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Global Dairy Top 20

To Invest or Divest – That Is the Question

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Summary

Rabobank's annual listing of the Global Dairy Top 20 companies by turnover highlights the strategic movements within one of the world's most valuable food sectors. Exchange rate fluctuations, modest commodity price appreciation, below-trend increases in milk production in key exporting countries, and limited organic growth in major dairy categories contributed to relatively modest gains in the combined turnover of the Global Dairy Top 20, which, in US dollar terms, increased by 1.3% on the year, vs. the 2.5% increase posted in 2018. In euro terms, combined 2019 turnover rebounded by 6.5% in 2019, following 2018's 2% decline.

Table 1: Global Dairy Top 20, 2020

					*Dairy turnover, 2019**	
2020		*2019*	*Company*	*Country of headquarters*	USD billion	EUR billion
1		1	Nestlé	Switzerland	22.1	19.7
2		2	Lactalis	France	21.0	18.8
3	▲	6	Dairy Farmers of America	US	20.1	18.0
4	▼	3	Danone	France	18.2	16.3
5	▲	8	Yili	China	13.4	11.6
6	▼	4	Fonterra	New Zealand	13.2	11.8
7	▼	5	FrieslandCampina	Netherlands	12.6	11.3
8	▲	10	Mengniu	China	11.9	10.3
9	▼	7	Arla Foods	Denmark/Sweden	11.8	10.5
10	▼	9	Saputo	Canada	11.3	10.1
11	▲	13	DMK	Germany	6.5	5.8
12		12	Unilever	Netherlands/UK	6.4†	5.7†
13	▲	16	Meiji	Japan	5.9	5.3
14	▲	15	Sodiaal	France	5.7	5.1
15	▲	17	Savencia	France	5.6	5.0
16		--	Gujarat Co-operative Milk Marketing Federation	India	5.5	4.9
17	▲	18	Agropur	Canada	5.5	4.9
18	▼	14	Kraft Heinz	US	5.4	4.8
19		19	Schreiber Foods	US	5.1†	4.6†
20		20	Müller	Germany	4.9†	4.4†

* Turnover data is dairy sales only, based on 2019 financials and M&A transactions completed between January 1 and June 30, 2020. Pending mergers/acquisitions not incorporated include FrieslandCampina's acquisition of Nutricima and Unilever's sale of its ice cream business in Chile.
† estimate

Source: Rabobank 2020

Merger and acquisition activity in the global dairy arena during 2019 totaled 115 deals, just outpacing the prior year's 112. The majority of 2019 transactions – which include investments, divestments, acquisitions, joint ventures, and strategic alliances – took place in Europe (64), followed by North America and Asia (39 and 25, respectively). As of mid-2020, the number of dairy deals stands at 52, impeded by Covid-19 and foreshadowing a more active deal environment for 2021.

The strategic question for some companies has been whether to invest or divest, as ten of the Global Dairy Top 20 reported lower year-on-year sales in US dollar terms. Privately-held global dairy titan Lactalis answers that question with a strong affirmation, growing its dairy empire by adding 41 deals since 2013, and more recently expanding its global footprint in the Middle East & Africa and North and South America.

Conversely, the long-time leading global dairy company chose to divest some of its non-core dairy assets. Nestlé's parring of its USD 1.8bn US-based ice cream business, along with other assets (some of which were acquired by Lactalis), has resulted in a significant narrowing in the gap between the top two global dairy companies. Nestlé remains at the helm, but the USD 3.5bn gap between it and Lactalis in 2018 closed to just USD 1.1bn in 2019.

The US's largest dairy cooperative makes a strategic and significant acquisition, leapfrogging from #6 to #3 in our rankings. Dairy Farmers of America (DFA) acquired previously ranked #11 Dean Foods in early 2020, securing a home for a substantial portion of its members' milk, and boosting year-on-year sales by 47.5%. DFA will experience additional organic growth later this year, with the commissioning of a large-scale cheese plant (135,000mt per annum) in Michigan, which is a joint venture with Select Milk and Glanbia.

Organic growth was not enough to retain Danone's ranking, and the company slipped to the fourth position in this year's survey. Danone ranked as high as #2 in 2017, after several acquisitions that year.

Asian companies make major moves in this year's list. China's largest dairy company, Yili, moves into the top 5, with year-on-year growth of nearly 20%, due in part to its acquisition of the New Zealand-based Westland cooperative.

Increasingly fierce competition in China's domestic market forces companies to look overseas for growth, but this is becoming more challenging. China's second-largest dairy company, Mengnui, rose from #10 to #8, on the heels of acquiring Australia-based Bellamy's and entering into a joint venture with Coca-Cola to sell chilled milk in China. However, Mengnui's planned acquisition of another Australian business, Lion Dairy & Drinks – currently owned by Kirin (Japan) – failed to gain approval from Australia's Foreign Investment Review due to rising tensions between the two countries.

Consolidating of key dairy assets by Fonterra and FrieslandCampina resulted in lower year-on-year sales in both US dollars and euros, and each slipped two notches in this year's survey. Likewise, Arla Foods also dropped two spots in the rankings, but it did manage to post a year-on-year gain in euros. Cooperative members in New Zealand and Europe are facing greater environmental constraints which are limiting growth. As a result, these companies are likely to focus on value strategies and rationalization of plant capacity.

Entering the Global Dairy Top 20 this year, from the world's largest milk-producing country, is India's Gujarat Co-operative, with USD 5.5bn in 2019, up 17% from the prior year. Known for its Amul brand of milk and dairy products, the cooperative has experienced a 17% compound annual growth rate of more than 17% over the past decade, due to growing milk collections, expanding into processing capacity, entering new markets, and launching new products.

Looking forward to the next year, we expect the continuation of below-trend milk production gains in most of the major exporting countries – due in part to rising costs of production, as farms comply with rising environmental regulations. Slower economic growth in China and a post-Covid-19 global recession will cause consumers (while not consuming less dairy) to trade down. One of the challenges of operating in the pandemic is that it is more difficult to get deals done. As a result, companies risk being trapped in declining margins, unless they can capitalize on a 'winning in home markets' strategy, as consumers alter their purchasing habits with greater attention to health and wellness and less away-from-home dining. At the same time, companies may reconsider their global strategies in the light of growing trade tensions around the globe, along with more inwardly focused domestic food security policies, resulting in future-proofing market share with more on-shore manufacturing than trade.

Imprint

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