Deromond

Trends & Outlook

CHINA DAIRY 2018

ECONOMY

A REMARKABLE TRANSFORMATION

China‘s demographics

1.38 bn
population

urban focus

782 million
56% of total
urban population

235 million
30% of urban
generation Y
(millenials, ’80s & ’90s)

141 million
18% of urban
generation Z
(after 2000)

Source: China National Bureau of Statistics

China's GDP

(PPP)

urban performance 2016

Jingjinji (JJJ)
京津冀城市群
Beijing, Tianjin, Baoding, Shijiazhuang, Tangshan

$1.14 trillion
Beijing-Tianjin

Yangtze River Delta
长江三角洲城市群
Shanghai, Nanjing, Hangzhou, Suzhou, Ningbo, Nantong, Changzhou, Taizhou, Zhoushan

$2.62 trillion
Yangtze River Delta

Pearl River Delta
珠江三角洲城市群
Guangzhou, Hong Kong, Macau, Dongguan, Foshan, Shenzhen

$1.89 trillion
Pearl River Delta

best performing Cities

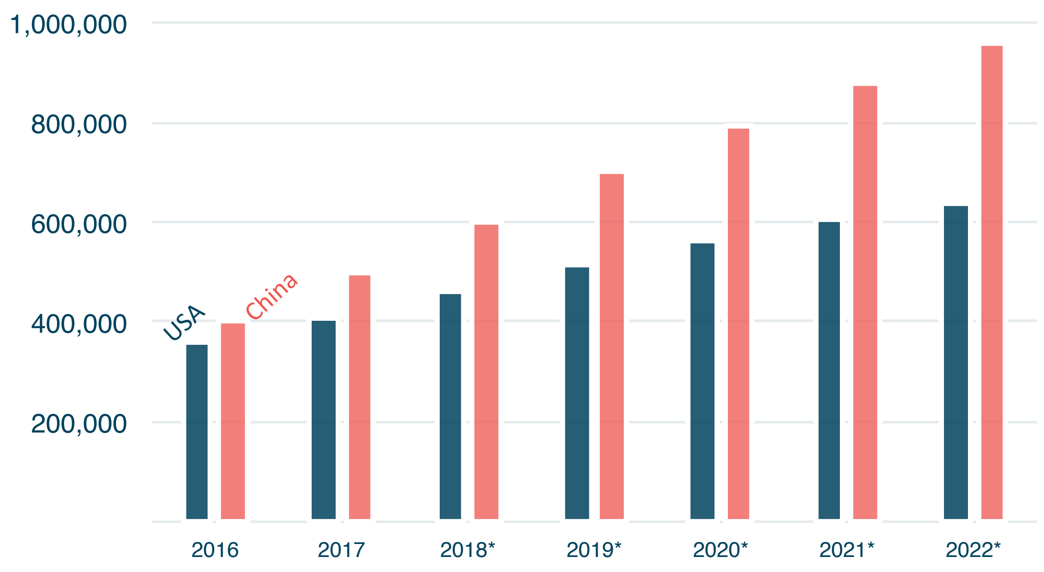
	tier-1/-2	tier-3/-4
#1	Guiyang	Zhoushan
#2	Shanghai	Weifang
#3	Tianjin	Taizhou
#4	Shenzhen	Xiangyang
#5	Chengdu	Suzhou
#6	Dalian	Nantong
#7	Nanchang	Baoji
#8	Chongqing	Meishan
#9	Xi'an	Suqian
#10	Haikou	Liupanshui

Source: Worldbank

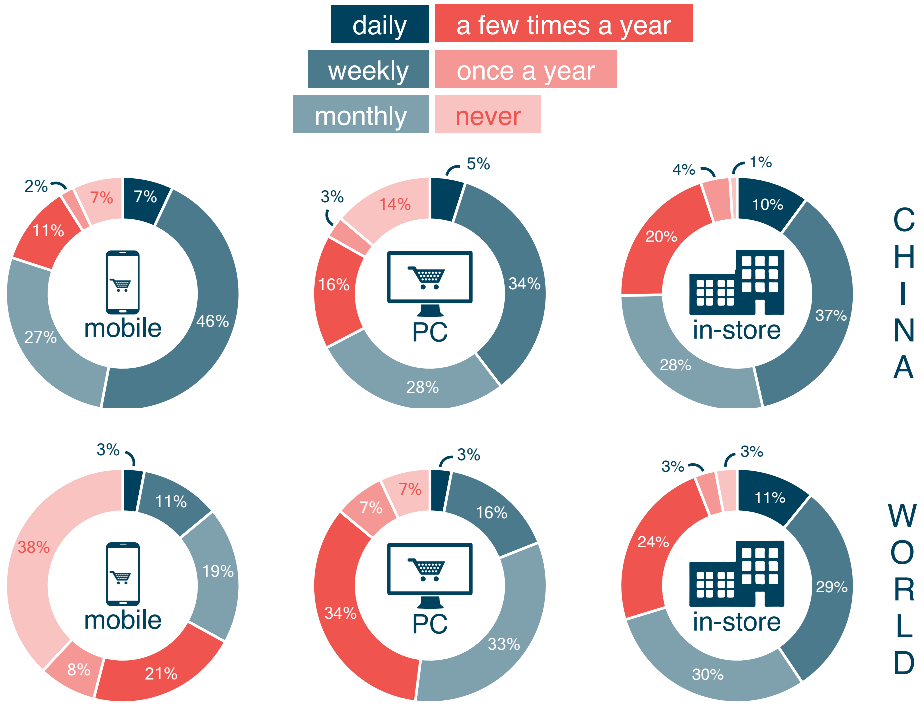
E-commerce's rise

China dwarfs the world when it comes to online shopping

b2c e-commerce sales in China is expected to take up more than **50% of global online retail market by 2019**.



Retail e-commerce sales
in million U.S. dollars, * forecast

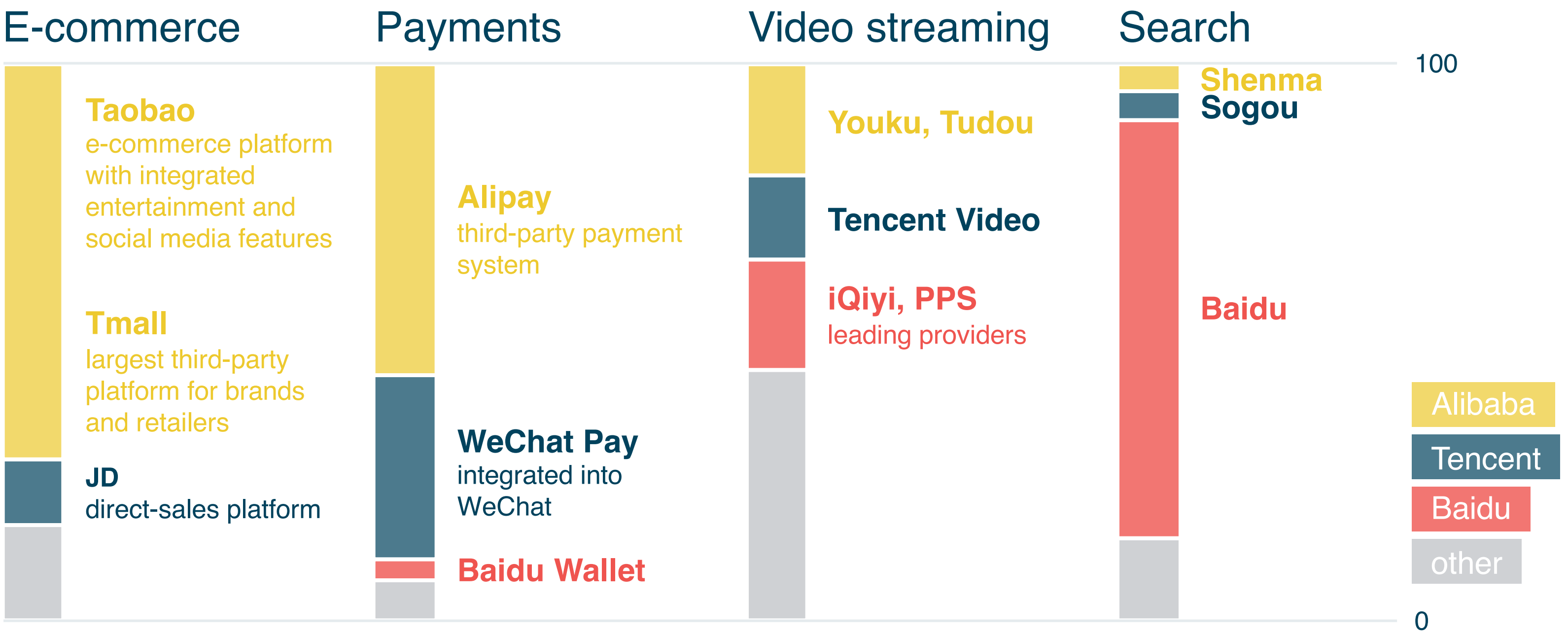


Shopping behavoir
2017, in %

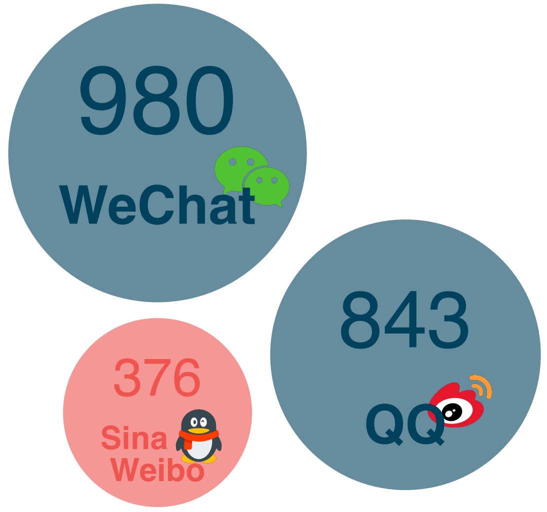
Source: 'China E-Retail Market Report 2016' by Deloitte, Statista, 'Total Retail 2017' by PWC

Digital domination

Alibaba dominates B2C eCommerce in China



Online market share China
2016, in %

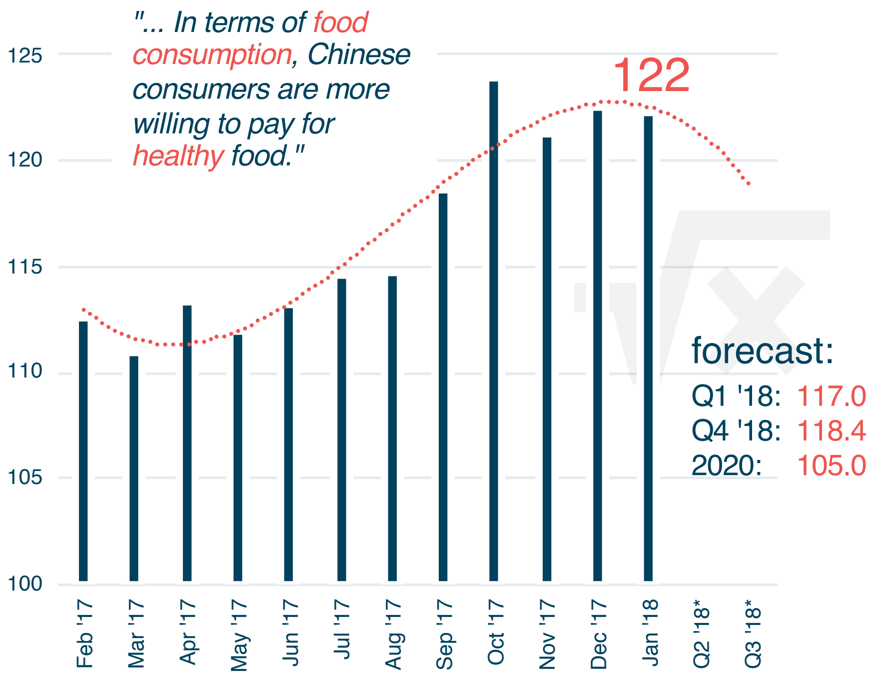


Social media leaders
Jan. 2018, in million monthly active users

Source: Statista, Goldman Sachs, BCG, Company reports

Why so confident?

there is very little chance growth is going to stop



Consumer Confidence Index

Jan. 2018, * forecast

1 China's economy has been **shifting** from a growth model driven by large volume to a model fueled by **quality and effeciency**.

2 China entered a new stage of **steady growth** with improved quality.

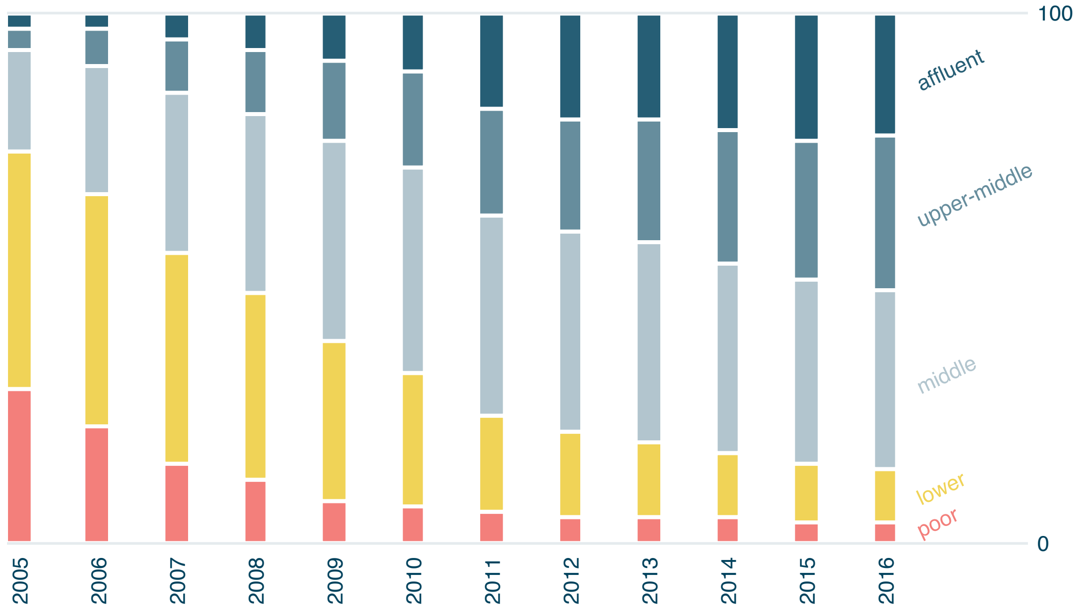
3 Market volume and sales of new products show outstanding performance. **Innovation** is responsible for **60%** of China's FMCG industry in the last ten years.

Source: nielsen.com

Life's getting better every year

China meets its challenges pretty amazingly

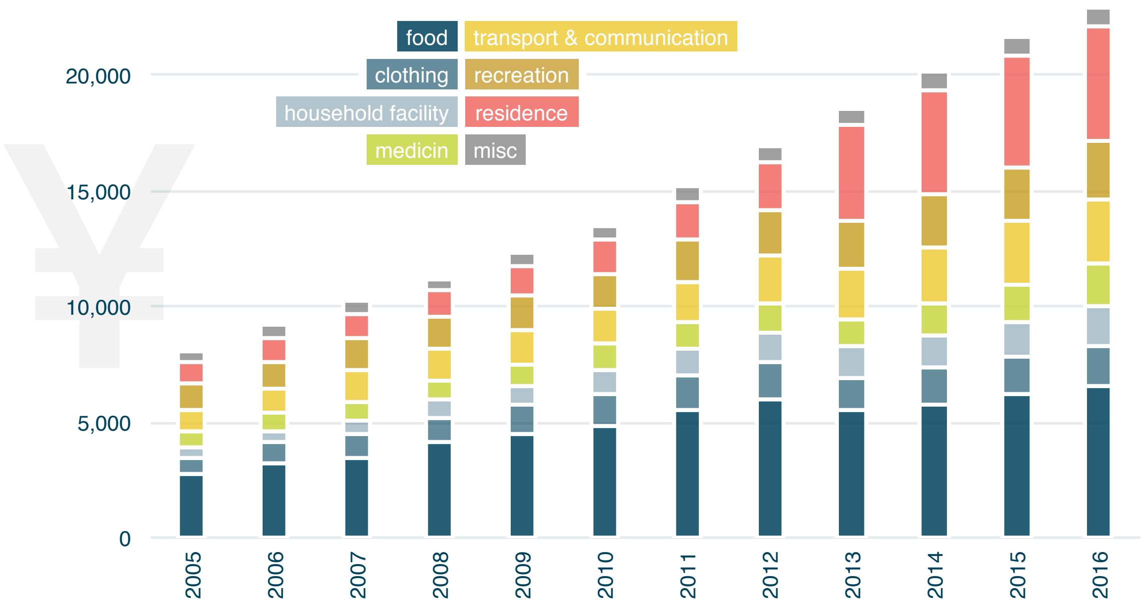
Vanishing poverty



Income-wise classification

urban households in %

Increasing wallet share



Urban consumption expenditure

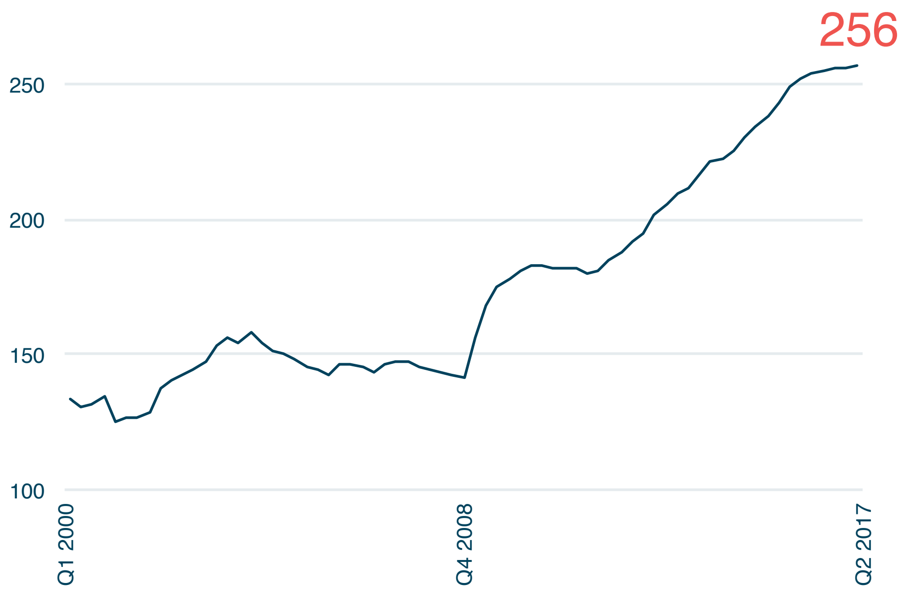
per capita p.a. in RMB

Source: China National Bureau of Statistics

Iceberg dead ahead?

markers need to be watched closely

China’s total debt



Credit to the non-financial sector
in % of GDP

Financial stability and growth

China’s credit boom is one of the **largest and longest** in history.

China-specific factors - high savings, current account surplus, small external debt, and various policy buffers - **can help mitigate** near-term risks of a disruptive adjustment and buy time to **address risks**.

But, **if left unaddressed**, these factors will likely not eliminate the eventual adjustment, but **make the boom larger and last longer**.

Source: bis.org, IMF Working Paper 'Credit Booms — Is China Different?' January 2018

DAIRY

SUPPLY, TRENDS & CONSUMPTION

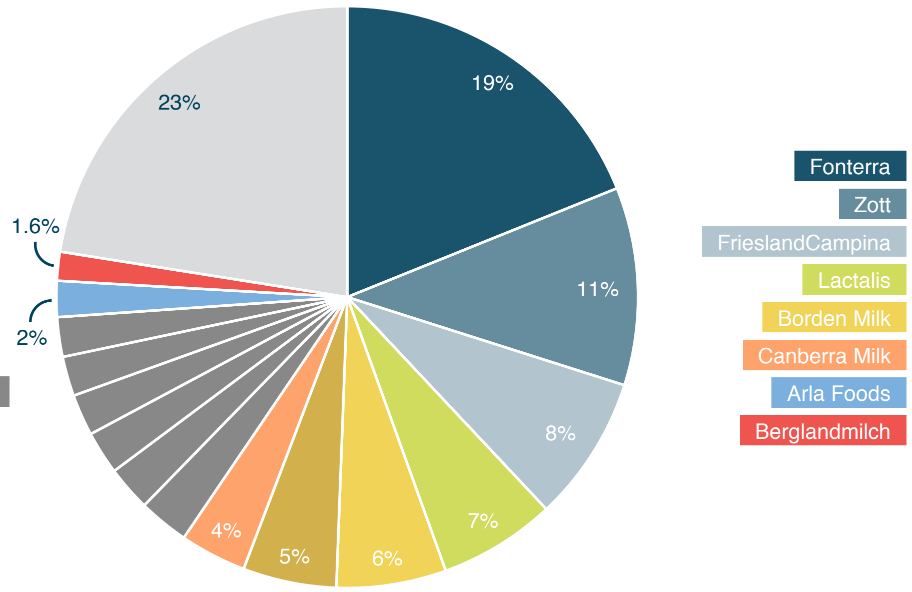
Global milk players

Europe generats over half (53%) of global milk exports

$ 23.1 billion

- 19.3% since 2012

- 23.5%	New Zealand: 4.4 billion
	Germany: 2.6 billion
	Netherlands: 1.9 billion
- 22.8%	France: 1.5 billion
	USA: 1.4 billion
- 24.5%	Belgium: 1.2 billion
- 23.2%	Australia: 852 million
	Belarus: 638 million
	UK: 569 million
+ 42.3%	Saudi Arabia: 556 million
+ 69.2%	United Arab Emirates: 523 million
	Poland: 505 million
+ 308.8%	Hong Kong*: 499 million
- 28.3%	Denmark: 451 million
	Austria: 374 million
	all others: 5.2 billion
since 2012	



Growing demand in **developing countries** is driving the world's dairy trade.

Milk exporting countries & respective top market participant

2016, in U.S. dollar & in %

Source: worldstopexports.com

China dairy imports

UHT-milk imports register the highest growth

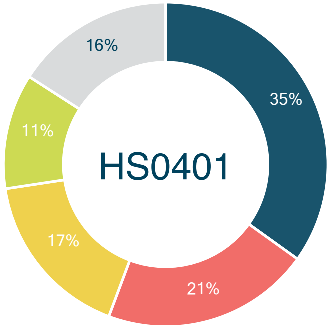
$ 639 million + 31.7% YoY
$ 1,009 per ton (- 4.4% YoY)

634,000 tons + 37.8% YoY

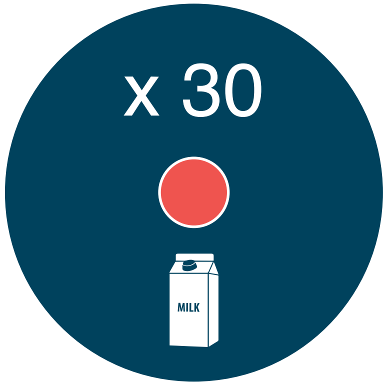
$ 42 million + 51.1% YoY
$ 2,010 per ton (- 25.5% YoY)

21,000 tons + 103% YoY

+ 8.1%	Germany: 221,000 tons
+ 76.3%	New Zealand: 132,000 tons
+195.8%	France: 107,000 tons
+ 17.2%	Australia: 73,000 tons
	all others: 101,000 tons



China accounted for nearly **40%** of all EU **UHT** shipments.



milk
yoghurt

Top milk (HS0401) exporting countries to China
2016, in tons, U.S. dollar & in %

China yoghurt (HS0403) imports
2016, in tons

Source: '2016 Annual Dairy Trade Analysis Report' by China Dairy Association, 'Dairy: World Markets and Trade' 2017 by USDA

Yoghurt takes over the reins

urban areas consume more yoghurt than UHT milk

+ 9.8% p.a.

2010: 3.7 kg
2020*: 9.3 kg

+ 4.3% p.a.

2010: 14.0 kg
2020*: 21.3 kg

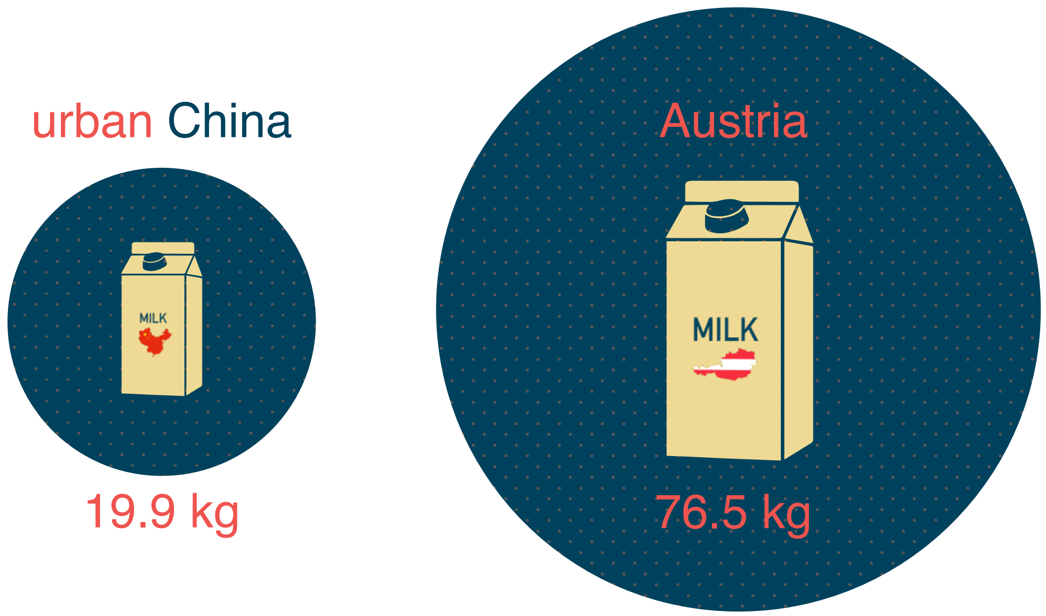
Yoghurt consumption
in kg per capita p.a., * forecast

Milk consumption
in kg per capita p.a., * forecast

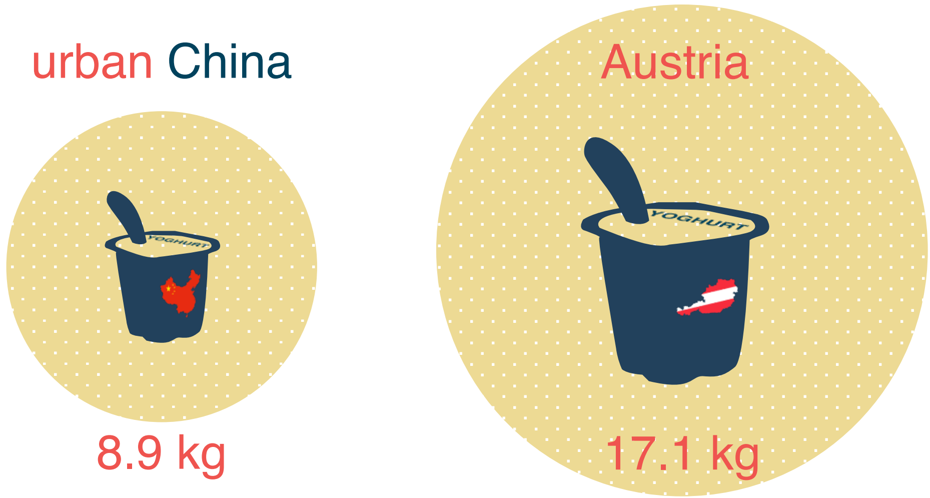
Source: China National Bureau of Statistics, General Administration of Customs P.R. of China

China‘s getting closer

urban China in comparison to Austria



Milk consumption
2016, per capita p.a.



Yoghurt consumption
2016, per capita p.a.

Source: China National Bureau of Statistics, General Administration of Customs P.R. of China, Statistik Austria, Deromond Research

Chinese participants of the future

top f&b/tech companies on the 'Fortune China 500' in 2017

JD.COM 京东
康師傅
伊利
光明乳业 BRIGHT DAIRY
Bai du 百度
萬洲國際 WH GROUP
福建达利集团 FUJIAN DALI GROUP
TSINGTAO 青島啤酒
JINLUO WATER
五粮液集团
JDB 加多宝集团
MOUTAI
MENGNIU 蒙牛
網易 NETEASE
華潤創業有限公司 China Resources Enterprise, Limited
C&D
中粮 COFCO
Tencent 腾讯
娃哈哈 Wahaha
光明食品(集团)有限公司 BRIGHT FOOD (GROUP) CO., LTD.
Alibaba Group 阿里巴巴集团

Source: Fortune China 500 2017

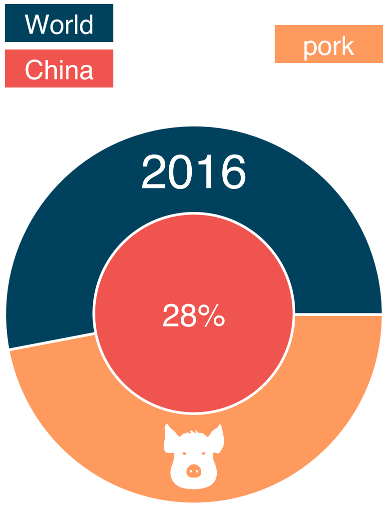
CONSUMPTION MOTIVES

INDICATORS & DRIVERS

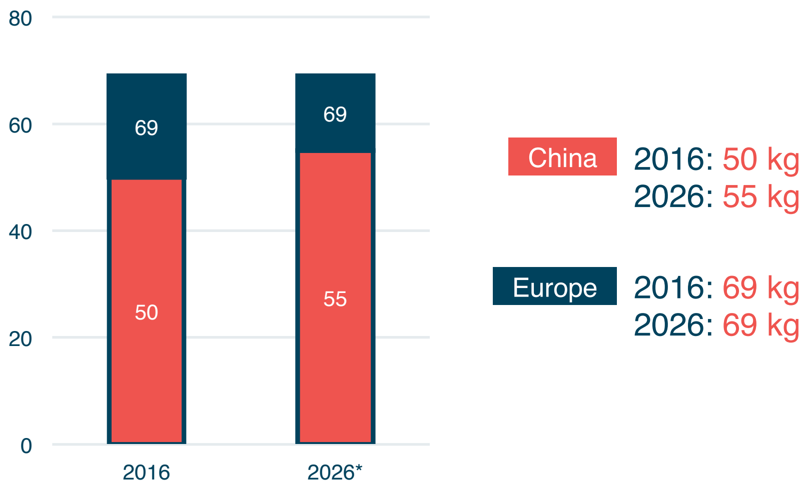
Meateoric rise

Meat consumption drives demand for animal protein

China consumes **28% of the world's meat**, including nearly **½ of its pork.**



Meat consumption
worldwide in %



Meat consumption
in kg per capita p.a., * forecast

Source: OECD

Protein and calcium

main factor that influences the purchase is the health consciousness

significant drivers of purchase across **all** categories

Gen Y with income **> 120,000 yuan** p.a.

1

80% buy mainly yoghurts with **probiotics**, **high-protein** & **calcium**

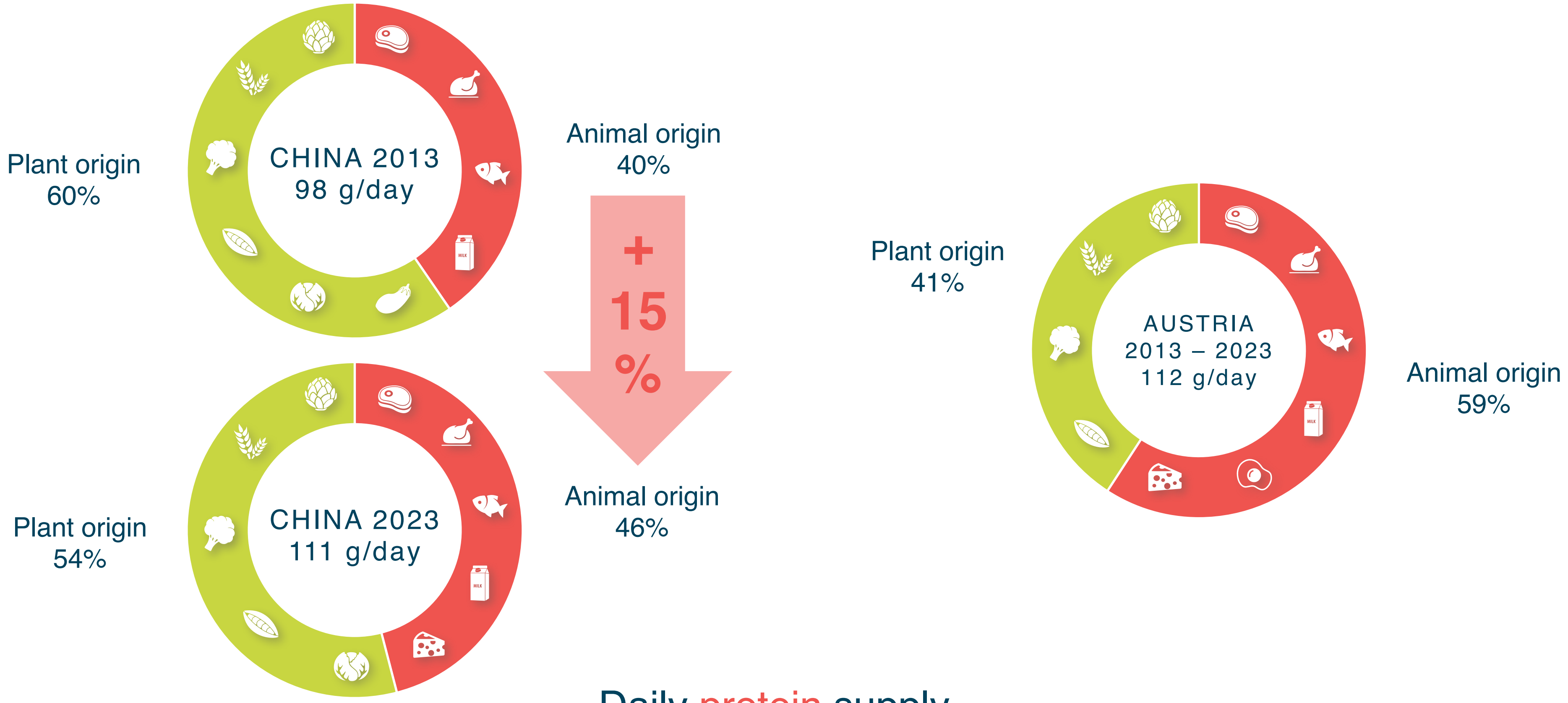
2

76% consume yoghurts because of **concerns over intestinal health**

Source: Study by HSBC Bank 2015

Expanding appetite for protein

China will increase its animal originated protein consistently



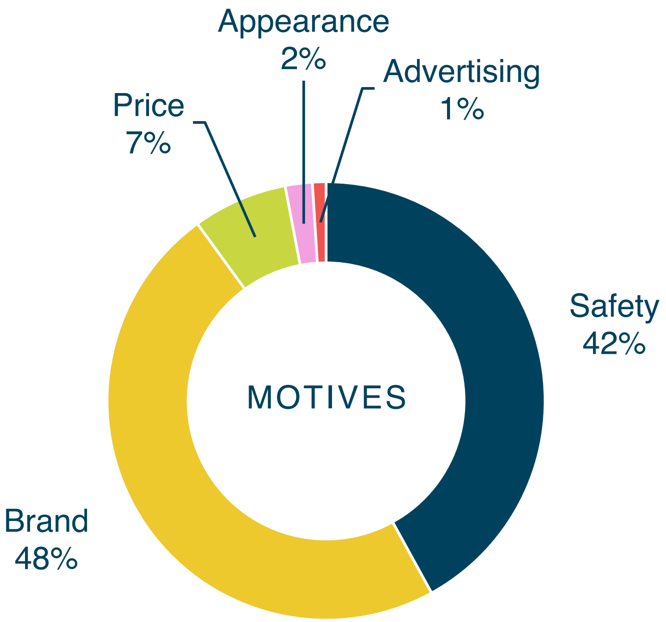
Daily protein supply

per capita per day in %

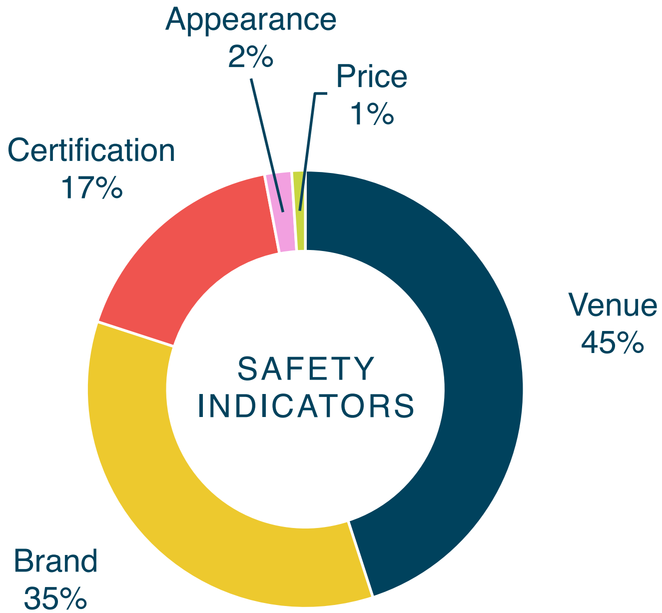
Source: ourworldindata.org

Dairy consumption motives

most important considerations when making dairy purchases



What is the most important factor you take into consideration when making purchasing decisions?



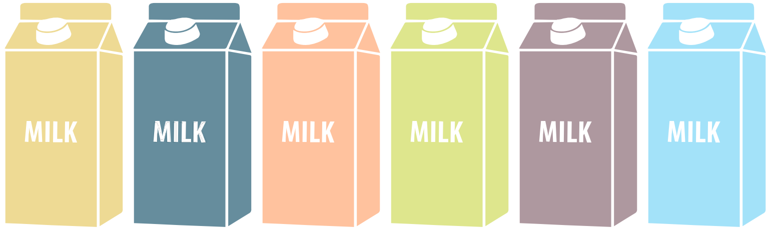
What is the most important factor you take into consideration to determine food safety?

Source: Study “Food Consumption Trends in Urban China Opportunities & Implications for Mekong Region Agriculture“ by University of Florida


Deromond
THE FUTURE
OUTLOOK & TRENDS

Milk‘s future

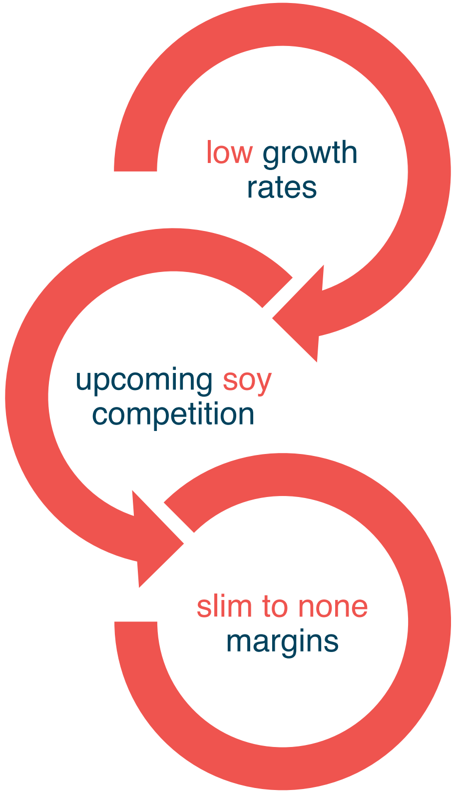
per capita consumption 2050 will be as high as Europe's (theoretically)



1 broaden the range

2 invest in quality

3 use the ad space



Yoghurt‘s future

go big (or go home) on imported yoghurt

go big on brand

63% online consumers and
78% offline purchase **branded products**

go long on trust

invest in western brands + shift to domestic production = trusted, high-priced brands

urban China 2016

8.9 kg
per capita p.a.

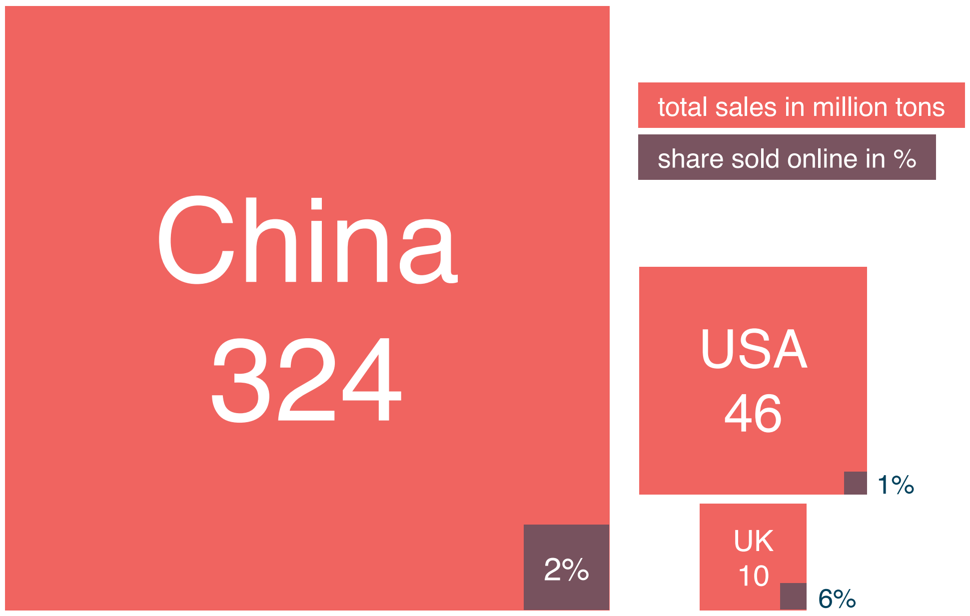
imported 2016

0.03 kg
per capita p.a.

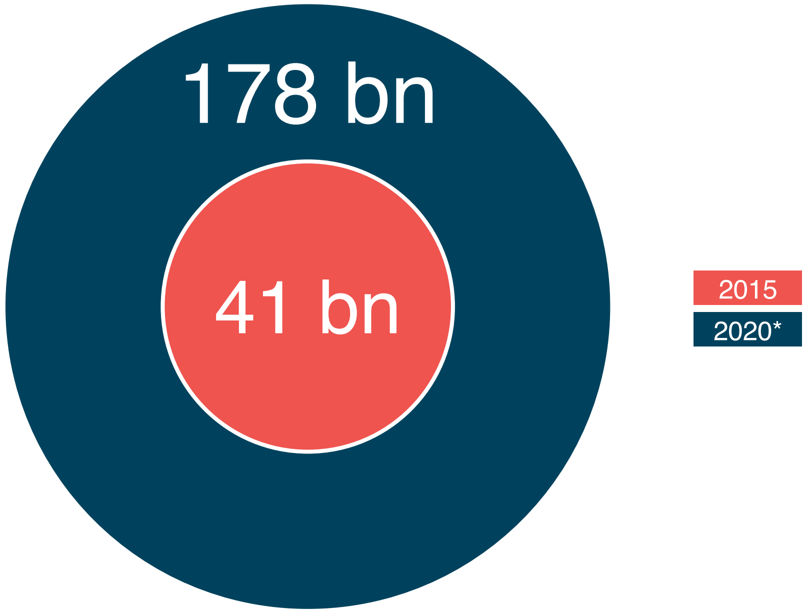
Source: nielsen.com, '2016 Annual Dairy Trade Analysis Report' by China Dairy Association

Online grocery

challenging but promising



Fresh food retail
2016, total in million tons & share in %



Online grocery industry
China sales in U.S. dollars, * forecast

Source: Statista, Euromonitor Int. via Bloomberg

Omni-channel marketing

a broader spectrum of operational processes

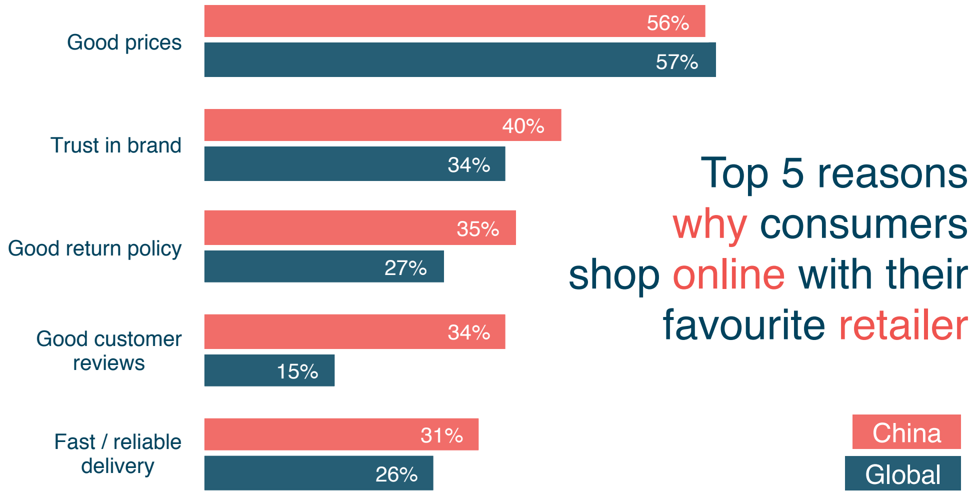
"... intends to improve operational efficiency, customer experiences & overall profitability."

*"**76%** of shoppers say that **knowledgeable sales staff** is an important element of the overall shopping experience."*

*"Uniqlo launched **click- and-collect** in China, allowing consumers to buy products online and then pick them from **400** omni-channel enabled **stores**."*

*"Omni-channel fulfilment is valued as a customer experience **differentiator**."*

Top 5 reasons why consumers shop online with their favourite retailer



Shopping motives

2017, in %

Source: 'Total Retail 2017' by PWC

An ongoing (r)evolution

trends that will shape the f&b market in the future

consumer

1 **The healthier, the better**

growing pursuit for health, food safety and premium products

2 **The age of consumer-led marketing**

brand is king, long live the king!

3 **The consumer ecosystem**

cross-industry activities to build a consumer ecosystem

industry

1 **Smart supply chain**

new ways to manage supply chains are key to retailers' competitiveness

2 **The age of experimentation**

a multi-sensory experience is the new secret weapon for food products, packaging and stores

3 **The new retail**

data and smart logistics seamlessly integrate online and offline systems

Source: 'China E-Retail Market Report 2016' by Deloitte, Deromond Research

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Thank you!

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