



2014 PICCC Think Tank

Sustainable intensification of agriculture – what does it mean for south east Australia?



Saputo

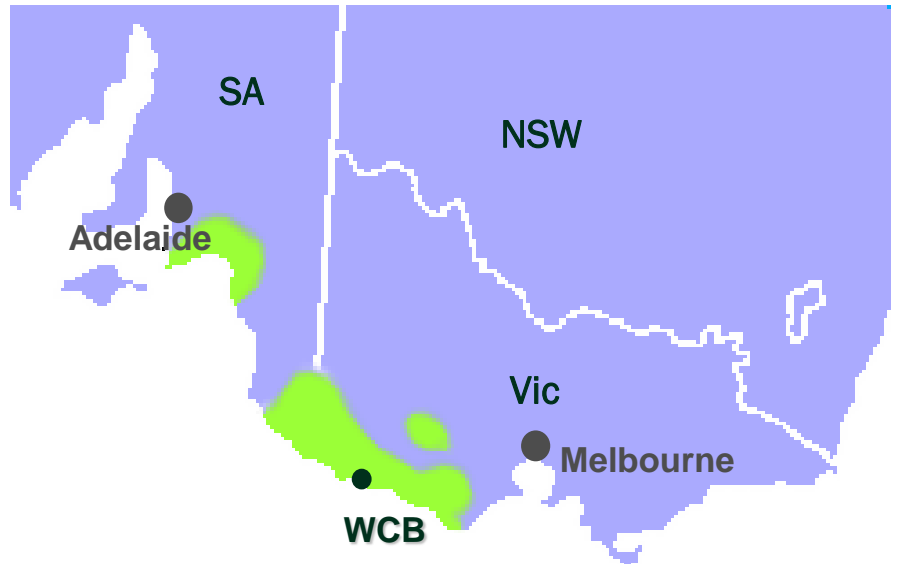
Presentation Contents

- WCB & Saputo at a glance
- The status of the market for internationally traded dairy products
- A processors perspective on the market for raw milk – we all want more...
- Implications for sustainable production growth – latent capacity exists
- Economics of production growth
- Australia's ability to meet Asian food bowl demand
- Value proposition for Australian exporters



WCB at a Glance

- Established 1888 and located in one of the best dairying regions in Australia
- Purchases approximately 10% of Australia's milk production from over 500 exclusive suppliers in SW Vic. & SE SA
- Listed on the ASX in 2004 (previously unlisted public company)
- 500 employees over 3 sites
- In 2014, Montreal based Saputo Inc. acquired 87.92% of WCB shares



Saputo at a Glance

Sector	Facilities	Employees	Revenues %
Canada	25	5,900	40%
USA	26	5,300	49%
International	4	1,500	11%

<p>Products sold in over 40 countries</p>	<p>55 Manufacturing facilities</p> <p>Head Office: Montréal, Québec, Canada</p>	<p>12,700 employees</p>	
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Revenues \$9.2 billion





The status of the market

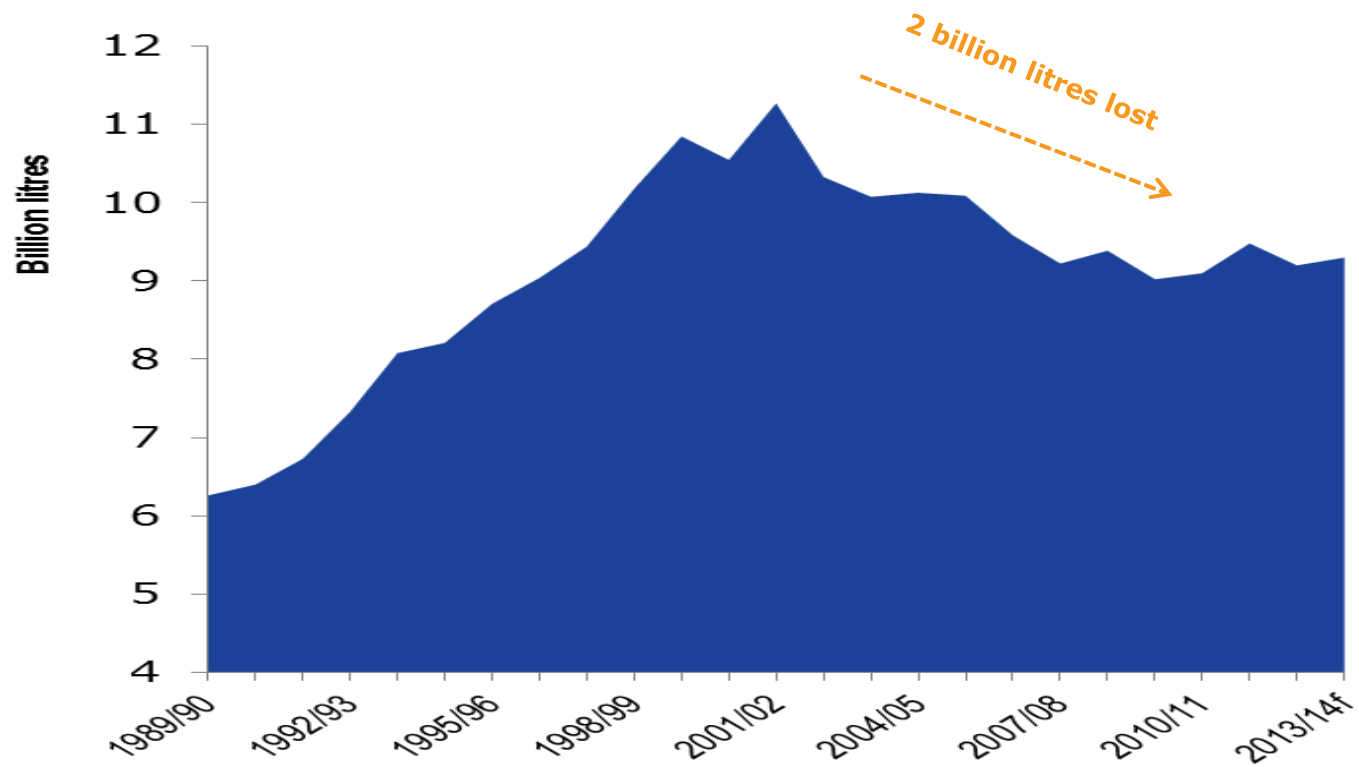
for internationally traded dairy products

- Demand for dairy protein in the developing world, where dairy production conditions don't exist, is robust and growing.
- Wheat and rice being replaced by high protein consumption.
- Asia - 39% of world consumption but price premiums not evident.
- Recently international dairy prices have reduced from 2013 highs.
- Milk production increasing in exporting nations – supply-demand level.
- \$AUD/\$USD relationship, export subsidies, FTA's, market access, all impact the trading conditions.



A processors perspective on the market for raw milk

We all want more....



Warrnambool Cheese and Butter – the Dairy Division (Australia) of Saputo Inc.



A processors perspective on the market for raw milk

We all want more....



- Intense competition for milk supply resulting from:
 - Surplus & unutilised processing capacity;
 - Processors desire to maximise participation in positive trading conditions; and
 - Lower conversion costs and improve returns through higher asset utilisation.
- Upward pressure on farmgate prices. Processors paying the highest possible prices relative to the trading conditions.



Sustainable Production Growth

Latent capacity exists



- There are significant improvements to be made in efficiency gains over the way farm systems currently operate:
 - Maximising individual farm performance and profitability;
 - Effective extension programs that spread best practice and attract broad participation;
 - Transitioning of farm assets into the hands of those who want to grow
- The extent of the impact will be determined by decisions taken by farmers; debt / equity position, stage of life, optimistic / pessimistic outlook, quality of farm assets, appetite for change....





Economics of Production Growth

A farm by farm proposition

- Model Farm; Reluctant Improver; Resistant to Change; Likely to Exit.
- WCB's objective is to facilitate an environment in which its farmers have the confidence to invest in optimisation and growth.
- This involves a range of programs to fit with the wide range of individual needs, circumstances and farm systems.
- Effective execution is key: “kitchen table” discussions to support farmers to implement individual improvement strategies.



Are we really the food bowl in Asia?

The Reality...



The majority of Asia cannot afford our products and we cannot afford to feed them.



Australia's ability to meet Asian food bowl demand



- Increasing demand does not mean price premiums.
- Asian buyers are globally sourcing at world's best prices.
- The Australian industry is geared to higher value ingredients and consumer products.
- The high volume commodity play is not aligned with our capabilities and won't generate the premium returns to support improved farm profitability.



The value proposition for Australian exporters



- Leverage our competitive advantage; reputation for clean, green, food safe products.
- Produce high specification ingredients for premium product applications.
- Design ingredient products to enhance the applications in which they are used.
- Develop premium consumer products that deliver dairy solids to Asian markets in the way they want to consume them.



Value Growth – Control of the raw material

Generate higher returns

Focus on value growth markets

Innovate to stay ahead

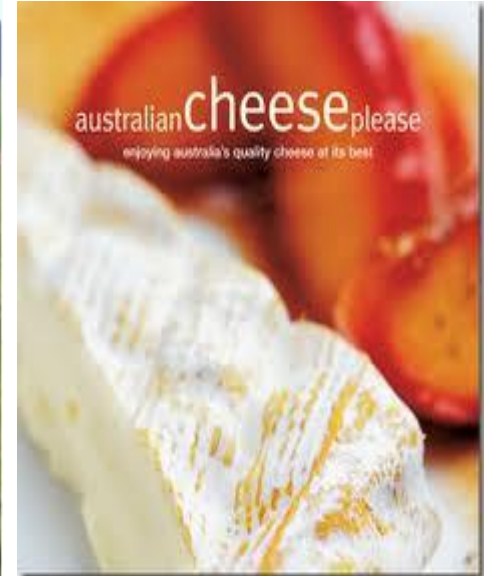
Fully Utilised Assets

Increase capacity in value areas

Focus on your area of strength



Reputation for Quality



Warrnambool Cheese and Butter – the Dairy Division (Australia) of Saputo Inc.



Questions



Saputo



Appendix



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David Homer - Dairy Farmer: Wiltshire UK

- Family business using outside expertise to lift performance.
- Early adopter of carbon foot printing – understanding the main carbon outputs, measuring & reducing.
- Uses a Common Methodology developed by IDF.
- Not the final figure but the identification of the areas for efficiency improvements.
- The final figure can one day be a useful benchmark for international comparisons.



Soil



- The basis of all activities. Soil needs nurturing.
- Soil testing is fundamental.
- Management decisions are based on the results. Biological philosophy.
- Better fertiliser management – less use of manufactured product, better use of manures, injecting slurries.





Cows – The Extended Family

- Feed efficiency – key KPI.
- Health management – Longer living cows.
- Environment to encourage natural behaviour.
- Cows have become more productive.
- They are living longer
- many benefits!





Crops

- Grass, Maize and Wheat.
- Technology applied to ensure maximum 'performance'.
- Management post harvest is also important.
- Grazing management is also fundamental and requires considerable forward planning to ensure the greatest efficiency of production.





LCA the key to targeted action

- Switching from water cooled refrigeration condensers to air cooled reduces water consumption by 50%.
- Leveling of the fields makes for more efficient water usage.
- fertilizer distribution, grazing etc....GPS controlled seed distribution and planting systems saves seed, diesel, time.
- Surface water storage versus ground water access means smaller pumps that use less energy.



How does the low carbon farm look?



- Healthy and 'happy' animals.
- High feed efficiency (milk/feed) – high milk yield and good quality of roughage.
- Biological principles; Optimal use of manure, optimal application of synthetic fertiliser.
- Effective feed production and high share of own produced feed.
- Low age of first calf and longevity of cows.
- Manure to biogas, energy efficiency.

Anna Flysjö, PhD student - Arla Foods, Improving the Carbon Footprint of Dairy Foods



Warrnambool Cheese and Butter – the Dairy Division (Australia) of Saputo Inc.

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The future on the Homer farm



Continue to grow the business on same philosophy

- We now have :
 - Highly motivated team
 - Healthier pastures
 - Healthier cows
 - Healthier bottom line
- Continue to carbon footprint and benchmark
- Continue to review the science
- **Generate a sustainable business for future generations!**





“There are many examples where the improvement in efficiency, which is an environmental or carbon footprint gain, usually means a profitable gain as well”

David Homer

