

Cal-Maine provides Americans with remarkable food choice: Eggs

The Company has one operating segment, which is the production, grading, packaging, marketing and distribution of shell eggs. The majority of our customers rely on us to provide most of their shell egg needs, including specialty and non-specialty eggs. Specialty eggs represent a broad range of products. We classify nutritionally enhanced, cage free, organic and brown eggs as specialty products for accounting and reporting purposes. We classify all other shell eggs as non-specialty products. While we report separate sales information for these egg types, there are many cost factors which are not specifically available for non-specialty or specialty eggs due to the nature of egg production. We manage our operations and allocate resources to these types of eggs on a consolidated basis based on the demands of our customers. We sell most of our shell eggs in the southwestern, southeastern, mid-western and mid-Atlantic regions of the U.S. through our extensive distribution network to a diverse group of customers, including national and regional grocery store chains, club stores, foodservice distributors and egg product consumers. Some

of our sales are completed through co-pack agreements – a common practice in the industry whereby production and processing of certain products is outsourced to another producer. The strength of our position is evidenced by having the largest market share in the grocery segment for shell eggs. We sell shell eggs to a majority of large U.S. food retailers. We are one of the largest producers and marketers of value-added specialty shell eggs in the U.S. They have been a significant and growing segment of the market in recent years. A significant number of our food service customers, large restaurant chains, and major retailers, including our largest customers, have committed to exclusive offerings of cage-free eggs by specified future dates. We are working with our customers to ensure a smooth transition in meeting their goals. Our focus for future expansion at our farms will be environments that are cage-free or with equipment that can easily be converted to cage-free, based on a timeline to meet our customer’s needs. In fiscal 2017, specialty shell eggs and co-pack specialty shell eggs represented 43.6% and 3.1% of our shell


egg sales dollars, respectively, and accounted for approximately 22.9% and 1.6%, respectively, of our total shell egg volumes. In fiscal 2016, specialty shell eggs and co-pack specialty shell eggs represented 29.1% and 2.7% of our shell egg sales dollars, respectively, and accounted for approximately 22.9% and 2.0%, respectively, of our total shell egg volumes. Prices for specialty eggs are less volatile than non-specialty shell egg prices and are generally higher due to consumer willingness to pay for the perceived increased benefits from those products. We market our specialty shell eggs under the following brands: Egg-Land’s Best®, Land O’ Lakes®, Farmhouse®, and 4-Grain®. We are a member of the Egg-Land’s Best, Inc. (“EB”) cooperative and produce, market and distribute Egg-Land’s Best® and Land O’ Lakes® branded eggs, along with our associated joint ventures, under exclusive license agreements for a number of states in the southeast, south central, and southwest U.S. as well as the New York City area. We market cage-free eggs under our trademarked Farmhouse® brand and distribute them across the southeast and

southwest regions of the U.S. We market organic, cage-free, vegetarian, and omega-3 eggs under our 4-Grain® brand. We also produce, market, and distribute private label specialty shell eggs to several customers. We are a leader in industry consolidation. Since 1989, we have completed twenty acquisitions ranging in size from 600,000 layers to 7.5 million layers. Despite a market that has been characterized by increasing consolidation, the shell egg production industry remains highly fragmented. At December 31, 2016, 56 producers, owning at least one million layers, owned approximately 97% of total industry layers. The ten largest producers owned approximately 58% of total industry layers. We believe industry consolidation will continue and we plan to capitalize on opportunities as they arise. Industry Background Based on historical consumption trends, we believe general demand for shell eggs increases in line with overall population growth, averaging growth of about 1% per year. In 2013 and 2014, consumption of eggs grew approximately 2% per year. In 2015, egg consumption decreased



approximately 4% over the prior year primarily due to a shortage of eggs resulting from an outbreak of avian influenza (“AI”) in the spring of that year. According to U.S. Department of Agriculture (“USDA”), annual per capita U.S. consumption since 2000 varied between 249 and 275 eggs. In calendar year 2016, per capita U.S. consumption was estimated to be 275 eggs, or approximately five eggs per person per week. Per capita consumption is determined by dividing the total supply of eggs by the entire population in the U.S. (i.e. all eggs supplied domestically by the egg industry are consumed). Slightly over 30% of eggs produced in the U.S. are sold as egg products (shell eggs broken and sold in liquid, frozen, or dried form) to institutions (e.g. companies producing baked goods) with most of the balance sold to food service and retail consumers (e.g. through grocery and convenience stores) and a relatively small amount exported. Our sales are predominately to retail consumers; in fiscal 2017 and 2016, approximately 2% and 4% of our net sales was egg products, respectively.



Cal-Maine is located West of Chase. Above is a row of several buildings which also house laying hens. The company ships millions of eggs yearly from this facility alone.




IT JUST ISN'T
BREAKFAST
WITHOUT
EGGS



Today's Eggs
are an important source of

- Protein
- Vitamin A
- Riboflavin
- Folacin
- Vitamin B₁₂
- Iron
- Zinc
- Phosphorous



Wouldn't you love some now?!

CAL-MAINE FOODS, INC.

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