Summer 2018

StaplReview



Meredith Allen **to Retire**

Demand Driven **Market**

A Message from the President

A Heartfelt Thank You



This will be my last "Message from the President" article for *StaplReview*. I'll be retiring from Staplcotn on October 1st of this year after 43 wonderful years in the cotton industry. Thirty-three of those years have been spent working here at Staplcotn. It has been an honor and a privilege to work for such a great company owned by cotton producers. I grew up on a cotton farm, so that occupation has always been one that I have loved and respected. The opportunity to work for and serve producers and their families has been truly rewarding beyond any expectations that I had when I joined Staplcotn.

The Board of Directors of Staplcotn and its leadership has been paramount to the success of this company. During my career here, our Board members have been industry leaders throughout our 11 states that make up our membership. Our Board has always been supportive and encouraging to our management and our employees. They have provided our employees the necessary tools and employment benefits that have allowed Staplcotn to attract and retain talented individuals. I'm extremely confident that Hank Reichle, as Staplcotn's new President and CEO, will provide many years of superb leadership to this great organization. I will be leaving Staplcotn knowing that we have exceptional talent in all areas of the company and our producers will be well-served.

I look forward to seeing many of our members and friends as I continue my involvement with the cotton industry in my future role as Amcot Chairman. Again, I thank our members for providing many opportunities to me and my family over the last 33 years here at Staplcotn.

Meredith Allen

AN INTERVIEW WITH MEREDITH ALLEN

As was announced in his "Message from the President," Meredith Allen will be retiring on October 1, 2018, after 33 years of service to Staplcotn. Prior to joining Staplcotn in 1985, Allen had worked for 10 years with V&M Cotton Company (later known as ContiCotton) as their Vice President of Marketing. "I was fortunate that the opportunity arose for me to join Staplcotn. ContiCotton was a good company, but I realized that to advance there, I would most likely have to relocate to a bigger city in another state. Margaret and I had three small children and wanted to stay close to home—both of our families were from the Delta. I also knew Woods (Eastland), who was chairman at the time, and I had a lot of

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Allen shows mill representatives Staplcotn's classing room in 1986.



Allen is pictured with Mr. Wang Shenyang, chairman of the China Chamber of Commerce for Import and Export of Textiles, and former Staplcotn Board Chairman Ben Lamensdorf at the Mississippi State Capitol in 2007.

confidence in the future of Staplcotn," he explained. Allen's talents were recognized immediately, and he was promoted to Staplcotn's Vice President of Marketing a year later. In the fall of 2008, he was promoted to Executive Vice President and assumed his current position of President & CEO in 2010.

To say that Allen has served Staplcotn well through the years is an understatement. His leadership within the company has been paramount to its success. His leadership within the industry has been equally outstanding. Allen is a former President and former Chairman of Cotton Council International and former Board Member and Chairman of the Memphis Branch Federal Reserve Bank of St. Louis. He is a Director and former Vice President of the National Cotton Council and a Director of Delta Council. He serves on the boards of the SEAM, the Federal Reserve Bank of St. Louis Agribusiness Industry Council, as well as the cotton committees of both the National Council of Textile Organizations and the Intercontinental Exchange (ICE). Allen also serves on the board of AMCOT, and will become its Chairman beginning in September of this year. AMCOT is a trade association between the four major cotton cooperatives in the U.S.: Staplcotn, Plains Cotton Cooperative Association, Calcot, and Carolinas Cotton Growers Cooperative. AMCOT represents the combined interests of the true cotton cooperative grower-members. "Staplcotn is allowing me to maintain a small office here, which is great. I'll be able to work out of here when I need to, or work from a remote location by computer if necessary. Staplcotn has always been a great supporter of AMCOT. I am excited that as its Chairman, I will be able to continue many of my industry relationships and still be a part of the cotton industry," he commented.

Allen continued, "I think the most rewarding part of working at Staplcotn has been the friendships I've made with our employees and so many producers and the other relationships I've made within the industry. Every business is about people, but our industry is special. Most of our folks have grown up close to the land and tend to be very friendly, hard-working people. I'm really going to miss seeing my farmer friends at the annual grower meetings."

When asked what he thought was the most difficult period of time during his 33 years here, Allen responded, "March of 2008 for sure. It was the most difficult time in the entire cotton marketing industry with the futures market and trading environment. There were some cotton marketing entities that didn't weather the storm. But we did, primarily because of our strong financial position and our strong relationship with CoBank. Every business will have challenges, but Staplcotn's foundation is solid. Because we've always had a great board and a great staff, we've been able to meet those challenges head on. It has been a very rewarding career."

Although Allen will still have a role to play in the cotton industry, he is planning to enjoy his retirement to the fullest. "I am looking forward to spending more time on my tractor—hobby farming, I guess you could say," he said with a smile. "Margaret and I also plan to spend more time in Oxford (Mississippi) following Ole Miss sports (his alma mater), and lots of time at our beach house on Ono Island with our children and grandchildren. We have six (grandchildren) so far!"



Allen and his wife, Margaret, enjoy the 2017 Employee Awards Banquet.

We wish Meredith Allen many, many happy years of retirement! We thank him for his service, his leadership, and his friendship. We are glad to know that we'll still get to see him some around the office!

Demand Driven Market

by Hank Reichle, Executive Vice President

Cotton futures prices have moved up steadily over the past 6 months only to give up a portion of those gains over trade uncertainties. Specifically for cotton, concerns over a 25% tariff on U.S. cotton imports into China and thoughts of a prolonged trade war's negative impact on the broader global economy are weighing on the cotton prices. On June 14, December 2018 futures settled at 92.96 cents per pound. That evening, the White House confirmed it would proceed with imposing tariffs on billions of dollars of imported Chinese goods beginning July 6. China responded in kind as promised. In a few hours, the sentiment of investors around the world changed from trade "tensions" on the back burner to trade "war" front and center. December 2018 ICE cotton futures reacted swiftly, pulling back 10% in just three trading days before settling in at around 84 cents as this article is being written. Still, cotton prices remain above where they were two months ago and above the prices farmers have been receiving for their cotton over the past several years.

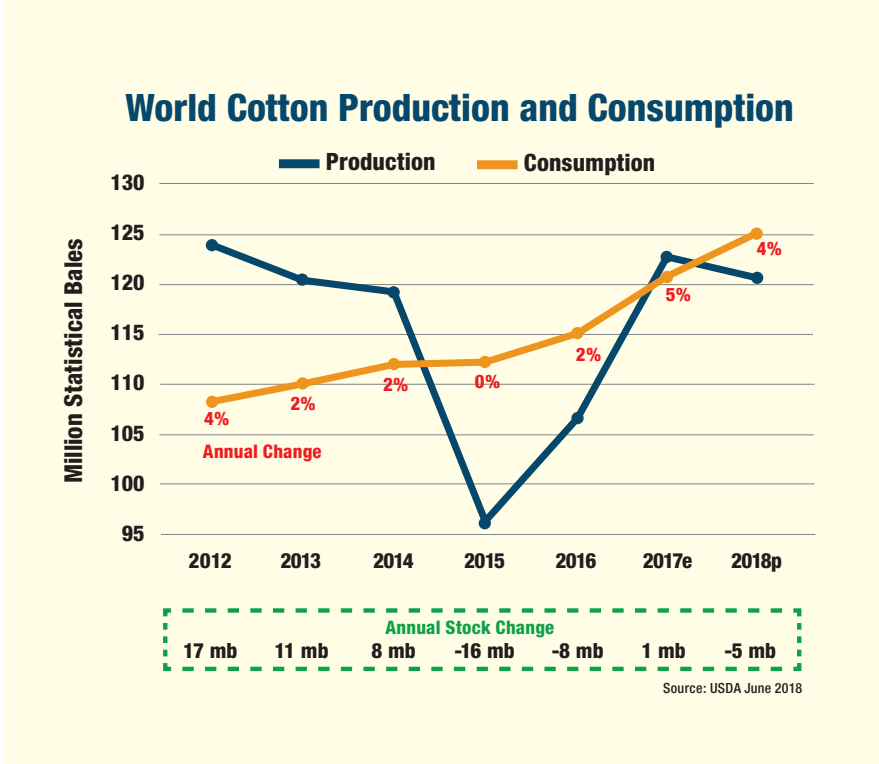
Putting aside these trade war fears, there are several supportive fundamentals underpinning the strength we've seen in cotton prices. First and foremost, global cotton demand is rising at the fastest pace we've seen since the 2009/2010 season. Eight years ago, cotton consumption increased over 10%, but that was a recovery from the "great recession" and on the back of cheap prices that were well below the costs required to grow cotton anywhere. Consumption growth has averaged about 1.5% per year for the past 5 years. Throughout the 2017/2018 season, a 5% rise in global cotton consumption has taken place with cotton futures prices closer to 80 cents than 60 cents. Cotton's price increase has been demand driven, something we haven't experienced in a long time. For the 2017/2018 season, we have an above average global yield leading to one of the largest global crops ever, yet prices have strengthened because there is excellent demand. Robust, synchronized, global GDP growth is fostering an expansion in textile mill capacity and growth in retail. And finally, after many years of losing market share to man-made fibers, there seems to be a changing trend among brands and retailers to add cotton back into their products.

As we enter the 2018/2019 marketing year, demand prospects still look healthy and more cotton is expected to be needed. However, it appears very unlikely that the world's cotton growers can match last year's bumper crop. Prospects in Texas, China, and Australia aren't great due to weather concerns. Plus, the largest cotton producing country in the world, India, with its well documented BT seed issues and boll worm troubles, will leave us wondering about their production for at least another 7-8 months.

As of the June 2018 supply and demand report, USDA is projecting that global demand will exceed production by 5 million bales. This is supportive, but is not the only reason for optimism. Remember all those stocks the Chinese government built up while it was incentivizing excess global production through its inflated support price? They have been auctioned off and are no longer excessive. China will no longer make unlimited quantities available for auction annually. Instead, the government will increasingly issue more import quota and allow their mills to buy cotton on the global market. China's cotton consumption is expected to exceed their production by 15 million bales, a substantial quantity of which will be covered by imports. Increased import demand from China will come at a time when global production isn't keeping up with consumption.

The trade issue with China is a big deal, but however it plays out, the simple fact remains that for now there is more global demand for cotton from textile mills than global producers grow. The day has finally come that Meredith Allen has been telling you about for several years. China no longer has an excess supply of cotton to sell—

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Demand Driven Market continued

meaning demand must be met with today's production, not production from previous crop years. For now, the job of the market is to increase the global supply of cotton. To do this, prices will need to provide farmers an incentive to grow cotton and not to curtail production. That is a good place to be if you can grow efficiently and consistently like our Memphis/Eastern cotton producers. Good luck with your crop this season.

Staplcotn Acquires 50% Interest in TJ Beall Company

Staplcotn announced in April that it had purchased a 50% stake in Gary Beall Enterprises, LLC (d.b.a. TJ Beall Company). The transaction was completed effective March 31, 2018. Wildwood Gin, LLC, a Money, Mississippi-based company, owns the other 50% stake in Gary Beall Enterprises, LLC.

"Staplcotn is excited to partner with Wildwood Gin and Tommy and Lawson Gary. This partnership will be beneficial to TJ Beall and support Staplcotn's core mission of enhancing our members' incomes," said Meredith Allen, Staplcotn's president and CEO. "The Garys have a tremendous amount of expertise and ingenuity in the processing of cotton into quality products for the nonwoven, paper, and traditional textile industries. With global demand for cotton increasing across all cotton industrial uses, TJ Beall's proximity to our grower-members' production footprint, and Staplcotn's position as a leading cotton supplier, tremendous synergies exist. The timing for this partnership is perfect," Allen remarked further. Staplcotn's Executive Vice President Hank Reichle added, "Staplcotn appreciates the work of Julian Beall, former Gary Beall Enterprises, LLC partner and CEO of TJ Beall Company. Without the Beall family's efforts over the past three generations, this opportunity wouldn't exist. The TJ Beall name is synonymous with service and integrity. Those values instilled by Julian, his family, and the entire TJ Beall staff align seamlessly with the corporate culture at Staplcotn."

"The Gary and Beall families have partnered for 35 years to innovate and expand new markets for cotton," said Lawson Gary, who became the new CEO of TJ Beall Company upon completion of the transaction. "We are sad to see Julian leave the business but truly appreciate his leaving us in excellent hands with a company that we greatly admire and have trusted to market our farm's cotton production for many years." Tommy Gary, who now serves as COO/CFO of the company added, "The new partnership with Staplcotn will enable the company to solidify its sourcing needs for cotton as well as continue our quest to innovate new uses for cotton in consumer products."

TJ Beall Company is a manufacturer and supplier of an array of natural cotton fibers for the nonwovens, traditional textiles, technical textiles and paper industries. Currently, TJ Beall produces and supplies recycled cotton fibers, greige premium cotton fibers and an assortment of absorbent cotton raw materials. Its corporate office, warehouse, and cotton processing facilities are located in the Mississippi Delta.



The Noe Family of Clarksdale, MS, now has three generations of farmers. Zack Noe (right), a 2017 graduate from Mississippi State University, will be producing his first crop this year. He is pictured here with his father Richard Noe, Jr. (left) and grandfather, Richard Noe, Sr. at the Staplcotn office in Clarksdale during sign up.

Staplcotn plans to offer future issues of *StaplReview* in an email format as well as in the traditional printed format. If you would like to receive your *StaplReviews* by email, visit www.staplcotn.com/resources/staplreview/ and complete the form.

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Staplcotn members John and Kate DeLoach (seated) of DeLoach Farms in Shelby County, AL, were awarded the 2018 Alabama Farm of Distinction at the Alabama Farm-City Awards Luncheon in Birmingham in April.

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