Purpose of our presentation

1. Contract Milking and LOSM are valid farm ownership pathways
2. 5 Points to get you started
3. Having a game plan (What are the core financial/planning skills you need to be successful)
4. How do you get started? A real example
5. Common pitfalls you want to avoid

Sharemilking vs. Wage

Benefits
- Be your own Boss
- Higher Income
- Develop business skills and knowledge
- Challenge and Job Satisfaction
- Industry & Family progression

Risks
- Lower Income
- Compliance – Environment Southland / Inland Revenue / Employer
Slide 4

Sharemilking vs. Wage

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average farm size (hectares)</td>
<td>221</td>
<td>198</td>
<td>237</td>
</tr>
<tr>
<td>Cows peak milked</td>
<td>634</td>
<td>583</td>
<td>658</td>
</tr>
<tr>
<td>Income</td>
<td>$407,000</td>
<td>$327,000</td>
<td>$360,000</td>
</tr>
<tr>
<td>Farm working expenses</td>
<td>$190,000</td>
<td>$177,000</td>
<td>$185,000</td>
</tr>
<tr>
<td>Interest</td>
<td>$16,000</td>
<td>$19,000</td>
<td>$15,000</td>
</tr>
<tr>
<td>Net Trading Profit</td>
<td>$201,000</td>
<td>$131,000</td>
<td>$160,000</td>
</tr>
<tr>
<td>Total expenses</td>
<td>$228,000</td>
<td>$196,000</td>
<td>$210,000</td>
</tr>
<tr>
<td>Plant replacement</td>
<td>$50,000</td>
<td>$12,000</td>
<td>$36,000</td>
</tr>
<tr>
<td>Available for Debt repayment/capital growth/tax</td>
<td>$69,000</td>
<td>$50,000</td>
<td>$53,000</td>
</tr>
</tbody>
</table>

Slide 5

Before you Sign

THE BIG 5
1. The Farm
2. The Owners
3. Farm Equipment
4. Cashflow
5. Compliance

Slide 6

What's your Game Plan?

• What is the purpose of what you are doing – Where are you now – Where do you want to be?
• What is your equity? How do you calculate this? How do you grow it and how do you destroy it? Be honest with your assessment.
• Building equity is a choice. If you choose to save (or invest in the right areas) you are getting ahead of those that aren’t.
  Key things to consider:
  Non-depreciating assets: for example – calves, retail property, shares
  Depreciating assets: for example – new car, TV, pod, lounge suite
  Hire Purchase Debt – ensuring there is control at the start of your career
• Write down your business plan – even if on A4 bit of paper. If you don’t write it down it never happened!
How do you get started – an example

Basic Plant & Equipment required
- Motorbikes for staff & yourself
- Farm Ute
- Calf Trailer
- Temporary fencing equipment
- Calf moving equipment
- Small tools – (Chainsaw etc)
- Shed Chemicals
- Computer
- Wet weather gear for staff
- Other....

How do you get started - get input from your team:

Accountant
- What is tax deductible?
- Registering for GST
- Drafting a cashflow or reviewing what you have done (do it yourself)
- What structure / business entity is best?
- ACC
- Employment agreements

Bank
- Finance / Cashflow requirements – Pre Approval etc
- Insurance needs
- Building a track record
- Securities

How do you get started - Excel picture 1

$90k required
Refer to example.
Slide 10

How do you get started - Excel picture 2
$30k required
Refer to Example

Slide 11

How do you get started - Negotiating this outcome with owner
Points to negotiate on: Must be "Win-Win"

Prepayment of cashflow
In exchange for:
- Work on the runoff during the season
- Pay for a tractor service
- Capital improvement on the property – provide labour etc

Go the "Extra Mile" – prove yourself!

There is usually something you can agree on to make things work.

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Common Pitfalls
- Changing the plan without communicating it to your team
- Personal and HP debt – Don’t buy if it isn’t a cash purchase
- The IRD:
  - PAYE
  - GST
  - Income Tax
- Poor Record Keeping – your Accountant can help
- Reviewing actuals vs. budget – are you on track with the plan?
  (E.g. can you repay the $60k you pre loaded?)
- Signing contract before having finance and fully understanding $$ required
Conclusion

• Contract Milking and LOSM are legitimate progression pathways.
• Do your homework – it saves headaches and heartaches.
• Get a game plan – Where are you now – Where do you want to be.
• If you are knowledgeable and prepared Farm owners & Professionals will be willing to help you.
• Relationships & Networks can get you around financial roadblocks.

Communication/Monitoring/Record keeping are vital.