lgmdairy.com

Pioneers
in
Livestock
Gross
Margin
Insurance

LGM
DAIRY.COM

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LGM Dairy
715-637-6455
and
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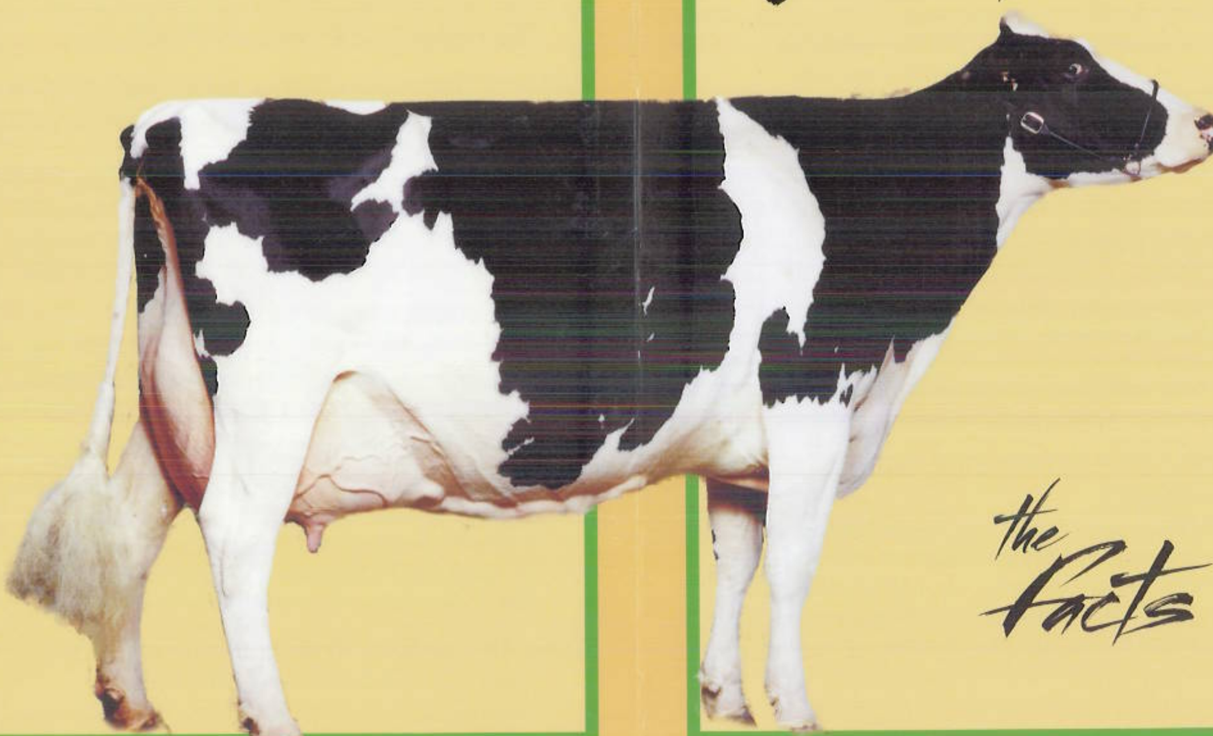
My Milk is Worth What?



the Facts

What is LGM Dairy?

Livestock Gross Margin for Dairy. LGM Dairy is a margin contract that protects a specific future margin from eroding. If milk prices fall or feed costs rise your margin will shrink. LGM Dairy protects shrinking margins.

How much does the LGM Dairy Insurance Cost?

There are a lot of variables that can impact the cost of LGM Dairy Insurance. Insuring multiple months in a contract, deductible level, and quantity of feed are some variables that can increase or decrease the cost of the Insurance. Our studies have shown that over time the Indemnities from LGM Dairy Insurance will exceed the premium paid, regardless of the cost. This statement is accurate provided that the LGM Dairy Insurance is applied in a consistent manner.

What information do I need to provide to get my indemnity?

If you receive an indemnity, you must complete a target marketing's report, and verify the total pounds shipped for the months that you protected. A copy of a milk check stub, or a letter from your creamery stating the pounds shipped is all that is needed to verify the quantity of milk shipped.

Why should I Purchase LGM Dairy Insurance?

LGM Dairy puts a floor in your margin. For example, if milk is worth $16.00 per hundred and the feed costs $7.00 per hundred to produce the milk, your margin over the selected feed quantity is $9.00 per hundred. If milk falls to $15.00 per hundred and the selected feed quantity cost rises to $8.50 per hundred, your margin would be $6.50. In this example had you selected a no risk, zero deductible plan, you would have been paid $2.50 per hundred. If you had selected a $1.00 per hundred deductible plan, you would be paid $1.50 per hundred.

Why do I need to include feed in my LGM Dairy Contract?

LGM Dairy is a margin contract. The value you are insuring is your income over feed cost. You select varying quantities of corn and soybean meal. You must enter a value between 7.28 pounds and 76.1 pounds of corn per hundred weight of milk produced. For soybean meal you must enter a value between 1.62 pounds and 26 pounds per hundred weight of milk produced.

What if I feed ingredients other than corn or soybean meal? How do I know how much feed to sign up?

There are charts available to convert other ingredients (such as distillers), to units of corn or soybean meal. The easiest is to evaluate your potential risk. If you feel you have risk, include more; if you feel you don't have risk, include less.

Will it benefit a small producer?

The cost to protect a hundred pounds of milk is the same for every producer–whether you protect 5,000 pounds of milk each month or a million pounds of milk each month.

I already forward contract my milk when prices look good. Why should I use LGM Dairy?

Forward contracting locks in the price you would receive. By using LGM Dairy you put a floor in your margin allowing you to enjoy higher milk prices should they rise.

I use Put options to protect my milk price. How is LGM Dairy any different?

Tecnically LGM Dairy is a Put option. Put options are expensive; you need to pay for them up front including a commission expense. LGM Dairy was designed with a cost shared provision; the dairy producer only pays 50% to 82% of the total LGM Dairy premium. With Put options you pay up front. With LGM Dairy Insurance you pay at the end of the contract.

I have already marketed my milk using other marketing tools. Can I still use the LGM Dairy Insurance?

Yes. The LGM Dairy Insurance does not limit you from marketing your milk. You are still free to use futures or options on the Chicago Mercantile Exchange, or forward contract with your creamery if you chose to do so.

What if I don't know how much milk I will produce in the future or I have a loss in production?

LGM Dairy only requires that you actually produce 75% of your protected milk. If you protect 100,000 pounds you must provide sales receipts for at least 75,000 pounds. If you produce less than 75% of what you protected you will be paid for what you actually produced at no penalty.

When is the premium due?

The premium is due at the end of the contract period. No up front prmium.

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