



# THE PULSE

## newsletter



### >>> Celebrating 35 Years

On August 13th, 1979, Simpson Seeds Inc. was incorporated. The founding directors were Jim, Tom, John and Greg Simpson.

The genesis of this company was driven by the need to find a way for the farm to survive poor commodity prices and to generate enough revenue to support the three brothers on the farm. I was working for Agriculture Canada as a primary products inspector for seed, feed, fertilizer, and pesticides. During my travels to many seed farms and seed plants, I noticed that the seed farms were some of the best farmers. This inspired me to think of becoming a seed grower and putting up a seed plant. Seemed like a great idea until I went to the bank to see about getting a loan. The bank wanted to see my business plan and a financial budget. Of course, I had no idea how to do create these reports so I had to get some help from the FBDB or Federal Business Development bank. What I discovered was a seed plant running for the winter months and selling seed for about six weeks in the spring did not make money.

The breakthrough came later on that day while I was at work for Ag Canada writing up reports in my office. The phone rang and it was the district manager, Mr. William Conley, from UGG. William had a problem with some railcars of malt barley that was treated for grain bugs. The railcars were being detained by our department in Vancouver preventing the railcars from being loaded onto a ship. I got on the phone to try and get the cars released.

The next day I got a phone call from the manager at UGG and he said that the railcars had been released. He couldn't believe how quickly the railcars got release and asked if he could help me in any way.

I took this opportunity to ask if UGG needed any commercial processing. As it turned out, UGG had some Chilean lentils being grown in the Tuxford area. A few weeks later, I went to Winnipeg to meet with Bob Ferguson in the special crops department of UGG and ended up with a processing agreement. This was all we needed to make our business plan viable and now we could proceed with building the plant.

The early years were a struggle as interest rates went up to 21% and crops yields suffered due to drought. My father, Jim Simpson, constantly reminded me that it takes at least 5 years to get a company established. As a 23 year old in business, I was starting to have my doubts as to our future but we persevered and as they say, "the rest is history."

Growers became for convinced that a rotation that included lentils was a superior rotation that yielded higher returns. In fact, it was lentil growers who were buying new equipment and half ton trucks. Neighbours of lentil farmers started to see the results and they started to grow lentils as well.

Demand grew for processing capacity as more and more acres of lentils were seeded. Internationally, Simpson Seeds Inc. gained a reputation for a source of lentils. Over the years, we simply raised the bar on providing superior quality brand and strived to provide good service to our customers.

On behalf of the Simpson family and all our 100 employees I want to thank you, our grower customers, for your support as we truly do have the best growers in the world.

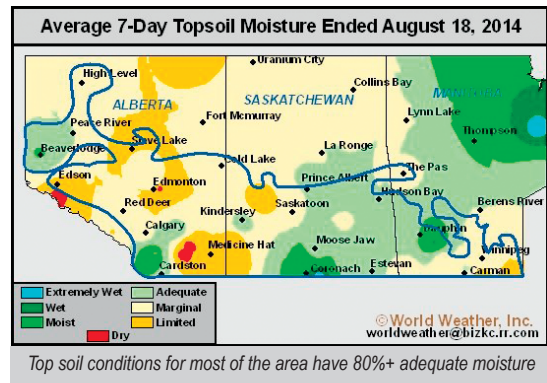
# >>> Lentil Market Synopsis



Photo taken North of Moose Jaw

It will be pretty safe to say that lentils have had an uphill battle this growing season. A cool wet spring, especially in the eastern half of Saskatchewan, caused flooding like I have never experienced before. Predicting what size the crop will be has always been challenging but these wet conditions are making it even more unpredictable. We all know that lentils do not like to sit in water or in wet soil. Root diseases have reduced yield potential. In extreme cases, we have fields in the Moose Jaw area that are 100% write off.

Drier and warmer conditions have helped to improve the growing conditions throughout July and August. In the Moose Jaw area we had virtually no rain for the month of July. This dryer bias has really helped the crops in the eastern part of the prairies. In contrast, the western region was drier and needed rain and in recent weeks have had beneficial rains. The downside of the rain was the thunderstorms that had high winds and hail. We have reports from lentil growers who have up to 100% hail damage.



## Large Green or Laird type lentils

The outlook for Laird lentils is bullish. In recent years we have had export demand in the range of 575,000 MT to 600,000 MT. Carry over will be minimal as we had better than expected demand.

Production will likely be in the range of 425,000 MT to 450,000 MT. Assuming a normal harvest and normal quality, it would make sense that prices will move up for new crop. Today the bid for No.1 Laird is in the range of 23 to 24 cents/pound. If there are any weather issues, then this price could move even higher. Timing of sales is important. We typically see the largest demand for No 1 quality prior to Christmas. Countries such as Spain, Italy, Turkey and Iran will be looking for shipment from October to December.

Keep in mind that the biggest demand for Laird is not for No.1 quality. Quality conscious buyers do have their limits and we have seen buyers shift from buying a No.1 and go for a No. 2. As a general rule, as the prices go up, make some sales and reward the market. The color fades quickly, especially Laird.

The highest demand will be for No. 2 or better quality. New crop is trading in the range of 20 to 22 cents/pound.

Elasticity in demand will impact the exports of Laird lentils. This means that demand will drop as the price goes up. Countries that are price sensitive, i.e. India, will opt for cheap sources of protein. Last year India imported about 100,000 MT of Laird No. 2 or No. 3 as a substitute for

pigeon peas. India's production of Pigeon peas has been going up in recent years and the result has been lower prices. This has impacted other nations such as Miramar that can produce, on average, about 300,000 MT per year. This year production will drop to 190,000 MT or less as growers do not find pigeon peas very profitable.

Laird lentil growers may have seen even higher prices had the monsoons failed in India. A recent report by Earth Sciences Minister Jitendra Singh, says the forecast for June-September monsoon rainfall will be 87 percent of the long term average. The late start to the monsoon has reduced the rate of planting of all pulses but the pace of seeding in recent weeks has accelerated. We will need to monitor this closely to see what impact it will have on Laird prices. But for now it would seem that the market price will remain stable which will likely result in no major buying of Canadian origin Laird to supplement any production shortfalls.

## Small Green or Eston type lentils

Exports for small green lentils have been sideways to slightly increased. Good quality and supplies over the past couple years has helped to grow this market. The seeded acres have dropped slightly this year and the yields will also be lower than last year. The Eston market is largely a No. 1 quality market. If we have rain at the wrong time we might see a spike in prices.

One caveat to prices going higher will be the large inventories of Eston building in Mexico, one of our largest importers of Eston.

# >>> Lentil Market Synopsis

These strategic inventories allow the buyers in Mexico to ride out the volatile fall market and wait for the prices to settle. Another factor to watch is the increased demand from the Mexican government to support feeding programs. The government will be more likely to purchase a No. 2 or a No. 3.

Timing for sales in Eston is important. We typically find prices for Eston strongest in the fall. This is due to the demand for high quality No. 1 Eston for Greece, Italy, Spain, etc.

## Canada Green Lentil Exports

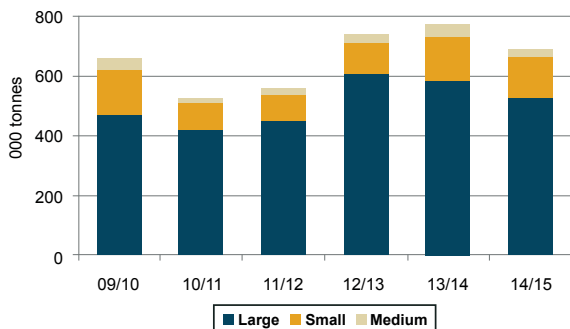


Chart provided by Kostel Consulting

## Richlea Lentils

This market will shadow the large green lentil market. The price discount to Laird will remain a standard. i.e. about 10% lower than Laird. However, the high yields from Richlea type lentil make up for the difference in price.

There has been a decline in export year over year. The U.S. exported 208,000 MT in 2012/2013 and dropped down to 149,000 MT of exports in 2013/2014; a result of a stronger U.S. dollar vs. the Canadian dollar. We are more competitive with the currency swing in our favour, along with higher yields and good quality. The U.S. lentil crop seeded area for all varieties has dropped from 363,000 acres last year to 320,000 acres in 2014.

In light of the above, we will be working to increase our market share of the domestic U.S. market. Marketing domestically also has the advantage of avoiding the use of the railroads to reach tidewater.

## Red Lentils

This year was a remarkable year with the huge upswing in seeded acres for red lentils. The signal for growers to plant more red lentils was made abundantly clear when the bid for red lentils increased in the early spring.

Demand accelerated for red lentils as heavy rain ruined the quality and the yield for India's Rabi harvest in February/March. Spot prices range from 25 to 28 cents per pound as some companies must be experiencing technical shortages or trying to fill a hold in a vessel.

New crop prices range from 23 to 24 cents per pound. Production will increase from about 1,000,000 Mt in 2013/2014 to 1,250,000 MT or more in 2014/2015. We conducted a poll at the CSCA convention to see what

## Canada Lentil Exports by Color

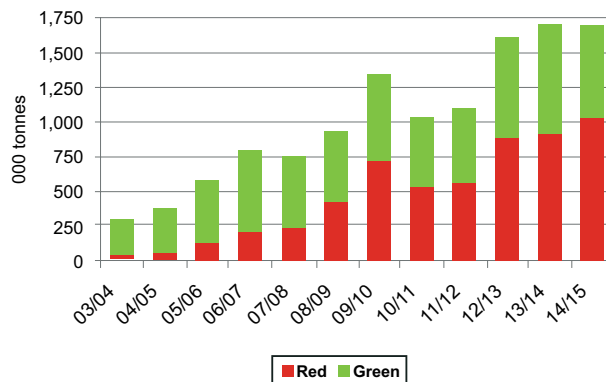


Chart provided by Kostel Consulting

the view would be for the next crop year. Basically, there were as many bulls as bears. I think the current price will be very attractive for those who are in the sweet zone of good moisture and early seeding, basically areas on the western side of the province. We see crops of red lentils with the potential to produce 1800 to 2400 pounds per acres or gross revenue ranging from \$414 to \$552 per acres. We are expecting prices to go down due to harvest pressure.

## CDC Iberina, Spanish Brown Lentils

Prices for new crop Iberina will be firm. Spain is experiencing a drought in their lentil growing region. Their shortfall will reward growers who wisely considered growing Spanish Brown Lentils. The new generation SB3 is high yielding and has good stand-ability. The future is bright for the potential doubling of seeded acres next year. The current bid of 24 cents per pound should hold firm.

## Dark Speckled Lentils

The market for DSL is a niche market that is very volatile. This is due to the small size of the market and the tendency for supply to be very cyclical in nature. There will be a season of over-supply and low prices followed by under-supply and high prices.

The bid price for DSL in September, 2011 was over 50 cents per pound. In recent years the bid price has been in the 30 cent range and now we are bidding 24 cents for new crop. The markets we are dealing with require only the best quality and must be low in admixtures with cereal crops. We are focused on the packaging market in the EU and they have set very high standards for us to meet.

## Beluga Lentils

We have established ourselves as one of the leading suppliers for this very specialized market. This is even a smaller market than DSL lentils. It requires us to process to a 99.99% purity to meet our buyer's quality specifications. An extra section of land would be enough to tilt the price down. A few years ago we bid prices in the 50 to 60 cents per pound range. Today we are bidding 30 cent per pound. This is still a good bid price considering the price for all the other lentils.

## >>> Canary Seed

This year is going to be an interesting one for Canary Seed as no one really knows what is available to the market. According to revised data from Statistics Canada and doing the math it all points to a revised stock level of -12,000 Mt on July 31st, 2014, which is not possible. This has been calculated using the March 31st, 2014 remaining stock report and deducting the actual tonnes exported in April, May and June and the 15 year average for July shipments. What does this mean? The Statistics Canada surveys do not include enough canary seed growers to provide accurate projections for the crop.

With the very low carry in for the 2014/2015 crop, it suggests that prices will remain stable to firmer as we move through the crop year, depending on the actual production this year. We did increase acres, according to the survey to 280,000 acres. Personally, we think that it could be as high as 320,000 acres given the rising prices and quick movement available during seeding. Using the 320,000 planted acres and 272,000 acres harvestable (15% reduction due to flooding), an average yield and a carry-over of 17,300 Mt we would see the following Supply-Demand scenario for the 2014/2015 crop year:

### Canaryseed Supply-Demand 2014/2015

<b>CARRY IN</b>	<b>17,300 MT</b>
<b>SEEDING ACRES</b>	
320,000	
<b>HARVESTED ACRES</b>	
272,000	135,000 MT
<b>TOTAL STOCK</b>	<b>152,300 MT</b>
DOMESTIC UTILIZATION	8,000 MT
EXPORTS	135,300 MT
TOTAL USAGE	136,000 MT
CARRY OVER	9,000 MT
<b>STOCK/USE RATIO 6.6%</b>	

## >>> Target Pricing

This past year we held two customer meetings, one in Swift Current and one in Moose Jaw. At these meetings we introduced target pricing contracts (TPC). This means that a grower can leave a firm offer for a certain quality (a sample is required to be available at one of our facilities) and quantity of product at a certain price valid for 45 days. This product is offered to Simpson Seeds only and cannot be offered to any other company unless the grower calls Simpson Seeds and cancels the TPA first.

If during the 45 day offer period the SSI bid sheet level for that offered commodity reaches or exceeds the TPA offered level, the TPA is

converted into a Purchase Contract as per the terms of the offer. If the TPA offered level is not reached, the offer expires at 5 pm on the 45th day and is no longer valid.

A copy of the TPA will be sent to the grower for their records and a copy is to be signed and returned to SSI. Failure to sign and return the agreement will not void the agreement.

If you have interest in a TPA, then you can contact one of our buyers or email [mike@simpsonseeds.com](mailto:mike@simpsonseeds.com)



## >>> Swift Current Plant Expansion

Maybe you have been driving by our plant in Swift Current and you're wondering what the construction crews are up to. This newsletter is the first announcement of our investment of new capital into a high capacity shipping system and eventually a new processing plant. This is just the first phase of a multi-million dollar investment to improve our service to customer at home and abroad.

Visit us this harvest for free sample grading.

Simpson Seeds would like to wish everyone a safe and prosperous harvest season.

