

INDUSTRY SNAPSHOT

Milk Powder Manufacturing

A snapshot of the key statistics and current industry performance in the milk powder manufacturing sector.

April 2016

KEY STATISTICS



Revenue

\$1.0b



Profit

\$26.0m



Annual growth
(2011–2016)

–6.0%



Projected growth
(2016–2021)

1.0%



Exports

\$871.1m



Number of
businesses

41

Source: IBISWorld

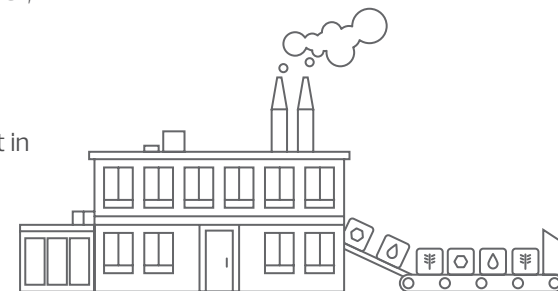
INDUSTRY SNAPSHOT: MILK POWDER MANUFACTURING

Industry consolidation through mergers and acquisitions is expected to further increase barriers to entry into the milk powder manufacturing industry. The industry's prospects are projected to improve over the next five years, driven by rising demand for dairy products in Asia. Product prices are expected to continue to be volatile due to unpredictable climate conditions and fluctuations in the Australian dollar.

CURRENT INDUSTRY PERFORMANCE

The milk powder manufacturing industry is currently undergoing a period of change.

1. Volatile commodity prices have driven both revenue expansion and contraction over the past five years. Global milk powder prices increased over the four years to 2013–2014, albeit with significant fluctuations, due primarily to increased demand from growing economies in Asia.
2. Changes in the global price of milk powder significantly affected industry revenue as more than 70% of industry revenue is derived from exports.
3. Trade agreements signed with Japan, Korea and China in 2014 are expected to increase sales, especially exports to China, which are expected to be significant. Over the next five years, Australia's share of the global milk powder trade, in particular, infant milk formula (IMF), is projected to increase as the European Union's share of trade falls in line with its flat milk production growth. However, Australia is likely to face significant competition from New Zealand. Exports to China could also be negatively impacted in the short to medium term following China's recent actions to curtail the sale of long-life milk and milk powder as part of broader measures to protect domestic retailers by imposing higher taxes on imports of food, healthcare products including vitamins, and cosmetic and luxury goods.
4. Despite low projected annual growth of 1.0% per annum over the next five years due to forecast volatile global economic conditions and fluctuations in the Australian dollar, increased demand for milk powder is forecast to result in an increase in profit margins. However, the continued domination of key players is anticipated to result in improved profit margins primarily benefiting larger manufacturers.
5. There is an increased trend in greater capital investment in automation which has further increased productivity.
6. The domestic market for milk powder is expected to remain small due to the local preference for fresh milk.



Key player analysis

Reporting year end	Jun-15	Mar-15	Jul-15	Jun-15	Dec-14	Jun-15	Jun-15
Market cap date	N/A	Apr-16	Apr-16	Apr-16	N/A	Apr-16	Apr-16
Key player analysis	Murray Goulburn Co-Operative Co. Ltd	Warrnambool Cheese And Butter Factory Company Holdings Ltd	Fonterra Co-Operative Group Ltd	Bega Cheese Ltd (owns 70% share in Tatura Milk Industries)	Parmalat Australia Pty Ltd	Bellamy's Australia Ltd ¹	The a2 Milk Company Ltd
Revenue (\$m)	2,921.1	618.9	16,416.9	1,121.5	1,527.6	173.1	206.7
NPAT %	0.7%	4.5%	2.6%	1.9%	2.2%	11.3%	3.6%
EBITDA %	3.4%	7.4%	9.0%	4.7%	5.6%	15.2%	8.6%
EBIT %	1.6%	6.7%	6.8%	2.8%	3.3%	15.0%	7.9%
ROCE %	3.3%	12.0%	8.8%	7.7%	6.0%	41.1%	15.7%
Working capital as a % of revenue	17.6%	24.7%	10.1%	16.4%	11.8%	35.3%	37.3%
Market capitalisation (\$m)	N/A	482.4	8,426.6	911.0	N/A	950.1	1,241.1
Market capitalisation/NTA	N/A	2.4	2.4	2.9	N/A	15.0	14.1
Market capitalisation/NA	N/A	2.1	1.3	2.8	N/A	15.0	12.0

¹ Bellamy's Australia's higher returns and profit margins reflect the fact that Bellamy's is not a primary manufacturer

Source: Capital IQ

TRANSACTIONS

There has been significant merger and acquisition activity in the sector over the last few years. Key players are moving to capitalise on increasing demand for IMF from China. Bega Cheese Ltd (Bega) and Blackmores Ltd (Blackmores) have formed a business to consumer joint venture (B2C JV) to develop and manufacture a range of nutritional foods, including IMF, through Bega's subsidiary, Tatura. Bega will be the exclusive supplier to Blackmores. The Blackmores IMF product has been launched in both Australia and China, with the aim of capitalising upon the success of products such as the a2 Platinum IMF product range (Source: Bell Potter). Saputo Inc. acquired Warrnambool Cheese and Butter Factory Company in 2013 following intense bidding from multiple parties.

Acquisitions

Announcement date	Target	Acquirer	Stake acquired %	Implied EV \$m (AUD)	EV/EBIT	EV/EBITDA
Dec-16-2015	Fonterra Brands (Australia) Pty Ltd	Parmalat Australia Pty Ltd	100%	N/A	N/A	N/A
Nov-18-2015	DairiConcepts, L.P.	Dairy Farmers of America, Inc.	50%	181.22	N/A	N/A
Apr-21-2015	United Dairy Products Pty Ltd	Murray Goulburn Co-Operative Co. Ltd	100%	N/A	N/A	N/A
Apr-18-2015	Dunhua Meilijian Dairy Co. Ltd	Beingmate Baby & Child Food Co. Ltd (SZSE:002570)	64%	37.43	N/A	N/A
Mar-02-2015	Lion-Dairy & Drinks Pty Ltd	The Warrnambool Cheese and Butter Factory Company Ltd	100%	137.5	N/A	N/A
Feb-19-2015	Dairy Transport Logistics Ltd	Kotahi Logistics LP	100%	N/A	N/A	N/A
Dec-19-2014	Longwarry Food Park Pty Ltd	Parmalat Australia Pty Ltd	100%	N/A	N/A	N/A
Aug-25-2014	Nine Dairy Farms	Murray Goulburn Co-Operative Co. Ltd	100%	N/A	N/A	N/A

N/A = not available

Acquisitions (con't)

Announcement date	Target	Acquirer	Stake acquired %	Implied EV \$m (AUD)	EV/EBIT	EV/EBITDA
May-27-2014	Dairy Partners Americas Venezuela SA	Fonterra Co-Operative Group Ltd	50%	N/A	N/A	N/A
May-27-2014	Corporación Inlaca, C.A.	Fonterra Co-Operative Group Ltd	75%	N/A	N/A	N/A
Mar-31-2014	Harvey Fresh (1994) Ltd	Parmalat Australia Pty Ltd	100%	119.8	N/A	N/A
Oct-07-2013	Warrnambool Cheese And Butter Factory Company Holdings Ltd	Saputo Inc.	100%	526.1	15.4	11.8
Jun-20-2012	Tasmanian Dairy Products Co. Ltd	Mitsubishi Corporation	24%	N/A	N/A	N/A

Source: Capital IQ

IPO ACTIVITY

There was only one IPO listing in the past five years as the majority of market activity within the industry was related to mergers and acquisitions. Bellamy's Australia Ltd's share price has increased sharply from \$1.00 at IPO date to \$10.00 at the end of March 2016, driven by soaring demand for the company's IMF and organic infant food products in China and Singapore.

Recent IPO activity

Company	Listing date	Proceeds raised \$m	Market cap at listing \$m	EV at listing \$m	Implied EV/EBITDA at listing	EV/EBITDA current	Offer price \$	Current price \$	Share price movement since listing
Bellamy's Australia Ltd	Aug-01-2014	34.44	95.0	95.0	26.9x	35.2x	1.00	10.00	900.0%

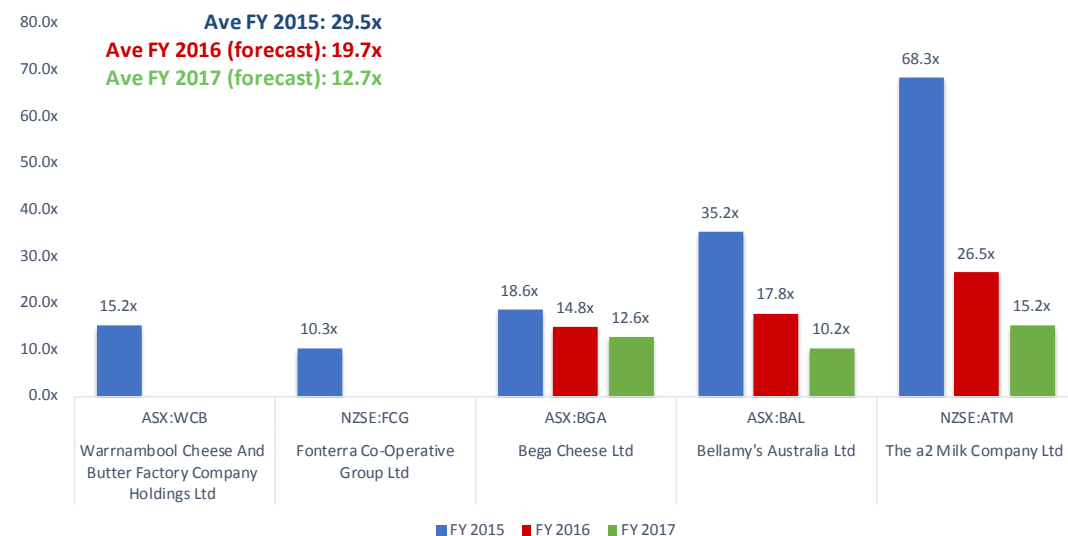
Source: Capital IQ

TRADING MULTIPLES

- Historical sector EV/EBITDA multiples range from 10.3x to 68.3x with an average of 29.5x
- The average forecast multiples of 19.7x and 12.7x for FY 16 and FY 17 respectively, reflects the market's expectation of earnings growth
- We note that share prices of key players declined in early April in response to China's recent regulatory restrictions on the import of food, dairy and healthcare products

Sector earning multiples

EV / EBITDA



THE POWER OF BEING UNDERSTOOD

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