Primary Growth Partnership

NZ Sheep Industry Transformation Project (NZSTX)

QUARTERLY REPORT – 30 JUNE 2013

EXECUTIVE SUMMARY FOR PUBLIC RELEASE

This paper is an executive summary of the formal quarterly report made by The New Zealand Merino Company (NZM) to the Ministry for Primary Industries (MPI) regarding the New Zealand Sheep Transformation (NZSTX) project for the quarter ending 30 June 2013.

As we review year three of the NZSTX project, we are very pleased with overall project progress and where things are currently sitting.

The production science programme was singled out as the key focus area for NZSTX this financial year, and we are delighted with what has been accomplished in this project in the past 12 months. The challenge in front of us now is to build on that momentum and, in particular, to start moving to a point where adoption (of production science initiatives and results) can become the key focus of the programme.

Fibre

As previously signalled to MPI, many of the market fundamentals are working against us in the short-term, largely driven by economic conditions, particularly in Europe. However, the activities being undertaken by NZM, in collaboration with our brand partners, form an integral part of the NZM business model and are designed to support contract prices and enable our brand partners to maintain sustainable value chains, right back to the grower on-farm.

This quarter, activities have included visits to China, Japan, Italy, the UK and USA. The focus of this international travel was to secure new contracts, particularly for finer wool, and was very successful.

Planned activities for the coming quarter will include:

- Meeting with key brand partners in the USA (in conjunction with attendance at the *Outdoor Retailer* trade show in Salt Lake City, Utah) during August 2013.
- A three day strategy "deep dive", addressing the design challenge: *"How might NZM interface with the desired 30 million global consumers in ways that drive greater consumer intimacy and ultimately loyalty?"*, with a focus on deepening the value delivered through the contract model, and extending our brand partner base through awareness of *ZQ Merino*.
- Building the platform of digital communication, and the intersection of this platform with physical and event activations.

Meat

The meat market has continued to be challenging due to global economic conditions. However, despite sales not being as strong as anticipated 12 months ago, our meat programme continues to experience growth, both domestically and internationally.

Approximately 130 New Zealand restaurants have SILERE alpine origin merino (our branded Merino meat) on their menu throughout the year. We are achieving an order rate with these 130 restaurants of approximately 65% in any particular month.

We have also had success with the *alpine origin merino* burger patty, which will be followed this coming summer with a Merino sausage.

Internationally, we are starting to see both growth and repeat business in the USA and China as our distributors' confidence in our ability to meet their demand increases. Recent market visits and promotional events have supported findings from the domestic market that the SILERE experience and story is resonating with our consumers. This has given us confidence that the prototype sales and marketing strategy is pitched correctly and will be sustainable.

Market developments in China, as well as Hong Kong and Taiwan, are looking promising. The marketing campaign with our distributor in the USA has really hit the ground running. First up in the programme was the Aspen Food & Wine Classic, from which we have had very positive feedback. Two high-profile celebrity chefs have indicated that they will trial SILERE in their restaurants. The next key event in the USA is our participation in the Waiheke Island Yacht Club pop-up restaurant in San Francisco over the America's Cup. This collaboration will provide us with the opportunity to showcase both SILERE and the New Zealand story to a new audience.

From a supply perspective, our work with growers targeting specific market carcass requirements has significantly improved the specification hit rate.

Leather

The leather proposition is progressing steadily, with the first commercial order placed this quarter. We have also begun trials with a number of other companies for their spring/summer 2014 collections.

We are continuing to refine the value proposition, both in terms of product and story, with a view to the upcoming trade fairs in Paris, Shanghai and Bologna. We are currently developing the new range for the autumn/winter 2014 range. The website (www.kuraleather.co.nz) has been updated, and we continue to add languages in preparation for the upcoming trade fairs.

The key activity this quarter was the Lineapelle Trade Fair in Bologna in April. This was a soft launch of the product and a chance to test the marketability of the work to date. The product was very well received. Of the 62 companies that took cuttings, we would regard 12 companies as serious (they have followed up to order full skin samples).

The upcoming quarter is important for us as we enter the primary show season, with high-profile fairs in Shanghai and Paris in September.

Lanolin and other

Progress in this area remains slow, as we deliberately focus our efforts on higher priority components of the NZSTX project. Activity in this part of the programme is being conducted as opportunities arise.

Production science

The last quarter has seen considerable activity across all of the production science projects. We are gaining momentum, with many growers actively transitioning their flocks towards increased fit for market (FFM) production.

Highlights of the production science programme during this quarter include:

- Successful completion of a large scale artificial insemination (AI) programme at the central progeny test, nucleus flock and transition farm sites.
- The ram footrot challenge site has been successfully implemented. Further progress with this project will occur with the return of favourable climatic conditions in the second quarter of the upcoming financial year.
- The livestock trials have been completed.
- The forage trials are continuing to deliver promising results regarding legume establishment and utilisation as a forage option for high and hill country regions. Lucerne continues to provide the greatest opportunity for forage development in high and hill country environments. Other options, including lupins and annual clovers, are further away from large-scale uptake.
- The Discovery programme is proving to be a particularly useful tool for instigating transition.

Forage

Lucerne productivity in marginal soils has been shown to be high enough to produce an economically viable result. Sufficient productivity can be achieved by selecting appropriate sites, applying lime at relatively high rates and completing the necessary seed bed preparations, including sowing a short-term forage (such as ryecorn) for two seasons prior to sowing lucerne.

Attempts to hasten lucerne establishment (and reduce costs) have been ineffectual. Successful establishment requires sufficient time in other forage phases (e.g. ryecorn) to enable the seed bed to be properly prepared.

Lincoln University have completed a literature review looking at the potential of Russell lupins for high country grazing systems. In the field, lupins have been shown to have good productivity at some sites. This species is useful in areas with high aluminium levels and where it would be uneconomic to apply sufficient levels of lime to enable lucerne establishment. Ongoing work will be important for determining reliable and cost-effective strategies for establishment.

Annual clover trials have shown some promise, but it is not yet clear whether sufficient regeneration will continue at our sites. Successful regeneration is highly dependent on the timing of rainfall events. Cost-effective strategies, which can spread large amounts of seed on to hill country, are likely to provide a useful feed base if appropriate strategies can be identified.

Livestock trials

The livestock trials undertaken in the North Island have shown that there are potential supply chains for 50% Merino lambs that supply both fit-for-market wool and meat markets. This is particularly true for the potential to mate Merino rams to cross-bred hoggets.

A supply chain is proposed where the lambs are weaned early, at around 19kg, passed to a summer grazier to grow them to 35kg, and then, in autumn, the lambs are moved to a winter finisher. Modelling suggests that this would be a viable supply chain if willing participants could be found.

Trait acceleration (genetics)

The foundation has been laid for rapid genetic gain in the fine-wool sector in New Zealand, with a combination of well-designed programmes and very good industry involvement. The key projects within this part of the NZSTX programme are:

- A central progeny test, currently being run at a property in Waipara, North Canterbury.
- A nucleus flock with grower co-investment, currently based near Greta Valley, also in North Canterbury. The objective of the nucleus flock is to breed a fit-for-market (FFM) sheep for the hill country of New Zealand.
- The Merino Map and sire genotyping projects, which are providing assistance (and impetus) to stud breeders in transitioning to estimated breeding values (EBVs) for their rams and related technology.

The critical first step for both the central progeny test and the nucleus flock was to artificially inseminate (AI) the foundation ewes. The AI programme was very successful, with a conception rate of around 75%. We eagerly anticipate the safe and healthy arrival of the new season's lambs late in quarter one of the new financial year.

Animal health

Valuable progress is being made in the animal health projects. However, as indicated previously to MPI, we have experienced delays in the programme, largely due to unfavourable climatic conditions this year.

There have been very encouraging results from the footrot challenge site this quarter, indicating early signs of a genetic impact on footrot.

The new approach to on-farm sampling for the footrot gene marker seems to be working and sample numbers should increase dramatically during the spring (as long as climatic conditions are favourable). Currently, around 2,000 samples (of the 8,000 required) have been collected for genotyping.

Transformation

The highlights this quarter for transformation include:

- The contracting of two agronomists to join our forage adoption team.
- Further Discovery visits, which continue to grow the number of potential transitioning growers.
- Continuation of the Lifetime Ewe Management programme, which is currently being piloted in New Zealand across all of the major fine wool sheep growing regions, from Marlborough through to the Maniototo.
- Successful artificial insemination (AI) of ewes at the two North Canterbury transition farms. We will be recording lamb survival and growth rates through to tailing and weaning, and comparing this data to lambs sired by Corriedale or crossbred rams on the same properties.

In the coming quarter we will release the production science website, which will showcase the wide portfolio of projects underway in production science.