

What the future demands...

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What now?

- 4 observations in the Pork Industry and around
- What's important, then?
- HOW can we do this?



A little about myself

- Ph.D. in Agricultural Economics from Copenhagen University – 2000
- Head of the "Economics Department" at the Knowledge Centre for Agriculture 2001 – 08
- Head of Jyske Bank's "Agricultural Competence Centre" 2008 – 2011
- Chief Consultant – Development at LMO 2011 - present
 - Adviser for large farmers, pork and dairy
 - Leadership, Turnaround, Strategy, Financial
 - Internal and external development projects



About LMO:

- Denmark's largest agricultural advisory company
- Based in Horsens, Søften, Viborg and Aars
- 375 employees
- Turnover 275 mio. DKK
- Partner in DLBR, with 3.500 employees



4 observations:

1: Financial times, April 15, 2013

Traders reap \$250bn harvest from

Top of the list was David Tepper, the man behind the \$15bn Appaloosa, who made \$2.2bn.

The hedge fund was one of the best performing in the year producing returns for its clients after fees of 30 per cent, according to people familiar with the fund, matching its annual average return since it was founded in 1993.

Mr Tepper's income was more than 100 times the \$21m that Goldman Sachs paid Lloyd Blankfein, the best-paid bank chief executive.

Top fund managers take home \$8bn less

By Dan McCrum in New York

The 25 highest-paid hedge fund managers collected \$14bn in pay and paper profits on their own investments last year, down from \$22bn in 2010, in a sign of the industry's struggle to improve client portfolios.

It was the lowest total since 2008, when most large hedge funds lost money.

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Mr Tepper's income was more than 100 times the \$21m that Goldman Sachs paid Lloyd Blankfein, the best-paid bank chief executive.

He heads a list of the highest earning 25 hedge fund managers - to be published today by Institutional Investor's Alpha - pushing last year's winner Ray Dalio of Bridgewater into second place as his annual take dropped from \$3.9bn to \$1.7bn.

Steven Cohen, whose SAC Capital is at the heart of a long-running insider trading investigation, was in third place with \$1.4bn, more than twice the \$616m civil settlement he recently agreed with regulators. Mr Cohen has not been accused of wrongdoing.

The average hedge fund made a 6.4 per cent profit for its investors in 2012, according to Hedge Fund Research, trailing the 11.1 per cent return of a simple passive portfolio invested 60 per cent in US stocks and 40 per cent in bonds.

The rich list also shows that the top rank of the hedge fund industry is largely a closed club of US managers with long pedigrees and big funds.

Notably absent from the list is Carl Icahn, the veteran investor who closed his hedge fund in 2011. Forbes estimates his fortune at \$20bn, the largest on Wall Street.

FT Graphic

Titan's tougher times, Page 8

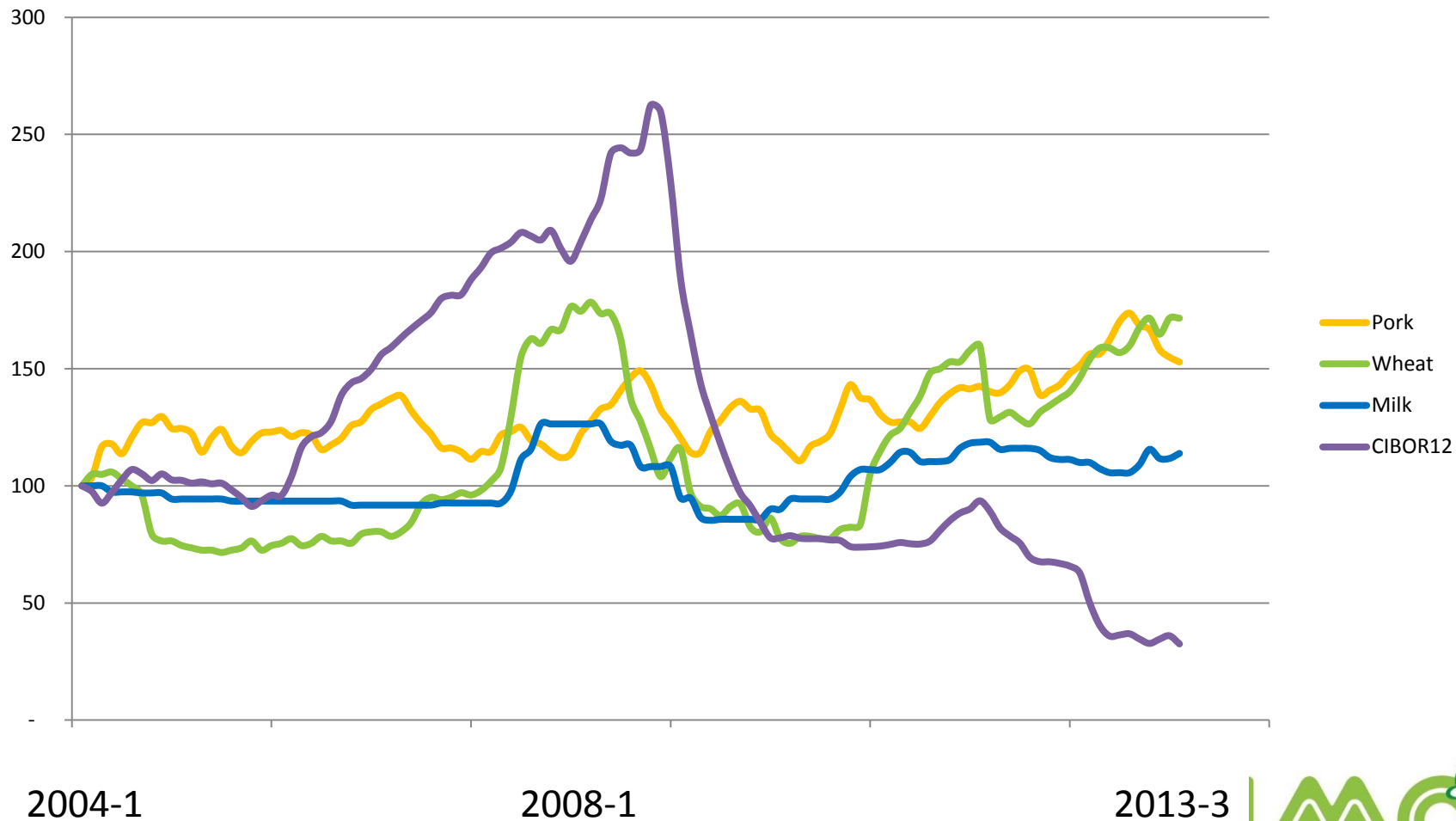


This means:

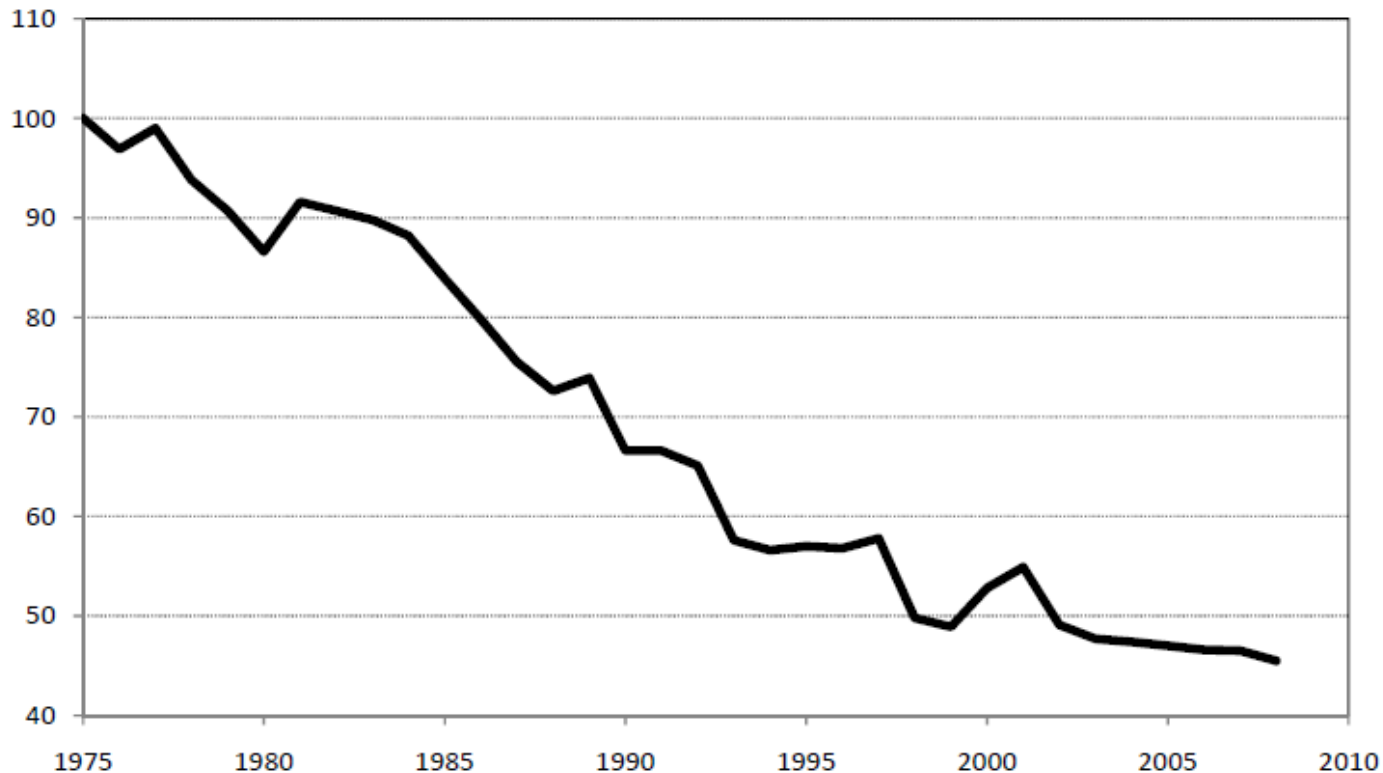
- Expect very volatile prices on all commodities traded on normal markets



4 observations: 2: How about the prices?



However: The terms of trade are deteriorating over time:



Price index of outputs/price index of inputs. Including EU support

Source: FOI



This means:

- Do not expect the long term trend has been broken
- In real terms, commodity prices are more likely to fall over time
- Furthermore, EU support is being reduced
- Enjoy the moment



4 observations: 3: The financial sector

- Danish banks have realized huge losses –
 - (Jyske Bank so far lost more than 500 mio DKK on agriculture, and have currently reserved another 700 mio DKK for future losses = 6,5% + 8,5%)
- This was because of the real estate price bubble, overinvestment and too much debt
- Politicians are eager to prevent future financial crisis
 - Safer banks with more equity is demanded
 - Short term loans are in danger



This means:

- What is it going to take, if a young guy with a used car wants to buy a farm...?
- When are banks again ready to finance low income – high debt farms?
 - Selling to family member is not a problem, as long as the equity stays
 - Selling a farm with high debt is not a problem
 - Getting your equity out IS a problem!!!



4 observations:

4: Structural change is coming

- Personal ownership of **large farms** is becoming unfashionable
 - It has been for many years, but high land prices and high equity has postponed the inevitable
- Equity Funds are entering the market
- Large scale Danish owned farms in Eastern Europe books huge profits



Likely consequences:

- 2012 was a good year. Hope you enjoyed it.
- Its going to take more than a happy face and an old Fiesta to buy a large farm in the future... (Unless the farm is highly indebted...)
- It is really hard to get your equity out of the business. This is not going to change soon
- We will see new business setups. For example other owners of the land



What's important, then?

- Maximize your revenue from the farm.
Determine your exit strategy now
- Maximize your current income. Make sure your per unit production costs are lower than your neighbor's...



Exit strategy

- When will you sell your farm?
- Who should buy your farm?
 - Family member? (No-profit – No-problem)
 - A partner / employee? (Long term profit is OK, if he is OK)
 - Free sale? (How will he pay? How much?)
 - An equity fund? (How will they value the farm?)
- Can you take money out now?
 - Don't risk everything – reserve money somewhere safe
- What investments?
 - More or less production?
 - Use it up – keep it running as long as possible?
 - Make the farm nice for a City Family?



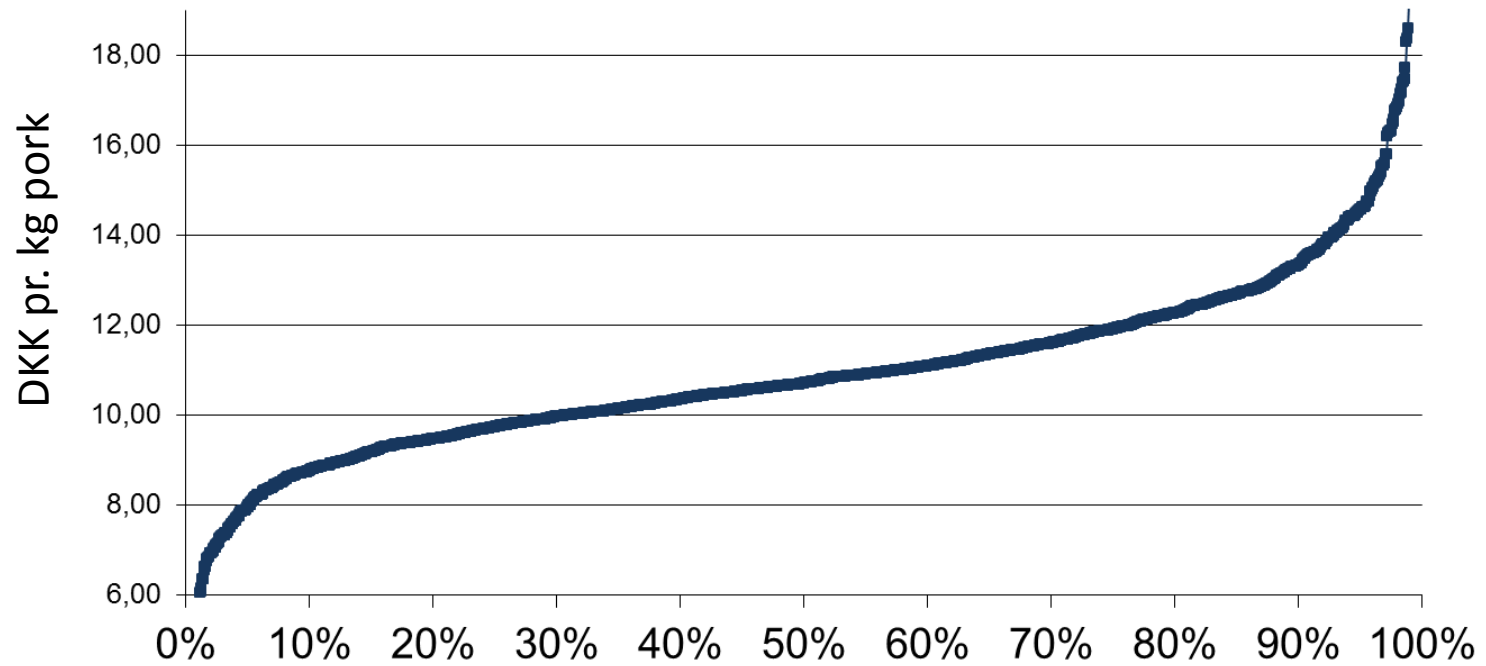
Push down the per-unit-costs

- Isn't that just too easy to say...???
- Isn't that what we do every day???
- What does he think we are???



Differences in cost structure

Medium and large pork farms in DK, 2011



HOW can you do it?

- I usually divide this task into
 - Leadership (do the right things)
 - Management (do the things right)



HOW can you do it?

Leadership

- Make sure you have the right direction – work with your strategy
 - Focus on the market, implementation and communication
- Make sure you are challenged on the main decisions
 - Advisory board
- Collection and use of management information
 - What information is necessary?
 - How do you avoid doing everything yourself?
 - How can you use it, to optimize the business continuously?
- Benchmark your business
 - Use the benchmark to set new goals
 - Divide responsibility for reaching these goals



How are you doing?

	2010	2011	2012
Balance (kr. 1.000)	32.970	32.854	32.984
Egenkapital (kr. 1.000)	8.176	7.952	7.868
Soliditetsgrad	25%	24%	24%
Afkastningsgrad	1,3%	2,0%	2,8%
Gennemsnitlig gældsrente inkl. kursregulering	2,3%	2,6%	2,0%
Egenkapitalens forrentning	1,0%	2,6%	8,0%
Herfra: Der afsættes et beløb til eget arbejde på: (1.000 kr.)	450	450	450
Afkastningsgrad efter aflønning af ejers arbejde	0,0%	0,6%	1,5%
Egenkapitalens forrentning efter aflønning af ejers arbejde	-5,0%	-3,0%	2,3%



Benchmark on the farm level

Virksomhedsanalyser

side 4

	Eget tal	Bedste 33 pct.	Gennemsnit	Afvigelse ift. Bedste 33 pct.
Nøgletal				
Afkastningsgrad, pct.	4,8	7,2	5,3	-2,4
Soliditetsgrad, pct.	3,5	13,3	6,6	-9,8
Dækningsgrad, pct.	49,5	50,0	47,4	-0,5
Produktionsgrundlag				
Dyrket areal ejet, ha	358,1	187,5	191,9	170,6
Dyrket areal forpagtet, ha	69,9	96,9	110,3	-27,0
Dyrket areal i alt, ha	428,0	284,4	302,2	143,7
JB nr. 5 - 9, lerjord + særlig jordtype, ha	428,0	80,1	142,4	347,9
JB nr. 1 - 4, sandjord, ha	0,0	204,3	159,7	-204,3
Afgrødefordeling, ha				
Korn	344,0	228,8	244,6	115,2
Raps	40,0	30,3	32,6	9,7
Frøafgrøder	0,0	5,8	7,5	-5,8
Kartofler	0,0	0,0	1,3	0,0



HOW can you do it?

Management

- If I want top level performance, do I have to be the smartest guy at attending the pigs or the fields?



Clear instructions

H8 - Setting of feeders for weaners



Feed wastage is expensive. A 5 % feed wastage costs approx. DKK 3-4 per weaner depending on the feed price.

Correct setting of feeders:

1. The pigs have easy access to feed, but without feed wastage occurring.
2. The first week, leave the feeder open for all pigs to learn how to use it.
3. There is feed on the board, but little feed by the nipple drinkers.
4. Check the settings **every day**.

Light:

5. Leave the light on in the facility from 7 to 22.

Pigs per tube feeder:

6. Depending on the brand, one tube feeder can



...or make a stable-school



And, if you have good nerves...

- Invest in a complete business check
 - Budget and risk analysis – where are we heading?
 - How much change is necessary?
 - New eyes into everything at the farm
 - All stables
 - Field plan, spraying and other techniques
 - Machinery optimization
 - Cost structure – fixed or variable costs
 - Strategy and leadership and management = YOU!
 - Results:
 - Where can we make it better, and what is the potential?
 - Necessary investments or improvals
 - Suggested action plans



There is much to do..

