



MAKE YOUR HEALTHY
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WEDNESDAY 24 AUGUST
CEO ADDRESS
DAN MATHIESON

Kia ora ano koutou

Ka tu au tautoko mai nga mihi, Kua mihi

Nga mihi ki a koutou, e aku rangatira

Tena koutou katoa

Thank you Bruce and good afternoon everyone.

OPERATING DURING A PANDEMIC

As Bruce said it's so good to be together for this meeting, after two years online.

I know I don't need to tell you how significant and far reaching the impacts of this pandemic have been and continue to be.

This season more than ever it's important we are together because we've some real challenges to address.

We're facing major shipping disruption, soaring costs, regulatory changes and a severe labour shortage.

And most critically, we're dealing with major quality issues which is putting our brand position and premium grower returns at risk.

This has a large impact on you as growers, on post-harvest, on Zespri and our customers and it will require some tough decisions from us as an industry to address.

I'm going to spend some time today talking about those challenges, and in particular quality, but I want to first focus on what we were able to achieve last season.

The header features a green background with a white curved shape on the right containing the Zespri logo. On the left, there are images of kiwifruit: a whole fruit, a sliced kiwifruit showing the green flesh and black seeds, and a sliced kiwifruit showing the yellow flesh and black seeds. The text "MAKE YOUR HEALTHY" is in white, and "irresistible" is in a yellow, cursive font.

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REVENUE AND RETURNS

Despite considerable uncertainty and the enormity of the disruption when so many other industries were struggling to get their goods to market, we recorded strong results.

We sold 201.5 million trays - up from 181.5 million in our previous season.

Revenue from fruit sales increased 12 percent to \$4.03 billion.

This resulted in almost \$2.5 billion in direct payments to New Zealand growers.

And we recorded strong financial results across all fruit categories.

This represented the second-highest ever per-hectare returns, reflecting strong yields and a great-tasting crop from growers, as well as the ability of our post harvest partners and teams throughout the supply chain to deliver a lift in value to help us offset rapid cost increases.

PROFIT AND DIVIDEND

Thanks to record crop volumes, strong demand for our fruit and licence pricing, Zespri's net profit after tax was \$361.5 million.

This was up from the retrospectively restated \$277.1 million last year.

Our global operating revenue reached NZ\$4.47 billion, up 15 percent from last year.

Revenue per employee was up slightly to \$5.8 million, with 260,000 trays sold per FTE versus 264,000 the year before.

This reflects our ongoing investment to keep demand ahead of supply and in people to build the systems required to realise future growth as part of our Horizon Programme.

STRONG MARKET PERFORMANCE

Our performance was again led by Europe, Japan and Greater China.

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We've also seen strong results in Korea and our newer markets like Vietnam and North America are growing and making important contributions.

Further unlocking the potential of these markets, and growing new ones, remains key to growing our share of the global fruit bowl.

In light of our three-year average NZ Supply EBIT exceeding 1.2% of New Zealand Supply sales, Zespri's fruit return margin percentage under the enduring funding agreement will be reset downward again by 0.25% to 6.75%.

This will mean higher returns to growers through additional Fruit and Service payments expected to be between \$5 and \$6 million for the 22/23 financial year.

ZGS VOLUME AND REVENUE

Offshore, we saw Zespri Global Supply strengthen.

The 26.5m trays sold helped preserve shelf-space for New Zealand fruit, making our marketing and promotion spend more efficient, supporting the passage of free trade agreements and edging us closer towards our mission of 12 month supply.

I'd encourage those of you who haven't yet voted on the ZGS producer vote to please do so.

RISING TO THE CHALLENGE

I'm incredibly proud of the results we've achieved, as I'm sure you are too, particularly given the circumstances we've all faced.

I also want to acknowledge that last season also saw challenges specific to some of our grower cohorts.

Organic SunGold Kiwifruit growers were affected both by the decision not to send organic fruit to China and fruit loss stemming from container vessel transit delays to North America.

The request from Nelson growers for greater hail compensation from the pool failed to reach the required threshold.

And Denatonium Benzoate residues led to a substantial write-off of stock in the market and a review of our Crop Protection programme which highlighted several new compounds we will now test for.

These are all the sort of important issues and risks that need to be managed well.

Looking ahead, we must make sure we have a clear and transparent way in which any further issues can be raised, particularly by smaller groups.

We want to make sure that in cases where there may not be universal agreement on the outcome, there is still a clear understanding of how we've arrived at that solution.

UNAUTHORISED G3 PLANTINGS

Our work to closely monitor unauthorised G3 plantings in China has also continued.

Our latest estimate indicates there are likely to be 7,000 hectares in the ground, up from 5,700 last year and 4,000 in 2020, but less than the 12,000 we originally anticipated.

While we acknowledge the result of the 2021 producer vote when growers did not support the commercial trial as proposed, we do still need to agree on a way forward.

The challenges and risks we discussed last year remain and we'll be looking to resume those conversations with the industry later this year and ensure industry leadership can assess the situation on the ground in China once local quarantine restrictions ease.

CARING FOR PEOPLE AND THE PLANET

Beyond strong financials, we also took some important steps forward on our strategic priorities which underpin our future returns.

Our sustainability commitments are tough and we are going to have to work hard to meet them, but we are making progress.

Our carbon-neutral kiwifruit trial is underway as we explore the decarbonisation of our supply chain.

We're at 87 percent of our target of 100 percent recyclable, reusable or compostable packaging by 2025.

And together with NZKGI and MKGI we've progressed the industry's water strategy, focusing on water use, irrigation, and nitrogen application.

Sustainability remains a fast-changing issue and a critical area.

Consumers are increasingly making purchasing decisions not just on a product but how it's produced and its impact on society and on the environment.

Our research tells us that a brand which genuinely reflects those values is increasingly what customers and consumers are searching for.

We should not underestimate the depth of feeling and the importance of this to people around the world.

That also serves as a reminder of the importance of looking after those who work within our industry, including RSE workers who are critical to our success.

Our industry has a set of clear expectations and obligations that must be met, and we need to be aware that the actions of a few who fail to uphold these can undo the good work of the majority who genuinely care about their workers.

And it will remain our collective responsibility to call out anyone failing to meet our standards so that ours can be an industry people want to work in.

CREATING OPPORTUNITIES FOR GROWERS AND CONSUMERS

From an innovation perspective we welcomed the establishment of the Kiwifruit Breeding Centre.

The partnership with Plant & Food Research will focus on breeding new, high value varieties faster to create opportunities for growers and consumers, and tackling the challenges we face.



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This includes developing a new Green cultivar to bring new consumers to the category through a higher taste and more ready to eat profile.

We're also seeking new cultivars which produce higher yields in warmer climates, an aspect that has become more urgent given the uncertainty created by the Environmental Protection Authority's reassessment of HiCane.

We know this has caused concern within the industry and along with NZKGI, we oppose the ban based on all the information currently available.

We're working alongside NZKGI through the reassessment process to ensure that the EPA considers all of the evidence, including the benefits and the risks, as it makes this critical decision

RUBYRED KIWIFRUIT

Our RubyRed Kiwifruit has just completed its first year of commercial production.

It's a challenging variety to grow, but our consumers love its unique taste and it is a popular addition to our product portfolio.

SUPPORTING A HAPPY AND HEALTHY COMMUNITY

We also need to ensure the benefits of our success are shared in order to maintain the support of our communities - and they are.

As growers you helped more than 20,000 children in 700 classes learn about the benefits of eating well, exercising and looking after the environment through the Zespri Young and Healthy Virtual Adventure.

We're also very excited about our support for the AIMS GAMES that kicks off in a few weeks' time.

And we've supported fundraising efforts through our industry rugby games - last year to help the victims and first responders of the Whakaari White Island eruption; this year to support RSE communities in the Pacific Islands.

TURNING CHALLENGE INTO OPPORTUNITY

Together, in an extraordinary year, we turned challenge into opportunity.

We made strong contributions to the people and environment around us.

We built a world-leading brand and delivered strong results to growers.

Looking back, there's a lot to be proud of.

And it's important we do reflect on our success, and what's been built on - because this season frankly we're putting it at risk.

A FOCUS ON QUALITY

The fruit we are sending to market this year is the worst since the quality and taste issues we faced with Hort 16A in the early 2000s.

That fruit was so bland that the General Manager for Asia at the time said he couldn't sell the potatoes that we were sending him.

Many of you will remember this led to the establishment of our Taste programme to incentivise growers to provide great tasting fruit, in order to encourage repeat purchasing at high value in our markets.

I believe this is a similar moment for our industry, a time for our industry to come together to make some changes to our existing practices in order to address the quality challenges we are seeing.

QUALITY CHALLENGES

From softs to stains and rots the fruit we are providing this year has not fulfilled the promise of the brand that we've built together.

Many of our customers are genuinely upset.

These are people we've spent decades strengthening relationships with off the back of our ability to deliver consistently great quality kiwifruit.

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While they expected some quality issues as a result of the pandemic and resulting labour shortages, what we're delivering is at the worst end.

We're now seeing consumers in China talk about fruit quality on social media.

Customers who've not been in contact with me for many years have reached out to tell me how poor the situation is.

Our reputation for quality, the brand we've invested more than \$1.5 billion of your dollars in building and our relationships are being damaged.

And with that, so too our ability to keep lifting value, and support sustainable returns.

QUALITY COSTS

This year alone the cost is forecast be \$2.80 per tray for SunGold Kiwifruit, compared with \$1.68 last year.

For Green it's \$1.95, and this is in a short supply year.

The problem has gotten progressively worse over recent years.

Every bad tray we provide is less money in your pocket and another step towards becoming a commodity like any other lower priced fruit you see in market.

We have to come together to fix it - and we all have a role to play.

ZESPRI IS COMMITTED TO REDUCING THE PRESSURE

Zespri's looking hard at how we respond and help to take pressure off.

One of these considerations is around licence release.

In releasing licence, we've always considered the balance between meeting the demand we're creating and capturing as much value as possible from the market, alongside the industry's capacity to accommodate that growth.



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Unfortunately, the pandemic and resulting labour shortage have exacerbated this tension significantly, with the industry continuing to encourage the government to provide appropriate policy settings to allow us to address this shortage.

It's also undermined confidence to invest in the infrastructure needed to accommodate the growth and the constraints have become more severe in the last two years.

As part of a review, we will continue to work closely with growers and post-harvest to more fully understand the industry's capacity to accommodate the growth and to balance that against the value we're leaving on the table.

We expect to announce changes to the licence allocation mechanism and the number of hectares available ahead of the 2023 licence release

Similarly, the refinements we're making to the taste programme will consider alignment between market signals and price positioning, alongside the impact our incentives are having on quality.

WE ALL HAVE A ROLE TO PLAY

Resolving our quality challenges will require a whole of industry response commensurate with the scale of the issue as we seek to understand the causes and solutions.

We know that labour is a huge part of the problem.

It's leading to sub-optimal picking, and a shortage of people to do the proper quality checks on the packing lines.

This has put immense pressure on growers and post-harvest and I know it's been an incredibly hard time for you.

We also need to look at our incentives and growing practices and the impact of the warming climate.

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And we need to consider the balance between yields and quality out turns and how we deliver the best tasting, highest quality fruit at the strongest returns to growers.

OUR RESPONSE HAS ALREADY STARTED

I am pleased to say that response has started already.

I'd like to acknowledge the leadership of the growers and post-harvest representatives involved in the discussions on a way forward.

It's fair to say the conversations are challenging as they should be.

But while it's tough for us we shouldn't lose sight of how tough it is for others out there.

Other growers are facing the same challenges we are without the benefit of our scale and structure, or the value and brand strength we've built.

When talking with those in apples, avocados, table grapes or many other fruit sectors, we're seeing other exporters unable to secure shipping space or raise their prices to help offset the same increase in costs we're experiencing.

In fresh produce, it's very hard to get out of the commodity cycle and many are struggling to differentiate themselves with consumers and to give them a reason to pay more for what they produce.

It shows how important our model is not only in good times, but particularly in difficult times

Our global structure, our unity and scale and our committed and passionate people across the industry and in the markets are all helping us to get through these challenging times.

Together, with all of your support, we will tackle the quality challenge too.

SUNGOLD KIWIFRUIT OGR VALUE CHAIN

Even with the quality issues, our pricing is strong, helping to recoup some of the cost increases from market.

And while costs have increased across the board we expect to see some of these flattening off or at least increasing at a slower rate than what we have seen in the last two years.

Wage costs for example have increased rapidly in recent years but that increase should start to ease.

GREEN OGR VALUE CHAIN

Freight and fuel costs have surged because of the shortage but will likely moderate.

And if we can address our quality costs, there could be as much as an additional 70c and \$1.50 in per tray Green and Gold grower returns.

On the demand side, there's much for our industry to be excited about.

We have the best growers in the world producing a fruit that aligns with the increasing consumer focus on health and wellness.

STRONG DEMAND GROWTH POTENTIAL

We have a world-leading brand and we're well placed to benefit from consumer demand for convenient, ready to eat products.

We must focus on getting the speed of our growth right to realise the enormous demand opportunity we have to grow value up to three times where we are today.

Obtaining that value requires us to continue to focus on the things we can control.

That includes delivering great quality fruit, embracing more sustainable practice, investing in our brand, meeting market access requirements, promoting the benefits of fresh, healthy and safe kiwifruit and continuing to deepen our connection in markets.

The header features a green background with a white sunburst graphic on the left containing two kiwifruit slices. The text 'MAKE YOUR HEALTHY' is in white, and 'irresistible' is in a yellow script font. The Zespri logo is in the top right corner.

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TOGETHER, THE BEST IS AHEAD OF US

Within this industry we have an extremely talented set of people who have proven their ability to rise to the challenge.

Thank you for all of your continued dedication and your commitment to work collaboratively.

We know how hard this season is and the pressure it's putting on all of you.

By continuing to work together we're well positioned to capitalise on the long-term value that we see in the years ahead.

Together, we can continue to punch well above our weight in the global fruit bowl, and ensure the industry provides opportunity and value today, and for the generations to come.

No reira e hoa mā

Tēnā koutou, tēnā koutou, tēnā koutou katoa.