

Industry match-ups



Belgium versus Ireland
European football championship 2016



Sector playing field: food industry
Match preview

4:5*

* 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

Belgian food & beverages industry

2015	2016f	2017f
1.4	1.3	1.7
1.7	0.9	1.8

Irish food & beverages industry

2015	2016f	2017f
7.8	4.8	3.6
9.5	2.3	3.0

Country
GDP growth

Food & beverages sector value
added growth (%)

0.2
high

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

Level of competition

4.8
average

Sources: IHS, Atradius

Mainly scoring at away matches

The general demand situation for the Belgian food sector is benign, especially due to increasing exports. Quality and safety standards as well as process and product innovation are key selling points abroad. Main destinations remain France, Germany and the Netherlands, while exports to the US, Japan and the BRIC countries are increasing (mainly alcoholic beverages and chocolate), providing good growth opportunities. In total, the food sector contributes positively to the Belgian trade balance every year, while domestic sales experienced a modest decrease in 2015.

However, the profit margins of many Belgian food businesses are negatively affected by high energy and labour costs, which mainly affect smaller businesses. Labour costs are more than 20% higher than in France, Germany and the Netherlands, countries which host big competitors. Another issue is volatile commodity prices. Food producers are forced to pass on any price increases to their customers, otherwise their yields would come under even higher pressure.

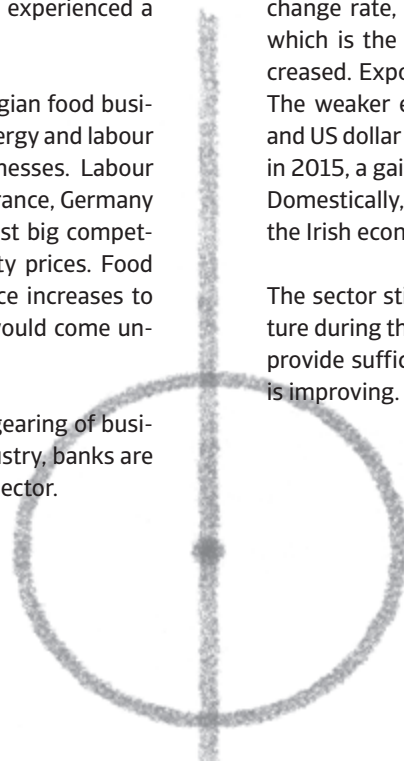
While dependence on bank finance and gearing of businesses are generally high in the food industry, banks are generally willing to provide credit to the sector.

Also scoring abroad

The export-driven food sector represents Ireland's most important indigenous sector employing 50,000 directly, with 180,000 related jobs in farming and support industries.

Ireland continues to be the largest net exporter of dairy ingredients, beef and lamb in the EU, and has recorded increasing demand for its products in 2014 and 2015. Businesses have benefited from the weaker euro exchange rate, mainly against the British pound sterling, which is the main reason why profit margins have increased. Exports amounted to EUR 10.8 billion in 2015. The weaker euro relative to the British pound sterling and US dollar was estimated to be worth EUR 950 million in 2015, a gain which is unlikely to be replicated in 2016. Domestically, the sector benefits from the rebound of the Irish economy and growing consumer confidence.

The sector still suffers from the lack of capital expenditure during the years of recession. While banks still don't provide sufficient loans to the food sector, the situation is improving.





Players to watch

Belgium

- Beverages is a profitable subsector, which benefits from increasing international demand. 2016 sporting events (the football championship and the summer Olympics) are expected to drive demand.
- The dairy segment suffered in 2015 as a result of the abolition of EU milk quotas, but the market is showing signs of stabilisation after a volatile period. Further consolidation in this segment is expected.



Ireland

- Ireland is the largest exporter of powdered infant formula in Europe, currently producing 15% of the total global output.
- There is also sustained growth in exports of Irish whiskey which increased 18% in 2015 and is expected to grow further in 2016.

- The meat subsector suffers from margin pressure and high competition, while a consolidation process is on-going in this segment. Some meat exporters are negatively affected by the Russian food import ban.
- The Russian food import ban has also increased pressure on the fruit and vegetables segment.



- For the Irish dairy subsector the recent abolition of EU milk quotas and sharply decreasing milk prices have led to a short-term decrease in margins and delays in capital expenditure programmes. The sector still suffers from the lack of capital expenditure during the years of recession.
- However, in the long term the lack of quotas is expected to provide new business opportunities for Irish dairy businesses.



Major strengths and weaknesses

Belgian food industry

Strong export with robust growth rates in markets outside the EU

Located in the centre of Western Europe

Leading sector in Belgium for investments, product & process innovation

High quality of food products

Skilled workforce and strong commitment to research and development



Irish food industry

Exports expected to grow further, reaching EUR 12 billion by 2020

The abolishment of EU dairy quotas allows Irish dairy companies to pursue growing global demand for dairy based food ingredients

Several of the world's emerging economies are undergoing cultural changes away from 'starch-based diets' to 'protein based diets', further fuelling the global demand for Irish food products

Irish consumer confidence is at a ten year high, which is positive for food producers and retailers

High labour costs compared to other sectors and foreign competition, despite government plans to tackle this issue

High energy costs compared to foreign competition

Shortage of skilled staff

Downward trend in raw material prices can have severe consequences for Belgian farming, growing and cultivating businesses



Highly dependent on the British market, which accounts for 40% of food exports, making the sector extremely vulnerable to currency volatility

High level of competition within some subsectors

Irish bank lending is still relatively conservative and access to finance can pose problems for the smaller food businesses

The industry requires considerable R&D investment



Fair play ranking: payment behaviour and insolvencies

Belgian food industry

- On average, payments in the Belgian food sector take around 60 days. However, much longer payment periods are not unusual for very large food businesses with robust market leverage.
- Payment experience is average, and protracted payments are not unusual, especially when peak periods lead to liquidity issues for some food businesses.
- Non-payment notifications are low, and we do not expect major increases in the coming months.
- The level of food insolvencies is average, and a slight increase was noticed in Q1 of 2016. However, no major increases are expected in the coming months.

Irish food industry

- Payment duration in the food sector ranges between 30 days and 60 days, depending on the subsector and the customer segment.
- Payment behaviour in this sector has been very good over the past 12 months.
- The number of protracted payments, non-payments and insolvency cases is low, and is expected to remain stable near the current levels in the coming months.



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