



PREMIUM PEANUT

Newsletter

November 2021

A letter from our CEO, Karl Zimmer

As the 2021 harvest starts to wind down, we remain focused on preserving the quality of the farmerstock that you, our growers and shareholders, deliver to Premium Peanut and our buying point partners. We remain focused on reducing our costs in shelling and oil crushing, helping to deliver improved profits. But, over 75% of the cost of the peanut is in growing, harvesting, and storing. Yes, we can and should focus on costs at the shelling plant, and we have reduced those costs by more than \$30 / ton, but our total costs to operate Premium Peanut (including shelling) are less than \$100 / ton. To be successful in our mission to deliver the maximum value from every ton of peanut farmerstock, we need to continue to work with our growers and buying points.

The reality is that quality does not improve while in storage. In fact, it gets significantly worse. As you can see below, foreign material, lsk's, damage, and aflatoxin all increase between harvest and shelling, which is lost value (and profit). Yes, some of this is due to the challenges in the grading process at harvest (and we are actively working with Federal State / FSIS) to make some significant improvements for next year. But, a lot of the issues are based on how product is dried and cleaned at harvest, and how it is stored. We know that cleaner, drier farmerstock stores better and results in less aflatoxin growth. We know that lower levels of LSKs at harvest result in less increase in damage and aflatoxin in storage (which is why we are offering \$10 / ton quality incentives for low levels of lsk's, damage, and aflatoxin at harvest).

Foreign Material	1.5x	↑
LSK's	2x	↑
Damage	3x	↑
Aflatoxin	3x	↑

← Loss in quality and value of farmerstock between harvest and shelling...foreign material, lsk's, damage and aflatoxin all increase significantly!

Based on this, we have spent a lot of time and resources working with our buying points to improve the harvest processes, including designing and implementing new buying point / harvest management software this year at most locations (Project Better Peanut). Hopefully, this helped to provide a smoother harvest, reducing wait times for trailers (as an example), but we have already seen how it has helped to preserve farmerstock quality in storage. As growers, you spend a lot of time and effort to produce high quality peanuts; we are working to make sure that quality is not lost.

We have started shelling the 2021 crop, with great results. Our investments in people, harvest processes, new technologies in the shelling plant, and research & development are paying off; we are generating great results and delivering high-quality product to our customers. The shelling plant is performing great, and the oil plant continues to run very well (in fact, we have started an expansion in the oil plant that will be completed next year). Stock sales in S. Carolina have gone well, and the price has now increased (effective November 1) to \$325 ton. We're finalizing designs for the new shelling plant and expect to break ground for it in the coming months. So, overall, things are going very well. Thanks, as always, for your support of Premium Peanut.

Market Overview - Alexandre Izmirlian, Sales

- The US new crop harvest is in full swing. Quality looks promising. USDA forecasted yields are still in question. Peanut prices are somewhat under pressure.
- Watch cotton. Cotton futures have been on fire.
- Argentina needs rain. Plantings of the new crop starting promptly. Plantings forecasted to be down. La Nina looming. Freight issues creating havoc. Prices moving up.
- Brazil had some small rains. Plantings have started but in general delayed. More rains needed, though. La Nina looming. Freight issues creating havoc. Prices moving up.
- Chinese new crop looking good. Market weak. Freight continuing at historic highs.
- Indian crop seemingly in good condition. Future weather is key.
- Western Europe stocks going down fast.
- Buyers looking to switch part of their supply to US origins.
- Inshells situation still extremely tight resulting in extremely high prices.
- Birdfood market still extremely tight. Moving towards edible prices.

USA

The US new crop harvest is in full swing, although heavy rains in the Southeast hampered early harvesting. Overall quality still looks very good and should not be affected by these rains. Those plants that were inverted in the fields could suffer, though. The bigger question at this point seems to be on the yields. Many are not quite agreeing with the USDA crop forecast. To be honest, I don't believe that it makes any difference at this point if we have a 3.1 or 3.2 million fsst ton crop. With much lower forecasted exports to China, the forecasted carryover for next year should be healthy. What I would be worrying about is peanut acres for next year. Way too early to make any predictions, but if one looks at what has happened to cotton these past several months, I would start wondering what could be the potential effect on peanut acres. Remember, farmers can sell cotton forward, and the December 22 forward price went as high as 90.5 cents. After such a move, provided the supply/demand doesn't get out of whack due to unforeseen circumstances, prices should come down. The questions are when will prices go down, by how much, and from what level. I believe that, above 90, we could see the hedging for next crop accelerate. If we continue going up and we reach the \$1 mark, then all bets are off and I would really start to be concerned about peanut acres. And don't forget corn, now at 541 for December 2022.

The domestic market prices dropped some the past couple of weeks to levels of 50 to 53 cents depending on grades/quality. The downtrend seems to have been somewhat interrupted by the move in cotton prices. Buying activity did pick up some during those past couple of weeks, but domestic buyers are still looking to buy at cheaper levels. Coverage is very good; hence they feel that they can wait. International buyers have started to show interest and have picked up some volume from the US due to the logistical issues plaguing South America. The longer this situation continues, the more buying we will see. But, shellers are starting to react to the cotton move and are being cautious about selling more. Let's not forget that shellers are probably well sold, that there still remain uncontracted farmerstock, and that the crop is not harvested yet. Until cotton finds its peak, I wouldn't be surprised to see less and less sellers, and for prices to start moving back up.

Argentina

The situation is complicated on both current and new crop. Shellers in Argentina are facing very difficult logistical issues with freight increasing dramatically and a lack of vessel availability. This has resulted in sellers pushing the freight risks towards the buyers either by offering on a FOB basis or including a freight clause. These logistical issues are probably not a real problem for now for sales as Argentina has probably sold 75/80% of their crop. The real and current issue is that, with shipments being delayed and monthly volumes going down, shellers are starting to have problems/disruptions of production and storage. Obviously, this will translate in manufacturer disruptions. Unsold stocks in Rotterdam are disappearing resulting in much higher prices vs. the CIF market. And this is only the beginning. Manufacturers are looking more and more at the US alternative. The US has also been affected by increases in freight and vessel shortage but not as much as South America

Market Overview (cont.)

or Asia. The US can certainly alleviate some potential shortage on a raw basis, but for blanched peanuts the story will be different. One because I don't believe that we have the capacity that Argentina has, but more importantly, the costs are very high. Time will tell, I guess.

The new crop is a different story. Plantings that should be starting soon will be impacted by costs and other crops, which should result in a decline. Unsure what that decline will be, but could be 5%, as reported by the Argentine Chamber of Commerce. Weather seems to also be a factor, where no general rains have fallen for quite some time and no real big rains in the forecast. This could delay plantings, and with La Nina looming over South America, we could be in for a bumpy ride.

Brazil

The situation is also complicated for Brazil, both on current crop and new crop. The current crop is facing issues on many sides. The farmers continue to want high prices. Oil prices have gone down, and it looks as if China, their biggest buyer of peanut oil in the past several years, will not be participating in the market, at least at the moment and at current prices. The domestic market is impacted by Covid and by inflation which doesn't bode well for consumption. Logistics issues are hampering the sales of peanuts (at least at good prices); freight rates are increasing and vessel availability is scarce. This freight issue has led the sellers, similar to Argentina, to offer only on an FOB basis pushing the buyers to take the freight risks. If you take a stab at the freight, blanched wholes are probably around us\$ 1700.- and blanched splits around us\$ 1600.- cfr Rotterdam. The new crop plantings have been delayed due to a lack of rain. It did rain some a week ago, but not enough to stop the drought Brazil is under. The forecast, though, looks decent. We did have a similar situation last year with delayed plantings, and the crop ended up being positive, but with La Nina affecting South America this year it could be a completely different story. The planted area was expected to grow 2-3% this year, but considering the weather issues, I think the best-case scenario will be for plantings to remain flat.

China

The market in China has been weak with seemingly plenty of carryover, especially from imported peanuts. Not surprising considering the amount of peanuts China imported this past year. The last price on the Zhengzhou exchange was RMB 7906.- which shows how weak the market has been. At this point, it doesn't look like China will be buying much from the USA. It also doesn't look like Argentina, Brazil and Nicaragua will be exporting much oil to China. It is also uncertain what quantity China will be buying from India and Africa, although Africa doesn't have much choice (just a matter of price).

Crushing plants are sitting on sufficient stocks of crushing materials and/or oil so far, most of whom are not ready to enter market yet. Luhua and Wilmar are market makers; both are well covered with local and imported materials. Annual consumption of both companies is over 1 million tons, of which about 20-30% is imported peanuts (a rough idea). An interesting thing is that price of current crop is firming up recently, partly due to unavailability of new crop, some may be concerned with supply position of new crop.

Employee Biographies



Colby Batten, Software Engineer

Colby Batten was raised in Douglas, Georgia. He attended Valdosta State University for a bachelor's degree in computer information systems. While attending university, he was employed part time at Premium Peanut, and after graduation became a fulltime employee in 2017.

Colby has worked closely with the production and procurement team at Premium Peanut. He has assisted in developing inventory and process control solutions for several systems at the facility.

Recently, Colby has been heavily involved in Premium Peanut's Better Peanut Project, working closely on Better Peanut's integration with Federal State Inspection Service and The Seam.

Premium Peanut

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Employee Biographies (cont.)



Oscar Fabian, Mechanical Engineer

Oscar Fabian was born in Mexico City, Mexico. He attended Coffee High School, received his Associates in Mechanical Engineering from ABAC and a Bachelors in Mechanical Engineering from Georgia Southern University. The summer of 2018 he joined Premium Peanut as an intern at the Oil Mill and soon was hired full time at the shelling plant working with the optical sorters.

In his free time, he enjoys sculpting with clay, working on retro video games, reading, skateboarding, hiking, tubing, kayaking, cooking, and gardening. He loves to try out new things, find new hobbies and being outdoors. He recently got married to his bride Kathleen and they both enjoy spending time with their cute Saint Bernard named Zelda.

Harvest Update and High Oleic Research - Raegan Holton, Research Coordinator

Harvest is almost complete. Many growers started out behind due to wet field conditions, but harvest picked back up at the end of October and the beginning of November. As of mid-October, roughly a quarter of the expected crop had been graded. Aflatoxin levels coming from the field are relatively low (average <2ppb). They are projected to stay along that trend with a low to moderate risk for late-season aflatoxin development. Overall, crop quality has been good considering the rainy growing season. Late season foliar disease and early crop maturation are having the biggest impacts on yield this season. As harvest season continues to be wet, be on the lookout for waterlogged crop that has been rained on post-digging. Affected peanuts will have darker colored pods and dark black spots on the shell, which should be segregated from high-quality crops. Higher moisture loads coming from the field may require more drying time at buying points which ties up trailers and wagons, so it is important to be patient as buying points manage to get loads moving through as quickly and efficiently as possible.

High oleic testing has been going extremely well this season. Premium Peanut owns 1 of only 2 machines in the country that is being used to quickly and effectively determine oleic acid content in peanut samples. Over 150 high oleic grower fields have been sampled and tested for percentages of high oleic kernels this season. This year, 100% of growers with crop in Premium Peanut's high oleic warehouses will have been tested for oleic acid content. A lot of time and effort has gone into making oleic sampling possible. Cooperation between Premium Peanut, our buying points, and our growers have made it possible to ensure high oleic purity for this year. This is critical in us being able to sell quality product to manufacturers who require high levels of high oleic purity for their products. Working with our growers we can help to ensure we meet customer requirements.



Contact Us

Give us a call for more information about our services and products

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