SE agribusiness

HD **Mergers driving profitability**

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SEVERAL Australian **dairy** companies have changed hands over the past year, with the swing towards mergers and acquisitions appearing to be a wide-reaching and global trend.

This is according to a recent Rabobank survey, which has shown that companies willing to **acquire** and embrace new businesses will remain well-positioned to survive.

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Rabobank's senior **dairy** analyst Michael Harvey said 18 of the top 20 **dairy** companies are based in the Northern Hemisphere, which has seen modest growth within local markets.

"The landscape around **dairy** consumption in Europe and the United States has seen economic challenges ... and it is a mature market," Mr Harvey said.

This challenging retail environment has driven consolidation he said, but **dairy** companies have also begun to branch out for other opportunities.

"Those really strong **dairy** companies know that long-term growth opportunities are offshore ... mostly in Asia," he said.

He said mergers and acquisitions have become an attractive route to profitability.

And while Australia possesses geographical advantages in supplying Asia with **dairy** products, other companies have already begun to hone in on this market.

Canadian **dairy** giant, Saputo, is one of those businesses, marching up the list of the top 20 global **dairy** companies to eighth place, thanks to several recent acquisitions, including Australia's own Warrnambool **Cheese** & **Butter** (WCB) earlier this year.

"Logically, Australia is a target, because it's so close to Asia," Mr Harvey said.

Other foreign acquisitions in the past 12 months include the **sale** of United **Dairy** Power to a **Hong Kong** investor.

At the top of 20 global **dairy** companies list is Nestle, based in Switzerland, with a turnover of $US28.3 **billion** in 2013, followed closely by Danone and Lactalis, both established in France.

In the past 12 months, 14 of the top 20 companies merged, acquired, or established a joint venture.

"And it's not just **dairy** ... Australian assets are up in bright lights at the moment," Mr Harvey added.

He expected to see a continuation of mergers and acquisitions in the **dairy** sector over the next few years, while companies scramble to lock-in possible profit from Asian growth.

Dairy analyst Steve Spencer, of Fresh Agenda, said consolidation has been a growing trend in the sector, mostly because companies see it as an easy way to achieve growth, rather than develop organically.

Growing organically has also proven increasingly harder in a mature market, where **milk** consumption has levelled off or even dropped.

"It's a good thing in most cases, particularly if it makes the industry more competitive - and gives it more clout," Mr Spencer said.

However, he said Australia's competition laws were restricting companies from going down this path in some cases.

"We have been at a disadvantage, because of the way the law here is written and interpreted," he said.

"The competition regulator looks at the impact on regions, rather than the national footprint."

He said Murray Goulburn's efforts to **acquire** WCB were largely disadvantaged as a result of this.

"The laws in other countries permit a greater deal of flexibility in how regulators look at the position of industry, and the capacity of the industry to be more affective," Mr Spencer said.

In contrast, he said **dairy** co-operatives in the EU and US had been able to aggregate a larger share of the supply.

Another example was Fonterra, where it was permitted to amass and dominate the New Zealand **dairy** landscape.

"The Government has really looked at the issue from a national competition perspective," Mr Spencer said.

But there was a compromise, with laws put in place so the **company** was not able to abuse its position.

Mr Spencer admitted he did not expect to see this level of consolidation occur in Australia.

"In NZ, **dairy** is the only game in town ... it's a different story here," he said.

"Our farm sector wouldn't accept it."

In addition, there was not a "wholesale" belief that Australia's **dairy** co-ops would be the best performing model for farmers over time.

"That's because - for a long time - we had a lethargic MG," Mr Spencer said, adding that attitude was slowly changing.

He also said the opportunity to supply **dairy** commodities on 'wholesale' basis was gone.

"That ship has sailed," he said.

"And in that sense - consolidation of scale does not matter so much.

"We can't beat NZ. **Dairy** companies now have to find niche markets and more value."

Apart from consolidation in the sector, Mr Spencer also expected to see more vertical integration, where companies were aligning **milk** to the marketplace.

"This will be more important as we move forward," he said.

Just recently, FrieslandCampina Vietnam officially launched construction of a '**dairy** zone' in Vietnam's Ha Nam Province.

FrieslandCampina is managing and executing direct investment in the public-private partnership project which will include three zones, each with about 50 farms.

The **company** will also provide financial assistance for farmers, technical advice, and the establishment of feed supply and **milk** quality systems.

The basis of the project will be built on family farms, providing employment, income and less reliance on imported **milk**.

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