OUTLOOK FOR US DRIED FRUIT & TREE NUTS: CONSUMPTION & EXPORT TRENDS

DFA OF CALIFORNIA AND SPECIALTY CROP TRADE COUNCIL 2012 ANNUAL CONFERENCE: BEYOND GRAVITY, CATCH FIRE
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Global & Regional Market Overview

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Drivers, Constraints & Trends
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KEY FACTS

Market performance

• The global processed food market approached $3.4 trillion in 2011; global consumer foodservice is estimated to have topped $2.3 trillion.

• US tree nut exports neared $5 billion, while dried fruit exports approached $710 million.

• Consumption generally climbing with populations, rising disposable incomes, and desires for increased health & wellness, convenience and indulgence.

• Developing regions with rising populations, GDP, and shifting per capita consumption are helping to drive significant growth.

Largest US export sectors

• Almonds
• Walnuts
• Pistachios
• Grapes, Dried
• Prunes

Historical US growth categories

• Almonds
• Pistachios
• Walnuts
• Grapes, Dried
• Mixtures of Nuts

Fastest growing US exports

• Brazil Nuts (no shell)
• Macadamia Nuts
• Cashew Nuts (in shell)
• Walnuts (in shell)
• Almonds (in shell)
Processed food consumption neared $3.4 trillion in 2011 – many of food categories within Packaged Food utilize tree nuts / dried fruits as inputs.

Global value growth from 2011-2015 of $890 billion is expected, representing a 27% surge from 2011 levels -- this is expected to vary widely by region and country.
WORLDWIDE RETAIL SALES BY PACKAGED FOOD CATEGORY

2010 Worldwide Sales of Packaged Food Categories in Constant 2010 Prices - US$ bn

- Bakery
- Dairy
- Confectionery
- Frozen Processed Food
- Sweet and Savoury Snacks
- Sauces, Dressings and Condiments
- Canned/Preserved Food
- Oils and Fats
- Ready Meals
- Ice Cream
- Noodles
- Baby Food
- Pasta
- Spreads
- Soup
- Snack Bars
- Meal Replacement

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MAJOR GROWTH CONTRIBUTORS: DEVELOPING REGIONS

- Asia-Pacific, Western Europe, and Latin America with largest value growth since 2007; North America trails most other regions in value growth.

- Asia-Pacific & Latin American combined for 44% of global value growth since 2007; Asia-Pacific's value growth for the period is expected to be more than twice that of North America by year’s end.

- The same regions also showed the greatest growth in volume terms -- marking them as potential opportunity zones for US exports.

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Western Europe represents the largest sales with $605 billion in 2011.

But greatest percentage and “absolute” value growth is coming from developing regions.

North America and Western Europe are expected to grow by 11% in value terms, while all other regions are growing at 2-5 times that rate.
SIZEABLE GAINS IN VOLUME

VOLUME EXPANSION ALSO IN DEVELOPING MARKETS

- Asia-Pacific, Middle East & Africa and Latin America are expected to combine for approximately 83% global volume growth in packaged foods from 2011-2015.
- Asia-Pacific is expected to be 54% of total global volume growth during this period.
- Western Europe and North America are projected to be 7% and 3% of global volume growth and are experiencing flat (or diminishing) per capita consumption.
DEVELOPING MARKETS ARE KEY TO GLOBAL GROWTH IN PROCESSED PRODUCTS

COUNTRY CAGR: PACKAGED FOODS FORECAST

PACKAGED FOOD

Forecast Growth

USA

Quick Stats

Market Size
2010, US$ mn
331,418.7

Per Capita
2010, US$
1,073.0

Growth
2010–15 CAGR
0.9%

Percentile Ranking
selected country quickstats vs. other countries

Category YoY Growth Comparison

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CHINA EATING UP COMMANDING SHARE IN PACKAGED FOOD

ANTICIPATED VOLUME GROWTH IN PACKAGED FOOD

Volume growth - 2011 to 2015 - '000 tonnes & %

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Global consumption of fresh foods reached 1.85 billion tonnes in 2010.

Asia Pacific consumed 65% of the global total and, on a per capita basis, 16% more than those in North America.
Global consumption of fresh foods is expected to reach 2.2 billion tonnes by 2015 on growth of 17%.

Asia Pacific expected to be 78.5% of the total global increase.
Developing markets are eyeing 10-48% growth, while developed markets seeing 3-7% growth.

China and India dominant drivers in global growth of fresh foods.

By 2015, China and India will represent 50% of total global consumption of fresh foods.
Global consumer foodservice estimated to have topped $2.3 trillion in 2011.

The global foodservice industry saw a return to growth in 2010, following a miserable 2009.

Growth was far from evenly distributed, with strong growth in Asia Pacific and Latin America offset by continued weakness in North America and Western Europe.

Relatively strong growth in quick-service categories, like fast food and street stalls/kiosks, as consumer desire for value and convenience remained strong.

Growth in Western Europe, above all, is expected to remain weak amid continued talk of austerity, with further government budget cuts expected to act as a brake on overall demand.
Full-service restaurants continue to account for around half of all foodservice demand globally.

China remains home to the majority of the world’s full-service restaurant outlets, with the format serving as the centre of social life for many Chinese consumers.

Several of the most important emerging markets – Brazil in particular – boast strong full-service restaurant categories, ensuring the category’s overall dominance for years ahead.
Asia Pacific accounted for around 40% of global foodservice spending in 2010, and saw rapid growth in that year.

- China, India and Indonesia continue to expand in step with rising disposable incomes.
- While both North America and Western Europe remain large, many operators cut back on outlet growth in favour of measures designed to increase same-store sales and eating frequency.
Asia Pacific had four markets in the global top 10 in 2010, the same as Western Europe, with growth rates far in excess of any major European market.

Emerging markets have become well-established as key global markets.

China is now firmly entrenched as the world's number two consumer foodservice market.

Latin America also continues to see significant growth.

Brazil, Argentina and Colombia now the key growth markets on the continent, spurred by a combination of growing consumer spending and relative financial stability on the continent.

This represents growth of nearly 80% within the five-year period from 2006-2011.
The upward trend from 2006-2011 result in overall volume growth of 16%.

Through February 2012, volume is up this year by 16% over last year.
THE STORY SHOWN IN EXPORTS

2006-2010: US Exports in ‘000 Dollars and Growth

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EXPOITS TO DEVELOPING MARKETS HAVE LEAPED AHEAD

2006 & 2010: US Exports of Processed Food Products - Developing vs. Developed Economies in US$ ‘000

Overall exports to developing markets grew 67%, while those to developed markets grew 37%.
SURGING EXPORT GROWTH IN DEVELOPING REGIONS

2006-2010: US Exports of Processed Food Products

- North America
- Latin America
- East Asia
- European Union-27
- Middle East & North Africa
- Southeast Asia
- Middle East
- South America
- Central America
- Africa
- Eastern Europe (Excl FSU)

$2,000,000 - $20,000,000

-20% - 140%

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DRIED GROWING AT ALL BROAD LEVELS

EXPORTS IN DRIED HAVE SURGED AS WELL

2007-2011: US Exports of Tree Nuts & Dried Products – US$ ‘000 & Growth Rate

NOTE: “Nuts” excludes Coconuts, Brazilian and Cashew Nuts

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Exports of Tree Nuts are up 74% to East Asia from Jan-Feb vs same period last year, while EU is up 14%.
MAJOR TREE NUT EXPORTS SEEING SOLID GROWTH

2007-2011: Leading US Tree Nut Exports – US$ ‘000 & Growth Rate

- Almonds, No Shell
- Pistachios
- Almonds, In Shell
- Walnuts, No Shell
- Walnuts, In Shell

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EXPORT SURGE TIED PRIMARILY TO ASIA PACIFIC MARKETS

HONG KONG KEY MARKET, SEEN RE-EXPORTING TO CHINA


- Hong Kong
- Spain
- Germany
- India
- Canada
- United Arab Emirates
- Japan
- Turkey
- Netherlands
- China
- Korea, South
- Italy
- Mexico
- Belgium-Luxembourg
- United Kingdom
- France
- Israel
- Russia
- Vietnam
- Australia

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EXPORT VOLUME GAINS DRIVEN BY DEVELOPING MARKETS

2007-2011: US Volume Exports of Tree Nuts in Metric Tonnes

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Exports of Dried Fruit are up 7% to East Asia from Jan-Feb vs same period last year, while EU is up 2%.
RAISINS REMAIN SIGNIFICANT GROWTH FACTOR FOR THE CATEGORY

DRIED FRUITS POSITIVE BUT NOT WITHOUT CHALLENGES

2007-2011: Leading US Dried Fruit Export Categories – US$ '000 & Growth Rate

Cult. Blueberries: 7800% growth from $0 to $7.8 mn.
VALUE GROWTH WIDELY SEEN

VALUE UP IN MOST LEADING MARKETS

2007-2011: Top Markets for US Exports of Dried Fruit – US$ '000 & Growth Rate
VOLUME GROWTH LARGELY IN DEVELOPING MARKETS

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Per capita disposable income of developing markets is greatly below that of developed.

An increase of $823 per capita in disposable income is expected in Asia-Pacific by 2015.

Asia-Pacific’s total disposable expected to eclipse all other regions by 2013.
DEVELOPING MARKETS HOLD MAMMOTH POTENTIAL

PER CAPITA CONSUMPTION RELATIVELY LOW IN DEVELOPING MARKETS

2006-10 Regional Per Capita Consumption of Packaged in kg

Western Europe
Australasia
North America
Eastern Europe
Latin America
World
Middle East and Africa
Asia Pacific
AP & MEA’s Population to Expand by Over 633 Million

- Population expansion of nearly 350 million is forecasted for Asia-Pacific from 2010-20.
- Middle East & Africa is expected to expand by nearly 275 million during the same period.
- Eastern Europe is expected to post a loss of nearly 5 million.

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Asia-Pacific is predicted to add 184 million people to the global population between 2010 and 2015, followed by the Middle East and Africa at 139 million over the same period.

Asia-Pacific’s population growth is predicted to stem entirely from urban areas, while Middle East & Africa’s will be 35% rural growth.

Asia-Pacific’s extraordinary urban population growth should result in strong consumer demand for processed food in the short to medium term.

Greater spending power among middle-income consumers in countries such as China and India will also underpin strong growth in fresh meat consumption and associated foods.

Eastern Europe’s population is projected to fall by 3.3 million, due to emigration and cases of falling life expectancies but will still see value and volume increases.
Strong urban population growth in Asia-Pacific will boost demand for processed food staples, with the region accounting for 77% and 54%, respectively, of global processed rice and dairy growth between 2010 and 2015.

Middle East and Africa’s population growth will be a major contributor to growth in baked goods, particularly unpackaged/artisanal bread with growth of 3.7 million tonnes between 2010 and 2015.

Strongly growing demand is projected for fresh and processed meat in Latin America and Asia-Pacific.
Dairy to add over $85 billion in growth through 2015.

Bakery, confectionery, chilled/dried/ and frozen processed foods to see growth ranging from 3-5% in value terms.

Growth is being led by increased desire for staple food products, food safety, indulgence, convenience.
### Industry prediction: Exceptionally slow economic recovery

European markets are now facing significant public spending cuts and the USA continues to struggle with 8-9% unemployment.

### Industry response: Emerging markets and ‘hot’ growth prospects

To stave off the constraining effects of economic uncertainty in increasingly mature developed packaged food markets, aggressive and sustained expansion into emerging markets, especially Asia-Pacific, will be essential to future success.

### Industry prediction: Commodity prices

Commodity prices face volatility, which will put pressure on manufacturers and the broader supply chain. However, a repeat of the rapid food price inflation seen from mid-2007 to mid-2008 remains unlikely.

### Industry response: Managing volatile commodity prices

Nevertheless, manufacturers that anticipate any increases to commodity costs will be in a stronger position, especially as cost savings and effective supply chain management become more important in the face of mounting retailer consolidation.

### Industry prediction: Innovation

Packaged food manufacturers will increase investment in new product developments in light of better economic prospects, particularly in fast-growing regions such as Asia-Pacific. Innovation crucial to staving off private label encroachment.

### Industry response: Don’t stop adding value

Manufacturers must become bolder and even more compelling in adding value to their new product launches, while resisting the temptation to retreat into a single-minded value-for-money proposition as they try to compete against private label.

### Industry prediction: Private label

Even though economic prospects are gradually improving, there is no guarantee that consumers, especially those in developed markets, will return en masse to branded products, especially now that private label has become more adept at adding value.
Convenience remained one of the key consumer drivers in 2010, as consumers sought cost-effective alternatives to eating out.

Value for money, traditionally a prime concern for most consumers, has also become more important given lingering economic uncertainty. Still, premium products benefitted from a decline in foodservice expenditure.

Health considerations remain another key factor -- the use of “all natural” ingredients is expanding to emerging regions such as Eastern Europe and is underpinned by the growing number of middle-class consumers developing preferences close to those that are already firmly established in mature economies. That said, health alone is not enough to increase consumer demand for established brands. Manufacturers are thus opting to advertise new offerings as meals offering both health and indulgence.

From a strategic point of view, food manufacturers are focusing their efforts on growth niches, especially in emerging economies. This trend is particularly relevant to Asia-Pacific and Latin America, where some chilled processed lines and other packaged food categories are being introduced for the very first time.
THANK YOU FOR YOUR ATTENTION.

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