



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

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Company Profile

- 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	External
Areas of Strength	<ul style="list-style-type: none"> • Skilled management • High quality products • Innovative • Traceable products 	<ul style="list-style-type: none"> • Increasing organic demand • Emerging markets (baby food) • Growing product sales • Certified “Sustainable”
Areas of Concern	<ul style="list-style-type: none"> • Too diverse • Limited production capacity • Maintaining skilled employees 	<ul style="list-style-type: none"> • Scarce land (high prices) • Increasing competition in organic sector



Product Assessment

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

Annual retail food sales grow faster in the lower income countries, 1996-2002



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

Source: Regmi and Gehlhar 2005



Product Assessment

- “Sustainable” IQF:
 - Demand for sustainable food products growing in Europe.
 - Stahlbush has the opportunity to be market leader.



STAHLBUSH 2006 SALES: \$1.9 million

SALES GROWTH: 24%

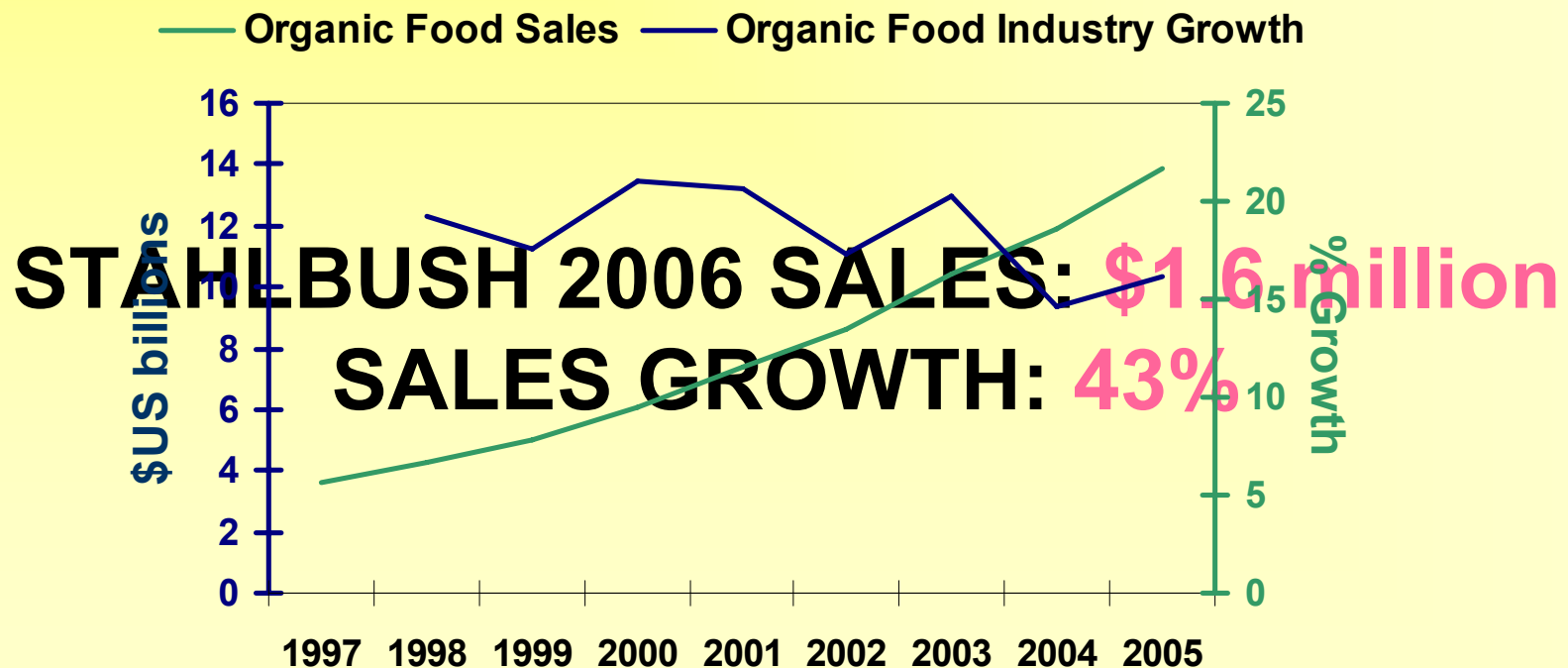
Partnership for Safe and Sustainable Agriculture





Product Assessment

- Farmers' Market Organics:
 - Movement into conventional grocery stores
 - Increasing volume turnover





Case Objectives

STRATEGIC DIRECTION:

1. 15% annualized growth

2. Recoup capital investments within 2 years
“How to continue the growth at the needed pace to keep up with market

3. Opportunities without being stopped by
the company’s ever tightening constraints?”

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

**AT PRODUCTION
CAPACITY**

**EXPENSIVE
LAND**



Strategy Recommendation

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





Brand Valuation

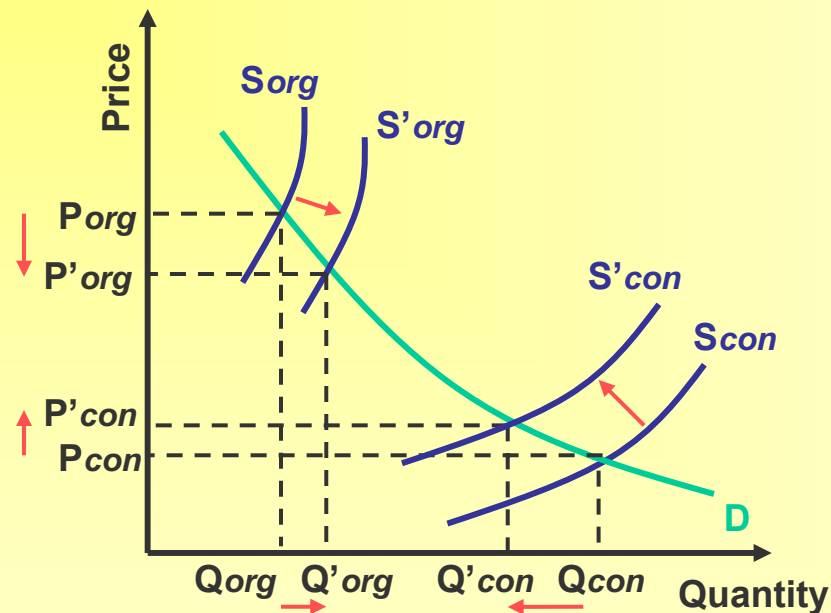
- Net present value of forecast brand earnings (5 years) discounted by the brand discount rate
- 20% annualized sales growth (OECD 2002)





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**

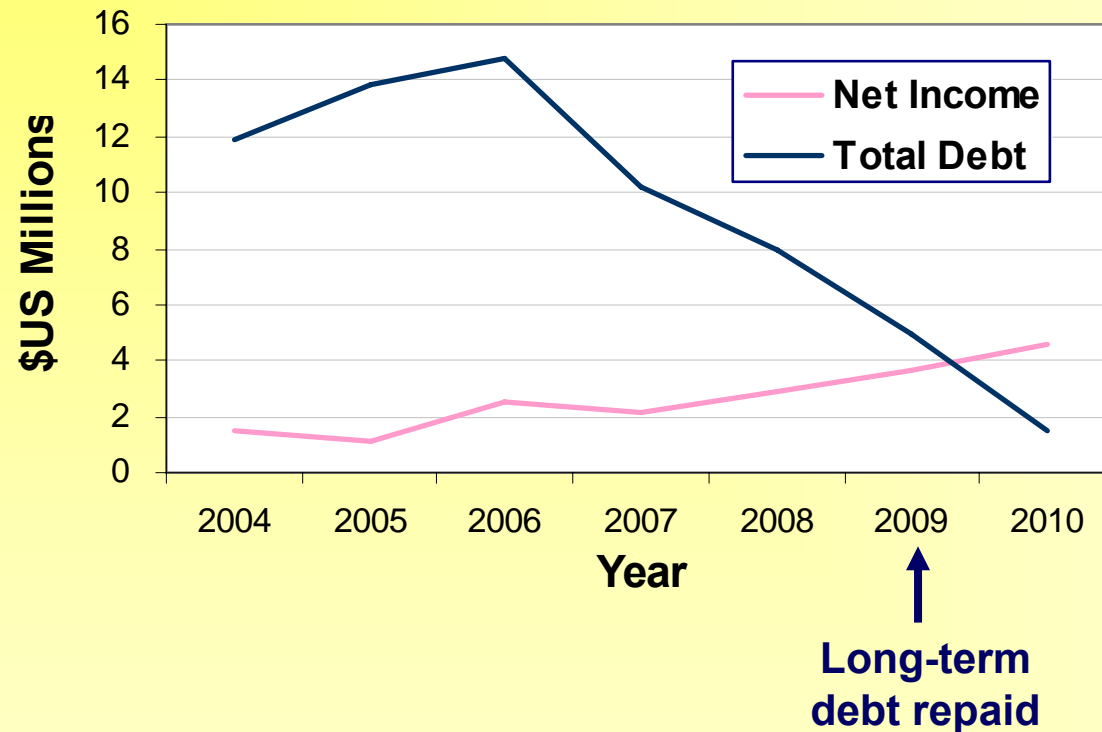
- **15% CONTINUED SALES GROWTH**

- Movement into conventional grocery chains
 - New niche market



Implications of Strategy

Stahlbush Island Farms Four Year Business Projections



- 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?

1. 15% annualized sales growth	✓
2. Recoup capital investments within 2 years	✓
3. Long term debt repayment by end of 2009	✓
4. Maintain product quality	✓
5. Continue social/environmental responsibility	✓
6. Provide opportunity for leadership team to develop	?



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.



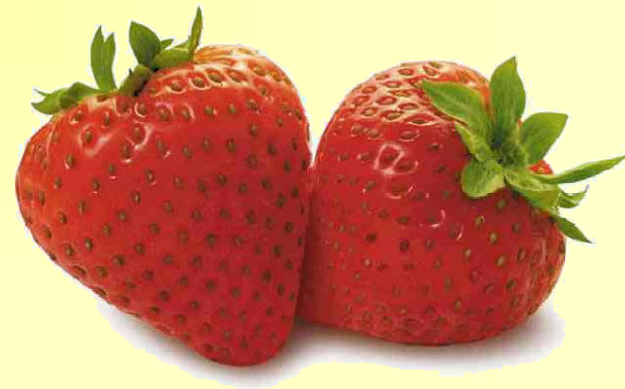


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Questions?





References

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Cash flow statement

	2010	2009	2008	2007	2006
Net Income	4564.13	3693.73	2945.58	2107.83	2488.00
Operating Activities Cash Flows					
Depreciation and Amortization	2,190.00	2,190.00	2,190.00	1,190.00	1,268.00
Decrease (Increase) in Accounts Receivable	0.00	0.00	0.00	0.00	(701.00)
Increase (Decrease) in Liabilities	(3,461.88)	(3,080.00)	0.00	(3,360.17)	2,173.00
Decrease (Increase) in Inventories	0.00	0.00	0.00	0.00	(2,015.00)
Capital Sales	0.00	0.00	0.00	14,000.00	0.00
Net Cash Flow from Operating Activities	3,292.25	2,803.73	5,135.58	13,937.66	3,213.00
Investing Activities Cash Flows					
Maintaining Investment					
New Processing Plant	(300.00)	(300.00)	(300.00)	0.00	0.00
Other Capital Maintenance	(1,778.00)	(1,778.00)	(1,778.00)	(1,778.00)	(1,277.00)
Capital Expenditures					
New Processing Plant	0.00	0.00	0.00	(10,000.00)	0.00
Perennial Crop Development	(701.67)	(701.67)	(701.67)	(701.67)	(768.00)
Net Cash Flow From Investing Activities	(2,779.67)	(2,779.67)	(2,779.67)	(12,479.67)	(2,045.00)
Financing Activities Cash Flow					
Dividends Paid	(150.00)	(150.00)	(150.00)	(150.00)	(118.00)
LT Debt Repayment	(362.58)	(1,854.00)	(2,205.91)	(1,308.00)	0.00
Net Cash Flow From Financing Activities	(512.58)	(2,004.00)	(2,355.91)	(1,458.00)	(118.00)
Net Increase (Decrease) in Cash and Cash Equivalents	(0.00)	(1,979.94)	0.00	(0.00)	1,050.00



Sensitivity of projections

