

Good afternoon!!

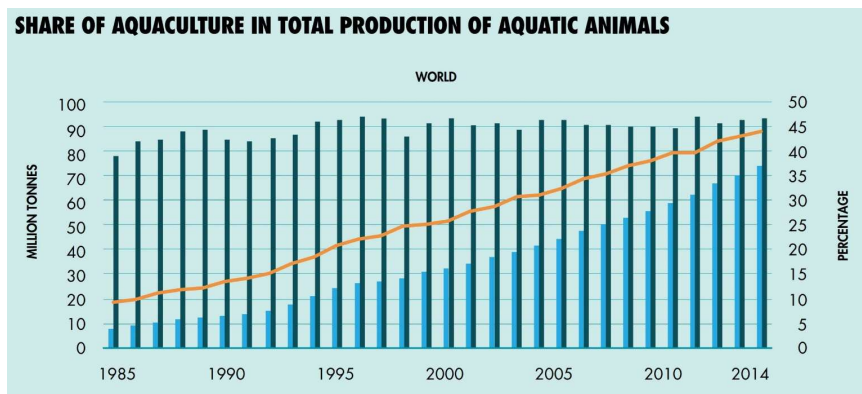
I have been asked to speak a little about the challenges and opportunities of the Bacalhau business and how we see its future development.

Knowing well that other speakers will provide a lot of data about sales, catches, prices and so on, I tried to avoid that approach and opted instead to express some loose notes on what we see happening on the Bacalhau market today.

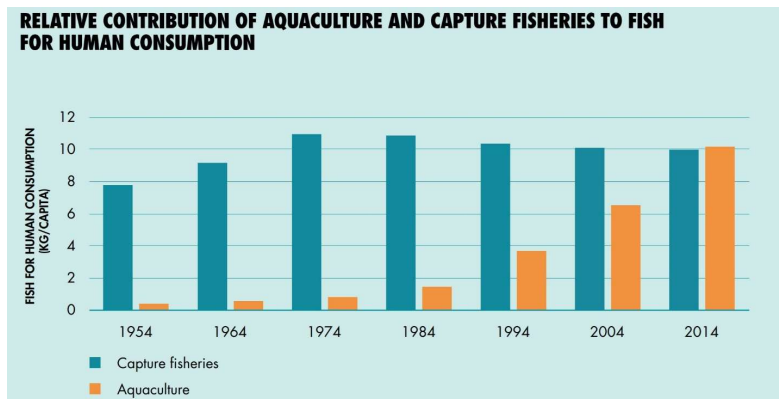
Something that seems to be immutable along the years is that each year is always particular in some way. Expectations on having steady and expectable market conditions seem more and more a thing of the past. Continuously changing quotas, prices and demand guarantee that the framework we work within is always changing.

Today a wide range of variables mold our market.

- **The Quota reduction** this year will naturally affect the relationship between supply and demand, with the resulting corrections in prices and volumes.
- **The investment on fillet production** and other added value cod products along the Norwegian coast and neighboring countries will add competition for the purchase of raw material and difficulties in building the right product assortment.
- New markets for fish products and increasing global demand makes for a highly competitive environment.
- Aquaculture fish products and in particular Salmon are growing in market share and vying for a place at the plate of the Portuguese consumers. The recent drop in prices for Salmon will make it even more competitive than in recent years.

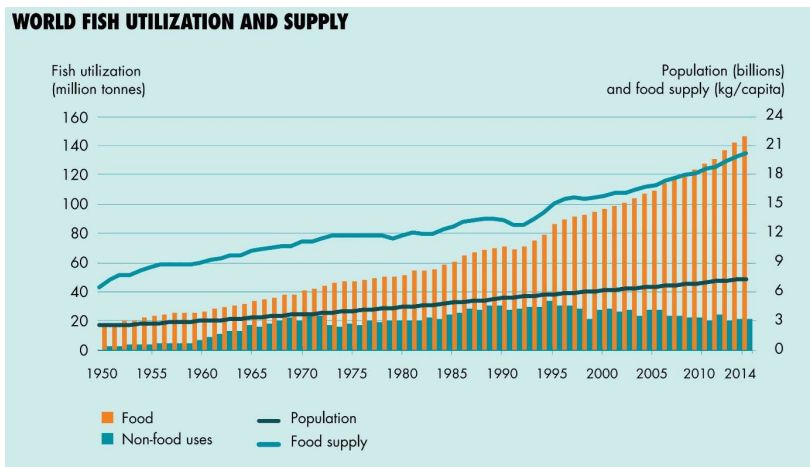


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- The comparative **yield disadvantage**, between the traditional salted and dried Bacalhau where half of the weight is lost in production, and the frozen or fresh fillets where water is in fact added, is reflected at the time of purchasing raw material.
- The result is that Bacalhau producers have much more difficulty to pay the prices when compared with their fresh/frozen fillet competitors.
- The competitive nature of the Bacalhau market, its seasonality and concentration on few markets and a decreasing number of clients makes it harder to reflect production costs and yields on the selling prices.
- This framework has led to a disinvestment on the Bacalhau industry. We are seeing less operators, either producing or distributing dried and salted fish. The opposite of what we see on the fresh and frozen cod industry.
- Fresh or frozen Cod derived products like fillets, loins and added value products enjoy a **global market demand**, while salted and dried Bacalhau is concentrated on a few countries.
- In this moment, there are more opportunities within the frozen/fresh cod markets, there is more space to grow, there are healthier margins and the return on capital is much quicker.
- Fish consumption is a growing trend. Cod availability, size, whiteness and taste make it very attractive for the consumer.

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- These changes will continue to be a challenge for a mature industry like ours. The industry will need to find ways to be more efficient, and how to reach and grab the consumers.
- Last year's we witness a compression of the **Bacalhau prices**. Between the biggest and smallest size, for the producer, there was almost no price difference. On the retail side, the same was not so clear. Retailers took advantage of this situation and sold the bigger sizes at comfortable levels.

The gap, enabled them to promote the consumption of the bigger sizes without incurring in losses. Consumers are much less sensitive to price when buying bigger fish. For the retailers there was a better margin to be had on Graúdo and Especial so most of the investment went to those sizes.

The downside was that the sales of smaller sizes, like Crescido and Corrente were left somewhat behind. Corrente has almost disappeared from the market.

If, as we expect, the catch assortment goes back to a more normal distribution between sizes, meaning a smaller percentage of big sizes and larger quantities of smaller sizes, it is expectable that we will see again a wider price gap between references.



This will help promote the sales of the smaller fish, hopefully making it more affordable to consumers so volumes can be kept at the same levels as recent years.

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Regarding **market trends** we have been seeing some interesting developments:

- The most relevant of them is the consolidation of the **desalted frozen cod** market. First through the HORECA market, pushed by the regulation framework for professional kitchens.

Now we see it also gaining leverage on the urban consumers. These consumers are putting higher value on convenience, preferring to buy a product that is ready to cook without having to desalt the fish.

Today's small urban dwellings and hurried times, make desalting the fish a cumbersome process that many gladly prefer to avoid and are willing to pay for the convenience.

- My impression is also that specialty **niche products** are growing. Products like Cura Amarela, Bacalhau Seleção, Extra Long Cured Bacalhau, etc appeal to an interesting fringe of the population that love their Bacalhau, are willing to pay for it and take time to process and enjoy it at home.
- Operators are investing on these niches, increasing awareness and building markets, leveraging the emotions and experiences associated with the long Bacalhau history.

These niches can be very seasonally dependent but are, none less, an interesting small market. They might not be very appealing volume wise, but can be interesting in terms of margin, helping the bottom line and sustainability of many operators. Even big retail chains are investing on this trend.

- We see also new approaches to the market. Some producers have implemented direct sales to the consumer and some smaller retail shops have specialized on the niche items referred before trying to provide a superior experience to the consumer.
- Another trend has been the consumer growing interest on the bigger sizes. Corrente hardly sells meaningful quantities nowadays. Crescido, that for a long time used to be the main item, seems to have been substituted by Graúdo as the most interesting and demanded reference.
- I expect that the need to bring the market to buy Crescido again in bigger volumes will widen the price gap between Crescido and Graúdo. As already referred before, we will probably see the price gap between the traditional references to widen again in order to favor the sale of the smaller sizes. Those sales are very important for the industry, mainly off the pick seasons.

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- Anyhow, and although niche products are trending, the **main volume** will still be on the regular product and on the traditional channels. This won't change anytime soon. But it is interesting to see this diversification and attempt to add value to a traditional product.
- Consumer trends in general show that the modern consumer is looking for **quicker satisfaction** and faster reward without wasting too much time on the process. Depending on the view point, this can constitute either an opportunity or a threat.
- The characteristics of the Bacalhau make it possible to surf the wave for **healthy, organic, sustainable eating** through an active marketing approach. Continuous building of product awareness has been extremely important to keep the Bacalhau flame alive. There is an accumulation of marketing and communication work that should be kept and developed.
- Extreme high prices for our product are a threat to our industry. Excellent products combined with appropriate and dedicated communication can help counter balance that risk.

- The volume market in Portugal is **driven by the supermarket** chains with regular promotions and competitive pricing. This dependence can be quite challenging as a significant strategy change by the main retail operators will have a strong impact on the overall market.



- Hopefully, we will see some correction on the raw material prices. If not, there is no way to escape the fact that we will unavoidably see **higher price levels this year** and consequently an overall volume reduction in 2018.
- Also, it is expectable that increased price levels might have an impact on long term **consumption habits**. Bacalhau has been known for being the «Fiel Amigo», the faithful friend. It has been a staple of the Portuguese eating habits. It used to be affordable, widely available, and it preserved itself well. The affordable part has changed when compared with other food items widely available.

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Higher prices have made it less and less a product for daily meals and more a product for special occasions. **Increased seasonality** is one of the side effects. The consumption seems to be more concentrated on specific periods of the year. The rest of the year consumption has to be pushed by strong campaigning. Again, marketing and communication efforts will be important to fight this seasonality and to preserve consumption habits.

- It is also possible to observe that price levels have a direct impact on the overall **assortment clients buy**.

Day to day consumption is mainly based on smaller more affordable sizes. As prices go up, Bacalhau is substituted by pork and chicken. Volumes for those two sizes go down, consumption habits change, and we know how difficult can be to revive old lost habits. We can clear see this happening with Corrente.

We are now at the beginning of the season, we are all waiting in expectation to see how **prices for raw material** will develop.

If prices stay at a high level, the greatest impact will be seen on the sales of the smaller sizes, Crescido and Corrente, since the consumer might not be willing to pay such high prices for daily meals.

Hopefully we might see a small down adjustment on the prices that will enable the sale of the natural assortment with its higher content of Crescido and support a sustainable market.

Naturally, increased prices will affect other markets as well.

The UK market, another main market for Cod, has in the past changed some of their Cod consumption for Pollock, we might see something similar happen again.

On the opposite hand we see markets like China showing more interest in Cod, not only for export production, but also as a food product for their own consumption.

In 2017, exports from Norway to China increased by 12 percent in volume and by 23 percent in value...

Tighter supplies of Atlantic cod are expected to push prices up.

Iceland's 5 percent increase in its total allowable catch (TAC) is not enough to offset Norway's drop. Cod prices have been showing a rising trend, albeit now they seem to have stabilized.

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As always, everything is open. We will know more by the end of the year 😊

Thank you for your attention.



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