

## INSIGHT: Animal Nutrition Industry Senior Executive Outlook for M&A Trends in 2020

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**11 December 2019 - 2019 has been a quite busy year for the global animal nutrition industry from an M&A point of view. Sector consolidation will continue in 2020. However, the pace of M&A activity and the nature and shape of the deals is open to interpretation.**

Feedinfo News Service spoke with various senior executives of leading global animal nutrition companies (compound feed businesses, premixers, and feed additive firms) to find out what they see unfolding in 2020 and beyond.

First things first. All senior executives interviewed are in agreement that further consolidation in the animal nutrition markets will likely take place across all segments as the market remains fragmented.

"We operate in a dynamic market where firms pursue a variety of objectives with their M&A activity. This can include expanding geographic presence, enlarging a product or service offering, achieving greater economies of scale or adding revenue growth, among others. It is a natural progression that occurs as the industry develops and matures," said Franz Waxenecker, Managing Director, Biomin, looking at the overall picture.

"There will be continued integration along the value chain and this should be expected as it happens in many industries," added David Dowell, Executive Vice President and COO, Novus International.

And consolidation of the industry is a "logic consequence of globalisation, touching all aspects of our business, across geographies," went on to say Bernhard Putz, Vice President Global Marketing, DSM Animal Nutrition & Health.

At the heart of things, farming businesses in many countries continue to consolidate.

"There are multiple reasons for this, with the main driver in the Netherlands, Belgium and Germany in particular being the investments that farmers need to comply with increasing amounts of environmental regulations and laws. Due to the financial impact on the farmer, they frequently search for scale to be able to realise pay-back opportunities. It also leads to a changing requirement from farmers to feed companies," explained Steven Read, Chief Operating Officer, ForFarmers UK. "Innovation of feed concepts is increasingly important, especially around maximising efficiencies and productivity. In this context, scale is also important for feed companies."

Animal nutrition companies continue to look for better cost efficiency and improved market penetration too, exploring options via mergers and acquisitions.

With this in mind, Co de Heus, CEO, De Heus commented: "The process of consolidation will probably continue at full force."

"During 2019, we have seen continued consolidation in the feed industry, as well as assets being sold between feed companies in order to optimise their footprint," added Aart Mateboer, Business Unit Director, DuPont Animal Nutrition.

"M&A will continue to accelerate in the feed industry, and to a certain extent in the premix business as commoditisation and global integrations are pushing this. Consolidation will also continue in the specialty ingredients and additives space too, with smaller companies bringing innovations into the market," also pointed out Johan De Schepper, Member of Executive Committee & Business Development Group Director, Royal Agrifirm Group.

It is understood that there are a number of global or regional strategic players with sufficient cash reserves who are looking at acquisition opportunities in some parts of the world or segments where the industry is still fragmented like South America or in some parts of Europe.

And we mustn't forget that African swine fever has been devastating for many parts of China and Southeast Asia.

"There will ultimately be countries that step in to fill the protein supply gap," said Adriano Marcon, President, Cargill Animal Nutrition. "Animal nutrition and protein companies in these countries could become appealing."

**Big Deals?**

There is potential for large deals to materialise, as highlighted Dr. Alfred Petri, Senior Vice President, Precision Livestock Farming, Evonik: "The global animal nutrition industry seems to strongly trend towards further consolidation. The recent acquisition of Bayer Animal Health by Elanco or the rumours around a potential bid by DSM for DuPont Biosciences clearly show the path forward."

But that view may not necessarily be shared.

Patrick Charlton, Vice President, Alltech, argued: "The general feeling is that M&A activity is cooling off and is not as frantic as in the past five years. There will be occasional consolidation but not as aggressive as before."

"Though still important, I expect expansions of market shares and in geographies are going down slightly," added Stefaan Van Dyck, President of Kemin Animal Nutrition and Health, EMENA.

Providing some background on these observations, Laurent Genet, Chief Strategy Officer, Nutreco, believes that when it comes to larger industry players looking for growth, the large-value M&A targets are getting scarce.

"This drives up the valuations of companies for sale. Smaller companies eventually trade at similar multiples – two or three times higher than ten years ago," he said. "It is also interesting to note that interest rates are low and banks are increasingly able to fund smaller companies seeking to expand."

In Genet's view, downstream consolidation or venturing in adjacent sectors (such as animal health, genetics...) represents a major trend across the whole animal protein production value chain. And companies operating in the more commoditised areas are striving to leverage their platforms with higher-value activities.

"Companies seem to be looking more at incremental acquisitions which are more technology-focused, with a view to gear up for the pushes we are seeing in alternative proteins, digital and in sustainability, generally-speaking," highlighted Alltech's Patrick Charlton.

"Looking at 2020, we anticipate similar macro dynamics in the feed industry as what we observed in 2019, with movements involving a large variety of stakeholders in diversified areas, such as for example sustainability and digital technologies," added DSM's Bernhard Putz.

Kemin's Stefaan van Dyck nodded approvingly: "I think we will see more and more scenarios whereby firms will seek to buy smaller shares in novel technology and novel ingredient companies. And we will see investments along the full value chain. I expect digital and data advancement, converting data for use in big decision making and efficiency management to come more to the forefront in terms of M&A in 2020."

His comments match those of David Dowell at Novus: "Technology acquisitions and channel developments are different drivers, and these will also be key in the consolidation I expect we'll see in 2020."

Other trends to look out for are antibiotic-free animal health solutions or health and well-being, as well as sustainability, which are rising in importance for customers and consumers, as highlighted Cargill's Adriano Marcon: "As a result, we expect companies that develop novel ingredients and new technologies will continue to be attractive."

And finally more partnerships are expected to come to the forefront in 2020, be it from a pure M&A perspective or from a research and development focus.

Geert Wielsma, Vice President Business Development, Perstorp, argued: "More partnerships will be formed to solve the complex needs the industry is facing, like antibiotic reduction and alternative protein sources development. An example of these types of partnerships is our joint research agreement with Evonik which we started this year."

Agrifirm's Johan de Schepper added: "I see more collaborations in the ingredients and additives sectors. These types of alliances encourage equal systems and preserve corporate cultures, unlike traditional M&A which has the habit of eating corporate culture for breakfast!"

And Nutreco's Laurent Genet went on to say: "Let us not forget that investment funds will be increasingly active. Food and agriculture has become an attractive sector for these types of businesses to operate in with successful deals having taken place in the recent years. Corporate venturing has also developed in the past years, with the intention of providing larger, well-established but less-agile companies access to potentially disruptive technologies and to strengthen their intellectual property portfolio."

"All elements are in place for further consolidation in the animal nutrition industry," he said.