

How COVID-19 has changed the flower trade and what might the new normal look like



Supply

- Growers have struggled with quality and production as a result of farm shutdowns and reduced staff numbers.
- Growers with niche high end flowers targeted at events have struggled more than others.
- In Australia a strong move to locally produced flowers due to global freight uncertainty and cost.
- In Australia a strong move towards native flowers such as Waxflower, Kangaroo Paws, and local foliage particularly amongst millennials.
- These results have been lower supply, higher prices, less range, less event type flowers, higher demand for locally sourced and native flowers.



Logistics

- Capacity declined by nearly 30% in March and April.
- Passenger freight capacity reduced from 55% to 21% while freighter capacity has increased from 41% to 79%.
- Freight capacity has favoured countries with critical mass in Horticulture – Kenya, Colombia, Ecuador.
- Freight increases of between 2 and 3 times pre COVID rates due reduced capacity and more expensive freighter options.
- Blocked Space agreements have been cancelled meaning more insecurity.
- Larger loads required for shipments to be viable.
- Less connecting flights mean higher risk of offloads and in-transit delays.
- More sea containers being used for fresh flowers – Higher risks for the shipper and quality deterioration in some cases.
- Many carriers have gone in to receivership or grounded their fleet.



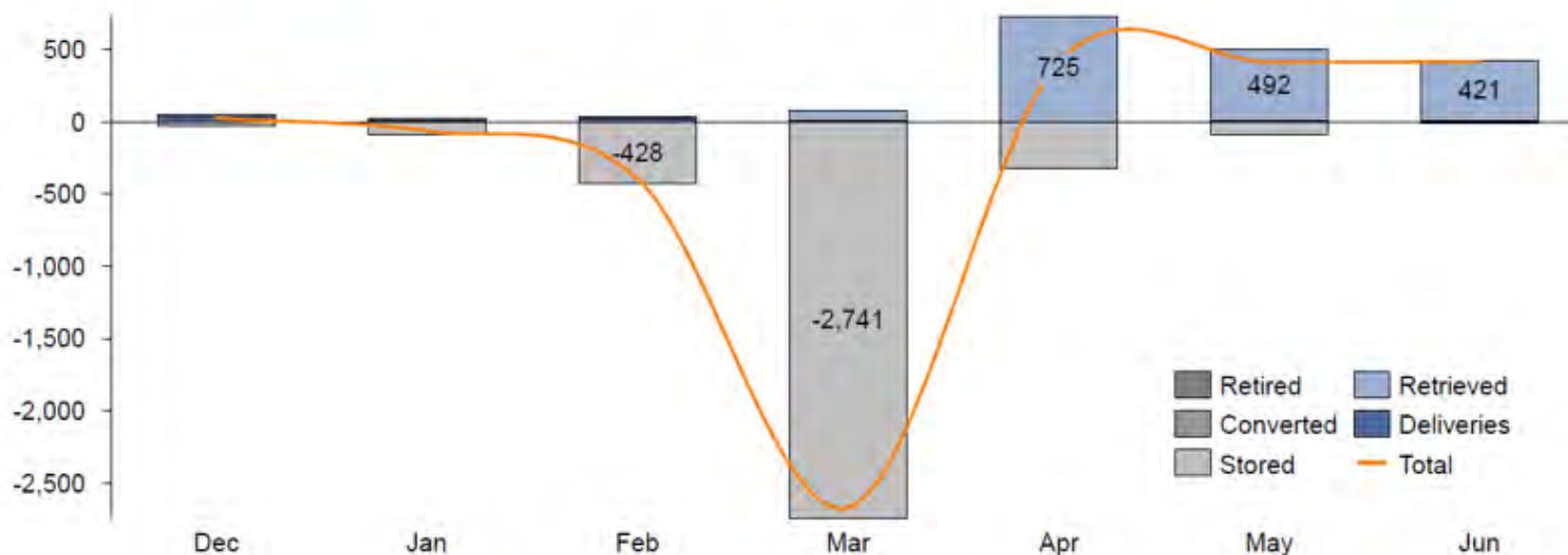
Market Outlook – Air Freight

More than 3,000 widebody aircraft have been grounded since the COVID outbreak

The redeployment of aircraft from April to June has been limited; most of the 1,600 retrieved passenger aircraft are being deployed as passenger freighters (~900)

Monthly net changes to the global widebody passenger fleet, Dec 2019 - Jun 2020¹

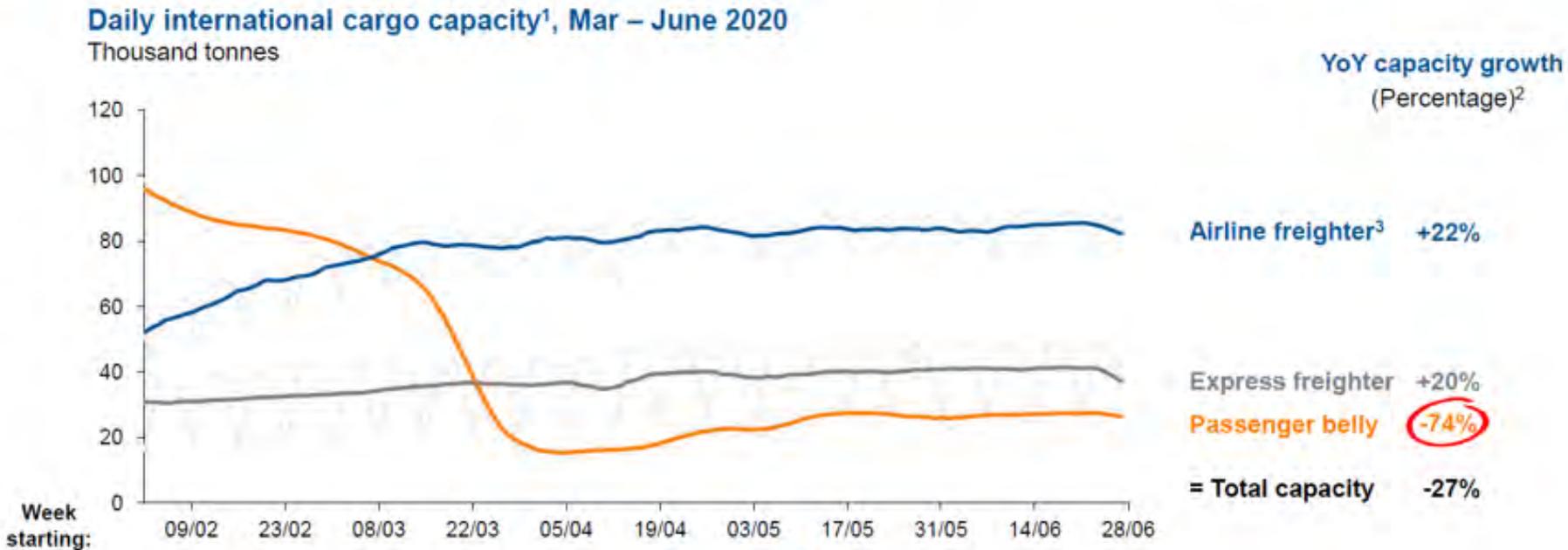
Number of widebody aircraft added/removed



Market Outlook – Air Freight

Widebody belly cargo capacity remains 74% lower than last year

Despite an initial recovery of passenger belly capacity and a 20% increase in freighter capacity, global cargo capacity is still 27% lower than last year



Global air cargo capacity has been relatively stable since mid-May



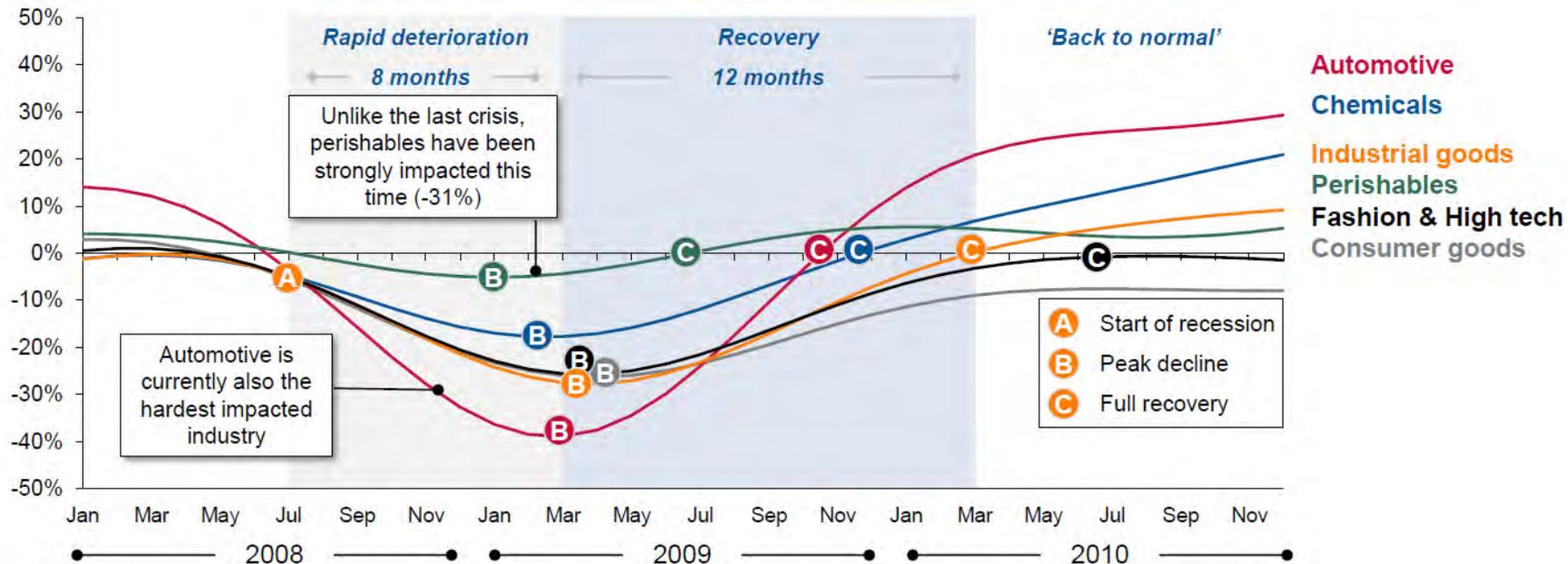
Air Logistics Key Indicators

The depth of decline and recovery time to go 'back to normal' will vary by industry

Industry dynamics varied significantly during the recovery from the 2008/2009 financial crisis; external factors, such as, the availability of a vaccine, will influence the time needed to return to normal

Air trade development by industry during the financial crisis of 2008/2009

Monthly change (vs. Jul'08)



The Market

- Higher flower prices should be expected due to higher freight costs and lower supply.
- Some items can no longer carry the higher freight costs in particular low value fillers and foliage.
- Less range being stocked a move to core lines to ensure less shrinkage.
- Less risk taking by buyers, shorter lead times. There has been a move to low risk flowers - Dried and preserved flowers, long lasting lines with little chance of shrinkage.
- Growth in indoor plants as homes receive more attention.
- Growth in on-line order platforms & on-line retail sales.
- Growth in supermarket sales due to increased foot traffic.
- Specialised Event florists have been affected as have "retail strip" florists with high overhead costs.
- Could be a significant lift in sales for wedding season when event numbers are increased above 200.



The new normal?

- On-line platforms for trade or direct to consumer have been fast tracked by the crisis.
- All businesses need to review their business model – how do we add value.
- Many businesses wont survive this will create opportunities as well as threats, expect to see a consolidation of businesses.
- Strong flower producing countries will have a freight advantage until full passenger services resume which may be some years.
- Small buyers may struggle to achieve volume required to be of interest to freighters.
- Greater co operation and communication throughout the chain will be required due to greater agility and greater scale to move product from A to B.
- Dry and preserved flowers may be in for a period of 5 -7 years of growth.
- Indoor and outdoor plants should see a sustained period of growth.
- Flowers are proven to be extremely resilient and how shown to occupy a special place in peoples lives.
- The 2021 wedding season could be extremely strong.

