

Merger Discussion Update

Since we announced to you this past fall that we are in formal discussions with Blanchard Valley Farmers about a possible merger, not much has happened due to the late harvest. Recently, the merger committee has met and directors from both sides continue to make strides in gathering information in order to make thoughtful, well researched decisions moving forward.

Luckey Farmers Board of Directors and the management team just finished a day and a half of meetings discussing the future of our cooperative. Discussions included; how we can better serve our members and what impact the merger will have? The recurring theme during the two days was.... *How do we bring the best possible service in the most efficient way and remain relevant for the future for our customers and stockholders?* Having a broad base of members with varying needs brings up a variety of difficult questions that aren't easy to answer.

During the planning meetings, there were several trends recognized as we attempt to answer the question on how to service our member stockholders.

The first trend we recognize is our industry is experiencing tremendous growth by utilizing technology to produce more with fewer resources. This growth hasn't come without some growing pains. As our customers enjoy better yields at higher prices, the farm revenue has allowed many to buy bigger and faster equipment to plant and harvest the crop. This has put an extreme amount of pressure on our facilities to handle the same or more bushels in a shorter time frame. Luckey Farmers has added sprayers and applicators to keep up with the speed of planting and added space to combat the extra bushels at harvest but it still isn't enough. The amount of capital required makes it tough to keep up at the same pace of our customers and continue to pay and revolve patronage at the same time.

Another trend observed is fewer numbers of growers are making up bigger percentages of our business. As farm ground becomes available, the land is transferring to fewer producers over the same area. So, if 100 customers farmed 50,000 acres 15 years ago, today the same acres are farmed by 50. This trend has affected what services are required and the number of assets needed to be invested in. So when a decision has to be made to replace a grain leg or put in more space, where do we invest when we have fewer customers to serve. Do we add it in one location or do we duplicate the same investment over several locations? What is more cost efficient? That scenario is very common and the trend is continuing.

Our competition, either cooperative or private, are combining resources and aligning themselves with suppliers to form dependable relationships that will allow them to grow their product and or introduce new products. Those suppliers want to partner with businesses that will have a bigger influence in the market place. So our competition is becoming larger in scale and acquiring strategic locations to give them an advantage. This is one reason for discussing a possible merger with Blanchard Valley Farmers.

So, what does this mean for Luckey Farmers and its members if the merger is approved? There are several recurring questions I hear: Why do we need to merge when things are fine? Are we in financial trouble? Are they in financial trouble? Why do we need to get bigger? You won't care about the small farmer. I'd like to address these questions in detail:

If the merger would go through, the new organization would represent about \$500 million in sales giving us an opportunity to partner with suppliers providing more purchasing leverage and supply guarantees. \$500 million sounds impressive but we are competing against neighboring co-ops with sales over \$700 million and private companies with sales in the billions. Yes, that would help us gain some leverage and possible price savings but our size would be anything but big in an industry that is rapidly growing. The grain division would have access to rail as Blanchard Valley has two train shippers on the NS railroad that would provide new markets to sell into. This would give us more leverage when selling. Having additional markets won't fix the logistic problems because the whole industry is still trying to catch up with the volume and speed of harvest but it may allow for the both of us to combine resources and invest in strategic locations that could help alleviate the problems.

We have had our best years financially, so why do we need to merge? Like everything else, capital is becoming more of a challenge to source. Blanchard Valley and Luckey Farmers are two financially sound cooperatives. By merging two healthy organizations, it gives our cooperative adequate resources for financing the products and inventories during volatile price swings. As you know, price volatility is the only constant anymore. Merging one unhealthy cooperative with a healthy cooperative could create a bad situation. The best time to consider a merger is when both companies are healthy financially.

While bigger doesn't mean better it does carry the stigma of not caring about the small farmer. We appreciate everyone's business and realize our member base is very diverse. How we service our smaller members may change in order to remain efficient and profitable for the whole membership. While this may require some tough decisions, the decisions are made to protect the member equity and allow the cooperative to revolve equity and invest in the facilities that bring the best return. Regardless of the merger, the management team and the Board of Directors will continue to analyze each facility and make sure that we are financially good stewards of our member equities.

While change is inevitable, it is the hardest thing for people to accept because of the uncertainty and the feeling of unknown. I came to Luckey Farmers three and half years ago after serving 15 years with Blanchard Valley Farmers. Having experience with both organizations I can share with you that cultures and philosophies are very similar. *Both cooperatives are intensely focused on taking care of the customers and bringing the best possible service to the farm.* I am honored that both Boards have entrusted me as C.E.O. and General Manager to carry that shared philosophy to the potential new organization. I assure you my experience at both cooperatives will help bridge any unknown or uncertainty that may come about during the merger process. I have had the luxury of

learning the elevator business under Jerry Silveus the G.M of Blanchard Valley and my boss during my years served there. We worked together and know each other's business philosophies very well. Neither he nor I would move forward if we didn't feel strongly that we are working in the best interest of our stockholders.

As we continue the process, please don't hesitate to call or drop by the office if you would like to share any thoughts or concerns.

Regards

Andy Swerlein
General Manager
Luckey Farmers Inc.