

ARYZTA SETS FOCUS ON FROZEN FOODS BUSINESS... Aryzta AG will focus on pricing changes and its core B2B frozen foods business as it continues to dispose of non-core businesses, company executives said in a March 12 earnings call. Problems with the Cloverhill Bakery business played a role as Zurich-based Aryzta reported decreases of 30% in EBITDA and 6% in revenue for the six-month period ended Dec. 31. Excluding the Cloverhill Bakery business, EBITDA decreased by 20%. Aryzta addressed the Cloverhill problems earlier this year. Hostess Brands, L.L.C. agreed to buy a Cloverhill facility in Chicago, and Bimbo Bakeries USA agreed to buy a Cloverhill facility in Cicero, Ill. "I'm glad to say that business is now sold and behind us," said Kevin E. Toland, Aryzta's chief executive officer, in the March 12 call. This month, Aryzta agreed to sell its 50% interest in Signature Flatbreads to its joint venture partners for about €34 million (\$42.4 million). Signature Flatbreads produces Indian breads, flatbreads, tortillas, pizza bases and pitas in India and the United Kingdom. The transaction, which is expected to be completed in the third quarter of the fiscal year, is consistent with Aryzta's strategy to focus on its frozen B2B bakery operations and exit non-core businesses, the company said.

...HALF A BILLION DOLLARS IN DIVESTITURES. Disposals are on track to exceed €450 million (\$557.9 million), Aryzta said. "And you must understand why we cannot talk about other disposals on the way, but we can assure you that each time one will happen, we will inform the market, and we will do it timely," said Frédéric Pflanz, chief financial officer for Aryzta. Aryzta reported EBITDA of €161.3 million (\$200 million) for the six months ended Dec. 31, which compared to €229 million during the same time in 2016. Group revenue of €1,786.5 (\$2,215 million) compared to €1,906 million. The Cloverhill Bakery business largely accounted for a €201 million impairment and restructuring charge in the first half.

#### FROM THE BAKERY PIPELINE

The way people buy food is changing. Supermarkets are no longer just a place to stock-up on staples, but a destination for a culinary experience, and c-stores and dollar stores are now common places to purchase groceries and not just snacks, according to a report by Senior Editor Charlotte Atchley in the March issue of *Baking & Snack*. She reported that people are looking for convenience, freshness and quality, and it's altering the way people interact with the places they purchase food. Among c-stores, dollar stores, drug stores, supermarkets, Nielsen reported that only c-stores and dollar stores grew in number of locations from 2016 to 2017 with 0.3% and 5.2% growth, respectively. Jeanne Danubio, executive vice-president, retail for lead markets at Nielsen, attributed this to c-stores' innovation and investments in food purchases. In more traditional retail outlets such as supermarkets, Nielsen's research showed that sales at brick-and-mortar center stores declined in the 52 weeks ended July 1, 2017. Most of the growth in supermarkets wasn't driven by center aisle sales but the perimeter, a trend in place for years. Sales for supermarket fresh categories were up 0.6% while dollar sales for center store were down 0.9%. In this shifting landscape, it can be difficult to leverage these outlets for the best opportunity at growth. "There doesn't seem to be any singular channel knocking it out of the park, but there are pockets of strength in each major channel," observed Wade Hanson, principal, advisory practice, Technomic. "This emphasizes to us the need for channel and account prioritization more than ever." It seems that consumers desire for "channel surfing" goes way beyond television, cable and Netflix.

FLOUR QUALITY IMPROVEMENT INNOVATIONS EXPLORED... In an era of unprecedented advances in agricultural technology, the best opportunity to improve flour quality might lie in formal pre-planting accords that allow growers to become ingredient suppliers who innovate to produce the wheat millers, bakers and consumers want. This idea was a frequent topic of discussion among the "My Role in Wheat Quality" panelists at this year's annual meeting of the Wheat Quality Council in late February in Kansas City. Len Heflich, former president of the board of The Center for Food Integrity, outlined changes he's seen in flour during his 40 years in baking, most recently as vice-president of food safety, quality and crisis management, Grupo Bimbo, Mexico City. Mr. Heflich displayed from his personal collection a 1966 farinograph of 100% hard red winter wheat milled in Chicago for flour used to bake Thomas' English muffins. "You need a strong wheat that can take a lot of mixing and a lot of water, and that one did the trick," Mr. Heflich said. "What's unique about that curve, it never breaks. Mixed this about 25 minutes and it never broke." The flour strength necessary for that product would be difficult to produce today from a straight hard winter wheat and would likely require blending with flour milled from spring wheat. The mixing stability and tolerance needed in dough for English muffins and other products today is found through the addition of gluten.

...DRAMATIC CHANGES OVER PAST GENERATION. "When I started 40 years ago, you didn't use gluten in white bread," Mr. Heflich said. "Today almost all white bread contains 1% to 1.5% gluten. Variety breads might have 3%, 4%, 5%, even 6% gluten." The levels of gluten added to some doughs have increased in recent years as expensive enzymes have been taken out, sometimes in response to consumer desire for cleaner labels. But alongside gluten's functionality are inherent downsides that force bakers to compromise to avoid a tough, rubbery dough that is difficult to divide, round and mold. "In essence, we have to overmix the native proteins and undermix the gluten, so we don't get the full benefit of the gluten," Mr. Heflich said. Changes in bakery operations have added their own challenges. To compete, bakeries increased capacity and speed while decreasing labor costs through mechanical actions such as extruders and pumps, all on longer, faster lines.

7-ELEVEN INTRODUCING HISPANIC BAKERY ITEMS. After months of testing in Mexico and Texas, 7-Eleven, Inc. is nationally expanding its Hispanic packaged bakery items under the 7-Select brand. The new Mexican sweet bread options are available in three varieties: Panquecitos sweet vanilla mini loaf cakes, Roles de Canela cinnamon rolls with raisins, and Panque con Nuez sliced pound cake with chopped pecans. "Like the U.S., Hispanics make up a significant and important part of 7-Eleven's clientele," said Jack Stout, senior vice-president of private brands at 7-Eleven. "More than half live in the three states where 7-Eleven has a very strong and growing store presence – California, Florida and Texas. 7-Eleven tries to ensure that we offer products that our customers want to see on our shelves, conveniently and priced competitively." The new Hispanic packaged bakery items were tested "extensively" in Mexico for flavor, texture, aroma and appearance, 7-Eleven said. The company first introduced the sweet bread products in December 2017, offering them in about 640 stores throughout Texas. "As an organization, we continuously look for innovative ways to bring products to market that reflect the ethnic diversity that mirrors the communities in which we operate," Mr. Stout said. "Quality and value are always part of the equation."

### Bakery Newsletter

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ARCADIA DEVELOPING HIGH AMYLOSE WHEAT. Arcadia Biosciences, Inc. has developed new wheat varieties that may deliver enough fiber to meet U.S. Food and Drug Administration requirements for claims of "good source" of fiber or "high in fiber" on consumer product packaging. While wheat normally has amylose levels between 25% and 30%, the new varieties from Arcadia contain up to 94% amylose. Amylose, a carbohydrate molecule, is less vulnerable to digestion. Increased levels of amylose correspond to high levels of resistant starch, a non-digestible prebiotic that promotes the growth of "good bacteria" that improve gut health. "Arcadia's new wheat varieties will allow people to enjoy the foods they love with the health benefits of resistant starch and dietary fiber while satisfying consumer demand for clean label, natural foods," said Raj Ketkar, president and chief executive officer of Davis, Calif.-based Arcadia Biosciences. Arcadia Biosciences is working with consumer packaged goods companies on new formulations of existing products that use both enriched and whole wheat resistant starch flour. Arcadia Biosciences plans to increase the number of acres planted during the upcoming U.S. wheat growing season.

THREE AT DUNKIN' PROMOTED TO V.P. A trio of executives at Dunkin' Brands Group, Inc. have been promoted to vice-president roles. Brian Gilbert has been named vice-president of retail business development for Dunkin' Brands. In his new role, Mr. Gilbert will be responsible for growing Dunkin' Brands' consumer packaged goods business and channel partnerships for both Dunkin' Donuts and Baskin-Robbins, including driving strategic partnerships with The Coca-Cola Co., The J.M. Smucker Co., Keurig Dr Pepper and Amtrak. Mr. Gilbert has been with Dunkin' Brands for 14 years, most recently as senior director of channel development for the company. Frank Barone has been promoted to vice-president of financial management and business analytics for Dunkin' Brands. In this role, he will provide tactical and strategic direction to the business analysis finance function across the Dunkin' Donuts and Baskin-Robbins brands. He will also lead the business analytics team for both brands' U.S. divisions. Mr. Barone joined Dunkin' Brands in 2001 as a senior financial analyst. Mathias Piercy has been tapped for the role of regional vice-president of South Central for Dunkin' Brands. In his new role, he will lead operations and development for Dunkin' Donuts' South Central region. Mr. Piercy has been with Dunkin' Brands for 10 years.

SMUCKER BAKING BRANDS MAY BE ON THE BLOCK.. J.M. Smucker Co. is considering a potential sale of its baking brands, which include Pillsbury, Robin Hood flour and cereal, and Martha White baking mixes, according to a March 7 report from Bloomberg. Citing people familiar with the situation, Bloomberg said the Orrville, Ohio-based company is working with an adviser to weigh its options for the unit. Reports suggest the unit could attract a purchase price of around \$700 million. Responding to the reports, Maribeth Burns, a spokesperson with Smucker, said the company does not comment on rumor or speculation. "We are always evaluating opportunities that support our strategic priorities, grow our business and drive shareholder value," Ms. Burns said. Smucker acquired the baking brands as part of its 2004 acquisition of International Multifoods Corp.

...COMPETITIVE PRESSURES SEEN INTENSIFYING. During a Feb. 16 conference call with analysts, Steven T. Oakland, former vice-chairman and president of U.S. Food and Beverage at Smucker, said the competitive landscape in the baking mix business has picked up. Meanwhile, protecting profitability factored in the company's decision-making regarding Pillsbury, said Mark Smucker, president and chief executive officer. "(Regarding) Pillsbury, we made some conscious decisions when we see that the competitive environment is such that ... an investment in a brand might actually create a situation where profit is just too challenged," he said. "I think that's been sort of the case for Pillsbury this past year. We consciously chose not to go deep, if you will. That said, we do have some nice innovation coming out on Pillsbury in the next year. So it's not that we're ignoring it, and it's not that just we are letting it stagnate, but we do have some nice innovation that will continue to support that business going forward."

**FLOUR** - Bookings of bakery flour were limited this week. Prices were lowered. College basketball, spring breaks and conventions began to claim the attention of bakers and millers. Still, bakers remained comfortable with April-June coverage, which has climbed steadily to 70% in most instances. As has been the case for most of the crop year, pan bread coverage slightly lagged that of soft flour and spring grades. It has been a frustrating year for pan bread bakers, who pointed to flour prices about \$3 a cwt higher than a year ago. Millers, in turn, pointed to Kansas City wheat futures about 70c a bu higher than in March 2017 and the cash hard red winter wheat basis (12% protein) also about 70c higher than a year ago. With drought continuing to grip the Southwest, Kansas City hard red winter wheat futures found firm underlying support, and the cash hard red winter wheat basis was expected to remain relatively strong at least until new crop supply becomes a factor. Soft flour was trading about \$1 a cwt higher than a year ago, and spring grades were trading about \$3 higher than in March 2017. Kansas City bulk middlings were \$87 to \$97 a ton.

**WHEAT** - Wheat futures dropped this week. Winter wheat futures extended a downtrend that began a week ago from recently set seven-month highs. Minneapolis spring wheat futures were reluctant followers given the need for spring wheat to wrest some acres from corn and soybeans before spring planting. Futures' weakness was tied to forecasts suggesting a wetter weather pattern across the drought-beleaguered hard red winter wheat states of the Southwest and poor export demand for U.S. wheat. Drought's grip on the Southwest continued to provide underpinning to wheat futures. At the same time, forecasts held out hope for precipitation in the Southwest, and futures responded with a late-week sell-off. The U.S. Department of Agriculture, based on the March 13 U.S. Drought Monitor, indicated 40% of nation's winter wheat was in areas affected by drought compared with 39% a week earlier. Drought was particularly severe in Kansas, Oklahoma and Texas, where wheat in drought areas was 84%, 94% and 78%, respectively. Winter wheat condition ratings in Kansas, Oklahoma and Texas remained abysmal. The U.S.D.A. rated Kansas wheat 1% excellent, 11% good, 35% fair, 36% poor and 17% very poor and Oklahoma wheat 7% good, 21% fair, 45% poor and 27% very poor. Crop analyst Allendale, based on its annual producer survey, indicated 2018 plantings of spring wheat other than durum may increase 3% from 2017 to 11.3 million acres.

**SHORTENING** - Bookings of edible fats and oils were steady. Prices were mostly unchanged to higher. Soybean oil prices were raised. Soybean oil futures advanced. The cash basis on soybean oil was unchanged nearby with a minor carry indicated for April-June. Soybean oil users booked supply to keep contract balances at about 60 days. Soybean oil basis coverage increased but still was less than 50% for April-June but was lacking for the third quarter. The National Oilseed Processors Association reported the February soybean crush at 153,719,000 bus, down from 163,110,000 bus in January but well above trade expectations. Feb. 28 soybean oil stocks were pegged at 1,856 million lbs, up from 1,728 million lbs in January and also above trade expectations. Crop analyst Allendale, based on an annual producer survey, forecast U.S. 2018 soybean plantings at a record 92.1 million acres, well above the 90 million acres forecast by the U.S.D.A. at its February Agricultural Outlook Forum. Indications were during the previous couple of weeks as much as 2 million lbs of corn oil was sold. Palm oil pricing was mostly unchanged. February stocks were below trade expectations but still formidable. India's hike in import tariffs was expected to reduce export demand. Canola pricing followed soybean oil futures.

**SUGAR** - Nearby and 2018-19 bulk refined sugar sales slowed this week from the slight uptick a week earlier. Year-to-date sales for next year were behind the year-ago pace. Prices were unchanged with sellers holding firm but buyers holding out for lower values. Beet sugar for 2018-19 remained mostly at 34c a lb f.o.b. Midwest. Prices below 34c were available to large buyers. Some beet processors in other regions offered sugar at 36c a lb f.o.b., due largely to location that provided transportation advantages over Midwest sellers. Refined cane sugar for next year was priced mostly at 36c a lb f.o.b. Louisiana Gulf and 36c to 37c a lb f.o.b. Southeast and Northeast, also unchanged from recent weeks. The notable increase in inquiries after the mid-February International Sweetener Colloquium failed to result in a significant increase in sales. Nearby beet sugar prices held at 36c to 37c a lb f.o.b. Midwest, mostly 36c, all nominal due to the small amount of business left to do for the current marketing year. Bulk refined cane sugar prices for 2017-18 were unchanged at 36c to 37c a lb f.o.b. Southeast, at 37c to 38c a lb f.o.b. Northeast and at 41c to 42c a lb delivered on the West coast. The corn sweetener market was routine.

**EGGS** - Yolks steady, other products were higher. Egg prices rose sharply.

**COCOA** - Cocoa powder prices were steady; cocoa bean futures advanced.

## FLOUR PRICES (\$/cwt, bulk, mill)

	K.C. all-winter standard	Mpls. all-spring standard	Chicago soft wheat straight
<b>3-16-2018</b>	15.50-15.60	17.25-17.35	12.60-17.00
<b>Week ago</b>	16.05-16.15	17.45-17.55	12.90-13.00
<b>Year ago</b>	13.10-13.20	14.55-14.65	11.95-12.05

## PROTEIN PREMIUMS (c/bu)

		3-16-2018	Week ago
<b>Basis K.C. (May)</b>	11%	+105 to +120	+110 to +125
	12%	+115 to +130	+125 to +140
	13%	+155 to +170	+165 to +180
	14%	+155 to +170	+165 to +180
<b>Basis Mpls. (May)</b> (Delivered Chicago)	12%	No quote	No quote
	13%	+90	No quote
	14%	+140 to +150	+145 to +160
	15%	+170 to +175	+165 to +180

## WHEAT FUTURES (\$/bu)

		Closing price		Season's	
		3-16-2018	Week ago	High	Low
<b>K.C.</b>	May	4.99½	5.20½	6.19½	4.23¾
	July	5.16½	5.37¼	6.23	4.40¼
	Sep.	5.33¼	5.54¼	6.25½	4.55¾
<b>Mpls.</b>	May	6.11¾	6.17½	7.92¾	5.59¼
	July	6.18½	6.25½	7.75¼	5.57¾
	Sep.	6.25¼	6.32¼	6.89	5.67
<b>Chicago</b>	May	4.67¾	4.89¼	6.09¾	4.23¾
	July	4.85	5.05½	6.09½	4.37
	Sep.	5.02	5.22	6.12	4.50½

## CASH PRICES

	3-16-2018	Week ago
<b>Hard wheat, Gulf (Basis K.C. May, \$/bu)</b>	6.92½	7.30½
<b>Soft wheat, Gulf (Basis Chicago May, \$/bu)</b>	5.30¾	5.57¼
<b>Cocoa powder, N.Y. (10%-12% nat., \$/lb)</b>	.79-.84	.79-.84
<b>Sweeteners (c/lb) *Nearby</b>		
Cane sugar, N.E., bulk*	37.00-38.00	37.00-38.00
Beet sugar, Midwest, bulk*	36.00-37.00	36.00-37.00
Beet sugar, West, bulk (delivered)*	40.00-41.00	40.00-41.00
42% HFCS, Midwest, bulk, spot	24.75-25.75	24.75-25.75
55% HFCS, Midwest, bulk, spot	30.25-31.75	30.25-31.75
<b>Bakery shortening (c/lb)</b>		
Corn oil, Chicago	31.50	32.00
Soybean oil, Decatur	31.00	30.50
Cottonseed oil, Valley	31.50	30.50
Loose lard, Chicago	32.00	32.00
Canola oil, Midwest	37.25	36.75
Palm oil (R.B.D.), c.i.f. ports	33.75	33.75
<b>Frozen eggs, national, 30# tins (c/lb)</b>		
Wholes	97-100	91-94
Whites	75-78	61-64
Sugared yolks	130-135	130-135
<b>Dried eggs, national, drums (\$/lb)</b>		
Wholes	3.20-3.30	3.15-3.25
Whites	4.15-4.25	3.90-4.00
Yolks	3.50-3.60	3.50-3.60
<b>USDA dry dairy products, Central (c/lb)</b>		
Nonfat milk, high-heat	82-98	83-98
Whey	21-27	21-26
34% whey protein concentrate	64-78	63-78