Unigrains - In Brief

Brexit: disparate risks for listed European agri-food companies

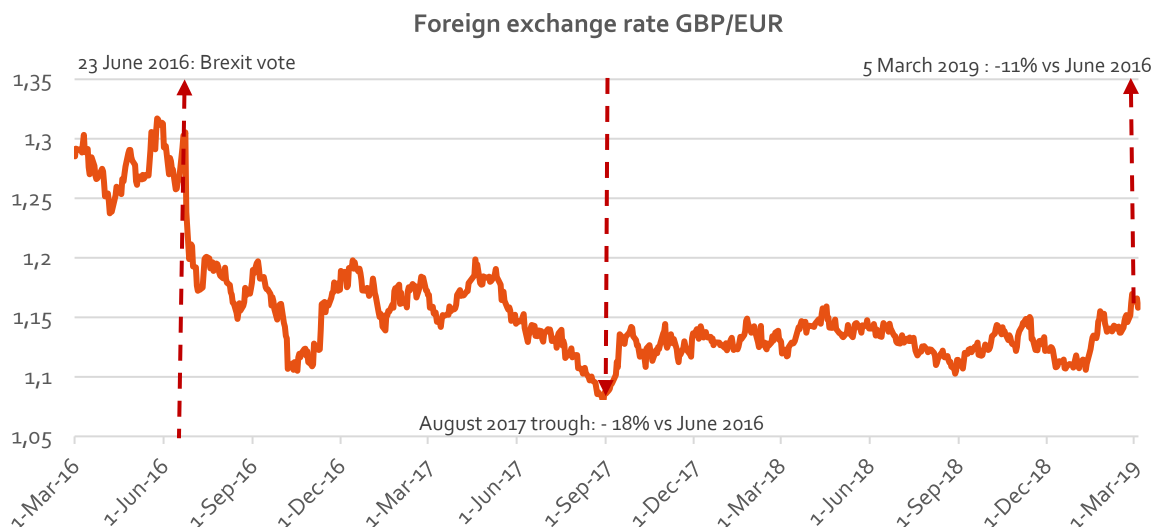
The United Kingdom should officially leave the European Union on 29th March. Inside the IAA80, an index consisting of 80 listed agri-food stocks in Western Europe, Unigrains has identified the groups which are already hampered or could be hampered by the British withdrawal, whatever the deal eventually concluded. A table at the end of this document shows the various reactions of the companies impacted by the Brexit.

Companies impacted

The IAA80 includes 16 British firms, for which the degree of impact varies according to their geographic diversification in terms of both sales and raw materials sourcing. The IAA80 ***4 Irish companies*** are highly exposed to the UK and thus have prepared themselves for the worst. ***In the rest of the EU***, the most affected agri-food companies are mainly wine and champagne producers. The IAA80 dairy producers (Danone, Savencia Fromage & Dairy, Emmi) should not be much impacted thanks to their size and the diversity of their products and export markets. With or without trade agreement, the shock should be smoother than the one provoked by the Russian embargo in 2014.

Direct impact: Pound Sterling's heavy fall

The agri-food industry immediately felt the consequences of the Brexit vote: the strong depreciation of the British currency right after the referendum date increased the UK firms' production costs. The European companies exporting to the island experienced a decrease in their UK revenues.



Risks following effective UK exit:

Unigrains identifies 5 main risks for the British companies:

- Lower consumer confidence or even reduced customers' purchasing power
- Rise in cost of imported raw materials: either due to new import tariffs or due to a further drop in the Pound Sterling
- Decrease in competitiveness following the implementation of customs rates at the EU borders
- Higher logistics and administrative costs resulting from the increase in procedures to complete to cross the EU borders and the implementation of sanitary controls

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- Employment issues: the UK agri-food industry is highly dependent on EU migrant workers. According to Tim Lang, professor of Food Policy in the City University of London, they represent 30% of the UK food industry's jobs. In the poultry sector the rate rises to 60%.

In the rest of the EU the most exposed companies are the Irish ones. The UK absorbs one third of the Republic of Ireland's agriculture and food products, implying that the Irish firms often generate a high percentage of their revenues there. Moreover, their manufacturing operations are often located on both sides of the frontier. The sterling depreciation against the euro has already made some damages on profits. The Irish companies also spent on improving as much as possible their resilience to any kind of Brexit shock.

Outside of Ireland the IAA80 companies that are the most at risk mainly operate in the wine & spirits sector. The threat is even higher when the group focuses on a small number of products, in particular wines and/or champagnes.

Short- and long-term consequences

The EU and UK companies are still waiting for more clarity regarding post-Brexit trade conditions. In the meanwhile, ***their most common reaction*** is to try to avoid any kind of disruption in their supply chain resulting from a more difficult border crossing. ***Inventories of both raw materials and finished products are piling up*** in the British warehouses.

On both sides of the Chanel farmers express growing concerns over the potential end of agri-food goods free trade between the UK and the European Union. According to the European Parliament, this trade represented 11% of the total exchanges between the EU and the EU in 2017. The major issue resulting from the Brexit will be the ***restructuring of the market***, which could be highly painful in absence of trade agreement ("Hard Brexit" case). With reduced exports to the UK the European agri-food industry is likely to suffer from price pressure: product offer may become higher than demand. This would be the case up until the EU and the UK find a new trade agreement – with or without custom rates - or the EU companies manage to redirect their goods towards other export markets.

On a more positive note, the Brexit could be the occasion for Great Britain to reorganise their agri-food supply chain in depth.

Country	Company	Sector	Impact	Comments
Royaume-Uni				
	Diageo	Wine & Spirits	→	The Brexit has little impact on Diageo due to its high geographic and product diversification. In case of "no deal" it would not be much more hurt since their trade with Europe will be tariff free under WTO conditions. However, the group mentions a likely increase in costs due to growing volume and complexity of formalities to complete when crossing an EU border.
	Stock Spirits	Wine & Spirits	→	Stocks Spirits generates most of its sales outside the UK. Its revenues, profits and debts are mainly denominated in Polish Zloty of Czech Krona.
	Tate & Lyle	Agri-food ingredients	↑	As a sugar refiner Tate & Lyle would highly likely benefit from being located outside the European Union. It would enjoy lower raw materials costs, being able to replace beet sugar imported from the EU by cheaper cane sugar from outside the EU. The latter won't be subject any more to the prohibitive tariffs imposed by the Union.
	Associated British Food	Sweet & savoury groceries	↓	ABF communicated on the high uncertainty surrounding the commercial status of its exported goods, notably those which will still be in transit at time of actual UK leave.
	Premier Foods	Sweet & savoury groceries	↓	The group piles up inventories to avoid any disruption in sourcing. Consequently, its net debt should decrease at a slower pace than previously anticipated.
	Nomad Foods	Sweet & savoury groceries	↓	In 2017 the UK represented only 21% of the group's sales. Although it mentions uncertainties regarding Brexit terms and timing, foreign exchange rates, global economic situation and trade agreements, it has no specific plan in place. Should it supply chain be hampered by the UK exit, frozen products are easier to stockpile than fresh ones.
	Dairy Crest	Dairy products	→	The company should not be impacted by the Brexit as it sources its milk locally and generates 97% of its sales in the UK.
	Cranswick	Meat	↓	Cranswick uses pork from the EU as one of its raw materials, therefore any customs rate would result in higher production costs. The company refers to foreign exchange rates, labour cost and decrease in demand as other short- and long-term risks.
	Hilton Foods	Meat	→	In 2017 Hilton Foods generated 42% of its revenues in the UK. However, the group is confident in its capacity to overcome the Brexit, whatever the agreement reached with the EU. The company sources and sells mainly locally.
	A.G. Barr	Soft drinks	↓	The company talks about economic and political uncertainties but maintains its guidance for the current year. The British Pound depreciation harmed its margins as its sugar and packaging expenses are denominated in euro.
	Nichols	Soft drinks	↓	Nichols does not mention any specific risks. As its competitors, its margins were impacted by the GBP depreciation as soon as in 2016 through higher raw material costs.
	The Scottish Salmon	Seafood	↓	According to management the Brexit could be very damaging to the British salmon industry if the EU imposes tariffs. However, they are confident that their current strategic plan should support long-term growth.
	Finsbury Food	Cereal, Oilseed and protein crop processing	↓	The group generates 87% of its revenues in the UK. It forecasts higher production costs due to more complex administrative and logistics processes and longer inventory days. It is looking for local suppliers to minimise its eggs and dairy imports from the EU.
Ireland				

	Kerry	Agri-food ingredients		Kerry is highly exposed to the UK through its Consumer Food activity. In 2017 it implemented a « Brexit Currency Mitigation Programme » to lower its GBP-denominated transactions. It relocated part of its sourcing and operating units, and restructured others. The programme cost was 29 million euros over two years.
	Glanbia	Agri-food ingredients		The UK counts for only 3% of its revenues but Glanbia has two JVs located on British land. Even if the potential effects of the Brexit remain hard to quantify, the group prepared itself to the "no deal" extreme case. The operating units that export to China or to other countries that could be subject to new customs rates have implemented plans to minimise impacts.
	Greencore	Sweet & savoury groceries		Greencore is highly exposed to the UK but sources mainly locally, which protects it against a meaningful increase in production costs. The group evaluates a "no deal" case as manageable in the medium term but harder to deal with in the short term. It started to pile up raw materials in its British warehouses says it is ready to use airplanes to import more if needed post-Brexit.
	C&C Group	Wine & Spirits		The company generates 53% of its net sales in the UK. Together with its profits they have already been damaged by the depreciation of the British currency. It also fears new tariffs on its exports to the UK.
European Union excluding the UK and Ireland				
Suisse	**Nestlé**	Sweet & savoury groceries		Nestlé piles up inventories in the UK to avoid any disruption in the distribution of its products. However, its strong geographic diversification and its size protect him from any major Brexit-related impact.
Pays-Bas	**Royal Wessanen**	Sweet & savoury groceries		The group generates 15% of its revenues in the UK. It has increased its selling prices to maintain its margins in the country following the GBP drop. However, this resulted in lower sold volumes.
France	**Pernod Ricard**	Wine & Spirits		The company recently increased its inventories on both sides of the Chanel to avoid any disruption in the distribution of its products (gin and whisky are produced on the island) either in the UK or in the European Union. It also raised its selling prices in the UK to offset the impact of the GBP depreciation.
Italie	**Davide Campari**	Wine & Spirits		Low exposure to the UK
France	**Rémy Cointreau**	Wine & Spirits		Low exposure to the UK
France	**Laurent-Perrier**	Wine & Spirits		The UK is the group's second largest market, and its export volumes to the island have decreased. Its earnings could be more damaged as its production costs are euro-denominated. However, Laurent-Perrier has so far managed to offset the negative impact of the Brexit through a successful premiumisation strategy. Its share price increased by 14% in 2018.
France	**Lanson-BCC**	Wine & Spirits		The UK is Lanson's largest market. Management deplores a decrease in UK sales over its last financial year due to lower volumes and negative foreign exchange effect. It is less resilient than its peer Laurent-Perrier despite having also implemented a premiumisation strategy. Its share price dropped by almost 10% in 2018.
France	**Vranken-Pommery**	Wine & Spirits		The group's sales suffered from its UK exposure in 2016-2017 (negative foreign exchange rate, lower volumes) but the impact faded away afterwards, notably thanks to an improved geographic diversification. Its share price remained broadly stable in 2018.
Espagne	**Baron de Ley**	Wine & Spirits		As UK transport and inventory costs are increasing, Baron de Ley tries to redirect its exports towards new markets such as Russia, Canada and Brazil.

Legend: : positive : neutral : slightly negative : negative