The Aleut Voice
A shareholder advocacy newsletter

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Editor Leo Merculief

TO: THE ALEUT CORPORATION BOARD OF DIRECTORS AND SHAREHOLDERS

TAC's Performance, The Real Story In 4 Pages

Washington Post, Sept. 30, 2010, Robert O'Harrow Jr. Re: Alaska Native Claims Settlement Act (ANCSA) Shareholders:
A decade ago, an Alaska state audit found that shareholders had difficulty understanding the annual reports, a problem that persists said Stephen Colt, an associate professor of economics who studies ANCs at the University of Alaska. The Aleut Voice maintains that annual reports are longer and more complicated.

The Aleut Corporation (TAC) theme The Aleut Connection is not connecting shareholders to their money. Clearly Unangan have reviewed the financials un-washed and we are not dancing about money. TAC measures success by using total revenues which in itself is not a measure of success. Net income is a modest 7.7% of equity.

Shareholders are the boss, the owners and at the top of the corporate food chain. The board rewards managers through contracts and bonuses. The board reward themselves by increasing board fees while increasing dividends by a modest $2/share. This inverts the boss to board order of importance. Over the last 6 years dividends average $5.33 per share. Net income over 6 years is $4.7 M averaging a paltry $783 K per year. Management is expected to perform in a consistent manner with healthy growth over the long term say 10 years. The chair should fight for earnings growth and dividends.

How does a company survive and reward shareholders? Responsibility starts at the top. In the April 25, 2016 UAA news release from 4/24/16 Alaska Dispatch News, Chairman Sharon Lind states that all corporations terminate at some point. She doesn't exclude Alaska Native Corporations from the mix. In my experience corporations change, establish new strategies, restructure, cut expense and thrive. Terminate?

If TAC board focuses on due diligence, operations oversight and fiduciary responsibility then there is no need to discuss corporate termination. From the June Aleutian Current Board Meeting Updates, Directed Management to update the board on the progress of the board adopted goals on a quarterly basis. Why did this take so long?

After 46 years since the inception of the claims act it is time to stop blaming the *very foreign corporate environment* (chairman's quote) as the boogeyman that interacts with our culture. Further the chair refers to "*the incongruence of the corporate model to the Aleut way of being*". I find that a bit condescending. Examine TAC's financials. You will witness an incongruence of the corporate model to the boards inability to produce meaningful profits and consistently grow shareholder equity.

Quit with the Superlatives
Re: 2016 and 2017 the CEO exclaims WOW what a year. From the annual report "Impressive growth and Superior performance across all sectors" The Aleut Voice asks compared to what? Only in a Native Corporation can the bar be set that low as to describe these performance numbers as impressive and superior.

Revenues without corresponding profits for a specific type of business are meaningless! One ANC in the past generated record revenues totaling about $1 Billion and almost a billion in expenses. Many ANCs show large revenue gains and the Alaska media, give ANCs positive press. If the corresponding profits from large revenues are meager then what has leadership provided for shareholders? The board of directors is misleading shareholders with this type of hype.

Let's start with some basics. Read Phil Town's book Rule Number One. Study return on equity for Fortune 500 companies. Seemingly after joining a native corporation, executives don't leave Alaska. Most recycle through other ANCSA corporations. The horde of accountants, lawyers and consultants arrived starting in 1972. If they are so business savvy, wouldn't recruiters have brought them back to the lower 48? A few were helpful, I admit. Out in the real world a place to which these magicians may never return, many if not most companies expect a 20% return on equity

Look at TAC and subsidiaries. Based on 20% of TAC's $149.2 M total equity in 2017, total returns should be about $30 M. Conservatively at 15% of equity total returns should be $22 M. For AMS, see AMS The Enigma Sept. 2017. Page 64 of the 2016 annual report shows cash amounts due to TAC from related parties and page 58 of the 2017 annual report reflects the same. Here is a look at net profits from these subs.

Due from related party	AE	AMS	C&H	ARS
2016 $	1.43 M	2.50 M	1.05 M	5.03 M
Net Profit	377 K	4.4 M	(1.1 M)	(742 K)
Due from related party **2017** $			1.35 M	9.73 M
Net Profit	671 K	5.04 M	264 K	1.39 M

Cash amounts due from related parties, not collected by the parent company (TAC) are used to sustain companies that cannot sustain themselves. This is poor business practice. Outside ANCSA in public and private corporations, these companies would be shut down, boards replaced and managers fired.

Shareholders should question why would our auditor Grant Thornton not counsel The Aleut Corporation that this delay in cash repayment to the parent company is not in the best interest of shareholders or gives the appearance of not benefitting shareholders.

Any significant cash payments for AMS over the years, and the millions due from related parties ARS and C&H should be capitalized. That may not be what your client wants to hear however it would be in the best interest of Aleut Corporation shareholders.

ARS "explosive growth and vastly increased profitability", quotes the CEO is the kind of boasting Warren Buffet warns us about and what The Aleut Voice calls WIZARDRY.

The top officer's compensation in the disclosure statement has grown to about $1.88 M, an increase of $452 K (about $2.1 M) after adding the president's compensation. The board needs to explain to shareholders at the annual meeting why they are not due $10 a share in dividends. TAC has no dividend policy that is communicated to shareholders. Out in the real-world shareholders have some idea about dividend payment trends. Their board and officers are vested in the company.

<u>TAC Board needs to explain the formula for management bonuses and justify board fees</u>. Fees should be performance based. Which native corporations are part of their comparative study group? Native corporations as a whole are not doing that well. Word gets out, annual reports are public documents. It is big news when ANCs do well. ANCs make the headlines as their shareholders and the media are not silent about corporate performance.

Here is a historical summary of moderate to high ROE and superior performance across business sectors for The Aleut Corporation. 1. Alaska Trust Company, 2. Patrick Mechanical, 3. CSAJV, 4. AKIMA/KI JV and finally cash infusion from the untimely sales of Alaska trust, and the early terminations of CSAV and Akima/KI. With the exception of the hard work by TAC in the early 1980's through lawsuits and tough negotiations for smaller regions' share of the 7i pie nothing else in the meantime comes close. All other ventures went broke, returned very little or shut down for one reason or another. Historically, success in one out of five operating subsidiaries is poor capital allocation.

Government contracting and fuel ventures are not worth the headache. Ultimate cleanup of fuel tank farms will be costly. Adak has future potential and for now has provided long-term tax assets that TAC may not use up for decades.

What Shareholders Say
The Aleut Voice conducted an informal shareholder survey with these results:

Even with disappointing corporate performance, shareholders say they were not out of pocket as ANCSA stock was issued to them for free. (In reality, they gave up aboriginal rights and much of their cash went into corporations) They are never going to go broke as their stake in the corporation was zero to start with. Shareholders feel they are always going to get something however small. ANC stock has no market value; Land except for the little acreage that is developed has no market value; In TAC that is basically zero. The tax burden on shareholders is minimal. At-large shareholders feel disconnected and as a large group say, "Hold an annual meeting in Seattle".

What's Happening to Shareholder's Money?
What's sad is that TAC board recognizes shareholder sentiments. They know that for the most part, Unangan shareholders have difficulty understanding 62 pages of the annual report. Management forward looking statements and fancy lingo takes advantage of shareholder's and elder's lack of financial knowledge. TAC's free spending attitude puts a priority on ANCSA's social benefit intentions. From the TAC 2016 annual report TAC intends "to fund many non-profit initiatives". With a mediocre 5-year profit record, how is this possible? Social directives flow from a portion of profits and do not exist in a spending vacuum. "Social" is an undefined ANCSA benefit.

How is TAC Organized?
TAC changes CEOs about every 3 to 4 years, other officers have had short tenures. TAC benefitted from some who left. Many left while under contract at a cost to shareholders. One CFO left after a long tenure and lasted just a couple of months with another ANC. No big loss there. Mr. Johnson prevailed in a dispute that went all the way to the Alaska Supreme Court. TAC's recruiting record is costly to shareholders. TAC's Internal politics do not benefit staff and shareholders. Where is TAC's organization chart and line of authority published; where does the buck stop? Does the president answer to the CEO, the person with executive authority and overall corporate responsibility?

Performance Is Not a Series of Financial Snapshots
Responsible companies are geared for long term performance over 10 or more years with expected growth of not only revenues but more importantly changes in shareholder equity from year to year with 20% growth being sustained. Healthy profits and dividends flow from that. Companies need this type of growth as they pay about 40% in corporate taxes. <u>The Aleut Corporation pays little or no corporate taxes</u>. TAC has decades of deferred tax assets on their balance sheet. TAC's return on equity is essentially flat. Profits should be double current levels as TAC pays little in taxes.

Expenses Are Too High
Overheads after gross margins are too high. TAC's team has a safety net with board lability insurance, 7i income, and Patrick Mechanical cash flow that has returned $30 M to TAC. Spending is excessive with shareholder information meetings junkets non-profit activity and PR spending that makes no sense. Who are we PR ing, ourselves? We spend way too much on the annual report and The Aleutian Current full color productions, travel and entertainment. Many public companies, Pfizer, Ford, Wyndham and other's financials come in a plain brown wrapper. Warren Buffet has no PR department, no HR and no General Counsel. AMS does need HR. Tac needs to CREATE SHAREHOLDER VALUE, produce quarterly financials on line and a simple annual report. That's it.

What TAC Does Right
TAC has little debt. TAC is one of the few ANCs I know of that produces consolidating financials for shareholders. I know of no village corporation in our region that does. Those who don't are promoting financial ignorance for shareholders. Squinty six-point spread sheet type on pages 58 and 60 constitutes cruel and unusual punishment. Shareholders cannot understand what they cannot read.