



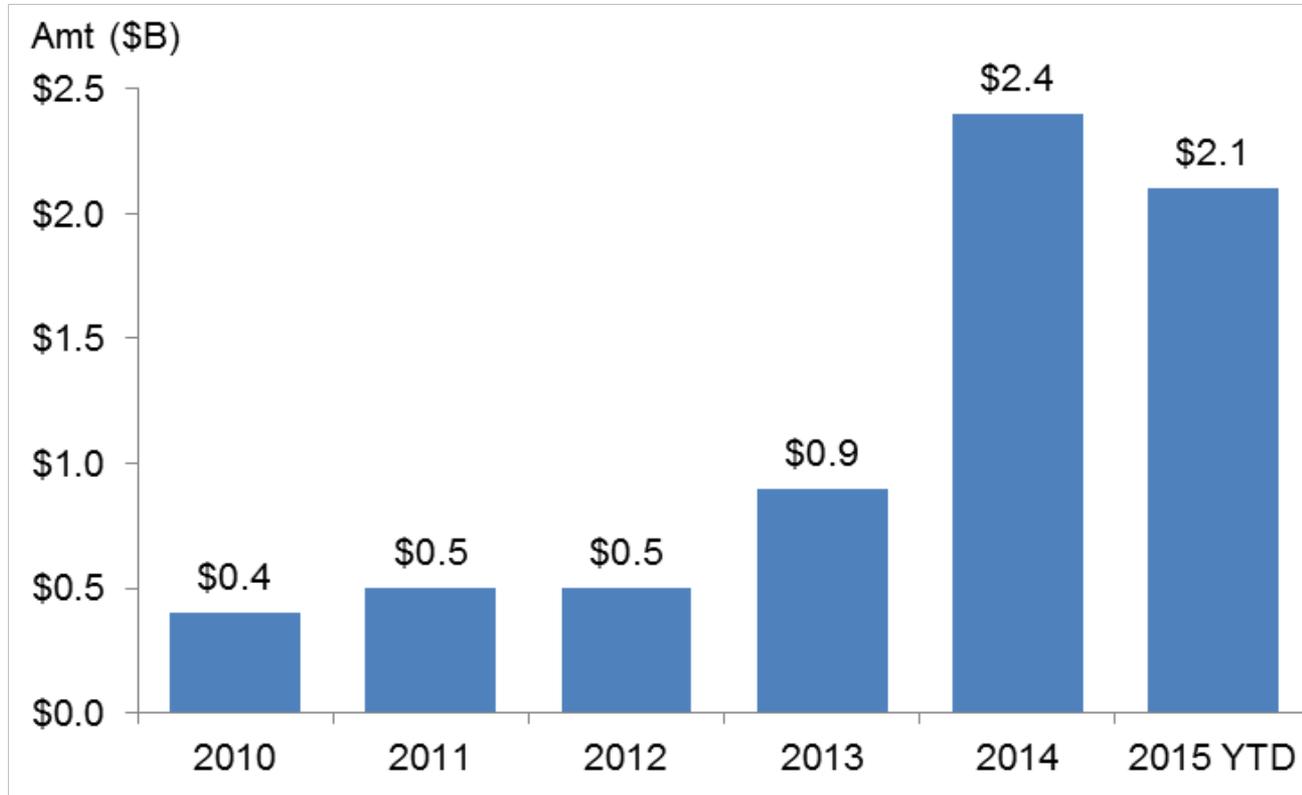
**John Campbell**  
**Managing Director**  
**Ocean Park Advisors**

November 5, 2015

# A New Era in Agriculture

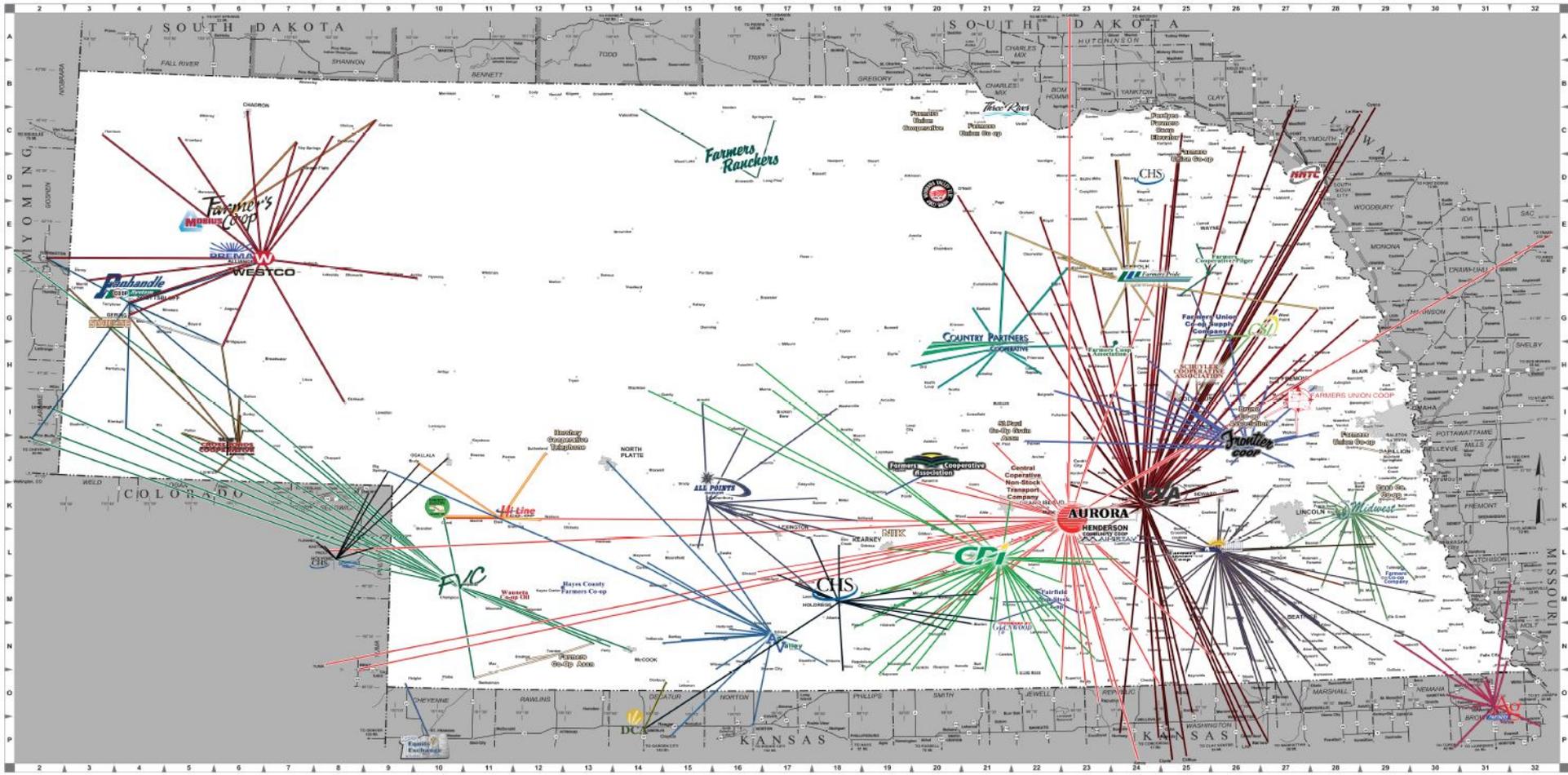
Since 2010, the Ag sector has attracted \$6.8B of capital investments from corporates, venture capital, private equity and institutional investors.

## FY 2010 – YTD 2015: Capital Investments in Ag Sector

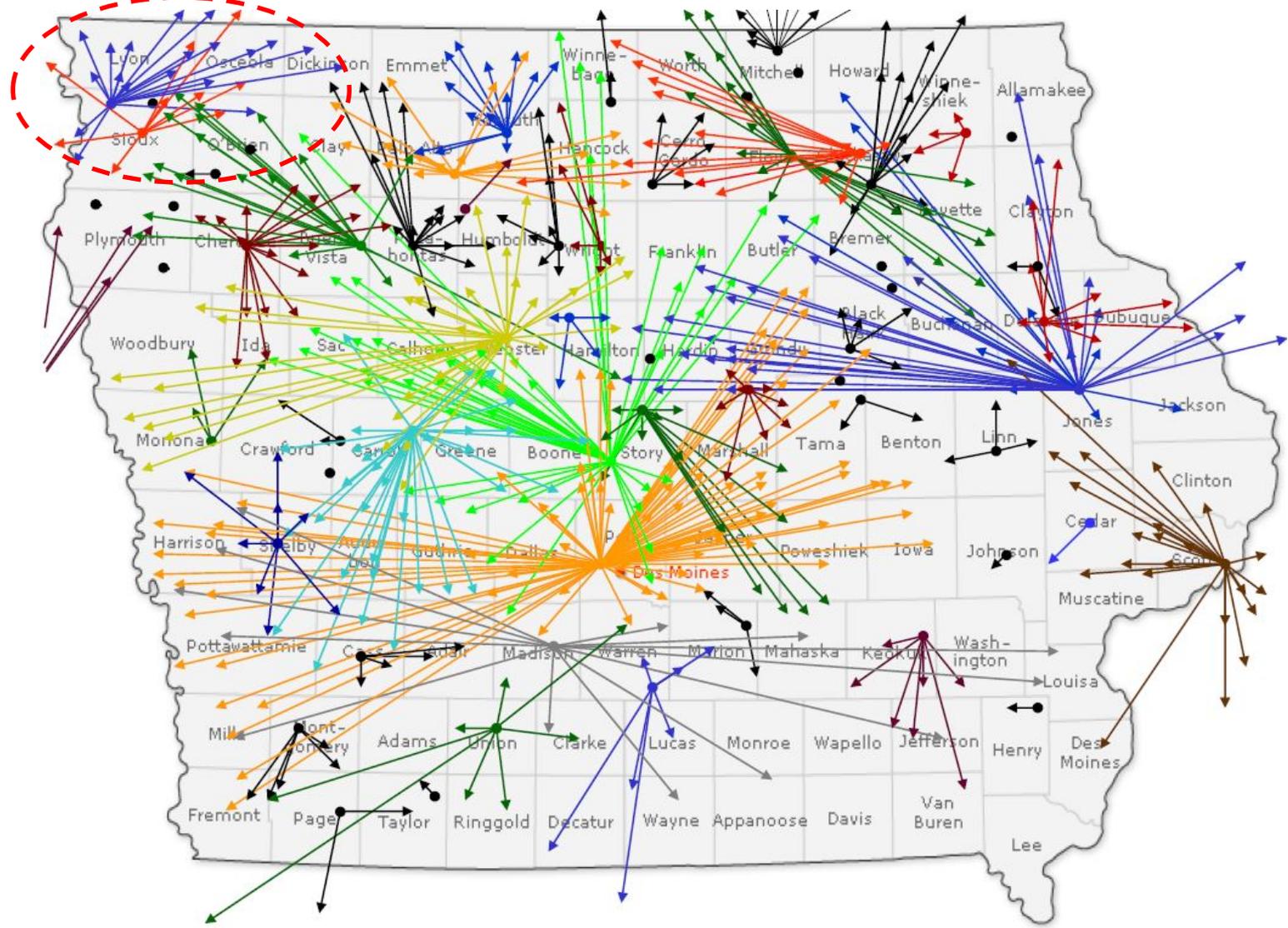


Source: AgFunder.  
Note: Data as of June 2015.  
OPA estimates that \$2.1B is invested in the AgTech sector since 2010.

# Co-ops in Nebraska



# Co-ops in Iowa



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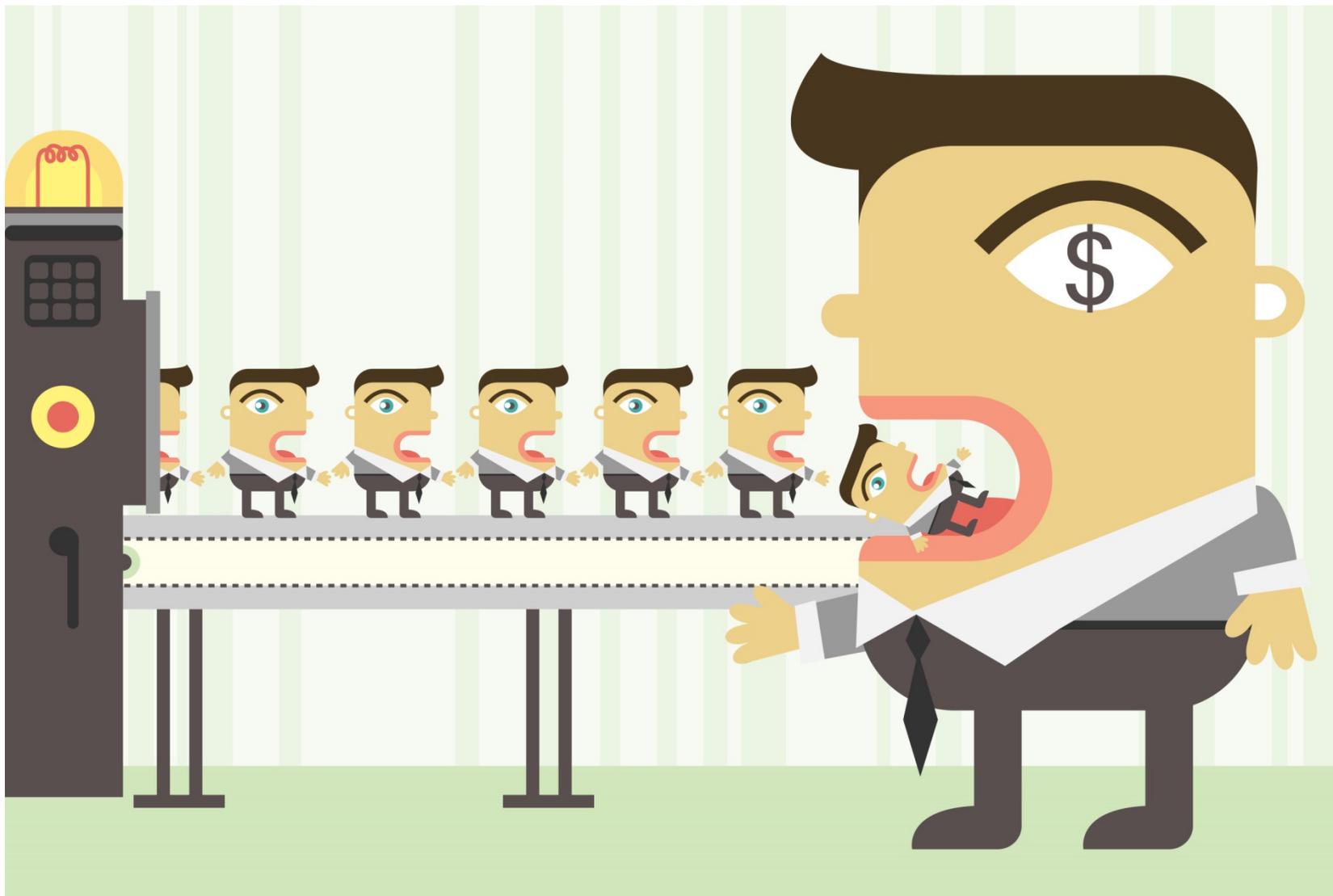
# Retirement



# Grain Warehouses



# Monopoly



# Royalty



# Why Merge?

Key considerations for merging with a larger player in the field:

Has the merger and acquisitions model run its course?

# 1 + 1 = 2?

- Have we gained anything other than trade territory?
- Is there untapped potential form “big data”?
- Is there a dilution and revolvment penalty for acquiring entity?
- Do Members increasingly view the “Super local” as too dominant and no different than the large privates and multinationals?
- Are there other options for the target cooperative?

# Converting Ethanol Plant for Renewable Chemicals

OPA advised CMEC on the sale of its ethanol plant to Green Biologics which will be repurposed as a renewable chemicals plant.

## OCEANPARK | ADVISORS

 <p><b>Existing Owners of CMEC</b></p>	
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**Green Biologics Project Company**

# Value Added Conversion Examples

The closed cooperatives evolve.



- **South Dakota Soybeans Processors converted from cooperative to LLC**
- Rationale: improved liquidity, access to new capital, and more tax efficient distribution of income



- **ADM acquired Minnesota Corn Processors (MCP)**
- Members received \$2.90 per unit, a significant premium over recent market price of \$1.00 per unit <sup>(1)</sup>



- **Minnesota Soybean Processors converted to modified 308 b cooperative**
- Rationale: increases tax options and access to outside equity



- **Dakota Growers converted from cooperative to a Class C corporation, and subsequently sold to Post Holdings**
- Rationale: improved liquidity and greater access to new capital

(1) Company's press release

# How Can Conversion and M&A Add Value to Members?

Key considerations for Conversion and M&A.

Will members with successful value-added investments put pressure on traditional open cooperatives for higher financial performance and faster revolvment?

1 + 1 > 2?

- Is basis improvement regardless of plant profitability enough now?
  - “Where are my dividends?”
- Limited Investment Liquidity
  - “I wrote a check 10 years ago and now how do I get out?”
- What to do next – Predator or Prey?
  - “Been there and done that.”

# Power of external capital

Examples of open cooperatives innovation with private sector.

2014		+		=	Flint Hills Grains
2014		+		=	TruHorizons 
2012		+		=	Nasdaq: REGI
2011					501 a) conversion
2011		+		=	United Grain Systems
1997		+		=	
			Big River Resources, LLC		501 a) conversion

## Battle Lines – Locals vs. Privates



# Cooperative Capital Structure

Based on a review of 32 cooperatives (primarily in Iowa), the average co-op has \$128M in assets and \$78M of debt on its balance sheet.

Capital Structure		Observations
<b>(\$M)</b>	<b>Average Co-op</b>	
<b>Assets</b>		
<b>Current Assets</b>	<b>\$77.8</b>	
Inventory	51.6	
<b>Fixed Assets</b>	<b>33.7</b>	
Other Assets	16.4	
Investment in co-op	15.9	
<b>Total Assets</b>	<b>\$128.0</b>	
<b>Liabilities</b>		
<b>Current Liabilities</b>	<b>\$59.5</b>	
Long-term Liabilities	18.6	
Other Liabilities	-	
<b>Total Liabilities</b>	<b>\$78.1</b>	
<b>Equity</b>		
Unallocated Equity	\$29.2	
Allocated Equity	20.6	
<b>Total Equity</b>	<b>\$49.9</b>	

- Cooperatives are using more debt than equity to finance the value of their assets
- The average co-op has the ability to meet its near-term obligations
- Approximately 66% of the value of current assets is in inventory, an asset that is less liquid than cash
- 76% of total debt is short term debt, which are due within 1-year (vs. longer-dated maturities)
- 58% of total equity is unallocated
  - Since co-ops do not have access to outside capital, its major source of financing is from its members
  - The unallocated equity portion is tied up unless the co-op is sold to a private investor

Source: CoopMetrics, Data as of 4Q 2014

# Financial Comparison: Co-ops vs IOFs

Unlike IOFs, co-ops are capitalized by members and not by passive investors.

Co-op vs IOF		
(\$M)	Average Co-op	Average IOF
<b>Assets</b>		
<b>Current Assets</b>	<b>\$77.8</b>	<b>\$13,454.5</b>
Inventory	51.6	5,241.2
<b>Fixed Assets</b>	<b>33.7</b>	<b>5,445.8</b>
Other Assets	16.4	3,707.6
Investment in co-op	15.9	-
<b>Total Assets</b>	<b>\$128.0</b>	<b>\$22,607.9</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>	<b>\$59.5</b>	<b>\$8,444.6</b>
Long-term Liabilities	18.6	2,903.9
Other Liabilities	-	1,544.8
<b>Total Liabilities</b>	<b>\$78.1</b>	<b>\$12,893.2</b>
<b>Equity</b>		
Unallocated Equity	\$29.2	-
Allocated Equity	20.6	9,714.7
<b>Total Equity</b>	<b>\$49.9</b>	<b>\$9,714.7</b>

Observations
<ul style="list-style-type: none"> <li>Compared to the average investor-owned firm (IOF)<sup>(1)</sup>, the average co-op has: <ul style="list-style-type: none"> <li>Similar leverage. co-ops financed 61% of their assets with debt (vs 57%)</li> <li>Similar ability to meet its near term obligations: current ratio: 1.31 vs 1.59</li> <li>Similar efficiency in utilizing its assets: revenue is 2.07x assets vs 2.11x</li> <li>Similar profitability: EBIT is 2.50% of sales vs 2.71%</li> <li>Similar ability to service its debt: interest coverage ratio is 5.61x vs 5.48x</li> </ul> </li> </ul>

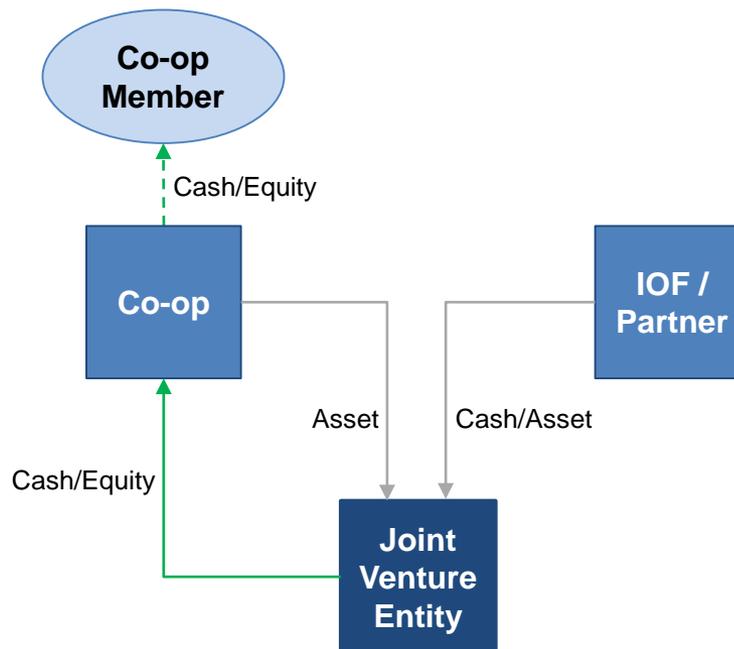
Source: AgDecision Maker Vol.19, No.7 – by Dr. Keri Jacobs; data as of 4Q 2014

(1) IOFs include: ADM, Bunge and The Andersons.

# Cooperative Structure with Joint Venture

**Maintain cooperative structure but joint venture / partner with IOF.**

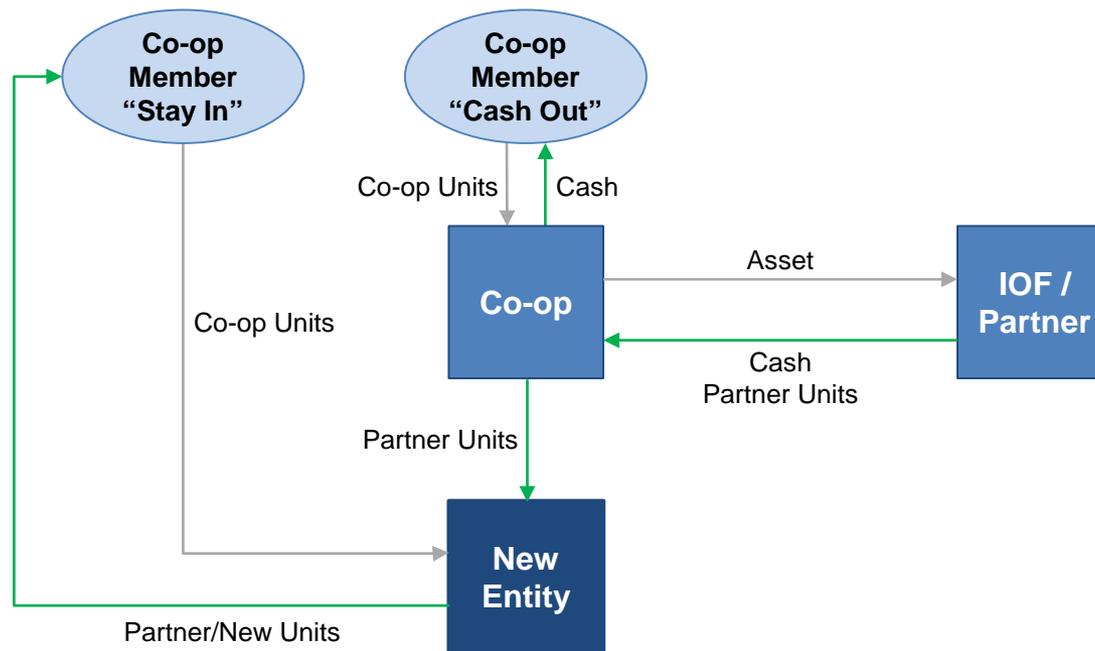
- Cooperative forms an entity through a joint venture or partnership with IOF
- Cooperative contributes some or all assets to the JV entity and receives equity in exchange
- Partner would inject cash or assets into the JV entity that could be used for purposes including equity, patronage retirement, necessary facility enhancements, working capital



# Convert Cooperative Structure

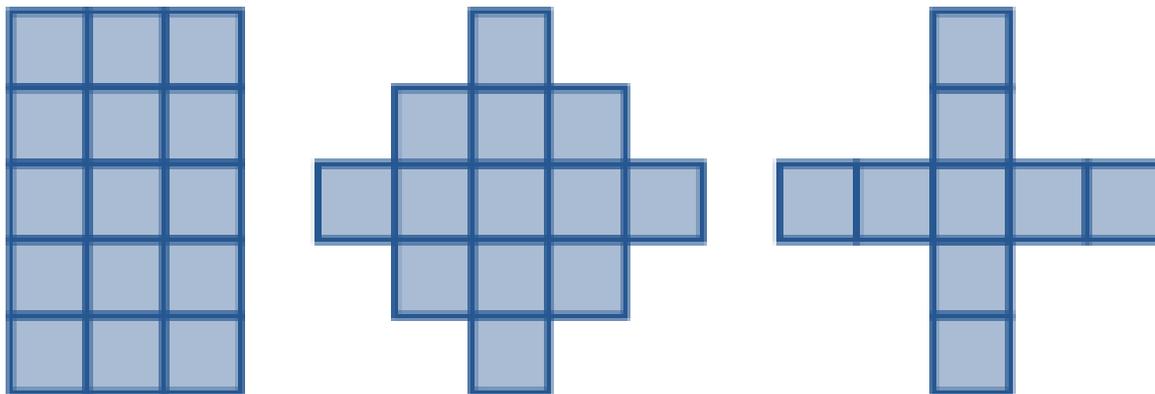
Convert cooperative structure into different kind of entity.

- Members who wished to retain their ownership in the new entity could do so, while other members could choose to sell their ownership
- Members could receive consideration in the form of cash, shares in the new entity, or even shares in the entity providing the liquidity event



# Structuring Process

- Approach of the Cooperative General Manager and Board of Directors with a proposal outlining key economic and structural considerations
- Proposal would contain the following elements:
  - Valuation
  - Approach on how equity and patronage would be handled
  - Outline of tax efficiency elements
  - Key organizational elements such as management structure, board members as necessary, etc.



## Conclusion

“Any enterprise seeking long-term sustainability would do well to learn from both the super corps and super coops that stress purpose, values, principles, partnerships, and member voice.”

*Roseabeth, Moss Kanter – Harvard Business School*

