B | RILEY Advisory Services

OCTOBER 2021

Monitor
Food

VOLUME 346

FOOD PRICES CONTINUE CLIMBING

WHERE'S THE BEEF?
Prices for beef, pork, and poultry rise steadily as consumer demand grows amid lower supply

SEAFOOD SOARS
Increased demand and sourcing issues cause seafood prices to skyrocket

SUPPLY CHAIN WOES
Food companies face higher transport costs amid labor issues, container shortages, and long lead times

In This Issue

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Deals are a moving target. A constantly shifting mix of people, numbers and timing. We're here to simplify this process for you. Our experts are dedicated to tracking down and flushing out the values you need even on the most complex deals, so you can leverage our hard-won knowledge to close the deal.

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B. Riley Advisory Services Expands To Include Operations Management Services

The U.S. industrial sector has rebounded rapidly in 2021, and with the continued impact of COVID-related supply constraints, company profits are being challenged more than ever. However, B. Riley Financial ("B. Riley") clients saw an average increase in EBITDA of 12.4% in annualized improvement. So how did they do that?

At B. Riley, we invested in expanding our team to meet these challenges head on and support the success of our clients. We acquired Anchor Resource Management, now called B. Riley Operations Management Services, a hands-on seasoned operating team that can rapidly impact the bottom line and change culture for sustainable success. Operations Management Services brings over 30 years of operations expertise and over 750 company transformations.

Our new capabilities add a team of highly skilled executives, general managers, and operations and supply chain professionals that have deep expertise in the food industry. Our breadth of food experience encompasses baked goods, bars & snack foods, nut processing, dairy (including milk, cheese, and ice cream), cereals, bottling, canning, meat processing, fresh produce, and frozen foods, to name a few.

In addition, in 2021, B. Riley launched a Food and Beverage Vertical with a full complement of synergistic services for our clients: Recruiting & Retention Assessments, Operations Transformations, Acquisition Due Diligence, Appraisal & Valuation Services, Real Estate Advisory, and Investment Banking.

With the full force of these expanded, collaborative capabilities, we are helping our clients transform into industry leaders.

B. Riley Operations Management Services professionals stand ready to quickly assess the intricacies of your business. We will develop and implement tailored "self-funding" solutions, empowering your company to be more responsive to current and future market conditions. To explore potential solutions for your business, contact a professional on the Meet The Team page.

FOOD, BEVERAGE AND PACKAGING VERTICAL LEAD

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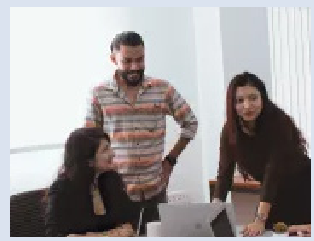
750
Company Transformations



30
Years of Experience

$4.1B
Company Savings

Broad
Industry Experience

Trend Tracker

	Meat	Seafood
NOLVs	Decreasing ▼	Increasing ▲
Sales Trends	Mixed ▲▼	Mixed ▲▼
Gross Margin	Decreasing ▼	Mixed ▲▼
Inventory	Decreasing ▼	Decreasing ▼
Pricing (also dairy and corn)	Increasing ▲	Increasing ▲

Grocery/Retail Versus Foodservice
Since the onset of the pandemic, the majority of companies have worked hard to diversify their sales channels as the risk of selling entirely through grocery or foodservice channels was made apparent.
Grocery demand is up from 2019, but is not as strong as the pandemic highs reached in 2020.
Foodservice demand is not as low as in 2020, but since restaurants and hospitality are not back in full force, demand remains below 2019 levels. Recoveries vary regionally as governmental regulations and sentiments toward public gatherings differ geographically.

NOLVS

- **Meat:** Meat NOLVs have decreased due to falling margins and demand since the height of the pandemic.
- **Seafood:** NOLVs for seafood companies have increased, as most have benefited from increasing market prices and low weeks of supply on hand.

SALES TRENDS

- **Meat:** Some companies have posted increased sales due to continued higher demand for meat. Sales for other companies have been decreasing due to increased prices and a dip from the retail highs experienced during the height of the pandemic.
- **Seafood:** Sales have been mixed, as some companies experienced decreases in retail demand versus the 2020 panic buying, while others have benefited from increases in foodservice demand with restaurants reopening and increased pricing. The availability of product impacted performance as well.

GROSS MARGIN

- **Meat:** Gross margins for meat have decreased due to increases in labor, transportation, and other overhead costs.
- **Seafood:** Gross margins have been mixed, depending on a specific company's ability to pass along increasing market prices.

INVENTORY

- **Meat:** Inventory levels for some companies are down due to low levels of supply in the market; however, higher market prices have increased the dollar value for other companies.
- **Seafood:** Inventory levels have decreased due to difficulty obtaining product from overseas as a result of supply disruptions.

PRICING

- **Meat:** All meat prices are up due to increased demand and lower supply in the market.
- **Seafood:** Seafood prices have increased due in large part to supply chain issues.
- **Dairy:** Milk prices increased year-over-year due to a decline in the U.S. dairy cow herd and continued demand for dairy products.
- **Corn:** Corn prices are up year-over-year despite higher crop yields due to increased demand from China.

Overview

As restaurants and schools have reopened and the nation continues to recover from the pandemic-induced shutdowns of 2020, U.S. food prices have continued to rise across nearly all major categories. According to the USDA's Consumer Price Index ("CPI") – which measures inflation – overall food prices in August 2021 were up 3.7% from the same month in the prior year.

The food-away-from-home CPI (which represents restaurant purchases) increased 4.7% year-over-year, while the food-at-home CPI (supermarket food purchases) was up 3.0% from 2020 levels.

Prices for all meats have increased as demand continues to climb and inventory levels remain lower than normal. Many meat plants were forced to shut down for periods of time in 2020 and are working to replenish low inventory stocks. In the seafood sector, supply has been limited by labor shortages and difficulty with imports. Seafood prices have been so high in some areas that many restaurants have removed certain items from their menus. Other commodities, such as sugar and coffee, have faced higher prices in the wake of drought conditions and damaged crops in their respective growing regions.

The impact of the COVID-19 pandemic on the food industry has been both positive and negative, depending on the business segment. Packaged food and beverage makers in the retail channel have generally benefited from the effects of the pandemic, as consumption shifted from restaurants to dining at-home, driving up their sales volumes. As long as there was available stock on the shelves, most retailers and consumers were willing to accept a smaller selection of product, enabling manufacturers to temporarily rationalize their product mix to the best-running, lower-cost items.

On the other hand, food and beverage manufacturers in the foodservice channel saw their demand pummeled by the effects of the pandemic, with many small, foodservice-only manufacturers at risk of going bankrupt. This has created opportunities for private equity investors to swoop in and help these smaller manufacturers to recapitalize, with the number of food and beverage merger and acquisition deals in North America likely to be the highest ever in 2021.

Since foods are generally transported via large freight trucks and carriers, the industry continues to be significantly impacted by difficulties within the transportation sector. Rising logistics costs and challenges with transport have made it tough for supply chain providers to keep up with demand, with transportation costs driving up product prices. Additionally, a shortage of containers and port backups has caused a sharp increase in freight costs and lead times for imported product. Labor shortages and strikes have also become problematic within the industry. As an example, approximately 1,400 Kellogg Company employees in Michigan, Pennsylvania, Nebraska, and Tennessee are currently on strike due to issues related to wages and benefits. Packaged food and beverage makers in both the retail and foodservice channels have also grappled with shortages of hourly labor as well as difficulties sourcing packaging and some ingredients in the wake of the pandemic. While container shortages, labor and sourcing issues, and elevated prices may seem like a temporary trend linked to the reopening of the economy, many industry experts believe these trends could linger for months or even years to come.

Meat

BEEF

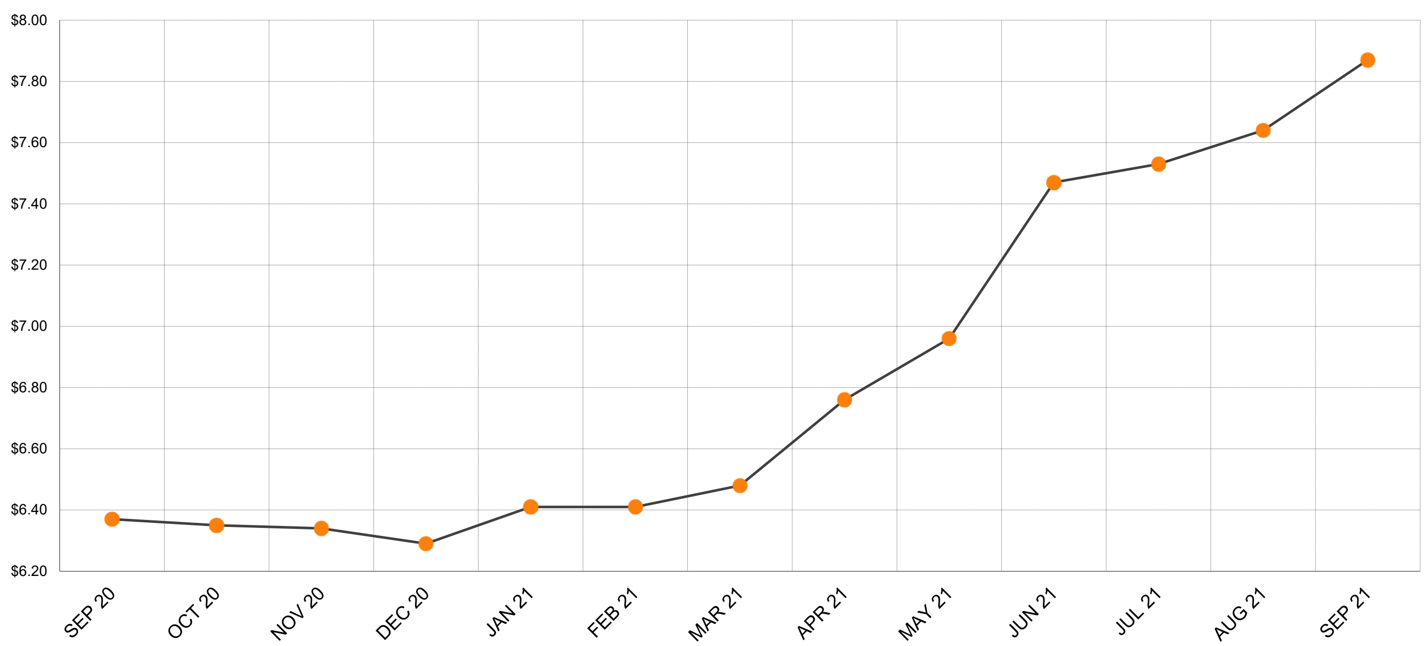
Beef prices have been continuously rising due to increased demand in the market coupled with lower levels of domestic supply. USDA retail beef prices averaged $7.87 per pound in September 2021, increasing from $7.64 in the prior month and $6.37 per pound in September 2020. USDA ground beef prices increased from $4.08 to $4.50 per pound year-over-year, while USDA sirloin steak choice boneless prices increased from $8.79 to $11.01 per pound. Overall beef prices skyrocketed at the height of the COVID-19 pandemic as consumers prepared more meals at home and many meat companies were forced to temporarily shut down. Later, the reopening of restaurants and foodservice operations supported higher demand for beef.

Demand has also been fueled by higher beef consumption rates, which have been climbing since the onset of the pandemic. Per capita beef consumption in the U.S. averaged 58 pounds in 2020, a significant increase from the average of 54 pounds per capita in 2019. This trend is expected to continue as the U.S. enters the holiday season with its many food-centric gatherings. Along with domestic consumption, there has been increased demand from abroad. Per the USDA, U.S beef exports totaled 297 million pounds in July 2021, a 45 million pound, or 17.9%, increase from last year.

The beef demand-supply ratio has been particularly concerning in recent months as the forecast for domestic cattle production has declined. U.S. beef production rates fell to 27.7 billion pounds in August 2021, a decrease of 130 million pounds from the prior month. Additionally, beef imports to the U.S. decreased 70 million pounds, or 19.0%, year-over-year. Per the USDA, steer prices increased in the second half of 2021 as higher beef demand supports increased prices.

While increased demand for beef products has been sustained throughout the pandemic, some analysts predict a decline in the near future due to increased prices, environmental concerns, and a trend towards alternative proteins such as plant-based burgers. These predictions have yet to come to fruition but could lead to a decline in prices in the coming years.

1 **Monthly Choice Beef Retail Value Per Pound**
September 2020 through September 2021 ($ per pound)



Meat

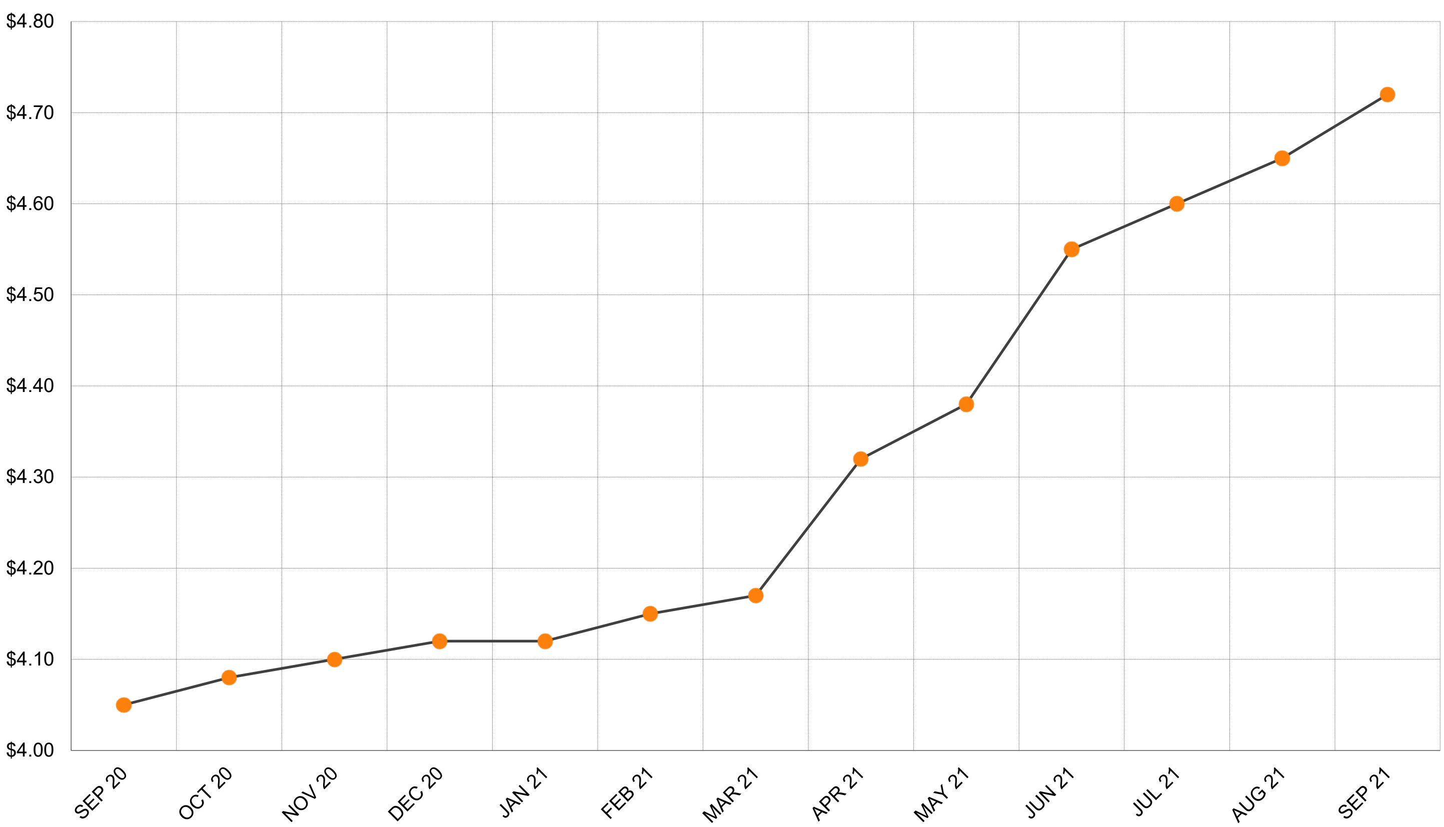
PORK

Pork is following a similar trend as beef, with U.S. retail pork prices averaging $4.72 per pound in September 2021, an increase from $4.65 per pound in the prior month and $4.05 per pound in September 2020. Pork chop prices increased from $3.80 to $4.05 per pound year-over-year, while bacon increased from $5.62 to $7.22 per pound.

According to the USDA, pork prices on the CPI increased 5.4% from January to August 2021 compared to the same period in 2020, with an expected increase of 6.0% to 7.0% for the full year. This follows a 6.3% increase in 2020. Both years represent significant increases as compared to the 20-year historical average increase of 2.2%.

After rising from January through June 2021, hog slaughter has been down 9.3% compared to last year's figures – a steep decrease compared to the estimated decline of 1.5% predicted at the start of the year. The decrease when compared with 2020 levels is not totally surprising, however, as meat producers had ramped up their operations last year after various COVID-19 related shutdowns. In addition to production rates, breeding hog inventory is currently lower as compared to both 2019 and 2020 levels. Pork stocks in cold storage are also down from the 2017-2019 average and remain below last year's levels. Meanwhile, China continues to battle the effects of the African Swine Flu, which devastated its hog supply and led to increased purchases of U.S. pork. As a result of these factors, pork prices will likely continue to be elevated through year-end and into 2022.

2 Monthly Choice Pork Retail Value Per Pound
September 2020 through September 2021 ($ per pound)



Meat

POULTRY

Poultry prices have followed a similar trend as other meats, with prices rising steadily over the past several months. USDA retail broiler prices averaged $2.16 per pound in September 2021, a significant increase from the figure of $2.00 per pound posted in September 2020. Like beef, poultry prices have been driven upward by lower supplies and higher demand in the market, particularly for chicken breasts and wings. According to a report by the Associated Press, wholesale chicken breast prices have been at or above $1.80 per pound since mid-April 2021, representing a seven-year high, and are significantly above the average of $1.13 per pound achieved last year. Wing prices have also skyrocketed over the past year as demand is currently outpacing supply, with U.S. frozen chicken wing inventory at its lowest level in nearly a decade.

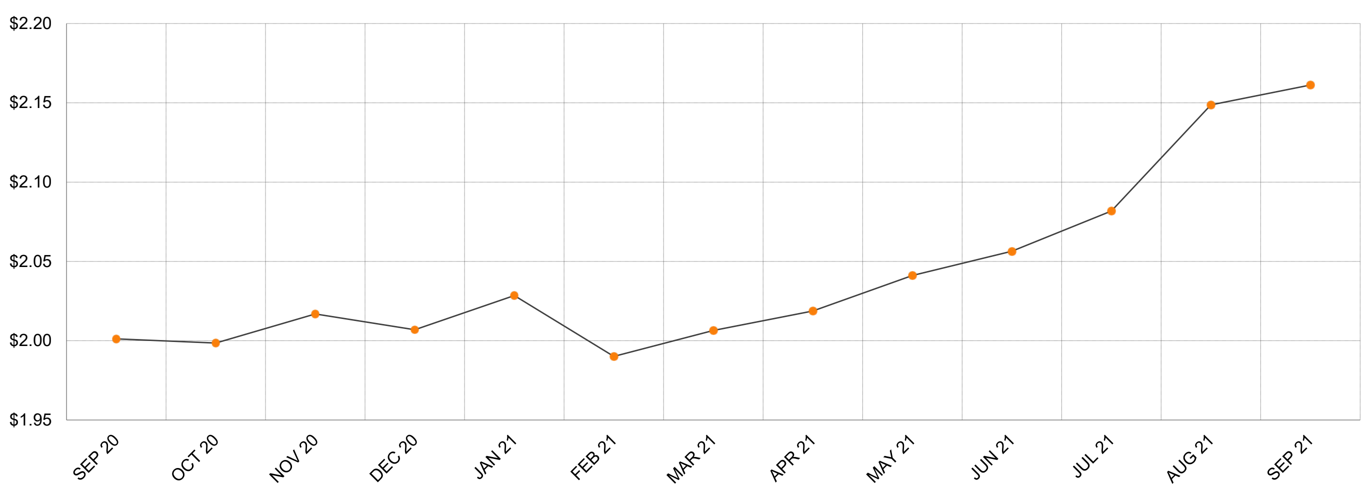
The recent increase in poultry demand has been spurred by several factors. Chicken wings remain among the most popular takeout food options, with the number of consumers placing fast food takeout and delivery orders growing significantly during the pandemic. Additionally, a number of fast-food chains introduced new chicken sandwich products following the highly successful release of the Popeye's chicken sandwich in 2019.

Heightened purchasing from fast food giants such as McDonald's, Burger King, Chick-fil-A, and KFC – all of which have announced increased sales in recent quarters – has spurred demand for chicken breasts and wings. As a result, numerous poultry producers are currently struggling to keep up with demand from the foodservice industry.

In addition to the reduced supply, increases in labor costs, along with higher costs of transport, packaging, and animal feed, have driven leading poultry companies such as Tyson, Inc. to raise the prices they charge to restaurants and grocers. Some chicken producers are additionally embroiled in a variety of legal concerns related to price-fixing and other anti-trust accusations.

As demand for poultry continues to grow, two of the nation's leading poultry producers – Cargill and Continental Grain – recently announced that they had formed a joint venture to acquire competitor Sanderson Farms, a company that processed over 4.8 billion pounds of meat in 2020. According to the Associated Press, the new venture is expected to result in increased production rates and will allow Cargill to expand its international poultry business in the U.S.

3 **Monthly Retail Broiler Composite**
September 2020 through September 2021 ($ per Pound)



Seafood

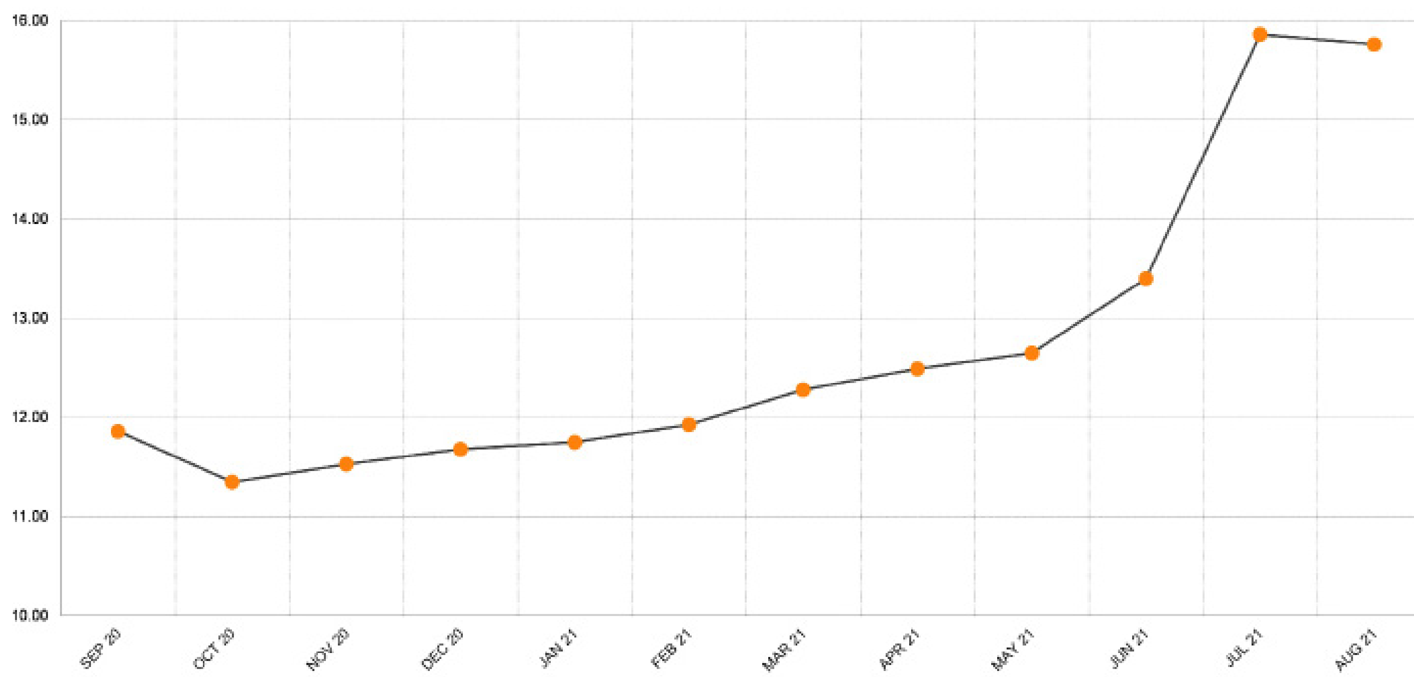
Seafood prices have surged in recent months as consumers returned to eating at restaurants and supply chain issues have caused difficulty for foodservice operators to fulfill demand. Additionally, many consumers have opted for seafood due to its perceived health benefits as compared to meats.

According to federal data from the Bureau of Labor Statistics ("BLS"), the wholesale cost of finfish and shellfish rose 18.8% in June 2021 as compared to the prior year, while the overall price of fish and seafood was up 4.5% during that same period. According to a report by Bloomberg, halibut purchased from seafood distributors in June 2021 was priced at $28 per pound as compared to $16 per pound last year. Similarly, blue crab pricing increased from $18 per pound to $44 per pound, an increase of 140% year over year. Wholesale prices for west coast, frozen, white, No. 1, shell-on, headless shrimp, 26 to 30 count per pound increased from $11.86 per pound in September 2020 to $15.76 per pound in August 2021.

The reopening of the foodservice sector has resulted in a surge in orders from restaurants, which, when coupled with increased orders from retailers, have resulted in lower supply. Additional factors – including fewer fishermen, a decline in transportation, and lower imports – have contributed to the skyrocketing prices. Prices have been so high that many restaurants have decided to remove the most expensive seafood items from their menus.

The rising prices have also impacted the frozen seafood segment. Year-over-year, frozen seafood prices increased 9.2% in the second quarter of 2021 to $6.96 per pound on average in U.S. grocery stores and mass retailers, according to a report by IRI. This also represented a 5.6% increase from the first to second quarters of 2021.

4 **Monthly Wholesale Prices, West Coast, Frozen, White, No. 1, Shell-on, Headless Shrimp September 2020 through August 2021 ($ per Pound, 26 to 30 Count)**



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Dairy

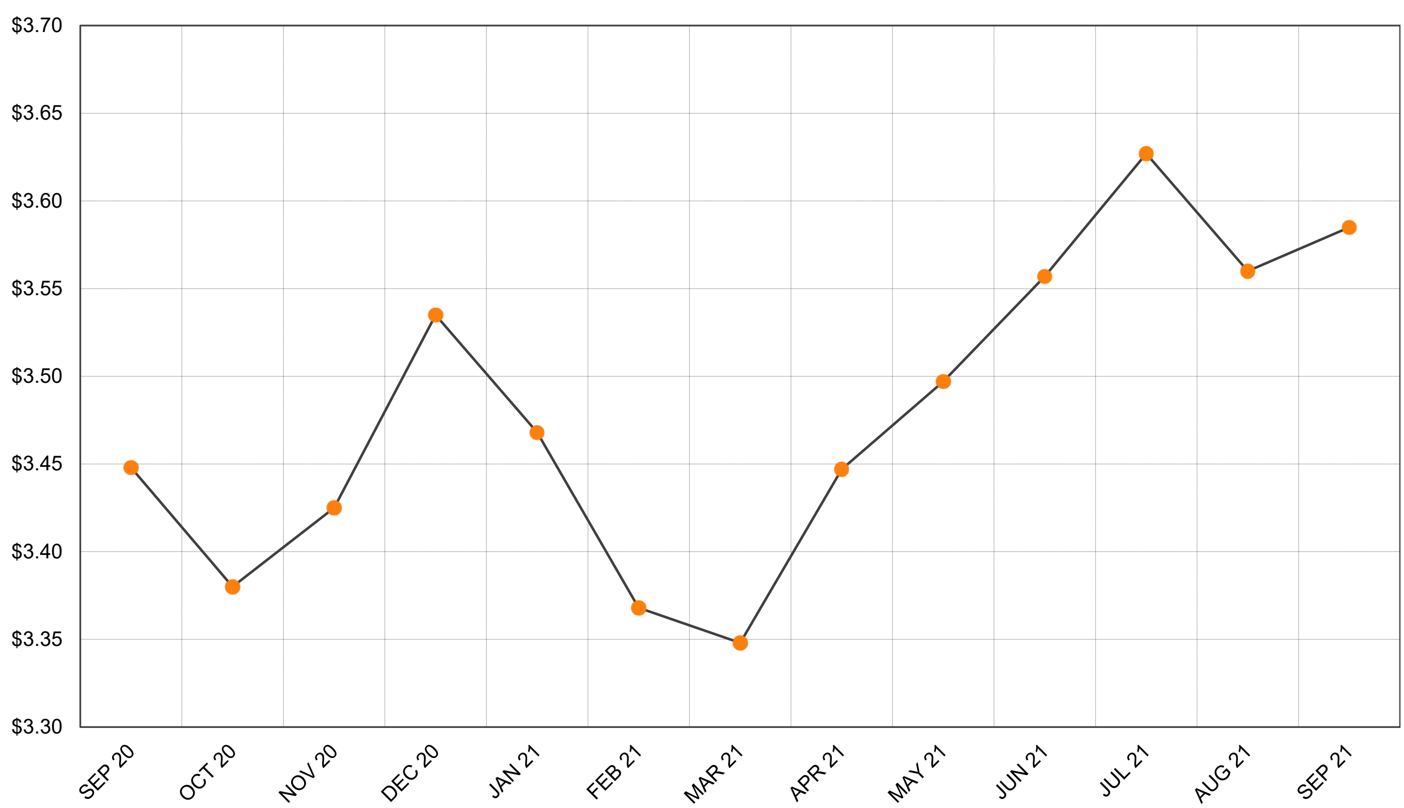
Retail milk prices averaged $3.59 per gallon in September 2021, increasing from $3.56 per gallon in the prior month and remaining above the average of $3.45 per gallon posted in September 2020, per the USDA. Milk consumption was down in 2020 due to the closure of schools and foodservice operations, resulting in an ample supply in the market. Milk prices typically increase beginning in September, coinciding with the new school year.

Within the cheese sector, prices have been mixed. While retail cheese prices are down slightly year-over-year, they increased from August to September. Retail American cheese prices rose from $3.98 per pound in August to $4.02 per pound in September, while cheddar cheese prices increased from $5.34 to $5.39 per pound.

On the other hand, wholesale prices are up year-over-year, with 40-pound blocks of Cheddar cheese up 11.4 cents to $1.78 per pound and the price of 500-pound barrels rising 4 cents to $1.50 per pound.

Overall dairy prices are expected to increase in the coming months due to increased consumption in foodservice operations, coupled with a lower supply. Following an increase in milk cow numbers from July 2020 through May 2021, the average number of milk cows fell in both June and July following the culling of herds. The USDA expects milk production to total 227 billion pounds for the full year 2021, representing a decline 800 million pounds from its original estimate. However, longer-term estimates predict a stagnation or decline in prices in the coming years as supply begins to outpace demand.

5 **Average Monthly Milk Retail Prices - Fresh, Whole, Fortified Per Gallon**
September 2020 through September 2021



Corn

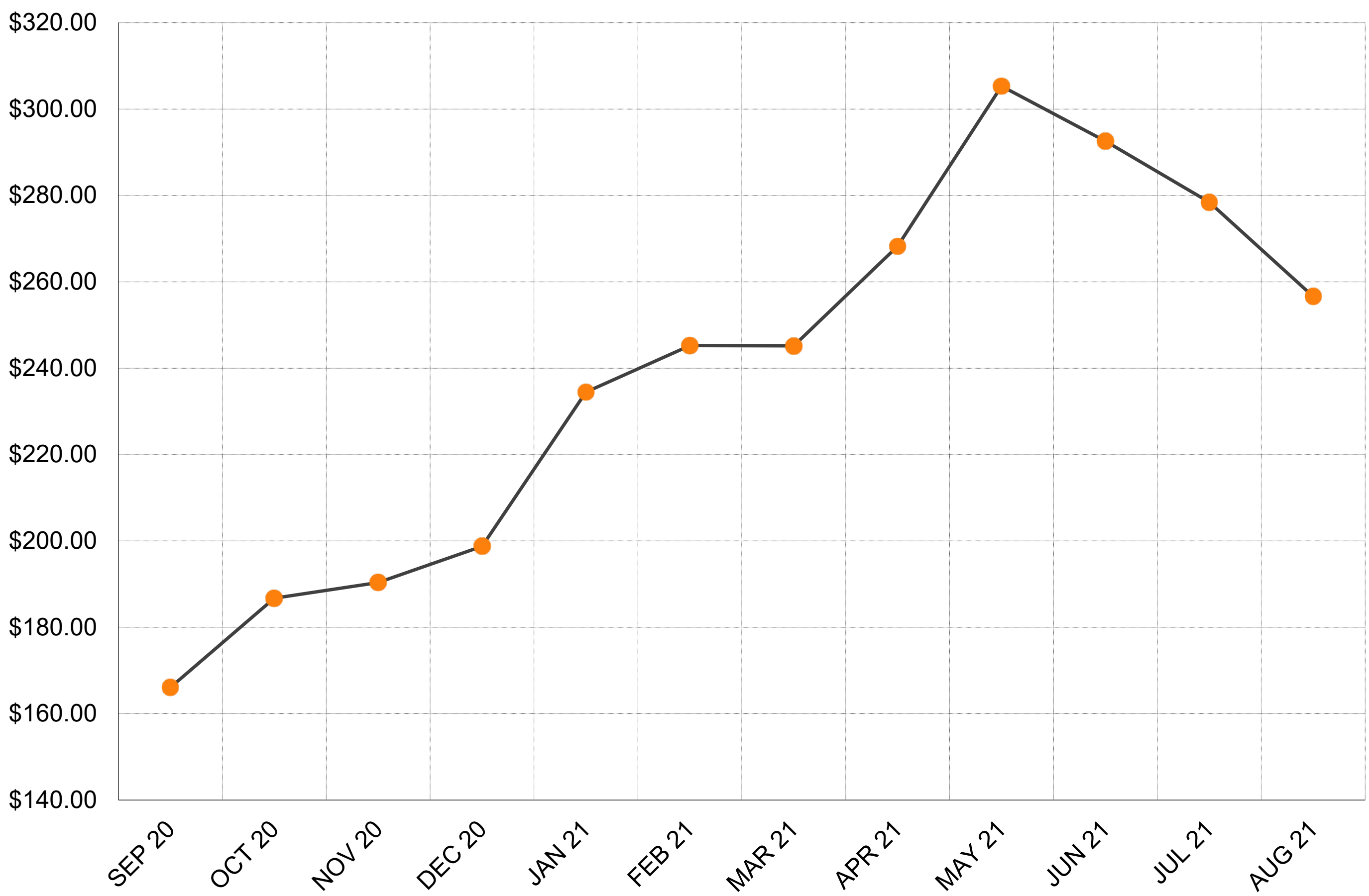
CORN

Prices for U.S. #2 yellow corn, used primarily for livestock feed, averaged $256.61 per metric ton in August 2021. Despite a slight decrease from the elevated prices posted in the spring months, the August figure represents a year-over-year increase from $166.08 per metric ton in September 2020.

U.S. corn production for 2021 is estimated to total 14.75 billion bushels, representing an increase of 4% from 2020 totals; this estimate, if realized, would represent the second highest on record after the 2016 crop of 15.148 billion bushels. Per the USDA, record-high yields are projected for the growing areas in Illinois, Indiana, Ohio, and Michigan due to favorable weather patterns.

While the U.S. corn supply may be on the increase, exports – particularly to China – are expected to rise steadily in the coming years. The USDA predicts that China will import 26 million tonnes of U.S. corn in both 2020-21 and 2021-22, a significant increase from the 7.6 million tonnes the Asian nation imported in 2019-20.

6 U.S. No. 2 Yellow Corn Prices
September 2020 through August 2021 ($ Per Metric Ton)



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Sugar and Coffee

SUGAR

Domestic raw sugar prices averaged $0.3572 per pound in September 2021, increasing from $0.3450 per pound in the prior month and remaining above 2020's figure of $0.2685 per pound, per USDA figures. According to a report by the USDA, the U.S. sugar futures price has increased 56% in 2021, reaching prices not witnessed since 2017. USDA retail sugar prices in the second quarter of 2021 were at their highest level since 2012.

The increased prices have been fueled by a decrease in production in Brazil, the world's largest sugar growing region, due to unfavorable weather conditions. Crops were negatively impacted by drought conditions in 2020, followed by the incidence of fire in many sugarcane fields and, later, frost that caused even more damage. As a result, there is significant concern regarding how much sugar will be available in the marketplace. These concerns led to a 9.6% increase in the FAO's Sugar Price Index from July to August 2021, marking five consecutive months of increases and reaching a level not witnessed since early 2017.

COFFEE

Coffee prices reached record highs in September 2021, when the monthly average of the International Coffee Organization ("ICO") composite indicator price reached 170.02 US cents per pound, an increase of 6.2% as compared to the prior month. Prices continue to be driven upward by weather patterns in the growing areas of Brazil and by pandemic-induced disruptions affecting trade in Asia.

Prices for all group indicators in September increased to their highest levels in years. The Robusta Group indicator price increased 9.9% from the prior month, reaching its highest level since August 2017. The price for the Colombian Milds increased 6.6% month-to-month and reached its highest level since February 2012. Prices for the Other Milds increased by 4.3%, its highest monthly average since January 2012.

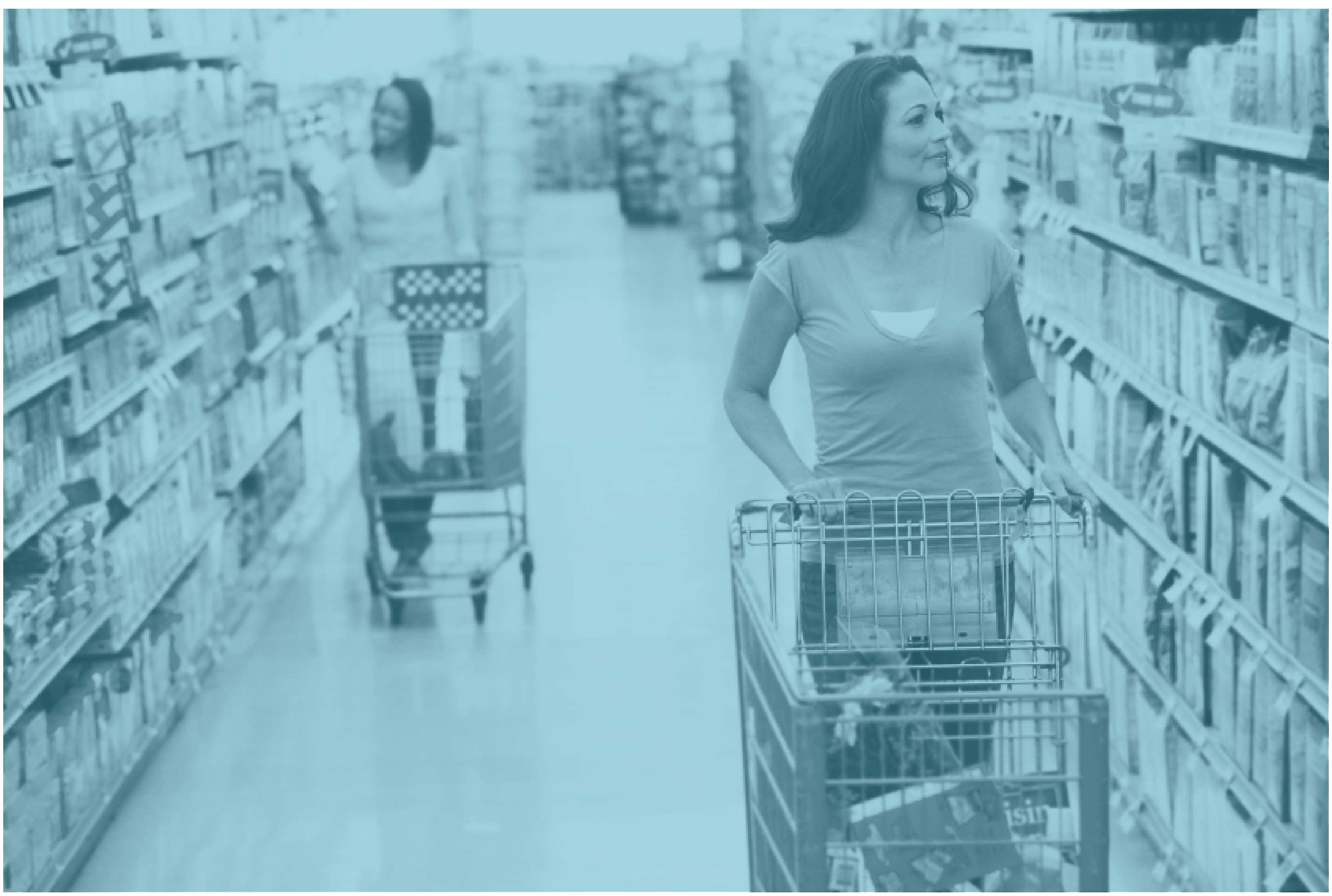
World coffee consumption is expected to increase 1.9% to 167.26 million bags in 2020/21 as compared to 164.13 million bags for coffee year 2019/20. With the reopening of coffee shops and restaurants following the pandemic-induced shutdowns, world consumption is expected to further increase. This will lead to a continued uptick in prices, with substantial increases expected in 2022.

Plant-Based Products

The plant-based food market continues to thrive, as many have adapted new cooking and eating habits since the onset of the pandemic.

According to the Plant Based Foods Association ("PBFA"), the U.S. retail plant-based food market increased 27% in 2020 to reach a record-high $7.0 billion. Plant-based meat sales increased 45%, with refrigerated plant-based meat sales up 75% and plant-based milks up 20% last year as compared to 2019 levels.

Within the fast-food segment, there has been talk of an upcoming plant-based "chicken sandwich war," building on the success of its meat-based counterpart. Impossible Foods recently introduced its plant-based chicken replacement for restaurants and grocery stores, while Beyond Meat revealed an alternative-protein chicken tender for restaurants. Similarly, many vegan quick-service restaurants are reporting significant sales of plant-based fried chicken sandwiches.



Restaurants and Foodservice

SALES

After experiencing significant difficulty in 2020 due to the COVID-19 pandemic, the restaurant industry began to recover in the first half of 2021. According to the National Restaurant Association ("NRA"), consumer spending in restaurants has increased significantly as COVID-19 induced restrictions were lifted and vaccinated consumers felt more confident dining out. Restaurant food and beverage sales are expected to total $789 billion in 2021, representing a 19.7% increase from 2020, but still down from 2019's total of $864.3 billion, per the NRA.

Despite the recent increases, however, data shows that business has begun to slow following the busy summer months. The NRA's Restaurant Performance Index totaled 104.2 in August 2021, falling 1.1% from July and representing a six-month low. Although sales and customer traffic levels are above those of 2020, data seems to indicate that U.S. restaurant operators are not as optimistic as they were in the summer. The NRA's Expectations Index, an indication of restaurant operators' six-month outlook, totaled 103.7 in August, representing the lowest level in seven months.

REAL ESTATE OVERVIEW

With the expiration of the Restaurant Revitalization Fund ("RRF") in May 2021, restaurant brands lost critical financial support that had stabilized operations severely disrupted by the global pandemic. While significant lobbying efforts have been made to replenish the RRF with a new round of funding, with Congress focused on passage of infrastructure spending, legislation to either approve additional funding or set up alternative lending programs to assist the restaurant industry has fallen by the wayside.

Without additional governmental support, restaurant brands are continuing to incur immense debt to sustain operations and continue as going concerns. Indeed, according to a recent survey by The Independent Restaurant Coalition of approximately 800 restaurant operators, 82% of restaurant and bar owners believe they will have to close if the RRF funding program is not replenished soon.

INDUSTRY OPERATIONAL CHALLENGES

In addition to RRF funding concerns, the industry continues to battle myriad unprecedented and ever-increasing operational challenges, placing severe pressure on unit-level productivity and four-wall EBITDA. Key challenges include:

- Unprecedented labor shortages;
- Rising labor costs driven by labor shortages;
- Global supply chain delays;
- Increases in transportations costs;
- Rising food costs;
- Labor issues compelling operators to reduce operating days/hours; and
- Capital investment to accommodate changing guest behaviors (i.e. delivery, curbside pickup).

REAL ESTATE - RESTRUCTURING CHALLENGES AND OPPORTUNITIES

In many circumstances, high real estate costs can be added to the list of restaurant industry challenges. While occupancy cost levels can certainly threaten sustainable operations, these fixed costs also represent a meaningful lever that brands can pull to assist in offsetting operational shortfalls.
Given that many shopping center owners already provided significant rent abatements and deferrals at the pandemic outset, to successfully navigate this process restaurant brands will need to provide their landlord partners a clear picture of both the systemic challenges within the industry, as well as the specific challenges facing their brands in the short-term. In many cases, landlords should be incentivized to provide additional occupancy cost assistance to restaurant operators rather than face the prospect of losing tenants and being forced to relet space in an extremely challenging environment.

Restaurants and Foodservice (continued)

MARKET DYNAMICS DRIVING INCREASED IPO AND MERGER & ACQUISITION ACTIVITY

Given these industry headwinds, many once-stable brands have been weakened as operational challenges persist and access to necessary capital and/or financing becomes more challenging. In response, several brands have resorted to public offerings to raise critical supplemental capital to support operations. For brands without these options available, certain undervalued distressed chains have been opportunistically acquired by larger, better capitalized companies. With no clear indications of when this market disruption will stabilize, restaurant closures, consolidations, and recapitalizations will likely continue well into 2022.

Grocery

SALES

As an essential business during the pandemic, both national and regional grocers saw buoyed sales performance in 2020, as restaurant closures dramatically shifted traffic. At the onset of the pandemic, grocery stores reported significant increases in customer traffic, number of purchases, and sales as consumers stripped shelves bare and prepped their pantries for an extended stay at home. However, traffic dropped off as the pandemic continued and customers transitioned to online ordering (many for the first time) and reduced the frequency of their trips to limit possible exposure to the virus. Yet even with traffic down, sales continued to soar. Initially, grocers struggled to meet the demand for online orders, but improved as they added more workers and refined their operational systems.

Overall grocery sales have begun to return to normal levels following the "panic buying" and stockpiling that occurred at the height of the pandemic, and shelves are no longer stripped bare of food and household staples. Supermarket News reports that grocery store sales in March 2021 were flat as compared to the prior month, and fell 13.8% on a year-over-year basis.

While restrictions continue to be lifted for in-person shopping, many Americans continue to prefer the convenience of online purchases. A report by Produce Blue Book noted that U.S. online grocery sales totaled $9.3 billion in March 2021, a 43% increase from a year ago. More than 69 million households surveyed placed an average of 2.8 online orders during March 2021, opting for the convenience and time saved by not having to shop for groceries in person.

REAL ESTATE

While the grocery industry experienced strong sales over the prior year, post-pandemic performance will likely normalize in 2021/2022 and non-performing assets that were temporarily propped up by pandemic-driven sales growth will return to pre-pandemic performance levels. This will potentially impact the stability of certain grocery-anchored shopping centers over the next several years as this class of poor-performing stores may be shuttered if significant lease renegotiations cannot be secured.

Additionally, the pandemic accelerated the shift in shopping behavior towards e-commerce, requiring grocers to quickly implement new technologies to capture the shift in demand. This rapid increase in new technology benefits the larger, national chains that have both the existing infrastructure and required capital to successfully implement and scale e-commerce platforms that will drive increased market share. As smaller, regional players are unlikely to be able to cost-effectively scale new technology to meet the growing customer demand, there will potentially be increased consolidation within the industry moving forward.

This dynamic will have two main real estate consequences. First, grocery-anchored assets, long seen as reliable long-term investments, may see disruption as non-performing regional chains are acquired and/or go out of business and surplus stores are shuttered. Secondly, with the shift towards e-commerce, store formats will continue to adapt moving forward requiring the downsize of oversized assets, the repurposing of existing store footprints, and the potential shift in new store growth from traditional anchor-sized formats to smaller delivery/pick up-focused assets.

Grocery (continued)

REAL ESTATE OVERVIEW

The grocery sector experienced unprecedented double-digit sales growth in 2020, predominantly driven by the global pandemic. While strong performance was seen across the industry, larger national and regional chains like Kroger and Publix that had the resources and infrastructure necessary to fully capitalize on shifting consumer preferences during the pandemic exhibited performance that outpaced the sector more broadly. As we move into Q4 2021, there is greater evidence indicating that shopping behaviors have begun shifting back to pre-pandemic patterns throughout 2021. This shift in consumer preference has driven comparable sales declines for many grocers during 2021 and may lead to year-over-year sales declines for the broader grocery industry for the first time in decades.

While a reset from inflated 2020 sales levels was expected, looking ahead it will be how these sales impacts are distributed across the sector that will determine what the post-pandemic grocery market will look like. Emerging from the pandemic as a winner or loser will likely hinge on the ability to retain and consolidate pandemic-related sales growth, continue investment in technologies that capture incremental omni-channel market share, and successfully expand via acquisition or organic growth.

PANDEMIC RELATED GROCERY TRENDS

In addition to the overall sales increase in 2020, the makeup of those sales changed dramatically as adoption of e-commerce channels was accelerated by the realities of the pandemic. Per a study by Mercatus and Incisiv Projects, e-commerce sales as a percentage of total grocery spend were estimated to triple in 2020 increasing from approximately 3.4% in 2019 to approximately 10.2% in 2020. While e-commerce channel usage has regressed to a certain degree in 2021, particularly across delivery and ship-to-home platforms, the growth in e-commerce channels and their relative importance to the consumer are likely here to stay. Indeed, Mercatus projections of e-commerce sales as a percentage of total grocery sales in 2025 have increased from 13.5% to more than 21% based on the acceleration in adoption during the pandemic.

Moving forward, grocers that have committed the capital necessary to meet these changing consumer preferences will be significantly better positioned to capitalize on these new sales channels, increasing their competitive advantage and jeopardizing the smaller local and regional chains that are unable to commit the necessary resources to capitalize this consumer trend.

GROCERY STORE GROWTH TRENDS

While recent performance has led many grocers to announce network growth initiatives, actual execution of these plans will likely be dictated by whether grocers can maintain current performance levels as the market continues to normalize. Assessing the grocers with the strongest network expansion activity, we see a list that largely aligns with those banners that have also been able to best capitalize on the opportunities presented by the pandemic. Grocers like Kroger, Publix, ALDI, LIDL, and Amazon Fresh have the existing platform and capital necessary to continue to innovate, retain, and build upon pandemic sales increases, and ultimately drive sustainable expansion across both their store and distribution networks.

Grocery (continued)

GROCERY-ANCHORED REAL ESTATE TRENDS

From a real estate perspective, the pandemic has served to further illustrate the resilience of the grocery sector. While sustained strong cap rates for grocery-anchored shopping center sales certainly illustrate the attractiveness of this product type for real estate investors, investors will likely be keenly focused on the volatility present in the market as sales levels continue to normalize in 2022 and beyond. In keeping with the trends outlined, the quality, competitiveness, and long-term stability of the grocery anchor must be considered, as recent performance may not provide a solid perspective on future success.

Food Reference Sheet

USDA CHOICE BEEF VALUES, PRICE SPREAD, AND ALL-FRESH RETAIL VALUE
DOLLARS PER POUND OF RETAIL EQUIVALENT

	September 2021	August 2021	September 2020
Retail Value	$7.871	$7.639	$6.371
Wholesale Value	$4.836	$4.865	$3.367
Net Farm Value	$2.708	$2.663	$2.330
Wholesale to Retail Spread	$3.035	$2.774	$3.004
Farm to Wholesale Spread	$2.128	$2.202	$1.037
Total Spread	$5.163	$4.976	$4.041
All-Fresh Beef Retail Value	$7.397	$7.141	$6.279

USDA PORK VALUES AND SPREADS
DOLLARS PER POUND OF RETAIL EQUIVALENT

	September 2021	August 2021	September 2020
Retail Value	$4.716	$4.650	$4.053
Wholesale Value	$2.062	$2.414	$1.690
Net Farm Value	$1.179	$1.357	$0.840
Wholesale to Retail Spread	$2.654	$2.236	$2.363
Farm to Wholesale Spread	$0.883	$1.057	$0.850
Total Spread	$3.537	$3.293	$3.213

USDA RETAIL PRICES FOR POULTRY CUTS
DOLLARS PER POUND OF RETAIL EQUIVALENT

	September 2021	August 2021	September 2020
Retail Broiler Composite	$2.161	$2.149	$2.001
Wholesale Broiler Composite	$.8966	$.9017	$.6261
Wholesale to Retail Broiler Spread	$1.265	$1.247	$1.375
Chicken, Fresh, Whole	$1.504	$1.472	$1.542
Chicken, Legs, Bone-In	$1.723	$1.706	$1.557
Chicken, Boneless Breast	$3.517	$3.536	$3.302

Food Reference Sheet

USDA RETAIL PRICES FOR DAIRY PRODUCTS

	September 2021	August 2021	September 2020
Milk, fresh, whole, fortified ($/gallon)	$3.585	$3.560	$3.448
American processed cheese ($/pound)	$4.019	$3.977	$4.246
Cheddar cheese, natural ($/pound)	$5.387	$5.336	$5.611

Experience

B. Riley Advisory Services has worked with and appraised many large and well-known companies within the food service industries. While our clients remain confidential, they have included meat processors and distributors, seafood distributors, leading fresh and processed fruit and vegetable distributors, and specialty and prepared food distributors servicing restaurants, retailers, food service companies, and wholesalers across the U.S. B. Riley Advisory Services has appraised companies such as the following:

- One of the nation's largest independent canning and frozen food companies and one of the world's largest producers of fresh and packaged fruits and vegetables.
- Processors of both conventional and organic frozen vegetables, and manufacturers and distributors of frozen and canned vegetable and fruit products.
- A major dairy marketing cooperative that offers cheese, butter, non-fat dry milk, aseptic, and other dairy products.
- A producer of cheese and dairy powders, grated hard Italian cheeses, dairy concentrates, seasonings, and similar products for the foodservice industry.
- A leading manufacturer of private label soft drinks, including juice, carbonated soft drinks, sport drinks, and other beverages.
- A manufacturer and distributor of desserts, sour cream products, and dips.
- A processor and distributor of milk and other dairy products such as cultured yogurt, sour cream, cream, cream cheese, and ice cream.
- A seafood distributor maintaining its own chain of restaurants, offering a wide variety of frozen seafood items including lobster, crab, and scallops.
- Multiple importers and distributors of fresh and frozen seafood products to large national food wholesalers.
- Leading portion-controlled beef, pork, lamb, and poultry cutting operations designated for the casual dining and quick serve restaurant segments.
- A distributor of sweeteners, non-dairy creamers, croutons, crunchy toppings, stuffing, breadcrumbs/cracker meals, foodservice stuffing mixes, snacks, and snack mixes.
- A producer and distributor of ice cream and related frozen goods.
- Vertically-integrated producers of high-quality coffees for the restaurant and supermarket industries.
- A producer and distributor of various fruit juices, as well as vitamin-enriched water and cocktail mixers.
- Producers and distributors of desserts, such as frozen cheesecakes, gourmet cakes, mini desserts, and brownies.
- A processor, packager, and distributor of nuts such as pecans, cashews, almonds, and peanuts.
- An importer, producer, and bottler of olive oils, vinegars, and specialty foods.
- Distributors of specialty food products, including pasta, sauces, marinades, and fine artisan cheeses.
- A processor and distributor of snack and specialty foods, such as roasted nuts and seeds, snack mixes, sesame sticks, candies, and dried fruit.

B. Riley Retail Solutions has been involved in the liquidation of several food processing and distribution companies, including South Pacific Specialties, LLC; Metropolitan Foods; BSB, Inc.; New Sam Woo Trading; Markel Johnson; and Gulf Shrimp Company, as well as food processing, storage, and distribution equipment for companies such as Winn Dixie, Maui Pineapple Company, Humboldt Creamery, Loeb Equipment, and Webvan. Food processing, storage, and distribution equipment liquidated by B. Riley Retail Solutions included blow molding lines, bagging machines, bottle conveyors, milk separators and pasteurizers, filling lines, pizza manufacturing lines, vacuum sealers, freezers and coolers, stainless steel tanks, liquid lines, and frozen and refrigerated box trucks.

Monitor Information

The *Food Monitor* relates information covering most commodity food products, including industry trends, market pricing, and their relation to the valuation process. B. Riley Advisory Services internally tracks recovery ranges for beef, pork, poultry, dairy products, seafood, coffee, sugar, corn, and fruits and vegetables in all price points, but we are mindful to adhere to your request for a simple reference document. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your B. Riley Advisory Services Business Development Officer.

The information contained herein is based on a composite of B. Riley Advisory Services' industry expertise, contact with industry personnel, industry publications, liquidation and appraisal experience, and data compiled from a variety of well-respected sources believed to be reliable. B. Riley Advisory Services does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this issue. Neither B. Riley Advisory Services nor any of its representatives shall be liable for use of any of the information in this issue or any errors therein or omissions therefrom.

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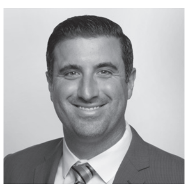

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