



Consultancy & Research
Prospective et Stratégie

Corporate Strategies in the Global Market Place

AHDB Outlook Conference

February 3rd 2009

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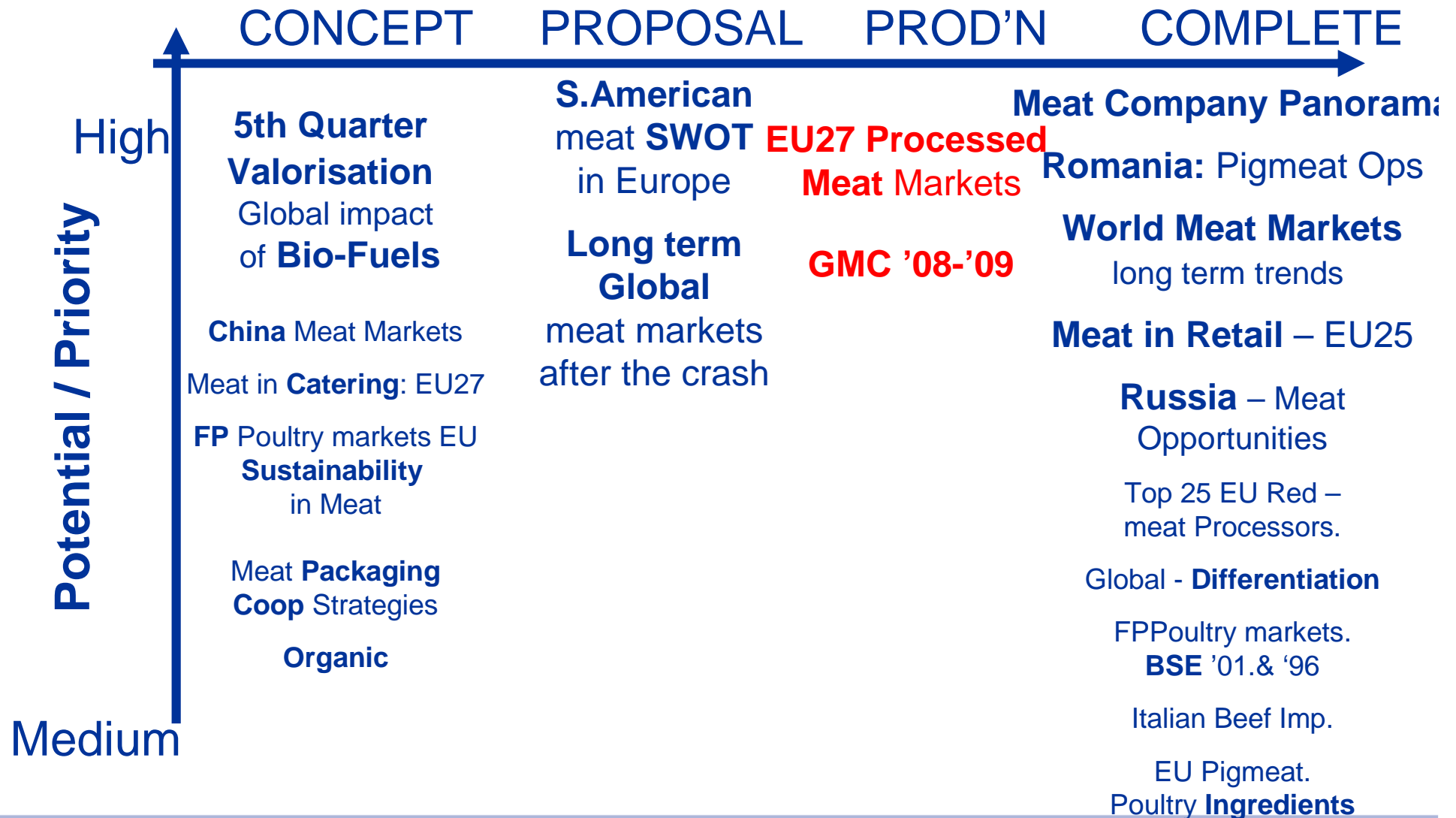
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Stage of Project Development

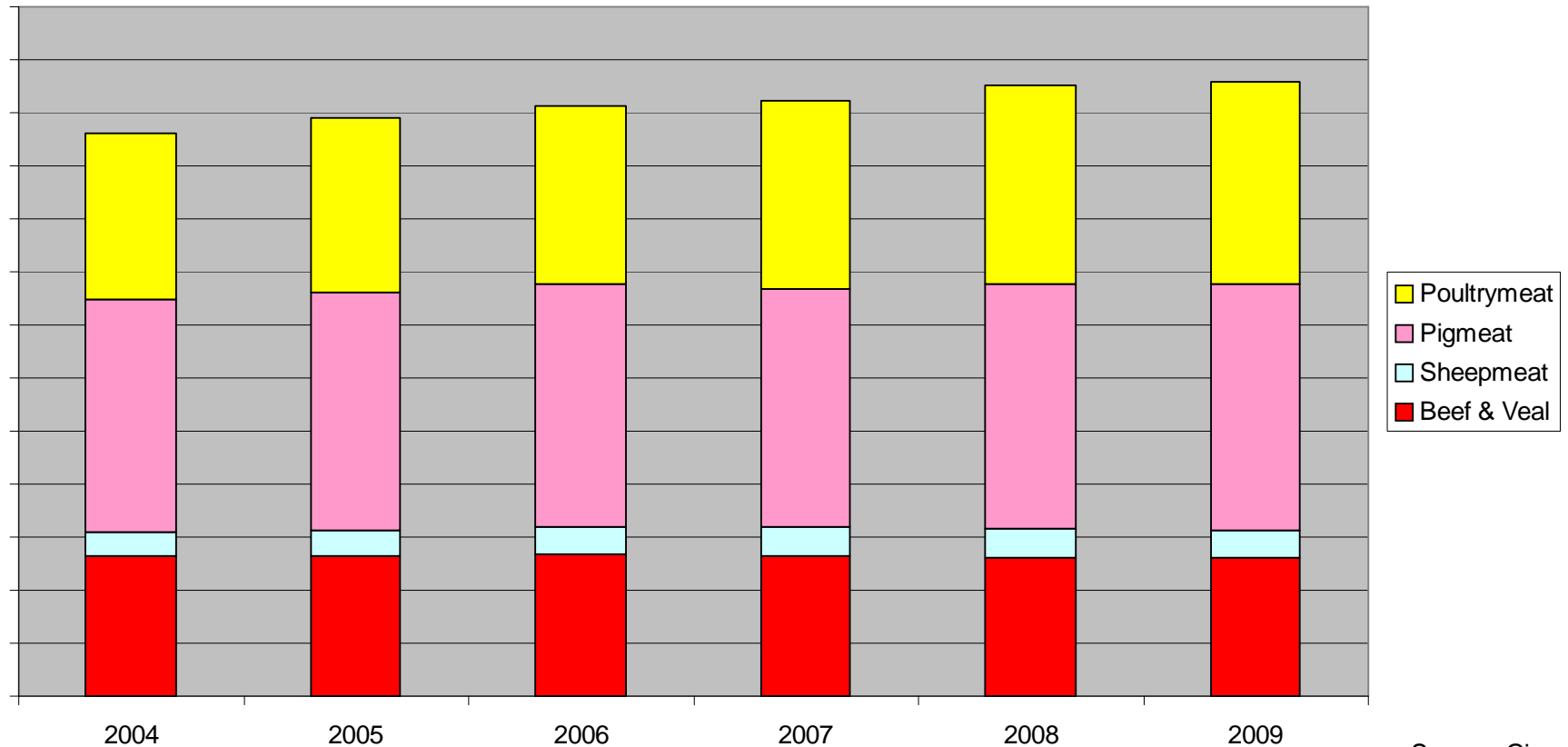


1. **Global meat market** background for 2009
2. **European meat industry** developments
3. **Global industry** context
4. Concluding points on **UK**

- **Economic downturn** and **credit crunch dwarfs** the impact of other variables and forces a **pause in long term global developments**
 - S/T Demand downturn, liquidity problems in everything!, Pilgrims/USA, stronger USD, commodity price/cost downturn, pause in meatco M&A
- **Feed & energy cost volatility**
- **Trade obstruction** from domestic lobbies
 - EU for Brazil in BF ... (poor precedent for PK); Russia blocking imports
- **Disruptive political** developments
 - Russia resumes historic norms, Thailand, War on Terror knock-on, AR, US elections ... but new push on WTO to avert period of protectionism
- **Climate change:** major impact on SH trade, and limits BF
 - S/T: drought SE Australia, NZ, Middle East, AR, western US
- **Disease:** less disruptive than normal
 - PPRS/China; BTV/EU ... FMD and HPAI restrictions easing (for now)
- **Food safety** and standards: expensive & disruptive
 - Melamine, e-coli ... dioxin
- Worldwide **retailer power:** Price pressure on suppliers

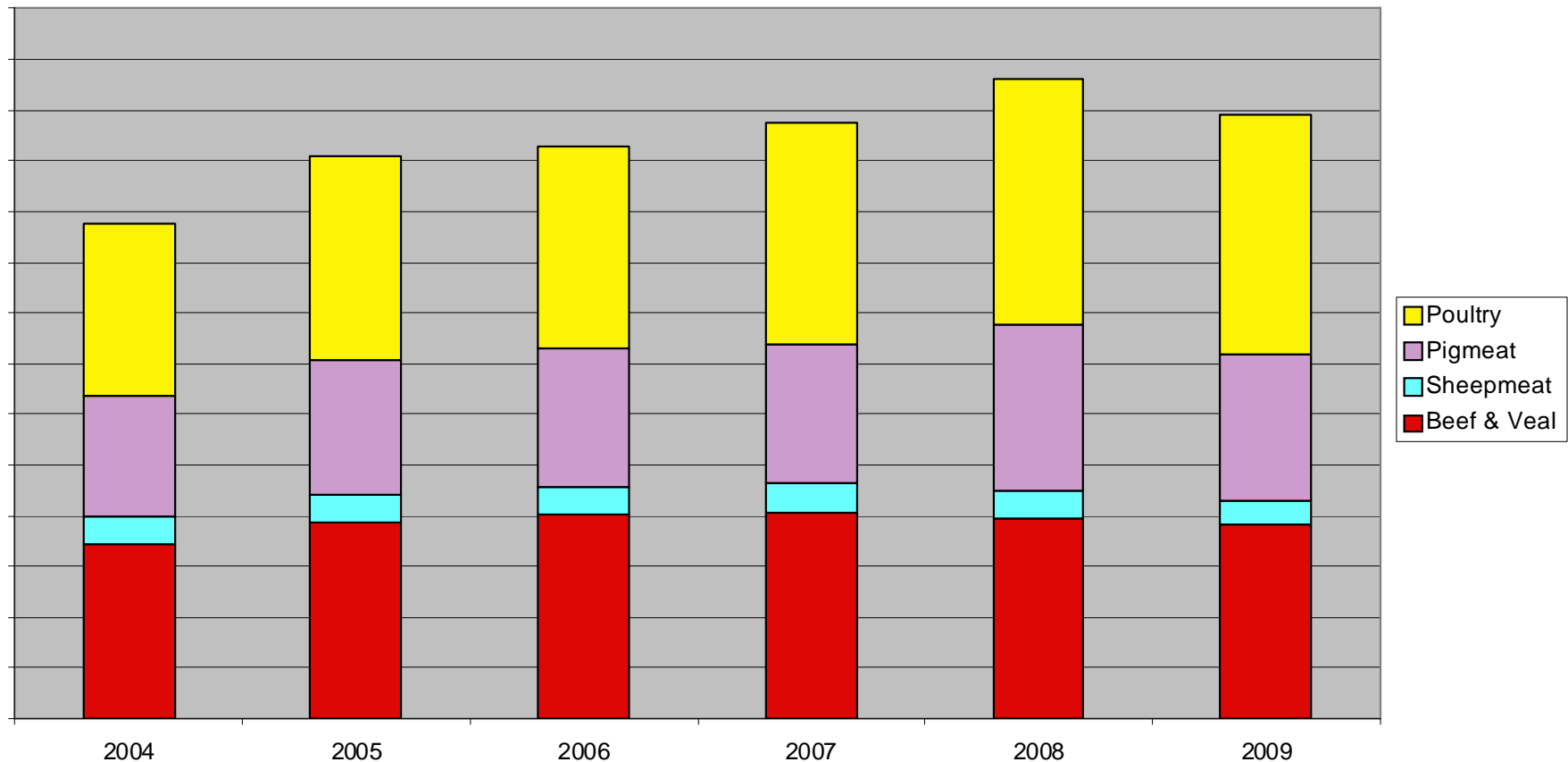
- ❑ **Global markets overheated in 1-3Q07**
 - **Commodity price boom** ... included meats ...until:
- ❑ **4Q08 credit crisis**, with dramatic reversal for meat sector
 - **demand hit** by current economic meltdown & volatility
 - **Trade volume decline** (and blockages): with **price impact**
 - dramatic changes to **global competitiveness**: currency, feed cost etc.
- ❑ **2009 demand downturn**: trading down in quality and/or volume ... with lower price impact (HD growth) ... but coinciding with **production fall** for many meats (but not in all countries), which should help to restore supply:demand balance, and **underpin prices and producer profitability**
 - **PK: big production decreases** in US, EU, BR – in response to 08 losses: but uncertainty about producer profit optimism from falling feed prices
 - **BF: small production fall** in most global regions due to general desire to re-build herds ... coinciding with short term decline in cattle price
 - **SH: desire to re-stock** after drought in NZ/Au. Demand and trade decline
 - **PY: careful growth** after the 2007/08 boom in many countries (in spite of the steep fall in feed costs)
 - **Weak £stlg** underpins UK producer prices

Developments in World Meat Consumption 2004-2009



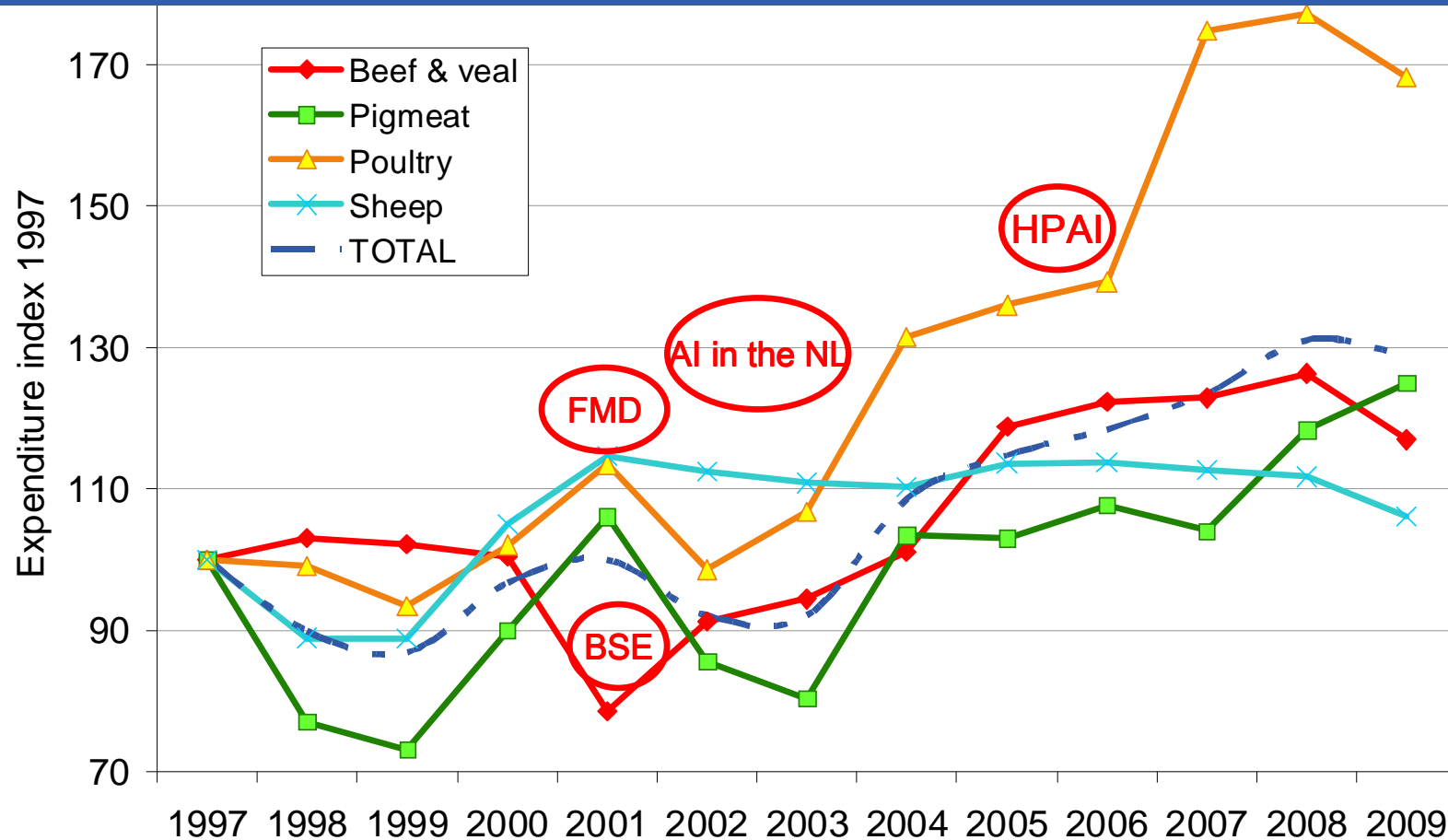
Source: Gira

Developments in Meat & Live Trade 2004-2009



2008: +1.6 mio tcwe (+7%); 2009: -1.4 mio tcwe (-6%)

EU Meat Expenditure Index - 1997 - 2009

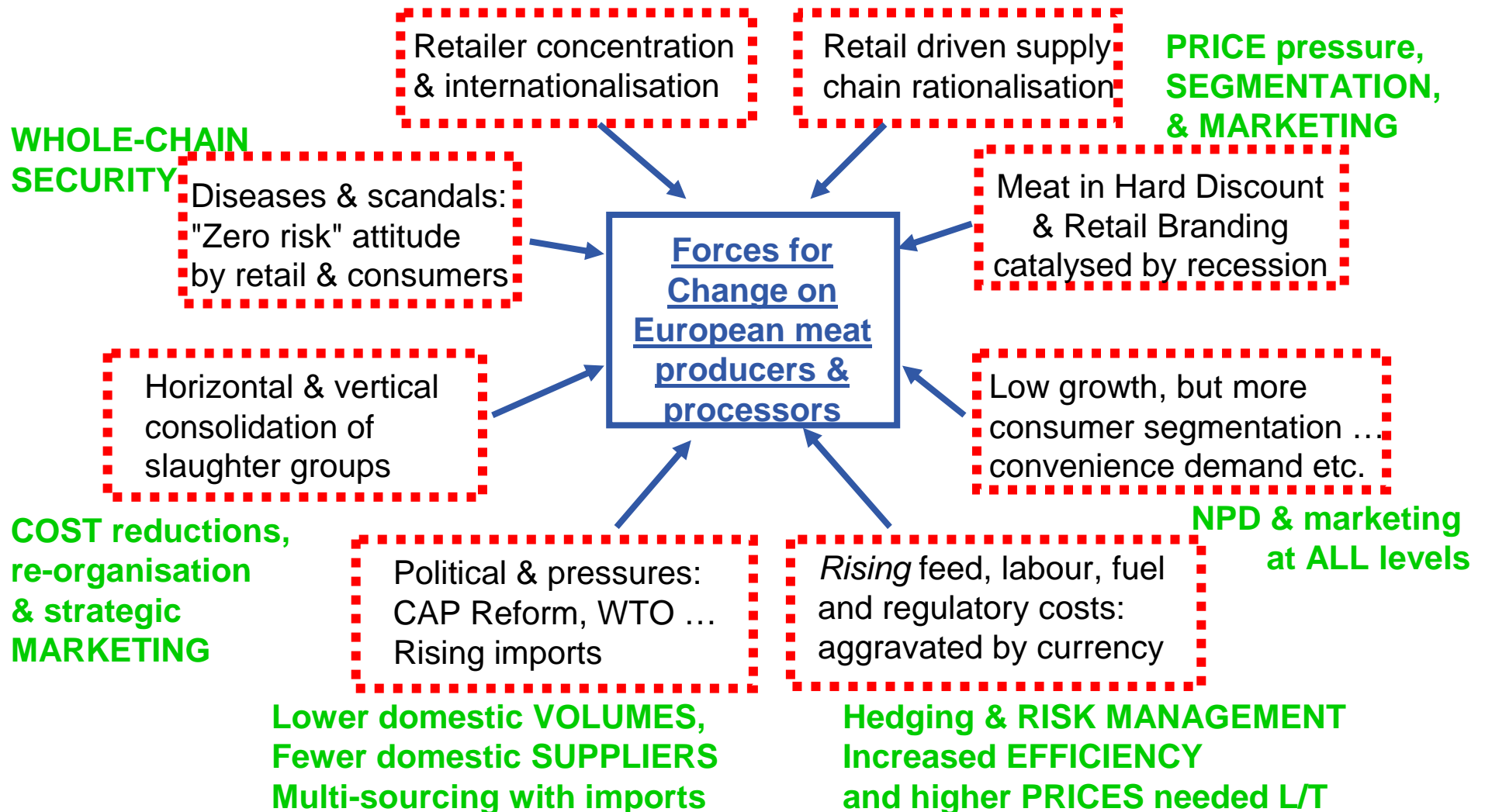


Note : wholesale prices for poultrymeat and producer prices for other meats

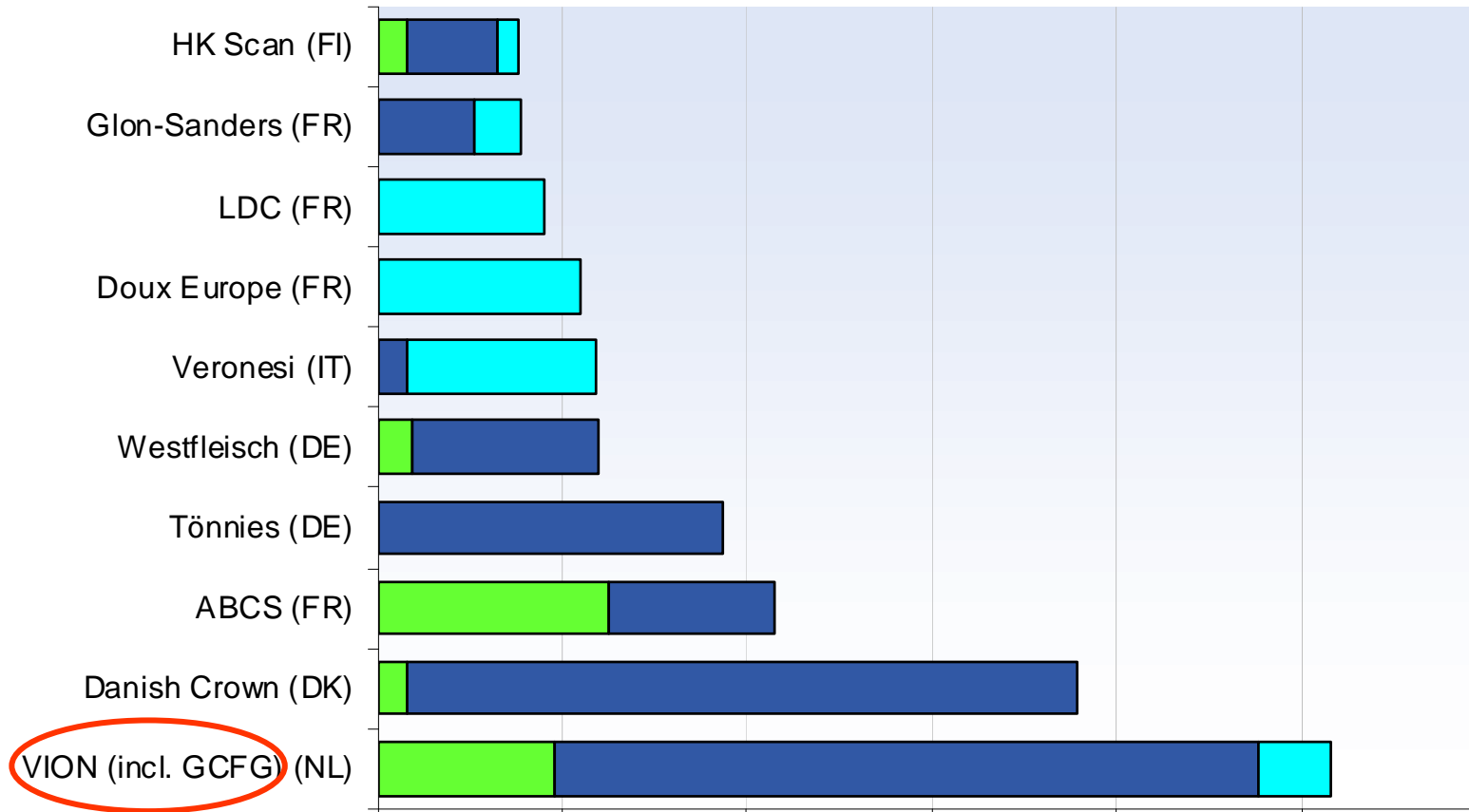
Source: Gira

2. European meat industry developments & strategies

CUSTOMER alignment, FORWARD & HORIZONTAL integration & COST pressure

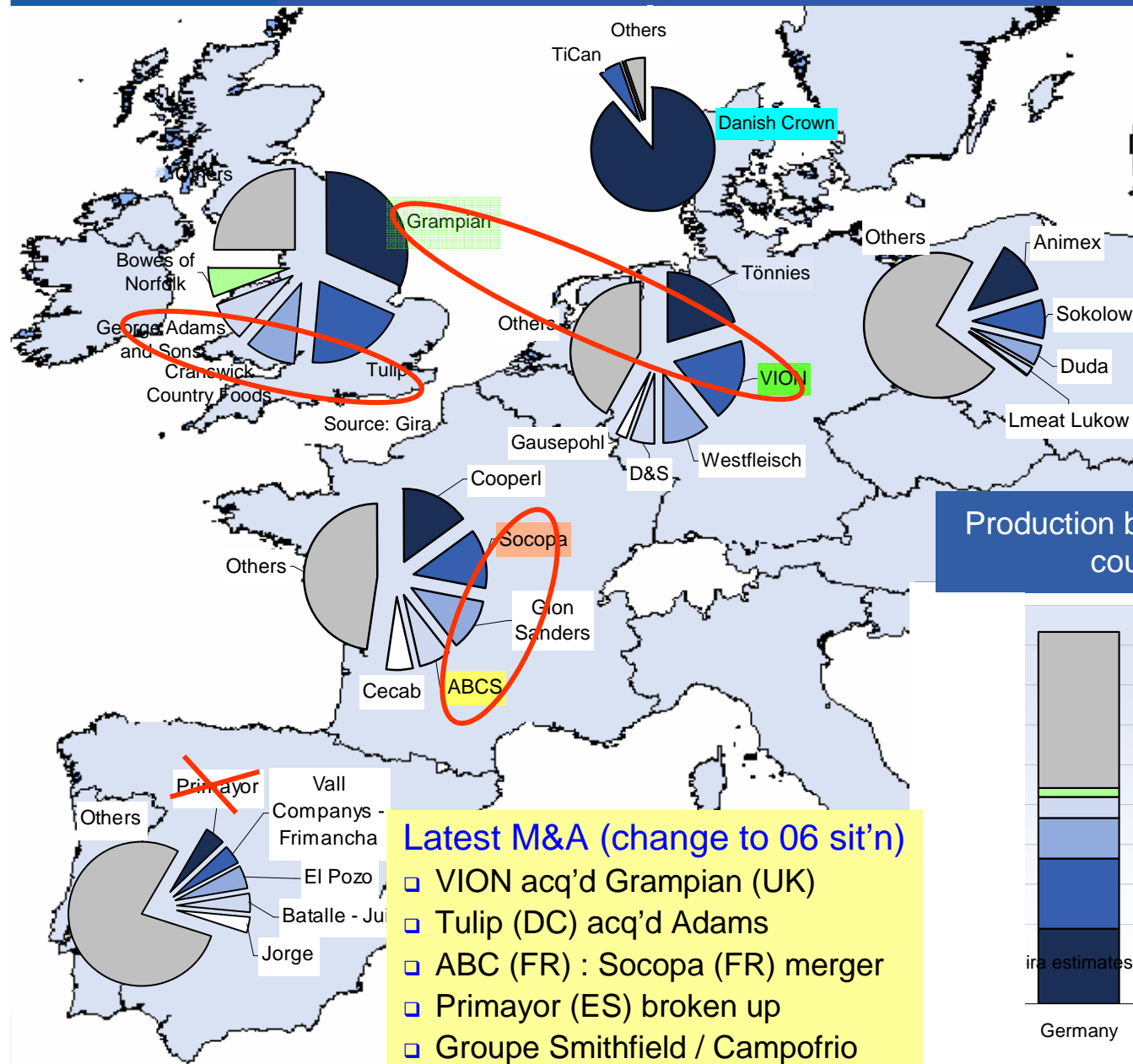


Top 10 EU 27 meat companies by meat production volume ('000 t cwe) - 2005/06 (updated for subsequent M&A)



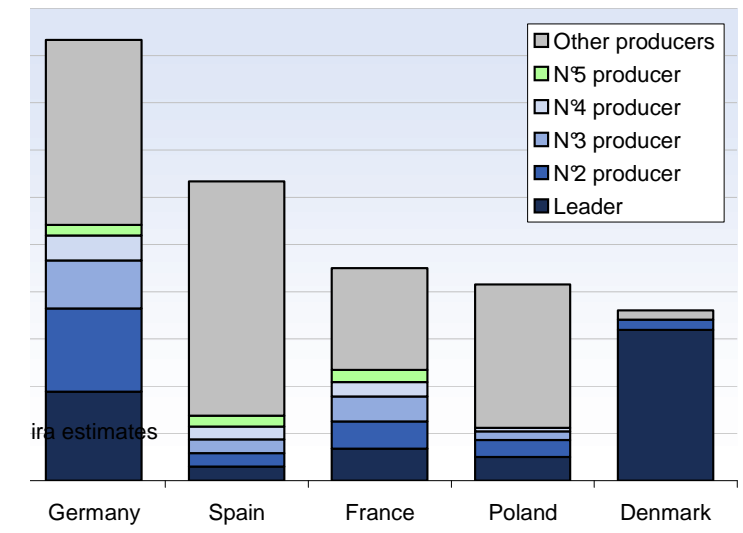
Source: Gira compilation and estimates

The EU's pig processing industry is concentrating, mainly nationally, quite quickly ... Vion forcing the pace



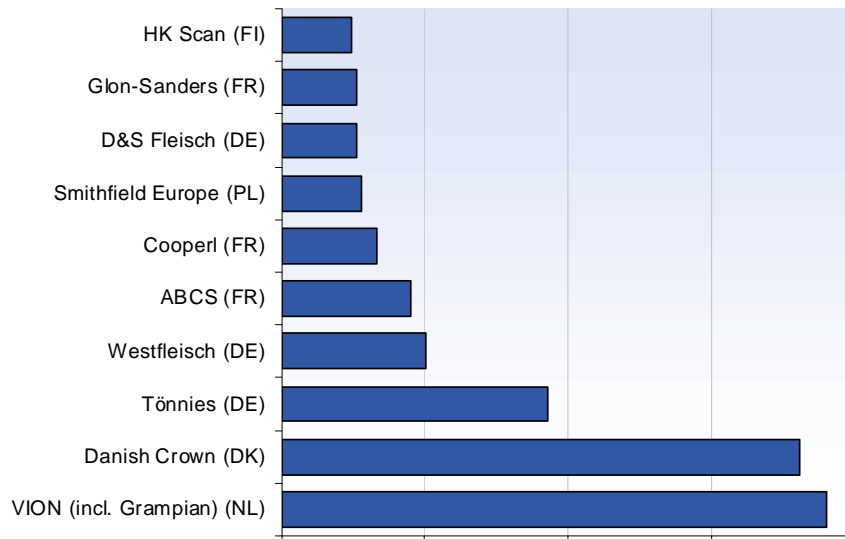
- **VION M&A stream** with need for subsequent restructuring to achieve scale economies
 - **DE: overcapacity** & competitor reaction
 - **NL >60%** of pig kill: efficient
 - **UK: GCFG** restructure
- **Danish Crown:** live export, UK & Se/Po/Dk investment
- Increasing **concentration** within most countries (cf. FR)
 - Lower kill, cost pressure
 - Selectively X-border

Production by operator in the top 5 production countries ('000 t cwe) – 2005/06



- Latest M&A (change to 06 sit'n)**
- VION acq'd Grampian (UK)
 - Tulip (DC) acq'd Adams
 - ABC (FR) : Socopa (FR) merger
 - Primayor (ES) broken up
 - Groupe Smithfield / Campofrio

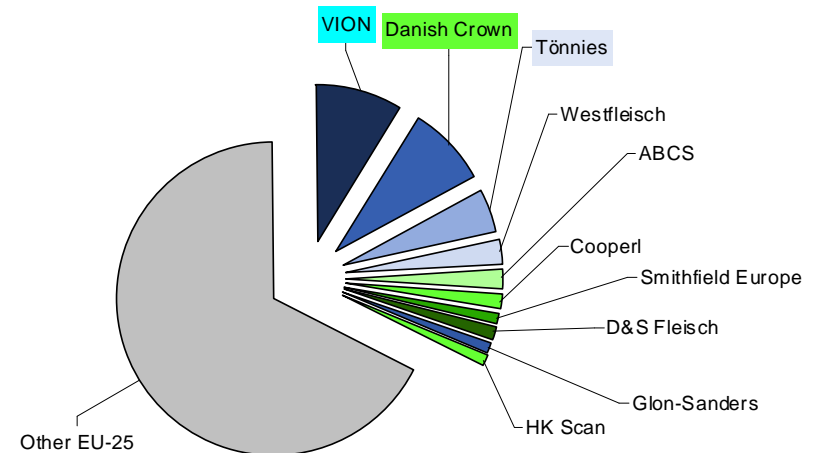
Top 10 pigmeat companies in volume ('000 t cwe) – 2005/06



Source: Gira compilation and estimates

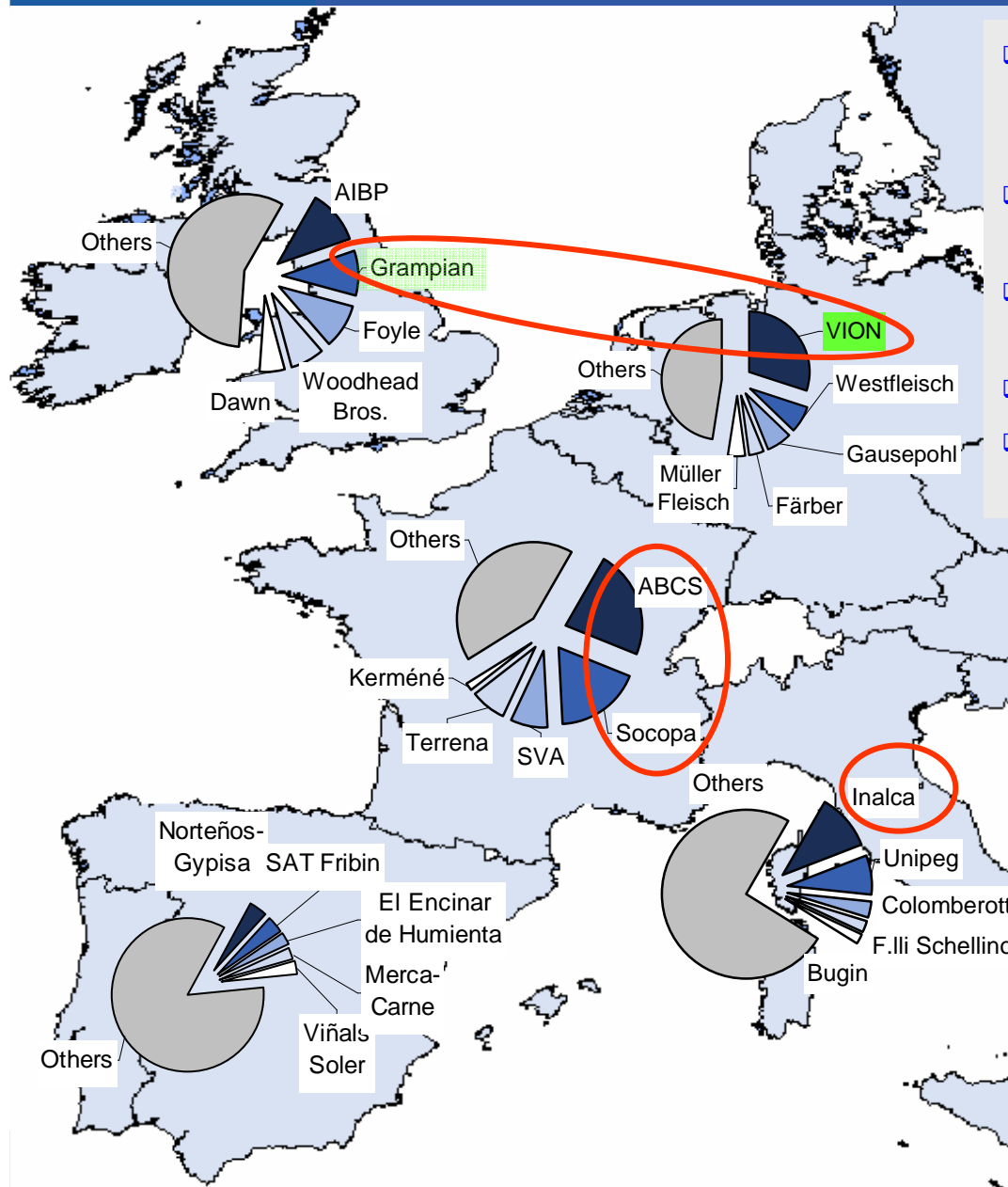
- VION and Danish Crown lead the way ... but with Tönnies & Westfleisch growing faster in DE
 - Big volumes – much bigger than BF and PY
 - More forward integration
 - More international
- Leaders need to achieve lowest cost status
- After the top 4 players, there is a long 'tail'
- Coops still important
- Smithfield also active in separate primary and further processing ventures

Top 10 pigmeat companies in share in EU 25 production (%) – 2005/06



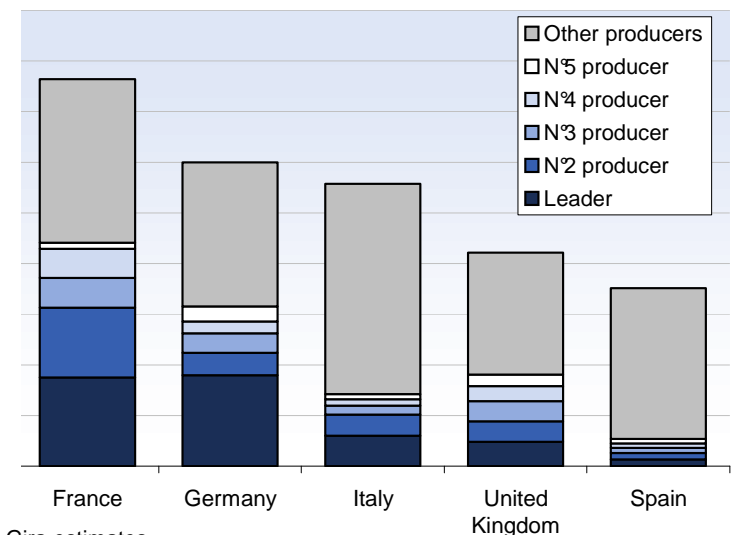
Source: Gira compilation and estimates

The leading beef processors are 'pulling away' from the long 'tail' of this traditionally fragmented industry



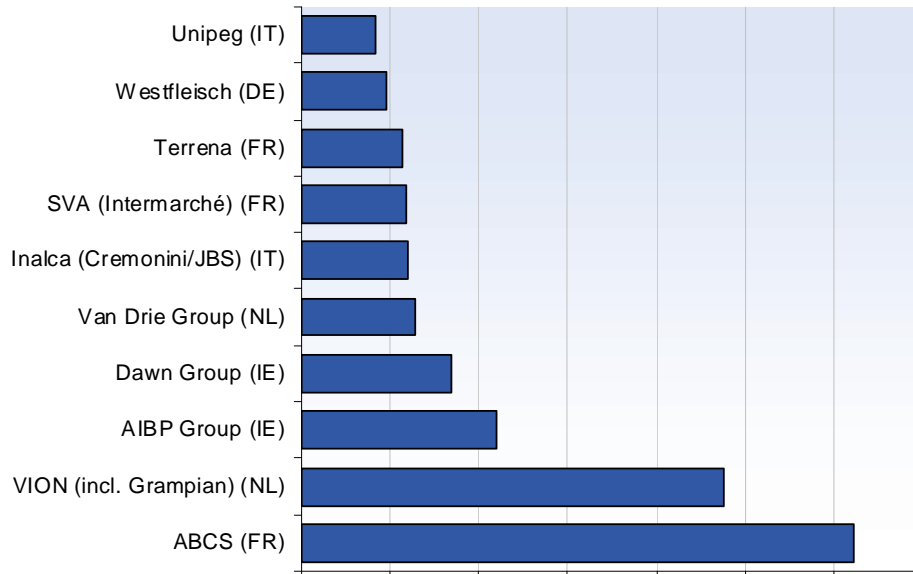
- ❑ **fragmented, nationally** oriented industry, with no genuinely multi-national players ... except JBS's stake in Inalca
- ❑ **VION M&A** in DE catalyses concentration ... and reaction, and now UK (GCFG)
- ❑ France has concentrated BF&V sector with the **new EU leader, ABCS**
- ❑ Long way to go in ES and IT
- ❑ Industrial **case ready**, declining **cattle supply, imports & HD** are the hot topics

Leaders' market share in the top 5 production countries ('000 t cwe) – 2005/06



Source: Gira estimates

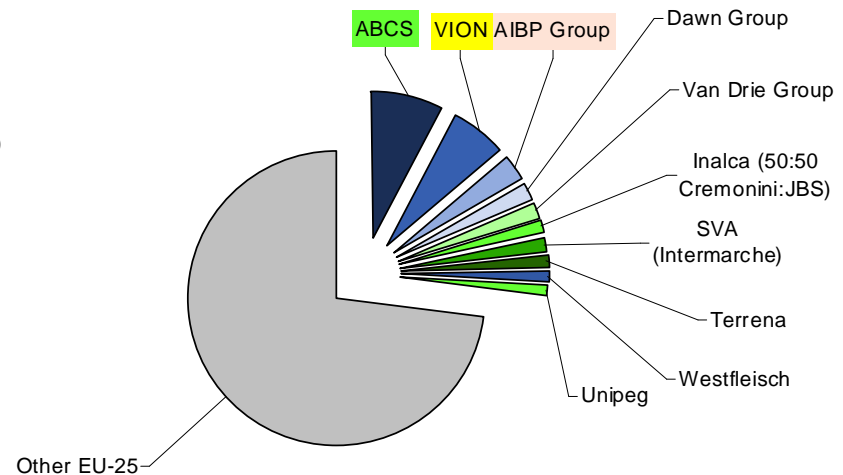
Top 10 beef & veal companies in volume ('000 t cwe) – 2005/06



Source: Gira compilation and estimates

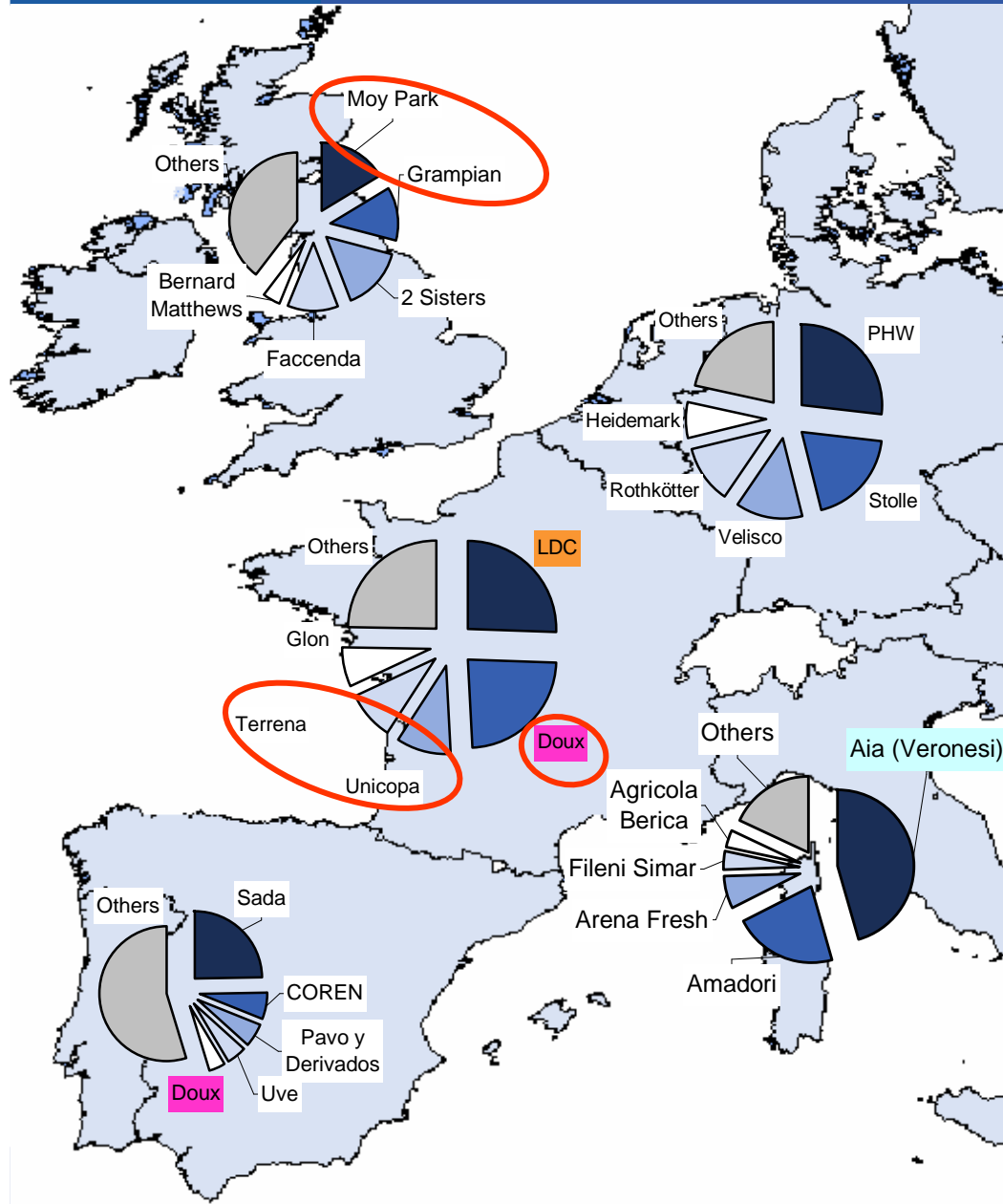
- **ABCS** is new leader on French market (Alliance, Bigard and Charal - ABC) and Socopa. It owns the only real fresh red meat brands in France.
- **VION** major player in DE & UK, + NL
 - entry threat of Tönnies in beef.
- Mixture of **private and coop** ownership
 - Irish with EU market interests
- **very long 'tail'** ... with **overcapacity**

Top 10 beef & veal companies in share in EU 25 production (%) – 2005/06



Source: Gira compilation and estimates

Poultry industry concentration generally high *within* each national market

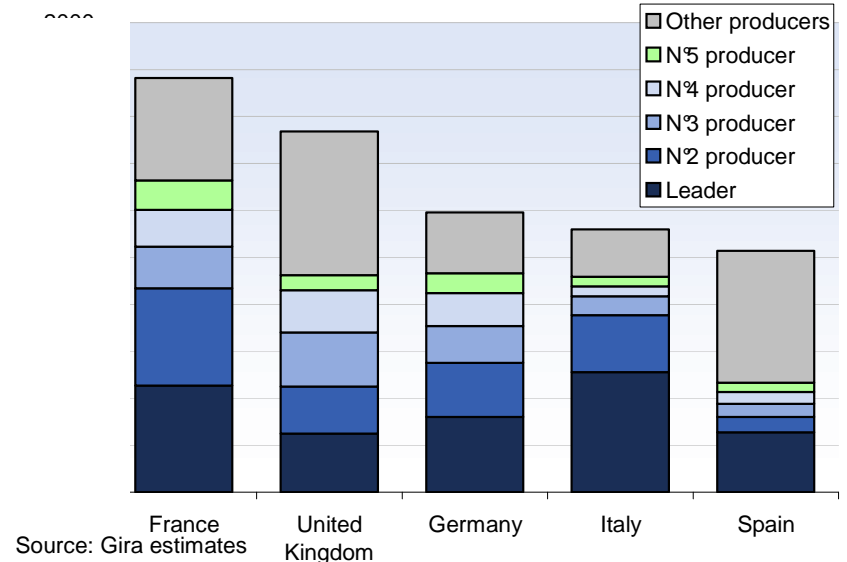


- concentrated industry ... but on a national basis
- In FR, IT and DE, the top 5 companies hold more than ¾ of production
- No *multi*-nationals present

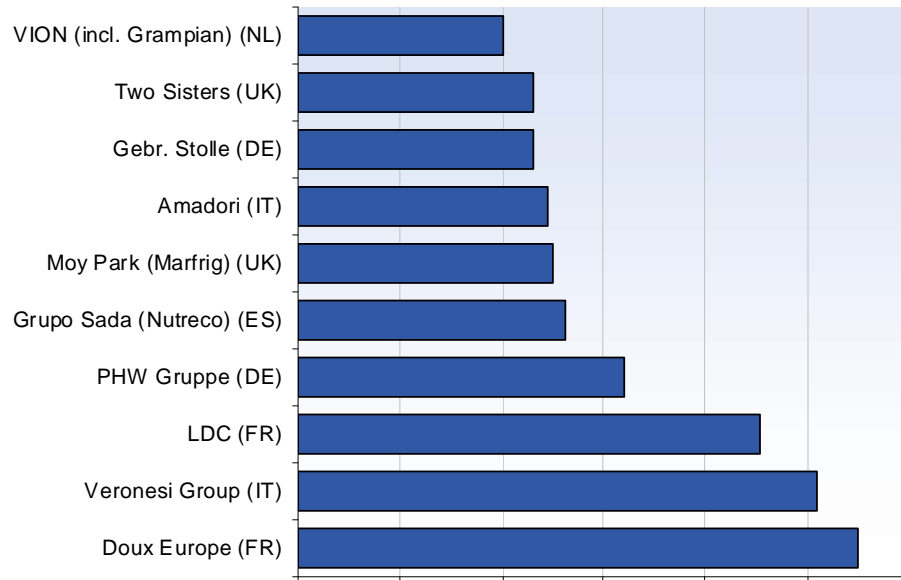
Latest M&A (change to 06 sit'n (data))

- VION acq'd Grampian (UK)
- Mafrig acq'd Moy Park (UK, Fr)
- Terrena (FR) acq'd Unicopa (FR)

Production by operator in the top 5 production countries ('000 t cwe) – 2005/06



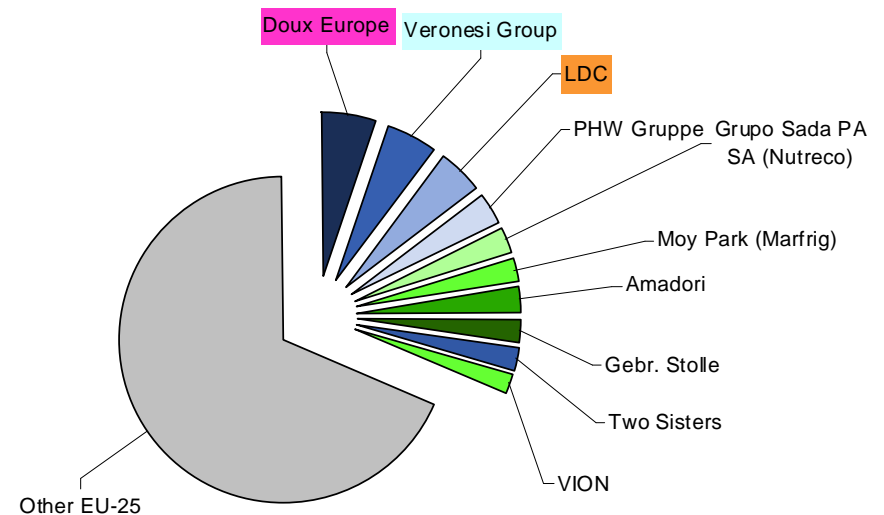
Top 10 poultrymeat companies in volume ('000 t cwe) – 2005/06



Source: Gira compilation and estimates

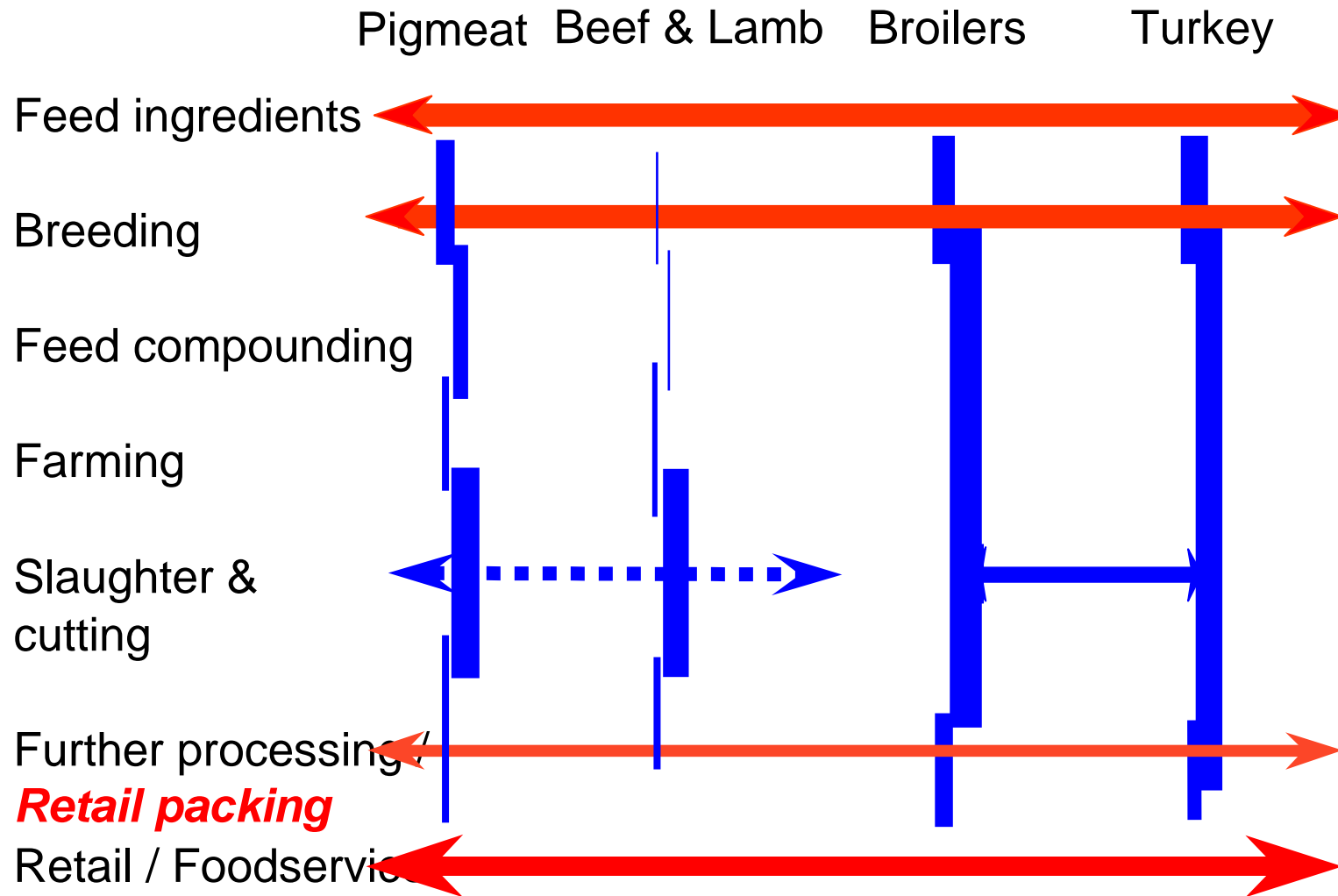
- PY much more **backward integrated** than the other species (but similar concentration)
 - Problems in Further Processing
- Mainly **private** – very few coops, linked to feed
- **Doux Europe**, is retrenching in Europe, but expanding in Brazil, Doux Frangosul, (ca. 50% of group volume) in PY & PK

Top 10 poultrymeat companies in share in EU 25 production (%) – 2005/06



Source: Gira compilation and estimates

Future EU meat value chains



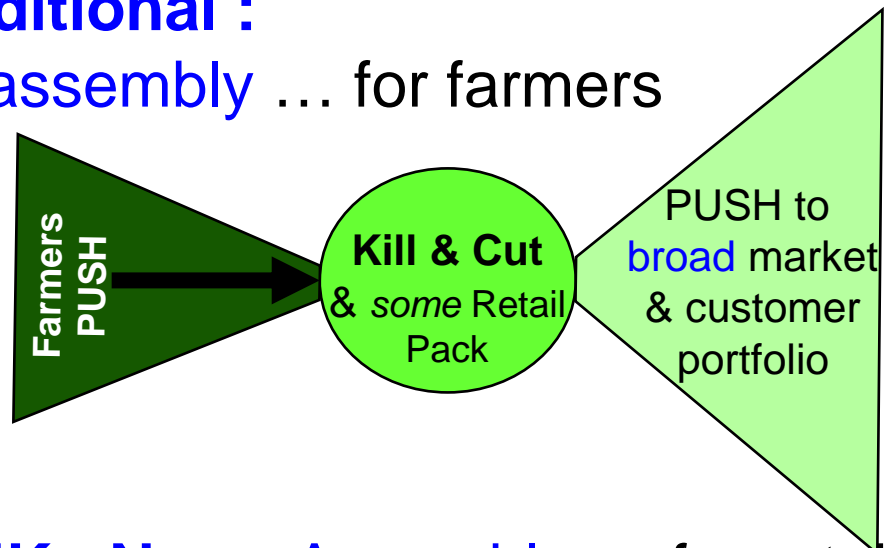
'Optimal' primary processing plant size					
	per week	p.a	carcass wt kg	Vol t.p.a.	Many contradictions to the 'rule'
Broilers	1,000,000	50,000,000	2	100,000	Faccenda 2x this size, recent Sun Valley acq'n 1/4
Turkeys	100,000	5,000,000	15	75,000	Depends of bird breed, sex etc.
Pigs	20,000	1,000,000	80	80,000	DC Horsens 4x, no Belgian plant
Cattle	2,000	100,000	325	32,500	Tonnies new plant 5x, ABP 'model' 1/2
Lambs	30,000	1,500,000	20	30,000	Many smaller

Source: Gira estimates

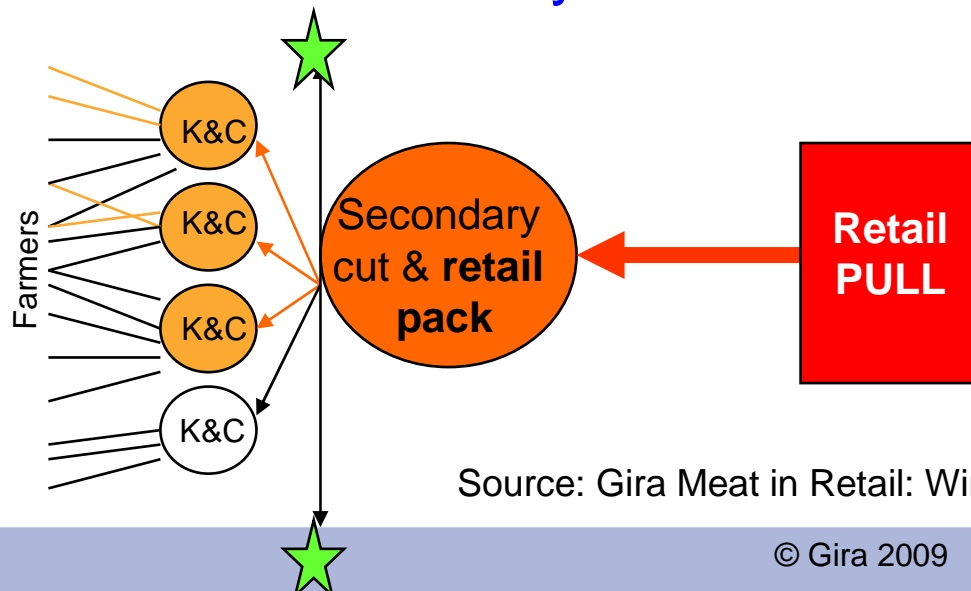
- ❑ The **objective of size is scale economies** ... in everything:
- ❑ Many **different answers** to *optimal* size, depending on:
 - Processing: depends on automation / technology, labour cost, standardisation
 - Marketing: meat: depends on customer demands. 5th Qtr: gains
 - Purchasing: depends on proximity & availability of livestock: reactions of others & intensity of local competition
 - Degree of forward integration
- ❑ UK and European plants are much smaller than US

Structural change : a 'new' model in EU supply chains, making retail more accessible to imports

Traditional :
Disassembly ... for farmers



UK - New : Assembly ... for retailers



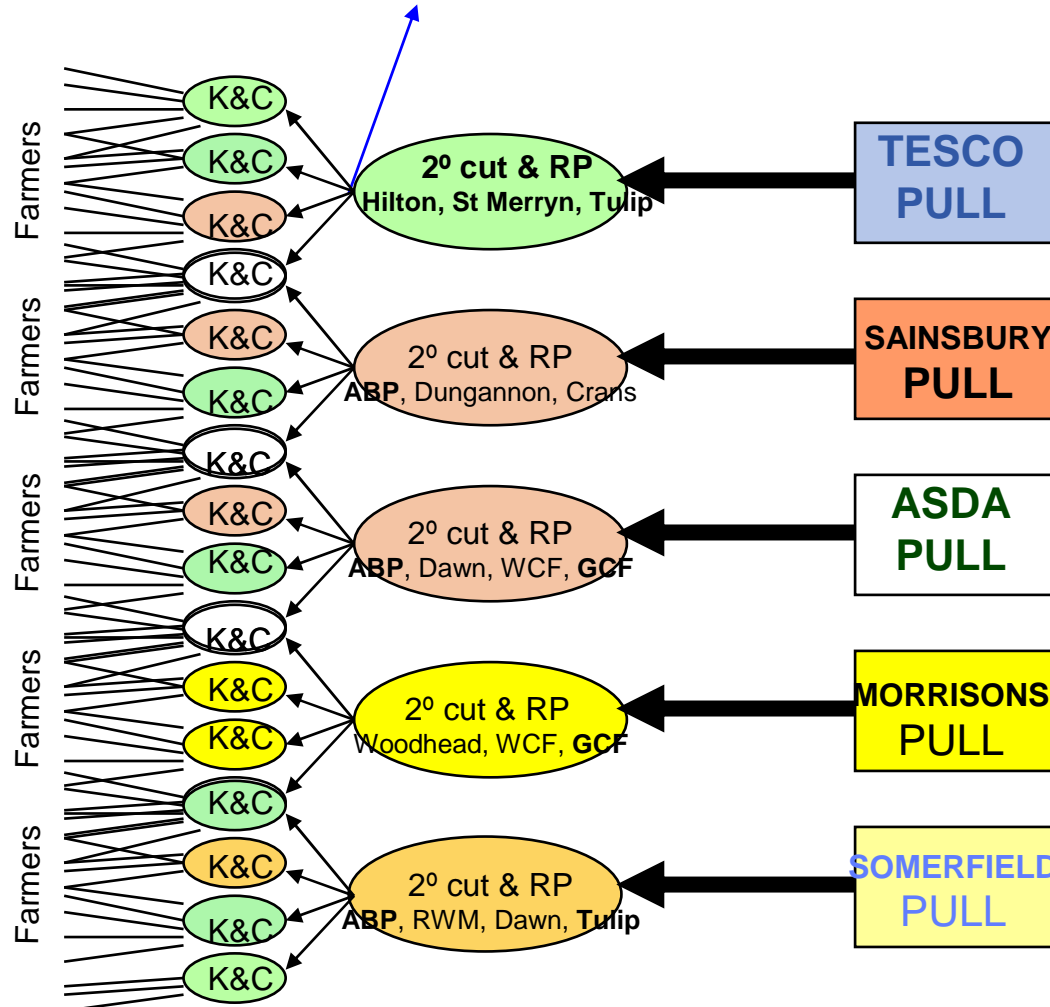
Source: Gira Meat in Retail: Winners & Losers report

- Very different models
- Different motivations
- The UK model is unusual in EU today ... but is spreading:
 - AH in NL
 - ICA in Sw
 - Tesco in Irl, Pol ..
 - Hard discounters...
 - ...

- Knock-on effect to competing retailers in these countries
- Opens more retail markets to S.Americans than the prior reliance on catering



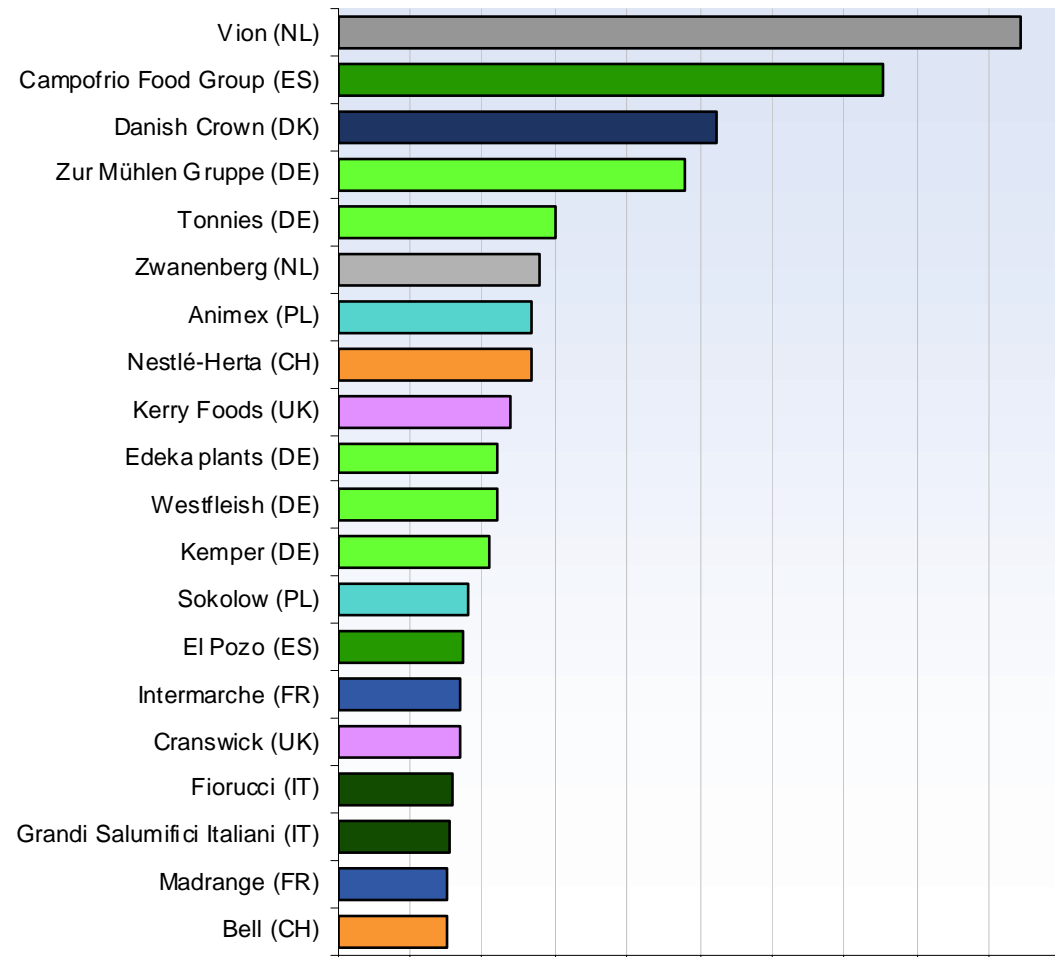
UK "red" meat chain model



- Similar for all retailers
- Short chain
- Dedicated plants
 - Only limited overlap
 - Corporate alliances
 - Vertical control
- Dominated by retail
 - Secondary cutting is almost like toll-processing for retail
- Easy import access

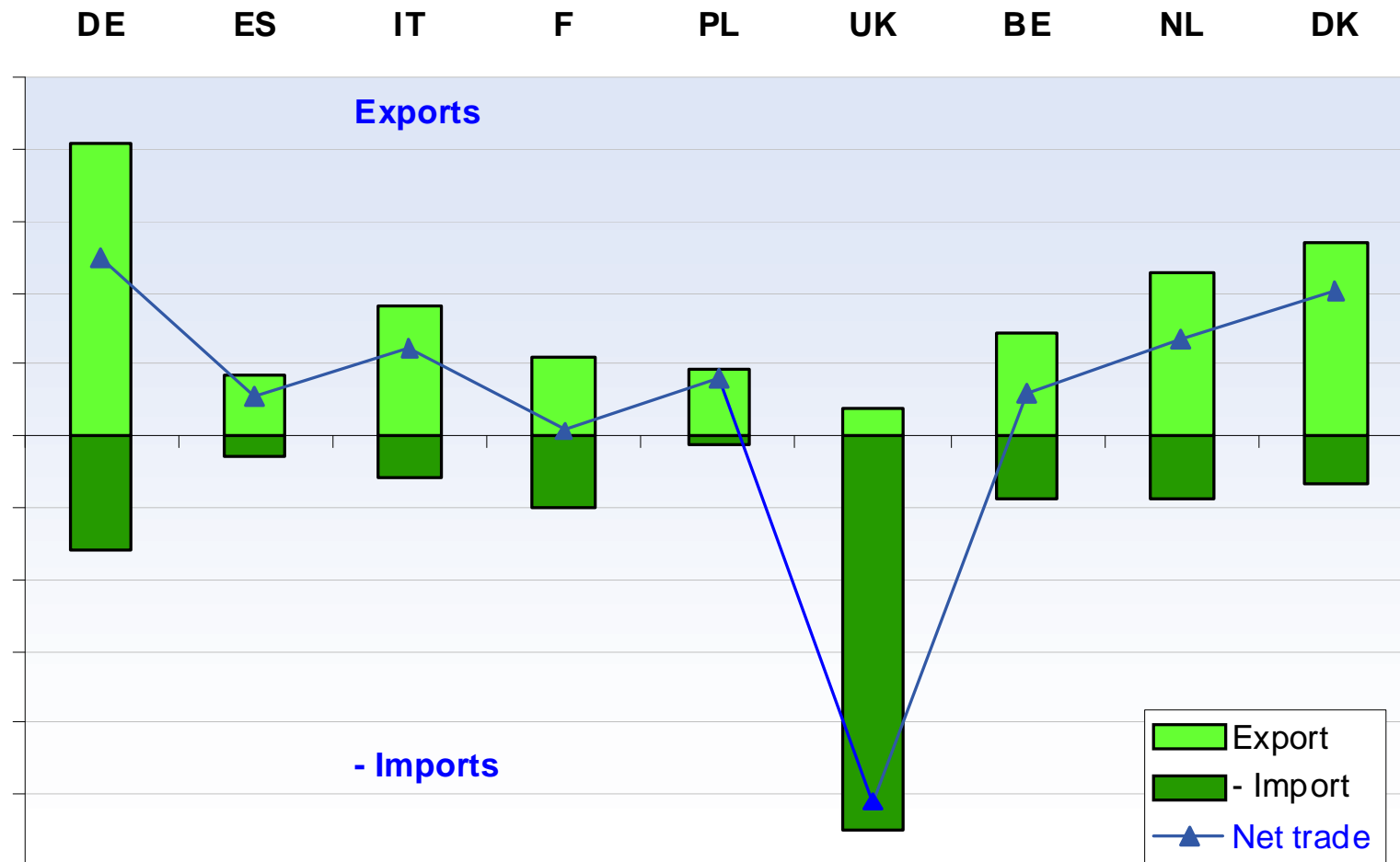
- The **fragmented FP industry** is explained by regional consumption variations
- **Restructuring has started**, but is still **slow**:
 - family businesses
 - local operators ... providing added-value regional products
- **New ownership**
 - Top 2
 - Some forward integration
- Impact of new raw material **sourcing strategies**
 - PK *might* repeat PY experience

PM production of the main European producers – 2007 (in volume and in % of total EU-9 industrial production)



Source: Gira estimates

9 Top EU countries FP trade balance - 2007

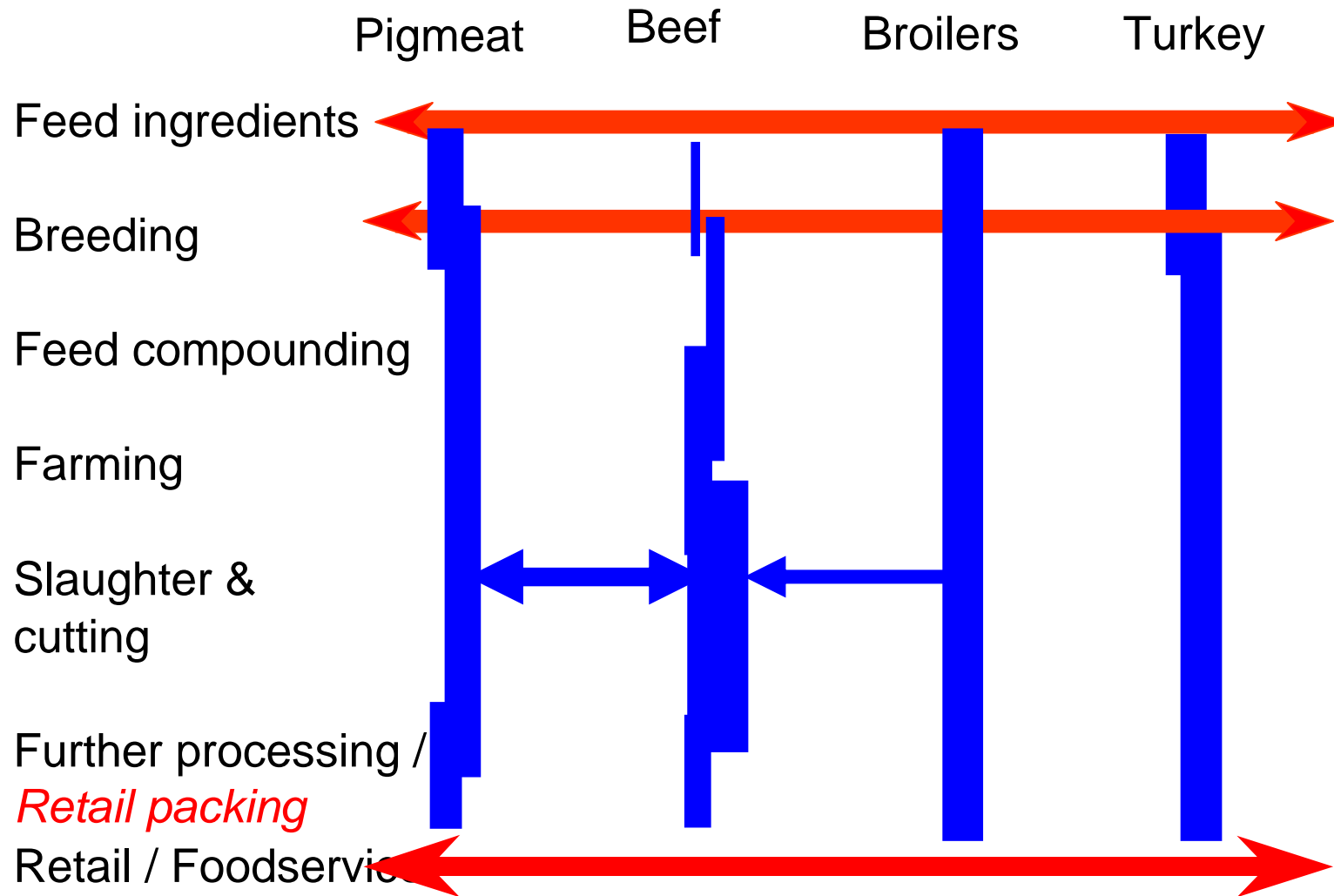


Note: Poultrymeat based PM & salted fats included
 Source: Gira from country reports balance tables

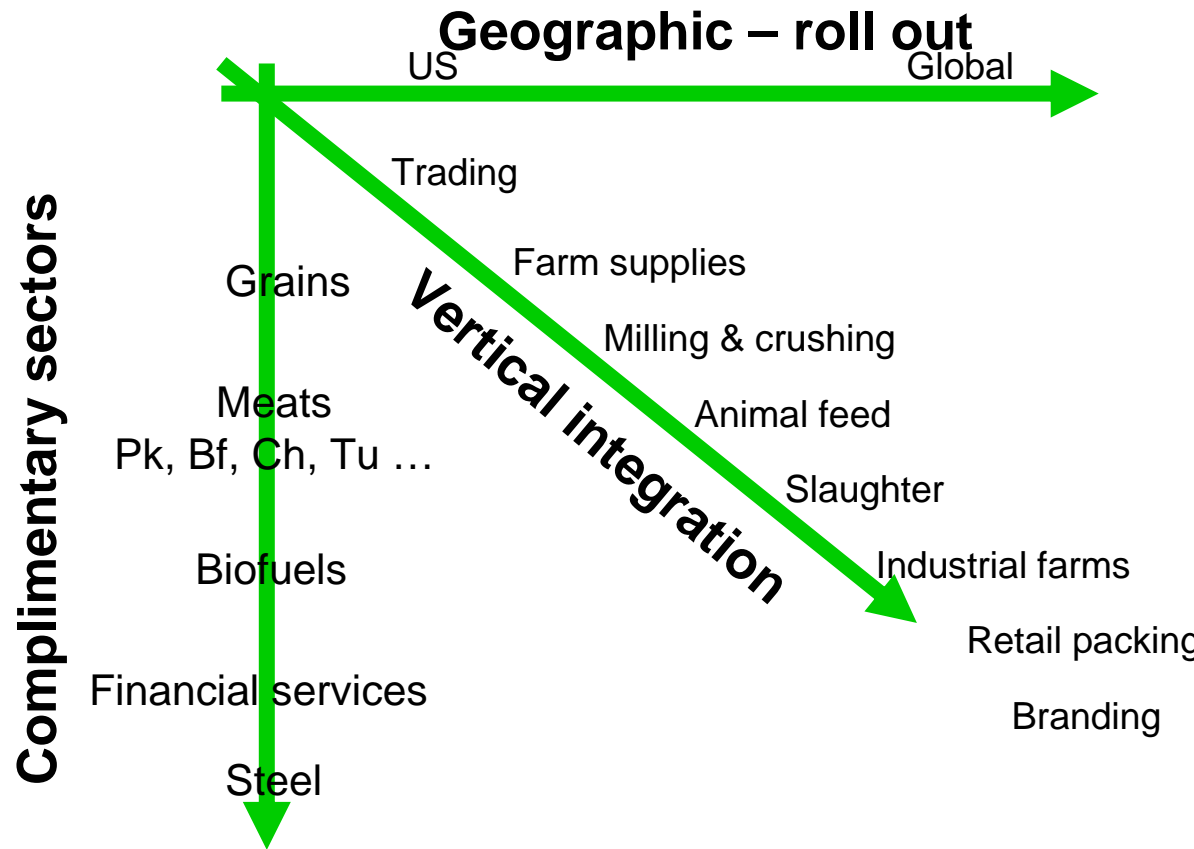
Note: the product coverage may differ for each country explaining differences between trade expressed in country balance tables and in the Eurostat analysis

3. Global meat industry perspectives

US meat value chains



CARGILL – global, strategic, agribiz. strength

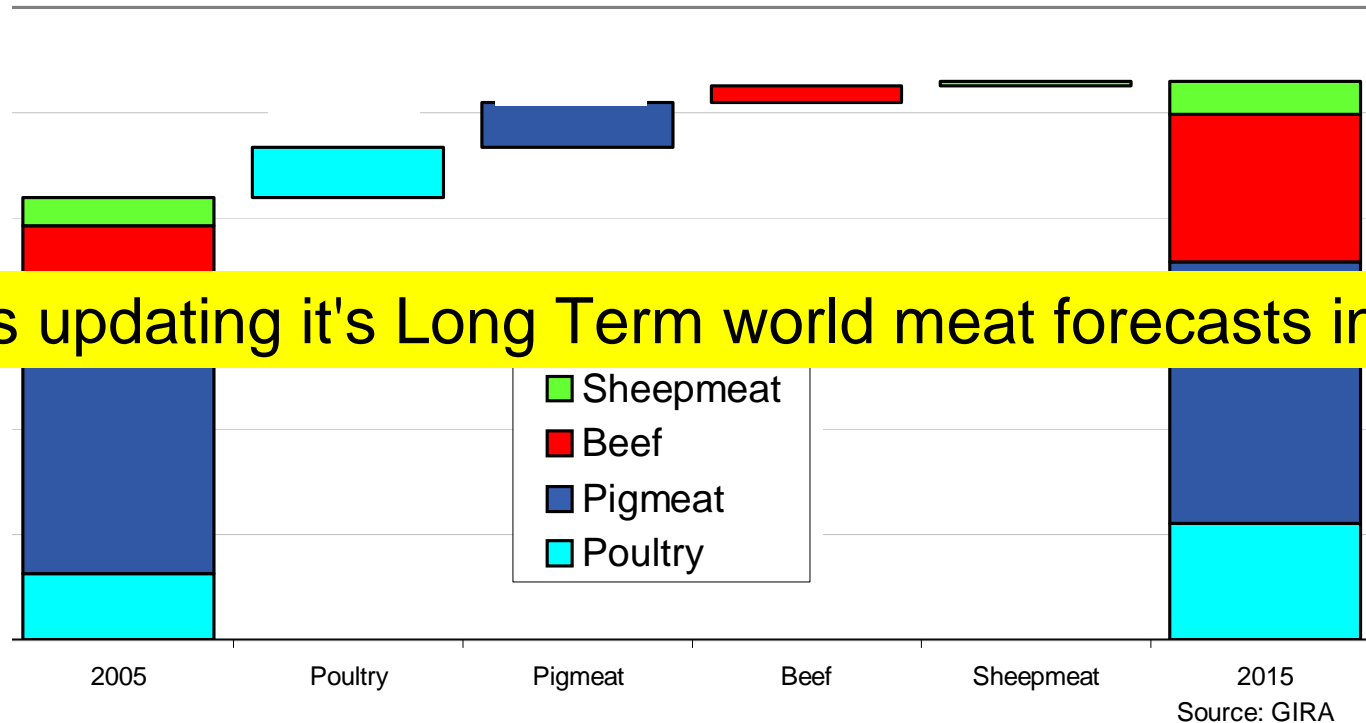


Other names to watch:

- ❑ Tyson-IBP, NAFTA
 - Slow outreach
- ❑ Smithfield: integrate
 - EU ... Br & Bf exit
- ❑ Sadia, Perdigao
- ❑ JBS ... and other Brazilians
- ❑ Vion
- ❑ Danish Crown

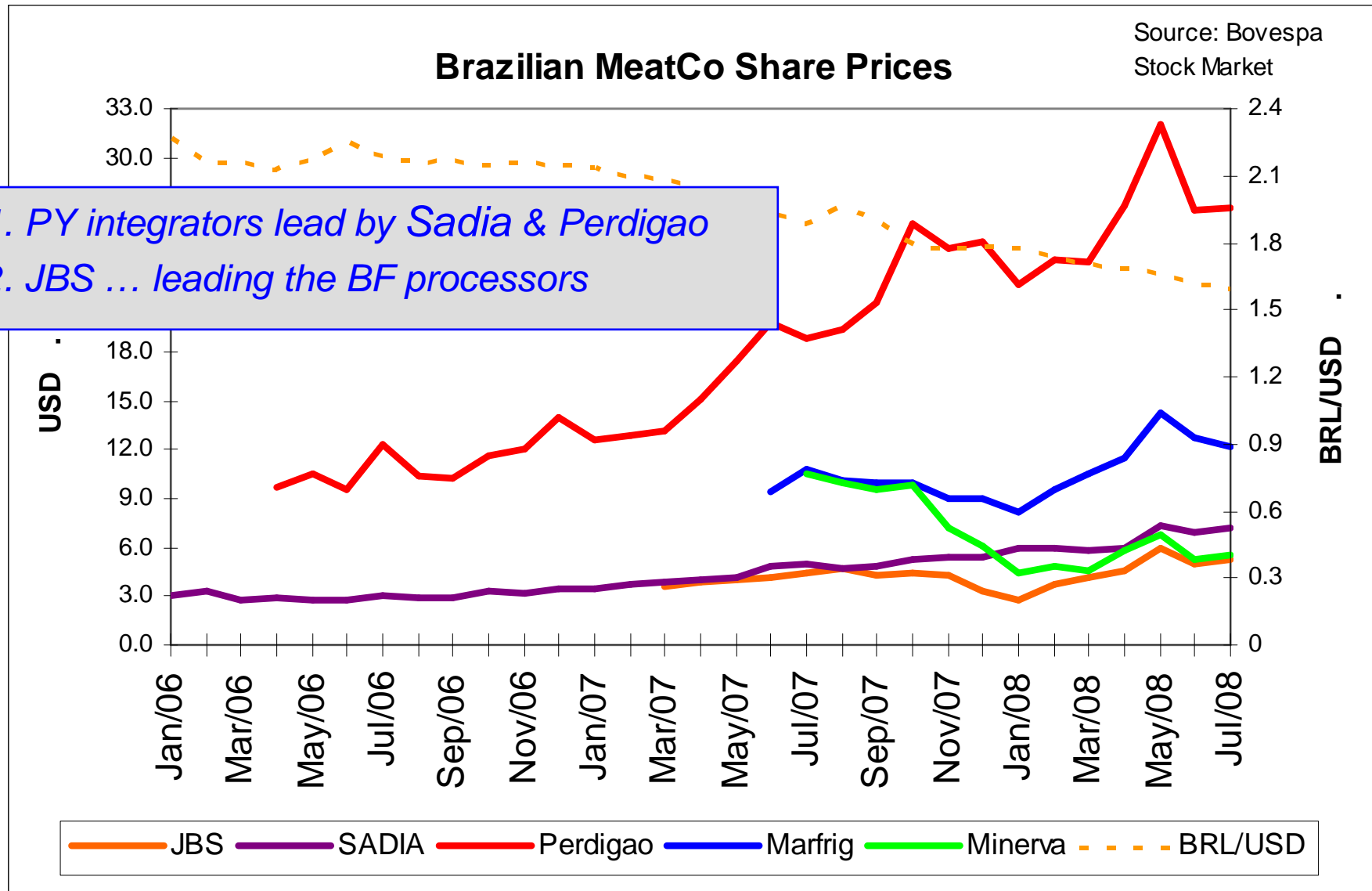
Rapid recent expansion of these large-corporates to exploit scale & global opportunities ... forcing reaction from incumbents

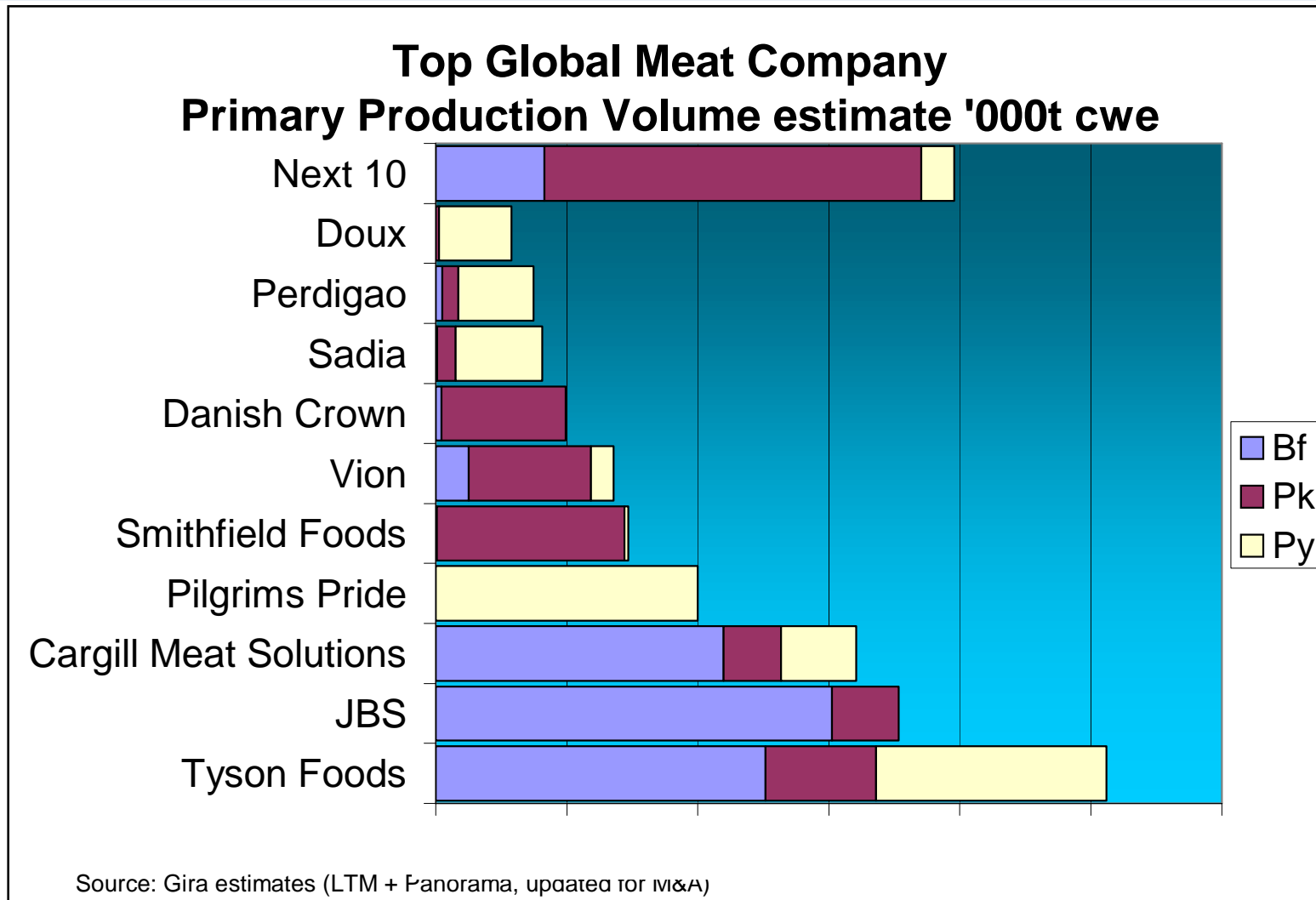
Meat consumption by species - 2005/2015



Gira is updating it's Long Term world meat forecasts in 2009

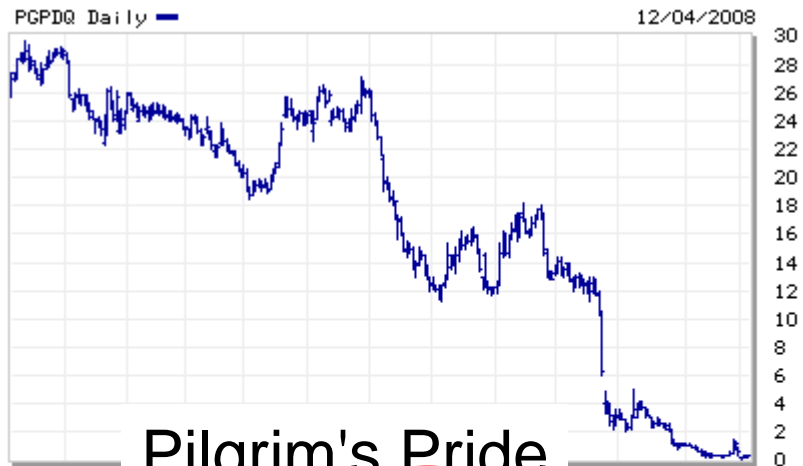
- Previous positive long term global GDP forecasts drive +20% consumption in 10 years ... great agribusiness opportunity, but straining feed and production resources
- .. But the global economic outlook has seriously deteriorated: meaning **weaker short term meat demand growth** (CN dependent)





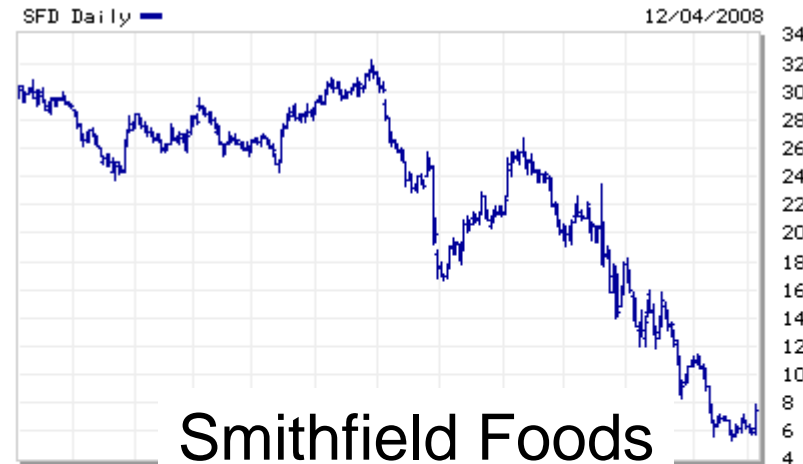
	Bf	Pk	Py	TOTAL
Kill share of top 10	25%	10%	17%	16%
Kill share of 2nd 10	3%	5%	1%	3%

Even agribusiness stocks have plummeted ... forcing a *pause* in strategic developments ... probably not for long



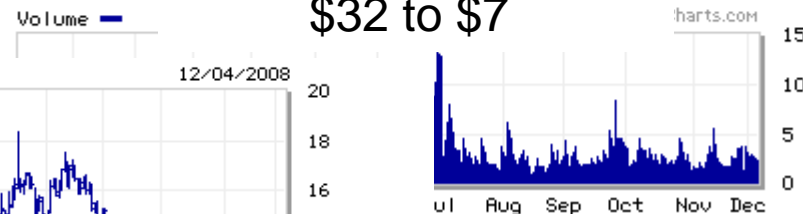
Pilgrim's Pride

\$30 to **\$0.31** !!



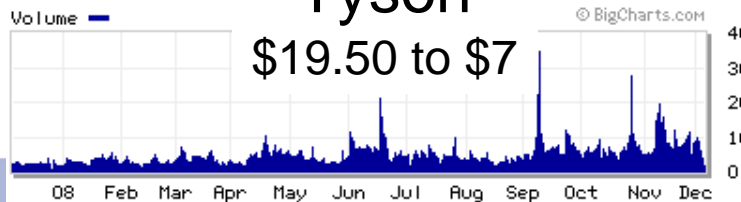
Smithfield Foods

\$32 to \$7



Tyson

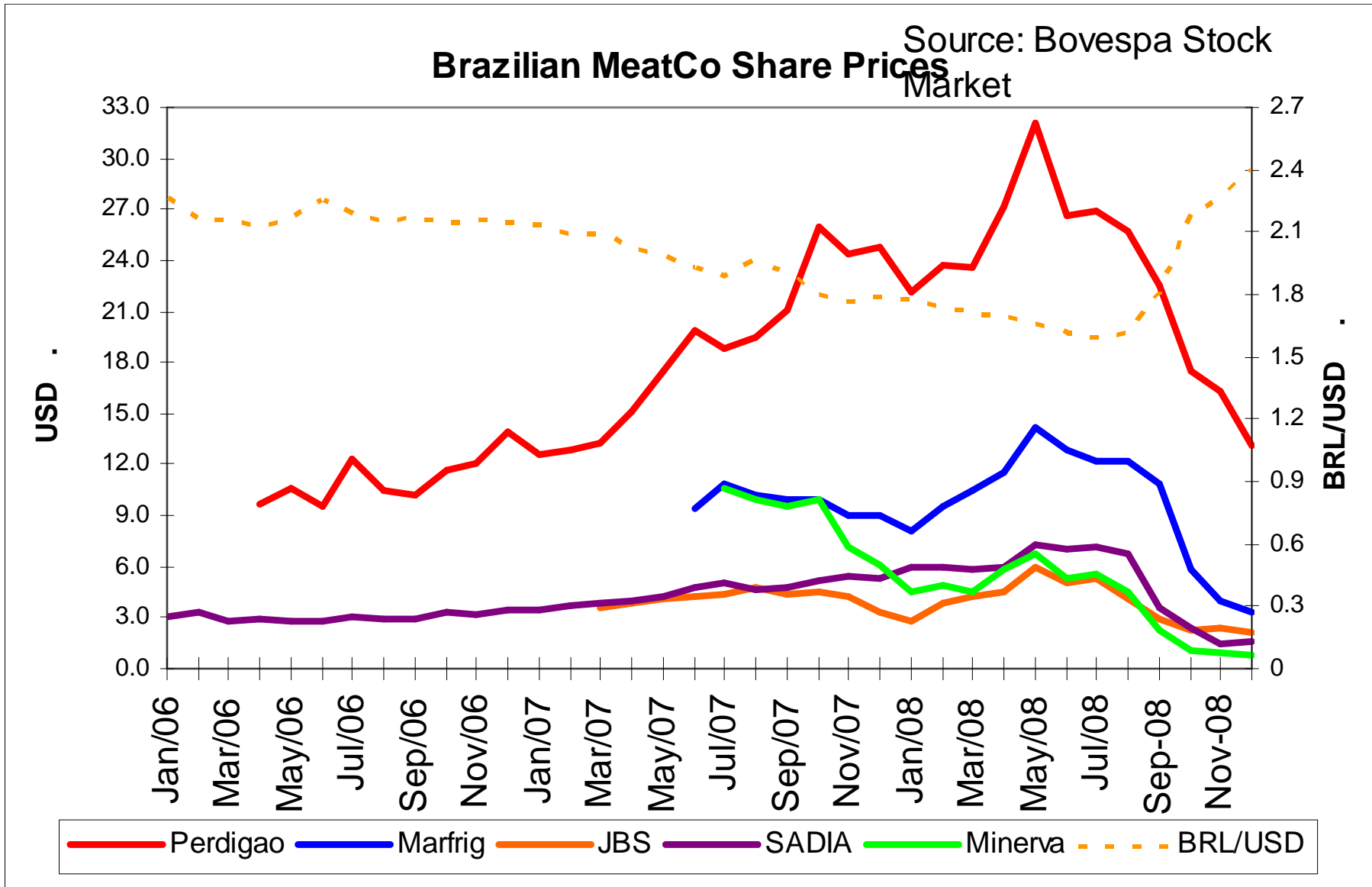
\$19.50 to \$7



Millions

Millions

... and BR share prices have fallen very sharply as well since 3Q08 ... undermining investment potential



4. Some concluding points applied to UK

- Self sufficiency ratios illustrate the **decline of the UK meat** sector
 - Production fall facilitated by de-coupling and low confidence
 - Ease of import access:
 - NZ in lamb
 - S.America and Ireland in beef
 - Denmark & NL in pork
- Animal **disease crises**
 - Regulatory burden
- **Low investment** and weak supply chain **relationships**
 - Retail domination
- **Precedent** even for **UK milk**
 - Precedent for **EU27** ...
- ... but **£stlg decline** hugely helps
- **New leadership** after 07/08 commodity boom? Sustainability?

