



NEXT

ANNUAL REPORT

**2016**

**GROWMARK**

# Comments From Our Leadership



*John Reifsteck*

John Reifsteck  
Chairman of the Board  
& President

We are proud to be a customer-focused cooperative that exists to improve member profitability, service, and sustainability.

Nearly 90 years ago, farmers in a rapidly-changing industry joined together to acquire and distribute the products they needed to be more successful.

At that time the energy products used in tractors were formulated for basic fuel needs, and the seed available was vulnerable to pests, disease, and weather. In those early years, farmers depended on the experts at their local cooperative to help them acquire the supplies needed to grow and harvest crops. Together, farmers and their local cooperatives understood that through innovation and investing in what's NEXT, they could all share in the profits of their new business enterprise.

We know profitable operations require so much more today than in the late 1920s. Our partnerships with our members and others have sustained us and produced ongoing, tangible, benefits for our System and our owners.

The GROWMARK System is committed to delivering the highest level of customer experience, from trusted expertise to beneficial infrastructure investments and outstanding service. In today's Wall Street shareholder driven environment, our focus on improving the profitability of our customers is rare. We don't just give lip service to the term customer service, or improving the bottom line of our members; it is our mission. And System employees reinforce this every day.

As we look back on 2016, we note the challenging cycle of our industry, and the economic, regulatory, and environmental pressures. Yet we remain very optimistic in the long-term outlook for food demand and production. Everything we do - our mission - is designed to improve our members' long-term profitability. Our System strategies combined with our cooperative structure, position us well to excel at what's NEXT.



*Jim Spradlin*

Jim Spradlin  
Chief Executive Officer

# Table of Contents

Leadership .....	1
Board of Directors .....	3
Year in Review .....	6
Agronomy.....	7
Energy and Logistics .....	10
Grain.....	11
Retail and Partnerships .....	14
Financials .....	15
Measuring Real Growth .....	18
Sustainability .....	19
Amplify .....	22

# Board of Directors



**John Reifsteck - Chairman of the Board and President**

John Reifsteck became Chairman of the Board and President of GROWMARK, Inc. in August 2013. He operates a grain farm in western Champaign County, Illinois. John is a graduate of the University of Illinois at Urbana-Champaign where he received a bachelor of science degree in agriculture economics and education.

John has served on the GROWMARK Board since 1993, holding leadership roles including Vice Chairman of the Board and Chairman of the Budget/Audit Committee. Throughout his career, John has served on the boards of numerous agricultural organizations. He is past president of the Illini FS Board of Directors and the Champaign County Farm Bureau, and is a current participant in the University of Illinois Chinese Leadership Program. John has been honored as Director of the Year by the National Council of Farmer Cooperatives, Master Farmer by Prairie Farmer magazine, and Farm Leader of the Year by the Champaign-Urbana News-Gazette.

John and his wife Nancy have two grown sons.



**Rick Nelson - Vice Chairman of the Board**

Rick Nelson of Paxton, Illinois has served on the GROWMARK Board since 1990. He was elected Vice Chairman in 2004. He and his wife Pat operate a 2100-acre cash grain farm. He is Treasurer of the Heritage FS Board and is also president of the Ludlow Cooperative Elevator Board.



**Chet Esther - Vice Chairman of the Board**

Chet Esther of Frederick, Illinois, has served on the GROWMARK Board since 1994. He and his wife Lori, along with their two sons, operate a 4700-acre grain farm. He currently serves as Vice President of the Board of Prairieland FS.



**Bob Phelps - Secretary of the Board**

Bob Phelps of Rockton, Illinois, has served on the GROWMARK Board since 1997. He was elected secretary in 2013. He and his wife Amy operate a 2000-acre family farm partnership.



**Kim Fysh**

Kim Fysh was elected to the GROWMARK Board in 2011. He has been a member of AGRIS Co-operative in Chatham, Ontario, since 1995, and served as the co-op's Board President from 1996 to 2006. Kim and his wife Merry, along with Kim's brother, operate an 1100-acre cash crop and vegetable farm outside Thamseville.



**Matt Heitz**

Matt Heitz of Farley, Iowa, was elected to the GROWMARK Board in 2004. He has been a member of the Three Rivers FS Board of Directors since 1985, and currently serves as Board President. Matt and his wife Marna farm 300 acres.



**Kevin Herink**

Kevin Herink and his wife Tammy operate a 1500-acre family farm in Clutier, Iowa. They also market 5000 head of hogs annually, and keep a small herd of Gelbvieh cows. He was elected to the Board in 2010.



**Warren Jibb**

Warren Jibb joined the GROWMARK Board in 2013. He operates a 750-acre dairy and crop farm with his brother and family members near Sunderland, Ontario. Warren is president of Sunderland Co-operative.



**Kevin Malchine**

Kevin Malchine operates a 2100-acre farm near Waterford, Wisconsin, in partnership with his brother and nephew. Kevin and his wife Kelly have three daughters. He was elected to the GROWMARK Board in 2012 and serves on the board of Conserv FS.



**Jack McCormick**

Jack McCormick of Ellis Grove, Illinois, was elected to the GROWMARK Board in 2011. He has served on the board of Gateway FS since 2006. Jack and his wife Stacy operate a grain and livestock farm in partnership with Stacy's parents.



### **Dennis Neuhaus**

Dennis Neuhaus farms near Hoyleton, Illinois, on a fifth generation family farm that includes dairy and beef cattle, and 1300 acres of row crops. He and his wife, Pam, have three daughters. Dennis was elected to the GROWMARK Board in 2012, and is Vice President of the Gateway FS Board of Directors.



### **Ron Pierson**

Ron Pierson and his wife Cari operate a 1500-acre grain and cattle farm near Walnut, Illinois. Ron was elected to the GROWMARK Board in 2013, and serves as president of Ag View FS.



### **Allen Tanner**

Allen Tanner of Creston, Iowa, joined the GROWMARK Board in 2004. He has served on the board of New Century FS and its predecessor companies since 1989. Allen and his wife Candi farm 2000 acres and manage a cow-calf operation.



### **Brad Temple**

Brad Temple of Serena, Illinois, was named the At-Large director representing Farm Bureau on the GROWMARK Board in 2015. He raises corn, soybeans, seed corn, oats, hay, sheep, and cattle in LaSalle County.



### **David Uhlman**

David Uhlman farms near Tremont, Illinois, with his brother and son. They raise row crops, canning pumpkins and have a cow-calf herd. David and his wife Joan have three children. David was elected to the GROWMARK Board in 2012, and serves on the Ag-Land FS Board of Directors.



### **David Watt**

David Watt of Murrayville, Illinois, has served on the GROWMARK Board since 2002. He and his family farm 1200 acres. He also has a grain hauling operation. David is a director on the board of Prairieland FS.



# Year in Review



Sales for the fiscal year are \$7.0 billion, and audited pretax income is \$116 million.

Collective efforts resulted in patronage refunds of \$62 million, distributed in a combination of cash and stock, followed by stock redemption. The effective cash ratio of the combined cash patronage and stock redemption is 99 percent. Among our cooperative competition, GROWMARK is the leader in delivering cash returns to its members and maintaining our outstanding stock equity in current status.

Over the past 10 years, GROWMARK has distributed slightly more than \$1 billion in patronage earnings (cash plus stock) to members. In the same 10-year period, GROWMARK distributed \$867 million in cash to members in the form of cash patronage and stock redemption.

Lower commodity and grain prices put significant pressure on net farm income, and declining crop nutrient values impacted overall income, yet GROWMARK reported a respectable year. Strong operating results were recorded in Energy, Seed, and Crop Protection. And we made key investments in technology and operating infrastructure.

A strong balance sheet remains one of GROWMARK's greatest assets. Our ability to withstand stress and volatility is due to high liquidity, which further allows us to take advantage of downturn acquisition opportunities to further grow the business.

As we move into the next cycle of our business and operational year, we remain driven – to inspire the members of the GROWMARK System, to develop new leaders, and implement new ideas to support the long-term profitability of our member owners.

# Agronomy

**The Seed Division's** core mission for the year was to continue to support member cooperatives with marketing, sales, and technical leadership by leveraging our industry-leading seed and seed care products, winning marketing programs, and highly skilled professionals. Soybean sales were up four percent, while corn sales were down three percent.

**Crop Protection Division** sales were down slightly from last year, yet still represented the third best volume in GROWMARK crop protection history. Continued focus around key division initiatives, such as weed management systems that include the continued use of soybean residuals, managing or mitigating herbicide resistant weeds, product stewardship, continued focus around nutrient enhancement products, expanding proprietary products, and optimizing yield while maintaining a focus on ROI, contributed to the strong results in 2016.

**The Crop Nutrients Division** sales volume mirrored 2015's record year and were the second best in company history.

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GROWMARK was the first agricultural cooperative system and complete farm supply and service organization to earn the "Ag Data Transparent" seal. This accreditation recognizes GROWMARK for its transparency working with farmers and the standards of privacy and security of data. The GROWMARK System's MiField Applied Research initiative and FS AIS (Advanced Information Services) enterprise decision tool aid in the collection of field data that is then used to show successful management trends and assist with the development of agronomic recommendations.









**FAST STOP**

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# Energy and Logistics

The Energy Division's volumes of gasoline, distillates, and propane were the second highest ever, led by sales of GROWMARK's high-performance proprietary diesel fuel, which were up 12 percent. Ownership of four petroleum terminals located near Fort Dodge, Iowa; Petersburg, Illinois; Ashkum, Illinois; and St. Joseph, Missouri, provide enhanced supply opportunities to our members and retail divisions as well as sales opportunities with non-members. Propane volumes were down due to limited grain drying opportunities and warmer winter temperatures; however, the GROWMARK System still ranks as the fourth largest propane marketer in the United States.

## Logistics and Facility Planning

GROWMARK continues to have strong relationships supporting customers in the sale and construction of farm grain systems. Despite the softening farm systems sales, strong business-to-business commercial sales helped Facility Planning generate \$24 million in sales.

Manito Transit was recognized by the United States Environmental Protection Agency as a registered SmartWay transport partner. Its use of EPA tools benefits the environment by reducing emissions and maximizing fuel efficiency.



# Grain

## **Retail Grain Partnerships**

GROWMARK is involved in four Retail Grain partnerships – three in Illinois and one in the province of Ontario. Together they operate 85 locations, control 125 million bushels of storage, and handle 225 million bushels. Retail Grain partnerships recorded record volume growth.

## **MID-CO COMMODITIES**

MID-CO COMMODITIES declared \$350,000 of all cash patronage. This is the thirtieth consecutive year MID-CO COMMODITIES has paid patronage.

## **AgriVisor**

AgriVisor offers grain marketing recommendations, and innovative contract solutions designed to help producers maximize the value of their grain. The cornerstone of AgriVisor is the Insight Program. Insight is a managed pricing program that gives producers the ability to have industry professionals market a portion of their crop. A record number of bushels were enrolled this year, helping AgriVisor remain profitable.







# Retail and Partnerships

Market fundamentals and weather presented GROWMARK Retail with a unique set of challenges. Limited grain drying opportunities, and warm weather throughout the late fall and winter reduced propane heating demand dramatically. Refined fuel volume was up slightly in gasoline, while distillate volumes were down slightly. Agronomy units reported volume increases across the board. Declining energy and fertilizer prices resulted in pressure on margins.

Retail units and partnerships took advantage of downturn acquisition opportunities to further grow and enhance the business.

SEEDWAY, which reported a 26 percent increase in vegetable seed sales, acquired the assets of the Merritt Seed Company.

Insight FS acquired Waupun Feed and Seed, an agronomy, seed, grain, and feed company based in Waupun, Wisconsin.

Sunrise Ag Service Company merged into GROWMARK to become Sunrise FS, a retail division.

FS Agri-Finance recorded a record \$780 million of approved loans in 2016.



# Financial Summary

Five-Year Comparison (\$ in thousands)	2016	2015	2014	2013	2012
Net Sales	\$ 7,031,159	\$ 8,727,163	\$ 10,372,292	\$ 10,171,211	\$ 10,057,429
Net Income Attributable to GROWMARK	\$ 97,353	\$ 102,359	\$ 164,246	\$ 185,967	\$ 243,519
Patronage - Cash	\$ 38,480	\$ 44,882	\$ 60,197	\$ 73,449	\$ 62,037
- Stock	\$ 23,571	\$ 31,832	\$ 51,464	\$ 71,886	\$ 96,145
Total Patronage Refunds	\$ 62,051	\$ 76,714	\$ 111,661	\$ 145,335	\$ 158,182
Working Capital	\$ 818,434	\$ 960,075	\$ 837,611	\$ 750,059	\$ 711,524
Ownership in cooperatives & others	\$ 199,976	\$ 127,562			
Property, plant & equipment - net	\$ 422,828	\$ 405,718			
Total Assets	\$ 2,245,853	\$ 2,313,439	\$ 2,459,226	\$ 2,365,821	\$ 2,762,630
Long-Term Debt	\$ 241,339	\$ 262,050	\$ 264,508	\$ 268,436	\$ 291,389
Capital Stock	\$ 319,866	\$ 388,004	\$ 393,025	\$ 396,798	\$ 411,597
Retained Earnings and Other Comprehensive Income	\$ 701,779	\$ 702,140	\$ 724,690	\$ 692,614	\$ 579,081
Non-GROWMARK Ownership in Subsidiaries *	\$ 82,988	\$ 91,847	\$ 87,037	\$ 86,907	\$ 82,876
Total Shareholders' Equity	\$ 1,104,633	\$ 1,181,991	\$ 1,204,752	\$ 1,176,319	\$ 1,073,554

\* Reflects the adoption of ASC 810 (formerly FAS 160) which requires the reporting of minority interests in consolidated subsidiaries in Shareholders' Equity.





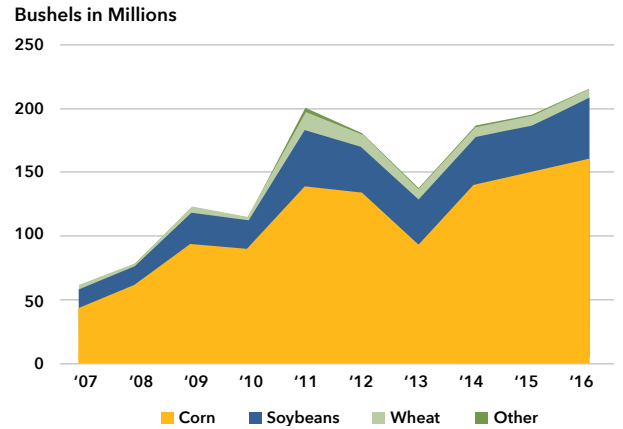
THOMAS A. EDISON  
1847-1931  
EDISON'S FIRST LABORATORY  
AT THE UNIVERSITY OF MICHIGAN  
1929-1931



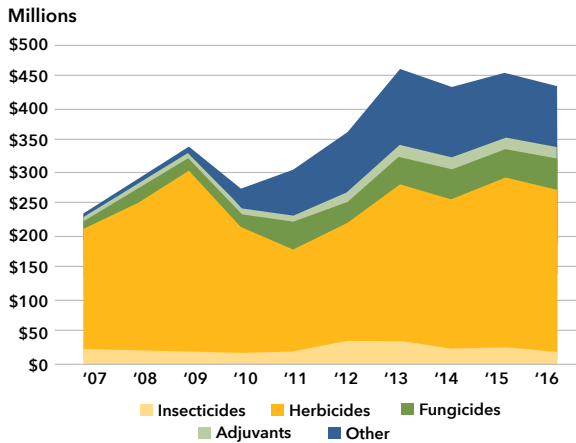
# Measuring Real Growth

One of the metrics GROWMARK utilizes to evaluate real business growth is by unit sales volume. Unit volumes generally provide a more realistic look at organization growth by comparing changes in year-to-year sales quantities. Sales dollars are not typically a measure of organizational growth due to the great variability of uncontrollable commodity prices. The charts below provide a ten-year comparison of wholesale and retail unit sales volumes from key business drivers as GROWMARK continues to build for the future.

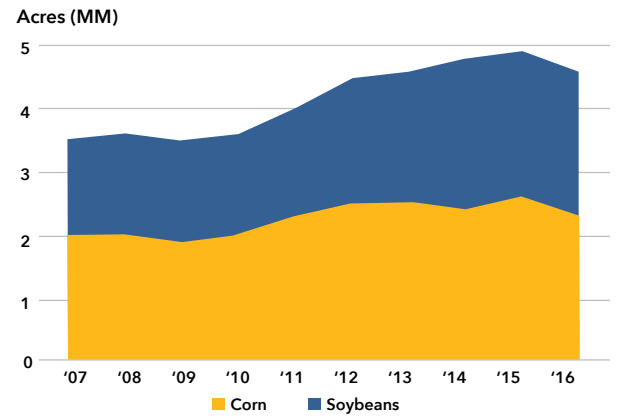
## Retail Grain Units



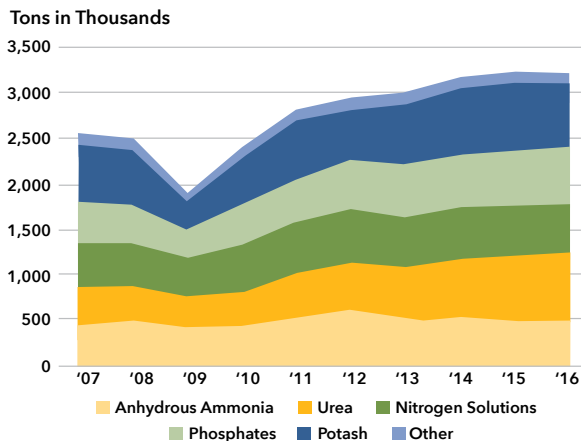
## Crop Protection Division



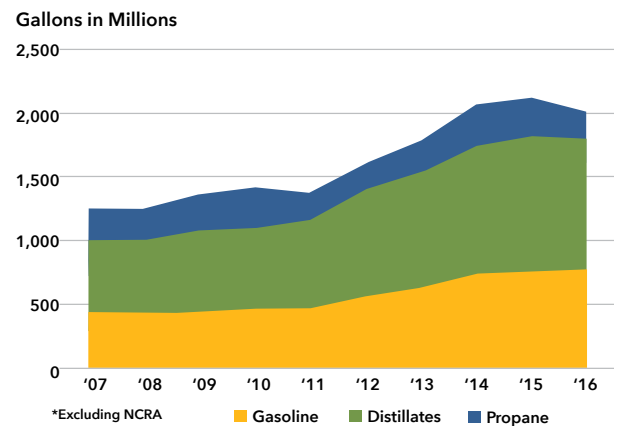
## Seed Division



## Crop Nutrients Division



## Energy Division



# Sustainability

In 2016, GROWMARK launched a System sustainability initiative called endure that focuses on social, environmental, and sustainable agriculture practices and programs. The GROWMARK System has put a top priority on being good stewards of resources and the environment for many years and this ongoing initiative helps enhance those efforts.

The inaugural Endure 4R Advocate Awards recognized five GROWMARK System crop specialists who excel in working with farmers on implementing the 4R approach to nutrient stewardship. The crop specialists were recognized for their work with farmers in using the 4R (right source, right rate, right time, right place) approach to nutrient stewardship, assisting growers with fertilizer management, implementing a nitrogen monitoring program like N-WATCH, and more. The 2016 Endure 4R Advocate award winners were: Logan Haake (Legacy Farmers Cooperative), Rick Klevze (GROWMARK FS), Malcolm Stambaugh (Ag View FS), Jason Wesslund (Heritage FS), and Chris Snip (AGRIS Co-operative).

GROWMARK also launched a System-wide pollinator program. By donating seed to member cooperatives, employees, and 4-H clubs, pollinator habitats were created across the country providing species like honey bees environments to thrive. Pollinators play an important role helping agriculture produce a safe, abundant, affordable food supply.

GROWMARK also certified more than 400 FS applicators, and 16 System Crop Advisers were some of the first to earn distinctive Nutrient Management Specialist (NMS) certification from the Certified Crop Adviser program. These distinctive accreditations recognize System employees and further equip them to best serve customers, while managing nutrients sustainably.

\*A complete list of endure activities can be found in the 2016 endure report.





endure

A GROWMARK System Sustainability Initiative



**Amplify**  
MANY VOICES. ONE MISSION.



# Amplify

GROWMARK has been studying the concepts of inclusion and diversity within the System over the last few years. A task force was recently formed to lead implementation of the concepts for GROWMARK. The first order of business for the task force was to define what diversity and inclusion mean to GROWMARK.

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**Diversity** - All the ways we are different, seen and unseen, small and large

**Inclusion** - Fostering a culture of unity through respect and appreciation of individual perspectives

**Diversity and Inclusion** - Unlocking the long-term value of diversity through a culture of inclusion that appreciates employees' unique contributions

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The task force considered how D&I issues impact the System. That investigation found that in order to meet staffing needs in the future, ag employers will need to hire outside of traditional ag majors. The USDA estimates a shortage of graduates in ag fields in the coming years.

Additional studies on the topics of diversity and inclusion show that diversity of thought leads to improved company performance, and embracing diverse perspectives within the organization promotes better-informed decisions. An inclusive culture also enhances employee engagement. Further, when employees feel comfortable expressing their ideas and opinions, they are more likely to be fully engaged, according to the studies.

Considering all these benefits, the task force developed a vision statement for GROWMARK to be a recognized leader in diversity and inclusion in North American agriculture. The Amplify initiative is a mechanism developed to achieve that vision.

Amplify is a collection of programs, policies, and behaviors which tackles inclusion. As the task force evaluates how to best recruit, hire, and retain candidates with diverse backgrounds, perspectives, and skills, Amplify will ensure we promote inclusive behaviors at all levels of the organization so communication is openly flowing from all directions. Amplify will continue to roll out new programs throughout 2017.



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