Food and Agribusiness Market Update
Industry Consulting | Q2 2021

TRUIST

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Highlights:

- COVID-19's impact on the food industry has a rather "long-tail"
- The food and agriculture space will be strongly affected by the $2T Infrastructure Bill
- Foodservice and retail may never look the same and why you can expect to see higher prices on menus and in grocery stores for the foreseeable future
- The Grain Rally and how international disputes will drastically impact the resurgent commodity sector
- Why 2020 data on frozen foods reflects an ever-aware consumer
- Lottery tickets, gasoline, and a cold beer – what 7/11's actions could mean for the future of convenience stores and their competition

Fact-Checking Implications of Pandemic Proportions

COVID-19 flipped the food industry upside down and brought painful disruptions throughout 2020 as well as long term effects that will continue to impact the sector for years. 2021 introduced a new Administration in Washington to the United States; a transfer of power towards policies and actions that will impact all corporations – particularly the food sector given its high level of interconnectivity from raw materials to the end markets of consumption (food service and retail), as well as its dependence on international trade partners for success. Social and geopolitical issues and resulting actions have a direct effect on the food supply – this publication seeks to analyze the key issues affecting the industry, dispel the falsehoods, and provide a forward-looking perspective on the food and agribusiness space.

1. ***COVID-19's impact on the food industry will be negligible following a successful vaccine roll-out***
   - At the time of this publication, roughly a quarter of the U.S. adult population is fully vaccinated, which is of course good news as we continue the push toward herd immunity, begin to eat meals away from home again, and return to an overall sense of normalcy. However the "long tail" analysis of COVID-19 includes the lasting impacts of enhanced food safety protocols and employee safeguards – all of which come at a price.
   - In 2020, the U.S. food retail sector spent roughly $24 billion on pandemic-related costs, and a majority of industry stakeholders expect sales and profits to decrease in 2021 given the increased operating expenses associated with safety protocols. COVID-19 accelerated trends that were already in motion due to consumers' desire for traceability, sustainability, and enhanced animal welfare. Global food prices have increased for 10 consecutive months as these costs are passed along to the consumer. Higher freight, manufacturing, shipping fees and sourcing of ingredients have led to increased prices as well.
2. ***President Biden's $2.25 trillion infrastructure bill will be detrimental for large food corporations and farmers alike***
   - From a neutral "Switzerland" perspective, Biden's proposal will potentially help and harm the industry.
   - The $620 billion set aside for transportation to improve infrastructure on bridges, highways, roads, ports, inland waterways, and ferries will be beneficial to enhancing the fluidity of the supply chain, potentially increasing the competitiveness associated with transportation of commodities and other goods.
   - The roughly $175 billion committed to electric vehicle funding presents headwinds for the agriculture sector as demand for biofuels may erode. Abandoning ethanol and biodiesel as a form of fuel would have mixed results overall, as the decline in demand could ease commodity prices in favor of livestock feeders.
   - Funding a bill of this size calls for raising the corporate tax rate from 21% to 28%, minimizing available cash flow for capital investments and potentially increasing interest rates as the government would be borrowing a substantial quantum of debt. There are numerous pros and cons throughout this intricate proposal that will benefit the industry while causing pain in other areas; regardless, companies within and outside the farmgate will be watching the bill closely as it will be transformational to all spokes of the supply chain.

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3. The third stimulus package will save restaurants and on-premise dining will return as the preferred location for food consumption

- This latest financial stimulus package was the largest on record since the pandemic began, but given that roughly 10% of food establishments have already closed as a result of COVID-19, some did not have the liquidity to survive. Quick-service (QSR) and fast casual restaurants, which have lower menu prices and are generally more agile at accommodating new dining protocols (delivery, takeout, and drive-thru), were able to achieve nearly double digit sales growth following the first two rounds of stimulus.
- Delivery sales growth for stimulus recipients exceeded overall delivery growth to the general population. Off-premise food delivery continues to take market share and the sector is thriving and consolidating. Instacart hit its 2025 projections five years early, and Waitr acquired Delivery Dudes, a food delivery service active in 24 cities along the Eastern U.S., for $23MM. These trends are likely to continue as consumers seek convenience; restaurant and foodservice operators who have adapted have certainly demonstrated an ability to recover, and in some cases, prosper.

4. The Raise the Wage Act, which would increase the federal minimum wage to $15/hour, would put many operators out of business

- Outside of the QSR space, most food manufacturers already pay at least $15 an hour for skilled labor. Mega retailers such as Amazon, Target, Costco, and Kroger already offer this wage as well – although some chose to close locations in California when the state enacted the legislation.
- The sector of the food industry that would be most negatively affected is restaurants; operators would be forced to raise prices and/or cut hours and benefits in order to make up for the gap. Additionally, monthly unemployment data reflected 916,000 jobs were created in March, with 20% falling in the food service and drinking establishment space. Although the data appears positive, operators are sharing hiring troubles due to the stimulus payments and increased unemployment benefits. The minimum wage conversation will be crucial to watch as the labor market is already tight; food manufacturers may be forced to increase wages further in order to attract qualified, skilled workers.

Industry Update: Merger Mania & More

Bakery/Confectionery

Post	announces acquisition of	RONZONI	▪ Post to acquire Ronzoni Pasta for $95MM
Cerelia	announces acquisition of	U.S. Waffle Company	▪ Cerelia Group to buy US Waffle for undisclosed amount
Dawn	announces asset acquisition of	Ardent Mills	▪ Dawn Food Products acquires Ardent Mills mix facility in Canada

Produce

Sun-Maid	announces acquisition of	Plum organics	▪ Sun-Maid Growers to acquire Plum Organics from Campbell Soup Company
pma	announces merger with	United Fresh	▪ The Produce Marketing Association will merge with United Fresh Produce Association

Protein

Southwind Foods	announces acquisition of	Certifresh & Terra-Sea Foods	▪ Southwind Foods to acquire seafood suppliers Certifresh Foods and Terra-Sea Foods
Tyson	opens new facility worth	$425MM & 370k SqFt	▪ Tyson's new vertically integrated facility in Humboldt, TN, is its first new facility in 25 years
Atlast	secures funding from	Whole Foods, Applegate, Stonyfield Organic	▪ Atlast Food receives $40MM for its bacon alternative, made from mushroom mycelium

- Alt-protein market could reach $290B by 2035 according to Boston Consulting Group as flexitarians continue to grow and consumers sample different proteins
- Seafood mislabeling is rampant throughout the industry, accounting for as much as 55% of product sold in some countries with little regulatory framework in place
- The Food Industry Association and the Meat Institute Foundation reported that grocery store meat sales increased by 20% last year

5. The recent surge in grain commodity prices is bad timing for the industry

- Not necessarily, but it certainly will have mixed results for industry participants depending upon your station within the sector. Importantly, the surge has had a positive impact on farmer balance sheets, which will provide ample incentive as we rebuild safety stocks of various farm commodities. This should spur demand for agricultural inputs and provide further spark to global trade flows. Conversely, feed costs will increase, which will elevate protein prices for the foreseeable future.
- Ignoring the obvious, direct impacts on various industry participants, the timing of these commodity price increases may be ideal for one very important reason: on the heels of the pandemic, consumers are highly impressionable and generally understanding of the elevated costs being borne by businesses of all types. In past commodity cycles, the ability for businesses to pass along higher prices has been muted. I firmly believe that food manufacturers will have the ability to pass along price increases in this environment, and in recent weeks similar announcements have been made by various multi-national companies such as Coca-Cola and Proctor & Gamble. Pricing activity will continue throughout 2021 at a high pace.
- As uncertainty remains between China and the U.S., this relationship will be crucial to watch in the latter half of the year as U.S. farmers are planting 92MM acres of corn, 90MM acres of soybeans, and 25MM acres of wheat. If either nation takes demonstrative actions towards the other, the agriculture sector could quickly be caught in the fracas of a trade war, in which case commodity prices will become even more volatile.

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Adjacent Sector Commentary

Frozen Foods: As mentioned in previous Truist Food and Agribusiness newsletters, COVID-19 caused consumer panic and a change in many consumer behaviors. Stockpiling and hoarding led to barren shelves in all areas of the store, which represented renewed demand for categories such as canned or frozen goods. While most grocers were focused on the periphery of the store and its higher margin offerings (meats, produce, dairy, etc.), center-of-the-aisle and frozen foods surged into the spotlight. In fact, the frozen category demonstrated the largest retail sales growth rate (39%) among all categories during the pandemic. Frozen breakfast foods, prepared meals, and fruits and vegetables all experienced record sales; these trends are forecast to continue as consumers increasingly seek convenience and embrace the fact that many frozen items/ingredients possess the same nutrient profile as their fresh counterparts.

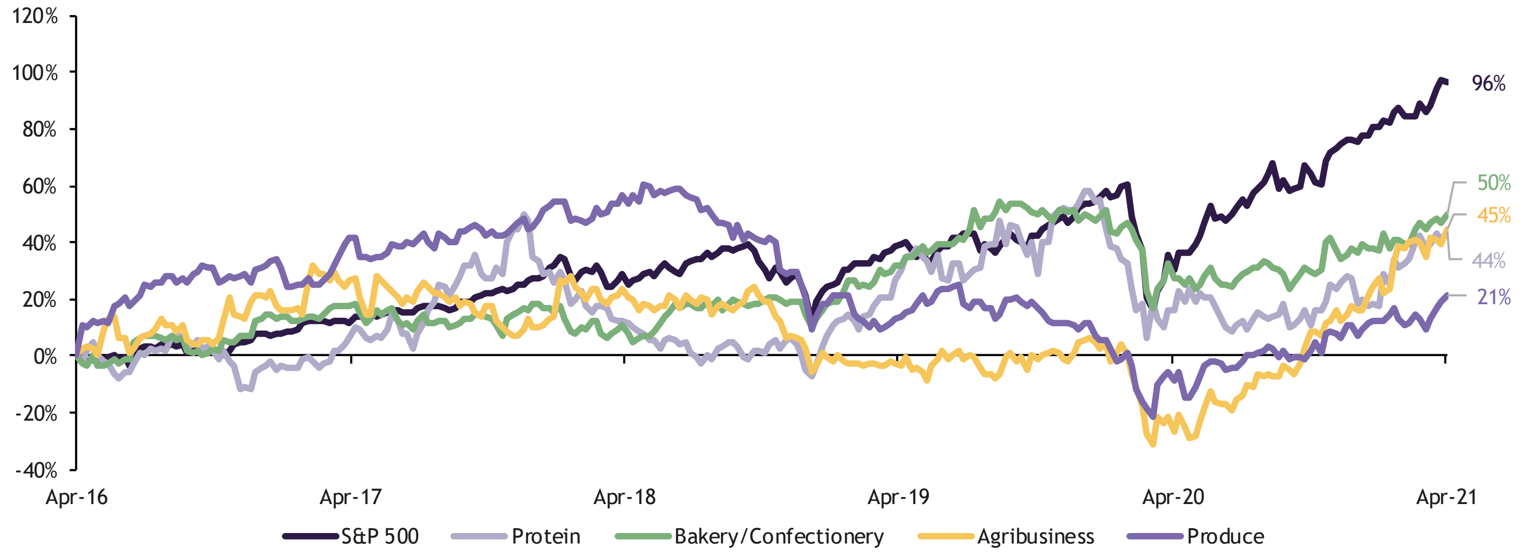
Grocery and Convenience Stores: Grocery sales for national brands reached $657.2 billion in 2020, increasing 11.9% year-over-year. Private-label brand sales totaled $158.8 billion, up 11.6% from 2019. Online sales increased 4X since 2017. These explosive figures are already leading to expansion in the number of stores, the size and offerings within new locations, as well as consolidations via mergers and acquisitions. In 2021 alone, ALDI plans to open another 100 stores, Sprouts will add 20+ locations, and Amazon Fresh will create 40+ stores. Market32 will merge with Top Markets, for a total of 300 stores in the Northeast.
Convenience stores and gas stations are leaning on coffee and groceries to boost bottom lines; Shell to open 10,000 retail stores over the next five years and BP to open 6,700 by 2030. 7/11 plans to permit alcohol consumption in their stores. Expect this innovation to continue as operators seek to drive incremental profit.

Top Frozen Food Performers

Data as of Total U.S. Retail FYE 2020

Frozen Department	Category	$ Growth	△YoY
Prepared Foods	Deli	$2.99B	16.6%
Desserts	Bakery	$2.18B	16.8%
Seafood	Seafood	$1.78B	34.9%
Pizza	Deli	$1.04B	20.9%
Fully Cooked Meat	Deli	$951MM	29.7%
Fresh Meat	Meat	$792MM	26.8%
Vegetables	Produce	$566MM	17.8%
Fruit	Produce	$411MM	34.5%
Processed Meat	Meat	$152MM	19.6%
Ice	N/A	$91MM	5.8%
Bread	Grocery	$85MM	15.6%

Food and Agribusiness Dashboard - Public Share Price Performance Index[1]



Sources: Bloomberg, CapitalIQ, FoodDive.com, Food Institute, GroceryDive.com, Nielsen, Supermarket News, UrnerBarry.
1) All indexes are equally weighted of the following: The Protein Index is composed of TSN, HRL, PPC, SAFM. The Bakery/Confectionery Index is composed of WNGRF, FLO, TWNK, MDLZ, HSY, POST, JJSF, TR, JBSS. The Agribusiness index is composed of ADM, BG. The Produce index is composed of FDP, CVGW, SENEA, LNDC, LAS.A