



MICRO-AID®

Micro-Aid® in all feed, all the time



Conservation and Building of Equity in Livestock Production

Introduction

Access and availability of capital have always been very important in agriculture including in the production of food and fiber from livestock. Recent cost increases in commodity feedstuffs and fuel have nearly doubled the cost of livestock production. There are several reasons for recent commodity increases that will remain in place over time such that this situation is not likely to change in the near future. With higher production costs, the competition for limited, available capital will become more intense. Therefore, the ability of producers to maximize their capacity to build equity when production is profitable and to conserve equity when production is not profitable is more important now than ever. This is especially important now while the industry and markets are adjusting to higher feed and production costs. Producers who can demonstrate a sound plan for equity conservation will ultimately have better access to available capital and will be much more likely to endure losses until profitability returns in the production of livestock to feed and clothe the world. Although the following examples are based on the production of pork, the same principles apply to other livestock and poultry production systems as well.

How is Equity Defined?

Equity and debt are two types of capital. Capital provides the funding to own the assets required to run a business. Equity capital is the capital placed in the business by the owner(s) of the business. By intent, equity is the capital at the most risk and likewise has the most opportunity to generate a return. Debt capital is that which is borrowed from a lender or other entity at a pre-determined interest rate and normally paid back to the lender at an agreed upon schedule.

A simplistic definition of equity is the amount of money the owner(s) would have left after completely selling out the business and paying off all debts. Most businesses have a primary financial goal to increase owner equity 6%.

How is Equity Generated?

Equity is generated from profit. Three examples, generated through the use of the Micro-Aid® Value Proposition Model for swine production, are used to demonstrate the flow of profits to the statement of financial position (often referred to as a balance sheet). All examples are for the same 2,600-sow farrow to finish operation. This operation owns all livestock and has production contracts for the facilities. Therefore, no facilities are owned or included in this statement. Additionally, income taxes have not been considered in these examples because the intent is strictly to demonstrate the flow of profit into equity.



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Example No. 1 shows equity of \$2,406,000 at the beginning of the year. If this farm made \$15 per pig marketed or \$800,000 for the year, the operating note is reduced by the \$800,000. Equity therefore, increases to \$3,206,000. **This example is typical of profitable market conditions.**

How is Equity Reduced?

A business loss from operations causes equity to be reduced.

Example No. 2 is for the same farm identified above. However, this time a loss of \$785,000 occurred in the business simply from corn increasing by \$2.00 per bushel and soybean oil meal increasing by \$100 per ton. Instead of profits of \$15 per pig, losses of nearly \$15 per pig occurred.

Rather than having \$800,000 to reduce the operating note, the \$785,000 loss resulted in an increase in the operating note. Equity therefore was reduced from \$2,406,000 to \$1,621,000.

Losses in equity erode the businesses ability to be competitive or eventually even stay in business. Those businesses that can minimize the loss of equity in adverse economical conditions will be those best suited to aggressively pursue business options when economics improve. A goal of most businesses during challenging economic times should be to conserve as much of their equity as possible in preparation for improved economic conditions. Recently, a loss in equity has been experienced by many livestock producers, as market prices have not kept up with increasing feed and production costs.

Example No. 1 Statement of Financial Position

	Beginning of Year	End of Year
ASSETS:		
Pig Inventory	\$2,970,000	\$2,970,000
Sow Inventory	\$1,040,000	\$1,040,000
TOTAL ASSETS	\$4,010,000	\$4,010,000
LIABILITIES:		
Operating Note	\$1,188,000	\$1,188,000
Op. Note Change ¹		(\$800,000)
Note on Sows	\$416,000	\$416,000
TOTAL LIABILITIES	\$1,604,000	\$804,000
Owner Equity	\$2,406,000	\$3,206,000
Change in Equity		\$800,000
Equity/Assets	60%	80%

¹ An operating note increase indicates an operating loss and an operating note decrease indicates an operating profit for the year.

Example No. 2 Statement of Financial Position

	Beginning of Year	End of Year
ASSETS:		
Pig Inventory	\$2,970,000	\$2,970,000
Sow Inventory	\$1,040,000	\$1,040,000
TOTAL ASSETS	\$4,010,000	\$4,010,000
LIABILITIES:		
Operating Note	\$1,188,000	\$1,188,000
Op. Note Change ¹		\$785,000
Note on Sows	\$416,000	\$416,000
TOTAL LIABILITIES	\$1,604,000	\$2,389,000
Owner Equity	\$2,406,000	\$1,621,000
Change in Equity		(\$785,000)
Equity/Assets	60%	40%

¹ An operating note increase indicates an operating loss and an operating note decrease indicates an operating profit for the year.



Micro-Aid® is an Effective Tool to help Conserve & Build Equity!

Many action plans have been considered to help conserve equity. Including Micro-Aid® in all feed is a very effective action plan to conserve equity in challenging economic conditions as well as a great tool to build equity in good economic times.

Micro-Aid® is an all-natural environmentally safe feed additive that is extremely effective in controlling noxious gases (ammonia, hydrogen sulfide, phenols, etc) and accelerating waste breakdown in storage systems (pits, lagoons, slurry stores, etc), as well as providing an environment for enhanced animal performance. Extensive research has been conducted over the past 40 plus years to demonstrate the value of Micro-Aid® for livestock production.

Example No. 3 demonstrates the "Equity Conservation" impact that can be gained by implementing Micro-Aid® in all swine diets and assuming that the performance improvement is equal to the average as shown by the significant amount of research.

Research demonstrated average performance improvement include:

- 4.30% improvement in ADG
- 3.35% improvement in F:G
- 39.89% reduction in stillbirths
- 21.30% reduction in pre-weaning mortality

Instead of showing a loss of \$785,000 as in the previous example, this farm in example 3 reduced the loss to just \$505,000. In other words, this example **conserved \$280,000 in equity with the use of Micro-Aid®.**

Example No. 3 Statement of Financial Position

	Beginning of Year	End of Year
ASSETS:		
Pig Inventory	\$2,970,000	\$2,970,000
Sow Inventory	\$1,040,000	\$1,040,000
TOTAL ASSETS	\$4,010,000	\$4,010,000
LIABILITIES:		
Operating Note	\$1,188,000	\$1,188,000
Op. Note Change ¹		\$785,000
Op. Note Change ¹		(\$280,000)
Note on Sows	\$416,000	\$416,000
TOTAL LIABILITIES	\$1,604,000	\$2,109,000
Owner Equity	\$2,406,000	\$1,901,000
Change in Equity		(\$505,000)
Equity/Assets	60%	47%

¹ An operating note increase indicates an operating loss and an operating note decrease indicates an operating profit for the year.

Multiple Species gain the benefit of Micro-Aid®

Livestock and poultry producers around the world are capturing the value that Micro-Aid® delivers in swine, beef, dairy, broilers, turkeys, layers, equine, and more. Substantial research has been conducted across all species to demonstrate the value of Micro-Aid®. Based on this substantial body of evidence, producers should always include Micro-Aid® in all feed, all the time.





Key Summary Points:

- A key financial goal for businesses should be to build equity when economic times allow and conserve equity in challenging economic times.
- Micro-Aid® provides the demonstrated ability to help livestock and poultry producers conserve and build equity.
- As feed prices continue to increase, the value derived from Micro-Aid® as a tool to conserve equity is even greater.
- Micro-Aid® Value Proposition Models are available for several livestock species to help producers determine the value of Micro-Aid®, as an equity conservation tool, in their operation (ask your Micro-Aid® Dealer for details).

