

J.D. Heiskell Statement

My name is Hunter Jensen, and I am a Market Analyst at J.D. Heiskell and Company, also known as JDH. Established over 137 years ago, in 1886, JDH is a privately held company that operates within the agriculture industry. My role at JDH is inside the market research group, where I gather data such as USDA reports and other relevant market information and provide that information to the team at JDH in a clear and concise manner. One of those items we monitor is local basis data.

JDH has a deep history in the agricultural and dairy industries. Our company's legacy is deeply intertwined with the growth and progress of these sectors. JDH is one of the largest dairy feed manufacturers by volume and operates in key dairy shed areas across the United States. Our assets are in California, Colorado, Texas, New Mexico, Idaho, and New York. In each of the regions we serve dairy, cattle and poultry customers with the largest end user being dairies. JDH's company's core focus is getting the right product to the right place at the right time.

Dairy Farmers of America (DFA) asked JDH to provide data on corn basis, soybean meal basis, and DDG (Dried Distillers Grains) price delivered into Colorado and California. All three of the products play a significant role in the typical dairy ration. Soybean meal is a byproduct of the soybean crushing industry where soybeans are processed, resulting in Soybean Oil and Soybean Meal. DDG is a byproduct of the ethanol industry where corn is turned into ethanol and the other major product is DDG, which are then dried onsite to increase product life and reduce shipping costs. DDG is not a hedged commodity, meaning there is no futures market to hedge against.

In the context of feed prices, there are many distinct factors that come into play. The commodity and whether that commodity is hedged are two of those factors. Hedged commodities are priced via a basis plus the "board." The "board" represents the futures price of the specified commodity via the Chicago Board of Trade. The "basis" is the difference between the cash price or local market price and the futures price (board).

Basis can fluctuate due to several factors, such as local supply and demand conditions, storage costs, transportation expenses, and regional market dynamics. The basis reflects the local market's unique circumstances compared to the broader commodity market, and these circumstances influence the purchase price that producers pay for their feed.

To compile the basis data for livestock feed in Colorado and California, JDH utilized a combination of data sources. We track internal contract prices, observe outside market prices, and pull data from industry partners. Additionally, we leveraged our broad network and experience in the feed and grain industry to ensure the accuracy and reliability of our data.

Colorado and California are both destination markets. A destination market is where local demand for products is much larger than the local supply for that product. One large component affecting destination market feed prices and local basis prices is transportation costs. Transportation costs over the last 15-20 years have routinely increased.

What we observed when we collected our data is that the price difference between origin and destination markets has increased over time.

Slide 1 - We show the corn basis in three different areas: Southwest Iowa, Colorado, and California. In this chart you can see how over time the trend of corn basis has been up, with transportation costs being a contributor.

Slide 2 - We compare corn basis prices delivered into the destination markets of Colorado and California, versus the basis price in Southwest Iowa. We do this by taking the basis price for each market and subtracting the price in Southwest Iowa. This chart shows the trend of a faster rate of increase in basis prices in Colorado and California

versus Southwest Iowa. The rate of increase was gradual from 2010 to 2020, with a more rapid increase from 2020.

Slide 3 – Shows the soybean meal basis in three different areas, Western Iowa, Colorado, and California. In this chart you can see how over time the trend of soybean meal basis has been up. Data for these markets was less readily available internally, with Colorado and California only going back to 2016.

Slide 4 - We compare soybean meal basis prices delivered into the destination markets of Colorado and California, versus the basis price in Western Iowa. We do this by taking the basis price for each market and subtracting the price in Western Iowa. This chart shows the trend of a faster rate of increase in basis prices in Colorado and California versus Western Iowa. Since 2020, the basis prices in Colorado and California have increased at an even faster rate.

Slide 5 - We compare DDG prices (non-hedge able) in each of the markets (Southwest Iowa, Colorado, and California). Because DDG is not a hedge able commodity the chart illustrates the all-in price of DDG, which can fluctuate more due to the broader market circumstances.

Slide 6 - Shows the DDG price delivered into Colorado and California, versus the price in Southwest Iowa. In this chart you can see the trend for California is an increase in price versus Southwest Iowa at a consistent rate year over year, with many spikes due to the transportation issues in the last few years. Additionally, Colorado has seen only a gradual increase in DDG costs compared to Southwest Iowa.

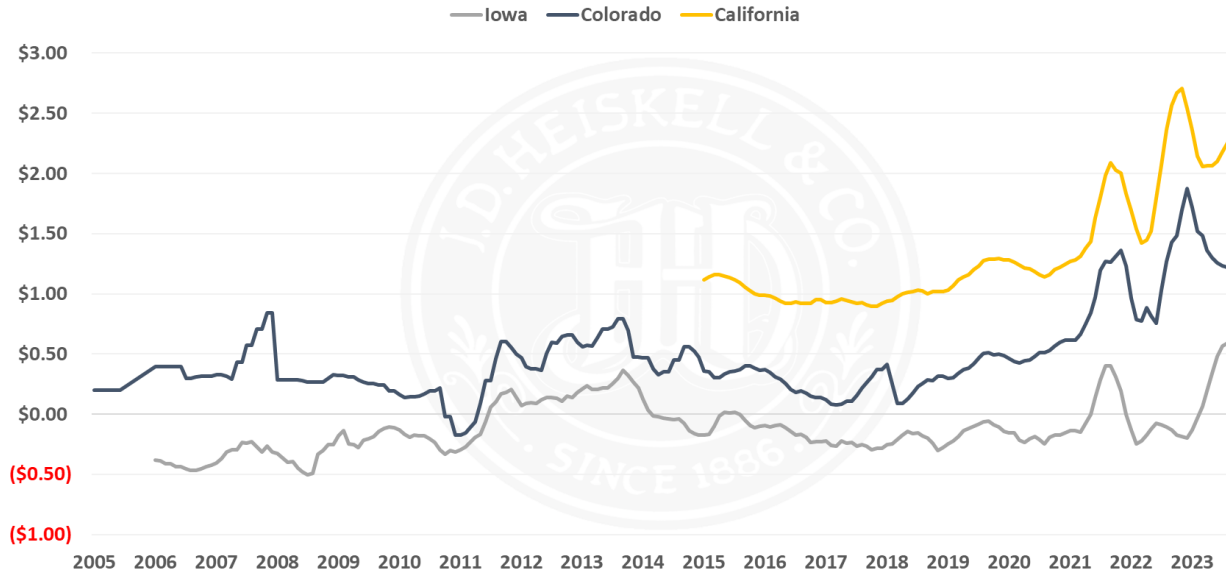
Slides 7 & 8 - USDA NASS (National Agricultural Statistics Service) data detailing the decreasing acreage of Corn, Silage, and Hay in both California and Colorado over time. In California, many of the acres have switched to tree nuts or vegetables, while also losing acreage to increasing population areas. Colorado has also lost acreage as population dense areas have increased, and land has become more valuable, being

repurposed away from agricultural production. This has also contributed to the increase in local prices over time in Colorado and California.

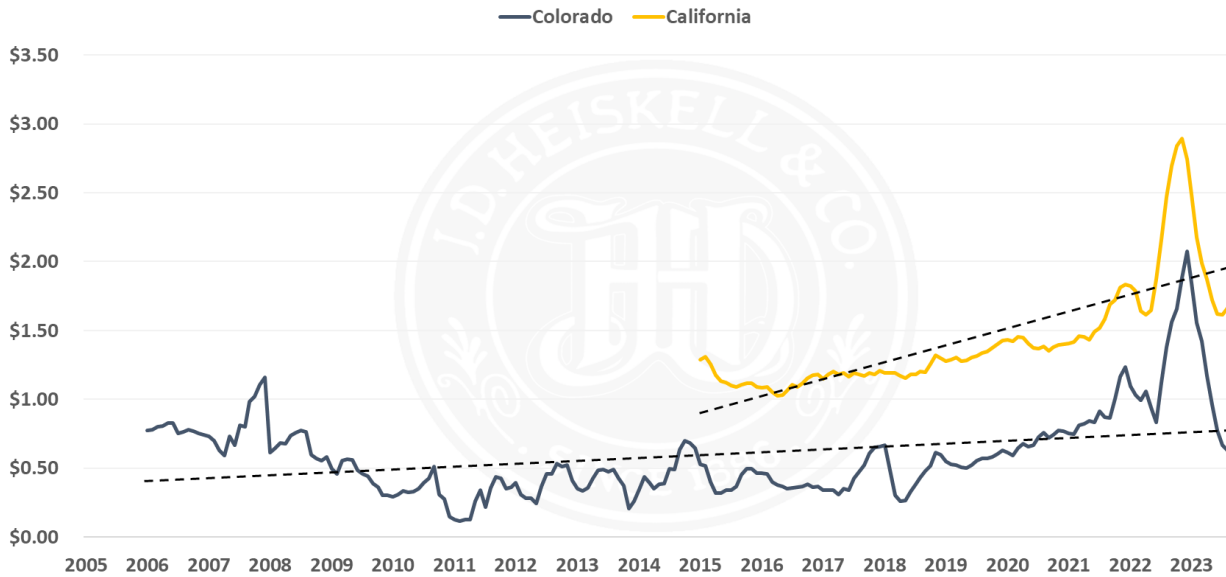
Slide 9 - Shows transportation costs from Central Nebraska to Central San Joaquin Valley California. This chart shows the steady freight rate increases. Since 2016, transportation costs have increased over 18 percent.

In summary, California and Colorado are both destination markets for Corn, Soybean Meal, and DDG, bringing in most of their consumption used in dairy feed from other states. Based on the data we were able to gather, local feed prices in California and Colorado have increased at a more rapid rate compared to Western and Southwest Iowa due to an increase in transportation costs as well as a decrease in localized supply in California and Colorado.

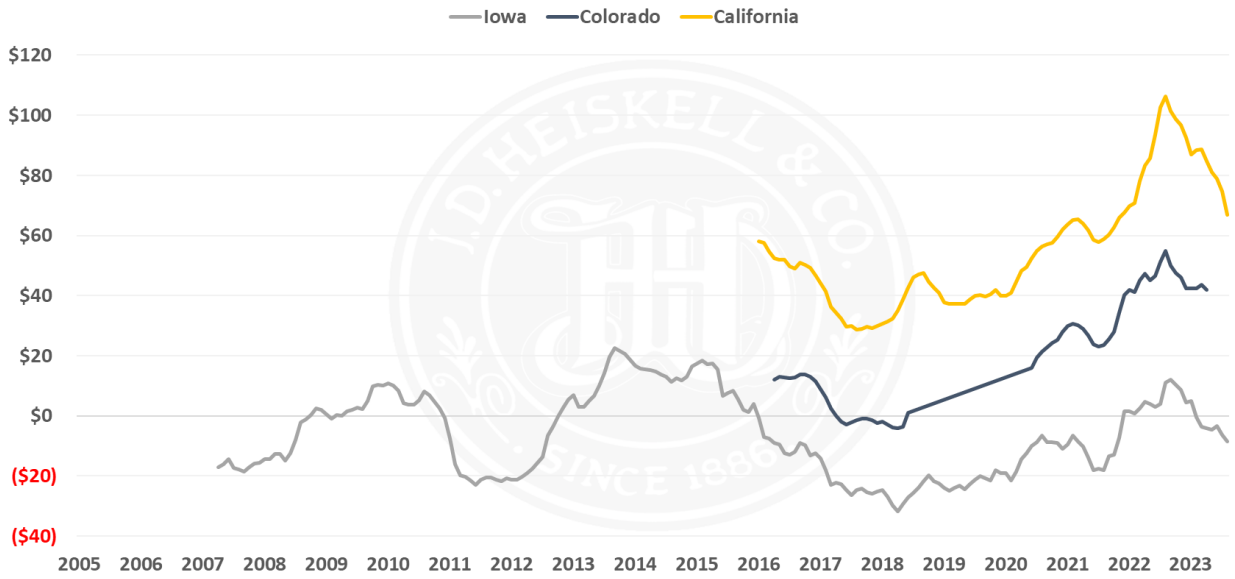
Slide 1 - JDH Observed Corn Basis



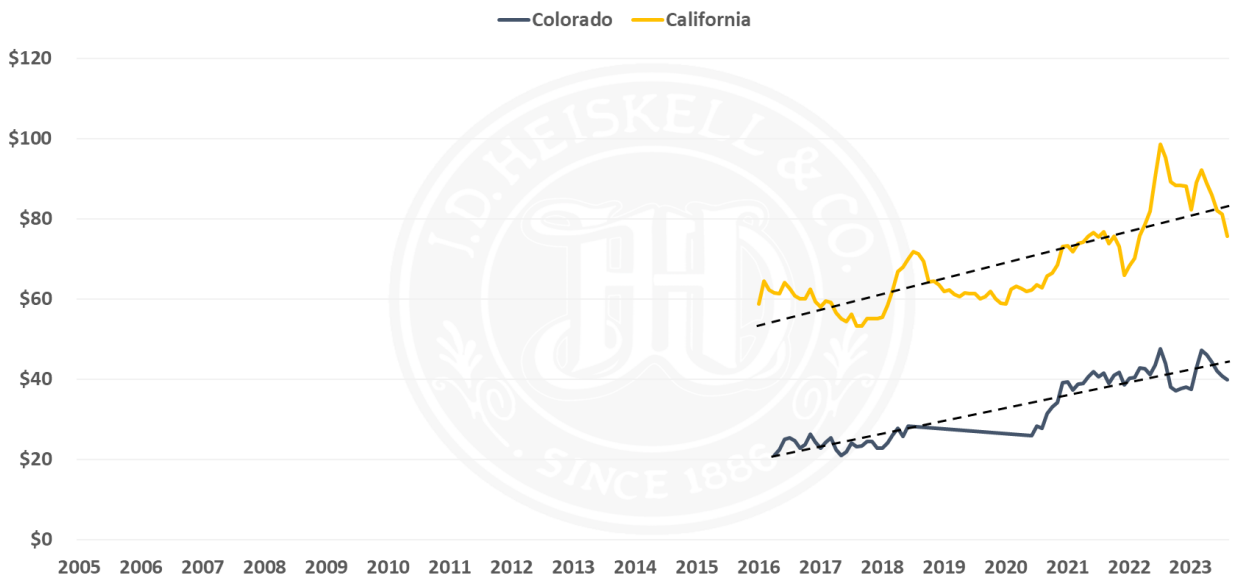
Slide 2 - Corn Basis Price Difference Vs. Iowa



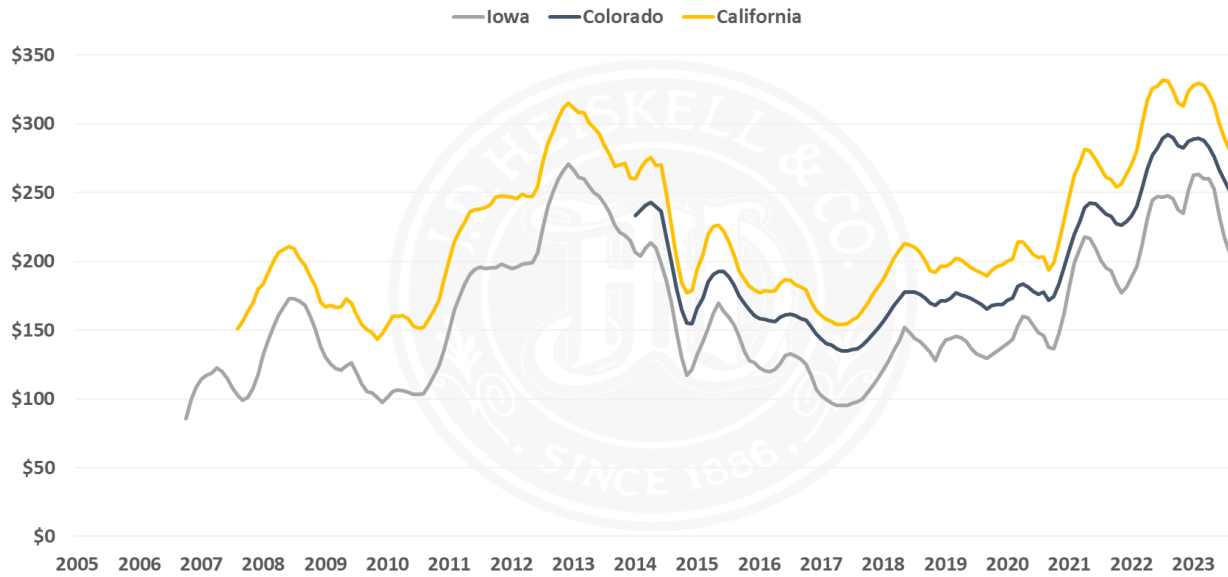
Slide 3 - JDH Observed Soybean Meal Basis



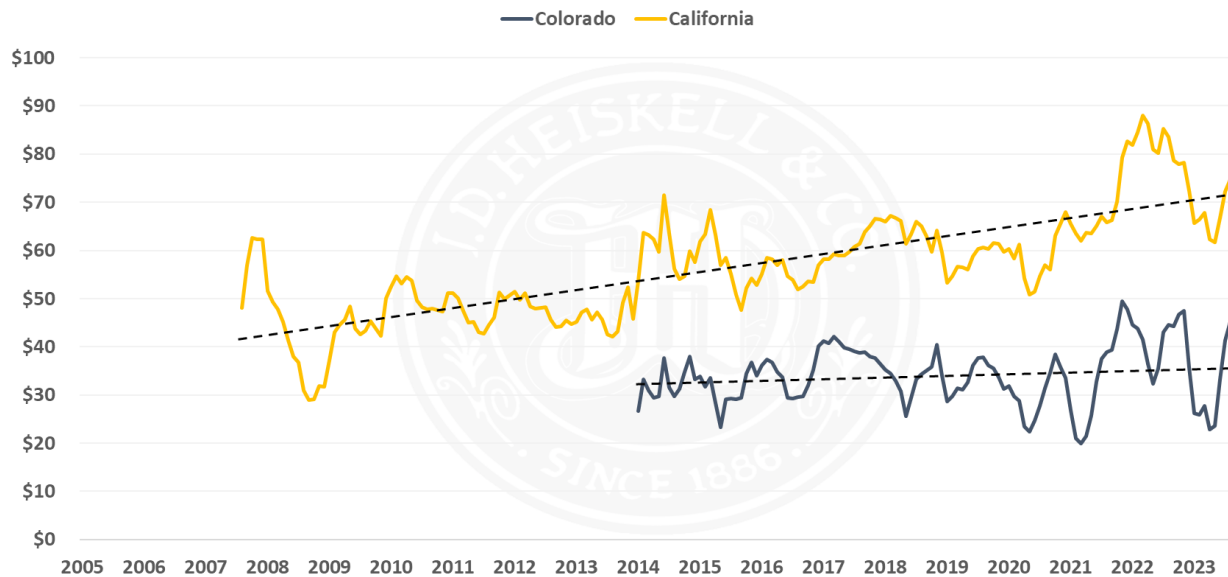
Slide 4 - Soybean Meal Basis Price Difference Vs. Iowa



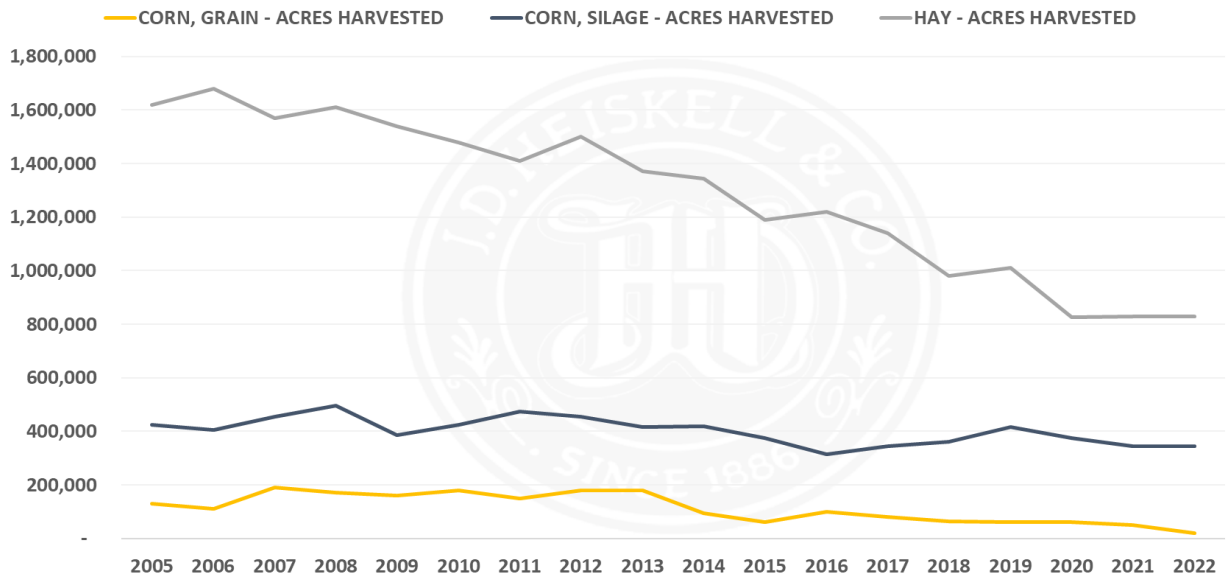
Slide 5 - JDH Observed DDG Prices



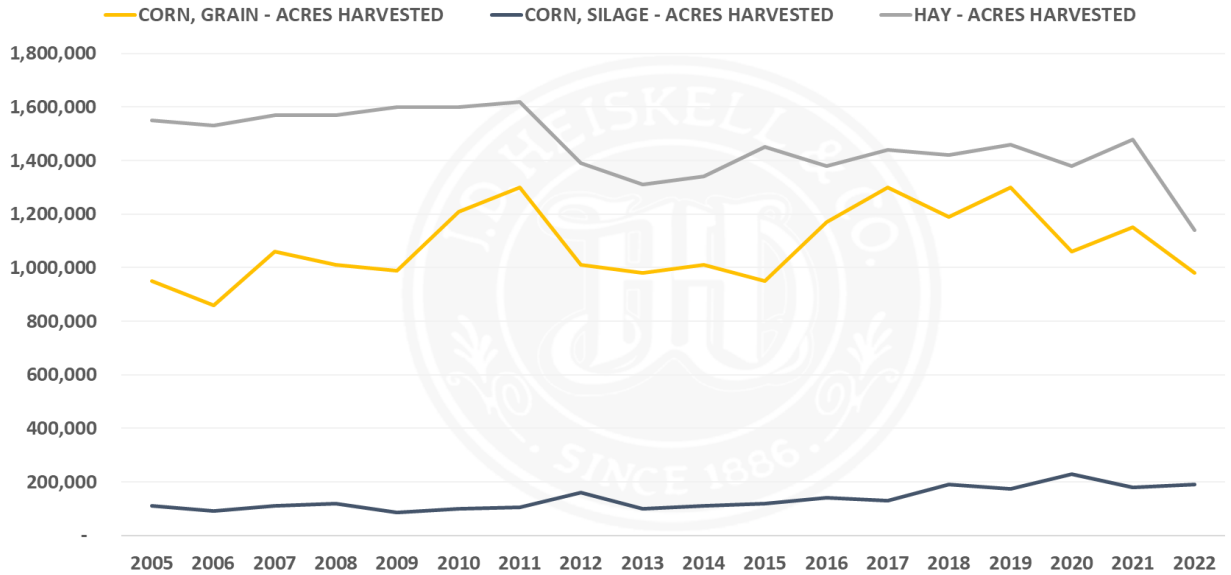
Slide 6 - DDG Price Difference Vs. Iowa



Slide 7 - Corn Grain and Silage & Hay Acres Harvested California



Slide 8 - Corn Grain and Silage & Hay Acres Harvested Colorado



Slide 9 - Transportation Costs Central NE to Central San Joaquin Valley California

