CIDER AUSTRALIA

Australian Cider R & D Update

(ACRAD)

May ‘18

Australian Cider Category Context

- Like wine 40 – 50 years ago, most cider made from Australian grown fruit is made from table apples.
- To build a long-term sustainable industry that can credibly compete with other alcohol categories in Australia and in other markets globally, Australian producers need access to more purpose grown cider fruit!
- This is the ‘missing link’ in the Australian cider Industry and one we need to solve to deliver Cider Australia’s strategic plan

Australian Cider Category Context

Category size Circa 120ML = 160,000 Tonnes of apples = 420,000 bins of apples

An Est. 90% of the category comprises imported fruit

<u>**NB:**</u>

- Current <u>*Australian*</u> apple production is: 280,000 bins p/a
- Current <u>*Tasmanian*</u> Apple Production is: 51,000 bins p/a

HIA Strategic Investment Plan (SIP):

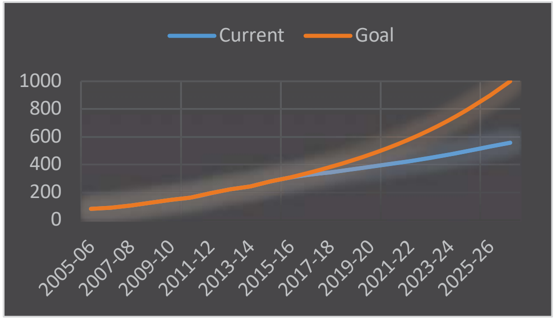
Cider & Perry feature for the first time

OUTCOMES	STRATEGIES
Industry profitability and global competitiveness is improved by reducing the average cost per carton	Drive orchard reworking with emphasis on preparedness for increased mechanisation/automation/scale
	Continue to build the body of knowledge around pest and disease management and prevention, considering both biosecurity risk mitigation and cost reduction
	Improve soil health and increase knowledge of beneficial microbes in orchard management
	Improve labour productivity through greater adoption of technology and leadership training
	Research IT and data systems that enable better collection and connectivity of orchard and business data at every level of the supply chain
	Extend Future Orchards® concept to 'Future Pack House' with the aims of both cost reduction and quality improvement

The value of the average bin has risen, resulting in improved industry profitability	Improve quality consistency and percentage of Class 1 fruit per hectare
	Develop opportunities for utilising second grade fruit and waste streams through value-adding and new product development
	Improve industry knowledge and capability in juicing (for fermented and fresh juice markets)
	Raise consumer awareness of the widespread use of imported concentrates
	Increase industry knowledge of marketing as a means of adding to product value
	Improve industry understanding of how contemporary supply chains function (from farm-gate to plate) to help growers maximise value

Cider Australia – Category Strategy

VISION: Australian cider industry revenue $1B in 10 years
(Vs $600m current trajectory)



ACTIONS REQUIRED

Inputs

GOAL 1: Increase Australian apples in Australian cider (reduce imports)

- ✓ 100% Australian certification (HIA)
- ✓ Consumer education about inputs
- × 1) Cider R&D – value chain analysis

Production

GOAL 2: Improve quality & diversity of Australian cider

- × Tighten cider definitions
- ✓ Australian Cider Awards
- ✓ Producer education & training
- × 2) Cider R&D – production / growing systems
- × 3) Cider R&D – Varietal selection by region
- × 4) Cider R&D – 'Perfect cider apple'

Markets

GOAL 3: Sustain cider category in Australia

- ✓ Improved categorization
- ✓ Australian cider brand proposition (ESWRP)
- ✓ Export promotion and assistance (ESWRP)
- × Consumer education about styles
- ✓ Australian Cider Festival

Flow on benefits

GOAL 4: Diversify businesses and strengthen regions

- ✓ Promote cider tourism

Unfunded R&D activities required to deliver the category strategy

What are we talking about?

An Australian Cider Research and Development Group (ACRAD) is required to deliver the research elements of the Cider Australia strategic agenda.

This Research Group would link all of the disparate activities happening from an R&D perspective in Australia and touch everything along the Value Chain from Variety selection to Marketing / Export

It would have a strategy and be lead by and respond to Industry needs, focusing on the activities which are likely to make the largest impact to the Industry.

Key Outcomes:

A connected Value Chain

Dedicated and Secure research group

An Investible industry

Increased agricultural investment -> More apples in the ground

More regional Jobs!

Strategic / Value Proposition by stakeholder:

HIA:

Increased levy base with a diversified and growing Apple & Pear Industry

Government:

- Regional Jobs & Growth
- Delivering Agri-Vision 2050

University:

Research:

- Funding &
- PHD's
- Publishing

Consumers / Drinkers:

Better quality cider

Investors:

Return!
(IP / Plant Breeders rights)

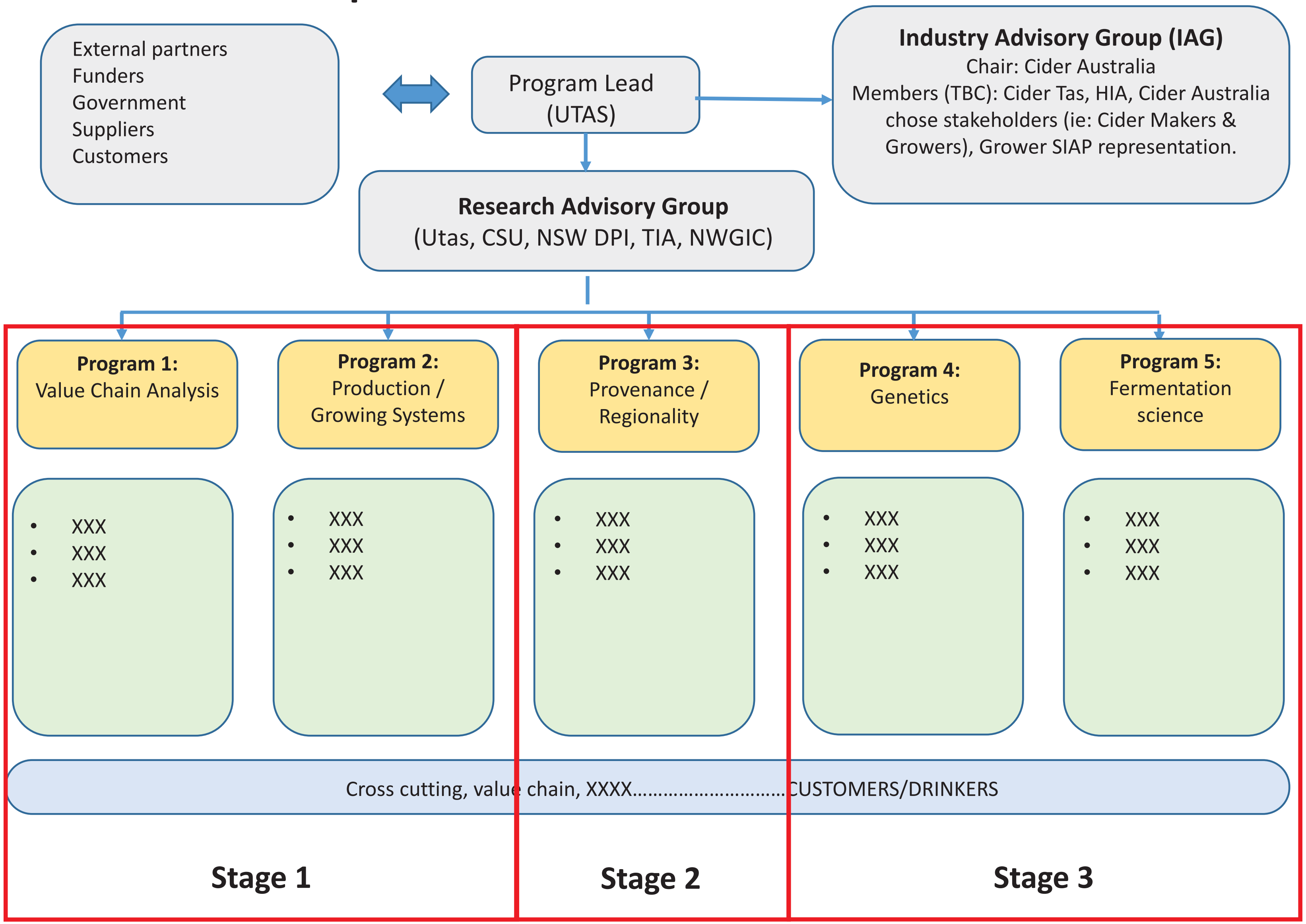
Producers / Cider Australia:

A growing category with higher margin products (Premiumisation)

Customers:

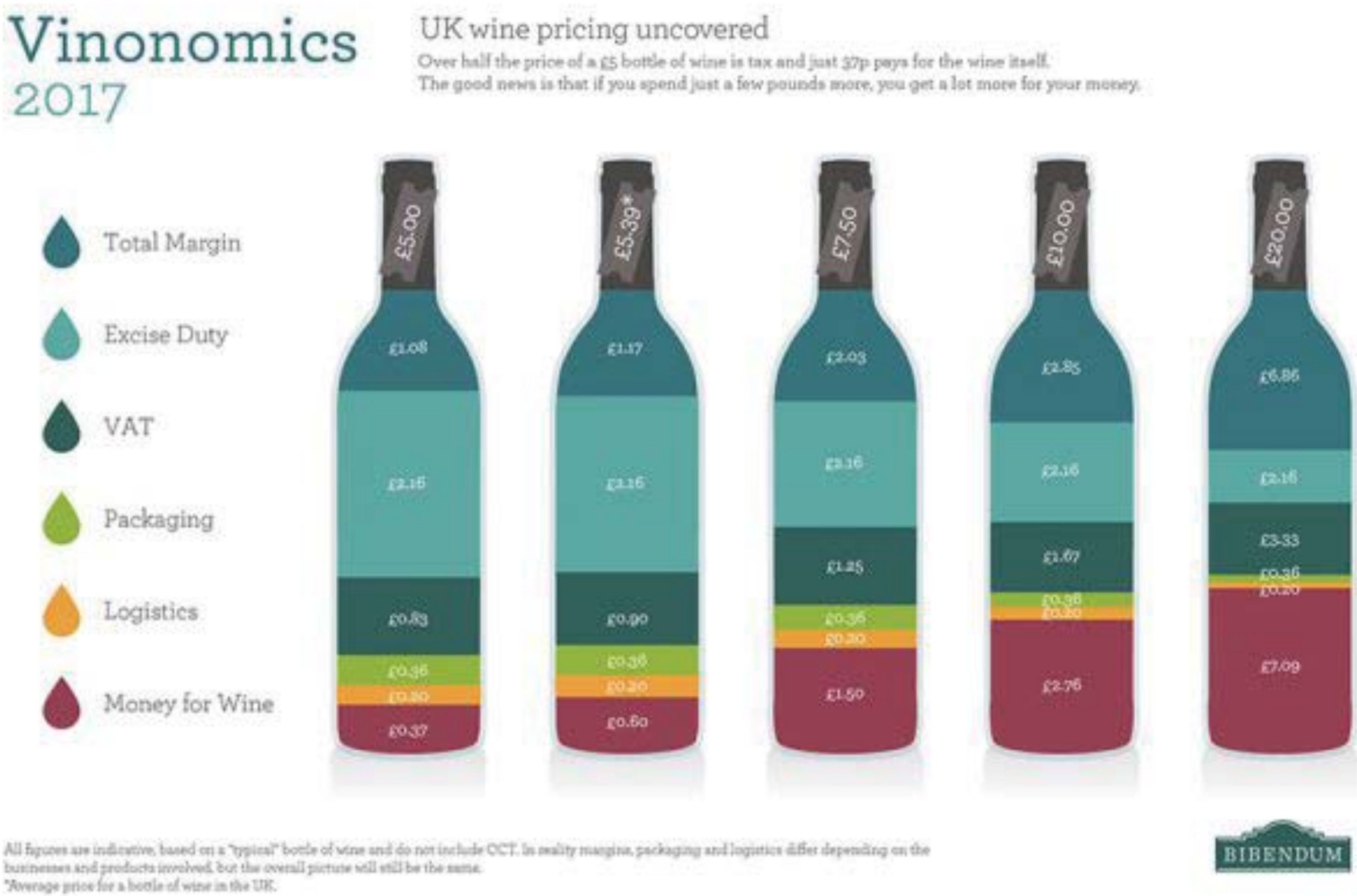
A growing category with higher margin products (Premiumisation)

Proposed Governance Structure



Program 1) Australian Cider Value Chain Analysis

Making the Australian cider industry an investible proposition by demonstrating the profit pools / share of value throughout the value chain



<u>Program 1)</u> Australian Cider Value Chain Analysis

Price comparison of 1K of apples

1KG of Apples $3.50 - $5

750ML of Cider Apple Cider $18 - $30 per bottle

Relative Pricing per Bin of apples:

Conventional Juice Fruit:
$50 - $150 per bin

Conventional Table Fruit:
$200 - $350 per bin

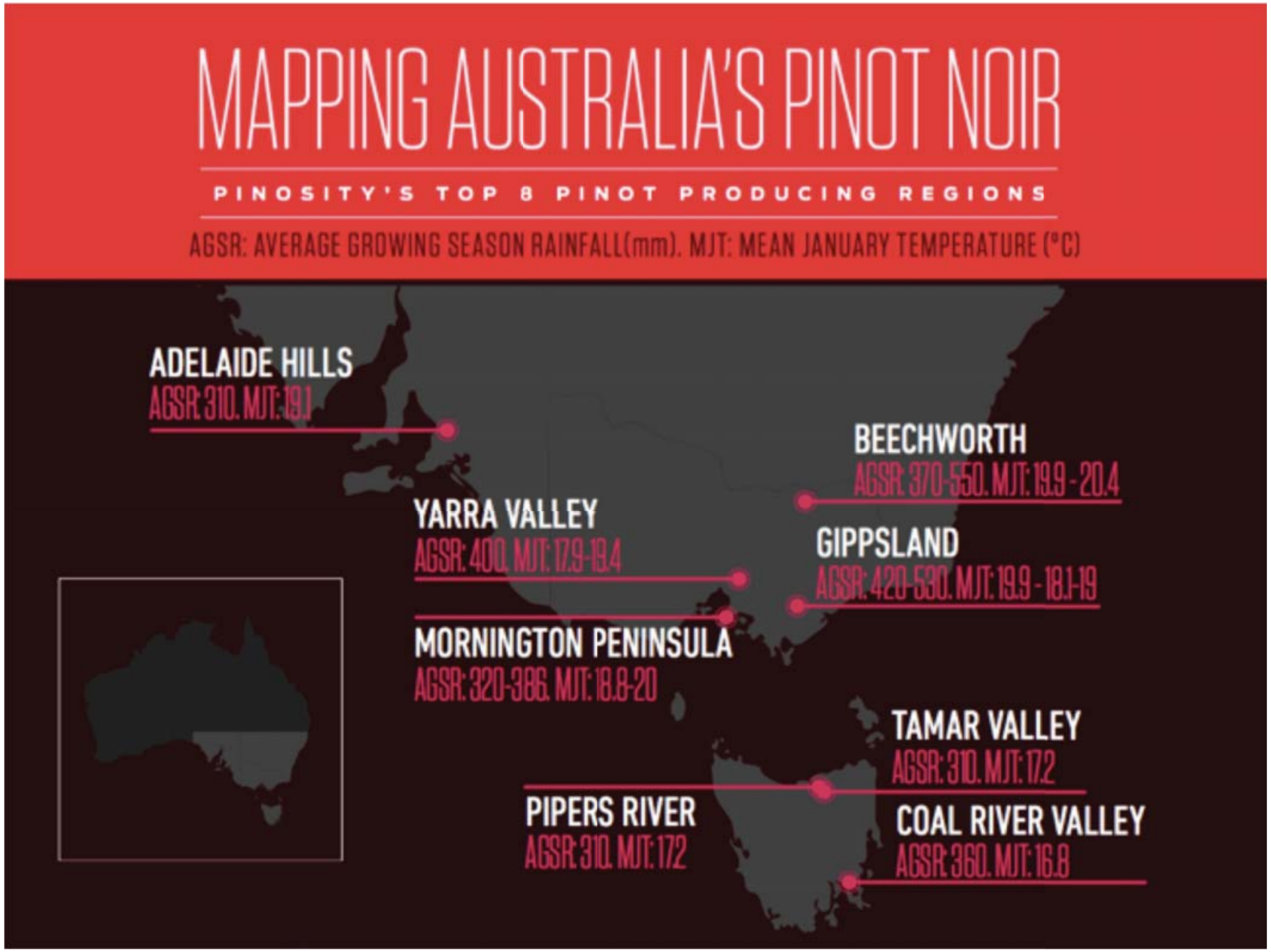
Purpose grown Cider Apples:
$300 - $400 per bin

Program B) Production / Growing Systems

Developing lower cost growing systems for juice fruit harvesting (eg: Mechanical Harvesting)

Program 3) Varietal understanding by region

Developing an understanding of which apple varieties should be grown in each region / climate / soil type



Program 4) Genetic mapping Cider Apples