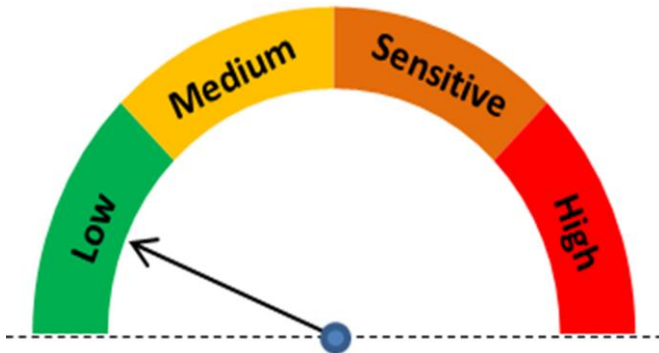




Sector Risk Rating



What to Watch?

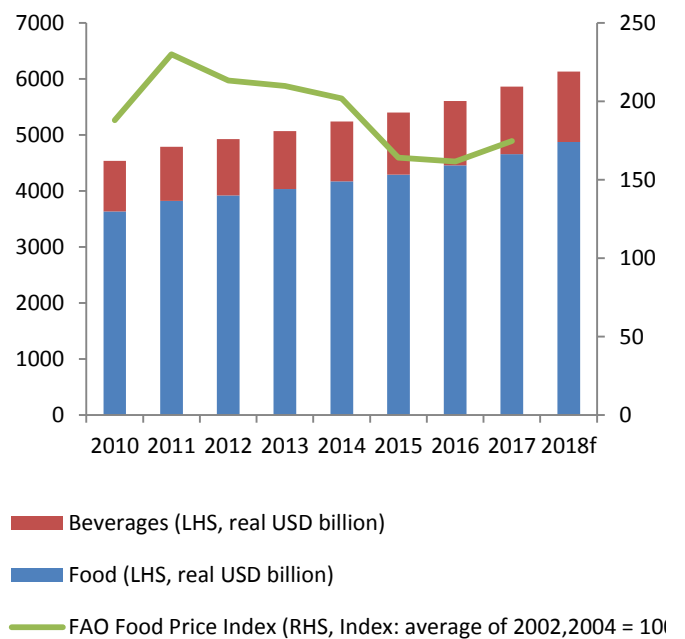
- Potential impact of weather phenomenon La Niña on agricultural commodities prices
- Global trade improvement across the sector due to a falling number of protectionist measures
- Pick-up in M&A activity throughout 2018 driven by lackluster sales growth of packaged foods

The outlook remains positive, however prices of food commodities are to be watched

Second best sector in terms of sector risk after Pharmaceuticals, Agrifood is expected to stay in good shape overall in 2018. However there are some risks associated with the upstream part of the value chain (farmers and growers): La Niña, a weather phenomenon consisting in cooling of some parts of the Pacific Ocean, is likely to lead to rising prices of food commodities such as sugar, coffee, rubber, rapeseed and corn. In 2017, the global food commodities index, FAO Food Price Index, increased by +8% y/y, while during the last occurrence of La Niña in 2010 it rose much more (+22% y/y).

The M&A activity in the sector was down by volume (-32% y/y), yet a volume growth can be expected as the equity market correction in the beginning of 2018 made valuations cheaper, while balance sheets of the key companies remain strong with large cash balances. The year 2018 has already had a good head start after Nestle's announcement of the sale of its US confectionary business to Italy's Ferrero for about \$2.8 billion. The Swiss group is changing its strategy to become more focused on the wellness and health category of products, which is a reflection of trend shaping the whole industry. In the context of an overall lackluster sales growth, this category of products continues to show a double-digit growth on some of the major markets.

Global Food and Beverages sales, FAO Food Price Index



Sources: FAO, Euler Hermes

Key Players

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

Strengths

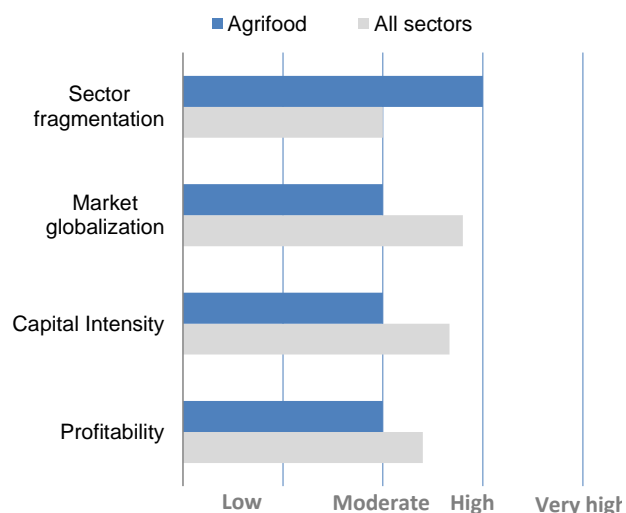
- Strong long-term prospects resulting from population growth
- Sound financial structure with little indebtedness, high liquidity, and solid free cash flow

Subsectors Insight

Agriculture: Regulation. Increasing pressure is put on farmers to track the origin of all food commodities used in the production process. This additional cost will eventually be passed to consumers

Food Industry: Organic food is the fastest growing product category. Its rising importance is emphasized by Amazon's acquisition of Whole Foods in 2017

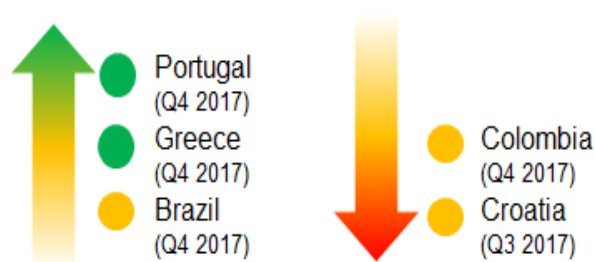
ID Card



Weaknesses

- Sector performance impacted by weather shocks that are difficult to predict
- Declining rates of yield growth for some food commodities
- Farmers suffering globally from weak crop prices

Recent Sector Risk Changes



DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2018 Euler Hermes. All rights reserved.