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CHINA'S BRIGHT FOOD OVERSEAS M&A STRATEGY 2010-2012 – A STEEP LEARNING CURVE

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During the 2000 decade, China's state-owned enterprises (SOEs) were subjected to several organisational reforms by the Chinese government. One of the outcomes of these reforms was the consolidation of a cluster of companies in the domestic food industry under a holding company, Bright Food (Group) Co., Ltd, a 100% government-owned enterprise. Headquartered in Shanghai, the Group had 19 subsidiaries of which four were listed in the Shanghai Stock Exchange.

In executing the government's strategy of encouraging SOEs to expand overseas, in 2010 the Group embarked on a series of acquisition overseas to strengthen its domestic competitive position and increase its global footprint.

This case examines the contexts and outcomes of the Group's eight overseas M&A initiatives in the food industry in Australia, Europe, New Zealand and the United States from 2010 to 2012. The case provides an opportunity to examine a Chinese SOE's overseas M&A strategy, including reasons for M&A targets and challenges in its first steps in global M&A dealmaking.

Professor Gillian Yeo and Dr Wee Beng Geok prepared this case with research assistance from Wilfred Chua, Chen Xizi, Xia Xiao Xing and Priya Subramanian. It is based on public sources. As the case is not intended to illustrate either effective or ineffective practices or policies, the information presented reflects the authors' interpretation of events and serves merely to provide opportunities for classroom discussions.

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INTRODUCTION

In the 2000s, tasked by the Chinese government to expand abroad, many Chinese state-owned Enterprises (SOEs) were launching bids for overseas firms and assets. (See **Appendix 1** – Structure and Governance of Chinese SOEs.)

As one of China's larger SOEs in the domestic food industry, Bright Food (Group) Co., Ltd (Bright Food) embarked on a series of merger and acquisition (M&A) initiatives targeting a range of overseas food-related companies in 2010. Bright Food's series of overseas M&A initiatives across the developed countries produced mixed results. Having overcome a steep learning curve, the Bright Food Group, at the beginning of 2013, was determined to forge ahead with further global acquisitions to increase its overseas footprint while strengthening its competitive position in China's large food industry.

> *This is only the start of Bright Food's globalisation. Our company will definitely conduct more deals focusing on our main businesses, such as dairy, sugar and wine.*[1]
>
> Ge Junjie
> Vice-President, Bright Food Group

The longer-term challenge was to ensure that the cross-border acquisitions would accelerate the growth of the Group's market share both at home and abroad, and enhance asset and revenue growth.

Corporate Structure

In August 2006, the Chinese government consolidated several SOEs and associated companies in the food industry[2] to create one of China's largest food conglomerates with estimated assets of RMB $45.8 billion and estimated annual sales revenue of RMB $45.0 billion.

The holding company, Bright Food, incorporated as a private limited company with headquarters in Shanghai, had 19 subsidiaries, including four publicly listed companies. As a SOE, Bright Food was jointly managed by the Shanghai local administration and China's Central Government's State-owned Assets Supervision and Administration Commission. The consolidations were initiated as part of a nationwide policy to restructure state-owned companies to increase their international competitiveness. While smaller factories incurring losses were closed, the larger ones were merged into massive industrial conglomerates.

"The core business of the new Bright Food Group is to be centred around the whole food industry chain, to encompass modern agriculture, food processing, circulation and distribution," Wang Zongnan, head of the Group, said at the inauguration ceremony.[3] Its articulated mission was "To build the company into a leading enterprise group in the national food industry, with famous brands, advanced technology, strong competitive power and deep influence in the world by the end of 2015." [4] As consumer preferences changed, Bright Food Group was placing heavy emphasis on the promotion of the quality, health and safety benefits of its brands in China's domestic market. Acquisitions of food-related companies in developed countries were seen as contributing to this goal.

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1 Shen, J. (2012, March 8). Food companies show appetite for growth through overseas M&A. *China Daily*.
2 Marketline. (2006, July 25). Shanghai Bright Dairy Group, the holding company for Bright Dairy, merged with Shanghai Sugar Tobacco Wine Co., Shanghai Agriculture Industry and Commerce Group and Jinjiang Food. Shanghai government's intention was to create China's largest food and drink business.
3 Li, Xiaowei. (2006, August 9). China: Industry unveils new food, drinks conglomerate. *China Daily*.
4 Bright Food (Group) Co., Ltd. Enterprise Culture: Mission.

Core Businesses

Bright Food was engaged in China's entire food supply chain from agriculture, food processing and production, to food distribution and retail, with about 3,300 retail outlets in China.[5]

In 2011, the Group's total assets grew to RMB 82 billion and revenue from its primary business was RMB 75 billion. The Group's major business activities included:[6]

- Sugar – The Group was China's leading supplier of sugar, with a market share of about 15%.[7]
- Dairy – Bright Food's dairy business ranked third in China with sales of US$1,862.6 million in 2011, behind Mengniu Dairy Industry and Inner Mongolia Yili Industrial Group Company with sales of US$5,907.6 million and US$5,887.9 million in 2011 respectively. (See **Exhibit 1.**)
- Wine-making – The yellow wine-making business ranked top in its industry in China.
- Food Brand Operations – Ranked top in its industry in China. (See **Exhibit 2.**)
- Chain Store Operations – Occupied front rank in its industry in China.
- Modern agriculture – Occupied front rank in its industry in China.
- Other businesses included a taxi company, real estate and tourism, biomedical products, agricultural machinery and children's apparel.

Key Products

In 2011, the Group's key products included many nationally renowned brands such as:[8]

- Bright Infant Milk Formula（光明乳制品）– The main product of Bright Dairy & Food Co., Ltd (Bright Dairy). It had been awarded the 'Famous Chinese Trademark' and 'Famous Chinese Brand Product'.
- Guanshengyuan （冠生园）– This brand was established in 1918 and was awarded the Famous Chinese Trademark. It was also one of the top 100 time-honoured brands of traditional Chinese industry. The main products include candy, honey, wine, pasta, monosodium glutamate, frozen food, health food among others.
- Big White Rabbit （大白兔）– Dabaitu (Big White Rabbit) brand candy was the main product of Guanshengyuan (Group) Co., Ltd. and had won the honours of Famous Chinese Trademark, Famous Chinese Brand product and Famous Shanghai Brand.
- Maling （梅林）– Maling canned food was one of the well-known traditional Chinese food brands and it had won the 'Famous Chinese Brand' award.

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5 Bright Food Group Co. Ltd, Company Overview. (2013, March 13). *Bloomberg Businessweek*.
6 ibid.
7 Mitsui & Co. Ltd. (2010, September). Business Partnership with Bright Food Group – One of China's Biggest Food Conglomerates. Retrieved November 17, 2014, from https://www.mitsui.com/jp/en/release/2010/1205224_6469.html
8 Bright Food Group website. Brand Center-Famous Chinese Trademark-Famous Chinese Brand Product. Retrieved November 17, 2014, from http://english.people.com.cn/102775/203908/203913/index.html

- Shikumen（石库门）– Shikumen was the main brand of Shanghai JinFeng Wine Co., a Chinese rice wine.

- Hejiu （和酒）- Hejiu, a popular Chinese rice wine, was a major brand of HuaGang Brewery Co., Ltd.

The Group had four subsidiaries listed on the Shanghai Stock Exchange (see **Figure 1**).

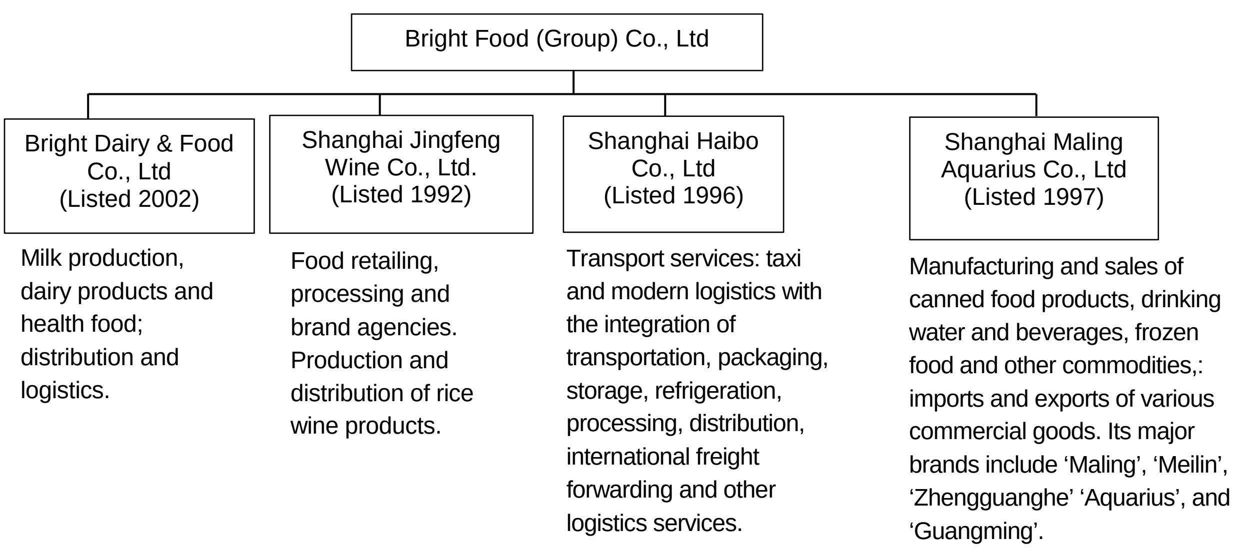
BRIGHT FOOD'S GLOBALISATION STRATEGY

SOEs began their internationalisation thrust after the 'going-global strategy' (*zouchuqu*) was proposed at the fifth plenary session of the 15th Central Committee of the Communist Party of China in 2000. The 'going-global strategy' reiterated the Chinese government's support for the globalisation of Chinese domestic enterprises. At a political level, it meant that government economic policy took into account international issues such as regional free trade agreements and natural resource development projects abroad. Major goals of the 'going global' policy included:

i. Expanding international global market
ii. Exploiting natural resources overseas
iii. Acquiring new technologies
iv. Enhancing the Group's corporate value.

However, for China's food and beverage industry, the attempt to go global only gained momentum in the late 2000s. Although there were a total of 221 M&A deals in the Chinese food industry from July 2008 to June 2011[9], only eight cases (4%) involved overseas targets. In this period, China's M&A transactions in the food and beverage sector totalled US$9.33 billion, with outbound M&As accounting for merely 1% of the total transaction value.

Figure 1
Product Details of the Listed Companies (2011)



[9] According to a research note from ChinaVenture, an investment consultancy company in China.

> *For Chinese companies, when they make M&As abroad, they mainly focus on upstream resources and their major purpose is to lift market share in the Chinese market.*[10]
>
> Fiona Wan
> China Venture Analyst

Among China's SOEs in the food industry, Bright Food took the lead in launching major overseas M&A initiatives. By setting a target of doubling revenue from US$ 7 billion in 2010 to US$14 billion by 2015, Bright Food's aim was for these M&A deals to help raise the proportion of their overseas revenue from five percent in 2010 to 30 percent by 2015. With this ambitious revenue target, Bright Food organised a powerful financial consulting team that included Rothschild Investment bank in Greater China, working together with Rothschild's headquarters in the United Kingdom, to facilitate the M&A process.

> *We are trying to take a shortcut by taking advantage of foreign brands and resources to move into the overseas market. It should be faster and more effective than going abroad with our own products.*[11]
>
> Wang Zongnan
> Chairman, Bright Food Group

Furthermore, Pan Jianjun, spokesman for Bright Food, said that the company planned to exploit its mainland strength to introduce global brands. "China is a huge market and Bright Food has a broad sales network in China. We hope to leverage that advantage to introduce international brands to Chinese consumers at a fast pace."[12]

> *Bright Food has a clear strategy of buying into overseas food companies as a direct response to food safety issues in China. Nielsen research shows consumers in China are definitely attracted to imported products and are also prepared to pay a premium for the perceived higher standard of quality and safety.*[13]
>
> Dale Preston
> Nielsen, Shanghai

Over the past decade, China had struggled with food safety issues. In the spring of 2012, a survey carried out in 16 major Chinese cities asked urban residents to list "the most worrisome safety concerns." Food safety topped the list (81.8%), followed by public security (49%), medical care safety (36.4%), transportation safety (34.3%), and environmental safety (20.1%).[14]

In 2008, milk and infant formula were tainted with the chemical melamine, an industrial chemical used to make fertilizer and plastic pipe. It made at least 300,000 people ill, and killed at least six infants.[15] The melamine scandal was blamed, in part, on dairy processors' practice of buying milk from small, independent dairy farmers.[16] This caused a nationwide panic among parents of young children, and there was a worldwide recall of Chinese products ranging from biscuits to baby formula.

In 2012, it was found out that alkaline water used to clean equipment was mixed into Bright Dairy's Ubest milk during equipment maintenance. When this came to light, about 300 cartons of 950-millilitre Ubest

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10 Food Companies show appetite for growth through overseas M&A. (2012, August). *China Daily*.
11 Bright Food hopes Yoplait cannot resist China. (2011, March). *AFP*.
12 Waldmeir, P. (2012, June). Bright Food on global buying spree. *Financial Times*.
13 ibid.
14 Huang, Y. (2012, August 27). China's Food Safety Crisis: how serious is the Problem? *Council on Foreign Relations*.
15 Magistad, M. K. (2012, November 13). Food Safety and Eating in China. *The World*.
16 Hornby, L. & Lin, D. (2013, March 7). China's Bright Food looking to acquire overseas sugar firm. *Reuters*.

milk available on the market were sent back for inspection.[17] Bright Dairy also issued a public apology to consumers:

> *Our heart was heavy, food safety is the top priority of our livelihood, and the company bears the obligation of social responsibility. Bright Dairy & Foods Co., Ltd wishes to express its deepest apologies to the vast number of consumers.*[18]

The statement also outlined a number of corrective measures that the firm had implemented since the scandal and confirmed that it had established a quality and safety supervision group.

Bright Dairy was not the only dairy SOE involved in product recall. A few weeks earlier, China's leading dairy producer Inner Mongolia Yili Industrial Group also recalled infant milk formula due to mercury contamination.[19]

Bright Food's globalisation initiatives had support from the Shanghai provincial government, one of its major stakeholders. In the wake of the various food contamination problems, the acquisition of food-related companies in developed countries was regarded as a measure towards improved food quality as well as productivity. Furthermore, as China's living standards rose with rising GDP (RMB 5.9 trillion in 2010), the demand for global quality food products, especially branded products was set to grow. Thus, acquiring major global brands would enable the Bright Food Group to improve its competitive position in the Chinese market of 1.3 billion people.

Summary of Bright Food's M&A Initiatives (2010–2012)

With these considerations in mind, between July 2010 and May 2012, Bright Food launched more than seven M&A initiatives in the food industry, of which only four deals were successful. Two of the deals were undertaken by the its subsidiaries, Bright Dairy and Food Co., Ltd and Shanghai Tangjiu Group, while the rest were all undertaken by Bright Food (Group) Co., Ltd.

The initiatives resulted in four successes (New Zealand's Synlait Milk, Australia's Manassen Foods, UK's Weetabix and France's Diva Bordeaux Wine Company and two failures (Australia's Sucrogen and France's Yoplait).

Other initiatives did not go beyond the negotiation stage: Bright Food entered into talks to buy Britain's United Biscuits for more than £2 billion (US$3.13 billion),[20] as well as US-based retailer of food supplements GNC Holdings for about US$2.5 billion.[21] However, no official bids were made for either company (see **Figure 2**).

The Sucrogen Deal

Sucrogen Limited[22] (Sucrogen) was the largest producer of raw and refined sugar in Australia and New Zealand[23], and the eighth largest global producer. Sucrogen, the second largest global producer of sugar-based ethanol using a waste by-product of cane sugar production, was also Australia's largest renewable energy generator.

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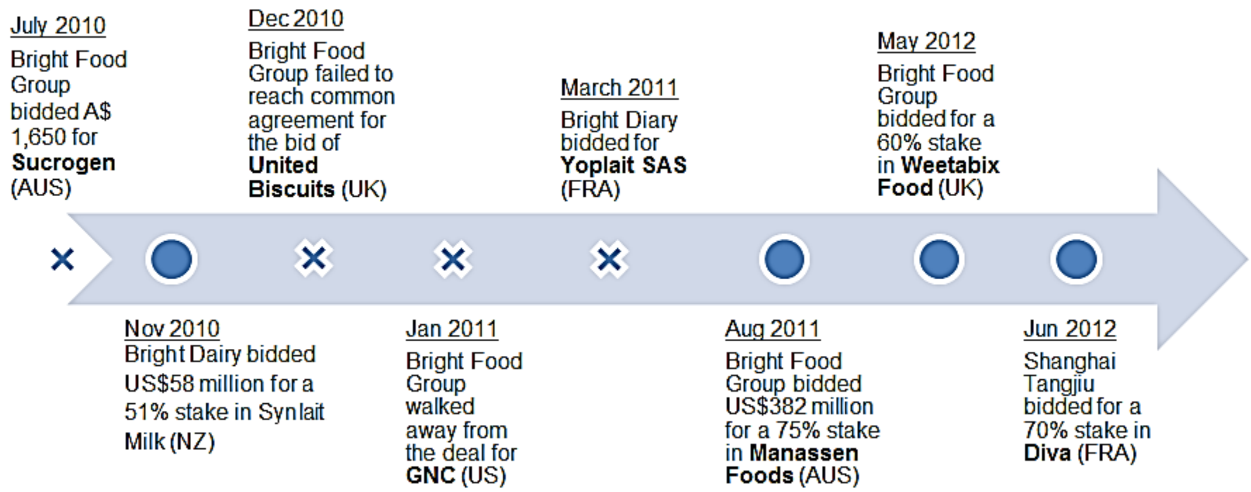
[17] Chen, D. (2012, June 29). Bright Dairy recalls tainted milk. *Global Times.*
[18] Astley, M. (2012, October). Bright Dairy issues apology over 2012 food safety scandals. *Dairyreporter.com.*
[19] Burkittt, L. (2012, June). Fears over Safety of Infant Formula Resurface After New Product Recall. *The Wall Street Journal*.
[20] Bright Food in Talks for United Biscuits? (2010, September). *New York Times*.
[21] GNC favors IPO as Bright Food walks away. (2011, January 21). *Reuters*.
[22] It is a non-listed public company, with limited liability.
[23] Through its 75% interest in two joint ventures with Sugar Australia and New Zealand Sugar Company. Mackay Sugar owned the other 25%.

Figure 2
Timeline of Bright Food M&A Initiatives



Source: Created by authors.

Sucrogen was a fully owned subsidiary of CSR Limited (CSR Ltd), an Australian publicly listed diversified manufacturing company with operations throughout Australia, New Zealand and Asia. In January 2010, CSR Ltd announced an intention to sell its sugar and renewable energy business under Sucrogen to focus on its other businesses such as property, building products and aluminium. (See **Exhibit 3** – Overview Of Sucrogen Financials.)

Bright Food, a top sugar supplier in China, with a market share of about 15%, quickly made its move and offered to purchase Sucrogen for A$1.5 billion. After further talks with CSR Ltd, Bright Food bid was raised to A$1.75 billion in April 2010.

Shortly after the increase in bid, CSR Ltd made a statement:

> *The offer remains subject to a number of conditions including completion of due diligence, regulatory approvals and execution of transaction documentation. Accordingly, there is no certainty that any transaction will be completed with Bright Food.*[24]

It was further mentioned that CSR Ltd intended to enter into discussions with Bright Food to explore this proposal further.

However, on 2 July 2010, Bright Food Ltd announced that it was cutting its non-binding bid down to A$1.65 billion. Shortly after this, in the same month, CSR Ltd announced the sale of Sucrogen, to Wilmar International Limited (Wilmar), a Singapore-based global-agribusiness group, for an enterprise value of A$1.75 billion (US$1.472 billion).[25] The deal was subject to approval from Australia's Foreign Investment Review Board and New Zealand's Overseas Investment Office.[26]

When queried on the reason for choosing Wilmar over the Chinese SOE, Jeremy Sutcliffe, CSR Managing Director, said that the offer from Wilmar provided greater value and certainty, and Wilmar's "extensive cross-border experience" in M&A "enabled a very seamless path to the transaction".

24 CSR. (2010, April). *Bright Food A$1.75 billion conditional offer to acquire Sucrogen*. [CSR News Release].
25 US$1.13 billion in equity and US$339 million of net debt.
26 Holmes, S. (2010, July). Wilmar outbids Bright Food for CSR's sugar unit Sucrogen. *The Wall Street Journal*.

Furthermore, he added that "Bright Food completed their due diligence, but ultimately at the end of the day they could not quite get there on value and certainty."[27]

In response to the failure to acquire Sucrogen, Chen Chunshan, Bright Food's spokesperson said:

> *The A$1.75 billion is definitely much higher than what a state-owned company like Bright Food can afford, although we would love to buy the sugar unit of CSR.*[28]

Acquisition of Synlait Milk

Synlait Milk, a small player in the dairy export market in New Zealand, was a subsidiary of Synlait Limited, a private limited company incorporated in New Zealand. Synlait Milk's range of products included infant and adult nutritional formulations, functional food ingredients such as UHT (Ultra-High-Temperature) milk and calcium-fortified powders, and specialised products to support a healthy lifestyle. Its milk products were sold in Southeast Asia, Japan, North Africa and the Middle East.

In November 2010, Bright Dairy, a subsidiary of Bright Food, successfully acquired 51% stake in Synlait Milk for NZ$82 million (US$58 million), (See **Exhibit 4** – Overview Of Bright Dairy Financials And Synlait Milk Financials). The New Zealand dairy firm saw the partnership with Bright Dairy as giving it a foothold in the Chinese dairy market ahead of its competitors.

After the acquisition, Synlait Limited would have a 26.5% stake in Synlait Milk, with the remaining 22.5% stake in Synlait Milk retained by Japan's Mitsui and Co.[29] When asked whether the acquisition would be approved by New Zealand's Overseas Investment Office (OIO), Synlait Limited's CEO, Dr John Penno, was confident the deal would easily gain OIO's approval. He said, "We do not have too many concerns in terms of regulatory approval in New Zealand as this investment is in processing and industrial manufacturing, not in sensitive land." [30]

After the acquisition, Synlait Milk planned to adopt a global sales strategy with a three-way market focus: one-third of its business in China, one-third in the rest of Asia and one-third in the rest of the world, with exports to about 40 countries.[31]

The Synlait Milk deal was Bright Dairy's first investment in processing facilities outside China, and the Company planned to increase exports of New Zealand milk powder and infant formula to China. The New Zealand Company planned to build a new milk processing plant with the cash injection, doubling Synlait's production capacity:

> *In China, the market for premium products from New Zealand and Australia is growing rapidly. Synlait Milk will help Bright Dairy establish a market leading position in the infant formula and milk powder category with a planned co-branded range.*[32]
>
> Benheng Guo
> President, Bright Dairy

After the acquisition, Dr John Penno remained as Synlait's CEO. However half of the senior management team subsequently left the Company.[33]

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27 CSR settles on Wilmar for sugar sale. (2010, July). *CIO*.
28 Ding, Q. (2010, July 7). Bright Food fails in bid for Sydney-based CSR. *China Daily*.
29 Mitsui and Co acquired 22.5% stake of acquisition of Synlait Milk in 2007 for US$ 13.5 million. (2010, July).
30 Adams, C. (2010, July 20). Chinese to buy Synlait majority stake. *The New Zealand Herald*.
31 Bartlett, L. (2012, November). New Zealand Trade and Enterprise Turning milk into money. *Idealog*.
32 China's Bright Dairy invests in NZ' Synlait. (2010, July 18). *Reuters*.
33 Wallace, N. (2010, November 13). Future looking bright for Synlait. *Otago Daily times*.

United Biscuits, Britain

The company, a leading manufacturer and marketer of biscuits was founded in 1948 by the merger of two Scottish family businesses.[34] The major proportion of its sales revenue was from Western Europe where it held the top seller in the British biscuit market, and was in the number two spots in France and Belgium.[35] United Biscuits carried several globally renowned biscuit brands, including Jacob's, Délichoc, and McVitie's.[36]

In 2006, United Biscuits was bought over by two private equity firms, US-based Blackstone Group and France's PAI Partners, for £1.6 billion. The purchase had been financed through a combination of equity contributed equally by Blackstone and PAI, as well as debt financing.[37]

Four years later, exclusive talks were held with Bright Food regarding a possible purchase of the British confectionary company. The price expected was reported to be more than £2 billion (US$3.13 billion).[38]

Bright Food, as one of China's top food brand, was ranked top in terms of its food brand operations in China. This included the manufacture and distribution of candy, honey and other confectionary products as well as health foods. Although United Biscuits was well-positioned in Western Europe, which generated the bulk of its revenue, it had relatively little exposure to faster-growing emerging markets. The acquisition would enable Bright Food to expand its share of China's biscuit market through a well-established range of overseas biscuit brands and products. Furthermore, the acquisition could also be an opportunity for the Chinese food giant to gain insights on the European market for confectionery products.

However, after more than a month of negotiations, the two could not agree on the indicative price which would have valued the company at around 10x EBITDA and Bright Food walked away from the negotiations.[39] Had Bright Food closed the deal, it would be the first Chinese company to take full control of a major European food company.

France's Yoplait SAS

In 2011, Yoplait, the world's second largest yoghurt brand by sales, was put up for sale by PAI, a private equity firm that jointly owned Yoplait with Sodiaal, a French farmers' cooperative.

Headquartered in Paris, Sodiaal was the largest dairy cooperative in France with close to 7,000 employees, and 12,600 interdependent producers across 64 departments. With 4.1 billion litres of milk collected annually, Sodiaal was the fifth largest European milk collector, accounting for 22% of France's milk collection and processing.

As a cooperative, Sodiaal belonged to dairy producer members. Each member was entitled to one vote and able to participate in the appointment of representatives to manage the company. Members could also take on the role of running the company if they were elected. Sodiaal was run by the Board of

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[34] United Biscuits. History. Retrieved on December 30, 2014, from http://www.unitedbiscuits.com/our-business/history/

[35] Quinn, J. (2006, October 25). United Biscuits sold for £1.6bn. *The Telegraph*. Retrieved on December 30, 2014, from http://www.telegraph.co.uk/finance/2949557/United-Biscuits-sold-for-1.6bn.html

[36] United Biscuits. *Brands*. Retrieved on December 30, 2014, from http://www.unitedbiscuits.com/our-brands/

[37] PAI Partners. (October 2006). *The Blackstone Group and PAI Partners acquire United Biscuits*. [Press Release]. Retrieved on December 30, 2014, from http://www.paipartners.com/Media-Centre.htmx?itemid=2101109104301

[38] Cauchi, M. (2010, September 26). China's Bright Food Considers Buying U.K.'s United Biscuits. *The Wall Street Journal*. Retrieved on December 30, 2014, from http://www.wsj.com/articles/SB10001424052748704082104575515720847644274

[39] Food & Drink Business Europe. Retrieved on December 30, 2014, from http://www.fdbusiness.com/tag/bright-food-group/

Directors chosen at the Sodiaal Union General Assembly. A Managing Director was selected from the Board to manage the company's operations and was granted substantial powers to carry out his duties.

In 2002, Yoplait was generating approximately $53 million euros in earnings before interest, taxes, depreciation and amortisation (EBITDA) and was valued at $400 million euros. However, Yoplait's EBITDA for 2011 was projected to be approximately $153 million euros, approximately three times of that in 2002.[40] Lucien Fa, CEO of Yoplait, said that Yoplait was worth $1.5 billion euros or 12.5 times EBITDA, which he said was the average multiple of deals in the sector over the last two years for strong brands. (See **Exhibit 5** – Overview of Yoplait Financials.)

In 2002, Sodiaal owned a 50% stake in Yoplait, after PAI acquired the other 50% when Sodiaal was seeking fresh funds. In December 2010, PAI announced its intention to sell its 50% stake in Yoplait.

Yoplait launched a competitive bidding process that attracted companies such as US's General Mills, Switzerland's Nestle SA, Mexico's Grupo Lala, AXA private equity, France's Groupe Lactalis and Bright Food.

Yoplait – A Global Yogurt Franchise

In the fiscal year ended 30 June 2010, Yoplait reported revenues of $724 million euros, with nearly half of its sales in the US. The organisation was founded in 1964 by regional French cooperatives to market their dairy products. 'Yoplait' was introduced as the national brand for a comprehensive range of dairy products in the French domestic market.

The brand was very successful and began selling overseas through franchising arrangements in 1969. By 1977, Yoplait was present in 22 foreign countries. In the US, General Mills acquired the Yoplait franchise to manufacture and market its products in 1977.

In 2011, Yoplait was the world's second largest dairy brand, with sales of $4.4 billion euros through its global franchise network. Through franchise agreements, the company produced yoghurts and dairy desserts in 33 manufacturing sites across 5 continents. With presence in almost 50 territories and more than 2,500 different products around the world, Yoplait became a global brand familiar to worldwide consumers. (See **Exhibit 6** – Geographical Distribution of Yoplait's Brand Volumes around the World 2010/2011.)

Since it acquired the franchise in 1977, General Mills was the sole distributor for Yoplait's products in the US. Yoplait was the market leader in the US with 35% market share, ahead of Danone's 30%.
In 2010, Sodima, the licensing arm of Sodiaal, sought more lucrative terms and gave notice to General Mills to renegotiate the terms of a Manufacturing and Distribution Licence Agreement (Yoplait Licence Agreement). The agreement with General Mills was for more than 30 years and it was scheduled for renewal in 2012. After the failure to renegotiate royalty rates, Sodima served notice to General Mills. Reciprocating against the notice, General Mills filed for arbitration to preserve and enforce their rights under the Yoplait Licence Agreement.

Bright Diary's Bid for Yoplait

Given the growth in China's yoghurt consumption, the purchase of a major stake in a top global dairy brand such as Yoplait would strengthen Bright Food's competitive position in this market. (See **Exhibit 7** to **9** – China's Dairy Markets.) Furthermore, the acquisition target would meet the globalisation goals set by the Chinese government for its SOEs.

[40] Boyle, M. & Chassany, A. (2011, March 18). General Mills in Talks to Buy Yoplait Stake from PAI Partners. *Bloomberg.* Retrieved on December 30, 2014, from http://www.bloomberg.com/news/2011-03-18/general-mills-in-talks-to-buy-yoplait-stake-from-pai-partners.html

Among the bidders, Bright Diary placed the highest bid valuing Yoplait at $1.7 billion euros. Despite this, Sodiaal and PAI spurned the highest bidder and entered into an exclusive agreement to negotiate with General Mills instead.

In July 2011, General Mills announced the completion of their acquisition of PAI's interests in Yoplait. General Mills valued Yoplait at $1.6 billion euros, or 12.6 times that of 2010 EBITDA. Total transaction value of the deal was US$1.2 billion of which US$930 million was for consideration to shareholders and US$231 million was for assumed liabilities. Both companies ended arbitration charges when the deal was completed.

The deal was structured such that a distinction was made between the brand and the operating company. General Mills acquired a 51% stake in the manufacturing company Yoplait SAS and 50% of Yoplait Marques SAS which managed the brand and franchise activities. (See **Exhibit 10** – Organisation Of Yoplait After Acquisition.)

This structure allowed Sodiaal to remain as a key shareholder in the brand company.

> *This agreement builds upon the long and very successful relationship between Yoplait, General Mills and Sodiaal. Sodiaal and General Mills are focused on continuing to grow and expand Yoplait as a strong, global brand. We welcome this opportunity to build on our partnership to bring Yoplait to new consumers all around the world.*[41]
>
> Francois Iches
> Chairman, Sodiaal

(See **Exhibit 11** – M&A Trading Multiples In The Dairy Industry.)

Australia's Manassen Foods

Manassen Foods Australia Pty Ltd (Manassen Foods) was a privately-owned company in Australia's multi-faceted Fast Moving Consumer Goods (FMCG) industry. Established in 1953, its brand portfolio spanned many food categories in the retail and food services trade ranging from dry groceries, confectionery, biscuits and cakes, to perishables and frozen foods. Manassen Foods was ranked as one of the top 40 suppliers in its industry.[42]

Bright Food's Bid

In August 2011, Bright Food subsidiary Shanghai Tangjiu (Group) Co. Ltd (Shanghai Tangjiu) announced that it had succeeded in acquiring a 75% stake in Manassen Foods[43] in a transaction valuing the company at US$382 million. The remaining 25% stake in the Australian food manufacturer was retained by the existing shareholders, including Roy Manassen, and other members of the senior management.[44]

Manassen Foods distribution network in Australia was seen as a good opportunity for Bright Food to introduce its portfolio of high quality products and brands into the Australian market. On the other hand, Bright Food could provide Manassen Foods export business with direct access to the fast-growing Chinese market. However, Bright Food's plans to use the Manassen Foods distribution network to introduce its dairy products into Australia were met with scepticism, given media reports of food safety issues in China.[45]

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[41] General Mills Completes Yoplait Acquisition. (2011, July). *The Telegraph*.
[42] Manassen Foods Australia. Retrieved March 14, 2013, from http://www.manassen.com.au/
[43] It is a private limited company.
[44] Fung, E. (2011, August 18). China's Bright Food Acquires 75% Stake in Manassen Foods. *The Wall Street Journal*.
[45] Smith, P. & Waldmeir, P. (2011, August). Bright Food agrees deal for Manassen. *Financial Times*.

The Acquisition of Weetabix Ltd

In early 2012, Bright Food was presented with another opportunity to acquire a top breakfast cereal brand owned by Weetabix Limited, operating as the Weetabix Food Company, and which produced and sold breakfast cereals. Based in the United Kingdom, the company had been founded in 1932 and the cereal was manufactured in England and Canada, with export to more than 80 countries.

In May 2011, it was reported that Justice Holdings Ltd, a UK listed investment company, was seeking to make an offer for Weetabix Limited valuing the cereal company at 1 billion euros.

Weetabix had sales of over 460 million euros in 2011 and employed around 1,800 people. (See **Exhibit 12** – Overview of Weetabix Financials.) It had around 7% of the British breakfast cereal market, but given competition rules in UK, large market players such as Dorset were unable to launch bids for Weetabix.

In May 2012, after exclusive negotiations with the seller, Bright Food Group acquired a 60% stake in Weetabix, with the other 40% acquired by Weetabix's management. Bright Food Group paid about 180 million euros cash for its share. Weetabix was valued at 1.2 billion euros (US$1.9 billion) at the time of the purchase, including debt.[46]

For Bright Food, the acquisition would enable it to grow its share in the Chinese breakfast cereal market and the Group was confident of outperforming the market's 20% annual growth. Weetabix, which was also owned by other global cereal brands such as Alpen and Ready Brek, only had a small footprint in China. Traditional breakfast in the mainland had meant food such as rice gruel or deep-fried dough, often bought from street vendors. Although these were very different from Western breakfast preferences, cereals were beginning to catch on with the Chinese consumers.

Weetabix's management also welcomed the deal and the additional investment it would bring.

> *We are delighted about our partnership with Bright Food. We are confident that with Bright Food's support, we will be able to significantly strengthen our market position and expand our business internationally.*[47]
>
> Giles Turrell
> CEO, Weetabix

Post-acquisition, Bright Food announced plans to seek a listing for Weetabix on the Hong Kong Stock Exchange. An analyst from a research firm, CI Consulting, observed that "Listing Weetabix on the stock exchange would help mitigate the pressure from debt risks."[48]

Bright Food saw good future prospects for cereals. Chairman Wang Zongnan said:

> *Bright Food will increase the level of investment in Weetabix brands and product innovation to facilitate its development in the international markets. We are confident that with support from Bright Food, Weetabix's sales in China will outperform the growth of the Chinese cereal market.*[49]

Acquisition of French Diva Bordeaux

Shanghai Tangjiu also purchased 70% of shares of the French Diva Bordeaux Wine Company (Diva Bordeaux) in June 2012, immediately after Bright Food's acquisition of Weetabix. Pierre Beuchet, Diva Bordeaux's founder and chairman, together with Jean-Pierre Rousseau, its managing director, retained

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[46] Bright Food Mulls Listing Weetabix in Hong Kong. (2012, June). *Euro Investor.*
[47] Montague-Jones, G. (2012, November). Bright Food completes Weetabix takeover. *The Grocer*.
[48] (2012, November). Bright Food mulls listing Weetabix in Hong Kong. *The Wall Street Journal*.
[49] (2012, November). Bright Food acquires UK cereal maker's stake. *China Daily*.

the remaining 30% stake. As an established wine distributor in the Bordeaux Region of France, Diva Bordeaux had credits and partnerships with many local wineries and maintained good relationships with top wineries in the region. It had clients from 7 out of the top 10 French wine chateaux, with stable consumers in over 40 countries and regions. It ranked ninth among similar wine agencies in France. In 2011, Diva Bordeaux generated sales of $33 million euros. In the same year, China's wine imports increased by 27.78% to 36.56 kilolitres, about 24% of the total wine global market.[50] As for Diva Bordeaux, it was reported that it had 45% of its sales in China and 15% in other Asian markets.[51]

Shanghai Tangjiu was attracted by the increasing demand for imported wine among Chinese consumers and hoped to break into the middle and high-end French wine sector with the acquisition of Diva.

> *The cooperation with a renowned wine company will offer more excellent wine brands and resources to the Bright Food Group and Shanghai Tangjiu Group, lay the foundation for the groups to carry out comprehensive cooperation with the local winery industry, and create advantages for pushing the rapid development of the groups' wine businesses. We give full respect to the Diva Bordeaux and Mr. Rousseau's team.*[52]

Ge Junjie
Board Chairman, Shanghai Tangjiu Group

The price of the acquisition was undisclosed but Pierre Beuchet was pleased at the opportunity to break into China's domestic market.

> *The partnership with the Shanghai Tangjiu Group will further promote the Diva Bordeaux's development, strengthen its capital power and create a new opportunity for it to develop in the most dynamic market in the world. In addition, the Diva Bordeaux and the Shanghai Tangjiu Group will work hand in hand to establish a wine training school to improve Chinese consumers' appreciation level and further promote French wine's long-term development in China.*[53]

Jean-Pierre Rousseau
Founder and Chairman, Diva

FURTHER GLOBAL ACQUISITIONS

With two years of numerous international acquisition initiatives, Bright Food Group was looking forward to increasing its overseas footprint, while strengthening its competitive position in China's large food industry.

> *This is only the start of Bright Food's globalisation. Our company will definitely conduct more deals focusing on our main businesses, such as dairy, sugar and wine.*[54]

Ge Junjie
Vice-President, Bright Food

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[50] Chinese rice wine giant buys into French wine franchiser. (2012, December). *Morning Whistle*.
[51] Bright Food buys a stake in Bordeaux wine exporter Diva. (2012, June 27). *Want China Times*.
[52] Ceremony of delivering 70% of shares of the French Diva Bordeaux Wine Company successfully held. (2012, July 23). *People's Daily Online*.
[53] ibid.
[54] Shen, J. (2012, March 8). Food companies show appetite for growth through overseas M&A. *China Daily*.

APPENDIX 1

STRUCTURE AND GOVERNANCE OF CHINESE STATE-OWNED ENTERPRISES

The Chinese economy was one of the most rapidly growing economies in the world in the last decade of 20th century and the first decade of the 21st century. With China's transformation from a command economy to a market economy, the Chinese state-owned enterprises (SOEs) played a significant role in building up the Chinese economy.

The term 'state-owned enterprises' refers to business entities established by the central and local governments, and whose supervisory officials were from the government. Most importantly, this definition of 'state-owned enterprises' included only wholly state-funded firms.[55]

Over the years, SOE reform had gone through various stages. In the first stage in the early 1980s, all SOEs were government-owned and only some were allowed to manage their businesses by retaining profits from their operations. It was only in the early 1990s that 'privatization' of SOEs started. In 1993, a new reform plan known as corporatization was publicized with the aim of reorganising SOEs into 'modern enterprise system that suits the needs of a market economy, with clearly defined ownership, rights and responsibility.'[56]

However, the SOE reform during this period of time was slow due to a lack of conducive macro-environmental circumstances. Government officials weighed the prospect of massive layoffs necessary to restructure bloated SOEs, and privatization was also met with resistance from influential company managers, many of whom were Communist party officials. Restructuring was also a challenge as SOE managements faced problems in retrenching employees.

In the early 1990s, a nationwide capital market with stock exchanges acting as the main agent was gradually developed and, with this, the number of listed companies had grown exponentially. Most of the listed companies were restructured SOEs that had gone through shareholding reform. As the state government still held controlling shares in these listed companies, many of the old SOE management styles and mechanisms were maintained. Meanwhile, as the number of listed SOEs grew, their governance also became an issue and this was a major item on the agenda of China's capital market development at this time.[57]

By the end of 2001, China became a member of World Trade Organisation (WTO), promising further trade and financial liberalisation.[58] Since joining the WTO, China reviewed its trade-related laws and regulations to make them WTO-compliant. It also reduced all import tariffs according to the schedule of the accession agreement. This opening up resulted in China's foreign trade increasing from about US$500 billion in 2001 to more than US$2 trillion in 2010.[59]

In 2010, China could be considered to have the largest number of state-owned-enterprises (SOEs) in the world. As of 2008, the SOEs had a total asset valuation of US$ 6 trillion, which was 133% of the size Of China's economy. In 2010, total assets of the 120 centrally-controlled SOEs made up 62% of China's GDP.[60]

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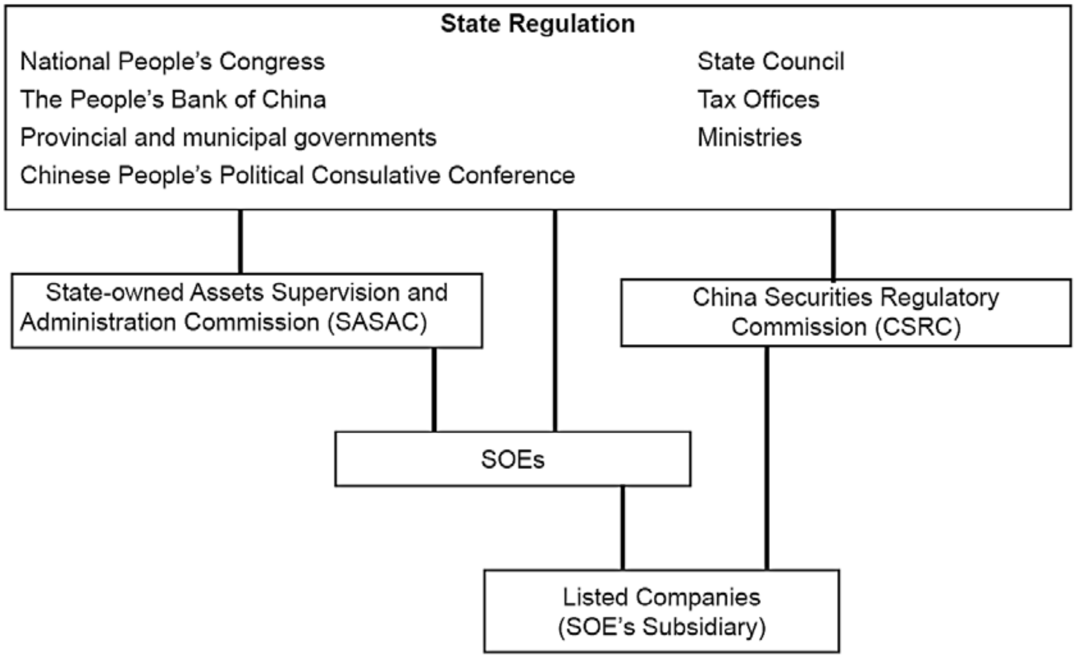
55 OECD. (2009, January 26). State Owned Enterprises In China: Reviewing the Evidence.
56 Wang, Zhengxu. *Reforming State-Owned Enterprises in China: Two Decades of Struggles*.
57 OECD. (2011). OECD-China Policy Dialogue on Corporate Governance. Corporate Governance of Listed Companies in China.
58 Li, M. (2008, October). *Three Essays on China's State Owned Enterprises: Towards an Alternative to Privatization*.
59 Sun, Z. (2011, June). Joining WTO was a positive move. *China Daily*.
60 Miao, Y. (2012, April). *Overseas Listing and State-Owned-Enterprise Governance in China: the Role of the State*. *Harvard Law School*.

Regulatory Control of Listed SOE



Source: Adapted from Tricker, B.(2009). *Corporate Governance: Principles, policies and practices.* UK: Oxford University Press.

EXHIBIT 1

CHINA DAIRY RANK BY OPERATING INCOME 2012

Rank	Company Ranking	Operating Income (in RMB billion)
1	Inner Mongolia Yili Industrial Group Co. Ltd	417.4
2	China Mengniu Dairy Co., Ltd	360.8
3	Bright Dairy & Food Co., Ltd	136.3

Source: China's Dairy Industry. (2013, December). Tusiad China Business Insights. Retrieved January 12, 2015, from http://www.tusiad.org/__rsc/shared/file/ChinaBusinessInsight-December2013.pdf

EXHIBIT 2

TOP CHINESE FOOD AND BEVERAGE BRANDS OF 2010

Rank	Company	Industry
12	Maotai	Liquor
15	Wu Liang Ye	Liquor
20	Mengniu	Dairy
22	Changyu	Wine
23	Yili	Dairy
42	Bright Dairy	Dairy

Source: Adapted from China's top food and beverage brands of 2010. (2010, December 24). *The Independent.* Retrieved December 30, 2014, from http://www.independent.co.uk/life-style/food-and-drink/chinas-top-food-and-beverage-brands-of-2010-moatai-wu-liang-ye-mengniu-2168568.html

EXHIBIT 3

OVERVIEW OF SUCROGEN FINANCIALS

Figures in A$ (millions)

Year Ending 31 March	**2009**	**2010**
Revenue	1,410.7	1,737.30
EBIT	83.7	135.7
EBITDA	140.1	196.9
EBITDA *Margin*	9.9%	11.3%
Profit before Tax	81.9	120.7
Net Profit[1]	53.9	79.3
Total Assets	1,425.4	1,549.4
Total Liabilities	788.2	773.9
Net Asset Value	**562.7**	**696.5**
Net Tangible Assets	**454.0**	**580.8**
Note:[1] Net of minority interests		
Business Unit EBIT Contribution		
Year Ending 31 March	**2009**	**2010**
Cane Products	35.2	85.6
Sweeteners	44.7	53.2
Bioethanol	11.0	4.0
Corporate	(7.3)	(7.1)
Total EBIT	**83.7**	**135.7**

Source: Wilmar. (2010, July 6). Sucrogen Overview. [Presentation]. Retrieved December 30, 2014, from http://media.corporateir.net/media_files/IROL/16/164878/shareholdings/20100706Wilmar_Sucrogen_Analyst_Presentation_Part2.pdf

EXHIBIT 4A

OVERVIEW OF BRIGHT DAIRY FINANCIALS

Figures in RMB (millions)

Year Ending 31 December	2009	2010	2011	2012
Revenue	7,937.1	9,565.3	11,782.6	13,773.7
Gross Profit	2,976.5	3,245.5	3,869.2	4,758.3
Operating Profit	175.1	230.0	240.7	472.6
Profit before Tax	189.8	238.9	234.9	413.2
Net Profit	122.5	194.4	237.8	311.3
Total Assets	4,202.2	5,991.6	7,394.9	9,433.5
Total Current Assets	2,236.6	3,124.4	3,771.4	5,056.4
Net Property, Plant & Equipment	1,636.8	2,316.2	2,830.9	3,533.6
Total Liabilities	1,917.7	3,207.3	4,403.0	4,837.5
Total Current Liabilities	1,835.6	2,578.9	3,838.1	4,053.9
Long-Term Debt	67.4	567.3	504.4	708.5

Source: Bright Dairy. (2014). Bright Dairy Financials.

EXHIBIT 4B

OVERVIEW OF SYNLAIT MILK FINANCIALS

Figures in NZD (millions)

Year Ending 31 July	2010	2011
Revenue	233.4	298.9
Gross Profit	23.7	21.1
Operating Profit	3.8	(1.2)
Profit before Tax	(8.6)	(4.3)
Net Profit	(11.7)	(3.1)
Total Assets	151.0	247.8
Total Current Assets	48.7	66.7
Net Property, Plant & Equipment	102.2	178.2
Total Liabilities	150.5	173.0
Total Current Liabilities	142.8	99.8
Long-Term Debt	0	63.8

Source: Synlait Milk. (2014). Synlait Milk Financials.

EXHIBIT 5

OVERVIEW OF YOPLAIT FINANCIALS

Figures in € (millions)

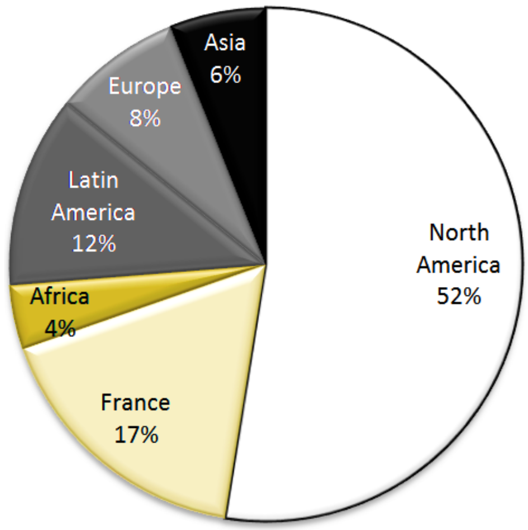
Year Ending 30 June	**2009**	**2010**	**2011**	**2012**[1]
Revenue	824.5	860.1	782.9	681.8
Gross Profit	467.3	500.2	404.1	333.5
Operating Profit	10.8	38.3	59.9	42.3
Profit before Tax	5.5	33.6	58.1	40.6
Net Profit	5.5	33.5	39.9	29.3
Total Assets	309.1	345.8	270.8	286.0
Total Current Assets	132.1	149.4	123.2	135.5
Total Liabilities	297.8	306.1	233.9	223.4
Total Current Liabilities	285.7	241.6	232.3	222.1
Total Long-Term Liabilities	12.1	11.4	1.4	1.3

[1] Till 3rd Quarter

Source: (2014). Yoplait Financials. *Factiva*.

EXHIBIT 6

GEOGRAPHICAL DISTRIBUTION OF YOPLAIT BRAND VOLUMES AROUND THE WORLD (2010/2011)



Source: Yoplait. Company Key Figures. Retrieved from December 30, 2014, from http://www.yoplait.fr/the_group/yoplait_around_the_world/activities_and_figures

EXHIBIT 7

CHINA DAIRY MARKET VALUE FORECAST: 2010-15

Year	$ million	RMB million	€ million	% Growth
2010	17,326.2	117,449.8	13,049.3	8.8
2011	18,941.2	128,397.4	14,265.6	9.3
2012	20,652.9	140,001.0	15,554.8	9.0
2013	22,530.0	152,725.0	16,968.5	9.1
2014	24,567.6	166,537.5	18,503.1	9.0
2015	26,725.9	181,168.4	20,128.7	8.8
CAGR: 2010-15				9.1

Source: MarketLine Industry Profile. (2012, February). Dairy in China, p.13.

EXHIBIT 8

CHINA DAIRY MARKET CATEGORY SEGMENTATION: % SHARE, BY VALUE, 2006-2010

Category	2006	2007	2008	2009	2010
Milk	62.3%	61.5%	60.5%	50.7%	50.9%
Yoghurt & Fromage Frais	29.9%	30.9%	32.0%	40.2%	40.4%
Spreadable fats	7.2%	6.9%	6.8%	8.1%	7.7%
Cheese	0.6%	0.6%	0.7%	0.9%	0.9%
Cream	0.0%	0.0%	0.0%	0.0%	0.0%
Chilled desserts	0.0%	0.0%	0.0%	0.0%	0.0%
Total	100%	99.9%	100%	99.9%	99.9%

Source: MarketLine Industry Profile. (2012, February). Dairy in China.

EXHIBIT 9

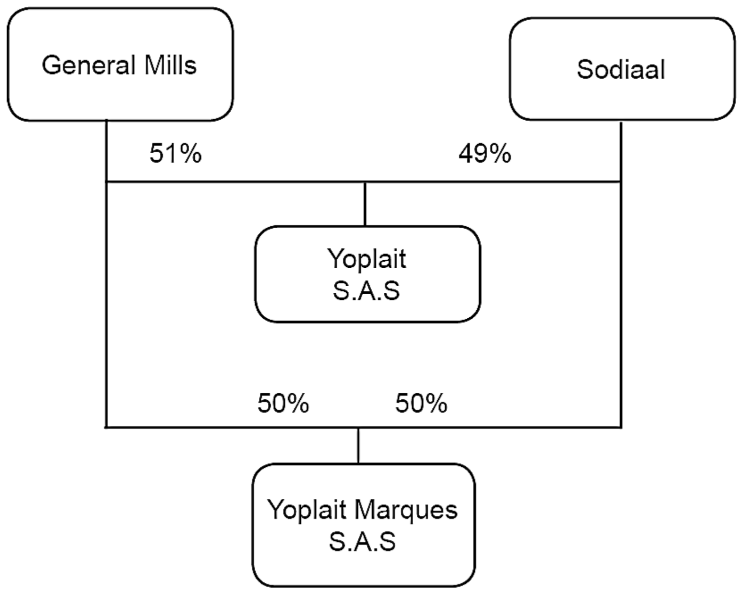
CHINA DAIRY MARKET CATEGORY SEGMENTATION: US$ MILLION, BY VALUE, 2006-2010

Category	2006	2007	2008	2009	2010
Milk	9,763.3	10,461.7	11,035.3	8,076.8	8,815.0
Yoghurt & Fromage Frais	4,688.8	5,263.5	5,836.1	6,410.1	6,994.4
Spreadable fats	1,121.7	1,178.6	1,234.8	1,289.3	1,342.5
Cheese	91.2	106.5	123.6	142.2	163.4
Cream	4.8	5.1	5.5	5.8	6.2
Chilled desserts	4.0	4.1	4.3	4.5	4.7
Total	15,673.8	17,019.6	18,239.6	15,928.7	17,326.2

Source: MarketLine Industry Profile. (2012, February). Dairy in China, p. 8.

EXHIBIT 10

ORGANISATION OF YOPLAIT AFTER ACQUISITION



Source: Boyle, M. (2011, May 19). General Mills Agrees to Acquire Yoplait for $1.15 Billlion. *Bloomberg News.* Retrieved on January 12, 2015, from http://www.bloomberg.com/news/2011-05-18/general-mills-to-buy-yoplait-for-1-15-billion.html and French dairy cooperatives Sodiaal and 3A agree to merge. (2013, July 1). *FoodBev.com.* Retrieved on January 12, 2015, from: http://www.foodbev.com/news/french-dairy-cooperatives-sodiaal-and-3a

EXHIBIT 11

M&A TRADING MULTIPLES IN THE DAIRY INDUSTRY

	2010	2011	2012	2013
Total Enterprise Value / Total Revenue	1.4x	1.5x	1.6x	1.7x
Total Enterprise Value / Earnings bef. Interest, Taxes and Depreciation	10.0x	10.9x	11.6x	11.7x
Total Enterprise Value / Earnings bef. Interest and Tax	12.4x	13.6x	14.6x	14.6x
Price/Earnings	17.5x	18.5x	20.3x	20.5x
Price /Book Value	2.6x	2.8x	3.1x	3.2x
Price/Tangible Book Value	3.5x	3.8x	4.5x	4.6x

Source: (2015, January 13). Dairy Products Key Stats & Ratios. *Capital IQ.*

EXHIBIT 12

OVERVIEW OF WEETABIX FINANCIALS

Figures are in £ (millions)

Year Ending 31 December	2009	2010	2011	2012
Revenue	322.2	325.9	335.0	354.6
Gross Profit	124.9	130.3	128.6	137.2
Operating Profit	79.1	87.4	81.6	92.6
Profit before Tax	97.2	133.6	86.2	95.7
Net Profit	97.0	130.4	81.7	91.4
Total Assets	625.9	757.4	802.1	591.1
Total Current Assets	487.2	595.0	686.3	469.9
Net Property, Plant & Equipment	105.9	112.5	77.0	82.2
Total Current Liabilities	65.9	49.7	55.7	62.8
Total Long-Term Liabilities	3.6	4.4	4.3	3.5

Source: (2014). Consolidated from Weetabix Balance Sheet and Weetabix Income Statement 2009-2013.