

An Investor's Guide to the New Zealand Food & Beverage Industry

Final Report
October 2011; v1.2

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Coriolis is a strategic management consulting and market research firm

We work with organisations to help them grow. For corporations, that often means developing strategies for revenue growth. For governments, it means working on national economic development. For non-profits, it means helping to grow their social impact.

We address all the problems that are involved in growth: strategy, marketing, pricing, innovation, new product development, new markets, organisation, leadership, economic competitiveness.

We bring to our clients specialised industry and functional expertise. We invest significant resources in building knowledge. We see it as our mission to bring this knowledge to our clients and we publish much of it for the benefit of others.

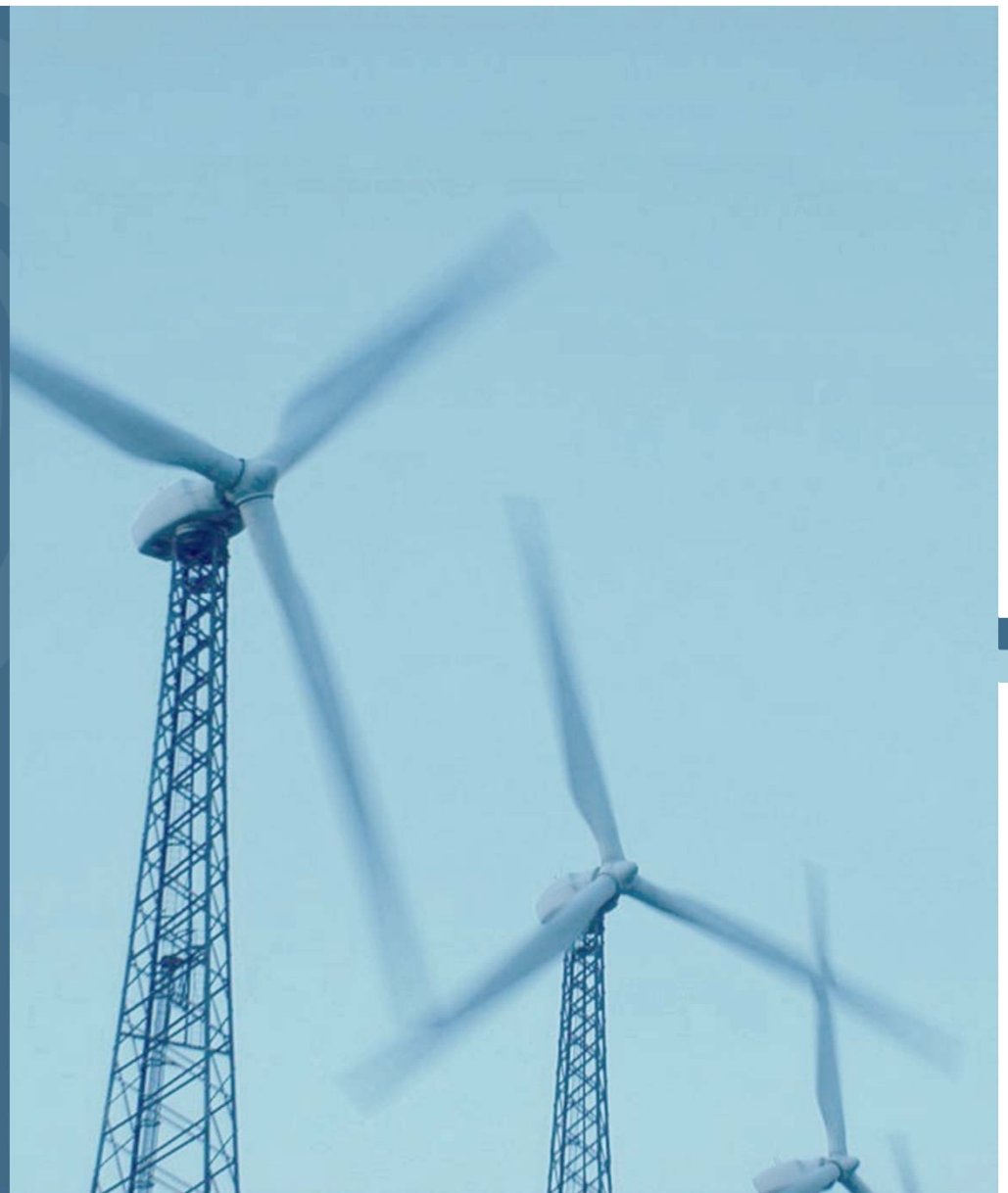
A hallmark of our work is rigorous, fact-based analysis, grounded in proven methodologies. We rely on data because it provides clarity and aligns people.

However, we deliver results, not reports. To that end, we work side by side with our clients to create and implement practical solutions.

The Coriolis name

The coriolis force, named for French physicist Gaspard Coriolis (1792-1843), may be seen on a large scale in the movement of winds and ocean currents on the rotating earth. It dominates weather patterns, producing the counterclockwise flow observed around low-pressure zones in the Northern Hemisphere and the clockwise flow around such zones in the Southern Hemisphere. *To us it means understanding the big picture before you get into the details.*

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The objective of this document is to make a strong, factual case for investment in the New Zealand food and beverage industry.

- This investment can come from existing investors or those new to the sector.
- This investment can come from global sources or New Zealand.

The document acts as an “entry portal” to the wealth of further information available in on the sector in the New Zealand Government’s Food & Beverage Information Project.

EXECUTIVE SUMMARY

New Zealand is well positioned to triple its food and beverage exports over the next 15 years; investors will participate in this success

General

- New Zealand is a developed, temperate-climate country in the Asia-Pacific region. It is a stable democracy with strong economic freedoms (*Index of Economic Freedom #4*), excellent investor protection (*World Bank #1*) and low corruption (*Transparency International #1*). It is by almost all measures the most attractive investment destination in the temperate zone of the Southern Hemisphere.

Food & beverages

- Food and beverage exports are important to New Zealand and the country is a major F&B exporter. New Zealand's F&B exports are growing strongly and the country's export performance is strong and improving relative to peers.
- The country has demonstrated capability in the production of temperate-climate food and beverages. It is the largest exporter in the world of dairy products and lamb and a major exporter of beef, kiwifruit, apples and seafood.

Drivers

- The success of New Zealand in temperate foods is built around a natural environment conducive to agriculture. New Zealand – surrounded by the Pacific Ocean – has the light of Spain with the climate of Bordeaux. This climate will also moderate the effects of global warming going forward (relative to large continents).
- The country's farmers are highly productive and efficient. The country has no agricultural subsidies and regulation is generally rational and light handed.
- New Zealand has a supportive infrastructure for food and

beverages along the total value chain.

- New Zealand is a leader in food safety and product traceability. Customers and consumers around the world trust food and beverages produced in New Zealand.
- In science, New Zealand spends more than half a billion dollars a year on Agri-Food research across a wide range of areas, from fruit genetics to nutraceuticals. The country is also home to four major universities respected globally for their Agri-food research.

Opportunities

- While New Zealand is a major global F&B exporter, the country has significant untapped capacity to export more. New Zealand is a country the size of Italy with the population of Singapore. However Italy feeds a domestic population of 60m people and exports twice as much F&B as New Zealand.
- The New Zealand Government has set a target of tripling the country's food and beverage exports over the next 15 years. This will be achieved through both growth of existing major sectors and the newer emerging growth stars.
- New Zealand is a young country still discovering its comparative advantages and new industries continue to emerge. In the past twenty years New Zealand wine, honey, aquaculture and avocados have all emerged from almost nothing into world leading sectors.
- New Zealand has attracted investment in F&B manufacturing from around the world. Global leaders have already endorsed New Zealand by investing in manufacturing in the country and 25% of the F&B manufacturing sector is foreign owned.

NEW ZEALAND OVERVIEW

New Zealand is a developed, temperate-climate country in the Asia-Pacific region that is an attractive investment destination

Basic details on New Zealand
(2011)

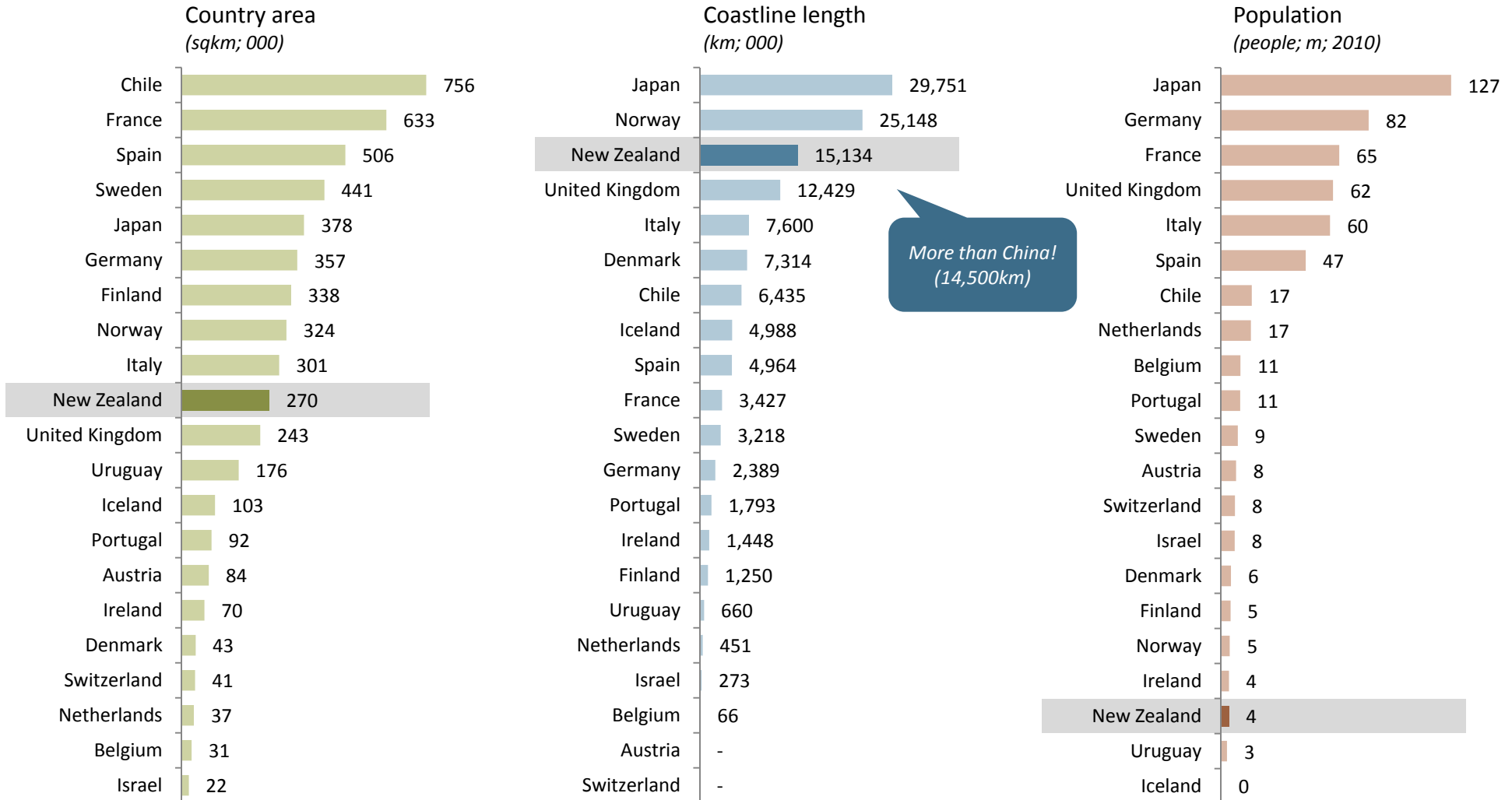


	New Zealand
Population	4.4m (2011e)
Population growth rate	0.88% (11e)
Area	267,710km ² (similar to Italy)
Coastline	15,134km (more than China; less than the US)
Population density	16/km ² 200 th highest in world
GDP	US\$140b ¹ (nominal) (similar to the Ukraine)
GDP per capita	\$32,145 (nominal) (similar to Italy or Spain) 24 th highest in world ²
Currency	New Zealand dollar (NZD) US\$0.82 (8/2011)
Politics	Parliamentary democracy
Index of Economic Freedom²	#4 in the world (above the US and Switzerland)
Corruption Index	#1 (tied with Singapore and Denmark)
Investor Protection (World Bank)	#1

LOTS OF LAND & COAST; FEW PEOPLE

New Zealand is a mid-sized country – similar in size to Italy and the UK – with lots of coastline but a relatively small population; as a result it produces more food than it consumes and exports the surplus

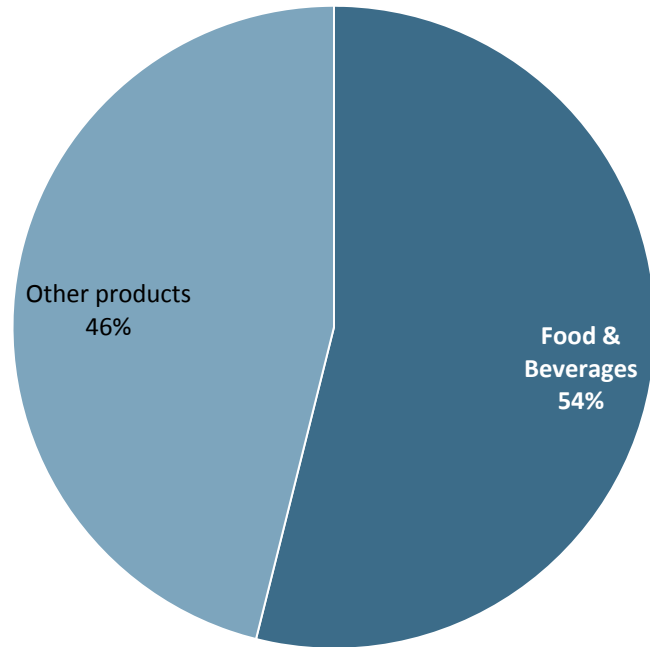
New Zealand vs. twenty select peers
(2010)



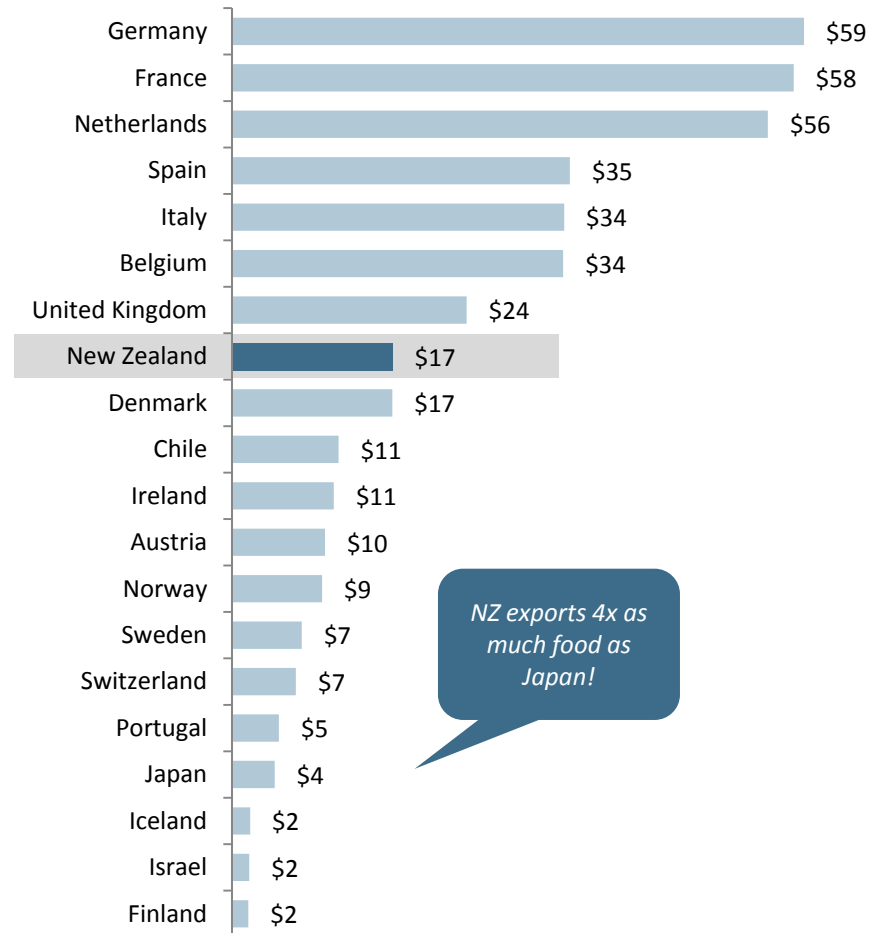
MAJOR F&B EXPORTER

Food and beverage exports are important to New Zealand and the country is a major F&B exporter

Food & Beverages as a percent of New Zealand's total export value
(%; 2010)



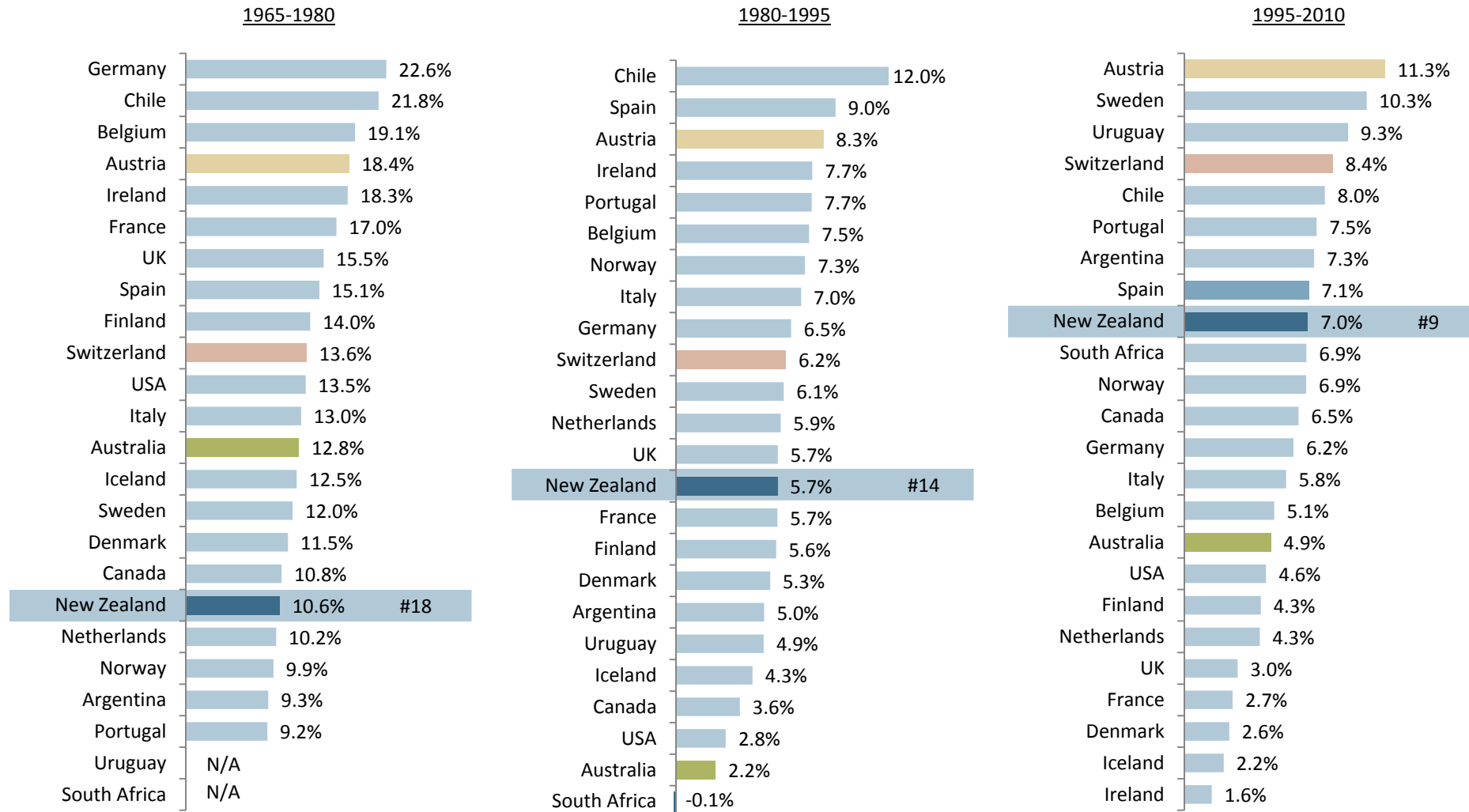
Total F&B export value: New Zealand vs. peers
(US\$b; 2010)



GROWING STRONGLY

New Zealand's food & beverage exports are growing strongly and the country's relative performance is improving

15 year compound annual growth rate (CAGR) in total food & beverage export value: New Zealand vs. identified climatic peers
(%; non-inflation adjusted; 2010 or latest available)



ATTRACTING GLOBAL INVESTMENT

Food & beverage manufacturing has attracted investment from around the world

EXAMPLES: Significant investors in F&B manufacturing in New Zealand
(Current as of 2011)

Asia



Australia



Europe



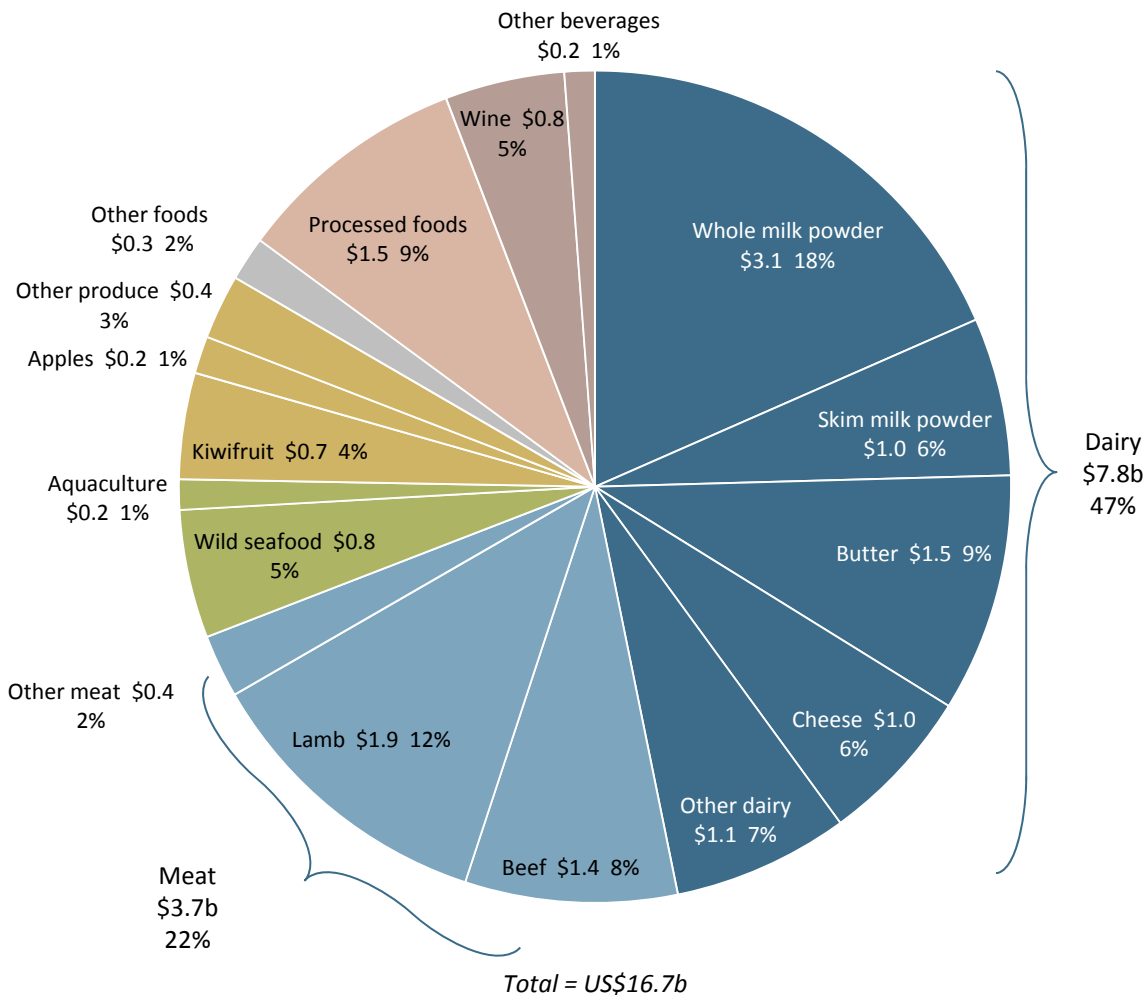
North America



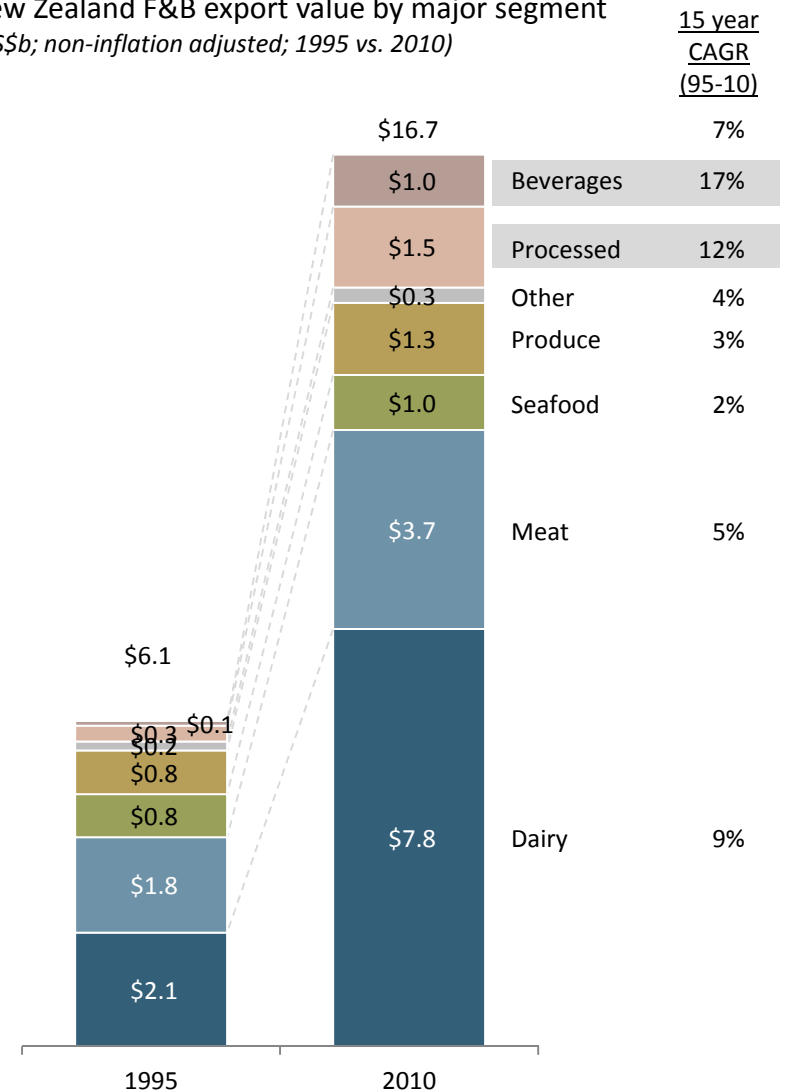
RANGE OF SECTORS

New Zealand food exports are spread across a range of product sectors; while all are achieving export value growth, processed foods and beverages stand out as growth stars

New Zealand F&B export value by major segment (US\$b; 2010)



New Zealand F&B export value by major segment (US\$b; non-inflation adjusted; 1995 vs. 2010)



SECTORS IDENTIFIED FOR GROWTH

Within processed foods and beverages, a number of sub-sectors are emerging as areas of particularly high growth potential

Sector	Sub-sector	Export value (US\$m)		Drivers of growth
		Current (2010)	Target (2025)	
Processed foods	Infant formula	\$422m	\$2b	<ul style="list-style-type: none"> - Long history of innovation in milk powder - World's first milk powder plant in 1904 - Major government-funded milk powder research program 1930-1960's - New Zealand is the largest producer of milk powder in the world - New Zealand a major supplier to <u>all</u> major global infant formula manufacturers
	Confectionery	\$254m	\$1b	<ul style="list-style-type: none"> - Importance of dairy as a key ingredient for milk chocolate
	Frozen meals & sides	\$150m+	\$1b	<ul style="list-style-type: none"> - Pioneered international frozen meat shipments in 1882 - Major government-funded meat research program 1950-1970's - Strong capabilities in frozen technology, production and logistics
	Pet food	\$186m	\$1b	<ul style="list-style-type: none"> - Building on existing strength in meat and specialty baking - Invention of Tux dog biscuits in 1954 (Now Nestle/Purina)
Beverages	Wine	\$774mb	\$3b	<ul style="list-style-type: none"> - On-going rapid growth of wine industry - Leveraging Marlborough Sauvignon blanc into other varieties/regions - Achieving success against world's best (i.e. France) in all key markets
	Spirits	\$83m	\$500m	<ul style="list-style-type: none"> - Building on premium position in wine - Rapidly emerging sector with strong growth potential

LEADERS NEED TO BE HERE

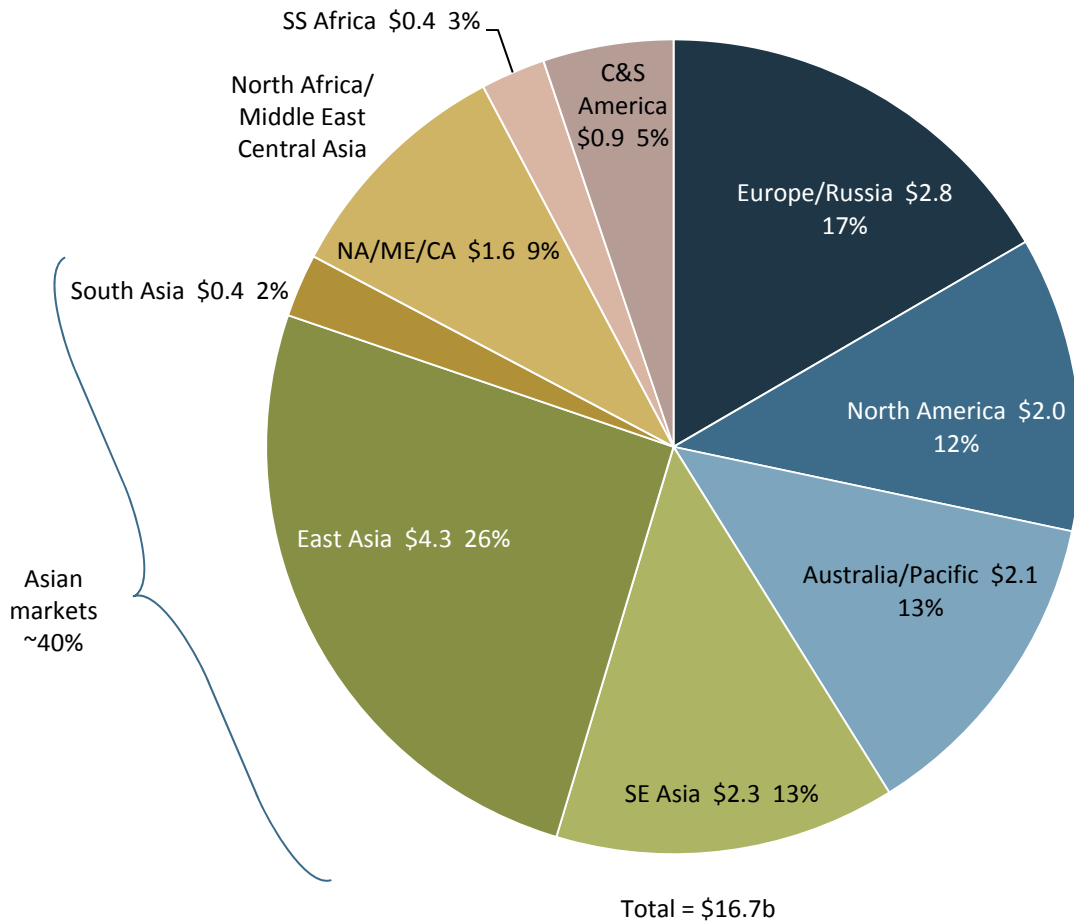
In most cases global leaders have already endorsed New Zealand's strengths in these sectors by investing in manufacturing in the country

Target segment	Current situation	Global leaders that have invested in New Zealand
Frozen meals & sides	Three of the largest frozen meals and sides producers in the world manufacture in New Zealand	  
Pet food	Three of the largest pet food producers in the world manufacture in New Zealand	  
Wine & Spirits	Three of top five US wine companies in New Zealand Three of top five Australian wine companies in New Zealand Three of top four Japanese beverage companies in New Zealand The three largest alcoholic beverages firms in Europe have invested in New Zealand	          
Confectionery	Second largest confectionery producer in the world in New Zealand	 
Infant formula	Two largest producers of infant formula in the world manufacture in New Zealand	 

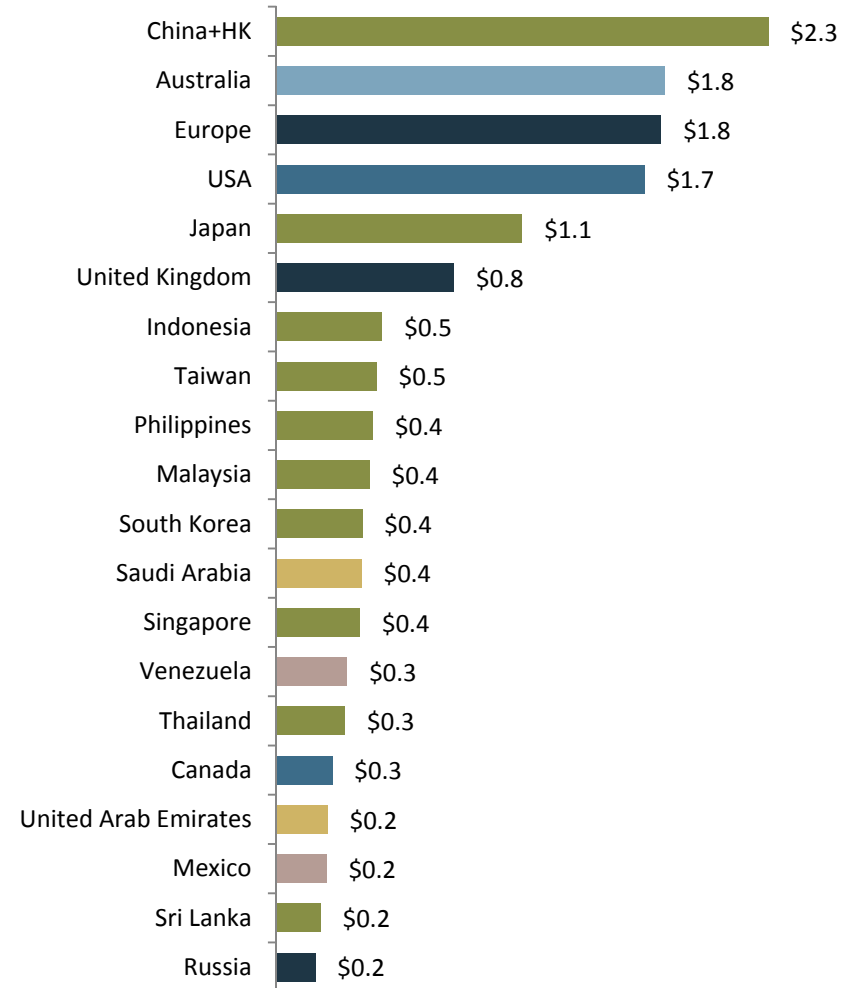
RANGE OF DESTINATIONS

New Zealand exports food and beverages to a wide range of destinations; Asia is now the largest destination region taking ~40%; China is the single largest destination and Asian countries 10 of top 25 destinations

New Zealand F&B export value by region
(US\$b; 2010)



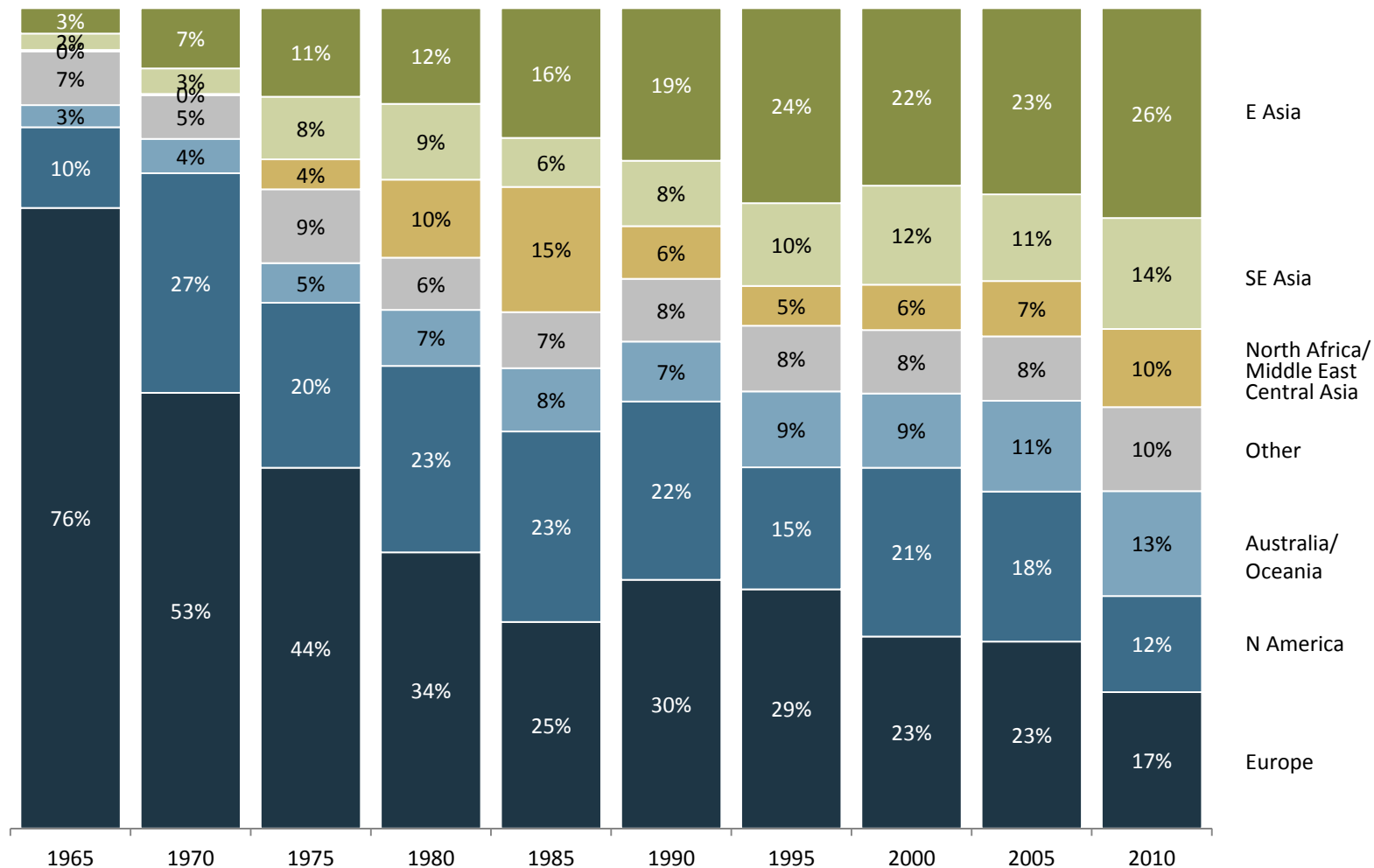
Top 25 F&B export country destinations by value
(US\$b; 2010)



SHIFTING RAPIDLY TO ASIA

New Zealand in the middle of a fundamental transition from feeding Westerners to feeding the Asia-Pacific region

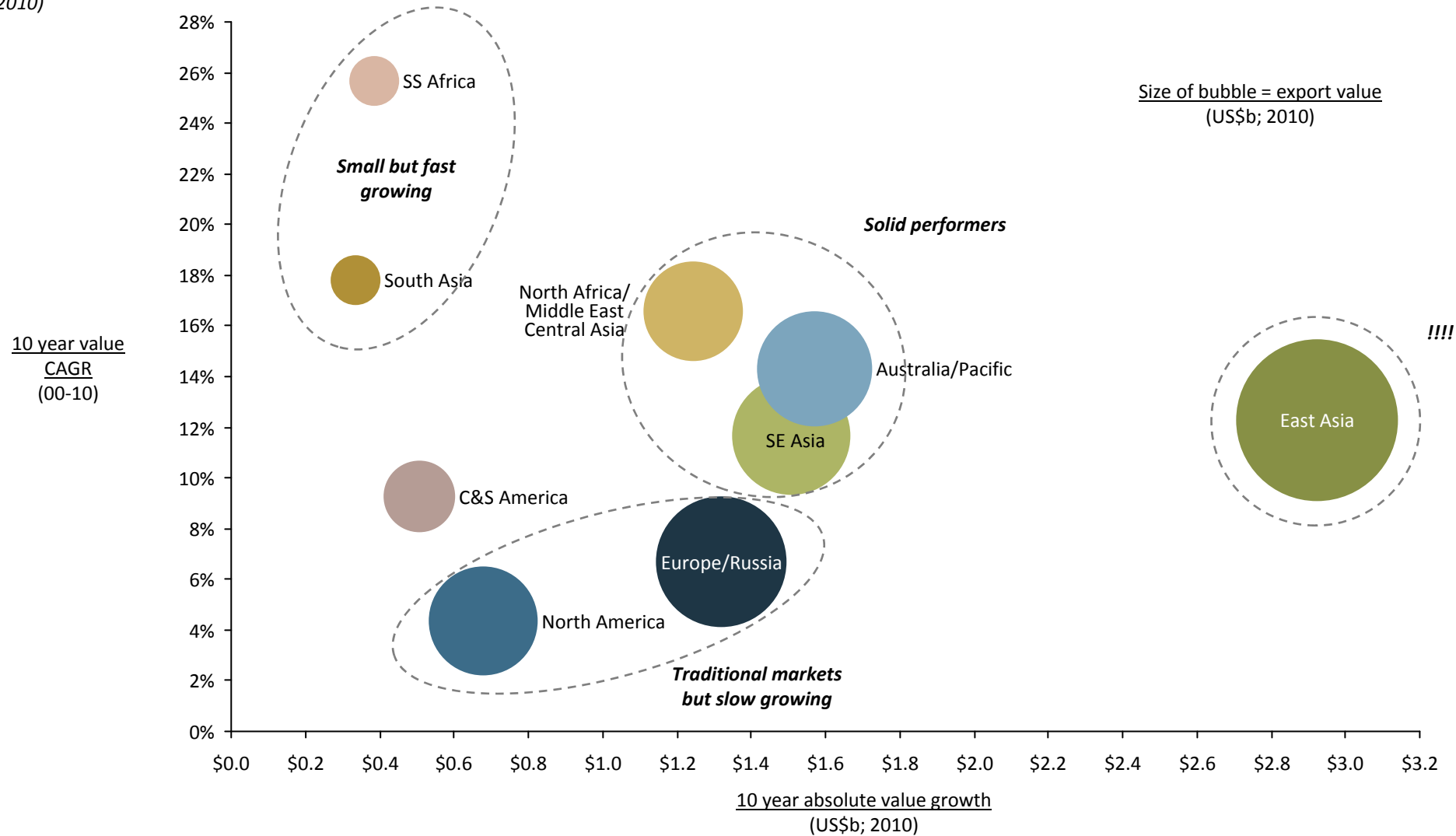
Share of New Zealand F&B export value by region
(% of US\$; 1965-2010)



GROWTH MATRIX

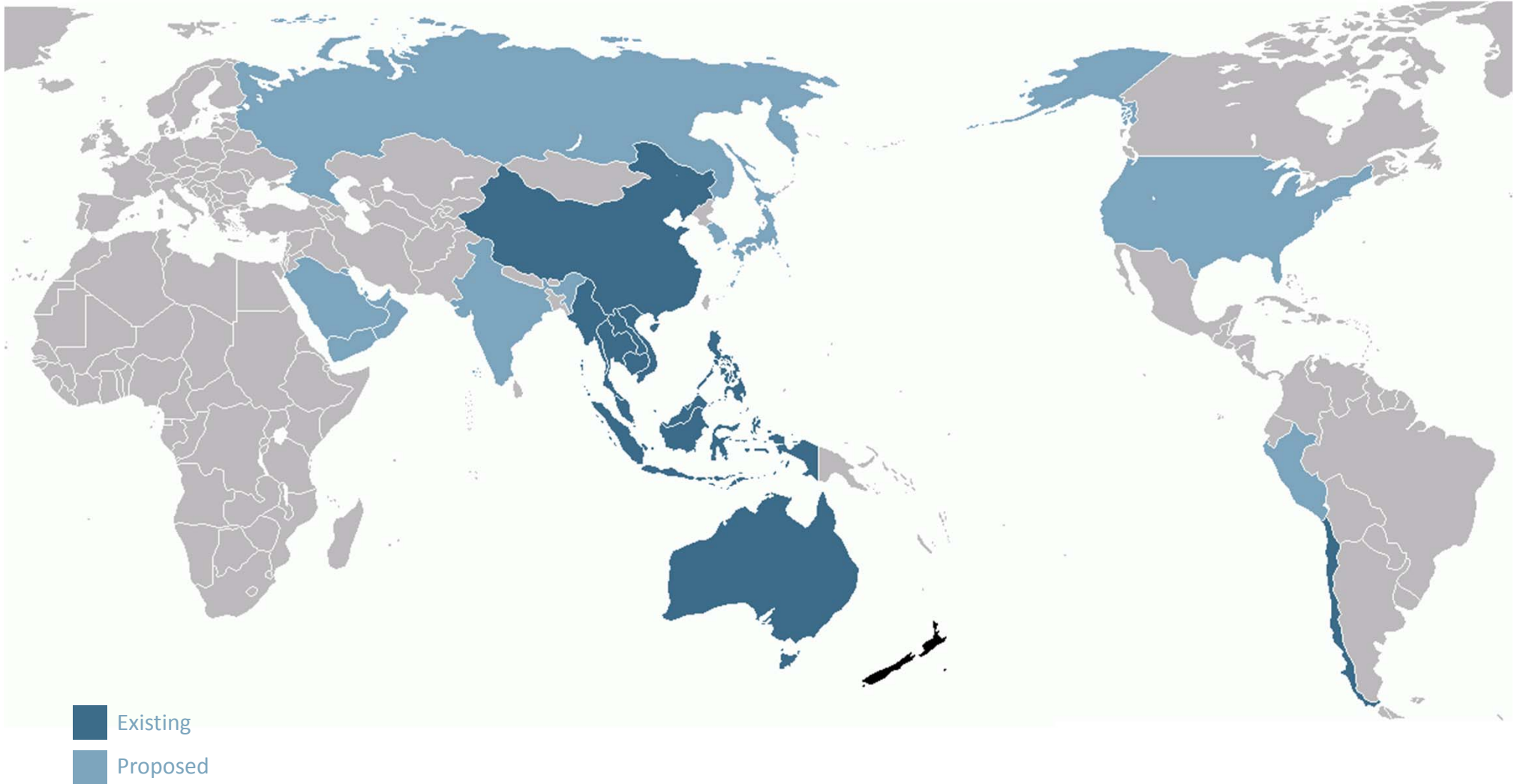
Growth is being driven by the Asia-Pacific region and other markets of the future

F&B export value growth matrix (2010)



FREE TRADE AGREEMENTS

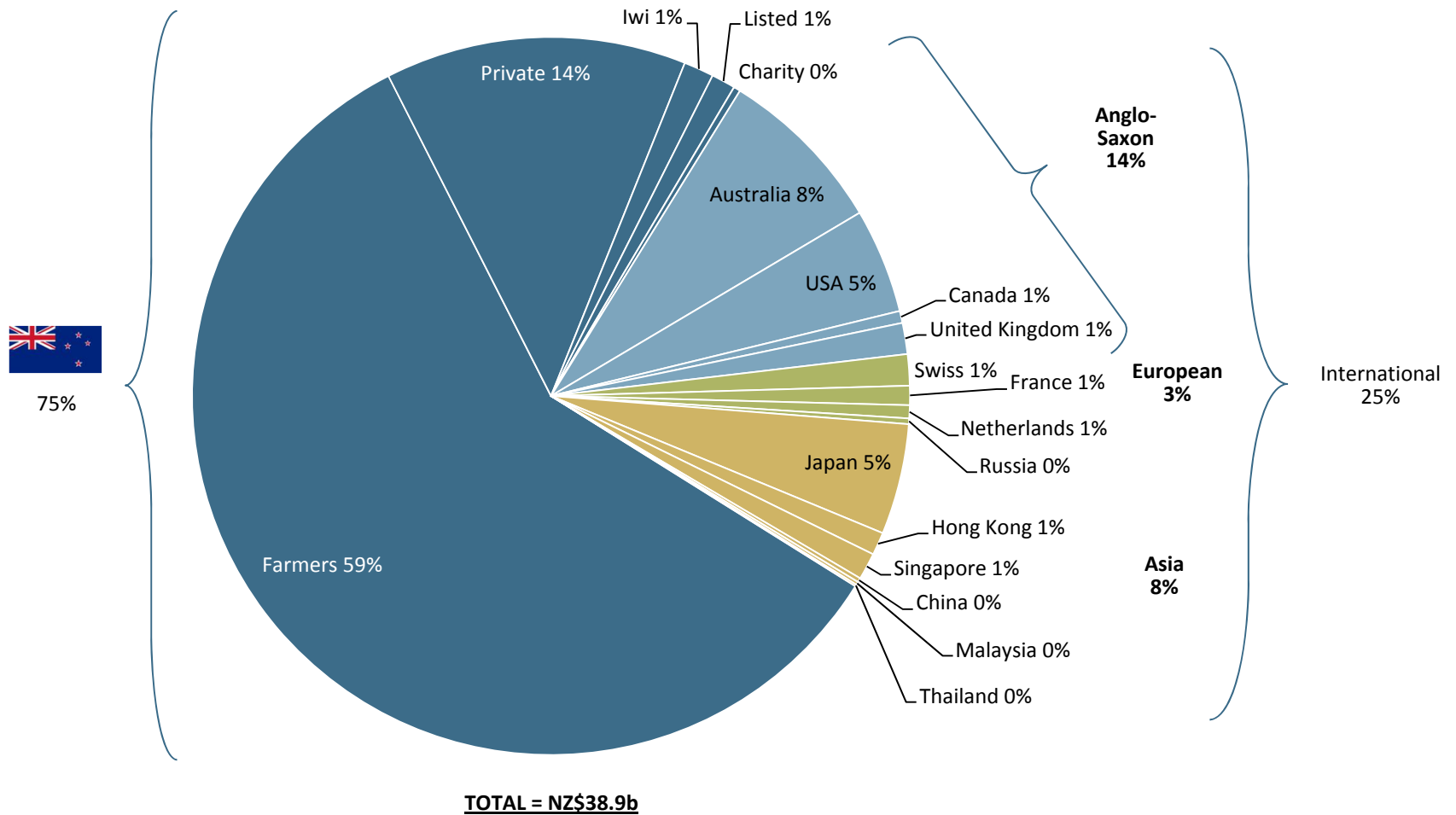
New Zealand has free trade agreements – either in place or proposed – with most of the Asia-Pacific region



MAJOR F&B FIRM TURNOVER BY OWNERSHIP

The NZ F&B industry has attracted investment from a wide range of sources; 25% of the investment in the New Zealand food & beverage industry is from outside the country

Turnover of top 64 New Zealand F&B firms by ownership type/country
(% of NZ\$m; 2010e)



DRIVER OF SUCCESS IN F&B

New Zealand has a long history of achieving success in food & beverages due to its supportive ecosystem










Identified “business eco-system” drivers of success of the New Zealand F&B sector
(2010)

Area	Detail	Implication
Skills & experience	One in five people employed in the wider F&B value chain	Wide range of available talent on which to draw
	Long history in food production	Deep embedded knowledge of critical issues
Science & innovation	Spends more than half a billion dollars a year on Agri-Food research	Available for industry to tap into for growth
	Nine government scientific agencies doing F&B research	Strong pool of available research skills and capability
	Four major universities renown globally for their Agri-food research	
Food safety	Globally respected food safety standards	Products accepted by even most critical companies/countries
	National animal identification and tracing scheme (NAIT)	Animals to be traced from birth to slaughter
Biosecurity	Relatively free from many plant and animal diseases	Productivity and yields are higher in many sectors
		Access to many otherwise protected markets (e.g. Australia)
Regulation	Joint food safety and packaging regulation with Australia	Both markets can be served with the exact same product
Sustainable production	Primarily grass-fed pastoral production of meat & dairy	Consumers offered a more healthy product
	Ranked most sustainable wild catch fishery in the world	Consumer can feel good about buying

STRONG GOVERNMENT F&B RESEARCH CAPACITY

New Zealand supports scientific research in food and beverages through a strong group of government research agencies





Major New Zealand Government research institutes doing F&B research
(2011)

	Year founded	# of staff	Annual budget	Key areas of strength in F&B	For more information
 <p>Plant & Food RESEARCH RANGAHAU AHUMARA KAI</p>	1928/ 1992	900+	\$118m (2010)	<ul style="list-style-type: none"> - Fruit breeding (bred Jazz, Envy & Smitten apples and Zespri Gold kiwifruit) - Wide range of other F&B research 	http://www.plantandfood.co.nz
 <p>agresearch Farming, Food and Health. First™ Te Ahauwhenua, Te Kai me te Whai Ora. Te tahi</p>	1926/ 1992	875	\$156m (2010)	<ul style="list-style-type: none"> - Strong in dairy and meat - Wide range of other F&B research 	http://www.agresearch.co.nz
 <p>Landcare Research Manaaki Whenua</p>	1992	400+	\$62m (2010)	<ul style="list-style-type: none"> - Sustainable land management - Soils and land use 	http://www.landcareresearch.co.nz/
 <p>NIWA Taihoro Nukurangi National Institute of Water & Atmospheric Research</p>	1992	750+	\$128m (2010)	<ul style="list-style-type: none"> - Seafood: wild capture and aquaculture 	http://www.niwa.co.nz/
 <p>ESR</p>	1992	350+	\$54m (2010)	<ul style="list-style-type: none"> - Food safety & biosecurity - Water, waste water and irrigation 	http://www.esr.cri.nz
 <p>INDUSTRIAL RESEARCH LIMITED Te Tauhu Pōtatau</p>	1992	350	\$63m (2010)	<ul style="list-style-type: none"> - Bio-manufacturing 	http://www.irl.cri.nz/
 <p>CAWTHRON</p>	1919	180+	\$18m (2010)	<ul style="list-style-type: none"> - Aquaculture 	http://www.cawthron.org.nz
 <p>Riddet Institute KŪ WHIRIKAMĀIA HAORA</p>	2003	160+	\$6m (2010)	<ul style="list-style-type: none"> - National Centre of Research Excellence bring together scientists from Massey University (host institution), the University of Otago, The University of Auckland, AgResearch and Plant & Food Research. Global expertise on future foods, functional foods and individualised foods including personalised nutrition. 	http://riddet.massey.ac.nz/
 <p>Bio-Protection Bioscience Agency for New Zealand</p>	2003	107	\$9m (2010)	<ul style="list-style-type: none"> - Bio-security & sustainable production systems - Centre of Research Excellence 	http://bioprotection.org.nz/

STRONG ACADEMIC F&B RESEARCH CAPACITY

Significant food and beverage research is also conducted across four internationally recognised Universities

Major Universities in New Zealand doing F&B research
(2011)

	Year founded	# of staff	Annual budget	Key areas of strength in F&B	For more information
 THE UNIVERSITY OF AUCKLAND	1883	4,725	\$889m (2010)	- Wide range of research across total F&B value chain	http://www.auckland.ac.nz
 MASSEY UNIVERSITY TE KUNENGA KI PUREHUROA	1926	2,829	\$425m (2010)	- Wide range of research across total F&B value chain	http://www.massey.ac.nz
 Lincoln University Te Whare Wānanga o Aorangi	1878	705	\$94m (2010)	- Wide range of research across total F&B value chain	http://www.lincoln.ac.nz/
 UNIVERSITY OF OTAGO	1869	3,751	\$586m (2010)	- Wide range of research across total F&B value chain	http://www.otago.ac.nz/

NEW ZEALAND FOOD INNOVATION (NZFI)

The New Zealand Government has recently demonstrated its commitment to the industry by creating and funding New Zealand Food Innovation (NZFI) – a network of four food industry R&D and pilot plant centres



Location	Focus	Capability
Auckland	Processed/FMCG foods Space/equipment for hire Export registrations ~1000 kg/shift	<ul style="list-style-type: none"> - Extrusion & milling/blending - UHT/Beverage - High pressure processing - Freeze drying - General processing - Multiple packaging styles - Production kitchen
Waikato	Dairy & Infant Formula ~500 kg/hour	<ul style="list-style-type: none"> - Spray dryer - Evaporator - Other dairy equipment - Packing
Palmerston North	Dairy Fruit & vegetables All Food and Beverage	<ul style="list-style-type: none"> - Same equipment range as Manukau (1/5th scale) - Same equipment range as Waikato (1/20th scale) - Post harvest technologies - Meat and small goods pilot plant
South Island	All Food and Beverage	Sourcing of: <ul style="list-style-type: none"> - pilot equipment - technical expertise - business expertise

F&B INFORMATION PROJECT

Depending on your area or areas of interest, the Food & Beverage Information Project has a wide range of sector level analysis available

Structure of information available to investors under the New Zealand Food & Beverage Information Project
(Oct 2011)

You are here

Investor's Guide

Your next stop

Dairy Sector

Meat Sector

Seafood Sector

Produce Sector

Processed Foods Sector

Beverages Sector

Nutraceuticals Sector

Markets

FOR MORE INFORMATION

For more information or assistance in investing in the New Zealand food and beverage industry contact:

Agency	Key areas of responsibility and support for investors in NZ F&B	Contact details
	<ul style="list-style-type: none"> - Introduction, coordination and communication services 	http://www.investmentnz.govt.nz/GetInTouch.aspx
	<ul style="list-style-type: none"> - Trade promotion - Export development 	http://www.nzte.govt.nz/about-nzte/pages/new-zealand-offices.aspx
	<ul style="list-style-type: none"> - Economic Development Policy 	http://www.med.govt.nz/templates/Page_156.aspx
	<ul style="list-style-type: none"> - Research goals & priorities - Scientific research funding 	http://www.msi.govt.nz/contact
	<ul style="list-style-type: none"> - Trade relationships - Trade policy, including trade negotiations and offshore market access barriers 	http://mfat.govt.nz/About-the-Ministry/Contact-us/index.php
	<ul style="list-style-type: none"> - Biosecurity - Agricultural production - Food safety 	http://www.maf.govt.nz/about-maf/contact-us
	<ul style="list-style-type: none"> - Immigration systems - Labour market/employment relations 	http://www.dol.govt.nz/contact/index.asp

In addition, lead report author Tim Morris of Coriolis is happy to answer any questions from potential investor about the research.

