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Food & Agri-Business Specialists

What Now for The Food Sector 5 Trading Update Takeaways

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Introduction

In addition to the immense tragic human cost of the COVID-19 pandemic the economic costs continue to mount. The IMF estimates that global GDP will contract by - 3% in 2020, much worse than the 2008/2009 financial crisis. Only last January 2020 global GDP was forecast to expand by + 3.3% in 2020.

The agribusiness and food industry has long been hailed for its defensive characteristics. The thesis runs, that irrespective of economic circumstances people must eat and drink, affording the sector a degree of protection during economic showdowns. In normal circumstances businesses in the food sector should have less to fear from economic turmoil. But these are not normal circumstances.

To understand how companies, anticipate the COVID-19 pandemic will play out and their expectations of the impacts on their businesses' future prospects, our analysts surveyed recent trading updates and quarterly reports of some bellwether agri-food companies.

Quick read

- Key food & agribusiness trading updates indicate industry expectation of how the industry is likely to respond to the ongoing threat posed by COVID-19
- Big brand shelf stable produce fare best as consumers reconnect with traditional food brands
- Increased revenues have been eaten by supply chain, facility modification & personnel costs
- Food service has been hardest hit as increased retail sales insufficient to compensate
- Robust balance sheet with sufficient liquidity is essential with health & safety expenditure, investment in ecommerce, supply chain agility & opportunistic M&A coming to the fore
- Predictions are cautious in the short term, but the long-term outlook remains favourable

The five takeaway themes include:

1. Producers of big brand shelf stable products have fared best.

In an uncertain world, consumers have been returning to familiar trusted brands. For the past number of years many of these brands have disappointed on the product innovation front and consequently have struggled to maintain market share on increasingly fickle supermarket shelves. While it is to early to pronounce the consumers love affair with product innovation dead, many consumers have been reconnecting with traditional food brands, and liking what they find.

2. An increased top line doesn't necessarily mean an increased bottom line.

For many the full benefit of increased revenues has not flowed to net profit as extra supply chain, facility modification and personnel costs have eaten into their top line gains.
In Associated British Foods interim results announcement, George Weston, Chief Executive, commenting on the challenges faced noted: "Our food businesses, and in particular our food factories, depots and drivers, have equally been put under intense pressure since this pandemic began, but in very different ways."

3. Those focused on food service have been hardest hit.

Most enterprises within this sector are finding increased retail sales are insufficient to compensate for food service losses. The longer business restrictions remain in place, more and more of their customers – restaurants, bars and cafes – will face an existential threat. Even in normal times pivoting a product portfolio from a food service to retail offering is an immense challenge.

4. Balance sheet strength is back in focus.

A robust balance sheet with sufficient liquidity is a prerequisite to navigating the current environment. In addition to managing challenged operations, many management teams have also been focused on securing liquidity, amending covenants and delaying capital expenditure commitments. Aside from necessary health and safety expenditure, immediate investment is likely to focus on ecommerce capabilities, enhancing supply chain agility and opportunistic M&A.

5. Few are brave enough to predict where to next.

72% of the companies our analysts reviewed have withdrawn guidance. Understandably, given the magnitude of the impacts and the uncertainty of the duration, companies are reluctant to predict where to next, particularly over the next 12 months. It is undoubtable that some pandemic's impacts on the food industry will endure beyond the crisis in the form of increased costs, changed supply chains and altered consumption patterns. However, the fundamental drivers of the food sector and its inherent defensive characteristics will also endure beyond the crisis. For that reason, notwithstanding the current challenges, the longer-term outlook for the sector remains favourable.

Conclusion

Company trading updates offer key evidence of how the food and agribusiness sector is responding to the threat posed by the global pandemic. The consensus among industry leaders includes a belief that big brand shelf stable produce will prosper at this time. There is also expectation that increased revenues in some areas will be eaten up by supply chain and facility modifications. There is also a big belief in maintaining a robust balance sheet and using the difficult scenario presented to innovate and invest in other areas required for survival.

Expert in this Insight

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