US food market

Unigrains' opinion on the key events of the quarter

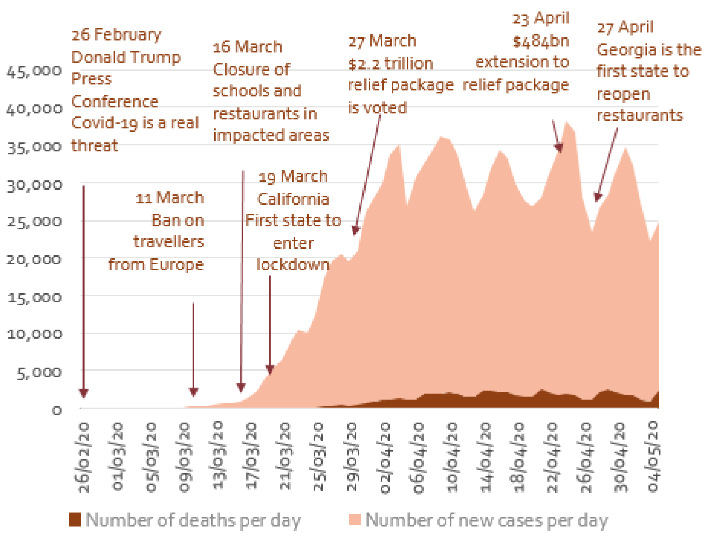
Headline news: United States caught up in the Covid-19 pandemic

After China and Europe, the United States is caught up in the coronavirus epidemic. Since the first person-to-person contamination recorded on 30 January 2020, the epidemic has spread rapidly.

In this vast and diverse country, the federal system gives the governors of the 50 states the power to take mandatory lockdown (or exit from lockdown) measures. California was the first state to declare a total lockdown on 19 March, followed by New York the next day and then other states. Only eight very rural states did not impose this measure.

Now that several states are starting to lift the lockdown measures, some broad indicators on the various impacts of the crisis to date can be provided.

Chronology of the coronavirus crisis in the United States



Source: Unigrains compilation

Unprecedented economic shock and support measures

The crisis has led to a massive economic shock, putting an end to eleven years of continuous growth, as witnessed by the surge in unemployment, which rose from 3.5% of the working population in February (a 50-year low) to 14.7% in April (23 million people).

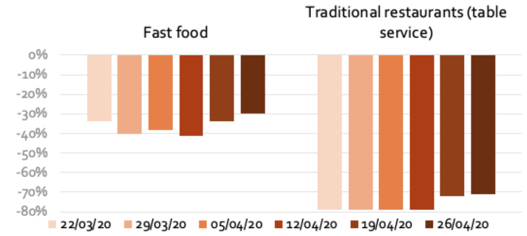
In the face of this historic crisis (the IMF forecasts a 5.9% recession in 2020), the stimulus package is also on an unprecedented scale: $2.2 trillion in direct support to companies and households voted on 27 March, followed by an extension of $484 billion on 23 April. In addition to the fiscal stimulus package, monetary policy has also opened the floodgates to exceptional aid measures. After cutting its key interest rates to zero, the Federal Reserve (Fed) announced an acceleration of its asset purchase program, including both public and corporate bonds, with "no limit" so as to inject liquidity into the banking and financial sector, thereby facilitating lending to companies and households. The Fed's action has been more massive than any other central bank in the world.

As regards businesses, the stimulus package includes a $349 billion package designed to safeguard employment by giving priority to SMEs. This Paycheck Protection Program Loan consists of a two-year loan at a rate of 1%, potentially non-repayable, covering 2.5 months' salary for a maximum amount of $10 million per company. The initial funding was used up in 15 days and an additional $310 billion was added on 23 April. In addition, another $60 billion emergency program, the Economic Injury Disaster Loan, has been set up to support small businesses in the form of grants ($1,000 per employee up to 10 employees) and emergency loans (up to $2 million).

The plan also includes measures to support household purchasing power. It includes a $250 billion package to provide federal unemployment insurance of $600 per week for four months, in addition to the benefits managed and distributed by each of the 50 states. $290 billion is also earmarked for direct aid to citizens (up to $3,000 per household). In a context of a lower social protection system than in Europe and a high level of household debt, these measures mitigate the impact of soaring unemployment on household consumption.

Collapse in restaurant sales

Year-on-year change in the number of services in commercial catering



Source: Unigrains based on NPD Crest Observatory based on tracking 70 channels

The impact of restaurant closures has been all the more significant in the United States, where more than half of all meals are eaten away from home. According to the USDA, out-of-home catering accounted for 54% of food spending (excluding beverages) in 2018, i.e. $930 billion, of which $340 billion for fast food and $337 billion for table service restaurants.

The NPD Crest Observatory notes a decline in the number of services since the implementation of the lockdown measures, of 30 to 40% in fast food restaurants and more than 70% for traditional restaurants compared with the same periods in 2019.

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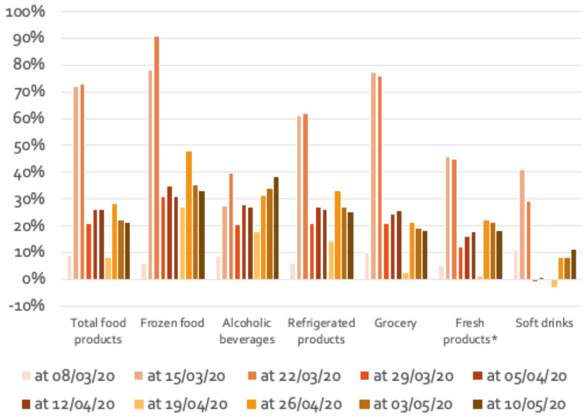
With the crisis, take-away sales have boomed, as has home delivery via specialists such as Uber Eats, DoorDash or Grubhub.

Fast food is more resilient, being less dependent on table service business. Fewer restaurant closures were recorded and players in this sector implemented measures to limit the effects of the crisis: development of drive-through service, price reductions, and even (with a more marginal impact) offers of grocery products to complement menus (e.g. Panera Bread, Subway), or meal kits (e.g. Chick-Fil-A, Denny's).

Business picked up at the end of April and this trend is set to continue with the gradual easing of lockdown measures. Georgia was the first state to allow restaurants to reopen on 27 April, followed in early May by others, including Texas, but with fears that many would be unable to reopen.

Switch to retail sales; disrupted purchasing behaviours

Year-on-year change in weekly sales of food products in US supermarkets



*Source: Unigrains based on Iri/BCG; * fruit and vegetables, meat, food counters*

Americans grew more concerned about the coronavirus after the 26 February press conference in which Donald Trump first referred to Covid-19 as a real threat. In the weeks that followed (notably weeks 11 and 12), consumers rushed to the supermarkets to stock up on basic food products: groceries (powdered milk, dried beans, canned meat, rice, canned tuna, etc.), but also frozen food.

Once the panic buying abated, food purchases slowed down. In April, a number of retailers also applied measures to limit the number of customers at points of sale. As of 10 May, the growth in frozen food sales remains very high, even though they had a poor image before the crisis; their long shelf life allows consumers to limit their trips to the store. Conversely, categories such as bottled water, confectionery or fresh ready meals are falling behind. Overall, however, sales growth remains significant.

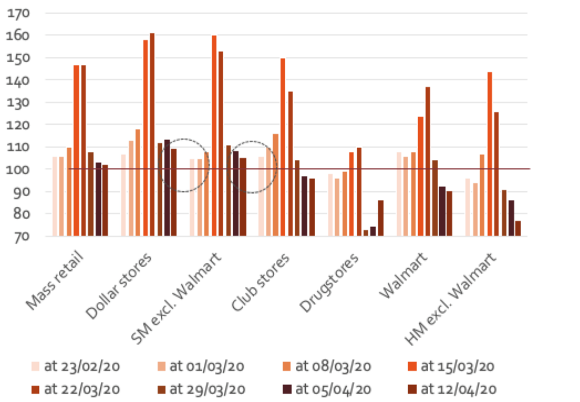
The economic situation has not only benefited staple foods. Some products driven by new consumer trends before the crisis remained very dynamic. According to Nielsen, the growth in retail sales of vegetable meat substitutes has even accelerated significantly (+265% over the 8 weeks ending 18 April compared with 2019) and remains well ahead of fresh meat (39%). The development of the range on the shelves probably contributes to this and is continuing: in early May, Kroger announced that its Impossible Foods vegetarian burgers would be listed in 1,700 supermarkets. Growth is also accelerating for oat-based drinks.

As in other countries in lockdown, the crisis has boosted home cooking, resulting in strong growth in retail sales of ingredients and culinary aids: flour, sugar, yeast and dough, which are among the strongest growth rates recorded week after week by Iri. This is also reflected in the boom in sales of meal kits (a basket containing all the ingredients needed to prepare a meal at home), a service that was struggling to win over consumers before the crisis. Blue Apron's share price, which had fallen to its lowest point in early 2020, started to rise again in March. Home Chef (a subsidiary of Kroger) announced it had chalked up three times more customers in six weeks, HelloFresh almost twice as many, making a profit in the first quarter.

Higher traffic at supermarkets and dollar-store discounters

Number of food purchases per week in 2020 vs. same week in 2019

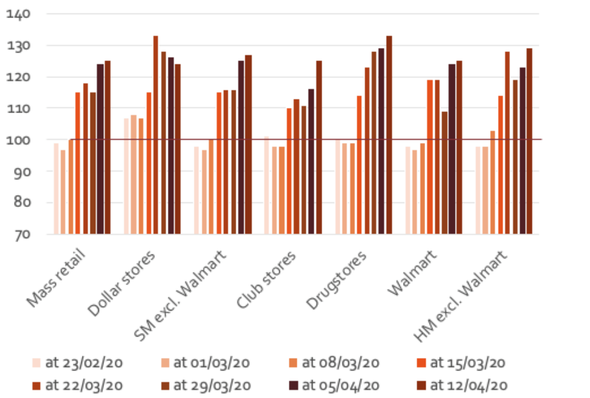
(Index 100: identical situation to 2019)



Source: Unigrains based on Iri/BCG; SM supermarkets; HM hypermarkets; club stores excluding Costco

Food spending per purchase per week in 2020 vs. same week in 2019

(Index 100: identical situation to 2019)



Source: Unigrains based on Iri/BCG; SM supermarkets; HM hypermarkets; club stores excluding Costco

As Iri data shows, in physical retail, the winners of the crisis, based on the number of purchases of food products, are supermarkets and discount stores of the dollar store type.

Conversely, in hypermarkets, club stores (stores accessible via a membership system, here excluding Costco) and drugstores (which combine pharmacy and food), once the panic buying phase was over, the number of purchases decreased compared with the same period in 2019.

Shopping baskets are growing significantly across all these channels.

In addition, most major American retailers have cut back on promotions. But the industry's No.2, Kroger, said it was taking the opposite track to this trend in order to respond to the budgetary concerns of an increased number of Americans compared to before the crisis.

Online sales of food products are soaring

The March 2020 consumer survey by Brick Meets Clicks/Symphony Retail AI shows a surge in online food shopping compared with August 2019. This result is mainly related to the recruitment of new customers and a higher frequency of purchases.

The April 2020 survey shows a stabilisation in the number of active customers compared with the previous month, but the growth in purchases is continuing, driven by the number of orders.

The momentum in e-commerce is driven by the convenience of the service and consumers' desire to limit their visits to the store. Online sales are growing in two channels: click & collect and home delivery.

This trend is benefiting Amazon, which can rely on its Whole Foods brick-and-mortar store chain. The group had already removed its $14.99 monthly access fee to the Amazon Fresh service for its Prime subscribers on 29 October (subject to a minimum order size). The increase in requests for new subscriptions has been such that waiting lists have been set up.

Source: Unigrains compilation based on Brick Meets consumer survey Click/Symphony Retail AI
(surveys 21-23 August 2019, 23-25 March 2020, 22-25 April 2020)

Leaders in food retail are also benefiting from this trend. Brands such as Walmart, Kroger and Target have already been investing in e-commerce for several years. They are now stepping up the development of their infrastructure and have redeployed or hired thousands of people to prepare orders.
But not all traditional retailers have followed this path, a case in point being Trader Joe's, one of the most aggressive in recent years, which prefers to continue to invest in its staff and in-store service rather than in the costly development of click & collect and home delivery services.

Finally, the trend benefits home delivery specialists such as Instacart. This company, weakened in May 2019 by the loss of a major customer (Whole Foods, which was acquired by Amazon), increased its revenue by 5.5 in the first two weeks of April compared with December 2019. It plans to hire 250,000 contractors in May and June and is about to announce, for April, the first profits since its creation eight years ago.

Another noteworthy element since the coronavirus crisis is the accelerated development of express delivery. Amazon pioneered this with its Prime Now service, now extended to its subsidiary Whole Foods. Now, major players in retail distribution are starting to offer two-hour delivery: Walmart (announced at the end of April), HEB (leader in distribution in Texas) and Hy-Vee (a major player in the Midwest region). Operationally, these brands rely on their network of brick-and-mortar stores. Profitability remains a challenge, however. HEB has launched this service via its subsidiary Favor on a limited range of essential products (dairy products, meat, beer, wine, groceries, etc.) for orders limited to 25 items per customer.

With the crisis, food e-commerce players are also more tempted to venture into new territories. Restaurant meal delivery specialists are becoming interested in home delivery of food products. For instance, at the beginning of April, DoorDash announced partnerships with convenience stores including 7 Eleven, CircleK and Wawa. Conversely, food retailers (HEB, or the e-commerce specialist FreshDirect) are testing home delivery of meals in partnership with local restaurants.

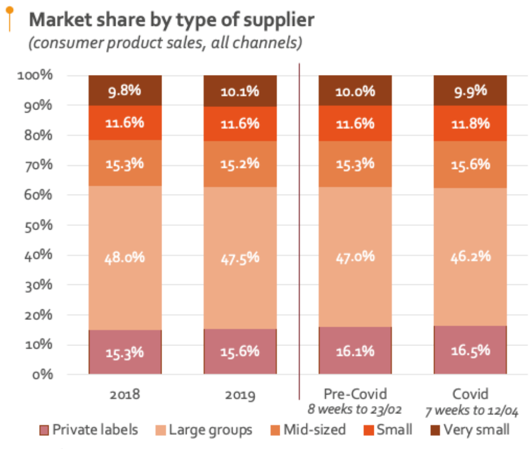
However, this rapid acceleration of e-commerce has come at the expense of service levels, as the platforms were not prepared for such an influx of orders. In the longer term, the question of cost also arises: according to Iri, 27% of home delivery service users believe that the price of the products is higher than they would have been prepared to pay, with this proportion being 16% for click & collect.

Private labels outperform brands

The period of excess buying of core range products revitalised the major references of multinationals' brands, with consumers preferring well-known products available on the shelves.

Groups such as Kraft Heinz, Campbell and Conagra, which had been struggling in recent years due to their lagging behind new consumer trends, have benefited from the stockpiling phenomenon and are posting high levels of activity… together with a rebound in their share price.

But with the crisis, temporary disruptions and greater price sensitivity have led to a decline in brand loyalty. According to Iri, the market share of large groups is continuing to decline during the Covid period. SMEs and mid-sized companies are gaining ground, but it is mainly private label suppliers that are growing, continuing a trend that began before the crisis, with a 0.4 percentage point gain in market share compared with the beginning of the year.



Source: Iri/BCG
Large groups: Revenue > $5.5bn; Medium: $1bn to $5.5bn; Small: $100m to $1bn; Very small: < $100m

Focus on a few sectors

From an industrial standpoint, the challenge, as in other countries hard hit by the pandemic, is to focus production on the new market demand and to ensure supply. One of the effects of the crisis is that soaring unemployment has led many jobseekers to turn to factories operating in the agri-food sector. However, the appearance of coronavirus cases at certain production sites has also caused industrial disruption.

The meat sectors are particularly affected in this respect. The coronavirus has caused the closure of some 20 slaughterhouses, creating a risk of shortages. The pork industry is the most affected, with an estimated 35% reduction in slaughtering in week 18 (end of April) compared with the same week in 2019. Prices rose on the shelves but fell in livestock farming despite the positive outlook which emerged from the mid-January agreement between the United States and China. Sow slaughter has started. The situation led Donald Trump to sign an executive order on 28 April directing the USDA to ensure that slaughterhouse operations are maintained at "the highest possible level". Retailers such as Kroger, Albertson and HEB now impose limits on meat purchases per customer.

The dairy sector is also experiencing serious difficulties. Exports are declining (for reasons of logistics and global demand) and household purchases have slowed after the peak at the beginning of the crisis. This results in a milk surplus, which is all the greater as collection, like in Europe, is reaching its seasonal peak. This surplus, estimated at 10% at the beginning of April, has led to farmers having to throw away milk. Dairy product prices have collapsed: butter, milk powder and cheddar cheese, 45% of which are normally sold in the Foodservice sector.

The fresh fruit and vegetables sector was also heavily impacted by the collapse of out-of-home catering, which represents a significant outlet for the sector. The decline in market opportunities has led to product destruction. Initiatives have been launched to develop direct sales to consumers and encourage mass retailers to buy more.

In mid-April, the US government announced a $19 billion budget package to support agricultural sectors. The package includes $16 billion in direct payments to farmers: $5.1 billion for cattle breeding, 2.9 for milk, 1.6 for pork, 3.9 for arable crops, 2.1 for specialised crops (especially fruit and vegetables) and 0.5 for other crops. The remaining $3 billion is to be used to purchase products (fruit and vegetables, dairy products and meat) that will be redistributed to food banks.

In addition, a supplementary budget of $470 million was announced on 4 May for the purchase of basic products, the largest share of which goes to dairy products ($120 million). Potatoes and turkey come next ($50 million each). The list also includes chicken, pork, fruit and vegetables and some fish products.

What is the outlook?

The coronavirus crisis has disrupted food purchasing and consumption patterns, but some pre-existing underlying trends have continued or even accelerated. The trend in favour of private labels is likely to continue, as consumers are more attentive to their food spending. Concerning food e-commerce, a movement was underway, but the crisis will undeniably mark a turning point, by recruiting new consumers and accelerating the deployment of infrastructures and new services.

In terms of products, the economic situation has changed the purchasing profile, leading consumers to return more to basic products. The growing sensitivity displayed by consumers before the crisis for healthier eating, as well as for "small brands" and locally-grown produce, is not called into question, however. But the economic context has changed and the soaring unemployment is reducing the purchasing power of part of the population, which will weigh on future behaviour. The question is also when, at what pace and in what global context the recovery will take place.

Main deals in the first quarter of 2020

Main deals involving targets in the United States in the first quarter of 2020
Deal value in €m. Sources: MergerMarket and press.

Sector	Date	Deal	Value
Pastry & bakery Pasta products	31/03/2020	**The Bakery Companies** (Arbor fund) acquires **Steck Wholesale Foods**	6
	31/03/2020	MBO on **Kenny's Great Pies** (sweet pies) with **Kaho Partners** fund	n/a
	05/03/2020	MBO on **Engelman Baking Company** with **Shorelines Equity Partners** fund	n/a
	14/01/2020	**Byrd Cookie Company** acquires **Selma's Cookies** (private label specialist)	n/a
Snacks	12/02/2020	**The Good Bean** (pea snacks) acquires **Beanitos** (potato chips and salty snacks)	n/a
Meat Delicatessen	20/02/2020	**Hormel** acquires **Sadler Smokehouse** (smoked meats)	250
	18/02/2020	Brazilian Group **JBS** acquires **Empire Packing Company** and its Ledbette brand	220
	12/02/2020	**e2p** fund acquires **Kronos Foods** (processed meat products) from **Grey Mountain** fund	174
	07/01/2020	**Daniele International** (e2p fund) acquires **Creminelli** (delicatessen)	n/a
Dairy products	31/03/2020	**Prairie Farms Dairy** acquires **Dean Foods assets** (8 plants and 2 customer fulfilment centres)	68
	17/02/2020	**Dairy Farmers of America** acquires "a substantial interest" in **Dean Foods** (of which 44 plants)	400
	30/01/2020	**Century Park** fund sells **The Mochi Ice Cream Company** from **Lakeview** fund	n/a
	02/01/2020	**Coca Cola** acquires **Select Milk Producers**' 57.5% stake in **Fairlife** (milk shakes), increasing its holding to 100%	893
Seafood products	01/02/2020	**Riverence Holdings** (US leader in trout) acquires its competitor **Clear Springs Foods**	n/a
Pet food	17/02/2020	**C.J. Foods** (J.H. Whitney Fund) acquires **American Nutrition** (pet food)	n/a
Fruit and vegetables	21/01/2020	**Calavo Growers** (avocado specialist) acquires **SFFI** (Simply Fresh Fruit)	n/a
	06/01/2020	**Farmer's Fresh Mushrooms** acquires **Premier Mushrooms**	n/a
Beverages	19/03/2020	**Vintage Wine Estates** acquires **Laetitia Vineyard & Winery**	n/a
	11/03/2020	PepsiCo acquires Rockstar, a specialist in sports energy drinks	3,405
	31/01/2020	**Westrock Coffee Company** (BBH Capital Partners fund) acquires **S&D Coffee** from Cott Corporation	366
	23/01/2020	**Keurig Dr Pepper** acquires **Limitless Coffee** (caffeinated sparkling water)	n/a
	22/01/2020	**Molson Coors Beverage** acquires **Atwater Brewery** (beer)	n/a
	15/01/2020	Funds among which **Temasek** and **QIA** (Qatar) acquire **Califia Farms** (vegetable drinks)	202
	07/01/2020	**Encore Consumer** fund acquires **Lion Beverages** (alcoholic and non-alcoholic beverages)	n/a
Ingredients	11/03/2020	**Riverside Company** takes stake in flavouring specialist **National Flavors**	n/a
	31/01/2020	German sugar group **Agrana** acquires **Marroquin Organic** (organic ingredients)	n/a
	02/01/2020	**Sunny Sky Products** (Seidler fund) acquires beverage ingredient manufacturer **Amfotek**	n/a

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