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Wyoming Sugar Company LLC

Michael Boland

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Wyoming Sugar Company, LLC (Wyoming Sugar) has its roots in 1916 when a group of Utah investors built a plant in Worland, Wyoming, for \$1 million. In 1926, it was acquired by the Holly Sugar Company, which was based in Colorado Springs, Colorado. In 1988, Holly Sugar was acquired by Imperial Sugar, which declared bankruptcy in 2001. In 2002, the plant was acquired by Wyoming Sugar, an LLC which is owned by producer-investors, non-producer-investors, and an association of producers. In addition to the \$2.5 million in equity, a group of local bankers provided approximately \$3.5 million in financing for the acquisition. The strong equity provided working capital to begin operations.

History of the Company

The first crop of sugar beets in 1917 resulted in 25,601 tons, which were produced on 4,053 acres (six tons per acre) with a 14.3 percent sugar extraction rate and a daily slice rate of 437 tons. This increased dramatically by 2001. Over the 1996 to 2000 time period, 18,000 to 20,000 acres of sugar beets were harvested with 17 percent sugar extraction for almost 400,000 tons (21 to 22 tons per acre) and a 3,600 daily slice rate. The 2001 crop was significantly below average due to an early freeze and drought conditions.

The Worland plant produces refined sugar from sugar beets. In addition, molasses and pulp are two byproducts produced in the sugar beet manufacturing process. The beet pulp is sold in two forms, pressed and dried pellets. It is used in animal feed.

The plant has 60 full time employees and another 100 seasonal employees each year with a payroll of almost \$4 million. Another \$4.6 million is spent annually on transportation, chemicals, materials, utilities, and supplies. Beet payments to about 120 local producers have averaged more than \$16 million annually since 1998. Wyoming Sugar Company, LLC owns a marketing allotment which, authorized under the 2002 Farm Bill, entitles them to sell 59,454 tons of refined sugar that is processed from about 19,000 acres.

The sugar beet process is separated into diffusion, juice purification, evaporation, crystallization, and pulp manufacture. Crystallization is conducted on the sugar while the other steps occur during sugar beet processing.

Mission and Objectives

The mission of the company is to own and operate a sugar processing facility in a profitable manner that also provides added value to sugar beet growers and local community interests. The structure of the company has been set up to be grower-driven. The objectives of the company are to:

- A) Create an efficient structure/organization that ensures that the financial and other goals are met.
- B) Create a favorable environment in which growers and landowners can grow sugar beets by:
 - 1) Maintaining a viable grower environment and
 - 2) Reinvesting in the factory to maintain it as a first class production facility over the long term in a manner that provides adequate current returns to growers while accommodating the needs of the factory to maintain its facilities for long-term growth and profitability.

- C) Rebuild a proper acreage base on the basis of a workable management structure and financial incentives that balance the needs of both
 - 1) Growers, and
 - 2) Non-grower investors who choose to participate on a financial basis.
- D) Create a structure that allows the grower association to participate as well as non-investor growers.
- E) Be solvent and produce abundant cash flow to allow for an investor return.
- F) Create partnerships to properly market the sugar products produced at the plant.
- G) Be a leader in the community.

Governance

Wyoming Sugar (WSC) is owned by the individual growers and landlords, the Washakie Beet Growers Association Cooperative (WBGAC) and other investor members who own stock in Wyoming Sugar. Other members of Wyoming Sugar include local businesses, bankers, local community leaders, and other individual investors that were interested in the success of a local business. The growers and landlords own 70% of the shares; 20% is owned by other local investors; and 10% is owned by WBGAC.

Producers must be a member of the cooperative in order to grow sugar beets but they are not obligated to buy stock in Wyoming Sugar. Producers who buy shares in WSC are also members of WBGAC, which was organized as a 521 subchapter T. However, as a member of WBGAC, those producers who did not buy individual stock still share in the returns from Wyoming Sugar because of the association stock ownership.

WSC is governed by a board of managers that consists of seven managers who are chosen on a staggered basis. At least four of the managers are required to be producers or land owners. There are 25,000 shares of stock that have been authorized (\$100 per share) and a producer is required to purchase a minimum of 20 shares and cannot exceed 5% of the total shares.

There are no delivery rights associated with Wyoming Sugar. However, WBGAC contracts with the growers (who own stock in Wyoming Sugar) for sugar beets and has a contract with Wyoming Sugar to process the sugar beets on behalf of its members. Wyoming Sugar makes a beet payment to WBGAC who then distributes the funds on a patronage basis to its members. WBGAC is governed by a board of directors that consists of nine directors representing all the growing areas.

Cal Jones is the CEO and President of Wyoming Sugar. He was reared in northwest Wyoming and worked for Holly Sugar (later called Imperial Sugar) for his entire career. Richard (Dick) McKamey is Chairman of the Board and a local sugar beet producer. He was in charge of the negotiations with Holly and served as CEO and President until Cal was hired in September 2002.

Rationale for Forming an LLC

The organizational structure does not obligate a producer to grow sugar beets. It was used to gain more equity capital from growers and landlords as well as outside investors who wanted to invest more in Wyoming Sugar than they might have under a structure that linked delivery rights to stock purchase. This structure is flexible in that the members can change their relationship with Wyoming Sugar more easily. It also provides for an improved incentive structure for company performance and growers.

Forming an LLC whose governance structure means that it is owned by producers provided greater flexibility between producers and non-producer investors. It also ensured the Capper-Volstead limited exemption to antitrust law could be used if needed because the WBGAC was a cooperative.

The LLC is still grower-driven but has improved tax benefits. Using a cooperative structure would have meant that non-producer members and producer-members would have been put in one entity. This might have placed the Capper-Volstead limited exemption from antitrust at risk. It also gave less flexibility in allocating profits. Finally, it could result in a non-producer owned board which was not desirable from a governance perspective for these producers.

The structure of LLC and a separate grower cooperative requires additional work to set up and maintain. And, the initial offering for the LLC is generally more difficult than a pure cooperative. The WSC was an intra state offering.

Financial Data

Table 1 contains four years of unaudited data for the Worland plant. The \$2.5 million in equity (25,000 shares at \$100 per share) and a \$3.5 million USDA Rural Development guaranteed loan provided for the acquisition cost, transaction costs, and initial working capital. WSC also uses CCC loans on sugar products. The strong equity position was critical because WSC was faced with low sugar prices and drought conditions that limited the short term potential.

Table 1. Unaudited Financial Information for the Worland, Wyoming Plant based on Information from Imperial Sugar (in \$1,000)

	1999	2000	2001	2002
Production, 1,000 cwt	1,065	1,385	1,079	856
Sugar Gross Sales	29,391	37,403	26,102	20,134
Less: Freight & Allowance	3,052	4,101	3,117	
By-product Sales	2,488	2,530	2,653	1,832
Less: Selling Expenses	1,195	1,226	1,203	942
Net Sales Revenue	27,632	34,606	24,435	21,024
Plant Operating Costs	9,558	10,897	10,776	8,144
Beet Grower Payments and Freight	17,162	20,224	14,410	12,664
EBITDA	912	3,485	-751	216

Michael Boland

Michael Boland is an associate professor of agricultural economics and associate director of the Arthur Capper Cooperative Center at Kansas State University.

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**Department of Agricultural Economics
Kansas State University, Manhattan, KS 66506-4011**

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