Maintaining Farm Profitability

Kim Bowman & Simon Fritsch (Agripath)

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Key Messages

- High crop gross margins produce high farm profit.
- Crop choice and rotation is a key factor – systems focus.
- Yield still has the largest impact on margin.
- Know your key cost areas and where you can have influence.
- Focus your energy on things within your control.
- Plan, observe & implement in a timely manner.

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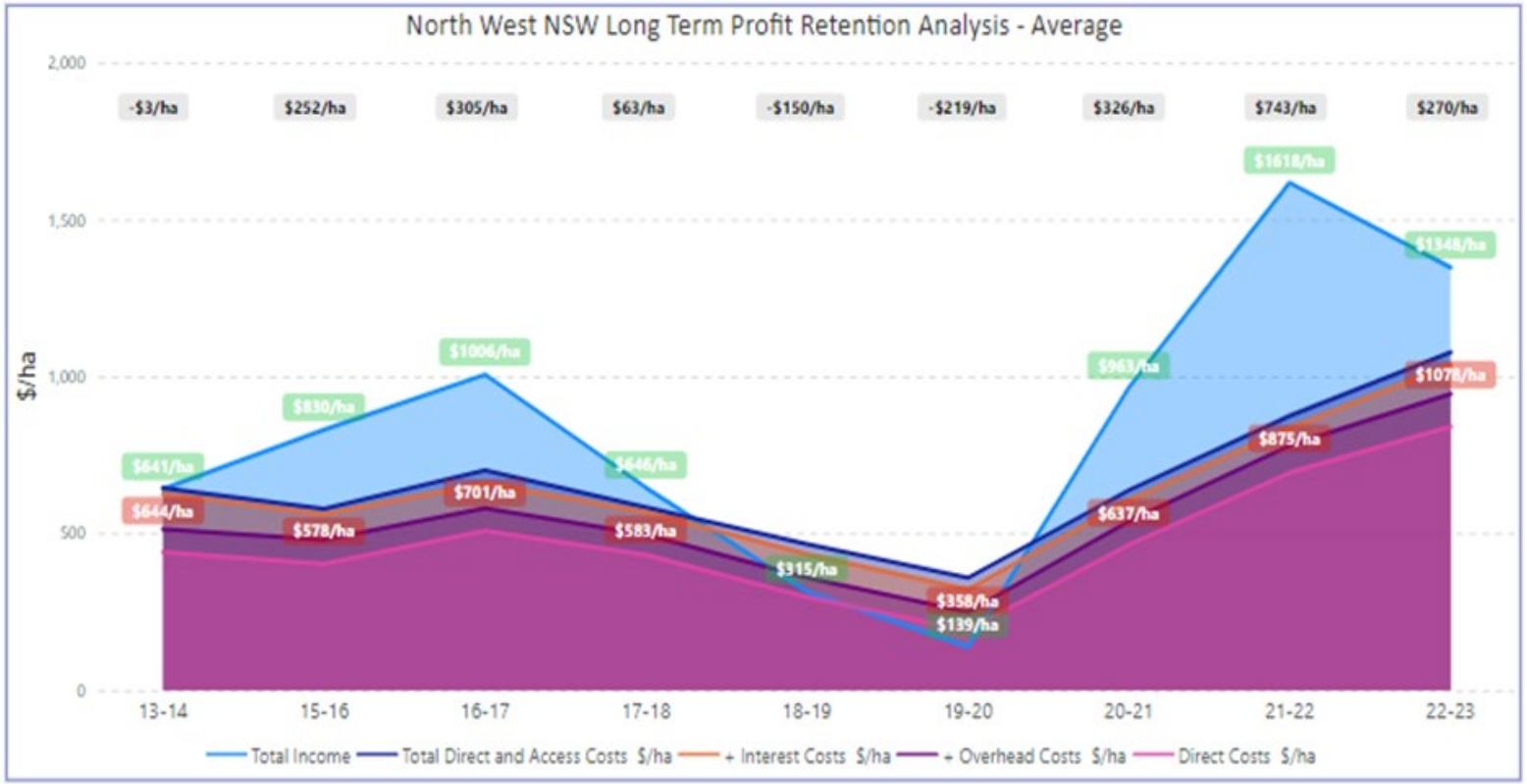
Historical costs & returns



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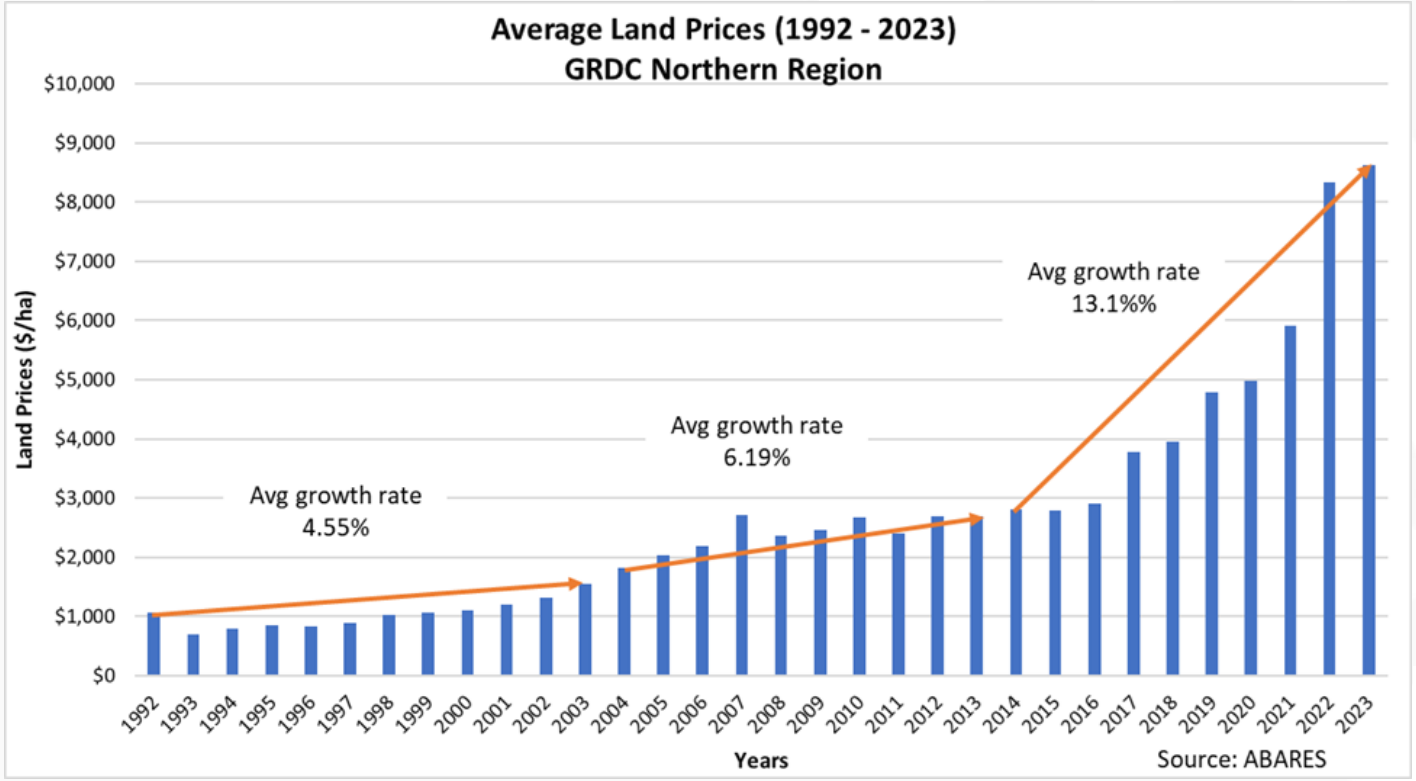
What are the current issues?

Rapidly rising land prices



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Rising Input Costs

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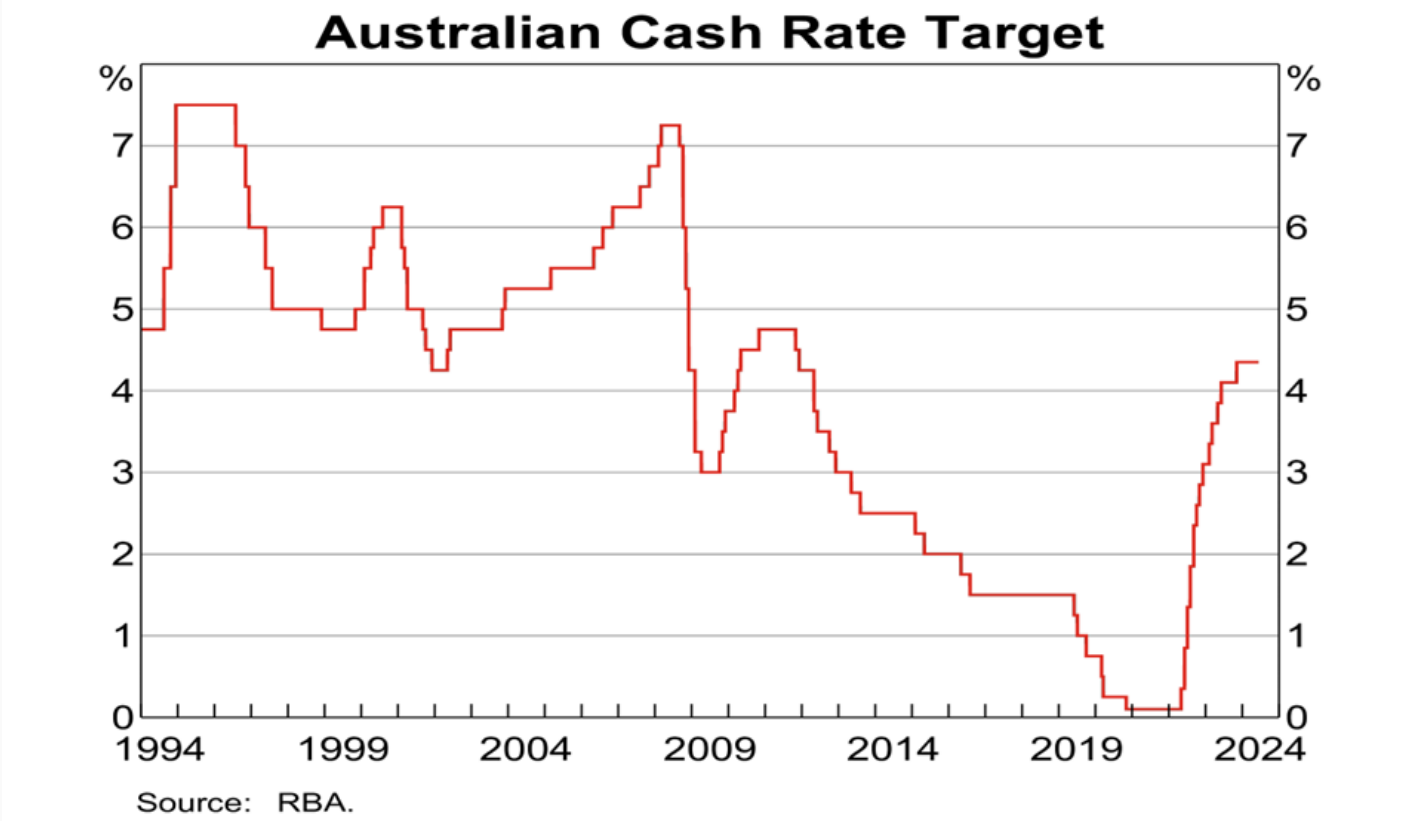
Rising Interest Rates



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What can you do?

4 Key Profit Drivers

- Income – crop choice/rotation then yield x price.
- Direct costs – inputs to crop, fuel, R&M, labour, contractors & dep'n.
- Overhead costs – fixed costs.
- Operating profit = income – direct costs - overhead costs.

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Return On Assets Managed (ROAM)

Calculated as :

Business Gross Income

less

Direct Costs

less

Overhead Costs

equals

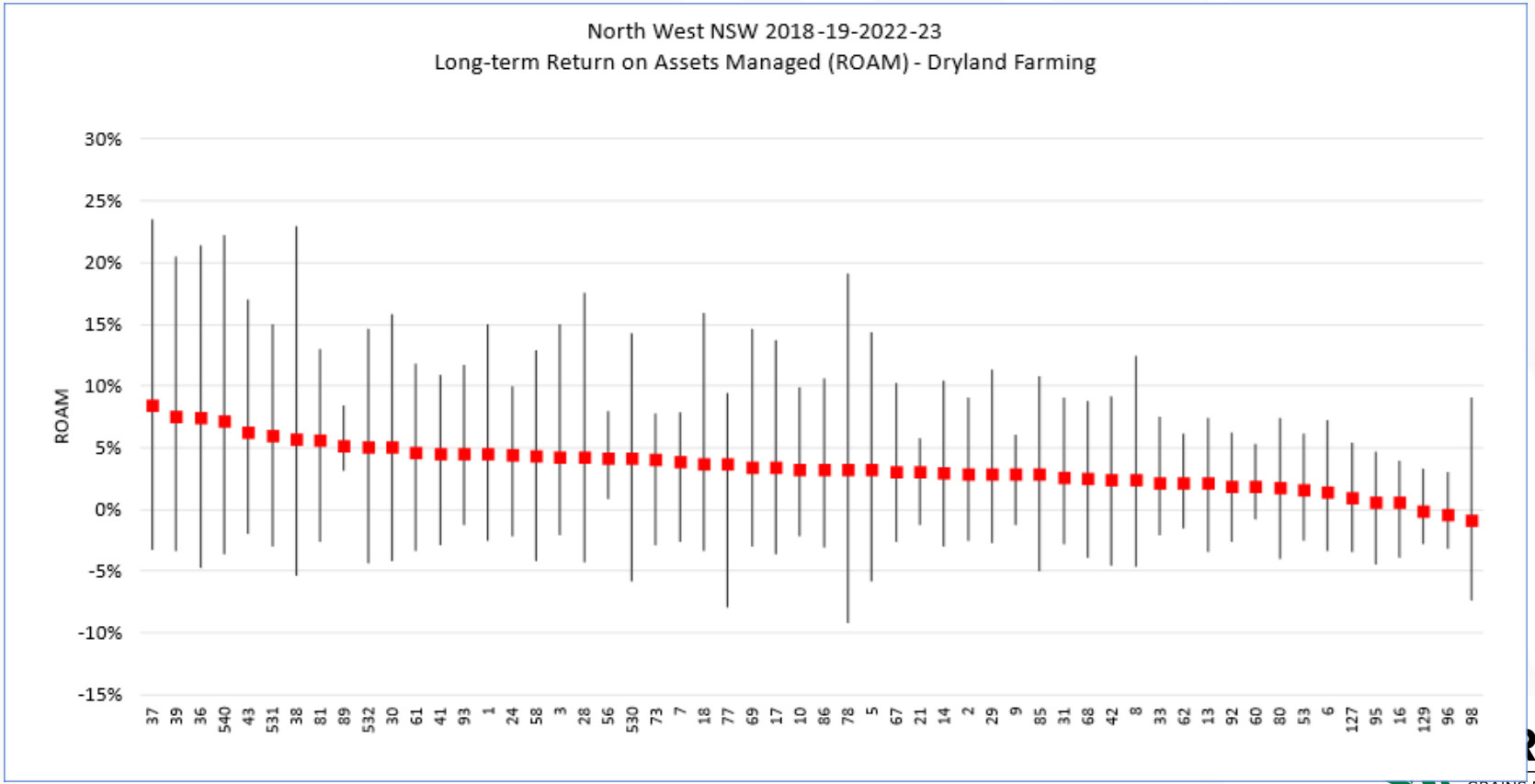
OPERATING PROFIT

Gross Margin

ROAM = *Operating Profit / Assets*

Agripath ProfitFocus

Long Term Results – NW NSW



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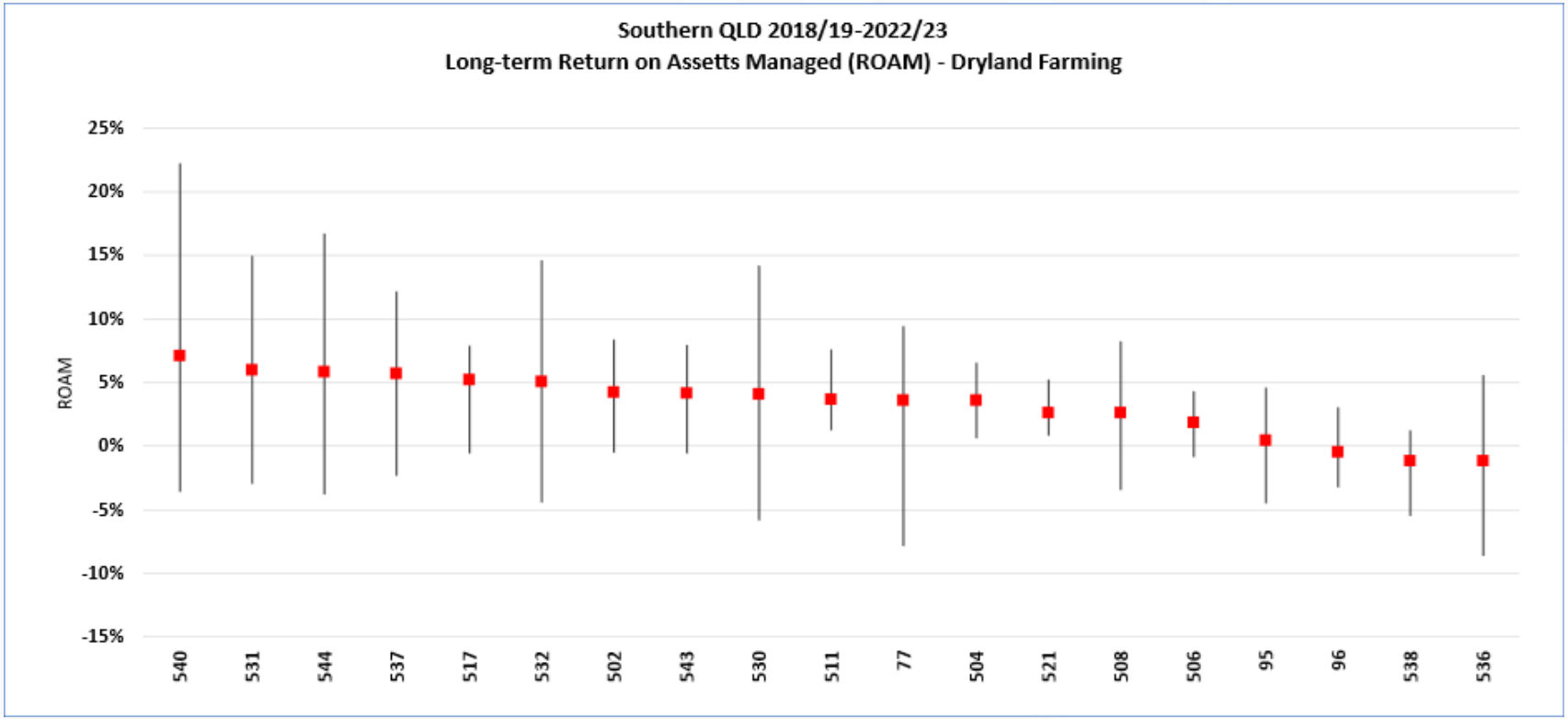
Long Term Results – Southern QLD



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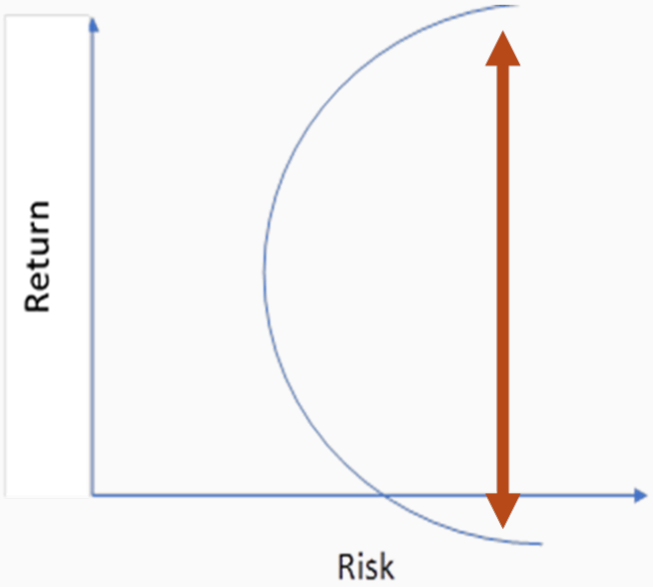

Farming is RISKY but we do have opportunity…

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Risk v Return

Strategic Decisions

- Crop rotational sequence & frequency .
- Land ownership - how much land you own/lease/sharefarm?
- Machinery ownership – how much do you own v contractors (Timeliness).
- Labour – how many, can you get staff, how to keep them?
- Managing climate risks – frost, drought, flood, waterlogging & hail.

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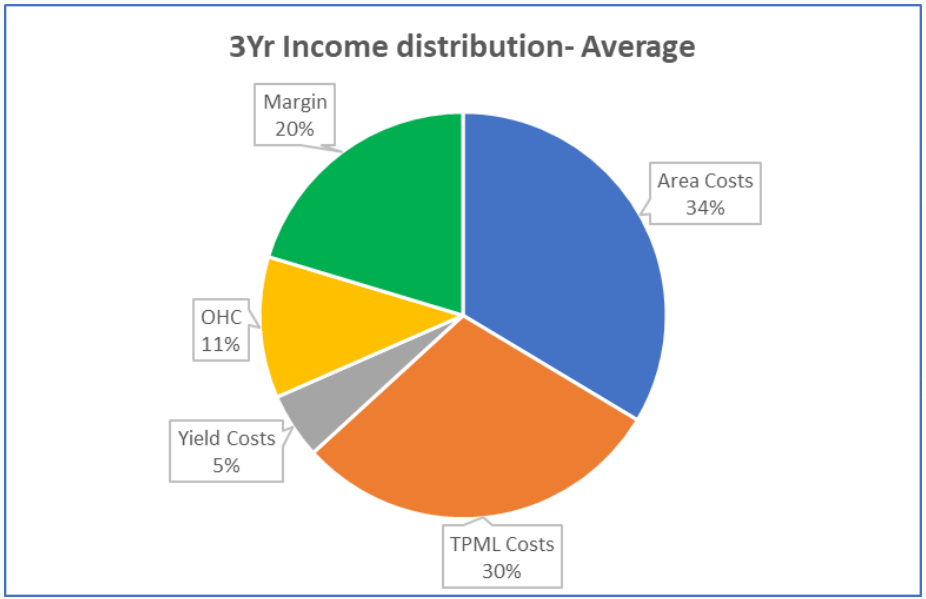
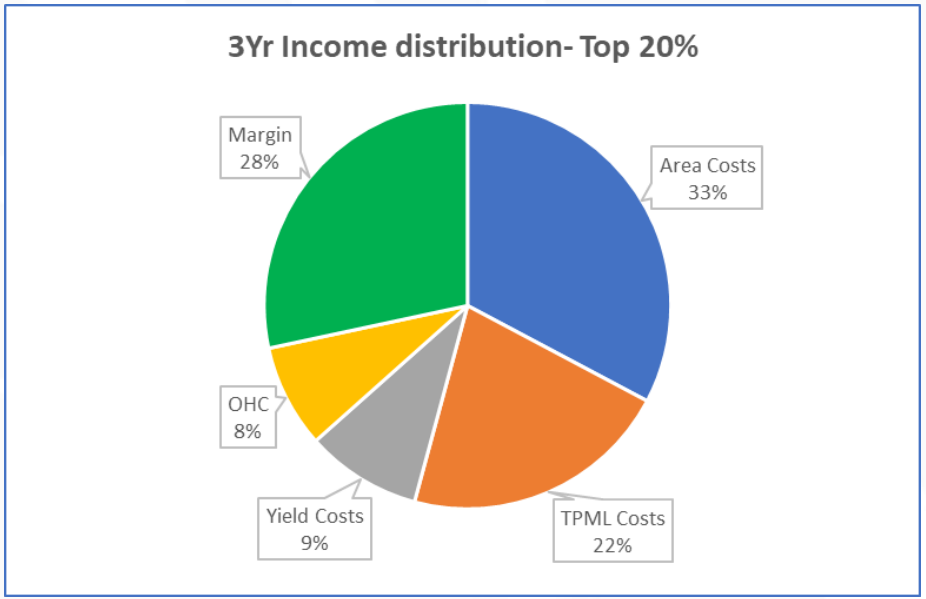
Profit as a % of income (3 yrs) Top 20% v Avg





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Risk v Return

Operational Decisions

- Crop selection - variety, rate, plant date.
- Fertiliser - type, when to apply, what rate.
- Crop spraying - fallow sprays, residuals, incrop sprays, timing.
- Harvest - timing, own headers v contractors, grain storage/drying options.
- Crop insurance - wether to insure or not.

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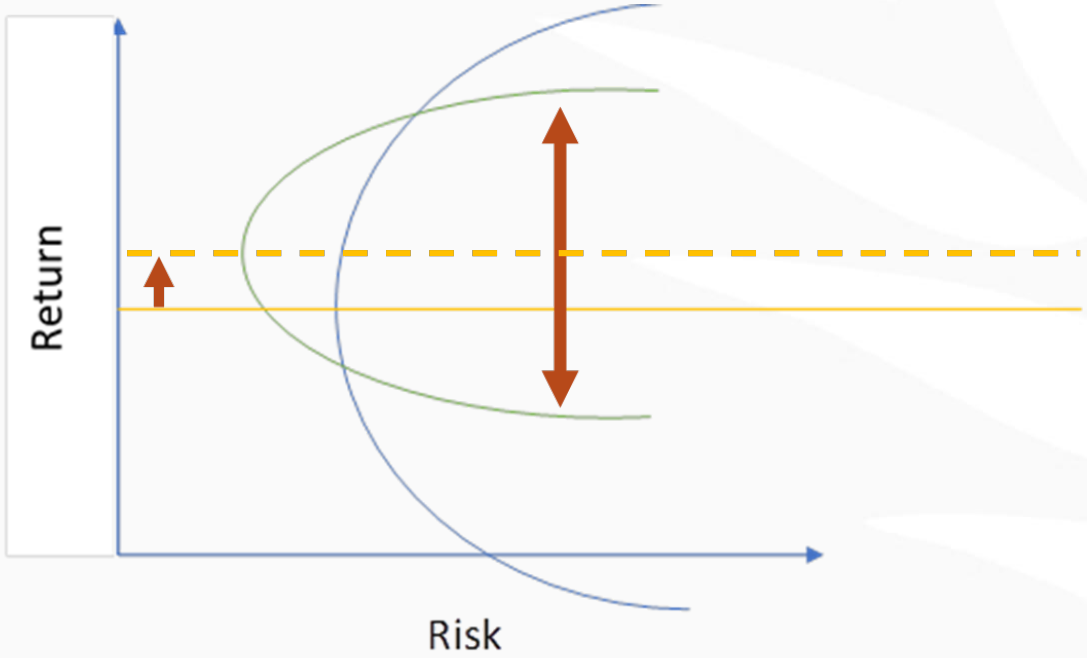
Managing the risk,
Can lead to long term profitability!



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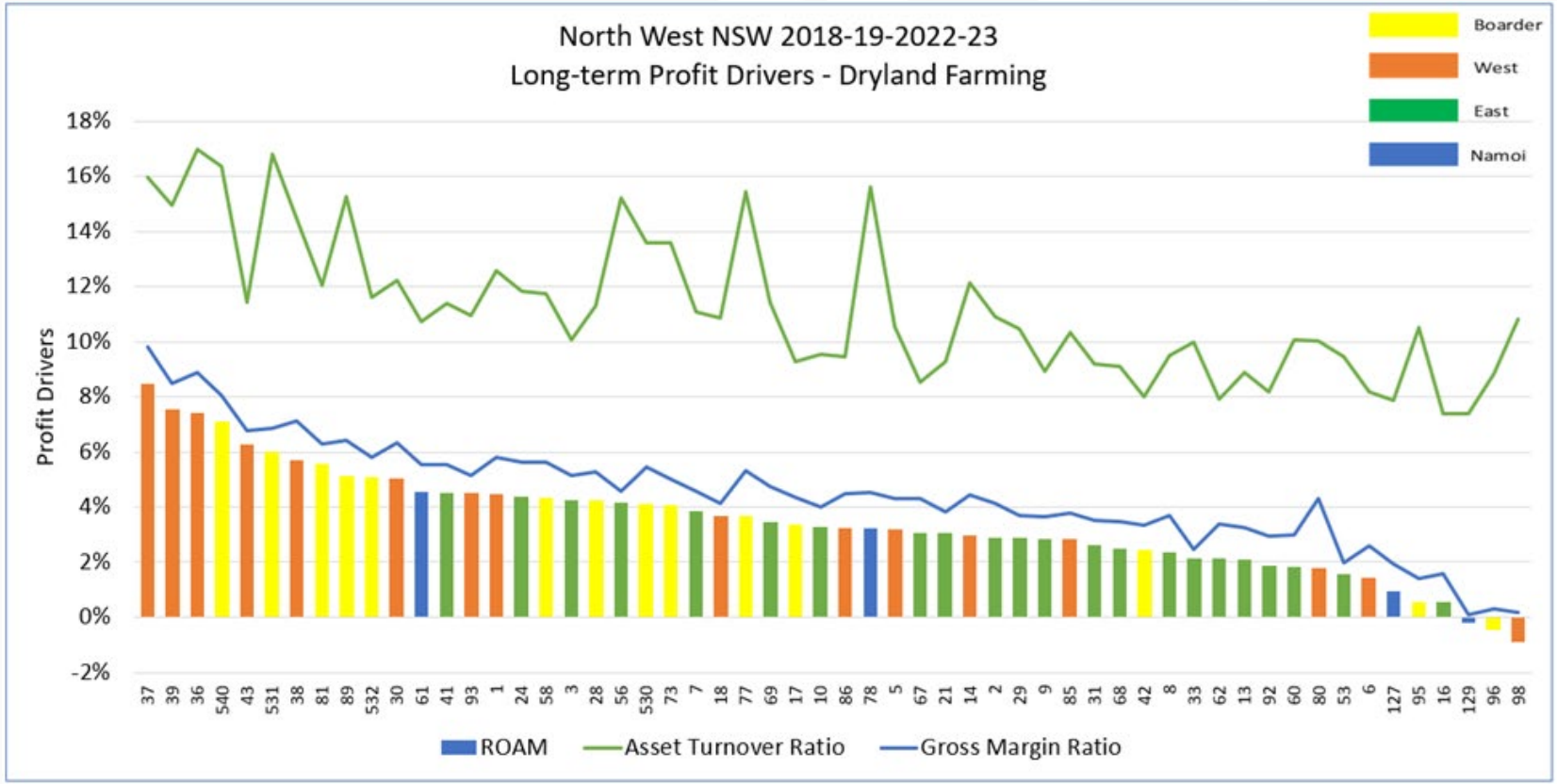
LT Profit Drivers – What are the differences?



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Profit Drivers – Northen Region

PROFIT DRIVERS	Targets %	Low Rainfall	Medium Rainfall	High Rainfall
Average Assets Managed ($/ha)		$9,000	$12,000	$15,000
Asset Turnover Ratio ($/ha) (Income / Asset Val)	15.0%	$1,350	$1,800	$2,250
Direct Cost Ratio ($/ha) (Costs / Income)	50%	$675	$900	$1,125
Gross Margin Ratio ($/ha) (Margin / Asset Val)	7.5%	$675	$900	$1,125
Overhead Ratio ($/ha) (OH Costs / Income)	< 10%	$135	$180	$225
Operating Profit ($/ha) (Income - Costs)		$540	$720	$900
ROAM (%) (Op Profit / Asset Val)	6%	6%	6%	6%

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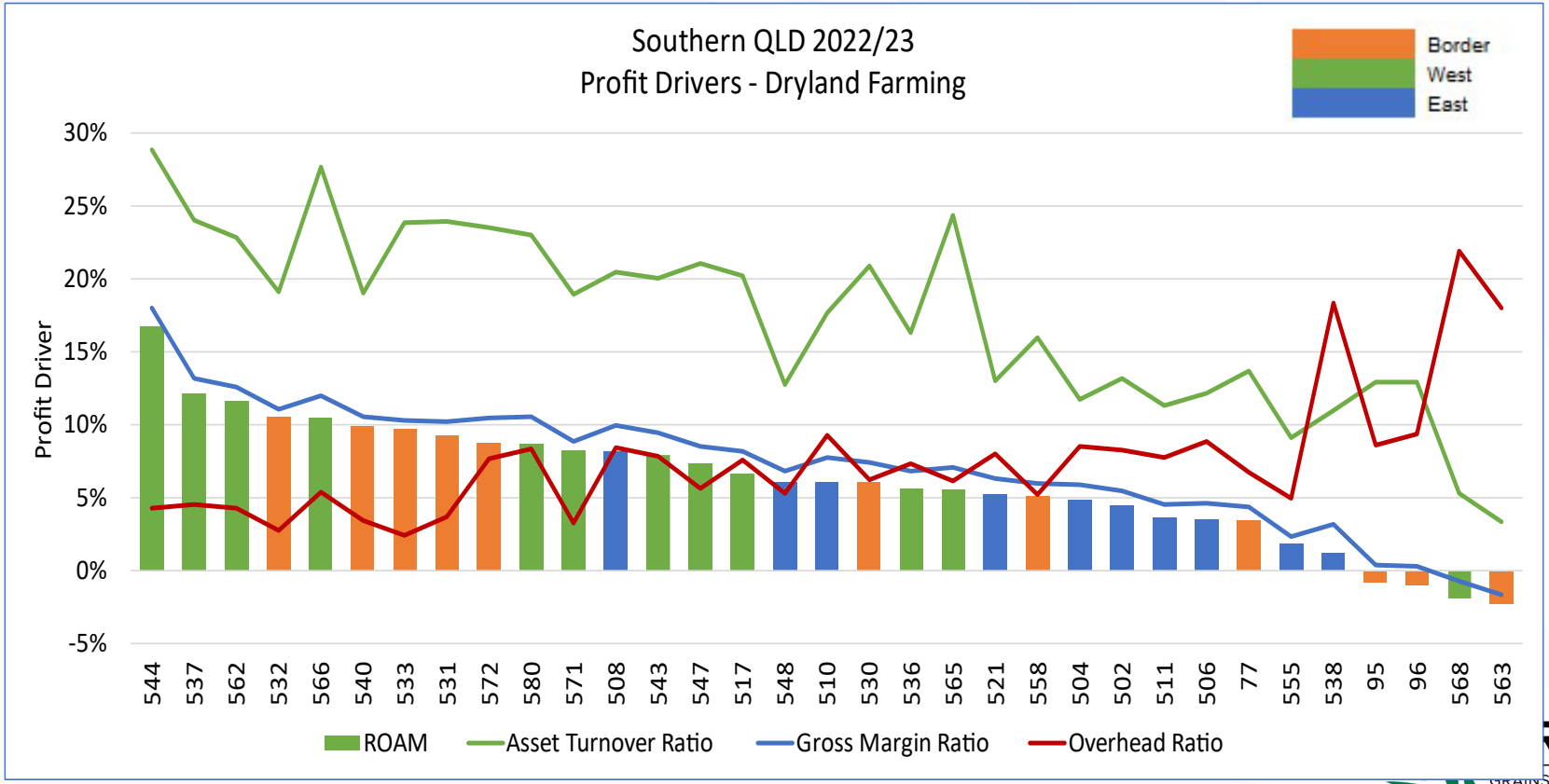
What a difference a year can make



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Wheat Gross Margin – NW NSW

Wheat Gross Margins NW NSW	2020	2021	2022	Change %
Yield (t/ha)	3.22	4.45	3.4	
Price ($/t)	289	332	393	
Total Income ($/ha)	**931**	**1477**	**1336**	**44%**
Area Costs ($/ha)	175	244	419	139%
TPML Costs($/ha)	187	221	303	62%
Yield Costs ($/ha)	76	121	111	46%
Total Costs ($/ha)	**438**	**586**	**833**	**90%**
Gross Margin ($ha)	**493**	**891**	**503**	**2%**

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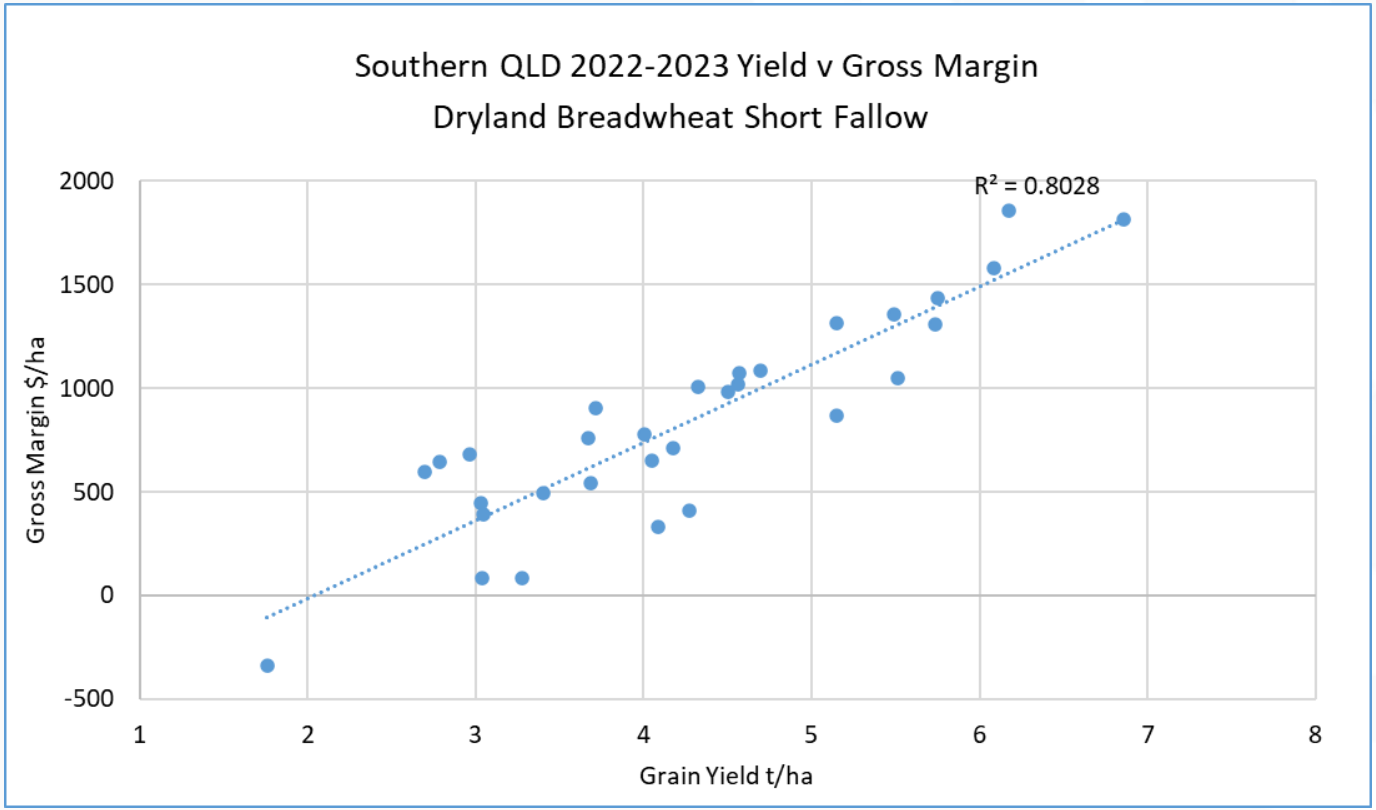
Yield v Gross Margin (Wheat SF) – Sth QLD



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Dryland ROAM v Gross Margin – Liverpool Plains

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What do you have control over?

1. Strategic Decisions:

- Robust farming systems, crop choice, frequency & rotation
- Optimising soil moisture storage
- Risk management – resilience & diversification
    - Frost risk management – varied planting dates
    - Drought management – more long fallow
    - Waterlogging - drainage & water tolerant crops
    - Moisture seeking capacity – take advantage of sub soil moisture
    - A range of crops & varieties – spread risk & reduce workload

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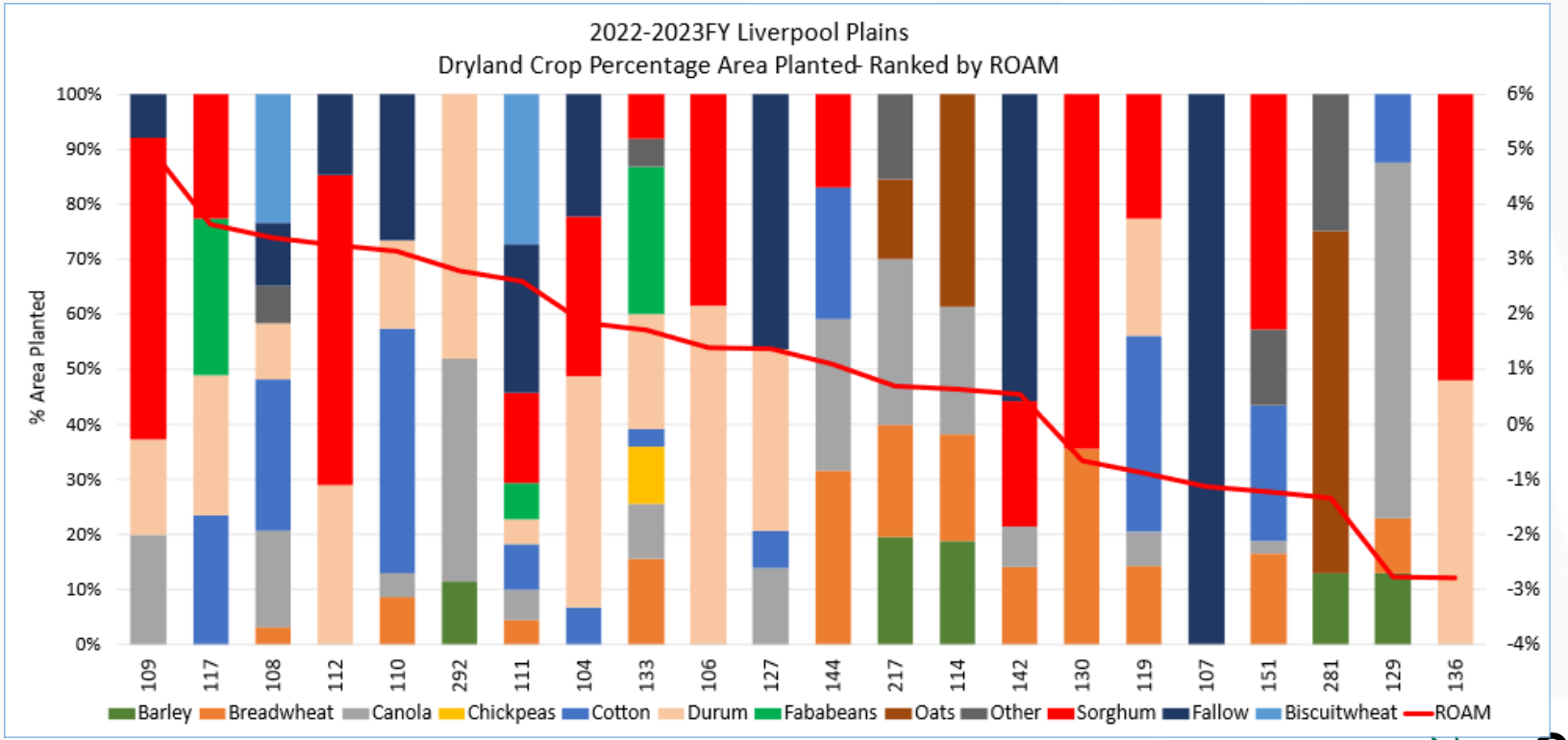
Range of Crop Choices – Liverpool Plains 22-23



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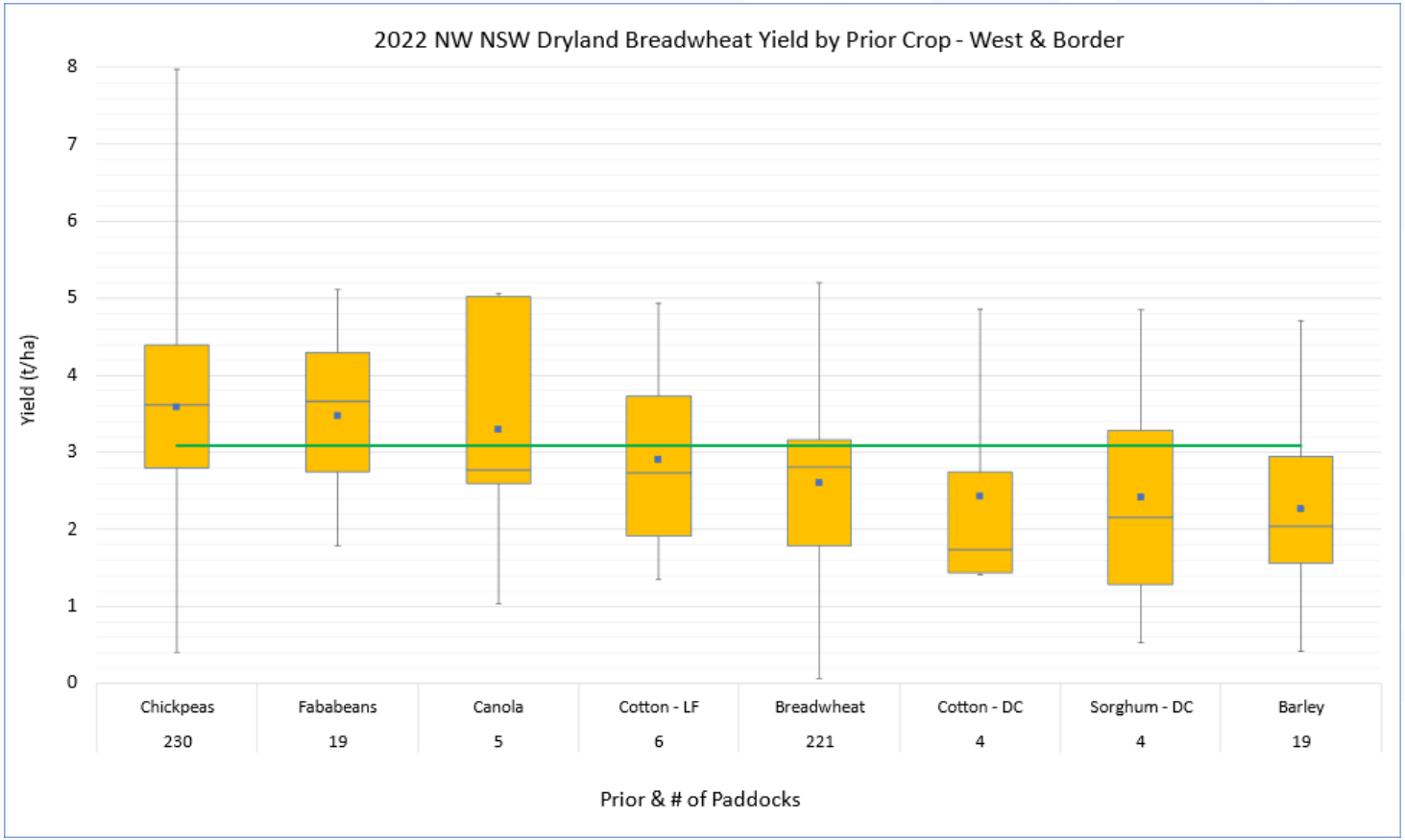
Wheat Yield v Prior Crop – NW NSW



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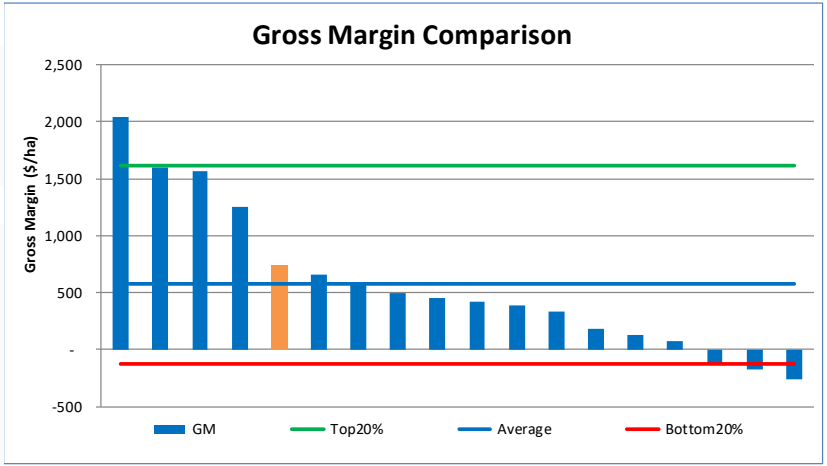
Dryland Sorghum Long Fallow

		Your Farm	Ranked on Gross Margin (ha) Top 20%	Average	Bottom 20%
Area		85 ha	216 ha	802 ha	1,593 ha
Tonnes Produced		420 t	1,520 t	2,318 t	2,220 t
Yield		4.94 t/ha	7.16 t/ha	4.15 t/ha	1.47 t/ha
On Farm Grain Price		$ 412/t	$ 402/t	$ 369/t	$ 368/t
	Total $	**$/ha**	**$/ha**	**$/ha**	**$/ha**
Gross Income	**175,394**	**2,063.46**	**2,901.35**	**1,648.20**	**824.74**
Expenses	**Total $**	**$/ha**	**$/ha**	**$/ha**	**$/ha**
Seed	4,276	50.31	67.92	68.37	101.39
Chemical Fallow	8,729	102.70	128.10	118.25	120.49
Chemical In-crop	16,010	188.35	95.40	98.32	140.57
Contracting - Spraying	2,252	26.50	30.08	33.79	35.06
Contracting - Harvesting	875	10.30	44.45	55.66	115.15
Fertiliser - Nitrogen	20,834	245.11	317.47	184.07	40.22
Fertiliser - Phosphorus	4,899	57.63	37.49	35.34	41.59
Freight & Cartage	2,664	31.34	35.28	47.75	34.56
Fuel & Lubricants	9,645	113.47	72.46	68.15	50.95
Insurances	4,306	50.65	57.88	17.33	0.62
R&M Plant	11,385	133.95	88.39	83.17	62.03
Selling Costs	2,667	31.38	22.58	19.42	2.48
Wages/Salaries	9,151	107.66	128.08	99.21	78.21
Depreciation	12,886	151.59	131.17	112.72	81.97
Direct Cost	**111,720**	**1,314.36**	**1,286.44**	**1,073.73**	**950.17**
Direct Cost(t)		$266/t	$180/t	$266/t	$355/t
Gross Margin	**63,674**	**749.10**	**1614.92**	**574.47**	**-125.43**
Gross Margin(t)		$152/t	$227/t	$97/t	-$61/t

		Your Farm	Top 20%	Average	Bottom 20%
TPML Costs	36,550	430.00	446.38	403.99	402.39
Area Costs	65,534	770.98	724.32	578.52	501.80
Yield Costs	9,637	113.38	115.74	91.22	45.99
Starting Moisture		242.06	180.16	152.43	169.17
In-crop Rain		215.00	120.03	138.05	194.61
PAW (mm)		457.06	300.19	290.48	363.78
WUE (kg/mm/ha)		10.80	16.28	14.42	3.47
Average Nitrogen Rate		99.99	113.99	65.72	12.88
Average Phosphorus Rate		1.54	4.13	4.34	7.91



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2. Crop Agronomy

- Integrated crop rotation
    - Various crop types
    - Variety selection
    - Fertiliser application
    - Timing
    - Nematodes & crown rot
    - Residuals v selective incrop sprays
    - Analyse yield variability
    - Variable rate control

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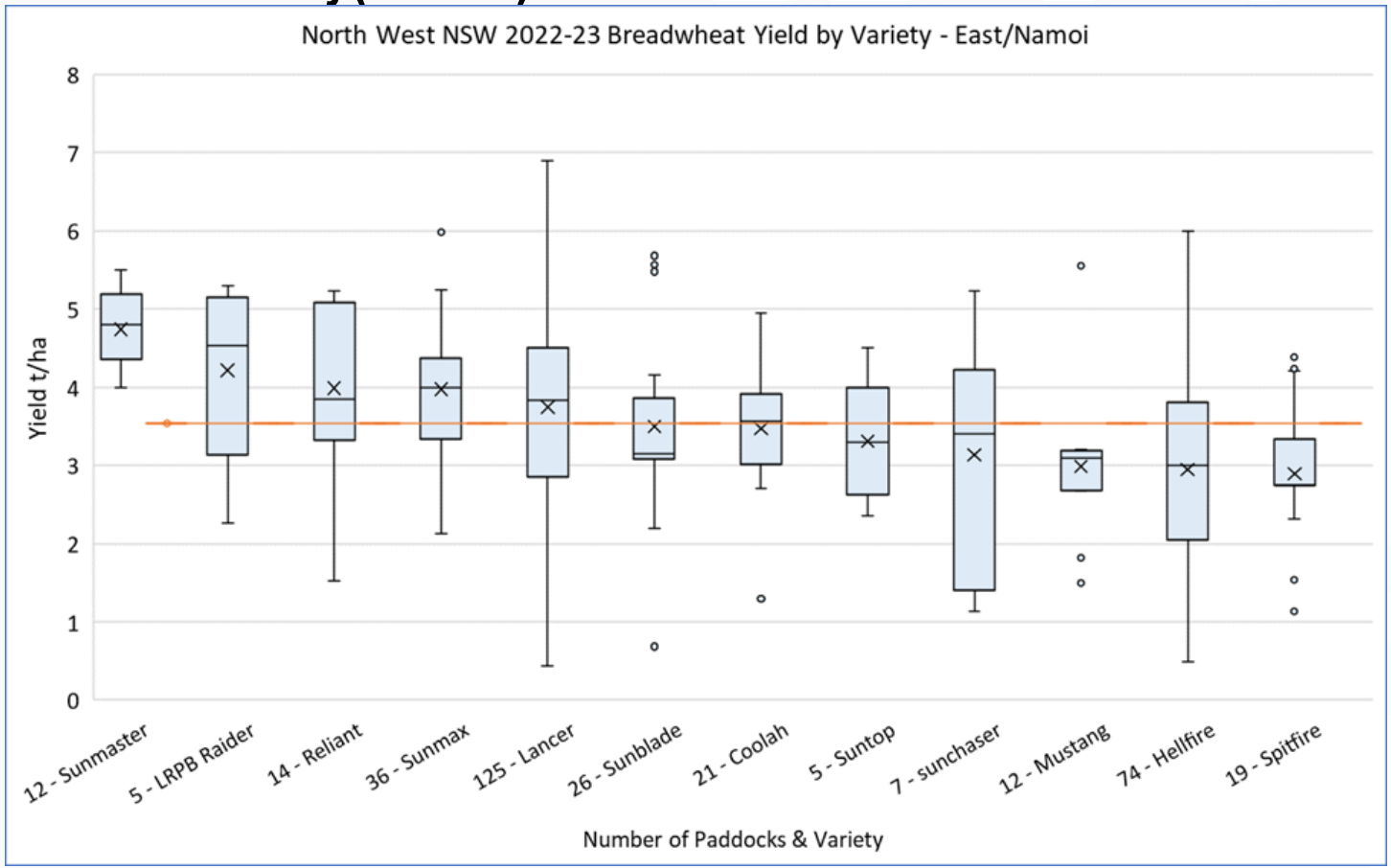
Yield v Variety(Wheat) – NW NSW



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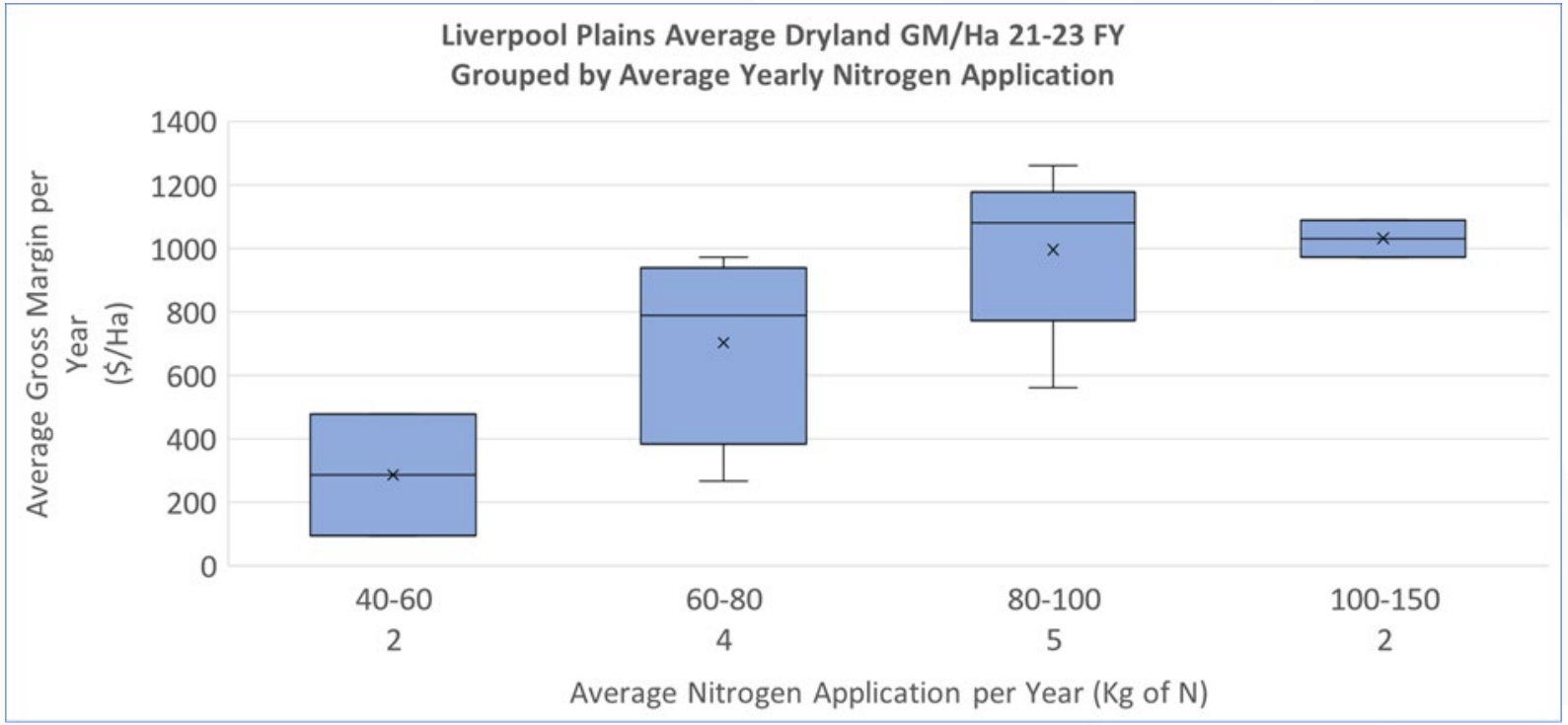
Gross Margin v Nitrogen – Liverpool Plains



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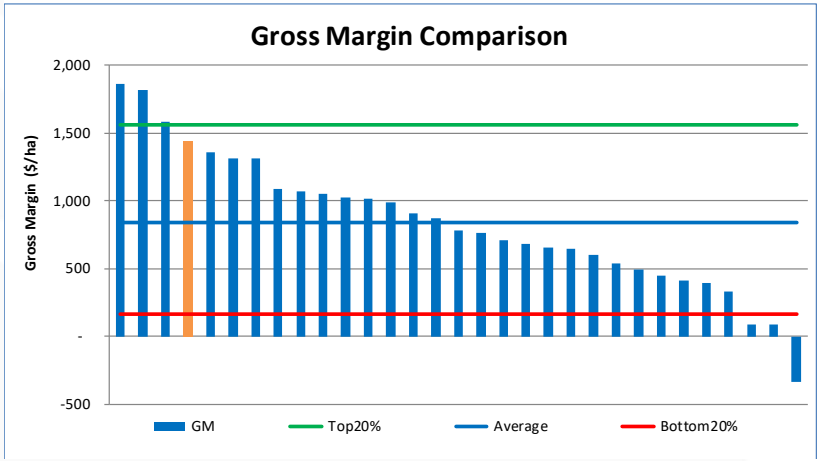
Dryland Breadwheat Short Fallow

		Your Farm	Ranked on Gross Margin (ha) Top 20%	Average	Bottom 20%
Area		55 ha	530 ha	2,438 ha	1,242 ha
Tonnes Produced		316 t	3,066 t	8,483 t	3,466 t
Yield		5.75 t/ha	5.92 t/ha	4.26 t/ha	3.25 t/ha
On Farm Grain Price		$ 427/t	$ 417/t	$ 383/t	$ 342/t
	Total $	**$/ha**	**$/ha**	**$/ha**	**$/ha**
Gross Income	**137,114**	**2,492.98**	**2,507.32**	**1,722.83**	**1,145.48**
Expenses	**Total $**	**$/ha**	**$/ha**	**$/ha**	**$/ha**
Seed	990	18.00	24.11	27.59	29.08
Chemical Fallow	3,228	58.68	88.22	89.03	101.20
Chemical In-crop	6,906	125.57	85.20	71.07	88.36
Contracting - Spraying	1,457	26.50	32.86	34.08	44.75
Contracting - Harvesting	566	10.30	25.61	49.41	60.62
Fertiliser - Nitrogen	9,903	180.05	147.01	138.74	199.48
Fertiliser - Phosphorus	3,170	57.63	33.47	30.33	14.55
Freight & Cartage	2,008	36.51	47.05	72.60	57.43
Fuel & Lubricants	5,201	94.56	69.76	53.96	43.95
Insurances	3,246	59.02	27.21	27.37	30.67
R&M Plant	6,139	111.62	98.02	69.63	78.06
Selling Costs	2,011	36.56	43.18	23.22	15.25
Packaging	601	10.92	6.62	8.05	0.13
Wages/Salaries	4,935	89.72	82.57	73.70	69.74
Depreciation	6,948	126.33	123.31	93.82	97.49
Direct Cost	**58,046**	**1,055.39**	**946.77**	**886.23**	**984.74**
Direct Cost(t)		$184/t	$162/t	$222/t	$333/t
Gross Margin	**79,068**	**1437.60**	**1560.56**	**836.59**	**160.75**
Gross Margin(t)		$250/t	$263/t	$180/t	$28/t

		Your Farm	Ranked on Gross Margin (ha) Top 20%	Average	Bottom 20%
TPML Costs	20,045	364.46	367.76	335.06	393.10
Area Costs	30,135	547.91	454.94	419.94	488.17
Yield Costs	7,866	143.01	124.06	131.24	103.47
Starting Moisture		145.00	113.15	123.63	166.92
In-crop Rain		289.00	202.17	252.78	299.23
PAW (mm)		434.00	315.32	376.41	466.15
WUE (kg/mm/ha)		13.25	12.66	9.97	6.91
Average Nitrogen Rate		80.85	57.47	53.33	61.35
Average Phosphorus Rate		9.90	3.58	5.10	2.75



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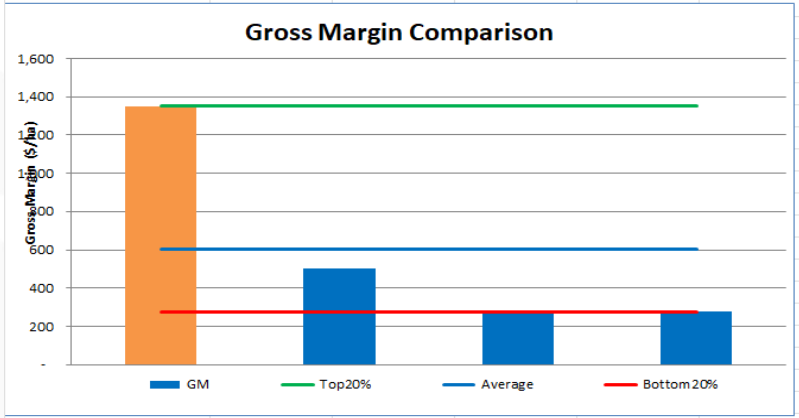
Dryland Mungbeans Double Crop

		Your Farm	Ranked on Gross Margin (ha) Top 20%	Average	Bottom 20%
Area		60 ha	60 ha	128 ha	303 ha
Tonnes Produced		101 t	101 t	110 t	225 t
Yield		1.68 t/ha	1.68 t/ha	1.05 t/ha	0.74 t/ha
On Farm Grain Price		$ 1,173/t	$ 1,173/t	$ 1,182/t	$ 1,055/t
	Total $	$/ha	$/ha	$/ha	$/ha
Gross Income	**118,693**	**1,978.22**	**1,978.22**	**1,241.48**	**786.23**
Expenses	**Total $**	**$/ha**	**$/ha**	**$/ha**	**$/ha**
Seed	5,140	85.67	85.67	53.04	18.93
Chemical Fallow	3,374	56.23	56.23	46.80	27.42
Chemical In-crop	5,671	94.51	94.51	77.60	70.84
Contracting - Harvesting	-	-	-	24.89	89.26
Fertiliser - Nitrogen	-	-	-	0.85	-
Fertiliser - Phosphorus	1,567	26.12	26.12	37.31	29.04
Freight & Cartage	189	3.15	3.15	7.48	4.70
Fuel & Lubricants	2,574	42.90	42.90	69.22	54.57
R&M Plant	6,111	101.84	101.84	93.95	41.48
Selling Costs	1,018	16.97	16.97	9.83	3.62
Wages/Salaries	3,770	62.84	62.84	75.96	55.64
Depreciation	8,169	136.15	136.15	126.20	115.32
Direct Cost	**37,584**	**626.39**	**626.39**	**638.05**	**510.83**
Direct Cost(t)		$372/t	$372/t	$677/t	$689/t
Gross Margin	**81,109**	**1351.82**	**1351.82**	**603.43**	**275.39**
Gross Margin(t)		$803/t	$803/t	$514/t	$372/t

		Your Farm	Ranked on Gross Margin (ha) Top 20%	Average	Bottom 20%
TPML Costs	18,050	300.84	300.84	327.62	301.70
Area Costs	18,326	305.43	305.43	291.38	200.81
Yield Costs	1,208	20.13	20.13	19.05	8.32
Starting Moisture		36.00	36.00	24.21	28.00
In-crop Rain		222.00	222.00	106.14	86.42
PAW (mm)		258.00	258.00	130.35	114.42
WUE (kg/mm/ha)		6.52	6.52	5.86	6.48
Average Nitrogen Rate		-	-	0.55	-
Average Phosphorus Rate		-	-	1.10	-



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3. Operations

- Timeliness
    - Key mantra of successful farmers
    - Weed control, planting & harvest
    - Labour & plant resources
    - Contractors
- Precision Operations
    - There are many options
    - Planting, spraying & harvesting
- People management
    - Good staff are key
    - Good training
    - Good conditions & package

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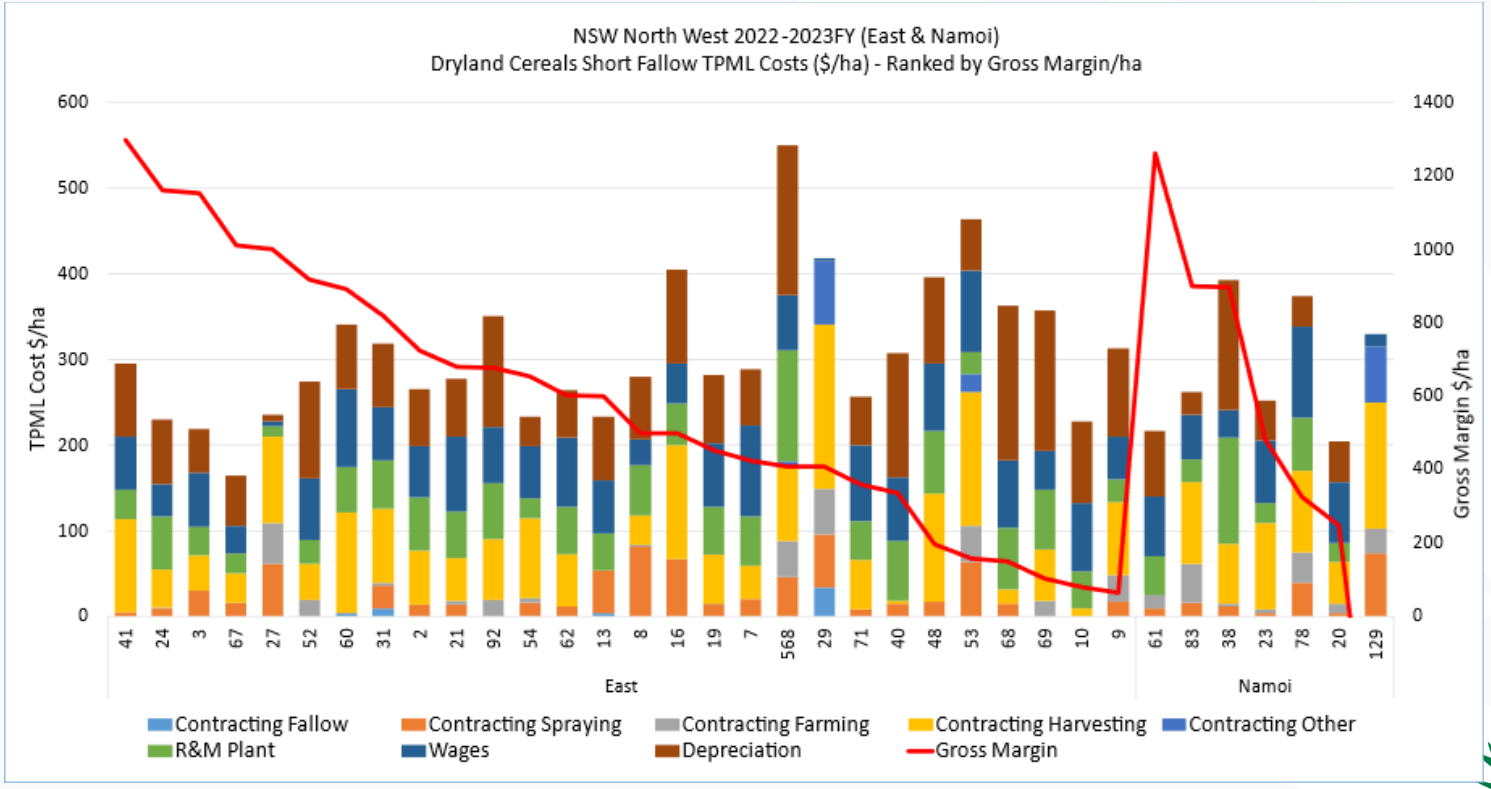
Yield v Gross Margin (Wheat SF) – Sth QLD



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4. Management, finance, budgeting & marketing

- Machinery & labour
    - Balance between own v contractors
- Fine tune the business
    - Check costs, yields, prices & margins
    - Be a little bit better than last year
- Finance management
    - Know your rates and terms
    - Have enough to take advantage of opportunities
- Budgeting – important, be realsitic
- Marketing – have a plan
    - Know your profit margins/targets
    - Have a sounding board

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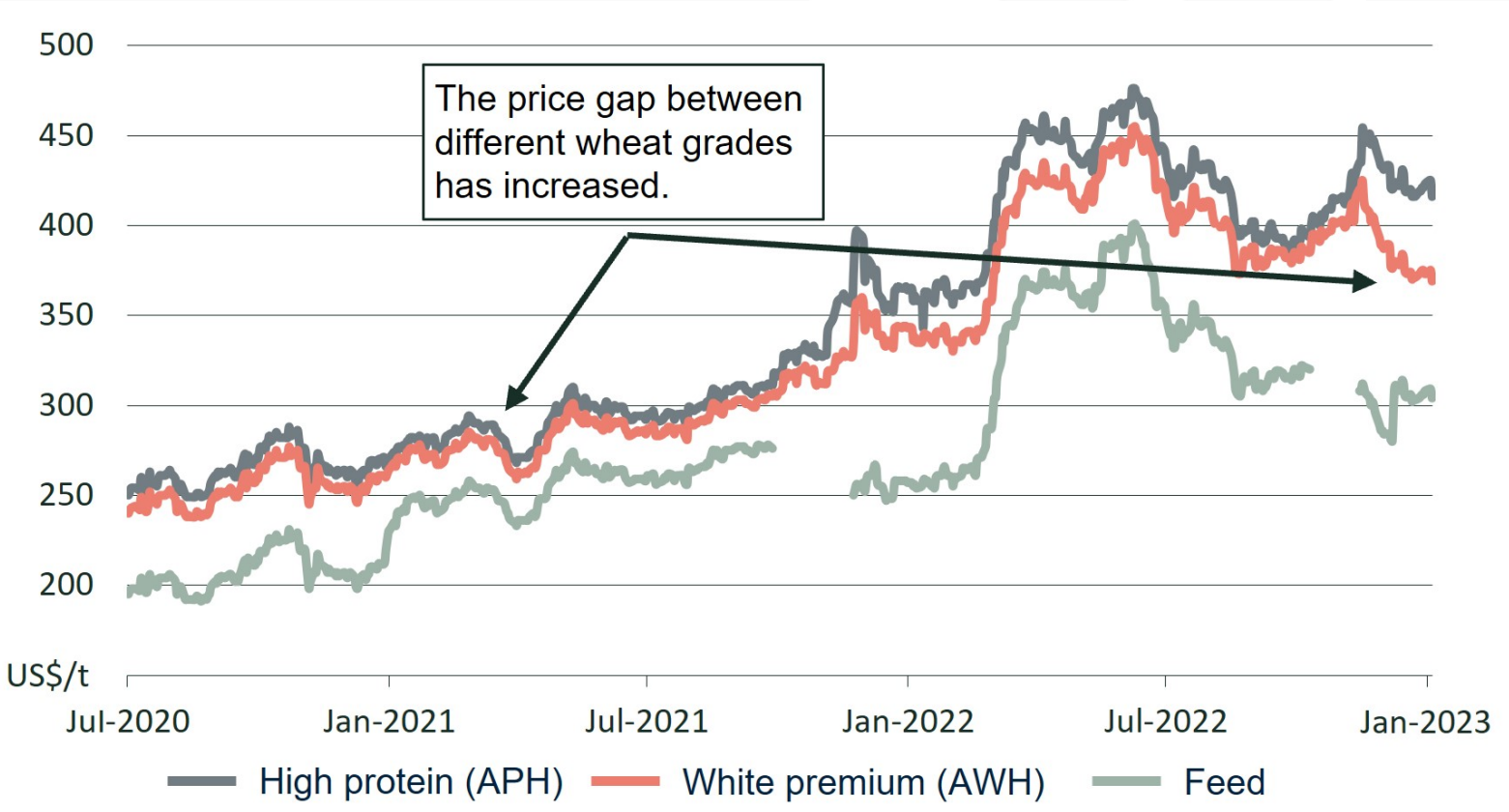
Aust wheat export prices – July 2020 – Jan 2023



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- Yield still has the largest impact on margin.
- Know your key cost areas and where you can have influence.
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- Plan, observe & implement in a timely manner.

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