

Ag Biz Briefs

Summer 2020



IAS
Innovative Ag Services®
Growing Relationships to Maximize Success!®

Summer Update

Rick Vaughan, CEO

Greetings everyone.

The summer milestone of July 4th is here as I write this edition of Ag Biz. We sure have a great looking crop at this stage of the growing season. We are fortunate the June 29th USDA crop report provided some upward market volatility for our crop producers. Once again, someone's weather somewhere is affecting our thought processes as to where this market is going. By the time you receive this article, the weather market could be over for the 2020 growing season. If so, hopefully you were able to use the tools available to price some of your hard work at a fair price. If not, then please remember the tools available for you to capture market opportunities.

Covid-19 has brought far reaching ramifications for all our society and economy. Innovative Ag Services has been affected in a multitude of ways. Our employees have been fortunate and have not experienced many incidences of positive tests. We have had a few close calls but have not had any major challenges at any locations. Our employees' due diligence and our customers help are big contributors to that success. The further reaching challenges are varied across our business units. The ultimate impact to food demand will affect all our business units. Covid-19 did not create the oversupply of certain commodities, but it sure magnified the problem by interrupting demand. Our ethanol and grain businesses have been most impacted since the outbreak. The halt to driving demand nationally was immediately felt. Since the outbreak, demand is bouncing back but the damage was done and a recovery strong enough to mitigate the lost demand will not happen. Our feed business has not felt the total impact yet but will going forward as the industry works to dial back supply. The more serious impact to our feed business will be the reduction and loss of independent feeders, especially in the swine area of our business. The swine industry continues to consolidate and a downturn like this one only exacerbates the trend.

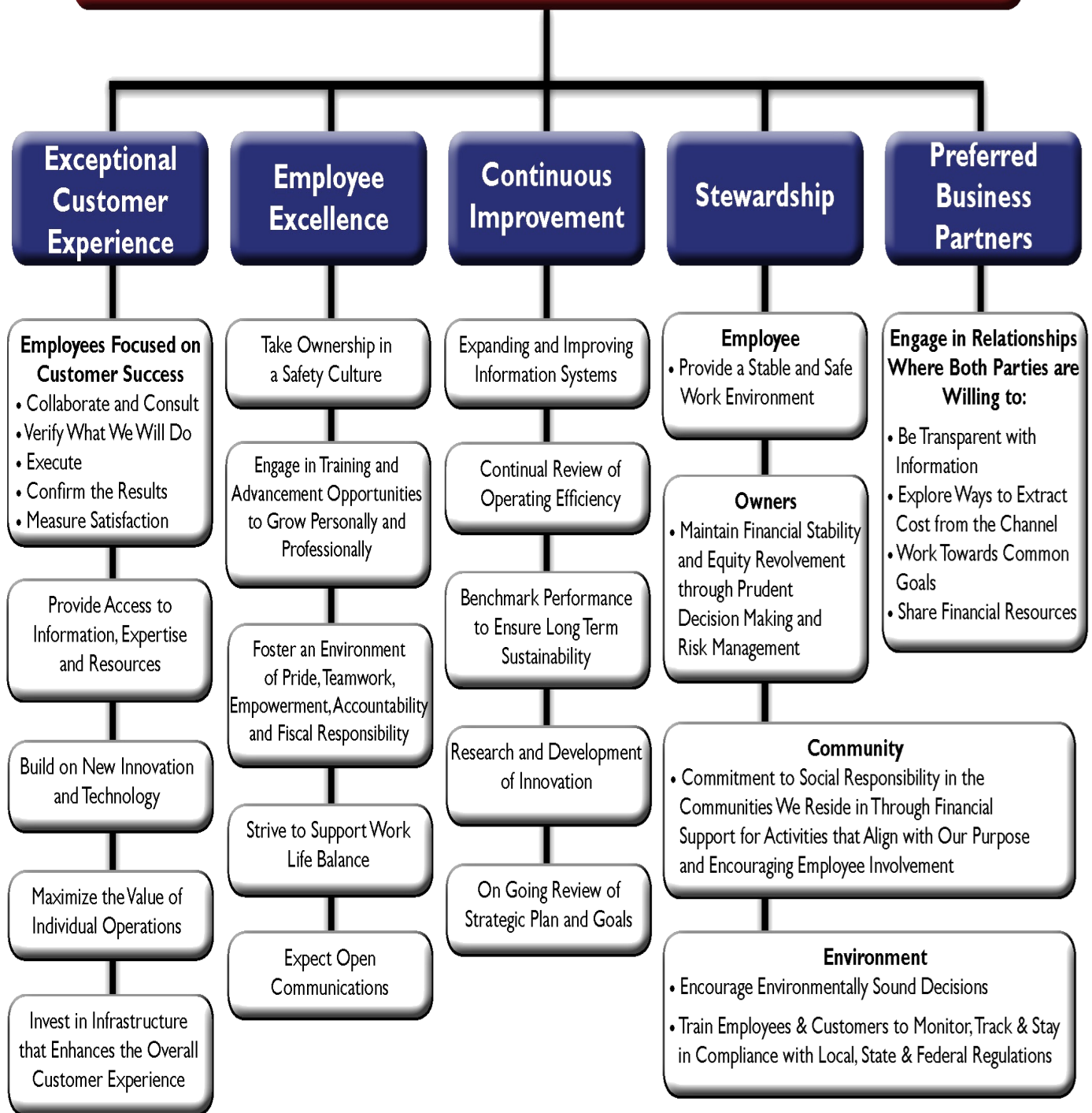
Our other business units are then affected as the diversified customers narrow up their focus and concentrate their efforts in fewer areas. We will be discussing the total impact for many months as the uncertainty becomes clearer and people adjust where they can and must.

The board election process is several months away yet, but I would like to inform you of this year's details. There will be three board elections this fall. President Randy Blake from the Andrew area, Vice Chairman Paul Cook from the Hubbard area and Stan Norman from the Union area are up for election. The nominating committee members are Secretary Loren Manternach from Cascade, Executive Council Member Steve Perry from New Providence and Joe Thraenert from Elma. We will complete the slate of candidates by late October and keep you informed along the way. If you have interest and/or have questions you are welcome to call President Randy Blake, any of the of the IAS nominating committee members, all 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.

Our fiscal year end is fast approaching. We are working on next year's budgets, capital spending priorities and equity redemption projections. This fiscal year will produce positive financial results and reflect the headwinds all of agriculture has faced with the Covid-19 challenges. I do look forward to an earlier harvest, dryer harvest and improved crop quality. We are beginning work on next year's crop and we appreciate the opportunity.

Thank you for your business. The challenges of the Covid-19 event bring out the strong values of rural America and the benefits of working together. We look forward to our partnership with each of you and the opportunities that are provided every day. Have a safe and healthy balance of the summer.

Growing Relationships to Maximize Success!



MISSION

Servicing Our Customer

Brian Kramer, VP of Operations

Servicing our customer in 2020 has had some twists from the norm! With the onset of Covid-19 we implemented some modified store entries and limited access within our locations to do our part to protect both the customer and our employee base. Our intent was to entirely service our customer but just doing it in a little different way. Thank you to all our patrons for your understanding thru these unprecedented times. With the recent spike of Covid cases, your cooperative continues to practice sanitizing shared employee traffic areas, social distancing, and use of face masks when social distancing needs to be compromised. Our goal has been, and will remain, to keep our employee group healthy and able to service your needs.

The crops in our service area are off to a great start and would indicate potentially good yields this fall. Your cooperative will be working hard in preparing to service your harvest bushels but could use your input. Sharing your bushel projections on both corn and soybeans that you anticipate coming into our elevators helps us determine both space and logistics needed to best serve you this fall. Whether it's previously contracted, going into grain bank, or simply going into one of the storage options we offer, knowing what your expectations are ahead of time will help us to provide you the service you expect. We realize the final yield is not yet known but an estimate would be very helpful; you are not obligated by sharing a projected number. Please contact your location or discuss with them when you are contacted.

Some capital improvement projects are wrapping up or are underway to yet be completed before this coming fall season:

- In Hubbard, the grain bin project is nearly all complete. A 342,000-bushel grain bin was erected at the site to store soybeans and replaces a concrete workhouse and annex silos that were no longer able to be cost effectively repaired as mentioned in my previous article.
- Work will begin in July with the Garden City concrete workhouse with some updated receiving improvements and automation. These updates should improve some receiving bottlenecks experienced in recent years.
- In Farley, work will also begin in July in replacing both the Ranco blending system in the dry fertilizer plant along with the load out bucket elevator that feeds the overhead load outs. The existing equipment was worn beyond repair and becoming unreliable. The new system will have increased capacity and be automated as well.

Servicing our customers has always been, and will remain, one of the most important things we do as an organization and is one of the foundations of our purpose statement "Growing Relationships to Maximize Success".

Please be safe as we head thru the rest of the summer!

IAS Customer Appreciation Events

IAS looks forward to showing our appreciation to our customers every summer by holding bi-annual customer appreciation events. This year will be different, due to the effects and concerns of Covid-19. We've chosen to be pro-active to limit exposure to our customers and their family members.

Our customer appreciation events that were scheduled for this August will be postponed until August of 2021. Likewise, our events that were scheduled to be held in 2021 (those locations that were held in August 2019), will be pushed back to August of 2022.

If there are questions or concerns, please reach out to your local IAS Location Manager. Thank you for your understanding and we look forward to seeing everyone at our future events.

Energy Update

Randy Swenson, VP of Energy

Hello from your man with gas!

As of this writing, crude oil has closed above \$40 after the U.S. employment report for June showed the economy added 4.8 million jobs and unemployment rate fell to 11.1%. The next few weeks will prove to be pivotal for the markets to sustain this sentiment, as there are emerging signs that the U.S. consumer is pulling back on spending, driving and going back to work. Traffic activity is taking a hit across new COVID-19 hotspots, with downtrend emerging in Texas, Florida and California. All three states are major centers for U.S. gasoline consumption. Can crude oil prices continue with their upward recovery or will we see another pullback? Will the typical price war carry on with the OPEC nations? Saudi Arabia has threatened to ignite an oil-price war unless fellow OPEC members make up for their failure to abide by the cartel's recent production cuts. Saudi Energy Minister has issued the ultimatum in recent weeks as he asked Angola and Nigeria to submit detailed pledges to carry extra oil-production curbs. Time will tell what all this means to consumer fuel prices.

U.S. propane demand is down since March, but you would expect that to be the case due to the seasonal nature of propane demand. Therefore, it is hard to really measure how much COVID-19 has impacted propane demand. The best comparison we can make is to look at domestic demand from March 1 through June last year and compare to this year. U.S. domestic demand is up 168,000 bpd year-over-year during that time frame. This certainly supports the case that COVID-19 is having greater negative impacts on U.S. propane supply than propane demand. Inventories are relatively steady on a five-year average, so supply doesn't seem as though it will be a problem at this time, although it all depends on refineries desire to continue fractionating to make an assessment for this upcoming season.

Propane summer fill has begun, so expect your tanks to be filled this summer. Next season's propane contracts will be sent out this month and prices will be cheaper than this past year.

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

WHAT TO DO IF YOU SMELL PROPANE:

If you think you smell propane in your home, camper, RV or in any other area, or if an alarm signals the presence of propane, you should IMMEDIATELY follow these suggestions:

- Extinguish all smoking materials and any other open flames or sources of ignition. Everyone should vacate the building, vehicle or area.
- Move away without using any electric switches, appliances, thermostats, or telephones.
- Close the propane supply shutoff valve on the propane tank or cylinder.
- Call your propane supplier and/or your local fire department from a cellular telephone or a neighbor's telephone.
- Even if you do not continue to smell propane, do not open or turn on the propane supply valve. Do not re-enter the building, vehicle or area. Let a qualified propane service technician and/or emergency personnel check for escaped propane. **Please call 800-944-6865 for an emergency.**
- Have a properly trained propane service technician repair the leak. The propane service technician or emergency responder needs to determine that the leak situation has been fully resolved. The propane service technician should check all your propane appliances and re-light any appliance pilot lights.

Return to the building, camper, RV or area only when the service or emergency technician indicates it is safe to do so.

Grain Update

Robin Sampson, VP of Grain

We may not have been able to see many fireworks over the 4th of July this year, but we had our own set of fireworks with the June 30th crop report. Though we were blessed with an early planting season, it sure seemed that the 97 million corn acres reported by the USDA in March was going to be a long shot given the ability for the Dakotas to finish harvest and plant this spring, along with some rotation changes as the corn/bean price ratio favored beans as we started planting season. Not only did the June report show a reduction in acres, but a 5-million-acre reduction from the March report to 92 million corn acres. Soybean acres came in at 83.825 million acres, just up slightly from the March USDA number of 83.5 million acres.

The result of corn acre reduction, combined with a fund short in corn futures of about 250,000 contracts, and talk of hot weather, created some needed fireworks in the grain markets. In the past week, corn rallied over \$.30/bushel in the nearby September contract and \$.25-\$.30/bushel in new crop contracts. Soybeans rallied between \$.30-\$.40/bushel as well. What an opportunity to sell grain that still may be in storage on the farm and start executing fall marketing strategies! Volatility (fireworks) can be short lived in the futures market, so customers should consider having offers in the market just in case what was a sparkly firework turns into a big dud. I'll stop now on the fireworks comparison.

Getting back to the June crop report, the stocks side of the balance sheet reported corn stocks higher than the range of estimates at 5.224 million bushels.

Soybean stocks were at 1.386 million bushels, which was slightly less than the average estimate. Iowa showed some increased corn stocks relative to last year. Though the markets today are better than a week ago, there are still bushels in the country that will be sold prior to harvest. We are encouraging our customers not to wait until the end of the summer to sell grain. Current corn carry-out, even with all the problems we had with weather and yield on the 2019-2020 crop, is still projected at over two billion bushels. That number could increase or be reduced as we go through the summer depending on the demand picture with ethanol, feed and exports. The wild cards are the COVID19 effects on travel and meat production, and US relationships with other countries, especially China. No one knows. Lots of uncertainty.

Soybeans 2019-20 carry-out is projected at 585 million bushels. The only (but extremely important) news to continue to watch is China's intent on fulfilling their Phase 1 trade obligation, which should result in some additional export sales during the September through January time period and could be positive to soybean prices.

It's been quite a challenging year for all facets of agriculture. Economic challenges along with industry consolidation, government programs and generational transitions has us constantly looking at our processes for better and more efficient ways to service our customers at the location level. We appreciate your business and wish you a safe and successful harvest.



Agronomy Update

Tim Krausman, VP of Agronomy

I hope this article finds you all well, and you are enjoying your summer. As we will be dreaming about the heat and humidity this winter when it is below zero, we are enjoying watching the corn tassels pop in this crop. Making a general statement, our corn crop looks excellent. As of now we are in the garden spot of the United States. It is way too early to tell, and honestly, I am a horrible judge of soybean yields by looking at them this time of year, but it appears we are in for a variable yield environment. In general, we got the soybean crop in early, and in good conditions. Since then we have experienced cold and wet weather, and finally, challenging environments for controlling weeds. These things will be a driver for the variable yields we see this fall.

2020 continues to be a year that I personally look forward to putting in the rearview mirror and finding better days ahead. Most of you are very aware of the challenge we have had with dicamba applications in soybeans. We started the planning season with a label that went all the way through planting season. We were in the process of starting our post season when the 9th district court in California ruled that it was illegal to use those products on soybeans. Therefore, after a couple of days of uncertainty, the EPA said that it was ok to

spray with current inventories. After we received the green light there were very few opportunities to make the application due to restrictions of wind, heat, planting date, growth stage, etc. These challenges will force us to spend some time to evaluate the best options to control weeds in soybeans moving forward for the next couple of years. The most notable, tough to control weeds are waterhemp and giant ragweed.

As I look at the fertilizer market, I see some positives too. It appears many of the products took a little, to fairly decent reset in terms of price. This should allow those that have been cutting back on rates the last couple of years to proactively increase their soil levels of fertilizer. It will still be important to make sure we are utilizing the correct rates of fertilizer at the right time to continue down the sustainable path of farming, as well as being the most profitable on the acre possible.

I would like to finish by saying thank you so much for your business and your patience in working with IAS as we have navigated these past few months through this pandemic. We have learned a lot throughout it all, and we still have much more to learn to ensure the health of everyone.



Feed Business Planning

Mike Duncomb, VP of Feed

A year ago at this time we were talking about large supplies, trade uncertainty, government gridlock, and geopolitical issues. Unfortunately, we are still dealing with these issues in addition to the effects of Covid-19 on demand and supply chain interruption over the past few months. Profitability in the meat, milk, and eggs business has been fleeting at best. As of this writing, we only have two more months in fiscal 2020. It has been a very challenging year in the feed business, but we are still optimistic we will hit our budget numbers. It is very important that we continue evaluating our current situation, and strategic planning has become as important as ever.

Over the next couple of months, the IAS Feed Team will be working through our planning process putting a business plan together for our next fiscal year along with spending some time on a strategic view as we look down the road. We will be working with the sales and consulting team, our feed operations teams, and most importantly, gathering input from our customer base. Our planning will include the following:

- Our Current Situation – Where are we at today? What developments in the last 12 months are

affecting our business and the producer customers we work with every day? We will also spend some time looking at the competitive environment we work with in the livestock and feed business

- Trends – What trends are affecting our business today? What will livestock numbers do in our trade area over the next 12 months? What is going to drive change in our business over the next one to five years?
- Strengths, Weaknesses, Opportunities, and Threats – We will take a good look at ourselves evaluating our key strengths, areas we need to improve, opportunities within our trade area, and threats to our business.
- Strategies and Actions – Finally, we will work to build our strategies and actions to continuously improve our business and meet your expectations.

The IAS Feed Team looks forward to your ideas and input into our planning process. We very much appreciate your business this past fiscal year and look forward to meeting your expectations in fiscal year 2021.



Summer Update

Brenda Hoefler, CFO

As you all know, the last several months have been like no other when it comes to the social, economic, and political landscape. It has impacted all facets of our lives and seems like there are constant changes. We have chosen to focus on what we can control so we can plow forward on our future direction rather than getting mired in all of the challenges presented.

Many of our areas of focus aren't splashy but we are continuously working on many "behind the scenes" areas to add to our technologies and capabilities. These focus areas help our internal operations, our customers, as well as ensuring we have a robust, stable, and secure financial and technology platform to operate from.

COVID-19 took its toll on our business units. The sudden and dramatic impacts were quickly reflected in our ethanol and grain business units. Pine Lake incurred losses due to the tremendous drop in demand for fuel, generating a glut of ethanol on the market. The grain division suffered losses due to basis dropping on our long ownership position, as roughly half of the ethanol industry shutdown. Our agronomy, feed, and energy units also were financially impacted and will continue to feel the impacts as we likely have a long, bumpy, and not so straight road to recovery. Due to the economic uncertainty and significant impact on our business, IAS did apply and receive a low interest loan from the Paycheck Protection Program that was created by the Coronavirus Aid, Relief, and Economic Security Act. The program does allow for potential forgiveness if we use the funds for eligible expenses and meet the targeted number of workers on payroll. We have also felt the toll of COVID-19 through our customers' struggles and have been striving to help them be successful while maintaining our financial security by keeping open and transparent communications.

On a more positive note, we will be launching a new customer app before harvest that will help us

facilitate business with all our customers. The application will have many great features at the time of launch to include grain bids, grain position, grain contracts, grain scale tickets, grain settlements, agronomy, feed, and energy contracts, as well as your detailed account information. One of the highlights of our initial launch is that we will be able to capture your signatures on grain contracts which will help all of us operate more efficiently. Even as we prepare for our initial launch, we are continuing to add more functionality to allow you to transact business with us when it is convenient for you and when market conditions are working in your favor. It will also allow us to provide tailored notifications of current news and market information that could help you manage your operations in real time.

We continue to make improvements in our management information system including the very important areas of security and disaster recovery. These areas must be a nonstop area of focus as attackers continue to use new technologies and capabilities and we need to be diligent in staying a step ahead of them. We do this by identifying areas of vulnerability and adding various layers of protection to prevent unauthorized access to our systems. We've also updated our disaster recovery systems with newer technology that would give us more confidence in our recovery as well as reduce the time of recovery in the event of a natural disaster or a cyber-attack that was able to penetrate our network.

We will be reaching out in the next quarter with instructions on how you can access the app and start utilizing it when it is convenient for you. Please provide your ideas for future enhancements. Thanks for your business and have a safe and healthy summer.

Safety Update

Bill Vetter, Director of Safety and Compliance

With summer comes nice weather and the opportunity to work and enjoy recreational activities outdoors again. Safety must always be a priority and needs to be considered in everything we do. It is considered the “101 Critical Days of Summer” between Memorial Day and Labor Day.

The simplest of tasks around the home/farm: climbing ladders, working on roofs, mowing/weed eating, baling hay, or recreational activities with boats, pools, swimming, fishing, campfires and ATVs/UTVs all come with risks. Age appropriate usage of equipment needs to be considered and ensuring proper supervision with children to protect them from mishaps is paramount.

Remember that most heat-related illnesses can be prevented by taking appropriate precautions. Please take some time to reinforce awareness of heat stress, its causes and symptoms, and steps for the prevention of heat-related illnesses. Let's not forget to protect ourselves from sun exposure by:

- Wearing sunscreen that has high UV protectant, wearing long sleeve shirts and pants along with hats will protect the skin from burns and long-time exposure of skin cancer.
- Avoid overexposure from the sun rays especially between 11 a.m. and 2 p.m., Prevention of heat stress this time of the year is important by drinking plenty of water, taking breaks during rigorous activities, wear lightweight and light-colored clothing, and avoiding alcohol/caffeinated drinks.
- Know the symptoms for heat stress: headache, nausea, dizziness, weakness, irritability, profuse sweating which can all lead to heat exhaustion or heat stroke if you do not react to what your body is telling you.
- Seek medical attention immediately if body temperature is over 103 or fainting/passing out occurs, as heat stroke or exhaustion has

occurred. Move person to shade and have them drink small amounts of water. Whether you're at work, home, or recreational activities please look out for each other and know/look for the symptoms of any heat related illnesses.

Outside eating during the summer will increase the potential for foodborne illnesses as bacteria grows faster in warmer temperatures and higher humidity. On top of that, more people are eating and preparing food outdoors, at picnics and barbecues, where refrigeration and places to wash hands are not readily available. Ensure you have hand sanitizer or cleaning wipes readily available.

If you have a swimming pool or if your child will be near one, it is crucial to put multiple safety measures in place to keep kids safe. Each year, more than 830 children, ages 14 and under, die because of accidental drowning.

Use caution when doing yardwork. Never allow children to ride on lawnmowers or to play near motorized lawn equipment. Children under age 12 should not operate push mowers. In addition to lawnmowers, children should be supervised around, and on an ATV/UTV. ATVs/UTVs are responsible for approximately 74 deaths and 37,000 injuries in the U.S. each year.

Don't forget about our furry friends during the hot summer days as most animals do not have the ability to sweat. Watch for animals bunching together, panting, and drooling as these are all signs of animals overheating. Shade is the simplest and easiest way to alleviate heat stress on animals. Fans and air movement of 4-6 MPH to push stagnant air out from the animals and plenty of fresh cool water for them to drink is a must.

Whether you are working or participating in recreational activities, please look out for each other and prevent any heat related illness. Enjoy your summer and thank you very much for your business.

reminder

IAS Annual Photo Contest

Deadline: August 31st, 2020

Want your photo showcased in our 2021 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.

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 2021 calendar. The photo chosen for the front cover will win a \$100 gift card.

Photo contest forms and requirements 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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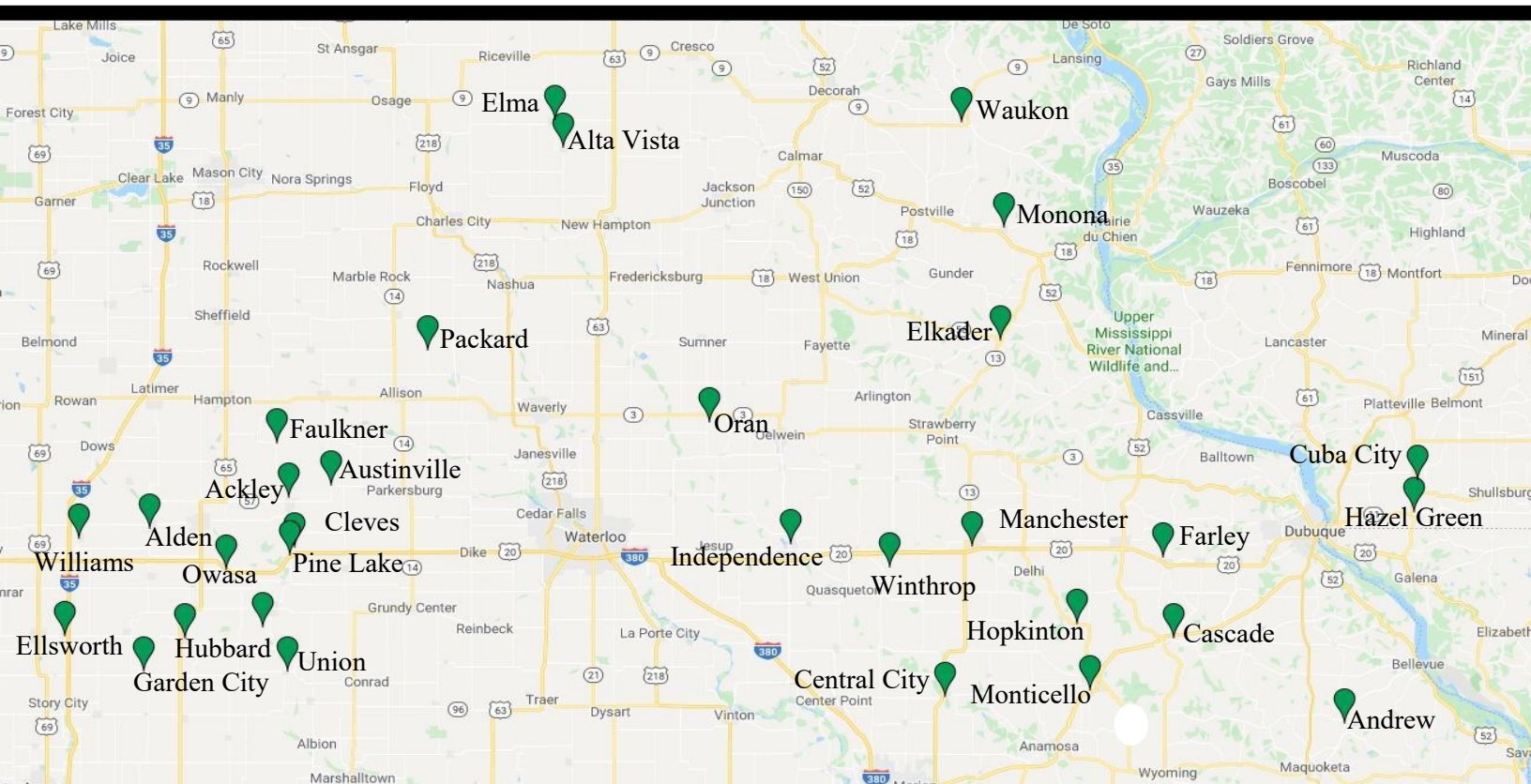
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2010 S. Main St.
Monticello, IA 52310



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