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Global Dairy Top 20

Betting the Bottom Dollar

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The latest annual Rabobank survey of the world's largest dairy companies highlights the giants of one of the world's most valuable food sectors. 2015 proved to be a difficult year for most, with the strong US dollar and currency volatility, together with low commodity prices, reducing turnovers for most companies. Mergers and acquisitions continued apace, as companies continued to seek additional value from domestic markets and new opportunities elsewhere.

Global dairy top 20, 2016

2016		2015	Company	Country of headquarters	Dairy turnover, 2015* (USD billion)	(EUR billion)
1		1	Nestlé	Switzerland	25.0	22.5
2		2	Lactalis	France	18.3	16.5
3		3	Danone	France	16.7	15.1
4	▲	5	Dairy Farmers of America	USA	13.8	12.4
5	▼	4	Fonterra	New Zealand	13.1	11.8
6		6	FrieslandCampina	Netherlands	12.3	11.1
7		7	Arla Foods	Denmark/Sweden	10.5	9.4
8	▲	10	Yili	China	9.3	8.4
9	▼	8	Saputo	Canada	8.6	7.8
10	▼	9	Dean Foods	USA	8.0	7.2
11		11	Mengniu	China	7.9	7.1
12		12	Unilever	Netherlands/UK	7.0**	6.3**
13	▲	16	Kraft Heinz	USA	6.5	5.9
14	▼	13	Sodiaal	France	5.7	5.1
15	▲	20	Müller	Germany	5.6**	5.0**
16	▼	14	DMK	Germany	5.5	5.0
17		17	Meiji	Japan	5.2	4.6
18		18	Schreiber Foods	USA	5.0**	4.5**
19	▼	15	Savencia	France	4.9	4.4
20	▲	-	Agropur	Canada	4.6	4.1

* Turnover data is dairy sales only, based on 2015 financials and M&A transactions completed between 1 January and 30 June 2016. Pending mergers/acquisitions not incorporated include Nestlé's JV with R&R Ice Cream, Danone's acquisition of WhiteWave Foods, FrieslandCampina's acquisition of a 51% stake in Engro Foods and Mengniu's acquisition of a 79% stake in Burra Foods.

** estimate

Source: Rabobank, 2016

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The big story in this year's top 20 list of dairy companies—based on turnover—is the shrinkage of the overall size of the pie. Low dairy commodity prices and currency movements have had a dramatic downward effect on company sales values. In US dollar terms, the top 20 posted combined dairy sales of USD 194bn in 2015, down 13% YOY. It is indicative of how much the euro has weakened against the US dollar in 2015 that the same collective turnover of the top 20 improved 4% YOY in euro terms.

While last year's top 3 dairy companies remain in place, there has been significant jostling for position in the order of the remaining list. While there are no new entrants in the top 10, Dairy Farmers of America—helped by taking full ownership of the DairiConcepts JV it previously operated with Fonterra—swapped places with Fonterra, climbing to number 4 in the list. At the same time, Fonterra—who in 2015 suffered more than most from declining world dairy commodity prices—not only divested its share of DairiConcepts, but also its Australian yoghurt and dairy desserts business, to Lactalis/Parmalat.

Overall, the Chinese companies in the list grew at a slower rate in 2015 than in previous years, impacted by the devaluation of the renminbi (3%, compared to 18% last year). Nevertheless, strong growth from Yili (+8%, the only company in the top 12 to increase turnover in US dollar terms) enabled it to move up towards the top half of the list, to number 8. Mengniu maintains its position at 11, with the acquisition of a majority stake in Burra Foods in Australia still pending.

M&A activity in 2015 was roughly equivalent to that seen in 2014 (96 deals, compared to 98 in 2014). All of the top 3 companies have been busy adding dairy sales. Nestlé's pending JV with R&R Ice Cream, announced in April 2016, is likely to generate CHF 2.7bn in sales (of which CHF 1.5bn from Nestlé and CHF 1.2bn from R&R). Continuing its campaign of global growth through acquisitions, Lactalis made nine acquisitions in total in 2015 and has made a further four year-to-date in 2016. Incredibly, these range from Australia to India and from Turkey to Brazil—stretching the French giant into 43 countries. At the time of writing, Danone has announced the acquisition of WhiteWave Foods in the US—an organic player, which also has significant brands that are 'in the dairy cabinet, but are not dairy'—extending its reach into adjacent categories.

It was in the lower half of the list that most changes occurred. The Kraft/Heinz merger has created a new organisation, which moves Kraft from 16 last year to 13. This moves Sodiaal down to number 14, despite its merger with CLHN.

Highest climber Müller moves from 20 to 15, following its acquisition of Dairy Crest's dairies business, with sales of GBP 945m in the year ending 31 March 2014. The 2014 acquisition of Davisco and a solid year's performance provided new entrant Agropur with the extra sales to move into the number 20 slot, displacing fellow Americans Land O' Lakes from the list.

As growth in China slowed, the world's largest dairy companies started to look for new horizons to develop. Danone swapped Dumex, its infant formula business in China, for further shares in Mengniu. Danone has also been highly active in Africa. In June 2015, it acquired a yoghurt plant in Algeria; in December 2015, it increased its stake in Centrale Danone (formerly Centrale Laitière) in Morocco; and in early 2016, it acquired Halayeb in Egypt and moved to take a majority stake in Fan Milk in West Africa. Arla Foods was also active in Africa, forming JVs in Nigeria and Senegal. In total, there were 14 deals in Africa, with four more year-to-date in 2016. This compares with only three deals recorded in Africa in the whole of 2014, making it clear that Africa is now definitely on the dairy map. Outside of Africa, other entries into emerging markets include Pakistan: in fact, this is the world's third-largest milk producer, where FrieslandCampina has taken a 51% share of Engro, the country's second-largest dairy, as it plans to develop the nascent formal/packaged market.

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