

## The Giants Tumble

While the poor economic conditions for US dairy farms have been well publicized over the last year or more, recent weeks have seen pretty awful news from two of the biggest names in the US dairy industry – Kraft Heinz and Dean Foods. On February 21, Kraft announced quarterly results that missed analyst calls for revenue and earnings. They also slashed their dividend by a third, wrote down over \$15 billion in goodwill and intangibles, and disclosed an SEC probe into their accounting and procurement practices. Investors pummeled KHC stock the next day sending it down nearly 30% at one point. The stock price eroded more last week before stabilizing, but has lost nearly two-thirds of its value in the last 2 years.



The news was even worse from Dean Foods on February 27 as they posted weaker than expected earnings and suspended their dividend. But the most dramatic news was the announcement they are exploring strategic options, including a potential sale of the company. The stock price has lost over half its value since July 2018. In addition to macro headwinds facing fluid milk, Amazon has a new private label milk brand and announced last week they are entering retail grocery, which pushed stock prices of other grocery chains lower. The question is whether Dean Foods can create a strategy that both stabilizes their business and allows it to grow in the future. Their recent 8K and 10K SEC filings make for somber reading and highlight the challenges they have in front of them.



What does this say about the US dairy industry and its future? Everyone seems to be losing money – farms, processors, traders, brands, etc. There is a crisis in the US dairy industry, yet no one seems to be talking much about it. Why are dairy companies in other countries making money and US companies are not? Would dairy farmers say Federal Orders are helping them? Does the US have the right policies in place to attract investment and reward risk? Can the US compete in the world market? And how will dairy companies respond to non-dairy entrants into their market like Perfect Day? Over the next few months, I plan on exploring these issues in more depth and offer thoughts on how the industry can move forward. I believe it is imperative to the future of the US dairy industry to develop a long-term strategy to ensure the viability of every sector of the dairy supply chain.