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Reset for Profit

Making Dairy great again!

2 May 2016

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New Zealand on-farm

Profitability

- North Island vs South Island
 - North Island total costs (incl interest) NZ\$4.40 - \$4.90 kgMS or **US\$11.58 - \$12.91 cwt**
 - South Island NZ\$5.10 – \$5.60 kgMS or **US\$13.40 - \$14.75 cwt**
- NI farmers reduced FWE by 21% over past 2 seasons and SI slightly less
- Break even milk price is NZ\$0.75 (~US 50 cents) less than total cost due to livestock sales and dividend
- **Question:** Do you have cost structure that is globally competitive?
- Marginal production costs. Can NZ be the swing producer? Or EU? Or USA (#yhgtdj)?

- Current Milk Price is NZ\$3.90 kgMS, down from NZ\$8.40 in 13/14.
 - **~US\$ 10.41 cwt**

New Zealand on-farm

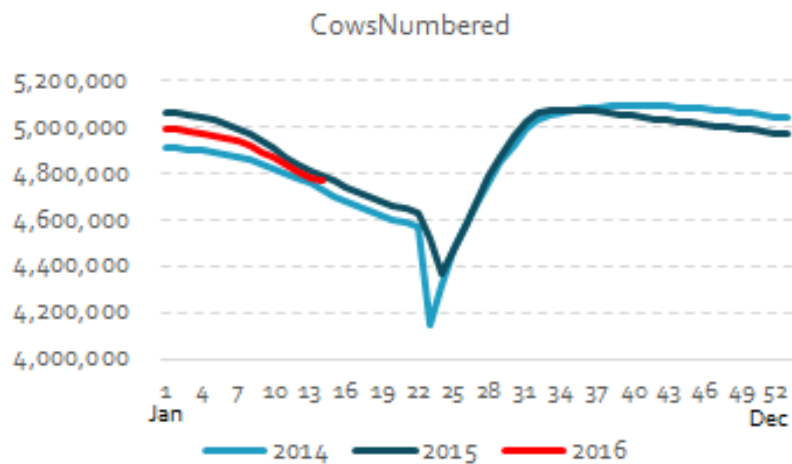
Milk supply

- MS down 1.7% YoY
 - April was down 1.6% MoM
 - May will be similar but not important.
- Cf to Fonterra down 3.3% YoY
- Volatility – major issue to be solved. Farmer education.
- Projection for next 5 years
 - Cow numbers
 - Not 25%
 - Maybe further decline in FY16/17 and then 2-3% growth
 - Downside risk vs upside maximisation

PwC PP Template
PwC

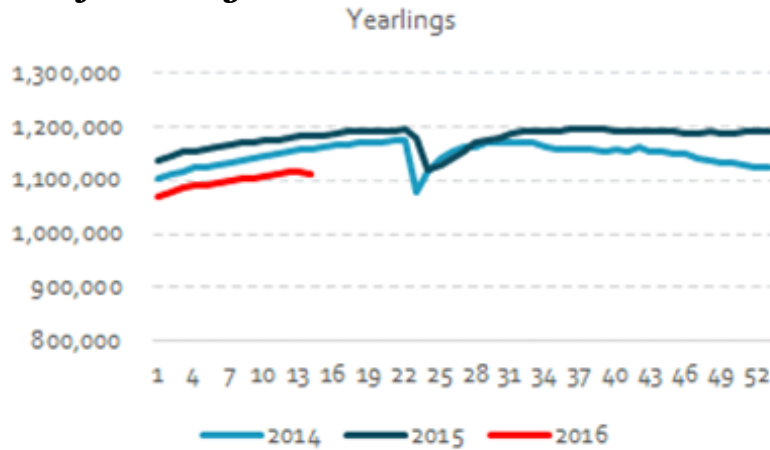
May 2016
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Dynamics of Milking Cows



70,000 fewer "Numbered Cows" at start of 2016

Dynamic of Yearlings



The 2016 calendar year started with 63,000 **fewer** yearlings than in January 2015 and 31,000 fewer than in January 2014. Yearlings are an indication of the future growth/contraction of the national herd. Yearlings are animals born in 2015 (conceived in 2014). These yearlings will enter the milking herd in the spring of 2017.

New Zealand on-farm

Land

- Waikato: NZ\$55k ha or ~US\$15k+ per acre
- Southland: NZ \$35k ha or US\$12.5k+ per acre
- Leverage is comfortable at 40%–50%
- Interest rates at 4% - 5.5%
- No capital gains tax
- Yield vs capital gain
- PwC clients want 3%-4% return on equity + capital gains (hist. 7-8% pa)
- Bank behaviour
- South Island cost structure and production

New Zealand on-farm

Random stuff

- NZ value add story
- Butter sold for US\$2,800 MT vs US\$4,000 on US domestic market
- Inventory levels and market overhang issues
- TAF unlocked capital for growth and switch to supply non Fonterra.
- Limited information to farmers – market extension component
- Time to turn systems around
- Robots – mmmmmmm
- Substitution
- Australia
- Global knowledge sharing.

Are you doing enough? Your farmers need you.



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