European meat industry developments in a global context

Reggio Emilia Pigmeat Conference: April 27th 2012

Based on extracts from the Gira European Meat Company Panorama 2010/11-2015

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1. Global meat sector dynamics

2. pan-EU meat sector dynamics

3. Italian meat sector characteristics

4. Appendix:
   - Gira European Meat Company Panorama,
   - Other country PK overview
   - BF and PY EU industry overview
1. Global perspective
Long term Global meat consumption growth dominated by poultry, driven by its relative price.

Global Meat Consumption growth by Species 2010-20f

Source: Gira Long-Term Meat study
Global meat consumption growth is quite broadly based, but led by China. 

Global growth is largely outside EU … (which has got off to a bad start against this forecast)
Significant rise in real prices across all meats … boosted by emerging market price increases … which surpass EU prices

All meat producer/wholesaler price indices, 2000-2012(f) (2000 L.C.)
Including China

Based on 2000 producer prices

Weighted (consumption) averages

Source: GIRA GMC 2011
Rising pig producer prices … especially in emerging markets … but with short-term exporter convergence.

Figure SYN-PK 9b  Pig Producer Prices, 2000-2012 (2010 USD/t cwe)
Pigmeat Exporters: US & EU growth. BR still lacking further market access ... and facing RU bans

Figure SYN-PK 7: Pork Exporters 2009-2012 (incl. live, '000 t cwe)
Buoyant export markets have rescued the US pigmeat chain.

The chart shows the US Pork Balance from 2000 to 2012. The data includes production, imports, exports, and consumption. The export markets have seen a significant increase, which has helped rescue the pigmeat chain in the US.
2. pan-EU meat sector perspective
   - total meat sector
   - pigmeat sector
Slight decrease of EU meat consumption in 2011-12 … but slight recovery subsequently … although caution is the byword

- EU meat consumption fell in 2009, and again in 2011-12, reflecting:
  - Poor EU economic situation
  - Tight meat supplies (due to reduced production and imports)
  - Higher prices

- Total consumption situation is actually “not too bad”: but underlying dynamics are tough on the meat processors:
  - Significant consumer trading down through various different mechanisms
  - Retailer ‘price wars’ which have more resonance than in past

- Net effect is more margin pressure on processors
... but (supply driven) price increases indicating surprisingly good EU demand performance in these tough economic times

- **Rising EU meat producer prices** (in real terms) since 2001/02
- **Exceptional 2011 price rises**: reflecting supply tightness (both domestically and from import/export balance)
- **Margin squeeze on processors** due to difficulty in passing through producer price rises to customers

**EU Meat Expenditure Index (base 2000), 2000-2012(f)**

- **Rising EU meat expenditure trend** (in real terms) with dramatic rises in 2007/08 and again in 2011 … but lower growth than in the developing world
- **Bouyant meat marketing environment**, with many different dynamics and requiring more sophisticated marketing by processors

**EU Meat Producer Prices (2004 EUR/t cwe), 2000-2012(f)**

Source: GMC Dec11 : PY wholesale prices and producer prices for other meats

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Discounters: LIDL and ALDI, entered the fresh meat market in 2002/03 … and have rapidly increased market share

**Growth of hard discounter share in fresh meat retailing, 2001-2010**

- **Discounters**
- Other full-range food stores
- Self-service stores (> 2,000 m²)
- Hypermarkets (> 800 m²)
- Supermarkets (<800 m²)
- Specialty stores
- Others

Source: Gira from GfK

**Impact of cooperation with HD on Tönnies output and turnover, 2001-2010**

- **Turnover (EUR mio.)**
- **Pig production (’000 t cwe)**

**Tönnies’ key to success = immediate response to the German HDs’ needs for large amounts of efficiently produced case-ready meat. Heidemark/Rothkötter (PY) have also grown fast**

HD share of *processed* meat in retail is even higher (almost 50%) … indicating the further market share gains which are possible in fresh meat

4. News
Recent external EU meat trade balance shifting to exports, giving advantage to the bigger processors

- **EU meat imports have fallen since 2008** reflecting:
  - Poor EU economic situation
  - Tight global BF and SH meat supplies
  - Brazilian BF traceability problems which have reduced supply availability further
  - (After paying EU import tariff) higher FOB prices for exporters to EU in other 3rd country markets (RU, MENA etc.)

- Imports likely to **rise again in the future** – as EU demand recovers

- ... but for the time being much **less import pressure on EU prices** ... and a renewed retailer focus on sustainable local meat supply

- **Export volumes have boomed:**
  - Strong 3rd country demand
  - Weaker Euro
  - Carcass meat export volumes might be difficult to sustain ... but sustainable focus on 3rd country exports of offals and by-products

- Competitive advantage for processors who have **scale to invest in direct (export) trade** marketing.
Ownership of primary processing is still mainly private, with family control ... although coops are still important

- Majority of meat processing is still owned by private and family firms ...
- Very little retailer ownership of slaughtering .... but there is still some
- Municipal ownership of abattoirs has been declining for very many years ...
- Access-to-capital to finance further major consolidation – be it national or international, is a challenge.
  - Family owned firms largely find solutions to the challenge of succession issues ...
  - The Stockmarket has rarely proven an effective long term form of ownership for the meat sector
  - Vion is owned by a farmers union (ZLTO) (categorised here as ‘coop/farmer’): but is a for-profit focused company rather than being a coop price maximiser ...
  - Danish Crown transferred operating assets to a Ltd company status in 2011, but is still 100% owned by the original coop.
  - Atria and HK are Stockmarket quoted Plcs, but the original coops hold the voting majority.
  - Brazilian mega-M&A has slowed .... but some strategic infill acquisition in EU are likely
EU Pigmeat focus
EU PK balance shows small medium-term production growth for processors in spite of the pressures on the EU market ... after recovery from sow stall legislation ... and huge trade volumes.

The 'sum' of balance tables from the 27 member states, illustrated here does emphasise the enormous volume of intra-EU Member State trade, even if the net 3rd country trade figure is deceiving and is better illustrated in the overall EU27 3rd country import and export summaries on slide 31.
De, Fr, Es & It are the biggest EU meat producers … but with Italy amongst the losers in the future … to the Top 3, plus UK, Dk & NMS.

Total meat (3 species) GIP/net production by country – 2011 and change 2015/2011

Source: Gira

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Pigmeat distribution is dominated by the importance of further processing … with (low) cost ingredient focus

The chart is an estimate shown for illustrative purposes only, of the segmentation of the domestic markets. The distribution shares vary considerably in the different countries. However, the definitions and data are not fully comparable: Gira has had to estimate, so readers should exercise considerable caution should they choose to draw conclusions from these data.

Further processing dominates the usage of pigmeat (including bacon, as well as the obvious hams, charcuterie, sausages, meatballs, elaborated etc)
The EU is a major net exporter of pigmeat to 3rd countries: important, but this is threatened by lower cost competitors.
The TopCos have increased kill share in a slowly concentrating European pigmeat industry

- Top 15 EU pigmeat processors have increased EU27 share to 38%, up from 34% in 2006 ... but in some countries the outright leaders have lost some share
- Slow process of consolidation and more international development than for the other species

### Share of EU-27 Top 15 – 2006/2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Other EU27</th>
<th>Top 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>66%</td>
<td>34%</td>
</tr>
<tr>
<td>2010</td>
<td>62%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Source: Gira estimates

### Leaders’ market share in the top 5 production countries (% cwe) – 2006/2010

<table>
<thead>
<tr>
<th>Country</th>
<th>2006</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>58%</td>
<td>63%</td>
</tr>
<tr>
<td>Spain</td>
<td>22%</td>
<td>27%</td>
</tr>
<tr>
<td>France</td>
<td>52%</td>
<td>68%</td>
</tr>
<tr>
<td>Poland</td>
<td>27%</td>
<td>21%</td>
</tr>
<tr>
<td>Denmark</td>
<td>95%</td>
<td>98%</td>
</tr>
</tbody>
</table>

Percentages given on the top of each column correspond to the share of top 5 companies compared to total country’s net production

Source: Gira estimates

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3. Italian meat industry structure
Italy - PK: A traditionally fragmented sector; relying on added-value through PDO

- Likely **production downturn** in spite of differentiated heavy pig focus
  - pigmeat import pressure
  - 2013 sow housing
  - feed costs
- **Fragmented slaughtering**: between a few large, efficient plants & over 1,000 small firms
- Need for processing **capacity consolidation**
- M&A activity has been limited in a sector characterised by the **predominance of coops**
  - the share of top producers has remained constant over the past decade
- **Gruppo Ghinzelli** is by far the largest pigmeat producer, with 11 plants in all. Slight growth
- **Italcarni** is the main cooperative competitor,
  - all slaughtering concentrated in a single site
- The Veronesi Group owns the No.5 pig slaughterer **Montorsi** as well as the leading poultry company in Italy, Aia

### IT: Pigmeat balance
2001-2011(e), 2015(f)

![Graph showing pigmeat balance over years]

Source: GIRA

### IT: Top 5 companies share in pig slaughter
(in cwe) – 2010

![Pie chart showing share of top pig slaughter companies]

Source: Gira estimate
Concluding perspectives on Italian (pig)meat sector

- Differentiated heavy pig with large domestic market and growing FP export
- Little or no sector growth …
  - Sow stalls
  - Pressure on PDO products in current recession
  - Fragmentation throughout chain, PDO constraints on concentration
  - Labour cost & availability issues – compared to Germany
  - Import pressures: CAP reform? FTA?..... TRQ relaxation?

- Domestic focus in an internationalising industry
  - Weak domestic IT economy
  - Ever increasing intra-EU meat trade … driven by price, and local differences in supply & demand for different cuts
  - Scale advantages for other competitors to benefit from exports and the rising prices in 3rd countries (e.g. CN, RU, MENA)

- Sector initiatives to enhance efficiency

2. Executive Summary
Thank you for your attention