



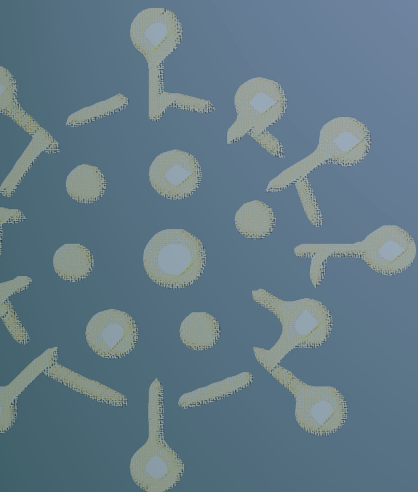
**SENSIENT<sup>®</sup>**

NATURAL INGREDIENTS

# MARKET REPORT

CALIFORNIA-GROWN GARLIC, ONION & PARSLEY  
GLOBAL CAPSICUMS

**June 2021**



Dear Customers:

At Sensient Natural Ingredients, we remain dedicated to sustainable farming practices, supporting local growers and providing families with natural, organic, non-GMO and fully traceable dehydrated vegetable products. SNI continues to strive for a healthy future through regenerative agriculture and responsible stewardship of our natural resources.

As we move beyond Covid-19 as a community, many uncertainties remain. At SNI, we believe that transparent communication and fully committed collaboration will enable all of us to manage through these uncertainties in the best way possible.

The SNI team prepared this Market Report to provide insight on current crop conditions and other factors impacting our supply chain.

We hope you find this information helpful.

Sincerely,

*Michael Finete*

Michael Finete  
General Manager



## ONION

### California-Grown

Following 2020's lower-than-projected yields, the California onion harvest kicked off in April in the low desert, as scheduled. Prime California growing conditions are allowing for excellent crop quality. And while yields are proving satisfactory for a seasonally early harvest, projected volumes are not expected to fill the gap left by a 15% shortfall from the 2020 season. Soil health, or the functionality of the soil and its capacity to maintain a well-balanced ecosystem, is good and there have been no incidence of seedling damage or infestation. All indications point to a high quality onion crop. Desert harvesting will continue through July before moving to the Central Valley and then up to Northern California for the remainder of the season.

The volume shortfall forced tight supplies of certain fractions and complete outages of others. While early harvesting will ease some tightness and some pent up customer demand in the near term, market tightness is expected to continue through 2021 for certain piece sizes, even as production ramps up to full capacity. Higher costs, given added fuel, freight, utilities and Covid-related expenses, are expected to drive price increases in excess of 10%, especially for high-demand piece sizes. SNI will, however, endeavor to service all contracted volume without interruption.

### Organic Onion

Organic onion harvest has started in California with yields, solids and overall quality as expected. Consumer preference for "clean label" and foods certified USDA Organic continues to grow, as have incremental costs associated with organic growing protocols. Prices and market tightness are expected to increase through the 2021 season.



## Garlic

### California-Grown

2020 yields, compared to historical averages, were lower than expected, resulting in market tightness and shortages of some fractions. California garlic crop returns for most growers, versus competing crops, remain challenged and have shown a declining trend over the last few years. In an effort to satisfy increasing demand for SNI's sustainably grown, fully traceable, California-grown dehydrated garlic, incremental acreage was secured for the 2021 crop which is scheduled for harvest in July.

SNI's Agricultural Operations Teams' evaluation of crop maturity and health are cautiously optimistic and offering growers direction on water management for optimum results under imminent drought conditions. Domestic garlic is seeing higher costs given increased fuel, utilities, labor shortages and Covid-related costs. These costs are expected to result in price increases from 7%-12% and will remain firm through the 2021 season.

### Organic Garlic

Organic garlic harvest is on schedule to begin late-June in California. Conventional garlic harvest will begin immediately following and continue through September. As with conventional garlic, growing costs for organic garlic will be impacted by increased fuel, freight and utilities costs. Prices are expected to see double-digit increases and will remain firm through the 2021 season.



## Parsley

### California-Grown

Initial cutting of organic parsley began in January and is now complete. Conventional parsley night harvesting is also complete. SNI's growers and field staff worked diligently throughout the winter to ensure the health of the crops throughout the growing season. This resulted in a good quality crop with yields on target with projections.

## Outlook

### Domestic Onion, Garlic & Parsley

Demand for US origin product continues to increase as customers demonstrate a strong preference for its superior quality, traceability, continuity of supply and foresee further supply and pricing volatility from Asia. Demand for California-grown onion - especially chopped, minced and granulated - continues to increase and prices will remain firm through the 2021 season.

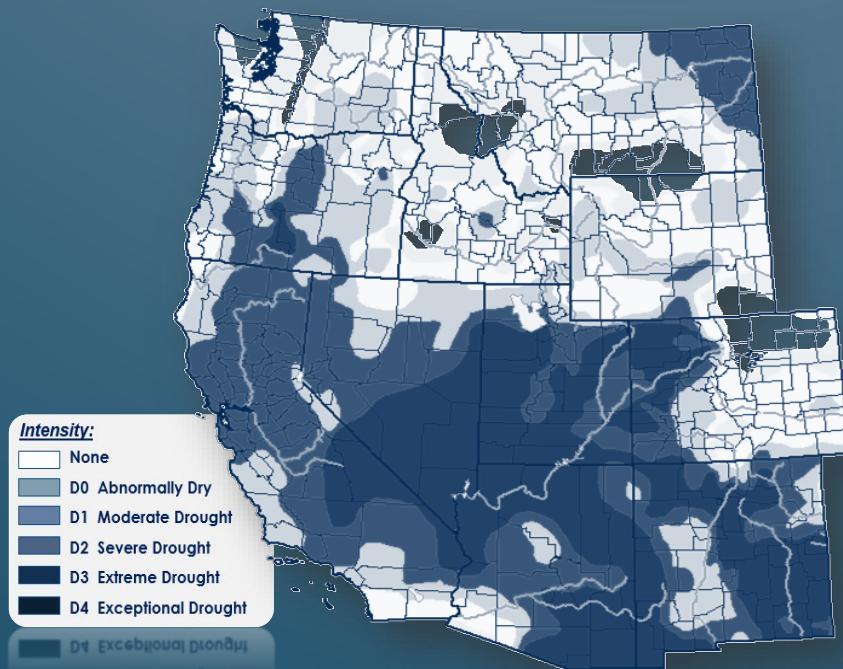
All garlic piece sizes will be in short supply until new crop is harvested this summer. Demand for minced and granulated has significantly increased, directly impacting prices. This trend is expected to continue through 2021. SNI anticipates some delays and possible price increases in irradiation costs for 2021. Despite volatility and uncertain times, SNI will support customer growth and meet planned requirements.

*SNI is a reliable partner, striving to meet or exceed customer expectations and ensure a safe and sustainably-sourced food supply to consumers and the world. SNI's California-grown products offer superior flavor, quality and unparalleled traceability, backed by a dedicated and highly capable team.*



## California Agricultural Environment & Conditions

The 2021 agricultural environment & conditions have been favorable year to date with the absence of seasonally late rainfall, paired with adequate allocation of surface water. However, the Sierra Nevada snowpack in March was 61% of its historical average for this date and the latest signal is that *California appears headed toward summer drought conditions*, with water restrictions beginning to occur in some areas for the first time in five years. Water restrictions will increase growing costs and crop availability.



According to the *U.S. Drought Monitor*, a weekly federal report, 84% of California is in at least a “moderate drought,” while 29% is in an “extreme drought”. In anticipation of regional crop challenges, Sensient’s Agricultural Operations teams, working closely with grower partners, have secured incremental acreage to mitigate risk and ensure continuity of supply for customers on agreement.

*The U.S. Drought Monitor is produced through a partnership between the National Drought Mitigation Center at the University of Nebraska-Lincoln, the United States Department of Agriculture, and the National Oceanic and Atmospheric Administration.*



## CAPSICUMS

### USA/New Mexico

The 2020 New Mexico crop underperformed by approximately 20% against expectations. The crop shortage was a result of early crop loss requiring replanting, either with capsicum or with a separate crop. Crop attributes, primarily ASTA, were also below expectation, however, microbiological results were satisfactory. The 2020 crop results mark the second year in a row of significant crop failures.

The 2021 New Mexico crop has seen a dramatic increase in demand YOY, primarily driven by higher consumption and supply chain challenges from foreign sources. Pricing required by growers has also increased 5-10% due to two consecutive crop failures, higher pricing for competing crops and higher costs related to the Covid-19 pandemic.

### SNI New Mexico

Sensient Natural Ingredients' recent purchase of the chili production facility in Deming, New Mexico, helps fortify SNI's robust supply chain for domestic capsicums and adds much needed



capacity to satisfy the growing demand for sustainably sourced, fully traceable dry natural ingredients.

As part of its long-term growth strategy, this initial acquisition will result in greater continuity of supply and improved service to all customers.



## CAPSICUMS

### Peru

Sensient's Peruvian supply chain is long established and performed as expected in 2021. The majority of the Peruvian paprika in the south and central Peru has been harvested and product attributes and yields have performed as expected.

The total Peruvian paprika planting area continues to decline as it is cannibalized by higher value crops such as blueberry, grapes and avocados. The majority of paprika grown in Peru is destined for the whole pod market and typically, the crop is grown without an end-market in mind. This results in difficulty meeting USFDA requirements for pesticide residuals and other regulatory compliance. The Sensient paprika supply chain, however, is grown with U.S. customers in mind and meets all regulatory requirements, including pesticides and Defect Action Limits.

### China

The Chinese 2021 crop is being planted and is expected to be smaller in area than 2020 due to competition from other crops and a large carryover from 2020. Prices have remained relatively high, as demand from oleoresin producers has not subsided. Current crop carryover color remains good but storage conditions require validation as much of the 2020 crop in storage remains fragmented throughout Eastern China. China as a whole has experienced a reduction in ground capsicums destined for the U.S. market due to two primary reasons. First, the duties on Chinese imports remain elevated with the current Administration and the U.S. State Department advisory on supply chains with origins to the Xinjiang province, remains in place.

For more information, go to: <https://www.state.gov/xinjiang-supply-chain-business-advisory>





## Outlook

### Capsicums and Varietals

The U.S. capsicum market is currently experiencing tightness and will continue to do so until Fall 2021 beginning with dehydration in the Southwest. Until then, high ASTA and low micro products will be in high demand with increased prices due to availability, freight costs, higher origin costs and unforeseen Covid-19 expenses.

Varietal chilies have gained mainstream acceptance beyond jalapeño and chipotle, as innovative product developers turn to Hatch™, ancho, habanero, guajillo, etc. to add natural, authentic flavors and spiciness in lieu of salt and sugar. Customers are encouraged to communicate volume requirements for all capsicums and varietals as soon as possible to ensure availability within specification or close alternatives.

### Covid-19 Impact

SNI's agricultural teams, as well as operations and quality assurance personnel, continue to exercise extraordinary practices and procedures to ensure a safe and healthy working environment amid the COVID-19 pandemic. As a result, the company has borne significant cost increases that will impact prices going forward as SNI makes every effort to ensure uninterrupted operations, continuity of supply and customized services to customers.



## Sustainability

### Sustainable Farming Methods

SNI accredited agronomists work directly with the growers of our natural ingredients, sharing best practices and collaborating with them to produce ingredients that meet our strict requirements.

SNI utilizes a variety of sustainable farming methods and cropping systems in order to maintain soil health and to increase farm production and crop competitiveness per acre. SNI's agronomists use traditional non-GMO plant breeding to produce superior crops with better yield, better agronomic traits, and superior resistance to pests and diseases, decreasing our reliance on chemicals and reducing SNI's environmental impact. All of SNI's natural ingredients are GMO-free.

## Transportation

Currently the domestic transportation system remains strained with higher traffic volumes YOY moving across the U.S. using both intermodal and OTR trucking freight. Freight rates remain elevated due to increased demand and equipment has been more difficult to source. Additional relief is not expected until Fall 2021 and will be closely linked with import volumes.

International freight capacity remains limited by significant port delays related to higher volumes and Covid-19 related absenteeism. Of significance, several U.S. ports have experienced unloading delays of weeks that are still being relieved. Additionally, steamship operators have removed needed empty containers in lieu of shipping back to China and other Asian countries that have been paying extremely high rates to secure equipment. Relief for ocean containers and ship capacity is not expected until Fall 2021.

Delays as well as increased freight costs are expected to impact pricing and availability of some imported products.