

CONFIDENTIAL

YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS... AND MUCH MORE. THIS ISSUE:

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① BRAZIL UPDATES BRANDING OF ITS SPECIALTY COFFEES

"Brazil. The Coffee Nation" is the new slogan that embodies all that is behind Brazilian specialty coffees – quality, sustainability and a rich culture – and aims to show the world the tremendous success story that coffee has become: largest grower and exporter and second largest consumer of a product that is a unique part of being Brazilian. Numbers aside, specialty coffees are the best way to experience all the nuances of this coffee nation. Developed by the Brazil Specialty Coffee Association (BSCA) as part of a project sponsored by the Brazilian Trade and Investment Promotion Agency (APEX), the new positioning was developed with the assistance of P&A Marketing that cooperated with other experts. Launched internationally at the Coffee Quality Institute Luncheon at Seattle's SCAA Conference and Exhibition, the new branding concept will be unveiled in Brazil during CeCafé's upcoming Coffee Dinner.

Source: CaféPoint

① BRAZILIAN EXPORTS REACH NEW RECORD, DIFFERENTIATED COFFEES INCLUDED

Brazilian coffee exports broke a historic record for March and totaled 3,046,656 bags, a volume 9.5% higher than in the same period of 2014. Coffee exports reached 8,842,403 bags in the first quarter of 2015, 4% more than last year, with Arabica representing 80.6% of the total volume, Conilon/Robusta 10.6% and soluble coffee 8.7%. CeCafé (Brazilian Coffee Exporters Association) highlights the expansion in exports of higher priced differentiated coffees, both Arabica and Robusta, that increased 36% in the first quarter of 2015 compared to the same period of 2014 totaling 2,147,788 bags.

Source: Valor Econômico

① HIGHER HARVESTING AND POST-HARVESTING COSTS

A study commissioned by the Brazilian Agriculture and Livestock Confederation (CNA) based on interviews with coffee growers in the main producing areas of Brazil, reveals that harvesting and post-harvesting costs had an average increase of 6.37% from April 2014 to March 2015, higher in regions where manual labor is required. In the labor-intensive mountainous areas where most Brazilian Arabica is grown, these costs added to more than R\$ 200 (US\$ 67) per bag of Arabica coffee and represented 50% of direct (cash) costs. In Conilon/Robusta areas, harvesting and post-harvesting costs accounted for 40% of direct costs. Total production costs, that include rents, profits and depreciation, are 34% higher in non-mechanized operations than in mechanized ones.



Source: CaféPoint

① COFFEE GROWERS SEEK MORE FUNDS FROM FUNCAFÉ

Coffee growers' representatives are currently requesting R\$ 4.1 billion (US\$ 1.3 billion) from Funcafé Coffee Fund to finance the 2015 crop. This amount, 8% higher than last year's, currently awaits sanction by the President. After two consecutive crop failures due to adverse weather conditions, extra funds of at least R\$ 300 million (US\$ 100 million) are required to help growers weather the crisis and recover production.

Source: Revista Attalea Agronegócios

① BOOST IN SINGLE-SERVE IMPORTS TO DEVELOP MARKET AND ATTRACT INVESTMENT

Brazilian imports of roast and ground coffee continue at a strong pace whereas exports experience a significant decrease. Data show that Brazil imported 575,000 kilos of roast and ground coffee, primarily in capsule format, during the first three months of 2015, a volume 27% higher than in 2014. Imports of coffee and tea machines increased 47% in the same period. This hike took place before the federal government zeroed import duty on coffee machines and capsules in order to increase the size of this market and to attract investment to produce high-value added single-serve coffee in the country.



Sources: Folha de S. Paulo and Exame

② HIGH-YIELD ARABICA VARIETY LAUNCHED IN MINAS GERAIS AND DROUGHT TOLERANT CONILON CLONE SELECTED IN ESPÍRITO SANTO

Epamig, the Agricultural Research Institute of Minas Gerais, has presented a new Arabica cultivar named Aranã. The variety, that resulted from a 20-year research effort, produces high quality beans, is highly productive and resistant to coffee leaf rust. During trials, Aranã trees had yields of 40 to 70 bags of coffee per hectare (2.4 to 4.2 tons / ha), much higher than the national average. The new cultivar is in final registry stage and will be commercially available this year. In Espírito Santo, Conilon Clone 2 (or V12) was found to endure water stress better than Vitória and other clones during the severe drought from December 2014 to February 2015. Clone 2's better performance might be linked to its round and thicker leaves that are thought to transpire less and lose less water than those of other clones.

Sources: Valor Econômico and Revista Attalea Agronegócios

③ AUCTION OF FEDERAL COFFEE STOCKS SUCCEEDS

CONAB, an agency of the Brazilian Ministry of Agriculture, conducted a new auction to sell 40,500 bags of federal coffee stocks purchased through the Put-and-call ("Opções") Program in the 2002/03, 2008/09 and 2009/10 crop years. The auction, which took place after a failed attempt in March, had coffee prices adjusted to be compatible with current market conditions. This time 84 out of 114 lots were sold, approximately 28,500 bags; the average price was R\$ 380 (US\$ 126) per 60kg-bag.

Source: CNC

④ BAHIA COFFEES AT THE SPOTLIGHT IN SPECIAL LIMITED EDITION

Coffees from Bahia state were the stars of the 11th Special Edition of the Best Brazilian Coffees, an initiative of ABIC (Brazilian Coffee Roasters' Association) involving growers and the coffee industry. The winning Arabica coffee lots at ABIC's Coffee Quality Competition are auctioned and bought by different roasters and coffee shops that create a limited edition of top quality coffees usually sold in gourmet outlets. The winning coffee, from Piatã, Bahia, was bought by a consortium of roasters for R\$ 5,000.00 (US\$ 1,667) per bag. The winning microlot, from Barra do Choça also in Bahia, was acquired by a coffee shop in Rio de Janeiro that paid R\$ 2.500,00 (US\$ 835) per bag.

Source: CaféPoint

⑤ STARBUCKS PLANS EXPANSION DESPITE CRISIS

Despite the current economic crisis, Starbucks intends to increase investments in Brazil and expand its presence in cities outside the Rio - São Paulo area. The company, which will soon open its 100th store in the country, estimates a 7% sales growth in 2015. Starbucks Brazil will avoid lay-offs and try to "nationalize" its supplies as much as possible since 35% of all raw materials used by the company are imported (and therefore affected by the strong dollar). Starbucks arrived in Brazil in 2006 and currently caters to more than 1 million clients per month; the country is still considered a small market compared to China where the company has 1,572 stores or Mexico, where there are 461 Starbuck coffee shops.

Source: Veja.com

BRAZILIAN COMPANIES INVEST IN COFFEE ABROAD: BEER, WINE...AND COFFEE

Nestlé's chairman's recent statement about 3G Capital's acquisitions in the food industry called attention to the Brazilian investors' cost-cutting policies and a possible revolutionary impact on other companies in the sector. Much has been said and written about 3G's latest moves but little if any about the strong presence that it now has in the coffee business.

3G's first venture into coffee happened with the purchase of Burger King that has coffee in its menu, breakfast and all day. The fast-food chain now offers Seattle's Best Coffee that is owned by Starbucks.

Burger King subsequently bought Tim Hortons, the leading fast-food company in Canada that has coffee as one of the main products in its portfolio of products. The company's "Always Fresh" slogan was coined in connection with its coffees that are described as legendary in its website. Tim Hortons is one the largest importers and sellers of coffee in Canada.

But 3G's most important move into coffee came with the acquisition of Kraft Foods, the largest food company in the US. Kraft's coffee brands include Maxwell House, one of the market leaders in the US, Gevalia, Yuban, soluble Sanka and the single-serve system Tassimo.

Companies owned by 3G, which is in turn owned by three Brazilian mega-investors – Jorge Paulo Lemann, Beto Sicupira and Marcel Telles – offer today all types of coffee products to American and Canadian consumers: roast and ground, soluble and single-serve, sold by the pound and cup in retail and coffee shops. In addition, 3G controls leading coffee brands such as Maxwell House and Tim Hortons.

The Brazilian entry into green coffee trading abroad came by the hand of another mega-investor, André Esteves and its investment banking firm BTG Pactual. The company's commodities trading arm absorbed a group of ex-Armajaro executives to create a coffee operation that today has offices and trades in Colombia, Costa Rica, Kenya, Singapore and Indonesia besides Brazil. It is perhaps too early to say, but BTG's ambitions and past record allow one to speculate that they will challenge the leaders in the sector in a couple of years.

The third, much smaller but also relevant entry of Brazilian companies into the coffee market abroad is the purchase by wine.com.br, the largest e-commerce seller of wine in Latin America, of Swiss based Mocoffee, a company that markets single-serve machines and capsules. Present today in 17 countries, Mocoffee was created by Eric Favre, the inventor of the pioneering Nespresso system.

If analogies are usually drawn between the wine and coffee business, this has not been the case of beer and coffee. The fact that 3G Capital's founding partners share the control of the largest brewing operation in the world, AB InBev, and now have an important position in the manufacturing and retail of coffee products, gave me the idea to propose the analogy between beer and coffee. Both businesses are characterized by a few large leading brands in most markets and a host of small brands: local beers made by micro-breweries and specialty coffees offered by independent coffee shops. The analogy goes one step further with beer bars on the one hand, sometimes owned by beer brands themselves, and coffee shop chains on the other hand. It is curious to mention here that the copper, brass and wood found in the Starbucks concept store recently opened in Seattle remind one of an old brewery.

Even though coffee marketers always have their eyes on the sophistication of the wine business, with multiple qualities and prices not to mention the luxury appeal, perhaps the more practical analogy is with the beer business. This is to be further explored, perhaps by Brazilian investors... who knows?

Brazilian Prices

Main Producing Regions / Farm Gate

April 30, 2015

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	475.00 ↑	Colatina-ES fair average price	295.00 ↓
Mogiana	470.00 ↑		
South Minas	470.00 ↑		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F	
Cerrado MG	525.00 ↓	May 2015	170.70 ↓
South Minas	520.00 ↓	Sep 2015	169.60 ↓
		Dec 2015	172.10 ↓
Real R\$ / Dollar US\$		Source: www.qualicafex.com.br	

+ 11.7%

HARVESTING, WET MILLING, HULLING AND WEIGHING MACHINES AT AGRISHOW

Pinhalense's booth at Agrishow, the largest agricultural trade fair in Latin America and the third largest in the world, was visited by hundreds of people from all areas of Brazil and tens of foreigners interested in its lines of equipment for coffee, beans, cocoa, nuts and other products, machinery to prepare the soil for planting and electronic scales. VIP visitors included the vice-governor and the agriculture secretary of the state of São Paulo and executives of a panafrican development bank.

Highlights of the Pinhalense booth were the launching of the tractor-driven mechanical harvester P1000 TR and the demonstration of the electronic scale SMART BAG. Without engine and driver's compartment but with most other features, the P1000 TR is a lower-cost version of the self-propelled P1000 that is now starting to harvest coffee in several areas of Brazil. The SMART BAG is the most sophisticated of the three big-bag fillers/scales made by Pinhalense to meet different demands. It is compatible with big bags of different sizes, requires the least labor and can be coupled to IT monitoring and control systems.



Whereas most exhibitors complained of lower attendance and sales in Agrishow 2015 compared to the year before, Pinhalense rated its participation as positive not only in sales but also for the opportunity to introduce its technology and products to Brazilian and foreign visitors. Ever popular in Brazil, combined hulling sets CON – pre-cleaner, destoner, huller, repasser and catador – are finding their way abroad as expanding local consumption creates opportunities to sell coffee to local roasters. Likewise, large wet mills, once the option only for large farms in Brazil and elsewhere, are now finding their way into areas where small growers predominate and large central wet milling and drying facilities provide much needed economies of scale to gain competitiveness. Last but not least, the big-bag scales brought attention and interest to the upcoming launching by Pinhalense of an electronic scale for regular jute, cotton and plastic bags and automatic flow scales for all types of grains, coffee included.



With an outdoor area for machines, a large tent equipped to assist clients and visitors, air-conditioned meeting rooms and coffee service, the Pinhalense booth was the stage for multi-million sales of equipment to clients in Brazil and abroad. One such example was the paradigm-breaking sale of rotary driers with high-air-flow heat exchangers designed to dry high quality Conilon (Robusta coffee) in a short time without quality losses. Another example was the sale of rotary driers with specific features for beans; a precleaner and a gravity separator for beans and other grains were also exhibited in the Pinhalense booth.