

Shaping the future Key challenges and opportunities for the next 5 years

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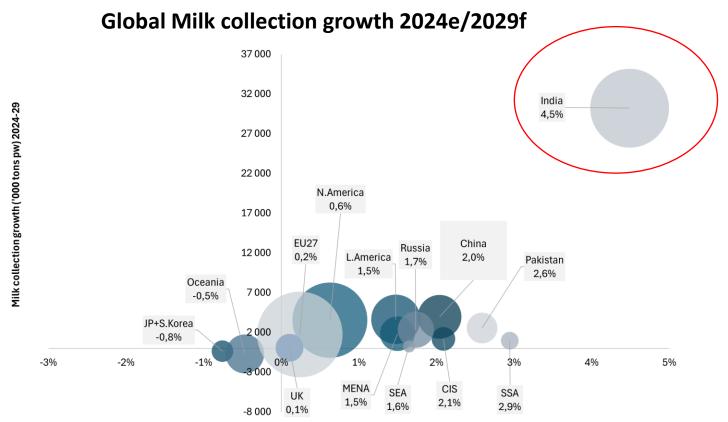
The growth of milk collection is slowing down

Except for India

Milk collection: India will lead the game

+1.6% p.a expected by 2029 at world level



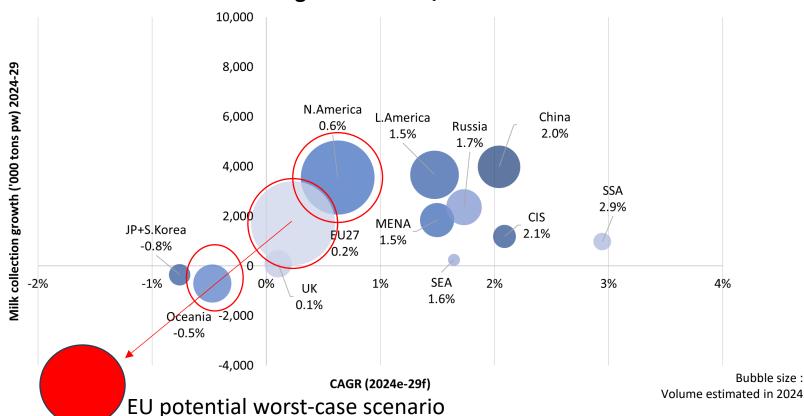


Bubble size:

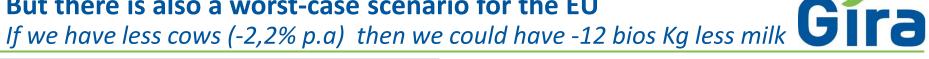
Small/no growth to be expected in top exporting countries Gira



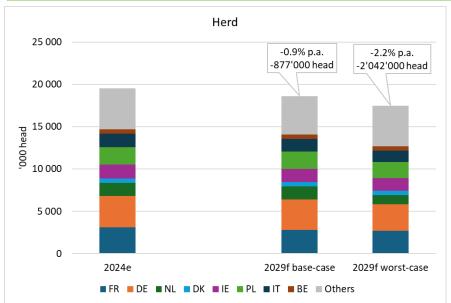
Milk collection growth 2024e/2029f excl. IN & PK



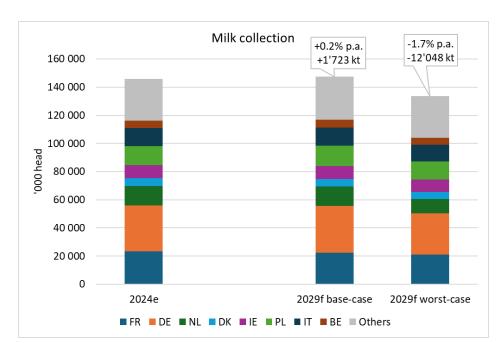
But there is also a worst-case scenario for the EU







EU commission has forecasted a 13% herd reduction and a -0,2% milk collection p.a between 23/35

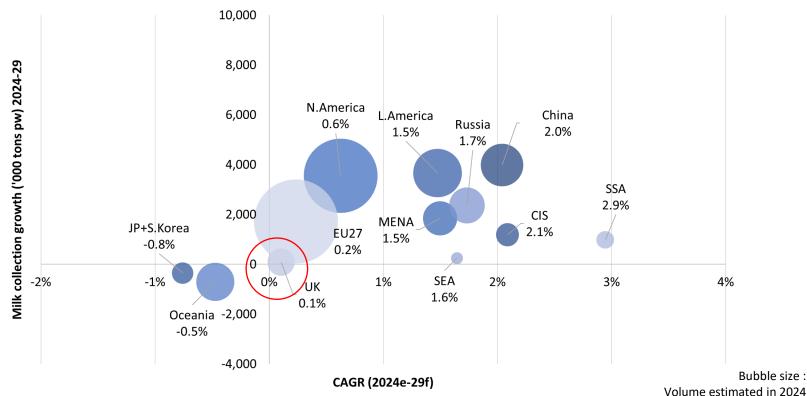


Small growth expected in the UK

More stability and/or very slow growth: only +0.1% p.a by 2029.



Milk collection growth 2024e/2029f excl. IN & PK



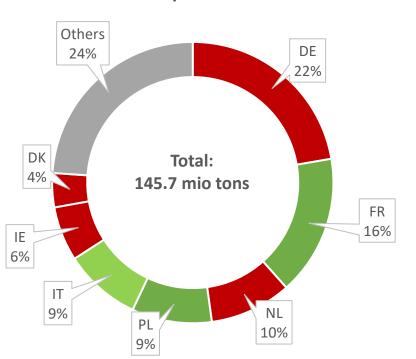


The EU and the UK situation

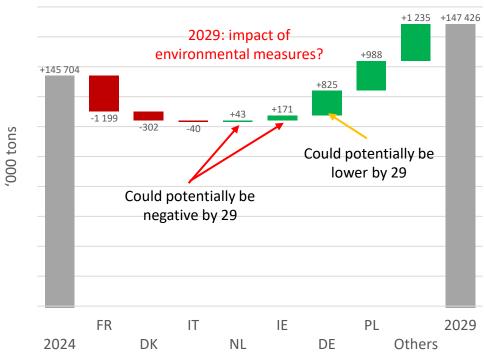
Slowdown in milk collection, with divergent trends: more east, lewest. 2025: potential for a small growth: around +0,5%

What will be the consequences of BTV3? BTV12 is coming

Milk collection by EU countries in 2024



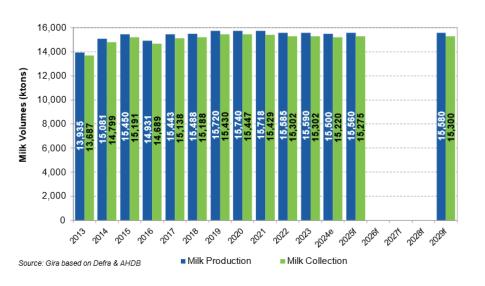
Milk collection growth by EU countries

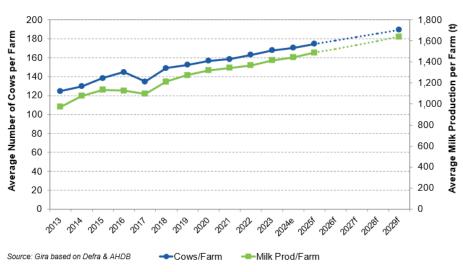




Milk Production v Milk Collection, 2013-29f

Number of Cows and Milk Production per Farm, 2013-29f





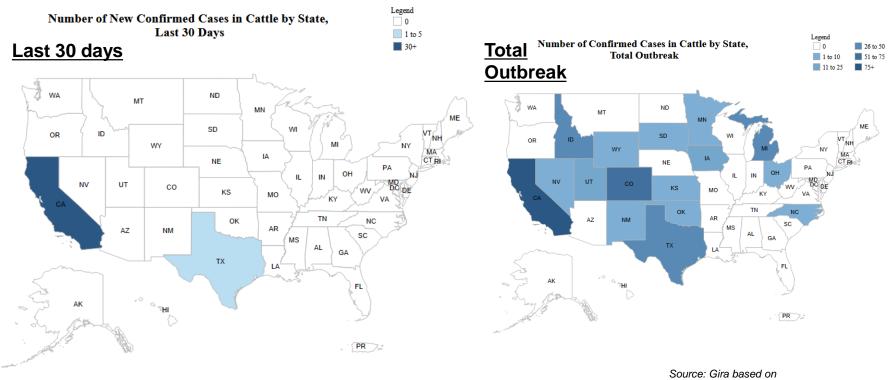


Animal desease situation

HPAI within Dairy Cattle: +\$306 million before Trump 16 States affected (919 cases), understated? Spreading in California



Dairy Cattle herds confirmed with H5N1 (as of 7th Jan. 2025)



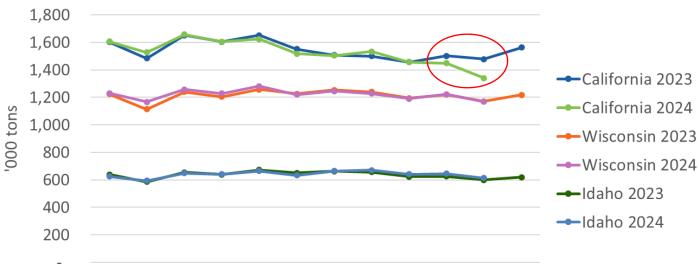
Source: Gira based on American Veterinary Medical Association

Milk Production by State

California severely hit by HPAI



Monthly production in top 3 States, 2023-Nov 2024



JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC

- -9% in Nov 2024/Nov 2023 in California
- Stable or growing in other major producing State
 To illustrate the potential impact in Wisconsin, Cornell University showed that show the 90-day cost is about \$191/month per lactating cow on the farm. He says that amounts to about \$1 million per month per 5,000 cows.

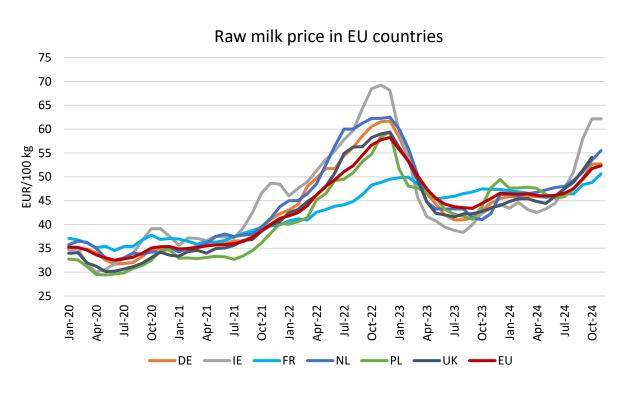


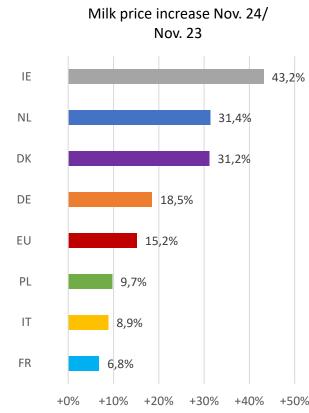
The milk will cost more

It's urgent to add more value

EU milk price paid to farmers



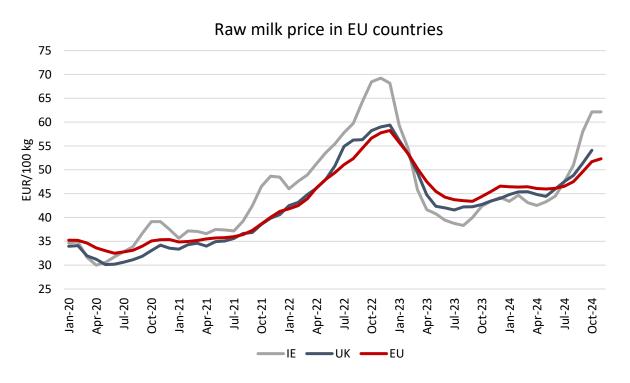


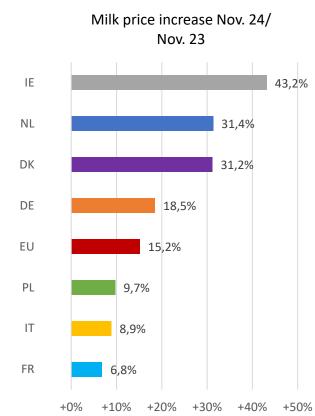


UK and EU prices are very similar

Irish prices are usually higher



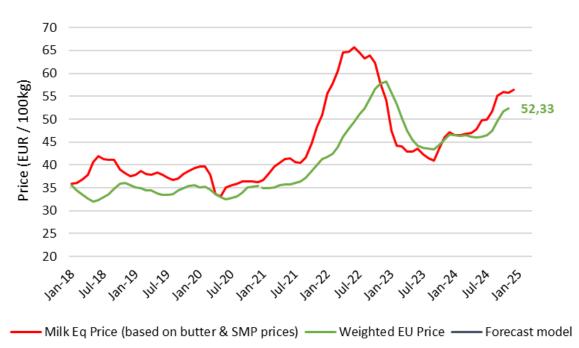




Milk price could continue to go slightly up in coming months High butter price but watch out: prices are slowing down



Raw milk price based on SMP and butter price

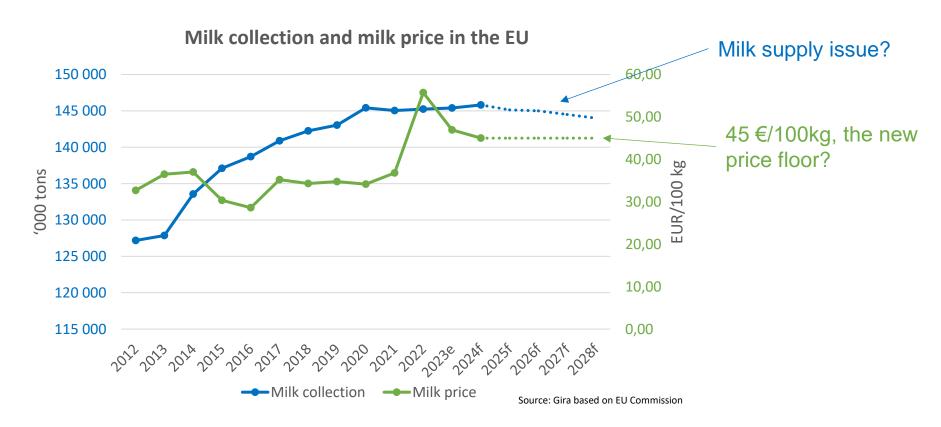


Source: Gira

45 €/100 kg: the "new normal" in Europe?

The price increase will weigh on the margin: need for real added value



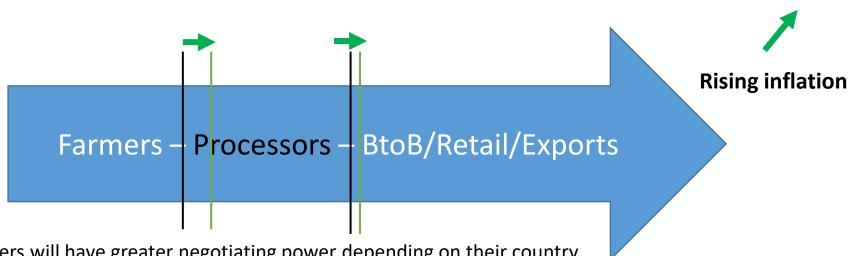


What is the impact on processors?

Urgent need to adjust their strategy



The dairy supply chain

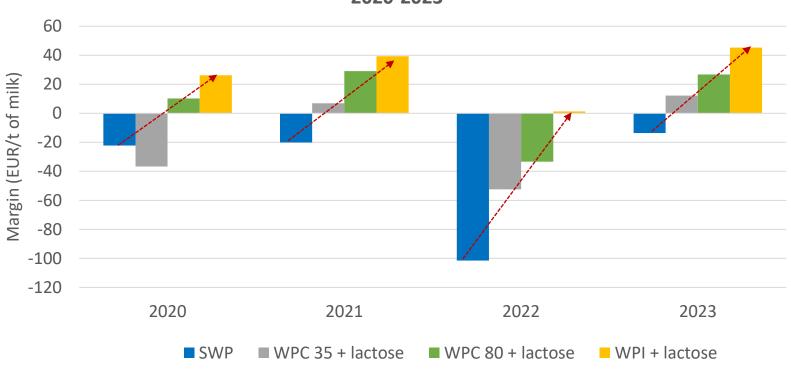


- Farmers will have greater negotiating power depending on their country
- Customers of dairy processors (retail, BtoB and exports) have little room for price adjustments
- Processors' margins will be reduced, and they will adjust their strategies
 - By buying less milk (reduce exposure to commodities, mainly butter and SMP)
 - By adding more value to the milk, they are processing (the ingredient strategy)
 - By producing more with less (increase efficiency of the production process)

And the production of higher added-value ingredients improves the product mix margin of the processors

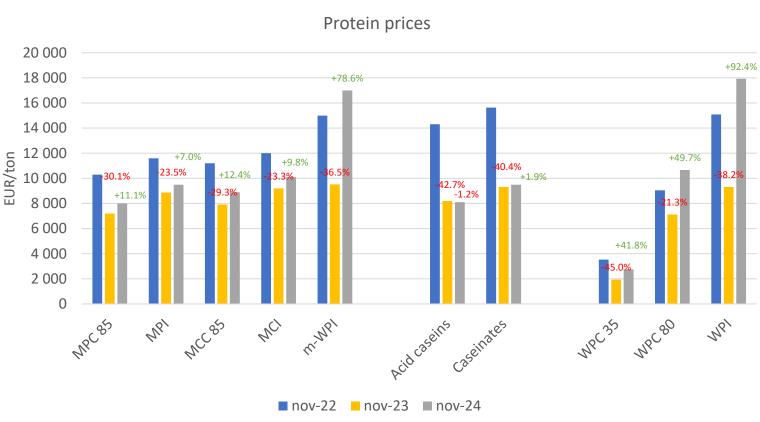


Margin of cheddar production according to whey valorisation 2020-2023



Dairy Ingredients price



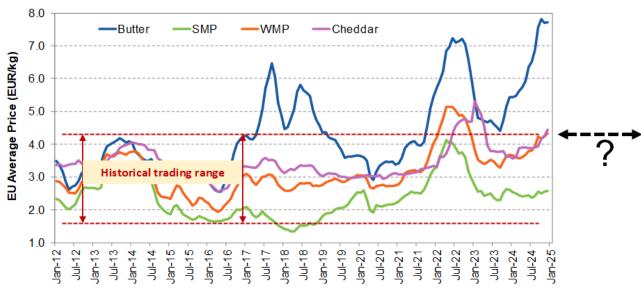


EU dairy prices

Butter is still outside the historical range: new record?



EU Dairy Prices, Jan-2012 - Dec-2024



Source: Gira based on EU Commission



We will need more and more proteins

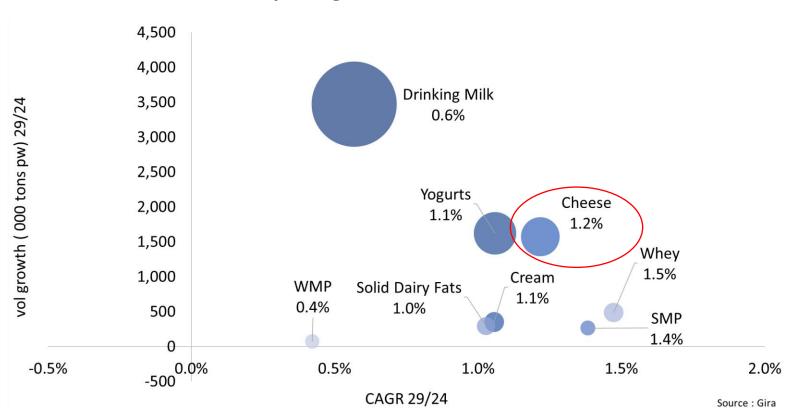
A good whey to add value to the milk

World: Overview of Consumption Growth by Product (24e/29f)



Cheese is clearly the winner

Global Consumption growth, excl. IN & PK 2024e-2029f

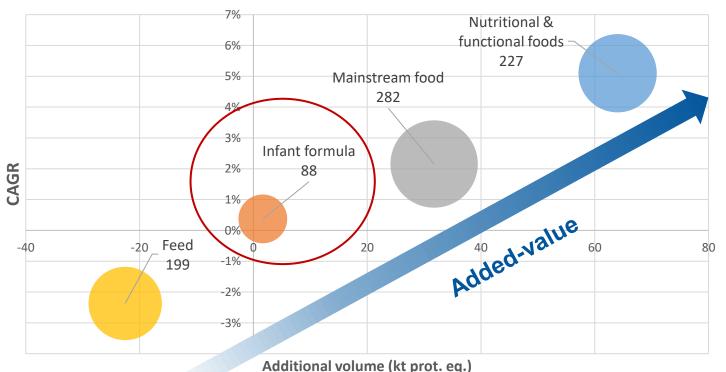


Whey: This is where added value is now





Whey ingredients global applications, 2023 and 2028f

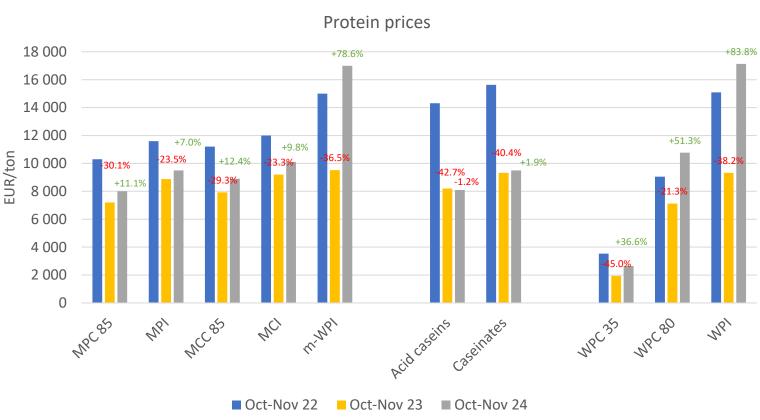


Source: Gira

The size of the bubbles corresponds to the volume in 2023

Consequences: price are really high

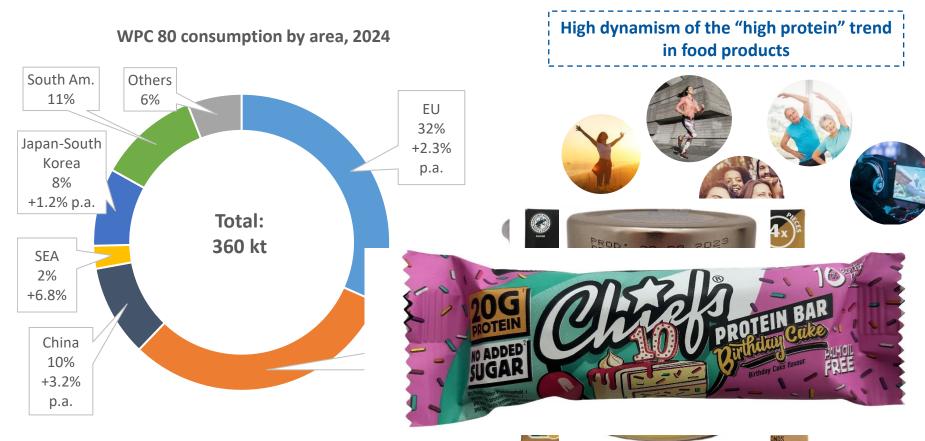




Why demand for proteins is booming?

Demand should will be positive and will sustain the growth of supply





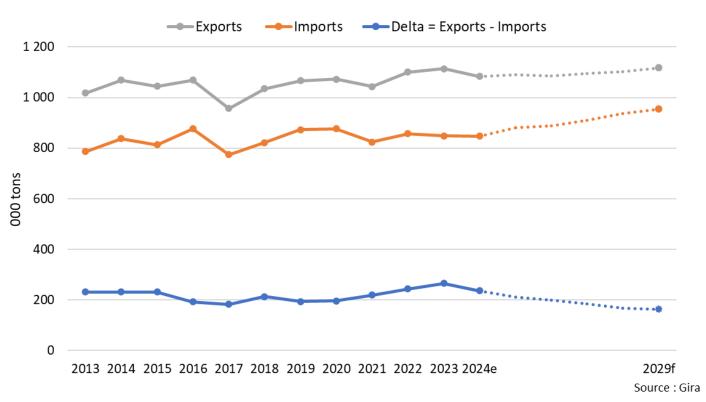


Fat price should continue to remain high

SDF: potentially price could remain high



SDF Market 2013- 2024e- 2029f





China (the engine of the dairy world) is changing

Less imports, more added value produced



GDC24 Milk Collection Forecast



Source: NBS. IDF. Gira re-estimation and forecast

According to NBS:

- 3Q24 milk production decreased by 5.8% YoY
- 1Q-3Q24 milk production decreased by 0.1% YoY

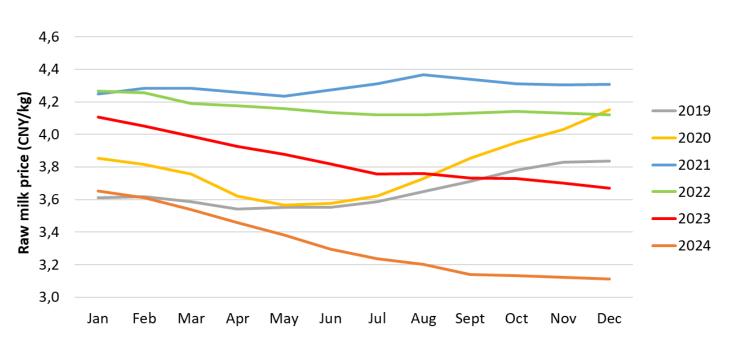
According to provincial-level data and the data of the National Dairy Industry and Technology System:

- Top 10 producing provinces' dairy herd decreased by 6.7% YoY in 3Q24
- It is expected to further decrease in 4Q24

Holstein Farmer estimates that the 2024 milk production decreased by 2.3% YoY and expects that 2025 milk production will remain stable or decrease again.



Monthly average raw milk prices, 2019-2024



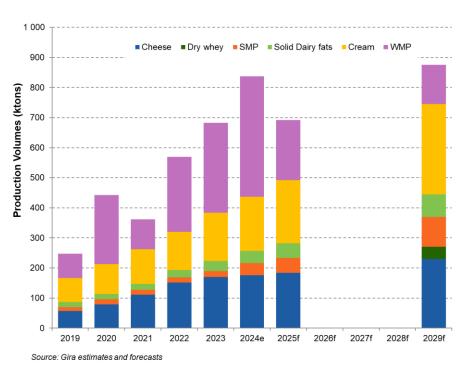
Source: Gira from Ministry of Agriculture of China

More Production of Dairy Commodities

SMP, fats...and cheese



Dairy Commodities Production, 2019-2029f

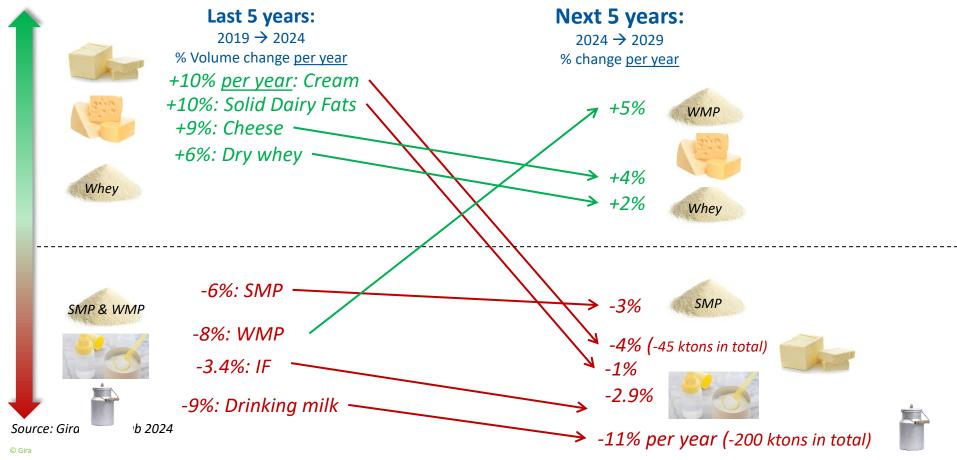


- WMP production is expected to reduce
- Fats production has already started to grow significantly
 - Cream/butter/AMF
- Domestic SMP (solid or liquid form) is replacing imported SMP
- Natural cheese production is expected to grow in scale in 5 years horizon

Main consequences: Evolution of Chinese Imports

Strong change of import structure...with overall much lower rates!





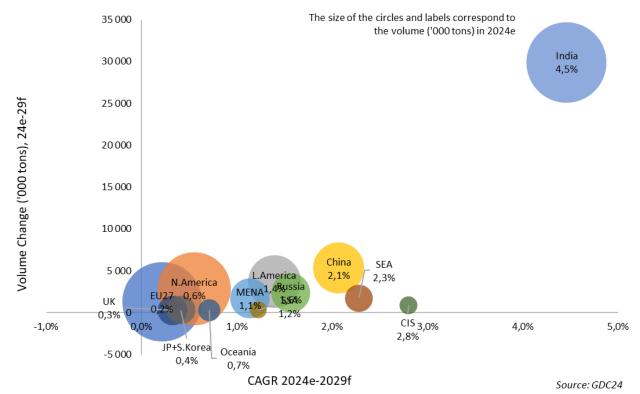


World dairy consumption

India will be the place to be but compulsory to be local More mature markets in the EU/NZ/US

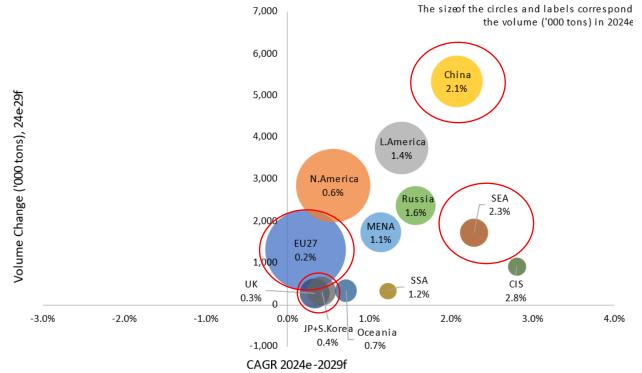


Global Apparent Dairy Consumption in Milk Eq., 2024e to 2029f



Chinese consumption will continue to grow (with which mille Europe and the UK: a mature market

Global apparent Dairy Consumption in Milk Eq., 2024e to 2029f (excl. IN & PK)





What about sustainability?

Sustainability: a wide scope

Not only « zero carbon »!

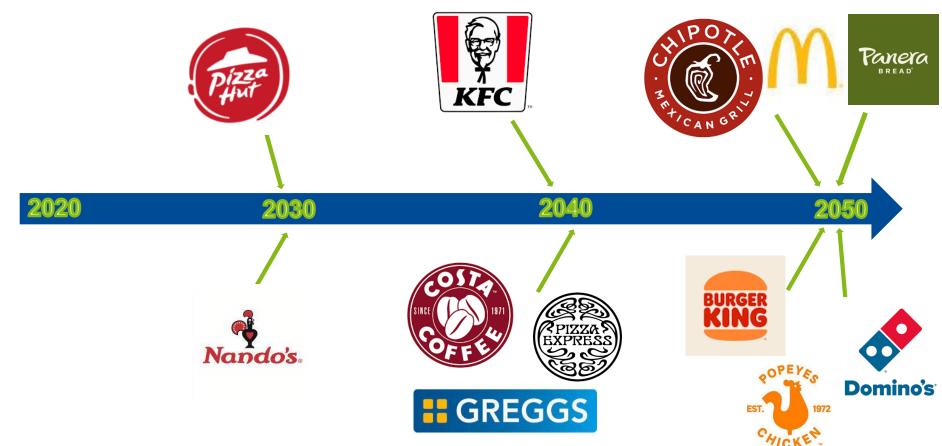




Restaurant Chains Net Zero Goal Date for meat

Wide range of targets – will translate to action from production

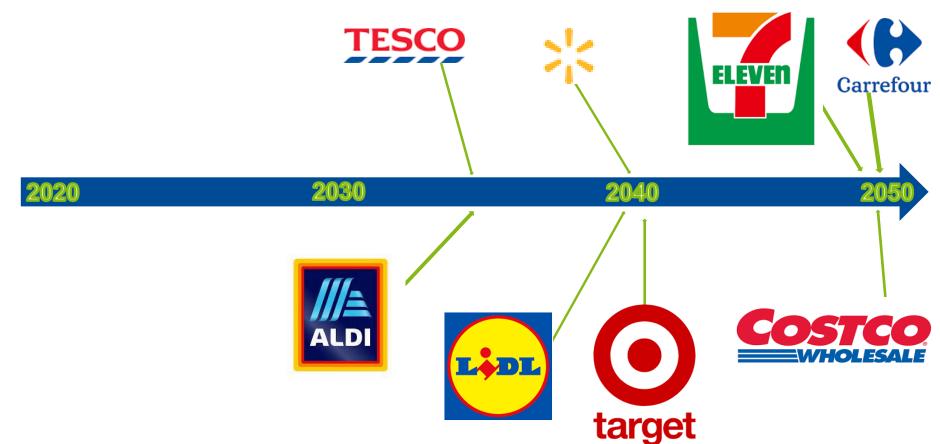




Food Retailers Net Zero Goal Date

Retailers are still working on their policy delivery

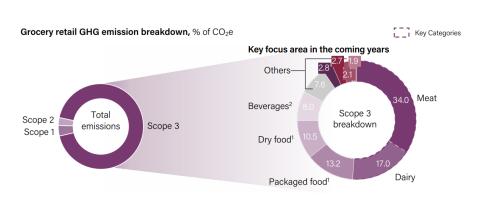




Sustainability: scope 3 impact

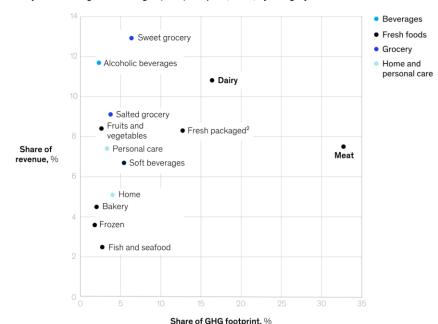
Dairy will increasingly be under pressure. Be prepared to have partnership





Grocery revenue vs GHG footprint by category, 2021

Grocery revenue vs greenhouse-gas (GHG) footprint, 2021, by category¹



Revenue share based on average revenues of Western European grocers; share of greenhouse-gas (GHG) footprint calculated by multiplying category volumes

with average GHG impacts per category.

Processed meat, processed seafood and others (pizza, ready meals, soups, etc.).

Both alcoholic and soft beverages Source: Euromonitor: Poore & Nemecek

Processed meats, processed seafood, and others (pizza, ready meals, soups, etc).

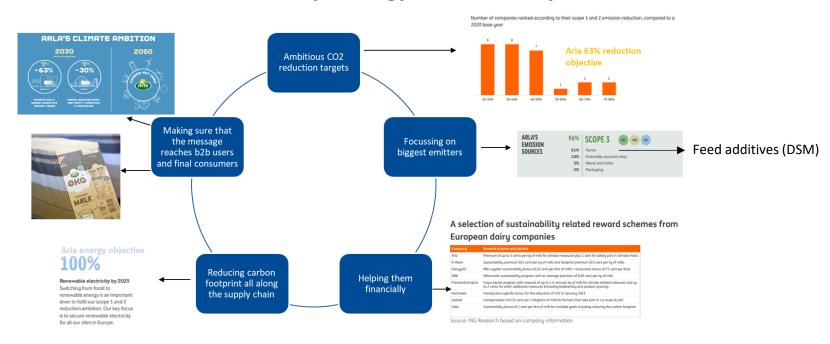
Source: Euromonitor; Thomas Nemecek and Joseph Poore, "Reducing food's environmental impacts through producers and consumers," Science, June 2018, Volume 360, Number 6,392; McKinsey analysis

Sustainability

A widespread awareness but different levels of involvement



KSF of sustainability strategy – Arla's example



Most dairies in the top 20 are largely engaged in the process, but they are at different stages. Their level of engagement depends on different factors, but the home market is a major one, with different environmental norms or social pressure depending on country of origin: in North European countries, the environmental norms will shape the dairy future, with a possible significant herd reduction to comply with norms. In 2024 Arla is recognised as best-in-class for having taken strong measures and clearly communicating on it.

A new tax on cows (on their GHG emissions) in Denmark A response to climate change: €90/cow/year in 2030 (€225 in 2035)



- The Danish government will introduce Europe's first carbon tax on agriculture.
- From 2030 farmers will have to pay 120 Danish krone (€16) per ton of emitted CO2 equivalent, rising to 300 krone (€40) from 2035 onwards.
 - Using the assumption that one cow emits 5.6t of CO2eq./year, a cow will be charged €90, a farmer with 100 cows will pay €9,000/year in 2030 increasing to €22,500/year in 2035.
 - Revenues from the tax will be channeled back to the sector and reinvested into green initiatives, climate technology, and production transformation, targeting the agricultural sectors facing the most difficulty transitioning.
 - Will this force the sector to look for solutions to reduce emissions? One option being to change feed ration by using feed additives... This is the intention of the tax, but it remains to be seen what is feasible (technology- and cost wise).
 - There is a consensus that the Danish government should work at the EU level to ensure collective regulation of agricultural emissions through an emissions trading system for agriculture (ETS). The national tax in Denmark will eventually align with such a system.
- Denmark is the first to implement this, but not the first to debate these types of measures.
 - New Zealand had been planning such mechanism as well before changing its politics (and made great progress in measuring the carbon footprint of each farm).
 - It remains to be seen if other major dairy producers would put such tax in place as well.

So what's going on in Europe?

Major steps have been taken, but many more lie ahead



- Carbon tax on farming
 - Denmark Europe's first carbon tax on farming from 2030
- Nitrate/phosphate reduction:
 - NL need to speed up the buyout of farmers to prevent the Netherlands falling foul of European restrictions. By end of 2026, farmers will be allowed to spread far less animal waste on their own fields. It was a €20 billion package. Now it'll be €5 billion.
 - What about Ireland... and potentially more country to come
- Producing more with less: more lactations, first calves after 2 years, precision feeding, selective breeding, feed additives... and in any case, compulsory to Reward farmers for their work
- EU Carbon Border Adjustment Mechanism (CBAM)
 - First CBAM in the world, currently in a transition period
 - Won't cover agriculture directly, but will apply to imported fertiliser products
 - Fully operational by 2027 when certificate trading will commence











Final Thoughts

Main conclusions



- We should continue to have a constraint milk collection growth in the EU and the US
 - Could potentially become heavily negative in the EU due to environmental measures which should be put in place in the next years: potential milk war
 - The milk price should remain high in the future: need to add value and/or to reduce production cost
- Milk will continue to go predominantly to cheese:
 - Potentially the best valorisation for the milk: cheese + fat + whey ingredients
 - Cheese consumption will continue to grow:
 - more and more mozzarella/pizza cheese
- Dairy fat price should remain high and will be mainly driven by cream
- Proteins will now lead the game
- Sustainability is now part of the game
 - Not possible to ignore it even if it has become less "visible"
 - Still a lot to be done





Should you require more infos please contact <u>clafougere@girafood.com</u>