



How Warrnambool Cheese is becoming a Cash Cow for its Shareholders

Description

by Christine Conway

Expressions of interest to buy the Australian Warrnambool Cheese have turned into a bidding war between Australian dairy co-op **Devondale- Murray Goulburn**, **Bega Cheese** and **Saputo** ([TSX: SAP](#)). Here's a recap of the players and offers.

The Players

Murray Goulburn was started as a co-operative owned by Australian dairy farmers. Since then, it has grown into what is now known as Devondale Murray Goulburn. It produces one third of the nations milk supply and exports 740,000 tonnes of dairy products. It is currently the largest dairy exporter in Australia and ships to Asia, the Middle East, North Africa and the Americas. It also owns 17.7% of Warrnambool Cheese.

Bega Cheese had sniffed out the opportunity to buy earlier on, as we detailed [here](#). It's business is primarily that of cheese cutting and packaging, so Warrnambool, with its focus on milk, butter, cheese and other dairy products would be quite the diversification.

Finally, Canadian Saputo has about 50% of its revenue coming from Canada and Europe and 42% coming from the US, per the 2013 fiscal annual report. It's growth strategy involves expanding geographically and it sees this move into Australia as a way to better access the Australasian markets.

The Offers

Saputo currently has the highest bid on the table, at \$9 cash per share, plus up to an additional \$0.60 per share if they receive up to 90% ownership. (Offer made in Australian currency). The bid needs 90% shareholder approval to get accepted. With Murray Goulburn and Bega's ownership stake, this may be difficult to obtain, even with the board [endorsing](#) the deal.

Murray Goulburn offered \$9.50 per share (Australian). However, the bigger concern is with the Australian version of the competition bureau. The Murray Goulburn proposal would need to go through a review process, which could take months. The timeline is projected to be between Feb 28, 2017 and May 30, 2017 and the deal can not go through without approval.

Bega Cheese made its final offer, which was \$2 cash and 1.5 Bega shares per Warrnambool share. Since competition hasn't waned, reuters has reported that it is looking for looking for a partner overseas to stay in the game. The competition bureau did not have a problem with the proposed Bega purchase, due to limited overlap, as they detailed in this [release](#).

Keeping Australian Control

Perhaps the biggest issue is having this 125 year dairy producer leave Australian hands. But with Murray Goulburn's already sizable market share and Bega's willingness to look outside it's borders, this tune may change. At this point, it is unknown how much further this can go, and what final price these companies are willing to pay.

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