

General Manager's Report

11 May 2022

Welcome to the 100th AGM of the Armstrong Regional Cooperative or as we have come to call it, the ARC. As some of you know, this is my 20th year of presenting a GM report to the AGM and as that is wholly one fifth of all the management reports that could have been made to the ARC membership, it does make one ponder a few of life's measurables. The changes in the ARC in the last 20 years are immense and I cannot even begin to fathom the changes that have occurred since 1922. However, some of those measurables may begin with the 6 founders of the ARC in 1922, growing to 174 members by 1936 to approximately 3,500 members in 2002 and now just over 25,000 members enjoying member ownership benefits.



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Although I have been unable to find early year sales figures, the ARC's gross sales figures (corrected to today's dollars) have increased from \$314,000 in 1948 to just over \$91M this past year. With those kinds of figures and the potential the ARC possesses, I can only imagine what the ARC will grow to become in the next 20 and 100 year time spans.

2021 was another hectic year for the ARC with the addition of storage facilities and liquor stores to our business and our entire staff have been wonderful at helping the ARC achieve success during this time. I especially thank all of those staff who have put up with a lack of attention from me as I have worked to get the new businesses up and running. It is wonderful when I see staff covering duties for me and for each other and being patient with others as I have seen throughout this last year. It truly rings true to the co-operative spirit, the sense of community we enjoy and is a joy to observe and be part of each and every day. Thanks again to all ARC staff for all of your efforts during every shift and sometimes even outside of work hours that have allowed the ARC to prosper.

And now to the business of the ARC's 100th year in business, our fiscal year 2021, and how we have managed to have a successful year expanding into new product lines and communities with all the stresses and successes that entailed.

As we all know, there have been significant price increases in our world and the largest and most talked about increase pertinent to the ARC is, of course, the price of fuel which is almost double that of a year ago. Couple this with supply chain

shortages and pandemic effects and the impacts of this can be seen everywhere in our day-to-day life. At the ARC, these factors affected our gas bars and more importantly, the gas bar staff significantly in 2021. Gas bar sales have rebounded from 2020, with a combined increase in litre sales of 12.3% from 22.3M to 25.1M. However that is a mere 1.3% increase over the 24.7M litres sold in 2019. By comparison, the gas bar dollar sales are \$38.5M, \$27.6M and \$35.8M for 2021, 2020 and 2019 respectively which translate to 2021 gas bar dollars giving a 39.5% increase over 2020 and a 7.4% increase over 2019. The ARC is definitely still growing, however the pandemic, price increases, travel patterns, vehicle choices and population demographics are having an impact on our sales in significant ways. Also affecting the retail fuel future is the fact that industry experts have now universally agreed that the Canadian gasoline market reached peak volumes in 2018/2019 and will steadily decline over the decades to come.

Speaking to that eventuality, during 2021, numerous changes have occurred at the ARC with the opening of our storage facilities in Canoe and Vernon and the addition of liquor stores in Kelowna and Vernon. There are at least a few staff here from those new locations and we welcome them to the ARC family. The liquor stores added much needed sales diversification adding \$4.1M in their first, partial year and are now showing significant growth year over year after going through their first cheque handout event.

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With the new stores and product lines offered, memberships in the ARC have increased another few thousand to over 25,000 at the end of our 100th year and this is especially impressive when we consider the impacts we are seeing from the aging population and the corresponding loss of membership that brings to the ARC. As a comparison, I recently found a 1936 member list showing 174 members. It is also quite inspirational to see new generations getting excited about their ARC membership like we did many times at the cheque handouts at all sites this year. As always, there is a theory that it is a healthy patronage cheque received each year that is our best membership drive tool. Personally, I believe that equally important to our membership growth are the relationships that our staff develop with our customers over time and how that drives word of mouth discussions with future members.

On the financial front, and alluded to earlier, 2021 was a good year for the ARC. Overall sales increased 43.5% from \$62.3M in 2020 to \$89.4M in 2021 with some of the increases driven by additional business lines and with fuel prices driving the largest part of the growth. Total litres for the ARC have also increased 6.3% from 2020 levels of 58.6M to over 62.3M litres in 2021. We are happy with the strong local profit of just under \$2.6M up 72% over the \$1.5M local profit earned in 2020. Even larger growth was seen in our Net Savings after the addition of Loyalty Program and Patronage Refunds from FCL bringing us to \$7.9M this year, a 99.5% increase over 2020. Having said that, this year's 2021 Net Income is break even (down 0.3%) from 2019's pre-pandemic net income. I am quite happy with the

financial results, especially considering the ARC spent \$5.1M on new liquor business ventures, spent another \$500k on updating fuel dispensers at AGB and SAGB and around \$250k on technology upgrades.

With all that going on, the ARC is announcing patronage rebate rates of 4% on liquor store purchases and 6% on all other eligible purchases. These rates translate to just over \$4.5M in patronage equity payments returned to 16,557 member-owners this year.

The ARC continues to pursue responses to the continuing technology improvements occurring in our business world. We are faced with an aggressively changing retail payment systems world and to that end we are anticipating a completely new Point Of Sale system coming to us in late 2022 or early 2023. This new POS system will afford us the luxury of having all of our sites on one system with direct connection to our centralized accounting, membership and payment processing systems. Gone will be the days of having different systems at the fuel retails and the liquor stores and all of the associated inefficiencies.

Speaking to the back up power systems mentioned last year, supply chain shortages have put a bit of a damper on the project, however the most critical sites at our Armstrong cardlock, bulk plant and offices have since late last year been running with generators in place and without power interruptions. Two

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more sites are weeks away from completion and commissioning and the remaining 3 sites are awaiting equipment ordered last fall and still on back-order.

Most of you may also be aware of the announcement made by FCL and Cenovus that there is an agreement in principle for the purchase of a number of Husky facilities in Western Canada. The ARC will be involved in that deal and when we have more details, we will announce them to the community. Unfortunately, that is all that can be said on the subject until the ARC is advised the project has completed, which is expected sometime in the next 3 to 6 months.

At this time, I would like to acknowledge the changing of the guard at the ARC with the retirement of long-term and key ARC employee, Shelley Sanjenko. Shelley began with the ARC in 2003 when it was still called the Armstrong Co-operative Society and to put it modestly, she was the better half of the management duo that helped guide the ARC through the many challenges, issues, pitfalls, surprises, watershed moments and other stressful events since then. Shelley was the person who grew the systems, policies and procedures from a company of \$6M sales to the \$89M company we are today. If you needed an answer about anything to do with administration (and many, if not most, of all the other aspects of the ARC's business) Shelley was your first stop. She was also the person that staff knew they could go to for the humane responses to their questions and needs and near the end of her tenure was the one that people went to for items that required an

accurate memory. She will be very much missed here and I am comfortable in saying that the staff and I wish her all the best in her retirement years.

If I may then segue into, and not place any undue expectations on anyone, the fact that we have two new admin staff here this evening who have proved in their short time with the ARC to be extremely positive additions to our team. Jeanette Lock and Holly Haverkamp have joined us as office clerk and controller and both have extensive experience in many aspects of administration at successful local businesses. They both have great attitudes and are adapting surprisingly well to the ARC's FCL supplied accounting and administrative computer systems. We are lucky to have them and look forward to many years with them on the ARC team.

Further expanding on the staffing at the ARC, we continue to be challenged by the ever frustrating search for eager, positive, driven, reasonable and hard-working staff at our retail sites. As you may have noticed via advertising at retail stores, on the radio, on social media, on the backs of company vehicles and just about anywhere you look, it seems every organization is looking for staff. We are lucky to have many long-term employees, and our turnover at most sites is well below the norm in our communities, yet we are not immune to the stresses and costs associated with the constant recruitment cycle.

In light of some of the staffing issues discussed and related to technology upgrades mentioned earlier, FCL and the ARC continue to explore options to provide services with longer hours while employing the same number or possibly fewer

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staff. One of those explorations involves the possibility of opening our gas bars to 24-hr unattended fuelling. We will keep you updated on our findings via the usual information paths such as site signage, on social media and on our website.

The ARC continues to pursue profitable expansion and diversification down existing and presently unidentified paths in our efforts to ensure the long-term relevance and viability of the ARC.

Thanks for attending this, the ARC's 100th AGM and coincidentally, my 20th AGM as the GM. With your participation in the ongoing governance of your CO-OP, the board and managements continued diligence, the continuing support of the ARC by our members and their communities and the staff's ever present efforts at all of our sites, I can see no reason why there won't be a relevant and vibrant ARC, or whatever it may be called in the future, for another 100 years.

Regards,

Jeff Payne