

The background of the slide features a faded, light gray image of a building. On the left side of the building, there is a sign that says "COOP" inside a cloud-like shape. To the right, there is a tall, multi-story tower with arched windows and a pointed roof. The overall scene is a cityscape or campus view.

Agricultural Inputs and Market Shifts: Farmer Cooperatives

2024 Midwest Agriculture Conference

Brian C. Briggeman, PhD

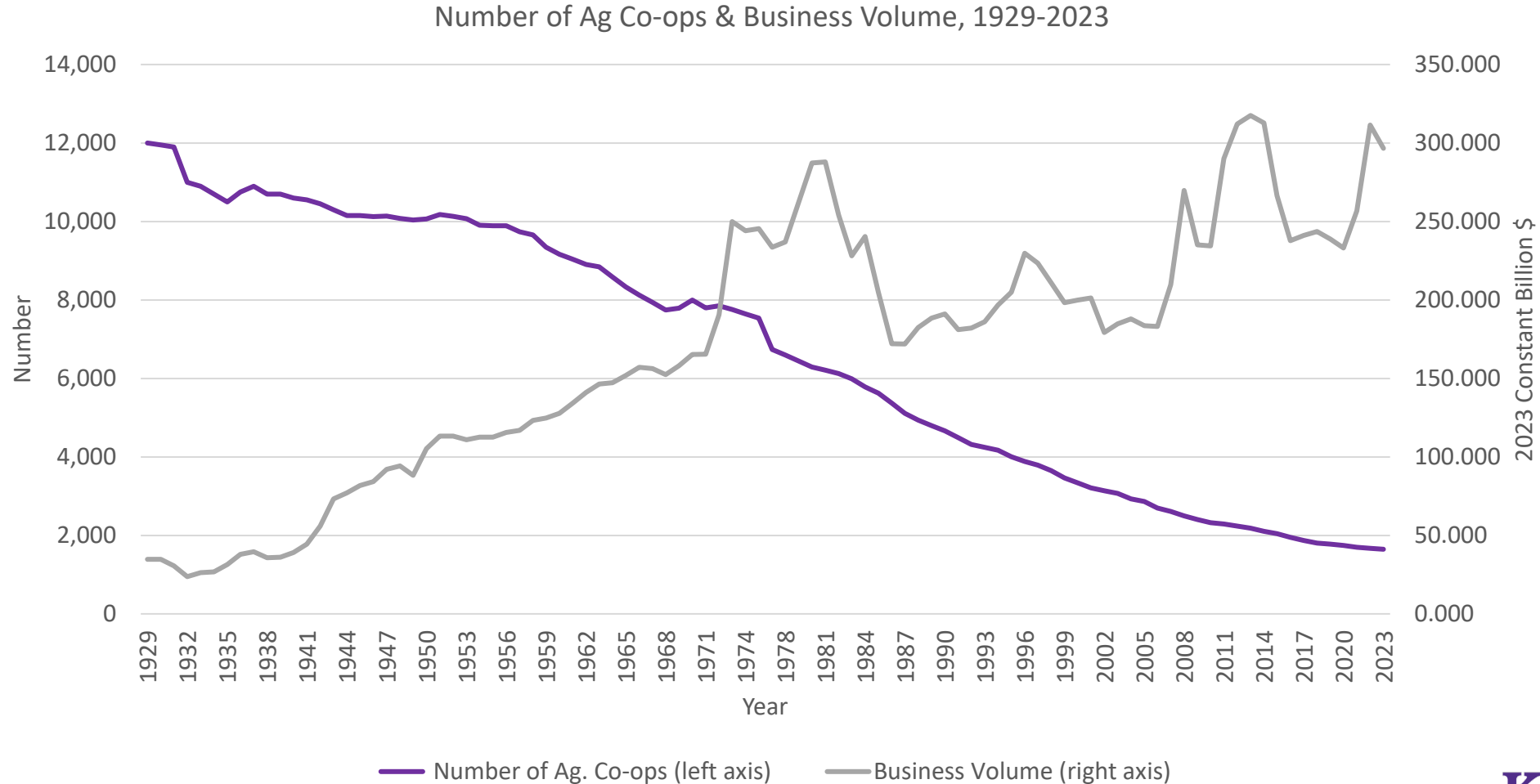
Professor and Director

December 3rd, 2024

Forces impacting the cooperative landscape

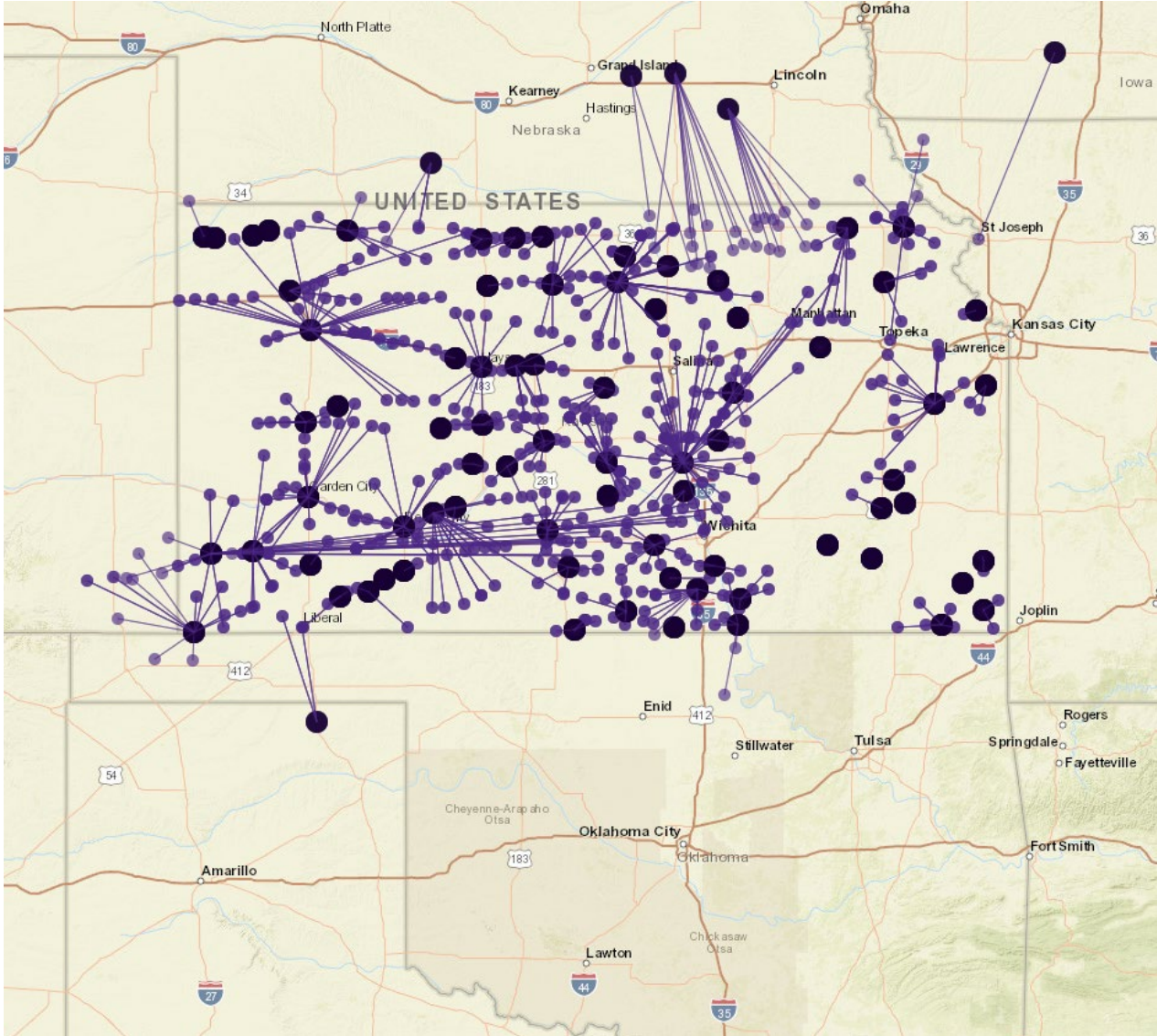
- Changing agricultural producers
- Growing global economies
- Persistent market volatility
- Supply chain disruptions
- Inflation
- Fiscal and monetary policies
- Weather
- Competitive labor market
- Retiring managers
- And many more...

All of these forces have contributed to significant consolidation and business volume growth for ag co-ops

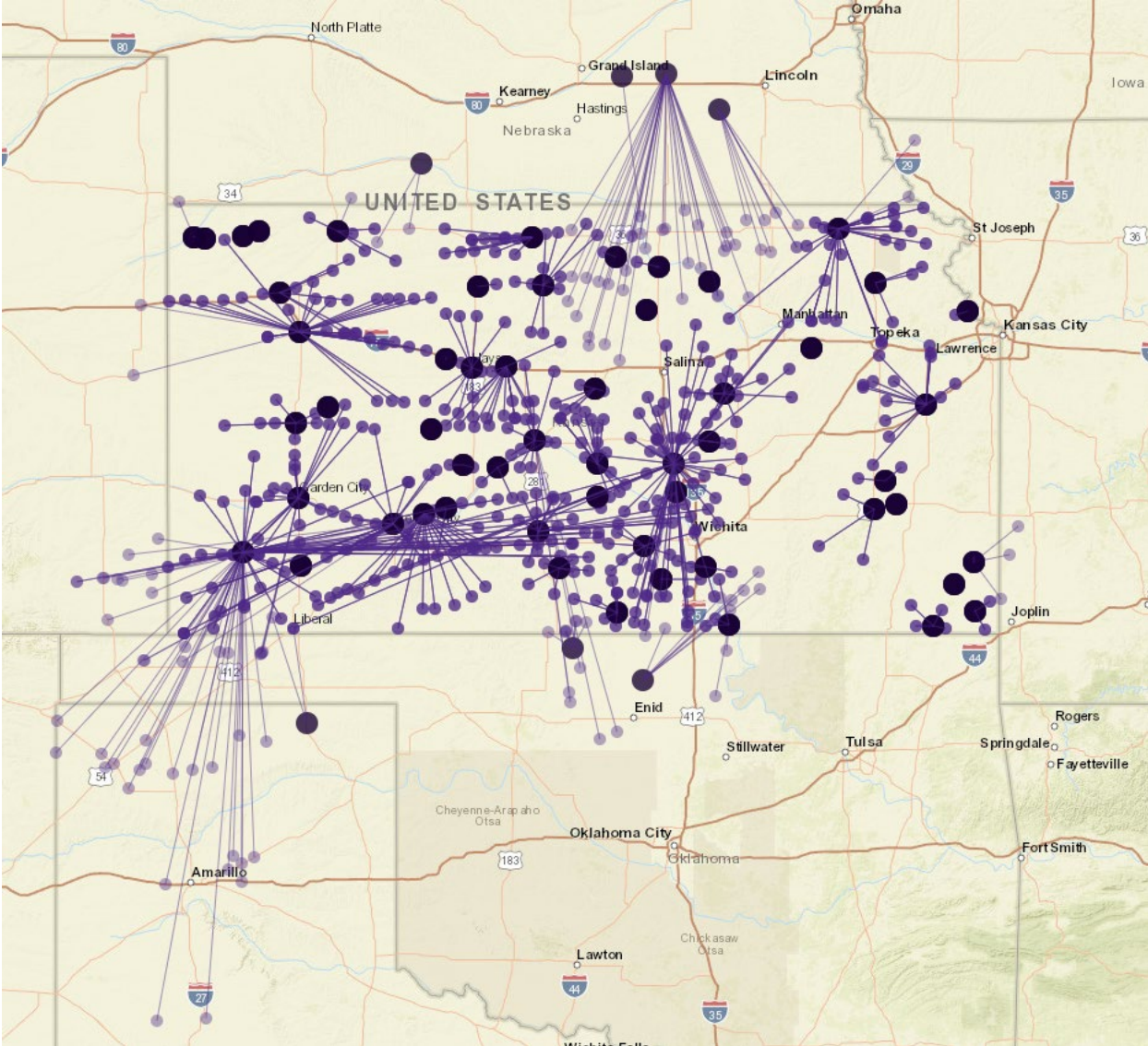


Source: USDA

81 local, farmer co-ops with a Kansas HQ –
January 2016

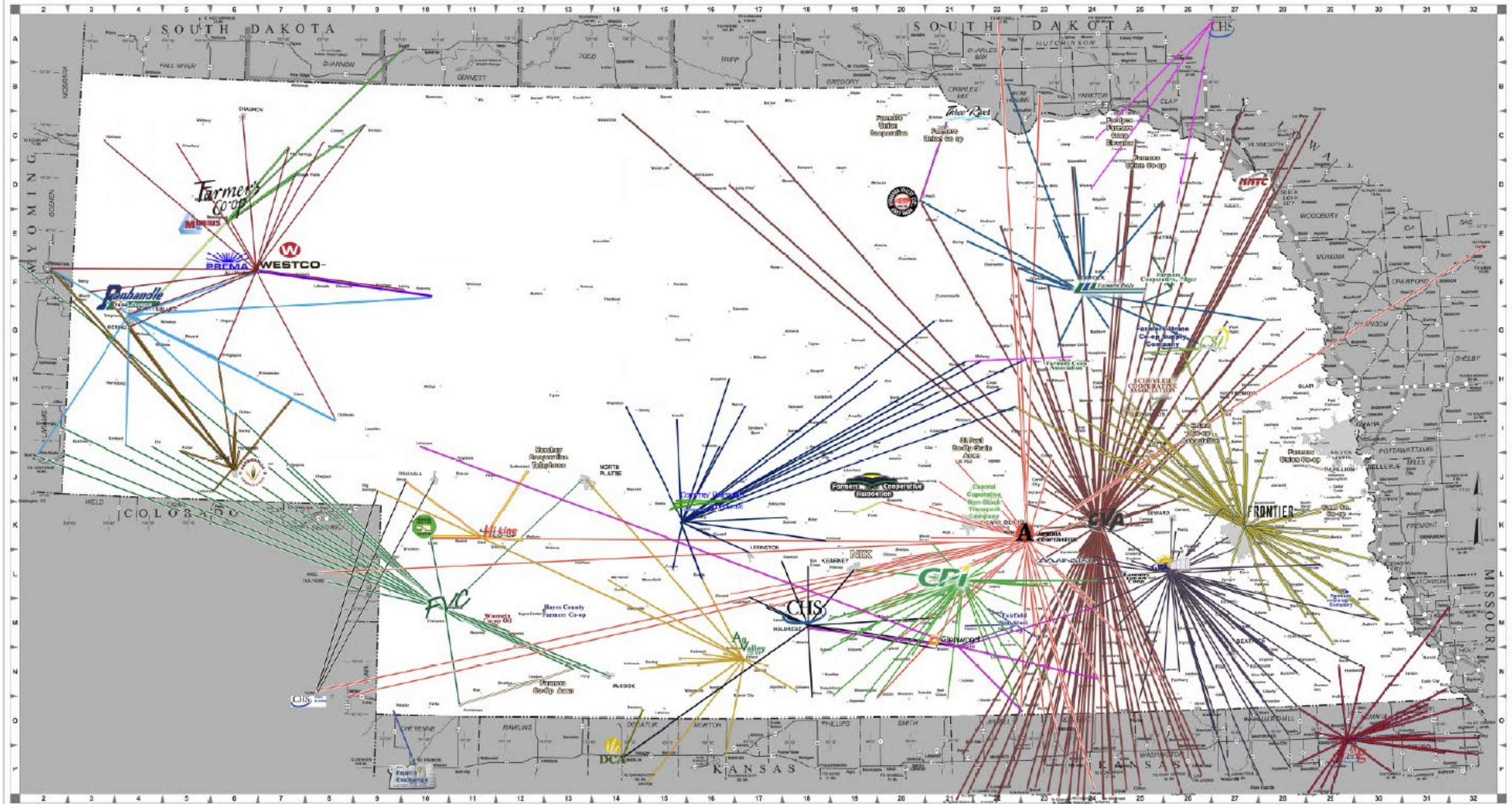


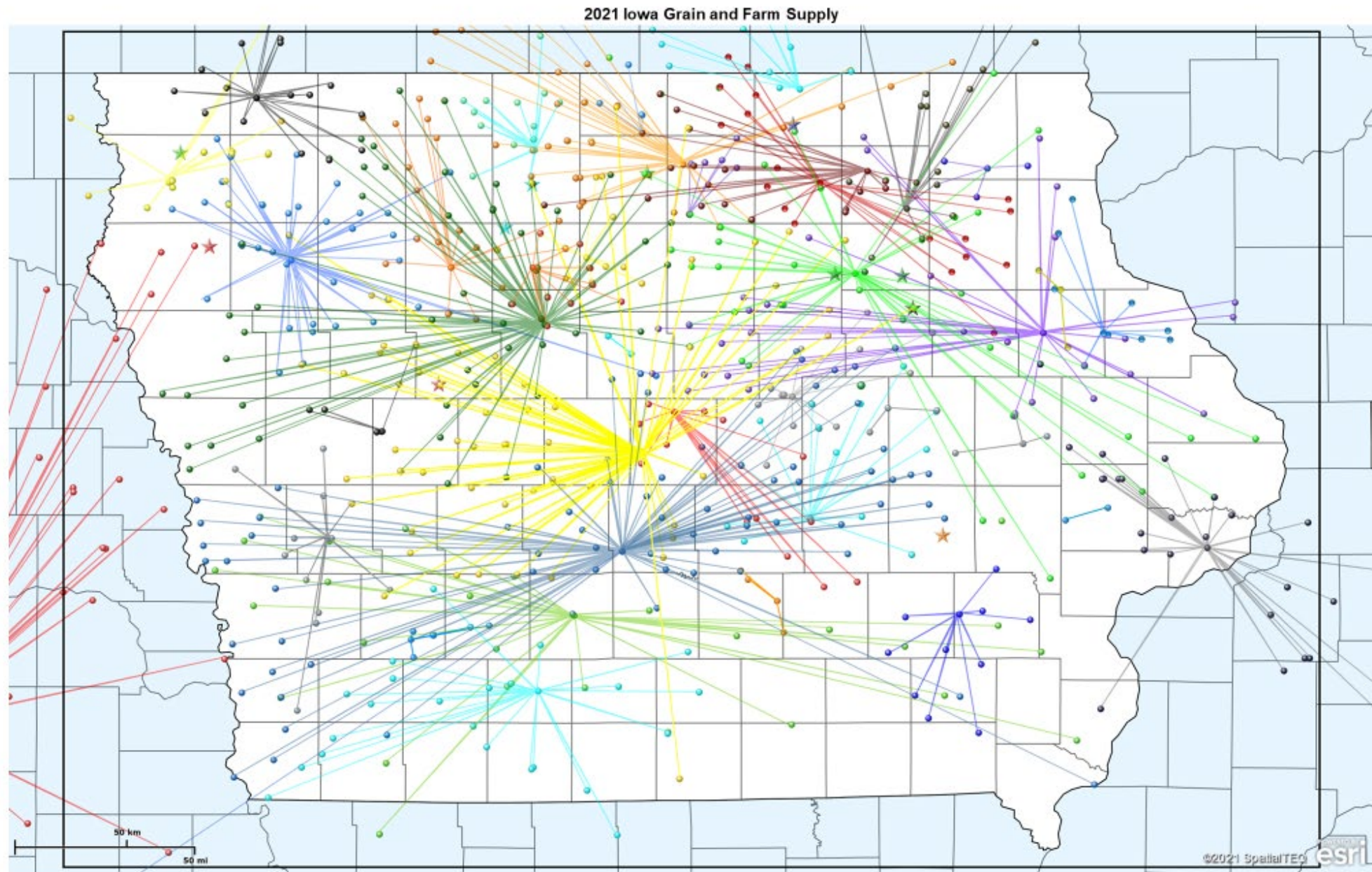
52 local, farmer co-ops with a Kansas HQ –
September 2024



Nebraska Local Cooperatives and Branches Operating on a Cooperative Patronage Basis

as of October 1, 2023

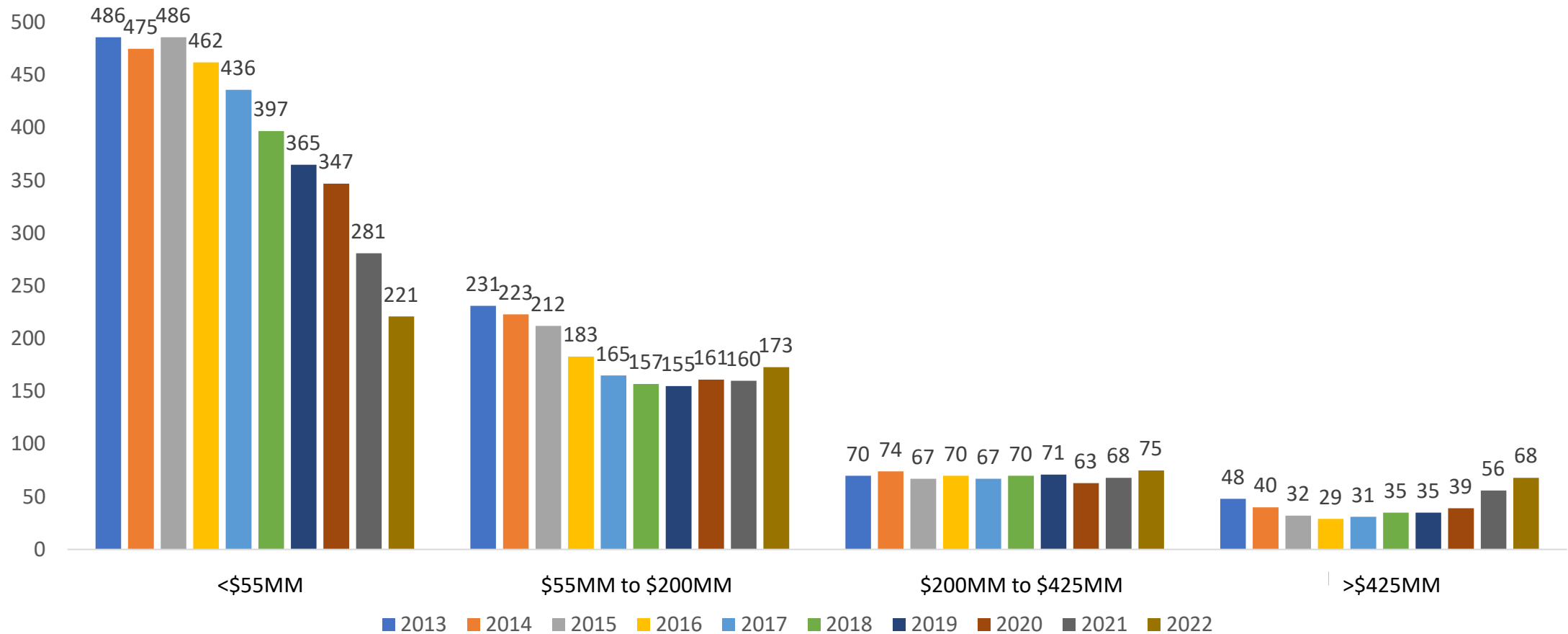





Source: <https://www.iowainstitute.coop/about-coops/map-of-iowa-coops/>

Across the United States, the farmer cooperative landscape is shifting across sales categories

Number of Co-ops by Sales Category by Year



The background of the slide features a faded, grayscale image of a building. On the left side of the building, there is a sign that reads 'COOP' inside a circular logo. To the right, a tall, multi-story tower with arched windows and a pointed roof is visible. The overall scene appears to be a historical or institutional building.

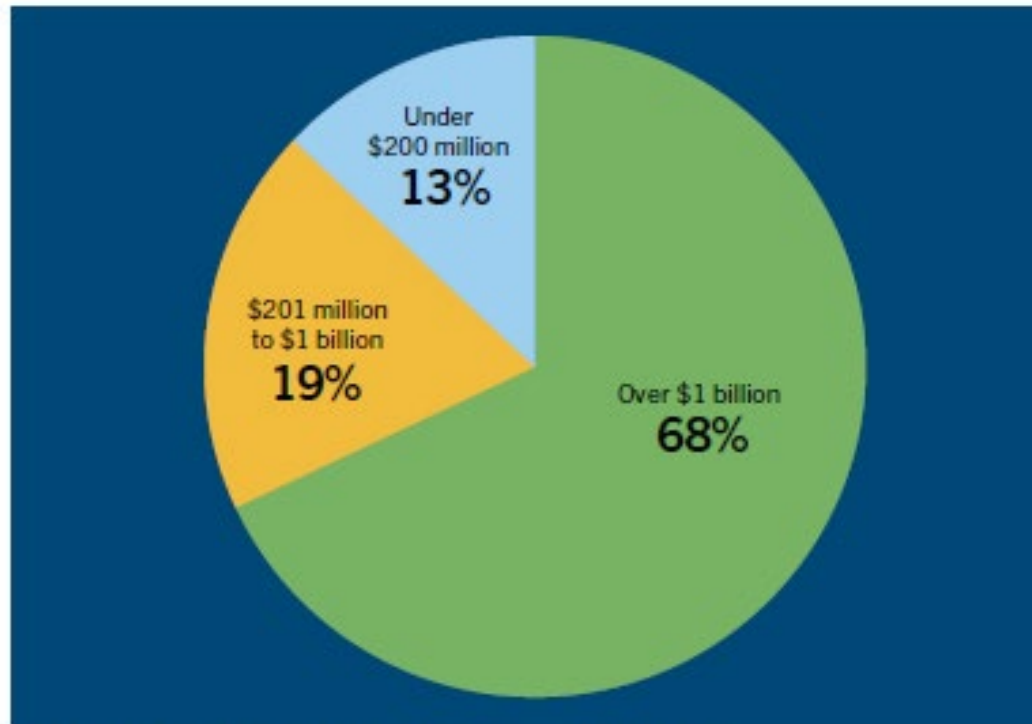
Implications of the Evolving Cooperative Landscape on Agricultural Input Markets

The agricultural input market is highly competitive

Economies of Scale

Small Independent Ag Retailers

EXHIBIT 1: CropLife Top 100 Ag Retailers by Revenue Tier



Source: Meister Media, CropLife Top 100 – 2022 Rankings

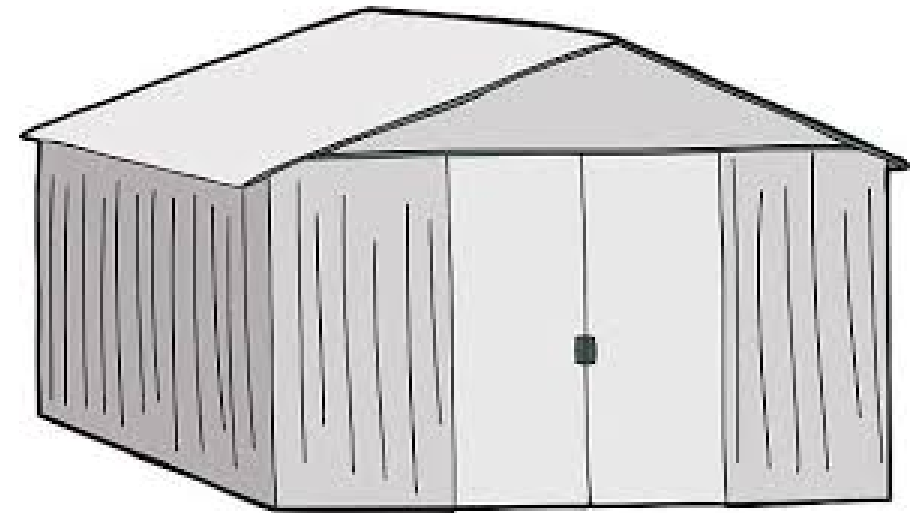


Exhibit: CoBank Knowledge Exchange, *Ag Retailers Prepare to Navigate 3 Emerging Risks*,
<https://www.cobank.com/knowledge-exchange/grain-and-farm-supply/ag-retailers-prepare-to-navigate-3-emerging-risks>

Technology use on the farm will impact the ag input retail market as well as input manufacturers.



AG TECH: 100+ TECHNOLOGY COMPANIES CHANGING THE FARM



Source: CBINSIGHTS

CBINSIGHTS

Financial strength of cooperatives varies by region.

Southern Plains State (KS, OK, TX)

- Profitability

2019 ROE = 9.6%

2023 ROE = 1.1%

- Debt Service Coverage

2019 DSC = 2.52

2023 DSC = -0.04

- Liquidity (Working Capital to Total Sales)

2019 WCS = 5.95%

2023 WCS = 5.37%

- Leverage (Total Debt to EBITDA)

2019 TDE = 7.65

2023 TDE = 10.22

Corn Belt I-States (IA, IL, IN)

- Profitability

2019 ROE = 8.3%

2023 ROE = 13.8%

- Debt Service Coverage

2019 DSC = 5.73

2023 DSC = 6.84

- Liquidity (Working Capital to Total Sales)

2019 WCS = 10.07%

2023 WCS = 6.8%

- Leverage (Total Debt to EBITDA)

2019 TDE = 5.32

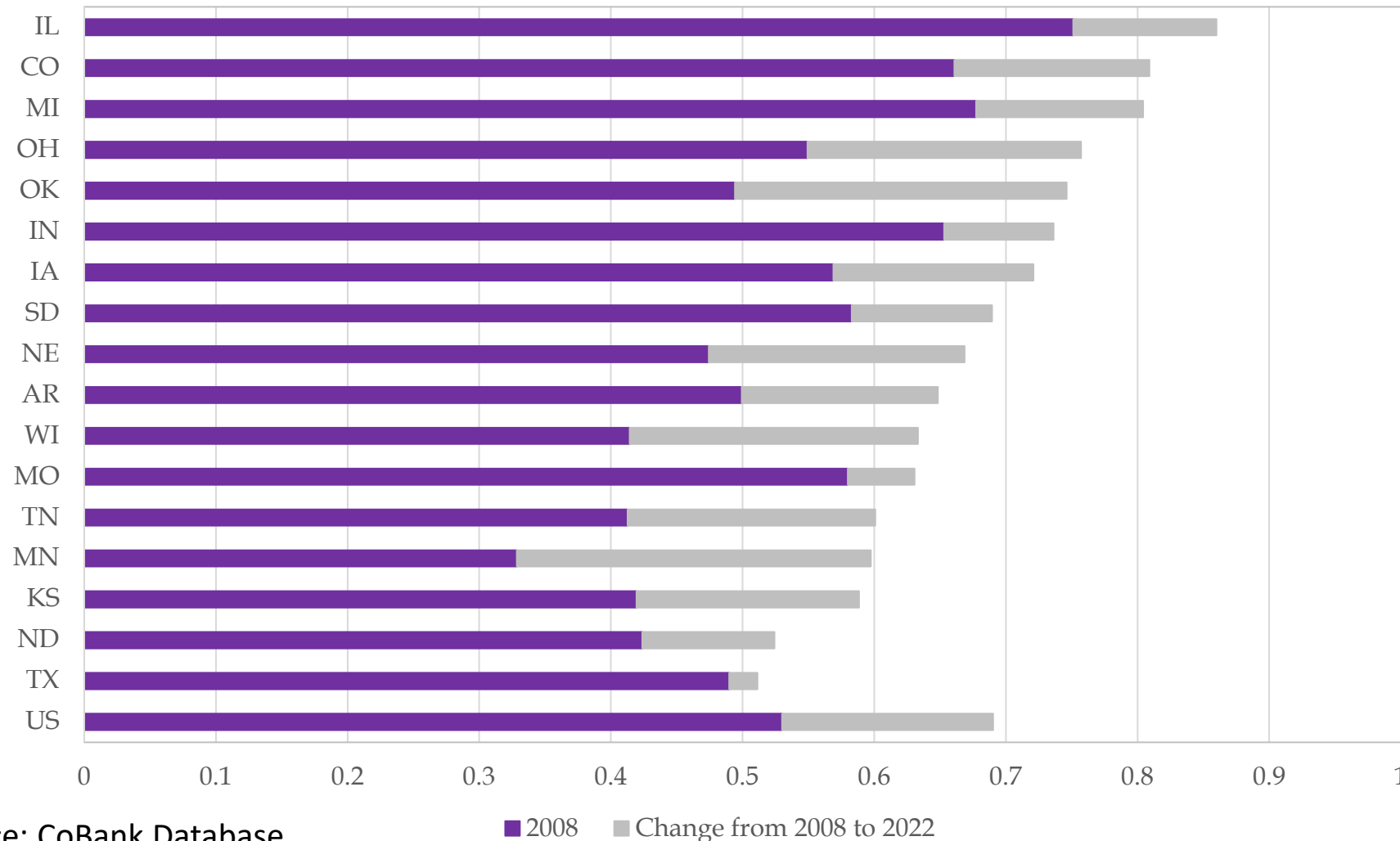
2023 TDE = 4.12

As some cooperatives' financial position weakens, what impact could that have on them?

- Accounts receivable (AR) risk
 - Briggeman and Mashange (2021) stress test revealed cooperatives facing profitability challenges experience sizable net income losses under the stress test scenarios (uncollectable AR)
 - Diversified cooperatives were the most resilient while <\$50 million and primarily farm supply are the most exposed
 - These challenges are present today
- Agronomy departments could experience significant change
 - Stressed cooperatives could move away from agronomy
 - Some cooperatives are using input financing to drive demand
 - Talent management is key

On average, retained earnings are becoming a larger part of total equity for farmer cooperatives

Grain and Farm Supply Cooperatives Average Retained Earnings-to-Equity Ratios Across States (2008 and Change from 2008 to 2022)



Data Source: CoBank Database

Conclusions

- The farmer cooperative landscape is changing significantly
- Agricultural input markets are competitive, especially for farmer cooperatives that are facing financial stress
- Farmer cooperatives will need to focus on building a strong balance sheet and generating operating cash flow
- Technology use and talent management are critical for farmer cooperatives to compete



Thank you Questions?

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