

How can we position dairy for growth?

Ice Cream Technology Conference, April 16, 2019



Input from broad sources



IDFA members



1,100+ consumers



Dairy experts and databases

What we heard regarding growth...

Domestic



83% Have grown # of products in the last 5 years



64% Need better consumer insights

What we heard regarding growth...

International



53% Believe trade disputes will last



47% Do not intend to focus on exports

Growth is possible

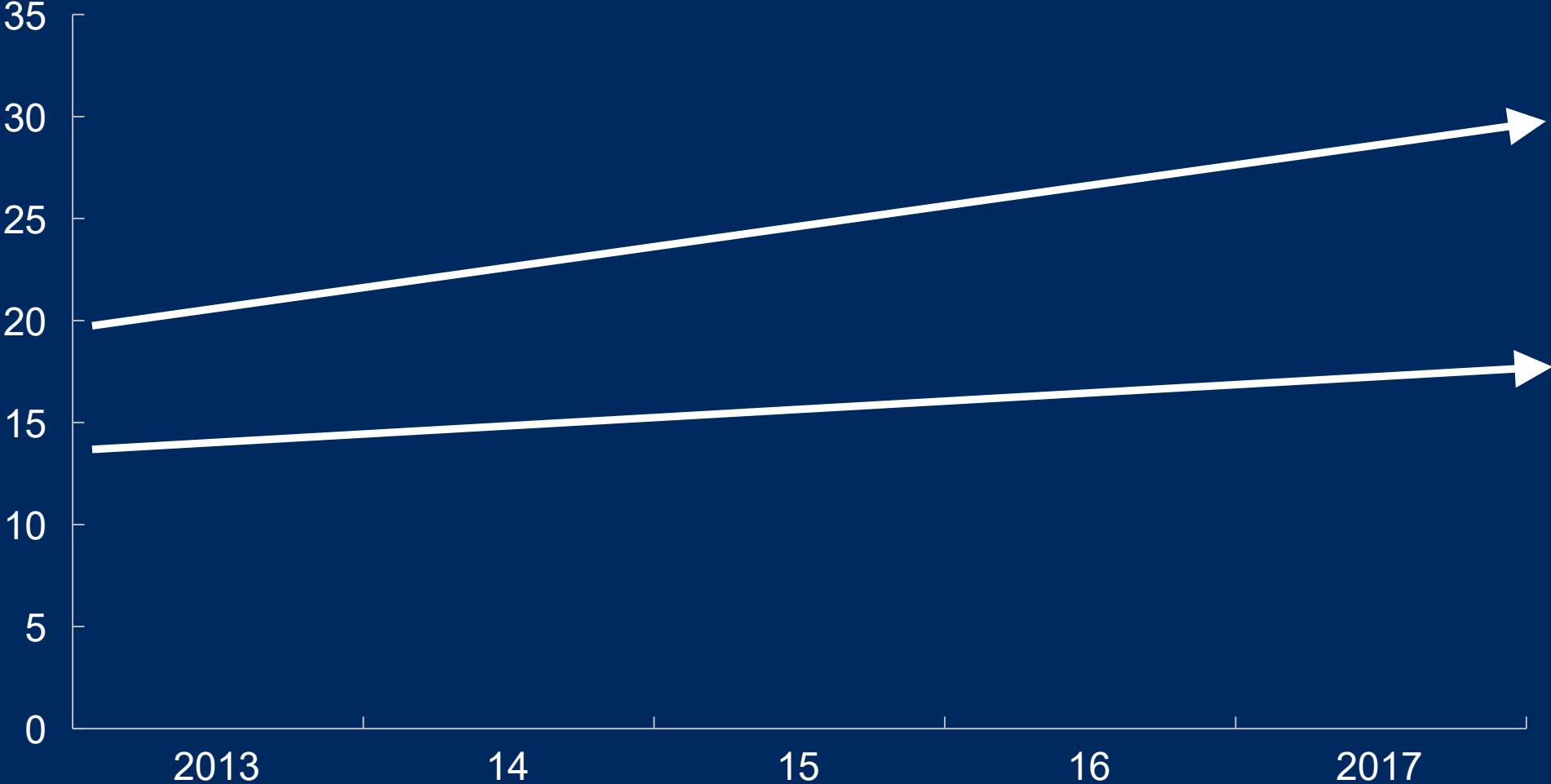


Domestic: understand consumer needs and evolve value chain to support their needs

International: grow with deficits, make commitments through cycle

Top dairy performers have been expanding margin

EBITDA margins, %



Top companies margin growth

+4.1%

Median companies

+1.3%

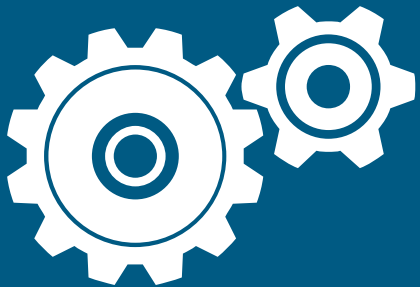
SOURCE: McKinsey analysis; Proprietary database; company filings

How do the dairy winners identify growth?

Where to play



How to stay relevant



Domestic

Growth pockets identified with advanced analytics

Fast product launches supported by an agile supply chain

International

Large dairy deficits

Bold commitments to new markets investing for the long term

What trends are impacting the consumer industry today?

The 'Millennial Effect'



Better for you



Infinite intimacy (IoT + Digital)



Retail Revolution



Explosion of small



And what about Millennials?



2.8x
more likely
to believe
new brands
are better



63% follow
brands on
social media



3.7x
more likely to
avoid “big
food”



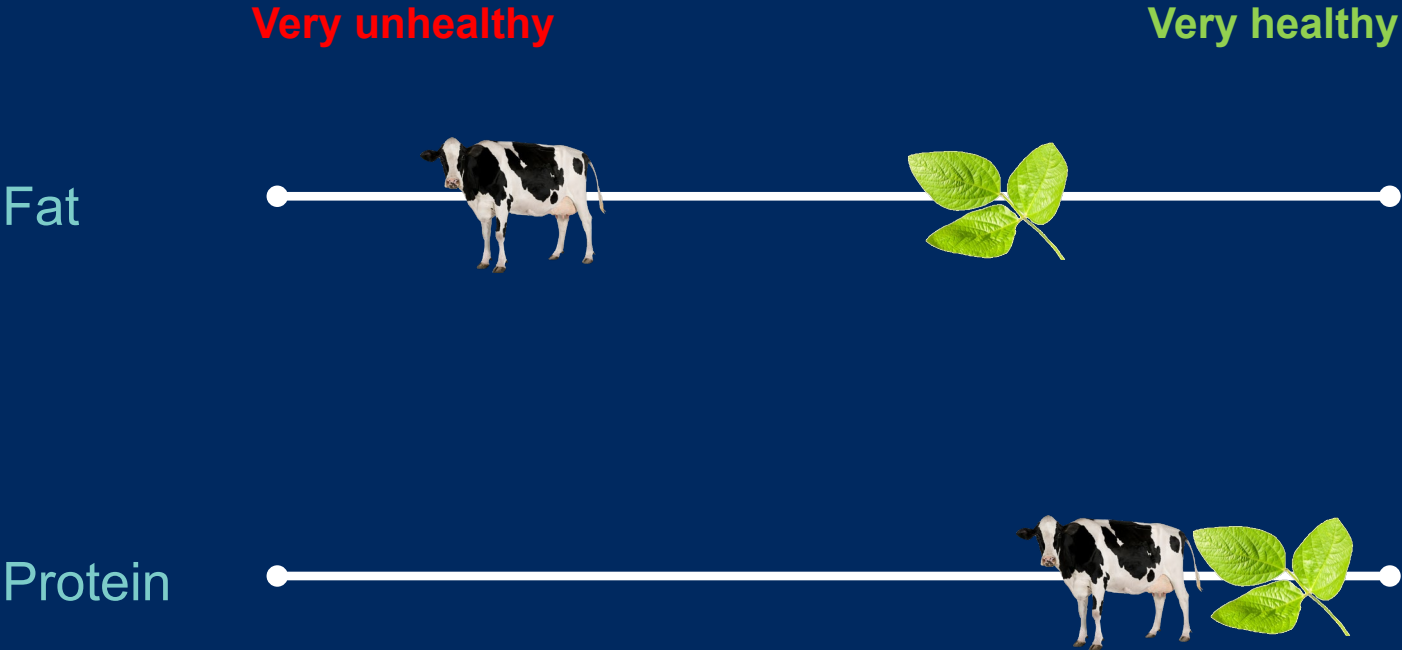
Are **2-3x**
more likely
to purchase
groceries
online

...and as of
2018, spend
more than any
other generation

Consumers say they want to eat healthier... but does it translate to action?

35% of consumers want to eat healthier than they did a year ago

But what do consumers think is healthy?



Butter – leading growth, despite mixed perceptions on “healthy”



Butter...

#1 reason for buying *LESS*

34% “I found other products that are healthier”

VS.

#1 reason for buying *MORE*

40% “I feel it is the healthiest option”

...sales are growing 4%+ per year

Ice Cream though tells a different story



Top reasons people buy more...

51% “I crave these products”

33% “I have a new person in the household who eats these products”

20% “There are new options that encourage me to try more”

Top reasons people buy less...

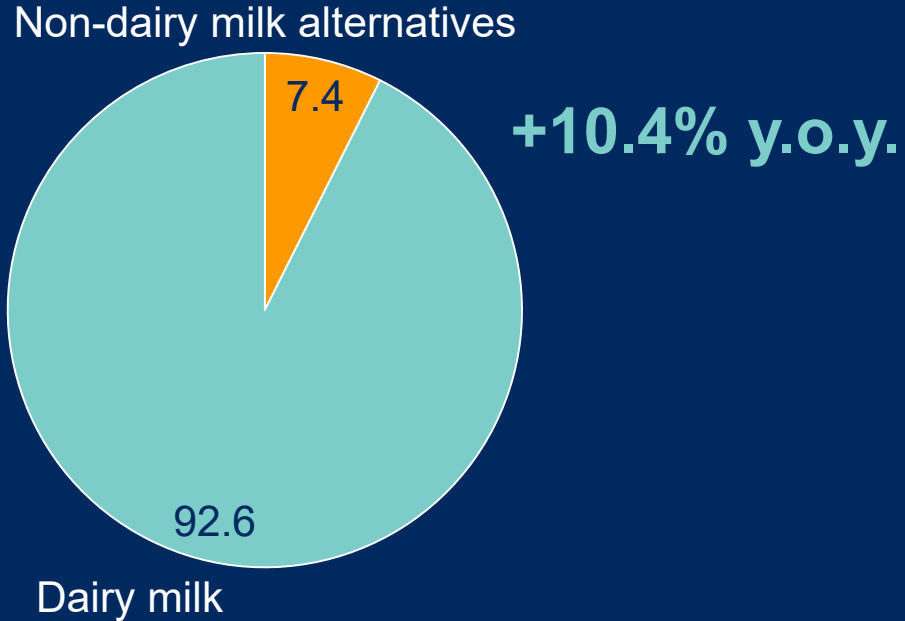
54% “I had a change in diet / dietary restrictions”

21% “I found other products that are healthier”

Sales are growing 2%+ per year

Non-dairy is here to stay, but how big will it get?

Small, but growing segment of the market...



62% Dairy consumers have tried alternatives

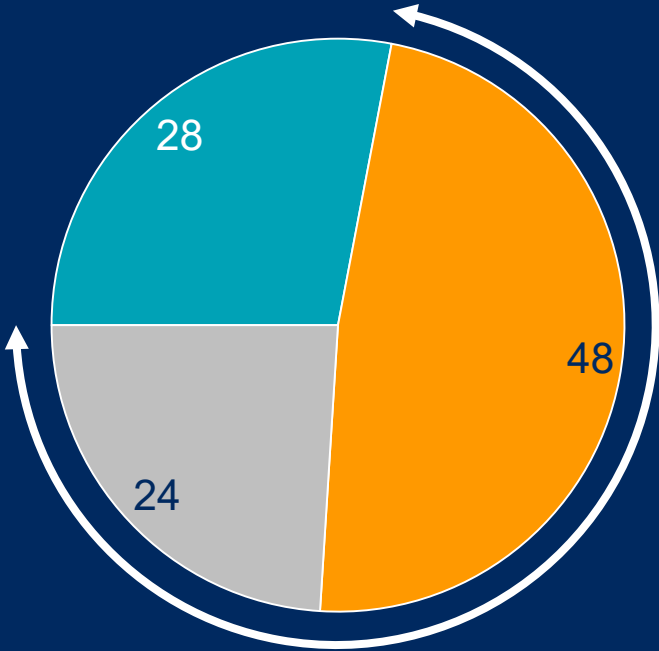
Dairy industry executives said about dairy alternatives...

- 51%** ↑ Market will continue to grow
- 45%** ↔ Growth will flatten
- 4%** ↓ A fad, market will shrink

Dairy consumers are trying new things

41% of dairy consumers have tried a new dairy brand in last 12 months

Return to original Now buy both Stick with new



The shopping landscape is changing

Traditional grocery and mass are declining ...

% consumers who say traditional Grocery / Mass is primary place to buy food



...and grocery purchase venues are evolving

THRIVE
- MARKET -

freshdirect.

amazon
fresh

Instacart

Blue
Apron

HelloFresh

plated

SAMSUNG

amazon dash
BUTTON

grubHub

foodler

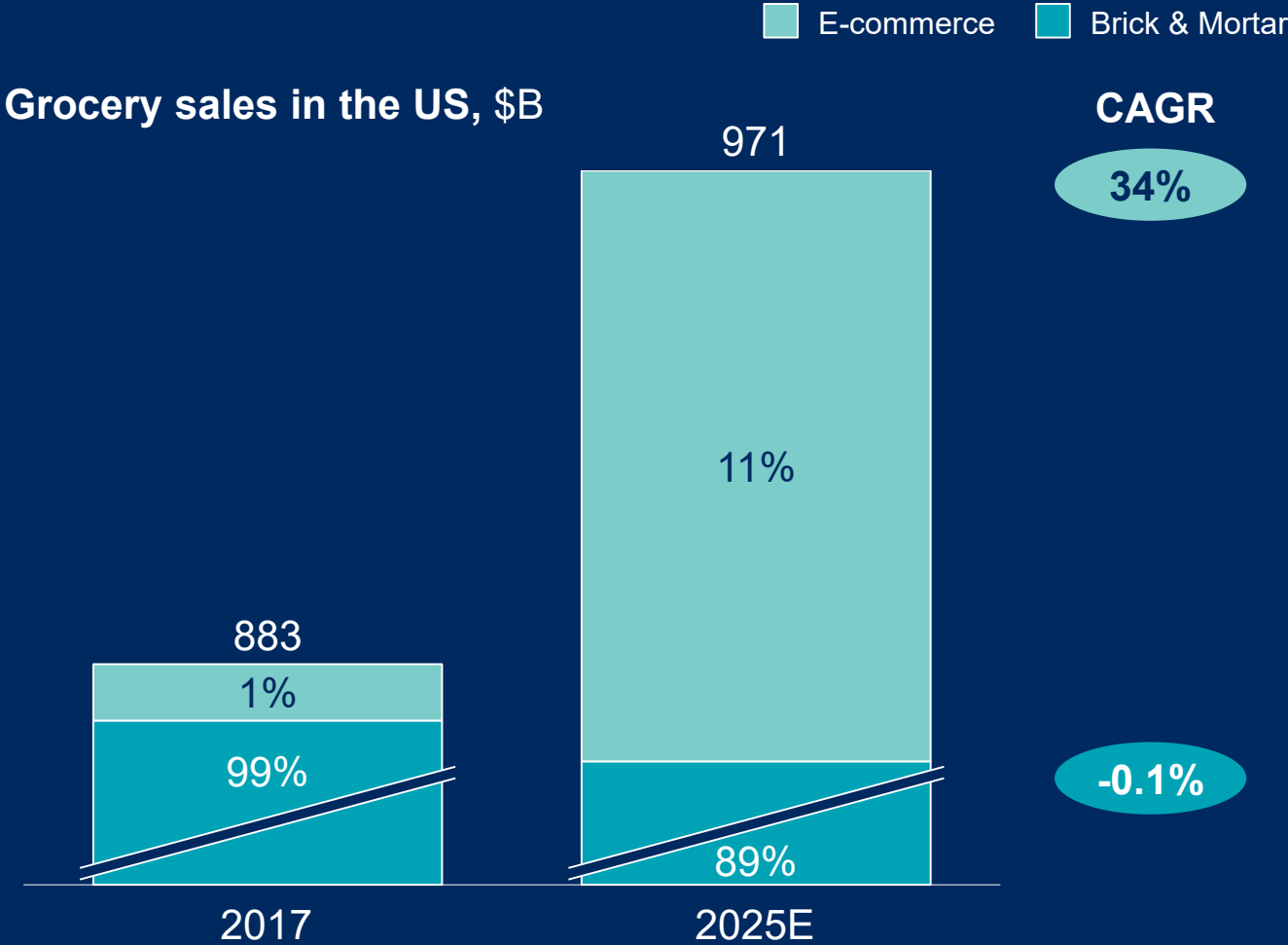


UBER
EATS

seamless

Grocery growth will come from online. Consumers plan to look for dairy.

E-commerce will drive growth

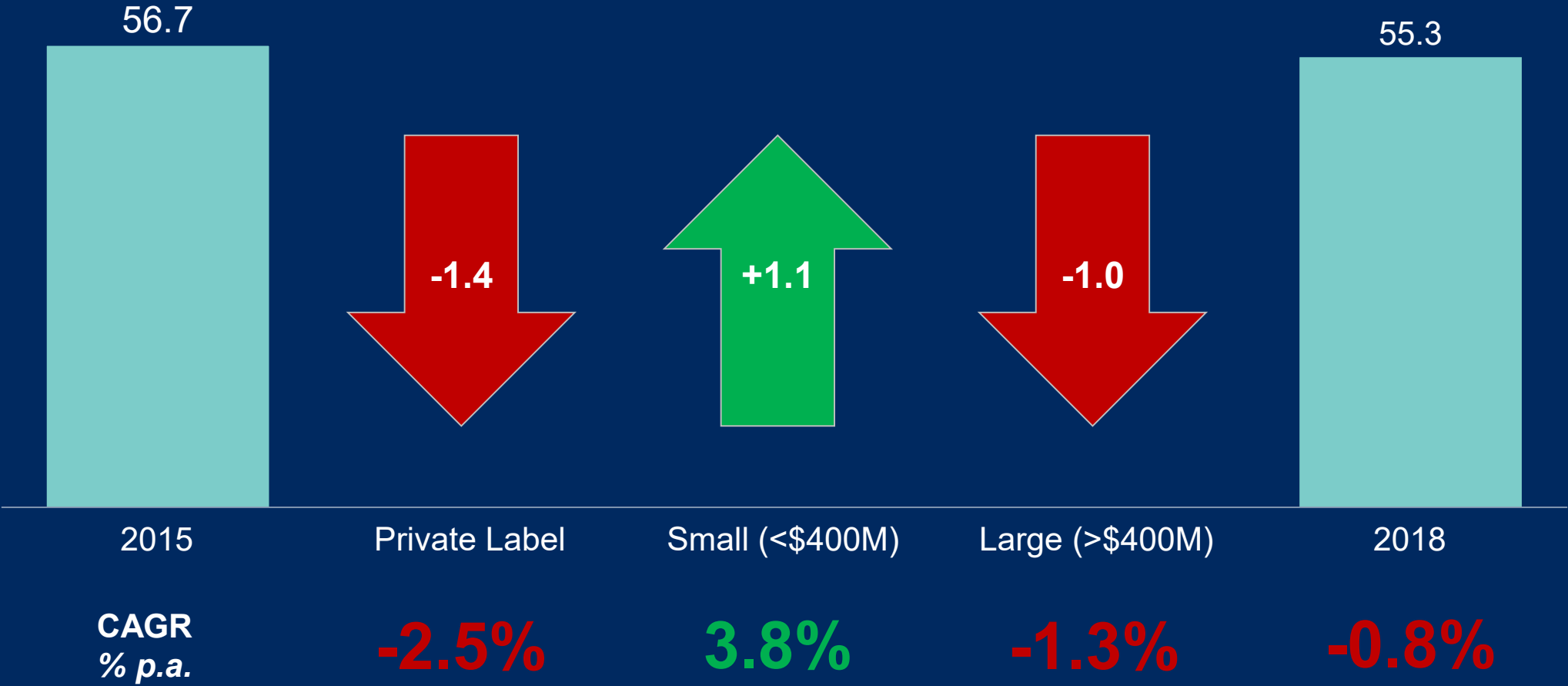


Consumers will expect dairy to be there



Small brands are driving growth

Dairy retail sales
\$, B



Big and small companies have similar success launching brands



Packaged food, US, 2013-17

Brands/major new products launched - 2013

Brands still alive - 2017

4-year survival rate

Large incumbents
(>\$1B sales;
N=~40)



~25%

Small incumbents and new entrants
(N=~1,000)



~25%

Identifying pockets of growth requires insight and analytics

Shopper Behavior

How shoppers **purchase** products



Need States

How situational **needs** influence behaviors



Usage Behavior

How consumers **use** products

Consumer segmentation

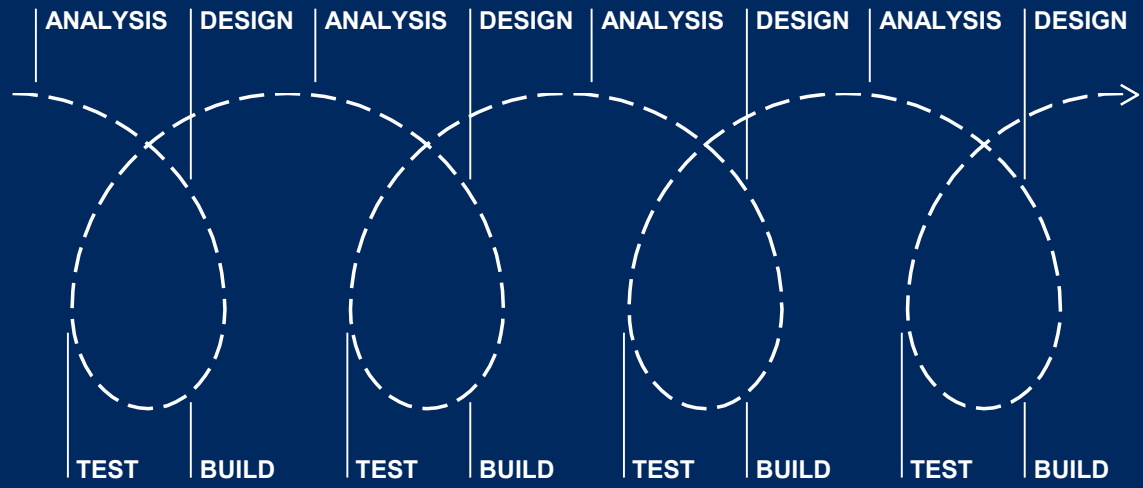
How **consumer attitudes** influence behaviors

Agility will get products to market



Agile

presumes that we cannot understand the opportunity until we explore it – so it explicitly focuses on significant learning and iteration throughout, while preserving resource flexibility



Output

A product systematically de-risked, tested in-market with customers and consumers, with known information

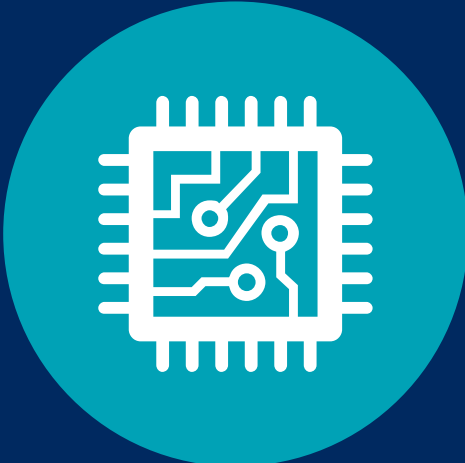
The full value chain will need to evolve



Flexibility and Agility



Distribution and Access



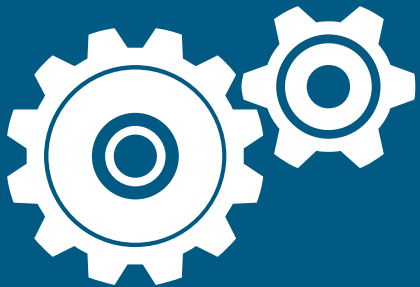
Insights and Technology

How do the dairy winners identify growth?

Where to play



How to stay relevant



Domestic

Growth pockets identified with advanced analytics

Fast product launches supported by an agile supply chain

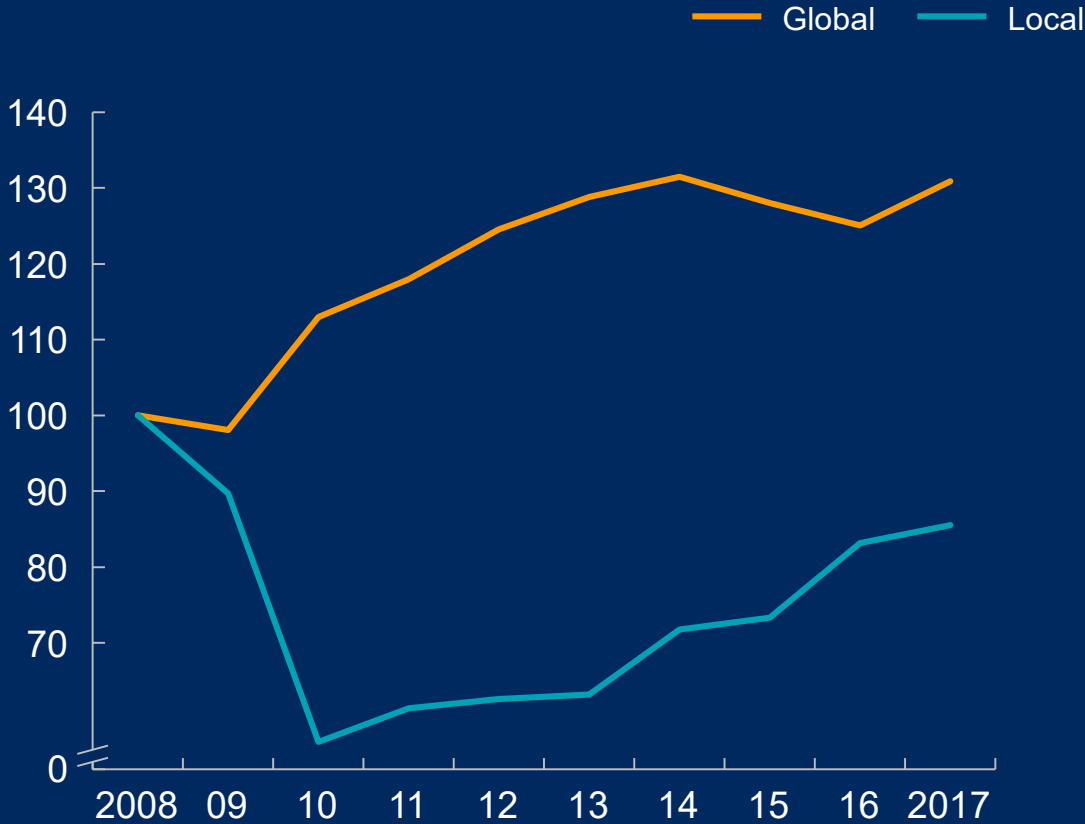
International

Large dairy deficits

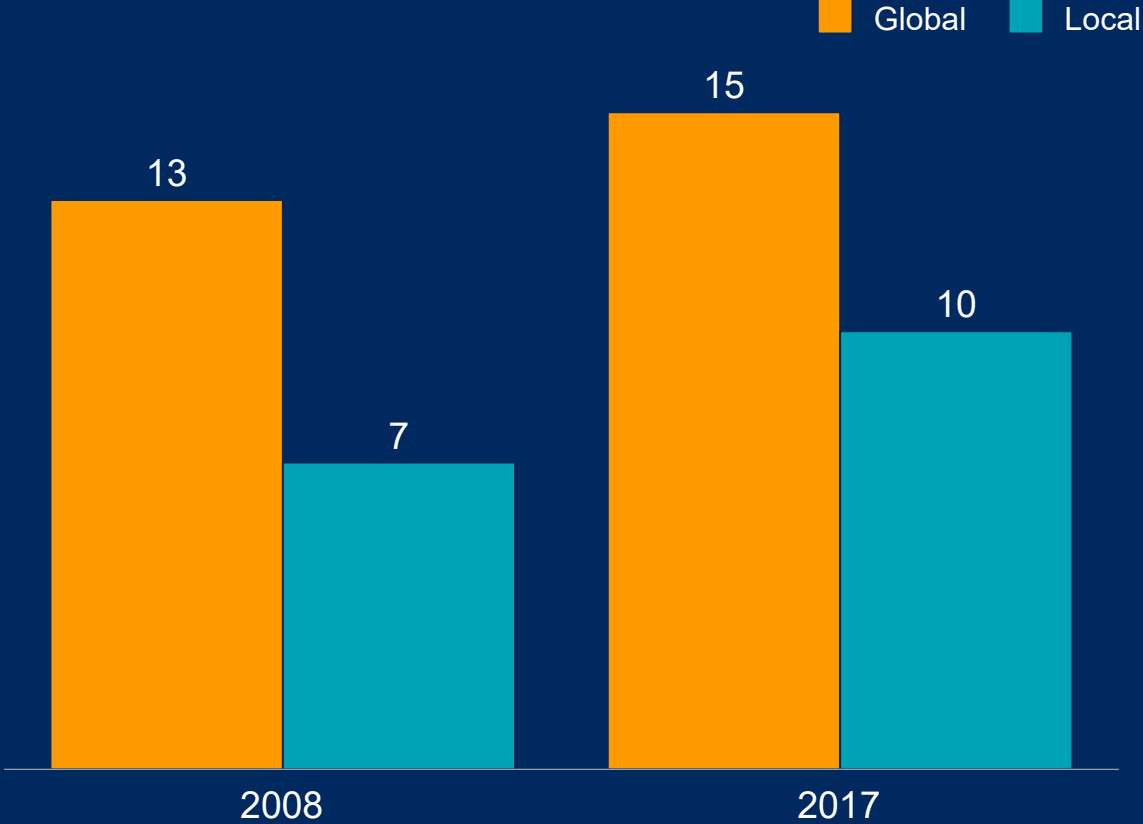
Bold commitments to new markets investing for the long term

Profitable growth comes from looking globally

Revenue Growth by Market Focus 2008=100



Dairy Representative EBITDA Margin (%)

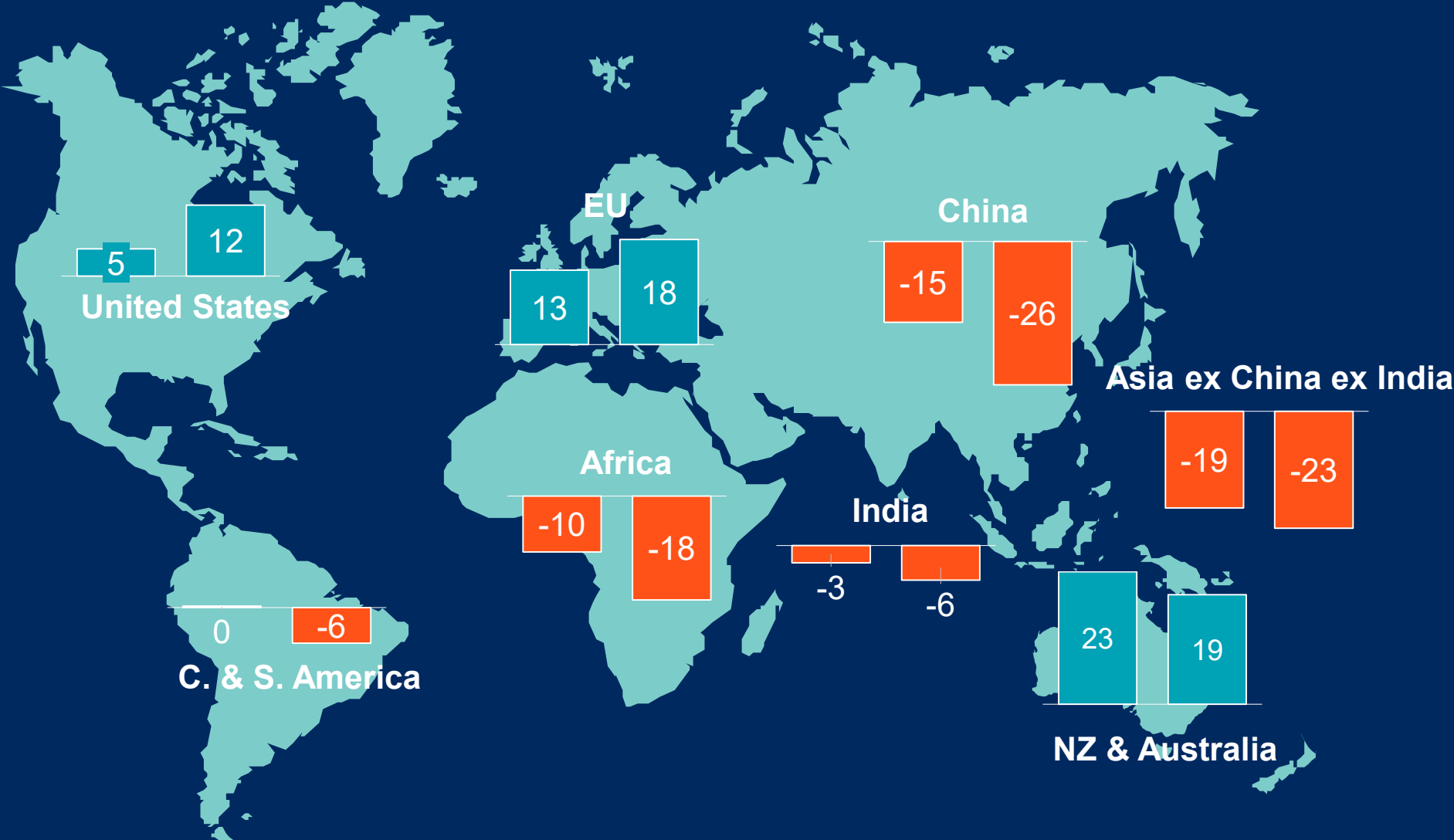


*Note: Sample of 14 major dairy companies; Global companies are those with 50% or more revenues from non-home markets
Revenue Index is aggregate earnings based on 2017 exchange rates;
EBITDA margin rates weighted for company size

There is a large, long-term global opportunity to capture

Dairy surplus/deficit Million tonnes milk equivalent in 2017 and 2027¹

■ Surplus ■ Deficit

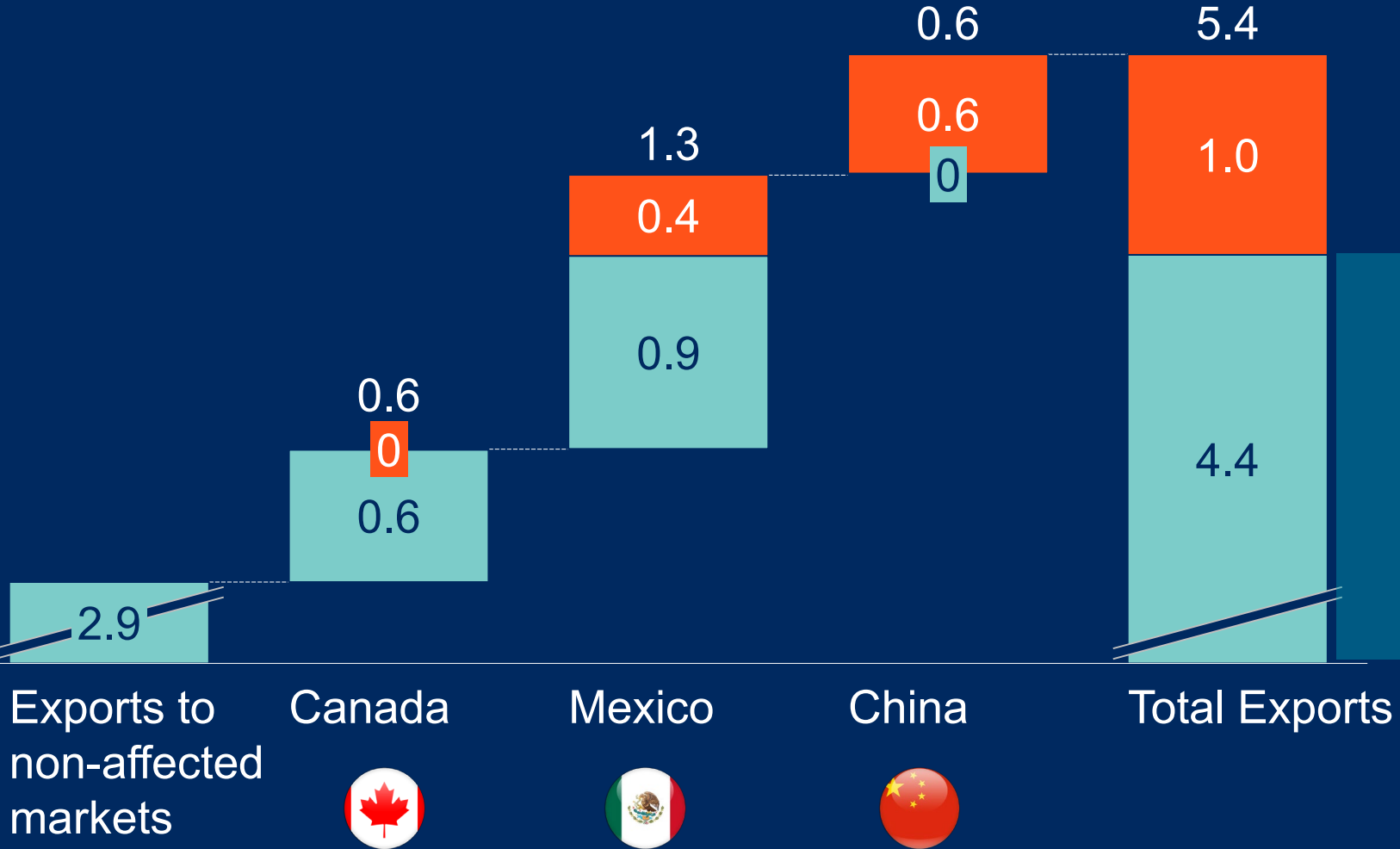


¹ based on 95 countries

82% of US exports are not impacted by trade actions

US Dairy exports, \$M

Impacted exports

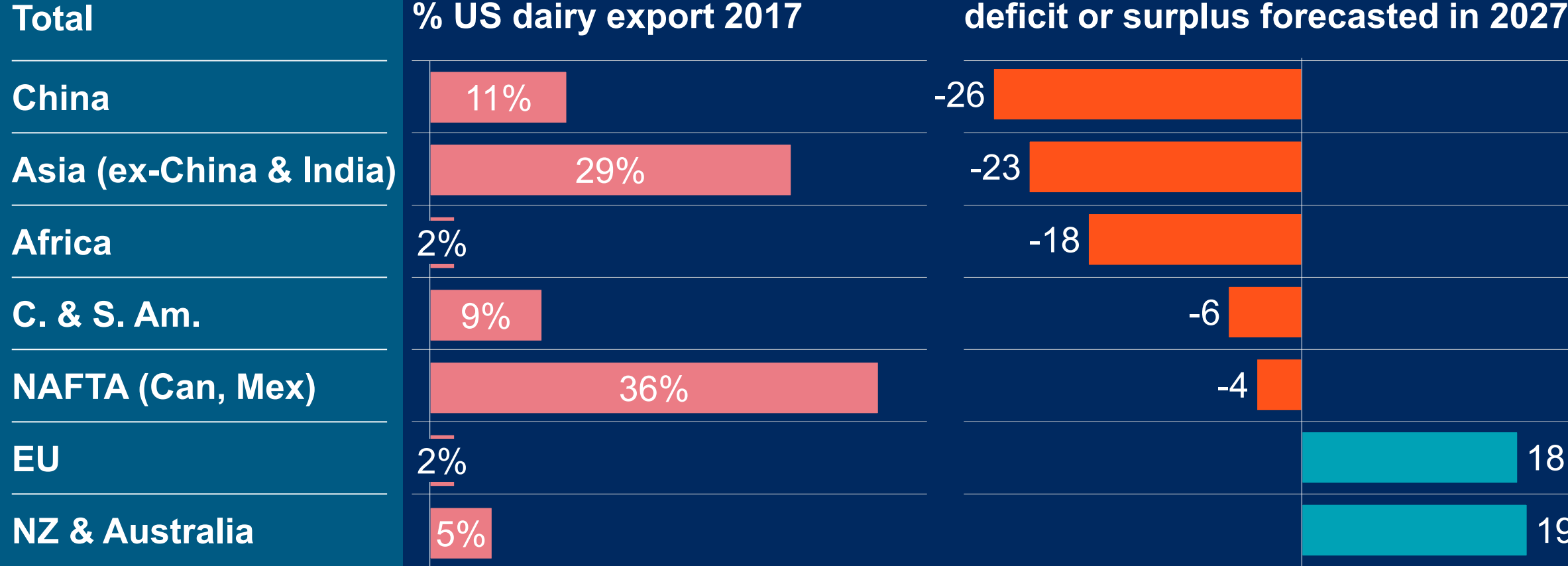


82%

... of US dairy exports by \$ value are currently not being hit by retaliatory tariffs

US dairy exports are not aligned with future demand

■ Surplus ■ Deficit



1 Figures do not total to 100% due to regional surplus cancelling out included individual country deficits

US competition has concluded more trade agreements

Surplus Deficit



¹ The number represents the number of agreements negotiated or being negotiated but not concluded as of today.

What can we do? Play defense



Identify



Manage



Plan



“It took us 10 years to build up our trusted export relationships in that market and it was all gone in 24 h.”

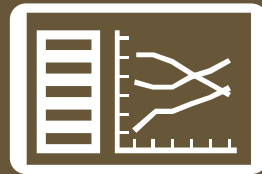
What can we do? Play offense



Get ready



Diversify



Invest



“Our production is growing faster than domestic consumption - we have to export”

“Our preference is to manufacture in the US and export, but where we can't crack tariffs, we will go and build a plant ”

Where to next?



Consumer insights



Agility and flexibility



Flow to projected deficits



Invest through cycle

Thank you!