



Rabobank

Global Dairy Top 20

Record Revenues Provoke a Reshuffle

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Summary

Rabobank's annual Global Dairy Top 20 highlights the results of industry leaders in one of the world's most valuable food sectors. The combined turnover of the Global Dairy Top 20 companies jumped by 7.4% in US dollar terms, following the prior year's gain of 9.3%. In euro terms, the combined turnover increased by a significant 21% due to the combination of a stronger US dollar, inflation, and tight market conditions during most of 2022, with many companies reporting record-high revenues in their local currencies. Overall, only five companies held the same position as last year, indicating a reshuffle along the entire list. In 2022, merger and acquisition activity was nearly on par with the prior year, with almost 25 deals. A slowdown in activity was noted in the second half of the year, which continued into 1H 2023, with about eight deals announced in the first half of 2023 versus approximately 12 deals in the first six months of 2022. FX developments in 2022 contributed to the reshuffle and were particularly unfavorable for dairy companies reporting in euros, New Zealand dollars, renminbi, and yen.

Global Dairy Top 20, 2023

2023	2022	Company	Country of headquarters	Dairy turnover, 2022*	
				USD billion	EUR billion
1	1	Lactalis	France	28.6†	27.2†
2 ▲	4	Dairy Farmers of America	US	24.5	23.3
3 ▼	2	Nestlé	Switzerland	23.3†	22.1†
4 ▼	3	Danone	France	21.2†	20.1†
5	5	Yili	China	18.3†	17.3†
6 ▲	9	Arla Foods	Denmark/Sweden	14.5	13.8
7 ▲	8	FrieslandCampina	Netherlands	14.4†	13.7†
8 ▼	7	Mengniu	China	14.4†	13.7†
9 ▼	6	Fonterra	New Zealand	14.2†	13.4†
10	10	Saputo	Canada	13.7	13.0
11	11	Unilever	Netherlands/UK	8.3	7.9
12 ▲	13	Gujarat Cooperative Milk Marketing Federation Ltd	India	7.0	6.7
13 ▼	12	Savencia	France	6.9	6.6
14 ▲	17	Müller	Germany	6.5†	6.2†
15 ▲	16	Agropur	Canada	6.5	6.2
16 ▲	19	Schreiber Foods	US	6.5†	6.2†
17 ▼	14	Sodiaal	France	5.8	5.5
18	18	DMK	Germany	5.5†	5.3†
19 ▲	20	Froneri	UK	5.3	5.1
20 ▲	#	Glanbia	Ireland	5.1†	4.8†

* Turnover data is predominately dairy sales, based on 2022 financials and M&A transactions completed between January 1, 2023 and June 30, 2023. Pending mergers and acquisitions not incorporated include: Lactalis' acquisition of DPA Brazil from Fonterra and Nestlé, Danone's acquisition of Promedica, Saputo's disposal of two Australian processing plants to Coles, Unilever's acquisition of Yasso Holdings, Inc and Savencia's acquisition of Williner.
† estimate.

Source: Rabobank 2023

Due to inflated dairy commodity prices, many companies in the Top 20 saw record-high turnover in 2022

Fueled by a second round of war-induced – inflation, EU dairy product prices rallied to new annual average highs in 2022. In Oceania and the US, milk powder prices were elevated but failed to exceed 2013's record levels. At the same time, lower-than-anticipated milk production growth and decent domestic demand in the main exporting regions contributed to an overall tight dairy market with limited exportable surpluses during most of the year. Overall, year-on-year average price gains for butter, cheese, milk powders, and other dairy products set the stage for double-digit turnover growth in local currencies in 2022.

However, the pace at which dairy commodity and retail prices increased differed widely across products and regions. As such, the degree to which a dairy company's revenues benefited from price developments depended on a combination of their product portfolio, geographic presence, and distributions channels (retail versus foodservice).

Higher revenues were quickly absorbed by an exploding cost base and record milk prices

In the end, most revenue gains were absorbed by exploding costs, leaving little left on the companies' bottom lines. Many dairy companies paid record-high average farmgate milk prices to offset large farm input costs. At the factory gate, rising energy costs and the availability of natural gas – especially in Europe – were the largest concerns, as dairy processing is an energy-intensive process. Costs for other components, such as logistics, packaging materials, and labor, also escalated in 2022.

Year Marked by a Reshuffle Along the Entire List

Overall, 2022 was a dynamic year that provoked a reshuffle across nearly the entire list in 2023, with only five companies maintaining their positions from the previous ranking.

FX Winners and Losers

For non-US-based dairy companies, turnover gains in local currencies were partly or largely offset by the stronger US dollar, giving rise to position changes along the entire list and contributing to the entrance of Ireland-based Glanbia. The majority of Glanbia's revenues are derived from sales in the US and the company recently announced that it will switch to reporting in US dollars instead of in euros in the near future.

Alongside the US dollar, the Canadian dollar strengthened against many other currencies – including the euro. For the Canada-based companies, it helped Saputo (10th) to solidify its position in the sub-top, while Agropur (15th) bumped-up by one spot. Both companies have considerable sales volumes in the US, giving them a competitive advantage over the 11 companies on the list reporting in euros.

FX developments in 2022 were particularly unfavorable for dairy companies reporting in New Zealand dollars, renminbi, and yen, contributing to Fonterra dropping three spots, Yili and Mengniu losing turnover gains in US dollar terms, and Japan-based Meiji, a longstanding Top 20 company, exiting the list.

Capital Restrictions Put M&A Focus on Strategic Add-ons and Disposals

M&A activity remained fairly mild in the second half of 2022 and the first six months of 2023. Moreover, the size of deals also structurally eased. Only Fonterra's disposal of its Chilean business Soprole to Grupo Gloria impacted turnover more than USD 750m for 2H 2022 and 1H 2023. This

pales in comparison to the elephant deals of years past – those greater than USD 1bn – such as Lactalis’ acquisition of Kraft Heinz in 2021, in the range of USD 1.8bn.

Ten-year interest rate swaps in the euro area and in the US soared from 0.30% and 1.55%, respectively, at the end of 2021 to 3.2% and 3.82% by year-end 2022. Arguably, these capital restrictions increased the necessity for the Top 20 dairy companies to focus their M&A activities on more digestible, strategic add-ons and the disposal of less profitable, non-core businesses. At the same time, the building pressure on milk supply in Oceania and Europe also contributed to dairy companies based in those regions consolidating their processing capacity, causing a streak of factory closures and disposals.

The Top 10: Lactalis Comfortably in the Lead

Lactalis: FX keeps company from reaching USD 30bn

An impressive jump of EUR 4.6bn – up 20.5% from 2021 – pushed Lactalis to EUR 27.2bn, after first passing the EUR 20bn mark in 2020. The company’s strong growth is underpinned by several large recent acquisitions, organic growth, and inflated dairy commodity prices in 2022. In US dollar terms, turnover increased by USD 1.9bn, up 7.3% to USD 28.6bn, keeping the company comfortably in the top spot. The more favorable EUR/USD relationship in 2021 would have pushed Lactalis to reach USD 30bn in this year’s ranking.

Although the size and pace of Lactalis’ acquisitions eased in 2022, the company continued to acquire additional dairy assets. In 2022, Lactalis finalized the purchase of Australia-based Jalna Dairy Foods, Germany’s Bayerische Milchindustrie’s (BMI) fresh dairy division, and French specialty cheesemaker Verdannet. The 1H 2023 acquisition of Ambrosi is expected to add over EUR 425m in revenue, while the DPA Brazil purchase from Fonterra and Nestlé is still awaiting approval from Brazilian market authorities and is not included in this year’s rankings.

On the opposite end, Lactalis disposed of business activities in Argentina – the La Mucca cheese plant – while Italian subsidiary Nuova Castelli has made plans to close two factories.

Dairy Farmers of America, a strong second

With Lactalis out of reach at the top of the ranking, DFA secured the runner-up position on the back of the largest turnover gain by some margin, in both euro and dollar terms, surpassing both Nestlé (3rd) and Danone (4th) after losing the third position to Danone last year. In 2022, DFA’s turnover soared by USD 5.2bn (+26.9%) to USD 24.5bn, the equivalent of a EUR 7.0bn (+42.6%) rise to EUR 23.3bn. This was primarily due to elevated dairy product prices and organic growth, as no significant acquisitions closed in 2022 or 1H 2023.

Nestlé and Danone focus on dairy as a nutritional ingredient

Interestingly, Nestlé’s estimated dairy-related turnover increased in local Swiss francs after several years of dwindling revenues and divestments. Nestlé still holds a large (non-controlling) equity share in ice cream company Froneri, which climbed to 19th position this year. The pending sale of the non-controlling interest in DPA Brazil to Lactalis will unlikely impact next year’s dairy-related turnover.

Danone’s estimated dairy turnover increased by EUR 2.4bn (+13.6%) to EUR 20.1bn, or USD 21.2bn (+1.1%). In 2022 and 1H 2023, Danone completed a package deal with China-based Mengniu, including the disposal of a minority share (25%) in Yashili in return for full ownership of Dumex China. During the same period, Danone acquired China-based Eurbest Nutritional Food, largely an IMF producer. In Europe, Danone sold its dairy production facility in Salas, Spain, to Dutch Royal A-ware, while purchasing Polish specialized nutrition company Promedica. Pending deals include the disposal of a minority share (37%) in Irish yogurt company Glenisk Organic

Dairy. Moscow's announcement to take control of Danone's Russian business in July 2023 will be key to watch, as Danone indicates the region is the company's fifth-largest sales contributor.

Yili and Mengniu widen their scope

Chinese players Yili and Mengniu posted an estimated revenue growth of 5.2% and 10.1%, respectively, in renminbi, but due to FX developments, these gains were slashed to 0.8% and 5.4%, respectively, in US dollar terms.

Yili retained the fifth position, while Mengniu slipped one spot to eight, just behind Arla and FrieslandCampina. In March 2022, Yili completed the acquisition of Ausnutria Dairy. Other investments and acquisitions by Yili and Mengniu suggest that both companies intend to tap into China's growing cheese, butter, and ice cream market. Yili acquired New Zealand-based butter company Canary Foods and invested in a new butter plant via its New Zealand subsidiary Westland. Mengniu enlarged its equity stake in Milkground, a company with an extensive portfolio in Chinese processed cheese. Both companies also reported substantial revenue gains for their ice cream divisions while announcing several investments in this segment during 2022. This includes Mengniu acquiring a majority stake in Chinese Changsha Ice Cream and investing in a greenfield ice cream plant in the Philippines via two subsidiaries. And, Yili opened a new production facility in Vietnam in early 2022.

Arla and FrieslandCampina switch positions

As foreshadowed last year, Denmark-based cooperative Arla (6th) moved ahead of Dutch cooperative FrieslandCampina (7th). Still, both companies managed to move up the ranking compared to last year, mainly at the expense of New Zealand-based cooperative Fonterra (9th), which fell three positions.

Arla jumped three spots as 2022 revenues grew by EUR 2.6bn (+23.1%) to EUR 13.8bn, equaling a USD 1.3bn increase to USD 14.4bn. This growth was supported by higher dairy commodity and retail prices. Arla holds a large retail position, especially in northwest Europe and the UK, and the company has expanded its interest in dairy ingredients in recent years.

Arla is closely trailed by FrieslandCampina, with less than EUR 100m in revenue separating them. FrieslandCampina gained one position this year, with estimated revenues increasing by EUR 2.2bn (+19.2%) to EUR 13.7bn, or USD 14.4bn (+6.1%). The company continued its path of strategic disposals and consolidation, with the sale of its German facilities and brands to Müller completed in April 2023. FrieslandCampina Hong Kong Holding II was sold to Yili in September 2022. As a likely follow-up to the previously announced reorganization in 2020, FrieslandCampina announced the closure of several production facilities in the Netherlands as the cooperative adjusts processing capacity to meet milk supply.

Fonterra, disposal of non-core assets

Like its European counterpart FrieslandCampina, Fonterra continues to dispose of non-core assets while adjusting to pressure on milk volume growth. The cooperative sold its Chilean subsidiary Soprole in early 2023, resulting in an estimated drop in revenue of about USD 800m. Its sale of DPA Brazil, a joint venture with Nestlé, to Lactalis is pending.

Saputo, streamlining assets

Saputo (10th) solidified its spot in the sub-top of the ranking, on the back of double-digit revenue growth of CAD 2.8bn (18.7%) to CAD 17.8bn, to USD 13.7bn and EUR 13.0 – despite easing their M&A activity after years of numerous acquisitions, including the purchases of Australia's Murray Goulburn and UK-based Dairy Crest. Currently, the sale of two plants in Australia to retailer Coles is pending.

The Second Half of the List

While the first half of the ranking is divided by nearly USD 15bn in turnover between the first and tenth positions, a difference of about USD 3.2bn separates the ten companies in the second half of the list.

Unilever, retaining its position

Unilever remains in 11th position, with the company's newly formed ice cream division reporting a EUR 1.0bn (+14.8%) or USD 0.2bn (+2.3%) increase in sales, raising total sales to EUR 7.9bn or USD 8.3bn. The pending acquisition of US-based Yasso Holdings is expected to add over USD 200m in annual revenues.

Behind Unilever, India's Gujarat Cooperative Milk Marketing Federation (Amul) (12th) and France-based Savencia (13th) swapped positions, but they remain closely paired with a difference in turnover of about USD 100m. Savencia's announced acquisition of Argentina-based Williner in April 2023 is estimated to add about USD 250m in revenues once closed.

Three makes a crowd

Three companies, Müller, Agropur, and Schreiber, are closely grouped, with revenues near USD 6.5bn.

Privately owned Müller jumped three positions this year as estimated turnover increased by EUR 1.3bn (+27.7%) to EUR 6.2bn, or USD 6.5bn (+13.7%), supported by the acquisition of FrieslandCampina's German processing facilities and fresh brands. German market authorities did require Müller to sell some assets – most notably the Tuffi brand to Hochwald – because of competition regulations.

Canadian cooperative Agropur moved up one position on the back of a solid gain in turnover of CAD 1.2bn (+17.1%) to CAD 8.5bn – an increase of USD 0.7bn to reach USD 6.5bn.

Privately held US-based Schreiber Foods, the leading global processed cheese manufacturer, improved its ranking by three positions due to a combination of higher dairy prices, the stronger US dollar, and likely underestimated revenues in last year's ranking.

Sodiaal dropped three places despite revenues increasing by EUR 600m (+11.1%) to EUR 5.5bn, or 5.8bn in US dollar terms. The French cooperative reaffirmed its focus on higher-margin products after acquiring the remaining 51% of Yoplait SAS, consisting of Yoplait's activities in Europe and several other markets, in a package deal with General Mills in 2021. In 2022, the company sold factory Fromagerie du Velay to Fromagerie Le Centurion, and announced the closure or scale back of four other plants in France.

The largest German dairy cooperative, DMK, remains in 18th position after losing six spots last year with the disposal of their majority share in Germany-based Fude + Serrahn, a deal that was completed in March 2022. Still, DMK's estimated turnover increased by EUR 0.9bn (+20.4%) to EUR 5.3bn – up USD 0.4bn (+7.1%) to USD 5.5bn – as the company benefited from inflated dairy commodity and German retail prices, which increased at a faster pace than in France, Italy, and Spain in 2022.

Glanbia makes Top 20 debut

In 2022, Glanbia PLC's (Glanbia) estimated dairy revenue rose by an impressive EUR 1.3bn (+36%) to EUR 4.8bn, the equivalent of USD 5.1bn (+21%). The company benefited from increasing sales in USD, while cheese and nutritional products are the main segments for the company. In 2022, Glanbia formalized its split with Glanbia Ireland by selling its 40% shareholding to Glanbia Co-operative Society. The Irish dairy business, including the Coop, has rebranded and is now known as Tirlán. Tirlán remains the largest shareholder in Glanbia PLC. Furthermore, Glanbia acquired

Sterling Technologies in the US, and its stake in joint venture Glanbia Cheese (mozzarella) was sold to partner Leprino Foods in 1H 2023.

Dairy Alternatives: Focus Shifting to Protein Ingredients, Precision Fermentation, and Partnerships

Dairy alternatives have become part of the product portfolio of most Dairy Top 20 companies, but still account for a small share of revenues. In recent years, the focus has been on launching plant-based products as alternatives to liquid milk and fresh products like yogurt, but attention has shifted to using precision fermentation to develop alternatives for dairy proteins. The last 12 months saw the announcement of a streak of partnerships, (small) equity positions, and funding directed toward startups. This includes the partnership between Nestlé and early pioneer Perfect Day; FrieslandCampina and biotech company Triplebar's collaboration; Fonterra and Dutch DSM's joint venture, Tasman B.V.; and Danone's investment in Israeli startup ImaginDairy.

Looking ahead, we expect weakening dairy and retail prices will make 2023 a challenging year in terms of profitability for some companies in the ranking. Farmgate milk prices remain relatively high in some regions, which squeezed margins in 1H 2023. In terms of turnover, we expect more muted growth in 2023, with some companies unlikely to match the double-digit percentage revenue gains they experienced in 2022.

Imprint

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