MARKET REPORT

AUGUST 2022

meadow vale foods

WHY IS CHICKEN GETTING MORE AND MORE EXPENSIVE?

'Apocalyptic food prices will be disastrous for world's poor', says Bank governor.

Welcome to our August Market Report.

Unfortunately, it will come as no surprise that our August Report shows many areas are experiencing increasing uncertainty since our last update in **February 2022.**

Poultry supply continues to be hit from all sides.

In a **BBC report** from May 22, that now seems old such is the speed of change, the BBC focused on chicken, as among the most affected proteins.

This report highlights what we consider the current key drivers of poultry supply and the actions we are taking to minimise their impacts on service to our customers.

I am sure you will join me in looking forward to a time when these reports predict a more stable market and supply chain.

As always, the Meadow Vale Foods team is here to support you as the industry continues to work to reinvent the UK's diverse and exciting food scene.

1. CONSUMER TRENDS
2. ECONOMIC ENVIRONMENT
3. INPUTS
4. FOREX
5. GLOBAL SUPPLY CHAIN & STOCK AVAILABILITY

NIGEL O'DONNELL
MANAGING DIRECTOR

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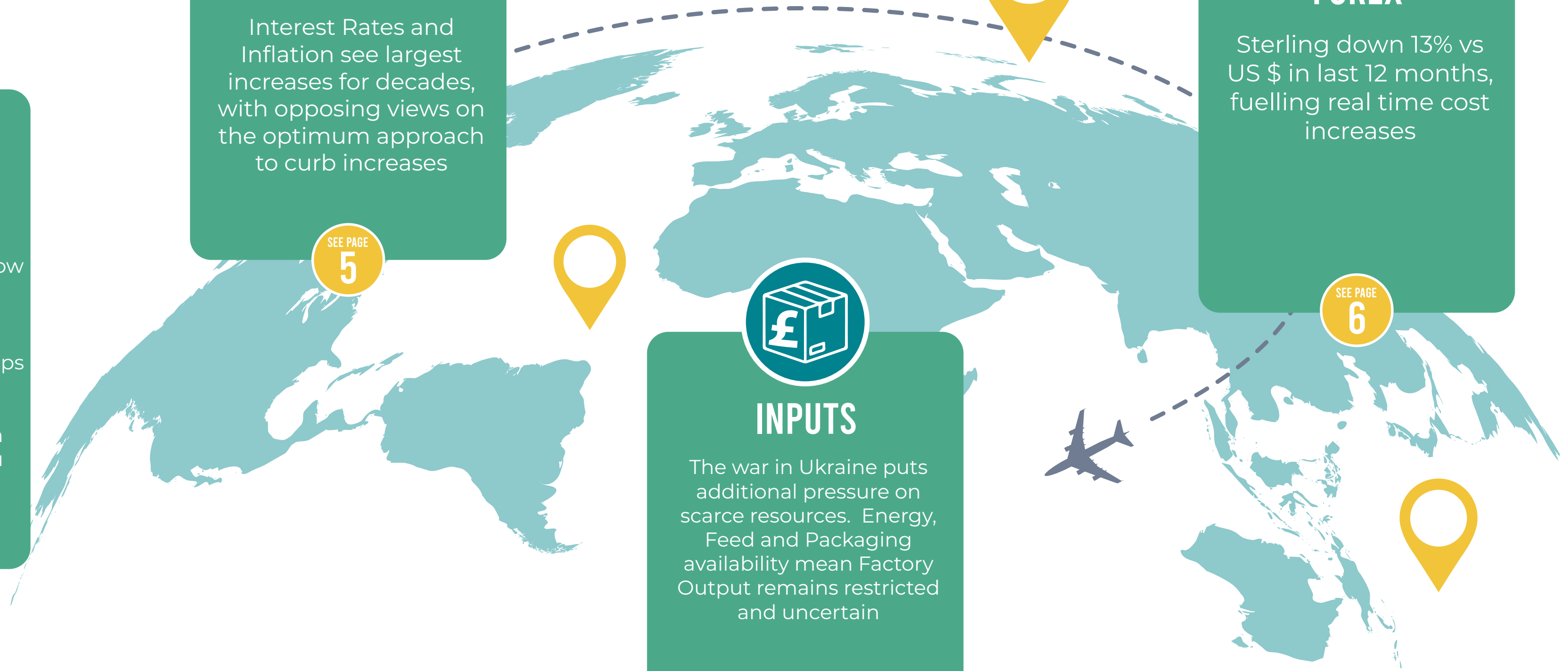
A BALANCING ACT

DEMAND - SUPPLY - INFLATION

Despite the prospect of falling consumer confidence and cost of living crisis in the UK, demand has remained strong and Supply Chains continue to struggle.



CUSTOMER TRENDS

Consumer expectations grow despite squeeze on disposable income

As Chicken demand outstrips other meat & fish

Greater variety of chicken options on a single menu

SEE PAGE 3

ECONOMIC ENVIROMENT

Interest Rates and Inflation see largest increases for decades, with opposing views on the optimum approach to curb increases

SEE PAGE 5

INPUTS

The war in Ukraine puts additional pressure on scarce resources. Energy, Feed and Packaging availability mean Factory Output remains restricted and uncertain

SEE PAGE 7 SEE PAGE 8

FOREX

Sterling down 13% vs US $ in last 12 months, fuelling real time cost increases

SEE PAGE 6

GLOBAL SUPPLY CHAIN & STOCK AVAILABILITY

The challenges of Shipping Capacity and reliability continue

SEE PAGE 9 SEE PAGE 10

DEMAND TRENDS & CUSTOMER EXPECTATION

COST OF LIVING CRISIS REDUCED DISPOSABLE INCOME

DEMAND FOR POULTRY RISING NOW 50% OF THE MEAT EATEN IN THE UK

DELIVERY FROM 25% TO 40% OF OOH SECTOR

DARK KITCHEN BUSINESS MODELS GROWING

FROZEN TAKING SHARE FROM FRESH - REDUCED WASTE

Despite the difficult conditions we start with an overview of the trends and opportunities that are emerging.

EATING OUT AND TAKE-AWAY TREAT MEANS INCREASED CONSUMER EXPECTATIONS

Food Service Operators Priorities

- *Stay on trend and offer consistent quality*
- *Focus menus on customer favourites*
- *Simple and quick cook for lower skilled staff*
- *Extended delivery zones with dishes that travel well*

FIND OUT MORE

FIND OUT MORE

DELIVERING ON FOODS SERVICE PRIORITIES

Service Levels, Traditional Top-Sellers, and New Products drive demand for Meadow Vale Foods.

Delivering For Food Service

VERSATILE PRODUCTS

MULTIPLE MENU OPTIONS FROM ONE PRODUCT

CONSISTENT QUALITY & CALIBRATION FOR EASE OF MENU COSTING

SKILLS SHORTAGE

GREAT TASTING, QUICK COOK, LOW SKILL OPTIONS ARE IN HIGH DEMAND

As menus are re-energised with great-tasting options that are also quick and easy to prepare, our innovative new lines including Homestyle Salt & Chilli shredded chicken have cemented their position as firm favourites.

ECONOMIC ENVIROMENT

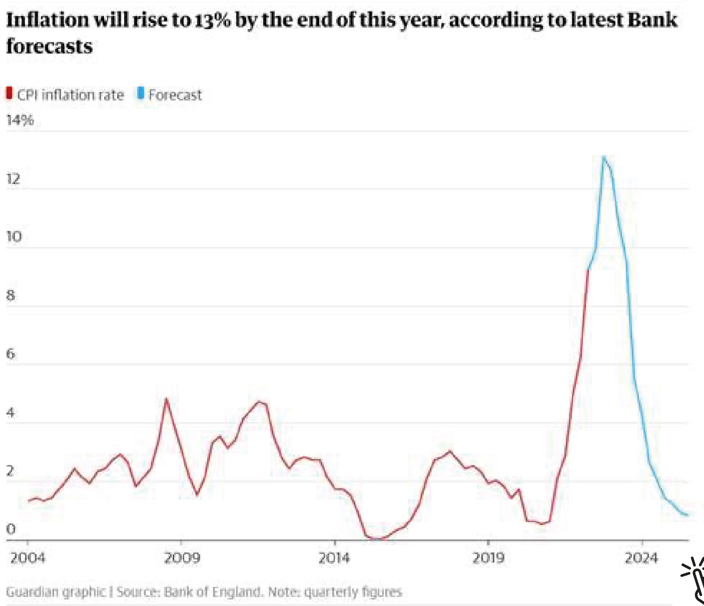
Many commentators predict a challenging economic environment in the second half of this year, which we hope will be brief and shallow.

INFLATION

9.4% current rate
12% project high

Economists forecast a historic shift away from stimulus and toward tighter money as central banks around the world fight inflation surge.

We have to look to the seventies to see anything like these rates.

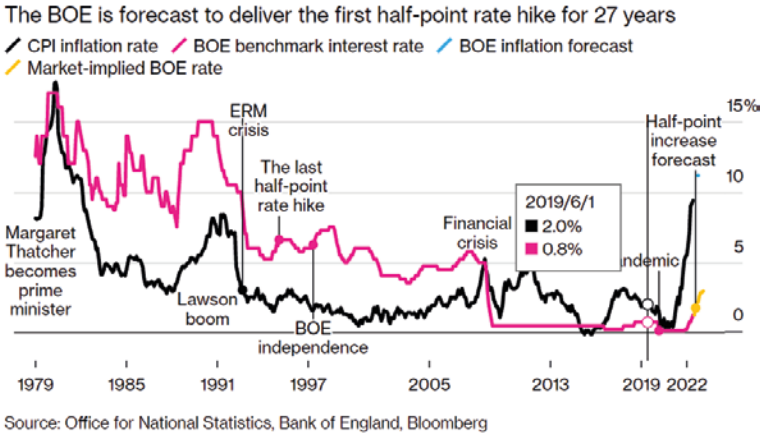


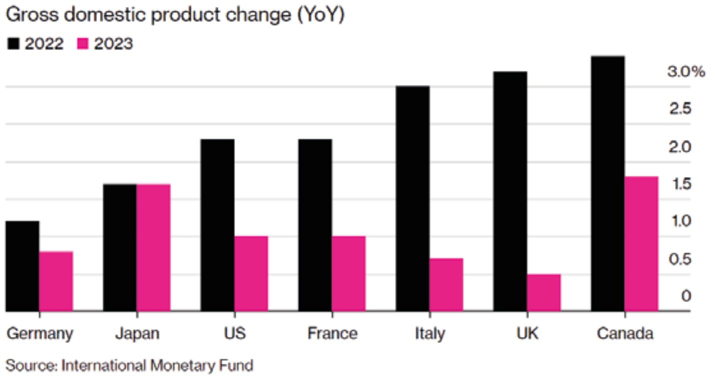
INTEREST RATES

'Bank of England Set for Biggest Interest Rate Rise in 27 years.'
Bloomberg, 1 August 2022

GDP

'The UK economy races double threat of inflation surge, recession risk'
Reuters, 28 June 2022





'The rate of inflation is forecast to keep rising this year. But we expect it to slow down next year, and be close to 2% in around two years.'
Bloomberg, 1 August 2022

FOREX

GBP has lost over 13% of its value against the USD in the past 12 months.

With the USD central to Global Supply Chains, the weakness of GBP alone has added 13% to the cost of goods in the real terms.

'The current account deficit was calculated at 8.3% in the first quarter of 2022 …. The worst figure on record since payment data were first published in 1955'

The Financial Times Article (30th June 2022)

Trade balances are supporting the USD strength and GBP weakness.

INPUTS

FEED PRICES AT RECORD HIGH

Weak currency, the Russian conflict and blockade of Ukraine's grain have created an unprecedented supply shock in the global trade of grains.

Russia and Ukraine jointly produce nearly a third of global wheat supplies.

Last week the 1st ship left Ukraines ports since February.

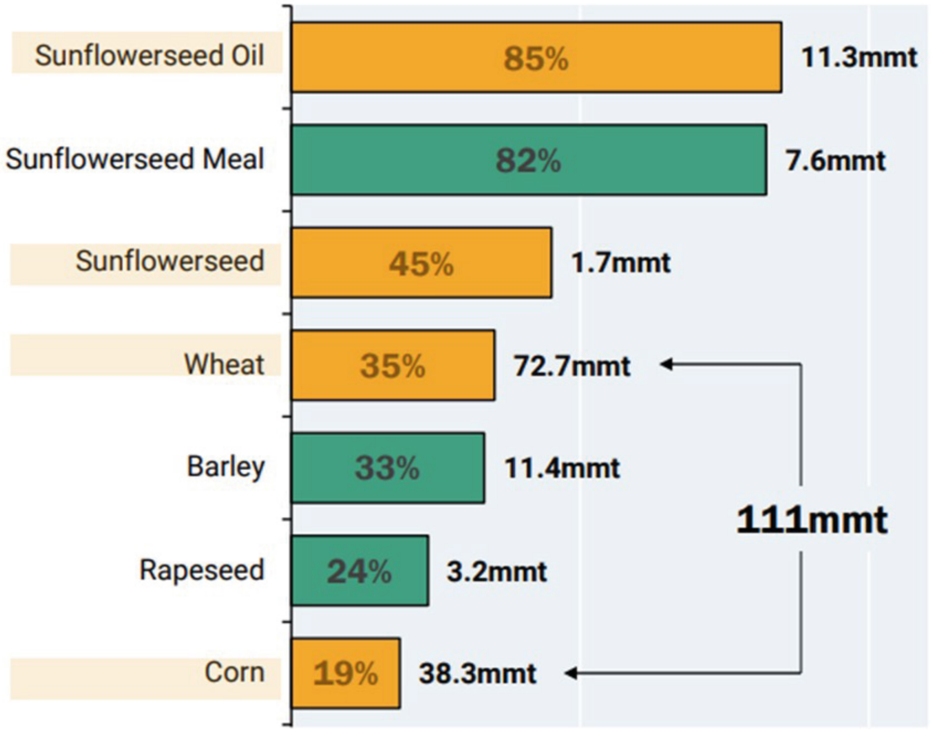
A further four have left containing grain and sunflower oil destined for Italy & China.

Forecasters predict wheat is set to continue to rise by 14% over next 12 months.

OTHER INPUTS

Other previously mentioned inputs remain high, most notably energy in all its forms, packaging, CO_2 gas used in production and shipping (see supply chain).

Black Sea[1] Share in World Exports



1.Russia, Ukraine, Georgia, Bulgaria, Romania, Turkey, Kazakhstan, Uzbekistan, Azerbaijan, Tajikistan and Kyrgyzstan.

PRIMARY FEED

18% IN 6 MONTHS
(JAN - JULY 22)

POULTRY PRICE

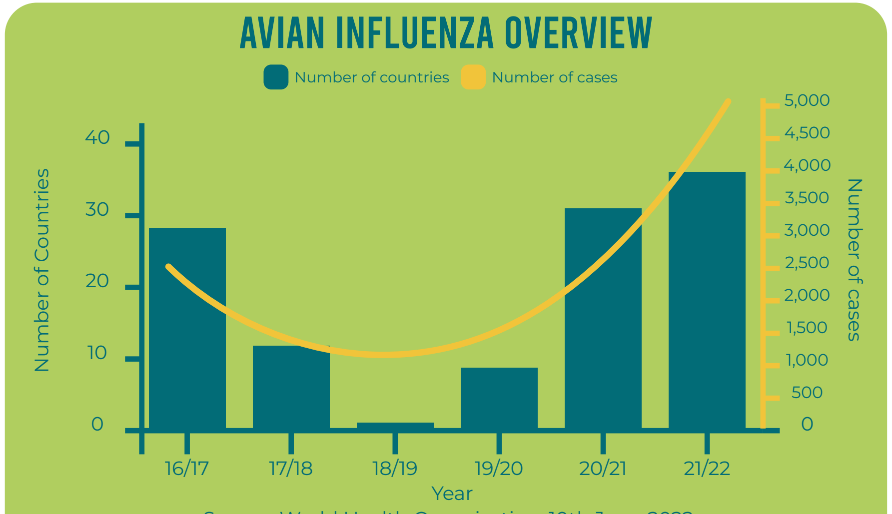
33% IN 7 MONTHS
(JAN - JULY 22)

INPUTS

Avian influenza continues to hit major poultry producing countries. Impacting poultry supply and price.

AVIAN INFLUENZA

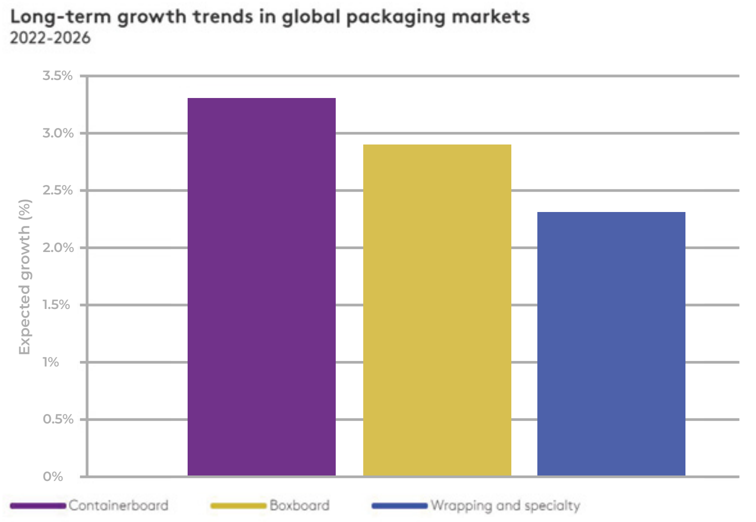
Europe's ongoing battle with Avian Flu continues with high levels and increased geographical distribution. The Global outbreak also continues.



Source: World Health Organisation, 10th June 2022

PACKAGING SUPPLY AND DEMAND

As Supply continues to be limited, demand for packaging is forecast to continue to grow, although the war in Ukraine and high rates of inflation suggest this may peg back from the highs of 2020, there is still inflationary pressure.



Source: Fastmarkets

PRODUCTION CAPACITY

Production volumes remain low, driven by:

- Raw material shortages
- Lack of labour and increasing rates
- Escalating costs
- Asian countries in particular, due to their later withdrawal of Covid measures, have not got back up to capacity

INBOUND LOGISTICS

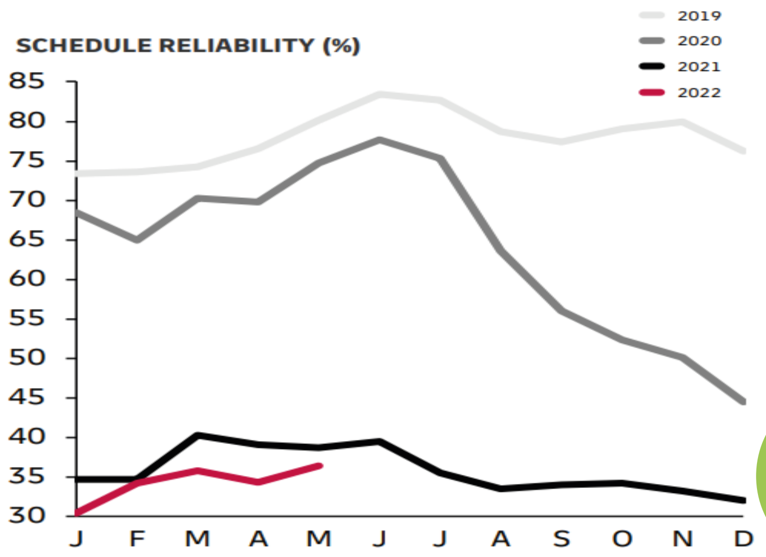
Indicators show no return to more reliable or cheaper shipping in the near future as container throughput is forecast to rise slower than GDP growth.

NORTHERN EUROPE PORT CONGESTION

- Bottlenecks are driven by the cost and availability of labour, both in port and transport.
- Increased dwell times with associated demurrage and detention costs.
- As Asian lockdowns are lifted congestion in Europe will worsen further.

ASIA-NORTH EUROPE ROUTE - Container ships taking 101 days (Ave.)

- Resulting in 20 day delay in China for the next trip.
- Blank sailings as vessels are unavailable.
- 36 days are required to discharge in main EU ports.



*CLICK HERE TO READ MORE

ADDITIONAL CAPACITY

- Orders for new vessels at an all-time high.
- Labour shortages increasing lead times.

A RECENT DHL REPORT HIGHLIGHTS THE ISSUES OF RELIABILITY*

101 Days
ASIA-NORTH EUROPE ROUTE
Resulting in a 20 day delay in China

35%
SHIPPING RELIABILITY
Caused by capacity issues, labour shortages.

97%
INCREASE IN SHIPPING COST
In the last 24 months.

55%
PROFIT MARGIN WITH SOME AS HIGH AS 68%
$3.4bn profit on $5.8bn of sales

GETTING PRODUCTS TO YOU THE FINAL MILE

Green shoots of recovery, in the HGV driver shortage, are predicated for 2023.

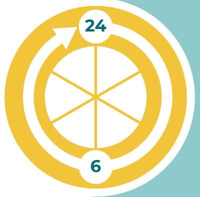
"With the number of HGV drivers in employment not falling as significantly as in recent quarters, the business group has expressed cautious optimism..." - Logistics UK

- Rate of decline of HGV driver pool slows from **49,000 in Q4 2021** to **30,300 in Q1 2022**
- **Improved throughputs** at DVSA testing facilities. 27,144 HGV vocational tests undertaken in Q4, 2021
  54% increase
- Record 10,481 tests undertaken in March 2022
  60% pass rate
- HGV driver **wages have increased** to retain existing staff and attract new drivers
  25% advertised salaries increase

"Attracting and retaining new recruits and existing HGV drivers in the sector remains a critical priority for the logistics industry to secure a talent pipeline for years to come."
- Logistics UK

OUR ACTION PLAN

Focusing on projects that help us deliver on our customer's priorities.



PLANNING AHEAD

Extending our planning cycles from **6** months to **24** months, giving our factories transparency and ability to schedule efficiently.

COMMITMENT TO VOLUME

We have increased production and stock holding at factories to take advantage or short term shipping availibility.

MAXIMISING LOAD EFFICIENCY

Case size rationalisation to reduce complexity. improve pallet effiency and container volume.

SUPPORTING DISTRIBUTION

Introducing direct (MVF labour) at our cold store partner facilities for quality control and verification.

DOUBLED STOCK LEVELS

SUMMARY

With no end in sight to the conflict in Ukraine, it is hard to imagine a short-term turn around in the economic environment.

Many commentators foresee a tough economic enviroment in the second half of this year and, whilst we hope it is short and shallow, it is expected and the closer we work together, the better we can all serve our customers.

Our customers tell us their priorities remain:

- Stock Availability
- Consistent High Quality
- Innovation in Products and Services

For more guidance on supply issues or anything else regarding your orders, please don't hesitate to **contact us**.

NIGEL O'DONNELL
MANAGING DIRECTOR