



Organic Milk

*Southern Dairy Conference
January 31, 2006*





Backgrounder: Organic Foods

Consumer Buying of Organic Foods

- 73% of the U.S. population buy any organic food at least occasionally
 - In 2000, 55% purchased organic food
- 23% buy organics regularly (at least weekly)
 - In 2000, 17% purchased regularly

Since 2000, there have been increases in:

- Trial of organics
- Intensity of organic purchasing

Note: Any Organic – not specific to dairy

Source: The Hartman Group; "Organic 2006"; study fielded Dec '05


Triggers for Entry into Organic Food

• Presence of children	• Health conditions	• Social influence
<ul style="list-style-type: none"> – Pregnancy as well as birth of child are transition points – Responsibility & fear are underlying motivations 	<ul style="list-style-type: none"> – Diagnosed with a health condition is a strong influence for change <ul style="list-style-type: none"> • Cancer, allergies, skin disorders 	<ul style="list-style-type: none"> – College – Moms' groups – 41% of organic users encourage others to go organic

Note: Any Organic – not specific to dairy

Source: The Hartman Group; "Organic 2006"; study fielded Dec '05

Barriers to Using More

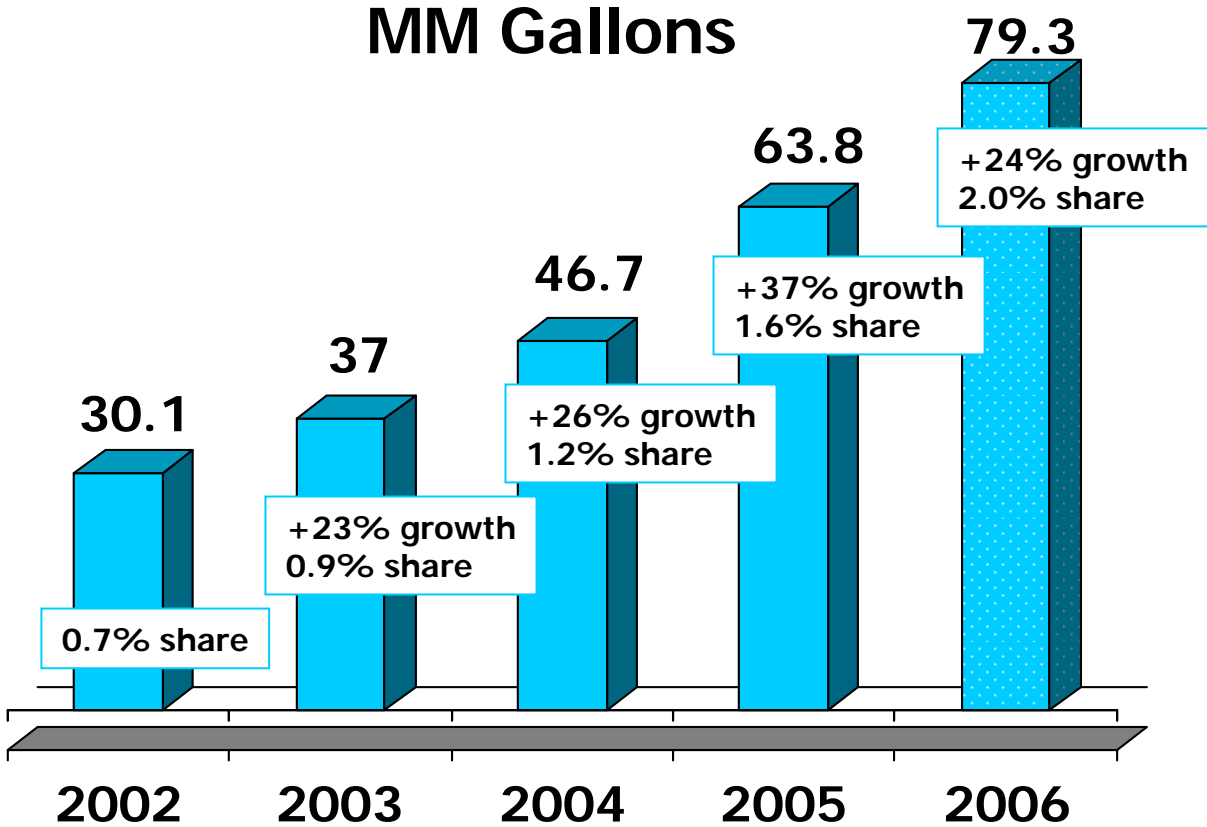
• Price	• Convenience	• Taste perception
<ul style="list-style-type: none">– MAJOR barrier 	<ul style="list-style-type: none">– Organic products not as readily available as conventional– BUT, becoming less of an issue	<ul style="list-style-type: none">– Many non-organic buyers perceive organic as not tasting as good as conventional counterparts

Note: Any Organic – not specific to dairy

Source: The Hartman Group; "Organic 2006"; study fielded Dec '05

Organic Milk Sales Snapshot

Organic Milk Share of Market Remains Small

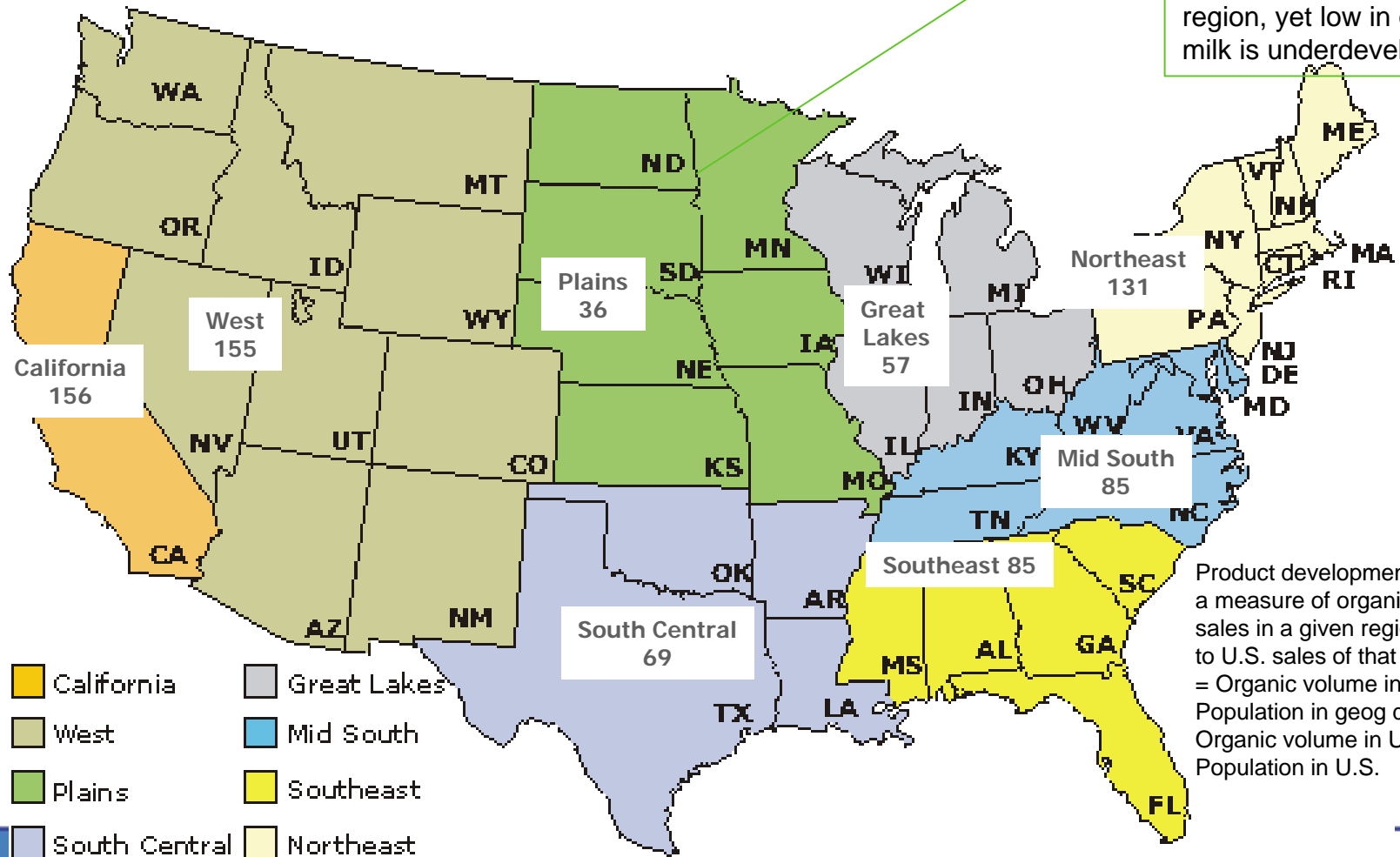


Sources: IRI FDMW (Food/drug/mass including Wal Mart)
Share refers to share of total fluid milk retail

The West, California, & the Northeast Index High on Organic Milk Sales

Index 100= U.S. Average

The Plains region is the highest milk consumption region, yet low in organic milk is underdeveloped



Product development index is a measure of organic milk's sales in a given region relative to U.S. sales of that product.

$$= \frac{\text{Organic volume in geog} / \text{Population in geog}}{\text{Organic volume in U.S.} / \text{Population in U.S.}}$$

Top Organic Markets

	Product Development Index	2006 YTD Volume Share of Fluid Milk	2006 YTD % Chg vs 2005
Seattle/Tacoma	298	6.7%	+39%
San Francisco	294	7.3%	+23%
Denver	288	6.7%	+25%
Portland	191	3.9%	+37%
Spokane	187	3.7%	+44%
New York	183	6.2%	+25%

Indicates that organic milk sales are 83% above the U.S. average

Product development index is a measure of organic milk's sales in a given region relative to U.S. sales of that product.

= Organic volume in geog/ Population in geog divided by Organic volume in U.S./ Population in U.S.

Sources: IRI grocery

2006 YTD ending Dec 24 '06

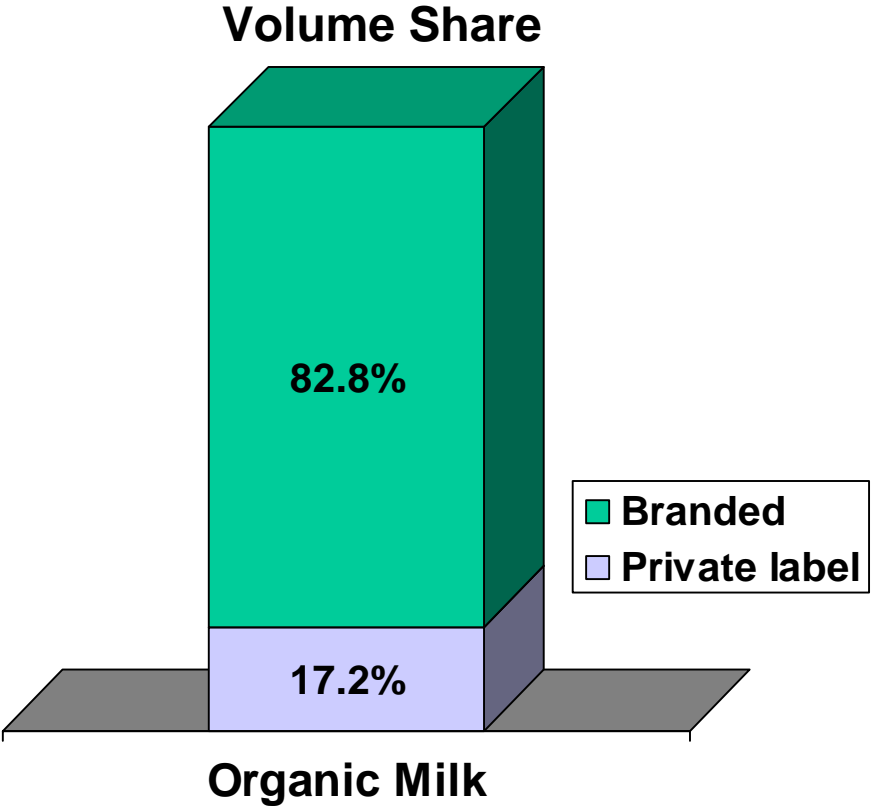
Flavored Holds a Small Share of Organic Volume, but Growing

	Volume Share of Organic	% Volume Chg
Total Organic	100.0%	+28%
- White	98.0%	+28%
- Flavored	1.9%	+51%

Total flavored represents 3.5% of total fluid milk in this channel – with organic milk skewing toward households with kids, we may see more flavored milk organic activity

Source: IRI Food, drug, mass excl Wal Mart; data represents 2006 YTD (thru Dec)

Organic Milk is Heavily Branded at this Time; Private Label however, Growing Rapidly



	% Volume chg	Avg Price per gallon equiv
Branded organic (white, half gallon)	+19%	\$7.50
Private label organic (white, half gallon)	+50%	\$6.45

16% price advantage

Source: IRI Food, drug, mass excl Wal Mart; data represents 2006 YTD (thru Dec)

Organic Milk Buyers

Organic Milk Buyers – Who are They?

- Sales data shows...
 - Small % of households purchase organic milk in a year at 4.7%
 - Above average expected purchase among:
 - HH with kids, particularly younger
 - HH that are more highly educated
 - HH with above average incomes
 - Hispanic & Asian households
 - Vegetarians

- Organic milk buyers describe themselves as...
- Well-educated/well-read
 - Moms who care more than average about what child consumes
 - Knowledgeable in health and food
 - Interested in quality
 - Physically fit

Sources: IRI penetration data 52 wks end September 24 '06; Demo data 52 wks end Nov 20 '05

Sources: Qualitative research (Gacek) Dec '05

Health Benefits/Safety are Top Reasons for Considering Organic Milk

Households who have considered buying organic milk

- Why Considered Buying Organic Milk
 - 12% Safer
 - 11% Health benefits
 - 6% Better for you
 - 6% No pesticides
 - 5% Taste
 - 4% No hormones
 - 18% No reason
 - 33% Other

Households who have NOT considered buying organic milk

- Why Not Considered Buying Milk
 - 16% Used to regular
 - 14% Cost
 - 9% Reg milk tastes better
 - 6% Family prefers regular
 - 5% Never heard of organic
 - 27% No reason
 - 16% Other

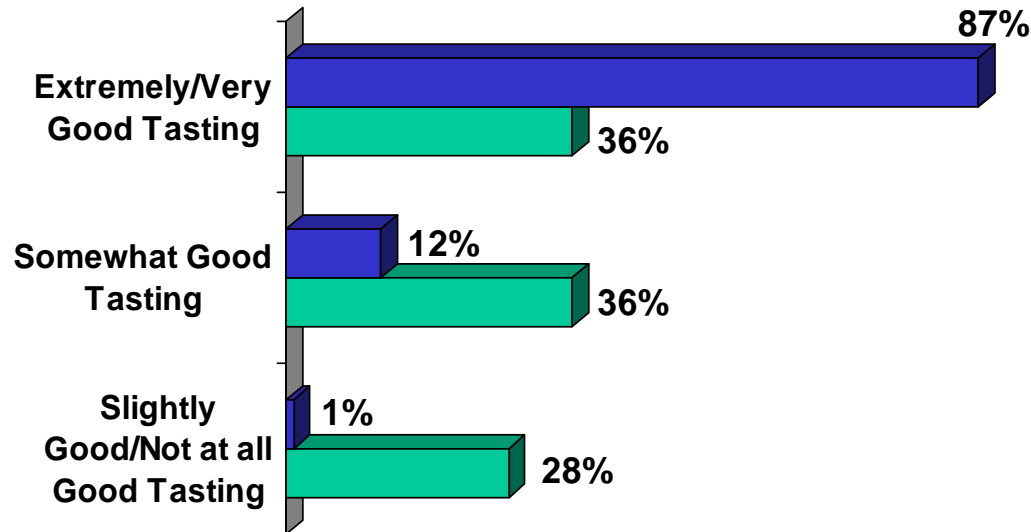
Health Expectations

Organic milk is ...	Among Non-organic milk buyers	Among Organic milk buyers
Much healthier	46% { 14%	89% { 59%
Somewhat healthier	32%	30%
Just as healthy	46%	11%
Not as healthy	7%	0%

Source: NPD Organic Milk Study June 2006

Organic Milk vs Conventional Milk: Perceived Taste Appeal

Taste Ratings of Organic Milk



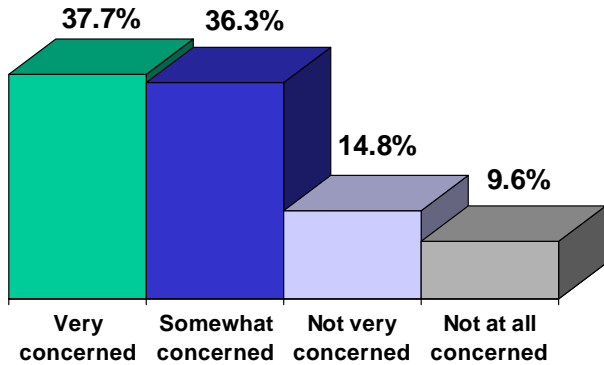
Non-organic buyers perceive that organic doesn't taste as good

■ Non-organic Milk Buyers ■ Organic Milk Buyers

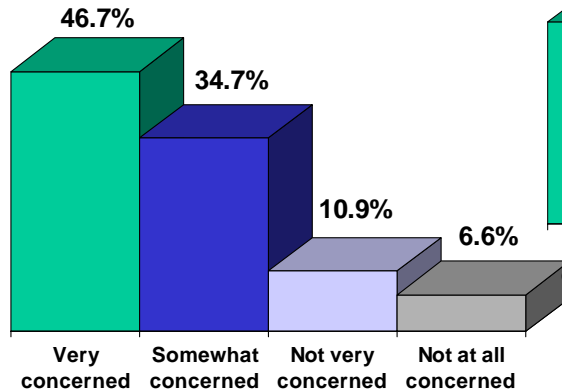
Source: NPD Organic Milk Study June 2006

Consumers Claim to be Most Concerned About Use of Pesticides Negatively Affecting Milk Quality

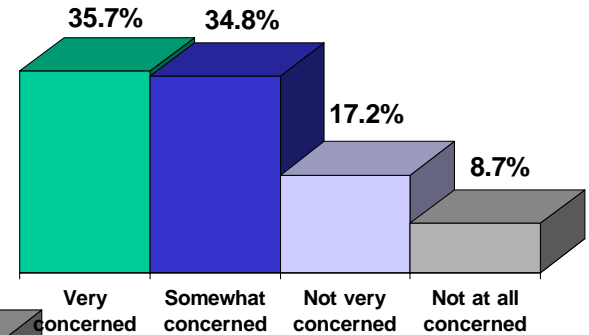
Concern about Use of Artificial Growth Hormones



Concern about Use of Pesticides



Concern about Use of Antibiotics



Q: "How concerned are you personally about the use of ____ in dairy farming negatively affecting milk quality?"

“Organic” Positioning Claims Continue to Generate Interest

	2004	2005	2006 8 months only
At Retail	# Launches		
- Foods with “natural” claim	2,114	1,386	1,274
- Foods with organic claim	1,235	1,037	947
At Foodservice	# Menu Mentions		
- Foods with “natural” claim	65	115	58
- Foods with organic claim	67	213	159

Source: Mintel Organic Foods Oct '06

What's Happening with Organic Milk in other Countries?

- UK (2005/06)
 - Organic milk holds 5% of supermarket milk sales (Organic Milk Suppliers Co-operative)
 - Growth of 30% per year for the last decade (Mintel)
 - Still considered to hold a lot of potential (www.dairyreporter.com)
- Denmark
 - Largest European supplier of organic milk
 - 26% of all fresh milk is organic in supermarkets (2006, www.organic.dk)

Summary

- Shoppers' interest in organic foods is steadily growing and organic milk sales are on the rise
- While organic holds a small share of fluid at 2%, we expect it to grow in the near term
- As rbST-free milk continues to advance in the marketplace, we expect that it will pull buyers from both organic & conventional



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