



Silver Fern Farms Limited
Head Office Harvest Court
218 George Street
PO Box 941 Dunedin 9054
New Zealand

TEL: +64 3 477 3980
FAX: +64 3 474 1087
www.silverfernfarms.co.nz
www.bestcutsbestrecipes.co.nz

22 February 2013

MEAT INDUSTRY CONSOLIDATION

Dear Fellow Farmer

We are taking the initiative, and writing an open letter to Silver Fern Farms suppliers, and others, to give our view on the debate that is developing in relation to the structure of the meat processing sector, and specifically, the call for the two co-operatives to merge.

An important part of this debate is the need for a clear understanding of why the industry is underperforming, and what needs to be done to address the fundamental reasons for poor profitability both in the processing/exporting sector and in our own farming businesses. We understand the reasons for failure in our global markets. They will recover, driven by the continuing demand for high quality red meat protein, so let us focus for now on what we can directly influence.

For us to generate more wealth for meat producers, we need to create more value in the products we market. Consumers must recognise that value, and want to pay for quality or attributes they cannot get elsewhere. Therefore, we must have a strategy surrounding creating value.

Processing more product, on its own, will not make producers wealthy. Simply aggregating assets, as in a merger of the two co-operatives, will solve very little either.

We cannot ignore the variety of other processors, each with their different strategies, capital structures and ownership models. History tells us that companies who do not engage in aggregation thereby avoiding a cost, are more often the beneficiaries of any rationalisation.

Nonetheless, sensible consolidation within the industry requires unity across the co-operative businesses. If there are benefits to be had, farmers as well as directors and management have an important contribution to make. Any merger must have almost total support and commitment from the current supply base, otherwise the economic case for a merger will be undermined by the loss of livestock supply as farmers exploit the alternative competition for that livestock. Twelve month supply agreements would need to be adopted.

Farmers need to be prepared to raise the bar so high that it is very difficult for new entrants to come into the processing sector and build new capacity. Again history tells us new capacity merely destroys any previous initiatives in relation to processing capacity management. Competition is a fundamental premise for business health, provided it does not strip out wealth and transfer it to third parties who don't own the product or the important relationship with the consumer.

Therefore, in our view any aggregation or consolidation must be broader than merely the two co-operatives, otherwise only the shareholders of our two companies will carry the risk and the cost burden of rationalising excess capacity.

Our Board and Management are also committed to a strategy of exploring opportunities to make other investments which will contribute to creating sustainable wealth for our shareholders and suppliers. To this end we have invested in the following initiatives:

- Robotics Technologies Limited
- Kotahi Limited
- Farm Brands Limited
- Ovine Automation Limited
- FarmIQ Systems Limited
- Wallace Corporation
- Livestock Logistics Nationwide Limited
- Alpine Origin Merino Limited
- NZ Light Leathers

Finally, it is too easy to attribute blame for the present poor meat sector performance and farm profitability.

Remember, the Red Meat Sector Strategy – which farmers unilaterally endorsed – identified an achievable increase in on-farm growth of \$420 per hectare over the next 12 years – making this a \$14 billion industry instead of a \$6 billion industry, by 2025.

This would be achieved by focusing on three core priorities:

- More efficient and aligned procurement
- Increased industry coordination
- Adopting industry best practice farming systems.

We believe Silver Fern Farms is demonstrating our enthusiasm, and our commitment to make a difference in these core priorities. We are prepared to engage in any evaluation or the development of a business case for cooperation and consolidation of the industry, however we cannot do it alone.

Other companies may have different investment strategies, but it is up to all suppliers and shareholders to question which strategies can generate wealth and deliver that \$14 billion industry.

All suppliers to meat companies, and in particular co-operative shareholders, need to understand the strategies of the companies they supply and make on-going supply commitment to the company that has the best long term value creation strategy.

Farmers have two avenues to influence the future. One by demanding action from companies in whom they own shares and, secondly supporting a company that has a value creation strategy, with their livestock supply.

It is really up to us as farmers.

Yours faithfully

Eoin Garden

Chairman, on behalf of Silver Fern Farms' Board of Directors
eoin@silverfernfarms.co.nz



100% MADE OF NEW ZEALAND