WELCOME TO THE INDUSTRY CHOICE AWARDS

- The Perfect Storm
- Unforgiven
- The China Syndrome
- Sudden Impact
THE PERFECT STORM

A LESSON IN MURPHY’S LAW OR ‘HOW EVERYTHING THAT COULD POSSIBLY GO WRONG WITH THE WEATHER DID’

- Spring rains in the Southeast and a late freeze in the Southwest
- Summer drought in Texas and bordering States (110 days without rain)
- Fall rains in both the Southeast & Southwest followed by two record snows in the Southwest
- Result: The loss of 50 to 70 million pounds of inshell
UNFORGIVEN
A FAILURE TO RECOGNIZE CHANGE: THE DEMISE OF
THE INDUSTRY’S LARGEST SHELLER

- In late October, rumors circulated regarding the continued viability of Southwest Nut Co.
- On November 6\textsuperscript{th}, there was a significant change in the senior management of the company.
- Due to the problems, most Shellers felt there would be less competition for inshell and numerous opportunities to gain new customers. As such, they delayed purchasing significant quantities of inshell.
- In the meantime, increased purchases by China, combined with the losses incurred due to the weather, significantly reduced the available supply of inshell.
- Result: The Shellers were forced to pay significantly higher prices for scarce inshell. Further, by the time they entered the market, there was not enough inshell left to handle domestic demand.
China purchased 27% of the 2008 Crop by cutting out the Shelling industry and going directly to the grower.

Through November 2009, exports to China had increased 39% over the same period in 2008.

Adding Mexican purchases, it is anticipated that the Chinese will purchase between 100 and 130 million pounds (inshell basis) out of the 2009 crop or approximately ¼ of the total supply.
PECAN EXPORTS

Source: Foreign Agriculture Service (FAS). FAS crop year runs from August 1 to July 31.
Source: Foreign Agriculture Service (FAS). FAS crop year runs from August 1 to July 31
TOTAL EXPORTS TO CHINA
(CHINA/HONG KONG/VIETNAM)

Source: Foreign Agriculture Service (FAS). FAS crop year runs from August 1 to July 31.
IN SHELL: PRICE/POUND PAID BY CHINA
(CHINA/HONG KONG/VIETNAM)

Dollars

Year

Source: Foreign Agriculture Service (FAS). FAS crop year runs from August 1 to July 31
As this is the ‘on-year’ crop, most buyers anticipated, and planned for, lower prices.

Much of the current pricing structure is based on anticipated replacement costs.

Result: Based on current estimates, the industry could experience near record high supplies combined with record high prices.
SUPPLY COMPONENTS

Inshell Equivalent (000)

Crop Year

Source: USDA Ag Statistics Service
<table>
<thead>
<tr>
<th>Year</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 Carry-over</td>
<td>94,194,000</td>
</tr>
<tr>
<td>2009 USDA US crop estimate</td>
<td>290,500,000</td>
</tr>
<tr>
<td>2009 Imports from Mexico (est.)</td>
<td>140,000,000</td>
</tr>
<tr>
<td>Total Supply (estimate)</td>
<td>524,694,000</td>
</tr>
<tr>
<td>Less Consumption (estimate)</td>
<td>420,000,000</td>
</tr>
<tr>
<td>2009 Carry-over (estimate)</td>
<td>104,694,000</td>
</tr>
<tr>
<td>2010 US crop (estimate)</td>
<td>190,000,000</td>
</tr>
<tr>
<td>2010 Imports from Mexico (est.)</td>
<td>105,000,000</td>
</tr>
<tr>
<td>Total Supply (estimate)</td>
<td>399,694,000</td>
</tr>
<tr>
<td>Less Consumption (reduced 5%)**</td>
<td>398,952,000</td>
</tr>
<tr>
<td>2011 Carry-over</td>
<td>742,000</td>
</tr>
</tbody>
</table>

*Estimates are based on historical data from the USDA & FAS

**Note: The 5% figure is based on the average loss in consumption for those years where there was a loss since 1994
AND THE WINNER IS...

‘OTHER PEOPLE’S MONEY’
QUESTIONS?