US Beet Sugar Sector (2024)

Market Perspectives, Current & Future Prospects

2024 USDA Agricultural Outlook Forum
Crystal City Gateway Marriott, Arlington, VA

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VERAX Commodities, LLC

- Established: 2023
- Headquarters: Chicago, IL
- Regional Offices: Houston, Mexico City

Investment partners & Exec. Mgmt.:
+ 125 years combined experience in sugar futures & cash trading, valued-added manufacturing/packaging, global supply chains.

Focus on USMCA cross-border sugar trading, manufacturing & national distribution:
- Industrial scale liquid sugar processor
- Granulated/Powdered Sugar Manufacturing, Packaging
- Custom Blending Solutions
- Specialty sugars
Points of Discussion – US Beet Sugar

- Sugar Program Management & market prospects
- Challenges
- Opportunities
- Future Prospects
Sugar Program Management & Market Dynamics- Constructive for domestic expansion

- Beet sugar: 85% total domestic consumption allocated to domestic sugar
  - 54.35% of above figure is allotted for beet sugar

- Stocks to use: Actively monitored and managed to 13.5%

- Suspension Agreement: Mexico provides supplemental supply only

- Domestic consumption – growing with population trends
  (≈.5% -- +1% / annum)

- World sugar market dynamics: constructively bullish today

- Evolving regional market dynamics (US/Mexico) integration
Bulk Beet Sugar prices – (FY 2019-23)

Midwest Beet Sugar Offer
Cts/lb. Bulk Basis
(Source: Milling and Baking News)

- Oct 2019: 35.5 cts
- Aug 2020: (3) Force Majeure
- Pandemic
- Oct 2022: 64.0 cts
- Sep 2023

FY 2019-23 prices:
- Oct 2019: 35.5 cts
- Aug 2020: (3) Force Majeure
- Pandemic
- Jul 2022: 50 cts
- May 2022
- Apr 2022
- May 2022
- Oct 2022: 64.0 cts
- Sep 2023

(Source: Milling and Baking News)
US beet sugar sector: Challenges

- Marketing Allotments (assigned vs. actual)
- Competing Crops & coop share prices
- Beet slice capacity/storage limitations
- Crop rotation requirements
Marketing Allotments - effects on overall share

US Beet Sugar Marketing Allotments
(Initial Allocations to Actual Production) - STRV

Source: USDA/FSA

Annual Allotment shortfalls:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Initial Allotment</th>
<th>Actual Production</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2019</td>
<td>5659194</td>
<td>4658000</td>
<td>-1,001,194</td>
</tr>
<tr>
<td>FY 2020</td>
<td>5636095</td>
<td>4686469</td>
<td>-949,626</td>
</tr>
<tr>
<td>FY 2021</td>
<td>5612996</td>
<td>5034750</td>
<td>-578,246</td>
</tr>
<tr>
<td>FY 2022</td>
<td>5871244</td>
<td>5163757</td>
<td>-707,487</td>
</tr>
<tr>
<td>FY 2023*</td>
<td>5786237</td>
<td>5187000</td>
<td>-599,237</td>
</tr>
</tbody>
</table>

Five Year Avg: -768,158 STRV

‘24 Use (Est.): 12,555,000 STRV

Δ: 6.11%

*Preliminary Data
Competing Crops – A Blessing & Curse......

- **Soil / Weather:**
  - Affect beet growers' decision making on planting decisions, competing crops opportunities.
  - RRV: More dependent on beet crops = heavy steadfast investment on production/slicing
  - Other regions (MI, Rockies) with more agricultural optionality = lagging investments

- Competing crop tradeoffs: short term gain vs. penalizing the longer-term growth (slice/storage)

- Crop Optionality eventually hinders beet sugar production investment & investor sentiment
  - “Growers don’t necessarily own the elevators, but they own the sugar factories”
  - Growers need greater visibility on forward prices; empower to plant the right crop at the right time.

- Overall effects on coop share prices:
  - **RRV:** (~ +$3000 -- $5800 per share)
  - **MI:** (Par)  
    **Rockies:** (Par)
Opportunities: 5-year market outlook (beet sugar)

- Current USA annual demand (WASDE): 12,555,000 STRV
- *Conservative annual use increase (.75%)*: 94,165 tons per year
- *5-year demand outlook (based on above)*: 13,025,000 STRV
- *Beet sugar segment allotment estimate*: 6,017,605 STRV
- FY 2024 beet sugar forecast (WASDE): 5,327,000 STRV
- Estimated allotment shortfall vs. ‘24 forecast: 690,605 STRV

*Note: VERAX Estimates only*
Future Prospects – Working towards full US/Mex integration (north/southbound)

<table>
<thead>
<tr>
<th>Description</th>
<th>Quantity</th>
</tr>
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<tbody>
<tr>
<td>Projected FY’24 Mexico imports (Oct-Sep 2024)</td>
<td>547,000 MT TQ</td>
</tr>
<tr>
<td>YTD Mexico sugar imports (Oct 2023-Jan 2024)</td>
<td>315,179 MT TQ</td>
</tr>
<tr>
<td>Balance to fulfill forecast</td>
<td>231,821 MT TQ</td>
</tr>
<tr>
<td>YTD-US share of imports</td>
<td>51,848 MT TQ</td>
</tr>
<tr>
<td></td>
<td>16.45%</td>
</tr>
</tbody>
</table>

Sources: USDA/WASDE

Source: Axaxi.com
Summary

❖ **USDA**: Sugar Program Management working as intended; current structure allows investment environment to expand domestic capacity.

❖ **Markets**: International sugar markets are constructively bullish; price correlation with US stronger than ever.
  ❖ Constructive to capacity expansion/investment with proper price discovery..

❖ **Demand**: Sugar consumption in USA/Mexico will continue to grow.
  ❖ Today US/Mexico region is an overall deficit producer – will it continue?

❖ **Allotments**: Unused marketing allotments are key for longer term growth
  ❖ Expansion can only materialize if other non-RRV coops are “all-in”.
  ❖ Beet coop share values will appreciate as growers focus on long-term factory investment vs. short term optionality with competing crops.
  ❖ “Sugar beets are the blue-chip”.

❖ **Mexico**: An untapped market for US beet sugar within range
  ❖ Further education required on GM-sugar / labeling requirements
  ❖ Multinational users in both countries can trigger faster acceptance