First Fruits Marketing of Washington

2013/14

Organic Apple Market Update

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First Fruits Marketing, Yakima, WA

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USDA ORGANIC

Washington "The Best Apple Flavors On Earth."

Handler Certified Organic Washington State Dept. of Agriculture

Topics of Discussion

1. National crop holdings
2. Organic Apple Production Trends
3. 2013-14 Market Conditions
4. Gross Revenue Overview for Organic and Conventional Apples
5. Factors influencing the market
6. Summary

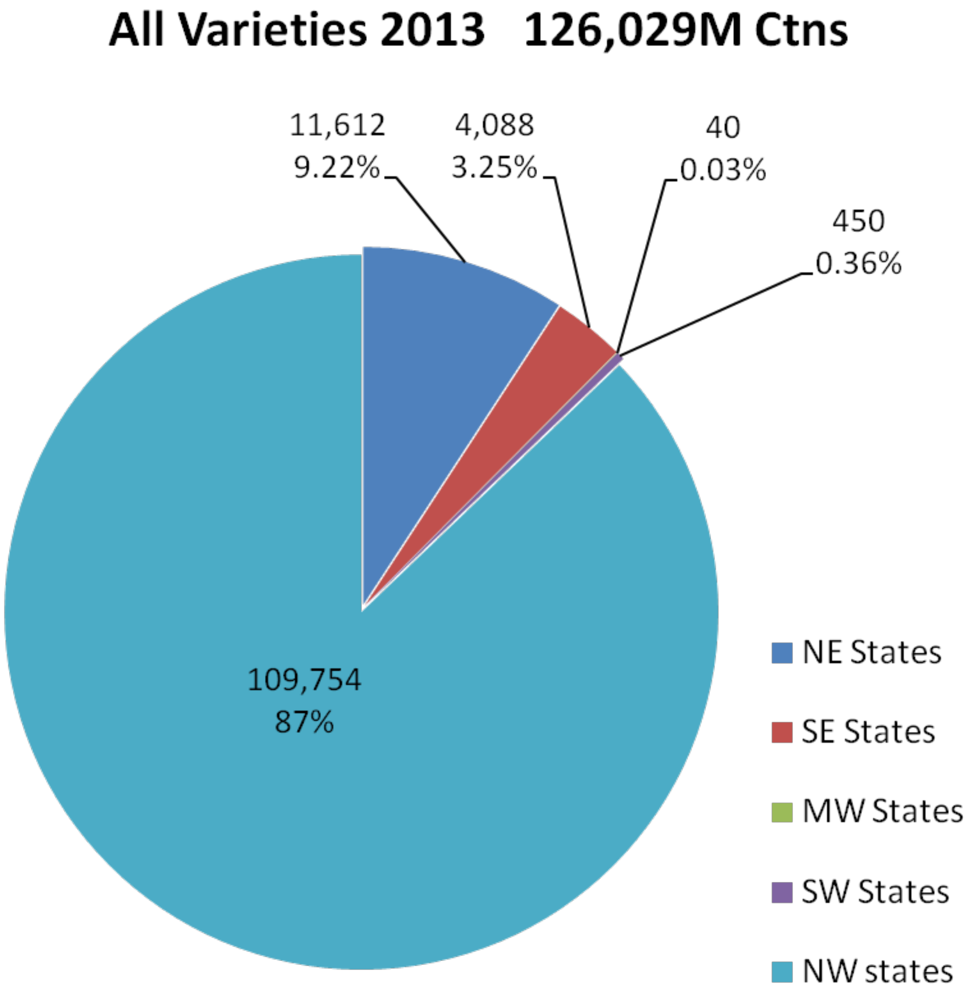
National Crop Holdings

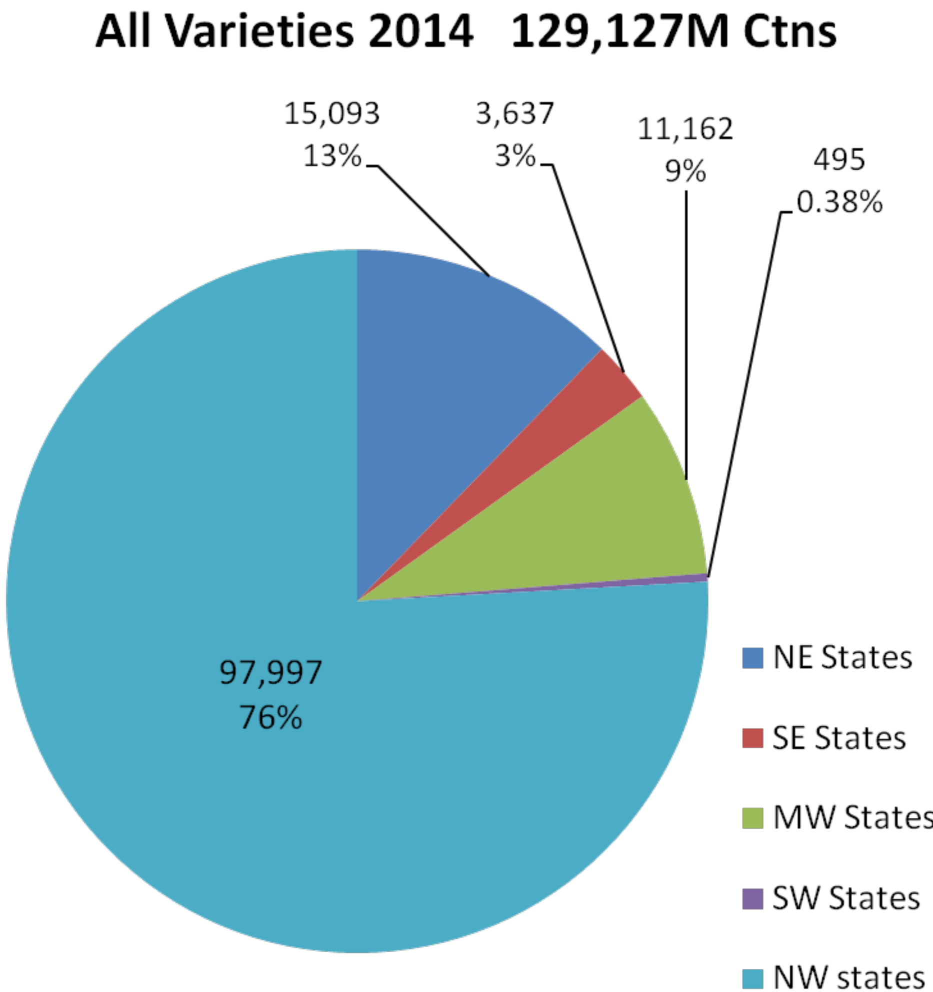
- Washington State is the leading national producer of apples and organic apples.
- In 2012, Midwest and Eastern producers had extensive crop loss due to frost, while WA had its largest crop ever. Thus, WA played a more dominant role than usual in apple supply and storage.
- In 2013, the WA crop was down (an "off year") while those regions affected by frost last year had very large crops.
- There are 3 million more cartons of apples on hand in the U.S. as compared to last season. This is a 2.3 % increase.
- WA State has 11.77 million <u>less</u> cartons of apples on hand as compared to last season. This is a 9% decrease.
- The following slide shows the distribution of apples in storage as of Jan. 1 for this year and last, and how WA share and volume has decreased.

Note: A carton (ctn) = 40 lb box of apples. A 'car' contains 1000 boxes.

Total US Apple Holdings as of Jan. 1, 2014
2013 vs 2014

All utilizations





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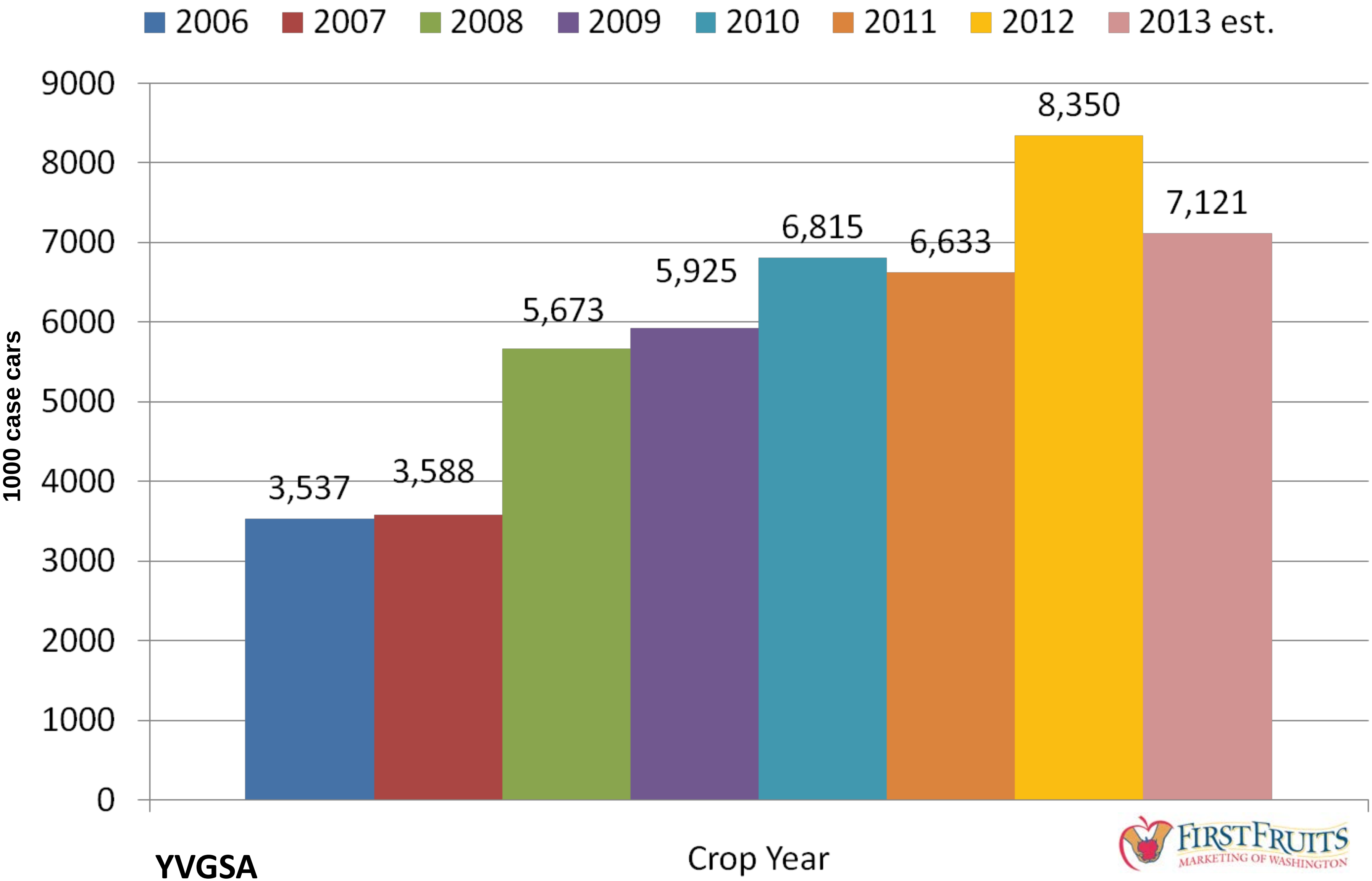
Organic Production Trends

- The following slide shows the increased in shipped volume (1000 box cars) of organic apples from WA state, despite a decline in certified acres from 2009 to 2012. Acreage increased slightly in 2013.
- Over 8.3 million boxes of organic apples were sold from the 2012 crop. That level will not be reached with the smaller 2013 crop. This is especially evident for ‘Fuji’ apples, the second best selling variety after ‘Gala’.
- The shipment pattern for all apples over the season was similar in recent years except for the higher volume in 2012/13. In contrast, shipments for the 2013 organic apple crop have been higher than expected (presumably due to growing demand) but will have to fall off quicker due to depletion of supply in storage.
- Organic apples in storage as of Jan. 1 were 40% lower in 2014 than 2013, due to the smaller crop and the higher rate of shipment early in the season.

WA State Organic Apple Production



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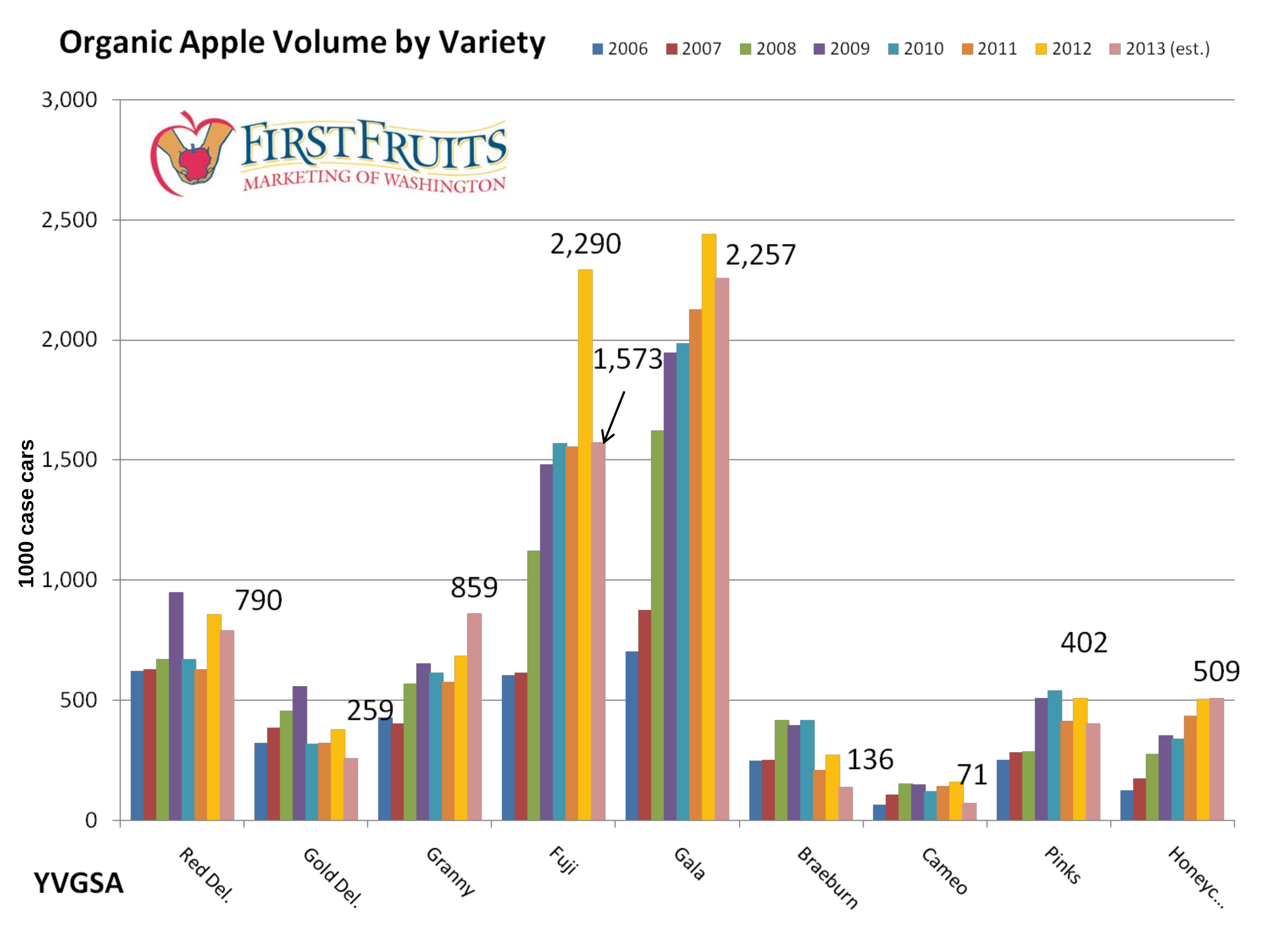

Organic Apple Volume by Variety
2006
2007
2008
2009
2010
2011
2012
2013 (est.)
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1000 case cars
3,000
2,500
2,000
1,500
1,000
500
0
790
259
859
2,290
1,573
2,257
136
71
402
509
Red Del.
Gold Del.
Granny
Fuji
Gala
Braeburn
Cameo
Pinks
Honeyc...
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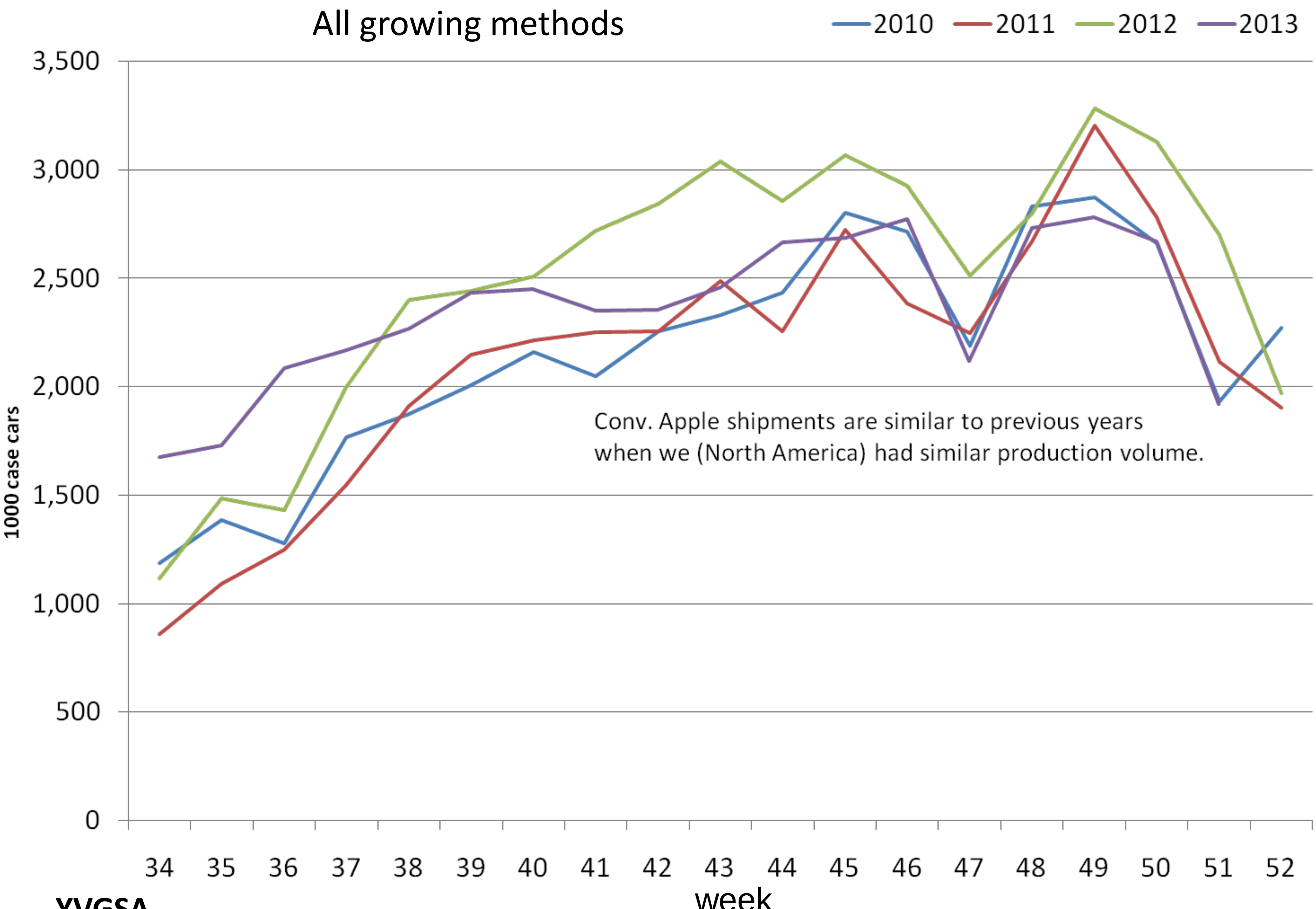
Weekly Apple Shipment Comparison



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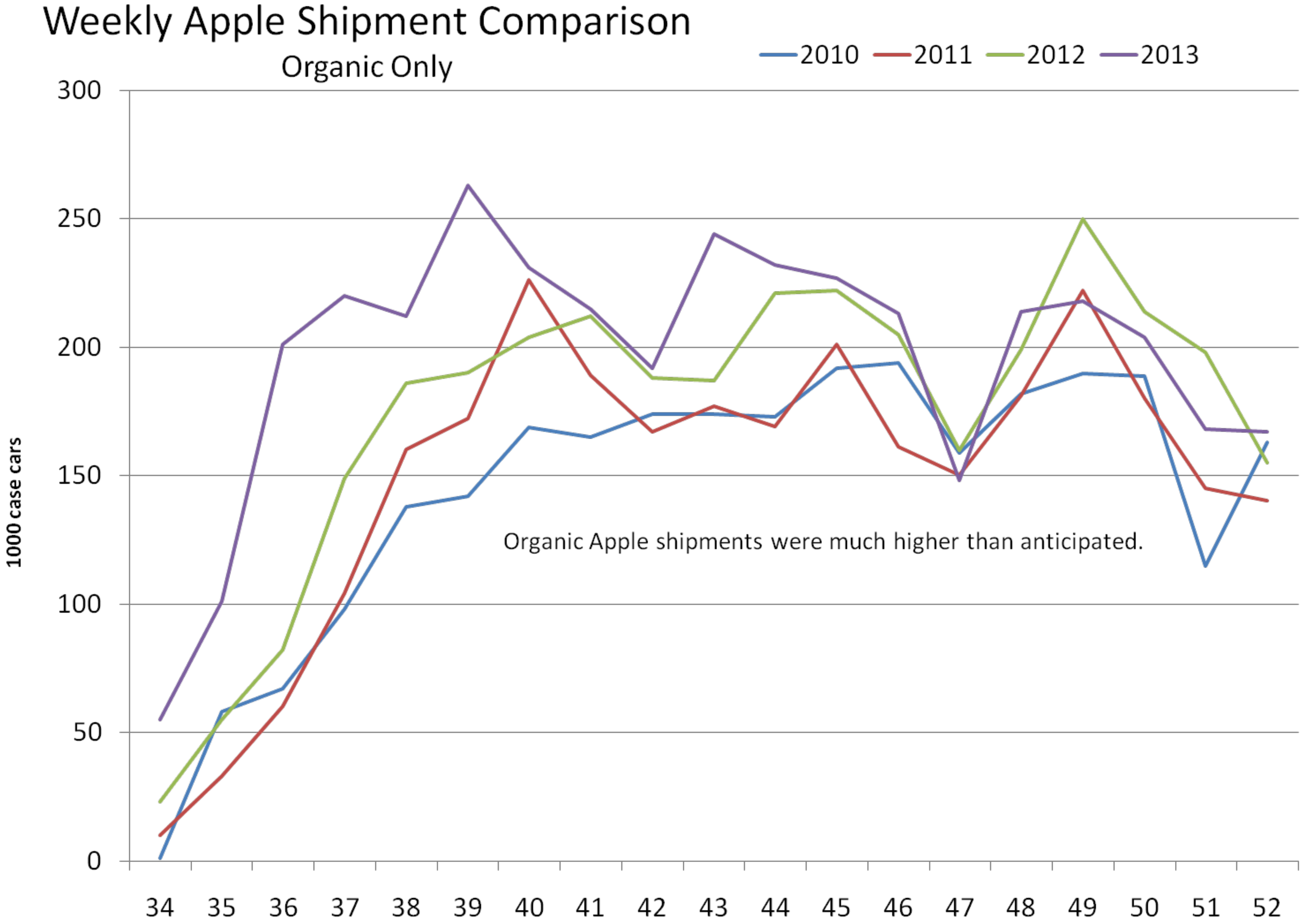

Weekly Apple Shipment Comparison
Organic Only
2010
2011
2012
2013
300
250
200
150
100
50
0
1000 case cars
Organic Apple shipments were much higher than anticipated.
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52

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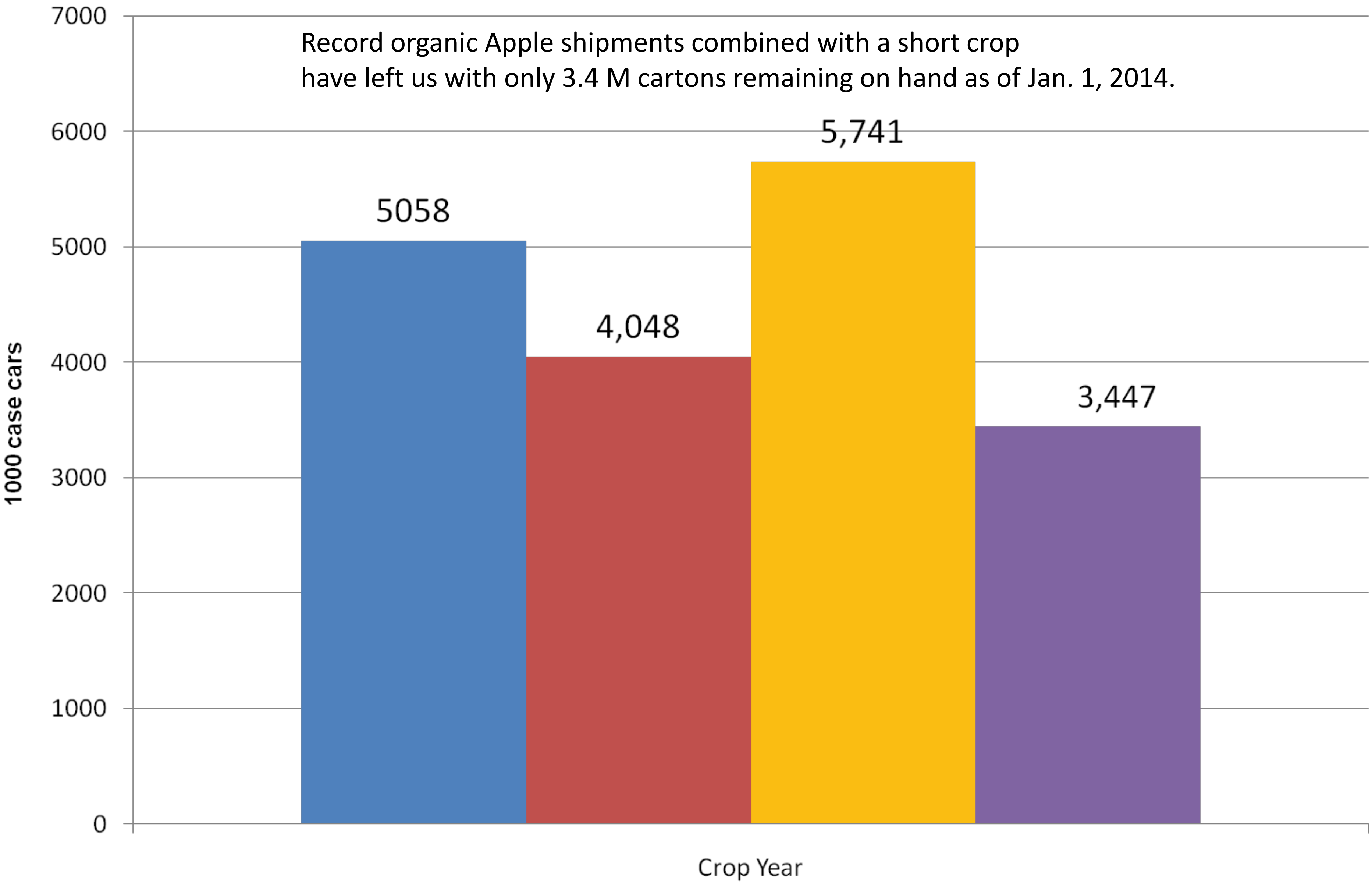
Jan. 1 Organic Apple Holdings



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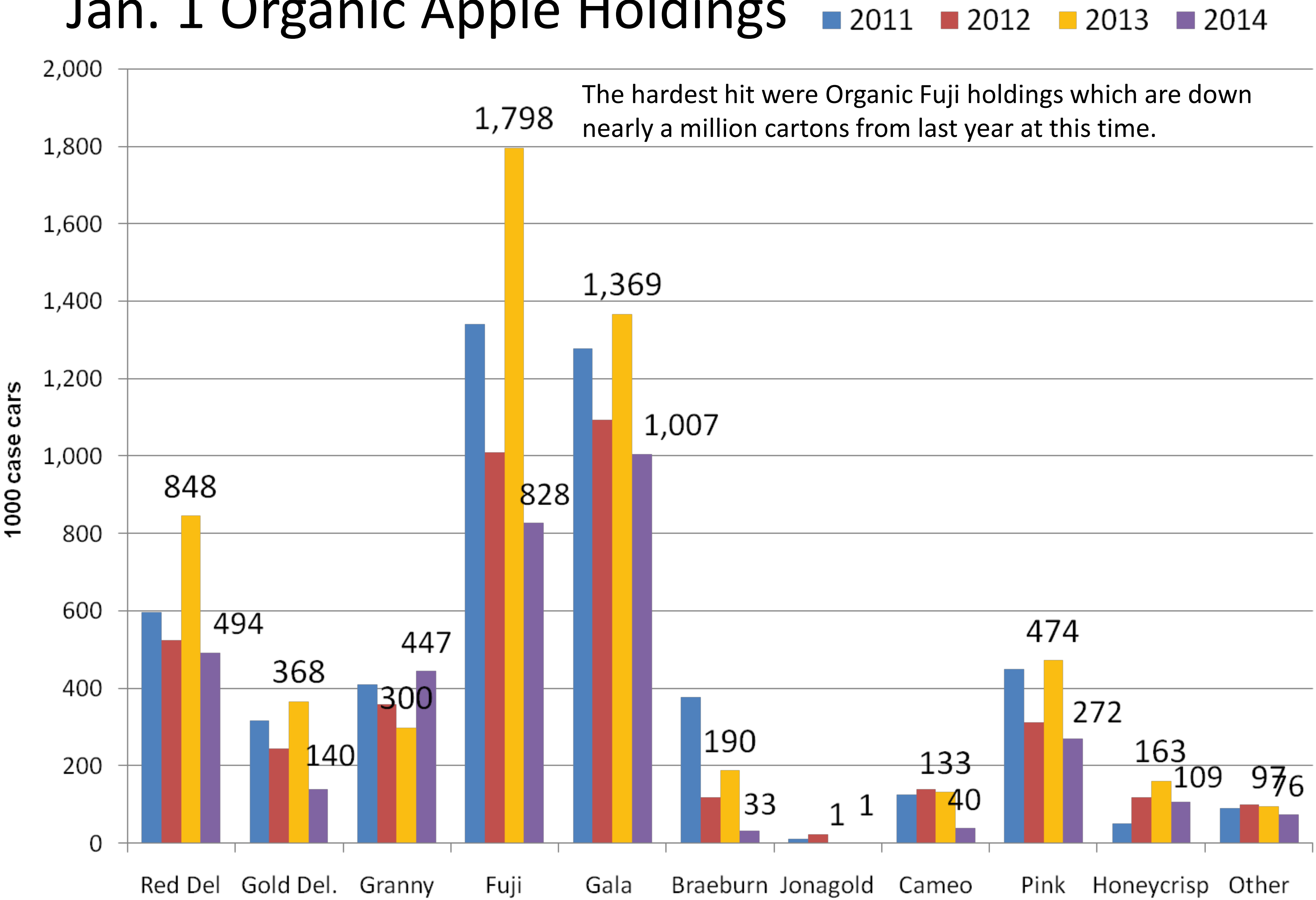
Jan. 1 Organic Apple Holdings



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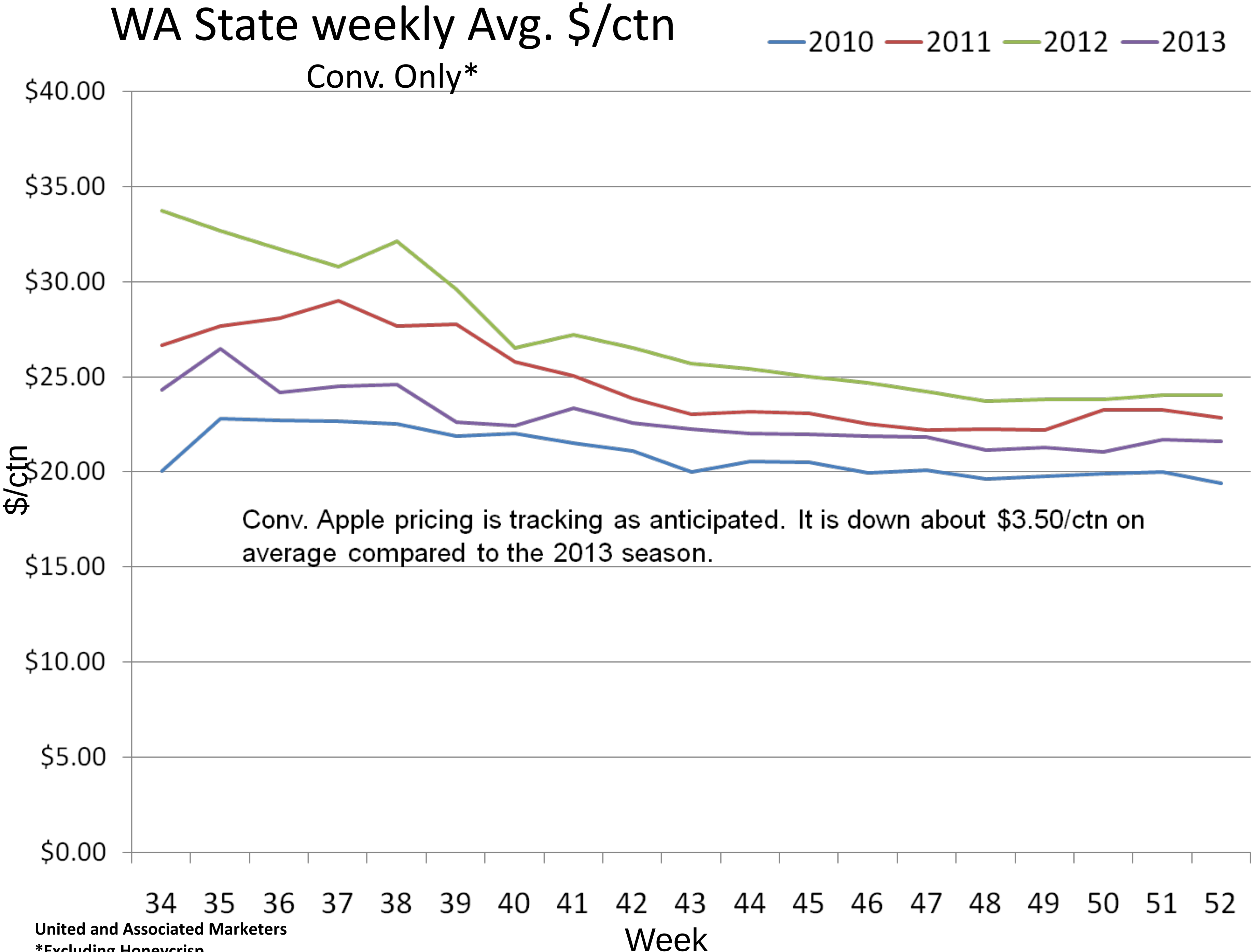
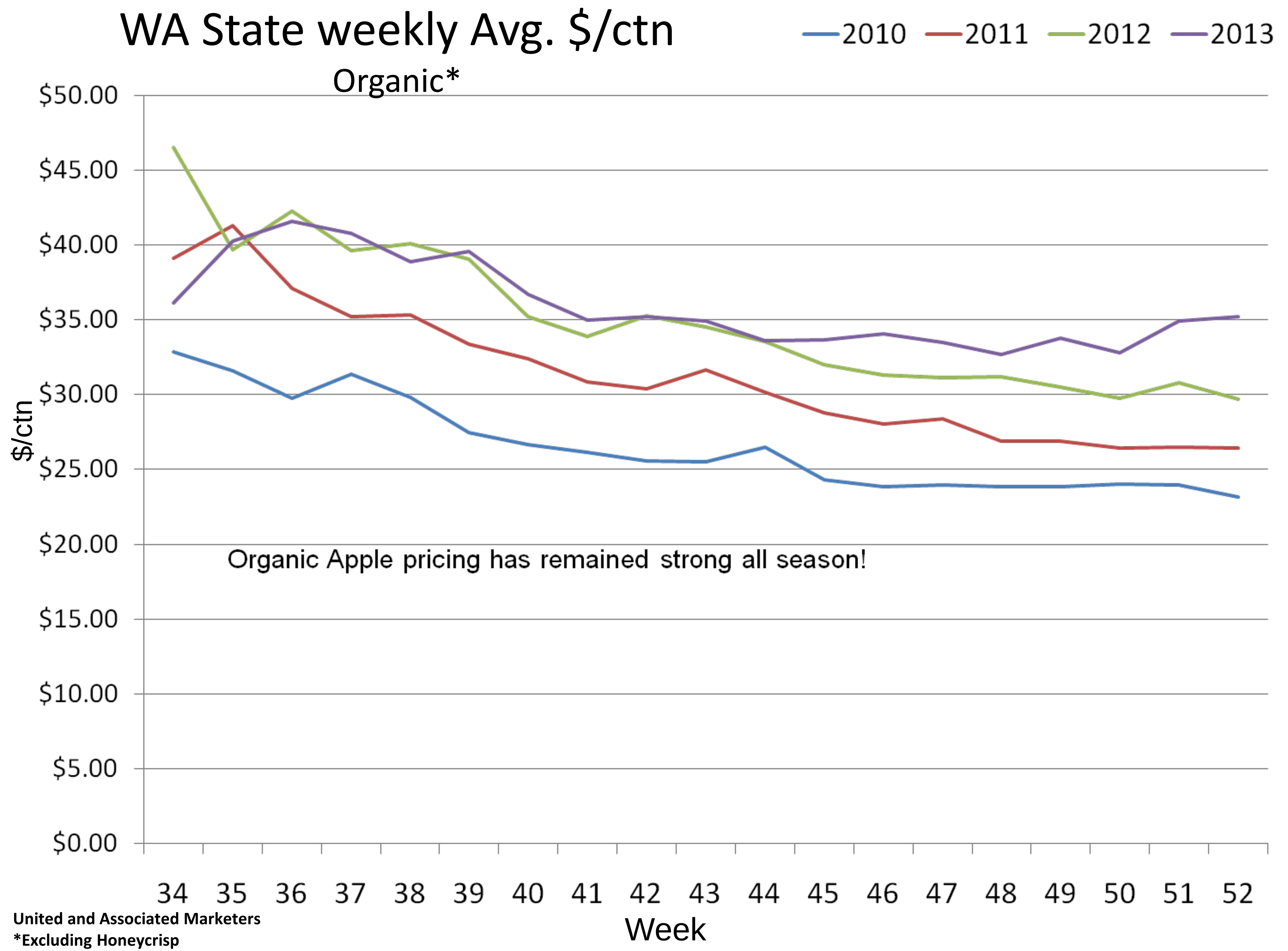
Market Conditions 2013/14

- Prices for conventional apples have declined from the 2012 crop level as national supply has increased and more competitors are in the market. On average, prices are down $3.50/ctn.
- In contrast, prices for organic apples are at or above 2012/13 levels, due to the shorter supply. Historically, it is rare for the organic price pattern to diverge from conventional, but short supply and growing demand tend to raise prices.
- The price for all the main varieties of conventional apples (excluding Honeycrisp) are down from 2012 to 2013, while prices are up for all varieties of organic apples.



United and Associated Marketers
***Excluding Honeycrisp**


WA State weekly Avg. $/ctn
Organic*
2010
2011
2012
2013
$50.00
$45.00
$40.00
$35.00
$30.00
$25.00
$20.00
$15.00
$10.00
$5.00
$0.00
$/ctn
Organic Apple pricing has remained strong all season!
34
35
36
37
38
39
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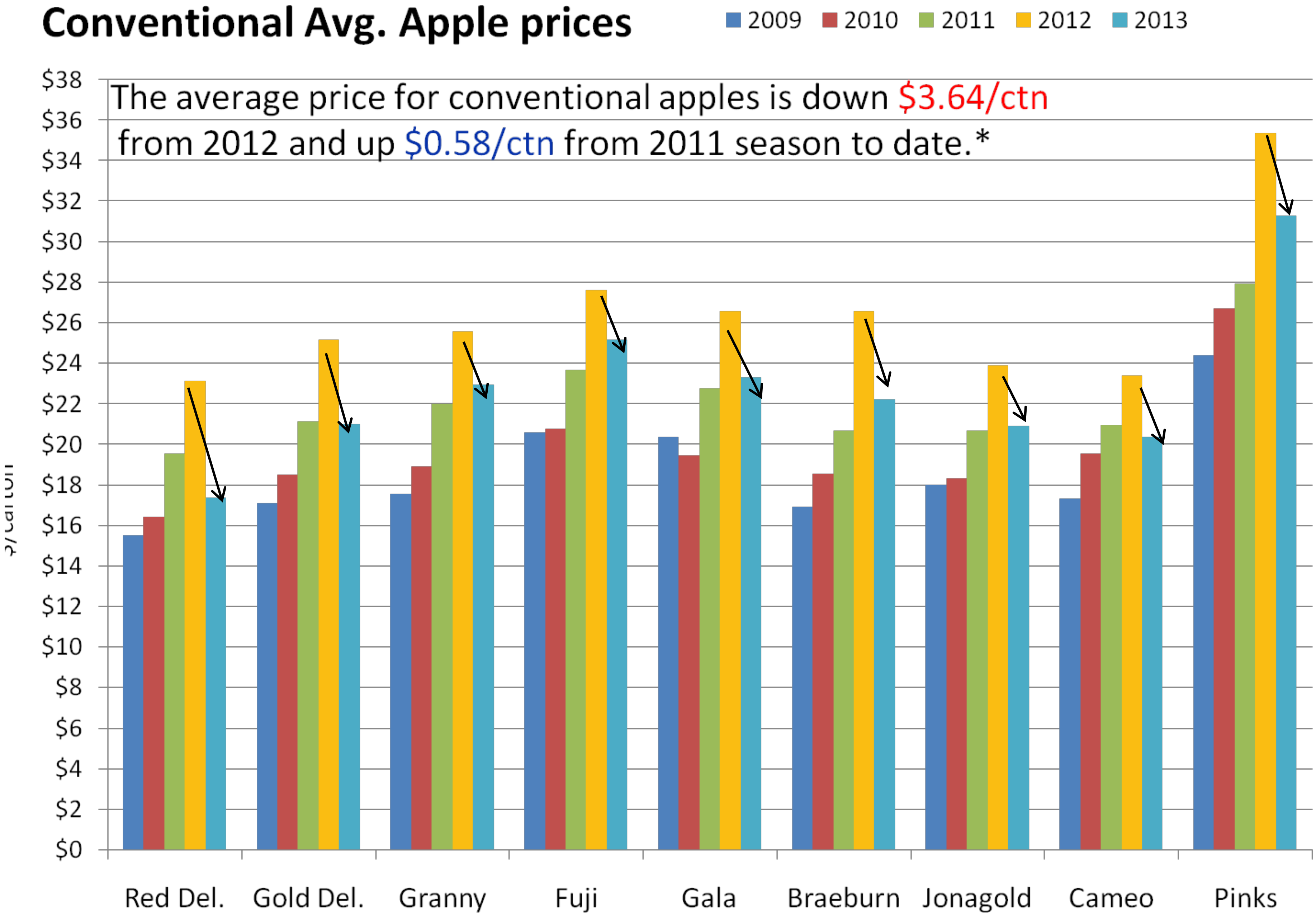
Week
United and Associated Marketers
*Excluding Honeycrisp

Conventional Avg. Apple prices



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*Excluding Honeycrisp

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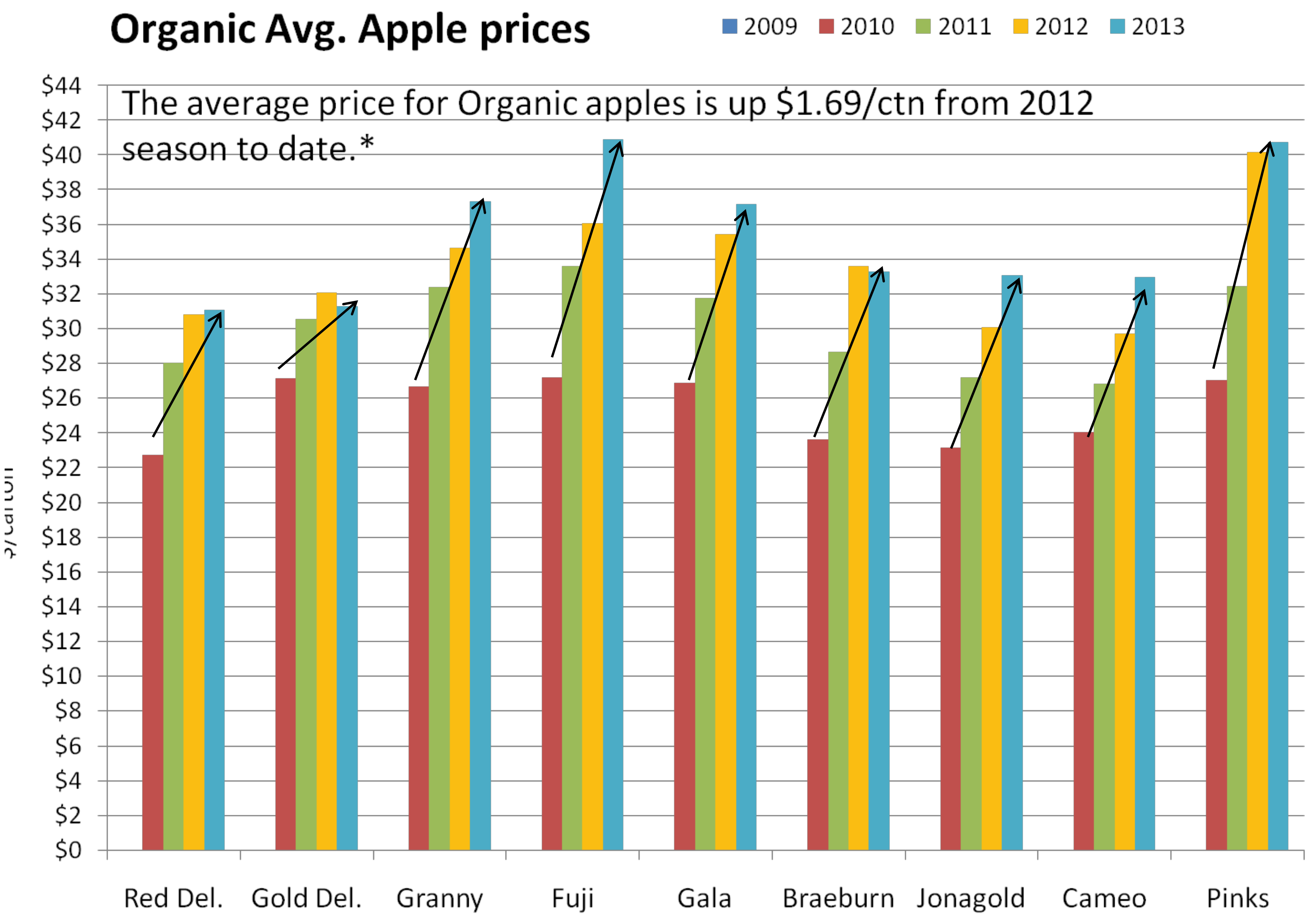
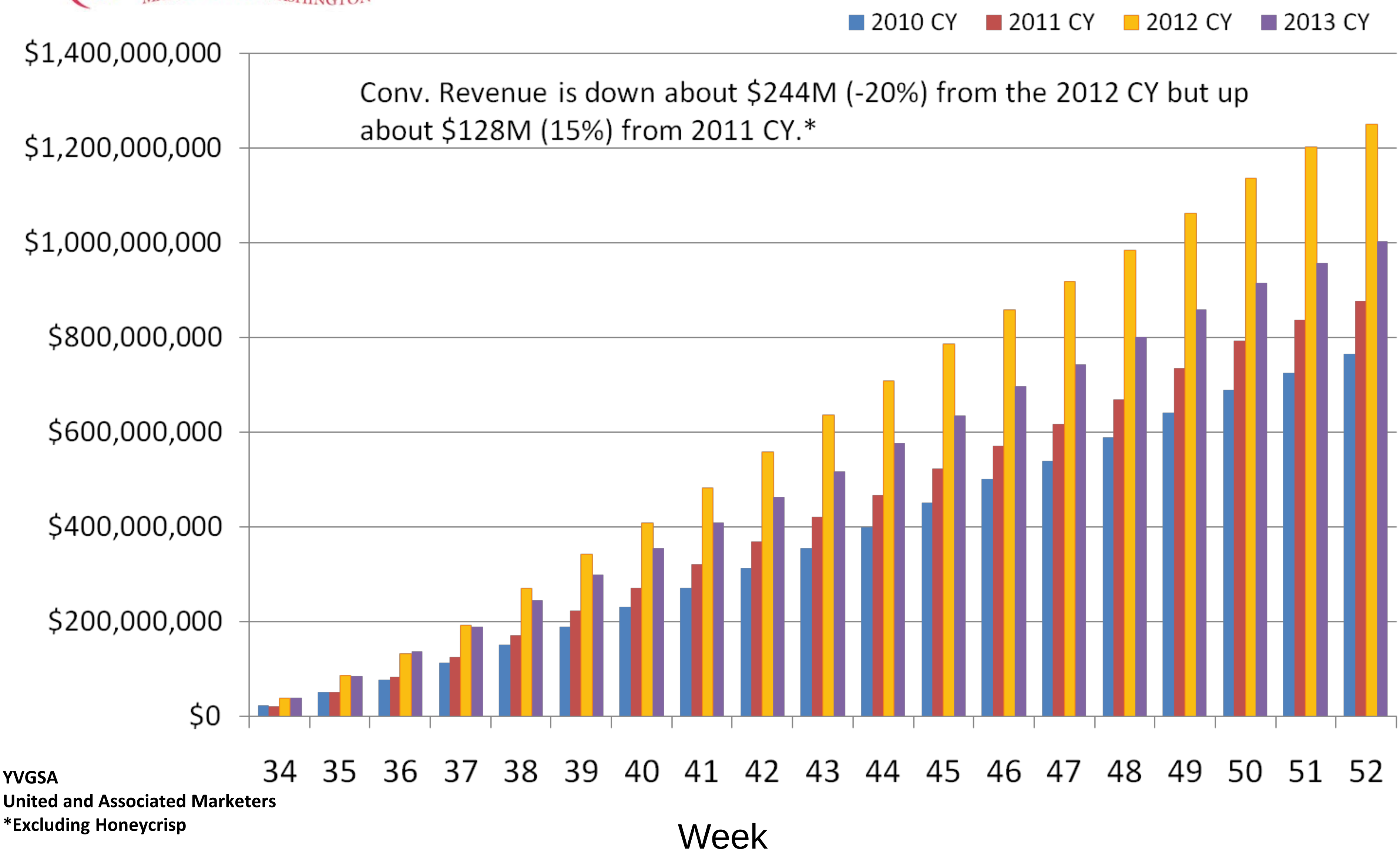


United and Associated Marketers
*Excluding Honeycrisp

- Gross revenues in the next three slides are based on prices for packed fruit FOB at the fruit company prior to shipping to customers.
- Gross revenues (total sales) for conventional apples are down compared to the previous year due to reduced volume as well as lower prices.
- Gross revenues for organic apples are 19% higher than the previous year due to higher early season movement and similar or higher prices.
- When combining both revenues, the organic increase does not make up for the conventional decrease, and overall revenues from apple sales are down compared to the previous year.

WA State Conv. Apple Gross Revenue as of 12/31/2013



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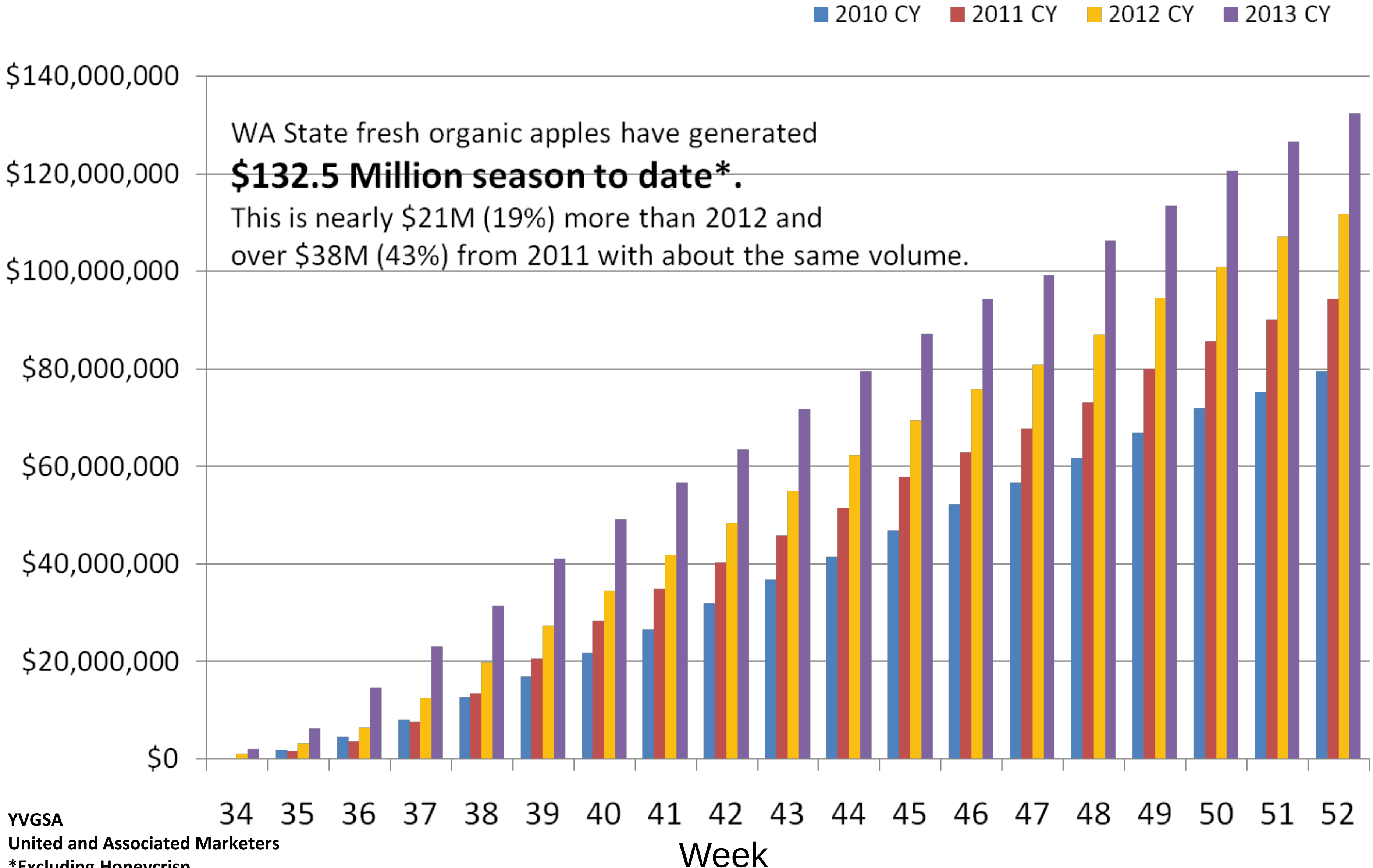
*Excluding Honeycrisp

WA State Organic Apple Gross Revenue as of 12/31/2013



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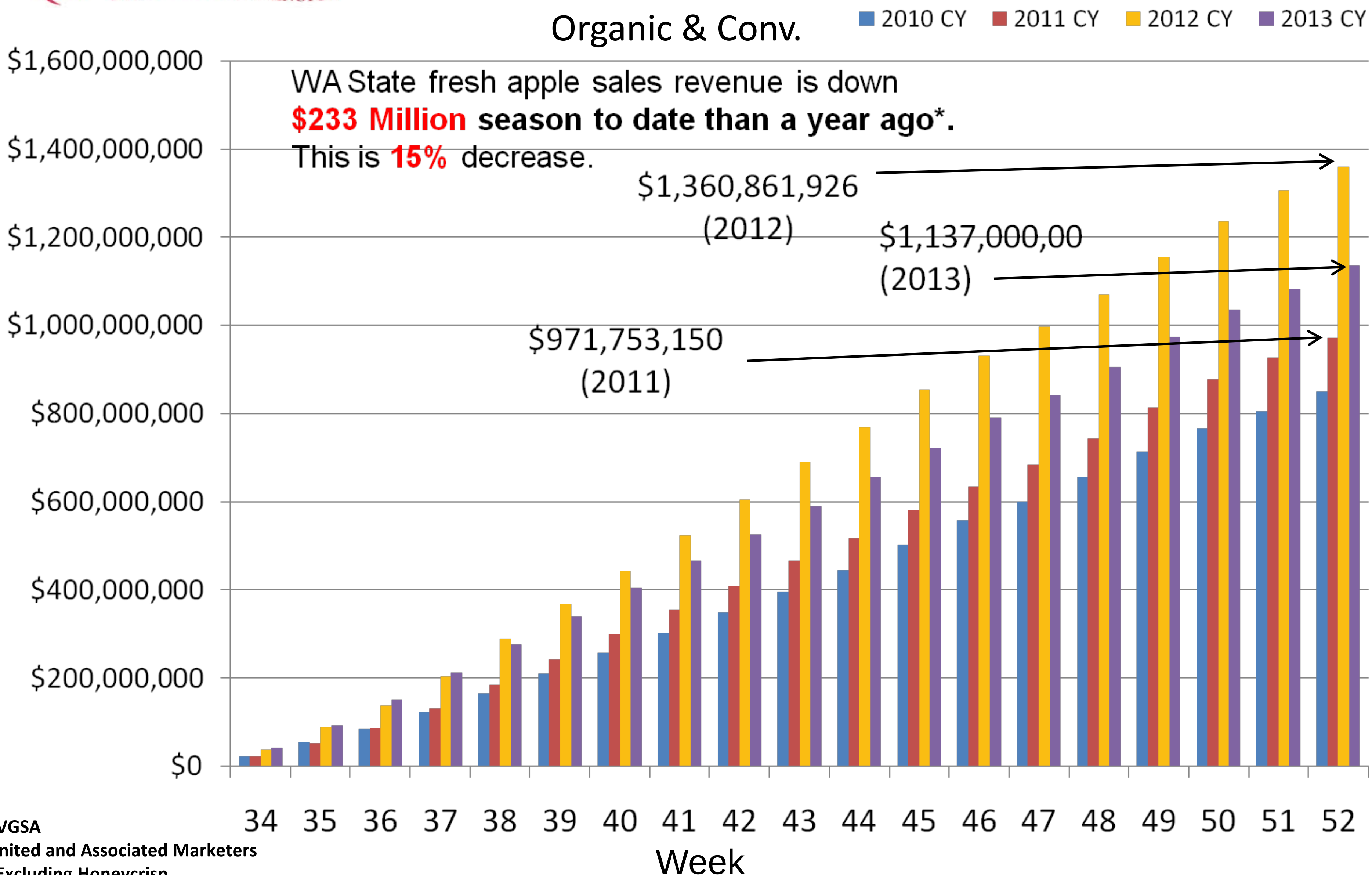
*Excluding Honeycrisp

WA State Apple Fresh Gross Revenue as of 12/31/2013

Organic & Conv.



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***Excluding Honeycrisp**

Influencing Factors

- A strong US dollar and strong demand reduced the amount of Southern Hemisphere fruit on hand in the US in Sept. 2013
- Washington State sold it's 2012 apple crop at an anticipated pace. We had less than 7M cartons on hand as of Sept. 1, 2013. (Sept. 1, 2012 we had about 1.5M cartons remaining and Sept. 1, 2011 we had 3M cartons remaining)
- The North East and Mid West States rebounded from their frost damage in 2012 with record crops in 2013.

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Summary

Season to Date Fresh Apples Sales

- The Jan. 1, 2014 U.S. apple holding are up 3M cartons from 2013.
- WA State Jan. 1, 2014 apple holdings are down 11.8M (10.75%) cartons from 2013.

- Organic inventory is down 2.3M (40%) cartons from Jan. 1, 2013
- Organic shipments are up 482,000 (15%) cartons through Dec. 31, 2013

- Conv. avg. price $/ctn down $3.64 (14% decrease)*
- Organic avg. price $/ctn up $1.69 (5% increase)*

- Conv. Gross Revenue is down $244 Million (20%) from 2012 STD*
- Org. Gross Revenue up over $21 Million (19%) from 2012 STD*

- Total Gross Revenue from fresh sales is down $223 Million (15%) for a total of **$1.14 Billion*** season to date.
- The organic market has remained strong in a very competitive conventional market.

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***Excluding Honeycrisp**