Food in China

Jan Debruyn
MD, Alfa Laval China
CHINESE STOCK PLUNGE CONTINUES

CHINESE YUAN POSTS BIGGEST WEEKLY LOSS ON RECORD

ANTI CORRUPTION

FIGHTING CORRUPTION
China boosted anti-corruption campaign in 2013

INVESTORS ARE WORRIED ABOUT A DEEPENING SLOWDOWN IN CHINA
## The China context

<table>
<thead>
<tr>
<th>2002-2012</th>
<th>2012-2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment driven</td>
<td>Consumption driven</td>
</tr>
<tr>
<td>CAPEX driven</td>
<td>OPEX driven</td>
</tr>
<tr>
<td>Middle class to 230 million</td>
<td>Middle class to 630 million</td>
</tr>
<tr>
<td>Urbanization from 39 to 53%</td>
<td>260 million people move to cities</td>
</tr>
<tr>
<td>Growth by megacities</td>
<td>Growth by mid-size cities</td>
</tr>
<tr>
<td>Elderly 9% of population</td>
<td>Elderly 14% of population</td>
</tr>
<tr>
<td>Environmental spend 1.3% of GDP</td>
<td>Environmental spend 2.2% of GDP</td>
</tr>
<tr>
<td>Shipbuilding share from 11 to 45%</td>
<td>Fleet share from 10 to 15%</td>
</tr>
<tr>
<td>Do thing cheaper &amp; faster</td>
<td>Innovate and do things smarter</td>
</tr>
</tbody>
</table>

**The world’s factory**

**The world’s market**
The China context

2002-2012
- Investment driven
- CAPEX driven
- Middle class to 230 million
- Urbanization from 39 to 53%
- Growth by megacities
- Elderly 9% of population
- Environmental spend 1.3% of GDP
- Shipbuilding share from 11 to 45%
- Do thing cheaper & faster

2012-2022
- Consumption driven
- OPEX driven
- Middle class to 630 million
- 260 million people move to cities
- Growth by mid-size cities
- Elderly 14% of population
- Environmental spend 2.2% of GDP
- Fleet share from 10 to 15%
- Innovate and do things smarter

The world’s factory

The world’s market
Six high-growth industries

- Health
- Private Education
- Food & Beverages
- Green Technologies
- e-Commerce
- Cloud Computing

“From Mining to Dining”
Demographic change

- Increase in incomes and middle class households → spending on consumables
- More women in the workforce → increased demand for prepared baby food

China food market
Considered to grow more than China’s GDP

- Changing lifestyles
- Increased purchasing power
- Health awareness

Source: BMI, National Bureau of Statistics China, KPMG
Industrial drivers

- Food safety
  - Hygienic processes

- Higher efficiency
  - Technology shift

- 'Premiumization'
  - New processes

Investments in process equipment
Higher efficiency

Tougher industry pressures:

- Wage increase ≈12% per year
- Shutdowns of facilities with low productivity but high emissions

Drives the need for:

- Modernized production to stay efficient and keep margins
- Automation and upgrades in food processing systems

Source: International Labour Organization, 12th Five Year Plan
‘Premiumization’
– new consumption trends

- More healthy
- Less sugar
- “Premiumization”
- Improved quality
- Safe

- Protein beverages
- Botanical beverages
- Premium bottle water
- Sugar-free RTD

- Carbonated soft drinks
- Bulk of ready to drink tea
Alfa Laval in China

- 2,700 employees
- 11 sales & service offices
- 8 service centers
- 230 authorized distributors
- 4 factories
- Product center Asia
- Sanitary Asia hub
- Engineering & Supply
Alfa Laval food in China
LTM OI September 2015

82 M€

Vegetable oil
Food solutions
Proteins
Brewery
Dairy
Product strategy in China
for the Food market

Value focus

Product fit strategy

Cost focus

Multi-brand strategy

www.alfalaval.com
Making plants safer
The Chinese dairy market – Yoghurt

* In Yoghurt: lactose is broken down during production making it suitable to the Chinese consumer
* New but strong segment driven by increased health awareness
* Localized production, only Yakult and Danone among top players
* Yoghurt is among first focused areas for tighter safety enforcement
* Yoghurt market to grow >11% annually over next three years

Source: Mintel GNDP, Euromonitor
Making plants safer
Providing hygienic solutions to the Chinese yoghurt market

- Alfa Laval uses two ways to market – Preferred channel Tetra Pak and component distributors
- Wide products range
- Strong position to key players

Picture: Tetra Pak Yoghurt processing plant
Tradition versus innovation
The Chinese condiment market – Soya sauce

- 7M tons of soya sauce per year
- Increasing popularity of premium products (sophisticated taste)
- Food safety concerns & push for efficiency - > from traditional processes to latest technologies
- Soya sauce market to grow >15% annually over next three years

Source: Citic Securities, China Condiment Association
Tradition versus innovation
Providing efficient solutions to the Chinese soya sauce industry

- Alfa Laval pioneered: joint tests with leading producers
- Today, Alfa Laval supplies: high-speed separators, sterilizers, evaporators, tank cleaning equipment
- Investments driven by
  - cost efficiency
  - higher product quality
  - higher hygienic standards

Picture: Alfa Laval High Speed Centrifuge in Soya Sauce plant
Tap the “taste of China”
The Chinese sugar confectionary market – Chocolate

- China, 2nd largest market
- Market dominated by foreign owned brands such as Dove and Ferrero Rocher
- Premium chocolate sold in China is mainly used for gifts or ceremonial purposes
- Chocolate market to expand to US$4.3 billion by 2019 (from 2.7 in 2014)

Source: Euromonitor International
Tap the “taste of China”
Providing hygienic products to the Chinese chocolate market

- Ferrero Group
  - 3rd chocolate producer in the world
  - Major player in the Chinese market
- Investments are driven by cost efficiency, and easiness to clean hence more hygienic
- Alfa Laval supplies food-processing equipment and cleaning solutions
Summary

- Food grows above the country’s GDP
- Alfa Laval already has a strong position
- Alfa Laval’s core technologies and competencies have a good fit
- We have a high degree of localization