



market monitor

Focus on food performance and outlook

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On the following pages we indicate the general outlook for each sector featured using these symbols:



Excellent



Good



Fair



Poor



Bleak

Mounting pressures

In general, the food sector continues to perform reasonably well, with a stable or even good credit risk situation in many countries. It helps that, compared to other industries, food is rather resilient to business cycle downturns.

That said, as in 2016 many food producing and processing businesses remain under pressure in 2017, their profit margins being affected by a fiercely competitive environment, in which the bargaining power of major retailers and discounters is very strong. In some major European markets like France, Germany and the United Kingdom pressure has increased primarily for the meat production/processing sector as procurement prices have increased, leading to higher credit risk for businesses in this segment.

Overall, individual segments in the food sector remain susceptible to sudden downside risks, such as commodity price volatility and health issues. Increasing trade barriers could also become an issue, as in many markets exports clearly play an essential role in the profitability of the food sector, sometimes compensating for less positive results in the home market.

Brazil

- The economic recovery helps the food industry
- Decreasing payment delays and insolvencies
- The meat subsector and some retailers still face difficulties



Overview					
Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months		✓			
Development of non-payments over the coming 6 months		✓			
Trend in insolvencies over the last 6 months				✓	
Development of insolvencies over the coming 6 months		✓			
Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector		✓			
Willingness of banks to provide credit to this sector		✓			
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months		✓			
General demand situation (sales)		✓			

The 2018 outlook for the Brazilian food sector is benign, due to an ongoing economic rebound and robust demand from China as Brazil's largest food export market. A very good harvest in 2017 has reduced prices of several food products (especially bread, rice, and cereals), leading to higher consumption. Domestically the return to economic growth and decreasing inflation has increased consumer purchasing power.

The meat segment is recovering from a difficult 2016, when prices for animal feed increased due to a severe drought. Additionally the meat processing industry was hit by a major meat scandal that seriously affected exports.

Dairy products consumption will continue to grow, driven by rising disposable incomes, population growth and the increased perception of dairy products as being healthy and nutritious. The sector is still very fragmented, however due to the trend towards premium products in the food industry it is rapidly consolidating,

with all leading dairy businesses keen to increase their market share.

Exports of fruits, vegetables, cereals and soy beans increased further in 2017 due to higher than previously expected demand from China. In 2018 the outlook for further export growth looks promising.

Food retailers have been generally resilient during the recent economic downturn. However the continued high unemployment rate and ongoing economic difficulties in some regions could impact some local players.

The profit margins of Brazilian food businesses have increased in 2017, and further growth is expected in 2018. On average food companies are more highly geared than businesses in other Brazilian industries, mainly due to major business expansions before the 2014 economic downturn. As a consequence of the on-

Brazil: Food and beverages sector

	2016	2017f	2018f
GDP growth (%)	-3.6	0.8	2.4
Sector value added growth (%)	0.8	0.7	5.4
Sector share in the national economy (%)	2.4		
Average sector growth over the past 3 years (%)	4.4		
Average sector growth over the past 5 years (%)	3.6		
Degree of export orientation	high		
Degree of competition	high		

Sources: Macrobond, Oxford Economics

going economic rebound banks have again become more willing to provide loans to food businesses, although still gradual and pursuing a prudent approach.

Within the food sector payment terms differ, depending on the subsector and a company's position in the value chain. While in the past farmers were generally paid up front, in some cases payment terms have been extended to 30 days. Payment terms in the meatpackers segment range from 60 to 90 days. In the dairy industry payment terms differ, depending on the position in the value chain (producer or retailer). We observe a maximum payment term of 90 days on average in the food industry.

After increasing in 2015 and 2016, payment delays in the sector have started to decrease in 2017 due to the improved economic outlook, and further decline is expected in 2018, coupled with less insolvencies. Therefore our underwriting stance for the food sector is generally open. However, we are still more cautious with regional food retailers active in certain federal states that still face economic difficulties. The same applies for the meat segment due to the repercussions of the recent meat scandal and the effects of high cereal prices of 2016.

Brazilian food sector



Strengths

Domestic market provides growth potential for quality food products

Major player in the global food industry



Weaknesses

Highly dependent on exports, especially to China

Still shaky domestic rebound

High dependency on harvest outcomes and commodity prices

France

- High commodity prices have caused headwinds
- Increasing competitive pressure from EU peers
- Rising payment delays and insolvencies expected in 2018



Overview					
Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months				✓	
Trend in insolvencies over the last 6 months				✓	
Development of insolvencies over the coming 6 months				✓	
Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✓		
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector		✓			
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)			✓		

The food industry is a key sector of the French economy, which, according to the National Association of Food Industries (ANIA), generated revenues of EUR 172 billion in 2016, up 1.1% year-on-year. The industry is generally resilient, supported by slow but steady consumption growth every year. French food sector value added growth is expected to increase 0.7% in 2017, followed by 1.9% in 2018.

France ranks amongst the five largest food exporters worldwide, and its food trade balance generated a EUR 7.2 billion surplus in 2016, yet down from 8.1 billion in 2015 due to a very poor wheat crop harvest and decreased prices of dairy products. The annual surpluses are mostly attributable to wine and spirits exports, while France remains the second-largest producer of wines worldwide behind Italy.

According to ANIA, French food companies generate 75% of their revenues domestically. However, food producers and processors

continue to face structural challenges in the French market that severely impact their margins, namely the fierce price competition in the French retail segment and contractual price-adjustment mechanisms. The ongoing concentration process of retail chains has further weakened the bargaining power of food producers and processors. At the same time French food businesses are burdened by high labour costs and taxation compared to many of their European peers. Therefore French food producers and processors are highly exposed to commodity price fluctuations and competition from abroad.

In 2016 and 2017 French food processors faced strong cyclical headwinds caused by commodity price volatility. Pork prices grew 22% in 2016, triggered by increased demand from China, while salmon prices surged 60% as Norway faced production issues, and butter prices sky-rocketed by more than 150% since November 2016, due to production shortage and greater demand from China and USA. Since summer 2017 egg prices

France: Food and beverages sector

	2016	2017f	2018f
GDP growth (%)	1.1	1.7	1.7
Sector value added growth (%)	-1.3	0.7	1.9
Sector share in the national economy (%)	1.2		
Average sector growth over the past 3 years (%)	0.7		
Average sector growth over the past 5 years (%)	0.7		
Degree of export orientation	high		
Degree of competition	high		

Sources: Macrobond, Oxford Economics

have significantly increased following the fipronil contamination scandal, putting even more pressure on the margins of biscuit manufacturers.

Those price increases have resulted in a tense situation for many food manufacturers, stuck between farmers demanding higher prices while retail chains strictly refuse to increase purchase prices. Moreover, French food companies are preoccupied by Brexit and the Canada-EU Trade Agreement (CETA), which might impact the competitive environment.

Despite those issues food manufacturers proved once again to be resilient last year, as food insolvencies decreased about 8% in 2016, while the agriculture sector recorded a 4% increase. Payments in the French food sector take 45-50 days on average.

Despite a 1.9% growth forecast for 2018, market and trading conditions will remain challenging due to the on-going volatility of commodity prices and loss of market shares to European peers. Price increases will be difficult to pass on to retailers, sometimes leading to product withdrawal or contract termination. While pork prices are slowly decreasing, prices for butter and eggs are expected to remain high for the time being. Wine production volumes are expected to decrease, but the good quality of grapes should compensate this decline by higher sales value. The on-going difficulties coupled with an increasing deterioration of the financial situation could lead to an increase in non-payments and insolvencies of food manufacturers in the coming months, especially in the segment of meat processors.

Compared to last year our underwriting stance towards this sector has become more restrictive in the course of 2017, as many food businesses published poor 2016 financial results and were subject to commodity price volatility or the knock-on effect related to a large bankruptcy in the meat sector. Therefore, we have downgraded our sector performance forecast from “Good” to “Fair”

We have increased our scrutiny on the most sensitive cases, taken more restrictive decisions and overall reduced our appetite for “grey zone” businesses compared to last year. Portfolios screening and actions were also taken to identify potential sensitive cases.

Additionally fraud remains an issue in the French food sector, especially in the wholesale of meat segment. We pay close attention to this problem, e.g. by scrutinising the number of credit limits that are applied for within a short period and identifying area codes where frauds are more frequent (Paris suburbs, South east of France).

French food sector



Strengths

The world's fifth largest food exporter

High reputation for quality food products

Resilience throughout the economic crisis / non-cyclical industry



Weaknesses

Some food subsectors are too fragmented

Shrinking margins and insufficient investment

High labour costs and strict French hygiene rules affect international competitiveness

The Netherlands

- Robust domestic demand and a good export performance
- Payments take 40 days on average
- Brexit could become an issue for export businesses



Overview					
Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months			✓		
Development of non-payments over the coming 6 months			✓		
Trend in insolvencies over the last 6 months			✓		
Development of insolvencies over the coming 6 months			✓		
Financing conditions	very high	high	average	low	very low
Dependence on bank finance			✓		
Overall indebtedness of the sector				✓	
Willingness of banks to provide credit to this sector		✓			
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months		✓			
General demand situation (sales)		✓			

In 2016 food consumption in the Netherlands amounted to EUR 57.1 billion, contributing almost 10% to the Dutch Gross National Product. Almost one in six Dutch industrial employees work in the food industry. Value added growth of the Dutch food and beverages sector increased 3.9% last year, and is expected to rise further in 2017 and 2018, by 0.5% and 1.1% respectively. Robust private consumption and an envisaged tax law change in 2018 should help to support growth in food retail sales.

Due to changing consumer habits the sustainable food segment has become one of the most important growth segments in food retail and food service. In 2016 turnover of sustainable food totalled EUR 3.8 billion, up 26% year-on-year, with its market share increasing from 8% to 10%.

Sales of Dutch supermarkets amounted to EUR 34.5 billion in 2016, increasing 2.5% year-on-year, mainly due to further growth in the private label products segment. Supermarkets sales vol-

umes are expected to increase 1.5% in 2017. Traditional grocery stores (butchers, bakeries etc.) increasingly experience the strong competition from supermarket chains which have further improved their assortment. Therefore traditional stores have to become specialty shops, pastry and high-end caterers.

At the same time pressure on traditional supermarket chains is also mounting due to increasing competition from discounters, out of home, city and convenience stores (at high traffic locations), non-food outlets, and online food sales. With the growth of delivery platforms, delivery services and pick-up points, online food retailing is gaining momentum. While the market share of online food retail is still small (2.2% in 2016), many indicators are showing that it will increase sharply in the coming years, up to 9% in 2025.

In 2017 and 2018 restaurant and catering turnover is expected to increase by more than 4.5% annually. The future for the Dutch

The Netherlands: Food and beverages sector

	2016	2017f	2018f
GDP growth (%)	2.2	3.2	2.2
Sector value added growth (%)	3.9	0.5	1.1
Sector share in the national economy (%)	1.3		
Average sector growth over the past 3 years (%)	4.4		
Average sector growth over the past 5 years (%)	3.4		
Degree of export orientation	high		
Degree of competition	high		

Sources: Macrobond, Oxford Economics

food service industry looks bright, with annual growth rates expected to increase from 2% to almost 3% in 2020. Driven by millennials the Dutch eating culture is changing, as eating at home is shifting towards eating while traveling, working or eating out with friends. Food choices and eating moments are becoming more tailor-made and individual, which will have a positive effect on consumer spending in food service outlets. Data driven technology platforms can put distributors in the prime position for fundamentally changing the way consumers shop for food. Single food delivery start-up Takeaway.com NV went public with a EUR 1 billion valuation in September 2016.

The Netherlands is one of the world’s largest exporters of agricultural-food products, second only to the US. The meat processing and the dairy industries, with sales shares of 16% and 19% in Dutch food exports respectively, are the most important sectors within the food export industry. 12 out of the 40 largest food and beverage companies in the world have major production sites or R&D facilities in the Netherlands.

Dairy production and export value increased 3% in 2016, with the share of exports to Asia meanwhile amounting to 20%. It is expected that milk powder and butter prices will increase further in 2017 and 2018 due to higher demand from Chinese customers. While meat consumption stagnates in Europe as the main export destination, exports to Asia sharply increased by more than 40% in 2016, and further increases are expected in the coming years.

Due to the robust domestic demand and good export performance, profit margins of many food businesses have increased in 2017. Banks are generally willing to provide loans, while the indebtedness of small and mid-sized Dutch food companies (excluding smaller businesses with less than 10 employees) is very low compared to their peers in other EU countries.

The average payment duration in the sector is 40 days, and the amount of payment delays, protracted payments and insolvencies remains low compared to other Dutch industries, with no major changes expected in 2018. Out of the 1,573 Dutch businesses (excluding sole proprietorships) that went into insolvency between April and September 2017 only 82 were food-related companies.

Therefore, our underwriting stance remains open for the food industry. However, the strong export orientation makes many Dutch food businesses susceptible to geopolitical risks, export restrictions and price/currency fluctuations. The Russian import ban has hurt the fruit and vegetable trading sector in particular, while Brexit threatens to disrupt food trade with one of the Netherlands’s most important export partners. Food exports to the United Kingdom already decreased 2% in 2016, mainly due to the pound sterling depreciation since the Brexit decision.

Dutch food sector



Strengths

Modern logistics and infrastructure

Highly efficient in producing and trading



Weaknesses

Price competition with foreign food businesses

Fierce competition in the retail segment

United Kingdom

- High pressure on margins due to increased import costs
- Payments take between 45 and 60 days on average
- Increasing payment delays and insolvencies expected



Overview					
Credit risk assessment	significantly improving	improving	stable	deteriorating	significantly deteriorating
Trend in non-payments over the last 6 months				✓	
Development of non-payments over the coming 6 months				✓	
Trend in insolvencies over the last 6 months				✓	
Development of insolvencies over the coming 6 months				✓	
Financing conditions	very high	high	average	low	very low
Dependence on bank finance		✓			
Overall indebtedness of the sector			✓		
Willingness of banks to provide credit to this sector		✓			
Business conditions	significantly improving	improving	stable	deteriorating	significantly deteriorating
Profit margins: general trend over the last 12 months				✓	
General demand situation (sales)			✓		

While food demand and turnover in the United Kingdom remained robust in 2017, challenges for the industry have mounted due to its heavy reliance on imports (in 2016, 48% of food consumed in the United Kingdom was imported). The pound sterling devaluation since the June 2016 Brexit decision (about 15% against the euro) has increased the costs of commodities and food items for many British food producers and processors reliant on imports, raising their input costs and negatively affecting their margins.

Given the market power of major retailers and the ongoing price wars in the food retail segment, food businesses along the supply chain have faced major difficulties in passing on those price increases. Leverage against retailers is limited by the fact that the food producer segment is dominated by small and medium-sized players in a highly fragmented market.

While the initial effects of raw material price increases was partly cushioned by forward contracts and hedging mechanisms, food

price inflation has increased in the course of 2017, and this trend expected to continue in 2018 as major retailers will try to pass on the increased costs to consumers.

Higher import prices have increased the pressure in an already highly competitive market, in which food producers and processors are driven to accept low or diminishing margins in order to retain relationships with their customers. In some cases this is destabilising businesses which accept contracts on poorer terms. We have already seen several instances of price erosion due to competitive tenders with contracts being secured in order to maintain volumes just to cover overhead, which is not sustainable in the long-term.

At the same time, export-driven food businesses benefit from the pound sterling depreciation - especially in the beverage segment, which is the only subsector that shows a positive trade balance (mainly due to whisky exports).

United Kingdom: Food and beverages sector

	2016	2017f	2018f
GDP growth (%)	1.8	1.6	1.4
Sector value added growth (%)	-1.3	0.7	1.9
Sector share in the national economy (%)	1.3		
Average sector growth over the past 3 years (%)	4.4		
Average sector growth over the past 5 years (%)	3.4		
Degree of export orientation	average		
Degree of competition	very high		

Sources: Macrobond, Oxford Economics

Margin pressure and the weakness of the pound sterling have triggered a high level of M&A activity in 2017. Despite increased uncertainties after the Brexit decision British assets have remained attractive to foreign investors, and this is expected to continue in 2018. However, at the same time we observed that food businesses remain reluctant to invest, waiting for more clarity on the outcome of Brexit negotiations.

Payments in the British food sector take between 45 and 60 days on average, and payment experience has been generally good over the past two years. However, due to inability to absorb higher input costs and increased pressure on margins, both payment delays and insolvencies have increased this year. We expect this increase to continue in the first half of 2018, with food business failures rising up to 5%, as the uncertainty around Brexit and its implications for cross border trade linger on (mainly concerning Ireland as the main trading partner on food). Some larger players continue to push the supply chain on price and longer payment terms, adding cash flow challenges to mainly smaller food businesses. It is expected that in a hard Brexit scenario the effect of the subsequent application of WTO tariffs on a low margin food sector would be profound.

That said, the British food sector has a proven history of navigating periods of lower profitability through stringent cost control measures, and there is still the chance that much needed price increases will be secured, leading to a potential improvement in profitability across the sector. The outcome of pricing negotiations, mainly between retailers and food producers, will largely determine the future non-payment and insolvency development

in the sector. We expect retailers to increasingly pass on costs to consumers in 2018 in order to alleviate their own margin pressures. Despite the current troubles, access to external financing (e.g. bank loans) is still not restricted for food businesses, and asset backed lending facilities are extensively used in the sector.

For the time being, our underwriting stance remains generally open to neutral. Due to our extensive contacts across the industry an acceptable risk acceptance is anticipated, as we remain very close to the developments in the industry and vigilant to changing dynamics and challenges throughout the food supply chain.

Our underwriting stance remains generally open for food retail, which mainly consists of strong players. The same accounts for the dairy sector which, despite some ongoing challenges, has shown an improved performance in 2017.

That said, we are more cautious with the meat and the fruit/vegetables segments, as both subsectors are highly dependent on imports, therefore experiencing elevated levels of input cost inflation and profit margin erosion. This is expected to continue as long as the exchange rate remains weak.

Both short firm fraud and impersonation fraud are ongoing issues in the British food industry, mainly in the meat and fruit/vegetables subsectors. We have observed a marked increase in impersonation fraud cases in 2017, with overseas suppliers in particular being targeted.

British food sector



Strengths

Proven resilience in the past

Good access to external financing sources



Weaknesses

Brexit decision has a major impact

Shrinking margins and insufficient investment

Market performance snapshots

Germany

- **The domestic market situation remains difficult**
- **Increased credit risk in the meat subsector**
- **Fraud cases remain an issue**



According to the German Food Association BVE, nominal turnover increased 5.7% year-on-year in H1 of 2017, to EUR 87.2 billion, mainly due to higher market prices in Germany and the main export markets as well as increasing sales abroad.

Domestic market conditions have become increasingly difficult for food producers and processors during the last couple of years, due to rising input costs, including labour costs, and shrinking margins. The German food retail market is the most competitive in Europe, with structurally low market prices due to the overwhelming power of the leading food retailers and discounters. This, together with tough competition and price wars in the food retail sector indicate that food producers, processors and suppliers have found it difficult to pass on costs.

While the situation in the dairy segment has stabilised since the end of 2016 due to higher sales prices and less milk production, overcapacities remain an issue in the beverage subsector. Many meat processors and producers currently suffer from higher procurement prices, especially for pork, while their ability to pass those increases on to retailers is limited due to long-term contracts. The introduction of a minimum wage has also contributed to pressure on margins and liquidity, while the market situation is characterised by a surplus supply of standardised meat products.

Food producers and wholesalers pay, on average, within 30 days, while payment terms of food retailers often vary from 45 to 90 or more days. With food processing companies and retailers demanding longer payment terms from their immediate suppliers to improve their working capital, a wave of longer payment terms is being created along the whole supply chain. The already low profit margins are further decreasing for many businesses, and the risk of rising payment delays and insolvencies has increased, especially in the troubled meat segment. Most at risk are (smaller) businesses that lack export opportunities or do not offer specialised products, and those companies with already poor financial strength.

Our underwriting stance remains overall neutral for the food sector, with a more restrictive stance for meat production, meat processing and beverages, as we expect the difficult business environment in those subsectors to continue in 2018.

The German food sector remains affected by considerable fraud cases which are still rising and getting increasingly tricky and professional. Especially in the fish, fruits and vegetables segments criminal buyers order goods which are easy to resell on credit terms. Therefore we pay close attention to the number of credit limits that are applied for within a short period, especially where the buyers are recently established and where management and/or shareholders have recently changed or the buyer's business sector does not match with the goods ordered (e.g. a steel company ordering food items).

Italy

- **Growth above 2% expected in 2017 and 2018**
- **Fragmentation and small business size remain an issue**
- **The meat segment remains under pressure**



The food sector is one of the most important Italian industries, employing around 385,000 people and generating a total turnover of more than EUR 135 billion in 2016, with both domestic and export sales being robust. There has been a modest increase in turnover since the fourth quarter of 2016 after years of rather stagnant domestic consumption. Many Italian food businesses (especially in the pasta and bakery segments) benefit from the strong international reputation of the “Made in Italy” trademark.

The Italian food and beverages sector value added growth is expected to increase 2.2% in 2017 and 2.4% in 2018, mainly driven by exports, while domestic demand is expected to remain stable. Profit margins are also expected to remain stable, although on a generally low level. Food producers and processors are often highly geared in order to maintain working capital requirements. However, due to its anticyclical business performance lending to the food industry remains appealing to banks and other financial institutions, enabling them to diversify asset investments.

Italian food sector production, processing and retail remain heavily fragmented, with a very competitive business environment. Even the biggest Italian food retail businesses are small compared to other major international players. The average size of food producers is typically small, which often hampers international expansion. At the same time e-commerce is increasingly challenging traditional brick-and-mortar food retailers. In order to consolidate their market position a concentration process among Italian food retailers is ongoing.

Since 2012 a new law (‘Article 62’) lays down a maximum payment term in the food sector of 30 days for perishable goods and 60 days for non-perishable goods. We observe that most businesses are abiding by those terms, while any requests for protracted payments are usually linked to liquidity problems of buyers. Food insolvencies have decreased in 2017, and we expect another decline of up to 10% in the coming six months.

Our underwriting stance for Italian food businesses remains generally open. However, we are more restrictive in the meat production and processing segment, as turnover in this subsector has been declining for several years due to changed consumption habits, while the financial situation of many buyers is rather poor.

We observe a high degree of suspected frauds in the food sector, mainly in the meat, fish and general wholesale segment. Therefore we take a closer look at the frequency of credit limit applications and the reliability of businesses management. Financial figures of individual businesses not aligned to average sector/subsector levels serve as a warning sign.

Market performance at a glance

Hungary



- The food and beverage industry is one of the most important sectors of the Hungarian economy. It is the second-largest employer and the third-biggest producer in the manufacturing sector. Food export revenues are a significant contributor to Hungary's overall trade surplus. Among the 500 highest-revenue businesses, every 10th is either a food manufacturer, wholesaler or retailer.
- The sector's value added growth is expected to increase 2.5% in 2017 and 3.1% in 2018. Turnover is expected to increase about 3-4% annually over the next five years, on the back of increasing real wages and substantial VAT cuts for food products since 2016. However, increased excise duties and an extra tax on alcoholic drinks are having a negative effect on demand growth in the beverage segment.
- The food retail sector is increasingly competitive as discounters gain higher market share and market consolidation is expected to continue. A key challenge for retailers – small and large chains alike – is the very high wage pressure, which is diminishing profit margins.
- The average payment duration in the Hungarian food industry is 30-60 days. The number of protracted payments, non-payments and insolvency cases has remained stable over the last six months, and no increase is expected in the coming months. Our underwriting stance remains generally open, as food turnover is expected to increase further and business profitability remains adequate.
- Fraudulent events (mainly VAT-evasion with sugar or oil products) have been a major concern. However, the government has implemented measures to combat fraud opportunities, such as an Electronic Public Road Trade Control System or the mandatory linking of cash registers in stores and bars to the Tax Authority. Those measures have shown strong results so far, while the comprehensive VAT reduction on many food items since 2016 has significantly diminished the risk-reward ratio of fraudulent operations.

Ireland



- The agri-food and beverages sector accounts for 7.6% of Ireland's economy, 10.7% of its exports and 8.4% of total employment. Ireland continues to be the largest net exporter of dairy ingredients, beef and lamb in the EU. Food exports increased 2% in 2016.
- Despite a decrease compared to 2015 (41% share), with a 37% share the United Kingdom was still the largest destination for Irish exports in 2016, while other EU countries accounted for 32%, up 3% year-on-year.
- Irish food exporters to the UK have suffered shrinking margins due to the pound sterling depreciation in the wake of the June 2016 Brexit decision. It is estimated that the weak British currency reduced the value of Irish food exports by about EUR 570 million in 2016 alone. The deterioration of businesses margins is expected to continue in 2018.
- A hard Brexit remains a major threat to the sector, despite ongoing efforts of food exporters to diversify shipments away from Britain. Any future imposition of tariffs by the British government on food imports from the EU after leaving could be devastating for the Irish food sector (e.g. exports of cheddar cheese to the UK, valued at over EUR 300 million, would face a 55% tariff).
- In order to counteract the threat of tariffs in the event of a hard Brexit, Irish companies have been buying companies in the United Kingdom. This should give them continued access to the British market after 2019.
- Payment behaviour in the sector has been very good over the past 12 months, and the number of protracted payments, non-payments and insolvency cases is still very low. Therefore, our sector performance assessment still remains "good" for the time being. However, as the Irish food sector will remain exposed to currency volatility and growing risks in relation to the decision of the United Kingdom to leave the EU, we expect both payment delays and insolvencies to increase in 2018.

Portugal



- The Portuguese food and beverages sector value added growth is expected to increase 2.5% in 2017 and 1.4% in 2018. Producer price deflation in 2014 and 2015 had a negative impact on business margins, and profitability of food businesses declined due to strong competition and price wars in the food retail segment. However, both consumer and producer food prices increased again in 2016 and H1 of 2017, which had a positive effect on profit margins.
- We expect that the profit margin increase will bottom out in the coming months due to a slowdown in inflation and increasing competition, especially in the food retail segment. At the same time local food businesses face strong competition from international food producers in the Portuguese market.
- The average payment duration in the Portuguese food industry is 60 days. Non-payment notifications and the number of food business insolvencies remained low in 2017, and we expect no increase in 2018 due to the increased resilience of the Portuguese economy. Since 2016 access to bank credit has improved for food businesses, in line with the economic rebound.
- Our underwriting stance for the food sector remains mainly open. However, we are more cautious when underwriting the dairy segment, as businesses in this subsector face more difficulties due to the end of the EU milk quota and lower prices. Additionally, special attention is given to highly geared companies, assessing the evolution of their debt burden and the final use of any significant debt increase. We also pay special attention to the existence of unused committed credit lines and the maturity profile of long-term debt.

Spain



- The agri-food sector is one of Spain's most important industries, accounting for about 9% of the national economy and 2.4 million employees. Food accounts for more than 15% of total Spanish exports. After achieving record numbers in production, employment and exports in 2016, the Spanish food and beverage industry is expected to grow 1.3% in 2017 and 2.2% in 2018. While the industry is still fragmented with many very small players, industry consolidation is ongoing.
- Profitability of food businesses mainly depends on several external factors, such as weather conditions, commodity and energy prices, change in import regulations (foreign customers) and competition with businesses from countries with lower labour costs. Profit margins are expected to remain stable in the short-term future.
- There are many food companies with high short term-gearing. The external financing requirement of food businesses is high, and access to credit (both working capital and long-term facilities) has further improved in recent years, in line with the rebound of the Spanish economy.
- The average payment duration in the Spanish food industry is 60 days. Non-payment notifications remained low in 2017, and we expect no increase in 2018. Additionally, no insolvency increase is expected next year.
- Due to the food sector's resilience and stable payment behaviour we remain supportive in our underwriting stance. However, we are more cautious when underwriting the dairy segment (end of EU milk quota and lower prices) and the meat subsector (due to a significant price decrease after the summer of 2017, combined with higher working capital requirements). Special attention is given to highly geared companies, with close monitoring of the evolution of debt and credit lines utilisation rates

