M&A Insights
India

HIGHLIGHTS | MARCH 2021 | FOOD & AGRICULTURE

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Editorial note

EMBRACING THE NEW NORMAL

It gives me a lot of satisfaction to share with you another edition of the **M&A Insights – India magazine**. This will broadly cover updates on the economic front, COVID-19's impact on India and emerging opportunities in the Indian food & agri (F&A) sector, along with interesting insights from business leaders relating to the Indian F&A space and their future strategy with respect to the new normal.

The COVID-19 pandemic has deepened the crisis for the global economy, which was already experiencing turbulence due to geopolitical tensions and sub-optimal economic growth. In a bid to flatten the curve and reduce load on healthcare infrastructure, countries across the world announced production lockdowns and market closures. The aftereffects of such extreme but necessary measures have already begun to appear.

The Indian economy, under stress even prior to COVID-19, suffered in FY20 when GDP growth fell to an 11-year low of 4.2%. Indian dealmaking reflected subdued economic growth as it decreased by more than a third in FY20 to US$82 billion, from a record high of US$128 billion in FY19. Triggered by global trade tensions, the number of cross-border transactions dropped to their lowest levels in 14 years, with dealmaking primarily driven by local consolidations.

Mindful of healthcare infrastructure limitations and the chances of the virus's rapid transmission due to the country's large population, the Government of India enforced an early nationwide lockdown in the last week of March 2020. In spite of this, India has recorded the second highest number of infected cases globally after the United States (India currently accounts for more than 15% of global cases and may end up with the highest number of cases unless the curve flattens soon).

As with most economies, the impact witnessed across India's different sectors varies in severity. The economy is likely to face a protracted slowdown due to poor business sentiments, lower income levels, and credit and liquidity issues, aside from the diversion of public funds for COVID-19 management. In order to repair the damage, a bruised and broken supply chain, lack of capital rotation and reverse migration of laborers are some of the key issues that need to be addressed. But it is widely believed and accepted that with the rapid spread of COVID-19, return to normalcy will take time and the near- to medium-term outlook remains weak. India's GDP contracted for two straight quarters in 2020, with ~24% contraction from April to June and ~8% contraction from July to September, due to prolonged nationwide lockdowns. However, a gradual opening through the easing of restrictions, a downward trend in new cases, and vaccine approvals are all expected to speed up the economy's recovery and reduce overall stress.

The government is trying to address several of the above challenges to get the economy back on track. It has introduced various fiscal and policy initiatives, including a ~US$270 billion (~10% of GDP) fiscal stimulus package to deal with the economic fallout, along with employment-related measures to insulate the economy from shocks and prepare it for a new normal. Revival will largely depend on both the micro, small and medium enterprises (MSME) sector and rural India, as an above-average monsoon would result in high agricultural crop production, which would support the economy.

The pharmaceuticals sector is witnessing a revival driven by global demand and has seen private equity (PE) buy-outs/investments. Tailwinds have also emerged in chemicals and e-commerce-focused businesses, along with the resilient F&A space, which are expected to drive the dealmaking market in the near term in India.

The industries most negatively impacted, which include real estate & construction, retail, automobiles, hospitality & tourism and aviation, are those where consumption spending is discretionary in nature and, accordingly, the near-term outlook remains bleak. Financial services, particularly banks and nonbank financial companies (NBFCs), are expected to come under stress once the moratorium period ends. Cognizant of the upcoming challenges, banks have been raising funds to prepare themselves for the eventuality.

The government's focus on increasing domestic manufacturing with the vision of Atmanirbhar Bharat (self-reliant India) has generated investor interest. To succeed, India needs to primarily focus on strengthening its manufacturing capabilities and logistics infrastructure as it moves up in the ease of doing business index. If actioned properly, this can be a silver lining for India.

I hope you will enjoy reading this magazine and benefit from it. We welcome your feedback and any suggestions on what you would like to see in future issues. Here's wishing everyone a happy and safe read!

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The Indian F&A sector

Parag Khadgi, Senior President of YES SECURITIES

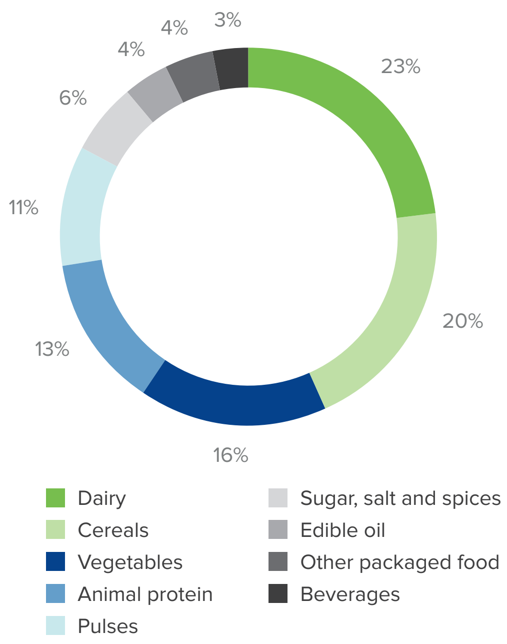
INTRODUCTION

The US$266 billion agriculture sector forms the backbone of the Indian economy. It employs more than half of the country's population and shoulders the responsibility of feeding more than 1.3 billion people. India is the world's largest producer of spices, pulses, milk, cashew, jute, mango and banana, and is the second-largest producer of wheat, rice, fruits and vegetables, sugarcane, cotton and oilseeds. The sector plays an important role in the overall development of the industrial sector, supplying key raw materials for many industries, including the cotton and jute textile, sugar, edible oils and plantation industries (tea, coffee and rubber).

India's buoyant food sector also makes it the second-largest food producer in the world, with a value expected to reach US$540 billion by the end of 2020. The sector currently has ~40,000 registered food processing units employing ~1.9 million people.

The sector is poised for a higher growth trajectory, aided by favorable demand and supply-side drivers, including population growth, consumers' willingness to spend, increasing export opportunities, availability of newer and modernized irrigational equipment, and necessary government interventions and policy initiatives.

Indian food sector



Source: Industry 4.0 in Food Industry, India Food Report, Deloitte, January 2018

Global ranking of india in select food items

Product	India's rank	Other key producers
Spices	1st	China, Nigeria, Vietnam, Indonesia, Brazil
Milk	1st	USA, Pakistan, China, Brazil, Germany
Chickpea	1st	Australia, Pakistan, Myanmar, Turkey
Potato	2nd	China, Russia, Ukraine, USA, Germany
Wheat	2nd	China, Russia, USA, Canada, Pakistan
Rice	2nd	China, Indonesia, Bangladesh, Vietnam, Myanmar

Source: Industry research

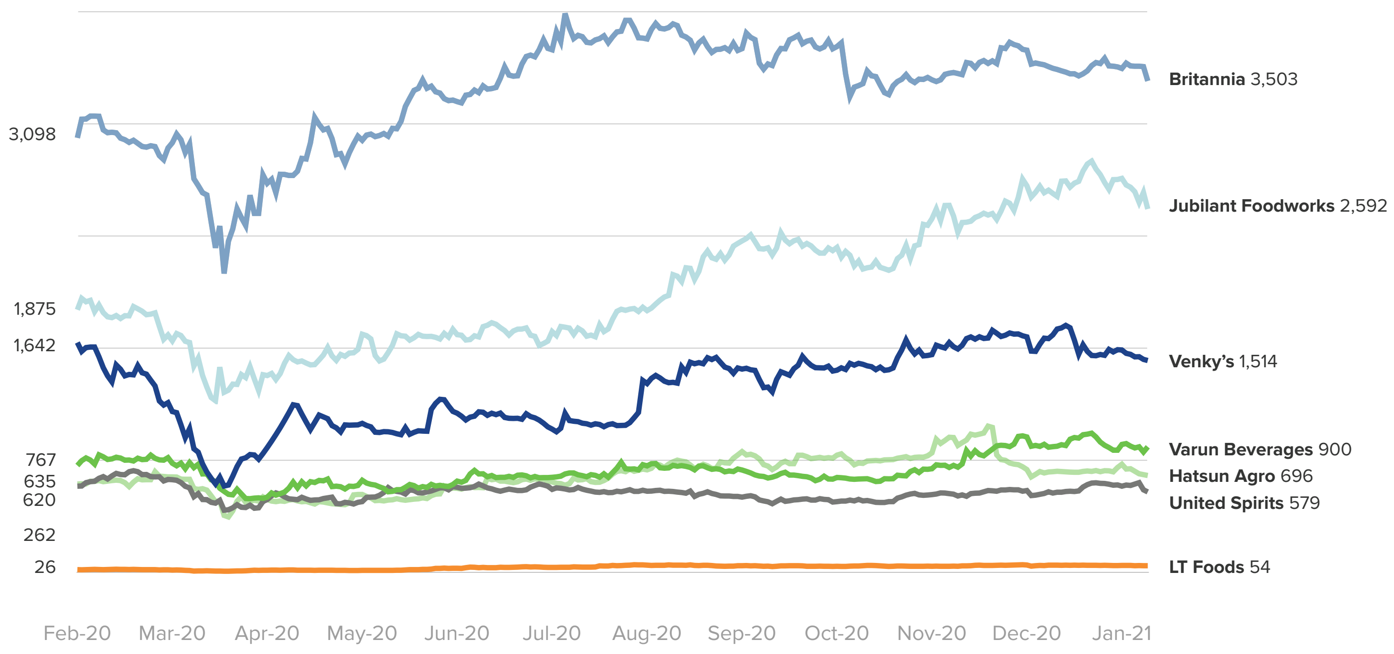
IMPACT OF COVID-19

During the initial outbreak of COVID-19, the classification of most food products as essential services ensured their unrestricted movement during the stringent nationwide lockdown phase, and therefore resulted in a relatively minor impact on the F&A sector. Factors such as increased at-home consumption and heightened safety concerns benefitted the demand for packaged food, particularly staples.

The COVID-19 outbreak was less severe in rural India, which helped the farming activities run smoothly. Also, the influx of migrant laborers from cities to villages gave further impetus to farming activities, particularly during the harvesting season of rabi crops. Agriculture activities had a positive impact on the ancillary segments of sectors such as agrichem, agri-inputs and seeds, for which the demand remained steady.

However, the few key sub-segments severely hit included **food services** (closure of dine-in restaurants had a severe impact on the overall food services segment, which translated into increased demand for home-delivered food), **poultry** (a large section of the population avoided meat consumption due to the COVID-19 scare) and **dairy** (closures of the hospitality sector, institutions, schools, etc., along with limited social gatherings, had a severe impact on the consumption of dairy products, while increased at-home consumption of dairy products provided some cushion to the segment). High-value foods and recreational beverages, such as beer, spirits and soft drinks, felt the impact on discretionary demand as retail spend focus shifted to essential and nutritious food and beverages.

Market performance of select listed Indian F&A players (February 2020 to January 2021)



Source: Bombay Stock Exchange (BSE)

The following key inferences may be drawn from the graph above:

- The lockdown period witnessed strong and sustained demand for staples — consumers resorted to stockpiling necessities due to a fear of supply constraints and prolonged lockdown extensions. LT Foods (a basmati rice manufacturer) registered strong demand for their staple products
- A surge in at-home consumption and a shift from loose food items led to a spike in packaged foods sales. Both Britannia (a manufacturer of bakery products) and Hatsun Agro (a manufacturer of dairy products) benefitted from such behavioral change till November 2020
- Demand for soft drinks and spirits suffered a dent, with the closure of food services and liquor shops. Sales were impacted for Varun Beverages (a bottler and distributor for PepsiCo's aerated beverages) and United Spirits till November 2020
- A large section of the population avoided poultry food products due to the COVID-19 scare. This directly impacted Venky's (a manufacturer of processed poultry products) business
- With dine-in restaurants shut, demand shifted to food home delivery. Jubilant Foodworks (an India franchisee operator of Domino's) directly benefitted from this development

With global supply chains impacted due to the COVID-19 pandemic, India played its part in supporting the world's kitchen with continued exports of agricultural commodities (43% year-on-year export growth from April to September 2020). This period also witnessed a few key transactions in the Indian F&A space:

- In May 2020, Saudi Agricultural and Livestock Investment Company acquired a minority stake in Daawat Foods (a leading Indian basmati rice player) from Rabo Private Equity, for US$~17 million
- In July 2020, ITC acquired Sunrise Foods (a leading Indian packaged spices manufacturer) for US$285 million
- In June 2020, A91 Partners, along with other investors, invested US$~16 million in Pushp Brand (a regional packaged spices manufacturer)

GOVERNMENT SUPPORT TO THE F&A SECTOR DURING COVID-19

Cognizant of the far-reaching implications of the COVID-19 outbreak and implementation of the nationwide lockdown at a crucial juncture of the country's peak variety-crop harvesting time, the Government of India took immediate steps to provide relief to the sector by undertaking the following key initiatives:

- The Ministry of Food Processing Industries set up a grievance cell for the food and related industry to ensure hassle-free operations and the uninterrupted supply of essentials
- **The Kisan Rath** mobile app was launched to facilitate the transportation of food grains and perishables during lockdown by connecting farmers and traders with transporters
- The government announced a financial package worth US$~55 billion under the **Atmanirbhar Bharat Abhiyan** campaign for the F&A sector, addressing the following needs:

    - emergency working capital funds to assist in the post-harvest activities
    - concessional credit facility for farmers
    - support for the animal husbandry industry by purchasing milk to overcome reduced demand
    - purchase of the food grains lying with farmers
    - strengthening the agri infrastructure and capacity
    - direct cash transfer to farmers under the **Pradhan Mantri Kisan Samman Nidhi (PM KISAN)** scheme

- A moratorium (three months) and concession on interest rates for agri and crop loans

The above initiatives helped the government navigate the disrupted agricultural value chain, which posed a huge risk to household food security, and ensured that the need for food for all was met. It also laid out the road map for building out the platform for future growth and resilience.

Kisan Rath mobile app

FUTURE OUTLOOK

The Indian F&A space has been among the least-impacted sectors in this COVID-19 outbreak. The early restoration of damaged supply chains through steadfast government support helped the F&A space speed up the recovery process. The space offers global investors a large pool of investment opportunities that are poised for exponential growth in the near to medium term in the following sub-segments:

- **Agritech solutions:** Technology-based solutions to manage and reduce inefficiencies in the unorganized and largely government-controlled post-harvest supply chains
- **Cloud kitchens:** Better suited to the needs of socially distancing customers and a substitute for variety and convenience as opposed to cooking at home
- **Organic foods:** Rising standards of living, heightened health-related concerns and growing awareness of the chemicals used are key factors leading to a shift in the consumer mindset towards organic foods
- **Ready-to-eat/convenience foods:** A busier lifestyle, along with restricted out-of-home consumption is expected to increase the demand for ready-to-eat/convenience foods

CONCLUSION

With the global economy seeking to overcome the pandemic and return to normalcy, risks related to food security can emerge at a rapid pace. India has the potential to play an important role as a global food supplier, with government interventions acting as key enablers. The government needs to formulate a strategy revolving around:

- **restructuring the domestic market** to address the supply chain gaps, increase the adoption of mechanization and the application of technology
- **enabling the export-oriented environment** to create a more accommodative export policy and incentivize research and development facilities
- **developing an affordable and financially viable post-harvest infrastructure** to reduce wastage and create backward/forward linkages and aggregation points for ease of logistics and storage.

These enablers can help India emerge as a dominant force in the global trade of agriculture and allied commodities.

Feeding India during the pandemic

Balram Singh Yadav, Managing Director of Godrej Agrovet, one of India's leading F&A companies, with a market cap of over US$1.3 billion and over US$920 million in revenue, has successfully led the business on a rapid growth path with a presence across animal feed, vegetable oil, crop protection, agrochemicals, dairy and processed food products.

Balram Singh Yadav, Managing Director of Godrej Agrovet

What is your view of the F&A sector landscape, and how do you think things have panned out after the COVID-19 pandemic and subsequent lockdown? What are the various challenges faced by the F&A sector? Are there any positives that we can derive from the current situation?

Firstly, the pandemic had an adverse impact on the F&A sector. When COVID-19 cases were detected across the country, and the subsequent lockdown was imposed, the harvesting season was underway. We faced the dilemma of how to transport the 100 million tonnes of wheat, 10–12 million tonnes of gram seeds and 7–8 million tonnes of oilseeds procured by the government across the country. Everything was at a standstill, and most of the laborers involved in various agricultural activities in productive areas of North India had started returning to their hometowns. There was an acute shortage of labor, which had never been seen before.

With the support of the local, state and central government, the Indian agri sector has fared much better than expected. Winter crop harvesting began in April, despite the labor shortage, and the central government stepped in by procuring goods very quickly. They procured goods worth US$20 billion by mid-May, and made payouts to the farmers by the end of the month, rather than stretching them out until July as usually happens. The government thus instantly pumped US$20 billion into the agri economy. The central government also announced various schemes to kick-start the F&A sector.

The government also front-loaded other schemes, such as the Mahatma Gandhi Employment Guarantee Act (MGNREGA), and distributed over US$10 billion between January 2020 and June 2020, despite the migration of laborers. Overall, the central government pumped almost US$30 billion to US$35 billion into the rural economy by June 2020. Apart from this, various state governments injected approximately US$6 billion into the economy.

In the F&A space, milk was one of the sectors adversely impacted by COVID-19. India's milk business is worth around US$100 billion, and Godrej Agrovet produces approximately 180 million tonnes of milk every year. Unfortunately, no social gatherings — such as marriages and other religious functions — took place, due to the pandemic, and tea and coffee shops remained shut. Consequently, out-of-home milk consumption came to a standstill.

Chicken consumption also took a severe hit, and the industry lost about US$3 billion in February and March 2020. Whenever there is an epidemic or disease that can spread through viruses, such as swine flu, SARS, COVID-19, etc., the very first thing the majority of Indians do is stop consuming chicken. You will be surprised that the cost of chicken production in February and March 2020 was around US$1.2 per kilogram, and we sold chicken at approximately 10 cents per kilogram. As a consequence, the chicken industry suffered a loss of about US$3 billion. From May 2020 we reduced chicken production by half, and when the demand started rising again, we increased our production gradually. Over the past four to five months, chicken prices have been very remunerative.

We believe the agri sector will soften India's GDP degrowth — it should cross the 4% mark in 2021. Monsoon has been above average, and we had a bumper summer crop. I sense that agri GDP should be upwards of 3.5% in 2020.

What were the challenges faced by Godrej Agrovet as a company during the pandemic?

Godrej Agrovet has a robust business continuity and disaster recovery plan program, and it is a critical exercise that we conduct every year. We had a plan in place for floods, riots, earthquakes, civil strife, strikes, etc., but we were not prepared for the COVID-19 pandemic as there was no infrastructure in place to counter it on a mass scale.

Nonetheless, our business has to run — as milk, chicken, animal feeds and other products produced by us come under essential commodities. Hence, 58 out of 62 factories across the country were operational in April 2020. We had over 4,000 employees working in one or two shifts at our plants. We were providing them with food and shelter at our facilities. Our business also bounced back quickly, and our monthly turnover in April 2020 was about 70% higher than in April 2019. In May 2020, it was around 85% higher than May 2019, and in June 2020 it was around 90% higher than June 2019.

As a leading, reputable company, we ensured that our employees had adequate personal protection equipment (PPE) — gloves, sanitizers and other equipment recommended by the government to tackle the pandemic. We conducted temperature and oximeter readings four times a day.

But the situation on the ground is still dire. Revenue generation from milk and chicken is still down. Production costs are high because manufacturing is minimal. October, November and December are crucial months for us, as consumption of milk, chicken, clarified butter and other perishable products is high. However, due to the pandemic, there was no spike in prices as demand remained very low.

As far as the F&A sector is concerned, what are your views on the steps taken by the government to handle this crisis? Do you think this pandemic could have been managed in a better manner?

The central government has done a phenomenal job, feeding 800 million Indians for eight months — it is a responsibility no other government can fulfill. We store more than 100 million tonnes of wheat and rice in our storage facilities, and the government has been criticized multiple times for storing such large quantities as a security stock. But holding such a vast amount of food helped us to tackle this pandemic and feed our population. Indian railways also played a pivotal role, as they delivered more than 15 to 20 thousand tonnes of food grain across the country.

As far as the food sector is concerned, whenever there is an epidemic or pandemic, we have seen consumers switch towards value-added, processed foods from reliable sources. During this lockdown, we saw our packaged food business grow by 20 to 50% in various categories.

Do you see any structural change in the F&A industry from a value-chain and sourcing perspective post-COVID-19?

We believe backward integration will happen in the F&A sector after the agricultural produce market committee (APMC) reforms. Farmers can now sell anywhere via the electronic platform. In the next two or three years, we believe over 10,000 new startups will be launched, and they will bring top-of-the-line technology to connect customers and farmers directly.

The customer can be a retail customer, restaurant owner, etc. We will see considerable disintermediation, particularly in cash crops. About US$60 billion to US$70 billion worth of fruits and vegetables will get integrated. Opportunities to incorporate oilseeds, pulses and other cash crops worth almost US$100 billion also exist.

The other development you will see is that the government will allow hedging on the digital platforms. In October 2019, the government announced that options had to devolve into forward trading. But after the APMC reform, they will be able to settle options in some of the commodities on-spot pricing.

It will take some time to implement this, as there is a big gap between spot prices and futures, etc. The only thing is that very few farmers will be able to take advantage of future markets, etc., just because they are not consolidated.
The scale is not there.

Cultivating green shoots

Rajesh Srivastava is the Executive Chairman at Rabo Equity Advisors, with over four decades of professional experience across private equity investments, F&A business consulting and commercial banking. Under his guidance, Rabo Equity Advisors is successfully managing two F&A-focused private equity funds with a total assets under management (AUM) of US$270 million.

In the following interview with Parag Khadgi, Senior President of YES SECURITIES, Rajesh shares his views on the Indian F&A sector's post-COVID-19 investment scenario.

We are living in an unprecedented scenario wherein COVID-19 has affected our day-to-day lives. How do you think the pandemic impacted India's investment scenario, especially in the F&A sector?

We are going through a very turbulent phase. Nobody expected COVID-19 would bring the entire world to a grinding halt. It came rather too suddenly in our lives and lasted too long. People were out of jobs — factories were closed not only in India but across the world. In such circumstances, it is challenging to find the right investment avenue as everybody is overcautious.

In such a scenario, every individual, right from retail consumers to high networth individuals (HNIs), starts conserving cash. None of us can predict the pandemic time line — hence everybody is in a wait-and-watch mode. Many investors have reneged on their prior commitments and are planning to save cash for follow-on rounds rather than investing in new ventures. The immediate priority for all investors globally is to safeguard their existing portfolio and invest money into companies where they hold a stake. The message is loud and clear: no new investment, no new deals — protect your current portfolio. The investment scenario has hit a low, and hence companies did not add new capacity, leading to deferment of existing investment plans. Banks are also in a tight spot as they are unable to lend money to the best of borrowers.

On the consumption side, overall demand in many sectors, such as oil & gas, power, etc. has fallen, as most people are still confined in their respective homes. But on the flip side, the F&A sector once again demonstrated its resilience. Demand for F&A products remained strong, and secondly, the government also ensured that food supplies got through.

We are noticing green shoots in the economy as the world is getting back to normal life. I believe we had a rough patch of six to eight months, but we will see investments picking up again in the coming months.

What were the adverse effects of the lockdown on your investing companies, and how did they cope with it? What initiatives were taken to ensure that it doesn't impact the business?

We have invested across all verticals, right from production to consumption. It affected every company differently, agri-centric and agri-input-centric companies got swiftly back on their feet by the end of April. Everybody associated with these companies ensured that supplies of seeds, fertilizers, etc., did not suffer. On a half-yearly basis, some companies fared better financially during April 2020 to December 2020 than the previous six months.

Ingredients and other kitchen solution companies had an adverse impact due to a fall in overall consumption demand. Secondly, the retail business also slowed down as malls and other offline stores shut their doors for a few months. The only area that bore the lockdown's brunt was consumer-facing foodservice companies, as with restaurants closed people stopped eating at food joints. Unfortunately, despite all government efforts to revive the economy and various other sectors, the hospitality sector remained vastly neglected.

What are the lessons learned by the PE investor community during this pandemic? Do you think PE investors will focus on some sectors more than others? How would sector preference, as far as investment in F&A is concerned, change going forward?

Each one of these 40-odd sub-sectors that we track in general will continue to outperform. We believe investors will look forward to investing in productivity lead sectors, such as companies with cutting-edge technology that offers farming solutions. The reason is simple: when you focus on productivity vis-à-vis production, you are catching the margins — because the higher the risk, the better the margins. So if any scenario similar to COVID-19 hits you, you are much better covered than others.

Another attractive sector for investors would be supply chains, such as cold chain storages, warehouses, etc., where you can control the supply of goods. One of the major concerns during this lockdown was logistics. The government restricted the movement of goods, and containers stayed logged at ports for many months. Hence, companies that can control the supply chain will be favored by investors.

Lastly, investors would prefer to invest in downstream sectors that are consumer-facing. Hence, as an investor, my preference will be to focus on these three large buckets, within which you can select the attractive products.

As COVID-19 created a lot of disruption in the market, do you think investors will look at revamping management capabilities in the future with respect to how they should tackle a similar scenario?

Without taking anything away from promoter-led companies — as some of them continue to outperform — as an investor, I would look at professionalism in the company. I am not saying promoter-driven companies can't be professional — you can also have professional promoters.

At the customer experience officer (CXO) level, we look at how well-groomed, enlightened and committed the management is — commitment in terms of how much stake they hold in the company. The second aspect that we will look at is cost efficiencies, as the pandemic has taught us that the company should know where to cut costs and save money. The third aspect that many industrial companies don't practice is risk mitigation. Apart from conglomerates like the Tata Group, the majority of companies don't practice this discipline.

People do not talk about risk management, and everyone should start creating a risk department in their organization. And the fourth aspect, which is crucial for business continuity, is their supply chains — both procurement and sales. We believe, going forward, margins will come primarily from supply-chain efficiencies.

Have you managed to sell your stake in any company during the lockdown? Did you postpone any stake sale, and how do you think it will impact your business strategy?

PE investors' preferred mode of exit is by listing the company on the stock market and selling its stake via an initial public offering (IPO). But we are also aware that every company can't list on the stock exchanges — hence, exiting via this route is not always possible. Our primary reason to sell our stake in any company would be strategic. We also look at exiting any company via the M&A route. We sense that India is now ripe for leveraged buy-outs (LBOs), and we should see more of those in the future. Though still not allowed in India, this is the opportunity for LBOs to set in. So bankers can collaborate with PE funds and help M&A deals.

Due to COVID-19, we also see a lot of consolidation taking place in the industry. We believe, on a scale of 10, if there were 10 companies in the market currently, we would probably have five companies in two years' time due to consolidation.

What about secondaries? Do you think there will be PE making secondary investments and giving exits to the first incoming PE investor?

Yes, I think you can see many control investments taking place and buy-out funds. When you do a buy-out, then giving exit to the previous fund is also one of the stories that will play up in the future. PE funds will buy out promoters, and PE-fund-controlled companies will emerge in India, as we have seen in Europe and the United States. PE funds currently manage the largest of multinational industries across the world. We believe this trend will trickle down to India as well in the future.

Investing in a safe and healthy future

Doug Kravet, Oaklins' organic & sustainable agriculture specialist, has successfully advised a wide range of companies across the agriculture supply chain over the past two decades. Here he outlines key global trends in the rapidly growing organic and sustainable agriculture sector.

INTRODUCTION

At the onset of the pandemic, advanced economies swiftly focused on food security and maintaining the supply chain. With lockdowns imposed around the world, consumer purchasing immediately shifted away from restaurants and toward food at home. Despite the enormous stress this put on the overall food supply system, the system proved reassuringly resilient.

Throughout this time, consumers continued to support products considered good for health and well-being, grown using humane methods and supplied using fair-trade practices. In addition, people became more comfortable purchasing products online, and omnichannel shopping increased dramatically.

Emerging markets will play a major role in economic growth over the next decade, helping supply the increasing demand for sustainable agriculture. With smallholder farmers beginning to implement technology to grow and distribute food more productively, the importance of the ag-tech industry will continue to grow.

MARKET TRENDS

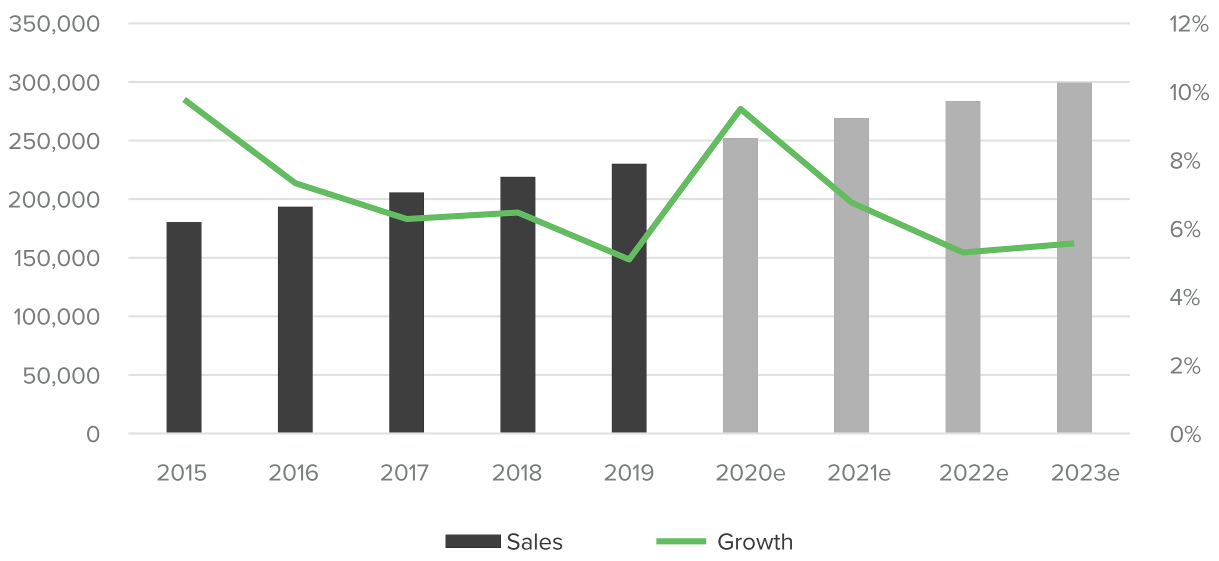
Natural and organic produce

Organic food is one of the cornerstones of the natural & organic industry, with sales estimated at $US252 billion in 2020. COVID-19 had a positive impact on the industry, which registered annual growth of 9.5% due to surging demand for natural and organic products.

Fresh produce led the way in 2020, as it has done consistently for years, with organic produce achieving double-digit growth across four consecutive quarters. Organic food consumption now accounts for 12% of the US market. Sales continue to outpace those of conventionally grown food and hit US$8.5 billion in 2020 — a 14.2% increase over the previous year, compared with a 10.7% rise in conventional produce sales. Overall organic volume increased 16% compared with 2019, while conventional volume rose by 9% during the same period. We are mid-cycle on this trend, which means organic food will continue to take market share away from conventionally grown food for some time to come.

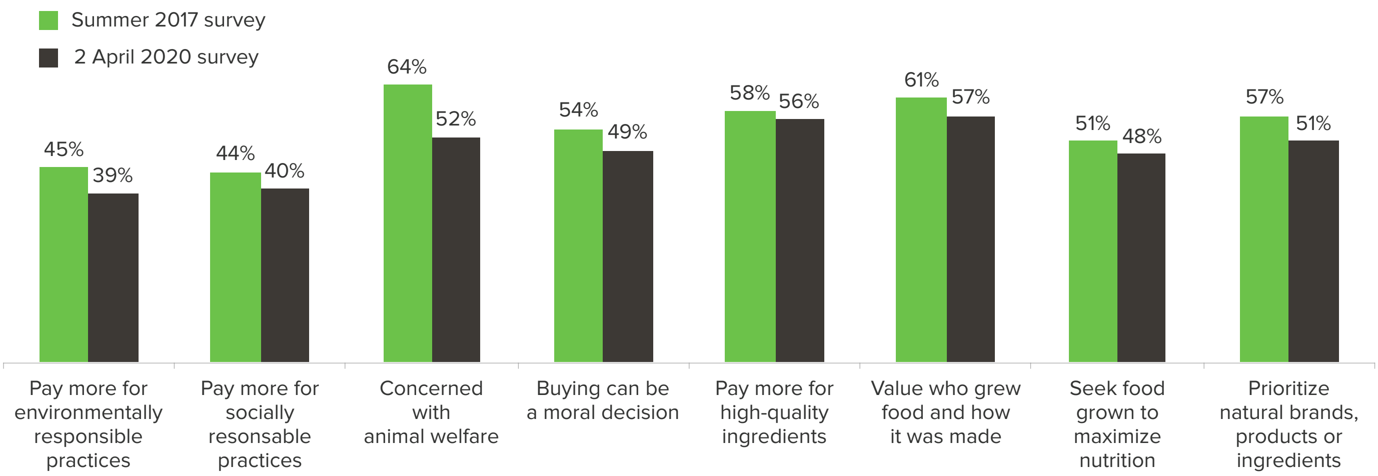
A survey carried out in April 2020 by New Hope Network NEXT Data and Insights found that the pre-COVID-19 values that fueled the growth of the natural and organic sector remain strong among consumers. The responses showed that in spite of the added pressures faced by many during the pandemic, US consumers are still willing to pay more for high-quality food produced sustainably and using fair-trade practices.

Natural and organic industry total consumer sales in 2020 (US$ million)



Source: Nutrition Business Journal, powered by SPINS

How strongly US consumers align with the following behaviors



Source: New Hope Network NEXT Data and Insights in partnership with Suzy

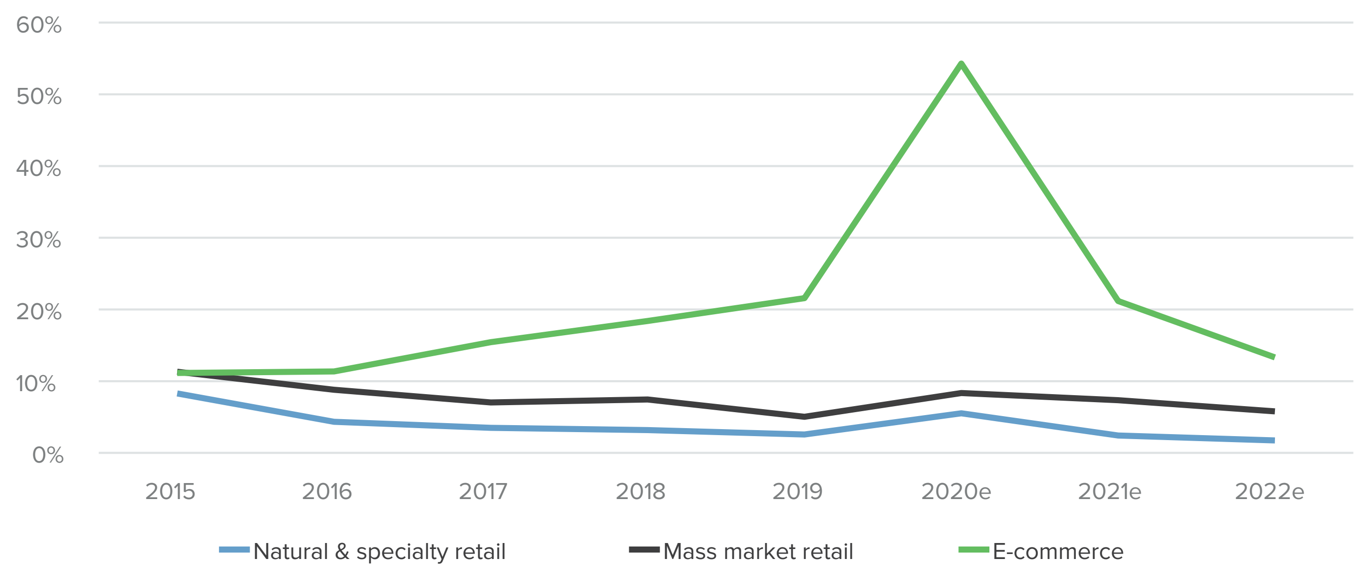
The survey also highlighted a strong shift in US consumer sentiment toward eating healthy foods, which respondents rated as 33% more important to them during the pandemic than in 2019. However, we need to observe whether this trend sticks at least 12 months after the pandemic has subsided to see if it represents a more permanent change.

Consumers are retaining values that have fueled the growth of natural & organic, despite COVID-19.

E-COMMERCE

The pandemic also saw the trend toward e-commerce accelerating as consumers turned to online shopping for both safety and convenience, with sales growth expected to exceed 50% in 2020.

E-commerce sales growth



Source: Nutrition Business Journal, powered by SPINS

According to Nielsen's Omnichannel Shopping Fundamentals Survey, online shopping has become an especially critical resource for constrained consumers, whose spending power during the pandemic has become limited due to unemployment, furloughing or other COVID-19 impacts. With more time on their hands, these consumers can take advantage of online shopping to compare prices, search for offers and avoid travel costs. By May 2020, 66% of global consumers shopped online, with higher rates in the Asia-Pacific (78%) and Africa-Middle East (75%) regions. With online shopping so dominant, both manufacturers and retailers need to better understand current consumer behavior in order to adapt their business models accordingly.

FOOD SECURITY

Although food supply systems proved resilient in advanced economies after the initial shock of the COVID-19 outbreak, the pandemic's impact on food security in countries already facing food crises raises cause for concern. The economy's contraction will not be equal across the globe: a much bleaker forecast for Latin America and the Caribbean than for East Asia and the Pacific points to consequences varying in their severity in different parts of the world. Economic impacts will depend on factors such as dependency on oil and gas, and agricultural production and supply chain will depend on crop-cycle timing in relation to restrictions, and interdependencies between countries for labor and crop exports. Political stability and national security issues also have the potential to disrupt the food supply chain. All of these issues represent a tremendous challenge, but at the same time an opportunity that will require large-scale investment.

EARLY ADOPTION OF TECHNOLOGY

A recent McKinsey report *How Digital Tools Can Help Transform African Agri-Food Systems* summarizes the benefits of using digital technology to transform agricultural production in emerging economies but also highlights some of the issues faced. Governments can assist private-sector players and development partners in developing and deploying digital agriculture technologies that help smallholders increase output and therefore support food security. However, some of the challenges faced when launching and scaling digital agriculture solutions include limited digital access, digital literacy, data accuracy and access to electric power. In addition, to increase typically low uptake percentages, solutions must create value to incentivize users, provide some level of in-person support and receive adequate government support.

INVESTMENT IN THE AG-TECH INDUSTRY

According to AgFunder, of the US$8.8 billion invested in the ag-tech industry in H1 2020 — projected to increase by approximately 20% over time as more data comes in — more than half flowed into the upstream sectors (agbiotechnology, farm management software, farm robotics & equipment, bioenergy & biomaterials, novel farming agribusiness marketplace, midstream and innovative food). The projected upstream total for H1 is US$5.5 billion, compared with US$8.3 billion in 2019.

E-grocery retained the number one spot during the pandemic as agrifoodtech's best-funded category, with 20% of the year's overall investment, and midstream tech, which supports food logistics, supply chains and traceability, took second place. Strong demand for environmentally friendly new crop varieties and on-farm treatments fueled investment in capital-intensive agbiotechnology, which has long development timelines. Funding in farm management software, sensing and Internet of Things (IoT) was down midway through the year compared with FY 2019 while investors waited to see results before parting with more capital.

CONCLUSION

Agricultural markets proved their importance this year, when food security and global supply chain stability became the focal point as the pandemic expanded globally. After the initial shock to the food supply system, consumers reaffirmed their preferences toward organic food, sustainability, and health and wellness activities in general. When added to the need for technology to improve productivity in emerging markets, this translates to a large pent-up demand for M&A opportunities and investment in the overall agriculture sector.

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