

# FINANCIAL REVIEW

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HD **Fonterra CFO rules out Bega takeover**  
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Fonterra chief financial officer Lukas Paravicini said he sees room for further collaboration and supply agreements with ASX-listed Bega **Cheese**, but he ruled out a near-term bid for the NSW **dairy company** amid a wave of consolidation in the sector.

During the heat of the \$500 **million** takeover battle for Warrnambool **Cheese & Butter** (WCB) last year, Fonterra, the world's largest **dairy** exporter, forked out about \$50 **million** to take a 10 per cent **stake** in Bega **Cheese**, fuelling speculation of an imminent takeover.

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"It's a strategic decision. We made a statement there. There's no further intent but it's clearly a statement. Bega is for sure a player that has a special relationship with Fonterra," Mr Paravicini told The Australian Financial Review.

"They also complement our portfolio very well. There are interesting areas of collaboration we could exploit in the future be they supply agreements, exports or nutritionals."

Fonterra licenses the Bega **brand** in Australia and is the major customer through Bega's Ridge Street **cheese** cut and wrap facility.

There has been growing interest in Australian **dairy**, as evidenced during the battle for WCB, which drew multiple suitors, including locals Bega **Cheese** and the Murray Goulburn Co-operative, as well as global companies Kirin and the ultimate winner of the showdown, Canada's Saputo. The saga stretched from September through to the start of this year and sparked a doubling of Warrnambool's share price from \$4.51 to a peak of \$9.48. It last traded at \$8.48 a share.

"Everyone wants in now. It will be interesting to see who wins and what valuations are like given Warrnambool, the last transaction, went for a big multiple," RBS Morgans analyst Belinda Moore said.

Despite the increased interest in Australian **dairy**, analysts believe there is only room for a few brands on supermarket shelves.

Coles and Woolworths are continuing to streamline products, forcing **dairy** producing to re-think strategies, which may result in fewer brands being available on the market.

"There are too many brands in the **dairy** cabinet. If you go to the **dairy** cabinet, it's a wall of colour and choice. There has to be some rationalisation there," PAC Partners industrial analyst Paul Jenz said.

Processing assets across Australia are underutilised, adding merit to further consolidation and use of facilities.

On average, Australian processing assets are operating at about 75 per cent capacity, with a large chunk of that excess in the making of drinking **milk**, Mr Jenz said. "There is not enough **milk** to go around. That needs someone – or some **group** – to sort it out."

Bega **Cheese** collects about 650 **million** litres of raw **milk** a year, making it the sixth-biggest processor in Australia in terms of **milk** collection. Murray Goulburn is the biggest with 3 **billion** litres, and its managing director, Gary Helou, has predicted the number of processors in Australia will halve.

"You can look at who the players are and the relative size and conclude what path consolidation will take, but I **m** not going to comment on that," Mr Paravicini said.

"There is room for further consolidation. You can increase efficiency and focus by having further consolidation."

Last week French-owned giant Parmalat bought Western Australia's biggest **dairy** exporter, Harvey Fresh, for \$120 **million** and, in February, **Hong Kong** businessman William Hui paid \$70 **million** to **buy** United **Dairy** Power, the nation's biggest private processor.

"We are actively monitoring the situation," Mr Paravicini said.

Last week Fonterra sealed a 10-year deal to supply Woolworths's Select white **milk** in Victoria at the expense of rival Lion (owned by Kirin).

Key points Fonterra bought a 10 per cent **stake** in Bega **Cheese** during the WCB takeover. Analysts say there are too many **dairy** product brands on the market.

**CO** becoop : Bega Cheese Ltd | foncop : Fonterra Co-operative Group Limited

**IN** i4131 : Non-frozen Dairy Products | i41 : Food/Beverages/Tobacco | i413 : Dairy Products | icnp : Consumer Goods | ifood : Food Products

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