



## AVIAN INFLUENZA - IMPACT ON THE EGG SUPPLY

In the spring of 2015, Avian Influenza H5N2 (Avian Flu) began to devastate many egg-laying farms across the Midwestern United States. This led to major shortages in the supply of processed and shelled eggs across the country. The industry is in the midst of recovery from the loss of 15% of the nation's egg production. The entire supply chain, from manufacturer to customer, is making changes on a daily basis to work through the logistics of the diminished supply. Customers who primarily used processed liquid eggs have switched to shelled eggs due to lack of product. This, in turn, impacted customers who used mainly shelled egg products. Distribution centers are struggling to maintain fair allocations of the limited available product.

## SOME FAQs

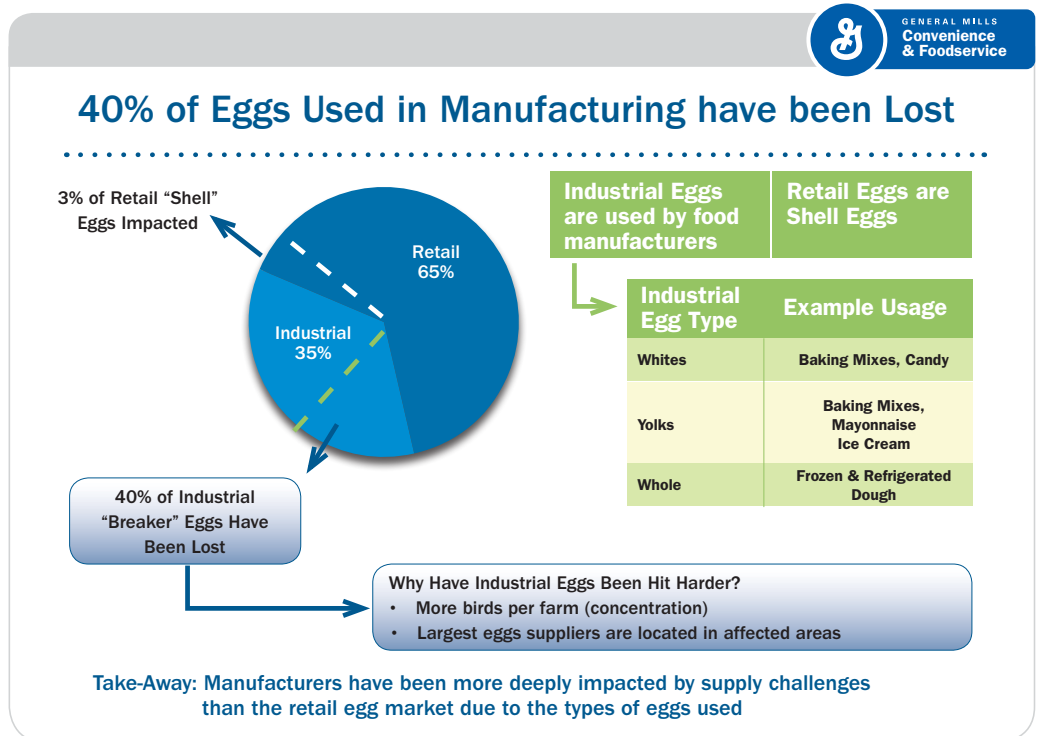
### Why does my local grocery store have eggs but I still have problems ordering them for my business?

For large egg manufacturers, most profits come from retail sales; therefore, provisions have been made to decrease the impact of the Avian Flu. Bulk prices to the food industry are generally lower than retail, hence the profit margin is much lower for manufacturers. While, retail store shortages and price hikes are somewhat minor, the food industry has taken the brunt of the egg shortages.

In recent weeks, supply shortages have made their way down into the retail side of the business as many grocery stores have raised their prices. Some businesses have been forced to make significant changes to their menus. One example is Rita's Italian Ice: Rita's cannot source their frozen custard because of the egg shortage. As a result they have temporarily switched to a frozen ice cream product until supplies of eggs are available.

### Are we getting the best egg pricing available, considering the situation?

Sodexo's contracted egg supplier, Michael's Foods, increased egg prices an average of 15% in July 2015. Another contracted supplier, National Pasteurized Eggs, raised their July 2015 prices over 35%. While these are significant increases, they are not as high as many are experiencing in the market. Sodexo operations have experienced supply shortages, but due to our partnerships with our distributors, have maintained a priority allocation of available supplies. All parties are working to keep the supply chain running despite the low inventory.





### Are there concerns for the poultry markets because of the Avian Flu?

The Avian Flu killed approximately 48 million birds, mostly turkeys and egg-laying hens in 15 states as it swept through the Midwest. Iowa, Minnesota and Missouri lost the most birds. The chicken industry has fared better than the turkey and egg industries. The U.S. government recently announced that they will be paying U.S. farmers \$191M for lost birds due to the Avian Flu. While other companies and consumers are being significantly impacted by turkey price increases and shortfalls, Sodexo's strategic relationship with Jennie-O has provided minimal supply interruptions with no significant price increases.

### Will the Avian Flu spread to other areas of the country?

Experts are still monitoring for the spread of the Avian Flu. As of August 2015, there have been no new cases, but there is a concern that migratory birds will spread the disease to other parts of the country, mainly on the southeast coast of the U.S. The industry is aware of this risk and will be able to act quickly if this happens.

### When will egg supply and prices be back to normal?

Barring any recurrence of the outbreak, it is estimated that it will take 18-24 months from the time the impacted farms begin re-population efforts to be back at full production. Currently, many farms are hesitant to start the process for fear that they will face a repeat of the outbreak in the fall. There is also a review of the possible supply of pullets (baby hens) needed to begin re-populations. Below is a rough outline of the re-population process:

- Complete the sanitization and clean-up of the infected farm
- Have the farm tested for presence of the virus
- Assuming test results find no virus present on the premises, begin the repopulation effort by placing pullets
- Pullets are placed in waves to allow the farm to manage the supply of eggs
- It takes a pullet approximately 14-16 weeks to mature to an egg-laying age

## Egg Layers Supply Chain 101

