



Lending Strategies Coming into Cycle Lows

June 2006

By: Lee Fuchs

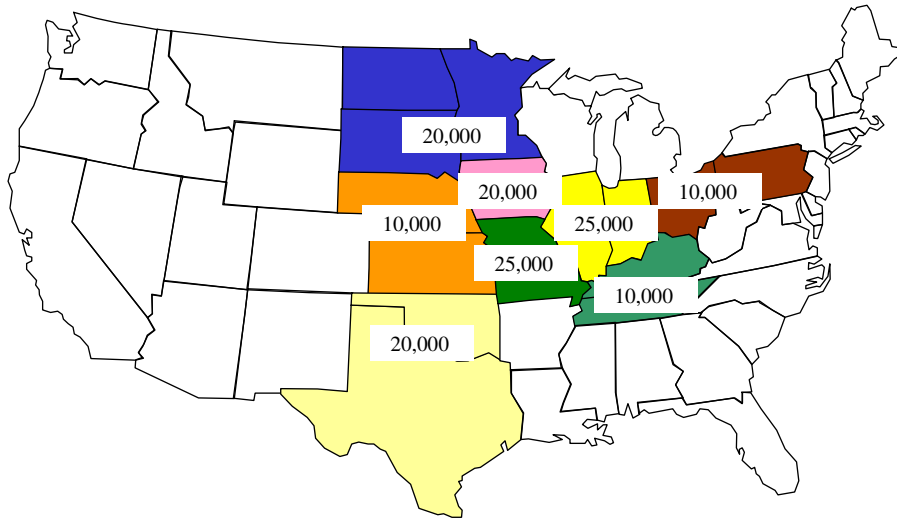


Key Issues

- Rising Interest Rates
- Access to Capital
- Hog Cycle
- Lender Commitment



US Sow Expansion



US Sow Expansion

- Ohio/Penn 10,000
- Illinois/Indiana 20,000
- KY/TN 10,000
- Missouri 25,000
- Iowa 25,000
- MN/SD/ND 20,000
- NE/KS 20,000
- OK/TX 20,000
- TOTAL 150,000 New Sows



US Sow Expansion

- 150,000 Sows = 3,000,000 more pigs per year
- 3% industry growth in slaughter numbers
- Productivity slowdown will temper growth (disease)
- But industry attrition will be slower
- And heavier weights will add LBS to market
- Industry has more fixed investment
- Slaughter plant viability



Rising Interest Rates

- One month LIBOR is up > 300 BPS
- 10 Year rates are up > 50 BPS
- Move to six month LIBOR
- Lock long term rates
- Consider prepayment penalties



Cost of Money

http://www.farmcredit-ffcb.com/farmcredit/fcsystem/funding_cost_index.jsp



Cost of Money

Short-Term Funding Indexes

| Date: | 03/24/06 | 03/23/06 | 03/22/06 | 03/21/06 | 03/20/06 |
|-----------|----------------------------|----------|----------|----------|----------|
| Maturity | Bond Equivalent Yield% [1] | | | | |
| Overnight | 4.493 | 4.492 | 4.512 | 4.512 | 4.462 |
| 1-month | 4.711 | 4.712 | 4.692 | 4.672 | 4.651 |
| 3-months | 4.874 | 4.863 | 4.853 | 4.822 | 4.810 |
| 6-months | 4.997 | 4.965 | 4.976 | 4.942 | 4.943 |
| Maturity | Simple Interest Rate% [2] | | | | |
| Overnight | 4.432 | 4.431 | 4.451 | 4.451 | 4.401 |
| 1-month | 4.647 | 4.647 | 4.628 | 4.608 | 4.587 |
| 3-months | 4.807 | 4.797 | 4.787 | 4.756 | 4.744 |
| 6-months | 4.929 | 4.897 | 4.908 | 4.875 | 4.875 |



Cost of Money

Intermediate-Term Funding Indexes

| Date: | 03/24/06 | 03/23/06 | 03/22/06 | 03/21/06 | 03/20/06 | Weekly |
|----------|----------------------------|----------|----------|----------|----------|---------|
| Maturity | Bond Equivalent Yield% [3] | | | | | Average |
| 1-year | 5.017 | 4.992 | 4.994 | 4.949 | 4.925 | 4.975 |
| 2-year | 5.086 | 5.051 | 5.042 | 5.008 | 4.994 | 5.036 |
| 3-year | 5.063 | 5.021 | 5.037 | 4.990 | 4.972 | 5.017 |
| 4-year | 5.107 | 5.066 | 5.071 | 5.024 | 5.017 | 5.057 |
| 5-year | 5.151 | 5.108 | 5.084 | 5.051 | 5.043 | 5.087 |
| 7-year | 5.179 | 5.145 | 5.151 | 5.108 | 5.100 | 5.137 |
| 10-year | 5.224 | 5.175 | 5.187 | 5.155 | 5.149 | 5.178 |
| 15-year | 5.374 | 5.356 | 5.368 | 5.326 | 5.320 | 5.349 |
| 30-year | 5.394 | 5.375 | 5.395 | 5.343 | 5.352 | 5.372 |



Access to Capital

- Fair weather hog lenders at every turn
- Money for most industries has been cheap and easy
- Liquidity in capital markets will tighten
- Credit standards will rise
- Fewer lenders will be able to finance commodities



Hog Cycle

- Hog price cycle still exists
- Plan on two years of red ink
- Know your burn rate
- Softening asset values
- Vertical integration matters



Burn Rate

“Shock your financial forecasts

- Live Hog Prices
- Corn Costs (ethanol)
- Debt Service (P & I)
- Cap Ex
- Time



Burn Rate

- Cash Operating Expenses \$0.38/lbs
- Debt Service \$0.05/lbs
- Maintenance Cap Ex \$0.02/lbs
- Total Cash Uses \$0.45/lbs

- Cash Receipts \$0.35/lbs

- Burn Rate \$0.10/lbs



Burn Rate

Example: 25,000 Sow Farrow to Finish Operation

- LBS Produced (Annually): 130,000,000 LBS
- Burn Rate: \$0.10/LBS
- Working Capital Reduction: \$13,000,000
- Working Capital Reduction/Sow: \$520/Sow

- Minimum Working Capital: \$5MM or \$200/Sow
- Working Capital Needed: \$18MM or \$720/Sow

Point: If your minimum working capital requirement is \$200/sow (or equivalent), you need \$720/sow working capital (or equivalent) now to survive this Burn Rate.



Lender Commitment

- Know the lenders approval process (waiver fees)
- Shop for money while financials look good
- Refinance debt that matures within 3 years
- Negotiate acquisition financing now
- Lender commitment is more important than pricing



Summary

- Consider locking rates for as long as possible
- Capital will be more difficult to access
- Next 2-3 years will be difficult
- Line up lenders that have long term commitments
- Call for rate and terms