



# COVID-19: Impact on Food and Beverage Companies

July 2020



CITY CAPITAL ADVISORS

# Executive Summary

The impact of COVID 19 began to visibly impact trends in the U.S. Food, Beverage and Agribusiness sectors beginning in March 2020. March, April and May performance was most substantially impacted as cities were shut down. Companies servicing the Foodservice and C-Store channel were hit harder than those servicing Retail. Certain product categories as well performed better than others. Our view is that many companies in these sectors have seen the low point of sales levels and are currently on the rise. We believe this will continue unless another major shut-down is mandated across U.S. cities. In the report we will highlight certain industry and financial market trends that emerged these last months for companies operating in the U.S. amidst COVID-19.

## Industry Trends

- Consumers' concerns with shopping in stores and dining out have led to changes in the way consumers shop for food and prepare meals
  - More shoppers are turning to e-Commerce and home delivery for groceries, prepared meals and meal kits
  - Many companies with or little e-Commerce or home delivery capabilities rapidly implemented them meaningfully ahead of schedule to capitalize on this significant increase in demand and, ultimately, to survive
- While restaurants have made strides in transitioning operating models to better address curbside pickup, carryout and home delivery, they continue to experience the negative impact of reduced patronage and consumers' ongoing desire to eat more at home
  - Monthly grocery segment sales growth vs. prior year is significantly higher across most categories as Retail takes share from restaurants
- Certain categories like Prepared Frozen and Shelf Stable have seen a lift driven by longer shelf lives, ease of preparation and perceived safety
- Trusted branded products continue to benefit from their perceived efficacy, quality and performance as well as from the scale of the companies that produce them creating leverage with suppliers and retail customers; however, lesser known brands have benefitted significantly (and with little investment spend to steal share/gain trial) from product availability driving purchase decisions when shelves are not fully stocked

## Financial Market Trends

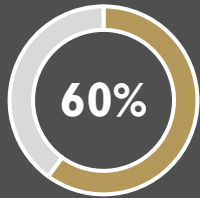
- Food, Beverage and Agribusiness M&A transaction volume has declined meaningfully over volume during this same period last year
- In terms of valuations,
  - Public companies processing dairy, produce, fresh proteins and fresh prepared foods have been the most negatively impacted due to shorter shelf life products and the related higher number of trips to the store required to home-stock these types of products as well as perceived higher food safety risks; bakery, snack and beverage companies are performing meaningfully better
  - Public restaurant valuations have started to rebound (with Fast Food and Fast Casual leading the way) but continue to lag pre-COVID-19 performance



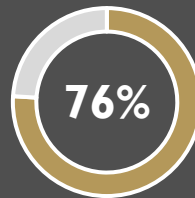
# Industry Trends

# COVID-19 Shifting Shopping Behavior Impacting Way Consumers are Purchasing

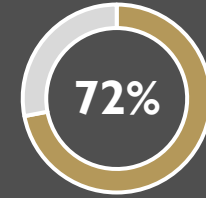
## Behavior Shifts<sup>1</sup>



60%  
of consumers say they are worried about shopping in store



76%  
of consumers are adjusting their shopping habits due to concerns about the coronavirus pandemic



72%  
of consumers are visiting stores less often

## ...As a Result

**More Shoppers Turning to Grocery e-Commerce<sup>2</sup>**

**28%**

28%  
of online grocery shoppers made their first online grocery order in March at the beginning of the pandemic in the U.S.

**Many Shoppers are Choosing Home Delivery<sup>2</sup>**

**38%**

38%  
of grocery shoppers (including 24% of consumers aged 60+) have attempted to have their groceries delivered during the COVID-19 crisis, up from 24% in 2019<sup>3</sup>

**Meal Kit Demand has Grown Tremendously**

**130%**

130%  
2020 year-to-date share price performance of public meal kit companies

Many companies with no (or less sophisticated) e-Commerce and home delivery capabilities rapidly implemented them during these last few months, and likely years ahead of schedule, to capitalize on this significant increase in demand and, ultimately, to survive

<sup>1</sup> Shopkick

<sup>2</sup> Acosta

<sup>3</sup> BlueYonder

# Tremendous Growth in Meal Kits as More Consumers Opt for Home Delivery

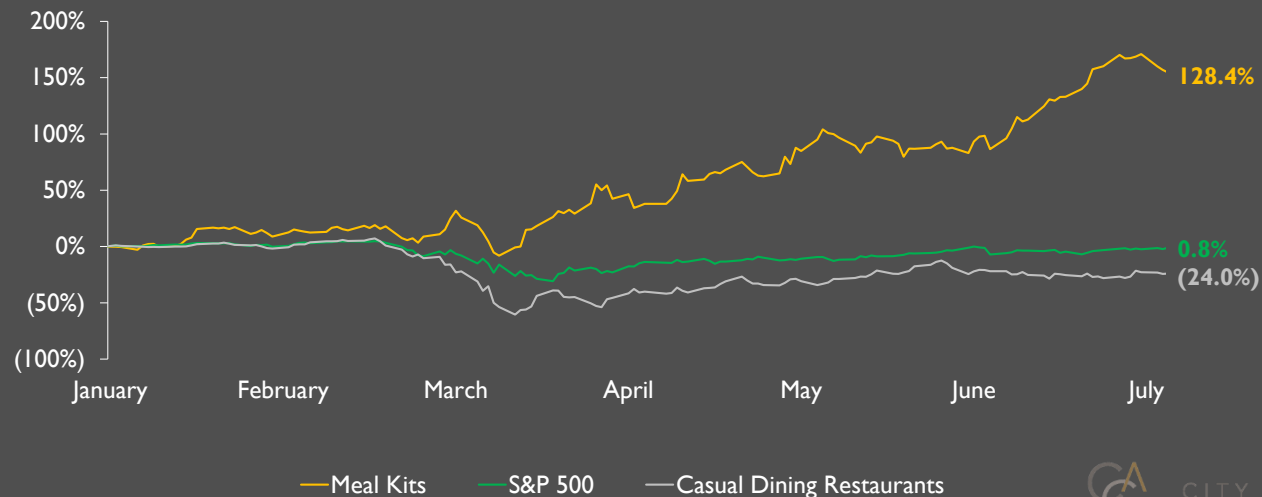
## Meal Kit Companies Experiencing Significant Increase in Demand

- Consumer data shows that meal kit companies are growing meaningfully faster than expected
- Consumers have shifted spending toward alternatives that allow them to stay home and cook so they can avoid contact with other people and have more control over food preparation and hygiene without sacrificing quality of restaurant-prepared meals
- Meal kit companies such as Blue Apron, HelloFresh, and Sun Basket are reporting a sharp increase in demand; although the sustainability of the boost will be watched as household budgets become more constrained due to economic hardship



## Meal Kit Companies Significantly Outperforming Restaurants and the S&P 500

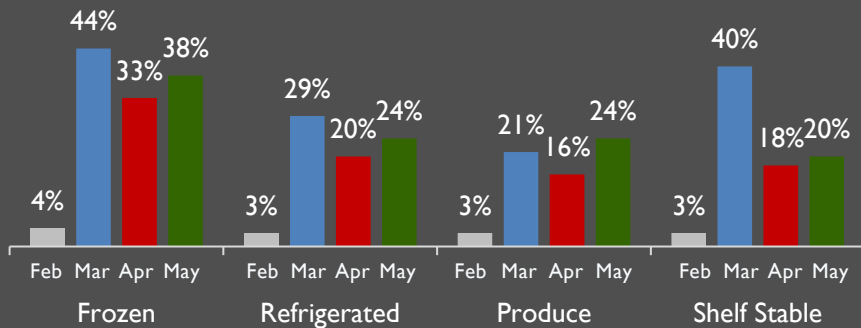
- Meal kit company stock prices (as a group) are up 128% since the beginning of the year



# Grocery (including online) and Food Mail Order Are Up...but Restaurants Are Down

Grocery has seen tremendous growth across all categories

YoY Sales Growth by Department (4 Weeks Ended)<sup>1</sup>



Frozen is leading all categories and benefitting from the following:

- Longer shelf life / consumers' desire to limit the number of trips to stores
- Ease and time of preparation
- Perceived food safety
- Indulgence (e.g., ice cream)

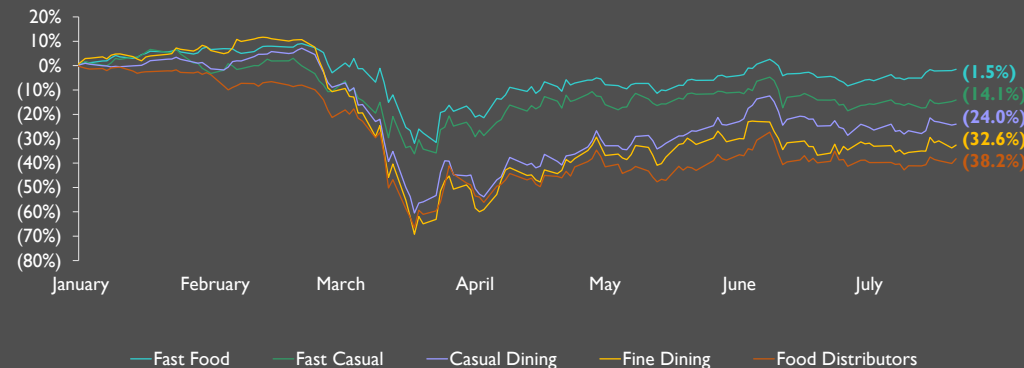
People are staying home more

Average Weekly Dinners Prepared at Home



While restaurants have made meaningful strides to focus on carry-out, delivery and curbside pick-up, results are still being impacted by reduced patronage

Restaurant Share Price Performance (2020 YTD)



<sup>1</sup> SPINS Natural Enhanced Channel and SPINS Multi-Outlet Channel (powered by IRI). Multi-Outlet channel data includes Food, Drug, Mass, and select Club, Military and Dollar Stores.

# Consumer Behavior Influence on Product and Marketing Strategies

Before COVID-19

During COVID-19 (Now)

After COVID-19 (Expected)

## Consumer Attitudes and Behaviors Regarding Product Categories

### Processed, Frozen & Shelf-Stable

Avoid foods perceived as less healthy including processed and non-fresh; Positive trends for fresh foods including produce and meat and plant-based proteins

Purchase frozen and shelf-stable processed foods to achieve benefits of shelf lives (pantry stocking), ease of preparation and perceived safety as well as to satisfy need for indulgence

Expanded palate for frozen vegetables, frozen and prepared meals, bakery, canned fruits and vegetables, easy-to-cook products

### Meals at Home

Significant percentage (over 50%) of meals away from home

Dislikes cooking at home; buying frozen, and center-aisle, extended-shelf-life prepared food

Given training of home-meal preparation as well as economic challenges created during COVID-19, likely to eat more meals at home

### Snacks

Heavy snacking rather than full meals at home

Starting to eat meals versus snacks, with breakfast being largest beneficiary

Continued focus on meals at home, especially breakfast

### Organic

Heavy focus on mindful connection of organic food and “free from” claims

Focused on branded and comfort foods (with less regard to whether “free from”) previously neglected for reasons discussed on following pages

Higher awareness of branded and ethnic products; winners will be those products delivering on both comfort and “free from”

## Consumer Behavior Drivers

### Value

Retail grocery is an indulgence and convenience offering

High demand for value buying which does not sacrifice quality

Balanced mix of convenience, quality, value

### Speed

In-store experience matters

Fast, “in and out” buying

Less need for in-store experience

## Influence of Consumer Behavior on Retailers

### Marketing

Marketing influenced food buying patterns

In-store marketing not effective

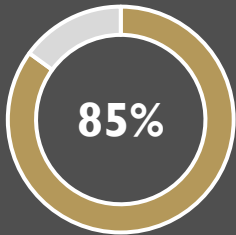
Shift to online, digital marketing; reduction of investment in the in-store experience



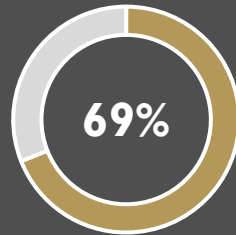
# Consumers Shift to Product Availability...

In times of a health crisis, when consumers are focused on their safety and potential supply chain disruption is preventing them from procuring desired products, the preference shifts to product availability rather than brand loyalty

## Majority Want Availability

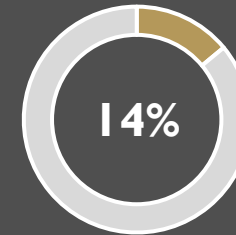


of consumers say brands do not matter during times of crisis



of consumers shopping in stores are purchasing different brands if their preferred one is not available

## Minority Prefer Desired Products



of consumers said they will not make a purchase if their preferred brand is unavailable

## The Opportunity



- Emerging / smaller brands benefit from switching without incurring the investment cost usually required
- It is expected certain of the switching will result in permanent “lift” impact
- Private label, where the store has invested in a trusted platform, will perform well during the pandemic



# ...But Brands Still Win with Consumers and Retailers

## Why Consumers Prefer Brands

- What they know and trust
- Deemed safer with an ability to provide better protection
- Product efficacy, quality and performance assumed

## Why Retailers Prefer Brands

Scale of the major branded manufacturers provides certain advantages to retail customers and consumers

- Stronger balance sheets to fund operations and marketing through a crisis
- Provides leverage with supply chain to provide Retail customers confidence they can stock the shelves with popular and larger sizes of products as consumers stock their pantries and freezers

## Case Studies of Large Brand Manufacturers Benefitting



- Experiencing strong demand for its coffee and creamers and frozen items such as its *DiGiorno* pizza and *Stouffer's* meals
- As people bake more while spending additional time at home, products like its *Toll House* chocolate chips, *Carnation* evaporated milk and refrigerated cookie dough remain popular



- Campbell's condensed soup and sauce product lines gained millions of new households led by its *Campbell's Chunky* and *Prego* brands
- Campbell's saw sales spike more than 50% during the worst of the pandemic and sales across the board remained elevated through June

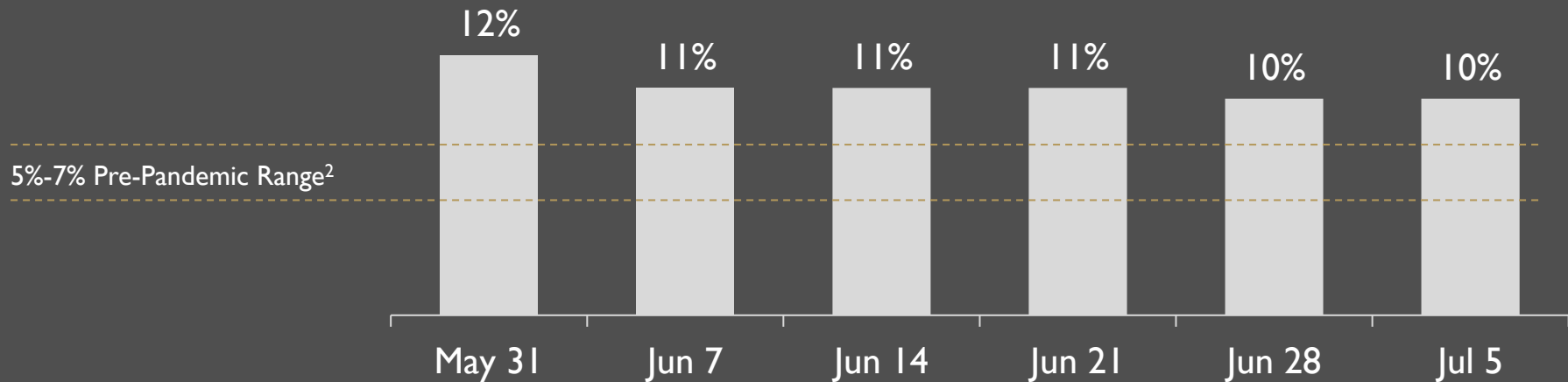


- Substantial increase in purchases for its pantry food products, led by *Knorr* meal mix flavors, condiments such as *Hellmann's* and *Sir Kensington's*, and teas like *Lipton*
- Also has experienced gains in indulgent, longer shelf-life products such as ice creams

# Production Pressure and Supply Chain Challenges Create Higher Out-of-Stocks

Out-of-Stocks have almost doubled as grocers are having trouble filling shelves and warehouses with certain goods as climbing coronavirus cases pressure production and bolster consumer demand

## Percentage of U.S. Supermarket Items Listed as Out-of-Stock<sup>1</sup>



### Drivers of Production Pressure on Food Manufacturers

- Plant workers contracting the virus, along with those within the plant who came into contact, are not able to work, reducing ability to staff production lines
- Certain workers due to anxiety or child/family care needs are not going to work, leading to production line shortages
- Federal unemployment benefits, which in some cases are higher than wage rates, are deterring unemployed individuals from looking for work

### Supply Chain Challenges Transitioning from Servicing Foodservice to Retail

- Farmers and agriculture producers typically supplying the Foodservice channel are experiencing dried up demand due to closures of restaurants, schools, businesses, sporting arenas and other establishments
- Demand has shifted to Retail, but many suppliers are having difficulty logistically shifting distribution set up to supply the Foodservice channel to now supply Retail
- Farmers and other agriculture producers have had to dump or dispose of products for which no supply chain exists to service demand at Retail

<sup>1</sup> Wall Street Journal

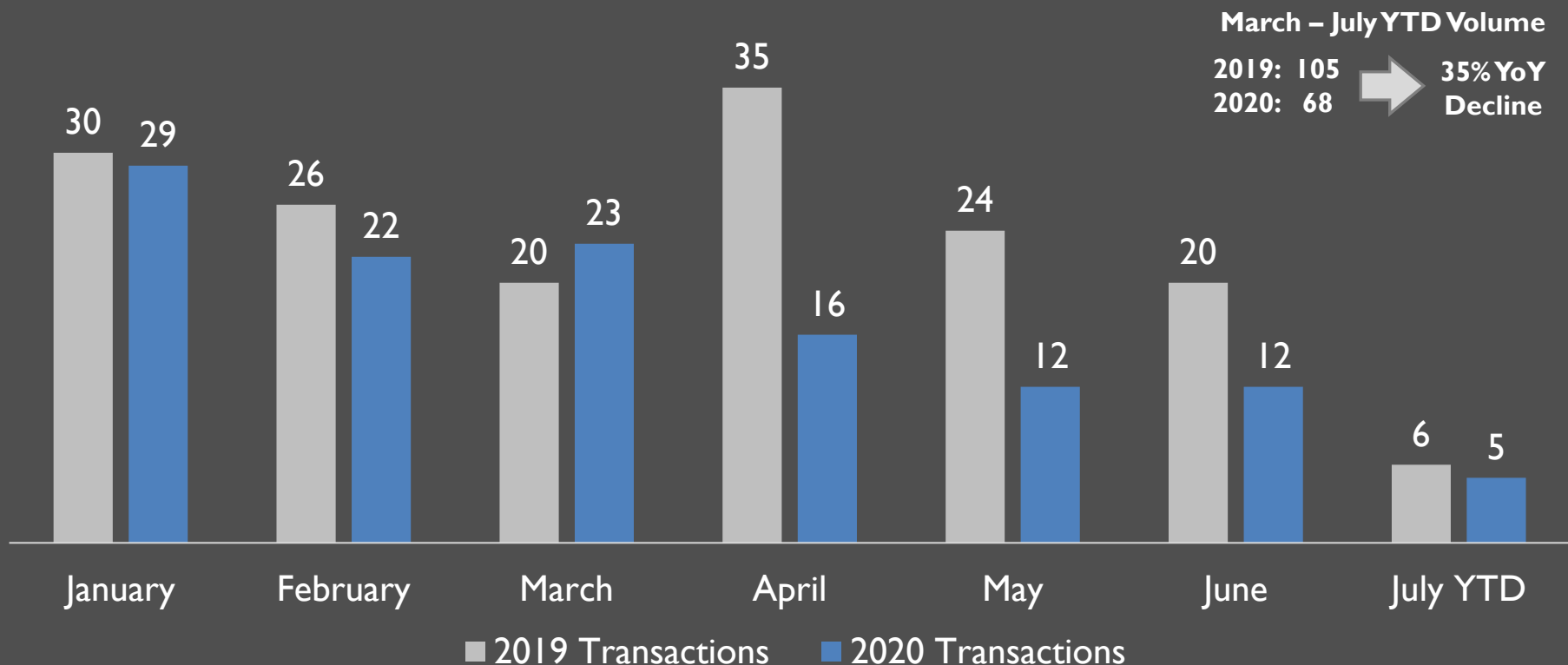
<sup>2</sup> Based on 2/23/20 in-stock levels



# Financial Market Trends

# U.S. Food, Beverage and Agribusiness Deal Volume has Declined Meaningfully

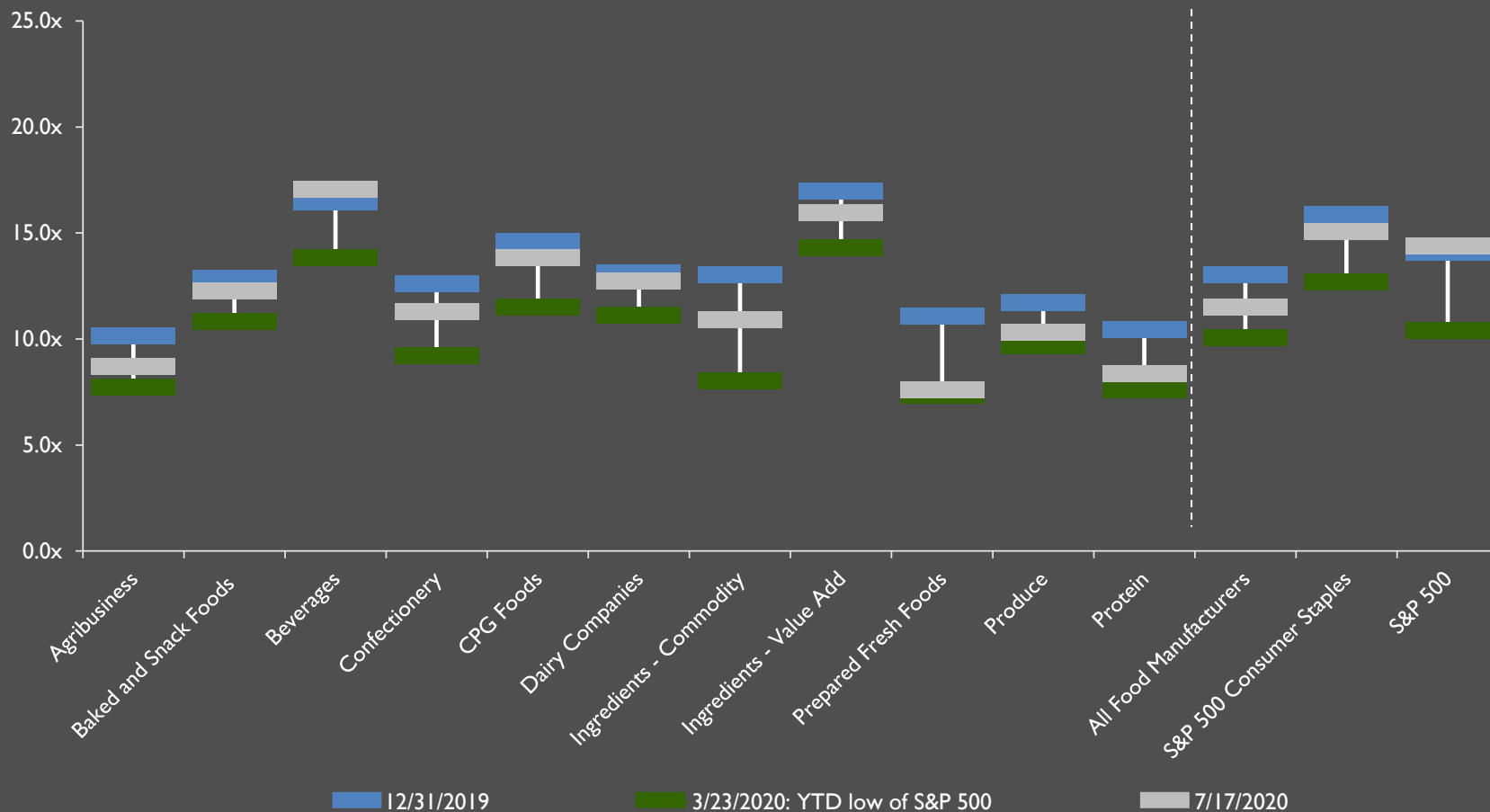
## Number of Closed M&A Transactions



# Food and Beverage Manufacturers: Valuations Mixed Across Product Categories

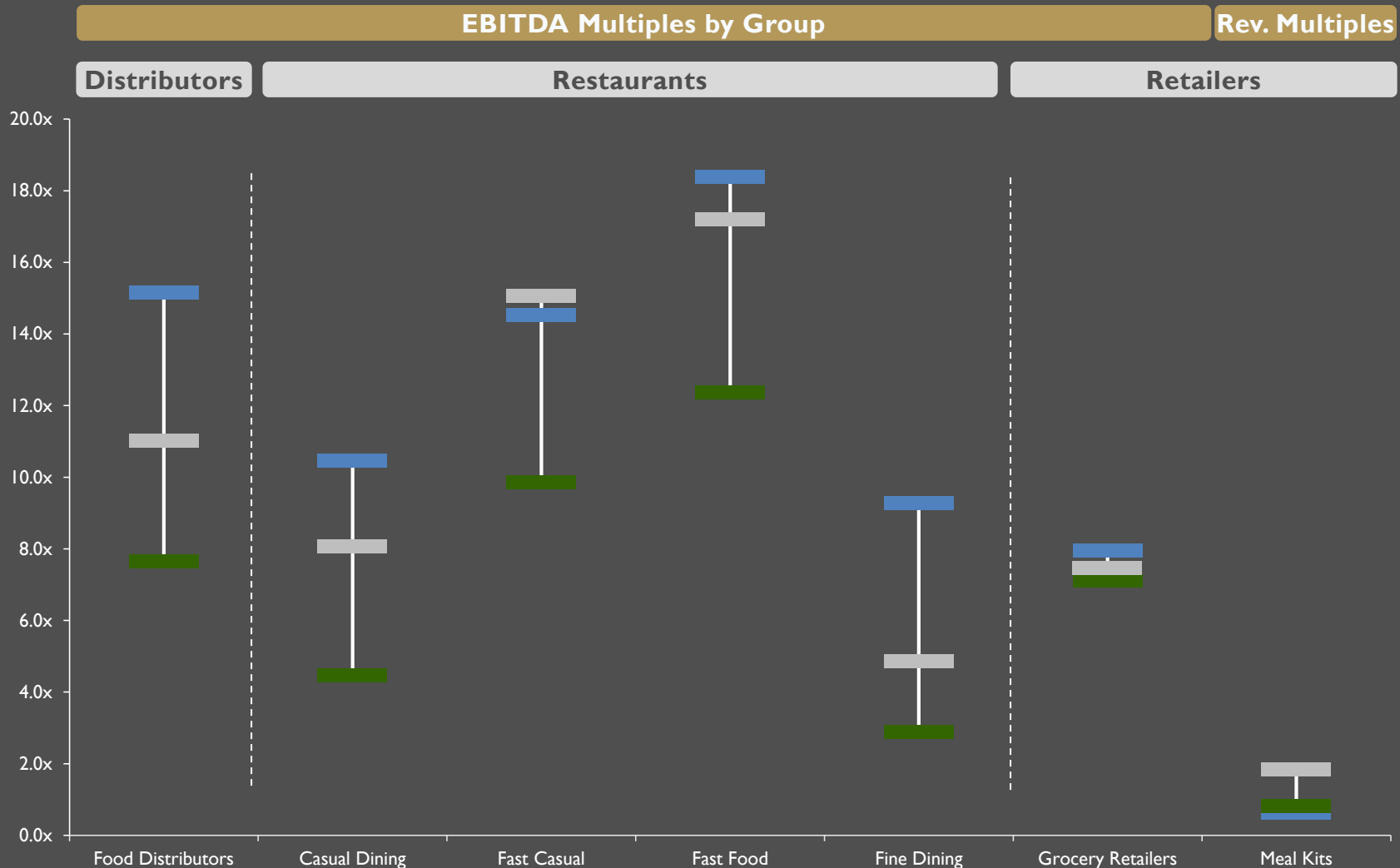
- Beverages, Baked and Snack Foods, and brand-and-Retail-centric CPG Foods all trending higher or near where valued at the start of the year
- Agribusiness, Prepared Fresh Foods, Produce and Protein still have major valuation gaps to make up

EBITDA Multiples by Group



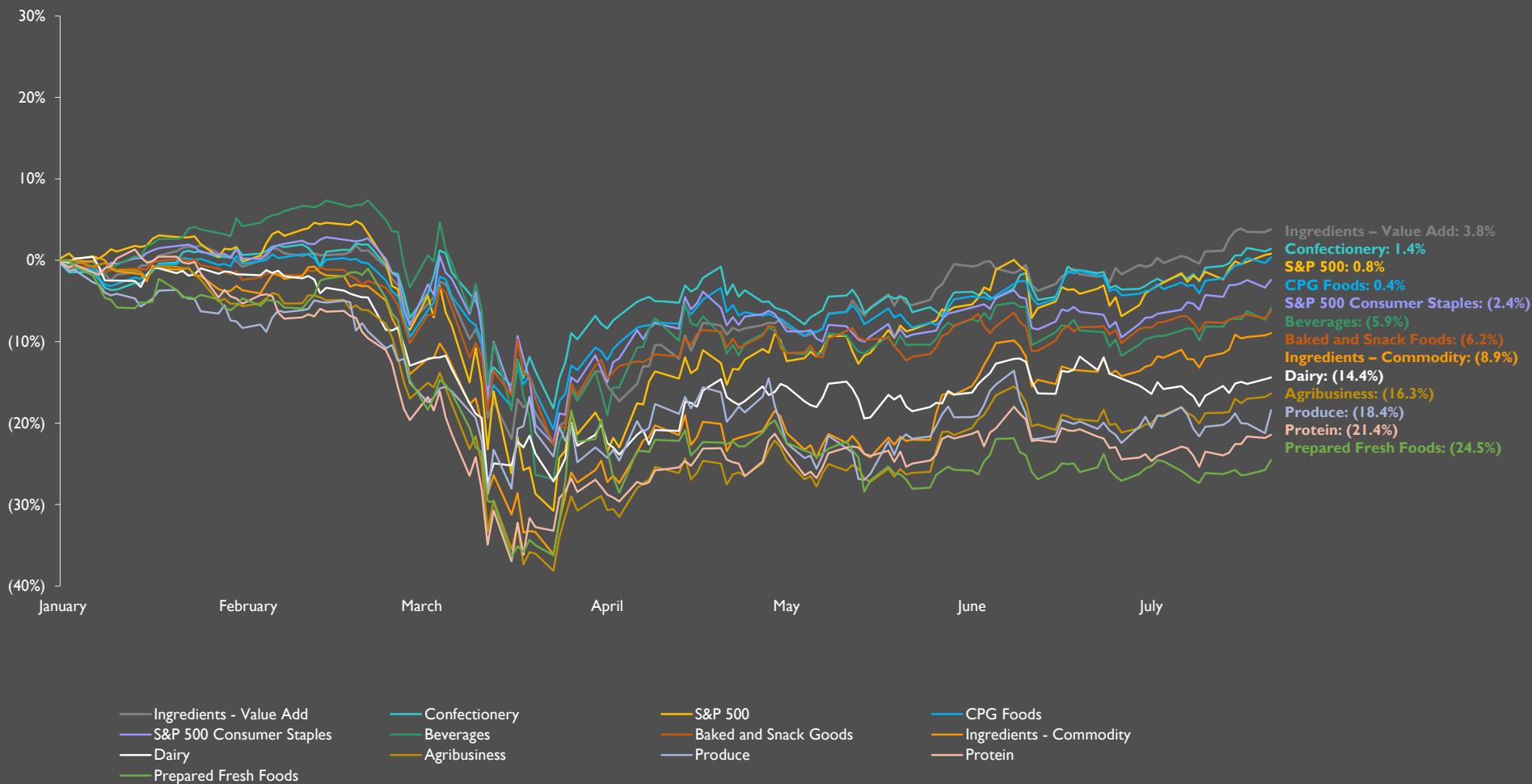
# Distributors, Restaurants and Retailers: Valuations Gaining But Not Yet Back

- Restaurants and the broadline distributors servicing them still have meaningful valuation gaps to fill; establishments such as Fast Food and Fast Casual that are more set up for fast, in-and-out, carryout and delivery are trending above the other restaurant segments
- Retailers have transitioned strategies to accommodate e-Commerce and home delivery, allowing these companies to boost sales performance and pandemic valuations relative to Foodservice companies



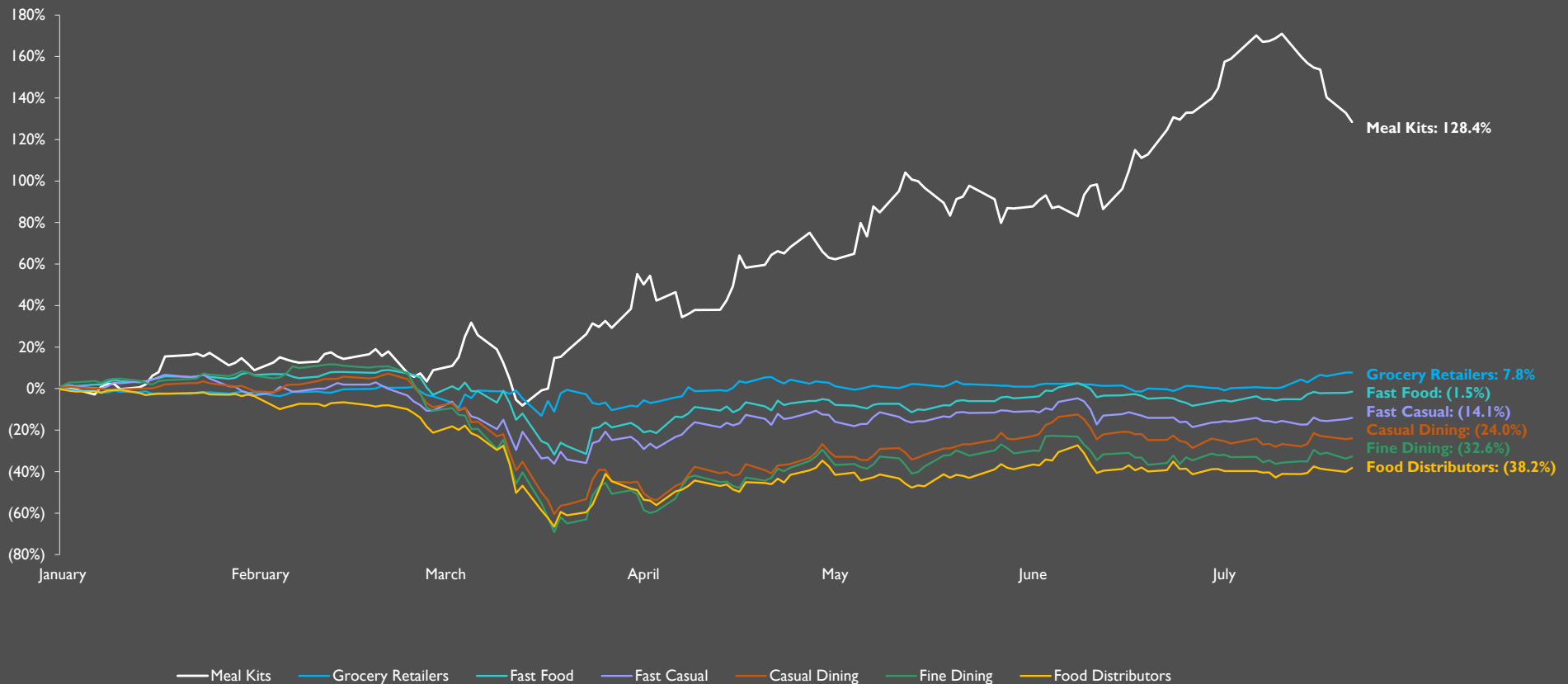
# Share Price Performance: Food and Beverage Manufacturers

- Companies processing dairy, produce, fresh proteins and fresh prepared foods have been the most negatively impacted due to shorter shelf life products and the related higher number of trips to the store required to home-stock these types of products as well as perceived higher food safety risks with less likelihood these products have been processed with a bacteria or virus “kill-step”



# Share Price Performance: Distributors, Restaurants and Retail

- Meal Kits have outperformed as consumers gravitate towards easy-to-prepare meals rather than preparing meals from scratch
- Given their ability to easily meet consumers' current need for curb-side pick-up, carryout and delivery, Fast Food and Fast Casual have been the best performing segments within the Restaurant industry







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- FINANCIAL RESTRUCTURINGS



## CITY CAPITAL ADVISORS

### DEEP SECTOR EXPERIENCE

#### Product Categories

- Agribusiness
- Bakery
- Beverage
- Condiments & Sauces
- Confectionery
- Consumer Packaged Goods
- Dairy
- Dry Blended
- Ingredients
- Natural & Organic
- Prepared Foods
- Produce
- Protein
- Snacking

#### Label Strategies

- Branded
- Private Label
- Contract Manufacturing

#### Distribution Channels

- Retail
- Direct to Consumer
- Foodservice
- Industrial / B2B

### MANAGING DIRECTORS

OUR GROUP OF MANAGING DIRECTORS IS AMONG THE MOST EXPERIENCED IN THE INVESTMENT BANKING INDUSTRY

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






























































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<p>\$ CONFIDENTIAL</p>  <p>HAS ACQUIRED</p> 	<p>\$ CONFIDENTIAL</p>  <p>HAS ACQUIRED THE SWEETHEARTS, NECCO WAFERS AND CANADA MINTS BRANDS FROM</p> 	<p>\$ CONFIDENTIAL</p>  <p>HAS ACQUIRED</p> 	<p>\$ 36,000,000</p>  <p>A PORTFOLIO COMPANY OF</p>  <p>HAS BEEN ACQUIRED BY</p> 	<p>\$ CONFIDENTIAL</p>  <p>HAS BEEN ACQUIRED BY</p>  <p>AND</p> 	<p>\$ CONFIDENTIAL</p>  <p>HAS BEEN ACQUIRED BY</p>  <p>A PORTFOLIO COMPANY OF</p> 	<p>\$ CONFIDENTIAL</p>  <p>HAS BEEN ACQUIRED BY</p> 	<p>\$ CONFIDENTIAL</p>  <p>HAS SOLD CERTAIN ASSETS TO</p> 
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Rachel advises privately-held and public companies in the food, agribusiness, and beverage sectors. Rachel focuses on assisting clients in mergers and acquisitions in addition to private equity capital formation and ownership recapitalizations. Prior to joining City Capital, Rachel was an Investment Banking Partner at William Blair & Company specializing in Consumer Product and Retail transactions.

Representative investment banking clients Rachel has advised in these sectors include Morey's Seafood International, Welcome Dairy Holdings, Gehl Foods, Sunrise Growers~Frozsun Foods, New Carbon Company (*Golden Malted*®), The J.M. Smucker Company, Wm. Wrigley Jr. Company, John B. Sanfilippo, Sara Lee Corporation and Malt-O-Meal.



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