

Ag Biz Briefs

Spring 2022



Supporting the Stewards
of the Land

Growing Relationships to Maximize Success!®



Spring 2022 Update

Rick Vaughan, CEO

Greetings everyone.

Spring is here, but as I write this, we have not been able to get much work accomplished with our agronomic field activities. While it looked promising in mid-March, here we are in early April still waiting to get rolling. Most reports across our IAS geography say that we have had some good moisture over the last month. We are fortunate in this regard as some other areas of Iowa are much dryer.

It is hard to believe that two years ago this month we were in the middle of a high level of uncertainty with Covid. While I am extremely glad Covid uncertainty seems to be behind us, here we are with a new set of challenges and uncertainty. These supply chain logistics problems spanning all industries are real. I am sure all of you feel it every day also. These problems, combined with the volatility in commodities have created some real opportunities and challenges. Our teams have been extremely diligent in procuring products, managing logistics, and managing risk. We are ready for spring and eager to get started helping our customers with their 2022 crop.

We are seven months through another fiscal year as I write this newsletter article. I can report that this year is going well for IAS. The areas with the largest financial improvement are our Agronomy Division and Ethanol Division. Agronomy had a fantastic fall with excellent volumes and good margins. We anticipate a similar spring. Most products are here and are ready for spring. Ethanol had unusually positive margins during the fall, good margins through the winter, and maintaining good margins thus far this spring. Our other IAS divisions are doing well and are on pace to have similar years to the past and on par with budgets. These returns are adding additional strength to our already strong balance sheet. Your board of directors has maintained their annual discipline of returning past equities to members and adding capital improvements back into the business.

The board election process is several months away yet, but I would like to inform you of this year's details. Vice President Steve Perry from the New Providence/Owasa/Cleves/Faulkner area, Secretary Loren Manternach from the Cascade/Farley/Monticello/Central City/Hopkinton area, and Joe Thraenert from Elma/Alta Vista/Oran area are up for re-election. We will need to complete the slate of candidates by October. The nominating committee members are Tim Burrack, Ryan Collins, and Adam Hill. The nominating committee will consider members who live in the general geography of the incumbent board members. If you have interest and/or have questions you are welcome to call President Randy Blake, any of the IAS nominating committee members, other board members, or myself. Your local IAS location manager can also assist you with the process. IAS welcomes and encourages members to consider running for the board. The IAS board did approve Jeff Lindsay from the Winthrop/Manchester/Indy/Masonville area for another one-year term as an associate director.

The IAS Board of Directors took time from their busy schedules this past winter to invest some formal time in education and planning for IAS. The IAS board allots time during several board meetings each year to bring in outside expertise using webinars. This process has worked well to expand their reach of knowledge in multiple subjects. The board last invested multiple days away from their operations in 2019 for the Commodity Classic and in 2017 for Argentina. This year, the board traveled to California. We were fortunate to be able to spend a whole day on a farm in Stratford, CA at Azcal Management Company. This farm raises pistachios, onions, grapes, cotton, wheat, and rye on 16 sections. In addition, they are working to develop self-driving tractor technology for orchard work. These machines run near 2 mph. The board was able to watch the prototype tractor navigate its end of field turn around while steering around a power pole. We also stopped at Buttonwillow Warehouse Company in Corcoran, CA., a retail agronomic farm supply organization like IAS. We also visited the World Ag Expo in Tulare, CA. The number one concern at the farm and agronomic retail outlet was water. The farm was constantly evaluating water amounts to ensure they were planting the right

crops. The retailer was constantly monitoring customer accounts to ensure their water status did not change before advancing more credit. The farm talked about how the investments made over time to ensure water availability were under constant threat from non-farm interests. It was common everyday conversation to discuss what may not be planted. The board enjoyed the opportunity to see the intensive cropping in California. I appreciate their time investment to expand their knowledge and understanding of agriculture outside of our local Iowa surroundings. This range of agricultural knowledge is important to our IAS board decision-making processes as we try to position the company for future success.

The March 31st crop report was a surprise in corn acres. This is not the first March crop report that ended up being short corn acres in a high price corn market. This spring planting season, we will see if people consider additional corn acres. Either way, it sets up marketing opportunities through the spring and ahead of the Thursday, June 30, 2022, USDA crop report. Today, new crop cash corn is near \$6.70 per bushel and new crop cash beans are near \$13.85 per bushel. I know costs are up this year, but those prices are tremendous. I also believe they can go higher. Please remember, that the markets can rise and fall while you are busy planting and then spraying. I know the use of offer contracts is a good way to lay off some of your production cost risk during market spikes. We are ready to help you place some corn and bean offers for the spring season.

We look forward to assisting your farming operation every day in all areas of our organization. We appreciate your business. Have a safe spring!!



Thank you to all our customers who came out to our Grain meetings this winter.

IAS Board of Directors

Randy Blake - Chairman

Tim Burrack - Director

Joe Thraenert - Director

Steve Perry - 1st Vice President

Ryan Collins - Director

Jeff Lindsay - Associate Director

Adam Hill - 2nd Vice President

Paul Cook - Director

Loren Manternach - Secretary

Stan Norman - Director

Agronomy Update

Tim Krausman, VP of Agronomy

This time of year, we've typically had an opportunity to start on spring field preparation that's done before planting. The weather hasn't allowed us to do so yet, compacting that window of opportunity. Fortunately, we had a good fall and were able to get more acres applied with dry fertilizer, phosphate, and potassium, along with NH₃ to help keep the workload manageable this spring. This extra time gives us more opportunity to get the equipment ready, people trained, and the product better positioned logistically.

This growing season will provide some challenges when it comes to supply. This is especially true in the chemical sector of our business. At IAS, we believe we are positioned well to be able to offer excellent solutions for weed control this growing season. We still have most of the products that are in very tight supply in the industry, available to sell. We have already seen an incredible amount of growth in our chemical sales this year, this ability to offer these challenged supply products will continue to add to our increasing customer base. Planning and preparation will continue to be important to maximize the supply we have available. Inventories will be very low coming out of this growing season.

Fertilizer pricing continues to find upward pressure. There are multiple reasons why fertilizer has increased. Starting with the price of natural gas throughout the world, all the way to the war in Ukraine, with many others in the middle. I believe fertilizer supply will be available if needed, however as we go through spring and continue applications down the road at these price levels, just-in-time inventory may become more of a factor.

Keeping our finger on the pulse of sustainable ag, we continue our work with Land O'Lakes and Truterra to keep our growers informed on beneficial and profitable programs available. Through this partnership, we've been able to offer several programs that have brought value back to customers working with us. There will be more program opportunities like this coming available soon.

I would like to finish up with a big Thank You to everyone for their business, and we wish everyone a safe and prosperous 2022 growing season.



IAS Garden City John Deere Applicator visits Hubbard location

The Impact of Inflation

Brenda Hoefler, CFO

Hello Everyone,

We have all personally experienced first-hand what inflation has done to our bank accounts as rents and housing costs, groceries, fuel, repairs, healthcare costs, and other expenses have all risen dramatically this past year. Innovative Ag has experienced similar increases related to the general inflation including wages, fuel, replacement parts, supplies, etc. We also have a few areas that are experiencing inflation but there are other cost drivers increasing the costs as well, those include:

Interest Costs – Interest rates are starting to climb after several years of very low-interest rates that we've all grown accustomed to. In addition to the interest rate increases, our seasonal line is at an all-time high for this time of year. The increased seasonal line is primarily due to the higher commodity value of our grain and agronomy inventory, as well as approximately one-third of our line being on deposit with our commodity brokerage firms to maintain our futures hedge positions. This is one of the advantages of selling grain through IAS, you don't have to get the daily margin calls and use up your precious working capital, especially with the rising input costs.

We are fortunate to have a longstanding excellent banking relationship with CoBank, who provides us a very competitive borrowing rate based on our strong financial historical performance, and as a national cooperative they pay back a good cash patronage level each year on their earnings which reduces our effective borrowing rate even more.

Insurance Costs – Insurance costs are subject to inflation like most businesses as they are also impacted by rising replacement costs to rebuild and repair damaged items. In addition, our industry has been impacted significantly by major weather events including the August 2020 derecho, as well as explosions in aging concrete elevators, commodity fires, unfortunate grain fatalities, and higher frequency and costs of truck accidents due to less experienced drivers, underinsured motorists, and a more litigious society. We continue to look for ways to combat these increases by raising deductibles, being more selective on insured values, self-insuring when possible, utilizing risk transfer mechanisms as feasible, and maintaining employee training and safety programs.

Software and Hardware Costs – No different than the other cost areas, these have seen inflation due to their own internal costs increases, but we've also incurred additional costs as we continue to work on improving the software, we must run our business and provide more value to our growers, from both a functional and security perspective. We continue to add layers of protection to our numerous systems to help thwart cyber-attacks and have spent a considerable amount of time and money over the past several months to do that, we've accomplished a lot, but this will be a never-ending journey.

Overall, given the inflation and the uncontrollable cost increases, we continue to manage the controllable costs of our business as if the costs were our own.

Thank you for your continued support, we appreciate your business. Best wishes for a safe spring.

Grain Spring Update

Charlie White, Vice President of Grain

Does anyone else feel like this winter's grain and commodity markets felt a little bit like riding a bucking bronco, while on a roller-coaster, and trying to simultaneously gamble in Las Vegas? I've only completed one of those three things in my lifetime, so I can't say for sure how that would truly feel, but I'm imagining that's how to best describe how we've felt over the past few months watching the grain markets.

The leading cause of this volatility has been the amount of "black swan events" that we've seen enter the marketplace within a short amount of time including Covid-19, inflation, labor shortages, high fertilizer costs, and drought conditions causing crop shortages in South America. It isn't normal to see these events stack up on top of each other. Throw in the first war in Europe since World War II that is occurring in a breadbasket spot of the world, and we really have a lot of market disruption to wade through and try to make sense of.

With Ukraine being the 4th largest corn and wheat exporter in the world, on top of Russia being the largest wheat exporter to the world, global trade has been turned on its head. We've seen export capacity limited due to damage inflicted at the major ports within Ukraine which have many questioning the expansion of US exports to fill the corn gap. The spring planting season is right around the corner for Ukraine as well, which brings up the question of just how much of an impact will this have on their upcoming 2022 production.

The USDA is our best guidance today to try and answer the questions of global grain stocks and availability. We have seen a large amount of information come from them with the March 31st Stocks and Planting Progress in addition to the April 8th WASDE report. Within these reports, the USDA did lower the Ukrainian corn export forecast down by an additional 4.5 MMT while seeing Argentina's corn crop unchanged while Brazil's got larger by 2 MMT. Additional worldwide changes will be watched closely in future reports. On the global stage, soybean production in Brazil was cut another 2 MMT while Argentina's crop size was kept unchanged. The net effect of world-ending stocks was raised on corn by 4.5 MMT, while beans were lowered by .4 MMT.

Domestically, the prospective plantings acreage number was the most surprising to the market, with corn planting intentions coming in well below average estimates at 89.5 million acres of corn and beans well above the average trade guess at 90.9 million acres. March 1st stocks on hand of corn and beans were both slightly larger than last year but fell close to the average guess of 7.850 billion bushels of corn and 1.931 billion bushels of soybeans. The follow-up to the stocks report was the WASDE report that details changes to the ending stocks estimates. On corn, we saw no net change, with carry-out left at 1.440 billion bushels of corn after seeing corn used for ethanol increase by 25 million bu (mbu), which was offset by feed usage decline of 25 mbu. The soybean carry-out did shrink by 25 mbu to 260 mbu of beans on hand at the end of the marketing year after seeing exports raised by 25 mbu.

As we continue to work through the market volatility, I want to walk through with you one of the things you may have seen happen in the marketplace this spring so far due to the volatility. With the breakout of the Russian/Ukrainian war, the futures and the cash markets started to diverge or fall out of sync with each other. Throughout late February and into March, we saw the futures markets invert telling the market participants grain delivered today is worth more than tomorrow. While cash markets and processors were full of grain and

trying to tell the marketplace the opposite and to hold off on selling and delivering grain until later delivery periods. That is partially why we saw cash bids start to bid against the July futures reference month to stabilize the daily spread swings and to try and build a carry into the summer months. Usually, that changeover doesn't occur until a month or two later than it happened this year.

At Innovative Ag Services, we're all here to work together with you as trusted partners through these volatile market environments. We are adding to our grain origination team soon, and I look forward to improving our service to you. We appreciate your business, please have a safe and productive spring!



Sunset on a grain load out of IAS Alden, IA Location

Challenges Becoming Just Part of the Business

Mike Bachman, VP of Feed

Where do I start? We thought 2021 was a challenge, well hold on to your hats, 2022 looks to be even more challenging. We may as well get used to dealing with the unforeseen as every corner we turn we are met with opposition. In my 30 years in the feed business, I can honestly say we are in uncharted waters. Labor shortage, higher labor costs, logistic issues, high fuel costs, the lingering effects of Covid-19, and course the war in Ukraine are just a few of the major topics of discussion we are faced with today; seems like the perfect storm. What do all these issues have in common? They are impacting our feed business by disrupting our supply chain and ultimately adding higher input costs to our end users. Our feed team is working hard to find new ways and alternatives to overcome these challenges. Continuing to communicate and making sure our customers are aware of the challenges, we are facing is important as well so that we may help them strive toward profitability. Learning to change and adapt to the rapidly moving parts in our day-to-day operation will be key to our success and yours.

With that said, the feed division is tracking a little below budget. On the revenue side, total feed tons are down with margins slightly lower. Repairs and fuel are up in the first 6 months from an expense perspective. We continue to work on business goals with a sales focus on gaining new business and using technology and business management tools to help our producers.

Swine producers' margins have been slightly positive, and the outlook is uncertain. The biggest concern is herd health and the effect it is having on pig flow. The swine herd is down 4% leading to fewer kills. Add to that \$7.00 corn, and the inverse in the market and it raises a lot of questions. Our tonnage reflects these statements as we are down through the first half.

Our dairy tons and margins are slightly lower than last year. Demand for dairy products is good today as well as the price of milk. Future markets are trending upwards which is positive. The downside is input costs are higher and there is no real reason for that to change moving through the next several months.

On the beef side of things, bulk liquid and dry feed tons are up as feedlots fill back up. Cow/calf numbers are down affecting lower bagged tons moving through the locations and adding to our lower beef margins. There are positive takeaways from our beef team's perspective moving forward and we feel there are opportunities out there.

All eyes are on the planting season and the grain markets. We battled through the inverse last fall and this year looks to be no different. Our team is working to plan our grain needs between now and the start of this year's harvest. Please communicate with our grain department or feed sales team about options for your needs moving into the summer and fall months.

As our feed suppliers struggle with the same challenges we are faced with, it has become increasingly important that we are all anticipating and communicating feed supply and ingredient needs well in advance. I appreciate your patience and understanding. At the end of the day, we need to work together to provide excellent service to you, our customer.

The IAS Team thanks you for your continued business in these very volatile times and looks forward to "Growing Relationships to Maximize our Success" "together!"

Energy Spring Update

Randy Swenson, VP of Energy

Hello from your man with gas!

For the last couple of years, we have been dealing with Covid issues and now, the world is in turmoil again. With food production issues, supply chain problems, slow economic recovery from the pandemic, and the effects of an overseas conflict, it seems rather clear that shortages, disruptions, and price hikes are here to stay. One day we will all look back on these times and wonder how we were able to keep our sanity. The week-to-week and sometimes day-to-day pricing volatility we are experiencing is unlike anything I have seen in these energy markets, and I began working in the industry in 1986. No need to beat a dead horse on all that is going on these days, but our lives have changed.

This past month's crude oil price has seen a fast-paced race to get higher than \$100. Once we hit that mark, it has been nothing but a whipsaw effect every day. You can read many overviews from experts and get a variety of opinions. All of them can give their opinion, but, diesel and gas prices are at levels we haven't seen for a while, and I would anticipate that they will continue high throughout the year. Propane is no different than the other energy commodities, whereas the price has increased this past month, just not at the rate of the others.

All this volatility has created issues of supply security that should be our top priority. Right now, product supply, storage capacity, pipeline capacity, and transportation capacity are on our radar. There have been some changes in all aspects of getting the supply from the refinery to the end-user and all those changes cost money. The consumer is extremely tired of footing the bill for all these cost increases, but the alternative is what? It all falls into my earlier statement that our lives have changed. The ag industry is a resilient group, and we will survive these times.

Locally, farmers/producers should keep in mind that is a good idea to keep their fuel tanks full, as these volatile markets could create tight supply and logistics. Price is one thing to try and capture, but supply is more vital. We continue to replace loads in our bulk plant when fuel is delivered, so I don't look for any big disruptions near term.

Later, we will be coming out with our propane summer fill price and that should give everyone an idea of where these prices will settle out for fall/winter contracts.

Thank you to all our customers for your business! Have a great Spring!



Beautiful morning at IAS! Welcome Spring!

Spring Safety Update

Bill Vetter, Safety and Compliance Director

We all welcome the nice weather and the opportunity to work outside and, in the fields. Consider the environment you are working in and the potential equipment hazards. Safety always needs to be considered and a priority in any task or operation we are involved with. We ask our employees and customers to be safe during this busy time of the year. Be sure to select and have on hand/use the appropriate Personal Protective Equipment (PPE). Innovative Ag Services is committed to safety, and everyone desires to send employees home safely along with meeting regulatory requirements in the workplace.

The weather and season change brings an increase in farm equipment and more vehicle traffic on rural roads. Learn to safely share the road with large equipment. Be mindful and look for the slow-moving vehicle (SMV) sign. This is your warning to slow down and an indication the vehicle is traveling at or below 35 MPH. It takes just 5 seconds for a car traveling 55 MPH to travel 300-feet or the length of a football field. Don't get impatient when following slow-moving vehicles and follow the same rules when passing other vehicles. Do not pass in a no-passing zone, on a curve, on bridges, or near intersections. Be aware of wide or large equipment that maybe hanging over on the shoulder that might have to swerve into the center to clear a mailbox or sign. At nighttime be on the lookout for a steady or flashing signal light that may be on the back of equipment or nurse tanks between the hours of sunset and sunrise as an indication of equipment traveling at or below 35 MPH. State code 321.383 has more information on SMV sign use and requirements if needed.



Watch for farm equipment with and without SMV signs and proceed with caution when you need to pass.

With spring fieldwork comes the application of crop nutrients, chemicals, and anhydrous ammonia to support the demand of our customers. Safely handling these types of products is paramount. Improper handling, or not following PPE requirements can have severe long-lasting tragic effects. Crop protection products can have harmful effects if precautions are not utilized and followed. Always read manufacture labels and safety data sheets for requirements and recommendations.

Anhydrous ammonia will always seek a source of moisture. Your eyes, face, and lungs are the most vulnerable and must be protected. Wearing a face shield, ventless goggles, and neoprene gloves with a liner is the first line of defense when working with chemicals or anhydrous ammonia. A face shield and wearing long sleeve clothing are highly recommended as part of your PPE when working around these items to prevent splashing onto your skin or entering your airway.

Water is your first line of defense when working around these items as water has a neutral PH base for chemicals and water is a must around anhydrous ammonia. Anhydrous ammonia will chemically burn the skin upon contact and continue for up to 15 minutes. Water for 15 minutes in exposed areas is a must and never apply ointments. All nurse tanks have five gallons of emergency water tanks on them and is a good idea/

recommendation for customers to carry a personal supply of water in vehicles and tractor cabs or on their person for immediate accessibility.

Ensure caution is exercised when handling transfer chemical hoses or anhydrous hoses to prevent accidental discharge. Be certain valves are closed and any trapped material is bled down before disconnecting. All valves on a nurse tank must be closed before transportation on the roadway to meet Department of Transportation (DOT) standards. Always replace dust caps when a hose is disconnected. When towing a nurse tank do not exceed the maximum speed of 35 MPH to meet safety and DOT regulations. The potential for a serious accident increases at higher speeds and lacks sufficient braking capacity to safely control the wagon at higher speeds.

Most farmworker injuries are caused by tractor incidents: overturns, being run over, equipment attachments mishaps, and power take-off systems. Please be aware of your surroundings and hazards to exercise extra caution this time of year. Take that extra moment and inspect equipment; Conduct pre-operational checks and roadworthy safety equipment checks of safety chains, drawbar pins/safety pins, proper lighting, and SMV signs.

Innovative Ag Services recognizes that our customers and employees are our most valuable assets. Our customers are important end users of our services and products as continuing our growth and success as a company. We are firmly committed to customer service and employee safety and will do everything possible to prevent incidents. Have a safe spring!

**Get Out Your Cameras and Show Off
Your Creative Side with
Innovative Ag Services
Annual Calendar Photo Contest!**

Want your photo showcased in our 2023 calendar? Send in your photos that evoke the heart of cooperative lifestyle. Share with us, and your fellow coop members the quiet scenes and breathtaking vistas that define our cooperative world, as seen through your eyes.



2022 Calendar Contest Photo Winner Holly Bries

Whether it's a scenic landscape, a snapshot of everyday life, or an action photo, we invite you to share your images. Winning entries will be featured in the 2023 calendar.

Photos must be submitted by **August 31st , 2022.**

Photo contest rules and forms can be found at <https://www.innovativeag.com> on the home page under News & Press. All photo submissions can be emailed to hr.dept@ias.coop.

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In The News: Area Farmers Come Together to Help Ukraine Citizens

On Friday, March 25, 2022 over 100 Hardin County residents came together to support the Ukrainian refugees. Nineteen area farmers took to the streets with tractors to the South Hardin middle school to form a peace sign. After the event those gathered held a candlelight vigil, a moment of silence which was then later followed by music. John Kix and Gary Webber organized the tractors for the Ukraine fundraiser held in Hubbard, Iowa.

Donations were given to a church in Hungary to assist the Ukrainian refugees. If you would like to give a donation to this worthy cause you can mail donations to:

United Church of Christ

P.O. Box 71957

Cleveland, OH 44194

Please write on the memo of the check

Ukraine Refugee Fund

Or you can give on their website:

<https://www.ucc.org/giving/donate-now/>

70% of the land in Ukraine is agricultural land.



Drone footage of the tractor peace sign.

Article content courtesy of KCCI & KCRG. Drone footage by Bo Balvanz & Stan Kulow.