

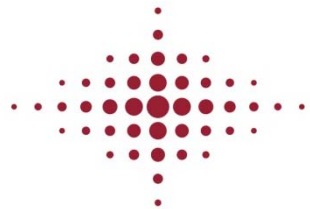
# Walnut Presentation

January 2013

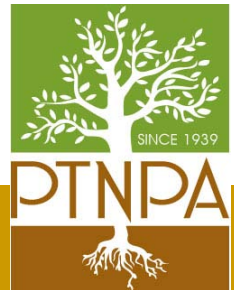
Presented by:

Steve Zaffarano

Diamond Foods, Inc.



Diamond

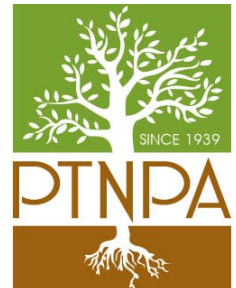


# Walnuts - Overview



## Perspectives

- Commodity
- Supply
- Demand
- Industry
- Trends
- External Factors
  - *Fundamental*: supply/demand, weather, land, resource constraints
  - *Non-Fundamental*: speculation, FX, counterparty risk, carrying costs
  - *Political*: food for fuel, subsidies, taxes
  - *Social*: changing diets, growing & wealthier populations, urbanization



# Walnut Producing Regions

## California Walnut Industry

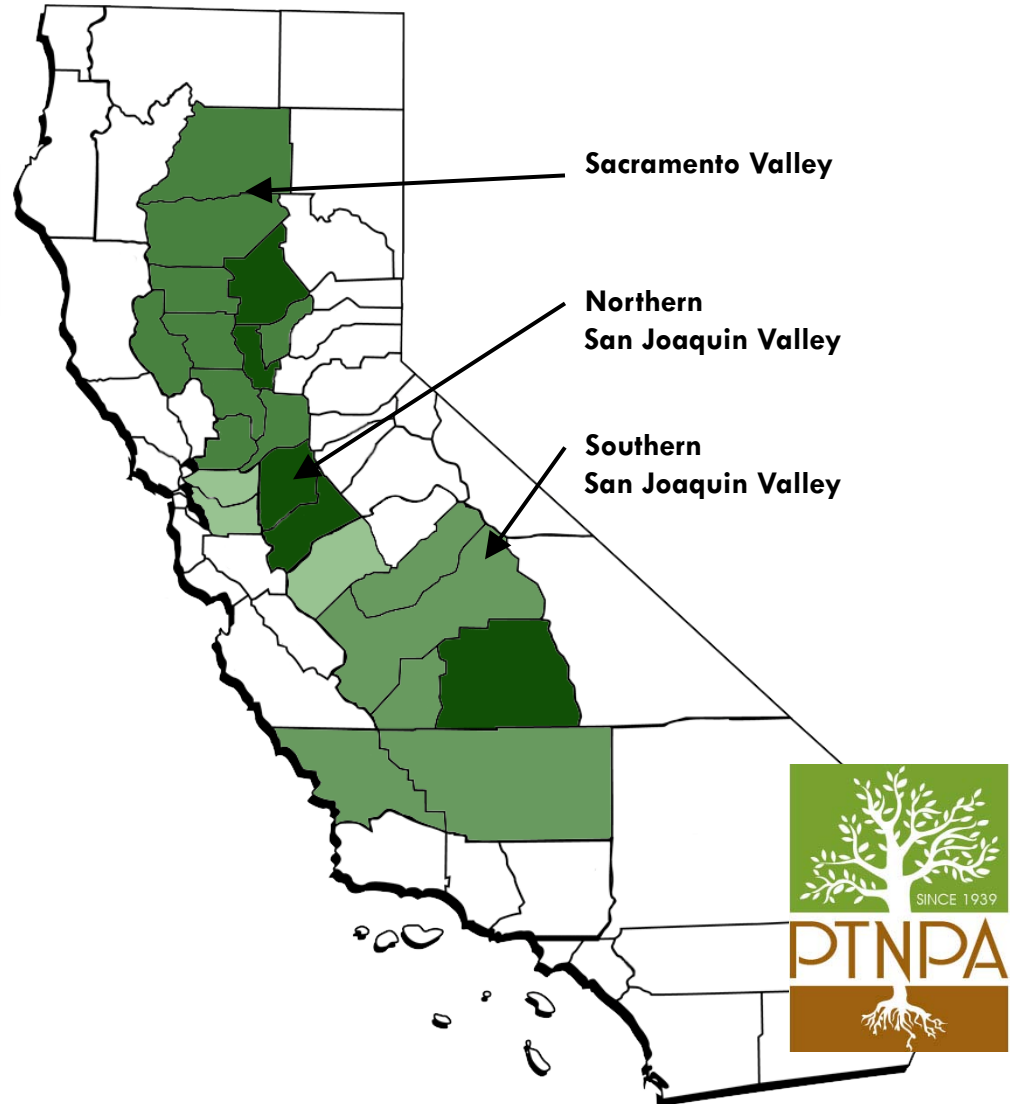


Diamond

Approx. 3,500 growers statewide  
 Approx. 245,000 total acres  
 920,330,000 lbs. produced in 2011

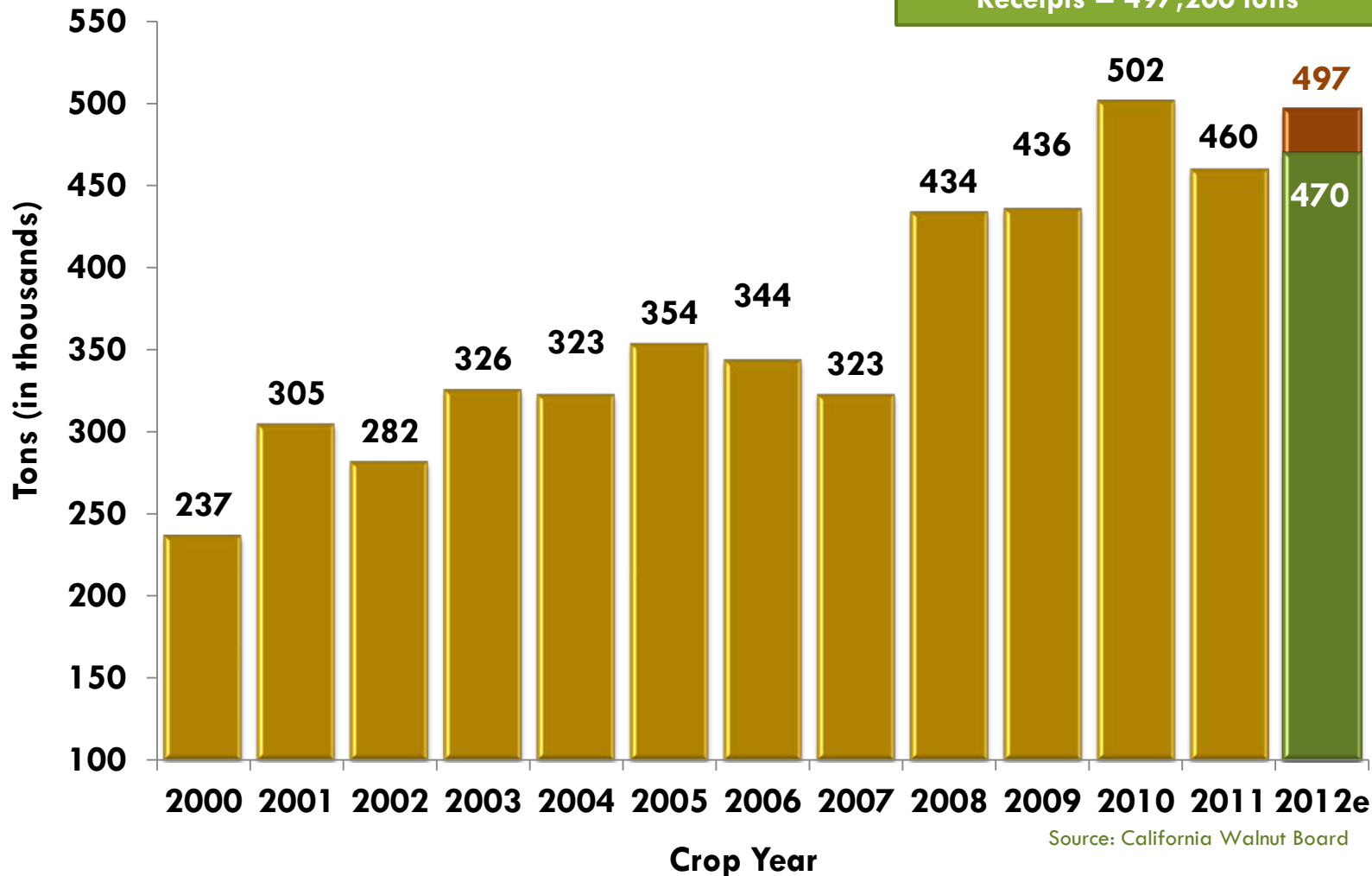
Regional Production Top 5 Counties	2011 Pounds (1,000)	% of Total 2010 crop
<b>Sac. Valley</b>	<b>463,554</b>	<b>50.4%</b>
Butte	136,564	14.8%
Sutter	82,560	9.0%
<b>Northern SJV</b>	<b>248,446</b>	<b>27.0%</b>
San Joaquin	150,328	16.3%
Stanislaus	93,882	10.2%
<b>Southern SJV</b>	<b>208,330</b>	<b>22.6%</b>
Tulare	116,954	12.7%

Source: California Walnut Board



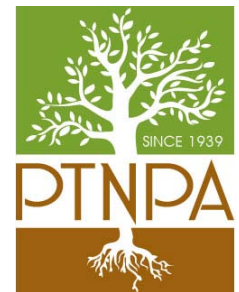
# Walnut Production

## California Walnut Industry



As of 12/31/12 Industry Walnut Receipts = 497,200 tons

109% increase in production since 2000



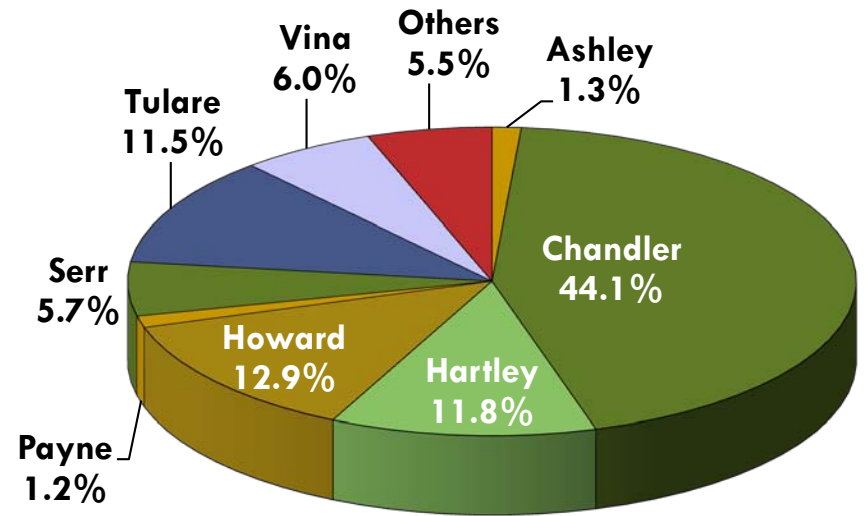
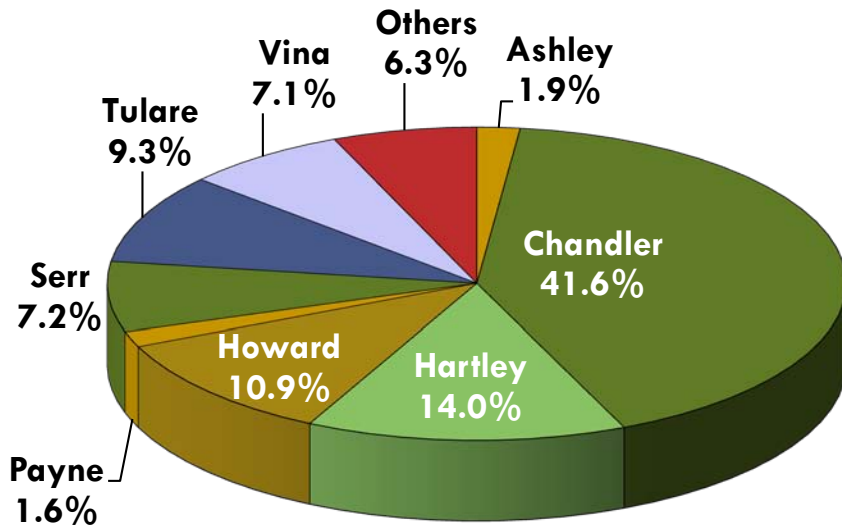
Source: California Walnut Board

# Walnut Production

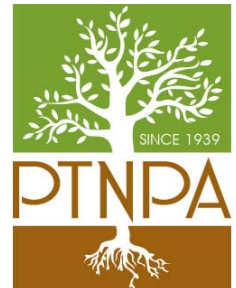
## California Walnut Industry, By Variety



**2010 Crop**  
501,901 Tons



**2011 Crop**  
460,165 Tons

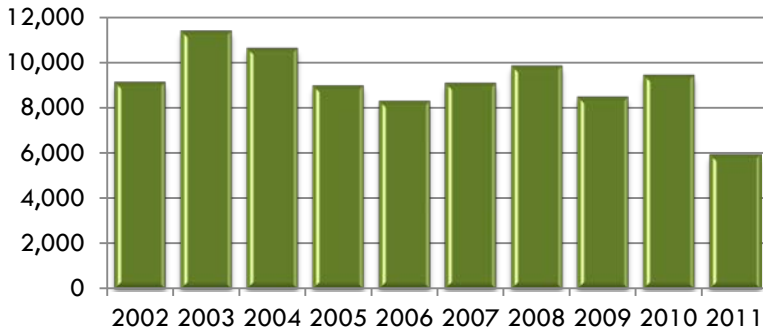


# Walnut Production

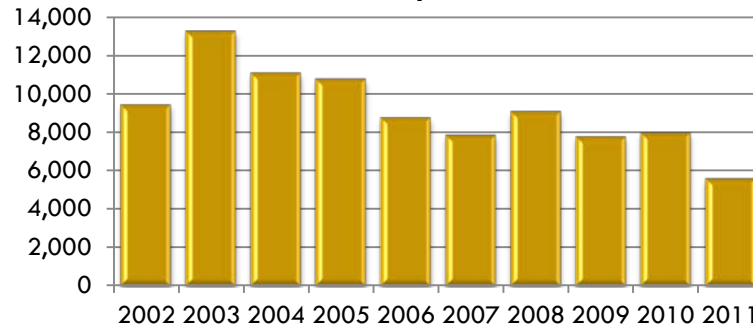
## California Walnut Industry, By Variety



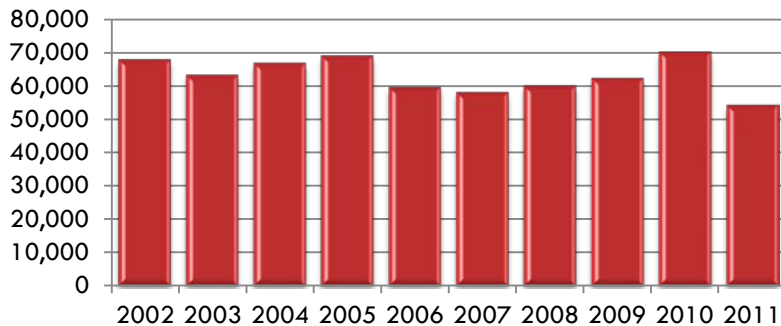
**Ashley**



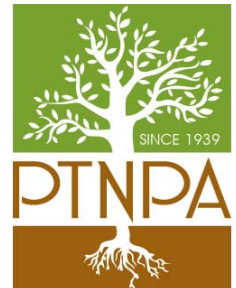
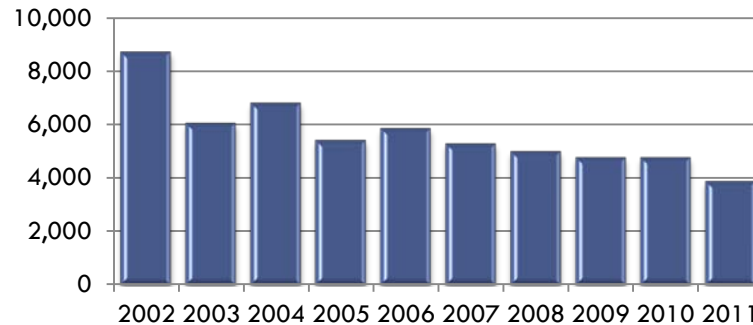
**Payne**



**Hartley**



**Franquette**



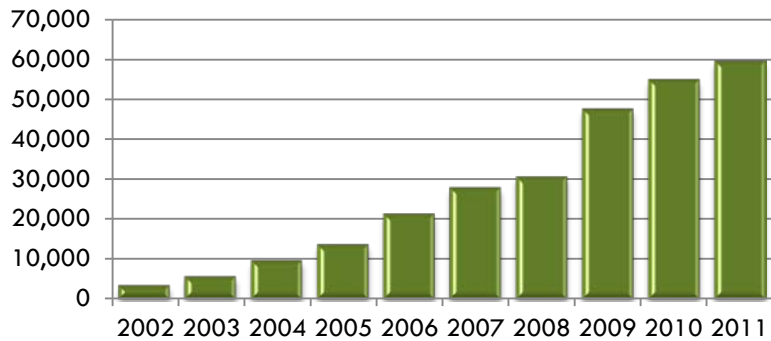
Source: California Walnut Board

# Walnut Production

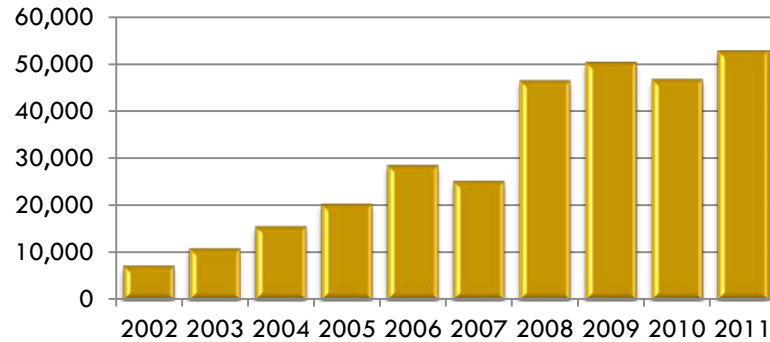
## California Walnut Industry, By Variety



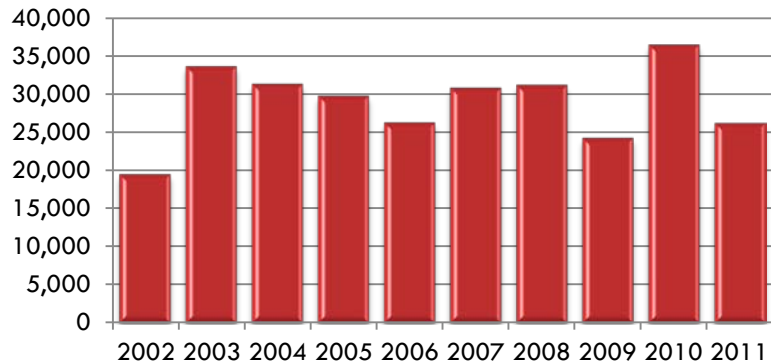
**Howard**



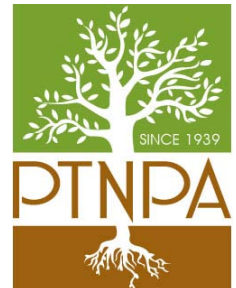
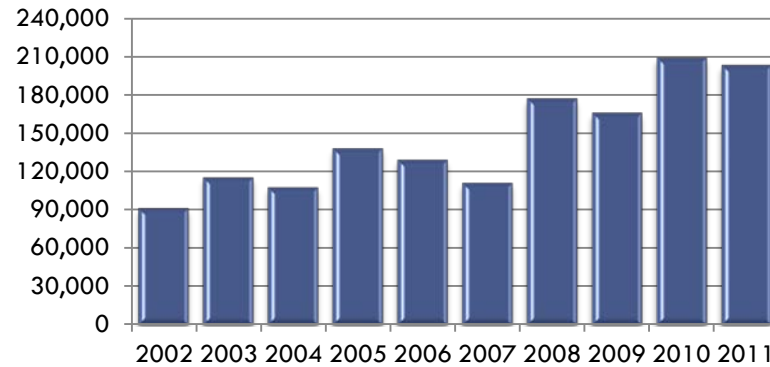
**Tulare**



**Serr**



**Chandler**



Source: California Walnut Board

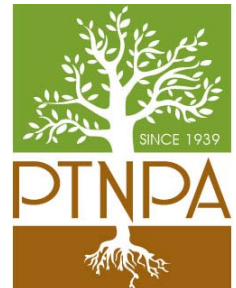
# World Walnut Production

## Short Tons



Diamond

Country	2008	2009	2010	2011	2012 e	% of Total
USA*	434	436	502	460	497 e	39.9%
China	540	514	518	485	500 e	43.6%
Turkey	94	68	66	75	77 e	5.6%
India	41	24	28	28	25 e	2.3%
France	39	36	33	33	27 e	4.1%
Italy	22	14	18	14	12 e	1.2%
Chile	25	28	33	40	48 e	3.3%
<b>Total</b>	<b>1,197</b>	<b>1,121</b>	<b>1,200</b>	<b>1,136</b>	<b>1,159e</b>	<b>100.0%</b>



e = estimate

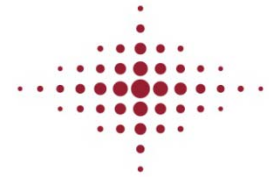
Source: USDA/FAS

\*Source: California Walnut Board



# Walnut Supply/Demand Overview

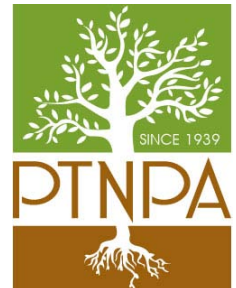
## California Walnut Industry



Diamond

(1,000 Lbs.)	07/08	08/09	09/10	10/11	11/12	12/13	
Carry-in Inventory (8/31)	43.8	44.1	115.5	84.4	81.3	98.0	
U.S. Walnut Crop	646.0	868.6	872.0	1,003.8	920.0	994.0 e	
<b>Total Supply</b>	<b>689.8</b>	<b>912.7</b>	<b>987.5</b>	<b>1,088.2</b>	<b>1,001.3</b>	<b>1,092.0 e</b>	

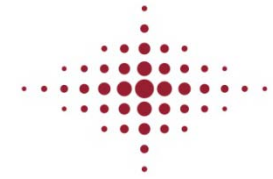
	07/08	08/09	09/10	10/11	11/12	12/13 CWB Projected	MY 12/13 Aug 1 – Dec 31
Export Inshell	99.0	152.1	185.4	264.0	226.7	222.0	215.8
Domestic Inshell	19.7	21.4	19.4	19.9	16.9	17.0	11.7
<b>Total Inshell</b>	<b>118.7</b>	<b>173.5</b>	<b>204.8</b>	<b>283.9</b>	<b>243.6</b>	<b>239.0</b>	<b>227.4</b>
Export Shelled	89.0	125.4	131.1	152.1	129.4	138.0	57.4
Domestic Shelled	148.9	158.3	179.2	165.8	158.3	161.5	66.0
<b>Total Shelled</b>	<b>237.9</b>	<b>283.7</b>	<b>310.3</b>	<b>317.9</b>	<b>287.7</b>	<b>299.5</b>	<b>123.4</b>
<b>Total ISE Shipments in M Lbs</b>	<b>645.7</b>	<b>797.2</b>	<b>916.8</b>	<b>1,012.0</b>	<b>903.4</b>	<b>919.7</b>	<b>504.8</b>



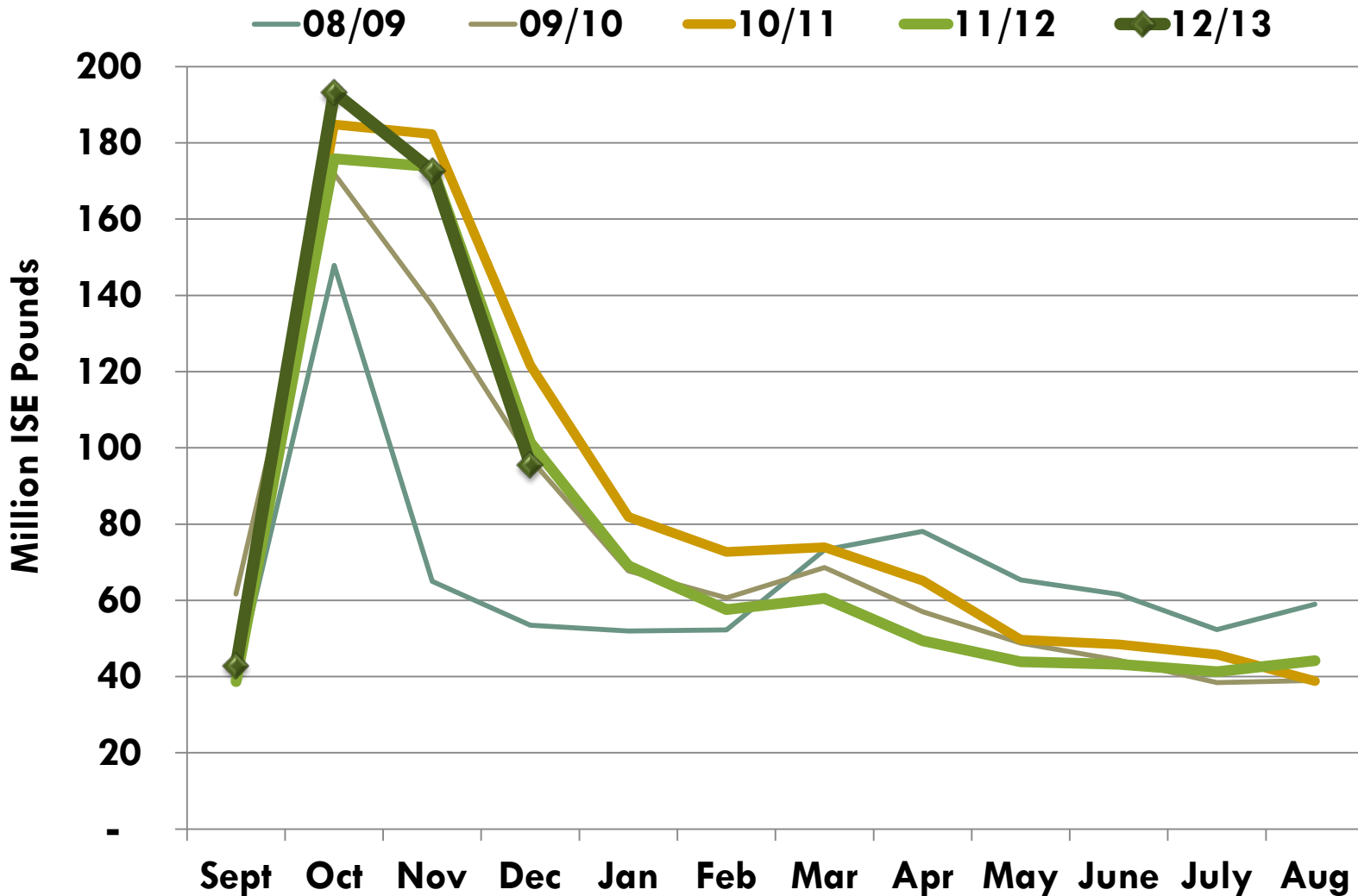
Source: California Walnut Board

# Historical Walnut Demand

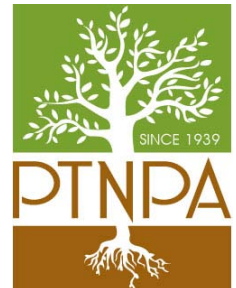
## California Walnut Industry, By Month



Diamond



Source: California Walnut Board

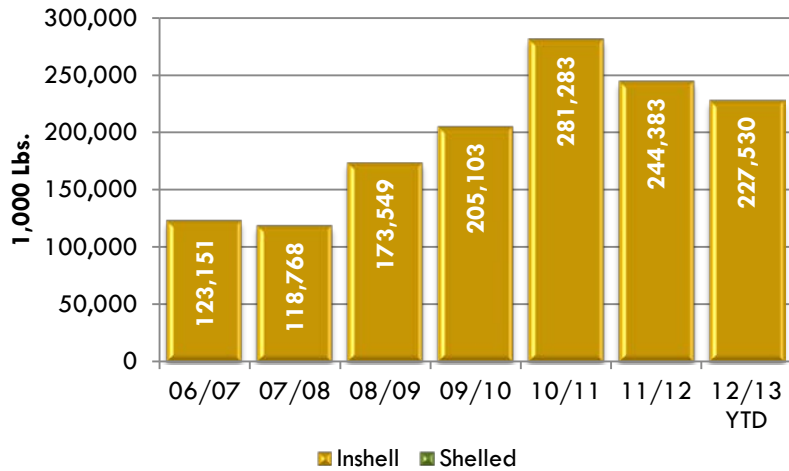


# Total Walnut Demand

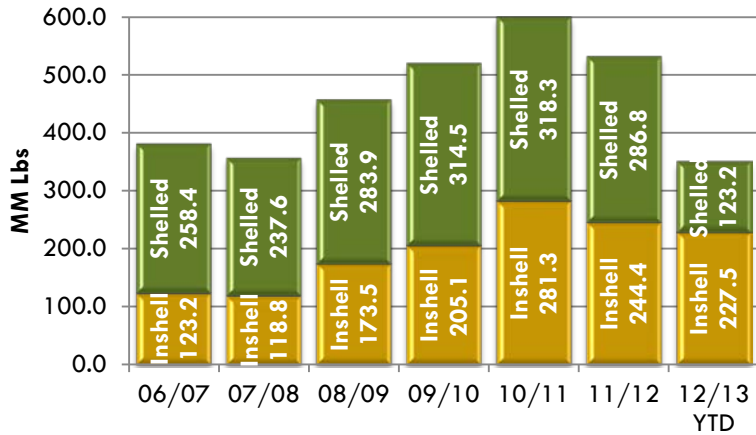
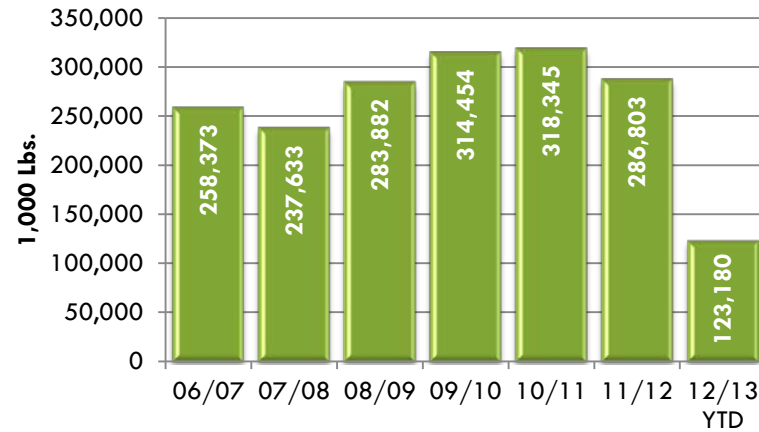
## California Walnut Industry, By Year



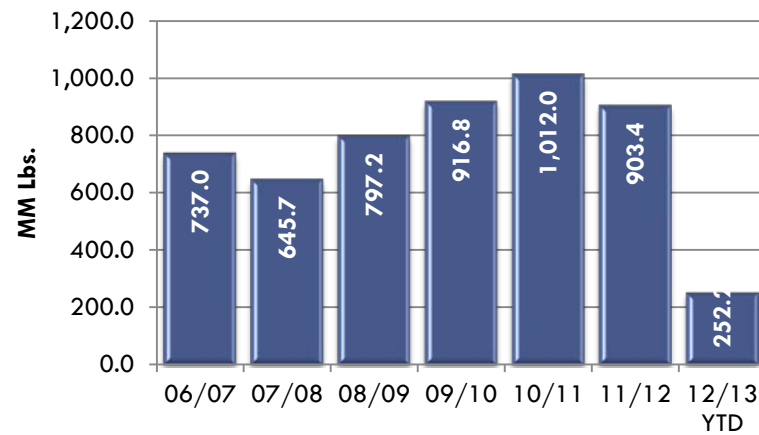
**Total Inshell Shipments**



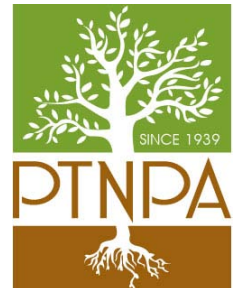
**Total Shelled Shipments**



**Total ISE MM**



Source: California Walnut Board  
 Note: Shelled Kernel demand not converted to ISE

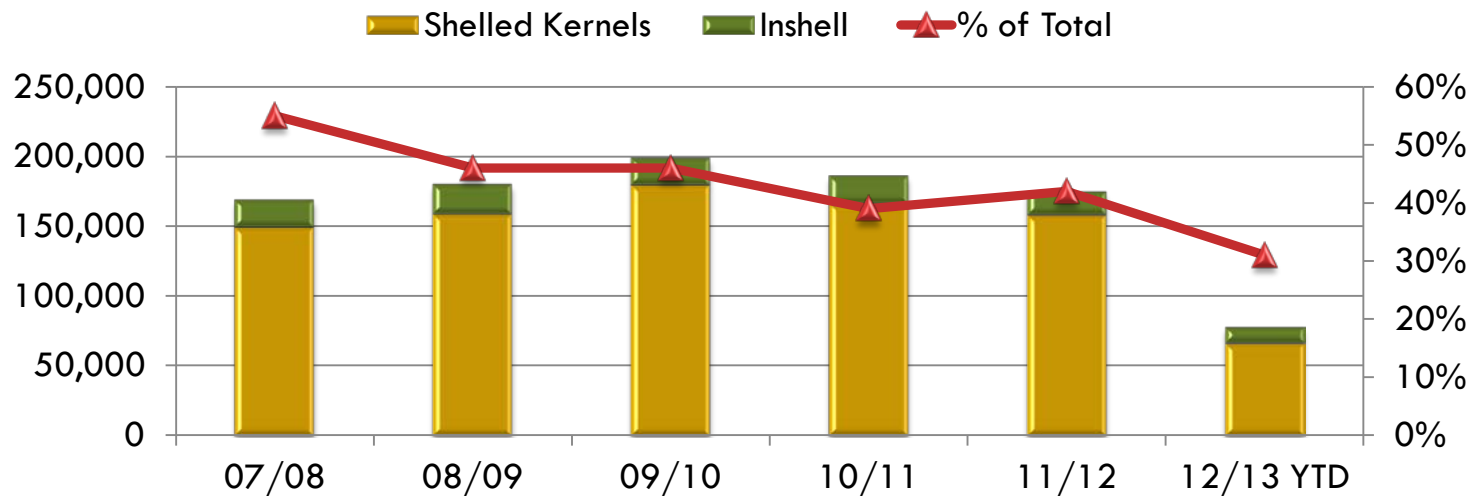


# Domestic Walnut Demand

## California Walnut Industry

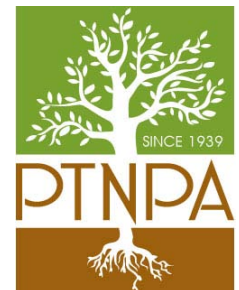


(1,000 Lbs)	07/08	08/09	09/10	10/11	11/12	12/13 YTD
<b>Inshell</b>	19,752	21,447	19,406	19,962	16,609	11,679
<b>Shelled Kernels</b>	148,956	158,397	179,258	165,894	157,725	66,045
<b>Domestic ISE</b>	<b>367,788</b>	<b>369,576</b>	<b>418,190</b>	<b>399,386</b>	<b>379,948</b>	<b>160,094</b>
<b>% of Total ISE</b>	55%	46%	46%	39%	42%	31%



Source: California Walnut Board

Note: Shelled Kernel demand not converted to ISE

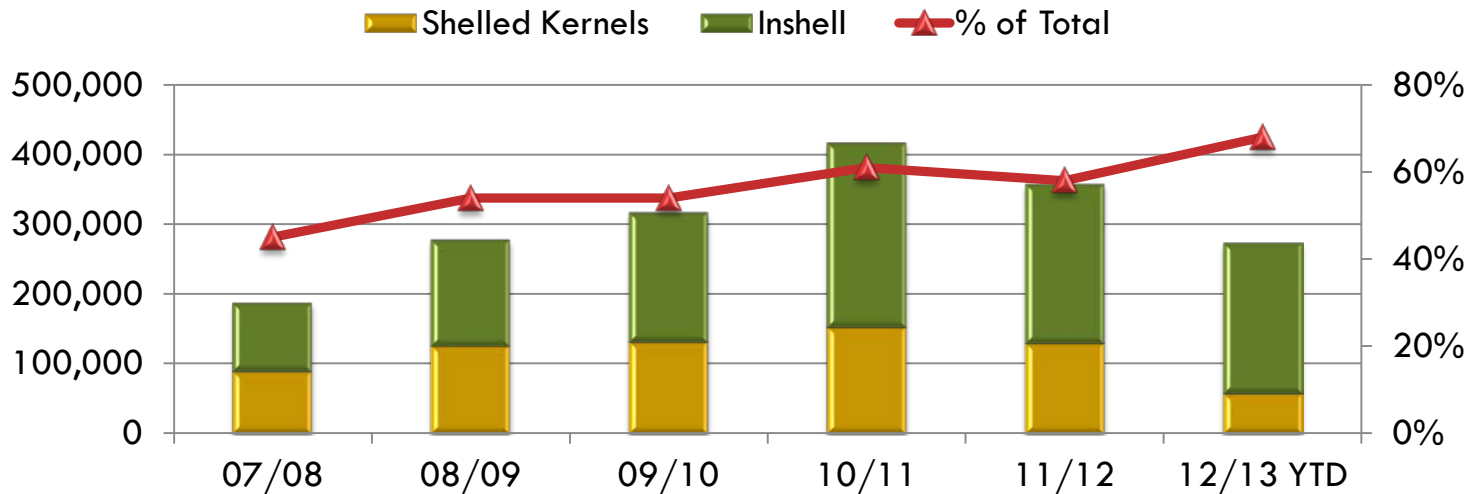


# Export Walnut Demand

## California Walnut Industry

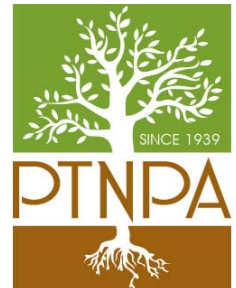


(1,000 Lbs)	07/08	08/09	09/10	10/11	11/12	12/13 YTD
<b>Inshell</b>	99,016	152,102	185,409	264,090	227,792	215,762
<b>Shelled Kernels</b>	89,034	125,485	131,148	152,137	129,080	57,355
<b>Export ISE</b>	<b>307,038</b>	<b>428,208</b>	<b>488,244</b>	<b>613,750</b>	<b>523,424</b>	<b>344,650</b>
<b>% of Total ISE</b>	45%	54%	54%	61%	58%	67%



Source: California Walnut Board

Note: Shelled Kernel demand not converted to ISE



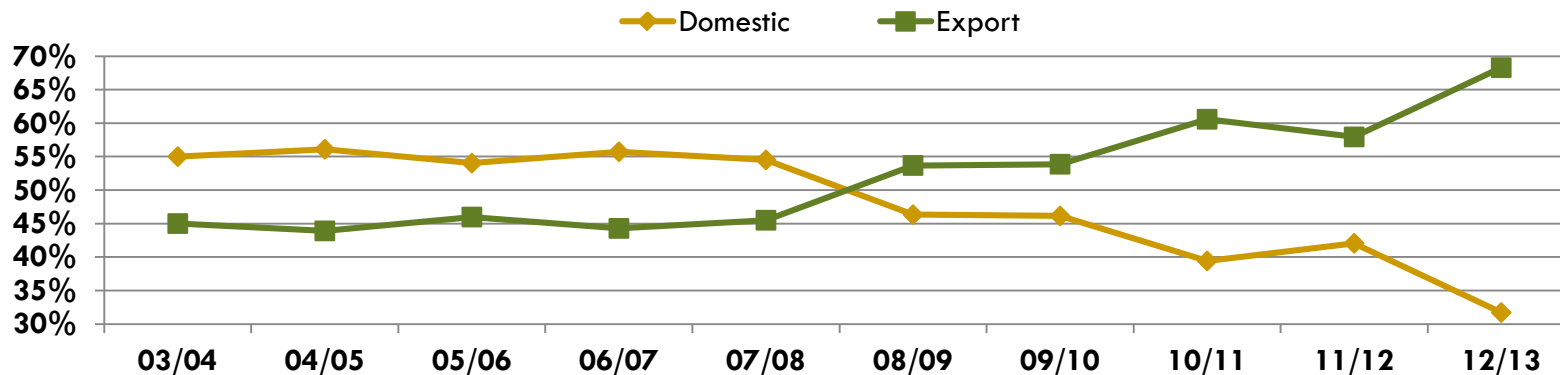
# Walnut Demand Distribution

## California Walnut Industry, By Year

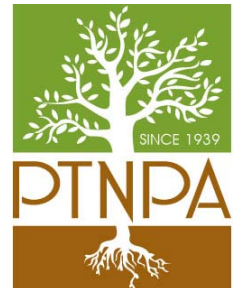


(1,000 Lbs)	07/08	08/09	09/10	10/11	11/12	12/13 YTD	% of Total Demand
<b>Inshell Domestic</b>	19,752	21,447	19,406	19,962	16,609	11,679	
<b>Shelled Domestic</b>	148,956	158,397	179,258	165,894	157,725	66,045	
<b>Total Domestic ISE</b>	<b>367,788</b>	<b>369,576</b>	<b>418,190</b>	<b>399,386</b>	<b>379,948</b>	<b>160,094</b>	<b>32%</b>
<b>Inshell Export</b>	99,016	152,102	185,409	264,090	227,792	215,762	
<b>Shelled Export</b>	89,034	125,485	131,148	152,137	129,080	57,355	
<b>Total Export ISE</b>	<b>307,038</b>	<b>428,208</b>	<b>488,244</b>	<b>613,750</b>	<b>523,424</b>	<b>344,650</b>	<b>68%</b>

<b>Total Industry ISE</b>	<b>674,826</b>	<b>797,784</b>	<b>906,434</b>	<b>1,013,136</b>	<b>903,370</b>	<b>504,744</b>	
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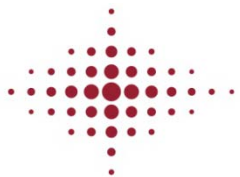


Source: California Walnut Board



# Walnut Supply & Utilization

## California Walnut Industry

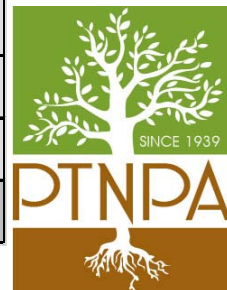


Diamond

Crop Year	Crop (000)	Beginning Inventory (000)	Total Supply (000)	Utilization (000)	% Change Utilization	Beg. Inventory as % of Total Supply	Utilization as % of Crop
2000	478,000	163,700	641,700	529,100	1%	26%	111%
2001	610,000	112,600	722,600	579,700	10%	16%	95%
2002	564,000	142,900	706,900	573,700	-1%	20%	102%
2003	652,000	133,200	785,200	638,700	11%	17%	98%
2004	650,000	146,500	796,500	674,000	6%	18%	104%
2005	710,000	122,500	832,500	743,700	10%	15%	105%
2006	692,000	88,800	780,800	737,000	-1%	11%	107%
2007	650,000	43,800	693,800	649,700	-12%	6%	100%
2008	872,000	44,100	916,100	800,600	23%	5%	92%
2009	874,000	115,500	989,500	916,756	15%	12%	105%
2010	1,006,000	84,400	1,090,400	1,013,100	11%	8%	101%
2011	920,330	81,760	1,002,090	903,400	-11%	8%	98%
2012e	994,400e	98,000	1,092,400e	919,700e	2%	9%	92%

e = estimate Source: California Walnut Board  
Marketing Years Ending Aug 31

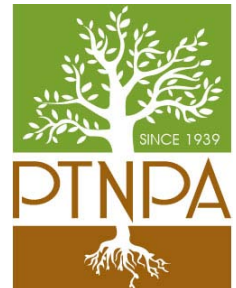
2012 beginning inventory based on WMB Report 10/10/12, 2012 Crop based on WMB Shipment Report 1/11/13



# 2012 Crop Highlights



- Favorable growing conditions through spring & summer
- By late summer, industry expected crop to be 500,000+ tons
- In September, CASS estimated crop at 470,000 tons
  - Lowest average nut set in 5 years (down 1% from 2011)
  - Small inshell size: Jumbo size for Hartley, Vina, Chandler, & Howard down 10 points from prior year
- Opening prices similar to prior year, moved up rapidly
- Currency not an issue; China crop rumored less than originally expected
- In December, WMB reported 497,000 tons received
  - Total Shipments = 504 M lbs (up 3.4% over prior year)
    - Inshell = 227 M lbs (up 5.7% over prior year)
    - Shelled Kernels = 123 M lbs (up 3.4% over prior year)

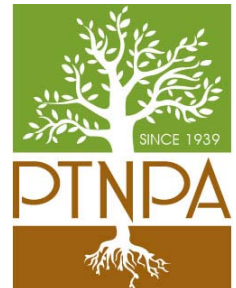




# Short Term Outlook



- Health benefits driving increased consumption
- Economies recovering – lumpy/uneven
- Adequate supply
- Walnut commerce is more global
- Price escalation
- Food safety impact expected, but unknown
- Dependant on exports for growth
  - New markets
  - Existing markets
    - Traditional and Non-traditional destinations
- Competing nuts available, priced competitively

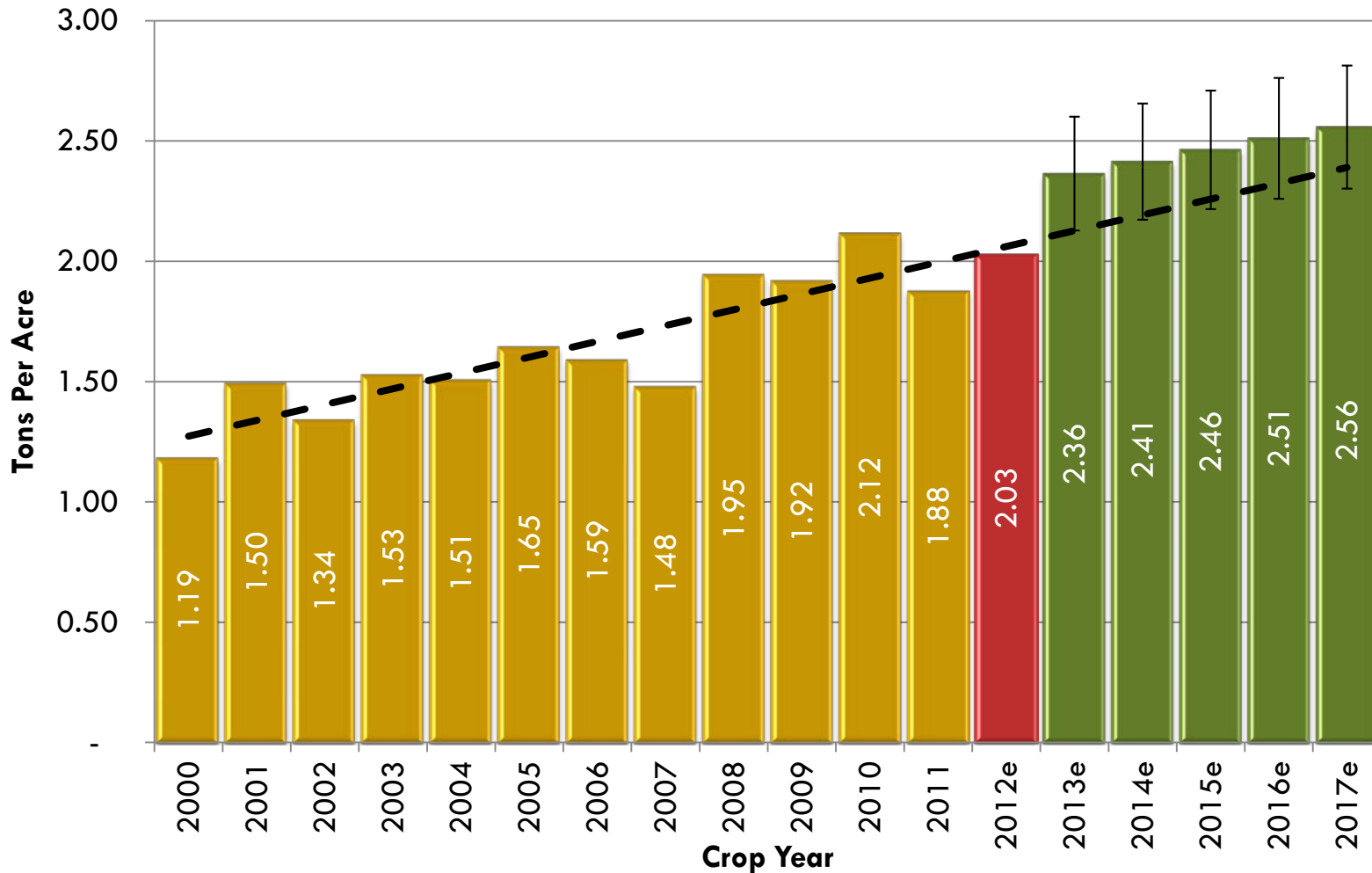


# Long Term Outlook

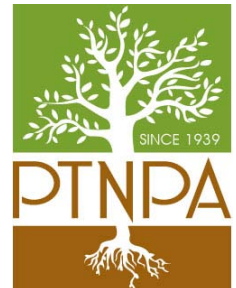
## California Walnut Industry, Tons per Acre



Diamond

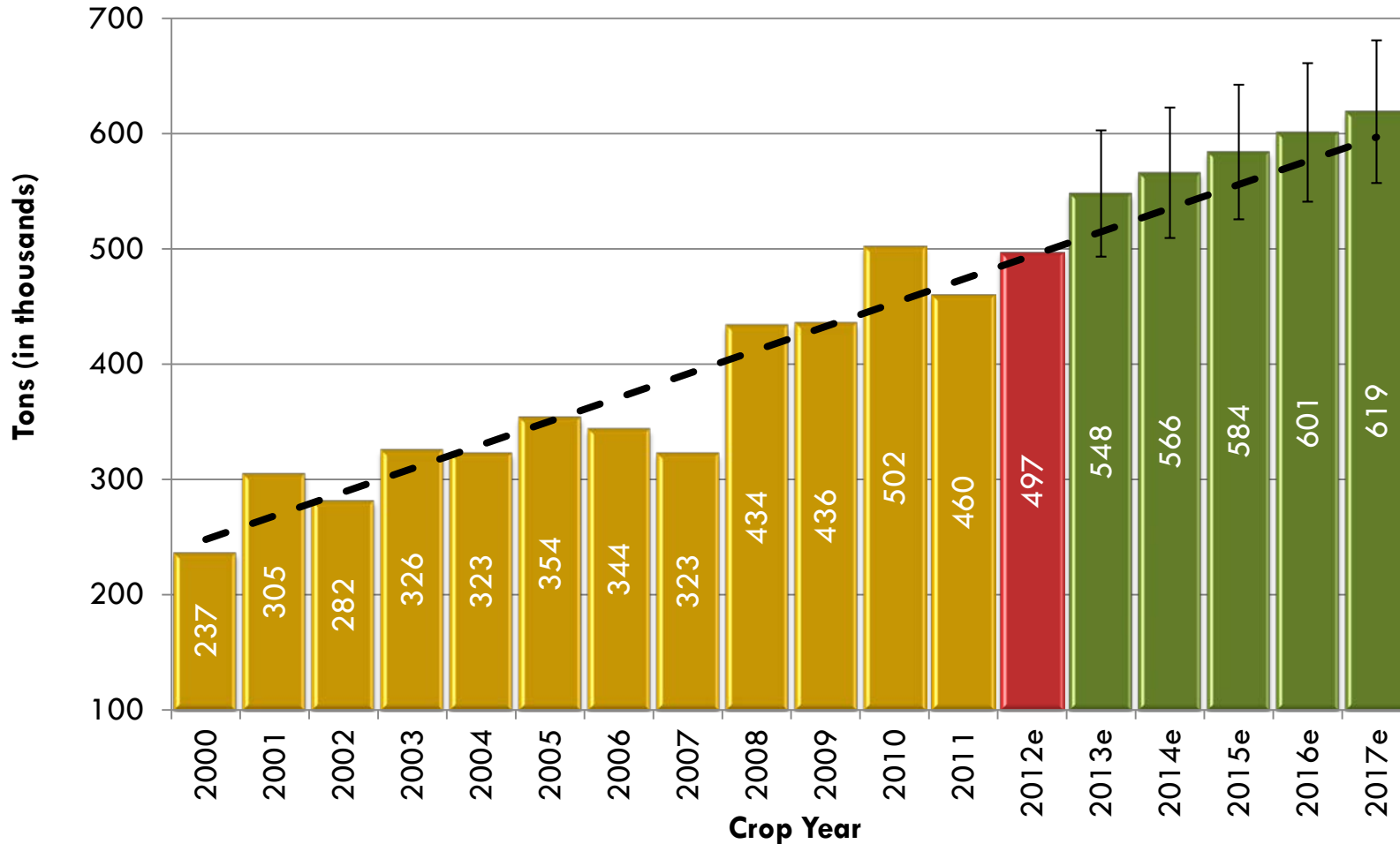


Source: USDA NASS Walnut Objective Measurement Report  
 2012 crop year based on California Walnut Board reported receipts as of 12/31/12  
 2013-2017 projections based on average historical acreage and tons/acre increases

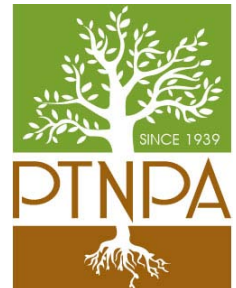


# Long Term Outlook

## California Walnut Industry, Production



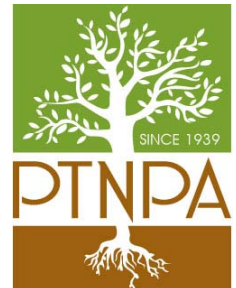
Source: USDA NASS Walnut Objective Measurement Report  
2012 crop year based on California Walnut Board reported receipts as of 12/31/12  
2013-2017 projections based on average historical acreage and tons/acre increases



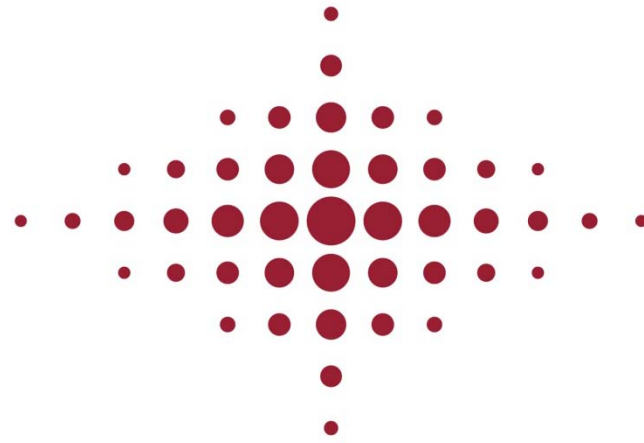
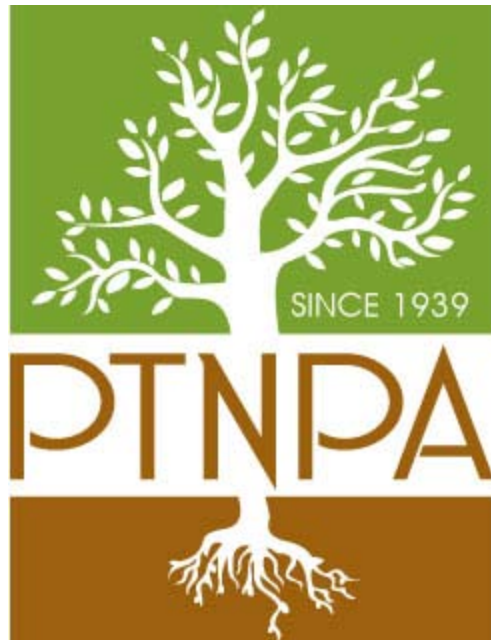
# Long Term Outlook



- Productive capacity (bearing & non-bearing) poised for larger crops
  - ▣ Availability of trees and land will create constraints
  
- Build worldwide, broad-based, balanced, sustainable demand
  - ▣ Increase consumption in existing markets
  - ▣ Focus on developing and emerging destinations
  
- Commodity growth/consumption likely greater than economic due to a growing, more prosperous global population



# Questions?



Diamond