

ZESPRI

5 Year Outlook



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2025

DECEMBER 2020

Introduction

A. INTRODUCTION



Purpose of this communication

This Outlook provides a summary of Zespri's rolling Five Year Plan, which is updated and reviewed by the Zespri Board annually, with this edition covering the period from 2020/21 to 2025/26. While it is written predominantly for Zespri's New Zealand grower audience, it also contains relevant information for our shareholders, non-New Zealand growers and broader industry stakeholders.

The publication provides a snapshot of how Zespri's medium-term strategy will be implemented by category and sets out the challenges and opportunities ahead. It relies on several assumptions and as expected, the further out we look, the less certain we become of these assumptions, with the plan becoming more directional. Our intent is to provide information for stakeholders to inform their business decisions, whether that is investing, divesting or changing their variety mix.

Growers will be aware that Zespri is in the process of building commercial volumes of its red kiwifruit variety – Zespri Red – following its commercialisation in December 2019. In 2020, 150 hectares were licensed with a further 350 hectares planned for 2021 and 500 hectares planned for release in 2022 and 2023 (subject to annual review) to help reach production of 15 million trays by 2030.

Key points from this Outlook

Zespri's mission is to create sustainable long-term value for kiwifruit-growers by offering consumers the world's leading portfolio of branded kiwifruit for all 12 months of the year. Our strategy is based on delighting our customers,

optimising our performance, making sure we're better tomorrow, and thriving together.

This Outlook remains similar to last year. However, this largely positive view of the future does factor in the risk posed by both the global impact of COVID-19 and the ongoing spread of unauthorised G3 in China. More information on these risks can be found on page 5.

A key difference to last year's Outlook document is in the comparability of return breakdowns, which has been impacted by the fact no taste payments were made in 2020/21. Growers will be aware that Zespri is implementing revised taste settings for the Taste Zespri programme for 2021. While refinements have been made to improve the harvest flow for G3, it is important to note that the Taste Programme will remain a key driver of grower incomes into the future as well as continuing to be a minimum standard to clear for harvest.

Zespri's overarching strategy is essentially unchanged, with resources focused on addressing the opportunities and risks that sit within the five-year horizon. These are outlined in the Opportunities and Risk section of this Outlook.

What hasn't changed are the following general points:

- We are in a period of strong demand creation and several factors underpin our confidence. Zespri has developed good quality demand through market development, brand and category growth – underpinned by high quality Green, the popularity of SunGold Kiwifruit, and strong sales and marketing. A focus on taste and quality, accompanied by a meaningful and recognisable brand, helps to place us ahead of the competition.

- SunGold Kiwifruit continues to find growing consumer demand and this is reflected in strong distributor and retailer support.
- SunGold Kiwifruit will drive future volume and revenue growth, again surpassing Green in its share of the total Zespri portfolio in 2020.
- Another feature is that the share of volume from existing Northern Hemisphere supply locations is anticipated to increase to around 15 percent of total supply in the next 5 years, compared to around 13 percent today.
- A balanced portfolio will remain important, with demand for Organic a significant opportunity.
- Meeting demand requires investment and innovation by Zespri, growers, post-harvest operators, customers and partners across the supply and distribution base. The implications of such significant growth in supply places expectations right across the industry.
- Supply costs are forecast to continue to increase for all varieties across all aspects of growing, harvesting packing and cool-chain. A large part of this is driven by increases in wage rates and the need for strong investment in post-harvest in New Zealand to build extra capacity for packing and storage. The effect of this general inflation in on-orchard inputs and the flagged increase of the minimum wage to \$20 per hour from 1 April 2021 and the introduction of a government-mandated higher wage of \$22.10 for RSE workers, will need to be considered in grower and supply chain cost structures.



Overview of demand and supply

- This Five Year Outlook sees an increase in total global Class 1 supply from 176 million trays in 2020/21 to 238 million trays in 2025/26. This is equivalent to 35 percent volume growth and includes the estimated commercial volumes of Zespri Red production established by 2025.
- Across the same period we are forecasting per tray Orchard Gate Return ranges of:

• Green:	\$6.50 to \$8.50
<small>(depending on declining volumes)</small>	
• SunGold Kiwifruit:	\$8.50 to \$12.50
• Organic Green:	\$9.50 to \$11.50
• Organic SunGold Kiwifruit:	\$10.00 to \$14.00
• Zespri Red:	\$10.50 to \$13.00
- Of the 2025/26 total volume of Class 1 supply, our plan forecasts New Zealand supply of nearly 202 million trays and non-New Zealand supply of around 36 million trays.
- New Zealand supply of Class 1 conventional SunGold Kiwifruit increases from 84 million trays in 2020/21 to 128 million trays in 2025/26. This growth is being driven by the ongoing programme of licence release as signalled out to 2022 and does not include the indicated potential for licence release beyond 2022.
- Zespri remains committed to releasing conventional SunGold Kiwifruit hectares out to 2022 and our current

demand forecast supports releases of up to 700 hectares per year. This is to meet the year-on-year constrained target demand growth volume of 8 to 10 million trays per annum. It is important to note the programme is subject to an annual review that considers any potential new risks. This would include both demand-side and supply-side factors.

- Zespri has also indicated there is currently sufficient forecast demand beyond 2022 for Zespri to continue to release licence. The release is subject to the normal annual review process and will be confirmed by the Zespri Board closer to 2022.
- The five-year plan forecasts strong growth in New Zealand supply of Class 1 Organic SunGold Kiwifruit from around 1.5 million trays supplied in 2020/21 to almost 4 million trays supplied in 2025/26. This growth is being driven by the licence release programme for organic greenfield developments. Zespri intends to continue releasing Organic SunGold Kiwifruit licence for greenfield developments out to 2022, subject to annual review, and our current demand forecast supports release of up to 50 hectares per year. Organic SunGold Kiwifruit became a separate pool in 2020/21, meaning it now earns its own market return.
- Should the SunGold Kiwifruit licence release continue as planned to 2022, there will be 9,650 hectares of both SunGold Kiwifruit and Organic SunGold Kiwifruit

planted in New Zealand by 2023/24. When fully mature by around 2026, this will deliver around 140 million trays at current yield estimates. Zespri also currently has 3,870 hectares in the ground in our offshore growing locations, with hectares in the ground dependent on meeting quality and storage goals and market demand for 12-month supply.

- New Zealand supply of Class 1 conventional Green is forecast to reduce from around 67 million trays in 2020/21 to around 59 million trays in 2025/26 through conversion to other varieties and removal of orchards, which should result in increased per-tray value for the category.
- On the supply side, our strategy is about maximising quality to markets through a lean and efficient supply chain which effectively passes market signals back to growers and partners across our supply base. On the demand side our strategy is about optimising product choices and service levels for our retail and distribution customers. This is delivered through a robust, sustainable, supply chain that reliably delivers safe, healthy, traceable, high quality, branded kiwifruit, supported by world-class sales and marketing that meets our consumer needs and is underpinned by a very focused market development framework and strategy.



Industry Context

B. INDUSTRY CONTEXT



Opportunities

The macro-level trends for the next five years remain consistent with those we have previously reported. There are several positive factors in terms of consumer, shopper and consumption trends that support the marketing of a premium, healthy product, including:

- **Ageing Population:** The number of people over 60 is expected to double by 2050, surpassing adolescents and youth aged 10-24. This is an opportunity for Zespri because in most markets as people age, they spend and consume more fruit, as seen in Japan.
- **Discounters and E-commerce are fast growing channels,** with discounters fast growing off a bigger base. Determining the success model to win in these fast-growing channels is paramount for winning in the retail landscape.
- **In-home snacking is a major increasing trend.** Fruit is the most consumed product at snacking occasions, especially as a mid-morning snack. This is an opportunity for Zespri as a healthy snack in-line with consumers' increased health focus and healthy eating drive due to concern over rising health issues such as diabetes, obesity etc.

- **New age consumers born into the online generation.** Demand for convenience in both product (fresh cut or other processed format vs whole fresh fruit) and service (i.e. online shopping) is continuing to increase in pace.
- **Increase in consumers attention to sustainability,** especially related to plastics and climate change. For example, in Europe, plastics issues are starting to impact business with an increasing number of customers refusing plastic packaging in-store, driven also by increasing regulatory change. More regulation is also emerging in China and in the North American markets, and consumers are increasingly looking beyond the products and into how they have been produced, including looking at how workers are cared for.

Within this positive context, Zespri has identified a number of areas to drive demand over the next five years, uplifting value and offsetting risks:

- **A globally-consistent brand identity** becoming the anchor for building a meaningful and different brand unlocking fewer, bigger marketing campaigns, delivering synergy and marketing efficiencies while uplifting brand value through a well-defined, consistent emotional foothold of Zespri in consumers' minds. This

has included the launch of Zespri's refreshed brand in 2020 and sustainability commitments which are more closely anchored to Zespri's purpose of helping people, communities and the environment thrive through the goodness of kiwifruit.

- **Digital marketing transformation** enabling Zespri with a well-defined digital investment model bringing us closer to the consumers at their different life-stages and needs.
- **Value-adding packaging formats** enabling markets with relevant Price Pack Architecture (PPA) for different customer and consumer needs (i.e. premium packs, value packs, gift packs etc) allowing better targeting, and placements in-store, increasing conversion and uplifting value. Immediate off the shelf solutions are a work in progress to meet consumers' rising sustainability needs, particularly in critical markets where the need is higher.
- **A Ready To Eat (RTE) initiative** with select customers, with learnings from RTE experienced markets such as Japan.
- **Sales excellence and capability build** being developed and implemented through the operating model workstreams to improve joint business planning, distributor management and in-store execution.



Challenges and Risks

While our future is positive, growers should consider the risks of growing and exporting kiwifruit from New Zealand within this context of both risk and opportunity and configure their businesses accordingly.

Some factors growers and investors should be aware of include:

- **COVID-19 and other global economic risks:** The long-term impact of the pandemic remains unknown, having initially triggered the worst global recession since the Great Depression and global GDP contracting 4.9%. The extent of the impact is uncertain and the recovery is expected to be slow.
- **Unauthorised G3 in China:** The impact of unauthorised G3 plantings in China and the risk of further growth remains one of our biggest risks, particularly if the fruit enters Zespri's sales channels as counterfeit product, or comes into direct competition with New Zealand and Non-New Zealand-grown fruit through the development of local competitor brands. With Chinese G3 available from early October, there is a risk that the shoulder season could become congested causing a negative effect on market pricing if the local G3 is of a comparable quality to Zespri fruit. Zespri is committed to dealing with the unauthorised G3 plantings and while enforcement is challenging and complex, we are developing a multi-faceted approach involving legal, political and potentially commercial channels. In the commercial space, the Zespri Board has approved a

limited procurement trial involving the sourcing of up to 200,000 trays of Chinese G3 in the 2021 season, as a first step in considering the effectiveness of commercial solution to this issue. The evolution of a win:win strategy which allows Zespri to build access and influence is potentially the most pragmatic way to mitigate the risk to the New Zealand industry. Zespri is continuing to work through the regulatory process around this trial with Kiwifruit New Zealand.

- **Biosecurity:** The broad spectrum of pests and disease that can affect crop quality, volume and market access. For example, the high risk and potential consequence of Brown Marmorated Stink Bug have made it a priority for biosecurity readiness activities for both the industry biosecurity organisation, Kiwifruit Vine Health (KVH), and the Ministry for Primary Industries, and the industry remains alert to potential fruit fly incursions.
- **Loss of market access:** While Zespri is working hard to broaden our market base, the loss of any major market during a season could result in an over-supply of fruit relative to demand. Market access can be impacted by several factors, either indirect or direct. For example, phytosanitary, regulatory, food safety, public health issues such as pandemics, biosecurity, compliance changes and broader global trade relations and geopolitics. Zespri is working to mitigate this risk by maintaining a broad demand base and faster development of large volume markets, close monitoring

of our environment, strong government relations and adherence to robust supply protocols. This is combined with a good risk management framework and risk mitigation strategies for various scenarios.

• **Brand reputation, growing conditions and sustainability:** For example, addressing consumer concerns around plastics, non-compostable and non-recyclable material in our packaging as well as addressing the environmental challenges we contribute to and are affected by, such as water quality and climate change. We have developed our industry sustainability framework and set a number of targets to support each of our priorities. They cover the following five areas:

1. Our packaging will be 100 per cent recyclable, reusable or compostable by 2025.
2. By 2025 our industry will more effectively monitor nutrient inputs and losses as well as our impact on water, protecting and enhancing water quality.
3. We will become carbon positive by 2035.
4. We will be an industry where people want to work because they know it's a great place to work.
5. And we will do even more to help people lead healthier lives.



- Climate change:** Climate change is impacting how kiwifruit are grown as well as supply chains and consumer expectations around the world. It is likely we will experience a higher frequency of warm winters and more weather variability and extremes over the coming years which could affect growing conditions. In addition, there is increasing environmental regulation and rising consumer expectations in relation to taking action on climate change. Zespri's industry sustainability framework includes climate change as one of its key priorities. Our Kiwifruit Industry Sustainability Position Statement¹ sets out how we govern sustainability and climate change, while we have also published our Zespri and industry carbon footprint in our Annual Report 2020. A work programme is currently being developed to enable the industry to reach our commitments and respond to climate risks.
- Product reviews:** Any reviews of products used by the industry such as the New Zealand Environmental Protection Authority's current review of the use of budbreak enhancer Hydrogen Cyanamide.
- Increasing competition:** As competitors try to leverage the category demand and value space created by Zespri. The competitive environment continues to become more challenging and includes more volume of competitor red and yellow varieties, especially during the Northern Hemisphere supply window. More branded kiwifruit products are being seen in the market. We are continuing to monitor change in this space.
- Supply deficiencies in volume and quality:** Deficiencies can enable competitors to fill the gaps resulting from Zespri's strong demand creation driven by consumer pull.
- Speed of business capability development:** Through people, process and systems to support the growth required. Continued investment will be required to support the plan.
- Increasing on-orchard costs:** Through inflationary pressure, flagged legislative changes to the minimum wage, other compliance costs and costs of servicing debt.
- Global economic risks:** Such as increasing global debt levels and market and debt bubbles in some countries, raising the risks of economic volatility and financial crises.
- Labour:** As kiwifruit production increases, so will the demand for seasonal labour to pick, pack and prune. While there are ongoing discussions with government to source required labour, especially in light of the challenges associated with COVID-19, as well as the consideration of potential long-term solutions around automation and the use of offshore resources, in the short-term New Zealand Kiwifruit Growers Inc, the grower advocacy body, is focused on attracting workers to the industry through a combination of public relations and improving worker welfare. Enough labour in terms of numbers and experience will be critical to maintain the industry's pace of growth. Pay rates will also be critical.
- Non-compliance:** Consumers, regulators and communities are increasingly concerned about compliance issues and brands being seen to be good members of their communities, resulting in a higher level of scrutiny on industries like ours. Any issues like worker exploitation or poor spray management have the ability to attract negative attention, impact on our reputation, our social licence and our ability to operate without greater regulatory constraints, and to attract the value enabled by being a premium brand. Zespri will continue to work with the industry to enforce our standards and take action against anybody failing to comply so that we can protect the value we have created together as an industry.
- Exchange rates:** Industry returns have benefitted in recent years from favourable currency rates, supported by Zespri's hedging policy. However, growers should be aware that there is potential for negative impact due to exchange rate movements in future years.



¹ https://assets.ctfassets.net/b7rvvweqeqmn/513ZIAIqeuYyZdWA0lvjW/188f7c49ab4482b532ceec592e0083a1/Zespri_Sustainability_Positioning_Statement_FINAL.pdf

Category Updates



GREEN (HAYWARD)

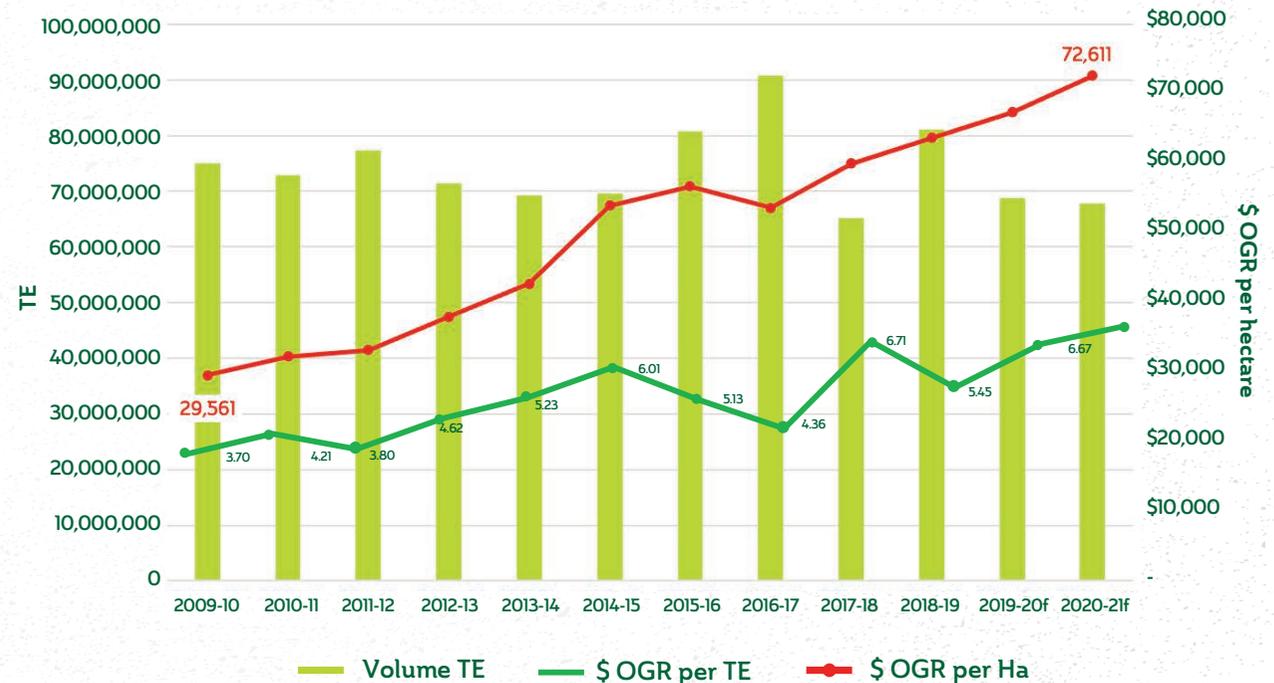
Situation and challenges

There is continued demand for Class 1 conventional Green, although large year-on-year fluctuations in supply do challenge the ability to hold and build sustainable value in the category in the long-term. As volumes decline, we expect Orchard Gate Returns of \$6.50 - \$8.50 TE achieving up to \$86,000 at the per hectare level, subject to average yields.

As well as a stabilisation in volumes, to be able to build demand ahead of supply, other key drivers for maintaining and building the value of Green are: maintaining our competitive advantage through delivering better quality, bigger size and higher taste fruit than our competition; continuing to work with customers to understand how providing ready-to-eat fruit can drive Green run rates; and, maintaining our focus on developing sales channels and marketing the health benefits of this fantastically healthy product.

We continue to build our understanding of the extent to which consumers substitute Gold for Green. Currently the data suggests there is a relatively small substitution effect depending on the price differential. It appears Gold takes more market share from other fruits than from Green kiwifruit. There is demand for Green and sufficient Green is required to maintain a balanced portfolio for our customers and maintain a balanced portfolio for our customers as well as our category leadership. Most of the competitive kiwifruit grown outside of New Zealand is still Green and for the most part of an inferior quality and sold at a cheaper price point. This creates challenges in attracting new consumers to Zespri's premium Green.

GREEN VOLUME VS RETURNS



On the supply side, Green has seen high volume volatility over recent seasons as illustrated in the chart above.

However, we forecast that supply of Green will decline particularly over the later years of the next five years due to grafting to new varieties and others making the decision to pull out of Green altogether, whether for economic reasons or alternate land use drivers.

This can be expected to have the effect of reducing Green hectares and supporting Green per-tray and per-hectare returns.



Marketing and market development

Optimising the taste and size attributes of the product remain the most important aspects of differentiating Zespri Green from competitor Greens around the world and maintaining our price positioning. Zespri will also continue to invest and focus on providing customers and consumers with ready-to-retail and ready-to-eat kiwifruit.

Building strong demand requires several elements:

- Investing in market and sales channel development to build a broadened distribution base
- Optimising product quality, taste and availability for early and late supply
- Strengthening retail relationships, creating awareness of Zespri's quality attributes
- Investing in brand marketing to create consumer demand for our premium proposition
- Focusing strongly on health communication to recruit more regular eaters of kiwifruit to the category, particularly around the digestive health properties of Green Kiwifruit
- Offering 12-month supply to customers to maintain Zespri's position.

In terms of market allocations, Europe will continue to take the largest share of Green through the next five years. However, as volumes decline, higher returning markets are anticipated to make up a higher proportion of the demand.

In the long-term, Zespri is focused on deepening penetration into the value chain and enhancing retail relationships.

Points ahead

Hayward continues to be the dominant Green cultivar globally, although we are aware of new Greens with stronger consumer attributes, but not necessarily strong performance right across the value chain. We expect that in the longer term someone may be successful in breeding a better Green that will take significant market share from Hayward should they be able to get the necessary consumer, storage and yield characteristics optimised.

From a Zespri perspective, our high-level approach is to:

1. Work systematically to optimise the quality of Hayward Green kiwifruit and to grow demand for Zespri Green 12 months of the year.
2. To continue the long-term work of breeding and commercialising a new Green that will unlock further growth in the Green category.

Through this planning window we aim to maintain average per hectare returns of up to \$86,000, subject to seasonal factors. We note that very low yield years, of less than 9,000 trays per hectare and other risks noted in this document, would challenge this outlook.

Zespri Global Supply view

Northern Hemisphere Green volumes are procured under a trading model therefore available volumes and price are highly dependent of the fluctuations in supply in any given season.

While in the past we have sourced Hayward primarily from Italy, we are now sourcing an increasing amount of fruit from Greece. This is helping offset the steady decline in Italian-sourced Hayward which has decreased almost 26 percent over the past three years to around 247,000 tonnes due to the impact of pest and disease.

As well as working with Italian growers on tackling pest and disease issues, Zespri has been working closely with Greek suppliers to fill this gap, with fruit quality improving significantly. We look forward to these Greek volumes increasing further in the coming years.

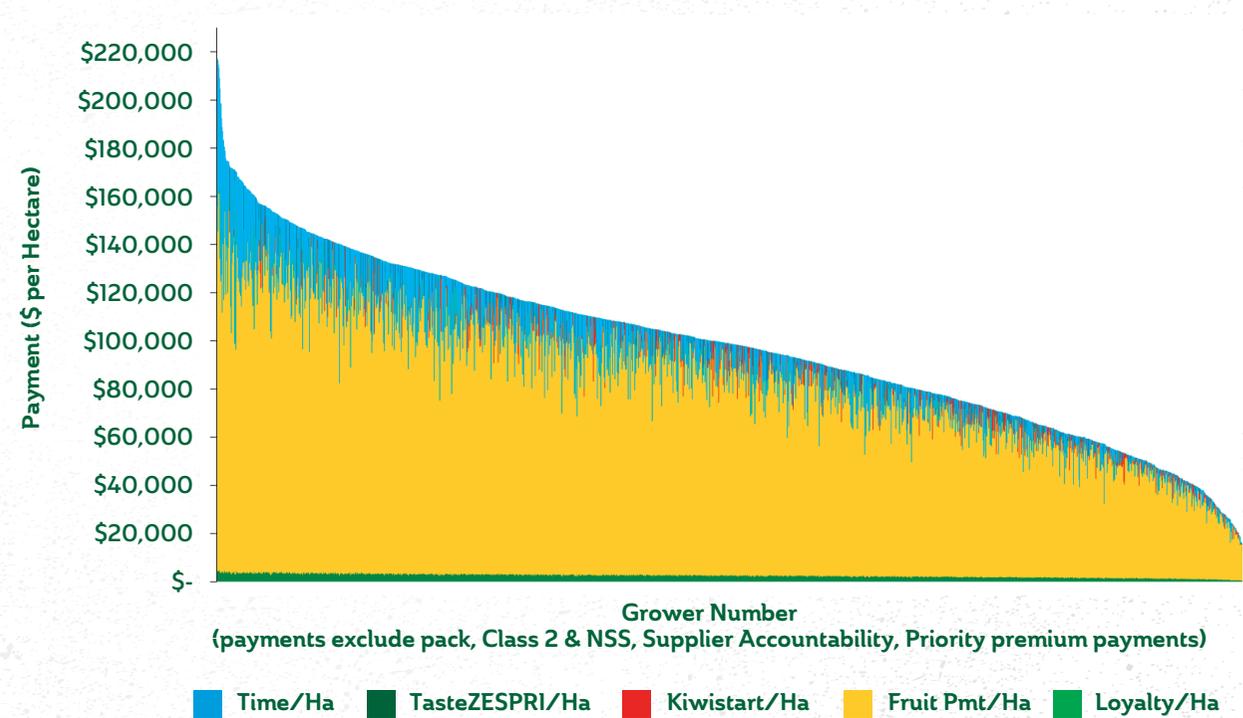
Distribution of performance across orchards

Based on the November 2020/21 season forecast, the average Fruit and Service Payment, including loyalty, paid per hectare is \$106,000.

The average yield is 10,214 trays per hectare which is up from 10,093 trays per hectare in 2019/20. The average size per tray is 33.8, which is smaller than the previous season result of 32.9.

The largest portion of the Fruit and Service Payment (excluding loyalty) is fruit payments (83 percent), which comprises a submit payment of \$2.25 per tray and progress payments of \$6.14 per tray. Typically the Taste Zespri Grade has made up a significant portion of the overall Fruit and Service Payment (excluding loyalty) (36% in 2019/20). As discussed in a previous section, the Taste Payment was nil for the 2020/21 season, but is expected to be reinstated for future seasons. One effect of suspending the taste programme is significantly increased progress payments.

ZESPRI™ GREEN KIWIFRUIT – FRUIT & SERVICE PAYMENTS 2020/21
(based on E3 November forecast)





Orchard Gate Return

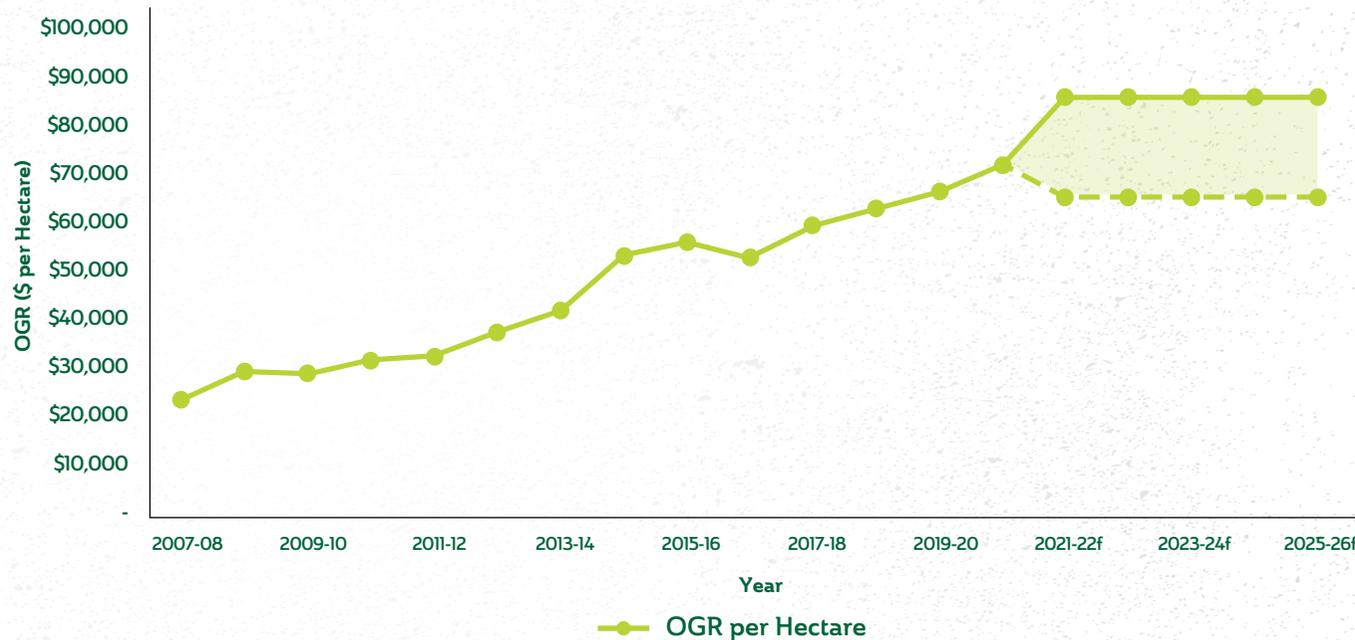
The November 2020/21 forecast shows the Zespri Green average OGR per hectare at \$72,611.

The projected OGR range per-hectare, based on Zespri's Five Year Plan is up to \$86,000.

On-orchard costs are not provided in this chart and we note that costs can vary quite significantly from orchard to orchard. Growers will know their costs best from their own experience and data.

We note that there are several cost factors outside of Zespri's control that could increase at a rate above historic trends. This includes, among other things, continuing increases in wage rates and potentially in costs associated with compliance.

ZESPRI™ GREEN OGR PER HECTARE





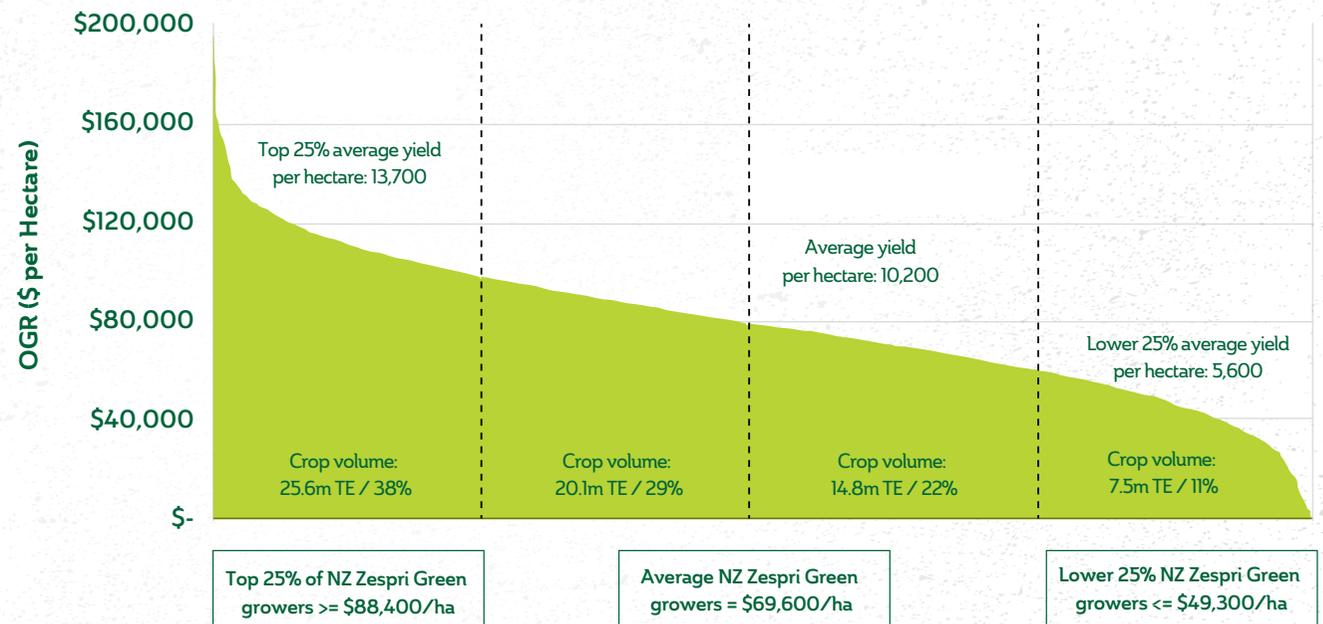
Orchard Gate Return

The graph shows the spread of orchards or part-orchards throughout the country and their expected orchard gate returns based on the November forecast for 2020/21.

The orchard gate return is the average amount received by each orchard or part orchard after Zespri and post-harvest costs are deducted. In this case, an average of \$3.42 per tray for post-harvest costs was used.

The data presented here shows the distribution of orchard gate returns across KPINs (as opposed to weighted volume average). It does not show Net Orchard Return, which factors in average on-orchard costs.

ZESPRI™ GREEN KIWIFRUIT – ORCHARD GATE RETURN* 2020/21 PER HECTARE
(based on E3 November forecast)



*some payments are not allocated at an individual grower level and are excluded or estimated in this analysis.





GOLD

Situation and challenges

The forecast supply of NZ Class 1 conventional SunGold Kiwifruit is 128 million trays in 2025/26. The Outlook takes account of existing plantings coming into full production and Zespri's decision to accelerate SunGold Kiwifruit licence allocation, announced in October 2017, with 700 hectares of conventional to be released annually up to 2022.

The effect on volume of this revised plan comes into play in this five-year plan. It is important to note that planned licence release will only be confirmed at the end of each season depending on quality and demand growth performance of SunGold Kiwifruit.

Marketing and market development

We will continue to invest strongly in SunGold Kiwifruit promotion in strategic markets, with investment declining as a percentage of revenue through to the end of the plan as SunGold Kiwifruit becomes established and volumes increase allowing economies of scale.

Achieving sales rate growth in markets requires a good supply of early, great-tasting fruit and extended logistics capacity. The tools we use to create demand are investment in promotion as well as sales and marketing resources, and in distribution expansion and a focus on taste and nutrition messaging.

Points ahead

We think the current value positioning of SunGold Kiwifruit is sustainable in the current competitive environment, provided we keep demand ahead of supply and have steady year-on-year volume increases of continued high-quality fruit. Our pricing will inevitably come under pressure if our competitive environment changes unfavourably.

We are seeing this in the Northern Hemisphere already, but it appears other Southern Hemisphere countries continue to struggle to commercialise Golds due to pest and disease related issues. Growers should anticipate alternative Southern Hemisphere supply options will eventually be successful and therefore returns will moderate in the longer term.

Modelling suggests average OGR per-hectare returns can be sustained between \$123,000 to \$180,000 over the five-year timeframe (subject to a favourable competitive environment), on volumes growing to 128 million trays in 2025/26. As always, this Outlook is dependent on seasonal factors, such as volume, taste and market conditions, and on broader factors such as biosecurity and market access.

The strength of our strategy is underwritten by the quality performance of SunGold Kiwifruit and our plan assumes that taste and storage characteristics meet customer expectations and continue to drive sales rates and maintain the sales window.

Currently demand growth is strong and we believe we can grow Class 1 conventional SunGold Kiwifruit at up to 8 to 10 million trays consistently a year. We will inevitably see a flattening of demand at some point in the future and understanding demand growth potential is a key focus for us. At the end of each season we will review quality and storage-related performance together with the growth in weekly run-rates we have achieved in that season and the potential demand in each market and in new market or demand opportunities. Based on this review we will confirm the licence release volume for the following year.

It is strategically important to grow SunGold Kiwifruit in the competitive context, in order to remain category leaders and hold shelf space and maintain customer relationships as the competition increases. SunGold Kiwifruit allows us to offer value-adding opportunities to growers to expand their production base with a proven high-returning Plant Variety Right product and strengthen our supply base.



Distribution of performance across orchards

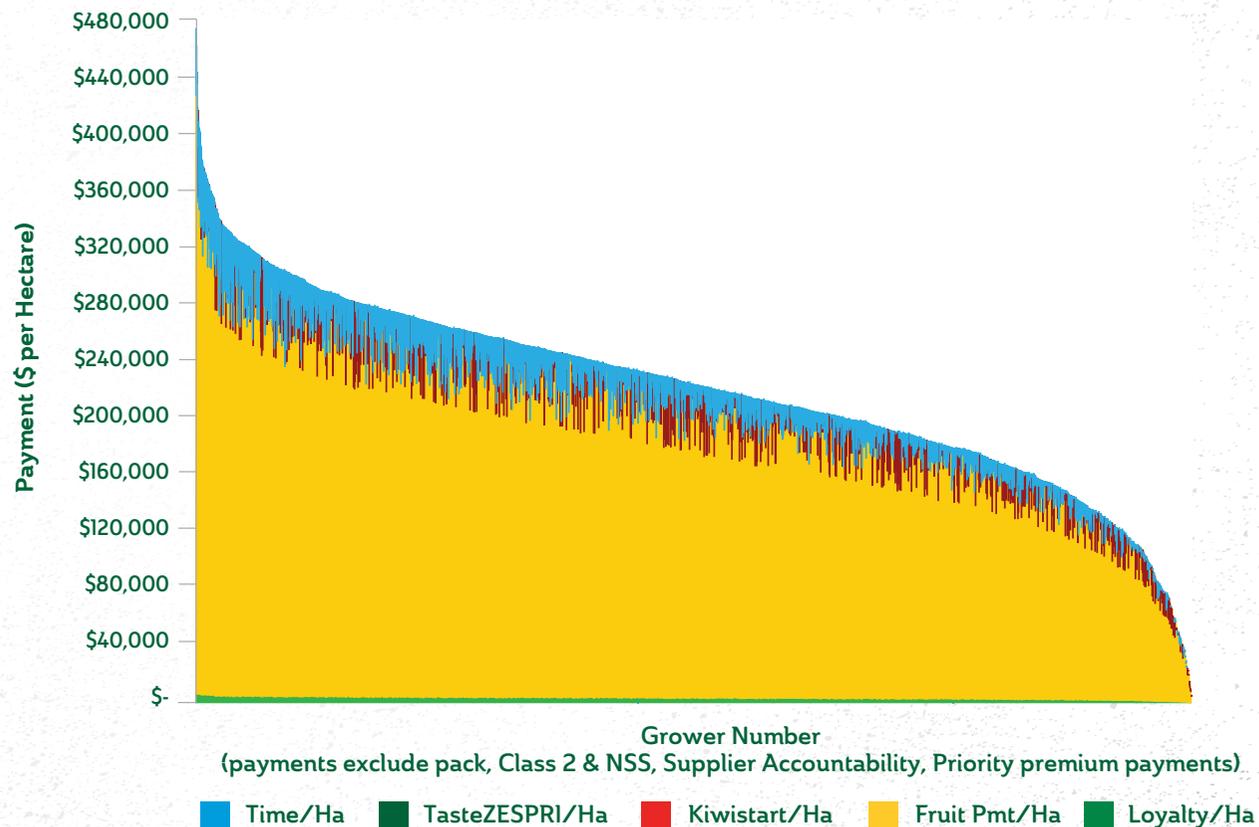
Based on the November forecast for the 2020/21 season, the average Fruit and Service Payment, including loyalty, paid per hectare is \$233,977.

The average yield is 14,276 trays per hectare which is up from 13,627 trays per hectare in 2019/20. This includes orchards that are not yet fully mature. The average size per tray is 29.7, compared with 29.5 for the previous season.*

Typically the largest portion of the Fruit and Service Payment (excluding loyalty) is taste payments (46 percent in 2019/20). In the 2019/20 year, the Taste Zespri Grade contributed \$7.38 per tray on average. As noted earlier, the Taste Payment which was not in place for the 2020/21 season, is expected to be reinstated for future seasons.

**Note that in the 2019/20 season, this pool included Organic SunGold Kiwifruit which is now in its own pool.*

ZESPRI™ GOLD KIWIFRUIT – FRUIT & SERVICE PAYMENTS 2020/21
(based on E3 November forecast)





Orchard Gate Return

The November 2020/21 forecast shows the Zespri SunGold Kiwifruit average OGR per hectare at \$172,083, which is up from \$161,660 in the 2019/20 season.*

This is explained by a continued increase in average yields as SunGold Kiwifruit orchards come into full production. The category also benefited from strong consumer demand supporting pricing – helping to increase average returns on a per tray basis at the same time as growing supply.

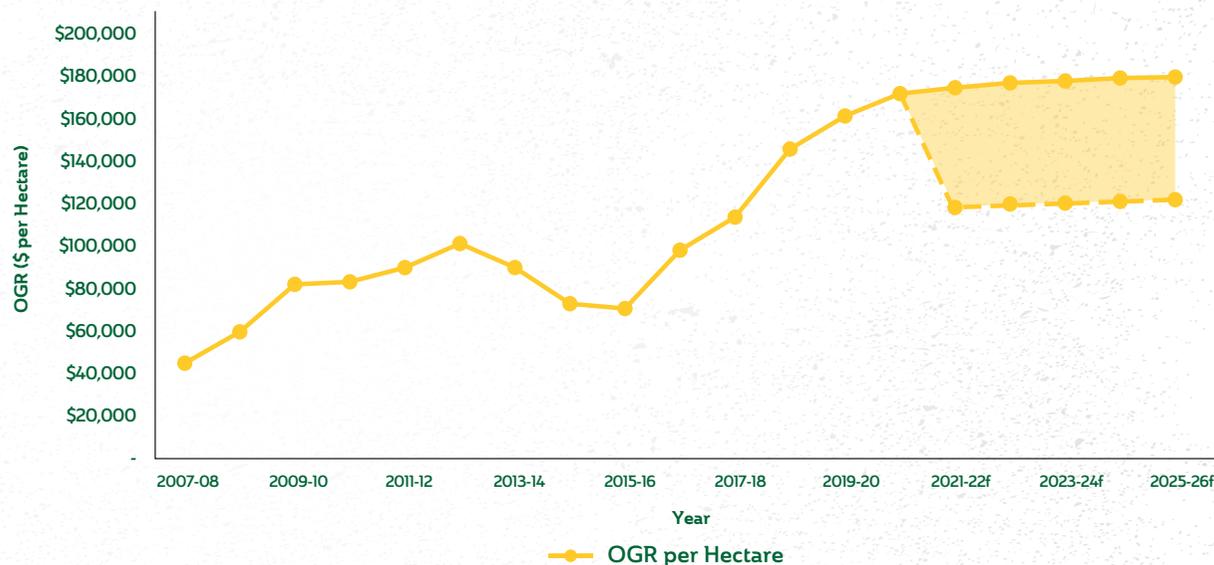
On-orchard costs are not provided in the OGR range chart and we note that costs can vary quite significantly from orchard to orchard. Growers will know their costs best from their own experience and data.

For planning purposes, Zespri also announced a range of returns from \$8.50-\$12.50 per Class 1 tray at an average yield of slightly over 14,000 trays per hectare. These indicate that average per hectare returns can be sustained above \$120,000 over the five-year timeframe. This assumes the continued release of additional tranches of SunGold Kiwifruit licence, as signalled by the Zespri Board, which are subject to annual stop/go decisions.

There are several cost factors that could increase inflation at a rate above historic trends. This includes, among other things, continuing increases in wage rates and potentially costs associated with compliance.

**Note that in the 2019/20 season, this pool included Organic SunGold Kiwifruit which is now in its own pool.*

ZESPRI™ GOLD OGR PER HECTARE



Returns are based off both historical Hort16A figures and more recent SunGold returns. 2020-21f and forward reflects SunGold conventional only (with SunGold Organic moving into a separate pool in the 2020 season).

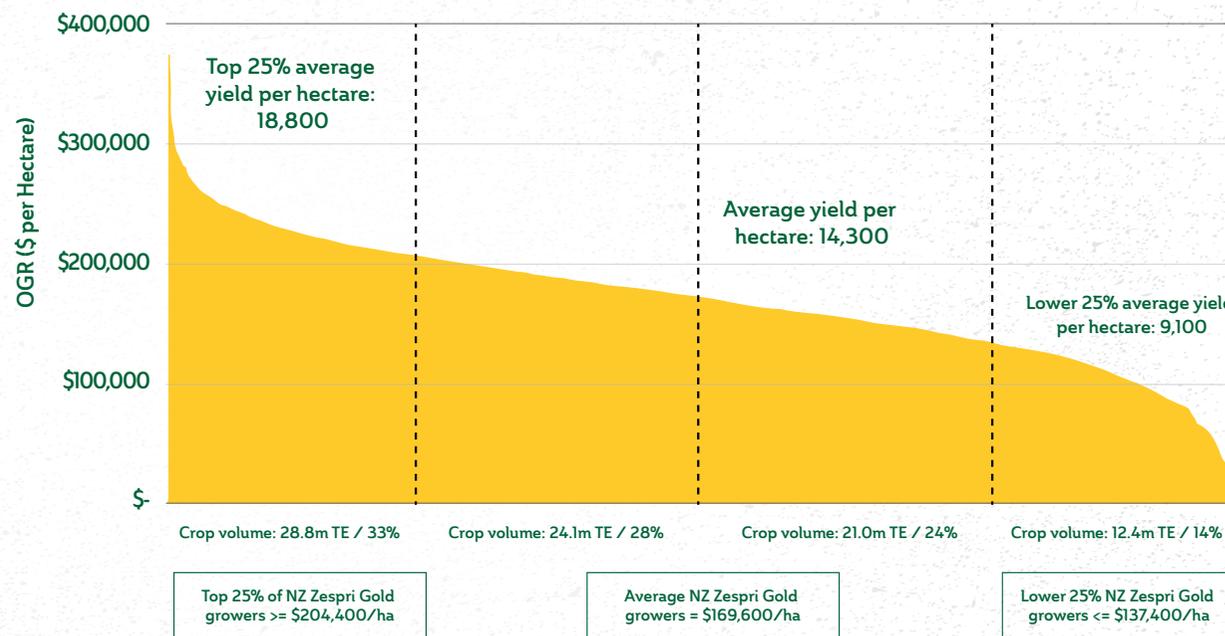


The graph opposite shows the spread of orchards or part orchards throughout the country, and their expected orchard gate returns based on the November forecast of 2020/21.

The orchard gate return is the average amount received for each orchard or part orchard after Zespri and post-harvest costs are deducted. In this case, an average of \$4.32 per tray for post-harvest costs were used.

The data presented here shows the distribution of orchard gate returns across KPINs (as opposed to weighted volume average). It does not show Net Orchard Return, which factors in average on-orchard costs.

ZESPRI™ SUNGOLD KIWIFRUIT – ORCHARD GATE RETURN* 2020/21 PER HECTARE (based on E3 November Forecast)



*some payments are not allocated at an individual grower level and are excluded or estimated in this analysis.





ORGANIC GREEN and ORGANIC SUNGOLD KIWIFRUIT

Situation and challenges

Organic demand remains a significant opportunity with many positive factors for the category. Globally, organic sales continue to grow strongly as we see organic food sales outpacing the growth of non-organic food.

This growth is underpinned by an increasing consumer desire for healthy, nutritious, safe and good tasting foods that are also good for the environment. As the world's population become more conscious of their consumption, they are increasingly more willing to pay a premium for healthy products which are also good the environment.

Across the global organic category, Europe and North America combined account for around 90 percent of organic food sales, with Asia markets accounting for just 7% of sales. The core markets for Zespri Organic Kiwifruit remain Europe, Japan and North America, which account for over 80 percent of Zespri Organic sales by volume.

We expect Class 1 Organic Green NZ supply will continue to fluctuate, with volumes supplied likely to stay around 3 million trays during the five-year period. There is continued strong demand for Organic Green and for the 2020/21 season, Zespri again is forecasting strong average returns on a per-tray basis. Significant year-on-year changes in yield in recent seasons challenges the ability to hold returns at a per hectare level, and to hold and build sustainable value in the category in the long-term. The challenge is to return per hectare value sufficient to offset yield and size differentials compared to conventional.

The forecast supply of Class 1 Organic SunGold Kiwifruit is expected to increase significantly over this planning window from 1.4 million trays supplied in 2020/21 to almost 4 million trays supplied in 2025/26. The Outlook takes into account Greenfields developments coming into production, alongside conversions from conventional SunGold Kiwifruit coming into full organic certification.

Market growth will be prioritised based on distinct consumer demand and the market opportunity to deliver a strong and stable return. With strong consumer demand in Europe and North America, we expect to increase organic volumes to these markets.

It remains strategically important to grow organic in the competitive context. Our organic offering allows us to be relevant to more consumers, by meeting a wider range of needs. This in turn helps Zespri remain category leaders, hold shelf space and maintain customer relationships.

Marketing and market development

Zespri's overall drive to maximise returns for organic supply will be supported by:

- Building capability and lifting value in Europe and North America, where there is strong demand for organic.
- Further investment in consumer research to understand the needs of organic consumers.

- Deepening our reach in specialist organic distribution channels.
- Globally consistent brand positioning that aligns with the values of the organic consumer, reinforcing a premium position and driving consumer willingness to pay.

Points ahead

Organic Green

Organic Green sales have been anchored by long-term customers in Europe, Japan, and North America, which when combined, represent over 90 percent of total sales for this variety. A similar allocation strategy is expected in coming seasons, with allocation prioritised based on distinct organic demand and the market opportunity to deliver a strong and stable return.

Zespri is modelling a range of \$9.50 to \$11.50 per tray for Class 1 Organic Green. However, significant year-on-year changes in yield in recent seasons means there could be significant variability in per hectare average returns of between \$59,000 and \$76,000.



Distribution of performance across orchards

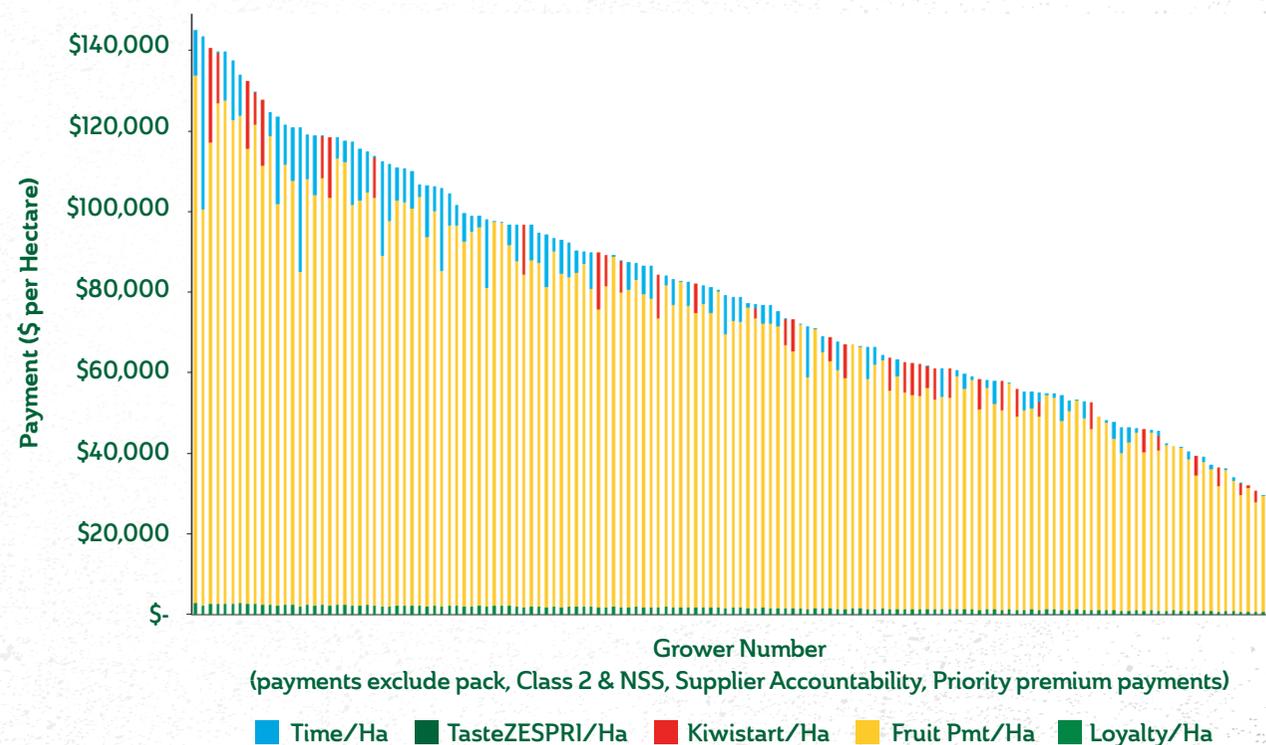
Organic Green

Based on the November 2020/21 forecast, the average Fruit and Service Payment for Organic Green, including loyalty, paid per hectare is \$79,926.

The average yield is 6,311 trays per hectare which is lower than the average 6,450 trays per hectare in 2019/20. The average size per tray is 37.1, compared with 36.0 for the previous season.

The largest portion of the Fruit and Service Payment (excluding loyalty) is fruit payments (91 percent in 2020/21), which comprises a submit payment of \$2.25 per tray and progress payments of \$8.99 per tray. Typically the Taste Zespri Grade makes up a significant part of Total Fruit and Service Payments (\$4.59 per tray on average in the 2019/20 season). As noted earlier, the Taste Payment which was not in place for the 2020/21 season, is expected to be reinstated for future seasons.

ZESPRI™ ORGANIC GREEN KIWIFRUIT – FRUIT & SERVICE PAYMENTS 2020/21
(based on E3 November forecast)





Orchard Gate Return

Organic Green

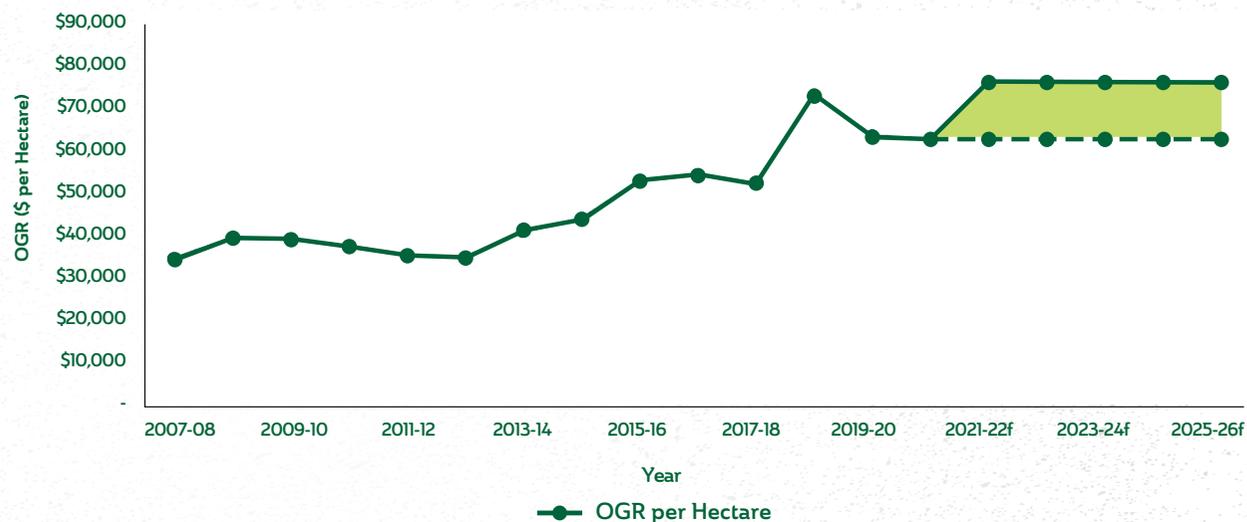
The November 2020/21 forecast shows the Zespri Organic Green average OGR per hectare at \$62,801, which compares to \$63,734 in the 2019/20 season.

The total volume of trays supplied was 2.8 million trays, the same as in 2019/20.

On-orchard costs are not provided in this chart and we note that costs can vary quite significantly from orchard to orchard. Growers will know their costs best from their own experience and data.

There are several cost factors that could increase inflation at a rate above historic trends. This includes, among other things, continuing increases in wage rates and potentially in costs associated with compliance.

ZESPRI™ ORGANIC GREEN OGR PER HECTARE



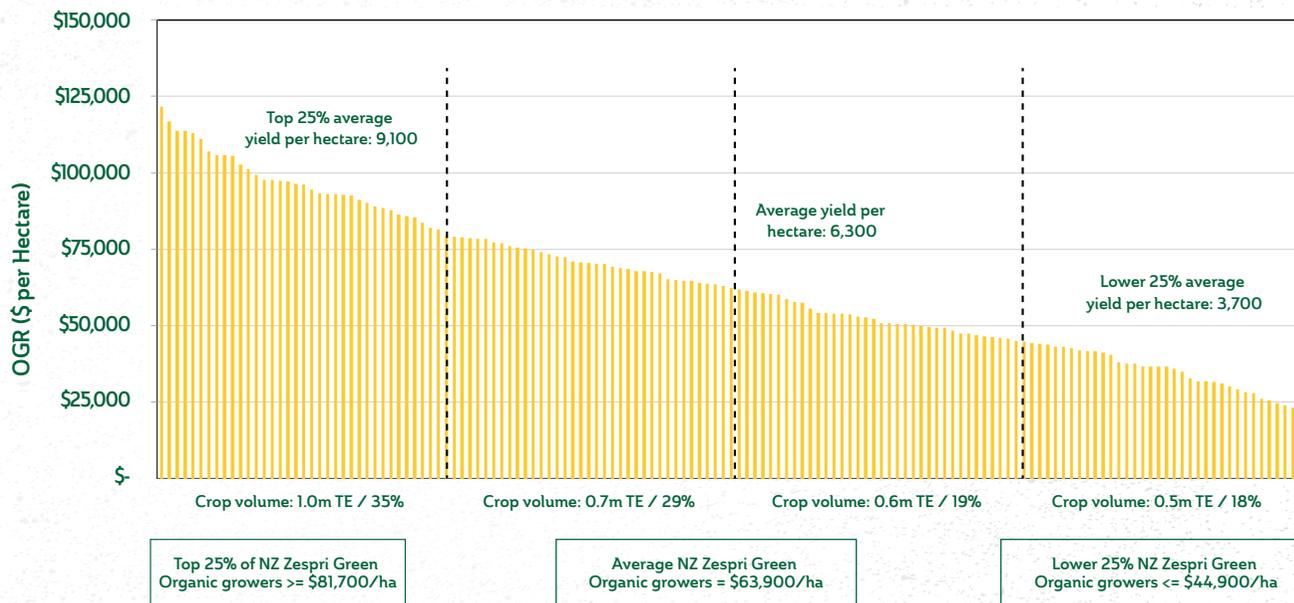


The graph opposite shows the spread of orchard or part orchards throughout the country and their expected orchard returns based on the November forecast for the 2020/21 season.

The orchard gate return is the average amount received for each orchard or part orchard after Zespri and post-harvest costs are deducted. In this case, an average of \$3.02 per tray for post-harvest costs were used.

The data presented here shows the distribution of orchard gate returns across KPINs (as opposed to weighted volume average). It does not show Net Orchard Return, which factors in average on-orchard costs.

ZESPRI™ ORGANIC GREEN KIWIFRUIT – ORCHARD GATE RETURN* 2020/21 PER HECTARE (based on E3 November forecast)



*some payments are not allocated at an individual grower level and are excluded or estimated in this analysis.



Points Ahead

Organic SunGold Kiwifruit

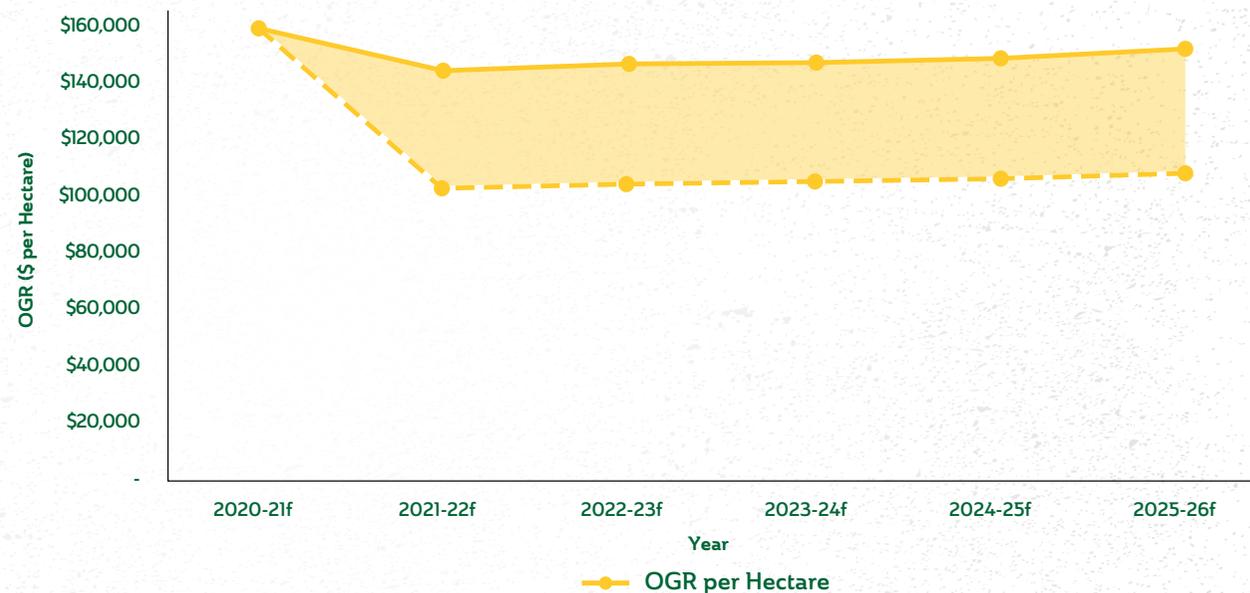
We continue to see strong demand signals for Organic SunGold Kiwifruit and we will experience strong supply growth in this variety over the planning window.

We believe we can grow Class 1 Organic SunGold Kiwifruit at around 600,000 TE per year on average over the five-year planning window, with growth prioritised based on distinct organic demand and the market opportunity to deliver a strong and stable return.

A focus will be on building capability and lifting value in Europe and USA, where there is strong organic demand. Volumes to Japan will also continue to grow, reliant on meeting market access requirements, although will decrease as a proportion of market mix.

There is an opportunity to build volumes into high value markets including Korea and Taiwan, which is also reliant on meeting market access requirements around scale. Volumes to China will increase over time, however are not expected to increase as a proportion of total volume.

ZESPRI™ ORGANIC SUNGOLD KIWIFRUIT OGR PER HECTARE



Returns are based off Organic SunGold returns. Prior to 2020/21, Organic SunGold was pooled with conventional SunGold Kiwifruit, but has moved into a separate pool in the 2020 season.

Orchard Gate Return

Organic SunGold Kiwifruit

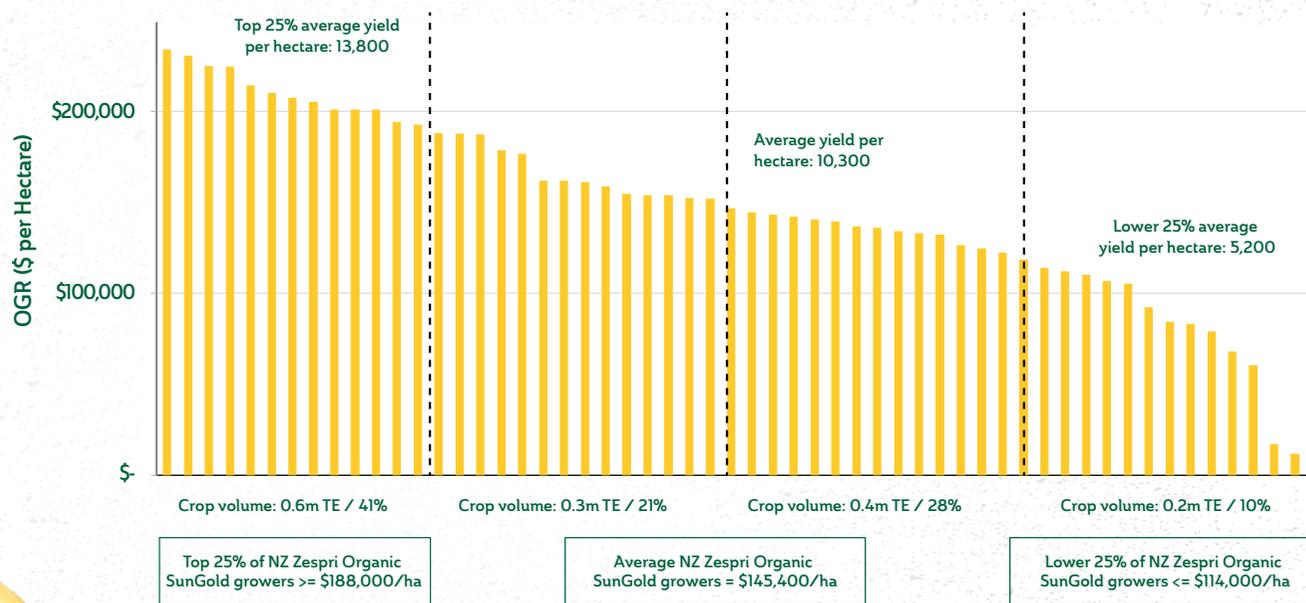
From the 2020/21 season, Organic SunGold Kiwifruit has operated in a separate pool structure, with a premium range of \$1.40 - \$2.20 above conventional expected.

Zespri is modelling a range of \$10.00 to \$14.00 per tray for Class 1 Organic SunGold Kiwifruit, which reflects the expected change in market mix over time.



ZESPRI™ ORGANIC SUNGOLD KIWIFRUIT – ORCHARD GATE RETURN* 2020/21 PER HECTARE

(based on E3 November forecast)



*some payments are not allocated at an individual grower level and are excluded or estimated in this analysis.



ZESPRI RED

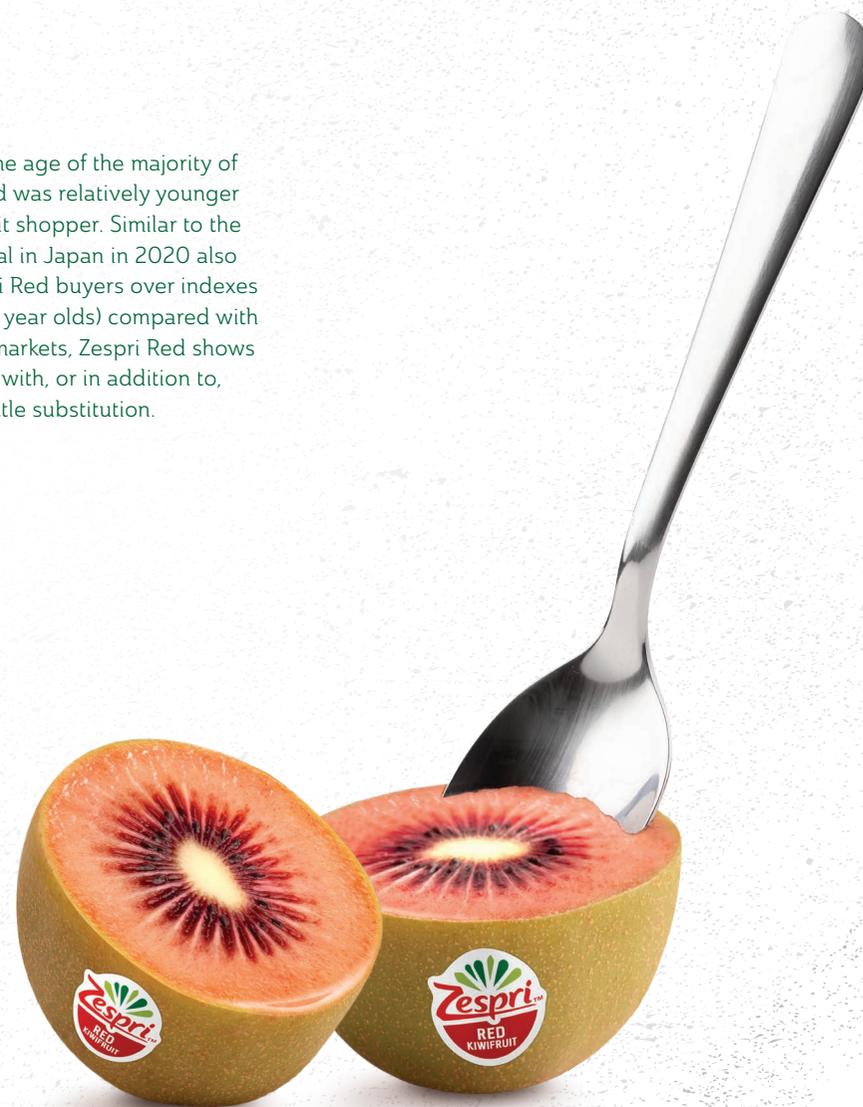
Situation and Challenges

Zespri Red was commercialised for release to New Zealand growers in December 2019, with its launch as a premium proposition aligning with the current growth trend seen among premium fruits in key markets.

Consumer Market Research conducted by Kantar in 2019 has shown evidence that Red19 could potentially attract customers of other premium and exotic fruits, with participants indicating these fruits were the most likely to be substituted for Zespri Red. The study also suggests that less than 15 percent of Zespri Red sales volume is expected to be achieved from substitutions of Zespri's existing portfolio.

The assumption of low substitution is further supported by the results of the 2019 Sales Trial in Singapore and the 2020 Sales Trial in Singapore and Japan. Sales data indicated there was no visible negative impact on the sales of Zespri's existing portfolio during the Zespri Red sales window in 2019 (ISO Week 17 to Week 25) and 2020 (ISO Week 15 to 23/25). Findings from the analysis of customer relationship management data in Singapore indicated that over its relatively short selling window, Zespri Red was able to attract new customers to the kiwifruit category, with one in five purchases in 2019 and one in three in 2020 being made by shoppers who had not purchased kiwifruit within the last 12 months.

The same data set shows that the age of the majority of shoppers purchasing Zespri Red was relatively younger than that of the average kiwifruit shopper. Similar to the trend in Singapore, the sales trial in Japan in 2020 also shows that the age of the Zespri Red buyers over indexes with younger shoppers (30–50 year olds) compared with Zespri's core portfolio. In both markets, Zespri Red shows a high propensity to be bought with, or in addition to, Zespri's core range, with very little substitution.





Orchard Gate Returns (OGR)

In 2020, Zespri released 150 hectares of licence for Zespri Red and signalled the release of a further 1,350 hectares of Red19 over the next three years until 2023.

Financial modelling has been completed for potential returns for the first five years of commercial production.

These potential returns are inherently uncertain and have been completed using a number of assumptions, including without limitation:

1. Customer demand is as anticipated in all markets.
2. Oil prices increase at inflationary rates only.
3. Five-year effective exchange rates have been used.
4. Limited direct competition for the product during its normal sales season.
5. Post-harvest costs do not exceed forecasted Gold3 levels.
6. That returns are not impacted by unforeseen risks such as excessive fruit loss, significant market access issues, or biosecurity and crop protection issues.
7. Size 46s are excluded from the OGR estimates in this section.

(Note, depending on market demand, size 46s may be accepted as non-standard supply on a season by-season basis.)

Indicative Forecast Red19 OGR levels per TE for the first five years of commercial production.

Season	Red19 OGR levels per TE
2022	\$11.00 to \$13.00
2023	\$10.50 to \$13.00
2024	\$10.50 to \$13.00
2025	\$10.50 to \$13.00
2026	\$10.50 to \$13.00

NB: Please note, these forecast returns are indicative only. This reflects the high level of uncertainty still associated with this variety while we build towards commercial volumes.

OGR per hectare is dependent on orchard yield, and it is expected that it will take growers differing times to achieve full production. For example, assuming an orchardist who grafts in 2020 to Red19 can achieve a full crop at an average of 10,000 trays per hectare by 2025, then an OGR per hectare of between \$105,000 and \$130,000 is forecast.

Further information is available in the 2020 Red19 New Variety Information Guide (NVIG) currently available on Canopy, an updated 2021 NVIG will be published in March 2021.



SWEET GREEN (GREEN 14)

Summary

Sweet Green volumes continue to decrease. In 2020/21, Class 1 NZ supply was around 270,000 trays, down from a peak production of 1.5 million trays in the last five years. Even with the decline in volumes, Zespri will continue to sell the variety as its sweet and early proposition has a place in the Zespri portfolio for the foreseeable future.

When Sweet Green is managed appropriately, and quality is good, the variety does have strong consumer liking with no detrimental impact on the brand. Our focus ahead remains on supplying a high taste offering, as early as possible, to complement the Green sales programme.

Our focus includes:

- Supplying early to Japan (at the same time or earlier than Hayward) and in a continuous volume to sustain programmes, subject to market restrictions.
- Balancing supply to Europe to facilitate market access and shipping options.
- Improving the size profile.

Marketing and market development

The market opportunity for Sweet Green continues to be based on a proposition of early supply, sweeter taste and a more convenient eating experience through easier ripening. Our ability to successfully execute will depend on being able to deliver reliably good quality, good tasting Sweet Green kiwifruit to our markets early in the season.

Taste Payment which was not in place for the 2020/21 season, is expected to be reinstated for future seasons. The Taste Zespri Grade payment was \$3.22 per tray on average, in the 2019/20 season. In that same year Taste contributed 31 percent of the overall Fruit and Service Payment (excluding loyalty).

Distribution of performance across orchards

Based on the November 2020/21 forecast, the average Fruit and Service Payment, including loyalty, paid per hectare is \$73,668.

The average yield is 5,609 trays per hectare which is similar to 5,685 trays per hectare in 2019/20. The average size per tray is 37.7, compared with 37.3 for the previous season.

The largest portion of the Fruit and Service Payment (excluding loyalty) is fruit payments (96 percent), which comprises a submit payment of \$2.80 per tray and progress payments of \$9.61 per tray. As noted earlier, the





Orchard Gate Return

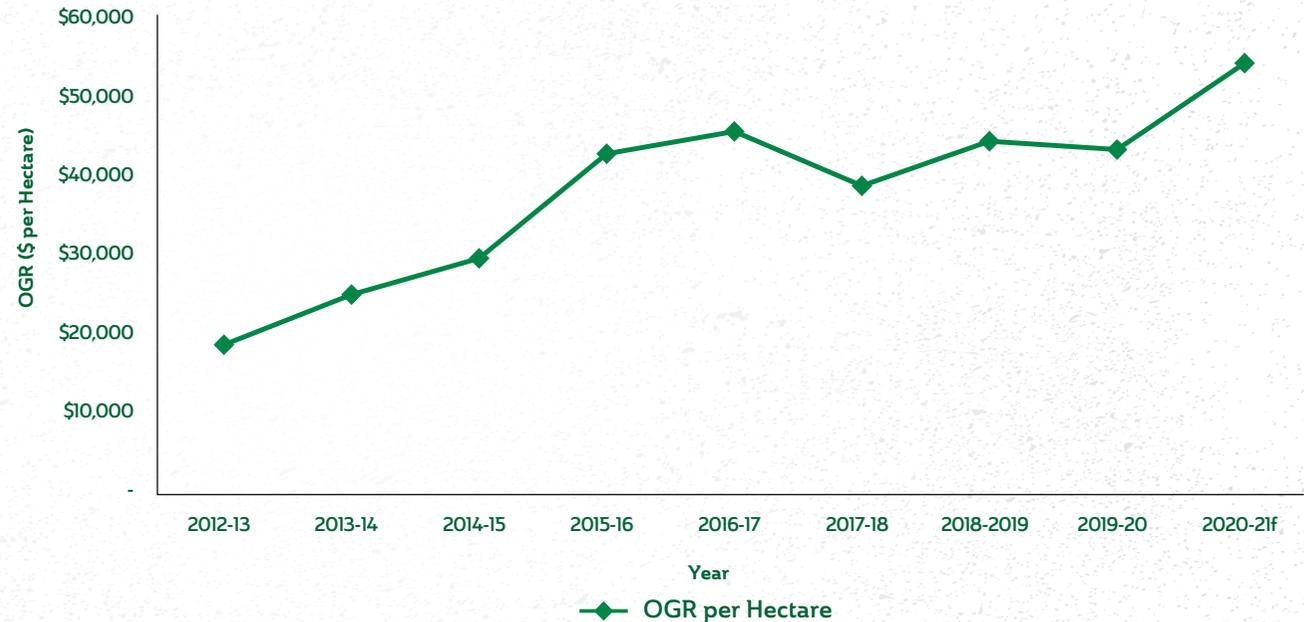
The November 2020/21 forecast shows the Zespri Sweet Green average OGR per hectare at \$54,465, which is up from \$43,550 in the 2019/20 season.

We note that costs can vary quite significantly from orchard to orchard. Growers will know their costs best from their own experience and data.

There are several cost factors that could increase inflation at a rate above historic trends. This includes, among other things, continuing increases in wage rates and potentially in costs associated with compliance.

Please note that for this variety the charts showing results by grower have been removed to protect the privacy of individual growers.

ZESPRI™ GREEN14 OGR PER HECTARE



Corporate Outlook



Overview

A good way to think about Zespri from a corporate perspective is to conceptualise it as a number of related businesses or revenue streams:

- Revenue from exporting and marketing New Zealand Kiwifruit globally.
- Revenue from sourcing and marketing kiwifruit from outside of New Zealand.
- Revenue from licensing proprietary cultivars to growers.
- Revenue from the royalties coming from proprietary cultivars.

This section provides an overview of our outlook for each of these revenue streams.





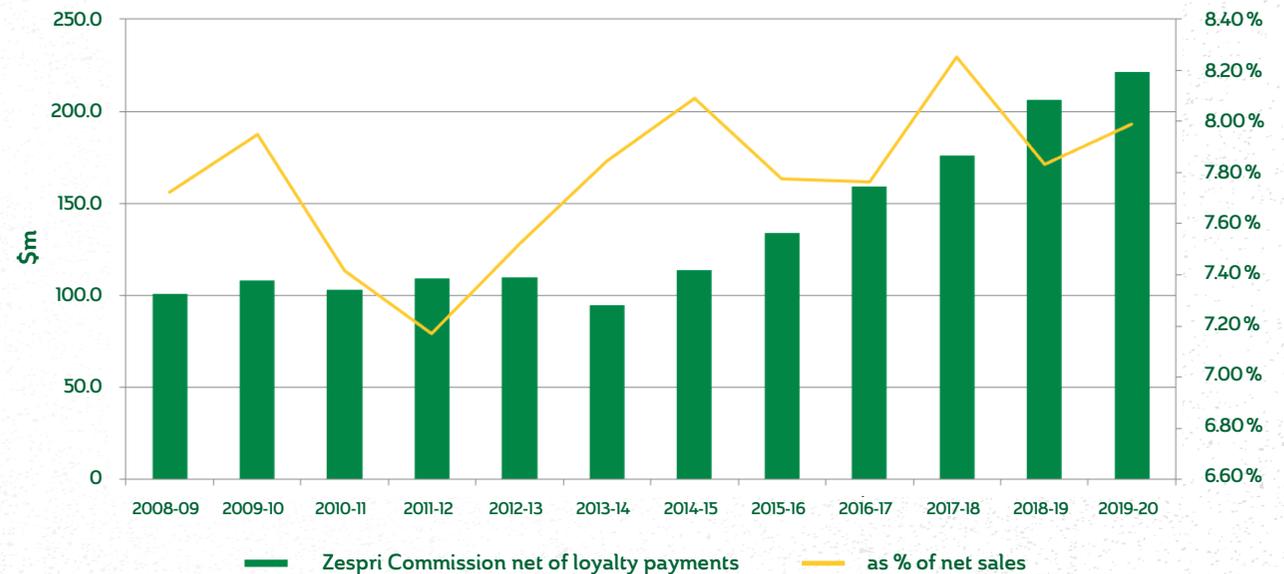
Exporting and marketing New Zealand Kiwifruit Globally

The chart opposite shows Zespri’s corporate revenue from selling New Zealand Kiwifruit from 2008/9 to 2019/20 (excluding royalties), together with Zespri’s net commission (post loyalty) as a percentage of net sales over this time. On average, this has resulted in a net commission of \$0.90 per tray for every tray of Green sold and \$1.76 per tray for every tray of Gold sold for the same period.

In 2017, Zespri finalised an enduring funding model with the industry for calculating Zespri’s margin related to the sale of New Zealand kiwifruit. The objective of the funding model is to ensure Zespri is funded appropriately, balanced against the need for appropriate cost control, to ensure that the benefits of economies of scale are shared between growers and shareholders. It replaced the former industry convention of renegotiating funding / margin arrangements every three years, and instead delivers an automatic margin resetting mechanism targeting a New Zealand Supply earnings before interest and taxes (EBIT) at around one percent of net sales.

We expect to see Zespri’s commission net of loyalty as a percentage of net sales remain in the range of 7.5 percent to 8.5 percent over the course of the five-year plan. This should allow Zespri to grow its EBIT from New Zealand kiwifruit from approximately \$37 million in 2019/20 to over \$60 million over the next five years.

ZESPRI COMMISSION NET OF LOYALTY PAYMENTS IN \$ AND AS
% OF NET SALES OF NEW ZEALAND SUPPLIED KIWIFRUIT



*The commission above is for New Zealand supply only and excludes non-New Zealand supply commission.

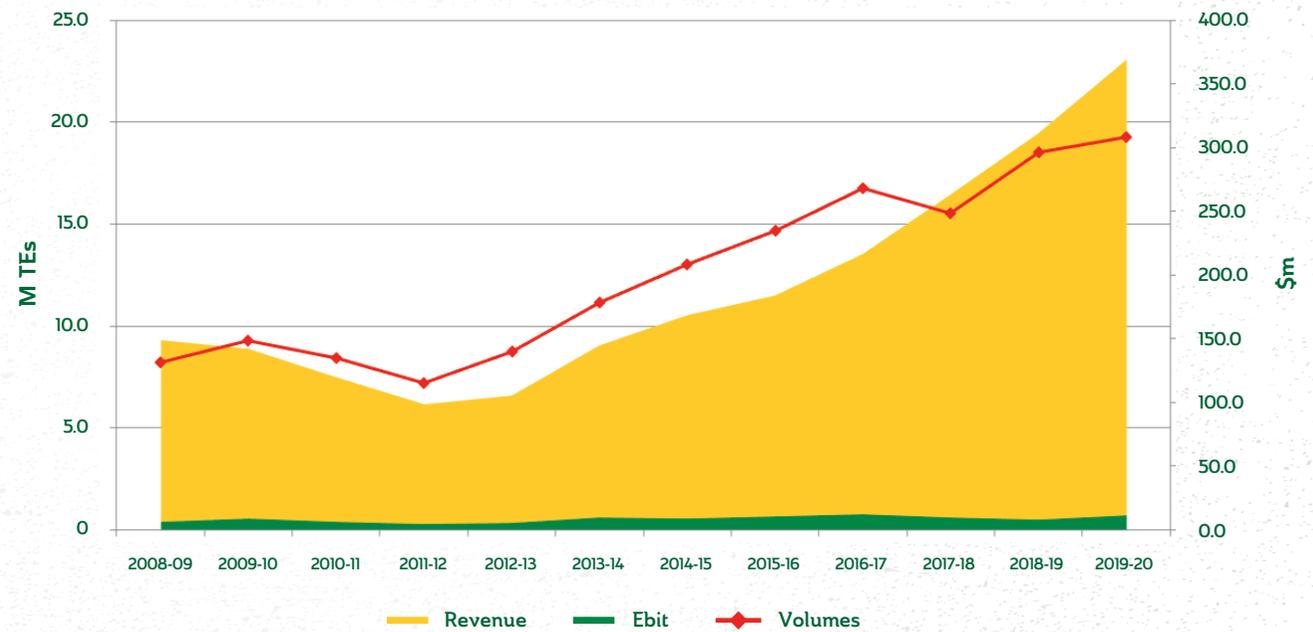




The business of sourcing and selling kiwifruit from outside of New Zealand

Zespri sources kiwifruit from Italy, France, Japan, Korea, Portugal and Greece in order to provide customers and consumers with premium Zespri Kiwifruit 12 months of the year. Historical volumes and revenues from ZGS are shown to the right.

NON-NEW ZEALAND SUPPLY



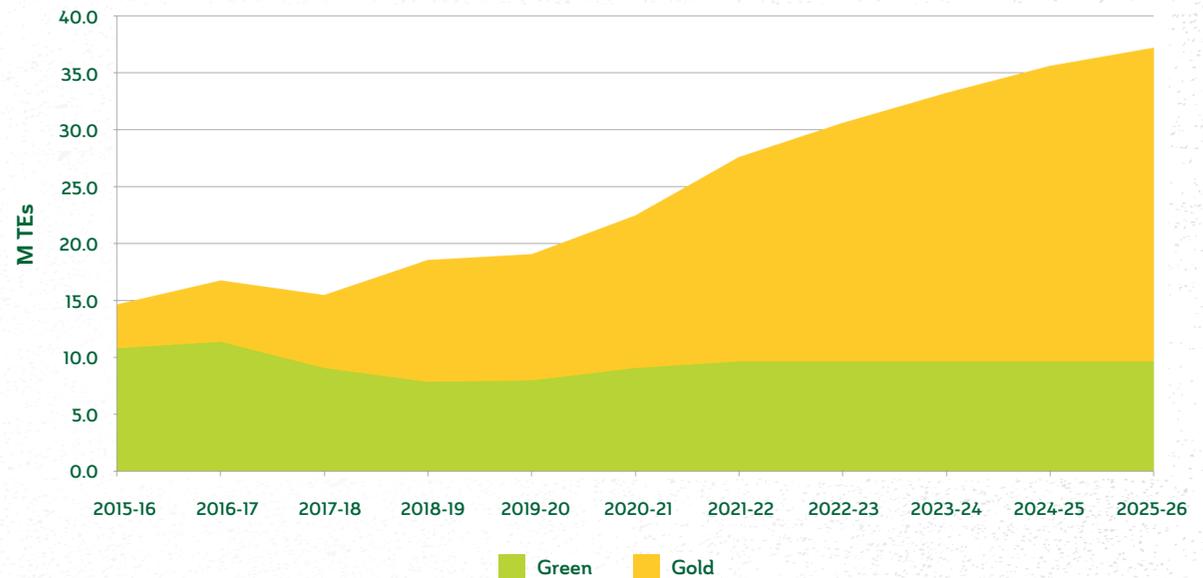


With 3,870 hectares of SunGold Kiwifruit currently planted, we expect non-New Zealand Supply volumes will grow strongly over the course of this 5-year plan. To meet supply growth targets, Zespri is looking at options to increase the number of growing locations and to expand production in existing locations, such as Japan and South Korea.

Historically, non-New Zealand supply volumes have proven to be challenging as Zespri has developed the capability to source fruit internationally over the last 20 years. And so, the earnings guidance we provide for the non-New Zealand supply business therefore remains preliminary. In 2019/20, the non-New Zealand supply segment EBIT was approximately \$11 million. Provided SunGold Kiwifruit continues to perform well in all growing locations, and there is no guarantee of this, we expect revenues to increase broadly in line with volumes from approximately \$370 million in 2019/20 to over \$800 million by 2025/26, and correspondingly we expect to see the EBIT from this business to grow towards \$40 million through the life of this plan.

The non-New Zealand supply business is more challenging and complex than the New Zealand business with each growing location bringing with it all of the complexity of growing and doing business in foreign jurisdictions. There is potential for some economies of scale to be captured as we grow this business (representing potential upside) but we recognise that we will need to invest strongly in order to ensure this business is robust and quality is consistent with our brand promise. We also note the existence of strong competition in the Northern Hemisphere Gold business and this could act to constrain Zespri pricing and thereby impact negatively on corporate revenue. The Non-New Zealand Supply business also delivers value through providing 12-month shelf space for Zespri products and brand.

NON-NEW ZEALAND SUPPLY 5-YEAR PLAN VOLUMES





The business of licencing proprietary products to growers

Zespri owns the plant variety rights for SunGold Kiwifruit. Zespri has announced it expects to licence around 750 hectares of this variety in New Zealand each year through 2022 with the volume to be licenced confirmed at the end of each New Zealand season, based on demand growth during that season. The Zespri board has signalled the intent to release licence beyond this date in the range of 350 to 750 hectares of conventional SunGold Kiwifruit until 2026, subject to annual review. The board has also signalled the release of a further 1,350 hectares of the Red19 variety over the course of the next three years until 2023.

Revenues for future licence rounds will depend on the performance of licensed varieties in each successive season, hectares actually licenced, and the value bid for the licence by growers. Shareholders should note that this revenue stream is potentially lumpy over time as SunGold Kiwifruit licensing in New Zealand inevitably slows, and given the licensing model is subject to change, and the commercialisation timeframe of other new cultivars is uncertain.

Zespri together with Plant & Food Research continues to invest in a new varieties breeding programme to develop differentiated cultivars which will attract new consumers to the kiwifruit category. More recently, work has commenced on a proposal to establish a Kiwifruit Breeding Centre (the

Centre), which would be a 50:50 joint venture partnership between the two organisations. The Centre would be dedicated to breeding new kiwifruit cultivars for Zespri to take to global consumers, creating healthier, better tasting and more sustainability-focused varieties that extend New Zealand's position as the world's most innovative and successful kiwifruit exporter. Any final decision to establish the Centre will require final approval from the Boards of both parties and the shareholding Ministers of PFR, a New Zealand Government-owned Crown Research Institute.

Royalty Income

Zespri charges a royalty of 3 percent for SunGold, Red19 and Sweet Green Kiwifruit with 1.35 percent being paid to Plant & Food Research and 1.65 percent being an income stream for Zespri. As the Red programme develops, royalties will also provide an income stream for Zespri from sales of red kiwifruit when royalties commence in 2023-2026.

Zespri's global SunGold Kiwifruit net sales are forecast to grow from \$2.0 billion in 2019/20 to \$4.0 billion through the life of this plan with Zespri's royalty from SunGold Kiwifruit growing correspondingly from \$33 million in 2019/20 to over \$65 million through the life of the plan.

Summary

Even excluding earnings from licence sales (which can be seen as extraordinary income), Zespri expects strong corporate earnings growth over this five-year planning horizon and, importantly, a rebalancing between revenue streams with non-New Zealand Supply and SunGold Kiwifruit royalties becoming increasingly important.



Beyond 2025



A 10-year overview of demand and supply

In addition to the five-year outlook for the industry, Zespri has been developing a 10-year view of supply and demand. The purpose is to set out an optimal view of sustainable growth over the very long-term, balancing volume growth with preserving value.

The information provided in the 10-year plan is directional only and provides a view of how strong demand could be and potential implications for the supply side of the industry.

There has been little change in the 10-year outlook from a New Zealand supply point of view, while the return outlook has strengthened. From a Northern Hemisphere supply perspective, New Zealand producers have approved the issuance of up to 5,000 ha of SunGold Kiwifruit licences in Northern Hemisphere growing regions, with 3,870 hectares currently planted. This hectare level and a review of yield development has resulted in a revision of anticipated volumes likely to eventuate. In addition, the declining Green crops from Italy have led to an increase in fruit sourced from Greece.

The key points from the 10-year plan include the following:

- Zespri's mission to grow global sales revenue to \$4.5 billion by 2025 remains on track. This equates approximately to total sales of around 235 million trays, including 12-month supply based on current supply forecasts.
- However, our current view is that further investment could support demand by 2030 of around 280 million trays, at sustainable returns, subject to production costs, and in the shorter-term potential demand of 241 million trays in 2025, should supply permit or yields improve.
- Zespri's sales and marketing investment has created demand significantly ahead of forecast supply.
- Kiwifruit remains an under-developed category, which means there is space to occupy and advantage to be gained through scale. This space also creates competitor risk.
- Strong and sustained market returns are essential for all fruit groups to support and encourage the supply investment required to meet demand.
- Steady market development enables sustainable growth in grower and shareholder returns.
- The plan assumes around 85 percent will be supplied from New Zealand and around 15 percent from non-NZ locations.
- The plan does not consider new varieties not yet commercialised which could be either additive or substitutional.
- Growth over the next 10 years will be driven by SunGold Kiwifruit, with an increase in supply from New Zealand sustainable at around 8 -10 million trays per year and the onset of commercial volumes of Red in 2022, rising to an anticipated 15m trays by 2030. Red commercial volumes have been considered in our 10 year outlook and will continue to be included in future longer-term outlooks.
- Supply of Green from New Zealand needs to be sustained at around 60 million trays for Zespri to have a balanced portfolio which may be challenging with increasing on orchard and post-harvest costs as labour rates increase.
- Demand for Organic is a significant opportunity, with headspace to grow in most markets subject to the per hectare value being generated to offset yield and average size impacts.

The Demand Outlook

Kiwifruit is still an underdeveloped category within the fruit bowl but with huge growth potential. This creates potential for disproportionate advantages of scale in relation to costs within the next 10 years, although the gap could close if costs have a disproportionate change in rate of increase.

Zespri has developed good quality demand through market development, brand and category growth – underpinned by the popularity of SunGold Kiwifruit, strong marketing and high-quality supply. The new Zespri brand identity and positioning, which was launched in February 2020, has strengthened our ability to create demand into the future, allowing us to connect emotionally with customers who are looking beyond the product to a brand’s purpose and values.

However, competition is dynamic and if we do not accelerate growth, we risk falling behind. Risks include: forfeiting the opportunity to bring further value back to New Zealand growers and the broader industry; giving other developing fruit items the opportunity to strengthen consumer preference; failing to supply Zespri customers with sufficient volumes, meaning they might need to seek alternative supply; and losing share within the fruit bowl so that it is then more costly to build mental and physical availability of our brand.

12-MONTH, 10-YEAR TARGET DEMAND VOLUME GROWTH





From a position of strong overall demand creation and strong consumer acceptance of SunGold Kiwifruit, Zespri is looking to continue to develop its position in China – a vitally important market. A significant piece of work was undertaken in 2019 to strengthen our roadmap for growth in China. Zespri is also investing to build its position in the USA as another major market.

The strength of demand is such that hard market choices sometimes have to be taken, supported through a market development framework. Each market is categorised according to its stage of development, with investment planned accordingly and performance measured against targets.

Ultimately, Zespri's sales and marketing strategy is focused on ensuring consumers are at the heart of the strategy; making harder choices prioritising markets; strengthening relationships with key customers; going deeper before going wider; balancing short-term and long-term goals; and focusing on performance in the prioritised markets. Zespri continues to build its own capability as well as the capability of its distributor partners to ensure we can service our customers and execute with excellence against the demand we create.

Risks to Demand

There are several demand risks that could impact the plan, including when:

- There are varying levels of economic recession (stemming from COVID-19)
- Markets cannot develop at the expected rates, lowering return on investment and potentially delivering lower profitability than planned.
- Market access is lost to a significant market.
- A significant new competitive gold variety emerges to compete with Zespri.
- A new competitive fruit takes market share from all other fruits.
- Organic supply cannot be increased, leaving a gap in Zespri's product offering.
- There is a crop increase in excess of market capability.
- Supply is unable to meet the quality and delivery requirements of markets.
- Consumers move away from whole fresh kiwifruit as the need for convenience increases.

These factors present a diversity of risk and Zespri's risk management involves building conservatism into the plan. That means ensuring headspace and reallocation options between markets. Steady supply development and progressive market development are expected to better prepare markets to absorb volume increases, however there could always be a year where crop management is required as a mechanism to support longer term value growth. Zespri needs to continue to lead innovation to develop new kiwifruit products that meet consumer needs. Green returns need to be sustained in order to secure sufficient supply for the long-term.

Implications on the supply side

Meeting the 10-year demand projection requires a step change in the pace of development. It requires investment and innovation by Zespri, growers, post-harvest operators and partners across the supply base.

The implications of meeting around 280 million trays by 2030 are 7,000 more hectares of plantings in New Zealand and around \$700-\$750 million of investment by the post-harvest sector to keep pace with volume growth. It also requires significant new plantings in Non-New Zealand supply locations.

Other considerations in this context include:

- Improving supply chain systems and processes: an improvement project underway is addressing integrated planning, grower payments, global inventory and traceability
- Investigating more offshore packing and cooling: ensuring we have the optimal infrastructure in place in New Zealand
- Increased focus on supporting and rewarding innovation in the supply chain
- Innovation to try to extend the harvest window of SunGold Kiwifruit
- Learning to optimise SunGold Kiwifruit in terms of yield versus taste versus storage, coupled with post-harvest handling and management
- Meeting the supply gap for Organic SunGold Kiwifruit and Organic Green

Zespri's long-term estimate of potential average returns over the outer years of the 10-year plan is as follows:

- Green: \$6.50 to \$8.50 per tray at declining volumes
- Organic Green: \$9.50 to \$11.50 per tray at flat volumes
- SunGold Kiwifruit: \$8.50 to \$12.50 per tray
- Organic SunGold Kiwifruit: \$10.00 to \$14.00 per tray

These ranges are provided to translate Zespri's long-term demand plan into what it might mean for growers. It is important to note they are not a forecast, are subject to change, and the ranges are wide, recognising a number of factors outlined in the risks and opportunities section of this document.

For example, Green in the short term is still potentially subject to swings in volume which will impact OGR outcomes. Returns for SunGold Kiwifruit in the short-term are expected to remain strong as demand outstrips supply, but expected to moderate in the longer term as volumes come on and costs increase.





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