Polish Food & Agro Market outline – recent developments and the COVID-19 impact

RVO Central & European Business Days

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Agenda

- Positioning of Poland as a food production powerhouse
- COVID-19 effects on the food industry in Poland
- Sub-sectors focus
- Closure remarks

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Positioning of Poland as a food production powerhouse

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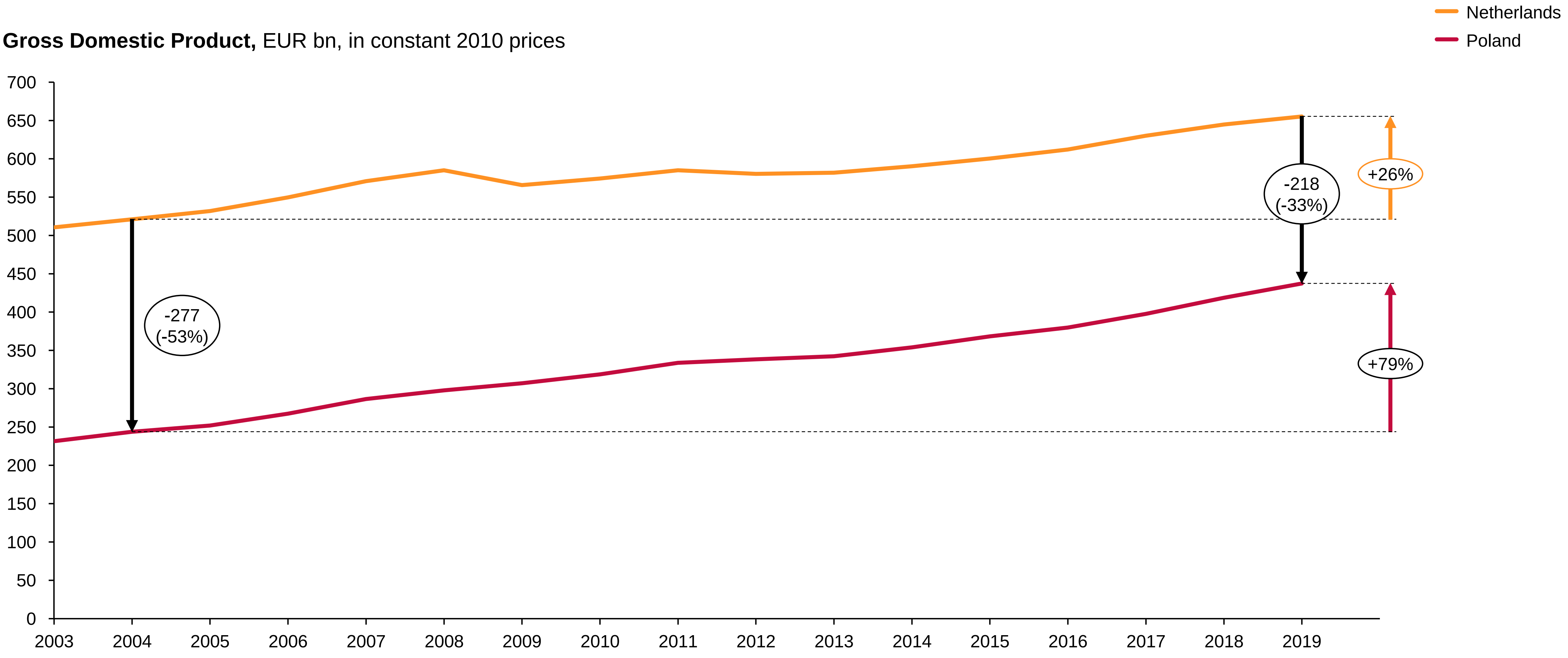
The size of Polish economy is presently 2/3 of the Netherlands' in comparison to less than its half in 2004

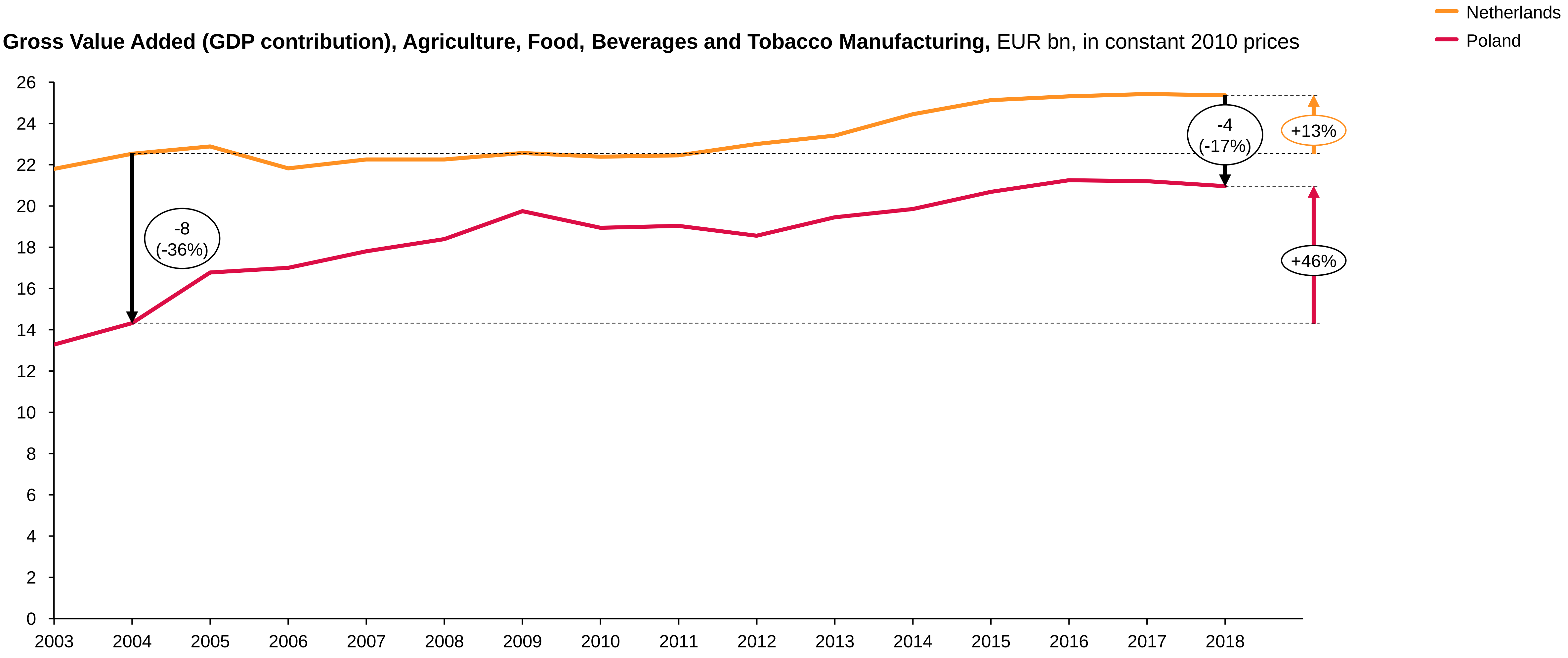
Gross Domestic Product, EUR bn, in constant 2010 prices



Source: Eurostat

Food & Agro sector was closing the gap even faster, however, the difference in last years remained fairly stable

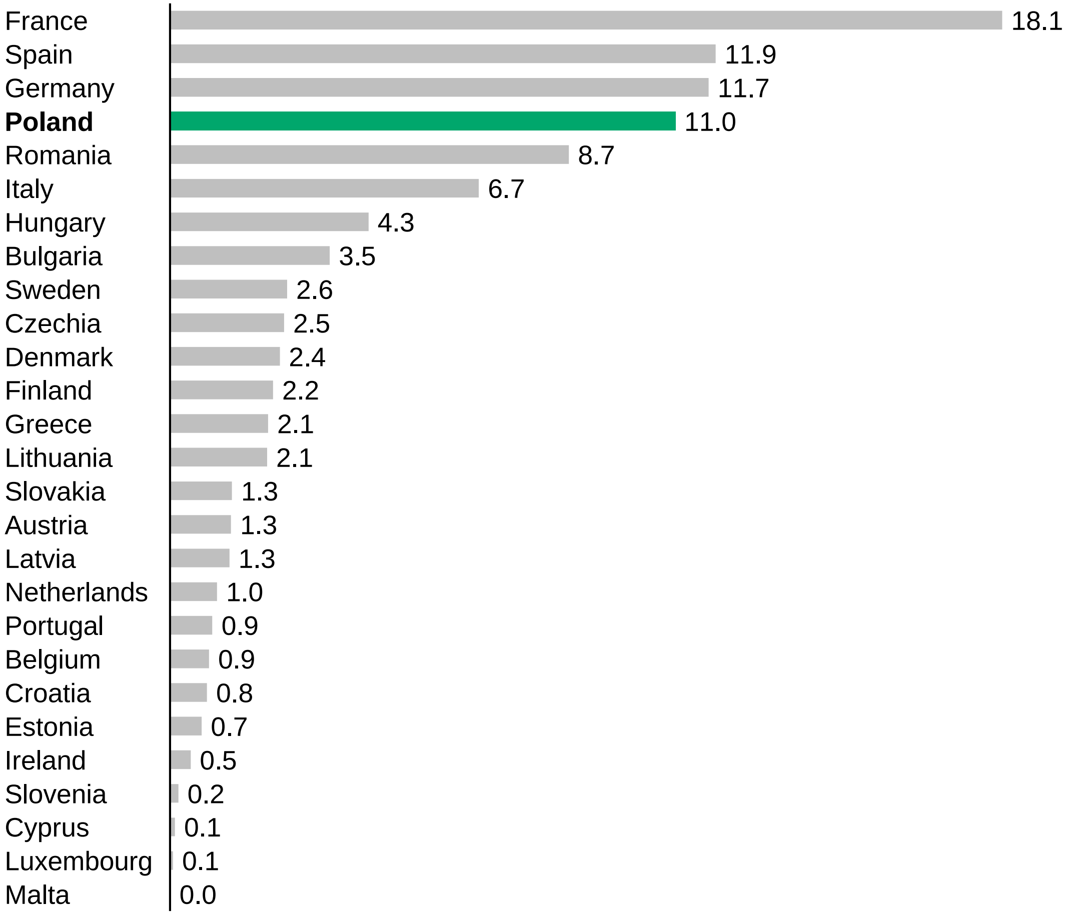
Gross Value Added (GDP contribution), Agriculture, Food, Beverages and Tobacco Manufacturing, EUR bn, in constant 2010 prices



Note: 2018 in Poland was one of the least fertile years of the last decade due to unfavorable weather conditions
Source: Eurostat

Poland has large resources of land and lays conveniently among 250 mn of consumers within the 1000 km radius

Arable land in the EU countries, mn ha, 2019

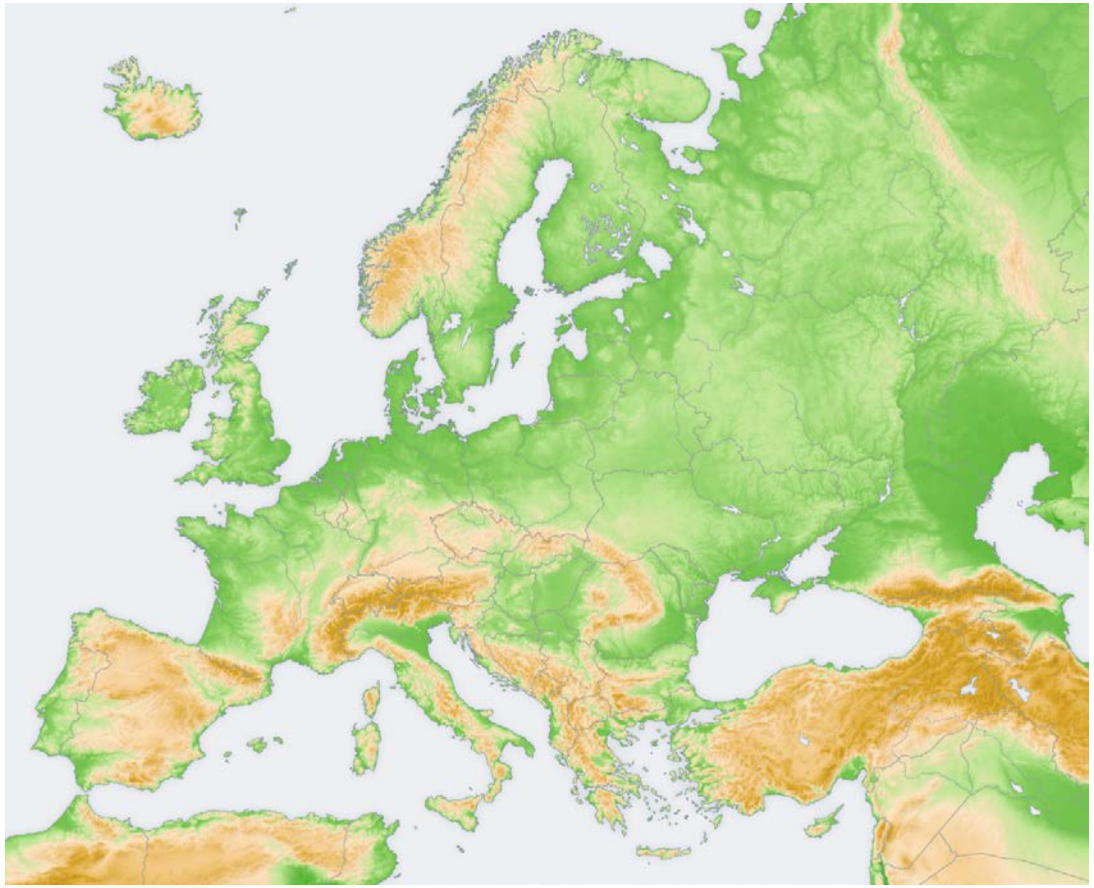


Central Europe

Source: FAO, McKinsey & Company

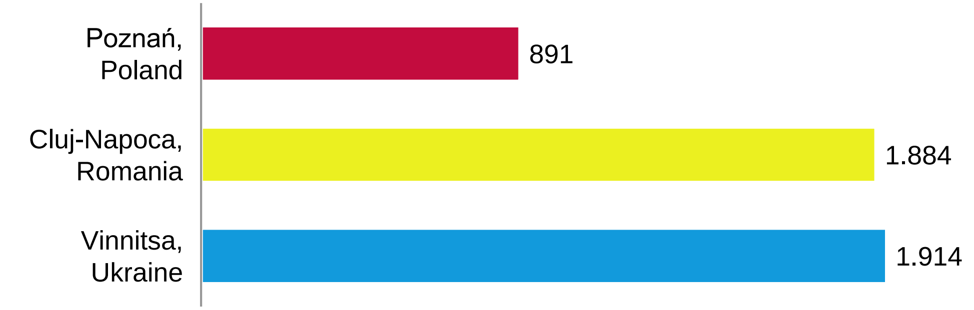
Flat area and the location in the middle of Europe facilitates transportation of Polish Food & Agri goods, giving advantage over direct competitors

Physical map of Europe

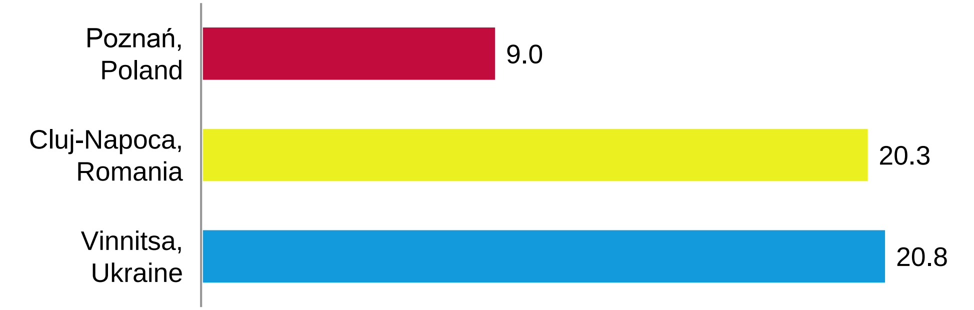


Distance from Amsterdam to major agricultural region in largest CEE countries

in kilometers



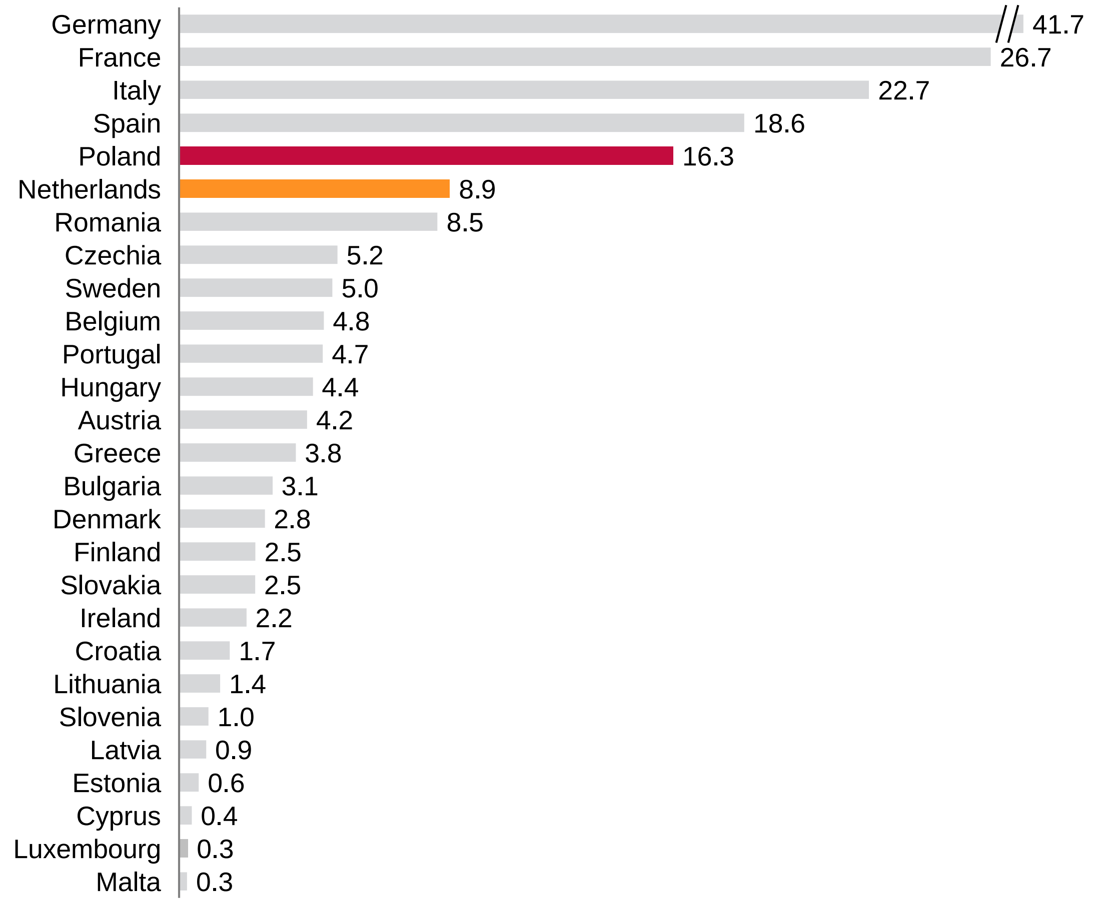
in hours of driving



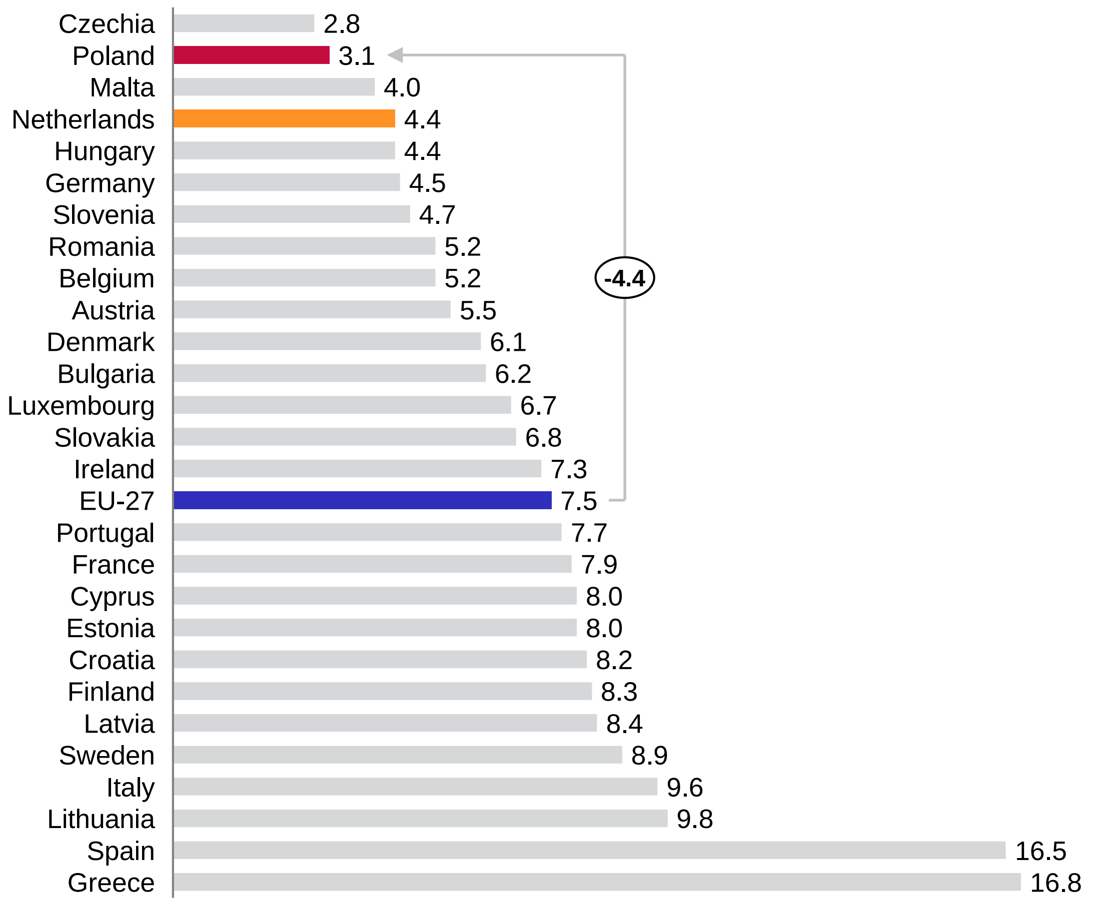
Source: Google Maps, Wikimedia

Poland has large labor force and ranks among the EU's member states with the lowest unemployment rate

Labor force, mn people



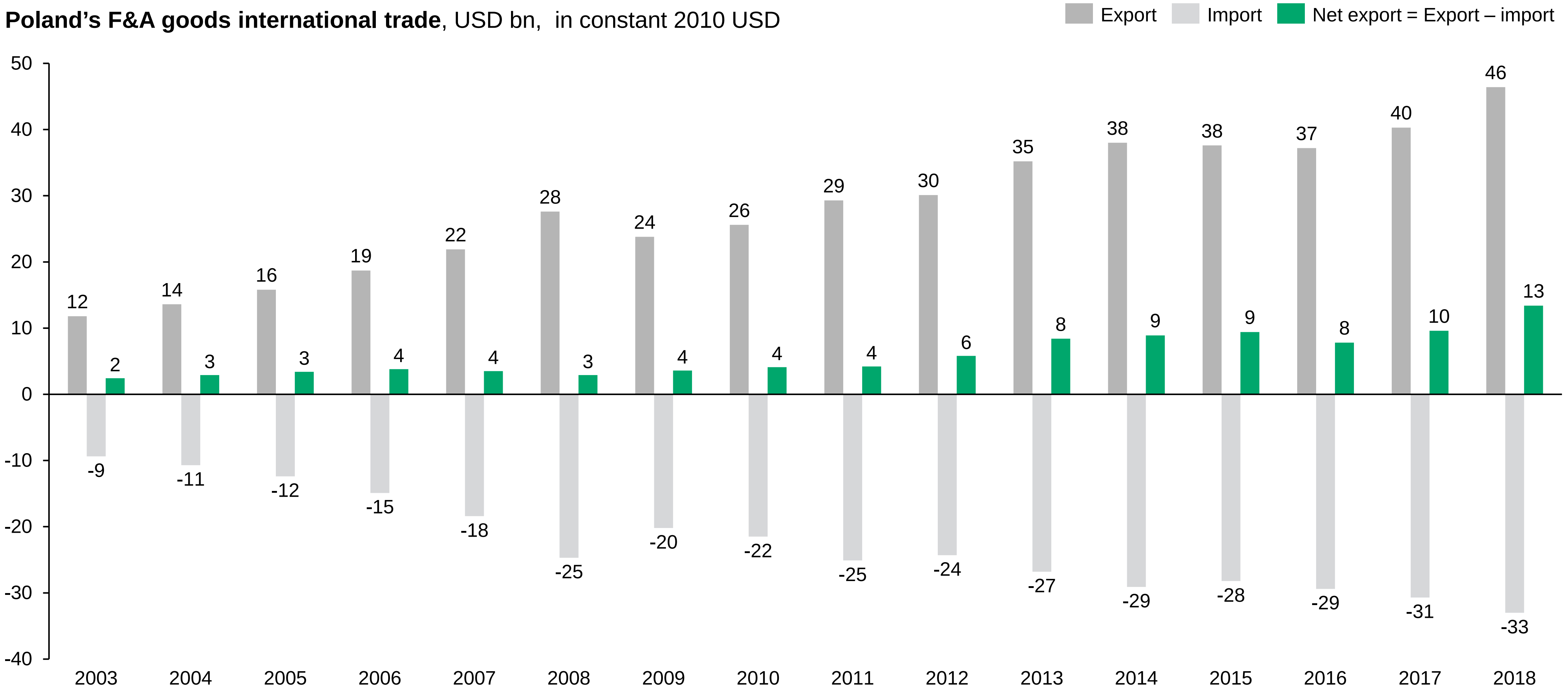
Unemployment rate, Sep 2020



Source: Eurostat

Poland has been gradually raising its significance in the Food & Agri international trade and has been recording a regular growth in the trade balance

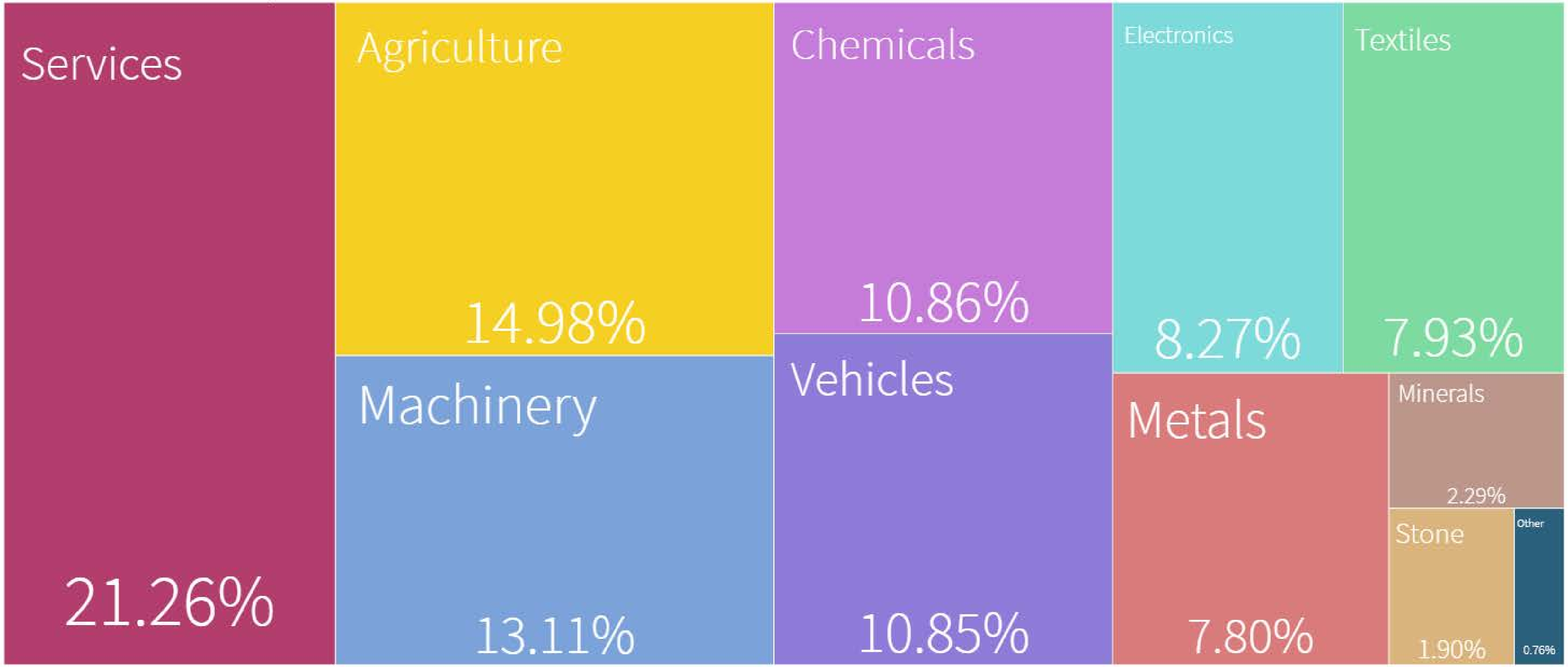
Poland's F&A goods international trade, USD bn, in constant 2010 USD



Note: The numbers may not add up due to roundings
Source: Harvard's Atlas of Economic Complexity

Agriculture plays a key role in Polish international sales, being responsible for 15% of Polish exports

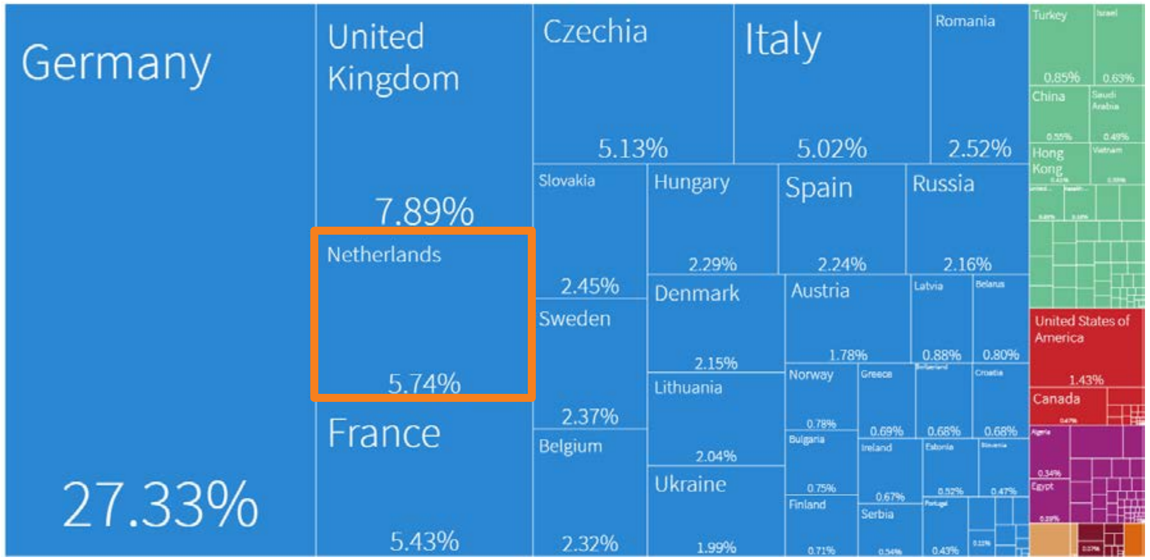
Polish export composition, 2018



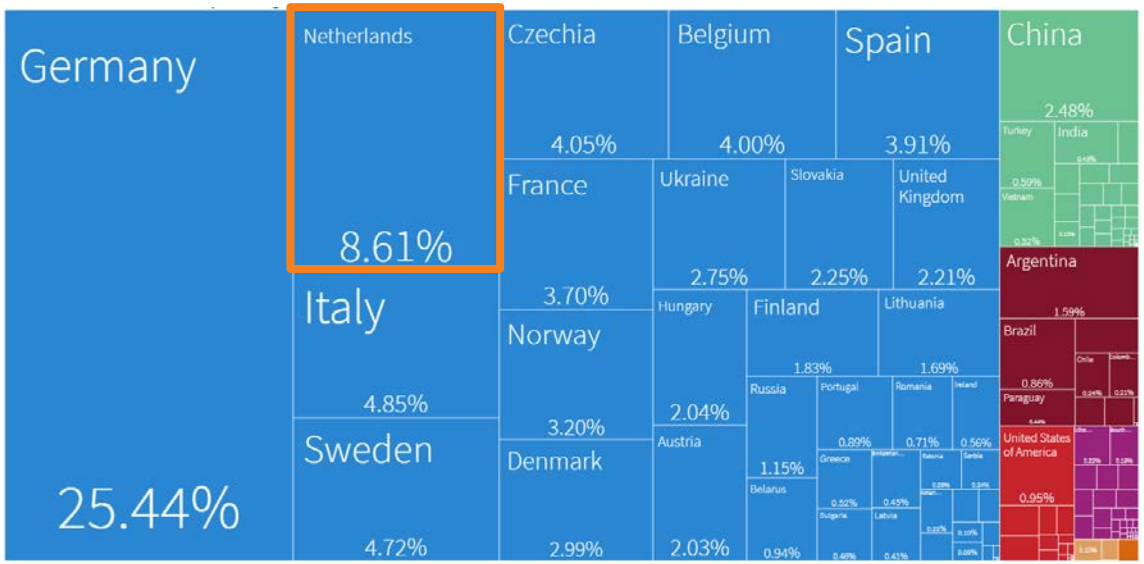
Source: Harvard's Atlas of Economic Complexity

Concerning agriculture, the Netherlands is the 3rd largest partner in exports and 2nd largest in imports of Poland

Poland's agriculture export, in USD



Poland's agriculture import, in USD

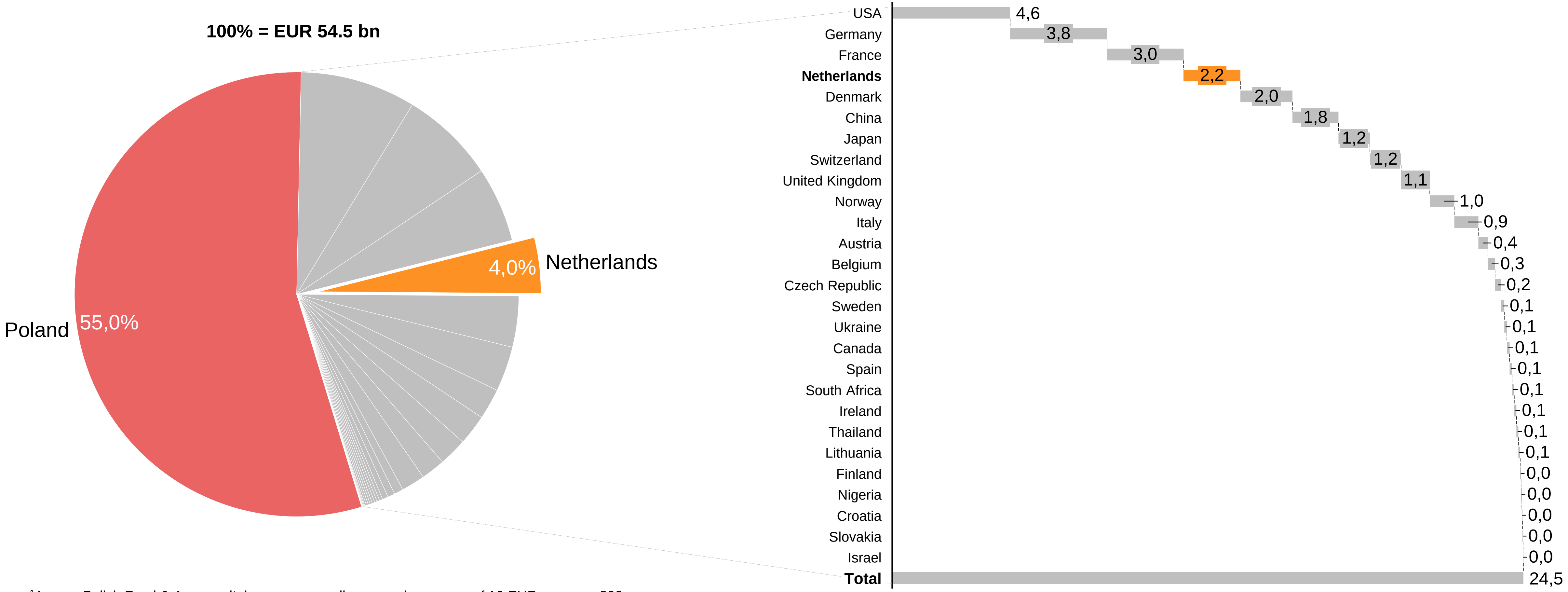


Source: Harvard's Atlas of Economic Complexity

Foreign owners control almost half of the revenues of the largest F&A companies in Poland, the Dutch own 4% of the revenue stream

F&A revenues by origin of group shareholders[1], %

APPROXIMATION



[1]Among Polish Food & Agro capital groups exceeding annual revenues of 10 EUR mn, app. 800 groups
Source: EMIS

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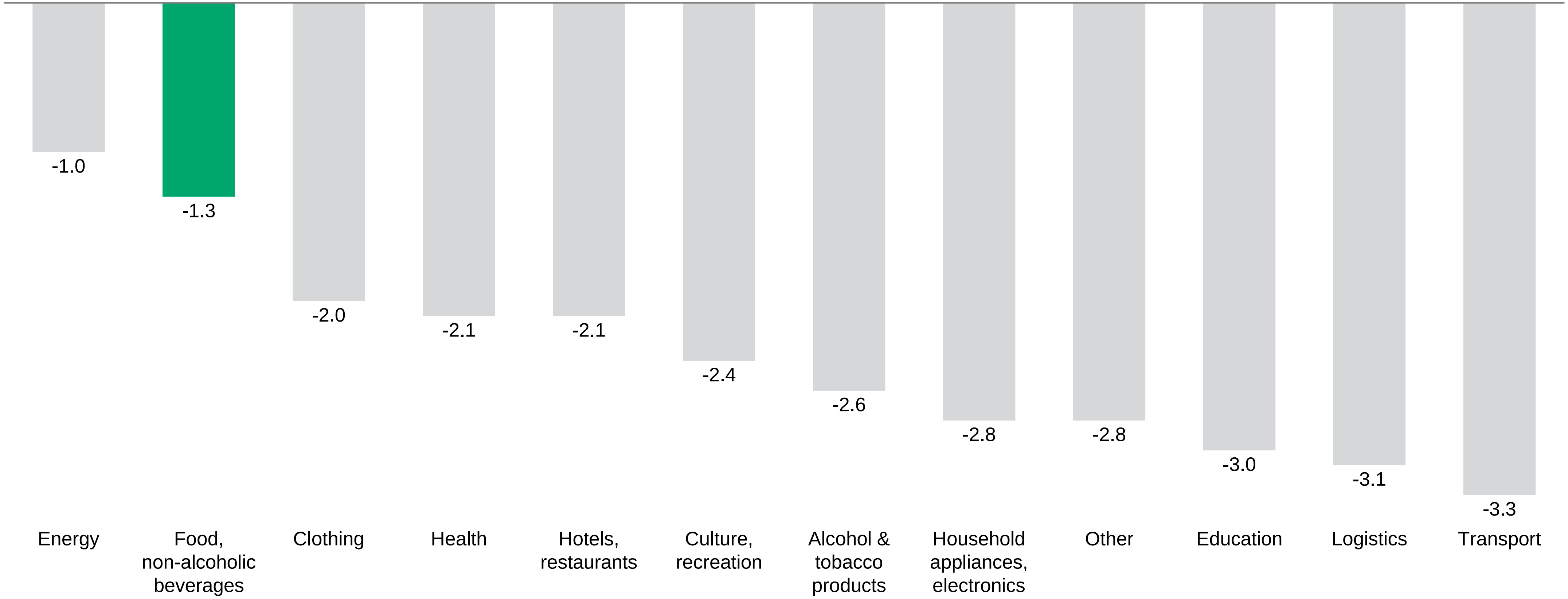
Food & Agro products tend to be less affected by crises than other economy branches

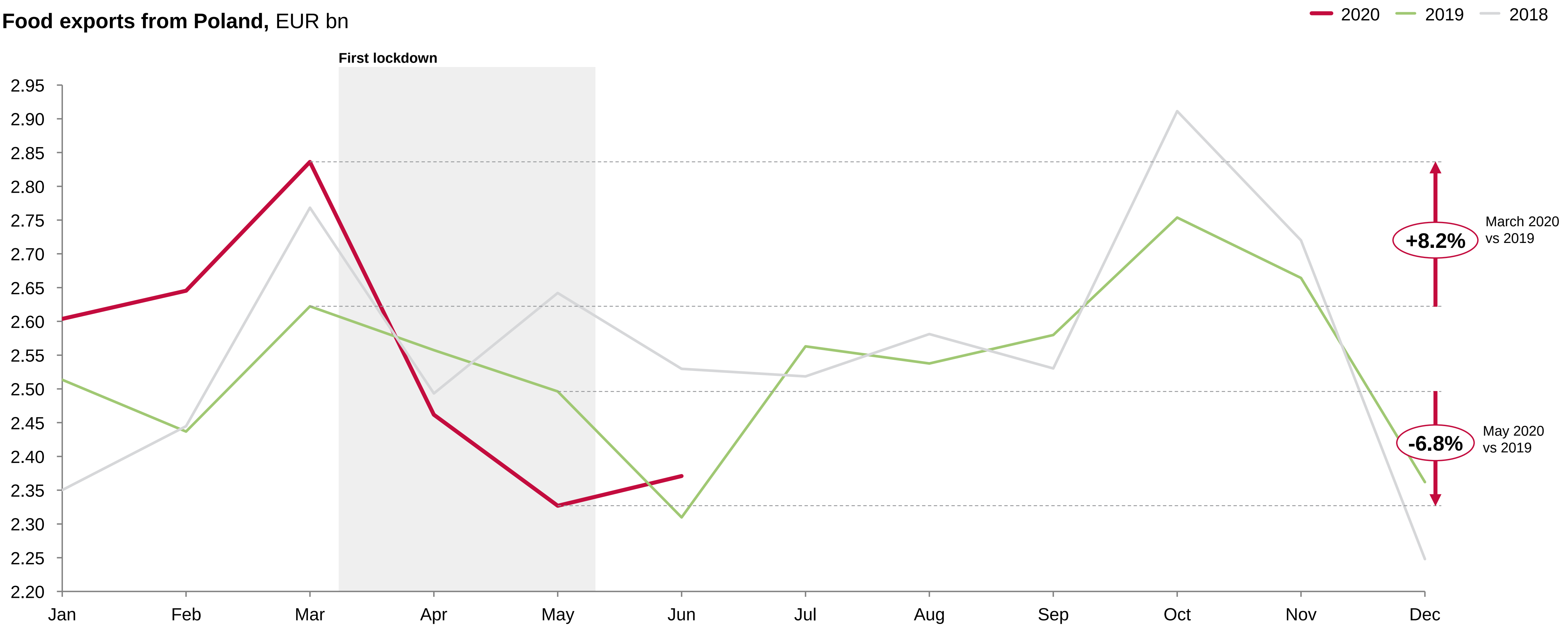
Median negative change in household consumption by product categories in the EU+UK, 1996-2019, %



Source: Eurostat

Polish food exports during the pandemic fell below the levels observed in preceding years in EUR

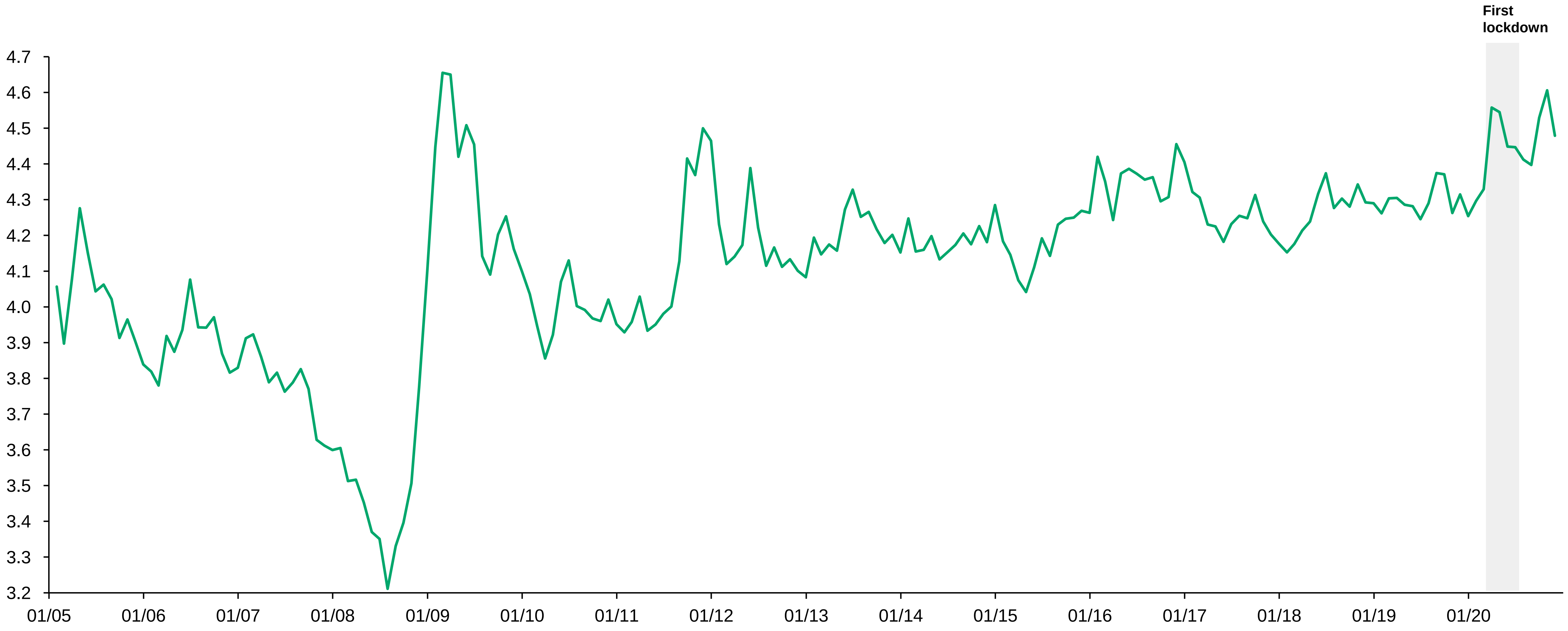
Food exports from Poland, EUR bn



Source: UN Comtrade

Polish **złoty** (PLN) depreciated significantly during the first lockdown and remained at the level of 4.50-4.60 PLN for 1 EUR, vs. 4.20-4.30 rate below the crises…

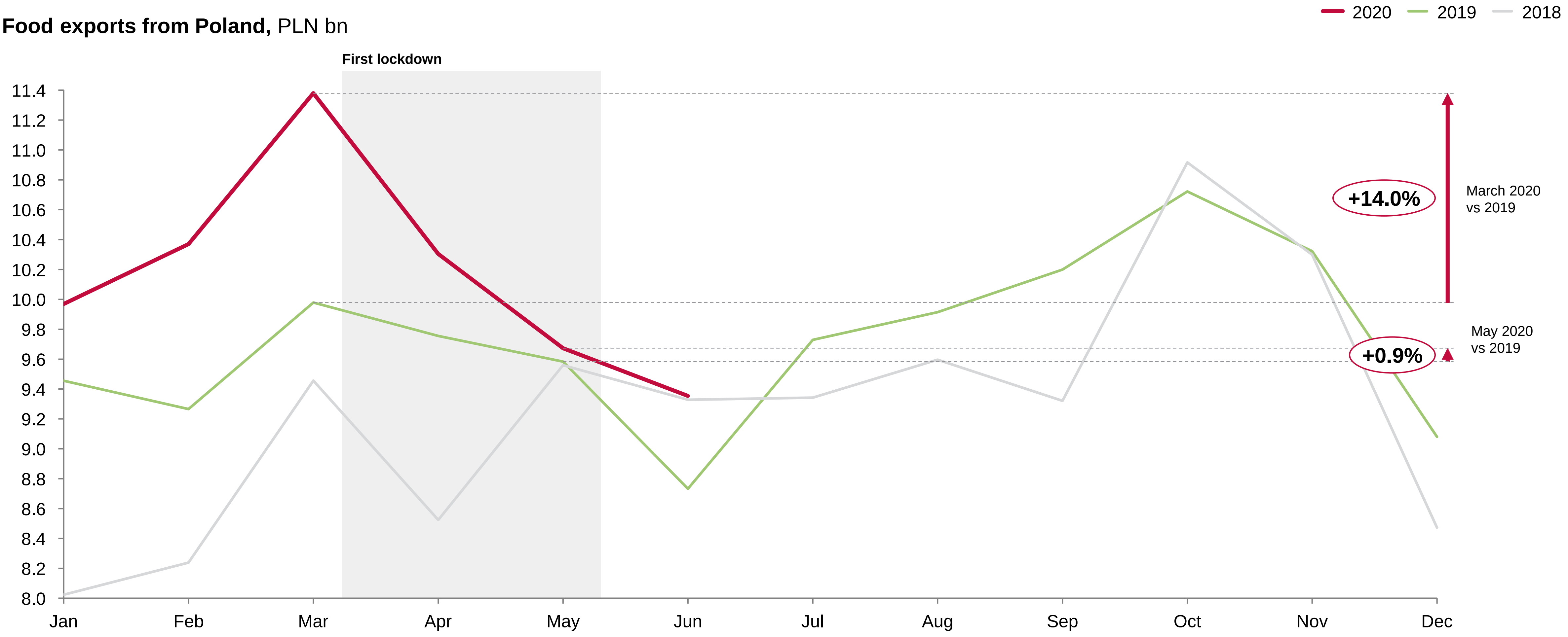
EUR/PLN exchange rate, 1 EUR = X.X PLN



Source: National Bank of Poland

…what helped the exports measured in PLN to actually keep growing

Food exports from Poland, PLN bn



Source: UN Comtrade, National Bank of Poland

The first pandemic wave influenced the exports of Polish Food & Agri products sector with varying degrees; meat and vegetables were the subsectors affected most severely

Food exports[1] from Poland, in PLN bn, % change YoY

Note: The top 10 HS2 categories of Polish food exports, in total 78% of the value of food exports in 2019

Source: UN Comtrade, National Bank of Poland

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We will be further focusing on 5 subsectors...

Meat

Feed

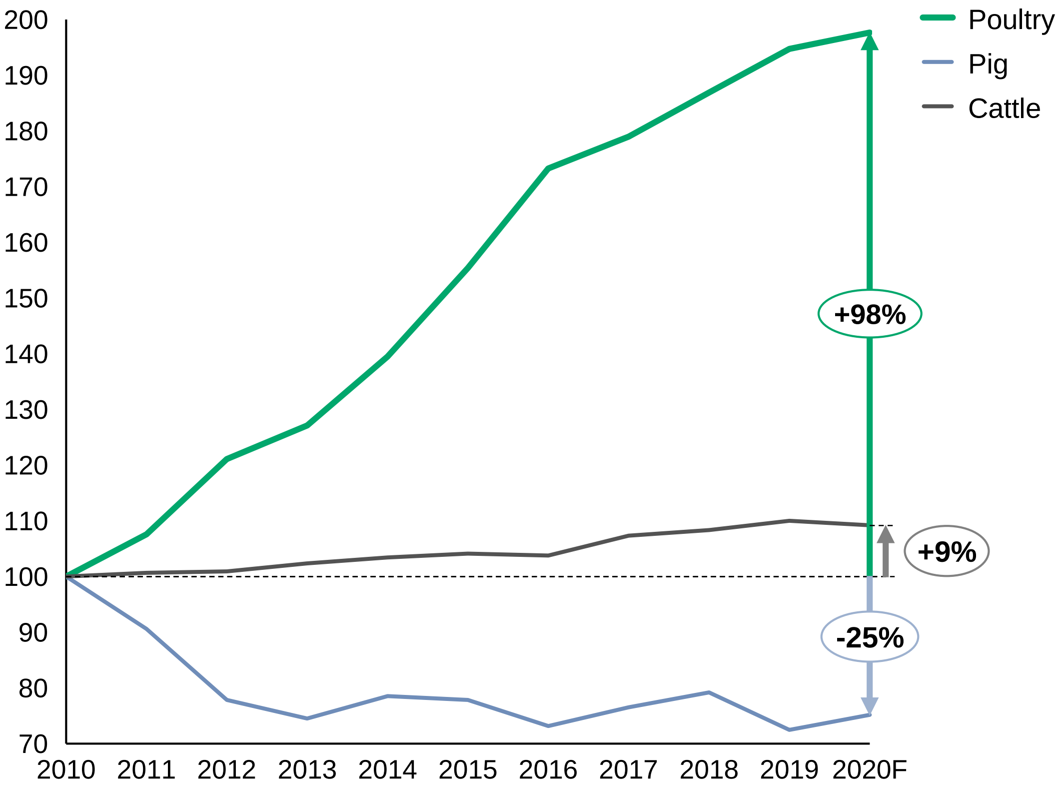
Dairy

Vegetables

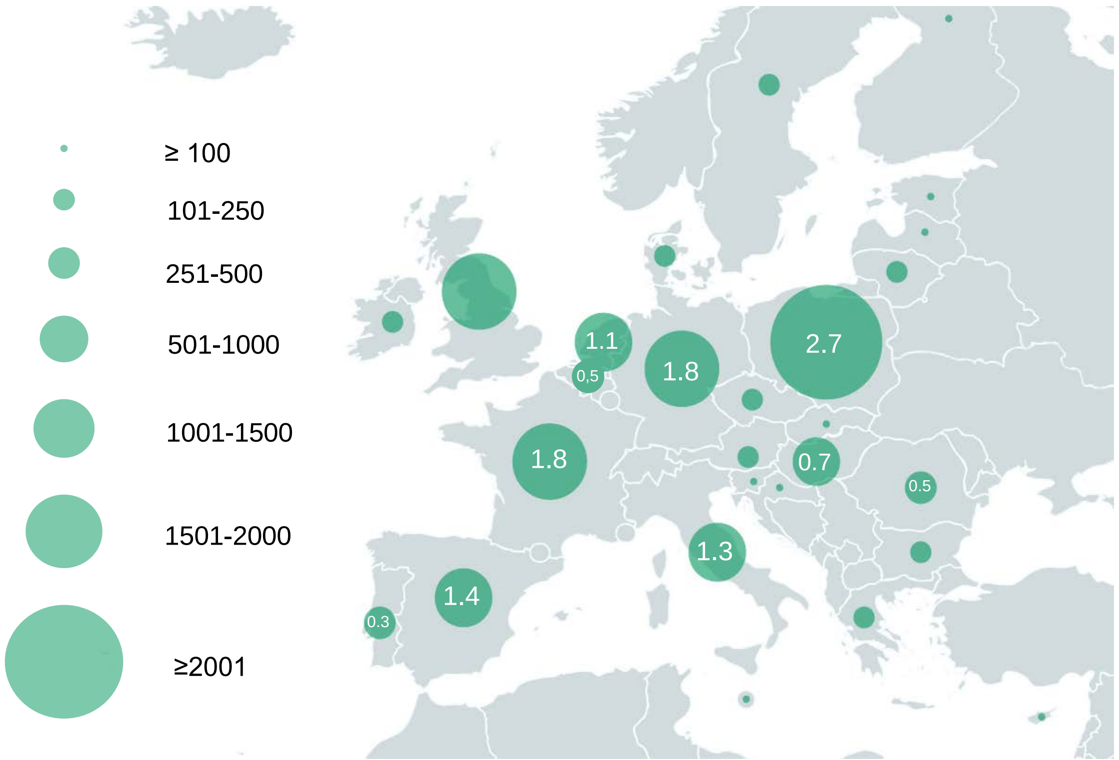
Potato

Poultry meat production doubled in the last decade and is currently the largest in the EU; other meat production have been stagnating however its size is fairly considerable

Meat production in Poland per meat type, 2010 production = 100



Poultry meat production in EU, 2019, M t



Source: Institute of Agricultural Economics and Food Economy (IERiGŻ), Eurostat

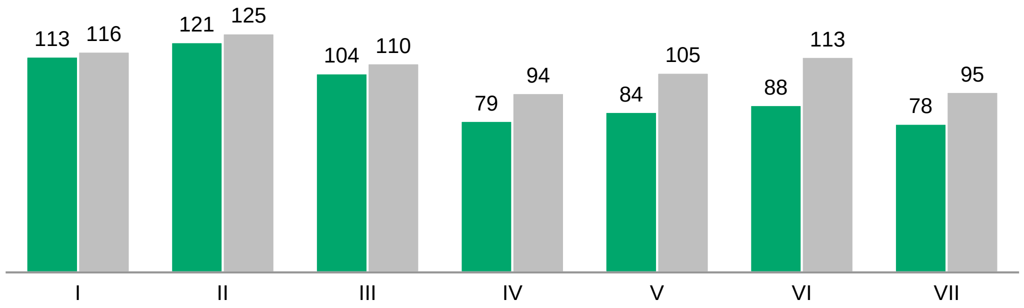
Pandemic restrictions did not stop the export volumes from Poland to exceed historical maximums

Value PLN Volume

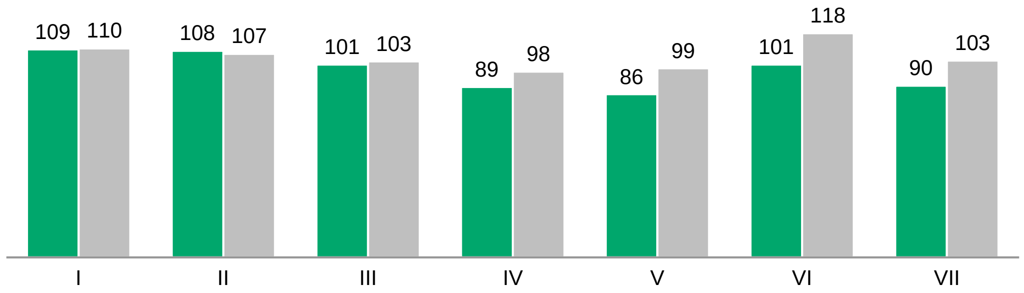
Poultry meat export change from Poland to the largest importers, 2020 Jan-Aug

Value PLN and Volume are percentages of the maximum level of theirs in the relevant months from the period 2010-2019

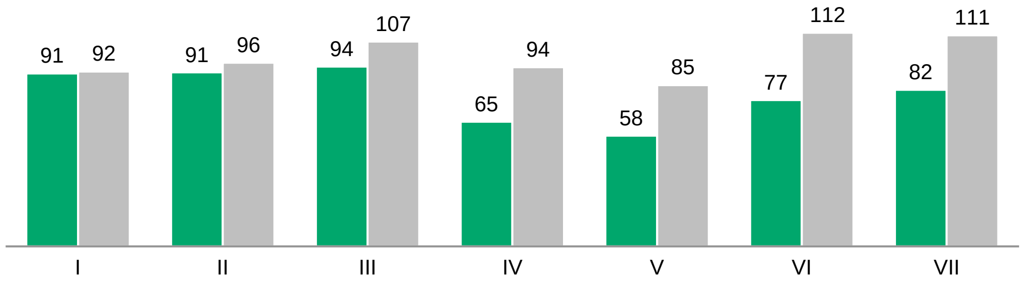
Germany



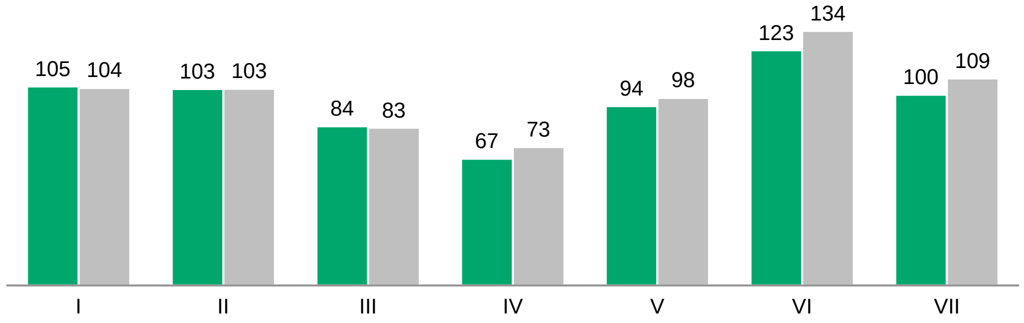
UK



Netherlands



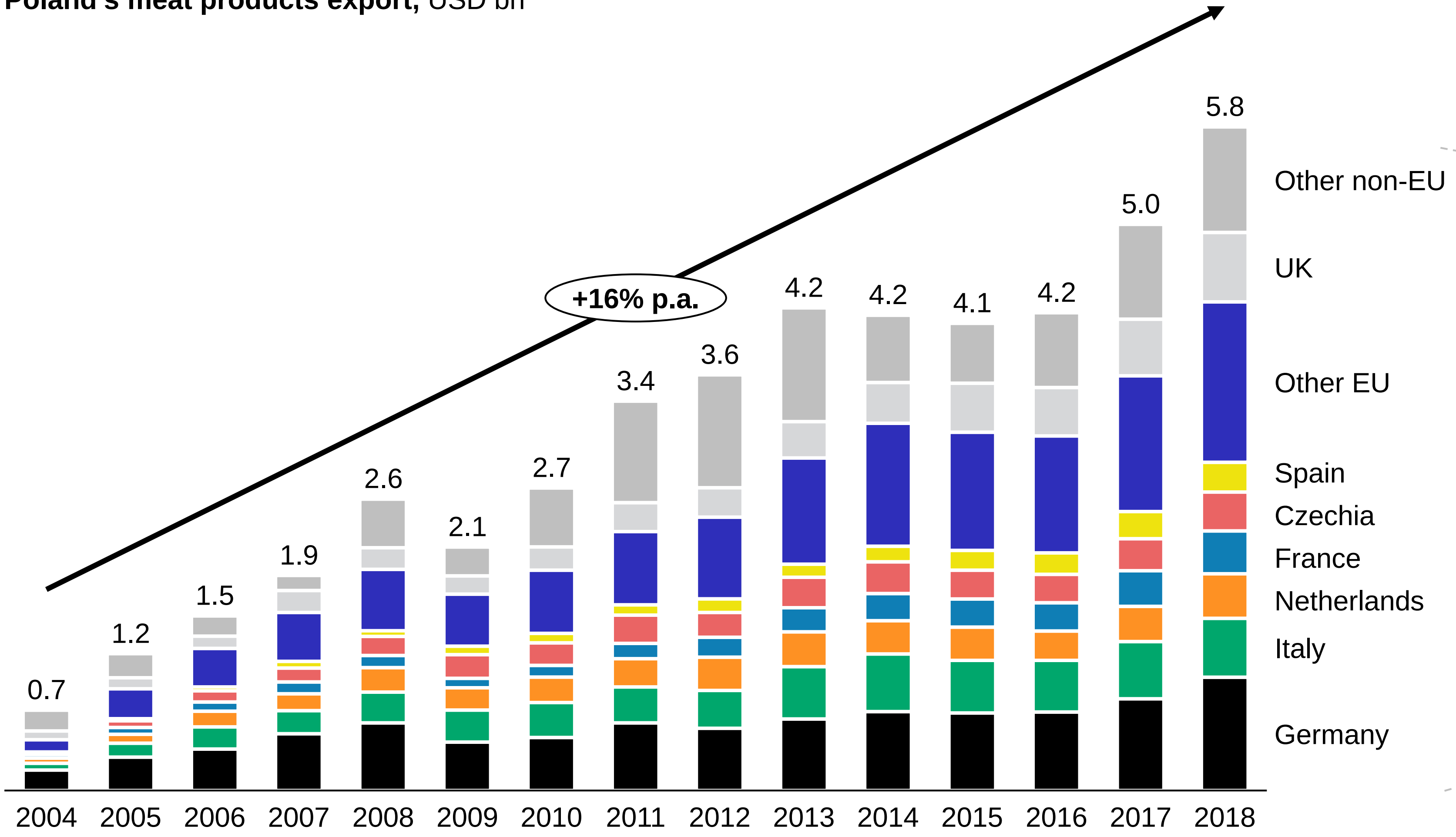
France



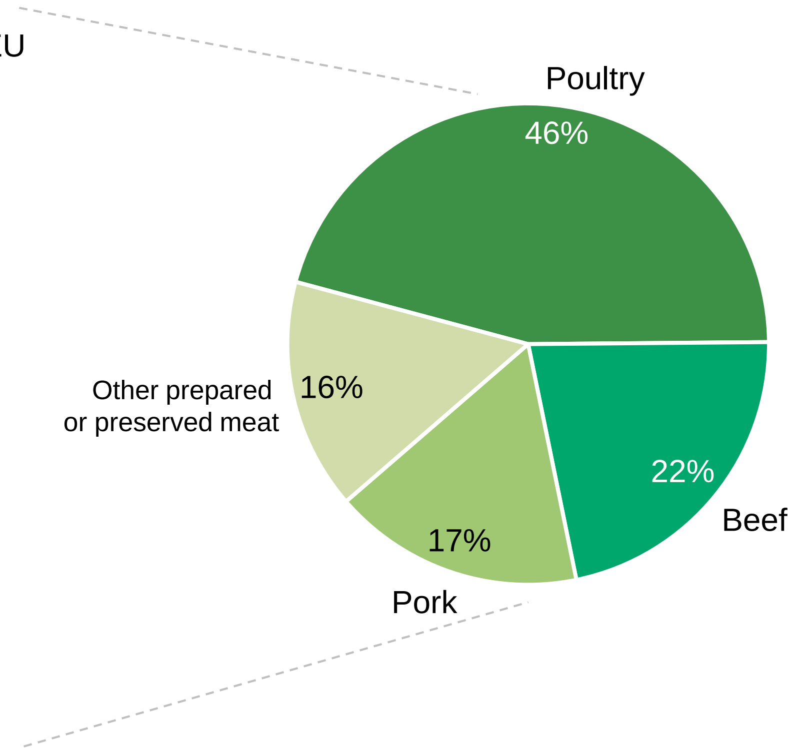
Source: Eurostat, Blavatnik School of Government Oxford University

Germany, the UK, Italy and the Netherlands are top Polish meat importers; poultry constitutes nearly half of Polish meat exports

Poland's meat products export, USD bn



Split of value by types of meat, 2018, %



Source: Harvard's Atlas of Economic Complexity

COVID-19 situation highlights

Demand in place

- Volumes of sales actually turned out to be not worse than pre-COVID in the end of the day, exports volumes were over their historical maximums
- Disturbances with off-take at the beginning of pandemic were not a result of lack of demand but rather troubles with organization of transportation

Turmoil on the poultry market

- Poultry sector in Poland came into pandemic with record high placements levels and clashed against off-take disturbances
- As production run in cycles that need to be planned and the producers have limited flexibility the initial turmoil distorted the market for the few following months

Reshuffling of distribution channels

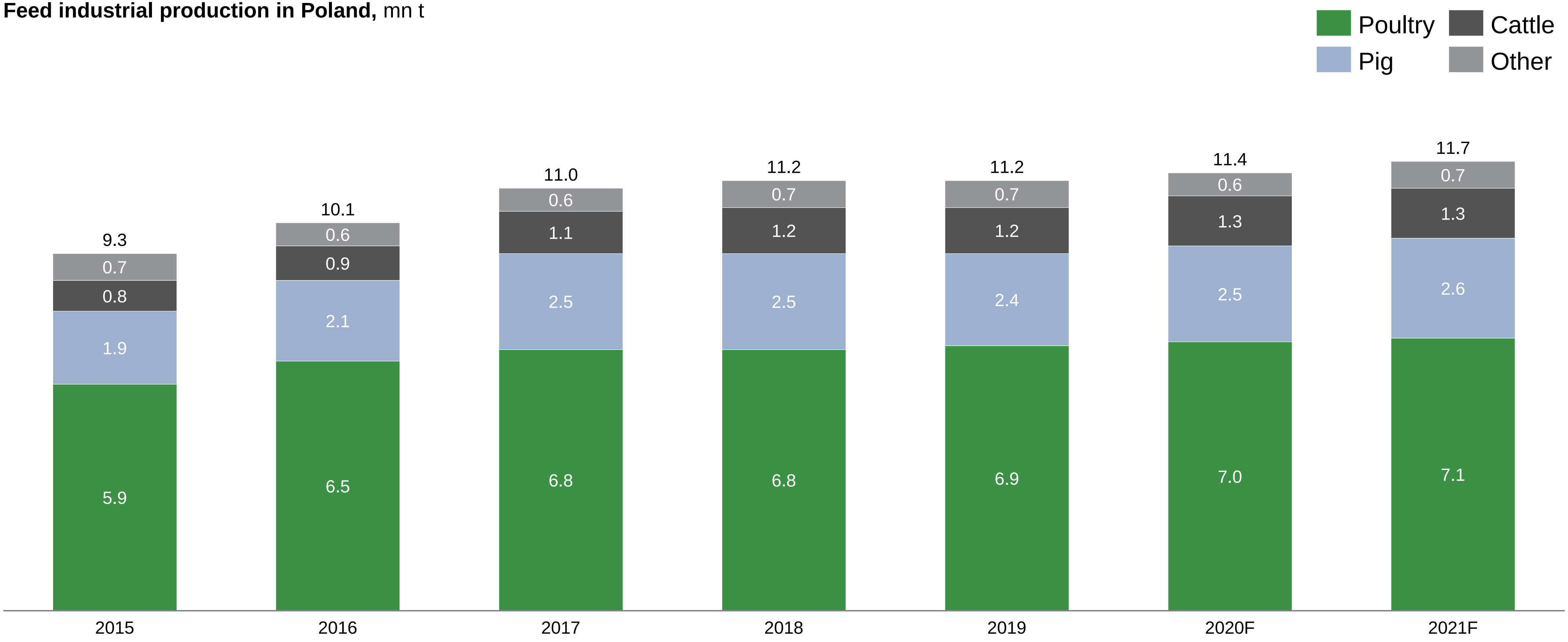
- Closures and limitations in domestic and international HoReCa channel broken established business relations and sales routes, demand from retail chains and traders replaced it however with lower prices offered
- There was little understanding of end-customer in companys' value chain, both scale and characteristics – magnitude of changes was hard to forecast for the players

Integration

- Integration allowed for amortization of margin disbalances in one value chain by another
- Contractation allowed for better prices and secured off-take

Feed production in Poland keep moderate growths over last years – the COVID-19 pandemic have not affected the volume manufactured

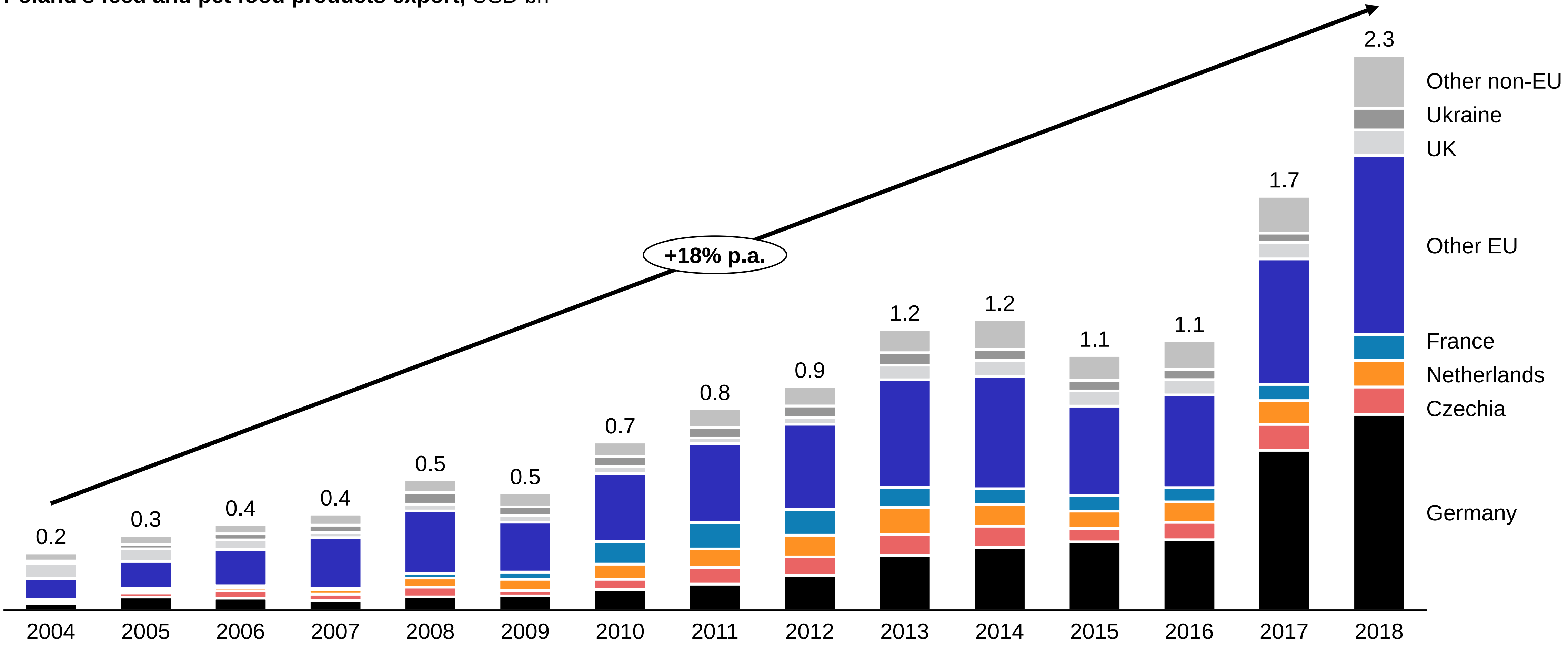
Feed industrial production in Poland, mn t



Source: Institute of Agricultural Economics and Food Economy (IERiGŻ), October 2020

Polish feed and pet food export doubled in years 2016-18; export to the EU constitutes 80% of the international sales of the feed and pet food from Poland

Poland's feed and pet food products export, USD bn



Source: Harvard's Atlas of Economic Complexity

F COVID-19 situation highlights

Demand dependent on the meat market

- Polish feed consumption depends highly on production of meat and it is driving most of fluctuations in the feed market
- Meat production and consumption have not changed significantly in volume terms, what resulted in stable demand for feed

Higher costs of raw materials

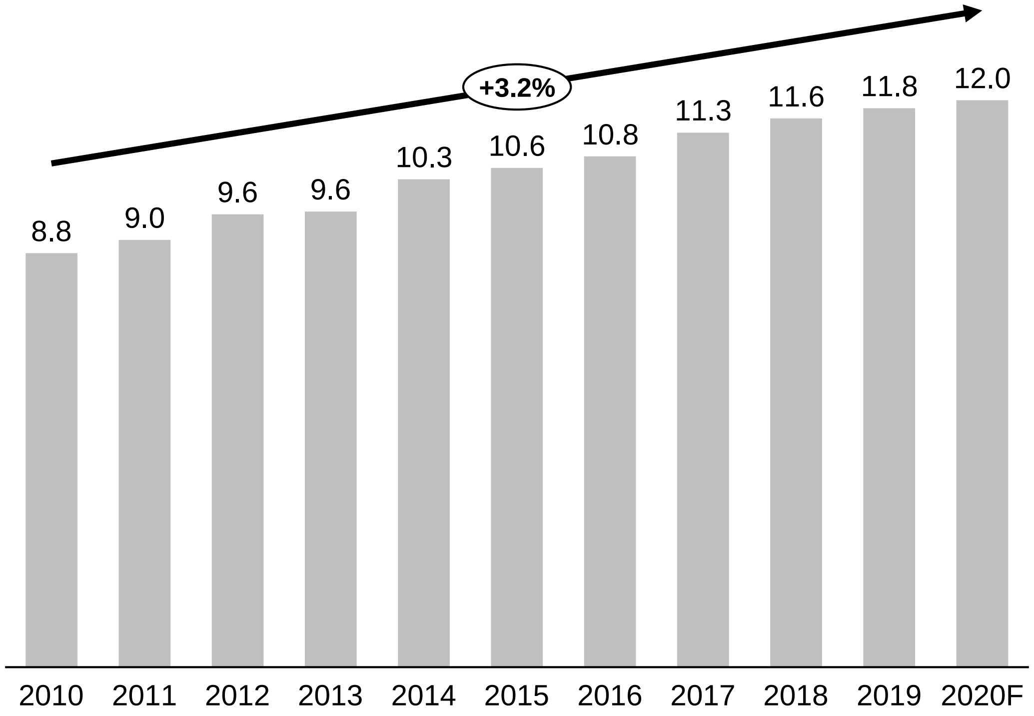
- In recent months, prices of major feed raw materials – cereals and oilseeds recorded significant gains – current global wheat and maize prices are ~15-20% higher than in June, soybean price increased by 33%
- The price growth is a result of low supply in Europe and the US, and strong demand from China
- Global price growth affected Polish market – despite high harvest in 2020, cereal & rapeseed prices in last months increased by 10-20%

Meat market problems inhibit feed price growths

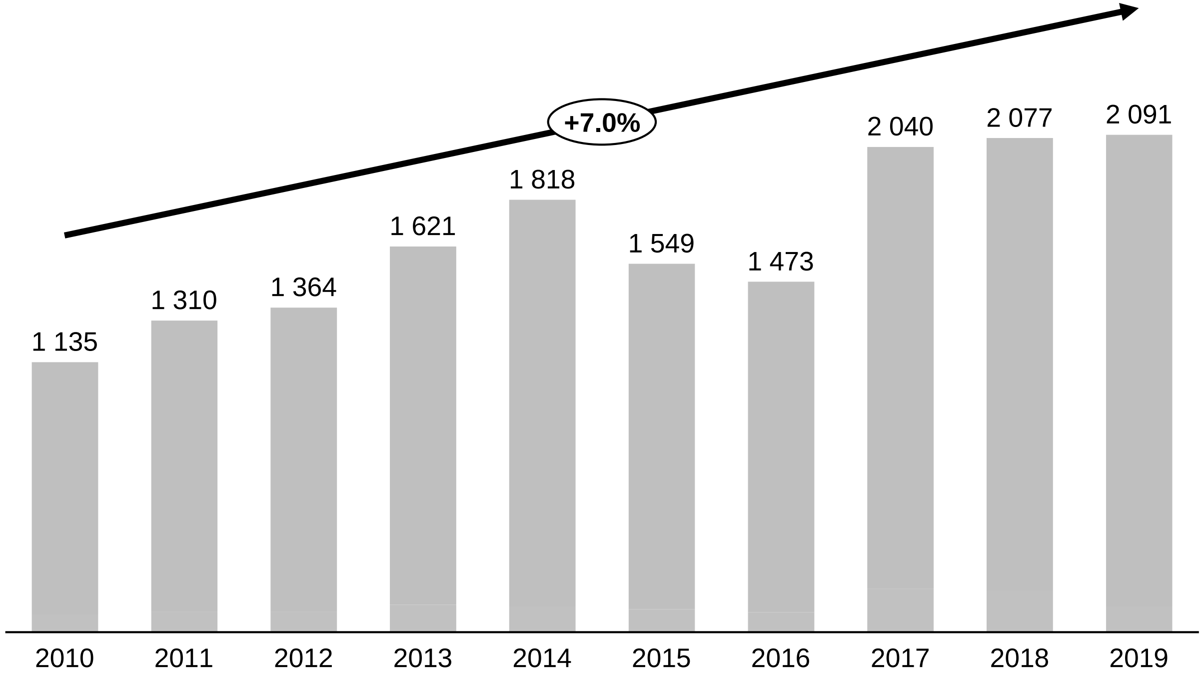
- Despite significant growth of raw materials, feed prices in Poland has been remaining stable in last months – still, the prices are 3-5% higher comparing to recent years
- Turbulences in the Polish meat industry prevent feed prices from following the cereal & oilseed prices path and further price increases

Export of dairy products has been growing faster than domestic production

Milk collection in Poland (2010-202, bn liters)



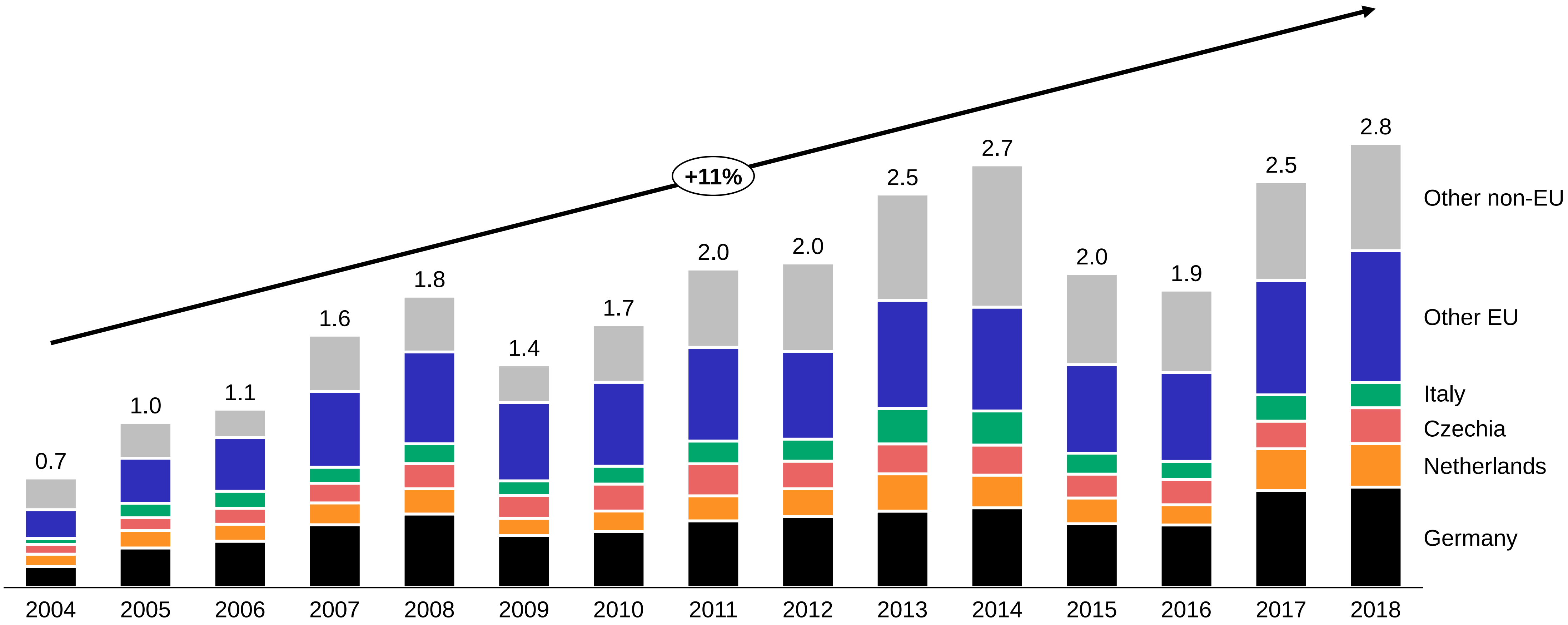
Value of dairy products export from Poland (2010-2019, mn EUR)



Source: Polish Central Statistical Office, Institute of Agricultural Economics and Food Economy (IERiGŻ)

Poland regained its export value after the 2015-16 drop, the Netherlands are the second largest importer of Polish dairy products

Poland's dairy products export, USD bn



Note: EU data do not include UK
Source: Harvard's Atlas of Economic Complexity

D COVID-19 situation highlights

Low impact on activities of the milk producers

- Milk production process has been affected only to a small extent by the COVID-19 pandemic – milk production takes place in areas with low population density and can be performed without the contact between the farmers and the drivers
- The increase in milk production was accompanied by the maintenance of a high level of purchases (only few dairies limited the volume bought from milk producers), resulting in maintaining prices at a similar level as in 2019

Growth in demand on the domestic market

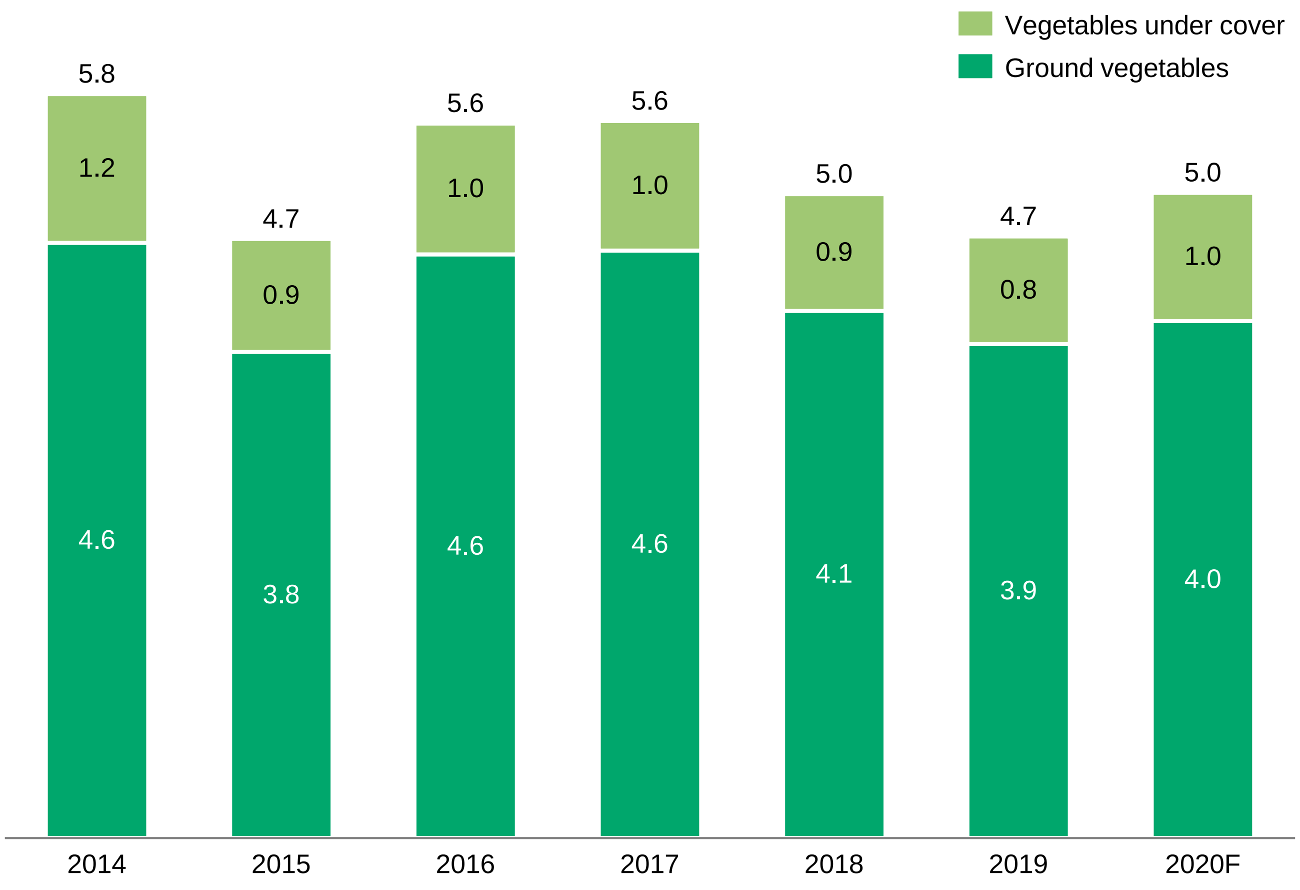
- The COVID-19 pandemic had a positive impact on the consumption of dairy products in Poland – the increase in demand regarded in particular drinking milk and hard cheese
- Restrictions in the HoReCa sector had less impact on pizzerias (heavy users of cheese), which already had their home delivery systems developed

Temporary downward impact on export prices

- In the first phase of the pandemic, prices of dairy products sold on foreign markets (skimmed milk powder, butter in blocks) decreased by nearly ¼
- In subsequent months, a recovery in prices was observed, as commodity products have a long shelf life and can be stored – due to significant price fluctuations, the eventual performance results of the companies largely depended on the timing of sales of their products

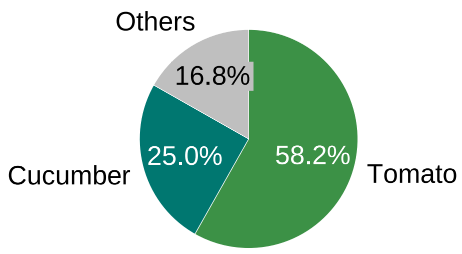
Cabbage, carrot, tomato and onion are largest vegetable species in terms of volume produced, tomato and cucumber make 85% of production under cover

Vegetable production in Poland volume, mn t

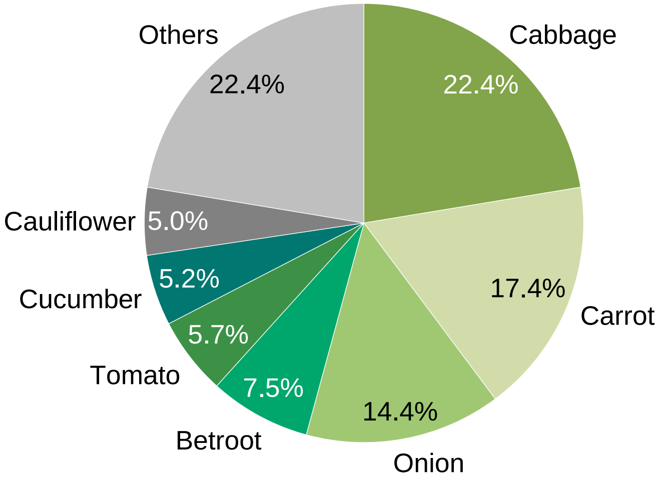


Vegetable production in Poland volume composition

Under cover



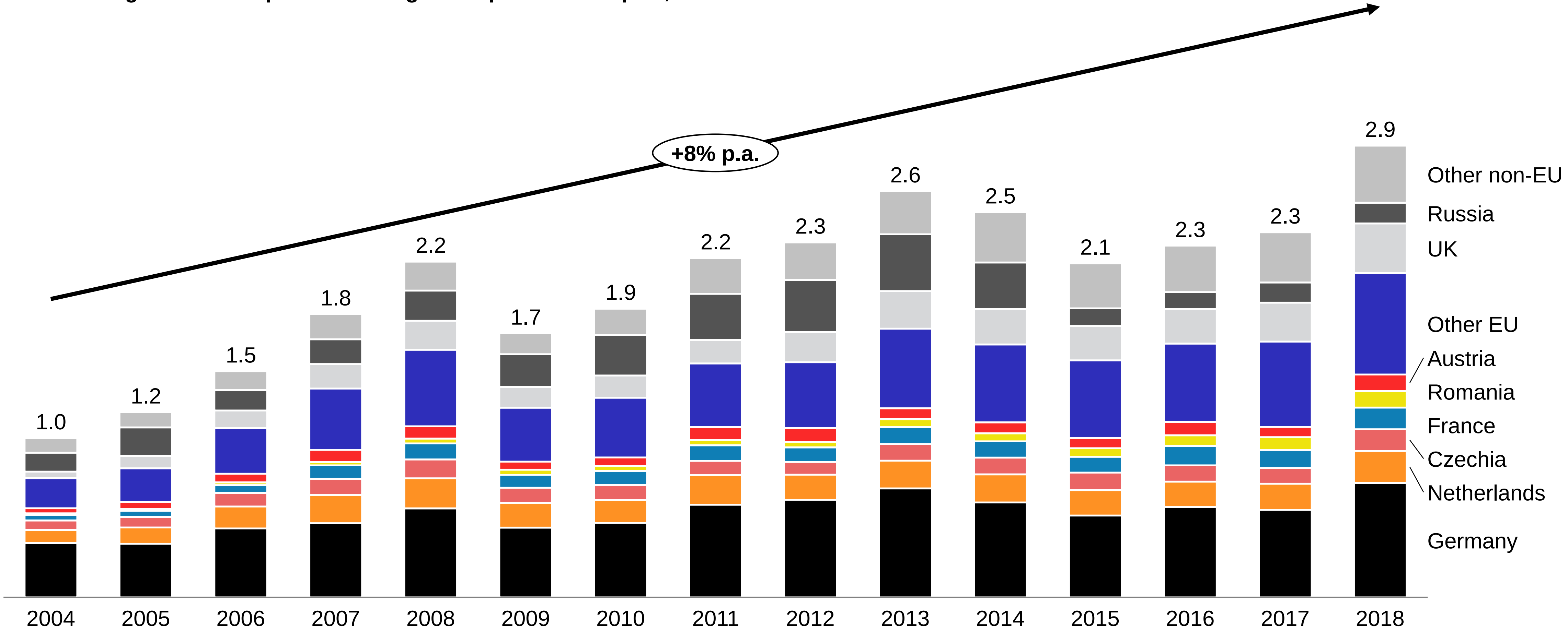
Ground production



Source: Polish Central Statistical Office, Institute of Agricultural Economics and Food Economy (IERiGŻ)

Germany, the UK and the Netherlands are largest importers of Polish vegetables

Poland's vegetables and processed vegetable products[1] export, USD bn



[1]Includes processed (non-fresh) fruit products
Source: Harvard's Atlas of Economic Complexity

V COVID-19 situation highlights

No adverse impact to slow perishable vegetables

- At the onset of the COVID-19 outbreak there has been a significant increase in demand for some root vegetables, onions and potatoes, it was driven by the same factors as large purchases of long-term staple products (flour, pasta, rice, etc.)
- High demand sustained later on the market, lower export levels were a result of not a good harvest results in previous year, hence lower availability of ware for sale

Troubles with perishable vegetables distribution

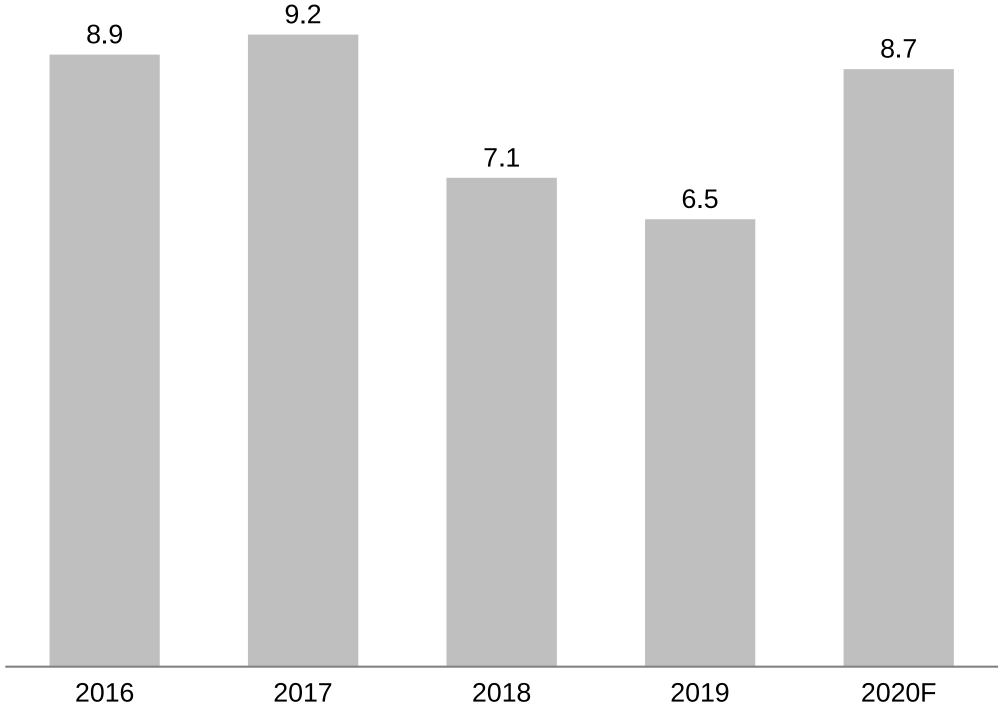
- Sudden fall in demand during the first wave of „panic” purchases, followed later by the decrease in store visits frequency – hit e.g. tomato, cucumber, lettuce, mushroom
- Difficulties in transportation at the beginning of pandemic – some disruption of delivery to stores (no sales as open markets were closed, too),

Shifts in sales channels

- Closures and limitations shaked the business relations patterns that had been in place for a long time, previous presence in diversified channels (HoReCa, retail, direct) allowed for more swift reaction
- In some cases it was not possible to re-direct assortment to alternative channels, e.g. tomato or cucambers of worse features used in cheaper fast food would not attract retail clients from the shelf
- During pandemic it is difficult to build new relations with retail from the scratch (no meetings, no travel) – clients differentiation from the past is a premium today

Polish potato harvest is highly dependent on the weather conditions, food processing types are over 20% of potato production in Poland

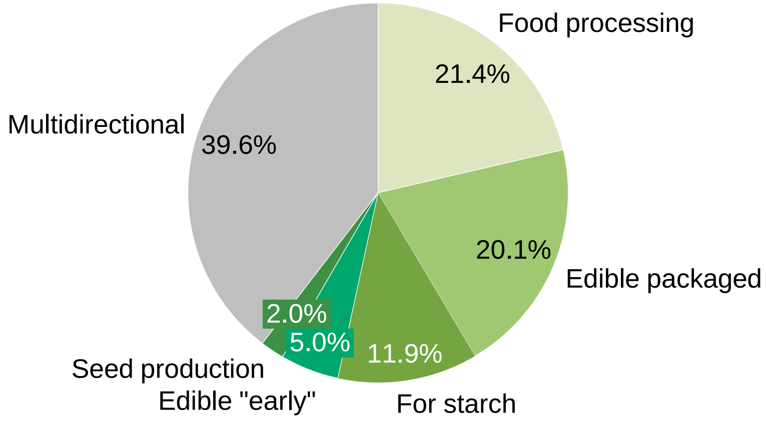
Potato harvest in Poland, mn t, 2016-20



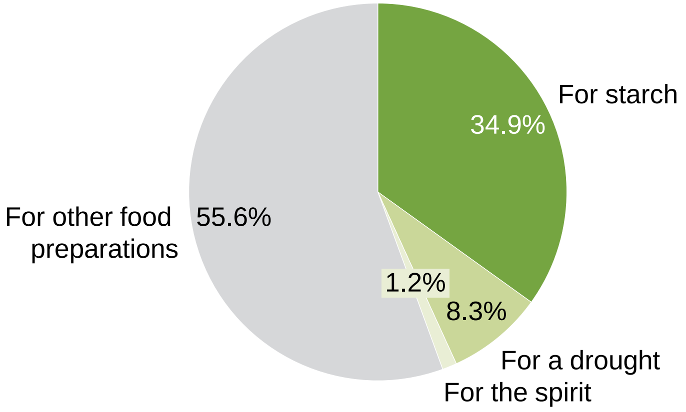
Yield, dt/ha, 2016-20

2016	2017	2018	2019	2020F
285	279	251	225	280

Potato production in Poland structure, volume, %



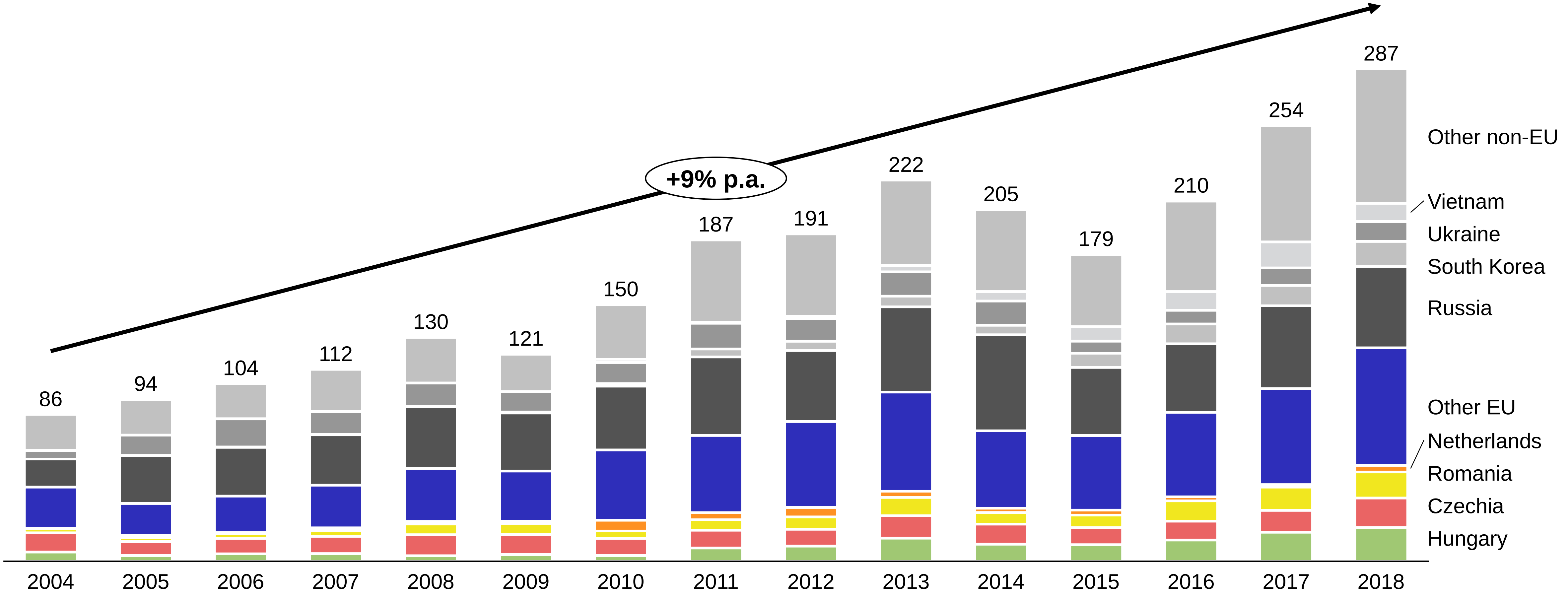
Potato processing in Poland structure, volume, %



Source: Polish Central Statistical Office, Institute of Agricultural Economics and Food Economy (IERiGŻ)

Polish potato products export is very differentiated and its majority is exported outside the EU

Poland’s potato products export, USD mn



Note: EU data do not include UK
Source: Harvard’s Atlas of Economic Complexity

COVID-19 situation highlights

Heavy blow from HoReCa restrictions

- Demand for potato processing products (primarily French fries) was significantly reduced due to restaurants and canteens closures
- Alternative sales channels (observed increase in the retail) could not sell the excising stock, as 80% of the French fries in Poland is sold via HoReCa – this resulted in French fries prices collapse
- Demand for chips, potato flakes or potato flour (starch) also decreased due to lower needs of hotels and restaurants and less social occasions, but as HoReCa plays less significant part in sales of these products, the demand shock was less severe

Discussions on future production plans adjustments

- In the first weeks of the pandemic, the potato processing sector in Poland had high stocks of ready products and/or high contracting of the raw material from farmers – the sudden drop in demand led to a backlog of stocks in warehouses
- As potato production takes place in annually seasonal cycles, adjusting the volume of potato supply to the reduced demand will be possible only after some time – COPA-COGECA calls for limitation of production of industrial potato in 2021-22 season

Change of ways of business relations

- The sector had operated largely by contracts – in 2020, for the first time in many years, processing plants could not fully meet the contracts with farmers and purchase all potatoes, while the HoReCa was unable to realize its contracts with processors
- Potato processors need to verify internal procurements and sales policies in order to match them to the current market situation

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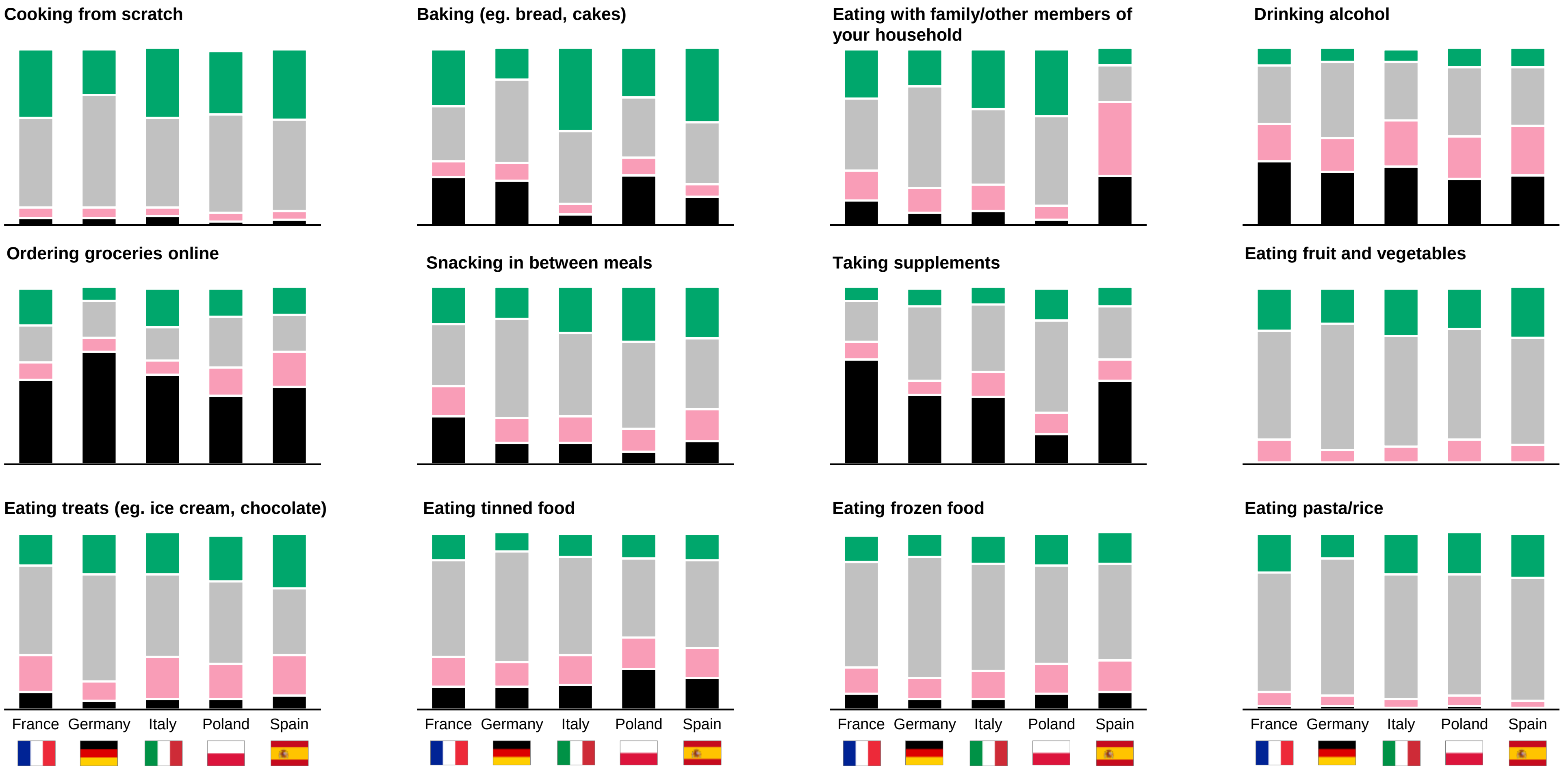
Consumption behavior from before the COVID-19 situation remains in place in the case of most of the people

Change in frequency of selected food and drink habits since the start of the COVID-19 outbreak per country, May 2020, share of respondents

More About the same Less I don't do this



Source: Mintel's *Impact of Covid-19 on Food & Drink - Europe - 2020*

Changes in consumer behavior in Europe during the COVID-19 were not uniform, sometimes even counterintuitive – understanding of the final consumer cannot be overestimated

Change in frequency of selected food and drink habits since the start of the COVID-19 outbreak per country, May 2020, difference betwen share of respondents answering „More” and „Less”

Source: Mintel’s *Impact of Covid-19 on Food & Drink - Europe - 2020*

In summary...

- Poland has been developing well as economy and agriculture production house – it is well positioned geographically and has good resource base
- The Netherlands are an important partner of Poland in food&agriculture – they are its 3rd largest export market and 2nd largest source of imports, Dutch investors own ca. 4% of reveneus of the largest F&A companies in the country
- F&A sector in Poland overall did well during pandemic – exports value kept growing even during the most severe turbulances
- Pandemic brought some distribution disturbances at the beginning, required reshuffling of the sales channels and confirmed that differentiation of the off-takers is beneficial to producers
- Most of the consumers stick to their behaviors from before the pandemic and modifications to that happen to be counterintuitive sometimes

BNP Paribas Group