

## **PCC Annual Meeting – 2022**

**Prepared Remarks: Mark Heil, General Manager**

**Welcome to the 2022 Annual Meeting of Prairie Central Cooperative. I want to update the patrons, board of directors, employees and stakeholders of the cooperative on the status of this past year.**

**As a starting point, let us review the Mission Statement of PCC. It provides a guide to the direction of our organization. "To handle the farmers' grain at harvest, to be safe and fair while maintaining profitability." The board of directors, management, and employees strive to reach these objectives each day.**

**The 2022 fiscal year was well below recent history for the cooperative with overall financial objectives being challenged. A second year of inverted grain markets, greater expenses tied to inflation pressures, tremendous challenges with supply chain strain especially with the railroads and added commodity market volatility due to the war in Ukraine.**

**Overall, PCC had a net savings of \$1.8 million, down approximately \$3.5 million from the previous fiscal year. Patronage paid was 1.4 cents per**

**bushel on grain purchases and 4.25% on grain drying, equating to \$480,000 in patronage allocated. No patronage stock was redeemed. The 199a tax deduction will be passed thru to members which equates to an estimated 5.21 cents/bu. value to patrons.**

**Safety metrics for the reporting period, PCC had 0 lost time injury and 2 reportable injuries. Safety and compliance continue to drive our employee training and capital project investment. We strive toward best safety practices, with no injuries the objective.**

**The acquisition of Trainor Grain and Supply grain elevators occurred in July 2022, just after the end of the fiscal year. Strategically positioned at the crossroads of important truck routes with good corn and soybean production. Grain handled can be shipped to our Pontiac, Sunbury or Chenoa unit train loading elevators, to local processors, shipping container or river export markets. The flexibility will further enhance our diversified grain merchandising program benefiting all PCC patrons.**

**The harvest season of 2021 had good yields and good bushel volume at harvest for the grain elevators. Tar spot impacted some corn yields, especially further south in the territory. Livingston county corn averaged**

**208 bu. per acre and soybeans 66 bu. per acre. The corn harvest pace ramped quickly with concerns about corn stock quality having some farmers finish corn prior to going to soybeans.**

**Grain markets saw farmers making cash sales at harvest. Supply & demand fundamentals contributed to a second year of inverted grain market structure. Thus, the PCC shipping program was to empty out by the late summer. The PCC soybean program focused primarily on local processors. The western drought conditions pulled corn from both the Union Pacific shuttle loader at Pontiac and from the BNSF railroad at the Chenoa elevator. Supply chain challenges greatly impacted our Chenoa elevator corn shipping program when a railroad bridge in Peoria, IL in May limited our unit trains for a 6-week time period until the replacement parts could be manufactured. By July 4<sup>th</sup> it was operational, but the impact to truck logistics, grain operations, and the financial ramifications added tremendous pressure to the shipping program.**

**Capital spending projects were limited this year as prices for steel and labor increased project costs by 25 to 50% in addition to the availability of supplies or contractors to even complete the project. PCC will need to invest in ways that allow us to work more efficiently with less labor.**

**Automated measuring equipment and faster more efficient rolling stock equipment were added.**

**As we look at the country grain elevator industry today, there is a great challenge at this very moment. As both a patron and user of the grain elevators, it is an extension of your farming operation and important to your success. PCC is not immune to the challenges being faced by all industries today with tighter labor markets and greater overall inflationary expenses. PCC will see margin compression in coming quarters due to higher cost structures, which can only be offset by taking greater initial margins until market conditions return to a greater revenue generating opportunity. Over the past two years, critical supplies have been scarce or even unattainable at any cost. Prices for nearly all supplies have been rising in tandem and labor disruptions have affected nearly everyone. We are seeing a fundamental mismatch between companies demand for talent and labor and the number of workers willing to supply it. This is the toughest market environment in at least 20-30 years. New and changing circumstances have upended decades of practices and status quo. Add to this, the inverted grain market environment of the past two years and a third year being projected, that limits revenue opportunities from the traditional model. That double whammy, less revenue, greater expense, is**

**creating tremendous pressures versus the structure that has been present for the last couple of decades. The financial implication of increased transportation, energy and labor costs on working capital must be understood.**

**The Sharing Success Charity program continued with PCC making donations to local fire department and rescue squads. This year our PCC \$25,000 donation created a matching grant total of \$40,000 from Cobank, Growmark and CHS. A special donation to Heartland Community College for their new AgComplex was made. The recruitment and hiring of our future PCC employees will be educated and trained at the new complex.**

**I want to take a moment and thank all our employees. I want to extend my appreciation for their great efforts! Michael Kilgus, Grain Merchandiser has provided great leadership and perseverance during these supply chain and inverted grain market challenges of the past two years. Caleb Leach, Assistant Operations Manager has provided strength to our grain operations team as he took on that role for the organization. Thank you again to all employees for their work and effort this past year. It is greatly appreciated.**

**We have Tom Kahle not running for re-election for the Board of Directors. Tom served as treasurer and part of the PCC executive committee. He has also shared with management key insights to crop conditions and yield expectations that have been vital for harvest elevator planning. The transition of the board continues with conviction and resolve.**

**As we look ahead, accepting resiliency by our patrons to these challenges, modifying revenue, storage, drying, margin scenarios will need to be considered, given this changing environment. The expected rate of return via patronage and stock redemption needs to be balanced with the long-term goals of this country grain elevator cooperative. PCC has built a strong balance sheet and is prepared to tackle these challenges. Just as your cooperative faced similar challenges over the past century, PCC will adapt accordingly. There is no other cooperative, no other patrons, board of directors, grain elevator assets, balance sheet and staff that I would rather have at this moment to face this challenge.**

**Thank you for the opportunity to share highlights of this past year.**