

Clover Restructuring (DFSA)

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The main motivation behind *Project el Plan (DFSA)* is to decisively deal with misconceptions in the market.

- Since Clover's conversion from a co-operative in 2003, and especially since the Group's listing on the JSE in 2010 there have been gross misconceptions and speculation around Clover determining the price of raw milk paid to its producers.
- On the one side, some capital market investors have the mistaken belief that Clover supports its producers ahead of its drive to achieve maximum profits.
- And on the other side, some dairy producers have accused Clover of improving its financial position at the expense of producers at a time when markets are tough.

Executive summary



The new structure will enable DFSA to determine the milk price to producers, as well as the price it sells its milk to the trade, removing any speculation that capital investors could have influenced their view. Both the producer and market prices shall then, unequivocally be driven by market forces in the different market segments. Clover will in turn purchase raw milk from DFSA at the average national milk cost (including milk price, collection-, inter-branch- and handling costs) for all of its other products containing milk (cheese, yoghurt, custard and the like). In this way, DFSA and its producers will still participate in the full value chain of value added products, potentially even more so given DFSA will be able to supply raw milk to other value added processors as well.

Clover will continuously remain greatly involved in dairy, and will provide all essential services to DFSA such as Production, Distribution, Sales, Merchandising, Support Services, and the like. The only difference is that UHT, UP and fresh milk will be sold directly to the trade by DFSA, however still under Clover's iconic brand.

Executive summary



The second motivation behind the new structure is to enable DFSA to enter into new volume growth markets at lower margins which will also benefit Clover, as Clover will get more volumes through its infrastructure.

The third motivation is to position Clover away from low margin/ high volume business in order to attract potential partners, who can bring scale to Clover's operations. (Currently they are nervous about the cyclicity of the commodity side of the business.)

Clover's stated objectives remain unchallenged and will continue to pursue them:

- *To promote and develop value added products in dairy and other related food categories;*
- *To expand its non-alcoholic beverages portfolio; and*
- *To further develop and enhance its key competencies in brand development, production, distribution and merchandising.*

Background



Clover has recently done a strategic review of its product portfolio, and came to the conclusion that non-value added fresh, UHT and UP liquid milk (“drinking milk”) no longer fit its core product portfolio, as the new trend in the milk business model is one of direct owner-producers supplying the trade, as oppose to having an intermediary company like Clover in the middle.

As such, Clover see much more long term benefit for its shareholders to invest in value added product categories. It has thus decided to transfer the supply and demand side of the volume driven business to a new entity and invest its future funds in more profitable businesses which will suit its business model better, and where competitive advantages can be created in the long term interest of the shareholders. Clover will retain all value added dairy products and will remain a substantial service provider to the dairy industry through the new entity as well as other chilled products. It is envisaged that Clover will buy most/all of its milk requirements from a newly to be formed company – Dairy Farmers of South Africa (Pty) Ltd (“DFSA”). All existing Clover producers will therefor still supply all of Clover’s milk requirements, and the CUMPS system will remain intact.

Suggested New Structure



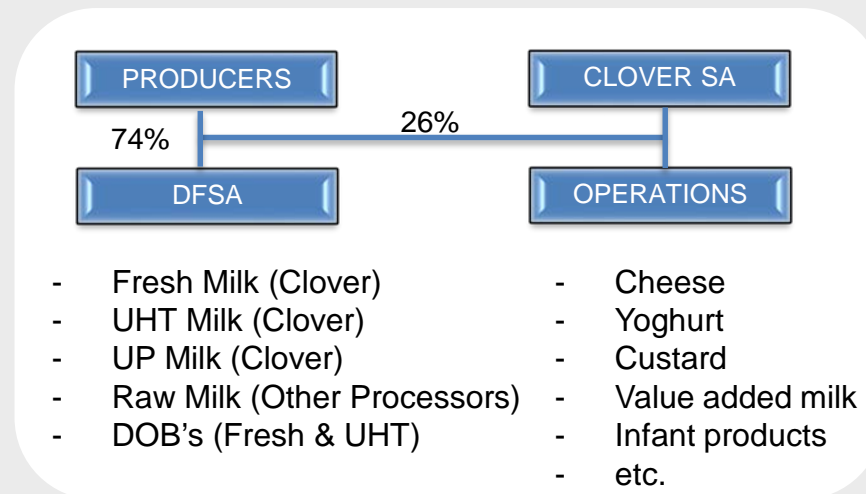
Separate new company (Dairy Farmers of South Africa (Pty) Ltd - "DFSA")

Scope of business:

To source and supply various entities with their milk requirements including (but not limited to) final product to the trade, raw milk to contract packers or value added converters, exports, housebrands, etc. Its scope will be limited to drinking milk (fresh, UHT and UP milk) under the Clover brand, various Dealer own Brands ("DOB's") and the selling of raw milk to Clover and other processors.

Shareholding:

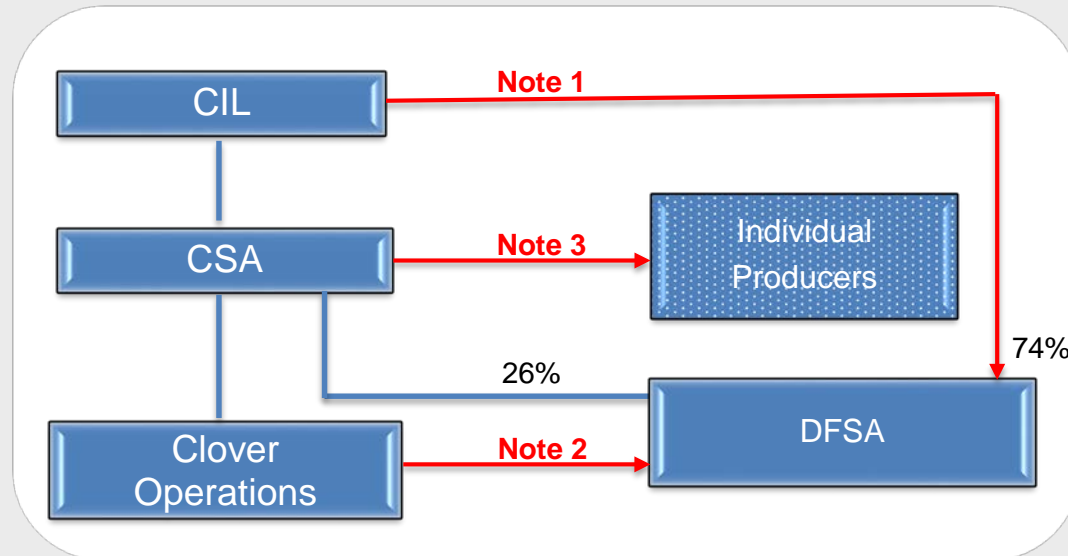
- Individual producers - 74%
- Clover SA – 26%*



* Strategic shareholding (showing commitment)

Potential Structure

Mechanism



Note 1 : CIL transfers delivery agreements/supply contracts to DFSA. DFSA to pay 1% of DFSA milk turnover as royalty after year 1 to CSA. (This royalty will not be recovered from the producers.)*

Note 2 : CSA transfers the fresh milk, UHT and UP milk to DFSA at breakeven.

Note 3 : CSA transfers 74% of the shares in DFSA to individual producers who have been supplying Clover with raw milk over the past 3 years (pro rata) at R1 each.
Any producer who would like to leave Clover will receive only R1 back.
Any future benefits in DFSA will be paid to the producers by DFSA pro rata to their individual milk supply (“agterskot”).

*The turnover royalty will only be on products sold under the Clover Trademarks.

Assets to be transferred to DFSA



- All delivery agreements/ supply agreements (CUMPS system)
- All customer agreements relating to drinking milk (Fresh, UHT and UP milk) and milk collection agreements (i.e. tanker services)
- Milk procurement employees
- Key accounts and certain sales employees relating to drinking milk (Fresh, UHT and UP milk)

Objective of new Structure



The objective to establish DFSA is so that Clover producers can collectively amass and supply Clover, and various other users of dairy, with quality raw milk. DFSA will still supply all of Clover's milk requirements, but in the future will also be able to supply other (value added) users of quality raw milk. It is also not excluded that DFSA could invite other milk producers to join DFSA. It is important to note that the CUMPS system (Delivery Agreements, Supply Agreements, milk price formulation, etc.) will remain as it is today.

Operational structure between DFSA and Clover



DFSA operations

- ❖ Procurement of milk
- ❖ Collection of milk
- ❖ Managing the CUMPS model
- ❖ Exports
- ❖ New markets
- ❖ DOB packer
- ❖ Supply milk to Clover for cheese, yoghurt and other value added products (average national milk price*) - Clover to guarantee intake of c 270 million litres
- ❖ Supply of milk to other dairy processors
- ❖ Trade negotiations
- ❖ Key accounts
- ❖ Africa (Clover will maintain its operations in the BLNS countries and Mozambique and competes with DFSA in the rest of Africa)

*Average national milk price – milk cost, collection, inter-branch, handling costs

Operational structure between DFSA and Clover



Clover Services (to DSFA)

- ❖ Production services (Fresh, UHT and UP Milk) (minimum 20 year contract) plus option to renew for further 5 years
- ❖ Distribution services Primary and Secondary (minimum 20 year contract) plus option to renew for further 5 years
- ❖ Invoicing, debt collection, marketing (minimum 20 year contract) plus option to renew for further 5 years
- ❖ IT services, HR (i.e. payroll administration), Finance, Legal, Head office lease and Marketing – central services (minimum 20 year contract) plus option to renew for further 5 years
- ❖ Sales and Merchandising (20 year contract) plus option to renew for further 5 years
- ❖ Provide working capital
- ❖ Substantial discounts on additional volumes by Clover to DFSA

Overall benefit of a dual structure



Producers, through DFSA, deal with what they know best (farming, pricing, supply/demand, etc.) and Clover does what it does best – producing quality products and providing excellent distribution, marketing, sales and merchandising services. DFSA will be volume driven and Clover will concentrate on value added products. DFSA will become Clover’s biggest principal.

License Agreements



Clover and DFSA to enter into an exclusive license agreement to enable DFSA to use the Clover brand for all drinking milk (Fresh milk, UP milk and UHT milk). Clover would charge a royalty for this use which would be a contribution towards continuous development of the Clover master brand.

Clover Benefits/Negatives



Benefits

- Value added products only
- No perceived price conflict to determine milk price
- It retains all services of DFSA
- Increase in profit margins in future with new investments

Negatives

- Reduced turnover (drinking milk's turnover transferred to DFSA)
- No upside on any potential international dairy recovery (all for the benefit of producers)
- Milk price neutral on value added products

Producers Benefits/Negatives



Benefits to producers

- Immediate access to Clover brand*
- Volume control
- No heavy distribution infrastructure
- No heavy production infrastructure
- DOB access (without brand conflict)
- Increase in route profitability
- New markets potential

Negatives for producers

- Future capital expenditure (production only)
- Volume driven business

*Main difference between DFSA and other producer owned business who have no brand, or existing business



Vision:

To be the supplier of choice of superior quality raw milk in Southern Africa, to responsible milk and other dairy related processors at competitive and sustainable milk prices and to provide customers and consumers with quality fresh milk, Ultra-high Temperature milk and Ultra Pasteurised milk.

Mission:

DFSA is focused on purchasing, collecting and distributing raw milk to various dairy processors in a reliable and responsible manner, caring for the welfare of its members, the environment and promotion of healthy agriculture across Southern Africa, simultaneously providing selected quality dairy products to customers and consumers.



DFSA stand for:

- Trusted goodness of dairy
- Quality and trusted milk for world class products
- Care about South African milk producers
- Promotion of sound, sustainable agricultural practices
- Togetherness amongst fellow milk producers
- Upliftment of local communities
- Passion for dairy farming
- Integrity in all business dealings

DFSA's values:

- Quality
- Integrity
- Trust
- Care
- Fellowship
- Passion
- Celebration of achievements
- Blessings are not taken for granted

Proposed Board of Directors*



- Independent Chairman – Manie Roode
- Chief Executive Officer - Jacques Botha
- Commercial Director - Frikkie Booysen
- Milk Procurement Director - Tobie de Villiers
- 3 producer directors (**Vacant**)
- 2 Clover representatives



In Conclusion

- The new structure will address misconceptions both in the market and amongst producers
- Producers will not be worse off, save for a royalty investment which will allow it to use all of the Clover brands
- It will allow both parties to concentrate on what they do best
- A close and interdependent relationship between DFSA and Clover will continue
- Producers associated with DFSA will not have to invest any capital, with full access to the Clover infrastructure, backed up by a strong management team, and access to strong brands.

“If asked, producers can still say they provide quality milk to Clover, through its umbrella body – DFSA” - Johann Vorster.

THANK YOU