

# **PRINCE GEORGE PACKING PLANT COMMERCIALIZATION PHASE**

## **FINAL REPORT**

**March 2019**

Submitted by:  
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**Prince George Packing Plant Commercialization Phase Final Report**  
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**PRINCE GEORGE PACKING PLANT COMMERCIALIZATION PHASE  
FINAL REPORT  
Submitted March 15, 2019.**

The *Prince George Packing Plant Commercialization Phase* project term was from June 15, 2018 to March 31, 2019. This final report provides an overview of the project phases along with the final wrap-up including conclusions, recommendations and next steps.

**Phase 1 to September 30, 2018.**

Overview (Phase 1 report submitted October 2018)

- Project team reviewed and identified critical success factors.
- Project team identified potential members for interim steering committee.
- Communication plan developed with website [www.bcbefpackingplant.ca](http://www.bcbefpackingplant.ca)
- Invited participants and formed interim steering committee. First meeting held June 2018.
- Critical success factor working groups formed.
- Producer engagement began with four engagement sessions held during Phase 1.
- Interim Steering Committee met August, 2018; issues regarding plant capacity and location

were highlighted by the committee with the following recommendations:

- BC Beef Plant built to process 500 head/week with the ability to expand.
- Producer-owned replaced by majority of ownership to suppliers of cattle/cows to the BC Beef Plant.
- Supply loop will allow for partnerships among Cow/Calf; Feeders; Feedlot for greater participation within the beef Industry.
- Location of BC Beef Plant to remain 'gray' until further information regarding regions is obtained.
- Further consultations with Suppliers will help to guide this decision.
- Further discussions with Producers/Suppliers and commitment of supply is key to success.

**Go/No Go Decision.** Interim Steering Committee agreed to move forward to Phase Two of the commercialization strategy.

## Phase 2 to March 31, 2019

(Mid-Term Report submitted January, 2019)

### Industry Engagement

The business strategy presented for discussion at the producer engagement sessions was:

- The **Vision** for BC Beef Inc. is to provide differentiated, branded high-quality beef products to serve domestic and select international customers.
- The **Mission** for BC Beef Inc. is to operate a federally inspected beef processing plant, creating the opportunity for cattle producers in the region to supply high quality specialized cattle at an increased rate of return on investments.
- The **Business Purpose** of BC Beef Inc. is to enhance the profitability and sustainability of the region's cattle and feed industries by providing differentiated products to supply chain partners while generating sufficient rates of return for investors.

Producer engagement meetings were originally planned for Phase 2; given increased interest four meetings were held during Phase 1 in late August and September in Kamloops, Vanderhoof, Williams Lake, Quesnel. From October to January an additional seven meetings were held:

- Kamloops November 13
- 100 Mile House November 14
- Cache Creek November 14
- Vernon November 15
- Merritt November 15
- Taylor November 26
- Fort St. John/Dawson Creek)
- Vernon January 16

108 producers attended the sessions held to date with 86% of attendees requesting more information. Feedback from engagement sessions included:

- Feedback was generally positive with the majority of producers and key players expressing an interest in exploring the opportunity.
- The majority recognize the potential for branded BC Beef program and are interested in supporting such a program.
- Attendees highlighted that there is no current branded marketing program or specific BC cattle-raising program so these would need to be developed.
- Some attendees expressed concern over previous failures of federally-inspected packing plants and asked how this time "it would be different".
- Concern was expressed about the cost and risk involved of a 500-animal capacity facility and how the supply could be guaranteed-there is no current feedlot structure in place to meet this demand.

## Conclusions

The following cattle supply commitment numbers were collected at the engagement sessions:

- |             |      |
|-------------|------|
| ○ Cattle    | 9835 |
| ○ Cull cows | 1509 |

It appears there is interest amongst key players and a recognition of the potential in developing a BC Beef brand. There is also apprehension given previous plant failures and the cost and risk of building a 500-head facility.

After gathering feedback and assessing the critical success factors and the costs for a 500/head per week facility it became evident that there some aspects of the plan that carried a higher risk for the producer.

Given this information, the conclusion reached is that a phased approach to developing the co-op and building the supply chain along with the creation and marketing of the BC Beef brand prior to making the plant decision is in the best interest of the project. It allows for reduced risk for producers and investors as they will be able to assess the viability of supply coordination as well as the success of the BC Beef brand in advance of making decisions regarding building a plant.

The goal of a BC Beef plant in Prince George is still the vision but this phased-in approach allows for review of critical success factors along the way.

More detail is provided in Appendices B, C and D attached:

- Steering Committee Review and Road Map (B)
- BCBP Co-op Roadmap Vision – Financial Forecast (C)
- BC Beef Producers Co-op Financial Review (D)

## Recommendations

The recommendation is to walk before we run—to build the brand, supply the product and create demand which in turn will support the expansion of the supply and the need and viability of a federally-inspected packing plant.

1. Create a roadmap to align the supply chain.
2. Improve the viability of currently available processing plant KML Beef (Westwold) and the proposed facilities in Pitt Meadows.
3. Build a BC Beef brand; develop a brand strategy; work with Buy BC and build customer base.
4. Build a successful BC Beef program to prove the viability of the concept; this will build supply and financial support for the proposed Prince George facility.

## **Next Steps**

The Interim Steering Committee has approved moving ahead to the next phase.

NEW Phase #1 - Timeline to end of April 2019.

- Report/presentation to Government of the Vision and Financial Requirements of this revised proposal.
- Financial Groups – Financial Forecast
- Producer Group – Vision and Co-op Business Solidification
  - 5 – 6 producers who would potentially form Co-op.

There will be a go/no go decision made when these commitments are met at the end of April 2019.

If a decision is made and funding is in place, part 2 of Phase 1 will commence May 2019.

Phase #1 Part 2 – Timeline May to October 2019

- Business Solidification
- BCBP Co-op is initiated with 1 – 2 employees
- Supply is secured for 5200 head/year
- Brand specifications approved and brand is developed
- Production plan – toll processing agreements
- Business start-up and brand launch September 2019.

This will be followed by one year of production during which time the critical success factors (supply, demand, financials) will be monitored and a go/no-go decision to maintain the brand or end the business will take place in September 2020.

More detail is provided in Appendix E (attached):

- BC Beef Roadmap Timeline

We are currently in the process of developing a funding proposal for the Roadmap including forming the Co-op, funding the marketing program and expansion plan.

## **Financial Reports**

The financial reports are attached in Appendix A following.

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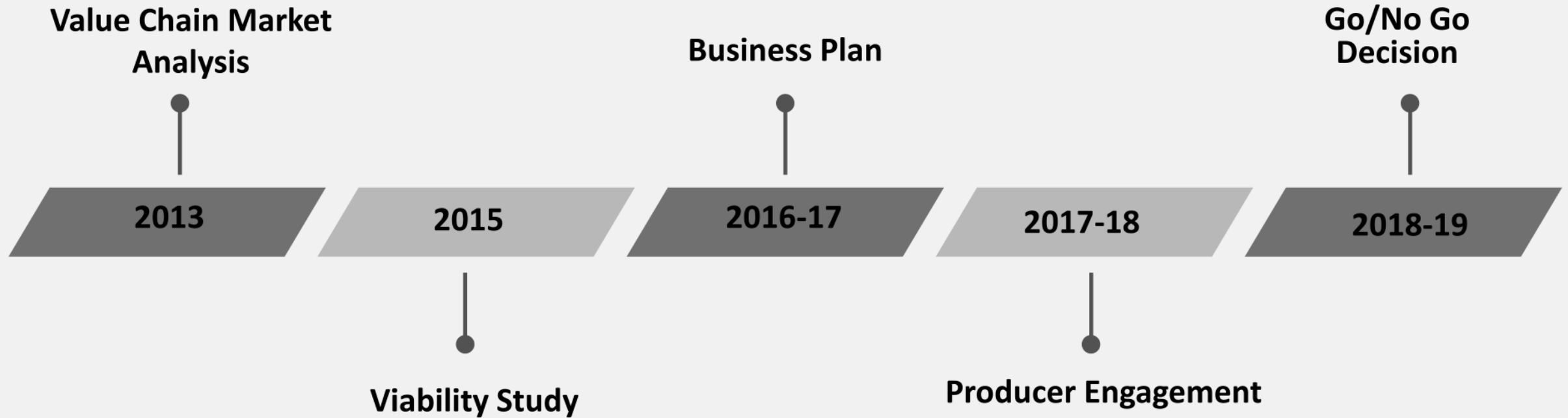
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# **BC Beef Plant Steering Committee Review & Roadmap**

# Project History - BC Beef Plant



# Producer Engagement Objectives

- Producer Engagement Phase was to determine initial interest in proceeding with the development of a BC based beef brand
- Establish a Steering Committee to:
  - Review and update the business plan for 500 animals per week
  - Provide feedback and guidance in the planning and presentations to Producers
- Review and expand Critical Success Factors of the proposed plan
- Capture the key information needs and a timeline to address concerns and critical success factors
- Recommend a go forward plan

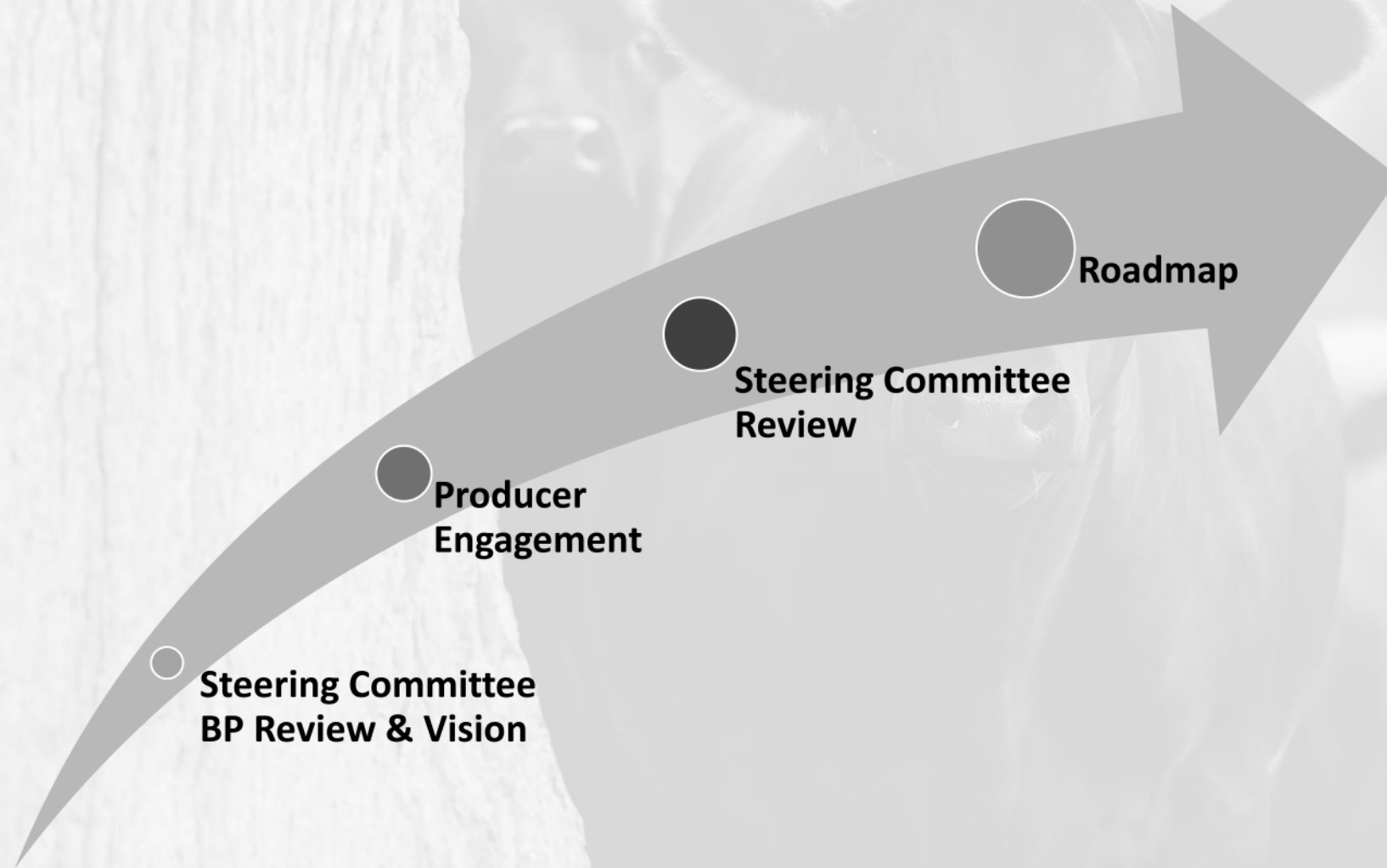
# Interim Steering Team Objectives

- Represent the interest of Producers through the initial stages of the proposed project
- Decision to proceed or not proceed with a way forward “Roadmap”

## **Decision will be based on:**

- #’s of Supplier/Producer Membership Sign-up
- Producer cattle/cow supply numbers
- Regional support estimate
- Critical Success Factor analysis review and a plan

# Producer Engagement Strategy



# Critical Success Factors



# Critical Success Factors

- The Steering Committee reviewed the following success factors regarding the implementation of the targeted 500 head per week branded beef program
- The objective of the Producer Engagement phase was to evaluate and institute a plan to ensure the success factors are achieved

# Supply of Program Cattle / Cows

- Consistent supply of animals to 120% capacity or a targeted average of 600 per week
- Consistent supply of program animals to the new facility based on the sales plan
- Animal specification package must support the brand but should be flexible enough to ensure Producer commitment and brand validity
- Supply to the new facility should be based on supply agreements
- Manage fluctuations in animal supply to ensure sufficient inventory during pricing and seasonality peaks
- Develop equitable grid pricing policy to support long-term supply agreements and Producer acceptance

# Market Demand

- Ensure the retail, food service and industrial sales strategy is competitive with existing market offerings
- Ensure a premium pricing package is available in the medium and long term
- Verify consumer acceptance of brand unique selling points (USP's) and expected pricing
- Plan for aggressive competitive pricing and market access issues
- Manage competition for market access

# Sales and Marketing

- Be prepared to adapt marketing plan to evolving brand attributes and a cattle program balance
- Consumer and Producer acceptance of brand USP's
- Establish a phased sales and marketing plan to ensure strategic growth and pricing stability
- Validate brand and sales plan with potential retail partners to ensure strategically aligned
- Pricing structure and balance utilization of carcass to be verified and cut out forecasts established

# Facility

- Design a cost-effective facility based on committed capacity and sales and marketing plan
- Plant utilization needs to operate at target volumes within 6 months of start up
- Ensure pre-commissioned and commissioning phases of the facility are completed on time and on budget
- Hire experienced operations manager
- Availability of skilled labour
- Transportation and logistics advantages must be realized

# Structure

- Maintain Producer ownership and control of the proposed new corporation
- Ensure committed Producer/feed lot investment in the new cooperative provides supply to 120% of targeted capacity
- Realistic cash flow and growth plan
- Ensure fair business structure for Producers and investors (plant vs. marketing)
- The structure must have a guaranteed supply of animals

# Financial

- Establish a security based financial plan to ensure funding of both the new facility and five-year cash flow requirements
- Allow for cost effective growth
- Ensure a realistic hook purchase program for Producers
- Debt to equity requirements (40:60)
- Ensure realistic ramp up cost plan

# Business Plan

- Ensure business plan based on a phased sales and marketing approach
- Ensure cattle supply and value
- Secure financial plan with the ability to finance cattle purchase
- Secure all levels of financing

# Producer Engagement

## Meeting Objectives:

- Present the vision for a BC Beef Plant and regional beef brand
- Establish the potential for Producer support
- Determine a way forward with a risk reduced business option

# Project Vision

- ***BC Beef Plant will provide branded, differentiated high quality beef products to serve the specific needs of domestic and select international customers.***

# Initial Vision Presented to Producers

Success Variable	Year 1	Year 2	Year 3
Head Processed per week	500/week	500/week	600/week
Facility	CFIA/HACCP Grind	Grind/Added Value Fabrication	Grind/Added Value Fabrication
Brand Development	BC Beef: 150 – 350 BC Beef Signature: 50 Toll Processing: 100	BC Beef: 300 BC Beef Signature 50 - 150 Toll Processing: 100	BC Beef: 300 BC Beef Signature: 200 Toll Processing: 100
Market Sectors Retail, FS, Industrial	BC Region	BC Region/Western Independents & Chains	Domestic Export Planning

# Business Strategy Presented for Discussion

- *The **Vision*** for BC Beef Inc. is to provide differentiated, branded high-quality beef products to serve domestic and select international customers
- The **Mission** for BC Beef Inc. is to operate a federally inspected beef processing plant, creating the opportunity for cattle Producers in the region to supply high quality specialized cattle at an increased rate of return on investment
- The **Business Purpose** of BC Beef Inc. is to enhance the profitability and sustainability of the region's cattle and feed industries by providing differentiated products to supply chain partners while generating sufficient rates of return for investors.

# Producer Engagement

- Recognized the need to engage Producers earlier in the process

- **Initial Producer Meetings**

- August 28<sup>th</sup> Kamloops
- September 18<sup>th</sup> Vanderhoof
- September 19<sup>th</sup> Williams Lake
- September 20<sup>th</sup> Quesnel

# Producer Engagement

- **2<sup>nd</sup> Round of Discussions**

- November 13                      Kamloops
- November 14                      100 Mile House/Cache Creek
- November 15                      Vernon/Merritt

- **Additional Meetings**

- November 27                      Taylor
- November 27                      Dawson Creek, Chamber of Commerce
- January 16                         Vernon

# Producer Meeting Expression of Interest

## Engagement and Interest:

- Producer meeting reach: 108
  - Additional Producer Association Meetings
- Request for further information: 86%
- Estimated Supply Commitment:
- Cattle 9,835
- Cull Cows 1,509



# Producer Engagement Conclusions

SWOT of the proposed 500 facility based on Producer discussions

# SWOT

## Strengths:

- Initial cattle supply interest of 9,835 per year
- Initial cow supply interest of 1,509 per year
- Good initial interest from Producers
- Government process support
- Initial Producer interest in establishing a BC based brand

# SWOT

## Weaknesses

- No current established feedlot structure to provide a consistent 600 cattle per week
- Producer interest will need to be supplemented with a solid plan
- The cost of the 500 facility will be challenging for hook purchase
- No current BC branded beef grow program
- Cow calf/feedlot relationships will need to be established
- The BC brand needs to be established

# SWOT

## Opportunities:

- Phased BC branded beef plan
- Reduce facility start up costs
- Launch an integrated brand plan with the ability to profitably grow
- Integrated phased supply plan
- Integrated production plan ensuring product specifications, value and costs of production

# SWOT

## Threats:

- Cost of Producer investment “hook purchase”
- Cost of money (LTD and operating)
- Initial start up losses
- Competition for cattle and market BC and other
- Current BC processing industry
- Shelf space and program development

# Top Line Vision Option Review

**Reviewed and modelled 4 options for:**

- Producer investment per hook
- Facility costs forecast
- Operating line
- Start up costs forecast

# Situational Analysis

## Option Hook Cost Comparison

# Business Vision Risk Analysis

- Review of:
  - The current business vision as it relates to the current market
  - Producer interest
  - The ability to ensure supply and
  - A cost effective operations plan:
- The following Critical Success factors have been ranked on a scale of **1 to 5**.

Where:

- **1** represents a very low ability to ensure success and
- **5** a high ability

# Critical Success Factors to Proceed

## Business Vision for a 500 head/week Plant Supply (2)

- Ensure Co-op can support the required supply for the plant to 120% capacity

## Demand (4)

- Verify consumer acceptance of brand USPs before a decision to proceed is made

## Facility (1)

- Operating under capacity will drive up operating costs in the plant before cut out is verified

## Financial (1)

- Cost of new facility and expected start up losses will result in high hook pricing for suppliers

# Approach Review

- After assessing the Critical Success Factors and the hook cost for a 500 head/week facility, it became evident that there were some aspects that carried higher risk for the Producers
- A **roadmap** is a strategic plan that defines a goal and includes the major steps or milestones needed to reach it. It also serves as a communication tool, a high-level document that helps articulate the strategic thinking — ‘the why’ — behind both goal and the plan for getting there.

# BC Beef Roadmap Recommendation

- Provides a phased approach to develop the Co-op and build the supply chain and brand prior to plant decision
- Reduced risk for Beef Producers and other investors as they will be able to assess the success of supply coordination and brand return
- Goal of a BC Beef Plant in Prince George/BC is still the vision
- Allows the Interim Steering Committee to provide recommendations regarding critical success factors for Co-op to consider during decision making

# BCBP Cattle / Calf #'s Forecast

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# Total Cattle/Cow Kill Per Year

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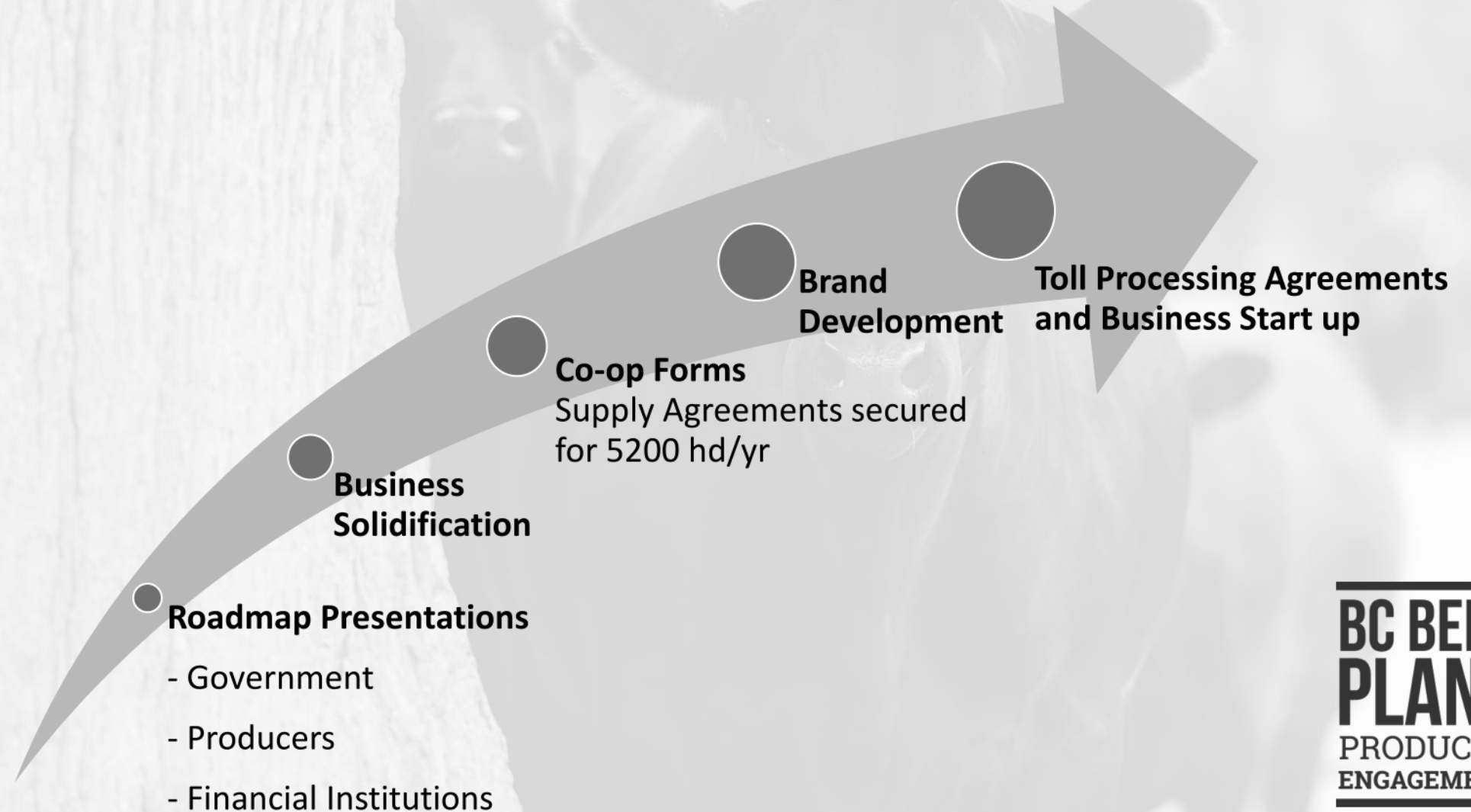
# Comparison 500 Facility Start vs Roadmap

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# Roadmap



# Phase #1 – BC Beef Marketing Program



# Phase #1 – Timeline: March - Sept 2019

<b>Phase #1 – Roadmap Presentations</b> <ul style="list-style-type: none"> <li>• Government – Vision and Financial Requirements Proposed</li> <li>• Financial Groups (FCC/BMO/Royal) – Financial Forecast</li> <li>• Producer Group – Vision and Co-op Business Solidification <ul style="list-style-type: none"> <li>○ 5-6 Producers that would potentially form Co-op</li> </ul> </li> <li>• <i>No Go → Project Ends</i></li> <li>• <i>Go → Producers align to form Co-op</i></li> </ul>	March-April 2019
<b>Phase #1 BC Beef Marketing Program</b>	May-October 2019
<ul style="list-style-type: none"> <li>• Business Solidification</li> </ul>	
<ul style="list-style-type: none"> <li>• BCBP Co-op is initiated with 1 – 2 Employees (Supply/Brand)</li> </ul>	
<ul style="list-style-type: none"> <li>• Supply is secured for 5200 head/year - # of Producers TBD</li> </ul>	
<ul style="list-style-type: none"> <li>• Brand is developed – brand specifications approved</li> </ul>	
<ul style="list-style-type: none"> <li>• Production Plan – Toll Processing Agreements</li> </ul>	
<ul style="list-style-type: none"> <li>• Business Start Up – Brand launch</li> </ul>	September 2019
<ul style="list-style-type: none"> <li>• Critical Success Factors – Report Card Metrics <ul style="list-style-type: none"> <li>○ Supply; Demand; Financial</li> </ul> </li> <li>• <i>No Go → Decision to maintain brand or end business</i></li> <li>• <i>Go → BCBP Co-op BOD – Phase #2 Expansion Plan</i></li> </ul>	September 2019 to September 2020

# Hook Purchase Schedule

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# Critical Success Factors for Phase #1

## Supply (4)

- Ensure Co-op can support the required supply for 50 hd/week and considerations for purchase BC cattle/cows as required

## Demand (5)

- Develop and communicate brand to consumers and customers to confirm acceptance of brand USPs before a decision to proceed is made

## Facility (4)

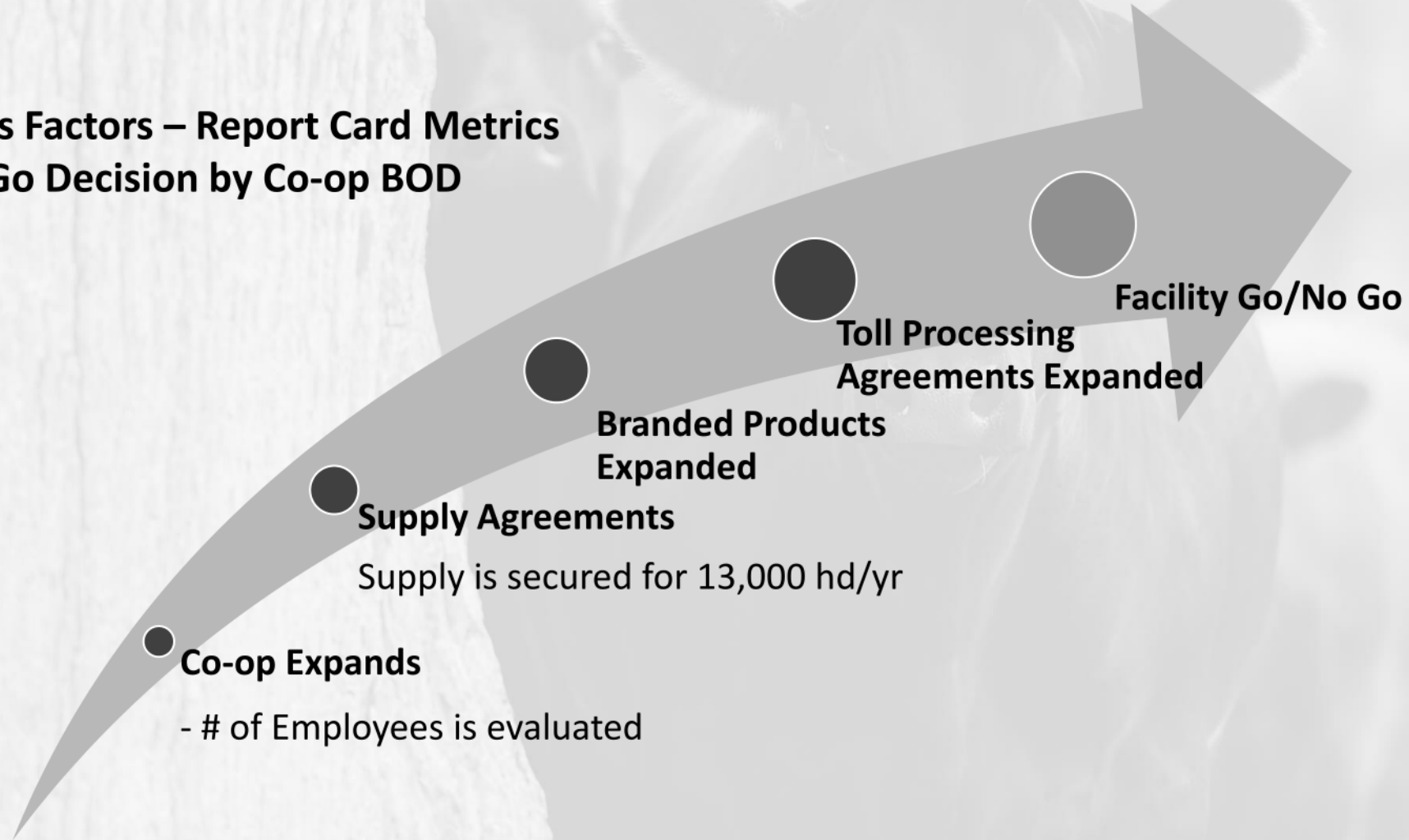
- Identify toll processing partnership options and establish contractual agreement

## Financial (4)

- Develop Pricing Grid and cut out estimates to verify success
- Ensure operating line finance

# Phase #2 – Expansion Plan

**Critical Success Factors – Report Card Metrics**  
**Go/No Go Decision by Co-op BOD**



# Phase #2 – Timeline: September 2020-2021

Phase #2 Expansion Plan	September 2020-2021
<ul style="list-style-type: none"> <li>• BCBP Co-op expands – HR evaluated</li> </ul>	
<ul style="list-style-type: none"> <li>• Supply is secured for 13,000 head/year - # of Producers TBD</li> </ul>	
<ul style="list-style-type: none"> <li>• Branded product line is expanded – further processed</li> </ul>	
<ul style="list-style-type: none"> <li>• Production Plan – Toll Processing Agreements</li> </ul>	
<ul style="list-style-type: none"> <li>• Critical Success Factors – Report Card Metrics                             <ul style="list-style-type: none"> <li>○ Supply; Demand; Financial</li> </ul> </li> <li>• Facility Go/No Go Decision based upon current business and forecast:                             <ul style="list-style-type: none"> <li>○ Positive cut out</li> <li>○ Brand relevance</li> <li>○ Producer support</li> <li>○ Financial markers: Balance Sheet</li> </ul> </li> <li>• <i>No Go → Decision to maintain brand or end business</i></li> <li>• <i>Go → BCBP Co-op BOD – Phase #3 Facility Plan</i></li> </ul>	September 2021

# Critical Success Factors for Phase #2

## Supply (4)

- Ensure Co-op can support the required supply for 250 hd/week and considerations for purchase BC cattle/cows as required

## Demand (5)

- Evaluate brand value and value-added products (fresh and further processed) and confirm customers/consumer acceptance of brand USPs before a decision to proceed is made

## Facility (4)

- Expand toll processing partnership options for fresh and further processed products with a contractual agreement

## Financial (4)

- Evaluate ROI before a decision to proceed is made

# New Facility Go/No Go – September 2021

- The decision on the new facility will be supported by a set of clear metrics achieved in Phases #1 and #2
- The decision will be made by the BCBP Co-operative BOD and a recommendation presented to the general membership for approval

# Critical Success Factors for Phase #3

## Supply (4)

- Ensure Co-op can support the required supply for 600 hd/week (cattle/cow)
- Proven pricing grid and performance

## Demand (5)

- Strong integrated BC beef brand with proven specifications and cut out

## Facility (4)

- New cost effective facility in Prince George with solid operations plan

## Financial (4)

- Historical financials with detailed build and start up

# Phase #3 Timeline: Year 2

- Following successful expansion to 13,000 head/year
  - Go/No Go for facility decision
- Critical success factors and financial metrics are addressed
- Brand has achieved market share and provides value to consumers and customers
- Return for Producers is verified

# Phased Report Card

## Supply



- Ensure Co-op can support the required supply for the plant to 120% capacity

## Demand



- Verify consumer acceptance of brand USPs before a decision to proceed is made

## Facility



- Ability to operating to capacity to support operating costs and verify cut out return

## Financial



- Complete financial analysis and plan to develop an acceptable hook price for Producers

# Roadmap Financial Forecast Package

## **1.0 Financial Forecast**

Appendix 1.1 -BCBP Pro Forma Statement of Earnings

Appendix 1.2 Pro Forma Cash Flow

Appendix 1.3 Balance Sheet

## **2.0 Purchase Cost Forecast**

Appendix 2.1 Cattle Purchase Forecast

Appendix 2.2 ABF Cattle Purchase Forecast

Appendix 2.3 Cow Purchase Forecast

Appendix 2.4 Grind Program Cost of Goods Forecast

Appendix 2.5 Custom Toll Processing Charge Calculations

## **3.0 Revenue Forecast**

Appendix 3.1 Branded Sales Revenue Forecast

Appendix 3.2 ABF Branded Revenue Forecast

Appendix 3.3 Grind and Burger Revenue Forecast

Appendix 3.4 Offal Revenue Forecast

## **4.0 Operating Cost Forecast**

Appendix 4.1 Operating Cost Forecast

Appendix 4.2 Fixed Expense Forecast

Appendix 4.3 Variable Expense Cost Forecast

# BC Beef Brand Positioning Statement

To BC Consumers, *BC beef brand* of value added beef that offers:

- BC born and raised cattle
- BC Producer owned
- Quality

# BC Beef Brand

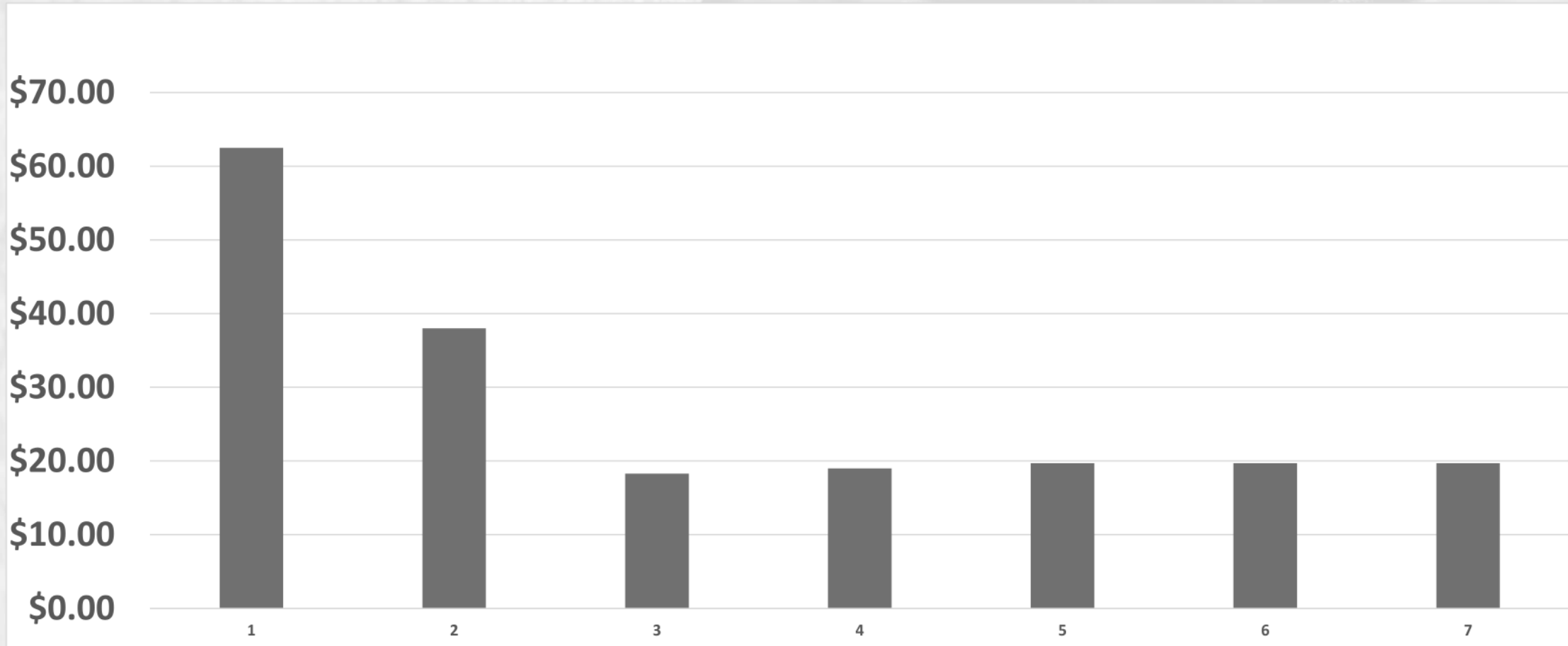
- BC born and raised
  - Reduced transport – impact on animal
  - Regionally sourced and produced
- Producer involvement
  - Connection to family farms
- Supply chain alignment
  - Benefits throughout the supply/value chain
  - Commitment/security of volume
- Quality – BC Brand
  - Guarantee
  - Other attributes



# BC Beef Brand – Other Offerings



# BC Marketing Planned Expenditure / Hook



# Roadmap Vision Financial Ratios

Financial Ratio's	Year #1	Year #2	Year #3	Year #4	Year #5	Year #6	Year #7
Current Ratio	9.42	7.85	5.23	5.77	7.59	9.54	11.72
Debt to Equity	7.68	3.01	1.06	1.01	0.77	0.58	0.47
Total Debt to Total Assets	0.79	0.65	0.48	0.47	0.40	0.34	0.30
Working Capital	2,260,556	4,664,026	6,063,541	6,950,140	10,298,663	14,231,978	17,954,575
ROI	-5.1%	6.0%	-7.1%	0.5%	11.1%	12.1%	10.3%
Return on Equity	-33%	33%	-14%	1%	24%	29%	27%

# Steering Committee Next Steps

- Steering Committee: Go/No Go Decision: Roadmap Approval

## **Phase #1:**

- Project Team Presents Proposed Roadmap to:
  - Government
  - Financial Institutions
  - BC Beef Producer Interest Group
    - Business Solidification
- Beef Marketing Program is initiated
  - Co-op is responsible for guiding principles for moving forward

# **BCBP Co-op Roadmap Vision**

## **Financial Forecast**

**March 6, 2019**

# **BCBP Co-op Roadmap Vision**

## **Financial Forecast**

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Appendix 1.3 Balance Sheet

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Appendix 3.3 Grind and Burger Revenue Forecast

Appendix 3.4 Offal Revenue Forecast

##### **4.0 Operating Cost Forecast**

Appendix 4.1 Operating Cost Forecast

Appendix 4.2 Fixed Expense Forecast

Appendix 4.3 Variable Expense Cost Forecast

#### **CONTINGENT AND LIMITING CONDITIONS**

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In order to properly understand the financial statements, reference must be made to the whole of the report. Mallot Creek Group Inc. will not be responsible for use by any party of portions of the report without reference to the whole of the report.

**BC Beef Producers Co-op Roadmap Vision**

Date

March 4, 2019

**Pro Forma Statement of Earnings**

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**BC Beef Producers Co-op Roadmap Vision**

Date March 4, 2019

**Pro Forma Cash Flow**

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**BC Beef Producers Co-op Roadmap Vision**

Date

March 4, 2019

**Balance Sheet**

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**BC Beef Producers Co-op Roadmap Vision**

Date March 4, 2019

BCCA Cattle Purchase Forecast  
S.21

**BC Beef Producers Co-op Roadmap Vision**

Date March 4, 2019

BCCA ABF Cattle Purchase Forecast

s.21

BC Beef Producers Co-op Roadmap Vision

Date March 4, 2019

Calculation of BCBP Cow Purchase Forecast  
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BC Beef Producers Co-op Roadmap Vision

Date March 4, 2019

Grind Cost of Goods  
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## BC Beef Producers Co-op Roadmap Vision

Date

March 4, 2019

### Custom Toll Processing Charge and Calculation

Costs Forecast and Calculation (BCCA and Custom )

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**BC Beef Producers Co-op Roadmap Vision**

Date March 4, 2019

**Total Sales Revenue Adjustment BCBP Cattle**

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**BC Beef Producers Co-op Roadmap Vision**

Date

March 4, 2019

**Total Sales Revenue Adjustment BCBP ABF Cattle**

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**BC Beef Producers Co-op Roadmap Vision**

Date March 4, 2019

**BCBP Grind Revenue Forecast Calculation**

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## BC Beef Producers Co-op Roadmap Vision

Date March 4, 2019

BCBP Offal Revenue Forecast

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BC Beef Producers Co-op Roadmap Vision

Date March 4, 2019

BCBP Forecast of Basic Operating Costs

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BC Beef Producers Co-op Roadmap Vision

Date March 4, 2019

BCBP Fixed Expenses Forecast

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BC Beef Producers Co-op Roadmap Vision

Date March 4, 2019

BCBP Variable Expense Calculation

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# BC BEEF PRODUCERS CO-OPERATIVE TOP LINE FINANCIAL REVIEW

## 1.0 FINANCIAL REVIEW OBJECTIVES AND STRATEGIES

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BC Beef Producers Co-operative financial review is based on the following objective and strategies:

### Objective

To establish a baseline forecast for determining the financial viability of BC Beef Producers (BCBP) Co-operative establishing a vertically integrated beef operation in British Columbia.

### Strategy

Determine a set of variables and assumptions that will allow for a seven-year financial forecast for all three (3) phases outlined in the BCBP Co-ops Road Map. The assumptions made throughout the financial analysis are based on market averages and a defined set of assumptions. The numbers generated are subject to market fluctuations and could vary greatly depending on the cost of cattle, the selling price of the BC branded product package generated and the cost of the proposed facility build and related start up cost forecasts.

This strategy is explained in the following sections:

## 2.0 IMPORTANT ASSUMPTIONS

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### Basic Assumptions for Base Line Forecast

The top line 7-year BCBP Co-op Forecast has been based on market average information from the past five years to determine an average cost and cut-out and the expected operating and financing costs of the proposed BCBP Co-op Phased Plan. The benchmarked operating and financing forecasts have been combined with historic Western based cattle and cow costs and corresponding brand based boxed meat cut out forecasts.

The expected operating costs for the phased vision can be predicted to a reasonable degree of accuracy. However, the forecasted toll processing costs and target volumes forecasted will need to be solidified and contracts generated with potential processors before a decision to proceed can be made. A Phase 3 facility start up forecast has been completed. The operating costs and associated efficiencies have been included in the forecast. A detailed review and solidification will be completed in the business solidification phase if a decision to proceed is made.

The beef industry is cyclical in nature, therefore, using the past five-year average as a predictor of the future is arguably the best means of determining the potential profitability of entering the beef and cow processing sector in BC. By using the last five years to determine BC Beef revenues and beef costs, and applying an explicit forecast of what the operating and financing costs are expected to be, a base line 'what-if' scenario for assessing the feasibility of the proposed phased BCBP Co-op can be established.

The baseline average seven-year forecast is presented in **Appendix 1.1 - BCBP Co-op Pro Forma Statement of Earnings**.

The following sections cover the variables and assumptions used to create this baseline forecast. The first variable to be determined is beef and cow costs.

## **2.1 Beef Costs**

### **Objective**

To establish a baseline average cost for the beef supply for the proposed operation. The cost has been based on an average historical five-year Alberta based cattle price. (**Appendix 2.1 - BCBP Co-op Cattle Purchase Forecast**)

### **Strategy**

Historic annual average Alberta based beef costs for 2014-2018 were used to establish basic average beef costs. Alberta costs were used to address an expected competitive related price increase for cattle. The expected production levels were determined based on planned BCBP Co-op program capability and an estimate of BCBP Co-ops branded needs. This was then applied to the recent average weights and grades and the proposed top line BCBP Co-ops BC Beef branded program to arrive at a final baseline beef cost.

The final beef cost figures for each year are derived as follows:

### **Annual average beef costs:**

The average annual beef costs have been determined by using Alberta fed steer historic annual average prices for 2014-2018. Based on expected cattle drop, the base input live cattle price of \$154.50 CWT was applied on expected market related increases. **Appendix 2.1 - BCBP Co-op Cattle Purchase Forecast** outlines the base cattle price inputs and expected initial BCBP Co-op's BC Beef brand related premiums. **Appendix 2.2 - BCBP Co-op ABF Cattle Purchase Forecast** outlines the Anti-biotic Free (ABF) or Raised Without Antibiotics (RWA) (as defined by the brand specifications) price premium top line forecast. Both BCBP Co-ops BC Beef brand and BCBP Co-ops BC Beef ABF brand's top line brand premiums will need to be adjusted once a clear branded sales plan is established and cattle grow and pricing grids have been developed within the co-operative structure.

The expected production levels have been based on planned brand phased capability within the BC marketplace. **Graph 1 - BCBP Co-op Animal Plan**. The cattle costs were then applied to the expected average weights and grades associated with the forecasted BCBP Co-op program to arrive at a final baseline beef cost.

## Graph 1 - BCBP Co-op Animal Plan

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### 2.2 Cow Costs

#### Objective

To establish a baseline annual average cost for the cows required for the proposed operation. The cost has been based on Alberta published cow prices from 2014-2018. **Appendix 2.3 - BCBP Co-op Cow Purchase Forecast.**

#### Strategy

Cow purchasing cost forecasts have been applied using an Alberta historical average. The CWT live cost of \$85.00 CWT was utilized. An expected carcass yield of 56% was applied. Cow target live weights and carcass yields will need to be refined and clear pricing grids established by the co-operative.

The processing of cows is expected to service the proposed grid and burger program. **Appendix 2.4 - BCBP Co-op Grind Program Cost of Goods Forecast** outlines the expected additional cost associated with boning and processing cows throughout the initial toll processing and BCBP Co-op facility phases.

### 2.3 Revenue

#### Objective

To establish a baseline market selling forecast for BCBP Co-ops branded beef, ABF branded beef, grind, burger and sundry revenues throughout the phased branded implementation in the BC marketplace.

#### Strategy

Establish a baseline revenue projection based on historic CanFax Alberta average branded beef box meat cut out prices for the past five years from 2014-2018. Thus, the historic prices, beef and cow weights and yields, sundry revenues, target market premiums, and marketing mix have been applied

and outlined in the financials. Solidification of the target assumptions will need to be completed in the business solidification phase.

The revenue calculations are outlined in **Table 1 - BCBP Co-op Revenue Forecast** and **Appendix 1.1 - BCBP Co-op Pro Forma Statement of Earnings**. The basic assumption of the revenue forecast is that BCBP Co-ops branded beef prices will be reflected in the Alberta CanFax cut out values and that the cow trim and cut prices are reflected in the five-year average. A seven-year average revenue has been applied to allow for the reflection of ramp up efficiencies throughout the phased plan.

**Table 1 - BCBP Co-op Revenue Forecast**

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## 2.4 Beef Weight and Yield

A base commodity revenue structure has been assumed due to the start-up nature of the phased plan. The BCBP Co-ops ability to gain premiums over commodity will be reflected over time and has been included as a carcass premium throughout the phased business implementation plan. Premiums expressed in the sales and marketing section will be gained as a committed customer base is established.

As outlined on **Table 2** - the BCBP Co-op Revenues Forecast is based on five (5) sales categories or strategies. Revenue forecasts for each strategy are included in:

- **Custom Processing** - Appendix 2.5 - BCBP Co-op Custom Toll Processing Charge Calculations.
- **BCBP Co-op Branded Cattle**- Appendix 3.1 - BCBP Co-op Branded Sales Revenue Forecast.
- **BCBP Co-op ABF Branded Cattle** – Appendix 3.2 - BCBP Co-op Branded ABF Revenue Forecast.
- **BCBP Co-op Grind and Burger Program** - Appendix 3.3 - BCBP Co-op Grind and Burger Revenue Forecast.
- **BCBP Co-op Offal Revenue Forecast**- Appendix 3.4 BCBP Co-op Offal Revenue Forecast.

### 3.0 FINAL REVENUE

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All of the above information has been used to create a stream of forecasted revenues.

The cut prices, sales premiums and discounts, marketing mix, beef and cow weight, beef and cow yield, and expected processing levels have all been determined and expressed as a base revenue projection. A final adjustment is made to total revenues applying a yearly process conversion factor and brand adjustment factor. These factors have been applied to adjust for inefficiencies of start up and brand premiums.

#### 3.1 Ending Inventory, Accounts Payable, and Accounts Receivable

##### Objective

Establish ending inventory, accounts payable and accounts receivable to allow for the completion of financial statements given the above cost and revenue assumptions. **Appendix 1.1 - BCBP Co-op Pro Forma Statement of Earnings, Appendix 1.2 - BCBP Co-op Pro Forma Cash Flow and Appendix 1.3 - BCBP Co-op Balance Sheet.**

##### Strategy

Determine above variables as described below:

- Ending inventory has been based on 18 days of sales assuming that there are 365 days in a year. This assumption is based on the proposed sales program specifications and an expected food service, retail and export sales program outlined in the sales and marketing review.
- Accounts payable is based on paying bills in seven days for cattle and 30 days for package goods supplies. This represents a blended average of short terms for beef purchased and items other than beef purchases with longer terms.
- Accounts receivable is based on seven-day terms and a further week delay in receiving final payment for a total of 14 days. These terms are common in the meat industry and will need to be confirmed as part of BCBP Co-ops sales plan.

#### 3.2 Investment and Financing

##### Objective

Establish capital structure, investment, and financing strategy that allows for a phased BCBP Co-op branded market entry. The phased roadmap will require a phased investment and debt plan. The objective is to ensure a realistic investment and risk package for the producer owners.

##### Strategy

Determine above variables as described below.

### 3.3 Capital Cost

The expected capital cost of the phased BCBP Co-op branded program is outlined in **Appendix 1.3 - BCBP Co-op Balance Sheet**. A top line forecast for the proposed Phase 3 BCBP Co-op Facility build in Prince George is outlined in **Table 2 – Phase 3 - 500 Cattle per Week Processing Facility**.

#### **Table 2 - Phase 3 - 500-Cattle per Week Processing Facility**

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Working capital requirements are expected to increase as cattle and cow supply increases throughout the phased launch (see **Graph 2** below). The lower working capital requirements in the first two years of operations are due to the custom processing strategy and lower cattle numbers.

#### **Graph 2 - BCBP Co-op Working Capital Forecasts Year #1 - #7**

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### 3.4 Equity

To succeed in a phased financing plan, BCBP Co-op will need to secure a phased hook investment plan. A planned Phase 3 facility build will require the vast majority of the hook investment. The BCBP Co-op investment forecast is for a total of 3 phased equity investments of \$9,825,000 in class “A” voting share capital. **Table 3 - BCBP Co-op Class A Hook Investment Schedule** outlines the initial plan. The key to the phased roadmap is to vet the assumption prior to any decision to proceed.

### **Table 3 - BCBP Co-op Class A Hook Investment Schedule**

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### **3.5 Operating and LTD Debt**

The phased BCBP Co-op Roadmap will require both Long Term Debt (LTD) and a revolving operating line.

**Table 4 - LTD and Operating Line Forecast** outlines the initial forecast.

### **Table 4 - LTD and Operating Line Forecast**

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The forecasted interest rates are 4.25% for LTD and 5.25% for operating loan. The interest rates will need to be re-evaluated at the time of the co-op formation. Solidification of the operating monies required will be a critical component of the success of the project and a decision to proceed by the co-op board at each phase of the Roadmap.

### **3.6 Capital Expenditures**

Capital expenditures will be needed annually commencing in year four to keep the proposed new facility up to date and efficient in relation to the competition. This amount will need to be determined as part of the final facility plan. In a period of poor returns, new capital investment can be reduced. However, the plant eventually must be brought up to date and delays in capital expenditures can result in a plant becoming run-down and less efficient.

### **3.7 Operating Expenses**

#### **Objective**

Establish expected operating expenses for all planned three phases of the BCBP Co-op Roadmap.

### Strategy

Determine operating expenses based on prevailing market forces, generally accepted accounting principles, and set of benchmark assumptions. **Appendix 4.1 - BCBP Co-op Operating Cost Forecast** Fixed and Variable expenses have been forecasted for all three phases of the planned BCBP Co-op launch and proposed build. **Appendix 4.2 - BCBP Co-op Fixed Expense Forecast** and **Appendix 4.3 - BCBP Co-op Variable Expense Forecast**

### Depreciation

Depreciation has been calculated based on the expected useful life of the specific capital expenditures to be detailed in the facility report. The straight-line method has been used.

## 4.0 PRO FORMA FINANCIAL STATEMENTS

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### Objective

Establish a complete set of pro forma financial statements for the three-year base line forecast and analyze the results.

### Strategy

Apply the results of all the above assumptions to create a seven-year BCBP Co-op phased Pro Forma statements. These complete statements are presented in **Appendix 1 - BCBP Co-op Pro Forma Statement of Earnings**.

A summary of the results is presented in:

- **Appendix 1.1 - BCBP Co-op Pro Forma Statement of Earnings**
- **Appendix 1.2 - BCBP Co-op Pro Forma Cash Flow**
- **Appendix 1.3 - BCBP Co-op Balance Sheet**

The forecasted statements have been based on a critical set of assumptions. These assumptions will be detailed and presented to the co-operative board as part of their information update prior to a decision to proceed. **Table 5 - Summary of BCBP Co-op Road Map Key Financial Ratios** outlines the initial financial ratios for the proposed BCBP Co-op Roadmap vision.

**Table 5 - Summary of BCBP Co-op Road Map Key Financial Ratios**  
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## BC Beef Roadmap Timelines

Activities	Timelines
<b>1. Roadmap Presentation</b> <ul style="list-style-type: none"> <li><i>No Go → Project Ends</i></li> <li><i>Go → Steering Committee approves Roadmap</i></li> </ul>	March 8 2019 Roadmap Approval
<ul style="list-style-type: none"> <li><b>Phase #1 – Roadmap Presentations</b></li> <li><b>Government – Vision and Financial Requirements Proposed</b></li> <li><b>Financial Groups (FCC/BMO/Royal) – Financial Forecast</b></li> <li><b>Producer Group – Vision and Co-op Business Solidification</b> <ul style="list-style-type: none"> <li>5-6 Producers that would potentially form Co-op</li> </ul> </li> <li><i>No Go → Project Ends</i></li> <li><i>Go → Producers align to form Co-op</i></li> </ul>	March-April 2019
<b>2. Phase #1 BC Beef Marketing Program</b>	April 30 2019
<ul style="list-style-type: none"> <li><b>BCBP Co-op is initiated with 1 – 2 Employees (Supply/Brand)</b></li> <li><b>Supply is secured for 5200 head/year - # of Producers TBD</b></li> <li><b>Brand is developed – brand specifications approved</b></li> <li><b>Production Plan – Toll Processing Agreements</b></li> <li><b>Business Start Up – Brand launch</b></li> <li><b>Critical Success Factors – Report Card Metrics</b> <ul style="list-style-type: none"> <li>Supply; Demand; Financial</li> </ul> </li> <li><i>No Go → Decision to maintain brand or end business</i></li> <li><i>Go → BCBP Co-op BOD – Phase #2 Expansion Plan</i></li> </ul>	May-October 2019
<b>3. Phase #2 Expansion Plan</b>	September 2020-2021
<ul style="list-style-type: none"> <li><b>BCBP Co-op expands – HR evaluated</b></li> <li><b>Supply is secured for 13,000 head/year - # of Producers TBD</b></li> <li><b>Branded product line is expanded – further processed</b></li> <li><b>Production Plan – Toll Processing Agreements</b></li> <li><b>Critical Success Factors – Report Card Metrics</b> <ul style="list-style-type: none"> <li>Supply; Demand; Financial</li> </ul> </li> <li><b>Facility Go/No Go Decision based upon current business and forecast:</b> <ul style="list-style-type: none"> <li>Positive cut out</li> <li>Brand relevance</li> <li>Producer support</li> <li>Financial markers: Balance Sheet</li> </ul> </li> <li><i>No Go → Decision to maintain brand or end business</i></li> <li><i>Go → BCBP Co-op BOD – Phase #3 Facility Plan</i></li> </ul>	September 2021
<b>4. Phase #3 Facility Plan – 500 head/week</b>	October 2021
<ul style="list-style-type: none"> <li><b>Facility Business Plan – Critical Success Factors</b></li> <li><i>No Go → Decision to maintain brand or end business</i></li> <li><i>Go → BCBP Co-op BOD – Phase #3 Facility Business Plan</i></li> </ul>	Nov-Dec 2021