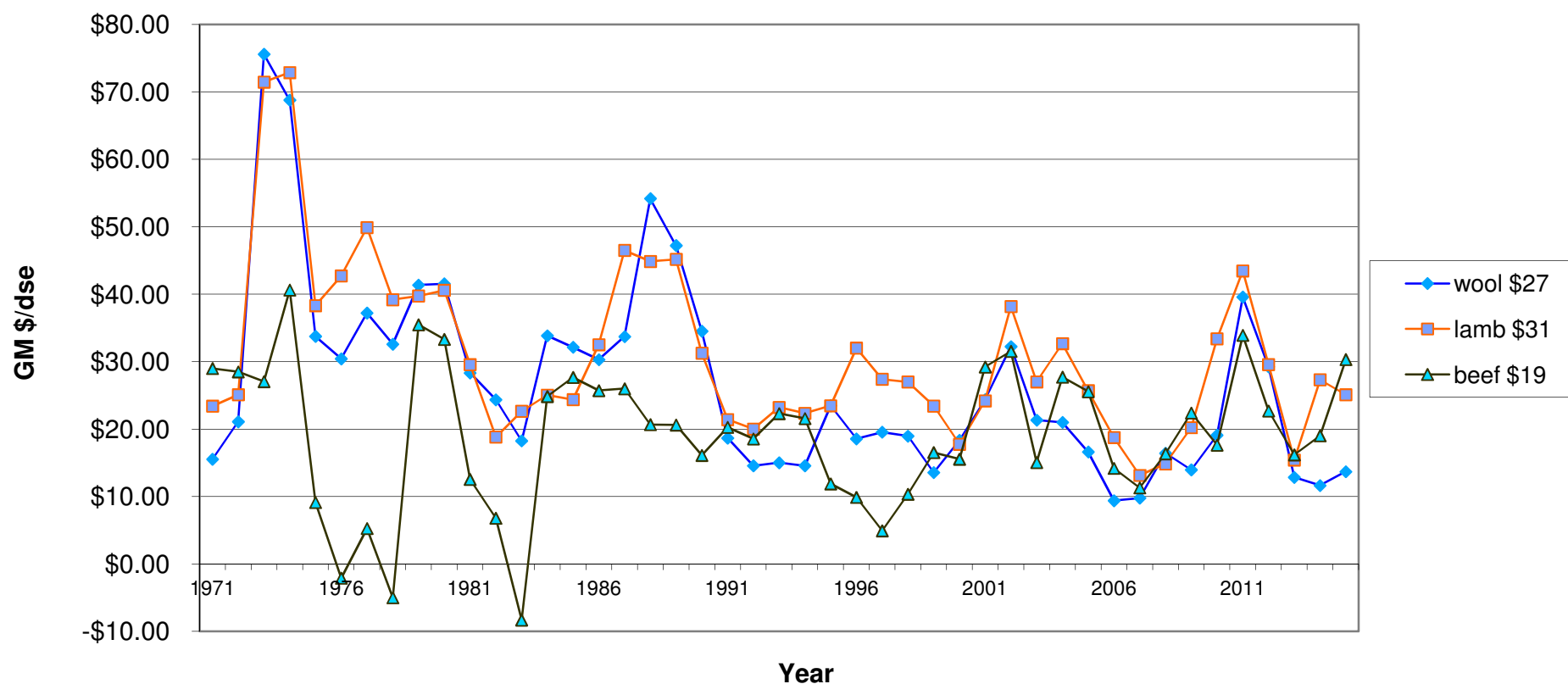


## Land value \$/dse v's Net income \$/ha



# Livestock enterprise performance

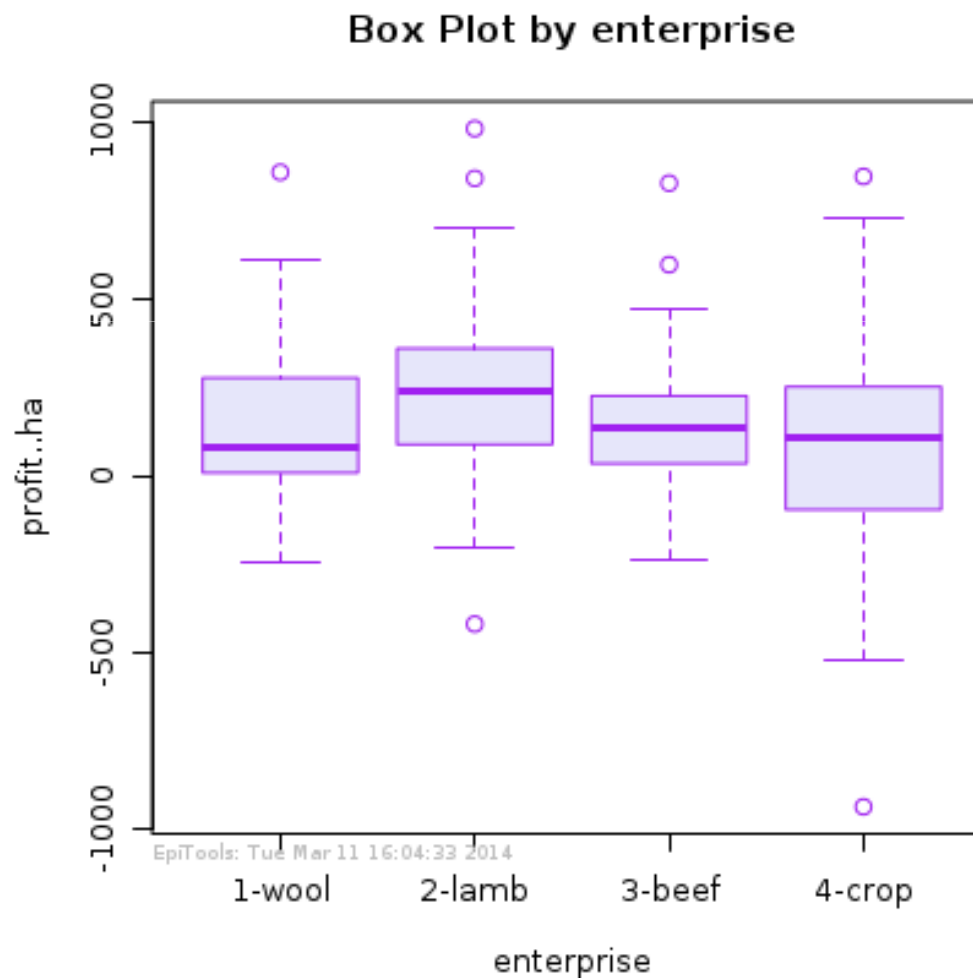
South West Victoria Monitor Farm 1971-2015  
Average Gross Margin \$/dse



## Livestock enterprise performance

GM \$/dse	Wool	Prime lamb	Beef
average 10 years	\$17.57	\$24.13	\$20.41
average 5 years	\$21.41	\$28.18	\$24.44
2014-15	\$13.69	\$25.10	\$30.33

## 2009-2014: Risk verses return



# FX and dual purpose flocks: 2016

FX Ewe replacement price \$/head	Gross lamb price (\$/head)		
	\$90	\$110	\$130
\$150	\$28.01	\$37.93	\$47.85
\$180	\$25.21	\$35.13	\$45.04
\$210	\$22.41	\$32.32	\$42.24
\$240	\$20.54	\$30.46	\$40.37

Dual purpose Merino Ewe replacement price \$/head	Gross lamb price (\$/head)		
	\$80	\$100	\$120
\$90	\$37.04	\$45.98	\$54.93
\$110	\$32.62	\$41.57	\$50.51
\$130	\$28.21	\$37.15	\$46.09
\$150	\$23.79	\$32.73	\$41.67

Wool Flock Ewe GFW (kg)	Wool Price (\$/kg)		
	\$13.00	\$15.00	\$17.00
4.5	\$27.37	\$31.56	\$35.74
5.0	\$30.39	\$35.05	\$39.70
5.5	\$33.42	\$38.54	\$43.66
6.0	\$36.44	\$42.03	\$47.61

Beef Herd Cow price \$/head	Steer price (\$/head)		
	\$1200	\$1400	\$1600
\$1000	\$34.71	\$39.07	\$43.43
\$1200	\$37.05	\$41.41	\$45.77
\$1400	\$39.39	\$43.75	\$48.11
\$1600	\$41.73	\$46.09	\$50.45

# Cattle trading

Difference  
between  
purchase  
and sale  
price

	Growth rate kg/day		
	<b>0.60</b>	<b>0.80</b>	<b>1.00</b>
<b>-\$1.00</b>	-\$8	\$5	\$18
<b>-\$0.75</b>	\$2	\$16	\$30
<b>-\$0.50</b>	\$12	\$27	\$42
<b>-\$0.25</b>	\$22	\$38	\$54
<b>\$0.00</b>	\$31	\$49	\$66
<b>\$0.25</b>	\$41	\$60	\$78

Gross margin  
\$/dse

Difference  
between  
purchase  
and sale  
price

	Growth rate kg/day		
	<b>0.60</b>	<b>0.80</b>	<b>1.00</b>
<b>-\$1.00</b>	-7%	4%	16%
<b>-\$0.75</b>	2%	14%	27%
<b>-\$0.50</b>	10%	24%	37%
<b>-\$0.25</b>	19%	34%	48%
<b>\$0.00</b>	28%	43%	59%
<b>\$0.25</b>	37%	53%	70%

Return of capital  
%

# Projected enterprise performance

- **Self replacing merinos**
  - GM \$35-45/dse
  - 55-65% ROC
- **Prime lamb**
  - GM \$30-45/dse
  - 50-60% ROC
- **Dual purpose**
  - GM \$35-50/dse
  - 60-70% ROC
- **Beef cattle**
  - GM \$40-50/dse
  - 40-50% ROC

# Management: the key to profitability

- Enterprise mix
- Increasing pasture growth and utilisation – prioritise investment
- Matching feed demand and pasture growth curve
  - Time of lambing/calving
- Management calendar
- Reproductive management & herd and flock structure
- Genetic improvement

# Enterprise mix

- Huge variation in profitability
- Capital: stock and infrastructure
- Trade off: Risk v's return
- Management is the key
- Set the business to withstand negative events
- Focus on profitable enterprises
  - Exploit enterprises that complement each other

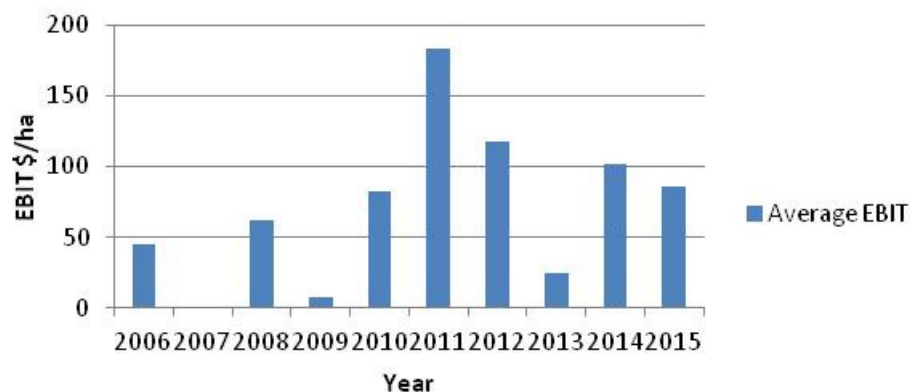
# Farm performance?

\$/ha	Average	Top 20%	difference
Gross income	\$461	\$630	+\$169
Enterprise costs	\$181	\$149	+\$32
Gross Margin	\$280	\$481	+\$201
Overhead costs	\$120	\$98	-\$22
O/O labour	\$74	\$56	-\$18
EBIT	\$86	\$326	+\$240
Interest and Lease costs	\$61	\$43	-18
Net Farm Income	\$25	\$283	+\$258
<b>2015 Net income (1000 ha)</b>	<b>\$25,000</b>	<b>\$283,000</b>	
<b>Projected (1000 ha) extra</b>	<b>\$153,000</b>	<b>\$447,000</b>	
<b>income 2016-17</b>	<b>+\$128,000</b>	<b>+\$164,000</b>	

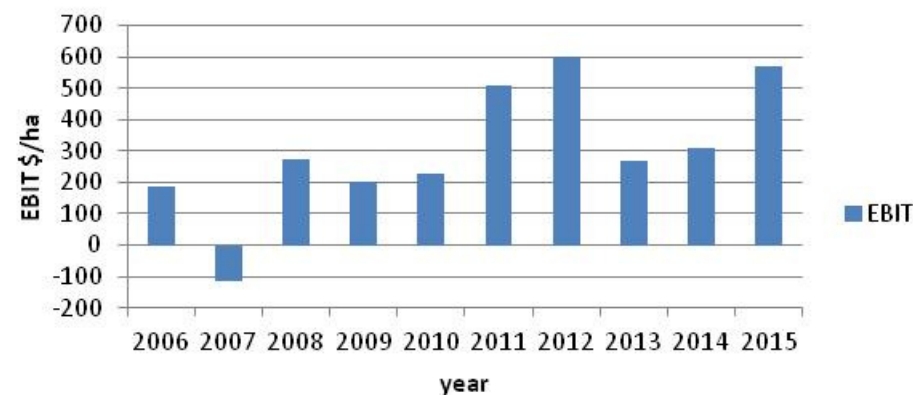
# Managing the Risk

- 40% profits are made in 20% of years
- Worst 20% of years contributed to 1% total profits!
- Become a low cost producer
- **Capitalise** on the good years
- Minimise losses in the bad years

Average EBIT 2006-2015  
average of all farms



EBIT 2006-2015  
Example farm



# Opportunities with high beef prices

- Strategies similar to normal years
- Enterprise change
  - Trade out to sheep?
- Opportunity finishing to heavier weights?
  - Trade off price change and wt gain
  - Finishing systems
  - feedlotting
- Cost benefit of investment may change
  - Constant review

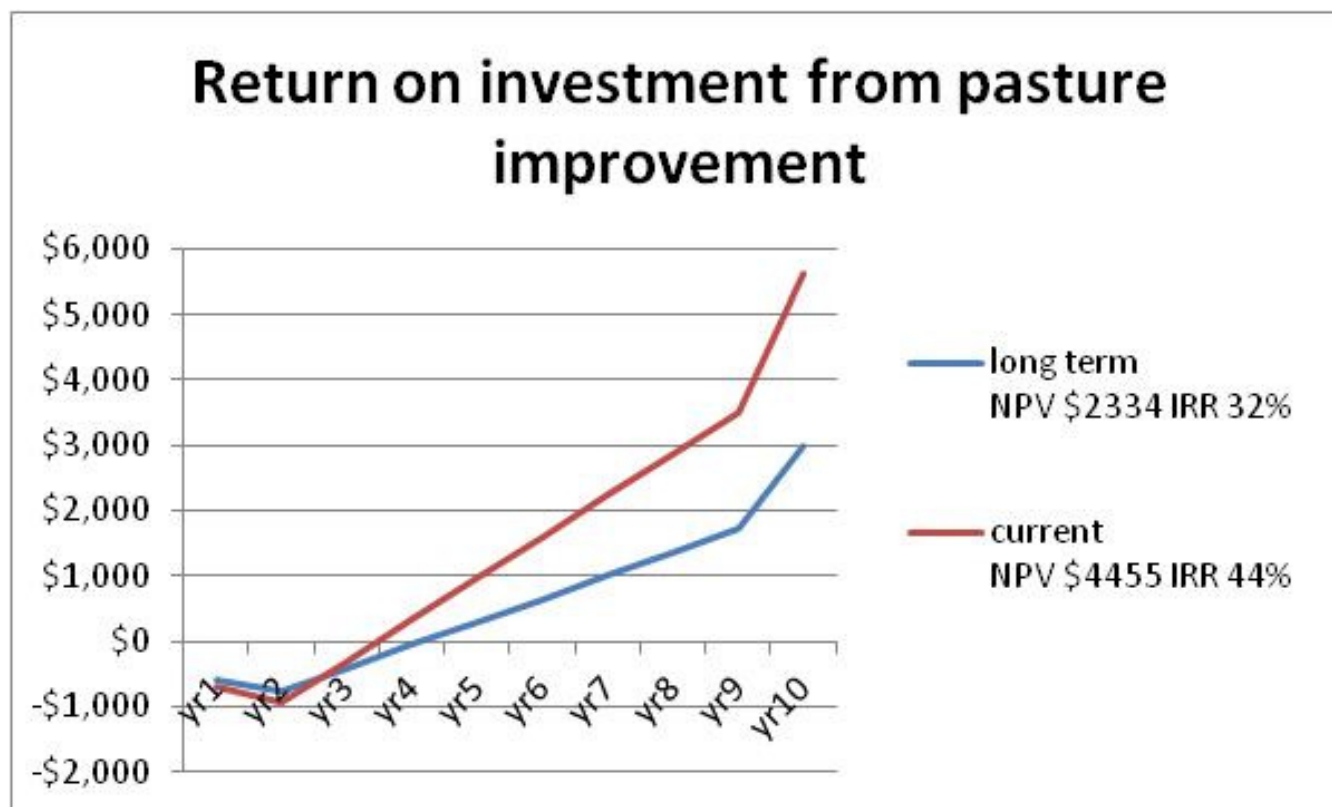


# Opportunities with high beef prices

- Invest surplus funds
  - Debt reduction     IRR = 4-5%
  - Off farm?
  - Buy stock            IRR = 30-80%
  - Buy land             IRR = 3-9%
  - Lease land          IRR = 0-25%
  - Pasture                IRR >30-50%
  - Infrastructure        IRR 2-40%+?
  - Plant                  IRR –ve >20%
- Do your sums and seek advice!!



# Pasture improvement



## New yards (actual case study)

- NSW 13000 sheep
  - 125000 sheep movements per annum
  - 200 sheep per hour with 2 staff
  - \$70000 yards
  - 300 sheep per hour with 2 staff
  - Labour saving \$16,667/pa
  - Extra production \$3000 per year (v conservative)
  - 30 year life span
  - Happy staff
  - IRR = 39%!!

# Summary

- Current commodity prices and seasonal conditions will make this a great year
- Key profit drivers don't change
- On farm investment will improve with higher returns
  - Enormous variation
- Do your sums and seek advice

**Contact Details:**  
**John Webb Ware**  
**Mackinnon Project**  
**Phone: 0418748600**  
**Email: [j.webbware@unimelb.edu.au](mailto:j.webbware@unimelb.edu.au)**