

PREMIUM PEANUT HARVEST SPECIAL EDITION



Newsletter

September 2022



A letter from our CEO, Karl Zimmer

We are proud of the results Premium Peanut has delivered, especially for a company that has been in operation for less than seven years. Cumulative dividends of ~\$250 / unit have been paid to date (with the 2021 crop dividend coming soon), in addition to paying a competitive option price every year, for every stock ton. The value of a membership unit has also increased to over \$300, while we have also seen a reduction in debt per share. Significant investments that have already been paid off are generating value in oil and APEX and current expansion plans that will deliver value to all shareholders are underway in both seed and a specialty shelling plant in Santee, South Carolina. I believe the future for Premium Peanut, and our growers, is bright as we work to continue delivering on our mission to maximize the value of every peanut delivered by our growers.

All of this is based on a couple concepts that were part of the creation of the company. We treat each grower and buying point equitably. Every owner of Premium Peanut enjoys the same benefits of ownership, and the value created by the company is shared with each member based on the number of units they own. For this to continue working, as it has for seven years, the number of units owned by a grower needs to match (or at least come close) to the number of tons of peanuts grown each year. Otherwise, a grower may become frustrated and disappointed as they will not fully share in the benefit of the company's financial results through its annual dividend. In turn, the company relies on each owner to fulfill the obligation made as a condition of becoming an owner in Premium Peanut: delivering 100% of their peanut farmerstock grown each year to the company.

Premium Peanut has been a disruptive force for our competitors in the industry, and as a result a grower may (at times) hear of higher contract prices from other shellers, likely for a small portion of their tonnage. To not deliver 100% of your farmerstock to Premium Peanut supports our competition, is in violation of the Uniform Marketing Agreement all grower/owners have signed and exposes you to significant penalties - the most severe of which could result in a grower forfeiting 100% of their shares and investment in Premium Peanut. Even more importantly, it hurts the other growers and shareholders in the company who have made a commitment to the

A letter from our CEO, Karl Zimmer (cont.)

Premium Peanut concept: purchase stock to match tons grown, deliver 100% of what is grown to the company, and share in its profits and dividends.

Each year, the management and board are very focused on offering a fair contract price for farmerstock, supported by the market price for redskin / shelled peanuts. Once set, each grower gets the same price for 100% of the tons matching shares owned; exceptions aren't made for special deals. The same price (and in the case of quality incentives, the same opportunity), is provided to each grower, for each ton. Our job at Premium Peanut is then to maximize each peanut's value, delivering strong financial results and dividends, which we have done – in part because we have a secure supply chain, knowing each of our grower partners will deliver their target tons each year. Looking back at history over the past seven crops, we have done this, with our growers having received a total per ton payment (option + dividend), on every ton exceeding what is available in the market.

We are proud that we are owned by over 450 growers, with no single grower owning even 10% of the company; we are focused on delivering value for every grower in our network. This is a partnership, and we continue to ask each grower to do their part. The Premium Peanut model is a new model...each grower is 100% aligned with the company, sharing equally with every other grower in its benefits. We believe in the value of this model, and in the results it has and will continue to deliver to our grower/owners.

Premium Peanut, your company, just completed another profitable fiscal year on August 31, and we look forward to announcing the dividend for that year (2021 crop) in the near future. As we begin the 2022 harvest, we know these are challenging times economically: you have our commitment that everyone at Premium Peanut will continue to work every day to produce quality product for our customers while maximizing the value of every peanut for our growers. Thank you for being a part of our success! If you have any questions or concerns, don't hesitate to contact me.

Market Overview - Alexandre Izmirlian, Sales

The supply of peanuts in most origins is down, with further cuts in supply most certainly coming for the Argentine and Brazilian new crops. Production costs for farmers and shellers are up. All this leads to higher prices. Manufacturer's costs are unfortunately up as well. The real unknown at this time is the impact of inflation on demand, pushed even further internationally due to the strength of the US\$. I believe that Western Europe has the greatest impact due to their gas supply problems which have increased the costs not only to consumers but also to manufacturing facilities. To make matters worse, European retailers seem to be trying to bully manufacturers (peanuts included) to try and stifle any further price increase. I am unsure at this time how this will impact manufacturers buying and possibly demand. It looks as if the best case scenario is for prices to stay stable (that is if demand goes down as much as supply cuts), but the most likely scenario is for prices to move further up, especially internationally. China will be the biggest key to all this: their never-ending lockdowns are impacting Chinese domestic demand dramatically. China's peanut demand will come back, the question now is when.

USDA came out with the certified acres on August 22nd. The difficult thing at this time is to forecast yields. It looks as if yield will be down (due to early drought and more disease pressure) versus last year, but quality should be good provided the weather cooperates until the entire crop is harvested. At this point, I think we are looking at a crop of 2.75 million fst on the low side and 2.9 million fst on the high side. Quality should be good as I said previously at least in the Southeast and the Virginia/Carolinas. The Southwest is a different story. I am not sure anybody knows what to expect after the extraordinary dryness and heat they faced this growing season.

If domestic and export demand stays flat, we are looking at a carry-out for next year of 1.055 million fst (basis a crop of 2.85 million fst). That's enough peanuts, but not as comfortable as this past year. Domestic demand should be flat considering that peanut butter and candy fare well in a high inflation environment. I believe that exports to China are the only thing that can derail the sufficient supply. For that to happen, China's domestic demand has to recover and I don't believe it will until China changes their zero Covid policy. If their demand picks up any, considering that their crop should be down 10 to 15%, we could easily see China buy larger volumes than in the past 2 years. At this point, China will be concentrating their buying on farmerstock as USA kernels are not competitive with Argentina (due to very competitive freight rates) and Brazil (a newly approved

Market Overview (cont.)

origin by China). The market continues to be very quiet due to very good coverage and good crop conditions. Manufacturers in the US seem to be content to wait hoping that the crop will be better than expected and bring the prices down some. Domestically, prices have been in the high 50's for the current crop and the low 60's for the new crop. The news of the lower acres has solidified those levels. Prices to Western Europe have been uncompetitive even though prices for Argentina have crept up in the past month. But, we are going to need more help for Europe to show more demand.

Argentina

Argentina has seen good demand this past month, especially from Western Europe and some from China. With a smaller crop (although not as low as first expected) and freight rates, especially to Europe, being very high, CFR prices have risen quite a bit with the latest levels for 40/50 blanched in the mid to high us\$ 1600's for the current crop and low us\$ 1700.- for new crop. The usual gap between whole kernels and splits should start narrowing due to the lower availability of splits. All eyes are now on the new crop plantings. They will be lower, but the question is how much lower. The consensus seems to be between 10 to 15%. One can expect prices to continue rising. I also hear that the Cordoba province has been under drought conditions. With the La Nina looking to extend to a third season, it could spell trouble for Argentina.

Brazil

Brazil's weather is under the same La Nina influence as Argentina which will result in later plantings for the new crop. New crop is still forecasted to be down 10 to 20%. Otherwise, the old crop situation is somewhat unchanged with some heavy stocks of the old crop (probably 100,00 mt or more) still in farmers' hands. Also, I understand that some exporters are struggling with testing for the EU, both for afla and pesticides.

China

China will have a lower crop due to the lower plantings. Crop conditions do not seem to have been ideal which will bring the production down even further. We will have to wait another couple of months to fully understand the size of the crop. Meanwhile, as I have said before, the biggest issue affecting China for all products is demand. Demand continues to struggle for fear of additional lockdowns, and lockdowns are still in place in many cities in China. Chinese elections are taking place in November and we could potentially see policy changes that could improve demand. We have already seen the key interest rate being cut.

India

According to the Ministry of Agriculture, as of August 25, 2022, there were 44.75 lakh hectares peanuts planted vs. 48.35 in 2021 and 50.44 in 2020. This represents a drop of 7.45% vs. last year. Monsoons seem to have been adequate so far.



SAVE THE DATE
SOUTH CAROLINA GROUNDBREAKING

NOVEMBER 16, 2022

SANTEE, SC

MORE DETAILS TO FOLLOW

Premium Peanut

311 Barrington Road

Douglas, GA 31535



Quality Payments- Courtney Dorsett, Vice President, Sustainability and Food Safety

Premium peanuts are graded twice before they enter the shelling plant. First, the load is graded by FSIS at the buying point before going into the warehouse and then the grade factors for all loads going into that warehouse are averaged together. When the warehouse is bailed out and the peanuts come to the shelling plant, each truckload is graded for a second time, and the results are compared to the average for that warehouse. Comparing this pre- and post-storage information has helped determine which factors have the biggest impact on the development of aflatoxin while in storage. Not surprising, moisture has proven to be the most critical variable. Controlling moisture is accomplished through proper drying, proper loading of peanuts into the warehouse, cleaning loads prior to storage, minimizing LSKs within the piles, and harvesting peanuts when they are fully mature (immature kernels have higher moisture content).

2022 Crop Quality Incentive

This knowledge has helped to establish the following Quality Incentive parameters for CY22:

≤ 10ppb aflatoxin

≥ 72% SMK

≤ 2% LSK

Dug peanuts have not been exposed to repetitive rain events (i.e., darkened/discolored hulls)

Peanut loads meeting the above criteria will be awarded an additional \$15/ton quality incentive payment.

Sustainable U.S. Peanuts

An added \$10/ton is available for those loads meeting the quality incentive requirements if the grower is fully enrolled in the Sustainable US Peanuts program. Fully enrolled means that the initial registration and self-assessment questionnaire has been completed and the post-harvest information has been entered into the Fieldprint Analysis. **Full enrollment in Sustainable US Peanuts should be completed by November 30, 2022** (allowances will be made for growers harvesting in late November/early December).

While Premium cannot access any information a grower provides the sustainability program, we do receive a list of enrolled growers and their associated entities and partners who deliver to a Premium Peanut buying point. **When registering for the sustainability program, you must enter all entities and partners (i.e. producers) associated with your operation as they will appear on the 1007 to ensure all qualifying loads receive full payment.**

A step-by-step guide for enrollment is available on the website www.sustainableuspeanuts.org, and we are always available and happy to help with the enrollment process. Feel free to contact:

Allie Randell: 386-209-2951

Yasmine Moffett: 912-850-3967

Courtney Dorsett: 912-850-7272

Premium will begin making option payments upon request the first week of October. These payments will be made at a minimum on a bi-weekly basis and weekly during periods of high-demand. The quality incentive payment will be a separate payment this year to give growers time to enter their post-harvest field-level data required to complete the enrollment process. Quality Incentive payments will be made during the first half of December.