DEVELOPING AND IMPLEMENTING STRATEGY
EXAMPLE – DAIRY HOLDINGS LTD
Armer and Glass

Presentation to
2007 South Island Dairy Event

“Developing and Implementing Strategy example – Dairy Holdings Ltd”

INTRODUCTION

• Overview of Dairy Holdings Ltd
  ➢ New Zealand Operations
  ➢ Tasmanian Operations

• Developing Strategy
  ➢ The Board
  ➢ Guiding Principles
  ➢ Challenges and Strategies Adopted

• Implementing Strategy
  ➢ Management Team
  ➢ The Process
  ➢ Examples

• Upcoming Challenges
• Summary
HISTORY

Dairy Holdings Ltd

- Commenced in September 2000 by Allan Hubbard and Alan Pye following initial purchase of six farms.
- Purchased farms largely from corporates TassAg and Dairy Brands.
- Alan Pye subsequently bought conversion blocks at Te Pintia and Oxford.
- Colin and Dale Armer were invited to join in December 2000 and Dairy Holdings was born.
- In the first season, 2001/02, 39 dairy farms, 1 grazing block, 7,95m kg MS, payout $5.80/kg MS.
- 2002/03 payout dropped to $3.63/kg MS. Colin Armer lead a return to basics, systems were put in place and rapid improvements were achieved.
- Business based on achieving top performance with repeatable and simple systems and capital growth.

HISTORY (continued)

- 2002/03
  - Started 4 remaining Dairy Brand’s farms
  - 2 Oxford farms converted & commenced production

- 2003/04
  - Third Lynton farm converted & commenced production
  - Lynton irrigation application declined by ECan

- 2004/05
  - Lynton irrigation application granted by Environment Court, 23rd August 2005
  - Colin Armer purchased 3 farms in West Otago/Northern Southland
    - 1 conversion in Central Canterbury (former grazing block)
    - Glenroy Irrigation application granted 1st August 2005
    - 400 hectares of ex trees purchased in Central Canterbury

Notes:
HISTORY (continued)

- 2005/06
  - 2 conversions completed in Central Canterbury on ex-tree land and
    at Te Piroa
  - 1 conversion in West Otago
  - Purchase of 6 farms and 6,000 cows at Springs Junction/Murchison by
    Allan Hubbard and Colin Amher
  - Irrigation development on 2 large scale special purpose header units
    completed in Mid-Canterbury

- 2006/07
  - Purchase of 3 grazing blocks
  - Clearance of 200 hectares of trees to pasture
  - Conversion of: - 1 farm in Central Canterbury
    - 1 farm in Northern Southland
  - Purchase of 3 farms in Central Canterbury
  - Commissioning of the Glenroy Irrigation Scheme.

- By June 2007 we have purchased and developed 67 dairy units, operate 10 grazing blocks
  and own livestock on 67% of these farms. In addition, we control or are Shareholders in
  the majority of the irrigation intakes on the north bank of the Rakai River. The business
  has doubled in size since 2001/02.

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DAIRY HOLDINGS LTD OVERVIEW
(New Zealand Operations)
Budget Production 2006/2007

<table>
<thead>
<tr>
<th>South Island</th>
<th>No. of Farms</th>
<th>Area</th>
<th>Milking Cows</th>
<th>Production (Kg M's '000)</th>
<th>Kg MS/ Ha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grazing Blocks</td>
<td>8</td>
<td>3,217</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Managed Farms</td>
<td>28</td>
<td>6,870</td>
<td>22,557</td>
<td>7,074</td>
<td>1,030</td>
</tr>
<tr>
<td>Lower Order</td>
<td>7</td>
<td>2,026</td>
<td>6,660</td>
<td>2,159</td>
<td>1,066</td>
</tr>
<tr>
<td>50:50</td>
<td>18</td>
<td>4,007</td>
<td>14,425</td>
<td>5,086</td>
<td>1,269</td>
</tr>
<tr>
<td>Total</td>
<td>61</td>
<td>16,120</td>
<td>43,672</td>
<td>14,319</td>
<td>1,110</td>
</tr>
</tbody>
</table>
HISTORY

Tasman Farms Ltd

- TasAg purchased 87.5% stake in VDL in 1993.
- Operated 75 farms in NZ at peak, all under 50/50 sharemilkers.
- Core business was developing sheep and beef farms to dairy.
- Owned 69% by BIL.
- In 2000 resolved to sell down NZ farms to bridge gap between share price and farm values.

HISTORY (Continued)

- NZ Share market discounted share price by up to 40% on NTA:
  - minority interests
  - no recognition of capital growth
- In June 2001 DHL (41.5%) and Southern Capital (21.75%) bought BIL stake in TasAg.
- Sold all New Zealand farms.
- In October 2001, TasAg placed in voluntary liquidation and shares in Tasman Farms issued to all shareholders representing ownership of VDL operation.

OVERVIEW OF TASMANIA – VDL Dairy Operations

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>Actual</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
</tr>
<tr>
<td>Number of Farms</td>
<td>23</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>Effective Ha</td>
<td>5,937</td>
<td>5,965</td>
<td>5,956</td>
</tr>
<tr>
<td>No. of Cows</td>
<td>15,628</td>
<td>15,808</td>
<td>16,289</td>
</tr>
<tr>
<td>Kg MS</td>
<td>3.37M</td>
<td>3.77M</td>
<td>3.94M</td>
</tr>
<tr>
<td>Kg MS per Effective Ha</td>
<td>570</td>
<td>630</td>
<td>662</td>
</tr>
</tbody>
</table>

Production solely from pasture
## OVERVIEW OF TASMANIA - VDL

**Woolnorth Non-Dairy Operations**

<table>
<thead>
<tr>
<th>Land Area</th>
<th>Description</th>
<th>Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,964 ha</td>
<td>Grazing Block</td>
<td>4,500 dairy replacements</td>
</tr>
<tr>
<td>3,502 ha</td>
<td>Northern Block</td>
<td>1,000 carry-over cows</td>
</tr>
<tr>
<td>5,466 ha (Hectares)</td>
<td></td>
<td>5,300 dairy bull calves</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5,100 dairy bulls</td>
</tr>
<tr>
<td></td>
<td></td>
<td>300 trading cattle</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,200 beef cows</td>
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</table>
DEVELOPING STRATEGY

The Board

- Formed following the crystallisation of an opportunity
- Governance Role and Culture must be clearly defined
- Small with complimentary skills and limited overlap of skills
- All members must excel in their own fields.

Notes:
DEVELOPING STRATEGY

The Dairy Holdings Ltd Board

- One dairy farmer/entrepreneur
- One professional – accountant/financier/entrepreneur
- One farmer – cropping farmer/opportunist/entrepreneur
All have encountered challenges and are extremely driven.
- Very open informal communication
  - amongst Board members
  - with General Manager/CEO
- All significant purchases have been progressed by Management and the full Board together.
- Other Management matters are fully delegated
Very quick decision making.

DEVELOPING STRATEGY

Guiding Principles

1. The business must be profitable and sustainable.
2. The strategy must be in the best interests of the Shareholders, staff and the community.
3. Consistency, honesty and integrity at all times. Always tell it like it is.
4. Mutually beneficial to our business partners, suppliers and people. Win: Win not Win: Lose
5. Good corporate citizens
6. Take long term view, not short term view.
7. Investment in land has always prevailed over time providing we survive the liquidity squeezes.

We can’t do it by ourselves, we need to be an integral part of the community – not a threat.

DEVELOPING STRATEGY

The Challenges

1. 2002/03 – Payout $3.63 after $5.30 kg MS. Business heavily geared and costs had increased.
   Strategy → Return to basics of pastoral systems with a re-focus on winter/spring grazing management.

2. Sharemilk Challenge – Variable performance and inconsistent business drive was putting DHL businesses at risk
   Strategy → Lift performance of 50/50 farms by also operating managed and lower order farms, & 50/50 share milk smaller farms.

3. Water Problem – Lynnton Farm
   - Property bought in 2001. Granted one year irrigation consents and no certainty of renewal.
   Strategy → Undertake review of all irrigation consents, water reliability, and understand RMA processes to fully irrigate all farms.
DEVELOPING STRATEGY

The Challenges (continued)

4. **Staff Challenge** – Dramatic growth of dairying in South Island and looming staff shortages.
   *Strategy*: Develop a career progression structure that enables our people to build equity and grow within the industry. Then celebrate their success. Recognising that many of our top performers are happy to remain in their current positions.

5. **Energy Costs** – In 2005/6 energy costs spiked. Energy costs have been increasing due to higher summer demand and limited reinvestment in electricity generation.
   *Strategy*: Use surface water and storage in preference to groundwater and enter into agreements to achieve this.

6. **Staff Performance** – with changing employment law, increased leave and Generation Y. It is becoming difficult to maintain farm performance.
   *Strategy*: Become an “Employer of Choice” and openly discuss and expect top performance.

IMPLEMENTING STRATEGY

Management Team

- The right people, culture and maintaining their involvement in the vision is the key.
- The team:
  - 2 Farm Operations Managers (Graeme and Gary) – extensive hands on experience over more than 20 years each.
  - 5 Farm Supervisors (John, Kieran, Tina, Bryson and John) - all “hands on” and have sound understanding of science and financial performance.
  - Financial Controller
  - General Manager
- Farm Operations Managers – oversee about 13 farms each (about 1/2 are 50/50)
- Farm Supervisors – oversee about 6-8 farms each (about 1/4 managed)
  - typically operate one farm themselves.

Notes:
IMPLEMENTING STRATEGY

The Process

1. Ensure full “Buy In” towards the strategy with Management Team.
2. Obtain all information available from experts.
3. Develop a vision (policy) that aligns with the wider community view.
4. Always be consistent, honest and fair with all operators. Acknowledge that everyone wants to succeed at various levels.
5. Develop KPIs to measure effectiveness of the strategy – simple, not too many.
6. Benchmark KPIs - celebrate success - support low performers but maintain pressure to improve.

IMPLEMENTING STRATEGY

Dairy Holdings Examples

1. Return to Basic Pastoral Systems.
   - Utilised experience and expertise of Colin Armbruster, and continue to do so.
   - Dexcel experts presented at DHL Conference.
   - Supervisors and key staff visited North Island research farms and high performing properties.
   - Focus principally on the Spring Rotation Planner and Increased wintering on.
   - Set aggressive limits on bought-in feed, winter grazing and encouraged nitrogen use in farm budgets.
   - 10-day production reporting – milk graphs and compare similar farms.
   - Monthly financial reporting of EBIT – per hectare and per kg MS.
   - Discussed performance of LUDF and pushed for similar changes.
   - Set up DHL Discussion Groups.
   - Actively promote LUDF and encourage supervisors and all staff to attend Focus Days.

IMPLEMENTING STRATEGY

Dairy Holdings Examples (continued)

   - Leveraged off knowledge gained from Lynton Groundwater application.
   - Lobbyed Orion Lines Company to adopt pricing used by Electricity
   - Ashburton and made submissions to the Electricity Commission.
   - Became closely involved with other surface water users:
     - Existing irrigators
     - Central Plains Water Ltd (CPWL)
     - Bankhill/Derby
     - Ashburton Community Water Trust (ACWT)
   - Actively promote water storage for Canterbury and a review of the NWCO to take water above the Gorge Bridge.
   - Reached agreement with CPWL & ACWT for Glenroy Irrigation Scheme.
   - Benchmark irrigation kW’s per hectare and aim to reduce.
   - Working with energy providers to better manage irrigation systems.
UPCOMING CHALLENGES

- Refining Replacement Heifer Systems and weight gain targets for heifer grazing blocks. Returning 7,000 heifers pa.
- Nitrogen Management
- Genetic Improvement of the Dairy Herd while still growing rapidly
- Dairy Shed Effluent Discharges
- Environmental Emissions and perceptions within the community
- Staffing is an ongoing challenge

SUMMARY

- Board and Management have clear Roles
- Total buy-in of Strategy
- We continue to learn, and refine our strategies and how we implement them
- The Ultimate Measure of Success:
  - Dairy Holdings Ltd being regarded as an example of best practice within the Industry.