



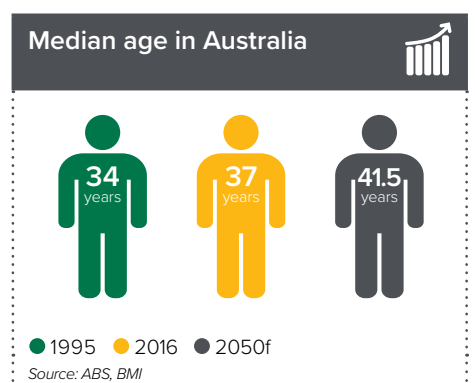
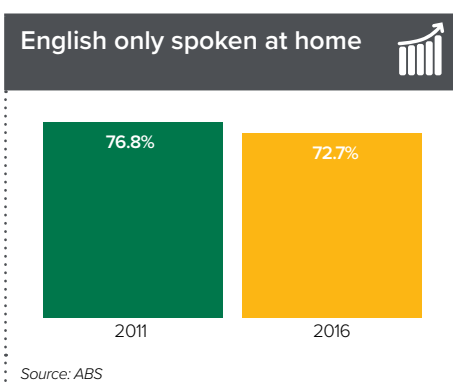
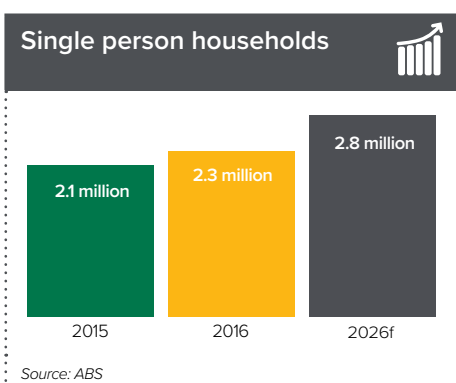
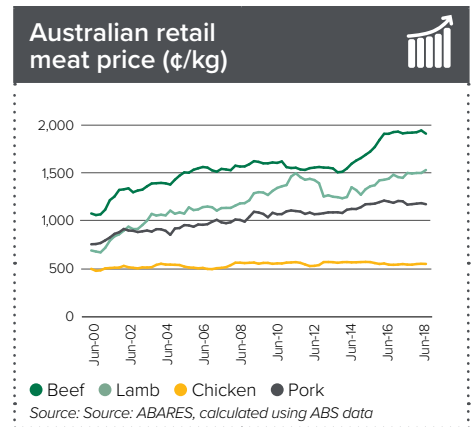
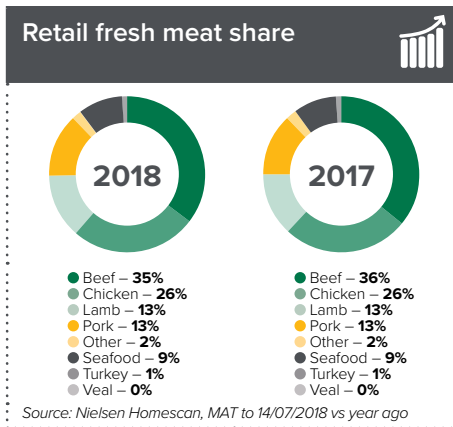
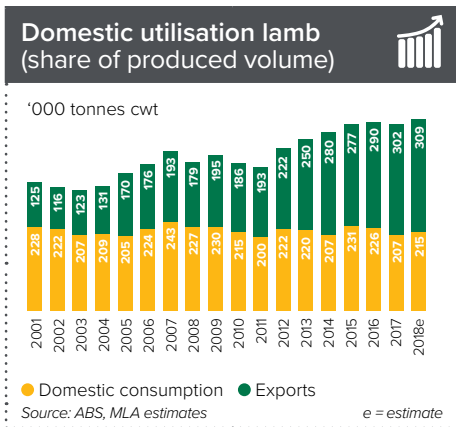
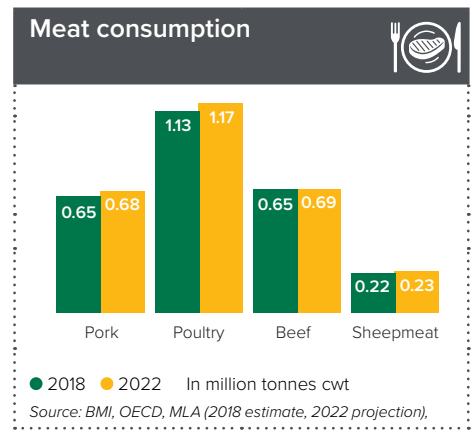
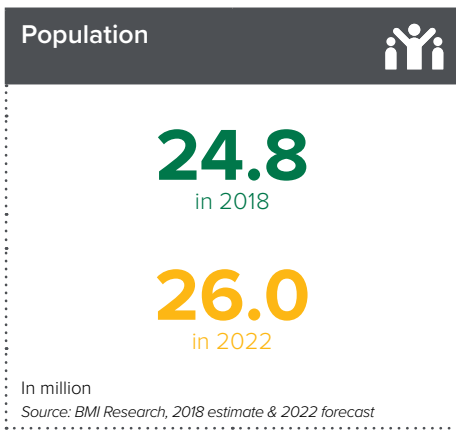
MARKET SNAPSHOT | SHEEPMEAT

Australia

Despite Australia's economy remaining strong in recent years, household income growth is relatively stagnant. Consumers continue to make trade-offs to balance the household budget, which is impacting purchasing behaviour around categories like fresh meat and making consumers more cautious and price sensitive. However, overall Australians continue to be big consumers of meat, being one of the largest per capita consumers of sheepmeat in the world (Source: OECD, ABS).

Sheepmeat consumption in Australia is facing some challenges and opportunities:

- 'Premiumisation' trend across both retail and foodservice channels highlights consumers are willing to pay more for the right offer. Fresh meat, such as lamb, is a key category consumers are willing to spend more on.
- Australia's changing demography provides some macro challenges for sheepmeat with two broad trends of increased migration from Asian countries (where pork is the dominant protein), and an ageing population who are avoiding red meat for health/functional/price reasons.
- Competitive pressures will continue on lamb with ongoing competitor marketing activity (particularly pork), aggressive pricing (chicken) and the increasing profile of alternate proteins such as turkey and salmon.
- Maintaining value share will be a challenge if lamb's price premium to chicken/pork grows larger, given the primary reason for consumers eating less red meat is currently due to cost and not health.
- Messaging around factors such as country of origin, environmental impact, animal welfare, health and safety, along with food integrity and transparency, provide opportunities to consider in consumer communication.



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Consumers



- Overall Australian consumer demand for sheepmeat is impacted by many factors, such as demographic shifts, income growth and changes in people's attitudes and beliefs towards food from family, friends and the media.
- As awareness of lamb is high among Australians, the main opportunity sits with increasing frequency of purchase and consumption (Source: MLA Global Consumer Tracker Australia, 2018).

Protein image profiles

	 Beef	 Lamb	 Chicken	 Pork	 Seafood
Easy everyday	✓		✓		
Goodness	✓				✓
A little bit special		✓			✓

Source: MLA Global Consumer Tracker Australia, 2017

* Tick = Area of strength vs other proteins

- Consumers perceive lamb as 'special' relative to other proteins and are often choosing lamb as it 'tastes delicious'. However, there is opportunity to focus on lamb's versatility and recipes that are easy to prepare (Source: MLA Global Consumer Tracker Australia, 2018).
- When consumers are shopping for lamb, the key information they look for on pack relates to freshness (meat color and use-by date) and then price (Source: MLA Global Consumer Tracker Australia, 2018).

Rising costs of living

Australian consumers are paying higher prices for utilities, childcare, health and education, which in turn is contributing to more cautious consumer spending on food and grocery items according to recent research commissioned by Coles. Coles CEO John Durkan has said Coles customers, particularly in lower socio-economic areas, are shifting from buying premium products to the supermarket giant's own range of private label products, and are spending less on fresh produce and fresh meat, despite relatively low food and grocery price inflation over the same period.



What things do consumers look for on pack/on shelf when buying sheepmeat?

- ✓ Price per kg
- ✓ Price per pack
- ✓ All natural
- ✓ Quality grading or guarantee
- ✓ Colour of meat

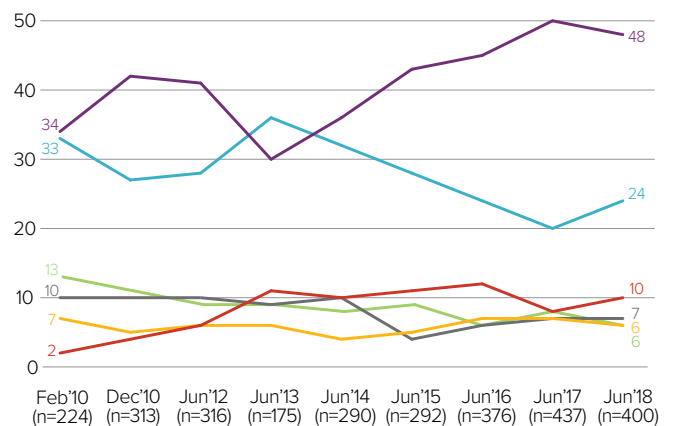
Source: MLA Global Consumer Tracker Australia, 2018

Australia's increasingly diverse population

High levels of immigration are driving Australia's population growth and also leading to an increasingly diverse population. The most recent ABS survey it showed that more than a quarter of Australia's residents are now born overseas, and for the first time in Australia's history, the majority of these people born abroad are from Asia rather than Europe. This is leading to foodservice and retailer operators looking at adjusting in-store/menu space that better targets these changing demographics.

- As the retail price of red meat has trended upwards since 2013, consumers claim price to be the main reason for eating less red meat, above health or animal welfare/environment concerns (see figure below).
- Despite lamb's price premium to many other proteins it remains a very popular meat choice with Australians, being one of the largest per capita consumers of lamb in the world (Source: OECD).

Main reason for eating less red meat



- Too expensive
- Health concerns
- Concerned about treatment of animals
- Don't like the taste anymore
- Environmental concerns (any)
- Other

Source: Pollinate/MLA

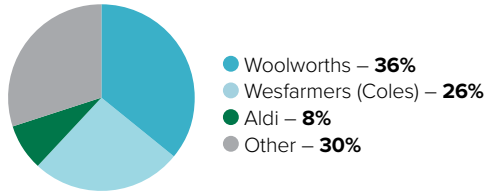


Retail



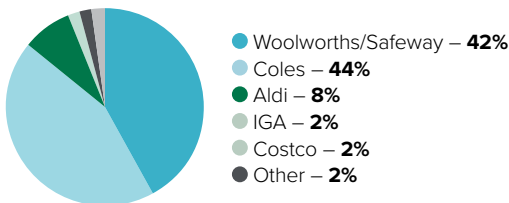
- Lamb has a similar market share as pork, with around 13% share of fresh meat sales (by value) in 2017-18, behind beef and chicken (Source: Nielsen Homescan).
- It is a critical category for retailers with the average grocery basket value typically worth \$44, it jumps to around \$78 when the basket includes fresh meat/seafood (Source: Nielsen).

Grocery retail market shares



Source: IGD, 2018

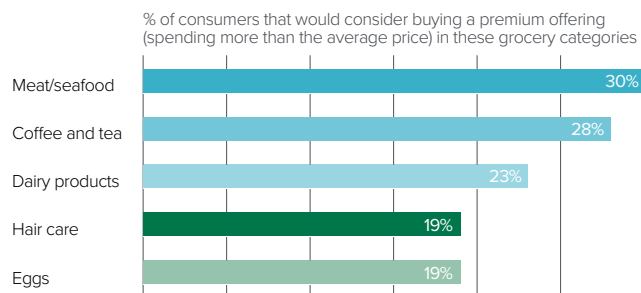
Main supermarket of purchase – lamb



Source: MLA Global Consumer Tracker Australia, 2018

- There is an increasing focus on format differentiation and in-store experience (i.e. new concept stores with enhanced customer experience and stronger digital integration) and new promotions (i.e. 7-Eleven's Tasty Wednesday campaign). These retailers are all targeting this key shopper trend and seeking incremental sales that might otherwise have gone through the foodservice channel.
- Premiumisation trend is growing within retail and red meat is well positioned with meat as a category being Australian consumers' top choice when considering a higher price tag. Just under one-in-three consumers (30%) in Australia would consider spending more on a premium meat offering (Source: Nielsen Global Online Survey on Premiumisation).

Top upgradable grocery categories – Australia



Source: Nielsen Homescan Grocery E-Commerce Survey

There is a growing food box meal kit trend in Australia (such as Hello Fresh and Marley Spoon). These generally include portioned ingredients and simple recipes that allow consumers to quickly create their meal. They now capture 1.5% of total households (around 150,000 households) in 8 months to May 2018 (Source: Nielsen Homescan Grocery E-Commerce Survey).

Place of fresh meat purchase by average customer spend and market share

Australian grocers	Value share	Average spend per trip
Supermarkets (Woolworths, Coles, IGA and ALDI)	81%	\$17.43
Other supermarkets	3%	\$26.14
Non supermarkets	19%	\$32.78

Source: Nielsen Homescan, MAT to 14/07/2018

- The Australian grocery market is highly concentrated by global standards, with the two big retailers making up over 65% of the market. Coles, Woolworths and IGA all have a broad and significant national footprint, with Aldi currently catching up through expansion into the western states and increasing store counts on the east coast.

Key facts about major Australian grocery retailers

- Strong competition has continued in the Australian grocery market with the expansion of Aldi and Amazon's market entry.
- Woolworths:** Food sales experienced a strong turnaround this year with revenue growing +4.9% in the first half of 2018 (Source: IGD). Key developments behind this improved performance has been a focus on store refurbishment and trialling new formats. Woolworths rebranded over 5,700 lines to Woolworths (mid) and Essentials (entry) that are delivering strong growth (Source IGD).
- Coles:** Food and liquor sales were up +2.0% year-on-year in 2017, behind Woolworths for the first time in recent years. Its continued 'Down Down' price strategy has led a food and liquor deflation of 0.8% for 2017 (Source: Coles).
- IGA (Metcash):** Supermarket food and liquor sales continued to capture low growth in the first half of 2018 up +0.3% on last year. Broadly, Metcash has lagged behind the growth of Coles and Woolworths in recent years as the competition, especially around price, has intensified (Source: IGD).
- Aldi:** Rapid expansion has continued at Aldi and it is forecast to operate 590 stores nationwide by 2021. It experienced the largest growth (albeit off a smaller base) out of the four majors with a +12% increase in sales year-on-year (Source: IGD). Aldi is seeking to attract new customers with a widening range and a better fresh food offering.
- Costco:** Sales grew +15% as Costco plans to continue opening more new stores, moving forward increasing from its current nine stores to 15 by 2021 (Source IGD). The focus is on having a complete food and general merchandise offer in one place, which is often sold in bulk.

The changing face of food retail

The retail sector in Australia is expected to undergo some significant change in the near future with the rapid increase in Woolworths and Coles sales through their online channels, Amazon Marketplace's launch and anticipated entry of new retailer Kaufland (operated by the world's fourth largest retailer, Germany's Schwarz Group). We are also seeing some changes in approach from current retailers with David Jones opening a premium food hall in Bondi Junction and Costco and Metcash both launching new services into the online space. Costco has introduced a B2B delivery service in Melbourne and Metcash is flagging a new digital portal in 2018 called IndieDirect.

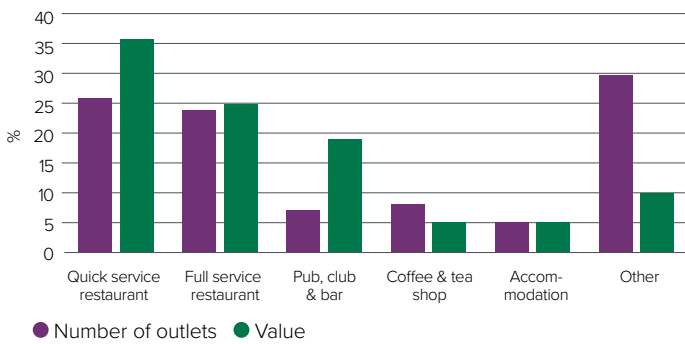


Foodservice



- The Australian foodservice sector is a key channel for sheepmeat and sources approximately 15% of our domestic lamb supply (Source: RIRDC/Fresh Agenda).
- The foodservice landscape is large, and competitive, with around 87,000 places to eat out, dominated by quick service restaurants (QSR), cafes, and casual dining restaurants. Generally, it is highly fragmented, with many individual companies having small market share. Exceptions include QSRs and institutional channels such as hospitals and aged care.
- Australians eat out an average of two to three times a week, with the foodservice market growing at a moderate pace in recent years averaging 2-3% growth annually. This is largely being driven by rising transaction prices, following the 'premiumisation' of food offerings across most channels (Source: GlobalData).

Foodservice channels: outlets number and values (% of total)



Source: GlobalData

- Over 80% of foodservice sales in Australia will go through either a QSR, a full service restaurant (FSR) or a pub, club and bar.
- Within foodservice, lamb is strong in the dining out segment, which currently accounts for 60% of the foodservice lamb volume, with an opportunity to expand in the takeaway channel. (Source: RIRDC/Fresh Agenda).
- A key trend for lamb has been the emergence of fast casual outlets that have forced up expectations of consumers. This trend has created a race among traditional QSR operators to 'premiumise' their brands and offering – this includes the removal of additives and introduction of natural ingredients (Source: GlobalData).

Modern Australian dinner parties

A recent study conducted by Galaxy Research on behalf of MLA has highlighted some new trends for Australian dinner parties with 32% attending parties where everyone helps cook a culturally diverse meal. The majority of hosts (61%) also now plan their menu based on their guests' dietary needs (with 20-25% of hosts catering to gluten and dairy intolerances).

When lamb is used at a dinner party, it is most likely to be found in an Italian, Chinese or Thai dish. Roasting is the most popular method, followed by slow-cooking and then barbecuing. Baby Boomers are more likely to stick to roasting their lamb while millennials are more likely to try different cooking methods like smoking, stir frying or using minced lamb.

- Australia is often referred to as a 'takeaway nation' with 48% of consumers having eaten a takeaway meal in the past week. This number is expected to increase with the emergence and continued growth of numerous food delivery companies that open up the ability of FSR operators to outsource delivery (Source: GlobalData).
- There are many factors that contribute to the choice to eat out or not, mostly occasion-based (i.e. where and when the meal takes place, and with whom). Having children in the household indicates a higher level of eating out, as well as influencing choice of venue and choice of meal. When it comes to where to go, convenience, value and familiarity are key, which partly explains the rise of QSRs, supermarket meals-to-go, and other casual dining options.



Food delivery apps having an impact

The four largest food delivery apps in Australia are UberEATS, Deliveroo, Menulog and Foodora with an estimated combined market share of 75% (Source: IBIS). These food delivery apps have been a contributor to the growth in the foodservice sector and are now establishing partnerships with the major QSRs (McDonalds has partnered with UberEATS and KFC Foodora). This is driving two key trends some restaurants are changing to cater to this delivery channel (specific menus and store format), while others such as fine dining restaurants, are focusing on ensuring customers continue to come in for seated meals by offering unique dining experiences.

