To: Briana Warner
From: Aaron Cappelli
Date: 06 MAR 2021
RE: Grab and Go Market Research for Atlantic Sea Farms (ASF)

Summary**:** The US Grab and Go (GG) market is generating approx. $120B[i] in annual revenue with a 7.8% CAGR.[ii] This is broadly defined as commercially prepared meals consumed off-premises. Within this, there is the GG Fresh segment which achieved $287M in revenue across both in-store and online channels[iii] with a recent 10.4% CAGR.[iv] Fresh, healthy, and convenient options are rapidly becoming popular with American consumers, and have been buoyed further by the changes COVID has brought to how Americans shop and dine.[v] With the expansion of online and brick-and-mortar GG options, this sector is poised to grow at a CAGR of 7.8% with a projected revenue of $520M by 2026.[vi]

Grab and Go Market Overview**:** Consumers are incorporating GG meals into their daily routine at a quick pace, with 3.6M new households becoming meal kit users in 2018, and 2.2M of those buying their kits from brick and mortar locations.[vii] 37% of consumers either prefer ready-made meals or are indifferent between ready-made meals and home-cooked meals.[viii] Industry giants like Walmart are developing their own GG salads and meal kits to meet this demand.[ix] Other supermarkets and grocers are also rushing to create their own fresh GG options for consumers,[x] potentially leveraging their own fresh produce capabilities to create GG offerings. Meal-kit users accounted for 12% of households in 2018[xi], in-store meal kits increased their dollar sales by 47%, and kits with value-added vegetables experienced a 10% increase in sales in 2018 vs 2017.[xii] We can attribute most of this growth to millennials and consumers between the ages of 35-44, as well as to consumers that earned over $100K.[xiii] The average American eats 18.2 meals per month that were prepared outside the home, with each meal costing on average $12.75.[xiv] Most consumers buy these kits online, but in-store purchases are increasing in share.[xv]

Strengths, Opportunities, Targets**:** The trajectory for GG meals looks bright, with significant growth even before COVID. While salads are currently a small part of the GG mix, increasing grocer involvement could grow the fresh/salad share. From ASF's perspective, this will require some logistic acrobatics depending on how ASF would enter this market. If ASF plans on producing its own salad kits, the main challenge would be keeping the salad ingredients fresh for salad use as opposed to fermenting them for kimchi. However, this could induce significant logistic and operational changes. Another option would be for ASF to supply kelp to grocers or other GG kit makers to incorporate in their kits. This would require significant coordination on recipe design and product testing, as well as potential perishability issues of kelp vs other fresh ingredients. ASF could incorporate their fermented products into fresh salad kits, which would mitigate kelp perishability problems. ASF already has a successful collaboration with Sweetgreen, so working with Sweetgreen to provide kelp for their GG kits would be a good way to test the market with a known player. Some chains are beginning to expand their GG capabilities, with

Sweetgreen and Starbucks investing in more GG capacity.[xvi] This is promising for future partnerships with other similar restaurant chains.

The segments that consume the most GG Fresh are affluent consumers who earn over $100K and are between the ages of 35-44. In 2018, people shopping online and making making over $100K increased their meal kit purchases by 6.1%, while online shoppers between the ages of 35-44 increased their purchases by 4.3%. In store purchases increased by 9% for the $100K group, and 9.2% for the 35-44 group.[xvii] Focusing on this segment could lead to faster adoption and more market share.

Weaknesses and Threats: The increased involvement of large grocers in this space could precipitate a race to the bottom on prices, where the large grocers can leverage their economies of scale and logistic prowess to price out any smaller competitors, with Walmart already planning on expanding the GG Fresh options to more than 1,000 stores.[xviii] Even for ingredient suppliers, meeting the prices demanded by large and powerful downstream clients would eat into margins. In the restaurant space, expanding to other restaurant partners could be difficult given the pandemic.

Conclusion**:** The GG Fresh industry is growing rapidly with consumers utilizing more GG options generally. The significant growth has precipitated involvement form the larger players who can snuff out competition with their ability to operate with low prices and high volume. ASF has an advantage, however, with its kimchi products and partnership with Sweetgreen, which can leverage Sweetgreen's brand recognition to penetrate more restaurants in the healthy premium fast-service/ GG-capable segment. There is also an opportunity to expand beyond just salads. Especially with kimchi offerings, ASF could easily be incorporated into hot GG offerings, which would significantly increase the size of the opportunity. While the GG Fresh category is relatively small at around $290M, changing consumer trends and more channels implementing GG Fresh options could have this category grow to $520M in 5 years.[xix]

Exhibits:

Exhibit 1: GG Fresh Revenue Projection

*More conservative CAGR (7.8% vs 10.4% to align more closely with larger GG market)

GG Fresh									
[redacted]	Notes	t	0	1	2	3	4	5	6
		year	2020	2021	2022	2023	2024	2025	2026
Revenue	using 7.8% CAGR	$B	$ 0.287	$ 0.317	$ 0.350	$ 0.386	$ 0.426	$ 0.471	$ 0.520

Exhibit 2: Meal Kit consumer segments by channel[xx]

	Online	In Store
INCOME	$100K+: 44%; +6.1	$100K+: 28%; +9.0
	$70K-99K: 19%; -0.4	$70K-99K: 15%; +2.7
	$50K-70K: 13%; -2.1	$50K-70K: 13%; +0.2
AGE	35-44: 29%; +4.3	35-44: 27%; +9.2
	25-34: 27%; -2.7	25-34: 21%; +2.8
	45-54: 18%; -2.8	45-54: 20%; -7.0

Exhibit 3: Meal kit Channels[xxi]

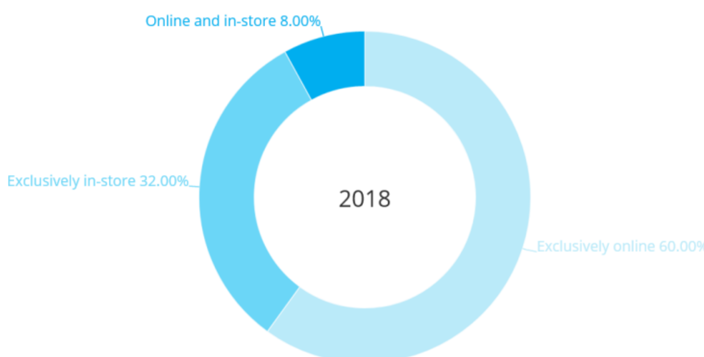


Exhibit 4: Meal Kit Consumer Behavior[xxii]

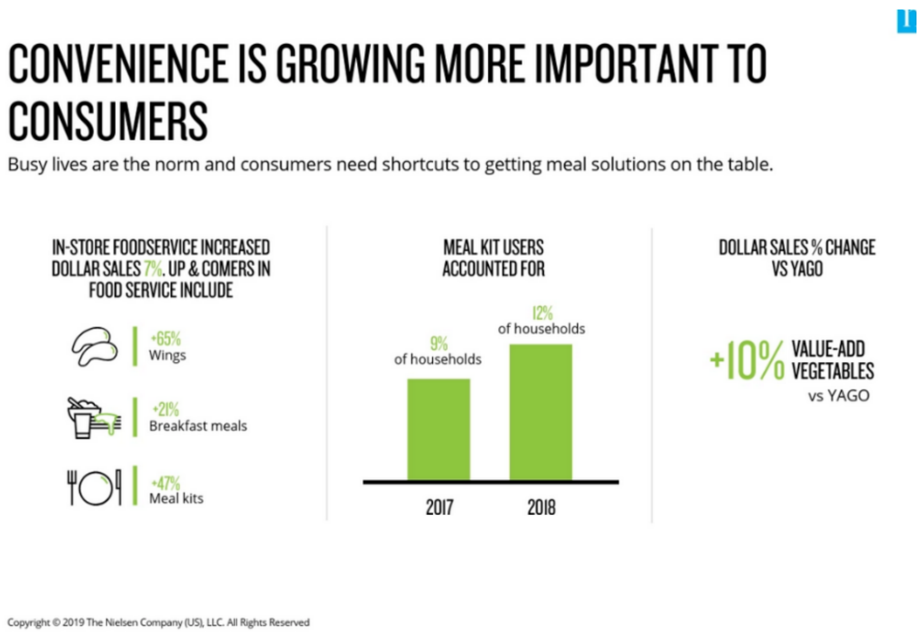
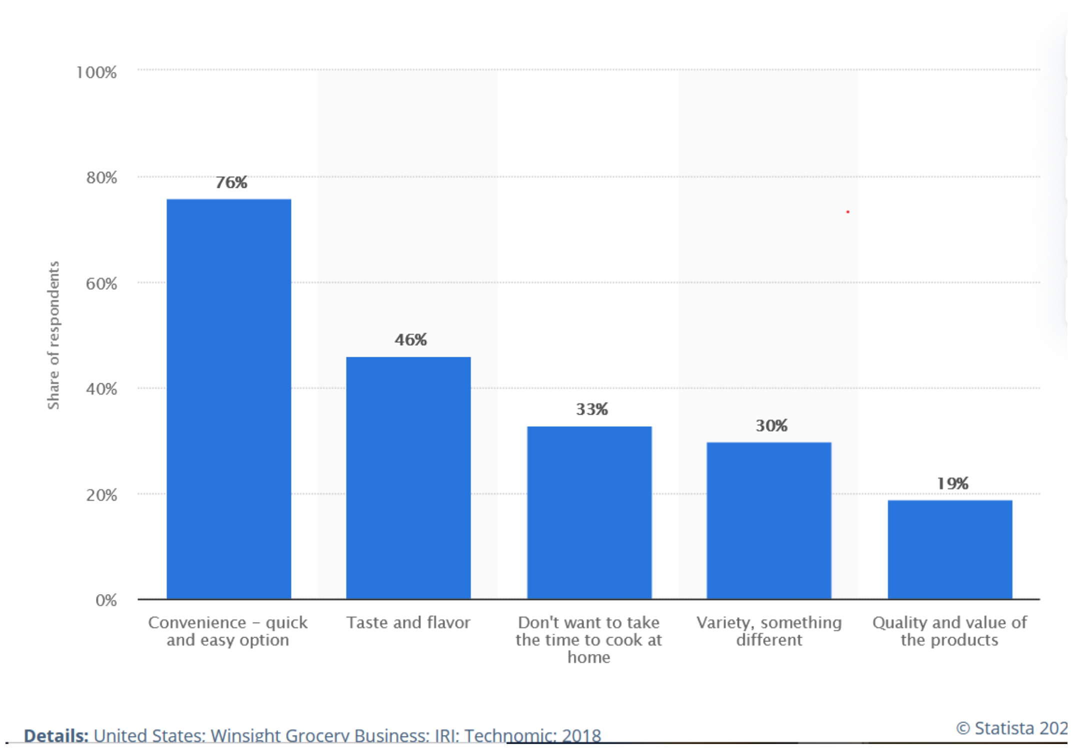


Exhibit 5: Ready-made vs Home-cooked meal preference[xxiii]



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[ix] IBISWorld https://my-ibisworld-com.proxy.lib.duke.edu/us/en/industry-specialized/od6152/competitive-landscape
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[xi] Exhibit 4
[xii] Nielsen https://www.nielsen.com/us/en/insights/article/2019/fresh-trends-tracking-the-four-trends-driving-growth-across-fresh/
[xiii] Exhibit 2

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[xv] Exhibit 3
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