



Profits: Rewarding Efforts and Reliable Income



Presentation Chocoo conference Amsterdam, March 28, 2014

www.xocogourmet.com



“Xoco Fine Cocoa Company”

WE ARE A CENTRAL AMERICAN FINE COCOA COMPANY

- Private company founded 2007 focused on fine cocoa
- Honduras, Nicaragua and Guatemala
- Selected heirloom fine cocoa varieties
- Planted 1m+ trees with 600 outgrower farmers
- Last year's production 4 tons, this year 13 tons until we reach peak at around 1,000 tons in seven to ten years

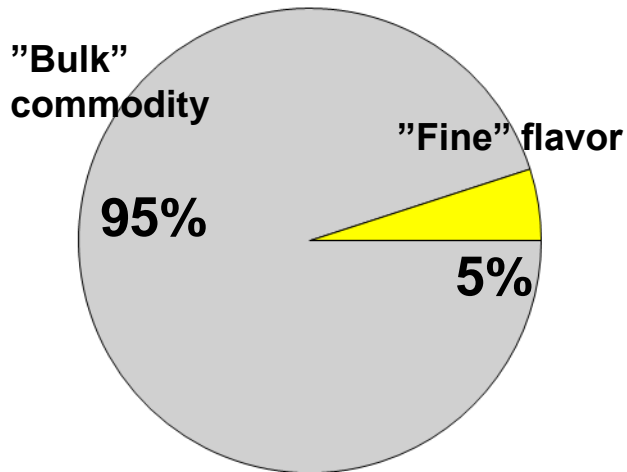


INTERNATIONAL
**COCOA
AWARDS**
Cocoa of Excellence

CLEAR FLAVOR DIFFERENCE BETWEEN FINE AND BULK

World cocoa bean production

% by segment, 100% = 4m tons/year

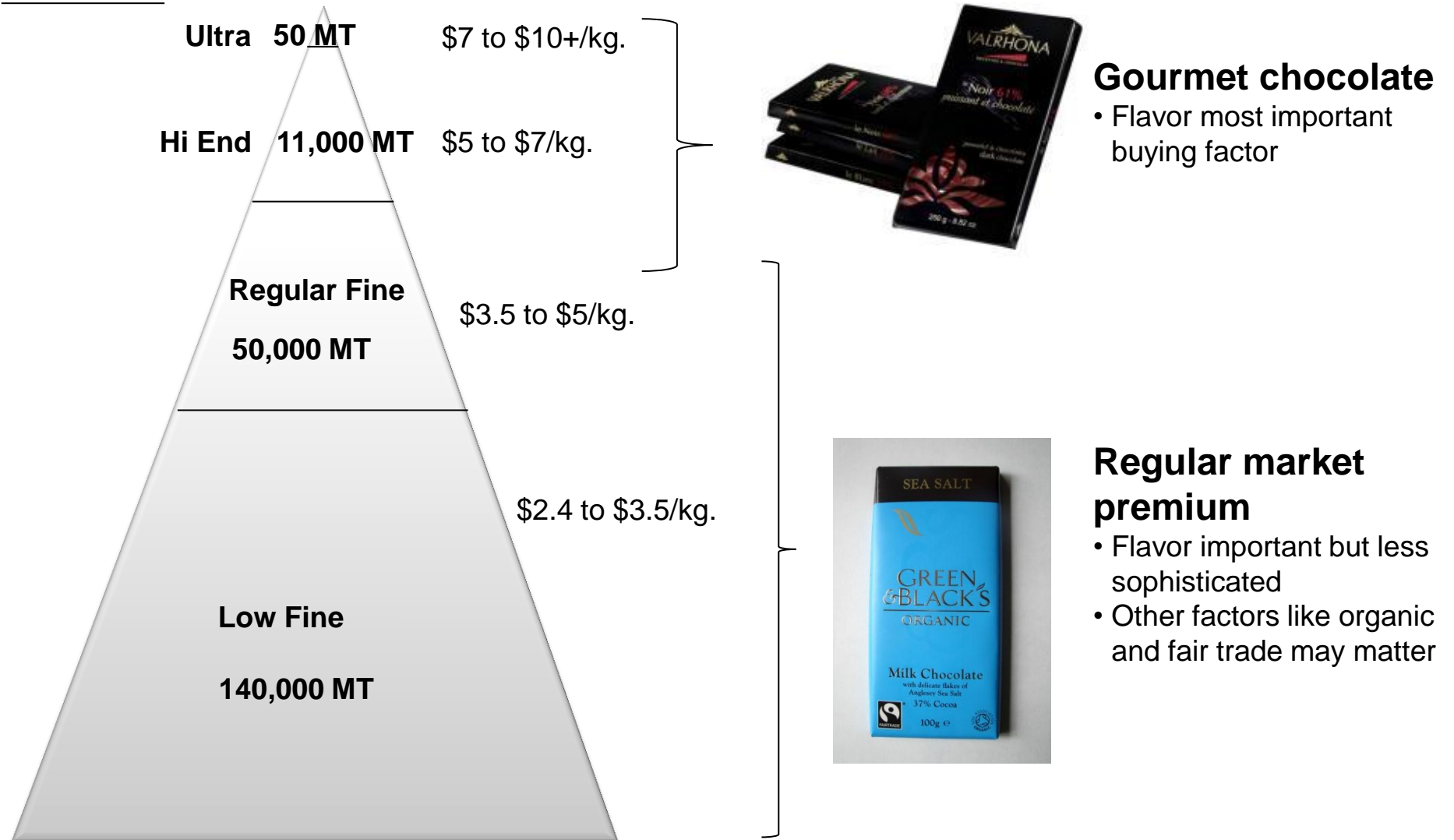


Differences between bulk and fine segments

	<u>Fine flavor</u>	<u>vs. Bulk</u>
<i>Genetic variety</i>	Rare	Common
<i>Flavor notes</i>	Complex, fruity, nutty, long aftertaste	Flat, earthy, astringent
<i>% world production</i>	5%	95%
<i>Mostly from...</i>	Upper Latin America	Africa, Indonesia, Brazil

VERY SMALL MARKET FOR HI END BEANS WITH MOSTLY LOW PRICES

ESTIMATE.

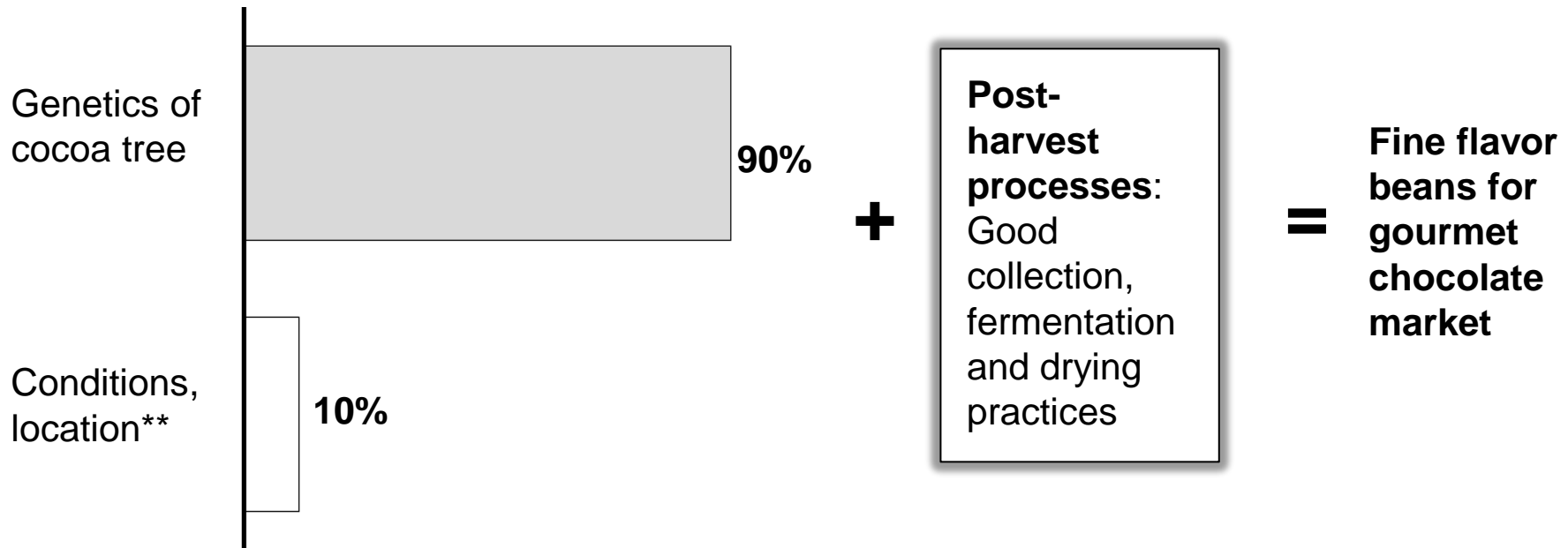


Sources: ICCO, Interviews, Xoco team evaluation

GENETICS AND GOOD POST-HARVEST PROCESSES KEY FOR FLAVOR IN COCOA BEANS

Relative importance of factors determining bean flavor*

Percent



*Sensory evaluation. Sources: Domori (“gourmet”) chocolate (IT)/Hacienda San Jose; Cocoa Research Unit Trinidad (Sukha et al), Xoco team evaluation

**Altitude, sunshine/rain, soil, other

TYPICAL FINE COCOA FARMER HAS SMALL FARM AND LIVES IN POVERTY



- Lives in tropical belt in Latin America
- Earns \$2,000 to \$3,000 a year, \$9-\$11 a work day (= \$1.3/day per family member)
- 5 – 10 ha. of land is his/her net worth
- Half used for own consumption (e.g., rice, beans)
- Other half for cash crops (e.g., coffee, cocoa, banana)



CHALLENGE FOR FARMERS TO MAKE GOOD COCOA

Secure 100 hectares min. scale



Select genetic material



Establish nursery and graft for genetic fidelity



Maintain for 4-5 years before production



Build post Harvest facilities



- ...Ferment and dry, store
- Send samples
- Negotiate price
- Ship, receive payment



FINE COCOA PROJECT NEEDS \$8.32/KG. PRICE SECURED TO BE PROFITABLE

All numbers in '000, USD	Yr.									
	1	2	3	4	5	6	7	8	9	10
Prepare and clean land, labor	\$ 100									
Graft and plant trees	\$ 100	\$ 10	\$ 10							
Maintenance, labor		\$ 65	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70	\$ 70
Maintenance, materials	\$ 75	\$ 50	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20	\$ 20
Fermentation-drying, storage, other			\$ 25	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15
Administration	\$ 30	\$ 30	\$ 30	\$ 30	\$ 30	\$ 30	\$ 30	\$ 30	\$ 30	\$ 30
Total out	\$ 305	\$ 155	\$ 155	\$ 135	\$ 135	\$ 135	\$ 135	\$ 135	\$ 135	\$ 135
Bean production curve (% peak)				5%	20%	30%	50%	70%	90%	100%
Bean production (tons)	0	0	0	5	20	30	50	70	90	100
Bean sales price, ex works, per ton				\$ 8.32	\$ 8.32	\$ 8.32	\$ 8.32	\$ 8.32	\$ 8.32	\$ 8.32
Total in	\$ -	\$ -	\$ -	\$ 42	\$ 166	\$ 250	\$ 416	\$ 582	\$ 749	\$ 832
EBITDA	\$ -305	\$ -155	\$ -155	\$ -93	\$ 31	\$ 115	\$ 281	\$ 447	\$ 614	\$ 697
Present Value future cash flows	\$ -265	\$ -117	\$ -102	\$ -53	\$ 16	\$ 50	\$ 106	\$ 146	\$ 174	\$ 172
Land opportunity cost	\$ -22	\$ -19	\$ -16	\$ -14	\$ -12	\$ -11	\$ -9	\$ -8	\$ -7	\$ -6
Net Present Value (NPV)	\$ 1									
Farm size, combined (ha.)	100									
Number of trees ('000)	100									
Peak production, per tree (kgs.)	1									
Labor cost per day (USD)	\$ 9.00									



Sources: FHIA Honduran cocoa research institute, farmers, Xoco team

TODAY'S CONSUMER PRICES FOR GOURMET BARS TOO LOW TO INCENTIVIZE FINE COCOA PRODUCTION

ILLUSTRATIVE ESTIMATE.

How to price my bar if cocoa is at \$8.32/kg.

100 g Gourmet chocolate bar	USD
Raw materials, cocoa	\$ 0.83
Raw materials, sugar, other	\$ 0.07
Labor and machinery	\$ 0.45
COGS	\$ 1.35
SG & A	\$ 1.00
Manufacturer profit, 30% margin	\$ 1.10
Sales price to distributor	\$ 3.45
Distributor profit, 20% margin	\$ 0.88
Sales price to retailer	\$ 4.33
Retailer profit, 100% markup	\$ 4.33
Taxes, VAT 10%	\$ 0.87
Retail price to consumer	\$ 9.53



However, real life consumer price points more like \$7 - \$8/100 g, meaning that there is little incentive to grow fine cocoa

HOW TO SOLVE

Possible ways forward to promote better cocoa

- Help manufacturers increase price points by creating awareness among end consumers
 - E.g., through flavor certification, awards, public relations, addressing key influencers
 - Reduce consumer "noise": Be clear about what fine cocoa is (flavor); Be Brave, not all cats are grey and some cocoa is better than others
- Facilitate farmer-buyer communication and relationships, hereunder promote forward pricing on fine cocoa to enable farmer projects
- Increase transparency in quality and pricing, .e.g, through a combination of flavor certifications and on-line trading of fine cocoa

