Industry Top Trends Update

Consumer Products

Pockets of resilience supported by in-home consumption

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What's changed post-COVID?

Shift in consumption from outside to inside the home. We are seeing robust growth in packaged food and homecare, with subdued demand for discretionary goods. The disruption to international travel has hit travel retail, with a significant impact on personal luxury and prestige beauty products.

Brand power is reinforced. Companies with global brands, diversified portfolios at different price points, and nimbler supply chains and digital capabilities will be more resilient and gain market share in a more volatile environment. Brand equity is also moving to center stage as ecommerce gathers pace.

The shift in consumer preferences will become more noticeable. The pandemic has placed health and wellness center stage, and consumers and companies are paying more attention to food sustainability. However, given that this shift will come at a cost, it's likely to be more pronounced in developed markets. The fall in disposable incomes will also see many consumers favor value for money products.

What is the likely path to recovery?

Better capitalized investment-grade companies will fare better. Geographically diversified companies, with solid brands and pricing power, will remain largely resilient. Those offering essentials or staples may even emerge stronger from the pandemic following defensive actions to reduce costs and investments.

Out-of-home consumption and travel-related spending will remain disrupted. Alcoholic beverages and food services will take time to recover lost sales, as out-of-home consumption will begin to recover only gradually from 2021. Chinese customers should remain the underlying driver of prospects for luxury goods.

Smaller companies with discretionary products will see their credit quality weaken further. The decline in topline will exacerbate weaker margins and cash flow for these companies, diminishing already-tight credit ratings headroom.

What are the key risks around the baseline?

A second pandemic wave. Weaker macroeconomic conditions and a drop in consumer confidence from a second wave would damage recovery prospects for out-of-home consumption and depress discretionary spending even further.

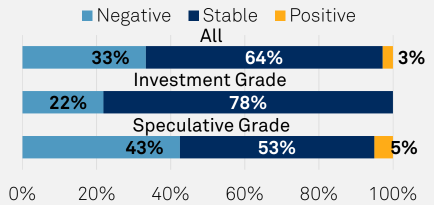
Elevated leverage and higher working capital. This could result from higher than expected investment into working capital to support undercapitalized distribution networks and retail partners. Return to high shareholder remuneration and M&A before the earnings have recovered could pressure ratings.

COVID-19 has revealed the fragility of global supply chains. A strategic shift to using more localized supply chains could add costs and exacerbate trade conflicts. Companies that fail to make an effective transition to ecommerce will struggle.

Latest Related Research

- COVID-19 Will Shape The Future Of Consumer Goods, July 1, 2020
- Overview Of The Most Recent Industry Trends Within Consumer Goods In EMEA Published, June 25, 2020
- Sustainable Agriculture: Governments Need To Weigh In To Effect Lasting Change, Mar 03, 2020
- Inside Credit: The Health Of Branded European Consumer Goods Companies Isn't Immune To The New Coronavirus, Feb. 3, 2020

Outlook Distribution



Ratings Statistics (YTD)

	IG	SG	All
Ratings	32	41	73
Downgrades	1	17	18
Upgrades	0	1	1

Ratings data as of end-June, 2020

COVID-19 Heat Map

COVID-19, Recession, and O&G Impact

Pack.Food/Pers & Home Care/Agr&Ingr.	Low
Tobacco & Alcoholic Beverage	Low
Luxury & Discretionary	High

Potential Neg. Long-Term Industry Disruption

Pack.Food/Pers & Home Care/Agr&Ingr.	--
Tobacco & Alcoholic Beverage	--
Luxury & Discretionary	--

2020 Estimates v. 2019

Revenue Decline	EBITDA Decline	Incremental Borrowings
Pack.Food/Pers & Home Care/Agr&Ingr.		
No decline	0% to 10%	No Increase
Tobacco & Alcoholic Beverage		
5% to 10%	0% to 10%	No Increase
Luxury & Discretionary		
15% to 25%	25% to 40%	No Increase

2021 Estimates v. 2019

Revenue Decline	EBITDA Decline
Pack.Food/Pers & Home Care/Agr&Ingr.	
≥2019	≥2019
Tobacco & Alcoholic Beverage	
0% to 10%	0% to 10%
Luxury & Discretionary	
10% to 20%	10% to 20%