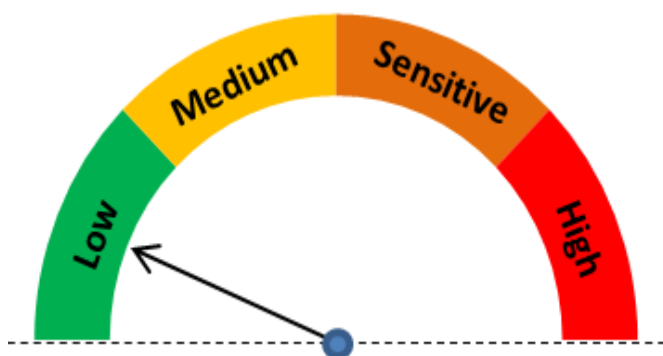




Sector Risk Rating



What to Watch?

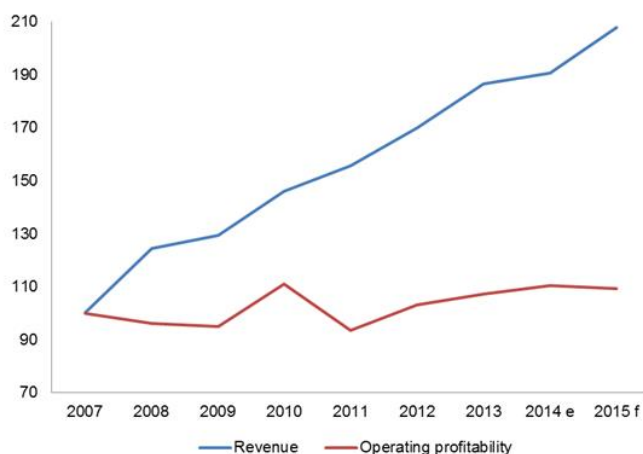
- Evolution of food commodities' prices tending to decline again in 2015 (forecasted at -1%)
- Economic development in India (+7.7% in 2015), a strong opportunity for business growth
- Termination of dairy production quotas in the European Union in April 2015 increasing risk of further dairy price decline
- Termination of sugar production quotas in the European Union to be effective in 2017

Volumes and Profits, Tearing Agrifood in Two

Overall good harvests and slowing consumption growth resulted in agricultural commodities prices scaling back by -3.7% in 2014. Notably, average sugar prices have declined y-on-y by -3.3% to stand at 17.1 cts/lb, barely reaching breakeven for sugar refineries in Brazil. About ten refineries have closed there since 2013. The combination of cheap oil prices (forecasted at USD63 in 2015 for Brent) and slowing growth of agrifood economies – estimated at -5.5% for Russia and -1% for Brazil in 2015 – will feed the downshift of food commodities prices in 2015 (-1% forecasted).

Food processors are not expected to continue benefiting from low commodities prices in 2015 as they did in 2014 when falling prices enabled the 30 largest listed companies to record a +3% increase in operating profits. We forecast operating profits to decline by -1% because of the anticipated stagnation of world consumer price index on the one hand, and the race for volumes that inevitably incur tough price war between industrials, impeding the reaping of benefits from input cost savings. The revenue for the 30 largest listed companies is forecasted to increase by +9% in 2015.

Average Revenue and Profitability for the Top 30 publicly traded Food & Beverage Companies (Index: 2007=100)



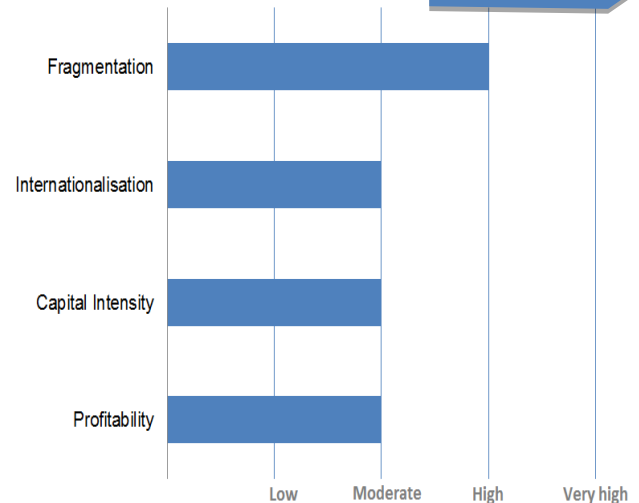
Sources: Bloomberg, Euler Hermes

Sector Value:
4,023bn
 USD

Key Players

Country	Role	Sector Risk
United States	#1 exporter #1 importer #2 producer	●
Germany	#2 importer #3 exporter	●
China	#1 producer #3 importer	●

ID Card



Strengths

- New market opportunities thanks to growing middle class in emerging markets
- Food consumption resilient to economic downturns (no general collapse during the crisis 2008-2009)

Weaknesses

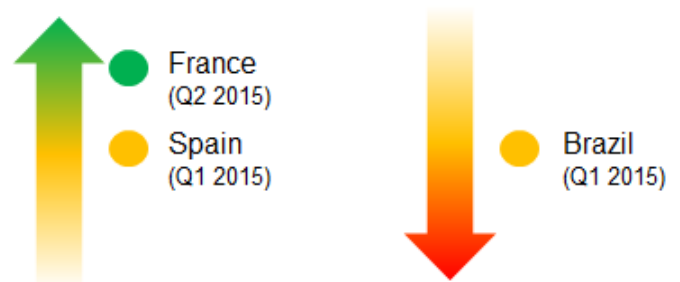
- Low value-added activities
- Sensitivity to agricultural commodities' prices
- Asymmetric relationship with retailers and consumers
- Low level of R&D investments

Subsectors Insights

Agriculture: Farming activities are the hardest hit by plummeting agricultural prices (-14.5% ytd as of May 2015) that hamper yield of harvesting surfaces.

Food Industry: Global activity is steadily growing, underpinned by the demographic growth momentum. The important feature is the diet shift towards 'finer food' of the growing middle-class (40% of world population by 2020 vs. 25% currently), at the loss to basic food producers.

Recent Sector Risk Changes



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