



FINANCIAL TRANSPARENCY: OCFAID Case Study: Dairyland

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National Farmers Union 43rd Annual Convention
COOPS: An Exercise in Democracy...

This is a joint research project...

**The OCFAID analysis of
the 1982-2001 Financial Statements of
Dairyland/Dairyworld/Agrifoods International**

was inspired and undertaken by

Professor Alan Robb

Saint Mary's University, Halifax

and

University of Canterbury, New Zealand



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MEASURING THE HEALTH OF YOUR COOP



OCFAID – POWERFUL TOOL FOR FISCAL
TRANSPARENCY (what's REALLY going on...)



CASE STUDY: DAIRYLAND (*what if...*)

MEASURING HEALTH...





OCFAID IS “THE STETHOSCOPE”

- OCFAID methodology was developed by Professor Alan Robb, University of Canterbury, New Zealand
- Considers both PROFITABILITY AND LIQUIDITY
- Based on (Professor Tom) Lee “Dictum “
 - *The ultimate bottom line in business is not profit, it is the ability to earn a profit on a transaction and turn it into cash and do this repeatedly.*
- More information on OCFAID analysis
www.alanrobb.coop



OCFAID ANALYSIS

- **Operating Cash Flow After Interest & Distribution.**
- **Plotted graphically against Retained Earnings**
- **Both on a cumulative basis**
- **If major change in governance, management or operations, new cumulative graph is commenced**

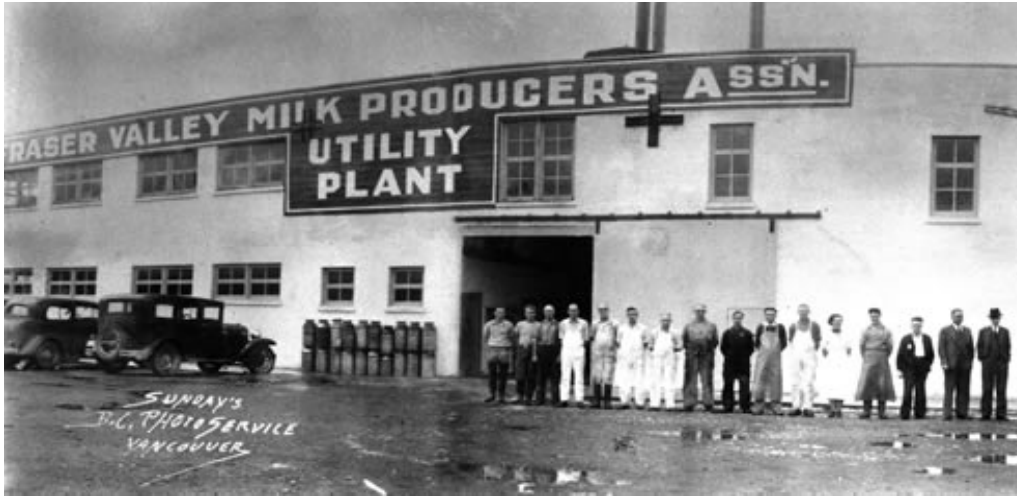
OCFAID – 5 CLEAR SCENARIOS

- STAR (both OCFAID and RE are rising cumulatively)
- PROBLEM CHILD (RE is rising but OCFAID is declining)
- CASH COW (RE is declining but OCFAID is rising)
- DOG (both OCFAID and RE are declining)
- TURNAROUND (Both measures, usually under a receiver or a change manager, are neutral as the nature of the entity is reconfigured)

OCFAID

- **Applicable to all types of entities.**
- **Allows comparisons between cooperatives or between a cooperative and an investor-owned corporation**





HISTORY OF DAIRYLAND

- **1917**
 - Feb 16th Fraser Valley Milk Producers Cooperative
 - 90% of BC Lower Mainland Dairy Farmers
- **1920**
 - 2 Processing plants and a condensing plant
- **1925**
 - Add butter, powdered milk, cottage cheese plant
 - Shortly thereafter, ice cream plant

- **1982 Merger = FVMPCA:**

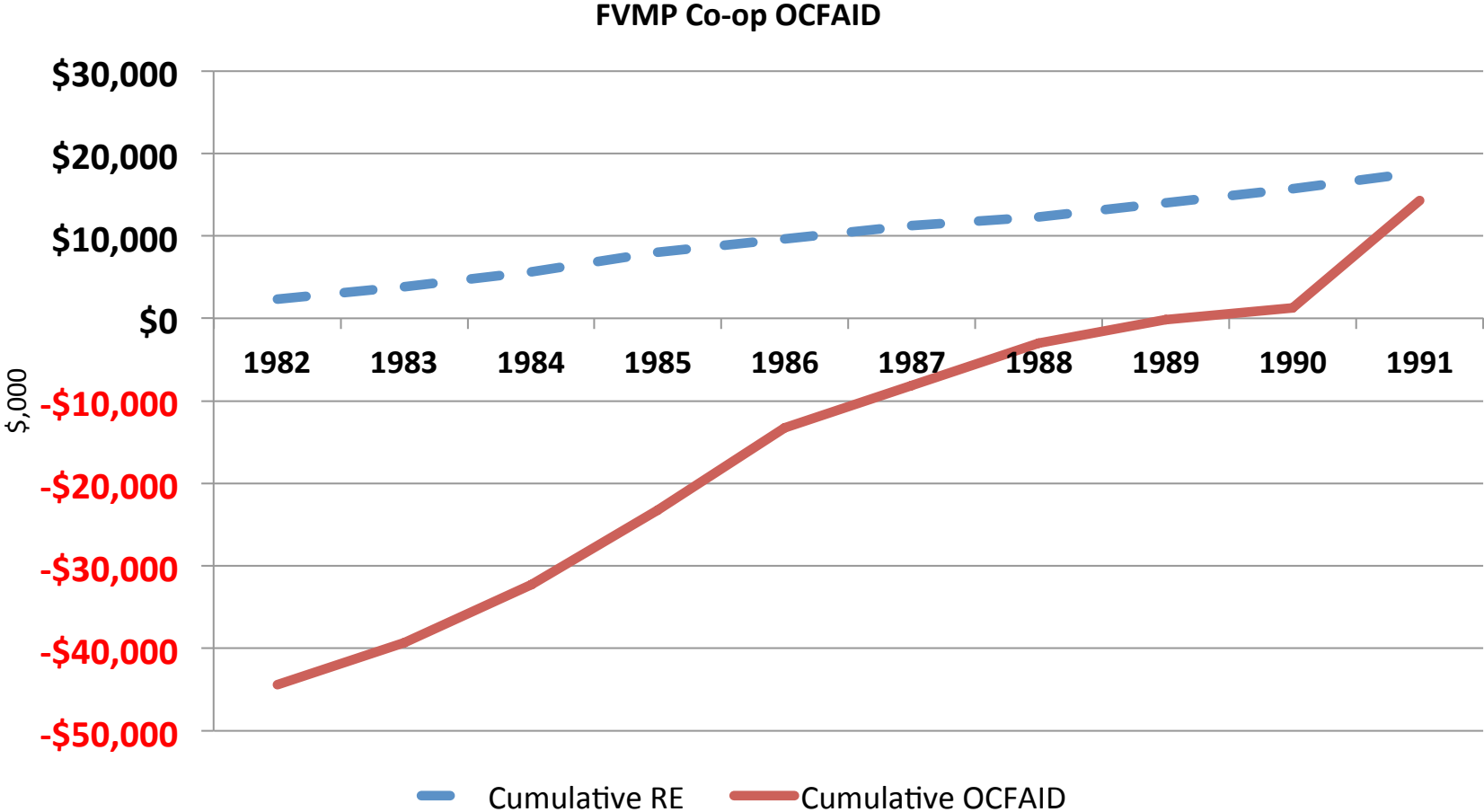
- FVMPCA (Fraser Valley Milk Producers Cooperative)
- SODICA (Shushwap-Okanagan Dairy Industries Coop Ass'n)

- **1995 David Coe becomes CEO**

- **Strong CEO + Strong Chair (Friesen)**



FVMPC OCFAID ANALYSIS 1982-1991*



* “...Very good trend after an initially poor year of amalgamation.”

- **July 12, 1992 Merger = DAIRYWORLD FOODS:**
 - FVMPCA
 - Northern Alberta Dairy Producers (NUMAID)
 - Central Alberta Dairy Pool (ALPHA)

- **1993 Merger**
 - Dufferin Employment Coop (MANCO) +3000 ees

AS A RESULT OF THE 1992 MERGER

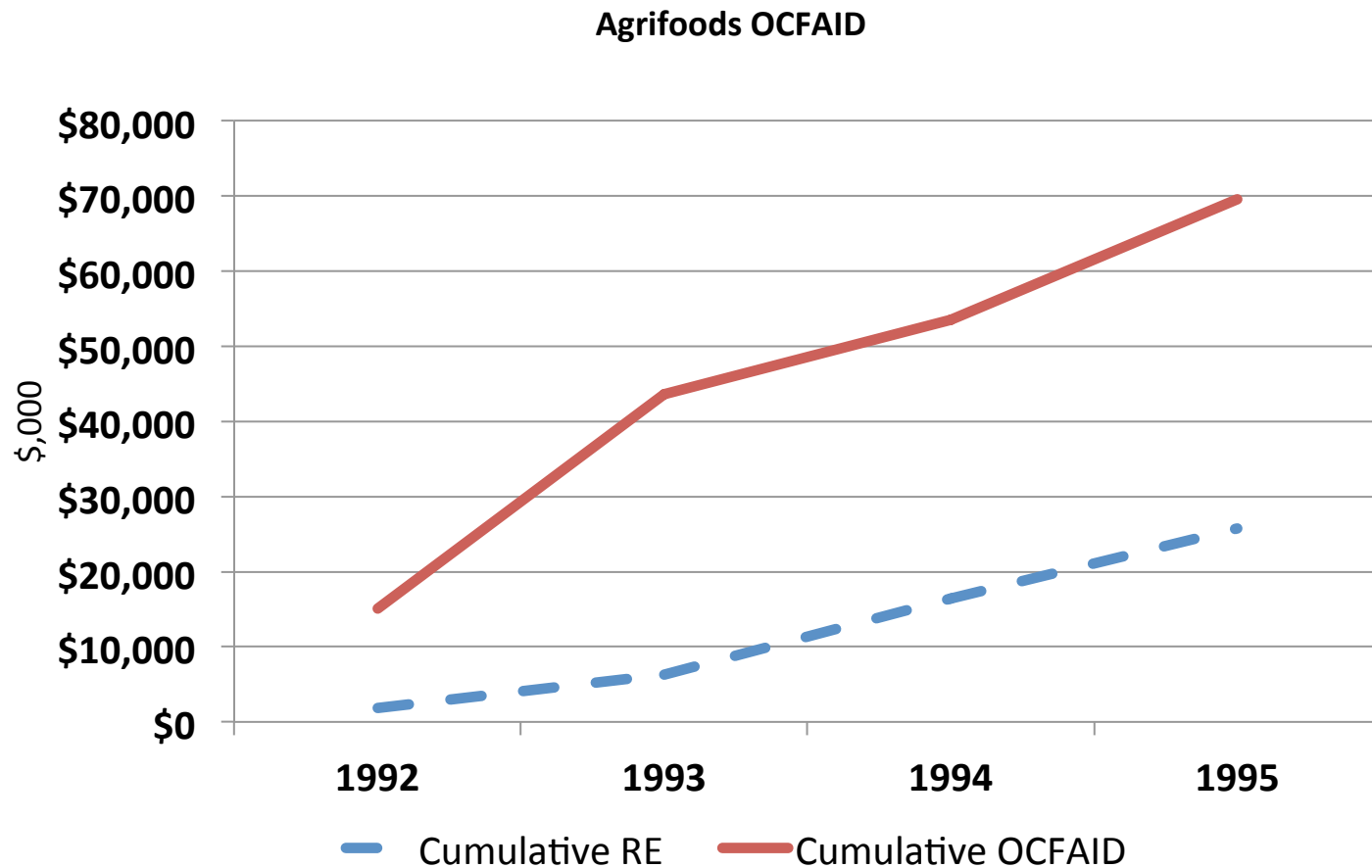
- **DROPPED: Regulation that members must approve new capital loans...**
- **DROPPED: Revolving check-off loan that provided equity**
 - 1% of farm milk checks held back, modest interest, repaid 15 years
 - Provided coop with low cost capital (member equity)
 - Payout \$7-12 million to BC farmers
- **DROPPED: Strong board Chair (Peter Freisen, BC) replaced with less experienced Chair (AB)**
- **Expansionist CEO has clear road.**

1993: HI-PROFILE RESIGNATION

- Director and former Vice Chair John Van Dongen publically resigns from Board
- Cites case studies of US coop failures due to overly aggressive CEO's
- Tells Delegates he “has many concerns but can't get the support of his Board...”

AGRIFOODS OCFAID ANALYSIS

1992-1995*



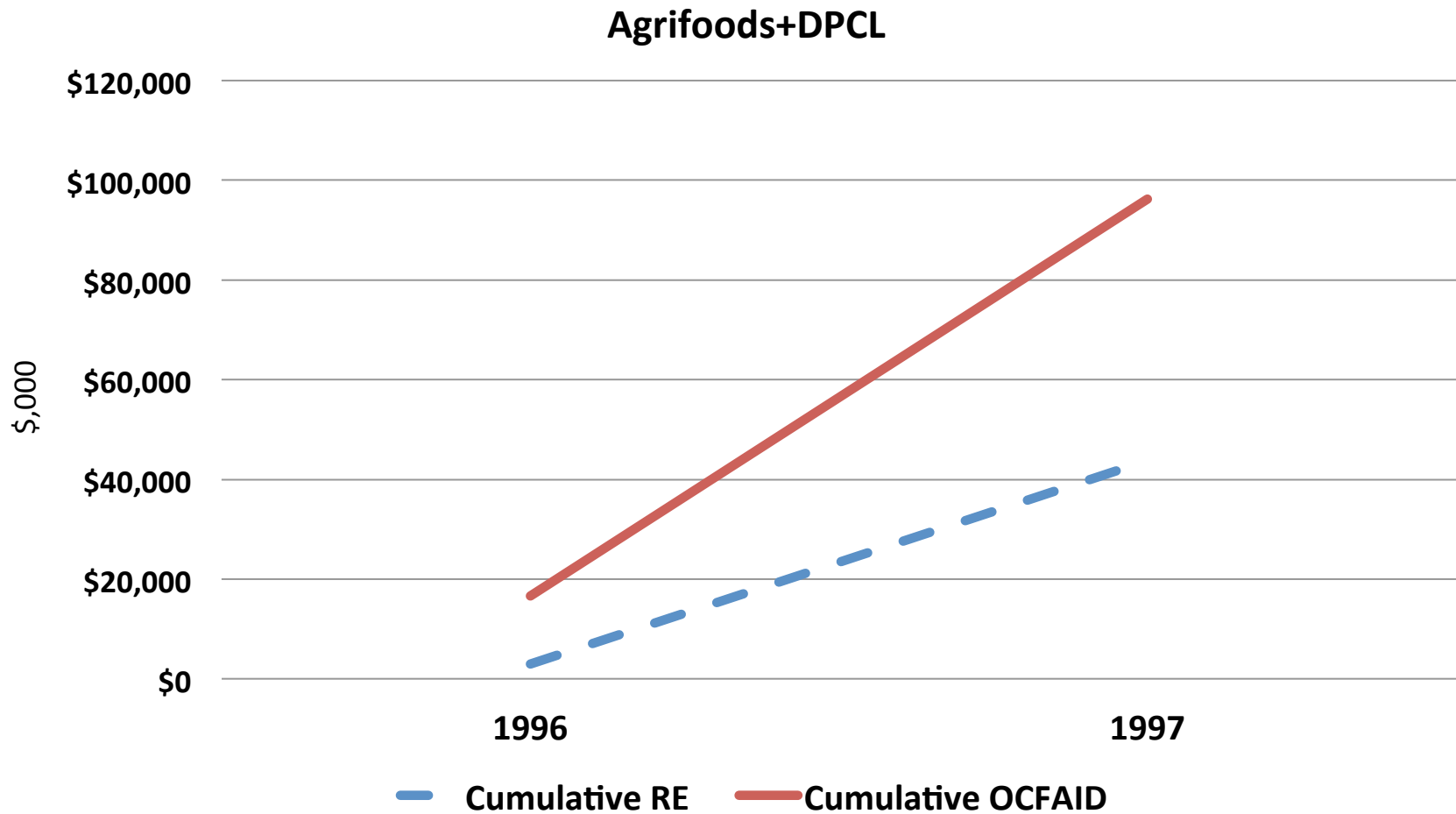
* “...Healthy trajectory, even better than previous period...”

LATE 90's: MERGERS AND ACQUISITIONS

- **1996 Merger - AGRIFOODS INTERNATIONAL**
 - Dairyworld Foods
 - Dairy Producers Coop Ltd (DPCL) Saskatchewan
 - 2,100 shippers, sales of \$1.13 billion
- **1997**
 - Ice cream division sold to Nestle

AGRIFOODS OCFAID ANALYSIS

1996-1997*



* “...Again a successful merger for the members...”

Late 90's: merger talks Agropur fail on 2 issues:

- **Governance:**
 - Agropur wanted 14/10 board split
 - Agrifood wanted 12/12
- **Management**
 - Each wanted their own CEO to take helm

1998: “accelerated efforts to position as a national supplier”

– Expansion to Eastern Canada

- **Baxter Dairies (Maritimes)**
- **Ontario processing plants**
- **McCain Refrigerated Foods**
- **Joint interest in Pascobel**
- **Partnership agreement**
 - **NURTINOR and AGRODOR**

– Shortly thereafter, rapid depreciation of good will drops profitability

– CFO Cliff Dinney resigns

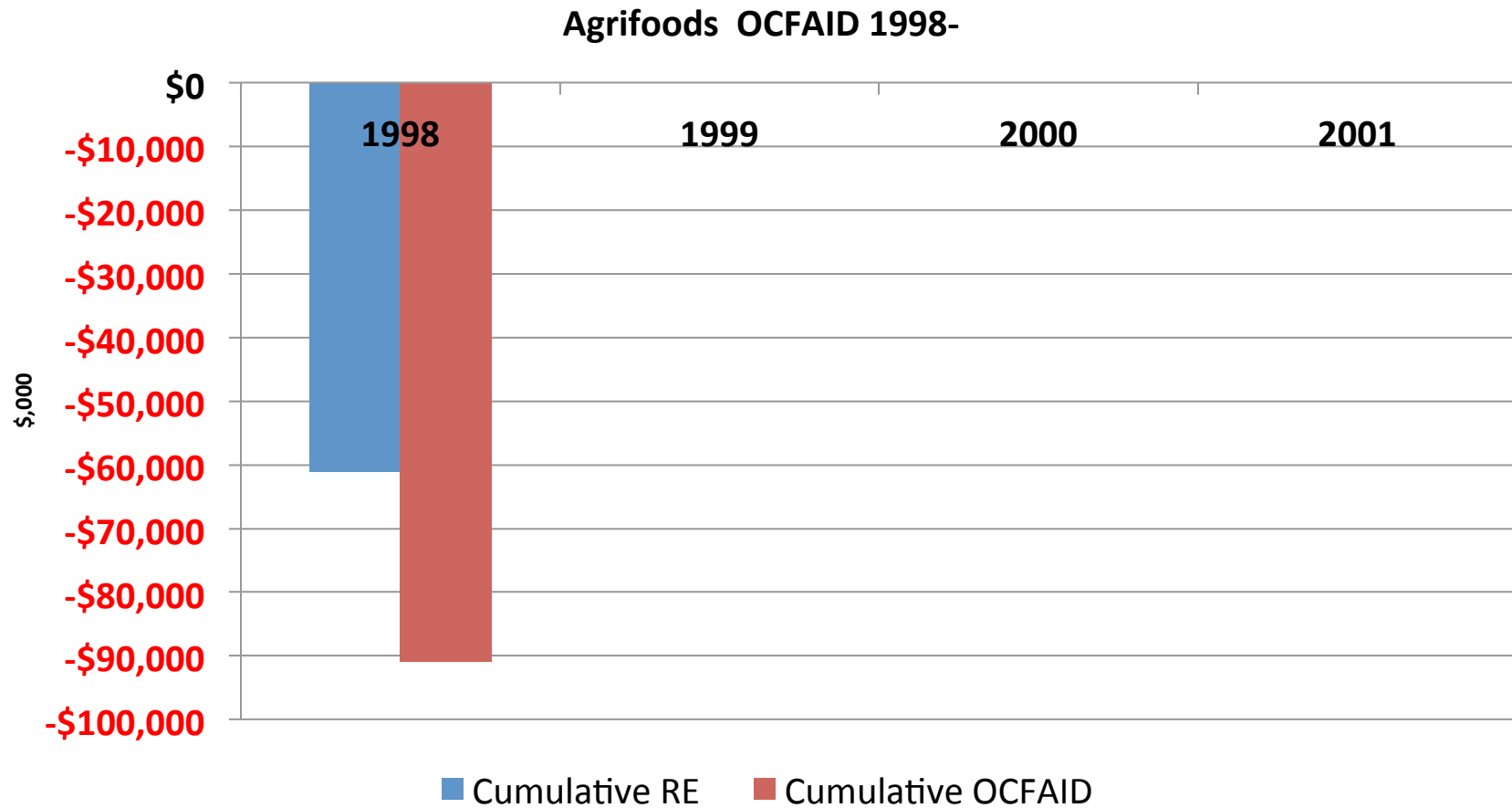
1999 AGM:

- Announce a \$6 million loss (25% of member equity) from Ontario processing operations
 - Operating outside their mandate to “process members milk”
 - CEO justifies as “pre-emptive strike” to stop processors fm coming West

JANUARY 2001 AGM

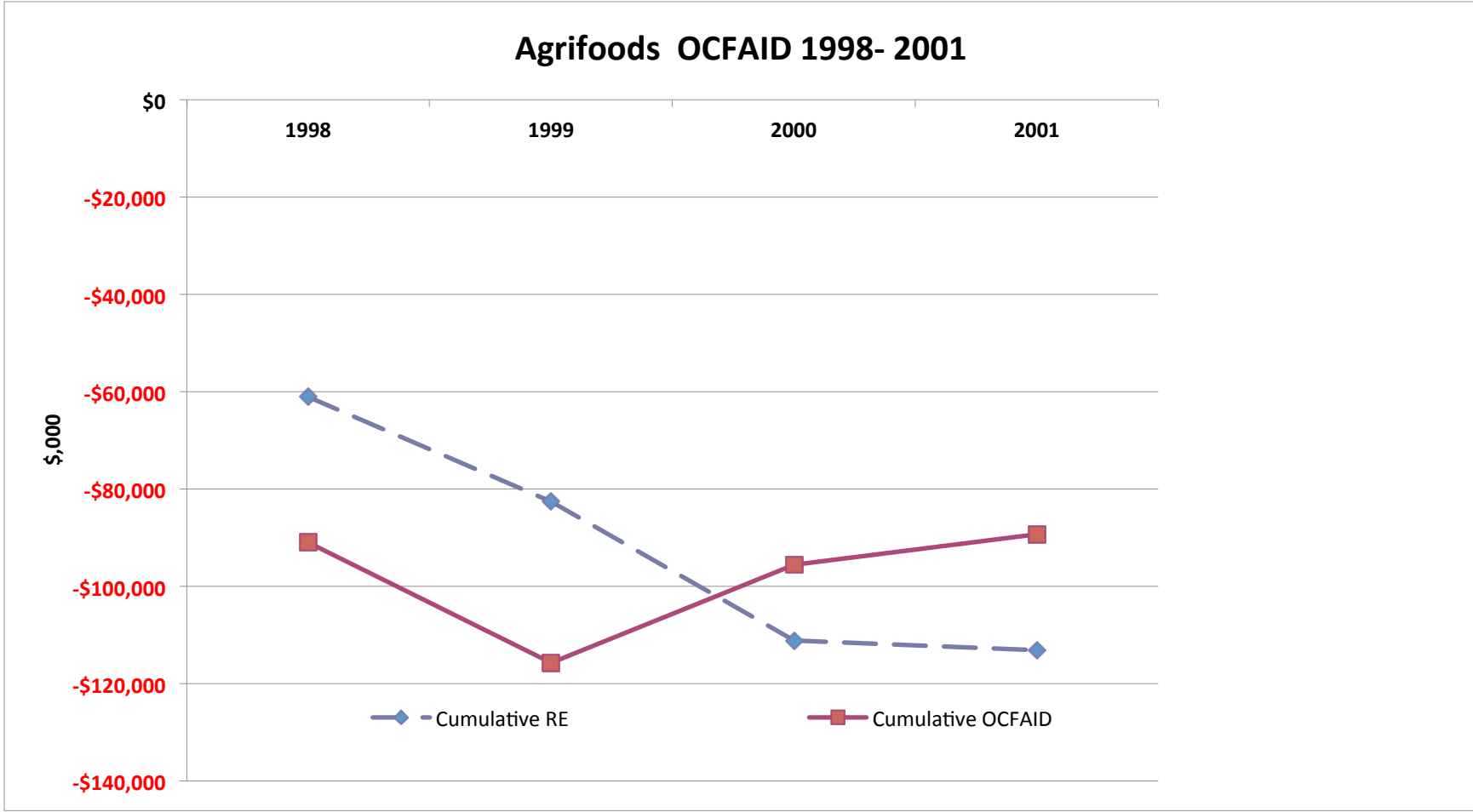
- Sales of \$1.5 billion but.....
- **BOARD ANNOUNCES to 120 DELEGATES**
 - Royal Bank calling loans
 - Saputo has made an offer 50¢ on dollar
 - Board recommends acceptance
 - » 110 voted to sell assets+ brand to Saputo;
 - » Agrifoods International retain raw milk transport
- Senior staff get healthy termination bonuses

OCFAID 1998



AGRIFOODS OCFAID ANALYSIS

1998-2001*



WARNING SIGNS (ROBB)

- 1998 acquisitions paid heavily for intangibles:
 - **Goodwill comprised 50%** (\$43.8m of the \$84.2m) **of net assets** acquired from McCains
 - **Goodwill and other intangibles comprised 79%** (\$22.5m of the \$28.5m) of net assets of other acquisitions
- The acquisitions were dependent on borrowed finance
 - **Long term debt rose 68% or \$73m**
 - **Current liabilities rose 55% or \$75m**
- Operating cash flows deteriorated and OCFAID became seriously negative due to the cash paid for intangibles

DEBT EQUITY RATIO (external debt to members' equity)

1982: 1.5:1

1987: 1.3:1

1999: 2.9:1

RATIO OF INTANGIBLES TO MEMBERS' EQUITY AND MEMBERS' LOANS

1982: 3.3%

1997: 0.6%

1999: 66.4%

ALAN ROBB:

“...what a combination of bad strategies!”

- **high risk strategy** quite unsuitable for a cooperative.
- **high external debt going into intangibles**

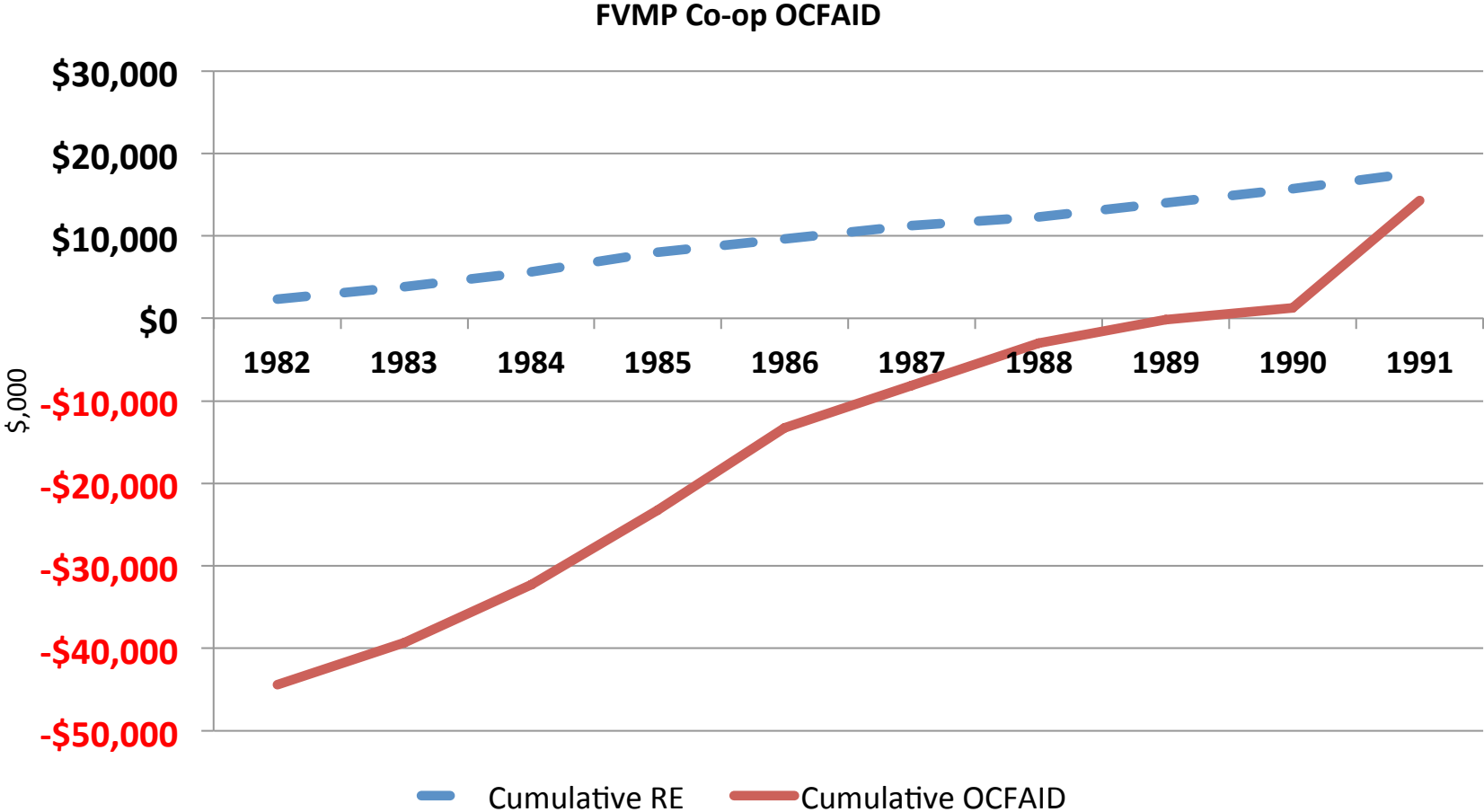
QUESTION: WOULD OCFAID ANALYSIS ON THE FRONT PAGE OF FINANCIAL STATEMENTS HAVE INCREASED TRANSPARENCY?

IF SO, Directors/Members would have had **clear window** into operations of their coop...

IF SO, Directors/Members would have had the **evidence** to demand external audit

IF SO, Dairyland, a century-old cooperative, **might still be alive and thriving today...**

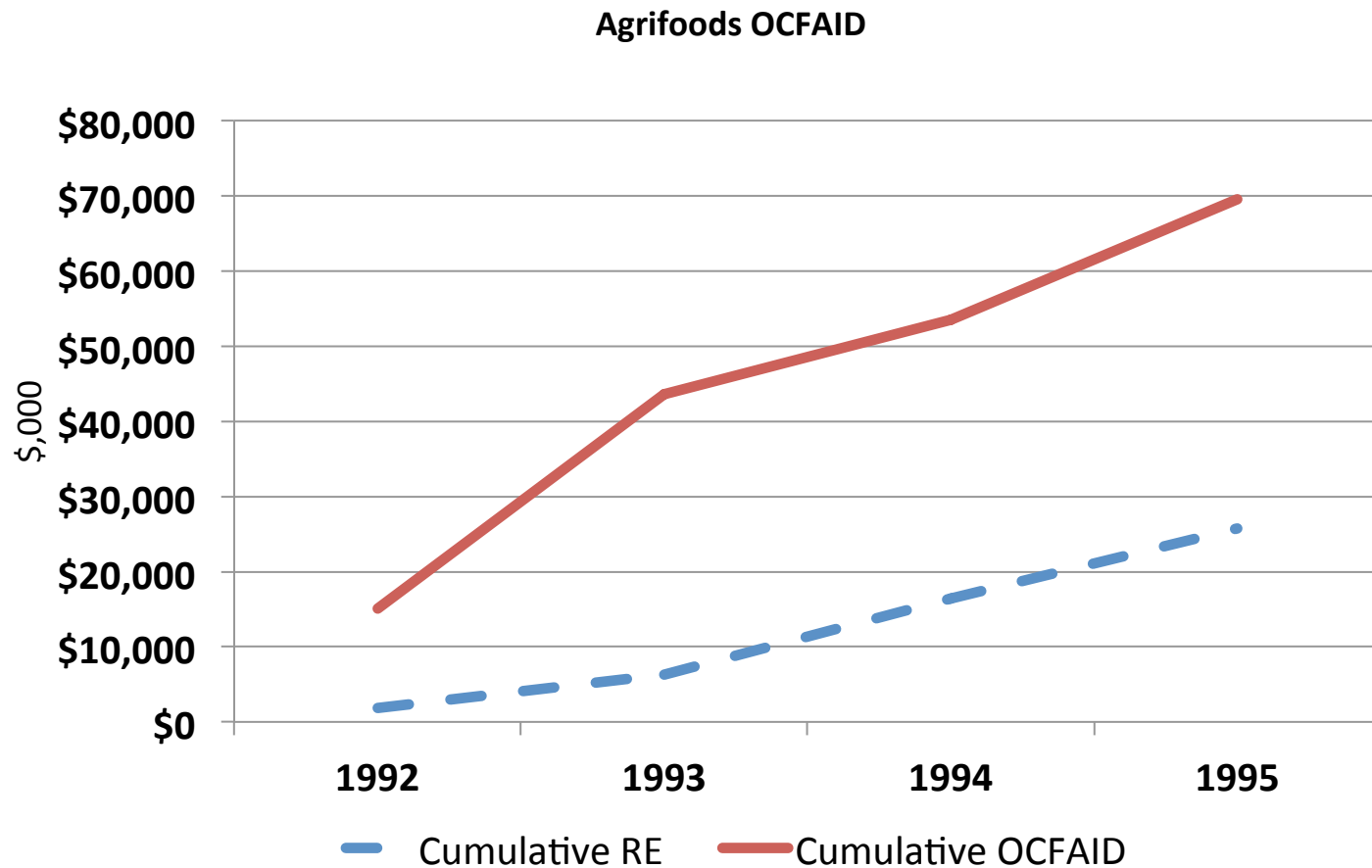
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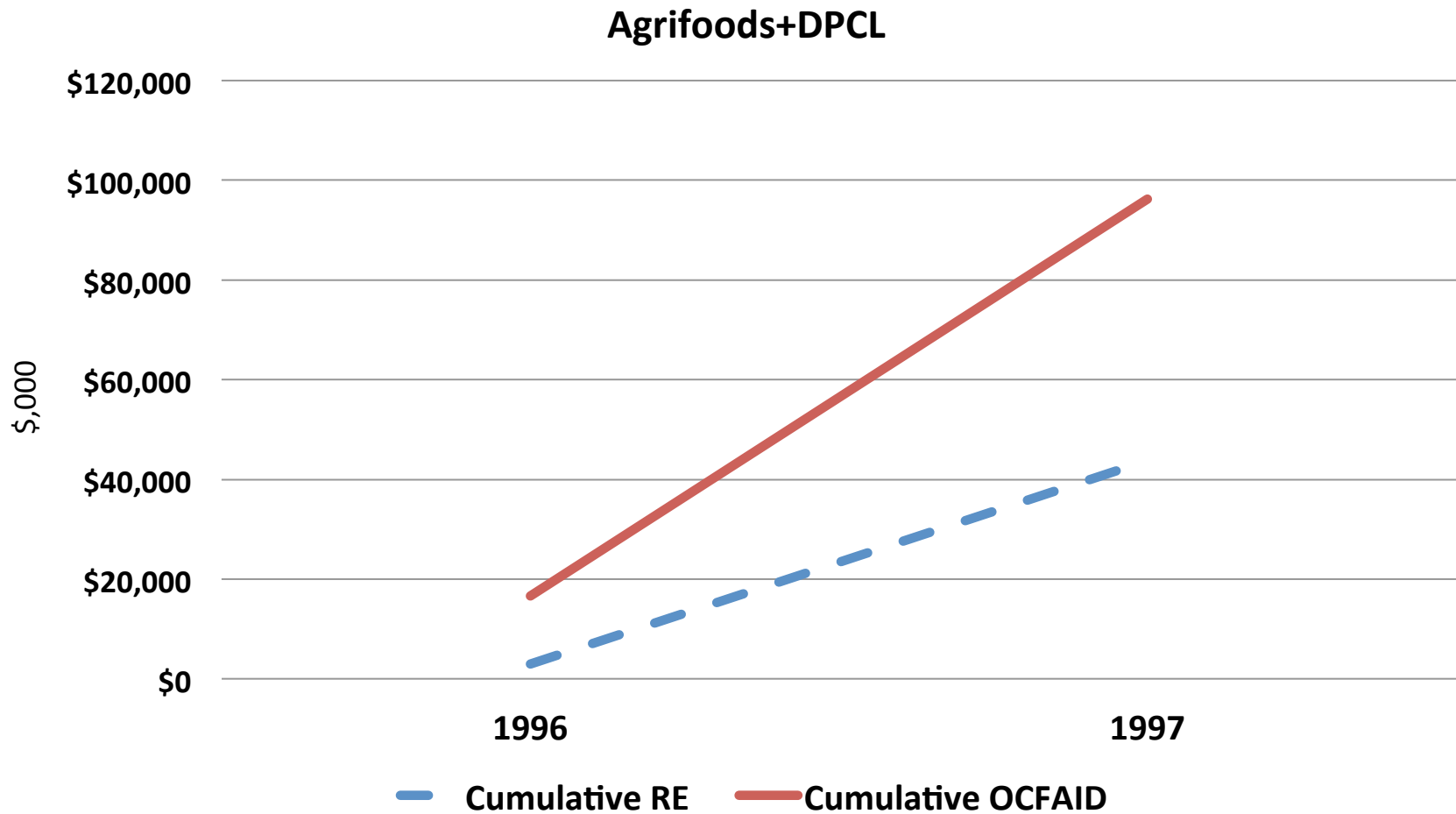
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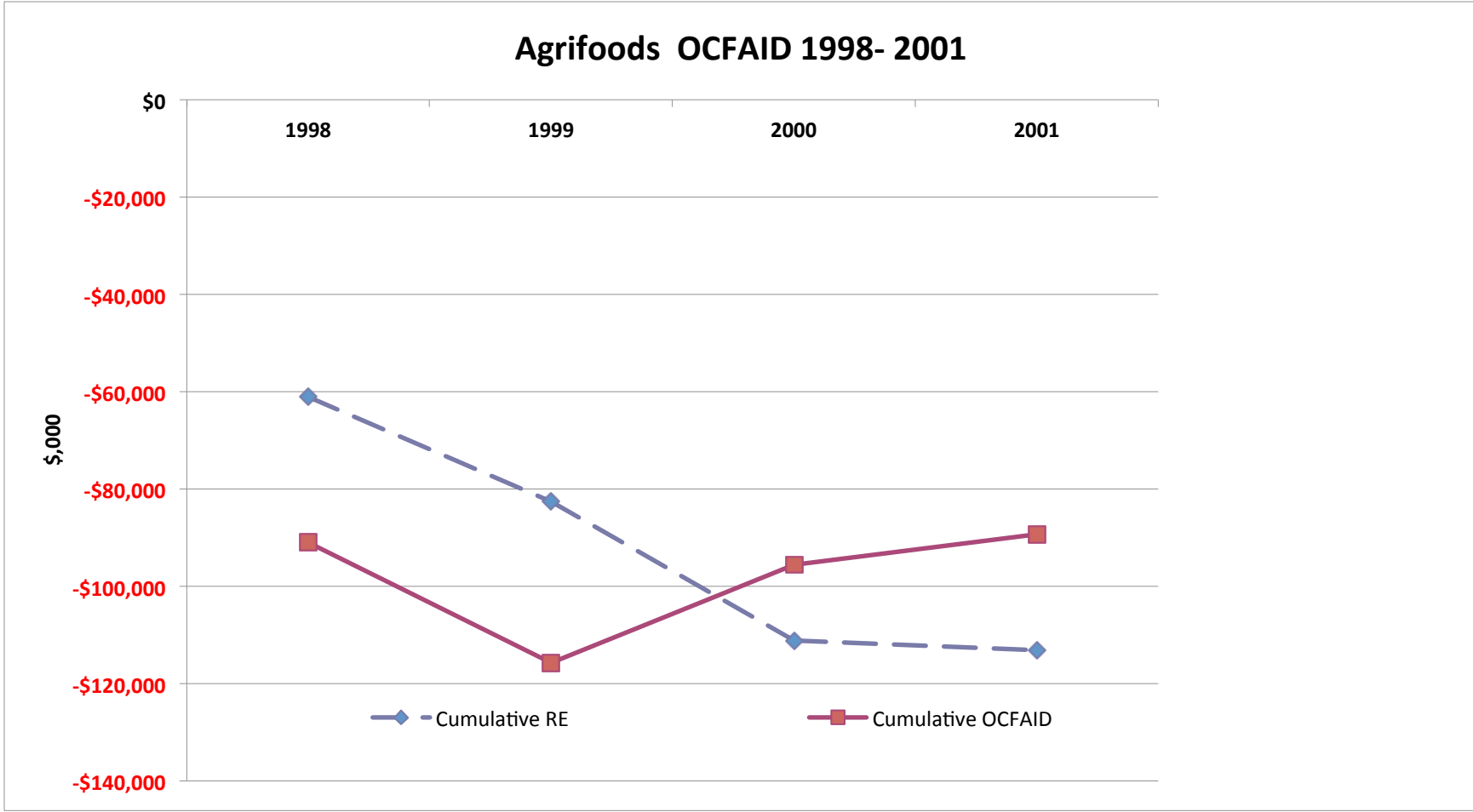
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AGRIFOODS OCFAID ANALYSIS

1998-2001*



ENDNOTES...

When private sector firms fail, *no one* questions capitalism...

When coops fail, *the model is suspect...*

SO QUESTION is not:

WHY COOPS FAIL? *but rather*

HOW TO ENSURE THAT COOPS THRIVE?

I SEE A BRIGHT FUTURE...

- TRANSPARENCY (OCFAID)
- POISON PILLS
- SMALL IS BEAUTIFUL
Mondragon



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