


**Rabobank**

# Global Dairy Top 20

## M&A Shakes Things Up

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## Summary

The latest annual Rabobank survey of the world's largest dairy companies highlights the giants of one of the world's most valuable food sectors. In 2018, lower commodity prices, adverse weather conditions in key export regions, a strong US dollar, and currency shifts have affected the combined turnover of the Global Dairy Top 20 companies. In US dollar terms, we still saw an increase of 2.5% on the year, compared to 7.2% in the previous year. However, combined 2018 turnover in euro terms dropped by 2.0% vs. an upward trend of 5.1% in 2017.

## M&A Is Here to Stay

Dairy M&A remained active in 2018, as growth via mergers and acquisitions is a tried-and-true strategy for most of the companies present in the Global Dairy Top 20. Nevertheless, all this M&A activity left the top three unchanged, although the gap between numbers one and two continues to narrow. For the third year in a row, there are no new entrants in the list, due to a lack of elephant deals over the past 18 months.

Table 1: Global Dairy Top 20, 2019

2019	2018	Company	Country of headquarters	Dairy turnover, 2018*	
				USD billion	EUR billion
1	1	<b>Nestlé</b>	Switzerland	24.3	20.6
2	2	<b>Lactalis</b>	France	20.8	17.6
3	3	<b>Danone</b>	France	18.0	15.2
4 ▲	5	<b>Fonterra</b>	New Zealand	14.3	12.1
5 ▲	6	<b>FrieslandCampina</b>	Netherlands	13.8	11.6
6 ▼	4	<b>Dairy Farmers of America</b>	US	13.6	11.5
7	7	<b>Arla Foods</b>	Denmark/Sweden	12.4	10.5
8 ▲	9	<b>Yili</b>	China	11.2	9.5
9 ▼	8	<b>Saputo</b>	Canada	11.0	9.3
10	10	<b>Mengniu</b>	China	10.3	8.7
11	11	<b>Dean Foods</b>	US	7.5	6.3
12	12	<b>Unilever</b>	Netherlands	6.7†	5.7†
13	13	<b>DMK</b>	Germany	6.7	5.6
14	14	<b>Kraft Heinz</b>	US	6.0	5.1
15 ▲	16	<b>Sodiaal</b>	France	6.0	5.0
16 ▼	15	<b>Meiji</b>	Japan	5.8	4.9
17 ▼	16	<b>Savencia</b>	France	5.7	4.9
18 ▲	19	<b>Agropur</b>	Canada	5.2	4.4
19 ▲	20	<b>Schreiber Foods</b>	US	5.1†	4.3†
20 ▼	18	<b>Müller</b>	Germany	5.1†	4.3†

\* Note: Turnover data is dairy sales only, based on 2018 financials and M&A transactions completed between January 1 and June 30, 2019. Pending mergers/acquisitions not incorporated include: Nestlé's sale of Noga Ice Cream to Froneri, Nestlé's sale of its chilled business in Malaysia and water & dairy business in Uzbekistan to Lactalis, Lactalis' acquisitions of Itambé, the Canadian cheese business of Kraft Heinz, Prabhat Dairy, Nuova Castelli, Aspen's Peruvian IMF business, and Ehrmann's US yogurt business, Fonterra's sale of Tip Top to Froneri, FrieslandCampina's sale of Creamy Creation, Dairy Farmers of America's merger with St. Albans Cooperative Creamery, Arla Foods' sale of Valmartin, Yili's acquisition of Westland Milk, Saputo's acquisition of the specialty cheese business from Kirin, Mengniu's sale of its stake in Junlebao, and Savencia's acquisition of Papillon.

† Note: estimate

Source: Rabobank 2019

M&A activity in the dairy sector is here to stay. In 2018, 111 deals took place in the dairy complex, slightly down compared to 127 transactions in the previous year. However, as of mid-2019, the number of dairy deals stands already at 85, of which 32 were cross-continental.

In the last 18 months, there were 87 domestic deals, followed by 70 cross-continental deals and 39 regional deals. Europe dominated the cross-continental deals with a 60% share and also accounted for 40% of the domestic transactions. Out of the Global Dairy Top 20, 19 companies were involved in over 75 mergers, acquisitions, joint ventures, and strategic alliances or disposals, of which only 8 were between the top 20 players themselves. None of the deals, however, was a real game changer. We saw Global Dairy Top 20 companies rationalizing their businesses, and the 18 disposals were nearly equally split between cooperatives and listed companies. As in 2017, the transaction value in 2018 fell below the previous year, due to fewer large deals.

## 2018 Review: Movers and Shakers

Lower commodity prices, adverse weather conditions in key export regions, a strong US dollar, and currency shifts have affected the combined turnover of the Global Dairy Top 20 companies. In US dollar terms, we still saw an increase of 2.5% on the year, compared to 7.2% in the previous year. However, combined 2018 turnover in euro terms dropped by 2.0% vs. an upward trend of 5.1% in 2017. The combined turnover of the top ten neared USD 150bn, an increase of 3.3% YOY that's close in value to the USD 5bn threshold to enter the list.

The top three remained the same, although the gap between numbers one and two continues to narrow. For the third year in a row, there are no new entrants in the list, due to a lack of elephant deals over the past 18 months, but some reshuffling took place.

Nestlé, aided by a relatively stable Swiss franc vs. the US dollar, still tops this year's list, supported by organic growth coming from its infant nutrition business rather than from milk and ice cream. Nevertheless, Lactalis is closing in. With 15 deals, Lactalis' buying spree will extend its global footprint further into the Middle East & Africa, South America, and Asia. In July 2019, the company closed the acquisitions of Itambé in Brazil and the Kraft Heinz Canadian cheese business. Other deals in the pipeline include the acquisitions of the chilled business in Malaysia and two plants in Uzbekistan from Nestlé, Prabhat Dairy in India, the cheese company Nuova Castelli in Italy, Aspen's IMF business in Peru, and Ehrmann's US yogurt business, which will improve Lactalis' standing next year.

Danone ranks third, with the acquisition of a 49% stake in Yashili New Zealand still pending. Fonterra moves into fourth place, following the acquisition of the remaining stake of the Darnum IMF plant in Australia. Fonterra partnered with Future Consumer in India. The joint venture, named Fonterra Future Dairy Partners, will tap into growing demand for high-quality dairy nutrition with the Dreamery brand. On the other hand, the cooperative is reviewing its existing portfolio. The Tip Top ice cream business will be sold to Nestlé's ice cream joint venture Froneri, and its majority stake in the UK-based Fast Forward joint venture will be acquired by First Milk. Fonterra's stake in Germany-based DFE Pharma, a joint venture with FrieslandCampina, is also up for sale. On the non-dairy side, Fonterra invested in the US biotech start-up Motif Ingredients, which plans to develop animal-free protein, and, at the same time, divested its stake in the German protein start-up foodspring to Mars.

FrieslandCampina climbs to the fifth spot, as a result of small investments in cheese in the Netherlands, the US, and Spain. FrieslandCampina also entered into a contract manufacturing agreement with Germany's largest dairy cooperative DMK, where DMK will start producing mozzarella cheese for the Dutch cooperative. Dairy Farmers of America slipped to sixth place, with sales dropping by 7.5% following lower milk and commodity prices. The cooperative acquired a US dairy plant from Agropur and recently started merger talks with St. Albans Cooperative Creamery.

Arla Foods remains in the seventh slot, despite the purchase of the Middle Eastern Kraft-branded cheese business from Mondeléz. The cooperative struck long-term licensing deals with Starbucks and Kraft Heinz. Furthermore, Arla teamed up with MilkVita to develop the dairy market in Bangladesh. On the divestment side, one of its German cheese plants was sold to Vache Bleue.

Yili leapfrogs Saputo and moves into eighth place, with sales up 13.4% YOY in US dollar terms, while its second large acquisition in New Zealand, Westland Milk, is still pending. Yili also acquired a Thai ice cream brand and teamed up with a biotech company to develop new, innovative IMF products. Saputo's sales were only up by 1.9% in US dollar terms, compared to the prior year, despite the UK-based Dairy Crest acquisition. Saputo is poised to further expand its footprint Down Under by acquiring the Australian specialty cheese business from Lion Dairy & Drinks.

Increasingly fierce competition in the domestic market forces Chinese Yili and Mengniu to look overseas for growth. Yili remains the largest Chinese/Asian player in the Global Dairy Top 20, while Mengniu maintained its number-ten position. The premiumization strategy of the two Chinese players led to a combined sales growth of 15% YOY in 2018 in US dollar terms, compared to 9% in 2017. Mengniu recently announced a strategic partnership with Uruguayan dairy producer Conaprole for trading dairy products. In its home market, Mengniu will sell its majority stake in Junlebao, which operates more locally and focuses on mass market offerings.

In the second half of the list, we see little movement. French Sodial gained a place and ranks fifteenth now as a result of its new value strategy, with sales in US dollar terms up by 4.1%. Japan's Meiji fell one spot, as dairy sales slipped by 0.2% in US dollar terms. Canada's Agropur and US-based Schreiber Foods both moved up one place at the expense of German Müller, which recently announced the closure of its UK-based Foston dairy because of declining fresh milk consumption.

Looking forward into the next year, we expect to see further growth from acquisitions, with a long-awaited shift in the top three of the global ranking likely. However, slower economic growth in China and a looming (US) recession will probably hamper organic growth. At the same time, companies will reconsider their positions in light of future risks caused by US/EU/Mexico/China trade tensions, Brexit, and increasing environmental constraints around the globe.

# Imprint

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