Atradius

January 2022

Industry Trends Food & beverages

Focus on sector business performance and credit risk

In this issue ...

Disclaimer

Food & beverages industry performance per market

January 2022

Austria	Good
Belgium	Fair
Czech Republic	Fair
Denmark	Fair
France	Fair
Germany	Fair
Hungary	Good
Ireland	Good
Italy	Good
Netherlands	Fair
Poland	Good
Portugal	Fair

Russia	Fair
Slovakia	Fair
Spain	Fair
Sweden	Fair
Switzerland	Good
Turkey	Good
United Kingdom	Fair
Brazil	Good
Canada	Good
Mexico	Fair
USA	Fair

Australia	Good
China	Good
Hong Kong	Good
India	Good
Indonesia	Good
Japan	Good
New Zealand	Fair
Singapore	Fair
South Korea	Good
Taiwan	Excellent
Thailand	Good
United Arab Emirates	Poor

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

Excellent
The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend

Good
The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend

Fair
The credit risk situation in the sector is average / business performance in the sector is stable

Poor
The credit risk in the sector is relatively high / business performance in the sector is below its long-term trend

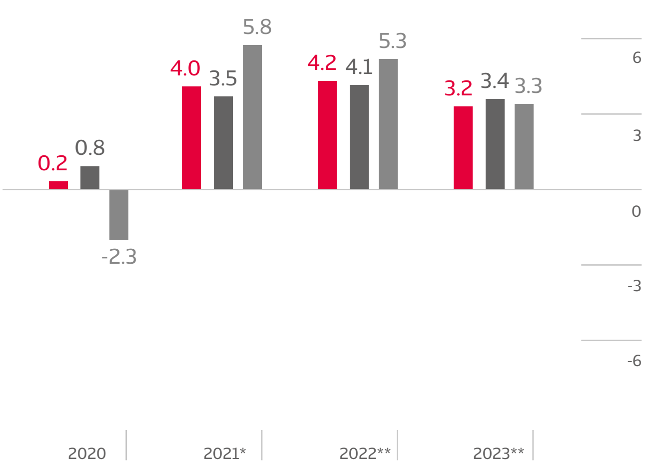
Bleak
The credit risk in the sector is poor / business performance in the sector is weak compared to its long-term trend

Global food & beverages – performance at a glance

Global food & beverages value added output

Beverages output with a strong rebound after the 2020 contraction

y-on-y, % change



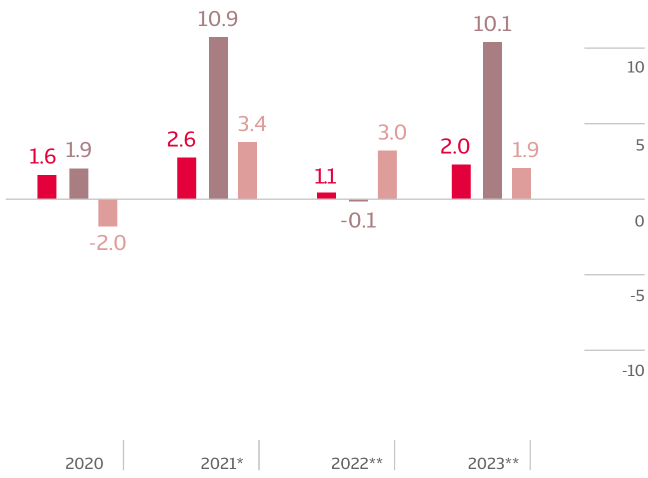
*estimate **forecast

Source: Oxford Economics

Value added output per region

Asia-Pacific with strong growth in 2021

y-on-y, % change



*estimate **forecast

Source: Oxford Economics

Global food & beverages

Food & beverages growth drivers

- The food industry is non-cyclical. Food and beverages demand is inelastic, due to the essential nature of output.
- In emerging economies, the number of middle-income families is growing. As disposable incomes increase, consumers substitute low value-added food items with higher value-added goods.
- Technology is increasingly used to engineer solutions for global food supply. Some forward-looking companies are developing solutions to replace traditional farms and factories with scientifically engineered ingredients and finished products.

Food & beverages constraints

- In many markets the profit margins of food producing and processing businesses are structurally thin and under pressure. This is due to a fiercely competitive environment, in which the bargaining power of major retailers and discounters is very strong.
- Food markets are vulnerable to sudden downside risks, with issues such as commodity price volatility, disease outbreaks and weather always difficult to predict. Such issues could lead to an immediate deterioration of business profitability.
- Consumer habits are changing as the end-client increasingly demands full transparency. Distrust has increased the need for food and drink manufacturers to be more transparent about their ingredients, production processes, and supply chains.

Australia

Stable prospects for food producers despite certain challenges

Australian food and beverages value added output is forecast to grow by more than 2% in 2022, after a 1.1% increase in 2021. The outlook is positive due to the easing of pandemic-related restrictions and ongoing overseas demand. Conditions for food producers and processors are sound, supported by benign weather conditions (forecast of continued rainfall). Many food businesses are established players, and across all segments, the bulk of middle-sized companies is financially resilient, which should enable them to cope with ongoing challenges.

A container shortage currently affects food exporters, in particular in the beverages segment. Larger businesses can cope with this issue, but smaller players with lower margins could suffer should the shortage last. While sharply increased fertilizer prices affect grain producers and wholesalers, at the same time they benefit from robust output and higher sales prices. Consequently, grain and meat processors are facing higher input costs. Additionally, the meat segment has to cope with a cattle shortage after a decline in 2017-2019 caused by draught. The dairy subsector performs well, due to strong and established businesses in the market and higher milk prices.

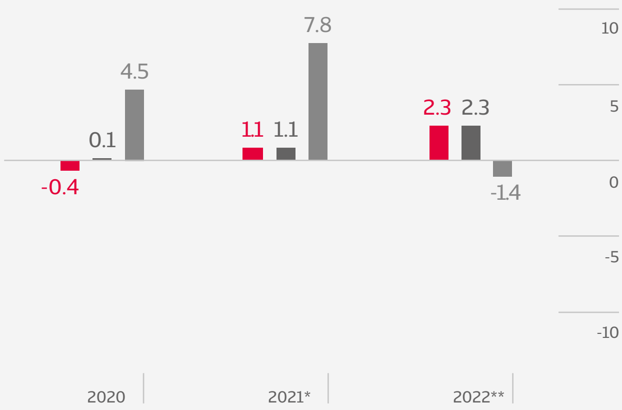
While higher commodity and/or energy costs will surely have an impact on the margins of producers and processors, we do not expect a severe deterioration. Payments in the industry take 14 days on average, and the amount of both payment delays and insolvencies was historically low in 2020 and 2021, as businesses benefited from government support measures. We expect that the expiry of stimulus will trigger an increase of payment delays and insolvencies in 2022, mainly affecting food services businesses with weak liquidity and heavy gearing. Competition in this segment is high due to low entry barriers, while it has suffered from low hospitality and catering demand during the pandemic. While we expect more food insolvencies in 2022 compared to 2019, this rise should be much lower than the increase of about 30% we forecast for all Australian businesses. Given the good or stable credit risk situation in all main subsectors apart from food services, our underwriting stance for the industry is generally open.

Performance forecast along subsectors

Food retail	Dairy producers & processors	Meat producers & processors

Source: Atradius

Australia food value added output



*estimate **forecast

Source: Oxford Economics

Food & beverages
Meat production & processing
Dairy production & processing

Australia food sector - credit risk assessement

Good

Business conditions	Financing conditions		Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector?	high	Non-payments over the last 12 months
Profit margins: trend over the next 6 months	Dependence on bank finance	high	Non-payments over the next 12 months
	Willingness of banks to provide credit	high	Insolvencies over the last 12 months
			Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

Canada

The low level of food business failures persists

Canadian food and beverages value added output is forecast to grow by about 2.5% in 2022, after a 4.4% increase in 2021 and a 2.0% contraction in 2020. Retailers recorded high sales in 2020 and 2021, but this surge could slow down in this year as consumers return to pre-pandemic habits, spending more for dining and drinking out of home. Main subsectors like beverages, dairy, meat, and fruit and vegetables record robust domestic demand. Additionally, larger players benefit from robust export sales.

We expect that profit margins of food businesses will increase along the value chain in the coming months. High commodity, electricity and fuel prices currently affect food producers and processors, but it seems that they can pass them on to retailers and end-customers. Households' purchasing power has increased, and consumers are willing to pay higher prices for food. The premium and healthy/organic food segments are expected to record robust growth rates. However, labour shortage and higher wage costs have become an issue for producers and processors, while the food retail segment is facing growing competition among grocery chains and the market expansion US retailer Walmart. Any price wars would mainly affect the margins of smaller retailers.

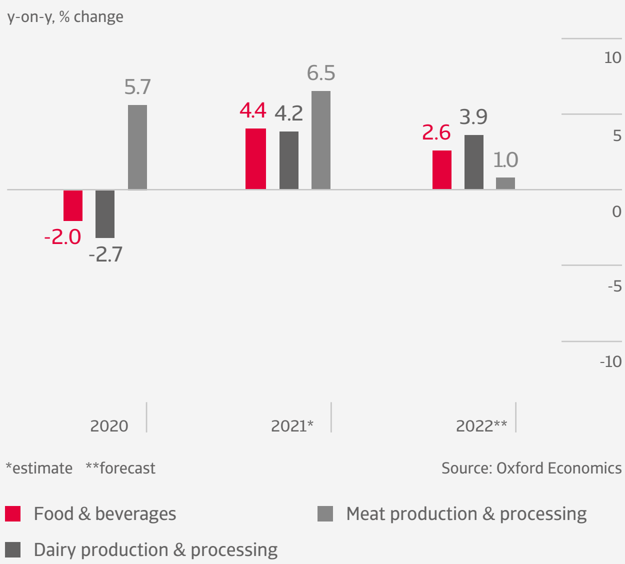
The financial situation of most food businesses is sound, and high leverage of businesses is not an issue. Banks are generally willing to provide loans to food companies. Payments in the industry take 40 days on average, and payment behaviour has been good over the past couple of years, due to good operating results and ongoing support from the government and banks. We expect that the low level of payment delays and insolvencies seen in 2021 will remain unchanged this year. Due to the benign credit risk situation and good growth prospects, our underwriting stance is generally open for food businesses across all segments, in particular for established businesses that are operating for at least 2-3 years. Besides the financial situation of individual businesses, we also assess trading experience, trading levels and bank support.

Performance forecast along subsectors

Food retail	Dairy producers & processors	Meat producers & processors

Source: Atradius

Canada food value added output



Canada food sector - credit risk assessement

Good

Business conditions	Financing conditions		Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector?	low	Non-payments over the last 12 months
+ Profit margins: trend over the next 6 months	Dependence on bank finance	average	Non-payments over the next 12 months
	Willingness of banks to provide credit	high	Insolvencies over the last 12 months
			Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

Denmark

Rising insolvencies in some food segments expected

Danish food and beverages value added output is forecast to grow by about 3.5% in 2022 after a 4.3% increase in 2021. Exports of meat and dairy products rebounded in 2021 (about two thirds of Danish food production is destined for overseas). In the domestic market, food retail will benefit from higher household purchasing power due to full employment and rising wages. However, pandemic-related restrictions imposed by the end of 2021 again hit hospitality and related food service.

Profit margins increased in 2021, but food producers and processors currently have to cope with high prices for commodities, energy and labour. In the domestic market, passing on elevated input prices in the domestic market will be difficult, due to the market power of large retailers. The same will account for food exporters, as soon as supply chain strains will abate. Therefore, we expect margins of producers and processors to decrease in the coming months. High prices for electricity and gas are in particular an issue for the energy-intensive greenhouse segment.

Banks are generally willing to provide loans to the food sector. Payments in the industry take about 30 days - 60 days on average, and payment behaviour has been good over the past couple of years. However, after very low numbers in 2020 and in 2021 we expect both payment delays and insolvencies to increase this year. Re-imposed restrictions hit hospitality, catering and food services, while high costs for energy severely squeeze margins of fruit & vegetables producers. In this segment high production costs could make the products more expensive than imports. Additionally, as of spring 2022 businesses have to start reimbursing corona-related loans provided by the government. We expect food businesses failures to increase by about 15% in 2022.

Our underwriting stance is currently open for food retail and the beverages, dairy and meat segments. However, for the latter the African Swine Fever remains a downside risk. A spread of cases in Denmark would seriously jeopardise pork meat exports, in particular to Asia. Given the current issues, our underwriting stance is more restrictive for food services and fruits & vegetables.

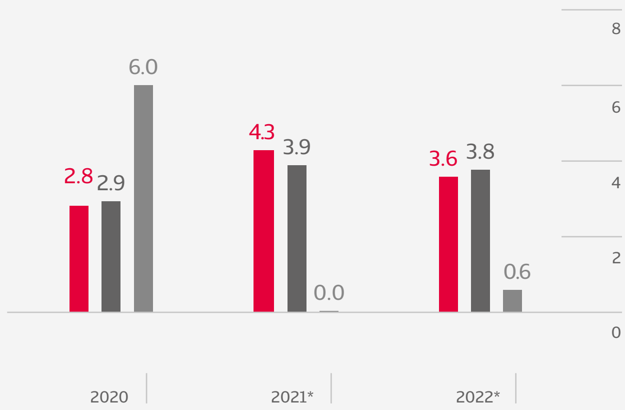
Performance forecast along subsectors

Food retail	Dairy producers & processors	Meat producers & processors

Source: Atradius

Denmark food value added output

y-on-y, % change



*estimate **forecast

Source: Oxford Economics

Food & beverages
Dairy production & processing
Meat production & processing

Denmark food sector - credit risk assessement

Fair

Business conditions		Financing conditions		Default assessment	
+ Demand situation (sales)		Overall indebtedness of the sector?	average	+ Non-payments over the last 12 months	
- Profit margins: trend over the next 6 months		Dependence on bank finance	average	- Non-payments over the next 12 months	
		Willingness of banks to provide credit	high	+ Insolvencies over the last 12 months	
				- Insolvencies over the next 12 months	

big increase | increase | stable | decrease | big decrease

Source: Atradius

France

Further growth in 2022, but mounting troubles for the meat segment

French food and beverages output is forecast to grow by about 4% in 2022, after increasing 4.6% in 2021, and a 2.0% contraction in 2020. During the lockdowns in 2020 and early 2021, food service and producers/processors of key segments like beverages and meat suffered from deteriorating hospitality and catering demand, which had a negative impact on their margins. While restaurant and catering have rebounded since last year, revenues have not yet reached pre-pandemic levels.

Currently producers and processors across all subsectors have to cope with high prices for energy, for commodities (e.g. milk products, wheat, sugar) and for packaging (glass, rubber, paper, plastic, paper). Many will struggle to pass on higher input prices, due to the high market power of retailers and strong competition from their peers within the EU. This will lead to further decreasing profit margins in the coming months.

Payments in the industry take 60 days on average, and payment behaviour has been good over the past two years. High indebtedness of companies is not an issue, and banks are generally willing to provide loans to food businesses, as the sector is non-cyclical and has proved its resilience in the past. We expect that the low level of payment delays and insolvencies seen in 2021 will remain unchanged this year. However, some food processors struggling with deteriorating margins could face higher credit risk.

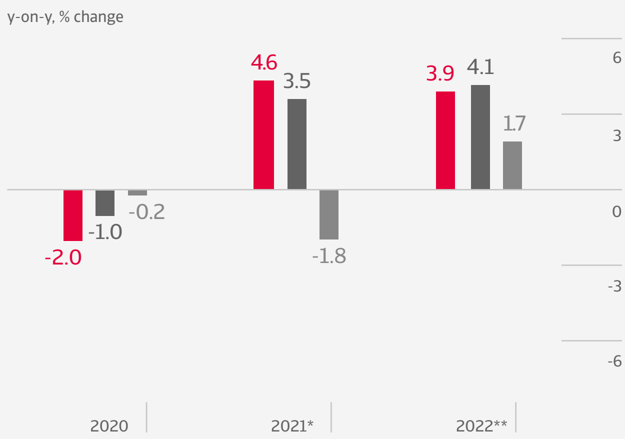
Our underwriting stance is generally open for food retailers, and open to neutral for businesses in the beverages, dairy and fruit & vegetables segments. Beverages businesses recorded lower revenues during the lockdowns and fewer exports, but this subsector has performed well prior to the pandemic and is about to rebound. However, we are restrictive for meat producers and processors. Small and mid-sized businesses in this segment already struggled with low profitability and fierce competition from abroad before the pandemic. Currently higher input costs, diseases (avian flu) and the accelerating shift of consumer habits towards healthy and organic food have a negative impact on the credit risk of the meat segment.

Performance forecast along subsectors

Beverage producers	Dairy producers & processors	Meat producers & processors

Source: Atradius

France food value added output



*estimate **forecast

Source: Oxford Economics

Food & beverages | Meat production & processing | Dairy production & processing

France food sector - credit risk assessement

Fair

Business conditions		Financing conditions		Default assessment	
+ Demand situation (sales)		Overall indebtedness of the sector?	average	Non-payments over the last 12 months	
- Profit margins: trend over the next 6 months		Dependence on bank finance	average	Non-payments over the next 12 months	
		Willingness of banks to provide credit	high	+ Insolvencies over the last 12 months	
				Insolvencies over the next 12 months	

big increase | increase | stable | decrease | big decrease

Source: Atradius

Germany

Rising insolvencies in the meat and food services segments expected

German food and beverages output is forecast to grow by about 2% in 2022, after increasing 1.2% in 2021, and a 4.2% contraction in 2020. Retailers have benefitted from higher consumer spending for premium food products, while food services businesses suffered from low hospitality and catering demand during the lockdowns.

Currently the structurally low margins of food producers and processors are under additional pressure, as costs for commodities, energy, packaging and transport have increased. Passing on higher input prices is difficult due to the overwhelming market power of large retailers and discounters. The outlook for food services remains muted, as the ongoing spread of the pandemic hampers a comprehensive rebound of hospitality and catering. The beverage segment has been struggling for years, affected by changing consumer habits (e.g. lower alcohol consumption). Additionally, lockdowns negatively affected demand. After a 6.9% contraction in 2020, beverages output declined again in 2021, by 1.3%. Despite pent-up demand, another 0.5% contraction is forecast this year. Meat output contracted 4% last year, with only a 1.4% rebound forecast in 2022. Producers and processors are facing major challenges: structurally thin margins, coupled with high input costs and changing consumer preferences (less meat consumption and animal welfare).

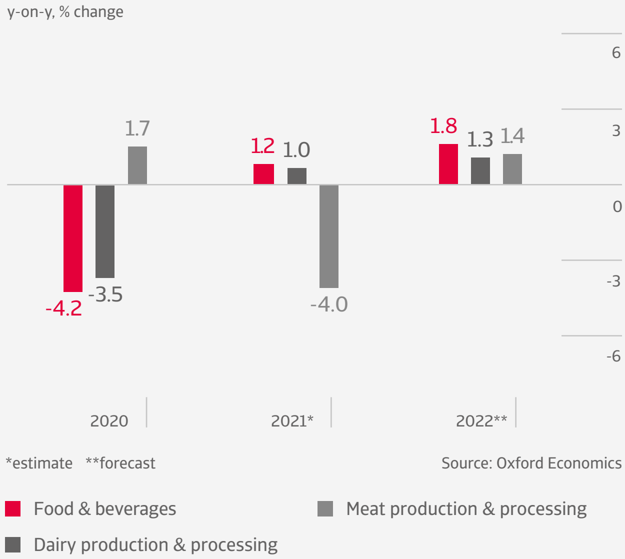
Banks remain rather unwilling to provide loans to food businesses, which has increased the importance of factoring as a financing tool. Payments in the sector take about 45 days on average, and we expect that the number of payment delays and insolvencies will each increase by about 10% in 2022, as pressure on margins continues and government support gradually expires. Mainly affected will be businesses in beverage, meat and food service subsectors. Smaller players with poor financial strength are most at risk to fail, in particular if they lack export opportunities and/or do not offer specific products. Our underwriting stance remains open for food retail, while being neutral for dairy and fruits & vegetables. We are restrictive for beverages, meat and food services, as we expect the difficult business environment in those subsectors to persist in 2022 and beyond.

Performance forecast along subsectors

Food retail	Dairy producers & processors	Meat producers & processors

Source: Atradius

Germany food value added output



*estimate **forecast

Source: Oxford Economics

Germany food sector - credit risk assessement

Fair

Business conditions	Financing conditions		Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector?	high	Non-payments over the last 12 months
- Profit margins: trend over the next 6 months	Dependence on bank finance	high	- Non-payments over the next 12 months
	Willingness of banks to provide credit	low	Insolvencies over the last 12 months
			- Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

Indonesia

Resilient sector performance so far, but downside risks remain

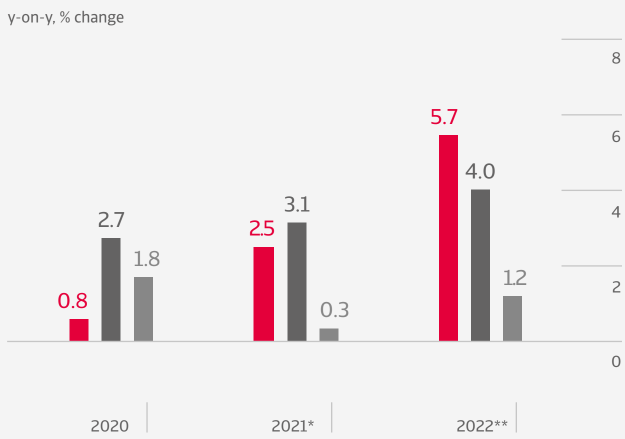
The Indonesian food and beverages sector remained resilient in 2020 and 2021, with value added output increasing 0.8% and 2.5% respectively. The beverages and dairy segments show robust growth rates. Prices for meat remain stable, as the government has increased import quotas. However, consumer demand for fruits and vegetables is impacted by rising sales prices. Online groceries and food delivery businesses gained momentum during the pandemic, while hospitality and food services benefited from the partial easing of restrictions in late 2021 as the vaccination rollout gained momentum.

We expect that profit margins of most businesses will remain stable this year. The impact of globally rising energy and commodity prices has been limited so far. The government fixes energy prices, and most agricultural products needed for further processing are produced domestically. Rising labour costs are not an issue, as labour is widely available and the government regulates wages. That said, price increases in some segments with higher import-dependency (dairy, meat) could not be avoided.

Across the industry the gearing of businesses is manageable, and banks are generally willing to lend to food companies. Payments in the sector take about 30-60 days on average. Payment behaviour has been good over the past couple of years, and we expect this positive trend to continue. Due to the still robust performance during the pandemic and ongoing demand growth, we expect protracted defaults and insolvencies to level off in 2022, or even to decrease by about 5%-10%.

Our underwriting stance is mainly open for food processors and producers, in particular if businesses are part of a larger group. However, we are more cautious with high-leveraged companies. We maintain a neutral approach for food service and retail. In particular, food services and related hospitality still face the downside risk of another tightening of restrictions should coronavirus cases surge again.

Indonesia food value added output



*estimate **forecast

Source: Oxford Economics

Food & beverages
Meat production & processing
Fruits & vegetables

Performance forecast along subsectors

Food retail	Beverage producers	Meat producers & processors

Source: Atradius

Indonesia food sector - credit risk assessement

Good

Business conditions	Financing conditions		Default assessment
Demand situation (sales)	Overall indebtedness of the sector?	average	Non-payments over the last 12 months
Profit margins: trend over the next 6 months	Dependence on bank finance	average	Non-payments over the next 12 months
	Willingness of banks to provide credit	high	Insolvencies over the last 12 months
			Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

Ireland

Bakeries and meat processors struggling with higher input prices

In 2020 and 2021, consumer spending on food in Irish supermarkets increased, leading to higher profit margins for retailers, food producers and processors alike. Despite the reopening of hospitality after the lockdowns, food sales in supermarkets remained above pre-pandemic levels. The negative effect of Brexit has been lower than previously expected, as many Irish food businesses moved their supply chains away from UK towards EU providers, and additionally managed to increase their sales in the EU.

That said, the sector is struggling with higher prices for energy and commodities (in particular grain). While primary producers have been able to pass on higher input costs, food processors (e.g. butchers, bakers) struggle to do the same with retailers, and their profit margins have started to deteriorate. We expect that some bakery businesses that have fixed price contracts with supermarkets could face issues in 2022, while labour shortage (in particular in the meat-processing segment) has led to increased labour costs. A partial shutdown since December has hit hospitality again, and will have a negative effect on the performance of beverages, fruits & vegetables and food service in Q1 of 2022.

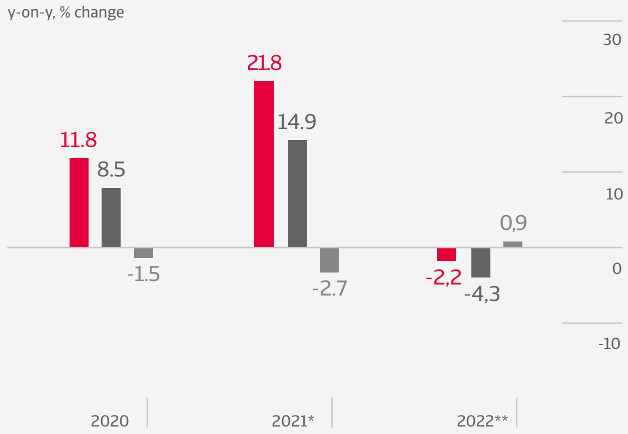
Food businesses have made large investments in productivity over the past two years, which has resulted in higher gearing. Banks remain supportive, and have provided covenant waivers for businesses affected by the pandemic. Payments in the food sector take about 40 days on average, and payment behaviour has been good over the past couple of years, with a low number of business failures compared to other industries. Insolvencies have been historically low over the past 12 months due to strong fiscal government support. However, revenues of hospitality and related food service businesses continue to suffer, with many expected to fail after the expiry of fiscal measures. In total, we expect food service and hospitality insolvencies to increase by about 25% in 2022, and our underwriting stance remains restrictive for both segments and related beverage and fruits & vegetables businesses. That said, we remain open for food retailers and businesses active in the dairy and meat businesses.

Performance forecast along subsectors

Food retail	Dairy producers & processors	Meat producers & processors

Source: Atradius

Ireland food value added output



*estimate **forecast

Source: Oxford Economics

- Food & beverages
- Dairy production & processing
- Meat production & processing

Ireland food sector - credit risk assessement

Good

Business conditions		Financing conditions		Default assessment	
+	Demand situation (sales)	Overall indebtedness of the sector?	average	+	Non-payments over the last 12 months
-	Profit margins: trend over the next 6 months	Dependence on bank finance	average	-	Non-payments over the next 12 months
		Willingness of banks to provide credit	high	+	Insolvencies over the last 12 months
				-	Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

Italy

Ongoing output growth in 2022, but downside risks for some segments

After a 3% contraction in 2020, Italian food and beverages sector output rebounded 4% in 2021, and is set to grow further in 2022, supported by domestic consumption and recovering exports. Food retailers benefitted from growing revenues during the lockdowns, with sales now back again to normal levels. The dairy segment recorded increasing domestic and export sales last year, while the beverages subsector remains affected by persistend lower demand from hospitality.

High prices for cereals, milk, oil, and sugar are impacting processors and producers across most key subsectors, such as meat, dairy, pastries/pasta. Increased energy prices affect segments like food mills, pasta producers and businesses with food preservation. This also affects retailers with large selling surfaces (cooling of food items and heating of space requirements). Due to the market power of large retailers, food producers and processors have troubles to pass on higher input prices, which results in lower profit margins. However, a serious deterioration is not expected. That said, food service businesses and wholesalers depending on the hospitality sector remain under pressure, after suffering from a sharp decrease in sales and margins during the lockdowns. Revenues have recovered somewhat in 2021, but not reached pre-pandemic levels yet. The short-term outlook remains uncertain as the ongoing spread of the pandemic prevents a rebound of hospitality.

While dependence on bank financing is rather low in the food retail segment, it is higher in the food producing/processing subsectors. Due to the non-cyclical nature of food, banks are generally willing to provide loans to the industry. Payments in the sector take 60 days on average, and payment behaviour has been good over the past two years. Both payment delays and insolvencies have decreased over the past couple of months, to very low level. This mainly due to extra liquidity injected with stimulus measures (e.g. bank loans with state guarantee). With the gradual expiry of government support we expect that payment delays and insolvencies will increase year-on-year in 2022, back to normal levels. Our underwriting stance is open for most subsectors, with a more cautious approach in the food service/wholesalers segment.

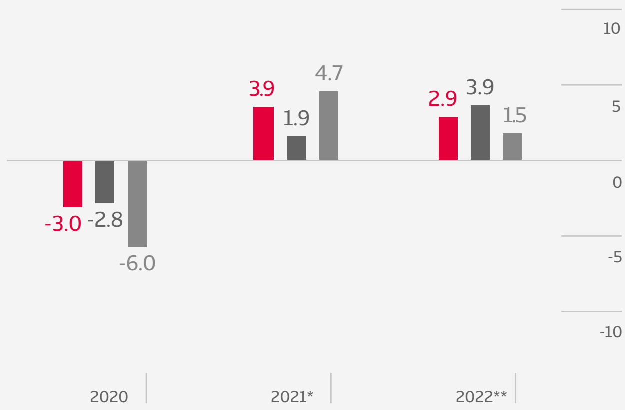
Performance forecast along subsectors

Food retail	Food services	Dairy producers & processors

Source: Atradius

Italy food value added output

y-on-y, % change



*estimate **forecast

Source: Oxford Economics

Food & beverages
Meat production & processing
Dairy production & processing

Italy food sector - credit risk assessement

Good

Business conditions		Financing conditions		Default assessment	
+ Demand situation (sales)		Overall indebtedness of the sector?	average	+ Non-payments over the last 12 months	
Profit margins: trend over the next 6 months		Dependence on bank finance	average	- Non-payments over the next 12 months	
		Willingness of banks to provide credit	high	+ Insolvencies over the last 12 months	
				- Insolvencies over the next 12 months	

big increase | increase | stable | decrease | big decrease

Source: Atradius

The Netherlands

Rising insolvencies in the food service segment expected

The Netherlands is one of the world´s largest exporters of agricultural-food products, with a focus on meat and dairy. Dutch food and beverages value added output is forecast to grow by 3% in 2022, supported by a rebound in exports. In 2020 and H1 of 2021, food services suffered from sharply deteriorating revenues due to sharply dropped demand from hospitality, which also impacted the food supply chain. In particular, veal and poultry producers and processors faced steeply decreasing volumes and sales prices. For poultry processors, sharply decreased demand from food services and declined exports resulted in rising bankruptcies and mergers last year.

Since H2 of 2021, food producers and processors have to cope with higher prices for commodities, energy and transport, while labour shortage remains an issue. The ability to pass on higher input prices depends on the elasticity of demand for certain products, (international) competition and individual supply contracts. In the domestic market, large food retailers are reluctant to raise sales prices for consumers. While pressure on profit margins for food producers and processors has increased, we do not expect a severe deterioration in the coming months.

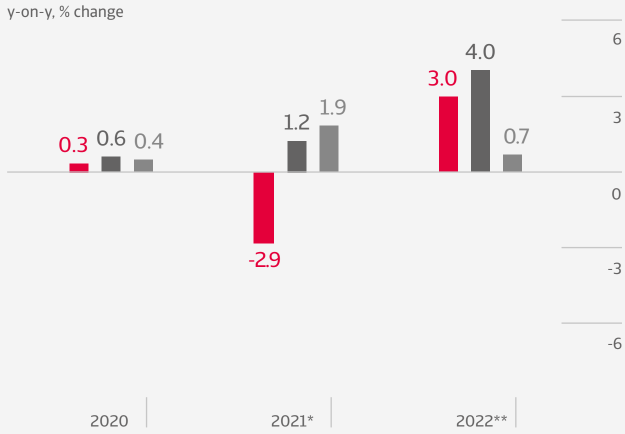
Banks are generally willing to provide loans to the industry, while the indebtedness of Dutch food companies is low compared to EU peers. Payments in the food industry take 45 days on average, and payment behaviour has been good over the past two years. The insolvency level for food and other Dutch sectors was very low by historical standards in 2020 and 2021, mainly due to ongoing bank support and comprehensive fiscal stimulus (e.g. generous credit guarantee schemes). However, we expect that food insolvencies will increase by about 15% in 2022 compared to 2019, mainly affecting food service businesses. Re-imposed restrictions since the end of 2021 have hit this segment again, and additional aid packages are less comprehensive than previous schemes. Our underwriting stance remains open for food retail, beverages and fruits & vegetables, while being neutral for dairy and meat producers and processors. However, we are restrictive for food services, as we expect the difficult business environment in this segment to persist in 2022.

Performance forecast along subsectors

Food retail	Fruits & vegetables	Meat producers & processors

Source: Atradius

The Netherlands food value added output



*estimate **forecast

Source: Oxford Economics

Food & beverages
Fruits & vegetables
Meat production & processing

The Netherlands food sector - credit risk assessement

Fair

Business conditions	Financing conditions		Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector?	low	Non-payments over the last 12 months
Profit margins: trend over the next 6 months	Dependence on bank finance	average	Non-payments over the next 12 months
	Willingness of banks to provide credit	willing	Insolvencies over the last 12 months
			- Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

Poland

Positive performance outlook despite some downside risks

Food is one of Poland's strongest industries, and value added output is forecast to grow by more than 5% in 2022. However, increased energy costs affect the margins of some segments (cold stores, food distributors, ready-to-eat meal producers), while meat producers and processors have to deal with higher prices for animal feed. Passing on higher input costs is difficult, as price competition in the retail segment is fierce, with a concentration process ongoing (many smaller food retailers had to leave the market over the past couple of years).

While we do not expect that profit margins of food businesses will deteriorate sharply in H1 of 2022, downside risks remain. Energy prices could become a serious issue, should they remain high throughout 2022. Profit margins in the beverage segment could suffer from higher excise duties for alcoholic drinks. At the same time, rising interest rates could affect the profitability of companies with high bank loans. The gearing of many food businesses is elevated, due to enforced investment in energy-efficiency and automation. Downside risks for the meat segment are an ongoing surge of bird flu and African swine fever, which could lead to import bans for Polish meat and subsequent price deterioration. Any re-imposition of restrictions to stem the current spread of the pandemic could hit again hospitality and related food services.

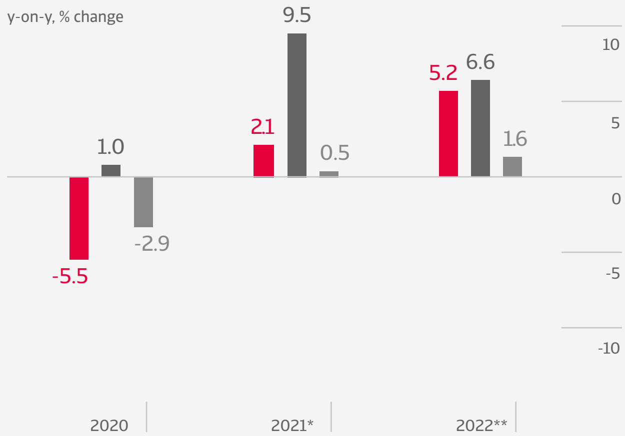
Payments in the food industry take 30 days on average, and payment behaviour has been good over the past two years. Large extensions of payments are rather unusual, as businesses are afraid of any negative reputation as a "bad payer". However, we expect as slight increase in payment delays of about 10% in the coming 12 months, as many businesses face input price issues and lack of options to pass them on. Insolvencies are low compared to other industries, and we do not expect a sharp increase in 2022. As the Polish food market is still dispersed, troubled businesses are rather taken over by competitors than failing. The mid- and long-term growth outlook for the Polish food sector remains good, and across all segments, our underwriting stance remains open to neutral.

Performance forecast along subsectors

Dairy producers & processors	Fruits & vegetables	Meat producers & processors

Source: Atradius

Poland food value added output



*estimate **forecast

Source: Oxford Economics

Food & beverages
Meat production & processing
Dairy production & processing

Poland food sector - credit risk assessement

Good

Business conditions	Financing conditions		Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector?	high	Non-payments over the last 12 months
Profit margins: trend over the next 6 months	Dependence on bank finance	high	- Non-payments over the next 12 months
	Willingness of banks to provide credit	high	Insolvencies over the last 12 months
			Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

Spain

Recovery of food demand from hospitality remains shaky

Spain food and beverages value added output is forecast to grow by about 2% in 2022, after increasing 1% in 2021 and a 5.6% contraction in 2020. Retailers recorded a significant increase in sales in margins in 2020 and early 2021, but the situation has returned to normal with the easing of restrictions, leading to stronger competition and tighter margins. Food service has partly recovered since H1 of 2021, in line with rebounded demand from hospitality after the lockdowns (tourism-related hospitality is a key customer of the Spanish food industry). However, the recovery remains shaky, due to the ongoing spread of the omicron variant.

Producers and processors across all main subsectors are facing high prices for commodities (e.g. for animal feed and metals for food canning), fertilisers, and energy. Price negotiations have started in H2 of 2021 with wholesalers and retailers, but is seems improbable that higher input prices can be passed on entirely, due to the market power of large retailers. Therefore, we expect margins of food producers and processors to shrink in 2022.

After a significant drop in sales in 2020 due to lockdowns, the beverages segment has rebounded, although not yet to pre-pandemic levels. The fruit and vegetables segment consists mainly of small businesses with weaker financials compared to other sectors, and is strongly impacted by higher prices for fertilisers and energy. That said, rising exports partly offset the issue of high input prices. In the meat subsector, an excess of pork meat due to recently imposed import barriers from China has led to sharply decreased price levels. In combination with higher energy and feed costs, this has led to deteriorating margins for producers.

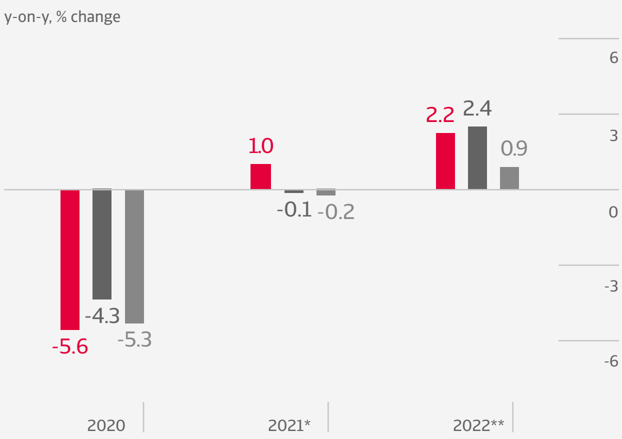
Payments in the food sector take about 60 days on average, and the amount of payment delays and business failures was low in 2021. However, we expect that increased cost pressure, deteriorating margins and the gradual expiry of government support could result in increasing payment defaults and insolvencies in the course of 2022. Mainly affected could be smaller businesses that have increased their indebtedness during their pandemic. Along subsectors, meat and food service face higher credit risk.

Performance forecast along subsectors

Food retail	Fruits & vegetables	Meat producers & processors

Source: Atradius

Spain food value added output



*estimate **forecast

Source: Oxford Economics

Food & beverages
Fruits & vegetables
Meat production & processing

Spain food sector - credit risk assessement

Fair

Business conditions	Financing conditions		Default assessment
Demand situation (sales)	Overall indebtedness of the sector?	average	Non-payments over the last 12 months
- Profit margins: trend over the next 6 months	Dependence on bank finance	average	- Non-payments over the next 12 months
	Willingness of banks to provide credit	neutral	Insolvencies over the last 12 months
			- Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

United Kingdom

Higher credit risk for the meat and food service segments

UK food and beverages output is forecast to grow by more than 3% in 2022, after increasing 4.1% in 2021, and a 5.3% contraction in 2020. Retailers have largely benefitted from increased demand over the past two years. However, in particular for food producers and processors challenges are mounting, due to rising input prices, the ongoing pandemic and Brexit. Across all segments, sharply risen costs for commodities, energy, fertiliser, transportation and packaging have increased input prices along the value chain. Sanitation protocols and absenteeism have additionally added to cost pressure. While the EU-UK non-tariff agreement is largely positive, there are additional costs associated with customs declaration and local content audits. Lack of skilled workers from the EU are adding to the serious issue of labour shortage in food production/processing, and salary increases needed to retain or attract staff are causing additional cost pressure.

While food producers and processors try to negotiate higher sales prices with their wholesalers and retailers, passing on all input price increases will be difficult, and we expect margins of many businesses to deteriorate, forcing them to upgrade their cost management and to improve efficiency. However, despite those measures we expect that the credit risk quality of many businesses will suffer in the coming months.

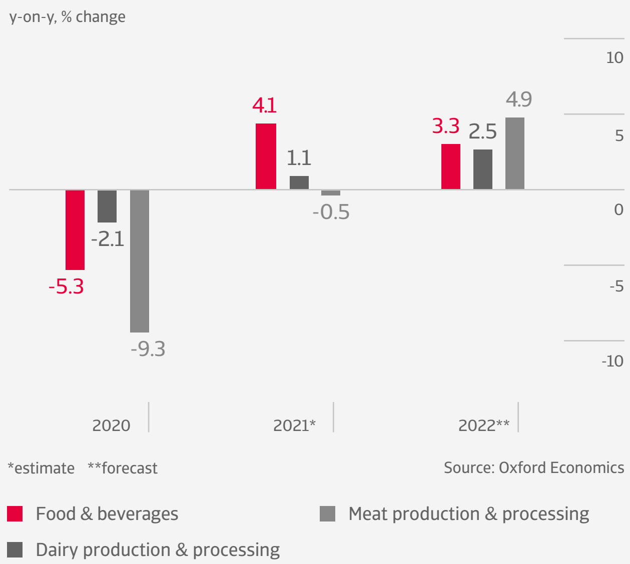
Payments in the food sector take about 45-60 days on average. The amount of payment delays and business failures has been artificially low in 2020 and 2021, due to massive stimulus support and bankruptcy moratoriums. However, with the expiry of government support, and input cost inflation hurting profits and cash generation, liquidity issues will increase. We expect an insolvency increase of about 20% in 2022 compared to 2019, back to normal levels. Mainly exposed to business failures are the meat and the food service segments. Meat producers and processors in particular suffer from high input costs and lack of skilled labour. Many food service businesses have made significant borrowings and the segment suffered severely from deteriorated hospitality demand during the lockdowns. That said, the dairy and fruits & vegetables subsector perform better despite some cost pressure.

Performance forecast along subsectors

Food retail	Food service	Meat producers & processors

Source: Atradius

United Kingdom food value added output



United Kingdom food sector - credit risk assessement

Fair

Business conditions	Financing conditions		Default assessment
+ Demand situation (sales)	Overall indebtedness of the sector?	high	Non-payments over the last 12 months
- Profit margins: trend over the next 6 months	Dependence on bank finance	high	- Non-payments over the next 12 months
	Willingness of banks to provide credit	high	Insolvencies over the last 12 months
			- Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

United States
Consumers have to bear the surge in food production costs

US food and beverages value added output is forecast to grow by about 1% in 2022, after increasing 3.1% in 2021 and 1.8% in 2020. The food retail segment benefited from higher sales over the past 24 months, but competition remained fierce and margins tight. In the food service segment a rebound is underway, but many businesses still struggle to absorb the sharp decrease in demand from hospitality seen in 2020 and H1 of 2021. The current spread of the omicron variant remains a downside risk for the ongoing recovery.

Food production costs have increased across all subsectors due surging prices for commodities, transportation bottlenecks and labour shortage. Additionally, droughts in central and western states could adversely affect production and margins of the fruit & vegetables subsector. While the margins of food producers and processors have been impacted by higher input costs, both are in general able to pass on a large share of those costs to wholesalers/ retailers and end-customers. This has resulted in the sharpest increase in food price inflation since 2008 (up 6.1% year-on-year in November 2021). We expect that food prices will remain elevated until supply constraints ease in H2 of 2022.

Access to external financing is not an issue for food businesses. Many are private equity-owned and therefore highly leveraged, using credit lines for working capital. Ongoing mergers and acquisitions in the industry are also a reason for high debt levels. Payments in the food sector take about 30 days on average, and the amount of payment delays and business failures has not increased 2021. We expect no deterioration in 2022.

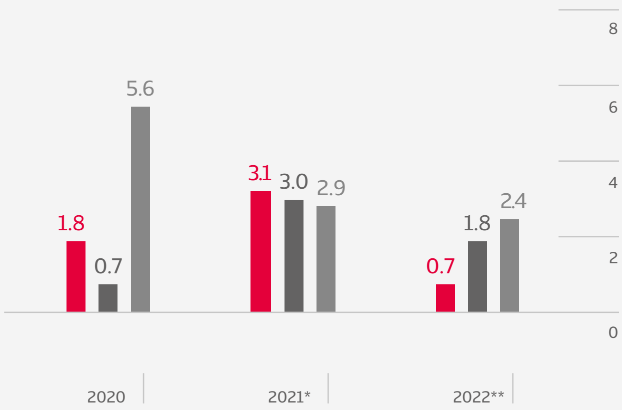
Next to food retail, our underwriting stance is open for beverages, as most businesses in this segment show a solid performance and sufficient liquidity. We are neutral for the dairy and meat subsectors, where higher operating and production costs have an impact on margins. We are more restrictive regarding food service, as this segment is highly susceptible to the spread of the omicron variant and subsequent repercussions for hospitality.

Performance forecast along subsectors

Beverages	Food service	Meat producers & processors

Source: Atradius

United States food value added output



*estimate **forecast

Source: Oxford Economics

- Food & beverages
- Meat production & processing
- Dairy production & processing

United States food sector - credit risk assessement

Fair

Business conditions		Financing conditions		Default assessment
+	Demand situation (sales)	Overall indebtedness of the sector?	high	Non-payments over the last 12 months
-	Profit margins: trend over the next 6 months	Dependence on bank finance	high	Non-payments over the next 12 months
		Willingness of banks to provide credit	high	Insolvencies over the last 12 months
				Insolvencies over the next 12 months

big increase | increase | stable | decrease | big decrease

Source: Atradius

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