

Executive Summary – IAFIC and the tecTERRA Food Capital Fund

The Iowa Agricultural Finance Corporation (IAFC) is a private, for-profit corporation and recipient of a \$25 million loan through IDED under Iowa Code 15E.208 (the Iowa Agricultural Industry Finance Corporation Act, or the "Act").

The Act requires IAFIC to invest the State loan into value-added processing ventures and biotechnology companies that benefit Iowa and involve Iowa ag producers in the benefits. IAFIC especially seeks to create opportunities for agricultural producer involvement such as ownership or other benefits from growing Iowa's food, fiber and ag industry beyond the farm gate.

IAFC's Board of Directors serves without compensation, motivated by the desire to help Iowa realize the World Food Capital ambition.

Tom Urban, Chairman
Former Chairman, CEO and President of Pioneer Hi-Bred International

Duane Acker, Vice-chair
Former President, Kansas State University, and current President of SouthWest Iowa Egg, an ag value-added cooperative in Atlantic.

Steve Morain, Secretary
General Counsel, Iowa Farm Bureau Federation.

Leslie Miller, Treasurer
Vice President, Iowa State Savings Bank, Knoxville, Iowa, Board of Iowa Ag Development Authority, and instructor at ISU's ag credit school.

Jeff Plagge
President, First National Bank of Waverly and Chair of American Bankers Rural Economic Development Task Force.

Wayne Seaman
Immediate past CEO, West Central Cooperative, a successful cooperative growing through emphasis on niche marketing and ag value-added activities.

Jack May
President of Kent Feeds, Muscatine, Iowa.

John Bloomhall
President and CEO Diamond V Mills, Cedar Rapids, Iowa, an innovative processor and food ingredient company.

Jack May resigned following a family health crisis but served over a year shaping IAFIC's business plan. John Bloomhall was elected December 1 to fill the vacancy and contributes similar practical experience in the processing business.

The following Board Members were elected to an expanded Board, December 16, 1999. Each is intended to bring increased agricultural producer experience (meat and grains) to IAFIC's Board as strategies to engage farmers in successful, profitable value-added enterprises are pursued.

Paul Hill
Chairman and CEO of Iowa Turkey Growers Cooperative and West Liberty Foods, an experienced food processing entrepreneur.

Bill Horan
Past President, Iowa Corn Growers Association. Partner in family farm corporation with brother Joe Horan.

The Act specifically calls for a private corporation to make business judgment investment decisions. IAFIC recruited a top notch Board to guide the corporation both in its profit mission and public mission. **The ultimate shareholders of IAFIC are agricultural producers whom participate in IAFIC investments.** The Board's fiduciary duty to IDED to repay the State loan and its duty to its ultimate shareholders requires that both IAFIC be structured as a profitable, self-sustaining business and that IAFIC's investments be profitable and successful. It is not helpful to involve producers in business failures.

Changes requested by IAFIC to the original Act were effective July 1, 1999. These changes are intended to make it easier for agricultural producers to buy IAFIC shares from the profits of successful investment ventures and to facilitate raising matching private investments.

The State's desire to leverage private equity to "match" the State loan is one reason IAFIC was formed as a private company. Constitutional prohibitions prevent the State from doing this directly.

To raise additional capital from private investors, IAFIC formed tecTERRA Food Capital Fund. tecTERRA is the mechanism for both raising additional private equity and placing investments into targeted businesses. tecTERRA is a limited duration (10 years) limited partnership. IAFIC's proceeds will payback the State loan and the remainder will be available for reinvestment in new growth opportunities as IAFIC is intended as a permanent addition to Iowa's business financing mix.

To date, tecTERRA has raised an additional \$18 million to put to work for Iowa. The Fund currently has \$43 million under management. tecTERRA hopes to raise a total of \$55 million if all limited partnership units are fully subscribed.

tecTERRA became operational August 12 (shortly after the statutory amendments became effective). The first emphasis was on raising matching private funds.

The first business investments are now starting to reach completion.

As reported in the 1998 Annual Report, IAFIC targets equity or equity-like investment opportunities for several reasons. Debt financing is available from a variety of public and private sources and could have been

administered by a State agency. IAFIC's unique market niche is equity – when the bank says, "It's a great idea, but you need more cash to get a loan."

Equity can leverage additional dollars of debt (loan financing). **Emphasizing equity maximizes the State loan's strategic impact.**

To provide proper management and placement of IAFIC's \$25 million loan and to assure private investors of professional, business-driven judgment, IAFIC partnered with Cybus Capital Advisors as a co-general partner in tecTERRA and the Fund's financial manager. Cybus is an experienced national investment-banking firm with almost \$2 billion of financing experience in the food and agricultural sector over the last twelve years. Cybus is headquartered in Des Moines, but has branch offices in Colorado, California and Florida.

Cybus finds and recommends investment opportunities that meet the Act's requirement to make a profit. IAFIC's Board of Directors assures that the recommended investments meet the Act's public purpose eligibility standards. *A qualified investment must pass both tests.* An investment must be both a good business opportunity supported by appropriate business planning, managerial talent and marketing capacity and it must fall within the public purpose of the Act.

Production agriculture is not a focus -- a business must have some further processing or biotechnology aspect.

The Act's desired outcome and IAFIC's mission is promoting growth food business with ag producer ownership in the benefits, especially ownership. To achieve this objective IAFIC works from two directions. First by helping producers build or participate in successful businesses able to attract private equity and debt on business merit. Second by involving producers in successful businesses by finding firms "for sale" in whole or in part, that tecTERRA can bring to Iowa or connect to producers.

Success requires putting all the pieces together from both producers and strategic business partners.

IAFIC plans to work closely with IDED and other public agencies to help foster growth in these targeted industries.

For more information contact:

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