The Pecan Market: How Did We Get Here & Where Are We Headed?

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Assumptions

- **USDA Crop Year: Oct 1 to Sept 30**
  - Data directly relates to Crop Year (2011 data refers to the 2011 crop)

- **FAS Crop Year: Aug 1 to July 31**
  - FAS data relates to the year it is published and **not** the crop year (i.e. 2011 FAS data refers to the 2010 crop)

- Data on these slides correlate to **crop** year and **not** publication date
‘Those who cannot remember the past are condemned to repeat it.’ (George Santayana-1905). In a 1948 speech to the House of Commons, Winston Churchill changed the quote slightly when he said (paraphrased), ‘Those who fail to learn from history are condemned to repeat it.’
Overview

- Pecan Market prior to 2007
- Pecan Market since 2007; China’s entry into the market
- Current Market—How Did We Get Here?
- What lies ahead?
Pecan Industry Prior to 2007

- Growers had little choice as to where to sell their inshell. US Shellers were their only customers.
- The bulk of both domestic and international pecan sales went through US Shellers.
- Continued decline in the commercial market for inshell pecans.
- Grower returns unpredictable and inconsistent.
- Mexican shelling industry almost nonexistent with no direct entry into US Market.
- Mexican Growers had few choices – Mexico or US.
- Australia and South Africa were ‘non-factors.’
Exports to China Prior to 2007

Total Exports to China (incl: China/HK/VN)

Crop Year

Source: Foreign Ag Statistics Service
What Changed in 2007?

- Two years of stable pecan prices with a near record 2007 crop.
- Prices fall dramatically
- Walnut Prices hit record highs
- Inshell supply chain to China changes
- Value of the US Dollar
- Potential for small 2008/2009 crop
Exports to China

Source: Foreign Ag Statistics Service
Impact of China

- Returns to Growers increase dramatically leading to greater investment in existing and new orchards
- US Shellers no longer dictate inshell prices
- Mexican Pecan Growers and Shellers become increasingly more independent
- Significant new plantings outside of North America
- Significant shift in worldwide consumption adversely impacts US domestic market
- Uncontrolled escalation of inshell prices leads to record 2011 prices and subsequent market crash
How Did We Get Here?

- Heavy Spring Rains in the Southeast
- Late Spring Freeze in the Southwest
- High Prices of Competing Nuts (Especially Walnuts)
- Disparity in Pricing of Pecan Pieces and Halves
- Cheap Meats from Mexico
- Cheap Prior-Year Prices on Natives
### A Current State of Affairs (US)

![Nature's Finest Foods, Ltd.](image)

#### Prior Year Carry-Out
- 2013: 79,381.02
- 2014 (Est.): 77,849.04

#### US Crop
- 2013: 120,806.50
- 2014 (Est.): 120,371.04

#### Mexican Imports to US
- 2013: 79,284.90
- 2014 (Est.): 72,575.52

#### Total Supply
- 2013: 279,472.42
- 2014 (Est.): 270,795.61

#### Carry-Out
- 2013: 77,849.04
- 2014 (Est.): 49,442.07

#### Consumption
- 2013: 201,623.38
- 2014 (Est.): 221,353.54

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Note: Figures are expressed in metric tons, inshell basis, and do not take into account US Inshell sent to Mexico for shelling. Meats are converted using industry standard 44% yield. 2013 Data Source: USDA NASS & FAS
Domestic Supply (US)

Source: USDA National Ag Statistics Service and Foreign Ag Statistics.

**Note: 2012 US Crop Figures are estimates as the USDA did not publish final crop figures**
Mexican Exports to US

Source: Foreign Ag Statistics Service
US Supply vs Demand

Source: USDA National Ag Statistics Service and Foreign Ag Statistics.

**Note: 2012 US Supply & Consumption Figures are estimates as the USDA did not publish final crop figures**
US Consumption vs. US Supply vs. Price

Source: USDA National Ag Statistics Service, Foreign Ag Statistics & Nature’s Finest Foods

**Note: 2012 US Consumption Figures are estimates as the USDA did not publish final crop figures. Prices are approximate January contract prices. (i.e. 2012 Crop prices are from Jan 2013 contracting)**
Price of Jr Mammoth Halves vs. Price of Medium Pieces

<table>
<thead>
<tr>
<th>Crop Year</th>
<th>Price per KG</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$10.00</td>
</tr>
<tr>
<td>2006</td>
<td>$12.00</td>
</tr>
<tr>
<td>2007</td>
<td>$8.00</td>
</tr>
<tr>
<td>2008</td>
<td>$14.00</td>
</tr>
<tr>
<td>2009</td>
<td>$16.00</td>
</tr>
<tr>
<td>2010</td>
<td>$12.00</td>
</tr>
<tr>
<td>2011</td>
<td>$10.00</td>
</tr>
<tr>
<td>2012</td>
<td>$14.00</td>
</tr>
<tr>
<td>2013</td>
<td>$16.00</td>
</tr>
</tbody>
</table>

Crop Year
US Pecan Exports

Source: Foreign Ag Statistics Service
US Pecan exports by country

Source: Foreign Ag Statistics Service
## 2013 Crop Year - US Pecan Exports by Country

<table>
<thead>
<tr>
<th>Country</th>
<th>2012 Crop Year</th>
<th>2013 Crop Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>China (China/HK/Vietnam</td>
<td>45,313.28</td>
<td>31,868.49</td>
</tr>
<tr>
<td>Mexico</td>
<td>12,838.10</td>
<td>14,952.18</td>
</tr>
<tr>
<td>Canada</td>
<td>10,736.86</td>
<td>10,744.50</td>
</tr>
<tr>
<td>Holland</td>
<td>6,048.98</td>
<td>6,478.30</td>
</tr>
<tr>
<td>UK</td>
<td>5,529.83</td>
<td>5,130.02</td>
</tr>
<tr>
<td>Other Countries</td>
<td>10,684.69</td>
<td>11,490.58</td>
</tr>
</tbody>
</table>

Note: Exports are expressed in metric tons, inshell basis. Meats were converted assuming industry standard 44% yield.

Source: Foreign Ag Statistics Service
Where are we Headed?

- Consumption is the key to increasing market size
- Must have sufficient supply to increase consumption
- While price is important, if there is not enough supply to handle demand, price becomes irrelevant
US Pecan Consumption vs. US Pecan Exports

Source: USDA National Ag Statistics Service and Foreign Ag Statistics

**Note: 2012 US Consumption Figures are estimates as the USDA did not publish final crop figures**
Mexican Exports to US

Crop Year

Source: Foreign Ag Statistics Service
Chinese Plantings

- Approximately 12-15,000 hectares *
- Very good research program
- 80% planted on hillsides in very small orchards. Figure includes nurseries
- Poor varietal selection, grown in the wrong place.
- Poor orchard management

*Source: The Research Institute of Subtropical Forestry, Chinese Academy of Forestry
Chinese Orchards
Young Orchard
Pest Problems
Pecan Growing Areas - South Africa

Source: Savage Pecan Co
South Africa - Total Plantings (Hectares)

Source: Golden Peanut & Tree Nut
South Africa - Supply Projections (MT)

Source: Golden Peanut & Tree Nut
# 2014 World Production and 2033 Production Estimates

<table>
<thead>
<tr>
<th>Location</th>
<th>2014 Acres</th>
<th>Yield Per Acre (KG)</th>
<th>2014 Total (MT)</th>
<th>2033 Total (MT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>235,730</td>
<td>453.66</td>
<td>106,926.43</td>
<td>139,004.81</td>
</tr>
<tr>
<td>Mexico</td>
<td>150,000</td>
<td>453.66</td>
<td>68,039.55</td>
<td>88,451.41</td>
</tr>
<tr>
<td>South Africa</td>
<td>50,150</td>
<td>725.76</td>
<td>36,396.63</td>
<td>208,763.49</td>
</tr>
<tr>
<td><strong>World Total</strong></td>
<td></td>
<td></td>
<td><strong>211,362.61</strong></td>
<td><strong>436,219.71</strong></td>
</tr>
</tbody>
</table>

US 2033 estimate assumes 3% increase per year from 2014 forward. Mexico 2033 estimate assumes 4,500 acres planted each year from 2014 forward. South African 2033 estimate assumes 12,500 acres planted each year from 2014 forward.

Source: George Ray McEachern, Professor of Horticulture, Texas A&M University, College Station, TX March 2014

**Note:** This data was presented by Mr. McEachern in March 2014 based on 2014 crop estimates available at the time. The final 2014 crop figures were different. As such, this data is presented for illustration purposes only.
How Do We Handle Anticipated supply?

- Change mindset from ‘selling’ to ‘marketing’
- Develop industrywide promotion plan
  - Must include a financing mechanism for marketing, promotion, research & development, standards development, statistical database, etc.
- Develop new markets, both domestically and internationally. Pecans are now a global commodity
- Establish working relationship with Department of Agriculture
- Work with major customers to develop new products
50 Year Crop History

**U. S. Pecan Crop 1960 thru 2012 with Exponential Trend Line**

- **Pecan Crop**
- **Expon. (Pecan Crop)**

Approximately 32% Increase

**U. S. Pecan Crop and California Almond Crop 1960 thru 2012 with Exponential Trend Line**

- **Pecan Crop**
- **Almond Crop**
- **Expon. (Pecan Crop)**
- **Expon. (Almond Crop)**

Approximately 3300% Increase

Sources: USDA, National Agricultural Statistics Service; 2012 Almond Almanac, Almond Board of California
50 Year History - Farm Value

Farm Value of Pecan Crop 1960 thru 2012

Farm Value of Pecan Crop
Expon. (Farm Value of Pecan Crop)

Farm Value of Pecan and Almond Crops 1960 thru 2012

Farm Value of Pecan Crop
Expon. (Farm Value of Pecan Crop)
Farm Value of Almond Crop
Expon. (Farm Value of Almond Crop)

Sources: USDA, National Agricultural Statistics Service; 2012 Almond Almanac, Almond Board of California
Comparison of US Tree Nut Supply - 2002 thru 2012

APG increase marketing from $400K to $10M

Response to marketing campaign

Sources: USDA, National Agricultural Statistics Service
Industry Happenings

- **Salmonella Prevalence Study**
  - Completed 4 year study. Results - Levels on *inshell* pecans at or below levels of salmonella found on *shelled* almonds. Results submitted to FDA.

- **Tufts University Study**
  - Study the impact of pecan consumption on heart disease in overweight people. Further document the high antioxidant levels in pecans & impact on other biomarkers of cardiovascular risk.
Industry Happenings

- New Capital Infusion
  - National Pecan Co.
  - Purchase of Harrell Pecan by Golden Peanut/ADM
- Possible Industry Marketing Order
  - American Pecan Board established May 2013
  - 2014-Industry meetings held
  - Jan 2015-Meet with FDA to consider specifics
  - Summer/Fall 2015-Present proposed Marketing order to Industry
  - Early 2016-Industry vote on order
  - Fall 2016-Implement order
Questions!!!