



SASKATCHEWAN WHEAT POOL

**STRATEGIC ANALYSIS
MBA 820
PROFESSOR MARVIN PAINTER**



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1. Introduction

Saskatchewan Wheat Pool (SWP) has not realized net profitability since 1998 with consecutive losses cumulatively over \$290 million to 2003. SWP acquired Chief Executive Officer (CEO) Don Loewen in the early 90's and the firm went public in 1996 with 75,923 Class A voting shares issued to farmer members and 29,572,250 Class B non-voting shares issued to the public and assigned to farmer members based on their accumulated equity. Loewen's aggressive and optimistic growth strategy centred upon the "From field to plate" diversification goal. He had envisioned a plan to diversify across the value-added food chain and invested heavily in acquisitions and joint ventures. In 1998, SWP issued 7.8 million new class B shares to raise \$160 million in new equity. Investments included over \$300 million in Project Horizon and \$200 million in several other diversification investments. Project Horizon implemented closures of over 400 smaller community wood grain elevators and investment into construction of 43 new, more centralized concrete facilities.

However, with lower market production and massive interest payments to service the long term debt, exceeding \$1 billion by 2001, restructuring plans were implemented. Management of SWP changed with the replacement of Loewen by Mayo Schmidt as CEO and Marvin Wiens replacing Leroy Larson as President and Chairman of the board. Recent restructuring efforts by SWP recognized the need for cash generated from net profitability in order to maintain their operating costs and debt obligations. Schmidt notes "We must focus on the future benefits of the restructuring on our cash flows, interest costs and earnings potential - all factors that will strengthen the Pool for shareholders,"¹ The restructuring also included a change to the corporate governance of SWP as noted by Marvin Wiens "As part of our capital restructuring agreement, we enhanced our governance model by adding four independent directors with voting privileges,"¹ where historically the board consisted of sixteen farmer members. SWP has issued \$255 million in convertible bonds, with stipulations, as of January 31, 2003 as a part of their financial restructuring plan.

This case analysis explores some of the critical issues facing SWP and provides some financial projections and analysis that are used to build a framework for strategic recommendation.

2. Situation Analysis

A summary of the internal strengths and weaknesses apparent at SWP as well as the external opportunities and threats is provided in Table 1. This analysis shows us that SWP has the ability to offer greater value to farmer producers through an enhanced supply chain and more efficient facilities and a centralized transportation network. It also shows that there is inherent risk in operations as it is fully dependent on external environmental factors that can influence grain production and quality and subsequent grain handling sales. The costly capital expenditures to maintain the competitive position and the ability to support the large economies of scale required to maintain operations caused extensive losses when production fell. Now in recovery phase, SWP has created new strengths through a comprehensive restructuring plan that has maximized efficiencies within the firm. With interest expense under control and reclaimed revenue from divestiture of assets, SWP needs only to achieve nominal sales to achieve profitability. The issuance of shares and convertible bonds to cover operating costs and create new equity has created a problem in customer loyalty, directly related to market share, as those farmer members did not liquidate their shares prior to 1998 have seen their equity eroded. Porter's Analysis shows that farmer members hold considerable power collectively as consumers. Competitive forces have driven a large part of strategic choice for SWP in the past. While few competitors exist, SWP is finding that smaller enterprises more locally convenient to some farmers are capturing a part of the market share. Figure 1 illustrates the competitive forces model which shows that barriers to entry remain high as well as a minimal threat of substitutes. The supplier market holds power in relation to the grade of wheat demanded and the price of the commodity. Poor quality and low production yields create smaller margins in the export and marketing of wheat. Other forces seem negligible.



3. Key Issues

There are several key problems and issues that can be addressed regarding the expansion and diversification investments made in the late 1990's. There are also issues surrounding corporate governance, the use of Best Practices, the dilution of farmer member equity and the erosion of market share. Some problems stem from inherently uncontrollable environmental impacts such as drought and poor grain quality while others may have stemmed from a lack of focus on the Cost of Debt versus the Cost of Equity, the proper positioning of competitive strategy as well as sector profitability analyses.

3.1. *Diversification and Divestiture*

While the expansion plan seemed like reasonable and acceptable risk, and some investments seemed profitable, the approach to financing leveraged the company far beyond its means. Expansion did not occur slowly, and the financial statements show long term debt growing by \$110M, \$60M, and \$160M from 1996 to 1998, respectively. In 1998, \$160 million in new equity was raised through the issuance of 7.8 million Class B non-voting shares. The price for SWP stock was at a premium at that time and average share price was issued at over \$20 per share. While this contributed to share dilution, many investors, including current farmer owners, believed in the growth plans of SWP and bought in. The biggest issue surrounding the expansion is the means of financing. The expansion and diversification was a risky venture, but that is a component of being successful in business. The issue is not the risk value of the investments, but of the means by which the investment was financed. SWP chose to finance the majority of this expansion through long term debt instead of through the issuance of new share capital, which then was at a premium price of \$20 per share. An issuance would have provided them with the capital to pay down their long term debt, thereby ensuring their cost structures were sustainable. It appears that SWP did not take advantage of an analysis of the Cost of Debt, which has been substantial, versus Cost of Equity, which would have cost them nothing. However, this decision may speak to issues surrounding corporate governance prior to the restructuring which may have been a factor since this plan would have diluted the shares and eroded farmer member equity. It has been noted in Table 1 that the Board of Directors consisted of 16 farmer members.

The subsequent issue regarding the divestiture of assets can also be spoken to. These investments were outside the core competencies of SWP and therefore were liquidated in 2002 in order to maintain grain handling operations. At this time however, SWP could have considered divestiture of grain handling, given the contributions of grain handling to EBIDTA and that the sale of grain handling assets could have covered their long term debt obligations. While this would have been a bold strategy for SWP, it could have focussed and expanded on the other profitable sectors it had acquired, and worked to maximize their returns to shareholders. Long term debt must be addressed. Any new capital, profits, or equity received by SWP must be applied to paying down the principal of long term debt. The costs of servicing the interest on long term debt erode most of the profit realized by SWP. This must be addressed with future planning.

3.2. *Share Dilution and Equity Realization*

There were 37.5 million Class B voting shares after 1998 and Figure 2 illustrates the activity of stock price over time as well as recent trading volumes. Table 2 shows the annual activity on the shares over time which shows us that SWP stock lost approximately 20% to 60% of its share face value each year from 1996 to 2003, now trading at under \$0.40 per share. The decision to offer \$255 million in convertible shares could create as many as 750 million new Class B shares, should the note holders decide to exercise their option to convert each \$1,000 principal to 2,227.2 Class B shares; Nearly 20 times the current number of shares. The number of possible shares is summarized in Table 3. As a result of this share dilution, a current shareholder that had invested prior to 2003 will be very unlikely to see their investment return. The flood of over 700 million shares valued at \$0.45 each will mean that any investor that purchases the stock would only hold it until share price reached an expected return. The bond holder can exercise their option to convert notes at \$1,000/2,227.2 shares or \$0.45 per share prior to 2008. Once the share price rises above the issuance price of \$0.45 by 5% (\$0.48/share) to 40% (\$0.63), the

bond holder will exercise this right, convert and sell, and drive the dilution and share price down to the level below the investment note issuance. This cycle will continue until 2008 when note holders are to be paid out or issued remaining equity in Class B shares. If SWP can work to grow the share price through dividends to shareholders, the stock will be more attractive to bondholders to convert which will ultimately decrease their long term debt and interest expense. Table 4 illustrates a scenario of the application of dividends and its effect on share price. This shows us that SWP would need to consistently generate substantial sales and profit levels to drive the share price back to where original farmer members had invested. However, the dilution of shares will still create value for the company if share value remains at \$0.50 while number of shares increases. New investors would likely implement a Dupont analysis as shown in Table 5. This analysis shows us that while ROE is miserable, they remain efficient in the application of their assets and the operations of inventory management. Business processes seem efficient even though financial indicators seem weak.

3.3. Market Share

The previous issue of farmer equity erosion leads directly to market share. SWP's market share has been built over long years of working with local producers in a co-operative and providing value added services with convenience and competitive price. However, with the formation of a public company, centralized handling facilities requiring farmers to travel longer distances, and the obliteration of farmer equity investment, SWP has seen an impact to their market share through waning farmer loyalty. Market share is driven wholly by customer loyalty. Figure 3 shows however that prices of grain handling are increasing above the 3% per year allowance for nominal or inflationary growth. The prices have climbed nearly 39% from \$13.78 in 1996 to \$18.31 in 2003. Inflation at 3% annually could account for approximately 21% of this increase. It is important to keep in mind that farmer producers are being forced to operate with ever decreasing margins and as a result they are very sensitive to price and costs, which impact directly to customer loyalty. SWP is losing the majority of its market share to the local independent wood grain elevators because they are cost competitive and provide lower transport costs by being local. Without consumer loyalty to provide incentive to drive further and incur extra cost, SWP will continue to lose market share to other facilities because they cannot provide the cheapest solution.

3.4. Environmental Impacts

SWP continues to struggle to realize their deliveries and sales due to low production and poor quality grain. Environmental influences from drought and erosion play a critical role in the success of farmer production. Moreover, the impacts of environment are widespread and not often localized to a few producers. In drought years, everyone does poorly. Costs rise, water has to be pumped in, yields are less and quality suffers, resulting in product that is harder to sell and that deflates the value of the commodity. On the other side of the coin, farmers have seen "bumper crops" where environmental conditions are ideal, quality is high and maintenance costs are low. Everyone does better. This is the inherent risk in the agricultural market and all businesses in this market are subject to the same effects. However, it is relevant in this analysis because in 1996, SWP was considering a massive and expensive expansion and diversification plan. The years previous were "bumper crops" and had created a feeling of optimism that seemed to have translated into production and sales projections that were used to support the expansion plan. When the expected production values were not realized due to one of the worst droughts in 50 years for Western Canada, it was noticeable in SWP sales and revenues. There seemed to have been no consideration of the risk inherent in agricultural production and no "worst-case" scenarios were used in their decision making and planning process, to their detriment. Figure 4 illustrates the total the impact on sales that fewer deliveries has had as well as provides a linear trend forecast of this data. This trend analysis shows us that if environmental effects do not turn around in coming years, that SWP will soon be unable to operate given the high fixed operating costs. Figure 5 compiles production data with delivery data in comparison to SWP competition and also applies a trend analysis to this data. Again, this trend analysis shows us that with declining market share, fewer annual deliveries due to lower total production as a result of drought, SWP will be soon facing serious financial problems if sales revenues are not increased.

3.5. Fixed Costs

It is not possible to accurately assess the level of fixed cost at SWP based on the financial statements, however by analyzing the cost of sales, the selling and administration expense and other listed costs, it is possible to create a reasonable assumption regarding the allocation of fixed costs to total revenues. The sales projections illustrated in Figure 4 represent sales forecasts given that production does not change significantly but uses several scenarios for the capitalization of market share by SWP. If production is higher, it would mean that much of a greater chance that SWP would see increased revenues. Figure 5 illustrates 2004 projections expect \$2 billion in sales based on 21% market share with a conservative estimate for production. This was used to create three forecast scenarios based on 21%, 25% and 30% market share. Table 6 utilizes some basic assumptions regarding the allocation of fixed and variable costs to determine EBITDA. Scenarios of fixed costs were calculated on 20% and 50% of the sum of Cost of Sales and Selling and Admin. Variable costs were calculated at 20% and 50% of respective sales forecasts of 21%, 25% and 30% market share, with nominal increases in total. This model works well for 2003, however does not fully address all costs and results in much larger variances when applied to previous annual results. What it does show us however, is that marginal increases in sales and a focus on the reduction in fixed costs, combined with their new efficient business process, SWP could earn profit at the \$2 billion sales level with substantial returns for sales level beyond that. It is also important to note the interest expense will decrease over time to 2008, depending on how many bonds are converted to shares. However, this was not included in the modelling as it is unknown how many bondholders will decide to convert prior to 2008. The interest expense will go down each time bondholders convert their bonds to shares.

4. Strategic Alternatives and Implementation

The most critical factor that SWP must focus on is maintaining consumer loyalty and attracting back lost market share. The decisions and activities of the company since 1996 have resulted in a loss in confidence by farmer members with SWP. Increasing grain handling fees and higher transportation costs to centralized facilities also are not very attractive to consumers. Given the statements made in the previous section regarding fixed cost structures, combined with the insights into total production and market share, SWP will have to make their service attractive to consumers by differentiating their service through enhanced quality and competitive costs. The case noted that SWP provides transportation rebates to farmer members and this should be maintained. In order to attract back lost market share, SWP should implement a marketing plan and strategy directed towards farmer members and outline the benefits of SWP services, its new growth potential, and the attractiveness of maintaining ownership in SWP. This marketing plan should include data on the effects of the restructuring plan, on how farmer members can best manage their equity investments, detail on how SWP plans to subsidize transportation costs for farmer members, and information on value added services that create value for farmer members. This may mean a great deal to the individual farmer that could translate to the consumer group as a whole, recapturing their much needed market share. If production levels continue to remain low, SWP will need to react to the market and be able to maintain profitability.

SWP must also lower its interest expense and focus on fixed cost reduction and divestiture of non-profitable customers and business segments. A more thorough analysis of profitability could be measured using the preferred return rate established by the board. Table 7 shows that grain handling operations contributed less than 3% to EBITDA in 2003 while the livestock market actually devalued EBITDA. Divestiture in the livestock market should be implemented. Also, SWP may want to consider developing some flexibility into its core competencies so that in years, such as 2003, where grain deliveries are low and contribute little to profitability, the corporate focus can be shifted to sectors that are profitable, such as the agri-food products and food processing industries in 2003. The massive expense to acquire these enterprises has already been incurred so proper profitability analyses should determine which enterprises to maintain and foster and which to liquidate.

Secondly, SWP should work hard to achieve profitability in order to make bond conversions more attractive to investors, thereby eroding their long term debt obligations. This can be best accomplished by making the company attractive to investors through marketing campaigns that herald the new structure at SWP. In addition to maintaining minimum sales levels of \$2 billion, SWP should implement Best Practices with respect to financial planning and reporting, cost management, and supply management. Tools such as profitability analysis, quality assurance programs, investment analysis, customer relationship management, investor relations and inventory management should become an integral part of the skill sets of the SWP management team. Activity based costing may provide management with further insight into the true cost of operations for a pre-selected stratified business sector. Table 7 outlines a breakdown of profitability, measured through EBITDA, of each sector of operation within SWP. Although outside the firm's core competencies and currently most of the investments made into these sectors have been divested, this information shows us that some strategic planning should be implemented to maximize the remaining assets in profitable sectors, particularly in the agri-food products and food processing sectors that contributed 72% and 47%, respectively, to EBITDA in 2003.

5. Conclusions and Recommendations

The business model is profitable. Marginal increases in deliveries or market share can return a positive EBITDA to SWP operations, and while taxes, amortization and interest expenses are not included in this model, the analysis shows that a return to profitability is possible at sales just over \$2 billion.

SWP can gain more sales by developing a marketing program designed to target current, former and potential SWP farmer members and rebuild customer loyalty. Programs and subsidizations that provide support to transportation costs for farmer members should be maintained and promoted. Perhaps SWP could investigate the feasibility of expanding their grain handling supply chain and offering transportation services to farmer members. This may attract a great deal more market share through loyalty as well as provide SWP with the means to impact consumer choice.

SWP can lower its debt by achieving becoming more attractive to investors and bondholders. After 2008, the debt structure of SWP should be manageable enough that share value can grow beyond the value assigned to existing convertible bonds. Due to the existence of convertible bonds and the cyclic effect of share price increase, bond conversion, share dilution, share price decrease, it is unlikely that the share price will rise beyond \$0.50 to \$0.60 per share until after 2008. Yet future growth is possible now that enhanced facilities are in place and expected productions and yields are more optimistic than recent year's forecasts. The projections using sales forecast 2 and 3 from Table 6 show that some astounding returns can be generated if indeed we are entering a bumper crop series of seasons. With retained earnings, SWP can utilize these profits to service the long term debt and pay down the principal to minimize interest expense, subsequently making profit easier to achieve in the future. And SWP should maximize this perception with the investment community in order to entice bondholders to convert their bonds, thereby clearing a portion of the long term debt. With dividends to shareholders, the business becomes more attractive to investors who then investigate the workings of the firm to predict success and potentially investing and driving the share price up, causing bondholders to convert their bonds to shares and diminish SWP's long term debt obligations.

SWP has streamlined their operations and underwent a comprehensive restructuring plan. SWP's main focus now should be on building sales and re-positioning their market share. This can be achieved through a marketing program designed specifically to target current and previous farmer members, the main customer base for its service. In conjunction with the marketing plan, SWP should continue to invest in Best Practices tools and fixed cost reduction. This will allow them to achieve sales over \$2 billion and potentially generate a profit, either to retained earnings or dividends to shareholders.



Table 1. SWOT Analysis

Strengths	<ul style="list-style-type: none"> • Core competency in grain handling and supply inputs • Publicly traded agricultural co-operative • Expropriated retirement liabilities by assigning shares to farmers based on their accumulated equity • one of western Canada's largest agri-products retail marketing operations² • research and development unit that develops innovative varieties of grains and oilseeds³ • superior logistics expertise and a talented team of employees³ • Quality assurance management systems and identity preservation systems³ • dedicated marketing capabilities as well as strategic alliances and supply agreements³ • 41% of the 100-car loading capacity on the Prairies, SWP has the most efficient transportation and logistics system³
Weaknesses	<ul style="list-style-type: none"> • Aggressive expansion and diversification plan requiring large capital expenditures • Expansion and diversification financed primarily through long term debt • High fixed costs to service debt and operations • Underutilization of grain capacities • Loss of farmer loyalty • 16 farmer board members prior to restructuring • Share dilution, eroding farmer equity that has not been claimed prior to 1998 • Lack of use of proper best practices prior to 1998
Opportunities	<ul style="list-style-type: none"> • Geographically centralized in grain production market, facilities in AB, SK, MB • Large membership allows for economies of scale in grain handling • Lower cost structure with new concrete elevators and more efficient supply chain management • Lower transportation costs by having farmers bring grain to centralized facilities
Threats	<ul style="list-style-type: none"> • Elimination of the CROW transportation subsidies • Competitive firms with similar equity and asset offerings • Environmental impacts greatly effect grain production and subsequent deliveries • Loss of farmer loyalty due to the closure of community elevators • Increasing grain handling prices

Table 2. SWP Stock Market Activity

SASKATCHEWAN B (Toronto: SWPb.TO)								
	1996	1997	1998	1999	2000	2001	2002	2003
High	\$16.40	\$20.95	\$24.40	\$17.00	\$10.20	\$5.00	\$2.90	\$1.83
Low	\$13.13	\$14.00	\$16.00	\$7.90	\$3.20	\$2.05	\$1.71	\$0.18
Year End	\$14.20	\$16.20	\$17.00	\$8.60	\$3.55	\$2.84	\$1.83	\$0.37

Table 3. Share Dilution

Issuance Type and Date	Shares
Class A & B as of July 31, 2003	172,107,000
\$255M Convertible Subordinated Notes - 2,227.2 Class B shares/\$1000 note as of January 31, 2003	567,936,000
<i>Total Possible Shares</i>	<i>740,043,000</i>

*Inherent value of share is
\$1,000/2,227.2 shares = \$0.45

Table 4. Dividend to Share Price Scenario Analysis

Assumption 1 & 2	Effect on Current Shares	Effect on Possible Shares
1. Consider the market influence that drives share prices to trade on the open market at approximately 15 times the earnings per share or dividends paid per share. And consider again that SWP <i>could</i> realize \$50 million in profit annually to be applied to dividends.	2. This \$50 million applied to the current number of shares (172M) would reap dividends or EPS of roughly \$0.29, which would have a market influence to drive share price to 15 times the EPS or \$4.36 per share.	3. However, this \$50 million applied to the total number of possible Class B shares (740M) would reap EPS of \$0.07 per share, which would drive market influences to value the share at 15 times EPS or \$1.01 per share.
Assumption 3	Effect on Current Shares	Effect on Possible Shares
4. So how much profit would be required to generate market influence to drive share price back to the 1998 level of \$20+ per share? Assume again that if 15 times EPS results in share price, dividends would have to be \$20/15 or \$1.34 per share for a share valued at \$20.	5. In order to realize \$1.34 in dividends per share for 172 million shares, SWP would need to generate \$1.34 times 172 million shares or \$230.5 million in profit. Given that in 1996 net earnings were \$48M on \$3,959 of sales, or 1.2% of sales, the company would need to generate over \$15 billion in sales. Feasible?	6. In order to realize \$1.34 in dividends per share for 740 million shares, SWP would need to generate \$1.34 times 740 million shares or \$991.6 million in profit. Given that in 1996 net earnings were \$48M on \$3,959 of sales, or 1.2% of sales, the company would need to generate over \$83 billion in sales. Impossible!

Table 5. Dupont Analysis

	1996	1997	1998	1999	2000	2001	2002	2003
Sales, Operating Revenues	3,959,401	4,229,325	4,168,648	3,594,657	3,326,956	3,302,658	2,781,292	1,918,095
Net Earnings (Loss)	48,355	47,290	16,285	- 12,898	- 90,704	- 44,098	- 92,159	- 50,345
Total Assets	1,146,712	1,289,278	1,510,594	1,636,398	1,581,406	1,575,136	1,207,380	784,005
Shareholders' Equity	469,238	504,657	666,081	638,258	537,607	495,436	403,270	162,776

Dupont Ratio Analysis

	1996	1997	1998	1999	2000	2001	2002	2003
Profitability	1.22	1.12	0.39	-0.36	-2.73	-1.34	-3.31	-2.62
Efficiency	3.45	3.28	2.76	2.20	2.10	2.10	2.30	2.45
ROI/ROA	4.22	3.67	1.08	-0.79	-5.74	-2.80	-7.63	-6.42
Leverage	2.44	2.55	2.27	2.56	2.94	3.18	2.99	4.82
ROE	10.31	9.37	2.44	-2.02	-16.87	-8.90	-22.85	-30.93



Table 6. Projections based on Fixed/Variable Cost Structures

	2003	2004	2005	2006	2007	2008
1. 50% of COGS Fixed Costs, 50% Sales Forecast #1 (see Figure 4) Variable costs.						
Sales. Operating Revenues*	1,918,095	2,200,000	1,800,000	1,750,000	1,500,000	1,450,000
Fixed Costs*	950,000.00	950,000.00	950,000.00	950,000.00	950,000.00	950,000.00
Variable Costs*	959,047.50	1,100,000.00	900,000.00	875,000.00	750,000.00	725,000.00
Total Costs	1,909,047.50	2,050,000.00	1,850,000.00	1,825,000.00	1,700,000.00	1,675,000.00
Net Gain (Loss)/EBITDA	9,047.50	150,000.00	-50,000.00	-75,000.00	-200,000.00	-225,000.00
2. 50% of COGS Fixed Costs, 50% Sales Forecast #2 (see Figure 4) Variable costs.						
Sales. Operating Revenues*	1,918,095	2,200,000	2,400,000	2,600,000	2,800,000	3,000,000
Fixed Costs*	950,000.00	950,000.00	950,000.00	950,000.00	950,000.00	950,000.00
Variable Costs*	959,047.50	407,200.00	397,020.00	356,300.00	305,400.00	295,220.00
Total Costs	1,909,047.50	1,963,400.00	1,953,220.00	1,912,500.00	1,861,600.00	1,851,420.00
Net Gain (Loss)/EBITDA	9,047.50	236,600.00	446,780.00	687,500.00	938,400.00	1,148,580.00
3. 50% of COGS Fixed Costs, 50% Sales Forecast #3 (see Figure 4) Variable costs.						
Sales. Operating Revenues*	2,500,000	3,000,000	3,200,000	3,400,000	4,000,000	4,000,000
Fixed Costs*	950,000.00	950,000.00	950,000.00	950,000.00	950,000.00	950,000.00
Variable Costs*	1,250,000.00	407,200.00	397,020.00	356,300.00	305,400.00	295,220.00
Total Costs	2,200,000.00	1,963,400.00	1,953,220.00	1,912,500.00	1,861,600.00	1,851,420.00
Net Gain (Loss)/EBITDA	300,000.00	1,036,600.00	1,246,780.00	1,487,500.00	2,138,400.00	2,148,580.00
4. 20% of COGS Fixed Costs, 80% Sales Forecast #1 (see Figure 4) Variable costs.						
Sales. Operating Revenues*	1,918,095	2,200,000	1,800,000	1,750,000	1,500,000	1,450,000
Fixed Costs*	380,770.00	380,770.00	380,770.00	380,770.00	380,770.00	380,770.00
Variable Costs*	1,534,476.00	1,760,000.00	1,440,000.00	1,400,000.00	1,200,000.00	1,160,000.00
Total Costs	1,915,246.00	2,140,770.00	1,820,770.00	1,780,770.00	1,580,770.00	1,540,770.00
Net Gain (Loss)/EBITDA	2,849.00	59,230.00	-20,770.00	-30,770.00	-80,770.00	-90,770.00
5. 20% of COGS Fixed Costs, 80% Sales Forecast #2 (see Figure 4) Variable costs.						
Sales. Operating Revenues*	1,918,095	2,200,000	2,400,000	2,600,000	2,800,000	3,000,000
Fixed Costs*	380,770.00	380,770.00	380,770.00	380,770.00	380,770.00	380,770.00
Variable Costs*	1,534,476.00	1,760,000.00	1,920,000.00	2,080,000.00	2,240,000.00	2,400,000.00
Total Costs	1,915,246.00	2,140,770.00	2,300,770.00	2,460,770.00	2,620,770.00	2,780,770.00
Net Gain (Loss)/EBITDA	2,849.00	59,230.00	99,230.00	139,230.00	179,230.00	219,230.00
6. 20% of COGS Fixed Costs, 80% Sales Forecast #3 (see Figure 4) Variable costs.						
Sales. Operating Revenues*	2,500,000	3,000,000	3,200,000	3,400,000	4,000,000	4,000,000
Fixed Costs*	380,770.00	380,770.00	380,770.00	380,770.00	380,770.00	380,770.00
Variable Costs*	2,000,000.00	2,400,000.00	2,560,000.00	2,720,000.00	3,200,000.00	3,200,000.00
Total Costs	2,380,770.00	2,780,770.00	2,940,770.00	3,100,770.00	3,580,770.00	3,580,770.00
Net Gain (Loss)/EBITDA	119,230.00	219,230.00	259,230.00	299,230.00	419,230.00	419,230.00

*Projections based on assumptions detailed in Section 3.5.

Table 7. Sales Sector Profitability Analysis

	1996	1997	1998	1999	2000	2001	2002	2003
Sales (\$ millions)								
Grain Handling	2,825.00	2,969.00	2,802.00	2,215.00	1,982.00	1,925.00	1,695.00	1,272.00
Agri-food Products	444.00	539.00	567.00	555.00	532.00	516.00	436.00	443.00
Food Processing	586.00	612.00	684.00	640.00	588.00	603.00	544.00	128.00
Livestock Market	80.00	82.00	98.00	169.00	211.00	242.00	100.00	75.00
Publishing and Other	24.00	27.00	17.00	16.00	15.00	16.00	6.00	-
Total	3,959.00	4,229.00	4,168.00	3,595.00	3,328.00	3,302.00	2,781.00	1,918.00
EBITDA (\$ millions)								
Grain Handling	74.43	85.63	65.89	26.09	21.47	54.56	27.67	0.78
Agri-food Products	65.39	66.32	48.43	48.65	35.95	49.32	21.83	23.50
Food Processing	33.92	25.08	25.54	34.72	28.41	39.14	35.38	15.25
Livestock Market	4.00	3.46	4.34	1.92	14.18	21.17	3.83	(7.19)
Publishing and Other	5.05	7.52	7.79	3.42	3.61	4.07	0.64	-
Total	182.79	188.00	151.98	114.80	103.62	168.26	89.34	32.34
Sector Profitability								
Grain Handling	2.635%	2.884%	2.351%	1.178%	1.083%	2.834%	1.632%	0.061%
Agri-food Products	14.728%	12.304%	8.541%	8.766%	6.757%	9.559%	5.006%	5.304%
Food Processing	5.789%	4.098%	3.733%	5.425%	4.832%	6.491%	6.503%	11.916%
Livestock Market	4.999%	4.218%	4.432%	1.138%	6.719%	8.748%	3.833%	-9.580%
Publishing and Other	21.029%	27.833%	45.812%	21.344%	24.033%	25.456%	10.717%	0.000%
EBITDA Common Size (% of Total Sales)								
Grain Handling	1.880%	2.025%	1.581%	0.726%	0.645%	1.652%	0.995%	0.040%
Agri-food Products	1.652%	1.568%	1.162%	1.353%	1.080%	1.494%	0.785%	1.225%
Food Processing	0.857%	0.593%	0.613%	0.966%	0.854%	1.185%	1.272%	0.795%
Livestock Market	0.101%	0.082%	0.104%	0.054%	0.426%	0.641%	0.138%	-0.375%
Publishing and Other	0.127%	0.178%	0.187%	0.095%	0.108%	0.123%	0.023%	0.000%
Total	4.617%	4.445%	3.646%	3.193%	3.113%	5.096%	3.213%	1.686%
Sector Contributions to Total EBITDA (% of EBITDA)								
Grain Handling	40.718%	45.548%	43.353%	22.729%	20.722%	32.424%	30.965%	2.399%
Agri-food Products	35.774%	35.276%	31.863%	42.380%	34.693%	29.313%	24.430%	72.654%
Food Processing	18.558%	13.339%	16.802%	30.240%	27.422%	23.261%	39.595%	47.163%
Livestock Market	2.188%	1.840%	2.858%	1.676%	13.683%	12.581%	4.290%	-22.216%
Publishing and Other	2.761%	3.997%	5.124%	2.975%	3.479%	2.421%	0.720%	0.000%
Total	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%

Figure 1. SWP Competitive Forces Model

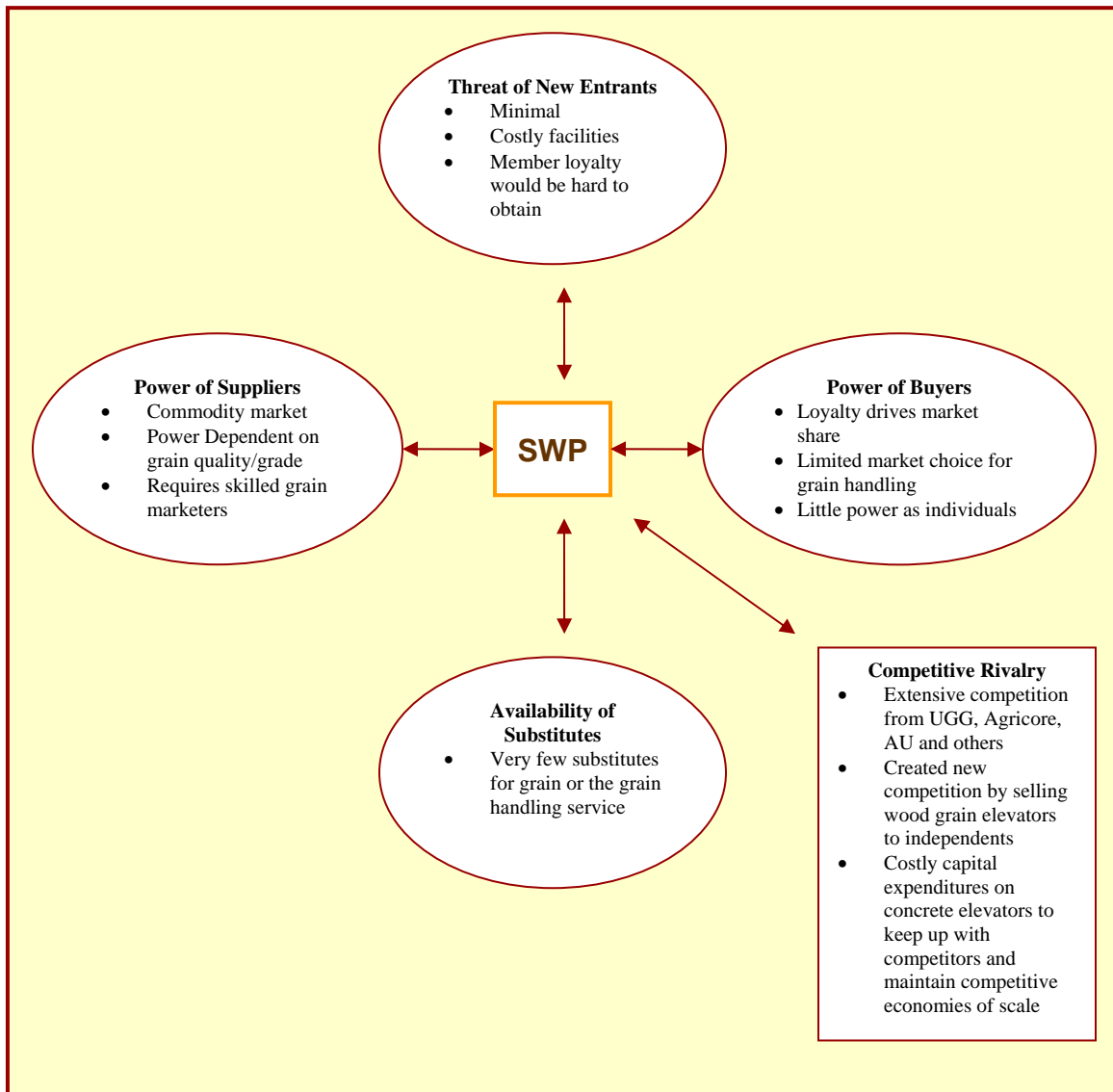


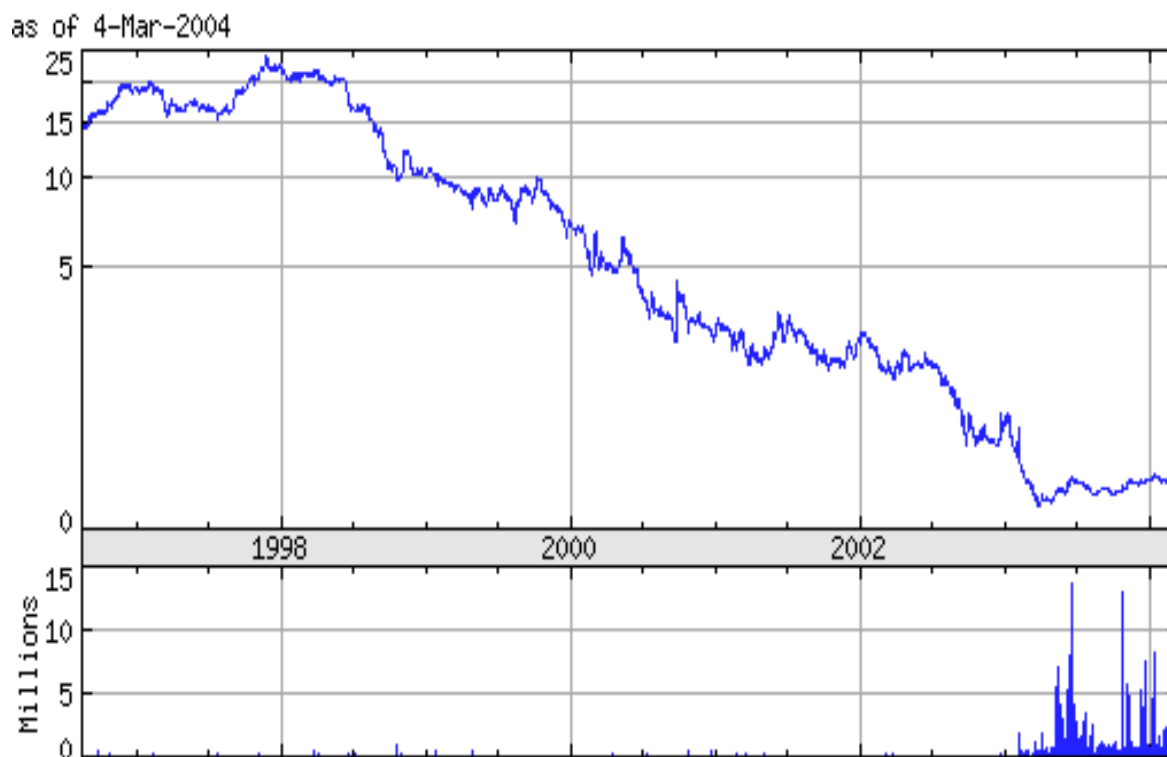
Figure 2. SWP Stock Activity from January 5, 1997¹

Figure 3. Linear Trend Forecast of SWP Sales per tonne of Grain Delivered and Average Grain Handling Fee

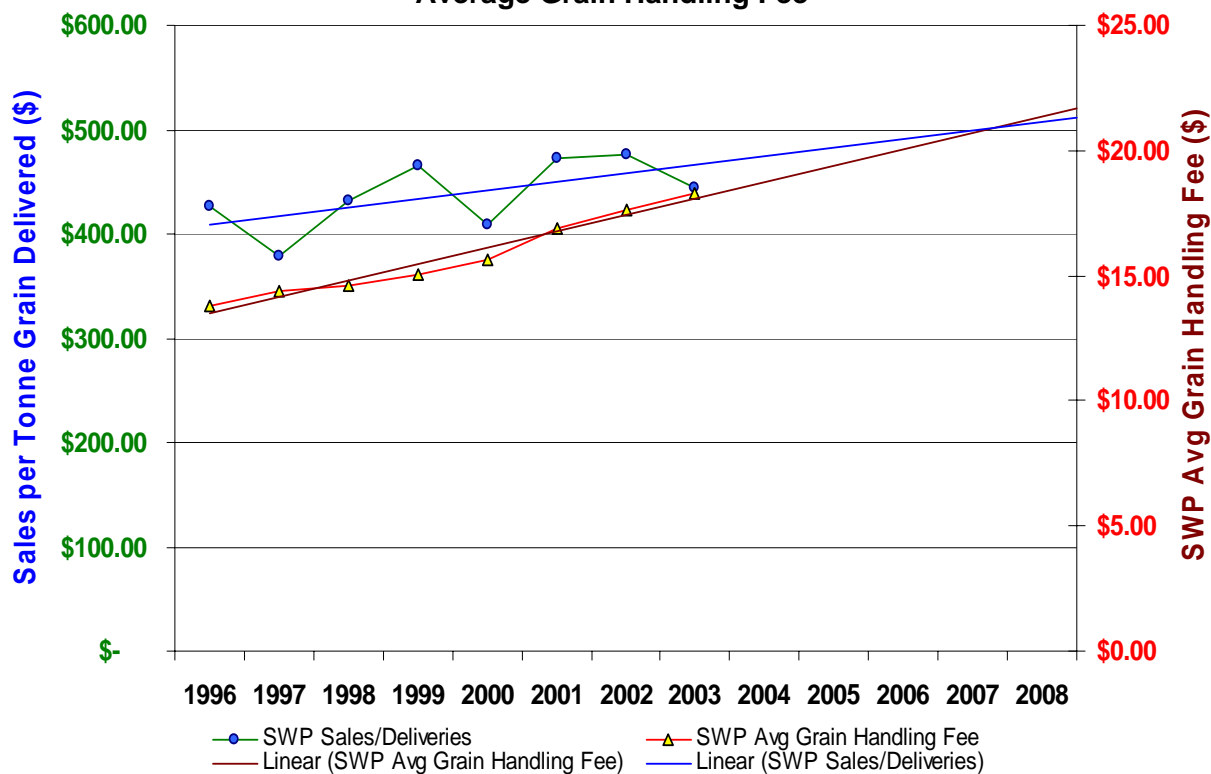


Figure 4. Sales Forecasts to 2008

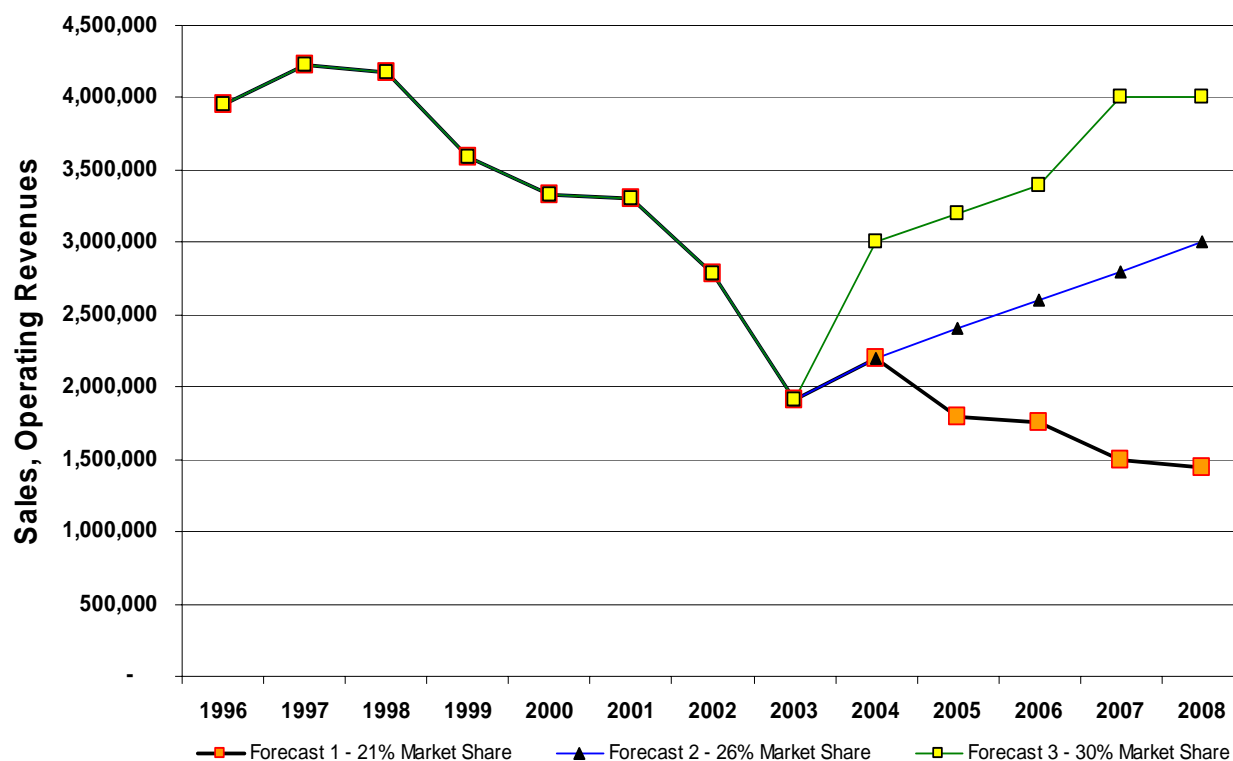
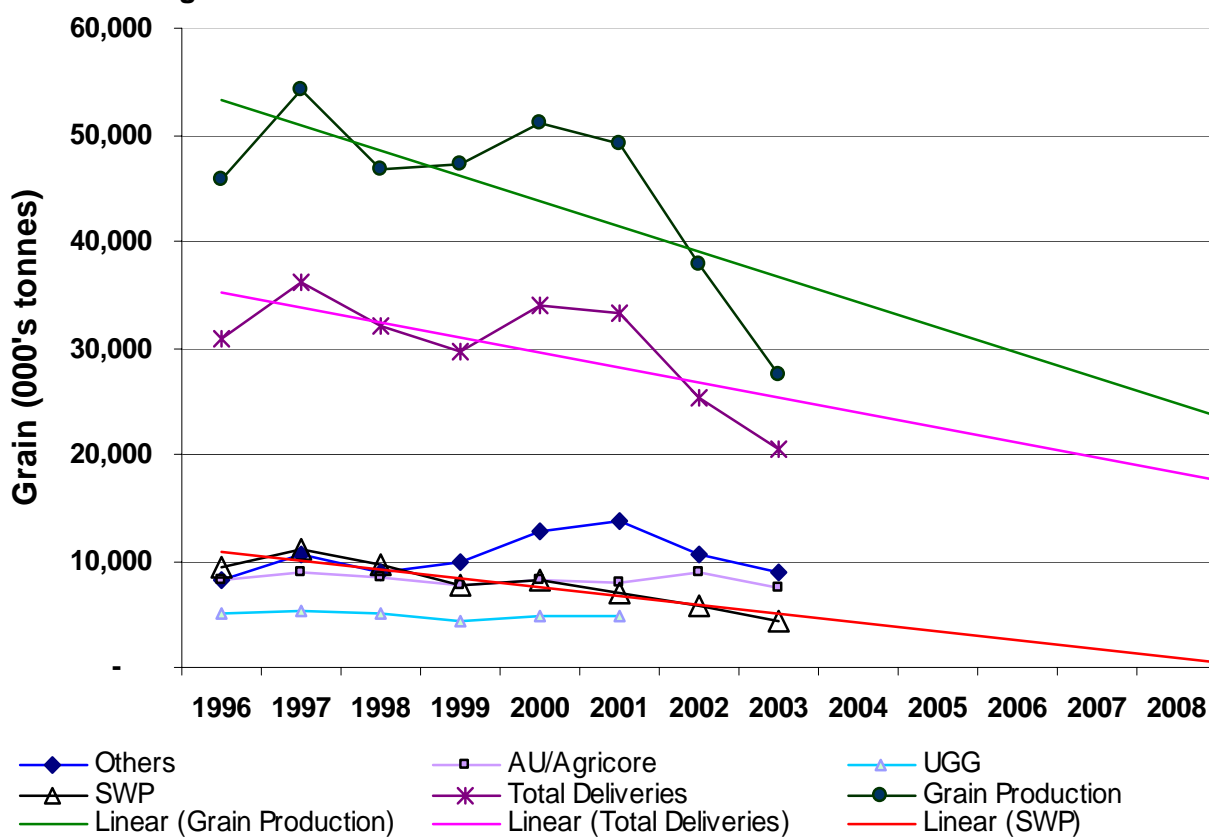


Figure 5. Grain Production and Deliveries Linear Trend Forecast to 2008



References and Endnotes

¹ Pool President Ready for New Challenges (Feb. 6, 2004) –
http://biz.yahoo.com/ccn/031211/4d7eb3e8a45f5a87902807219f71ea77_1.html

² SWP Corporate Profile –
<http://www.swp.com/profile.html>