

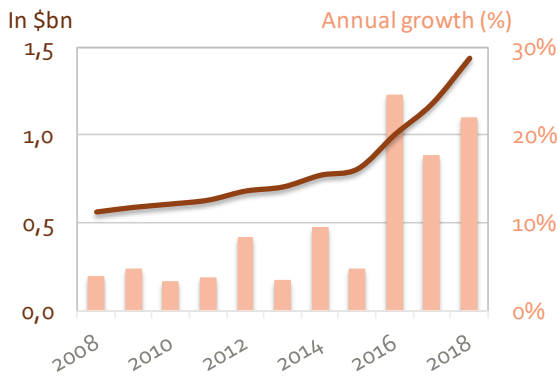


US Food Market

Unigrains' opinion on the key events of the quarter

Headline news: plant-based meat substitutes in effervescence

Retail sales of plant-based meat substitutes in the United States



Source : Unigrains based on Euromonitor

Beyond Meat's resounding IPO back on 2 May put the market for plant-based meat substitutes in the spotlight, reflecting the growing interest in these products in the United States.

That said, plant-based meat substitutes are not a complete novelty in the US market. Major agri-food groups have been offering them for some time: Kellogg's with the MorningStar Farms and Gardenburger brands, Pinnacle (acquired in 2018 by Conagra) with Gardein, Kraft Heinz with Boca, amongst others. There is a number of other meat-free product specialists, but with a smaller market share: Field Roast, Quorn, Tofurky, Amy's Kitchen, to cite a few.

But the market remains modest to date, especially in comparison to the meat market. According to Euromonitor, retail sales reached \$1.4 billion in 2018, or less than 2% of meat sales (nearly \$80 billion). So far, the offer of plant-based meat substitutes has proved insufficiently convincing, particularly from an organoleptic viewpoint, taste remaining the primary hurdle.

By way of comparison, plant-based milk alternatives represent \$2.4 billion, or 18% of the fluid milk market, having gained nearly 12 points of market share in the last ten years.

However, the growth of the market for plant-based meat substitutes has accelerated significantly since 2016. Start-ups such as Beyond Meat and Impossible Foods have come onto the market with products that revolutionise the offer: "imitations" designed to reproduce the sensory experience of meat consumption. But these products have also come in for criticism, either because of their image as highly processed products or concerning the list of ingredients they contain.

These companies clearly target flexitarians (people reducing their meat consumption), who represent 22% of the American population, compared to 5% for vegetarians and vegans (source: Nielsen). They also target both retail outlets and the foodservice sector, making headway to varying degrees depending on the customer: from the test phase to larger-scale commercial development (e.g. Impossible Foods and Burger King). Everyone is looking to expand their territory.

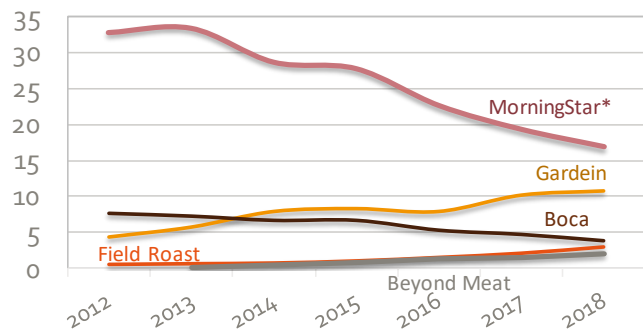
This revitalisation of the market is coveted by major groups who dream of growth similar to that achieved by milk alternatives... Multinational companies are relaunching new generation products with improved organoleptic sensations. Meat specialists are also venturing into this market: Hormel, Smithfield and especially Tyson, which sold its stake in Beyond Meat just before the latter's IPO to play its own card with its new range, *Raised & Rooted*. Their positioning in the United States, until then limited to "alternatives" without any claim to imitation (different taste and texture), is tending to extend to imitations of meat products, as evidenced by Nestlé's launch of the *Awesome Burger*.

Among retailers, one of the most proactive is Kroger, which announced the launch in autumn 2019 of a range of alternative plant-based products under its private label *Simple Truth*, with the stated aim of making these products widely accessible.

The market is driven by a supply effect (new generation products) and a demand effect (growing consumer interest in vegetable proteins in general). But beyond the current media hype and in a context where meat consumption in the United States remains on the rise (+2% in 2018 according to Euromonitor), what is the market potential for vegetable meat substitutes? And beyond the current buzz, what will be the winning products and the companies that will stay ahead in the market? Future M&A movements are to be expected...

Share of leading brands and Beyond Meat in retail sales of plant-based meat substitutes in the US

Market share in value (%)



Source : Unigrains based on Euromonitor ; * excluding frozen entrées
Market share above 3% + positioning of Beyond Meat

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Key events of the last quarter

Retail


Walmart expects its e-commerce business to generate losses of more than \$1 billion in 2019

Walmart  According to the Recode website, Walmart expects its e-commerce activity in the US to lose more than \$1 billion in 2019 for sales of \$21-22 billion (5% of consolidated revenue), due to the heavy investments made to close the gap with Amazon. In 2017/18, the group generated a consolidated profit of \$7 billion.

Walmart had stepped up its e-commerce game in 2016 with the acquisition of Jet.com, whose founder, Marc Lore, was appointed head of the company's e-commerce activity. Walmart's online sales grew by 40% in 2018, driven by food, but remain far behind those of the Seattle giant. In the food sector, its online sales are estimated at \$2.84 billion in 2018 compared with \$8.2 billion for Amazon (source: Edge by Ascential).


Urged to quickly reach break-even point, however, Marc Lore considers that major investments are still needed in infrastructure, particularly for fast delivery. In the meantime, Walmart continues to focus on food and will roll out its pick-up services in 3,100 stores by the end of 2019 and same-day home delivery from 1,600 stores.

Fairway up for sale again

FAIRWAY  LIKE NO OTHER MARKET. Fairway Market, an independent regional chain of premium supermarkets (15 supermarkets and 4 alcohol outlets in the New York area) is up for sale again. The company had been in great difficulty in 2016 (under Chapter 11), before being acquired by investment funds, including Brigade Capital Management and Goldman Sachs.


Fairway Market is competing with other high-end chains such as Trader Joe's and Whole Foods, but also with traditional supermarkets and e-merchants, which have strengthened their position in specialties, gourmet products and organic products.

FreshDirect reportedly also for sale

freshdirect  According to several sources, FreshDirect, a specialist in online sales and home delivery on the East Coast, is for sale. In a context of fierce local competition, the company was weakened by the difficult start-up of its new high-tech base in the Bronx. JPMorgan, the lead manager of FreshDirect's \$189 million fundraising in September 2016 and the company's largest shareholder, reportedly wants to sell its stake.

Amazon and Walmart have been cited as potential buyers, which could lead to a new confrontation between the two giants after the 2018 battle over Indian e-merchant Flipkart. Amazon and Walmart had already tried to take over FreshDirect in 2010.


Instacart's business is growing despite the loss of Whole Foods

instacart  In May 2019, the Instacart e-commerce platform lost one of its major customers, Whole Foods, which, according to Edison Tech, accounted for 13% of its sales over the previous 20 months. Instacart managed to increase its orders, however, via several leading retailers which extended their partnership: Publix, Costco and Kroger.

Instacart is also working with Wegmans, HEB and more than 300 retailers worldwide. The platform therefore reportedly reaches 80% of US households compared with 35% in 2017. This is enough to fuel rumours of a future IPO (albeit denied by the company).

Agri-food industry

Fall in Kraft Heinz's share price against a backdrop of poor results

KraftHeinz  Kraft Heinz's share price, which had already tumbled by 27% on 22 February, once again plunged to an all-time low in early August (\$25/share vs. nearly \$100 at its February 2017 high). This follows the announcement of poor first-half results: a 55% drop in net income, due notably to a \$1.2 billion asset impairment charge.

The group's new chairman, Miguel Patricio, who has been in office since 1 July, is working on a strategic plan to be presented to investors in early 2020. The focus areas mentioned so far include repositioning the company in response to new consumer trends by capitalising on the reputation of its flagship brands (Heinz, Philadelphia). Conversely, Miguel Patricio said he was putting the proposed sale of the Breakstone's, Maxwell House and Ore-Ida brands on the back burner for now. The group is also keen to improve the efficiency of its supply chain, whereas it had previously focused on cutting costs, and to review the effectiveness of its marketing spending.



Rebound in PepsiCo's sales and net profit in the second quarter of 2019



PEPSICO

In the second quarter of 2019, PepsiCo posted a rebound in sales (+4 to 5% at constant scope to \$16.5 billion) and net profit (+12.1% to \$2.04 billion). A better-than-expected performance, attributed by the group to the investments made in recent months in its carbonated soft drinks and snacks divisions. PepsiCo announced that these investments would weigh on results for the second half of 2019, however.

Soft drink sales benefited from the introduction of new flavours, but it was mainly bottled waters (LIVEWTR and Bubly) that drove the growth of the beverages division (+2% to \$5.3 billion). PepsiCo is also banking on its juices, teas and sports drinks, which have a better image than soft drinks. The crisps range (Cheetos and Doritos) also picked up (+5% to \$4 billion) thanks to new flavours. At the same time, the group stepped up its investments in advertising and introduced smaller packaging.

Hershey acquires protein bar manufacturer One Brands



At the end of August, US confectionery specialist Hershey announced the acquisition of protein bar specialist One Brands for \$397 million.

Hershey is thus expanding its snacking product portfolio in the United States. The group had already acquired meat snack manufacturer Krave for \$219 million in 2015, Ripple Brand (chocolate snacks under the Bark Thins brand) in 2016 for \$285 million, Skinny Pop popcorn in 2017 for \$1.6 billion and Pirate Brands (cheese bites, fruit sticks, etc.) in 2018 for \$420 million.

Hain Celestial sells its Arrowhead Mills and SunSpire brands to the Brynwood Partners fund



Hain Celestial, a vast platform of "better for you"-positioned brands, is continuing to downsize with the sale of its Arrowhead Mills and SunSpire brands (bakery and breakfast products) to the Brynwood Partners fund for \$15 million. The deal includes a plant in Hereford, Texas.

This brings the group's disposals to six in just six months in the US and abroad. Hain Celestial is streamlining its portfolio and divesting its least profitable activities, in line with the *Project Terra* strategy launched in 2015. The deal comes shortly after the company reported a 10% drop in sales and further losses in the second quarter of 2019. The disposal process is set to continue.

Consumption

Kombucha Brewers International wants to create a standard

For the US trade association Kombucha Brewers International, defining the attributes of kombucha (fermented tea) and having a standard validated by the FDA to guarantee the product's identity is nothing new, as it has been working on it for seven years. It now wants to take this process to the next level, however. This follows recent debates and lawsuits over the authenticity of a number of products marketed under this name.

Kombucha is a big trend in the United States due to its probiotic content and low sugar content. Retail sales reached \$412 million in 2018 according to Nielsen (+42% year-on-year). Back in May, Coca-Cola reinvested \$20 million in the Los Angeles-based company Health-Ade.

Renewed interest in allulose, an intense sweetener

Allulose, an intense sweetener discovered in Japan and authorised in the United States since 2014, has aroused renewed interest from manufacturers since the FDA's decision last April not to include this product in total and added sugars on nutrition labelling. Allulose must be labelled in carbohydrates as an ingredient.

According to a Label Insight survey, 22% of American consumers want to reduce their sugar consumption. The sweeteners market is estimated at between \$16 billion and \$20 billion according to Food Dive. Allulose suppliers include: Tate & Lyle (Dolcia Prima), Ingredion in partnership with Japan's Matsutani (Astraea), Anderson Advanced Ingredients (allSweet), as well as Blue California, which announced it will move to the marketing stage at the end of 2019.

Regulation

FDA allows health claims on benefits of a number of fatty acids

This authorisation, as reported by Business France, concerns five claims that could be shown on the packaging. These claims refer to a reduction in the risk of hypertension and coronary heart disease. The authorisation is subject to the presence of at least 0.8 g of omega-3 EPA (eicosapentaenoic acid) and/or DHA (docosahexaenoic acid) fatty acids per serving.

**California passes a law against companies that rely on the flexibility of self-employed workers**

A new Californian labour law known as AB-5, passed by the State Senate on 10 September, could force companies to requalify self-employed workers as employees. This law is due to come into force on 1 January 2020, with a financial impact on companies whose economic model is based on the flexibility of self-employed workers, e.g. ride-sharing companies and also home delivery players (Doordash, Grubhub, Instacart, Uber Eats, Postmates, amongst others).

United States imposes taxes on European food products

The US administration has announced the introduction of additional customs duties on products imported from the EU from 18 October. These tariffs are applied under the Airbus WTO panel for a cumulative amount of up to \$7.5 billion.

A 25% duty is to be imposed on a list of products including butter substitute spreads, yoghurts, some cheeses (including hard and blue cheese, but not Roquefort cheese), olives, fresh or dried citrus fruit, cooked pork-based preparations, shellfish and seafood preparations, wine (except for Tokay and bag-in-box wine for containers of over 2 litres). For further details, please refer to the exact tariff headings covered by these additional duties.

Main corporate events of the last quarter

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

Deal value expressed in €m and in EBITDA multiples Sources: MergerMarket and press.

Sector	Date	Deal	Value
Pastry & bakery Pasta products	19/09/2019	Fairfield Gourmet Food Corp acquires Foxtail Foods (pies, muffin and cookie dough, etc.)	n/a
	11/09/2019	Swander Pace Capital fund acquires Cafe Valley (croissants, cakes, muffins, etc.)	n/a
	22/08/2019	Rich Products acquires The Christie Cookie (gourmet products including frozen cookies)	n/a
	01/08/2019	Hostess Brands sells Superior Cake Products (frozen pastry) to Sara Lee	59 (x9.3)
	24/07/2019	LaSalle fund sells Delorios Foods (frozen dough - pizza, bread, etc.) to Rudolph Capital	n/a
	19/07/2019	Clover Capital fund sells Main Street Gourmet to Shore Capital fund	n/a
Snacks	11/09/2019	Conagra sells Direct Store Delivery Snacks to UTZ Quality Foods (snacks)	n/a
	27/08/2019	Cavu Venture Partners fund sells One Brands (protein bars) to Hershey	358
	21/08/2019	VMG fund sells Quest Nutrition (snacks) to Simply Good Foods Company	901 (x20)
	08/07/2019	Atlas fund acquires TreeHouse Foods' snack division	80
Grocery	18/09/2019	Goldner Hawn fund sells Cameron's Coffee to Colombia's Grupo Nutresa	102
	21/08/2019	Ajinomoto (Japan) acquires 50.1% of sauce manufacturer More Than Gourmet Holdings	32
Frozen products	22/08/2019	Oregon Potato (frozen vegetables) acquires Norpac Foods (savory frozen meals)	135
Meat Delicatessen	17/09/2019	Entrepreneurial Equity fund acquires Daniele Intl (Italian-style charcuterie, MBO)	n/a
	05/08/2019	Wind Point fund sells Evans Food (pork-based products) to Highlander fund	n/a
	31/07/2019	Insight Equity fund acquires Strauss Brands (premium red meat)	n/a
Dairy products	09/09/2019	Wells Enterprises (ice cream) acquires rival Eden Creamery	n/a
	04/09/2019	HC Private Investments fund acquires Epicurean Butter Company	n/a
	16/08/2019	Smith Brothers Farms (dairy products) acquires Alpenrose Dairy	n/a
	10/07/2019	New Heritage fund acquires Welcome Dairy (processed cheese, MBO)	n/a
	08/07/2019	Lactalis acquires Commonwealth Dairy, the US business of German company Ehrmann	n/a
Seafood products	15/09/2019	Bristol Bay Native Corp takes controlling stake in shipowner Blue North Fisheries	n/a
	06/07/2019	Italian group Bolton acquires Tri Marine International (tuna specialist)	n/a
Fruit and vegetables	25/09/2019	Gerawan acquires Wawona from Paine fund to become the no.1 in stone fruit in the US	n/a
	05/09/2019	Agriculture Capital fund acquires Firestone Pacific Foods (frozen fruit)	n/a
Nutritional supplements	22/07/2019	Zoetis acquires Platinum Performance (nutritional supplements for horses)	n/a
	19/07/2019	HGGC fund sells Nutraceutical International to Snapdragon Capital fund	n/a
Beverages	29/08/2019	Spanish brewer Mahou-San Miguel acquires 60% of Founders Brewing	n/a
	28/08/2019	Pernod Ricard acquires Castle Brands (spirits, notably Jefferson's Bourbon)	237 (x28)

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