



FOOD & AGRIBUSINESS PERSPECTIVE #6

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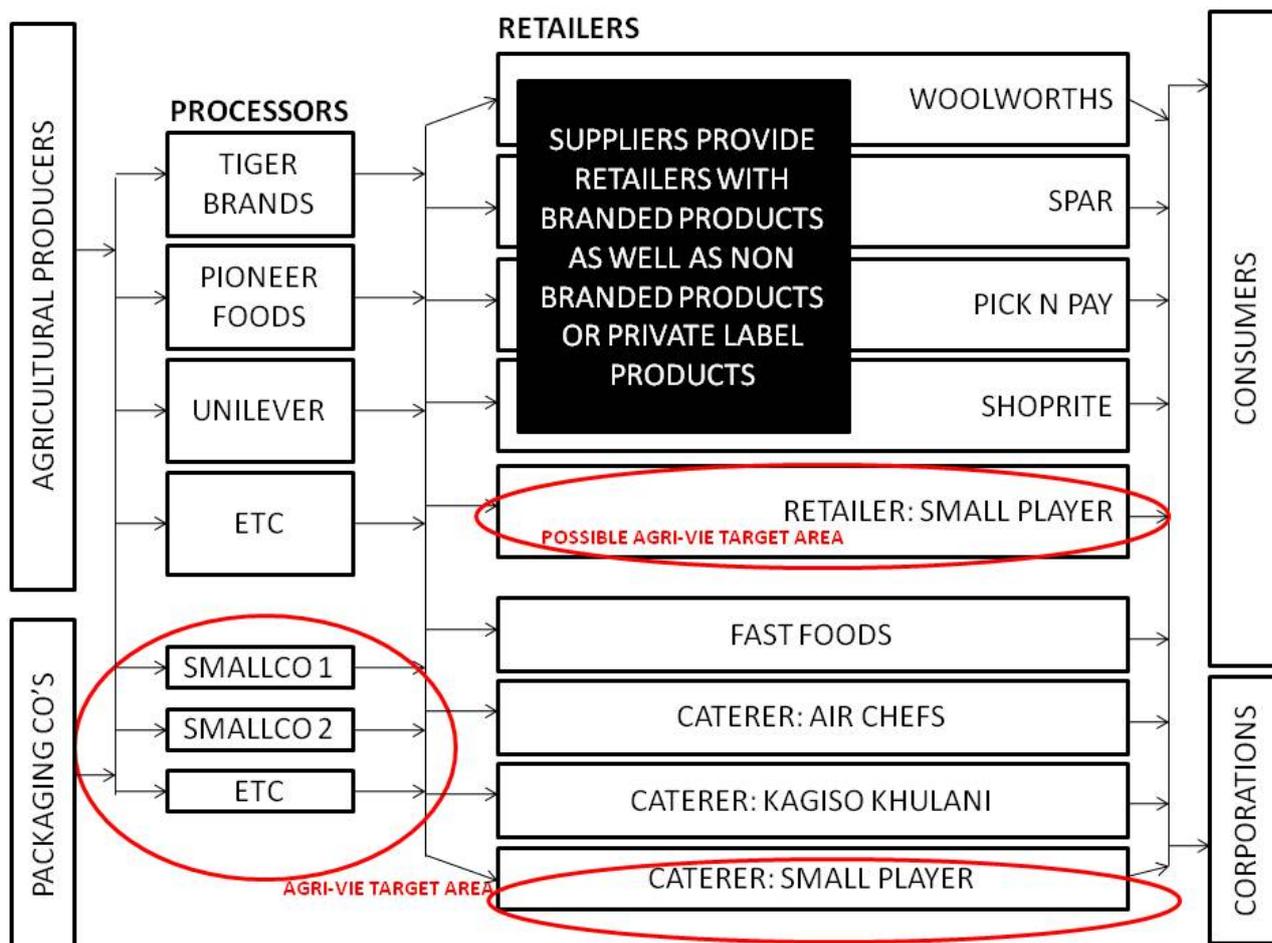
FOOD & AGRIBUSINESS PERSPECTIVE # 6: THE PREPARED FOODS SECTOR

Prepared Foods are commercially processed, ready-to-eat foods in frozen, refrigerated or shelf stable form available in convenient packaging. Processing methods include freezing, pasteurization and sterilization.

In South Africa, leading manufacturers are seeing increased competition from cheap imports and private label products. Within subcategories of prepared foods, the highest growing imports include Beverages and Snacks – according to large company financials and other sources, the post recession beverage market is currently undergoing a positive correction in terms of sales and margins. In addition, beverages and snacks are also the highest growing prepared foods categories globally in absolute terms. The key attributes of successful products include speed of preparation, single serving sizes and convenience while key risks include product recalls and contamination.

In Sub-Saharan Africa, the Prepared Foods industry is dominated by large food companies based out of South Africa, where (geographically) the majority of the market lies for these products. Agri-Vie’s target investments fall within the group of smaller processing companies that supply to the big four retailers as well as other corporate customers in South Africa as well as smaller catering companies that are competing for market share.

The following diagram provides an overview of the prepared foods industry:



Retail: Currently, the retail food industry in South Africa is dominated by the big four supermarkets. These retailers are already present in Sub-Saharan Africa to a certain extent, but are planning aggressive expansion into the region. They are notorious for non consideration of vendor company

economics, switching loyalties and retaining their margins during down swings at the cost of squeezing vendor margins. Visible targets on the retailer level outside of South Africa include Nakumatt and Uchumi. Both companies own and manage small supermarket chains originating in Kenya. Nakumatt has recently expanded into Uganda and Rwanda and has plans to expand by increasing total number of stores in general and also by entering the Tanzanian market in the near future. Globally, the biggest consumers of processed foods are Europe, US and the Asia Pacific region, while the remainder of the world including Sub-Saharan Africa consumes only 9.10% of the total. Per capita expenditure on convenience products peaks in Sweden at \$700, while in the US it stands at over \$400. The most sizeable sub-segments which are also experiencing the highest growth rates on a global level are Non-Alcoholic Beverages (excl. Dairy) and Snacks. This is reflected in the fastest growing imports into South Africa, for example, the number one position is held by Soy Based drinks, directly followed by drinkable yogurts (non-dairy)), with sports/energy drinks in the fifth position. Large company financial reporting on the segmented business unit level in South Africa indicates a considerably higher growth rate for prepared foods than global aggregates. Although bottled water is traditionally considered a low margin business, the global industry is projected to have a value growth of 25.1% and volume growth of 23.3% by 2014.

The catering industry in South Africa is also dominated by big players such as Compass Group and Air Chefs that are experiencing high growth levels. There are a number of very small players that have also registered high growth, indicating that the industry overall is a lucrative one. Between July to September 2007 and the same period in 2008, the total industry growth in South Africa was 11.5%. Industry gross margin for the smaller players was approximately 40% based on primary research.

Pre-recession growth of 11% in frozen prepared foods was recorded in South Africa, while Shoprite increased overall sales of Prepared Foods by 20% in 2006. Although the recession has impacted overall volume sales of Prepared Foods as consumers were driven towards curbing non essential spending, an increase in unit prices has continued to drive overall value growth. Strong growth is expected to continue in this category, especially through increased distribution. According to a KPMG survey, recovery of the global food and beverage sector is expected to be faster than that of the wider economy.

Global product focused trends in prepared foods include convenience in preparation, reduced fat as well as sodium and carbohydrates and higher growth in frozen snacks (albeit lower growth in overall frozen foods) and ethnic foods. 44% of Prepared Foods are purchased in supermarkets and 22% in groceries. The South African market is following UK product and marketing trends especially in microwaveable pre-packed meals. South Africa remains the predominant market for Prepared Foods in Sub-Sahara due to proliferation of supermarkets and groceries, as well as the fast growing distribution channel of on-site shops located at petrol stations. Woolworths is the market leader in retailing Prepared Foods, and has aggressively expanded its distribution through these on-site shops.

Extracted from Prepared Foods Sector Analysis by Ellora Ghosh, Agri-Vie Transaction Advisor and Analyst.