

Maddux Cattle Company

*Focused on long-term success by applying
Wall Street strategies to ranching*

By Kindra Gordon

“We run our ranch more like a hedge fund than we do a ranch,” says John Maddux, of his family’s ranching enterprise – Maddux Cattle Company – headquartered in southwest Nebraska near Imperial.

As the fourth generation of Madduxes to operate and manage the large cow/calf and yearling operation across 45,000 acres of deeded and leased land, Maddux brings a unique Wall Street perspective to the ranching table.

Raised in Nebraska with a passion for the family’s cattle operation, John’s parents Jack and Carol encouraged him to further his education and learn more about business and finance. To that end, he spent 15 years away earning an MBA at The University of Chicago and then working for Goldman Sachs – in Chicago and New York City – in investment banking specializing in bonds.

“It was a different kind of environment and a very intense experience working on a trading desk, but I enjoyed it,” says Maddux, who returned to Nebraska in 1998. Today, he and wife Julia along with their two sons, Taylor and Tomas, and a team of ranch staff are shepherding the 136-year-old family business into the future – and Maddux has had an opportunity to apply his Wall Street experiences to that effort.

Maddux notes, “What I learned and brought back ironically wasn’t necessarily new, as much as lessons I already learned from my grandparents and parents.” He continues, “The basic

fundamentals of our business and the way we operate were already on our ranch, but the experiences that I gathered on Wall Street put an exclamation point on our approach to ranch management when I came back.”

FOCUSED ON EFFICIENCY

Maddux credits the three generations before him for their foundational roles in establishing, growing and maintaining the ranch. This includes Taylor and Clara Maddux who homesteaded the original ranch in 1886 eleven miles north of Wauneta, Neb.; Glen and Eva Maddux – John’s grandparents; and his parents Carol and the late Jack Maddux. John shares that his mom Carol is still an important contributor to ranch discussions and decisions today.



*Taylor and Clara Maddux homesteaded
the original ranch in 1886.*

Maddux Cattle Company's core business enterprises include 2,500 cows, as well as grazing and marketing 5,000 to 6,000 yearlings every year. The yearling operation spans grazing arrangements in Nebraska, Wyoming and several other states, while the cowherd is primarily based in Nebraska. Maddux cows are unique in that a five-breed composite population of "Maternalizers" were developed in order to capitalize on benefits of hybrid vigor and to emphasize maternal traits. The composite includes: 3/8 Red Angus, 1/4 Tarentaise, 1/8 Red Poll, 1/8 South Devon, and 1/8 Devon.

Maddux says Maternalizer females are well suited for their Western Nebraska environment and production system. The cows are smaller framed and easy fleshing, with desirable udders. Maddux's focus is on cows that can be maintained through year-round grazing with minimal – if any – supplemental feed and the ability to deliver low birth weight calves without assistance.

With those fundamentals in place, Maddux believes the rest of the business boils down to a financial mindset.

FINANCIAL STRATEGIES

Among his strategies are six core principles that were emphasized at Goldman Sachs, and Maddux is now applying to ranch management.

Focus on Cost of Capital. Maddux tells, "At Goldman Sachs we had billions of dollars' worth of securities that we were carrying, and it was all done with leverage. As a result, there was an intense focus to make sure everything we purchased had to return the cost of capital plus something." He adds, "My dad and grandparents knew this lesson, but my Wall Street experience reinforced this to me – that every dollar on the ranch has to bring back a premium over the cost of capital."

Examine Capital Structure. "The ranching business is not one that can support a tremendous amount of debt," notes Maddux. Thus, he strives to regularly evaluate if the ranch has a manageable amount of debt to equity. As well, he says, "Being from the bond business, I'm always focused on aggressively managing our fixed rate versus variable rate financing." Doing so he points out, helps a business avoid being subject to rising interest rates like what is currently occurring.

Seek Diversification. "One of the important aspects of portfolio management is diversification," says Maddux, who explains that having assets that offset the movement in other assets is key to this strategy. He notes that a traditional ranch like his parents and grandparents ran had basic assets of land and cattle. But today, ranch managers have opportunities to diversify with a mix of financial assets along with livestock and land. Maddux points to PRF (Pasture, Range & Forage)



John, his wife, Julia, and their two sons, Taylor and Tomas, are the fourth and fifth generation of Maddux's operating the ranch.

Insurance as one example, and says, "PRF insurance is more of an investment than it is insurance. It is based on the weather, which makes it a wonderful diversifier [to offset traditional ranch assets] in a portfolio."

Manage Risk. Maddux notes, "At Goldman Sachs we were active risk managers in the bond market, and I'd say similarly ranching is a risky business. We do need to take some risks, because we want to have outsized returns on occasion." But along with that, he emphasizes it is essential to have a written plan that gives "permission to act." He explains, "Having that plan is super important because when you get caught up in the market your plan will help you act and allow you to pull the trigger at a time when human nature says, 'Why would I do that because the market has been going straight up?' But having that plan takes the emotion and human nature of questioning 'What if I'm wrong?' out of the decision."

Additionally, Maddux cautions against lack of action. He

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John Maddux, Maddux Cattle Company



Employees and family at a Maddux Cattle Company picnic.

notes, “Doing nothing and passively waiting for something to happen is not riskless. Don’t let fear of the future cause inertia to drive your risk management strategy.”


Recognize Depreciation. “Cows are a very strange capital asset,” Maddux points out, and explains that as a cow is developed and brought into the herd she appreciates until she is 6-years-old, and then there is a very rapid depreciation after that point – with depreciation considered the second highest expense in raising a cow. So, Maddux has developed a strategy to take advantage of this timeline and minimize depreciation. Maddux Cattle Company focuses on low-cost, forage-based heifer development, with almost all heifers returning to the herd as breds. Maddux says, “This allows us to build a large volume of functional running age cows.” Consequently, in April a cow sale is held offering 5- and 6-year-old cows from the herd.

Maddux says, “This ensures we are selling that cow at her optimum value right before she depreciates in a huge way.” Combined with bringing in heifers at a low-cost, Maddux believes this strategy eliminates depreciation within his cowherd on the ranch balance sheet.

Cultivate Culture Within Your Team. Maddux says, “I have learned the power of culture from shared values among the people on our ranch team.” He recognizes the “tribal knowledge,” pride, and team effort that emerges when people genuinely enjoy their role and the pursuit of contributing toward the business goals, rather than solely viewing their job as trading time for money. Maddux credits the three generations before him for fostering a team approach and building the Maddux ranch “culture.”

Similarly, while at Goldman Sachs, Maddux valued the culture that was established and epitomized by the guidance of senior partner, Gus Levy, who was known for saying, “Boys, we want to be long-term greedy.” Throughout his ranch tenure, Maddux has strived to keep this watch phrase top-of-mind because it captures the family’s long-term intentions to encompass the importance of integrity and valuing customer relationships over short term profits.

Maddux shares, “The idea of short term versus long term is applicable to us and one we live by every day.” He notes that ranchers can’t cut corners for short term gains in range management, cattle nutrition, or their relationships with people be it employees, colleagues or customers.

Ultimately, Maddux credits people as a key ingredient to any business’ success, and strives to recruit, train and retain employees as a long-term investment. Maddux concludes, “Having a ranch where employees have a strong sense of purpose and culture in order to help pass that culture on to others is truly the definition of riding for the brand.” 



Driving cows back to the ranch in spring.

MORE ABOUT MADDUX CATTLE COMPANY

Replacement heifers and cows are bred to calve in April and May on native range, and graze through summer and early fall with calves at side. Come fall, calves are weaned from first calf heifers and backgrounded or winter grazed, while mature cow-calf pairs are winter grazed on leased cornstalks from November through mid-March. These lactating females are supplemented. Pairs are then driven back to the ranch roughly one month prior to calving and 11-month-old calves are weaned.

With this system, the Maddux's dry cows and most calves have year-round grazing with no hay or supplement fed. Some strategic protein supplementation is used for first-calf heifers pre-calving and pre-breeding.

The 11-month-old weaned steer calves graze through the spring and summer on leased acres and are marketed off grass each August as 900-pound yearlings. At weaning, nearly 100% of home raised heifers are retained for replacements, along with select bull prospects.



Driving yearling steers back to the ranch.

Home raised sires are selected by retaining composite bulls from an elite herd of Maternalizer cows with superior records. Cows are evaluated for the following traits, with the ideal cow being: 1,150 lb. mature weight, frame score 5 or less, fault free udders, docility, fertility, polled, longevity, pigment on eye and udder, solid colored, fleshing ability, calving ease, modest early growth and milk production. The primary selection criterion for replacement heifers and the cowherd is fertility. On a 70-day breeding season only the cows that conceive in the first 45 days of the breeding season remain in the herd.

The Madduxes believe that within their composite cowherd, high growth and more milk are not desired because of higher maintenance and feed costs associated with higher production. Additionally, while some emphasis is given to carcass traits, selection is primarily for fitness and convenience traits over maximum production. Maddux Cattle Company's goal is to have every cow pregnant, calve unassisted, and raise a calf albeit at a lower weaning and yearling weights than many production systems.

Also unique to Maddux Cattle Company is a strategy that does not maintain a mature bull battery, but instead will use around 200 yearling bulls exclusively at a ratio of 15 cows to 1 yearling bull. All yearling bulls are castrated immediately after use and culled to coincide with market signals. This is done primarily to minimize the costs of maintaining a large number of mature bulls, while also capturing an economic return.

Learn more about Maddux Cattle Company at madduxcattle.com



Trailing cows back to the ranch from grazing cornstalks.