Recent Trends in Cooperative Restructuring, Mergers and Acquisitions
18th Annual Farmer Cooperatives Conference

Presented by:
Mark J. Hanson, Attorney/Partner
Stoel Rives LLP

November 6, 2015 • Minneapolis, MN
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Cooperatives

• What is financial core of business?
  – Stable equity
  – Strategic debt
Stable Equity

- Source – members
- Why stable?
  - Expectations
    - Patronage Returns
    - Liquidity
Stable fishing platform?
Members

• What happens when patronage stops but investment remains (no returns, single focus on liquidity)
• When will members want their investment returned?
• What sources to replace?
Critical Board Issue

• What is Board strategy to retain stable equity and member investment?

• What is replacement for current member equity?
  – Members will change, their circumstances will change

• Need to know members
  – What is investment expectation?
Whose expectations will be met?
Risk of Members Wanting Payout

- Change of circumstance, not farming, more liquidity
- Age, retirement
- Need for cash
- Third-party management of investments
  - Particularly age related
Average Age of Primary Farm Operators
USDA Censuses of Agriculture
Number of producers older than 65 years and younger than 45 from 1900 to 2012
USDA Censuses of Agriculture
Distribution of Primary Operator Age
USDA Censuses of Agriculture

1900

1950

1974

2012

Agricultural Economic Insights

Younger than 25  25-34  35-44  45-54  55-64  65 and older

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Typical Coop Member Age Distribution

- 80+ 4%
- 70 12%
- 60 28%
- 50 39%
- 40 12%
- 30 4%
- 20 1%

Age

Percentage
Age Is a Significant Factor

- Age distribution of farmers

![Graph showing the principal operators by age group, 2007 and 2012.](image-url)

- 75 years and over: 2012 Census - 257,697, 2007 Census - 243,472
- 65 to 74 years: 2012 Census - 443,558, 2007 Census - 412,182
- 55 to 64 years: 2012 Census - 608,060, 2007 Census - 596,306
- 45 to 54 years: 2012 Census - 466,048, 2007 Census - 565,401
- 25 to 34 years: 2012 Census - 109,146, 2007 Census - 106,735
- Under 25 years: 2012 Census - 10,719, 2007 Census - 11,878
If You Could Reorganize the Business Today, What Would It Look Like?

- Investment base
  - Who would you want for investors?
- What would investors want from the business?
- What would you want management to do for the business?
- How would management expect to be rewarded?
Transition Structuring

• If equity is not liquid and members are aging, establish company liquidity
  – Buyback
  – Alternative investment
  – Restructure business
Summary

- Investor change is predictable
- Challenging for Board and management to realign business and liquidity to meet investor expectations
- If Board and management wait too long, dissatisfied investors will become the biggest challenge of the business and perhaps its most significant enemy
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Stoel Rives is pleased to announce that it has received National rankings for its **Renewables and Alternative Energy practice** from *Chambers USA*. Chambers and Partners annual rankings are a result of extensive independent research conducted among in-house counsel, corporate executives and leading attorneys.

The firm is also pleased to announce that for the third year in a row it has received a **National First-Tier ranking** for its **Energy Law practice**, an honor achieved by only a select number of law firms in the country.
Questions?