ORIGIN MERCHANT PARTNERS

# KEY CONSUMER TRENDS IN FOOD & AGRICULTURE

## KEY TRENDS TO WATCH IN 2020 AND BEYOND

A NEW DECADE IS UPON US AND TIMES ARE CHANGING!


**INSIGHT FROM ORIGIN MERCHANT PARTNERS SENIOR ADVISOR, STEVE BROMLEY**

In our ongoing series, we have been exploring key consumer trends in food & agriculture and assessing what they mean to the industry value chain. We have noted from a macro perspective that today's consumers are making more informed decisions than ever before when it comes to their food choices, driving shifts in food preferences, how food is consumed and where it is consumed.

Changing consumer preferences are having a significant impact on the foods value chain, impacting how food manufacturers and marketers think about their products and how they bring them to this ever-changing marketplace. The pace of change has been dramatic and it is our belief that it will only accelerate from here.

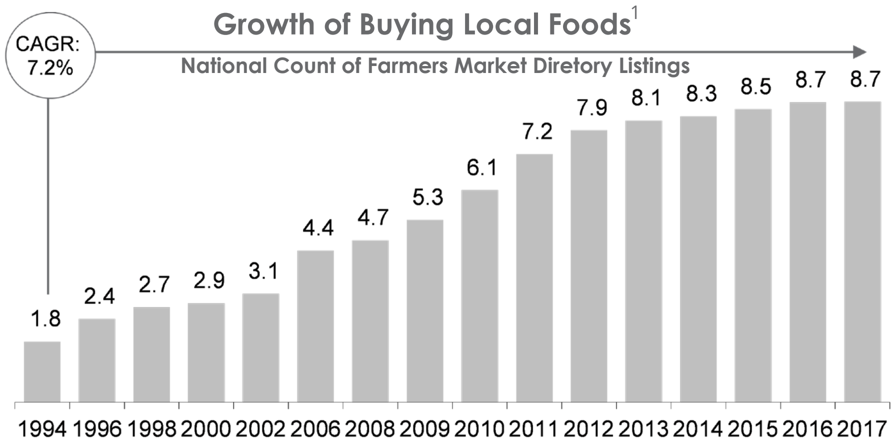
In this report we reflect back on the past decade and what happened to a number of key trends that were identified in 2010, and take a look at a number of key trends that we believe we will have an impact as we head into 2020 and beyond. And if we're lucky, we'll revisit these trends again at the turn of the next decade to see how things unfolded... let's hope!

# A LOOK BACK AT THE TRENDS OVER THE PAST DECADE

Before we explore future trends to watch in 2020 and beyond, we review a number of key trends which were identified at the turn of the last decade – 2010. We focus on six trends that were identified at the time - local foods, gluten-free foods, healthy convenience foods, ethnic foods and flavors, organic foods, and social media impacts. We think it is fair to say that all these trends played out over the past decade and have become a key part of mainstream diet choices.

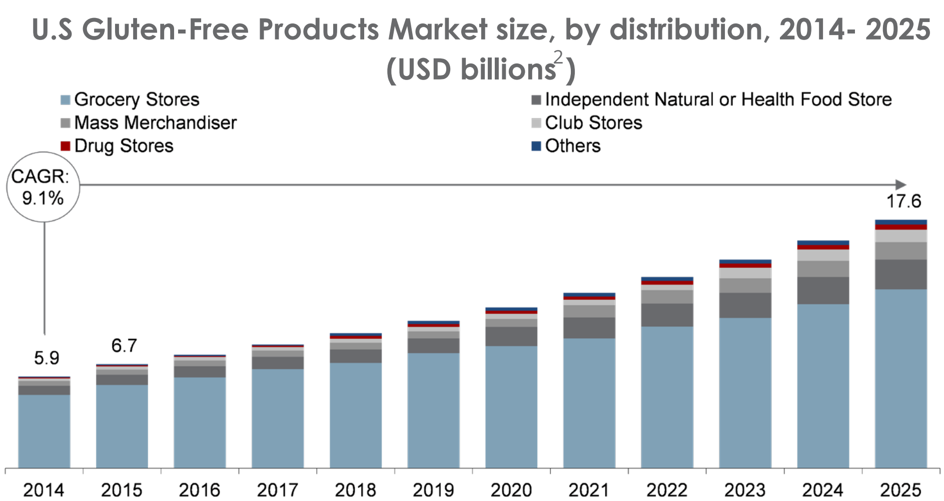
## Local foods

Realized strong growth as consumers desire to consume sustainable, transparent and traceable foods have grown, and this shows no signs of slowing down. Local food sales in the US grew from $5 billion in 2008 to $12 billion in 2018, according to research firm Packaged Facts.




## Gluten-free foods

Gluten-free food consumption moved beyond just consumers with celiac disease (approx. 1% of the population) to include a wide-range of consumers focused on removing gluten from their diets for a range of perceived health reasons. This is also expected to continue into the next decade, but at a slower growth rate.




1. USDA-AMS-Markting Services Division 2. www.grandviewresearch.com



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# A LOOK BACK AT THE TRENDS OVER THE PAST DECADE

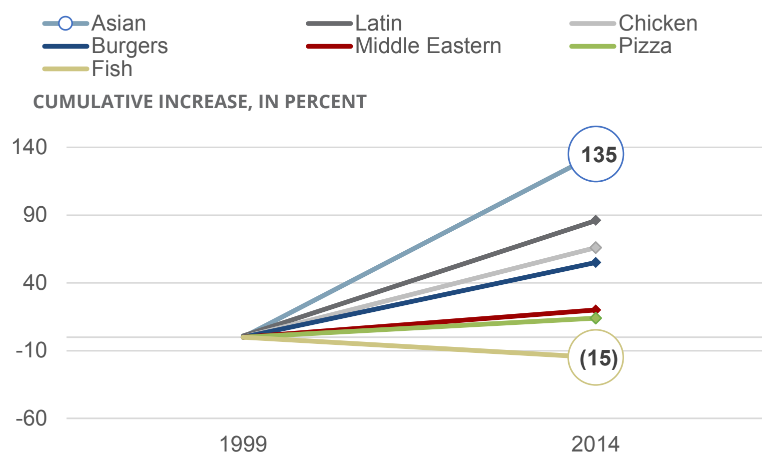
## Healthy convenience foods

The merging of convenience with health and wellness has been a key trend over the last decade, as consumers demand both. No longer do consumers accept that convenience means unhealthy – quite the opposite.

## Ethnic foods & flavors

Realized significant growth driven by shifting cultures in North America combined with consumers' desires for unique flavors, tastes and healthy food products. And this category should continue to grow - by 2031 the majority of Canada's population growth is projected to be driven by immigration, increasing spending on ethnic foods and introducing new flavors. Food producers and retailers will need to be positioned to address this growing demand.

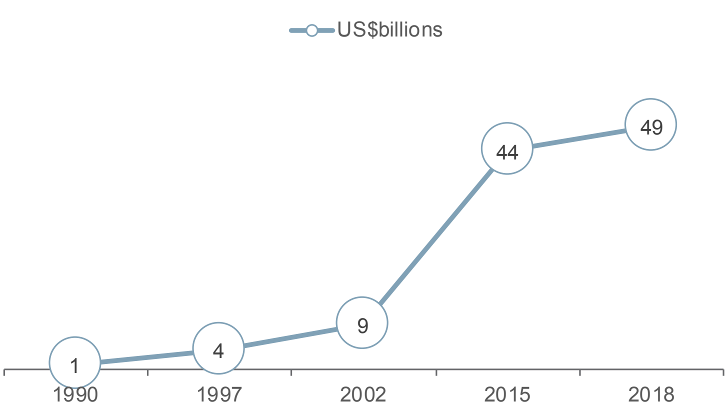
**Spending on Ethnic Options - United States** [2]




## Organic foods

Organic foods realized exponential growth far exceeded the growth of conventional foods over the same period. And there is no reason to believe this will not continue into 2020 and beyond.

**Growth of Organic Sales - United States** [1]




## Food and social media

The use of social media has grown dramatically and cannot be disputed – not only for food tips and restaurants, but to convey where food is from and how it is processed through to delivery and payment options.

Source: 1. Organic Trade Association 2. Unknown

# WHO WILL DRIVE THE TRENDS IN 2020 AND BEYOND?

**As we look at what to expect in 2020 and beyond, it is important to understand the different characteristics of each generation. Millennials and Gen Z will be the largest buying groups in the next decade.**

### Millennials have different values which elicit different buying behaviors

- fewer and later marriages
- technologically connected
- increasingly ethics driven purchasing decisions

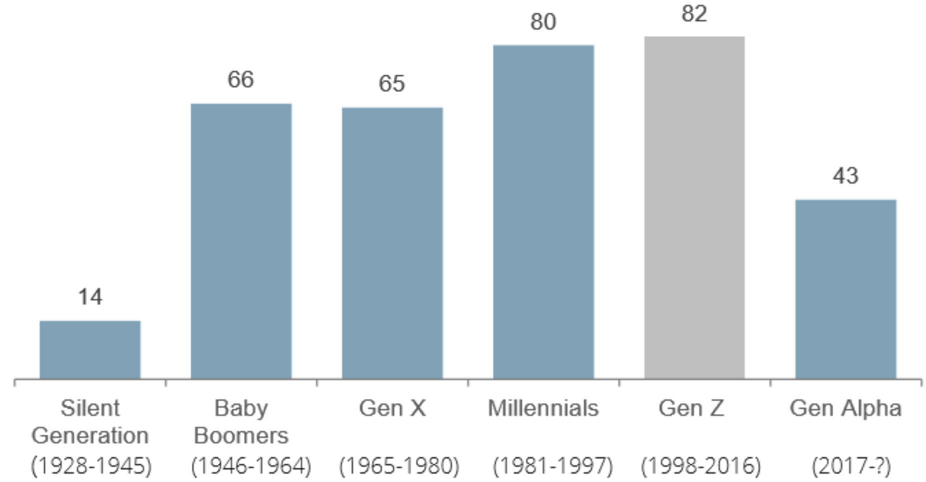
### Food ethics and food integrity concerns impact purchase decisions

- more natural and organic foods
- skeptical of processed food/traditional brands
- higher spend to attain desired food choices

### Gen Z has even further differentiated values and behaviour

- food is an experience - "it's personal"
- social media and technologically savvy
- "pull" information vs. accept traditional media for content
- targetted and freuquent shopping trips

**Estimated US Consumer Population 2026**[1]




**The 5 Generations of Grocery Shoppers**[2]

**GEN Z**
18-21
$269 Groceries/ Month
- Not big spenders yet
- Dedicated to healthy and organic foods
- Diverse cuisines
- Frequent grocery trips

**MILLENIALS**
22-36
$298 Groceries/ Month
- Uses technology to shop & save
- Driven by speed, convenience and value
- Prefers variety over brand loyalty

**GEN X**
37-52
$380 Groceries/ Month
- Biggest grocery spenders (larger households)
- More adventurous shoppers
- Loyal to brands
- Users of digital coupons

**BOOMERS**
53-71
$314 Groceries/ Month
- Downsizing lifestyle
- Technology capable
- More interest in locally sourced products
- Loyal to brands
- Spends most time in store

**SILENTS**
72+
$287 Groceries/ Month
- Lives on fixed income
- Highest per-person bill due to smaller household
- Motivated by value

Source: 1. BI Intelligence Consumers @250 Report, A t Kearney 2017 2. Food Engineering Mag, ACOSTA, Custom the why behind the buy study, 2017

# KEY FOOD TRENDS TO WATCH FOR 2020 AND BEYOND

As we look to key foods trends to watch in 2020 and beyond, many of the key themes from the last decade including health and wellness, convenience and growth of technologies will form the base for what we expect to see over the next decade.

5 key trends we believe will be interesting to watch unfold over 2020 and the next decade include:

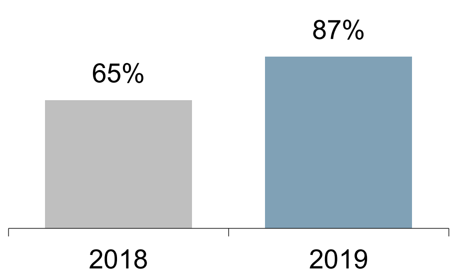
## 1 Continued growth of alternative food options

- Consumers are demanding alternatives for everything – alternative dairy, alternative meats, alternative breads, alternative sweeteners and ingredients... driven by consumer demands for healthy food options versus traditional products. We believe this will be a key trend as we head into 2020 and beyond driven by a combination of health and wellness and sustainability demands.

## 2 Demand for sustainability/transparency/traceability

- Consumer expectations around sustainability are higher than ever and this is expected to grow as environmental and social issues gain more visibility. Companies have been and will need to continue to react with transparent processes and a focus on carbon footprint reduction, renewable energy, recycling, low-impact packaging and distribution options and reduced food waste, to name a few.
- According to the 2019 Innova Consumer Survey – 65% of global consumers expected companies to invest in sustainability in 2018, increasing to 87% in 2019. We believe this will be a key trend as we head into 2020 and beyond, driven by consumer concern over global warming and broader environmental impacts of the food supply chain.

Percentage of Global Consumers,[1] expecting companies to invest in sustainability




1. Source: Innova Consumer Survey 2019. Average of U.K., U.S., & China

# KEY FOOD TRENDS TO WATCH FOR 2020 AND BEYOND

## 3

## Emergence of cannabis based food and beverages

Emergence of cannabis for recreational and medicinal purposes continues at a frantic pace around the globe. Some major players such as Constellation Brands, Molson Coors Brewing and AB InBev have invested in CBD and THC-infused non-alcoholic beverages and other food companies are studying the space and investing as well. According to a study from A.T. Kearney, 30% of Americans are willing to try a cannabis-infused non-alcoholic beverage, and 17% would be interested in an alcoholic drink containing the substance. In addition, it is expected that cannabis will make its way into a wide range of food and wellness products with specific anticipated benefits.

In our opinion food and beverage manufacturers will pay strong attention to this trending ingredient and how it is impacting their respective industries, and be proactive with adapting their products to tap into its potential popularity as we move into 2020 and beyond.

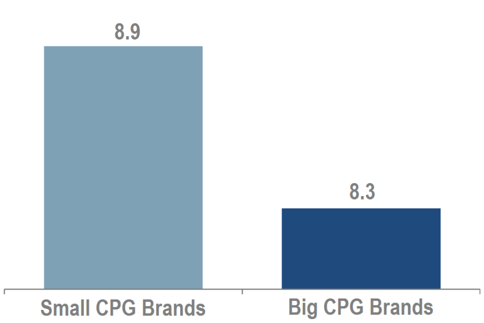

## Pressure on iconic food brands

## 4

Legacy iconic foods brands have come under pressure as consumer preferences have shifted to health and wellness, innovative new products with unique flavours and tastes, sustainable business processes and new technologies which have shifted the playing field for smaller brands. We believe this will be one of the key trends to watch as we look into 2020 and beyond. Will traditional iconic brands be able to reinvent themselves to regain consumer confidence and recapture market share, or will smaller disruptive brands continue to pressure big food? This will be a fun one to watch!

### Smaller Brands Now Trusted More Than Big Brands

**Trust Ratings of big and small brands** [1]




### Legacy Brands Are Under Pressure

**"Extra small brands" with < $100m sales are the fastest growing CPG segment, growing at 4.9% last year[3], thanks to social media/e-commerce breaking down traditional entry barriers and facilitating direct communication with customers.**

### Big Food Losing Share

**"$17 billion in U.S. CPG industry sales have shifted from large players to small ones since 2013"[4]**

**"Over the past year the sales of small CPG firms grew at about 5.8%, far faster than the .9% growth rate of the largest CPG brands."[2]**

Source 1: GlobalData consumer research, May 2018 2. How Can Big CPG Firms Fight Back Against Small Brands? by GlobalData 3. IRI Market Research 4. IRI Market Advantage

# KEY FOOD TRENDS TO WATCH FOR 2020 AND BEYOND

## 5 Growth of "personalized eating - eating for me"

Food is no longer just considered sustenance for many consumers. Food has become a very personal and emotional matter driven by individual needs and preferences, in turn driving the need for food and beverage players to increase this focus on innovation to remain relevant. Consumers have different needs to achieve physical, mental and emotional balance and are becoming more informed and invested in their choices. Product development cycles have and will continue to accelerate to address this trend and new brands and formats are emerging rapidly. We expect that the "eating for me" trend will accelerate over the next decade as food companies are driven to develop flexible and adaptable processes to meet ever-changing consumer needs.


"Personalized health" - demand for proactive maintenance of health and wellbeing via a diet adapted to acheive physical, mental and emotional balance.


"Keep it simple" - demand for flexible solutions that allow intelligent purchasing and consumption via the least time consuming choices. Linked with tools that make lives easier.


"Instant gratification" - demand for maximum flexibilty so consumers can manage their time and health and meet their needs anytime and anywhere.


"Food with a positive message" - demand for foods that are transparent and cleaner label, that are perceived as authentic, genuine and less impactful on the environment.


"Food experience" - demand for foods that connect with the emotional needs of consumers, adding adventure, fun and surprise to the product.

# SO WHAT DOES THIS MEAN FOR FOOD COMPANIES?

- Shifting consumer food choices are the new norm and will continue to drive change throughout the supply chain

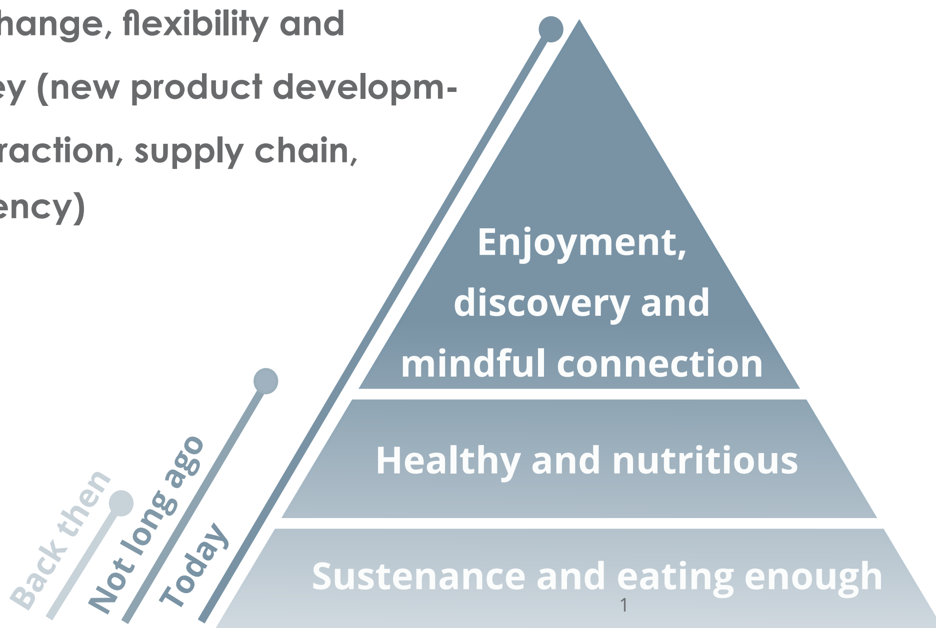
- Changes are happening at an unprecedented pace - understanding the evolving dynamics of food consumption is critical - "proactive innovation vs reactive"

- Historic food products/brands must evolve or become irrelevant... innovate, innovate, then innovate some more ("New and Improved" may not be enough)

- Traditional barriers to entry are eroding as consumer preferences shift - distributors and retailers need to be aware and respond as well

- Corporate cultures must evolve with generational shifts driven by demands for sustainable and transparent business practices - communication channels are evolving and being redefined, e.g traditional TV & radio are less relevant/internet & social media is in!

- With this pace of change, flexibility and adaptability are key (new product development, consumer interaction, supply chain, labelling, transparency)




Source: 1. U.S Grocery Shopper Trends 2018, Hartman Group

# SHIFTING PRIORITIES DRIVING NEW STRATEGIES INCLUDING M&A

Consumer preferences are rapidly shifting with a focus on health and wellness, convenience, sustainability and food experience

New technologies are emerging in response to shifting consumer demands for alternative foods


Shift is causing significant disruption and this is expected to continue

**In order to address these shifting priorities many food companies are adopting new strategies and turning to M&A as an alternative growth avenue**

## PRECEDENT TRANSACTIONS IN THE FOOD SECTOR

Fairlife offers a portfolio of products in the value-added dairy category in North America, a steadily growing segment in the US. Coca-cola recently acquired the remaining 57.5% interest in Fairlife in hopes to extend its beverage portfolio into the value-added dairy category

Primal Kitchen offers premium better-for-you sauces, condiments, dressing and nutritional supplements that contain healthy fats and high-quality protein. Acquired by Kraft Heinz for US$200 million, Primal Kitchen joins the roster of companies on Springboard, a platform dedicated to incubate and accelerate growth of disruptive US brands in the food and beverage space

Bare Foods is a maker of baked fruit and vegetable snacks. Its product portfolio includes apple chips, banana chips, and salt-and-vinegar flavoured beet chips. The company was acquired by PepsiCo, in an effort to diversify its food and beverage portfolio with natural, less-processed foods for the increasingly health-conscious consumer demographic

Amplify Snack Brands is a Texas-native snack maker offering well-known brands such as SkinnyPop, Paqui, Tyrrells and Oatmega. Amplify was acquired by Hershey for US$1.6 billion, representing approximately 15x 2017 EBITDA multiple, in an effort to become a snack making powerhouse

RXBar offers real food protein bars that contain simple and nutritious ingredients clearly labelled on its packaging. Kellogg purchased RX for US$600 million to bring the brand under its umbrella to accelerate growth with its existing resources

Califia Farms is a leading plant-based food and beverage company offering almond milk, coffee, creamers, and other non-GMO natural beverages. The company recently raised US$225 million from a group of strategic financial investors, to aid in launching additional plant-based milks and expansion of the Califia's oat product line. Its continued success stems from a growing trend of consumers seeking healthier, better tasting dairy alternatives, and demand for ready-to-drink beverage format

# SELECTED FOOD & AG TRANSACTIONS

Origin Merchant Partners - Extensive Food and Agriculture Expertise

**ILTA Grain** – Exclusive Financial Advisor on Sale of its Saskatchewan processing facilities to ETG Commodities Inc. & DG Global – November 2019

**ILTA Grain** – Exclusive Financial Advisor on Sale of its Belle Plaine processing facility to Viterra – August 2019

**Hensall Co-op** – Exclusive Financial Advisor on its Acquisition of the Edible Bean Processing Assets from ILTA Grain – January 2019

**GDT** – $30 million – Exclusive Financial Advisor on its Sale to Viterra – December 2018

**KraftHeinz** – Exclusive Financial Advisor on its Acquisition of ethical bean coffee – September 2018

**Avena Foods** (Healthy for life) – Exclusive Financial Advisor on Sale to Ironbridge – June 2017

**Continental Ingredients** – Exclusive Financial Advisor on Sale to Quadra (Specialized. Effective. Trusted.) – September 2016

**The Scoular Company** – Exclusive Financial Advisor on Acquisition of Special Crops Division of Legumex Walker – November 2015

**Hi-Pro Feeds / Birch Hill Equity Partners** – Financial Advisor on Sale of Dexter, New Mexico Processing Facility – The Scoular Company – May 2014

**Organic Meadow** (Local. Organic. Farmer-Owned.) – Financial Advisor on Recapitalization with an Investment from Avrio Capital – January 2013

## FOR MORE INFORMATION on our insights into the food & agriculture sector or to discuss this report further, PLEASE CONTACT OUR ADVISORY TEAM

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