



# CHEESE REPORTER

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## Saputo's CEO Is 'Very, Very, Very Bullish' About The Dairy Industry

### Consumption Expected To Rise Faster Than Production; US Dairy Industry Has Great Potential And A Great Future

Milwaukee, WI—Lino A. Saputo, Jr., chief executive officer and vice chairman of the board of Saputo Inc., is “very, very, very bullish” about the dairy industry, and also believes the US dairy industry has great potential and a great future.

Saputo made his observations during his opening address Wednesday morning at the International Cheese Technology Expo in Milwaukee, WI.

“I believe in dairy,” Saputo said. “I believe in the future for dairy farmers, and I believe in the future for dairy processors.” And he believes in that future especially in those countries that do have the infrastructure, do have the quality, and do have the cost variable that will allow them to be able to feed the world.

Saputo has heard “many, many presentations” from economists in the dairy industry who believe the consumption of dairy will outpace the production of dairy. Some of the numbers he’s heard is that dairy consumption will grow at a rate of 4 percent per year while

production grows at a rate of 1.5 to 2 percent per year.

“That bodes very, very, very well for our industry,” Saputo said. “I’m very bullish about this industry.”

Saputo Inc. has been around for 60 years, Saputo noted. Today, the company processes over 16 billion pounds of milk every year, and prides itself on being a “high quality, low-cost manufacturer.”

Saputo sells into the retail, food-service and industrial channels. It’s important for the company to be well diverse in each one of these channels because consumer trends and market dynamics “do change on a regular basis,” Saputo noted.

Saputo operates a “very, very strong network”; the company has a Canadian platform, a US platform and an international platform. The company has 57 total manufacturing facilities, and sells into 40 different countries around the world. Over 48 percent of Saputo’s total sales are coming from its US platform.

Founded in 1954, Saputo entered the US dairy market in

1988 and 1989 when it acquired cheese plants in Vermont and Maryland, Saputo said.

By 1997, Saputo’s sales had reached about \$450 million, and the company was still a family-owned business. The company decided to become a publicly traded company at that time.

Since it went public, Saputo has made a total of 24 acquisitions, for a total of \$4.8 billion. Three months after it went public, Saputo acquired Stella Foods, which Saputo described as the “ideal platform for us.” It was large; it was selling to retail, foodservice and ingredient markets; and it had some very strong brands, such as Frigo, Stella and Dragone.

Saputo has gone on to make other US acquisitions since then, including Treasure Cave in 2003, and the Land O’Lakes West Coast operations in 2007.

This was really a “turning point” for the company, Saputo explained, because “we became a much larger Mozzarella manufacturer in the United States,” and also now had “highly specialized

• See **Bullish On Dairy**, p. 9

## Milk Production Increased 1.1% In March; Cow Numbers Up 1,000 Head From February; Output In First Quarter Up 1.0%

Washington—US milk production in the 23 reporting states during March totaled 16.681 billion pounds, up 1.1 percent from March of 2013, USDA’s National Agricultural Statistics Service (NASS) reported Monday.

February’s milk production estimate was revised down by 18 million pounds, so February’s output was up 1.3 percent from February of 2013, rather than up 1.4 percent as initially estimated.

March milk production for the entire US was estimated at 17.833 billion pounds, up 0.9 percent from March of 2013.

The number of milk cows on farms in the 23 reporting states in March was 8.514 million head, 1,000 head more than in February of 2014.

Production per cow in the 23 reporting states averaged 1,959 pounds for March.

Milk production for the entire US during the first quarter of 2014 totaled 51.056 billion pounds, up 1.0 percent from the first quarter of 2013.

A year ago, NASS began releasing only partial milk production estimates. These partial estimates included milk production data only; no information on the number of milk cows or milk per cow was released.

Thus, the “Milk Production” report released by NASS Monday does not have milk cow numbers or production per cow data for March

• See **More Milk In March**, p. 10

## USDA's Dairy Market News Seeks Comments On Reporting Guidelines, Possibly Adding Skim Milk Powder, Resale Prices

Washington—USDA’s Agricultural Marketing Service (AMS) is requesting comments regarding existing reporting guidelines and market coverage of all Dairy Market News (DMN) reporting programs.

Comments, which should be received by AMS by May 23, 2014, should clearly include the commenter’s position on current product specifications, product coverage, or reporting guidelines. Any justification for proposed changes and relevant information to support those views should be included.

Due to recent industry requests, AMS said it is particularly inter-

• See **DMN Reporting**, p. 8

## World Champion Cheese Contest Auction Raises A Total Of \$115,435 For 38 Items

Milwaukee, WI—Wednesday evening’s World Champion Cheese Auction, held in conjunction with the 2014 International Cheese Technology Expo here, brought in a total of \$115,435 for the 38 items auctioned off.

The last item up for bid was the World Champion Cheese, 220 pounds of Original Schweizer Rohmilch Emmentaler made by Gérard Sinnesberger, Käseerei Sinnesberger, Gams, Switzerland. It was purchased by Great Lakes Cheese for \$15.00 per pound, or \$3,300.00 total.

The First Runner-Up, 15 pounds of Erzherzog Johann made by Alois Pichler and Team, Obersteirische Molkerei, Knittelfeld, Austria, was purchased by MCT Dairies for \$40.00 per pound, or \$600.00 total.

The Second Runner-Up, 75

pounds of Gruyère AOP mi-salé Moléson made by Fromagerie Moléson SA, Orsonnens, Switzerland, was purchased by Great Lakes Cheese for \$60.00 per pound, or \$4,500.00 total.

The highest total purchase of the evening went to R. Mueller Equipment and Sales, which purchased 40 pounds of cheese made by Agropur for \$200.00 per pound, or \$8,000.00 total.

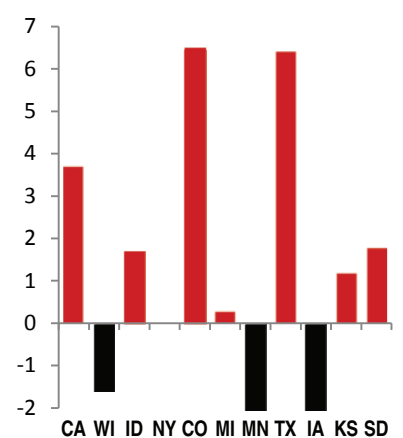
The highest bid went to Masters Gallery Foods, which purchased 15 pounds of cheese made by V&V Supremo Foods for \$520.00 per pound, or \$7,800.00 total. Other bids included:

### ADMIRABLE AGROPUR ITEM 1:

A total of 40 pounds of Mild Cheddar made by David Schmidt,

• See **Cheese Auction**, p. 16

**Milk Production**  
Percent Change from Select States  
March 2013 vs. March 2014



## Bullish On Dairy

(Continued from p. 1)

whey processing capabilities” with the whey protein concentrate that came attached to the LOL West Coast operations.

In 2008, Saputo acquired Wisconsin’s Alto Dairy, and then in 2009 it acquired F&A Dairy in Newman, CA. In 2011, Saputo acquired DCI Cheese, “which got us into the specialty cheese category,” Saputo said.

Finally, in 2013, Saputo acquired the Morningstar business from Dean Foods, “which now gave us a diversified platform other than cheese,” Saputo continued.

So the company’s platform in the US has become “so much more diverse, and has become so much stronger and so much better than it was back in 1997,” Saputo said.

In 1997, Saputo had eight manufacturing facilities and was operating in two countries. With the multiple acquisitions the company has done over the years, in 2014, it operates 57 manufacturing facilities and operates in four different countries.

Back in 1997, Saputo was manufacturing about 55 million kilograms (121 million pounds) of cheese; today, the company is manufacturing close to 600 million kilograms (1.32 billion pounds) of cheese.

### Growth Through Acquisitions

Today, Saputo feels “very, very comfortable” with its strategy of growing through acquisitions; “that’s really been the model that has served us well,” Saputo said.

Saputo is currently the largest dairy processor in Canada, the fourth largest dairy processor in Australia, the third largest dairy processor in Argentina, and one of the top three cheese producers in the US, Saputo said.

Saputo’s growth strategy is one that will “mimic our past,” Saputo said. “We will grow primarily through acquisitions.”

How does Saputo identify potential targets? The primary evaluation is to look at raw material. Is raw material available in the region Saputo wants to be, and at what cost?

So Saputo looks at where there is milk, and where the milk is growing. That’s a potential platform for manufacturing. And as the company looks at that, it needs to understand what the concentration of processors is in that region of the world. Who will the company be fighting with to try to collect some of that milk?

In Canada, that’s “not a big issue,” because Canada has a milk supply management system and there is a quota system that protects Saputo in terms of the quantity of milk. But outside of Canada, “we have to fight every single day

to try to get our milk,” Saputo explained.

The final analysis Saputo does is, are the countries the company is targeting surplus or deficit countries? That is, are they importers or net exporters of dairy products.

The European Union (EU) is the largest milk-producing entity in the world, Saputo noted. If Saputo decides to enter the EU market again, “we need to know it better. We have to have the right plants, in the right regions, with the right size, with the right diversity, and the right brands.”

The next largest dairy-producing region is India, but 50 percent of its milk is from cows and 50 percent from buffalo. Most of that milk is consumed at the farm level; there is little infrastructure in India to collect that milk and get it to a processing facility. So even though India is a large dairy producer, it is

not a target platform for Saputo, at least not at this stage.

The third-largest dairy-producing entity is the US.

“We believe that there’s great potential and a great future in the US,” Saputo said. “The infrastructure is here, the knowledge is here, the lineage is here.”

Saputo said he has been talking at the IDFA for the last 10 or 15 years that the US “should be and could be and will be an incredible platform, not only to service its domestic market, but also to service the emerging markets.”

Over the last 10 years, the US went from exporting 4 percent of the total milk solids it produces to over 15 percent of its total milk solids, Saputo said.

“And there is a reason for that,” he said. “It’s because the infrastructure is here, the quality is here, and the costing is here in order to man-

ufacture products that will feed the emerging markets that cannot produce their own products domestically.

“And so I’m very, very bullish on the US and I’m very, very bullish about our dairy industry,” Saputo said.

The cost of milk is a key variable for exporting product, Saputo continued. At one time, there was “very little” correlation between the US market price and the international market price, but with the influence of exports from the US, “there seems to be a lot more correlation between the US price and the world price.”

And as the solids exit the US, then the pricing internationally has to be a little bit more in line with the pricing domestically in order for it to make sense.

• See **Bullish On Dairy**, p. 27



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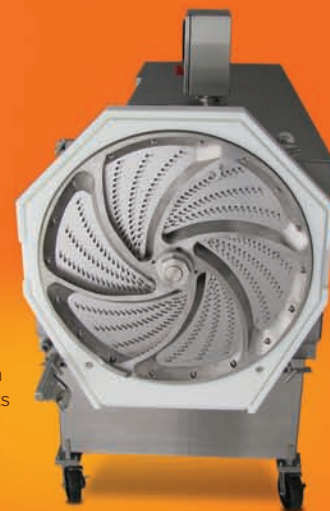
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## Bullish On Dairy

(Continued from p. 9)

That's why Saputo is "very bullish about the US being a platform for feeding the international markets. I believe the milk price in the US is very attractive and getting closer to where Australia and New Zealand have been," and they have been the leaders in dairy exports.

New Zealand is the world's top dairy exporter at this time; 90 percent of the country's milk production is being exported. The EU is a large dairy exporter, but still very domestically focused.

The US is increasing its exports, and Saputo thinks there's "a lot more potential" for the US to export solids. Australia exports 45 percent of its production.

### Current, Future Platforms

Saputo has a "very strong, strong platform" in Canada, but Canada is really a domestic market because of the cost of milk. It's a "great platform," but "certainly not a platform for international trade."

Saputo has two platforms in the US, a cheese business and a dairy foods business. In either of those businesses, despite its size, Saputo represents less than 10 percent of the cheese manufactured and sold in the US, and less than 15 percent of the dairy foods space.

"So I believe there's great potential for us to make other acquisitions in the United States," Saputo said. Saputo will be primarily a domestic supplier, but "we are also increasing our exposure internationally from the US."

Argentina has the lowest-cost milk in the world, but it has political and economic issues. It is a "great platform" for Saputo because of the cost of milk, to manufacture products, whether it's cheese or powders, and export them into emerging markets. Saputo also has a "very strong presence" in Argentina's domestic market.

Saputo's latest acquisition was Warrnambool Cheese and Butter Company in Australia.

"We believe that Australia is a very good region for dairy production," Saputo said. But Australia also has its limitations, because of its climate. Sometimes there are floods, sometimes there are droughts.

And so it's "very, very difficult" for Saputo to view Australia as a growing milk base. Saputo doesn't think Australia can grow at the same rate that the US can grow its milk base.

There are a couple of other areas that do make sense for Saputo beyond the current platforms it is in. One is Brazil. The industry there is very fragmented. Saputo is a "huge" exporter of dairy products from Argentina into the Brazilian market, and wants to be at the forefront of consolidation there.

## Arla To Open Innovation Lab In China To Develop Cheeses, Other Products For Chinese Consumers

**Viby J, Denmark**—Arla is seeking to tap into the unique needs and trends in China with a new innovation lab in Beijing, where Danish and Chinese dairy and innovation specialists will develop cheeses and other dairy products for Chinese consumers.

In recent years, China has begun to acquire a growing appetite for cheese, and a unique taste for cheese is developing quickly in China, Arla pointed out.

Arla's business in China is based on the export of dairy products from Europe, including milk powder, UHT milk, and cheese.

The new innovation lab in Beijing is intended to ensure that Arla can launch new products over the coming years which are exclusively developed and produced for Chinese consumers.

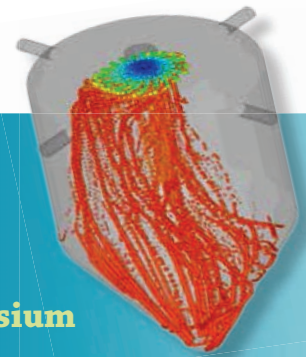
"It's all about developing the next blockbuster product for the Chinese dairy market," said Frede Juulsen, Arla senior vice president, who is responsible for Arla's business in China. "Our first focus will be to create the right kind of cheese products that will make more Chinese consumers love cheese in new and different ways. But it must be done in a way that respects and contributes to the food trends developing in China, and therefore we are placing this innovation lab in Beijing."

The new innovation lab will reside in the physical surround-

ings of the new "China-Denmark Milk Technology Cooperation Center" in Beijing. It is there that Arla is working together with China's Mengniu Dairy Group to strengthen the Chinese dairy industry when it comes to milk quality, food safety and quality control on the dairy farms based on the principles in Arla's European quality program, Arlagarden.

Initially, Arla will invest approximately 10 million DKK (US\$1.85 million) in the establishment and development of the new innovation lab. The lab will employ four people, including cheese makers and innovation specialists with Danish or Chinese background. They will work together with customers and consumer groups as well as with Arla's strategic business partner in China, Mengniu.

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## High Quality Dairy Ingredients Spray Drying, Functionality And Application **SDSU-NIZO Joint Symposium**

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### Tuesday, June 10, 2014

Fundamentals of dairy ingredients processing

- Opening Remarks: *Dr. Vikram Mistry, Professor and Head Dairy Science Department, SDSU*
- Dairy Powders: Global market insights & applications  
*Dr. Veronique Lagrange, US Dairy Export Council*
- Constituents and physicochemical properties of milk: changes during concentration and drying  
*Dr. Thom Huppertz, NIZO food research and Dr. Has Mukh Patel, SDSU*
- Evaporation and concentration: theory  
*Dr. Martijn Fox, NIZO food research*
- Basics of Spray drying  
*Dr. Martijn Fox, NIZO food research*
- Advances in drying technologies  
*Mr. Loren J. Corle, president, Relco USA*
- How to improve dryer capacity, powder quality and reduce fouling, *Dr. Martijn Fox, NIZO food research*
- Process optimization: modeling and case studies using Premia - Workshop to simulate optimization of spray dryer setpoints,  
*Dr. Martijn Fox, NIZO food research*
- Closing Remarks:  
*Dr. Thom Huppertz, NIZO food research*

### Symposium fee: \$ 1400.=

Price includes meals and refreshments listed in the program.

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### Wednesday, June 11, 2014

Manufacturing and Functionality of dairy ingredients: Challenges and opportunities

- Maximizing evaporation capacity through optimal design and reduced fouling  
*Dr. Martijn Fox, NIZO food research*
- High solids drying of milk powder and other dairy ingredients  
*Dr. Thom Huppertz, NIZO food research*
- Functional properties of dairy ingredients: control and application in dairy and non-dairy food systems  
*Dr. Has Mukh Patel, SDSU*
- Maintaining solubility and functionality of milk protein concentrates and micellar casein isolate  
*Dr. Lloyd Metzger, SDSU*
- Tour of Davis Dairy Plant  
*Mr. John Haberkorn, plant manager, SDSU*
- Milk protein ingredients for infant and clinical nutrition products: challenges and opportunities  
*Dr. Juan Gonzalez, Mead Johnson Nutrition*
- Fat functionality in dairy ingredients and clinical and infant formulation: controlling liped oxidation, free fat and fat flecking  
*Dr. Thom Huppertz, NIZO food research*
- Challenges and opportunities for functional dairy ingredients from acid whey  
*Dr. Shantanu Agarwal, US Dairy Researchy Institute Dr. Has Mukh Patel, SDSU*
- Process technologies to deal with acid whey  
*Mr. Steve Wright, GEA Process Engineering Inc.*
- Functional dairy ingredients for high protein drinks and bars  
*Dr. Thom Huppertz, Nizo food research*
- Evaluation  
*Ms. Deb Anderson, Nizo food research*

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