



Global Dairy Top 20: Lower commodity prices impede revenue gains

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Contents

A year of slower revenue growth, but upcoming M&A deals could mark a shift	2	The revenue spread is tighter in the second half of the list	6
The Top 10: Identical names in a different ranking	4	A look ahead	6

Summary

RaboResearch's annual Global Dairy Top 20 highlights the financial results of key global industry leaders in one of the world's most valuable food sectors. This year, the combined turnover of the Global Dairy Top 20 companies saw just a slight 0.3% gain in US dollar terms, following the prior year's 8.1% increase. Lower milk prices in 2023 versus the strong 2022 values were a key driver of the significant slowdown. In euro terms, combined turnover declined 2.3% versus the prior year, driven by a recovery in the euro's strength versus the US dollar plus some key European cooperatives noting weaker revenues in the year. Fewer than half of the companies listed (eight) maintained the same position as last year. FX developments continue to impact the list's overall rankings, and limited M&A activity was again a key theme this year.

Global Dairy Top 20, 2024

2024	2023	Company	Country of headquarters	Dairy turnover, 2023*	
				USD billion	EUR billion
1	1	Lactalis	France	30.2†	27.9†
2	▲	3 Nestlé	Switzerland	24.1†	22.3†
3	▼	2 Dairy Farmers of America	US	21.7	20.1
4		4 Danone	France	19.7†	18.2†
5		5 Yili	China	17.5†	16.2†
6	▲	9 Fonterra	New Zealand	15.1	14.0
7	▼	6 Arla Foods	Denmark/Sweden	14.8	13.7
8	▼	7 FrieslandCampina	Netherlands	14.1†	13.0†
9	▼	8 Mengniu	China	13.9	12.9
10		10 Saputo	Canada	12.8	11.9
11		11 Unilever	Netherlands/UK	8.7†	8.1†
12	▲	16 Schreiber Foods	US	7.4†	6.8†
13		13 Savencia	France	7.4†	6.9†
14	▼	12 Gujarat Cooperative Milk Marketing Federation Ltd	India	7.2†	6.6†
15	▼	14 Müller	Germany	6.7†	6.2†
16	▲	17 Sodiaal	France	6.3	5.8
17	▼	15 Agropur	Canada	6.1	5.6
18		18 DMK	Germany	5.9	5.5
19		19 Froneri	UK	5.7	5.3
20	▲	# Grupo Lala	Mexico	5.6	5.2

* Turnover data is predominately dairy sales (actual or estimated), based on 2023 financials (actual or estimated), coupled with some adjustments based on certain M&A activity.

† estimate.

Source: RaboResearch 2024

A year of slower revenue growth, but upcoming M&A deals could mark a shift

Driven partly by lower average dairy commodity prices, companies' revenues grew more slowly, and in some cases declined, in 2023 following record-breaking growth in 2022

Seven companies reported lower 2023 revenues in their respective local currencies compared to 2022. Interestingly, many companies reported stronger profits and/or margins than in 2022. This is despite the sudden and substantial decline in dairy commodity prices compared to farmgate milk prices that negatively impacted earnings, especially among European cooperatives.

Organic growth and favorable FX developments secured Grupo Lala's debut in the Global Dairy Top 20

Throughout the history of the Top 20, FX rate changes have been a significant factor in reshuffles along the entire list. Most significantly, the 2023 average rate of the Mexican peso strengthened by 11.8% against the US dollar. For Mexico-based Grupo Lala, these FX effects, combined with organic revenue growth of 6% in Mexican peso terms, propelled the company into the Top 20. Grupo Lala unseated Ireland's Glanbia, which made its debut only a year ago.

Deal activity remained lighter, with limited significant mergers and acquisitions in the year, in line with 2022

It was yet another year with limited deal activity among the Top 20. Significant deals, like Lactalis' acquisition of Kraft Heinz's cheese business for USD 1.8bn in 2021, were less prevalent in 2022 and 2023.

Danone's divestment of its Russian business is an exception, driven by events outside the company's direct control. In July 2023, the Russian Kremlin ordered that the state take over Danone's Russian business. Danone was one of several Western companies forced to divest assets in the country following the 2022 invasion of Ukraine. In March, Danone announced the sale of its Russian business to Vamin R LLC at a steeply discounted RUB 17.7bn, or USD 191m. Danone received even less, as part of that sum was allocated for debt servicing. Danone reported that the total loss represented EUR 1.2bn, with the business in Russia accounting for approximately 5% of Danone's total global sales. The deal was completed in May 2024.

In addition to the forced Russian divestment, Danone's shedding of its Horizon Organic and Wallaby businesses also played a role in the company's revenue difference in this year's Top 20 report. The sale fee to private equity firm Platinum Equity was undisclosed, but the deal was driven by Danone's stated intention to shed "underperforming" businesses. The units represented about 3% of Danone's total revenues.

Big deals could be on the horizon as strategic priorities shift

While limited in recent years, multiple possible deals are on the horizon, some of which could be the largest the sector has seen in some time. Companies are reexamining priorities and, in some cases, returning to core businesses while shedding parts of the business that are less profitable or misaligned with key strategic priorities. For some, sustainability goals might come into play, with increasing pressure from impending self-imposed or industry-driven commitments leading to a reexamination of assets and priorities. RaboResearch believes sustainability could play an increasing role in determining business structures. We may see some companies choose to keep minor controlling interests as a way to achieve sustainability-related goals more easily by keeping parts of the business further from the core.

At least two upcoming deals for Global Dairy Top 20 companies could be the most massive we have seen in a few years, an easily accomplished task given the limited dealmaking of late. In recent months, Unilever announced the divestment of its ice cream business and Fonterra revealed the shedding of its consumer business. Outside the Top 20, General Mills' proposed divestment of its Yoplait yogurt business also meets the criteria of an elephant deal.

Unilever's divestment of its ice cream business is driven by the company's belief that it can achieve stronger growth by focusing on its core brands. The company states that the ice cream business has different growth potential and distinct characteristics from the rest of its portfolio, and it believes a separate ownership structure is best for the future. Full separation is expected by the end of 2025, meaning that this might not affect Unilever's position in the Top 20 for two more years. This divestment could allow Unilever to accomplish its sustainability targets more easily by removing a significant portion of its dairy-related brands from its overall portfolio.

New Zealand-based cooperative Fonterra announced a "step change in its strategic direction," to be achieved via a pivot back to its core B2B ingredients and foodservice business. This could include divesting some or all of its consumer businesses, including Fonterra Oceania and Fonterra Sri Lanka. Fonterra stated that all its divisions are performing well, but a shift to its core was the best strategy for the future. If all the considered divestments come to fruition, this could represent 15% of the cooperative's milk solids utilization and 19% of the group's earnings, representing a sale valued at more than NZD 2bn.

General Mills' divestment of Yoplait could impact the Top 20, depending on who purchases the US and Canadian Yoplait businesses. The deal could be worth more than USD 2bn, significantly higher than when General Mills acquired a 51% stake in 2011 for USD 1.2bn. In 2021, General Mills sold its European Yoplait business to Sodiaal, impacting Sodiaal's revenues and ranking in the Top 20 list. Like Unilever and its comments on its ice cream business, General Mills has stated that its yogurt business is non-core to its overall portfolio and faces tough competition from Danone and Chobani. While there is no guarantee that a company in the Global Dairy Top 20 will acquire Yoplait, the sizable divestment is notable.

These three companies' strategy shifts highlight a common theme: Conglomerate, global businesses with multiple brands are now shifting focus back toward their core, essential functions to maximize future growth and profit by selling business units deemed not critical to their future earnings potential.

Multiple Global Dairy Top 20 companies have similar profiles to Unilever, General Mills, and Fonterra. Thus, RaboResearch estimates that other companies could announce similar, significant divestments in the coming years as the M&A landscape heats up again after a period of stagnation. If other companies divest (or purchase) large revenue-generating brands or businesses, it could potentially lead to substantial shifts in the Top 20 list throughout the next several years.

In the US, companies seem to prefer internal growth over acquisitions

M&A activity remains weak, but that does not mean expansion and investment have halted, at least not within the US. Industry estimates peg more than USD 7bn to be invested in new plant construction or existing plant expansions in the US from 2023 to 2026. Most of this is focused on cheese production, with plans for both sizable new plants and impressive expansions of existing facilities. Various other products are seeing investment, even within the fluid milk category, as there is growing demand for formats other than traditionally pasteurized products (e.g., ultrafiltered, extended shelf life, lactose-free). Granted, the largest US retailer, Walmart, has announced the addition of two traditional fluid milk processing plants in Georgia and Texas.

While there are questions about milk supply in some pockets of the country, generally speaking, these investments represent continued confidence in the security of the US milk supply.

Production growth is expected to resume in 2025 following three consecutive years of stagnation, which was a rarity for the US industry.

This growth means that revenues for US dairy companies in the Global Dairy Top 20 (Dairy Farmers of America, Schreiber Foods) or for foreign companies with US facilities that are continuing to invest in new plants (Nestlé, Agropur, Saputo) could expand in the coming years as milk processed and products sold climb. If M&A activity remains light, changes in the Global Dairy Top 20 rankings may be driven by those investing, often in the US, versus those staying stagnant.

Elsewhere, significant investment in stainless steel is not the new normal

These significant US investments differ from the trend in the rest of the world, with stagnant or declining milk production likely a vital driver of the disparity between continents. In some regions, plant closures have become the norm as companies attempt to rightsize their business based on a shrinking milk pool or reduced demand for specific products. In 2023, for example, Netherlands-based FrieslandCampina sold three plants to Müller, which closed two of the facilities just one year later. The company cited a lack of viability due to economic prospects as the key reason, noting a lack of expected volume growth for the products produced at one of the sites. The plants will operate for two years, reflecting a strategy shift after the acquisition. Downsizing is also happening in other parts of the world, including Fonterra closing several plants in New Zealand's Waikato region.

The Top 10: Identical names in a different ranking

Lactalis is the first company in the Global Dairy Top 20 to achieve USD 30bn in revenue

Lactalis became the first company ever to exceed USD 30bn in annual dairy-related revenue, an accomplishment that follows several years of significant revenue expansion through organic growth and acquisitions. The company has experienced sustained revenue expansion in recent years, up nearly EUR 10bn in just four years since 2019. A beneficial EUR/USD exchange rate helped this year, with year-over-year revenue climbing even more in US dollars than in euro terms.

The company closed a few deals over the past year, most of which were inconsequential to revenues. The exception was the November 2023 completion of the purchase of Dairy Partners Americas (DPA) Brazil from Fonterra and Nestlé. Fonterra and Nestlé sold their former joint venture for BRL 700m, or USD 132m, with a licensing agreement finalized to get clearance from regulators. Lactalis has steadily grown its Brazilian presence over the past decade.

Lower milk prices cost Dairy Farmers of America its silver ranking; Nestlé takes the No. 2 spot

Dairy Farmers of America, the largest US cooperative, encountered lower revenues in 2023 due to a significantly weaker milk price compared to the prior year, eliminating its chance at holding the runner-up position for the second year in a row. The strength of its commercial operations remains impressive, with dozens of regionalized consumer brands across the country.

Nestlé's revenue growth continued, surpassing both the prior year and its recent peak achieved in 2019. Its improved revenues and strong presence in dairy reaffirmed the company's second-place ranking, which it held two years ago but lost last year due to DFA's revenue surge.

Danone saw revenue decline based on both voluntary and involuntary divestments

As noted, Danone's forced divestment of its Russian business and the sale of the Horizon Organic and Wallaby brands have led to anticipated revenue declines for the French conglomerate. As more companies shift strategies to reemphasize the strength and profitability of their core business or brands, it is possible that Danone's divestments, coupled with the announced Unilever, General Mills, and Fonterra strategies, may be a model for other companies to replicate in the future.

Leading Chinese dairy companies maintain Top 10 rankings as hot competition persists in Hohhot

Yili maintained its No. 5 position on the list, with revenues climbing again in renminbi terms. Sales growth was largely organic, although the company continued to increase its ownership share in Ausnutria. While showing growth, Yili suffered slightly in FX terms, with revenues marginally lower versus the prior year when converted to US dollars.

Mengniu showed similar performance as the second-largest Chinese dairy conglomerate. Competition between the two companies is formidable, but data shows both can compete healthily in the country, which has seen massive growth in milk production over the past five years, reducing demand from the world's second-largest population for some imported dairy products.

Like Yili, Mengniu's revenue grew in renminbi but was slightly lower on a US dollar basis, as FX worked against Mengniu's favor. Fonterra's strong performance also brought down the company's ranking. Various transactions completed in 2022 (Yashili, Dumex, Milkground Food Technology) are reflected in Mengniu's financial statements. These transactions have had a negligible impact on total revenue.

Fonterra flies but faces a formidable future in maintaining position

Fonterra's revenue jumped, lifting the cooperative's ranking three places compared to last year. However, it's noteworthy that Fonterra's financial year-end was on July 31, 2023, meaning higher revenues likely reflect elevated commodity prices throughout the second half of 2022. This may skew the comparison to key global competitors with different financial year-end dates. The unfortunate timing is a challenge based on the publishing requirements of the Global Dairy Top 20 report. Regardless, performance was strong. Compared to the prior year, and based on initially reported data, revenue on a New Zealand dollar basis climbed by 7.1%. However, Fonterra restated its 2022 performance, which was lower than initially reported, with the most recent financial year outperforming by 12.2% YOY, a stark improvement.

Notably, revenues from several divestments were excluded from the data, meaning the cooperative's performance would have been even higher had some of its revenue from non-continuing operations been included. This includes the Chilean Soprole business, China Farms, and DPA Brazil. Fonterra will likely not maintain its No. 6 position in the coming years, as the cooperative's strategic shift to focus on its core business could reduce revenues in the future. The decline, pending any offset by growth in its core business, could possibly lower the company's ranking moving forward.

European powerhouse cooperatives remain close in the ranking, but their revenue gap widened

For the fourth consecutive year, Arla Foods and FrieslandCampina remain within one position of each other on our list. However, in terms of revenue, this gap has grown from less than USD 100m last year to a USD 700m edge for Arla over its Dutch competitor. Arla reported slightly lower

revenue in 2023 but more substantial margins in 2H 2023 due to the strength of its retail brands. FrieslandCampina encountered more sustained challenges, including a large-scale 2H 2023 reorganization and failing to match the prior year's financial results.

Looking ahead, we expect the gap will likely widen further, considering Arla's pending acquisition of Volac's whey business. Meanwhile, FrieslandCampina finalized the sale of some of its German business to Müller in early 2023. More recently, FrieslandCampina opened a new production plant in Indonesia, historically an important international market for the Dutch cooperative.

The revenue spread is tighter in the second half of the list

While the first half of the Top 20 list saw a revenue spread of more than USD 17bn, companies in the second half of our ranking were separated by just USD 3bn, with much smaller differences between individual companies.

European businesses benefited from FX more than Canadian companies

With a stronger euro versus the US dollar in 2023, European cooperatives saw a slight boost compared to other global companies in US dollar terms. For most, the change was not material enough to cause a significant shift in the rankings, except for Sodiaal, which gained one place this year, and Müller, which lost a spot. Sodiaal also benefited from the weakness in the Canadian dollar, which negatively impacted Agropur, which fell two spots in the ranking. In addition to the weaker Canadian dollar, Agropur's revenue was lower, but the company still achieved higher profitability in 2023.

Schreiber Foods saw sustained strength

Growth persisted at US-based Schreiber Foods. RaboResearch estimates that the company grew dairy revenue by over USD 1bn in the past two years, driven primarily by organic growth as the company continued to increase sales worldwide, with minimal M&A activity. The sale of the company's Bulgarian business was minimal in overall revenue terms and not consequential in Schreiber's Global Dairy Top 20 ranking.

The strong peso supported a new entrant to the list as Glanbia exited

In a first, Grupo Lala enters our list in the final position. A combination of improved revenues and a strong Mexican peso significantly boosted the company. Estimated revenue growth was USD 1bn in 2023 versus the prior year, a stark gain in just one year. In addition, FX worked to the company's advantage and helped eject Glanbia from the list. Glanbia's dairy-related revenues declined into 2023, negatively impacted by the dissolution of its UK and EU cheese joint venture with Leprino Foods.

A look ahead

Dairy companies face calmer inflation, waffling interest rate forecasts, and persistent geopolitical strife

The decade's first half has seen formidable challenges for dairy and other food companies, including sharp shifts in food consumption patterns, increasing economic uncertainty, and frightening geopolitical disruptions. The Covid-19 pandemic upended life in 2020 with lingering impacts to this day. Record-high shipping rates and logistical challenges disrupted global dairy trade in 2021. The highest inflation in a generation hit most economies in 2022, followed by interest rate hikes to levels not seen in decades. These shifts and myriad others presented new

difficulties for the Global Dairy Top 20 companies to navigate. Looking ahead, RaboResearch expects some calmer waters, but the elimination of hazards in a volatile world is not guaranteed.

Key issues the world's largest dairy companies will be watching in the upcoming year, in addition to the elevated deal activity discussed above, include:

- Economic growth (or lack thereof) in various countries and regions impacting consumer demand for dairy products and global dairy trade trends.
- Crucial central bank decisions on interest rates, including possible future cuts, that could impact the pace of the aforementioned possible upcoming M&A deals.
- Geopolitical strife, especially in the Middle East, potentially impacting dairy trade into the key Middle East and North Africa importing region, as global logistics are again noting complications not seen since the pandemic.
- FX developments – driven by these changes and others – which shifted some company rankings in our latest Top 20 list and will continue to impact overall company revenues in US dollar terms in the future.

Imprint

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