

WH Group in Staple Foods (World)

March 2024

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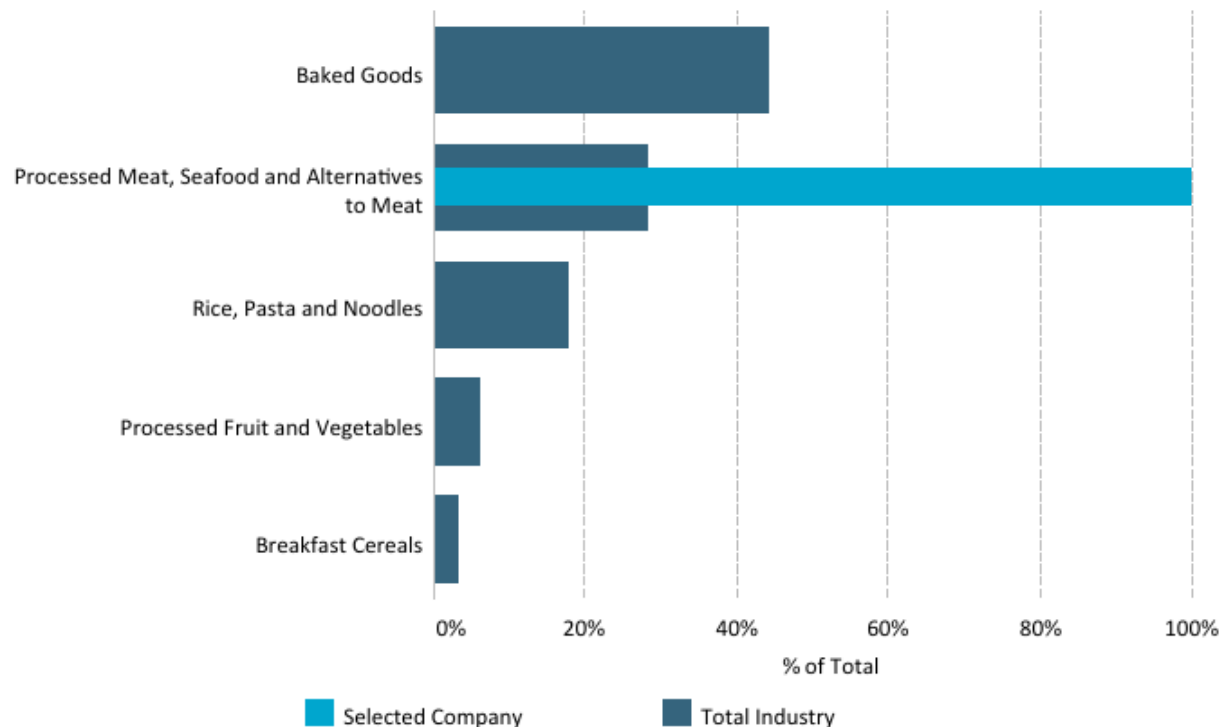


--- Introduction

Scope

WH Group vs. Staple Foods: Distribution of Sales by Category, 2023

Company Retail Sales RSP - USD million - Current - Fixed 2023 Exchange Rates



WH Group remains the leading processed meat player globally, with a strong position in China and the US as well as a growing presence in Europe. Its globally integrated platform also includes hog production, slaughtering, processing and exports. However, with its packaged meat business dominating its operating profits, WH Group has been closing down or divesting some of its hog processing operations in the US.

Disclaimer

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Executive summary



WH Group the number one pork company in the world

WH Group remains the largest pork company in the world, with leading positions in China and the US as well as some European markets. Its processed meat sales reached almost USD7.7 billion in 2023, up 5% on a year earlier. Although WH Group is expanding its operations in Europe, it continues to rely on China and the US for the bulk (90%) of its global sales.



Tricky trading environment for processed meat players

WH Group has been operating in a tough climate for processed meat, given that rising agricultural input costs have been driving up animal feed costs. This is in addition to all the other aspects of the value chain that have been hit by the high inflation being seen in the latter part of the 2018-2023 period. Meat production increasingly becoming part of the discussion regarding global efforts to combat climate change is also adding to the difficult environment.



WH Group optimising its US hog rearing operations

WH Group has been rationalising its hog rearing and processing operations in the US, reducing the size of herds and closing processing facilities and farms as it looks to streamline and optimise its US pork business. Total hog production volume was slated to be less than 15 million heads by the end of 2023, versus 17.5 million in 2022.



Goodies and Argal deals will strengthen WH Group's position in Europe

Having closed the 100% acquisition of Goodies Meat Production in Romania earlier in the year, October 2023 saw WH Group announce, through its Smithfield Foods European division, a strategic alliance with Spain's Argal Alimentation as it looks to grow its portfolio of packaged meat products in Europe.



State of play

WH Group remains in fourth place in global staple foods

Top 10 Companies in Staple Foods: Key Facts and Figures, 2023

Company Retail Sales RSP - USD million - Current - Fixed 2023 Exchange Rates (Historic Period: 2020-2023 and Projected Period: 2023-2026)

Max. Company Rank in Current Year	Global Brand Owner	Company Sales	Company Shares	Historic CAGR
1	Grupo Bimbo SAB de CV	17,583	2%	9%
2	Kellogg Co	11,001	1%	4%
3	Kraft Heinz Co	7,874	1%	4%
4	WH Group	7,660	1%	1%
5	Tyson Foods Inc	7,326	1%	8%
6	Yamazaki Baking Co Ltd	6,144	1%	1%
7	Ting Hsin International Group	6,002	1%	1%
8	Barilla Holding SpA	5,824	1%	11%
9	Nissin Foods Holdings Co Ltd	5,608	1%	8%
10	General Mills Inc	5,074	0%	5%

Projected CAGR	Absolute Projected Period Growth
7%	4,049
5%	1,812
5%	1,174
4%	1,075
3%	794
2%	359
4%	824
6%	1,046
4%	758
4%	625

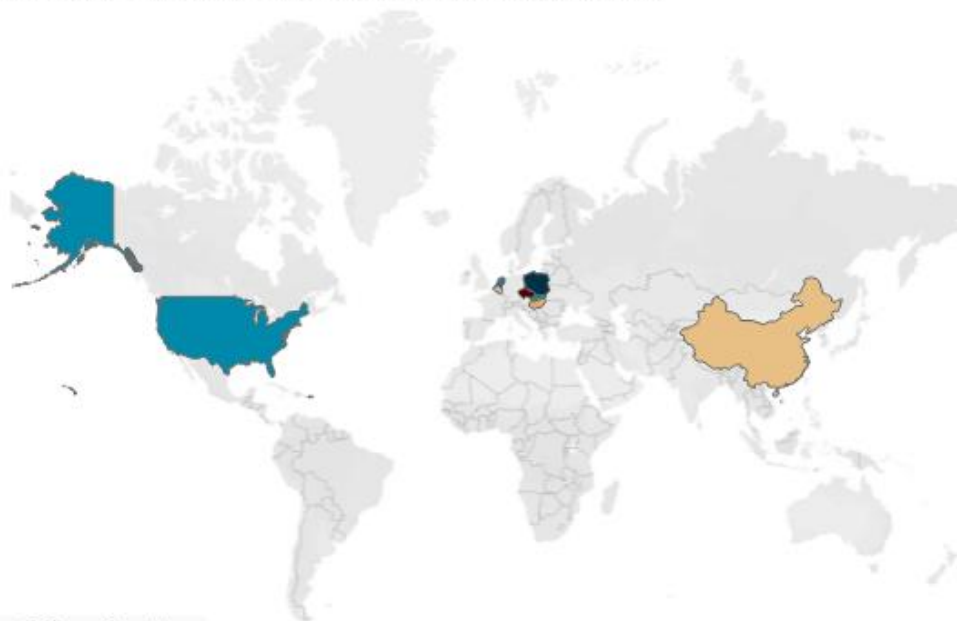
Note: Company projections are based on researched markets only and not directly comparable with historic data which includes modelled markets and top down adjustments

WH Group's global footprint

Staple Foods, 2023

WH Group

Company Retail Sales RSP - USD million - Current - Fixed 2023 Exchange Rates



© 2024 Mapbox © OpenStreetMap

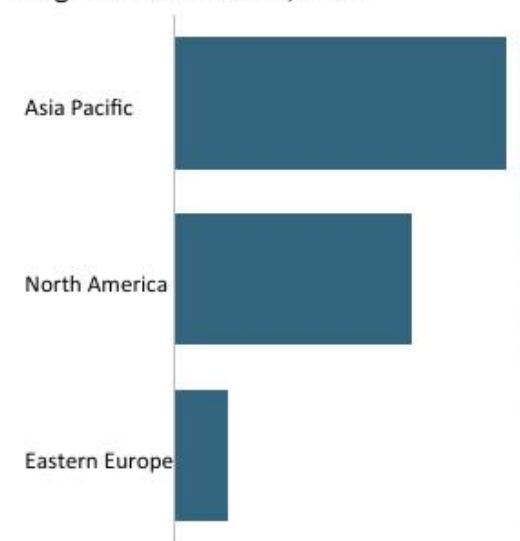
Historic CAGR -20% 13%

Global Company Sales, 2023

USD million

7,660

Regional Breakdown, 2023



China and the US account for 90% of WH Group's staple foods sales

WH Group is the leading processed meat company globally. Its main markets continue to be China and the US, but it is also the leading player in staple foods as a whole in Poland and Slovakia.

Other than a small contribution from chilled lunch kits, all of its staple foods sales are from processed meat, with WH Group the global leader in both chilled processed red meat and shelf stable processed red meat.

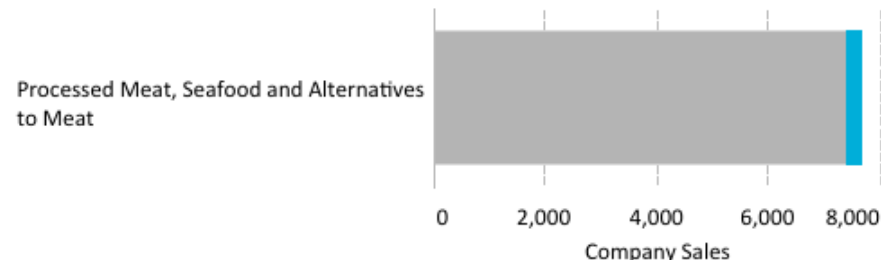
China is still its number one market, accounting for 52% of its staple foods retail value sales in 2023, followed by the US, with 38%. The US share has been gradually growing in recent years.

WH Group's European operations have also been accounting for an increasing share of the company's sales, helped by both organic growth and acquisitions. The most recent deals were the full takeover of Romanian player Goodies Meat Production and a strategic alliance with Spanish company Argal Alimentation.

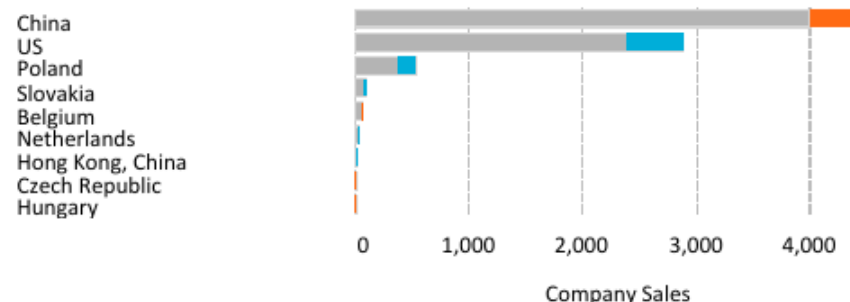
While WH Group's sales grew in the 2020-2023 period in both North America and Europe, increasing competition from smaller players negatively impacted the company's performance in China, although it still comfortably leads both chilled processed red meat and shelf stable processed red meat in this country.

Top Categories, 2023

Company Retail Sales RSP - USD million - Current - Fixed 2023 Exchange Rates
(Historic Period: 2020-2023)



Top Countries, 2023



Absolute Historic Period Growth

Decline



Growth

Market momentum the main growth driver for WH Group over 2020-2023

WH Group's sales benefited from the acquisition of Mecom Group, completed in 2021. This strengthened its presence in Eastern Europe via the Mecom and Druget brands in Slovakia, Schneider in the Czech Republic and Finonimo in Hungary.

However, growth from market momentum provided a bigger boost to group sales in 2020-2023, even if this was partly a result of high inflation rates pushing up prices in many parts of the world.

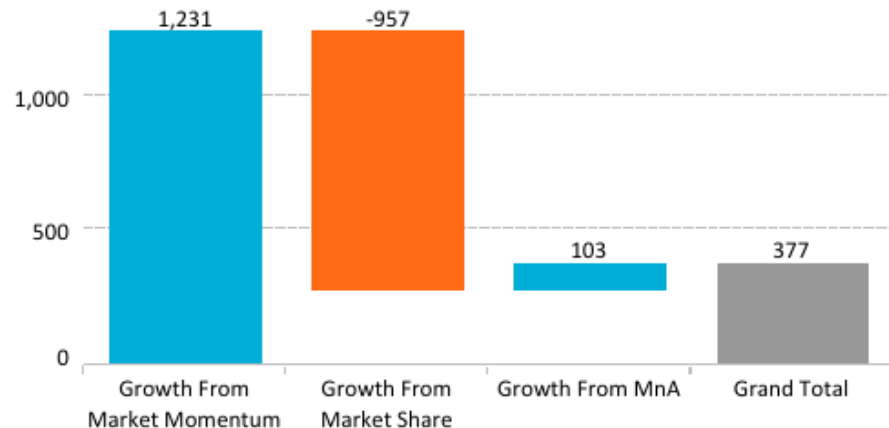
Share losses in the Chinese market, still the main one for WH Group, had a negative impact on the company's performance over 2020-2023.

WH Group further strengthened its position in Eastern Europe when, in February 2023, it completed the full acquisition of Romanian packaged meat producer Goodies Meat Production, which has a product portfolio that includes salami, ham, bacon, bologna and other meat specialities.

In addition, it is forming a strategic alliance with Argal Alimentation, a Spanish charcuterie and packaged meat processor. The deal will see the European division of Smithfield Foods (a US food company acquired by WH Group in 2013) taking a 50.1% stake in Argal, which produces ham, bacon, turkey, sausages, fuet and pâté.

WH Group: Decomposition of Sales Growth by Contributing Factors, 2020-2023

Company Retail Sales RSP - USD million - Current - Fixed 2023 Exchange Rates



Absolute Historic Period Growth



Note: Decomposition data based on 78 researched countries, see appendix for methodology

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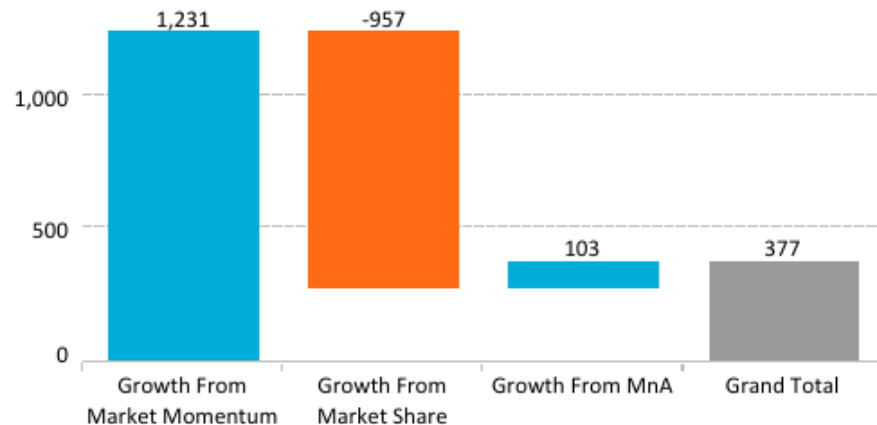
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WH Group: Decomposition of Sales Growth by Contributing Factors, 2020-2023

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Absolute Historic Period Growth

Decline Growth

Note: Decomposition data based on 78 researched countries, see appendix for methodology

Exposure to future growth

China, the US and Poland stand out as growth areas for WH Group

China and the US will generate the bulk of any new staple foods sales for WH Group in the coming years.

Poland is also expected to generate significant new sales over 2023-2026.

WH Group's Krakus brand leads shelf stable processed red meat in this country, with Morliny, Krakus, Mazury and Yano all top 10 brands in chilled processed meat.

Poland's is the second biggest processed meat market in Eastern Europe, behind only the far more populous Russia, while WH Group is also represented in Hungary and the Czech Republic, this region's third and fourth biggest processed meat markets.

While WH Group is currently rationalising its hog production activities in the US, this is not expected to impact its more lucrative packaged meat operations.

WH Group: Top 10 Growth Areas, 2023-2026

Company Retail Sales RSP - USD million - Current - Fixed 2023 Exchange Rates



Note: Absolute projected sales represent the net increase/decrease in annual sales between 2023 and 2026. See appendix for methodology on projected company sales

Yamazaki expected to continue slipping down the staple food rankings

After slipping a position in the staple food rankings during the 2020-2023 period, WH Group will be working hard to keep ahead of fellow processed meat player Tyson Foods in the coming years.

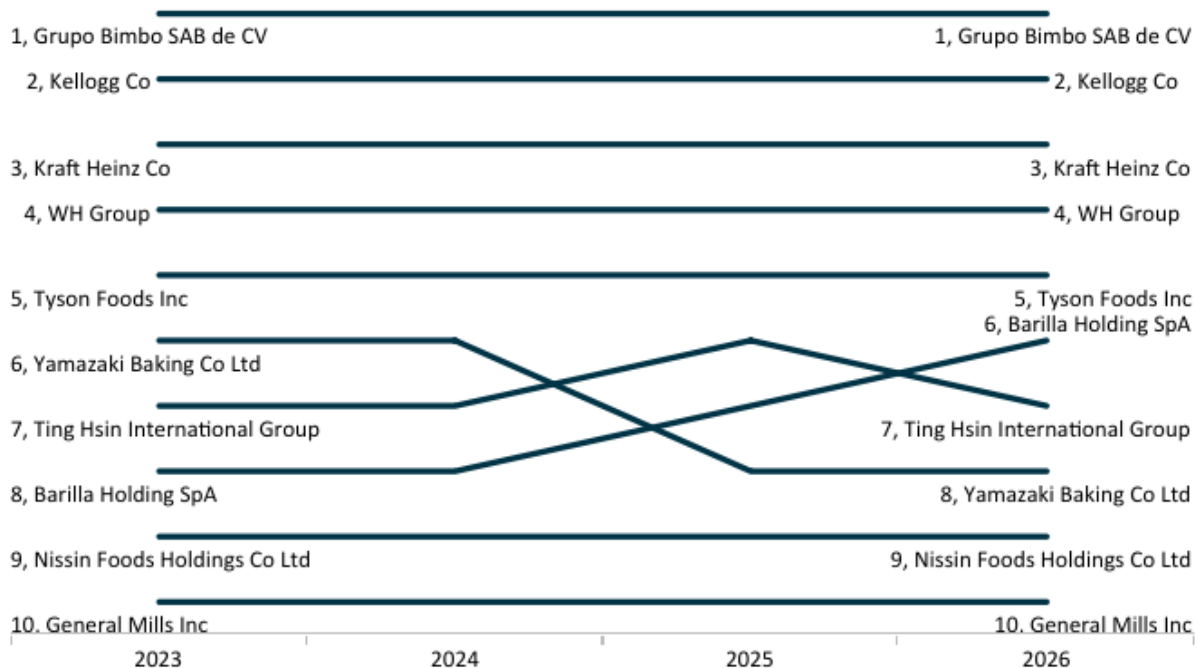
With both WH Group and Tyson Foods heavily focused on processed meat, this can make it harder to innovate given the inherent limitations in reformulating such products.

However, both players are currently expected to maintain their current positions in the next few years.

Baked goods player Grupo Bimbo will continue to lead staple foods, although baked goods number two Yamazaki Baking is expected to slip down the rankings.

This will be to the benefit of Barilla Holding in 2023-2026, which leads pasta as well as being a top 10 player in baked goods.

WH Group vs the Competition, 2023-2026



Note: Sales projections based on 78 researched countries, see appendix for methodology on projected growth

Competitive positioning

Shrinking shares for many of the top 10 players in staple foods

The small shares held by the leading companies is indicative of the market fragmentation in staple foods, with baked goods leader Grupo Bimbo the only company holding a share of more than 1% in the staple foods industry.

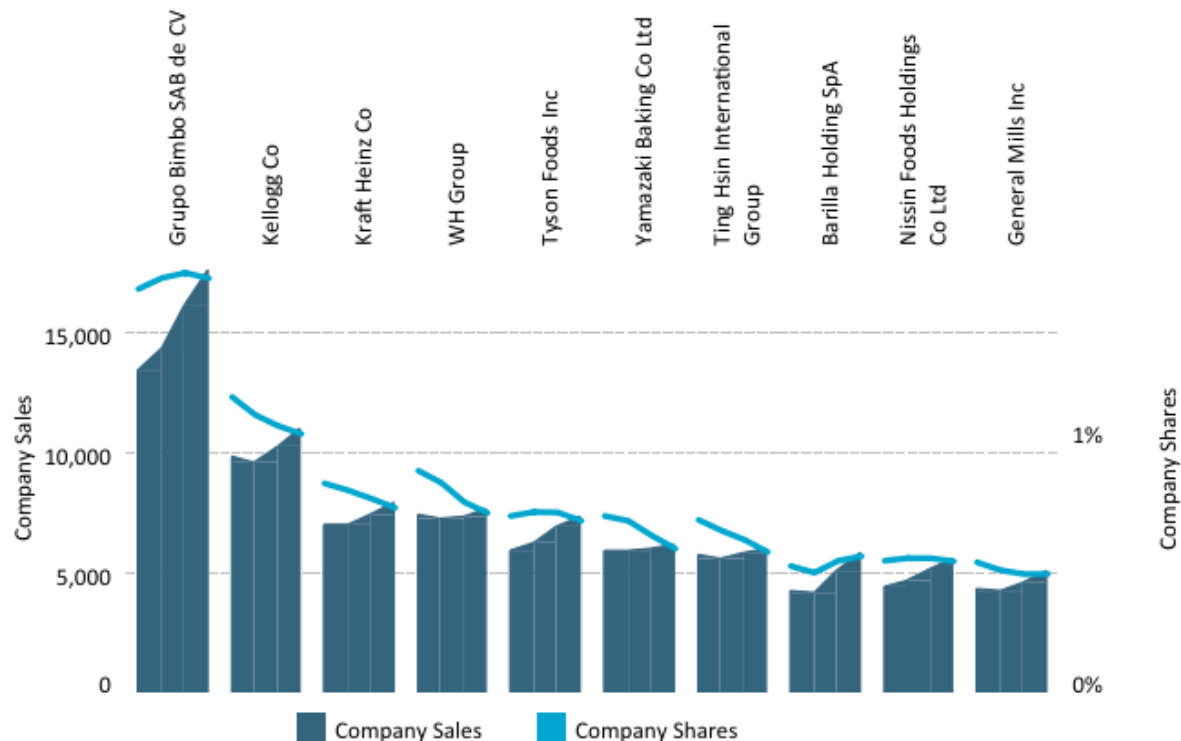
Artisanal products account for more than half of baked goods sales and have been making gains in recent years. This has been eroding the shares of some of the largest companies operating in staple foods.

Overall sales have been increasing, although, to an extent, this has been due to the inflationary environment.

To cope with the rising costs players have been reorganising their businesses to increase efficiency in their production and supply chain management. Tyson Foods, for example, set up a new supply chain centre to consolidate its warehouse, transportation and manufacturing operations.

Top 10 Companies in Staple Foods: Sales and Shares, 2020-2023

Company Retail Sales RSP - USD million - Current - Fixed 2023 Exchange Rates



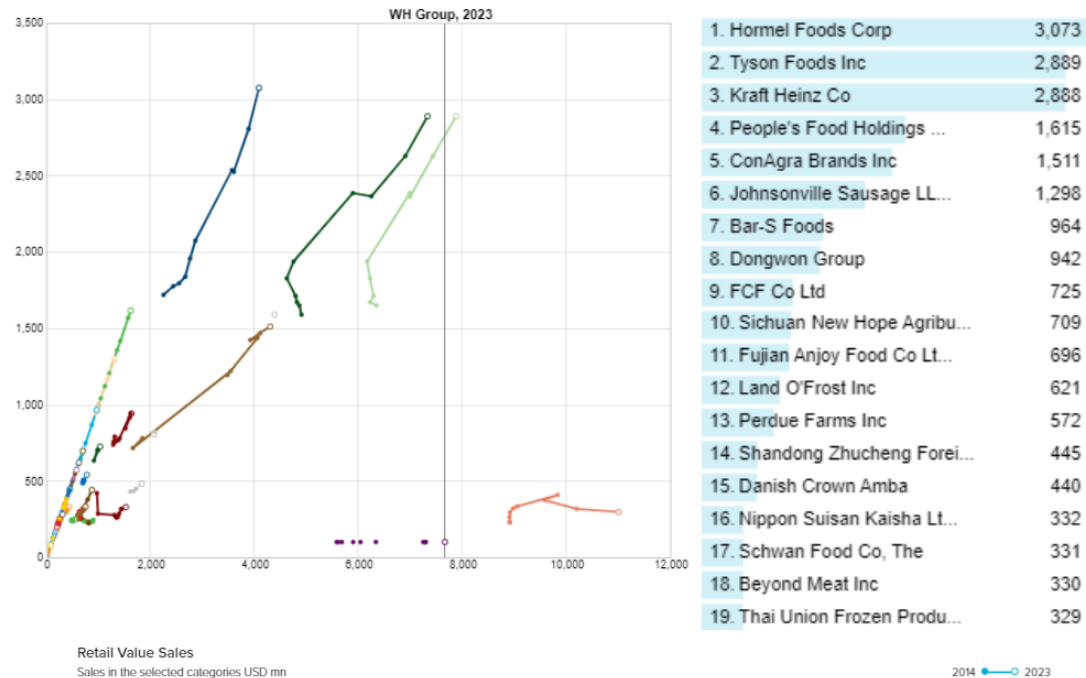
Major overlaps with Hormel Foods, Tyson Foods and Kraft Heinz in the US

WH Group has big market overlaps with fellow processed meat specialists Hormel Foods and Tyson Foods as well as Kraft Heinz. This is predominantly in the US market, where these players make up the top four companies in processed meat.

Although WH Group and Hormel Foods are both major players in shelf stable meat, this is in different markets (China and the US, respectively), with WH Group's main overlaps with all three players coming in chilled processed meat in the US. Tyson Foods is also a major player in US frozen processed meat, but WH Group's footprint in this category is limited.

Due to the similarity of processed meat products, this intensifies competition between WH Group and these companies. WH Group therefore continues to look for acquisition opportunities in the packaged meat and hog processing industries.

Competitive Landscape of WH Group

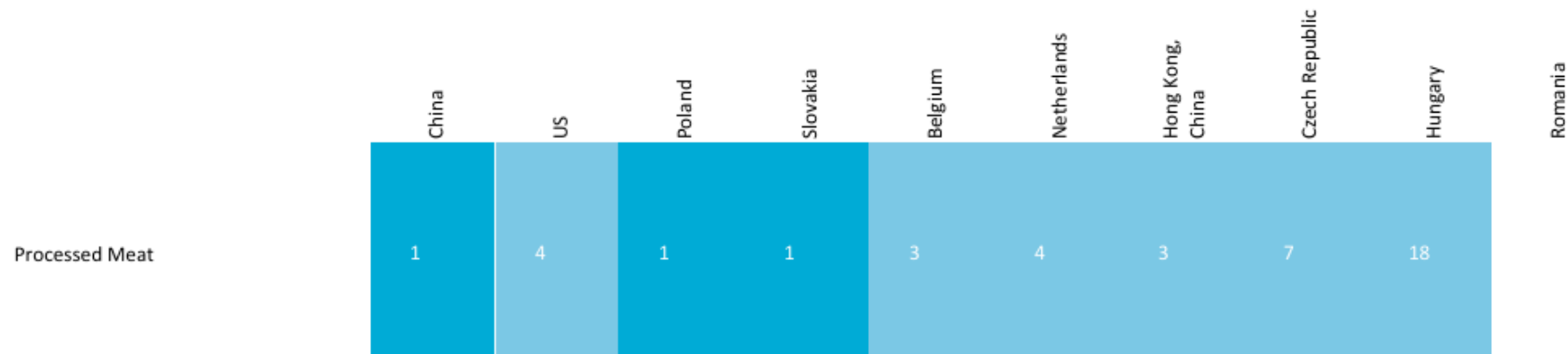


How to read this chart: This scatter plot shows how the competitive landscape for the selected company has changed over time. The Y-axis shows market overlap, with companies trending upward becoming closer competitors to the selected company. The X-axis shows overall retail value sales for each competing company, with the vertical line showing the selected company's overall retail value sales in the final year under review. Competitors to the left of this vertical line are smaller than the selected company by overall retail value and companies to the right are larger.

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WH Group's key categories and markets

WH Group: Company Leadership Across Top Countries and Categories, 2023



Note: Colour indicates company share in 2023. Range displayed: 0% to 27% in Retail Value RSP terms. Number indicates company rank in 2023. Range displayed: 1 to 18.

Company Share

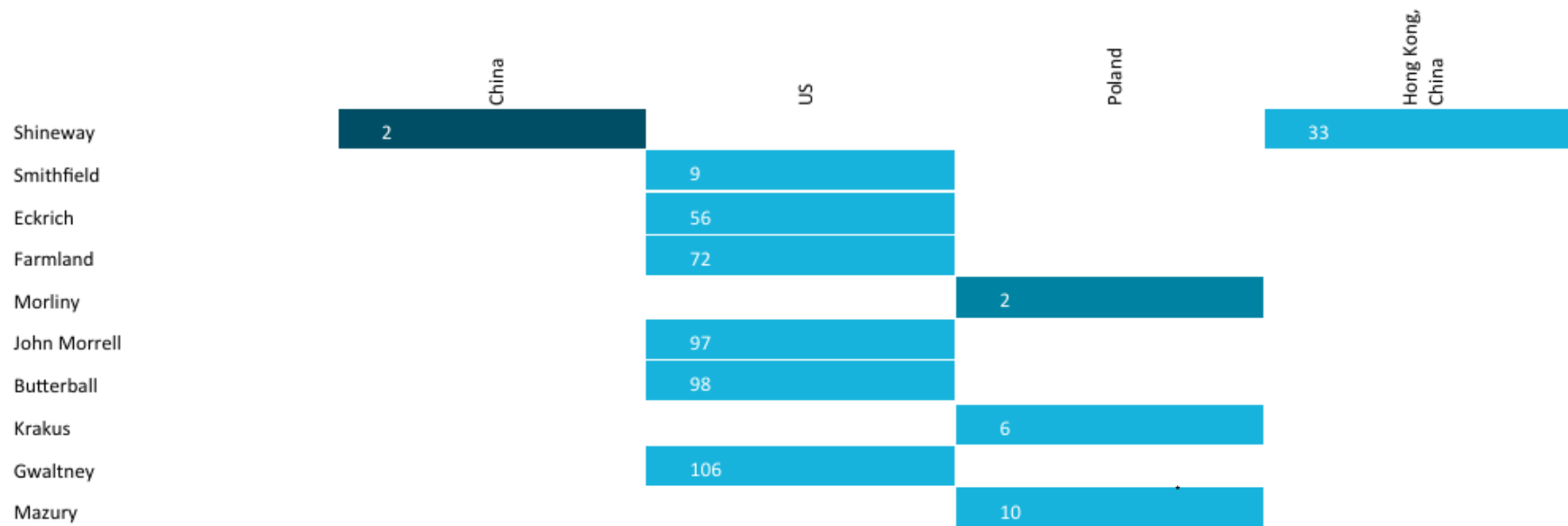
■ ≤15%

■ 15-30%

■ >50%

WH Group's key brands

WH Group: Company Leadership Across Top Countries and Brands, 2023



Note: Colour indicates brand share in 2023. Range displayed: 0% to 4% in Retail Value RSP terms. Number indicates brand rank in 2023. Range displayed: 2 to 106.

Brand Shares

■ ≤1.5%

■ 1.5-3.0%

■ 3.0-5.0%

Packaged meats and pork have similar sales, but the former dominates operating profits

WH Group's business is split into three main areas: packaged meat products; pork; and "others". The latter includes the production and sale of poultry products, biological pharmaceutical materials, packaging materials and condiments as well as the provision of logistics and supply chain management services, among other things.

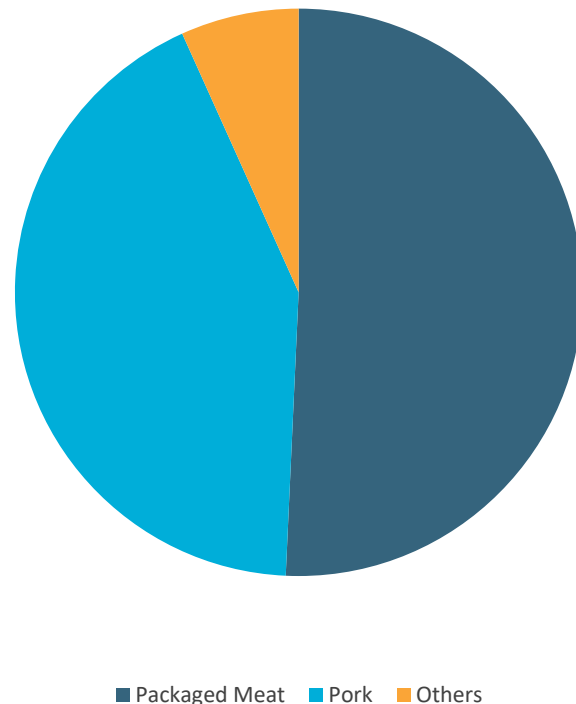
The packaged meat products segment is WH Group's core business – although it represented around half of total revenue in 2022 it generated more than 90% of total operating profit in this year.

In the first half of 2023, China accounted for 34% of revenue and 81% of the operating profit at WH Group, compared with 33% and 44% a year earlier. The US and Mexico made up 53% of revenue and 6% of operating profit in H1 2023, down from 57% and 51% year on year.

WH Group's pork segment includes hog farming and slaughtering as well as wholesale and retail sales of fresh and frozen pork. WH Group has been rationalising its pork business in the US, which has been incurring some one-off costs.

As part of its hog production optimisation in the US, it closed around 100 farms and reduced capacity by 6-7% by the end of the first half of 2023, with plans to continue closing inefficient farms in the second half of the year. Overall, WH Group was planning to reduce its hog output volume from more than 17.5 million in 2022 to about 15 million by the end of 2023.

WH Group Sales H1 2023



WH Group has a very narrow focus compared to some of its staple food peers

Among the main staple foods players, few have sizeable stakes in other markets. Baked goods account for over 80% of sales at Grupo Bimbo, the global staple foods leader, for example.

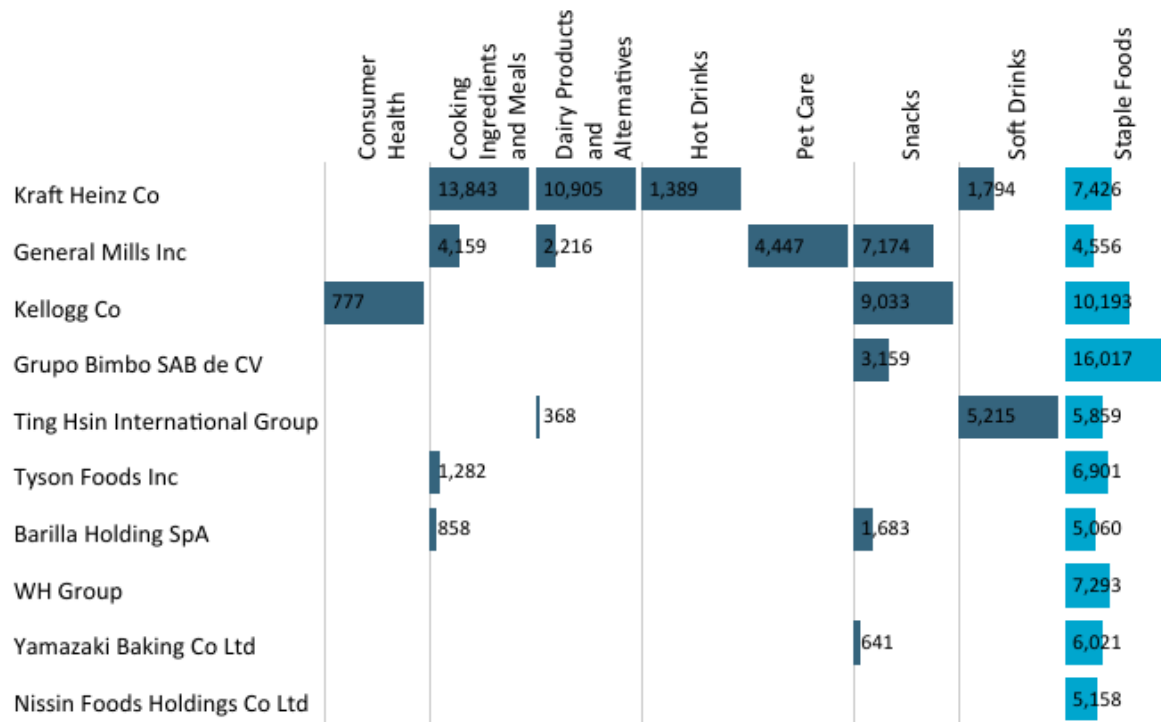
Staple foods accounts for a smaller portion of sales for General Mills and Kraft Heinz. The latter maintains the most diversified portfolio with its taste elevation strategy creating synergies between its brands in dairy, cooking ingredients and staple foods.

Other than a presence in the small chilled lunch kits category, WH Group is wholly dependent on processed meat and can therefore suffer as a result of limitations in innovation and synergies.

Declines in this product area cannot be offset by positive performances in other categories, leaving WH Group exposed to market trends like consumers seeking more affordable protein sources or switching to meat-free alternatives.

Industry Dependence: Top 10 Staple Foods Companies, 2022

Company Retail Sales RSP - USD million - Current - Fixed 2022 Exchange Rates





Processed Meat, Seafood and Alternatives to Meat

Eastern Europe recording the strongest growth

WH Group's processed meat business continues to heavily focus on China and the US, with Asia Pacific and North America as its two biggest regions.

However, Eastern Europe has been recording stronger growth in terms of WH Group's sales – in both 2023 and the review period as a whole.

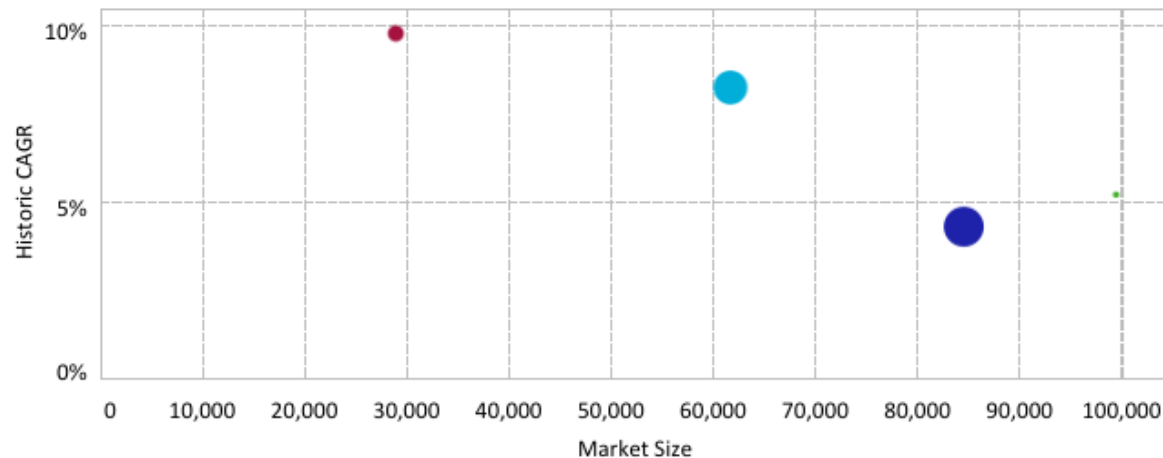
This is being helped by the strong performances by Morliny and Krakus, the company's local meat brands in Poland.

Morliny, offering processed meat for children and premium hot dogs, is one of the best-recognised meat brands in Poland, while Krakus is one of the oldest meat brands in Poland, specialising in traditional processed meat.

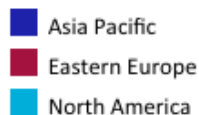
WH Group has expanded its presence in Eastern Europe with the recent acquisition of Goodies Meat Production in Romania.

WH Group: Processed Meat, Seafood and Alternatives to Meat, 2023 and CAGR, 2018-2023 by Region

Company Retail Sales RSP - USD million - Current - Fixed 2023 Exchange Rates



Note: Bubble size indicates WH Group sales in Retail Value RSP USD million in 2023. Range displayed: USD102 to 4,010 million.



Processed Meat, Seafood ..

WH Group expanding its presence in Eastern Europe

WH Group is a leading player in shelf stable meat globally, holding the number one position in both China and Poland in this category.

WH Group also leads chilled processed meat globally and in China. It has also boosted its presence in a number of Eastern European markets through acquisitions over the review period.

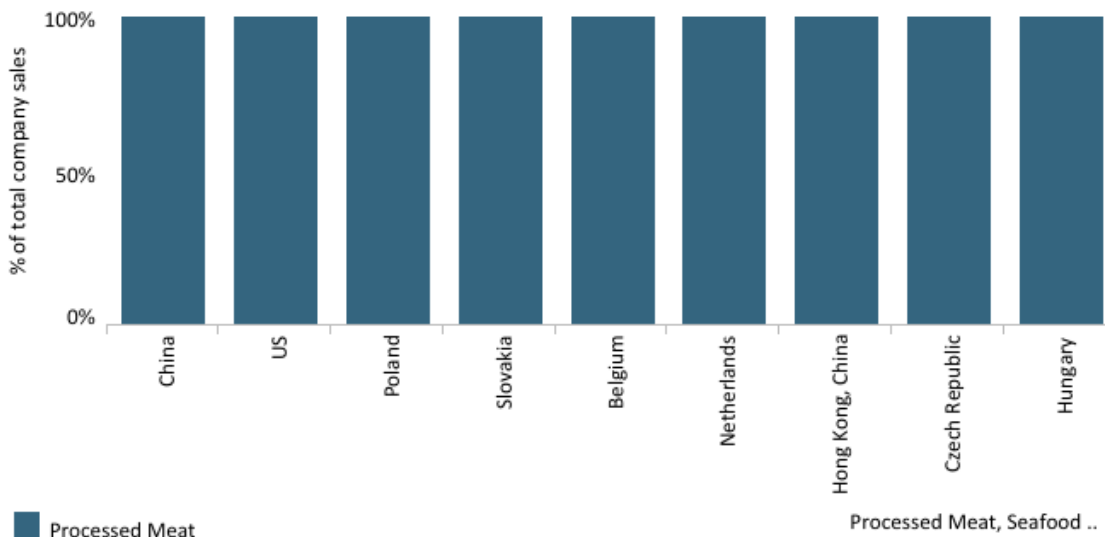
Although WH Group's presence in frozen processed meat is relatively small, it leads this category in Hong Kong through its Armour brand.

While demand for staple foods remains relatively inelastic, the cost-of-living crisis is forcing price-sensitive consumers to switch to cheaper product offerings, with both private label and generics gaining share in processed meat in the last two years.

According to Euromonitor International's Voice of the Consumer: Lifestyles survey, in 2023 "low price" was the most influential factor for purchasing food and beverages, selected by 45% of respondents.

WH Group: Top Markets in Processed Meat, Seafood and Alternatives to Meat by Category, 2023

Company Retail Sales RSP - USD million - Current - Fixed 2023 Exchange Rates





--- Key Findings

Executive summary



Goodies and Aargal deals will strengthen WH Group's position in Europe

Having closed the 100% acquisition of Goodies Meat Production in Romania earlier in the year, October 2023 saw WH Group announce, through its Smithfield Foods European division, a strategic alliance with Spain's Aargal Alimentation as it looks to grow its portfolio of packaged meat products in Europe.



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Tricky trading environment for processed meat players

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--- Appendix

Projected company sales: FAQs

Why project company sales?

Company and brand sales projections are a useful way to compare relative future performance. These are not forecasts in the traditional sense, it is not realistic to forecast company activity. Instead our projections are a measure of a company's exposure to future growth.

How do you project company sales?

Euromonitor International's company and brand sales projections are made with two underlying assumptions. Firstly, that current year brand shares will not change. Secondly that there will be no mergers, acquisitions or divestments in the future. Forecasting shares is notoriously difficult and therefore we assume that a brand's share of any given category will remain constant in the future. Trying to accurately predict future M&A activity is equally fraught with difficulty.

Every category, however, will grow at a different rate and the cumulative effect across different brand portfolios (i.e. every relevant country-category combination) means certain companies will outperform others.

This is 'market momentum' and is a measure of a company playing in higher growth countries and categories relative to its rivals.

Danone, Groupe: Top 10 Growth Areas, 2018-2021

Company Sales USD million

China, Milk Formula 464	Egypt, Yoghurt 205	Brazil, Yoghurt 168
	USA, Yoghurt 156	Russia, Yoghurt 148
Argentina, Yoghurt 322	USA, Coffee Whiteners 142	China, Yoghurt 135
Indonesia, Milk Formula 306	Argentina, Chilled and Shelf Stable Desserts 135	

Note: Absolute projected sales represent the net increase/decrease in annual sales between 2018 and 2021. See appendix for methodology on projected company sales.

Projected company sales: FAQs

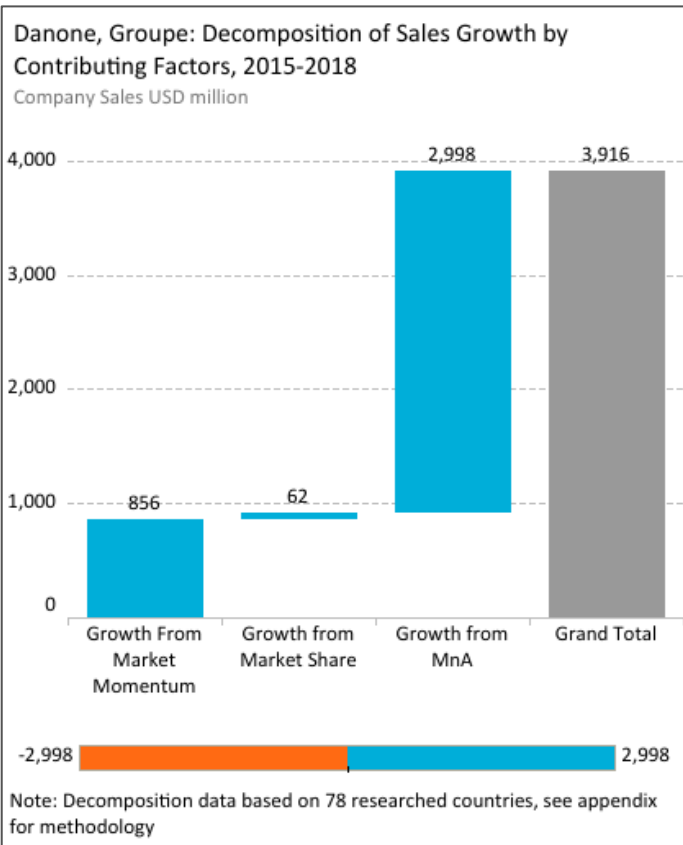
What is the basis for this methodology?

Based on Euromonitor International's growth decomposition analysis it's evident that, general market momentum is the single most important contributor to company performance, outperforming the impact of both market share gains and M&A activity.

This learning is based on analysing all brand and company sales data in every category and company in Passport. (Clearly the same does not apply in any circumstance where a given company has made a major acquisition or divestment).

For the largest companies, market momentum shows even greater significance and so exposure to growth offers a sound basis for projecting relative future performance.

Note: Growth Decomposition and Projected Sales are based on the sum of all activity in researched countries only, and therefore do not take into account the effect of non-researched (modelled) markets. For this reason there will be slight differences compared with full global data found elsewhere in this report.



For Further Insight please contact



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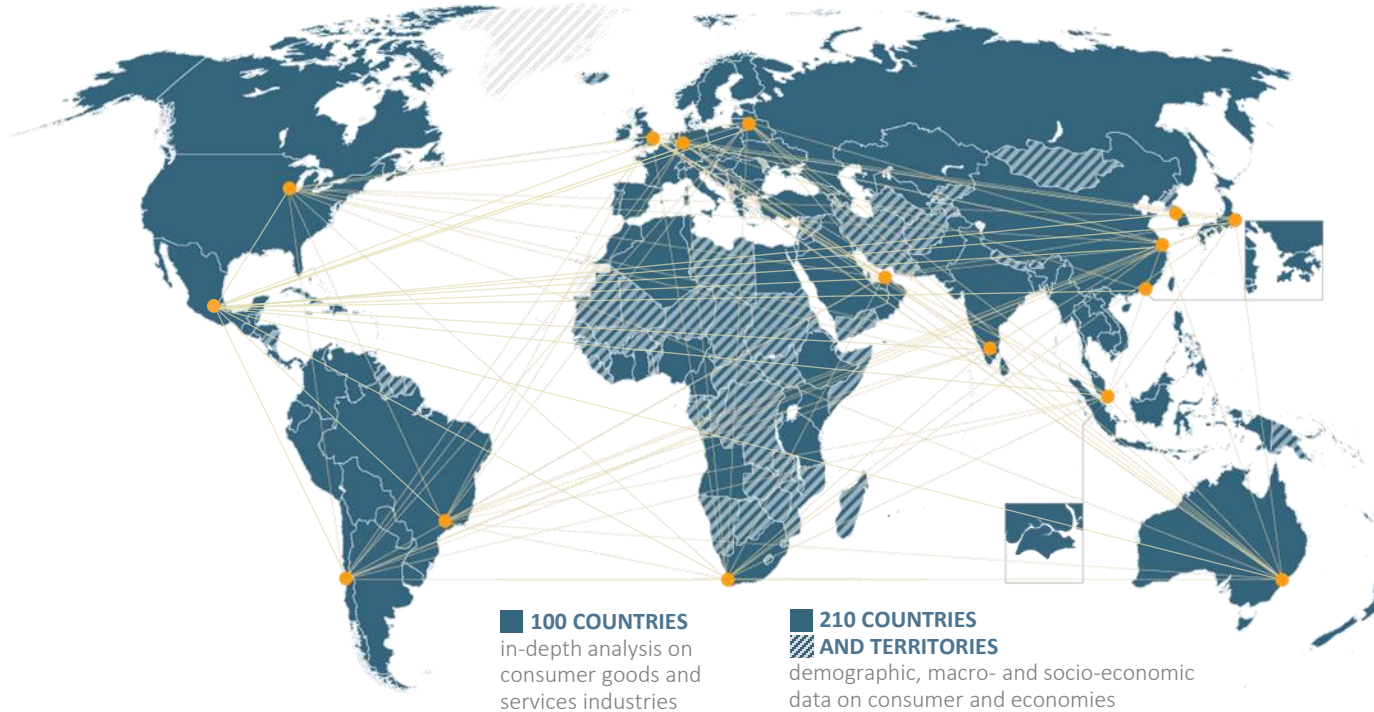
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