



THE PASTA INDUSTRY: ITALIAN LEADERSHIP IN A GLOBAL NICHE INDUSTRY

Italian is the leading country in the world for pasta in terms of production (3.7 million tons), exports (2.1 million tons), and annual per capita consumption (23 kg), but is only the fourth largest importer of durum wheat (1.9 million tons)

One-quarter of Italian pasta exports derives from the Campania region

Savings at the supermarket are possible by buying distributor-branded products: savings of 25% on fresh pasta and of 15% on dried pasta

The best performers in 2022 were the dried rather than the fresh pasta manufacturers

Gender issues: female representation better at shareholder (38.6%) than at Board level (16.6%)

Milan, 23 January 2024

The **Mediobanca Research Area** has published its first survey on the pasta-making industry in Italy, with detailed analysis of the production chain, and a focus on the financial data, sustainability and governance issues of the leading pasta makers. The full report is available for download from www.areastudimediobanca.com.

Italy undisputed leader

Italy is world leader in the pasta sector, a niche industry worldwide if it is considered that durum wheat represents just 4% of the production of wheat, the vast majority of which is made up of common wheat used for baking products.

Italy is the world's largest pasta-manufacturing nation with an output of 3.7 million tons, equal to 22.3% of the global total, followed by Turkey and the United States (with 2 million tons each), and is also the world's **largest exporter of pasta**, with 2.1 million tons, or 43% of the global total, ahead of Turkey once again (with 1.3 million tons). **Italy also has the world's largest per capita consumption levels:** 23 kg of pasta are consumed per head each year (19.8 kg of dried pasta and 3.4 kg of fresh pasta), ahead of Tunisia (17 kg per capita), Venezuela (15 kg), and Greece (12.2 kg). These rankings **derive from Italy's position of leadership in the production of durum wheat;** with its annual output of 3.8 million tons, it represents 12% of the world's total, behind only Canada (15%).

However, this does not mean that **Italy is self-sufficient**, for in fact the ratio between volumes produced and volumes consumed is around 65%. This is why **Italy is the world's fourth largest importer of durum wheat**, with 6.4% of the world's total (or 1.9 million tons), with the supplies arriving primarily from Canada, France, and Greece, these three countries together accounting for two-thirds of the Italian imports.

The different Italian regions in which pasta is produced

Campania is the leading Italian region in terms of pasta exports, accounting for 24.4% of the national total. **Some 19% of the domestic production and 13% of the domestic Italian pasta manufacturers are located in this region.** In second position is **Emilia-Romagna**, both in terms of the percentage accounted for by exports (20.4% of the total) and the volume of output (18%), and the region has 8% of the country's total number of pasta manufacturers. **Sicily, despite being home to the highest number of flour mills**, with 36% of the national total, has seen its pasta production fall to 7% of the total and its share of the country's exports to 0.4%. Last but not least there is also **Puglia, the nation's largest producer of durum wheat** (23.2% of the national total).



In fact Italy is almost split in two when it comes to analysis of the type of pasta manufactured: nearly 60% of the **dried pasta** production sites are found in Central and Southern Italy, whereas over 90% of the **fresh pasta** production sites are located in North East and North West Italy.

Not just pasta: couscous as well

Italy, with 58,000 tons produced in 2022 (an annual average increase of 15.8% since 2012), and a value of €72m, **is also the second largest European manufacturer of couscous**, after France (128,000 tons; €257m): the two countries jointly account for 99% of the quantities produced in Europe. Around 90% of the Italian couscous exports are sold within Europe, with France (40%), Germany (10%), Spain (8%), the Netherlands (6%), and Poland (5%) the main destinations.

Every specialization has its price

Approx. 75% of the pasta consumed is sold via the large-scale organized distribution channel, where **Distributor Branded Products (DBP)** account for 35% of total sales, enabling savings of 25% on fresh pasta and 15% on dried pasta. **However**, in 2022 the return of inflation impacted on the pasta sector, **with an average increase in consumer prices of 17.4%, virtually double the increase recorded for the food sector as a whole (up 9.3%)**. According to the figures compiled by the Mediobanca Research Area based on Nielsen IQ data, the average price of pasta in the large-scale organized distribution channel in 1Q 2023 reached €2.6 per kg (€5.28/kg for fresh pasta and €1.97/kg for dried pasta), with pronounced differences between the various specializations: €1.75/kg for semolina pasta, €2.53/kg for "better for you" pasta (wholemeal flour, spelt flour, kamut flour, pulse pastas), €2.90/kg for couscous, €3.38/kg for gnocchi, €5.46/kg for gluten-free pasta, which is the most expensive, suitable for those suffering from coeliac disease who nonetheless receive state benefits to buy it.

The leading Italian pasta manufacturers

The **leading pasta manufacturers expect to see growth in sales for 2023** of 5% overall, with the increase being more pronounced on the domestic market (up 5.9%) than for exports (up 4.1%), plus an **increase of 7.2% in tangible investments**, as well as a rise in advertising expenses from 1.8% of total sales in 2022 to 3% in 2023.

In 2022 the leading Italian pasta makers' **total sales** posted a **nominal increase of 28.2%** vs 2021, and 13.8% of the aggregate turnover was generated by **non-Italian-owned companies**. After the change in production prices is factored into the equation, **the real growth** in total sales for 2022 for the sector as a whole was **8.5% (domestic sales up 5.2%, exports up 11%)**.

The **pasta manufacturers based in Southern Italy**, with average turnover of €115m, are the largest in the country, followed by those based in North East Italy (€105m). In Southern Italy it is the dried pasta manufacturers that are the largest (total sales of €125m), while in North East Italy it is the fresh pasta manufacturers (€137m).

Exports represent 52.6% of the aggregate turnover, 5.1 percentage points higher than in 2019.

However, profitability levels declined in 2022: an **Ebit margin** of 3.3% was 28.3% lower than 2021, **ROI** of 4.9% was 9.3% lower, and **ROE** of 5.7% was 13.6% lower: all indicators that have halved since 2019. In 2022, 20.8% of the companies covered by the survey reported losses, virtually double the figure in 2019, when it was 9.7% of the total. The **leverage ratio** also deteriorated: in 2022 net debt represented 97.2% of net equity, up from 92.5% in 2019. The pasta industry's loss of **productivity** (measured by net value added per employee) in the 2019-22 period (with an annual average decrease of 1.3%) was due to the growth in headcount (annual average increase of 2.4%) outpacing the growth in net added value (up 1.1%).



Fresh and dried pasta: different taste, different performances

Dried pasta accounts for something like 95% of the aggregate Italian volumes and 85% of the value, whereas **fresh pasta** accounts for 5% in volume terms and 15% in value terms. In 2022 the dried pasta manufacturers' growth in total sales (up 33.3%) outstripped that of the fresh pasta manufacturers (up 20%), but the latter export more than the former do (61.1% of their turnover is generated outside Italy, as opposed to 48.4%). While the fresh pasta manufacturers delivered more satisfactory profitability levels in the 2019-21 period than the dried pasta manufacturers, the situation reversed in 2022: **the fresh pasta manufacturers posted an Ebit margin of 1.6% (vs the dried pasta manufacturers of 4.3%)**, ROI of 2.3% (6.2%), and ROE of 4.7% (6.2%). Tangible investments in the fresh pasta industry decreased in 2022 (down 11.7% vs 2021, compared with an increase of 35.9% for dried pasta), and accounted for a larger share of total sales (6.9% vs 4%). **Estimates for 2023** point to higher growth in total sales for fresh pasta (up 10.1% vs 2022) than for dried pasta (up 3.3%).

Quality certification: the importance of the production chain

Only 14% of the companies included in the survey compile their own sustainability report, but there is widespread use of certification. The most commonly used quality standards for the largest Italian pasta manufacturers are those issued by the **Global Food Safety Initiative (GFSI)** to guarantee **food safety**: IFS certification has been obtained by 98.4% of the operators, and BRC certification by 93.4%, while 91.8% state the organic provenance of their products.

To meet the needs of their international markets, 54.1% of the companies follow **Kosher certification standards** (to ensure compatibility with the Jewish tradition), and 32.8% to **Halal standards** (in order to be suitable for the requirements of the Islamic religion). One-third of the companies states that its products meet **vegetarian and vegan criteria** (VeganOK standards), while the production of **gluten-free** pasta is subject to specific certifications obtained by 18% of the companies, the most widespread of which is the one issued by the Italian coeliac association (AIC).

The absence of **genetically modified products (GMO)** is certified by the North American Non-GMO Project standard obtained by 13.1% of the companies, whereas 9.8% have obtained certification stating that **they do not use pesticides** in their crop growing.

On average 70% of the materials used for packaging are recyclable.

Ownership structure and Board representation

Of the aggregate net equity of the leading pasta manufacturers, 81.1% is **family-owned (over €1.7bn in value terms)**; 11.5% (€250m) is non-Italian-owned, while 7.4% (€160m) is in the hands of financial investors, 4% of which is controlled by private equity funds.

The companies' Boards of Directors and management teams tend to favour a leaner structure (only in 12.4% of cases does the BoD exceed five members, while executive powers are concentrated in the hands of a single person in 54% of cases).

The average age of the Boards' Chairpersons (65 years), including in cases where the position is combined with that of CEO (63 years), is relatively advanced. The average age of Directors is 55 years. The most represented generation is **Gen X** (41.7%), followed by the **Baby Boomers** (36.8%). Millennials occupy just 9.3% of the positions, fewer than those occupied by persons born before 1945 (10.1%).

Gender representation: women occupy 16.6% of the positions on the pasta makers' Boards of Directors, but the percentage among shareholders is more than double, at 38.6%.