

Farmer Cooperatives Conference

November, 2017

Tennessee Farmers Cooperative





TFC History

CO-OP

- TFC formed in 1945 by 33 member retail cooperatives.
- By 1961, membership in TFC had grown from 33 to 90 local cooperatives
- Today, 55 member Co-ops make up our federated Co-op system
- TFC and local Co-ops employ over 2,300 personnel



Ownership

- 60,000 farmer members own their local member Co-ops (55), each of which is an independent business, governed by an elected board of directors.
- The 55 member Co-op's in turn own TFC which is governed by an nine-member board of directors.
- TFC's directors are elected from three zones of the state
- Elected directors serve a three year term
- Three consecutive term limit
- 1 member; 1 vote



What is the Co-op system?

- TFC is the wholesale cooperative, purchasing and manufacturing products for the 55 member retail cooperatives.
- There are 154 retail outlets in the system
- Member co-ops are located in 85 of TN's 95 counties, along with locations in GA, NC, KY, AR, MS, and VA.
- Each member Co-op is an independent, separate cooperative businesses.



TFC Service Departments

- Regional Accounting
- Corporate/Member Services
 - Communications
 - Training
 - Marketing
- Human Resources
- Field staff
- Co-op Financial Services
- Information Systems
- Legal
- Retail Development
- Web Strategy
- Risk Management Services
 - Risk Management
 - Environmental Health & Safety (EHS)
 - Employee Benefits



TFC Facilities

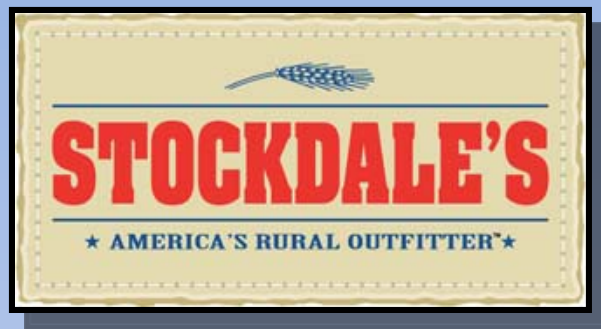
- Feed Mills in West, Middle, and East TN
- Distribution in West, Middle, and East TN
- Fertilizer Plants in West, Middle, and East TN
- Seed Processing Plant in West TN
- Office in La Vergne, TN



Ag Distributors, Inc.

- Wholesale fertilizer to non-members
- Three barge terminals
- Liquid nitrogen plant





- Six stores operating
 - Hixson 47,000 sq ft., opened Nov. 06
 - Covington 25,000 sq ft., opened May 07
 - Bowling Green, KY 35,000 sq ft, opened April 2011
 - Oakland, TN, 18,000 sq ft, opened March 2013
 - Selmer, TN, 11,000 sq ft, opened March 2013
 - Bolivar, TN, 5,000 sq ft, opened April 2013



Investments

- GreenPoint Ag
- Allied Seed
- EFC
- Mid-States
- Alliance Farm and Ranch
- Alliance Animal Care



Financials

	2017		2016		2015		2014		2013	
Sales	611,181,599		613,671,129		690,361,600		763,217,643		774,913,672	
Member Programs	(388,322)		(372,819)		(425,039)		(485,724)		(473,276)	
Net Sales	610,793,277	100.00%	613,298,310	100.00%	689,936,561	100.00%	762,731,919	100.00%	774,440,396	100.00%
Cost of Sales	552,851,690	90.51%	555,230,672	90.53%	629,168,919	91.19%	700,853,053	91.89%	717,604,551	92.66%
Gross Margin	57,941,587	9.49%	58,067,638	9.47%	60,767,642	8.81%	61,878,866	8.11%	56,835,845	7.34%
Operating Expenses	48,779,667	7.99%	48,574,997	7.92%	46,113,226	6.68%	44,437,944	5.83%	46,706,417	6.03%
Operating Income	9,161,920	1.50%	9,492,641	1.55%	14,654,416	2.12%	17,440,922	2.29%	10,129,428	1.31%
Interest Expense	(1,586,013)	-0.26%	(2,277,698)	-0.37%	(2,626,024)	-0.38%	(2,850,110)	-0.37%	(2,874,403)	-0.37%
Interest Income	10,816,856	1.77%	10,549,796	1.72%	10,039,705	1.46%	8,539,212	1.12%	8,554,200	1.10%
Other Revenue	9,958,457	1.63%	5,367,123	0.88%	5,887,441	0.85%	3,782,843	0.50%	11,717,313	1.51%
Margin before Income Tax	28,351,220	4.64%	23,131,862	3.77%	27,955,538	4.05%	26,912,867	3.53%	27,526,538	3.55%
Income Tax	2,880,668	0.47%	(1,056,542)	-0.17%	1,473,973	0.21%	4,400,749	0.58%	2,419,007	0.31%
Net Margin	25,470,552	4.17%	24,188,404	3.94%	26,481,565	3.84%	22,512,118	2.95%	25,107,531	3.24%



TFC's Success Strategy

- **Deliver value**
 - Best provider of business support
 - Accessible and knowledgeable product support
 - Deliver patronage and equity revolvment
 - Supply chain efficiencies
 - Create system efficiencies through technology
- **Growth**
 - Members, associate members and customers
 - New business, acquisitions or alliances
- **Leadership Development**
 - Attract
 - Educate
- **Lead the federated cooperative system development**
 - Position to compete and win
 - Business model evaluation



Member Cooperatives

- Strong financial results in the last 5 years
- Consolidated record earnings in 2012, 2013, and 2014 (not all are equal)
- Based on location, coops were becoming much different in recent years
 - Agronomy
 - Livestock
 - Rural Lifestyle
 - Urban



Member Cooperatives

- Farmers were becoming larger covering multiple counties and states
- Smaller independent dealers were disappearing
- Member cooperatives competing more against each other
- Some getting stronger; others weaker



Statewide Manager Meetings

- 2011 & 2013
- Openly discussed the way we were structured
- All areas of the state agreed that we needed to look at options for changing our structure.
- Asked TFC to lead the project
- Formed System Study Team in 2014



System Study Team

- 3 TFC directors
- 3 member directors (selected by managers)
- 3 member managers (selected by managers)
- 3 TFC staff
- Chaired by Kenneth Nixon
- Facilitated by Steve Montgomery



System Study Team

- Met 7 times
- Brought in industry and cooperative leaders
- Developed 5 strategies
- *Always focused on what was in the best interest of our farmer members*



Strategies

- **#1 TFC will develop and support the concept of allowing local cooperatives to become an operational division of TFC.**
- Two other strategies were focused on eliminating duplicate facilities and inventory.
- The other two strategies dealt with marketing and people (managers, employees, and directors



Strategy #1

- Visited with manager groups
- Most managers agreed that they wouldn't support this strategy because they wanted to know who would join.
- Managers thought it best to have a full consolidation vs single co-ops joining 1 at a time.
- *We changed our focus*



Unification Strategy

- What is the strategy?
 - “Enhance the value to the farmer owner by focusing on efficiencies that will maximize the effectiveness of our cooperative system”.
 - Create a new retail cooperative that combines the net assets of member coops and TFC.
 - Farmer owned and controlled
 - Focused on the retail customer
 - Financially sound
 - Future growth



Unification Strategy

- What do we gain by executing this strategy?
 - Safeguards farmer equity
 - “Power of Direction”
 - Improved utilization of existing assets
 - Future capital investment better utilized
 - Inventory efficiencies improved
 - Increased procurement leverage
 - Increase profitability
 - Marketing strategy
 - Unified transition effort from where we are today



Unification Strategy

- What do we risk losing if we do not execute this strategy?
 - Relevance to the market
 - Farmer equity
 - Farmer equity in member Coop's
 - Member Coop equity in TFC
 - Growth
 - Investment capital for new services
 - Jobs



Unification Strategy

- How do we transition from our current structure to a unified retail cooperative?
 - Create the new coop
 - Have plenty of education meetings (met with most every board)
 - Determine the fair market value of the coop that wants to join the new coop (*member coops and TFC*)
 - Membership votes to join the new coop



Group of TFC Member Coops
(\$500 m retail & 2.5% Net Income)

TFC

Step One

Step One

Letters of Intent to join NewCo requiring
1) Info required for a merger plan
2) agreeing to prescribed appraisal
3) adopt a resolution supporting the merger
4) agree to hold a membership vote

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Step Two

Step Two

Board of Director vote on the plan of merger

Board of Director vote on the plan of merger

Step Three

TFC and Member Coop Membership
Votes

Step Four

Merger/Consolidation is now binding

Final Step

Closing of all contracts, approx. same time
NewCo is Operational



Process to deliver Plan

- Met with 95% of member boards
- Met with all member managers 2 times
- Explained the reasons why
 - Most everyone agreed with the reasons
- Had a special session at TFC annual meeting
- Roundtable meetings in February
- ***Died from lack of support following these roundtable meetings.***

Reasons for Failure

- Loss of local control (56 boards reduced to 1)
- Changed from System Study Team recommendation
- Merging 55 member co-ops plus TFC (Complicated; 56 different businesses)
- Unanimous board support on TFC board
- We didn't have a short compelling answer to "Why" and "What's in it for me"
- Vocal minority
 - TFC 2016 annual meeting



Reasons for Failure

- Answers were not available for many of the questions
 - Who will be the CEO?
 - Who will be on the Board?
- Past financial success
- Inability to form a merger committee

Positives

- Our board and senior staff met with the majority of our members' boards
 - Good meetings
 - Fair questions
- We are still financially sound
- Everyone is better informed than ever before
- Follow-up discussion at the member level



Thank You

