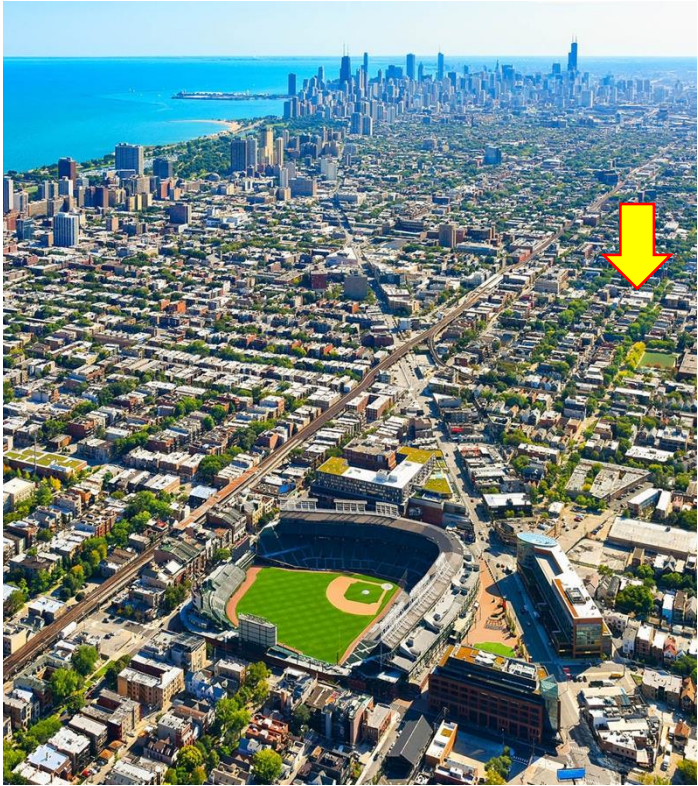




STATE OF THE US DAIRY INDUSTRY



Curtis Bosma



About HighGround Dairy



Insights



Insurance



Brokerage



Advisory

CLIENTS ACROSS THE GLOBAL DAIRY SUPPLY CHAIN



Today's Big Questions

What business are we in?



Where are these markets going?



How do we monitor margins?

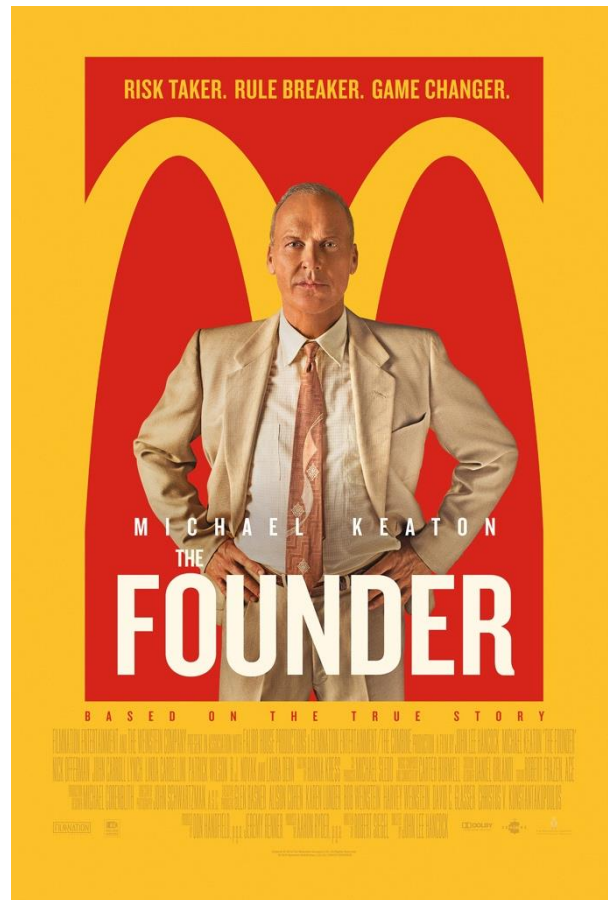


What should we do going forward?



“You’re not in the burger business”

The Founder (2016)

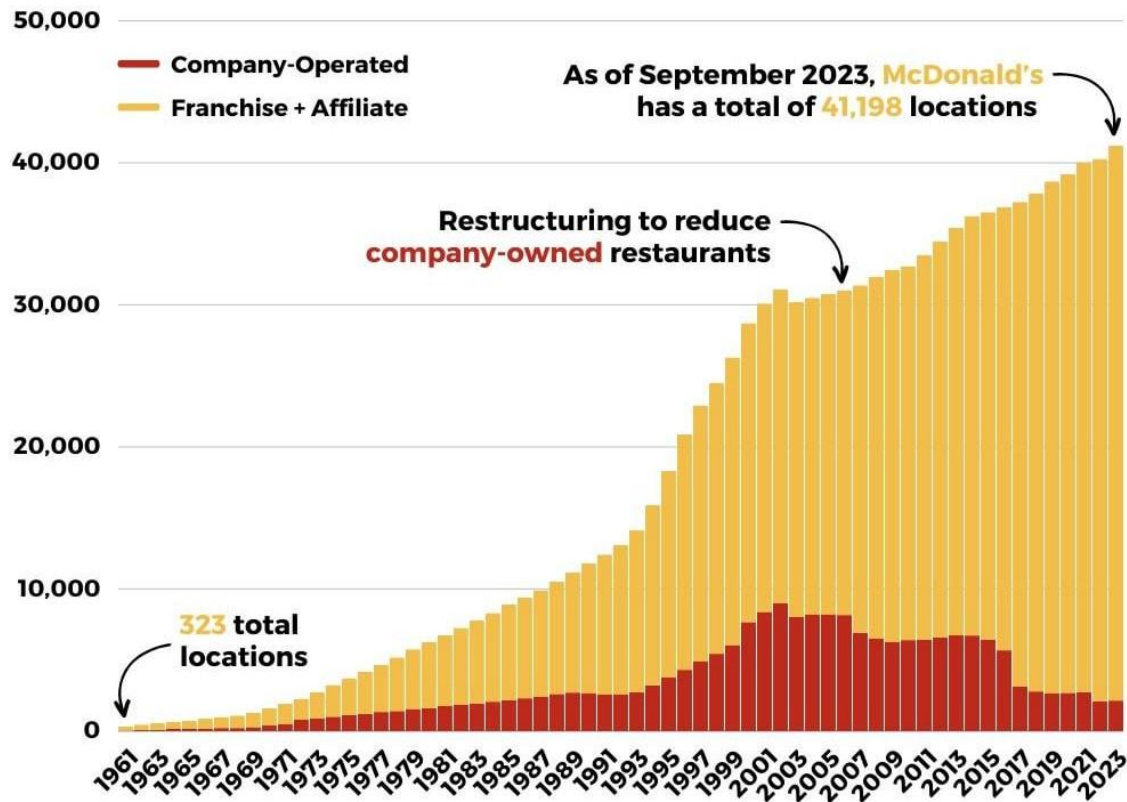


- Most people think McDonald's became dominant by selling more burgers
- The breakthrough wasn't food quality or kitchen efficiency
- It was a shift in how the business was **structured**, not how it was **operated**
- McDonald's realized the product creates traffic, but the economics sit underneath the product
- That insight transformed a restaurant chain into a durable, scalable business



“You’re not in the burger business”

McDonald's REAL ESTATE EMPIRE



Source: McDonald's 10-Ks

More investing charts: www.carbonfinance.io

- McDonald's growth accelerated when they shifted away from owning restaurants and toward owning the underlying real estate
- Franchisees run the day-to-day operations, but **McDonald's controls the asset that appreciates** over time
- Rent is often tied to restaurant sales, which means McDonald's captures upside without taking operational risk
- They moved from being an operator to being a platform



What We've Been Taught To Optimize

- Milk Production (lbs/cow/day)
- Milk Solids (Butterfat + Protein)
- Feed Intake (DM lbs/cow/day)
- Feed Efficiency
- Preg Rate

**These are all critical operational metrics,
but none of them actual measure **profitability.****



What business are we in?



Dairies are not in the **EFFICIENCY** business.

Dairies are in the **MARGIN** business.



Problem #1

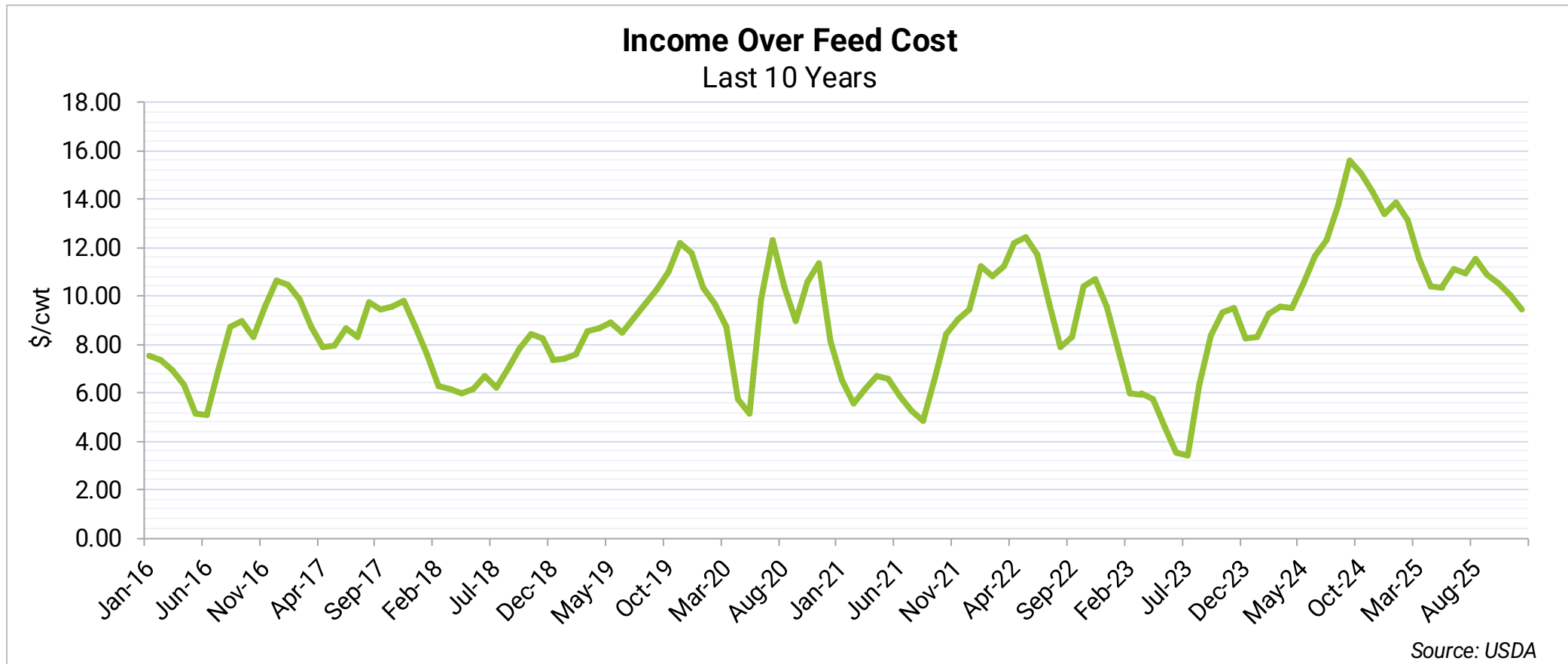
The conversion process **IS NOT SIMPLE.**



Problem #2

Even if we do everything perfectly...

MARKETS CAN FORCE A NEGATIVE FINANCIAL OUTCOME



Elite Operator Mindset

1. Make better decisions faster

70% certainty is enough — move fast, correct often

2. Think in margins, not metrics

Filter every decision: what does this do to my margin?

3. Spend time at the right level

Employees **operate**

Managers review **tactics**

Owners **strategize**



Levels of Decisions

Operational

- *Daily milking schedules, feed ration mixing, monitoring bulk tank temperatures and milk quality*
- Activities guided by **established protocols**

Tactical

- *Adjusting rations to improve herd performance, allocating labor between outside / parlor tasks*
- Involves **a few variables** and are aimed at achieving **specific outcomes**

Strategic

- *Building a new freestall barn, investing in a robotic milking system, bringing the next generation into the operation (succession planning), risk management strategy for milk price volatility*
- Involves **multiple variables** and **uncertain outcomes**



Levels of Decisions

	<u>TERM</u>	<u>IMPACT</u>
Operational	SHORT	LOW
Tactical	MEDIUM	MEDIUM
Strategic	LONG	HIGH



Own your financial position

Who is looking at my financial statements? What are they looking for?

1. **Banker**

Can you repay the loan? They're evaluating risk, collateral, and cash flow coverage

2. **Accountant**

How do we reduce your tax bill? They're focused on depreciation, deductions, and entity structure

3. **Business Owner**

Is this operation actually profitable? Am I earning a return on my labor, my land, and my capital?



What is the goal?

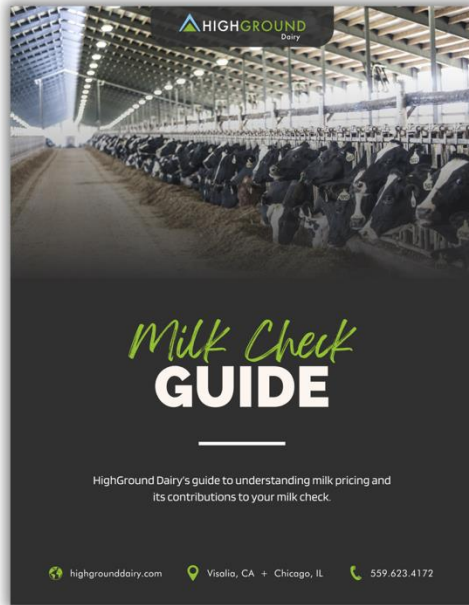
GAIN **CLARITY + CONTROL** OF YOUR LEGACY

1. Think like an Elite Operator
2. Have **CLARITY** on your financial position
3. Take **CONTROL** – don't let markets determine your legacy



Breaking Down Your Milk Check

Figure 3: Milk Check Example



SCAN ME

BASE PRICING ←

Published California FMMO Prices ←

ADJUSTMENTS ←

BASE PRICE + PREMIUMS ←

Cooperative X

Producer: Dairy A
Tulare, CA
Period: 12/01/2023 - 12/31/2023
Payment Date: 1/15/2024

PRODUCTION SUMMARY

Total Lbs: 1,000,000 BF: 40,000 PRO: 32,000 OS: 57,000
4.00% 3.20% 5.70%

PRICING

	Basis	Rate	Pounds	Total
Butterfat	per lb	2.9778	40,000	\$119,112.00
Protein	per lb	1.4499	32,000	\$46,396.80
Other Solids	per lb	0.2242	57,000	\$12,779.40
PPD at Location	per cwt	1.0100	1,000,000	\$10,100.00
Base Price	per cwt	18.8388		\$188,388.20

PREMIUMS

	Basis	Rate	Pounds	Total
Quality Premium	per cwt	0.0500	1,000,000	\$500.00
Total Premiums	per cwt	0.0500		\$500.00

DEDUCTIONS

	Basis	Rate	Pounds	Total
Hauling Charge	per cwt	0.5000	1,000,000	\$5,000.00
Fuel Surcharge	per cwt	0.0500	1,000,000	\$500.00
Stop Charge	per cwt	0.0400	1,000,000	\$400.00
National Promotion	per cwt	0.0500	1,000,000	\$500.00
State Promotion	per cwt	0.1000	1,000,000	\$1,000.00
Testing Fee	per cwt	0.0400	1,000,000	\$400.00
Capital Retain	per cwt	0.1200	1,000,000	\$1,200.00
Total Deductions	per cwt	0.9000		\$9,000.00

NET PAY

	Basis	Rate	Total
Gross Pay	per cwt	18.89	\$188,888.20
Less Deductions	per cwt	0.90	\$9,000.00
Net Pay	per cwt	17.99	\$179,888.20

MAILBOX PRICE



Policy Roundup

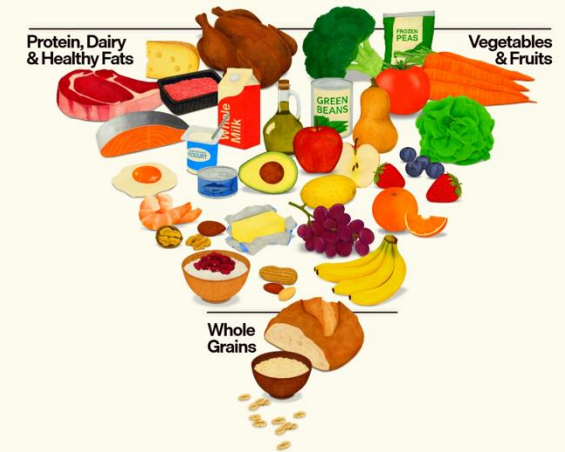
Bad News

- Retaliatory tariff threats (Canada & China)
- Immigration enforcement / labor uncertainty
- Updated FMMO make allowances hitting milk checks

Good News

- New Dietary Guidelines (full-fat dairy, inverted food pyramid)
- Whole Milk for Healthy Kids Act
- Section 32 purchases (\$148M in dairy, largest since COVID)
- DMC reauthorized & expanded through 2031

The New Pyramid



[Home](#)

[Food](#) ▾

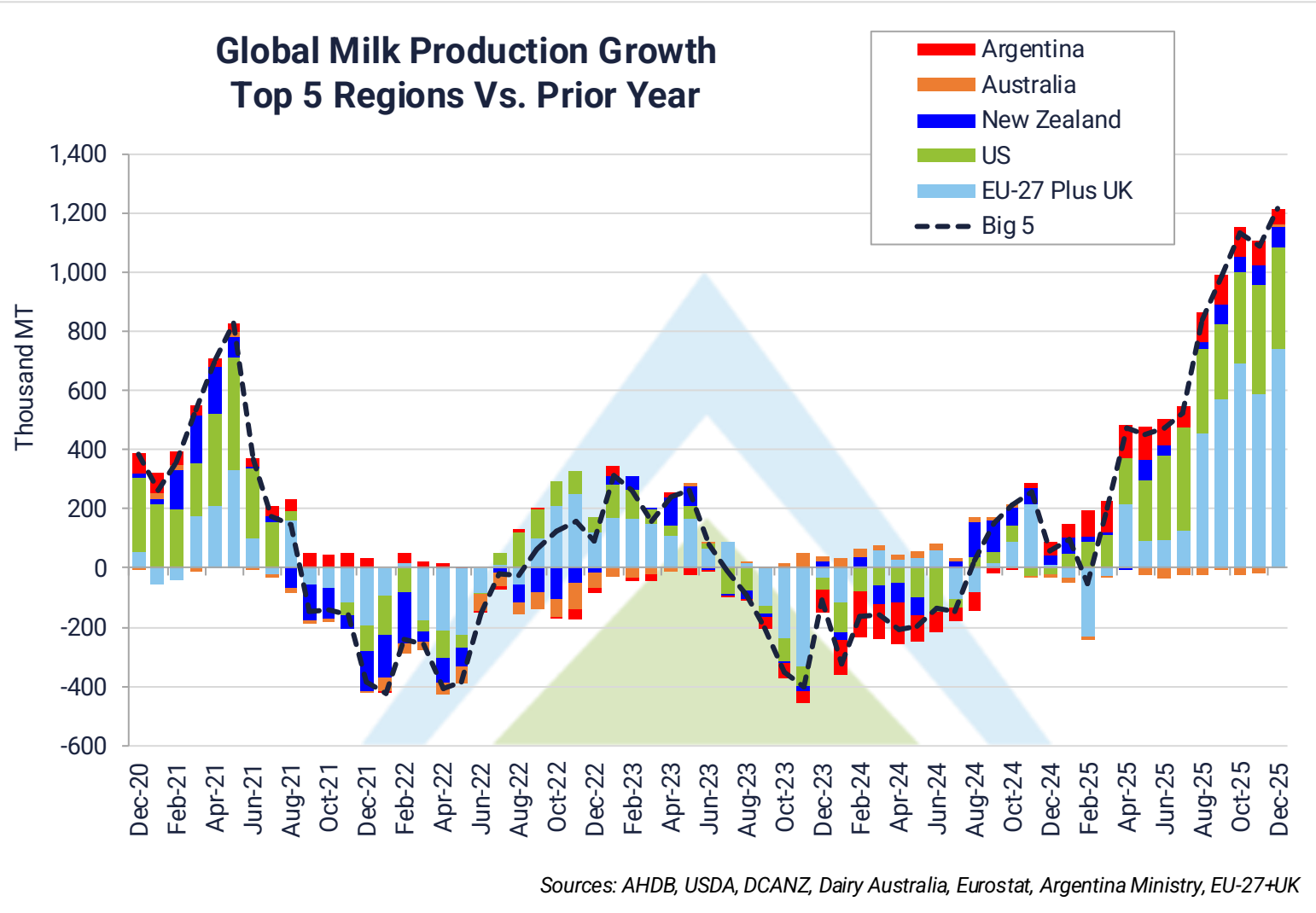
[Farming and Ranching](#) ▾

[Forestry](#) ▾

**Secretary Rollins Announces
\$263 Million Food Purchase
to Support U.S. Producers
and Strengthen America's
Food Supply**



Global Milk Production



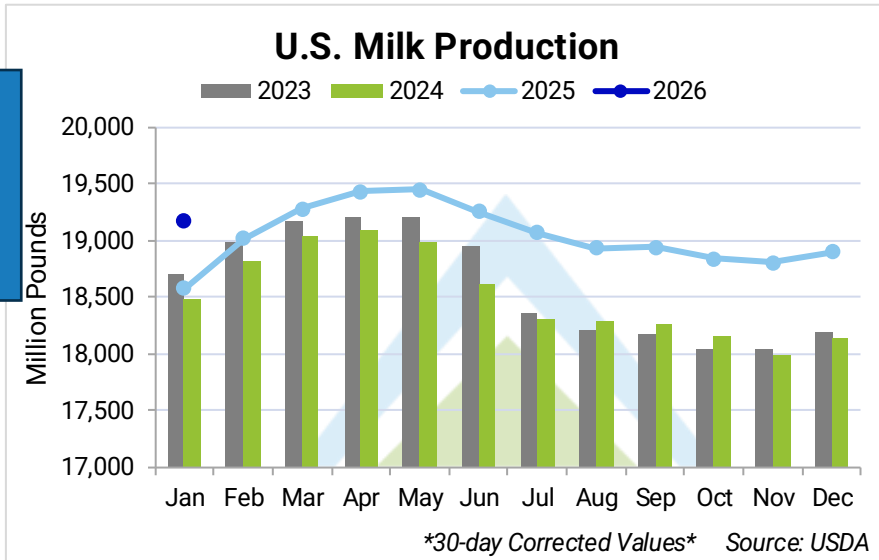
Year-Over-Year Percent Change in Production: Dec-25

Country	Percent Change
EU-27 Plus UK	6.1%
United States	4.2%
New Zealand	2.5%
Australia	1.8%
Argentina	5.2%
<i>Big 5</i>	4.9%

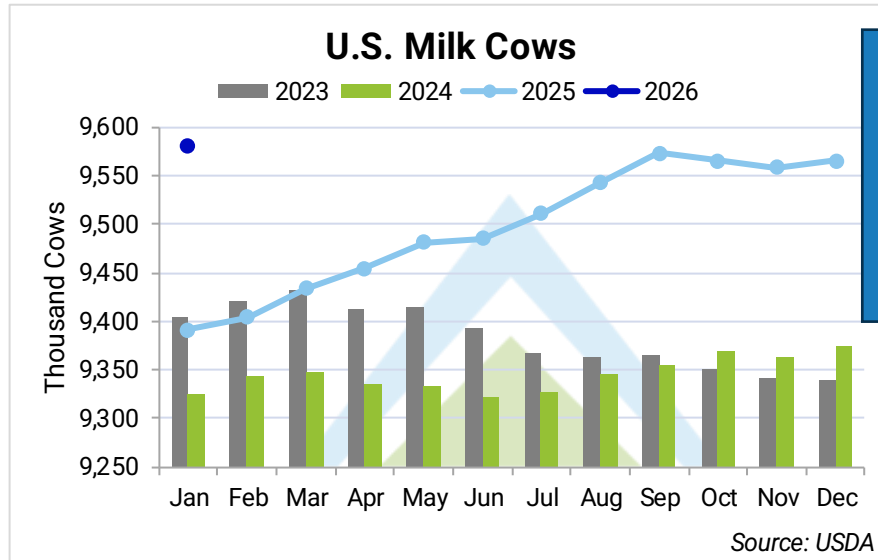
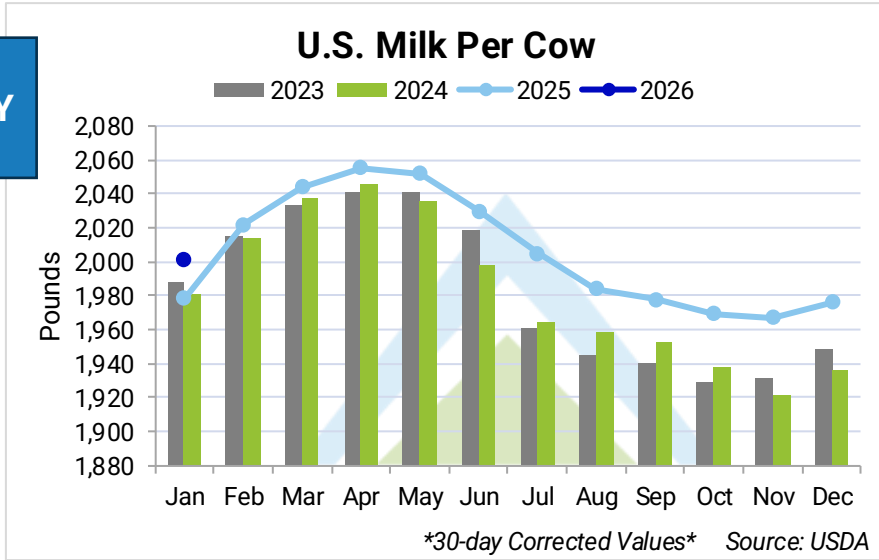


Milk Production

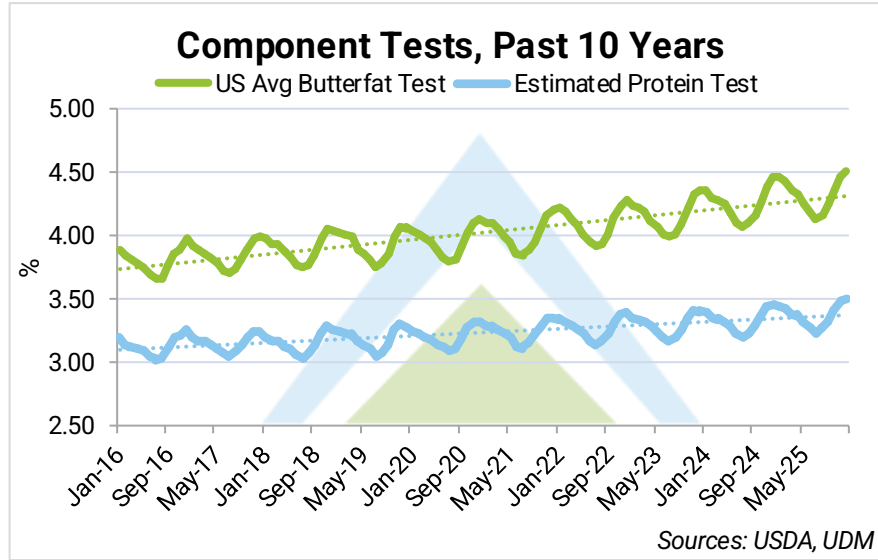
Jan: +3.2% YoY
3%+ YoY for the 8th straight month



Jan: +1.2% YoY



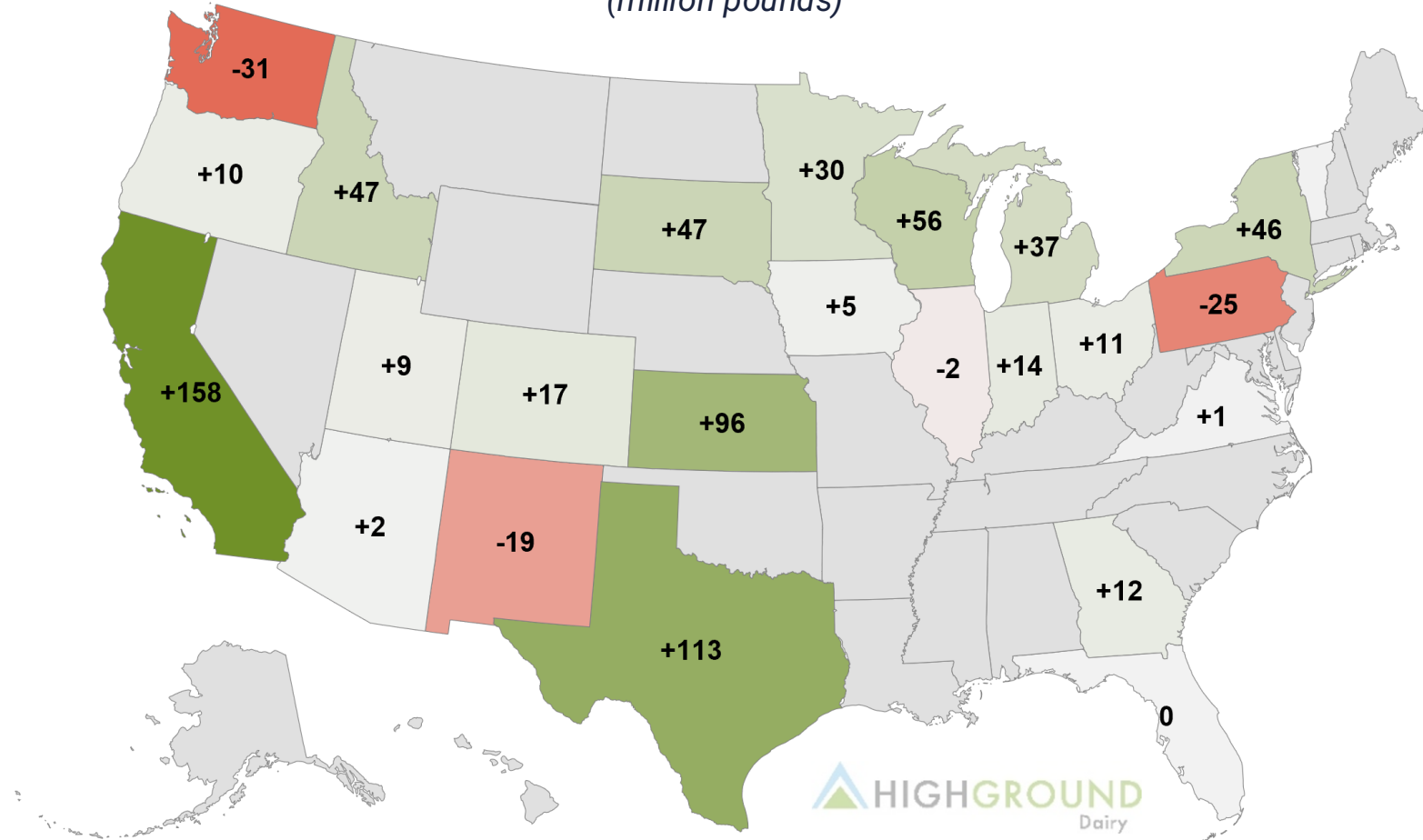
Jan:
+189k head YoY
+14k head M-M
Largest herd since 1993



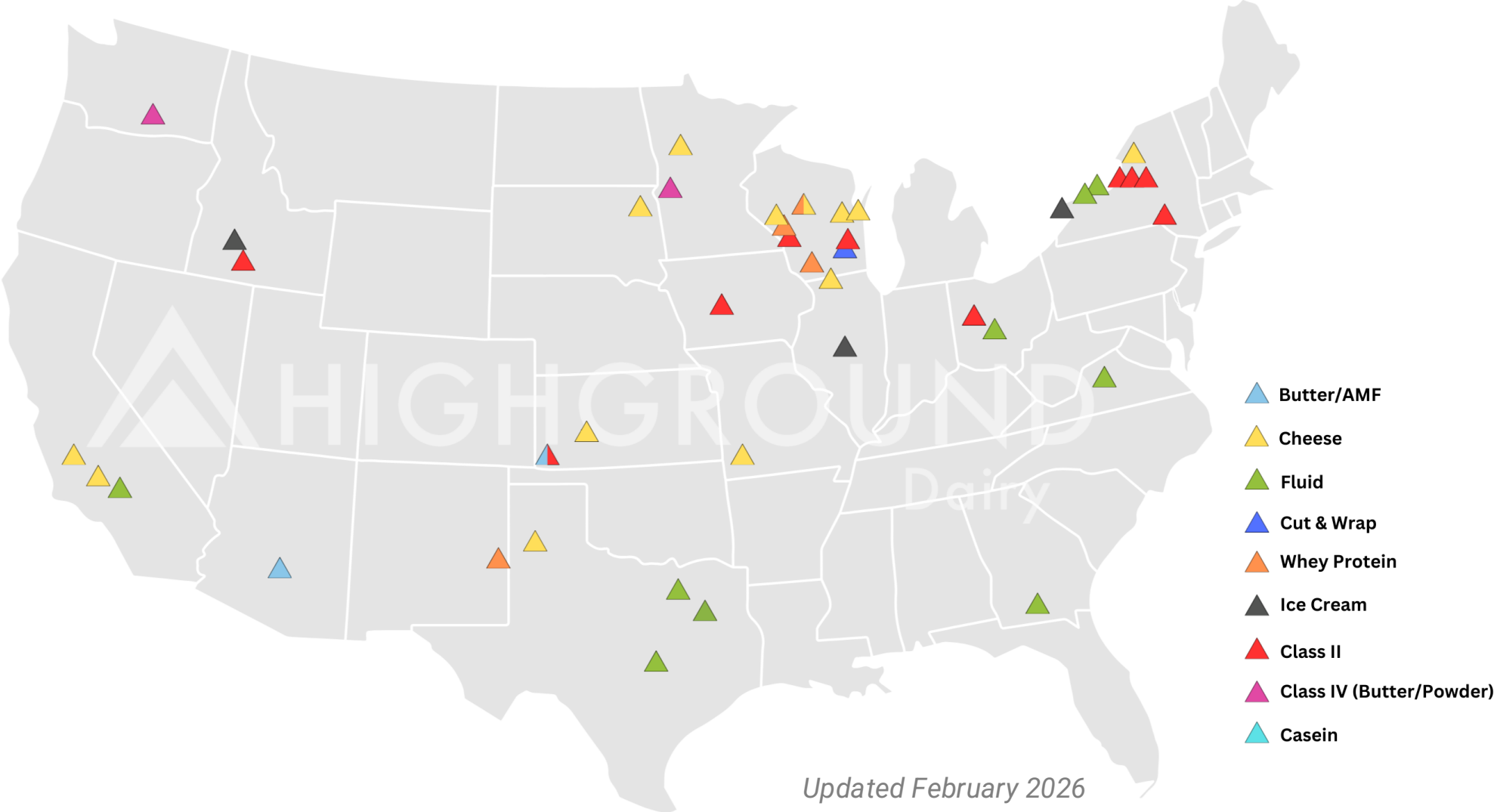
Milk Production

Year-Over-Year Change in Milk Production, January 2026

(million pounds)



Processing Capacity



Cheese

	2025	YOY
Supply		
Production	14,668	+3.2%
Imports	317	-9.3%
Total Supply	16,339	+2.8%
Utilization		
Domestic	13,602	+0.6%
Exports	1,351	+20.5%
Total Utilization	14,954	+2.1%

(million lbs)

Record Cheese Production

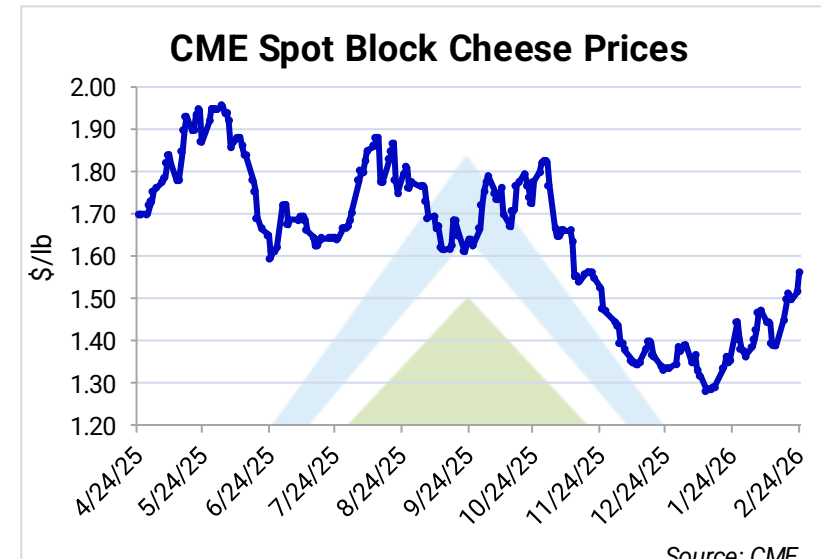
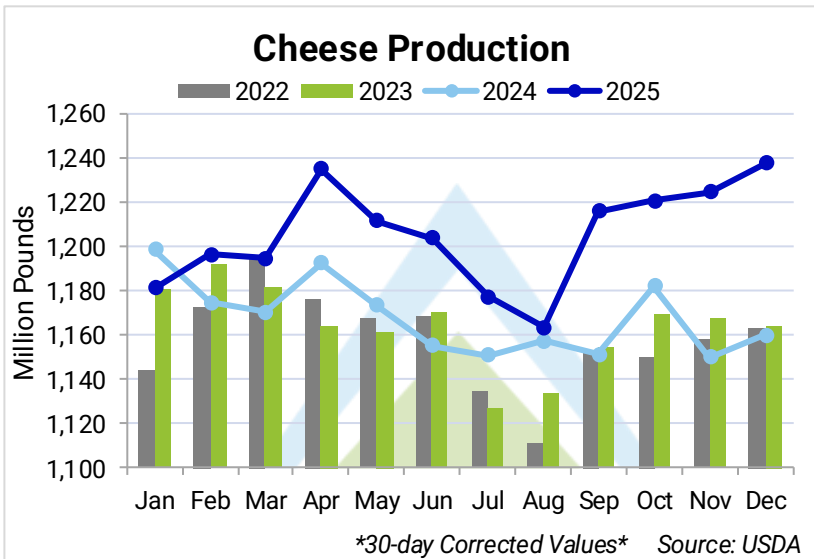
December output hit 1.238B lbs, up +6.7% YoY.

Exports are carrying a heavy load

Despite record output, December stocks (1.372B lbs) **product is moving**. Export sales exceeded 110M lbs in 7 of the months in 2025

Limited upside in 2026

Without a meaningful shift in fundamentals, HighGround sees prices struggling to push past \$1.60/lb in H1 2026 and \$1.80/lb for the full year.



Dry Whey

	2025	YOY
Supply		
Production	826	-2.4%
Imports	3	+106.8%
Total Supply	884	-2.3%
Utilization		
Domestic	392	-14.8%
Exports	439	+9.7%
Total Utilization	832	-3.4%

(million lbs)

"The Year of Protein" is real and accelerating

WPI and WPC-80 are both at record highs with domestic demand showing no signs of softening. The GLP-1 tailwind is structural: prices are falling, a pill form launched in 2026, and users are actively seeking high-protein foods.

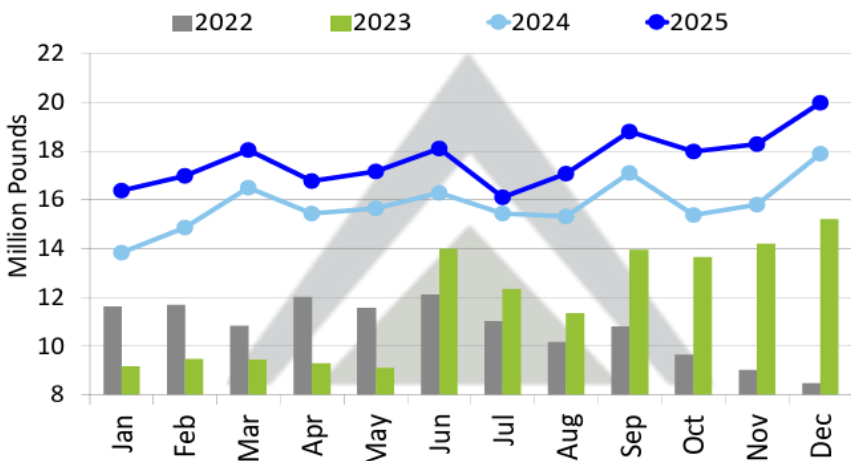
Exports held up despite tariff headwinds

China was expected to pull back due to 2025 tariffs, but dry whey exports to China were actually up 24% through November. Japan, India, and the Netherlands picked up additional slack.

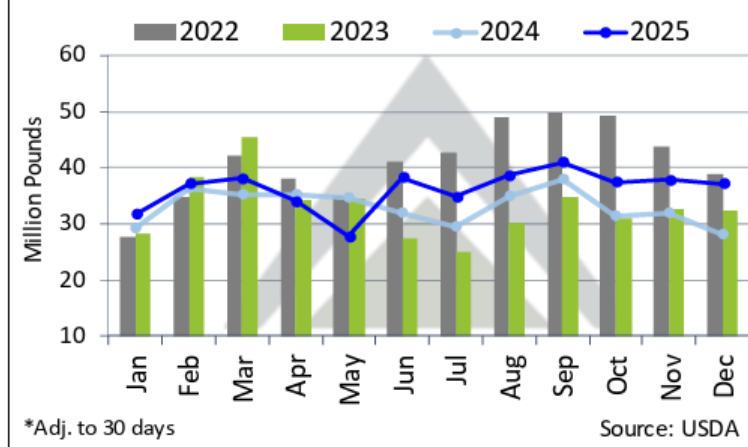
Borrowed strength has a ceiling

As WPC/WPI prices climb, lower-income importing nations may pull back on demand shifting production back to Dry Whey. HighGround sees \$0.60–\$0.70/lb for most of 2026.

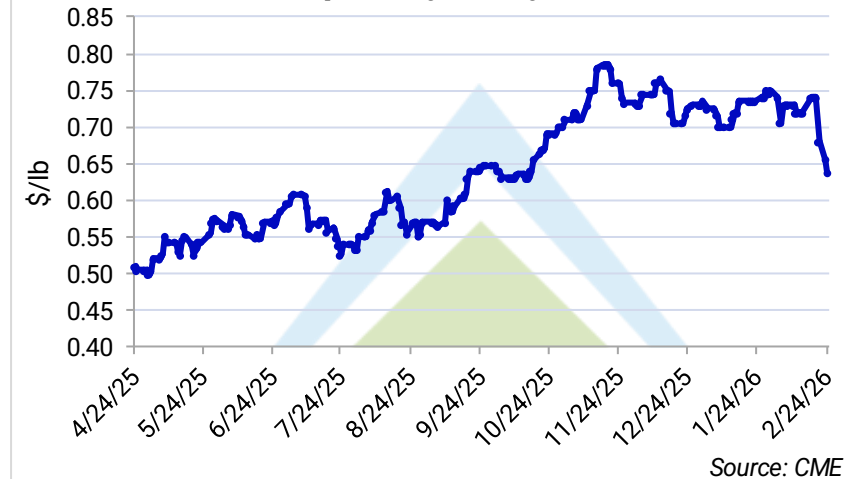
Whey Protein Isolates (90%+) Production



US Dry Whey Exports



CME Spot Dry Whey Prices



Butter

	2025	YOY
Supply		
Production	2,362	+6.0%
Imports	98	-43.5%
Total Supply	16,339	+2.1%
Utilization		
Domestic	2,303	-0.7%
Exports	184	+163.0%
Total Utilization	2,487	+4.1%

(million lbs)

The market overcorrected to the downside

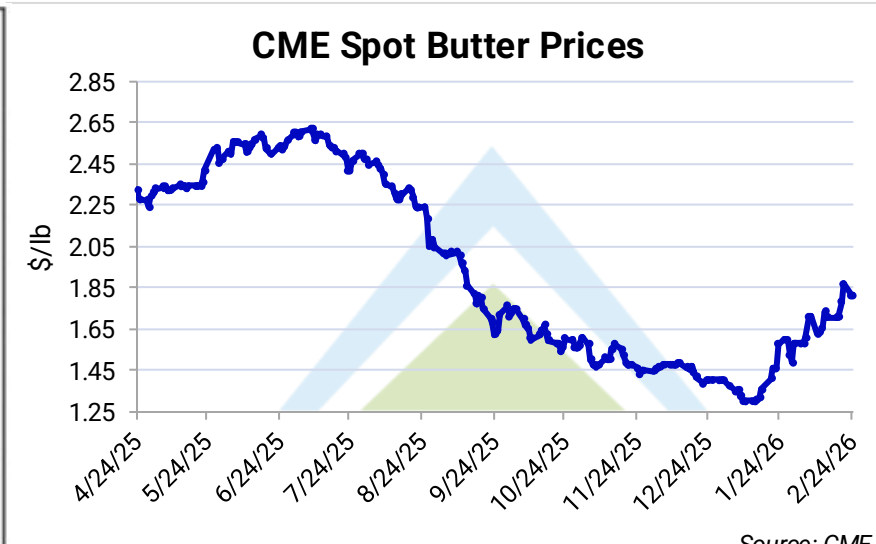
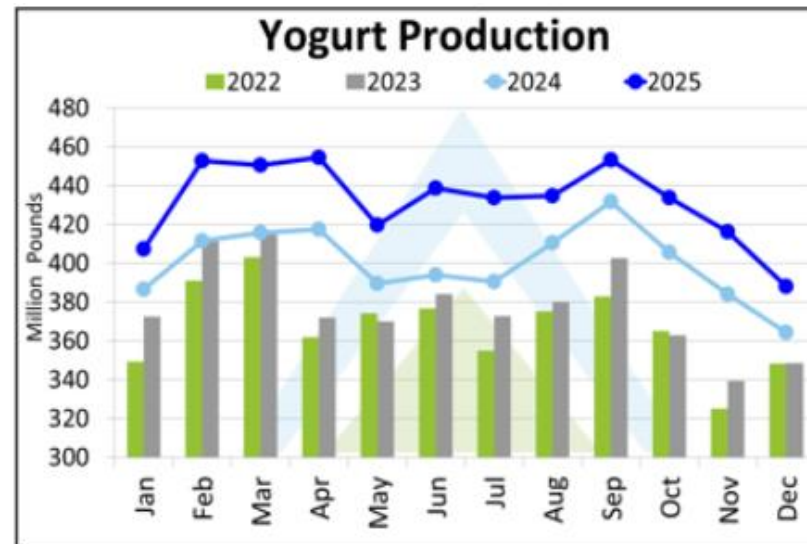
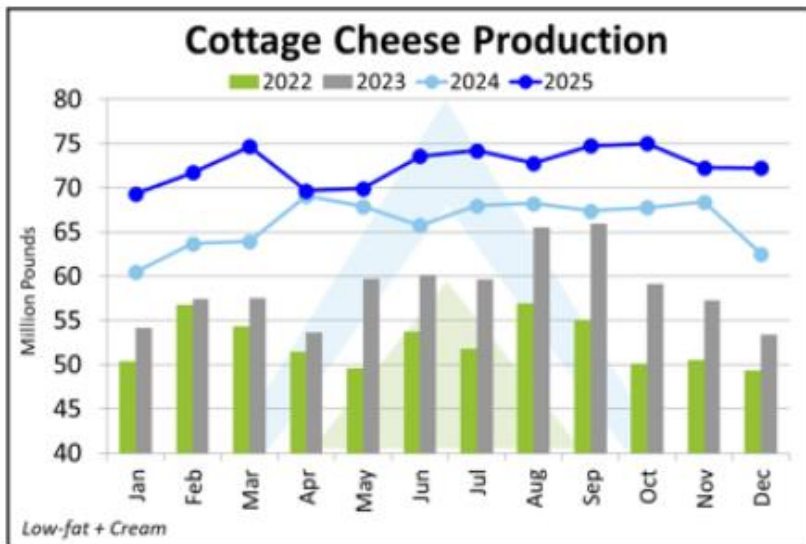
Butter hit \$1.30/lb on Jan 9, its lowest since Feb 2021. Since then it's rallied \$0.56/lb (+43%) to \$1.86/lb – the highest since September 2025.

Supply tightened because milkfat went elsewhere

Milkfat diverted into cheese vats and Class II products (cottage cheese, yogurt). Butter wasn't the best home for the fat.

Spring flush is coming, and there's plenty of supply to make butter

Milk production is healthy, components are elevated, and with cheese vats running hard, any slowdown there could redirect fat back into butter quickly.



Nonfat Dry Milk

	2025	YOY
Supply		
Production	2,150	-5.2%
Imports	5	+419.6%
Total Supply	2,360	-4.4%
Utilization		
Domestic	663	+5.0%
Exports	1,488	-9.0%
Total Utilization	2,151	-5.1%

(million lbs)



News Sport Business Technology Health Culture Arts Travel Earth Audio Video Live Docur

Nestle issues global recall of some baby formula products over toxin fears

6 January 2026

Share Save

Archie Mitchell
Business reporter



A perfect storm, not a structural shift

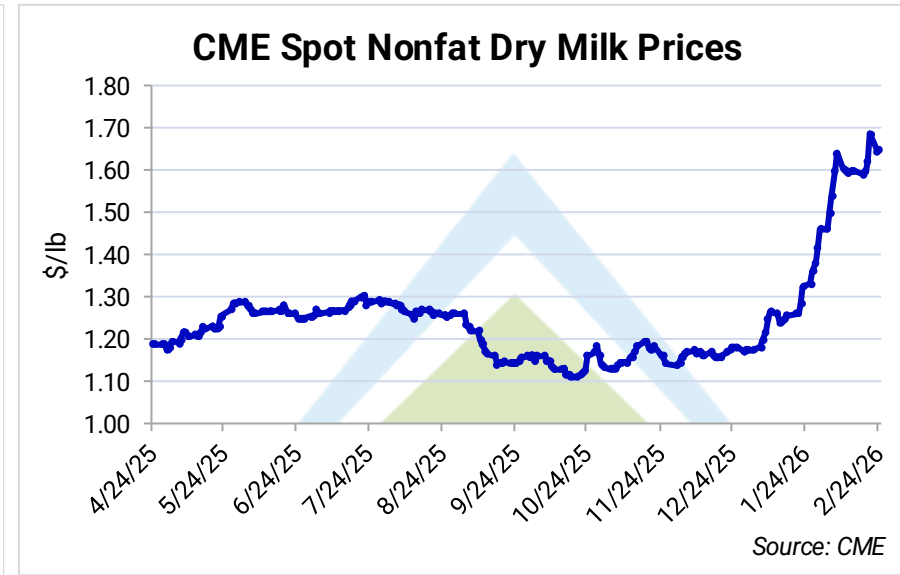
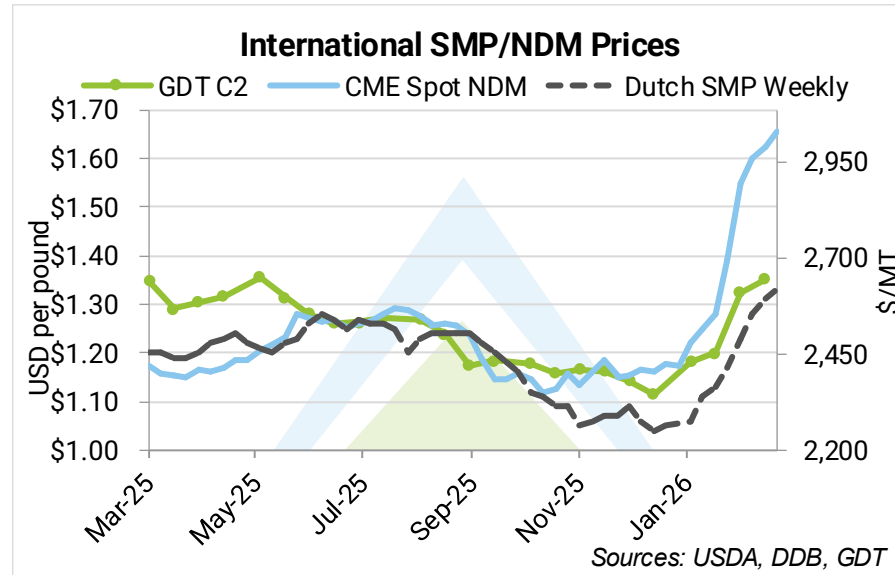
Central US NFDN output was the smallest since 2018 (Dec output -12.5% YoY), with skim solids being pulled away from dryers by surging Class II demand (yogurt +8%, cottage cheese +11% vs. 2024). Financial short sellers at the CME were forced to cover, adding rocket fuel to an already thin market.

Global events poured gas on the fire

Geopolitical tension, widespread infant formula recalls, and low SMP stocks in China all triggered urgent international buying at the same time.

This is a squeeze, not a new reality

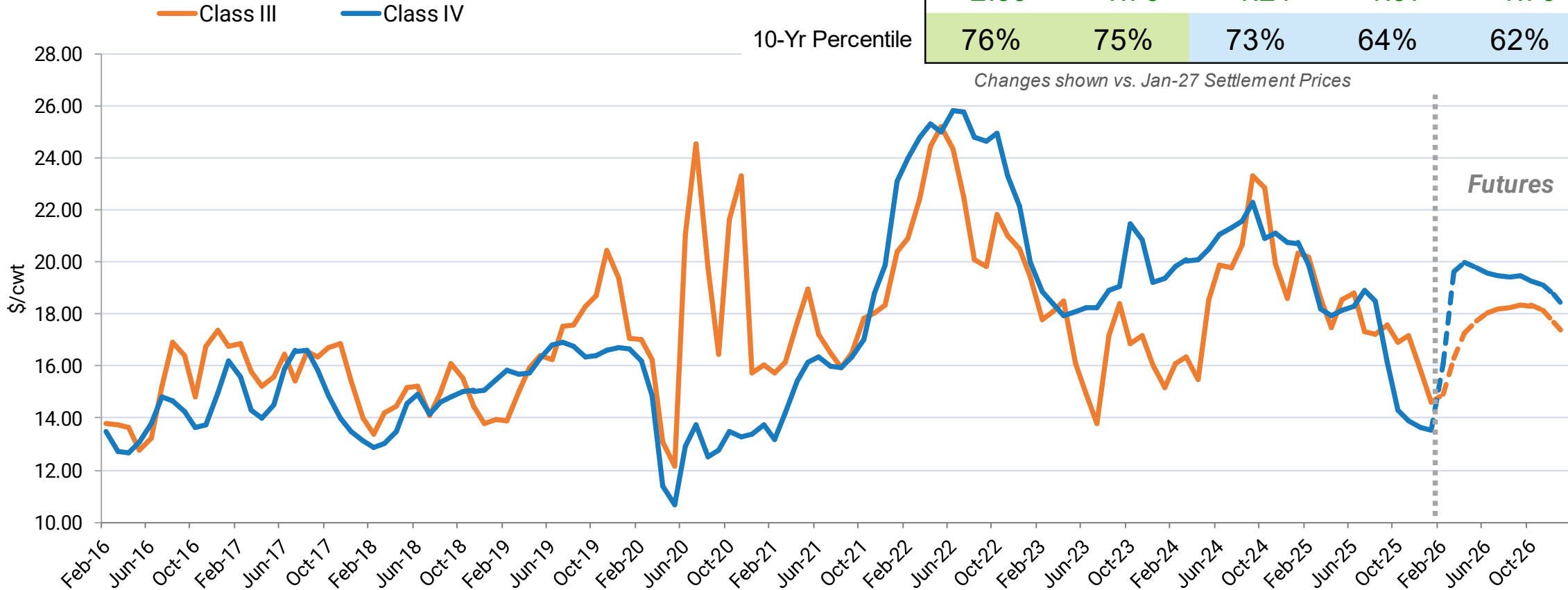
Global milk production is robust. There's no long-term scarcity. HighGround expects CME spot to cool back below \$1.30/lb by April. Buyer anxiety is driving the price, not a genuine supply hole.



Class III and IV

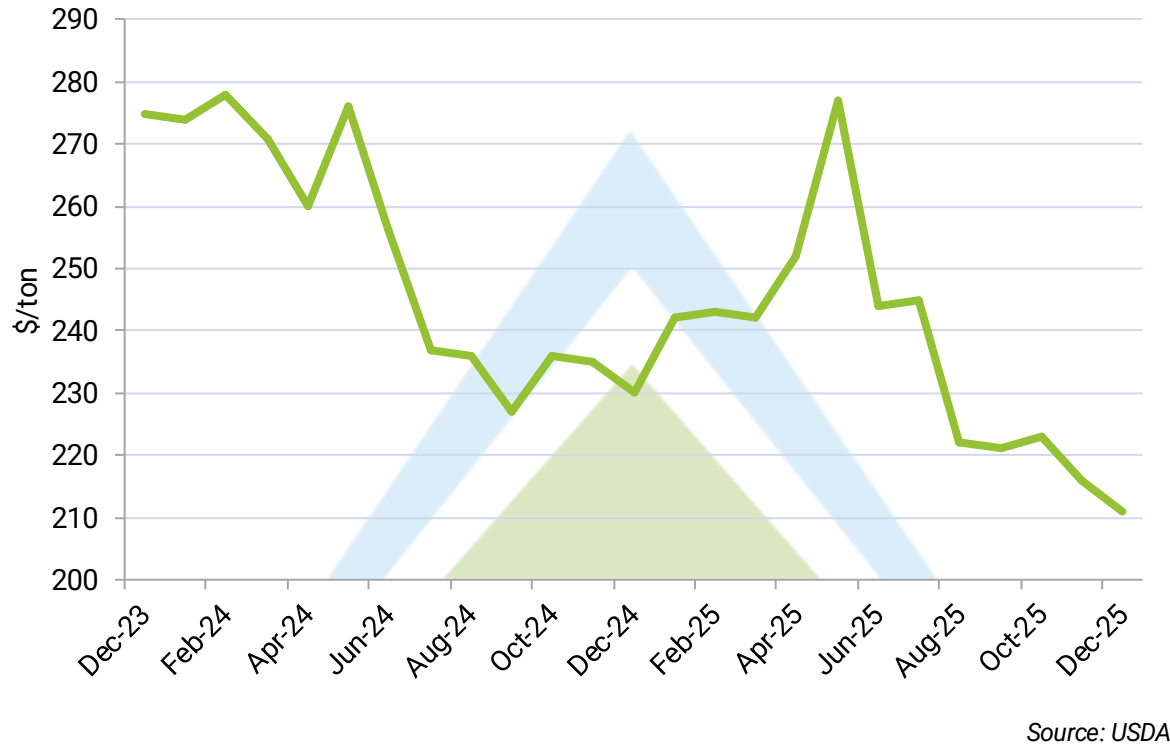
	Q2 2026	Q3 2026	Q4 2026	Q1 2027	Q2 2027
Class III (\$/cwt)	17.68	18.27	18.06	17.23	17.32
Vs. Last Month	+0.78	+0.64	+0.45	+0.25	+0.21
10-Yr Percentile	63%	67%	66%	57%	58%
Class IV (\$/cwt)	19.79	19.45	19.05	18.12	17.85
Vs. Last Month	+2.69	+1.76	+1.21	+1.97	+1.70
10-Yr Percentile	76%	75%	73%	64%	62%

Changes shown vs. Jan-27 Settlement Prices



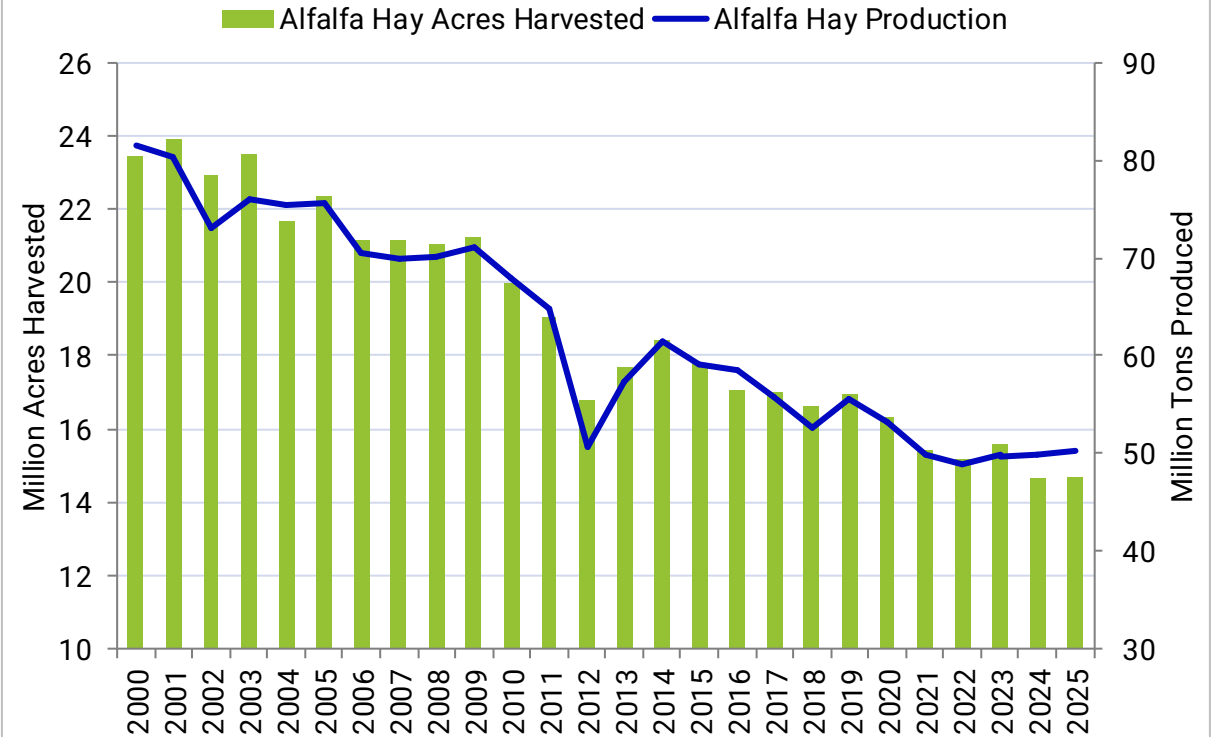
Are we still feeding hay?

5-State Premium and Supreme Alfalfa Hay



Source: USDA

Alfalfa Hay Acres Harvested and Production

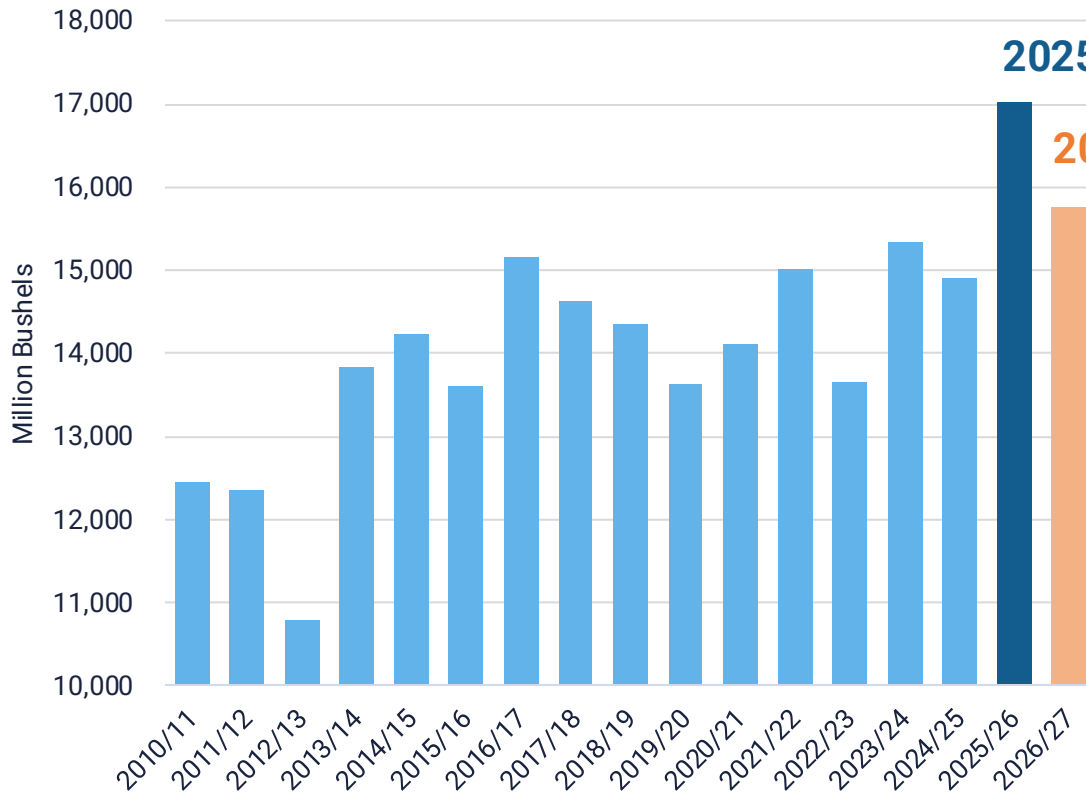


Source: USDA



Corn

US Corn Production



2025: 17.021 billion bushels

2026: 15.755 billion bushels

(USDA Ag Outlook Forum – Feb 2026)



This product was prepared by the
USDA Office of the Chief Economist (OCE)
World Agricultural Outlook Board (WAOB)

Source: USDA

2025 Corn Crop

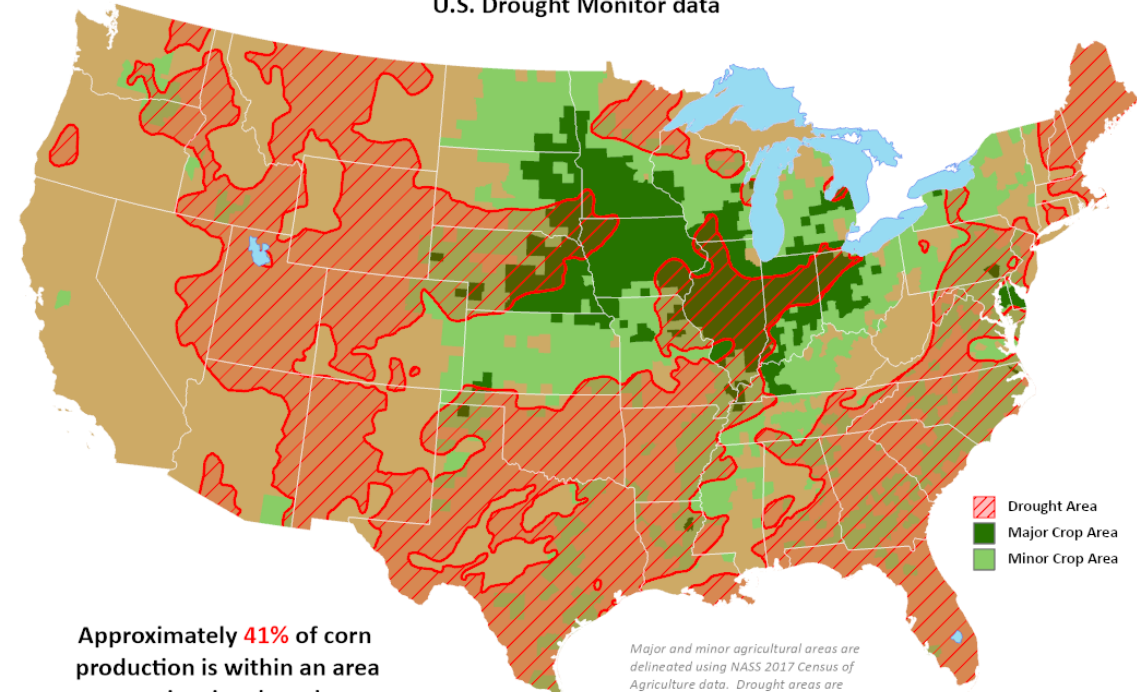
Largest **EVER**

91.3 MM acres harvested / 186.5 bu per acre

Est. 2.127 billion bushel Ending Stocks
(highest since 2018/19)

Corn Areas in Drought

Reflects **February 24, 2026**
U.S. Drought Monitor data



- Drought Area
- Major Crop Area
- Minor Crop Area

Approximately **41%** of corn production is within an area experiencing drought.

Major and minor agricultural areas are delineated using NASS 2017 Census of Agriculture data. Drought areas are identified using the U.S. Drought Monitor product.

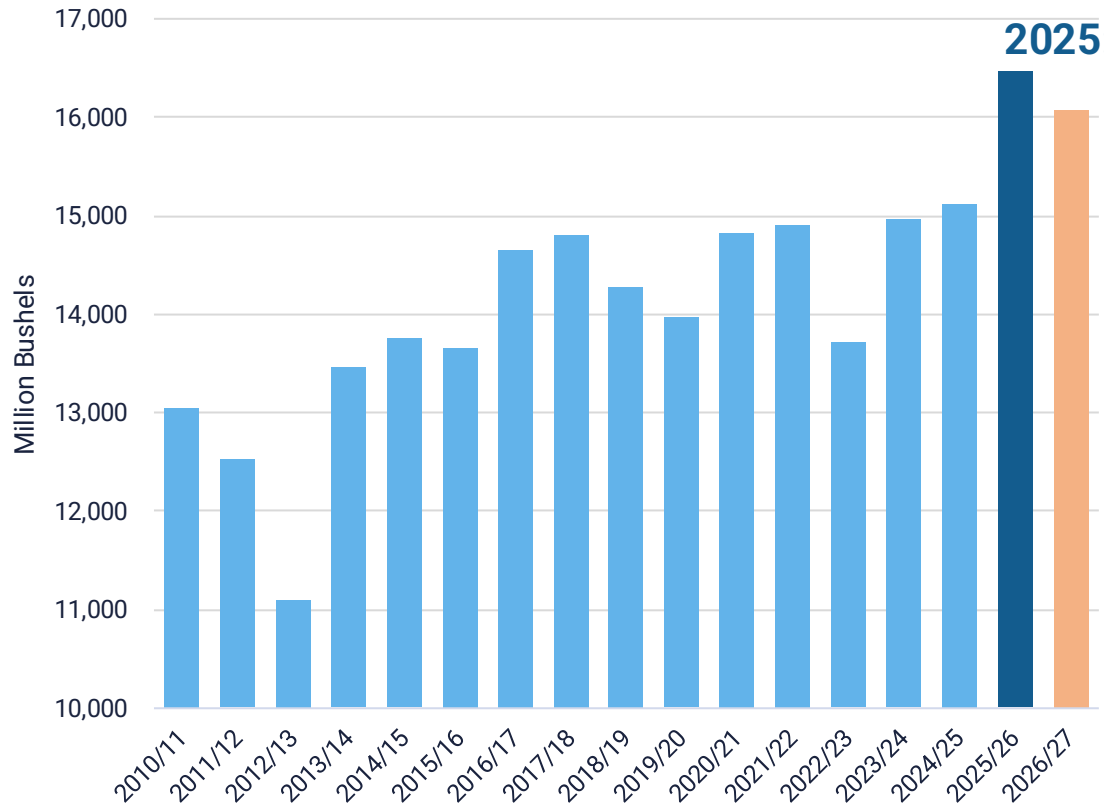


Corn

2025 Corn Demand

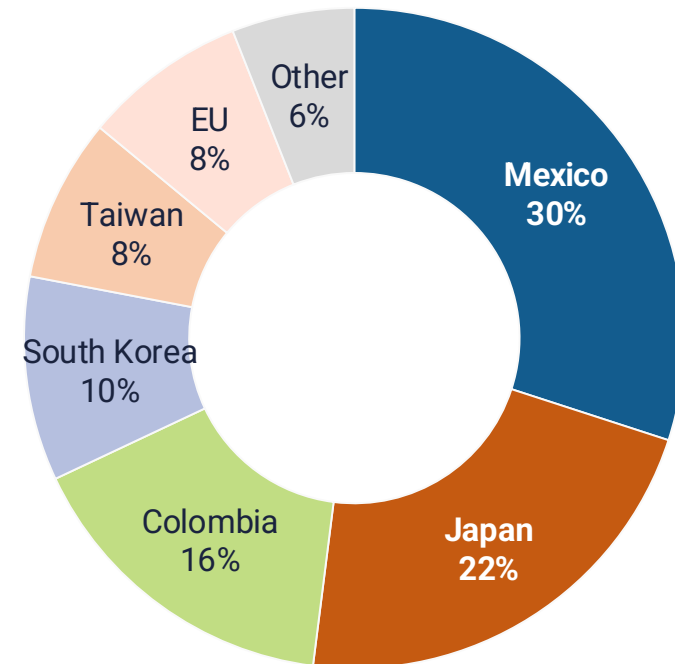
3.3 billion bushels of exports (ALL TIME HIGH)

US Corn Total Use

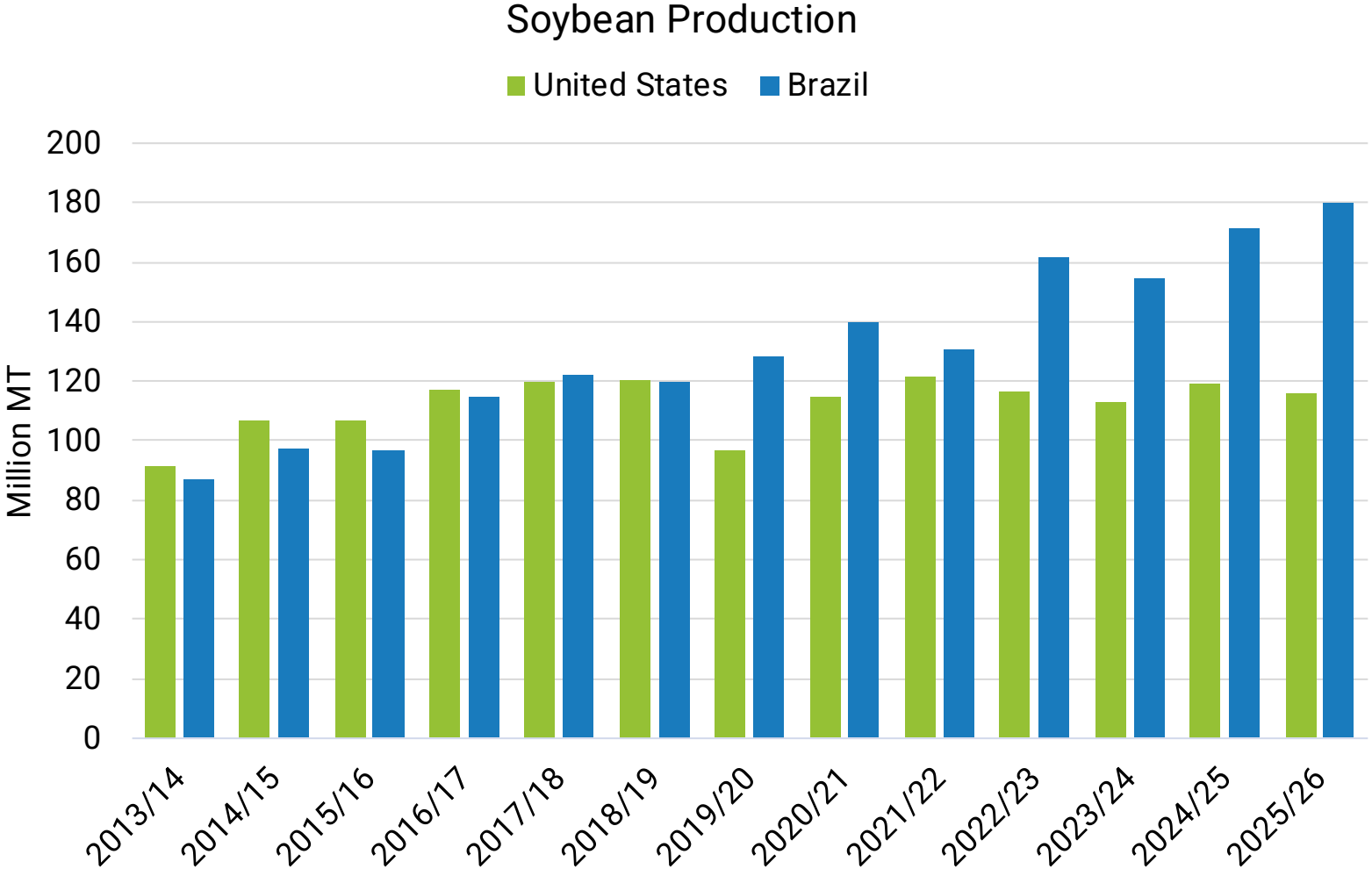


Source: USDA

2025 Corn Export Share %



Soybean Production



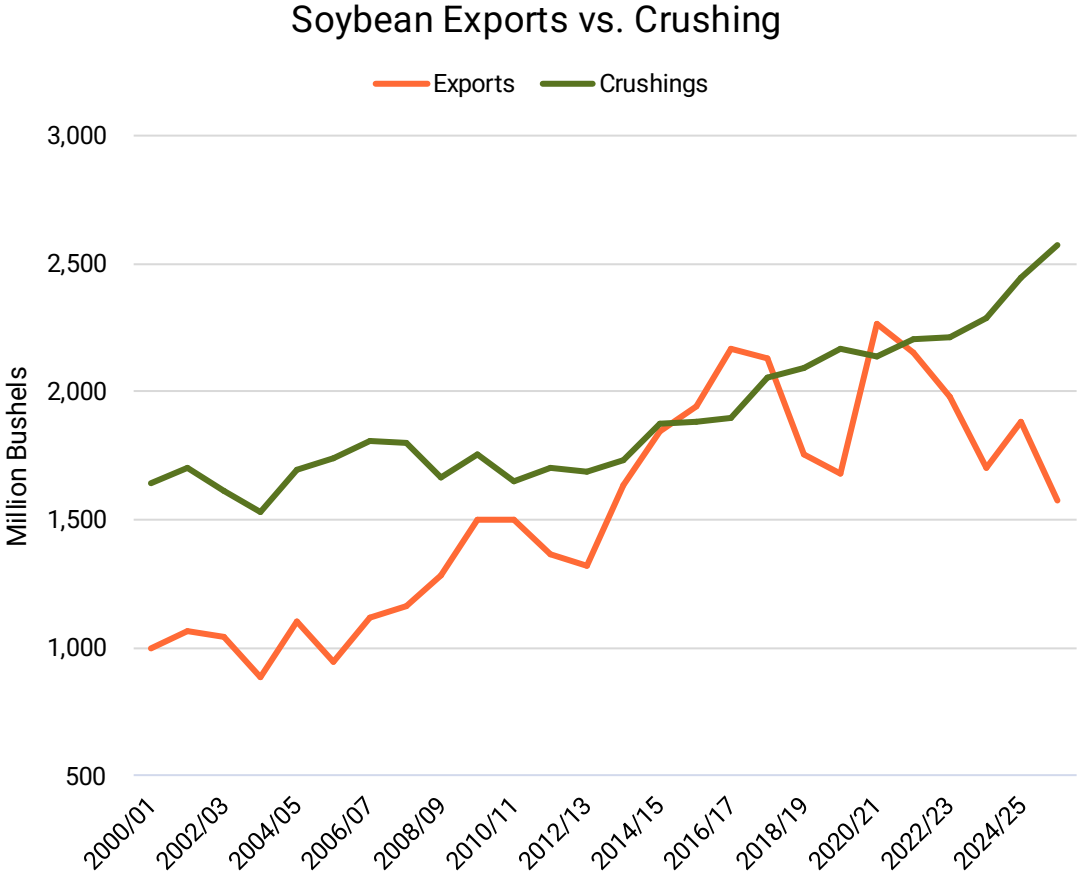
Brazil Soybean Production

2013-2025: +107.6%

Source: USDA



Soybean Use



Source: USDA

Trade War Impact on Exports

- China buys ~50% of U.S. soybean exports
- 2025/26 exports projected at 1,575M bu (lowest since 2003/04)

Crush Capacity Expansion

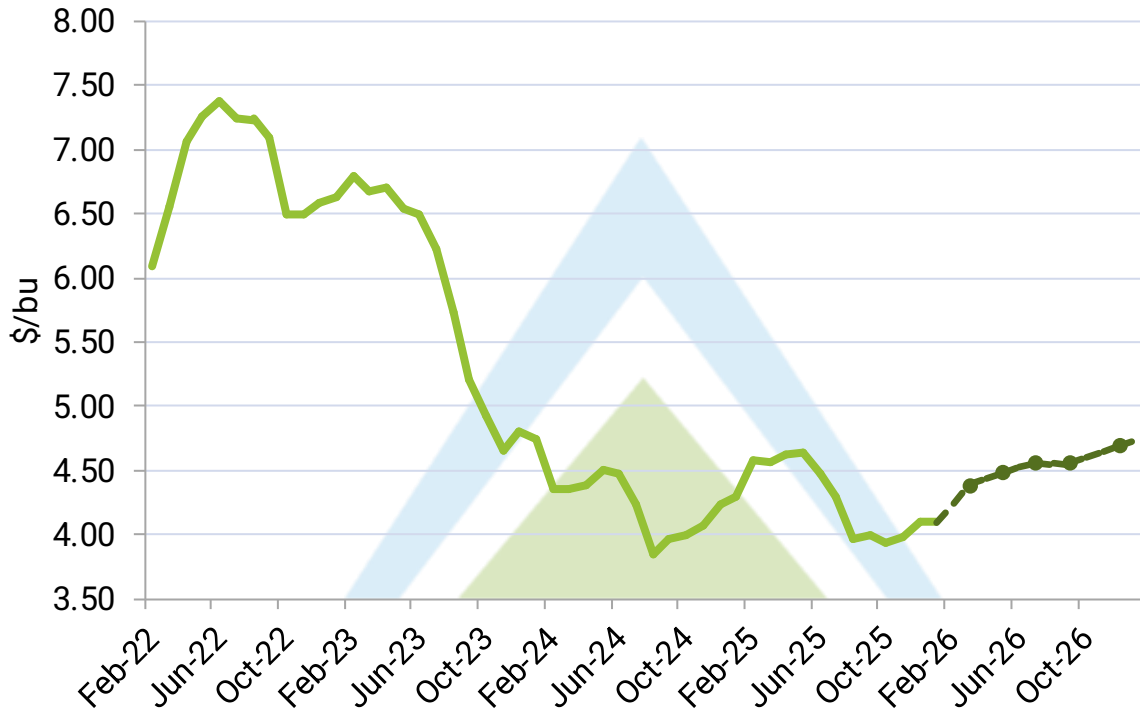
- U.S. crush capacity up 14% since 2023
- 2025/26 crush forecast at a record 2.57B bu
- Another 200M+ bu planned by 2030



Corn / Soybean Meal Pricing

Corn Prices

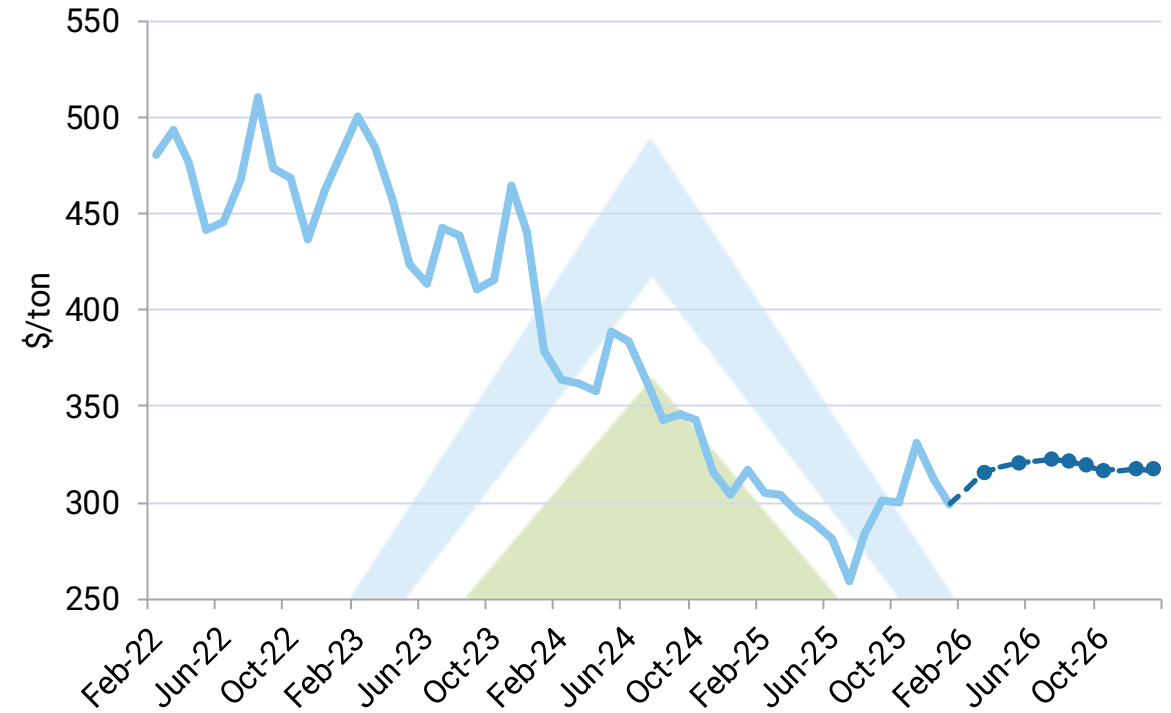
● 2/27/26 Futures



Source: USDA, CME

Soybean Meal Prices

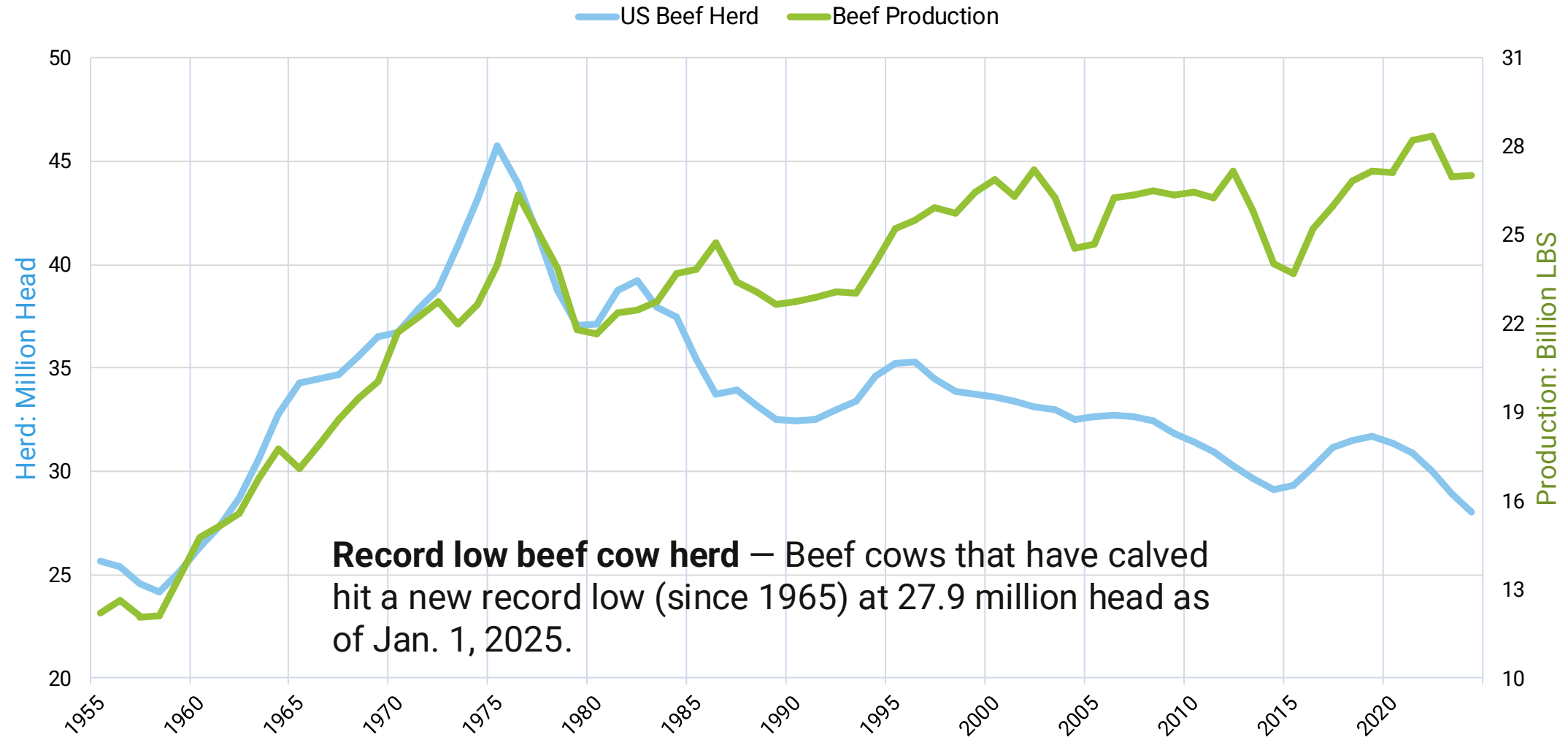
● 2/27/26 Futures



Source: USDA, CME



Herd Size vs. Production



Source: USDA



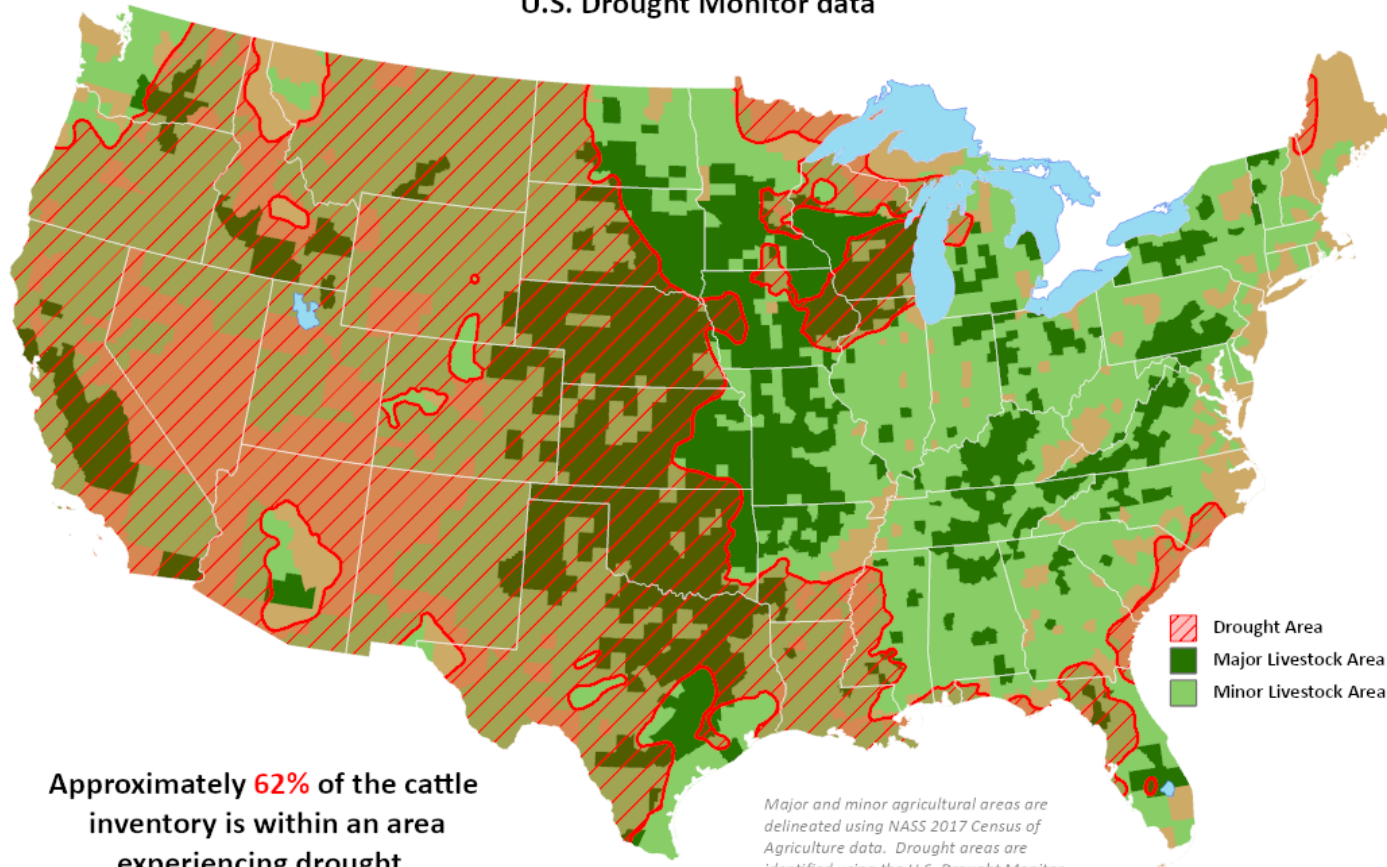
Where did all the cattle go?



This product was prepared by the
USDA Office of the Chief Economist (OCE)
World Agricultural Outlook Board (WAOB)

Cattle Areas in Drought

Reflects **March 01, 2022**
U.S. Drought Monitor data



1. 2022 drought across 62% of U.S. cattle country
2. Heifers moved to feedlots instead of retained for breeding
3. Strong cattle prices incentivized liquidation
4. Average beef operator age: 58.3

Approximately **62%** of the cattle inventory is within an area experiencing drought.

Major and minor agricultural areas are delineated using NASS 2017 Census of Agriculture data. Drought areas are identified using the U.S. Drought Monitor product.



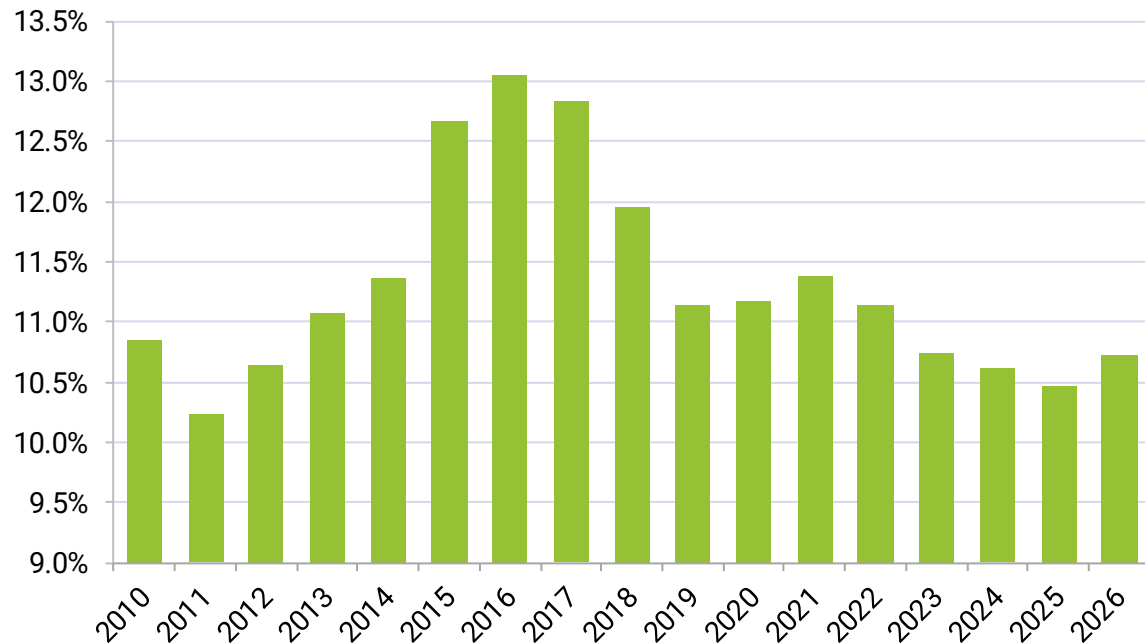
Restocking the Herd

Heifers still feeding, not breeding: 38.7% of cattle on feed, flat YoY

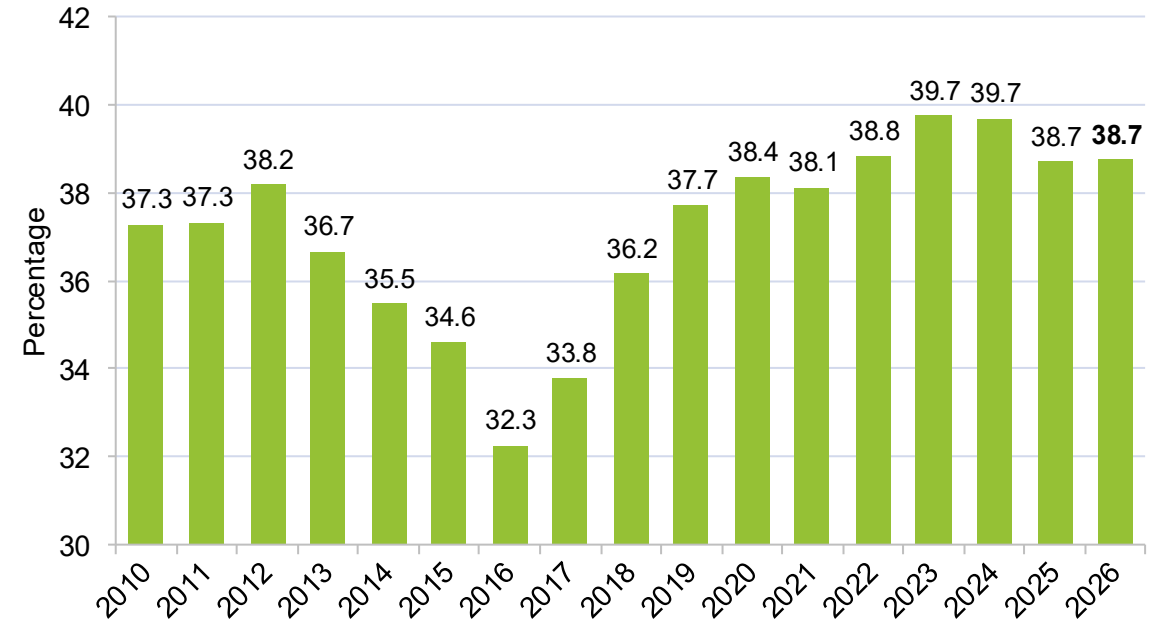
Packer margins deeply negative: -\$126/head (Oct. 2025) as record cattle costs outpace box beef prices

Plant utilization falling: 77% capacity (vs. 85% a year ago) – some facilities cutting shifts

Restocking Rate (Expected to Calve / Beef Cows)



Heifer Share on Feed



Cattle Futures

CME Feeder Cattle Futures: Mar-26



Source: CME



How do we monitor margins?

Accurately modeling dairy farm financials is inherently complex

- Input costs and revenues are both highly volatile
- Production data is abundant, but gaps and inconsistencies are common

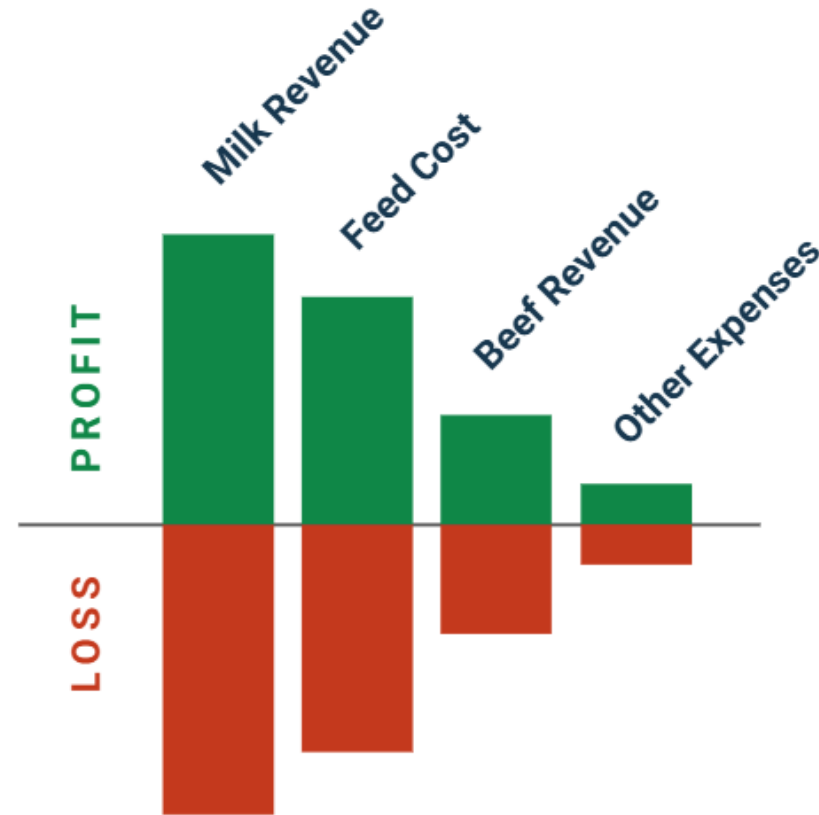
No two dairy operations are alike

- Herd size, milkshed dynamics, and the balance of grown vs. purchased feed all vary significantly
- The one-size-fits-all approach is difficult



What are our priorities?

CONDENSED STATEMENT OF DAIRY FARM INCOME AND COSTS			
	COMPARISON BY AREA FOR THE SIX MONTHS ENDED JUNE 30, 2024 (BASED ON PER HUNDREDWEIGHT OF MILK BASIS)		
	Southern California	San Joaquin Valley	Kern County
Income:			
Milk sales	\$ 22.23	\$ 20.48	\$ 20.24
Calves and other	1.49	1.43	1.58
Total income	\$ 23.72	\$ 21.91	\$ 21.82
Cost of operations:			
Feed:			
Grain	\$ 8.85	\$ 8.79	\$ 8.97
Hay and forages	4.28	3.43	4.74
Total feed	\$ 13.13	\$ 12.22	\$ 13.71
Labor, (including fringe costs)	\$ 2.83	\$ 2.06	\$ 1.88
Herd replacement costs	\$ 1.12	\$ 0.68	\$ 0.85
Other costs:			
Milk hauling	\$ 0.86	\$ 0.54	\$ 0.67
State and association charges	0.17	0.19	0.19
Veterinary, breeding, testing, etc.	0.99	0.55	0.45
Supplies	0.18	0.58	0.50
Repairs and maintenance	0.61	0.64	0.91
Utilities	0.35	0.36	0.44
Occupancy costs	0.47	0.60	0.46
Depreciation - equipment	0.25	0.39	0.36
Interest	0.98	0.71	0.84
Miscellaneous	0.92	0.85	0.70
Total other costs	\$ 5.78	\$ 5.41	\$ 5.52
Total cost of operations	\$ 22.86	\$ 20.37	\$ 21.96
Income (loss) from dairy operations	\$ 0.86	\$ 1.54	\$ (0.14)
Farming operations, net	\$ 0.00	\$ (0.36)	\$ 0.43
Net income (loss)	\$ 0.86	\$ 1.18	\$ 0.29



Milk Price Volatility

<u>Commodity</u>	<u>Annualized Volatility</u>
Butter	26.3%
Cheese	33.0%
Dry Whey	23.7%
Nonfat Dry Milk	18.5%
Class III	34.2%
Class IV	20.8%

Butterfat: 4.00%

Protein: 3.20%

Other Solids: 5.70%

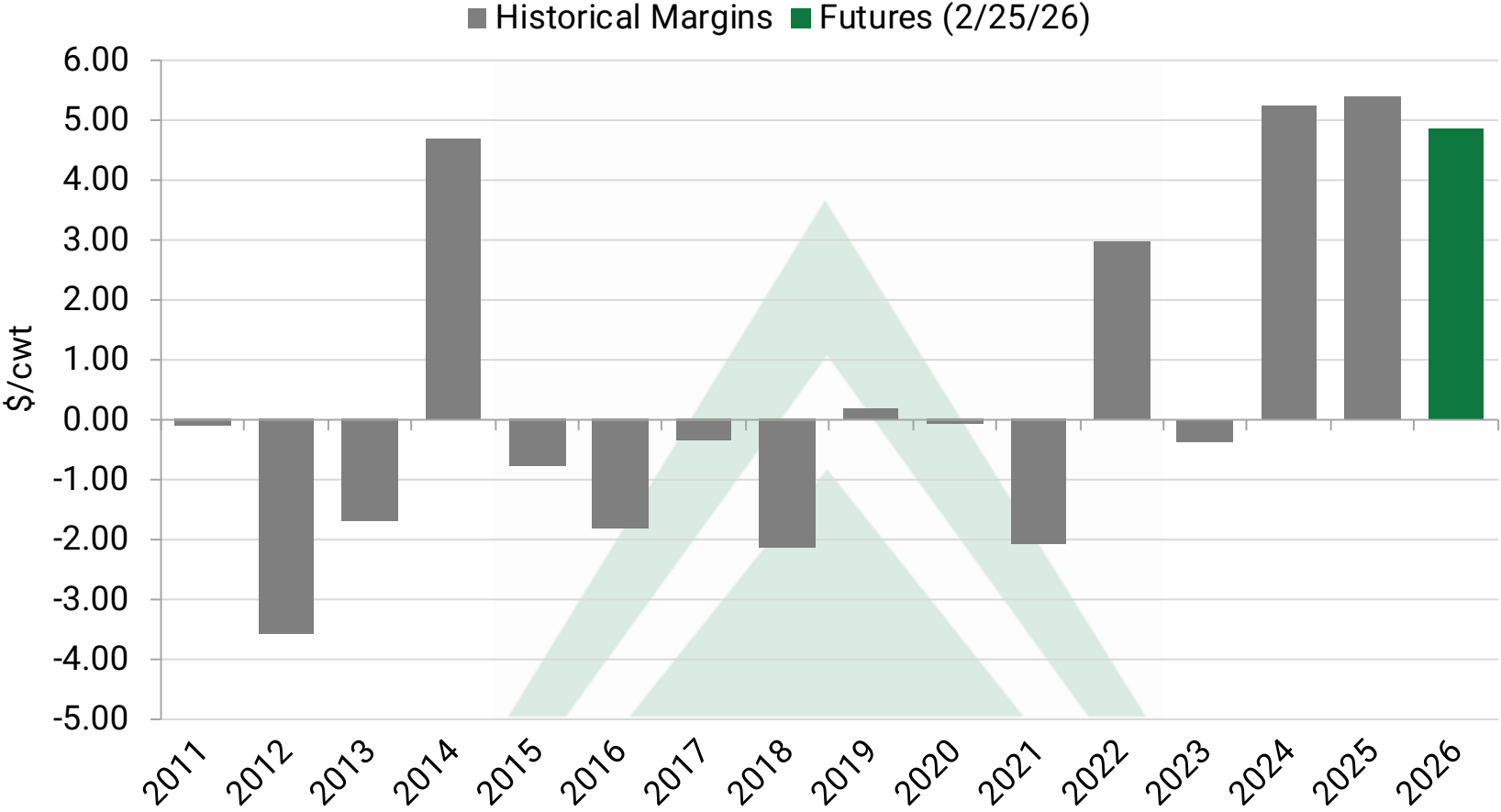
Utilization: 50% Class III / 50% Class IV

Annualized Milk Price Volatility = 31.5%



Margin Monitor

Estimated Yearly Margins

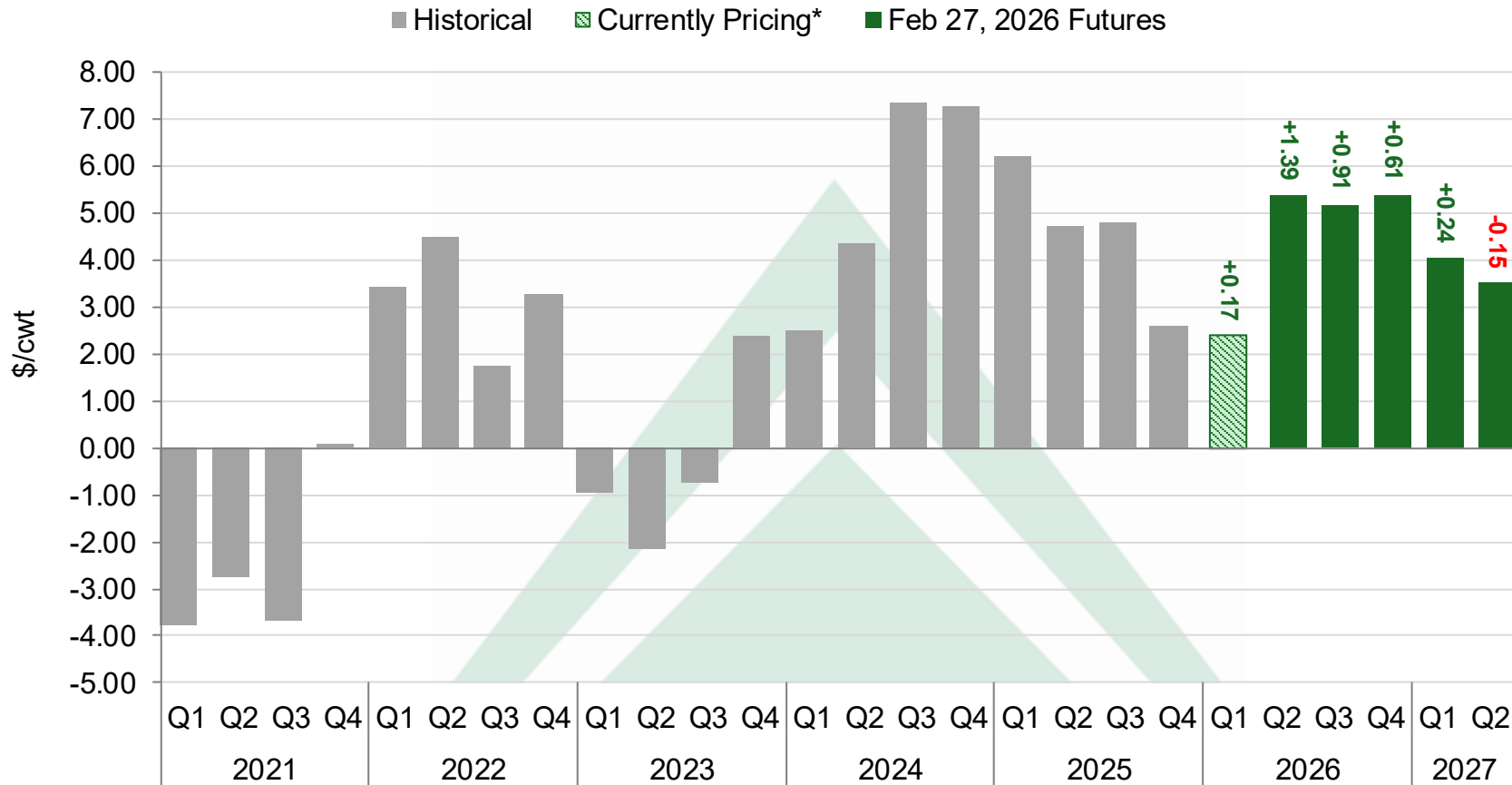


Source: USDA, CME, HighGround Calculations



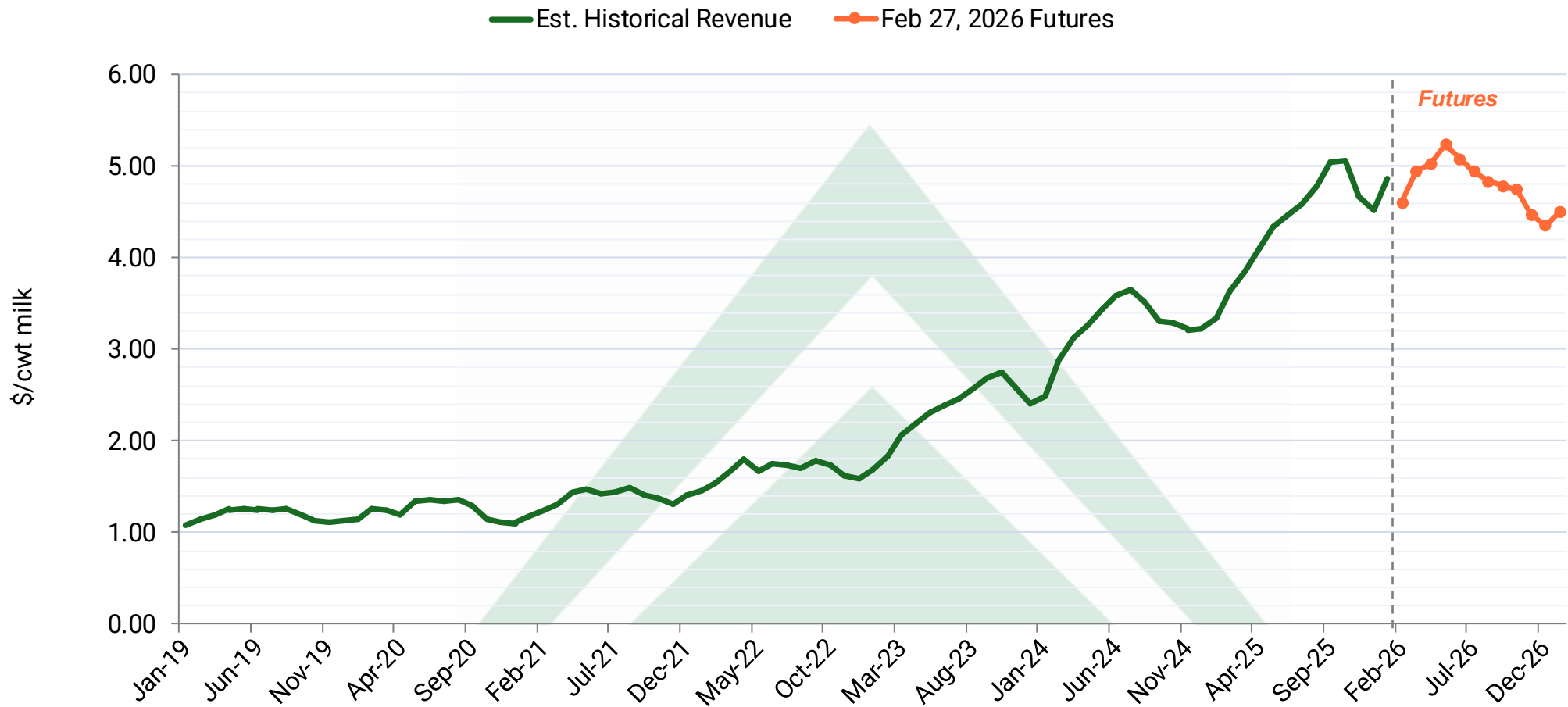
Margin Monitor

Quarterly Margins



Beef Revenue

Beef Revenue Per Cwt of Milk

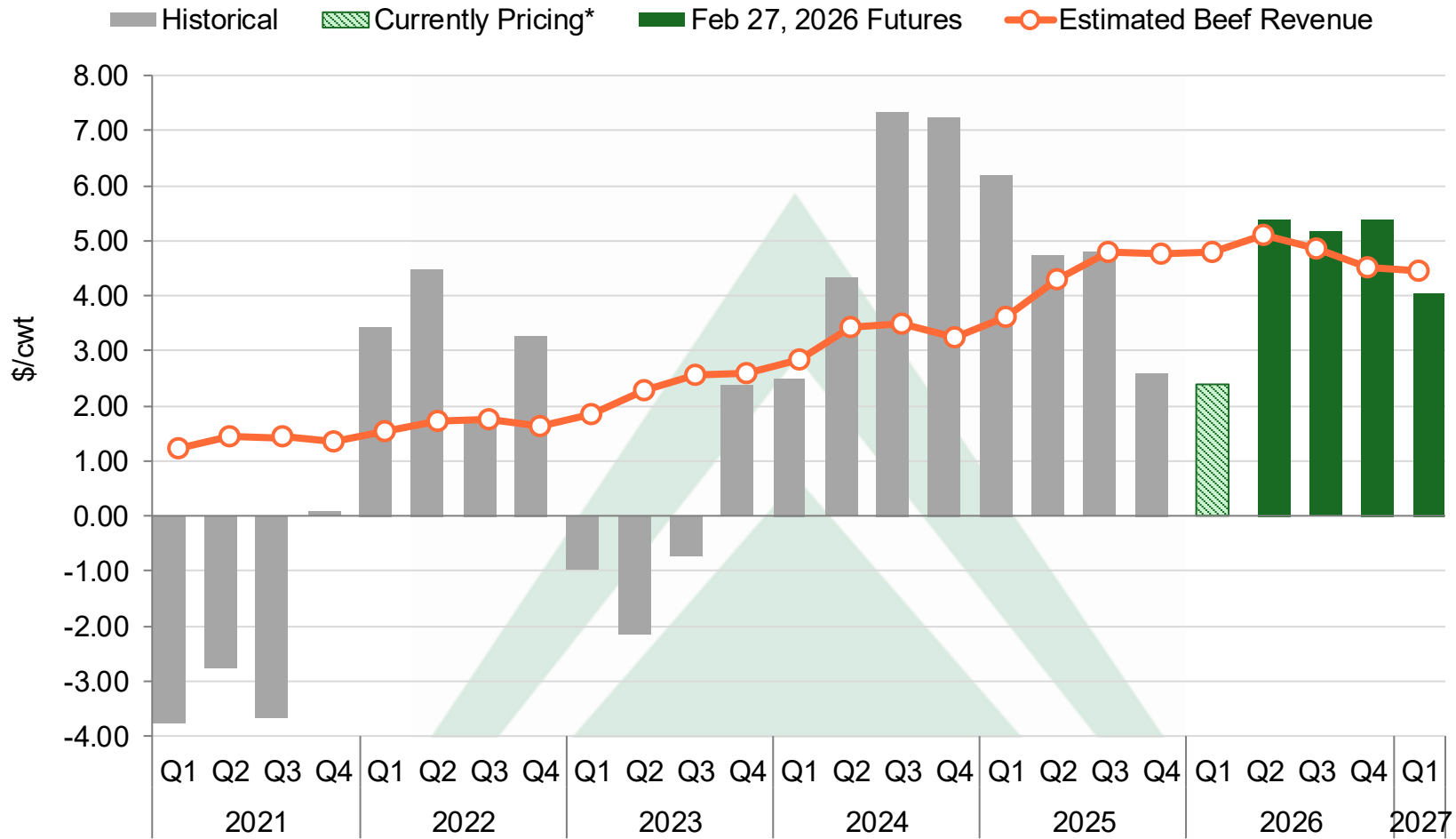


Sources: USDA, CME, HighGround Calculations



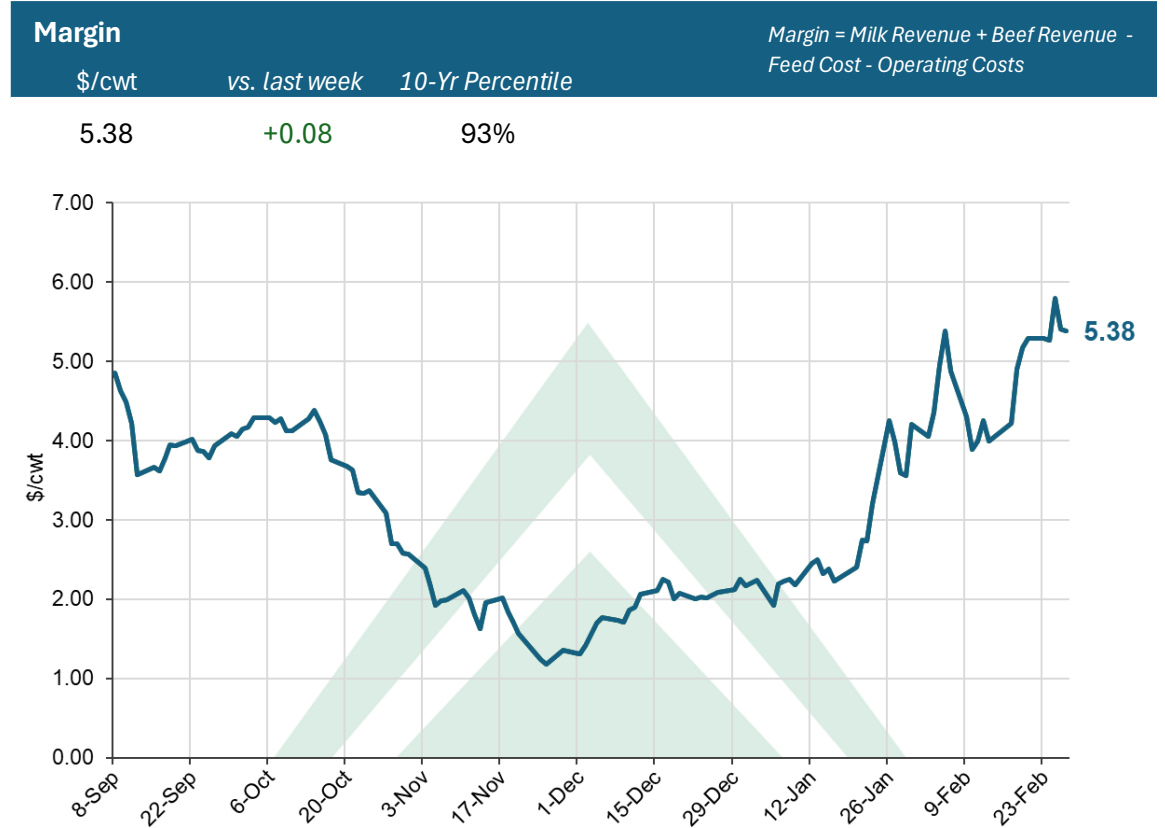
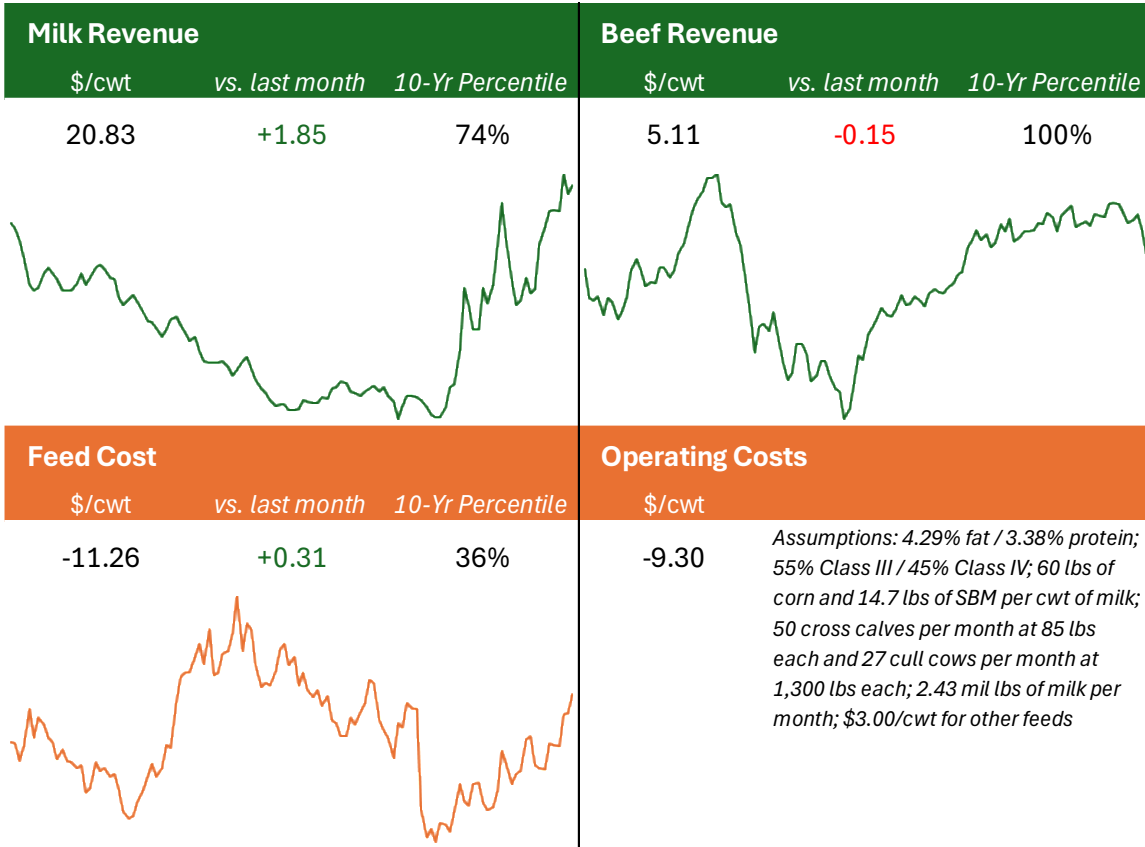
Beef Revenue

Quarterly Margins



Margin Monitor

Q2 2026



What should we do going forward?

- 1. Get equip with the tools (DRP, LRP, Futures Brokerage)**
- 2. Secure nearby Class IV risk ASAP (Q2 DRP deadline – March 13)**
- 3. Be consistent with managing beef calf/cull risk (LRP)**
- 4. Don't sleep on corn in 2026 (drought + strong exports)**
- 5. Too busy? Too stressful? Too complicated? – We are here to help!**





Thank You

Questions?

Curtis Bosma

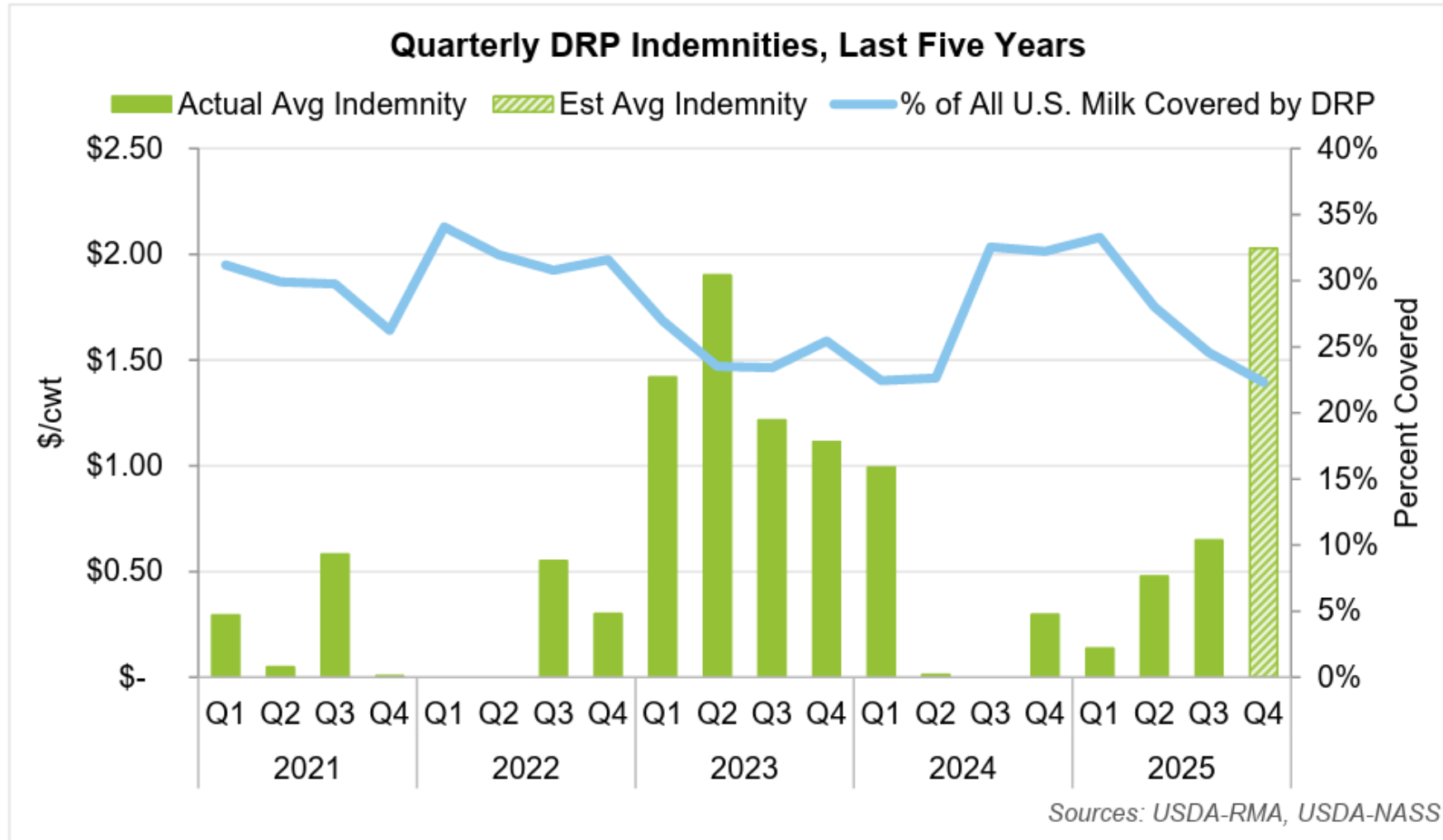
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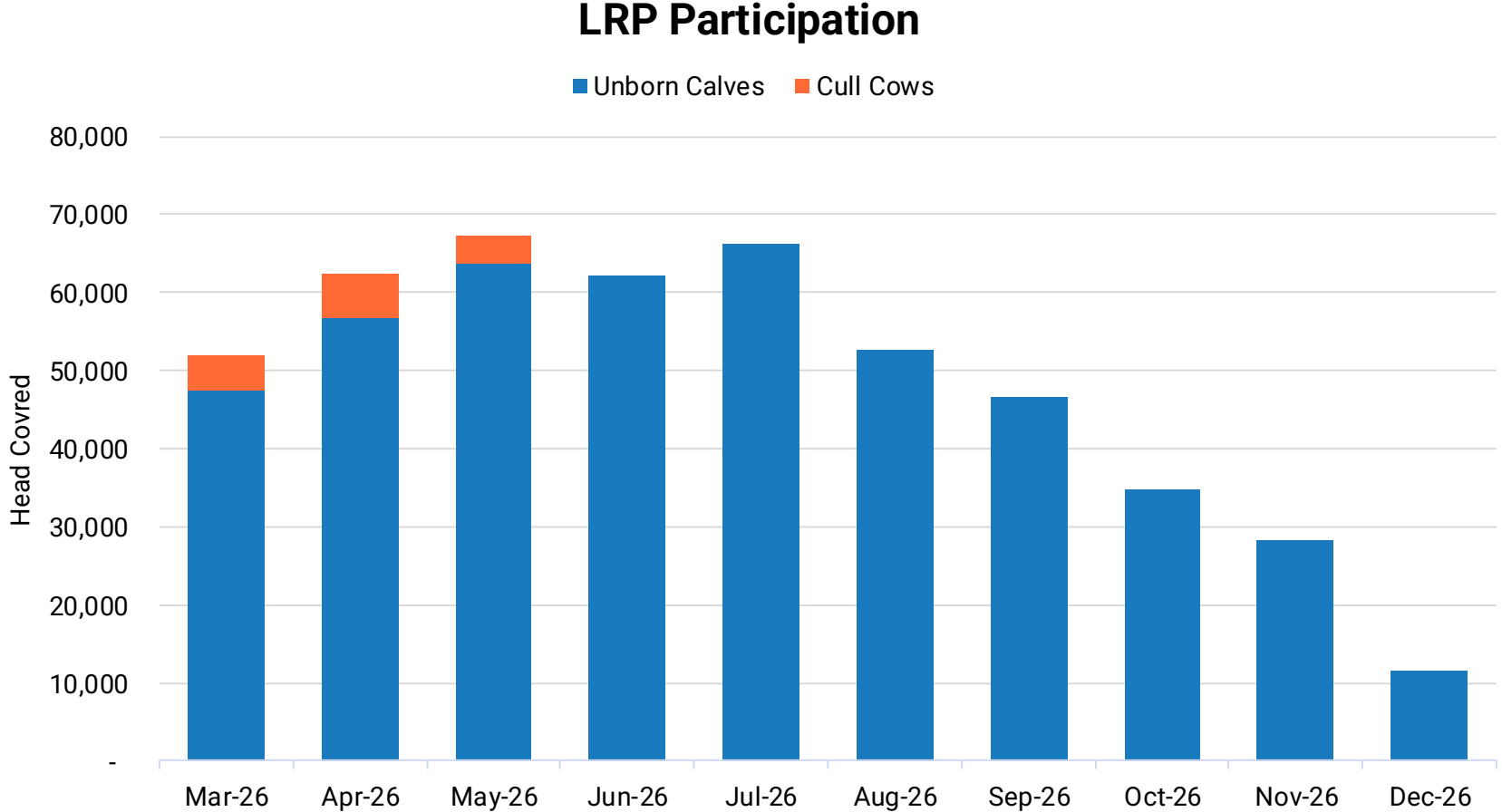
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DRP Participation



LRP Participation



Source: USDA RMA

