

The logo for Lambex 2010, with "Lambex" in orange and purple and "2010" in orange, set against a white background with a subtle sheep silhouette.

Lambex²⁰¹⁰

A close-up photograph of a roasted lamb on a spit, garnished with rosemary and a lemon wedge, cooking over a fire in a blue metal tray.

**OWEN POOLE
CHAIRMAN
ALLIANCE GROUP LTD**

THE ENVIRONMENT

- The sheepmeat industry is being redefined by a number of significant changes in the world environment.
- Sheepmeat is a niche product and constitutes around 4% of meat consumption.
- Growing demand -
 - increasing population and GDP per capita, particularly Asia
 - food security is a major consideration (eg, investments in Africa).
- Falling supply -
 - land use change;
 - over-grazing (desertification);
 - water supply;
 - and the removal of subsidiesare all factors.
- Consumers are increasingly discerning, requiring assurances on -
 - food safety and freedom from chemical interventions;
 - animal welfare, farm assurance and transport protocols;
 - carbon footprint, sustainable production, and
 - superior eating experience.
- Europe in particular and North America are still in an economic squeeze.
- Returns to NZ producers over the last two years are at an all-time high but
- On-farm profitability is still inadequate.



INDUSTRY CHALLENGES

- **>90% of production exported. Sheepmeat in New Zealand is extensively farmed, one crop per annum, seasonally produced but sold over 12 months.**
- **Producers and exporters high cost of production - vulnerable to in-market price movements and vagaries of FX relativities.**
- **Land use change - dairy and forestry.**
- **Extracting more value from the market through product form enhancement and ongoing development of new market opportunities.**
- **Extracting more from co-products, particularly stronger wools.**
- **Currently meat alone carries farmers' expectations for on-farm profitability.**
- **Processing over-capacity - with high cost of exit - new entrants' and existing players' ability to replace closed production capacity quickly.**
- **On-farm cost structures are out-stripping inflation.**
- **Farmer behaviour is something of a paradox - while advocating aggregation of the industry on-shore and in the market, many farmers continue to "game" sales of their livestock.**
- **Issues not particular to New Zealand sheep farmers - same worldwide.**



THE ALLIANCE GROUP STORY

- Formed in 1948, commenced operations in 1960.
- Growth has been both organic and by acquisition.
- Has always been farmer-owned, apart from short period as a hybrid model.
- Difficult position in early 1990s following acquisition of Waitaki International's South Island assets - loss of \$152m in 1991.
- Farmer directors stood for re-election over two years – 3 of 11 survived – chief executive also lost his position.
- Company recovered, strengthened balance sheet, reinvested, developed future strategy based around "farm-to-fork" in 1997.
- Invested heavily in livestock quality, operations and markets.
- Consistent profitability and cash flow.
- Today company is largest sheepmeat exporter in the world with strong balance sheet, excellent brand reputation, operationally efficient with good support from shareholder-suppliers.



ALLIANCE GROUP APPROACH - Securing the Future

- Alliance Group determined in the 1990s that the future of sheepmeats lay in presenting them to the world as a premium quality product.
- This vision was set out in our document called "*Securing the Future*".
- Simply put, the strategy has three strands – all inter-linked:
 - 1) **Marketing** - what does the customer want and need?
 - 2) **Livestock** - what product attributes are required?
 - 3) **Operations** - how to provide the desired product most efficiently?
- Information must flow between each group with market requirements key.
- Data must be provided to both the livestock producer and processing operations to satisfy market requirements.



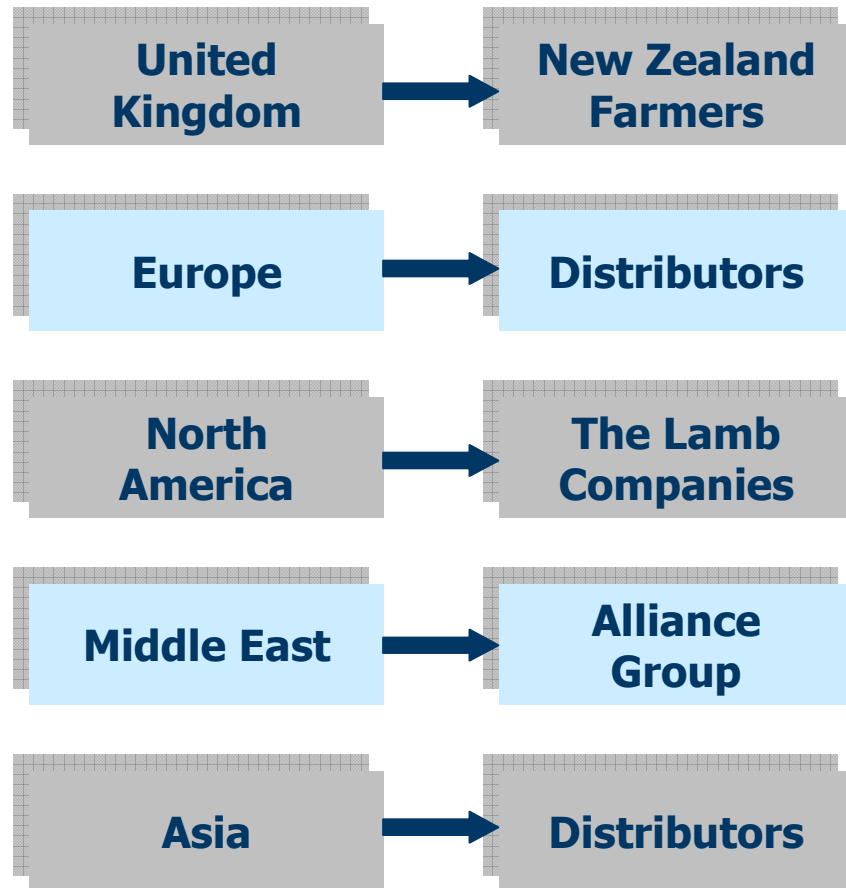
SECURING THE FUTURE - Marketing



- All requisite requirements – animal welfare, food safety, sustainability, animals/products fit for purpose, taste, texture, health – all taken as a given.
- Market orientated company, key account driven, providing a full range of branded added value products to HRI, food service and retail.
- Develop partnerships and joint working arrangements for mutual benefit, eg, The Lamb Companies (TLC) -
 - largest importer of lamb products to the USA and Canada;
 - direct market representation and distribution across North America;
 - value-add processing plants in Toronto and Los Angeles;
 - total turnover approximately NZ\$550 million;
 - current shareholders - Alliance Group, ANZCO, Silver Fern Farms, Tatiara, WAMMCO, Castricum and Southern Meats



MARKETING CHANNELS



Major retailers, eg –

- Carrefour
- J Sainsbury
- Asda
- Sam's Club
- Metro
- Auchan
- Loblaws
- M&S
- Real
- Safeways
- Wal-Mart

Food service, eg –

- Kermene
- Sysco
- Restaurant Depot
- Davigel
- Break Bros
- Pomona
- Sodexho
- Costco

Food manufacturers, eg –

- Grand Farms
- Yorkshire Premiere
- Nestlé
- Gerber
- Bigard
- Danone
- Steakmeister

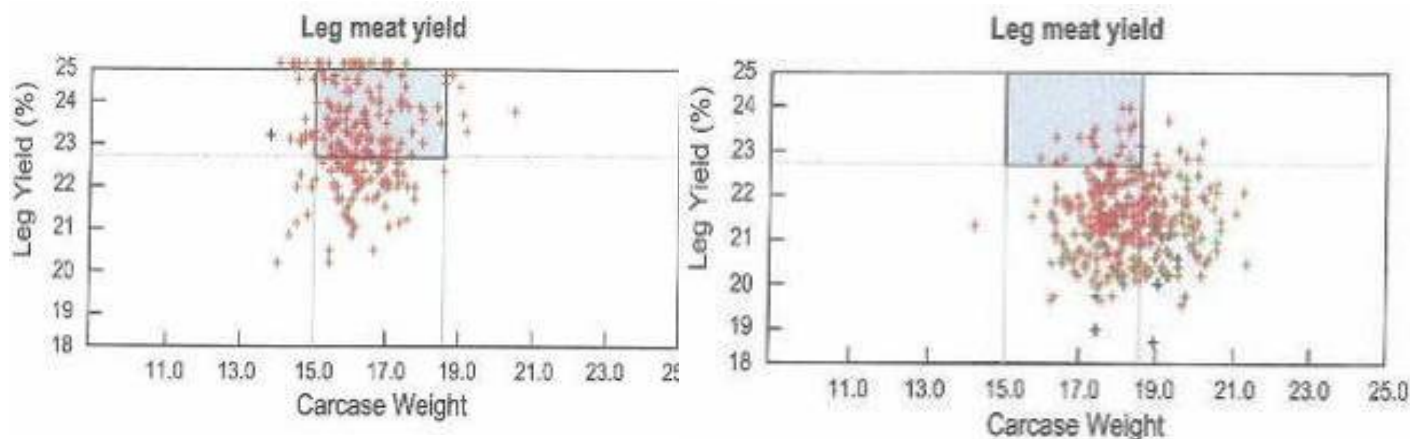


- Key account relationships strengthening in parallel with AGL performance
- Diversification is important
- Need to tailor product for each offering



SECURING THE FUTURE - Livestock

- Invested 7 years of research -
 - in VIAscan® technology (evaluation by cut);
 - in the Central Progeny Test (CPT) programme;
 - evaluation of ram performance across the country;
 in conjunction with leading researchers and monitor farms.
- Introduced yield grading - on-line information available.
- Linked the market with yield and CPT programmes.
- Extending CPT with taste and tenderness information.



SECURING THE FUTURE - Operations

- Invested over \$250m in our plants in the last 10 years.
- Direct costs same now as 1990 while inflation has risen more than 50%.
- Implemented international quality systems (HACCP, 9001, 14001).
- Implemented AGL farm assurance and livestock transport systems.



ALLIANCE GROUP SHAREHOLDERS

- The producer owners of Alliance Group enjoy -
 - a competitive weekly schedule price;
 - an objective quality payment up to \$5.25 per head paid at time of processing;
 - pool surplus distributions from profit at year-end (\$170 million over the last 10 years);
 - increase in total share value through issues of bonus shares;
 - shareholders' return on investment (over the last 10 years) of 7.1% per annum plus a capital gain of 7.7% per annum.

Is 100% farmer-owned co-operative

1995

2009

- \$40 Lamb
- Pool

- \$60 Lamb
- Pool
- Dividend

- \$70 Lamb
- Pool
- Dividend
- Bonus Share

- \$55 Lamb
- \$3.50 Yield Premium
- Pool
- Dividend

- \$90+ Lamb
- \$5.25 Yield Premium
- Pool
- Dividend
- Bonus Share

AUSTRALIA - food for thought

- Droughts and depressed wool prices have seen flocks reduced from 170 million (early 1990s) to around 71 million today.
- Good domestic marketing - but approach to export different.
- Primarily based kill-chill-ship -
 - product forms - fit for purpose, size, age, value?
 - minimal customer/market development;
 - little investment in market infrastructure.
- Approximately 66% US exports chilled but an increasingly seasonal profile (feast or famine).
- An undisciplined supply approach in high value markets compromises returns to Australian producers (and others).
- In North America, The Lamb Companies (3 New Zealand and 4 Australian exporters) combine to provide 12 month fresh supply to valued customers for mutual benefit (individual and composite brands).

***Should Australia and New Zealand
develop wider market strategies
for mutual gain?***



NEXT STEPS

- Continue to increase product values in existing and new markets.
- Find a solution to the low value of stronger wools to aid on-farm returns.
- Develop new sustainable co-products to improve the economics of sheepmeat farming.
- Better use and exploit our comparative water supply advantage.
- Amend the industry model - to ensure aggregation/structural reform are not immediately compromised.
- Aggregation in procurement - ensures consolidation in the market.
- Farmers can achieve this change tomorrow - pick a company (preferably farmer-owned) and support it with supply.
- Forward prospects are favourable - the future for food products is strong - New Zealand is well positioned to enjoy its bountiful advantages - particularly if imposed compliance costs can be rolled back.





Alliance

G r o u p