



HOULIHAN LOKEY

Consumer, Food, and Retail Food and Beverage

Considerations for the food and beverage industry amid the COVID-19 outbreak

MARKET UPDATE | COVID-19



Remarks From Jay Novak, Global Head of Houlihan Lokey's Consumer, Food & Retail Group

We recognize that these are uncertain and unprecedented times for you and your families, friends, colleagues, businesses and investments. All of us are facing unique challenges and threats in this new environment—some of you quite acutely. Beginning with the cancellation of Natural Products Expo West in early March and now the seemingly continuous stream of more severe social distancing measures, this pandemic is inflicting profound disruption at a rapid rate throughout the food and beverage industry.

I have worked with business owners and capital providers across the food and beverage space for more than 20 years and have seen various crises come and go. Although this crisis presents grave public health risks very much distinct from other market disruptions, I firmly believe that our sector will continue to be resilient and be a safe haven for investors and capital providers going forward as it has in previous times of heightened uncertainty and volatility.

Even in far less trying times, our firm specializes in helping clients navigate change and uncertainty. As COVID-19 and the resulting economic consequences continue to evolve, we are closely monitoring the capital markets and speaking with business owners across the food and beverage industry. We will continue to be a sounding board for our clients and other market participants as we collectively assess opportunities and challenges in the current environment. We bring to bear a broad range of product and service solutions across the capital structure and we stand ready to discuss the impact of this crisis on the industry and your business.

We will continue to be a visible, vocal, strong, and action-oriented leader within the food and beverage industry. We are open for business and thinking strategically about the days ahead. We look forward to continuing to bring our unique mix of expertise and insight to bear to help our clients navigate this crisis and capitalize on opportunities.

Sincerely yours,
Jay Novak



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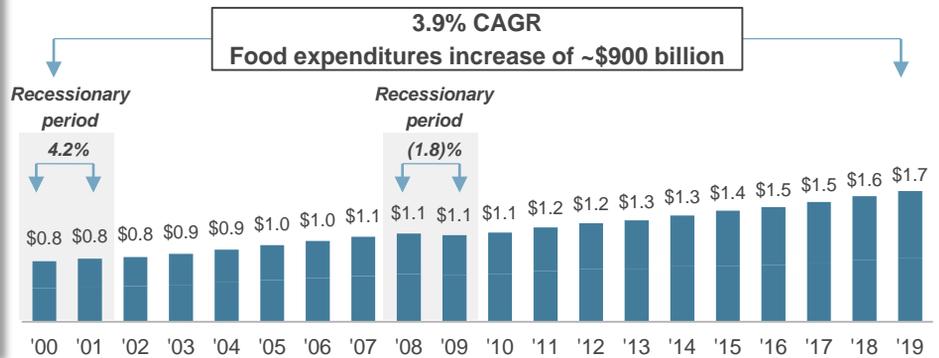
Considerations for the Food and Beverage Industry Amid the COVID-19 Outbreak

In this special market update, Houlihan Lokey's Food & Beverage practice shares perspectives on three trends impacting companies and investors in the food and beverage industry.

Trend #1: Food and beverage as a safe haven

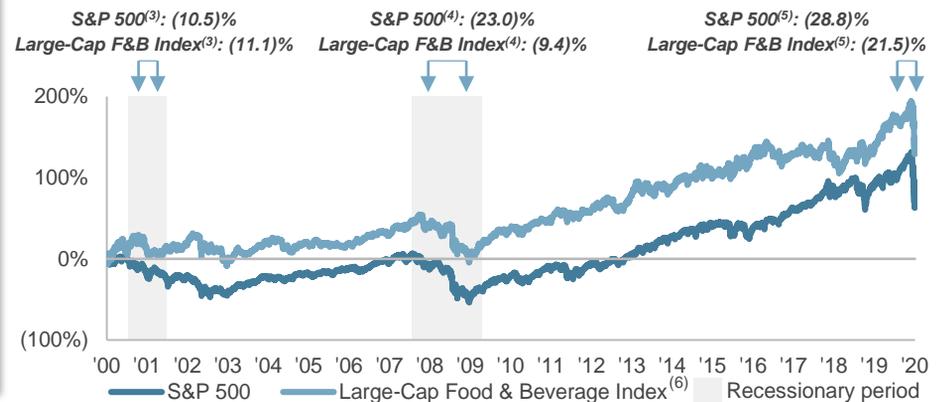
The ongoing disruption to global capital markets is a stark reminder of the food and beverage industry's unique position as a safe haven for investors. If you've been in a food retail store in the past two weeks, you will have been reminded of the food and beverage category's essential role to the consumer.

(U.S. food expenditures⁽¹⁾, \$ in trillions)



Over the past few weeks, shares of large-cap food and beverage companies have materially outperformed the broader market indices. While all episodes of economic downturns and market volatility are different in many ways, food and beverage sector equities have consistently outperformed and we see no reason why this episode would end any differently.

(Index⁽²⁾, 3/17/2000)



Flight to safety of the food and beverage industry in turbulent economic episodes is driven by five key factors:

- ✓ Stable, predictable consumption of food and beverage products across economic cycles
- ✓ Less globalized supply chain that reduces risks of disruption from exogenous shocks (public health crises, trade/tariff policy, weather events, natural disasters)
- ✓ Counter-cyclical nature of profitability in the sector, as raw material prices decline in a downturn, but consumption continues to grow
- ✓ Food manufacturing, marketing, and distribution is highly defensible against threats from Amazon/e-commerce or other technology disruption
- ✓ Brands resonate with consumers across economic cycles, raising barriers to entry and protecting branded companies from competition and profit margin degradation during economic downturns

(1) Source: USDA. (2) Source: S&P Capital IQ. (3) Relative performance for calendar year 2001. (4) Relative performance for calendar years 2008–2009. (5) Relative performance for 2/19/20–3/19/20 period. (6) Large-Cap Food & Beverage Index comprised of Campbell Soup, Coca-Cola, Conagra, General Mills, Hershey, Hormel, Kellogg, Keurig Dr. Pepper, Mondelez, PepsiCo, and Tyson, weighted average index by company market capitalization.

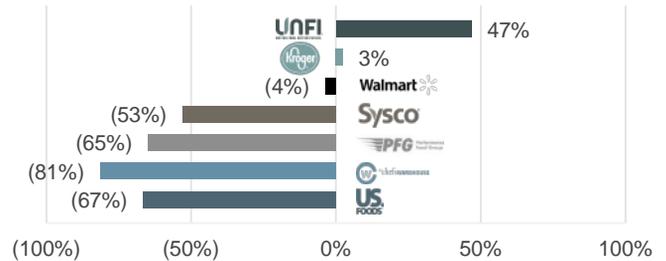
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Trend #2: COVID-19 “big bang” driving significant demand shock to center aisle grocery

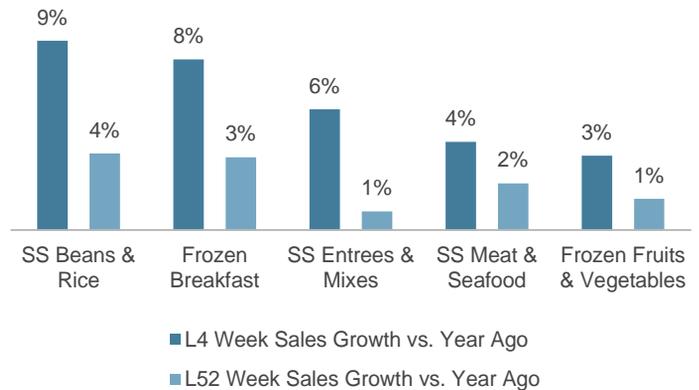
We are witnessing a truly unprecedented, certainly unforeseen, and seismic shift in channel consumption from food away-from-home to food-at-home. Years of channel migration to convenience and foodservice and foot traffic migration away from center aisle categories was suddenly, and massively, reversed in just the last few weeks while the previously in-favor/on-trend foodservice sector is now facing an existential challenge.

As vast numbers of adults and children stay home from work and school for an unknown duration, the next few months (if not longer) are likely to present a historic opportunity for retail focused food and beverage companies to generate cash flow to buttress balance sheets and invest back into their business. Provided that supply chains remain resilient to fulfill demand from the grocery channel, this is truly a historic opportunity for retail focused food and beverage companies. We will be closely monitoring center aisle grocery category consumption data to assess near and long-term changes to consumer behavior after the recent wave of pantry stocking. It is entirely plausible that consumption growth rates across the center aisle may settle at record-setting levels without leakage to away-from-home channels.

(Stock performance between 2/21/2020 and 3/23/2020)



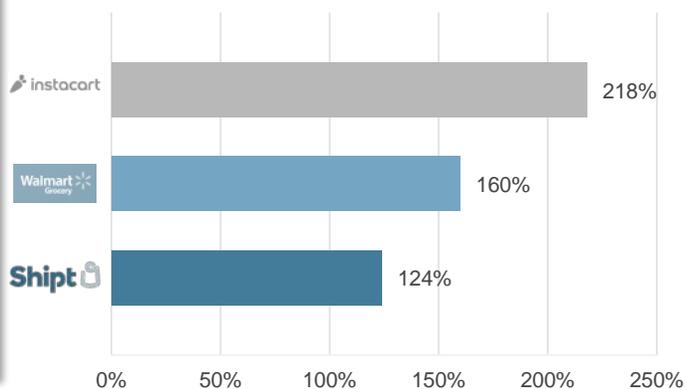
(MULO retail sales growth as of 2/23/2020—Last 4 weeks vs. Last 52 weeks⁽¹⁾)



Trend #3: Will new consumer purchasing habits stick?

The outbreak of COVID-19 is causing a surge of consumers purchasing their groceries online, primarily through mobile delivery applications. While food delivery, click-and-collect, and e-commerce are not new trends, only 4% of U.S. grocery sales were ordered online in 2019, presenting a substantial opportunity for retailers.² So long as food retailers can manage the surge in demand for online purchasing, the rapid consumer uptake of these services, including by older consumers that were previously reticent to adopt online grocery shopping, could potentially prove to drive longer-term behavioral change following the COVID-19 crisis.

(Year-over-year change in application downloads or delivery orders)



Additional topics we are monitoring (links to external articles)

[Recent Decline in OpenTable Restaurant Bookings](#)

[Grocery Delivery Apps Experiencing Record Number of Downloads](#)

[Sysco CEO on CNBC Discusses Helping Grocers Fill Their Shelves](#)

[Consumer Sentiment Down for Sixth Straight Week](#)

[St. Louis Federal Reserve President Predicts U.S. Unemployment Rate Could Reach 30%](#)

(1) Source: Spins data. (2) Source: Nielsen.

How Houlihan Lokey Can Help

Our firm is extremely well-equipped to help our clients navigate uncertain times. We respond quickly to challenging situations and are constantly helping clients to analyze, structure, negotiate, and execute the best possible solutions from both a strategic and a financial perspective.

What We Offer

1 Corporate Finance

Mergers and Acquisitions

Capital Markets

Private Funds Advisory

Board Advisory Services

2 Financial Restructuring

Company Advisory

Special Situations

Distressed M&A

Liability Management

Creditor Advisory

3 Financial and Valuation Advisory

Portfolio Valuation and Fund Advisory

Transaction Opinions

Corporate Valuation Advisory Services

Transaction Advisory Services

Real Estate Valuation and Advisory

Dispute Resolution Consulting

Corporate Finance

We have been the most active advisor to the North American food and beverage industry for over a decade and have long-standing relationships with capital providers, including private equity funds, family offices, commercial banks and other senior credit providers, insurance funds, asset managers, and mezzanine fund investors.

Financial Restructuring

We have the largest special situations practice of any global investment bank. Since 1988, we have advised on more than 1,000 such transactions (with aggregate debt claims in excess of \$2.5 trillion). We served as an advisor in 12 of the largest 15 bankruptcies from 2000–2019.

Financial and Valuation Advisory

For nearly four decades, we have established ourselves as one of the largest financial and valuation advisory firms. Our transaction expertise and leadership in the field of valuation helps inspire confidence in financial executives, boards of directors, special committees, investors, and business owners we serve.

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