

# Monthly Newsletter

**For Business Owners in the  
Food & Beverage Industry**



**Wealth Management  
Dominion Securities**

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## March Updates

The Canadian Consumer Company News & Strategies

**We are Focused on the  
Food & Beverage Industry**

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**Canadian food (purchased in stores) inflation came in at +2.5% YoY in January – The acceleration in food inflation is consistent with our view that cost inflation, notably minimum wage and transportation, should sustain higher inflation as 2019 unfolds.** Grocers usually perform best in low positive inflation environments, especially during periods of low/moderate industry square footage growth, which is currently the case. Fresh vegetables (+13.2% YoY) led category inflation in the period, boosted by a +23.2% increase in the price of lettuce due to a shortage amid the E. coli outbreak linked to romaine. – **Canadian Consumer Weekly, RBC Capital Markets, 2 March 2019**

**BoC leaves the overnight rate at 1.75% and highlights expected weakness through H1/19** - The Bank of Canada ("BoC") announced its decision to leave its overnight rate target unchanged (as widely expected by the market) but dropped its explicit reference to returning to a neutral interest rate after previously guiding towards a 2.5%-3.5% neutral range. In addition, the BoC took a more cautious tone on its outlook for 2019, specifically noting that, "the economy will be weaker in the first half of 2019 than the Bank projected in January" and that, "many central banks have acknowledged the building headwinds to growth", in reference to weakening global growth expectations. - **Canadian Consumer Weekly, RBC Capital Markets, 8 March 2019**

**Canadian e-commerce sales growth moderated slightly in 2018** - Recent data from Statistics Canada showed that Canadian retail e-commerce sales increased approximately +15% YoY in 2018, below the +27% YoY gain reported in 2017, with weaker growth in December (+4.6% YoY) weighing on full-year results. It is worth noting that growth of total Canadian retail sales (ex. autos and gas) also decelerated YoY to +2.3%, from +5.2% YoY in 2017 - **Canadian Consumer Weekly, RBC Capital Markets, 2 March 2019**

**Cold weather a theme to keep in mind heading into Q1/19 reporting** - Colder-than-normal temperatures across Canada (and parts of the US) through Q1 were called out by a number of retailers/consumer companies. Some companies even went as far as to caution on the Q1 outlook given the challenging weather conditions. Great Canadian Gaming noted that extremely cold temperatures in Ontario during January and February will have a material negative impact on Q1/19 results, while Recipe Unlimited also acknowledged that it was unseasonably cold during Q1 (although no specific guidance was provided). In addition to impacting sales, Hormel Foods, as an example, indicated that the cold weather is also increasing input costs for its Turkey division, and they anticipate lower earnings in the current quarter as a result. - **Canadian Consumer Weekly, RBC Capital Markets, 8 March 2019**

**RBC's 6-12 Month Outlook for the Canadian Dollar** - Improvement beyond Q2 While we expect a rebound in H2 to take growth to a near trend rate of 1.5% for the year, the lack of inflationary pressure led us to revise our rate call with no further moves likely to come from the BoC. We also believe that developments in the US will keep the Fed sidelined over the forecast horizon. We expect CAD to remain range-bound over the next 6-12 months though view the risks of a weaker outcome should (1) the consumer and housing sectors remain tepid or (2) the global economy soften further. – **George Davis, RBC Capital Markets, Currency Report Card, 5 April 2019**

**Despite consolidation within the Canadian restaurant space, we see potential for further M&A opportunities for RECP and MTY** – The Canadian restaurant landscape has undergone significant consolidation over the recent years, leading to questions regarding the potential for further M&A. [...] Our detailed review of the Canadian restaurant landscape suggests that there are still a number of potential acquisition opportunities across Canada for Recipe Unlimited (RECP CN) and MTY Food Group Inc. (MTY CN; not covered). - **Canadian Consumer Weekly, RBC Capital Markets, 31 March 2019**

**Amazon is ending its US pop-up store experiment while continuing to develop its brick and mortar retail strategy** - According to an article from the WSJ (Mar. 6, 2019), Amazon will be closing all 87 of its US-based pop-up stores next month as the company continues to evolve its brick and mortar retail strategy. The pop-up stores operated as ~200 sf store-within-a-store kiosks in various retail locations such as malls, Kohl's, and Whole Foods and offered many Amazon-branded products such as voice assistant speakers and Kindle e-readers. Looking ahead, the company has announced plans to roll out more grocery stores (potentially in a variety of formats) and expand its Amazon Go cashierless convenience store footprint. - **Canadian Consumer Weekly, RBC Capital Markets, 8 March 2019**

**US Pork commodity futures have risen sharply as expectations for continued Chinese buying rises - China, which consumes nearly half of all pork produced worldwide, is suffering from a pork shortage due to the proliferation of African swine fever in the country.** The virus, which is fatal for pigs, was first identified in China last August. According to a recent estimate from INTL FCStone, Chinese pig farmers have culled at least 10MM pigs to slow the spread of the virus. Despite a 62% Chinese tariff on US pork imports, China has recently increased its purchases of US pork, which has led some traders to speculate that prices will continue to rally as long as China continues to fill its demand with US supplies, according to the WSJ (Mar. 27, 2019). In relation to the ongoing trade dispute, a Mar. 26 2019 article from Bloomberg suggests that China may look at increasing US pork imports up to as much as 300,000 metric tons in 2019 in an effort to ultimately end the ongoing dispute. - **Canadian Consumer Weekly, RBC Capital Markets, 31 March 2019**

**Co-working/shared office space start-ups to fill vacant space at Canadian malls and retailers** - According to an article in the Globe & Mail (Mar. 11, 2019), malls and retailers are turning to office sharing companies to fill vacancies at malls and to bolster big-box retailers who could potentially downsize their store footprints. While historically focused on offering shared workspaces in traditional office settings (i.e. office towers/complexes), many start-ups are expanding into malls and other retail sites as they look to expand their network. A few examples of non-traditional co-working spaces include: 1) Staples Canada launching a co-working space at one of its Toronto locations, with plans to expand into other urban and suburban stores; 2) Oxford Properties piloting co-working initiatives at a variety of its sites; and, 3) HBC announcing in late 2017 to lease the top floors of its Toronto and Vancouver flagship stores to WeWork. - **Canadian Consumer Weekly, RBC Capital Markets, 15 March 2019**

## Key Quotes on Strategy

**PepsiCo Inc. (PEP) Presents at Consumer Analyst Group of New York Conference 2019- Transcript -Feb. 20, 2019 - Ramon Laguarta - Chairman and CEO**

*"...Let me go into the priorities that will set this next chapter of PepsiCo. **The first one is about becoming faster.** And this of course is the number one priority for us, is accelerating, increasing the speed of growth of our top line. And with two things becoming more consumer centric in our innovation, the way we think about the different consumer spaces in our categories, but also taking a higher investment, higher growth posture against the opportunities that we have in the marketplace. [...] The other important piece for us is **ubiquity.** Ubiquity means - we're an impulse category. So the ability to be everywhere where you have the need for a snack or a beverage just creates a lot of value for you as a consumer and for us as a manufacturer. So for us investing in this capability of being everywhere is a must do. [...] The third one is creating **brands that obviously hook the consumer,** creates higher loyalty, and creates that emotional link with our products. And the fourth one is **value,** and value in developing markets is clearly about affordability and price points. [...] But the idea is as you think consumers are moving more towards convenience and on-the-go, we will try to expand ourselves into occasions that are closer to mini meals, very close to street foods in developing markets and that will be a huge area of growth for us going forward.*

*Also you should think of ourselves **investing quite a lot in creating a beyond-the-bottle space,** what we call beyond the bottle. I mean, SodaStream is a great example of how we're thinking about new spaces of consumption that do not require a bottle and still allow the consumer to personalize their consumption and we eliminate the needs for bottle, plastic and everything else. So that's from the portfolio point of view. [...]*

When you go to beverages, there we have different market positions in different parts of the world. **We're going to have a much more nuanced approach to beverages**, investing more where we have the right to succeed, where we are leaders or we have strong battleground positions; and then being more smart about where we invest, how do we invest, when we have a smaller market share. [...]

So again, I think I covered this, where we're going to make investments, we're making investments in manufacturing capacity, digitizing the business, supply chain, go to market and A&M.

So **building consumer intimacy**, this is the journey for example for the U.S. business. So we want to six things. The first one is obviously, understanding the consumer in a much more granular way. We used to understand consumers in groups of millions you know, cohorts or those big words. Now we're trying to understand at the household or individual level, with multiple sources of data. Once you have that information you can then go into personalized communication, it is an area that we're doing a lot, but we will do much more. **Now we're maybe creating 20 messages for 100 audiences, in the future we'll be creating a thousand messages for a million audiences.**

[...] And then the last the last one is very critical, which is eventually we want to get to a place where we can have almost **personalized pricing or personalized pricing for a group of consumers**. So we maximize the value creation for each consumption occasion. So that is the type of capability where we're investing on.

**This four areas where we want to make a difference**, making a sustainable agriculture, reduce the water consumption that make actually positive water impact, creating a circular packaging economy and then obviously continue the improvement of the - of our products reducing salt, reducing fat and reducing sugar.

**Premium Brands Holdings Corp. CEO George Paleologou on Q4 2018 Results - Earnings Call 14 March 2019**

**"... Over my 30-year career in the food industry, I have never encountered more disruption and correspondingly more opportunity than I see today...**

Accelerating consumer demand for high-quality foods, product innovation, convenience and product customization in a dynamic and ever-changing retail and food service environment is challenging the status quo and creating amazing opportunities for the entrepreneurial businesses that we invest in [...]

We expect 2019 to be another busy year, with there being the distinct possibility of us completing one and possibly more **larger and more transformational transactions...** Our focus on partnering with passionate food entrepreneurs and talented management teams, respecting their cultures and ethos, supporting innovation and long-term decision making and investing in efficient state-of-the-art operations is very unique and sets us apart in the food space [...]

**While there are many very exciting things happening within our company, we continue to be challenged by tight labor conditions that are impacting our operations as well as those of many of our suppliers.** We're making good progress managing this, while at the same time exercising judgment in prioritizing the opportunities that we pursue. Overall, we are confident that our recent investments in new employee enhancement programs, the capacity of certain facilities and in automation and robotics will help to alleviate this issue in due course."

**Kraft Heinz Co (KHC) CEO Bernardo Hees on Q4 2018 Results - Earnings Call Transcript - Feb. 22, 2019 - David Knopf - EVP & CFO**

"In Canada, the priority is **reignite consumption in peanut butter as well as sauces and condiments.**" [...]  
 "...with the reduction of the dividend, allows us to have more flexibility in our balance sheet to really deleverage faster

and position ourselves to **more consolidation in the future ..."**

**Maple Leaf Foods' (MLFNF) CEO Michael McCain on Q4 2018 Results - Earnings Call Transcript - Mar. 1, 2019**

"Our vision is to be **the most sustainable protein company in the world**, and that vision is advancing operationally every day. But we're equally committed to finding ways that this prism of shared value is monetized for shareholders. Great examples of this are our growth rates in the Greenfield brand, which carries all of our sustainable meat claims progression and our advances in selling meat Raised Without Antibiotics, which was modestly margin accretive [...] Approximately 1/3 of North Americans eat meat alternatives with high growth rates expected to continue as people increasingly seek delicious protein options and as innovation drives more category choice and more category appeal..."

**Molson Coors Brewing's (TAP) CEO Mark Hunter on Q4 2018 Results - Earnings Call Transcript - Feb. 12, 2019**

Against this backdrop of progress and commitments, let me share more about what you can expect from our strategy of earning more, using less and investing wisely... In terms of earning more, we will continue to build even stronger commercial excellence capability with a **focus on portfolio premiumization** and disruptive growth that drive mix improvements. Almost 20% of our volume is comprised of above premium brands and this figure continues to grow, and we see considerable headroom for added growth in all of our markets. [...] Using less is our second platform and is designed to fuel growth and protect our bottom line performance. ... These savings are driven by our **sustainable productivity driving initiatives such as world-class supply chain 2.0, our greenfield breweries in Canada, global business services, new IT programs and their ongoing procurement efforts and more rigorous ZBB across the entirety of our business.**

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### Business Owner Planning

Wealth planning advice tailored for business owners. You'll receive a personalized plan focused on helping you make informed decisions about you, your business, and your family.

## In depth consultations: What will we cover?

Designed to review key issues that are important to you



**Wealth Management**  
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