

ZESPRI

5 Year Outlook



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BEYOND
2025

MARCH 2020

Zespri
KIWIFRUIT

Introduction

A. INTRODUCTION



Purpose of this communication

This Outlook provides a summary of Zespri's rolling Five Year Plan, which is updated and reviewed by the Zespri Board annually, with this edition covering the period from 2019/20 to 2024/25. While it has been written predominantly for Zespri's New Zealand grower audience, it also contains relevant information for our shareholders, non-New Zealand growers and broader industry stakeholders.

The publication provides a snapshot of how Zespri's medium-term strategy will be implemented by category and sets out the challenges and opportunities ahead. It relies on several assumptions and the further out we look, the less certain we become of these assumptions, and the more the plan becomes directional. Our intent is to provide information for stakeholders to inform their business decisions, whether that is investing, divesting or changing their variety mix.

Growers will also note that in December 2019, the Zespri Board announced the commercialisation of a red kiwifruit variety, with an initial allocation of at least 150 hectares of licence to be released in 2020. Based on the current expected 15 million tray market demand in Asia in the current supply window for Red19, Zespri plans to licence 1,500 hectares from 2020 to 2023. This is subject to the availability of quality budwood and the normal annual review process that is carried out at the end of each selling season. While future versions of this Outlook document will include a separate section on our red variety, growers should refer to Zespri's Red19 New Variety Information Guide for more details on the current outlook for this variety.

Key points from this Outlook

Zespri's mission is to create sustainable long-term value for kiwifruit growers by offering consumers the world's leading portfolio of branded kiwifruit for all 12 months of the year. Our strategy is based on delighting our customers, optimising our performance, making sure we're better tomorrow, and thriving together.

This Outlook remains largely the same as last year, reflecting that the kiwifruit industry continues to be in a period of strong growth.

While Zespri's strategy is essentially unchanged, there are some shifts in emphasis as to where Zespri puts its focus and resources, based on some changes in the opportunities and risks that sit within the five-year horizon. These are outlined in the Opportunities and Risk section of this Outlook.

What hasn't changed are the following general points:

- We are in a period of strong demand creation and several factors underlie our confidence. Zespri has developed good quality demand through market development, brand and category growth – underpinned by high-quality Green, the popularity of SunGold, and strong sales and marketing. A focus on taste and quality, underpinned by a meaningful and recognisable brand, helps to place us ahead of the competition.
- SunGold continues to find growing consumer demand and this is reflected in strong distributor and retailer support.
- SunGold will drive future volume and revenue growth, after surpassing Green in its share of the total Zespri portfolio in 2019.

- Another feature is that the share of volume from Northern Hemisphere supply locations is anticipated to increase to around 16 percent of total supply in the next 5 years, compared to around 12 percent today.
- A balanced portfolio will remain important, with demand for Organic a significant opportunity.
- Meeting demand requires a step change in the pace of development. It requires investment and innovation by Zespri, growers, post-harvest operators, customers and partners across the supply and distribution base. The implications of such significant growth in supply places expectations right across the industry.
- Supply costs are forecast to continue to increase for all varieties across all aspects of growing, harvesting packing and cool-chain. A large part of this is driven by increases in wage rates and the need for strong investment in post-harvest in New Zealand to build extra capacity for packing and storage. The effect of this general inflation in on-orchard inputs and the flagged increase of the minimum wage to \$20 per hour from 1 April 2021, is considered likely to put pressure on the ability of growers to maintain net orchard gate returns, particularly at the lower end of the per hectare orchard gate return forecast.



Overview of demand and supply

- This Five Year Outlook sees an increase in total global Class 1 supply from 165 million trays in 2019/20 to 221 million trays in 2024/25. This is equivalent to 34 percent volume growth.
- Of the 2024/25 total volume of Class 1 supply, our plan forecasts New Zealand supply of nearly 186 million trays and non-New Zealand supply of around 35 million trays.
- New Zealand supply of Class 1 conventional SunGold increases from 72 million trays in 2019/20 to 115 million trays in 2024/25. This growth is being driven by the ongoing programme of licence release as signalled out to 2022 and does not include the indicated potential for licence release beyond 2022.
- Zespri remains committed to releasing SunGold hectares out to 2022 and our current demand forecast supports releases of up to 700 hectares per year. This is to meet the year-on-year constrained target demand growth volume of 8 to 10 million trays per annum. It is important to note that the programme is subject to an annual review that will consider any potential new risks to our current outlook. This would include both demand-side and supply-side factors such as significant changes in average yields.
- Zespri has also indicated there is currently sufficient forecast demand beyond 2022 for Zespri to continue to release licence beyond this point. The release will be subject to the normal annual review process and be confirmed by the Zespri Board closer to 2022.
- The five-year plan forecasts strong growth in New Zealand supply of Class 1 Organic SunGold from around 990,000 trays supplied in 2019/20 to over 4 million trays supplied in 2024/25. This growth is being driven by the licence release programme for organic greenfield developments. Zespri intends to continue releasing Organic SunGold licence for greenfield developments out to 2022, subject to annual review, and our current demand forecast supports release of up to 50 hectares per year. Organic SunGold will also be treated as a separate pool from 2020/21.
- Should the SunGold licence release continue as planned to 2022, there will be 9,650 hectares of both SunGold and Organic SunGold planted in New Zealand by 2022/23. When fully mature by around 2026, this will deliver around 140 million trays at current yield estimates. Zespri also currently has 3,340 hectares in the ground in our offshore growing locations, with hectares in the ground dependent on meeting quality and storage goals and market demand for 12-month supply.
- New Zealand supply of Class 1 conventional Green is forecast to reduce from 69 million trays in 2019/20 to around 59 million trays in 2024/25 through conversion to other varieties which should result in increased value for the category.
- On the supply side, our strategy is about optimising delivered quality to markets through a lean and efficient supply chain which effectively passes market signals back to growers and partners across our supply base. This is about optimising our portfolio, taste and ready-to-eat quality and working relentlessly to improve our supply chain processes.
- On the demand side our strategy is about optimising product choices and service levels for our retail and distribution customers. This is delivered through a robust, sustainable, supply chain that reliably delivers safe, healthy, traceable, high quality, branded kiwifruit, supported by world-class sales and marketing that meets our consumer needs and is underpinned by a very focused market development framework and strategy.

Industry Context

B. INDUSTRY CONTEXT



Opportunities

The macro-level trends for the next five years remain consistent with those we have previously reported. There are several positive factors in terms of consumer, shopper and consumption trends that support the marketing of a premium, healthy product, including:

- **Ageing Population:** The number of people over 60 is expected to double by 2050, surpassing adolescents and youth aged 10-24. This is an opportunity for Zespri because in most markets as people age, they spend and consume more fruit as seen in Japan.
- **Discounters and E-commerce are fast growing channels,** with discounters fast growing off a bigger base. Determining the success model to win in these fast-growing channels is paramount for winning in the retail landscape.
- **In-home snacking is a major increasing trend.** Fruit is the most consumed product at snacking occasions, especially as a mid-morning snack. This is an opportunity for Zespri as a healthy snack in-line with consumers' increased health focus and healthy eating drive due to concern over rising health issues such as diabetes, obesity etc.

- **New age consumers born into the online generation.** Demand for convenience in both product (fresh cut or other processed format vs whole fresh fruit) and service (i.e. online shopping) are continuing to increase in pace.
- **Increase in consumers attention to sustainability,** especially related to plastics and climate change. For example, in Europe, plastics issues are starting to impact business with an increasing number of customers refusing plastic packaging in-store, driven also by increasing regulatory change. More regulation is also emerging in China and in the North American markets.

Within this positive context, Zespri has identified a number of areas to drive demand over the next five years, uplifting value and offsetting risks:

- **A globally-consistent brand identity** becoming the anchor for building a meaningful and different brand unlocking fewer, bigger marketing campaigns, delivering synergy and marketing efficiencies while uplifting brand value through a well-defined, consistent emotional foothold of Zespri in consumers' minds. This has included the launch of Zespri's refreshed brand in 2020 which is more closely anchored to Zespri's purpose of helping people, communities and the environment thrive through the goodness of kiwifruit.

- **Digital marketing transformation** enabling Zespri with a well-defined digital investment model bringing us closer to the consumers at their different life-stages and needs.
- **Value-adding packaging formats** enabling markets with relevant Price Pack Architecture (PPA) for different customer and consumer needs (i.e. premium packs, value packs, gift packs etc) allowing better targeting, and placements in-store, increasing conversion and uplifting value. Immediate off the shelf solutions are a work in progress to meet consumers' rising sustainability needs, with the aim of 2020 implementation into critical markets where the need is higher.
- **A Ready To Eat (RTE) initiative** with select customers, with learnings from RTE experienced markets such as Japan.
- **Sales excellence and capability build** being developed and implemented through the operating model workstreams to improve joint business planning, distributor management and in-store execution.



Challenges and Risks

While our future is positive, growers should consider the risks of growing and exporting kiwifruit from New Zealand within this context of both risk and opportunity and configure their businesses accordingly.

Some factors growers and investors should be aware of include:

- **Biosecurity:** The broad spectrum of pests and disease that can affect crop quality, volume and market access. For example, the high risk and potential consequence of Brown Marmorated Stink Bug have made it a priority for biosecurity readiness activities for both the industry biosecurity organisation, Kiwifruit Vine Health (KVH), and the Ministry for Primary Industries. Growers will also be aware of the successful fruit fly response in the Auckland suburbs of Northcote, Devonport and Otara.
- **Loss of market access:** While Zespri is working hard to broaden our market base, the loss of any major market during a season could result in an over-supply of fruit relative to demand. Market access can be impacted by several factors, either indirect or direct. For example, phytosanitary, regulatory, food safety, public health issues such as COVID-19, biosecurity, compliance changes and broader global trade relations and geopolitics. Zespri is working to mitigate this risk by maintaining a broad demand base and faster

development of large volume markets, close monitoring of our environment, strong government relations and adherence to robust supply protocols. This is combined with a good risk management framework and risk mitigation strategies for various scenarios.

- **Brand reputation, growing conditions and sustainability:**

For example, addressing consumer concerns around plastics, nondegradable and non-recycled material in our packaging and addressing the environmental challenges we are affected by such as water quality and climate change. We have developed our industry sustainability framework and set a number of targets to support each of our priorities. They cover the following five areas:

1. Our packaging will be 100 per cent recyclable, reusable or compostable by 2025.
2. By 2025 our industry will more effectively monitor nutrient inputs and losses as well as our impact on water, protecting and enhancing water quality.
3. We will become carbon positive by 2035.
4. We will be an industry where people want to work because they know it's a great place to work.
5. And we will do even more to help people lead healthier lives.

- **Climate change:** Climate change is impacting how kiwifruit are grown as well as supply chains and consumer expectations around the world. It is likely we will experience a higher frequency of warm winters and more weather variability and extremes over the coming years which could affect growing conditions. In addition, it is likely there will be increasing environmental regulation and rising consumer expectations in relation to taking action on climate change. Zespri's industry sustainability framework includes climate change as one of its key priorities and a work programme is being developed to help the industry respond to climate risks.
- **Unauthorised G3 in China:** That the volume and quality of unauthorised Gold3 increases to a point that the fruit starts to enter Zespri's sales channels and disrupts the sale of New Zealand-grown G3 on the shoulders of the New Zealand season and becomes direct competition to Zespri's global supply business. Zespri is committed to dealing with the unauthorised G3 plantings but enforcement is challenging and complex, with the potential to affect our ongoing ability to manage the supply of G3 and thus the ability to maximise value.
- **Product reviews:** Any reviews of products used by the industry such as the New Zealand Environmental Protection Authority's current review of the use of budbreak enhancer Hydrogen Cyanamide.



- **Increasing competition:** As competitors try to leverage the category demand and value space created by Zespri. The competitive environment continues to become more challenging and includes more volume of competitor red and yellow varieties, especially during the Northern Hemisphere supply window. More branded kiwifruit products are being seen in the market. We are continuing to monitor change in this space.
- **Supply deficiencies in volume and quality:** Deficiencies can enable competitors to fill the gaps resulting from Zespri's strong demand creation driven by consumer pull.
- **Speed of business capability development:** Through people, process and systems to support the growth required. Continued investment will be required to support the plan.
- **Increasing on-orchard costs:** Through inflationary pressure, flagged legislative changes to the minimum wage, other compliance costs and costs of servicing debt.
- **Global economic risks:** Such as increasing global debt levels and market and debt bubbles in some countries, raising the risks of economic volatility and financial crises.
- **Labour:** As kiwifruit production increases, so will the demand for seasonal labour to pick, pack and prune. While there are ongoing discussions with government to source required labour, as well as the consideration of potential long-term solutions around automation and the use of offshore resources, in the short-term New Zealand Kiwifruit Growers Inc, the grower advocacy body, is focused on attracting workers to the industry through a combination of public relations and improving worker welfare. Enough labour in terms of numbers and experience will be critical to maintain the industry's pace of growth.
- **Non-compliance:** Consumers, regulators and communities are increasingly concerned about compliance issues and brands being seen to be good members of their communities, resulting in a higher level of scrutiny on industries like ours. Any issues like worker exploitation or poor spray management have the ability to attract negative attention, impact on our reputation, our social licence and our ability to operate without greater regulatory constraints, and to attract the value enabled by being a premium brand. Zespri will continue to work with the industry to enforce our standards and take action against anybody failing to comply so that we can protect the value we have created together as an industry.
- **Exchange rates:** Industry returns have benefited in recent years from favourable currency rates, supported by Zespri's hedging policy. However, growers should be aware that there is potential for negative impact due to exchange rate movements in future years.



Category Updates



GREEN (HAYWARD)

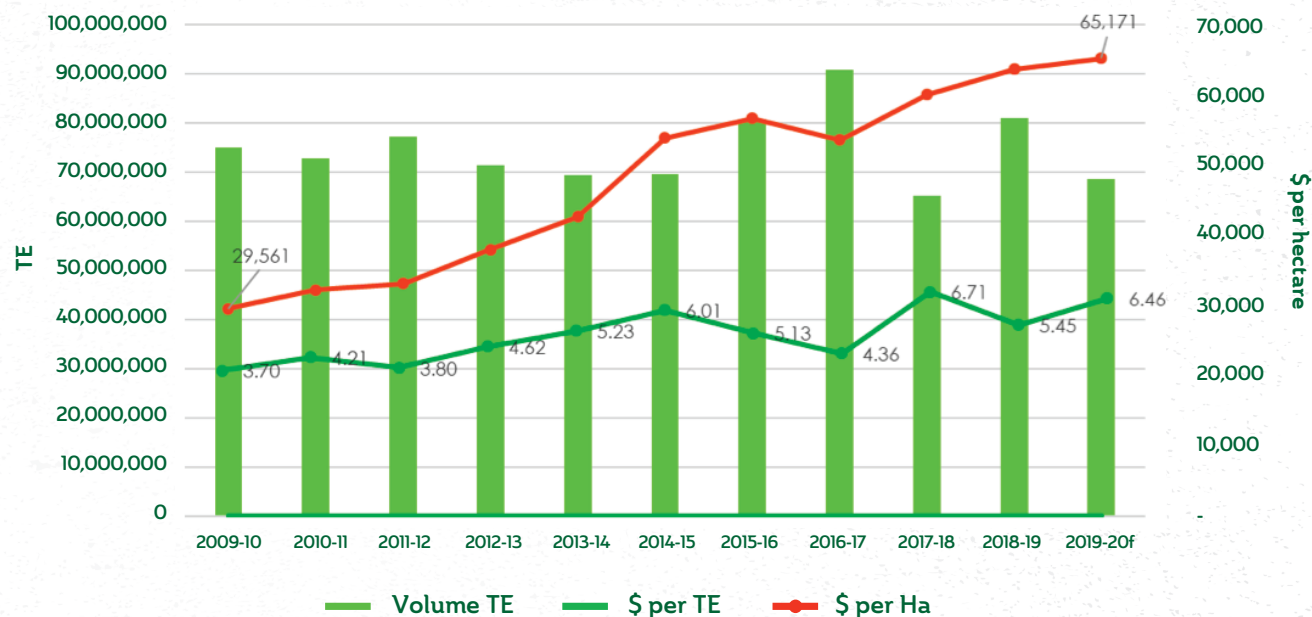
Situation and challenges

There is continued demand for Class 1 conventional Green, although large year-on-year fluctuations in supply do challenge the ability to hold and build sustainable value in the category in the long-term. As volumes decline we will push toward a \$7 Orchard Gate Return and through \$70,000 at the per hectare level, subject to average yields.

As well as a stabilisation in volumes, to be able to build demand ahead of supply, other key drivers for maintaining and building the value of Green are: maintaining our competitive advantage through delivering better quality, bigger size and higher taste fruit than our competition; continuing to work with customers to understand how providing ready-to-eat fruit can drive Green run rates; and, maintaining our focus on developing sales channels and marketing the health benefits of this fantastically healthy product.

We continue to build our understanding of the extent to which consumers substitute Gold for Green. Currently the data suggests there is a relatively small substitution effect depending on the price differential, but it appears Gold is taking more share from other fruits than it is from Green kiwifruit. There is demand for Green and sufficient Green is required to maintain a balanced portfolio for our customers and maintain our category leadership position. Most of the competitive kiwifruit grown outside of New Zealand is still Green and for the most part of an inferior quality and sold at a cheaper price point. This creates challenges in attracting new consumers to Zespri's premium Green.

GREEN VOLUME VS PER TE AND PER HECTARE RETURNS



On the supply side, Green has seen high yield volatility over recent seasons as illustrated in the chart above.

However, we forecast that supply of Green will decline particularly over the later years of the next five years due to grafting to new varieties and others making the decision to pull out of Green altogether, whether for economic reasons or alternate land use drivers.

This can be expected to have the effect of reducing Green hectares and supporting Green returns.





Marketing and market development

Optimising the taste and size attributes of the product remain the most important aspects of differentiating Zespri Green from competitor Greens around the world and maintaining our price positioning. That is why the last taste review was so critical, particularly in the context of improving Green yields. Higher volumes are more manageable when taste performance is also good. Zespri can be expected to initiate further taste reviews depending on taste performance of successive crops. Zespri will also continue to invest and focus on providing customers and consumers with ready-to-retail and ready-to-eat kiwifruit.

Building demand for higher volumes requires several elements:

- Investing in market and sales channel development to build a broadened distribution base
- Optimising product quality, taste and availability for early and late supply
- Strengthening retail relationships, creating awareness of Zespri's quality attributes
- Investing in brand marketing to create consumer demand for our premium proposition
- Focusing strongly on health communication to recruit more regular eaters of kiwifruit to the category, particularly around the digestive health properties of Green Kiwifruit

- Offering 12-month supply to customers to maintain Zespri's position.

In terms of market allocations, Europe will continue to take the largest share of Green through the next five years. However, as volumes decline, higher returning markets are anticipated to make up a higher proportion of the demand.

In the long-term, Zespri is focused on deepening penetration into the value chain and enhancing retail relationships.

Points ahead

Hayward continues to be the dominant Green cultivar globally, although we are aware of new Greens with stronger consumer attributes, but not necessarily strong performance right across the value chain. We expect that in the longer term someone may be successful in breeding a better Green that will take significant market share from Hayward should they be able to get the necessary consumer, storage and yield characteristics optimised.

From a Zespri perspective, our high-level approach is to:

1. Work systematically to optimise the quality of Hayward Green kiwifruit and to grow demand for Zespri Green 12 months of the year.
2. To continue the long-term work of breeding and commercialising a new Green that will unlock further growth in the Green category.

Through this planning window we aim to maintain average per hectare returns at over \$60,000, moving toward \$70,000, subject to seasonal factors. We note that very low yield years, of less than 9,000 trays per hectare and other risks noted in this document, would challenge this outlook. There has also been a revision of long-term Green volumes from previous forecasts, down to around 60 million trays by 2025. This is due to a loss of Green hectares, stemming from grafting to new varieties and other factors.

Zespri Global Supply view

Northern Hemisphere Green volumes also fluctuate year-on-year.

While in the past we have sourced Hayward primarily from Italy, we are now sourcing an increasing amount of fruit from Greece. This is helping offset the steady decline in our Italian-sourced Hayward crop which has decreased almost 40 percent over the past three years to around 257,000 tonnes due to the impact of pest and disease.

As well as working with Italian growers on tackling pest and disease issues, Zespri has been working closely with Greek suppliers to fill this gap, with fruit quality improving significantly and we look forward to these Greek volumes increasing further in the coming years.



Distribution of performance across orchards

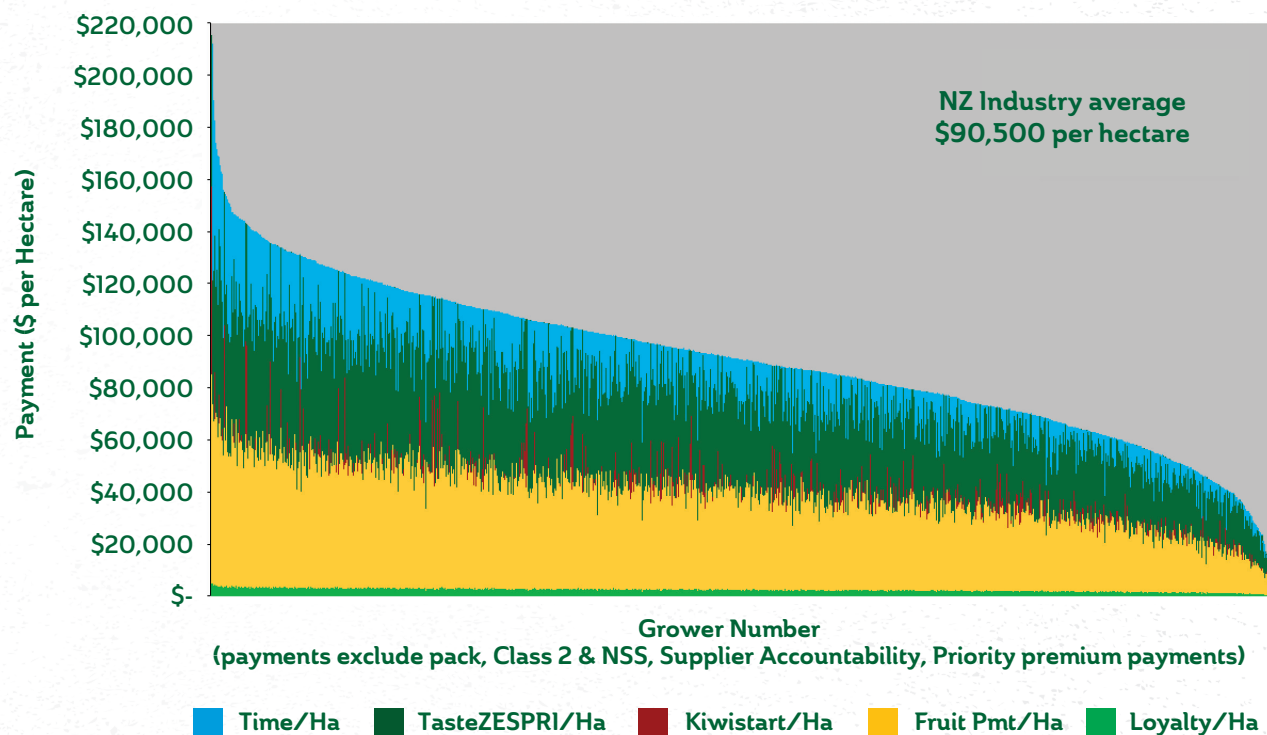
Based on the February 2019/20 season forecast, the average Fruit and Service Payment, including loyalty, paid per hectare is \$90,500.

The average yield is 10,094 trays per hectare which is down from 11,668 trays per hectare in 2018/19. The average size per tray is 32.9, which is smaller than the previous season result of 30.6.

The largest portion of the Fruit and Service Payment (excluding loyalty) is fruit payments (41 percent), which comprises a submit payment of \$2.25 per tray and progress payments of \$1.76 per tray. The Taste Zespri Grade contributed \$3.54 per tray on average, up from the 2018/19 season, and taste contributed 36 percent of the overall Fruit and Service Payment (excluding loyalty).

ZESPRI™ GREEN KIWIFRUIT – FRUIT & SERVICE PAYMENTS 2019/20

(based on E5 February forecast)



Orchard Gate Return

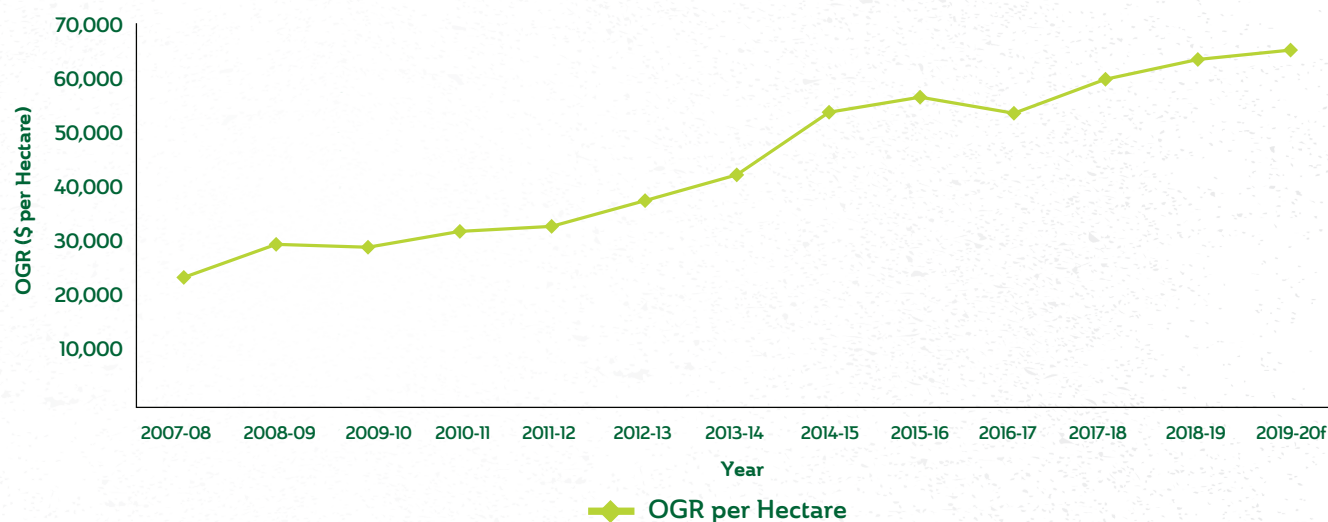
The February 2019/20 forecast shows the Zespri Green average OGR per hectare at \$65,171.

The projected OGR range per-hectare, based on Zespri's Five Year Plan is between \$60,000 and \$70,000.

On-orchard costs are not provided in this chart and we note that costs can vary quite significantly from orchard to orchard. Growers will know their costs best from their own experience and data.

We note that there are several cost factors outside of Zespri's control that could increase at a rate above historic trends. This includes, among other things, continuing increases in wage rates and potentially in costs associated with compliance.

ZESPRI™ GREEN OGR PER HECTARE





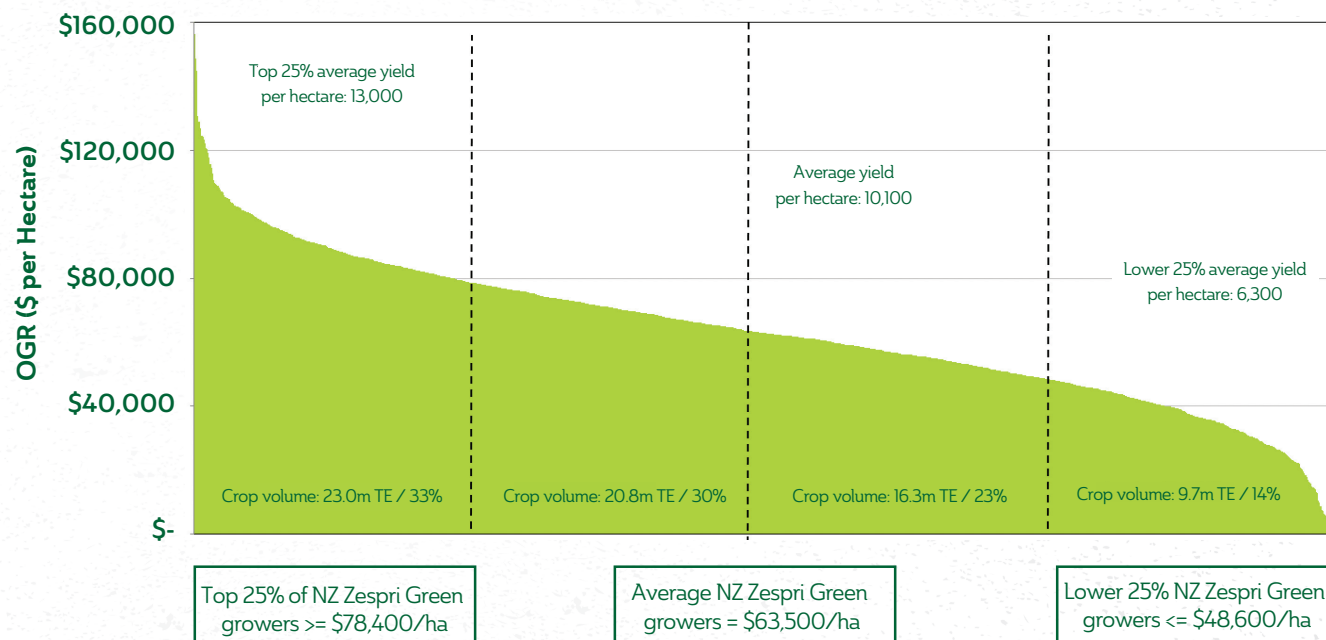
Orchard Gate Return

The graph shows the spread of orchards or part-orchards throughout the country and their expected orchard gate returns based on the February forecast for 2019/20.

The orchard gate return is the average amount received by each orchard or part orchard after Zespri and post-harvest costs are deducted. In this case, an average of \$3.57 per tray for post-harvest costs was used.

The data presented here shows the distribution of orchard gate returns across KPINs (as opposed to weighted volume average). It does not show Net Orchard Return, which factors in average on-orchard costs.

ZESPRI™ GREEN KIWIFRUIT – ORCHARD GATE RETURN* PER HECTARE 2019/20
(based on E5 February forecast)



*some payments are not allocated at an individual grower level and are excluded or estimated in this analysis.





GOLD

Situation and challenges

The forecast supply of NZ Class 1 conventional SunGold is 115 million trays in 2024/25. The Outlook takes account of existing plantings coming into full production and Zespri's decision to accelerate SunGold licence allocation, announced in October 2017, with 700 hectares of conventional to be released annually up to 2022.

The effect on volume of this revised plan comes into play in this five-year plan. It is important to note that planned licence release will only be confirmed at the end of each season depending on quality and demand growth performance of SunGold.

The focus on growth of SunGold is driven by the positive market and consumer response during the past four or five seasons.

Taste is even more important for SunGold than it is for Green because SunGold especially does not deliver on the consumer promise at lower dry matter levels and discourages repeat purchase. Growers have supported measures to improve the financial incentives for growing better-tasting fruit by moving the Gold Minimum Taste Standard (MTS), reducing sampling variability and modifying the Taste Zespri Grade. A second adjustment in the MTS was made for the 2017 season. This focus on taste is even more important given the potential new varieties from competitors coming into the market.

Marketing and market development

We will continue to invest strongly in SunGold promotion in strategic markets, with investment declining as a percentage of revenue through to the end of the plan as SunGold becomes established and volumes increase allowing economies of scale.

Achieving sales rate growth in markets requires a good supply of early, great-tasting fruit and extended logistics capacity. The tools we use to create demand are investment in promotion as well as sales and marketing resources, and in distribution expansion and a focus on taste and nutrition messaging.

Points ahead

We think the current value positioning of SunGold is sustainable in the current competitive environment, provided we keep demand ahead of supply and have steady year-on-year volume increases of continued high-quality fruit. Our pricing will inevitably come under pressure if our competitive environment changes unfavourably.

We are seeing this in the Northern Hemisphere already, but it appears other Southern Hemisphere countries continue to struggle to commercialise Golds due to pest and disease-related issues. Growers should anticipate alternative Southern Hemisphere supply options will eventually be successful and therefore returns will moderate in the longer term.

Modelling suggests average OGR per-hectare returns can be sustained above \$100,000 over the five-year timeframe (subject to a favourable competitive environment), on volumes growing to over 115 million trays in 2024/25. As always, this Outlook is dependent on seasonal factors, such as volume, taste and market conditions, and on broader factors such as biosecurity and market access.

The strength of our strategy is underwritten by the quality performance of SunGold and our plan assumes that taste and storage characteristics meet customer expectations and continue to drive sales rates and maintain the sales window.

Currently demand growth is strong and we believe we can grow Class 1 conventional SunGold at up to 8 to 10 million trays consistently a year. We will inevitably see a flattening of demand at some point in the future and understanding demand growth potential is a key focus for us. At the end of each season we will review quality and storage-related performance together with the growth in weekly run-rates we have achieved in that season and the potential demand in each market and in new market or demand opportunities. Based on this review we will confirm the licence release volume for the following year.

It is strategically important to grow SunGold in the competitive context, in order to remain category leaders and hold shelf space and maintain customer relationships as the competition increases. SunGold allows us to offer value-adding opportunities to growers to expand their production base with a proven high-returning Plant Variety Right product and strengthen our supply base.



Distribution of performance across orchards

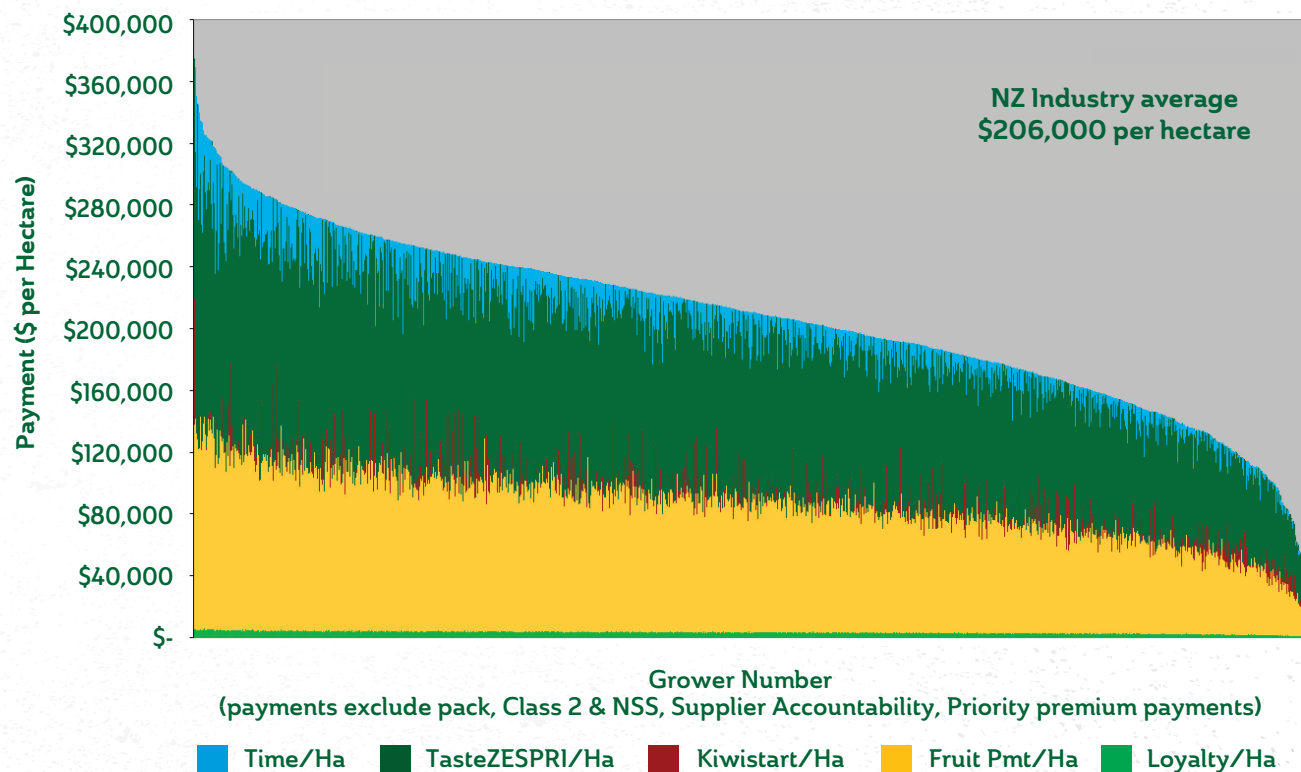
Based on the February forecast for the 2019/20 season, the average Fruit and Service Payment, including loyalty, paid per hectare is \$206,000.

The average yield is 13,632 trays per hectare which is up from 13,401 trays per hectare in 2018/19. This includes orchards that are not yet fully mature. The average size per tray is 29.5, compared with 27.3 for the previous season.

The largest portion of the Fruit and Service Payment (excluding loyalty) is taste payments (47 percent). The Taste Zespri Grade contributed \$7.38 per tray on average, up on the 2018/19 season. Fruit payments contributed 39 percent of the overall Fruit and Service Payment (excluding loyalty), which comprises a submit payment of \$2.80 per tray and progress payments of \$3.44 per tray which includes a premium for Gold Organic fruit.

ZESPRI™ GOLD KIWIFRUIT – FRUIT & SERVICE PAYMENTS 2019/20

(based on E5 February forecast)



Orchard Gate Return

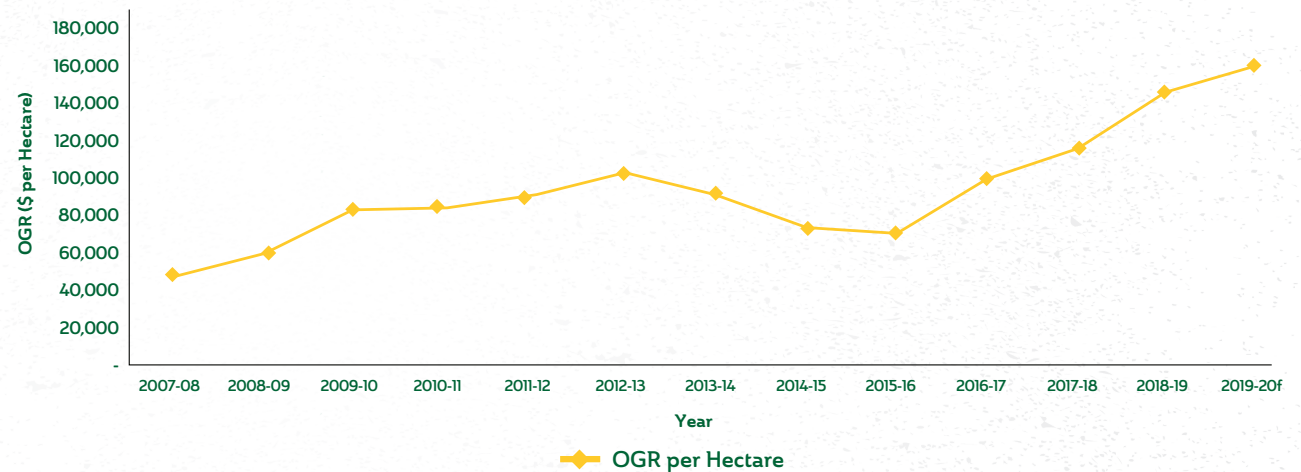
The February 2019/20 forecast shows the Zespri SunGold average OGR per hectare at \$159,688, which is up from \$145,991 in the 2018/19 season.

This is explained by a strong increase in average yields as SunGold orchards come into full production. The category also benefited from strong consumer demand supporting pricing – helping to increase average returns on a per tray basis at the same time as growing supply.

On-orchard costs are not provided in the OGR range chart and we note that costs can vary quite significantly from orchard to orchard. Growers will know their costs best from their own experience and data.

For planning purposes, Zespri also announced a range of returns from \$8-\$10 per Class 1 tray at an average yield of 13,500 trays per hectare (a relatively conservative estimate recognising that not all orchards will be in full production yet). These indicate that average per hectare returns can be sustained above \$100,000 over the five-year timeframe. This assumes the continued release of additional tranches of SunGold licence, as signalled by the Zespri Board, which are subject to annual stop/go decisions.

ZESPRI™ GOLD OGR PER HECTARE



Returns are based off both historical Hort16A figures and more recent SunGold returns.



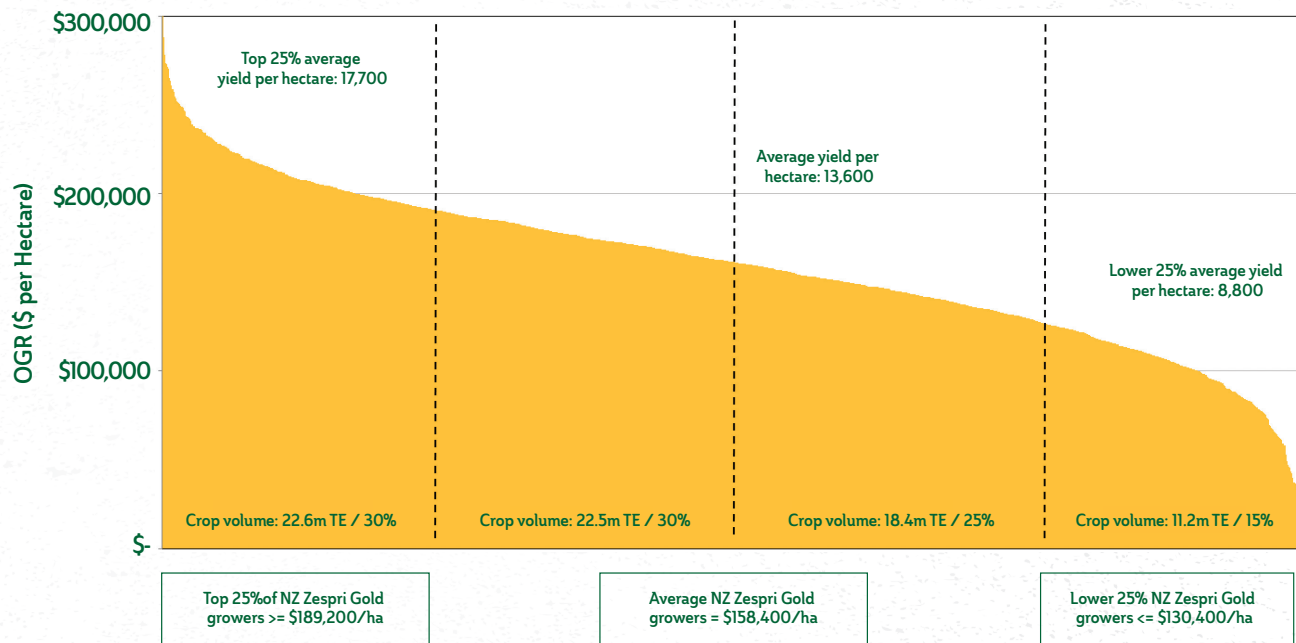
There are several cost factors that could increase inflation at a rate above historic trends. This includes, among other things, continuing increases in wage rates and potentially costs associated with compliance.

The graph shows the spread of orchards or part orchards throughout the country, and their expected orchard gate returns based on the February forecast of 2019/20.

The orchard gate return is the average amount received for each orchard or part orchard after Zespri and post-harvest costs are deducted. In this case, an average of \$4.42 per tray for post-harvest costs were used.

The data presented here shows the distribution of orchard gate returns across KPINs (as opposed to weighted volume average). It does not show Net Orchard Return, which factors in average on-orchard costs.

ZESPRI™ GOLD KIWIFRUIT – ORCHARD GATE RETURN* PER HECTARE 2019/20 (based on E5 February Forecast)



*some payments are not allocated at an individual grower level and are excluded or estimated in this analysis.





ORGANIC GREEN and ORGANIC SUNGOLD

Situation and challenges

Demand for Organic remains a significant opportunity with many positive factors for the category.

Organic sales around the world continue to grow strongly as we see organic food sales outpacing the growth of non-organic food.

This growth is underpinned by an increasing consumer desire for healthy, nutritious, safe and good tasting foods that are also good for the environment. As the world's population become more conscious of their consumption, they are increasingly more willing to pay a premium for what is healthy for them and healthy for the planet.

Across the global organic category, Europe and North America combined account for around 90 percent of organic food sales, with Asia markets combined accounting for just 6% of sales. The core markets for Zespri Organic Kiwifruit remain Europe, Japan and North America, which account for around over 80 percent of Zespri Organic sales by volume.

We expect Class 1 Organic Green NZ supply will continue to fluctuate, with volumes supplied likely to stay around 3 million trays during the five-year period. There is continued strong demand for Organic Green which is exceeding supply significantly. During the 2019/20 season, Zespri again achieved strong average returns on a per tray basis. Organic returns are volume sensitive and significant year-on-year changes in yield in recent seasons challenges the ability to hold returns at a per hectare level. The challenge is to return

per hectare value sufficient to offset yield and size differentials compared to conventional.

The forecast supply of Class 1 Organic SunGold is expected to increase significantly over this planning window from 990,000 trays supplied in 2019/20 to over 4 million trays supplied in 2024/25. The Outlook takes into account Greenfields developments coming into production, alongside conversions from conventional SunGold coming into full organic certification.

It is strategically important to grow organic in the competitive context. Our organic offering allows us to be relevant to more consumers, by meeting a wider range of needs. This in turn helps Zespri remain category leaders, hold shelf space and maintain customer relationships.

Marketing and market development

Zespri's overall drive to maximise returns for organic supply will be supported by:

- Building capability and lifting value in Europe and USA, where there is strong demand for organic.
- Further investment in consumer research to understand the needs of organic consumers.
- Deepening our reach in specialist organic distribution channels.

- Globally consistent brand positioning and clearly differentiated consumer packaging that reinforces a premium position and drives consumer willingness to pay.

In the 2019/20 season, Zespri increased the Organic SunGold premium to \$2.20 per tray from \$2.00. This variety will also move to a separate pool from 2020/21 where our expectation is of a premium between \$1.40-\$2.20.

Points ahead

Organic Green

Organic Green sales have been anchored with long-term customers in Europe, Japan, and North America, when combined representing around 80 percent of total sales for this variety. A similar allocation strategy is expected in coming seasons, with growth prioritised based on distinct organic demand and the market opportunity to deliver a strong and stable return, with continued development in other markets as consumers drive increased organic demand across a range of categories.

Zespri is modelling a range of \$9.00 to \$10.00 per tray for Class 1 Organic Green. However, significant year-on-year changes in yield in recent seasons means there could be significant variability in per hectare average returns of between \$55,000 and \$70,000.



Distribution of performance across orchards

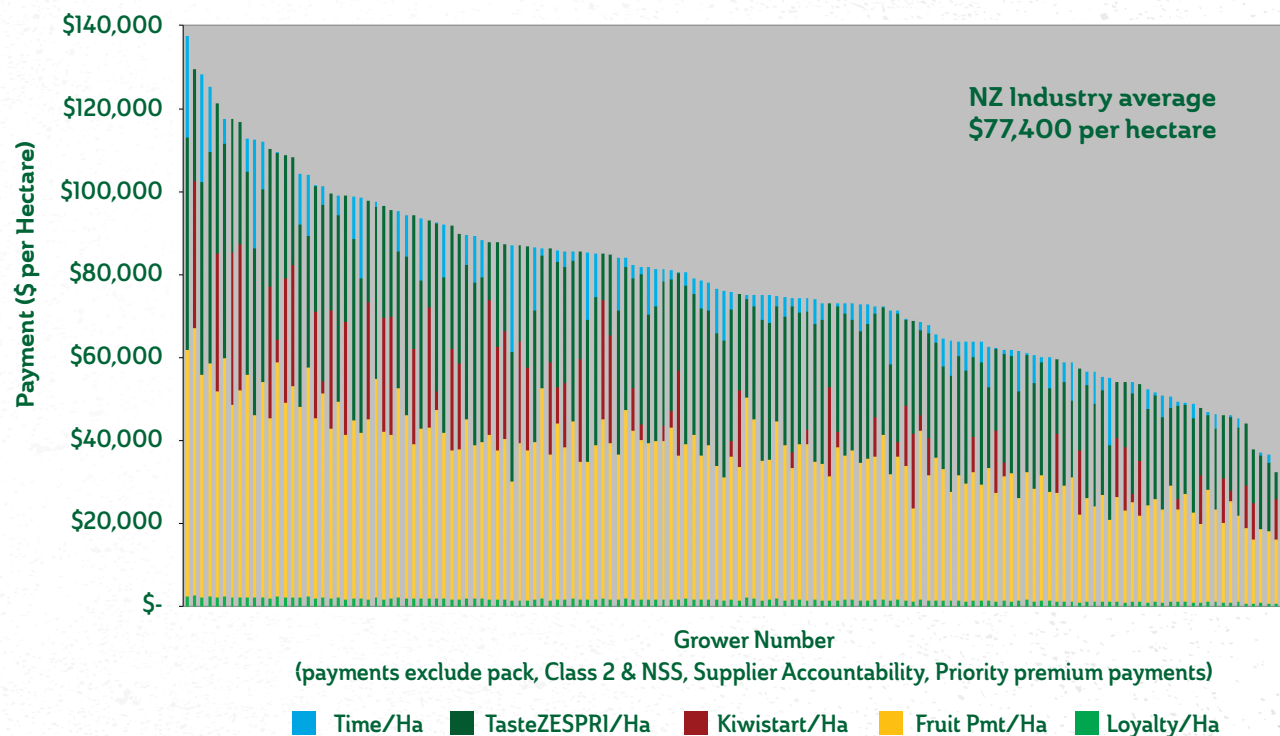
Based on the February 2019/20 forecast, the average Fruit and Service Payment for Organic Green, including loyalty, paid per hectare is \$77,400.

The average yield is 6,451 trays per hectare which is lower than the average 7,959 trays per hectare in 2018/19.

The average size per tray is 36.0, compared with 33.3 for the previous season.

The largest portion of the Fruit and Service Payment (excluding loyalty) is fruit payments (46 percent), which comprises a submit payment of \$2.25 per tray and progress payments of \$3.29 per tray. The Taste Zespri Grade contributed \$4.59 per tray on average, up on the 2018/19 season, and taste contributed 38 percent of the overall Fruit and Service Payment (excluding loyalty).

ZESPRI™ ORGANIC GREEN KIWIFRUIT – FRUIT & SERVICE PAYMENTS 2019/20 (based on E5 February forecast)



Organic Green Orchard Gate Return

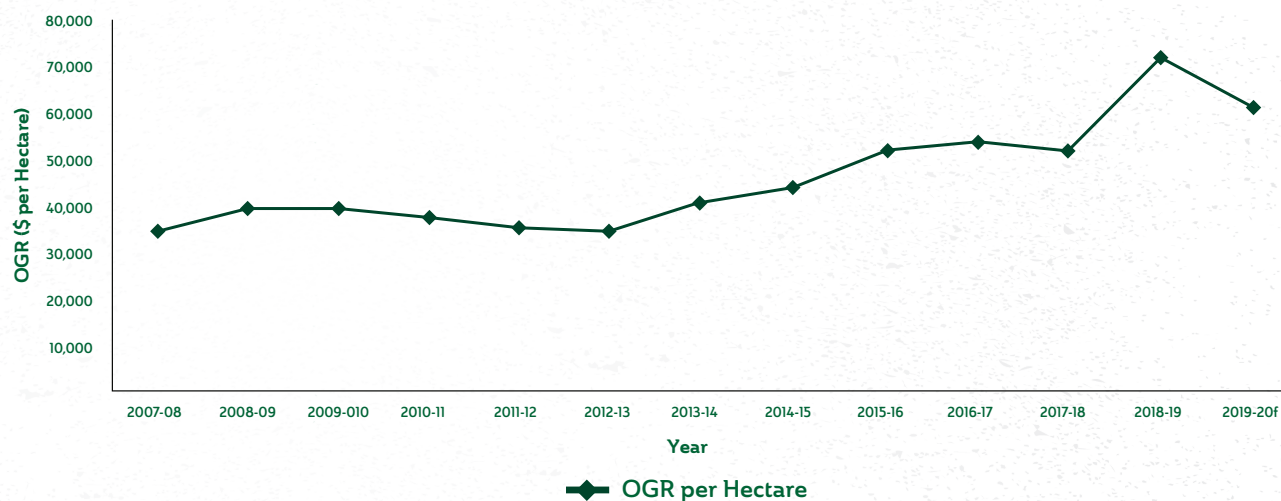
The February 2019/20 forecast shows the Zespri Organic Green average OGR per hectare at \$62,258, which compares to \$73,350 in the 2018/19 season.

The average per-hectare returns have been driven by lower yields. The total volume of trays supplied was 2.8 million trays versus 3.5 million trays in 2018/19.

On-orchard costs are not provided in this chart and we note that costs can vary quite significantly from orchard to orchard. Growers will know their costs best from their own experience and data.

There are several cost factors that could increase inflation at a rate above historic trends. This includes, among other things, continuing increases in wage rates and potentially in costs associated with compliance.

ZESPRI™ ORGANIC GREEN OGR PER HECTARE



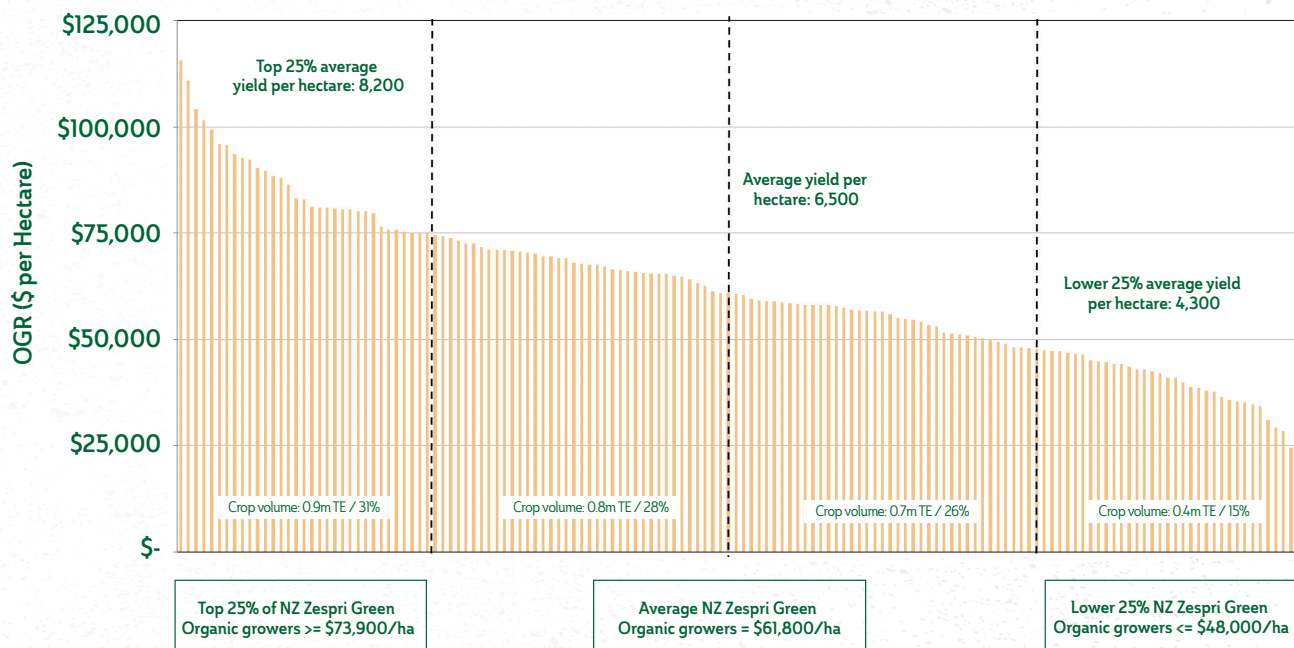


The graph shows the spread of orchard or part orchards throughout the country and their expected orchard returns based on the February 2019/20 forecast.

The orchard gate return is the average amount received for each orchard or part orchard after Zespri and post-harvest costs are deducted. In this case, an average of \$3.03 per tray for post-harvest costs were used.

The data presented here shows the distribution of orchard gate returns across KPINs (as opposed to weighted volume average). It does not show Net Orchard Return, which factors in average on-orchard costs.

ZESPRI™ ORGANIC GREEN KIWIFRUIT – ORCHARD GATE RETURN* PER HECTARE 2019/20 (based on E5 February forecast)



*some payments are not allocated at an individual grower level and are excluded or estimated in this analysis.





Organic SunGold

We continue to see strong demand signals for Organic SunGold and we will experience strong supply growth in this variety over the planning window.

We believe we can grow Class 1 Organic SunGold at around 600,000 TE per year on average over the five-year planning window, with growth prioritised based on distinct organic demand and the market opportunity to deliver a strong and stable return.

A focus will be on building capability and lifting value in Europe and USA, where there is strong organic demand. Volumes to Japan will also continue to grow, reliant on meeting market access requirements, although will decrease as a proportion of market mix.

There is an opportunity to build volumes into high value markets including Korea and Taiwan, which is also reliant on meeting market access requirements around scale. Volumes to China will increase over time, however are not expected to increase as a proportion of total volume.

As previously mentioned, from 2020/21 season SunGold Organic will operate in a separate pool structure.





SWEET GREEN (Green 14)

Summary

Sweet Green volumes continue to decrease. In 2019/20, Class 1 NZ supply was around 400,000 trays, down from a peak production of 1.5 million trays in the last five years. Even with the decline in volumes, Zespri will continue to sell the variety as its sweet and early proposition has a place in the Zespri portfolio for the foreseeable future.

When Sweet Green is managed appropriately, and quality is good, the variety does have strong consumer liking with no detrimental impact on the brand. Our focus ahead remains on supplying a high taste offering, as early as possible, to complement the Green sales programme.

Our focus includes:

- Supplying early to Japan (at the same time or earlier than Hayward) and in a continuous volume to sustain programmes.
- Balancing supply to Europe to facilitate market access and shipping options.
- Improving the size profile.

Marketing and market development

The market opportunity for Sweet Green continues to be based on a proposition of early supply, sweeter taste and a more convenient eating experience through easier ripening. Our ability to successfully execute will depend on being able to deliver reliably good quality, good tasting Sweet Green kiwifruit to our markets early in the season.

Distribution of performance across orchards

Based on the February 2019/20 forecast, the average Fruit and Service Payment, including loyalty, paid per hectare is \$68,000.

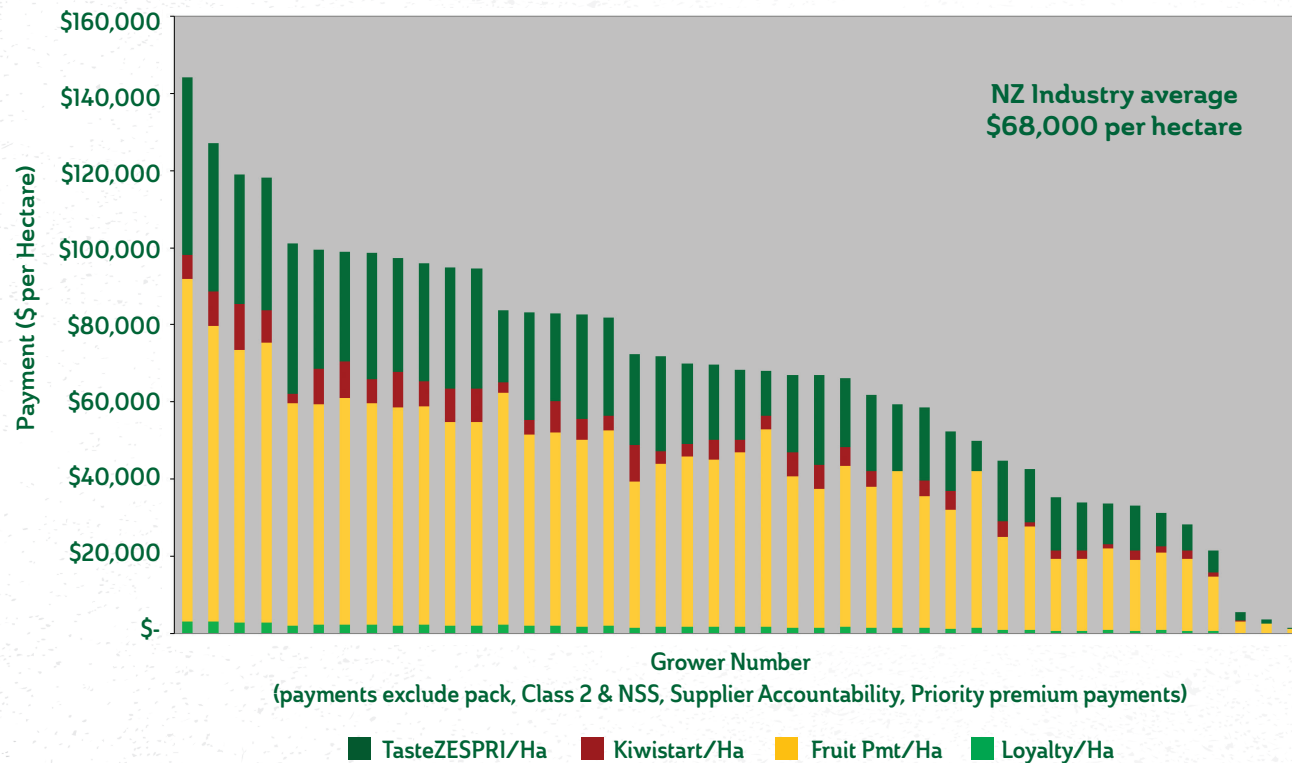
The average yield is 5,685 trays per hectare which is down from 6,159 trays per hectare in 2018/19. The average size per tray is 37.3, compared with 35.4 for the previous season.

The largest portion of the Fruit and Service Payment (excluding loyalty) is fruit payments (63 percent), which comprises a submit payment of \$2.80 per tray and progress payments of \$3.82 per tray. The Taste Zespri Grade contributed \$3.22 per tray on average, up on the 2018/19 season. Taste contributed 31 percent of the overall Fruit and Service Payment (excluding loyalty).





ZESPRI™ GREEN14 KIWIFRUIT – FRUIT & SERVICE PAYMENTS 2019/20
 (based on E5 February Forecast)



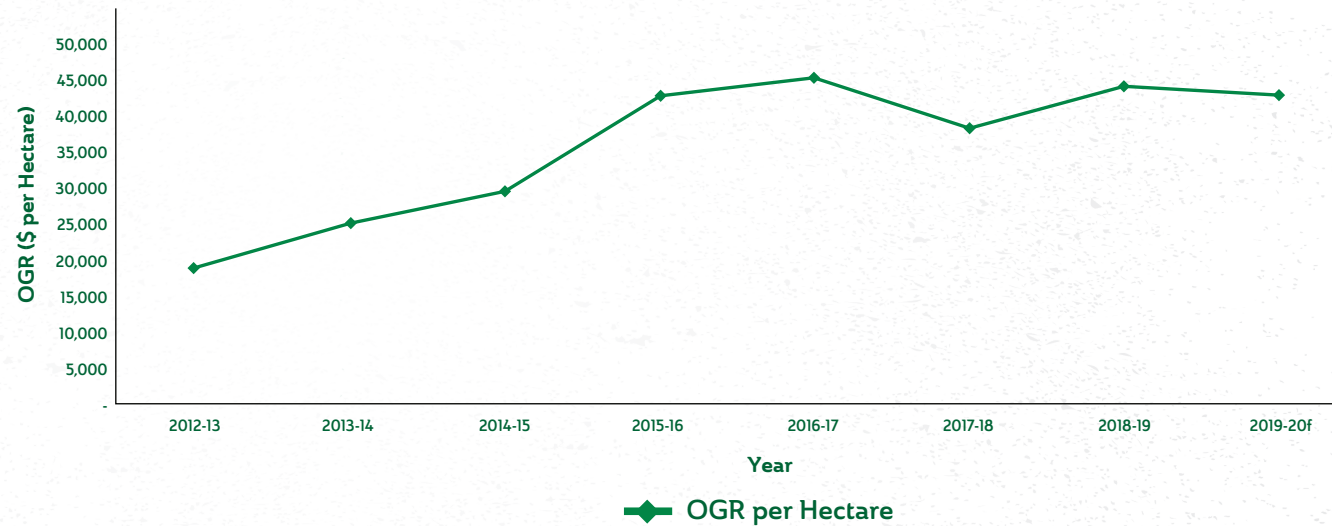
Orchard Gate Return

The February 2019/20 forecast shows the Zespri Sweet Green average OGR per hectare at \$43,497, which is down from \$44,549 in the 2018/19 season.

On-orchard costs are not provided in this chart and we note that costs can vary quite significantly from orchard to orchard. Growers will know their costs best from their own experience and data.

There are several cost factors that could increase inflation at a rate above historic trends. This includes, among other things, continuing increases in wage rates and potentially in costs associated with compliance.

ZESPRI™ GREEN14 OGR PER HECTARE



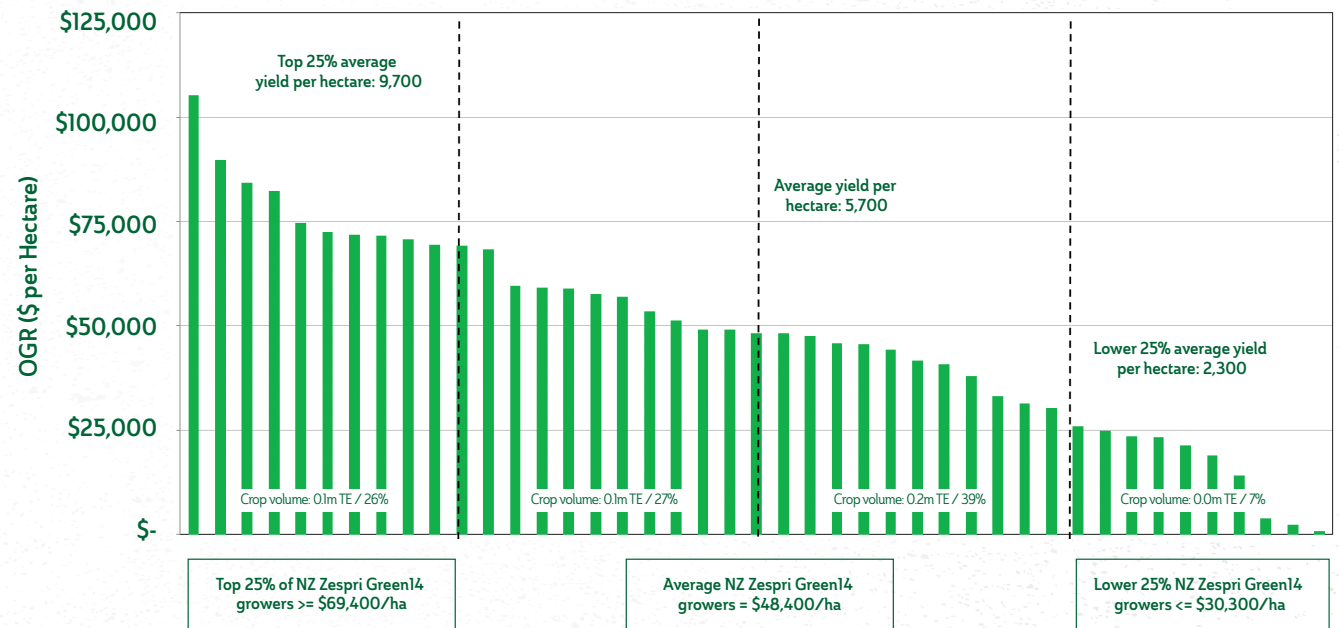


The graph shows the spread of orchard or part orchards throughout the country and their expected orchard gate returns based on the February forecast for the 2019/20 season.

The orchard return is the average amount received for each orchard or part orchard after Zespri and post-harvest costs are deducted. In this case, an average of \$3.25 per tray for post-harvest costs was used.

The data presented here shows the distribution of orchard gate returns across KPINs (as opposed to weighted volume average). It does not show Net Orchard Return, which factors in average on-orchard costs.

ZESPRI™ GREEN14 KIWIFRUIT – ORCHARD GATE RETURN* PER HECTARE 2019/20 (based on E5 February Forecast)



*some payments are not allocated at an individual grower level and are excluded or estimated in this analysis.



Corporate Outlook



Overview

A good way to think about Zespri from a corporate perspective is to conceptualise it as a number of related businesses or revenue streams:

- Revenue from exporting and marketing New Zealand Kiwifruit globally.
- Revenue from sourcing and marketing kiwifruit from outside of New Zealand.
- Revenue from licensing proprietary cultivars to growers.
- Revenue from the royalties coming from proprietary cultivars.

This section provides an overview of our outlook for each of these revenue streams.





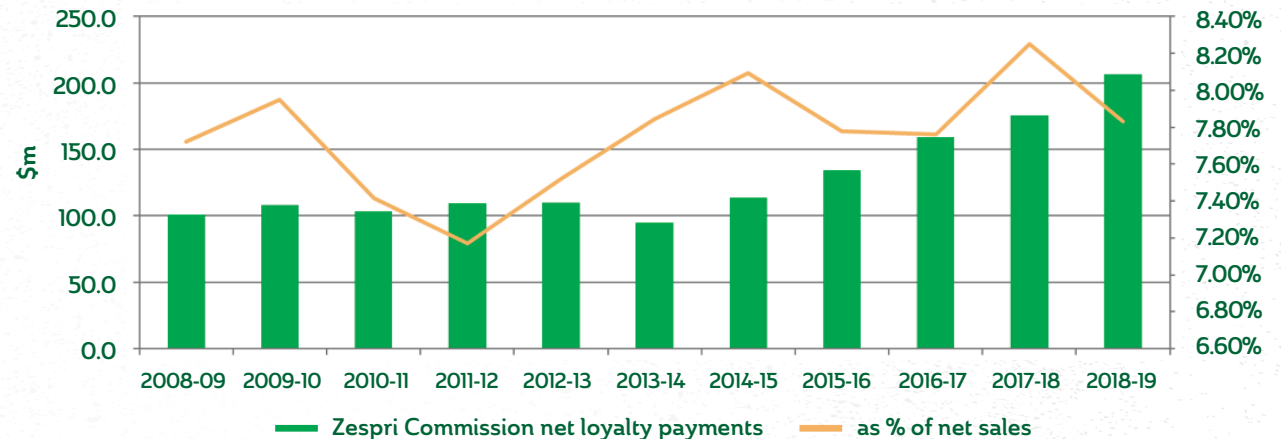
Exporting and marketing New Zealand Kiwifruit Globally

The chart opposite shows Zespri's corporate revenue from selling New Zealand Kiwifruit from 2008/9 to 2018/19 (excluding royalties), together with Zespri's net commission (post loyalty) as a percentage of net sales over this time. On average, this has resulted in a net commission of \$0.89 per tray for every tray of Green sold and \$1.71 per tray for every tray of Gold sold for the same period.

In 2017, Zespri finalised an enduring funding model with the industry for calculating Zespri's margin related to the sale of New Zealand kiwifruit. The objective of the funding model is to ensure Zespri is funded appropriately, balanced against the need for appropriate cost control, to ensure that the benefits of economies of scale are shared between growers and shareholders. It replaced the former industry convention of renegotiating funding / margin arrangements every three years, and instead delivers an automatic margin resetting mechanism targeting a New Zealand Supply earnings before interest and taxes (EBIT) at around one percent of net sales.

We expect to see Zespri's net commission as a percentage of net sales remain in the range of 7.5 percent to 8.5 percent over the course of the five-year plan. This should allow Zespri to grow its EBIT from New Zealand kiwifruit from approximately \$27 million in 2019/20 towards \$48 million over the next five years.

ZESPRI™ COMMISSION NET OF LOYALTY PAYMENTS IN \$ AND AS % OF NET SALES OF NEW ZEALAND SUPPLIED KIWIFRUIT



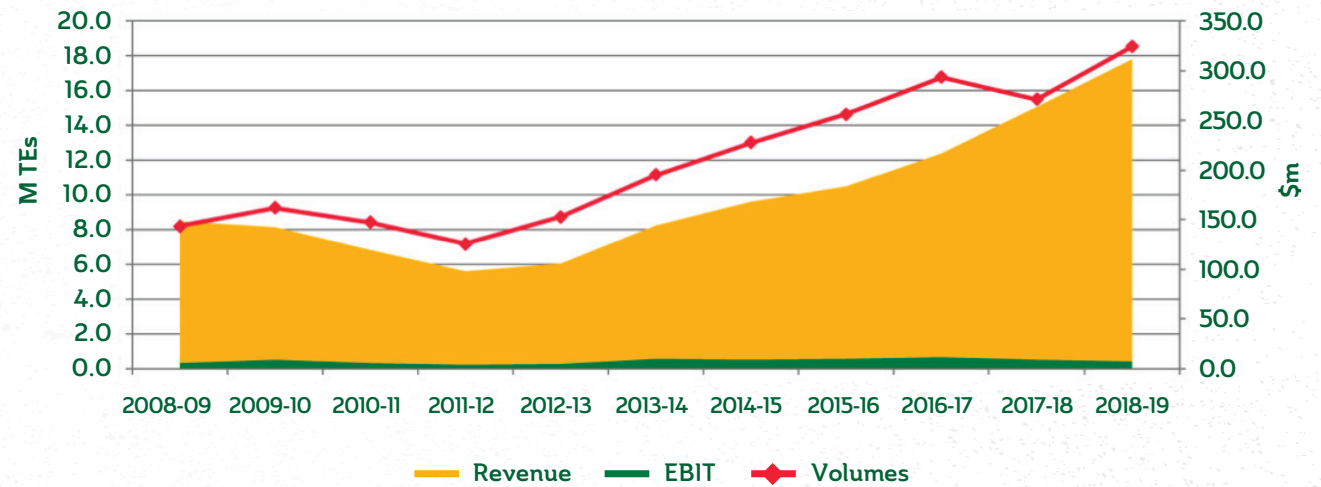
For supplementary information on the enduring funding mechanism, please refer to the Canopy website.



The business of sourcing and selling kiwifruit from outside of New Zealand

Zespri sources kiwifruit from Italy, France, Japan, Korea, Portugal and Greece in order to provide customers and consumers with premium Zespri Kiwifruit 12 months of the year. Historical volumes and revenues from ZGS are shown to the right.

NON-NEW ZEALAND SUPPLY



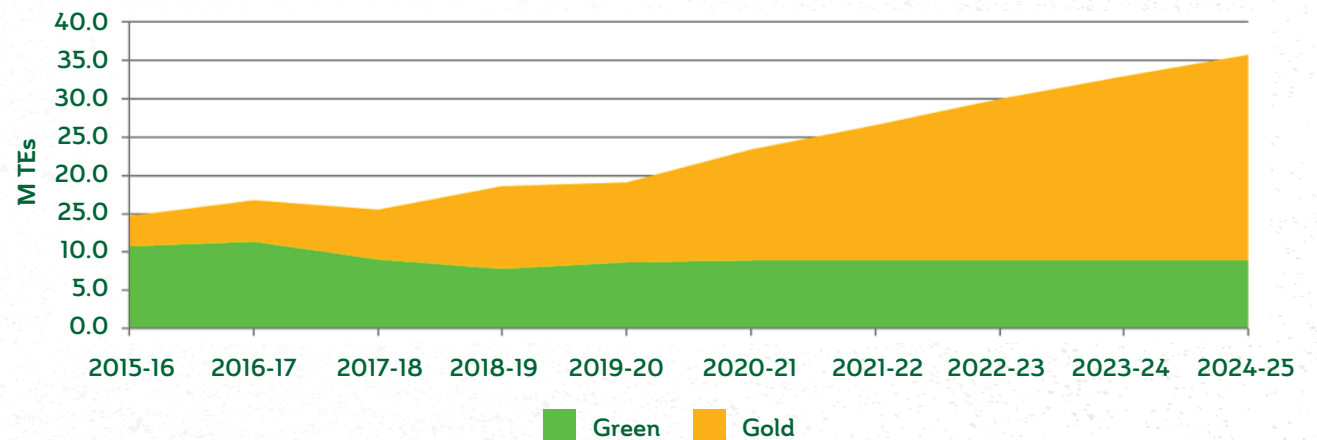
With 3,340 hectares of SunGold currently planted, we expect non-New Zealand Supply volumes will grow strongly over the course of this 5-year plan. To meet supply growth targets, Zespri is looking at options to increase the number of growing locations, such as potentially in Greece and North America, and to expand production in existing locations, such as Japan and South Korea.

Historically, non-New Zealand supply volumes have proven to be challenging as Zespri has developed the capability to source fruit internationally over the last 20 years, and so the earnings guidance we provide for the non-New Zealand supply business remains preliminary. In 2018/19, the non-New Zealand supply segment EBIT was approximately \$8 million. Provided SunGold continues to perform well in all growing locations, and there is no guarantee of this, we expect revenues to increase broadly in line with volumes from approximately \$370 million in 2019/20 to over \$700 million by 2024/25, and correspondingly we expect to see the EBIT from this business to grow towards \$25 million through the life of this plan.

The non-New Zealand supply business is inherently higher risk and more complex than the New Zealand business with each growing location bringing with it all of the complexity of growing and doing business in foreign jurisdictions. There is potential for some economies of scale to be captured as we grow this business (representing potential upside) but we recognise that we will need to invest strongly in order to

ensure this business is robust and quality is consistent with our brand promise. We also note the existence of strong competition in the Northern Hemisphere Gold business and this could act to constrain Zespri pricing and thereby impact negatively on corporate revenue. The Non-New Zealand Supply business also delivers value through providing 12-month shelf space for Zespri products and brand.

NON-NEW ZEALAND SUPPLY 5-YEAR PLAN VOLUMES





The business of licencing proprietary products to growers

Zespri owns the plant variety rights for SunGold. Zespri has announced it expects to licence around 750 hectares of this variety in New Zealand each year from 2020 through 2022 with the volume to be licenced confirmed at the end of each New Zealand season based on demand growth during that season.

Revenues for future licence rounds will depend on the performance of SunGold in each successive season, hectares actually licenced, and the value bid for the licence by growers. Shareholders should note that this revenue stream is potentially lumpy over time as SunGold licensing in New Zealand inevitably slows, and given the licensing model is subject to change, and the commercialisation timeframe of other new cultivars is uncertain. However, we do note a red variety has been released and will be subject to a tender process the same as SunGold, albeit those bidding will be taking on a much different risk and opportunity profile.

Zespri together with Plant & Food Research continues to invest in a new varieties breeding programme to develop differentiated cultivars which will attract new consumers to the kiwifruit category.

Royalty Income

Zespri charges a royalty of 3 percent for SunGold with 1.35 percent being paid to Plant & Food Research and 1.65 percent being an income stream for Zespri. As the Red programme develops, royalties will also provide an income stream for Zespri from sales of red kiwifruit.

Zespri's global SunGold net sales are forecast to grow from \$2.0 billion in 2019 to \$3.5 billion through the life of this plan with Zespri's royalty from SunGold growing correspondingly from \$33 million in 2019 to over \$58 million through the life of the plan.

Summary

Even excluding earnings from licence sales (which can be seen as extraordinary income), Zespri expects strong corporate earnings growth over this five-year planning horizon and, importantly, a rebalancing between revenue streams with non-New Zealand Supply and SunGold royalties becoming increasingly important.

Beyond 2025



A 10-year overview of demand and supply

In addition to the five-year outlook for the industry, Zespri has been developing a 10-year view of supply and demand. The purpose is to set out an optimal view of sustainable growth over the very long-term, balancing volume growth with preserving value.

The information provided in the 10-year plan is directional only and provides a view of how strong demand could be and potential implications for the supply side of the industry.

There has been little change in the 10-year outlook from a New Zealand supply point of view, while the return outlook has strengthened. From a Northern Hemisphere supply perspective, New Zealand producers have approved the issuance of up to 5,000 ha of SunGold licences in Northern Hemisphere growing regions, with 3,340 hectares currently planted. This hectare level and a review of yield development has resulted in a revision of anticipated volumes likely to eventuate. In addition, the declining Green crops from Italy have led to a review of the Green procurement programme.

The key points from the 10-year plan include the following:

- Zespri's mission to grow global sales revenue to \$4.5 billion by 2025 remains on track. This equates approximately to total sales of around 235 million trays, including 12-month supply based on current supply forecasts.
- However, our current view is that further investment could support demand by 2029 of over 300 million trays, at sustainable returns, subject to production costs, and in the shorter-term potential demand of 243 million trays in 2025, should supply permit or yields improve.
- Zespri's sales and marketing investment has created demand significantly ahead of forecast supply.
- Kiwifruit remains an under-developed category, which means there is space to occupy and advantage to be gained through scale. This space also creates competitor risk.
- Strong and sustained market returns are essential for all fruit groups to support and encourage the supply investment required to meet demand.
- Steady market development enables sustainable growth in grower and shareholder returns.
- The plan assumes around 75 percent will be supplied from NZ and 25 percent from non-NZ locations.
- The plan does not consider new varieties which could be either additive or substitutional.
- Growth over the next 10 years will be driven by SunGold, with an increase in supply from New Zealand sustainable at around 8 -10 million trays per year. The Red commercialisation decision will be factored into future longer-term outlooks.
- Supply of Green from New Zealand needs to be sustained at around 60 million trays for Zespri to have a balanced portfolio which may be challenging with increasing on-orchard and post-harvest costs as labour rates increase. This will be reviewed at the end of each season.
- Demand for Organic is a significant opportunity, with headspace to grow in most markets subject to the per hectare value being generated to offset yield and average size impacts.

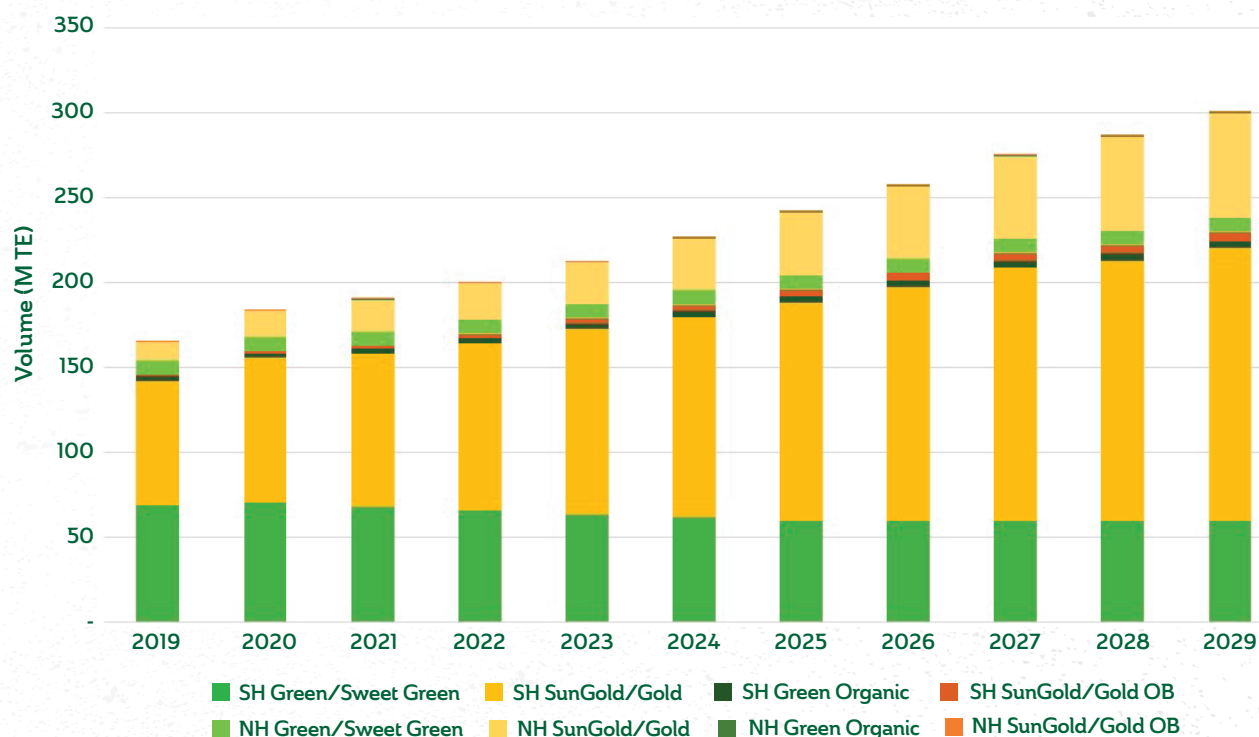
The Demand Outlook

Kiwifruit is still an underdeveloped category within the fruit bowl but with huge growth potential. This creates potential for disproportionate advantages of scale in relation to costs within the next 10 years, although the gap could close if costs have a disproportionate change in rate of increase.

Zespri has developed good quality demand through market development, brand and category growth – underpinned by the popularity of SunGold, strong marketing and high-quality supply. The new Zespri brand identity and positioning, launched in February 2020, will strengthen our ability to create demand into the future, allowing us to connect emotionally with customers who are looking beyond the product to a brand’s purpose and values.

However, competition is dynamic and if we do not accelerate growth, we risk falling behind. Risks include: forfeiting the opportunity to bring further value back to New Zealand growers and the broader industry; giving other developing fruit items the opportunity to strengthen consumer preference; failing to supply Zespri customers with sufficient volumes, meaning they might need to seek alternative supply; and losing share within the fruit bowl so that it is then more costly to build mental and physical availability of our brand.

12-MONTH, 10-YEAR TARGET DEMAND VOLUME GROWTH





From a position of strong overall demand creation and strong consumer acceptance of SunGold, Zespri is looking to continue to develop its position in China – a vitally important market. A significant piece of work was undertaken in 2019 to strengthen our roadmap for growth in China. Zespri is also investing to build its position in the USA as another major market.

The strength of demand is such that hard market choices sometimes have to be taken, supported through a market development framework. Each market is categorised according to its stage of development, with investment planned accordingly and performance measured against targets.

Ultimately, Zespri's sales and marketing strategy is focused on ensuring consumers are at the heart of the strategy; making harder choices prioritising markets; strengthening relationships with key customers; going deeper before going wider; balancing short-term and long-term goals; and focusing on performance in the prioritised markets. Zespri continues to build its own capability as well as the capability of its distributor partners to ensure we can service our customers and execute with excellence against the demand we create.

Risks to Demand

There are several demand risks that could impact the plan, including when:

- Markets cannot develop at the expected rates, lowering return on investment and potentially delivering lower profitability than planned.
- Market access is lost to a significant market.
- A significant new competitive gold variety emerges to compete with Zespri.
- A new competitive fruit takes market share from all other fruits.
- Organic supply cannot be increased, leaving a gap in Zespri's product offering.
- There is a crop increase in excess of market capability.
- Supply is unable to meet the quality and delivery requirements of markets.
- Consumers move away from whole fresh kiwifruit as the need for convenience increases.

These factors present a diversity of risk and Zespri's risk management involves building conservatism into the plan. That means ensuring headspace and reallocation options between markets. Steady supply development and progressive market development are expected to better prepare markets to absorb volume increases, however there could always be a year where crop management is required as a mechanism to support longer term value growth. Zespri needs to continue to lead innovation to develop new kiwifruit products that meet consumer needs. Green returns need to be sustained in order to secure sufficient supply for the long-term.

Implications on the supply side

Meeting the 10-year demand projection requires a step change in the pace of development. It requires investment and innovation by Zespri, growers, post-harvest operators and partners across the supply base.

The implications of meeting over 300 million trays of demand in 2029 are 7,000 more hectares of plantings in New Zealand and around \$700-\$750 million of investment by the post-harvest sector to keep pace with volume growth. It also requires significant new plantings in Non-New Zealand supply locations.

Other considerations in this context include:

- Improving supply chain systems and processes: an improvement project underway is addressing integrated planning, grower payments, global inventory and traceability
- Investigating more offshore packing and cooling: ensuring we have the optimal infrastructure in place in New Zealand
- Increased focus on supporting and rewarding innovation in the supply chain
- Innovation to try to extend the harvest window of SunGold

- Learning to optimise SunGold in terms of yield versus taste versus storage, coupled with post-harvest handling and management
- Meeting the supply gap for Organic SunGold and Organic Green.

Zespri's long-term estimate of potential average returns over the period of the 10-year plan is as follows:

- Green: \$5.50 to \$7.00 per tray
- Organic Green: \$9.00 to \$10.00 per tray
- SunGold: \$8.00 to \$10.00 per tray
- Organic SunGold: \$9.40 to \$12.20 per tray

These ranges are provided to translate Zespri's long-term demand plan into what it might mean for growers. It is important to note they are not a forecast, are subject to change, and the ranges are wide, recognising a number of factors outlined in the risks and opportunities section of this document.

For example, Green in the short term is still potentially subject to swings in volume which will impact OGR outcomes. Returns for SunGold in the short-term are expected to remain strong as demand outstrips supply, but expected to moderate in the longer term as volumes come on and costs increase.



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