

Instructions for Cow/Heifer Investment Decision Spreadsheet

A Farm Planning/Decision Tool for Louisiana Cow/Calf Producers



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The Excel template **Discounted Cash Flow Heifer-Cow Investment V9** will accept information in the blue shaded cells only. All other cells are protected.

The income estimate is based upon estimated sales weight, sales price, percentage sales expense and a weaning percentage over the expected time the animal will be in the herd. If the cow or heifer purchased is the same type and quality as animals in the current herd, use your own production information with respect to sale weight and grade. If the animal is expected to produce heavier and/or higher grade calves, adjust the sale weight to reflect your expectations.

The sale price will be the hardest item to project. Calf prices tend to change over time due to changes in fundamental supply and demand conditions. Because of the uncertainty of the demand fundamentals, prices will be difficult to project. The table below presents the current USDA Baseline National Farm Calf projection for prices to 2018. This projection represents steers and heifers of all grades and types.

USDA Beef Baseline National Farm Calf Prices, \$/Cwt

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Price	122.43	119.72	129.87	137.91	141.81	145.93	144.32	142.62	140.64	139.70

The current marketing fees for auction sales are about 5 to 6 percent. Video, private treaty and other sales methods will have different sales fee.

Use your own weaning percentage for your current cow herd. This will reflect your environment and management.

The Cash Cow Expenses per Year is the cash cost of keeping a cow per year. Cash cow expenses per year represent all feed, forage, veterinary, labor, repairs, fuel, utilities and other expenses that will be incurred for each cow. Use the cash costs from your records as this will reflect your environment and management methods. This can range from \$400 to \$550 per year depending upon your situation. LSU AgCenter Enterprise budgets

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are a good reference to determine all the cash costs associated with beef production. The cost of doing business usually rises from year to year. This can range from zero to 5%. Recent rises in the cost of business have been very volatile, but a 4 to 6 percent increase annually is suggested by long run direct (cash) cost increases as reported by LSU AgCenter Enterprise budgets.

The salvage value of the cull is the amount you would expect to receive when the cow or heifer is sold at the end of her useful life. This will depend upon age, weight, condition, health and season of year. A figure of \$350 to \$550 per head may be reasonable. A too high cull cow value will over estimate the amount that can be paid for a heifer or cow.

The discount rate is used to convert future incomes to the present. Discount rates reflect the time value of money as well how risky the potential investment is perceived. The discount rate chosen should reflect the rate of return from the next best investment alternative. Agricultural rate of returns typically vary from 1.5 to 5.5 percent. Risk in this situation involves the expectation that the estimates of prices, weights, weaning percentages, costs and cow loss will be met.

If the discount rate is set at zero or left blank, the value in the Discounted Calf Flow will be the sum of the Cumulative Net Cash from Operations and the Salvage Value of the Cull animal.

The Discounted Cash Flow (DCF) is the value in today's dollars of the Cumulative Net Cash from Operations plus the Salvage Value of the Cull.

The DCF is the maximum amount that can be paid for a cow or heifer and earn the discount rate. An amount paid less than the DCF will result in higher profits while paying more than the DCF will reduce profits.

**Cow/Heifer Investment Decision
Discounted Cash Flow**

	1	2	3	4	5	6	7	8
Calf Weight	500	525	550	550	550	550	550	525
Price	1.2243	1.11972	1.2987	1.3791	1.4181	1.4593	1.4432	1.4262
Marketing Fees %	5%	5%	5%	5%	5%	5%	5%	5%
Weaning Percentage	87%	87%	87%	87%	87%	87%	87%	87%
Net Income	\$ 505.94	\$ 485.86	\$ 590.36	\$ 626.90	\$ 644.63	\$ 663.36	\$ 656.04	\$ 618.85
Cash Cow Expense/Year	\$ 481.28	\$ 505.34	\$ 530.61	\$ 557.14	\$ 585.00	\$ 614.25	\$ 644.96	\$ 677.21
Expense Increase/Yr.	5.00%							
Net Cash from Operations	\$ 24.66	\$ (19.48)	\$ 59.75	\$ 69.76	\$ 59.63	\$ 49.11	\$ 11.08	\$ (58.36)
Cummulative Net Cash from Ops.	\$ 24.66	\$ 5.18	\$ 64.92	\$ 134.69	\$ 194.32	\$ 243.43	\$ 254.51	\$ 196.15
Salvage Value of Cull								\$ 450.00
Discount Rate	6.25%							
Disc. Cash Flow								\$437.06