

- 2009 & 2010 -

Sheep Benchmarking Project

ONTARIO
SHEEP ENTERPRISE ANALYSIS SUMMARY

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Business Analysis and Cost of
Production Program Lead
May 9, 2012

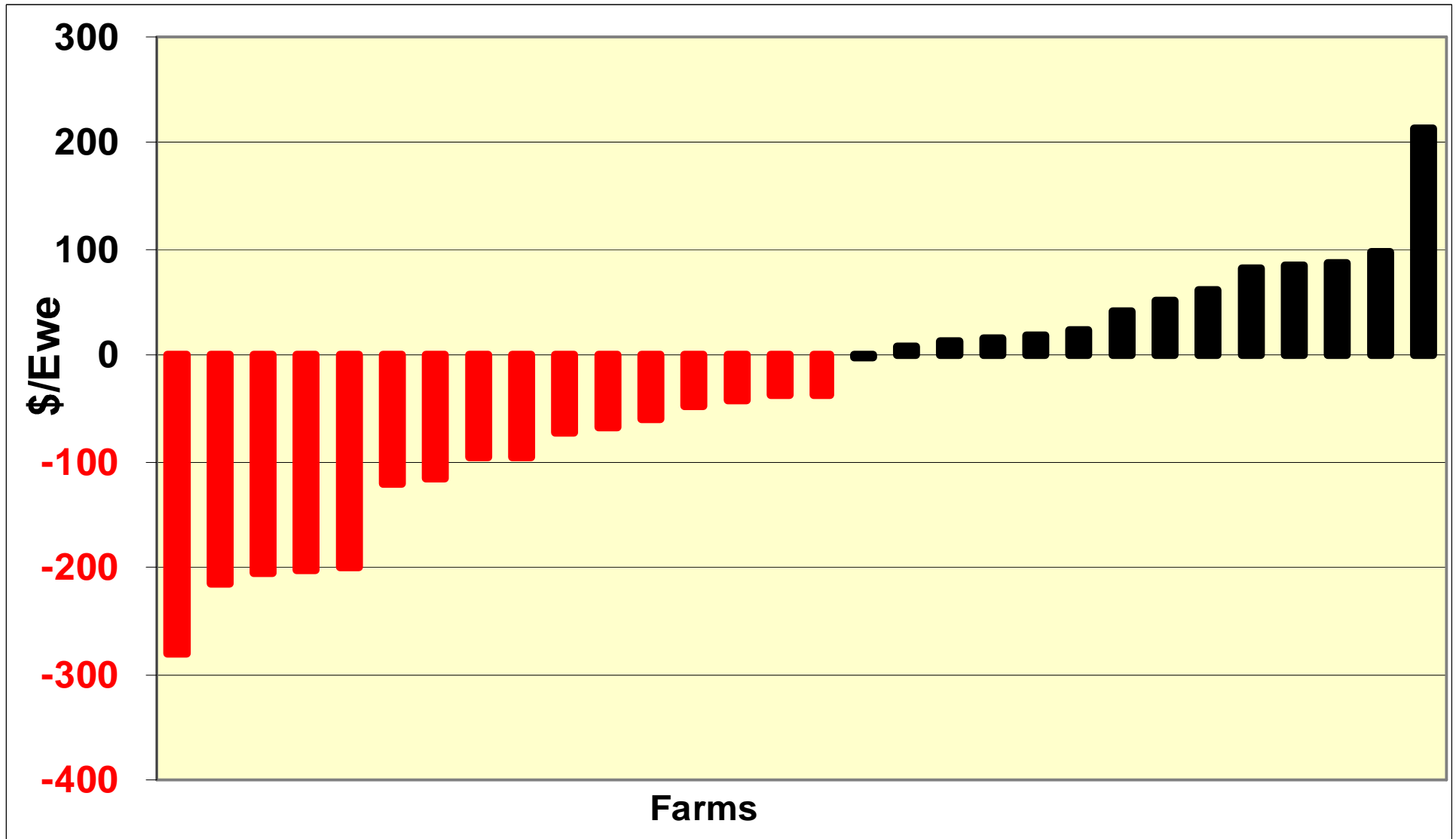
Webinar Series

- **May 9th – Overview of financial results and key performance indicators**
- **5 subsequent noon hour webinars:**
 - **every second Wednesday**
 - **May 23rd**
 - **June 6th**
 - **June 20th**
 - **July 4th**
 - **July 18th**

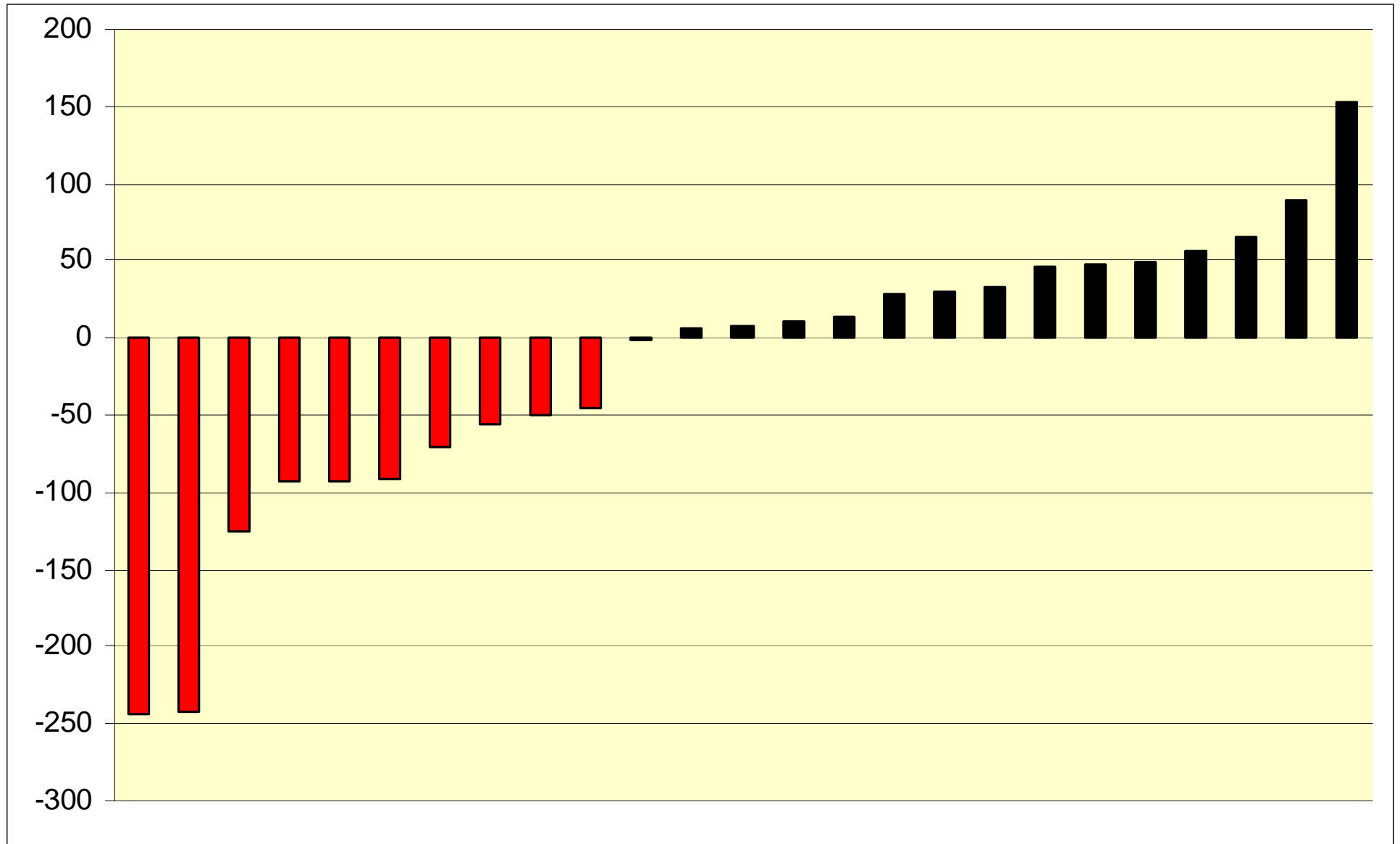
Today - May 9th - Objectives

- **Overview of financial results and key performance indicators**
- **Generate discussion and things to think about before the next web session**
- **Materials to have on hand**
 - **Group and individual summary reports that were mailed last December**
 - **Dan's report to OSMA dated April 2012**
 - **KPI Discussion document – May 2012**

Results - Net Income per Ewe - 2009



Results - Net Income per Ewe - 2010



Profitability (page (a) & 5)

Operating Profit Margin =

$$\frac{\text{Net Farm Income + Interest}}{\text{Gross Farm Income}}$$

- Average = 20.6 % (12.9 % in 2009)
- High = 24.7 % (24.8% in 2009)

7 farms over 30%

| Dairy ^(a) (2010) | Hogs ^(b) (2010) |
|--------------------------------|-------------------------------|
| 43 % | 17.5 % |

(a) Ontario Dairy Farm Accounting Project - Dairy Farmers of Ontario

(b) Ontario Data Analysis Project – Ridgetown College



Target:
15 %

Profitability (page (a) & 5)

- How well the business is able to generate a profit

Return on Assets (ROA)

$$\text{ROA} = \frac{\text{Net Farm Income} + \text{Interest}}{\text{Total Assets}}$$



- High farms = 5.3% (2009 = 4.6 %)
- Average = 3.8% (2009 = 2.2 %)

6 farms over 5.0%

Target:
Greater than 5 %

24% range between farms (31 % in 2009)

| Dairy (2010) | Hogs (2010) |
|-----------------|----------------|
| 4.9 % | 7.4 % |

Financial Efficiency (page 5)

- How well are assets being used?
- Over capitalized?

$$\text{Asset turnover} = \frac{\text{Gross Farm Income}}{\text{Total Assets}}$$



– Average = 0.19

– Low = 0.17 (0.15 in '09)

– High = 0.21 (0.18 in '09)

Target:
Greater than 0.40

Every dollar invested in assets
is generating 40 cents in sales

2 farms above 0.40

| Dairy (2010) | Hogs (2010) |
|-----------------|----------------|
| 0.14 | 0.29 |

Liquidity (page 4)

- Can you pay your bills as they come due
- Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$

- Low 1.46
- Avg 1.93
- High 2.00

Target:
> 1.50

| Sheep (2009) | Dairy (2010) | Hogs (2010) |
|-------------------------|-------------------------|------------------------|
| 1.84 | 3.5 | 1.88 |

Solvency (page 4)

- How much you are relying on debt to finance the business
- Debt to Equity = $\frac{\text{Total Debt}}{\text{Equity}}$

Low **0.42**

Avg **0.19**

High **0.21**

Target:
Less than 0.40

For every \$ of equity
there is 40 cents of debt

Low group has 9% less debt than high group
– this is a reverse to 2009!

| Sheep (2009) | Dairy (2010) | Hogs (2010) |
|-----------------|-----------------|----------------|
| 0.16 | 0.29 | 0.66 |

Repayment Capacity (page 5)

- Measures the ability of a borrower to repay term farm debt from farm and non-farm income.

$$\text{Debt Servicing Capacity} = \frac{\text{Cash available for debt payments}}{\text{Debt payments}}$$

Avg: 2.38

Low: 0.70

High: 3.59

Target:
Greater than 1.50

- High group has 3 x more cash available to service debt and has **10% more debt**

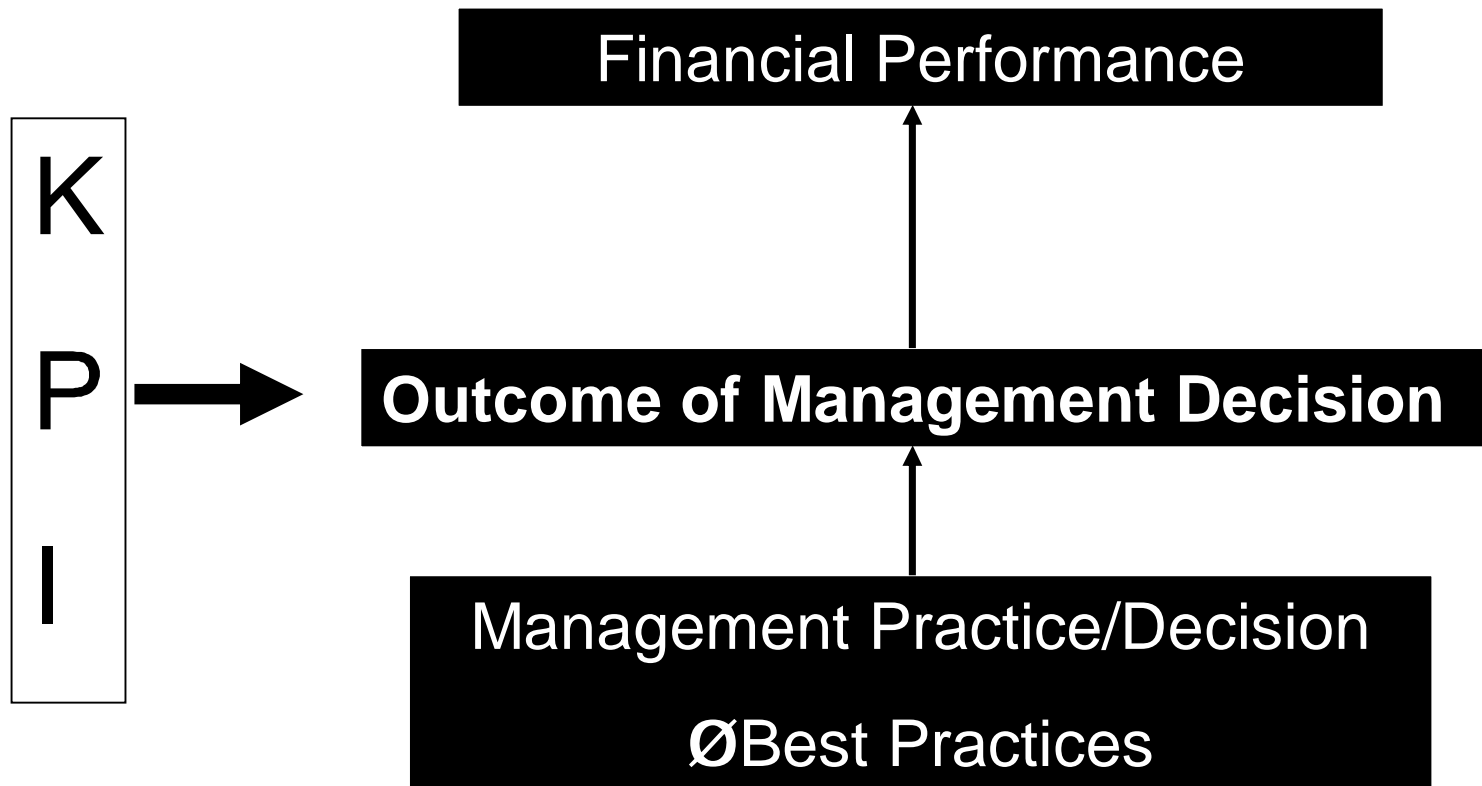
**Sheep
(2009)**

1.75

High Profit Group – 2009 vs 2010

- Grew by 50 ewes
 - 651 in 2009 to 701
- Lambs produced per ewe
 - 1.54 in 2009 versus 1.53 in 2010
- Feed cost control
 - \$ 75 per lamb produced down to \$69
- Cost Control
 - \$153 per lamb in 2009 to \$156 in 2010

Key Performance Indicators





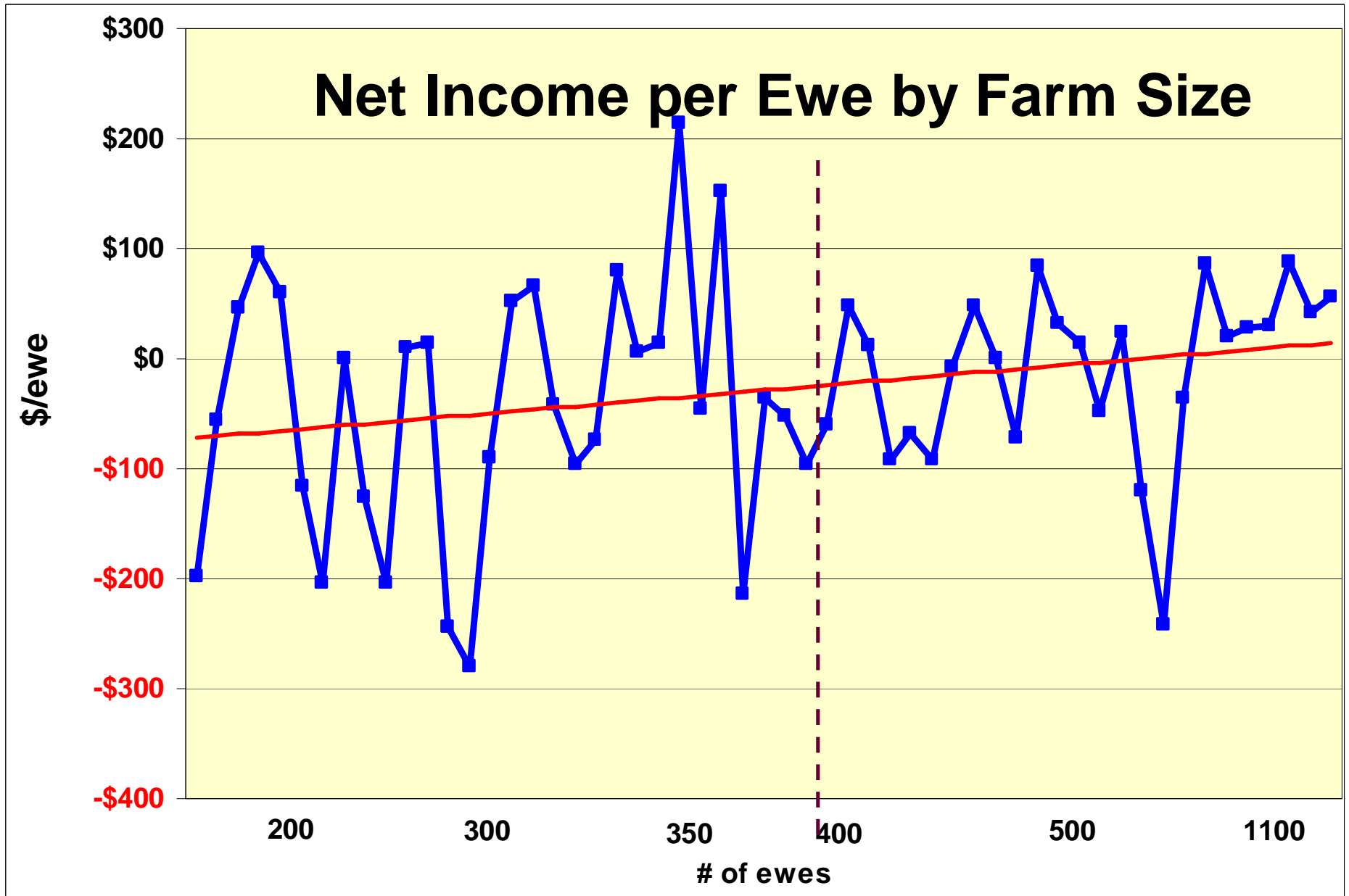
Combined KPI's

1. Maintaining a sufficient flock size

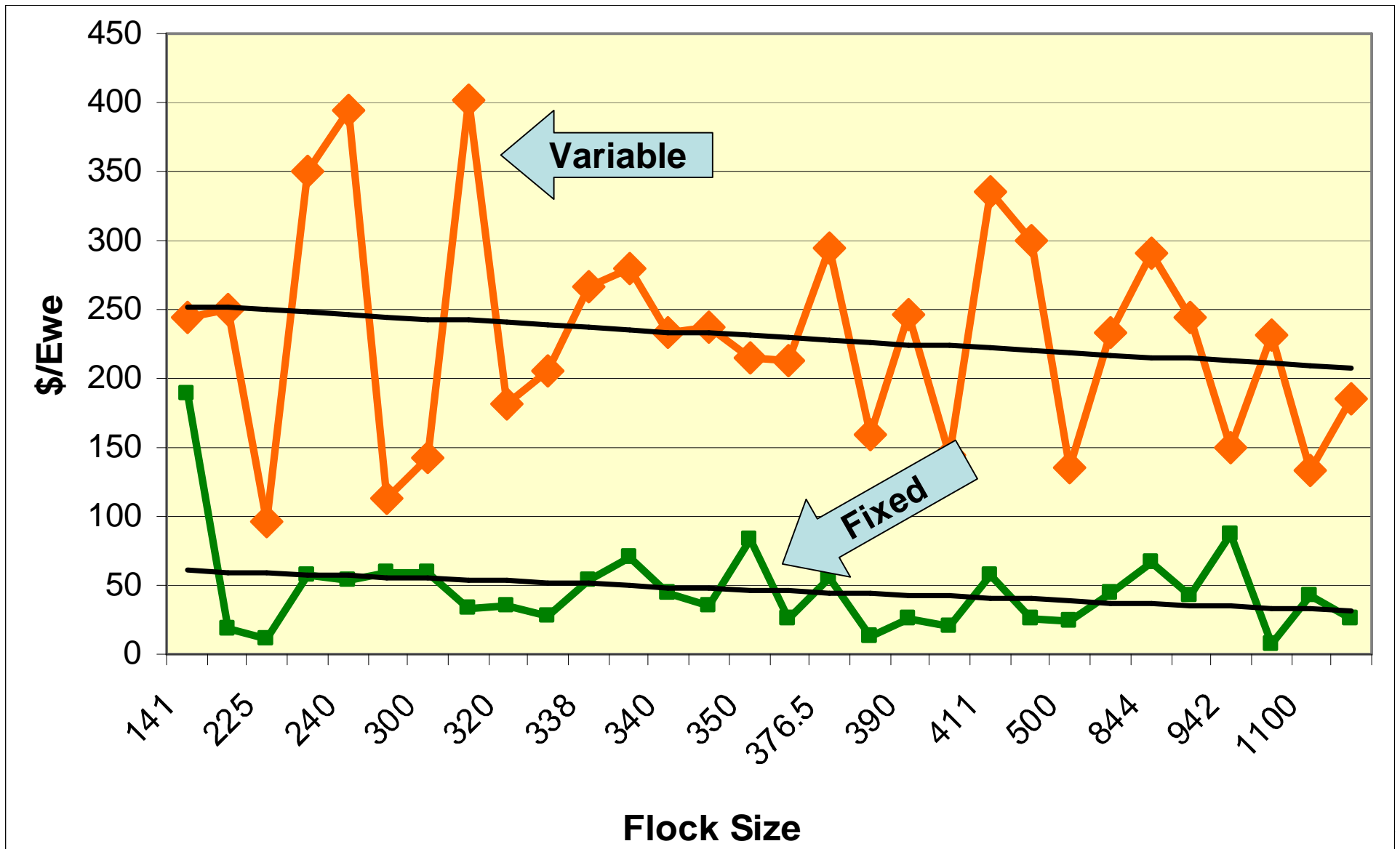
2. Make extensive and efficient use of pasture

3. Cost Control

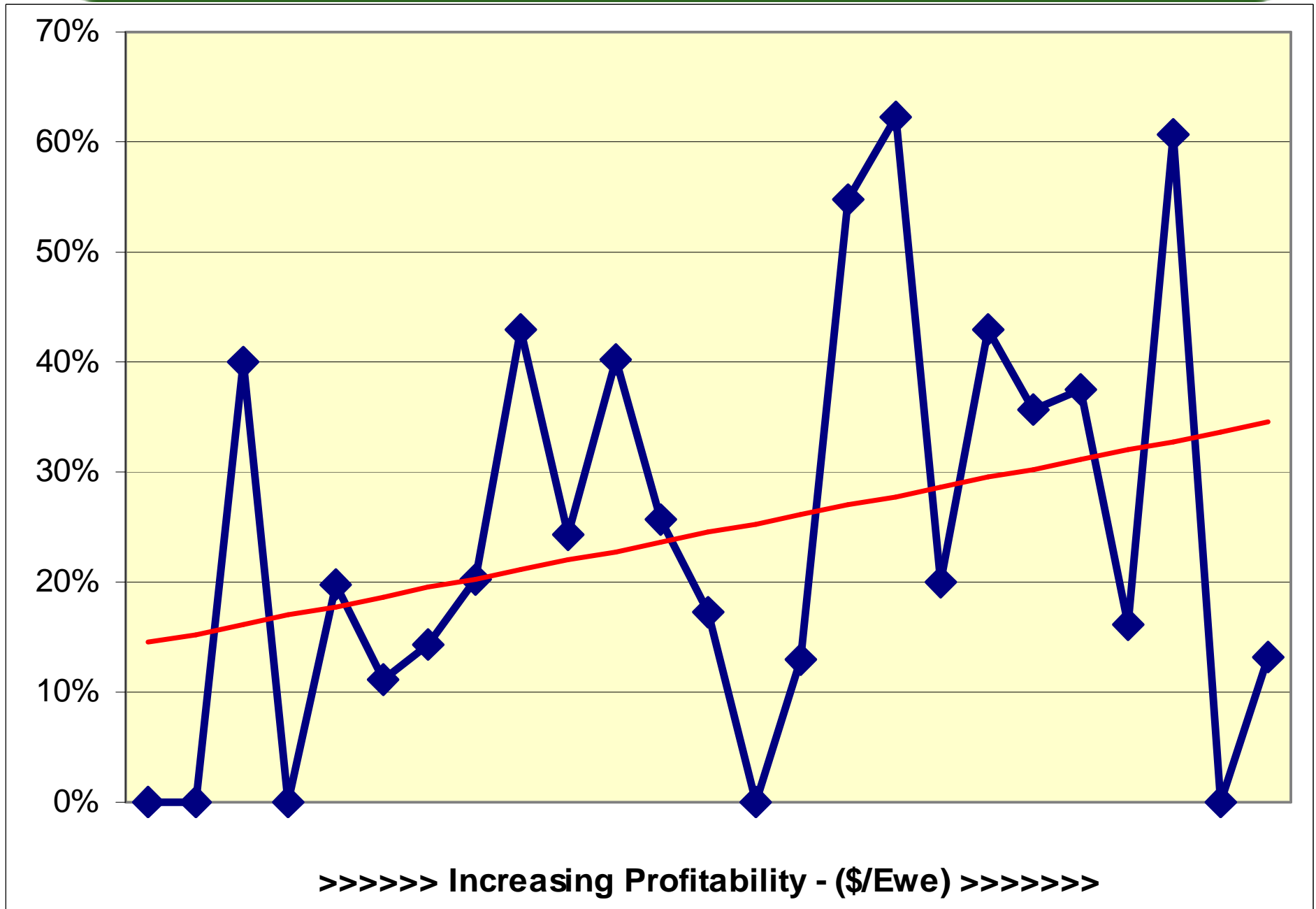
Flock Size



Variable versus Fixed Costs

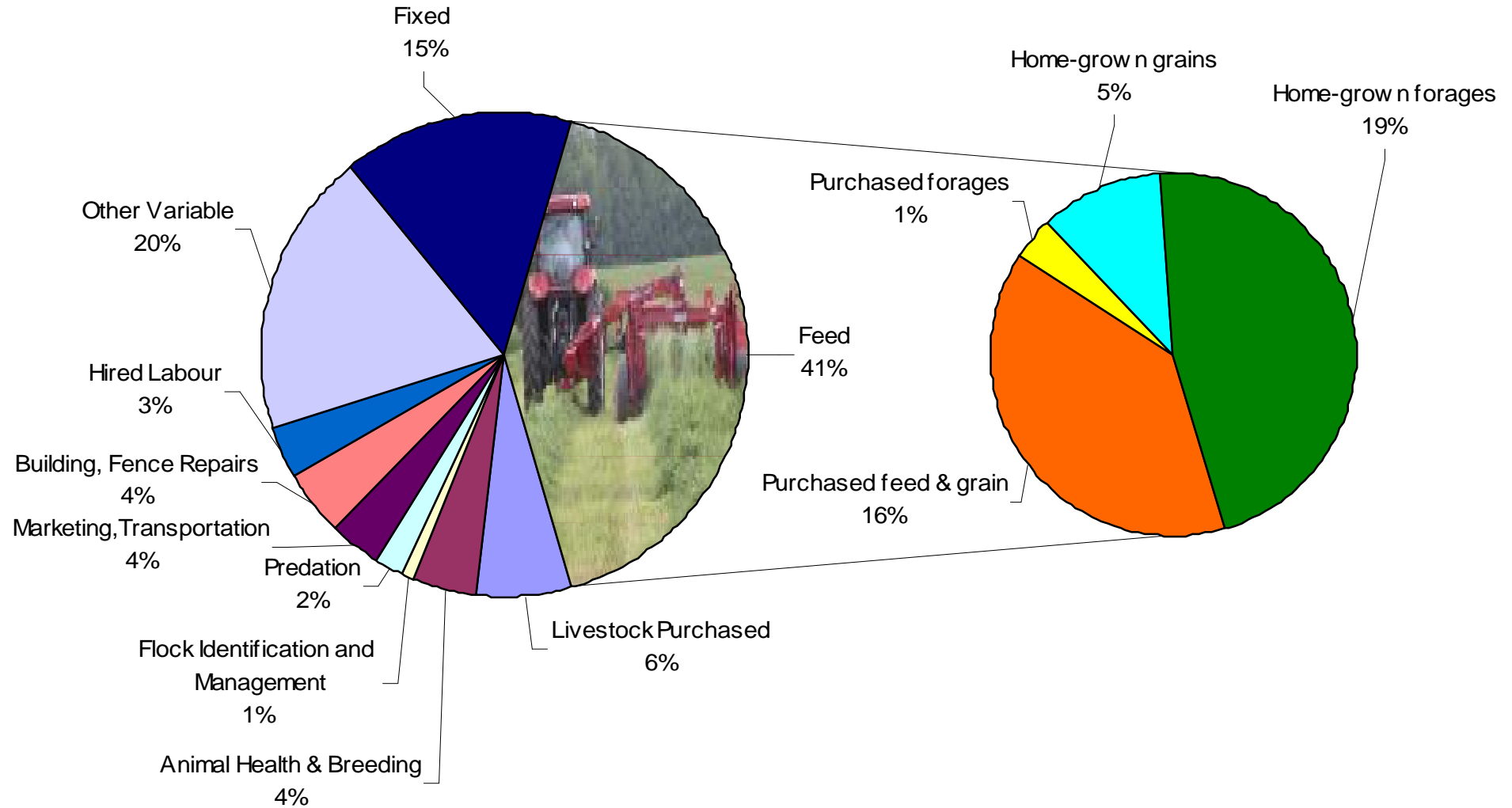


2. Efficient use of pasture



3. Cost Control - Where does the flock spend its money?

Average 25 Farms 2010 - % of expenses

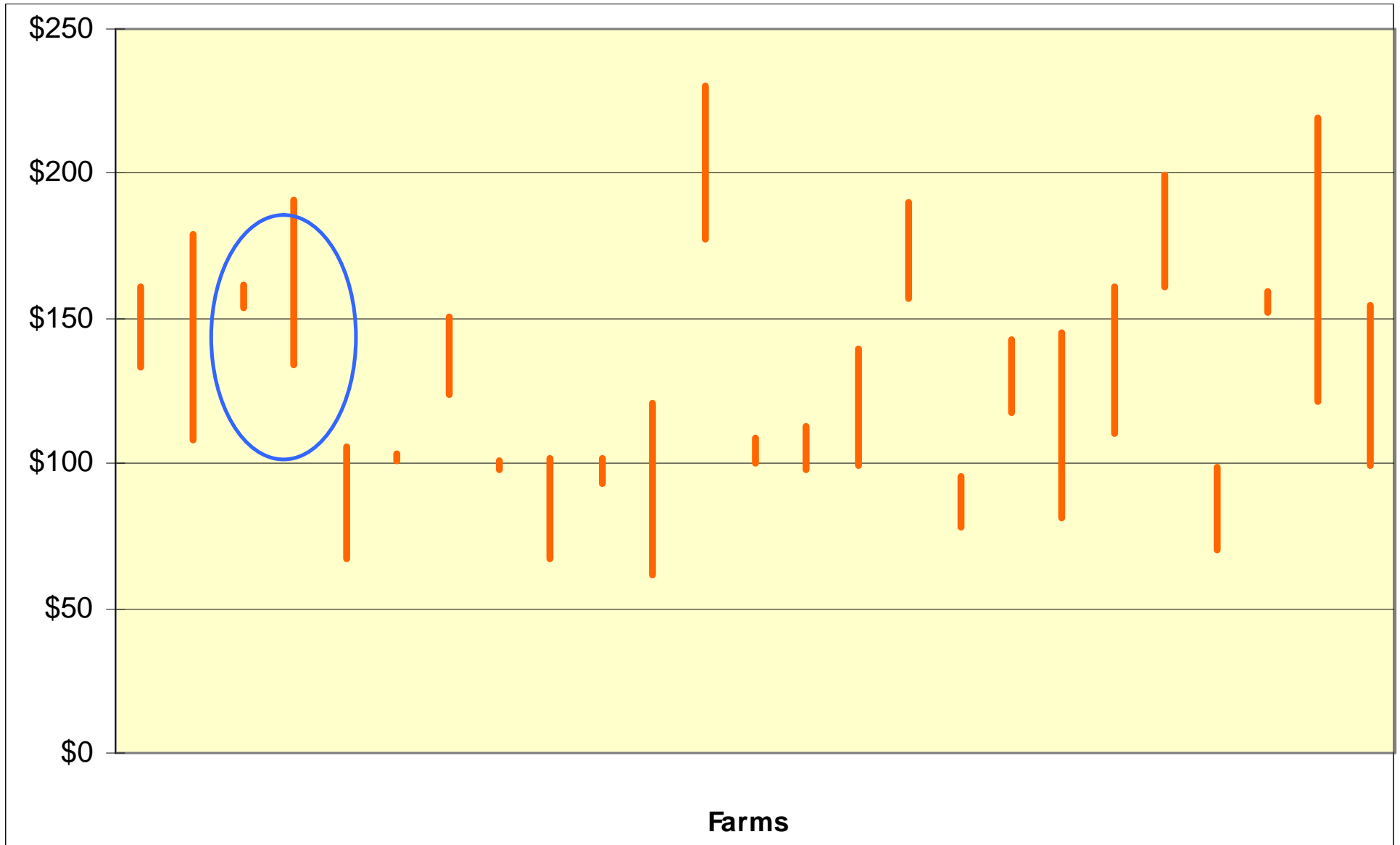


High profit vs Low Profit Farms – 2010 & 2009

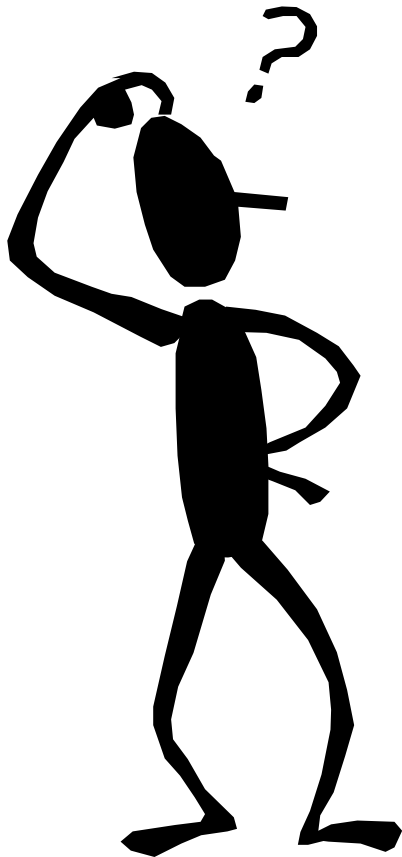
Table 1. Costs per Lamb Produced (Page 3 of Financial Summary Report)

| Cost | 2010 | | 2009 | |
|---|--------------|---------------|--------------|---------------|
| | Low 10 Farms | High 10 Farms | Low 10 Farms | High 10 Farms |
| Feed cost – total of costs below | 106.70 | 69.00 | 126.06 | 75.28 |
| Purchased Grain | 33.61 | 31.69 | 36.22 | 32.53 |
| Purchased Forage | 3.73 | 2.74 | 4.09 | 3.42 |
| Home-grown Grain | 12.84 | 6.12 | 20.66 | 5.78 |
| Home-grown Forage | 56.51 | 28.44 | 65.09 | 33.55 |
| Building, Fence Repairs | 18.78 | 5.98 | 12.65 | 3.48 |
| Marketing/Transportation | 7.94 | 7.02 | 6.18 | 5.47 |

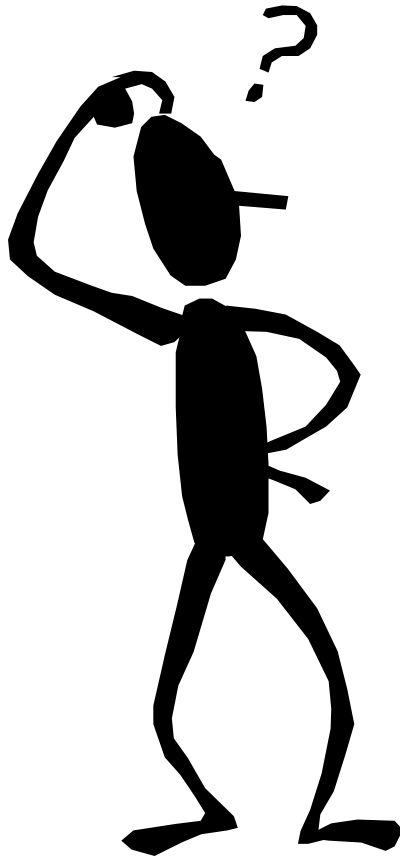
2009 to 2010 - Feed Cost Range per Ewe by Farm



What questions would you like explored?



Questions I would like explored?



- Flock size and livestock inventory – check to make sure it is reported correctly
 - Livestock inventory tables of input template
 - # of ewes
 - # of lambs produced
- Feed fed amounts – check whether yields, acres, amount fed to sheep are correct
 - Feed fed on Page 7 of Financial Report
 - Home-grown crop inventory table of input template

Thank you...

- Next webinar – May 23rd – Flock Size?

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