



US food market

Unigrains' opinion on the key events of the quarter

Headline news: innovation in the US - Feedback from Expo West



The United States has a reputation as a fertile breeding ground for product innovation, especially in the food sector. The annual *Natural Products Expo West* trade fair, which is held in Los Angeles in March, is widely known as THE event to find out about all the new trends. A Unigrains team visited the trade fair, which gathered 3,500 exhibitors from 130 countries and was attended by 85,500 visitors. They came back with the following observations:

- **American consumers are very keen on all the latest kinds of diets**, some of which offer contradictory advice: Vegan, Keto (high animal or vegetal fat), Paleo (roots, berries and dried fruit, "grass-fed" meat). Some products are still out of favour, namely gluten, lactose and sugar.
 - **A healthy mind in a healthy body**: nutrition for sports performance, good microbiota health, and brain food. Supplemented food ("superfoods"), probiotics, prebiotics and fermented products are the latest fad. A special focus was also made on regional spring waters.
 - **The "craft" vogue now extends beyond the beer sector** to spirits, ciders and sodas.
- **Ever more snacking**, with products designed for consumption on-the-go. Many foods are now available in squeezable pouches, even for adult targets. At the same time, there is growing **environmental awareness**.
 - An upswing in food products containing **cannabidiol (CBD)**, a molecule extracted from hemp or cannabis.

Matthieu Kohlmeyer, CEO of La Tourangelle, a French producer of speciality oils based in the United States



« **For manufacturers, this abundance of ideas and trends makes the US market incredibly rich in opportunities** »

Innovating in the US agri-food sector can seem daunting: American consumers are constantly on the look-out for a diet that will allow them to lose weight, look younger and be healthier. From Atkins to gluten-free, and now the Paleo and Keto diets... each new trend advocates a number of star ingredients, for a more or less short period: kale, chia seeds, coconut oil, ghee (clarified butter), etc. In the world of "superfoods", food trends move as fast as fashion. This leads to a rapid renewal of products and to the emergence of star brands, some of which are highly coveted by large groups ready to put a lot of money into acquiring them.

Other factors also drive innovation. The United States' unique openness to world cuisine also sets trends: sushi, California roll (a variant of Japanese maki), poke bowl (a dish of Hawaiian origin), ramen noodles, amongst others. The "gut health" trend also leads to the fads for kimchi (a Korean dish made from fermented vegetables), kombucha tea and even marrow bone broth. There are also more activist movements such as GMO-free, vegan... Declinations seem to be infinite.

For manufacturers, this abundance of ideas and trends requires a constant renewal of product ranges. The challenge lies in spotting the latest trends and quickly integrating the newly-popular ingredients; retailers are constantly on the look-out so as to position themselves at the right time and take full advantage of these trends. They can also apply higher margins on these products. All this creates an incredible wealth of opportunities in the US market, including to promote France's rich culinary heritage.



Fabrice Pasquinelli, Senior Adviser Unigrains North America

« **CBD: the newest food miracle ingredient?** »

Cannabidiol (CBD) is a naturally occurring compound found in cannabis or hemp. Cannabis is a plant with a rich and very long history as a medicine. Today, the therapeutic and relaxing properties of CBD are confirmed by scientists and doctors. CBD is a safe, non-psychoactive substance.

The number of food products containing CBD has been growing for some time. New products with CBD can be seen at every food show across the country: beverages, oil, coffee, chocolate, candies, honey sticks and even pet food. The demand is huge because American people love new trends and there is a marketing buzz around them.

But uncertainties remain regarding the legal situation. Cultivating hemp was legalized on 20 December 2018 within the framework of the Farm Bill 2018. At least 41 states have adopted a pilot program to grow hemp and process CBD, each state issuing licences according to its own rules. But the FDA immediately clarified that CBD is illegal as both a food ingredient and a dietary supplement.

Date of Publication: May 2019

Disclaimer: The present note was produced by Unigrains' Economic Studies Department based on publicly available data. Unigrains cannot be held liable for any errors, inaccuracies, and all their direct and indirect consequences.

Copyright: No part of this publication may be reproduced by any means whatsoever without the written permission of Unigrains.





Despite crackdowns and warnings from regulators, advocates are convinced that rule changes are imminent. That is a big assumption.

Driven by the hope for large profits in the CBD market, US hemp acreage is growing quickly. Large groups remain prudent, but smaller companies are more proactive to offer food products co, CBD. In this context of uncertainties, fragmented initiatives and lack of transparency, it's hard to appreciate how production, processing capacity, and end-market demand will balance. Time will tell us if this new ingredient is a miracle one.

Key events of the last quarter

Consumption

Eggs: transition to cage-free

The transition to alternative eggs is under way in the United States. Bloomberg reported that hundreds of players in the egg industry and distribution have announced their commitment to use cage-free eggs as from a defined date (generally 2025). Three states have also enacted legislation that will ultimately prohibit the production and sale of eggs from caged hens: California (2022), Massachusetts (2022) and most recently Washington (end-2023).

The egg sector is moving, but there is still a long way to go. The USDA estimates that the announced commitments are equivalent to 63 billion cage-free eggs. This represents 224 million laying hens, i.e. two thirds of the current non-organic livestock, while currently 81% of laying hens are kept in cages. This will also have cost implications for user industries.

Dry pasta on the decline, fresh pasta on the rise

The US dry pasta market recorded a decline in 2017 and 2018, negatively affected by the low-carb and gluten-free trends. Innovations (ingredients such as chickpeas, lentils, etc.) were not enough to reverse the trend. Against this backdrop, Barilla, the leading brand, is holding up well and gaining market share (32% in value in 2018), whereas Ebro is suffering.

On the other hand, fresh pasta has a good image and is growing rapidly. Behind the leading brand, Buitoni (Nestlé), another Italian group, Rana, which also has an industrial presence in the United States, is doing well in this segment. Ebro is active in fresh pasta in Europe (Lustucru and Bertagni) and Canada (Olivieri), but not yet in the US market.

Retail

Amazon is about to launch a new chain of food supermarkets

Less than two years after having acquired Whole Foods and one year after having opened the first Amazon Go checkout-free supermarket, Amazon is set to launch a new chain of food supermarkets in the United States, according to the Wall Street Journal. The offering would be complementary to that of Whole Foods: broader, more conventional and more price-oriented.

The first store is scheduled to open at the end of 2019. Amazon is targeting small stores in shopping centres. The group is reportedly planning to acquire small regional chains to accelerate the roll-out of this new venture.

Kroger sells assets and focuses on private labels

As part of its "Restock" repositioning plan, Kroger announced in mid-March the sale of its Turkey Hill ice cream and beverage production plant to Peak Rock Capital, a private equity investment firm. The retailer had already sold its convenience store division, C-Store (800 stores), at the beginning of 2018.

In order to cope with the fall in its results, Kroger wants to draw down its debt and focus its efforts on its 2,800 supermarkets, the format in which it is the leader in the United States. The retailer is also stepping up the roll-out of its private label products, which accounted for 30% of the SKUs sold in the 4th quarter of 2018. Kroger has also launched the construction of a second and third automated warehouse in partnership with Ocado.

E-merchant Freshdirect all set for a fresh start from its new base in the Bronx

Freshdirect, a well-known player in online sales and home delivery on the East Coast (from Connecticut to Washington), is now announcing a new start after several challenging months following the 2018 commissioning of its new state-of-the-art 400,000-square metre warehouse and order preparation base in the Bronx.

Freshdirect stands out in the e-commerce segment as a fresh product specialist with strong expertise in sourcing. The company now needs to accelerate the roll-out of same-day home delivery, a service that competitors are already offering.



Acceleration of food store openings in 2018

According to JLL Grocery Tracker, openings of food retail stores increased by 29.4% in 2018, representing a surface area of 17 million square metres. This trend was particularly strong in Florida, led by regional specialist Publix, in California, with Sprouts, Aldi and Smart & Final, and in Texas with Kroger and HEB.

In a majority of cases, the new stores were smaller, convenience formats geared for more frequent purchases. In addition, the offer is more focused on fresh products; for instance, Publix is developing its Greenwise premium supermarket concept, along the lines of Whole Foods.

Agri-food industry

Campbell Soup sells Bolthouse Farms to a group of investors led by the Butterfly fund



Campbell had announced the disposal of its fresh produce division at the end of 2018. After Garden Fresh Gourmet, sold to a subsidiary of Fountain of Health (ready-to-eat products) in February 2019, Bolthouse (carrots, juice, smoothies and sauces) has recently changed hands (in early April). The buyer is an investor group led by Jeff Dunn, a partner in the Butterfly fund and former CEO of Bolthouse.

The deal is estimated at \$510 million, three times less than the \$1.55 billion spent by Campbell to acquire Bolthouse in 2012. This reflects the group's difficulties in managing activities in a sector that is new to it, fresh products. Campbell is refocusing on canned soups and snacks and has yet to finalise the sale of the Arnott's and Kelsen brands (biscuits and cookies).

Danone sells Earthbound Farm to Taylor Farm Group



Another major movement in fresh products in early April was Danone's sale of Earthbound Farms. Earthbound is the No.1 organic salad company in the United States and also active in organic fruit and vegetables, with 2018 sales of approximately \$400 million. The buyer is a salad and fresh produce specialist, the Californian family-owned company Taylor Farms.

Earthbound was taken over by Danone when WhiteWave was acquired in April 2017. For Danone, this sale is part of its strategy to sell assets outside its core business. The amount of the deal was not divulged. WhiteWave had acquired Earthbound in 2013 for \$600 million.

Kellogg's sells its cookies and snacks business to Ferrero



Kellogg's is refocusing on breakfast cereals, snacks and frozen products (80% of its sales in North America). The group has sold Keebler and the Famous Amos and Mother's brands (cookies, fruit snacks, ice cream cones, pie shells, representing 2018 sales of \$900 million) to Ferrero for \$1.3 billion. Kellogg's had bought Keebler in 2000 for \$3.86 billion.

Ferrero is continuing to grow in the US and expanding its activities there. The group had first acquired Ferrara Candy in 2017, then in 2018 Nestlé's confectionery activities in the United States for \$2.8 billion, making it the No.3 in the sector. It now generates 7.5% of its sales in the United States.

Hormel sells CytoSport to PepsiCo



Hormel sold CytoSport and its Muscle Milk and Evolve Protein brands of drinks, protein shakes and protein bars to PepsiCo in February 2019.

Hormel had acquired CytoSport five years ago for \$450 million to expand its range to non-meat proteins, but the performances turned out to be disappointing. PepsiCo, which already owns Gatorade, wants to strengthen its position in the protein and sports drinks market.

Kraft Heinz is considering selling Breakstone and Maxwell House



Kraft Heinz has mandated the Royal Bank of Canada to sell its Breakstone dairy brand (cottage cheese, butter, cream) and is reportedly also in the process of selling its Maxwell coffees.

Resulting from a mega-merger in 2015, Kraft Heinz (sales of \$26 billion in 2018) reported last February on a deterioration in its results (in particular asset depreciation amounting to \$15.4 billion), causing its share price to fall by 27%. The group wants to reduce its debt and adapt to changing eating habits. Other brands could follow...

Regulation

New regulation on the labelling of food ingredients containing GMOs

A new regulation makes it mandatory to label ingredients containing GMOs on food packaging. As detailed by Business France, this can be done either by a written indication (e.g. "Contains a bioengineered food ingredient"), or by a logo complying with the provisions, or by electronic labelling. The date of application is 1 January 2020 (or 1 January 2021 for small businesses) and the mandatory compliance date is 1 January 2022.

FDA authorises AquaBounty's GMO salmon

Following the publication of the regulations on the labelling of ingredients containing GMOs, the FDA lifted the ban on the import of GMO salmon and their eggs in March 2018. This is the only animal GMO authorised for human consumption in the United States to date. AquaBounty Technologies can now import eggs from Canada and grow GMO salmon at its Indiana-based facility. The first ones will be marketed in 2020.

Agreement between the FDA and the USDA on the supervision of meat from cell cultures

After months of debate, the USDA and the FDA have agreed on a shared supervision of meat from cell cultures: the FDA will cover production (cell collection and culture) and the USDA processing (from the end of the culture phase to marketing and labelling). Among producers, Just announced it would launch its products in the foodservice segment by the end of 2019 and Memphis Meats in super- and hypermarkets in 2021.

Main corporate events of the last quarter

Main transactions involving targets in the United States in the last three months (at end-March 2019)

Transaction value expressed in €m and in EBITDA multiples

Sector	Date	Deal	Value
Pastry & bakery	05/03/2019	Global Bakeries (Surge PE fund) acquires Bubbles Baking (frozen pastry)	n/a
	30/01/2019	Ironwood Capital sells Dancing Deer Baking (cookies, pastry) to Hudson River Foods	n/a
Snacks	06/02/2019	Dare Foods (Canada) acquires La Panzanella Artisanal Foods (crackers and snacks)	n/a
Delicatessen	26/02/2019	Campbell sells Garden Fresh Salsa (sauces) to Fontaine Sante (Canada, fresh/frozen foods)	n/a
	23/01/2019	Japanese group Mitsui acquires Hans Kissle (salads, quiches, desserts)	95
Frozen products	15/02/2019	Frostkrone (Germany) acquires Rite Stuff (frozen potato-based products)	n/a
Pet food	26/02/2019	Halifax fund sells Animal Supply Company chain to Summit Partners fund	n/a
	21/02/2019	L Catterton fund sells Hampshire Pet Products to Red Collar Pet Food	n/a
Meat	11/03/2019	National Beef (Marfrig, Brazil) acquires Iowa Premium (Angus beef specialist)	133
	01/03/2019	STX Beef (subsidiary of JDH Capital, real estate) acquires Kane Beef (filed for bankruptcy)	25
	25/02/2019	Wholesaler The Chefs' Warehouse acquires Bassian Farms (beef, poultry)	n/a
	22/02/2019	The Hain Celestial sells Plainville Farms (turkey production) to Plainville Brands	n/a
	11/02/2019	Mason Wells fund sells Eddy Packing (meat products) to Insight Equity fund	n/a
Milk	19/03/2019	Kroger sells Turkey Hill factory (ice cream and drinks) to Peak Rock fund	n/a
	05/03/2019	Gilman Cheese is acquired by the funds Tecum , Borgman and Midwest Growth Partners	n/a
	Jan/Feb 19	H.I.G Capital fund acquires Lipari Cheese (08/01), then Troyer Cheese (20/02)	n/a
	07/01/2019	Wholesaler Kuna Foodservice acquires Haulty Cheese	n/a
Shrimps	01/02/2019	Canadian group Cooke acquires US shrimp producer Seajoy Group	n/a
Beverages	19/02/2019	Hormel sells CytoSport (sports drinks) to PepsiCo	411
Ingredients	20/02/2019	Ireland's Glanbia acquires Watson , a specialist in non-dairy ingredients	78
	31/01/2019	Symrise (Germany) acquires American Dehydrated Foods , International Dehydrated Foods and IsoNova technologies	784 17.6x
Fruit	12/02/2019	Pension fund Ontario Teachers' Pension Plan acquires FirstFruits Farms (apples)	n/a

Source: Unigrains from MergerMarket and press

For further information, please contact

David de Almeida
Head of international development
ddealmeida@unigrains.fr

Céline Ansart
Head of economic and strategic studies
cansart@unigrains.fr

Eric Porcheron
Head of economic and strategic studies
eporcheron@unigrains.fr

Fabrice PASQUINELLI
Senior Adviser Unigrains North America
fpasquinelli@unigrains.fr