



MIDWEST ELDERBERRY COOPERATIVE

Saturday, February 16, 2019
Christopher J. Patton, President
Midwest Elderberry Cooperative
3520 East 33rd Street
Minneapolis, MN 55406

February 22, 2019 Members Meeting

Summary of Meeting

[Eight members attended plus an equal number of guest observers. Other members received copies of the agenda in advance of the meeting with the encouragement to vote via email.]

All member votes cast were in favor of both resolutions, which represented a majority of all members, too. Member Terry Durham was elected to MEC's Board of Directors. The by-laws change to optional purchase of commercial production/distribution C Shares means that we are open to Class A share members across the country. However, MEC can only accept Class C purchase from members where we have a way to regularly handle the volume from harvest to sales. Discussion on shared equipment to handle harvest as well as how to store it also came up. I hope to update the website before leaving for EXPO.

Terry mentioned that the recent tariff activity has raised the price of stainless steel almost 50%, so he is waiting on any additional production. I mentioned that other growers were working on some different approaches to destemming, and that we have some grant applications in the works that will include grower needs in this area and solutions options.

Kevin Wolz of the The Savannah Institute attended the meeting and are key partners in our grant applications. Kevin Edberg and I had a long chat yesterday by phone about bringing CDS's expertise and resources, including possible grants and investor sources, over the next few years of growth. I reviewed CoBank's willingness to work with us assuming proper documentation and financial metrics. I anticipate justifying & asking to expand MEC's credit line to about \$300,000 so that we can aggregate frozen berry inventory for River Hills Elderberry Producers, under contract for MEC to supply the elderberries for the RHH product line based on historical sales data and projected sales. I anticipate advance purchase orders from others for up to 200,000 lb. of bulk frozen berries with a 10% cash deposit to help support this growth and increased equity requirements.

Midwest Elderberry Cooperative

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Terry and I have much to work on in transitioning his 72 grower suppliers over up to three years to this new operations process including his commitments, their education, C Share purchases, some potential retail product growth opportunities, to the financial documentation. When we have a business plan and package suitable to CoBank's application requirements, I will submit it to the board for approval before submitting to CoBank.

We discussed several other implications of growth including how a functioning almost national coop will affect the price growers get selling direct, the impact of southern growers ability to produce two crops of elderberry a year with a high per acre yield each time, and necessity of building our cooperative appropriately, adding the right people as contractors and employees, etc. so that MEC can properly support elderberry growers across the country, develop our planned ingredients, and sell the elder berries and flowers produced.

In my early reflection on how to bring focus to our efforts, I saw the need to shift from total USA market potential for 22,500 acres (still less than Europe's 30,000+) to a goal that should sustain MEC as a profitable cooperative for all involved, providing the experience and organizational personnel & infrastructure needed to grow for decades.

Thus, I will be talking about 2,250 acres under cultivation and harvest sold by 2025. Aggressive but doable. I do not expect straight line growth. It will be slower at first. This goal represents an annual harvest (including consideration of some weather and production variance year-to-year) of about 5,000 tons of frozen berries or 10,000,000 lb., which is only enough to provide everyone in the USA with 7 tbs/one week of RHH ElderBerry Juice.

Summary of Agenda

I launched Midwest Elderberry Cooperative (MEC) on September 11, 2012 so the production and marketing of native North American Elderberry can remain "Farmer Grown, Farmer Owned" for many decades beyond my lifetime. Terry Durham, the first commercial grower of *Sambucus canadensis*, came up with that motto, and I embraced it fully.

MEC's purpose is to serve its elderberry grower members through research, education, marketing and ingredient product development. From the beginning growers from across the continent have asked about membership, and I have mostly declined in consideration of whether MEC could deliver value for that membership outside of Minnesota, Wisconsin and Iowa. That is no longer the case. MEC is growing quickly, and that is the main focus for this year's meeting.

This meeting will focus on three things:

1. Financial Summary & Review of Operations: Over \$12,700 in the bank, no outstanding debt but some incomplete internal accounting with growers.

2. Clarified Definition of Membership Options

A. Local grower selling direct and/or own value added products

- Class A share only: votes for Board
- Modify by-laws removing requirement to purchase Class C shares
- Class A members may be located anywhere in USA

- Preference in purchase of MEC's berry/flower inventory

B. Commercial producer selling part or all crop to MEC

- Class C shareholders only
- Participation in purchase pricing and operations decisions
- All other provisions for Class C shareholders

3. Growth of MEC organization and geographical reach

A. Nomination of new MEC member Terry Durham to MEC's Board of Directors to fill Paul Otten's position.

B. Centralized purchasing and aggregated inventory of bulk frozen elderberries with contracted purchase by River Hills Elderberry Producers, LLC and other buyers.

C. Development of production and storage hubs / partnerships

- West Branch Elderberry, Iowa City, IA - Mark & Verlyn Sneller
- River Hills Elderberry Producers (RHEP) - Terry Durham
- Savannah Institute, Madison, WI - Kevin Wolz
- Veterans Farm Initiative (VFI), Montrose, MN - Tom Norris
- Under discussion: Indiana and Texas locations

Background

From 2012 to 2017 MEC completed several business planning and feasibility studies with notable experienced professional outside evaluation from Cooperative Development Services with offices and staff in St. Paul, MN and Madison, WI.

The results were generally positive about growing elderberry profitably and included legal cooperative structure by Dave Swanson, Senior Partner with Dorsey & Whitney and Chair of the Agribusiness, Cooperatives and Electric Associations practice group and co-Chair of the Project Development and Finance practice group. He is known nationally for his expertise. During this period of time MEC acquired one of Terry Durham's destemmers and a stainless, triple-sink washing unit, both of which are mobile. By taking advantage of available MN and USDA grants, this progress only required \$14,500 of outside capital loaned by Chris Patton to the coop at his cost of funds. This loan and accrued interest was repaid in 2018.

MEC sold about \$4,700 of bulk frozen elderberries in 2017. In 2018 MEC purchased two dehydrators - one used, c. 600sf stainless steel, designed for commercial production of crackers and a c. 100sf dehydrator for dried berry quality studies with the Agricultural Research Institute (AURI). MEC has other ongoing ingredient development projects with AURI.

In 2018 MEC sold in conjunction with grower members: Bulk Berry Sales: \$60,000+/- 20,000+ lb., Dried Flower Sales: \$1600 - 640 lb., Dried Berry Sales: \$21,200 - 1,400 lb. (which equals about 11,000 lb. frozen) and Bulk Juice: \$6100+/- 125 gal. Due to lack of harvest/inventory, MEC was unable to fill potential orders for over 300,000 lb. of bulk, certified organic native elderberries as well as inquires for over 10,000 lb. of dried certified organic berries and hundreds of pounds of dried elderflowers.

As a result of over three years attendance at national trade shows, MEC has marketing relationships with four national/regional fruit brokers, expressed interest in native elderberry ingredients from four national brands, and several buyers looking for substantial contracted production of bulk frozen and dried certified organic elderberries in advance of harvest. To insure adequate supply and planning for the River Hills Harvest brand and to enter into advanced contracted sales,

MEC needs to greatly increase its aggregation of frozen berry inventory, especially of certified organic native elderberries, which means growth the its geographical reach, membership and service, while at the same time consolidating and improving buyer purchase guarantees and agreements. Eventually every regional hub will have its own centralized frozen storage, but we will start by shifting RHEP's elderberry purchase process to MEC with contracted supply to RHEP with target volumes at set prices.

MEC has a small existing line of credit and banking relationship with CoBank, a leader in agricultural cooperative banking and finance. Mike Minnihan, my CoBank connection has indicated a willingness to work with MEC's inventory lending needs in accordance with proper documentation, capital structure and financial reporting. He has been a great partner in helping MEC develop the prudent financial discipline that will help us to grow responsibly, profitably. Our growth will require MEC hiring a dedicated, part-time bookkeeper, and Mike Rivard with VFI has offered to help me find a qualified veteran for the job.

Motions Proposed by the President and Chairman of the Board:

- Terry Durham nominated for election to MEC's Board of Directors
- Amendment to MEC's By-Laws:
 - Currently Paragraph 3.1(f): "Have, beginning as of January 1, 2017, purchased and own one share of the Cooperative's Class C stock for each pound (or portion thereof) of elderberries the Member has the right to deliver to the Cooperative pursuant to the Membership Agreement with such purchase required to be made within three years of January 1, 2017 or from the initial purchase of a Class A share, whichever is later."
 - Proposed Paragraph 3.1(f): "Class A shareholders have the option of purchasing shares of the Cooperative's Class C stock for each pound (or portion thereof) of elderberries the Member has the right to deliver to the Cooperative pursuant to the Membership Agreement with such purchase."

Consequences of Accepting Proposed Change to MEC's By-Laws

Class A Membership Shares

- Not required to purchase Class C shares to remain a member in good standing
- Price remains \$500, no more partial purchases, unless already in plan
- Required to submit farm's elderberry data to MEC for use in academic research and MEC development and service to members

Class C, Commercial Grower Shares

- Fulfills key function of coops: aggregation and shared capital, risk/profits
- Class C shares required for commercial members: \$2 or 3 lb./berries for 1 share
- Some flexibility may be arranged in purchase timing for Class C shares
- Class C berry pricing and proportionate share in MEC's profit/losses
- Guaranteed purchase from grower, supply to MEC, no guarantee without C shares
- Participation in pricing and operations decisions
- Production and/or value added partnership potential with MEC

Christopher J. Patton, President and Chairman of the Board