Coffee 2013: Ready for Take-Off

Overview of Coffee Trends in New Consumer Markets

March 5, 2013 | Strictly private and confidential

Agenda

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Ross Colbert, Global Strategist - Beverages

Mr. Colbert joined Rabobank in January 2011 and is responsible for developing FAR’s research portfolio and Rabobank’s global view toward the beverage sector. Rabobank’s FAR team provides information and analysis covering all of the major sectors throughout the food chain. The seven-member FAR Beverage team is part of Rabobank’s global FAR group, which is comprised of approximately 70 analysts around the world.

Colbert joined Rabobank following an extensive career in the beverage industry. Most recently he was Managing Director of M&A Americas for Zenith International, which is one of the world’s leading consulting, market intelligence and financial advisory firms focused on the global food and beverage industry. Prior to that, he was Managing Director and Chief Operating Officer for eight years at Beverage Marketing Corporation, which provides market intelligence and financial advisory services to the global beverage industry. Over his career he has served as an advisor to PepsiCo, Coca-Cola Enterprises, Heineken, Nestle Waters, Snapple Beverages, and Seagram’s as well as many independent, private beverage companies. Additionally, he began his career at Coca-Cola Bottling of Miami, then moved to Beverage Canners International and Cadbury Schweppes. He has his undergraduate degree in political science from the University of Hawaii, and a Masters in Business Administration from the University of New Haven. Additionally, Colbert completed an Executive Program in Corporate Finance and Mergers & Acquisitions from the University of Pennsylvania, Wharton School.

Introduction to Rabobank

Advisor of choice in food, beverage and agribusiness M&A

Global F&A Leadership
- Over 150 transactions closed globally since 2003, with total deal value exceeding US$40BN
- Understanding of effective strategies in food, beverage and agribusiness
- Over 100 years of banking history rooted in the F&A sector
- Long-term client relationship with industry leaders
- Robust senior M&A team
- Dedication to clients’ interests and objectives
- Extensive geographic breadth and scale of dedicated resources
- Veteran team of experts with deep domain knowledge
- Access to financing for originated transactions
- Global footprint
- Tailored solutions and think “outside the box”

Selected global F&A transactions

<table>
<thead>
<tr>
<th>Year</th>
<th>Transaction</th>
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M&A and Advisory
- Advisor of choice in food, beverage and agribusiness M&A
- Dedicated senior M&A professionals
- Ability to manage complex situations and provide tailored solutions and think “outside the box”
- Deeply rooted in the F&A sector
- Worldwide coverage
- F&A advisory subject to client agreement
- Selected global F&A transactions

Cooperation with Rothschild
- M&A and equity advisory for the entire food and agribusiness sector
- Worldwide coverage
- Selected global F&A transactions
Strategic relationships throughout the global coffee, tea and cocoa sectors

- Multinational coffee traders
- Diversified traders and processors
- Roasters, consumer packaged goods and OCS companies

Rabobank’s Food & Agri Research

Proprietary sector research

- Food and Agribusiness Research ("FAR") comprises a dedicated and specialized group of industry analysts
- FAR supports the bank’s M&A clients with access to its proprietary research
- FAR has more than 80 research professionals in 14 countries and 17 offices around the globe
- Fundamental sector-based research covering the entire food and beverage and agribusiness value chain, from primary production to processors to retailers
- Output in the form of Industry Notes, F&A Reviews, Commodity Notes, Regional Banking Reports, World Maps and tailored presentations for internal and external clients
- Key role is to support the efforts of M&A, Leveraged Finance, Corporate Banking and Credit Risk
- Food and Agribusiness Research overview
- Recent activity in the coffee sector:
  - Client Advisory Project “Strategic Sourcing of Coffee & Tea: Global Assessment of Volatility, Scarcity and Sustainability”, May-August, 2012
  - Keynote Presentation “Single Joe – Coffee Trends 2013” at National Coffee Association Summit, Philadelphia, October 2012
  - Keynote Presentation “Rethinking the Beverage Supply Chain”, InterBev 2012, Las Vegas, October 2012
  - Global Coffee Outlook; Sintercafe, Costa Rica, November, 2012
  - "Thirsty for growth" 2013 Global Beverage Outlook, January 2013

Sector coverage

- Alcoholic beverages
- Confectionery
- Fresh produce
- Ingredients and flavor
- Animal protein
- Dairy
- Grains & oilseeds
- Seafood
- Confectionery
- Dairy
- Grains & oilseeds
- Seafood
- Bakery and snacks
- Fruits, vegetables, fresh
- Grocery

Rabobank
Consumers now demand convenience, variety and premium/quality taste, both at-home and out-of-home.

Key coffee market drivers

Growing demand in emerging markets
- Emerging markets to reach 50% of global coffee consumption by 2020.
- Growth in instant coffee driven largely by emerging countries.

Regional differences in retail coffee value and volume
- Western Europe continues to lead both value and volume sales of coffee.
- Asia Pacific second in value but trailing North America, Eastern Europe and Latin America in RTD retail volume.

Shift from multi-serve to single-serve
- At-home and out-of-home consumption changed by single-serve systems.
- Format innovations driving value-growth in mature markets.

Premiumization
- Growth focused on differentiation, brands and quality.
- Premiumization within R&G.
- Premium offerings also supported by fair trade, health benefits, organic and origins.

Growing out-of-home offering
- Consumers willing to pay more for convenience.
- Gourmet coffee shops continue to lose ground to specialty coffee to quick-service restaurants (QSR).

Product innovation
- Innovation driving market share gains and gross profits.
- Consumer preference for convenience and quality driving innovation in single-serve R&G brewing technology.

Note: Source: Rabobank 2012

Security of Supply Becomes a Global Concern

Structural Shifts in F&A Forcing a Supply Chain Response

Coffee moving into an era of tighter supplies and higher volatility.

Much of demand growth to come from price-sensitive developing markets.

Sustainability a key differentiator among premium coffees.

Dedicated supply chains key to managing volatility.

E-commerce companies, farmers, originators and traders, processors, food retail and food service companies.

OPEN MARKET SOURCING

Information/transaction by transaction back up to an
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DEVELOPMENTAL SOURCING

Source: Rabobank 2012...
Strong volume and value growth expected

Coffee value, volume and premiumization trends

- Fresh coffee beans a small but growing segment, bolstered by premiumization
- Tendency for instant to be popular in markets where tea leads coffee in volume
- Overall trend toward innovative & higher-quality products fueling value growth in all segments

Global Coffee Retail Value and Volume Sales Growth (2012-17)

Tea-drinking cultures more receptive to instant coffee

Dominant Hot Drink by Volume
- Coffee
- Tea

Source: Euromonitor

Global Performance

Source: Euromonitor
Traditional consumer markets won’t drive growth

Demand growth mainly to be in developing countries

Very large Vietnamese crop in 2012, but likely to fall off in 2013

Brazil to become world’s largest consumer before 2020

Future demand growth to come from exporter and emerging markets, though pods market bright spot

MY 2011/12 Share of World Coffee Exports

Brazil, 21%

Vietnam, 3%

Mexico, 3%

Colombia, 6%

Others, 17%

Guatemala, 3%

Peru, 4%

Indonesia, 9%

Honduras, 5%

Future demand growth to come from exporter and emerging markets, though pods market bright spot

Consumption Growth by Country Category, 2001-11

The three key drivers of future demand growth

What’s driving demand in exporter and emerging markets?

Premiumization

Rising incomes & middle class growth

Emerging café culture in key countries

76% of Volume Growth to 2016

Source: Rabobank Research
Asia: Young Urban Professionals Key to Success

Economic development, premiumization driving demand growth

Selected Macro Indicator Performance, 2000-11

GDP CAGR

Urban Pop Share Growth

Vietnam 6.7% 9.7%
South Korea 3.6% 9.7%
Philippines 8.9% 9.7%
Indonesia 8.7% 9.7%
India 3.6% 13.2%
China 14.6%

Source: World Bank

2012 Retail Market Value and Forecast Growth Rates

% CAGR

Vietnam 13.3%
South Korea 12%
Philippines 10%
Indonesia 9.7%
India 9.7%
China 9.7%

Source: Rabobank Analysis, Euromonitor

Emerging café culture

Key Brands

China: Booming Coffee Shop Industry

Significant consumption growth driven by instant and coffee shops

Chinese Coffee Consumption by Segment (000 bags)

Domestic Chains

Multinationals

McCafe

Source: Euromonitor, Rabobank analysis

Rapid Expansion of Coffee Shops (# of Outlets)

Source: Euromonitor, Rabobank analysis
India: Café Culture Growing Fast, Lead by CCD

Huge growth in coffee shops, café culture

Leading specialist chains

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<thead>
<tr>
<th>Chain</th>
<th>India Plan</th>
<th>APAC Plan</th>
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<tr>
<td>Café Coffee Day</td>
<td>IND 2000 shops by 2014</td>
<td></td>
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<tr>
<td>Starbucks</td>
<td>US 2V with Tata, targets undisclosed</td>
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<tr>
<td>Dunkin’ Donuts</td>
<td>US 150 shops in next 5 years</td>
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<tr>
<td>Costa Coffee</td>
<td>UK 300 shops by 2015</td>
<td></td>
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<tr>
<td>Gloria Jean’s Coffee</td>
<td>AUS 150 shops in next 3 years</td>
<td></td>
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<tr>
<td>Illy Coffee</td>
<td>AUS 50 shops in next 3 years</td>
<td></td>
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<tr>
<td>Krispy Kreme</td>
<td>US 80 shops in next 5 years</td>
<td></td>
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<tr>
<td>Coffee Republic</td>
<td>UK In talks, but no plans yet</td>
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Leading off-trade retailers

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<td>Nestlé</td>
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Growth in Specialist Coffee Shops: India vs APAC

Source: Industry sources, own, 2012
Source: EuroMonitor, Rabobank Analysis

Indonesia: Burgeoning Middle Class Thirsts for More

Local brands compete with internationals by tailoring products

Annual Growth %: Overall GDP vs Service Sector

Source: World Bank, Rabobank analysis

Middle Class Growth Expansion in Indonesia

Source: OECD
Vietnam: Local Brands Compete Through Targeting Local Tastes

**Big growth in instant coffee and café culture**

- Rising Domestic Consumption Share through 2020
- 16.6%
- 33%
- 3-in-1 Instant Mix Market Share % by Company, 2012
- Nestle
- Vinacafe
- Trung Nguyen
- Others
- Source: ICO, Rabobank estimates

Key Points to Consider

**What does this mean going forward?**

- International brands have the muscle, but local firms can compete through locally-tailored product offerings, or "localivation"

- Mid-sized, growing cities may provide untapped expansion opportunities

- Strategic sourcing, especially through integrated supply chains, provides opportunity to add value and manage supply risk

Source: USDA
Thank You ICO!

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