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A lenders evaluation of PRRS filters

Steve Malakowsky

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PRRS continues to be an economic drain to the US swine producer. At AgStar, we have the opportunity to review the cost of production from operations and systems ranging in size of 1,000 sows to 150,000 sows or more. We have a relationship with over 60% of the largest 30 producers as listed in *Successful Farming*. These operations are farrow to finish, farrow to wean, and wean to finish units. They are independently owned, owned by investors and owned by shareholders, which purchase weaned pigs from Isowean units.

As you can tell by the diverse group of individuals/companies we work with, we also see various reporting methods. Very few of these operations have the same reporting and allocation of costs at the various stages of growth in their operations. However, in reviewing the financial information it is evident when PRRS has infiltrated an operation. In the farrow to wean operations it is typical to see a PRRS outbreak range from \$80 per sow in a mild bout of PRRS to in excess of \$170 per sow with a severe break. You can double the loss when following the production through the nursery and finish stages with increased mortality and lower efficiencies.

Approximately 4 years ago AgStar joined discussions with the Pipestone System, Swine Vet Center and the Fairmont Vet Clinic to discuss the possibility of filtering a commercial sow facility. Since that time, there are approximately 110,000 sow spaces that have been filtered in the US as of January 2011 with AgStar involved in approximately 72% of these operations. This number of spaces is expected to reach 200,000 spaces by the end of 2011.

With this cost structure the main question we have received from owners is “how much will of the project are you willing to finance?”

The filter project for a typical 3200 sow facility will cost \$575,000 or \$180 per sow. The advance rate is determined by the increased value the filter brings to the facility. Things to consider are numerous. The following is what our appraisal department considers when establishing the added value of a PRRS filter:

- How much of the new construction should be contributed at 100%, as the building expansion adds square footage area to the structure?
- What do the boxes and frames in the attic contribute? A portion of this is can be retrofit but much would be original.
- What is normal obsolescence with this type of construction?
- There is a portion of the cost that is included in the cost of the base building. It is an excess charge that is required to remove something and replace it with something else? This would not be a cost if built new.
- Pre-filters were given no value since they have only a half year life. They will be fully depreciated soon after installation.
- Bio-filters have a 3 to 5 year life according to the manufacturer. Considering exposure and marketing time for a facility, the filters could contribute 25% to 50% less after this time period. Also, how much would a new buyer pay for existing filters? They may want to replace them and start new.

Aside from the appraised value, AgStar has been consistently financing 50% of cost of the projects. With the life

Table 1: shows an approximate range of cost we see to filter sow facilities.

Costs per sow space	Conventional	Conventional	Tunnel ventilation
	Partial	Full	Full
High	\$90	\$170	\$250
Medium	\$80	\$150	\$200
Low	\$70	\$120	\$180

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of the filters approximately 5 years, which is the largest component of the total cost, we have amortized these loans over 5 years. Based on a 3200 head sow unit with a cost to filter of \$180 per sow the required P&I over 5 years would be approximately \$.85 per pig with a sow unit producing at 24 P/S/Y. Again, this is financing 50% of the cost with the balance coming from additional collateral or capital.

Based on the information we have seen from our clients there is an advantage to filter. The payback is one severe break. I cannot share specific information with you due to the confidential nature of the numbers; however, there are other added benefits to filtering. For the employees moral increases when working in a PRRS free environment. For the owner, productivity has increased and employee turnover has decreased.

It is important to remember just because you installed a PRRS filter it doesn't mean you will avoid a future break. The filters are only as good as the bio-security protocol that is followed by the employees. Plus PRRS can be introduced into the facility by other methods that are non aerosol. Employees can carry in the virus. It can be walked in by gilt introductions. With the size of the investment necessary it is vital that all employees, visitors and owners follow protocol established by their Veterinarian.

