Welcome to the 2017 Annual Meeting of Prairie Central Cooperative. I want to update the patrons, board of directors, and stakeholders of this cooperative on the status of this past year. I will address issues, opportunities and concerns today and begin to look forward to the direction for the future of the organization.

A starting point, reviewing the Mission Statement of PCC. It provides a guide to the direction of the organization. To handle the farmers grain at harvest, to be safe, to be fair and to be profitable. The board of directors, management and employees strive to reach these objectives. Decisions and priorities are considered, deliberated and based on the interpretation and meaning.

The 2016 grain harvest produced good yields for most farmers. The anticipation of a Midwest drought perpetuated in advisory marketing circles throughout the winter, spring and summer, but those conditions did not materialize. A near record volume of both corn and soybeans was then handled at harvest time.

Overall grain quality was good with high test weights and less cracks, making for better handling. The dipodia field damage corn continued. This was not detrimental to the elevator overall but it is a concern for future harvests because of the macro corn inventory exposure risks. At some point, we may need to be more stringent with those damage discounts at harvest if the trend continues. The harvest proceeded at a more normal pace. We had sufficient rain breaks to allow for catch-up grain drying and breaks in activity for both farmers and elevator staff.

As we entered the post-harvest period we saw lackluster corn demand and large supplies from the western United States that pressured our Union Pacific rail market. With greater world and domestic supply, plus an incentive to hold grain by
the elevator, PCC utilized our grain bin space to carry grain into spring and summer months. The eastern rail market allowed our Norfolk Southern rail loader at Sunbury to begin a busy shipping program in the summer that will continue into the fall.

Soybean demand from China continued. The trend of farmers making more soybean sales with prices near $10 continued. PCC shipped a large volume of soybeans into the container market export channels. Our Pontiac elevator began loading containers this past winter for the first time. This adds another diversification to PCC. The soybean market also provided a carry to hold inventory with some of our best sales were in the late summer months. This scenario is the opposite of what’s happened over the past decade.

The 2017 fiscal year was a solid year financially for the cooperative. PCC had a net savings of $3.5 million. Patronage paid was 8.37 cents per bushel on grain purchases and 25% on grain drying. The goal of redeeming stock and keeping it current continued with 50% of the remaining 2009 stock redeemed. This equates to 7.25% of our overall patrons’ total.

This past year PCC held many extensive farmer patron interviews involving our PCC staff. Many of those meetings included multi-generation participation. Our feedback is that many of farmer patrons and the overall agriculture industry is in a transitional period. For our patrons, the young generation farmer is making more key decisions, while the older generation farmer is accelerating further steps to transition to the next generation. Those in the middle, those somewhere 50 to 65 years of age are trying to figure out what their future will hold for them and the farm business built over their career.

As we review our own grain elevator business activity, one of the challenges is our business is often either very busy or very slow for different segments within the organization. These extremes of the workload for our staff can create challenges.
We know the demands of harvest is obvious and expected for what it takes to complete this mission critical task. We have also witnessed in recent years where farmer selling activity is condensed into shorter windows of time. We can see it with our grain shipping schedule with market conditions narrowing optimum grain shipping schedules. A recent example is that of Sunbury which shipped no unit trains for 6 months, then is projected to ship 16 unit trains in 8 weeks.

The new elevator at Chenoa is under construction with that work commencing early this spring. We anticipate it being ready for the 2018 harvest season. Growmark is the general contractor and have been helpful in guiding the project along. This includes leadership and the technical expertise. PCC needed a general contractor to get this job completed as we would not be at this stage of construction without a general contractor leading us forward.

Why did PCC make the decision to build a new elevator? It’s more than just one reason, but this by far is the largest financial commitment to one project in the history of the company. We needed to build a new country elevator in the southern half of our territory. We need harvest country grain elevator capacity to handle the future grain harvests. Looking forward, future growth with elevator handling capacity and storage will be more challenged in the downtown elevator locations. Space constraints and neighbor relations will limit future projects. We also gain access to the short line railroad via the TP&W railroad with capability to ship larger size unit trains from 65 to 110 cars, the largest size unit trains in the grain industry today. This will provide access to railroads moving grain for the decades ahead to where future demand and supply moves grain. Uncertainty with future corn demand in the Peoria corn processor market also played a role. ADM announced on their most recent quarterly conference call that one of their older corn processor facilities in Peoria will reduce their production by 100 million gallons of ethanol, which is approximately 37 million bushels of corn demand. Having ability to ship unit trains to these other rail markets diversifies this exposure with this change in demand structure.
We are seeing a tighter margin environment in all aspects of the agriculture industry. This includes farmers, elevators, farm input and suppliers. This margin pressure is causing all to examine their relationships with vendors and those involved in their marketing chain. This is occurring throughout the entire industry at all levels of size and scale. Reports from multinationals, ADM, Bunge, the Anderson’s, along with the cooperative CHS, have each reported financial challenges and cost saving initiatives throughout this past year.

The organic, non-GMO farm to fork trend continues around the world. We are seeing greater priority within multinationals to participate in these once niche markets. The demand in these areas continues to expand and may create opportunities. However, this area is being focused upon by companies that can do end-to-end. We believe there could be opportunities with our new container loading capacity or with our capability to load rail corn to the poultry industry, with organic chicken or eggs. We have a commitment with AgGuild to research and consider possible innovative programs for the future. But at this time, we have not sourced any opportunities.

A Pontiac elevator, which is now 40 years old, has seen a major maintenance project initiative over the past 4 years. The work has been in the plans for nearly a decade and is now nearly complete after on-going planning by company employees with multiple outside contractors. Projects completed included a new load out rail conveyor, grain spouting relining and new grain cleaner, updated receiving legs. In addition, extensive rail track and drainage contractor work has been completed. Our goal to proactively improve the drainage and maintain the rail tracks in an improved manner as we have been frustrated with seemingly on-going yearly maintenance expenses that didn’t fix the underlying problems. An estimated $4 million dollars has been spent on these projects over the period.
With the construction project commencing on the new elevator this spring, PCC added a long-term debt for our anticipated needs over the next 5 to 10-year time horizon. The need to have access to working capital and a loan structure to lock in an interest rate over an extended period was the goal. The board of directors deliberated the offering of additional Class B preferred stock, but in the end, chose to use a term loan to finance our cash flow needs. Adding preferred stock is a consideration that will be reviewed from time to time if the opportunity and need arises.

Work on a freshening of the PCC Articles of Incorporation and By-laws was researched throughout the past year. We worked with both our cooperative attorney, Nathan Hinch from Mueller, Reece and Hinch and our auditing firm, Gardiner Thomsen to modernize and update changes to the structure of the governing rules for the cooperative. Those proposed changes will be voted at the annual meeting today.

One of PCC best assets are our team members. I want to extend my appreciation to all our employees for their efforts this past year. In addition, I want to acknowledge Neil Ropp, Controller who came to us one year ago and has done magnificent work for the organization during that time. Karen West provided outstanding leadership during the harvest season last year. Don Humes, one of our key outside consultants made the decision to retire this summer. His work on the Sunbury rail upgrade, drainage and trackwork at our all the rail elevators and work on the new elevator are greatly appreciated. I will personally miss his leadership on key, difficult projects. Terry Casson, a board member that did not run for re-election this year, provided key leadership to this organization for 16 years. Terry encouraged both the board of directors and management to move ahead with the difficult, but long-term need for the new elevator at Chenoa.

Thank you for the opportunity to share highlights of this past year. Thank you for attending the annual meeting today.