

General Manager's Report

06 May 2020

Good evening everyone and I hope everyone is well and safe amid the COVID-19 pandemic and that you have found effective ways to thrive during these difficult times. I am writing this report to celebrate and discuss the Armstrong Regional Cooperative's (ARC) past year and I am glad to say that 2019, our 98th year, was a successful year in many ways including financial, community leadership and customer service.

Crude oil pricing remained more stable through 2019 trending down from \$66 to about \$50 at year end giving us much less volatile market and pricing. It is sometimes difficult to remember 2019 with the ongoing pandemic, however it was the year that our Vernon gas bar achieved #1 in the market for the first time, the year the ARC purchased its first electric vehicle and the year we began our diversification process with the purchase of the 25 Ave property in Vernon for another gas bar and other ventures.

Our membership numbers continued to grow during 2019 and there are a number of factors convincing people to join the ARC. A major contributor is the desire to receive a patronage cheque each year and equally important are the efforts put in by our staff to live the CO-OP principles and exemplifying our You're At Home Here tag line during every customer interaction. Thanks to all of those staff some of whom are attending this evening.

We have all seen businesses change during the pandemic, however the business climate was already producing significant changes during much of our fiscal 2019 year. Businesses are closing or changing drastically for reasons both new and old and it is sometimes discouraging to see business owners unable to implement a succession plan and are simply shutting down or when someone does purchase the business the level of competency and efficiency changes in ways that negatively affect their offering. These changes are making it more difficult for the ARC to maintain services as we have to find alternatives or live with higher costs or inferior products or both.

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Fortunately, the ARC has, for the most part, been able to continue to provide exceptional service and products despite these changes.

This next paragraph is one I that for the last few years I have been able to use with few changes. The Cooperative Retailing System (CRS) has seen further amalgamations this past year, all of which were completed in attempts to increase our competitive position or increase of offerings over larger areas. Another drop of 8 has brought us to 162 retail co-ops now operating in Western Canada and we are expecting more reductions over the coming years. Many of these amalgamations have made the CRS stronger as a whole and given us a larger customer base.

The ARC's dollar sales have dropped only slightly this last year with decreasing fuel costs and fewer litres sold taking us from \$77.65M to \$76.76M in 2019, a drop of 1.1%. Despite product margin pressures from competitors on many fronts our Local Profits have recovered from \$1.04M last year to \$1.7M in 2019, representing a 64.5% increase due mostly to fuel margins and assisted by cost saving measures within the ARC. Sadly, while the patronage received from FCL was still relatively strong, our Net Income has decreased to \$6.2M from last year's \$7.5M, a 17% decrease. As alluded to earlier, liter sales were down 1.3% this past year, to 59.8M from 60.6M the year before. The ARC returned equity of \$4.847M to our members for their 2019 purchases which is one of the driving forces behind our Vernon gas bar achieving the same #1 in market status as our other 2 gas bars.

With almost 22,000 members at year end, representing an increase of 2,245 new members, it was a disappointment not to be able to hand out cheques this year and we look forward to some version of a cheque handout event next spring. The membership growth is slightly lower than the previous year's 2579 reflecting a return to a more stable growth pattern after the peak years following the opening of the Vernon Gas

Bar. It also appears that many of the new, and some of the existing, members are increasingly moving to utilize our digital information streams and payment methods.

Technology continues to be a crucial, yet expensive, part of our daily lives at the ARC and we are continuing to develop ways that we can make it work effectively for us. Software and hardware upgrades are continuing to increase in frequency and cost and include everything from our phone systems, computer systems, fuel systems, alarms, etc. The next few years will see upgrades to our computer and fuel pumps in particular. Related to our technology upgrades, our ARC-developed monthly statement software is now emailing about 63% of our monthly statements with only 37% of our statements printed and mailed via Canada Post.

Fortunately, our recent labour woes at the FCL refinery have been resolved and in fact have driven future cost savings through operational improvements at the refinery. With the refinery worker's union accepting the majority of FCL's terms, the CO-OP Retailing System will benefit from those savings using them to offset increasing costs in other operational areas.

The ARC is actively pursuing diversification efforts to augment, not replace, our core business and are also looking at a wide range of profitable growth opportunities. As in all aspects of one's life, with change comes opportunity and the ARC is focused on finding and executing on those opportunities as they arise.

Thanks for attending this AGM and participating in the ongoing governance of your CO-OP and also for your continuing support of the ARC.