



Provide quality and competitive products and services that create value for our patrons

Winter 2020

WHO'S GOT YOUR BACK



Sean Slowinski, CEO

A tough spring was followed by a brutal fall, and we are still dealing with the fallout. Crops needed drying, when normally they don't. Crops

that often need drying, needed more. Add a propane shortage that shut down everyone, and it was not a fall to be remembered.

What we do need to remember and to celebrate is that things went as well as they did. Yes, we ran out of propane, as did everyone across the Midwest and Great Plains. When we did, we scoured the region for supplies and waited in line for hours to get propane needs met.

Yes, there were times when members had to wait to bring sunflowers in for drying when soybeans were still being dried or when harvest windows opened all too briefly. It was those times when Legacy Cooperative employees worked extra-long hours and kept the doors open to clear the decks and meet the rush.

This fall may not have been pretty or neat, but Legacy Cooperative had your back in every way we could.

We couldn't have done it if the vast majority of our members didn't have our back by supporting expanded storage and upgraded handling in locations that do not have rail access. These were investments that let us adapt on the fly as



harvest needs changed from day to day.

We couldn't have made it through this fall if these same members hadn't had our back when asked to wait before bringing in certain crops or when we couldn't deliver propane as promised because there was none to be delivered.

Your co-op having your back and you having your co-op's back in the tough times is what makes a cooperative work. Co-ops need cooperation between employees and members and between members and employees. It is a two-way street, one that deserves respect, appreciation and cooperation from both lines of traffic.

If this sharing was important this past fall, it continues to be important this winter and into the spring. The pressure is already building with the knowledge that much of the fall harvest was low quality. It will require blending to find a market and return dollars to members.

The pressure is building, thanks to a fall with virtually no fertilizer applications. We are facing more spring application

than ever before.

The pressure is on financially for members as well as for the co-op. Equity & estate payout requests totaled nearly \$1.6 million dollars in 2019, and Legacy Cooperative is committed to revolving those dollars.

We can solve these problems, but we can't without members having our back. We need you to understand if we can't take every bushel when you want to deliver. We will have to do space management, taking what can be blended to produce the best return for all members.

We need you to have our back when we ask you to share your plans and needs for spring fertilizer. We need you to have our back if we can't cover a field the same day you order it, knowing we will be there as quickly as possible.

We need you to recognize that while we can't promise to always be the lowest-cost input provider or the highest market for grain, we have your back in good times and bad. Legacy Cooperative

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strives to be as competitive as possible, knowing full well our business model is not the lowest cost to serve, but one that revolves around providing services in your hometown. We are here for you.

We need you to be here for us as well. Help your fellow members remember the two-way street and the need to cooperate when the stress builds in good times and in difficult times.

We need to remind everyone that their co-op is here to meet all its members' needs, even if an individual's needs can't be met immediately.

We need to remind everyone that our employees are partners in building and maintaining this co-op, not only for today or tomorrow, but for 5, 10, 20 years in the future. Treating them as less than the equal partners they are is unfair to them and to other members who value their role.

The reality is that such treatment is not always the case. The reality is that not every member has our back. This needs to improve if we are to continue building a successful co-op, one that supplies and services member needs, returns patronage and prepares for the

future. This is especially true in difficult times.

At the end of the day, this is your cooperative; you own it! We as employees are here to run it the best way possible. If you like what we are doing, tell us; if you don't like what we are doing, tell us. The best way for Legacy Cooperative to improve is for you to communicate directly with us. To cooperate is what makes a cooperative work. Let's challenge ourselves to do an even better job of cooperating and having each other's back.

VIEW FROM THE BOARD

"We have to keep the big picture in mind when we consider Legacy Cooperative," says Darrell Odegaard. "That's true for those of us on the Board of Directors, but also for our patrons."

He urges members to look beyond personal interests and needs and even the immediate needs of the co-op.

"Everything we do as a business, we have to be thinking 30 to 40 years down the road," says Odegaard. "Decisions made to increase capacity another 30 percent may not be needed now, but if we do x, y and z, we'll need it down the road."

At the same time, he recognizes that the co-op has to work for members at the local, day-to-day level. "We have to take care of our patrons' needs if we are going to survive and earn the equity needed to pay the bills," says Odegaard.

He encourages his fellow members to look at what the co-op board and staff are doing and why, both the long view and close up. He is confident they will approve of what they see. He points to better markets for grain, better prices for inputs and more competitive prices for fertilizer since the merger.

"A big driver behind the merger was getting to the point with the big supply companies where we are able leverage our collective volumes," says Odegaard. "We are realizing that goal and are able

to pass any savings on to the members."

While occasional spot markets can be better, he notes that competitors are complaining about Legacy Cooperative beating them on prices. "It is our size and how our staff has negotiated with suppliers that is making this possible," says Odegaard.

Initially a patron and member of the Cando Farmers Grain and Oil board, he became a member of the Legacy Cooperative Board of Directors after the merger. It was a merger he favored, not only for better prices, but also for service.

"This past spring we saw the benefit of the merger with fertilizer handling," says Odegaard. "Having the big plant at Bisbee with faster loading and blending really helped our Egeland fertilizer plant. It was able to concentrate on loading out member trucks instead of tenders. Bisbee could handle the tender trucks much faster."

Odegaard is confident Legacy Cooperative's size and forward planning will help this coming spring as well. Member support will also be needed, and he hopes it will be there.

"Legacy Cooperative has had to earn patrons support since the merger," he says. "Mergers are hard on members and on employees as we all adjust to the

changes. We are no longer either of the old entities. We are Legacy Cooperative. That is something we constantly have to work on."

Odegaard explains that one place that patron support will be needed is in efforts to be more efficient with equipment and staff. The days of a spreader and tender waiting for work are over, and that may impact members.

"We may call to have a field spread and be told we have to wait because the equipment is elsewhere," says Odegaard. "We need to understand that is efficient use of our assets, and it is meeting the needs of other patrons. We have to step back and not get caught up in our little territory. We're in this together."

He points out that the co-op is doing all it can to prepare for the coming spring with all its unknowns. He encourages his fellow members to do what they can at the local level.

"Let your agronomist know what you'll need as far in advance as you can," he says. "Your cooperative staff will do what they can to make it work for you, but they can't do it alone."

ALL EYES ON SPRING APPLICATION

A frustrating fall with harvest delays left little time to get normal end of season fertilizer applications made. Joe Kremer, Legacy Cooperative Agronomy Manager, estimates that only 1 to 2 percent of the normal fall applications were made.

"There was no fall as far as fertilizer applications are concerned," says Kremer. "That sets the stage for a challenging spring, as all those acres shift to spring application."

The good news is that fertilizer prices have been stable. Kremer encourages Legacy Cooperative members to buy now or book before they start to climb.

"Last spring we saw increases of \$150 per ton in season," says Kremer. "The same thing happened the year before."

Industry predictions are for a similar scenario to 2019's historic high waters on the upper Mississippi. Barge traffic that normally supplied the spring fertilizer push was delayed until June. Normal spot shortages became region wide. Heavy fall rains have once again saturated soils throughout the upper

Mississippi basin. River analysts fear melting snow and spring rains will have nowhere to go but down river.

Kremer says Legacy Cooperative is doing all it can to prepare for a repeat of the 2019 spring. While equipment maintenance is always a major winter emphasis, logistics has taken center stage this year.

In addition to filling all available fertilizer facilities, a train has been booked for early May delivery.

"With our unit train capability, we have off-river options others don't," says Kremer. "Last year the extended high waters were unexpected. This year we are ready, but we need members to tell us what to put in those cars."

Kremer encourages members to do their part to prevent spring panic. "Make clear your intentions, and we can take care of you," he says. "Our agronomists are taking orders and do precision application mapping for variable rate applications. The best way to ensure you'll have the fertilizer you need when

you need it is to prepay or pre-book and do it earlier than you normally would."

That is as true for anhydrous ammonia as it is for urea, adds Kremer.

"We need to know what to have in place," he says. "Our staff is working with members and suppliers every day to ensure we can manage through the coming spring. When they call, understand they are not just trying to sell. They are trying to provide the service you need."

WE'RE READY!

"If anyone in this region is built to handle not having a fall application season, it is Legacy Cooperative," says Joe Kremer, Legacy Cooperative Agronomy Manager. "We are built to deliver."

As proof, Kremer points to the combination of fertilizer plant expansions and upgrades that have taken place in recent years. Add to that the ability to bring in fertilizer by the trainload.

"Our sheds are full, and we have a train slotted for refill in early May," he says.

On the equipment side, Legacy Cooperative has added two more floaters to last year's fleet of nine. They will be ready to go where they are needed.

"If fields are ready for application in one area of our trade territory, but not in another, the equipment and the operators will get there," says Kremer.

Similar flexibility is built into anhydrous planning. "We have 11 anhydrous facilities," says Kremer. "If loads are coming to a plant with low member demand, we'll shift it to another that needs it."

Anhydrous storage is full, but Kremer knows much more will be needed when the rush begins. "We are visiting with as many trucking companies as we can to keep our options open and to access more equipment in the heat of battle," he says. "There may be spot outages due to backups at terminals, but we are doing all we can to ensure they are short lived."

Kremer knows the coming spring will be filled with challenges. However, he is confident the co-op is ready.



Two floaters recently added to the Legacy Cooperative fleet will go where they are needed to meet application demand.

MARKETS ARE ALL ABOUT THE NUMBERS

Numbers are falling, and depending on which numbers, it could be good or bad for Legacy Cooperative members. Reports of fewer acres going into spring wheat this coming year suggest pricing opportunities ahead. However, a billion-bushel carryout in all wheat is restraining markets.

"The November USDA report did cut a fair amount of spring wheat acres out of the balance sheet, but traders are looking at the big picture," says Brooks Larson, Legacy Cooperative Grain Department. "Futures remain pretty low, but the basis has narrowed, sitting at 25 under versus March spring wheat futures. Normally we would be looking at 50 under. This year is an exception."

Larson suggests this could be a good time to write a contract for a fixed basis under March futures. "Given the basis now, you could write a contract for 25 under," says the grain merchandiser. "That allows you to haul the grain now, and still participate in the futures market. With basis locked under March futures you would have until the end of February before you need to lock futures in or roll your basis to the next month, which provides an opportunity to capture a rally during the winter months."

Falling numbers (FN) in grain quality is something that North Dakota wheat producers are all too familiar with this year. FN tests structural integrity of starch chains in wheat.

Normally the test is conducted by the Federal Grain Inspection Service at Devils Lake. Samples are sent there to determine the certified grade. Poor grain quality due to harvest conditions has forced Legacy Cooperative into proactive testing.

"From the beginning of harvest until the third rain delay, quality went from great quality to very poor quality," notes Sean Slowinski, Legacy Cooperative General Manager. "We've rarely used

our falling numbers machine. This year we ran hundreds of samples through the machine before Thanksgiving."

The lower the quality, the lower the baking quality, and the harder it is to find a market. Load a train car with wheat that tests below 300, and it needs to be unloaded, blended with higher quality wheat, reloaded and retested.

"The export market especially doesn't like anything below 300," says Larson. "We've managed to handle the lower quality wheat pretty efficiently so far."

Doing so requires that Legacy Cooperative staff know the quality of grain on hand, as well as the quality of grain coming in. "We take a composite sample of grain coming in and test it ourselves or send it to the Federal Grain Inspection office in Devils Lake," says Larson. "The tests give us a good indication of what we are taking in and allow us to segregate the grain based on

quality."

"It is really important that we know the quality in each of our bins," says Larson. "We want to move out as much low-quality grain as we can while meeting market specifications."

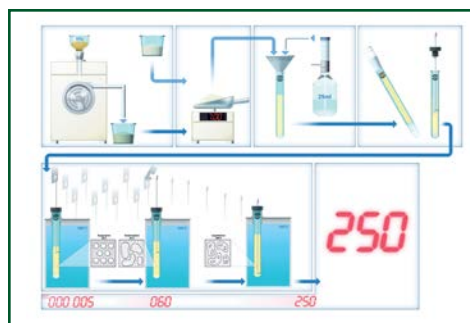
"We will have to continue this space management as we bring in grain stored on-farm," says Slowinski. "There may be times where we won't be able to take every bushel our members want to haul in if we are to blend the grain to market standards that we can sell at a profit."

Slowinski stresses that when Legacy Cooperative makes a profit on marketed grain, those dollars go to members, whether as patronage returned at year end or rewarding members as they retire.

"Legacy Cooperative is the member's company," says Slowinski. "Some members fail to realize that when we talk about the co-op's profits."

WHY FALLING NUMBERS MATTER

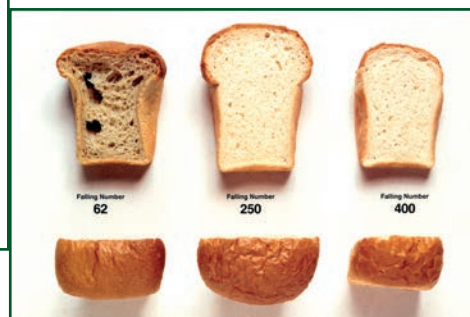
The falling numbers (FN) test consists of 7 grams of ground wheat mixed with water in a test tube and placed in a tank of near boiling water. Once in the boiling water, the starch begins to gelatinize and the slurry becomes more viscous. A plunger in the test tube is raised and lowered for 55 seconds to create a uniform slurry. At that point, the plunger is allowed to fall and the seconds that pass are the sample's FN.



Photos courtesy of PerkinElmer, Inc., maker of the falling numbers device used by Legacy Cooperative.

However, at the high temperature, the alpha-amylase enzyme starts to break down the starch. The more it breaks down, the faster the plunger falls.

Why does it matter? Flour made from low FN has reduced water absorption and mixing strength and produces a sticky dough. This can result in lower loaf volume and poor crust strength, poor crumb texture and loaves that may collapse. Pasta products will have reduced shelf life and be less firm when cooked.



BASE 2020 SEED CHOICES ON PAST RESULTS

The 2019 harvest provided very poor yield data for Legacy Cooperative members to use when making seed choices for 2020. Even decent yields suffer when hit repeatedly with rains and finally hammered by snow. That was as true for Legacy Cooperative plots as it was for members' fields.

As a result, most Legacy Cooperative member seed orders this year are based on what worked in the past. However, Brandt Lemer, Legacy Cooperative Seed Manager, stresses that even a challenging year like this can provide insights.

"InVigor 233P had good standability and yield and remains our most popular number," says Lemer.

When making choices for 2020, how crops looked before fall storms is more valid than what they did after. "It is hard to judge soybeans after they've been through a snowstorm," says Lemer. "We



While 2019 plots provided little data to help with seed selection, Legacy Cooperative members have a wide variety of proven hybrids and varieties to choose from for 2020.

saw many fields with 30 to 40-bushel beans lose 10 bushels and drop into the high 20s after the storm."

If field results were bad, most plot results were even worse. "We didn't even combine our soybeans at the Rolla plots," says Lemer. "The same was true with the corn plots. By Thanksgiving, they were under a 3-ft. snowdrift. They never

hit black layer!"

Those plots that did get harvested had no real standout yields, notes Lemer. "Although the Winfield Answer Plots at Cando were harvested, the top soybean yield of 29 bushels was disappointing," he adds.

Lemer encourages members to try some new varieties in every crop, even if only on limited acres. The key, he adds, is to pick early maturing varieties and hybrids and hope to plant early.

"We have some stacked canola tolerant to both Roundup and Liberty and two new InVigor numbers," he says. "L345P is a hair taller than L233P, but yielded 100 to 200 pounds more. L352 is a lower cost option for those who still like to swath their canola. We also have Extend soybeans and some Enlist hybrids available."

TRADING ON TRADE DEALS

New trade deals with China have been announced, and they appear to include increased purchases of U.S. farm products. At the same time, the revised trade agreement between Canada, Mexico and the U.S. is moving closer to completion.

"We've already seen a pretty good rally with the phase one trade deal announcement," says Brooks Larson, Legacy Cooperative Grain Merchandiser. "Initial announcements from Washington have suggested \$40 billion in purchases by China in year one."

Larson suggests being cautiously optimistic. He notes that industry analysts have pointed out that 2017's \$24 billion in purchases from China was the pre-trade war all-time high.

"So far China hasn't said much, and they appear to still be calculating what they

will buy," says Larson. "The next step will be getting things signed. If we see actual numbers of what they are buying, we could see markets go higher. However, we've been optimistic about a trade deal with China before, and things haven't gone our way."

In the meantime, he suggests not getting too bullish, but be prepared to pull the trigger if or when another rally occurs. Consider selling in increments as the market goes up rather than trying to pick the very top.

Larson urges Legacy Cooperative members to call and discuss marketing plans with one of their merchandisers. "Let us know what you are looking for," he says. "Lots of times, we can work an order or maybe even structure a contract to get you to your price goals."

One reliable tool to consider, he notes, is

a Hedge to Arrive Contract, locking in a futures price now and waiting to lock in basis at a later date.

"By the third week of December, members had the opportunity to lock in a \$9.65 Hedge to Arrive Contract for new crop soybeans using the November soybean futures," says Larson. "Right now the basis is -\$1.30 for contracted bushels next year, but typically there are opportunities to lock in a more profitable basis, pending a successful deal with China of course."

He notes that historically the basis for new crop delivery soybeans reaches its low point in June or July. "By the summer months, we know more about the market and are able to buy trains and start putting sales on for new crop bushels," says Larson.

PROPANE SUPPLIES BACK ON TRACK

WHEN PROPANE RAN OUT!

The propane shortage that shut down crop dryers, both those of members and the co-op, lasted about two weeks. The dryers are running again, and John Lovcik, Legacy Cooperative Energy Division Manager, says the supply has improved.

"We are getting extra loads now, and moving forward, we hope it will continue to improve," he says. "Weather is a big factor. If the temperatures stay above normal, it will help a lot."

Surprisingly, propane prices didn't spike as much as they might have, notes Lovcik. By late November, propane was running around \$1.49.

"Prices moved 30 to 50¢ from our July/August contract period," he says.



The propane shortage is over, and storage is back to normal.

The next step for Lovcik is to try to prevent or at least reduce such a shortage from recurring. Lovcik is exploring options and talking to different suppliers.

"We are talking with them about how we can build allocations for the future," he says. "A longtime supplier pulled out of the market earlier this year, leaving us with new suppliers, but no history of use. We are trying to fix that problem."

Propane wasn't the only energy problem

that occurred this fall. Lovcik reports that keeping tanks stocked with #1 diesel fuel has also been challenging. Only part of that was due to high demand at harvest.

"The CHS refinery at Laurel, Mont. ran into some production problems and had to shut down for a while," says Lovcik. "So far we have been able to keep ahead of the problem and keep members supplied."

Here, too, tight supplies have not resulted in price hikes. "Price has fluctuated some, but there has been no real big jump."

While propane and diesel fuel have been front and center for the Legacy Cooperative Energy Department, work is continuing in other areas as well. Lovcik notes that scanner installations at the Legacy Cooperative Cando C-store are nearly complete.

"The Cando C-Store is the last to get up and running," he says "I'm hoping it is completed by the end of December."

He adds that food sales at Rolla continue to increase since the Hunt Brothers Pizza and other food choices have been introduced there. "People have responded to the promotions we've been running and appreciate the variety of choices now available," says Lovcik.

If you didn't give Legacy Cooperative gift cards to family and friends, Lovcik suggest keeping them in mind for birthdays, other special occasions and simply as thank yous. "They are great gifts, whether for fuel or in-store purchases such as tools," he says.

Weather has taken its toll on Legacy Cooperative members in a number of ways in recent months. Don't let snow and ice take its toll on your vehicles. "If your tread is getting down there, consider getting a new set of tires," says Lovcik. "We have access to a number of different brands, and there are usually rebates available on at least one.

A perfect storm lead to propane shortages this past fall. Delayed planting, combined with not enough heat units across the Midwest, set the stage. Dryers to the south began pulling propane and transport vehicles away while crops that normally never saw a dryer required it. Abnormally long wait times for fills became the norm, resulting in even fewer trucks making deliveries.

"We had wait times of 9 to 12 hours at the plants we normally draw from," says John Lovcik, Legacy Cooperative Energy Division Manager. "Areas to the south that pull from pipelines reported waits of up to 48 hours.

As delays increased, the search for suppliers expanded to Montana and Canada. "We tried to find new supplies wherever we could," says Lovcik.

By late October, supplies were running so low that available propane was restricted to home heating use. On-farm dryers and Legacy Cooperative dryers had to shut down.

"When the shortage hit, it came on fast without the notice we would have liked," he says. "We contacted members and tried to give them one last fill before cutting them off."

Lovcik appreciates that while members initially reacted with frustration, they quickly understood the problem. "It was a regional problem," he says. "It wasn't just us who had to shut down."

HARVEST CHALLENGES CONTINUE

What had to be one of the most challenging harvests on record for Legacy Cooperative members and staff is over, but related challenges remain. Poor quality grain is one issue that won't go away. Luckily, Legacy Cooperative has the facilities and volume to deal with it. With the help of members, even quality issues can be dealt with.

"We need members to work with us on wheat marketing in particular," says Mark Stevens, Legacy Cooperative Operations Manager. "Most have brought in samples to be tested for falling numbers (FN). The results may not be needed immediately, but when they ask if they can haul the grain in, they will be able to say which bin and what its falling numbers were."

Stevens encourages members to label the bin with results of the FN test on wheat in that bin. "It's going to be a challenge, but it will get easier every week and every month that goes by," he says.

The fall was a big challenge for staff as they did their best to help members with the challenges they faced. Certainly getting crops dried was the biggest challenge yet.

"We normally expect to dry few bushels of wheat and soybeans every year" says Stevens. "We pretty much had to dry everything. On top of that, more bushels came in than normal because it was wet and needed to be dried."

He notes that the dryer ran 24 hours a day for three weeks straight during soybean harvest. Instead of the one load of propane Stevens expected to use, he went through eight.

"We had staff putting in 18 to 20 hour days and more," says Stevens. "I don't know if members appreciate that or even know it."

Drying crops was only one facet of employee workload. Staff kept eight semis rolling continuously through harvest, moving grain between Rock Lake, Rolette and Bisbee. Another eight independent haulers were split between Rolla and Cando. All 16 were committed to keeping elevators open and grain moving. The fleet averaged 30,000 bushels moved every day.

"It didn't take long to fill the new 500,000 bushel bins," says Stevens. "We would have run out of room quickly without them. Soybeans soon went on the ground as well. We had over 600,000 bushels of this year's soybeans on the pad that was added in 2018 and nearly 3/4 million bushels of last year's wheat in three piles inside the rail circle."

Once again, train traffic made the difference for Legacy Cooperative and its members. "We had a freight package ordered that allowed us to add extra trains," says Stevens. "We shipped four train loads of wheat out in August, seven more trains through September and October, another in November and three in December and four trains of soybeans during that same period."

Communications with members was one of many challenges this past harvest, notes Stevens.

"We understood that when there was wheat in the field, all the member wanted was to bring it in. They didn't care what the quality was or what we were doing with the dryer," he says. "However, the



Soybeans stored (above) at Bisbee have since been picked up with no spoilage thanks to the member investment in the new concrete pad.

more we talked to people, the better they understood that we couldn't do two things at once with one dryer. Now the pressure is off, and things are better. As long as the trains keep coming, we'll be okay."

MARK STEVENS TO DEPART

Legacy Cooperative Operations Manager Mark Stevens is heading south. Stevens has accepted a position with Heartland Co-Op, which operates more than 70 locations in southern Iowa, including Fairfield, Iowa, where Stevens will be the new location manager.

"My last day at Legacy Cooperative will be January 22," says Stevens. "I will always appreciate how accepted I was by co-workers and patrons alike when I came to Legacy Cooperative. I've seen a lot of progress with added storage and improved handling, and I've enjoyed being a part of it."

"Mark has been an important part of the changes we've made, and we wish him well in his new position," says Sean Slowinski, Legacy Cooperative General Manager. "We will miss his commitment to the co-op and its members. He kept our grain moving!"

BABY, IT'S COLD OUTSIDE!

The one thing someone from North Dakota doesn't have to be told is that it gets cold in the winter. That said, it is as easy to get careless with the cold as it is with any danger we live with day to day.

"Prolonged exposure to freezing or cold temperatures can cause serious health problems," says Val Christensen, Legacy Cooperative Safety Manager. "Watch yourself and those around you for danger signs, including loss of feeling in an extremity and white or pale skin. Uncontrolled shivering, slurred speech, clumsy movements, fatigue and confused behavior are also signs that emergency help is needed."

Christensen reminds staff and members alike that as wind speed increases, the body cools at a faster rate, causing skin temperature to drop. "Working in a 20-mile an hour wind at air temperatures of zero degrees can cause frostbite on exposed skin within 30 minutes," he says.

Common sense safety tips include:

Recognize conditions that may be dangerous.

- Wear clothing appropriate for the weather, including layers that can be adjusted as conditions change.
- Wear loose fitting, lightweight, warm inner layers.
- Wear tightly woven, water repellent and hooded outerwear.
- Wear a hat (40 percent of body

heat is lost through the head).

- Cover your mouth to protect your lungs from extreme cold.
- Take frequent short breaks in a warm shelter.
- Use the buddy system so a co-worker can recognize danger signs.
 - Drink warm sweet beverages and avoid caffeine and alcohol.
 - Eat warm, high-calorie food such as pasta.
 - Remember, you face increased risk if you take medications, are in poor physical shape or suffer from illnesses such as diabetes, hypertension or cardiovascular disease.

"Don't forget to take extra precautions when traveling," says Christensen. "Cars and trucks don't stay warm for long when the engine stops. Dress for the weather outside the car, not inside the car."



Legacy Cooperative employees have to deal with harsh conditions while loading trains and carrying out other cold weather tasks.