

Stocker-Feedlot Dynamics: How Is It Changing?

Dave Latta

Pratt Feeders • Pratt, KS

Tri-State Stocker Conference
Abingdon, VA • August 7, 2008

Been in the cattle
business all my life



Been in the cattle
business all my life

Seen a lot of changes over
all those years



Been in the cattle
business all my life

Seen a lot of changes over
all those years

Been against most
all of 'em





Change is Inevitable





Change is Inevitable

Adaptation and survival...
are optional.







Pratt Feeders, LLC

Commercial Cattle Feeding

- Pratt Feeders, Pratt, KS
- Ashland Feeders, Ashland, KS
- Hays Feeders, Hays, KS
- Buffalo Feeders, Buffalo, OK
- www.prattfeeders.com



Major changes are currently affecting the stocker cattle and cattle feeding industries.



Our survival depends on our ability to adapt to these changes.

Energy Costs

- Transportation
 - Freight to feedyards
 - Freight to packers
 - Basis on cattle & grains
- Production Costs
 - Feed processing
 - Crop inputs

Commodity Prices

- Grain costs and impact on Cost of Gain
 - COG demands efficient cattle
- Impact of grain costs on roughages
 - No cheap feedstuffs
- Ethanol Industry
 - Competition for Grains
 - Impact of feeding byproducts

Commodity Prices

- Role of **FUNDS** in commodity markets
 - The 800# Gorilla



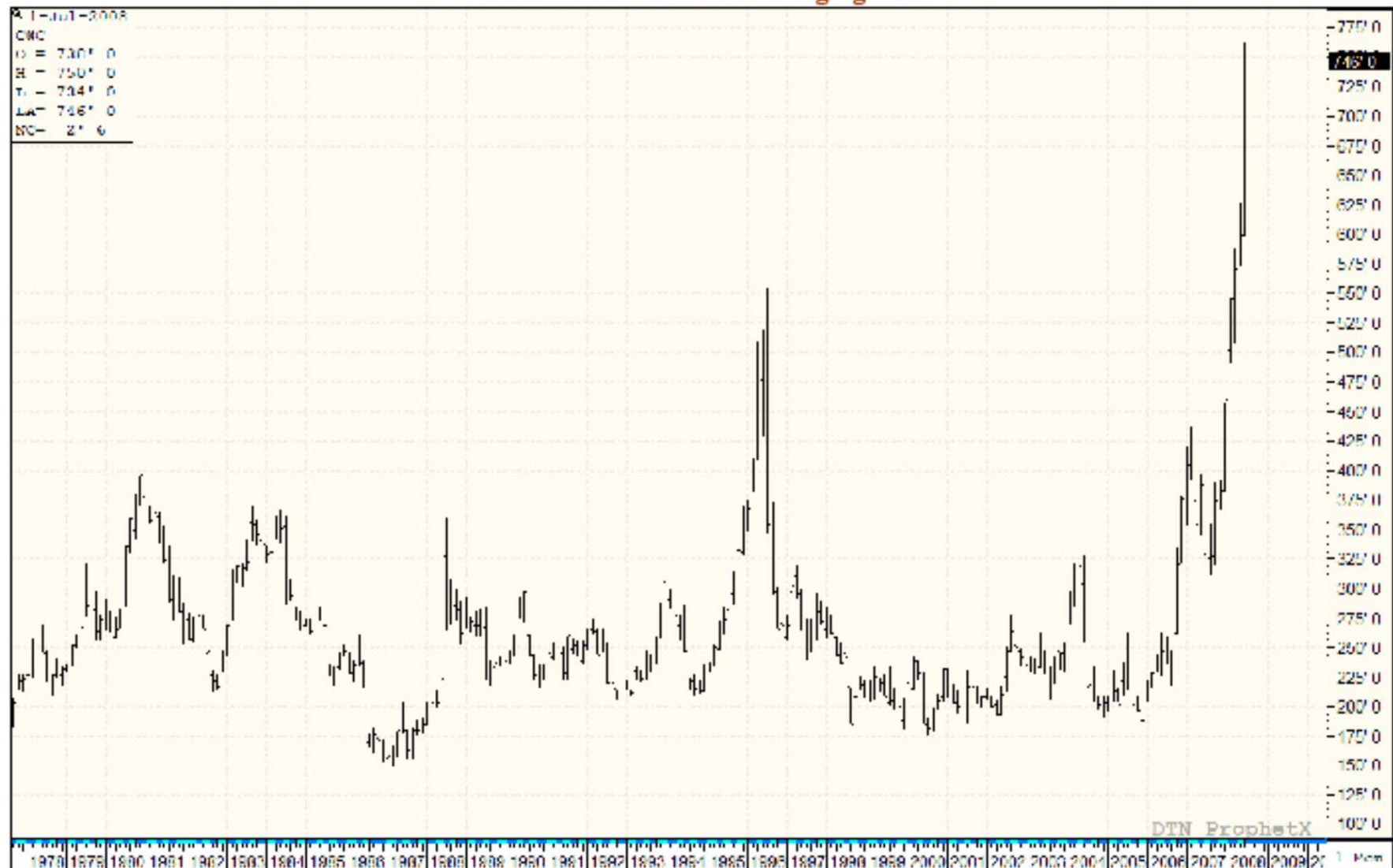
- Potential shifts in government policy
 - Pressured by perceived food inflation

Increased Volatility

- While these factors are redefining the rules, they have also created unprecedented volatility in the markets.

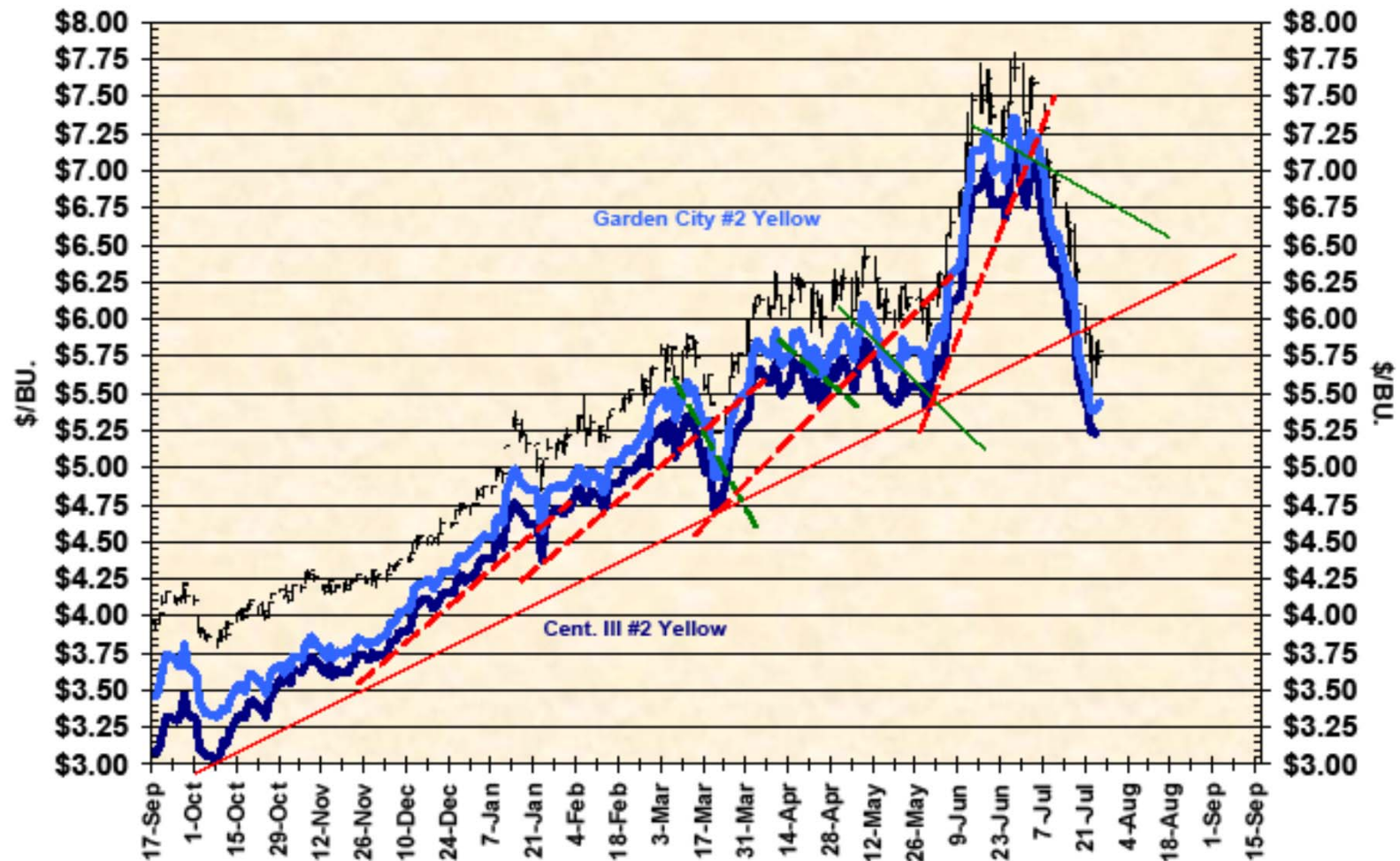
CHICAGO CORN MONTHLY NEARBY FUTURES CONTINUATION CHART

PRODUCED BY CattleHedging.com



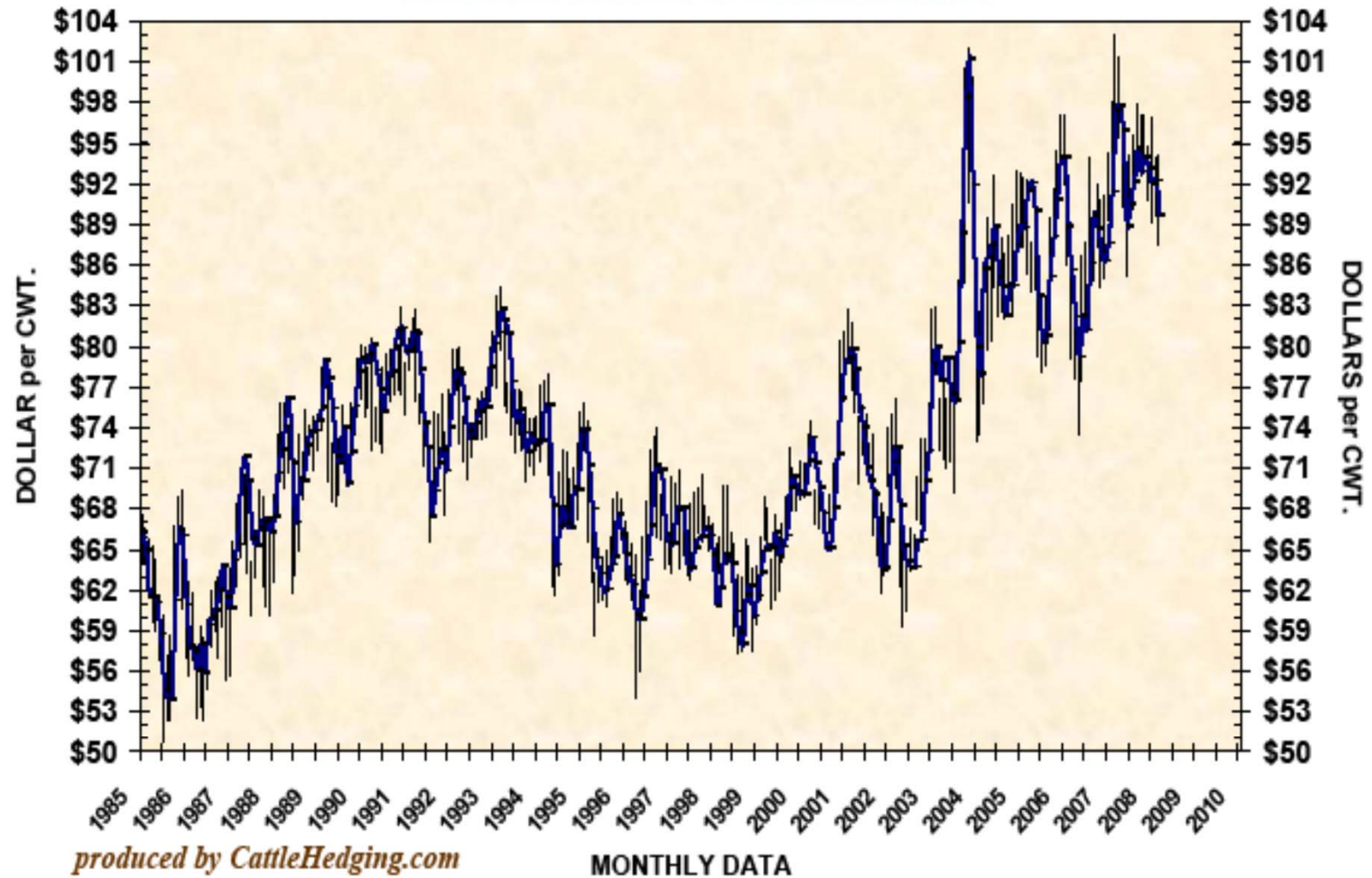
SEPTEMBER 2008 CHGO CORN FUTURES

Chart by CattleHedging.com



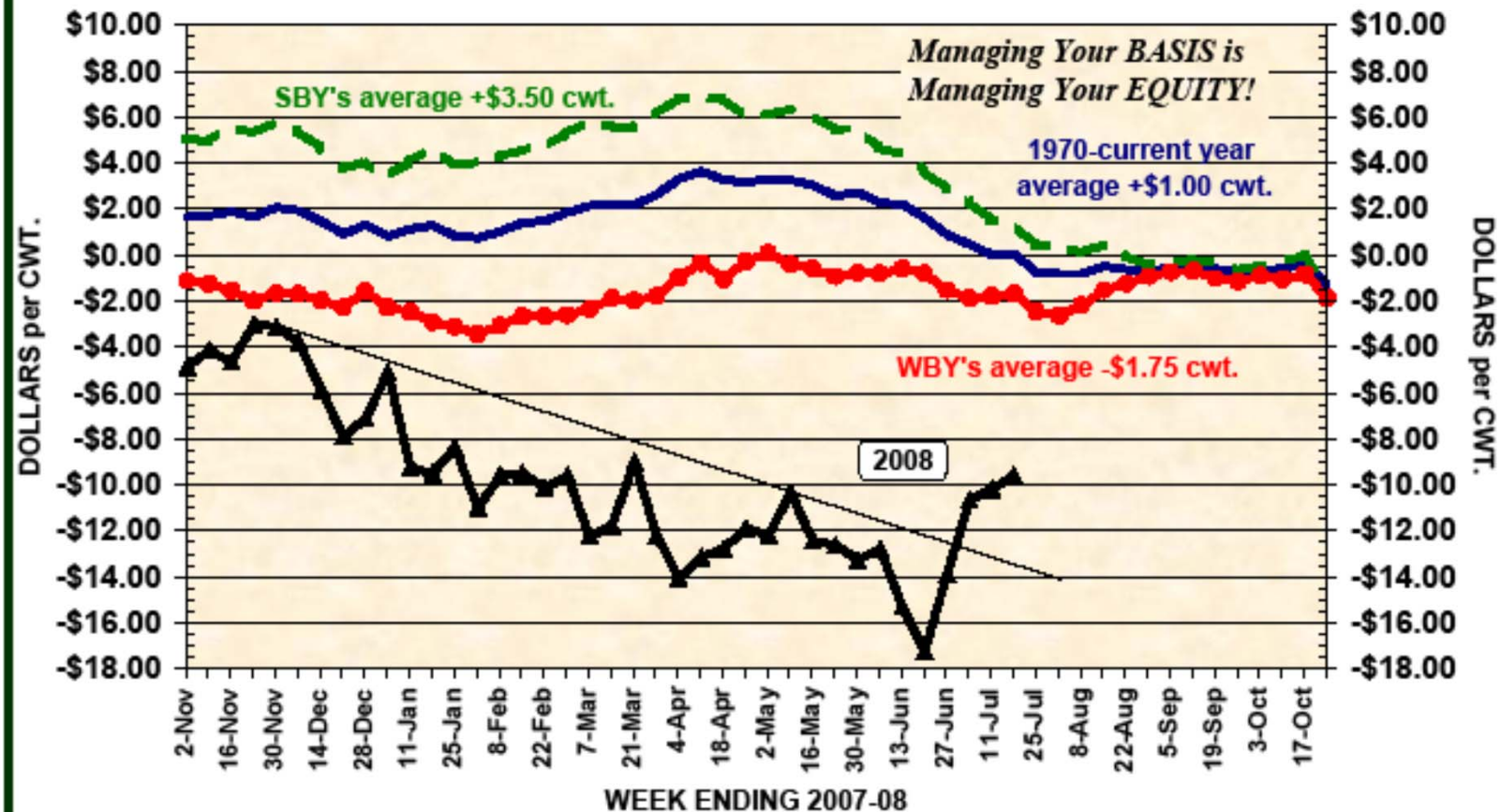
MONTHLY NRBY LIVE CATTLE FUTURES RANGE

TEXAS/OKLA MONTHLY AVERAGE CASH PRICE



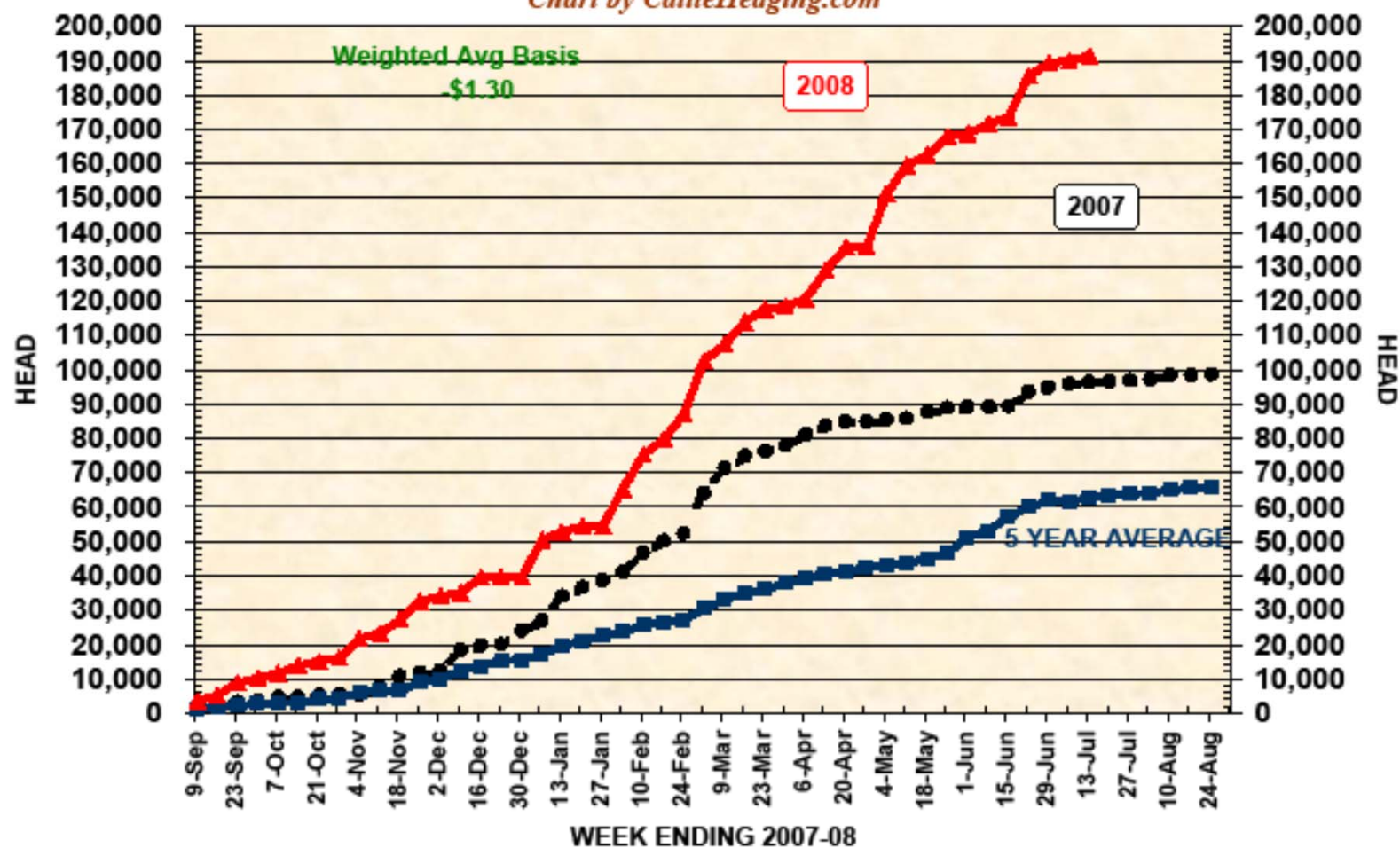
SEASONAL BASIS for SOUTHWEST KANSAS STEERS minus OCTOBER LIVE CATTLE FUTURES

Chart by CattleHedging.com



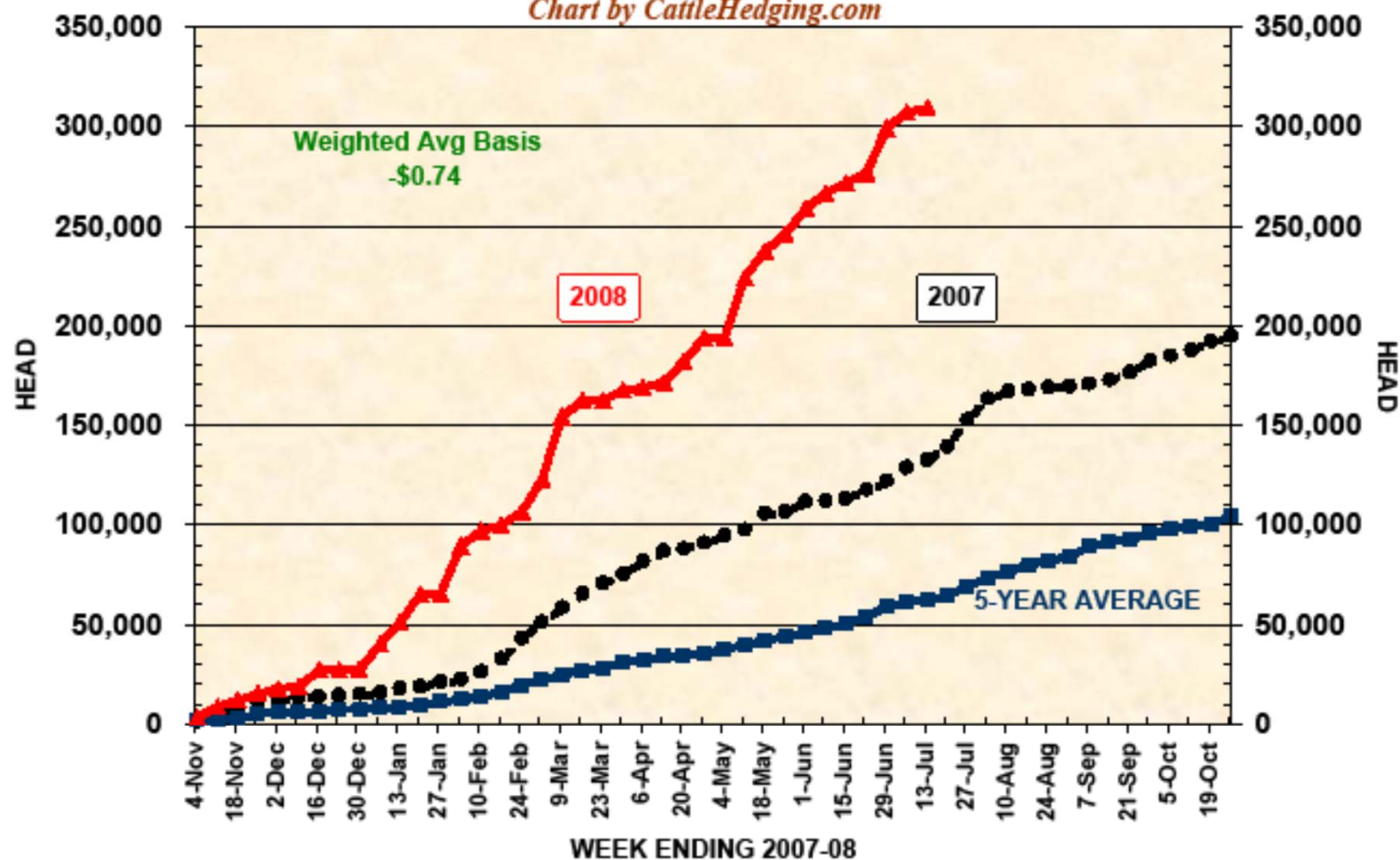
AUGUST FORWARD CONTRACTS

Chart by CattleHedging.com



OCTOBER FORWARD CONTRACTS

Chart by CattleHedging.com



Freight VS COG (feed costs)

How does the current cost/price squeeze affect the weight at which it is most economical to place feeder cattle?

Freight VS COG (feed costs)

- Assumptions:
 - 7.25 Bushel Corn
 - Dry Matter Conversions
 - 6.0 on 600# Steer
 - 6.4 on 900# Steer
- Per Rand McNally, Abingdon, VA to Pratt, KS is 1135 miles
- Assuming freight is \$4.00 per mile with 50,000# loads, freight will be about \$9.00 per cwt.

Comparison Calculations:	Background & Graze	Direct to Feed
Purchase Date:	8/7/08	8/7/08
Purchase Weight:	600	600
Purchase Price	1.15	1.15
Interest Rate	6.0 %	6.0%
Total Gain Preconditioning	90	0
Total Cost of Gain Pre-conditioning	\$.70	0
Days on Feed Preconditioning	45	0
Total # Gain Grazing	210	0
Total COG Grazing	\$.65	0
DOF Grazing	100	0
Date Off Grazing	12/30/08	8/7/08
Weight After Grazing	900	600
Total Cost after Grazing	\$889.50	\$690.00
Plus Interest	\$16.45	\$0.00
Breakeven After Grazing	\$100.66	\$115.00
Freight to feedyard	\$9.00	\$9.00
Delivered Cost to Feedyard	\$109.66	124.00
Projected out weight feedyard	1300	1250
Projected COG Feedyard (Interest in)	\$117.50	\$113.00
Projected Average Daily Gain	3.35	3.15
Projected Out Date	4/28/09	3/1/09
Projected Breakeven Price	\$112.07	\$118.28

Making the same performance projections with \$4.00 corn gives these results:

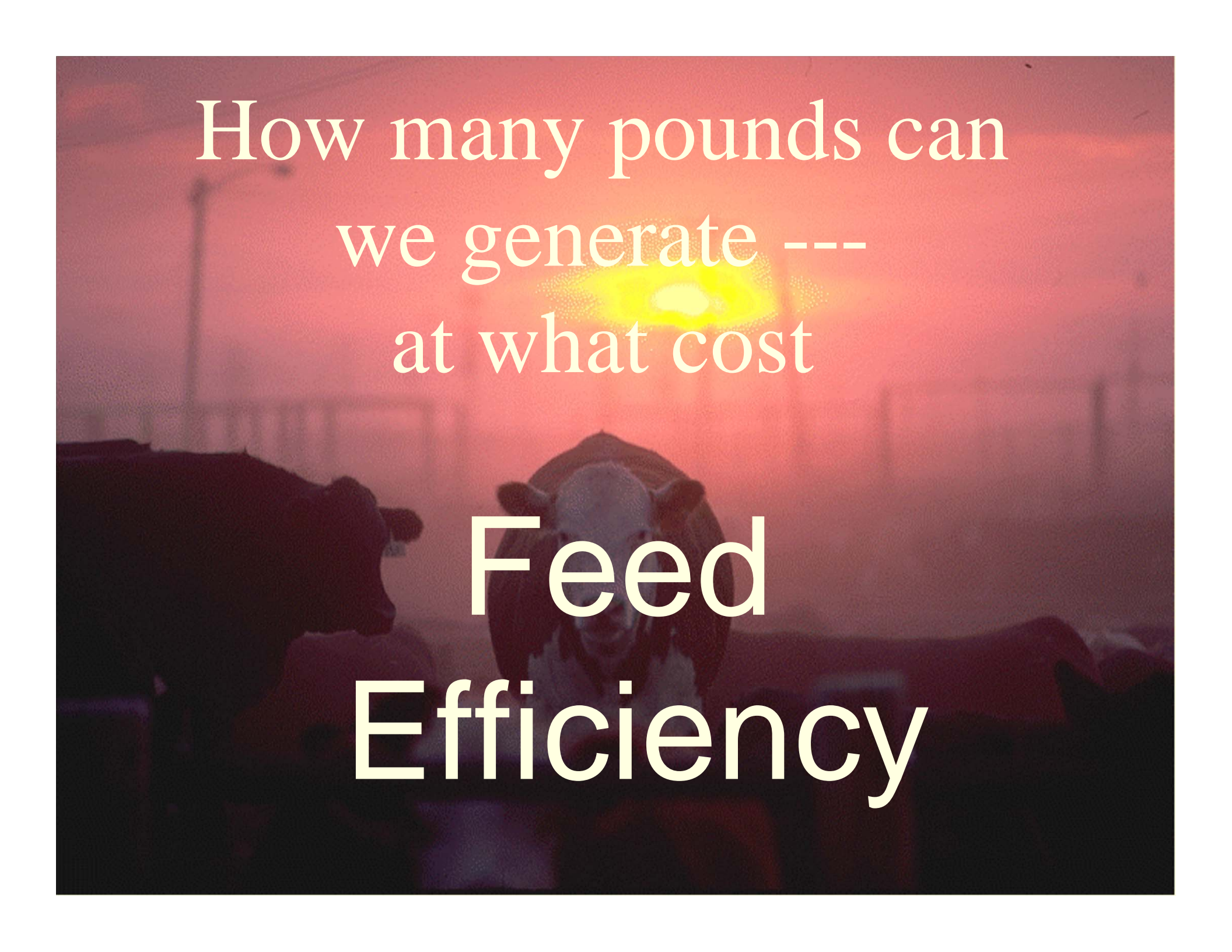
Placed on Feed Weight	900#	600#
Projected Cost of Gain Feedyard (Interest In)	\$80.50	\$77.50
Projected Breakeven Feedyard	\$100.69	\$99.82

The Cost of Gain structure relative to the market price of finished cattle has Inverted with high priced grains.

The market is telling us to put more pounds on cattle outside of the feedyard.

If you are a retained ownership stocker operator/ cattle feeder, you can put on pounds cheaper outside the feedyard.

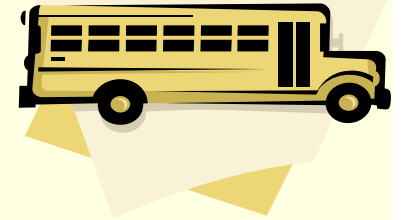
If you are buying feeders to place on feed, you can buy the weight cheaper than you can produce it in the feedyard.

A photograph of a farm at sunset. In the foreground, two cows are visible; one is dark and facing left, and the other is white with dark spots and facing forward. The background shows a bright sun setting behind a fence, creating a warm, orange glow. The text is overlaid on the image in a white, serif font.

How many pounds can
we generate ---
at what cost

Feed
Efficiency

Feed Efficiency (Dry Matter Conversion) Drives the Bus



Consider the same cattle, using the same assumptions,
With \$7.25 corn, but improving the DMC by .3 lb.

Placed weights	900	600
Projected Out Weight	1300	1250
Projected DMC	6.4	6.0
Projected COG Feedyard (Interest in)	\$117.50	\$113.00
Projected Breakeven Price	\$112.07	\$118.28
Projected DMC	6.1	5.7
Projected COG Feedyard (Interest in)	\$113.00	\$108.25
Projected Breakeven Price	\$110.69	\$115.81
Projected # gained in feedyard	400	650
Difference (per hd)	\$17.94	\$30.87

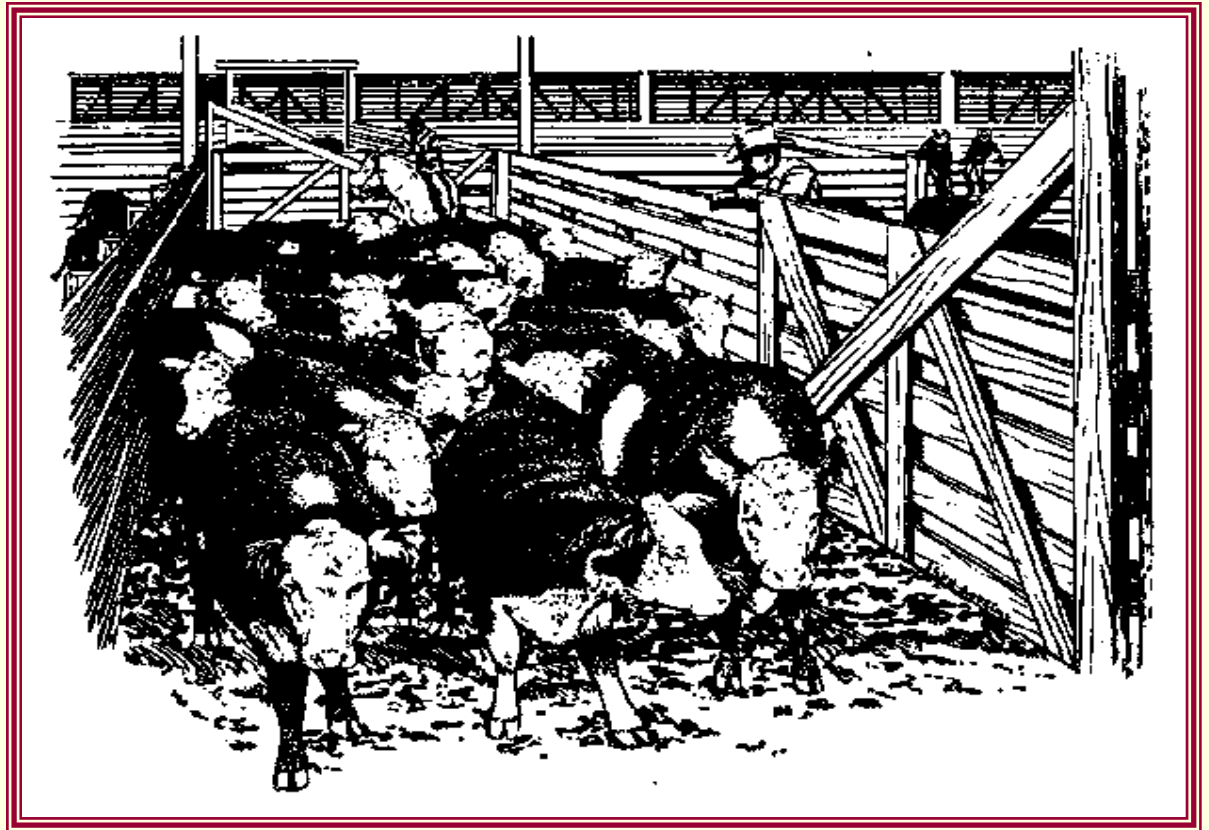
Communication

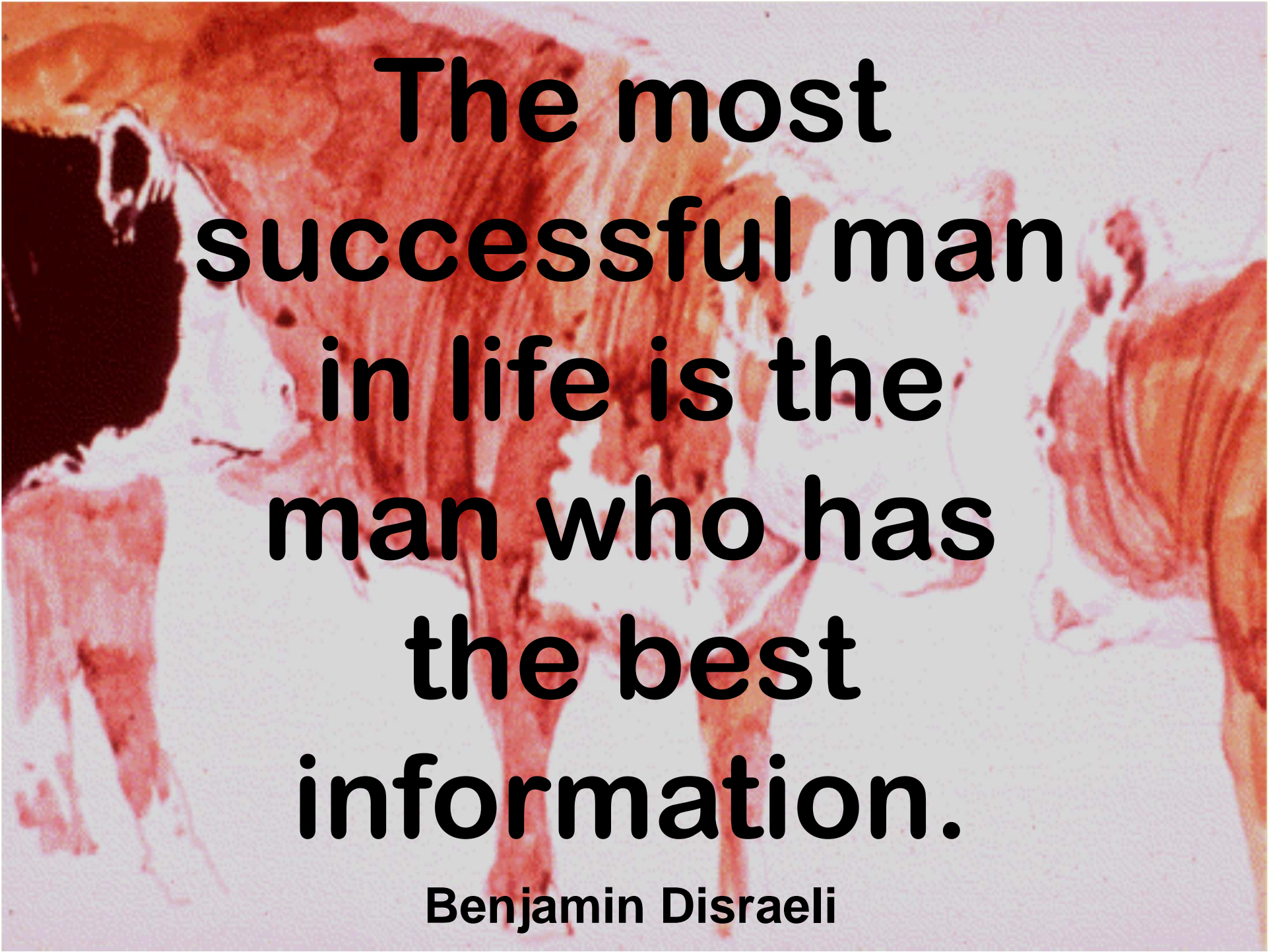
What is the market telling us?

- Hear what is said.
- Understand what is meant.
- Take appropriate action.



What we produce will be treated and priced as a commodity until it is differentiated into a product.



A painting in a monochromatic red and white style, depicting a bullfight. A bull is in the center, facing left, with its head lowered. To the left, a person is partially visible, and to the right, another figure is seen from the back. The background is a mix of red and white washes.

**The most
successful man
in life is the
man who has
the best
information.**

Benjamin Disraeli

A decorative vertical bar in a light olive green color runs down the left side of the slide. A thin horizontal line in a dark purple color spans the width of the slide, with a small grey rectangular block at its right end.

Your Calf Is Somebody Else's Investment



- What represents value to the commercial cattle feeder?
- What can the producer do to differentiate his product?

“Ranchers ask
someone to invest in
their calves each
year.”

Information generally provided when selling calves:

1. How many.
2. Weight.
3. Age.
4. Color
5. Asking price.
6. Weighing conditions.

This information is usually sufficient to establish a commodity price at the current market.

Marketing Options

- Sale Barn
- Video Auction
- Ranch Direct
- Retained Ownership
 - Partnership

The CEO




...we understand that only by creating opportunities for our customers and clients do we create opportunities for ourselves.



- Kenneth Lewis, CEO



Critical to develop
relationships



The Investor

- The cattle feeder
 - Writes the checks

The Investor

- What would you like to know about the calves?



Ranch Prospectus

Section 1	Demographics
Section 2	Genetics
Section 3	Immune System
Section 4	Cattle Handling
Section 5	Consistency
	Uniformity

All Investors

- Performance History

- ADG
- FE
- In weight
- Out weight
- DOF

All Investors

- Health History/Nutrition History
 - Pre weaning vaccinations
 - Vaccination program of cows
 - Mineral program
 - Range conditions

All Investors

- **Handle cattle quietly —
nervous cattle don't feed well.**

The commercial producer must have information on...

- Economic performance
- Carcass merit
- Genetic predictability

Getting the Data

- Establish Relationships
- Partner with Feeder
- Retain Ownership

Match Cattle to the Specs

Think Distribution ~~ Not Averages

- Avoid Extremes
- Sort to Minimize Outliers
- Identify Grid that Fits Your Cattle

Daryl Tatum Colorado State University

*“Pay me for it
and I will do it.”*

**The biggest bluff in
the cattle business**

*“Pay me for it
and I will do it.”*

**“...not one out of 100
producers has the
data to get there.”**

What we are going to do:

- Know our strengths
 - Capitalize on them
- Know our weakness
 - Seek input
- Think of those input resources as your board of directors

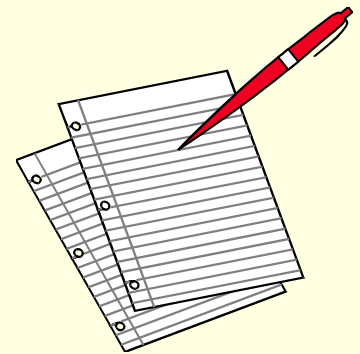
Board of Directors

1. University/Extension Specialists
2. Breed Associations
3. Seed Stock Providers
4. Nutritionist
5. Consulting Veterinarian
6. Feedyard Manager
7. Other Producers
8. Banker/Accountant/Economists
9. Internet

**"None of us is as good
as all of us."**



The dimmest ink is
better than the
best memory.



Old Chinese Proverb

Records

May 2007

May 2007

May 2007						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

November 2000

 **Inventories**

 **Events**

 **Financial**

 **Production**

QSA Quality Systems Assessment

- Maintain records that may qualify calves for premium programs, such as QSA for export to Japan.
- Records and identification are critical to provide documentation for other programs such as all natural, breed programs, etc.

-
- Produce healthy calves that gain fast and efficiently resulting in carcasses of:
 - high cut-ability
 - appropriate weight
 - appropriate marbling and tenderness
 - fit the market segments



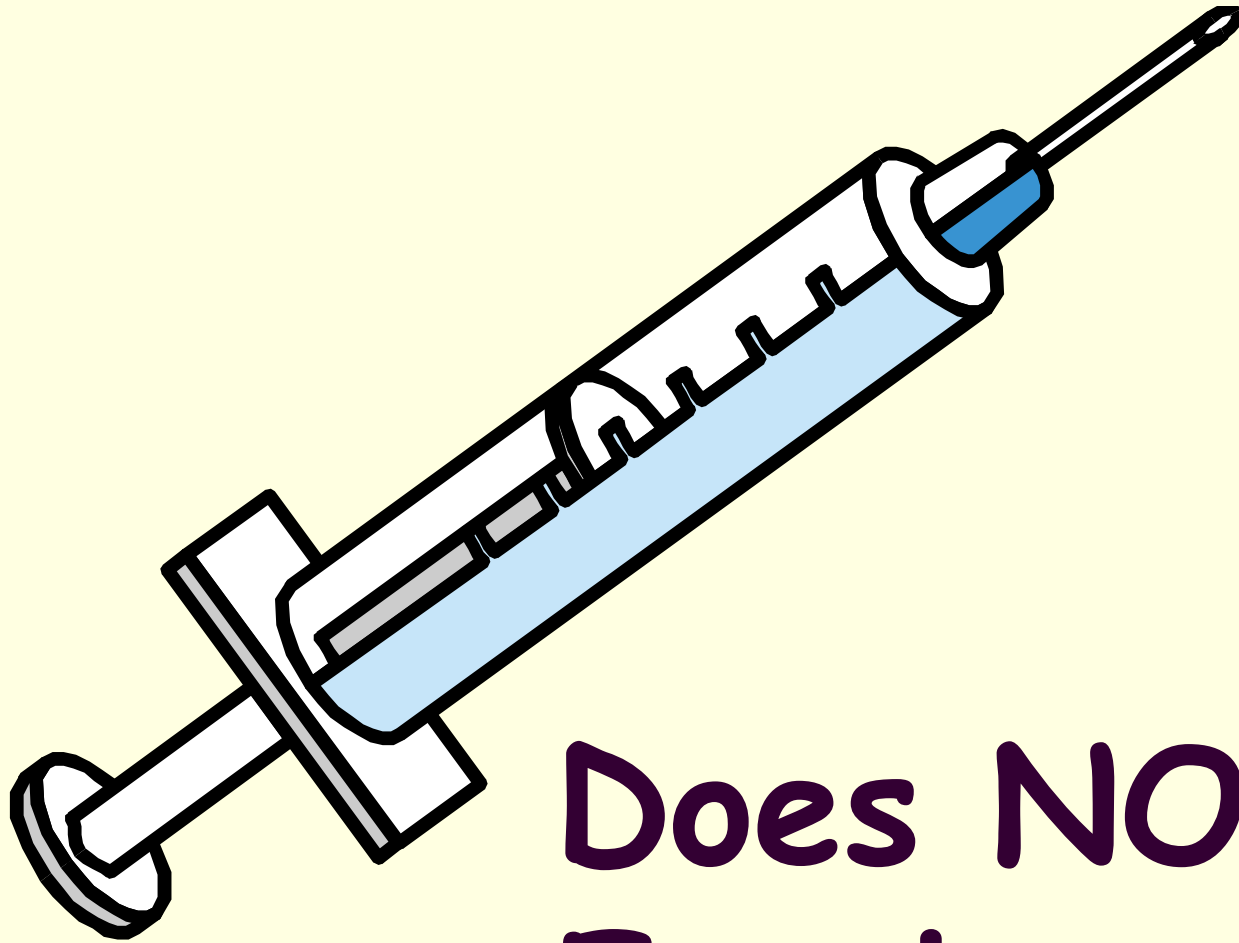
Sire Selection

The fastest way
to get genetic change
in a herd

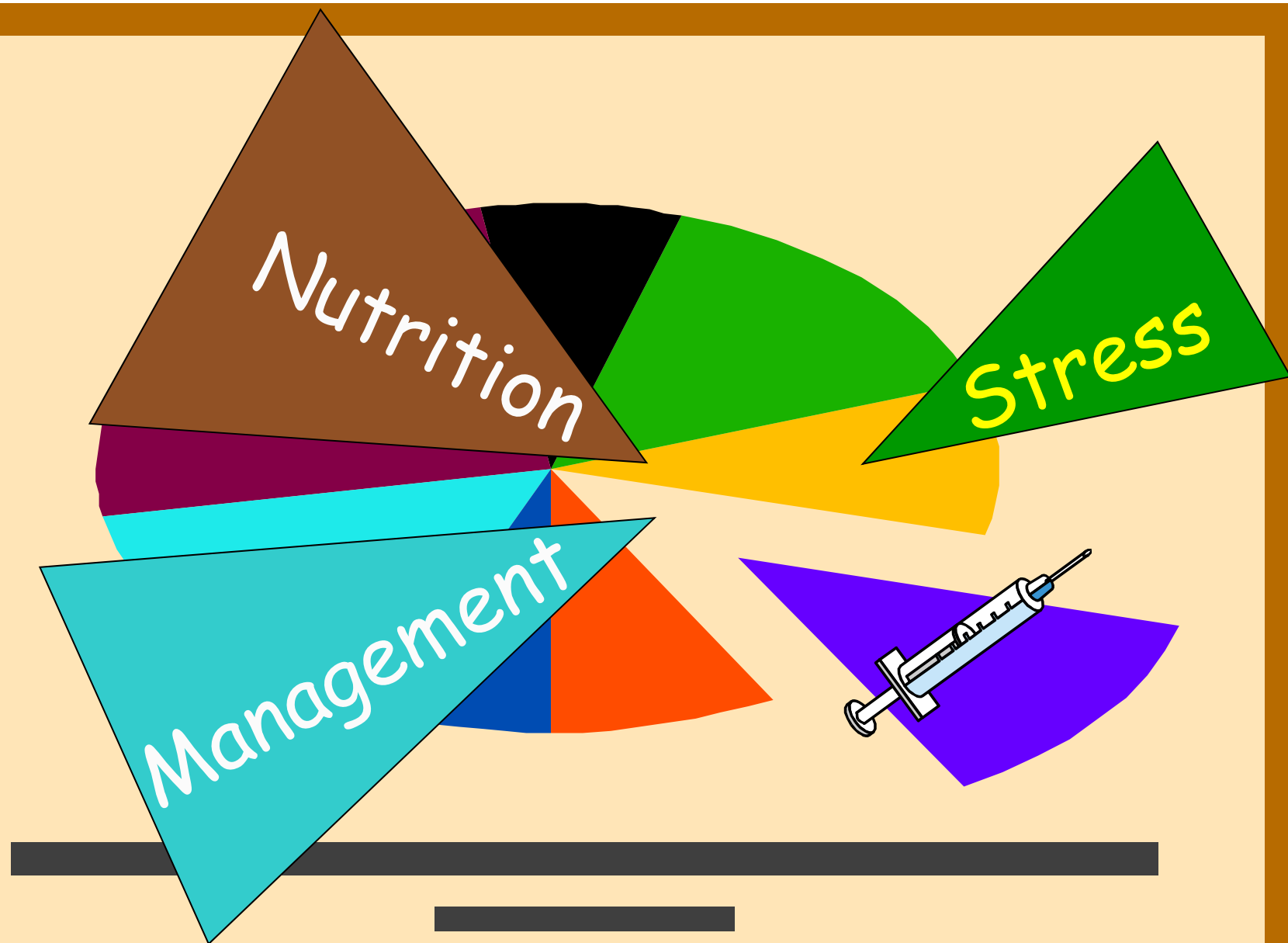


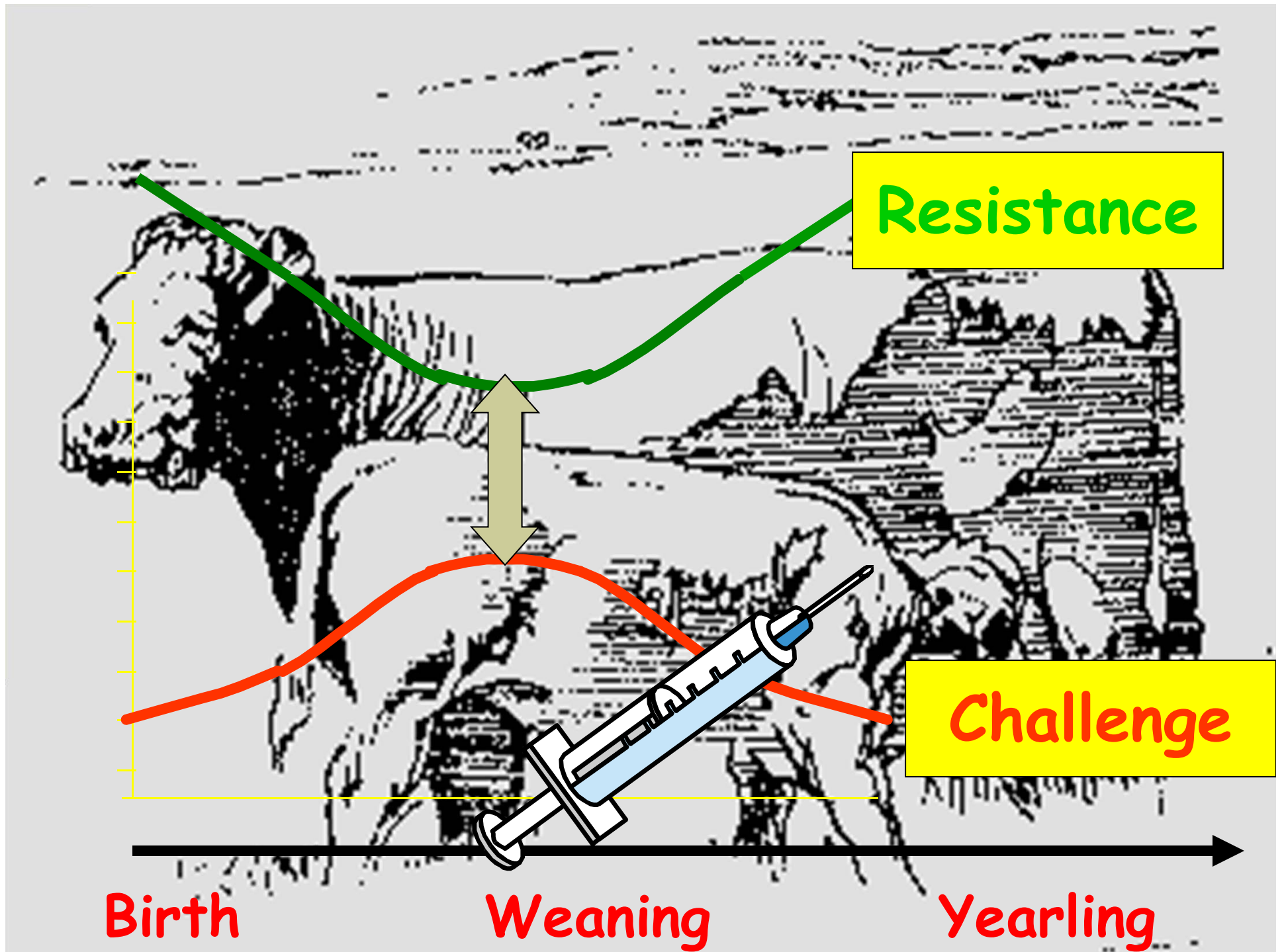
What we are going to do

Build Immunity



Does NOT
Equal
Immunity





What we are going to do

**Follow
BQA Guidelines**

What we are going to do

What is best for
your cattle.

Attention to detail.



Opportunities for Pratt Feeders and the producer.

- Pratt Feeders is a buyer of feeder cattle.
- Pratt Feeders is a custom cattle feeder that can provide feeding services to the retained ownership customer.
- Pratt Feeders may enter into joint venture cattle feeding agreements with producers.
- Pratt Feeders is in a position to seek marketing opportunities for finished cattle that may differentiate themselves in the market.

Six Steps to Success

1. Face reality as it is; not as it was
2. Be candid with everyone
3. Do things right; do right things
4. Change before you have to
5. If you don't have a competitive advantage-
don't compete
6. Control your own destiny or someone else will

Jack Welch, CEO, GE



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