

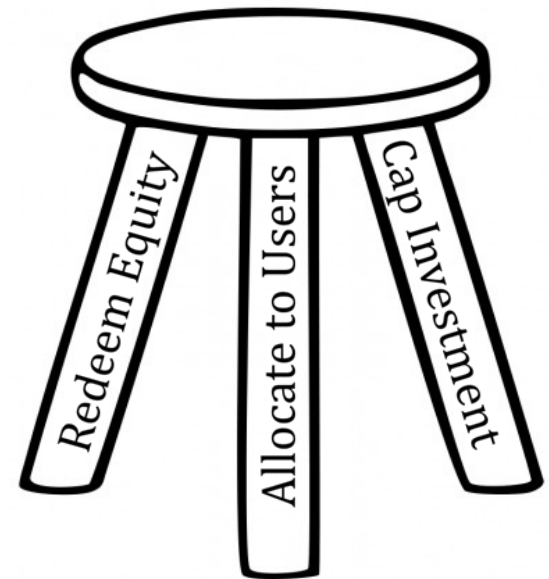
Financial Perspectives on Agricultural Cooperatives

National Agricultural Credit Meeting
Federal Reserve Bank of Kansas City
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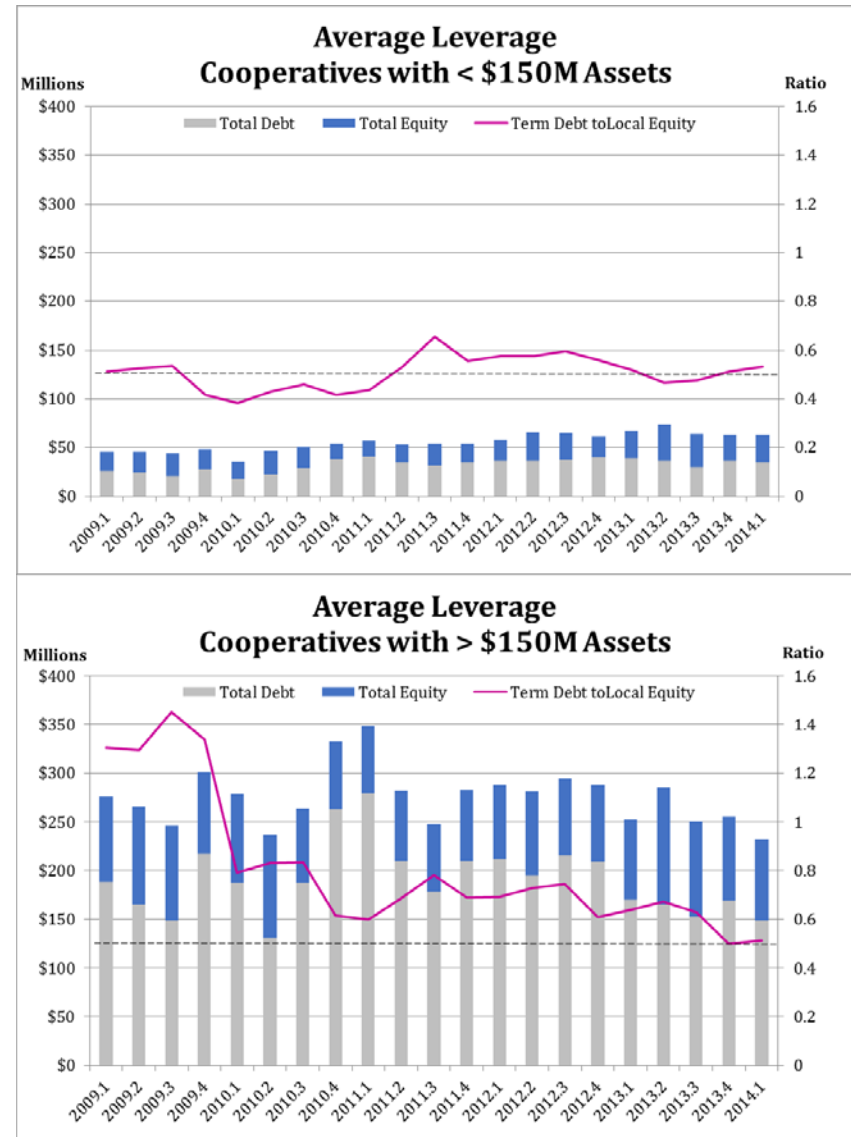
Key Financing Characteristics

- Unique nature of cooperatives restricts capital accumulation and equity management
- Fundamentally different financing due to equity structure and how it is managed
 - Equity as a liability
 - Balance of ownership and flexibility
 - “Local equity” matters most



Balance Sheets

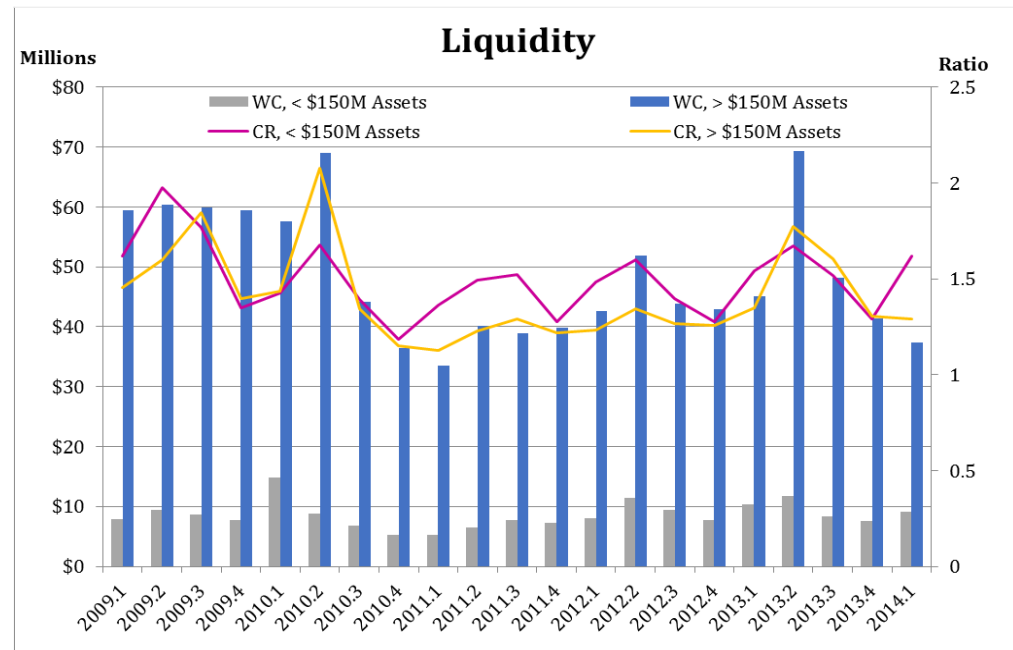
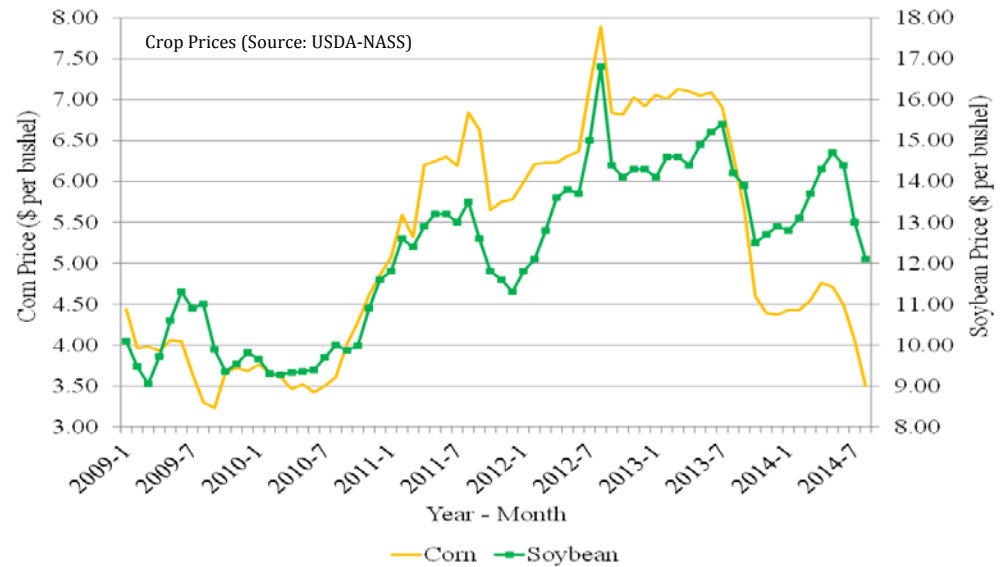
- Significant variation in asset values; ~ 30 – 60% of assets are inventory subject to pricing
- Total debt to equity reflects commodity price movements
- < 50% term debt to local equity a target for most cooperatives



Balance Sheets

- Rising prices through 2012 triggered significant pressure on firms to increase WC

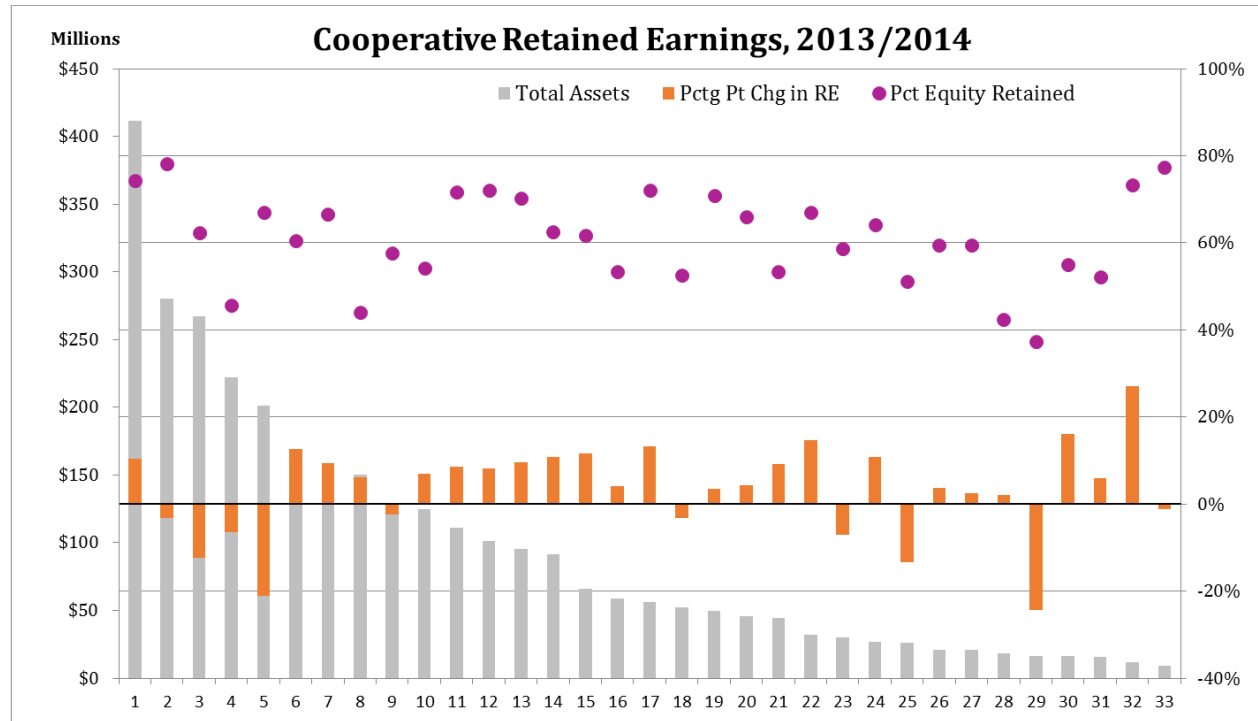
- Likewise, recent reductions leave firms with excess working capital
 - Reduce term debt
 - Reinvest
 - Hold



Equity Holdings

- Historically, slow equity accumulation even in periods of high profitability
 - Allocate patronage to members and retain a portion at the co-op level, a portion paid in cash
 - Redeem allocated equity to pay estates and members' holdings – how quickly?
 - Do not allocate to members and keep “retained savings”
- Section 199 and the use of “non-qualified distributions” complicates the decision

Equity Holdings – Sec 199 Impacts

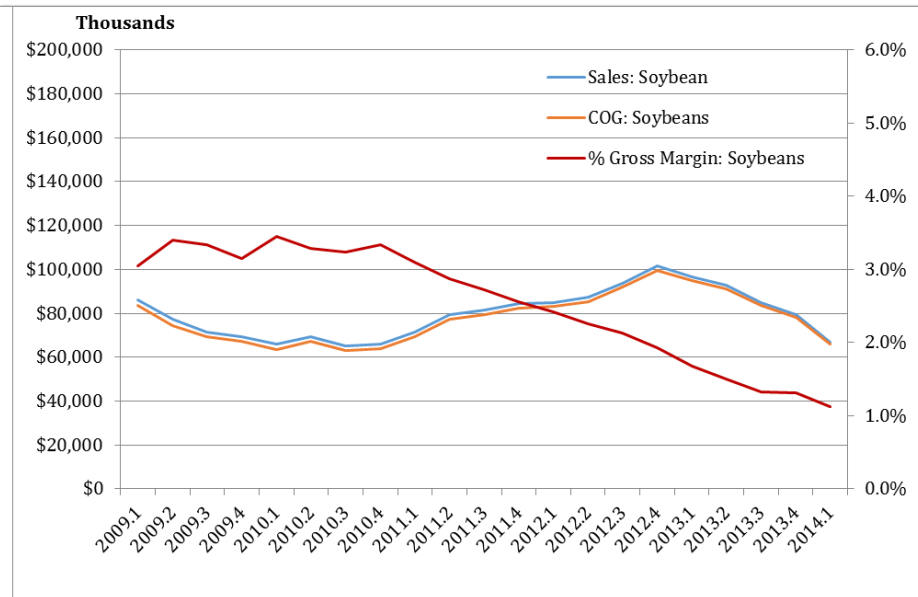
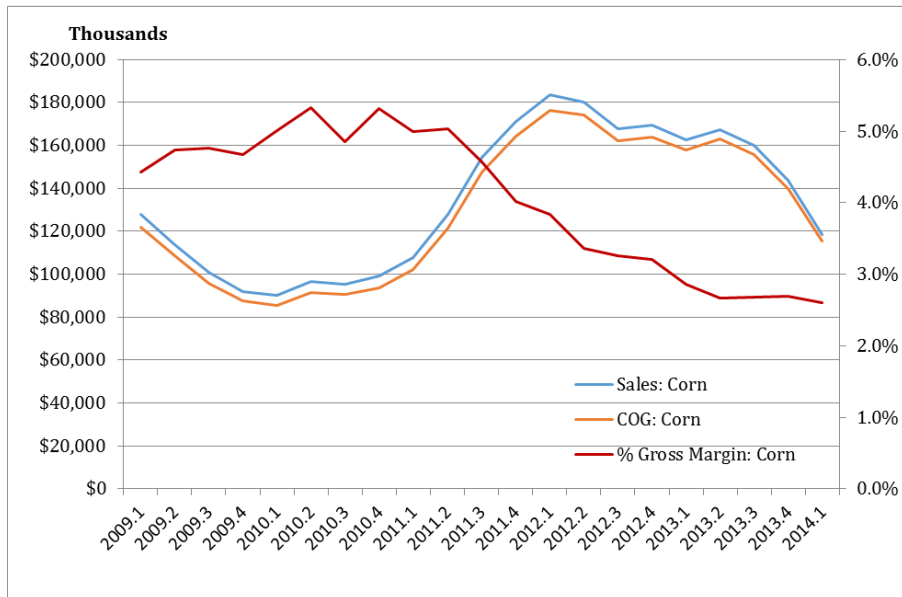
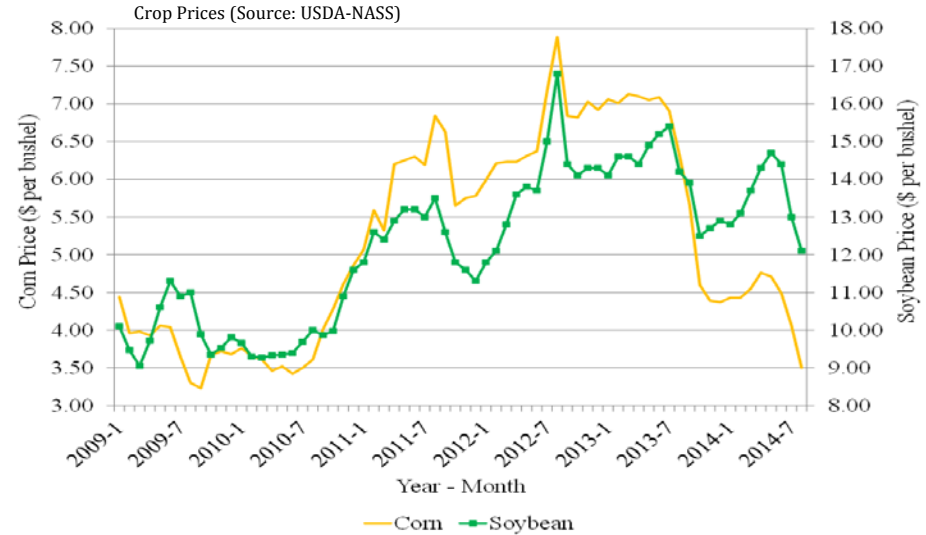


Source: CoopMetrics

- Co-ops' boards struggle to strike a balance between member-ownership and retained savings

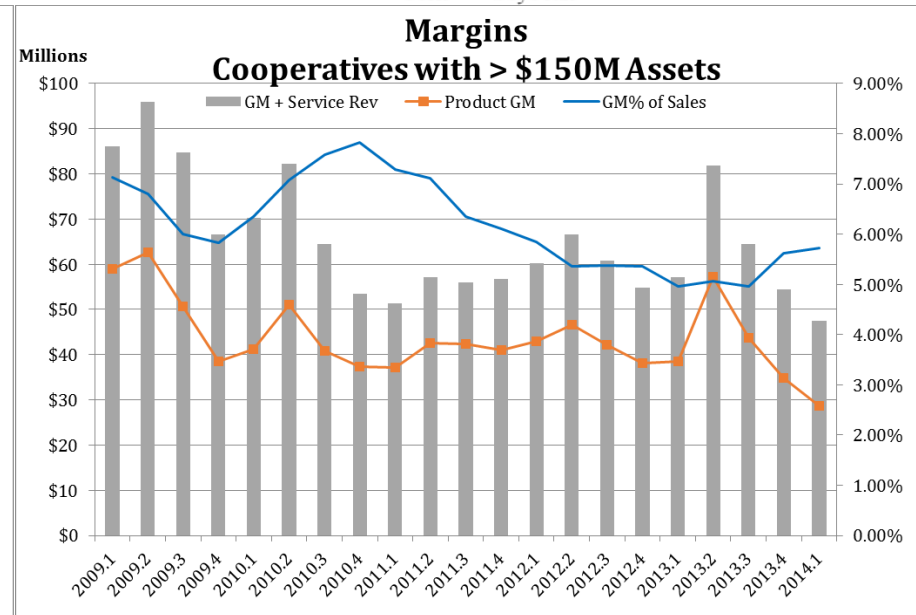
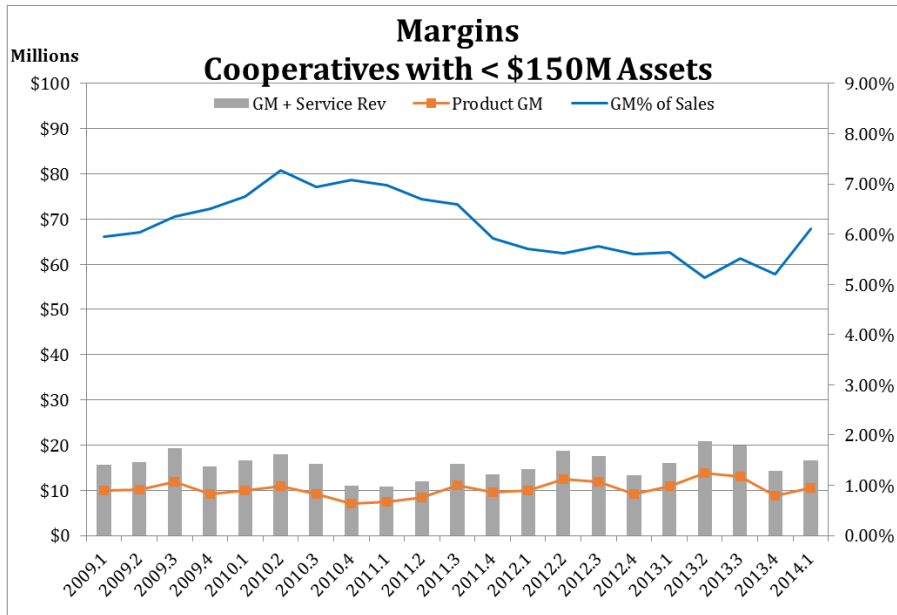
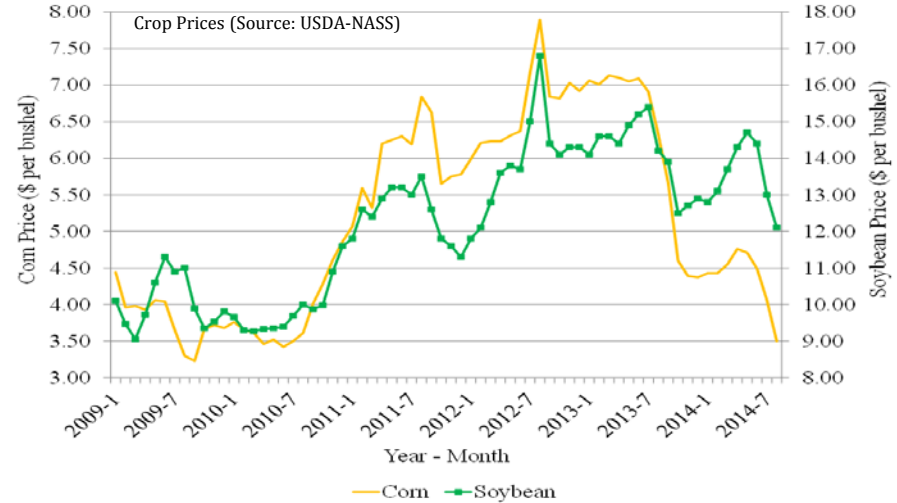
Challenges

- **Narrowing margins**
 - Driven by rate of change of prices?
 - Low elevator ownership of crop going into harvest tightens basis
 - Creative HTA or price later programs?



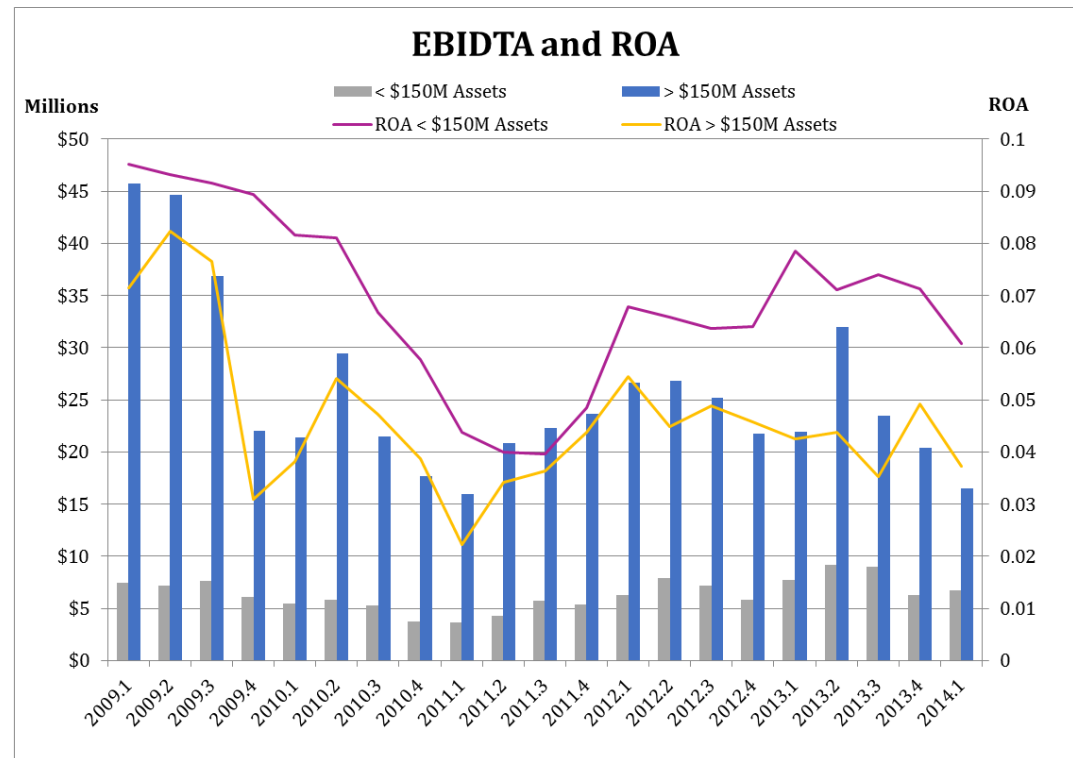
Challenges Going Forward

- Firms need to find ways to bolster margins with service revenues – drying, storage, “big data” programs



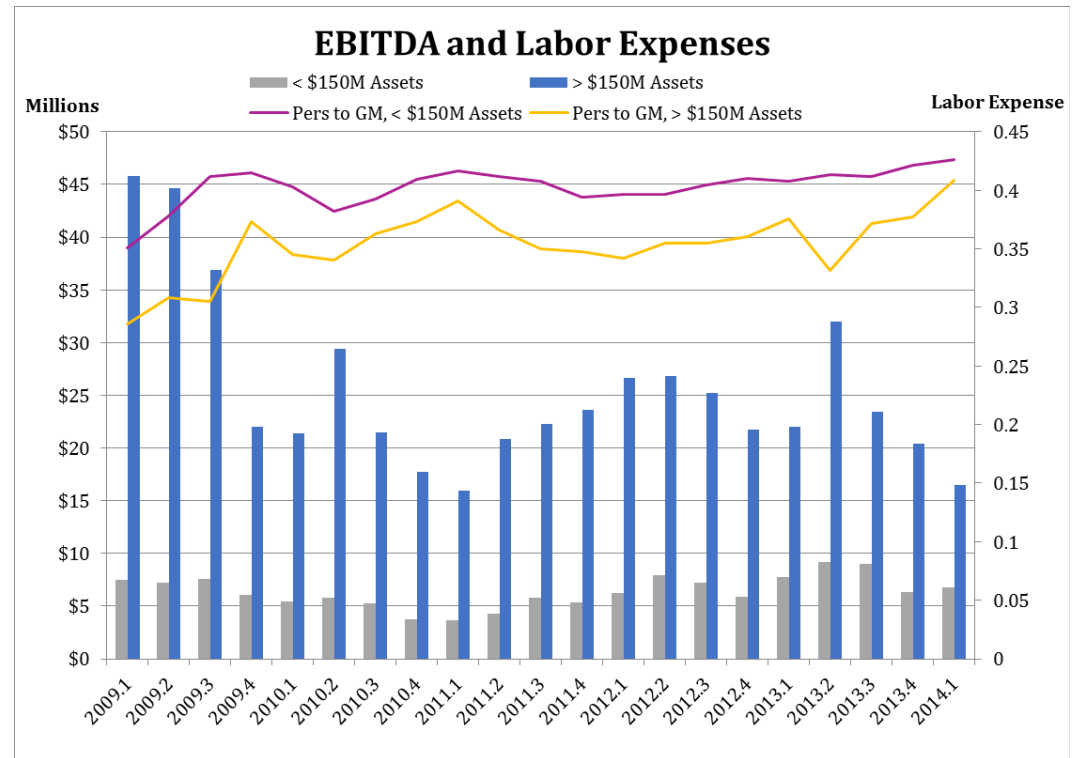
Challenges Going Forward

- Squeeze on earnings expected to continue
- Firms look for ways to increase efficiency



Challenges Going Forward

- Squeeze on earnings expected to continue
- Firms look for ways to increase efficiency
 - Labor-saving investments
 - Strategic decisions about locations



Challenges Going Forward

- Cooperative mergers and acquisitions accelerating
 - 3 completed in Iowa in 2014
 - At least 3 more in discussions
 - Major merger in NE between CVA and United Cooperative
 - Local profitability becomes a concern to continue growth and support financing
- How to manage equity in an uncertain tax and earnings environment

Questions?

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