THE MORNING STAR PACKING COMPANY

November 2013 Newsletter

CALIFORNIA CROP

Curly Top Shrinks Crop

SUMMARY

Disease and inclement weather caused underproduction of tomatoes around the world. Supplies are tight, pushing bulk tomato paste prices upward.

Curly Top sounds like the name of a plucky animal hero in a children's story. But it's not. Curly Top is a virus, lethal to plants, that wiped out a sizeable portion of California's processing tomato crop this summer.

California produced 12.1 million tons of tomatoes but fell short of contract intentions by 7.5%. In May, growers were expecting a near record volume, planning to deliver 13.1 million tons. However, challenging weather (heat and wind) coupled with damage from Curly Top Virus created one million tons in losses.

All of California's losses were in the southern Central Valley where the Curly Top outbreak hit extensively. *(Please see our September Newsletter for details about the virus.)* Official yield numbers won't be released until January, but the south's estimated yields were off 13.4% from expectations.

Meanwhile, tomatoes in the north enjoyed balmy weather and no damage from the virus. With yields estimated at 45.1 tons per acre, northern fields exceeded 2012 yields by 8.1% and likely broke records.

COMPARISON OF CALIFORNIA'S GROWING REGIONS

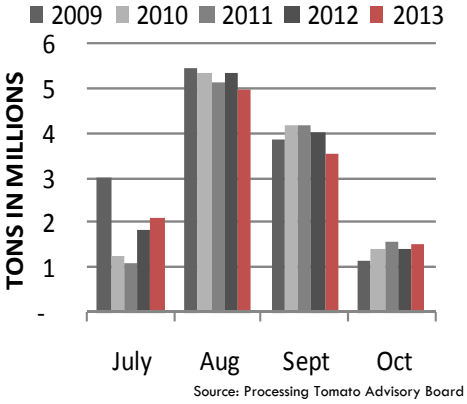
	NORTH	SOUTH	TOTAL
ACRES			
2012	91,000	167,000	258,000
2013 Contract	88,000	171,000	259,000
TONS			
2012	3,796,813	8,839,824	12,636,637
2013 Contract	3,700,000	9,400,000	13,100,000
2013 Actual	3,970,474	8,142,541	12,113,015
AVERAGE FIELD YIELDS			
2012	41.7	52.9	49.0
2013 Contract	42.0	55.0	50.6
2013 Estimate	45.1	47.6	46.8
2013 Estimated Yields vs.			
2012	8.1%	-10.0%	-4.5%
2013 Contract	7.3%	-13.4%	-7.5%

Sources: PTAB final tonnage report, 2012 Harvested Acreage and 2013 Contracted Acreage from CA Processing Tomato Report (May 2013)

Unfortunately, because the southern region plants significantly more acres with higher yields, the impressive northern bounty was not large enough to recoup all the losses in the south.

As a result of the stricken crop, packers ran below capacity. The peak of the season was briefer and smaller than normal. Typically tomato deliveries exceed one million tons through August and September. This season, only the four weeks in August went over 1 million tons each, and deliveries began tapering in the first week of September. An unseasonable, heavy rain did hit the state but did little damage. Since packers were not running at capacity, harvesting was ahead of the crop and tomatoes held up well in fields.

DELIVERIES BY MONTH



Source: Processing Tomato Advisory Board

October tonnage was larger than normal because growers had replanted some fields lost to Curly Top. Weather stayed pleasant allowing the season to end smoothly around October 18.

Despite the struggles, overall tomato quality was first-rate, with bright color and Natural Tomato Soluble Solids averaging 5.23.

SALES TEAM

Kelly Haywood 530-473-3626
Paul Maxon 209-827-5518
David Musson 559-360-6061
Karolina Splinter 209-829-5090
Brandon Taylor 209-827-7831
Becky Wahlberg 209-827-5508
Robert Young 209-827-7830

European Sales
Juan Jose Amezaga +34 609 543 160

OUR PRODUCTS

Hot Break Tomato Paste
(28% and 31% NTSS)
Organic Hot Break Paste
(31% NTSS)
Cold Break Tomato Paste
(31% and 37% NTSS)
Organic Cold Break Paste
(31% NTSS)
Concentrated Crushed
(26% and 28% NTSS)
Diced Tomatoes
(3/8", 1/2" and 3/4" cut)
Organic Diced Tomatoes
(1/2" and 3/4" cut)
Fire Roasted Diced Tomatoes
(1/2" and 3/4" cut)
Ground Tomatoes in Puree
Tomato Puree (1.07)
Chili Sauce
Ketchup
Sun Dried Tomatoes

CONTAINERS

300-gallon aseptic bag-in-box
55-gallon aseptic drum
StarPak
(four 75-gallon bags-in-box)

International Crop

Production Down Globally

Conversion Note: 1 metric ton = 1.102 short tons

At 33.2 million metric tons (MT), global production was off 7.2% from February intentions of 35.8 million MT. Most of the world's big production regions suffered sizable losses due to weather.

China's production of 3.85 million MT was 14.4% below forecasts of 4.5 million MT. China's season was shortened as cool temperatures delayed the start and rains in September ended the harvest early. Prices for Chinese tomato paste have risen in response to the short crop.

Italy battled poor yields and green tomatoes all season. At 4 million tons, production fell below intentions by 12.4%. The northern growing region experienced its worst field yields in a decade. A cold and wet spring delayed planting, and the crop was never able to recover. Even the central and southern Italian growing regions reported yields below normal due to the unfavorable weather.

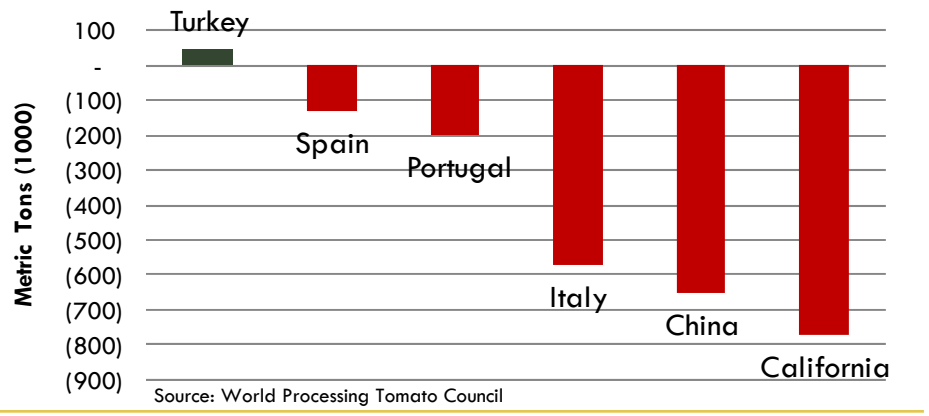
Portugal's season was short as rains delayed the start of the harvest and ended it in September. Factories ran at 80% capacity most of the season. With one million MT produced, Portugal fell 16.7% below intentions targeted in February.

Despite a late start, Spain found its season rather normal and produced 1.67 million MT.

The big winner for the 2013 season was Turkey, beating February intentions by 2.4%. At 2.15 million MT, Turkey processed its second largest crop on record due to excellent weather.

Chile also hopes to be a big winner by taking advantage of its alternate season. In September, while the harvest in the northern hemisphere suffered, Chile planted extra fields. Their harvest begins in mid-January and ends in April. Chilean growers plan to deliver 870,000 MT, a 28% increase from last year.

2013 DEVIATION FROM INTENTIONS
February vs. Actual



Source: World Processing Tomato Council

MARKET ANALYSIS

Tight Supplies Bring Up Paste Price

After years of surplus, the processed tomato market is entering a year of very tight supplies. With the world's crop short by three million tons in 2013, processors could not make all the product customers want. As a result, demand is greater than supply and prices are rising.

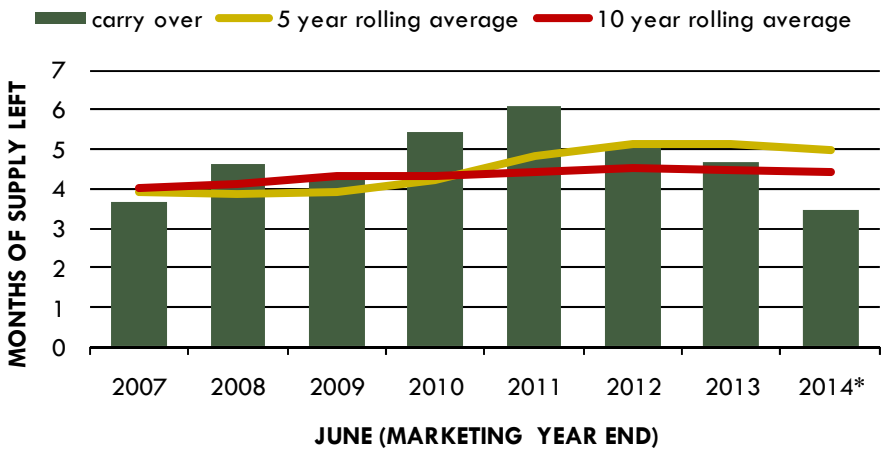
In California, paste on the open market is selling for about 40-42 cents per pound. This price reflects that processor stocks are missing the one million tons of tomatoes California's growers were not able to produce.

Domestic packers needed more tomatoes because demand has grown an average of 3.5% annually over the last five years. Assuming this demand trend continues, then in June 2014, packers would only have enough supply for 3.5 months of shipments.

Months of supply would be 22% less than the 10 year average and a 44% drop from the record high set in June 2011 when carryover was 6 months of movement. (See Domestic Carryover graph.)

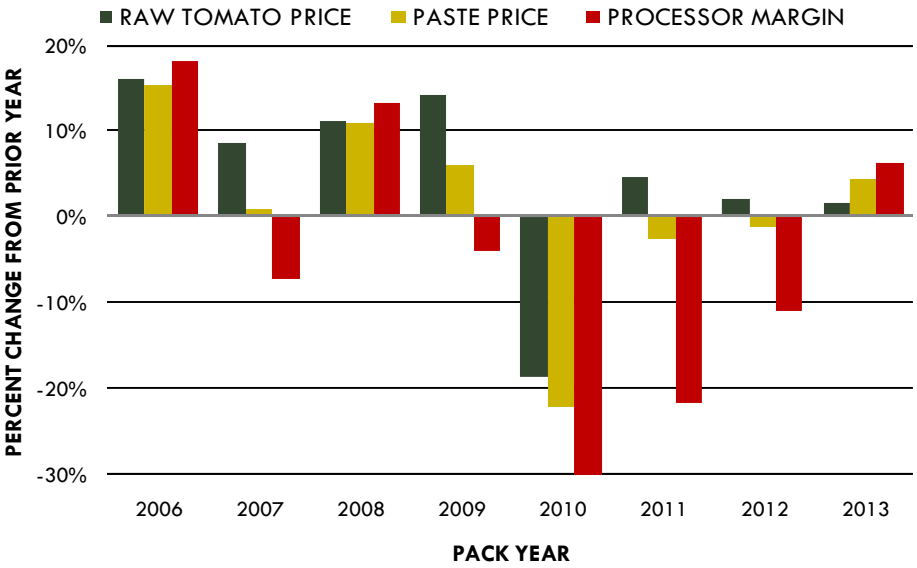
Tight supplies require a greater partnership between packers and their customers to meet expectations. The stricken crop created gaps in deliveries to packers, limiting their ability to make some product. Therefore, product with certain specifications or packaging is unavailable, and customers will be asked to be flexible with their product requirements.

DOMESTIC CARRYOVER



*Source: California League of Food Processors, *Morning Star forecasts.*

ANNUAL CHANGE IN PRICING
For California Paste Industry



Source: California Tomato Growers Association, Morning Star calculations

Input costs are a quantifiable driver in the price of paste but not the only one. Supply influences the price and affects processor margins. As indicated in the above graph, to reduce the surplus, California's paste processors have suffered four years of declining margins, hitting a record low in 2012. Despite increases in the price of raw tomatoes in 2011 and 2012, paste prices fell slightly which ate into processor margins.

Los Banos
13448 Volta Road
Los Banos, CA 93635
209 826-8000

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MORNING STAR
Excellence Through Commitment

THE MORNING STAR PACKING COMPANY

Williams
2211 Old Highway 99
Williams, CA 95987
530 473-3600

Santa Nella
12045 S. Ingomar Grade
Los Banos, CA 93635
209 826-7100

INDUSTRY SITUATION

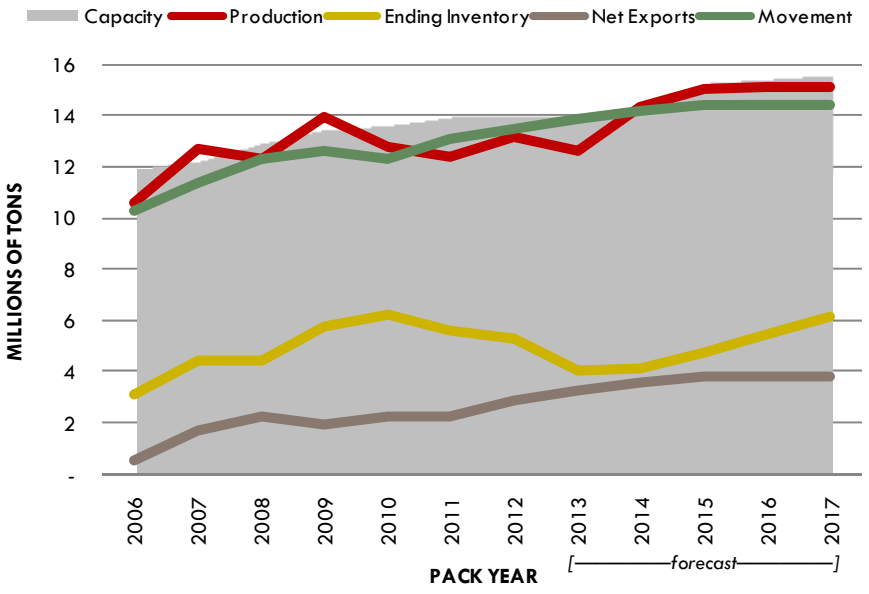
Morning Star Expanding Operations

Over the next few years, Morning Star expects to add 700 tons per hour (TPH) to its operations. For the 2014 season Liberty is getting an additional 200 TPH of capacity and Williams will grow by 500 TPH in following seasons.

With this expansion and capacity likely added by other processors, Morning Star anticipates state-wide capacity to outstrip demand by 2016, putting the industry into a surplus situation again.

The surplus benefits our customers' profitability by keeping tomato paste prices low, as long as the price of raw tomatoes stays reasonable.

U.S. TOMATO MARKET DRIVERS



Source: California League of Food Processors, USDA, Morning Star estimates and forecasts.

2014
Tomato Paste and Processed Tomato Statistics

All the attached information may also be found on our website at www.morningstarco.com

Exhibit 1 — **California Tomato Paste Processing Capacity**
Comparison of estimated hourly volumes of tomato paste by packer
Date: 2014

Exhibit 1a — **Annual Tomato Paste Processing Capacity (short tons/hour)**
Separates the information shown in Exhibit 1 by ownership structure
Date range: 1991-2013

Exhibit 2 — **Annual U.S. Processing Tomato Production History**
Short tons of processing tomatoes produced in the U.S.
Date range: 1918-2014

Exhibit 3 — **Paste as Percent of Total California Processing Tomato Crop**
Volume of Bulk Tomato Paste produced as percent of California pack
Date range: 1972-2013

Exhibit 4 — **U.S. Tomato Paste Consumption**
Pounds of tomato paste consumed in the U.S.
Date range: 1962-2013

Exhibit 5 — **U.S. Tomato Paste Imports and Exports**
Pounds of paste in 31% NTSS equivalents imported and exported
Date range: 1970-2013

Exhibit 6 — **Industry Average Tomato Paste Production Cost**
Percent of costs spent on different parts of tomato paste production
Date: 2014

Exhibit 7 — **Annual Historical Price of Tomato Paste**
Real and Nominal price per pound of 31% NTSS tomato paste
Date range: 1965-2013

Exhibit 8 — **Tomato Paste Price, Costs and Processor Margins**
Inflation adjusted prices for paste, tomatoes, hauling, and processing margins

Exhibit 8a — **Graph of Tomato Paste Price, Costs and Processor Margins**
Graph of information in Exhibit 8
Date range: 1965-2013

Exhibit 1

2014 California Tomato Paste Processing Capacity

Processor	Facility Location	Year Built	Tomato Capacity for Tomato Paste (Short Tons/Hour)	Equivalent Tomato Paste (Pounds/Hour)
Marketers				
Liberty Packing Company	Santa Nella	1975/02	880	288,667
Morning Star Packing Company	Williams	1995	749	245,614
Morning Star Packing Company	Los Banos	1990	661	216,849
Los Gatos Tomato Products*	Huron	1991	512	167,871
Olam Tomato Processors	Lemoore	1990	448	146,806
Ingomar Packing Company*	Los Banos	2000	410	134,274
J.G. Boswell Tomato Company*	Bakersfield	2000	405	132,739
J.G. Boswell Tomato Company*	Corcoran	2008	333	109,231
Ingomar Packing Company*	Los Banos	1983	329	107,778
Pacific Coast Producers*	Woodland	1943/02	296	97,135
Toma Tek	Firebaugh	1989	250	82,118
Olam Tomato Processors	Williams	1982	249	81,798
Stanislaus Food Products	Modesto	1942	75	24,430
Sub-Total	**13**		**5,598**	**1,835,308**
Remanufacturers				
Campbell Soup Company	Dixon	1975	302	98,952
Con-Agra Foods (Hunt Foods)	Oakdale	<1970	206	67,483
Con-Agra Foods (Hunt Foods)	Helm	1990	206	67,483
Campbell Soup Company	Stockton	1967	171	56,046
Unilever (Ragu)	Stockton	<1970	165	54,032
Del Monte Corporation	Hanford	1976	88	28,741
Sub-Total	**6**		**1,137**	**372,738**
Total	**19**		**6,735**	**2,208,046**

**Grower owned and controlled processor.*

Definitions:

Marketers: plants making paste for the main purpose of selling it to another party.

Remanufacturers: make paste for use internally.

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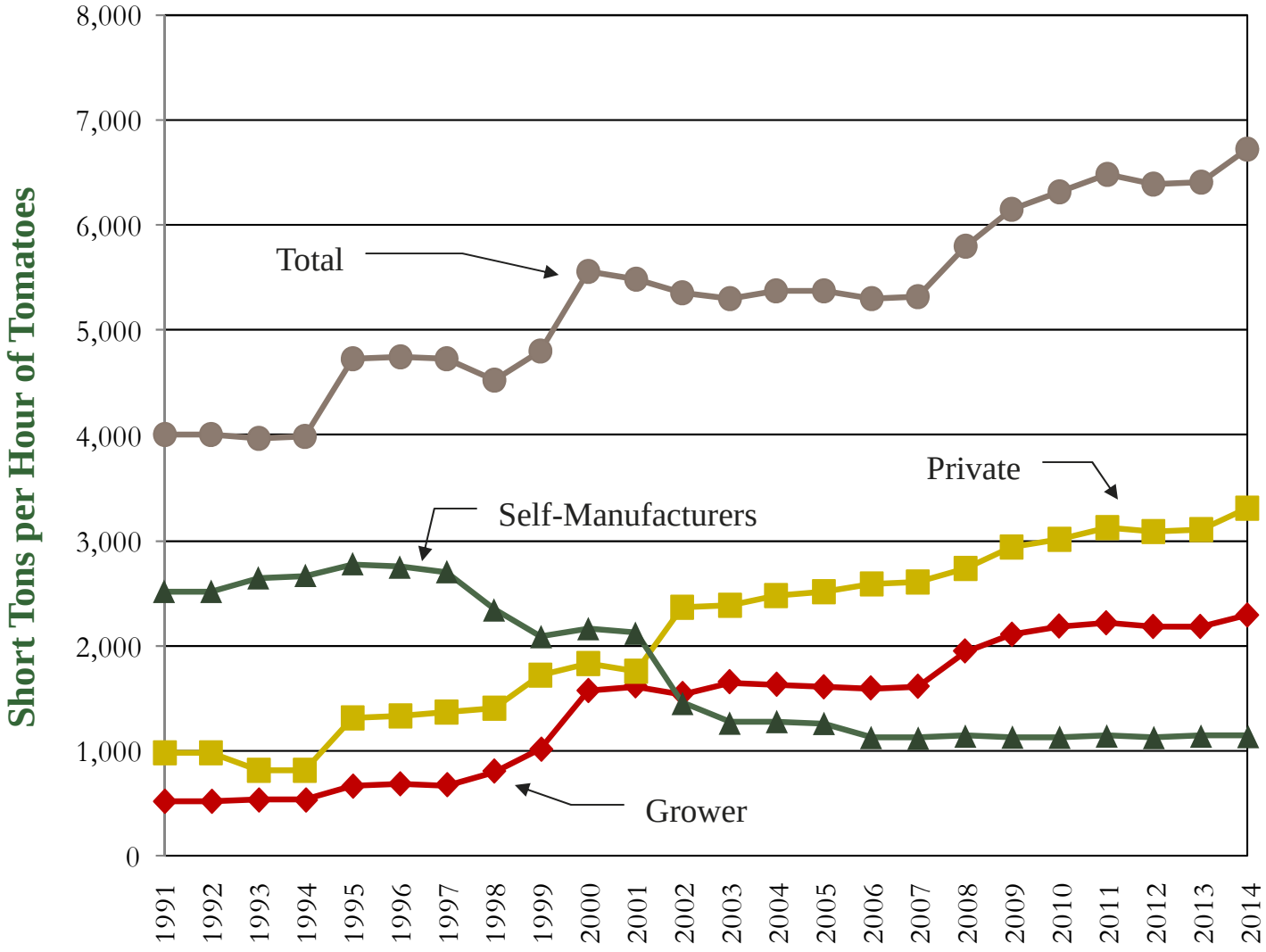
Exhibit 1a

Annual Tomato Paste Processing Capacity

(tons/hour)



Definitions

Self-Manufacturers: Companies that make paste predominately for internal uses.

Private: Privately held companies that sell paste on the open market.

Grower: Grower-owned companies that sell paste on the open market.

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Exhibit 2

U.S. Processing Tomato Production History

(crop projection for 2014)

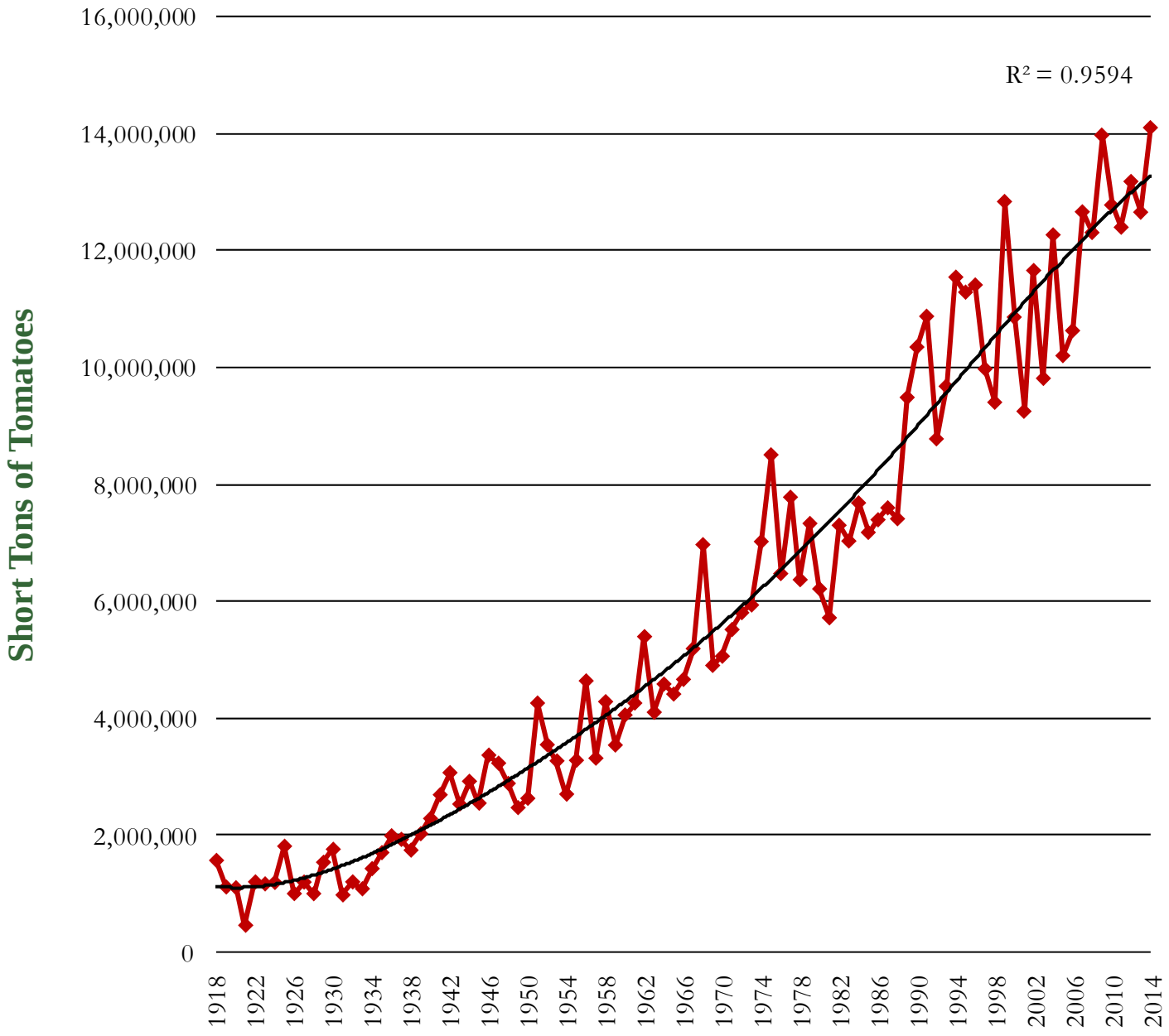

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Exhibit 3

Percent of Total California Processing Tomato Crop Packed as Bulk Tomato Paste

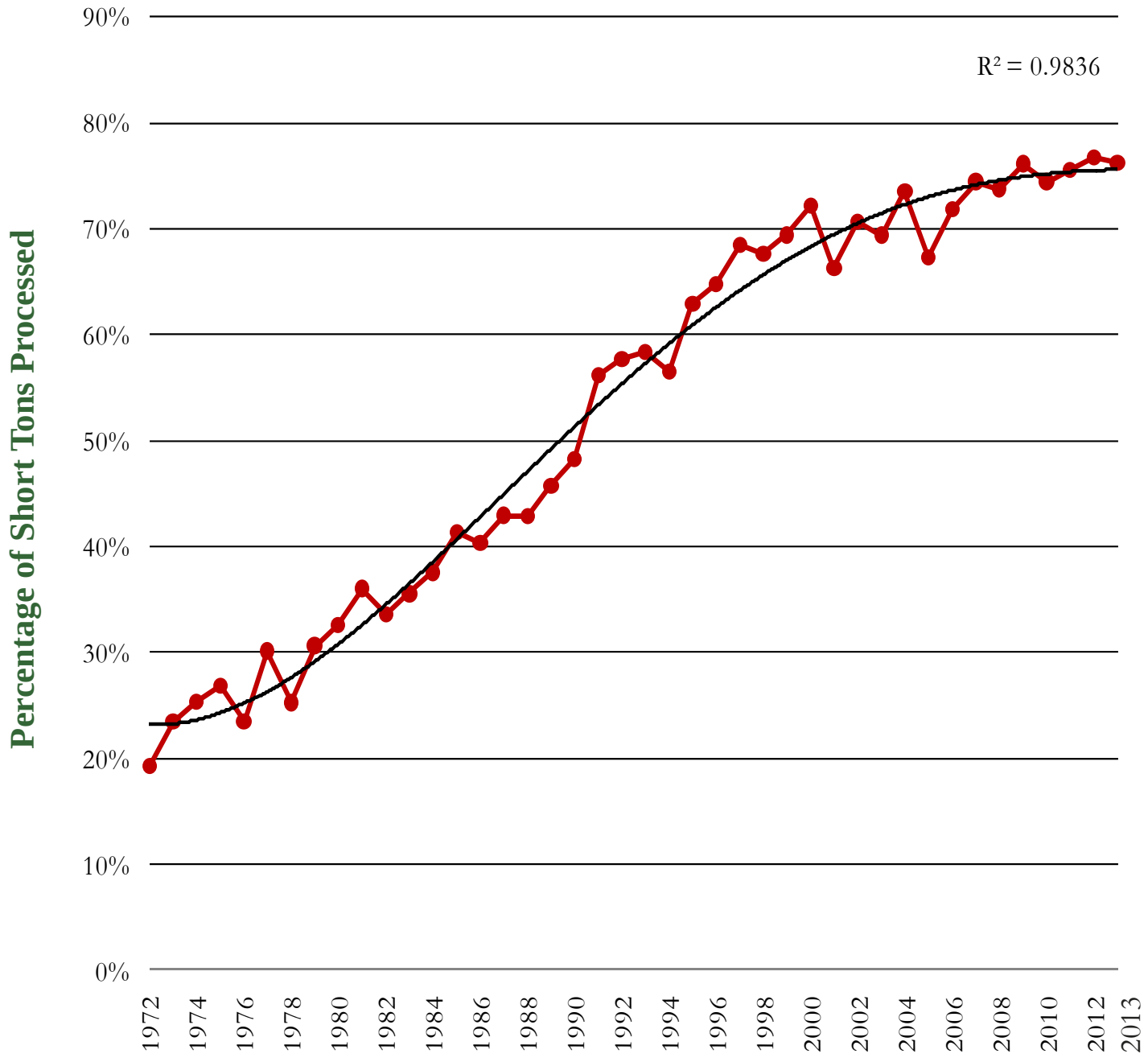

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Exhibit 4

U.S. Tomato Paste Consumption

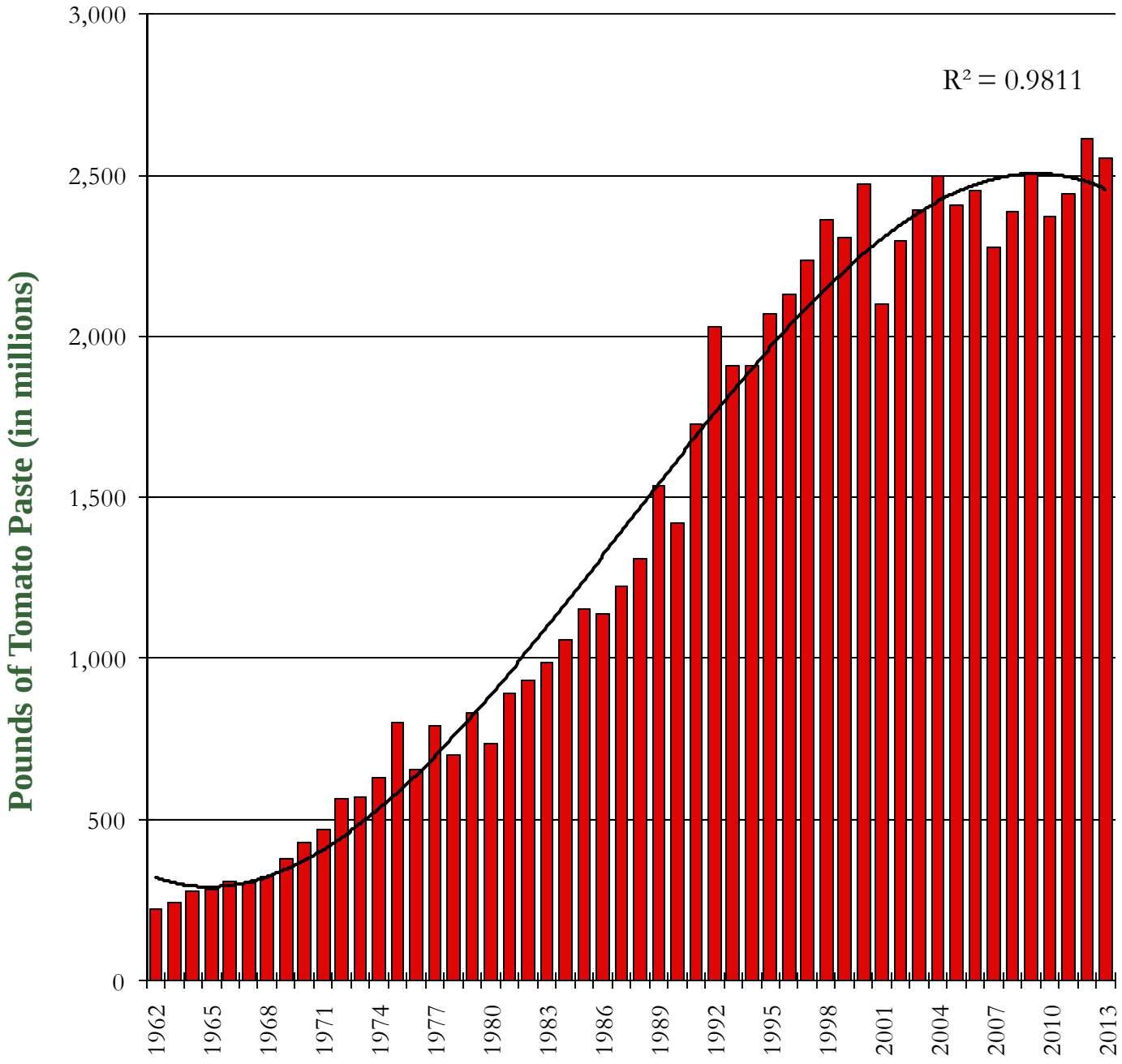

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Exhibit 5

U.S. Tomato Paste Imports and Exports

(pounds 31% NTSS)

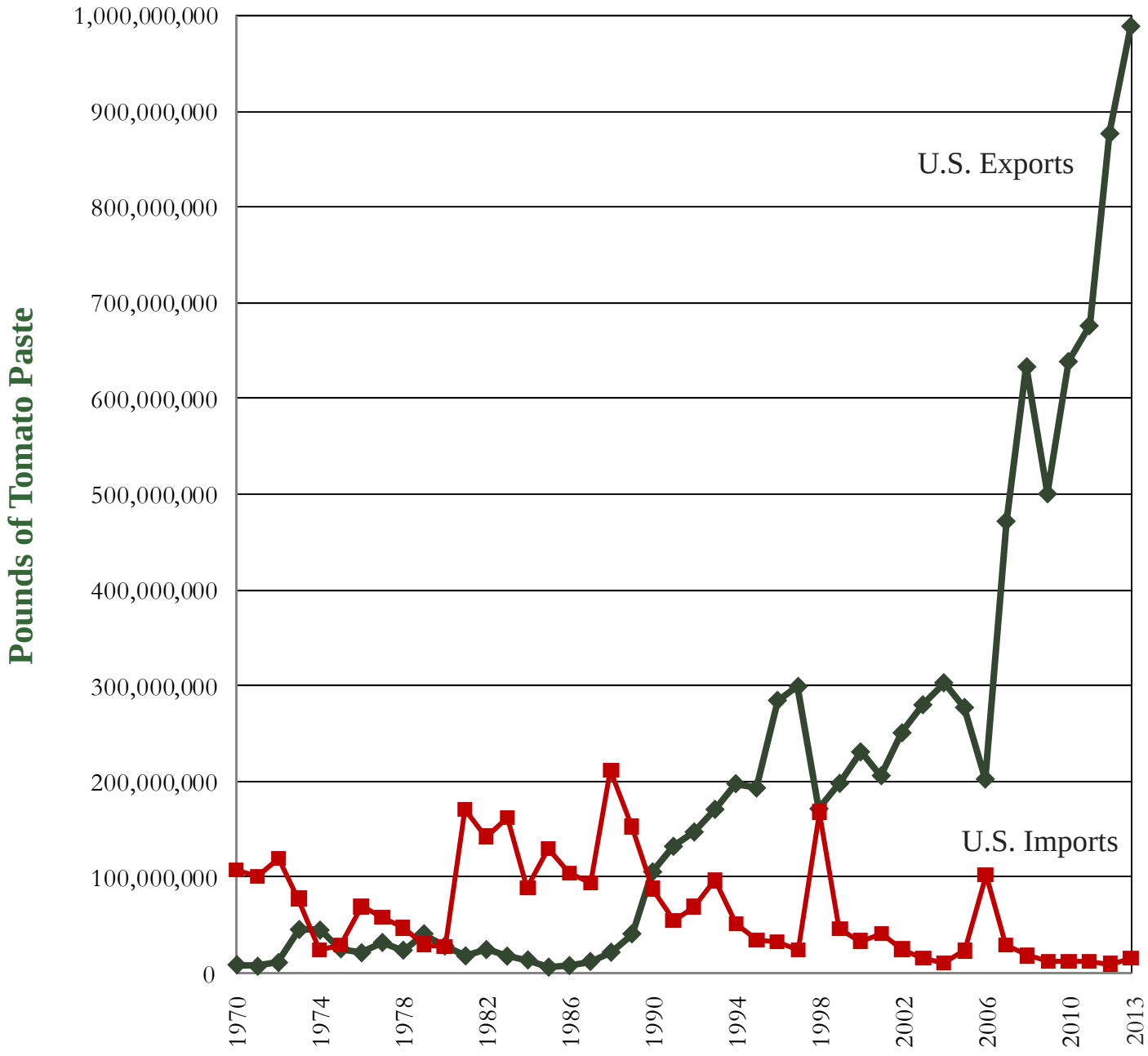

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Exhibit 6

2013 Estimated Industry Average Tomato Paste Production Cost

Expenses	% of Cost
Fixed Expenses:	
Facility Capital Expenses (Depreciation & ROA)	6.0%
Insurance & Taxes	0.5%
Operating Overhead (Administration and R&M)	7.6%

Variable Expenses:	
Tomatoes with Fees	55.0%
Trucking	6.7%
Seasonal Labor	2.7%
Boiler Energy	5.0%
Electricity	1.1%
Sewage	0.3%
Supplies & Miscellaneous	0.9%
Containers	7.5%
Operating Interest	4.0%
Selling Costs	2.7%
Total Expenses	**100%**

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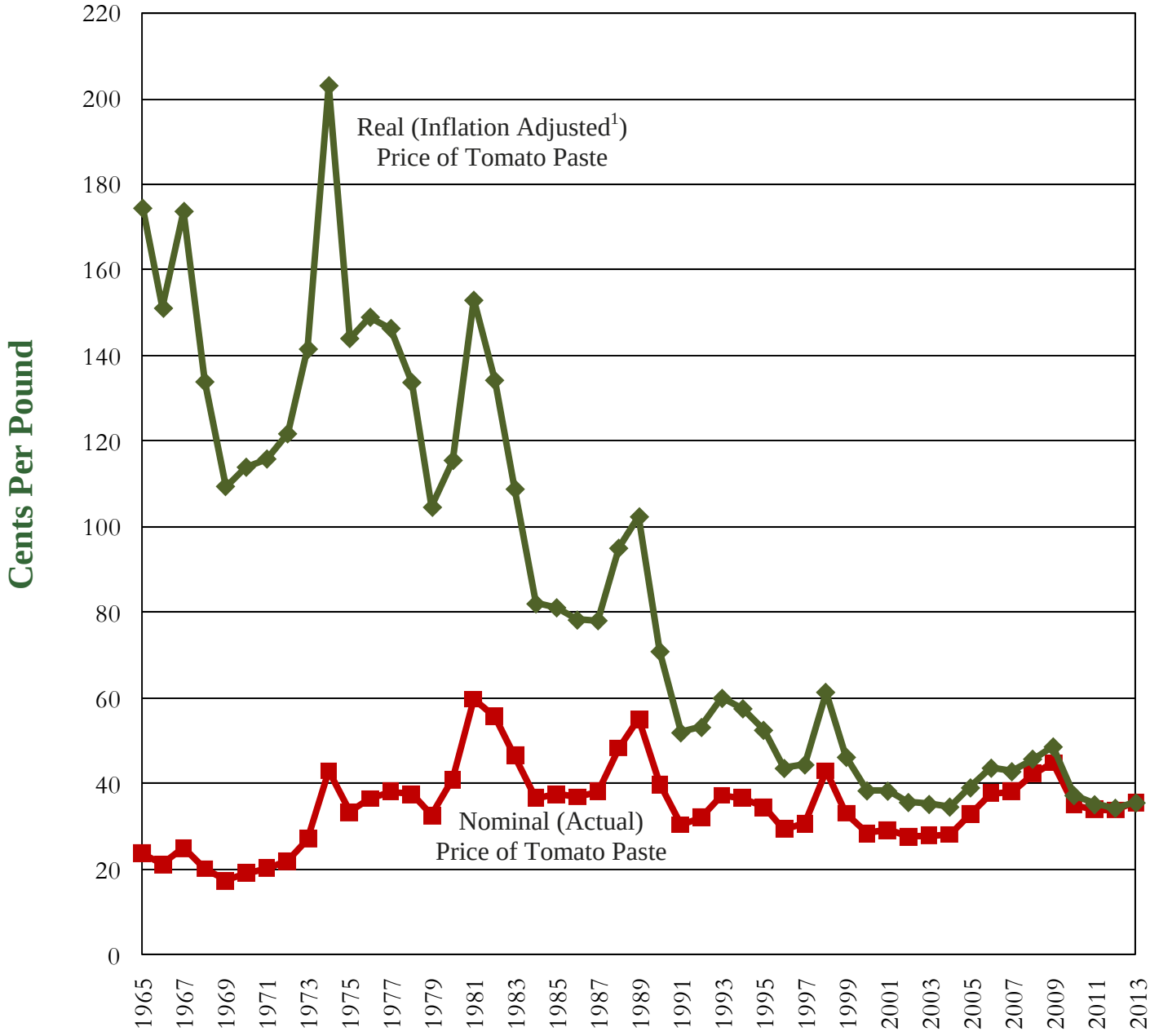
Exhibit 7

Annual Historical Price of Tomato Paste

(cents per pound of 31% NTSS)



[1] *inflation adjusted to 2013 price levels.*

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Exhibit 8

Tomato Paste Price, Costs & Processor Margins

(in 2013 prices)

Year	Real Tomato Paste Price (Cents /LB)	Real Tomato Price (Cents/LB)	Real Hauling Price (Cents/LB)	Real Tomato Paste Processing Margin (Cents/LB)	7 Year Rolling Average of Previous Column	Years from Low to Low	Grower Percent of Paste Price
1985	81.10	34.06	8.41	38.63	60.85		42.0%
1986	78.23	32.50	7.93	37.79	60.80		41.5%
1987	78.09	29.09	6.77	42.23	57.70		37.3%
1988	95.01	29.02	6.44	59.55	51.60		30.5%
1989	102.35	31.62	6.15	64.58	48.88		30.9%
1990	70.85	30.08	6.05	34.72	45.01		42.5%
1991	51.88	28.76	5.07	18.04	42.22	7	55.4%
1992	53.13	23.60	5.03	24.50	40.20		44.4%
1993	59.92	23.81	5.32	30.80	39.20		39.7%
1994	57.50	24.46	4.85	28.19	37.20		42.5%
1995	52.48	25.24	3.88	23.36	32.03		48.1%
1996	43.55	24.26	3.47	15.81	25.06	5	55.7%
1997	44.39	22.56	3.84	17.98	22.67		50.8%
1998	61.34	23.88	4.17	33.29	24.85		38.9%
1999	46.14	25.59	4.55	16.01	23.63		55.4%
2000	38.33	20.99	3.25	14.09	21.25		54.8%
2001	38.25	19.87	3.26	15.13	19.38		51.9%
2002	35.61	19.91	2.73	12.97	17.90		55.9%
2003	35.13	19.43	2.71	12.99	17.49		55.3%
2004	34.53	18.93	3.51	12.10	16.65	8	54.8%
2005	39.02	18.71	3.65	16.66	14.28		47.9%
2006	43.62	21.09	3.46	19.07	14.72		48.3%
2007	42.78	22.16	3.43	17.19	15.16		51.8%
2008	45.71	23.65	3.31	18.76	15.68		51.7%
2009	48.59	27.22	3.32	18.05	16.40		56.0%
2010	37.21	21.88	3.15	12.18	16.29		58.8%
2011	35.09	22.38	3.48	9.22	15.88		63.8%
2012	34.24	22.40	3.57	8.28	14.68	8	65.4%
2013	35.50	22.41	3.52	9.57	13.32		63.1%

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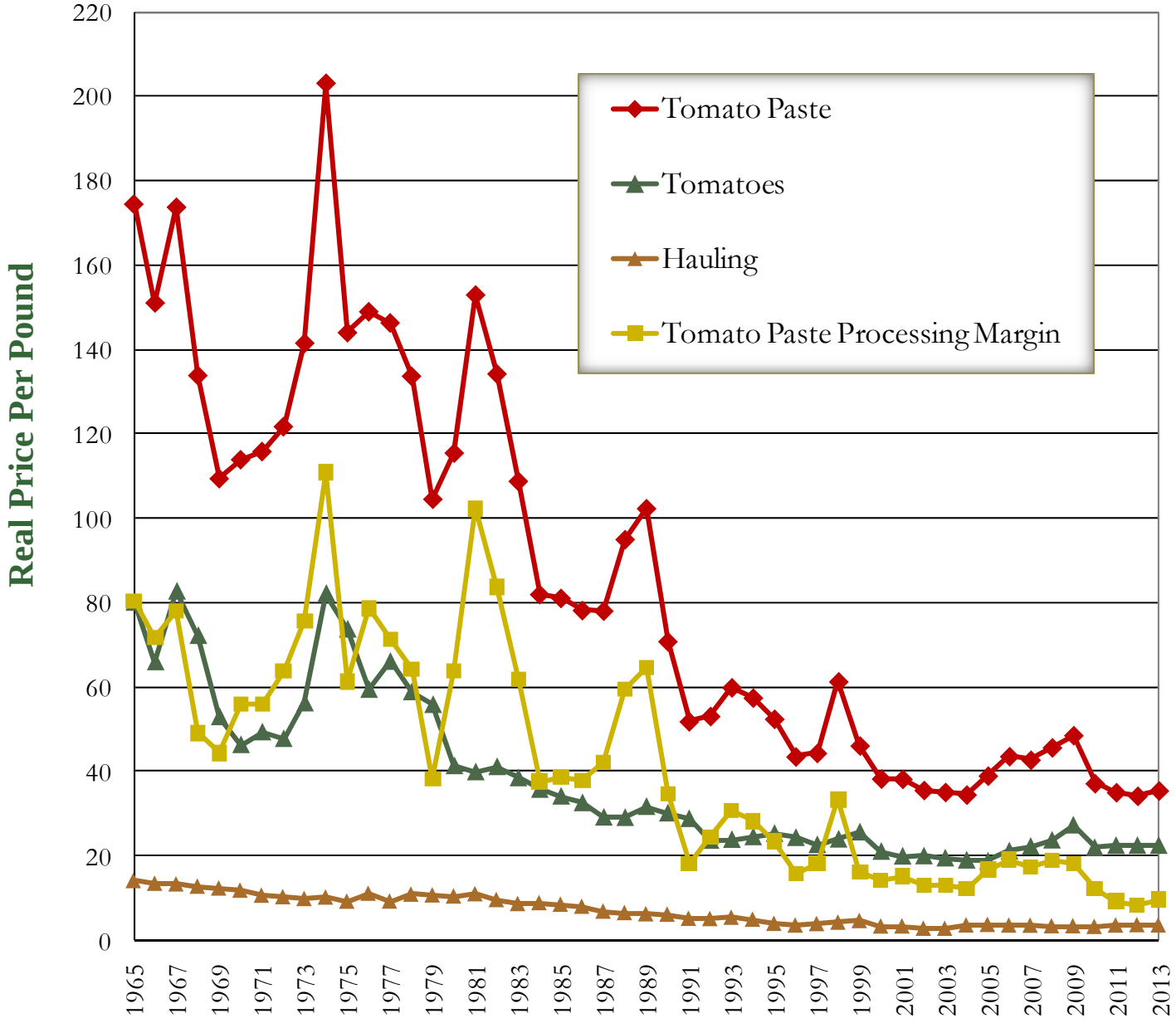
Exhibit 8a

Real Prices to Processors, Growers, Truckers and Tomato Paste

(per pound of tomato paste equivalent)



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MORNING STAR

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www.morningstarco.com

13448 Volta Road
Los Banos, CA 93635
Phone: (209) 826-8000
Fax: (209) 826-8266

12045 S. Ingomar Grade Road
Los Banos, CA 93635
Phone: (209) 826-7100
Fax: (209) 829-5092

2211 Old Highway 99
Williams, CA 95987
Phone: (530) 473-3600
Fax: (530) 473-3601

Current Market Price

as of Thursday, November 5, 2015

Our estimates of current market prices are listed below. Pricing includes both bin and drum packaging. Please contact any of the colleagues listed in our directory to obtain a quote for a specific product order.

PRODUCT	PACKAGING		PRICE RANGE (lb)	PRICE RANGE (MT)
Tomato Paste Hot Break	300 Gal. Bin	*1,330 kg*	0.35 - 0.37	772 - 816
26% NTSS (BRIX)	55 Gal. Drum	*240 kg*	0.38 - 0.41	838 - 904
Tomato Paste Hot Break	300 Gal. Bin	*1,330 kg*	0.41 - 0.43	904 - 948
31% NTSS (BRIX)	55 Gal. Drum	*240 kg*	0.44 - 0.47	970 - 1036
Concentrated Crushed	300 Gal. Bin	*1,330 kg*	0.35 - 0.37	772 - 816
26% NTSS (BRIX)	55 Gal. Drum	*240 kg*	0.38 - 0.41	838 - 904
Concentrated Crushed	300 Gal. Bin	*1,330 kg*	0.375 - 0.395	827 - 871
28% NTSS (BRIX)	55 Gal. Drum	*240 kg*	0.405 - 0.435	893 - 959

Tomato Paste Cold Break	300 Gal. Bin	*1,330 kg*	0.41 - 0.43	904 - 948
31% NTSS (BRIX)	55 Gal. Drum	*240 kg*	0.44 - 0.47	970 - 1036
Tomato Paste Cold Break	300 Gal. Bin	*1,330 kg*	0.48 - 0.50	1058 - 1102
37% NTSS (BRIX)	55 Gal. Drum	*240 kg*	0.51 - 0.54	1124 - 1190
Diced Tomatoes in Juice	300 Gal. Bin	*1,330 kg*	0.17 - 0.19	375 - 419
Sizes: 1/2" - 1"	55 Gal. Drum	*240 kg*	0.20 - 0.23	441 - 507

*1 Metric Ton (MT) = 2,205 Pounds (lbs)