Emmi Investor Day

Ten years later

Urs Riedener
CEO Emmi Group

Lucerne, 7 November 2018
Challenges in today’s economy

Proof points of Emmi’s development

Current set-up of Emmi

Success factors going forward
Market environment

Switzerland

- Milk consumption continues to decline
- Competitiveness of Switzerland as a business location has slightly improved
- Weakening CHF in 2018 improved export opportunities -> turnaround in exports
- However, imports are also increasing. Niches are interesting for foreign players
- Swiss competitors are struggling to reach profitability in the Swiss market
- Quite a lot of new capacities are being created (Dietmtigtal)

How long can the price erosion of generic dairy products continue?
Market environment

International markets

- Milk consumption under pressure in developed markets
  - Strong growth of milk alternatives, especially USA
  - New players are also entering the market
    - Pressure on niche concepts
- Challenging new sales concepts and players, even if the industry is not very susceptible to disruption
- Consumer trends are being played on more aggressively and rapidly by a large number of competitors
- The trends towards regional, natural, fresh, transparent and sustainable concepts are becoming stronger
  - Focus on economies of scale often ignores consumer trends
Challenges: Concentration

The world’s 10 largest retailers: sales of approx. USD 1,500 billion

Wal-Mart
Costco
Kroger
Schwarz Group
Walgreens Boots

The Home Depot
Carrefour
Aldi
Tesco
Amazon

The answer: differentiating product offerings

8 of the 10 largest retailers are Emmi clients
Challenges: Trading disadvantages

Examples of current discriminations compared with cheese from the EU

**Canada**
- EU: CETA increases duty-free cheese quota by 140% (total 31,500 tons)
- CH: duty-free import only within WTO quota of 6,940 tons

**Mexico**
- EU: 20% tax on cheese
  - From 2019: 25,000 tons will be duty-free
  - CH: 45-70% tax on cheese

**Mercosur**
- EU: open market for cheese from 2019?
- CH: 28% tax on cheese

**South Korea**
- EU: open market for cheese
- CH: duty-free quota of 60 tons for AOP cheese

**Japan**
- EU: duty-free market access for cheese from 2019
- CH: duty-free quota for 1,000 tons of AOP cheese

**Egypt**
- EU: open market for cheese
- CH: duty-free quota for 200 tons of cheese

"The answer: fight for equal conditions"
Challenges: Import pressure

Development of cheese exports and imports in Switzerland

Industry, 2009 - 2017:
Exports from CH: +15%
Imports into CH: +36%
Production: +6%

Emmi, 2009 - 2017:
Exports 2009 - 2017 total*: +15%
Emmi exports 2009-2017 USA: +90%

Per Capita Consumption CH: stable

* Excluding fondue and processed cheese

The answer: strengthen local footprint
Challenges: Economic volatility

The answer:
push geographic diversification

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<thead>
<tr>
<th>Currency</th>
<th>11/2008</th>
<th>11/2018</th>
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<tbody>
<tr>
<td>Euro</td>
<td>1.52</td>
<td>1.13</td>
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<tr>
<td>US dollar</td>
<td>1.19</td>
<td>1.02</td>
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<tr>
<td>UK pound</td>
<td>1.84</td>
<td>1.28</td>
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</table>

EU anger over May’s post-Brexit immigration plan

Erdogan comes back begging: Turkey leader meets Merkel for tense talks amid lira crisis

Global Economy to Expand by 3.1 percent in 2018, Slower Growth Seen Ahead

China will not 'surrender' to US demands in trade talks — state media

Italy Needs to Wake Up and Fix Its Banks

The euro area’s most vulnerable economy is heading into a storm
Challenges in today’s economy

Proof points of Emmi’s development

The current set-up

Success factors going forward
Emmi is well on the way to becoming a strong international player

Emmi is in a decisive phase of international anchoring

- Long-term investments to strengthen international presence
- Balance of long-term goals and short-term ROIC optimisation

Sales in CHF bn

Source: Emmi Annual Reports

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Emmi’s development

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2017</th>
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<tbody>
<tr>
<td>Sales</td>
<td>CHF 2.7 bn</td>
<td>CHF 3.4 bn</td>
</tr>
<tr>
<td>EBIT ratio</td>
<td>3.8%</td>
<td>6.1%</td>
</tr>
<tr>
<td>No. of employees</td>
<td>3400</td>
<td>6100</td>
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<tr>
<td>Share of international business</td>
<td>23%</td>
<td>49%</td>
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<td>International presence (countries)</td>
<td>11</td>
<td>15</td>
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<tr>
<td>Perception</td>
<td>Swiss</td>
<td>International</td>
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<td>Scope</td>
<td>Switzerland+</td>
<td>International</td>
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</table>
Sales development from 2012 until 2017

The development is not linear

In KCHF

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
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<tbody>
<tr>
<td>Sales 2012</td>
<td>2981</td>
</tr>
<tr>
<td>Divestments 2013 - 2017</td>
<td>-86</td>
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<tr>
<td>Acquisitions 2013 - 2017</td>
<td>570</td>
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<tr>
<td>Sales 2012 + acquisitions</td>
<td>3465</td>
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<tr>
<td>Organic growth 2012 - 2017</td>
<td>29</td>
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<tr>
<td>FX 2012 - 2017</td>
<td>-130</td>
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<tr>
<td>Sales 2017</td>
<td>3364</td>
</tr>
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</table>
EBIT development since 2008 until 2017

EBIT development affected by specific events

EBIT abs. in CHF mn


2009
- Economic crisis
- New strategy: 50:50
- Launch of Operational Excellence initiative

2010
- Acquisitions: Fromalp, Onken, Cypress Grove
- Emmi values implemented

2011
- EOE established → CHF 10 mn savings p.a. in years ahead
- Acquisition of A-27
- Launch of sustainability initiative

2012
- Caffé Latte production reaches 100 mn cups p.a.
- New CFO: Jörg Riboni
- Majority stake in Kaiku & Diprola

2013
- Launch of JogurtPur
- Acquisitions: AVH, Studer, Rachelli
- Start OneERP

2014
- New structure: Divisions, Global Categories, Strategic Initiatives
- Divestment: Trentinalatte

2015
- Caffé Latte acceleration
- OneERP implemented
- 40% stake in Porto Allegre

2016
- New department: Group SC
- Acquisition: Bettinehoeve & Cowgirls

2017
- Increase in EBIT

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Challenges in today’s economy

Proof points of Emmi’s development

The current set-up

Success factors going forward
## Strategy and vision

<table>
<thead>
<tr>
<th>Vision</th>
<th>The best dairy moments are Emmi moments</th>
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</table>
| **Market positioning** | ▪ No. 1 among Swiss milk processors  
▪ The top company for Swiss cheese, both in Switzerland and abroad  
▪ A leading company in Europe for premium dairy products |
| **Growth** | 2% – 3% (innovations, small acquisitions and gains in market share) |
| **Profitability** | 4.5% – 5.0% net profit margin |
| **Shareholders' equity** | Equity ratio of at least 40% |
Emmi strives to become an international player with competitive structures

Background

- Swiss market saturated; international market growing
- Market liberalisation in all segments
  - Pressure with imports
  - Growth of exports
  - Reduction in subsidies
- CH suppliers
  - Discrepancy vis-à-vis EU milk price
- Competition consolidation
- Customer consolidation
- Intensified price pressure nationally / internationally

Success factors

- Critical company size / key international player
- Early, proactive adjustment to market developments
- Close customer relationship beyond price; reduction of interchangeability
- Competitive pricing / "Fitness for European market"

Strategic pillars

- Strengthen position in Switzerland
- International growth
- Cost management
Roots in Switzerland

Suhr | 370 employees
Milk, cream & butter

Frenkendorf | 10 employees
Cheese, dairy & fresh products

Kirchberg | 320 employees
Pre-packing of cheese, export

Moudon | 30 employees
Cheese ageing

Ostermundigen | 630 employees
Fresh products

Schlieren | 125 employees
Supplies for catering & retail business

Bischofszell | 120 employees
Dairy & fresh products
(primarily organic, from cow’s milk, sheep’s milk & goat’s milk)

Emmen | 570 employees
Fresh products & cheese

Lucerne | 250 employees
Headquarters

Kaltbach | 60 employees
Cow’s and goat’s milk cheese

Dagmersellen | 200 employees
Mozzarella, milk powder

Langnau | 150 employees
Fondue, processed cheese

Landquart | 45 employees
Cheese

Bever | 20 employees
Cheese, dairy & fresh products
Foreign subsidiaries

USA | Wisconsin
- Emmi Roth USA
- Wisconsin

USA | California
- Cypress Grove
- Redwood Hill Farm
- Cowgirl Creamery
- Meyenberg

Canada | Québec
- Emmi Canada

UK
- Emmi UK

France
- Ets Schoepfer

Spain
- Lácteos de Navarra
- Kaiku
- Lácteos Caprinos

Germany
- Gläserne Molkerei
- Emmi Deutschland

Austria
- Emmi Österreich

Holland
- Bettinehoeve
- Goat Milk Powder
- AVH dairy
- Emmi Benelux

Italy
- Rachelli A-27
- Italian Fresh Foods
- Emmi Italia

Mexico
- Mexideli

Chile
- Surlat Industrial
- (Kaiku)

Tunisia
- Centrale Laitière de Mahdia (Kaiku)
Facts and figures about Emmi

- 1,000,000,000 kilograms of Swiss milk processed
- 100,000,000 investments per year (CHF)
- 100,000 wheels of cheese in Kaltbach
- 6,000 employees worldwide
- 300 cheese dairies
- 100 nationalities
- 20 acquisitions within 10 years
Success factor: Diversification

For the first time, international markets account for the largest part of sales

- Switzerland 49.5%, CHF 830 million (previous year: CHF 838 million)
- Americas 30.0%, CHF 502 million (previous year: CHF 442 million)
- Europe 17.2%, CHF 288 million (previous year: CHF 259 million)
- Global Trade 3.3%, CHF 55 million (previous year: CHF 60 million)

Top 5, sales:
- Switzerland
- USA
- Spain
- Germany
- Tunisia

Group net sales in first half of 2018: CHF 1,675 million
Emmi pursues a dual international strategy

Local production abroad and exports from Switzerland

Sales development, 2012 - 2018

2018, estimated share of sales

- International
- Switzerland

- Production in CH
- Exports from CH
- Local production abroad
Success factor: Cost management

10 years of Emmi Operational Excellence

30 plants in 9 Emmi countries (CH, D, A, NL, F, E, USA, Chile, Tunisia)

3,500 employees use EOE

10 EOE trainers, 25 EOE coordinators, 100 EOE coaches, 100 EOE supporters

6,000 identified opportunities for improvement

4,000 ideas submitted by employees, 90% of which have been implemented
Challenges in today’s economy

Proof points of Emmi’s development

The current set-up

Success factors going forward
Agility is a key quality in today’s fast-moving consumer world.
Innovation as part of the company’s DNA

A consumer centric approach is crucial for generating sustainable concepts

Understanding the fundamental needs, drivers and barriers of the consumer

Generating ideas and concepts – with the right balance of speed and maturity

Investing in infrastructure and marketing
Growth opportunities

Global concepts

- Trend-oriented concepts such as drinks (cold coffee), enjoyment (desserts), convenience (cheese snacks, muesli), protein, vegan, etc.
  - Organic or lactose-free can’t be the only point of differentiation

Regional concepts

- Transparent regionality, interpreted in a modern way and communicated via new media, offers opportunities and puts established players under pressure

Acquisitions

- Acquisitions are still possible, but more difficult and more expensive
- Concentration on Americas and, to a lesser extent, Europe
  - Entire regions have become less attractive (e.g. Russia, Turkey)
- Companies in niches are particularly sought after
  - Emmi has lost some exciting targets for price reasons
Regular performance assessment along the “3 Ms”

Margin, market relevance and momentum

**Margin & return**

*Is the business profitable?*
- Sustainable and competitive advantage to ensure the margin?
- Do we create value or burn money?

**Market relevance**

*Is it big enough?*
- Business relevance in the market?
- Business relevance for us?

**Momentum (growth)**

*Is it growing?*
- Factors which support the growth?
- Factors which impede the growth?

<table>
<thead>
<tr>
<th>The benefit:</th>
<th>- Focus on the most promising segments</th>
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<tbody>
<tr>
<td></td>
<td>- Set the right priorities</td>
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<td>- Allocate the resources efficiently</td>
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Goat milk market

**Margin & return**

Is the average margin above Emmi Group level?
- The goat milk players have on average an EBIT margin of 5-10%.
- Since the market is growing, this margin is regarded as sustainable over the coming years.

**Market relevance**

Is the market still fragmented?
- The top five players in Europe have a combined market share of 57%.
- The No. 1 player (Eurial) has only around double the sales of Emmi in the goat's milk market.

**Momentum (growth)**

Is the market growing above Emmi Group level?
- The goat milk market has grown by around 5% p.a. in the past.
- Market researchers predict a growth rate of 3-5% p.a. over the next 5 years.
Clear definition of roles

The Group as a “strategic guide”

- Global categories / CBUs
- Swarm intelligence
- “Resources pot” ($)
- Strategic initiatives
### "7S dimensions" (core variables)

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<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
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<td><strong>Strategy &amp; Structure</strong></td>
<td>“Seed to grow”</td>
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<td>Emmi Net</td>
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<tr>
<td><strong>Shared Values &amp; Style</strong></td>
<td>Emmi Vision</td>
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### Strategic initiatives & programmes

- **Strategy & Structure**
  - ProcureNet

- **System & Processes**
  - EOE operations (CH & International)

- **Shared Values & Style**
  - Sustainability

- **Skills & Staff**
  - Talent and succession management
Digital is an attitude

Corporate Development

Supply Chain Management

Quality / Safety / Environment

Division Switzerland

Division Americas

Division Europe

Global Categories & Marketing (incl. R&D Coordination)

Global trade model

Global initiatives

Organisational transformation @ Emmi

New

Finance / Legal

HR

Corporate Communications & IR

CEO

Internal trade model

Integration business planning

Digital supply chain (e.g. future plant)

Digital office

Lean ERP

Consumer experience

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LEAN ERP «Roadmap & milestones»

Legend:
- LeanERP I
- LeanERP II
- LeanERP III
- OneERP
- JDE
- Kaiku SAP

Roadmap

Phase I
2018-2020

Phase II
2020-2022

Phase III
2022-2024
Embedding of the various digitisation work packages in the «Digital House»

**Steering / Compliance Digital@Emmi**

- Steering of initiatives through regular reportings to the Executive Management Board
- Steering of the portfolio through the strategy process
- Installation of a network to encourage the know-how transfer between departments/initiatives → «Digital Panel»

### Back-end (Value chain)

- Integrated business planning
- Digital supply chain (e.g. Future Plant)

### Front-end (Digital marketing)

- Consumer experience

### Backbone

- Digital office
- Lean ERP

### People

Organisational transformation @ Emmi

- Values / Culture / Mindset
- Understanding of technologies
- Skills & capabilities
Common tools to develop the Emmi Digital Supply Chain

We need to assess our gaps and chose our focus to create best possible value

- ERP (Enterprise Resource Planning)
- Big / smart data (real-time data processing)
- Digital platforms / cooperations
- Sharing economies
- Artificial intelligence (AI)
- Blockchain reference

Suppliers → Procurement → Production → Distribution → Sales * → Customer

- EDI / P2P interfaces
- Platforms (procurement communities)
- Consignment/VMI (warehouse mgmt)
- Autonomous planning routine
- M2M/CPS Cyber physical systems
- IOT (Internet of Things)
- 3D scan and print
- VR & augmented reality
- Drones / autonomous flying objects
- Speech-to-Speech / natural language

- Consignment/VMI (warehouse mgmt)
- Robotic
- 1 piece mass production
- Picking by systems / document mgmt
- Sensor technology/remote servicing

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The challenges we are eager to tackle

- Sustainable return to growth
- Safeguarding of earnings
- Increasing volatilities and inflation (e.g. raw material prices, politics, fluctuating prices, instant demand shifts)
- Suitable acquisition targets, balancing ROIC and building strategically strong positions
- The right proportion of organisational development (balance between costs and benefits) and the launch of strategic initiatives
- Sensible pre-investments in securing and expanding future profitability potential
- Seeing and solving the problems, managing the opportunities!
Vielen Dank