

Companies

Sequoia quits Feihe funding partnership

By Ben Yue (China Daily)

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BEIJING - Feihe International Inc, the first Chinese dairy company to list overseas, is facing a withdrawal by its venture capital partner, which may provoke huge cash-flow pressures.

According to a news release on the New York Stock Exchange, the milk powder manufacturer will end its cooperation with Sequoia Capital China, which began in August 2009 when the venture capital company bought a 10.5 percent stake.

Feihe will refund Sequoia's total investment of \$63 million, plus about \$2 million in interest, with four separate payments over the course of the next year.

Feihe's head of investor relations said the move was proposed by Sequoia. Feihe might be forced to sell its inventories and raise funds from local banks in Heilongjiang province to make the repayments, according to reports in the Shanghai-based First Financial Daily.

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Sequoia currently owns a 13 percent stake in Feihe. Apart from the original 2009 purchase, it bought an additional stake of 2.5 per cent in a directional add-issuance in 2010, after Feihe's performance fell below its partner's expectations.

Feihe was unable to comply with a condition of the original contract that its average share price should be more than \$39 by the third year after the investment. The company's actual

share price in January peaked at \$10.50.

According to the original agreement, if Feihe was unable to make a net profit of \$60 million in 2009 or \$86 million in 2010, Sequoia had the right to order a repayment at a rate of 130 percent of the original investment. However, Sequoia has decided to simply recoup its original investment, and will therefore lose around \$20 million.

Based on Feihe's financial statement for the first three quarters of 2010 and the projected earnings for the fourth quarter, the company is on the verge of making a loss.

"In the long term, the milk powder industry has a very bright future in China since the big overseas brands don't know Chinese dietary customs very well," said Wu Zhengwu, a food and beverage analyst from

Aijian Securities. He added that Feihe could have a profitable future as one of the leading companies in the industry.

Wu said he believes the venture capital company's decision to pull out was prompted by purely financial considerations, and not by negative expectations about the future of the industry.

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