

Top Half-Bottom Half and Analysis- Iowa and All

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www.extension.iastate.edu/coops/

Under Heading: Current Trends for Cooperatives

Overview Iowa Sample

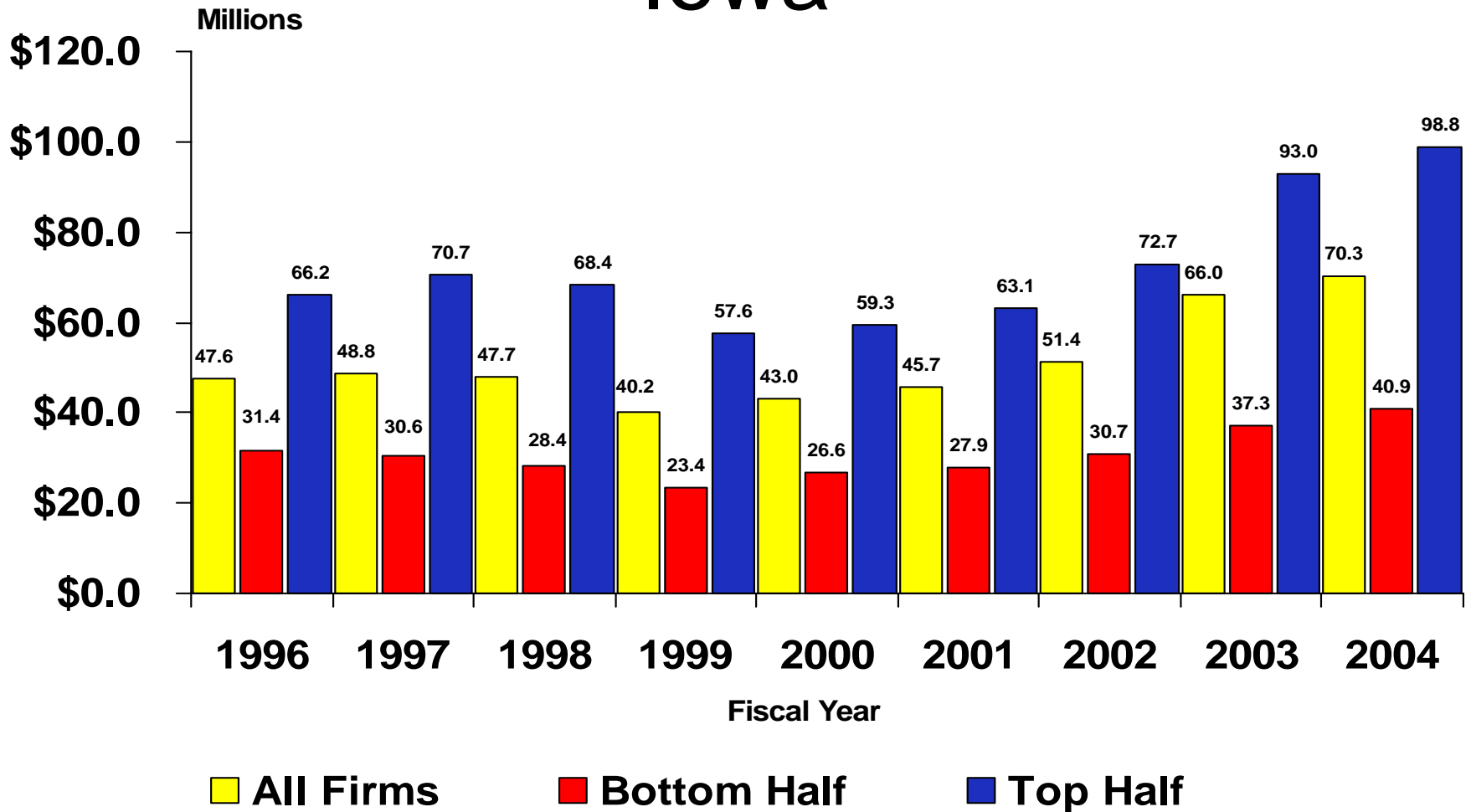
- The sample consists of 64 cooperatives in Iowa with data from 1996-2004
- Fiscal years used run from September 1 through August 30. For example, FY04 spans Sept. 1, 2003 through August 30, 2004.
- Firms were sorted by FY04 local* profit before taxes and classified as being in either the top half or the bottom half of the sample, based on this criterion.
- Highest Level of Local savings for the bottom half was approximately \$150,000.

Overview Four States

- The sample consists of 144 cooperatives in Iowa, Nebraska, Illinois and South Dakota.
- Fiscal years used run from September 1 through August 30. For example, FY04 spans Sept. 1, 2003 through August 30, 2004
- Firms were sorted by FY04 local* profit before taxes and classified as being in either the top half or the bottom half of the sample, based on this criterion. Local savings for the bottom half ranged from approximately \$-1.3 million to \$169,711. Local savings for the top half ranged from approximately \$172,375 to \$9.0 million.

* “Local” refers to figures adjusted for refunds from other organizations. Patronage refunds received from regional affiliates were excluded to focus on local-level performance and to facilitate comparisons.

Average Sales & Other Income Iowa



Top Half-Bottom Half Analysis

- Top Half Firm Sales Were Slightly More Than 2 Times the Sales of Bottom Half Firms' Sales
- There Has Been Significant Sales Growth Over the Nine Year Period
 - Mostly in Past Two Years
 - Higher yields
 - Higher Prices
 - Consolidation
- Both Top Half and Bottom Half Firms Shared in the Growth More or Less Proportionally

Top Half-Bottom Half Analysis

The Balance Sheet

Total Assets

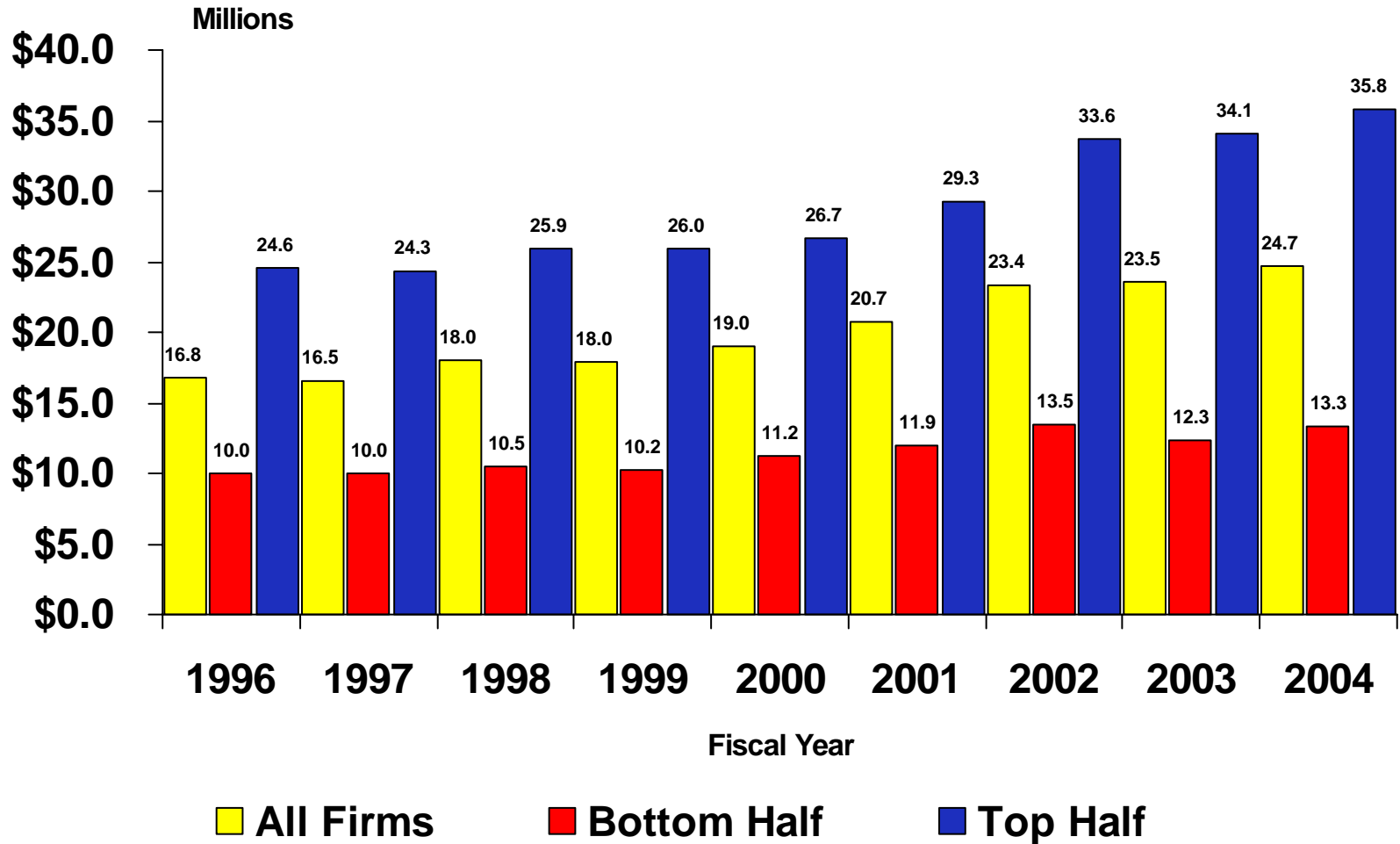
Working Capital

Fixed Assets

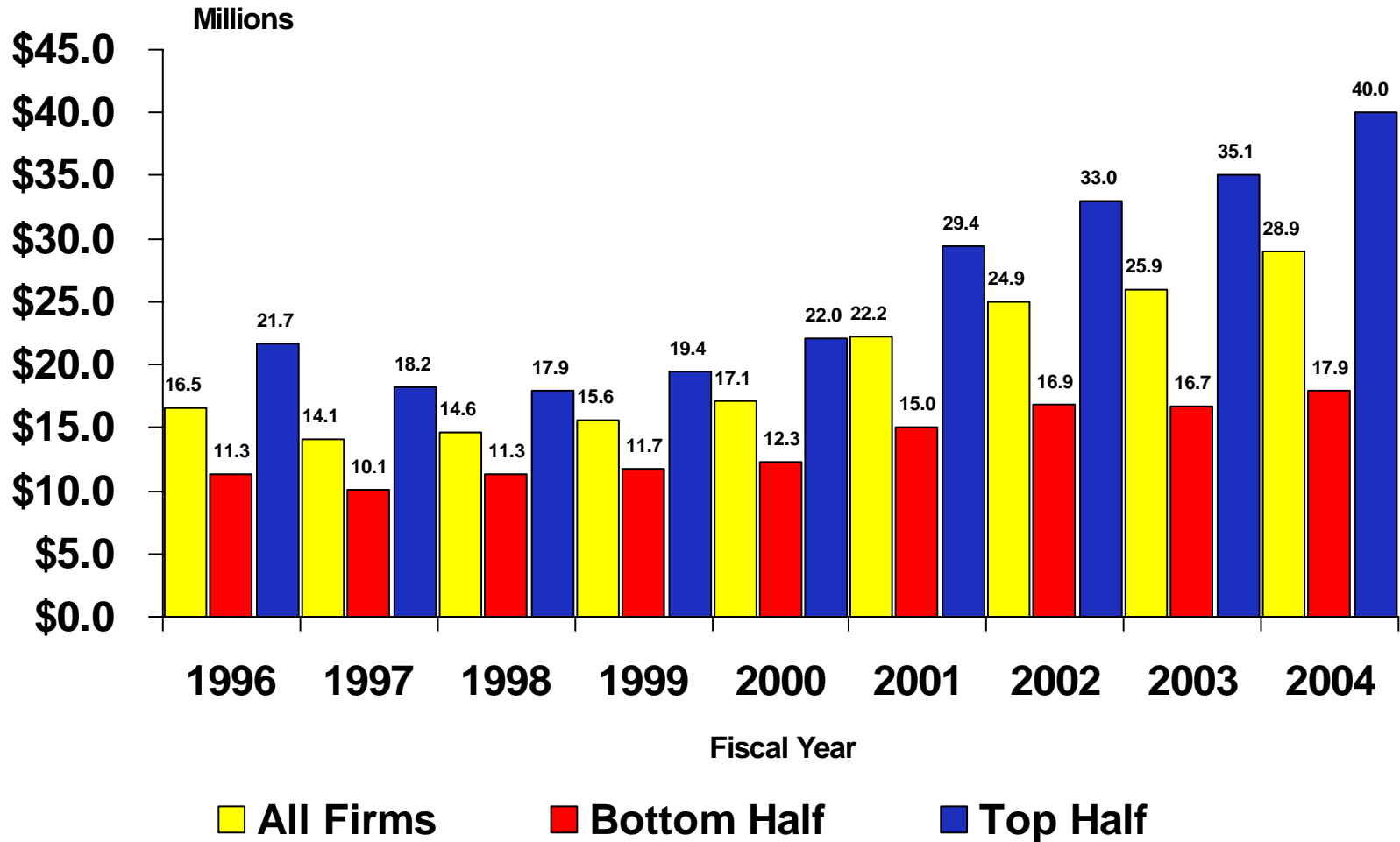
Equity

Debt

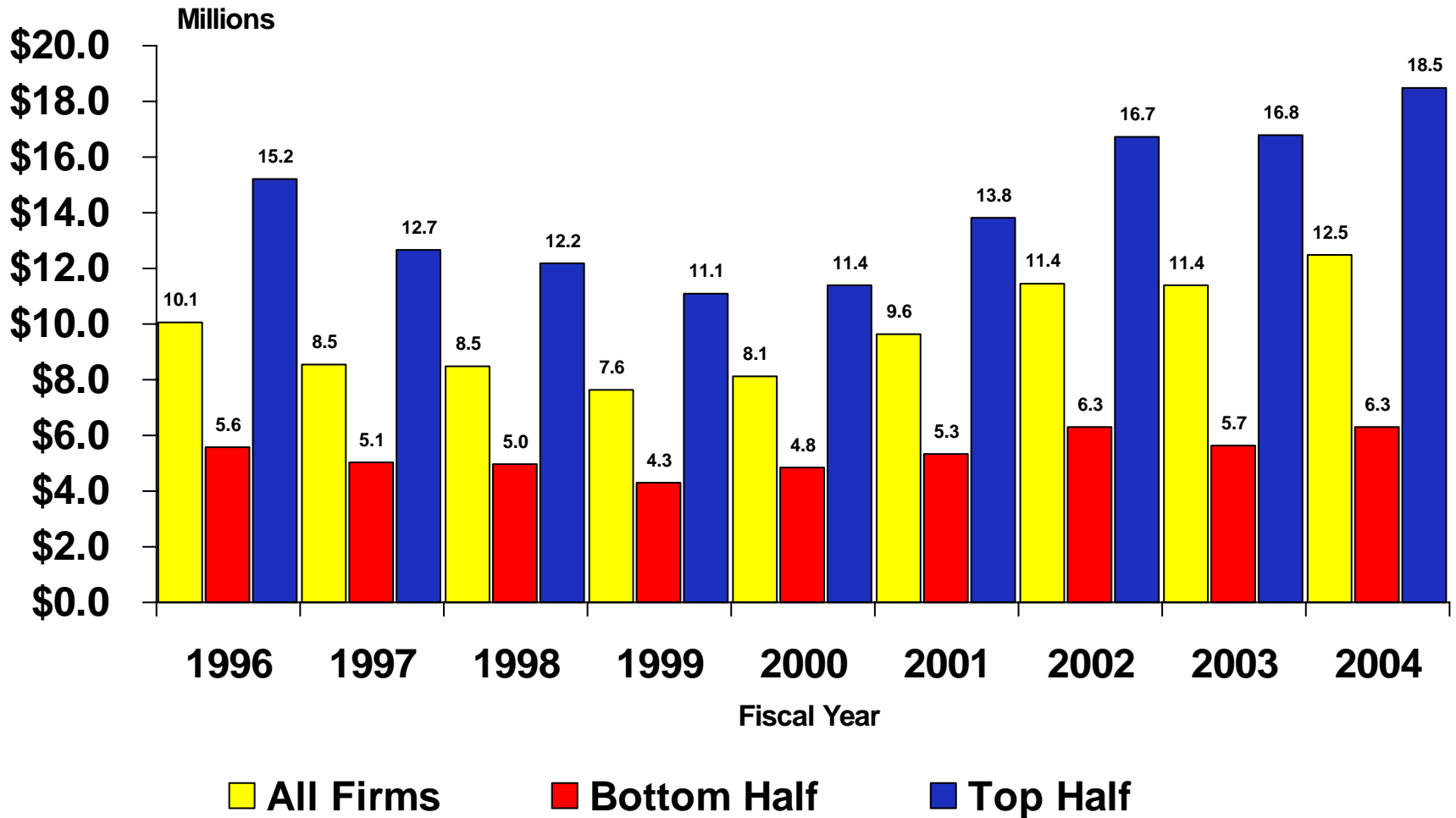
Average Total Assets Iowa



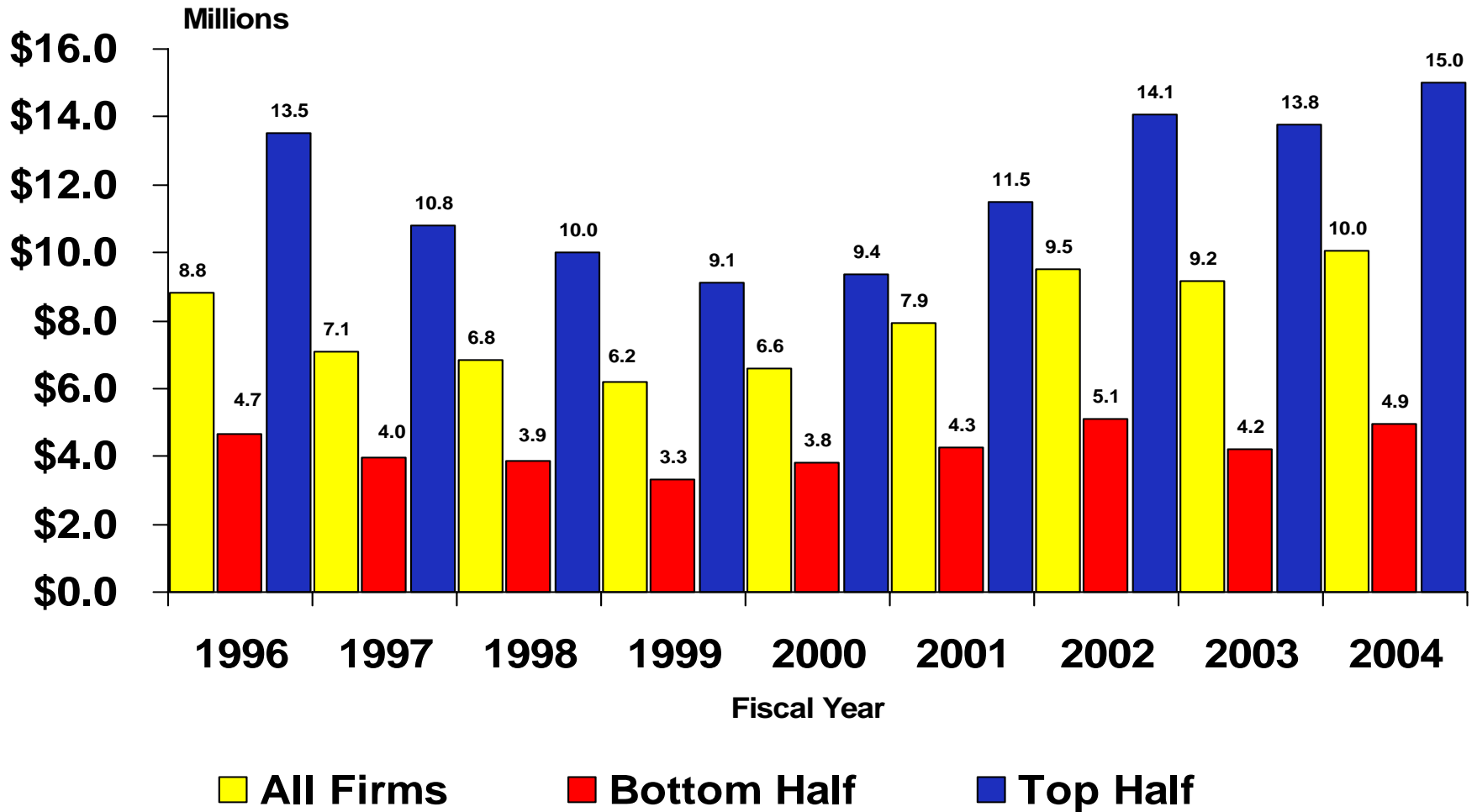
Average Total Assets --All



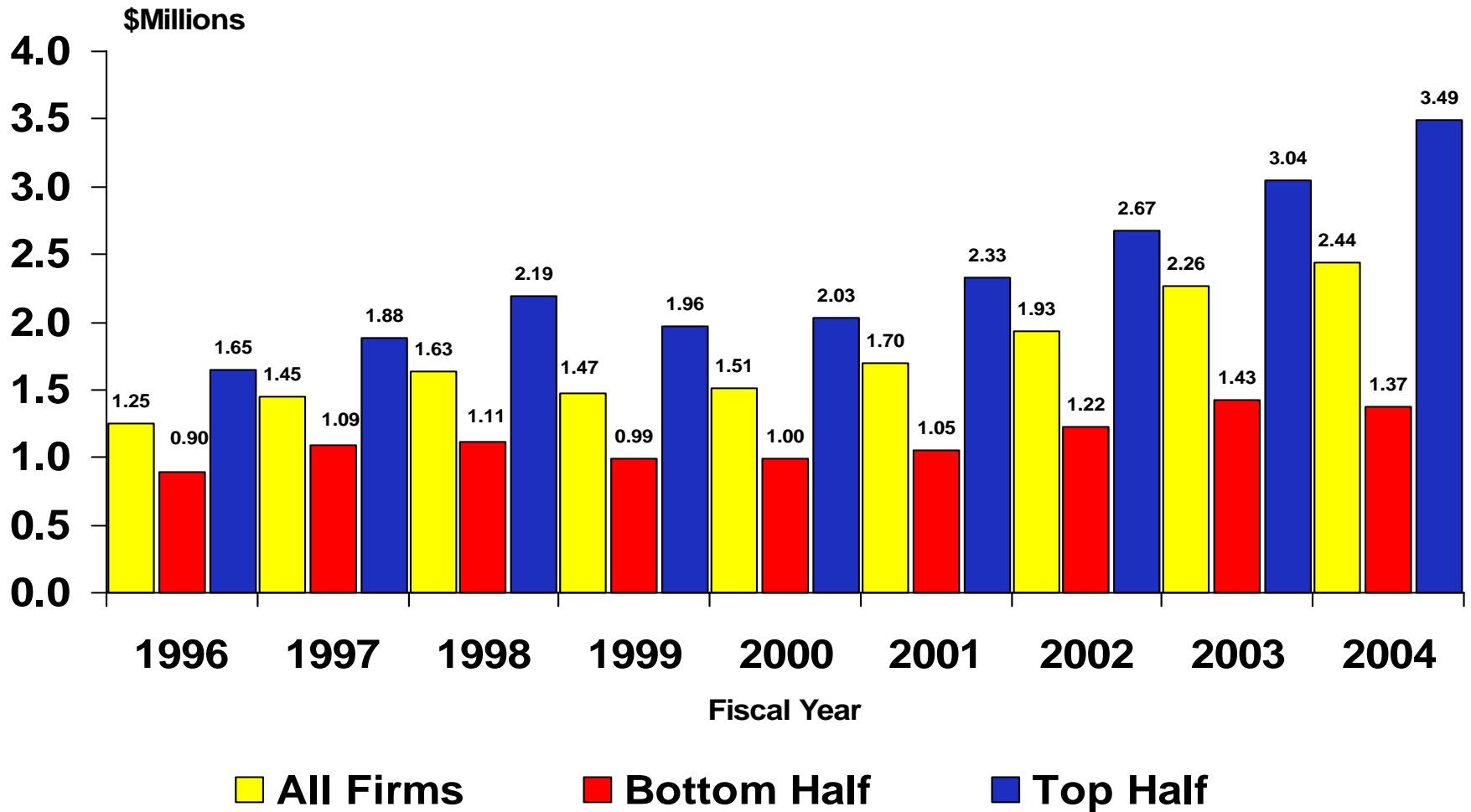
Average Current Assets Iowa



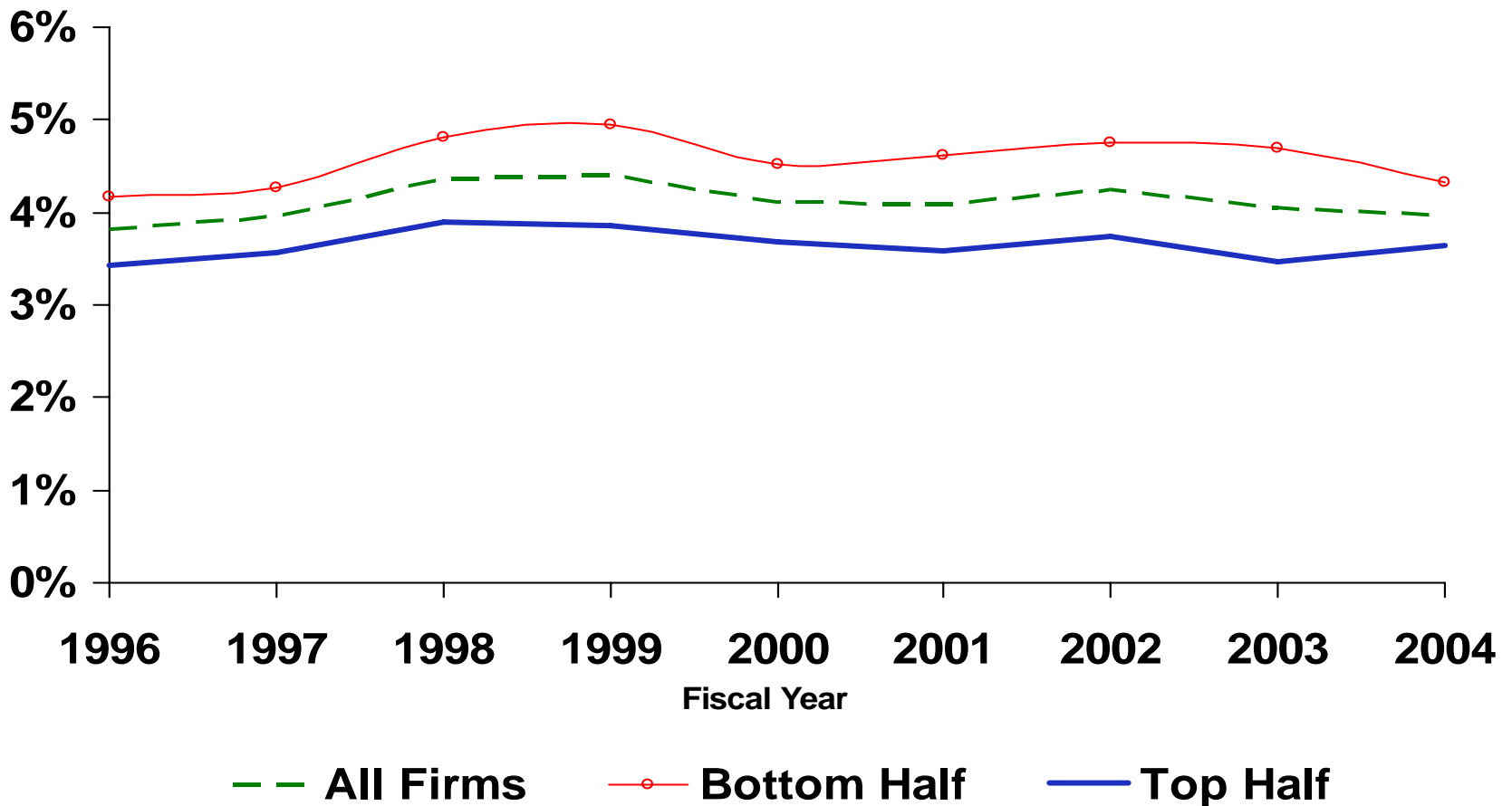
Average Current Liabilities Iowa



Average Working Capital Iowa



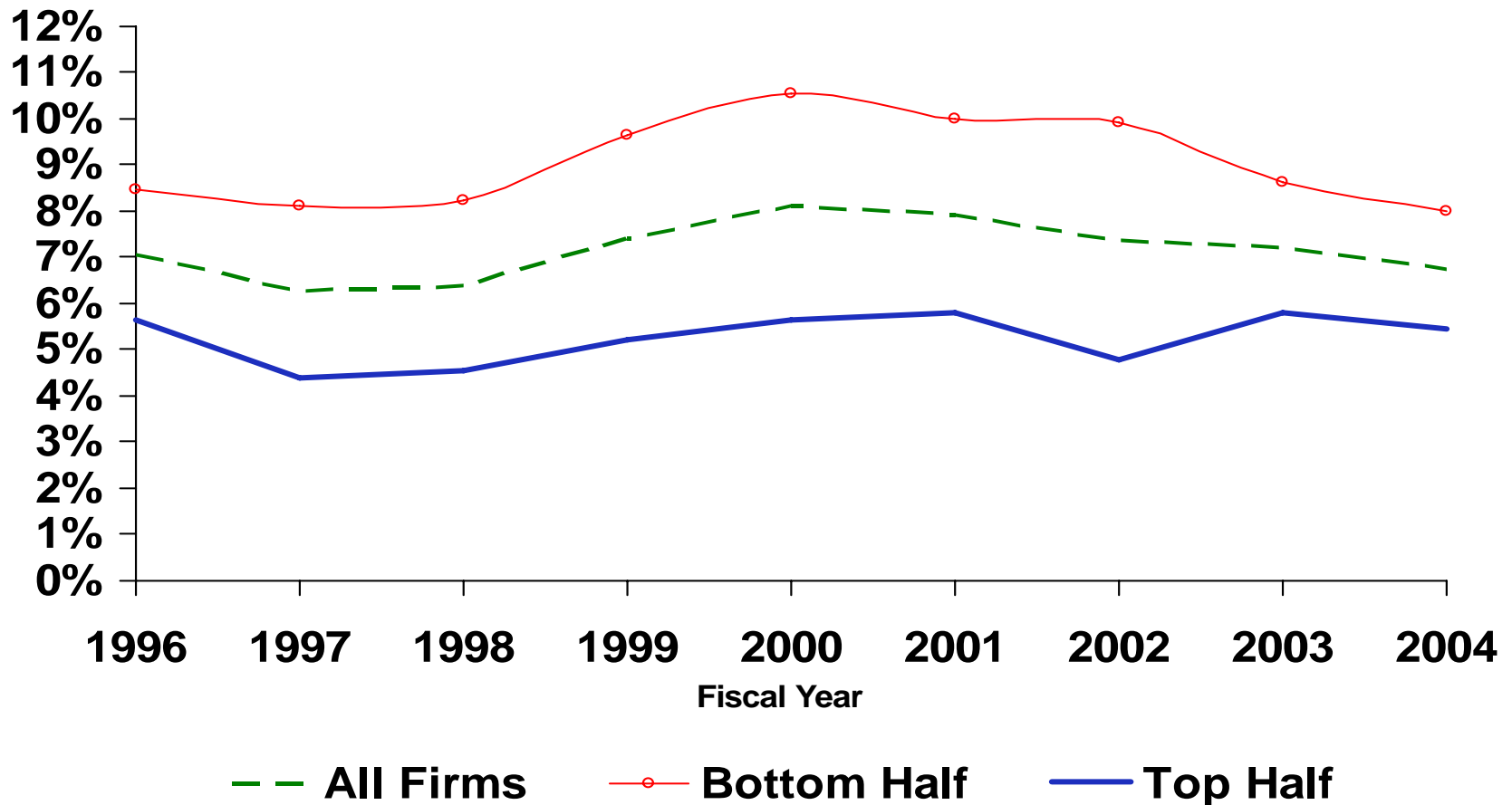
Avg. Working Capital as a Percent of Sales & Other Income-IA



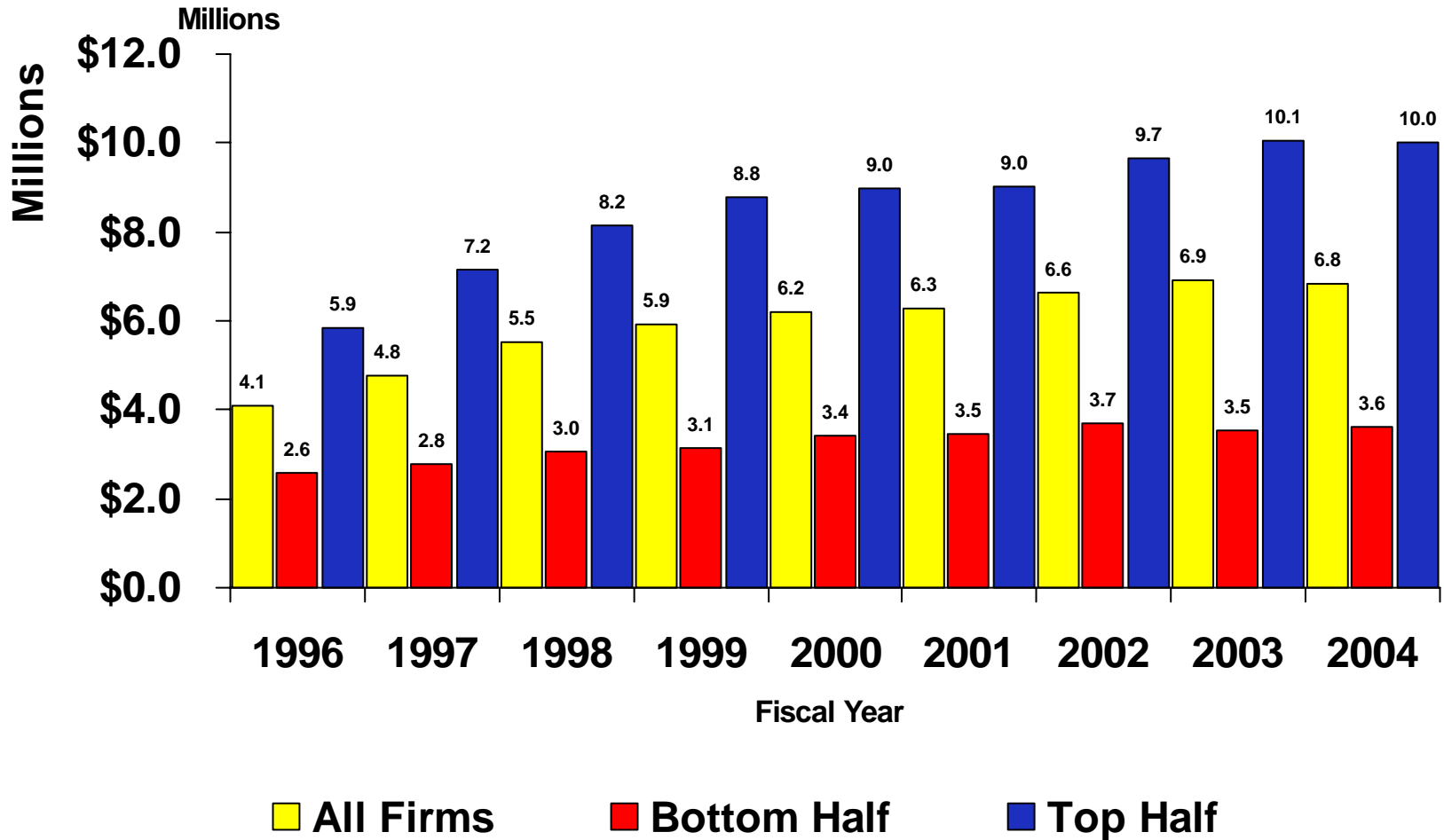
Top Half-Bottom Half Analysis

- Top Half Firm Total Assets Increased by 50% over the Period
- There Has Been Significant Growth in Dollar Working Capital Over the Nine Year Period—On Average About Double
 - Higher yields
 - Higher Prices
 - Consolidation
- Bottom Half Firms Consistently Maintained Higher Working Capital per Dollar of Sales and Other Income

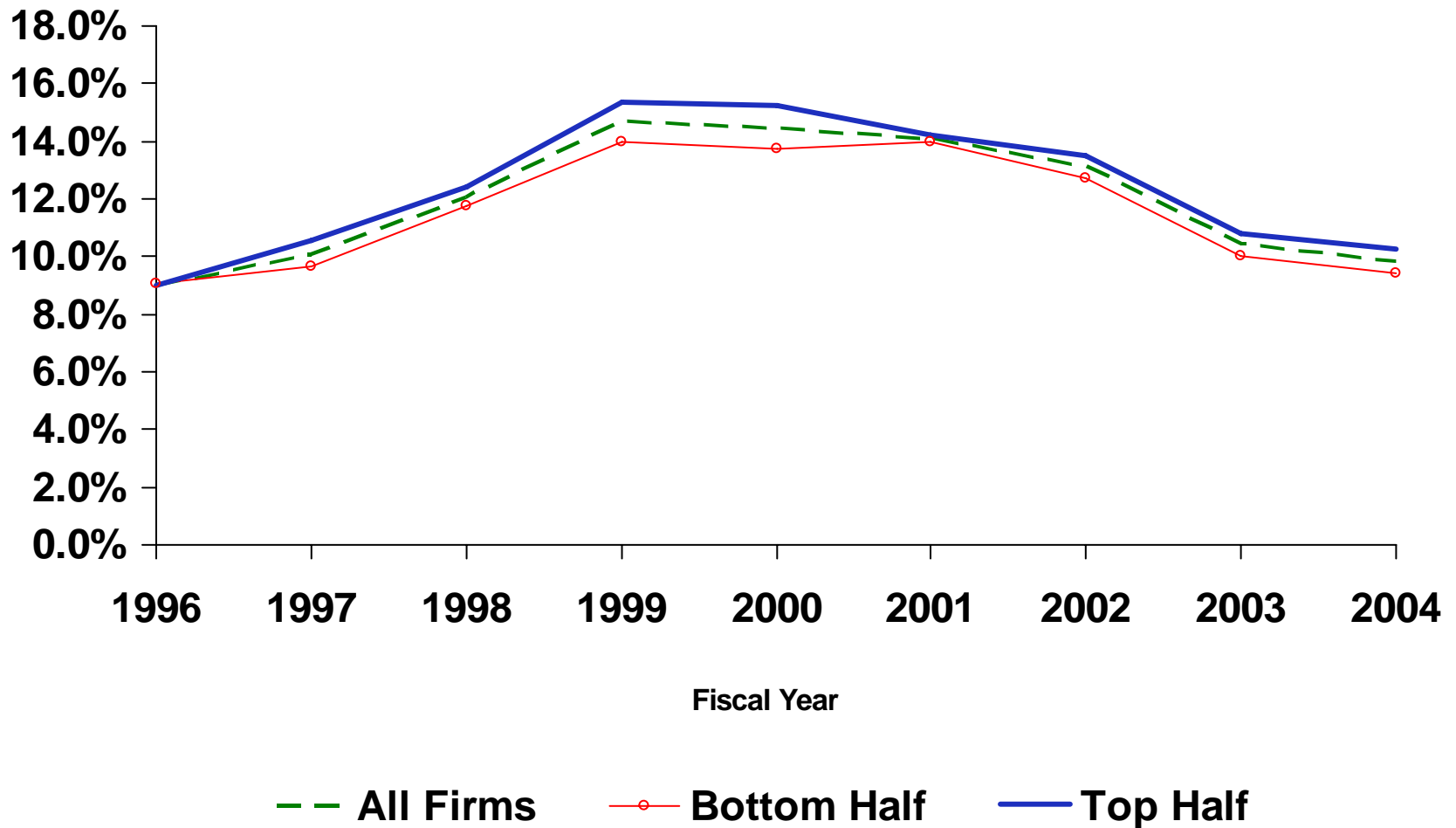
Average Working Capital as a Percent of Sales & Other Income- All



Average Fixed Assets Iowa



Avg Fixed Assets as a Percent of Sales & Other Income- IA

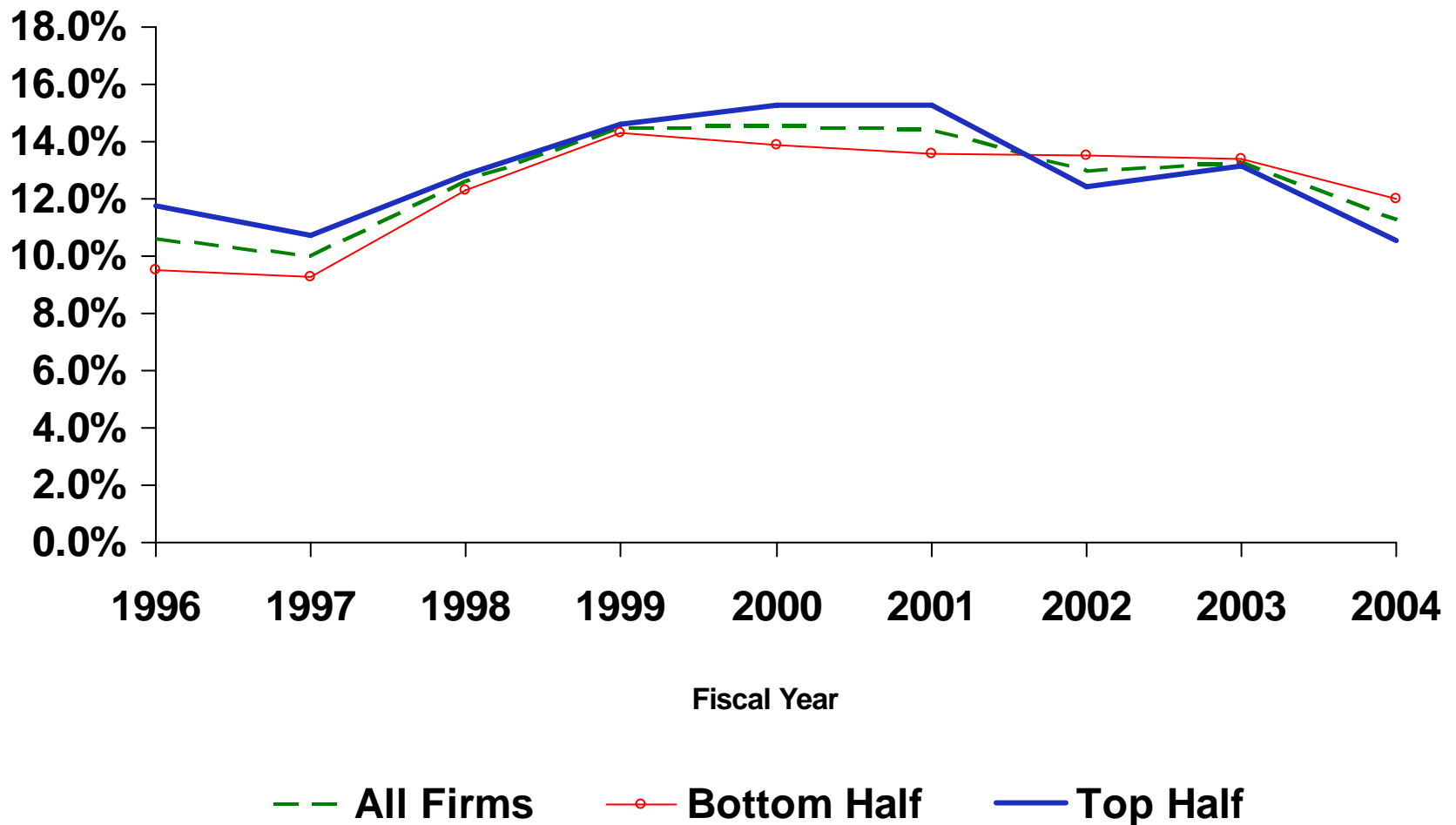


Top Half-Bottom Half Analysis

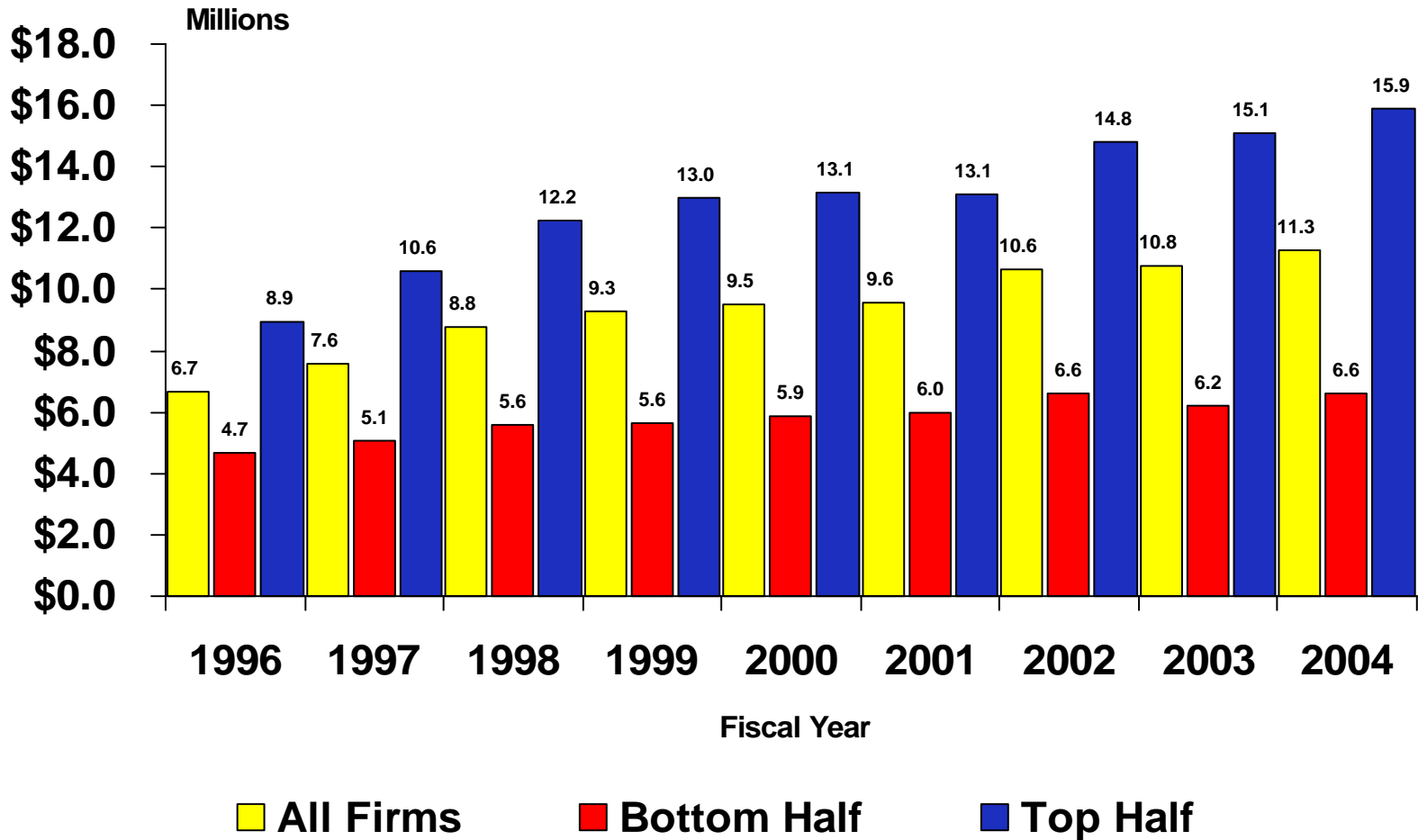
Average Fixed Assets in Top Half Firms
Increased by \$4.1Mil. Over the Period

- Average Fixed Assets in All Firms Increased by \$2.7 Mil.
- Bottom Half Firms Increased By \$1.0 Mil.
- Fixed Assets Per Dollar of SSI Were Virtually the Same For Both Top Half and Bottom Half Firms

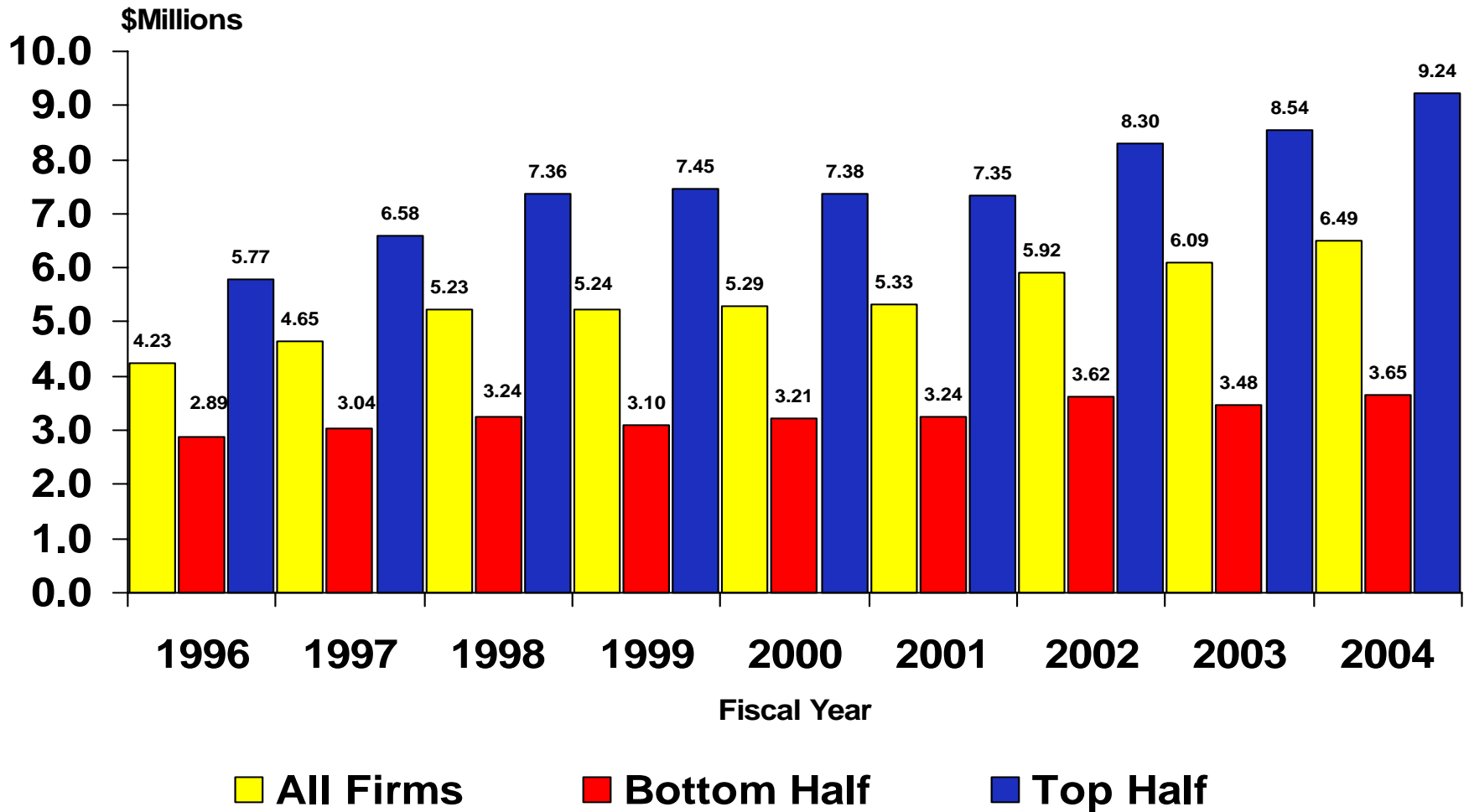
Average Fixed Assets as a Percent of Sales & Other Income- All



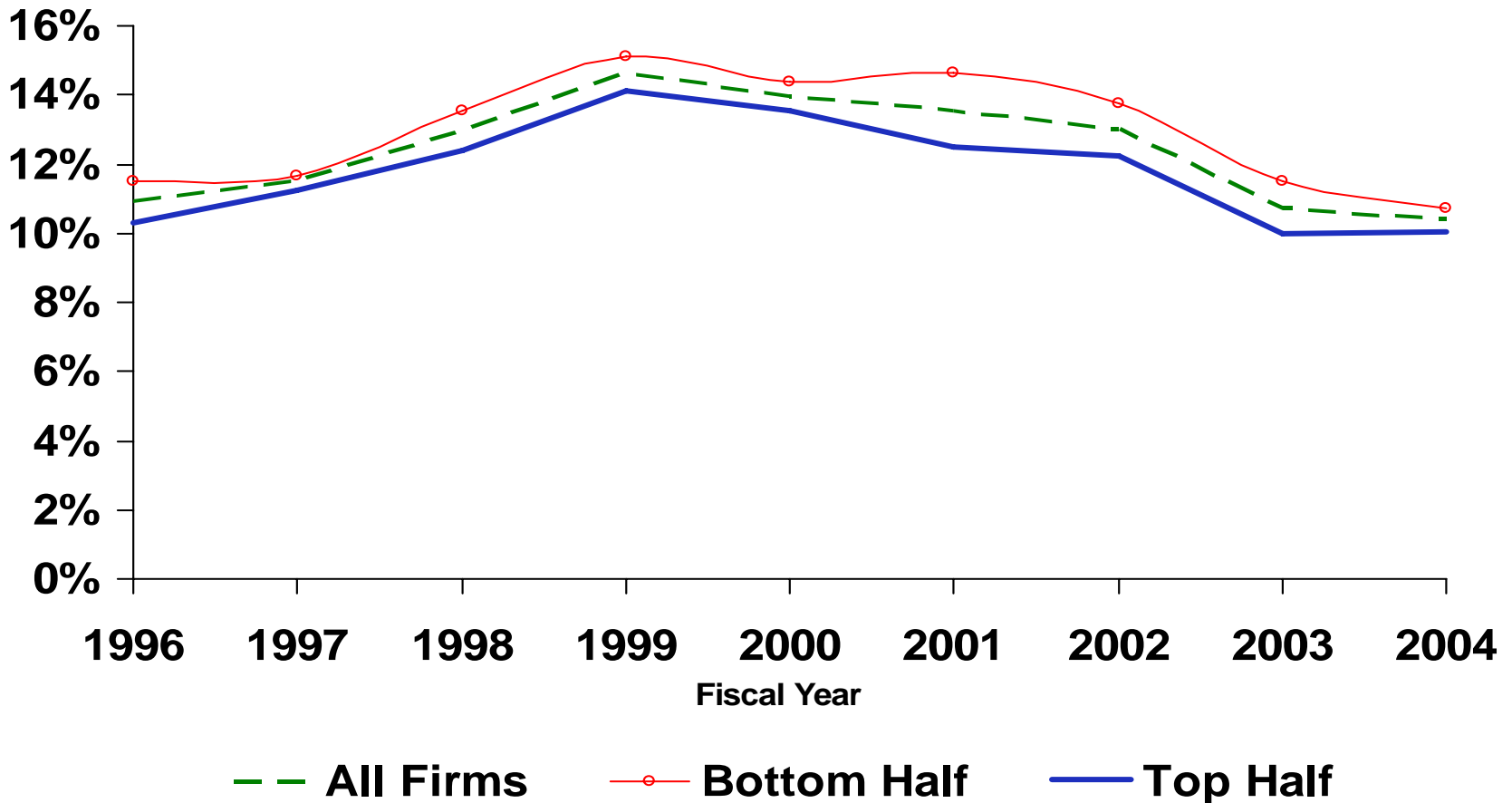
Average Equity Iowa



Average Local Equity Iowa



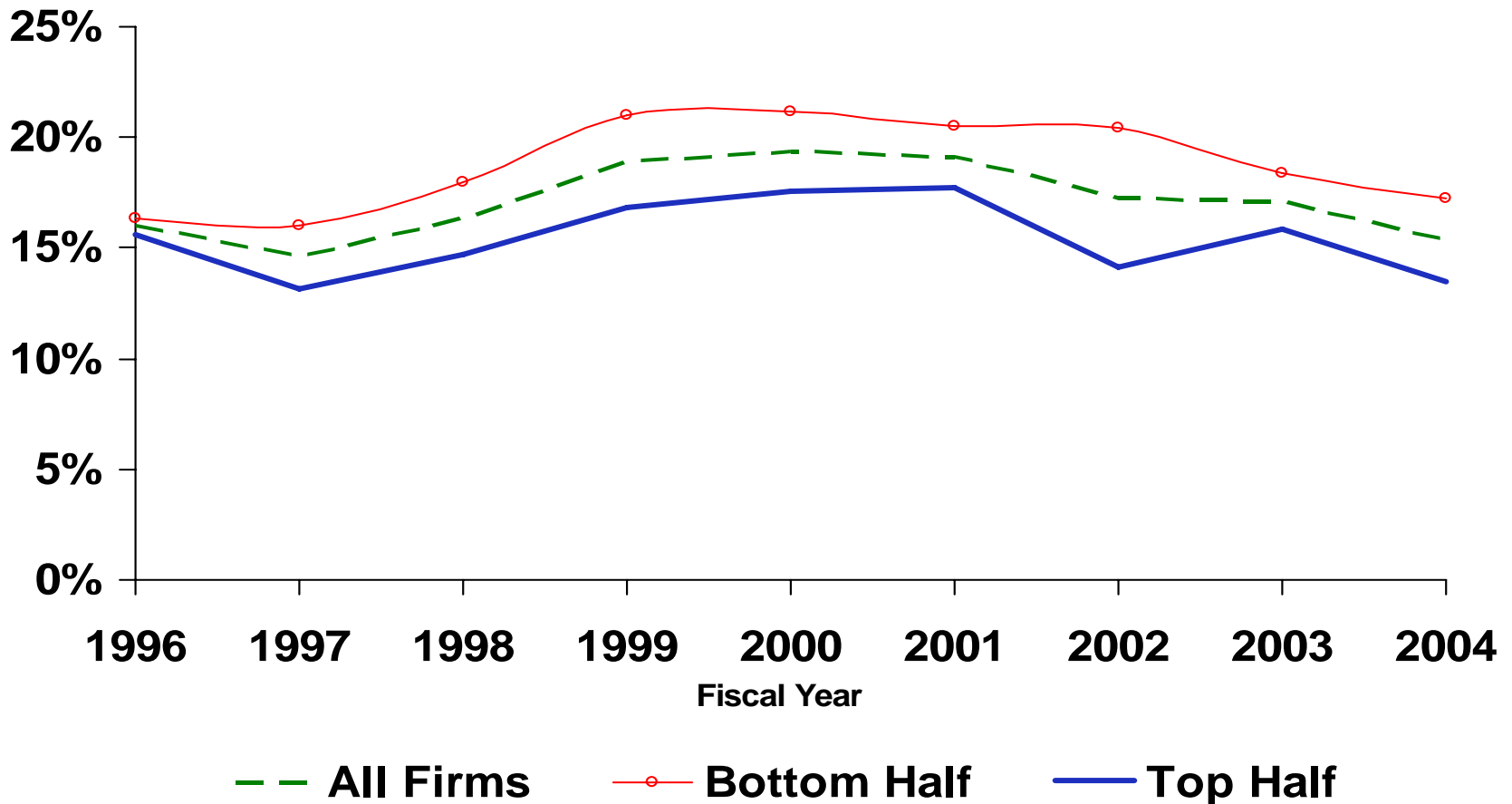
Average Local Equity as a Percent of Sales & Other Income- IA



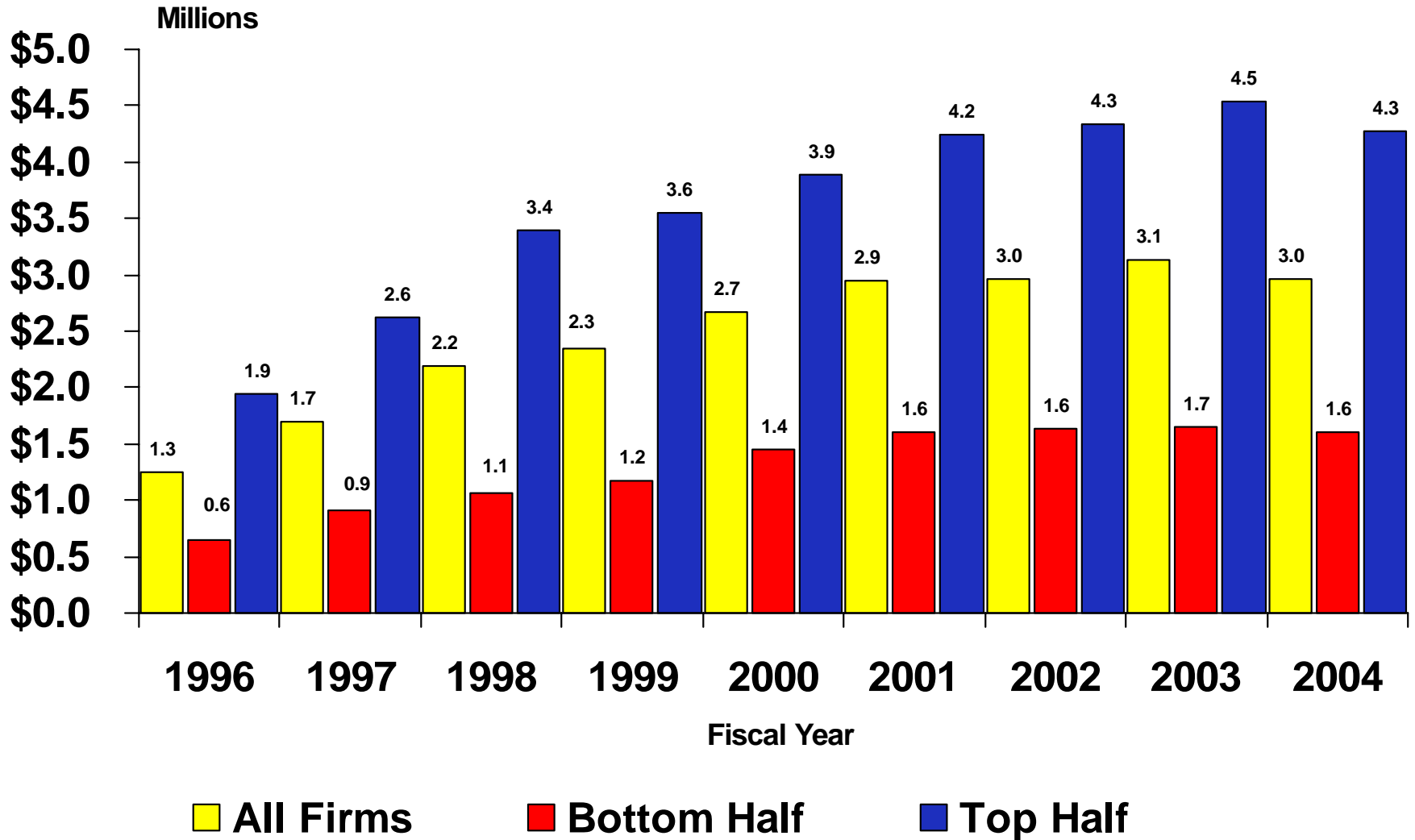
Top Half-Bottom Half Analysis-Local Equity

- Local Equity In the Whole Sample Increased by Approx. \$2.25 Million Over the Four Year Period
- Average Local Equity Increased By Approx. \$3.5 Million In Top Half Firms Over the Period
- Average Local Equity Increased By About \$750 k in Bottom Half Firms for the Period
- Local Equity Per Dollar of SSI in Bottom Half Firms Was Slightly Higher Than in Top Half Firms

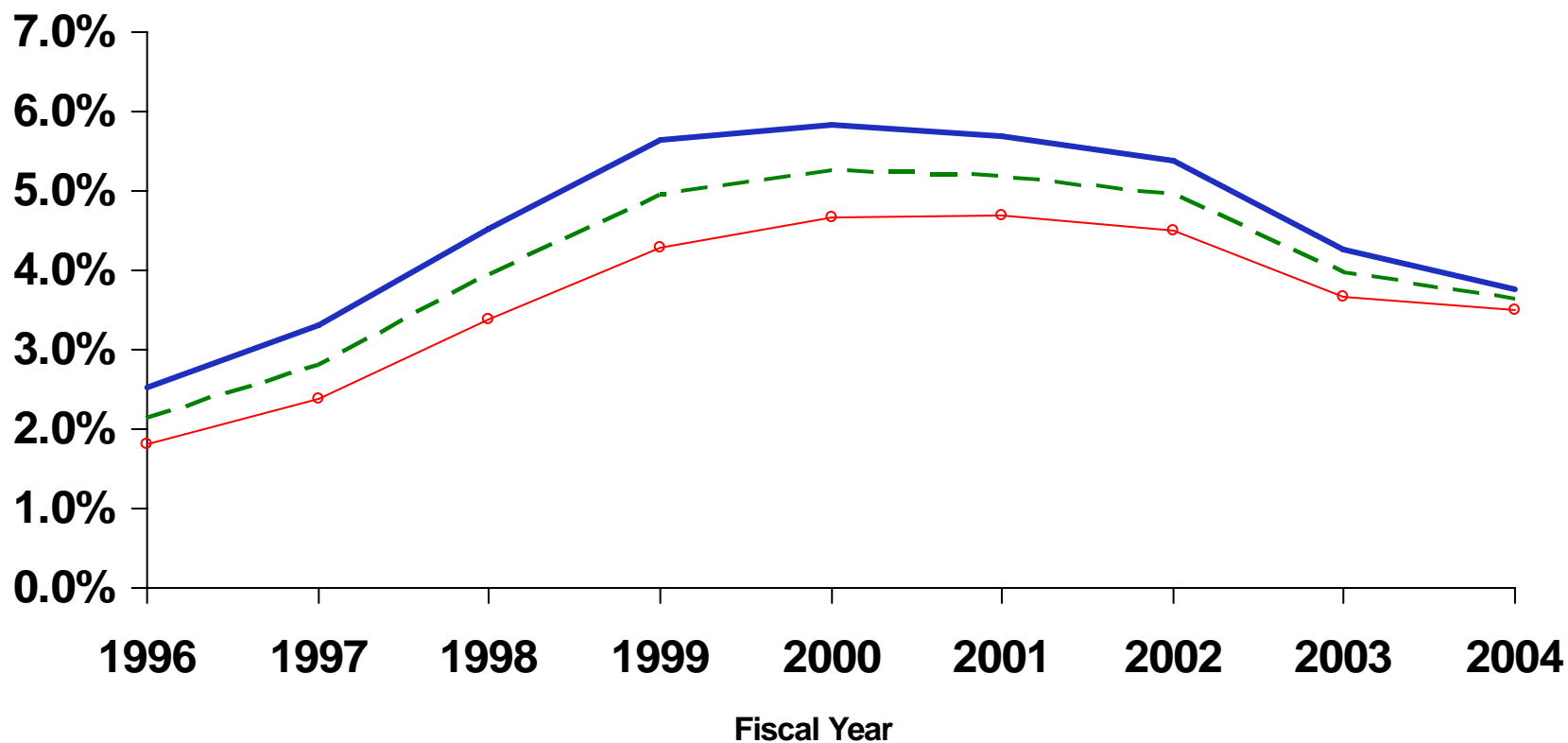
Average Local Equity as a Percent of Sales & Other Income- All



Average Long-Term Liabilities Iowa



Avg. Long-Term Liabilities as a Percent of Sales & Other Income- IA

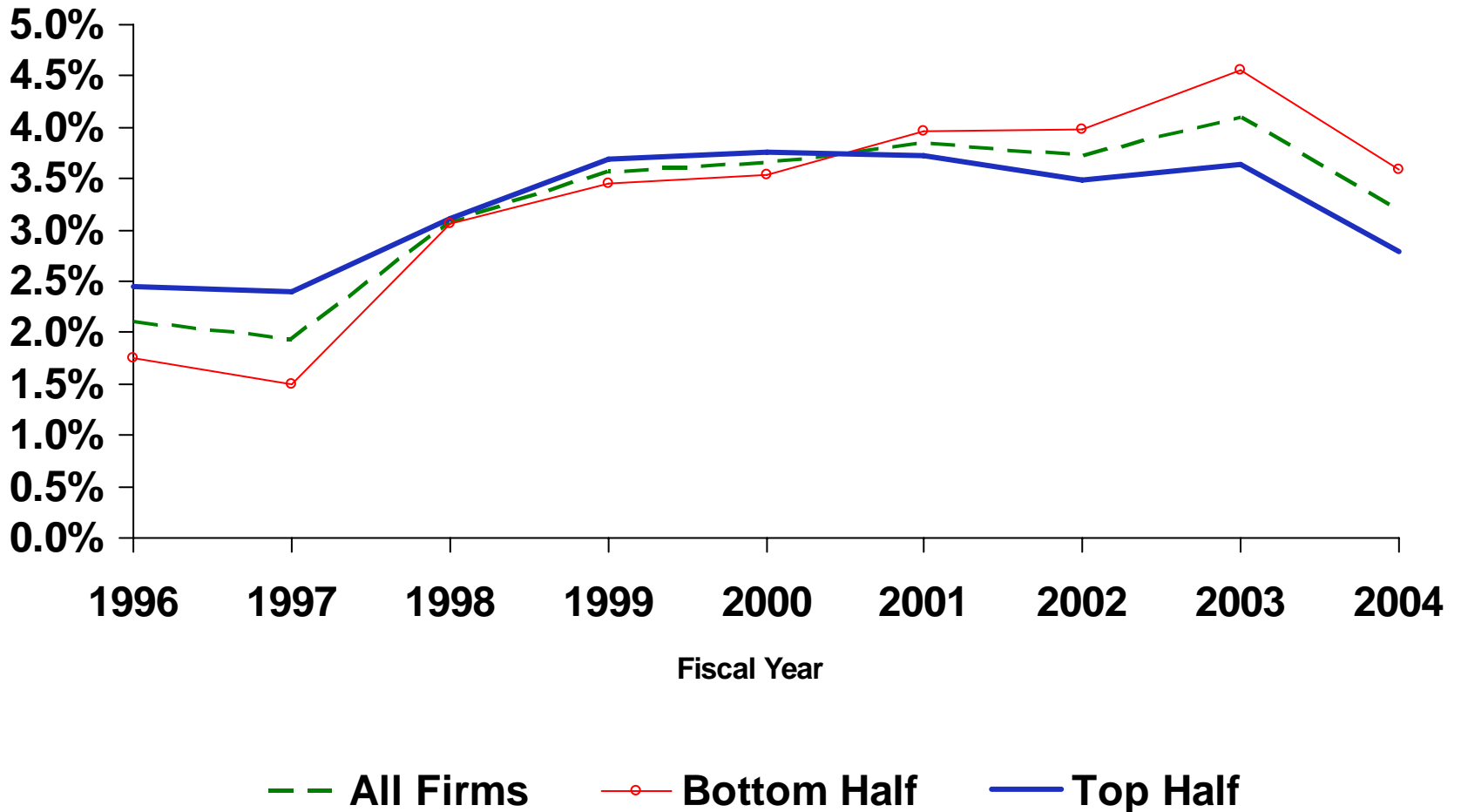


--- All Firms -o- Bottom Half — Top Half

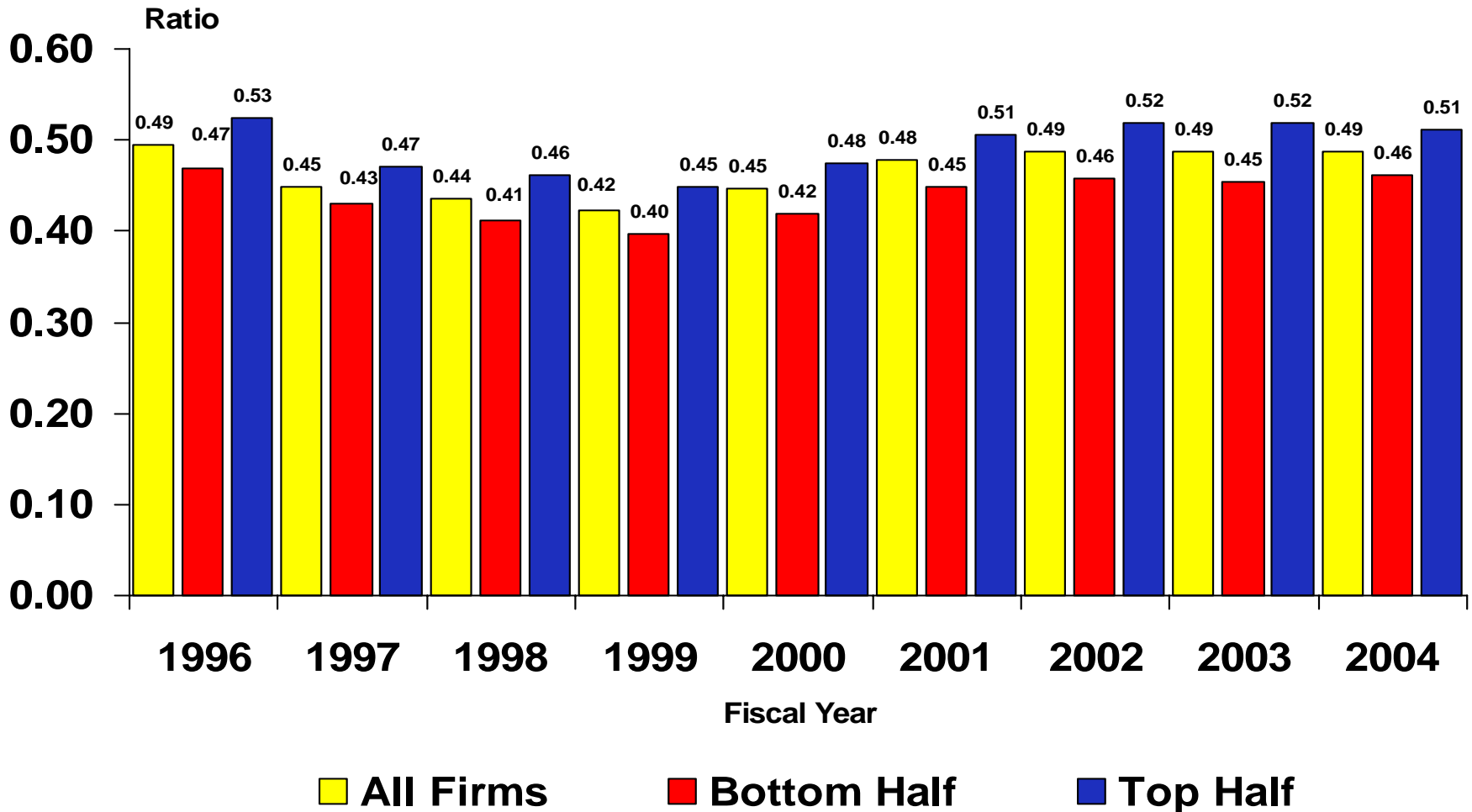
Top Half-Bottom Half Analysis

- Average Long Term Debt for the Sample More Than Doubled Over the Four Year Period
- Long Term Debt in Bottom Half Firms Increased 2.5 Fold Vs. 2.25 Fold in Top Half Firms
- As a Percentage of Sales and Service Income (SSI) Bottom Half Firms Have Slightly Less Debt Than Top Half Firms, But the Gap is Narrowing
- Average Long Term Debt As a Percentage of SSI Increased Over the Period In Both Top Half and Bottom Half
 - Low Interest Rates Latter Years
 - Interest Rates in Future ?

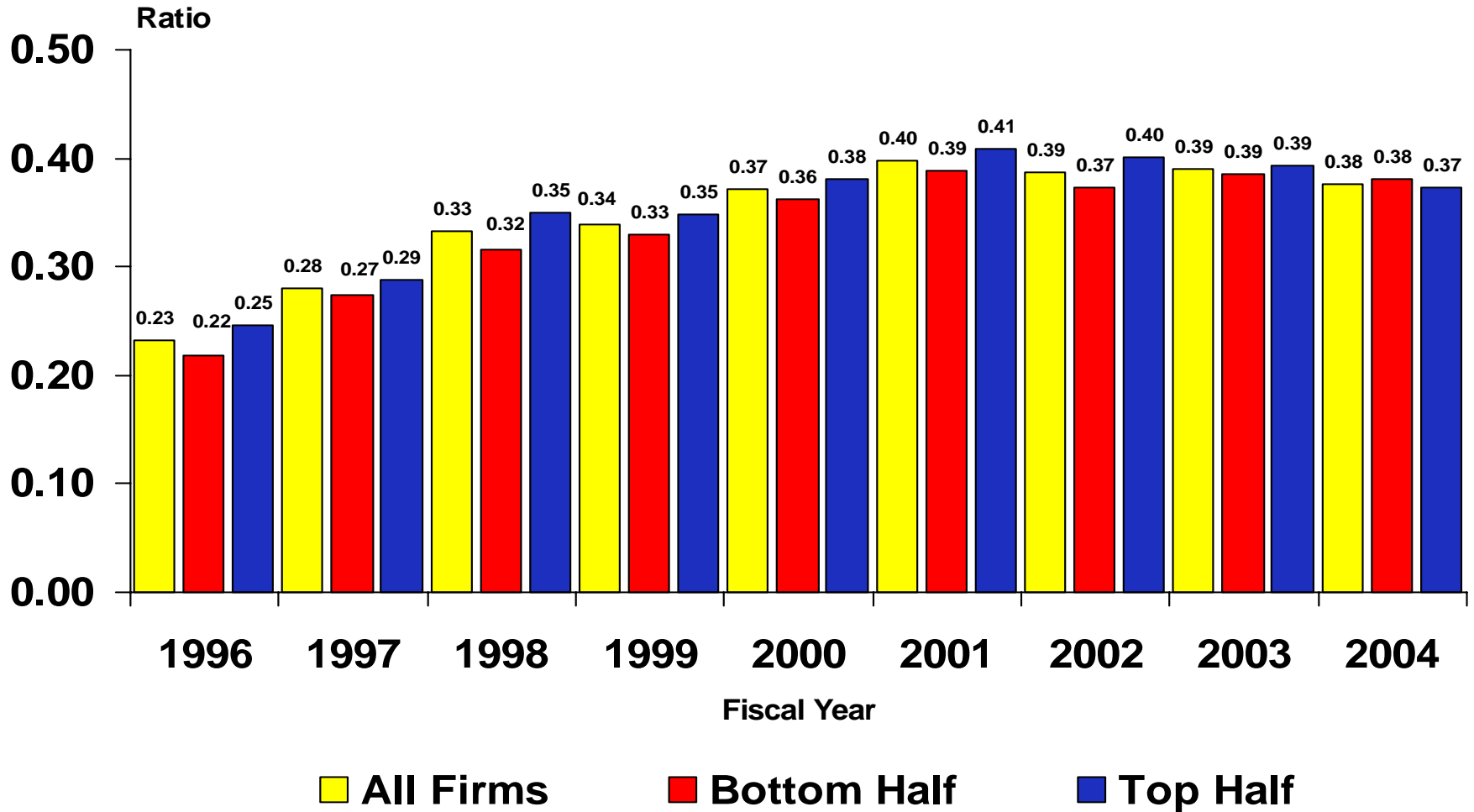
Average Long-Term Liabilities as a Percent of Sales & Other Income- All



Average Debt-to-Asset Ratio Iowa



Average Long-Term Debt to Fixed Assets Iowa



Top Half-Bottom Half Analysis

- **Total Debt** In Relation to Total Assets Was Stable and Averaged Just Under 50% for All Firms in the Sample
- In 2004 A Difference of About 12% Was Noted Between Top Half Firms ($D/A=.51$) and Bottom Half Firms ($D/A=.46$)
- Long Term Debt to Fixed Assets May Be a Better Measure
- Average Long Term Debt to Fixed Assets Increased Over the Period from About .28 to .38
- Average Long Term Debt to Fixed Assets Ended the Period at the Same Level in Both Top Half and Bottom Half Firms.

Top Half-Bottom Half Analysis

The Operating Statement

Sales and Service Income

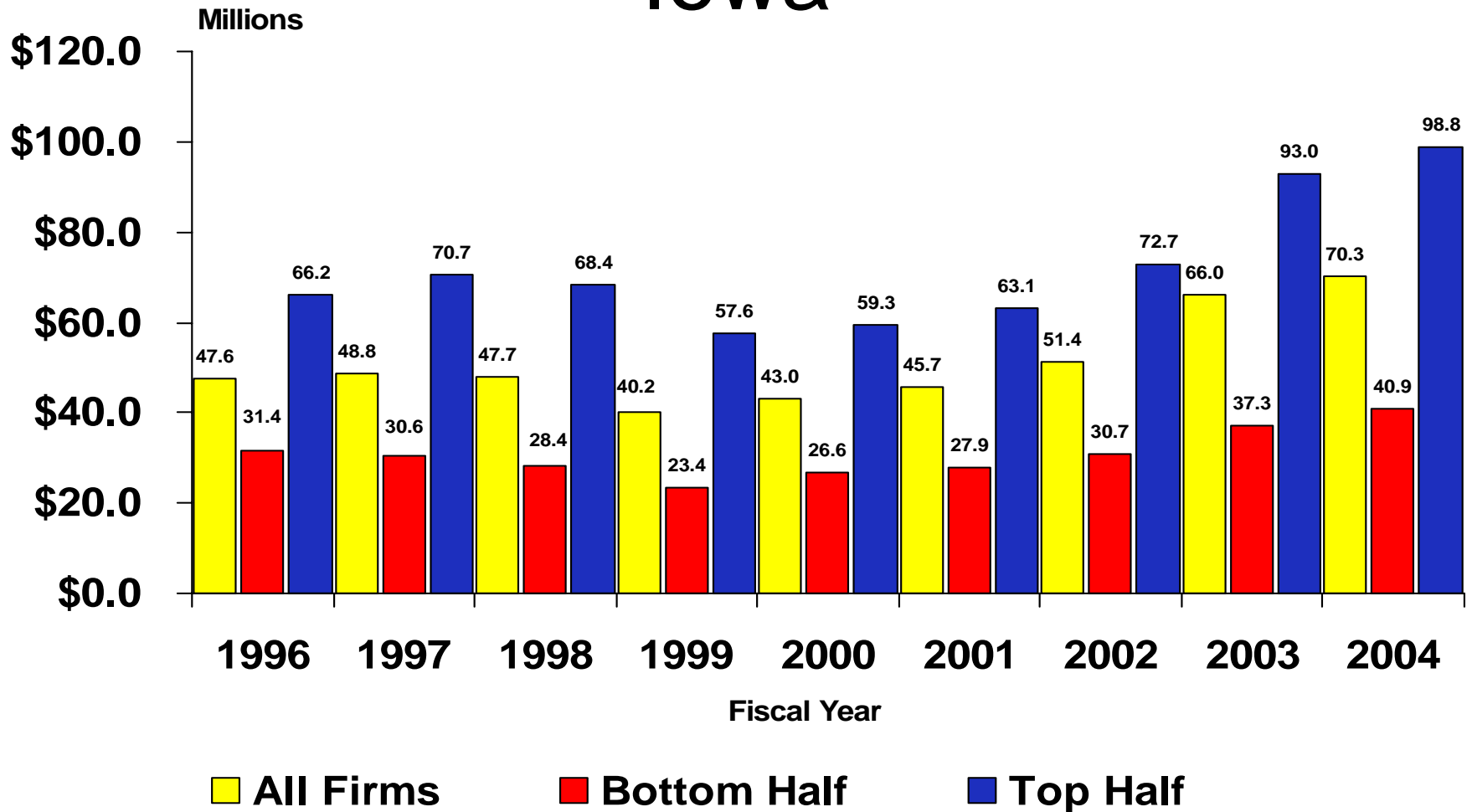
Gross Margins

Expenses

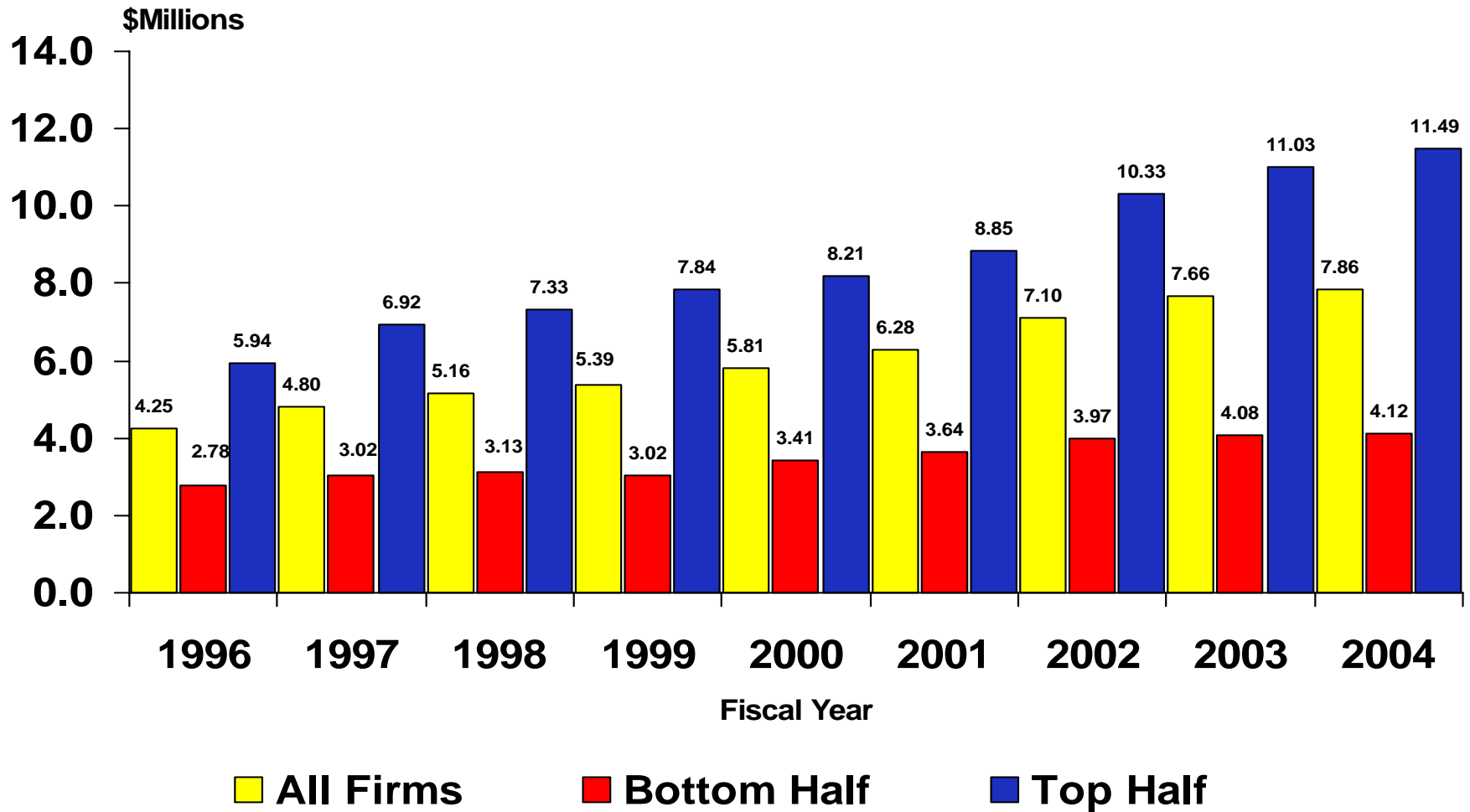
Net Margins

Cash Flow

Average Sales & Other Income Iowa



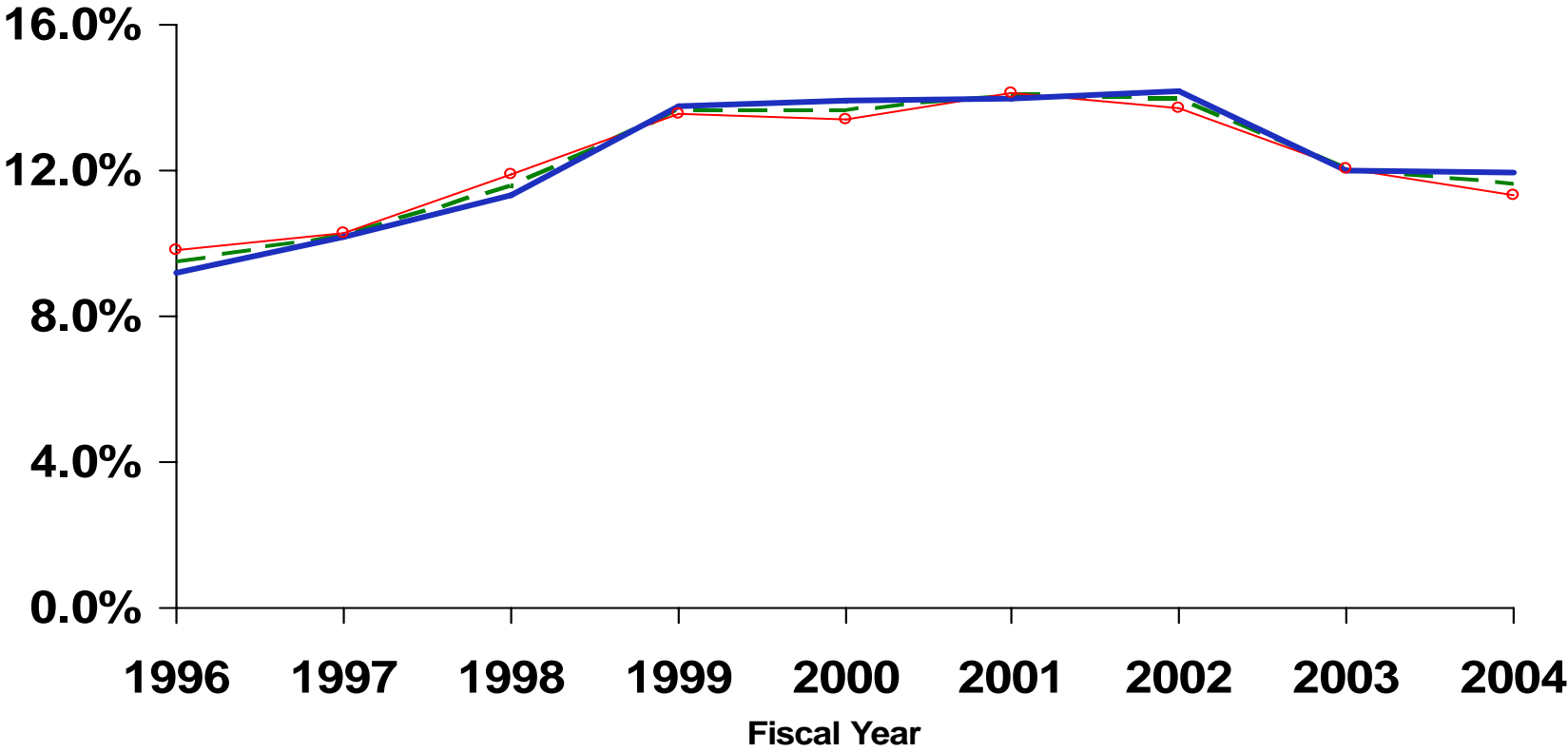
Average Gross Profit Iowa



Top Half-Bottom Half Analysis

- Dollar Gross Profit for the Sample Increased Over the Period from An Average of \$4.25 Mil. In FY 1996 to Approximately \$8 Mil. In FY 2004--- About \$3.75 Mil.
- Average Dollar Gross Profits in Top Half Firms Increased \$5.5 Mil. Over the Period
- Average Gross Profits in Bottom Half Firms Increased About \$1.3 Mil. Over the Period

Average Gross Profit as a Percent of Sales & Other Income- IA

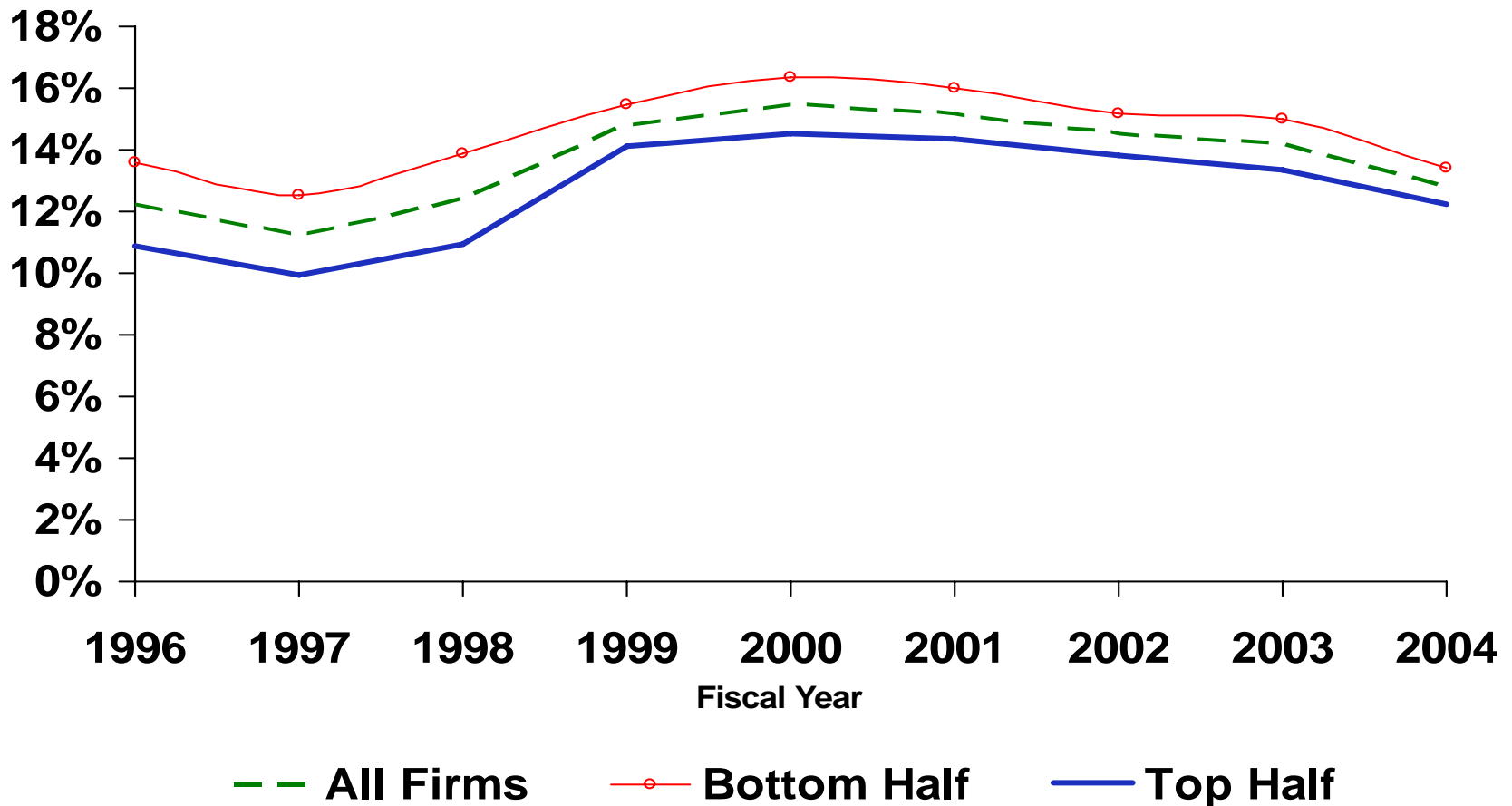


--- All Firms -o- Bottom Half — Top Half

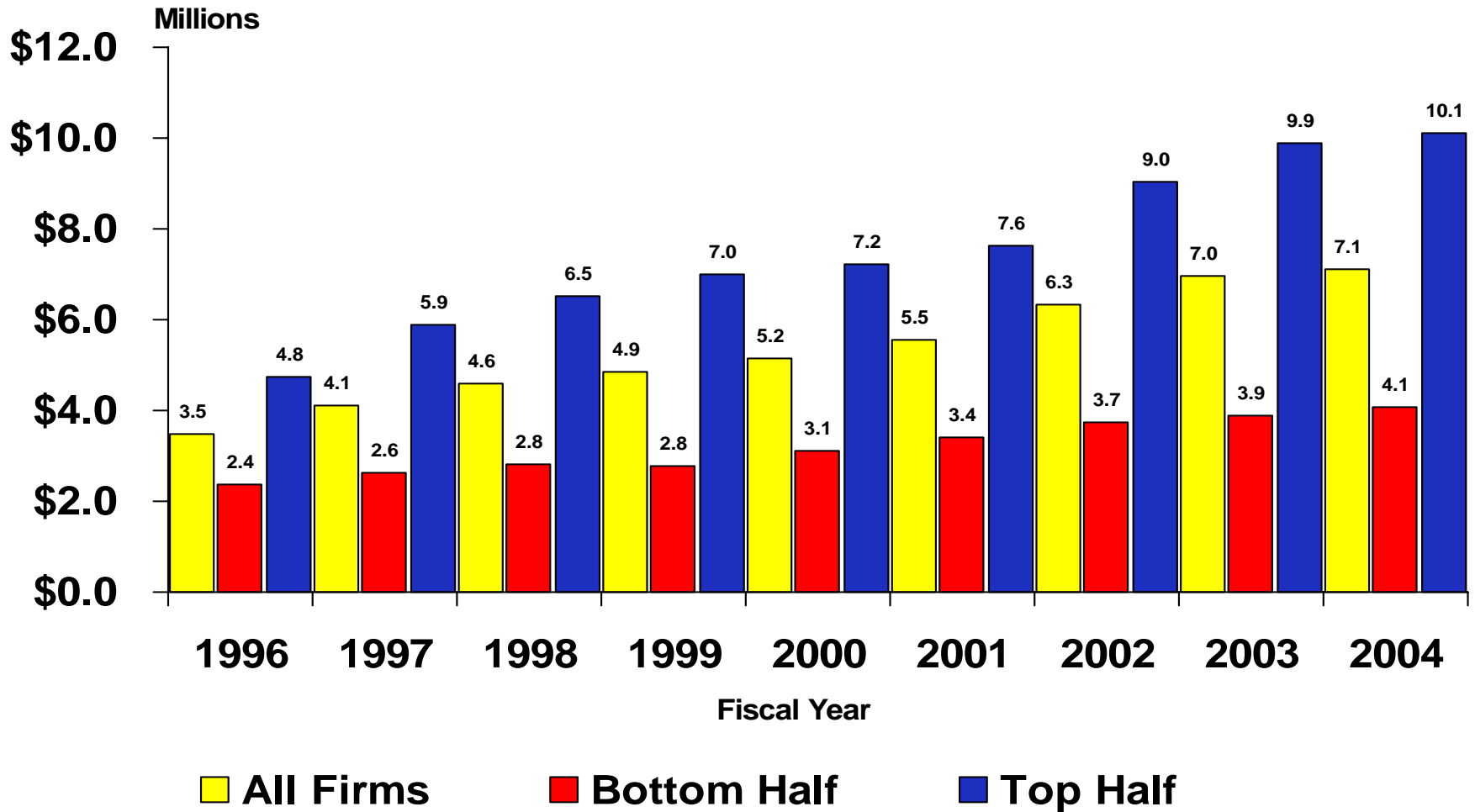
Top Half-Bottom Half Analysis

- Average Gross Profit As a Percent of SSI Was Remarkably Similar for Top Half and Bottom Half Firms.
- This Indicates That the Market Is Extremely Competitive.
- Top Half Firms Are Throwing Their Purchasing Power Advantages Back into the Market
- Bottom Half Firms Are Struggling To Stay Competitive and Have Difficulty in Maintaining Cash Flow

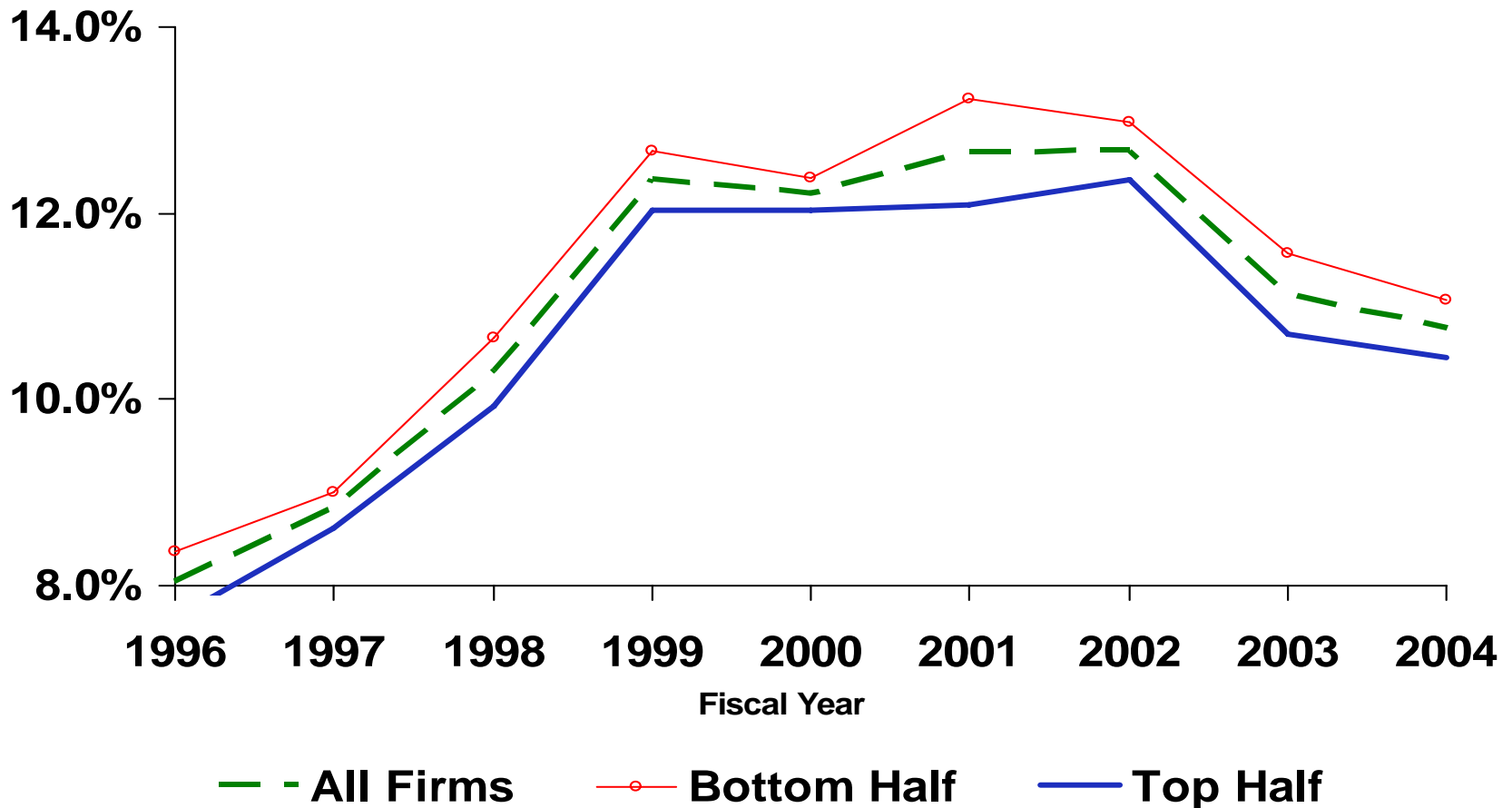
Average Gross Profit as a Percent of Sales & Other Income- All



Average Total Expenses Iowa



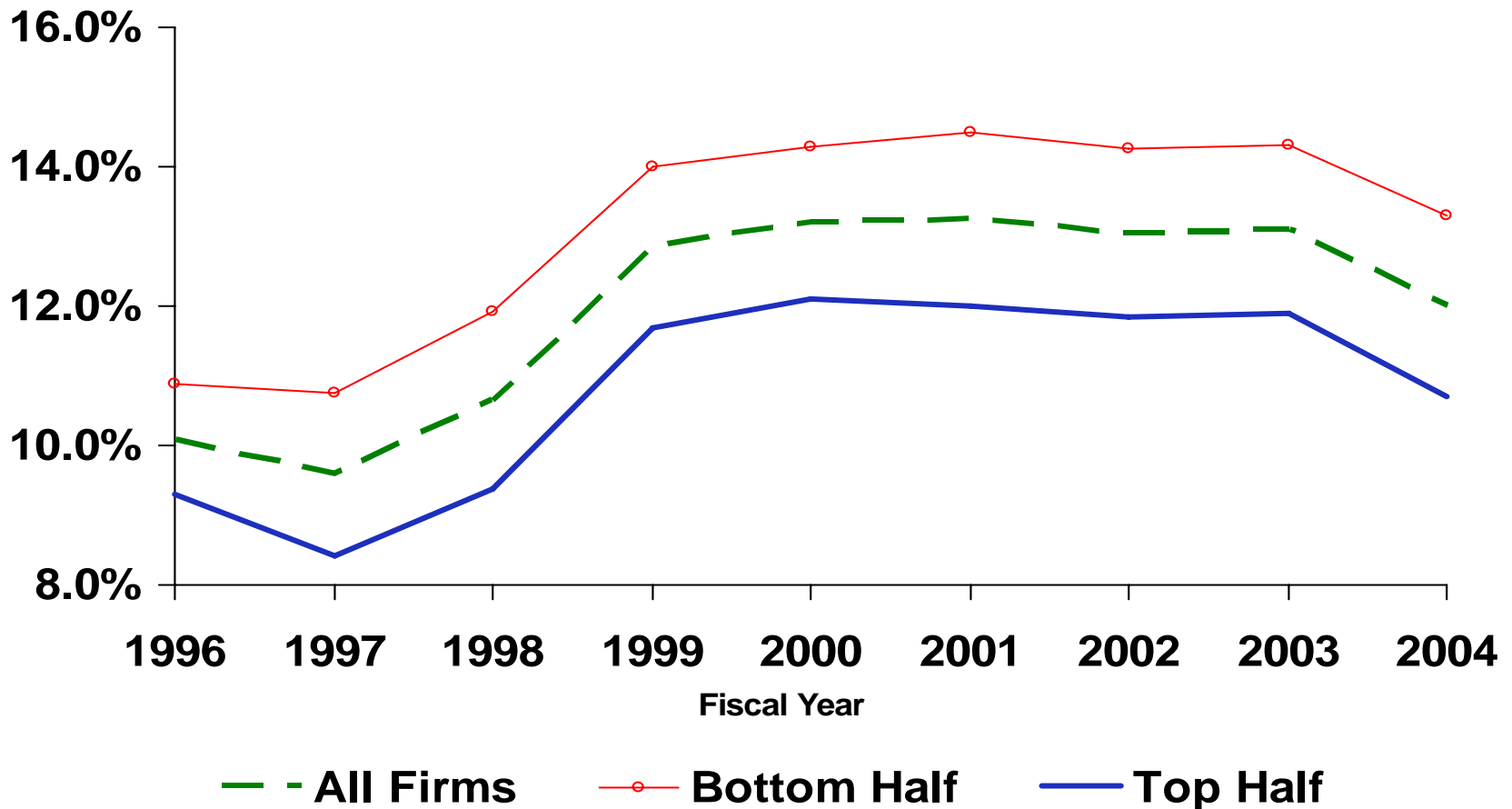
Avg. Total Expense as a Percent of Sales & Other Income-IA



Top Half-Bottom Half Analysis

- Total Expenses for the Sample Increased Over the Period from An Average of \$3.5 Mil. In 1996 to \$7.1 Mil. In 2004---About \$3.6 Mil.
- Top Half Firms Increased \$5.3 Mil. Over the Period
- Bottom Half Firms Increased \$1.7 Over the Period
- Expenses as a Percent of Total Sales & Income Were Slightly Lower For Top Half Firms Over the Period

Avg. Total Expense as a Percent of Sales & Other Income- All



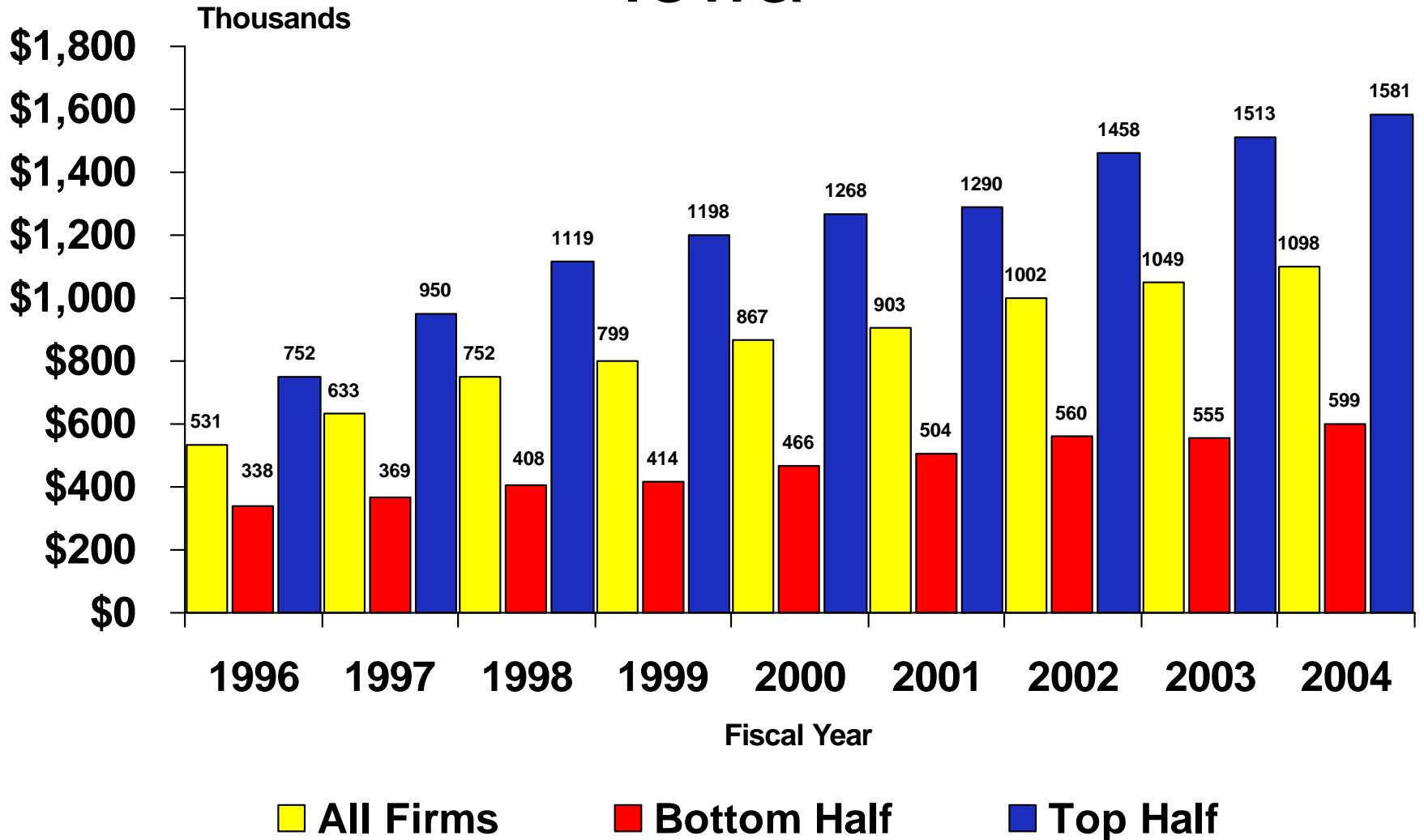
Top Half-Bottom Half Analysis

- Cutting Expenses in This Industry is ***Very Difficult***
 - Many Expenses Are Fixed and Do Not Change with Volume
 - Others Such as Interest, Insurance and Retirement Are Difficult to Control Directly
- The High Level of Fixed Expense and Uncontrollable Expenses Make Profitability Highly Volume Dependant

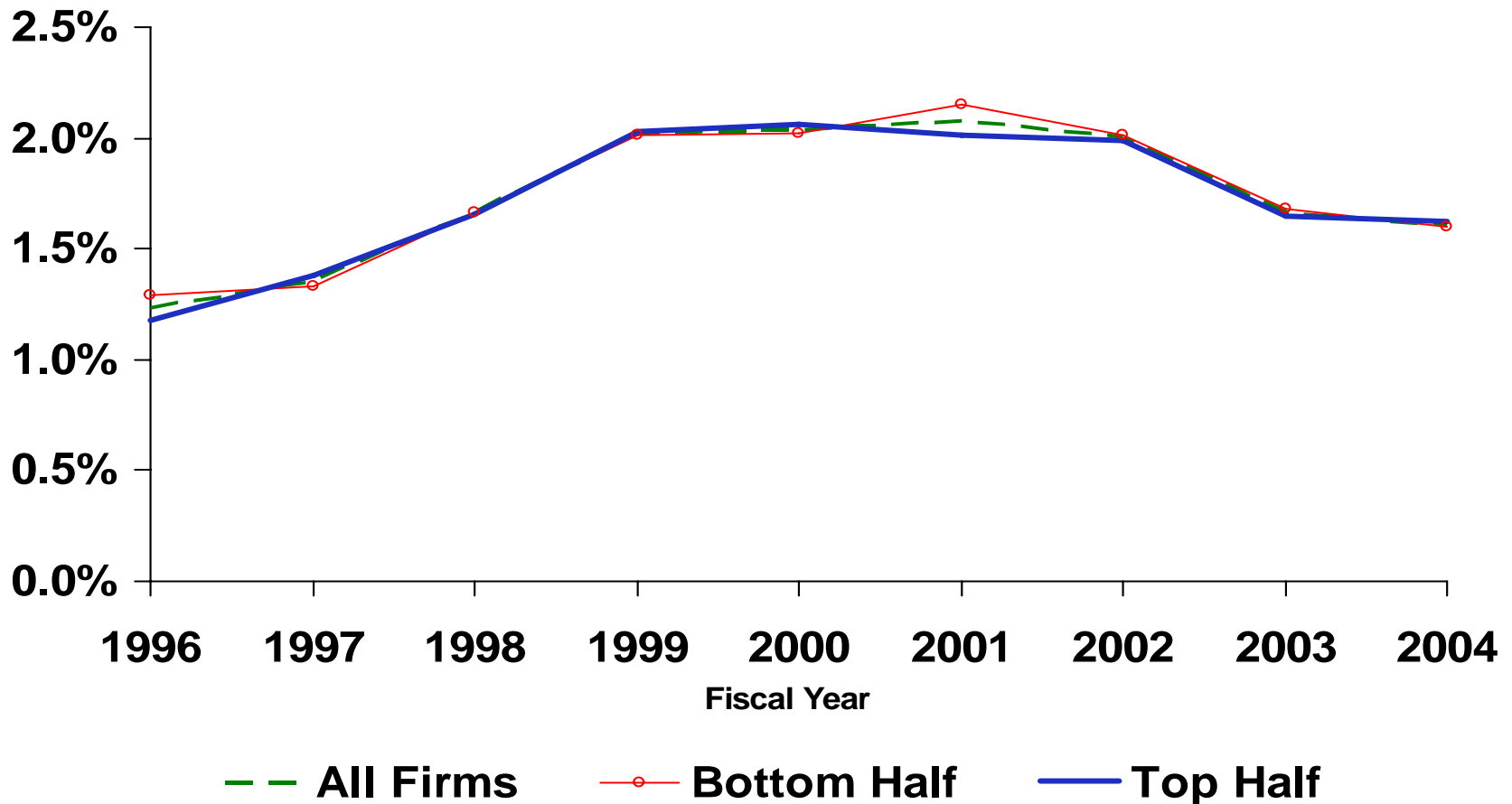
Top Half-Bottom Half Analysis

- Several Key Expense Areas Broken Out For a Closer Look
 - Depreciation Expense
 - Labor Expense
 - Interest Expense

Average Depreciation Expense Iowa



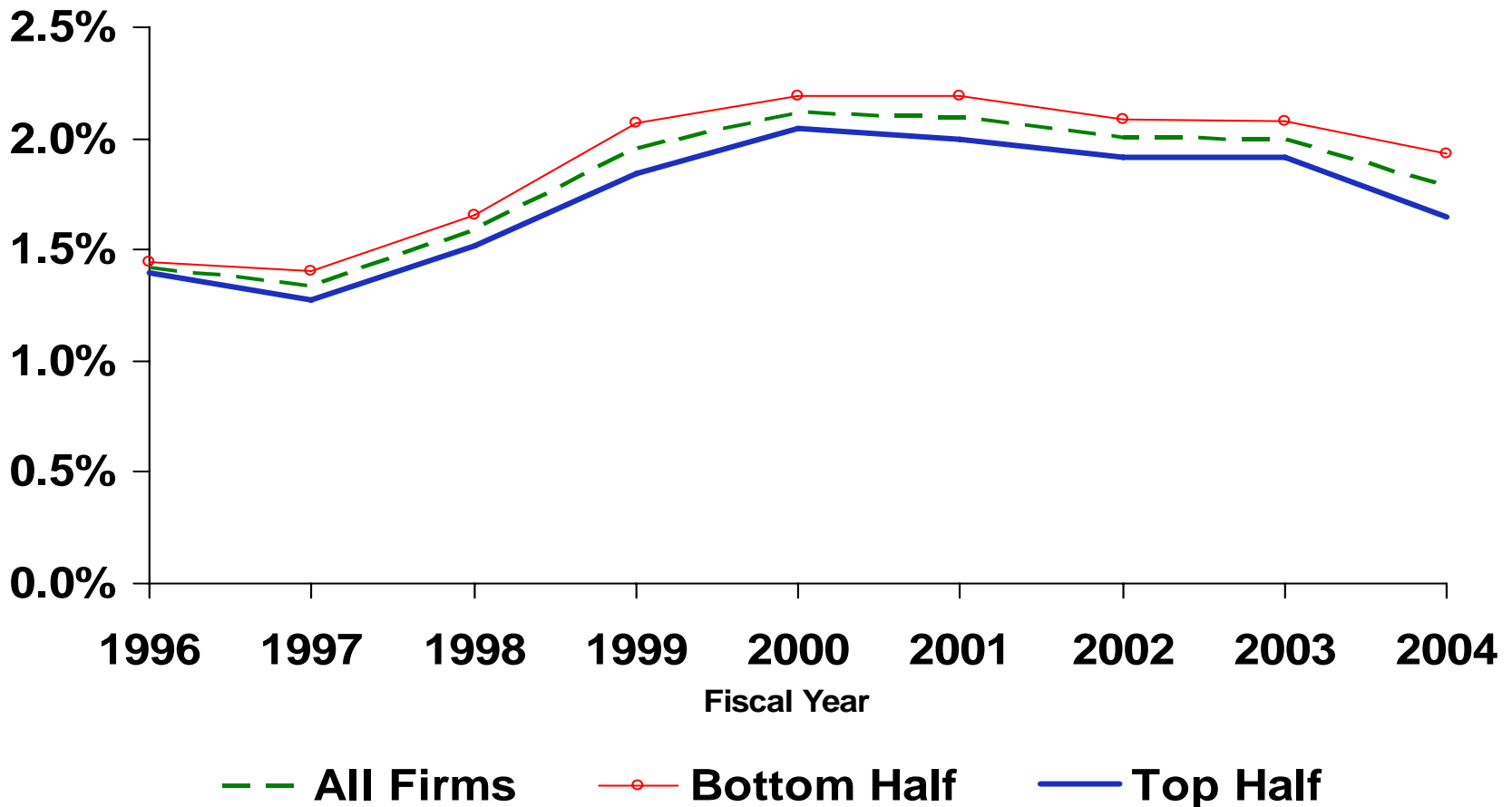
Average Depreciation as a Percent of Sales & Other Income- IA



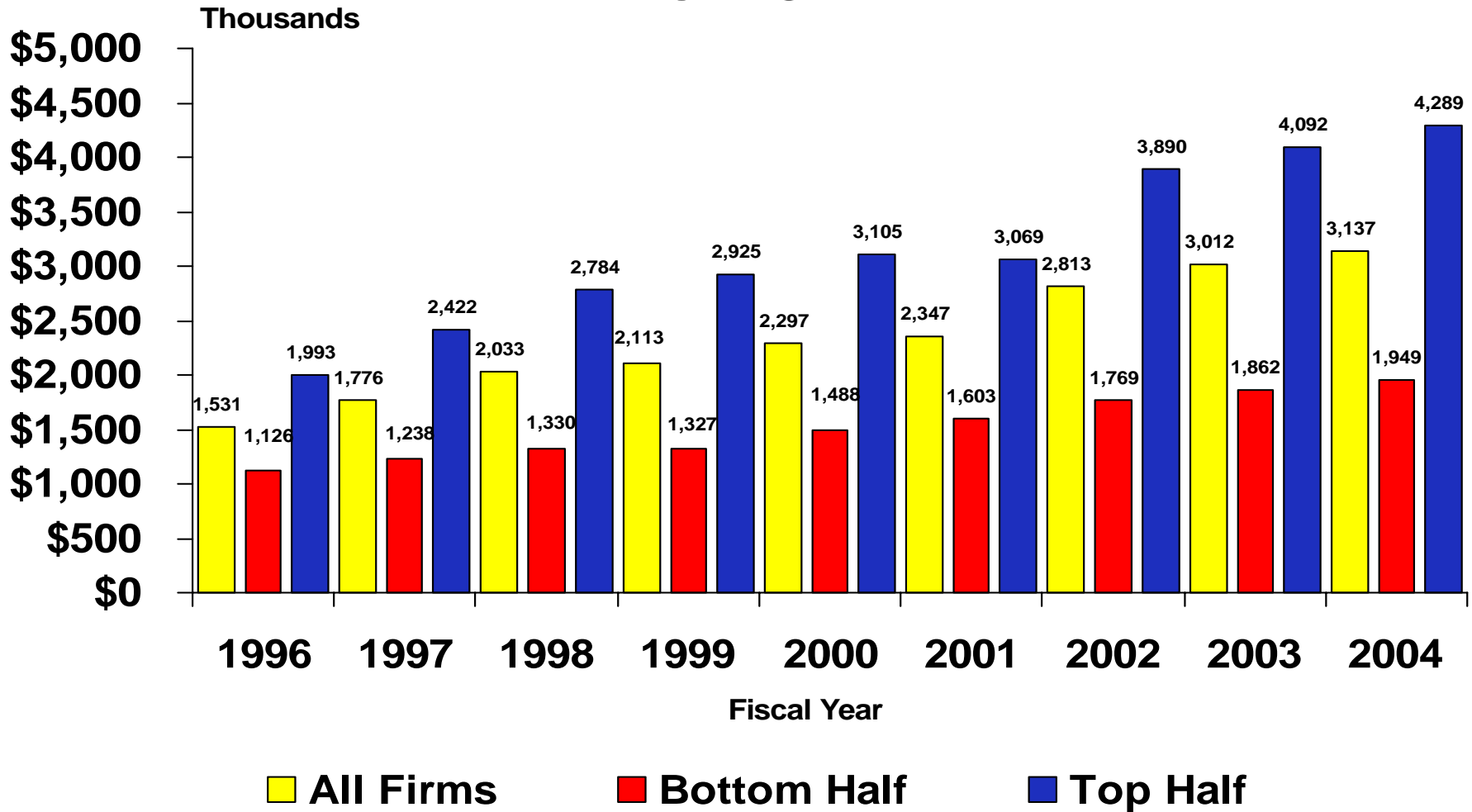
Top Half-Bottom Half Analysis

- Average Depreciation Expense for the Sample Doubled
- Average Depreciation Expense in Top Half Firms Increased By More than 2 Fold
- Average Depreciation Expense in Bottom Half Increased by Less Than 2 Fold
- Top Half Firms Had About 2/3 of the Total Depreciation Cash Flow Flow By 2004

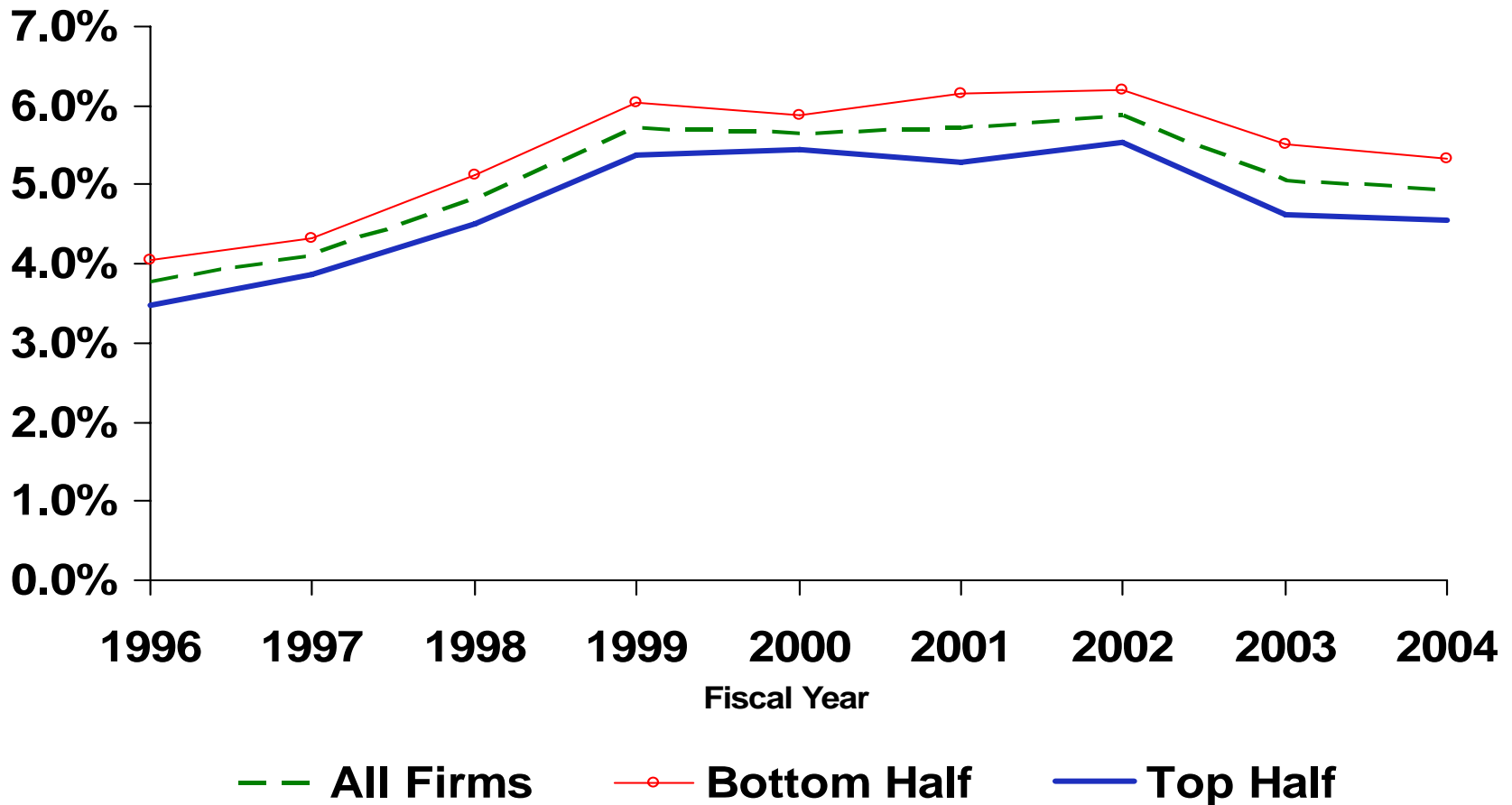
Average Depreciation as a Percent of Sales & Other Income- All



Average Total Labor Expense Iowa



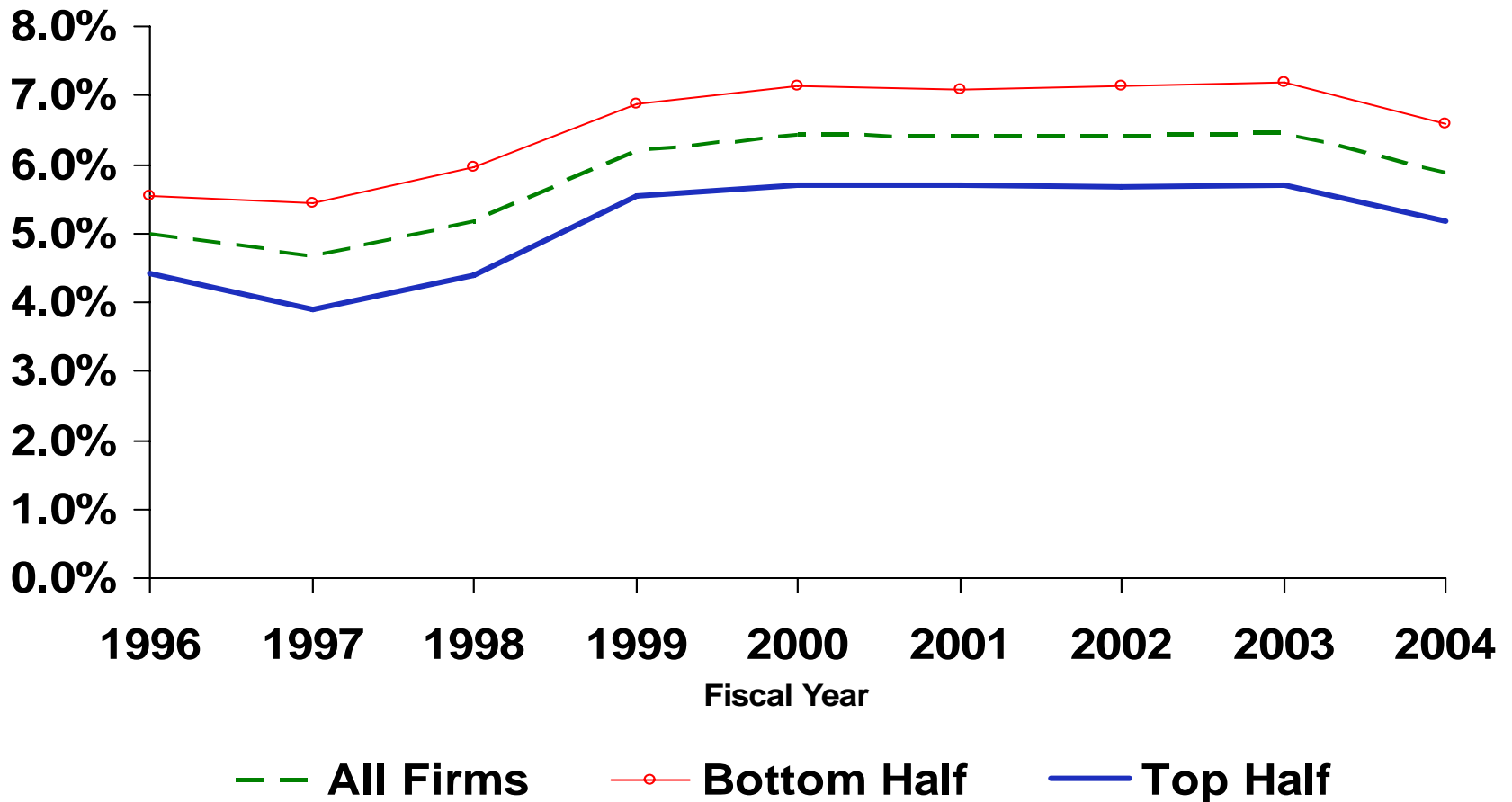
Avg. Labor Expense as a Percent of Sales & Other Income-IA



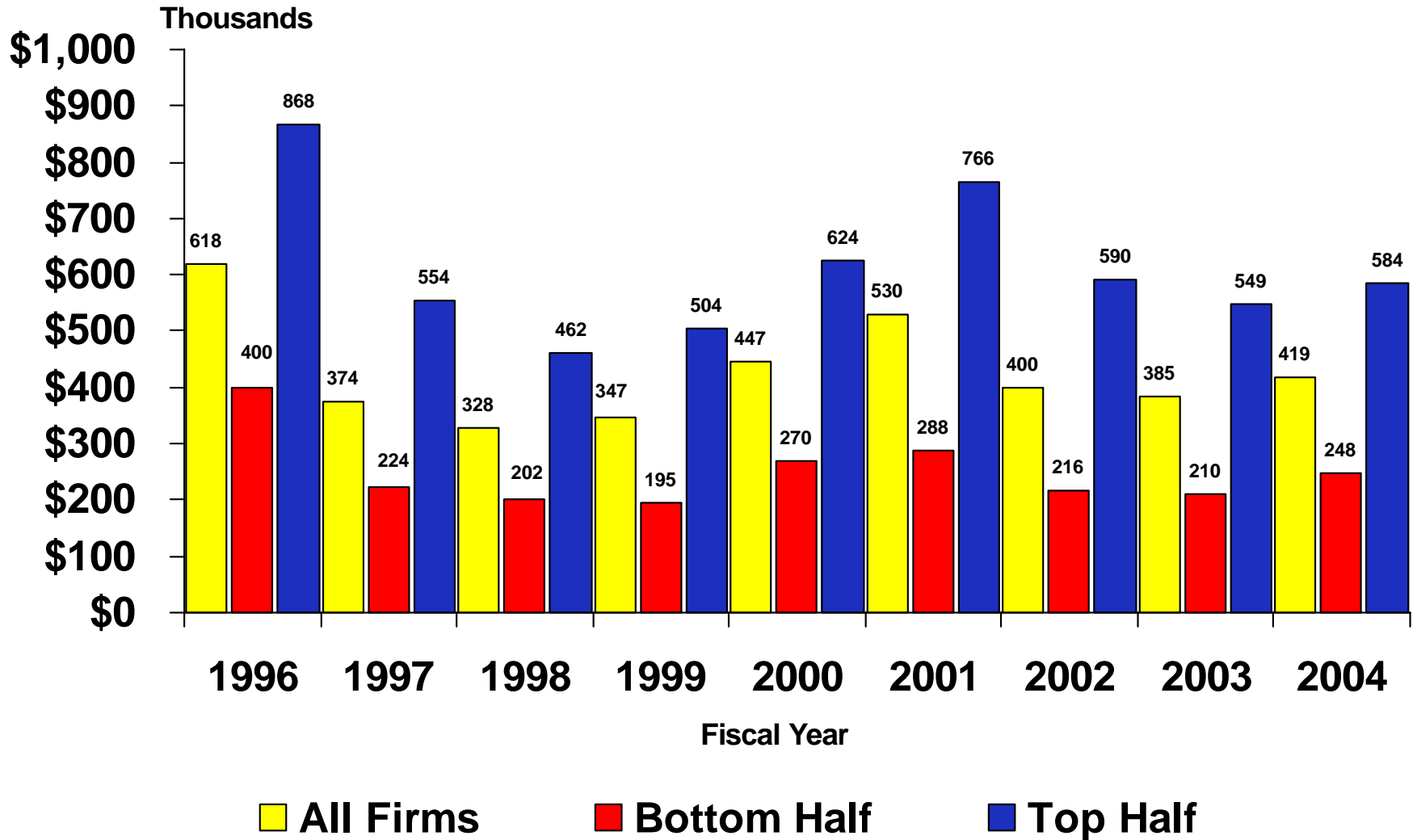
Top Half-Bottom Half Analysis

- Average Labor Expense for the Sample More than Doubled Over the Period For the Sample as a Whole
- Labor Expense in Bottom Half Firms Did Not Double
- Labor Expense in Top Half Firms More than Doubled
- Nonetheless Bottom Half Firms Had Consistently Higher Labor Costs As a Percent of SSI--- Slower Sales Growth
- The Increases in Insurance and Retirement Costs For Employees Appears to Be a Significant Factor In the Increases For Both Groups

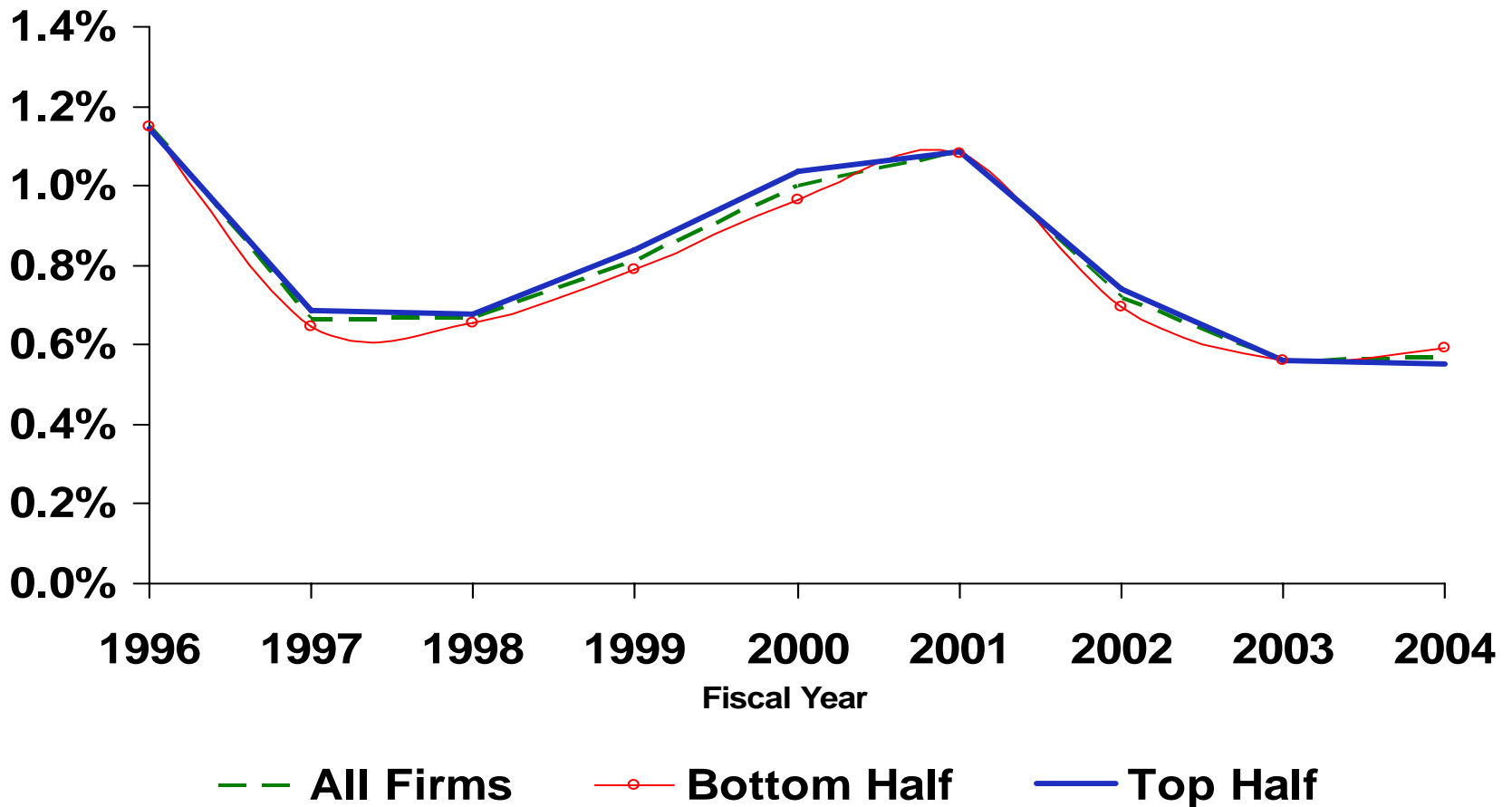
Avg. Labor Expense as a Percent of Sales & Other Income-All



Average Interest Expense Iowa



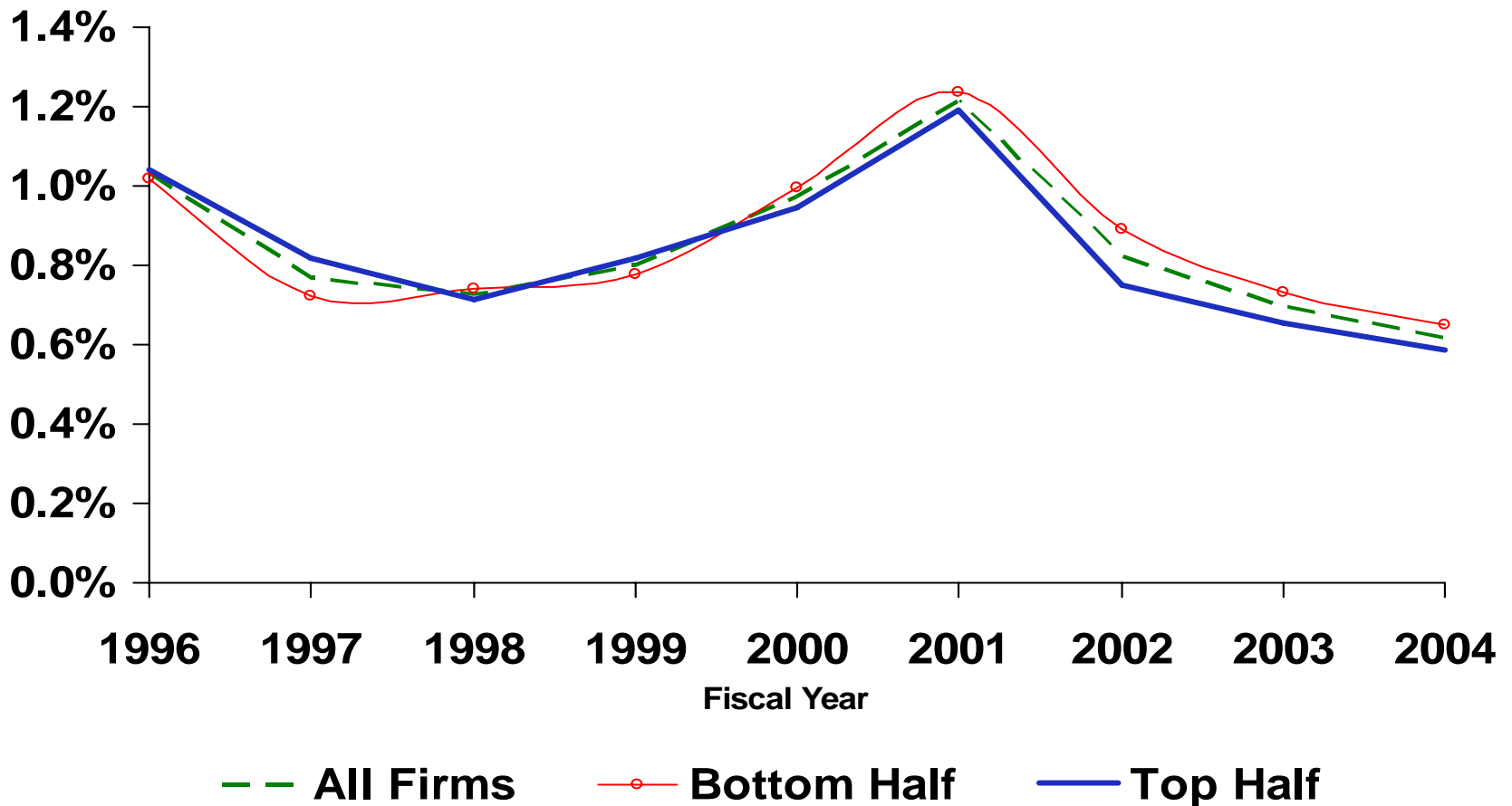
Avg. Interest Expense as a Percent of Sales & Other Income-IA



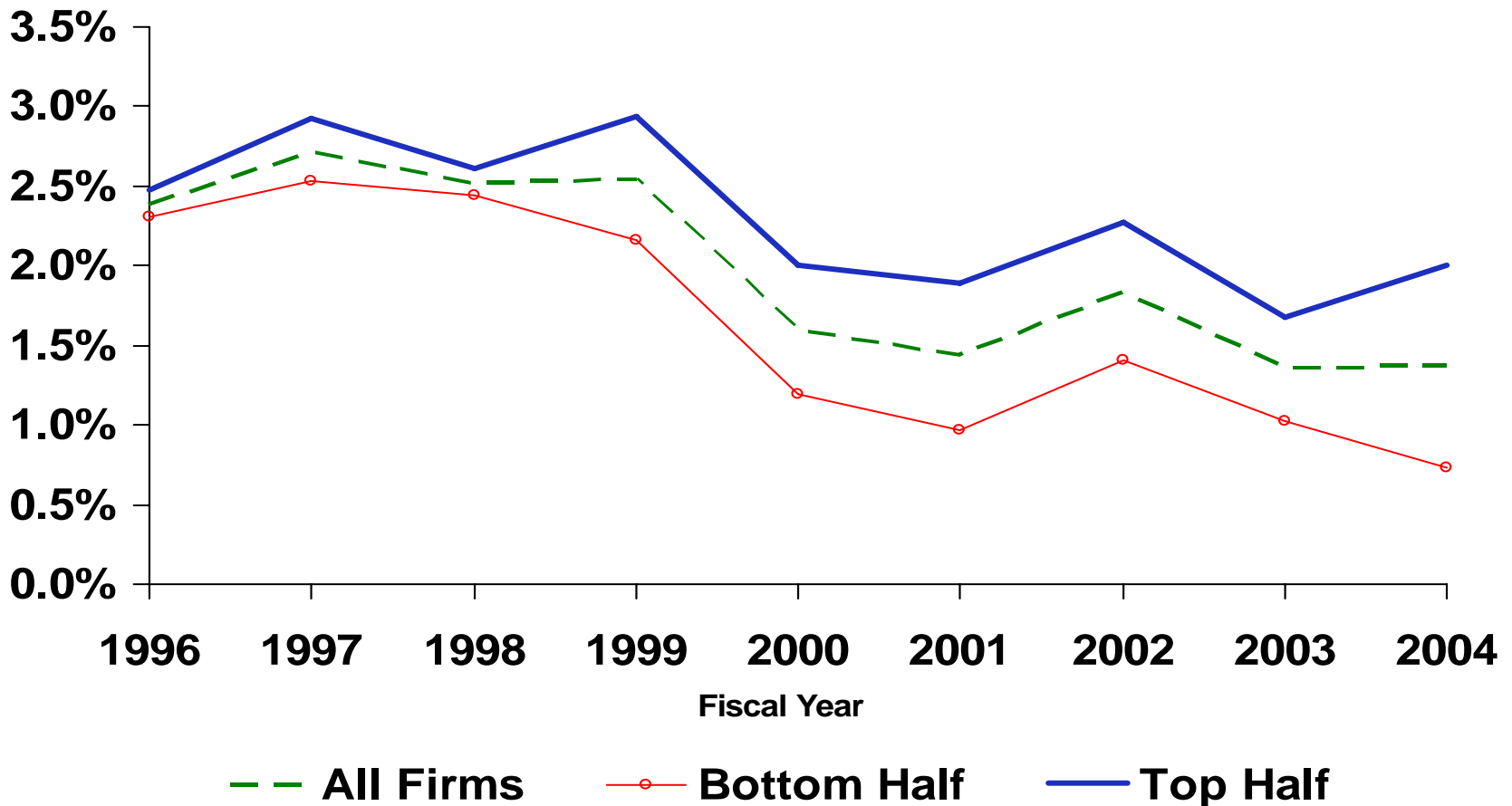
Top Half-Bottom Half Analysis

- Average Interest Expense Fell During the Period For All Categories
- Interest Expense is a Function Of Several Factors
 - Long Term Borrowing Levels
 - Inventory Levels and Prices
 - Interest Rates
- Reductions in Interest Expense Are Primarily Related Lower Overall Interest Rates in the Economy

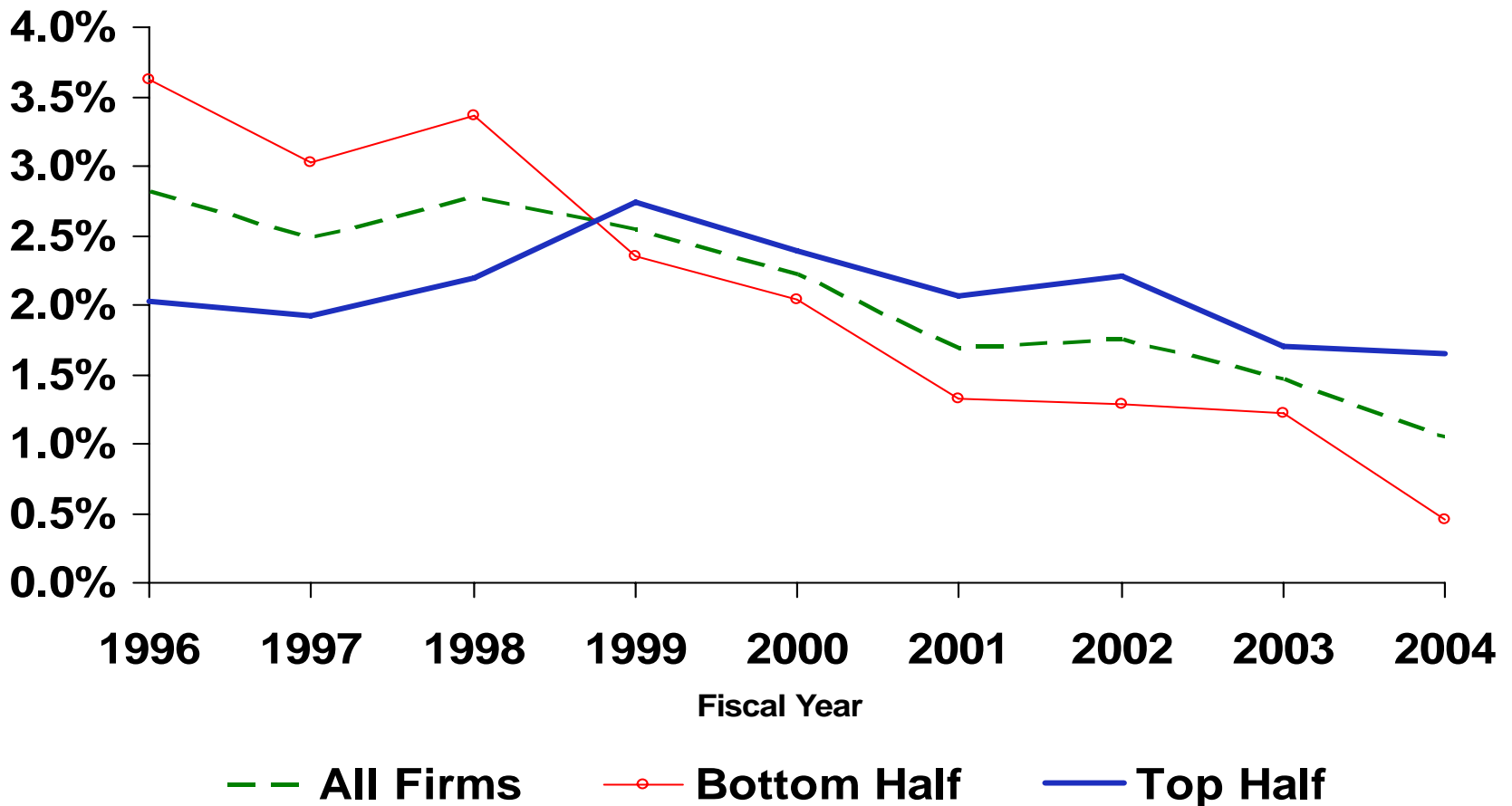
Avg. Interest Expense as a Percent of Sales & Other Income-All



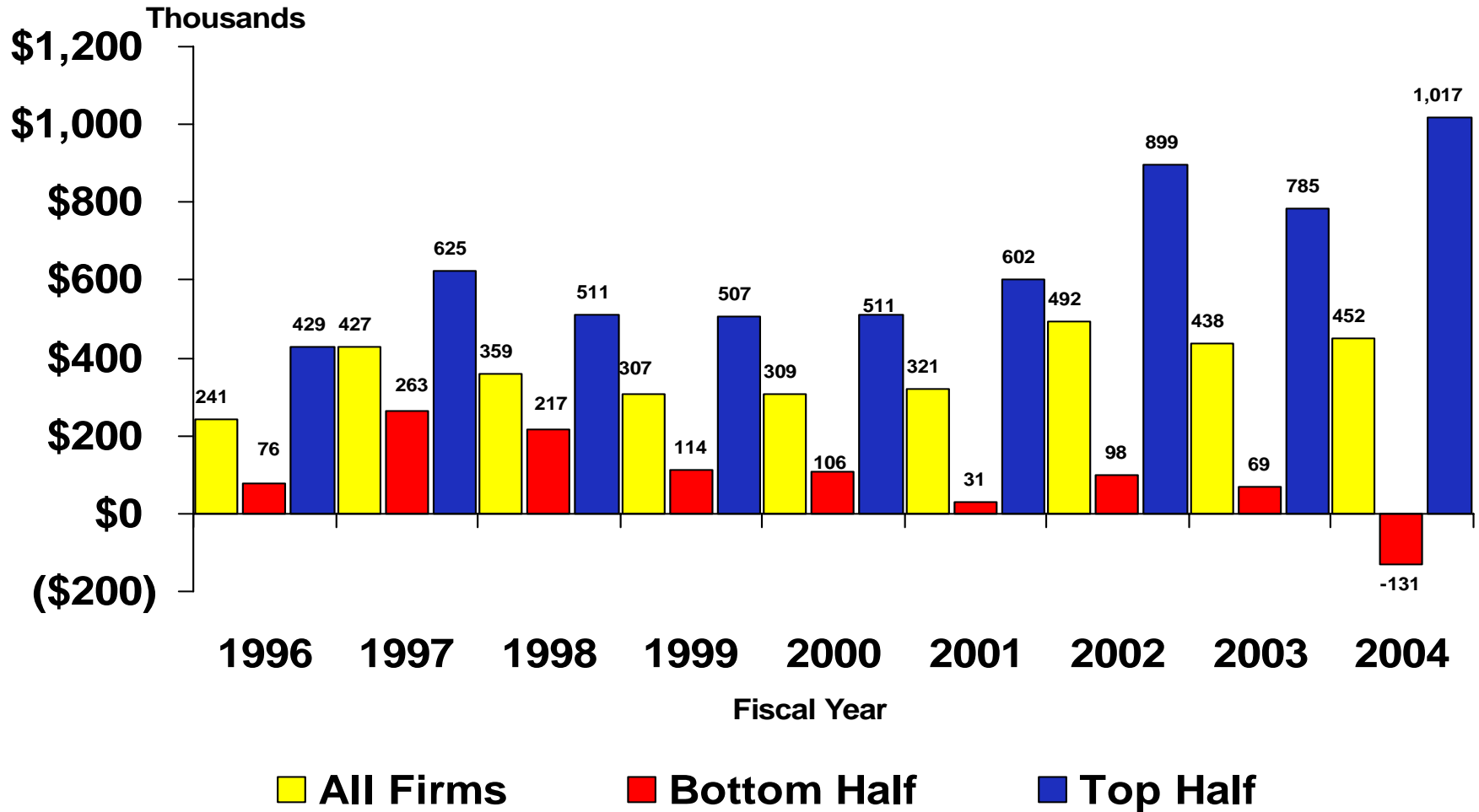
Avg. Net Income as a Percent of Sales & Other Income- IA



Average Net Income as a Percent of Sales & Other Income-All

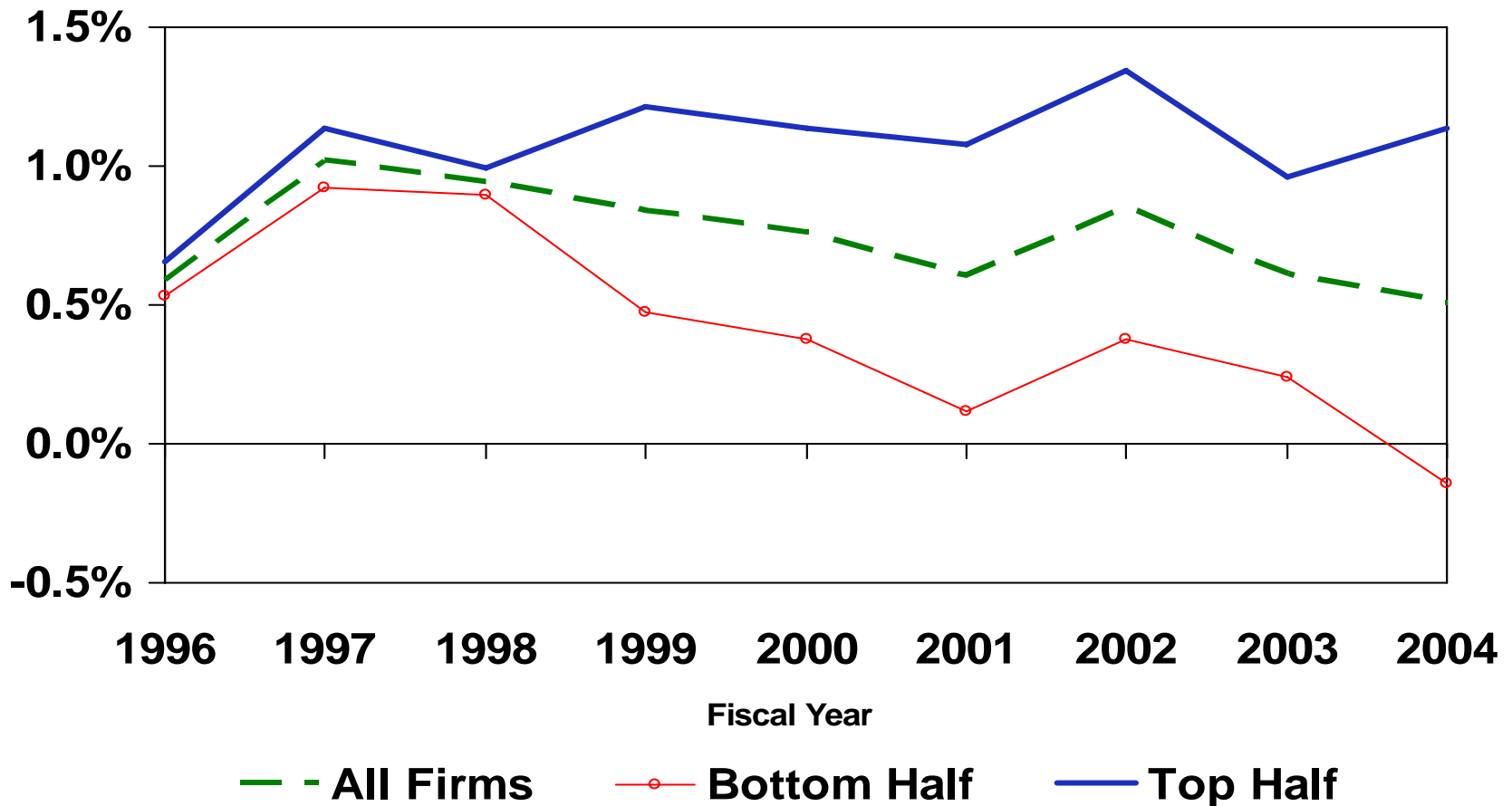


Average Local Profit (Savings) Before Tax Iowa



Local profit (savings) excludes refunds from other organizations.

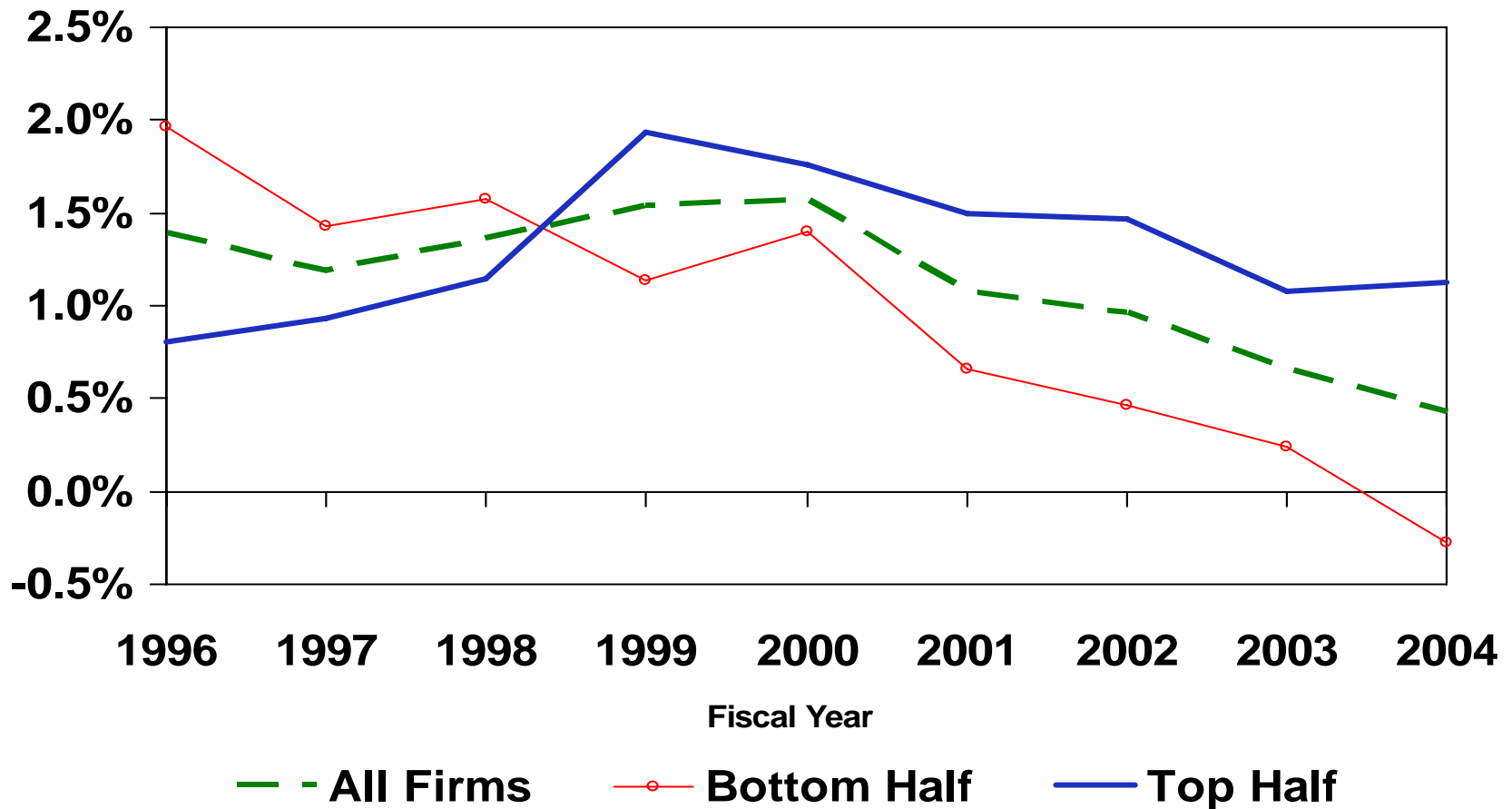
Avg. Local Net Income as a Percent of Sales & Other Income- IA



Local net income excludes refunds from other organizations.

Ginder & Waldhuetter, ISU Economics, 2006

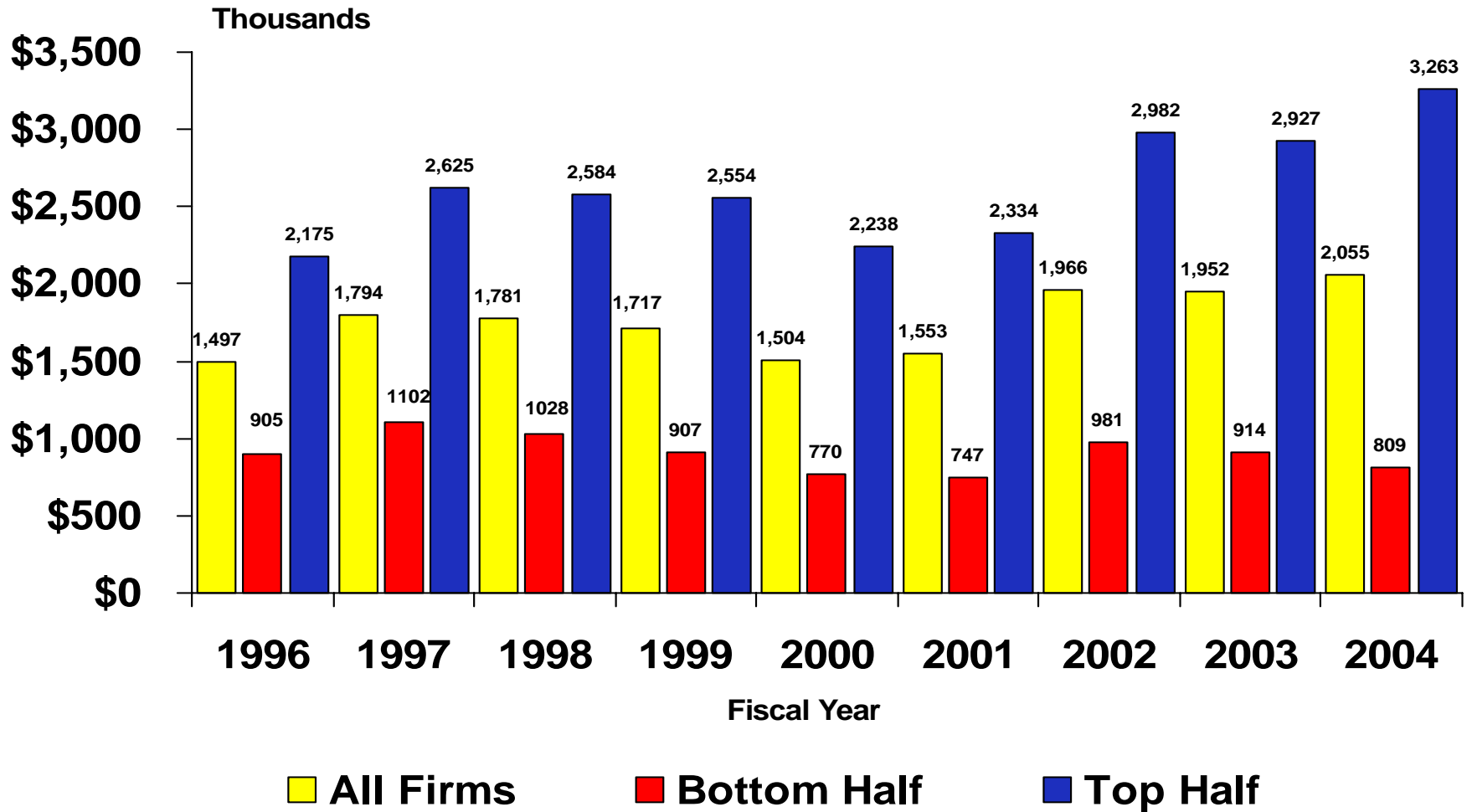
Avg. Local Net Income as a Percent of Sales & Other Income- All



Local net income excludes refunds from other organizations.

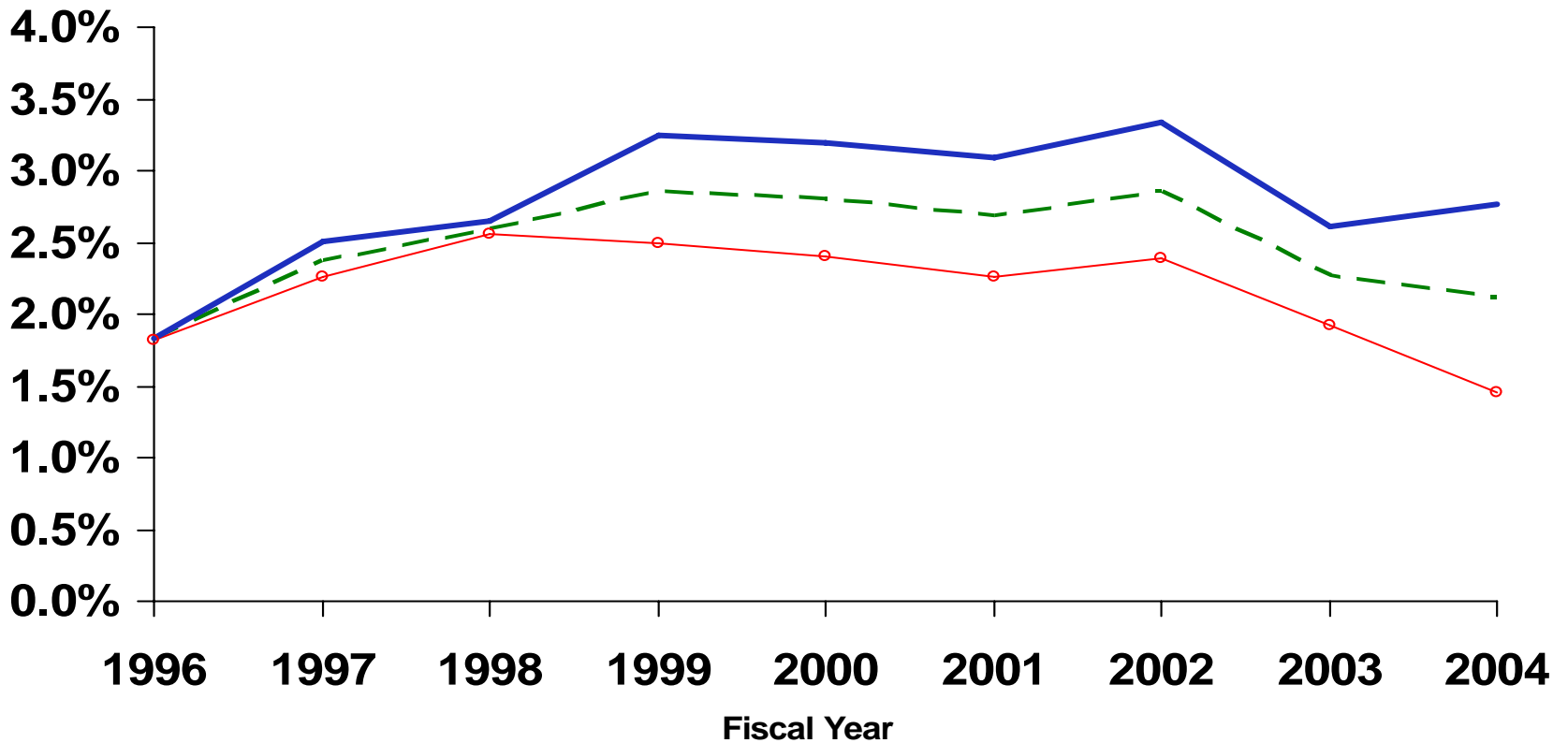
Ginder & Waldhuetter, ISU Economics, 2006

Average Cash Flow Iowa



Local Cash Flow = profit before tax - refunds from other organizations + depreciation

Avg. Local Cash Flow as a Percent of Sales & Other Income-IA

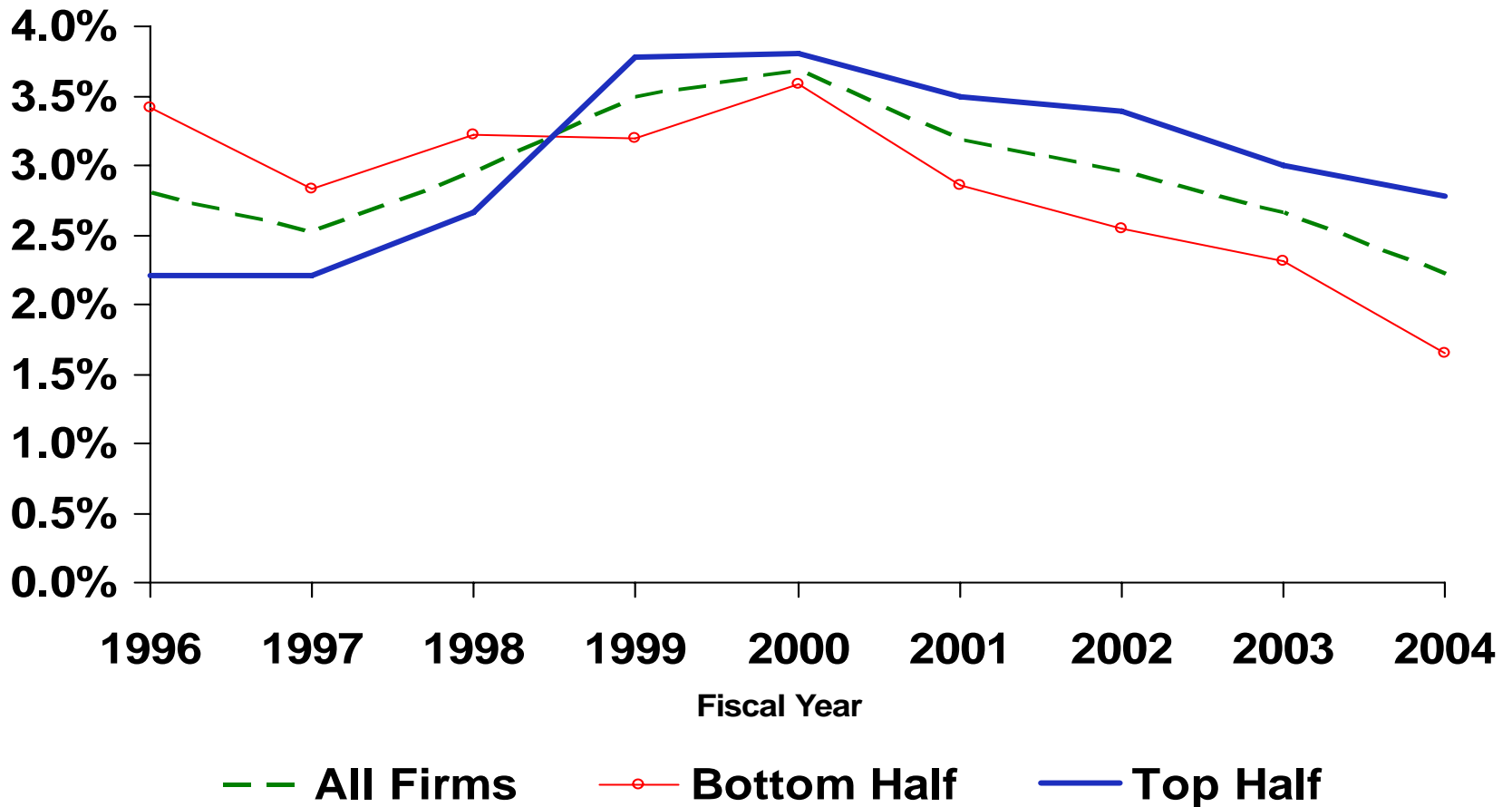


--- All Firms —○— Bottom Half — Top Half

Local Cash Flow = profit before tax - refunds from other organizations + depreciation

Ginder & Waldhuetter, ISU Economics, 2006

Avg. Local Cash Flow as a Percent of Sales & Other Income-All



Local Cash Flow = profit before tax - refunds from other organizations + depreciation

Ginder & Waldhuetter, ISU Economics, 2006

CURRENT TRENDS FOR COOPERATIVES

- Firms in the Least Profitable Half of the Sample Are Being Starved For Cash
 - Low Earnings Due to the Margins Squeeze
 - Difficulty in Maintaining Fixed Assets and Financing Growth
 - Difficulty in Adopting Cost Reducing Technologies
 - Depreciation Used to Cover Losses in Some Cases

Top Half-Bottom Half Analysis

- Local Supply and Marketing Firms Are Pursuing Several Strategies to Adjust
 - Some Are Closing (Or Seasonalizing) Marginal Facilities With High Unit Costs
 - Most Are Attempting to Reduce Labor Expense where it is Possible
 - Larger Firms are Automating Farm Supply and Grain Marketing Activities to Reduce Labor Costs per Unit
 - Most Are Making Reinvestment and Upgrading Decisions More Carefully
 - Most Are Seeking to Reduce Expenses Everywhere They Can

Questions?