



AMERICAN PECAN
COUNCIL

APC ROADMAP FOR FUTURE

- 16 FEBRUARY 2019

Case for change

Key messages

- Pecan industry facing several challenges, and pain points exist for both growers & shellers
- Pecans lag other tree nuts on key dimensions
 - Pecan awareness is low, demand is flat...
 - ...while other tree nuts are growing on back of nutrition and snacking trends
 - 'Adversarial' industry practices hinder industry's ability to grow
- Meanwhile, supply growth in other markets (e.g. South Africa, China) presents potential oversupply situation if no change in demand
- We have a great product and the potential to grow demand for it...
- ...but must work together collaboratively to solve challenges & move industry forward

There are many structural challenges grounded in the nature of the pecan market

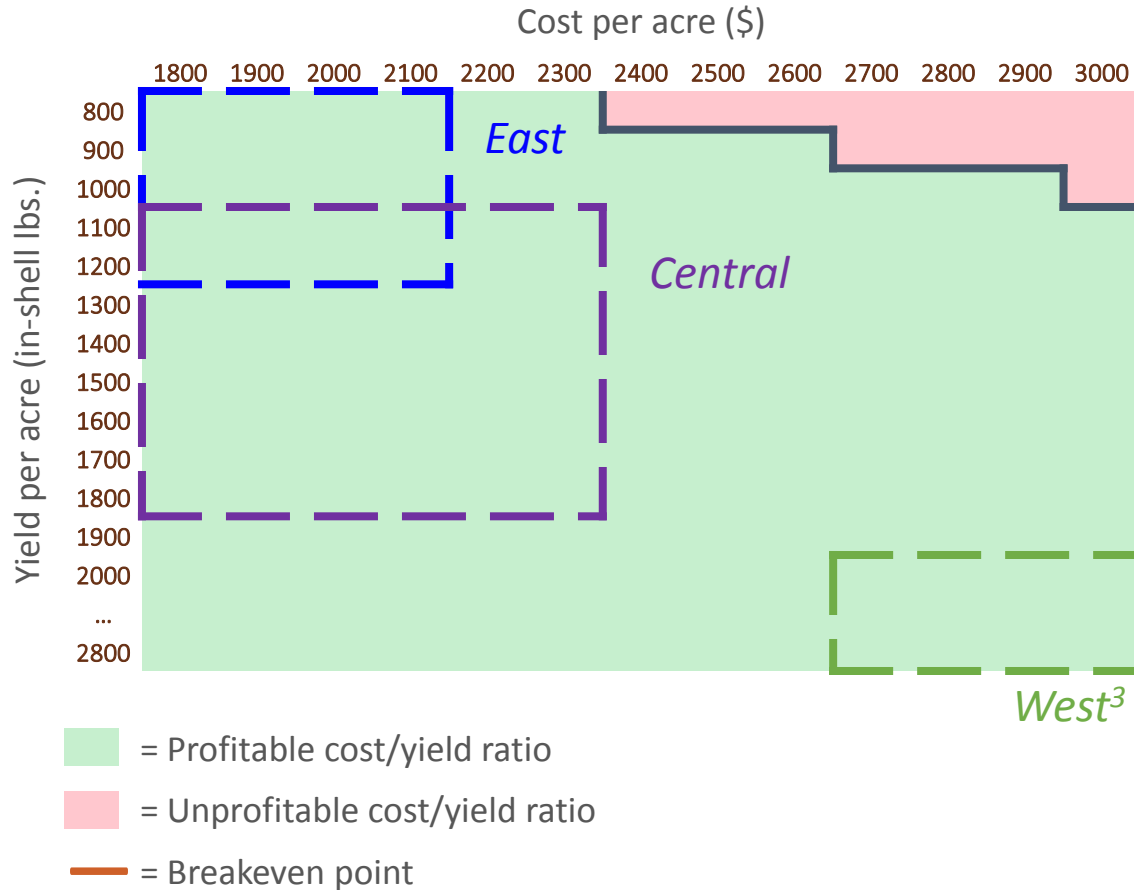
- Variations in growing costs both across & within regions
- More costly to grow pecans than other tree nuts
- Pressure from low-cost Mexican growers and shellers



Growing costs: High variance by region, differing ability to bear price swings

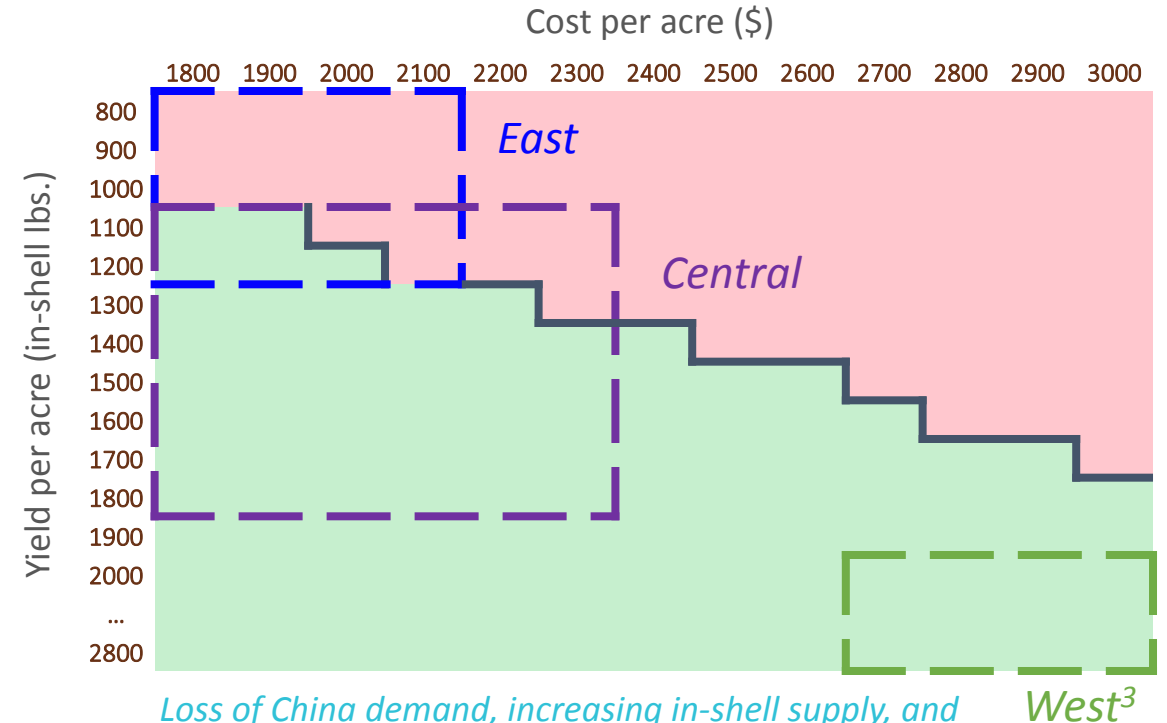
Profitability at market price of \$3.00 per in-shell lb.

- 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

1. Price / in-shell lb. paid by China of ~\$2.93 in 2017 2. Inflation-adjusted price of US average in-shell of \$1.73 in 2012 3. "West" includes West Texas
 Source: Nature's Finest Foods; USDA; UC Davis; UGA; Market interviews

Production expense: Pecans more expensive to grow than 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.

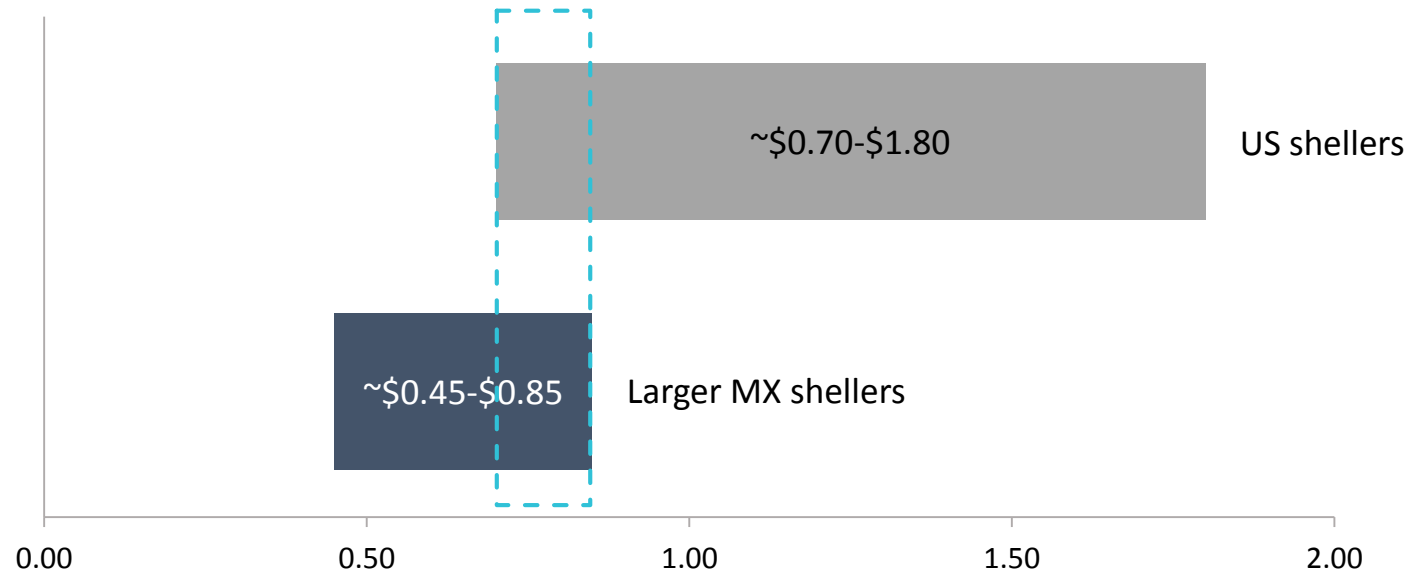
1. Based on USDA ERS "Fruit and Nut Tree Yearbook" average walnut kernel yield

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: US shellers are under pressure & struggling to compete vs. Mexico

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



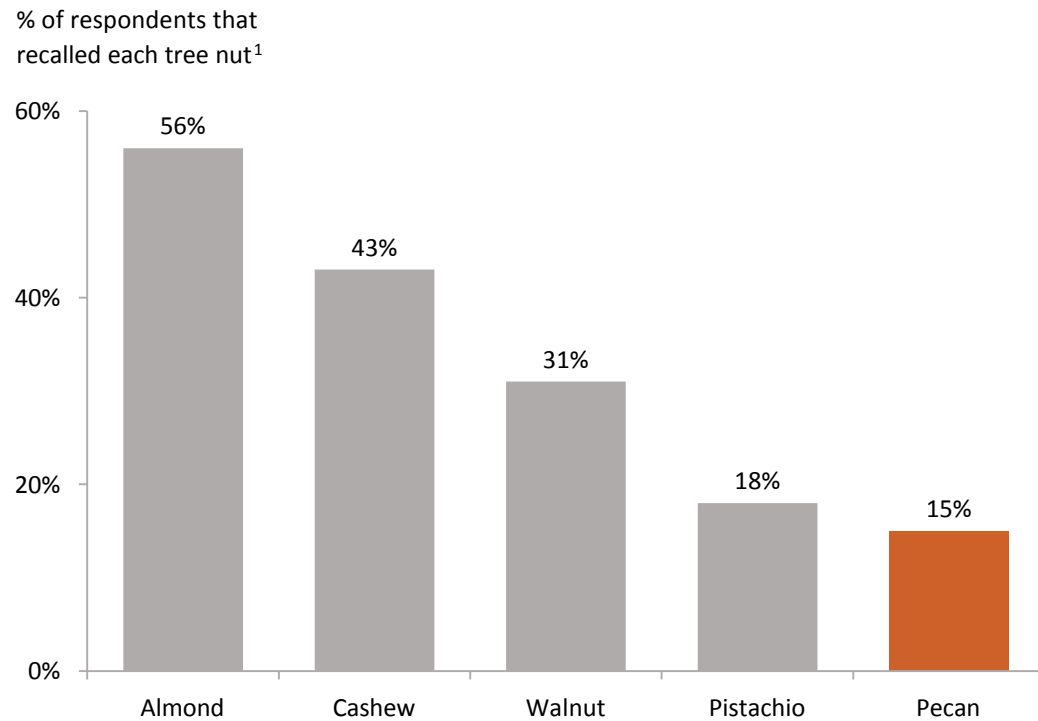
Mexican shellers benefit from lower costs

With right processes / investments, and tailwind from lower transport costs, some US shellers competitive with MX shellers

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

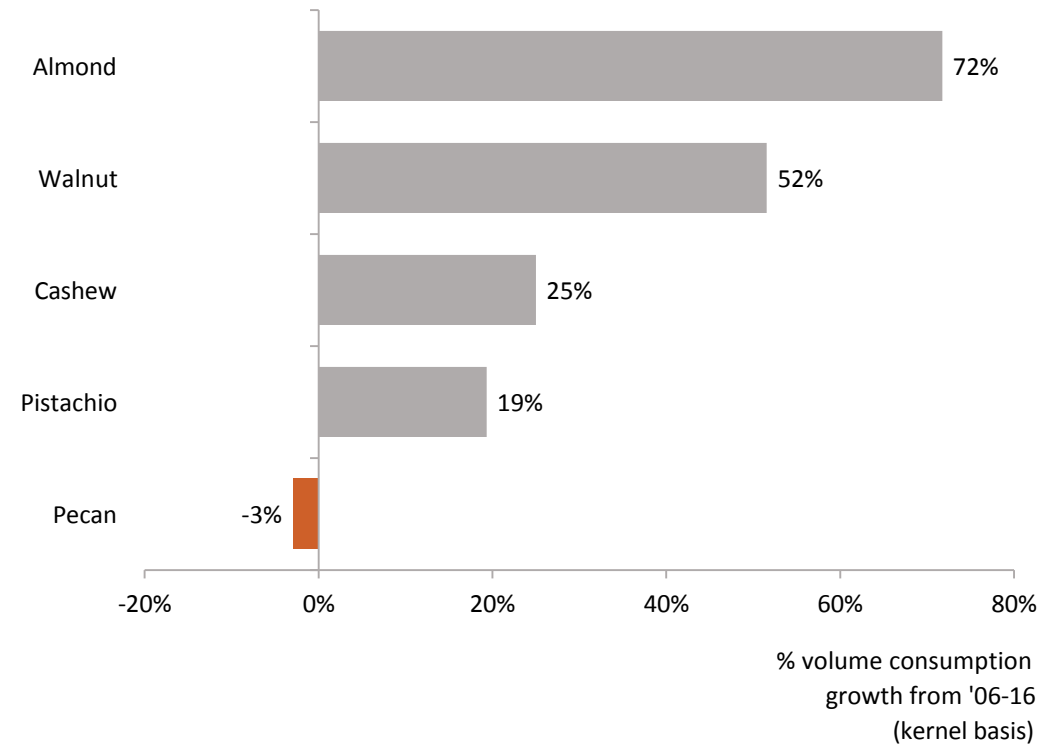
Consumer demand: US pecan demand significantly lags other tree nuts today

'Top of mind' awareness¹ of pecans in US is low relative to other mainstream tree nuts



Ten-year US pecan consumption stagnant while other tree nuts have experienced growth

International markets account for majority of pecan consumption growth (4-5% annually)



1. Unaided awareness question in July 2017 survey asks for top 3 nuts respondent recalled. Note: Pistachio consumption is in-shell
 Source: Exactcast APC Research July 2017, INC Statistical Yearbook

Transaction model: Many pain points from how growers & shellers transact today

Recurring pain points from interviews and stakeholder survey

Growers



Tension between growers and shellers on price and yield



No ability to capture upside if demand grows and pecan prices rise

Shellers



Significant upfront capital commitment and high interest expenses



Market risk, and "sandwich position" between in-shell price increases and retail negotiations



Pecans are the decentralized, Wild West of nuts...I think pecan growers over time would do better if they adopted a [new transaction] model.



Every time I look at the pecan model and the adversarial relationship, it's like being in a different world [relative to almonds & pistachios].

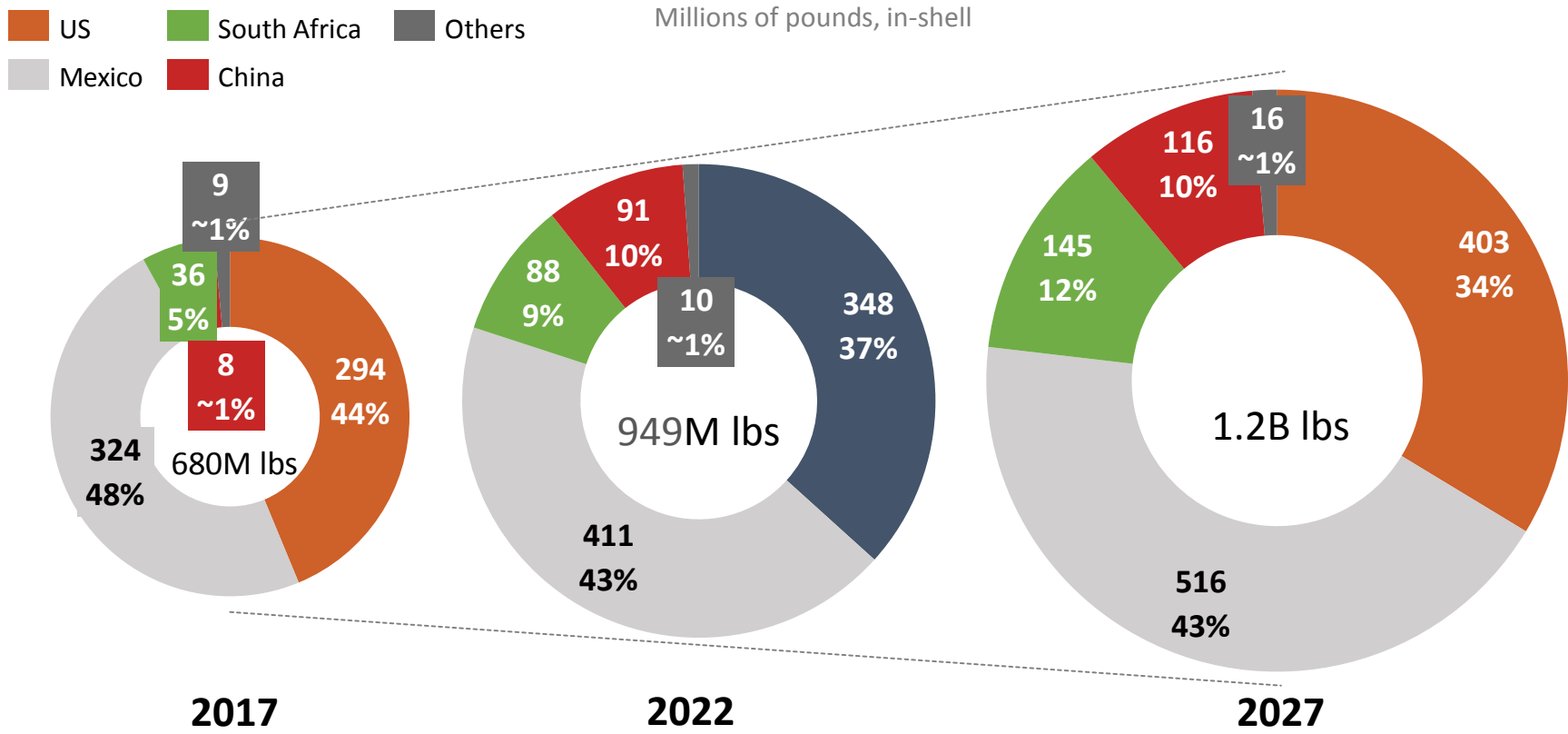
The industry is at a crossroads and in need of a paradigm shift

- Imminent global supply growth threatens to create pecan surplus
- If we do nothing, 2018 may be a glimpse into our future
- We must unite to address these challenges



Significant supply coming online from S. Africa & China, and if no corresponding change to consumer demand, market will be hit with surplus

Annual pecan production across top markets



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

Source: USDA FAS/GATS; USDA NASS/ERS; SIAP-SAGARPA; Comenez; SAPP; Industry Interviews; Stakeholder survey
 Forecasting does not account for cyclical nature of crop, or loss of production capacity due to Hurricane Michael; should be viewed as directional approximation

Fragmented industry groups must work together to address challenges

Associations by tree nut



Pecans



Almonds



Walnuts



Pistachios

National



American Pecan Council

- National Pecan Shellers Association
- U.S. Pecan Growers Council, Inc.
- National Pecan Federation
- American Pecan Board

Almond Board of California

- Almond Board of California
- Almond Alliance

California Walnut Board

- California Walnut Commission

Administrative Committee for Pistachios

- American Pistachio Growers

Regional



- Southeastern Pecan Growers Association
- Western Pecan Growers Association

State



- Alabama Pecan Growers Association
- Arkansas Pecan Growers Association
- Arizona Pecan Growers Association
- California Pecan Growers Association
- Georgia Pecan Growers Association
- Georgia Pecan Commission
- Louisiana Pecan Growers Association
- Mississippi Pecan Growers Association
- New Mexico Pecan Growers Association
- North Carolina Pecan Growers Association
- Oklahoma Pecan Growers Association
- Texas Pecan Growers Association
- West Texas Pecan Growers Assoc.
- Texas Pecan Board

- Central California Almond Growers Association
- Central Valley Almond Growers Association

- Sacramento Valley Walnut Growers Association*

- California Pistachio Research Board
- Arizona Pistachio Growers Association

Total No.

21

4

3

4

Indicates FMO

Source: USDA

Industry's geographic dispersion and limited resources make collaboration difficult, but not impossible



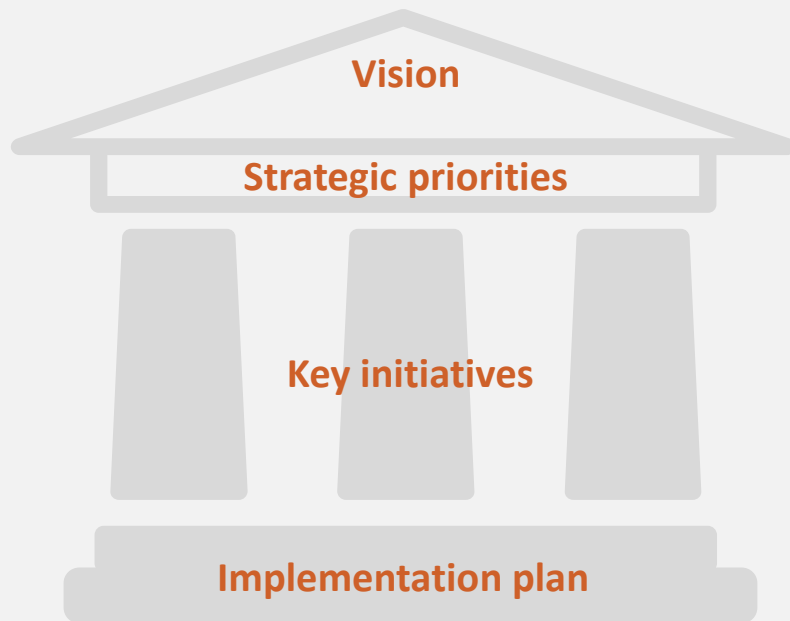
Ex: Blueberry growers / processors make decisions as a united industry despite having orgs. across 20+ states

Vision and strategic priorities

Key messages for today

- Today, more than ever, the pecan industry is in need of a long-term strategic plan
- Together, we've crafted that plan, with input from you and others across the industry
- This strategic plan represents a shared vision for industry - for both growers and shellers
- It's comprised of five intertwined and reinforcing priorities to rally the industry
- Plan is not about mandating change
- Goal is to provide options and tools we can use to resolve long-standing challenges, with the hope these will be adopted as benefits are realized

Overall strategic plan
comprised of four elements



APC Vision

To increase demand for American pecans and provide industry with a path to sustainably grow profitability across the value chain

Strategic priorities



Win fair share
of tree nuts



Lead amongst
global suppliers



Strengthen our
infrastructure



Modernize the
industry



Unite pecan
stakeholders

Key initiatives



Refine marketing strategy and agency ways-of-working



Influence the development of priority export markets



Update methods of data analysis & pecan evaluation



Educate industry on ways to modernize transactions



Harmonize the industry through active communication

Implementation plan



Initiative roadmaps &
teaming structure



Supporting APC
operating model



Comprehensive
communications plan



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STRATEGIC PRIORITIES



Win fair share of
tree nuts



Lead amongst
global suppliers



Strengthen our
infrastructure



Modernize the
industry



Unite pecan
stakeholders

Five priorities underpin APC's strategic vision

“ *To increase demand for American pecans and provide industry with a path to sustainably grow profitability across the value chain* ”

Together we can achieve our future-state aspiration for the industry

From - Current State

To - Future State



Win fair share of tree nuts

Seasonally-consumed, indulgent ingredient nut lagging growth of other tree nuts...



...a differentiated, nutrition-oriented, everyday snacking nut capturing fair share of market growth



Lead amongst global suppliers

Trade show-based, "push" export strategy with resources spread across many markets...



...a consumer-driven export marketing strategy focused on few highest potential markets



Strengthen our infrastructure

Limited, unreliable data and non-uniform standards enforced inconsistently...



...improved data availability to support decision making & objective implementation of uniform standards



Modernize the industry

Transaction model that prevents value chain partnerships and inhibits market growth...



...researched best practices that educate industry on sharing risk & upside to promote stability & efficiency



Unite pecan stakeholders

Fragmented stakeholders acting in individual interest with limited collaboration...



...a unified stakeholder base with a common strategy, working together to benefit American pecan industry

Change is a journey: Your role as leaders is to help industry stay the course





Thank you