

Annual Public Meeting - January 2024

Talking points - Financial Overview

CHECK AGAINST DELIVERY

1 – INTRO

- As the Commissioner to the Board of Directors at the CDC, I am proud to present the financial results of the CDC for the dairy year ending July 31, 2023.
- Before I begin, I would like to thank all CDC employees for their continued care and hard work towards ensuring that we exceed our obligations for sound governance, financial standards and risk management.
- Again, this year the Office of the Auditor General (OAG) audited and provided a clean opinion on the CDC's financial statements.
- The CDC's annual report, including the financial statements, was tabled in parliament on November 29, 2023, and a copy can be found on the CDC's website.
- In the following slides I will provide the highlights of our financial statements.

2- Results in the Operations and comprehensive Income (loss) statement.

- In the first part of the presentation, we will review the results of our statement of operations and Comprehensive Income (loss) which includes: Butter sales, other sources of income, expenses from operating and administrative activities and finally, the overall results.

3– First off, we have the BUTTER SALES REVENUE

- These sales cover two main types of butter:
 - The first one is butter from the Domestic Seasonality Programs, under which the CDC purchases and sells butter in order to regulate the supply of dairy products in the domestic market. These are also known as Plan A and Plan B.
 - The second is butter the CDC imported as part of Canada's commitment under the 1994 World Trade Organization Agreement on Agriculture.
- The financial results for 2022-2023 show an overall decrease in butter sales of 31%.
 - This is primarily due to a decrease of \$69M in revenue under the Domestic Seasonality Programs. Butter manufacturers offered the CDC less product in 22-23 under these Programs, which in turn resulted in less butter inventory needing to be sold.
 - It was offset by an increase of \$5M in imported butter sales. As the CDC imports the same quantity each year under its TRQ, the variation is due to a higher average selling price in 2023.

4- COST OF SALES / GROSS PROFIT (LOSS)

- The CDC ended the year with a gross loss on sales of \$200K.
- The cost of sales shown in the graph includes the value of the inventory being sold, but also the Transportation, Carrying Charges and Finance Costs which totalled \$142.7M for 2022-2023. It is important to note that butter purchased under the Domestic Seasonality programs, which is the bulk of our sales, is

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typically purchased and resold by the CDC at the support price so has no material impact on the gross profit.

- Also worth noting, the Transportation, Carrying Charges and Finance Costs related to the Domestic Seasonality Programs continue to be recovered as part of the funding received from the milk pool.

5 – OTHER SOURCES OF INCOME

- This slide provides the CDC's other sources of income, which are composed of the Funding from Milk Pools, the Funding from the Government of Canada, as well as income earned from rendering Professional Services and other income.
 - Funding from milk pools totaled \$9.3 M for 22-23. This represents the revenues obtained from producers and the marketplace and mainly used to finance a portion of the CDC's administrative expenses, the annual cost of production study, the carrying charges associated with butter stocks under the Domestic Seasonality Programs, as well as expenses from the Plan C program for cheese.
 - Funding from the Government of Canada was \$4.6M. This is funding that we receive from parliamentary appropriations, which are recognized as revenue as government-funded admin expenses are incurred.
 - And finally, the last element in this section include is professional services and other income which is mainly comprised of:
 - audit services relating to milk utilization audits. Currently, the CDC provides these services in 8 provinces on a cost-recovery basis and;
 - compensation received from Agriculture and Agri-Food Canada on cost-recovery basis for administrating the Dairy Direct Payment Program (DDPP) on their behalf.

6– EXPENSES FROM OPERATING AND ADMINISTRATIVES ACTIVITIES

In this slide we have the expenses from operating and administrative activities:

- Operating expenses totaled \$2.5M and are composed of expenses incurred for industry initiatives, as well as expenses incurred when conducting the annual study on the cost of production, costs relating to the Plan C program for cheese and other smaller charges.
- As for Admin expenses they totaled \$11M and are composed primarily of salaries and employee benefits, with the balance consisting of expenses relating to the office lease, as well as professional and other administrative services.

7– OVERALL RESULTS

Finally, we have the overall results of the Statements of Operations

- The first element in this slide is the Operational surplus generated from the Domestic Seasonality Programs which equaled \$230k for 22-23. This surplus is distributed annually to provincial milk marketing

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boards and agencies, who in turn redirect these funds to the milk producers as they are ultimately responsible to finance these programs.

- After taking into account the payment of this operational surplus, the Total Comprehensive Income generated was \$1.7M which increased the CDC's retained earnings to \$27.7M.
 - It is important to note that the CDC's retained earnings are governed by policies that clearly identify the activities that can be financed by these funds and the CDC Board is responsible for applying these policies and approving any new initiatives.

8– KEY HIGHLIGHTS FROM THE STATEMENT OF FINANCIAL POSITION

- This next section will provide the key highlights from the Statement of Financial Position as of July 31st, 2023. It will cover:
 - The Butter inventory;
 - The repurchase agreements under the Plan C program for cheese; and
 - The loans from the Government of Canada

9 – BUTTER INVENTORY

- Let's start with the butter inventory, as explained earlier while presenting the sales activities, the CDC purchases and sells butter under:
 - the Domestic Seasonality Programs to regulate the supply of dairy products in the domestic market.
 - And imports butter as part of Canada's commitment under the 1994 World Trade Organization Agreement on Agriculture.
- At the end of July 2023, the CDC held 8,906 tonnes of butter valued at \$90.9 million. This represents an increase of 200 tonnes compared to the inventory held at the end of last year.

10 – REPURCHASE AGREEMENTS – PLAN C PROGRAM FOR CHEESE

- The CDC also operates a storage and buy-back program for cheese on behalf of the CMSMC.
- When the program is active, processors may sell certain cheese products to the CDC, up to a pre-determined quantity and at a set price. The CDC then stores the cheese for a set period, after which the processor is obligated to repurchase the cheese at the same price it was sold to the CDC.
- While the CDC is the legal owner of the Plan C Cheese, it is not considered inventory in the financial statements because, from an accounting standpoint, these "buy-back" agreements are deemed to be financial arrangements, similar to an interest-free loan.
- Nevertheless, from an operational standpoint, the CDC handles the cheese the same way as butter inventory.
- The value of Plan C repurchase agreements as at July 31, 2023, was \$12M. This is an increase of \$1.9M compared to the previous year.
- This represents 1,332 tonnes of cheese held on July 31, 2023.

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11– LOANS FROM THE GOVERNMENT OF CANADA

In this last section we will cover the loans from the government of Canada

- These Loans are from the Government of Canada’s Consolidated Revenue Fund and are authorized by the Minister of Finance as part of the CDC Act.
- The loans are mainly used to finance the Butter Inventory and the cheese under the Repurchase Agreements.
- The balance of the Loans on July 31, 2023, was \$58.7 M, which is a increase of \$2.1M compared to the previous year.
- The loan levels at year end remained fairly stable as the level of inventory and plan C cheese purchase agreements also remained stable.

12 – IN CLOSING

- The CDC continues to be in a sound financial position and its sources of funding are stable.
- This will enable us to continue to provide high quality programs and services to the dairy industry for the foreseeable future.

Thank you.