Valuing Assets During Changing Times

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Discussion Guide

- 3 B's
- Brief History Lesson
- Emergency Room Perspective
- Structure - Are we going the wrong way?

History Lesson

- 1999
  - PLA & MFA LS Merger
  - Name change
- 2000
  - Mgmt. Agr. with IPLA
  - Mgmt. Agr. with DFS
  - Lease with Asheville
  - Discussions with SSC/MLE

- 2001
  - Acquired assets of IPLA
  - Deal with SSC
  - George Young Fraud
  - Litigation
  - Downsizing

- 2002 - 2004
  - Continuing operational scrutiny
  - Governance changes
  - Industry issues
  - Judgments
  - CoBank

- 2005
  - Further development of “NEWCO”
  - Move by judgment creditor
  - Filed for Reorg - 4/2/05
  - Plan confirmed - 3/28/05 !!!
  - Appeal dismissed - 2006
  - Case formally closed - early 2007
“Think of three things: from where you came, where you are going and to whom you must account.”

—Proverb

“Where do we go from here?”

- Are we viable?
- Our assets have value, both UPI & PCC.
- We had little or no equity.
- The members supported us!

Food Supply Chain Dynamics

Critical Paths

- Economic performance
- Structural alternatives
- Intentional leadership

Economic Performance

- Profits pay for growth
- Growth is not a luxury
- What do members value?
Structural Alternatives

- Problem solving
- Governance
- Raising Capital
- Value Proposition & perception

Conclusions & Actions

- Our specialized assets have textbook, coop value, i.e. to the user
- Our loan portfolio is sound and bankable
- Our membership base is willing to do business with us AND capitalize the coop

Capital Retains

- Stole the idea from dairy coops
- Retain on per head of livestock marketed
- Planning a 5 year rollout
- Will raise about $1.0M equity per year
- Not enough!

PCC Solutions

- Concluded we'd make no change to core, cooperative structure and tax status
- Loan assets are high quality
- Limited access to debt capital for growth in conventional credit facility
- Refinanced 100% of portfolio - $ worked
- Will receive bank patronage - reduce long term debt
- Deleveraged the balance sheet by over $50M and therefore need for equity capital overall
- Not enough!

Preferred Membership

- Established new class of membership
- Charge $25/member/year to belong
- To date, over 40,000 Preferred Members!
- You do the math
- Not enough!
Community Markets

- 80/20 rule - most members do business at a facility
- Local auctions are integral part of ag business in rural communities
- During legal crisis, farmers were most concerned about whether their local market would still be there versus loss of equity
- Assets appraised more than term debt

Community Markets

- Creating new local cooperatives in each state
- Facility will be contributed from UPI to local
- Local cooperative, i.e. community market, will be a stock cooperative
- UPI will retain common stocks; operational management via a Management Agreement
- Farmers and related parties can buy preferred stock in local corp.
- Bate size bites...$1,000/share; dividend bearing
- Goal is to raise appraised value of facility
- Buy the coop back from the bank
- Move to local patronage pools - end of 2008

Community Markets

- Goal is to raise $5M over next 18-24 months
- First one has been formed in Michigan and has received 521 IRS exemption
- Not enough!

Community Markets

- Not enough!
- Has received 521 IRS exemption

Summary

- Community Markets, capital retains and Preferred Membership reaffirm cooperative solutions
- Specialized assets have value when directly correlated to meeting members' needs
- Structure may need to change to best meet members' needs
- Producer lending is a critically needed service but must have a flexible wholesale source of funds

Thank you!