



Rabobank



# Global Dairy Top 20

## Deciding on Alternative Routes

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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, which has started to recover after two years of significant downturn. As prices start to move up again and milk volumes delivered by farmers become more limited, dairy companies have once more become more focused on value strategies rather than volume strategies driving their actions and attitude to growth.

## Global dairy top 20, 2017

2017	2016	Company	Country of headquarters	Dairy turnover, 2016*	
				(USD billion)	(EUR billion)
1	1	Nestlé	Switzerland	24.0	21.7
2	▲ 3	Danone	France	18.3	16.6
3	▼ 2	Lactalis	France	18.0	16.3
4	4	Dairy Farmers of America	USA	13.5	12.2
5	▲ 6	FrieslandCampina	Netherlands	12.3	11.1
6	▼ 5	Fonterra	New Zealand	12.0	10.8
7	7	Arla Foods	Denmark/Sweden	9.9	8.9
8	8	Yili	China	9.0	8.1
9	9	Saputo	Canada	8.4	7.6
10	▲ 11	Mengniu	China	8.2	7.4
11	▼ 10	Dean Foods	USA	7.4	6.7
12	12	Unilever	Netherlands/UK	6.9 <sup>†</sup>	6.2 <sup>†</sup>
13	13	Kraft Heinz	USA	6.4	5.7
14	▲ 17	Meiji	Japan	6.1	5.5
15	▲ 16	DMK	Germany	5.6	5.1
16	▼ 14	Sodiaal	France	5.3	4.8
17	▲ 18	Schreiber Foods	USA	4.9 <sup>†</sup>	4.4 <sup>†</sup>
18	▲ 19	Savencia	France	4.9	4.4
19	▼ 15	Müller	Germany	4.9 <sup>†</sup>	4.4 <sup>†</sup>
20	20	Agropur	Canada	4.6	4.2

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\* Turnover data is dairy sales only, based on 2016 financials and M&A transactions completed between 1 January and 30 June 2017. Pending mergers/acquisitions not incorporated include Lactalis' acquisition of Omira and Stonyfield.

<sup>†</sup> estimate

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Source: Rabobank, 2017

**For several companies, the question has been whether to move into or out of adjacent sectors.** For cooperatives, the answer has often been to consolidate to the dairy core and divest non-dairy businesses (Arla has sold Rynkeby, FrieslandCampina is looking for a buyer for Riedel).

**From the opposite viewpoint, listed companies have diversified into non-core/non-dairy activities**

(Danone acquired WhiteWave Foods, Dean Foods acquired a minority stake in dairy-free start-up Good Karma Foods and juice company Uncle Matt's Organic, and Bega Cheese acquired Mondelēz' grocery business in Australia/New Zealand). This might reflect—in times of plentiful milk supply—the need for cooperatives to focus on improving milk margins/prices and for private companies, with the option to do so, to seek margins in less oversupplied sectors.

**Dairy price recovery in 2016 came too late** to be reflected in the combined turnover of the top 20 companies, which, in 2016, was down 1.6% on the year—but down a dramatic 14.4% in US dollar terms since 2014 (-1.3% and +2.7%, respectively, in euro terms), due to the significant reduction in milk values which has occurred over the period and the weakened world market demand.

**There are no new entrants into the list this year,** with the EUR 4bn threshold difficult to achieve, organic growth slowed by lacklustre prices, and an M&A market which has been stalled for the same reason.

However, while the players have remained the same, the order has moved compared to 12 months prior.

**Nestlé remains at the top of the list,** buoyed by its ice cream JV with R&R (now named Froneri), which has offset slow growth elsewhere. Danone has moved into the second spot, having acquired WhiteWave Foods (which, as well as its dairy alternatives business, has significant interests in dairy coffee creamers, dairy-based iced coffee, and premium organic yoghurts). This enables Danone to leapfrog Lactalis, who—despite making acquisitions in Romania, Belarus, China, Chile, and the US—moves to the third place on our list. With the pending acquisitions of Danone's Stonyfield business in the US and Omira in Germany, Lactalis is likely to move up again in next year's ranking. The acquisition of a 51% share in Pakistan's Engro Foods has allowed FrieslandCampina to move into fifth place, slightly ahead of Fonterra who move to sixth.

**Dean Foods has dropped out of the top 10** in a year that saw continued decline in the US fluid milk category, and saw the company investing in dairy alternatives and juice. This allowed Mengniu to become the second top 10 Chinese company, helped by consolidating its share of Burra Foods in Australia and acquiring a majority stake in China Modern Dairies, who—as well as being mainly a farming enterprise—also produces liquid milk. However, the two Chinese players in the top 10 showed a combined sales growth of 0% YOY in 2016 in dollar terms, compared to 3% in 2015 and 14% in 2014, and they will perhaps need to look outside of China to continue their movement up the list in future years.

**While it would perhaps have been a game-changer** for several of the names in the top 20 list, the largest M&A deal in the sector this year, the acquisition of Mead Johnson, went to Reckitt Benckiser, who previously had no footprint in dairy. Elsewhere, the run rate of M&A in the dairy sector is again picking up. While there were only a total of 73 deals in dairy in 2016, at the halfway point in 2017, the number is already up to 50, with half of these in Europe.

**As we look forward into the next year,** we will see organic growth return, with growing milk supply in the north-eastern US (a JV between Dairy Farmers of America, Michigan Milk Producers Association, Foremost Farms, and Glanbia to construct and operate a new cheese and whey production facility, with Glanbia taking a 50% stake). We will also see growth from acquisitions with increased M&A. At the same time, mitigation of risk is likely to become a major driver for events, as companies will consider their position in the light of future risks caused by Brexit, potential and announced changes to trade agreements, and further changes to environmental and food safety regulations around the globe.

