

A topographic map of California is shown in the background, with a red title overlay. The map uses a color gradient from blue (low elevation) to red and yellow (high elevation).

THE 2022 PROCESSING TOMATO SEASON CALIFORNIA

Mark De La Mater
The Morning Star Company
Presented at The Tomato News Conference
Parma, Italy
October 26, 2022

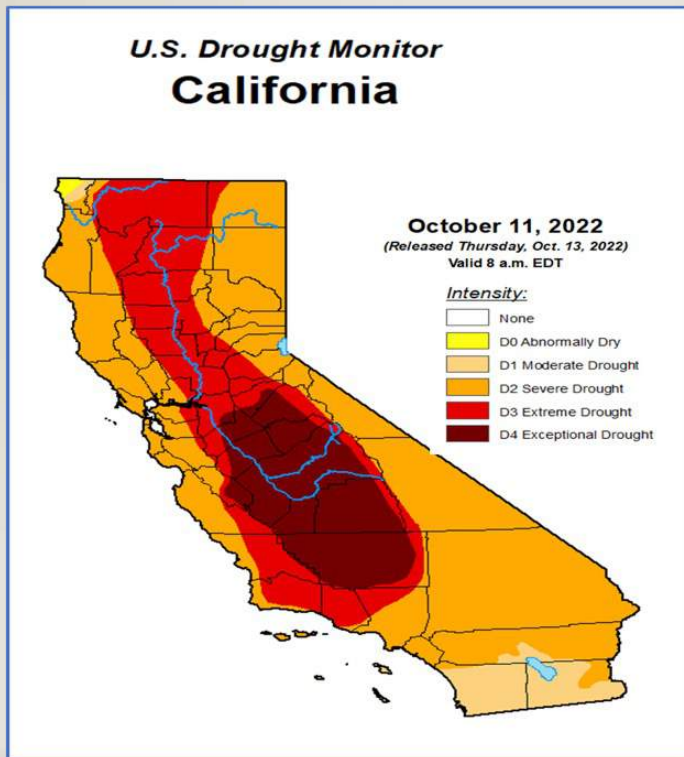
The 2022 Processing Tomato Season in California

Table of Contents

1. California 2022 Performance Snapshot
2. Adding Context to 2022 Performance
3. Looking Forward to 2023 and 2024
4. Summary and Conclusions

California 2022 Performance Snapshot: Challenges

Environmental Factors



Processing & Growing Cost Factors

Competitive Crop Prices

Diesel

Fertilizers

General Rate of Inflation

Interest Rates

Labor

Natural Gas

Packaging

Pesticides / Herbicides

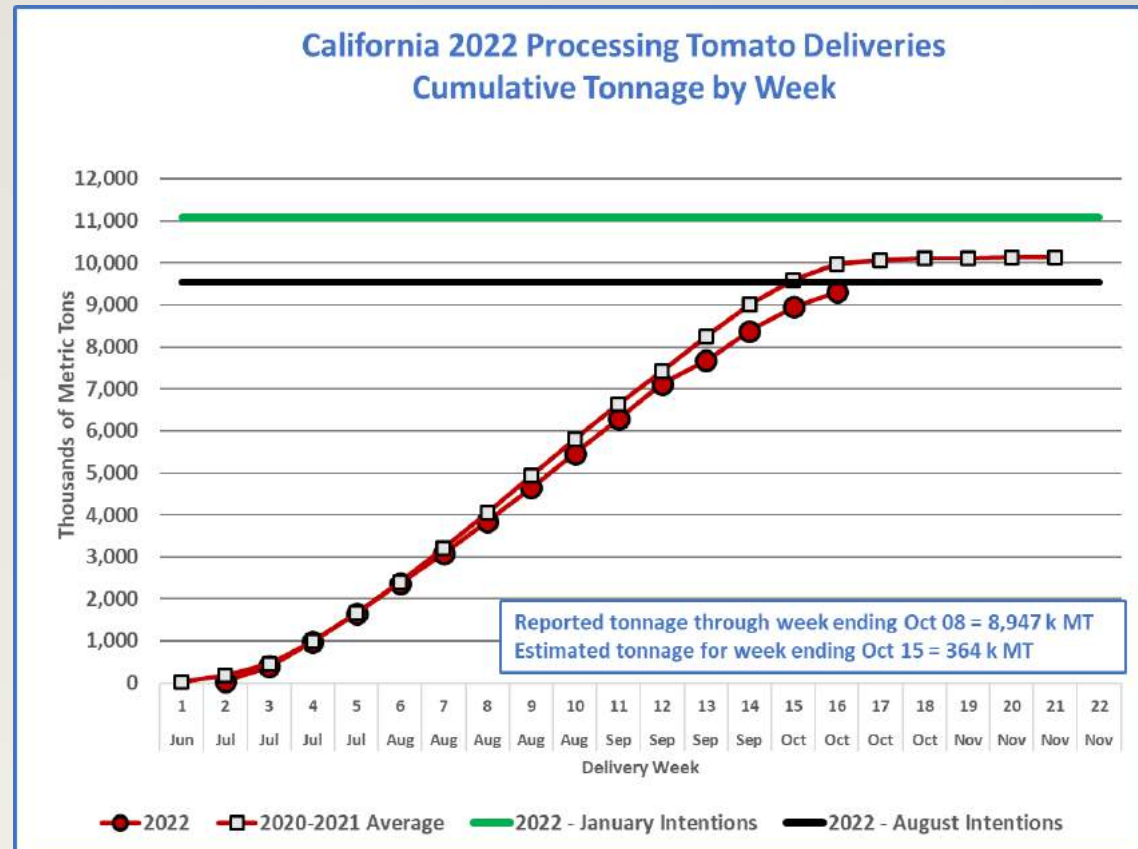
Water



California 2022 Performance Snapshot:

Total Production vs. Intentions

- Initial January intentions were set at 11 M MT
- In May, Intentions were reduced to 10.6 M MT
- By early August it was clear the state was not on track to meet May intentions. Intentions were reduced to 9.5 M MT
- Estimated deliveries as of October 15th total 9.3 M MT
- Current outlook is for the state to finish with between 9.4 to 9.6 M MT
- This outcome will be a 14% reduction from the original, January 2022 intentions

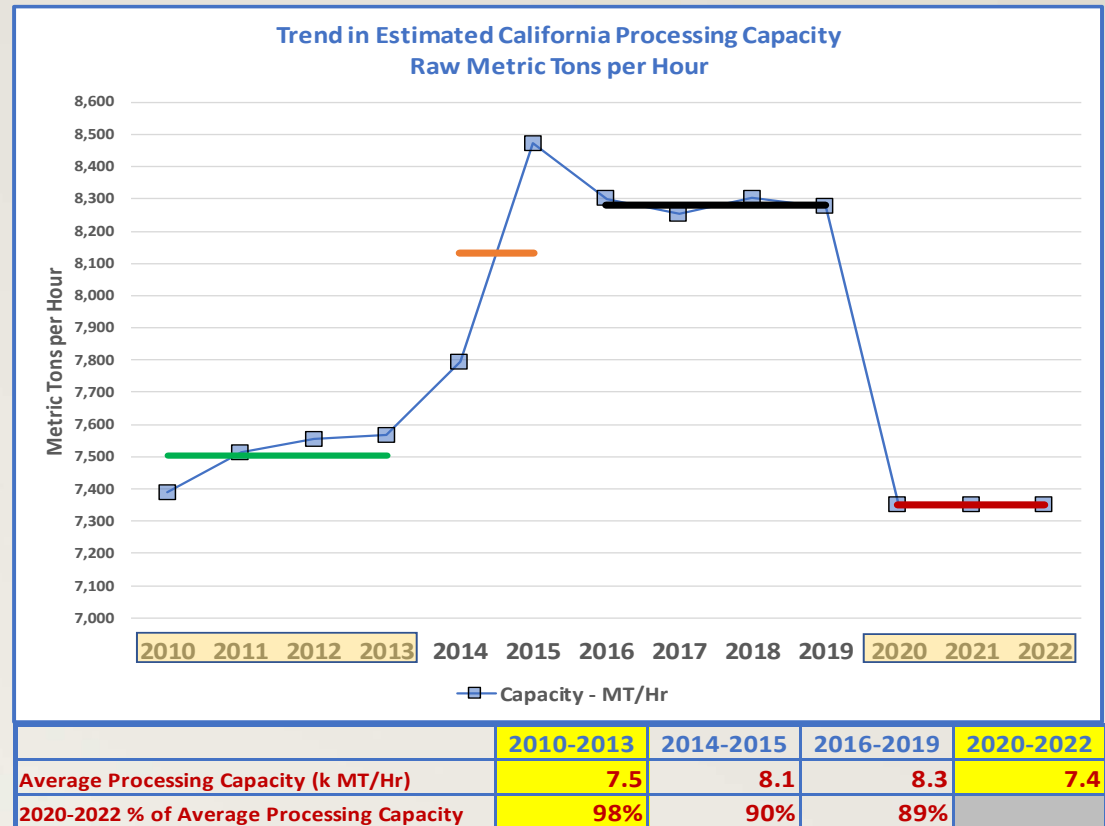


Adding Context to 2022 Performance:

Historical In-Place Processing Capacity

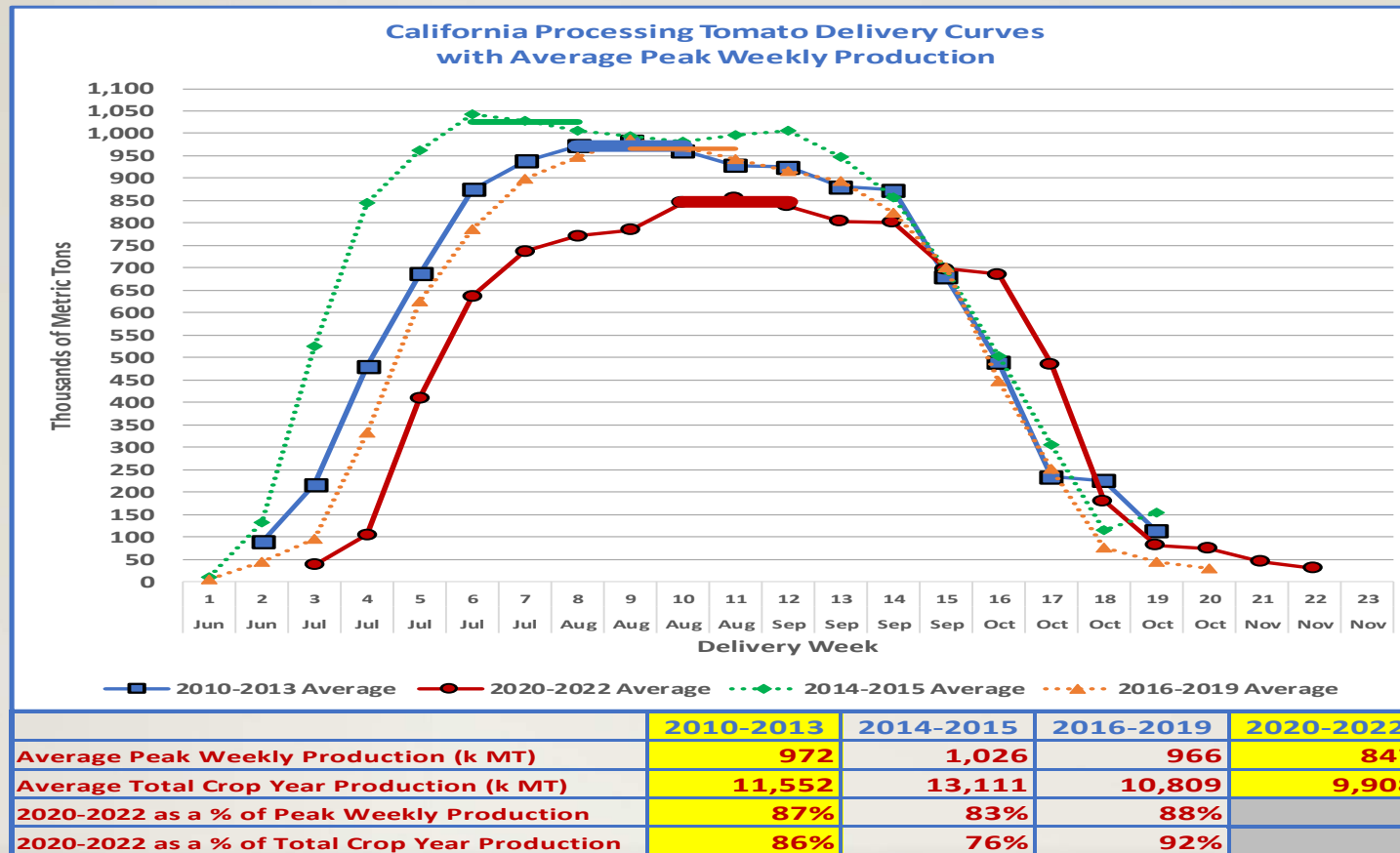
California Processing Capacity:

- 2010->2013: General, unspecified, industry growth
- 2014->2015: The Morning Star Packing Company expands its Williams facility
- 2015->2016: ConAgra closes its Helm facility
- 2019->2020:
 - Mizkan closes its Stockton facility
 - Olam closes both its Lemoore & Williams facilities



Adding Context to 2022 Performance:

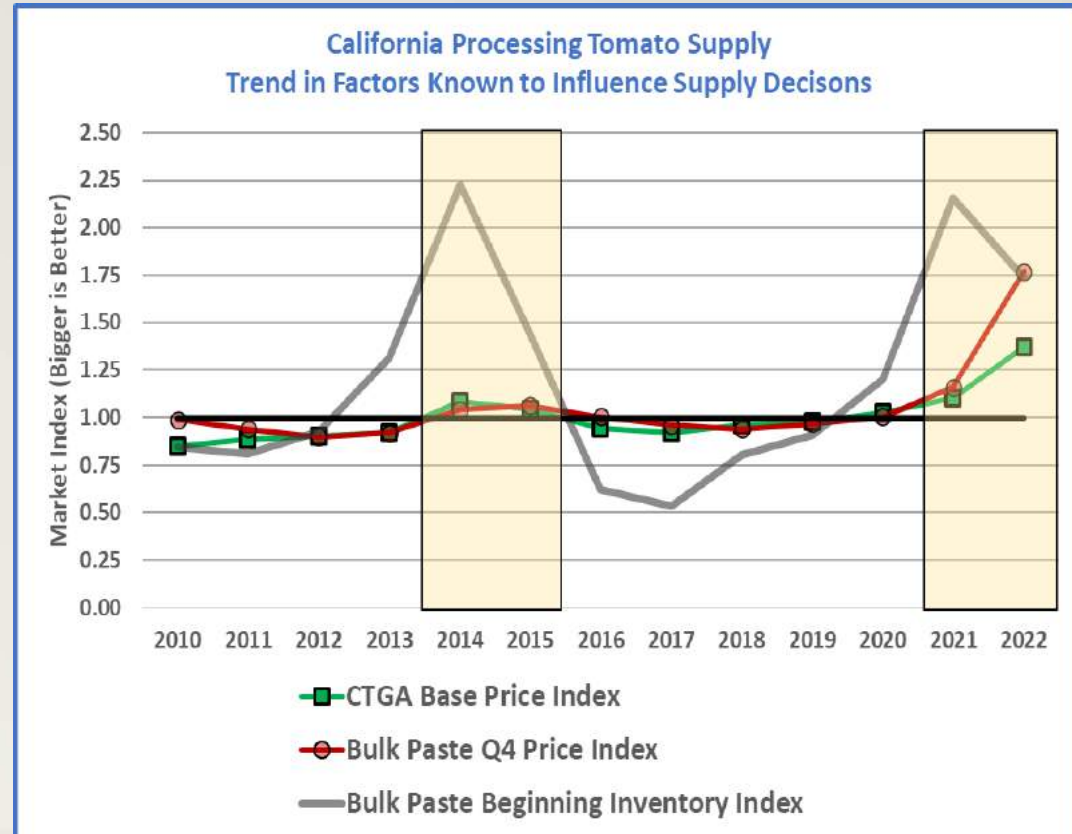
Historical Delivery Curves and Proven Peak Production Capability



Adding Context to 2022 Performance:

Trends in Market Factors Known to Influence Supply Decisions

- Market Indexes are all set relative to each decision factors' 2010-2022 13-year average value
- Only two, 2-year periods (2014-2015 and 2021-2022) had the coincidence of positive signals from all three factors
- 2022 stands out with exceptionally strong signals from all three factors
- *Both growers and processors should have been highly incentivized to maximize 2021 & 2022 production*

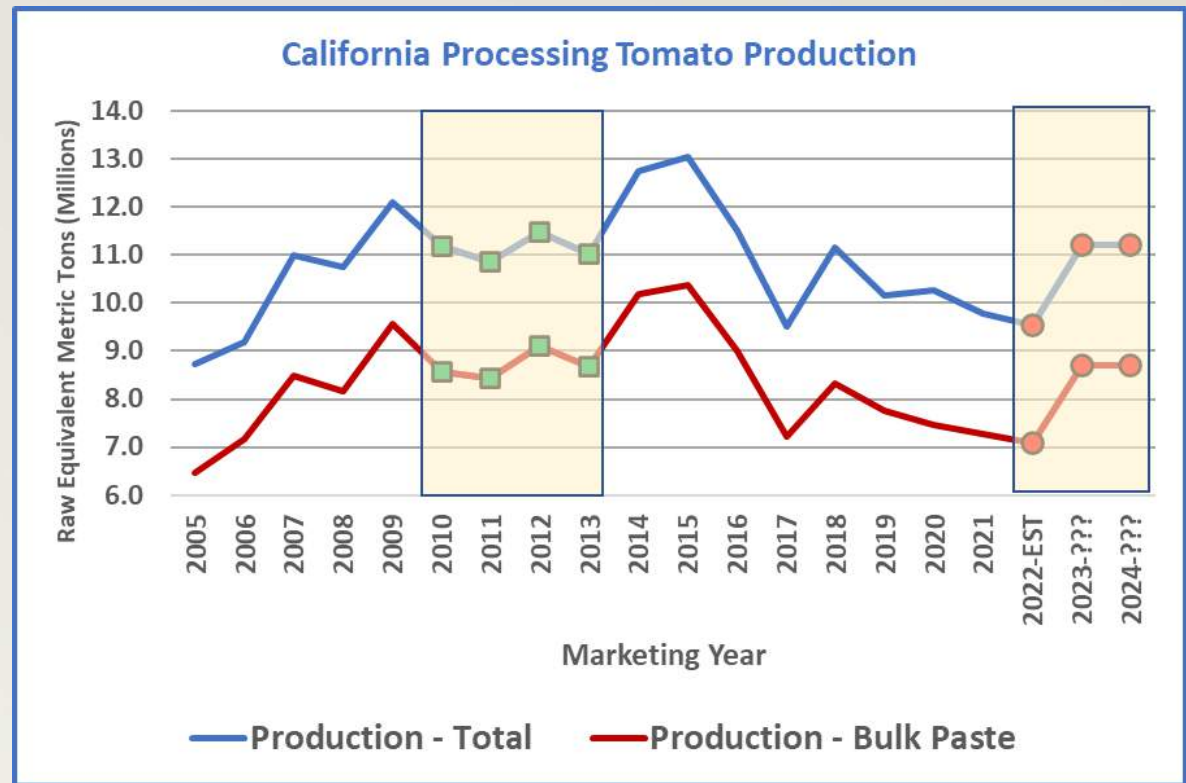


Looking Forward ... 2023 and 2024 Crop Years

California Production

- California Total Production:
 - 2022 = 9.5 M REMT
 - 2023 = 11.2 M REMT
 - 2024 = 11.2 M REMT
- Production into Bulk Paste
 - The relationship between Total Production and Production into Bulk Paste has been very steady over the past 20 years.
 - 2022 = 7.1 M REMT
 - 2023 = 8.7 M REMT
 - 2024 = 8.7 M REMT

* REMT = Raw Equivalent Metric Tons



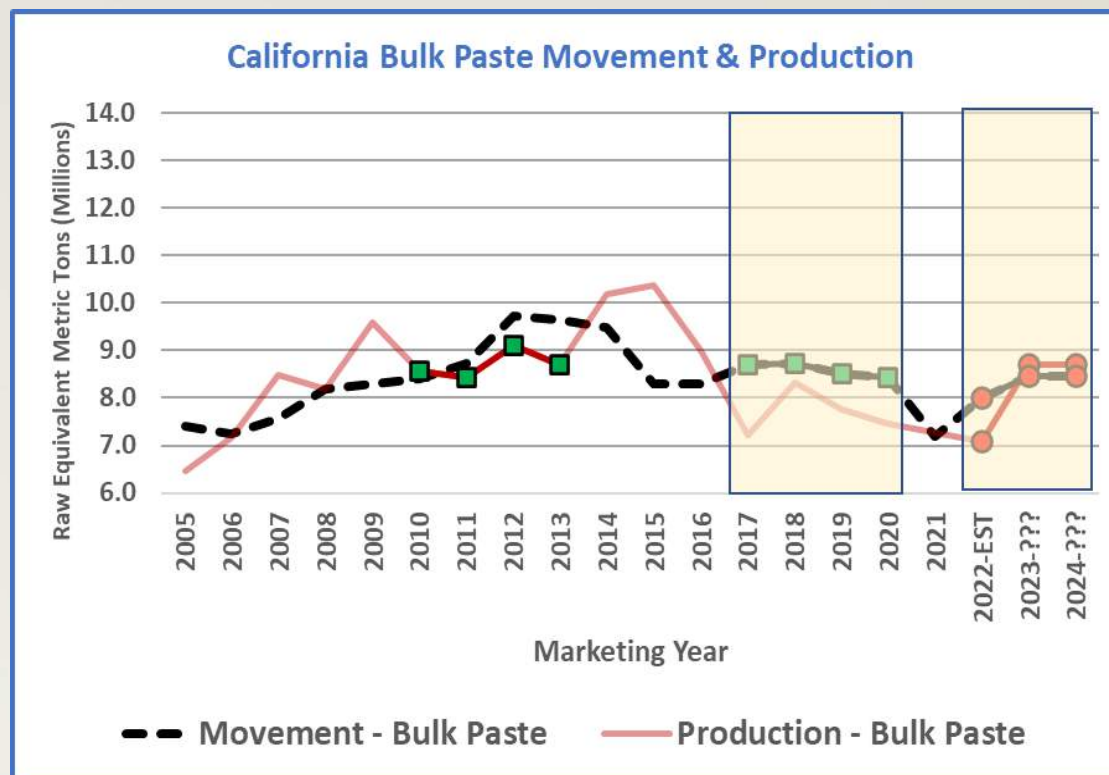
Looking Forward ... 2023 and 2024 Crop Years

California Bulk Paste Movement

- Movement = Consumption + Net Exports
- Prior to 2021, U.S. consumption of Bulk Paste had been fairly steady, averaging 6.4 M REMT
- 2021 consumption appeared to take a sharp dip, dropping to 5.1 M REMT
- Believe 2021 is an anomaly and consumption will return to recent run rates

Crop Year	Volumes in M MT		
	Consumption	Net Exports	Total Movement
2020	6.3	2.1	8.4
2021	5.1	2.1	7.2
2022	5.9	2.1	8.0
2023	6.4	2.1	8.5
2024	6.4	2.1	8.5

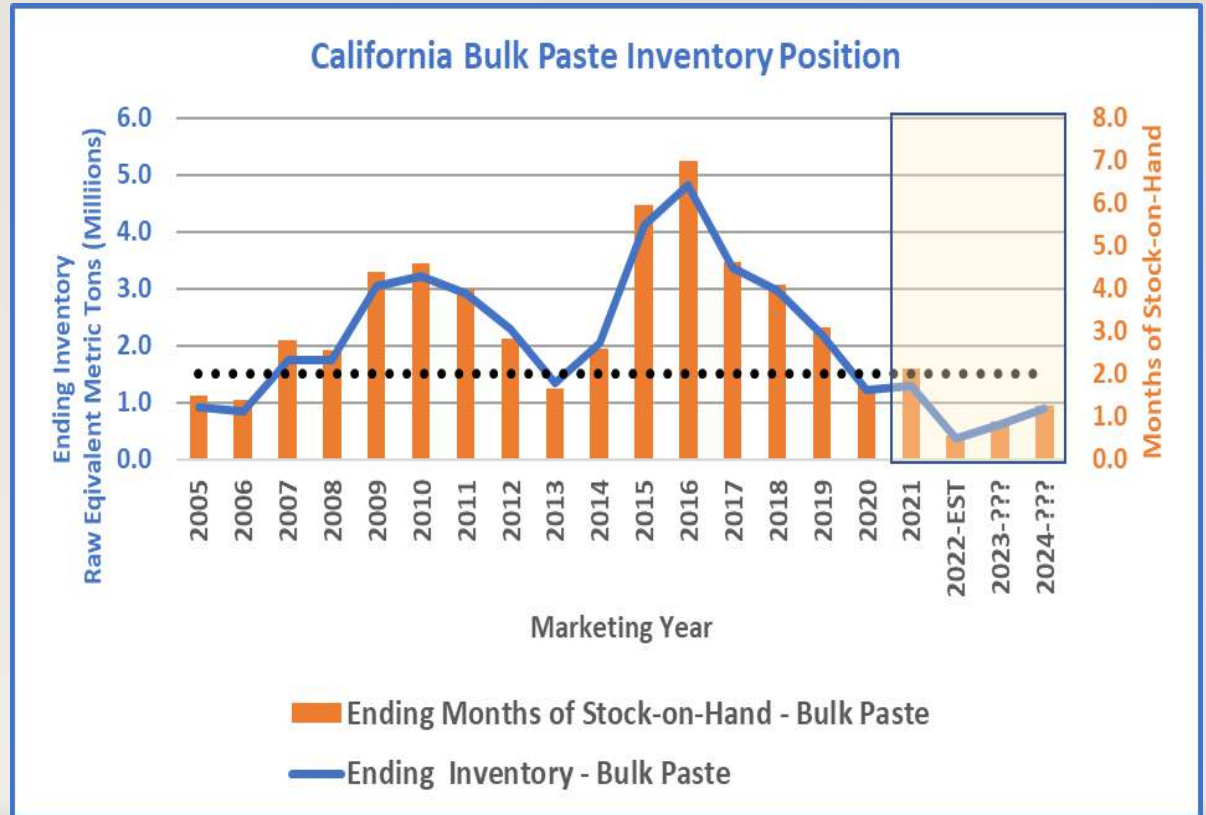
* REMT = Raw Equivalent Metric Tons



Looking Forward ... 2023 and 2024 Crop Year

California Bulk Paste Inventory Positions

- 2022 – 2024 Ending Inventory Positions are not estimated: They are a direct consequence of our estimates for Production and Movement
- The expected pattern of inventory levels for the 4 years 2021 – 2024 is unprecedented
- These levels portend continued record pricing and perhaps an increased likelihood of supply chain disruptions



Summary and Conclusions:

1. California, like most other processing regions, faced numerous challenges over the course of the 2022 crop year
2. We expect the state to finish by the end of the 1st week of November at between 9.4 M MT to 9.6 M MT. This will be about a 14% reduction from the initial January Intentions.
3. Since the 2010-2013 seasons, California's average peak weekly production output has declined by about 11%, even after accounting for reductions in processing capacity
4. Market factors present in 2021 / 2022 would have indicated that both growers and processors should have been highly incentivized to maximize production. This did not occur. In fact, both seasons missed initial intentions by near record levels (down 11% in 2021 and 14% in 2022).

Summary and Conclusions:

5. The consequences of all of this are that California's stocks-on-hand going into the 2023 crop year are expected to be at record lows.
6. With "reasonable" estimates for 2023 and 2024 production and movement, ending inventory positions are estimated to remain at historically low levels through June 2025
7. The inventory cycle rollercoaster seems to have been broken, at least in the short term.
8. The expected record low inventory levels are anticipated to lead to continued strong upward pressure on bulk paste prices. There is also the concern of increased instances of supply chain disruptions.

Summary and Conclusions:

9. The evidence indicates that the issues California has been dealing with are not in the Processing sector. The issues lay in the Growing sector.
10. If we are going to increase the stability of the Processing Tomato supply chain, we are going to have to all work together to return the Growing sector to at least its historical level of productivity and reliability.

