Confusion

Confusion is a higher

state than certainty

The most powerful trends in dairy will occur in the next five years.

Reflections on Change

“Change . . . you don’t have to do it,

survival is not mandatory.”

Peter Drucker

Dairy Industry

- Growing
  - Consolidating
    - Intensifying

Food Industry Characteristics

- Extreme intense competition
- Cannot pass on cost increases
- Passionate drive to reduce cost
- Heavy investments in information systems
  - Paperless peopleless supply chain
- Moving to partnering relationships
  - Seamless
  - Supply chain driven
  - Logistics

U.S. consumer will determine

structure of U.S. food system

from farm to retail

Changing Market Environment

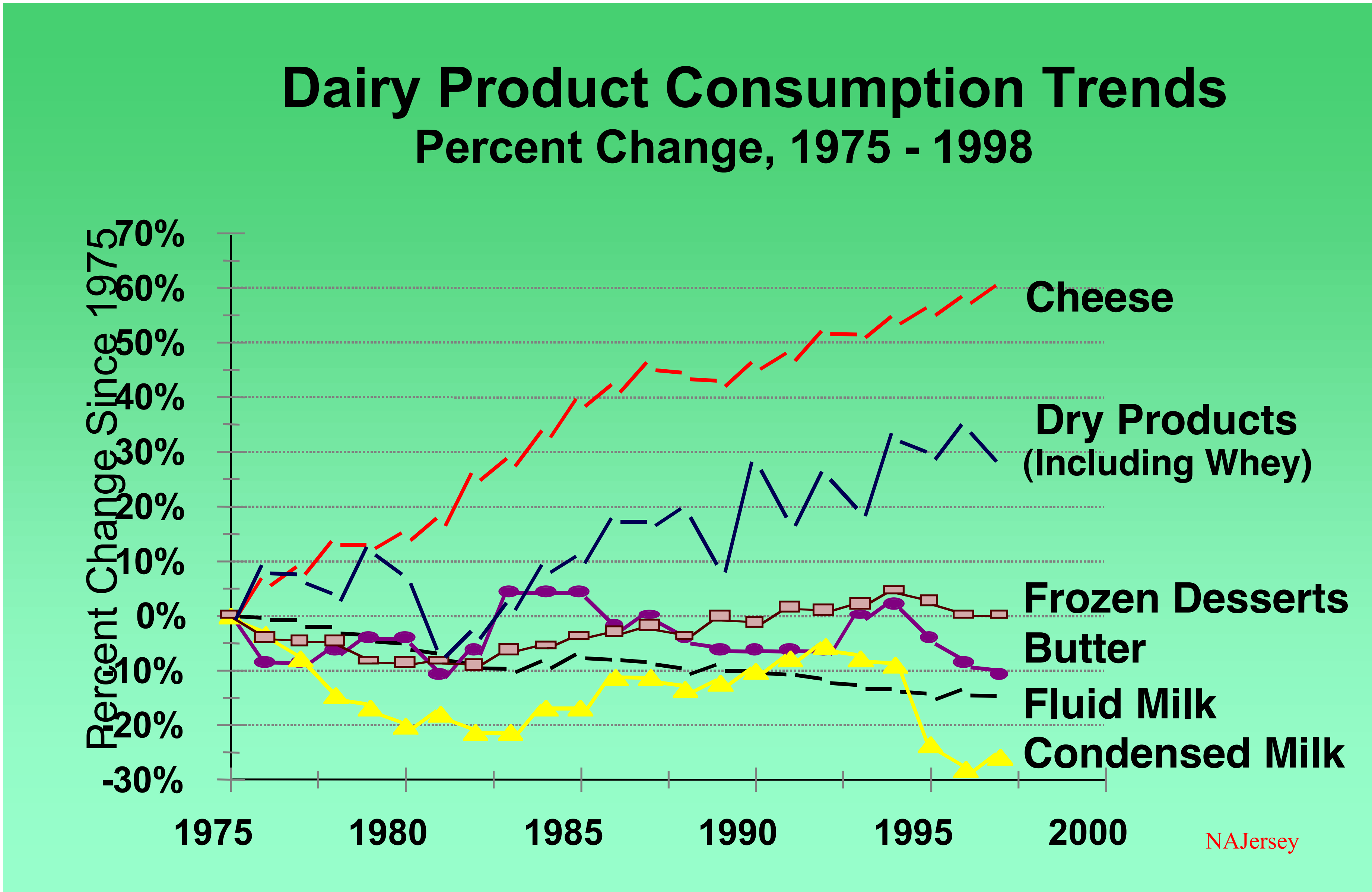
1. Kroger Company	10.8%
2. Wal-Mart Supercenters	10.7%
3. Albertson’s	8.9%
4. Safeway	6.8%
5. Supervalu	4.9%
Top Five Total	42.1%
Top Ten Total	60.4%

Source: Supermarket News (SN), January 24,2000

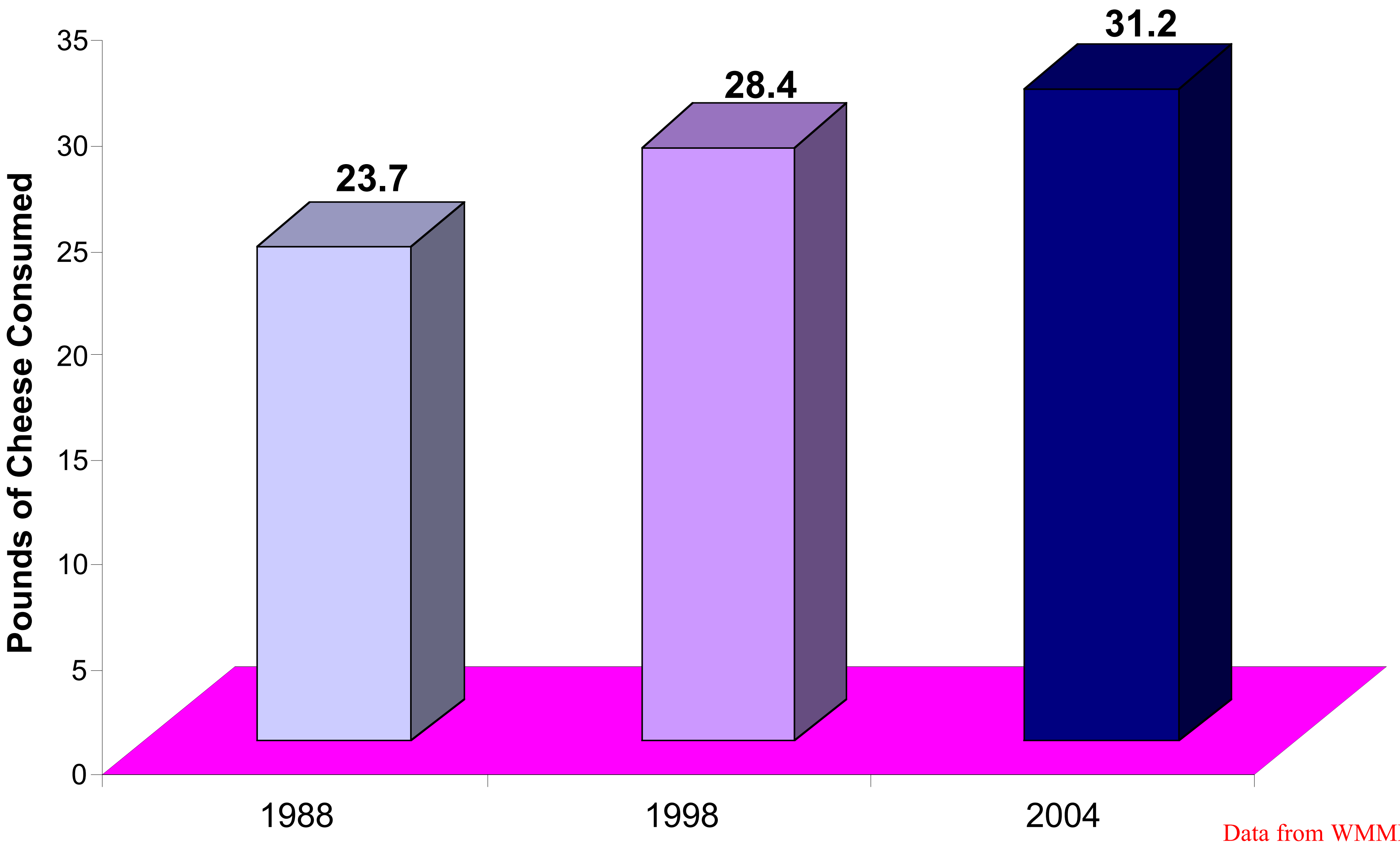
What is driving consolidation?

- Competition for market
- Lower “supply chain” costs
- Technology
- Wallstreet
- National industry
- Asset rationalization

Product Trends For The Last 25 Ye



Per Capita Cheese Consumpti

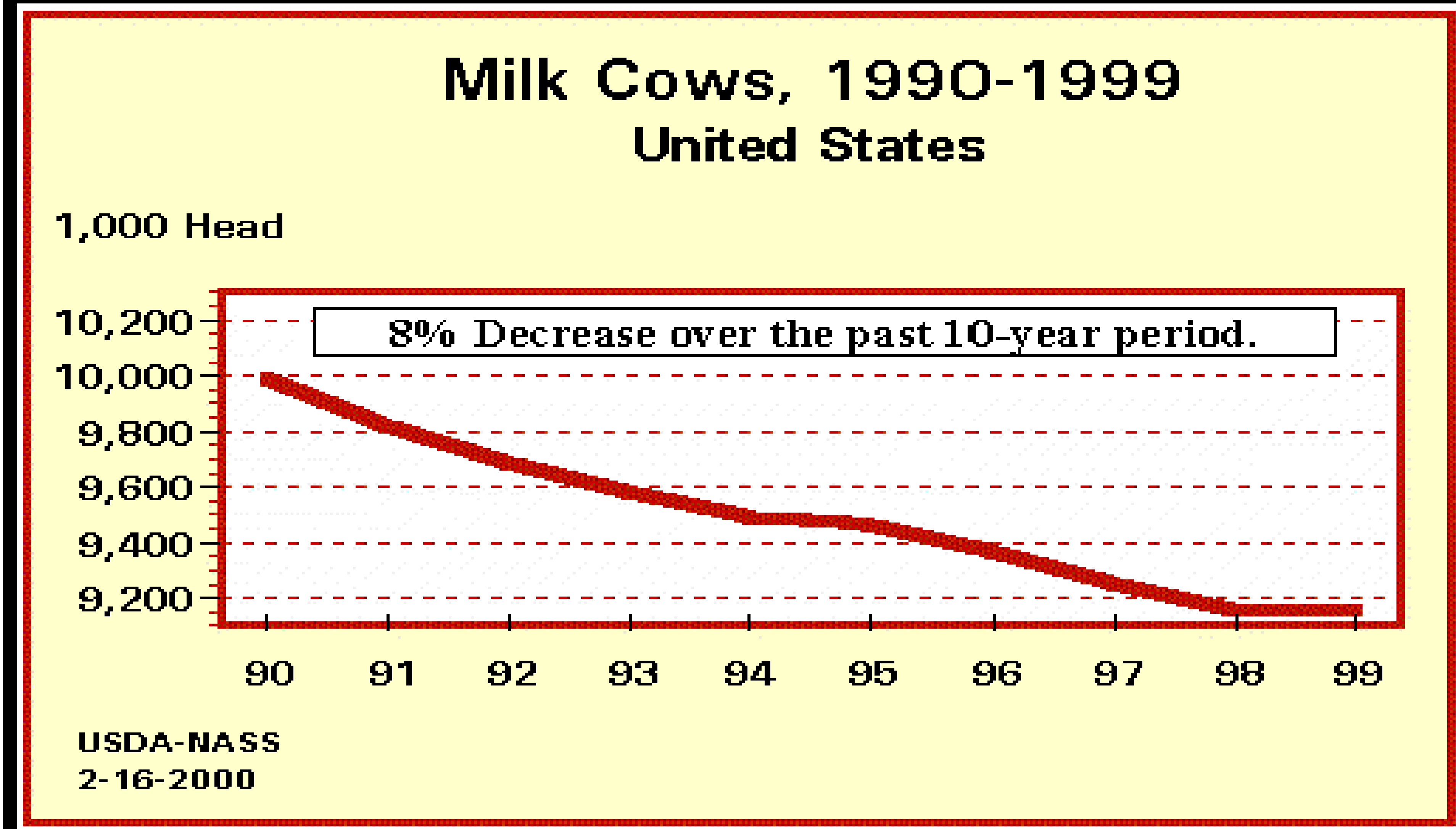


Data from WMMB

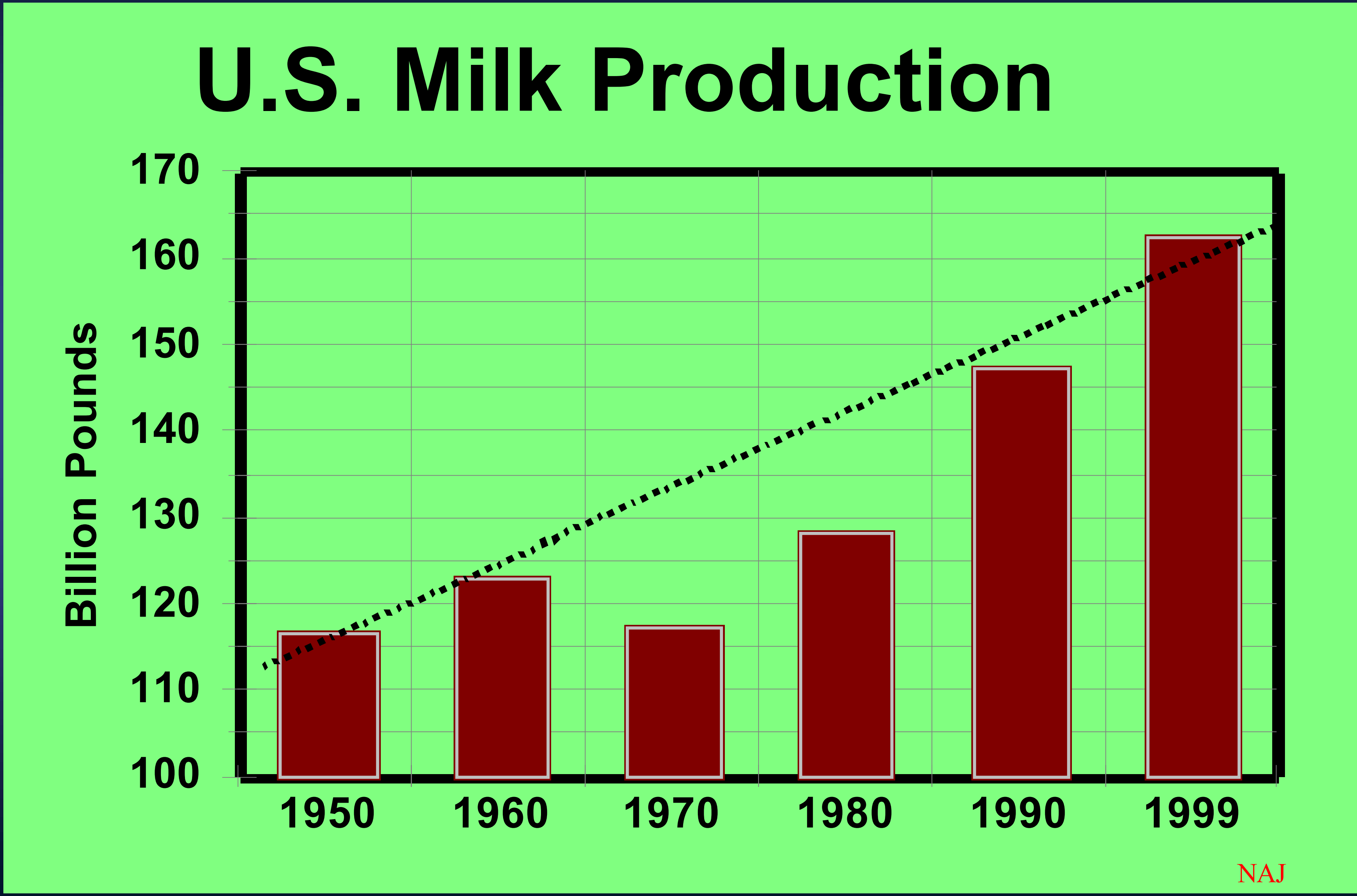
Consumer Demand

Butter	1999	+ 5.6%
	2000	+ 1.8%
Cheese	1999	+ 5.8%
	2000	+ 4.9%
Fluid	Steady on per capita basis	

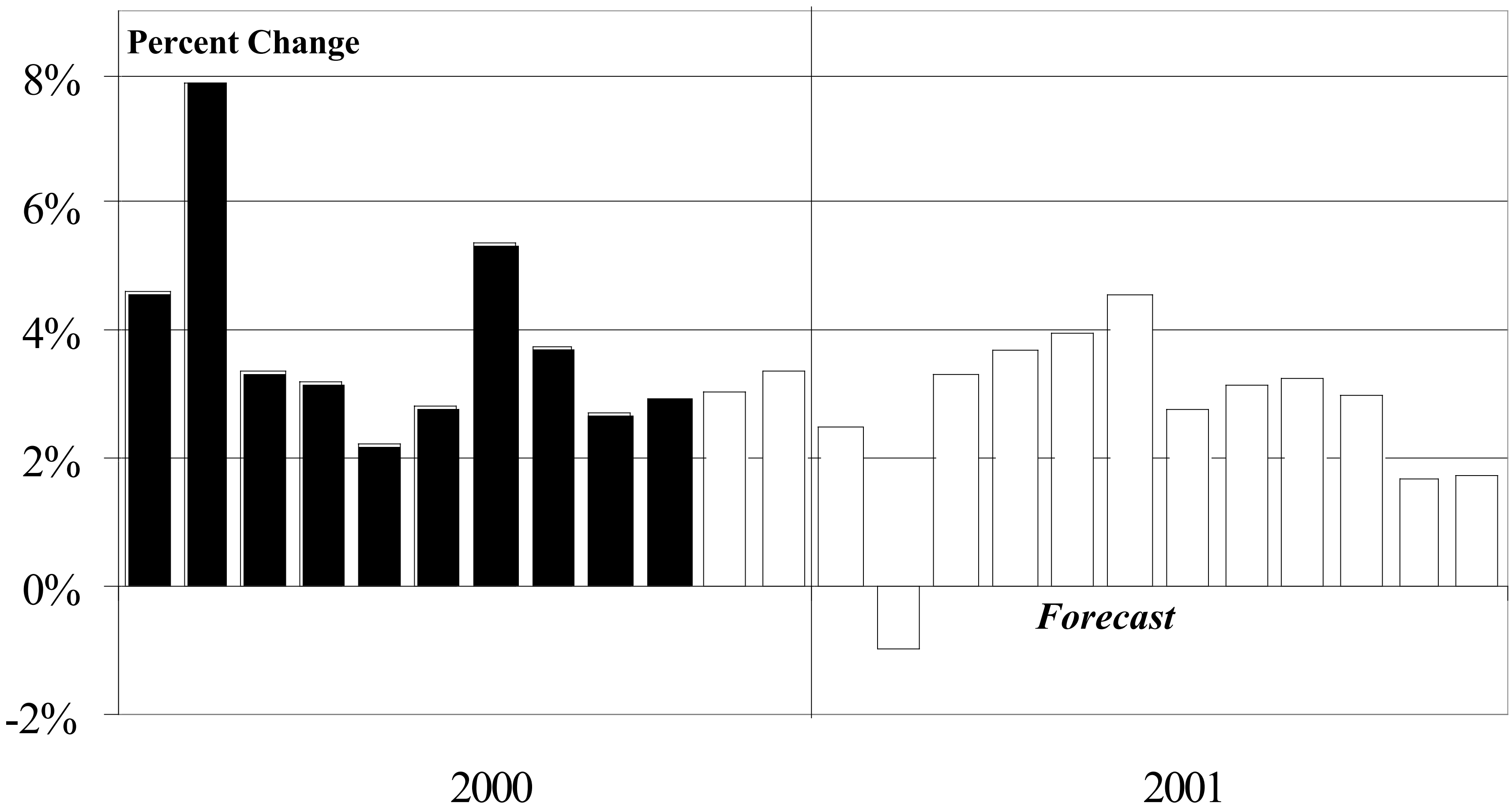
United States Department of Agriculture
National Agricultural Statistics Service



What Happened in the Last 50



U.S. Milk Production

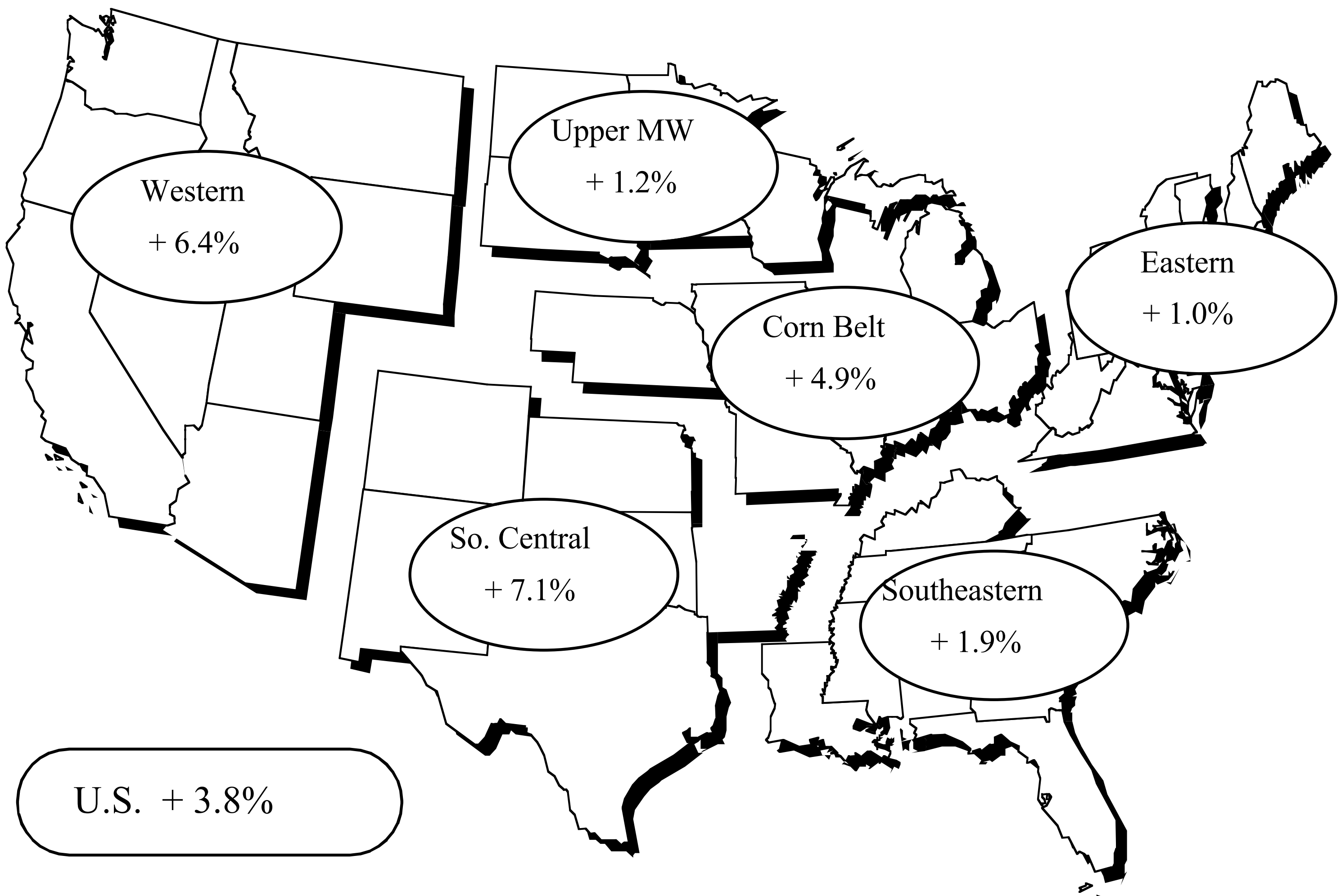


National Dairy Production

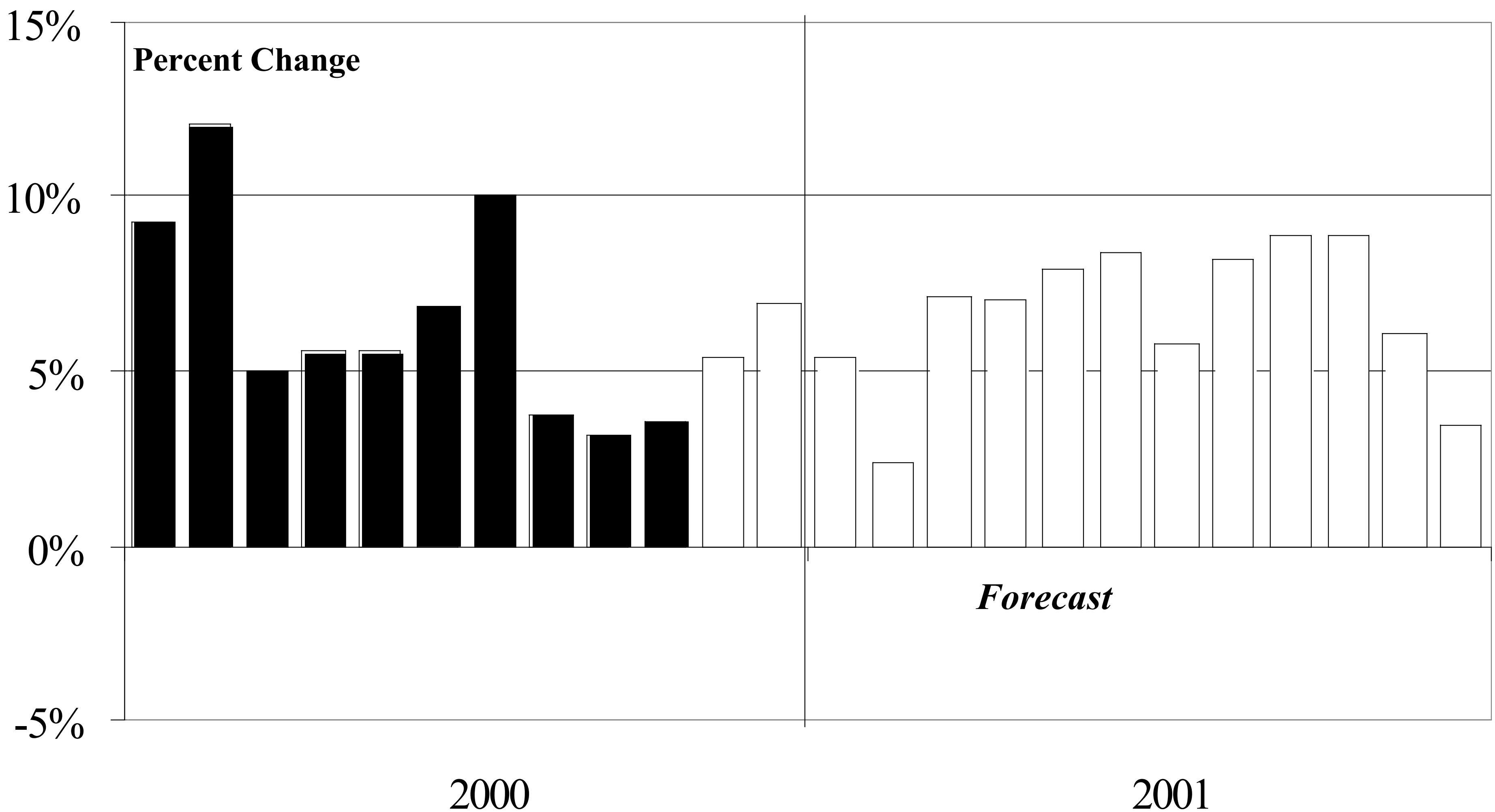
- Western Region ↑
- Eastern Region ↓
- Mid U.S. ?

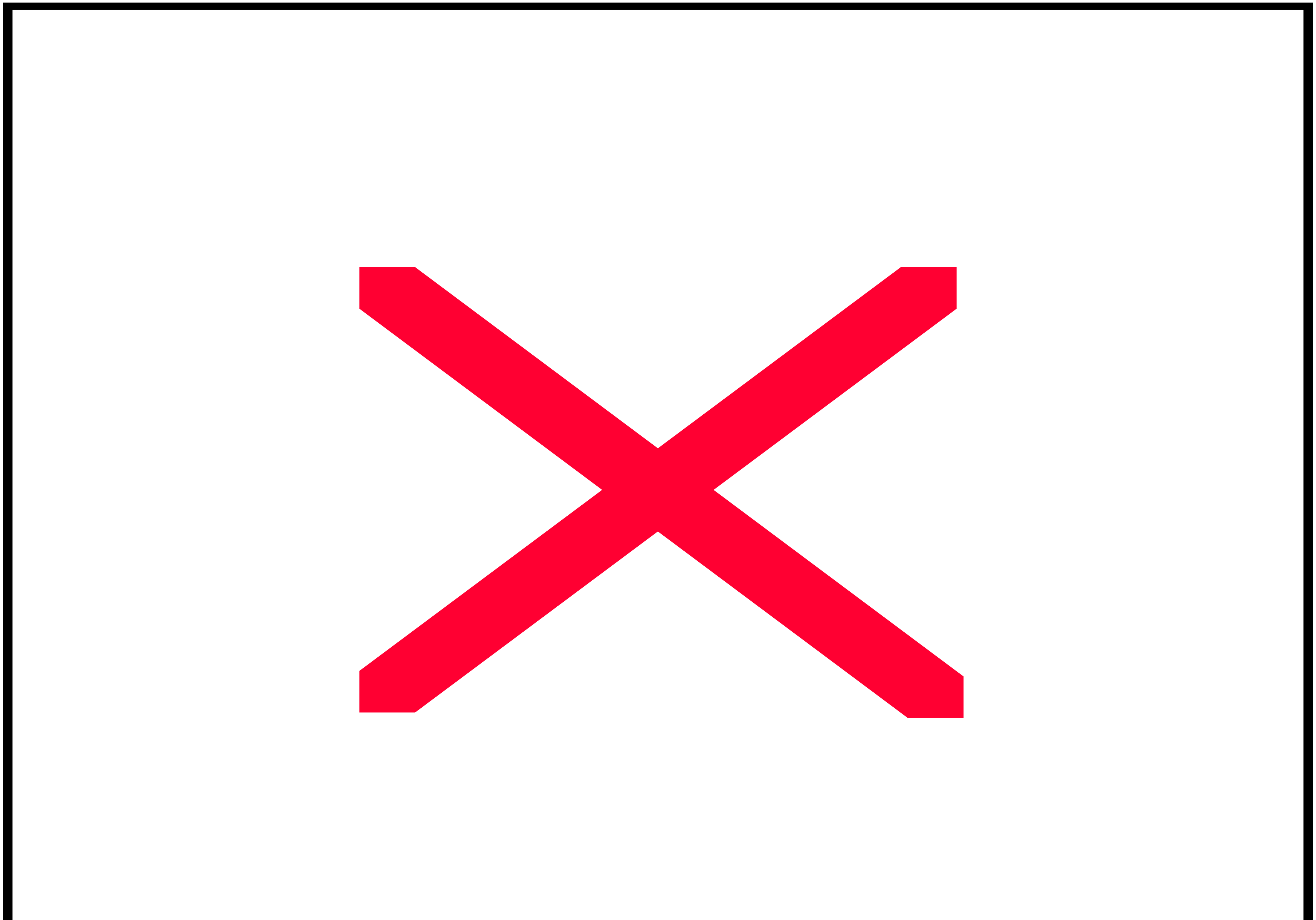
YTD Milk Production, October 2000

% Change from previous year

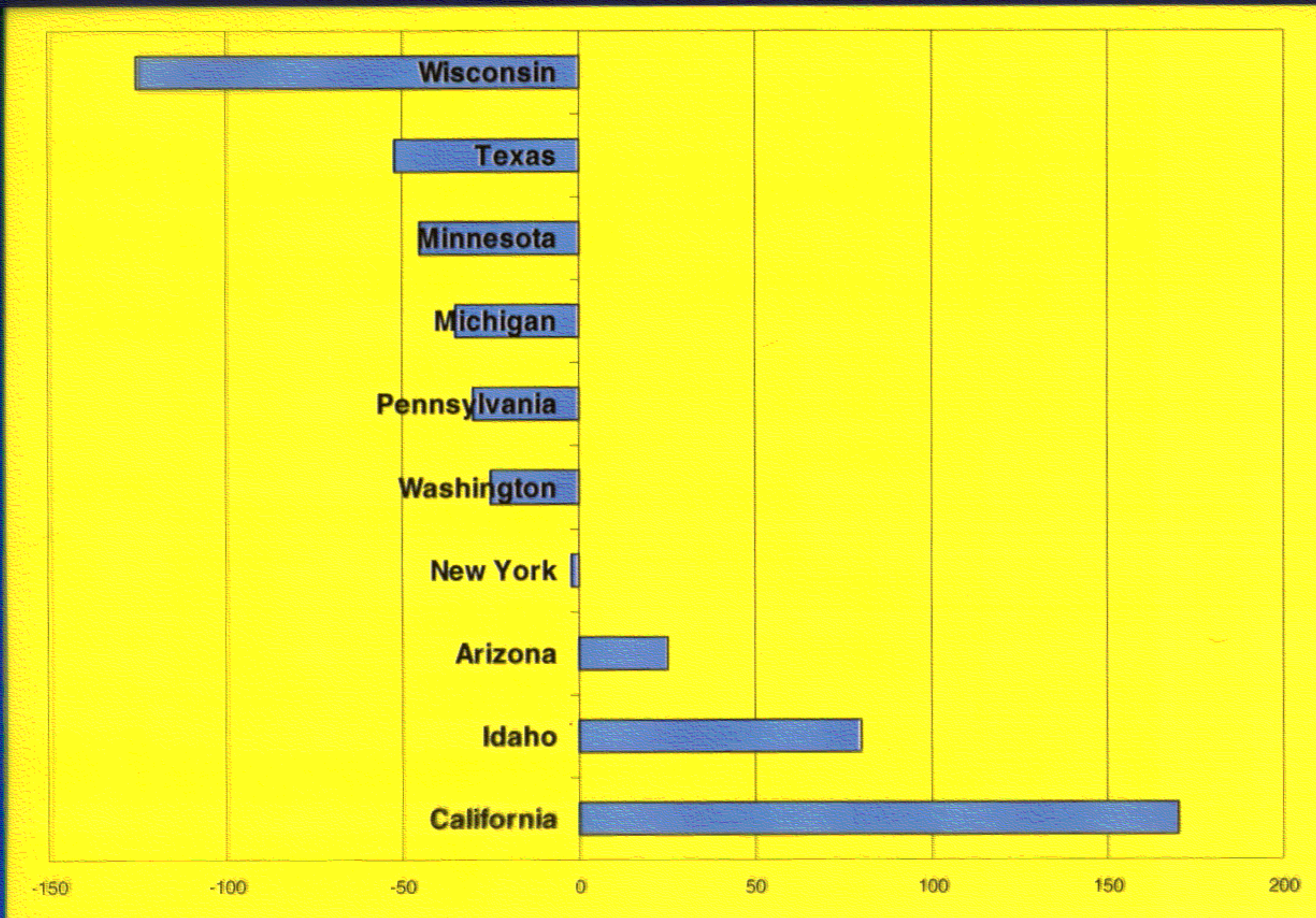


Western Milk Production

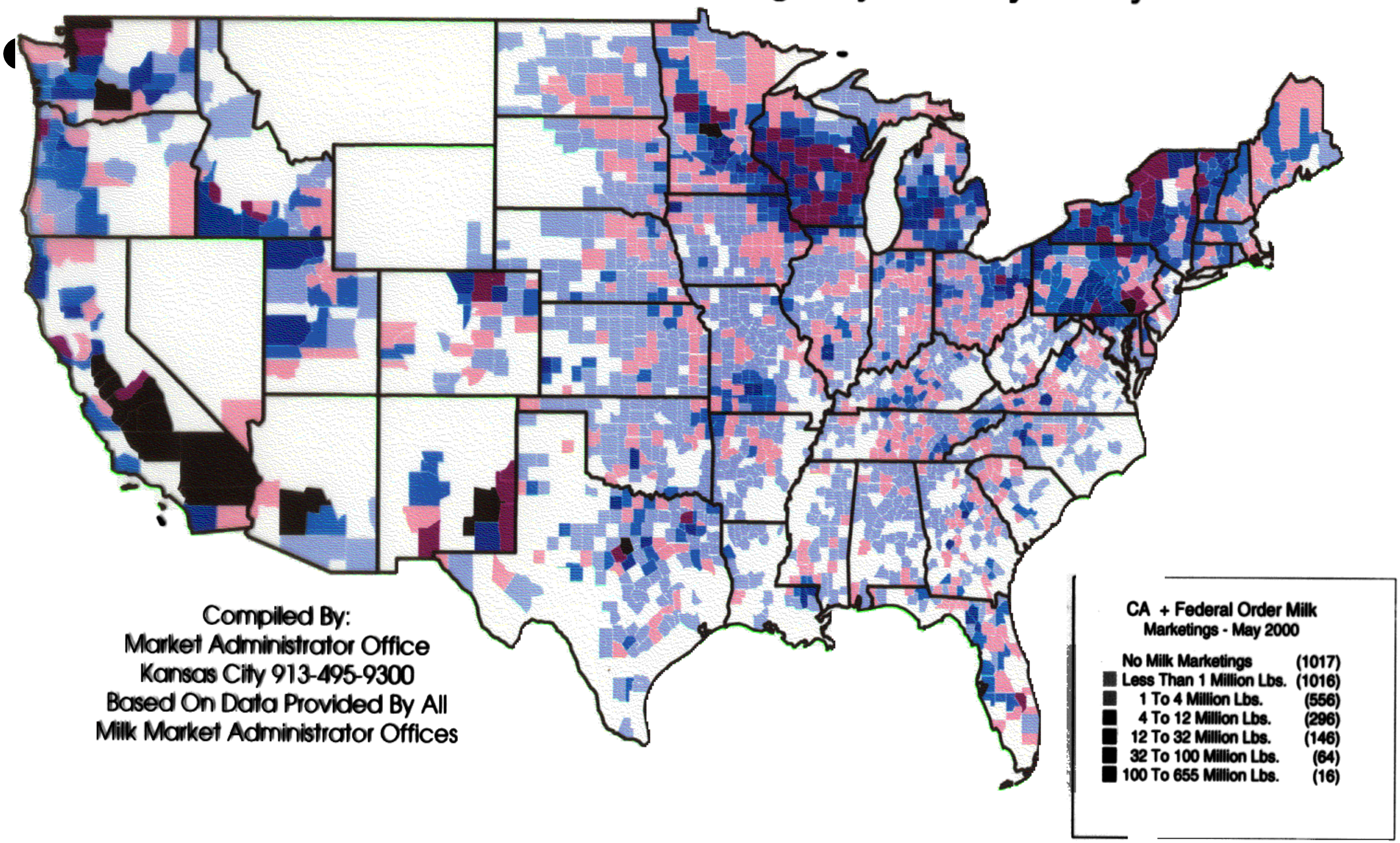




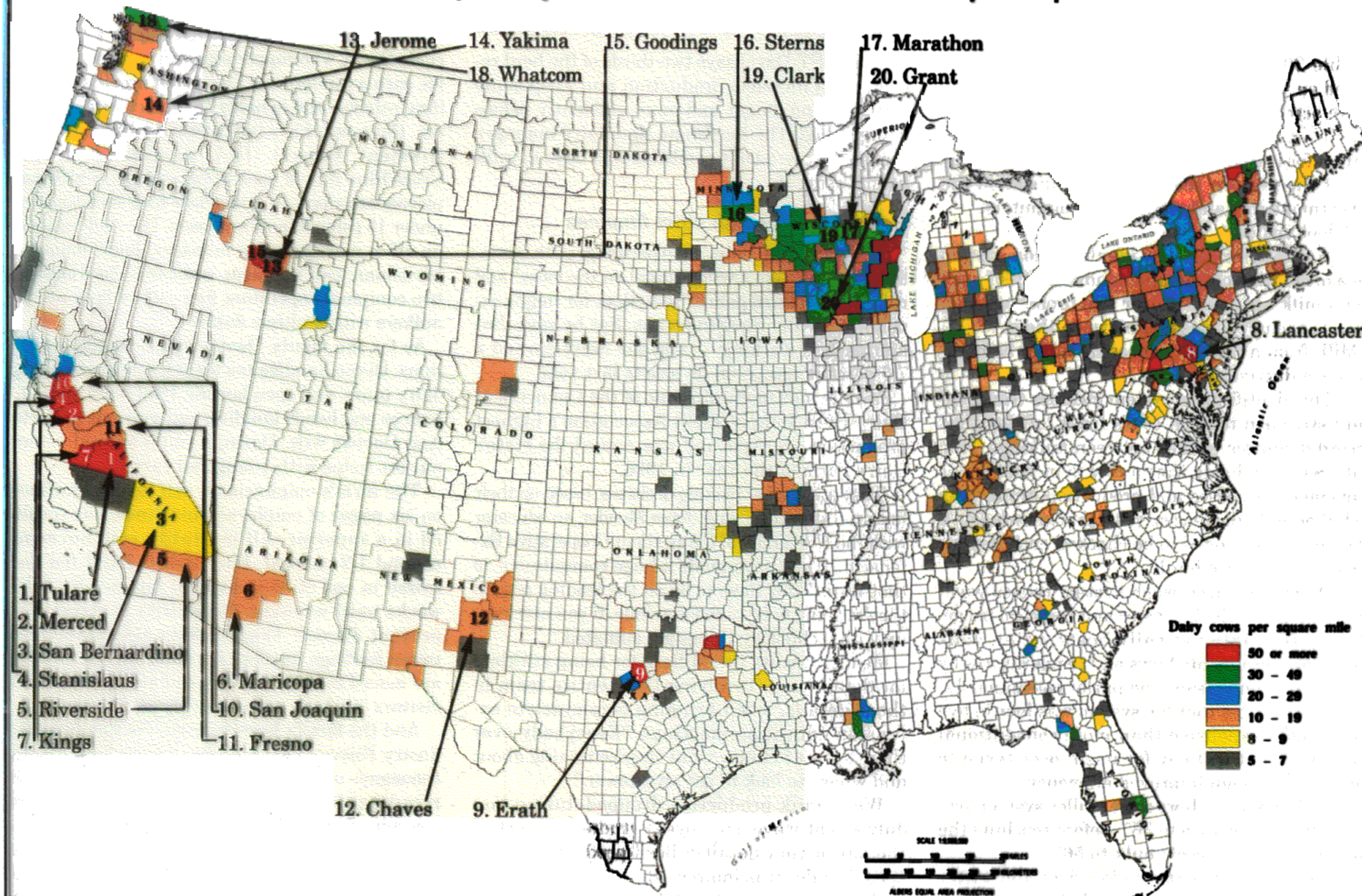
Change in Cow Numbers: 1995-1999



CA + Federal Order Milk Marketings By County May 2000



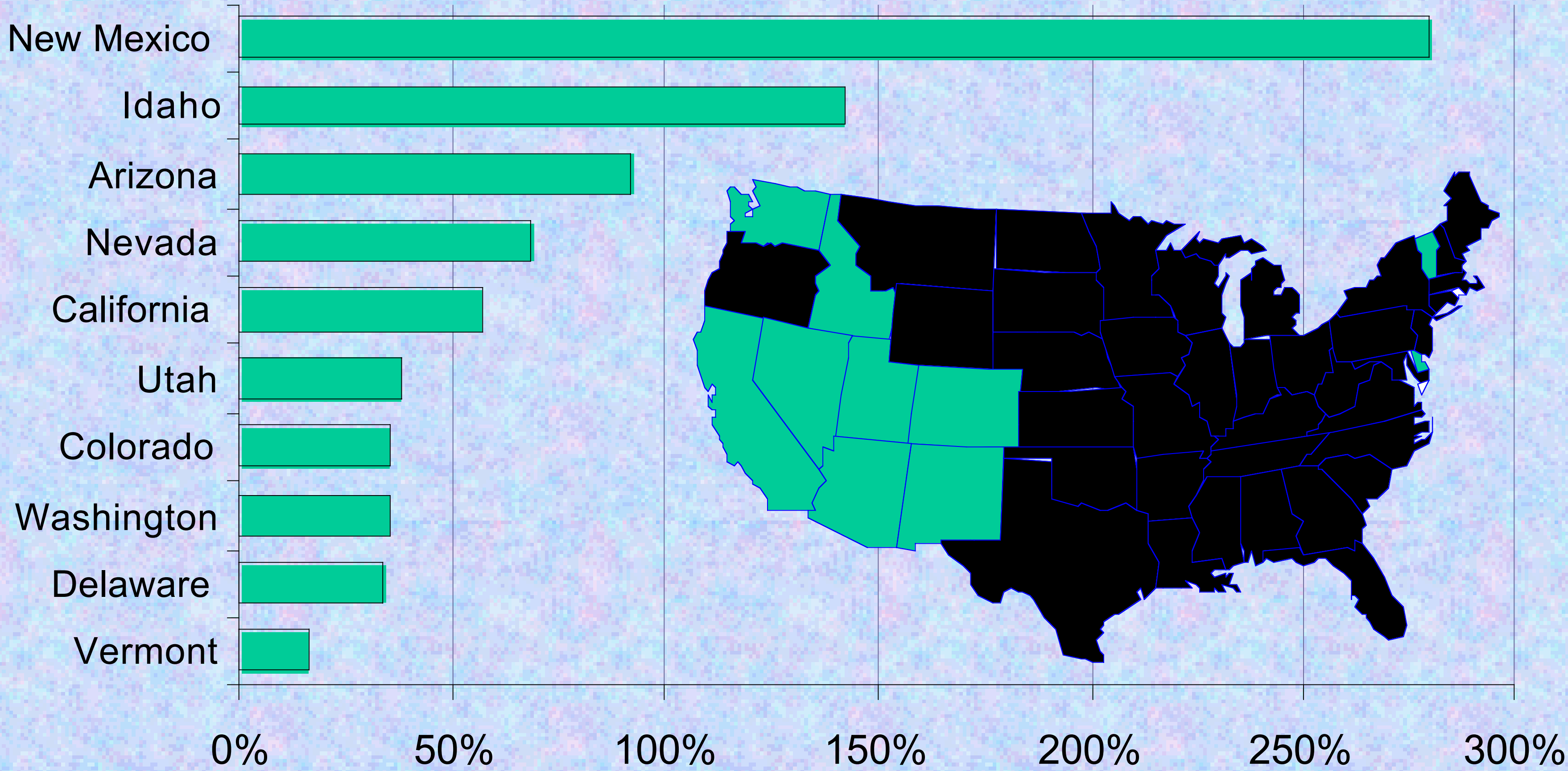
The nation's top dairy counties — based on cows per square mile



Source: USDA 1997 *Census of Agriculture*

Changing U.S. Milk Production

U.S. Milk Production: Largest Production Increases, 1989-1999*

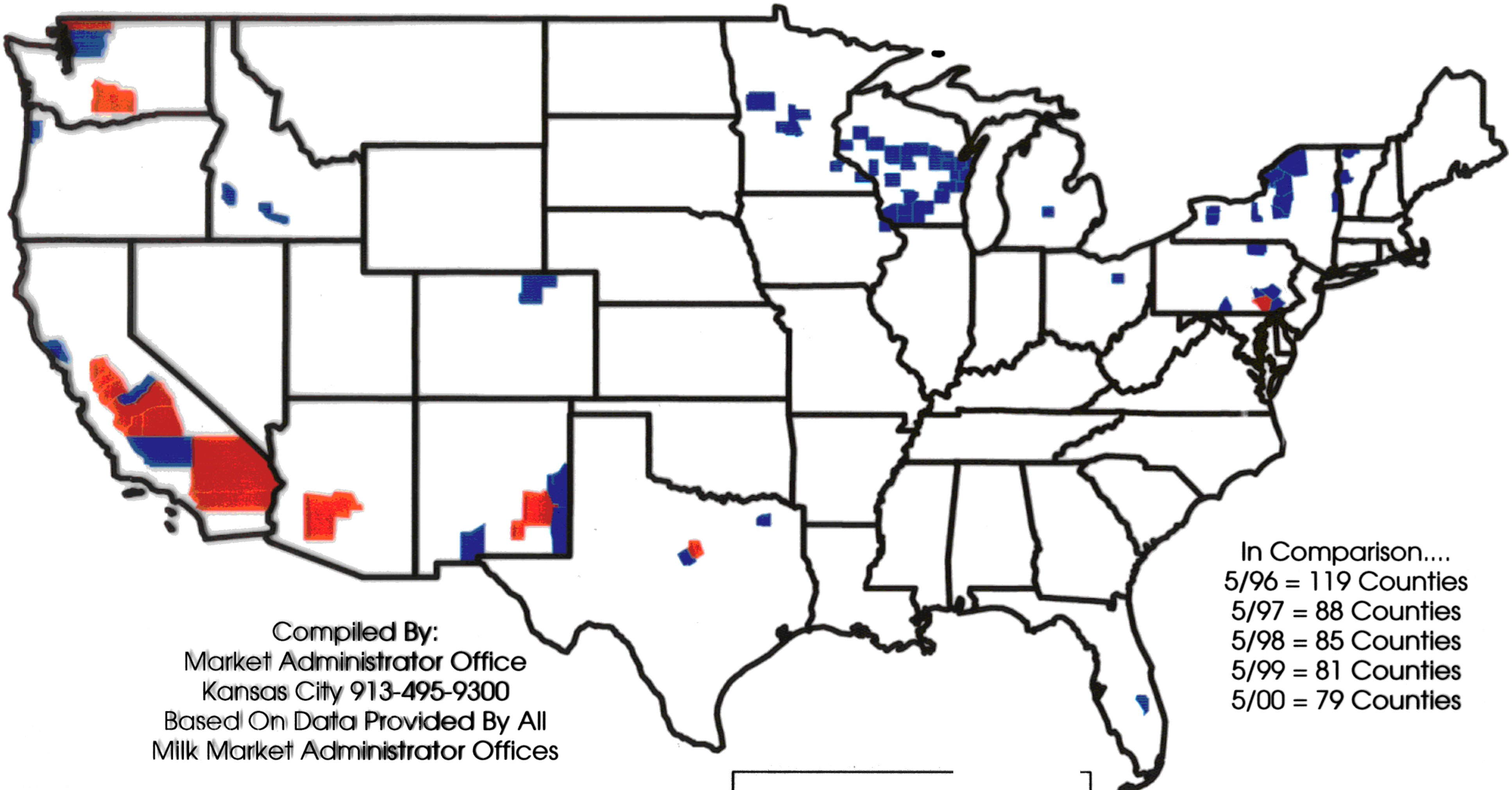


*Preliminary estimate.

Source: USDA/NASS, Milk Production.

WMMB

79 Counties Marketed 50% Of All CA + Federal Order Milk During May 2000



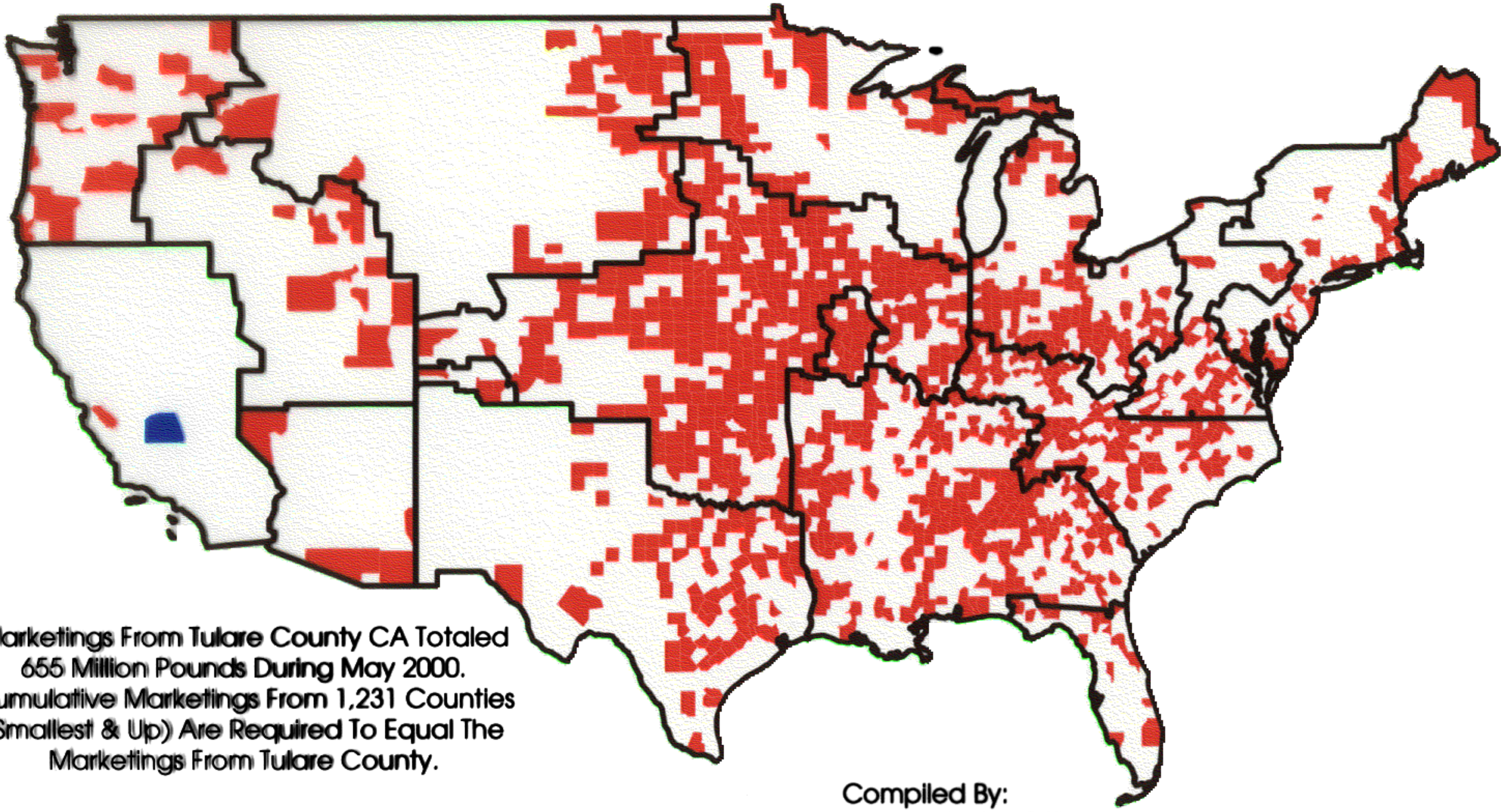
Compiled By:
Market Administrator Office
Kansas City 913-495-9300
Based On Data Provided By All
Milk Market Administrator Offices

In Comparison....
5/96 = 119 Counties
5/97 = 88 Counties
5/98 = 85 Counties
5/99 = 81 Counties
5/00 = 79 Counties

CA + Federal Order Milk
Marketings - May 2000

- 25% To 50% Of Marketings (65)
- Top 25% Of Marketings (14)

CA + Federal Order Milk Marketings By County - May 2000



Marketings From Tulare County CA Totaled 655 Million Pounds During May 2000. Cumulative Marketings From 1,231 Counties (Smallest & Up) Are Required To Equal The Marketings From Tulare County.

Compiled By:
Market Administrator Office
Kansas City 913-495-9300
Based On Data Provided By All
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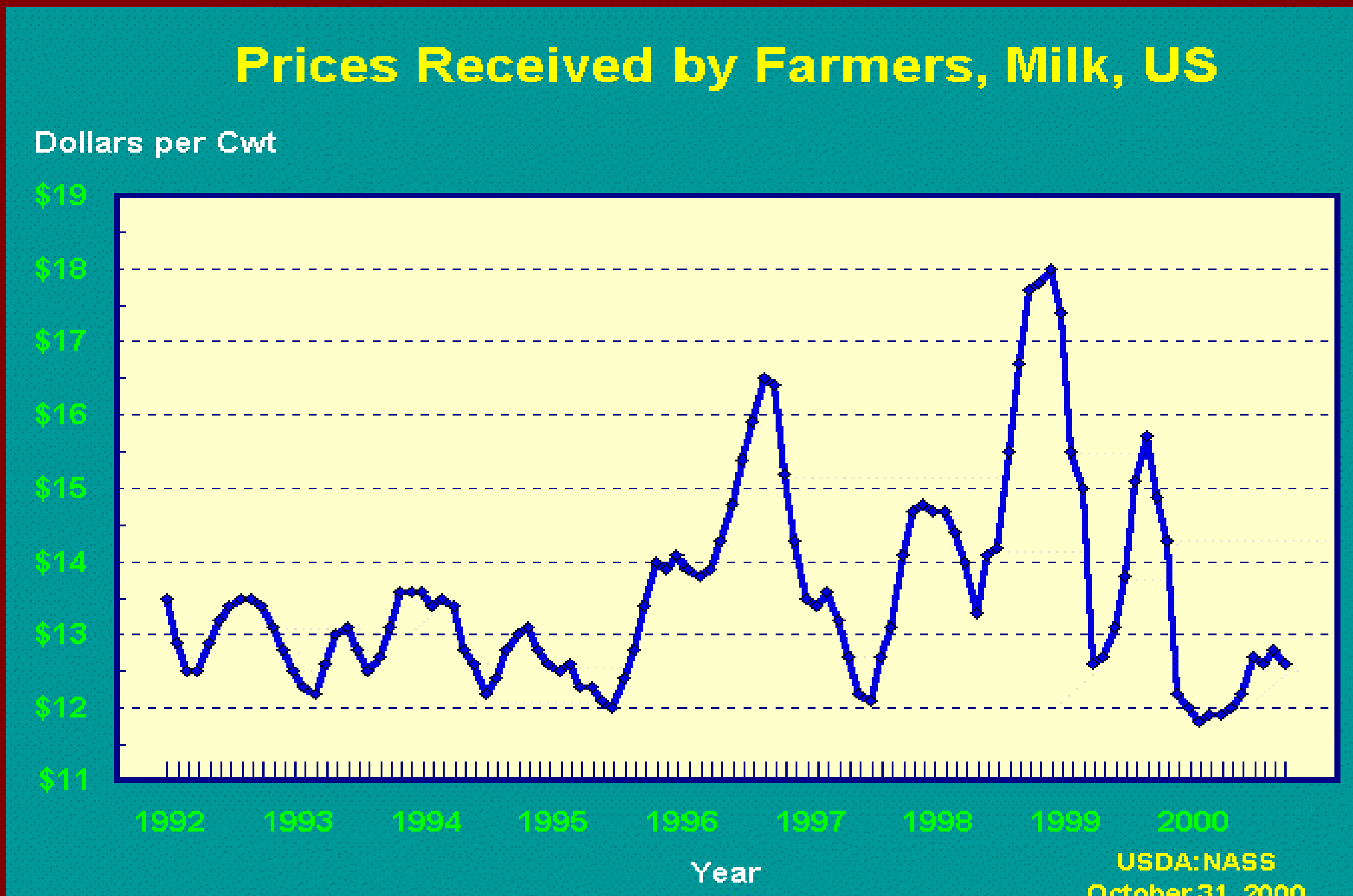
Dairy Industry Concentration

* 8,000 producers	50% of U.S. output
* 90,000 producers	50% of U.S. output

Where will the cows be?

- Where people want them
- With producers who believe they can compete
- Sustainable market access

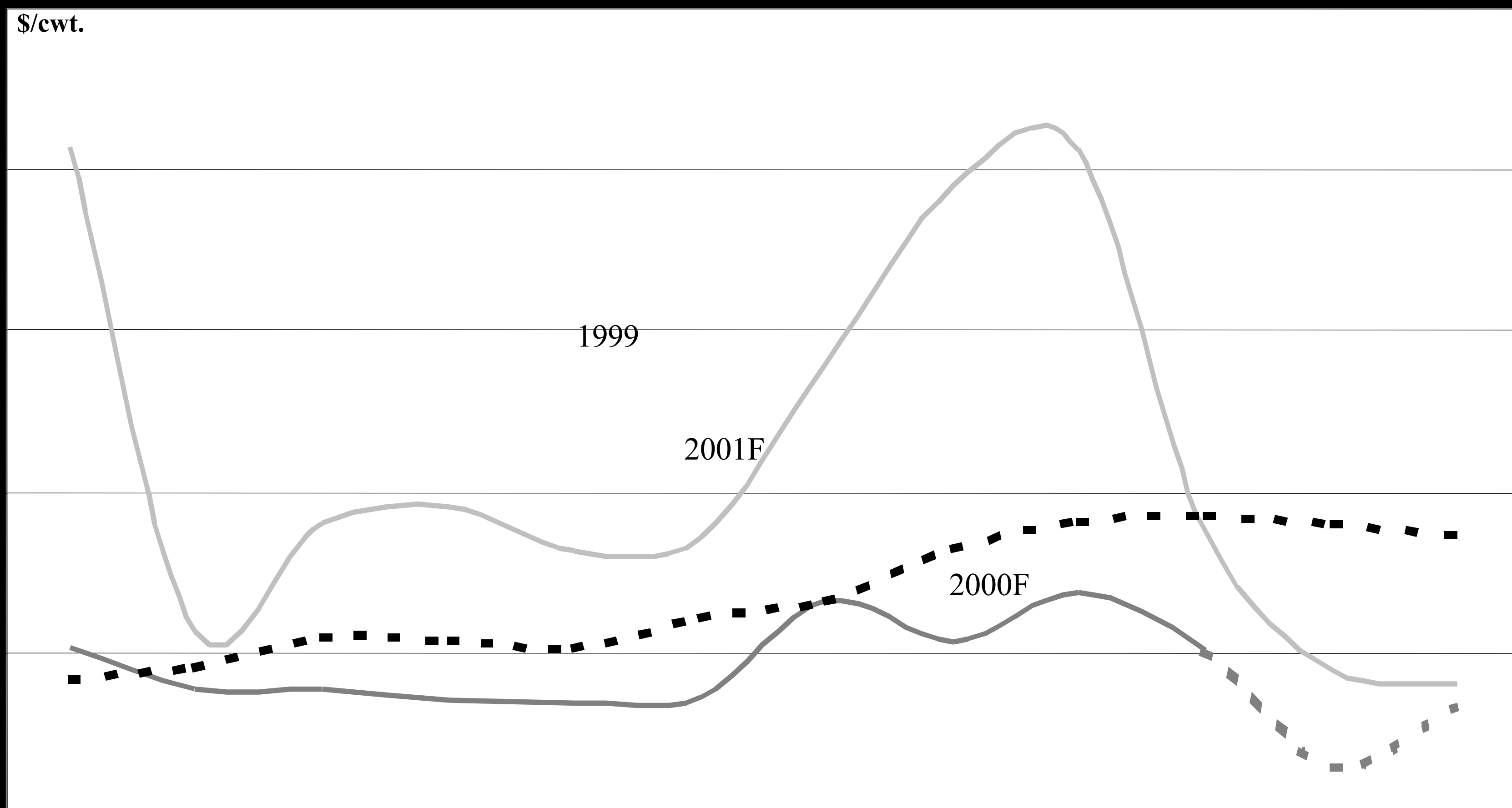
United States Department of Agriculture
National Agricultural Statistics Service



Trends -- Outlook

- Will be major effort to reduce price volatility
  - Producers don’t like it
  - Bankers don’t like it
  - Food distributors (Pizza Hut, KFC, Supervalu) don’t like it
  - Virtually no one in the food chain likes it

Historical BFP/Class III Price



Summary

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  - Continued growth in Western region milk production
  - Increased environmental issues on animal agriculture
  - Further concentration of milk production across the county
  - Increased focus on food safety
  - Continued consolidation of food industry
  - Expanding cheese production in Western region

Planned Increases in Western Cheese Capacity

(Source: Levitt Communications)

Company/Plant Location		Initial New Capacity (Lbs. milk per day)
2000		
	Dairy Farmers of America/Corona, CA	1.5 million
	Hilmar Cheese Company/Hilmar, CA	4.0 million
	Glanbia Foods/Gooding, ID	3.0 million
	Lactalis/Nampa, ID	1.0 million
	Leprino Foods/Tracy, CA	1.0 million
	2000 TOTAL	10.5 million
2001		
	Land O'Lakes-Mitsui/Tulare, CA	3.0 million
	Tillamook Cooperative Creamery/Boardman, OR	1.6 million
	2001 TOTAL	4.6 million
2002		
	WestFarm Foods/Twin Falls, ID	3.0 million
	Leprino Foods/Lemoore, CA	3.0 million
	California Natural Cheese Corp./Hanford/Corcoran, CA	3.0 million
	Tulare Specialty Cheese Production Complex/Tulare, CA	.4 million
	2002 TOTAL	9.4 million

Summary

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  - Continued "globalization" of our industry

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  - Continued "globalization" of our industry
  - Expanded "supply chain" approach to our business
  - Continued use of <u>high quality alfalfa</u> !