



Possible Merger Update

By Jerry Silveus, *General Manager*

With this past fall harvest season lasting into December, there was no merger committee meeting held between Blanchard Valley Farmers Cooperative (BVFC) and Luckey Farmers until December 7th. As I am writing this article, there is another committee meeting scheduled for January 5th, but I will have this article completed before that meeting will have been held.

I would say that our last committee meeting went very well, from my viewpoint at least, and everybody seemed to be on the same page. We are in the investigative stages of this merger process with the goal of helping our two cooperatives remain competitive and financially healthy so that we may continue to serve you, our valued stockholders.

I could give you a very educated guess on a financial figure on savings from a merger of these two cooperatives, starting with eliminating two computer systems, back-room accounting functions, insurance expenses, auditing fees, attorney fees, and other associated expenses. However, it would take one to two years for these savings to positively impact the new company's bottom line.

The major driving force behind these merger discussions is simply what is currently happening in the farm cooperative industry. Very aggressive cooperatives have undertaken mergers or consolidations that have expanded them to three to four times their original sizes. In today's business climate it is all about your purchasing power with large companies and building dependable business relationships with volume buyers, in order to provide strategic access to better markets.

We here at BVFC have already done that over the past 15 years, though our purchase of the Fostoria Grain terminal, which doubled our grain size at that time and provided major growth opportunities for the future which we would not have had without that significant purchase, in addition to our purchase of the three Terra fertilizer plants, which have now become Arcadia Agronomy, Arlington Agronomy and Pandora Agronomy. That purchase of the three Terra plants instantly doubled our

size in agronomy. After the Fostoria Grain and Terra plant purchases, I heard rumblings and grumblings about BVFC becoming too big!

The truth of the matter is at that time those acquisitions transformed BVFC into a company that was able to get major attention of our suppliers and also our buyers. At the present time, there are no other companies or businesses around us that can present us the same opportunities like the Fostoria Grain and Terra plant purchases did.

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The next best thing is this would be a merger among companies with similar business interests and share close geographic proximity. Unlike some of the mergers around us that have expanded territories to over 125-plus miles, this proposed merger would only cover about 65 miles from side to side and would have a resulting sales volume of about \$500 million dollars, based upon this past year's ending sales volumes. This resulting merger would make BVFC and Luckey Farmers about twice the size as BVFC currently stands.

The next question to answer is what does Luckey Farmers bring to the table besides their sales volumes? One of the questions I have heard the most is that while we know that BVFC has a good balance sheet, what kind of balance sheet does Luckey Farmers have? The actual answer to that question is that Luckey Farmers has an outstanding balance sheet as well, and Luckey Farmers actually has more cash on hand than BVFC. That can be mostly explained by the fact that BVFC has expended over \$15 million in new grain storage bins, dump pits and grain-receiving legs just over the past seven years.

The next question I have been asked is since Luckey Farmers has no grain rail houses and is so geographically close to Fostoria, would this result in more semi-

trucks in the grain unloading line during harvest time at Fostoria? There have been many improvements at Fostoria over the past several years and anyone who has used our Fostoria facility knows how much we have already sped up the grain unloading process. We have developed and discussed plans to make it even better and the two cooperatives' resulting balance sheet will give us the necessary cash and improved borrowing power to bring those plans to reality.

Companies are run by people and one of the best things I can point out is that Luckey Farmers CEO/General Manager Andy Swerlein was Grain Manager here at BVFC and a BVFC employee for over 15 years before he took the job at Luckey Farmers, where he has been for the past three and one-half years. He knows the layouts and inner functions of both cooperatives, and has worked extremely well in conjunction with current BVFC Agronomy Mgr./Assistant Mgr. Mike Tobe. These two would provide the new cooperative going forward with a very strong start on a new management team.

I will personally be 68 years old this coming summer, and over the past 21 years BVFC has grown at a very good pace. We have paid back all equities up to 1998 (before 1990 none had been paid) and we now pay 50% cash patronage each year and we redeem estate equity every month (in 1990 there was over \$300,000 in unpaid estates on the books). All of our current facilities are in very good operating order. Tens of millions of dollars have been spent on these locations to better service our customers and stockholders. I am not stating this to brag about what I have accomplished, because I know best of all that there is no "I" in "team", and the employees and branch managers along with a sound and supportive Board of Directors have all worked very hard together to make this all possible.

What I am saying is that Andy Swerlein and Mike Tobe will form the building blocks of a great management team in keeping this momentum going forward in the right direction, and I would not be in favor of this merger or this management team if I did not think it would remain customer-friendly and the best next step to take for this company and our stockholders.