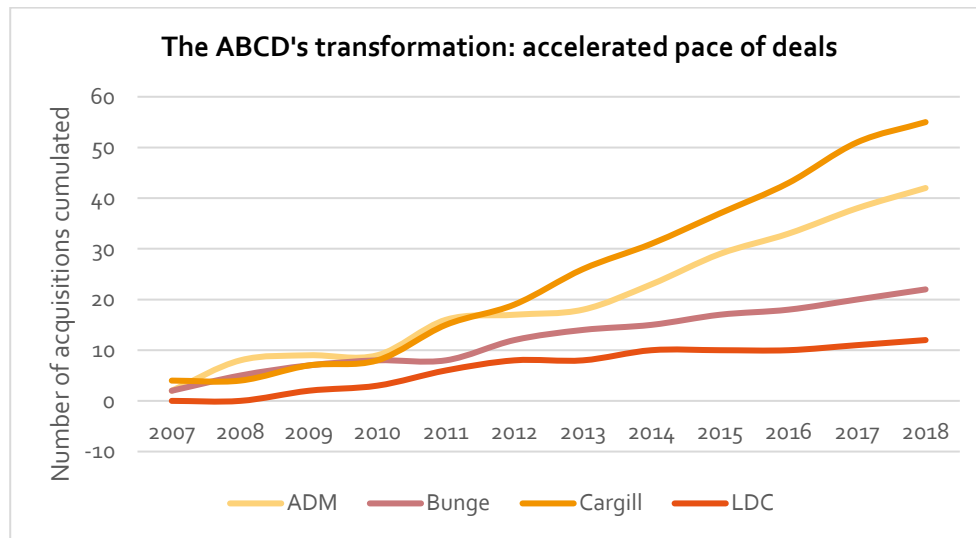




# Unigrains – In Brief

## The ABCDs' transformation: how far will downstream integration go?



Source: Unigrains based on Pitchbook

### ➤ Looking for lost margins: downstream integration

Since the early 2010s, the main international traders in agricultural commodities, Archer Daniel Midland (ADM), Bunge, Cargill and Louis Dreyfus Company (LDC), otherwise known as the ABCDs, have seen their profits fall (cf. In Brief: "International agricultural trading: a model in question"). Their position as intermediaries in the agri-food sector is undermined by a combination of several factors.

While they remain essential links in the value chain, given their international footprint and their ability to manage risks, the ABCDs have had to embark on a phase of deep reinvention to restore margins. This transformation translates into ever-increasing downstream integration. It reflects the ABCDs' attempt to secure outlets for their commodities, position themselves in value-added segments that generate higher margins, and strengthen their pricing power through differentiated products in order to reduce profit volatility.

### ➤ Strategic options

The ABCDs' investments directly reflect their strategic choices in terms of vertical integration. Over the past few years their average acquisition pace sharply accelerated.

- ADM started building up its Nutrition division in 2014 with the acquisition of Brazil's Wild Flavor (natural ingredients). In 2018, ADM's Nutrition division accounted for 10% of group operating income, while the contribution of its Origination (upstream) business decreased by half.
- Bunge opted for building a leading position in edible oils and speciality fats. The company aims to become indispensable, through a comprehensive range of products and applications able to meet any clients' needs.
- Cargill is increasing the added value of its product portfolio by developing its activities in animal nutrition and, further downstream, in both animal and vegetal proteins. The group is also stepping up investments in speciality ingredients. The ongoing acquisition of Smet, a Belgian company specialising in chocolate decorations, will allow Cargill to extend its existing range to the gourmet segment and reach a new clientele, notably including craft chocolate makers and bakers.

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- LDC's integration is less advanced. However, its recent investments in China (acquisition of an oilseed processing facility, creation of an aquatic feed joint venture) show a similar intention to strengthen downstream, in particular in a region offering a strong long-term growth potential.

➤ **Integration ... to what extent? The dividing lines with FMCG manufacturers are dwindling**

In theory downstream integration by traders is limited by the need not to compete with their own clients. In reality, the specific features differentiating the ABCDs from major agri-food groups are disappearing.

The ABCDs indeed maximise the effectiveness of downstream integration by investing in activities close to B2C, or even in B2C. Such moves enable them to improve their agility to adapt to fast-moving consumer habits. In this regard Cargill was cited as one of the potential buyers of Herta, France's leading charcuterie brand that was recently put up for sale by Nestlé. The ABCDs also closely monitor breakthrough innovations in the agri-food sector by investing in start-ups, often along with their own clients. As an example, Bunge and Kellogg's both took part in MycoTechnology's latest funding round while ADM invested in Sustainable Bioproducts with Danone.

Main investments made since January 2018:

Buyer	Target	Type of deal	Country	Activity
ADM	Erich Ziegler	Acquisition	Germany	Natural citrus flavours
	Gleadell Agriculture	Acquisition	United Kingdom	Trading
	Florida Chemicals Company	Acquisition	United States	Citrus flavours
	Neovia	Acquisition	France	Animal food
	Algar Agro	Acquisition	Brazil	Oilseed processing
	Rodelle	Acquisition	United States	Vanilla-based ingredients
	Probiotics International	Acquisition	United Kingdom	Probiotic supplements
	JSC Aston	Joint Venture	Russia	Starch and sweeteners
	Soyven	Joint Venture	Egypt	Soy processing
	Grainbridge	Joint Venture	United States	Agri-management software services
	Geltor	Venture Capital	United States	Animal-free gelatine
	Sustainable Bioproducts	Venture Capital	United States	Alternative proteins
Bunge	IOI Loders Croklaan	Acquisition	Malaysia/Netherlands	Specialty fats
	Minsa Corp.	Acquisition	United States	Corn processing
	MycoTechnology	Venture Capital	United States	Alternative proteins
	NanoGuard Technologies	Venture Capital	United States	Food security
Cargill	SafeTraces	Venture Capital	United States	Food security
	Campollo	Acquisition	Colombia	Poultry
	Konspol Group	Acquisition	Poland	Poultry
	Agriness	Acquisition	Brazil	Digital livestock solutions
	Ekol Gida	Acquisition	Turkey	Animal feed
	Glucovil Argentina	Acquisition	Argentina	Starch and derivatives
	Puris Proteins	Acquisition	United States	Plant-based foods and ingredients
	Pro-Pet	Acquisition	United States	Animal feed
	Avara Foods	Joint Venture	United Kingdom	Poultry
	Avansya	Joint Venture	United States/Netherlands	Calorie-free sweeteners
	Grainbridge	Joint Venture	United States	Cereals marketplace
	Cainthus Ireland	Minority investment	Ireland	Animal health
	Paradigm Diagnostics	Venture Capital	United States	Food security
Aleph Farms	Venture Capital	Israel	Cultured meat	
LDC	Sinarmas Natural Resources	Acquisition	China	Oilseed processing
	Tianjin Rongchuan Feed Co.	Joint Venture	China	Aquatic feed
	Motif Ingredients	Venture Capital	United States	Alternative proteins

Source: Unigrains based on Bloomberg, MergerMarket and Pitchbook

This In Brief is based on a June 2019 study entitled: "International grain trading: what's next for the ABCDs?", available in restricted access on the [www.unigrains.fr](http://www.unigrains.fr) website.