



# PREMIUM PEANUT

Newsletter

January 2018

## Annual Shareholder Meeting

Premium Peanut will host its Annual Shareholder Meeting on

**Wednesday, March 14th, 2018**

**Location: Douglas Central Square Complex, Gym B**

**Time: Lunch served at 12:00 PM**

**Meeting will begin at 12:30 PM**

***2016 Crop Dividends Will Be Distributed.***

### A letter from our CEO, Karl Zimmer

As we start 2018, I believe Premium Peanut is in a very good situation. Construction of the oil mill is on time, and on budget, with production expected to begin in March. (We are working to schedule the Grand Opening, likely for late April). The quality of the 2017 crop remains very good, which has helped with high yields in the shelling plant. We are essentially 'sold out' for the 2017 crop, and expect to finish shelling it on schedule, in September. Combined, this means Premium Peanut should have no issues with storage or shelling capacity, even if we have a large 2018 crop, as expected. Unfortunately, as you will read in the article from Alex Izmirlan, in this newsletter, this is not the situation of the industry in general, which is expecting to have a large surplus / carryover from the 2017 crop, leading to low prices and potential storage issues for the 2018 crop. Given this market situation, our challenge and priority remains to ensure that we generate the maximum value from both the 2017 and 2018 crops for our grower/owners. (We continue to monitor the 2018 crop farmer stock market and expect to set our option price in the near future, consistent with the Premium Peanut Operating Agreement).

## A letter from our CEO, Karl Zimmer Continued

Financially, we are slightly ahead of budget, 4 months into our fiscal year 2018 (September 2017 – August 2018). This is key, as it will enable us to fund the dividend on the 2017 crop (to be paid in early 2019). For the 2016 crop, we expect to pay a dividend (our 1<sup>st</sup>), passing out checks at the upcoming annual meeting. (The Premium Peanut Board of Directors will settle on the final amount of the 2016 crop dividend at their meeting in February). Another important topic we are closely monitoring is the impact of the recent Tax Bill signed into law by President Trump. As our shareholders know, we are not structured as a co-op for tax purposes, but rather as a partnership. There are some possible, significant advantages for co-ops in the tax bill, but there are also some significant downsides for Premium Peanut and our shareholders to convert to a co-op. Working with our tax attorney and accountants, we are reviewing in detail all the options, but really need to wait for the IRS to issue the new regulations. We will continue to monitor closely, and keep you posted.

I look forward to seeing many of you at our Annual Shareholders' Meeting on March 14<sup>th</sup>, where we will share additional details on the overall performance of your company, Premium Peanut.

## Oil Mill Update— Lee Taylor, Vice President

The oil mill project is nearing completion. The recent weather events had no impact on progress. We will be ready to commission the plant in mid-February and begin production in early March. Every piece of equipment is on site and ready and inspections are happening daily. Crucial equipment is being turned on and tested and everything is functioning well. The project is on budget. We will begin storing our own oil stock this month as well as taking in oil stock purchased from another sheller. The Grand Opening celebration will be held later this Spring; please check next month's newsletter for details.

## The Market Overview— Alexandre Izmirlian, Co-President of Alimenta Agra

Despite the lower than originally anticipated 2017 crop pegged at 3,616,800 fst, the expected carryover on August 1 should be about 1.5 million fst depending on exports, especially to China. This carryover represents roughly 2 times what the industry would call a normal carryover. Overall exports from August through November 2017 are down 15.37% with exports to China/Vietnam down 24.15%. With the good crops China, India and Senegal had, I don't expect the Chinese to have much appetite for US peanuts (kernels and/or farmer stock) at current prices. No sheller will pay more than us\$ 375 per excess fst for farmer stock and kernels are barely staying at 43/44 cents per lbs. Looking at farmer stock prices to China, there is at least a us \$75 to us \$100 per fst difference between what a sheller would want to sell (based on us\$ 375 per fst) and what some Chinese buyers might want to pay. Even if the repayment rate was to be lowered, I don't believe we would see much movement. The only movement could be once peanuts are forfeited, but at that time and because of good US 2017 crop quality, the US shellers will want to buy many those forfeitures. The US shellers know what quality they would be dealing with, and the cost of these goods should be much lower than any 18 crop they would buy (because of the lower procurement costs). This would in effect push the carryover issues to the year after.

## The Market Overview Continued

If we look at the 2018 crop, even if we reduce acres and production and come up with a crop of 3 million fst, we end up with a carryover for August 2019 that is at least the same as the one we predict for this year or even bigger. Much will depend on what China does. All this is of course based on good crops in all origins, especially China, India and the US. No wonder the new crop market has been trading at 44/45 cents, basically just 1 cent above current crop. Not surprising as well to see Golden Peanut offering a new crop farmerstock contract at us\$ 360.- or + us\$ 5.- above the loan rate. One would think that the recent strength in cotton prices (83.45 spots and 75.78 Dec 18) and the possibility of cotton getting a support price (through seed cotton) for the 18 crop forward would strengthen the peanut market. Unfortunately, there is just too much supply worldwide. One of the big origins needs a crop problem which will spark additional demand for US peanuts or the US needs a crop problem. Otherwise, the US peanut prices will stagnate at the current low levels until such time the prices get cheap enough for somebody (unfortunately that can only be China because of their buying power) to buy the surplus the US has or will have.

## Shareholder Update— Marshall Spivey, CFO / Ashley Rowland, Buying Point Representative

We are contracting all remaining 2017 crop at \$375 per ton, \$425 for hi oleics. Growers will also receive the 3.5% shrink back from these tons. Contracting closes February 1<sup>st</sup>. Any tons left uncontracted after this closing may end up forfeiting at the end of the loan maturity date. Call your buying point if you have not already been contacted about your overages. Pricing of farmer stock for 2018 crop has yet to be determined.

Management would like to provide further clarification about the calculation for each shareholders' dividend check for the **2016 crop**, which we expect to pay at the Annual Shareholder Meeting on March 14<sup>th</sup>. Per the Operating Agreement, the dividend will be based 50% on ownership and 50% on the basis grade / value of **2016 crop** tons delivered. It is expected that the Board of Directors will set the final dividend amount at their February 21, 2017 meeting.

For illustration & hypothetical purposes, if the total 2016 crop dividend is \$20 / share, shareholders as of September 1, 2016 will receive \$10 per share owned. The remaining 50% of the dividend, or basis \$10, will be calculated and adjusted on the basis grade / value of 2016 tons delivered up to 105% of the shares owned (very similar to how basis grade option payments are calculated).

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### Premium Peanut K-1 Update for Calendar Year 2017— Marshall Spivey, CFO

As tax filing season approaches we felt it was important to update our shareholders on the status and expected timing of K-1s. The actual company income and losses will be reported to each shareholder on IRS Forms K-1. We expect the K-1s to be ready sometime in mid-February 2018, provided the IRS has the required forms ready for filing by that time. Due to the 2018 Tax Reform, all forms are being revised and are expected to be released late January to early February 2018. Please be aware that each shareholder will receive **two** Forms K-1 for the 2017 year (one for Premium Peanut, LLC and one for Premium Peanut Financial Services, LLC). Please be sure to wait until you have received both K-1s before filing your 2017 income tax return.

## Contact Us

Give us a call for more information about our services and products

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