

AVIAN INFLUENZA OUTBREAK WORSENS

June 2015

Batory Responds to Crisis

Since our May report on the current outbreak of Avian Influenza (AI)—the worst in U.S. history—the crisis has escalated. Read on for the latest.

Avian Influenza: Cases on the Rise

AI is an infectious viral disease that can spread from wild water fowl to domestic poultry, killing some species within 48 hours, according to the World Health Organization. The current outbreak of Highly Pathogenic AI H5 (HPAI H5) was first detected in the U.S. in December 2014 and has since prompted Wisconsin, Minnesota, Iowa and Nebraska to declare states of emergency.

The U.S. Department of Agriculture (USDA) calls this the worst outbreak in the nation’s history. In our May 14 update, we noted that the USDA had reported 143 confirmed cases since December 2014. Today, those numbers have spiked.

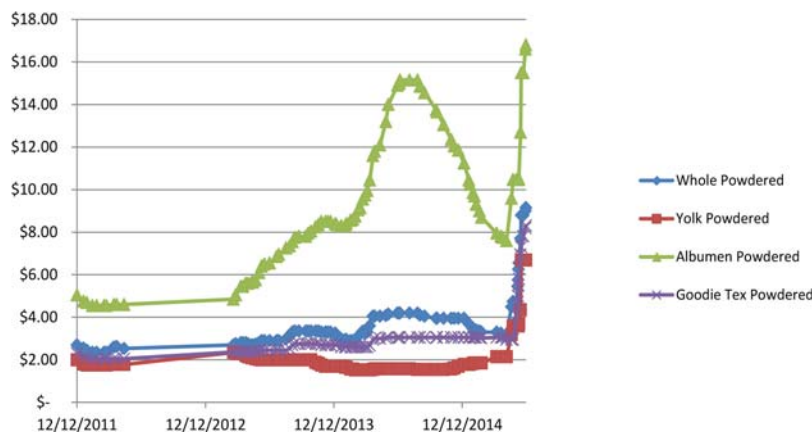
As of this writing, the USDA has recorded 222 confirmed cases, which affects 47 million birds. When one bird is confirmed as sick with this highly virulent disease, it affects many birds because entire flocks must be destroyed. In May alone, 20 million birds were killed, making it the deadliest month thus far.

Suppliers: Reacting to Losses

Of all birds affected by the virus, about 80% are egg-laying hens. This means that, as of this writing, approximately 11% of domestic layer hens have been euthanized. Industry authorities estimate that, for every 1% loss of supply, cost increases by 5%.

Analysis of Urner Barry data, comparing current egg prices to a five-year average, demonstrates the magnitude of the problem: We are seeing cost increases by as much as 277%. The below graph, also based on Urner Barry data, shows cost behavior on full truckloads (FTL’s) at manufacturing sites for powdered egg products.

Powdered Egg: Cost of FTL’s at Manufacturing Sites



SOURCE: Urner Barry

Many suppliers, including our own, have announced that they cannot take on additional business volume. They ask customers to resist the temptation to stockpile product, which would introduce further market instability.

Consumers: Feeling the Pinch

Consumers, who were largely insulated from the outbreak early on, are now feeling the pinch. The average price per dozen eggs nearly doubled in a month, according to the USDA. Some shoppers have been greeted with signs in the

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egg aisles of grocery stores that prohibit bulk purchases, for instance, or explain why prices have increased.

One of Texas' largest supermarkets—H-E-B, which operates 350 locations—is rationing eggs to customers. Restaurant Whataburger has limited the hours during which it will serve eggs across 10 states.

Batory Foods: Taking Proactive Measures

Leveraging our national scale and far-ranging portfolio, we remain committed to offering solutions and keeping you informed as this story develops. Here we answer some questions on the minds of customers like you:

FREQUENTLY ASKED QUESTIONS

Q. How long will this last? I've seen conflicting stories in the news.

A. Conflicting reports stem from the complex nature of the problem. The unpredictable virus has stumped scientists, who don't know why it is not following migratory patterns in its spread, as would be expected. Nor do they know when it is likely to die off. Moreover, processing facilities must euthanize entire flocks and meet stringent bio-safety regulations before they can begin repopulation, itself a time-intensive process: New chicks become egg-laying hens over the course of 16 weeks.

Given those constraints, insiders say it could take a minimum of two years to reach pre-outbreak supply levels. The food industry overall could feel the effects for the next five years. As news continues to break on this situation, we underscore that these are estimates only.

Q. What are my import options for egg products?

A. The Netherlands, which was approved only very recently, and Canada are the only nations approved to import eggs and egg products to the U.S. Be advised that Canada does not manufacture powdered eggs.

Q. What is the risk to humans?

A. The Centers for Disease Control, which has found no human cases of this strain in the U.S., Canada or internationally, says that the risk of transmission to humans is low.

Q. What is Batory doing to mitigate the impact on current customers like me?

A. We are vetting additional suppliers and import options. That said, a vast number of vendors across the U.S. have been affected by HPAI H5. Those that have escaped infection so far are implementing wait lists to manage the overwhelming demand. While we wish we could satisfy the needs of all those reaching out to us, we are focused on fulfilling our contractual obligations first and then allocating additional volume if it becomes available. To further mitigate production interruptions and impact on our customers, we are focused on alternatives and have in many cases successfully implemented the use of extenders and replacers.

Q. Have manufacturers and formulators found any work-arounds?

A. Many are beginning to think long term, turning to egg replacements and extenders, like whey protein concentrate and soy protein, among others. These can partially or sometimes completely replace eggs' function. Their use reduces exposure to some of the price volatility eggs present and introduces cost savings and shelf stability.

Our portfolio includes a range of quality egg replacement and extender products, which are appropriate for numerous applications, including baked goods and sauces. As it happens, those segments rely most heavily on eggs, and therefore stand to derive a great deal of benefit from exploring this option.

We encourage you to contact your account manager for more information on what these products can do for you.

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