



Press Release

Lochem, 1 May 2020

ForFarmers first quarter 2020 Trading Update

Highlights first quarter 2020¹:

- Volume Total Feed²: down (-5.3%); like-for-like decline in all clusters;
- Volume compound feed: down (-3.8%); like-for-like decline in clusters Netherlands/Belgium and the United Kingdom, virtually stable volume in cluster Germany/Poland;
- Gross profit: up (4.4%); Q1 2019 included an unfavourable purchasing position;
- Underlying EBITDA³: up (44.1%); compared to a weaker first quarter in 2019; increase due to higher gross profit and lower operating costs as a result of realised efficiency measures among others.

Yoram Knoop, CEO of ForFarmers, states: "Since mid-March we are being confronted by a new reality. We immediately took measures to safeguard the health of our employees and to enable the continuation of the production and distribution of feed to our customers. In addition, our sector has been identified a vital business sector in order not to endanger the food supply. Up to now we have seen no material impact of the COVID-19 measures on our core processes.

In the first quarter of 2020 a substantial increase in underlying EBITDA was realised. This, despite the fact that in some countries volumes declined again due to the pressure on the agricultural sector to decrease the environmental impact. There was no impact of an unfavourable purchasing position in the first quarter of 2020. In addition, despite the volume decrease, there was a better product mix including more specialties and fewer costs due to implemented cost saving measures.

Looking forward we see changing market circumstances due to COVID-19, with challenges arising for our customers, the ultimate impact of which on ForFarmers is still uncertain. We expect to realise a better underlying EBITDA in the first half-year 2020 compared to the first half of 2019, but in light of the increased uncertainties due to COVID-19, we refrain from expressing any further expectations. We continue to focus on the health of our employees and on supporting our more than 26,000 customers through the delivery of quality feed and advice. Above all, I am especially proud of the effort and dedication of our employees towards our customers. For this I would like to thank them personally and on behalf of all the members of the Executive Committee".

Price developments⁴ in the agricultural sector in the first quarter of 2020

In the beginning of 2020 average prices for milk in Europe were higher than last year, but declined during the first quarter to a level which was approximately the same as a year earlier.

Average pig prices were volatile during the first three months of 2020. Prices started to decline in March but remained substantially higher than in the first quarter in 2019. Due to the local shortage as a result of the African Swine Fever (ASF), demand from China for pig meat remains strong.

Average prices for broilers in Europe started the first quarter of 2020 at virtually the same level as last year and subsequently rose significantly, to start severely declining just before the end of the quarter. The average price for eggs was higher in the first quarter 2020 than in the same period last year.

Development consolidated results in the first quarter of 2020

Total Feed volume declined by 5.3%. In certain segments sales in moist DML⁵ products was deliberately lower due to a tighter margin policy. In addition lower volumes of certain single DML

1. Results and developments of the third quarter 2019 are compared to those of the third quarter 2018, unless stated differently

2. Total Feed covers the entire ForFarmers product portfolio and comprises compound feed, specialties, co-products (from the feed industry, referred to as DML products), seeds and other products (such as forage)

3. Underlying EBITDA means EBITDA excluding incidental items

4. Source <https://ec.europa.eu>

5. DML means Dry, Moist and Liquid products

products were sold as a result of limited availability. Total compound feed volume declined by 3.8%. Within the product group compound feed, sales of specialties (including young animal feeds) increased again.

Net revenues declined due to both lower volumes and lower raw material prices. Fluctuations in raw material prices were passed on to customers.

Gross profit was up 4.4% despite volume decline, due to factors including an improved product mix. Margins on compound feed products are substantially higher than on DML products. Gross profit increased in the clusters Netherlands/Belgium and Germany/Poland and declined slightly in the United Kingdom. In the first quarter of 2019 gross profit was still negatively impacted by an unfavourable purchasing position, which was not passed on to customers in order to retain market share.

Underlying operating expenses declined mainly due to lower volumes and the realised savings resulting from the closure of five mills in 2019 (as part of the efficiency plans). Production costs per tonne remained virtually flat. Energy costs and diesel costs were lower. Depreciation was higher due to investments in the existing mills and because of new lease contracts regarding the fleet.

Underlying EBITDA was up 44.1%. There was no impact of an unfavourable purchasing position in the first quarter of 2020. In addition, despite the volume decrease, there was a better product mix including more specialties and fewer costs due to implemented cost saving measures.

Developments per cluster

The Netherlands/Belgium

In the first quarter of 2020 volumes have continued to decline for both Total Feed and compound feed in all species. Compound feed volume declined relatively more than Total Feed volume, especially in the pig sector where the number of pigs in the Netherlands fell further due to the 'stoppers arrangement' which was in place until 1 January 2020. The pig sector in Belgium continued to experience pressure from the fact that some countries outside of the European Union were still not importing pig meat from Belgium because the African Swine Fever (ASF) was detected among wild boars. The outbreak of ASF seems to be under control and it is expected that the export ban will be lifted later this year.

Compound feed volumes in the ruminant sector remained virtually on par in this cluster as milk prices stayed on a fair level and because the dairy herd was slightly larger than in the same period last year. Whilst sales to broiler farmers in the Netherlands increased following the introduction of successful concepts and marketing efforts, volume in Belgium declined due to factors including temporary empty stables because of the bird flu.

Reudink, which caters exclusively to organic farmers, saw increased pressure on volumes because of more competition. Pavo, the brand under which horse feed is sold, realised higher volumes.

Germany/Poland

Total Feed volume fell in this cluster. Compound feed volume remained stable however, mainly because volume increase in the poultry sector and the ruminant sector compensated volume decline in the pig sector.

Volume in DML products was lower in Germany due to, among other things, limited availability of products and because of the margin policy which was applied. Some contracts were consequently discontinued on purpose. As a result of the new environmental and phosphate regulations, the number of animals in the pig sector decreased.

Volumes increased in Poland in both the ruminant sector and poultry sector. Despite the outbreak of bird flu in Poland, more volume was sold to poultry farmers in the first quarter. Recently however some countries outside of the European Union have installed an export ban on products of Polish poultry farmers. Volumes in the pig sector were under pressure due to a shortage of piglets and fewer finishers. Production in the mill in Biskupice and in the new mill in Pionki increased.

The United Kingdom

Total Feed volume declined substantially in all species, but especially in the pig sector. Compound feed volume declined relatively less than Total Feed however. The gross margin increased due to a tighter margin policy, among other things.

Volumes in the ruminant sector were lower than last year due to a plentiful supply of farm produced forage, following a good growing season last summer, combined with an extremely mild winter. Volumes in the pig sector continued to be negatively impacted by the declining number of pigs at a large customer, combined with a move away from unprofitable business. The margin has further increased in the pig sector. Recently demand for pigs from the United Kingdom has been increasing due to the continued effects of the ASF in China.

Outlook and COVID-19 measures and impact

ForFarmers is part of the food chain which has been identified as a vital sector to keep society running during the COVID-19 outbreak. ForFarmers is putting everything to work to safeguard the health of its employees and consequently enabling the continuation of producing and delivering feed to farmers. So far ForFarmers has not been experiencing material issues in its core processes as a result of the impact of and the measures regarding COVID-19. However, ForFarmers sees that market circumstances are starting to change. Despite the fact that animals need to continue to eat, volumes and product mix are likely to be impacted going forward because of the developments due to COVID-19. The position of ForFarmers in the vital sector underpins continuity in cash flow. In addition ForFarmers has a strong balance sheet and solid financial position with sufficient cash and headroom in its credit facilities.

ForFarmers expects to realise a better underlying EBITDA in the first half-year of 2020 than in the first half of 2019, but in light of the increased uncertainties due to COVID-19, as well as their duration and impact, ForFarmers refrains from expressing any further expectations.

Particularly the ruminant sector and the poultry sector are being impacted by factors including the loss of sales to foodservice and Out-of-home channel which is only compensated to a limited extent, by an increase in sales to retail.

The threat of oversupply of milk volume is arising in the **dairy sector** leading to declining milk prices. There is a risk that export may reduce. This could lead to restrictions on milk volumes. This would have an impact on volumes and margins of ForFarmers.

The **pig sector** is showing a mixed picture. There is still a significant demand for pig meat, mainly from China, due to the local scarcity of pig meat as a result of the ASF. Pig prices have consequently remained on a historically high level. It is however important that borders and markets remain open so that all parts of the pig can continue to be sold (the optimised carcass valorisation).

Due to the closure of hotels and catering businesses broiler farmers in the **poultry sector** are also seeing a negative impact on the optimised carcass valorisation, leading to declining prices for broilers. The Polish poultry sector in particular has been impacted, being one of the most important suppliers to the European catering industry. Moreover bird flu has been detected in Poland which has led to an export ban of poultry products to countries outside of Europe. A number of broiler farmers in Poland is currently keeping their barns empty. This is putting pressure on feed volumes. Because of the fear for bird flu spreading, a requirement to keep livestock indoors was imposed on poultry farmers in the Netherlands on 12 February last. This requirement was withdrawn on 29 April. In general it is expected that going forward, consumer demand for chicken meat will increase on the back of its attractive pricing. Layer farmers are already seeing an increasing demand for eggs.

Nitrogen debate and 'warm restructuring' in the Netherlands

The impact of the agricultural sector on nature is a topic of interest on the political agenda in the Netherlands, especially as regards measures on how to reduce nitrogen emissions. Very recently, the Ministry of Agriculture, Nature and Food Quality announced to invest billions in the coming ten years, in (source) measures to support all sectors in reducing nitrogen deposition in nature. With respect to the agricultural sector measures are taken including keeping cattle outside more, innovative barns, other feed rations and financial compensation for farmers, who want to change their type of farming or who voluntarily want to stop farming. This will require further discussions. It is likely that in due course this will lead to a decline of the dairy herd in the Netherlands.

The 'warm restructuring' in the Netherlands, which is aimed at reducing the number of pig farms in certain areas in order to diminish odour nuisance for people living in the neighbourhood, has been delayed slightly. Many more farmers registered for this subsidy arrangement than was expected, leading to a backlog in dealing with the applications. Pig farmers will now be informed by July 14 coming, whether they are eligible for the subsidy and will then need to make a final decision on whether they will indeed end their pig farming business.

Geopolitical developments

Geopolitical developments can affect the markets that ForFarmers operates in. The uncertainty surrounding trade relations between the United States and other countries (in particular China) continues. It is also as yet unclear what the impact will be, of the still to be determined Brexit trade agreements. Volatility in raw material prices has recently increased, both for macro ingredients and for co-products. It is expected that raw material prices will be impacted by factors including the significant drop in demand for bio fuel (due to a decline in demand for fuels) and for barley (no beer sales to the catering industry) besides a rising demand for among others wheat (stockpiling by some countries for the food chain). Volatility on the currency markets is also expected to continue.

Investment plans 2020

At the publication of the 2019 results ForFarmers announced its intention to invest €40 million in 2020. The impact of COVID-19 on the availability of components to be delivered by some suppliers is expected to result in an adjustment of the investment amount in 2020 to approximately €30 million.

This press release contains information that qualifies as inside information in the sense of Article 7 paragraph 1 of the EU Market Abuse Regulation.

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Company profile

ForFarmers N.V. is an international organisation that offers complete and innovative feed solutions for livestock farming. With its "For the Future of Farming" mission, ForFarmers is committed to the continuity of farming and further sustainalising the agricultural sector.

ForFarmers is the market leader in Europe with annual sales of 10.1 million tonnes of animal feed. The company is operating in the Netherlands, Germany, Belgium, Poland and the United Kingdom. ForFarmers has approximately 2,600 employees. In 2019, the turnover amounted to approximately € 2.5 billion. ForFarmers N.V. is listed on Euronext Amsterdam.

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FORWARD-LOOKING STATEMENTS

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