Stahlbush Island Farms, Inc.  
Innovation and Growth in Sustainable Food Products  

AAEA Annual General Meeting  
Portland, Oregon  
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James Benkie  
Amanda Dacyk  
Catalina Solano
Family-orientated fruit and vegetable producer and processor.

Three lines:
1. Industrial purees
2. Frozen fruits and vegetables
3. Farmers’ Market organic canned purees

Commitment to environmental and social responsibility.

Industry innovator.
# Situational Analysis

## Internal
- Skilled management
- High quality products
- **Innovative**
- Traceable products

## External
- Increasing organic demand
- **Emerging markets** (baby food)
- Growing product sales
- Certified “Sustainable”

## Areas of Strength
- Too diverse
- **Limited production capacity**
- Maintaining skilled employees

## Areas of Concern
- Scarce land (high prices)
- **Increasing competition in organic sector**
Product Assessment

- Industrial Purees:
  - World markets growing
  - Increased demand for credence attributes

STAHLBUSH 2006 SALES: $18 million
SALES GROWTH: 11%

Source: Regmi and Gehlhar 2005
• “Sustainable” IQF:
  – Demand for sustainable food products growing in Europe.
  – Stahlbush has the opportunity to be market leader.
• Farmers’ Market Organics:
  – Movement into conventional grocery stores
  – Increasing volume turnover

**STÄHLBUSCH 2006 SALES:** $1.6 million
**SALES GROWTH:** 43%

![Organic Food Sales vs. Organic Food Industry Growth Graph](image)
## Case Objectives

**STRATEGIC DIRECTION:**

1. 15% annualized growth

   "How to continue the growth at the needed pace to keep up with market opportunities without being stopped by the company’s ever tightening constraints?"

2. Recoup capital investments within 2 years

3. Debt repayment by end of 2010

4. Maintain product quality

5. Continue social/environmental responsibility

6. Provide opportunity for leadership team to develop
The Opportunities

- Expand product lines:
  - Industrial purees
  - SIF IQF Retail Line
  - Farmers’ Market Line

- New business ventures
  - Create industrial purpose IQF retail line
  - Machinery fabrication

- Investment capital
  - Sell Farmers’ Market line
  - Take on external investors

Profile  Analysis  Assessment  Objectives  Opportunities  Proposal  Justification  Future
EXPAND SUSTAINABLE AND INDUSTRIAL LINES

• Invest $10 MILLION in new production plant
• Expand land base by contract farming
Strategy Recommendation

FINANCE WITH SALE OF FARMERS’ MARKET BRAND

- Generate:
  - $14 MILLION
- Convert 600 acres to sustainable line
- Increases production flexibility
• Net present value of forecast brand earnings (5 years) discounted by the brand discount rate

• 20% annualized sales growth (OECD 2002)
Why Sell FM Brand?

Dissipation of Premium on Organic Products

“Laws of supply and demand make it unlikely that organic premiums [can] exist over the long run”  
(Rawson 2006)
Why Sell FM Brand?

- USDA reports premiums constant or declining (2006)
- FM brand nearing peak value

“Organic, in itself will not necessarily satisfy future consumers– additional product attributes beyond organic need to be present”

(Knudson 2007)
Strategy Recommendation

• INDUSTRIAL PUREES
  → 30% SALES GROWTH
  – Opportunity in Asian baby food market
  – Comparative advantage
    • Quality
    • Traceability

• SUSTAINABLE RETAIL LINE
  → 15% CONTINUED SALES GROWTH
  – Movement into conventional grocery chains
  – New niche market
Projections reflect rapid debt pay down.

Projections assume 15% annual sales growth in sustainable line after 2008.
## Implications of Strategy

Does this fit with specified company objectives?

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>1.</td>
<td>15% annualized sales growth</td>
</tr>
<tr>
<td>2.</td>
<td>Recoup capital investments within 2 years</td>
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<td>3.</td>
<td>Long term debt repayment by end of 2009</td>
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<tr>
<td>4.</td>
<td>Maintain product quality</td>
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<td>5.</td>
<td>Continue social/environmental responsibility</td>
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<td>6.</td>
<td>Provide opportunity for leadership team to develop</td>
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Future Directions

- Increase land base by contract.
- Reconsider debt-free goal.
- Consider machining option in 2010.
Key Recommendations

• Expand Sustainable and Industrial lines.
• Finance with sale of Farmers’ Market brand.
• Reevaluate opportunities in 2010.
Questions?
References


# Cash flow statement

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<tbody>
<tr>
<td><strong>Net Income</strong></td>
<td>4564.13</td>
<td>3693.73</td>
<td>2945.58</td>
<td>2107.83</td>
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<td><strong>Operating Activities Cash Flows</strong></td>
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<td>Depreciation and Amortization</td>
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<td>Increase (Decrease) in Liabilities</td>
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<td>Maintaining Investment</td>
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<td>New Processing Plant</td>
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<td>(300.00)</td>
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<td>Other Capital Maintenance</td>
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<td>Dividends Paid</td>
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Sensitivity of projections

**20 Million**

- Short-term
- Long-term
- K accumulation

**14 Million**

- Short-term
- Long-term
- K accumulation

**10 Million**

- Short-term
- Long-term
- K accumulation

**6 Million**

- Short-term
- Long-term
- K accumulation