The milk processing industry after the quota phase-out

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## Emmi at a glance

<table>
<thead>
<tr>
<th>Metric</th>
<th>2013 Value</th>
<th>2012 Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>CHF 3,298 million</td>
<td>CHF 2,981 million</td>
</tr>
<tr>
<td>Net profit 2013*</td>
<td>CHF 97.6 million</td>
<td>CHF 90.3 million</td>
</tr>
<tr>
<td>Net profit margin 2013</td>
<td>3.0%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Employees (full-time equivalents)</td>
<td>5,217</td>
<td>2,997 in Switzerland</td>
</tr>
<tr>
<td>Volume of milk processed in 2013</td>
<td>1,465 million kg</td>
<td>933 million kg in Switzerland</td>
</tr>
</tbody>
</table>

* Adjusted for extraordinary gains from the disposal of fixed assets.
## Emmi strategy and vision

### Independent and successful in open markets

<table>
<thead>
<tr>
<th><strong>Vision</strong></th>
<th>Long-term success as an independent company in open markets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market positioning</strong></td>
<td>No. 1 among Swiss milk processors</td>
</tr>
<tr>
<td></td>
<td>The top company for Swiss cheese, both in Switzerland and abroad</td>
</tr>
<tr>
<td></td>
<td>A leading company in Europe for premium dairy products</td>
</tr>
<tr>
<td><strong>Growth</strong></td>
<td>2 – 3% (innovations, small acquisitions and gains in market share)</td>
</tr>
<tr>
<td><strong>Profitability</strong></td>
<td>2.5 – 3.5% net profit margin</td>
</tr>
<tr>
<td><strong>Shareholders’ equity</strong></td>
<td>Equity ratio of at least 40%</td>
</tr>
</tbody>
</table>
Well-balanced product portfolio

Product groups (net sales 2013)

- Dairy products
  - Milk, cream, butter
  - 30% (CHF 982 million)

- Other products/services
  - e.g. logistics
  - 5% (CHF 165 million)

- Powder/concentrates
  - 3% (CHF 98 million)

- Fresh cheese
  - e.g. Mozzarella
  - 5% (CHF 175 million)

- Fresh products
  - e.g. Emmi Caffè Latte
  - 25% (CHF 821 million)

- Cheese
  - 32% (CHF 1,059 million)
# Overview Swiss dairy industry

## Important companies processing milk

<table>
<thead>
<tr>
<th>Dairy milk (&gt;20 Mio. kg)</th>
<th>Processed quantity of milk 2012</th>
<th>Turnover 2012</th>
<th>Logo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emmi AG</td>
<td>1220 Mio. kg</td>
<td>2981 Mio. CHF</td>
<td><img src="image" alt="Emmi Logo" /></td>
</tr>
<tr>
<td>Cremo SA</td>
<td>456 Mio. kg</td>
<td>511 Mio. CHF</td>
<td><img src="image" alt="Cremo Logo" /></td>
</tr>
<tr>
<td>Hochdorf AG</td>
<td>317 Mio. kg</td>
<td>344 Mio. CHF</td>
<td><img src="image" alt="Hochdorf Logo" /></td>
</tr>
<tr>
<td>Elsa-Mifroma</td>
<td>268 Mio. kg</td>
<td>986 Mio. CHF</td>
<td><img src="image" alt="Elsa-Mifroma Logo" /></td>
</tr>
<tr>
<td>Züger AG</td>
<td>120 Mio. kg</td>
<td>120 Mio. CHF</td>
<td><img src="image" alt="Züger Logo" /></td>
</tr>
<tr>
<td>Nestlé Suisse SA</td>
<td>78 Mio. kg</td>
<td></td>
<td><img src="image" alt="Nestlé Logo" /></td>
</tr>
<tr>
<td>Groupe FLV</td>
<td>47 Mio. kg</td>
<td>81 Mio. CHF</td>
<td><img src="image" alt="Groupe FLV Logo" /></td>
</tr>
<tr>
<td>Groupe LRG</td>
<td>41 Mio. kg</td>
<td>70 Mio. CHF</td>
<td><img src="image" alt="Groupe LRG Logo" /></td>
</tr>
<tr>
<td>Strähler Käse AG</td>
<td>29 Mio. kg</td>
<td></td>
<td><img src="image" alt="Strähler Käse Logo" /></td>
</tr>
</tbody>
</table>
## Structures of dairy processing in Switzerland

### Total 3.4 Mia kg milk

<table>
<thead>
<tr>
<th>Dairy products: 2.0 Mia kg milk</th>
<th>Cheese 1.4 Mia kg milk</th>
</tr>
</thead>
</table>

### The 4 biggest dairies

- **930 Mia kg** (about 90 small dairies)
- **460 Mia kg**
- **320 Mia kg**
- **270 Mia kg**

Process 1.980 Mia kg milk (≈ 58%)

### Dairy products: 2.0 Mia kg milk
- **Cheese 1.4 Mia kg milk**

### About 90 small dairies

- **600 artisanal cheese factories**

*Quelle: Milchstatistik / Emmi Schweiz AG - Datenbasis: 2011*
Today’s Swiss dairy market regulation after quota abolition

**Cheese (45%)**
- Liberalised market
- Cheese subsidy

**Dairy and fresh products (55%)**
- 2/3 with high border protection
- 1/3 with low border protection
- No more market support measures
Switzerland produces around 15% more milk than is consumed domestically.

- **Production**: 3,430 million kg milk
- **Domestic Demand**: approx. 2,900 million kg milk
- **Import**: 500 million kg milk
- **Export**: 850 million kg milk

*without stock changes*
Three theses

1) The phasing-out of the quota regime had not an negative effect on the milk price level!

2) Increasing the milk quantities goes fast, but the development of high value-added markets needs a lot more time!

3) All actors of the value chain profits by safety nets and common branch measures, also the dairy industry!
Stable difference between milk prices in Switzerland and the EU

Thesis 1: «The phasing-out of the quota regime had not an negative effect on the milk price level!»
The Swiss way to manage milk pricing and milk quantities

Segmentation of milk produced and target prices

A: Protected and supported markets (border protection, cheese production subsidy)

B: Export and unprotected markets

C: Surplus (export on the world market)
Swiss milk price level – driving force 1

High dependence of international dairy market

- 3 of 4 kg milk in international competition
Swiss milk price level – driving force 2

Reduction of market support

Elements of milk price in Switzerland [Rp./kg milk]

- Market support of the state
- Receipts of the market
- Milk price
- Direct payment for cows


- 1995/96: 59 market support of the state, 65 receipts of the market, 50 milk price, 38 direct payment for cows
- 2013: 7.2 market support of the state, 7.2 receipts of the market, 56 milk price, 9 direct payment for cows
Innovations – one key factor for the Emmi success

Thesis 2: «Increasing the milk quantities goes fast, but the development of high value-added markets needs a lot more time!»
Where has the additional milk since the quota abolition gone?

- 39 million kg MÄQ
+ 49 million kg MÄQ
+ 56 million kg MÄQ
+ 78 million kg MÄQ
+ 125 million kg MÄQ

+ 8% increase from 2006 to 2012

*MÄQ = milk equivalent

source: TSM
Embattled domestic and export markets

- saturated domestic market with the highest share of private labels (less space for brands)
- sustainable growth in export just step by step (no jumps)
- other countries have also tradition in dairy products
- “Swissness” alone don’t suffices
- high market competition on the international market (ex. European Union and also emerging markets)
Advantages and disadvantages of the Swiss branch measures

**Advantages**
- Safeguards for domestic milk production cause of the high cost environment (Swiss dairy industry needs Swiss milk)
- Ensures competitiveness on unprotected markets and in exports
- Ongoing discussion about the sector strategy and the right measures

**Disadvantages**
- Ongoing consensus finding
- Control effort
Main challenge of the Swiss sector solution

Broad-based commitment to ensure different players are not constantly on the lookout for loopholes
What lies ahead for the EU dairy sector?

- More competition
  - ... for raw material
  - ... between dairies
  - ... between processing channels
- Disputes between supplier groupings with different strategies
- Transition phase before critical players have come to terms with the new situation
- Advantage EU: milk price level is largely already at world market level
Recommendation

Don’t remove safety nets prematurely
IT’S CHAI TIME!

NEW

CHAI LATTE

ORIGINAL TASTE