

Agricultural Outlook Forum 2003

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Iowa Quality Beef Supply Cooperative Initiative

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Iowa Quality Beef Supply Cooperative

Within weeks, the Iowa Quality Beef Supply Cooperative harvest facility in Tama will begin processing cattle. The plant opening will be the result of several years of long-range planning and hard work. For hundreds of cattle producers who have invested in the Iowa Quality Beef Supply Co-op, it will mean an additional marketing alternative and an opportunity to share in the potential profitability of value-added beef products.

A long-term priority of the Iowa Cattlemen's Association has been to develop additional beef harvesting capacity in the state. Other factors identified as crucial to expanding opportunities for cattle producers are to create more value-based marketing competition and to develop and merchandise Iowa-branded beef products.

Iowa beef enjoys a national and international reputation for quality. However, Iowa's beef producers have been unable to reap the pricing benefits of that reputation due to the inability to produce and market Iowa-branded products that meet Iowa-quality standards. The IQBSC processing facility at Tama means these goals are closer to being realized.

The Iowa Quality Beef Supply Cooperative's grid and formula beef marketing relationship with Excel are recognized as a successful and profitable program whose benefits can be extended to all participants of the Iowa beef industry. The ICA believes the co-op can assist in the development of a sustainable, coordinated production system that includes seedstock and cow-calf producers, feeder and harvest facility partners.

The IQBSC harvest facility gives members of the co-op, and all Iowa beef producers, additional market access for their high quality fed beef cattle, cows and Holstein steers. Co-op members will receive a share of the profits from the Tama operation and the co-op's new markets.

Co-op Structure

The IQBS Co-op will procure and schedule cattle for the Tama facility and also continue to supply cattle to Excel's Schuyler, Neb., unit as well as other locations where the co-op may negotiate a marketing agreement.

The IQBS Co-op has partnered with American Foods Group. AFG is headquartered in Green Bay, Wis., with operating divisions in Green Bay, Mitchell, S.D. and Sharonville, Ohio. AFG is ranked the ninth largest meat processing company in the United States and has 1,700 employees.

The Iowa Quality Beef Supply Co-op is being developed as a "New Generation Co-op" under Iowa law and will own the land, harvest plant and major equipment. The IQBS Co-op will also own 75% of a joint venture with American Foods Group. AFG will own the other 25% of the joint venture and be responsible for marketing the beef products on a daily basis.

Iowa Quality Beef LLC is a joint venture of the Iowa Quality Beef Supply Cooperative and American Foods Group. AFG will manage the plant production issues and sales of product. IQBSC will manage cattle procurement and brand development.



The Iowa Quality Beef Supply Cooperative harvest facility will open this spring in Tama, Iowa. At full capacity, about 1,200 cattle will be processed daily.

Equity Drive

An equity drive was held last summer and fall to raise money for beef harvest plant renovations/construction and new equipment. Four classes of shares were offered to investors. Common stock was sold for \$1,000 per share. One share of common stock was required for Class A and B stockholders and granted the stockholder membership voting rights.

Class A stock was sold with a 40-shares minimum and offered at \$50 per share for floating delivery rights and at \$60 per share for slotted delivery rights to the Tama facility. Class B stock was offered for \$7 per share, 40 shares minimum with delivery rights to Excel at Schuyler, Neb., AFG at Green Bay, Wis., or other markets. Both Class A and B stockholders will participate in patronage dividends.

Class C stock was offered at \$50 per share, 100 shares minimum. Producers and non-producers invested in the co-op to support the project and the Iowa beef industry. No delivery rights were offered with Class C shares. However, the stocks will pay a cumulative 8% cash dividend.

The equity drive was announced August 5 during a project launch meeting in Ames that was attended by more than 450 people. The equity drive was initially planned to run until Sept. 30, 2002. At that time, the IQBS Co-op had 759 founding members who had invested \$7.2 million.

Based on the tremendous support from beef producers in the Iowa region and beyond, the IQBS Co-op board of directors decided to continue raising equity and further strengthen the cooperative. The equity drive was extended to November 30, 2002 when Class A and B stocks were closed. Class A cow shares and Class C shares remain open.

As a result of the equity drive, the co-op currently has 868 members who have invested \$8,242,475. IQBSC members live in 96 of Iowa's 99 counties and in 12 states. To date, Class A shares total more than 129,000. Fed cattle shares are about 104,000 of the total, with fed Holstein shares at 22,000 and cow shares at about 2,900. Class B shares total almost 56,000 and Class shares total about 18,000. Currently, about 40% of the cattle that will be needed for the beef harvest facility are committed by IQBSC members.

The grass roots, producer-driven support for the IQBSC harvest facility project has led to funding support from several other sources. The Iowa Beef Industry Council awarded a \$100,000 grant to the IQBS Co-op for development and marketing of Iowa branded products. The labeling will be used on product processed from the beef harvest facility at Tama.

In late August, the state of Iowa offered another incentive for beef producers to invest in their own beef processing plant. The IQBS Co-op was approved for tax benefits from Iowa's Enterprise Zone program.

The Iowa Department of Economic Development approved the beef harvest facility project for an investment tax credit, refunds on sales taxes on construction and additional funds to train the new workforce of 632 persons. When fully operational, the plant will process 1,200 head of cattle per day. State agencies such as IDED support the IQBSC project as an important step in returning value-added processing to Iowa producers. Currently, Iowa ranks fifth nationally in cattle numbers, yet 70% of the cattle are shipped out of state for processing.

Plant Renovations

With the success of the equity drive, plant personnel were hired and work began last fall on renovations and new construction to ready the plant for opening this spring. The plant has been completely cleaned and renovated. New and updated equipment has been installed in several areas. New additions for cattle flow to the harvest floor and for packaging and load-out have been constructed this winter.

A new serpentine alleyway and restrainer were installed for the most humane handling possible as cattle are moved to the harvest floor. The system was designed by Temple Grandin, a well-known expert on animal behavior and handling. As cattle step into the restrainer, a conveyor rises up to lift them off their feet so that they are immobilized. Once they ride to the front of the unit they can be harvested calmly by either stunning or ritual harvest by a rabbi. Ritual harvest of cattle for the kosher and halal specialty markets are part of the marketing plan to capture added value for Iowa's quality cattle.

Food safety is a primary concern of the IQBS Co-op and American Foods Group. Thorough cleaning and epoxy coating on all floors and existing structures has been completed in the harvest area. New Chad 180-degree pasteurization cabinets and acid rinse areas have been installed. These improvements are state-of-the-art and will enhance the working environment as well as food safety.

In the fabrication room, new walls and ceilings have been installed for easy cleaning. The fabrication tables are being reconfigured by an outside shop and will soon be returned for placement. New Cryovac packaging machines will also be installed.

A new two-story addition will allow for dry-box construction on the top level and palletizing of product on the lower level before shipment. This area is necessary to accommodate the larger fabrication floor.

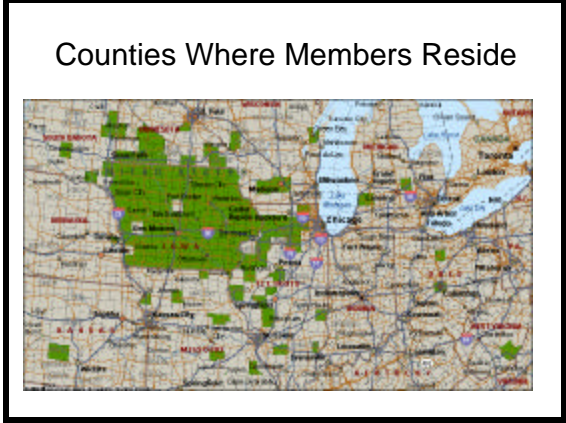
Outside the plant, the anaerobic lagoons are being dredged and are nearly complete due to the generally mild weather this winter. Another outside change is the new driveway at the north end of the building for cattle trucks. The new driveway will help clear congestion and keep a sanitary separation between the trucks and workers entering the plant.

The years of hard work are about to payoff. We will soon open an Iowa beef processing facility owned by cattle producers in Iowa and surrounding states. The opportunity to add value to our quality cattle, and be paid for it, is the goal of the Iowa Quality Beef Supply Cooperative.



Equity Drive Results

- 759 Founding Members
- 109 New Members
- 868 Shares of Common stock



States Involved

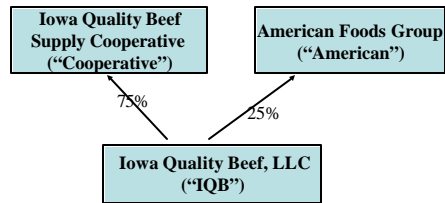
<u>State</u>	<u>% Of Members</u>	<u># of Members</u>
Iowa	88%	756
IL	6%	47
MN	3%	24
MO, KS, NE, SD, WI, OH, MI, WV	3%	27
TOTAL	100%	854



Total Equity Raised

\$8,242,475

Organizational Structure



Cooperative

- Cooperative functions:
 - Investments in real estate and equipment.
 - Procurement services
 - Market/brand development.
 - Investor in LLC.
 - Lender to LLC

Estimated Cooperative Uses of Funds for Development

- Projected investment of funds:

Plant from Tama	2,500,000
Remodeling Plant	11,500,000
Start up expenses	750,000
Investment in LLC	<u>3,750,000</u>
	18,000,000
Funds to loan to LLC	<u>9,000,000</u>
Total	27,000,000

Cooperative Revenue

- The Cooperative revenue comes from the following sources:
 - Rent from plant leased to IQB
 - \$3 per head procurement fee
 - \$1 per head marketing fee (member cattle only)
 - Royalty fees
 - 50% of marketing profit
 - 75% of profit from IQB
 - Interest on loan to IQB

Cooperative Expenses

- The Coop will have the following expenditures:
 - Principal and interest on loans
 - Cost of major plant renovations/expansion etc.
 - Labor for procurement/marketing and management
 - Marketing/brand development costs
 - Corporate costs (member relations etc)

American Foods Role

- American functions:
 - Provide management services and oversight to the IQB via management contract.
 - Sell all product produced by IQB via marketing agreement.
 - Investor in IQB

Iowa Quality Beef LLC

- Operating entity:
 - Leases the plant from Cooperative
 - Purchases the cattle.
 - Harvests and processes product
 - Sells fresh meat, variety meat and by-products.

IQB LLC Profit Split

- Two parts:
 - Marketing profit:
 - Range of \$.02-.025 cents per pound, but reduced up to \$0 to cover plant losses, if any.
 - Split 50/50 with American and Cooperative
 - Plant profit:
 - 75% to Cooperative
 - 25% to American



IQBSC Board Members

Calvin Poppe, Ionia, IA – 1 year term
John Greig, Estherville, IA – 1 year term
Wythe Willey, Cedar Rapids, IA – 2 year term
Bill Nice, Morrison, IL – 2 year term
Charlie Van Meter, Guthrie Center, Iowa – 2 year term
(ICA Exec. Board)
Jamie Willrett, Malta, IL – 3 year term
Dave Petty, Eldora, IA – 3 year term
Howard Mogler, Alford, IA – 3 year term



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Class A Shares

Delivery Rights to Tama

Fed Cattle Shares = 104000

Fed Holstein Shares = 22000

Cow Shares = 2800

Total Shares = 123,246

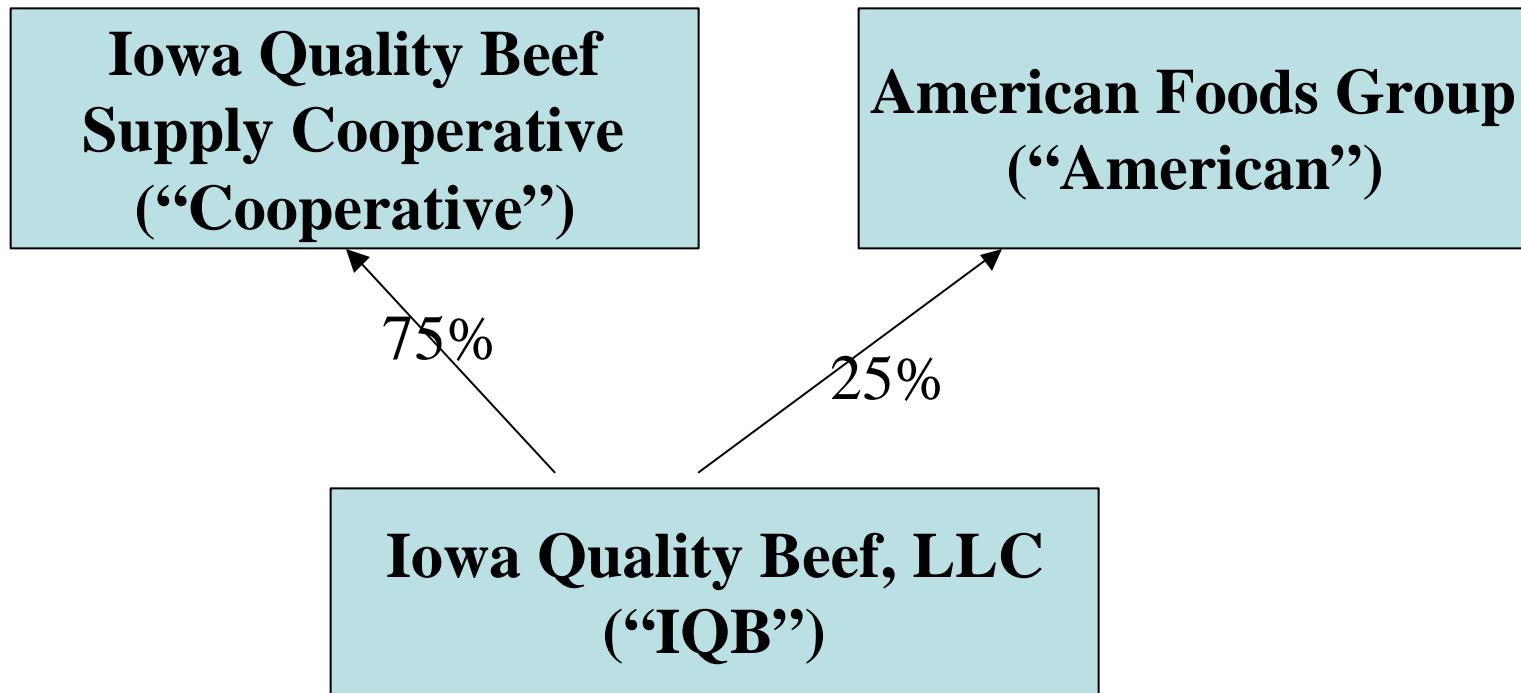
% of Harvest Committed = 40%



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Estimated Cooperative Financing Sources

- Projected source of funds:

Members' equity	\$ 9,000,000
Economic development grants	4,500,000
Term loan on real estate	8,000,000
Lease financing	2,000,000
Working Capital Debt	<u>3,500,000</u>
	27,000,000

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