

Company ABC

**XYZ**

Industry Landscaping

YY YYYY

# Executive Summary

## Organic Food Industry

- ❑ Primary products include fruit, vegetables, grains, other crops and livestock grown without any artificial chemicals, pesticides or GMOs
- ❑ The US is the **largest global market** for organic food, with a **x%** market share

## US Organic Food Market

- ❑ The US organic food industry has grown by **double-digits** nearly every year since the yyyy, and has grown **x %** annually over the **past x years** to reach **\$x bn** in yyyy
- ❑ Food & vegetables and dairy account for over half of the organic food industry in the US
- ❑ Organic food accounts for nearly **x %** of all produce and **x %** of all food sold in the US, with key industry players expecting it to increase to **x %** of all food sold by yyyy

## Strong Growth Expected

- ❑ Industry is forecasted to grow by **~x %** annually to reach **\$x bn** in yyyy, driven by higher disposable incomes, favourable demographic changes and a shift in consumer preferences
- ❑ **x+** US organic producers have stated their intentions to increase organic production over the next x years.

## Supply Lags Demand

- ❑ Supply of organic food **continues to severely lag demand**, leading to a growing dependence on import of organic food, especially animal feed, corn and soybeans.
- ❑ **Only x %** of total US farmland is under organic cultivation, despite organic sales accounting for x % of total food sales.

## Key Players

- ❑ Retail is dominated by large retailers on both the specialty (XYZ, XYZ, XYZ) and traditional side (XYZ, XYZ, XYZ).
- ❑ Traditional retailers have increased their focus on organic food to drive growth in a otherwise sluggish retail environment.
- ❑ The organic produce market is largely filled with local farmers, while FMCG giants such as XYZ and XYZ dominate the packaged organic foods market.

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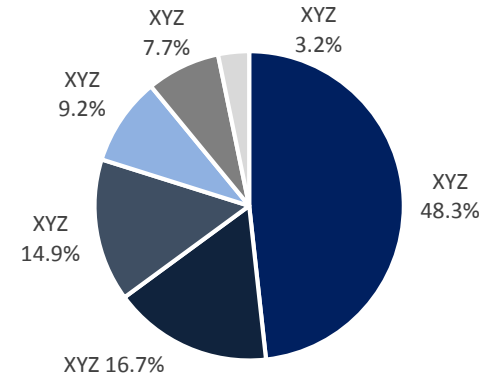
# Organic Food Market - Introduction

# Organic Food Industry

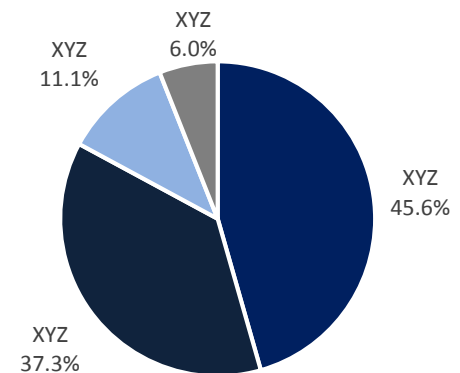
Organic food includes fruit, vegetables, grains, other crops and livestock grown without any artificial chemicals, pesticides or genetically modified organisms (GMOs).

- Organic foods are farmed in a more environmentally sustainable way than conventional foods.
- Segments :
  - Fruit & Vegetables
  - Dairy
  - Prepared food
  - Beverages
  - Bread and Grains
  - Meat, fish & poultry
- Fruit & Vegetables and Dairy account for over x % of the industry's sales in the US, however, recent growth has been led by fresh foods, prepared snacks and local produce.
- **The US is the largest market for organic food in the world, commanding a x % share of the \$x bn global market.**
- Organic food producers in the US include local farmers and branded labels such as XYZ and XYZ, while retailers include speciality retailers such as XYZ and super-markets such as XYZ and XYZ.

**Organic Food by Segment - US (yyyy)**



**Organic Food by Geography (yyyy)**



# US Organic Food Market

The US organic food market has shown considerable growth over the last decade, leading to demand growing faster than supply.

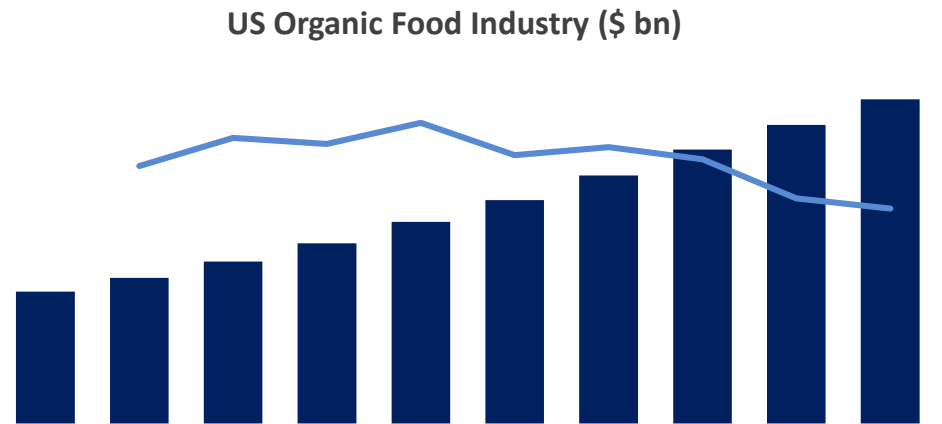
- **The US organic food industry is currently in the growth stage of its life cycle, having grown at a CAGR of x % in the last x years to reach a value of \$x bn**
  - Demand for organic food has grown by double-digits nearly every year since the yyyy
  - Market growth of x % in yyyy was led by growth of x % for fresh juices and drinks, x % for condiments that crossed \$xbn in sales for the first time, x % growth in organic snacks with sales reaching \$ xbn and x % growth in dairy increasing sales to \$xbn
  - Organic food accounts for nearly x % of all produce and x % of all food sold in the US
    - Household penetration for organic food is about x %, while x % of families purchased organic food at least once in yyyy, up from x % in yyyy
  - The number of certified organic operations in the US increased by more than x % in yyyy to reach xx.
- Domestic supply of organic food, however, remains limited, as production significantly lags demand, leading to a dependence on imports.
  - Despite recent improvements, land under organic farming remains below x % of the total US farmland.



# Strong Growth Possibilities

The US remains the most important market in a consumer driven industry that is expected to grow at x rate over the next x years

- **The industry is expected to grow by ~x % annually to reach \$x bn in yyyy**
  - Growth will be led by higher disposable incomes, a shift in consumer preferences and favourable demographic trends
  - Mr. A , President of Company X, the organic food manufacturer, expects organic food to account for x % of the US food market by yyyy
  - His optimism is shared by several retailers such as ABC and XYZ, who have increased their focus on organic food in order to drive revenue growth
- More than x US organic producers have stated their intentions to increase organic production over the next x years
  - Close to x acres of additional US farmland is currently in the process of transitioning to organic production, a process that usually takes x years



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**Organic Food Market – Demand Side**

# Rising Disposable Income

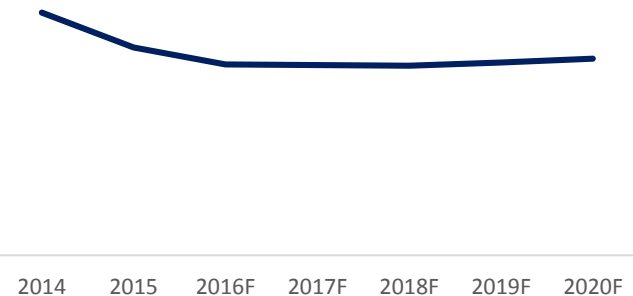
Higher demand for organic food is expected to be driven by rising per capita disposable income, fuelled by economic growth, low commodity prices and improved sentiment

- **Given the higher prices associated with organic food, higher disposable income remains the key driver for organic food sales**
  - According to the US Department of Agriculture, premiums on organic fruits and vegetables can range from x % to over x %
- Per capita disposable income in the US is projected to rise x % annually till yyyy, to reach \$x from an estimated \$x in yyyy
  - Allows consumers to both trade up to premium products and purchase a greater number of organic grocery products
- A greater returning workforce, improved housing, improving consumer confidence and higher stock values will make consumers spend on previously delayed purchases
  - The economic growth however, be relatively muted compared to the boom leading up to x.
- Lower oil and other commodity prices are further expected to push higher retail spending.
  - However, consistently lower prices may hamper demand due to deflationary concerns and lead to headwinds from oil dependent regions such as Texas, North Dakota and California.

Per Capita Disposable Income



Unemployment Rate



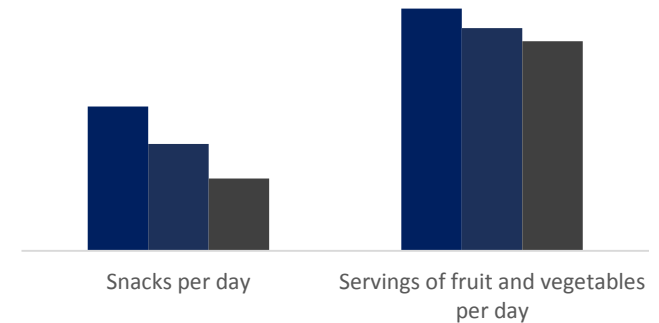


# Favorable Demographic Changes

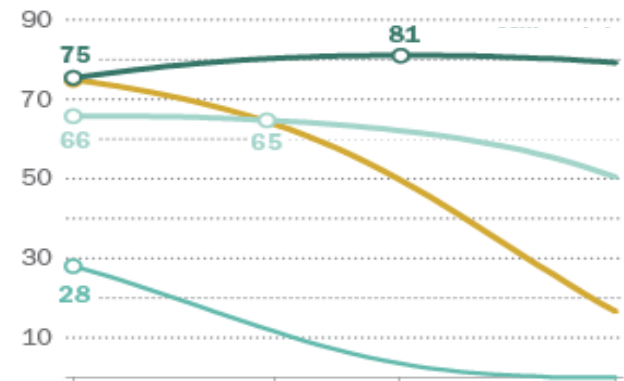
Demographic changes such as an increasing number of health conscious millennials, xyz and a xyz population bode well for the industry.

- xyz, who are generally more health conscious, have surpassed the xyz generation as US' largest living generation and now account for ~x % of the population
  - Demographic shift is expected to drive demand for organic snacks and fruits & vegetables
    - xyz eat x % more snacks per day as compared to Generation X and x % more snacks per day than Baby Boomers
    - xyz eat x % more fruits and vegetables per day as compared to xyz generation and x % per day more than xyz
    - According to Mr. X teen participation in organic food rose x bps to x % in yyyy, driven by middle-income households
- The xyz population is also expected to shift to healthier foods to maintain health
  - Healthy foods, with higher levels of whole grains, protein and calcium, or low in saturated fat, cholesterol and sodium will be of most interest to the xyz generation
- Demand will also be driven by a growing xyz population, which cooks more frequently, spends more on shopping trips and visits supermarkets more often
  - Hispanics are projected to make up 24.1% of the total population by the year 2040, up from 17.7% in 2015.

## Eating Habits



## Population by Generation (mn)

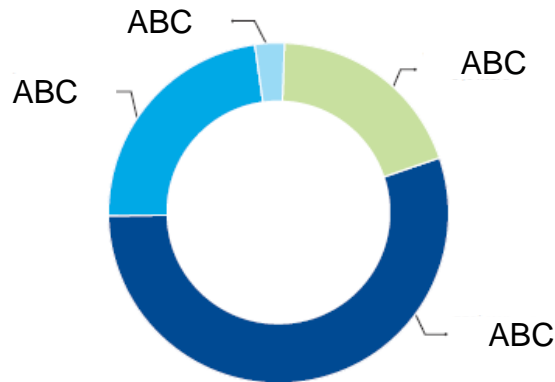


# Shifting Consumer Preferences

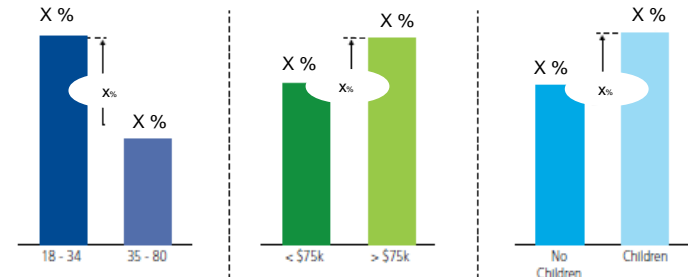
Consumers across all demographics are becoming more health conscious and are willing to pay a premium for healthier eating alternatives

- **A higher number of consumers are focusing on eating healthier and are willing to pay premium for the same**
  - According to a yyyy consumer survey, covering US respondents:
    - x % of people said their diet could be healthier
    - x % of shoppers wanted minimal processing in their food
    - x % wanted a shorter list of ingredients
  - IFIC's Annual Food & Health Survey reported that x % of shoppers worried about chemicals in their foods
  - According to surveys by xyz and abc, over x % of global respondents are willing to pay more for healthier foods
    - x % xyz were changing their diet to lose weight, with x % eating more natural and fresh foods
  - It can be concluded that all age groups — from xyz generation to xyz — would willingly pay more for healthy foods, particularly those that are GMO-free, have no artificial coloring/flavors and are deemed all natural

**Premium for Healthy food**



**Split of Premium Payers**



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**Organic Food Market – Supply Side**

# Supply Side

**Laura Batcha, ED, Organic Trade Association (OTA): “The supply shortage is holding back the market; 2015 was the peak of the supply shortage”**

## Current Scenario

- Supply massively lags demand as only x % of total US farmland is under organic cultivation, despite organic sales accounting for x % of total food sales
  - The massive mismatch is acting as a huge bottleneck to the expansion of the organic market, leading to a dependency on imports, particularly for grains and animal feed
    - Companies have been sourcing organic grain from Canada, Eastern Europe and South Africa
    - US imported \$x mn in organic soybeans and \$x mn in organic corn in yyyy
    - At XYZ, organic demand is twice as great as supply for some products

## Issues

- The entire supply chain process requires an overhaul of ingredient sourcing, which for farmers has historically meant a three-year gap in production while soil recovers from pesticides
  - Organic farmers also have trouble securing bank loans and organic crops don't have forward or options markets, which price in the volatility
  - Farmers generally have to sell their food for conventional prices during the transition

## Initiatives

- OTA is working with the US Department of Agriculture to reduce the transition to organic farming to one year.
- Companies are also incentivizing farmers through long-term contracts.
  - General Mills and Arden Mills aim to double their organic acreage by yyyy
  - XYZ also covers the costs associated with the transition period and the first few years of organic certification
  - XYZ, an organic snack bar manufacturer, contracted a conventional fig producer for seven years to produce organic figs, which covered the three-year transition and another four years of organic production
  - XYZ, a wholesaler of organic food, purchases rice, beans and cranberries at premium organic prices from farmers transitioning to organic farming

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## **Organic Food Market – Industry Analysis**

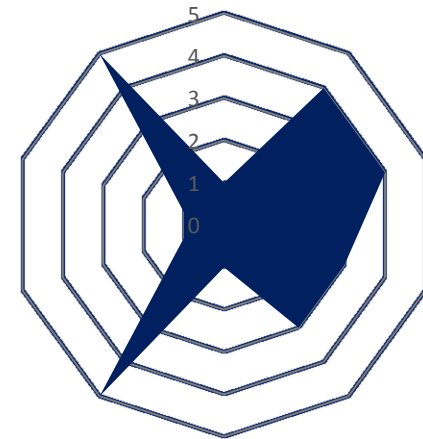
# Industry Analysis – Buyer Power

Buyer power is moderate as the high number of individual consumers and low price sensitivity is offset by negligible switching costs

- **As buyers in the organic food market are high-income individuals, price sensitivity is negligible since such consumers can pay a premium**
  - Buyer power is also weakened by having a large number of consumers that have no financial muscle in the buying process
- Buyer power is strengthened by increasing consumer demand, as retailers have to now focus on predicting the direction of market expansion
  - The incentive for retailers to monitor demand is also strengthened by government moves to support the organic industry
  - When supermarkets integrate organic foods into their product range, they analyse buyer demand to shape their offerings
- Switching costs are negligible given the limited product differentiation within each product category
  - This makes it easy for buyers to shop at other retailers and a number of retailers have to operate incentive and loyalty schemes for to retain customers

## Drivers of Buyer Power

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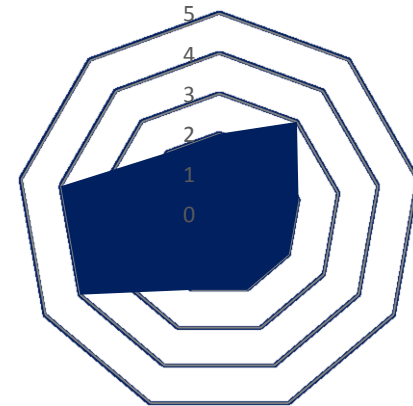
# Industry Analysis – Supplier Power

Supplier power is weak as the size of the suppliers – mostly small farmers, is very small as compared to buyers

- **Supplier power is limited by the small size of the typical supplier and the large size of the typical buyer, particularly in the case of large supermarkets**
  - This weakness is becoming more pronounced over time as large retailers increasingly become involved in the organic market. The larger market players such as these dwarf most organic produce suppliers
- Relatively large quantities of organic food are sold through farmers markets directly to the consumer
- Supplier power is strengthened by the strict standards in the production process that are integral to the credibility of the organic industry
  - Retailers depend heavily on the quality of their suppliers and are hence willing to offer long-term contracts
- Since the commodity is perishable in nature, retailers are forced to source their raw-materials/produce locally. Often limiting their choice of supplier and driving up supplier power
  - A number of players in the organic market are committed to ethical standards, narrowing the range of potential suppliers

## Drivers of Supplier Power

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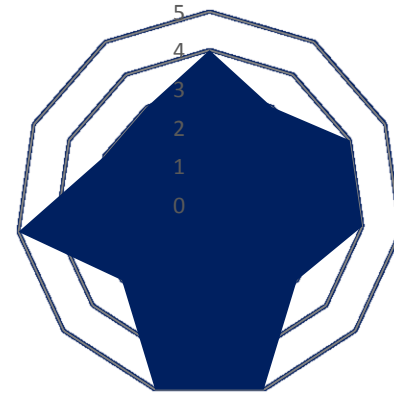
# Industry Analysis – Threat of New Entrants

Threat of new entrants is very high as traditional retailers look to take advantage of the high growth in the organic space to offset sluggish traditional retail sales

- **Traditional retailers have shifted their focus towards the organic market**
  - XYZ, the largest traditional retailer, recently overtook ABC in terms of organic food sales
  - XYZ accounts for x % of the organic food sales in the US
- However, there exists a few barriers to entry which could deter new entrants
  - Tight regulation along with stringent labelling standards in the organic market might serve to deter new entrants as they represent significant costs
  - Entry of retailing giants to the market will also deter new entrants, although the diverse nature of leading players' revenue streams means that there is less likelihood of price wars and it is easier to start out in the food retail industry by focusing on a specialized market, such as organic food
- For manufacturers, threat of new entrants is high as traditional FMCG companies increase their focus on organic variants of their products
  - Threat of new organic farmers remains immaterial as demand continues to grow at a faster pace than supply

## Drivers of New Entrants Threat

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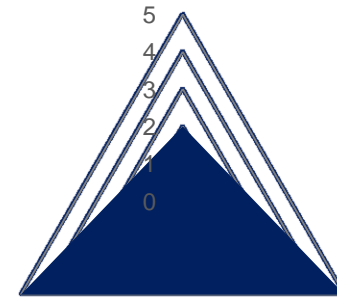


# Industry Analysis – Threat of Substitutes

Given the prevalence of cheaper, non-organic alternatives, there is a strong threat from substitutes, particularly if consumer spending weakens

- **The main substitutes to organic foods are the non-organic equivalents**
  - Organic products are marketed for their environmental benefits and nutritional quality, which limits the threat of cheaper non-organic products
  - In large supermarkets, the threat of substitution from cheaper non-organic items is much higher as organic outlets tend to be much smaller and stock fewer items
- Another alternative is subsistence farming; growing organic agricultural produce for one's own consumption
  - However, this activity has switching costs, is time-consuming, requires some degree of specialist knowledge and incurs the cost of purchasing seeds, fertilizer and gardening products
  - Many people do not have the land required to make this a viable option
  - Even those who can successfully produce their own organic food are unlikely to grow everything they need to meet their own needs; they may still need to purchase some items from market players

## Drivers of Threat of Substitutes

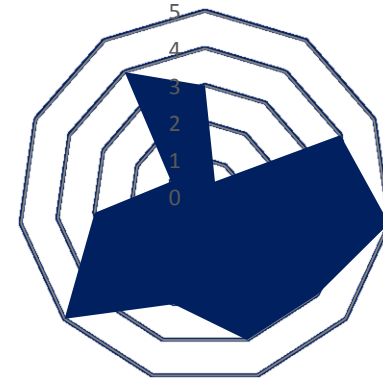


# Industry Analysis – Degree of Rivalry

While there is a moderate degree of rivalry in the US market, there has been a significant acceleration, which has led to lower margins for specialized players such as Whole Foods.

- **Limited differentiation between organic products within each market segment and negligible switching costs drive up rivalry**
  - This is mitigated in instances where players offer a wider selection of products
    - For large supermarkets, organic products contribute only a small percentage of overall revenue
    - Most supermarkets also stock non-organic food and an array of non-food products such as clothing, electricals and homeware
- Very strong market growth also serves to ease the degree of rivalry amongst players, as revenues can be generated without encroaching on other players' shares of the market
- There exists moderate rivalry amongst organic food producers, primarily due to lack of product differentiation and low cost of switching for customers
  - This is offset by producers largely focusing on supplying to local markets, especially for perishable items such as produce and meats
  - Rivalry is also mitigated by the industry's focus on driving growth through the quality of products and not competition on price

## Drivers of Degree of Rivalry



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## **Organic Food Market – Expected Trends**

# Expected Trends

The current demand-supply mismatch is expected to be met through the rise of private label brands and imports in the next x years

- **Private label brands**

- Private label natural and organic food brands are increasingly becoming prominent as they are more affordable than branded organic food products due to the operational efficiencies associated with in-house products
  - Store brand sales of food categories such as dairy products have outpaced the sales of food manufacturers' brands, generating gross margins of more than x %.
- Several large players such as XYZs have entered the organic food market with private brands in order to take market share from branded products

- **Imports**

- Producers of organic food and beverages in other countries will look to tap the huge US market to take advantage of the current demand-supply gap
  - Although domestic production in the US is high and growing, it does not meet the growing requirements

- **Organic baby food**

- There has been rapid growth in demand for packaged organic baby food, as parents in the US have increasingly become concerned about the food they provide to their children
- The market for packaged organic baby food is expected to grow due to the growing educated population, increasing awareness among parents and the anticipated economic recovery

- **Conspicuous consumption**

- Organic foods are purchased primarily by high-income consumers as the products are priced at a premium as they are more labour-intensive to produce and can perish faster than conventional foods
- Purchasing organic products can also be attributed to an individual's status; signifying refined tastes and the ability to afford the luxury of eating healthier foods

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## Organic Food Market – Key Players

# Market Players – Specialty Retail

## Company A

Market cap: \$x bn

Revenue (20yy): \$x bn

- Company A is one of the largest natural and organic foods supermarket in the US, with more than x stores. It is also the x<sup>th</sup> largest public food retailer and the y<sup>th</sup> largest food retailer overall
- Company A manufactures and retails natural and organic produce, packaged goods, bulk, frozen, dairy and meat, prepared foods, beverages and household goods
- Company A opened its first store in 19yy and is based in xyz
- According to some, Company A is expected to lose its market leading position to **Company Y** by 20yy. The core problems come down to price and convenience, two areas where larger competitors have a distinct advantage

## Company B

Market cap: \$x bn

Revenue (20yy): \$x bn

- Company B is one of the largest specialty retailers of fresh, natural and organic food in the US with x stores in 13 states
- Company B manufacturers and retails both perishable and non-perishable goods such as produce, dairy, prepared foods, and grocery. The company has been pushing its private label for the past few years and now offers more than 1,800 private label items
- Company B opened its first store in 20yy and is based in xyz

## Company C

Revenue (20yy): \$x bn

- Company C is a specialty grocery retailer, which sells mainly perishable items such as meat, seafood, produce, deli and bakery through its x stores
- The company was acquired by Company Y in 20yy for \$x bn.
- In 20yy, Company C entered into a long-term supply agreement with supermarket chain xyz, post which xyz would serve as a grocery wholesaler and distributor to Company C.
- The company opened its first store in 19yy and is based out of xyz

# Market Players – Producers/Manufacturers

## Company A

**Market cap: \$x bn**

**Revenue (20yy): \$x bn**

- Company A is a one of the leading FMCG company that manufactures branded plant-based foods and beverages, coffee creamers and beverages, premium dairy products and organic produce. Organic salads, fruits and vegetables accounted for x% of sales in 20yy
- The company has also expanded its presence in the organic dairy space through its \$x mn acquisition by Company Y in 20yy
- Company A is headquartered in xyz

## Company B

**Market cap: \$x bn**

**Revenue (20yy): \$x bn**

- Company B manufactures, markets, distributes and sells organic and natural products across US and UK
- Organic grocery products such as infant formula, kids foods, rice and grain-based products, plant-based beverages and frozen desserts accounted for over x% of sales in 20yy
- Company B was incorporated in 19yy and is headquartered in xyz

## Company C

**Revenue (20yy): \$x bn**

- Company C is one of the largest organic farmer-owned cooperative in the world with over x farmer-owners. Company C markets its products in all 50 states of the US and exports to x countries
- Company C is of the largest organic food company in 20yy, driven by premium yogurt, protein milk shake, dairy and eggs
- The company was founded in 19yy by struggling farm families and is headquartered in xyz

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**Appendix**



# Trading Comparables

Companies in Organic Food Industry trading at average CY 2016 multiples of: 1.0x EV/Sales, 10.2x EV/ Adj. EBITDA and 22.7x P/E.

Company Name	Market												Sales Growth	
	Cap	LTM	CY 2016E	CY 2017E	CY 2018E	LTM	CY 2016E	CY 2017E	CY 2018E	LTM	CY 2016E	CY 2017E	CY 2018E	2015-2018E
Company A	9,859.0	45.2x	39.7x	34.1x	29.6x	2.90x	2.77x	2.57x	2.39x	21.3x	20.4x	18.2x	16.0x	8.9%
Company B	9,270.8	20.3x	19.2x	19.0x	17.8x	0.62x	0.61x	0.58x	0.54x	7.1x	7.2x	7.0x	6.6x	4.9%
Company C	3,761.4	18.4x	17.5x	16.2x	14.6x	1.58x	1.51x	1.44x	1.35x	11.5x	11.3x	10.8x	9.5x	6.1%
Company D	2,921.0	20.9x	22.3x	19.3x	16.4x	0.81x	0.76x	0.65x	0.58x	9.3x	10.0x	8.8x	7.7x	14.5%
Company E	2,209.2	17.3x	17.0x	16.0x	14.6x	0.32x	0.30x	0.27x	0.25x	9.0x	8.6x	8.0x	7.3x	8.5%
Company F	2,170.4	6.8x	12.6x	19.3x	NA	0.95x	1.11x	1.18x	NA	3.5x	6.3x	8.7x	NA	NA
Company G	583.8	35.9x	30.6x	16.3x	NA	0.86x	0.80x	0.75x	NA	14.9x	11.6x	9.3x	NA	NA
Company H	270.0	20.9x	22.4x	19.4x	15.5x	0.46x	0.43x	0.37x	0.33x	6.7x	6.6x	5.5x	4.6x	14.7%

6.8x	12.6x	16.0x	14.6x	0.32x	0.30x	0.27x	0.25x	3.5x	6.3x	5.5x	4.6x
23.2x	22.7x	20.0x	18.1x	1.06x	1.04x	0.98x	0.91x	10.4x	10.2x	9.5x	8.6x
20.6x	20.8x	19.1x	16.0x	0.84x	0.78x	0.70x	0.56x	9.1x	9.3x	8.8x	7.5x
45.2x	39.7x	34.1x	29.6x	2.90x	2.77x	2.57x	2.39x	21.3x	20.4x	18.2x	16.0x

# Trading Comparables

Company Name	Description
Company A	Company A produces and markets dairy and dairy alternatives. The Company's products include soy milk, flavored creamers, organic milk, yogurt, cheese, butter, sour creams, and whipped creams. Company A serves the grocery and natural foods channels in the United States
Company B	Company B owns and operates a chain of natural food supermarkets in the United States. The Company's stores provides full range of merchandise, featuring products that are free of artificial flavors, sweeteners, colors, preservatives, and added chemicals. Company B also develops, produces and markets nutraceuticals and nutritional supplements
Company C	Company C is a natural and organic beverage, snack, specialty food, and personal care products company. The Company's product line include grocery store foods such as organic cookies, cooking oils, sugar free products, kosher foods, snacks, and frozen foods, as well as organic skin, hair, and body products. Company C sells and markets in North America and Europe.
Company D	Company D operates a chain of retail grocery stores. The Company offers meats, cheese, dairy products, bakery, beer and wine, bulk foods, vitamins, and supplements. Company D serves customers throughout the United States
Company E	Company E distributes natural foods and related products. The Company offers natural products consisting of groceries and general merchandise, nutritional supplements, bulk and foodservice products, personal care items, perishables, and frozen foods
Company F	Company F produces grades, packs, and sells organic shell eggs. The Company markets its products in various states in the Southwestern, Southeastern, Midwestern, and Mid-Atlantic regions of the United States
Company G	Company G owns and operates businesses in the natural and organic food markets. The Company sources, processes, and distributes natural and organic food products. Company G also produces, distributes, and recycles environmentally friendly industrial materials. In addition, the Company engineers and markets clean pulping systems
Company H	Company H by Company I through its subsidiary operates in the food industry. The Company provides healthy foods, vitamins, and supplements including allergy, aloe products, amino acids, antioxidants, animal products, beverages, medical, cleansing and clearance, weight loss, electrolytes, energy, cosmetics, natural, minerals, vitamins, pain relief, and supplements