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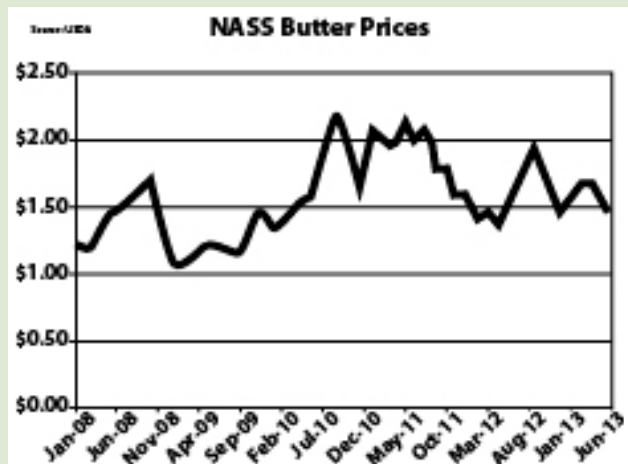
Dairy is more than our business.
It's our passion.



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Spring 2014

BUTTER - CHEESE MARKET DISCONNECT



At the time of this publication, the Chicago Mercantile Exchange (CME) hit an all-time high for cheddar block cheese. Butter prices are high, but not record-breaking, why is there a disconnect between the price for cheese versus butter?

Guessing markets is a fool's game and one that Grassland and West Point does not participate in. The point of this story is to notice the volatility of the marketplace. So without a prediction of the future, we seek to make some sense of the present situation.

Greek Yogurt

What was once an obscure foreign dairy product has exploded into a whopping \$1.5 billion annual business, and it is still growing! Greek yogurt sales are 50% higher than at this time last year and represent more than one-third of all yogurt sold in the U.S. By comparison, in 2007, Greek yogurt accounted for only 1% of the total yogurt market!

Greek yogurt is a variation of yogurt found in the Greek Isles and a number of other Mediterranean countries. Authentic Greek yogurt starts out with almost four times the amount of milk as traditional yogurt. As today's consumer wants more non-fat and low fat products, this four-fold increase in milk usage leaves a huge excess supply of fat and cream. Much of that supply heads for the butter churn. Butter demand is rising (see story below) but not fast enough to offset the additional supply, this is a key contributor to the disconnect.

Cheese Exports

A driving force in today's price spike is the export market. The Chinese economy is moving from its dependence on exporting, to fulfilling a growth in internal consumer consumption. And it's not just China; all of Asia has discovered the benefits of dairy proteins, so the demand for cheese, butter and other dairy products continues to rise. With a persistent drought in New Zealand and Australia, the world is looking towards the U.S. dairy industry to supply dairy products.

The demand for cheese in Asia is huge and growing. Although cheese has never been a part of the traditional Asian diet, a rising middle class now uses cheese to bolster nutrition. With several domestic adulterated-milk scares in the past few years, Asian consumers see cheese from America as a safe, delicious and an inexpensive protein.

Differences in Demand

At Grassland and West Point, we love butter, we often use it as a condiment or an ingredient in cooking. In America, per capita butter consumption is 5.6 pounds while cheese consumption is significantly higher at 34 pounds per capita. Many European countries report over 50 pounds per capita cheese of consumption. Table cheese continues to rise, and in an era of high beef prices and a reduction of red meat in diets, look for cheese to continue to outpace butter.

Another disconnection is that European-style butter is 82% fat versus 80% in the U.S. This stifles demand for American butter in Europe. Several U.S. butter producers have European-style butters. Our award winning Wüthrich butter weighs in at 83%, but to date, the American 80% product is generally not an export item.

Conclusion

Historically, people assume that as CME blocks and barrels increase, so does butter. While the butter market has risen, it has not over-inflated like the cheese market. Butter remains a delicious, nutritious and affordable ingredient. Consumers have become aware of the nutritional value of butter and are beginning to move away from margarine products. We continue to supply the freshest, most wholesome butter in the U.S. and appreciate your business.



BUTTER MARKET UPDATE: WINTER 2014



Stockpiles of butter did a meltdown during the second half of 2013 as customers from around the worldwide sought product.

Last time, I discussed some kinks in the domestic market and promised an international view

this time. Here it is.

While U.S. butter stocks were plunging from 322 million pounds at the end of May to 111 million pounds at the end of December, European butter coolers also were emptied. EU stocks fell from 82,042 metric tons (181 million lbs) in August to 19,918 metric tons (44 million lbs) by year-end.

Butter supplies typically start to build during December; not so in the U.S. or the EU last year. And EU stocks continued lower during January 2014, falling to just 8,000 metric tons. U.S. data aren't available yet. Getting data out of Oceania is

like getting gold out of Ft. Knox.

This sharp decline in supplies sent the EU butter price above \$2.50 per pound by the end of August as EU butter moved to Russia and other export destinations. It didn't take long and international buyers were knocking on doors in the U.S.

U.S. exports tripled in August and quadrupled in September.

U.S. butter stocks were trimmed by 32 million pounds during August; two-thirds going overseas. Twenty-five million pounds was shipped offshore in September when stocks were pulled down a total of 32 million pounds.

The U.S. is now seriously involved in the butter business ... worldwide..

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Grassland Dairy Products and West Point Dairy Products use sources that are believed to be reliable, but it cannot warrant the accuracy of any of the data or forecasts included in this report.

Customer Profile

GRASSLAND FACILITATES VOLUME GROWTH FOR REDISTRIBUTOR

Andy Brussel knows a lot about butter. He should, because figuratively speaking, he is up to his neck in it every day as Dairy Category Manager for foodservice redistributor G&C Food Distributors, based in Syracuse, NY. G&C primarily services independent, full-line foodservice distributors and independent retailers in 22 states in the eastern half of the country.

Dairy products, and most especially butter, make up about 80 percent of his purchasing focus. Brussel also manages several other categories including tomatoes and condiments. However, butter is arguably the most vital addition to the cooking process, recipes, and table service in dining establishments of all types. Quality butter is a commodity that requires careful handling, so the relationship between producer and distribution lines is a vital one.

Brussel started in the industry 25 years ago when he was in college. He joined G&C in 2009. Soon after the company was looking to make a change in the dairy line of products and Dennis Storms, of Storms & Associates, approached G&C about Grassland. "Even though they are one of the largest butter producer in country, Grassland operates with a small business mentality. They were very responsive to our needs," Brussel says.

At first, the purchases were not full loads, but the volume has grown steadily so that G&C now purchases several truck-loads each week. The redistributor also carries more than two

dozen items from Grassland, including bulk, solids, quarters, cups and continentals. The relationship between producer and redistributor has grown stronger, along with the growth in volume of Grassland product that G&C moves. Brussel attributes that growth in large part to key individuals at Grassland. "It is almost that as you continue to grow, it becomes easier to buy. The more our volume increases, the easier it is to turn product and assure availability for our customers."

In June 2013, G&C's volume qualified them to become an authorized redistributor for Grassland. Since that time, there has been another dramatic increase in volume. Working with buying groups such as UniPro and Legacy has also benefitted G&C's program. "Buying group members are still able to get their allowances even when buying through G&C," Brussel explains.

According to Brussel, the partnership G&C has with Grassland has enabled his company to react to market changes more quickly and to gain credibility with the customer base through increased value and service. He adds, "I can't say enough about Grassland as to what a wonderful partner they have become to G&C."





Product Profile

BUTTER BLENDS – A DELICIOUS ALTERNATIVE

Grassland Dairy Products, Inc. and West Point Dairy Products, LLC offer a variety of Butter Blends, which are made with a combination of real butter and oil, including vegetable, soybean, and canola oil to create a delicious spread very similar to butter. The Butter Blends have a sweet, creamy taste like butter with less cost involved in the end product.

SUSTAINABILITY AT GRASSLAND AND WEST POINT

Since 1904, Grassland Dairy Products has been family-owned and operated, and with the addition of West Point Dairy Products in 2005, the fourth generation of butter makers are focused on staying green and keeping their operation sustainable.

The Grassland facility receives fresh milk daily from over 850 local, family dairy farms. In addition to the fresh milk supply, cream is brought in to supplement butter production. Grassland and West Point produce a combined average of 25 percent of the butter in the United States. As leaders in the industry, and a strong commitment to staying green and decreasing their carbon footprint, Grassland and West Point continue to use technology that requires less land, less energy and less water for butter production.

There are several sustainable changes to the Grassland plant in the past couple of years. In 2011, two new dryers were added to produce milk protein concentrates, milk permeate, non-fat dried milk and specialty ingredients. The dryers have transformed the by-products of butter production into these value-added, saleable, food products. Grassland also installed a water recycling system that is engineered to save 200,000 gallons of water for the daily washing of equipment. The recovered water accounts for 70 percent of the water used in the facility. Steam from evaporators and boilers is also recaptured to save energy. The West Point-Utah plant is installing a boiler steam recovery system like the Grassland and West Point-Nebraska facilities. In addition, the plants reduced water usage 30 percent by installing technologically-advanced processing plates.

Any product in the plants that does not meet saleable requirements is melted back into raw ingredients and is reprocessed; there is virtually no ingredient waste. There has also been a 15 percent reduction in packaging material. By using

Grassland Dairy Products and West Point Dairy Products Butter Blends include:

1. 36/1# 60/40 Golden Goodness solid salted
2. 36/1# 60/40 Golden Goodness solid unsalted
3. 2/5# Whipped 60/40 Golden Goodness salted 10#
4. 4/5# Whipped 60/40 Golden Goodness salted 20#
5. 8 oz Spreadable Grassland salted
6. 25Kg Bulk 60/40 Golden Goodness salted
7. 25Kg Bulk 60/40 Golden Goodness unsalted
8. 2/8# 50/50 Grassland Clarified Butter/Oil Tub



lighter weight tubs and lids there is a savings in freight and recycling, which all adds up to lower costs for the customer. The implementation of the Computerized Maintenance Management System software program reduces equipment downtime and has improved equipment and maintenance personnel efficiencies.

To maintain energy efficiency, Grassland and West Point complete energy and steam audits, regularly testing the motors and machines and looking for inefficiencies in electrical output. A large factor in energy savings was the installation of automatic lights with motion detectors. By changing out the light fixtures the plant is decreasing energy usage by 50 percent per fixture. In addition, upgrading the piping and routine compressed air checks improved the retention of compressed air by 25 percent.

Grassland and West Point's desire to reduce their carbon footprint expands outside of the plant. Transportation of products is consolidated by distribution to decrease carbon dioxide emissions. As incentive to reduce trucking costs, customers receive reduced freight charges for full truck loads and must comply with the back haul policy limiting empty trucks to not travel further than 100 miles before getting a backhaul. Grassland and West Point partnered with local suppliers saving more than 15,000 gallons of fuel annually.

In the office, the Electronic Data Interchange (EDI) provides timely reports to vendors and improves employee efficiency by reducing administrative and paper costs.

There is a strong relationship between the company and the communities in which the facilities are located. For example,

Continued...





the Grassland facility has over 400 employees, making it the second largest employer in Clark County, Wisconsin. The Wuethrich Foundation, founded by the Wuethrich family, invests in numerous local non-profit community efforts, a further demonstration of the commitment to community stewardship.

Today it takes 30 percent less water and energy to make one pound of butter than it did 50 years ago, because of the technological improvements made in the facilities at

Grassland and West Point. There is a strong commitment to reducing the companies' environmental impact, improving productivity and increasing the contribution to a sustainable food system. Grassland and West Point hope to continue their efforts in sustainability by constantly evaluating new engineering systems and processes for butter production.

About Us

A PASSION FOR DAIRY 100 YEARS STRONG

Grassland Dairy Products and West Point Dairy Products are leading manufacturers of high-quality butter and dairy products, serving the retail, foodservice and industrial markets. We offer refreshing innovation while maintaining the traditions that have made us a family favorite for more than one hundred years. Our success is built on a fundamental commitment to delivering unsurpassed quality and value in everything we do.

For more than a century, we have been delighting our customers with the finest butter and dairy products, crafted with care and developed with innovation. We insist upon uncompromising quality and exceptional value in every item we produce, always striving to exceed expectations.

Dairy is our passion at Grassland and West Point, and we recognize that it all begins with the milk cow in the barn.

Verna, a Holstein cow bred in Clark County, Wisconsin, the home of Grassland, was a 4-H project of our founder's great-granddaughter and won Grand Champion honors at the Wisconsin State Fair Junior Show in 1978. Our newly re-designed butter packaging now includes the image of Verna in the hope that our customers around the country will understand the important role the dairy cow plays in our daily nutrition.

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