

# **GROWMARK**

**2018 ANNUAL REPORT**

**W  
O  
R  
L  
D**

## COMMENTS FROM OUR LEADERSHIP

For decades, GROWMARK has focused on growing for the future, adapting to new challenges, implementing new technologies, and innovating to beat the competition. Today we call that disruption.

New products and technologies, the next generation of growers, industry consolidation, societal pressures, and government policies; all these forces are impacting our world.

The key to handling disruption is to anticipate and embrace it before it impacts your business. That's exactly what GROWMARK is doing with the projects it's undertaking today. The present is busy, as we prepare our System for the future.

We were founded to meet a basic need; a reliable supply of fuel. Today a basic need of farmers is reliable information. At GROWMARK, it's our responsibility to meet that need. Technology moves quickly, and we strive to be an innovative organization. But we must also collaborate with smart people, perhaps not even people from agriculture, to develop ideas for what's next.

In May of 2017, we embarked on a journey to develop an enterprise strategy for GROWMARK; to define what winning looks like for us, where we will play, and how we will win.

The process helped the Board and Management staff think about our strengths and how, by focusing on incremental improvements in those areas, we can grow in every sense of the word.

"GROW" doesn't just refer to size. Although territory and sales growth should be a natural result if we execute our strategy effectively, it's not the primary goal. We grow not just to get bigger but to get better.

GROWMARK is a high-touch, value-added business. We rise or fall based on our ability to deliver an unsurpassed customer experience. It's our overarching strategy, and it's fueled by our strengths. It's a tall order that comes from:

- Great relationships
- Resources of unmatched value
- Optimized supply chain
- Winning innovations

When we combine data with smart, well-educated and trained employees, along with our world-class distribution and delivery system, we will then deliver on our mission and vision. Perhaps that makes the GROWMARK System a disruptor. That's the direction we need to GROW.



*John Reifsteck*  
John Reifsteck  
Chairman of the Board  
& President

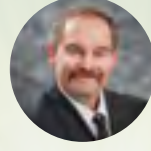


*Jim Spradlin*  
Jim Spradlin  
Chief Executive Officer

## BOARD OF DIRECTORS



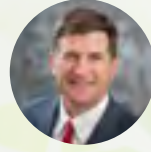
**John Reifsteck**  
Chairman of the Board  
and President  
Champaign, Illinois



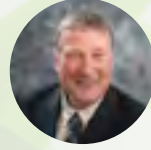
**Chet Esther - Vice Chairman**  
Frederick, Illinois



**Bob Phelps - Vice Chairman**  
Rockton, Illinois



**Kevin Herink - Secretary**  
Clutier, Iowa



**Kim Fysh**  
Thamesville, Ontario,  
Canada



**Brian Hora**  
Ainsworth, Iowa



**Warren Jibb**  
Sunderland, Ontario,  
Canada



**Andy Jones**  
Bloomdale, Ohio



**Jason Lay**  
Bloomington, Illinois



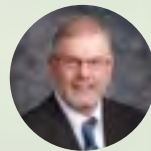
**Kevin Malchine**  
Waterford, Wisconsin



**Jack McCormick**  
Ellis Grove, Illinois



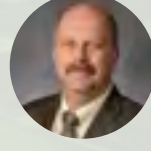
**Dennis Neuhaus**  
Hoyleton, Illinois



**Ron Pierson**  
Walnut, Illinois



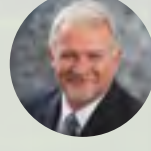
**Allen Tanner**  
Creston, Iowa



**Brad Temple**  
Serena, Illinois



**David Uhlman**  
Tremont, Illinois



**David Watt**  
Murrayville, Illinois



### Retiring Director: Rick Nelson

Rick Nelson retired after nearly 30 years of service. Nelson was elected to the GROWMARK Board in 1990 and most recently served as vice chairman. During his tenure, he served on numerous board committees, and other boards including at Heritage FS, AgVantage FS, New Century FS, Ludlow Cooperative Elevator, and East Central Illinois Cooperative Association.

# YEAR IN REVIEW

Sales for the fiscal year are \$8.5 billion, up from \$7.3 billion last year, driven by good volume growth and increases in overall energy prices.

Pre-tax income is \$69.5 million, yielding a return of 5.8% on invested capital. On an EBITDA, or operating cash flow basis, this represents a 12.7% return on invested capital.

GROWMARK's balance sheet reports \$2.6 billion in assets, which includes \$482 million of net book value of property, plant, and equipment. Working capital is \$722 million. Long-term debt of \$194 million equates to a very healthy long-term debt to invested capital ratio of 13.8%.

2018 was impacted by the effects of Hurricane Harvey, depressed commodity prices, a rising interest rate environment,

trade concerns, and wet weather, causing application delays and late planting across the upper Midwest and East Coast.

A strong balance sheet allows GROWMARK to weather the stress of a challenging ag economy. It enables GROWMARK to continue to invest wisely in technology, infrastructure improvements, new acquisitions, and investment opportunities. These include partnering with COFCO International, new business acquisitions, new fuel terminal infrastructure, and technology investment in SAP.

Earlier this year, GROWMARK spent a considerable amount of time addressing changes to the new tax law, specifically changes to IRS Code Section 199A, the deduction enacted as part of the tax reform package. GROWMARK was successful in its efforts to

maintain a deduction for farmers who do business with cooperatives. This was an important win for farmers and the GROWMARK System.

GROWMARK has an excellent foundation, strong liquidity, and is well positioned for long-term growth. GROWMARK is focused on strong financial performance, creating supply chain efficiencies and productivity, and executing on our enterprise strategy. We will continue prudent investment in supply chain efficiencies, our technology platforms, and seek long-term growth opportunities with a balanced approach to capital allocation with priority on good cash returns to shareholders.

# GROW

SALES  
**\$8.5  
BILLION**

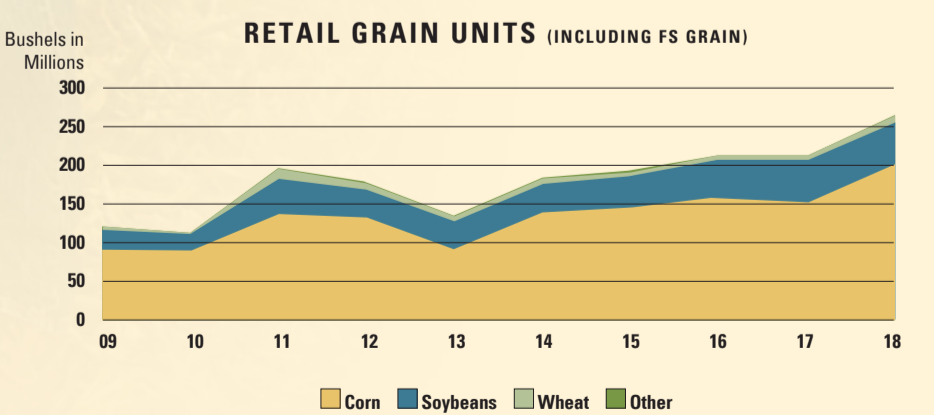
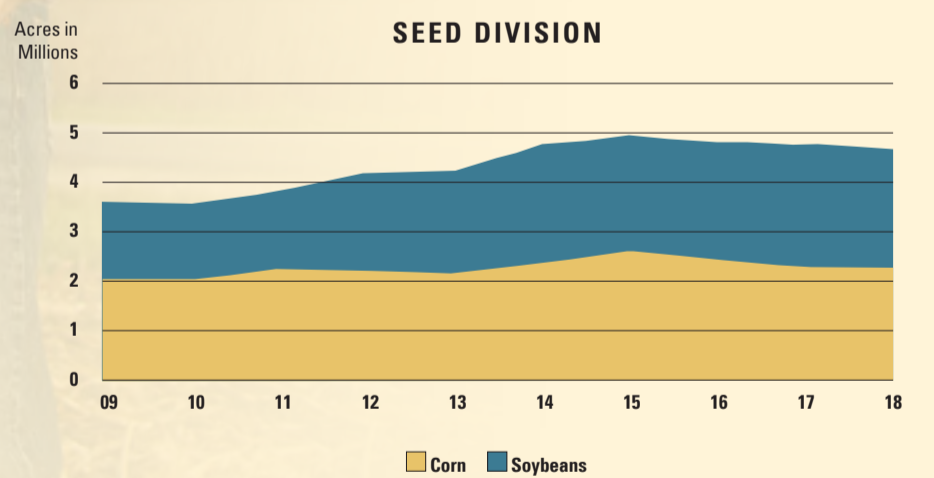
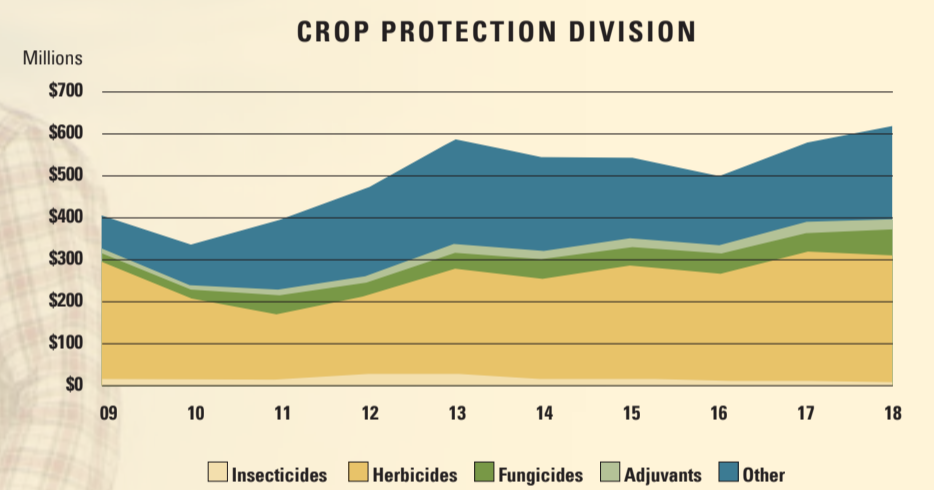
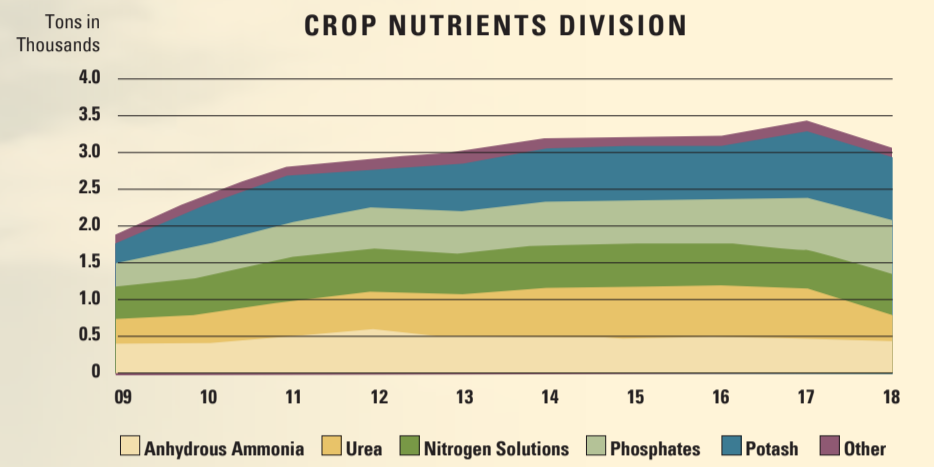
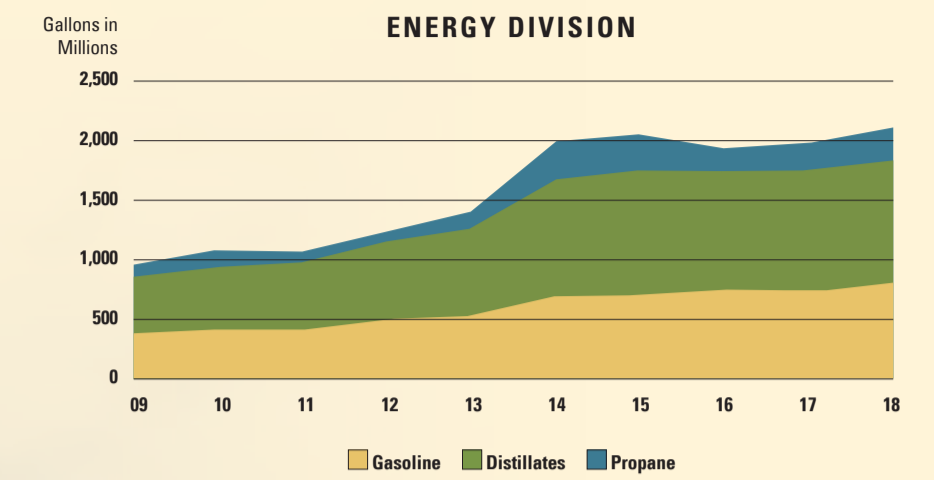
ASSETS  
**\$2.6  
BILLION**

PRE-TAX INCOME  
**\$69.5  
MILLION**

## FINANCIAL SUMMARY

FIVE-YEAR COMPARISON (\$ IN THOUSANDS)	2018	2017	2016	2015	2014
Net Sales	\$8,522,438	\$7,291,180	\$7,031,159	\$8,727,163	\$10,372,292
Net Income Attributable to GROWMARK	\$62,354	\$108,810	\$97,353	\$102,359	\$164,246
Patronage - Cash	\$45,089	\$39,593	\$38,480	\$44,882	\$60,197
- Stock	\$18,485	\$19,362	\$23,571	\$31,832	\$51,464
Total Patronage Refunds	\$63,574	\$58,955	\$62,051	\$76,714	\$111,661
Working Capital	\$721,989	\$738,409	\$818,434	\$960,075	\$837,611
Ownership in cooperatives & others	\$128,091	\$137,686	\$199,976	\$127,562	\$276,477
Property, plant & equipment - net	\$482,517	\$458,491	\$422,828	\$416,854	\$408,435
Total Assets	\$2,598,736	\$2,301,928	\$2,245,853	\$2,313,439	\$2,459,226
Long-Term Debt	\$194,025	\$236,200	\$244,062	\$264,913	\$267,331
Capital Stock	\$326,872	\$316,014	\$319,866	\$388,004	\$393,025
Retained Earnings and Other Comprehensive Income	\$798,680	\$770,866	\$701,779	\$702,140	\$724,690
Non-GROWMARK Ownership in Subsidiaries	\$87,589	\$87,592	\$82,988	\$91,847	\$87,037
Total Shareholders' Equity	\$1,213,141	\$1,174,471	\$1,104,633	\$1,181,991	\$1,204,752

## SALES VOLUMES



# AGRONOMY

2018 was a unique and good year for the Agronomy Division. Most of the crop was planted with record speed. The GROWMARK System's ability to deliver for customers showed the talent of its people and value of its strategic assets.

## CROP PROTECTION



**SALES**  
**\$622 MILLION**  
 RECORD VOLUME | RECORD INCOME

The first full year with bulk crop protection storage and repackaging at the Alpha, Illinois, Distribution Center proved to be critical in meeting the demand of a rapid spring season. The distribution center also installed a 525-kilowatt solar field that included 1,500 solar panels to power the majority of the facility's power.

## SEED

For the 5th consecutive year, Seed Division income remains strong with 4.7 million planted acres of system-supported corn and soybeans. FS INVISION was up 9% and FS HISOY was up 1%.

**4.7 MILLION**  
 PLANTED ACRES

In 2018, cooperatives in Indiana, Ohio, and Michigan began selling FS HiSOY, FS INVISION, and other System-supported seed brands. Additional field staff was added to support continued growth in the eastern region, while a distribution center in Akron, Ohio, supports customer needs for seed and crop protection products.



**UP 9%**



**UP 1%**

## CROP NUTRIENTS

**SALES VOLUMES**  
**3.1 MILLION TONS**  
 EARNINGS DOUBLED IN 2018  
 COMPARED TO 2017

**99% CUSTOMER SATISFACTION**

**0 LOST TIME ACCIDENTS**

**MiField**  
**1,410 ON-FARM TRIALS**

FS MiField, recorded 1,410 on-farm trials in 2018, up from 1,186 in 2017. GROWMARK added a new tool to support crop specialists, NutriCropRx. It is a component of the MiField platform focused on tissue sampling. It helps growers better understand what the crop needs so they can deliver tailored fertility solutions to maximize yield.

# GRAIN

## RETAIL GRAIN UNITS

**90 LOCATIONS**  
**135 MILLION BUSHELS STORAGE**  
**265 MILLION BUSHELS GRAIN**  
 13% INCREASE OVER LAST YEAR. 45% INCREASE OVER THE LAST SIX YEARS

GROWMARK and COFCO International Limited created a new grain partnership, bringing together the robust farmer cooperative network of GROWMARK with the global trading power of COFCO International to develop an extensive supply chain, directly linking farmers from the richest food production areas of North America to the global feed and food industry, including its largest demand market, China. The partnership includes joint ownership and operation of the barge, truck, and rail terminal at Cahokia, Illinois, with frontage on the Mississippi River, as well as a grain origination agreement. GROWMARK added a grain merchandiser in COFCO International's St. Louis, Missouri, office to originate grain and service patron accounts. Bushel volumes were better than expected and growing in the first year of the partnership.



**14.5 MILLION BUSHELS OF GRAIN**

Grain Risk Solutions includes MID-CO COMMODITIES and AgriVisor. AgriVisor, a joint venture with Illinois Farm Bureau, marketed 14.5 million bushels of grain. MID-CO declared cash patronage of \$0.5 million. This is the 32nd consecutive year MID-CO has paid patronage.

WESTERN GRAIN MARKETING and the grain division of Sunrise FS combined grain operations, proving greater marketing opportunities for local farmers.

GROWMARK FACILITY PLANNING provides first-in-class design and construction services to the GROWMARK System. Illini FS Construction Services also integrated with GROWMARK Facility Planning to improve efficiencies.

**31% INCREASE OVER 2017**  
**\$42 MILLION SALES**

# RETAIL

Fiscal 2018 was a good and busy year in Retail Business, as Retail Divisions continued to focus on four distinct areas:

- 1 Explore opportunities to utilize best management practices to drive efficiency
- 2 Analyze methods to compress the supply chain and reduce risk in product procurement
- 3 Enhance gross and service income through market share growth and by targeting strategic acquisitions
- 4 Concentrate on establishing a culture of high expectations and winning results

These four areas will result in stronger market share, greater efficiency, a higher level of customer service, and improved profitability.

OPERATIONALLY, 2018 WAS AN IMPROVEMENT OVER LAST YEAR.

**PROPANE VOLUMES**  
**98.3 MILLION GALLONS**  
 Up 30 million gallons, due primarily to a colder winter that lasted well into April in some areas of our geography

**CROP PROTECTION SALES**  
**\$159.6 MILLION**  
 Up \$7.4 million

**CROP NUTRIENTS**  
**981,000 TONS**  
 Up 61,000 for fiscal 2018

AgVantage FS, New Century FS, and GROWMARK FS completed ResponsibleAg certifications and the GROWMARK FS Bloomsbury, New Jersey, location was the 2,000th facility certified under the program. This voluntary certification process demonstrates a commitment to compliance and safety in the community.



# ENERGY AND LOGISTICS

Fiscal year 2018 was strong for overall volumes which were up across the board and near record levels.



While volumes increased, income was impacted by unusually stagnant basis levels limiting GROWMARK's ability to capture gains on its inventory positions.

**LUBRICANT VOLUMES**  
**.5% HIGHER THAN 2017**  
 RECORD INCOME YEAR

**PROPANE & REFINED FUELS**  
**>2.1 BILLION GALLONS**

**TOTAL PROPANE VOLUMES**  
**24% HIGHER THAN 2017**

**REFINED FUEL VOLUMES**  
**5% HIGHER THAN 2017**  
 +11.2% AT GROWMARK TERMINALS

**DEF VOLUMES**  
**36.7% HIGHER THAN 2017**

The GROWMARK Lubricants Manufacturing Facility, located in Council Bluffs, Iowa, achieved ISO 9001:2015 certification. This is directly associated with quality and process control. It helps ensure customers receive consistent, high-quality products and services to deliver enhanced value to their customers.



GROWMARK reformulated FS Clean Flow to meet TOP TIER performance standards for gasoline, while Deselex Gold became one of the first products in North America to meet and exceed TOP TIER diesel requirements. Deselex Gold sales also entered a new geography - Alberta, Canada.

GROWMARK's first year with full ownership of UPI Energy FS is producing benefits for the System. Overall volumes increased by 7.3 million gallons compared to the prior year. The integration of FS PARTNERS' energy business into UPI Energy FS was completed and they are well-positioned for continued growth. The same can be said for STAR Energy FS which increased overall volumes by more than 3.9 million gallons.

GROWMARK expanded its product offering by manufacturing DEF at its Havana, Illinois, facility. This allows greater control of the supply chain to provide product to members that meets a growing need. The first load of DEF was hauled out in May.

GROWMARK launched the Energy Advisor program, which provides members a mechanism to deliver advanced technical and product training to all employees versus only those salespeople pursuing certification.

**OVERALL VOLUMES**  
**+11.2 MILLION GALLONS FROM 2017**



Manito Transit acquired the assets of Lobdell Transportation, Inc., a family-owned trucking company based in Lena, Illinois. The acquisition comes with 21 tractor units, 22 fuel tankers, and eight pressure vessels capable of hauling propane and anhydrous ammonia.

# MEMBER BUSINESS AND PARTNERSHIPS

Member Operations offers business consulting tools that help members operate at the highest levels of efficiency and profitability. A major achievement this year was providing expanded director education. Professional development enhances critical thinking, leadership skills, and innovation, which are essential to navigating the fast paced and rapidly changing agricultural environment.

**GSU GROWMARK SYSTEM UNIVERSITY**  
 GROWMARK System University (GSU) was launched, bringing internal and external training opportunities all in one place. GROWMARK has a history of strong, robust training programs for its employees and member cooperative personnel.

Ontario continues to be an important part of the GROWMARK System. Members generated record sales in agronomy and energy and ongoing infrastructure investments enhance capabilities.

Grain is an important component of success to the GROWMARK System. Business Development and Acquisitions was extremely active assisting members and GROWMARK-owned retail.

## SUSTAINABILITY - ENDURE

The GROWMARK System is aligned toward a common objective: The preservation of our agricultural resources. Our endure program is a holistic approach to the practices, programs, and services that can help us reach that goal. As we identify and initiate sustainable practices, we evaluate the potential impact not just on our business, but on the people and markets beyond. All segments of our business - from agronomy to energy to facilities and more - interact and complement each other's role in these efforts. Guided by our past successes, the endure program emphasizes business ethics, environmental stewardship, and investment in our communities. It is our company culture and woven into everything we do.



**Natural Resources Conservation Service (NRCS) Memorandum of Understanding (MOU)** - Sharing an interest in helping our mutual customers operate profitably (consistent with the wise use of soil and water), NRCS and GROWMARK signed a national-level MOU agreement in 2018. As part of the implementation of the national MOU, GROWMARK then signed a state level MOU with Iowa NRCS. Other state-level MOUs are in development, as well.

**4 nutrient stewardship**

**Illinois 4R4U** - Illinois Farm Bureau and GROWMARK continued with the second year of their partnership to investigate and demonstrate in-field practices with 12 projects throughout the state (14 County Farm Bureaus and 11 FS member companies).

**4R Plus** - GROWMARK is one of over 30 partners in Iowa's 4R Plus initiative which provides resources to ag retailers and farmers regarding in-field practices (4Rs) complemented with edge-of-field practices (the "Plus") to achieve the goals in Iowa's Nutrient Reduction Strategy.

W  
A  
R  
E  
P  
R  
E  
P  
A  
R  
E  
D  
F  
O  
R  
T  
H  
E  
F  
U  
T  
U  
R  
E

# GROWMARK

1701 Towanda Avenue, Bloomington, IL 61701  
309-557-6000

[www.growmark.com](http://www.growmark.com)