



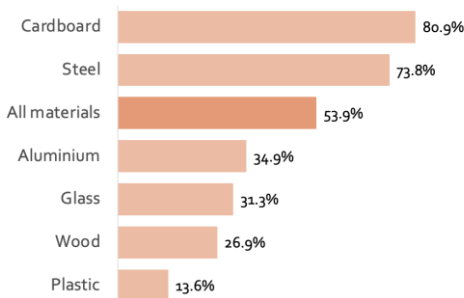
US Food Market

Unigrains' views on the key events of the quarter

Headline news: renewed packaging initiatives in the United States

Packaging is a key element of a product, primarily fulfilling essential functions of food protection and conservation. In recent years, however, there has been increasing criticism about its environmental impact, particularly with regard to plastics. In the EU, this is reflected in strong societal and regulatory pressure that is leading to rapid changes in food packaging. In the US, the movement does not seem to be as strong, but there are a growing number of initiatives.

Recycling rate of packaging collected by municipalities in the United States in 2018



Source: Unigrains based on EPA

United States: highly decentralised and fragmented packaging management but discussions under way at the federal level

US consumer awareness of the environmental footprint of packaging has increased in recent years, as evidenced by surveys. Although the coronavirus crisis has turned the spotlight onto the role of packaging in food safety, this awareness persists, particularly among Millennials and Gen Zs.

That said, recycling rates for household packaging are still at modest levels (54% overall in 2018, 14% for plastics), lower than in the EU (70% and 42%, respectively). These levels reflect a complex and heterogeneous context in terms of regulatory framework and waste management.

In the United States, there is currently no federal framework addressing the environmental impact of packaging. However, discussions are under way. In November 2020, the EPA (Federal Environmental Protection Agency) announced a recycling goal of 50% of waste by 2030 (32% in 2019) and is

working on a national recycling strategy. In parallel, the *Break Free from Plastic Pollution Act*, which was rejected in 2020, was reintroduced in March 2021 in an amended form (and under a new administration). This project aims, among other things, to ban certain single-use plastics, to encourage recycling and reuse, and to introduce requirements for recycled material content. However, some of the provisions remain highly contentious.

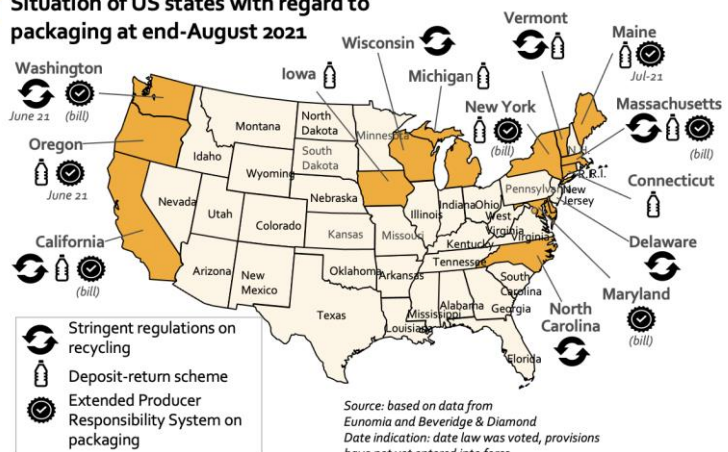
On the other hand, there are regulations and bills at the state level to reduce the marketing of certain materials or to require a minimum recycling rate. The national average hides major disparities, linked to the level of requirement of the specific provisions for packaging, or to the existence of deposit schemes for glass or plastic bottles.

The State of California was a pioneer in this respect with the adoption of the *Rigid Plastic Packaging Container Law* as early as 1991, and then by being the first to require a minimum incorporation of recycled material in plastics. Other states have regulations in place or are considering them.

The picture is also very mixed in terms of collection and recycling. The structures appear fragmented and the lack of harmonised standards accentuates the difficulties. Their funding, which is the responsibility of states and municipalities, is also fragmented.

The investment needs are significant and in order to meet them, the concept of extended producer responsibility is gaining ground. In such a system (which already exists in the United States for other products, such as batteries and electronic devices), the manufacturer contributes financially to the organisation of the collection and treatment of the waste it generates, with the contribution varying according to the difficulty of recycling the packaging ("eco-modulation"). This concept, highlighted in the *Break Free from Plastic Pollution Act*, was recently adopted in two states, Maine (in July) and Oregon (in August). Other states have a bill under discussion.

Situation of US states with regard to packaging at end-August 2021



Source: based on data from Eunomia and Beverage & Diamond. Date indication: date law was voted, provisions have not yet entered into force

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It should be noted that the use of environmental benefit claims is regulated at federal level by the *Federal Trade Commission* through the “*Green Guides*”. In light of market developments, these standards will be reviewed in 2022.

Increasing pressure on brands and retailers

At the same time, consumers and associations have growing expectations of brands. Pressure is mounting, particularly on the large listed groups, which are under the spotlight. These groups have set targets as part of their CSR policies, but associations are calling for more ambitious commitments to reduce plastic use and incorporate more recycled material.

This is notably the case of *As You Sow*, a US investor advisory organisation that seeks to promote corporate social responsibility through shareholder resolutions. The association targets manufacturers, as well as retailers and restaurant chains. In 2021, it lobbied a dozen companies including Kraft Heinz, Keurig Dr Pepper, Walmart, Kroger, Target and McDonalds. Several of them have announced new commitments.

In this context, the market players are setting up collective organisations. In August 2020, the *U.S. Plastics Pact* consortium was created as part of the Ellen MacArthur Foundation’s global *Plastics Pact* network. Led by the *Recycling Partnership* and WWF, it brings together a range of public and private sector players across the plastics value chain, including major brands and retailers (Walmart, Target, Aldi, etc.). The consortium has set targets for 2025 and published a roadmap in June 2021 outlining the different steps to achieve them. The *Recycling Partnership* itself submitted a framework for developing recycling infrastructure for public comment on 11 August.

At the same time, an increasing number of individual corporate initiatives can be expected. A striking example is the launch at the end of August by Chobani, a group known for its ability to innovate, of a pot made of 80% cardboard for its range of oat-based yoghurt substitutes. This launch marks an acceleration of the company’s commitment to “greening” its packaging. Chobani is also committed to working with stakeholders to improve recycling infrastructure. In addition to eco-design, reducing the environmental footprint of packaging involves raising consumer awareness of the need to sort packaging as well as investing in collection and recycling.

As French and European companies are themselves highly aware of these issues, they have acquired experience that they can draw on when adapting to the specificities of the US market.

Key events of the last quarter

Consumer trends

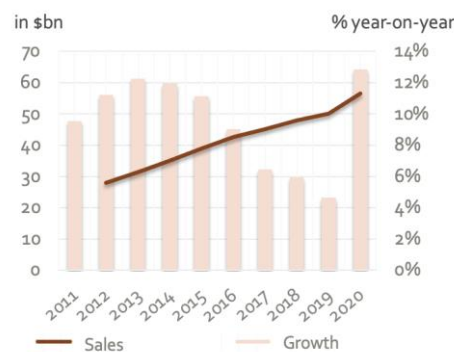
Acceleration of organic retail sales in 2020

According to the *Organic Trade Association* (OTA), retail sales of organic food products grew by 12.8% in 2020 to \$56.4bn, i.e. a 6% market share. This trend applies to all categories.

Growth was almost three times faster than in 2019, exceeding that of conventional products (+4.9%, including a minority share of non-food products). The context of the coronavirus crisis has led to a shift in consumption from out-of-home catering to home, automatically leading to an acceleration in retail sales. It has also increased consumer awareness of healthy products, which has benefited organic products.

Sales are expected to remain buoyant in 2021, even if they do not return to double-digit growth. The levels achieved support the USDA’s plans to tighten up the regulation of organic products along the value chain to combat fraud.

Retail sales of organic food products in the United States



Source: Unigrains based on OTA

Record avocado consumption in 2020 despite the collapse of out-of-home catering

Another beneficiary of the healthy food trend is the avocado, which reached record levels in the US. According to FruitTrop, consumption increased by 6 to 7% to 1.27 MT, or 3.8 kg/inhabitant, despite the collapse of out-of-home catering (around 30% of outlets). Sales were boosted by intense promotional activity and the development of avocados packaged in nets, which helped to lower prices.

The US market is supplied by Californian production and imports, mainly from Mexico and Chile. Avocados are eaten in many forms – guacamole, California rolls, poke bowls, and even ice cream – and are favoured by a diverse clientele, from New York vegetarians to more traditional dips lovers. Sometimes considered as a superfood, avocados are also increasingly criticised for their environmental footprint (water consumption, import flows).

Buoyant food speciality market in 2020

According to the *Specialty Food Association (SFA)*, the market for speciality foods (products that stand out from the standard offer in a variety of ways, *better for you*, local, fair or sustainable) continued to grow in 2020 in the context of the coronavirus crisis. The surge in retail sales (+19.4%) more than offset the fall in out-of-home catering (-30%). All channels combined, growth reached +7.5% versus 5.4% in 2019. Consumers were keen to diversify their home meal purchases and speciality products met their expectations. The most dynamic category was plant-based meat substitutes: up 130% to \$52.7m.

Unsurprisingly, online sales were the most dynamic (up 80% to reach a 5.8% market share), but they also represent a challenge for speciality foods: this sales method limits the possibilities of discovery and impulse buying.

For the coming years, the SFA expects growth to return to close to pre-crisis levels, i.e. +4.4%/year by 2025.

Agri-food industry

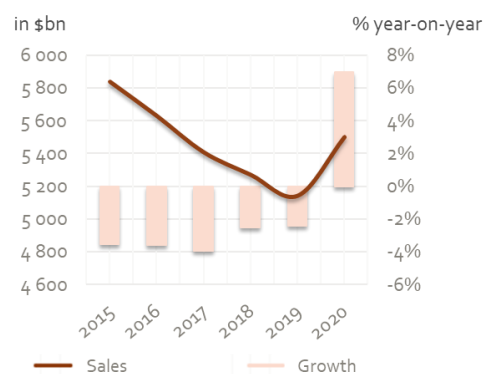
PepsiCo sells control of Tropicana to PAI Partners

PepsiCo sold control of its Tropicana fruit juices and several other beverage brands, representing sales of \$3bn, to the PAI Partners fund for \$3.3bn. The US giant retains a 39% stake in the business, as well as exclusive distribution in small format stores and food service outlets in the US. The deal remains subject to the approval of the competition authorities.

It is taking place in a context of falling retail fruit juice sales between 2015 and 2019 as consumers turned away from high-sugar drinks, followed by a recovery in 2020 in the midst of the Covid-19 crisis. It remains to be seen whether this rebound will be lasting.

PAI Partners intends to boost the business through innovation, diversification of distribution channels and expansion into adjacent categories. PepsiCo is refocusing on low-calorie sodas and sparkling water machines (Sodastream).

Retail sales of fruit juice in the United States



Source: Unigrains based on Euromonitor International 100% fruit juice and nectars

Chobani launches a Fair Trade certified range and moves ahead with its IPO project

In May, Chobani became the first company to launch Fair Trade Certified dairy products in the US market. The range, consisting of Greek yoghurts, is certified by Fair Trade USA. The programme collects premiums that go into a fund to finance projects to improve milk production. The initiative started in 2019 as part of the company's *Milk Matters* programme to improve production and upstream supply standards.

Chobani is also pursuing its plan to list on the New York Stock Exchange. The company (which remains in deficit for 9 months 2021) filed a registration form with the SEC on 17 November. The Wall Street Journal estimated back in February that the enterprise value could be between \$7bn and \$10bn.

Bel launches Nurishh, a brand dedicated to plant-based alternatives

The Bel dairy group launched its new 100% plant-based international brand, Nurishh, in the United States. The range is certified plant-based (by the *Plant-Based Food Association*) and vegan (by the *Vegan Society*).

With Nurishh, Bel has added a third pillar to its traditional cheese business and fruit processing (MOM) operations. The group is also confirming the shift to plant-based products undertaken in 2020 with the acquisition of a French company specialising in this market, All In Foods. The range includes slices, blocks, shreds and cheese platter products to cover all consumption occasions in the target countries.

Cheese substitutes are an emerging and fast-growing market that is attracting a lot of attention. Pure players have emerged in recent years: Daiya (acquired by Japan's Otsuka in 2017), Kite Hill, TreeLine and Miyoko's Creamery. Major groups are also interested, in particular Danone which, like Bel, has acquired a pioneer in the sector (US company Follow Your Heart) to ramp up in the category.

Retail

Uber expands into home grocery delivery with Costco and Albertsons

Restaurant meal delivery specialists are drawn by the success of grocery delivery, and looking to pose as an alternative to the big leader, Instacart. Uber is one of the contenders and has initiated a pilot programme with Costco (no. 3 food retailer in the United States) for same-day grocery delivery. The company had already formed a partnership with Albertsons (no. 4 food retailer). The Uber and Uber Eats apps now list 1,200 Safeway, Jewel-Osco, Acme, Tom Thumb and Randalls stores, covering more than 400 cities.

However, Uber does not have exclusivity. In order to accelerate the deployment of their service and to best cover their customers, the two brands (as well as others) activate several levers at the same time and notably work with Instacart. The latter maintains a large lead with more than 600 national and local distributor partners.

Gorillas enters US ultra-fast delivery market



The German start-up, which specialises in 10-minute home delivery, launched its business in late May in several New York City districts. In terms of logistics, the company relies on mini-warehouses (*dark stores*) located in the areas served. The range is limited (2,000 to 2,500 products) and includes local brands.

Gorillas joins other players who are positioning themselves in the ultra-fast delivery segment. Among them is Gopuff, which now operates in 650 cities. These disruptive offers increase the pressure on other players to react. Instacart, which made its success with a same-day service, has launched a 30-minute service and Uber Eat has partnered with Gopuff.

However, the low delivery costs (\$1.8/order with no minimum purchase) raise questions about the viability of the business model. Most recently, Gorillas has indicated that it is putting its expansion plans outside of New York on hold in order to strengthen its current locations.

Amazon discontinues Go Grocery to focus on Amazon Fresh stores

In addition to acquiring the Whole Foods chain in 2017 (500 stores), Amazon has come to physical retail by creating several concepts in recent years, none of which have been widely rolled out. The group is now streamlining its offering, as it did in e-commerce with the shutdown of Amazon Pantry. It is shutting down its Go Grocery supermarket chain just one year after its launch to include it in the Amazon Fresh chain.



Amazon Fresh, launched in August 2020, currently has 17 outlets in 6 states. These stores have a "micro-fulfillment" area, dedicated to automated order processing to provide an express delivery service. Amazon also announced the deployment of its new cashless payment technology based on connected shopping carts ("*Dash Cart*"), a technology better suited to the supermarket format than the initial "*Just Walk Out*" solution implemented in Amazon Go convenience stores.

Amazon is continuing to look into physical retail. The US press mentioned a project of department stores, selling food and non-food products.

Regulation

Sesame now considered a major allergen

The law was signed by the US president on 23 April. The presence of sesame in a food will have to be mentioned on the label from 1 January 2023.

Sesame joins a list of major allergens that already includes milk, soy, fish, shellfish, nuts, peanuts and wheat.

FDA revises marketing standards for yoghurt

The regulation, published on 11 June, aims to modify and modernise the standards of identity for yoghurts. As Business France points out, the aim of this revision is to allow greater flexibility and to take into account technological advances in yoghurt production.

The regulation expands the list of authorised ingredients, allows vitamin A and D enrichment and defines the indications regarding the presence or absence of live and active cultures. Compliance must be achieved by 1 January 2024.

Main corporate events of the last quarter

Main deals involving targets in the United States in the third quarter of 2021

Deal value in €. Sources: MergerMarket and press.

Sector	Date	Deal	Value
Pastry & bakery Biscuits	22/09/2021	HumanCo acquires controlling stake in Against the Grain (pizza, bread, grain-free bagels)	n/a
	21/09/2021	Michigan Bread acquires Franklin Street Bakery (bread-making)	n/a
	27/08/2021	Rubicon Bakers (Trive Capital fund) acquires Just Desserts (individual baked desserts)	n/a
	27/07/2021	Flagship Food group (Creo Capital Partners) takes controlling stake in Tortilla King	n/a
Meat	12/08/2021	JBS (Brazil) acquires the 19.79% stake it did not hold in Pilgrim's Pride (poultry)	1,089
	09/08/2021	Sanderson Farms is taken over by Cargill and Continental Grain (chicken activity via Wayne Farms)	3,927
Fish	30/08/2021	Italian group Bolton acquires Wild Planet Foods (canned fish)	n/a
Dairy products	01/09/2021	Canadian dairy group Saputo acquires Carolina Dairy (yoghurt)	100
Specialised nutrition	16/09/2021	German group BioeXX acquires nutritional supplement maker BeLive	n/a
	08/09/2021	Alete Active Nutrition acquires sports nutrition specialist Bonk Breaker Nutrition	n/a
Pet food	09/09/2021	Wind Point fund acquires Pet Tech Laboratories (custom nutritional supplements)	n/a
	23/08/2021	Chinese group H&H acquires Zesty Paws (nutritional supplements for cats and dogs)	520
	12/08/2021	Kainos Capital acquires pet food manufacturer Münster Milling	n/a
	29/07/2021	Frontenac fund sells controlling interest in Whitebridge Pet Brands to Belgian fund NXMH	n/a
	14/07/2021	Vestar fund acquires controlling stake in PetHonesty (dog food supplements)	n/a
	01/07/2021	Central Garden & Pet Company acquires D&D Commodities (bird food)	n/a
Beverages	16/08/2021	First Bev fund acquires Health-Ade (kombucha)	n/a
	03/08/2021	Argentina's Terold acquires wine producer Wynery Exchange	n/a
	03/08/2020	Pepsico sells the North American operations of Tropicana to French fund PAI Partners	2,781
	13/07/2021	Goldman Sachs sells Suja Life (fruit juice and smoothies) to Paine Schwartz Partners fund	n/a
	09/07/2021	Sycamore fund acquires wine producer St Michelle Wine Estates	1,012
Ingredients	21/09/2021	MidOcean fund sells Ardian a majority stake in Florida Food Products	n/a
	17/08/2021	FlavorSum (Riverside fund) acquires Whittle & Mutch (beverage flavourings)	n/a
	20/07/2021	Pamplona fund sells BakeMark (pastry and bakery ingredients) to Clearlake Capital fund	n/a
	12/07/2021	KPS fund acquires 50% stake in Tate & Lyle's North and Latin American businesses	1,096
Other	28/09/2021	Falfurrias acquires Rice's Honey	n/a
	07/09/2021	Butterfly fund acquires Chosen Foods (food and beverage products)	n/a
	17/08/2021	Harlan Bakeries (bagels and pies) acquires AmeriQual Group (ready-made meals, sauces, condiments)	n/a
	15/07/2021	Nove Foods (Thailand) and Unovis fund acquire a stake in Wicked Foods (plant-based products)	12
	08/07/2021	Canadian group Richardson acquires Italgrani USA (durum wheat semolina)	n/a

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