

FINANCIAL REVIEW

SE Market Wrap - Street Talk

HD **Cheese wars: Bega eyed as Parmalat nabs Harvey Fresh**

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While all eyes are on Canadian Saputo and local co-operative Murray Goulburn's \$500 million-plus fight for Warrnambool **Cheese & Butter**, New Zealand **dairy** giant Fonterra is watching NSW-based Bega **Cheese**.

Fonterra, the world's biggest **dairy** exporter, snagged 6 per cent of Bega in a share raid in October and has since crept up to 9 per cent of the register.

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Fonterra said it moved to protect a commercial contract and wanted to be part of the consolidation in the Australian **dairy** industry. There was no indication of an intended takeover.

But Street Talk can confirm that Fonterra has been quite candid about its desire to own Bega in conversations with some **buy**-side investors.

In 2001, Fonterra and Bega entered a 25-year franchise licensing agreement that allows Fonterra to use the Bega **brand** in Australia. In 2012, Bega extended a separate 10-year **cheese** supply agreement with Fonterra, under which Fonterra supplies the bulk **cheese** and Bega returns it retail-ready. Fonterra is the largest customer through Bega's Ridge Street cut-and-wrap facility in southern NSW.

Fonterra's Australian **business** has struggled with the intense competition in the market and the power of the Coles-Woolworths duopoly.

Acquiring Bega would add 650 million litres to Fonterra Australia's 1.6 billion-litre **milk** pool and prevent another competitor from buying Bega and entering the market.

Formerly a farmer co-operative, Bega retained a shareholder cap when it listed in 2011 to allow the **dairy group** time to grow and ward off predators.

No party can own more than 10 per cent of Bega without approval. But the shareholder cap is due to fall away in the next few years. When Warrnambool **Cheese** shed its shareholder cap it didn't take long for the takeover bids to start flying.

Meanwhile Bega, which pulled out of the Warrnambool takeover race last month, is mulling its options regarding its 18.8 per cent Warrnambool **stake**.

Saputo's \$9-a-share offer is set to close on Friday but it is widely expected to extend its offer. Even if Saputo surprises everyone and closes its bid, Bega may have another buyer lined up.

Chinese interests have been linked with the **stake** and a **Chinese** buyer is about to **acquire** United **Dairy** Power – the nation's largest privately owned **dairy** processor.

Over in Western Australia, family-owned **dairy** and juice **group** Harvey Fresh is about to fall into Parmalat's hands. Harvey accounts for one-third of WA's fresh **milk** market and is the state's biggest **dairy** exporter. The asset is expected to fetch more than \$100 **million**.

CO becoop : Bega Cheese Ltd | mryglb : Murray Goulburn Co-operative Company Limited | cenord : Parmalat SpA | foncop : Fonterra Co-operative Group Limited | slb : Groupe Lactalis

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