

2018/2019Crop Overview



2018/2019 Pecan Market

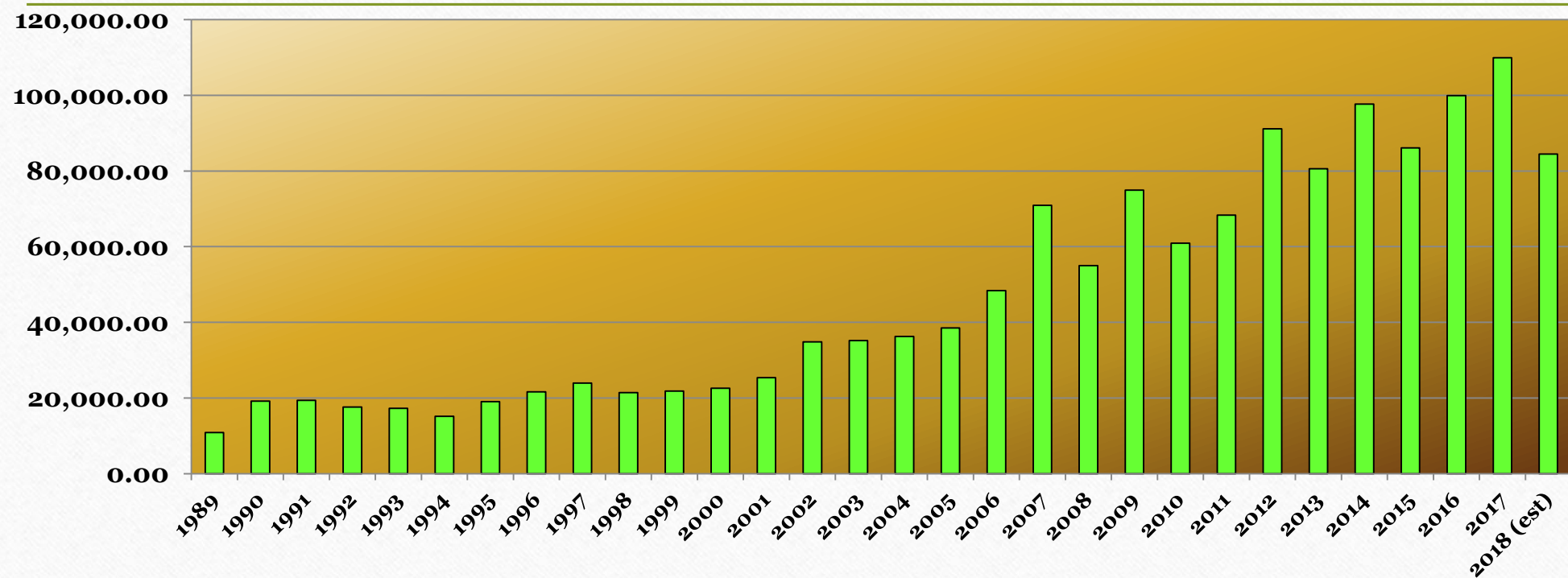
- ❖ Current supply
- ❖ Short-term market impactors
- ❖ Long-term market impactors
- ❖ Industry initiatives
- ❖ Red Flags

Product available for sale by US (MT)

| | 2017 | 2018 (est.) | 2019 (est.) |
|----------------------------|--------------------------|--------------------------|--------------------------|
| Prior Year Carry-In | 70,365.86 | 81,765.21 | 89,676.13 |
| US Crop | 133,289.49 | 100,335.66 | 124,739.18 |
| Mexican Imports | <u>114,894.60</u> | <u>125,567.77</u> | <u>113,399.26</u> |
| Total Supply | 318,549.95 | 307,668.64 | 327,815.57 |
| Carry-out | <u>81,765.21</u> | <u>89,676.13</u> | <u>68,039.55</u> |
| Consumption | 236,784.74 | 217,992.51 | 259,775.02 |
| | | | |

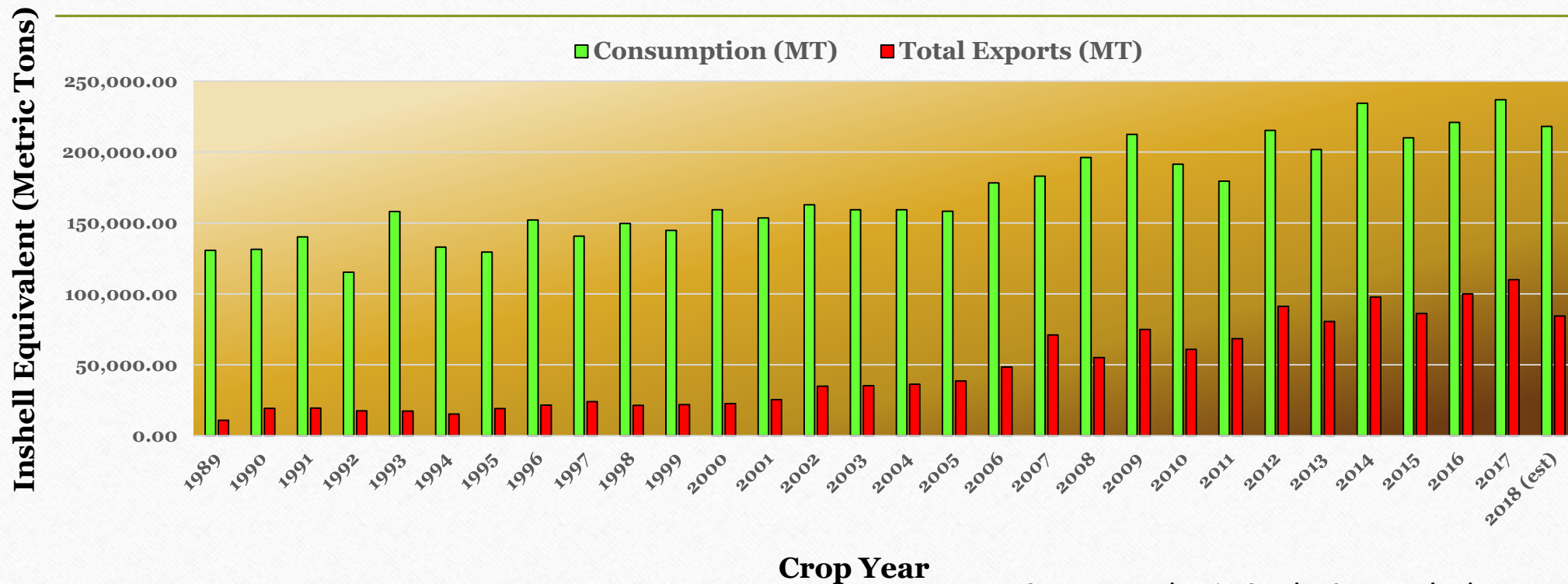
Note: Figures are expressed in metric tons, inshell basis, and do not take into account US Inshell sent to Mexico for shelling. ***Carry-in meats are converted assuming a 44% yield. Mexican import meats are converted assuming a 50% yield.*** Data Sources: USDA NASS & FAS, USDA Market News & Nature's Finest Foods

US Pecan Exports (MT)



Source: USDA Foreign Ag Service

US Consumption vs Total Exports



Source: Foreign Ag Service & Nature's Finest Foods

World Supply - Inshell Metric Tons

| Country | 2017 | 2018 (est.) | 2019 (est.) |
|---------------------|-------------------|-------------------|-------------------|
| US | 133,289.49 | 100,335.66 | 124,739.18 |
| Mexico | 146,169.77 | 162,499.07 | 146,003.81 |
| South Africa | 16,500.00 | 18,200.00 | 19,000.00 |
| Australia | 3,500.00 | 2,000.00 | 3,400.00 |
| US Carry-In | 70,365.86 | 81,765.21 | 89,676.13 |
| WORLD TOTAL* | 369,825.12 | 364,799.94 | 382,819.12 |

*Note: World total does not include China or other emerging countries

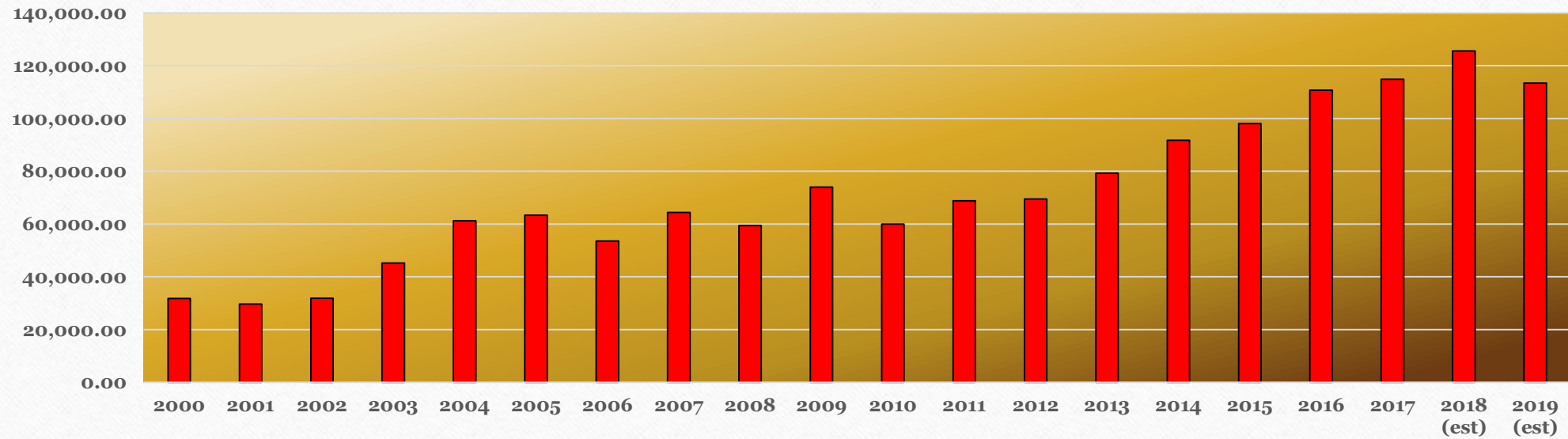
Source: USDA NASS, Stahman Farms-Australia, Golden Peanut & Tree Nut-SA, Bester-SA, Mtebeni Valley Farms, SA, Agricultural Information Service - Mexico, Nature's Finest Foods, Ltd.

2018 Market Impactors

- ❖ Heavy rains throughout US Pecan growing region
- ❖ Hurricane Irma (2017), Hurricanes Florence and Michael (2018)
- ❖ US – China Trade Dispute
- ❖ China's over-purchase on inventory in 2017
- ❖ Production increases in South Africa and Mexico

Mexican Exports to US (MT)

Inshell Equivalent (Metric Tons)



Crop Year

Source: Foreign Ag Service, Nature's Finest Foods, Ltd.

Breakdown of Mexican Exports to US (MT)

| | April 14, 2017 | April 14, 2018 | April 14, 2019 |
|----------------------|------------------|------------------|------------------|
| Inshell | 26,877.29 | 23,135.64 | 34,590.52 |
| Shelled Kernels | <u>30,402.43</u> | <u>27,459.69</u> | <u>34,824.96</u> |
| Converted | 87,682.15 | 78,055.02 | 104,240.44 |
| 7/31 Crop Year Final | 106,869.45 | 105,812.24 | 125,567.88* |

*NOTE: NFF Estimate of Gross Exports assuming 50% conversion of meats to inshell

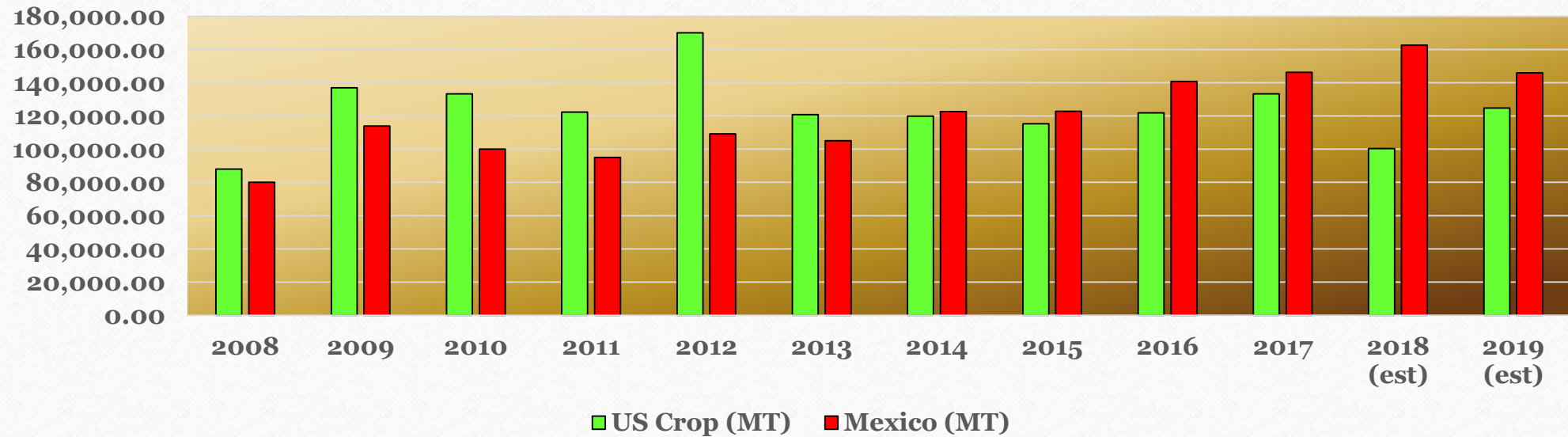
Source: USDA Federal State Market News

Long Term Market Impactors

- ❖ Continued production increases in Mexico and South Africa (including new plantings in Zambia, Namibia & Zimbabwe).
- ❖ Cheap Labor and minimal regulatory burden in Mexico, S. Africa, China and other developing pecan producers
- ❖ Mexico's ability to meet GFSI Food Safety Standards and shift to selling directly to US Market
- ❖ Additional Plantings in China
- ❖ Major US firms changing payment terms, conditions of contracting, etc.

Pecan production United States vs Mexico

Inshell Equivalent (Metric Tons)

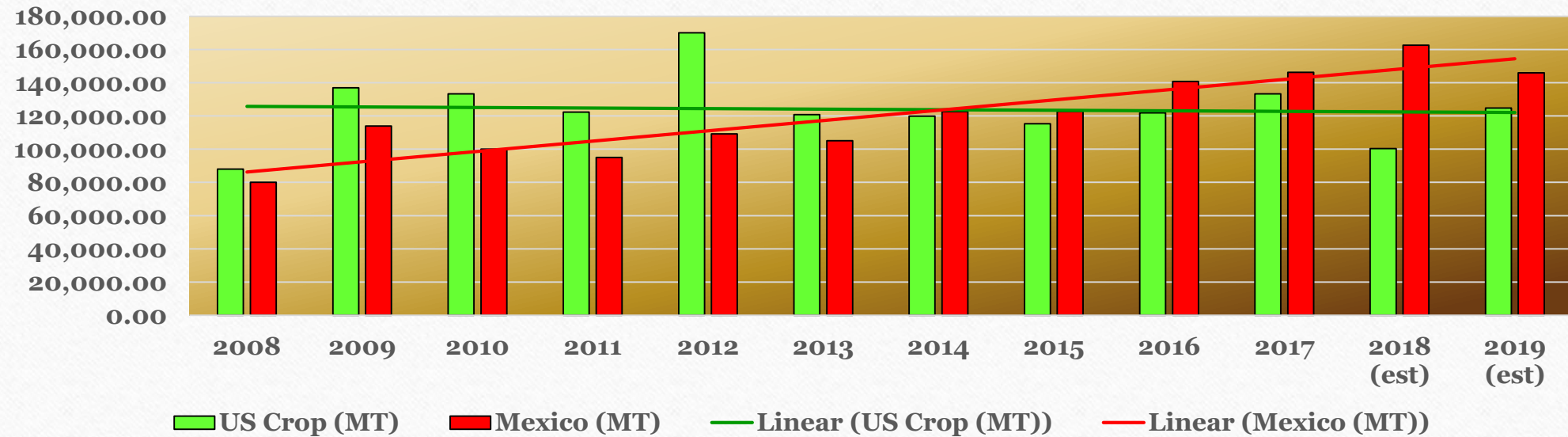


Crop Year

Source: USDA NASS. Foreign Ag Service, Mexican Agriculture Information Service & Nature's Finest Foods

Pecan production United States vs Mexico

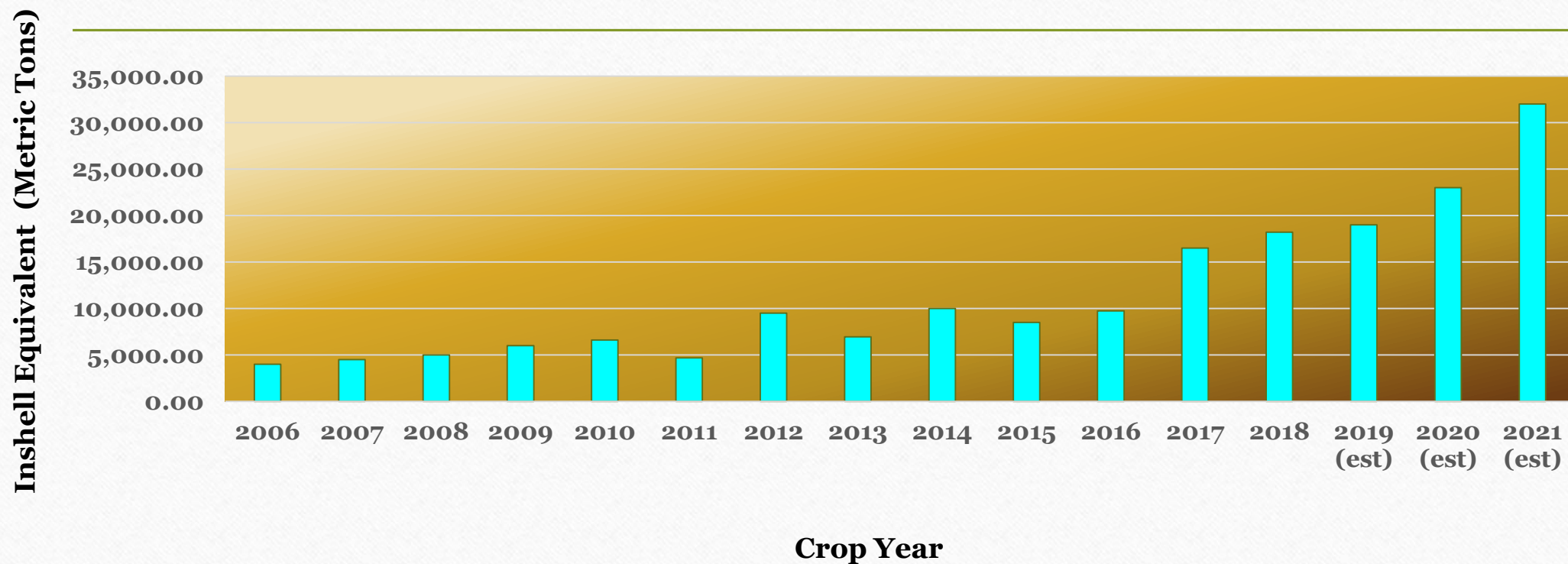
Inshell Equivalent (Metric Tons)



Crop Year

Source: USDA NASS. Foreign Ag Service, Mexican Agriculture Information Service & Nature's Finest Foods

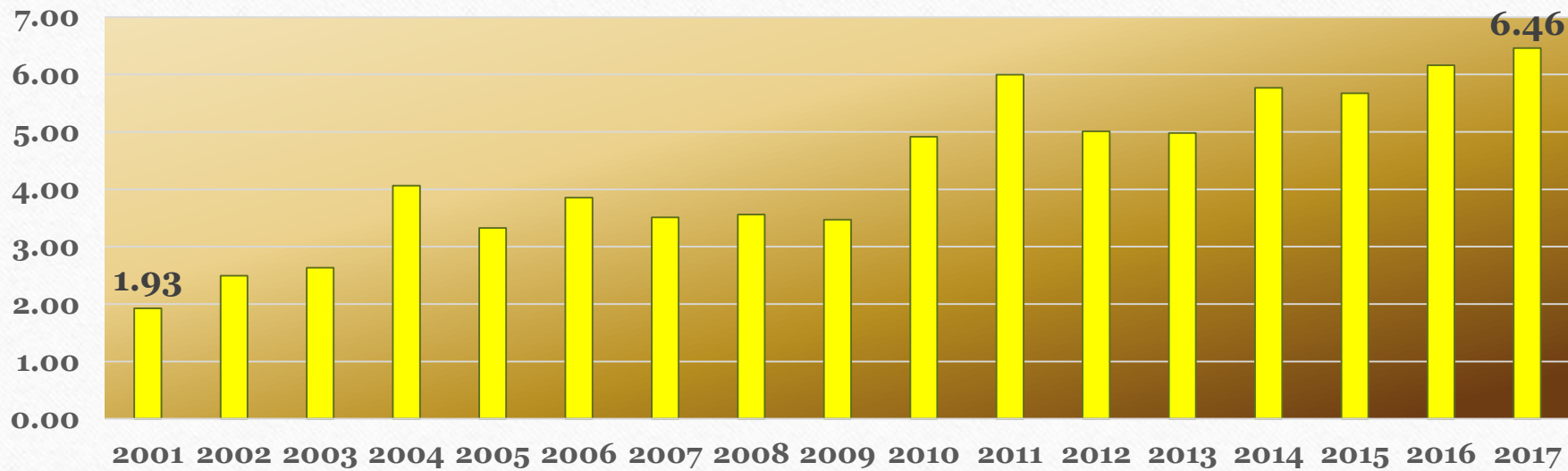
South Africa: Projected Pecan production



Source: Golden Peanut & Tree Nut, SA & Nature's Finest Foods

Price paid to US Grower by China

Dollars /KG Paid to Grower

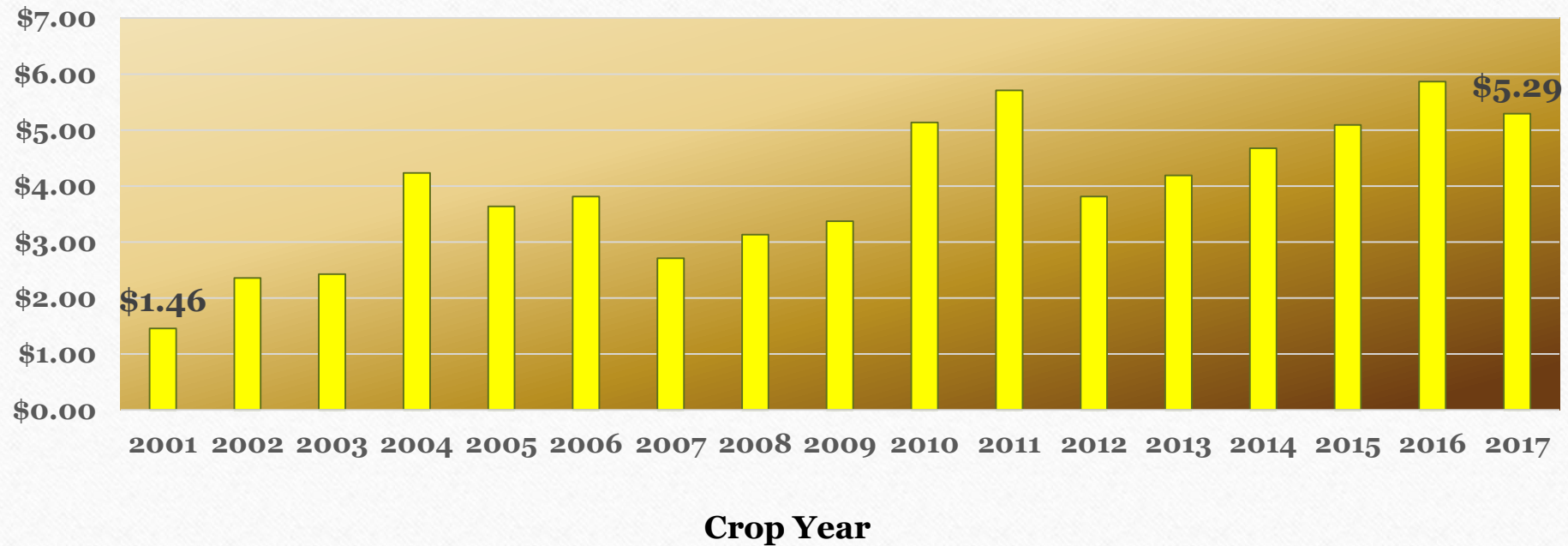


Crop Year

Source: Foreign Ag Service

Price paid to US Grower by Sheller's

Dollars /KG Paid to Grower

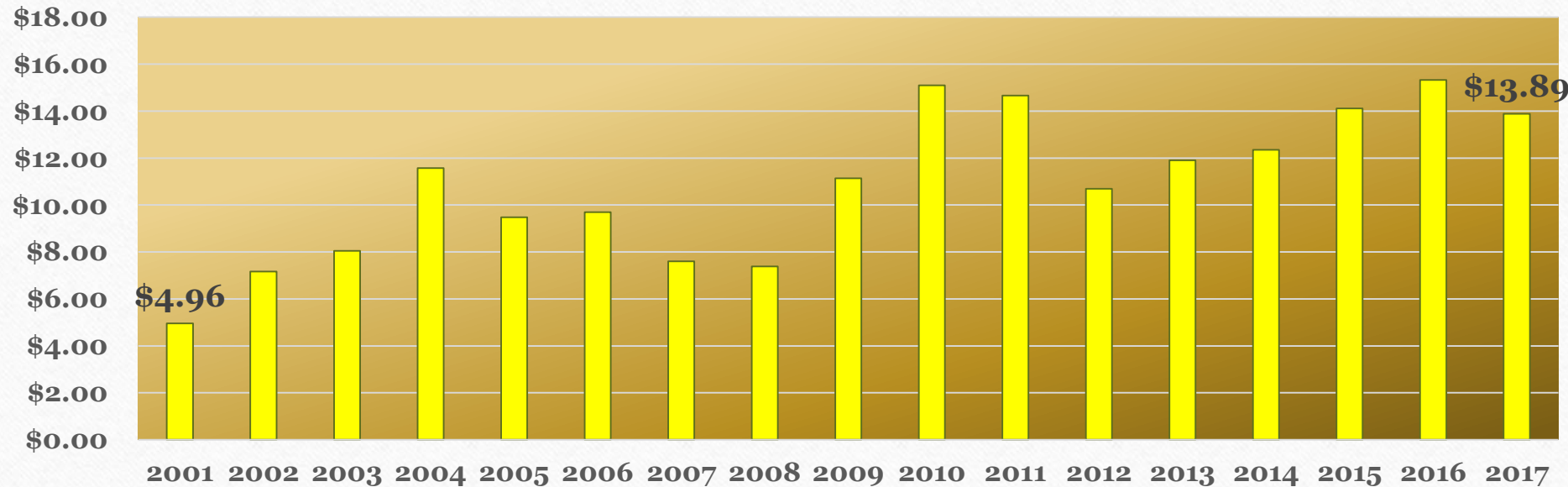


362%

Source: USDA NASS

Price paid to Sheller for Jr Mammoth Halves

Dollars /KG Paid to Sheller

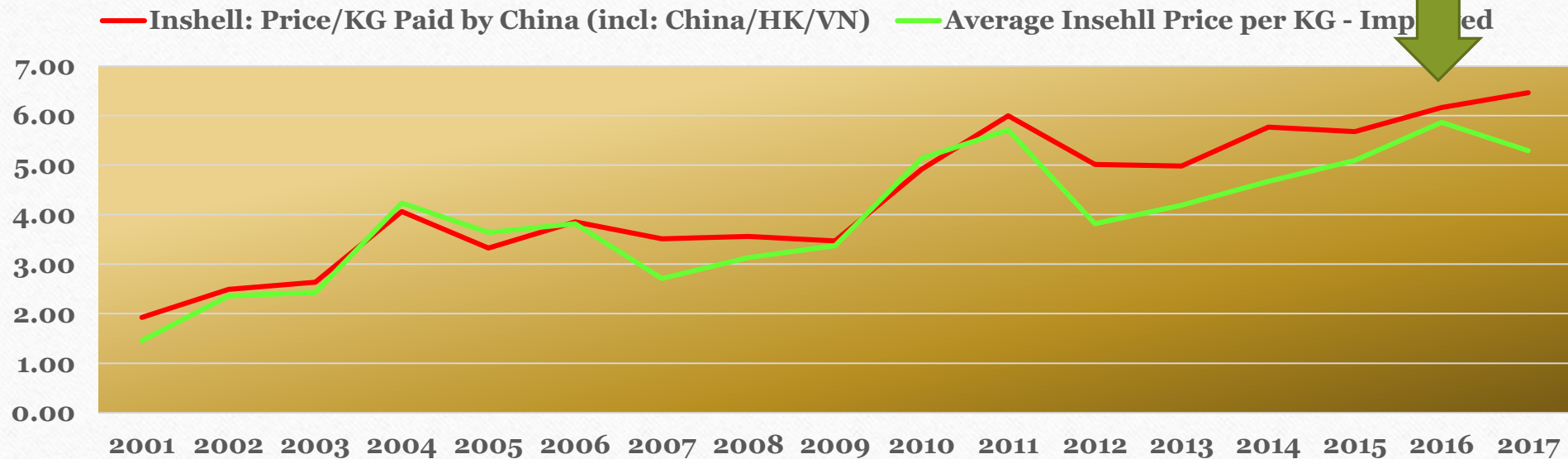


Crop Year

Source: NFF Estimate

Price paid to Grower for Improved Inshell

Dollars /KG Paid to Grower

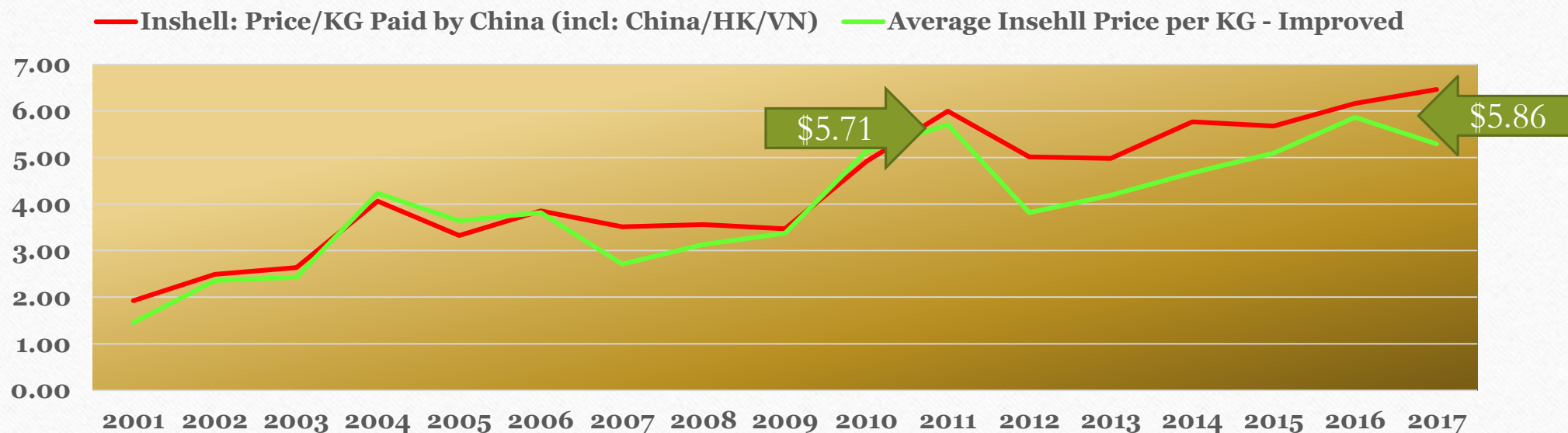


Crop Year

Source: USDA NASS

Price paid to Grower for Improved Inshell

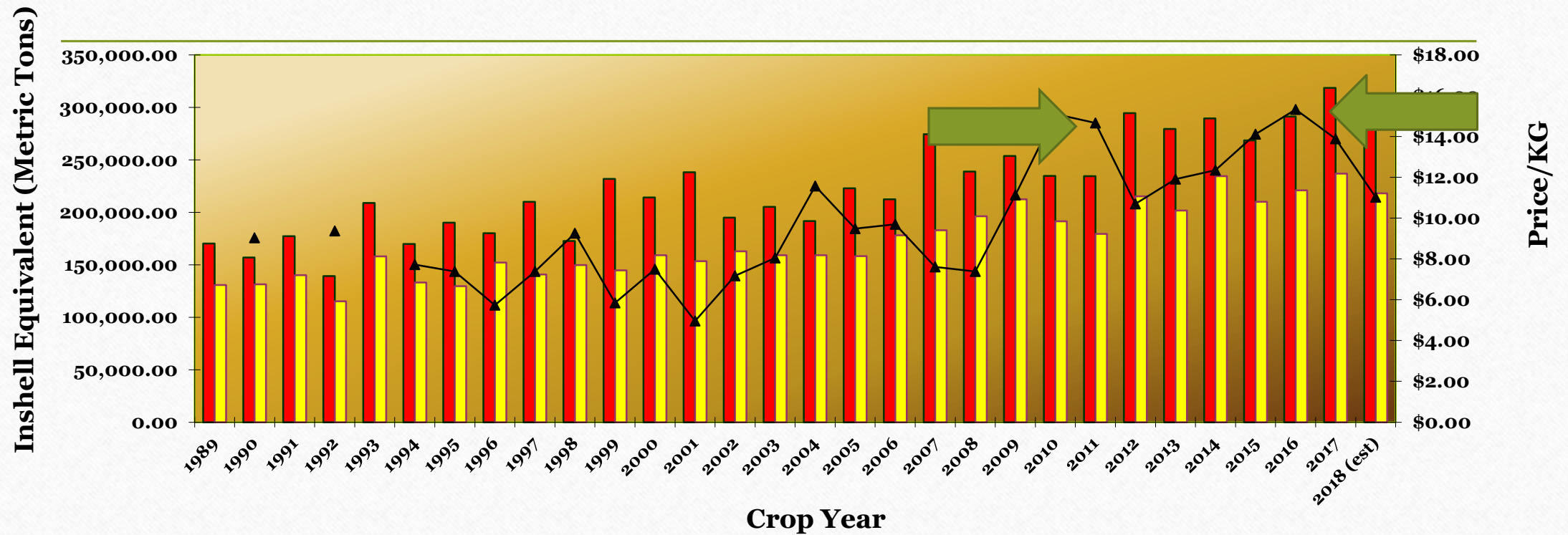
Dollars /KG Paid to Grower



Crop Year

Source: USDA NASS

US Supply Vs Consumption & Price



Source: USDA National Ag Statistics Service, Foreign Ag Service and Nature's Finest Foods.

National Pecan Sheller's Association Initiatives

- ❖ NPSA Shelf Life Study (partially funded by APC)
- ❖ NPSA Chef Summits (partially funded by APC)
- ❖ Development of shelled kernel standards (sent to APC)
- ❖ Certification Process for all inshell coming to the US

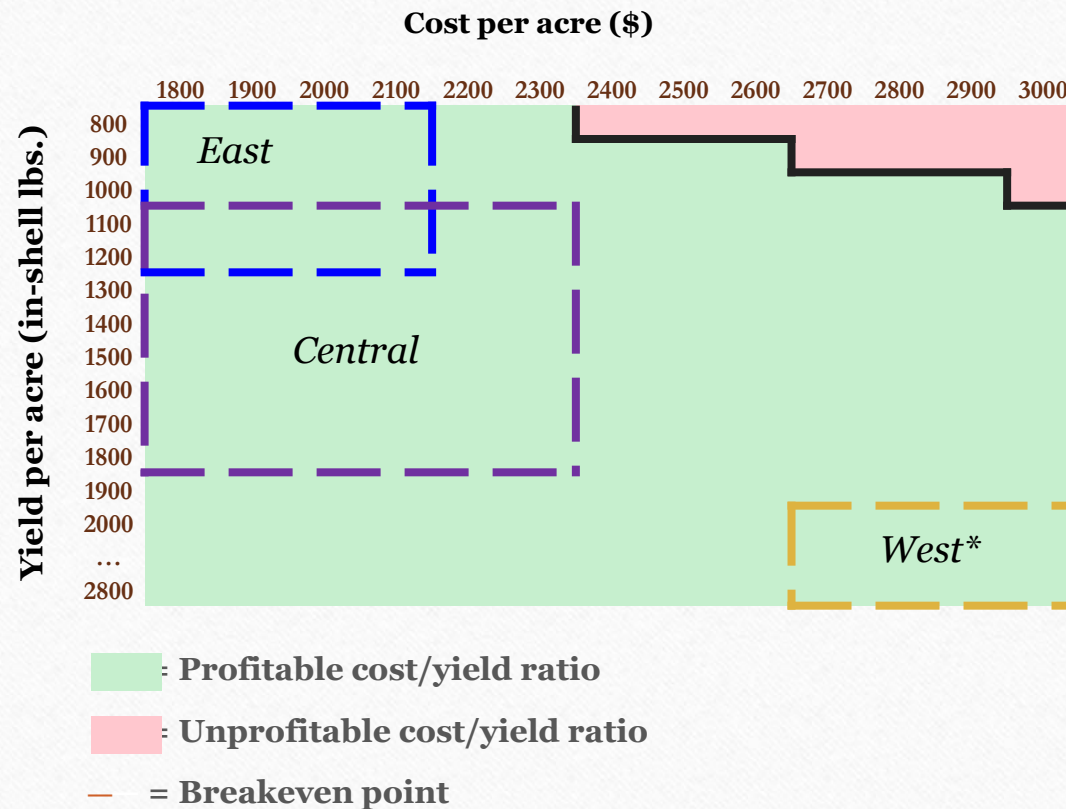
American Pecan Council Initiatives

- ❖ APC Marketing/Launch of new Brand – *American Pecans: The Original Supernut*
- ❖ APC Launch of Annual and Monthly Industry Statistical Reports
- ❖ APC contracting of The Boston Consulting Group to develop an industry strategic plan
- ❖ Development and implementation of inshell & kernel standards
- ❖ APC Acreage Survey

Growing costs

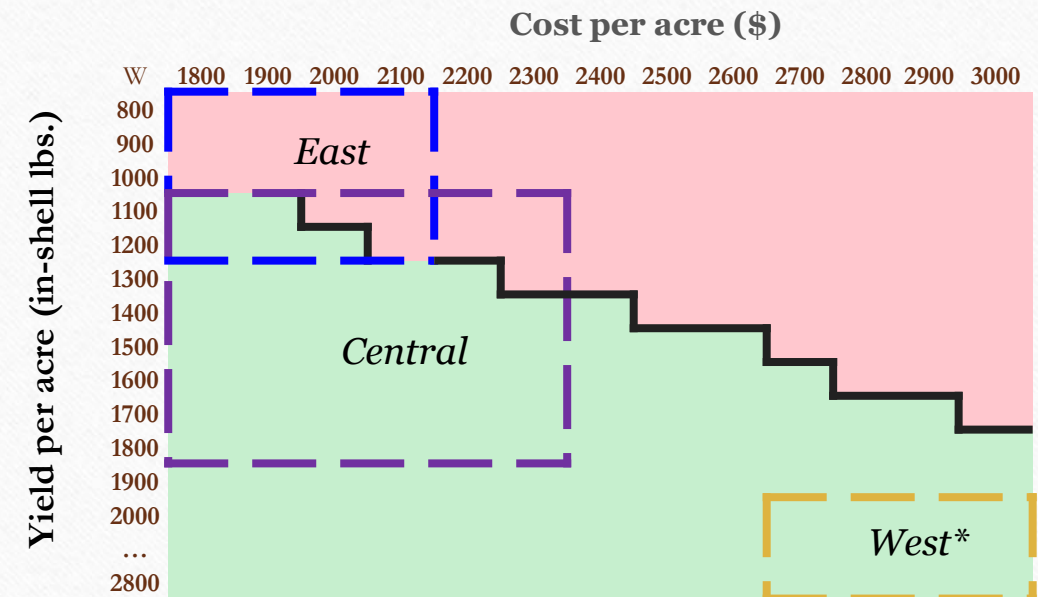
Profitability at market price of **\$3.00** per in-shell lb.

- Approx. 2017 max price¹



Profitability at market price of **\$1.75** per in-shell lb.

- Approx. 10-year low (ex. recession; inflation-adjusted)²



Loss of China demand, increasing in-shell supply, and other factors could lower in-shell prices

Specific MX grower economics TBD, though structurally advantaged given lower costs

Production Expense: Pecans vs other tree nuts

Regardless of region, pecans generally cost more to grow vs. other tree nuts given lower yield per acre



Pecans



Almonds



Walnuts



Pistachios

| | Representative East | Representative West | Representative Almond cost | Representative Walnut cost | Representative Pistachio cost |
|---|---------------------|---------------------|----------------------------|----------------------------|-------------------------------|
| Growing cost (\$/acre) | ~2,000 | ~2,500 | ~3,300 to 4,900 | ~3,200 to 3,750 | ~3,750 to 3,900 |
| <u>In-shell</u> yield (lbs/acre) | ~1,000 | ~2,000 | - | ~5,000 to 6,000 | ~2,600 to 2,800 |
| % meat | ~45% | ~55% | - | 43.5% ¹ | 50% |
| <u>Meat</u> yield (lbs/acre) | ~450 | ~1,100 | ~2,200 to 3,000 | ~2,200 to 2,600 | ~1,300 to 1,400 |
| <u>Meat</u> growing cost (\$/lb) | ~\$4.40 | ~\$2.30 | ~\$1.50 to \$1.70 | ~\$1.40 to 1.45 | ~\$2.80 to 2.90 |

~\$3.10-\$3.60
Weighted Average

Cost per pound highly variable—both across and within regions—given differences in scale, yield, weather, alternate bearing seasons, etc.

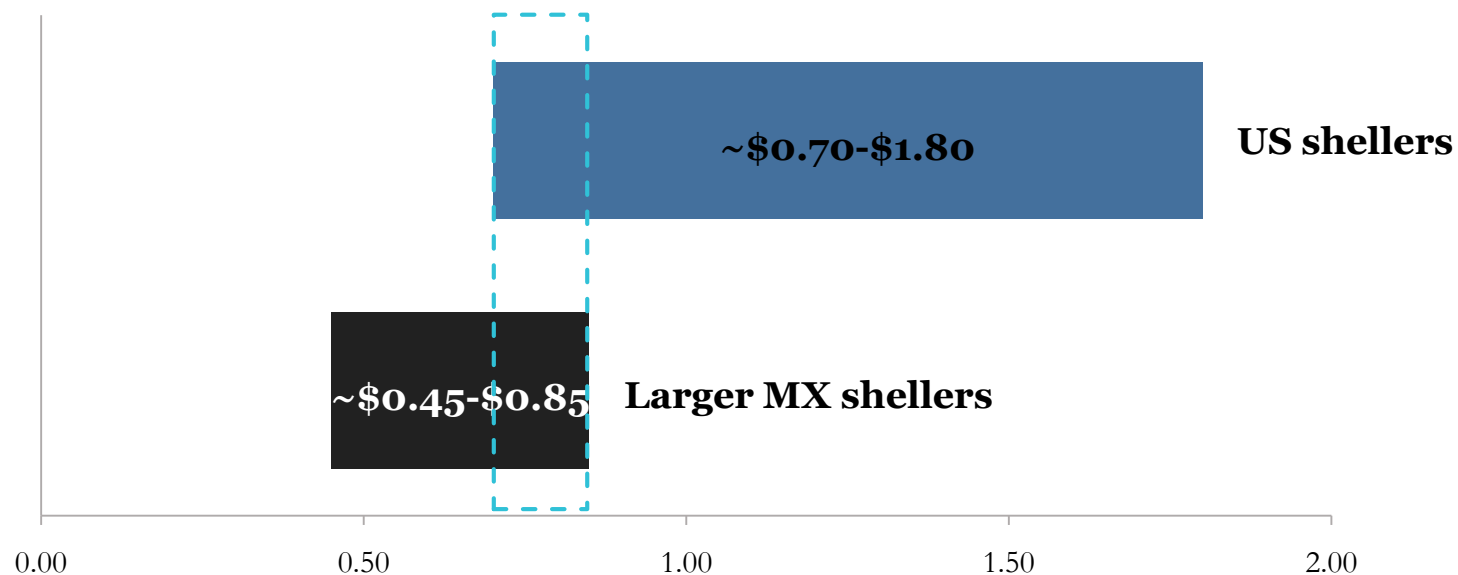
1. Based on USDA ERS "Fruit and Nut Tree Yearbook" average walnut kernel yield

Note: Growing cost per acre excludes amortization of land and tree/establishment investments. Almond figures reported in meat yield basis only.

Source: Almond Board; UC Davis; USDA; market interviews

Mexican Shellers vs US Shellers

Ranges of total shelling costs (\$ / meat lb.)



Mexican shellers benefit from lower costs.

With right processes and/or investments and lower transport costs, some US Shellers are competitive with MX Shellers

Directional cost estimates; excludes carrying / transportation costs & mill loss

Source: Market interviews

Red Flags

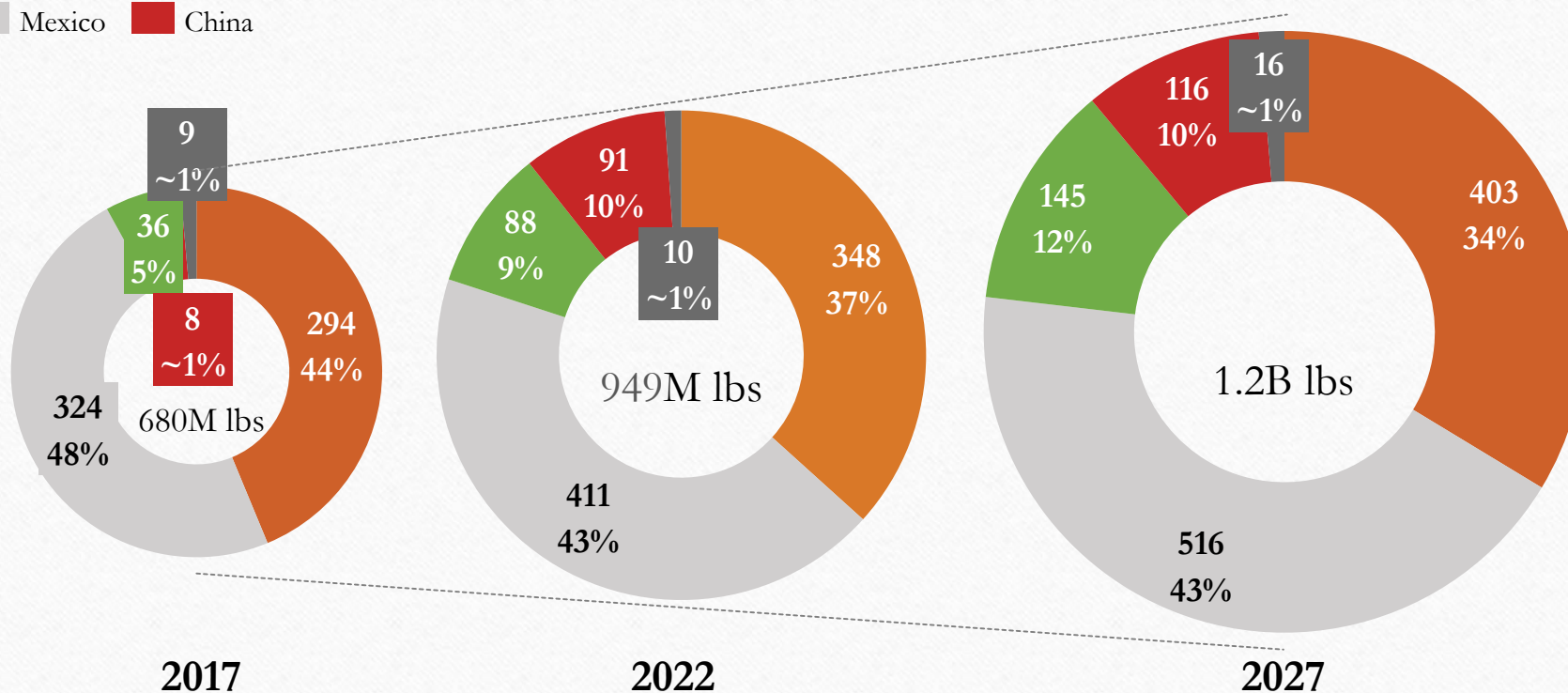
- ❖ Lack of Growth in Chinese Consumption
- ❖ New Production in China, Argentina and elsewhere
- ❖ Uncommitted Inventory

Projected Supply Increases from S. Africa & China,

Annual pecan production across top markets

US South Africa Others
Mexico China

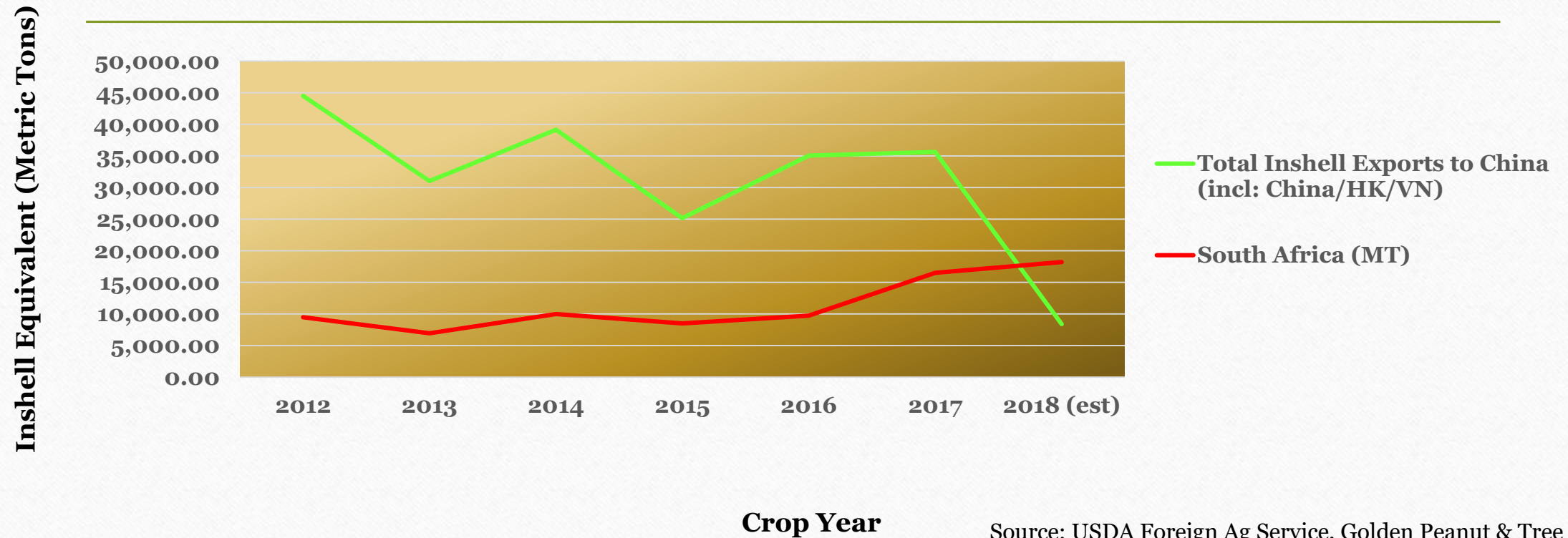
Millions of pounds, in-shell



Base case estimate of supply; sources of supply growth may vary based on actual productivity of S. Africa, China, & others

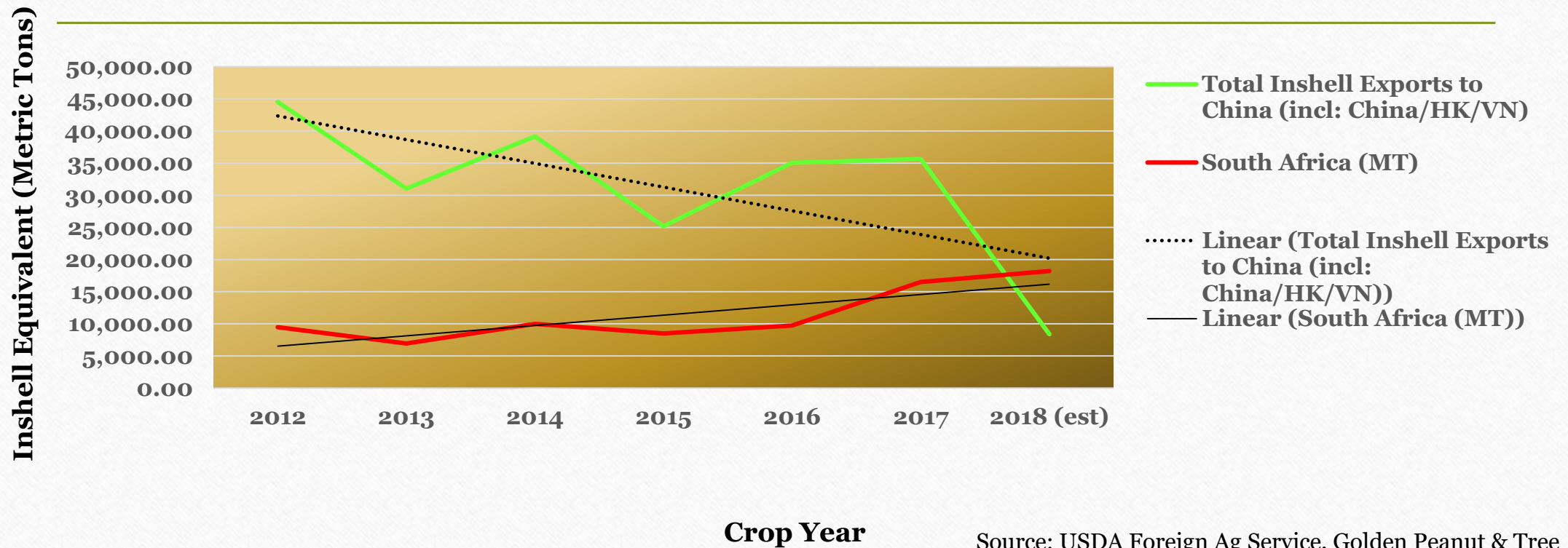
- **China** may produce up to 5-10% of global pecan supply; may affect U.S. imports
- **South Africa** to continue rapid growth, comprise >10% of world supply in ten years - well suited to cater to Chinese demand
- Must **stimulate demand** to capture new supply and **diversify global demand** beyond China

US Exports to China vs S. African Production



Source: USDA Foreign Ag Service, Golden Peanut & Tree Nut – SA, Nature's Finest Foods, Ltd.

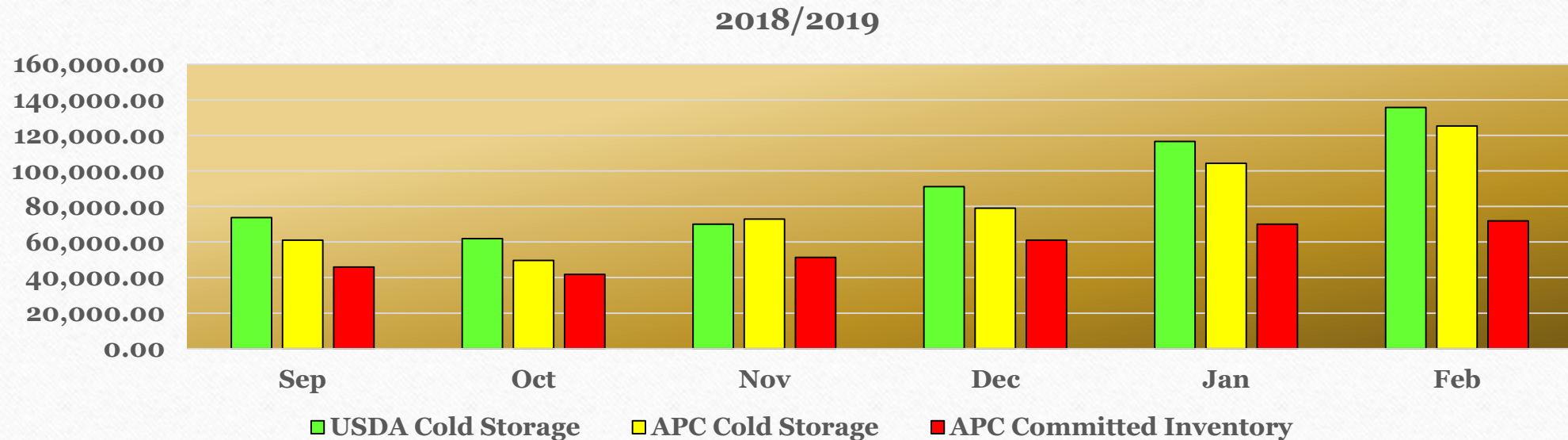
US Exports to China vs S. African Production



Source: USDA Foreign Ag Service, Golden Peanut & Tree Nut – SA, Nature's Finest Foods, Ltd.

Cold Storage Holdings- NASS, APC & Committed Inventory

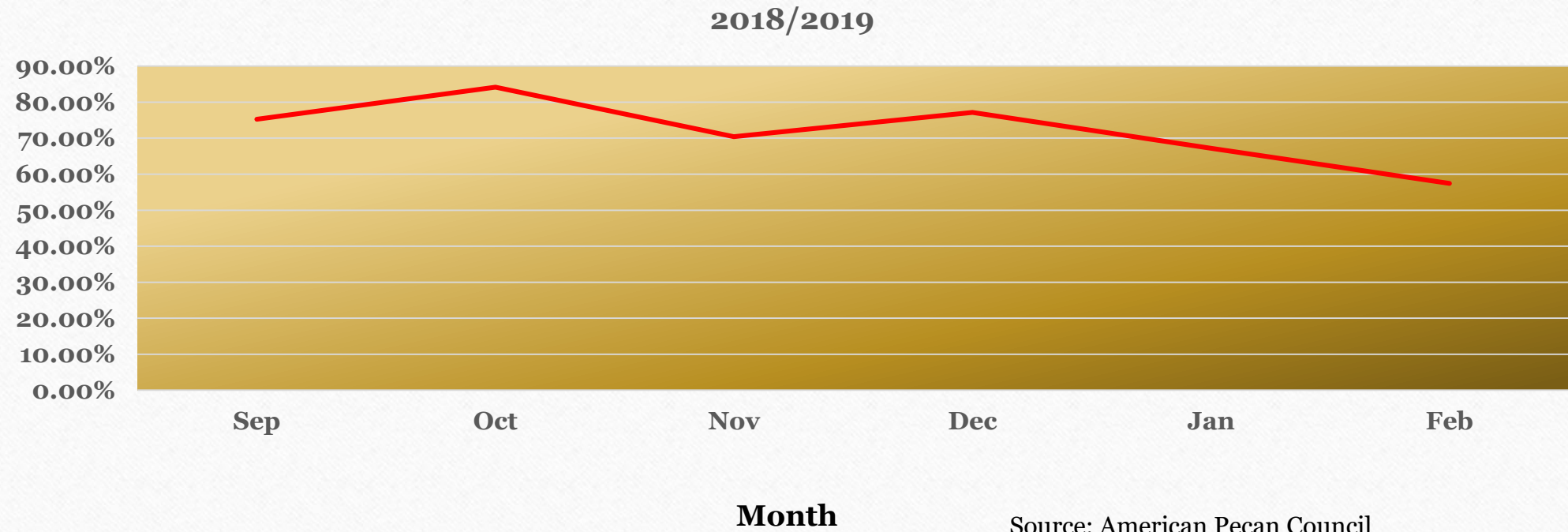
Inshell Equivalent (Metric Tons)



Month

Source: USDA NASS, American Pecan Council

Committed Inventory In Cold Storage



Source: American Pecan Council



Questions?
