



# WINTHROP PARTNERS

*Wealth Planning & Investment Management*

Business Trend: Attention Investors, Clean-up in Center Aisles

Doylestown, PA | Pittsburgh, PA | Buffalo, NY

# Attention Investors: Clean-Up in The Center Aisles

- Manufacturers of packaged foods, personal care items, paper goods and cleaning supplies are almost universally facing stagnant or declining revenues and range bound or declining stock prices.
- The trend is across the board impacting diverse companies ranging from:
  - The largest public multinationals to small family owned businesses
  - Producers of food to manufacturers of chemical cleaning products
  - Famous, hundred year-old brands to relatively unknown new entrants

# The High Correlation of Revenue to Stock Price

Category / Name	Ticker	Stock Price			Revenues (\$ Billion)		
		10/9/2018	10/9/2017	10/9/2016	2017	2016	2015
<b>Packaged Foods</b>							
Kellogg's	K	\$ 68.99	\$ 62.48	\$ 75.60	\$ 12.90	\$ 13.00	\$ 13.50
General Mills	GIS	\$ 43.28	\$ 51.44	\$ 62.45	\$ 15.60	\$ 16.50	\$ 17.60
Campbell Soup	CPB	\$ 37.54	\$ 46.53	\$ 54.44	\$ 7.80	\$ 7.90	\$ 8.00
McCormick & Co.	MKC	\$ 135.82	\$ 96.35	\$ 95.75	\$ 4.80	\$ 4.40	\$ 4.20
Post Hold.	POST	\$ 95.09	\$ 86.90	\$ 79.90	\$ 5.20	\$ 5.00	\$ 4.60
Barilla (private)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ConAgra Brands	CAG	\$ 35.57	\$ 34.16	\$ 36.61	\$ 7.80	\$ 8.60	\$ 9.00
<b>Canned Goods</b>							
Campbell	CPB	\$ 37.54	\$ 46.53	\$ 54.44	\$ 7.80	\$ 7.90	\$ 8.00
Kraft Heinz	KHC	\$ 56.07	\$ 78.29	\$ 87.44	\$ 26.20	\$ 26.50	\$ 18.30
Con Agara	CAG	\$ 35.57	\$ 34.16	\$ 36.61	\$ 7.80	\$ 8.60	\$ 9.00
JM Smucker Co	SJM	\$ 101.97	\$ 104.38	\$ 133.73	\$ 7.30	\$ 7.40	\$ 7.80
Hormel Foods Corp	HRL	\$ 40.72	\$ 31.72	\$ 32.57	\$ 9.20	\$ 9.50	\$ 9.30
<b>International Foods</b>							
GOYA (Private)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nestle AG (ADR)	NSRGY	\$ 81.51	\$ 84.97	\$ 76.85	\$ 90.00	\$ 89.80	\$ 89.00
Barilla (Private)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MTR (Norwegian Bourse)	ORK	N/A	N/A	N/A	N/A	N/A	N/A
Petra Foods (Singapore Stock Exchange)	P34	\$ 1.20	\$ 1.51	\$ 2.16	\$ 0.38	\$ 0.40	\$ 0.41
Kikkoman (ADR)	KIKOY	\$ 29.00	\$ 15.70	\$ 16.20	\$ 0.40	\$ 0.41	\$ 0.37
Herdez (MSE)	HerDez	\$ 40.70	N/A	N/A	N/A	N/A	N/A
Jumex (Private)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
De Cecco (Private)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Parmalat (Private)	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Category / Name	Ticker	Stock Price			Revenues		
		10/9/2018	10/9/2017	10/9/2016	2017	2016	2015
<b>Snacks, Soda, Water, Candy</b>							
Pepsi	Pep	\$ 108.12	\$ 110.59	\$ 106.62	\$ 63.50	\$ 62.80	\$ 63.40
Coke	KO	\$ 46.39	\$ 45.50	\$ 41.92	\$ 35.40	\$ 41.80	\$ 44.20
Nestle AG (ADR)	NSRGY	\$ 81.51	\$ 84.97	\$ 76.85	\$ 90.00	\$ 89.80	\$ 89.00
Mars (Private)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hershey Co	HSY	\$ 104.92	\$ 108.73	\$ 95.21	\$ 7.50	\$ 7.40	\$ 7.40
Mondelez	MDLZ	\$ 42.76	\$ 42.41	\$ 42.53	\$ 25.80	\$ 25.90	\$ 29.60
Danone (ADR)	DANOY	\$ 15.11	\$ 16.20	\$ 14.50	\$ 24.60	\$ 21.90	\$ 22.40
Keurig/Dr Pepper	KDP	\$ 22.96	N/A	N/A	\$ 4.20	\$ 4.30	\$ 4.50
<b>Papergoods Cleaning Products Petfood</b>							
Proctor & Gamble	PG	\$ 82.20	\$ 92.40	\$ 90.10	\$ 65.00	\$ 65.20	\$ 70.70
Unilever (ADR)	UN	\$ 53.87	\$ 58.70	\$ 45.35	\$ 53.70	\$ 52.70	\$ 53.20
Georgia Pacific (Private Koch)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Kimberly Clark	KMB	\$ 114.11	\$ 115.67	\$ 123.12	\$ 18.20	\$ 18.20	\$ 18.50
Newell Brands	NWL	\$ 18.72	\$ 43.91	\$ 52.24	\$ 14.70	\$ 13.20	\$ 5.90
Reynolds (Private)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Clorox	CLX	\$ 150.30	\$ 129.32	\$ 122.79	\$ 6.10	\$ 5.90	\$ 5.70
Church & Dwight	CHD	\$ 59.22	\$ 47.54	\$ 47.12	\$ 3.70	\$ 3.40	\$ 3.40
Mars (Pedigree) Private	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nestle (Purina) - ADR	NSRGY	\$ 81.51	\$ 84.97	\$ 76.85	\$ 90.00	\$ 89.80	\$ 89.00
Colgate-Palmolive (Hills)	CL	\$ 65.07	\$ 72.81	\$ 73.56	\$ 15.40	\$ 15.20	\$ 16.00
<b>Personal Care &amp; Healthcare</b>							
P&G	PG	\$ 82.20	\$ 92.40	\$ 90.10	\$ 65.00	\$ 65.20	\$ 70.70
Colgate Palmolive	CL	\$ 65.07	\$ 72.81	\$ 73.56	\$ 15.40	\$ 15.20	\$ 16.00
L'Oreal (ADR)	LRLCY	\$ 48.50	\$ 42.53	\$ 36.74	\$ 26.00	\$ 24.00	\$ 24.00
J&J	JNJ	\$ 139.20	\$ 133.60	\$ 119.51	\$ 76.40	\$ 71.80	\$ 70.40
Kimberly Clark	KMB	\$ 114.11	\$ 115.67	\$ 123.12	\$ 18.20	\$ 18.20	\$ 18.50
Bayer	BAYZF	\$ 85.60	\$ 138.40	\$ 101.20	\$ 35.10	\$ 46.70	\$ 46.00
Coty	COTY	\$ 11.83	\$ 17.00	\$ 23.57	\$ 5.30	\$ 7.60	\$ 4.30
Revlon	REV	\$ 24.49	\$ 22.95	\$ 36.62	\$ 2.60	\$ 2.30	\$ 1.90

# Why is This Happening?

## Four Trends Impacting These Businesses

- Common Attributes shared by each of these companies:
  - Common primary sales geography – the center aisles of grocery stores
  - The declining importance of brand power in consumers' decisions
  - Intense price competition arising from new sales channels; and
  - Consumers shift to healthier, fresher, natural and more sustainable products.

# Typical Floor Plan of a US Grocery Store

DAIRY

MEATS / POULTRY/ SEAFOOD

DELI/CHEESE

BAKERY

Prepared Foods/  
Beer & Wine

FROZEN FOODS

## CLEANUP IN THE CENTER AISLES

**Packaged Foods**  
Baking Goods  
Flour, Pasta  
Cookies, Jello  
Seasonings  
Cereal  
  
Kellogg's  
General Mills  
Campbell  
McCormick  
Post Hold.  
Barilla  
ConAgra

**Canned Goods**  
Soups  
Condiments  
Vegetables  
Sauces  
  
Campbell  
Kraft Heinz  
Con Agra  
JM Smucker  
Hormel

**International Foods**  
Italian  
Hispanic  
Asian, Indian  
  
GOYA  
NESTLE  
Barilla  
MTR  
Petra Foods  
Kikkoman  
Herdez  
Jumex  
De Cecco  
Parmalat

**Chips Soda Water Candy**  
  
Pepsi  
Coke  
Nestle  
Mars  
Hershey  
Mondelez  
Danone  
Keurig/Dr Pepper

**Paper Goods Cleaning Products Pet food**  
  
P & G  
Unilever  
GA Pacific  
Kimberly Clark  
Newell Brands  
Reynolds  
Clorox  
Church & Dwight  
Mars  
Nestle (Purina)  
Hills

**Personal Care / Healthcare**  
  
P&G  
Colgate  
Palmolive  
L'Oreal  
J&J  
Kimberly  
Clarke  
Bayer  
Coty  
Revlon

**Natural Foods**  
  
"Natural" versions of Grocery Ghetto Products  
  
Refrigerated Products  
  
Frozen Products

Pharmacy

FRUIT & PRODUCE

Bank

CHECKOUT LANES

INGRESS - EGRESS

SEASONAL GOODS

INGRESS - EGRESS



# Common Sales Geography

- As described in the previous floor-plan, the primary distribution point for all of the products are the center aisles of grocery stores.
- For generations these products have been designed, advertised and marketed/displayed in a way for them to stand out in their respective aisles --- think of the bright orange package of Tide detergent, the iconic red & white Campbell's soup can or the promise of a perfect cake every time by Duncan Hines...
- The successful products evolved special attributes to dominate their specific grocery store ecosystem.
- However shoppers preferences changed, they buy on line, they spend 70% of their time and money in fresh perimeter departments, they shun highly processed foods and go to Costco to buy paper and cleaning products in bulk.
- Many of their special attributes simply became irrelevant as shopper habits changed. If you are buying Tide online does a bright package matter?
- As a result there is an attempted exodus. Packaged food companies are desperately trying to escape by developing foods that can be sold in the fresh foods perimeter departments, Health and Beauty aids are going online, paper and cleaning supplies have made in roads into shopping clubs and big box retailers like Home Depot.
- Those products that are left are like wounded wildebeests on the Serengeti, being attacked by lower priced store brands and being pushed out by new invasive species like greeting cards and prepared foods.

# The Declining Importance of Brand Power in Consumers' Decisions

- Call it what you will, co-packing, private labeling, etc., but brands are killing themselves. Why buy a brand for 10% more when you can buy the exact same product carrying the store label?
- In an increasingly price conscious world, brands have taken steps from reducing the amount of product sold (e.g. ice cream or coffee) and diluting or substituting ingredients in order to remain competitive and consumers have noticed .
- Combine private labeling and dilution with a decline in brand advertising and product innovation and you are making a strong case to abandon the brand and simply become a generic producer.
- Grocery stores themselves crowd out most brands by providing as much space to their own brands as national brands as the profit margins are much higher, helping them compete with Costco, Walmart and Amazon.
- Finally convenience, price and delivery have upended Brand's hold on consumers--- think of high cost Gillette razors getting pummeled by lower cost direct to consumer brands such as Dollar Shave or Harry's – not only do they cost less, they are automatically delivered to you.

# Intense price competition arising from new sales channels

- Brands are under pressure, because their traditional customers, supermarkets are under pressure.
- Today in the US there are 4.15 square feet of supermarket space per person, which is 30 times higher than in 1950. Factor in warehouse clubs, internet marketers and home delivery services and the supermarket industry is under siege, losing money and are probably due for a large retrenchment like department stores.
- In the meantime supermarkets are buying time by leaning on both brand name and private label manufacturers to reduce their price so that the supermarkets can position themselves to survive.
- As previously mentioned, there is now a long line of new and old competitors from razor blades and incontinence products to pet food product manufacturers that have used the internet to bypass traditional stores and their branded products suppliers to go direct to the consumer.



# Consumers shift to healthier, fresher, natural and more sustainable products

- How often do you buy canned soup or vegetables, dehydrated potatoes, salty snacks, shelf stable cheese, high fructose soft drinks, packaged cake mix, boxed cereal or frozen dinners?
- Enough said.

# Stagnant and Declining Revenues Produce Declining Stock Valuations

- Analysts are focusing on revenues as the primary indicator of health for these companies.
- As a result there is a high correlation between the direction of revenues and the companies' stock prices.
- To combat these trends successful companies will need to:
  - Develop products that can be sold in the perimeter departments
    - (e.g. Pepsi now sells Hummus in the dairy case)
  - Somehow make their brands relevant in the online eco space
    - (e.g. Tide purchase buttons on Amazon)
  - Develop Big Box sales channels
    - (e.g. Proctor and Gamble's largest outlet is WalMart)
  - Purchase or develop healthy/fresh products that sell outside the center aisles
    - (e.g. Canners like Dole, Del Monte and Green Giant have expanded brands into fresh produce)