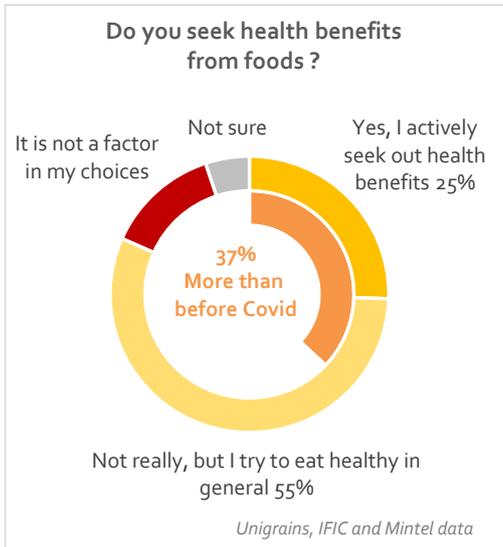




U.S. food market

Unigrains' opinion on the key events of recent months

Headline news: Covid crisis reinforces health & wellness trend

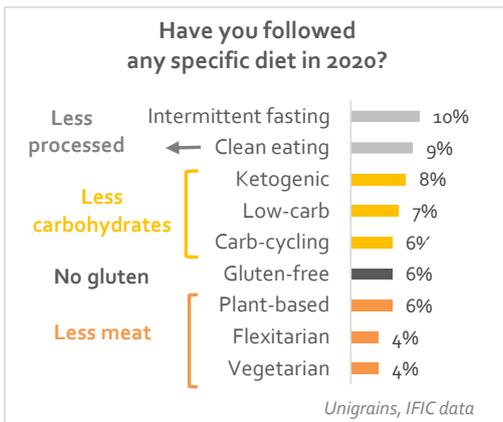


85% of American consumers say the Covid crisis has changed their food habits, driving them to cook, shop and think about food differently.¹ Noteworthy among these changes is the prevalence of health concerns. While taste and price remain the two main drivers of purchase decisions, 37% of U.S. consumers say they have put a higher priority on eating healthy since the beginning of the outbreak.²

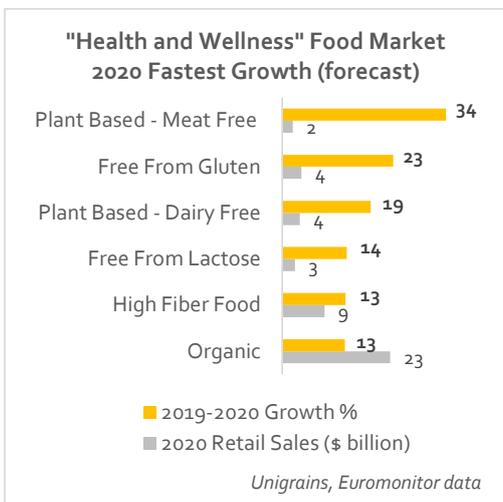
In 2020, **43% of Americans follow one or more special diets** (+5 points compared to 2019), a high level in a country where 40% of adults suffer from obesity and 33% have high blood pressure.³ While their health impact varies, the most popular diets in 2020 reflect current consumer trends: cutting back on processed foods, carbohydrates, gluten and meat.

Many of the fastest growing products during the crisis are part of the "health and wellness" trend. According to Euromonitor, within this trend, **the strongest increases in retail sales are in an emerging segment (meat alternatives) and other more mature segments:**

- **Plant substitutes for meat**, expected to increase by 34% in 2020 compared with 2019 thanks to a growing supply, but also because of meat shortages on store shelves. That said, alongside this success, the ultra-processed nature of a number of products has come under criticism.
- **Plant-based alternatives to dairy products**, with increases of 19% for plant-based drinks, 30% for yoghurts and 27% for ice cream.⁴
- **Organic products**, up 13%.
- **Gluten-free and lactose-free products, as well as fiber-rich foods.**



Low-processed foods with a healthy image such as fruit and dried fruit snacks, green tea and olive oil have also benefited from the crisis and are expected to continue to grow in the coming years.



In 2021, the gradual return of out-of-home consumption and the economic slowdown will have an impact on retail sales, which are unlikely to record the exceptional levels of growth seen this year.

These trends nevertheless represent opportunities for French agri-food companies, which have a good image in the U.S. market.

¹ Source: International Food Information Council (IFIC) Food & Health Survey 04/2020
² Source: Mintel
³ Sources: IFIC, National Center for Health Statistics
⁴ Source: Euromonitor



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Ross Iverson and Adriana Tullman are the co-founder and investment director at Manna Tree. This Colorado-based fund has raised \$141.5 million in 18 countries to support the growth of companies that produce, process and market healthy foods.



“Improving human health through nutrition, a strong long-term trend”

Plant-based alternatives to dairy products are becoming increasingly popular and we believe they will continue to grow at a rapid pace in the coming years, notably because consumers with a degree of lactose intolerance experience immediate health benefits. We also expect a lot of innovation in plant-based and functional drinks. The traditional soda industry is undergoing a rapid transformation as many consumers seek more natural and lower-calorie beverages.

Plant proteins are also growing, with pea and soy proteins being the most widespread. Manna Tree has invested in Nutriati, a company that produces innovative ingredients from chickpeas, a product with a better amino acid balance than peas. We also support MycoTechnology’s ClearTaste product line which effectively blocks the perception of bitterness so less sugar is needed to overcome negative flavor profile.

Gluten-free products are still growing strongly, although not all products in this category can be considered as “healthy”: some brands offer highly processed gluten-free sweet snacks.

Organic products are continuing to record strong growth. This change of scale requires reinforced controls to prevent fraud. Organic products meet the expectations of many consumers, although in some cases other food categories may provide more health benefits.

The offering of local products is expected to grow in the coming years. Fresh, locally sourced produce harvested at maturity often has a higher nutrient content. Another non-health-related driver is that mass retailing has faced shortages during the pandemic. To limit risks in the future, retailers are encouraging their suppliers to increase the diversity of their supplies and to seek out local products in particular.

Another change brought about by the crisis is the growing involvement of the federal states in promoting healthy food. The number of research programmes focusing on health and nutrition is also growing.

Overall, the Covid crisis has led to many changes in lifestyle and an acceleration in digital technology, and this is having a positive impact on the “health and wellness” trend. The increasing transparency of the sector makes it easier for consumers to identify the products that are most beneficial to their health. Artificial intelligence built into e-commerce applications automatically guides them to the products that match their needs and preferences.

Key events of recent months

Consumption

Oats become the no. 2 plant-based milk alternative

According to data from the Spins/Iri panel published in Food Navigator-USA, oat milk has edged soy milk out of second place in plant-based milk alternatives over the 12 months to 6 September 2020. In the scope covered (excluding e-commerce, convenience stores and retailers such as Aldi, Costco, Whole Foods and Trader Joe’s), sales increased fourfold over one year to \$216 million. Almond milk remains the leader in the category with a 63% market share.

The boom in sales of oat-based beverages began at the end of 2016 with the arrival in the U.S. market of Swedish company Oatly. Players in this segment include other specialists in plant-based alternatives (Califia, Elmhurst, Happy Planet, amongst others) as well as companies active in dairy products (Chobani, Danone, HP Hood) or not (Pacific Foods and Rise Brewing).

Butter maintains its momentum during the Covid period



Butter made a comeback in the American diet in the mid-2010s when the virtues of full-fat dairy were rediscovered. According to Euromonitor, retail sales grew by 3.4% per annum in value and 2.3% per annum in volume from 2015 to 2019, while margarine declined by 4.7% per annum in both volume and value.

The market’s growth accelerated with the lockdown and resulting surge in home cooking. In 2020, Euromonitor estimates retail sales could increase by 9%. European butter exports to the United States have also increased.



Retail

Ahold Delhaize and Centerbridge Partners acquire FreshDirect



Dutch retailer Ahold Delhaize announced on 18 November that it had finalised the acquisition of 80% of the share capital of e-merchant FreshDirect. The Centerbridge Partners fund acquired the remaining 20%.

Ahold Delhaize is acquiring a well-known player in online sales and home delivery on the East Coast of the United States (from Connecticut to Washington). FreshDirect stands out as a fresh product specialist with strong expertise in sourcing. The company operates a new, ultra-modern storage and order preparation base in the Bronx. Against the backdrop of the coronavirus crisis, its revenue is growing strongly and its services have expanded, in particular with 2-hour express delivery (since June) and same-day delivery in peri-urban areas.

In a fiercely competitive market, FreshDirect will benefit from the support of Ahold Delhaize to develop its projects.

Amazon launches express pickup service at Whole Foods



Express service, one of the major challenges in home delivery, extends to the other form of e-commerce, pickup. Hy-Vee launched a pickup service back in May. Amazon in turn announced that it is offering a one-hour pickup service to its Prime members as from October 2020 in the group's 487 Whole Foods stores in the United States. The service is free of charge starting from a \$35 basket. Amazon also offers a faster, 30-minute option for a fee of \$4.99.

The group believes that pickup is sustainably established in Americans' shopping habits and indicates that each month, 40% of orders come from consumers using the service for the first time.

Albertsons acquires Kings Food Markets and Balducci's



Albertsons, the no. 4 food retailer in the United States, acquired, via its Acme brand, the 27 stores of Kings Food Markets and its subsidiary Balducci's, which filed for bankruptcy in August. The deal is worth \$96.4 million.

The two players are located on the East Coast of the United States. Kings is a supermarket chain present in New Jersey, New York and Connecticut. Balducci's operates gourmet stores in New York, Connecticut, Maryland and Virginia. Acme stated that it would run the acquired entities under their current banners.

Agri-food industry

Lactalis acquires the majority of Kraft-Heinz's cheese activities



Dairy products specialist Lactalis acquired the majority of Kraft-Heinz's cheese activities. The acquisition scope includes natural, grated, cultured and speciality cheeses in the U.S. market, grated cheeses in Canada and international cheeses outside the United States and Canada. This includes the brands Breakstone's, Knudsen, Polly-O, Athenos, Hoffman's, Cracker Barrel (U.S. only) and Cheez Whiz (excluding U.S. and Canada). Lactalis also acquired three plants in Tulare (California), Walton (New York) and Wausau (Wisconsin), representing total revenue of \$1.8 billion in the 12 months to end-June 2019. The French group also has a licence enabling it to develop the Kraft brand internationally for these categories and for processed cheeses. Kraft-Heinz, on the other hand, retains its flagship product Philadelphia and the processed cheeses Velveeta and Cheez Whiz in the United States and Canada.

The deal amounts to \$3.2 billion (€2.7 billion), i.e. 12 times EBITDA. It is expected to be finalised in the first half of 2021, subject to regulatory approvals.

Lactalis is therefore doubling its size in the U.S. market. The group had already acquired Stonyfield in July 2017, The Icelandic Milk Company and Skyr Corp. (Siggi's brand) in January 2018 and Ehrmann's yoghurt activities in the United States in July 2019. The United States will become Lactalis's second-largest market after France with sales of \$3.5 billion. The objective is also to develop the internationalisation of the brands acquired from Kraft-Heinz or under licence.



Chobani innovates in functional yoghurt and “better for you” products

Chobani The company revolutionised the fresh dairy products market in the late 2000s with its Greek yoghurt, which remains its flagship product. Since then, the company has released a raft of innovations, even launching into oat drinks in 2019. It stands out once again by surfing on current trends with a range of high-protein Greek yoghurt, with no added sugar and lactose-free, as well as a range of plant-based drinks containing probiotics.

Some Agri-food giants also demonstrate their interest in probiotics: Danone (Activia), Kellogg’s (Special K Nourish), and General Mills, which announced a partnership with GoodBelly (cereals) last summer.

Nestlé acquires meal delivery company Freshly



Nestlé had already acquired a 16% stake in Freshly in 2017 to stay on top of the market. The deal values Freshly at \$950 million with a potential additional

payout of \$550 million linked to future results.

Freshly, founded in 2015, is on track to achieve sales of \$430 million in 2020 in a meal delivery market boosted by the coronavirus crisis. The company has adopted a health-oriented positioning: natural sweeteners, minimally processed products, milk-free, gluten-free and soy-free options, meals packaged in single portions for better ration control.

Private label specialist Treehouse acquires regional pasta brand



Treehouse, the largest private label player in the United States, has acquired the regional dry pasta brands of Riviana Foods, a subsidiary of the Spanish group Ebro Foods, for \$242.5 million. The acquisition scope represents revenue of €200 million for the fiscal year ended 30 June 2020.

Treehouse, a company built through multiple acquisitions, has gone through a period of extensive restructuring with the disposal of business segments. These difficulties have prevented it from benefiting fully from the momentum of private label products, as its CEO acknowledged in 2019.

The acquisition of these regional brands marks a new turning point. Pasta is one of Treehouse’s largest categories (€300 million in revenue in 2019), with 20% already consisting of branded products. The group is looking for commercial and industrial synergies (the transaction includes only one plant in order to saturate existing sites). The deal will also enable it to strengthen its position in a market boosted by the coronavirus crisis.

Regulation

FDA issues draft guidance to encourage voluntary disclosure of sesame used as a flavouring or spice

In mid-November, the FDA issued a document encouraging manufacturers to voluntarily declare sesame in the list of ingredients when used as a flavouring or spice. This is a step in the process launched in 2018 to determine whether sesame should eventually be included in the list of allergens requiring mandatory labelling.

The list includes milk, soy, fish, shellfish, nuts, peanuts and wheat. It has not been amended since the 2004 Food Allergen Labelling and Consumer Protection Act, which requires all food labels to list ingredients that may cause allergic reactions.

The USDA wants to tighten the rules governing organic products

The USDA published a proposal in early July to tighten the regulation of organic products throughout the value chain to combat fraud. The agency’s proposals include extending the certification obligation to new players who were previously exempted, providing certificates for foreign products, and stepping up unannounced checks. The draft was open for public comment until 5 October.



Main deals in the 3rd quarter of 2020

Main deals involving targets in the United States

Deal value in €m

Secteur	Date	Transaction	Valeur
Pastry & bakery	26/08/2020	Sovos Brands Intermediate (Advent International) acquires Birch Benders (pancakes and waffles)	n/a
	25/08/2020	Parker Products (Riverside fund) acquires Creative Food Ingredients (bakery and pastry)	n/a
	14/08/2020	Tilia fund acquires Ellison Bakery (cookies) from Blackford Capital and other funds	n/a
Sweet snacks	03/08/2020	Noble Foods (energy bars, Novacap fund) acquires Betty Lou's (energy bar co-packing)	n/a
	31/07/2020	TruFood (snacks and chocolate, AUA fund) acquires Simply Natural Foods (energy bars)	n/a
Meat Delicatessen	18/09/2020	VMG fund sells meat-based snack manufacturer VSC to sausage producer Johnsonville	n/a
	09/07/2020	Sonoma Brands acquires Chef's Cut Real Jerky (meat-based snacks)	n/a
Dairy products	18/09/2020	Swiss group Emmi acquires 87.7% of Indulge Desserts (frozen pastry) from the AUA fund	n/a
	15/09/2020	Kraft-Heinz sells majority of its cheese activities to Lactalis	2,696
Fruit and vegetables	21/09/2020	Fruit producer Milne Fruit Products acquires Valley Processing (fruit juices and puree)	n/a
	08/09/2020	Universal Corp acquires Silva International (dehydrated vegetables and fruit-based ingredients)	144
Condiments	22/07/2020	Olde Thompson (Kainos fund) acquires Gel Spice (spices)	n/a
Beverages	01/09/2020	Circleup Growth Partners and TQ Ventures sell Liquid I.V. (drink mixes) to Unilever	n/a
	19/08/2020	Cavu Venture sells Waterloo Sparkling Water to several funds (including Flexis and Eurazeo)	n/a
	17/08/2020	UK group Diageo acquires Davos Brands (spirits)	282
	02/07/2020	Européenne de Participations Industrielles acquires 60% of Folio Fine Wine Partners (wine)	n/a
Ingredients	10/08/2020	Florida Foods (ingredients, MidOcean fund) acquires Amelia Bay (tea extracts, coffee, herbs)	n/a
	29/07/2020	National Flavors Company (Riverside fund) acquires GB & Associates (flavourings)	n/a
Food supplements	14/09/2020	Highlander fund acquires Hilo Nutrition (food supplements)	n/a
	14/09/2020	Bettera Brands (Highlander fund) acquires Nutravail (nutritional ingredients)	n/a
	21/08/2020	United Sport Brands (Bregal Partners fund) acquires Go Glukos (sports/energy nutrition)	n/a
Other	12/08/2020	Manna Pro Products (petfood) acquires Doggie Dailies (nutritional supplements for dogs)	n/a
	09/07/2020	Michael Foods acquires Henningsen Foods (egg products) from Japanese group Kewpie Corp	n/a

Source: Unigrains based on Merger Market and press

The dates provided are the dates on which transactions were announced

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