



Farmer Cooperatives Conference

Traditional Cooperative's Future Structural Strategies
CHS Inc. Perspective

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Company Overview

- CHS Inc. is an "open" cooperative owned by approximately 1,800 local cooperatives and 46,000 producers who conduct business directly with CHS
- CHS is governed by a 17 member board. Each board member is a producer and is independently elected by the membership, without influence from management
- CHS operates four general business segments- Energy, Ag Business, Processing & Foods, and Business Services
- CHS was listed as the 166th largest US company on the 2007 Fortune 500 survey based upon sales



Company Overview

- CHS posted total revenues in excess of \$14 billion and net income of \$490 million during its year ended August 31, 2006. Results for Fiscal 2007 will be considerably larger in both categories
- CHS conducts approximately 70 percent of its business for or with its members. Patronage earnings are distributed in the form of 35 percent cash and 65 percent equity certificates
- CHS has issued publicly traded preferred stock. This registered stock trades on the NASDAQ preferred stock listing. CHS is required to comply with all SEC regulations, including public quarterly and annual filings as well as Sarbanes Oxley



Sources of Capital

- **Earnings**
 - Allocated patronage certificates
 - Unallocated equity resulting from non-patronage earnings
- **Debt**
 - Bank Syndicate for working capital requirements
 - Insurance Companies for long-term financing
- **Preferred Stock**
 - Used to retire patronage certificates as a substitute for cash



Balancing Cooperative Equity Management

- **Enterprise Maintenance and Growth**
 - Service debt
 - Maintain profitable business units
 - Grow profitable business units and acquire new businesses
- **Provide Equity Value to Shareholders**
 - Adequate cash to handle the taxes associated with patronage income
 - Equity redemptions (greater value to the holder the sooner redeemed)



Challenges for Cooperatives and Cooperative Members

- Cooperative equity typically has little or no liquidity
- Because of the lack of liquidity, the equity does not reflect enterprise value
- Little recognition by shareholders of enterprise value (as the result of lack of liquidity)
- Diversity of members perspective of value
 - As a customer
 - As an owner
- The Cooperative has no equity currency for acquisitions, which is a disadvantage compared to a public company



Advantages of Cooperative Structure versus Public Company

- ✓ Single level of income taxation
- ✓ Probably more conducive to long-term planning
- ✓ Potentially closer customer ties
- ✓ Customer ultimately receives the earnings



CHS Inc. Cash Return on Allocated Equity (\$000 Omitted)

	2005	2006	(Projected) 2007
Cash and Preferred Stock Distributed to Members	\$ 142,250	\$ 239,742	\$ 372,000
Outstanding Patronage Certificates	\$ 1,226,903	\$ 1,293,043	\$ 1,440,507
Cash (including Preferred Stock) Return on Member Equity	12%	19%	26%



CHS Inc. Equity Management Cash Distributions - Cooperative vs. Public (\$000's Omitted)

	ADM	% of Pretax Income	Valero	% of Pretax Income	CHS	% of Pretax Income
Pretax Income	\$1,855,250		\$8,189,000		\$540,022	
Income Taxes	543,180	29%	2,726,000	33%	49,725	9%
Dividend	241,995	13%	185,000	2%	13,696	3%
Cash Patronage Refunds					133,041	25%
Cash Equity Redemptions					57,137	11%
Total Income Taxes and Cash Returns to Owners	\$ 785,175	42%	\$2,911,000	36%	\$253,599	47%
	(25,052)		(61,634)			

How much difference for CHS if CHS had used the public company's distribution percentage?



CHS Inc. Equity/Enterprise Valuation - Cooperative vs. Public (\$000's Omitted)

	ADM	Valero	Combined	CHS
EBITDA	\$2,877,144	\$9,554,000	\$12,431,144	\$717,506
Stock Price, May 4, 2007	36.14	73.35	54.33	
Equity Value	\$23,718,212	\$46,027,272	\$69,745,484	\$3,825,210
Debt	4,679,510	5,133,000	9,812,510	766,752
Enterprise Value	\$28,397,722	\$51,160,272	\$79,557,994	\$4,591,962
Enterprise Value / EBITDA	9.87	5.35	6.40	6.40
Equity Value / EBITDA	8.24	4.82	5.61	5.33



CHS Inc. Equity Comparison

Approximate Fair Market Value	\$3,825,210,000
Book Value	\$1,440,507,144
Present Value	\$ 733,441,000



Summary

- Balancing needs of company with shareholder value
- Creative capital programs available to cooperatives
- Cooperative or public both require earnings to create value

➤ **Most important...**

**Most Important Source of Capital
Cooperative and Public Companies**

"Earnings"

Q & A

Thank you for your time!