

Review of the Greater China tragedy

Explanation

1. Sources

My only source, really, are the Fonterra annual reviews and financial statements of the 10 years period 2008-2017.

Please view under item 4 below for further explanations how I arrived at the figures per annum in the attached EBIT spreadsheet.

2. "Hidden" costs

Apart from legal costs that I added to the 2008 and 2009 results, I have not taken into account any so called "hidden" costs. These costs must have been considerable, though.

Hidden costs are costs that do not appear as a separate item in the annual accounts but are spread over many cost categories. "China" must have taken a lot of valuable staff and management time, board involvement, consultancy, lawyers, accountants and undoubtedly many others that I am not aware of but Fonterra will be.

All these hidden costs have not been allocated to the published annual China results. In the final assessment of China performance, these costs should, somehow, be taken into account.

I could not, though, do it myself due to lack of reliable info.

3. Opportunity costs

Opportunity costs have also been excluded by me. They may have been the most important ones. All time and energy consumed by "China" could not be directed to more worthy causes and more profitable investments.

The development, pursuit and successful implementation of alternative strategic options have been the major victim of blindly focussing on China. To the detriment of Fonterra's future health.

4. Then my comments per annum (all figures in million NZD):

2018

No data are available yet but we know that the Danone settlement will be part of it. For convenience sake I have included the (183) in the 2017 figures as it clearly refers to previous years.

2017

An EBIT of 134 was reported for Greater China, of which 1 for farming. It includes the 76 impairment for Beingmate. I adjusted this figure for (38) being the loss on the sale of raw milk from farms as shown under Ingredients.

Total EBIT is therefore 96.

As explained above, I also added the 183 loss of the Danone settlement. Final total EBIT therefore (87).

2016

An EBIT of 64 was reported for Greater China. In a separate table for "normalised" EBIT, Farms were shown as (59) and consumer/food service as 131. These figures add up to 72. I have stuck with 64.

2015

EBIT of 5 (before normalisation) was reported. In the separate "normalised" EBIT table, Farms were shown as (44) and consumer/food service as 45, adding up to 1. I have stuck with (5).

2014

A separate EBIT for Greater China was not reported as it was included in Asia. The 2015 report, though, shows a 2014 EBIT for Greater China of 30. In the separate "normalised" EBIT table Farms is 21 and consumer food service 8, adding up to 29. I have stuck with 30.

2013

A separate EBIT for Greater China was not reported. The annual review 2014, though, mentioned an increase of 38% in normalised EBIT compared to 2013. That implies that EBIT for Greater China is 22. How much of that figure needs to be allocated to farming resp. consumer/food service, I cannot retrace. I would guess that not all of it can be attributed to the latter as consumer/food service reported an EBIT of only 8 in 2014.

2012

A separate EBIT for Greater China was not reported. The annual review 2013, though, mentioned an increase of 20% in normalised EBIT compared to 2012. That would imply that EBIT for Greater China could be 18. Farms, however, did not yet deliver income at this time. As consumer/food service was only 8 in 2014, I have stuck with 8 for 2012.

2011

A separate EBIT for Greater China was not reported. The annual review 2012 did not mention a % increase in EBIT compared to 2011. I have assumed the same figure as in 2012 and put in 8 .

2010

Same story as for 2011.

I have put in 5 as I am sure that China business except for SanLu did not represent a whole lot of business.

2009

A separate EBIT for Greater China was not reported but the SanLu impairment was.

I have assumed that EBIT of existing business (if any) was zero. Even if there was some profit, it would have been absorbed by hidden costs of the SanLu catastrophe.

I have put in (72) consisting of (62) impairment for SanLu and (10) for part of the addition of (16) to the legal provisions.

2008

A separate EBIT for Greater China was not reported.

I followed the same reasoning as in 2009, resulting in an EBIT of (159).

It consists of (139) impairment for SanLu and (20) for part of the addition of (24) to the legal provisions.

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