9 September 2025

focus

Farmers Get the Cream

Fonterra recently announced the sale of its consumer and associated businesses (Mainland Group) to French dairy company, Lactalis for $4.2 billion. The sale is set to be a windfall for New Zealand farmers. Fonterra will return $2 per share (tax free) to farmer-shareholders—totalling $3.2 billion, about a 20% boost to on-farm revenue at a time when milk prices and farm profitability are already near record levels.

FORSYTH BARR

...two-thirds of revenue is generated from consumer facing brands...

Mainland Group: Much broader than its New Zealand brands

Mainland Group includes household staples and recognisable brands such as Anchor milk, Mainland cheese, Primo milk, and Fresh'n Fruity yoghurt. While most New Zealanders will associate Mainland Group with its strong local brands, these only represent a fraction of the company's operations. New Zealand accounts for just over 20% of Mainland's revenue. Approximately two-thirds of revenue is generated from consumer-facing brands, with the remainder from Foodservice (e.g. creams, cheeses, and butter for restaurants, bakeries, and cafés) and Ingredients (bulk dairy products sold to businesses).

MAINLAND GROUP IS MUCH MORE THAN NEW ZEALAND

	Oceania		Southeast Asia	Sri Lanka	Middle East & Africa
	New Zealand	Australia			
Liquid milk[3]	Anchor, Simply Milk, Dairy Dale		Anchor, Anlene, Fernleaf, Anmum	Anchor	
Milk powder	Anchor, Anmum	nzmp	Anchor, Anlene, Fernleaf, Anmum	Anchor, Anlene, Ratthi	Anchor, Anlene
Flavoured milk	Anchor, Primo		Anlene, Fernleaf, Anmum	Anchor	
Cheese	Mainland, Anchor Food Professionals, Galaxy, Kapiti, Perfect Italiano	Mainland, Anchor Food Professionals, Bega, nzmp, Perfect Italiano	Anchor, Mainland, Chesdale, Perfect Italiano	Anchor, Anchor Food Professionals	Anchor, Falcon
Butter & Spreads	Mainland, Anchor Food Professionals, Anchor, Country Soft	Mainland, Allowrie, Western Star, Anchor	Anchor	Anchor, Anchor Food Professionals	Anchor
Cream	Anchor, Anchor Food Professionals	Western Star, Anchor Food Professionals	Anchor	Anchor, Anchor Food Professionals	
Yoghurt	Anchor, Fresh'n Fruity, Kapiti, De Winkel		Anlene, Fernleaf, Anmum	Ratthi, Anchor	

Source: Company reports

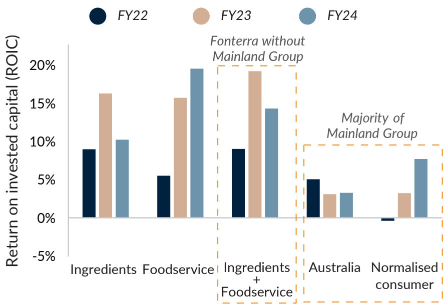
Strategic shift

Fonterra's divestment of Mainland reflects a deliberate shift towards areas where it has a clear competitive advantage—global dairy ingredients and Foodservice. Running multinational consumer brands requires scale and expertise that few New Zealand corporates have successfully achieved. Return on invested capital (ROIC) tells the story.

ROIC is a key financial metric that measures how effectively a company generates profit from the capital it invests in its business. In simple terms, it indicates how much profit a company earns for every dollar of invested capital. A company creates value for shareholders only when its ROIC exceeds its cost of capital—that is, what it pays to borrow money or raise equity.

Both Fonterra's Consumer and Australian businesses have delivered chronically low—and at times negative—returns. Mainland Group's margins and returns lag not only those of global peers but also Fonterra's own Ingredients and Foodservice divisions.

CONSUMER AND AUSTRALIA RETURNS ON CAPITAL HAVE BEEN POOR



Source: Company reports

Successful exit

Having made the decision to divest Mainland, in our opinion Fonterra has exited well. The sale price of $4.2 billion exceeded our expectations, with the valuation multiples achieved at the upper end of historic dairy-sector transactions. To pay this price, Lactalis must see considerable synergy opportunities that it can realise over the medium to long term.

Lactalis will become one of Fonterra's largest customers

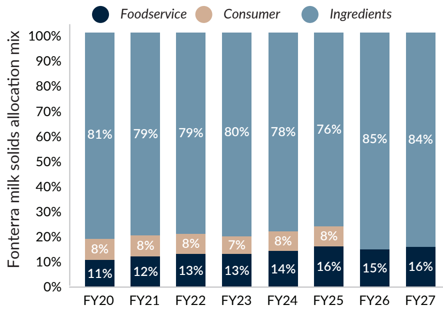
Lactalis is the world's largest dairy group with operations in more than 50 countries, 266 production sites, and approximately 85,500 employees worldwide. Lactalis has been highly acquisitive, with 124 acquisitions in the past 20 years.

The sale includes 'long-term agreements for Fonterra to supply milk, ingredients, and other products to the divested business'—we understand this is ten years, and Lactalis will be one of Fonterra's largest customers. What we do not yet understand are the terms of the agreement.

Fonterra is a better business without Mainland Group

The sale of Mainland will not dramatically change Fonterra as a business. We estimate that Mainland Group currently accounts for around 10%–15% of earnings. The sale of Mainland will provide Fonterra with greater clarity of focus, strengthen its already robust balance sheet, and deliver a windfall for New Zealand dairy farmers.

CONSUMER HAS BEEN A SMALL PART OF FONTERRA'S MILK SOLIDS ALLOCATION



Source: Company reports

Fonterra will remain a globally significant dairy ingredients supplier, selling in more than 130 countries, with key products including dairy fats, cheeses, milk powders, proteins, and specialty ingredients, generally sold in bulk form. Foodservice is smaller, but Fonterra has a presence in 50 countries and is one of the world's leading foodservice brands, with key customers including restaurants, bakers, caterers, commercial kitchens, and cafés. The sharper focus does come with some risks, including less diversification, increased sensitivity to milk price cycles, and greater reliance on China—where domestic supply is rising and demand is softening. Importantly, however, it will now be focused on the Ingredients and Foodservice businesses which play to its competitive edge—leveraging milk supply, processing expertise, and technical innovation. On balance we view Fonterra as a leaner, more focused, and more profitable business post-divestment.

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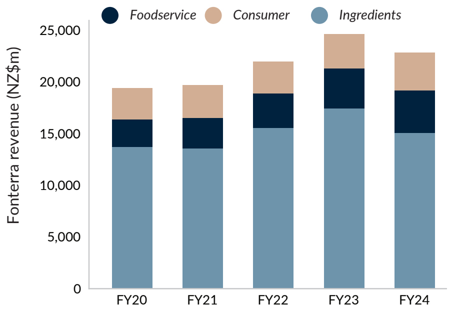
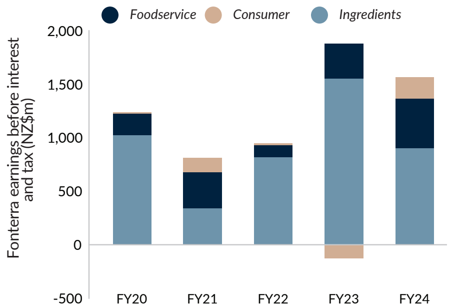
FONTERRA ISN'T CHANGING DRAMATICALLY AS A BUSINESS





Source: Company reports

NB; Mainland Group includes Fonterra Australia (which has Ingredients and Foodservice exposure) but this isn't specifically disclosed

Choices for farmers

The $2 per share capital return to farmer-shareholders will be significant. For many, this is the largest lump-sum distribution they will ever receive from Fonterra. While it arrives at a time of healthy farm profitability, prudent decision-making will be important.

Key considerations include:

Debt reduction: Many farmers still carry high levels of debt. Reducing borrowings will lower interest costs and improve resilience against milk price volatility and future shifts in interest rates.

On-farm investment: For well-capitalised farmers, reinvestment into efficiency gains (e.g. automation, environmental upgrades, water-use efficiency) could enhance long-term productivity.

Portfolio diversification: For those heavily exposed to dairy, reinvesting some proceeds outside the farm may help diversify risk. Listed equities, bonds, or managed funds can provide income and growth streams uncorrelated with milk prices.

Succession planning: This windfall may provide an opportunity to advance family succession discussions, funding equity transfers, or helping the next generation onto the land.

Liquidity reserve: Setting aside a portion as cash or term deposits may provide useful flexibility in navigating future volatility in milk prices or operating conditions.

Fonterra's divestment of Mainland Group marks the end of an era but also signals a sharper focus on where it can excel. For farmers, how the capital return is deployed is as significant as the transaction itself. Whether it is used to strengthen balance sheets, reinvest, or diversify, careful planning will ensure this windfall has a lasting, positive impact.

If at any time you want to discuss investment options and opportunities, your Forsyth Barr Investment Adviser is available to provide you advice and assistance.

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