

Between Worlds - Investment Caution

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by SVEND HOLST

Bristol Bay Native Corp. invested in what its shareholders knew best: the salmon industry.

Weighing risks and spotting opportunities from their fishing boats on the silty, storm-swept, salmon-rich waters of Bristol Bay helped prepare the region's leaders for the challenges that came with the Alaska Native Claims Settlement Act.

Bristol Bay at a glance

ANCSA land entitlement*:
2.9 million acres

ANCSA land conveyed so far:
2.72 million acres

Money from ANCSA:
\$32.7 million

Businesses, partnerships, investments:
Petrocard Systems Inc., CCI Inc., Specpro Inc., Bristol Environmental Services Corp., Bristol Bay Corporate Services Inc., BBkp Inc., investment portfolio.

Net Corporate Profits/Losses

per fiscal year

1973 \$(238,000) 1974 \$(21,000) 1975 \$(390,000) 1976 \$(835,500) 1977
\$3,012,676 1978 \$113,988 1979 \$(1,294,784) 1980 \$1,911,316 1981 \$63,300 1982
\$729,817 1983 \$3,478,007 1984 \$1,986,744 1985 \$1,054,611 1986 \$638,000 1987
\$1,757,000 1988 \$(852,000) 1989 \$7,058,000 1990 \$1,384,000 1991** \$1,971,000
1992 \$4,821,000 1993 \$2,693,000

1994 \$3,460,000 1995 \$3,868,000 1996 \$5,485,000 1997 \$35,248,000 1998
\$24,123,000

Shareholder Dividends

per 100 shares

1973 \$0 1974 \$0 1975 \$0 1976 \$0 1977 \$0 1978 \$25 1979 \$74 1980 \$1 1981
\$110 1982 \$90 1983 \$120 1984 \$123 1985 \$132 1986 \$132 1987 \$132 1988 \$132 1989
\$132 1990 \$132 1991 \$139 1992 \$401 1993 \$172

1994** \$184 1995 \$497 1996 \$581 1997 \$3,270 1998 \$320 Dollar amounts not
adjusted for inflation.

Number of jobs provided by corporation and its subsidiaries:

14**

Number of corporation jobs held by shareholders:

About 4

Total shareholders:

6,103

* These figures include land to which the corporation has partial title.

**No figures available on jobs offered by Bristol Bay's businesses or
subsidiaries.

ALL NUMBERS COMPILED IN LATE 1998.

The Bristol Bay Native Corp. took to business in Alaska with the calculating
caution of those working the world's biggest salmon runs. The corporation has
managed to pay dividends and to avoid the fiscal disasters that have undermined
other Native corporations.

"We were commercial fishermen and we were in business whether we knew it or not," said Dan O'Hara in Naknek, a fishing town on the east side of Bristol Bay.

The 59-year-old O'Hara, now a marine surveyor, is serving a second stint on the board of the regional Native corporation for Bristol Bay. "I think the attitude of Bristol Bay is: 'We can kind of make it on our own.' It didn't take me long to figure out we had to compete with the big boys."

Since its birth in 1972, BBNC has grown into a "big boy," turning almost \$33 million of ANCSA money into assets of more than \$110 million in 1998. The corporation started out "with money, 3 million acres of caribou pasture and lots of hopes and dreams," said Stephen Tolten, its chief financial officer.

Mario Ferraro, caretaker for Peter Pan Seafoods Inc., explains how salmon is canned. Bristol Bay sold the company in 1979 to a Japanese company.

PHOTO BY BRIAN WALLACE Some of those dreams belonged to Nels Anderson Jr., the corporation's first chief executive officer, a longtime legislator and recent gubernatorial candidate, who said BBNC's strength is the background of the people who built and now run the corporation. Almost all of them have worked in the fishing industry, a complicated business.

"The people here are pretty conservative and cautious," he said. "I think exposure to white people here for a longer period of time helped also. We were fishing for subsistence at first and then we fished for money."

The corporation has performed better than beleaguered Calista Corp., the regional Native corporation for the area to the north of Bristol Bay. However, BBNC has made far less money than the regional Native corporations that control land rich in natural resources, such as Sealaska Corp. and Arctic Slope Regional Corp.

BBNC picked its land from within a region encompassing 40,000 square miles of Alaska and populated by three different Native groups - Aleuts on the Alaska Peninsula, Athabascans from the lands surrounding Lake Iliamna and Yup'ik along the coast. The fishing industry came to Bristol Bay more than a half century after the Russians set up shop in 1819 near Dillingham. That town now serves as a hub for the area, which saw the first commercial catch of salmon at Bristol Bay in 1884 - the year after construction of the region's first cannery.

By 1935 Bristol Bay was the leading salmon fishery for a canning industry whose taxes accounted for 72 percent of territorial Alaska's general fund revenue.

The corporation's first financial moves reflected what its founders understood, according to Hjalmar Olsen, the corporation's president.

"Shareholders were saying that BBNC should be involved with the fisheries," said Olsen. "It was a good investment."

In 1975, BBNC purchased Peter Pan Seafoods Inc. for \$9 million. Back then, Peter Pan was one of the larger canneries on the shores of Bristol Bay.

After a couple of years, the company made money for BBNC. But four years later, the cannery industry in the area was declining. The company, despite posting \$72 million in sales in 1979, had a crumbling infrastructure of "ancient buildings and deteriorating docks," said Olsen. Peter Pan's facilities needed a \$40 million upgrade, and BBNC's creditors wanted more money poured into Peter Pan, he said.

Don Nielsen is a long-time board member and one of BBNC's founders.

"The problem we ran into was that the cost of money was so darn expensive," he said. "The prime rate was near 20 percent. Peter Pan was far larger and greater than BBNC itself, in as far as its appetite for operating cash."

In September 1979, BBNC sold the company for \$23.5 million to Nichiro Corp., a closely held Japanese company. The price was about \$14 million more than what BBNC had paid.

Despite the profitable sale, a sprinkling of shareholders look back on the investment as a loser. Their reasons range from the failure of the company to employ many shareholders to the loss of what was BBNC's only prominent Bristol Bay investment. Peter Pan was a work-intensive, visible company.

With the sale of Peter Pan, however, the corporation managed to get out of its early years without losing a lot of money. Nielsen said the board's fisherman-like approach to business helped, and so did good advice.

"We didn't know anything, but we had sense enough to look for people who knew what they were doing. We were lucky, but the board made decisions," he said over coffee at his South Naknek home. Using hands calloused by years of hauling ropes, Nielsen worked a fresh cigarette out of a pack.

He smiled and looked up after a quick shake of his head. Despite experience with a cash-based economy, managing a fishing boat wasn't quite the same as managing many millions of other people's dollars. The learning curve was steep, he said, and there were lots of sharks trolling for Native money with the lure of easy profits.

\ "There were a lot of carpetbaggers out there, but we weren't attracted to them,\ " Nielsen said. \ "Fortunately, we could see it.\ "

Bristol Bay CEO Hjalmar Olsen: \ "Shareholders were saying that BBNC should be involved with the fisheries. It was a good investment.\ "

PHOTO BY BRIAN WALLACE With the cash from the sale of Peter Pan, BBNC lined an investment nest, which has kept a steady supply of cash coming into the company ever since. In 1998, BBNC's investment portfolio was worth \$80 million.

\ "It was the goose that laid the golden egg,\ " Nielsen said. \ "It was one of those things. Right place at the right time.\ "

BBNC entered into its second big investment - the \$20 million purchase of the 503-room Anchorage Hilton Hotel - in April 1977.

\ "It was scary,\ " said Nielsen.

The Hilton lost more than \$1 million during its first year under BBNC.

\ "We were aghast. It took a lot of money to bring it up to par,\ " he said.

Stephen Tolten, BBNC's chief financial officer, said a 100-room expansion of the downtown hotel, budgeted for \$28.5 million in 1984, ended up continuing into the early 1990s and costing \$42 million. But with the improvements, the Hilton went from losing money - almost \$5 million - to making money, he said.

\ "In the last few years, it was doing well - \$4 (million) to \$5 million in positive cash flow,\ " Tolten said. The corporation decided to cash in on the hotel in 1997, selling it for \$67 million.

Hours after the papers were signed, BBNC sent out checks of close to \$3,000 to most of its shareholders.

Shareholders didn't get a big check when the corporation sold another of its early ventures.

Harvey Samuelsen said the purchase of Pacific Food Products Inc. turned out to be a disappointing investment. The company manufactured soda pop, jam, \ "Sunny Jim\ " peanut butter and, later, pet food through a subsidiary.

Samuelsen has been with BBNC since its beginning.

"We thought we were going to make a lot of money there, but we didn't," Samuelsen said. "But we didn't know we'd have to compete with Quaker Oats, Pepsi and Coke. We were tiny compared to them, but we survived."

The company was sold in pieces, for \$1.2 million in 1986, and \$5.2 million in 1992. The investment was pretty much a flat line on the balance sheet, said Olsen, BBNC's president.

This year, most of BBNC's money is invested with the bulls and bears of Wall Street. Along with its portfolio of paper investments, the corporation put funds into a few low-key companies, which don't come with a lot of overhead.

One of BBNC's continuing investments is a card-operated gasoline franchise, Petrocard Systems Inc., and CCI, an environmental cleanup business.

Perhaps the most important investment BBNC has made doesn't show up in its annual reports. The corporation has managed to keep most of its more than 6,000 shareholders happy, director Nielsen said.

The corporation's relationship with shareholders wasn't always good.

Initially BBNC had a 35-member board made up of a representative from every village in the region plus a couple more. After shareholders voted to lower the number to 12 in 1975, the corporation moved its headquarters from Dillingham, the hub of the Bristol Bay region, to Anchorage.

A void opened between the corporation and its shareholders.

"That was the beginning of the disconnection," Nielsen said. "Even though the villages didn't come to the (Dillingham) office often, they wanted to see it." The board of directors and administrators of BBNC, he said, responded to criticism the wrong way.

"We kind of turned in and isolated ourselves," Nielsen said. "The problem, rather than getting better, got worse. It was a very expensive mistake."

To patch up the corporation's relationship with shareholders, BBNC put time and money into making trips to villages in the region. Also, members of the corporation's boards are integrated with the policy making bodies of non-profit entities, schools and other organizations in the region. Shareholders may complain about ANCSA, but few blame BBNC for their problems.

And quite a few people living in the region have problems. Year-round employment in the region is difficult to muster. Most of the 15,000 sportsmen who come to Bristol Bay to hunt and fish each year, don't leave much money behind. The

lodges that attract them are, more often than not, owned by people living out of the region and most of the jobs leave with the end of summer.

The corporation is aware of the need for more local jobs, Samuelsen said. People, mostly the young, are leaving Bristol Bay for Anchorage and other cities. The salmon industry isn't rich enough to employ the next generation.

"It's a big problem," he said. "We've got to find some work for the young people in our villages."