

Fine cocoa market dynamics -- bid for the future

XOCO

— GOURMET COCOA —

EST. 2007

Presentation, Punta Cana, ICCO World Cocoa Conference 2016

www.xocogourmet.com



XOCO



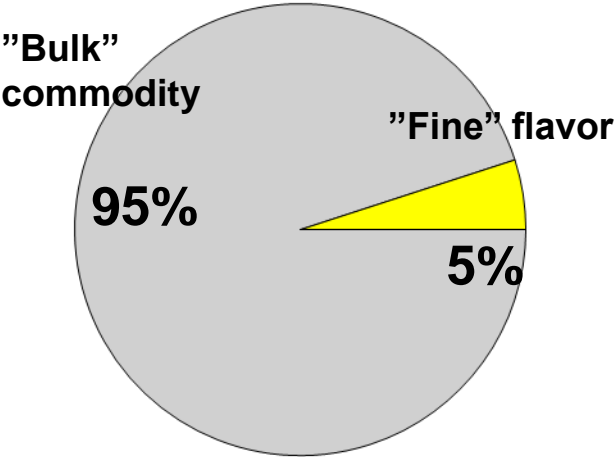
- Private company founded 2007 focused on fine cocoa
- Honduras, Nicaragua, Guatemala, Belize
- Selected cocoa varieties for flavor
- Planted 1.2m+ trees with 600 outgrower farmers and on own farm



THERE IS A CLEAR FLAVOR DIFFERENCE BETWEEN FINE AND BULK

World cocoa bean production

% by segment, 100% = 4m tons/year



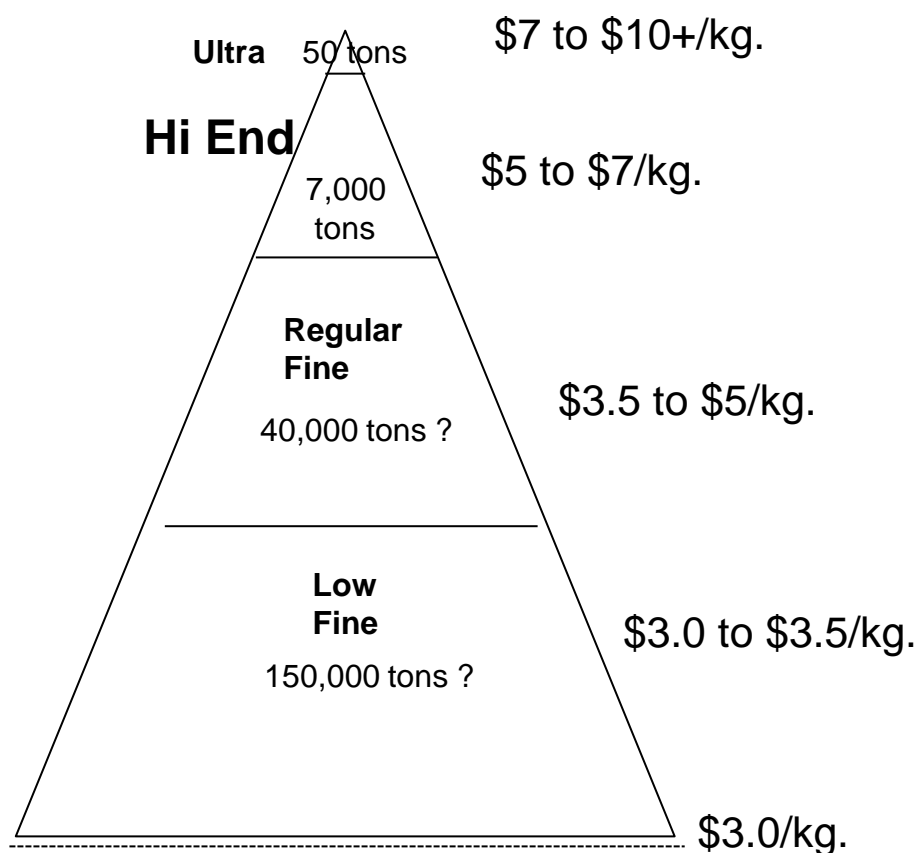
Differences between bulk and fine segments

	<u>Fine flavor</u>	<u>vs. Bulk</u>
<i>Genetic variety</i>	Rare	Common
<i>Flavor notes</i>	Complex, fruity, nutty, long aftertaste	Flat, earthy, astringent
<i>% world production</i>	5%	95%
<i>Mostly from...</i>	Upper Latin America	Africa, Indonesia, Brazil

SMALL MARKET FOR FINE COCOA BUT POTENTIAL FOR GROWTH

Fine flavor beans segmentation

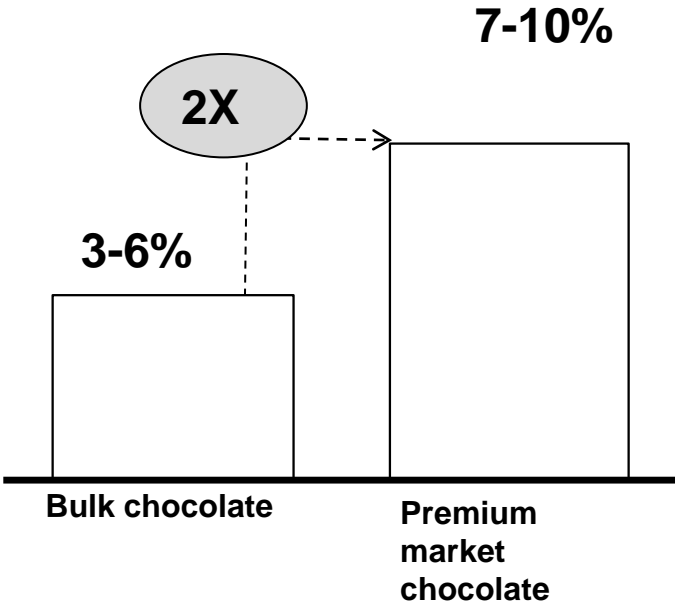
FOB bean producer price, USD



Premium chocolate market grows by 7% to 10% CAGR

PREMIUM SEGMENT GROWS 2X FASTER THAN BULK

Avg. CAGR*
Percent



The premium chocolate market is where the growth will be found for chocolate companies in the future, driven by consumer focus on quality and health

Market researchers

Consumers are growing increasingly sophisticated about foods: Be that coffee, cheeses, wines or chocolate. They want better, more complex taste experiences

Specialty food executive

*Compounded Annual Growth Rate, 5 year historical and future forecast.
Source: Packaged Facts, Mintel research, Nestlé, Team analysis

FINE COCOA GROWING IS COSTLY AND FARMERS NEED A HIGH PRICE TO BE PROFITABLE

ILLUSTRATIVE

Economics of new fine cocoa project										
New green field fine cocoa project. Price for NPV to be zero (profitability). 100 ha. Disc. Rate: 16.6%. Labor rate: \$9/day										
Peak production: 1 kg. dry per tree										
	Yr.									
	1	2	3	4	5	6	7	8	9	10
Prepare and clean land, labor	\$ 100									
Graft and plant trees	\$ 150	\$ 10	\$ 10	\$ 10						
Maintenance, labor (pruning, pest control, fertilization, weed control, other)		\$ 65	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70
Maintenance, materials (fertilizer, other)	\$ 25	\$ 20	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15
Fermentation-drying, storage, vehicles, other	\$ 35		\$ 50	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15
Administration (Manager, Collection, Post-Harvest, Accountant, travel, communications, office, other)	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50
Sales and marketing (website, travel, samples)	\$ 2	\$ 2	\$ 10	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15
Total cost	\$ 360	\$ 145	\$ 195	\$ 160	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150
Bean production curve (% peak)			5%	10%	25%	45%	65%	75%	90%	100%
Bean production (tons)	-	-	5	10	25	45	65	75	90	100
Bean sales price, ex works, per ton				\$ 5.83	\$ 5.83	\$ 5.83	\$ 5.83	\$ 5.83	\$ 5.83	\$ 5.83
Total revenues				\$ 58	\$ 146	\$ 263	\$ 379	\$ 438	\$ 525	\$ 583
EBITDA	\$ (360)	\$ (145)	\$ (195)	\$ (102)	\$ (4)	\$ 113	\$ 229	\$ 288	\$ 375	\$ 433

- Min. 100 ha. to enable fermentation
- Expensive:
 - SG&A
 - Capex
 - Labor rates
 - Cost of capital
- Need at least USD 5.83 per kilo dry to be profitable

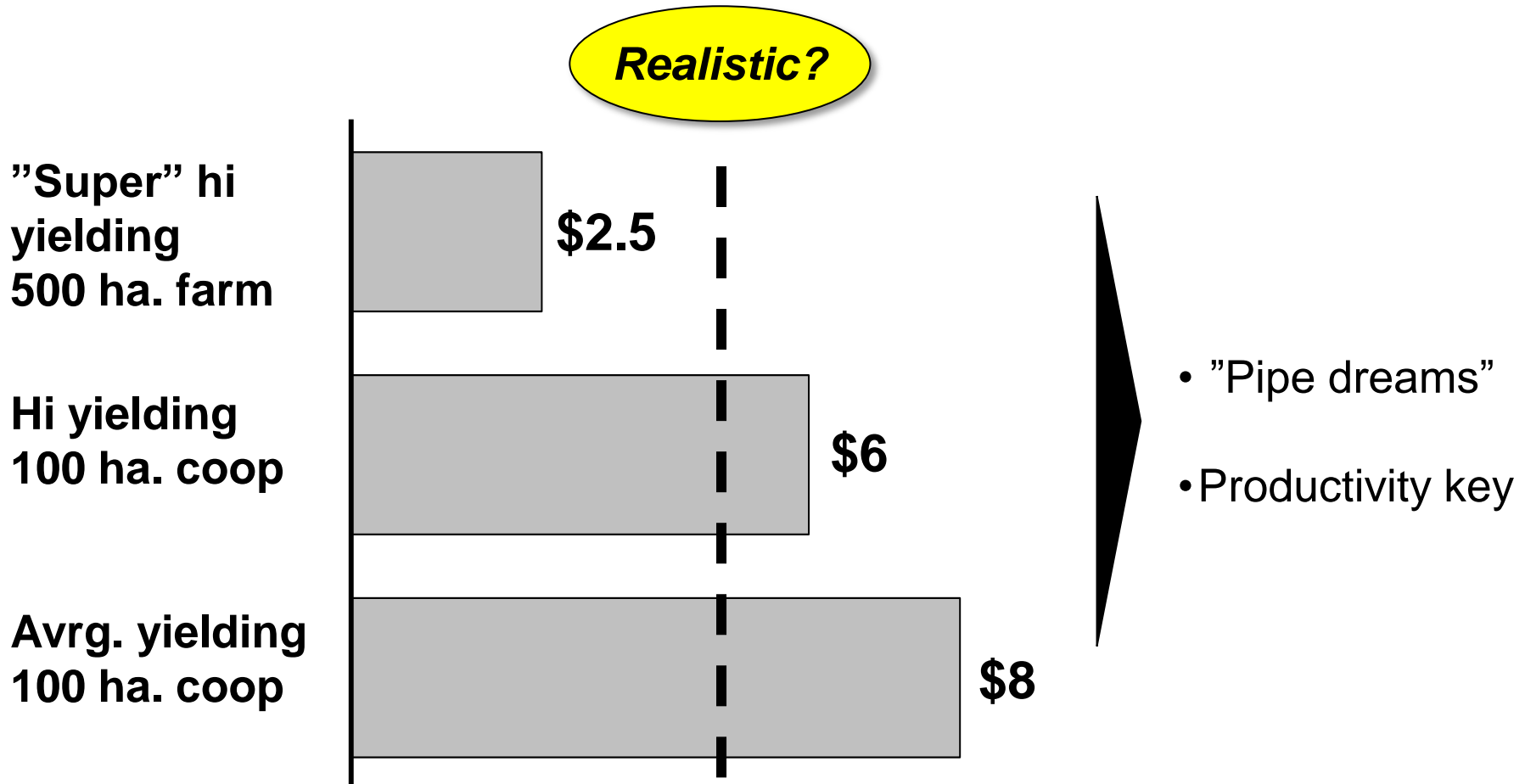
Note: Costs vary based on a number of factors, hereunder management, soil and general conditions.

FARMERS ARE CHALLENGED ON PRICE AND PRODUCTIVITY

Price per kilo dry for new project NPV = 0

FOB bean producer price, USD

ESTIMATE



Source: Team analysis

Note 1: Super high=1.6/kg. Per tree, 1,300 trees per ha.; hi yielding=1.2 kg/tree, 1000 trees per ha.; avrg. Yielding=0.5 kgs. Per tree, 800 trees per ha.

Note 2: Discount rate: 16.6%. Labor rate USD 9 per day

CHOCOLATE MAKERS HAVE SIMILAR CHALLENGES

<i>100 g 70% dark chocolate bar</i>	Artisan Gourmet	Mid Premium	Bulk player
	Low volume, little cash, little own distribution, hi end beans	High volume, cash rich, established distrib., low end fine	High volume, cash rich, mainstream hi vol. distrib., bulk beans
	Cost/Price	Cost/Price	Cost/Price
Raw materials, cocoa, landed fact	\$ 0.55	\$0.35	\$0.30
Raw materials, sugar, other	\$ 0.05	\$0.03	\$0.03
Labor, machinery, wrapping, other	\$ 0.46	\$0.30	\$0.10
COGS	\$ 1.06	\$0.68	\$0.53
SG & A	\$ 1.15	\$0.47	\$0.27
Manufacturer operating profit	\$ 1.00	\$0.16	\$0.15
Mfg. sales price to distributor	\$ 3.21		na
Distribution markup/expense	\$ 0.84	\$0.12	\$0.07
Sales price to retailer	\$ 4.05	\$1.43	\$1.02
Retailer markup	\$ 4.05	\$1.43	\$1.00
Taxes, VAT 10%	\$0.90	\$0.31	\$0.22
Retail price to consumer	\$ 8.99	\$3.17	\$2.24

- Economies of scale at work
- Artisan high mfg and distribution costs
- Premium player lower prices (because of low segment fine beans?)

Source: Team analysis. Hershey, Nestlé and Lindt&Sprungli annual reports, 2014 and 2015.

Note: Numbers are estimated based on interviews and, for medium and bulk players, ratios from Annual Reports, and are therefore indicative rather than exact. Each chocolate maker will have a unique situation, especially in manufacturing and distribution.

MANY ARTISAN GOURMET MAKERS STRUGGLING

Back-of-the-envelope:

- If 200 artisan chocolate makers use 2,800 tons of fine beans they can make app. 2,800,000 70% chocolate bars a year
- If they make \$1 per bar, on average they make USD 14,000 a year
- If 50 hour work week, hourly salary is \$6.67...

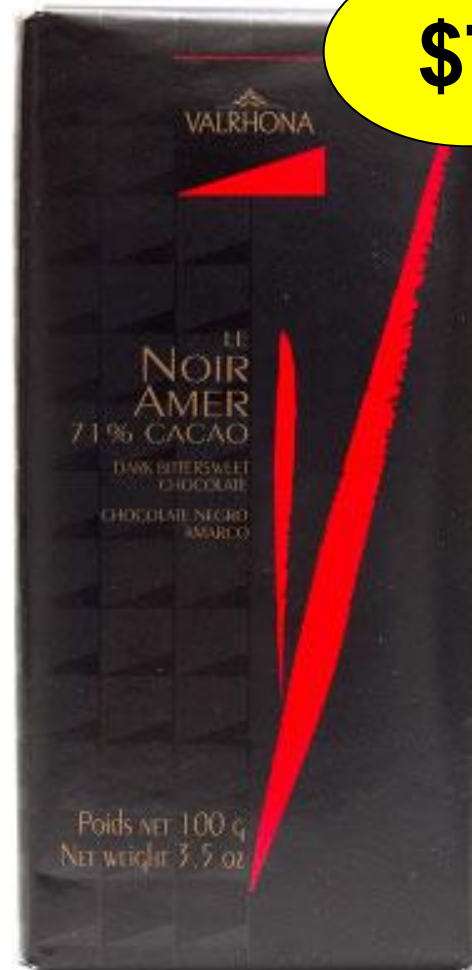


- Shake out?
- Consolidation?
- Market maker?

DISTRIBUTION CHALLENGE FOR THE MARKET MAKER: WHICH ONE?

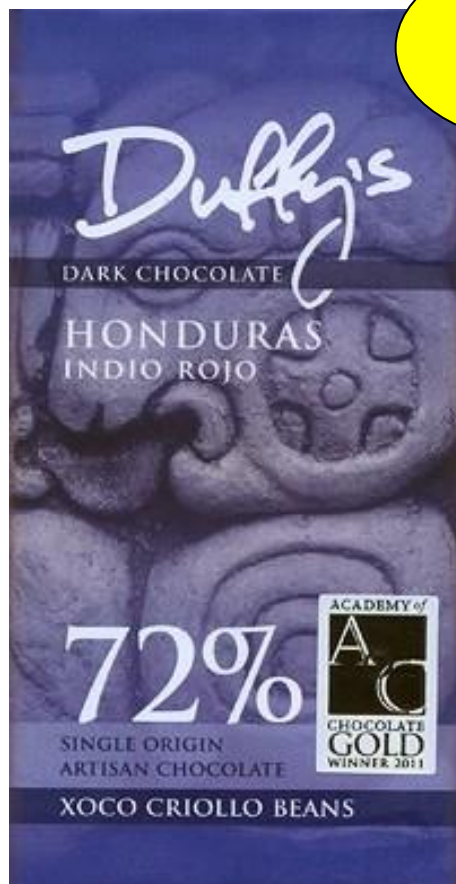


\$2.5

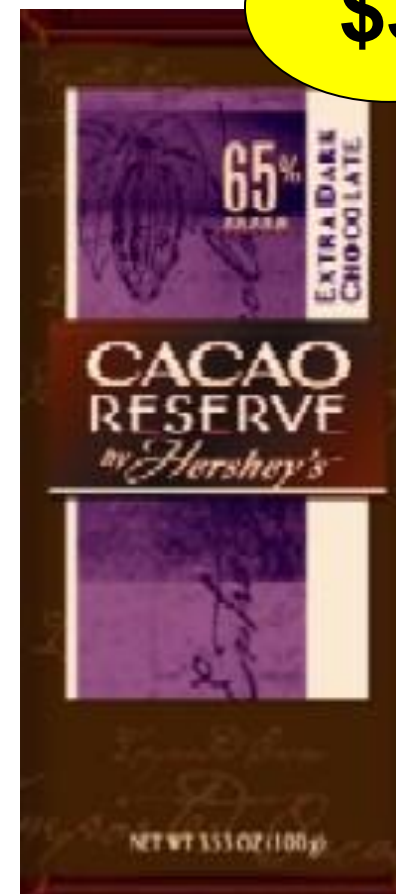


\$7

WHICH ONE?



\$10



\$3

WHICH ONE?



WHICH ONE?



WHAT EVER WENT WRONG?



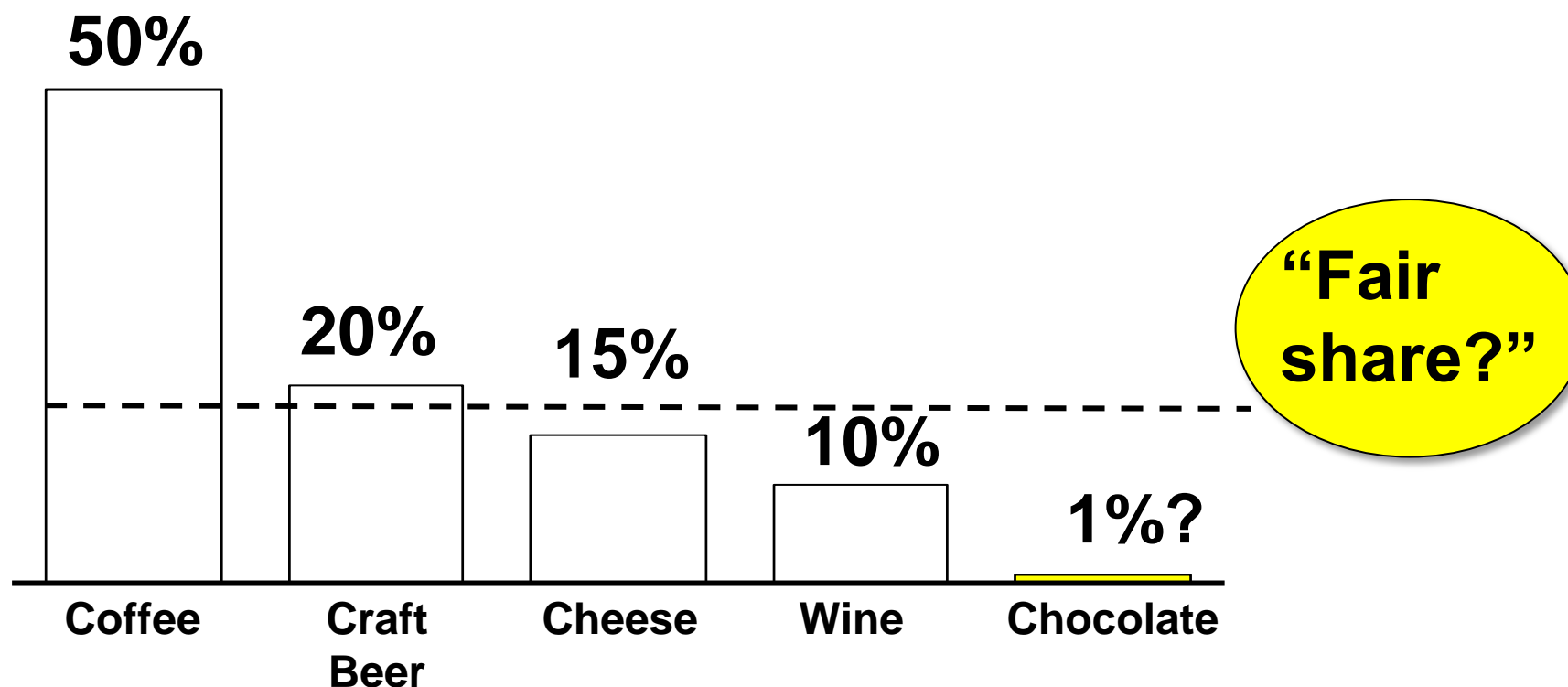
\$2.99

100g/Retail

“Choosing our chocolate is one way you can honor farmers and support **sustainable farming** practices. **We pay a social premium** for our ingredients to ensure that **farmers are supported** and species are protected. **Please take a look at our certifications** by clicking on the logos below”

SIZING THE OPPORTUNITY

Percentage specialty market of total market
Value

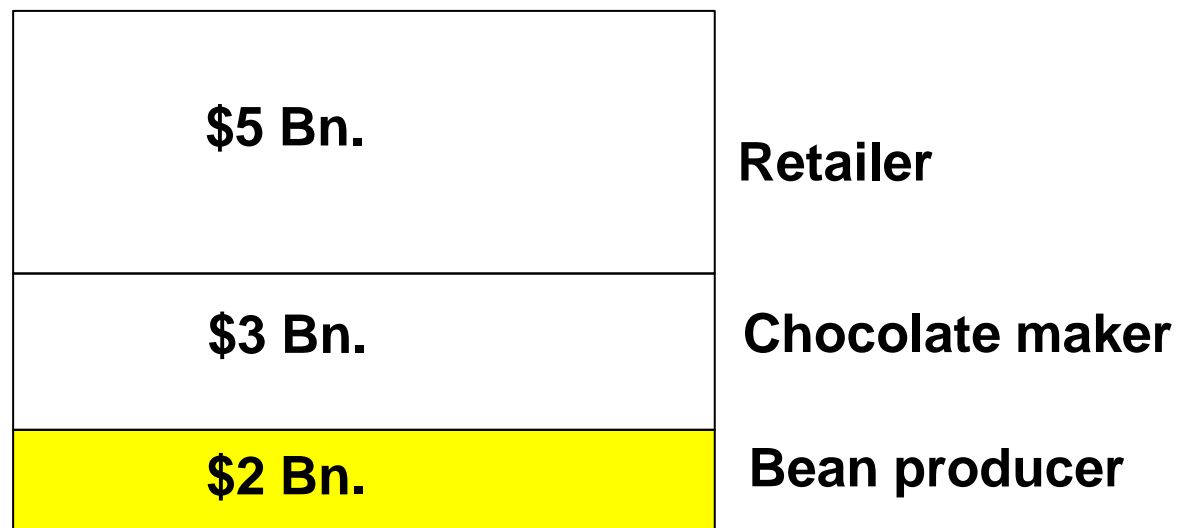


Sources: Specialty Coffee Association (2012, US); Brewers' Association (2015, US); SFSU; USDA Dairy products 2000, CBS-Global (2010, US), Statista (2013, wine selling for more than \$15 a bottle). Note that the very high end coffee market is estimated at 7% of total.

“FAIR SHARE” OF 10% OF MARKET = \$10 BN

Possible value of revenues distribution
USD

\$10 Bn.



NEXT STEPS

Alliance for a market maker?

What is the "magic price point" to reach fair share?

Bulk wine to specialty (\$6 to \$15)
indicate perhaps \$5 to \$6 retail for bar

Act up people