AFM Board Meeting
Minutes
May17 /18, 2016

Place:

AFM Headquarters
Dallas, Texas

Participants:

Mike Browne, Chair (p)
Antonio Villaseñor, Vice Chair (p)
Ricardo Vega, Treasurer (p)
Martin Mendoza, Director (p)
Gary Calaroso, Director (p)
Ramon Paz, Director (p)
Armando Lopez (ex-officio) (p)
Ron Campbell, Secretary (ex officio) (p)
Alvaro Luque, President AFM (p)
Vicky Carpenter, AMS (phone)
Dolora Sillman, MHAIA (p)
Miguel Molina (p)
Kevin Brosch (p)
(For full list of attendees see MHAIA Board Meeting Minutes 5-17-16)

Roll Call and Minutes:

Mike Browne called the meeting to order, took the roll call, established a quorum and requested the board review and acknowledge the antitrust policy.

Gary Calaroso motioned to approve the minutes from the February 17 board meeting and Ramon Paz seconded the motion. The motion passed without objection.

Treasurer Ricardo Vega introduced Miguel Molina to present the treasurers report.

The AFM bank balances are as follows:

MHAIA-Citizens Business Bank Money Market (MM) account*
$4,770,241

APEAM-Citizens Business Bank Money Market (MM) account*
$1,782,700

AFM-Citizens Business Bank operating account**
$1,093,293

Petty Cash funds
$2,500

Total
$7,648,734

Notes:

***Gross of allocation adjustment as of May 15 of $537,658.55 to be deducted from MHAIA**

****Includes outstanding checks as of May 15 of $1,031,641.**

Included in the chart is the cash trending from July 2015 to May 2016.

<u>Total Contribution for 2016-17=$73.28million:</u>

- **At 2.17B pounds MHAIA would contribute up to $46.1M from HAB's assessments and from FY 15-16 excess reserves of $2.96M for a total net contribution of $49.06M or 2/3 of the total revenue**
- **APEAM will contribute $23.98M to match the agreed 1/3 contribution portion and additional $238.9 to cover APEAM's Market Reporting requirements. The portion of MHAIA administrative expenses will be directly paid to MHAIA.**
- **AFM is estimating $8,100 in interest income fiscal period. This income will be allocated 1/3 APEAM and 2/3 MHAIA.**

Spending

Marketing and Promotional

- **$66.04M total AFM direct marketing and administrative expenses, inclusive of consumer marketing program expenses of $45.81M, trade and retail marketing program of $20.23, , consumer administrative of $2.97M, retail administrative of $1.68M and others of $120K.**
- **$238.9K for APEAM market reporting.**

Administrative Expense

- **$1.994M Total administration support will be part of the 1/3 funds of AFM-APEAM. This covers the salaries and wages of admin staffs for $779K , office rental $259.6K, professional fees for $207.5K, legal for $174K ,Telephone for 79.2K and others.**

Change in Net Assets

- **$232.1K positive, higher total contribution to fund the culinary center leasehold improvement and other office equipment. The actual spending will be categorized as balance sheet account.**

NOTE: in the next FY reporting the SGA will be separated from the true marketing spending.

Assets:

- **$2.724M Cash and cash equivalents**
- **$2.25M Total Accounts Receivable from MHAIA, and APEAM**
- **$726.0K Total other assets, inclusive of Office equipment, leasehold improvement and intercompany account.**

Liabilities and Equity:

- **$5.4K Total liabilities, inclusive of accounts payable of $3.67M, accrued liabilities of $1.25M, intercompany accounts payable and other liabilities of $476K**
- **$304.5K Total Equity, from FY 16-17 of $232.1K and prior years of $72.4K**
- **$2.724M Estimated cash at the end of the Fiscal year '16-17 (Estimated *beginning cash of $3.48M plus FY.16-17 net change in assets of $232K and less $952K total working capital adjustments*).**

Upon conclusion of the treasurers report, Mike Browne introduced Alvaro to present the 2016 – 2017 AFM Marketing Plan.

Alvaro presented 2016- 2017 budget that accounts for $73.86 million.

The amount was calculated using the following assumptions:

1) Import volume 2015- 2017: 1.927 billion pounds vs 1.68 billion pounds forecasted in September 2015.
   - Today's projection is @1.933 billion pounds.
2) Carry Over: $1.9 million (savings)
3) Import volume 2016- 2017: 2.17 billion pounds
   - We worked four scenarios:
     - 2.07 billion pounds (7.1% growth vs 2015- 2016 projected volume)
     - 2.17 billion pounds (12.3% growth vs 2015- 2016 projected volume)
     - 2.27 billion pounds (17.4% growth vs 2015- 2016 projected volume)
     - 2.38 billion pounds (23.1% growth vs 2015- 2016 projected volume)
   - New certified areas could add @150 million pounds
   - Does not include Jalisco.

Budget composition is 89% ($66.04 MM) for marketing and trade programs and 11% ($7.82 MM) for administrative expenses including AFM, Mhaia and Apeam Marketing Services.

Alvaro presented the marketing and trade budget composition and explained the main differences vs prior year.

	2015- 2016 PROJ	2016- 2017 BUD	DIFFERENCE	DIF %	SHARE
CONSUMER MEDIA	$20.95 MM	$22.12 MM	$1.17 MM	5.6%	33.5%
CONSUMER PR	$2.14 MM	$2.63 MM	$0.49 MM	22.9%	3.9%
CONSUMER PROGRAMS	$3.25 MM	$7.10 MM	$3.85 MM	118.5%	10.8%
HISPANIC CONSUMER	$3.00 MM	$3.86 MM	$0.86 MM	28.7%	5.8%
RESEARCH	$1.03 MM	$1.28 MM	$0.25 MM	24.3%	1.9%
DIGITAL	$2.03 MM	$3.44 MM	$1.41 MM	69.5%	5.2%
FOODSERVICE	$2.98 MM	$5.10 MM	$2.12 MM	71.1%	7.7%
TRADE	$14.04 MM	$20.40 MM	$6.36 MM	45.3%	30.9%
CRISIS MANAGEMENT	$0.10 MM	$0.10 MM	$0	0%	0.0%
TOTAL	$49.54 MM	$66.04 MM	$16.50 MM	33.3%	100%

Mike Browne asked is 2% research typical for a company? Should we use some of those dollars to measure effectiveness of programs? Alvaro explained that we are way under funded for research. Gary commented that we should get perceptions on programs we want to see for foodservice and trade. Alvaro explained that the new shopper research will be targeted to specific accounts. Ron

commented that Asians are the fast growing group and perhaps we should look into this. Alvaro explained that this segment is fragmented and that this is in the plan but for African Americans as this is the second largest segment and we are not marketing directly to this group.

Mike Browne commented that the culinary center is not included in the Foodservice marketing budget and that it is separated out.

Giovanni Cavaletto recommended that AFM should present to the Board a detail on the company insurance policies so everyone can understand the coverage that we have.

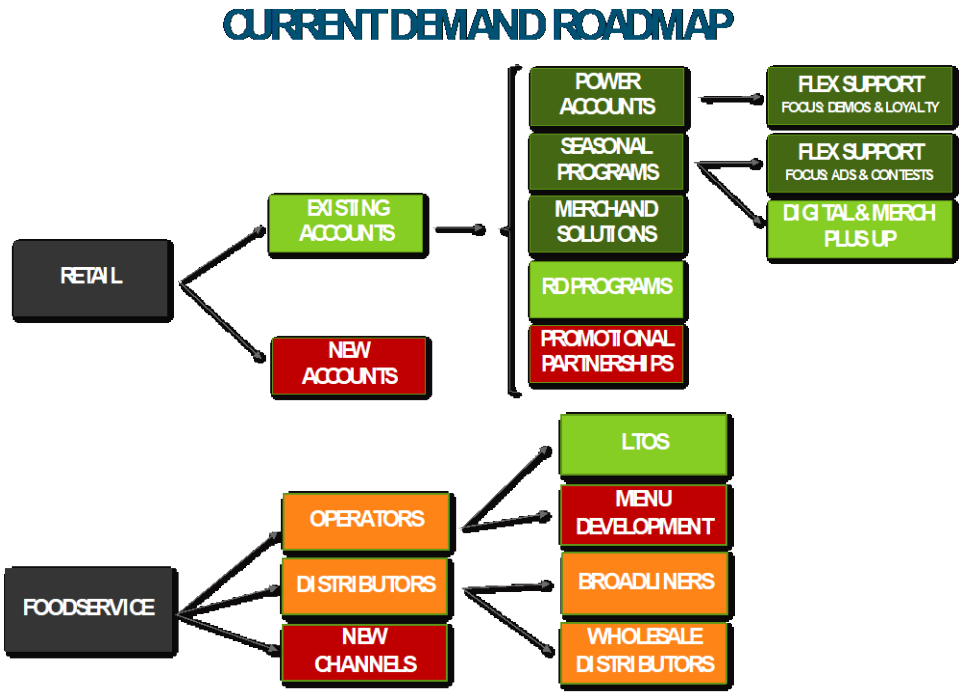
Alvaro presented the bases of AFM strategy that the company has been following for the last 18 months:

Alvaro reinforced that AFM is not able to directly control volume or price, but the company role has to create brand equity to defend the final consumer pricing, and generate demand that will improve our sales velocity and will generate less pressure in the inventories and the trading price.

Mike Browne questioned if AFM will be moving away from "Always in Season". Alvaro explained that AIS will be kept and we will be reinforcing taste given it is such an important purchase driver.

Health & Wellness message: Mike B questioned if the H&W will be different from HAB's. Alvaro explained that the messages will be aligned with HAB (ie: good fats and no cholesterol)

Alvaro presented a list of 10 priorities for 2016- 2017 to reinforce brand equity and explained AFM's Demand Map with special areas that the company needs to reinforce in the up coming future:



Mike Browne asked how long will it take to get Foodservice green on the current demand roadmap? Alvaro explained that we have one person prospecting and we have 2 positions being allocated to help grow this. One specific to grow Colleges and University channel. Mike B. suggested we go back and look at funding it further to help it grow faster. Alvaro explained that Foodservice is cheap because the investment to grow consumer demand is cheaper than retail. Technomic states 25% of fresh is sourced through Foodservice. Doug Meyer stated that the smartest spend is to spend it on the consumer side through LTO's vs pushing it through the distributor end. Much easier to influence the consumer.

Miguel Barcenas asked if we have funding for regional programs? Alvaro explained that this will be covered later in the presentation.

Alvaro and the AFM team presented AFM's plan for 2016- 2017.

1- Branding/ General Market:

Main programs in this area includes:

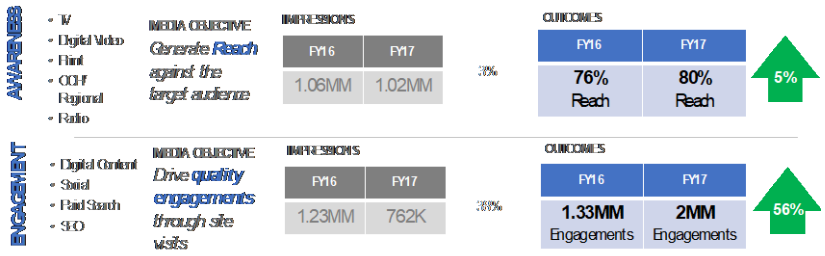
a) **Refined brand communication plan. For that the company is developing an extensive qualitative research in General Market consumers.**
b) **Reinforced educational program through Pati Jinich and video assets.**
c) **New company Health & Wellness strategy**
d) **New TV and video assets for 2017 to reinforce the continuation of "Always There" campaign.**
e) **Strong Cinco program to reinforce AFM leadership in this key event.**

Kevin Hamilton explained that our current campaign has 2-3 years usage based on Havas Wear-Out program. That will give us the opportunity to reinforce the campaign in 2017 with specific ads and videos in key topics like education, health & wellness and taste appeal.

AFM will continue it's Corporate Responsibility program through the sponsorship with the Partnership for a Healthier America, this new year with a smaller contract of $750k vs $1 million from the previous year.

2- Media:

Alvaro presented new media strategy focused on less general brand impressions and improving the quality of our media interactions to have more consumer reach & digital engagements. These are the media objectives for 2016- 2017:



Kevin Hamilton presented AFM's media plan including:

a) **New Super Bowl investment through FOX. The objective is to negotiate the new ad for no more than $4.3 million maintaining the same position in the first break and including a media match of no more than $2.8 million (65%).**
b) **Media match in FOX will be used in NFL support (especially pre game shows), college sports (football & basketball), FOX streaming, digital & entertainment focused more in female driven shows.**
c) **Direct buy in key Maya focused networks and shows including: Today Show, Food Network, Cooking Channel and America's Test Kitchen in PBS.**
d) **Strong digital video and streaming investment to change the strategy from buying networks to buying audiences in their different screens. Most of this buy will be highly directed towards our key consumer segments Balance Bonders and Gourmet Explorers.**
e) **Print buy in key health & wellness and entertainment magazines. Print campaign will be used to reinforce avocado key nutritional benefits.**

3- Digital:

Ivonne presented AFM's digital program including:

a) **Complete evolution in the way we buy digital media, moving from banners to highly engaging experiences especially concentrated in video assets. This new strategy includes and strong videos partnership with Tastemade that will include an interactive landing page in our website to multiply consumer's interaction with our platform and key messages.**
b) **Strong influencer and brand ambassador program through key partner networks like Mom it Forward, IZEA and Social Toaster.**
c) **Digital amplification of our education (Pati Jinich) and H&W (Sesame Street & Avolifestyle) platforms using partners like Verve to develop geo-targeting messaging.**
d) **Amplification of our education program using our new Culinary Center as a base for live streaming and the launch of the first produce chatbot in the country.**
e) **Strong search program multiplying our paid search capabilities and bringing a top SEO partner like Merkle.**
f) **Production of more than 200 new recipe shots and 50 recipe videos for our website and social platforms.**
g) **New predictive model and personalization program of our platforms through One Spot.**
h) **Strong content development program through our partners DCustom and Contently.**

4- Consumer Programs:

Alvaro presented AFM's consumer programs including:

a) **Final year of the branded sticker incentive for Mexican packers. Objective is to have more than 1.2 billion units branded with AFM's logo by the end of the fiscal year.**
b) **New Super Bowl experiential program in Houston.**
c) **Macy's partnership that is still TBD based on availability for 2016. If that doesn't work AFM will look into other massive events like Emmy's to reach a strong female audience.**
d) **Renew Pati Jinich contract and focused her as our ambassador for consumer education.**
e) **Special support for HAB's campaign with the American Heart Association (Healthy Living) in which all the different avocado associations will be investing together for the following four years. AFM's support for year one will be $450.000. Emiliano Escobedo expressed his gratitude for this support at the end of the board meeting.**
f) **New AFM's direct partnership with the American Heart Association to become an official sponsor of their program Go Red For Women. This sponsorship will cost $1 million a year for the following four years. Alvaro still needs to work with AMS the process to sign multi-year contracts.**

Ricardo Vega expressed that some of the customers were asking to discontinue the sticker program because it looked like we were mixing 2 brands in the box. Some of the customers asked for only 1 sticker. It only happened at the beginning of the program. Alvaro clarified that we didn't hear anything about this and that the idea of the program was to put one sticker and not two.

Super Bowl Experience: Miguel Barcenas asked how we are going to participate in Houston. Alvaro clarified that we are activating around SB city with trucks and sampling. We don't have investment to be part of the NFL experience.

Mike Browne wanted to clarify Macy's Parade. Alvaro explained that last year was a surprise and we got a space. If we want to partner for 2017 they are open. Right now we are on the bench for 2016. The meeting with Macy's is in mid-June and we will know by then. If we know we want to do this in the future we may need to preserve some dollars to do a 3 year deal. Alvaro will get back to the Board with a proposal for Macy's.

Gary Caloroso mentioned that we should look into Halloween and also recommended that AFM should talk to the National Diabetes Association especially to develop a possible partnership for Hispanics.

Ramon Paz proposed that partnership with AHA for HAB: Allow up to $500k investment. Board approved.

5- Hispanic Marketing:

Stephanie Bazan presented the Hispanic program for 2016- 2017 that will be based in three main pillars:

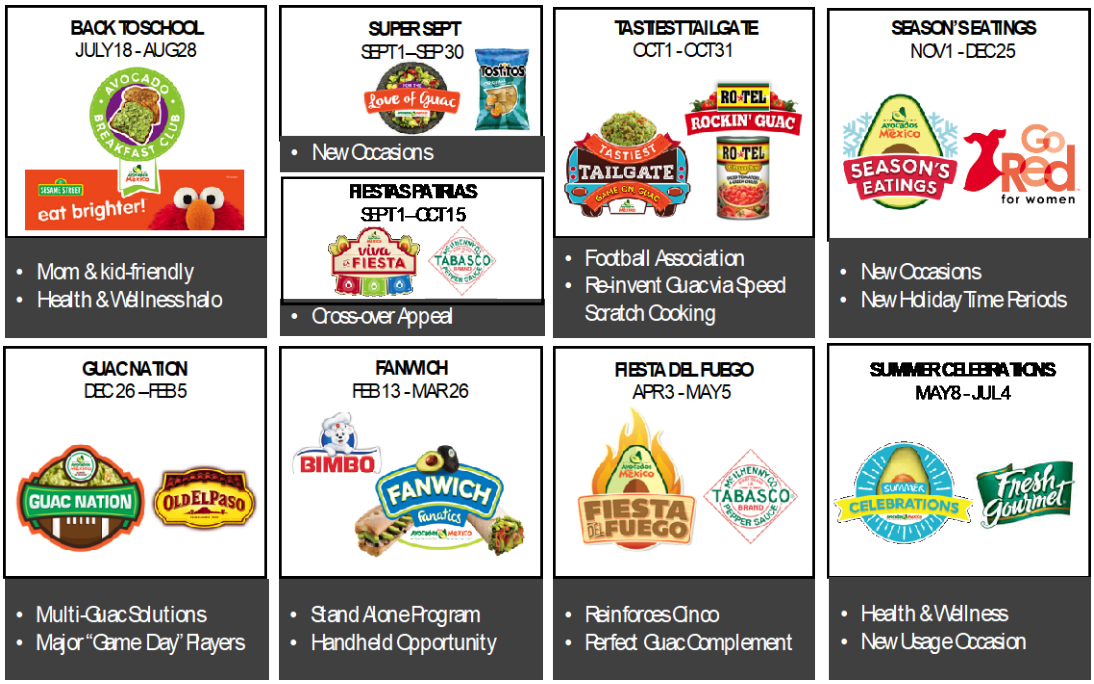
a) **Future Latina program through the new digital latina club Vida Aguacate that was recently launched and will be the main focus of the Hispanic marketing campaign for the new fiscal year.**
b) **Nutrition through the Sesame Street partnership and the re-launch of the Echale Challenge program. Stephanie mentioned that AFM will try to get closer the American Diabetes Association to develop some partnership that could be used in the Hispanic program.**
c) **Moms & Kids through soccer programs and clinics for kids in key HM markets including in-store events and activations. Stephanie mentioned that these soccer programs were tested in 2015- 2016 in California and Texas and the results indicated a 4x times sales in avocados during the in-store events.**

Stephanie mentioned that AFM will continue with the Echale campaign using the two new TV ads produced at the end of 2015. The TV and digital campaign will run from September 2016 to July 2017.

6- Shopper Marketing:

Stephanie Bazan and Dianne Le presented the shopper program including:

a) **New shopper marketing & trade strategy for AFM.**
b) **New shopper study with Eggstrategy that will give us specific consumer mindsets and key shopper information in four power accounts: Walmart, Ahold, Kroger and Safeway.**
c) **New seasonal program calendar including 9 national promotions that will run from July 8 2016 to July 4 2017. The new programs are concentrated in key consumer holidays and events like: Back To School, Hispanic Heritage Month, Football Season, Holidays, Super Bowl, March Madness, Cinco de Mayo and Summer. Partners include leading companies like Tabasco, Rotel, Old el Paso, Bimbo and Fresh Gourmet.**



d) **New Super September program to develop a Fall event for the future. This is AFM's biggest promotional program so far including the first ever national digital BOGO and pallet displays offer for General Market stores. The cost is $2.2 million and the idea is that AFM will celebrate guac every year with this promotion in the month of September expecting that the program grows through time. Alvaro explained that the funding in place for the BOGO was NOT to drive price down but a consumer facing programming**

Alvaro mentioned that this program was created based on the board direction in the last planning session in Feb 2016 in Dallas where they expressed the need to develop something strong in the Fall that will help us increase volume and sales velocity that could protect the market value of the fruit through this important season.

Luke Sears mentioned that we need to be sure that the BOGO offer doesn't apply to bags where they can buy one and get one for free.

e) **New merchandising units including a cross merchandising basket for dairy & eggs, an expandable display unit for meat bunkers, a set "Farmer's Market" displays 100% recyclables and a new salad Center solution to partner directly with other produce brands and categories.**

f) **Extended merchandising program for in-store guac solutions including the new guac bar created for Jewel stores where consumers will be able to customize their own guac in store. AFM will pay for 30 of those units as a test and they will be 100% branded.**

g) **New breakfast program that will focus in direct partnerships with dairy and egg companies. Stephanie confirmed that for this program AFM has an agreement to partner with Egg-Land's Best for a 3 million coupon program in Feb- Mar 2017. Also mentioned that the company has been working hand in hand with the American Egg Board to reinforce and grow this breakfast program for the new fiscal year.**

7- Trade:

Maggie Bezart presented the trade program including:

a) **Flex Fund program of $6.7 million (43% growth from YA) that will be concentrated 60% in Tier 1 accounts. Flex Funds will concentrate in 4 key investment areas that includes: Loyalty Programs, Promotional Ads, Demos and Contests.**

b) **Strong promotional calendar for AFM's Power Accounts: Walmart, Sam's, Kroger, Safeway- Albertsons, Publix, Costco, HEB, Delhaize and Ahold.**

	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
A-Hold		Loyalty Demos Other		Demos Loyalty		Loyalty	Advertising	Advertising Demos	Loyalty	Loyalty	Advertising Demos		
Costco		Other		Demos		Loyalty		Advertising Demos		Demos	Demos	Demos	
Delhaize		Loyalty		Demos Loyalty	Loyalty Demos	Loyalty Demos	Advertising Loyalty Demos	Advertising Loyalty		Loyalty Other	Advertising		
HEB		Loyalty		Advertising Loyalty	Advertising	Advertising	Advertising Loyalty	Advertising	Advertising	Advertising Loyalty	Advertising Other	Advertising	Advertising
Kroger	Loyalty			Loyalty					Loyalty				Loyalty
Meijer				Loyalty		Loyalty		Loyalty		Loyalty			Advertising
Publix		Other Loyalty	Advertising Demos	Demos Other	Other	Loyalty	Advertising	Advertising	Loyalty		Demos	Demos	Other
Safeway/Albertson's				Advertising Loyalty Contest	Advertising Loyalty Contest		Advertising Loyalty Contest	Advertising Contest		Advertising Loyalty Contest	Advertising Loyalty Contest	Advertising	Loyalty
Sam's Club				Demos	Demos		Demos	Demos			Demos		
Walmart				Demos	Demos Other		Demos		Demos	Demos		Demos	

c) **Trade intelligence program with key partners like Category Partners, IRI, Market Track and Kantar.**
d) **Merchandiser program that will maintain the Hispanic merchandisers and will test for the first time a merchandiser for General Market JOH Brokerage. Also AFM will continue the partnership with Field Agent to audit some of our seasonal program results and develop an improvement plan.**
e) **Stronger RD program through Barbara Ruhs that will concentrate most of her activities in monthly newsletters, events, toolkits, healthy recipes and advertising.**

8- PMA

Alvaro presented the new booth that will be activated in October 2016 at the PMA Show. The booth includes three new features:

a) **Avo Theatre where clients and visitors can experience a set of brand videos of our new program and insights.**
b) **Retail Showroom: extended second floor for retail and foodservice clients where they can see all our promotional program, displays and new merchandising for their stores.**
c) **The Avomatic: a interactive kitchen where visitors can customize their dishes and engage digitally with the brand.**

9- Foodservice

Mark Garcia presented the Foodservice program including:

a) **New print and PR campaign developed by the new agency Weber Chandwick.**
b) **Chef engagement program including the continuation of the partnership with the CIA and the premium sponsorship of MUFSO. AFM is planning to do 2-3 chefs summits in the new year including at least one new Tour of Mexico.**
c) **Culinary development program with CSSI to create a base of menu ideas and a new innovation techniques to support throughout the year.**
d) **Strong LTO program based on the operator priority list that came from the Segmentation study. The four main development areas for LTOs will be: hand helds, Guac, breakfast and key holidays.**
e) **Comprehensive distributor program that will include an education and communication program with big broadliners and a promotional and incentive program with the smaller regional players that are moving the fruit directly to the restaurants.**
f) **New Culinary Center in Dallas to develop menu and promotional ideas with operators and distributors.**

10- Future Development:

Alvaro presented some ideas that AFM will be implementing this year as part of the future development growth program:

a) **Avocado University: using the Dallas Culinary Center AFM will launch an interactive educational program with culinary certification around avocados. The program will be design to serve operators, clients, distributors, agencies and RDs. Program will be divided modules and the goal is to launch it in Jan 2017. AFM will explore the opportunity of having a sport suite in one of the Dallas stadiums to complement the client visits and entertain while they are in Dallas.**
b) **New Generations (Millenials): to reinforce avocados into younger generations, AFM will launch a college experiential program that will take branded trucks and carts into campuses with healthy breakfast solutions through the power toasts idea. AFM is looking for potential partners to develop this program.**
c) **New Generations (Kids): For kids, AFM will launch a stronger program with YMI to reach @11 million kids and families through school materials to reinforce avocado education and nutritional messaging. Also AFM is starting conversations with Pixar to explore sponsorship opportunities of their 2017 Thanksgiving movie Coco and Disney to explore new usage opportunities and experiential events.**
d) **Regional Focus: as part of the Source of Growth analysis AFM will start developing a regional approach to incentivize the consumption of avocados in specific parts of the country. The number one development region is Midwest where AFM will do some new communication and promotional programs to test this opportunity.**
e) **African Americans: AFM will explore the usage and purchasing habits of this important demographic group to determine some promotional and brand development opportunities.**

After discussion, Ramon Paz motioned to approve the new plan which was seconded by Gary Calaroso. The motion carried without objection.

There being no other new business, Antonio Villasenor motioned to adjourn which was seconded by Ramon Paz. All were in favor.

After the MHAIA meeting on May 17 the AFM board reconvened on the morning of May 18 for additional business.

Mike Browne called the meeting to order established a quorum and re-acknowledged the antitrust policy.

Miguel Molina presented an update on the Administrative expenses and the new office expansion:

Culinary Center:

- **Gary Calaroso motioned to approve a 10 year office expansion to host AFM's culinary center and expand our current offices. Ramon Paz seconded the motion. All were in favor.**
- **Real Estate Agency, CBRE, will contact the landlord to further negotiate a decrease in the RSF rate increases after the fifth year as well as an 18-month parking abatement.**

AFM Admin Expenses

- **Board requested to change our summary financial presentation and list administrative expenses as a separate line. This change will be implemented in future presentations.**
- **Board also requested to re-evaluate our risk management position and review our current insurance policies to make sure we are adequately protected.**

Flexible Spending Account:

- **A new Flexible Spending Account benefit for AFM employees with a $500 employer match per year was approved.**
- **This benefit will be implemented in July 2016.**

Alvaro presented to the JEC Board the proposal for salaries improvements and new personnel:

Salary improvements were approved for:

- **Miguel Molina**
- **Dunia Salguero**
- **Esmeralda Blanco**
- **Ivonne Kinser**
- **Alfonso Delgado new position as Trade Marketing Director**
- **For the rest of the company AFM will be doing the annual performance review and COLA increase proposal starting July 1, 2016.**

New positions approved:

- **Events and Sponsorship Manager reporting to Stephanie Bazan.**
- **Foodservice Culinary Manager reporting to Mark Garcia.**
- **Foodservice Sales Manager reporting to Mark Garcia.**
- **South Central Regional Trade Manager reporting to Maggie Bezart.**

Alvaro will work with the new HR Manger position and the CFO to hire an independent study on compensation and benefits with a specialized agency that could give the Board an analysis of the market vs the real compensation for AFM employees by position. The HR manager will coordinate directly with the Board to get them involved in this study. In addition, the HR manager will have a "dotted line" to the board and should also create a "Hot Line" to prevent exposure if issues arrise.

Ramon motioned to to approve the employee compensation and human resources plan which was seconded by Gary Calaroso. All were in favor.

There being no new business, Antonio Villaseñor motioned to adjourn which was seconded by Martin Mendoza. All in favor.

Respectfully Submitted

Ron Campbell
Secretary AFM