



SPRING SHEEP™
— MILK CO. —
New Zealand

SPRING SHEEP MILK CO.

Our strategy and journey

The Ancient Super Milk



Our structure



Spring Sheep Milk Co.

SLC could have done this ourselves:

Landcorp could have done this on their own:

But; SLC needed a partner who could scale supply in a controlled, process driven, H&S & Quality driven manner – Landcorp is the perfect partner.

Landcorp realised unless it gets past farm gate it will continue to be a price taker and have to accept commodity price swings.

Working as one company with no transfer of ownership – we sink or swim together end-to-end means the focus and drivers are right with a powerful team

Spring Sheep Milk Co.

Chairman:

Michael Ahie: Pro-Chancellor Massey University
Chairman Plant & Food, Director FMG, Many Gov't Governance roles

Board Members:

Peter McClure: ex: MD Fonterra Brands (Anchor, Tip Top, RD1), ex: MD Lion
Director Hansells, World Vision International, Chair World Vision NZ

Tony Marks: ex: CEO & Board Member Zespri, Inaugural CEO Pacific Blue
Professional Director of multiple NZ Food and tourism companies

Steve Carden: CEO Landcorp
Ex:PGG Wrightson Australia, McKinsey New York, a lawyer by trade
and like Tony Harvard educated.

Scottie Chapman: Own SLC, 13 years in FMCG brands based in Asia. Zespri, Heinz Watties.
Built up beverage coy in NZ and sold business and brand to Heineken

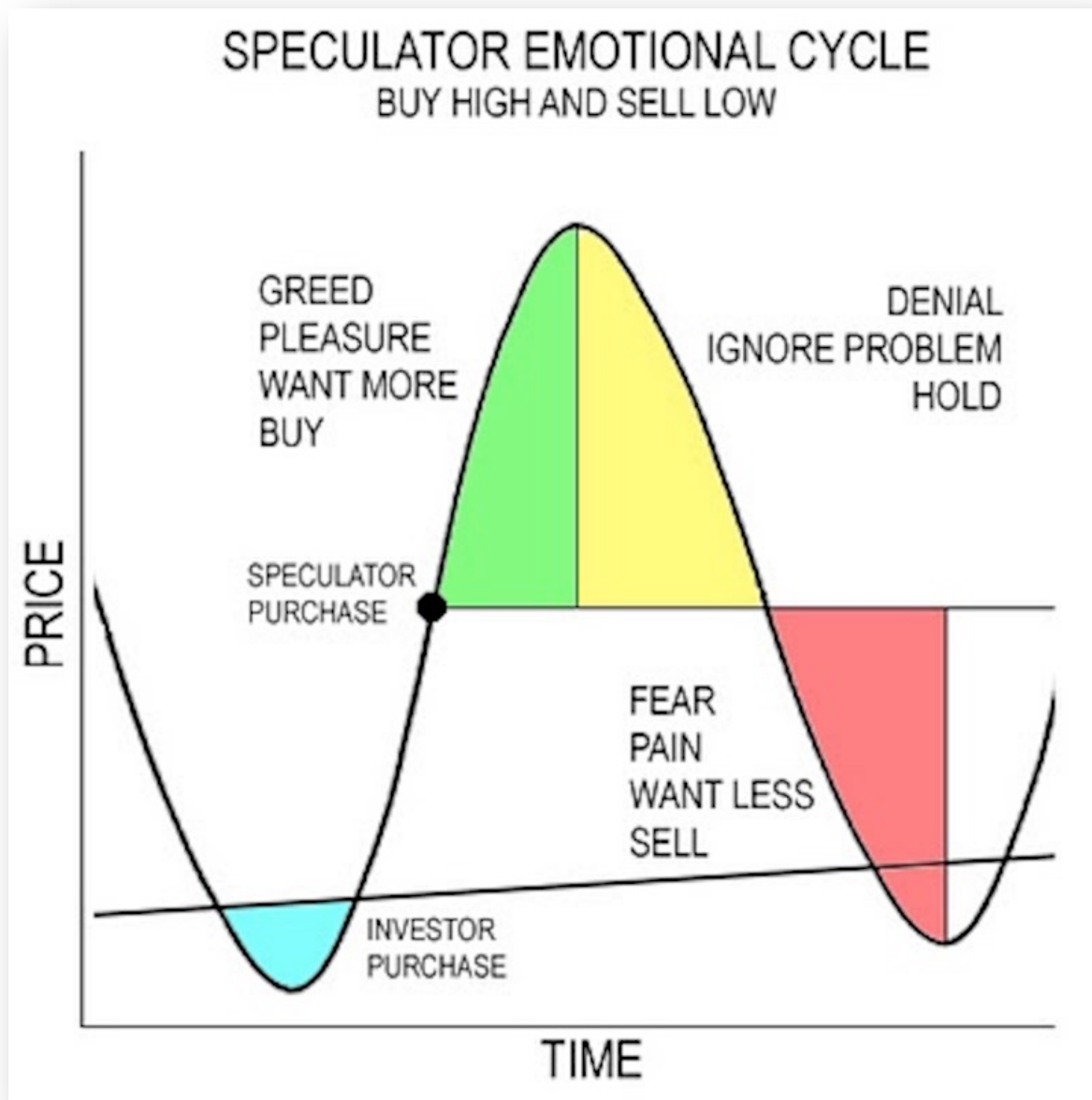


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"Success depends on previous preparation and without such preparation there is sure to be failure" - Confucius

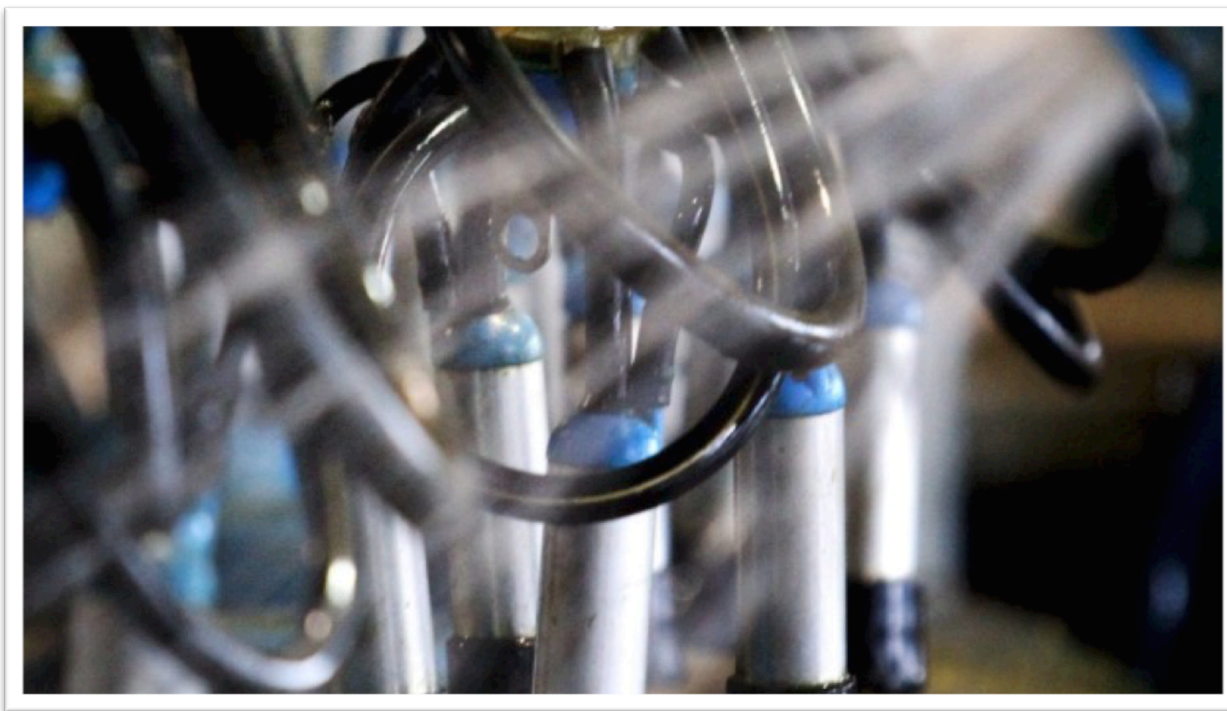
The Big Boom Theory



Too Much Milk, Too Little Thought

“New Zealand is partly to blame for the global market glut of milk and associated depressed price because it has kept pumping out increased volumes for years, believing the market was endless”

— Stuff.co.nz, March 2016



The Success Stories Before Us...



Kiwifruit Export Value:

1985	\$171,764,000
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2015	\$1,181,947,000
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Wine Export Value:

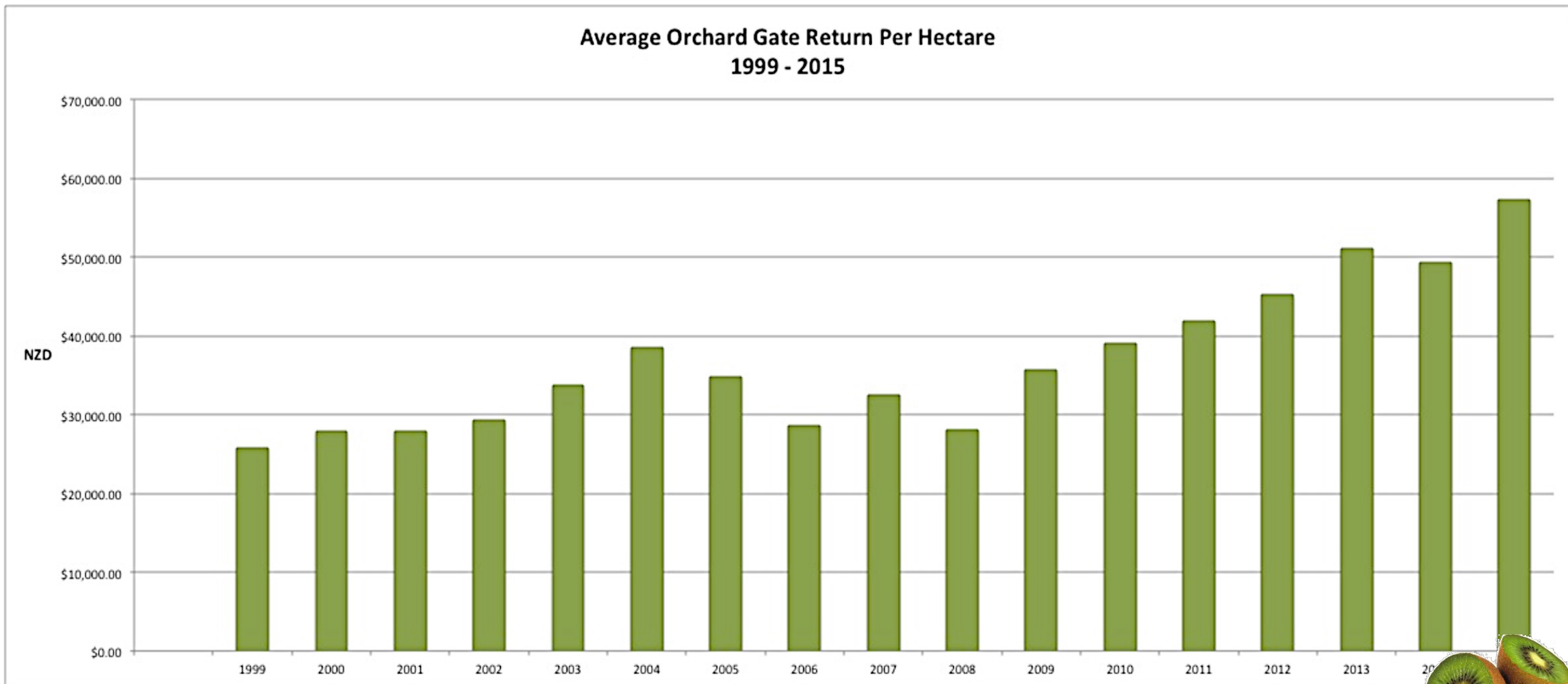
1985	\$3,400,000
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2015	\$1,424,000,000
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Case study #1



Orchard Gate Return – strong for 15 years



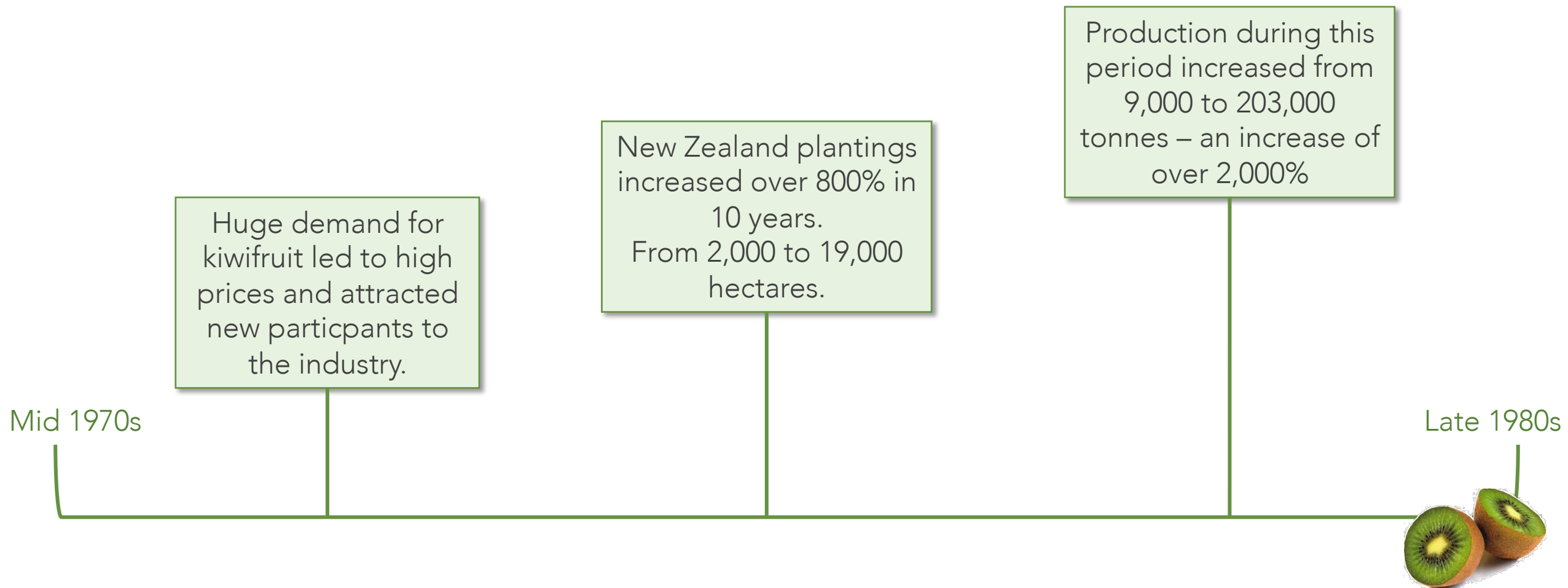
How much marketing spend?...

New Zealand Pool Costs as a Percentage of Pool Revenue

	2007/08	2006/07	2005/06
ZESPRI margin (net of loyalty premium) ⁵	8.1%	8.7%	9.9%
Freight	10.9%	11.0%	10.1%
Insurance	0.6%	0.4%	0.4%
Duty and customs ²	6.5%	4.2%	4.5%
Other onshore direct costs	2.2%	2.1%	2.1%
Other offshore direct costs	4.7%	4.9%	5.0%
Promotion	5.7%	6.4%	6.5%
Other	0.2%	(0.1%)	0.2%
NZKGI/KNZ ⁴	0.1%	0.1%	0.1%
Total fruit and service payments (including loyalty premium)	61.0%	62.3%	61.2%
	100.0%	100.0%	100.0%
Revenue attributable to New Zealand pools (\$'000) ¹	1,082,356	1,050,596	945,398



It Began With A Boom...



The Decline...

The rapid increase in production volumes led to excess supply

Excess supply led to falling prices, with many growers lost everything

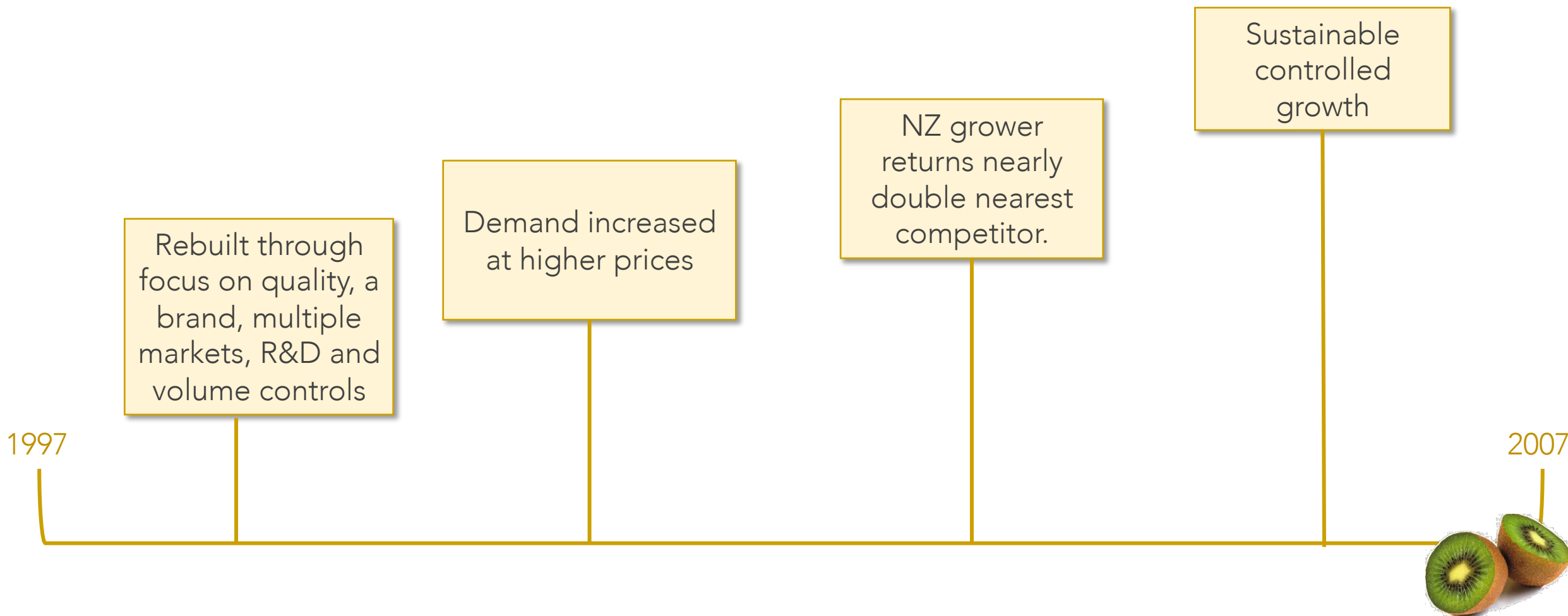
Areas planted in kiwifruit declined by 45%

1987

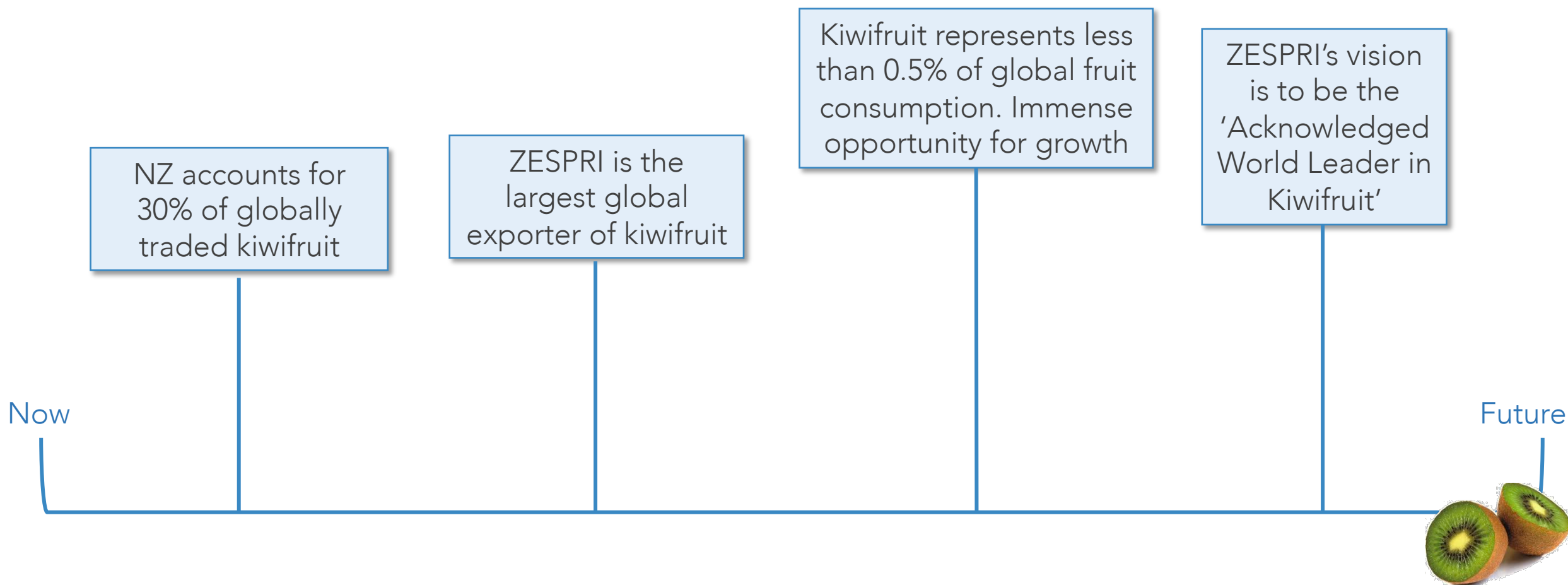
1997



The Reawakening...



The Future...



Their Vision...

1. Optimise core performance

- Increase kiwifruit consumption
- Better understanding of our consumers
- Further develop our existing markets

.



Their Vision...

2. Build competitive advantage

- Add value to our existing business by reviewing our brand architecture to create more revenue opportunities
- Undertake further research in the areas of taste and health



Their Vision...

3. Pursue growth horizons

- Open up new markets for kiwifruit
- Introduce new kiwifruit cultivars
- Develop new products such as kiwifruit ingredients and nutraceuticals.



To seek new opportunities

We are investing to build demand for our products ahead of supply and we are developing new markets in rapidly emerging economies.

We also continue to serve and create new opportunities in our long-standing developed markets.





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Case study #2



NEW ZEALAND WINE
PURE DISCOVERY

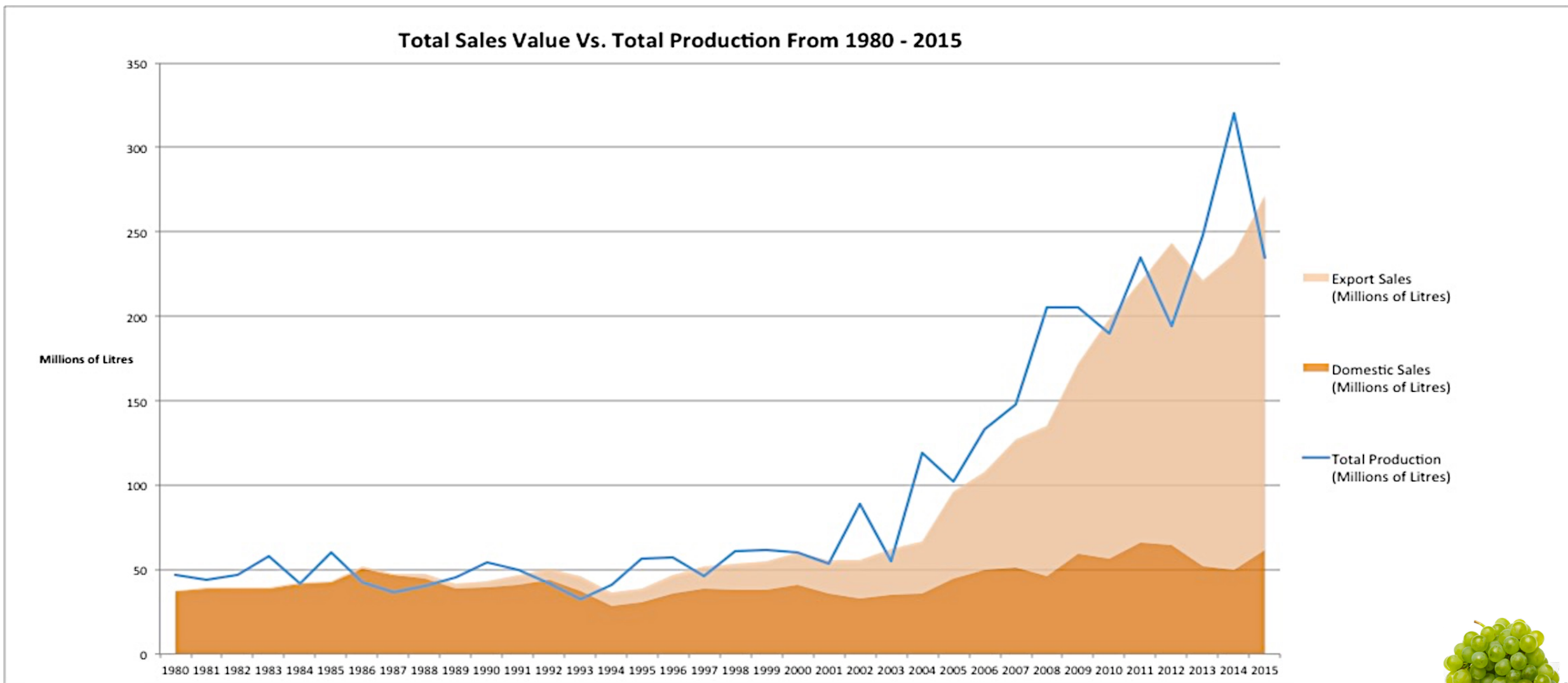


All data and images sourced from: <http://www.nzwine.com>

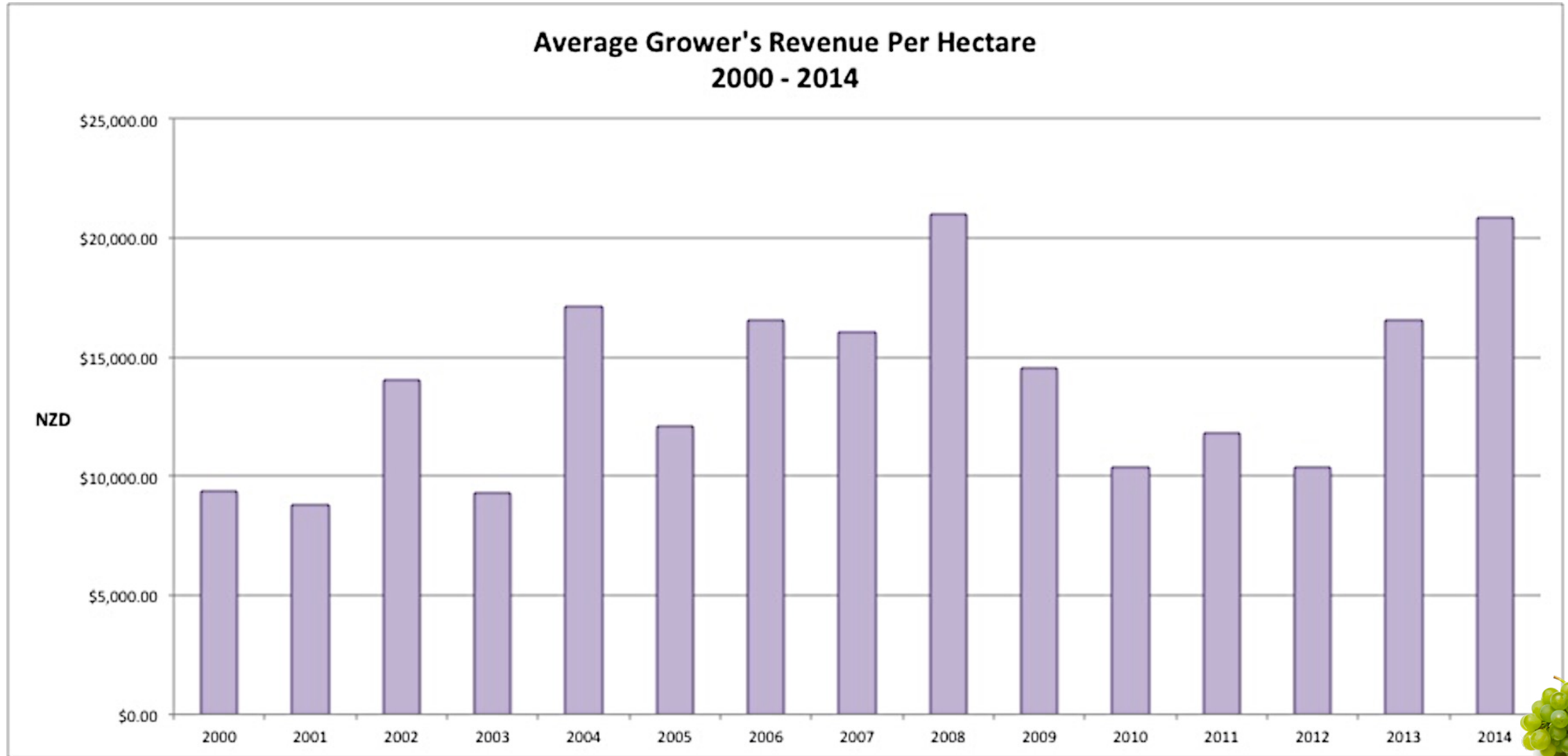


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Learning To Balance Supply & Demand



Stabilising For The Future



It Began With A Boom...

Marlborough's first large commercial plantings made.

The industry was experiencing large scale growth & overseas investment boosted the local industry.

Production rose to 50 million litres & land area of vineyards in NZ grew to 5,000 hectares.

Early 1970s

Early 1980s



The Decline...

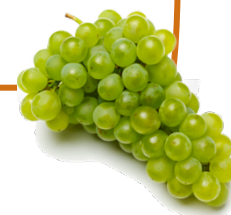
Supply far
exceeds
demand

Wine Institute of NZ
announces NZ must
reduce plantings to
become more in line
with demand.

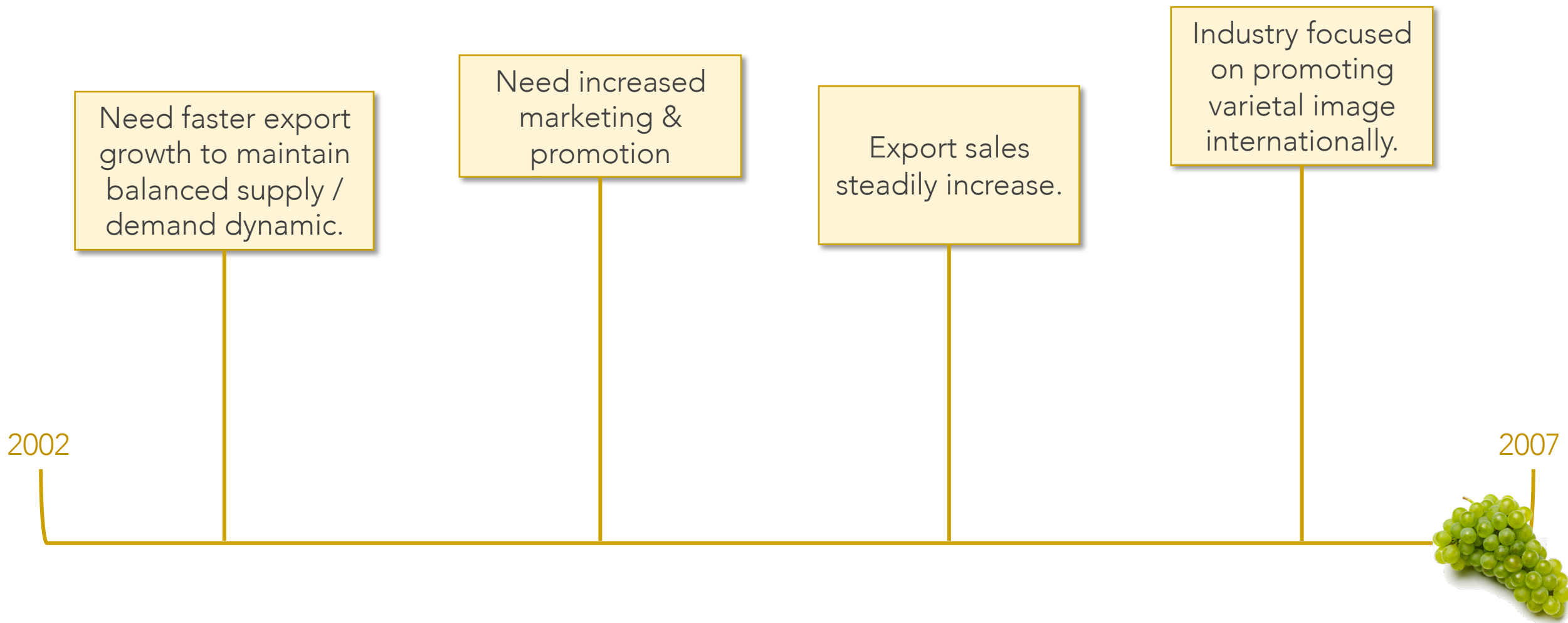
The government
paid growers to pull
their vines, causing
production to slow &
a loss of 25% of the
national vineyard.

1985

Early 1990s



The Reawakening...



The Future...

2014 was the biggest production in history & a further climb in export volume and value.

Production levels and varietals give NZ a competitive advantage over many wine producing countries.

NZ Wine branding and differentiation through varietal holds higher value.

Now

Future



Case study #3



NZ Dairy Goat Industry

- It's the same story !
- 15 years ago they were in 'The Decline'
- Dairy Goat Co-op has spent 15 years building this up through.....



NZ Dairy Goat Co-op

- Building a niche category and owning it – Goat Infant Formula
- Quality and Brand to deliver
- Limiting supply to what they are confident they can sell
- Not allowing any one market to have more than 15% of total supply
- Building new markets every year as opposed to putting more into existing – despite on average a 5-8 year build per market



NZ Dairy Goat Co-op

- Now:
- Over 60 farms and a waiting list of suppliers wanting to join
- Profitable and sustainable for suppliers and the DGC
- Over NZ\$ 180m in sales and comfortable growing slowly



NZ Dairy Goat Industry

- Now with multiple suppliers in NZ and globally, the value for DGC will be reliant on the brand strength they have built up over the last 15 years as there will be many other suppliers.
- Value will only be retained if consumers feel there is value in their brand vs. a cheaper alternative



What Are The Common Threads for a New Industry?

1. Initial Euphoria
2. Over Supply
3. Serious Financial Damage
4. Strong Marketing & Innovation
5. Sustainable Returns for Industry Participants



What Are The Correction Mechanisms?

1. Consumer Focus
2. Quality
3. Controlled supply to stay below demand
4. Marketing and Innovation
5. Not reliant on any individual market



Supply Driven vs Consumer Focused

Process/Supply Driven

- Strong Wool processors
- Large Bovine Dairy
- Red Meat Companies

Single Market Dominated

vs

Consumer Focused

- A2 Milk
- Dairy Goat Co-op
- Lewis Road Creamery
- Zespri
- NZ Merino

Multiple Markets, Branded

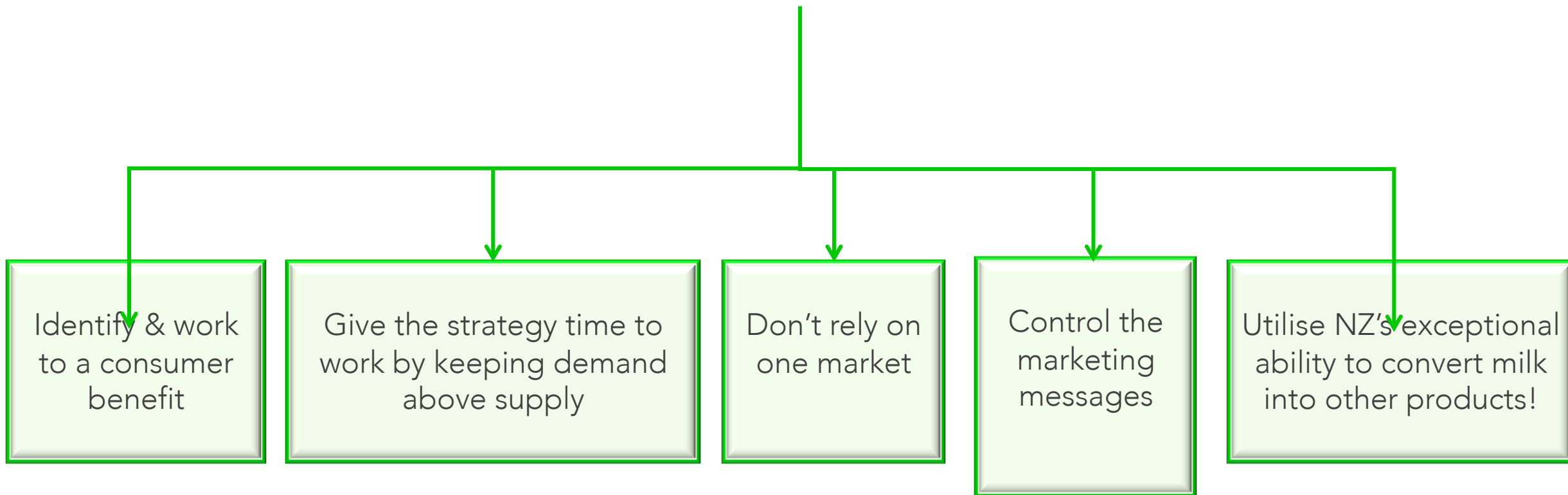
Spring Sheep Challenge

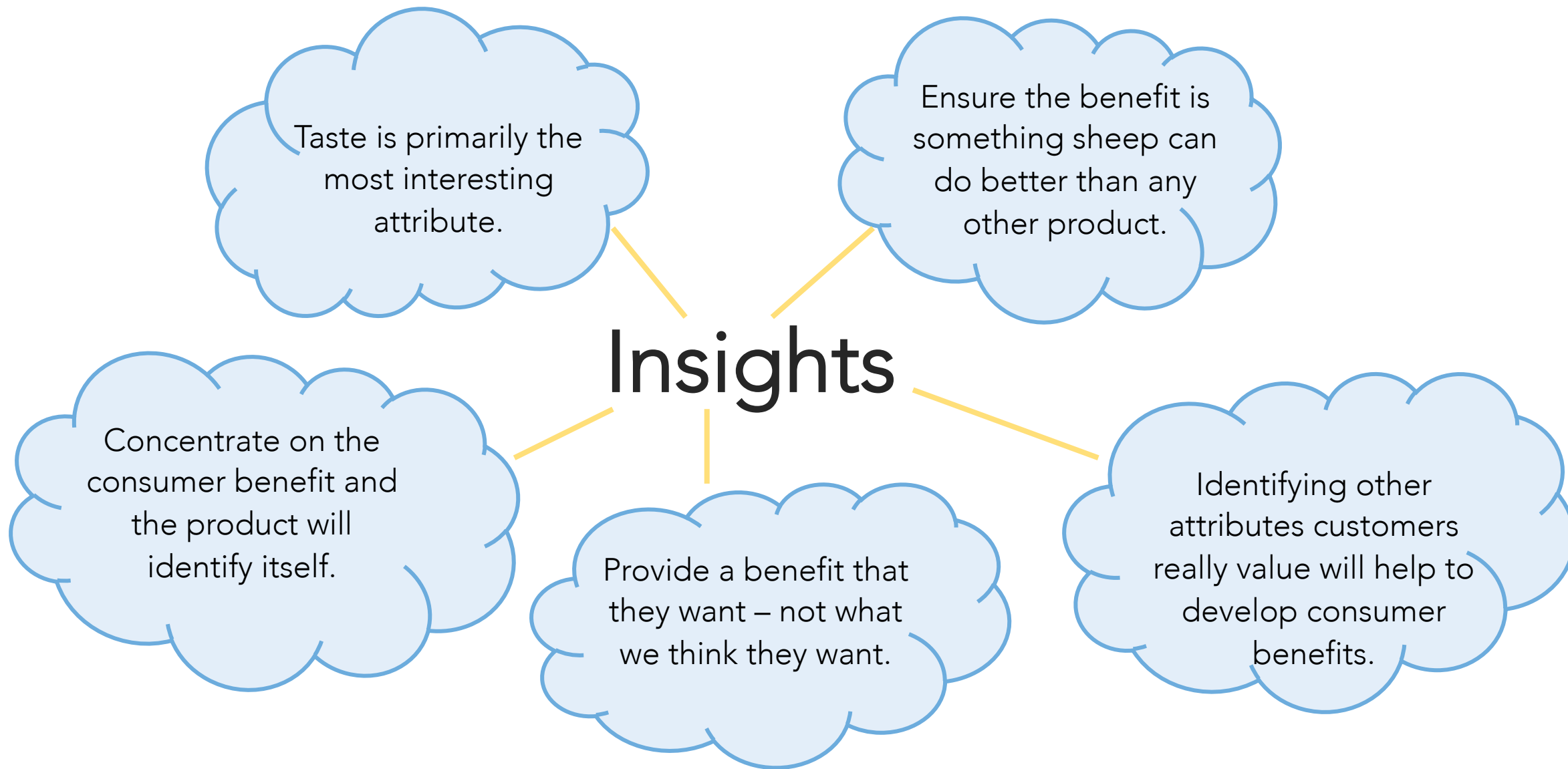
Mitigate the
initial phase
of volatility

&

Invest now to
marry supply/
demand &
control destiny

The Spring Sheep Strategy

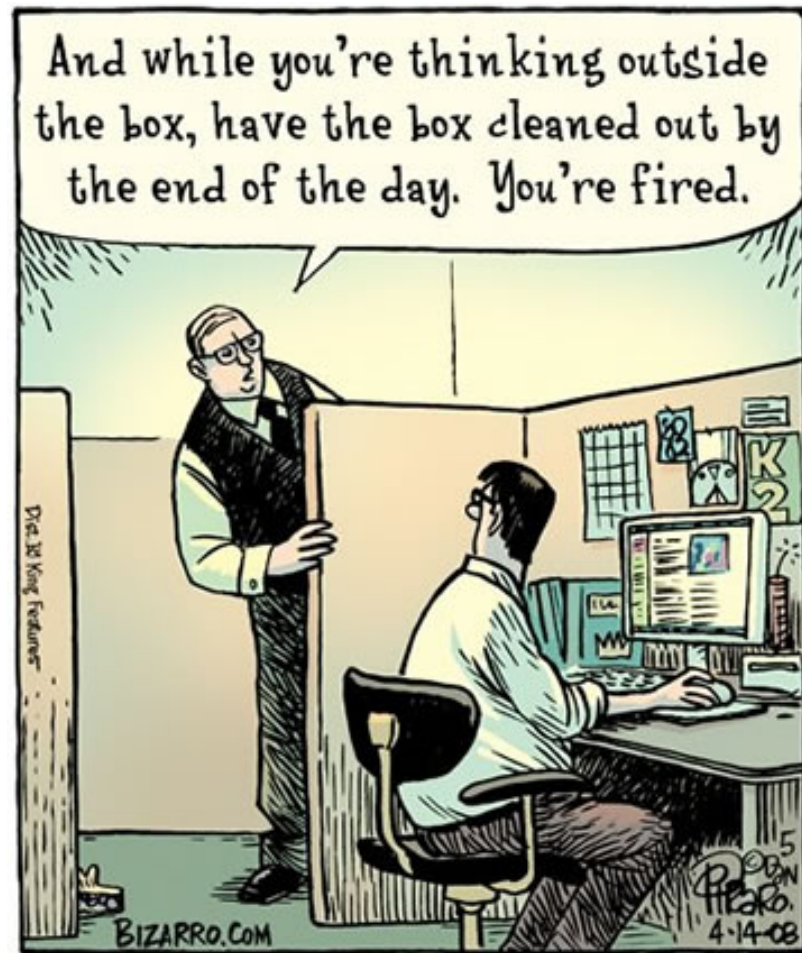




How We Could Make Money Now

Fire all my team

We spend more on marketing and R&D than on farming and processing.



How We Could Make Money Now

Sell all to China in bulk

We could breakeven in year 2 and make good money by year 4 with a lot less risk, better return on capital and a simpler life for me !



How We Could Make Money Now

Encourage other suppliers to
sell us whatever they have

There would be no risk to us as we
would just pay the suppliers what we
get for it, less our costs/commission.



Why We Won't Do That!

I am a vocal critic of NZ's commodity trading and want to show the long term benefits we can make by 'doing the right thing'

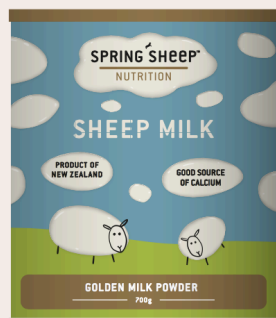
Doing this right will create long term sustainable value

Investing now, is a chance to join the successful case studies and create something much better

It's higher risk, but it is the right thing to do for our shareholders who do not want boom / bust

Next Steps For Spring Sheep

We have presold 95%
of what we produced
this year to Taiwan at
prices well above
budget.
This is not success.



Next Steps For Spring Sheep



Korea is currently
being added as our
2nd market

Next Steps For Spring Sheep

We spend over 25% of our sales price on marketing support and control a lot directly ourselves.



Next Steps For Spring Sheep

Keep working hard in-market to identify the consumer insights & define the benefits they can extract from us.



Supply Side

- Quality – we do not have consistent quality in the sheep milk industry and it will turn new consumers off. We ensured we had world leading technology before beginning and it shows in our consistent taste and quality
- Get milk yield up to where it is commercially viable at scale – no one in NZ with scale is close to that now.
- Global average price is \$1.20 per litre.
- Spring Sheep needs to produce for under \$1.50 per litre or our value-add will be subsidising inefficient farming as opposed to creating value.



Summary

The traditional way NZ agri-businesses enter new markets leads to huge volatility.

This type of commodity trading is too high risk for us

We hope to learn from the history of businesses before us that have paved the way for a bright and sustainable future.

Summary

My company has partnered with Landcorp so we can cover all 3 points the case studies have shown we need...

1. Yield, Quality and appropriate supply volumes
(Genetics + technology + animal husbandry)

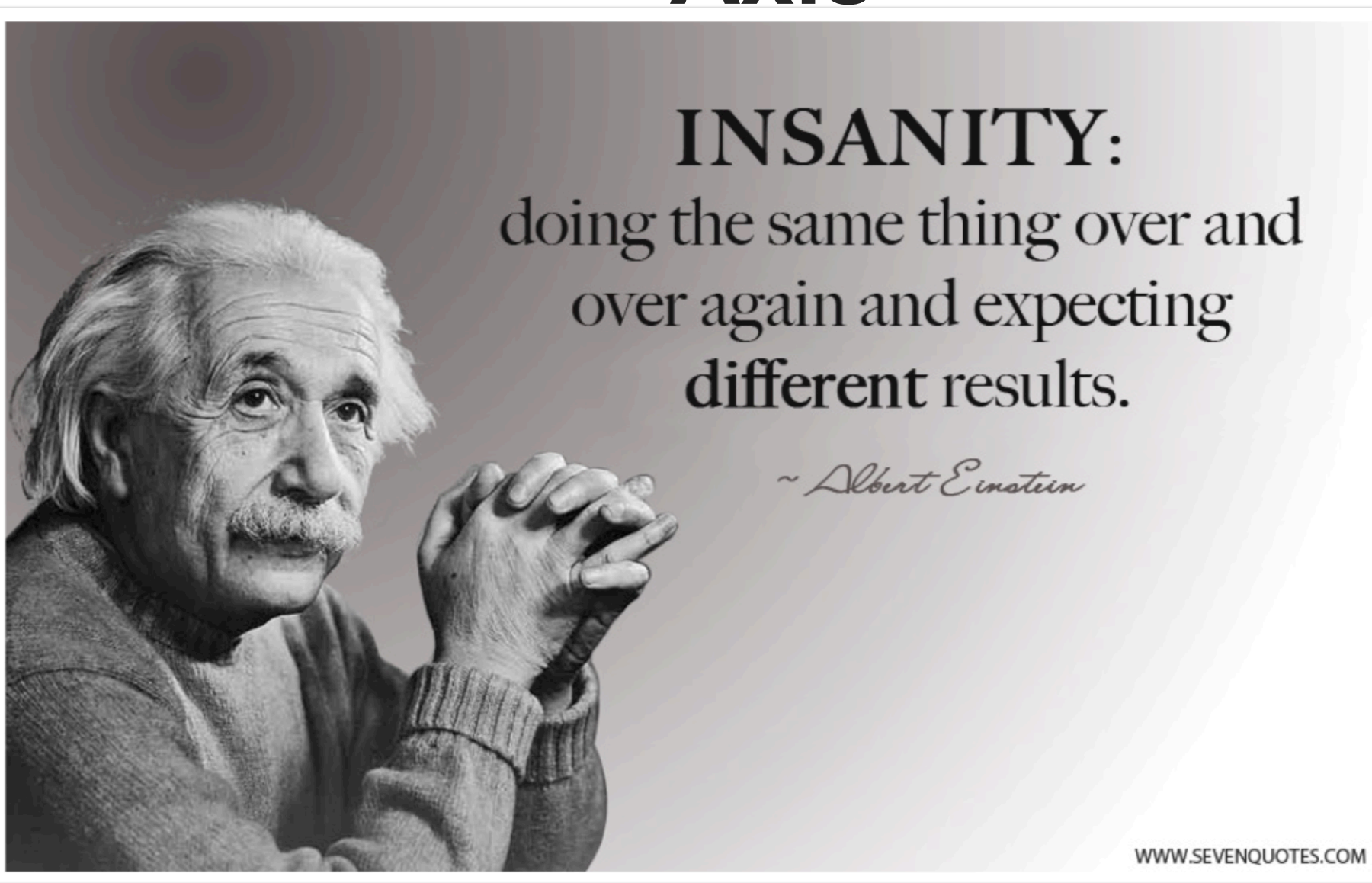
2. Understanding consumer insights and delivering accordingly
through brand messaging

3. Multiple markets to reduce risk



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The World Hasn't Turned On Its Axis



**The best way to predict
the future is to create it.**

~Abraham Lincoln



Thank you!



employee of the month

Spring Sheep Will:

Keep its demand above supply for as long as possible

Use in-market insights to create sustainable consumer benefits

Learn from those who have done this before us

Reduce risk by not relying on any one market

Use all means possible to maximise on-farm efficiency

Be Consumer Facing
Develop consumer brands as opposed to ingredients to a single market

Our Farm Video

