

Managing Risk & Expanding Co-Product Sales

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Managing Risk & Expanding Sales of Co-Products

- Scoular Introduction
- Managing Risks Related to Co-Products
- Market Participants and Factors to Consider
- Market Development & Expanding Sales
- Questions

Scoular by the Numbers

-  1,000+ Employees
-  100+ Facilities in North America and Asia
-  80+ Countries Shipping Goods Locally & Internationally
-  10+ Languages spoken by Scoular Employees
-  \$6.0B Annual Sales (FY21)
-  \$900M Sales of Processed Ingredients (FY21)
-  1.03B+ Bushels Traded (FY21)
-  128-year-old company



Managing Risk Related to Co-Products

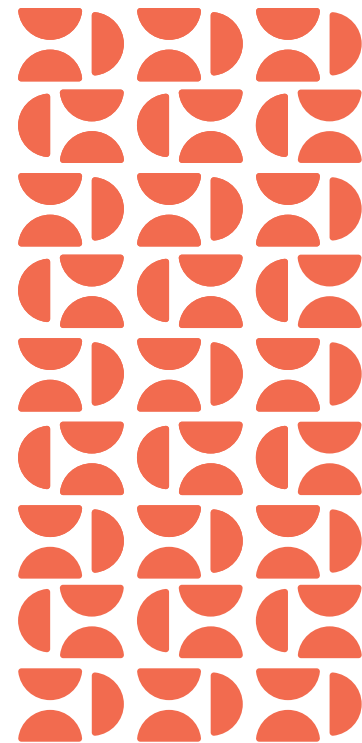
Managing Risk Related to Co-Products

- Co-Products can be a significant component of total crush margin.
 - Finished Goods – Feedstock = Crush Margin
- Crush margins should be managed with an enterprise risk management strategy.
 - Risk appetite – define how much risk the enterprise wants to take on?
 - Market knowledge / expertise / financial strength / liquidity / board directives / etc.
 - Risk Management Strategy
 - Written plan for how/when and by whom inputs and outputs will be priced
 - Defines the parameters within which the risk manager(s) will operate
 - Position Limits / Authority Limits
 - Updated regularly, on a defined cadence and needs to be fluid
 - Risk Management Governance
 - How management will monitor the execution of the strategy and risk position



Managing Risk Related to Co-Products

- No silver bullet standardized risk management strategy for all.
 - Strong risk management strategies must be developed specifically for each enterprise whether that is 1 or 25 production sites.
 - Variable Factors Include:
 - Geographical location, product mix, origination/access to feed stock, down stream customer location....
- Base price volatility
 - Both Inputs and outputs
 - Corn / SBM futures / energy prices / sales price models/forecast
 - Supply & demand / Regional Production / Global Geopolitics / Regulatory Environment
- Seasonality
 - Both inputs and outputs
 - Cyclical production of ag products / cyclical nature of feed demand (ruminant)
- Nimble – flexibility to change the plan on the fly based market dynamics at any given point in time





Market Participants & Variables

Market Participants

- End Consumer / Feeder
 - Final user of all co-products
 - Following their own risk management strategy
 - May not be a buyer when you want/need to sell
- Trader/Reseller
 - Provides liquidity to the entire market
 - Has a bid/offer every day regardless of price volatility
- Brokers
 - Facilitates trades between buyer and seller
 - Can provide market intelligence in real time but does not take title and/or coordinate logistics
- Service Provider
 - Focuses on the overall enterprise
 - Helps develop and execute the risk management strategy
 - Can provide market liquidity to the plant every day

Market Participants

- End Consumer / Feeder
 - Credit risk – limits, credit checks
 - Payment terms - +30 days?
 - Dlv'd. and/or F.O.B sales (likely both)
 - Requires internal resources and expertise
- Trader/Reseller
 - Credit risk – significantly lower?
 - Payment terms – 7-14 days?
 - F.O.B sales (likely all)
 - Reduces need for internal resources and expertise
- Brokers
 - Reduces need for Internal Resources and Expertise
 - Credit Risk - depends
 - Payment Terms - depends
 - Dlv'd. And/or F.O.B Sales (likely both)
- Service Provider
 - Credit Risk – reduced/eliminated
 - Payment Terms – custom terms
 - F.O.B sales - all
 - Eliminates need for internal resources and expertise





DATE

Market Development & Expanding Sales

Market Development / Expanding Sales

- Focused marketing strategy based on:
 - Co-Product specification
 - Proximity to demand & related transportation costs
 - Truck / Rail / Barge / Container
 - Seasonality of demand
 - Storage alternatives
- Value added processing
 - Protein enhancement
 - Moisture reduction
 - Pelleting / Extrusion
- Alternative/Novel uses



Questions?

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