

Optimising your business



Melkprodusente-organisasie / Milk Producers' Organisation
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Stating the
obvious...

?



Critical questions



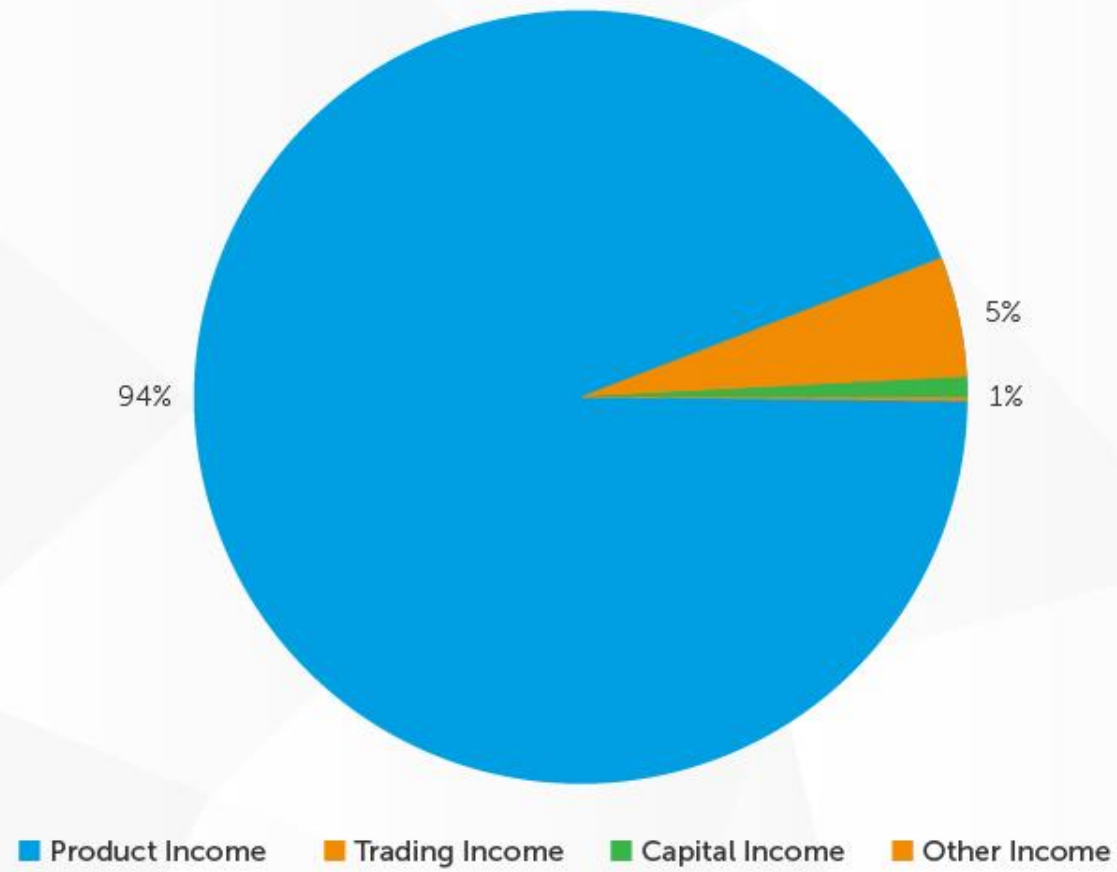
- What is the nature of your business?
- What can you manage within your area of business?
- What is impacting on what you can manage?
- What other opportunities are there, if you want to optimise your business?



What is the nature of your business?



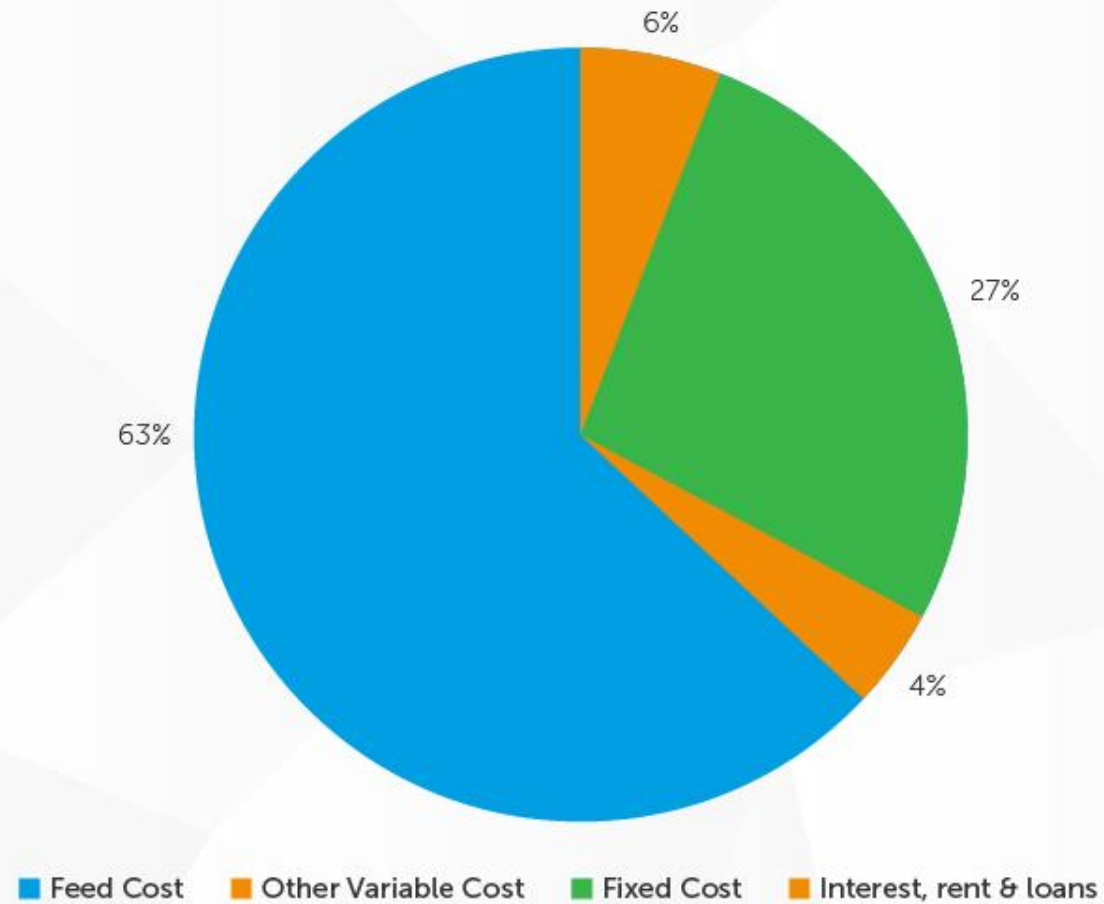
Income



What is the nature of your business?



Costs



What can you manage within the area of your business?



From a business perspective, it is important to focus on the following:

- **Income from produce**
 - Volume
 - Price
- **Costs, especially feed cost and fixed cost**
 - Feed composition and utilization
 - Conversion of feed into milk
 - Productive vs non-productive animals (herd structure)
 - Number of lactations per cow in milk, etc.
- **Margin above cost of production**
 - Milk price to feed cost ratio is a good indicator
 - Contribution per cow in herd is of great importance



What is impacting on what you can manage?



- ❑ Market conditions, impacting on milk price and domestic volumes
- ❑ Meat prices
- ❑ Climate and weather conditions
- ❑ Availability of water
- ❑ Feed quality and availability
- ❑ Increased prices of water and energy resources
- ❑ Increased prices of commodities, products and equipment
- ❑ Land prices
- ❑ Political direction and impact
- ❑ (BEE, land reform, water rights, etc.)



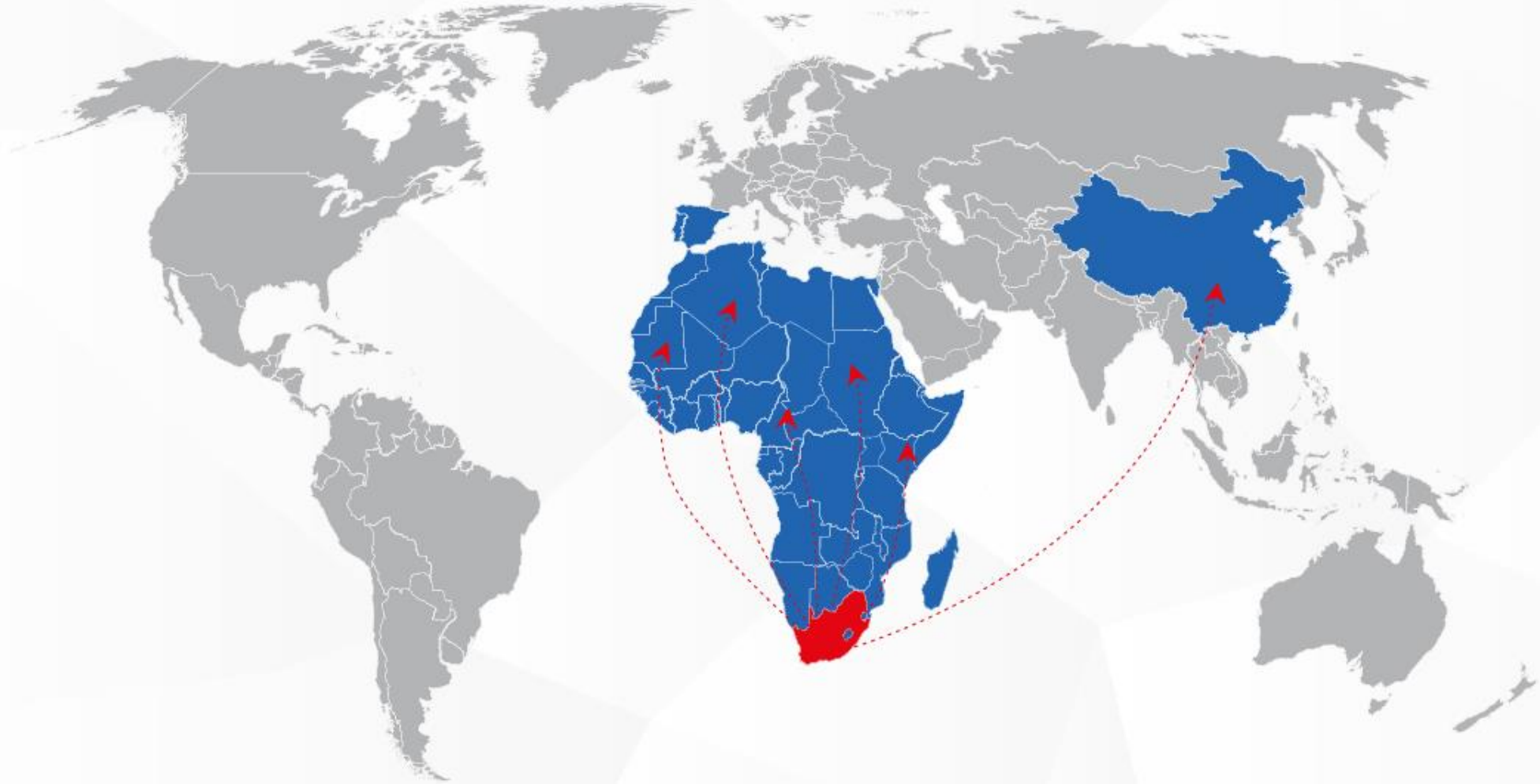
**What other
opportunities are
there if you want to
optimise your
business?**



Going beyond the
obvious...



Industrial park and agro-processing centre FROM SOUTH AFRICA INTO AFRICA and beyond...



Problem statement

- Small domestic dairy industry, which constrains growth and employment
- Slow growth – average growth of 2% between 2012 and 2014 as opposed to more than 12% in leading export countries such as New Zealand
- Global market growing faster than South African market
- Limited new investments in new plants and technology in the last ten years
- Rapid decline in the number of dairy producers (55% drop since 2006)
- Little transformation in the sector

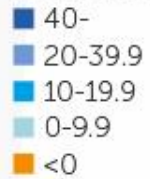


Population change in emerging markets: 2014-2030

The opportunity?

% Change

2014-2030



Population Growth

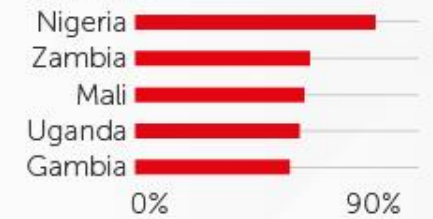
Emerging and developing countries 2014 = 100



5 Fastest-growing

2014-2030

% change



5 Fastest-falling

2014-2030

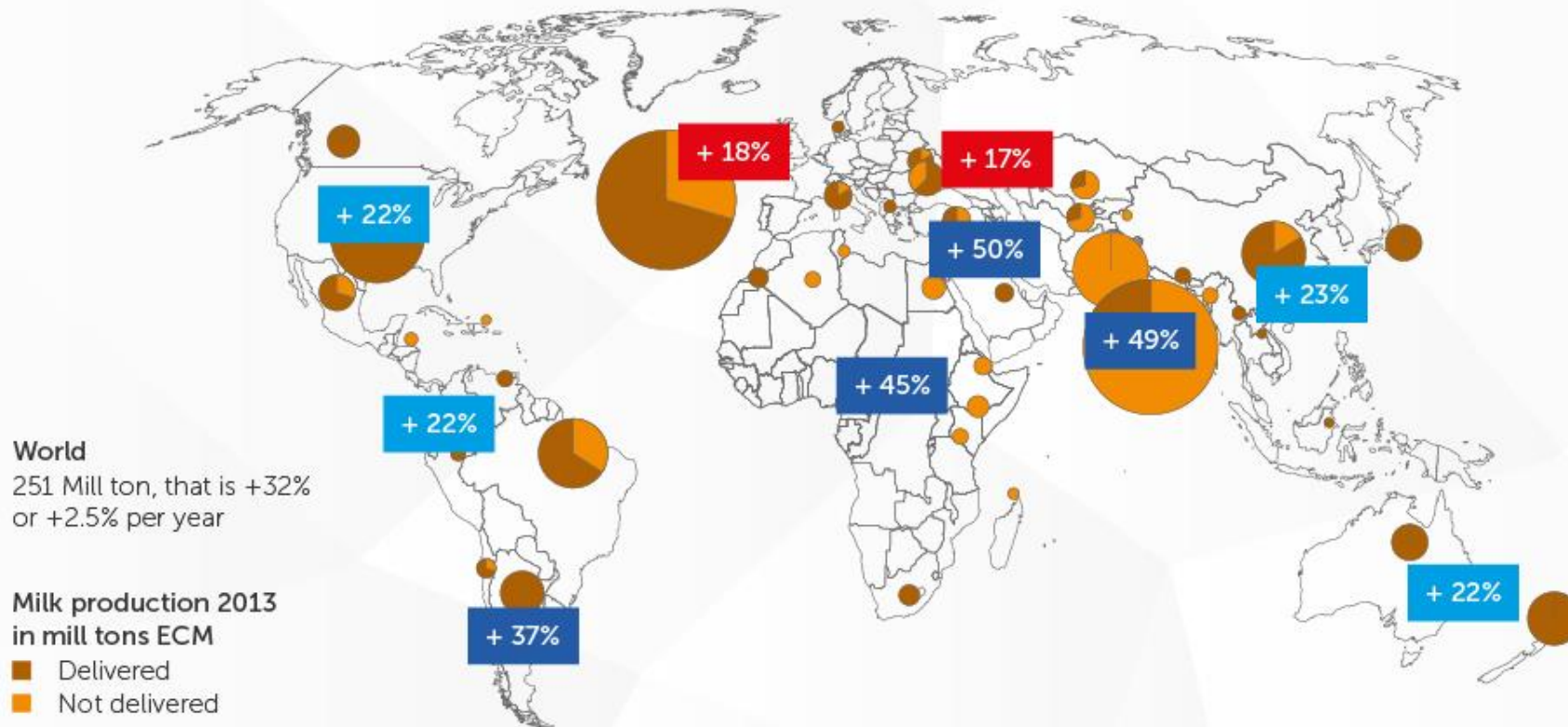
% change



Africa is expected to be one of the strongest growth regions over the next ten years

Where will milk production grow?

Results on production growth 2013 to 2024 for ten world regions

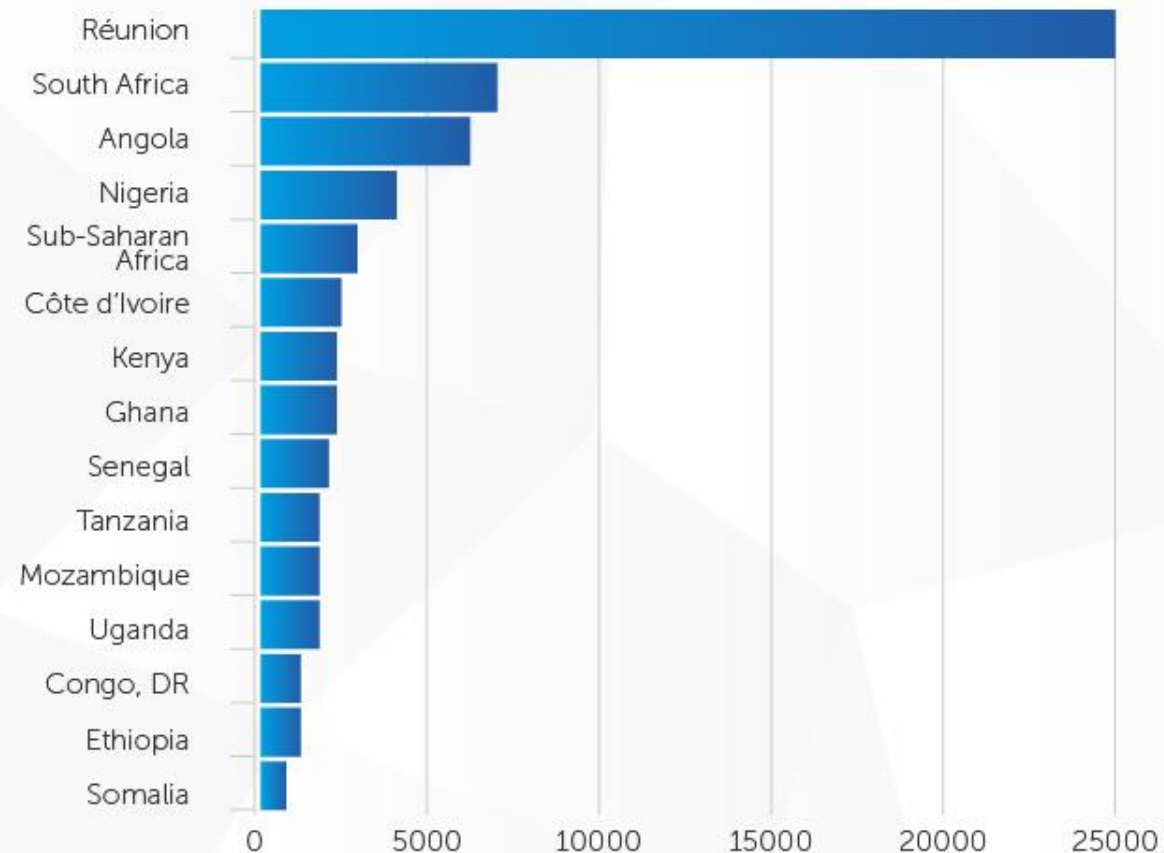


"Middle class lifts growth"



Africa rising narrative moves on despite fears over declining commodity prices

Per capita GDP of selected sub-Saharan African economies:
2014 \$ per capita

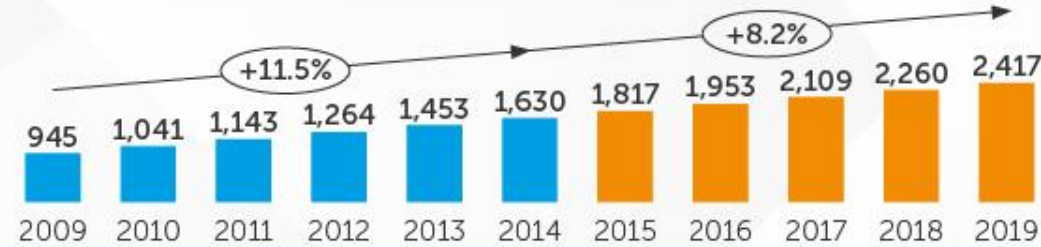


To prove the point...

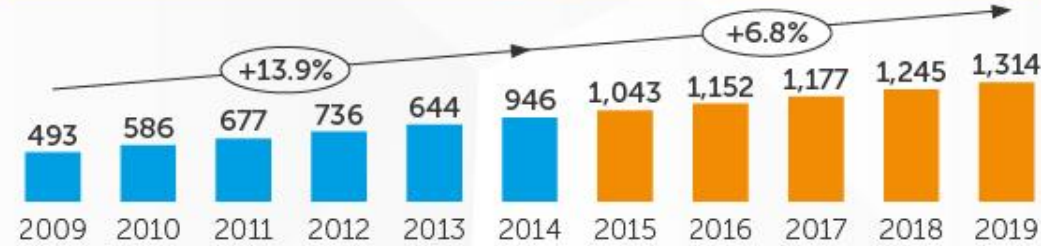
Snapshot of the Nigerian Dairy Market



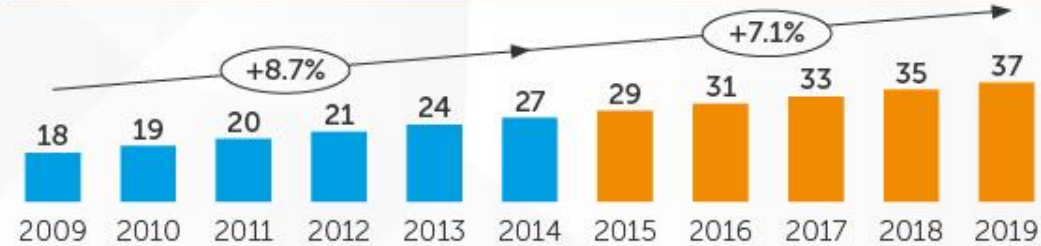
Drinking Milk Products⁽¹⁾ (USD mn)



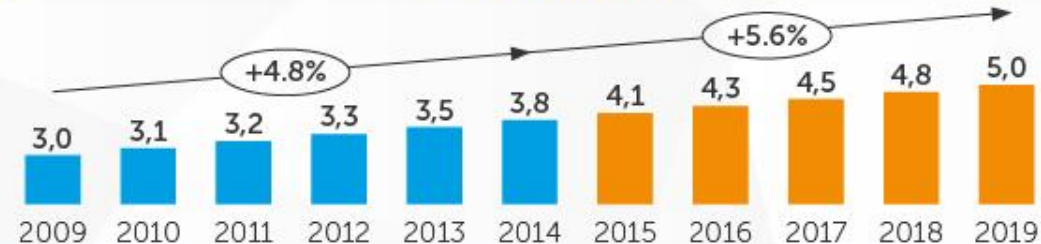
Other Dairy⁽²⁾ (USD mn)



Yoghurt and Sour Milk Products (USD mn)



Cheese (USD mn)



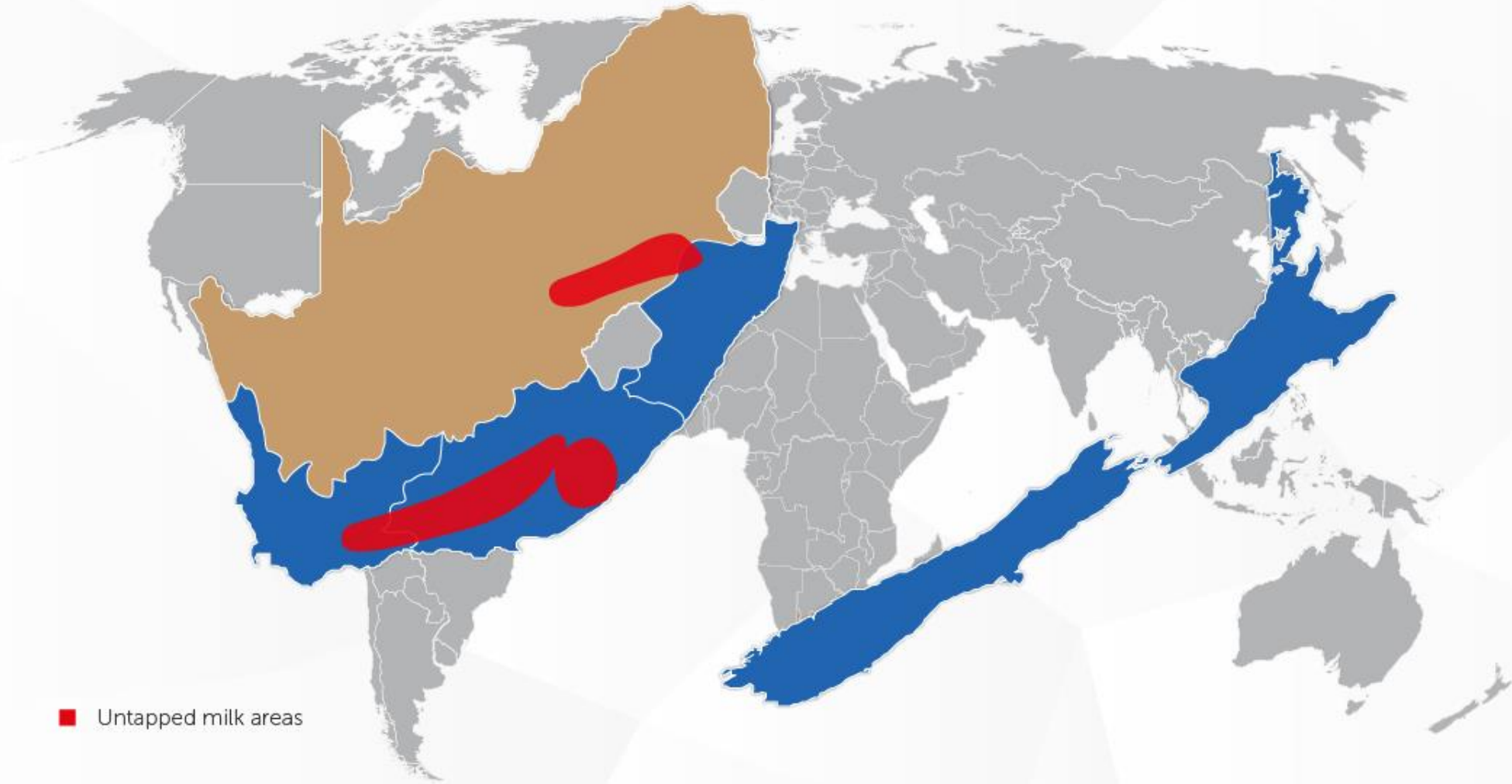
Source: Euromonitor data (November 2014)

1. Milk, Flavoured milk, Flavoured powdered milk, Powdered milk, non-dairy milk (soy, etc.)

2. Chilled and Shelf Stable Desserts, Chilled snacks, Coffee whiteners, Cream, Fromage Frais and Quark



Why can South Africa not be the dairy supplier of choice for the African Continent?



■ Untapped milk areas

Economic Rationale



Opportunity

Clover identified an opportunity to invest in a multi-disciplinary technologically advanced industrial park to enable South Africa to take part in the untapped export market

INDUSTRY AND NEW PRODUCT DEVELOPMENT	EXPORT GROWTH	JOB CREATION
<ul style="list-style-type: none"> □ Grow dairy industry as local market is limited □ Development of milk protein-based dietary supplements in 'functional foods' and pharmaceutical industry 	<ul style="list-style-type: none"> □ Tap into projected global market, particularly the rest of Africa, Middle East and Asia □ Export more value-added products □ Import substitution/trade balance 	<ul style="list-style-type: none"> □ 600 new on-farm jobs □ 64 jobs with the new powder plant □ 1 020 downstream jobs □ 10 000 new retail jobs in township communities
...
TRANSFORMATION	ENTERPRISE DEVELOPMENT	REGIONAL DEVELOPMENT
<ul style="list-style-type: none"> □ Promotion of more equitable growth by creating more emerging farmers □ Giving emerging farmers market access - incorporation into the value chain □ Promoting a more producer-friendly market structure 	<ul style="list-style-type: none"> □ Farm level - agricultural product suppliers, transport, veterinary services, and infrastructure maintenance services □ Plant level - suppliers for ingredients, packaging, and transport □ Retail - develop a retail distribution network of 2 000 township stores 	<ul style="list-style-type: none"> □ Establishment of an industrial park in a largely rural town thus promoting the sustainability of rural economies □ Promote productive use of fallow land

Price risk and fluctuation – NOT VOLUME

But the challenge...



Item	Period	Value	% change (same period previous year)
Milk purchased (1000 tonnes)	2013 ¹	2 906	+2,2%
Milk purchased (1000 tonnes)	2014 ¹	2 983	+2,7%
Milk purchased (1000 tonnes)	May 15 ¹	244	+10,0%
Milk purchased (1000 tonnes)	Jan 15 - May 15 ¹	1 239	+10,8%
Dairy imports (1000 tonnes)	2014 ³	40,2	+12,7%
Dairy imports (1000 tonnes)	Jan 15 - Apr 15 ²	25,2	+83,9%
Dairy imports (1000 tonnes)	2014 ²	71,1	+0,9%
Dairy imports (1000 tonnes)	Jan 15 - Apr 15 ²	19,5	-12,2%
Producer price index of raw milk (base 2012 = 100) ³	May 15 ¹	128,2	+7,2%
Farm requisite price index (base 2010 = 100) ⁴	Oct 14 ⁴	142,8	+6,9%
Producer price index of dairy products (base 2012 = 100) ³	May 15 ¹	126,5	+6,1%

Source:

1 Milk SA returns

2 SARS statistics supplied by Sampro

3 Stats SA PPI index

4 Department of Agriculture, Forestry and Fisheries (DAFF) price index of farm requisites

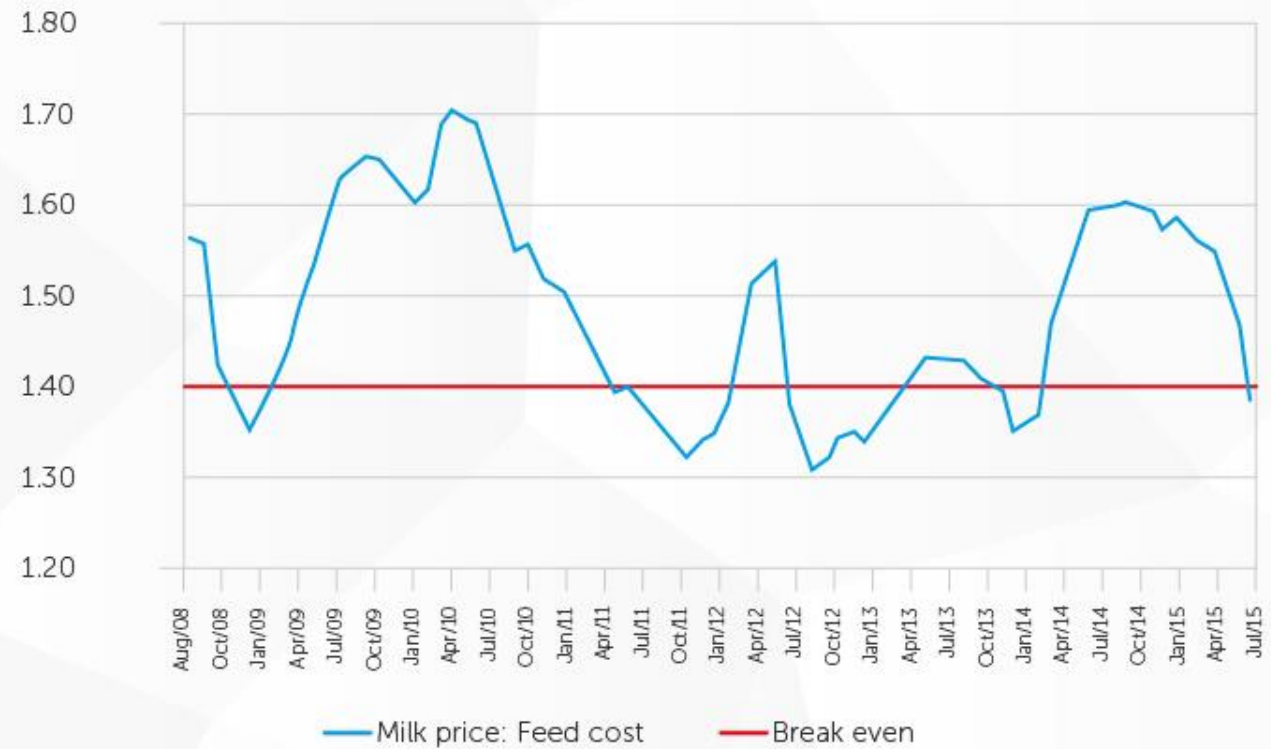


And a reality in terms of input costs!



Milk price: Feed cost ratio

(Source MPO calculation from MPO and SAGIS data).

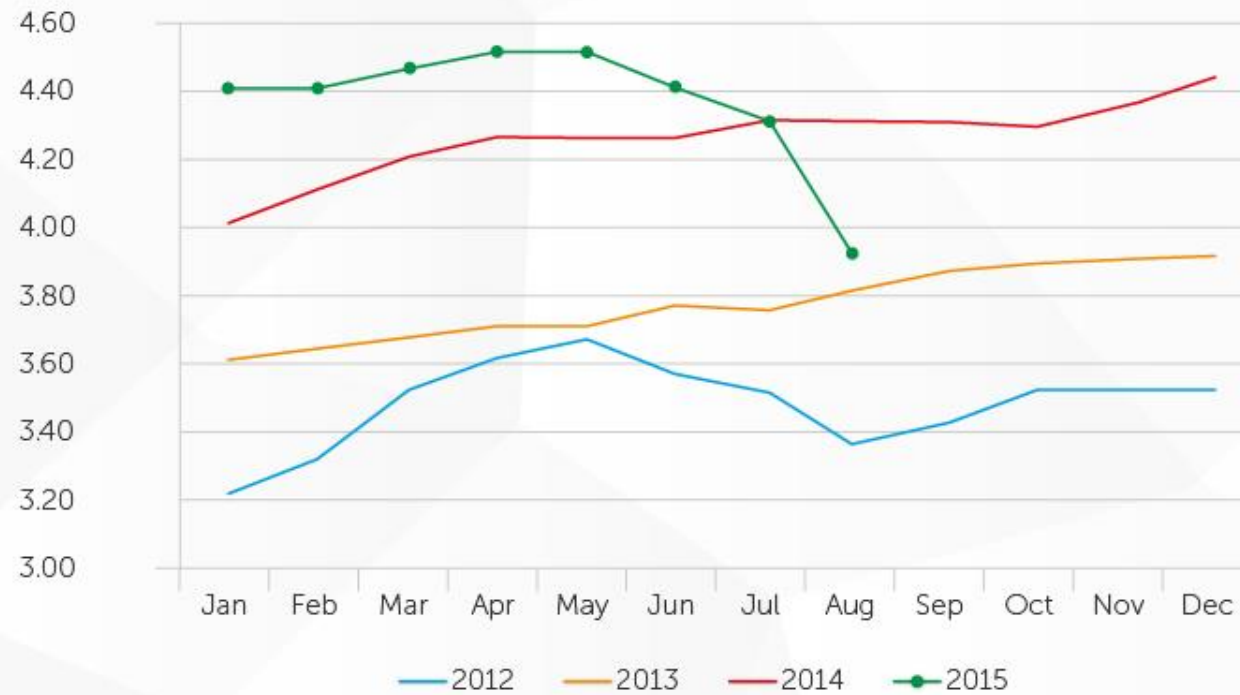


National trends



Milk price to producers (RSA)

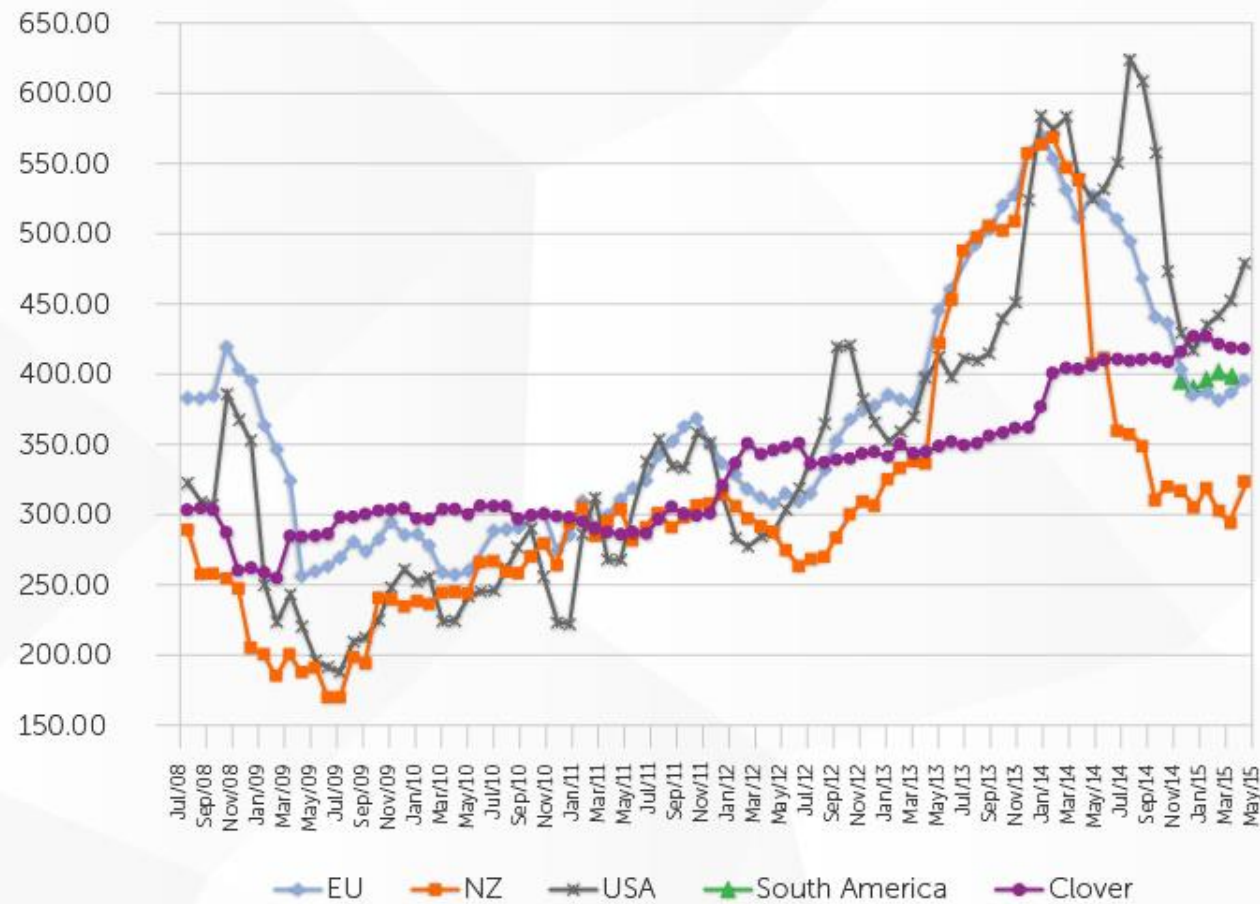
Rand per litre



Clover farm gate milk price vs CPI



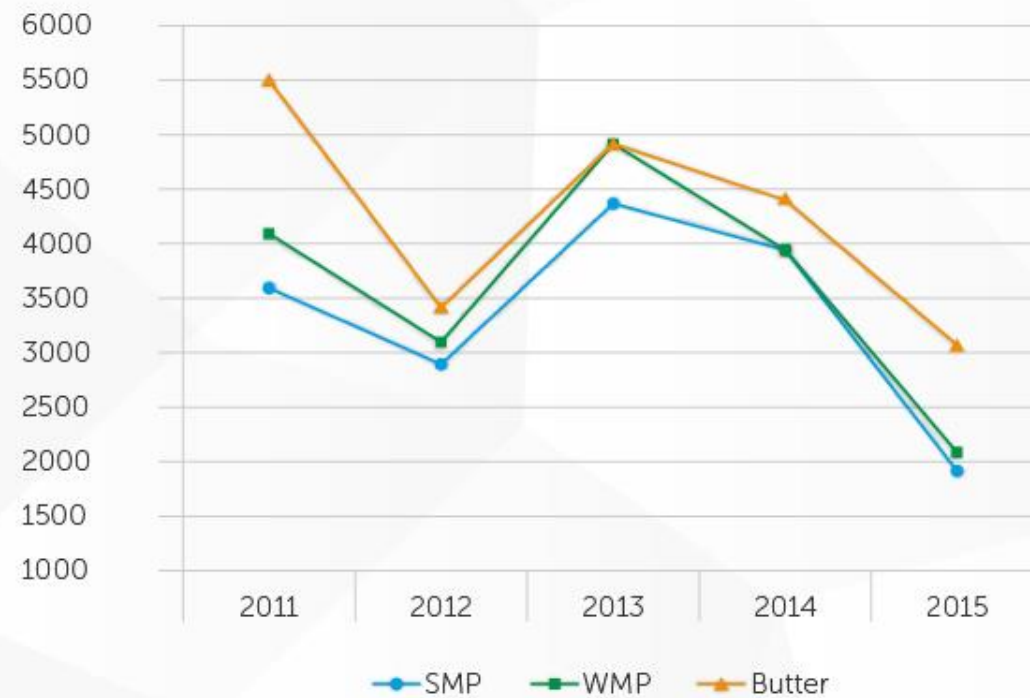
Standardised farm gate milk price comparison



Milk price trends



World commodity prices in \$/tonne,
for August of each year



The long term opportunity

Prices may also increase as farmers keep back stocks to achieve higher prices later



Why you cannot ignore this if you want to optimise your business



- You can **influence your milk price** to a certain extent, by optimising your milk according to price formulations
- In the end, however, **the market will determine your milk price** and the domestic milk price will stay under pressure due to more and more **entrants into sub-Saharan Africa**
- You can **increase your milk volume** on farm and grow your turnover in this manner. However, if you produce raw milk only for the domestic market, even moving between different buyers won't help you for long, as the **growth in the domestic market is very slow** and frequently leads to a situation where the country's milk bucket overflows
- You can **better productivity** and **lower your production costs** and optimise your business in this way, but if the market does not expand you will also not be able to **grow your business**



What can we as an Industry do to better this situation?



- South Africa needs to change its game plan by taking a conscious decision to become export orientated and to **create additional sustainable markets in the rest of Africa and abroad**
- South Africa needs at least **one state of the art Industrial Park**, where all concentrated products can be manufactured in a competitive way
 - Water from raw milk and by-products need to be utilized optimally
 - South Africa needs to be able to standardise protein
- **South African milk producers rank amongst the best in the world** and will have to be competitive with the best in the world in terms of cost and quality of raw milk
- **Partnerships** with other South African businesses and **Government** is of utmost importance, as **state of the art technology** does not come cheap, but will benefit all!



What is Clover's view, going forward?

- Clover has embarked on the above route and will develop its **own export markets** with the help of **Clover Fonterra Ingredients (CFI)**
- Clover will use its **current facilities** to start manufacturing **export related products**, but will simultaneously embark on a road towards a full blown industrial park
- Clover has already engaged with many role players, in creating a **partnership model**
- Clover's **export development initiative program (CEDIP)** will be **open to all producers** in South Africa that can be serviced in a practical manner, although Clover producers will have preference
- Clover believes that this is a **game changing initiative** that will not only help producers to optimise their businesses but also ensure that the **South African Dairy Industry** takes its rightful place in the **global dairy arena**



Conclusion and way forward

- ❑ There are many internal opportunities to optimise your business
- ❑ But, there are numerous external factors that can eliminate all good improvements already made
- ❑ Growth in South Africa is limited
- ❑ South Africa has enormous export opportunity if we all partner well together
- ❑ The Government is in full support of this export initiative
- ❑ Introductory roadshow to be conducted soon in the various provinces for more information on how to participate
- ❑ We hope you can all participate in this game changing initiative...!



**New sustainable
markets...**

...are needed if the South African Dairy Industry wants to prosper!



Thank you

