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HD **Esposito backs Canada bid**
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Australia's largest privately owned **milk** processor, United **Dairy** Power, has backed Canadian **dairy** giant Saputo's bid for control of Warrnambool **Cheese & Butter** in a fierce \$500 **million**-plus takeover battle with Victorian farmer co-operative Murray Goulburn.

United chief executive Tony Esposito said foreign ownership had been positive for the Australian **dairy** industry and dismissed Murray Goulburn's claims that the co-operative structure is the best thing for **dairy** farmers.

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Mr Esposito said the battle for WCB will have a big impact on Australian **dairy**.

"We have to be mindful here of what's happening. We've been watching retirements out of the industry and watching co-ops go broke or sell out like Bonlac, Tatura and **Dairy** Farmers," Mr Esposito said.

United collects about 350 **million** litres of **milk** directly a year and processes about 500 **million** litres.

Murray Goulburn may still increase its \$9.50 a share bid for WCB. However, one source said this was unlikely given Saputo is offering just \$9, which would rise to \$9.20 if it can secure 50 per cent of the target by January 22, when the offer will close.

Bega **Cheese**, which holds about 19 per cent of WCB, may ultimately decide the fate of the Saputo offer. Saputo has been pressuring Bega and 10 per cent shareholder Lion into selling their stakes. Bega's shareholders may be frustrated if it does not take the near-\$70 **million** in profits it would bank by selling to Saputo.

Once a major force in Australian **dairy**, Bonlac collapsed under poor management and the weight of too much debt almost a decade ago. Its assets were bought by New Zealand's Fonterra.

Tatura **Milk** Industries was snapped up by ASX-listed Bega **Cheese** in two chunks in 2007 and 2011; **Dairy** Farmers was acquired by National Foods – owned by Japan's Kirin – in 2008.

"The consistency there is farmer-owned co-operatives. They're not focused and have bad **business** plans; corporate companies grow," Mr Esposito says.

UDP is wholly owned by Mr Esposito, who founded the **group** in 1999. The **company** has annual sales in excess of \$200 **million** and profits of more than \$15 **million**, and is on the brink of being **sold** to a **Chinese** buyer. Australian Competition Tribunal must be persuaded

For its bid to proceed, Murray Goulburn must persuade the Australian Competition Tribunal the public benefits of its proposed merger with WCB outweigh anti-competitive concerns.

The co-operative structure is one of the key pillars in Murray Goulburn's argument before the tribunal.

Farmer co-operatives are owned by their farmer suppliers, and Murray Goulburn is mandated to maximise the **milk** price it pays to its farmers.

Murray Goulburn is arguing that its structure means reduced competition from its takeover will not be a problem because it will pay the maximum **milk** price possible anyway.

It is also pointing to the success and scale of New Zealand's giant co-operative Fonterra. Created by an act of Parliament, Fonterra is the world's biggest **dairy** exporter and a virtual monopoly in New Zealand, collecting more than 95 per cent of the nation's **milk**.

But sources close to Bega said Murray Goulburn may face an uphill battle at the tribunal. Farmers have a broad range of opinion about whether competition or a large-scale farmer co-operative is best for the industry.

Mr Esposito says rather than maximising the farmgate **milk** price, Murray Goulburn – which collects one-third of Australia's annual 9 **billion**-litre **milk** pool – is hampering it.

"The whole industry follows the leader, and the leader is called Murray Goulburn, and it is inefficient. [The industry is] just adding 1¢ more [to the **milk** price] than Murray Goulburn – not because that's all they can afford, but because it's all they have to do." Rather than consolidating and having one large player like Fonterra, Mr Esposito says the sector needs more competition.

"The highest-paying companies in Australia have been foreigners, whether it be Kirin [through its subsidiary Lion] or Parmalat. Saputo would be a positive thing."

CO mryglb : Murray Goulburn Co-operative Company Limited

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