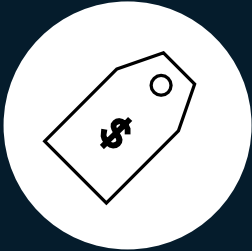


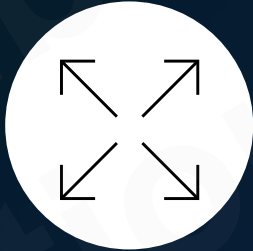
The power of resilience for dairy

January 2020

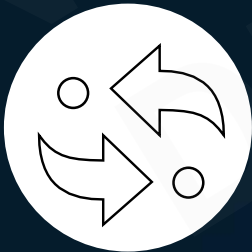
Since we were here last year...



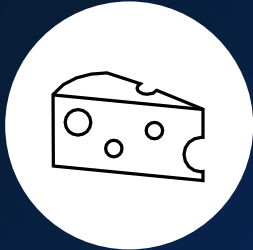
1 Dairy price and volume moves



2 Trade disputes



3 Generations shifting



4 Dairy industry shifts

Basis for our perspective



Industry NA dairy
executives – you!

>50
executives

~ 70%
of US Dairy market covered

Dairy
Consumer survey

>3,000
consumers

In 3
countries

Strategy Beyond
the Hockey Stick

2,000+
companies

3 years+
of research

Resilience
analytics

110+
Food and Beverage
companies

15+
major dairy players

3 Topics Today



Industry growth
remains challenged

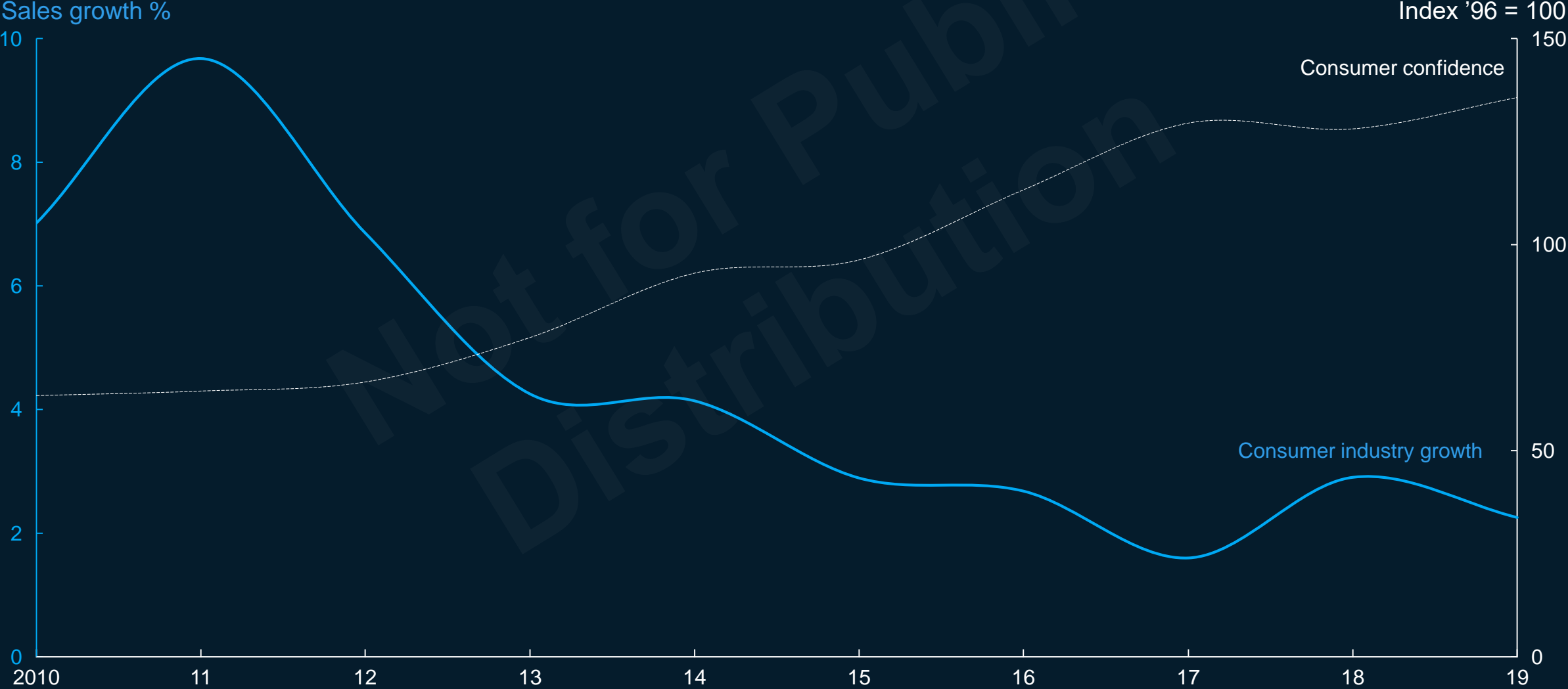


Value creation is still
possible



Winning in dairy
requires new thinking

Tough times in the consumer world



Dairy volume has been challenged, but there are bright spots

Sales growth, YOY

	2016	2019 ¹
<i>Dairy retail</i>	-1.4%	0.3%
Volume growth	0.0%	-1.1%
<i>Fluid milk</i>	-10.0%	-2.0%
Volume growth	-2.0%	-3.2%
<i>Cheeses</i>	3.0%	3.3%
Volume growth	2.0%	1.1%

¹ results of 52 weeks ending Sep 2019

A major downturn coming up?




10+ y.

- the longest gap between downturns in 50 years



23%

- of business executives globally expect shift to economic recession in the next 6-12 months



56%

- of dairy executives in North America expect economic headwinds to worsen

**If or when it
comes, it will
be different
from 2008**



1 Limited additional cost opportunity

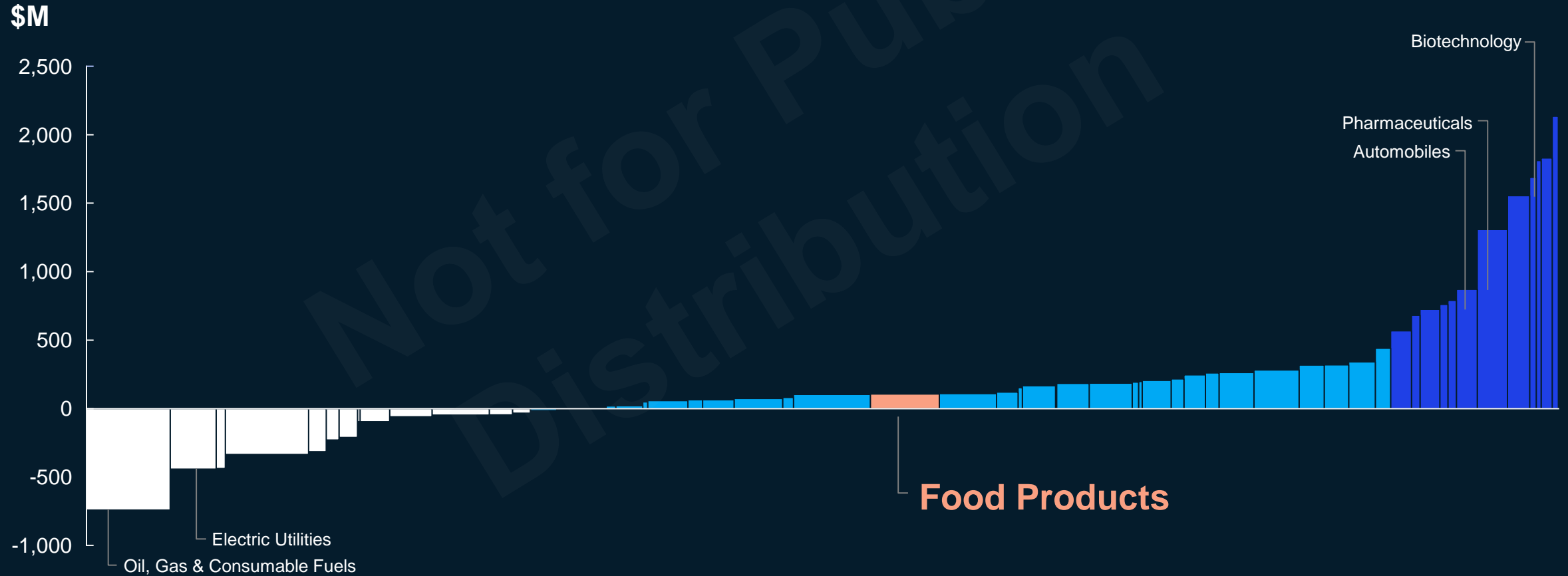
2 Limited central banks levers

3 New socio-political context

Food Products and value creation

Food Products ranks 32 out of 59 industries

Average value creation per company per industry



Average value creation is measured by industry economic profit divided by number of players; N=2,394 companies and 59 industries

There are five big moves that correlate to value creation



- 1 Differentiation improvement
- 2 M&A style
- 3 Resource reallocation
- 4 Productivity improvement
- 5 Capital expenditure

The 3 most important moves we see for dairy

Dairy industry's read on the relative importance of the moves



1 Differentiation improvement

43%

2 M&A style

11%

3 Resource reallocation

7%

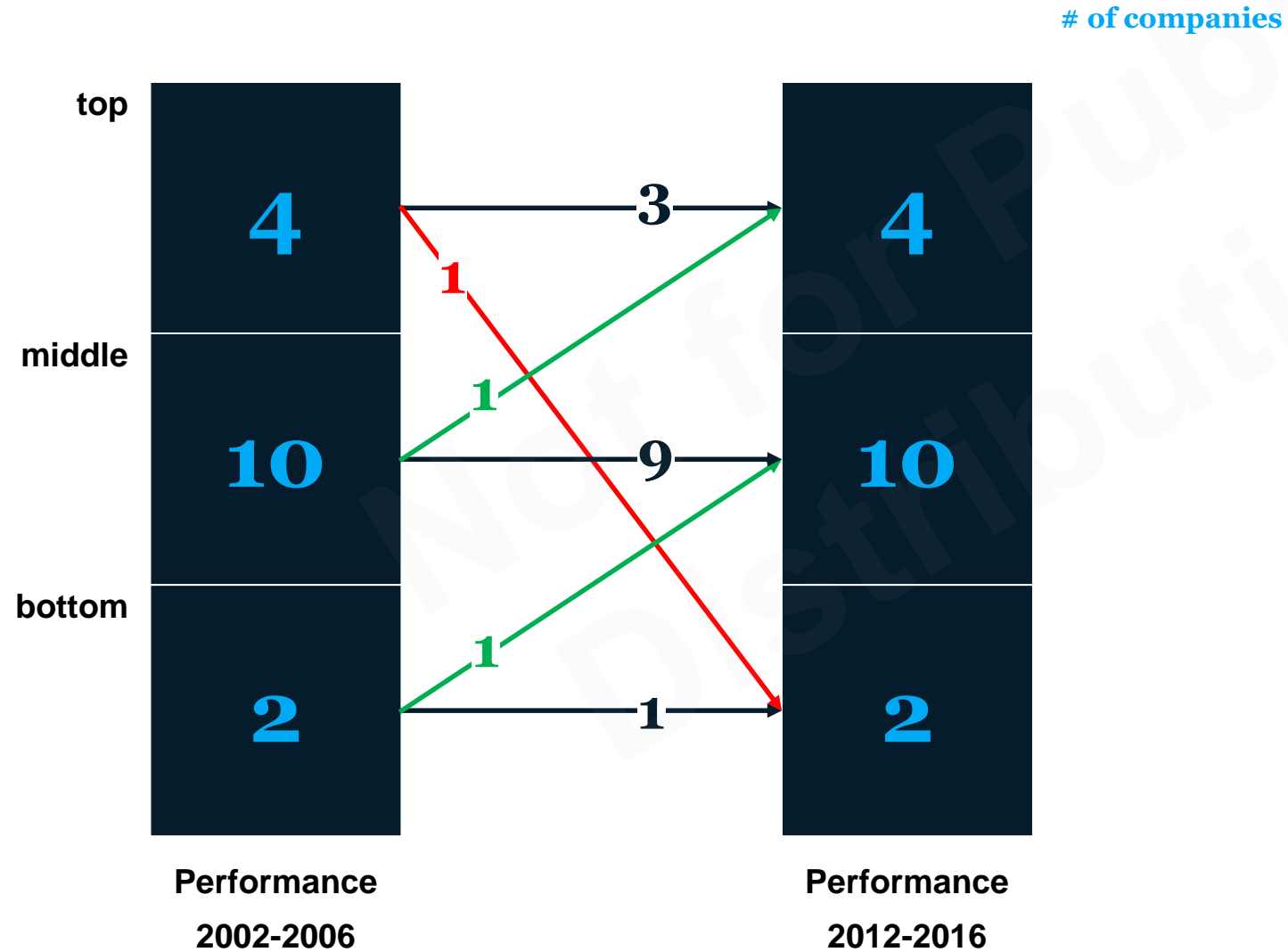
4 Productivity improvement

21%

5 Capital expenditure

18%

Diving deeper



Winners tend to keep winning

We are seeking to understand why

Differentiation is possible

Differentiation improvement

Dairy CEO Survey

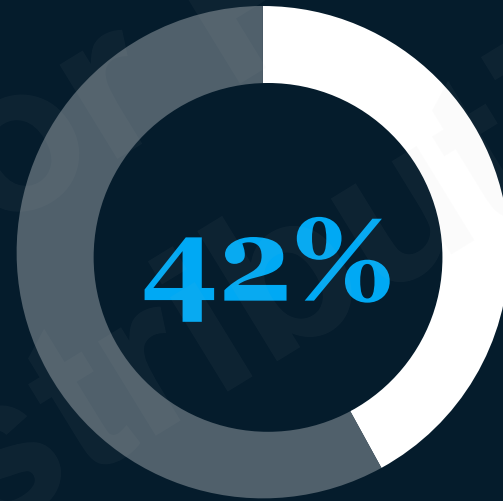


86% believe that product innovation is among the three most important factors to dairy

59% say they are highly focused in the area

Consumers are looking for differentiation

Differentiation improvement

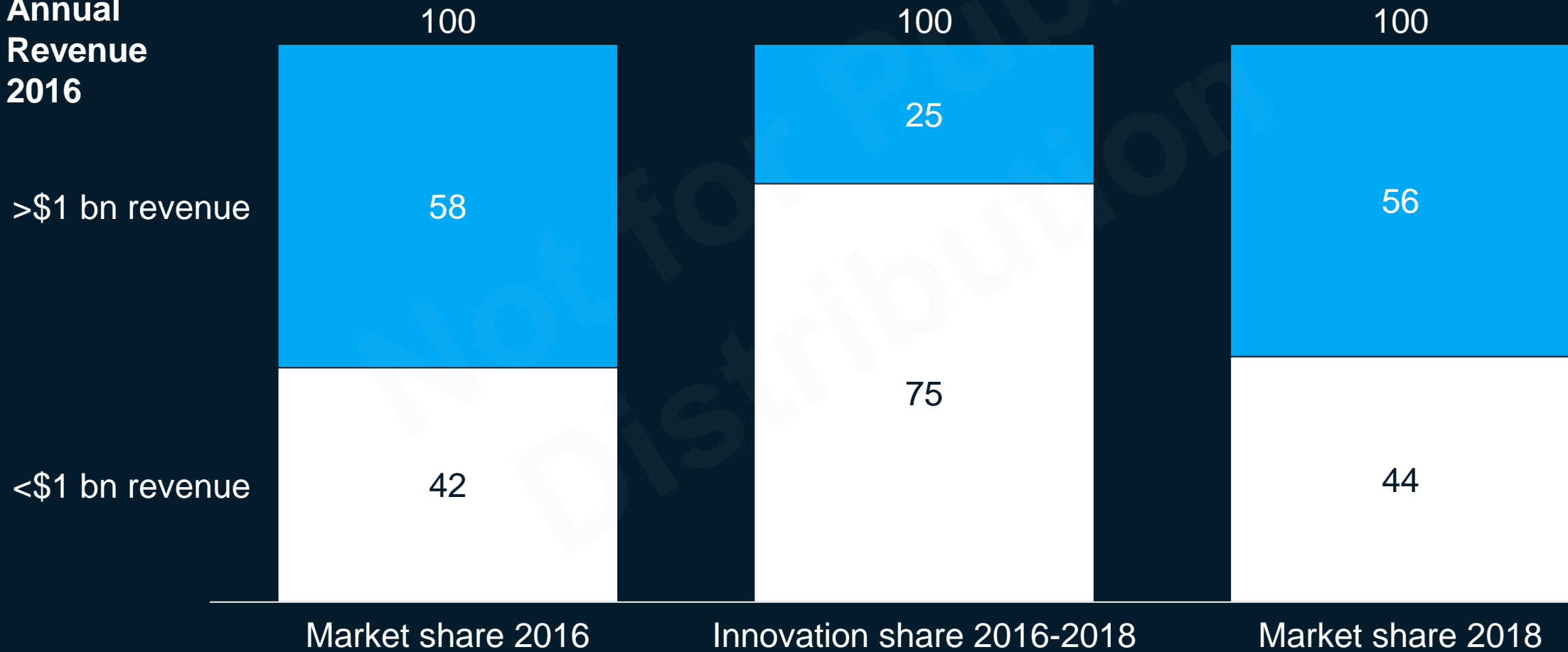


**of dairy consumers have tried a
new dairy brand within the last year**

Frequency of innovation matters

Differentiation improvement

Company
Annual
Revenue
2016



M&A activity enables success

M&A

Dairy CEO Survey

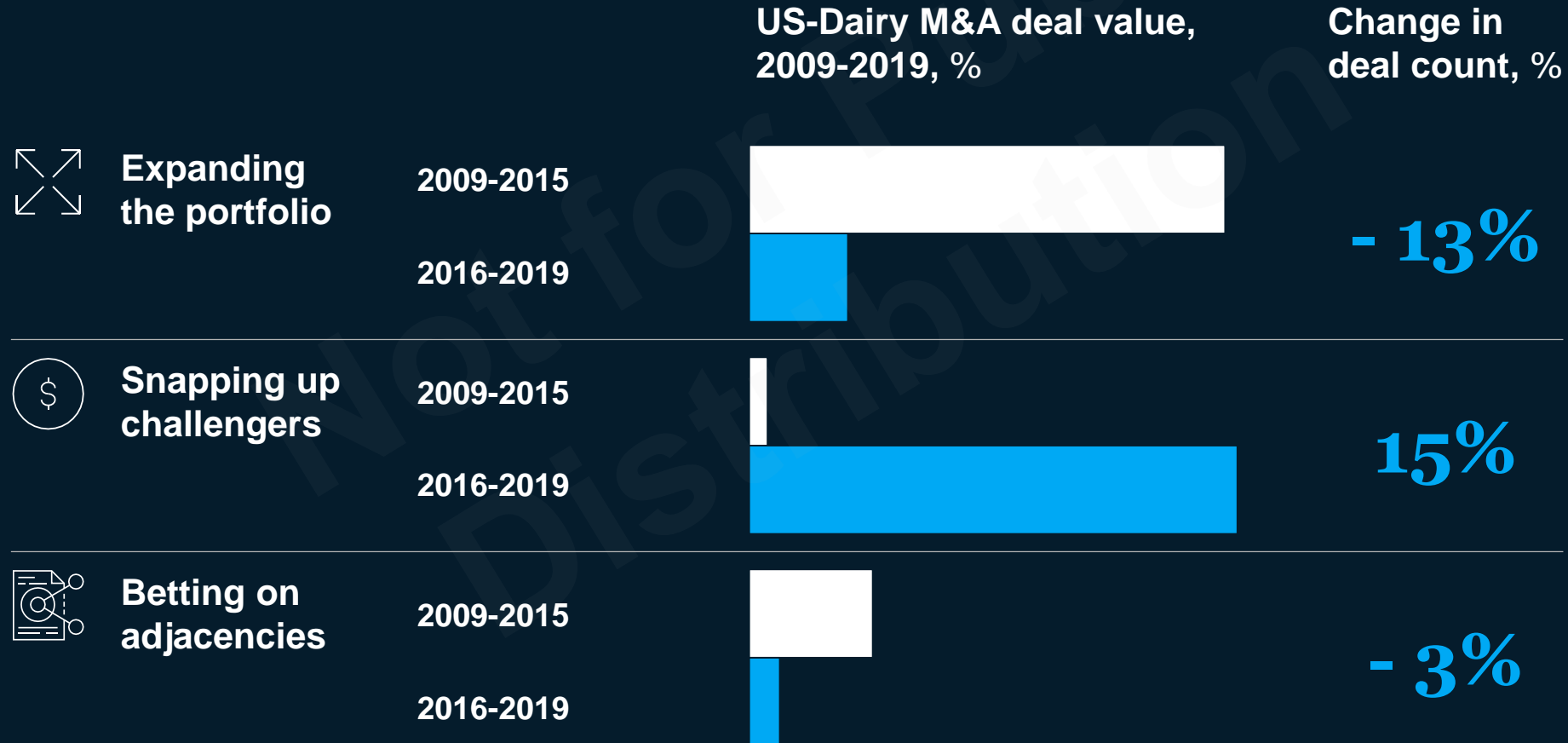


75% of the winning companies have shown high activity in M&A space

Only **30%** of CEO flag programmatic M&A as a very important move

The dairy industry has changed the way to go about M&A

M&A



Put talent & resources in growing places

Resource allocation

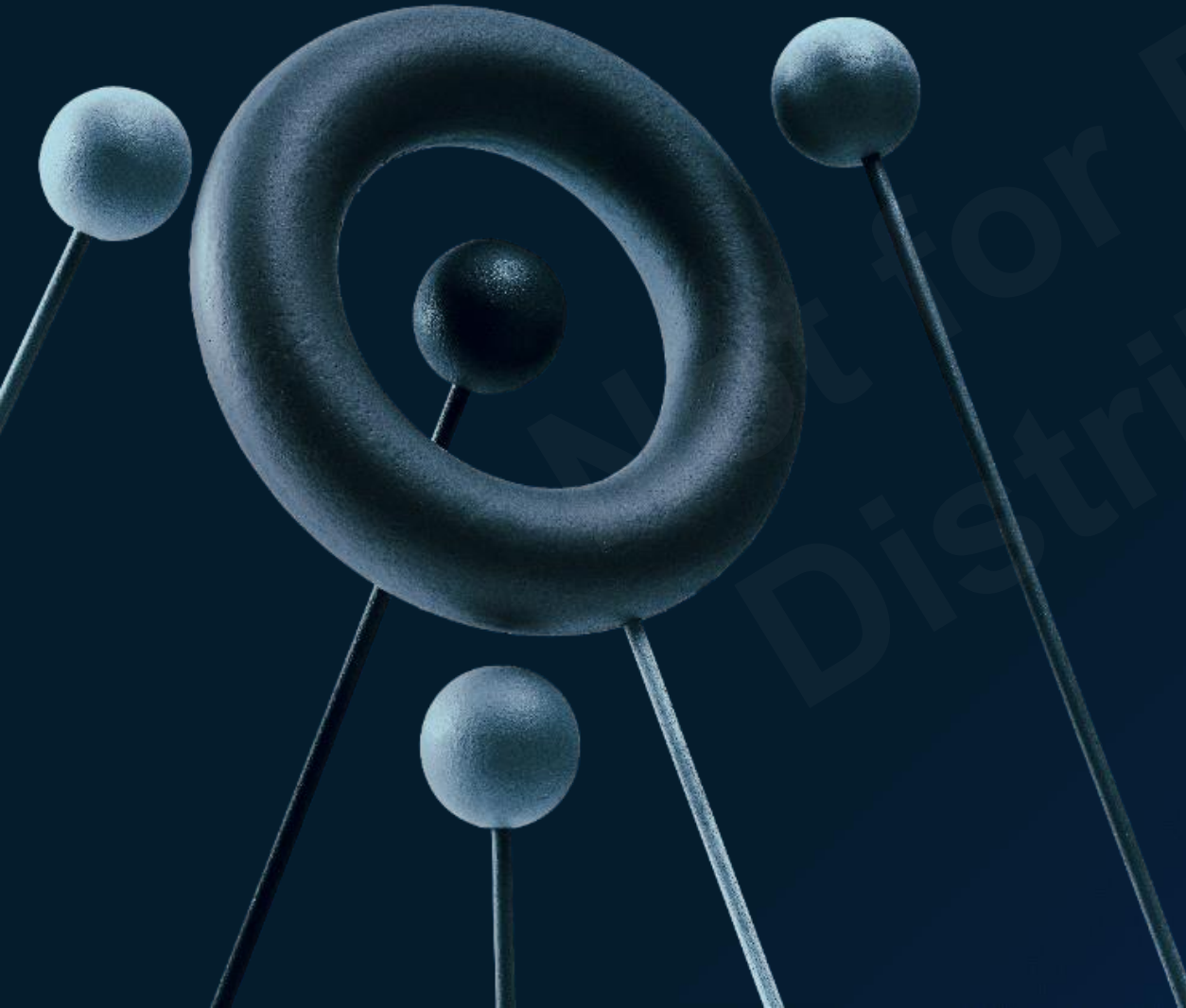
Dairy CEO Survey

Companies changing trajectory
over 10 years have significantly
re-allocated their resources

57% of dairy companies
reallocate investments across
major business units every 12
months



There are 3 enablers that support winning with these big moves



Refocus

...on where and how to win



Rethink

... the playbook for resilience



Reimagine

... how to think and operate with agility

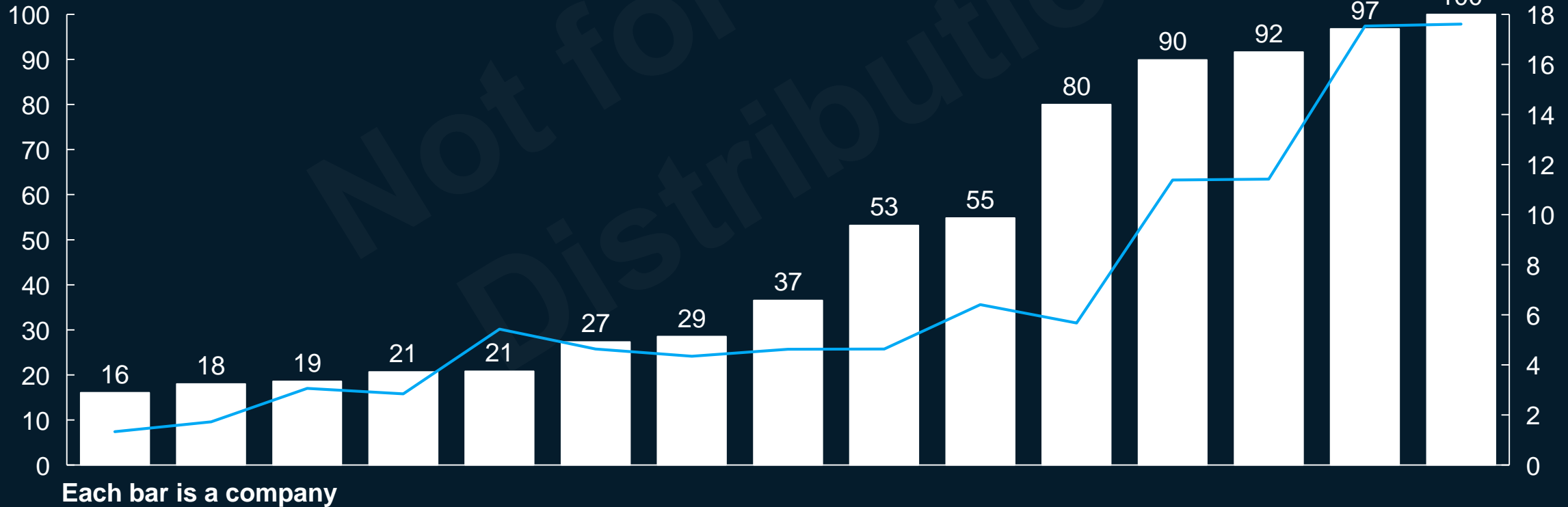


Companies with >75% sales from high growth categories / sub-categories enjoy 3x more growth overall

Representative sample of 15 food and beverage companies

Sales from sub-categories with momentum > 5%
%

Corporate growth
%, CAGR





There are great examples of success in dairy...

2016 – 19 retail revenue dynamics by category



Premium butter revenue
has increased by **+5%**
With butter overall
increasing by **+3%**



Icelandic style yogurts grew
+35%
With select brands growing
>50%



Cheese revenue remains
steady, increasing
annually by **+2%**



Lactose reduced/free
milk revenue increased
+11%

... and opportunities beyond dairy...

... though they may not cannibalize dairy as much as expected

Millions gallons sold, 2015 to 2019



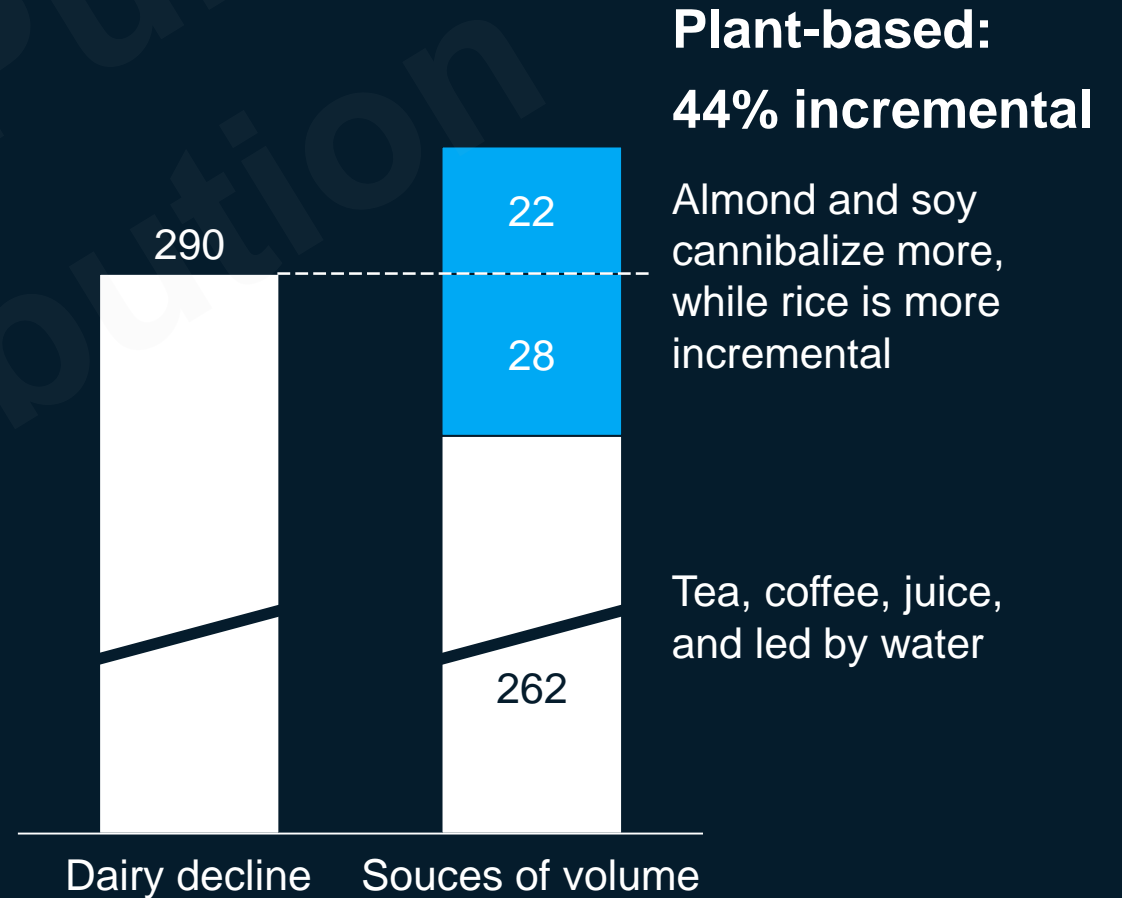
-290

Dairy



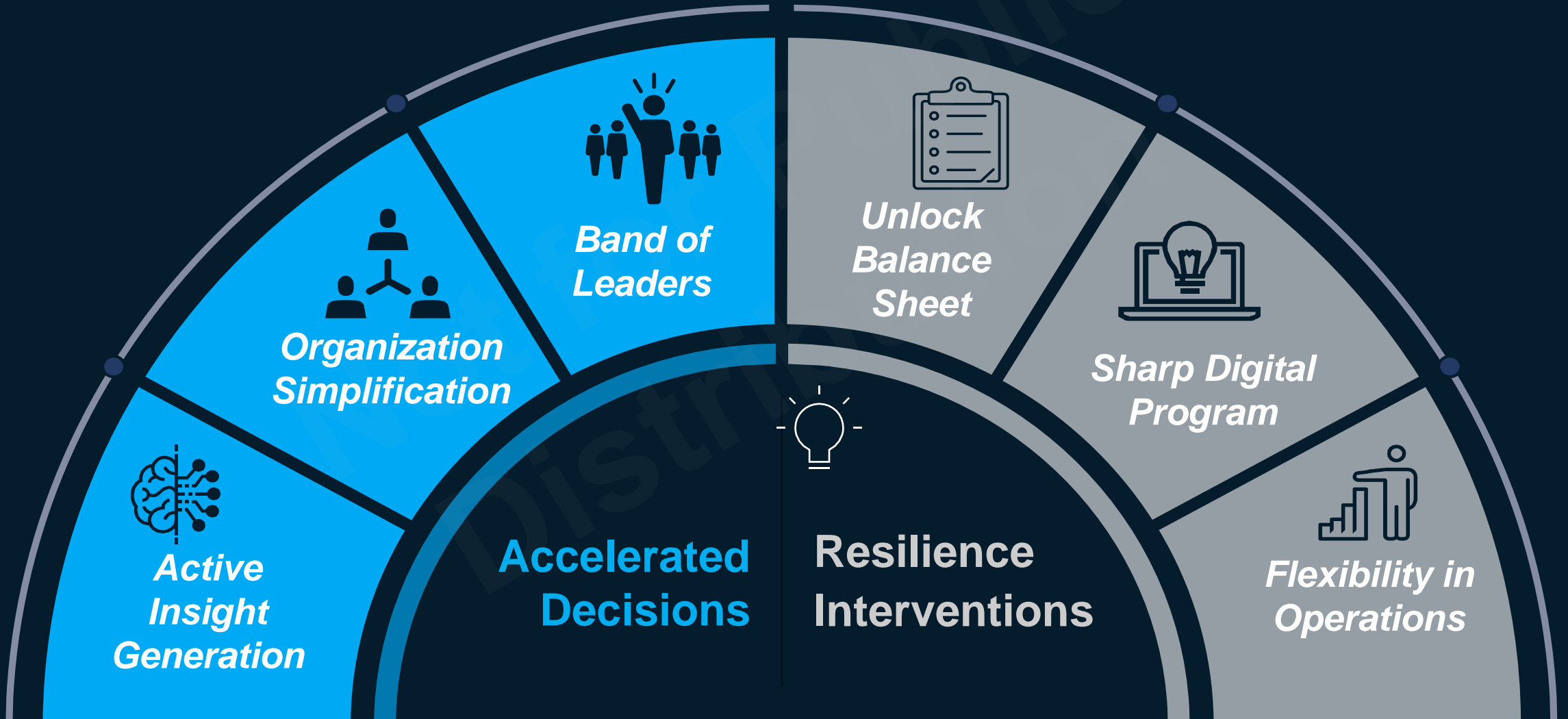
+50

Plant-based





A new Resilience Playbook is emerging

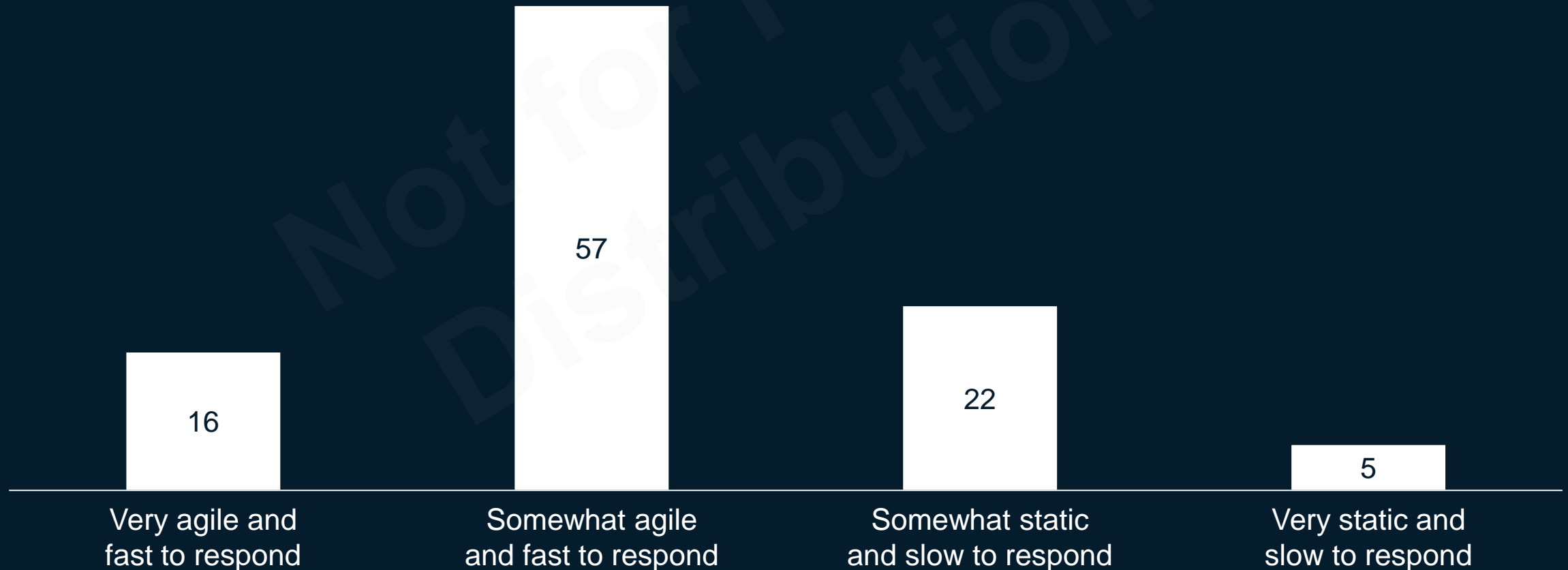




In our survey of dairy executives, only 16% felt they responded with a lot of agility to changing market opportunities

To what extent does your company respond to consumer trends, market opportunities and market uncertainty?

% of respondents





And agility can be found everywhere

Major intervention levers



Commercial

Granularity of price, margin, and growth management
Digital and advanced analytics



Manufacturing

Flexibility, speed, and productivity by leveraging AA-enabled asset optimization



Supply chain

Data driven optimization of supply chain operation to increase agility, reduce working capital, and drive strategic decisions making



Procurement

AA-enabled sourcing and automation in purchase-to-pay



Support functions

Process automation for e.g., controlling, payroll, IT services

“Digital is not on top – it is integral to coming out ahead.”

A proverb:

“Every morning in Africa a gazelle wakes up. It knows it must move faster than the lion or it will not survive.”

“Every morning a lion wakes up and it knows it must move faster than the gazelle or it will starve.”

“It doesn't matter if you are the lion or the gazelle, when the sun comes up, you better be moving!”

