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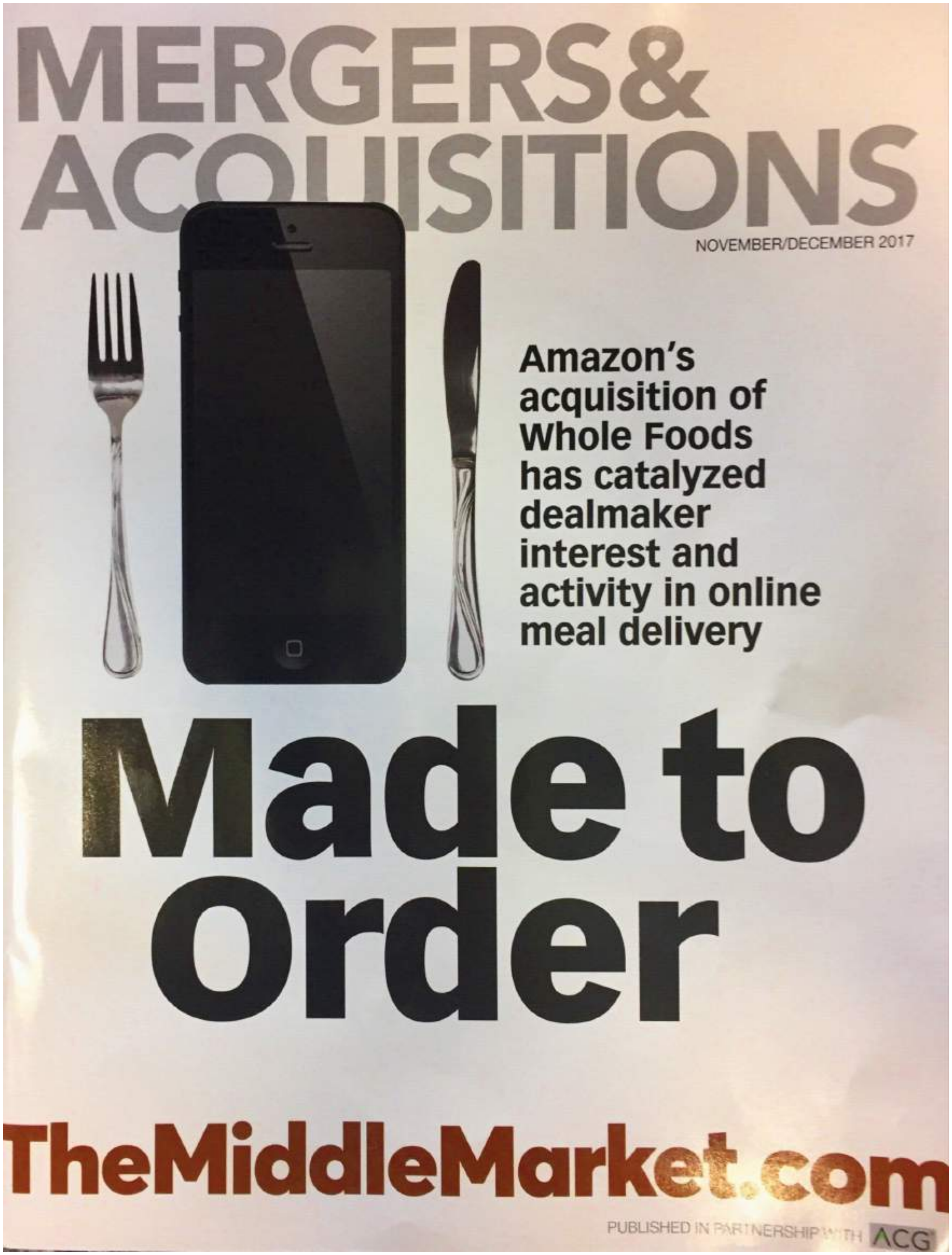

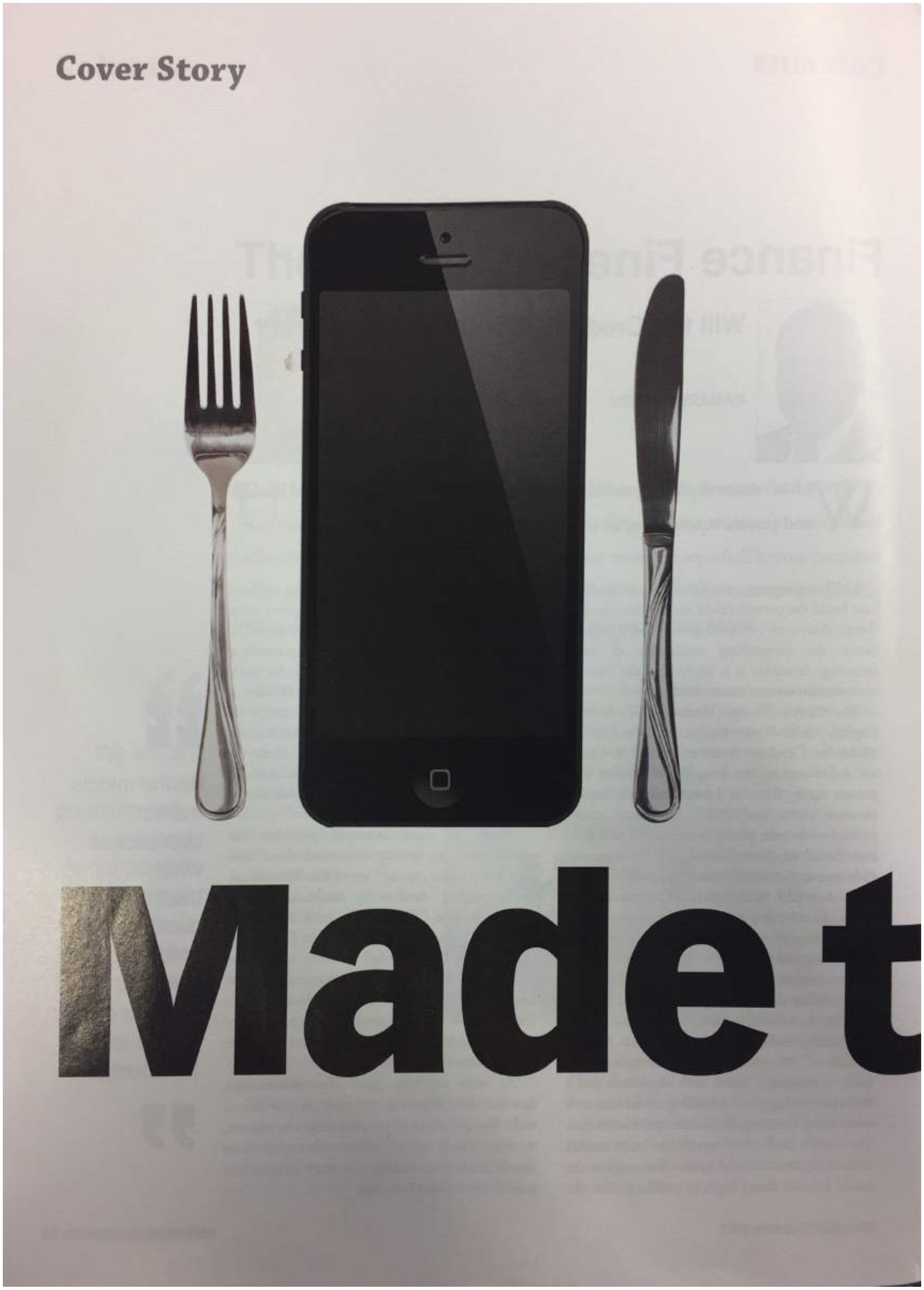

Cover Story

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Amazon's acquisition of Whole Foods has catalyzed dealmaker interest and activity in online meal delivery

By Demitri Diakantonis

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Driven by consumer demand for quicker, easier and healthier food options, the online meal-kit delivery sector has reached a tipping point. Sales are set to grow by 30 percent over the next three years, and a wave of a middle market M&A activity is quickly rising.

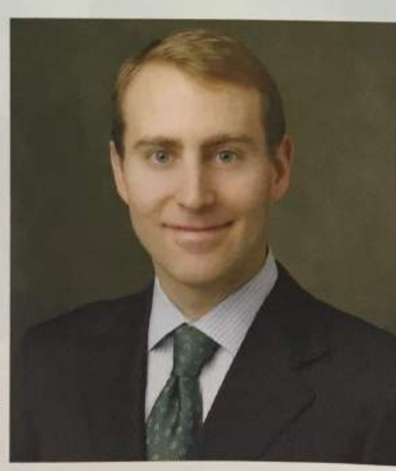
> "With business booming in stay-at-home meal preparation, would be acquirers are scrambling to adapt to changing eating habits."

"Everybody is looking for cleaner and healthier foods and everybody is looking for convenience," says Duff & Phelps managing director Josh Benn. That will translate into more online food sales. Currently at about $8.4 billion, or 1 percent of 2016 overall food and beverage sales, according to Euromonitor, the online meal segment is expected to reach $11.5 billion, or around 1.3 percent of the total, by 2020.

Loftier consumer demand is driving M&A activity. According to PitchBook, there were six meal-kit delivery deals in the U.S. through September of this year—compared to seven for all of 2016, just four in 2015, and a total of six for the prior three years.

William Blair

Mike Siska



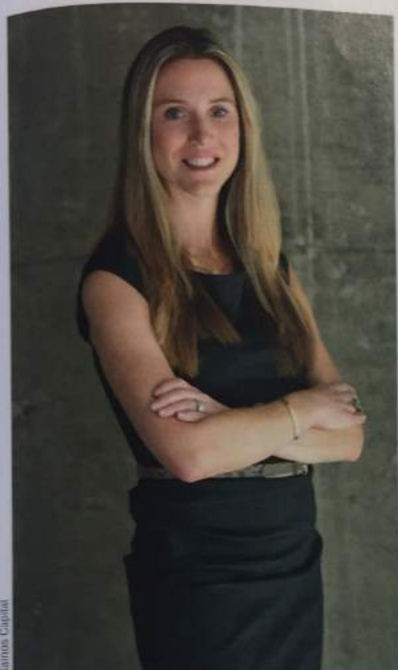
Duff &Phelps

Josh Benn

With business booming in stay-at-home meal preparation, would-be acquirers are scrambling to adapt to changing eating habits. While meal-kit distributors have been around since the 1990s, they found it difficult to get consumers to trust the quality and freshness of online grocery deliveries. "The home meal-kit business has a logistics and packaging impairment that's expensive to solve," notes William Blair managing director Michael Siska.

A new tune

But egged on by growing familiarity with online shopping in general, and high-profile deals like Amazon's purchase of Whole Foods in particular, consumers have started to change their tune.



Kainos Capital

Sarah Bradley

With its $13.7 billion acquisition of Whole Foods last summer, deep-pocketed Amazon (Nasdaq: AMZN) is now poised to shake up the home grocery delivery business. Whole Foods private-label products are currently available for purchase on Amazon.com, and the natural grocer's 450-plus stores provide local distribution outlets for Amazon customers. The online retail gorilla has already started offering meal-kits for home delivery and plans to deliver them in under an hour.

"I think we are at an inflection point in the industry," observes Kainos Capital partner Sarah Bradley. "The Amazon-Whole Foods merger is putting pressure on grocers to address online delivery."

"There always has been pressure on grocery store chains," adds Siska. "If anything, the Amazon deal just brought it to the forefront."

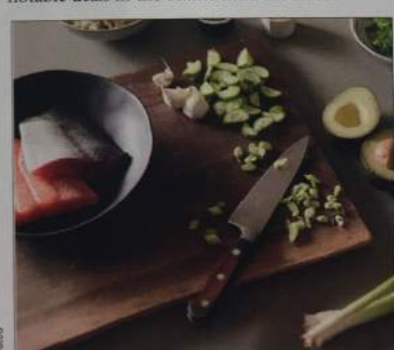
Grocers are not the only ones feeling the heat. Businesses like Instacart, a San Francisco startup that provides online shoppers with same-day delivery from a variety of retailers like CVS Health Corp. (NYSE: CVS) and Petco, will face intensified competition.

"From the beginning, we've been committed to helping grocers compete online," says an Instacart spokesperson. "That's more important than ever, given that Amazon just declared war on every supermarket and corner store in America. We already work with over 160 retailers across the country and look forward to partnering with many more."

Peaking consumer interest and intensified competition has supermarkets, restaurants and e-commerce outlets all eyeing the market for home meal-kit delivery. Kroger Co., (NYSE: KR) for instance, North America's largest supermarket chain, has already added meal-kits to its shelves and is considering divesting its convenience store business, which would free it to focus on online delivery and other technology-driven food distribution efforts.

"We understand that today's marketplace is shifting rapidly," says Kroger CEO Rodney McMullen. "Kroger's success has always depended on our ability to proactively address changes by focusing relentlessly on our customers."

But while Kroger mulls its future, its rivals are already taking steps to ensure theirs. Here we take a closer look at four of the most recent notable deals in the online meal-kit sector:



Plated

"Kroger's success has always depended on our ability address changes by focusing relentlessly on our customers."

> "The question is can traditional retailers adjust their formats fast enough?"

Albertsons acquires Plated

Albertsons Cos. has seen the food delivery sector's future, and in late September North America's second largest retail food distributor bought Plated to keep pace.

Plated is a New York-based startup that makes meal-kits, and the acquisition is viewed as an attempt to appeal to the fast-growing market for online meal delivery. Through its more than 2,300 stores, Albertsons will give Plated access to a new segment of customers, while Plated gives the supermarket chain a way to counter the Amazon-Whole Foods assault on the grocery business.

Founded in 2012, Plated received nationwide exposure when its founders appeared on the reality television show "Shark Tank" in 2014. That led to an investment from TV personality and Canadian businessman Kevin O'Leary. Plated also raised $95 million from several venture capital firms, including Greycroft Partners and Formation 8.

Plated woos food-conscious consumers with fresh ingredients and flexible meal plans. Its offerings include 17 new recipes each week, and feature dishes such as chicken Marsala with roasted potatoes and feta-stuffed lamb burgers. Best known for its Safeway chain of supermarkets, Boise, Idaho-based Albertsons plans on promoting Plated's meal-kits in its stores, as well as through digital channels such as mobile apps and web sites.

This last effort will be critical, as consumers increasingly shift from traditional shopping methods to placing online orders through mobile devices.

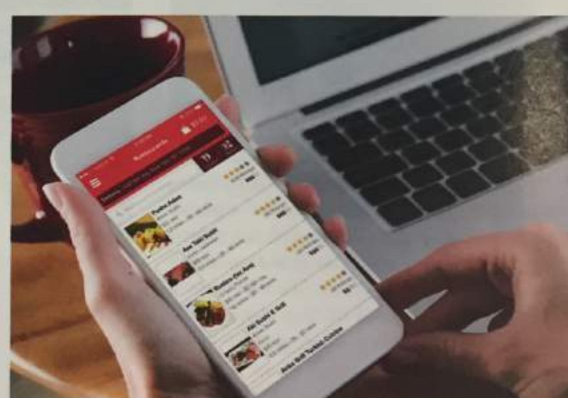
"There's no business that I can think of that isn't being affected by connectivity," says Jones Day partner Robert Profusek. "The question is can traditional retailers adjust their formats fast enough? There will be a lot of activity because any business, unless they move towards technological advances, will be stopped in their tracks."

"To compete and win customer acquisition over time, leading brands are going to need to innovate and establish loyalty through their differentiated platform offerings," agrees Purple Carrot CEO Andy Levitt, which has partnered with Whole Foods to sell meal-kits.

Acknowledging as much, Albertsons CEO Bob Miller allows that "Today's consumer is looking for a variety of personalized shopping alternatives," adding that the Plated acquisition "is the latest example of Albertsons Cos. meeting our customers wherever and however they like to shop."

Grubhub buys Yelp Eat24

Grubhub Inc. (NYSE: GRUB), the mobile online food ordering service, is a rapidly growing fish in a pond that is quickly getting much larger. Viewed by analysts as a possible acquisition target itself, last August, Grubhub moved to make itself less digestible by acquiring Eat24 from Yelp Inc. (NYSE: YELP) for $287.5 million.



Grubhub

The addition of Eat24 will expand GrubHub's base to more than 75,000 restaurants and add around 50,000 orders to its daily volume—about a 16 percent increase.

"Adding Eat24's large diner base and thousands of restaurants to our platform will accelerate Grubhub's mission to become the most comprehensive marketplace connecting takeout diners and restaurants," asserts Grubhub CEO Matt Maloney. The Grubhub platform encompasses the Grubhub, Seamless, AllMenus and MenuPages online brands.

For Chicago-based GrubHub, the Eat24 purchase is only the latest in a series of deals aimed at increasing its national presence. Also last August, the company acquired a piece of Groupon Inc.'s (Nasdaq: GRPN) food ordering platform, OrderUp, which focuses mostly on college campuses in 40 markets across the U.S. Two months prior, in June, the company bought Foodler, a Boston-based online food delivery service.

"In addition to the secular offline to online trend, diners are increasingly turning to food delivery for everyday occasions and restaurant owners and operators are embracing this opportunity more and more," Maloney told his investors. "We're being opportunistic in terms of M&A; we're being aggressive on partnerships."

Nestlé USA backs Freshly

As U.S. consumers shift their tastes from packaged convenience foods to fresher fare ordered online, the stakes couldn't be higher for food giant Nestlé SA. The company's North America division owns the DiGiorno, Häagen-Dazs and Hot Pockets food brands and represents 20 percent of its packaged food sales worldwide. But, according to Euromonitor, that market share is eroding.

In response, last June the Swiss-based food giant took a minority stake in online meal provider Freshly, leading a new $77 million round of funding for the purveyor of health-oriented, pre-cooked foods. According to Nestlé, a new plant in Maryland should allow Freshly to serve about 93 percent of the U.S. population with prepared meals that can be heated in two to three minutes.

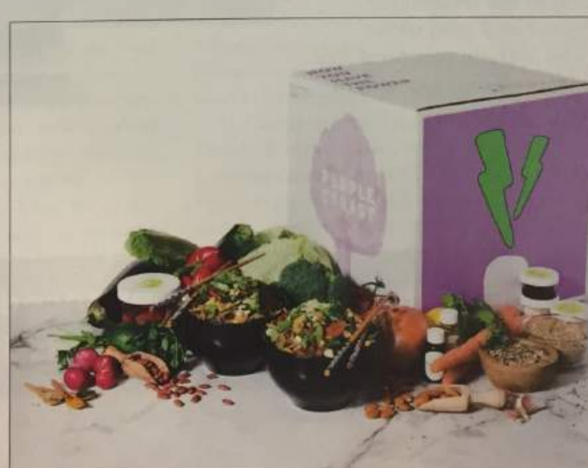
"While most food choices are still made in supermarkets, it's clear that consumers are responding to a growing universe of direct-to-consumer options," acknowledges Nestlé USA CEO Paul Grimwood.

Founded in 2015, New York-based Freshly offers a rotating menu that includes gluten-free, high-protein, low-carbohydrate and vegetarian options through an online subscription service. Cooked meals are delivered directly to consumers. In addition to Nestlé, the company has received funding from Highland Capital, Insight Venture Partners and White Star Capital.

Its stake in Freshly will do more than just broaden Nestlé's product portfolio. The food maker will also get access to the online seller's customer data to support its efforts to better target consumers.

"Nestlé will gain visibility into Freshly's advanced analytics and its highly effective distribution network," says Grimwood, "and Freshly will benefit from our R&D, nutrition

> "Consumers are responding to a growing universe of direct to consumer options."



Purple Carrot

and sourcing expertise."

Nestlé's Freshly investment dovetails with its support for the Terra food and farming technology program, through partnerships with the Dutch bank Rabobank and technology accelerator RocketSpace, also entered into earlier this year. The Terra R&D initiative is aimed at developing healthier and more sustainable commercial food products.

"We're experiencing a seismic shift in the food industry," declares Rui Barbas, Nestlé USA's chief strategy officer. "Our partnership with Terra is just one way in which Nestlé can play a leading role in meeting quickly evolving consumer expectations and explore new disruptive technologies and business models."

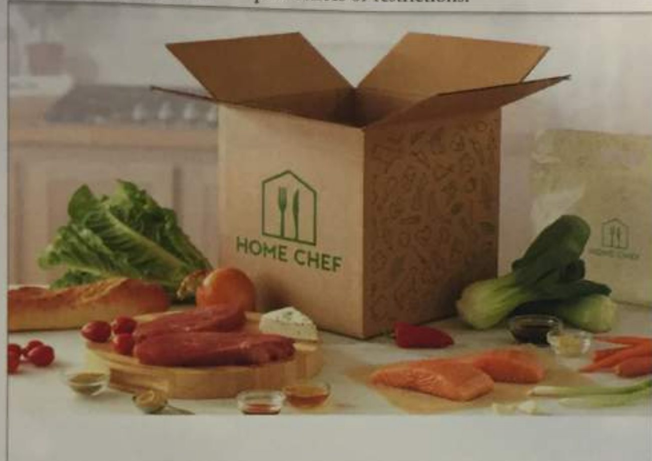
L Catterton invests in Home Chef

Until recently, private equity firms have been holding back from investing in the food delivery market. But that is starting to change.

In the latter part of 2016, PE firm L Catterton Partners poured $40 million into meal-kit delivery service Home Chef, taking a stake in its future growth. It seems likely to pay off.

Since its inception, Home Chef has grown exponentially. "Just this year, we're up by about seven times," noted founder Pat Vihtelic at the time of the infusion. Vihtelic quit his job as an investment banker in the summer 2013 to launch the home food prep service.

Chicago-based Home Chef delivers more than 1.5 million meals a month and covers about 97 percent of the U.S. population through facilities in Atlanta and Los Angeles, as well as Chicago. The company provides fresh ingredients and recipes for meals that consumers can easily prepare at home. Menu items include fare like mozzarella-stuffed meatball sliders and Thai red curry chicken. For a set price of $9.95 per serving, customers choose how many people they are cooking for and set any dietary preferences or restrictions.



Home Chef

"Demanding schedules get in the way of prioritizing what we are feeding our families and ourselves."

"In today's fast-paced world, demanding schedules get in the way of prioritizing what we are feeding our families and ourselves," says Vihtelic, articulating one of the chief trends behind the meal-kit boom. "At Home Chef we strive to accommodate our customers' busy lives."

L Catterton was formed in 2016, when French luxury goods maker LVMH Moet Hennessy Louis Vuitton SE combined its private equity group, known as L Capital, and its real estate investment unit with the consumer-focused private equity firm Catterton. The newly combined firm is based in Greenwich, Connecticut and London with offices across Europe, Asia and Latin America.

When it comes to the blossoming meal-kit delivery sector, L Catterton is an early mover among private equity firms. But its roots are French and, if nothing else, the French know food. Other PE firms, take note.