

Industry match-ups



Northern Ireland versus Germany
European football championship 2016



Sector playing field: food industry
Match preview

4:4*

* Comparison of Atradius credit risk situation/business performance outlook for the industry
(Ranking from one ball (very poor) to five balls (very good))



Squad performance for the tournament – check

British food & beverages industry

2015	2016f	2017f
2.3	2.0	2.2
0.2	0.2	2.1

German food & beverages industry

2015	2016f	2017f
1.7	1.6	1.5
-1.1	0.8	2.2

Country
GDP growth

Food & beverages sector value
added growth (%)

1.2
high

Average food & beverages sector growth
over the past 3 years (%)

Level of competition

-0.3
high

Sources: IHS, Atradius

Ambitious growth targets

Food is Northern Ireland's biggest manufacturing industry, with sales totalling more than GBP 4.5 billion and as many as 100,000 jobs supported by the agri-food sector including farming, fishing, retail and distribution. There are over 400 food and drink processing companies located in Northern Ireland. Meat and dairy are the largest sectors, accounting for about 50% of turnover.

In 2013 the Northern Irish Agri-Food Strategy Board launched an ambitious growth strategy. They have targeted a 60% (from 2010) increase in turnover to GDP 7 billion by 2020.

Northern Irish food businesses profit margins are expected to remain stable in 2016, and banks are willing to provide loans to the industry.

Overwhelming market power of large retailers and discounters

According to the German Food Association BVE, nominal turnover decreased 3.4% in 2015, to EUR 166 billion. While domestic sales decreased 5.7%, export sales just fell 0.1%. Despite decreasing sales, the equity strength of businesses remains good in this sector, but larger groups and producers are usually better capitalised than wholesalers or retailers.

The overwhelming market power of large retailers and discounters and the tough competition and price wars in the food retail sector indicate that food producers, processors and suppliers have found it difficult to pass on costs. As a result, their profit margins have decreased in recent years and are continuing to decline.

Nevertheless, despite the problems in the industry, many companies in all food subsectors are doing well. The food sector is non-cyclical, and thus less volatile than other industries. Moreover, the sector's export share has almost doubled since the mid-1990s, providing business opportunities abroad.





Players to watch

Northern Ireland

- In the beverages industry the main products are soft drinks, beer, whiskey, tea and coffee. While there are approximately 40 companies in the sector, it is driven by three large companies which account for almost 85% of turnover and two-thirds of employment. There is strength from their maturity as organisations, sophistication in their processes, and financial resilience.
- The beef and sheep meat segment is the largest subsector by turnover. Its strengths are the quality of livestock and processors equipped with well invested and accredited facilities.



- In the dairy segment, the value of milk output decreased 27% in 2015. The volatility in the average milk price over recent years is a reflection of Northern Ireland's dependence on global commodity markets.



Germany

- Meat/meat products is by far the largest subsector, controlled mainly by a few market-leading meat processors who, over recent years, have created fully vertically integrated groups. The rising demand for meat worldwide has provided business opportunities for the German meat industry, with a boost to the profit margins of those with the largest export share.

- Despite an expected sales upturn this summer, sales prices in the German beverage industry (beer, mineral water, soft drinks, etc.) remain under pressure because of lower consumption, increasing consumer price sensitivity, overcapacity and discounting. Profit margins continue to shrink in this segment.



Major strengths and weaknesses

Northern Irish food industry

Part of the UK, which is a net importer of food

Reputation as a supplier of wholesome food with the provenance that comes from the values of the local farming industry

As part of an island, Northern Ireland has a number of distinct advantages for the production of safe food



Farm incomes in Northern Ireland fell steeply in 2015

Issues with the potential dual identity of Northern Irish and Republic of Ireland food products - i.e. both British and Irish



German food industry

Non-cyclical industry

Innovative industry sector, reacting on changing consumer behaviour

Profits from increasing export business

Internationally very competitive

Partial overcapacities

Shrinking margins

Declining number of consumers and ageing society

Low price levels due to strong discount sector



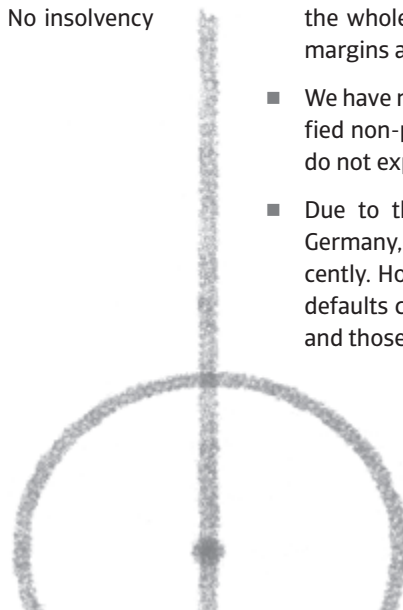
Fair play ranking: payment behaviour and insolvencies

Northern Irish food industry

- The average payment duration in the UK food industry is 45-60 days.
- Payment experience has been good over the past two years and protracted payments are low.
- Non-payment notifications are low, and we do not expect increases in the coming months.
- The level of food insolvencies is low. No insolvency increases are expected in 2016.

German food industry

- Food producers and wholesalers pay, on average, within 30 days while payment terms of food retailers often vary between 45 and even 90 or more days.
- With food processing companies and retailers demanding longer payment terms from their immediate suppliers to improve their working capital, a wave of longer payment terms is being created along the whole supply chain. Still, the already low profit margins are decreasing further.
- We have not seen any increase in the number of notified non-payments in the last couple of months and do not expect this in the near future.
- Due to the still strong economic environment in Germany, food insolvencies have not increased recently. However, in the medium term the number of defaults could rise, especially for smaller businesses and those with poor financial strength.



Disclaimer

This report is provided for information purposes only and is not intended as a recommendation or advice as to particular transactions, investments or strategies in any way to any reader. Readers must make their own independent decisions, commercial or otherwise, regarding the information provided. While we have made every attempt to ensure that the information contained in this report has been obtained from reliable sources, Atradius is not responsible for any errors or omissions, or for the results obtained from the use of this information. All information in this report is provided 'as is', with no guarantee of completeness, accuracy, timeliness or of the results obtained from its use, and without warranty of any kind, express or implied. In no event will Atradius, its related partnerships or corporations, or the partners, agents or employees thereof, be liable to you or anyone else for any decision made or action taken in reliance on the information in this report or for any consequential, special or similar damages, even if advised of the possibility of such damages.

Copyright Atradius N.V. 2016

If you've found this report useful, why not visit our website www.atradius.com, where you'll find many more Atradius publications focusing on the global economy, including more country reports, industry analysis, advice on credit management and essays on current business issues.

On Twitter? Follow [@Atradius](https://twitter.com/Atradius)

Connect with Atradius
on Social Media



@atradius



Atradius



atradius

Atradius N.V.
David Ricardostraat 1 · 1066 JS Amsterdam
Postbus 8982 · 1006 JD Amsterdam
The Netherlands
Phone: +31 20 553 9111

info@atradius.com
www.atradius.com