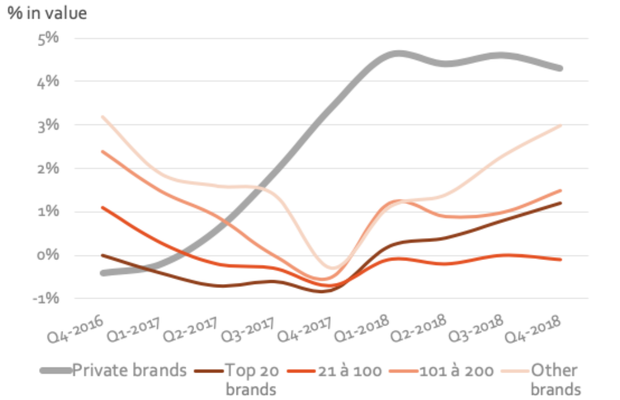
US food market

Unigrains' opinion on the key events of the quarter

Headline news: private label more dynamic than brands in 2018

Year-on-year change in quarterly FMCG sales in physical retail distribution in the United States



Source: based on Nielsen communications; FMCG, Fast Moving Consumer Goods

Historically less popular than in Europe, retailers' private label brands are now on the rise in the United States.

According to Nielsen, sales of private label fast moving consumer goods (food and non-food) have grown by 4.4% in value in 2018, almost six times faster than national brands, with the gap narrowing at the end of the year. Private brands now have a market share of 18.5% compared with 31% in France. According to Nielsen, their share could reach 25% to 30% within ten years.

This momentum stems from work on the offering on the one hand and a more receptive clientele on the other. On the supply side, private brands have moved upmarket and are positioning themselves on new consumer trends (organic, gluten-free, all natural, etc.). On the demand side, consumers have a better image of private brands and the trend is notably driven by millenniums, who are less attached to major brands than their elders.

As competition in retail food distribution intensifies, private brands are a source of growth, differentiation and margins for retailers. According to a CB Insights study, margins can be 25% to 30% higher than for other brands. Private brands enable retailers to be more proactive in responding to market trends and to adapt product formulations (a case in point is Kroger's Simple Truth brand, which excludes 101 ingredients). Retailers are getting more and more interested in them.

Amanda Osorio, Director Strategic Partnerships & Bakery Marketing, J&J Snack Foods Corp.

"Private label brands are no longer thought of as a 'me too'. Retailers develop innovative products and leverage private label as a point of differentiation"

J&J Snack Foods Corp., an American group, is a leader and innovator in the snack food industry providing niche snack foods and frozen beverages to retail and foodservice channels. Sales for the company are over $1.1 billion per year, which approximately 20% is for private label and copacking, two activities that are growing very fast lately.

Retailers are very interested in expanding their private label offerings. They seem to be taking a considerable amount of initiative when it comes to knowing their consumer and providing them with high quality products. The focus and growth within the private label category is neutral for the most part between traditional supermarket chains and mass retailers. Both segments are putting time and energy behind building their own private brands and developing innovative products outside of simply offering national brand equivalents. We are seeing the private label trend expand to e-commerce segment, as well.

We work closely with our retail private label partners to marry trending consumer insights with quality desirable product launches. Many supermarket chains have identified their own brand tiers specifically focusing on health, wellness & overall ingredient transparency. Conversely, the private label segment gives us the flexibility to take innovation to the extreme and propose various products, concepts, flavours, package formats, etc. We pride ourselves on our agility to bring new product concepts to supermarkets and mass retailers.

Private label business is reviewed annually between us and the retailers to ensure the item is still relevant and profitable for both parties.

Working with private label does not imply less intermediary involvement. Brokers are still in the picture in many instances. Brokers working on our behalf are an extension of J&J Snack Foods.

Private label brands are no longer thought of as a "me too"; in fact, many supermarket chains go above and beyond to be as transparent as possible with their customers about what ingredients are in (or free from) their products. Retailers leverage private label as a point of differentiation. This is extremely important and valuable to today's highly educated consumer and is what will aid in future success of private brands. The notion of transparency and providing wholesome products to private label consumers generally comes with an affordable price tag making them a potential threat to some brands…

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Key events of the last quarter

Consumption

"Food specialities" three times more dynamic than standard products in hyper- and supermarkets in 2018

According to the Specialty Food Association, retail sales of speciality foods were up 10.3% in 2018, compared with 3.1% for standard products. Growth was driven by traditional stores (+11% from 2016 to 2018 compared with +2% to +3% in premium stores).

That said, growth is slowing as the market develops. Mintel expects growth of 5.9% p.a. from 2018 to 2023 to reach $89.1 billion, compared with +7.2% p.a. from 2013 to 2018. Ranges of vegetable alternatives to meat top the fastest-growing products (+24% from 2016 to 2018).

According to the Specialty Food Association, "food specialties" are products that stand out from the standard offering in various ways: natural, better for you, local, fair trade, sustainable, etc. When including the Foodservice sector (22% of sales), sales reach $148.7 billion.

Strong momentum of the organic market

Sales of organic food products in the United States were up 5.9% in 2018 to $47.9 billion, reaching a market share of 5.7% (source: Organic Trade Association). Growth is slowing (6.4% in 2017) but is still well above that of the food sector as a whole (+2.3%).

Fruit and vegetables are the best-represented categories with $17.4 billion (a twofold increase in ten years), ahead of dairy products and eggs ($6.5 billion, +0.8% in 2018). Note the sharp slowdown of organic dairy product sales for the second consecutive year.

In parallel with the growing involvement of retailers, the price of organic products is falling and the gap with conventional products is narrowing. The most heated price war is waged notably on Granny Smith apples, artichokes and soy milk.

The yoghurt market is declining after ten years of growth

Yoghurt retail sales fell 6% in volume over the 12 months to Feb. 2019 according to Nielsen. The decline reached 11% for Greek yoghurt, which had contributed significantly to the market's growth over the past ten years. The reasons include the overabundance of choice and lack of clarity in the fresh dairy aisle, as well as the growing popularity of plant-based milk alternatives.

Some segments are growing, however, notably "skyr" (Icelandic yoghurt, +23% in 2018/19). To boost consumer interest (short of streamlining the dairy section), manufacturers are banking on specialties, notably French or Australian-style yoghurts, which have a better image (fewer preservatives and artificial flavours).

Retail

Walmart launches new home delivery services

In June, Walmart launched an unlimited delivery service for groceries purchased online. As TechCrunch reports, this service, Delivery Unlimited, is offered at a price of $12.95/month or $98/year, for a minimum purchase of $30.

With this new subscription system, Walmart seeks to reduce delivery costs and expand its customer base. The group is adjusting its offer in response to competition from Shipt (a Target subsidiary), Instacart and Prime (Amazon). Delivery is made by third parties, including DoorDash and Roadie.

Walmart also plans to launch a new delivery service direct to the consumer's fridge in three US cities in the autumn.

Discounters could account for more than half of store openings in 2019

Discounters could open 1,800 of the 2,780 stores planned for 2019, according to Coresight Research. Dollar General is in the lead with 975 openings, followed by Dollar Tree with 350 (these two groups' dominant activity is non-food), followed by Aldi (160).

However, the path followed is quite disparate from one brand to another. The number one discounter in the United States, Dollar General, is growing and integrating an increasing number of food and beverage products on its shelves. Aldi is ramping up and opened its 1,900th store in the United States in June. By contrast, Dollar Tree will have to close 390 Family Dollar stores this year and Save-A-Lot, the second-largest hard discounter behind Aldi, is struggling and looking for a buyer or investor.

Strong growth in online food sales

Online sales of food products in the United States reached $18.4 billion in 2018 and could rise to $40 billion in 2022 according to eMarketer, i.e. more than 20% per annum. Amazon remains in the lead with sales of $8.2 billion in 2018 (+12.5% year-on-year), nearly three times higher than Walmart ($2.84bn, +10.1%) and more than five times higher than the no.3, Kroger ($1.51bn). However, the latter posted the strongest growth over twelve months (+66%).

This dynamic is supported by the increase in collection points ("Drive" concept in France, i.e. click-and-collect): more than 2,500 for Walmart, 1,300 for Kroger and 1,000 for Target. This growth is also driven by the development of home delivery with internal solutions (e.g. Shipt for Target) or external partnerships (Instacart, DoorDash, etc.).

Agri-food industry

The start-up Beyond Meat stages a resounding IPO

A specialist in vegetable alternatives to meat, Beyond Meat raised $241 million when it was introduced to the Nasdaq on 2 May. Since then, the share price has been multiplied by 2.3, valuing the company at $9.1 billion as at 30 June 2019.

Created in 2009, Beyond Meat quickly attracted big names to its financing round: Leonardo DiCaprio, Bill Gates, Don Thompson (former CEO of McDonald's), and the Kleiner Perkins venture capital firm. On the other hand, Tyson, which had invested $23 million in the company, sold its stake ahead of the IPO.

Beyond Meat generated Q1 2019 sales of $40.2 million and is still in deficit (negative net income of $6.6 million). The company expects sales to top $210 million in 2019 (a 140% increase over one year). Its products are carried by leading retailers (Safeway, Whole Foods, Kroger, Wegmans, amongst others), as well as in the foodservice. Beyond Meat plans to invest in new production capacity both in the United States and internationally (particularly in Europe).

Tyson sells its stake in Beyond Meat and launches its own range of plant-based products

Shortly after selling its minority stake in Beyond Meat (just before it went public), meat giant Tyson announced the launch of its own plant-based range under a new brand name, *Raised & Rooted*. The range consists of nuggets made from peas and flaxseed, later to be supplemented by vegetable burgers and sausages made from peas, quinoa and barley.

Tyson is responding to the trend of flexitarianism ("casual vegetarianism"), which is also growing in the United States (21% of the population according to Mintel). The group considers this as a one billion-dollar potential project.

Lactalis is strengthening its position in the US yoghurt market

On 8 July, Lactalis announced the acquisition of the US subsidiary of German dairy group Ehrmann, with two plants opened in 2011 and 2013 and the Green Mountain and Liebe brands, with ~€125 million sales.

After the acquisition in 2017 of Stonyfield and Karoun (Greek yoghurt and kefir), followed in 2018 by The Icelandic Milk and Skyr Corp. (Icelandic yoghurt), Lactalis is affirming its ambitions in a US yoghurt market dominated by Danone and which receded in 2018. The group now has eight plants and employs 2,400 people in the United States. Lactalis also announced plans to acquire Italy's Nuova Castelli, which would bring it a ninth factory in the United States.

Campbell wants to revive the market for soups in the grocery department

As part of its refocusing on its historical activities (see US newsletter no.3), Campbell has decided to invest in soups in the grocery section to revive this declining market, where it is the leader with a 58% market share.

The planned changes include a greater focus on meat-free recipes but also the launch of marrow bone broths, amongst other trendy products, with packaging adapted to consumption on-the-go, and traditional ranges with no preservatives or hormones. To boost its product lines, Campbell is increasing R&D budget by 50% and has set a target of halving the time to market for new products. This market will be a key element in assessing Campbell's performance in 2020.

Del Monte is launching into refrigerated and frozen food

An emblematic canned fruit and vegetable company, Del Monte is now looking to explore the potential of its brand in other technologies. The group has launched frozen and refrigerated ranges in the United States, two buoyant departments in which it had no offerings as yet.

Del Monte also plans to diversify its distribution channels, with an emphasis on e-commerce, convenience stores and Costco-style warehouse stores. The objective is to increase sales by $300 million to $1.78 billion by 2022.

Regulation

The FDA wants to standardise the terminology of optimal consumption dates

The FDA wants to standardise the terminology used to indicate optimal consumption dates in order to dispel confusion and reduce food waste. At the end of May, it sent a letter to the agri-food industry in which it recommended using the wording "*Best if Used By*" if the date refers to optimal quality rather than an actual use-by date for food safety reasons.

As the FDA points out in its letter, regulations generally do not require indicating the best before date on the labels of prepackaged products (except for formula milk). Manufacturers define their own labels and, in the absence of standardisation, they can use various wordings (*use before*, *sell by*, *expires on*, etc.).

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	03/05/2019	**McKee** (snack cakes) acquires **Prairie City Bakery** (frozen pastry and bakery)	n/a
	02/04/2019	**C.H. Guenther** (held by PE firm **Pritzker**) acquires **Mid South Baking Co.** (buns, muffins)	n/a
Cereal Snacks	19/06/2019	**AUA Private Equity** acquires snack and chocolate manufacturer **TruFood**	n/a
	19/06/2019	**Mondelez** acquires protein bar manufacturer **Perfect Bar**	n/a
	02/05/2019	**Post Holding** (cereals, snacks) acquires the ready-to-eat cereal business of **TreeHouse**	n/a
Grocery Condiments Sauces	21/06/2019	**Falfurrias Capital Partners** acquires spice manufacturer **C.F. Sauer**	n/a
	23/05/2019	**Litehouse** (diversified) acquires **Sky Valley** (organic sauces and condiments)	n/a
	17/04/2019	**North Castle Partners** acquires **Maya Kaimal Fine Indian Foods**	n/a
	02/08/2019	**Stir Foods** acquires **Van Law*** (sauces, syrups, flavouring) from **Encore Consumer Capital**	n/a
	23/05/2019	**Golding Farms Food*** (condiments) acquires **Arcobasso*** (refrigerated sauces)	n/a
Fresh and frozen products	23/05/2019	Korean group **CJ CheilJedang** sells 20% of **Schwan's** (frozen food) to **Bain Capital**	286
	06/05/2019	**The Hain Celestial** sells **Westsoy Tofu** to **Keystone** (a Tyson subsidiary)	n/a
	12/04/2019	**Campbell** sells **Bolthouse** (carrots, juices, smoothies/sauces) to private equity firm **Butterfly**	451
	11/04/2019	**Danone** sells **Earthbound Farm** (organic vegetables, fruit, salads) to **Taylor Farms**	n/a
	08/04/2019	**Kettle Cuisine** (soups) acquires **The Harris Soup Company*** (fresh and frozen catering)	n/a
	04/04/2019	**Orion Food** acquires **Land Mark Products** (pizza dough, pizzas, sandwiches)	n/a
Meat	09/05/2019	**Hain Celestial** sells **Hain Pure Protein** (poultry meat) to **Aterian Investment Partners**	71
	09/04/2019	**Central Valley Meat** acquires **Harris Ranch Beef Company**	n/a
	08/04/2019	**OSI Group** acquires **Rose Packing Company** (pork products)	n/a
Milk	02/05/2019	**Schuman Cheese** sells **Whisps** (cheese snacks) to **Kainos Capital**	n/a
	01/05/2019	**Arbor Investments** acquires **Darifair** (B2B dairy products)	n/a
	15/04/2019	**Arbor Investments** sells **Fieldbrook Foods** (ice cream) to **Wells Enterprise** (dairy products)	n/a
Ingredients	31/05/2019	**Olympus Partners** acquires **3D Corporate Solutions** (pet food ingredients)	n/a
	15/05/2019	**B&G Foods** (diversified) acquires **Clabber Girl Corp** (yeast for pastry and bakery sector)	71
Other	06/05/2019	**Barings** acquires **CTI Foods** (diversified, foodservice provider)	n/a
	18/04/2019	**Unilever** acquires **Olly Public Benefit Corp** (nutritional supplements)	n/a
	02/04/2019	**Tilia Holdings** acquires **Proven Partners Group** (contract manufacturer of dried foods)	n/a

*Source: Unigrains according to Merger Market and press; * focus on private label and/or brand outsourcing*

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