How can we position for growth?

Input from broad sources

IDFA members

1,100+ consumers

Dairy experts and databases

What we heard from you re: growth…

Domestic

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

64% Need better consumer insights

What we heard from you re: growth…

International

53% Believe trade disputes will last

47% Do not intend to focus on exports

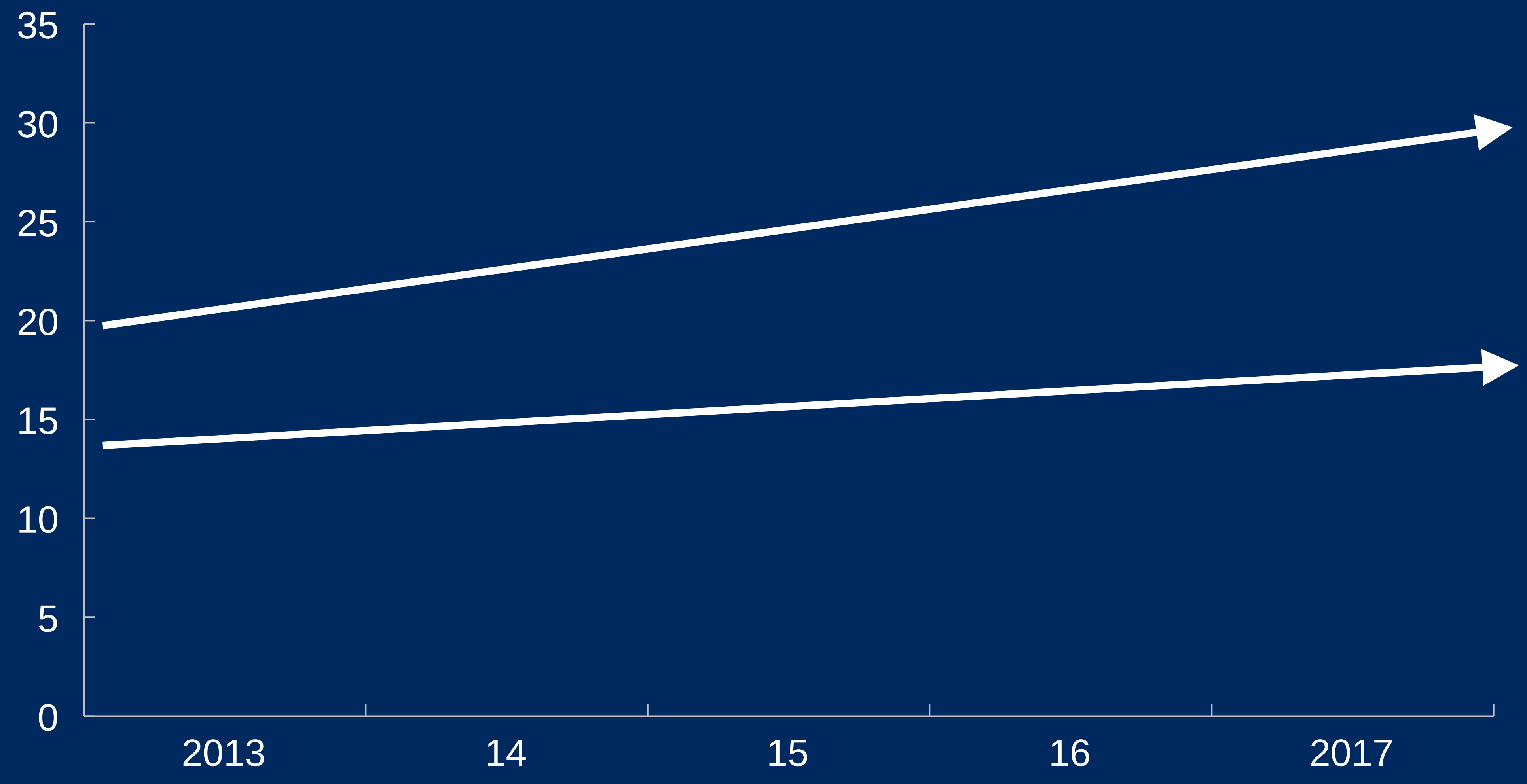
Growth is possible

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

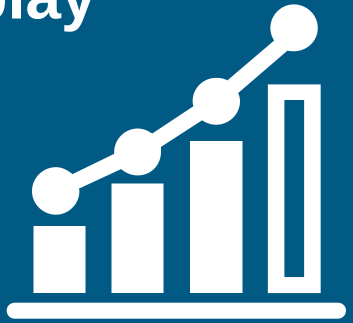
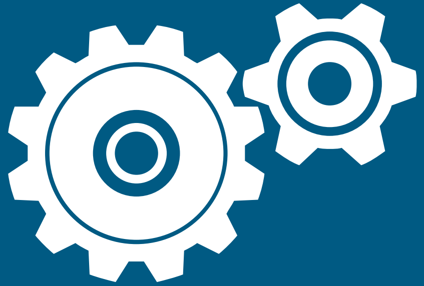
+4.1%

Median companies

+1.3%

SOURCE: McKinsey analysis; Proprietary database; company filings

How do the dairy winners identify growth?

	Domestic	International
Where to play 	Growth pockets identified with advanced analytics	Large dairy deficits
How to stay relevant 	Fast product launches supported by an agile supply chain	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”

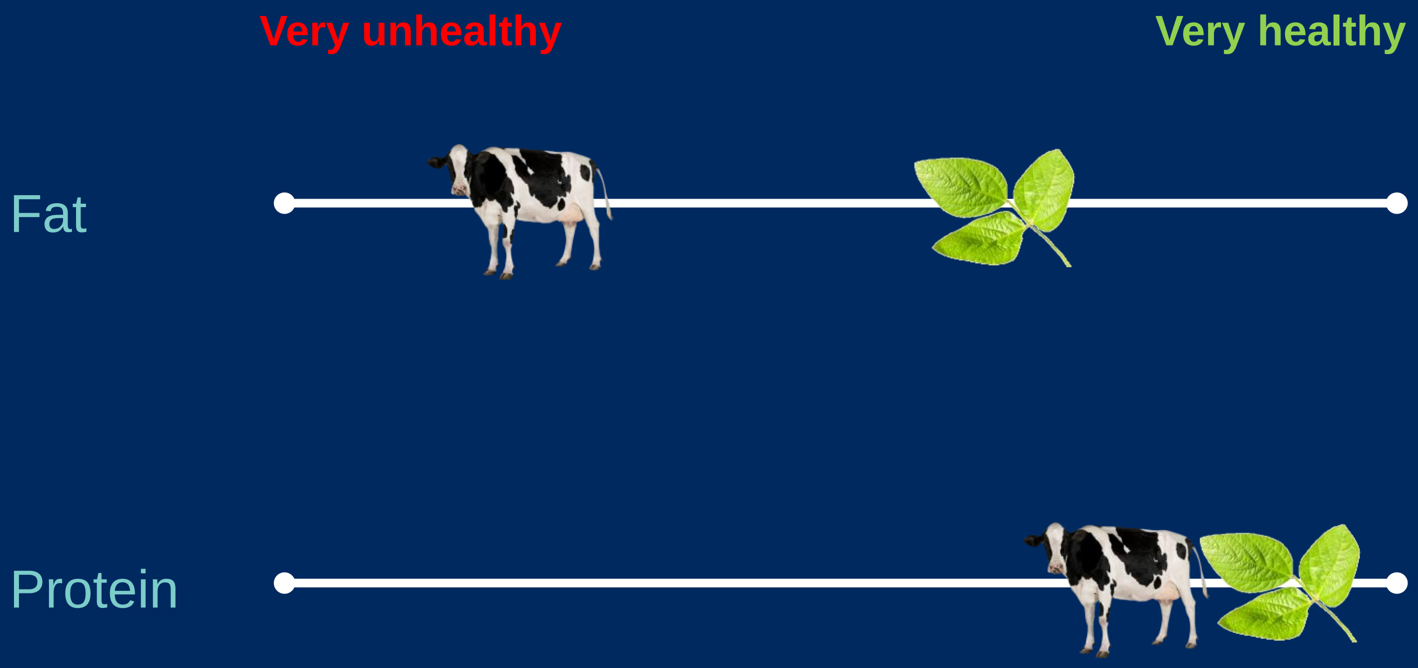
Are **2-3x** more likely to purchase groceries online

…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 and cream – 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

Cream shows a similar contrast

Cream…

#1 reason for buying *LESS*

23% **"I found other products that are healthier"**

vs.

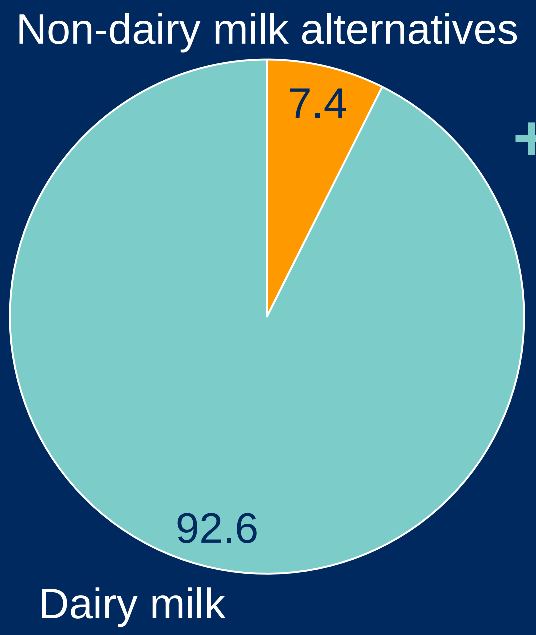
#1 reason for buying *MORE*

19% **"I feel it is the healthiest option"**

…sales are growing 10%+ per year

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

Small, but growing segment of the market…



+10.4% y.o.y.

62% **Dairy consumers have tried alternatives**

Dairy industry executives said about dairy alternatives…

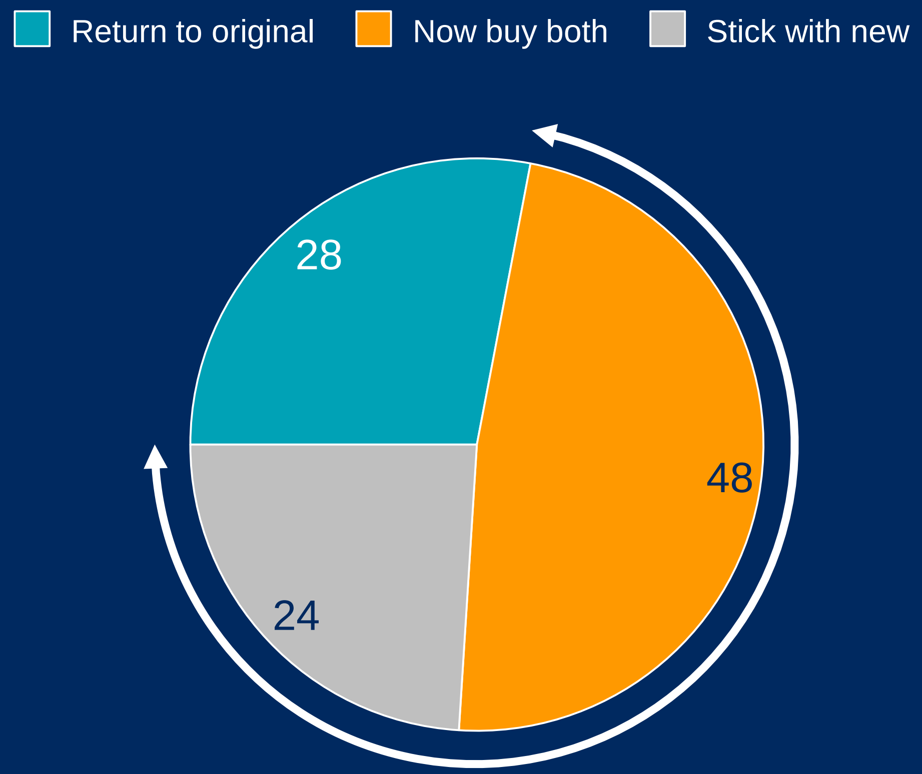
51% ⬆ Market will continue to grow

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**



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

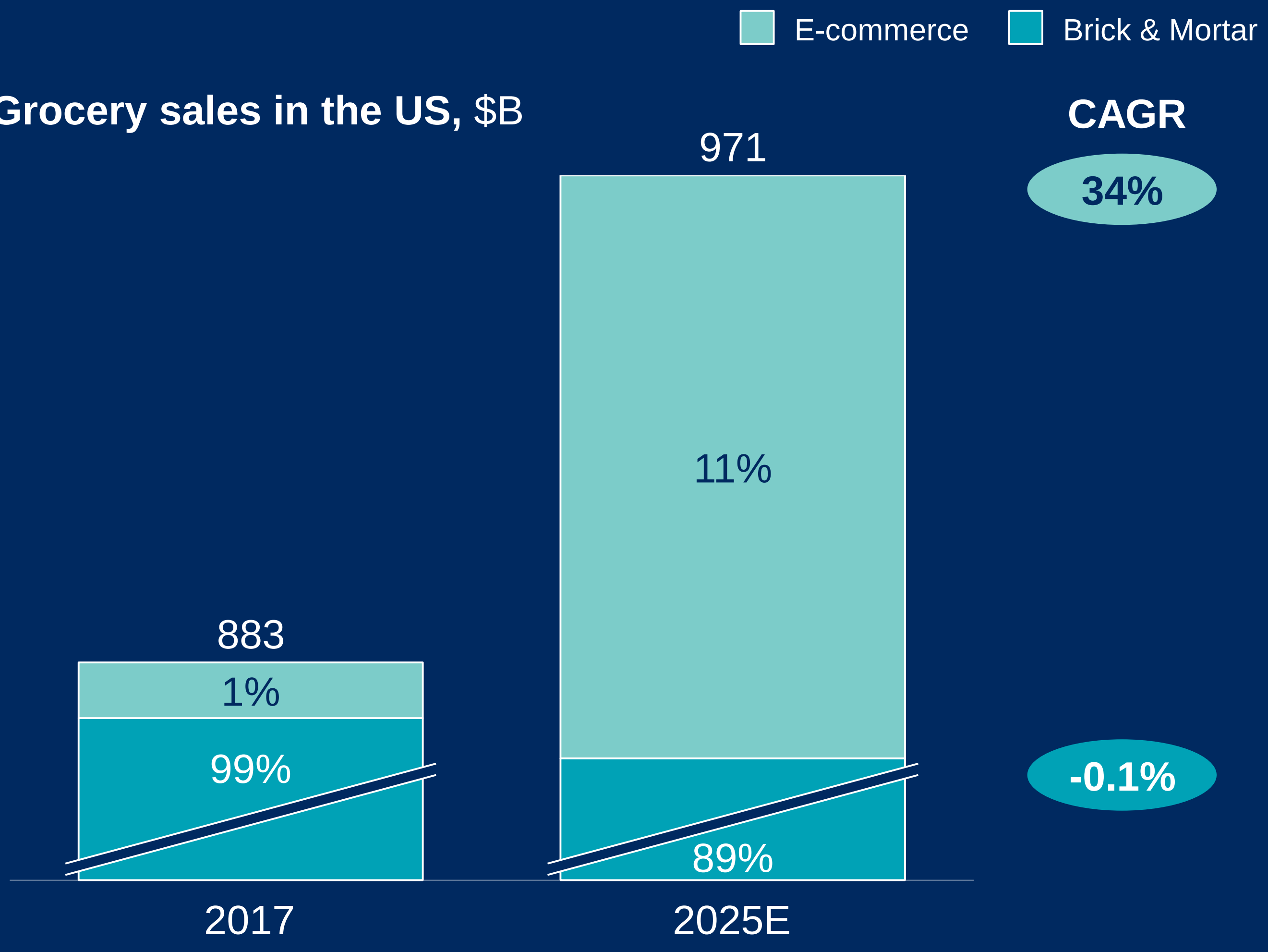
SAMSUNG
amazon dash BUTTON

grubHub
foodler
UBER EATS
seamless

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

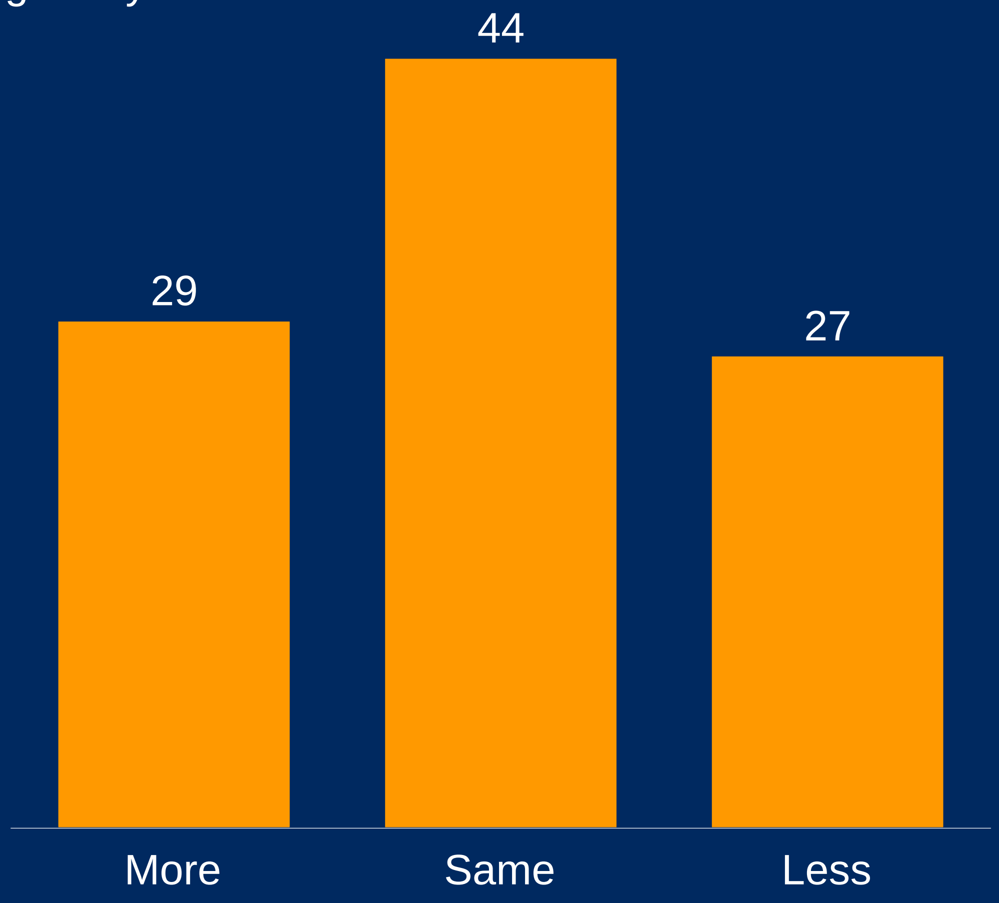
E-commerce will drive growth

Grocery sales in the US, $B



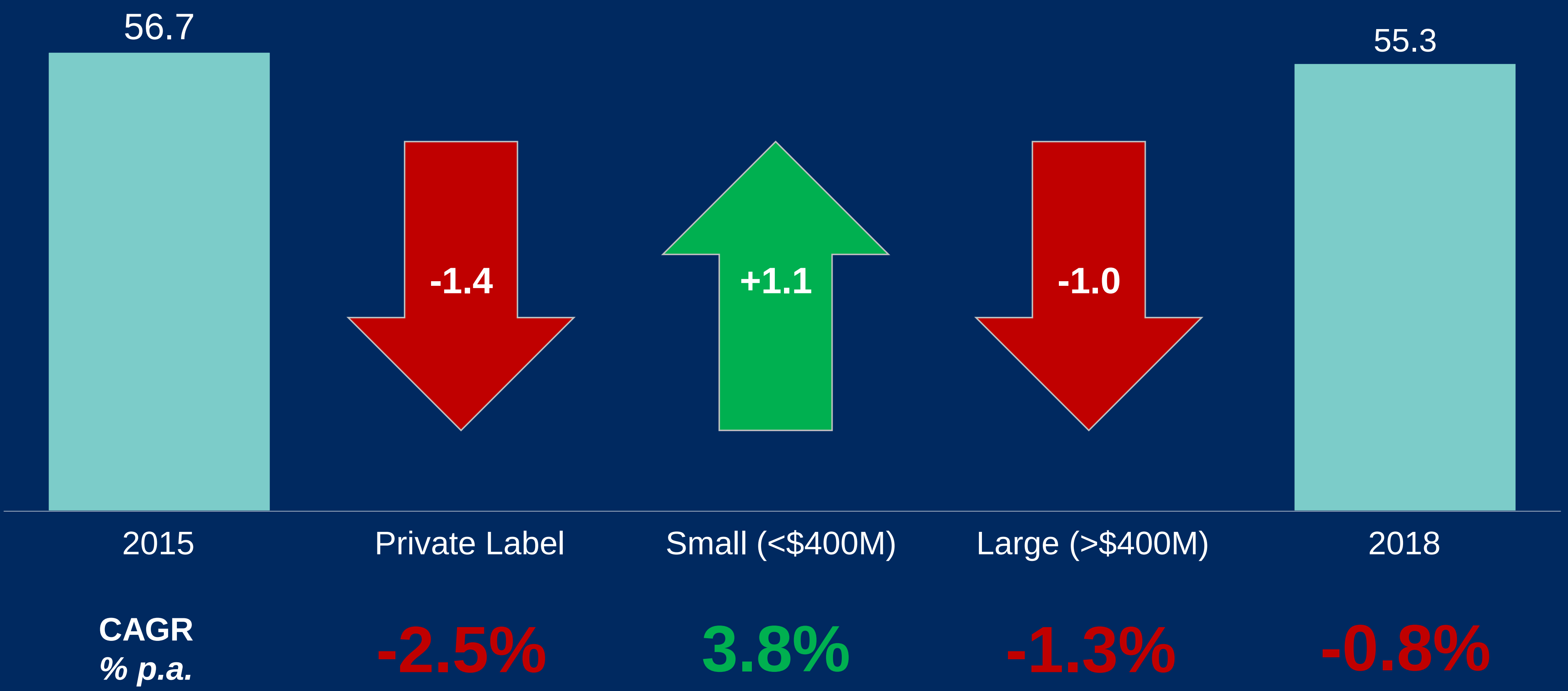
Consumers will expect dairy to be there

% online dairy consumers shopping online vs other grocery



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)	85	20	~25%
Small incumbents and new entrants (N=~1,000)	1,001	241	~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

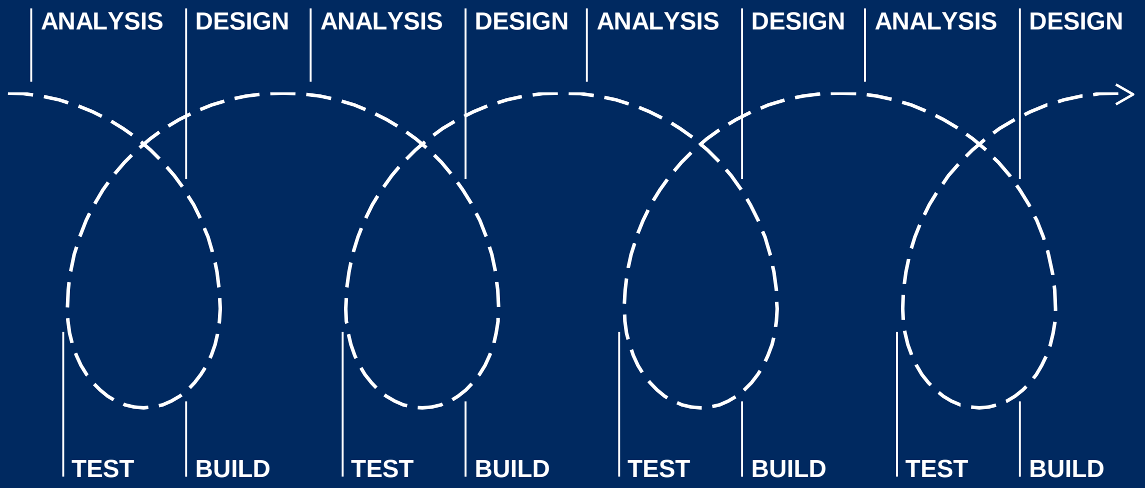
Consumer segmentation

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

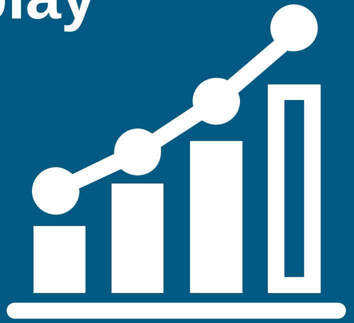
Flexibility and Agility

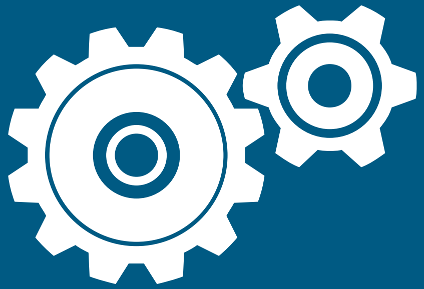
Distribution and Access

Insights and Technology

How do the dairy winners identify growth?

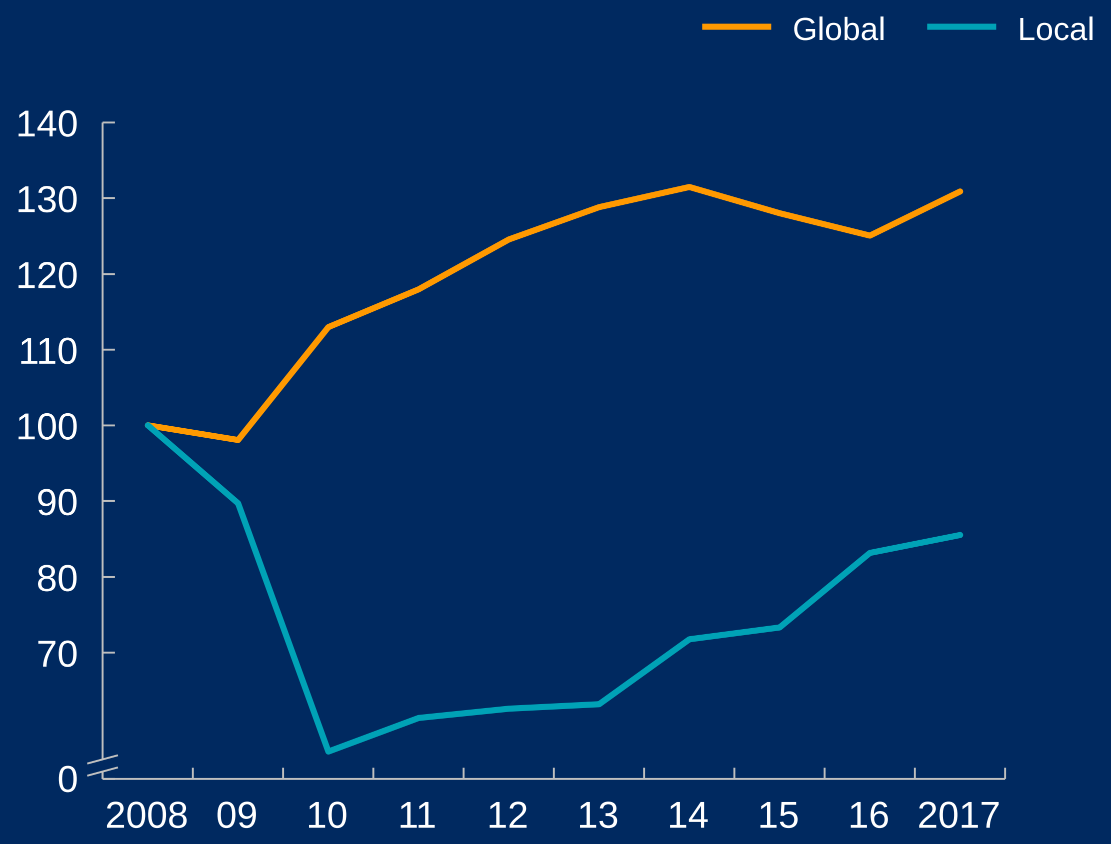
	Domestic	International
Where to play	Growth pockets identified with advanced analytics	Large dairy deficits
How to stay relevant	Fast product launches supported by an agile supply chain	Bold commitments to new markets investing for the long term



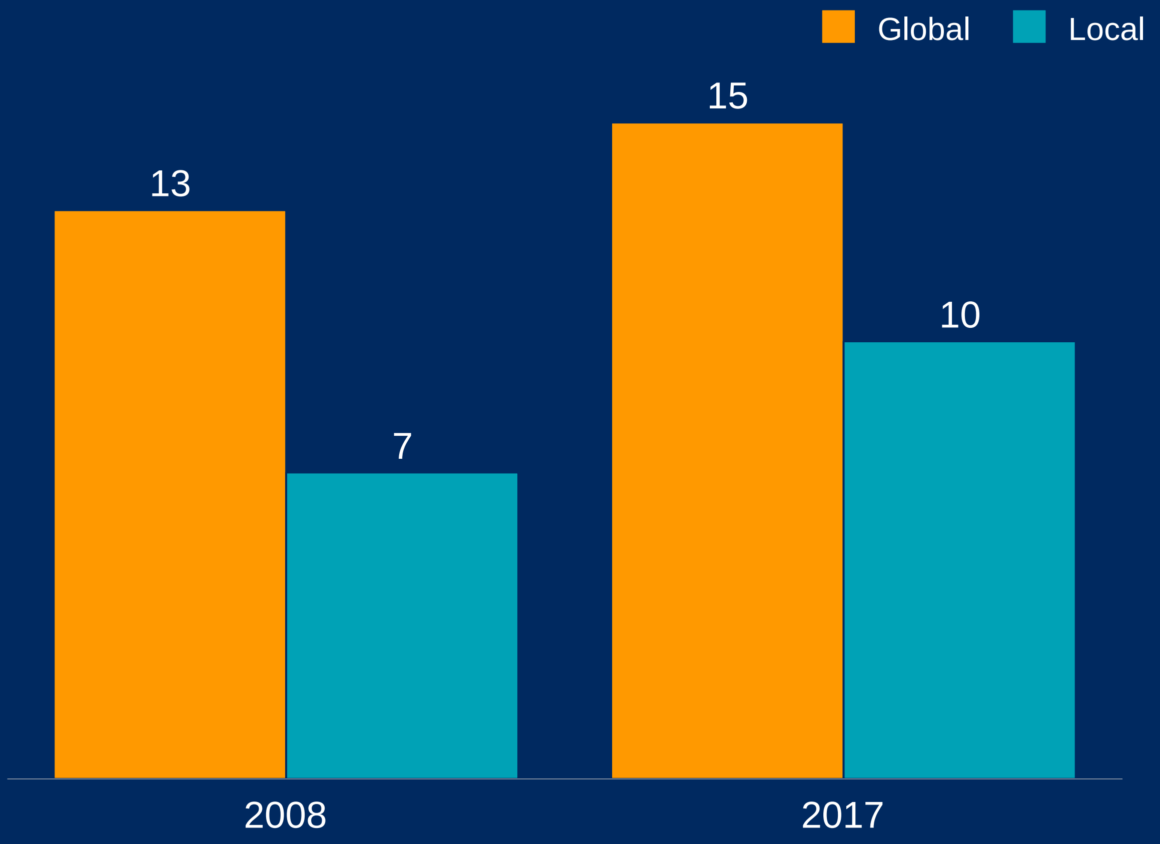


Profitable growth comes from looking globally

Revenue Growth by Market Focus
2008=100



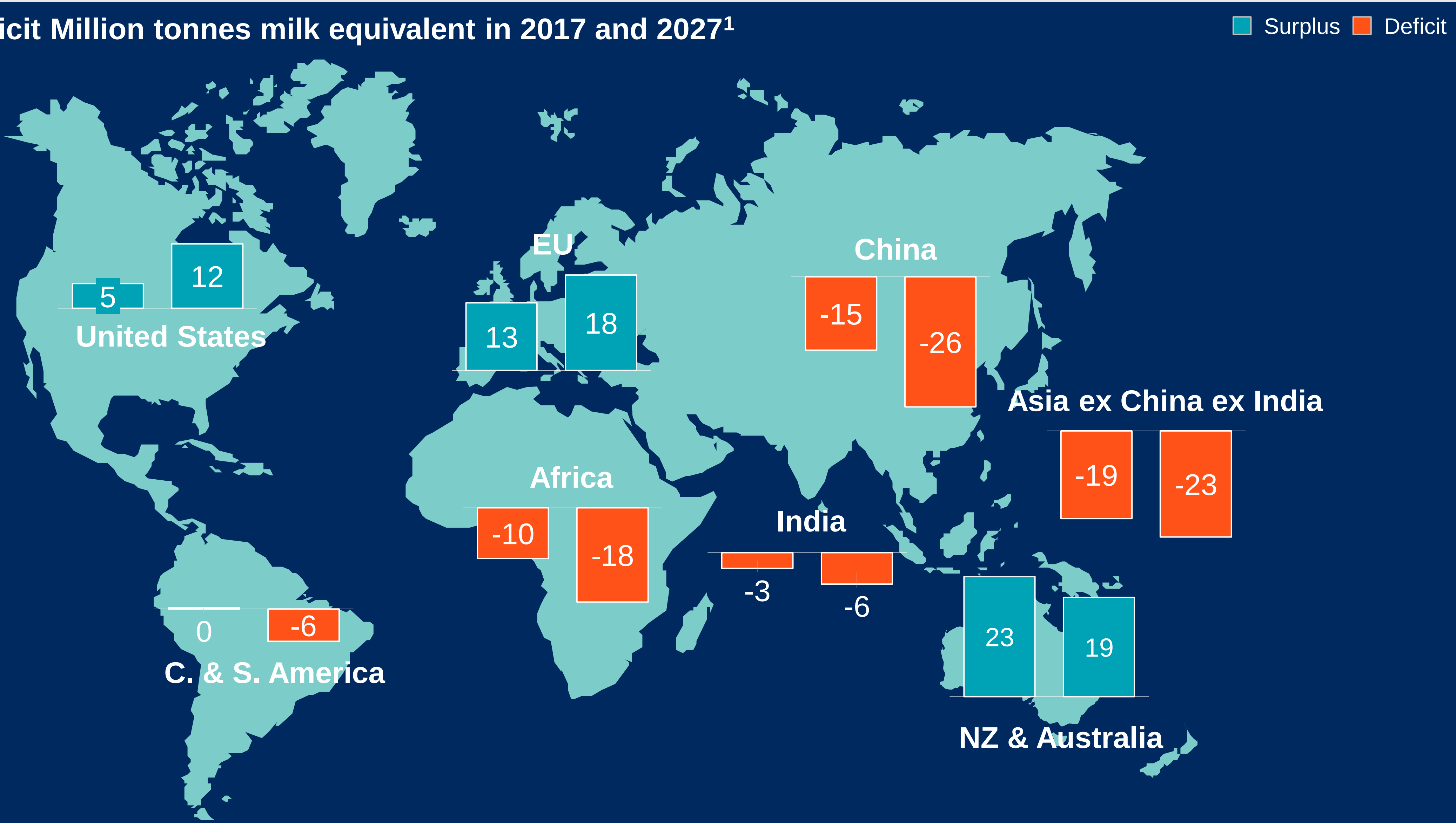
Dairy Representative EBITDA Margin
(%)



*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

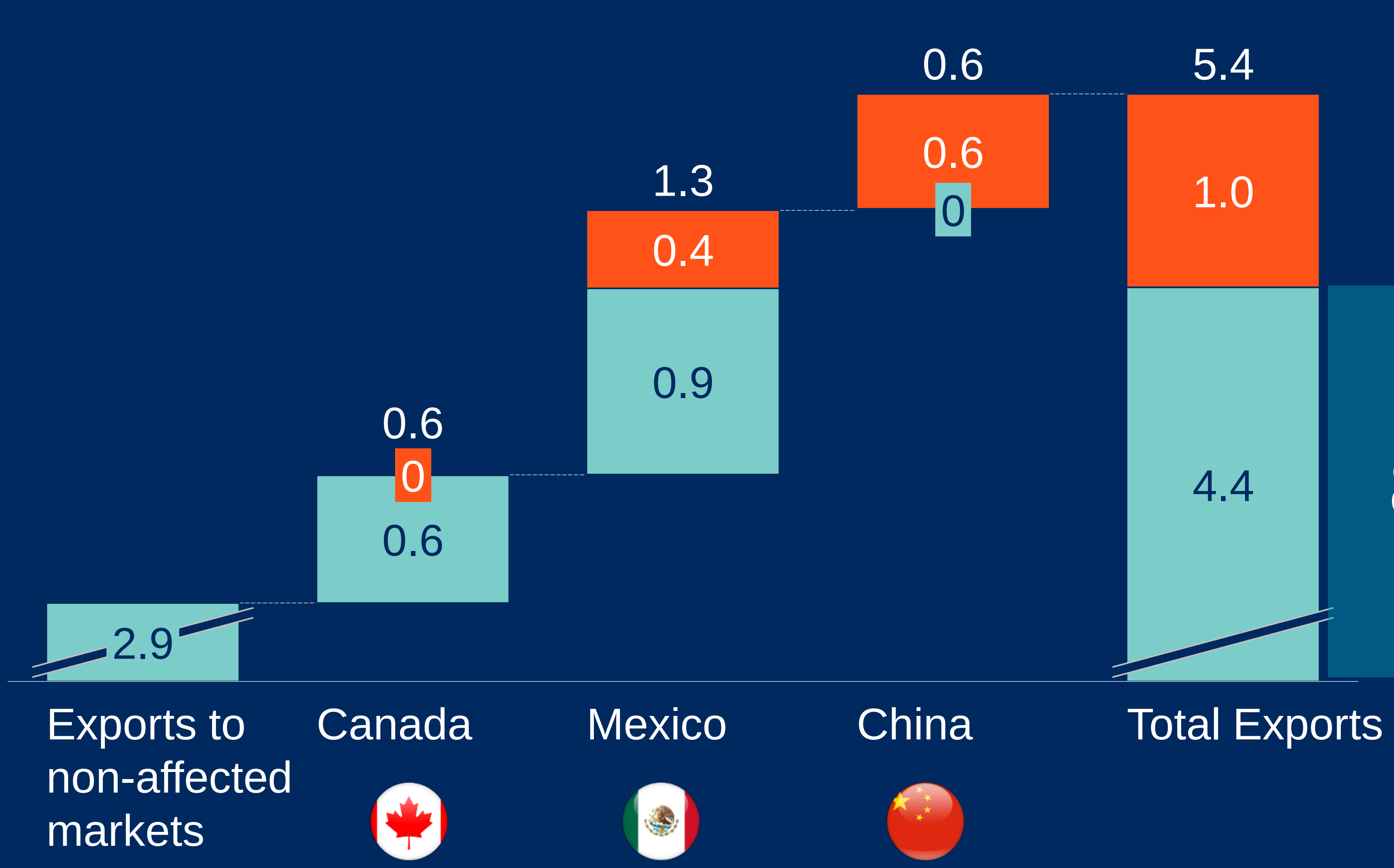
Dairy surplus/deficit Million tonnes milk equivalent in 2017 and 2027[1]



1 based on 95 countries

82% of our exports are not impacted by trade actions

US Dairy exports, $M

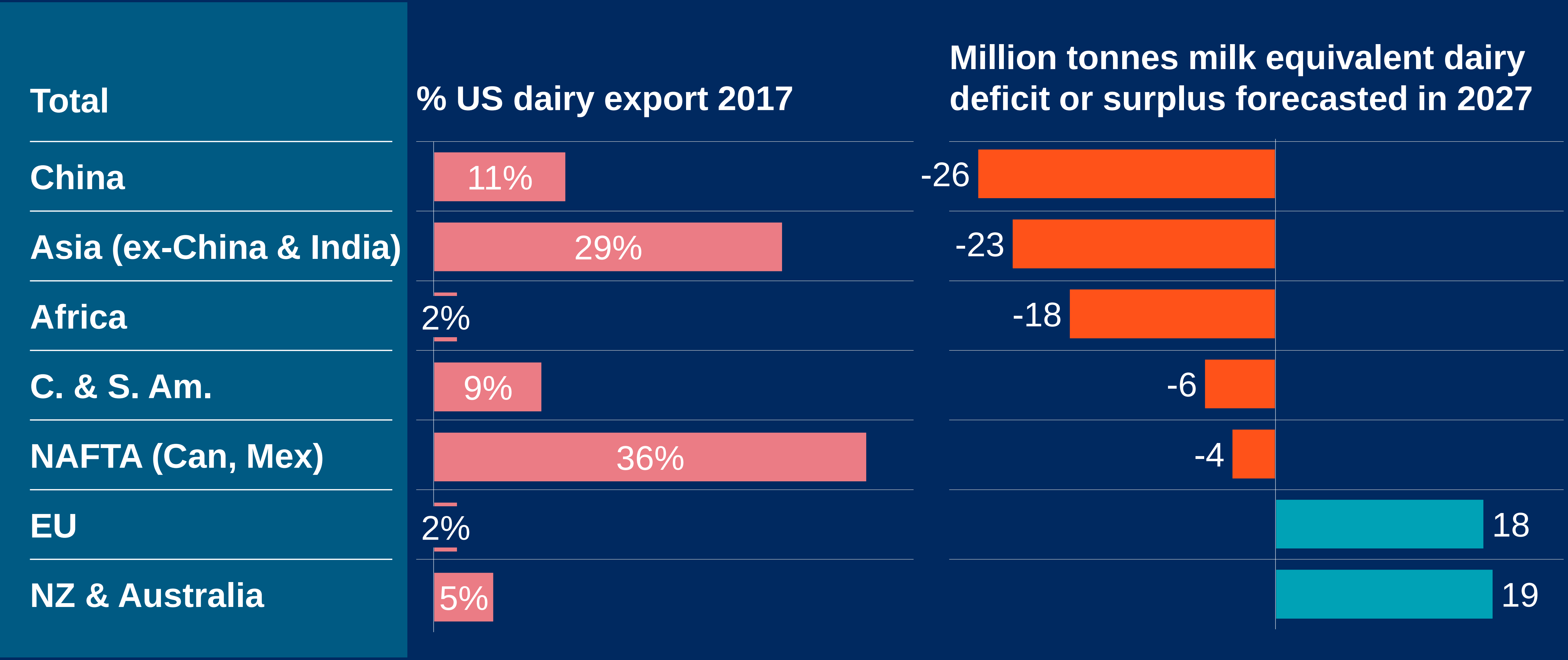


82%

… 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



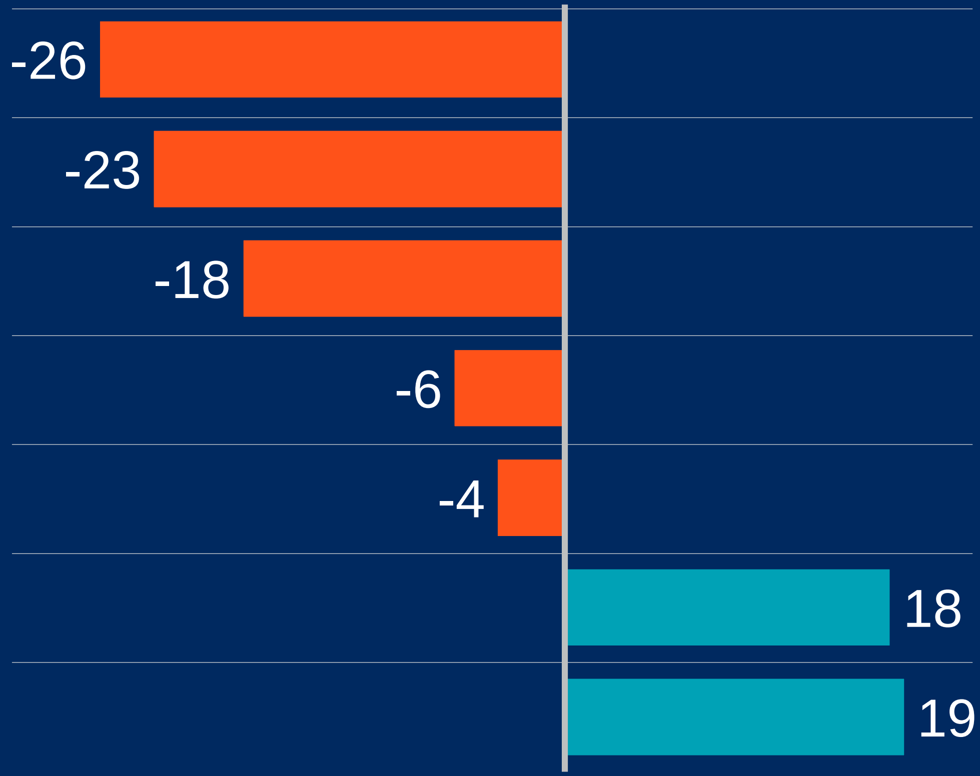
1 Figures do not total to 100% due to regional surplus cancelling out included individual country deficits

Our competition has concluded more trade agreements

of trade agreements[1]

Total			
China	0	0	1
Asia (ex-China & India)	3	8	11
Africa	1	11	0
C. & S. Am.	10	2	2
NAFTA (Can, Mex)	2	2	2
EU	0		1
NZ & Australia	1	2	1

Million tonnes milk equivalent dairy deficit or surplus forecasted in 2027



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!