

Founded in 1922, John B. Sanfilippo & Son, Inc. Selling Nut and Dried Fruit Based Products Under the Fisher®, Orchard Valley Harvest™ and Sunshine Country® Brand Names, is Having One of the Most Profitable Years in the Company's History

**Consumer Goods
Processed & Packaged Goods
(JBSS-NASDAQ)**

John B. Sanfilippo & Son Inc.
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Michael J. Valentine
CFO and Group President

BIO:

Mike has been employed by the Company since 1987 and in January 2001 was named as Chief Financial Officer. Mike was elected as a director of the Company in April of 1997. Mike is also responsible for imported nut, peanut, dried fruit, ingredient procurement and the Company's contract packaging distribution channel. Prior to holding his current position, Mike served as the Company's Senior Vice President of Operations and Secretary. Prior to joining the Company, Mike was employed by Price Waterhouse from 1984 to 1987. Mike received a Bachelor of Arts Degree in Economics from the University of Illi-

nois at Urbana-Champaign in 1981 and a Juris Doctor from the Illinois Institute of Technology Chicago-Kent College of Law in 1984.

Company Profile:

John B. Sanfilippo & Son, Inc. (JBSS) was founded in 1922 as a pecan sheller and is currently celebrating its 90th year. Today, JBSS is one of the largest companies in the nut industry. JBSS is a processor, packager, marketer and distributor of nut and dried fruit based products that are sold under a variety of private labels and under the Company's Fisher®, Orchard Valley Harvest™ and Sunshine Country® brand names.

**Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFO Magazine**

CEOCFO: Mr. Valentine, you have a long history with John B. Sanfilippo & Son. Would you tell us the focus of the company and if it has changed over the years?

Mr. Valentine: It has changed quite a bit over the years. If we go back seven years ago, a much larger percentage of our sales were in the industrial channel. Over the last seven years or so, we have put forth a lot of effort to shift business away from that channel to take some of the commodity risk out of our business in favor of the food service distribution channel and the consumer channel.

CEOCFO: What are you doing today?

Mr. Valentine: We operate in four distribution channels today. In addition to the consumer channel, we also sell our products into the commercial ingredients channel, which formerly

was the food service channel and the industrial channel. They are now combined under one management team. We also sell our products into the contract manufacturing channel where we manufacture products under brands of other food companies, and into export channel, which is a combination of industrial products and consumer products.

CEOCFO: How do you grow a good nut and how do you achieve that quality of which you are so proud?

Mr. Valentine: We do not grow any nuts. We are 'shellers' (this word is an industry term) of walnuts, pecans, and two varieties of peanuts. By being a sheller, we have people out in the field throughout the entire growing cycle so we can monitor crop conditions. We have a better idea of what the quality of the crops is going to be. With this information in hand we can tailor our selling strategies accordingly. We also have much better visibility in respect to what nuts will cost once they are harvested.

CEOCFO: Would you explain the process please?

Mr. Valentine: We buy pecans, walnuts, and two varieties of peanuts directly from nut growers and peanut farmers. In the case of peanut farmers, we actually supply them the seed to grow their crops, which allows us to pick the best growers and farmers to make sure we get the quality that our customers demand.

CEOCFO: What is the market for nuts?

Mr. Valentine: Over the last eighteen months, we have seen nut and peanut prices soar to the highest levels that I have seen in my career These in-

creases are primarily driven by increasing demand in emerging markets especially in India and China. We have seen a bit of a drop-off in prices just recently as consumption of nuts has fallen due to high prices and challenging economic conditions. In the last eighteen months, we have implemented some very significant price increases and our costs and prices are now aligned. Consequently, our margins this fiscal year have returned to normal levels.

CEO CFO: What is the availability of nuts and would you explain the industry a bit more for us?

Mr. Valentine: We have a good understanding of the industry after ninety years. The thing to note about tree nuts is that it takes anywhere from five years to eight years for a tree to actually produce nuts in a significant quantity. Therefore, if we do see big spikes in demand for tree nuts as we have with pecans, walnuts, and almonds recently, it takes quite some time for growers to increase their production in response to that. For example, last year we experienced some shortages on some of the nuts, which is why prices soared as high as they did.

CEO CFO: What is the competitive landscape for you? Are many companies shelling?

Mr. Valentine: Because we operate in four channels, we have many competitors. In the consumer channel, which accounts for about 60% of our sales, we have four major competitors only one of which is a sheller, and that competitor shells only walnuts. We also compete against numerous smaller regional competitors in the other channels and in most cases, these competitors are not shellers.

CEO CFO: Do the consumers look at brand names when purchasing nuts?

Mr. Valentine: I think now with prices as high as they are, consumers have shifted quite a bit towards private label, and we are one of the largest private label manufacturers of snack nuts and baking nuts in the country, so we have benefitted by that recent trend.

CEO CFO: Do you see growth in channels other than consumer?

Mr. Valentine: Our second largest channel is commercial ingredients, where the majority of sales in this channel are made to food service customers such as the large nationwide food service distributors and large restaurant chains. We have seen quite a bit of growth in that channel over the last three or four years. It somewhat tapered off by high prices last year, but we expect sales in this channel to rebound as prices for nuts and peanuts decline. We believe this rebound will be primarily driven by the fact that restaurants are still very interested in getting nuts on their menu in the various dishes they serve. Consumers want to eat meals with nuts in them because of the health benefits of nuts.

CEO CFO: Has the focus on peanut allergies had much impact on your business?

The company is having a very good year, and our balance sheet is very strong. In fact, we are probably having the second or third best year that we have had in our history in respect to profitability. - Michael J. Valentine

Mr. Valentine: Not really. For the most part, that has impacted peanut sales to schools, but we do not sell to schools, so it has not impacted our business at all.

CEO CFO: What is the financial picture like today at John B. Sanfilippo & Son?

Mr. Valentine: The company is having a very good year, and our balance sheet is very strong. In fact, we are probably having the second or third best year that we have had in our history in respect to profitability. Much of that success has to do with the fact that we now have our acquisition costs and selling prices aligned properly.

CEO CFO: Do you sell through distributors? How do you reach the customer?

Mr. Valentine: In the consumer channel, we sell directly to retailers and in some of the other channels, we use distributors, but for the most part, it is direct to customers.

CEO CFO: How do you get more shelf space?

Mr. Valentine: It is a little difficult now to increase shelf space due to the limited supplies of nuts that are available. If global demand for nuts does fall off due to high prices and global economic conditions, we will be able to buy more nuts and can then increase promotional activities, in store merchandising and investment in our brands to gain new shelf space.

CEO CFO: Is there an increase in nut farms and peanut farms and is the supply growing?

Mr. Valentine: With respect to walnuts and almonds, we have seen very significant increases in bearing acreage over the last ten years, which is in response to the increased export demand that we have witnessed. On the other hand, pecan growers have not reacted to the increase in global demand. With respect to peanuts, unlike tree nuts, peanuts are a field crop in which acreage actually varies from year to year and primarily depends on what cotton is selling for as peanut farmers can alternate between the two crops.

CEO CFO: What is the biggest challenge in getting quality peanuts out to consumers?

Mr. Valentine: Like any other crop, weather has the largest impact on quality. We have had two difficult quality years for peanuts. Fortunately, we expect that to end and it looks like we are going to have a very high quality peanut crop this year. The biggest challenge is to ensure that we are buying from the best nut growers and from the peanut growers that have good irrigation systems. Being out in the field everyday and consulting with our growers and farmers on their various crop practices really helps us deliver the best quality we can in a given crop year.

CEO CFO: When you work with farmers, are they required to implement your advice?

Mr. Valentine: They want us to be successful too, so they want to make sure that what they are producing is what the consumer wants. Since we

have a direct line to the consumer, they are always interested in input that we might have. A good example would be our encouraging farmers to plant a certain peanut variety through our seed exchange program over other varieties because it aligns much better with consumer preferences.

CEO CFO: Do you have dried fruits as well as nuts?

Mr. Valentine: Yes we do. About ninety percent of what we sell is dried fruits and nuts. Dried fruits primarily are sold in trail mixes with other nuts and probably the two most popular dried fruits that we sell are raisins and cranberries followed by papaya.

CEO CFO: Are your growers all over the world?

Mr. Valentine: When it comes to Brazil nuts and cashews, that would be true. Brazil nuts are grown in South America, and cashews can be found in Africa, South America, India, Viet Nam, and Indonesia, primarily.

CEO CFO: Are there parts of the world that you are not reaching with your products that you would like to enter?

Mr. Valentine: Because nuts are so expensive, and there are nut producers basically in every country of the world, it is difficult to be competitive after we pay duties, and frequently those duties are a percentage of the value. For example, if we are selling \$8 per lb. pecans into Europe, as you can imagine, the duties on that would be considerable. We do have certain items that are unique, especially our honey roasted peanuts, which is a

proprietary formula that we have and is very popular even in countries where we have local competitors. A good example of that would be in northern Europe where our honey roasted peanut is preferred much more so than what little local suppliers provide.

CEO CFO: What is the strategy going forward and what are the changes that are in process?

Mr. Valentine: Our most important strategy is to grow our branded business in both the snack and baking nut categories. This is especially the case in the baking nut category where we have considerable share and some meaningful advantages as a pecan and walnut sheller. Our second strategy is to grow our business with our existing private label customers. Generally, they are large retailers who value our capabilities in respect to production capacity, innovation and procurement expertise. Our third is to expand globally especially into China. We just hired a sales representative in China to help us grow our imported nut business there, and eventually we will expand that sales force as the business grows.

CEO CFO: JBSS launched over two hundred new products in fiscal year 2011, will you continue to have new offerings?

Mr. Valentine: We have a very strong innovation team, and the most effective way to grow our nut business is primarily through innovation by coming up with different items to blend with nuts, and different ways to

coat nuts and flavor them. Consumers like variety in their nuts.

CEO CFO: Has the investment community been paying attention?

Mr. Valentine: They have lately, especially since we rejoined the Russell-3000 Index, which was about two weeks ago. We have seen our stock price go up pretty dramatically. Recently, it was trading over \$19, and it was not too long ago when it was in the low teens.

CEO CFO: Why should investors pay attention John B. Sanfilippo & Son today?

Mr. Valentine: The most important thing to note is that consumers do recognize the health benefits of nuts, so they want to eat nuts much more frequently than they did say ten years ago. I would also add that we probably have the most experienced procurement team in the industry. Further, since we operate in four different distribution channels, we can take advantage of growth opportunities by offering a wider array of different product lines. We are very well positioned to take advantage of increasing consumer awareness of the health benefits of nuts. Finally, it is important for investors to note that our raw nut costs make up the majority of our cost of sales, and nut acquisition costs can be very volatile, so investors should pay close attention to that particular characteristic in our business as they think about investing in JBSS.



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