

2013 RRV Business Summit

Summary

key learning's and indicated actions

US Potato Industry- Challenges

- Declining domestic consumption in fresh, dehy and frozen categories.
 - Growth in Export Frozen and Dehy
- Increasing trend line yields... “yield creep” adds an average 5 cwt per acre **each year.**
- Overcapacity in US Fresh Pack Industry

US Potato Industry- Challenges

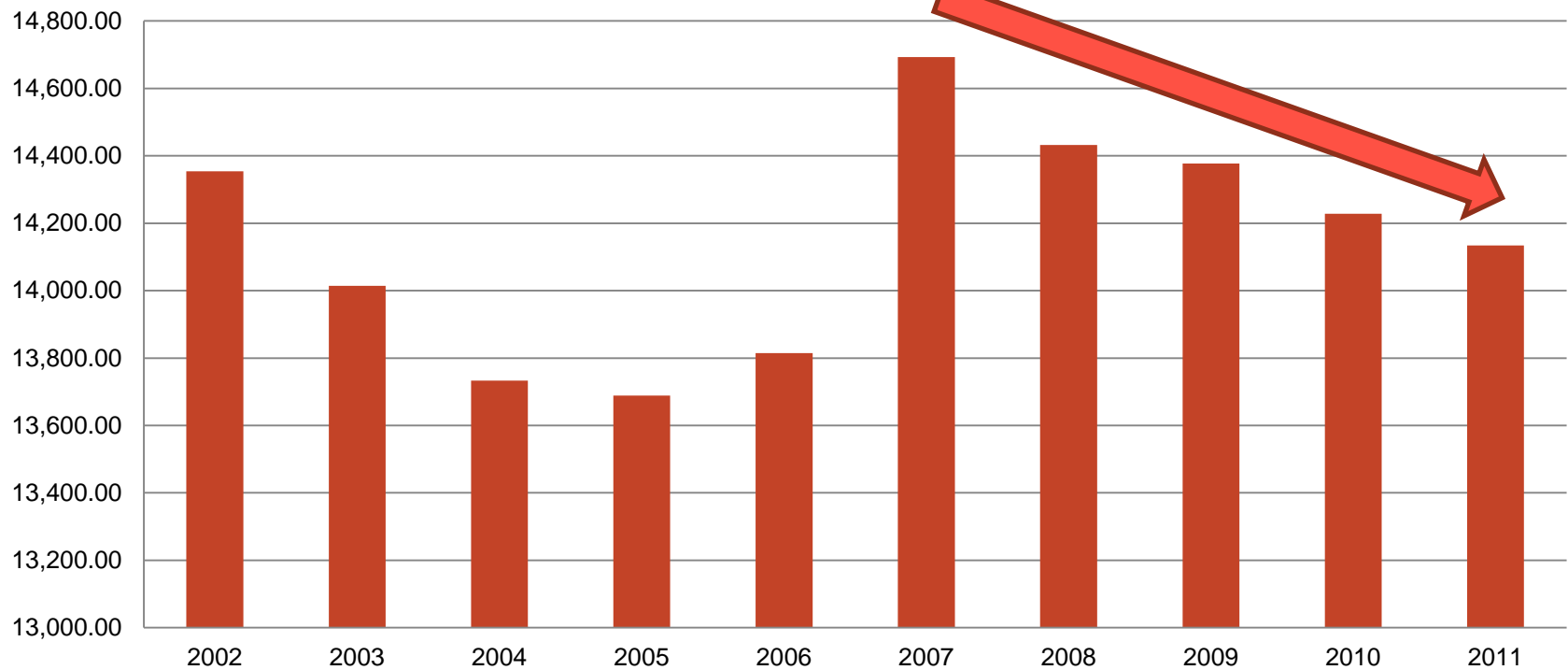
- Growers in each sector often act independently of the other sectors. We need a “holistic” view of supply/demand in each sector of the Industry
 - Increasing cooperation between Dehy and Frozen is a model to be followed.
 - Often results in speculative planting
 - Each sector feels justified in selling excess potatoes into any another sector.

Foodservice Trends

- Steady year-over-year declines since 2007

Foodservice Shipments - Frozen

Millions of FWE Pounds



% Change vs. YAG	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	-5.5%	-2.4%	-2.0%	-0.3%	0.9%	6.0%	-1.8%	-0.4%	-1.1%	-0.7%

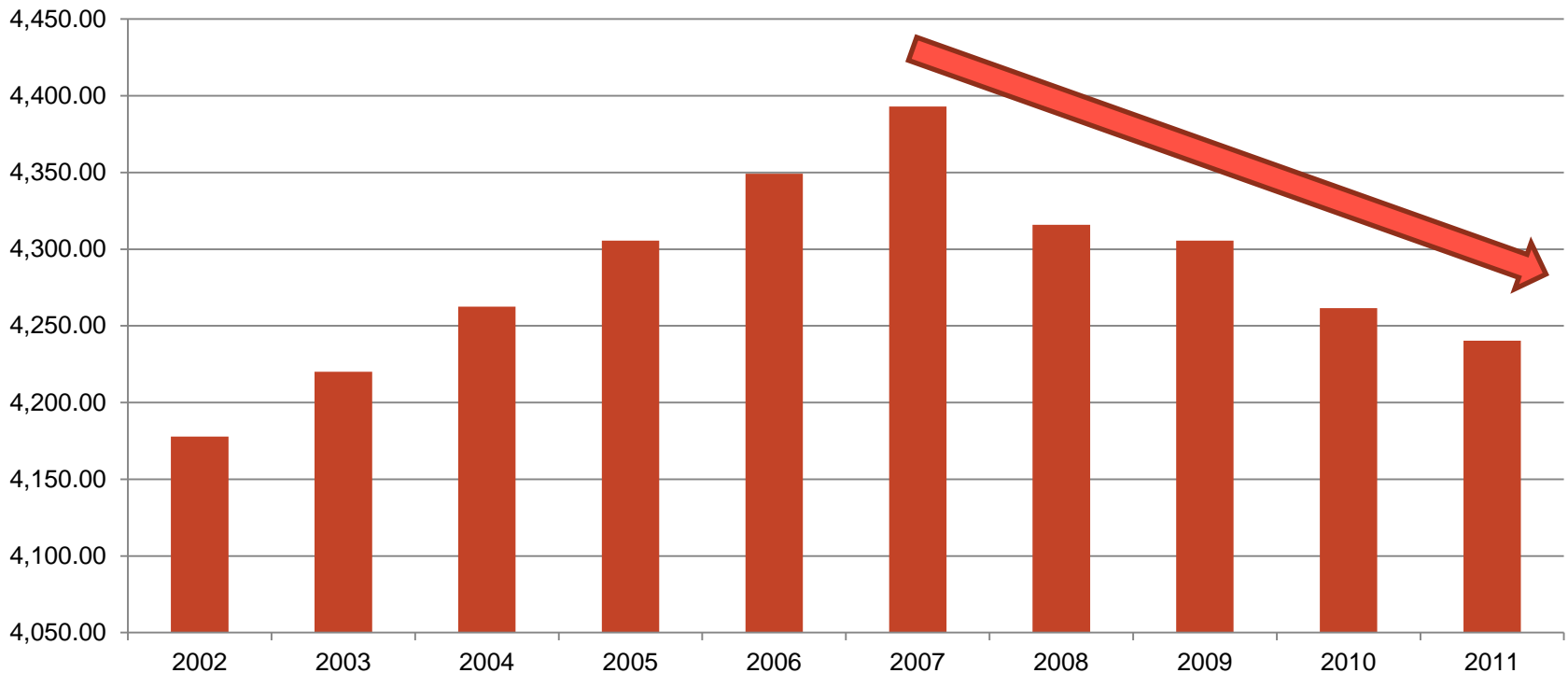
Source: USPB Sales & Utilization Estimates – July 2012

Foodservice Trends

- After years of steady gains, steady trending declines.

Foodservice Shipments - Fresh

Millions of FWE Pounds



% Change vs. YAG	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	-1.8%	-0.2%	-1.0%	-0.5%

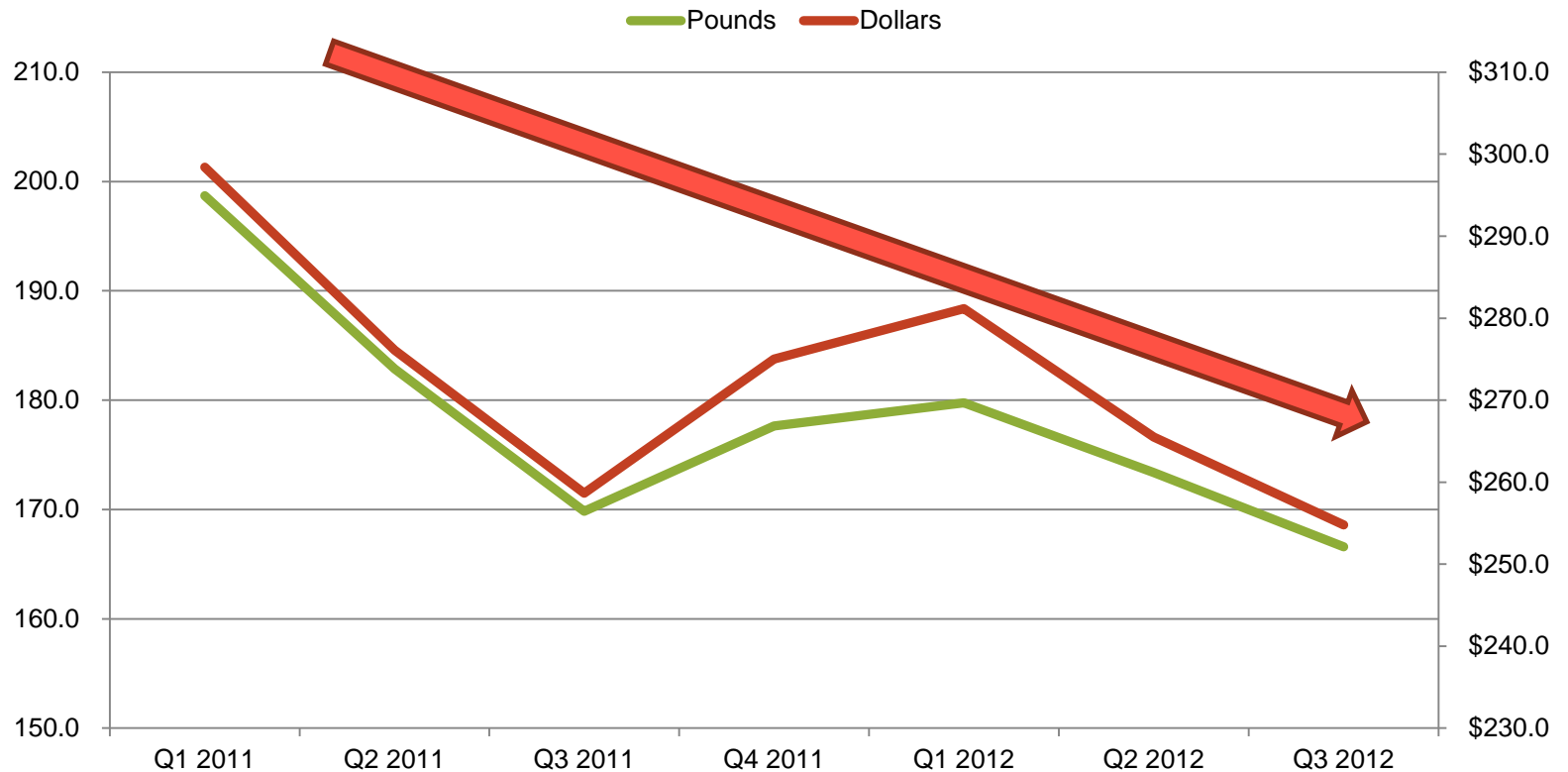
Source: USPB Sales & Utilization Estimates – July 2012

Retail Trends



Retail Trends - Frozen

- For the 4th consecutive quarter, frozen potatoes experienced significant volume and dollar declines

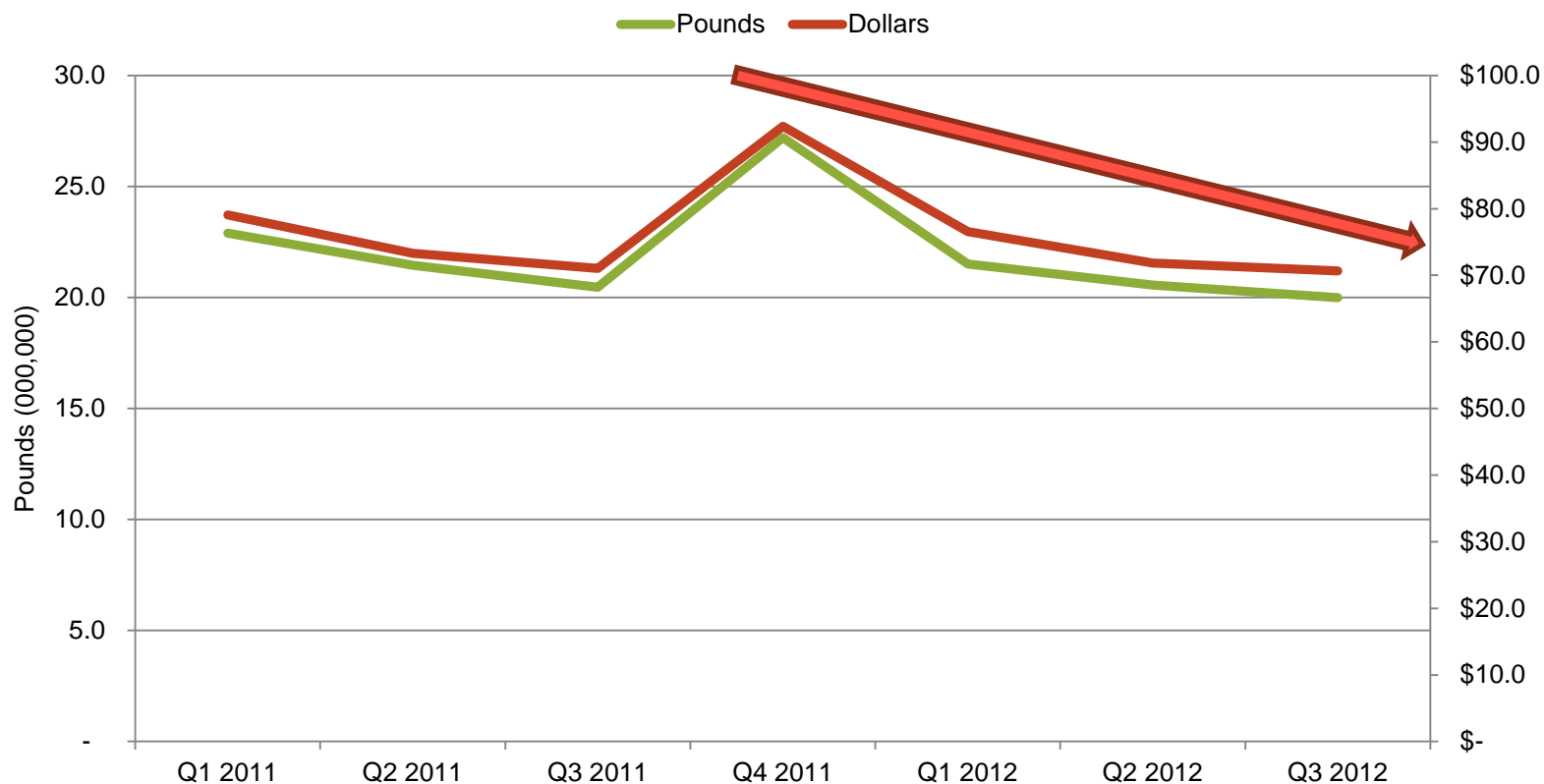


Percent Change vs. YAGO	Q1 2011		Q2 2011		Q3 2011		Q4 2011		Q1 2012		Q2 2012		Q3 2012		
	Pounds	0.0%	1.8%	-1.9%	-4.9%	-9.5%	-7.0%	-4.2%	Dollars	0.7%	4.4%	1.8%	-0.7%	-5.8%	-5.6%

Source: Nielsen ScanTrack, Total U.S. ending 9/22/12

Retail Trends - Dehydrated

- Dehy has seen continued volume erosion as consumers don't fully appreciate the flavor or convenience that this form provides

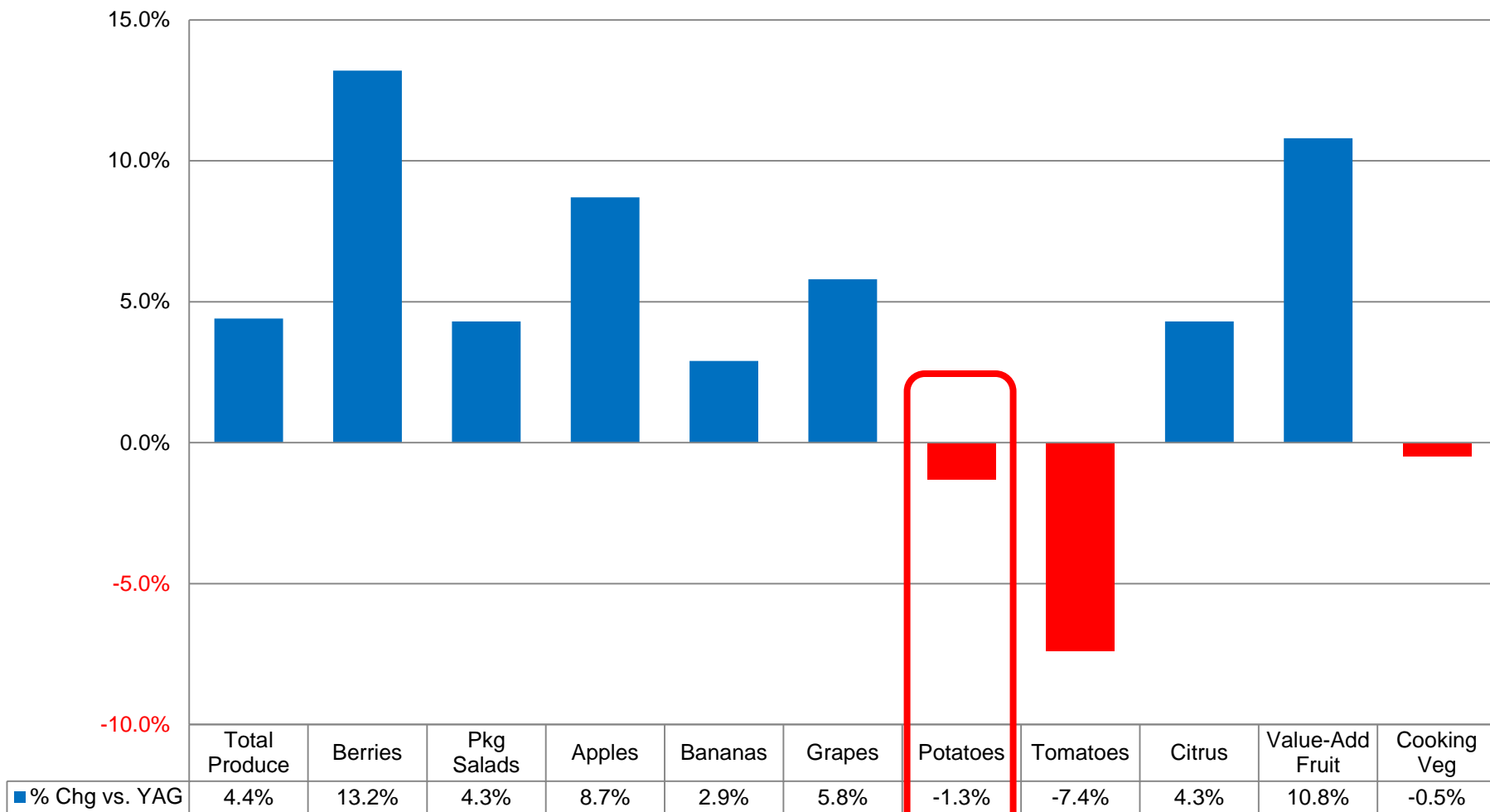


Percent Change vs. YAGO	Pounds	-1.3%	-0.7%	-2.7%	-5.6%	-6.1%	-4.9%	-4.0%
	Dollars	-1.3%	0.3%	-1.2%	-1.3%	-3.2%	-2.3%	-2.4%

Source: Nielsen ScanTrack, Total U.S. ending 9/22/12

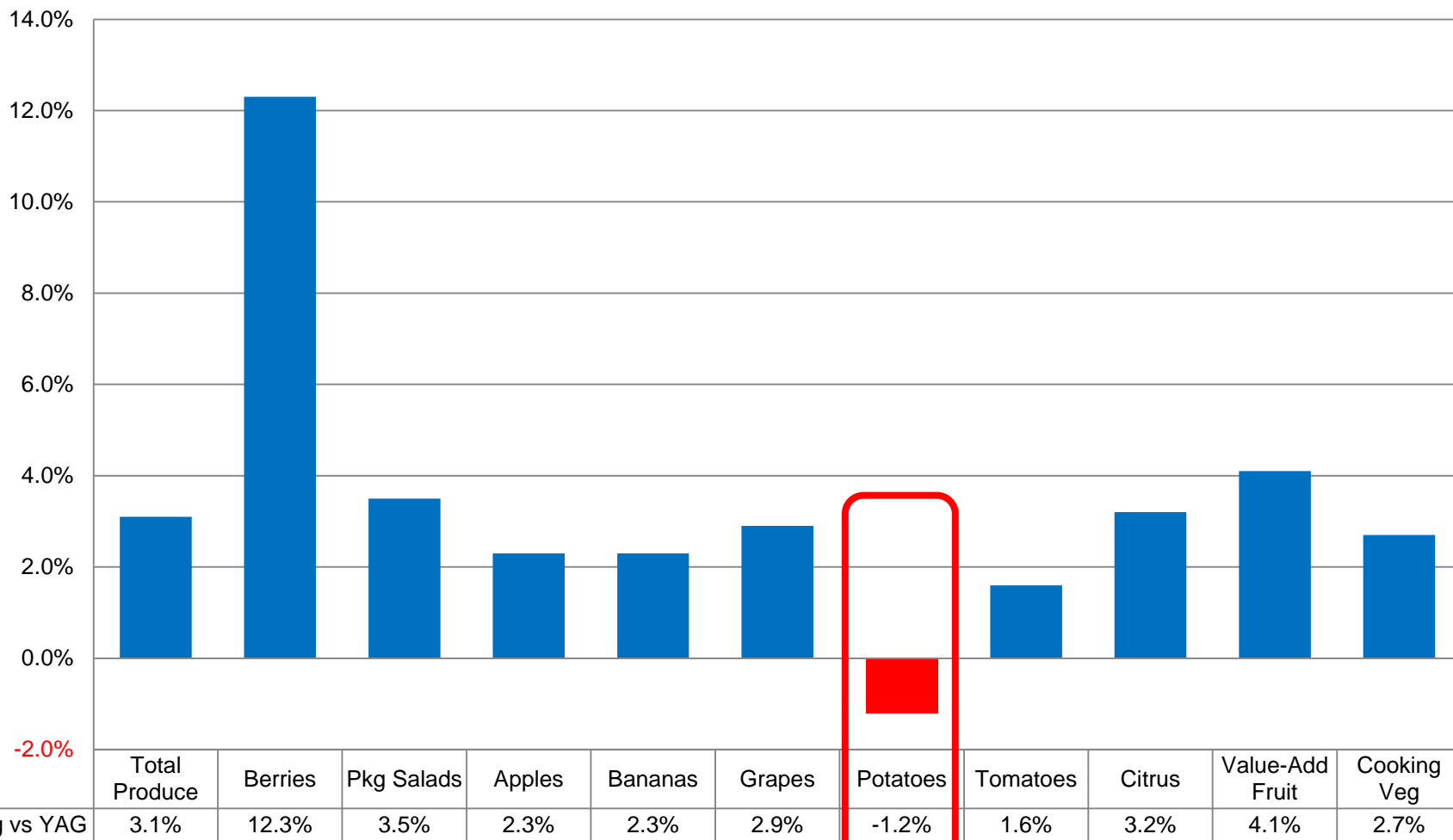
Top Ten Produce Trends - Dollars

Produce Dollar Trends
Total U.S., 52 wks ending 10/27/12



Top Ten Produce Trends - Volume

Produce Volume Trends
Total U.S., 52 wks ending 10/27/12



Retail Trends

- Fresh Potatoes

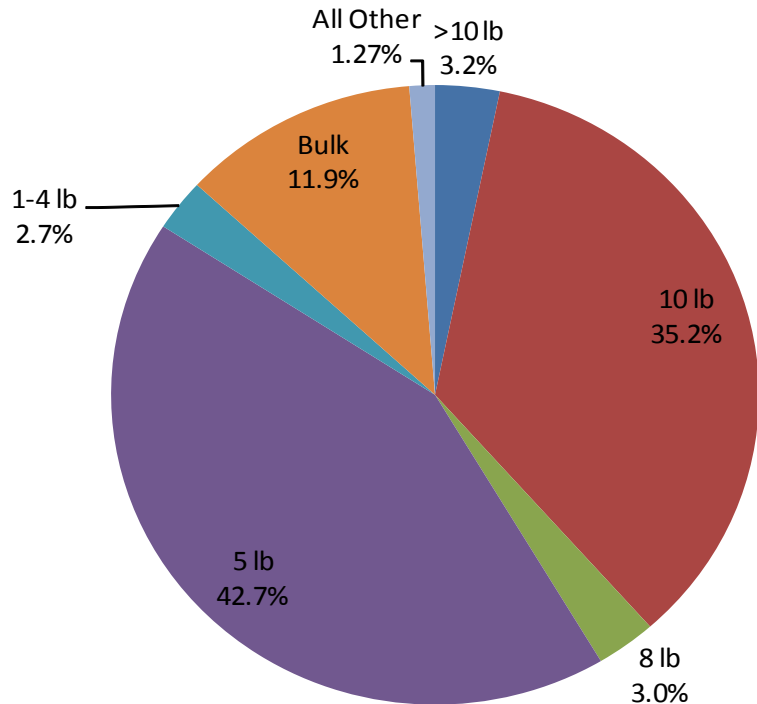


U.S. Trends by Size – Volume

- 8lb and 1-4lb sizes grew at the expense of 10lb and 5lb packages, with bulk also seeing a significant decline

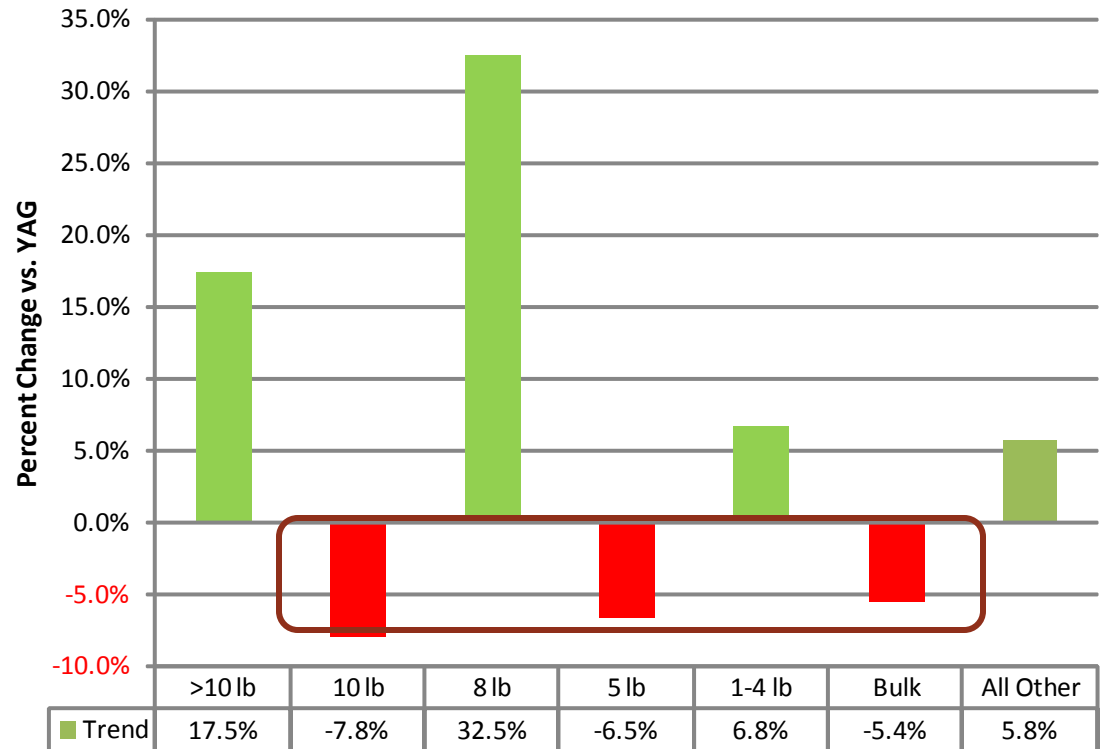
Volume Share by Size

Total U.S., 52 Weeks Ending 11/24/12



Volume % Change vs. YAGO

Total U.S., 52 Weeks Ending 11/24/12



Trends by Pack Form

- The most convenience-oriented segments, single-wrapped and steamer bags, are the only segments showing positive trends

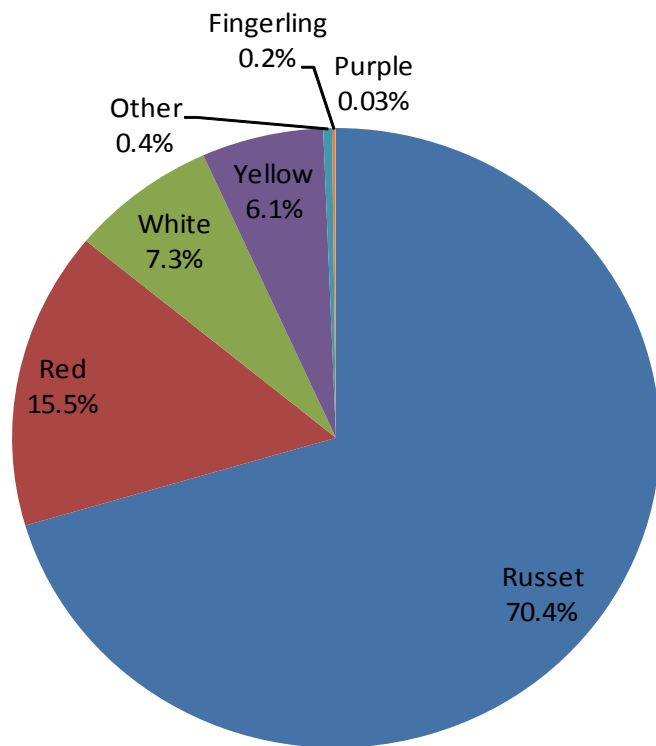
Package Type	VOLUME	DOLLAR SALES
	% change	% change
Bag	-4.6%	-6.2%
Bulk	-5.4%	-11.1%
Single Wrapped	7.2%	1.6%
Tray	-3.4%	-8.3%
Micro/Steamer	21.5%	24.7%
Fresh-Cut Refrigerated	-27.0%	-28.6%
TOTAL	-4.6%	-7.0%

U.S. Trends by Type – Volume

- Category declined 1.6%; Medleys & Purples were the only types to increase volume sales; Whites experienced the sharpest volume losses

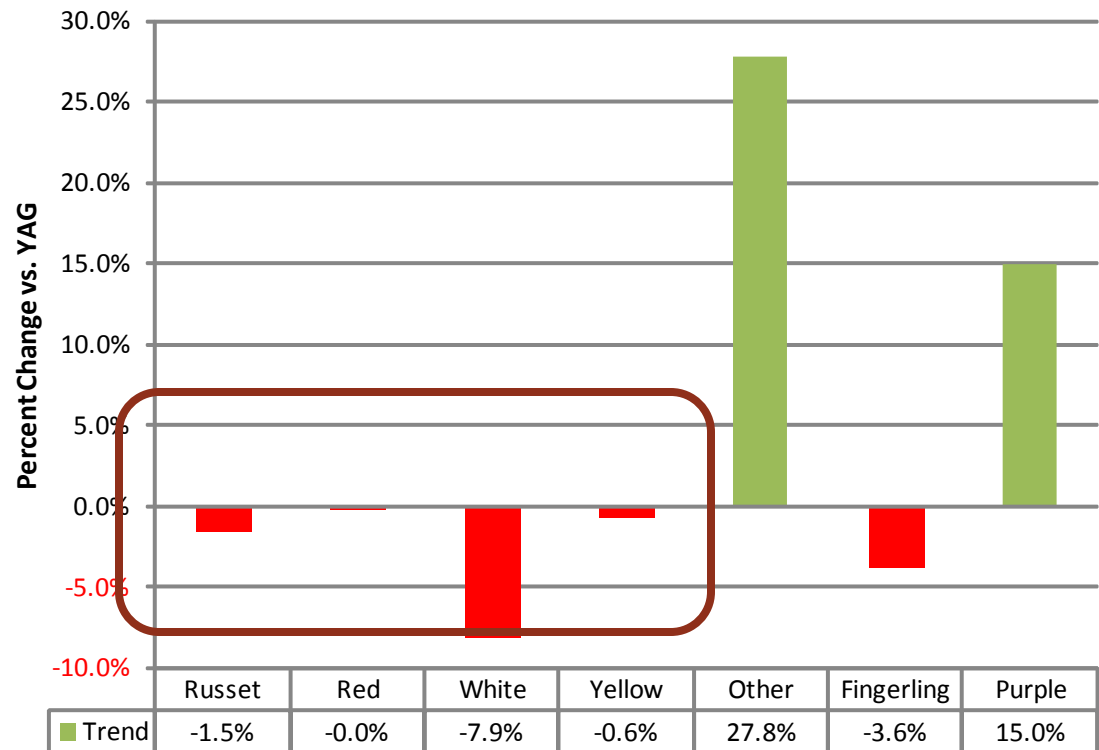
Volume Share by Type

Total U.S., 52 Weeks Ending 11/24/12



Volume % Change vs YAGO

Total U.S., 52 Weeks Ending 11/24/12



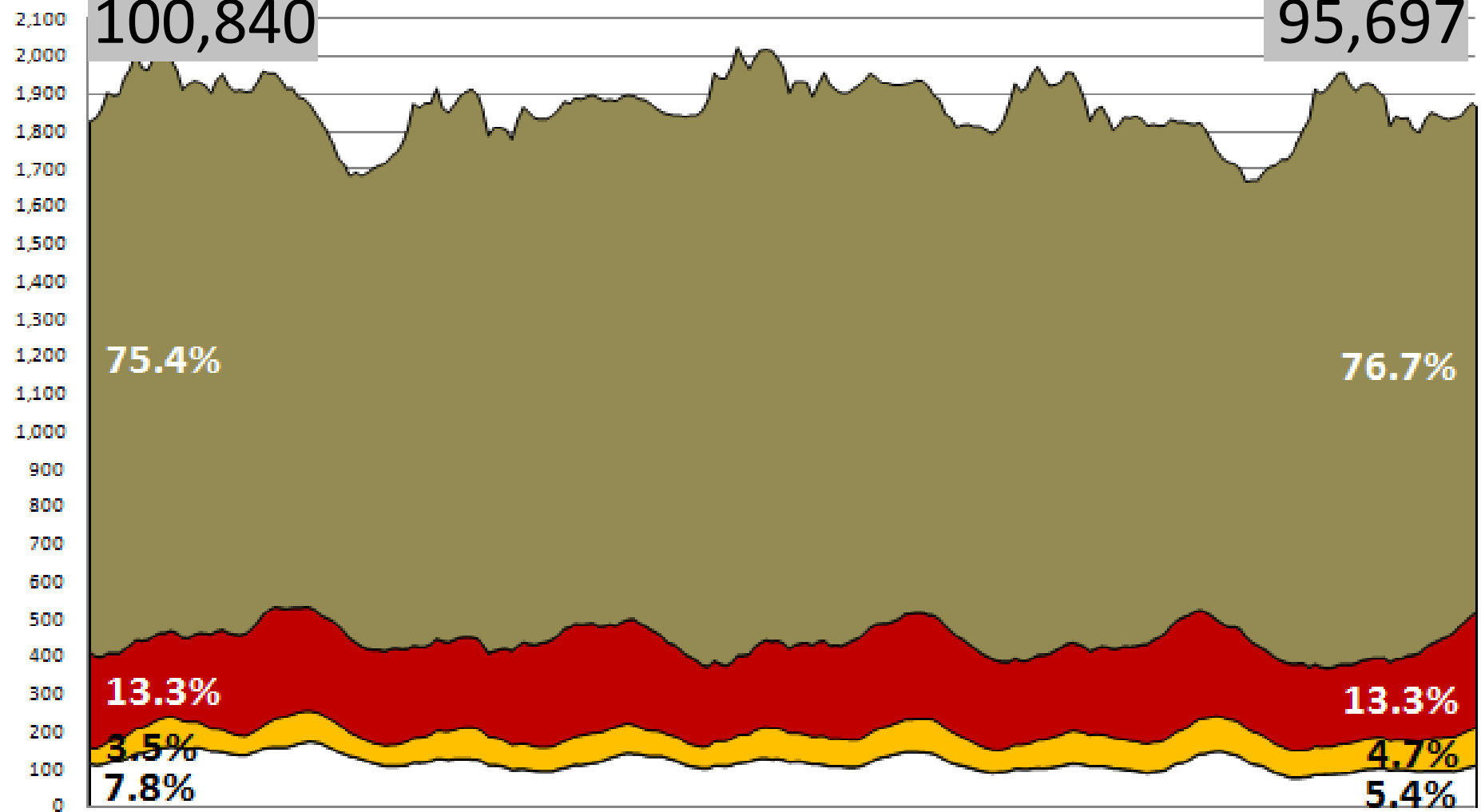
Shipments by Variety

13-wk average

000 cwt

100,840

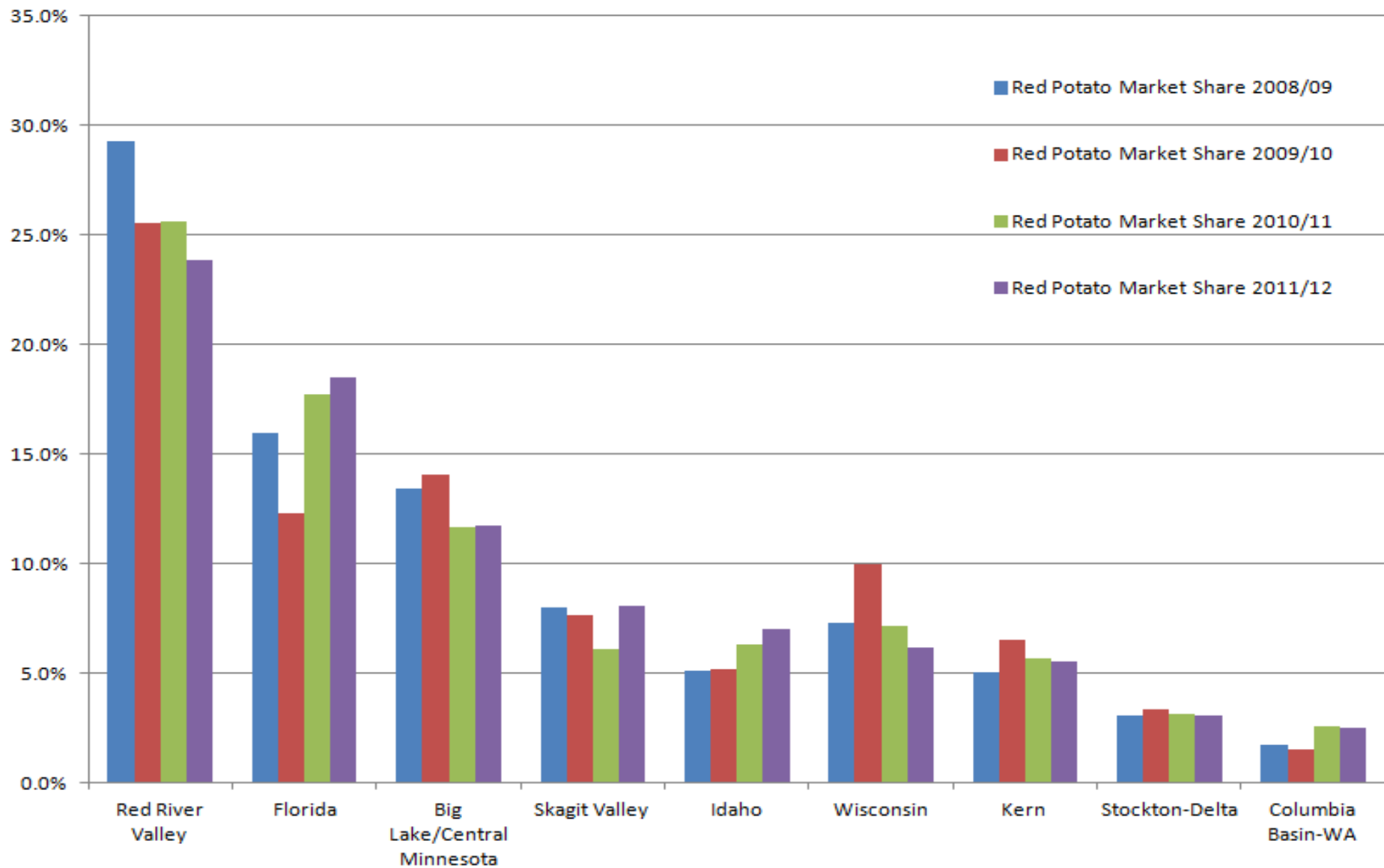
95,697



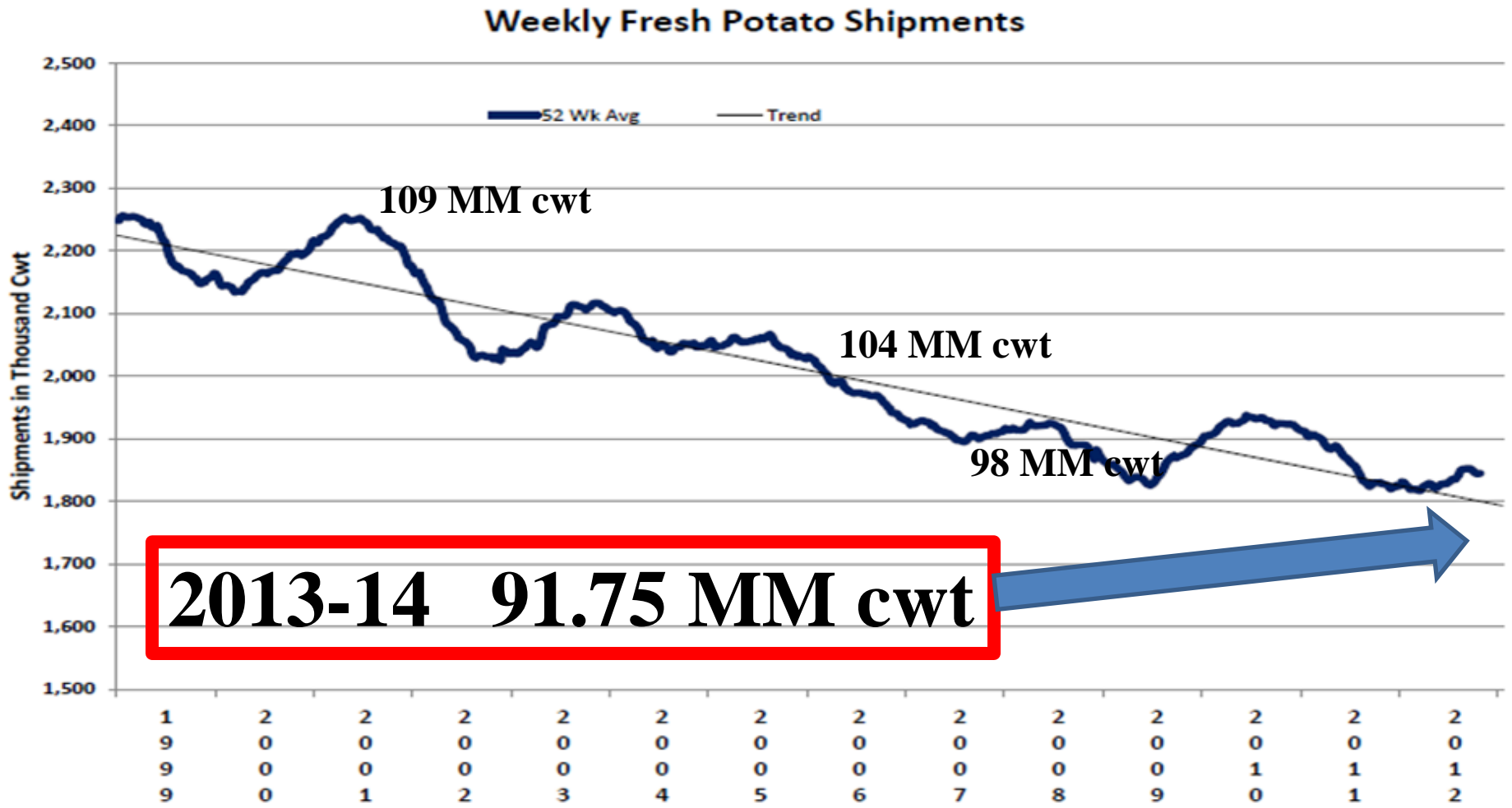
10/27/2007 12/27/2007 2/27/2008 4/27/2008 6/27/2008 8/27/2008 10/27/2008 12/27/2008 2/27/2009 4/27/2009 6/27/2009 8/27/2009 10/27/2009 12/27/2009 2/27/2010 4/27/2010 6/27/2010 8/27/2010 10/27/2010 12/27/2010 2/27/2011 4/27/2011 6/27/2011 8/27/2011 10/27/2011 12/27/2011 2/27/2012 4/27/2012

White Yellow Red Russet

Red Potato Market Share Trends



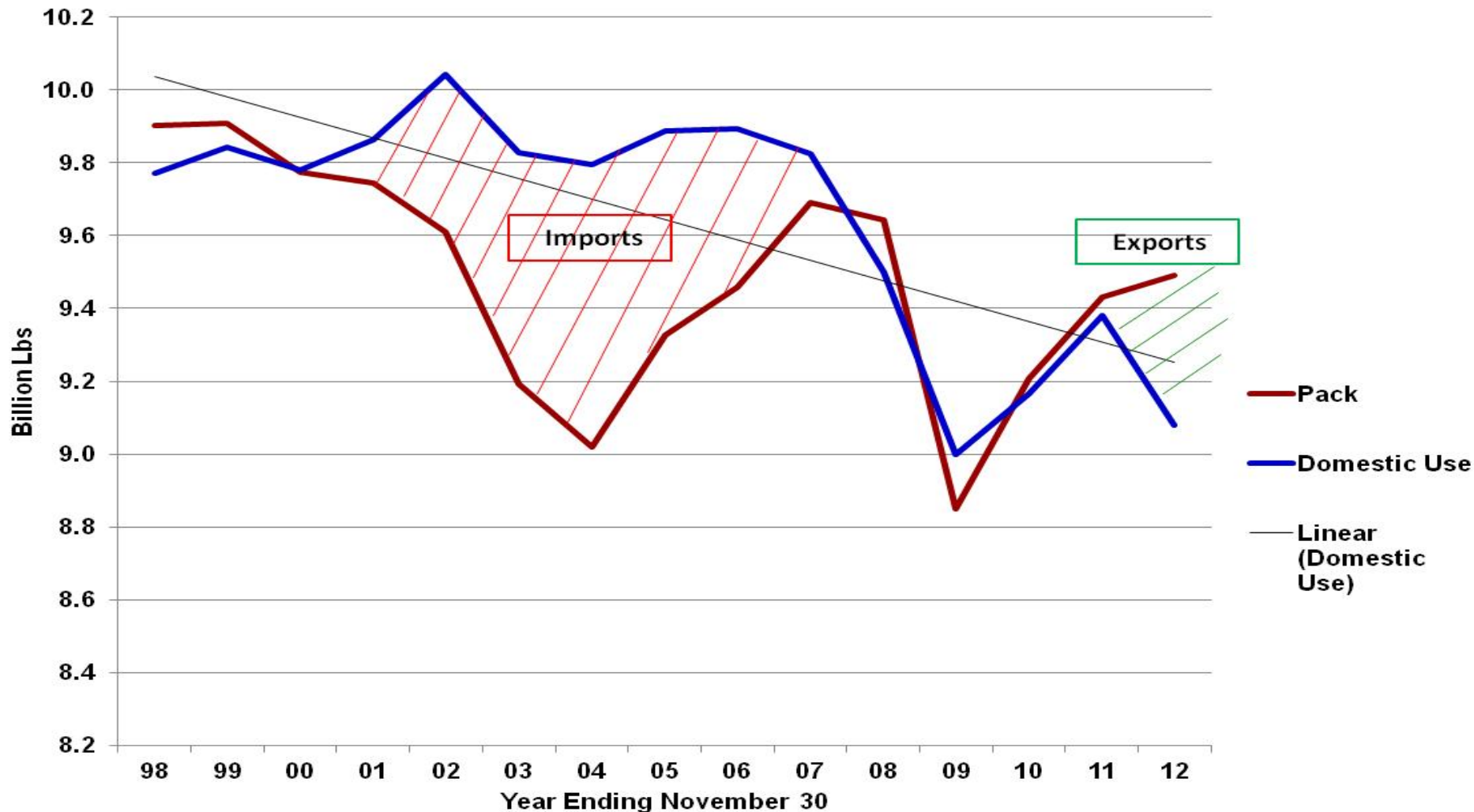
Declining Fresh Shipments/Consumption



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Declining Frozen Domestic Use

US Frozen Net Domestic Use



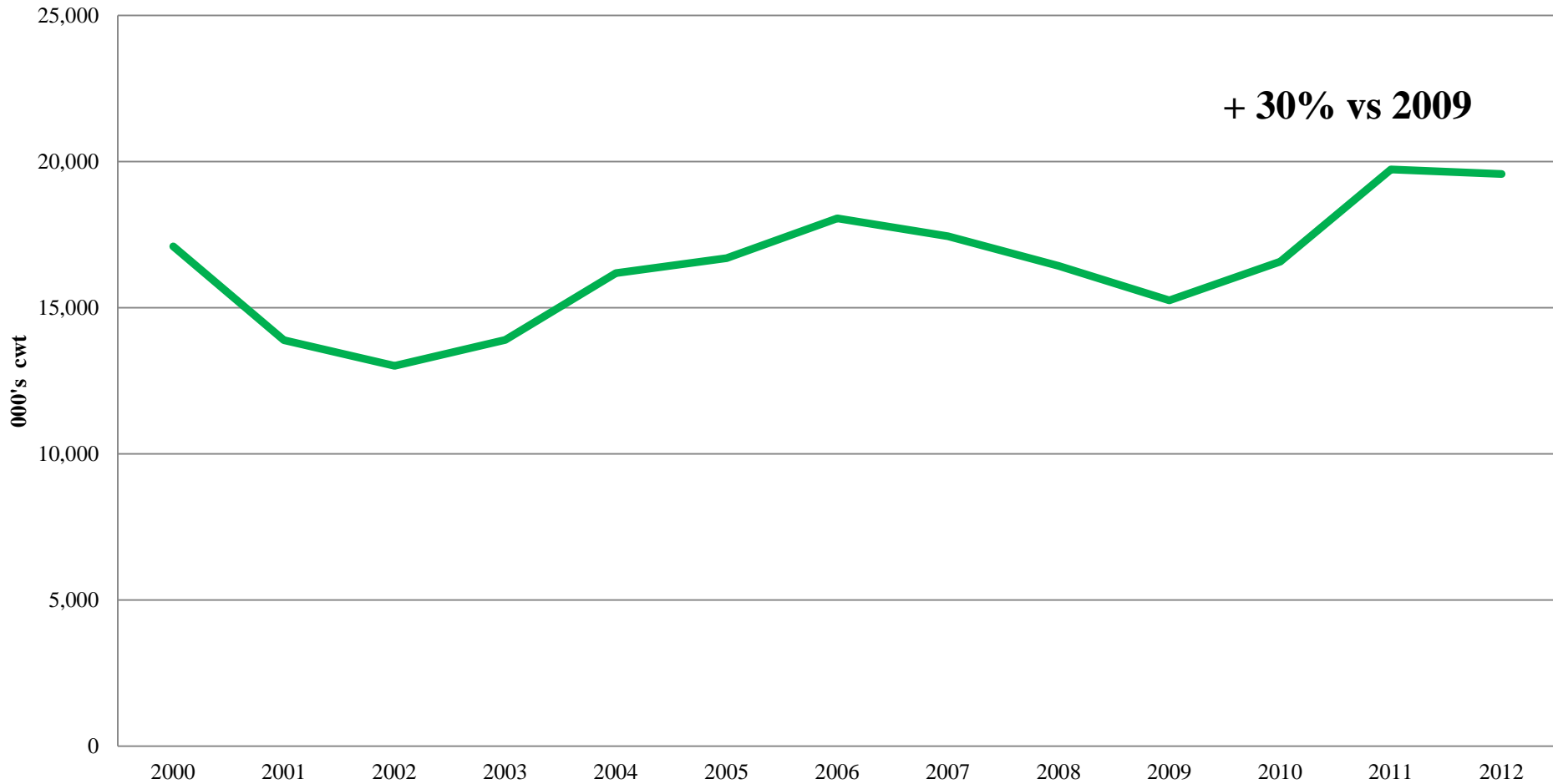
Declining Domestic Dehy Usage

Net Domestic Usage: Raw Product Equivalent



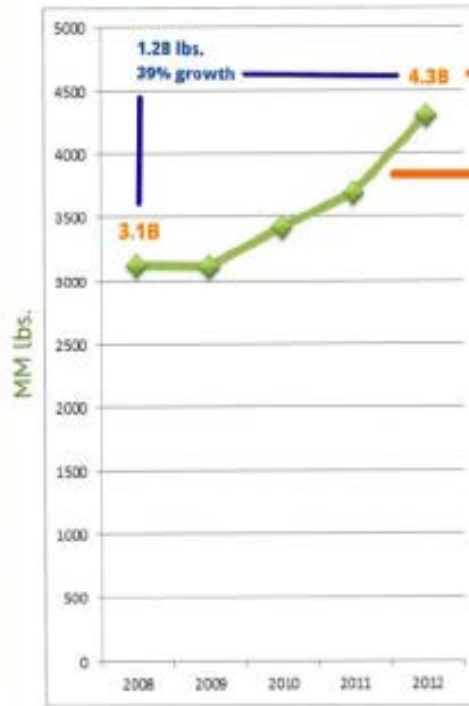
US Dehy Export

US Dehy Export: Raw Product Equivalent



5 Year Trend

excludes Canada / US cross-border trade
and trade between countries in EU.



NOTE:
NA Foodservice
market -1%
PotatoTrack: Foodservice, YE Sept. 2012



Global
Share Trends

Source: Trade Stats Northwest, YE Jun. 2012; total global frozen potato exports, excludes Canada / US cross-border trade and trade between countries in EU.

NOTE:

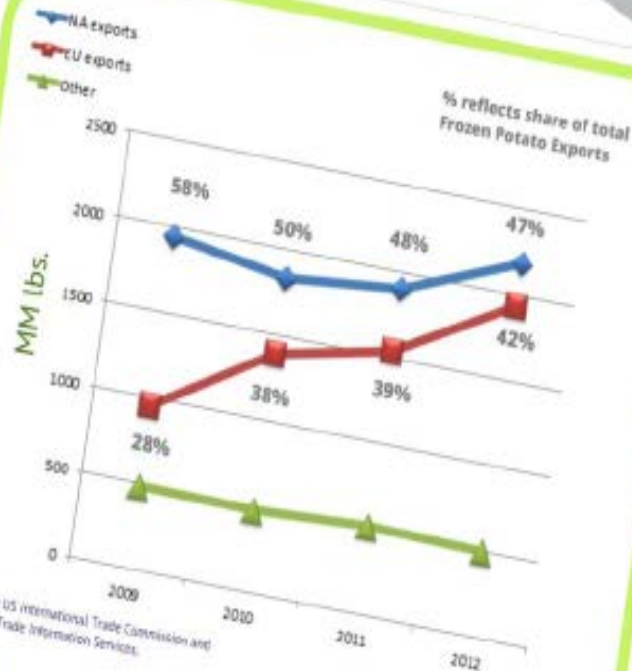
View of global N.A. export share.

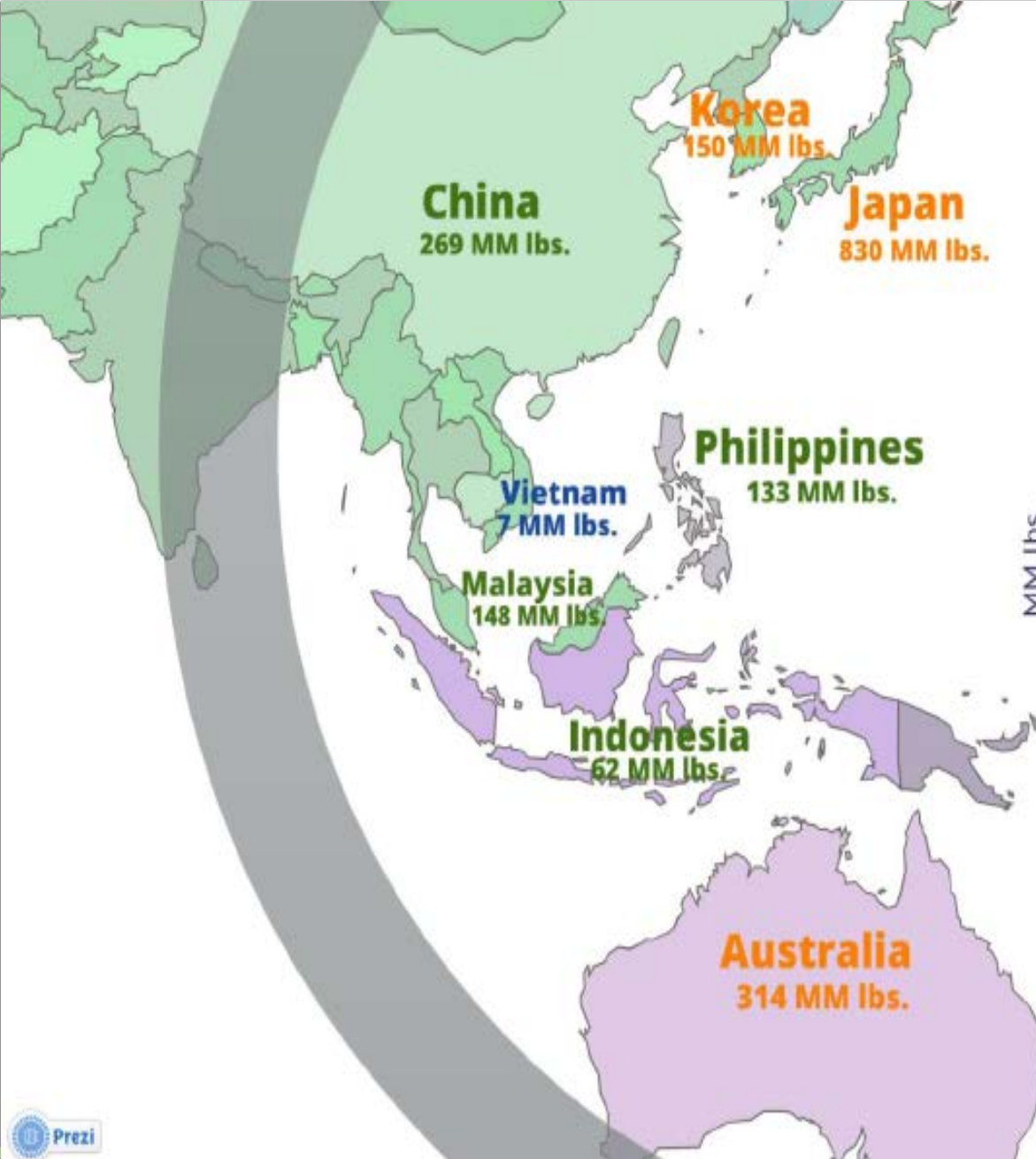
2000 → **2012**
75% → **47%**

Avg. Annual Growth

US + 4.9%
EU +16.4%

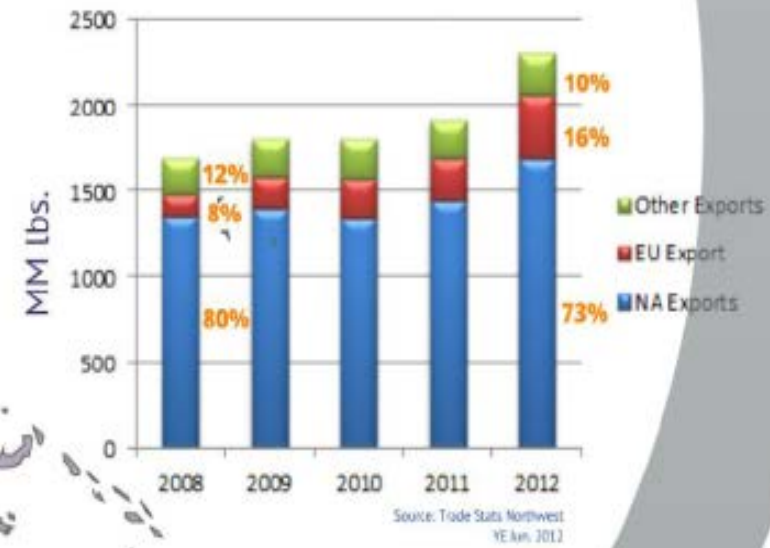
Global Share Trends





Asia Pacific

(2.3B lbs.)





Global Foodservice Growth

\$2.6 Trillion
Sales Revenue

[4.4%]
CAGR

Source: Euromonitor International



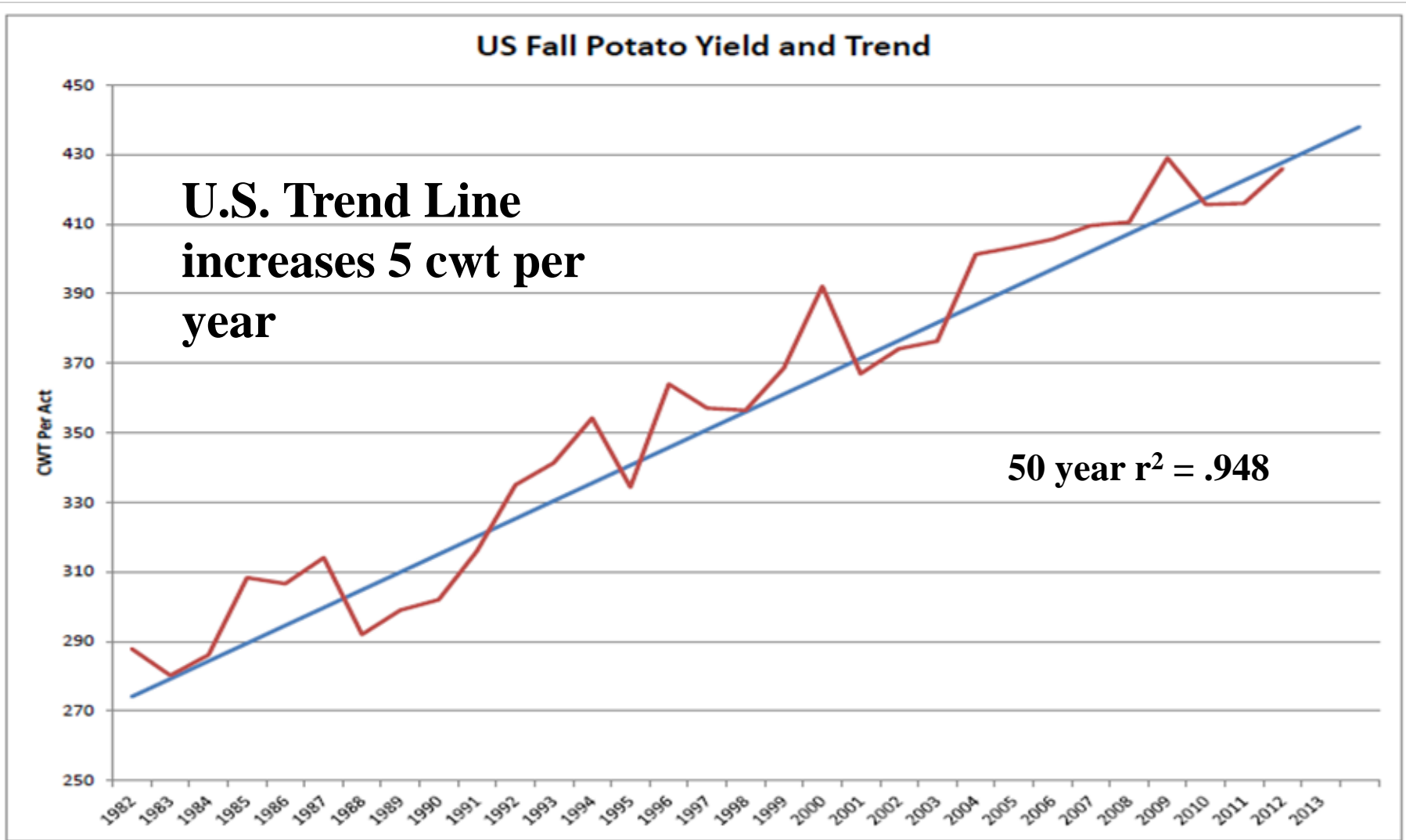
Global Trends Driving Demand



Challenges facing the Potato Industry

- Declining domestic consumption in fresh, dehy and frozen categories.
 - Growth in Export Frozen and Dehy
- ➔ Increasing trend line yields... “yield creep” adds an average 5 cwt per acre **each year.**
- Overcapacity in US Fresh Pack Industry

Increasing Trend Line Yields



Increasing trend line yields

- This increasing trend highly predictable .
- In 2017, US trend line yields will increase to 454.1 cwt per acre:
 - Up 5.5% vs 2012
 - Up 24 cwt per acre vs. 2012

Increasing trend line yields

- By 2017, planting the same US and Canadian acres as today produces **32,500,000** cwt in excess of today's projected demand.
- That is **71,570 FEWER acres** needed in 2017 to produce the same supply.

Potato Industry Dilemma

- Balance increasing production with declining domestic consumption
- Especially acute on Fresh side of the Industry
 - constant struggle to balance increasing supply with declining demand. No significant export.
 - continuing reduction in WPG
 - fresh pack production exceeds demand
 - leading to fresh pack overcapacity
- Movement of potatoes between sectors destabilizes markets.

Why does any of this matter?

- **Balanced supplies mean:**
 1. Stable and profitable markets
 2. Less diversion of potatoes from one sector to another.
 3. A stable platform for process contracts
 - Frozen, WPG, Dehy FR
 4. Stable domestic and export pricing environment
 - current and future contracts

What do Frozen Processors Want?

- Stable, secure raw supply
- Predictable raw prices
- All fryers with similar raw cost basis
- NO cheap (excess) raw

What do Dehy Processors Want?

- Stable, secure raw supply
- All Dehydrators with the similar raw cost basis
 - Washed process grade
 - Field run
- NO cheap (excess) raw

Oversupply in any Sector produces:

- Someone with a “cost” advantage that usually results in price destabilization.
- Pressure from buyers to lower today’s price
- Pressure from buyers to lower future prices

Fresh Market Challenge

- Producing a profitable crop in a market with declining consumption and increasing yields
 - Supply-demand elasticity is “razor thin” in fresh markets.
 - 1% regional or national oversupply erodes pricing and profitability...
 - It is impossible to balance supply when spillover occurs in your market....from any sector

Indicated Actions to consider

1. Each sector to act responsibly to contract only their needs
 - Frozen Processors have done an admirable job
2. Growers in every sector need to act responsibly to grow only what they have contracted.
 - Speculation or “open” potatoes in any sector threatens all sectors and every grower.

Indicated Actions to consider:

3. Minimize...even eliminate movement of excess production between sectors.

HOW?

- a) Contract what you need
- b) Grow what you have contracted.
- c) Do not produce extra potatoes you expect to sell into other sectors

WHY? it is in everyone's best interest

Oversupply hurts all sectors

- Impacts contract stability...fresh, frozen, dehy
- Impacts export and domestic pricing
- Impacts grower returns...current and future

Indicated Actions to consider:

4. Fresh Packers/Shippers

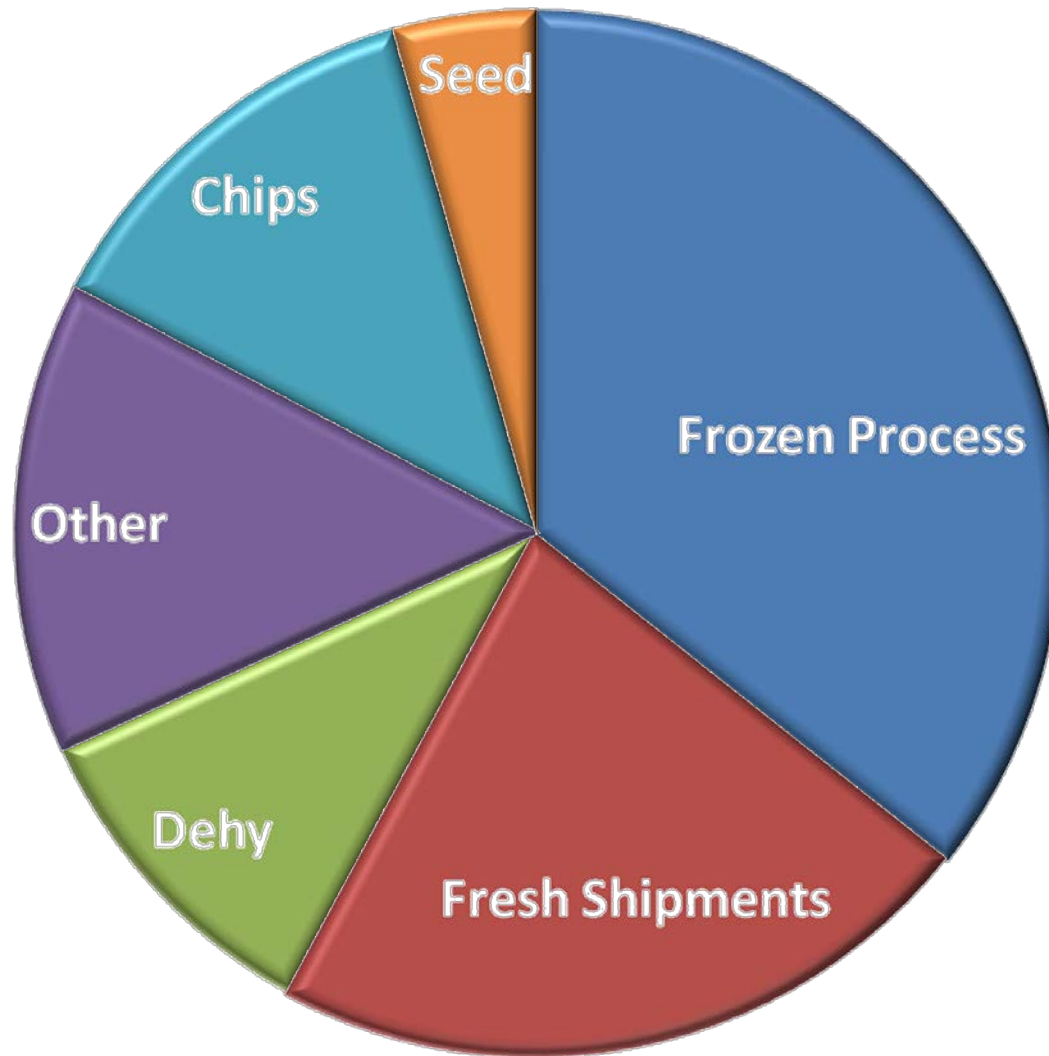
- accept that your industry has serious overcapacity.
 - o it needs consolidation....economics will force it
- When overhead absorption drives production instead of real demand, production will exceed projected demand and price will be the casualty!

Indicated Actions to consider:

4. Continued.

- Accept that fresh consumption/demand has been and will continue to decline every year.
- The same trends are affecting your Red Market.
- 2013 “price positive” demand level is expected to be 91,750,000 cwt. Less red potato demand each year.

It's All One Big Pile of Potatoes





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UNITED
POTATO GROWERS OF CANADA
LES PRODUCTEURS UNIS DE POMMES DE TERRE DU CANADA

Thank You