

A close-up photograph of several dark, wrinkled vanilla beans resting on a light-colored, textured wooden surface. The beans are tied with thin, light-colored twine. The lighting is warm, highlighting the textures of the wood and the beans.

NIELSEN·MASSEY

FINE VANILLAS & FLAVORS

CROP REPORT

November 2019



CROP REPORT

The following report provides an update on Madagascar's 2019 crop, pricing, politics and our own sustainability initiatives. Nielsen-Massey Vanillas' leadership team recently traveled to Madagascar to meet with local partners, suppliers and farmers to assess the state of this year's vanilla bean crop and look at 2020 prospects. The overarching objective was to better understand the evolving dynamics within the world's leading vanilla-producing market, strengthen our supply chain and monitor the progress of several sustainability initiatives we support on behalf of local growers and their communities.

Our Company has been working diligently in recent years to establish additional direct supply chain relationships with the principal Malagasy actors to ensure access to high-quality beans. These close relationships enable us to work with local communities to advance the economic interests of farmers and improve the quality of life there.

In general, it's clear that the economic benefits of five years of sustained high vanilla prices have finally begun to trickle down to local communities and to growers. While Madagascar remains one of the world's most impoverished countries, with 75 percent of the population living in extreme poverty, evidence of an improving private sector can be seen.



KIRK TROFHOLZ AND CRAIG NIELSEN (PICTURED LEFT) OF NIELSEN-MASSEY VANILLAS CONNECT WITH SUPPLIER ROMAIN ALBERT (THIRD FROM LEFT) AND A MALAGASY EXPORTER (RIGHT) IN MADAGASCAR.



A MALAGASY FARMER SHARES PHOTOS OF HIS VANILLA PLANTS AND HOME.

While most Malagasians – especially rural residents – still live in thatched-roof homes, there has been a noticeable increase in the construction of wood and cinder block homes which offer greater stability during the rainy season. The use of solar panels has also significantly grown, giving more people stable access to electricity to help offset the unreliability of the national electric grid.

Investment is also evident across farms and other businesses. Government-funded infrastructure, however, such as roads, sewers, the electricity and communications, remains woefully inadequate. In a country the size of France, just a few paved roads link major cities, making travel to the remote villages where much of the vanilla is grown, a slow and treacherous journey at best. Visit our website for an in depth look at what daily living is like in Madagascar through photos.

MADAGASCAR VANILLA CROP

Flowering for the 2019 crop was late and not as abundant as previous years. Early, heavy rains across the vanilla growing regions of the country played a role in reducing crop yields. The size of the 2019 crop is anticipated to be between 1,100 and 1,200 metric tons, a reduction of 20 to 30 percent compared with 2018. In addition, it is estimated that between 100 and 200 metric tons of high-moisture, low quality, carryover crop remains in inventory from last year.

We expect this year's crop quality to be slightly poorer due to the previously mentioned growing factors.

In 2020, we believe the crop will begin to offer an opportunity for rebound. There is strong early evidence of flowering (boutons), which could lead to higher vanilla quantities.



VANILLA BEANS ARE CURED, DRIED AND INSPECTED BEFORE HEADING TO MARKET.



BOUTONS, WHICH INDICATE EARLY EVIDENCE OF FLOWERING, ARE PRESENT IN THE VANILLA CROP.

VANILLA PRICING AND DEMAND

While global prices for vanilla beans have generally been stable, the market remains fragile. Prices are expected to remain high in the near term because of the smaller crop in Madagascar.

Years of sustained high vanilla prices have taken their toll on global demand for pure, natural vanilla. Many large food manufacturers have reacted to high prices by shifting to lower-cost natural alternatives, artificial vanilla and low-quality blends.

Current global demand is estimated at 1,700 to 1,800 tons, a significant reduction from the 2,700 tons of demand in 2014 and 2015 before prices spiked.

With plantings up in most vanilla growing regions, and 2020 harvests anticipated to be larger, we hope we are nearing the end of the latest vanilla crisis. The question is how quickly, or whether manufacturing customers will return to purchasing significant volumes of natural vanilla.

However, the recent emergence of multiple class action lawsuits alleging false vanilla claims by large food companies may serve as a catalyst for increases in industrial demand for natural vanilla products. Plus, consumer interest in pure vanilla extracts remains strong. Looking ahead to 2020, we believe there will be no major price adjustments and feel confident in ensuring we meet demand due to our broad supply chain in Madagascar and around the world.



CRAIG NIELSEN, VICE PRESIDENT OF SUSTAINABILITY
(PICTURED RIGHT), EXAMINES VANILLA BEANS.

MADAGASCAR POLITICS

The newly elected President and government in Madagascar have shown more support of the vanilla industry, implementing several measures aimed to protect the quality of production, including cut-off dates for exports and stringent harvesting dates in select regions. A primary factor affecting the quality and yield of a vanilla crop is green bean maturity. Several government measures have been put in place in a short period of time to try to discourage theft, quick curing of vanilla, pre-financing and speculation.

SUSTAINABILITY INITIATIVES

Sustainability remains a primary focus for Nielsen-Massey, especially in Madagascar, where we support several projects spearheaded by the Sustainable Vanilla Initiative (SVI) to strengthen the sector's governance and prevent the use of child labor. We currently have two full-time employees leading sustainability initiatives, supported by a Madagascar-based consultant who helps us stay informed about ongoing local vanilla-growing trends.

During our recent visit, we saw first-hand the impact of our clean water and sanitation initiatives in the Andranovato region where our suppliers source beans from. Our investment in the drilling of a new, safe and clean water well in Andranovato is already having an impact on reducing water-born illnesses among residents, while cutting the time required to obtain water for household use.

We saw incredible excitement from everyone in the village, especially the children, for having access to cleaner water. The new well is deeper in structure, which helps to significantly reduce the possibility of microorganisms appearing in the water, resulting in the cleanest water the village has ever had.

We also met with the local farmer cooperative in Andranovato, where we saw the completion of several Nielsen-Massey projects supporting a local primary school. To assist the new school, Nielsen-Massey funded the construction of four latrines to provide proper hygiene for students. We also donated teaching supplies and are in the process of constructing a rainwater collection system.

Solar panels were also donated to vanilla association members to provide lighting and electricity for their homes, which will help to significantly advance and enrich their daily lives. For more information on our sustainability efforts, please visit NielsenMassey.com/sustainability and stay tuned for our next report.



LOCAL CHILDREN EXCITEDLY DRINK CLEAN WATER FROM THE NEW WATER WELL IN ANDRANOVATO.



CHILDREN ATTEND THE LOCAL PRIMARY SCHOOL IN THE TOWN OF ANDRANOVATO WHERE MANY OF OUR FARMERS RESIDE.



PORTABLE SOLAR PANELS DONATED BY NIELSEN-MASSEY VANILLAS CONNECT TO LIGHT BULBS, PROVIDING ELECTRICITY TO HOMES.

Thank you for your continued interest in Nielsen-Massey and the global vanilla industry. Please let us know if you have any comments or questions.

Sincerely,

Craig Nielsen

Vice President of Sustainability