



Five ways COVID-19 is impacting the food industry



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**Quick read**

Trading updates released by important food sector companies can shed light on the patterns and trends impacting on the sector.

One year on from the commencement of measures designed to combat COVID-19 certain patterns have persisted in terms of the food sector has adapted

Among the positives for the sector include upward trends on retail sales compensating for food service decline

One prominent negative is that the cost of sales has dramatically increased due to supply modification, and personnel costs and more

The hope of recovery towards a post-COVID world is overshadowed by the potential for virus variants, and so uncertainty continues to be a factor

Introduction

The COVID-19 pandemic is a significant human tragedy with over 2.5 million lives lost so far. In addition, and very much secondary to that immense loss, the economic costs continue to mount. The IMF estimates that global GDP contracted by – 3.5% (-4.9% in advanced economies) in 2020. Last January 2020 global GDP was forecast to expand by + 3.3% in 2020.

Employment remains well below pre-pandemic levels and the labour market has become more polarised with low-income workers, youth, and women being harder hit. The United States, for example, has 9 million fewer employed people than in February 2020.

The theory that, irrespective of economic circumstances people must eat and drink, affording the agribusiness and food industries a degree of protection during economic showdowns, has been proven correct during this economic slowdown. However, what and where people eat, and drink has provided the most interesting aspect for the sector.

Dynamic changes to consumer behaviour

The last 12 months has seen major changes in the daily lives of consumers across the globe, with purchasing and consumption behaviours significantly disrupted, leading to a much more dynamic marketplace. At-home consumption has been elevated, as consumers adapted to changes in daily routines and work practices. The foodservice channel has been significantly impacted due to restrictions on operations and consumer mobility, leading to increased demand for online and delivery.

To understand how companies have been affected by the COVID-19 pandemic and their expectations of the impacts on their businesses' prospects our analysts surveyed recent trading updates and annual reports of some bellwether agri-food companies.



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The takeaway themes include:

1. COVID 19 has had a positive effect on sales for the most part. 65% of the companies our analysts reviewed saw an increase in sales during the year as consumers increased at home food consumption because of the pandemic. Retail sales for all companies soared as most of the world was forced to stay at home due to spread of the virus. For most companies, this growth in retail more than offset much lower foodservice sales.

2. Those focused on food service continue to be the hardest hit. For some however, increased retail sales have not been sufficient to compensate for food service losses and the longer business restrictions remain in place, more and more of their customers – restaurants, bars and cafes – will face an existential threat. European markets seem most at risk currently as most countries are continuing with their national lockdowns due to an increase in cases in the winter months.

3. Cost of Sales has increased dramatically in the last year. For many the full benefit of increased revenues has not flowed to net profit as extra supply chain, facility modification and personnel costs have eaten into their top line gains. In Tyson Foods, Inc financial results announcement the company noted: “During fiscal 2020, we incurred direct incremental expenses related to COVID-19 totalling approximately \$540 million, which primarily included team member costs associated with worker availability and production facility downtime, and direct costs for personal protective equipment, production facility sanitisation, COVID-19 testing, donations, product downgrades, rendered product, professional fees and thank you bonuses to frontline team members. We expect to continue to incur significantly increased operating costs related to worker health and safety measures, which have had, and will likely continue to have, a negative impact on our results of operations and financial condition.”

While expenses in some areas have increased, there is evidence of decline in other, previously conventional expenses. Selling, general and administrative expenses have declined for most companies largely due to a reduction in advertising and promotional expenses.

4. Location of market is now more important than ever. The difference in how countries have reacted

and been affected by the market has been quite different. Currently much of Europe remains under lockdown while other places such as the Middle East and North America have less restrictions in place. As a result, foodservice continues to be more negatively affected in Europe than in other areas, with retail sales higher in Europe for the same reason.

5. The future is not as clear as some observers predict. It is possible that the wide availability of government-approved COVID-19 vaccines by mid-calendar 2021 may allow governments to gradually ease broad social restrictions in their respective jurisdictions, which would likely have a favourable impact on the foodservice industry. However, as we have already seen from the disruptions posed by new variants in the past few months there is no certainty with this virus.

As a result of the uncertainty some companies have adapted by allocating more resources to increase retail sales at the expense of foodservice and on the go foods. With more people expected to continue working from home post pandemic, it's likely more and more resources will be allocated here. The increased demand in E-commerce should also continue at a fast pace as companies allocate more and more resources to that channel.

Conclusion

Trading updates from some of the food industries most important companies, or bellwether companies can provide a powerful insight into how the sector is doing at any given time. This is especially significant during the current time of pandemic and over a year on since the crisis enveloped the world, we can assess how the industry is faring, through the statements and data emerging, compiled here by our researchers at Farrelly & Mitchell.



Expert in this Insight

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Company	Sector	Impact on Demand	Comment	Management Guidance
Associated British Foods plc	Branded Processed Foods	Positive	“Sugar 6%, Grocery 7%, Agri 10% and Ingredients 3% revenue were all ahead of last year as people spent more time at home during lockdown.”	“The performance of Sugar, Grocery, Ingredients and Agriculture has been very strong to date and for the full year our expectation remains for adjusted operating profit in aggregate from these businesses to be well ahead of last year.”
Conagra Brands	Branded Processed Foods	Positive	“Second quarter saw organic net sales increase by 8.1%. The sales increase was primarily driven by consumers increasing their at-home food consumption because of the COVID-19 pandemic, which benefitted the Company's retail segments but negatively impacted the Foodservice segment. Net sales for the Grocery & Snacks segment increased 12.5%. Net sales for the Refrigerated & Frozen segment increased 6.8% and net sales for the Foodservice segment decreased 23.1%.”	“The ultimate impact of the COVID-19 pandemic on the Company's full year fiscal 2021 consolidated results remain uncertain. The Company continues to expect demand in retail channels to remain elevated and demand in foodservice channels to remain challenged versus historical norms. However, the degree and timing of changes in retail and foodservice demand levels are difficult to predict with enough certainty to provide a full-year outlook currently.”
Kellogg Company	Branded Processed Foods	Positive	“The Company finished the year with results that were on or better than its guidance for each of its key metrics: organic net sales, currency-neutral adjusted operating profit, currency-neutral adjusted earnings per share, and cash flow.”	“The company forecasts a decrease in organic net sales for 2021, as demand declines relative to the “unusually strong, COVID-19-related growth” of the prior year. The company recorded 6% growth in organic net sales in its 2020 full-year results but forecast a fall of about 1% for this year.”



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Kraft Heinz	Branded Processed Foods	Positive	<p>“Organic Net Sales increased 6.0 percent driven by sustained growth momentum in retail, partially offset by ongoing weakness in foodservice. Pricing increased 4.8 percentage points reflecting favourable trade expense timing versus the year-ago period, lower sales on promotion during holiday event periods relative to comparable prior year, primarily in the United States, as well as reduced promotional activity in capacity-constrained areas to better safeguard customer service. E-commerce sales grew by more than 100% and now account for more than 5% of the company’s global sales.”</p>	<p>“Kraft Heinz in the first quarter of the current fiscal year expects organic net sales growth to be flat to positive. The first quarter will compare to the previous year’s first quarter that included a six-point to seven-point contribution to organic net sales growth.”</p>
Nestlé S.A.	Branded Processed Foods	Positive	<p>“Organic growth reached 3.6% in 2020, the highest level in the last five years. Dairy saw high single-digit growth, based on increased demand for home-baking products and fortified affordable milks. Coffee reported mid-single-digit growth. Prepared dishes and cooking aids posted mid-single-digit growth, with robust momentum across most categories during lockdowns</p>	<p>“For 2021 the company expects continued increase in organic sales growth towards a mid-single-digit rate. Underlying trading operating profit margin with continued moderate improvement and continued prudent capital allocation and capital efficiency improvement.”</p>



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			<p>Vegetarian and plant-based food offerings continued to see strong double-digit growth, despite reduced demand in out-of-home channels due to the pandemic. Sales in Nestlé Health Science grew at a double-digit rate, reflecting higher demand for products that support health and the immune system. Growth in confectionery was slightly negative, with reduced demand for impulse and gifting products. Water reported a decrease in sales due to its high exposure to out-of-home channels. E-commerce sales grew by 48.4%, reaching 12.8% of total Group sales. In 2020, COVID-19-related incremental costs were CHF 420 million, including expenses for bonuses paid to frontline workers, employee safety protocols, donations and other staff and customer allowances. Around CHF 260 million of these costs impacted underlying trading operating profit, partially offset by</p>	
Lamb Weston Holdings, Inc	Private Label Food & Beverage	Negative	<p>“Net sales declined 12% versus the prior year quarter. Volume declined 14 percent, predominantly reflecting decreased demand for frozen potato products outside the home following government-imposed restrictions on restaurants and other foodservice operations to slow the spread of the COVID-19 virus. Selling, general and administrative expenses declined by \$7.7 million, largely due to lower incentive compensation expense accruals and a \$3.5 million reduction in advertising and promotional expenses.”</p>	<p>“The Company expects that it will continue to incur additional costs because of the pandemic’s impact on its operations, at least through the remainder of fiscal 2021. These costs may include but are not limited to: costs to shut down, sanitize, and restart production facilities after a production employee has been infected by the virus; production inefficiencies and labour retention costs arising from modifying production schedules.”</p>



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Danone S.A.	Dairy	Negative	<p>"In 2020, consolidated sales were down 1.5% on a like-for-like basis. Essential Dairy & Plant-based posted net sales growth of +3.4% in 2020 on a like-for-like basis, sustained by both Essential Dairy, up low-single digit, and Plant-based that grew at +15% Recurring operating margin remained broadly stable above 10%, despite COVID-related costs. Waters sales declined by -16.8% in 2020 on a like-for-like basis and recurring operating margin decreased to 7.0%. The performance of Waters was severely impacted by COVID-related restrictions to mobility that disrupted Danone's ability to serve consumers in out-of-home and impulse channels and ultimately translated in negative volume, product and format mix."</p>	<p>"2021 is therefore going to be a year of recovery. we are focused on preparing our return to sales growth as soon as Q2 and are fully confident that we are building the right conditions and momentum to reconnect with our profitable growth agenda."</p>
Glanbia plc	Dairy	Negative	<p>"Glanbia recorded total group sales of 3.8bn in 2020, which was down 1% in the year. A near 4% increase in sales prices helped offset a 2% decline in sales volume. The performance nutrition division which is made up of consumer facing health brands suffered a 17% drop in sales. In contrast the nutritional's division saw a 7% increase on year-on-year sales. The company had both retail and food service customers and were able to divert more sales to retail customers as COVID-19 forced the closure of many restaurants last year. customers and were able to divert more sales to retail customers as COVID-19 forced the closure of many restaurants last year."</p>	<p>"Glanbia has issued a positive outlook for 2021 with forecasts of 6% to 12% increase in profits (EPS) next year which will be driven by a recovery in sales and profits in both its core divisions, performance nutrition and nutritional's." "..... If you look at the past year, COVID 19 is a global health crisis, and Glanbia is very much positioned as a healthy nutrition business."</p>



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The Coca Cola Company	Non-alcoholic beverage	Negative	2020 saw rare declines in sales volume, earnings, cash flow and also lost market share in a year characterized by sharply reduced consumer mobility. Its focus on away-from-home drink sales was a liability during the pandemic compared to more diversified companies like PepsiCo. Net revenues declined 11% to \$33.0 billion and organic revenues (non-GAAP) declined 9%. This was driven by a 7% decline in concentrate sales and a 2% decline in price/mix.	“The company expects to deliver organic revenue (non-GAAP) percentage growth of high single digits. However, Coke's business is closely tied to the freedom that consumers have to attend in-person entertainment events, and so it is likely to stay pressured until the COVID-19 threat is over.” Management also warned investors to expect volatility given all the uncertainty about further outbreaks and shaky global economic growth trends. Sales are still trending lower through early February, executives explained.
PepsiCo	Snacks & Non-alcoholic beverage	Positive	“Despite the 4% increase in organic revenues, adjusted operating income declined marginally during 2020 to \$10.5 billion, with core operating margins contracting by roughly 80 basis points. This primarily reflects the roughly \$800 million in COVID-19-related costs incurred throughout the year.”	“CFO Hugh Johnston said in an interview that the pandemic's impact on Pepsi's business has become predictable enough for the company to issue an outlook. He added that the company has “mastered operating in what is a very new normal for us and the company predicts a mid-single digit increase in organic revenue for 2021.”
Mondelez International, Inc	Snacks	Positive	“Net revenues increased 2.8% primarily driven by Organic Net Revenue growth of 3.7% Chocolate grew more than 3% for the year, and that growth included headwinds due to lockdowns and limited world travel retail. The company's overall growth rate for the year was negatively impacted by gum and candy, which were challenged by reduced on-the-go consumption and limited mobility due to lockdowns.”	“Management expects to achieve 3% net revenue growth in fiscal 2021 and to retain market share gains achieved during fiscal 2020. “Biscuits and chocolate, from what we see today, should continue to do well in 2021, but we will be lapping some elevated growth in 2020, particularly in developed markets and for biscuits. On the flip side, there should be some recovery of the categories and countries mostly impacted by COVID. We have been prudent in our assumptions, mostly for gum, as we expect that category to recover more slowly.”



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General Mills	Branded Consumer Foods	Positive	<p>“Net sales increased by 5% in 2020. The fiscal 2020 increase in net sales growth includes approximately 3 points of net sales growth due to the impact of the COVID-19 pandemic.</p>	<p>“General Mills expects that the COVID-19 pandemic will drive continued elevated consumer demand for food at home, relative to pre-pandemic levels, through the remainder of fiscal 2021. Third-quarter demand trends are expected to be generally consistent with recent months, due to ongoing virus concerns in many markets around the world. Based on that assumption, the company expects to generate continued strong top- and bottom-line growth in the third quarter of fiscal 2021, with organic net sales growth roughly like the second quarter’s growth rate and an adjusted operating profit”</p>
Kerry Group	Ingredient s/ Flavours	Negative	<p>“Group revenue of €7.0 billion reflected a reported decrease of 4.0%, with an overall volume reduction of 2.9% in the year. This performance reflected a strong recovery since April with a return to volume growth of 2.2% in the fourth quarter. In the year, there were notable distinctions in business performance by channel. Sustained strong growth was achieved in the retail channel, primarily through growth in authentic cooking, plant-based offerings and health and wellness products. Performance in our foodservice channel was most significantly impacted in the second quarter, as the introduction of restrictions affected our customers’ operations.”</p>	<p>“Looking to the year ahead, within Taste & Nutrition, we see strong growth prospects in the retail channel, with continued recovery in foodservice, underpinned by a very good innovation pipeline and strong customer engagement. The short-term impact from COVID-19 will continue through Q1, where we are expecting flat to positive volume growth in this quarter, with an overall outlook for strong recovery and good growth in the full year. Our Consumer Foods business has a good growth outlook supported by continued innovation and the strength of our brands.”</p>
Tesco plc	Food Retail	Positive	<p>“A strong UK sales performance was sustained into the third quarter with like-for-like growth of 6.7%, accelerating to 8.1% at Christmas following improved customer metrics across all areas. UK sales grew across all formats, channels and categories. Online sales growth was particularly marked at over 80% which equates to nearly £1 billion extra sales over the 19-week period. UK sales performance over Christmas was driven by food including a 14% increase in sales of Finest products as customers looked for more opportunities to treat themselves.”</p>	<p>“The strong momentum in the business and the benefits of sustained elevated sales are enabling us to offset the additional COVID-19 costs we are now expecting to incur because of the increasing severity of the pandemic since we updated the market in October. These incremental costs, such as increased colleague absence, take our current total full year estimate for the UK to £ (810) m.</p> <p>As a result, our guidance for the 2020/21 financial year is unchanged: we remain confident that retail operating profit is likely to be at least at the same level as in 2019/20.”</p>



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The Kroger Co	Food Retail	Positive	“Total company sales were \$29.7 billion in the third quarter, compared to \$28.0 billion for the same period last year. Excluding fuel and dispositions, sales grew 11.3%.”	“Looking toward 2021, we believe that our performance will be stronger than we would have expected prior to the pandemic when viewed as a two-year stacked result for identical sales without fuel growth and as a compounded growth rate over 2020 and 2021 for adjusted earnings per share growth.”
Tyson Foods Inc.	Protein Processing	Positive	“Tyson Foods has been benefiting from increasing demand in its retail channel, thanks to higher at-home consumption amid the pandemic. In the fourth quarter of fiscal 2020, the company’s retail core business lines saw share growth for the ninth consecutive time. While Tyson Foods is benefiting from rising retail demand, foodservice demand continues being affected by below-normal operations at schools and cafeterias. These factors, along with increased staff absenteeism amid the pandemic, have been elevating costs and complexities regarding the company’s operations in the United States as well as Europe.”	“Given the rising demand in retail, the company has also shifted part of its foodservice production to concentrate on retail. Management expects to see elevated at-home dining in fiscal 2021, which is likely to aid retail volumes. Another channel performing well for Tyson Foods is e-commerce, which saw its sales more than double in the fourth quarter and surge 99% in fiscal 2020 as more consumers are buying online amid the pandemic. Management expects continued strength in the e-commerce channel. The company expects to continue facing pandemic-related hurdles in the first half of fiscal 2021.”
Aryzta	Bakery	Negative	“The COVID-19 crisis materially impacted the performance of the Group in all channels and geographies. This has had a particularly strong impact on our Foodservice and to a lesser extent, QSR channels. The Retail channel showed robust performance throughout the period. Total revenue in the first quarter period declined by 20.3%. Improvements in QSR and Retail channels were offset by COVID-19 related declines in Foodservice.”	“Due to the continuing and changing COVID-19 restrictions and the consequential adverse impacts on our customers and markets, it would not be prudent to provide forward guidance.”



Links

Associated British Foods

https://www.abf.co.uk/media/news/2021/trading_update_jan_2021

Conagra Brands

<https://www.conagrabrands.com/news-room/news-conagra-brands-reports-strong-second-quarter-results-prn-122760>

Kellogg Company

<https://investor.kelloggs.com/>

Kraft Heinz

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Nestle

<https://www.nestle.com/investors/annual-report>

Lamb Weston

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Danone

<https://www.danone.com/investor-relations/publications-events/press-releases.html>

Glanbia plc

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The Coca Cola Company

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General Mills

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[Kerry Group](#)

<https://www.kerrygroup.com/investors/results-presentations/Results-2020-Presentation-16-2-2021.pdf>

Tesco

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The Kroger Company

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Tyson Foods Inc

<https://ir.tyson.com/reports/annual-reports/default.aspx>

IMF Outlook

<https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update>



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