



# DON'T MISS A BEET

## Podcast Transcript

### Episode: "From Regenerative Agriculture to Transparent Processes — Organic Farming and Supply Chain Challenges and Opportunities"

**Kermit Nash and Anthony Sepich**

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**Kermit Nash:** Thank you for joining us. This is Saul Ewing Arnstein & Lehr's food, beverage and agribusiness podcast series, "Don't Miss a Beet." My name is Kermit Nash. I'm the co-chair of the firm's Food, Beverage and Agribusiness Practice and I'm based in our Minneapolis office. Today, I'm joined by Anthony Sepich, CEO of Pipeline Foods, based in Minneapolis. Anthony took the helm of Pipeline about a year ago and brings a substantial resume of industry experience in agriculture and food, including being the CEO of Compass Materials and the past president of Archer-Daniels-Midland's Corn, Europe Division. Anthony is a Southern Illinois grad and Harvard Executive Business Program alum. Anthony, it's great for you to be with us today. I'm going to give a little background on Pipeline, but I'm sure I'm not going to cover it all. And so, what I want people to know is a little bit about you, a little bit about Pipeline and what you're doing in the world. Just a quick script: Pipeline Foods, as far as I know, is the first U.S.-based supply chain solutions company and you're focused exclusively on organic non-GMO regenerative food and feed. I read this off your website this morning, but it says you bring transparent, sustainable supply chain solutions to connect the dots for farming partners and end users, organic grains and ingredients. I know that might be the understatement of the day, so I want you to elaborate on that in a little bit here just in a minute. Pipeline, like I said before, is based in Minneapolis, but you also have operations in multiple states. You're in Canada as well as South America. What I hear from others and based on my interaction with you is Pipeline is clearly among the leading thought leaders as well as one of the fastest growing sourcing companies for organic grains and ingredients in North America. So Anthony, I'd love for you to share some thoughts about not only what Pipeline is doing in the market today, but then after that, we're going to talk about how the pandemic has impacted the industry and some of your personal insights on what's happening in the industry today and in the future. So give us some more background about yourself and Pipeline.

**Anthony Sepich:** Kermit, thanks first off. Thanks for having me today. I really appreciate it and look forward to spending some time with you. This is the first for me in this format with you as we've spent the time together previous, but thanks

again for having me. So just a little more about my background. I did not grow up on a farm, but I did grow up in Central Illinois and I did work on many farms that were locally owned. I actually worked at an elevator as well, spent some time as a State of Illinois employee before I joined Archer-Daniels-Midland and went in through their portal as a merchandiser. So I had a nearly two-decade career at ADM and I was a bit of an anomaly there in the fact that I moved around into other divisions versus staying in one portal. I have many former colleagues that only have ever been in soybean processing. So while I spent time in most of those usual suspects, including a newer division to ADM that they got into in the late 90s, and it was right about the time that I joined the company, and that was the cocoa and chocolate division. So I had a lot of experience as far as with supply chains in that portal. And if you remember back to those days and some of the things that were being put out there by BBC reports, especially with 40 percent of the world crop coming from Ivory Coast alone, we were one of the forefronts of actually putting together some supply chain transparency changes for major customers. I then took a secondment to a JV, which was a great development opportunity, and not only was it a secondment to a JV that ADM owned 50 percent of, but I also moved to Europe, so I lived there almost six years, five plus for me and my family made it six as my second daughter finished her IB program in the second series. Then when I resigned from ADM, I was president of Corn, Europe. We had assets in Europe, Middle East, and Africa, and it was a 100 percent non-GMO raw material for really the corn wet milling business. And then I did a stint, as you said, I was a named executive officer at Compass Minerals and that was in the salt business. I did everything in supply chain for the entire company from A to Z. And then I also was responsible not only for the commercial, but also all the operations of the salt, which one component that was newer for me was underground mining. And then I started talking to Pipeline and was very intrigued by the business model and excited to come on board here now just a year ago and get back to my roots in ag and use a lot of those things that I learned over my career to help see if we can't affect some change in this space as well, with a focus on organic.

**Kermit Nash:** Like I said, a robust background and with your background in supply chain management and the transparency experience you have, including some things that are headline news for a while, certainly you're no stranger to some of the issues that exist in agribusiness, including in organic. So I've got a couple of questions for you. One of the first is with that supply chain background and what's going on in the organic industry. Most people when they hear organic, they're not necessarily thinking about where it comes from and how it works. As a matter of fact, most people wouldn't even know where to begin. So would you enlighten the audience for what really is important about the supply chain when thinking about organic? Because it doesn't just show up. It's not magical. It actually is a very involved process and deep engagement not only with farmers, but everyone in the supply chain,

which I think really is the value proposition for Pipeline. I'd love to hear a little bit more about that.

**Anthony Sepich:** I think one of the challenges right out of the bat for organic is the fact of scalability, which is one of our theses to unlock that scalability approach. And what do I mean by that? When I lived in Europe, it was very evident to me that they moved people on rail very efficiently and freight much less efficiently. It's the exact opposite in North America. Why is that important? It's important because in Europe, when I was running a non-GMO business, or if there was organic, it was truckload freight to truckload freight when you were starting off at the farm gate. When you get into North America, it's often, if you put a full truckload together, that's often huge in organic, but you might be up against a 100-car unit. And so you're already in a hole from a freight logistics, scalability standpoint right there. So part of the thesis of Pipeline is to unlock that and get that challenge kind of sorted out. I think one of the other challenges is that North America is the largest demand market and yet it's roughly one percent of the acreage here, so those two things are in congruent. So one of the things that Pipeline has done is look at diversity of supply chain to help supplement that. So you've got to think about one crop rotation and if, and as we know in ag, it's always weather dependent, regardless of which piece you're in and to have that kind of vetted supply chains to bring and serve the market. But ultimately, we need to unlock that scalability and grow that acreage and give that optionality to the consumer here in the largest demand market in the world.

**Kermit Nash:** So with vastly more demand than there is supply, and you are taking both ends of the supply chain and putting them under one roof, are you seeing that more and more farmers are trying to convert into organic acres? I know in the past that's been a challenge when you see volatility in commodities pricing, but it seems like with this kind of demand, farmers are getting more comfortable. One percent of acres is not very much. Where do you see that going?

**Anthony Sepich:** Yeah, I think that's one of the challenges. I think one of the other challenges with organic is that there's this three-year cycle. One of the things that we set up at Pipeline was a program called the Farm Profit Program and it's really to address barriers, and as key stakeholders when Pipeline was founded, going out to the farm and continuing that dialogue, which was really unusual -- that was the feedback we got. The feedback we got was everything is kind of being mandated or dictated to us and these are our farms and we run them. We said, great, what are some of those challenges? So one of the challenges is simply that it's that three-year period to get certified into organic, where you have to have transition. And so one of the things that we did to solve that is we partnered with Rabo AgriFinance, and we launched the first ever organic transition loan offering to the U.S. about a year ago. So that's one aspect that was addressed. Another aspect, and it's one that quite

frankly, I didn't really understand until I joined Pipeline, and that was the mental aspect of it. When you think about that, and I go back to, I said, I worked on those farms growing up in Decatur, Illinois, and whenever I worked on that farm and it was a friend of mine, it was his father and his uncle. I got talked to exactly as they talked to their son, so I think you know what that means as a farm kid. But when we went there, we met at Jan's Easton Grill and had breakfast. That's what we did. And that was the talk. And so when I think back to that, one of the challenges is just simply that there's a community. When somebody starts doing something different, there is a natural alienation of that person because they're doing it different, which some people immediately jump to -- well, then I must be doing it wrong. And so there's also that. So we put together a network to support farmers in that aspect and how they go through. And then finally there's a challenge with drift, quite frankly. So if you're an organic farmer and you don't have enough buffer zone or it's an extra windy year, or the wind is out of the south during pollination or whatever the challenges may be, you've got that drift and that inadvertent contamination that can come into your crop and it's really beyond your control because you don't own the land. So really there's guidelines out there, but there's not hard and fast. And so again, when you think back to that alienation, you think back to the coffee shop. All that comes into play too on how people react and where things are happening and the timing that they're doing.

**Kermit Nash:** Understood. Let's look back for a moment so we can kind of frame the future. We're still living in a COVID environment, but yet statistics show that consumer demand for organic products and not just organic, but products that are good for you or value added and even non-GMO or natural was not only holding serve, but spiked. And it wasn't necessarily because of availability, it was demand for products that if you're going to be making more food at home and what have you, they want to have healthy ingredients. Was that a surprise to you? And what does that indicate for the future, whether it's a COVID world or a non-COVID world?

**Anthony Sepich:** So we're not finished with 2020 yet, so I don't have all the statistics to share with you, but I will confirm, yes, we did see growth and others saw growth in that space. Was it a surprise for me today and in this year? No. Would it have been a surprise for me mid my career? Yes, because I didn't know what I didn't know. And I think what's happened over time is that when there's sometimes polarizing words -- words can be polarizing. So I've talked to people and I say, "What do you think about when you hear the word organic?" It can be polarizing. And a lot of folks think of it as transactional, that it's discretionary income, that it's transactional. What I will tell you is it's far different from that. And so when I think about my own family, my wife is a celiac, three of my four kids are. Clean labels are incredibly important for us. We can't buy something if it says food starch, we need to know which food starch. And so that is just one aspect of why it's so important and

why it's not as transactional like some people think it is or discretionary, it's really a way. So whether the things that organic bring, whether it's chemical free, clean label, water retention, crop rotation. There's lots of things that get baked into that. And so there are folks that are out there, folks like my wife that she'll find somewhere else to cut before she cuts what we're bringing into our home cooking and making for the family. And so it didn't surprise me, but I talked to a lot of folks, especially folks that are probably the same age as you and I, and more in the financial industry, and they were surprised by it. And so I think it was great to prove that out. And I think it's only going to continue on that pathway as the millennial generation continues to get more and more buying power, they think differently. I've got kids that age and my daughters, one is in university and the other just graduated. They think far differently than their father ever did when I was shopping when I was in university.

**Kermit Nash:** Understood. And I think that trend continues with some of the detail that we're getting now. And like you said, the year's not over, but hopefully getting better. There are thousands of SKUs of products that some of the branded companies would like to put on shelves, but there's not enough supply and so having you in that position and filling that demand is an amazing opportunity it would seem. So, let me ask you this -- with opportunity also comes other things that are not as great as opportunity itself, and you and I have had this conversation and kind of paying attention to the news that there has been instances even recently where products coming from outside of the country, not necessarily labeled properly, but being passed off as organic has made its way into the supply chain. Pipeline has been at the forefront of saying, "There's a better way." And you have your own processes in place to make sure that that isn't something that happens with your growers, but there are products making their way to the U.S. yet today that clearly are not organic. I'd love your take on that just from an executive standpoint and what you've seen in the world because you've been on both sides of the pond, but I'd love your take.

**Anthony Sepich:** I think that is a huge problem right now. So we talked about, when we started this conversation, we talked about wow there's all this demand out there and there is, but I think the S and D is a bit adulterated because there are some, what appear to be nefarious acts out there. And so I think that the U.S. is actually a little bit behind in that, they're playing a little bit of catch up. Now there's some changes that are coming out that would help with that, but I absolutely believe that there are fraudulent players. I think there are certain countries that think about it very differently. I know when I managed assets, like I said I was based in Europe, but they were in Europe, Middle East, and Africa and I can tell you we had to be very diligent in that supply chain around the Black Sea to make sure that things were truly organic, that IP was in place from farm gate all the way through, that it went

completely through the process and a reality check and a fact checking, not just receiving paper at the end of that journey. And I think that one of the biggest challenges is the fact that there are some folks that are just taking the final paper that in some instances has been found to be false and then prosecuted, but that prosecution is really coming months, sometimes a year behind, by the time the investigation plans out, it gets in and it just undermines the trust in the industry and the consumer. And I think that is the biggest problem. And I think that's also one of the challenges when we talked earlier about why there's only one percent acreage in the largest demand, it's because there are imports that in my mind have adulterated, not all imports. And we validate the supply chain. We send people out with eyes on it, our own employees, and we make sure to go through and validate. And then we do spot checks and then we make sure chain of custody is not broken in that process. And that's critical on doing it. I think the solution, if I could have one kind of magic wish on that, the solution is really to have a global database that really does a very quick mass balance. I think that from my time in Europe and some of their regulations, I think they're actually ahead of us in North America as far as pushing that out. But I will say the communication has gotten better. So if a boat fails in Europe, it's typically flagged now and they can't just redirect and bring it to North America, which did happen in the past. So we're making headway, but really a global database that would be shared across and would be under that guise would go a long way, in my opinion, to helping solve some of that. And then getting what truly is the most sustainable, which is local products for local demand, right. We're supplementing with a lot of it, but ultimately that's a lot of this regenerative movement and some of the other things, and that are important to the new generation as well, which makes sense, which wasn't always thought about in the past.

**Kermit Nash:** Well you're part clairvoyant today because your segue to the next question, which was what's the one thing you could do, and you identified that, but I think you also identified something else that we should talk about just for a couple of minutes with the time we have left. "Regenerative" used to be a buzzword. As a matter of fact, "sustainable" or even "ESG" used to be something that was very much talked about in investment circles and maybe aspirational, but it was hard to find a platform, or even an industry where it would be profitable. A lot of these have been described and written about were gigantic black holes where money would go, but it was very hard to judge whether or not there was any ESG practices or principles in place. It seems like you guys are bucking that trend. And so when I hear people say that Pipeline is first among equals, my question for you is you're distinguishing yourself from the pipeline chain, if you will, and you're distinguishing yourself in the market, but what's the one big thing ahead for you. Where should we

be looking to see where the puck is going for Pipeline that you're going to be continuing to do differently? Or what does that market look for you going forward?

**Anthony Sepich:** Well, if I unpack that just a little bit and go back to your initial point, which was the use of regenerative, I think that's another outcome of 2020 is that regenerative and climate specifically are not going away. And so when you talked about it as a buzzword, now it's kind of evolved into this dull roar around, "Hey, it's climate." And so it remains to be seen where organic plays in that. Now what excites me about organic is that it's already documenting a lot of the things that people are talking about in regenerative, and it depends on who you talk to they have a different focus, but it does focus on soil biodiversity, clean labels, chemical free, crop rotation, water retention, carbon, all of those things are happening. So when you talk about kind of next steps for us, as I look at regenerative, I look at we're already in a great place to start showing people that. And one of the things that we do differently is we're showing the transparency back. So when we go to one of our customers, we have what's called an impact report. And so we have a full sustainability platform and we're not a public company, but we make all our progress and our grades against that public. And we just released our recent one. But in addition to that, we have an impact report, which we go in and do that very thing. We say it was this many farms. This is what they planted. This is where it went. This is the rotation. This is who's using technology. This is the content. And we show that all the way through this many acres, these crops, these percentages. And it's really important because I have yet to have a consumer products or CPG company say anything, but this, wow, that's what we've been asking for and we want. And that's really what the consumer is demanding. So the thing that Pipeline is bringing to the table is that we do have what I like to call logical mass balance. We know our farmers, we're interacting with them. We want to talk to them about future state. We're not just saying, "Hey, come to me and cycle year number three, we want that crop." We're saying, "No, we'll commit all the way out to help you find a market for those. You can sell to anyone or you can commit to us. It doesn't matter." We really want to talk about growing the entire health of that organization. So when we look forward to that, I think regenerative and climate will continue. I think that some folks are dismissive of organic because it hasn't had the impact that they wanted it to have. It is, it's just, it's at one percent acreage. And so it really circles back in my mind to what we spoke about earlier, which is that S and D growing that acreage local where the demand is, and also having the optionality to help out, but to really get the S and Ds to be tight, they would be much tighter and you would see even more growth in that portal if you were to get out some of these fraudulent players or nefarious actors, opportunists. And so our dedication is we don't do any conventional. And the reason we don't do any conventional is because we focus every day, all day on the organic space. And that's why we've been able to grow to

where we are and have the impact, but it's these other things that need to happen. And so we welcome the regenerative, the climate, we think that we can help in that process and help with that transparency and get that education out and get that growth and ultimately , get those dollars back to where they need to go into the farmer's pocket, because that's been a struggle , with our food system, with the global food system. And I'm specifically talking about North America now.

**Kermit Nash:** I think you've given us a ton to think about, but you've also probably established why Pipeline is the gold standard when it comes to sustainably sourcing organic food and feed for the U.S. market and beyond. That wraps up our time. I want to thank you for taking some time with us. Thank you for the insights and your valuable time. And that wraps up for this podcast. Thanks for joining us. And we'll talk to you soon.

**Anthony Sepich:** Thanks for having me. I enjoyed it.