AFTER THE STORM

PHIL PLOURD • **MSU "FACTS"** • MARCH 18, 2021

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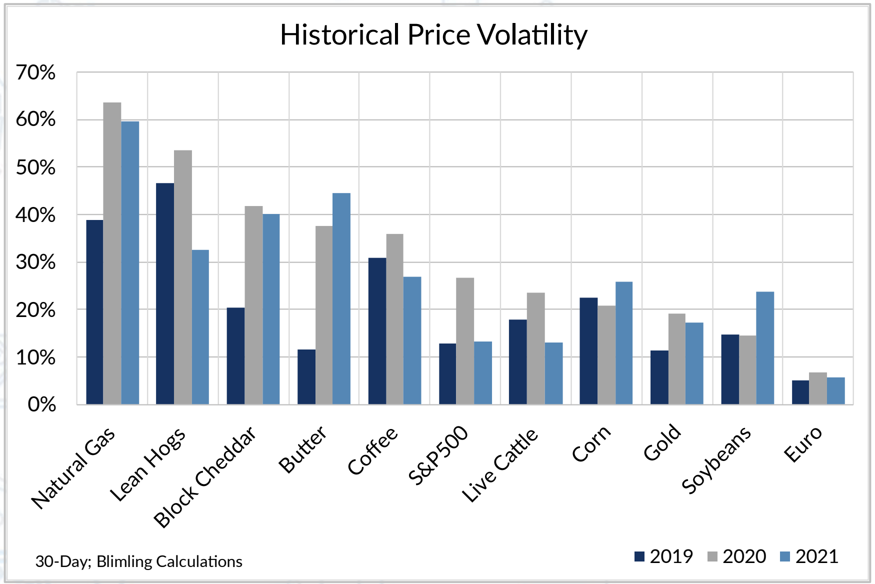
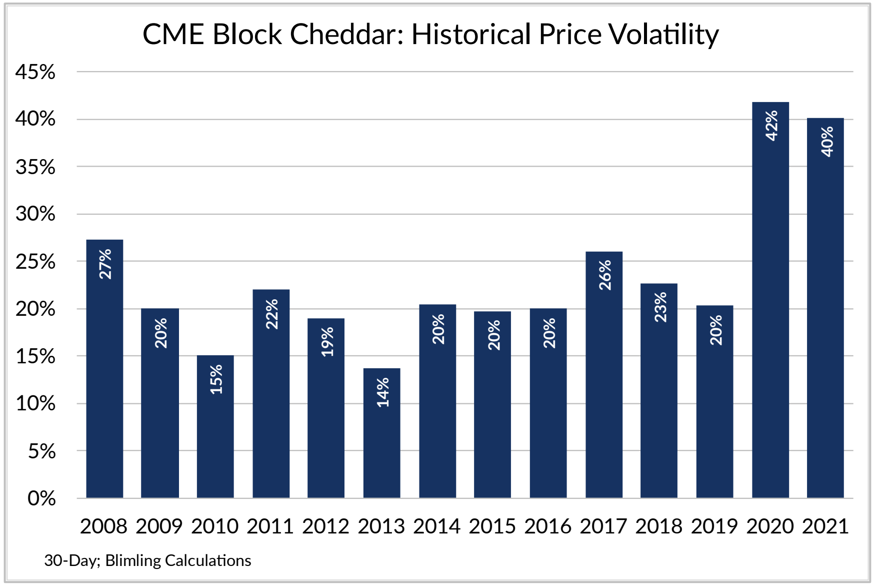
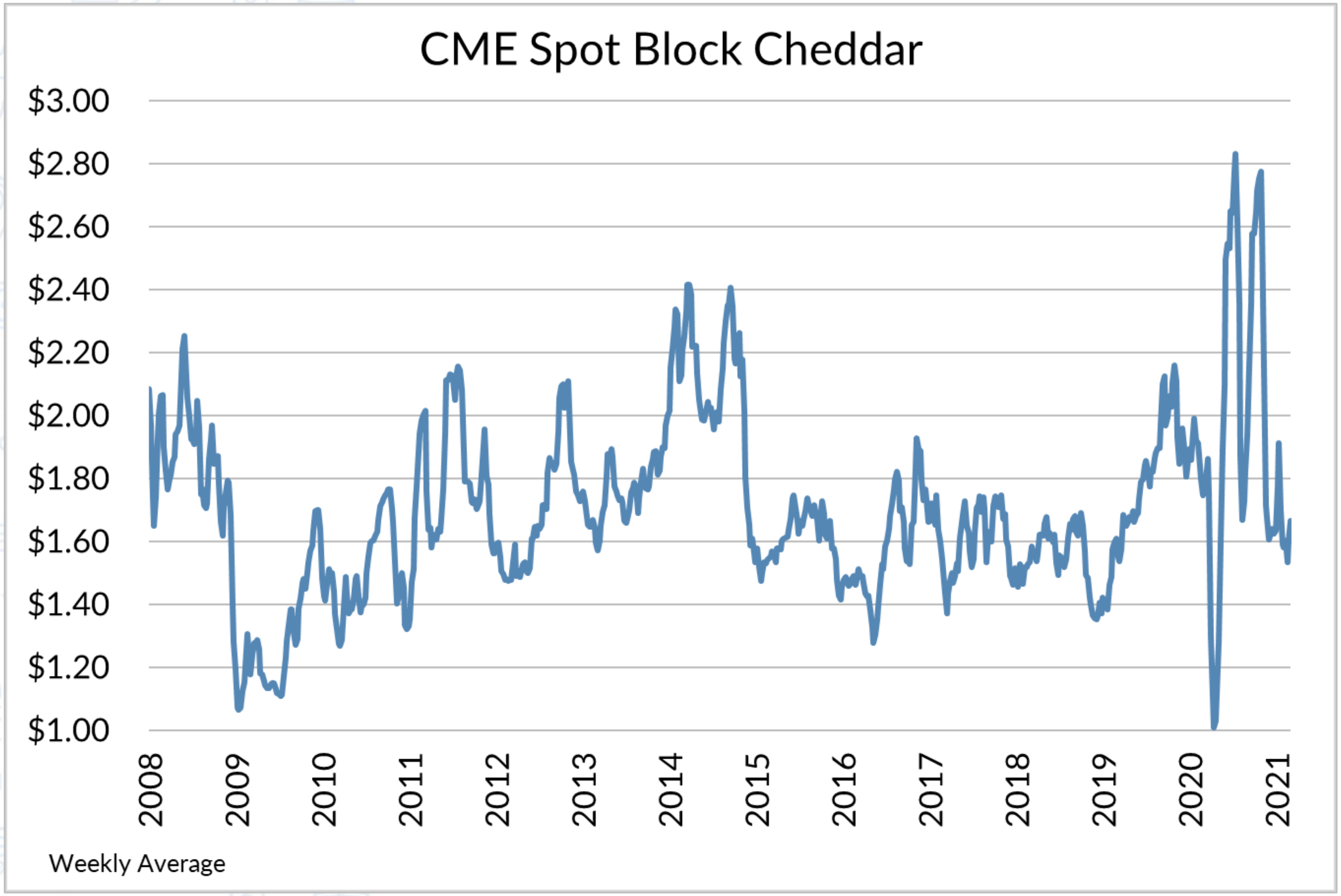
massive volatility



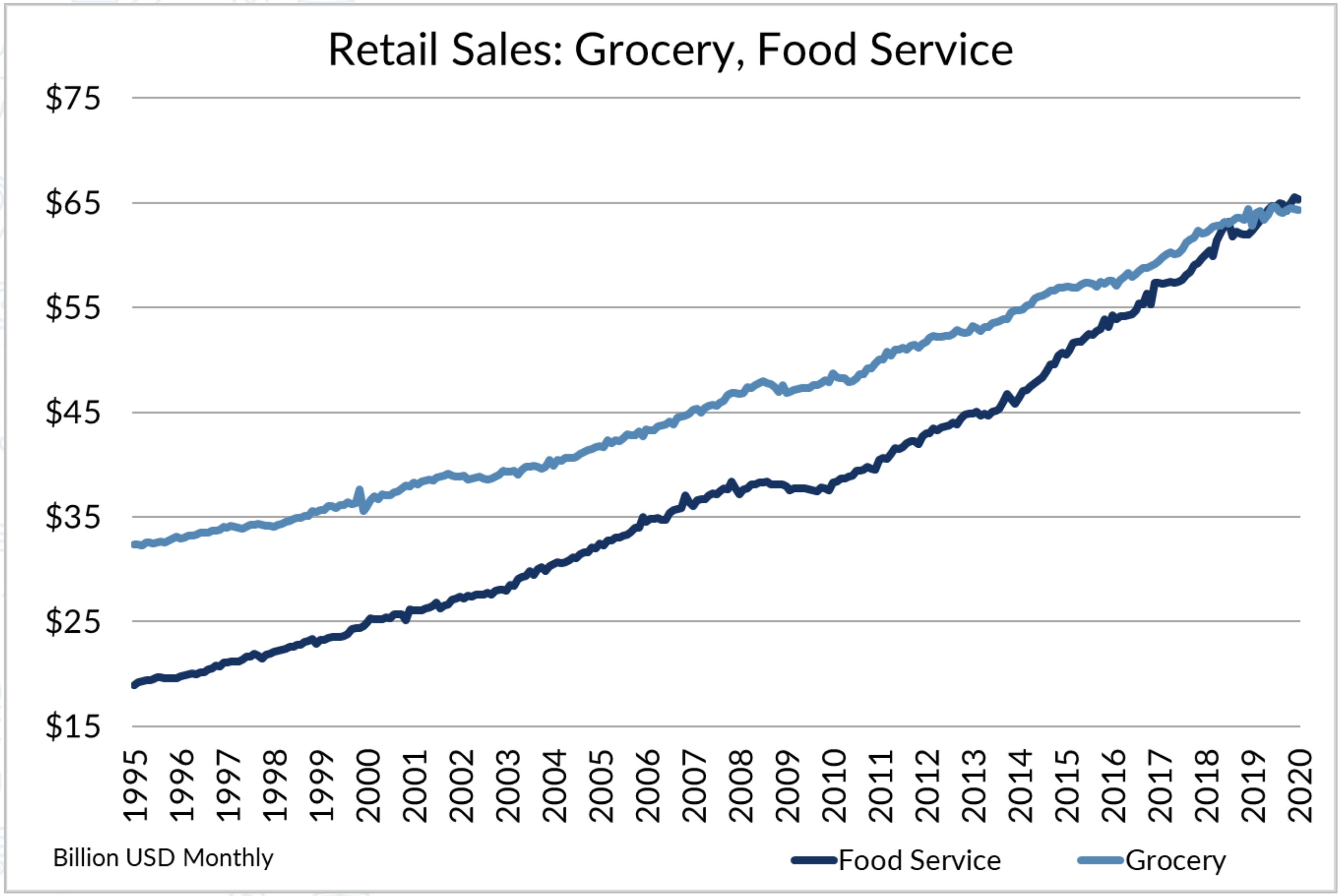


- US dairy markets were among the most volatile in the world in 2020
- In 2020, CME spot block cheddar and spot butter market volatility ran at nearly double the five-year average rate

from multi-decade lows to all-time highs



before 2000: restaurant $ = grocery $

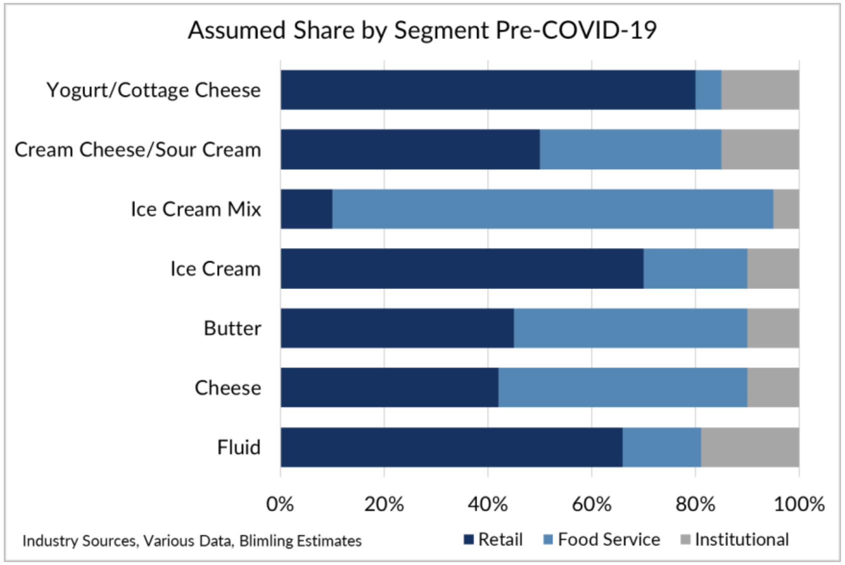


lots of dairy in food service

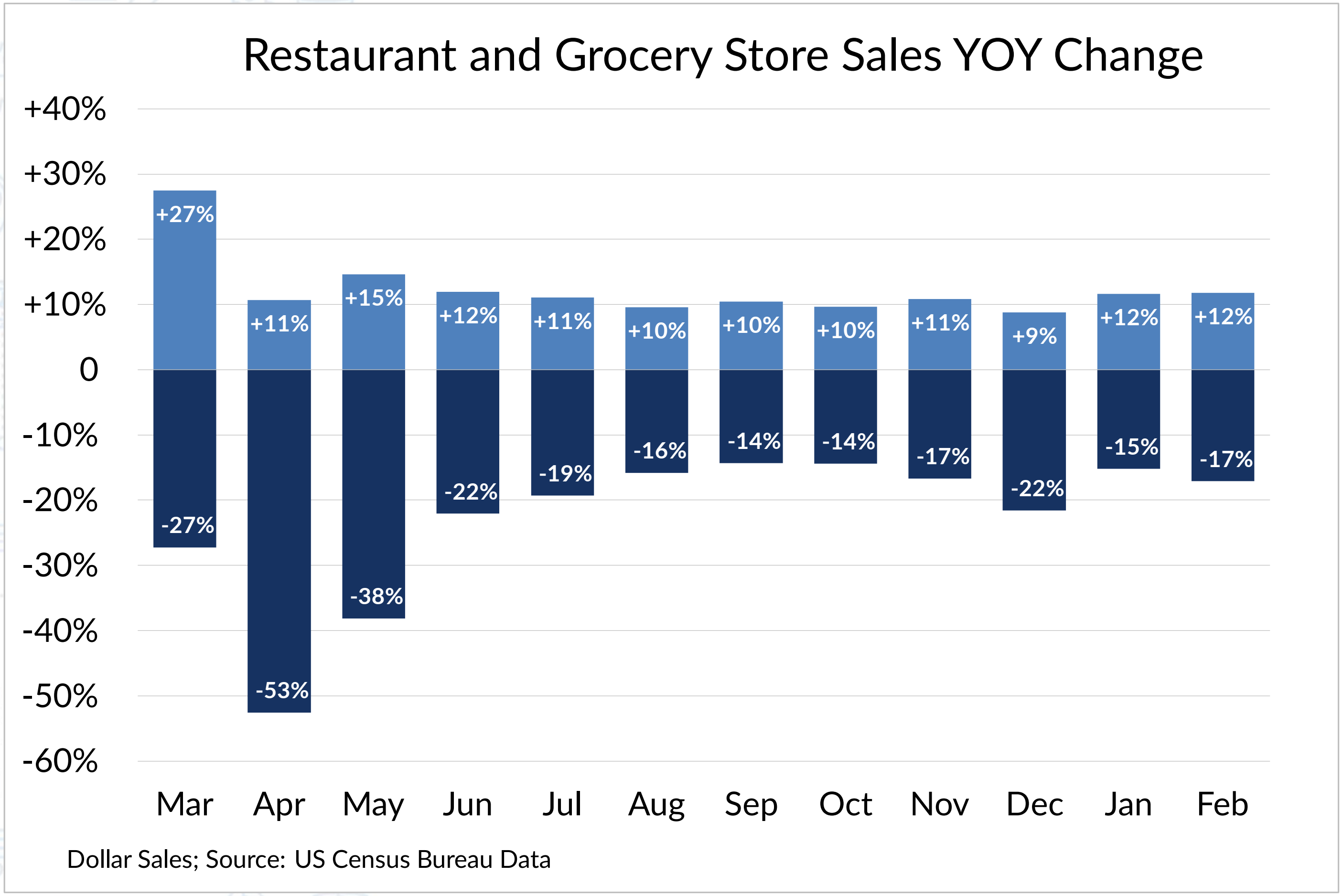
- Pre-Covid, we estimated that restaurants accounted for nearly 50% of cheese and 45% of butter use

Assumed Share by Segment Pre-COVID-19

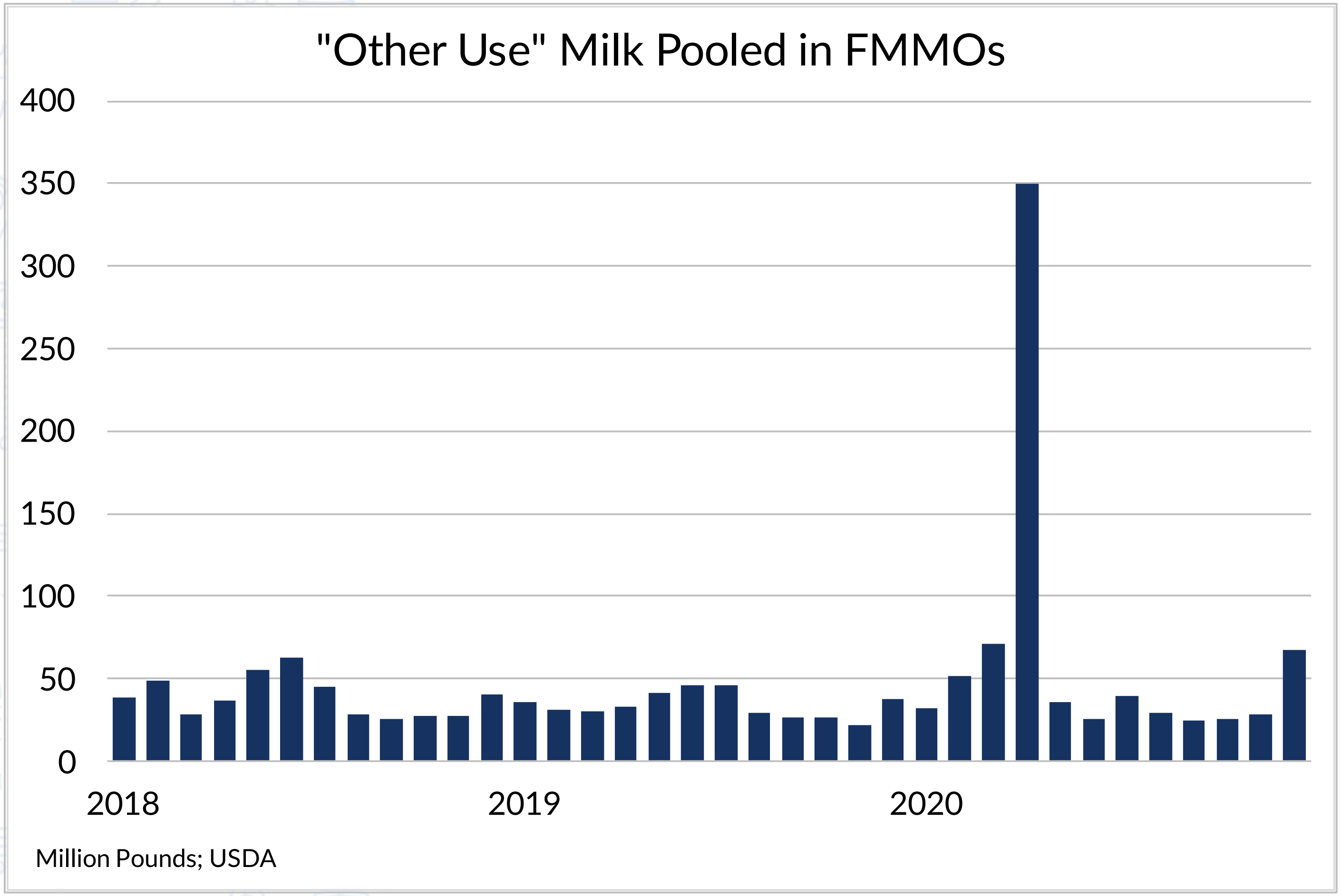
Segment	Domestic Retail	Domestic Food Service	Institutional
Fluid	66%	15%	19%
Cheese	42%	48%	10%
Butter	45%	45%	10%
Ice Cream	70%	20%	10%
Ice Cream Mix	10%	85%	5%
Cream Cheese/Sour Cream	50%	35%	15%
Yogurt/Cottage Cheese	80%	5%	15%



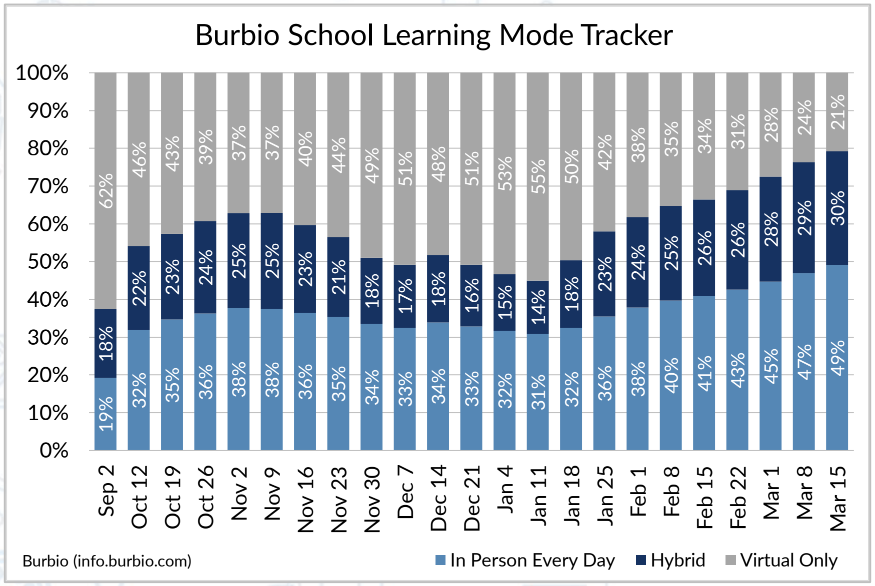
evolution since march 2020

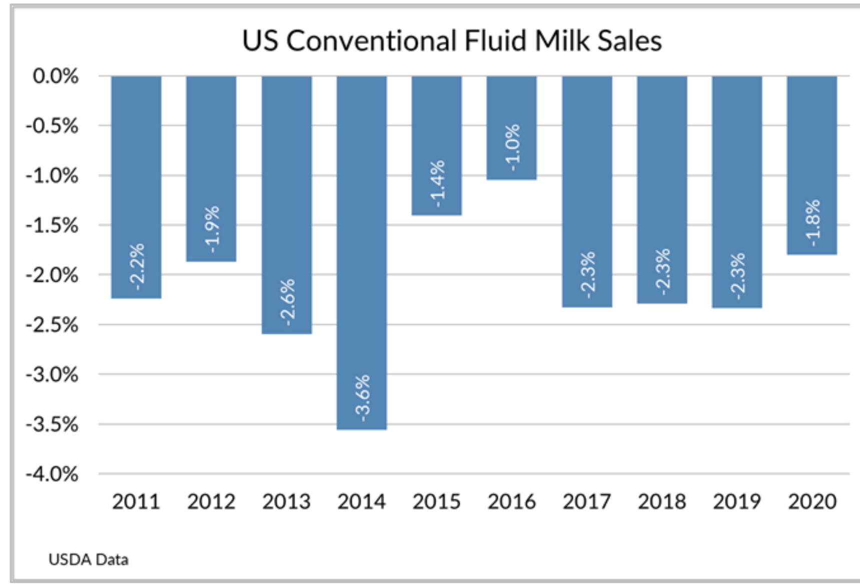


lots of “dumped” milk



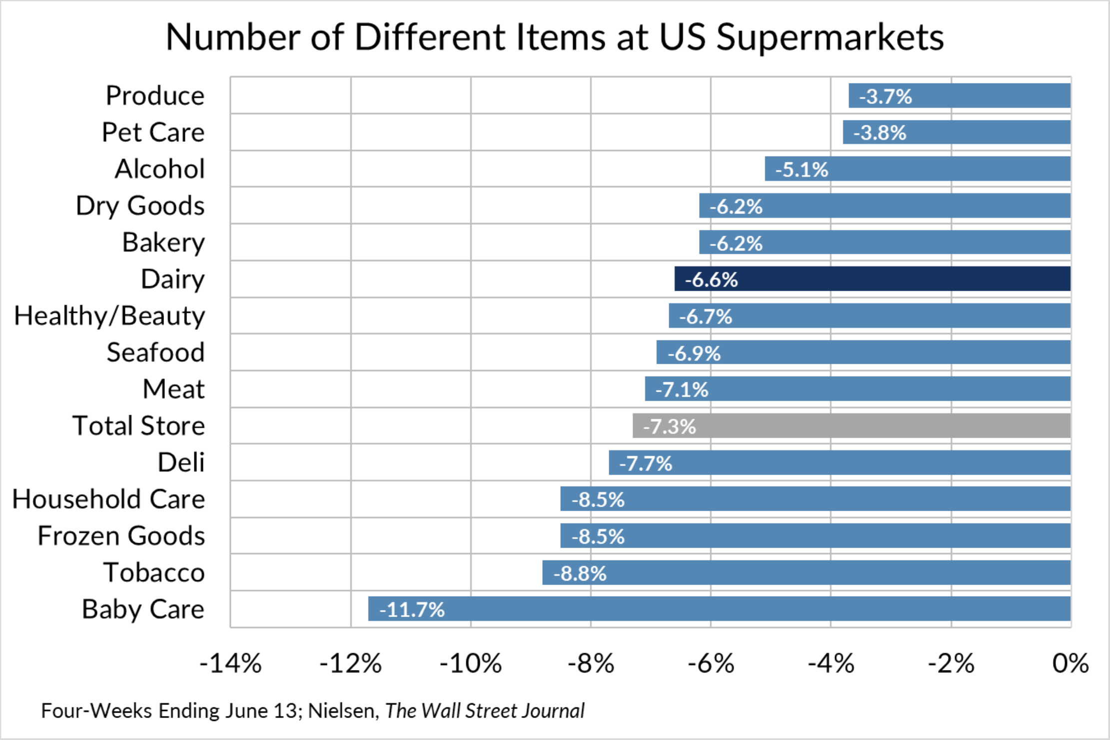
school demand has been an issue





- According to Burbio, 21% of K-12 students are in “virtual only” mode, lowest level since beginning of school year. But does school lunch look like school lunch?
- Packaged milk sales down 2% in 2020 versus 2019.

it's going to look a lot like aldi



- Grocers and manufacturers cut SKUs significantly during the pandemic

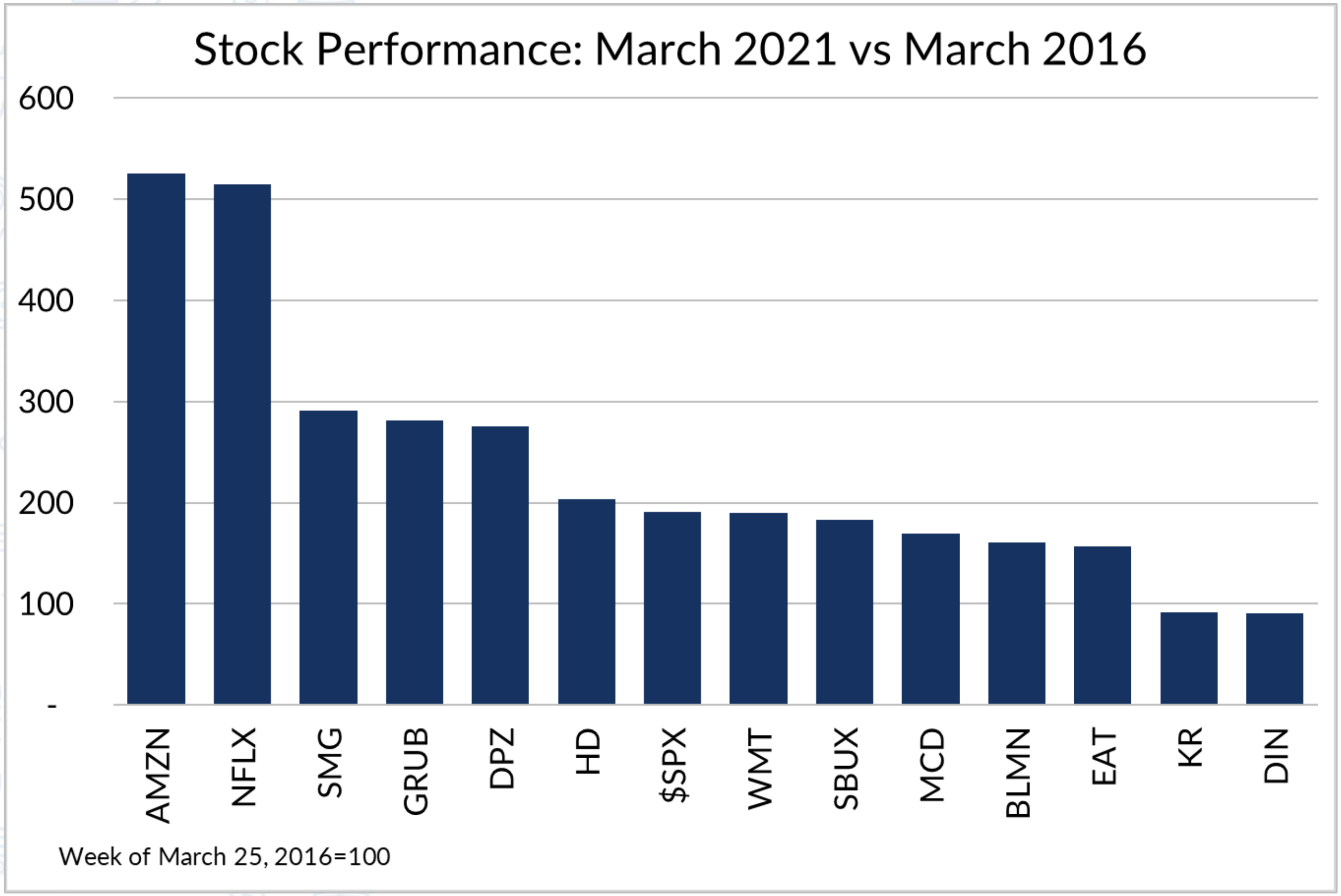
questions for further study

- Can we afford to have extra capacity to process milk in case we ever see another massive disruption?
- Will the 2020 create impetus for additional consolidation at the processor level in a way that enables companies to better balance their portfolios between retail and restaurant customers/products?
- Is "just in time" dead or just on hiatus?
- Will SKU rationalization stick? What does that mean for the dairy category?

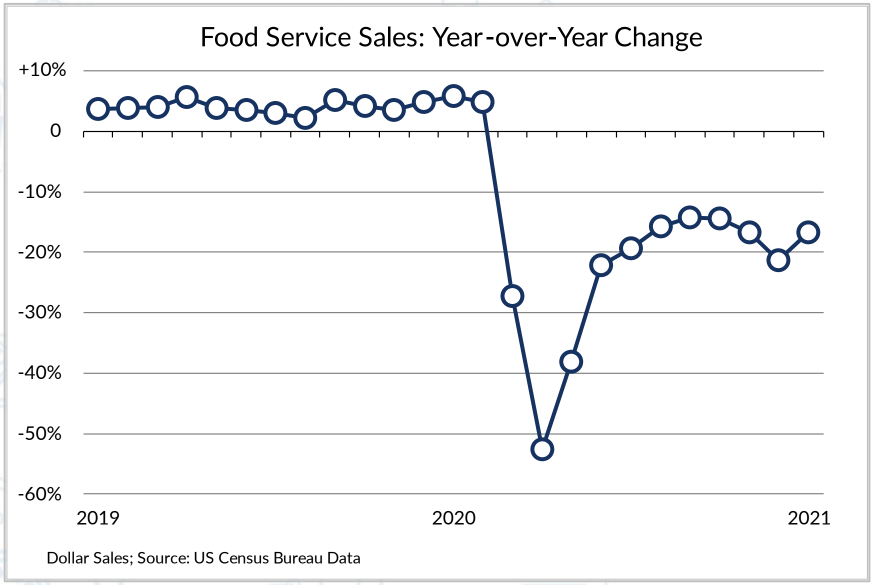

Going out is overrated.
McDelivery
McDelivery
Uber Eats
McDelivery
Uber Eats
McD

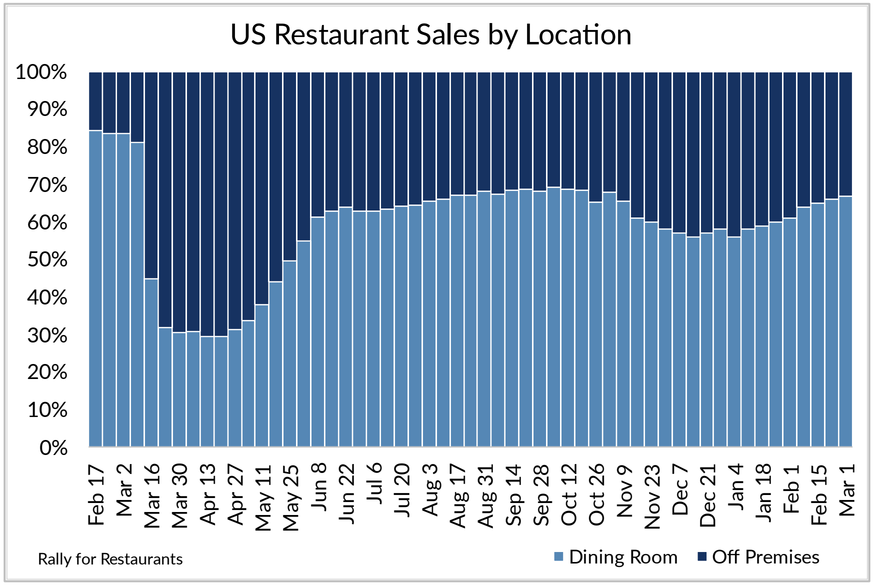
Never Underestimate the Laziness of the American Consumer!

“stay at home” trade



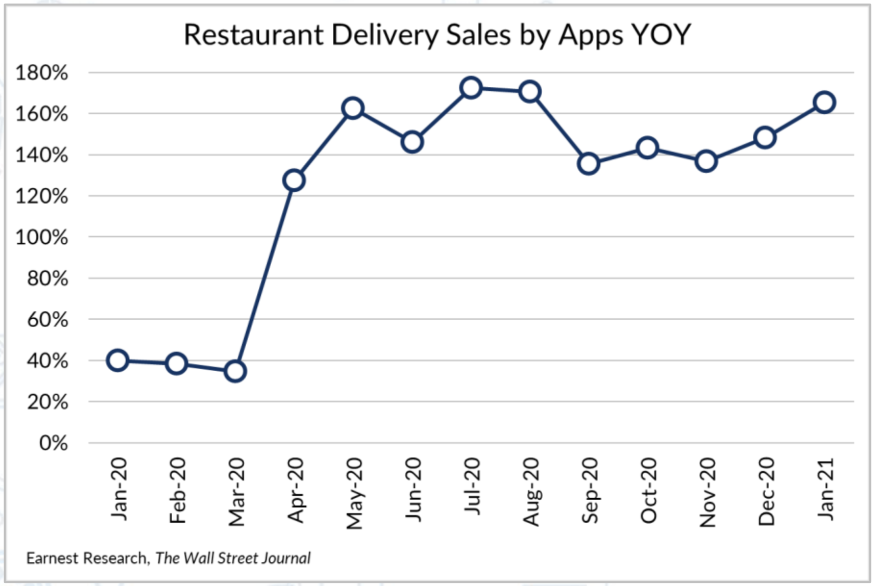
what's the future for restaurants?

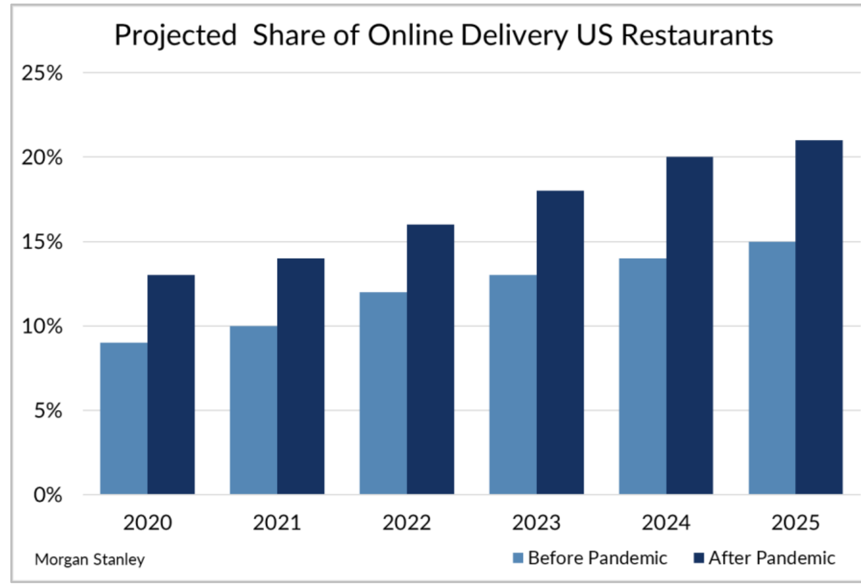




- "Food and drinking place" dollar sales down 19% in 2020
- Nationally, about 65% of business is in dining rooms, with 35% for off-premises consumption (drive through/pickup/delivery)
- What does the "new normal" look like?

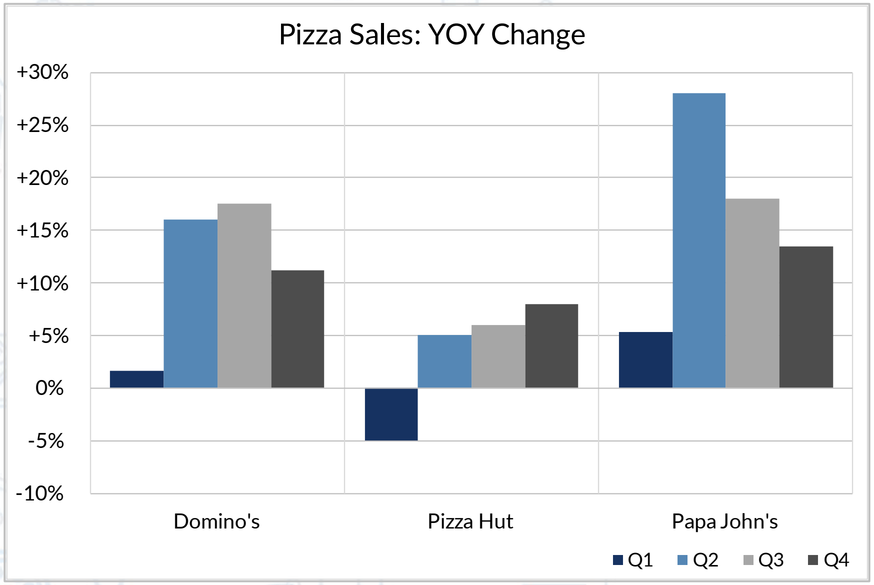
will pickup/delivery persist?





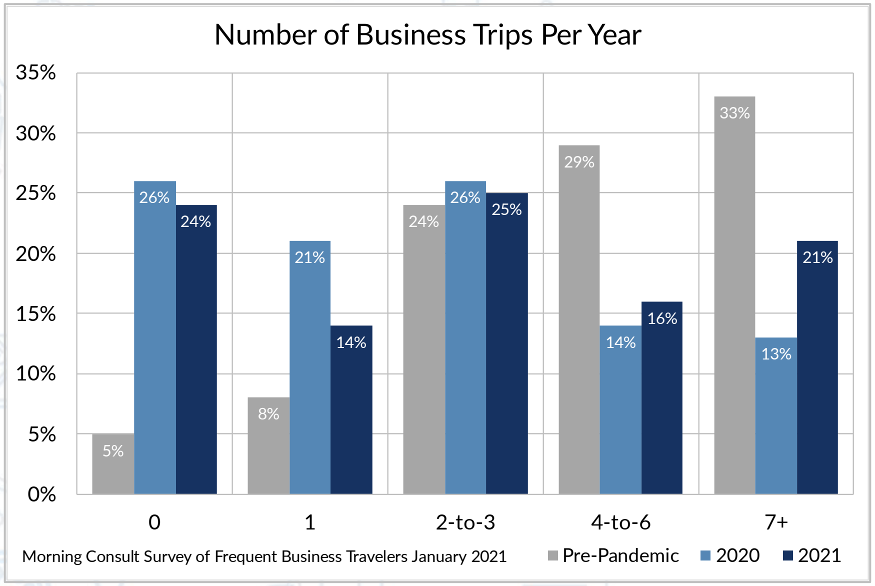
- Trend acceleration: consumers and restaurants were already using more technology and online platforms for food delivery/pickup… the pandemic turbocharged the process
- Will we continue to just push buttons and have food appear?

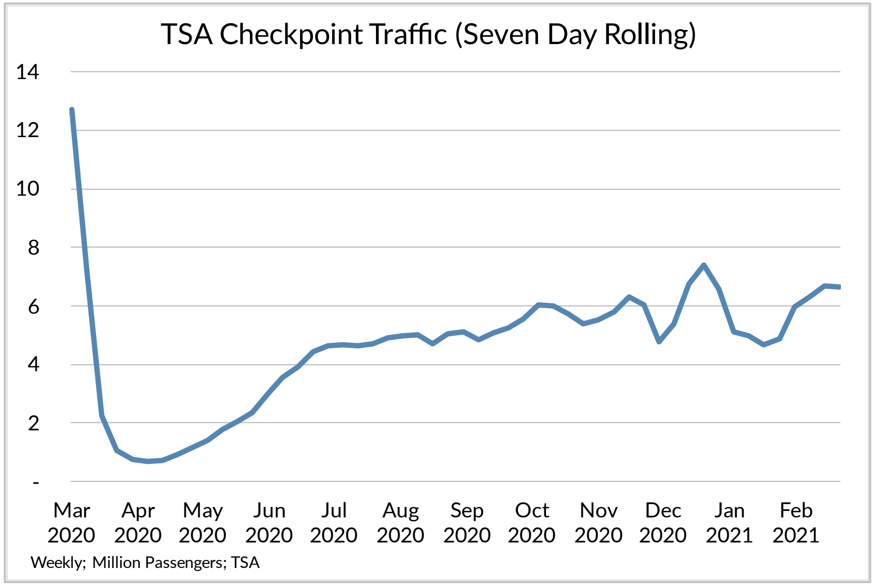
pizza and ghost kitchens



- Pizza does well in this environment, with big chains putting up big numbers.
- Technomic says only pizza and chicken concept sales increased in 2020
- Lots of new delivery/pickup concepts emerging

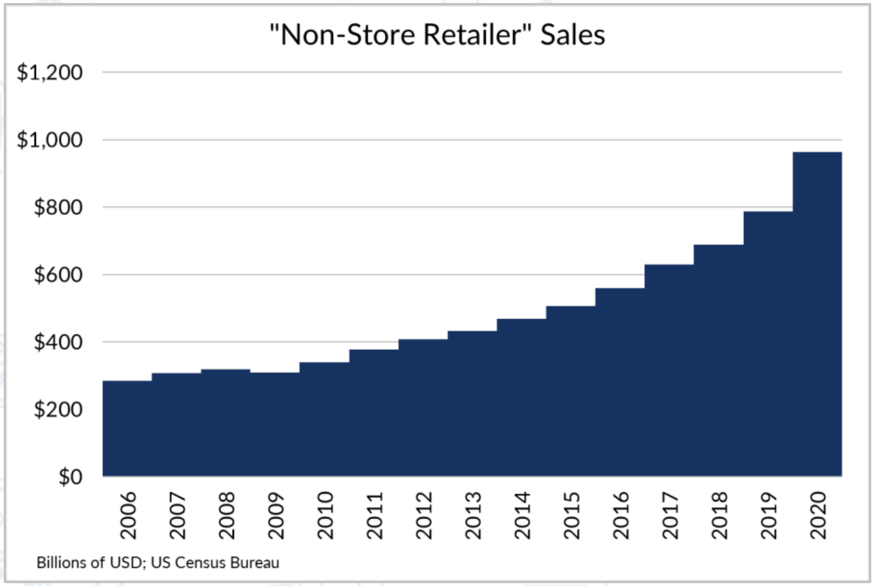
a long road back

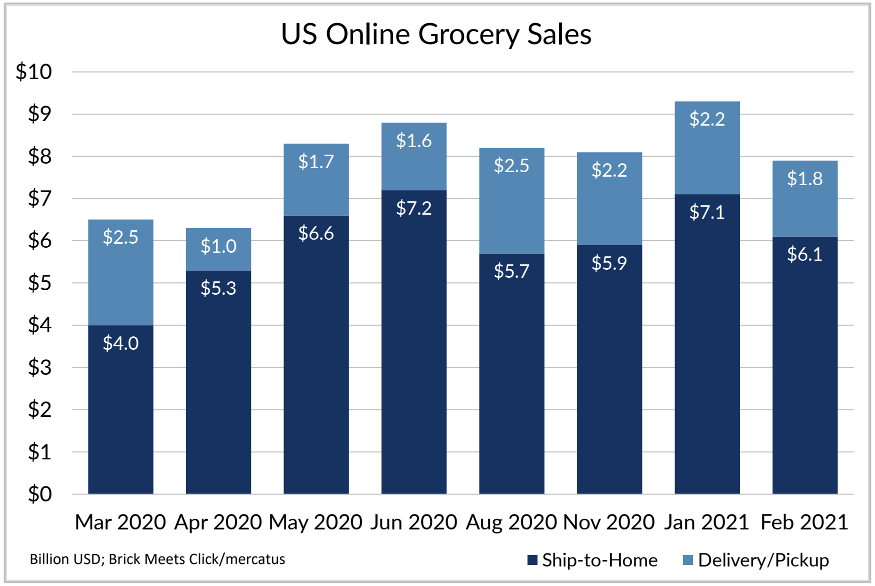




- American Hospitality and Leisure Association: *The recovery of the travel industry is anticipated to take place in three phases: leisure travel, small and medium events, and group and business travel. While recovery will begin in 2021, full recovery is not expected until 2024.*

grocery is going online, too



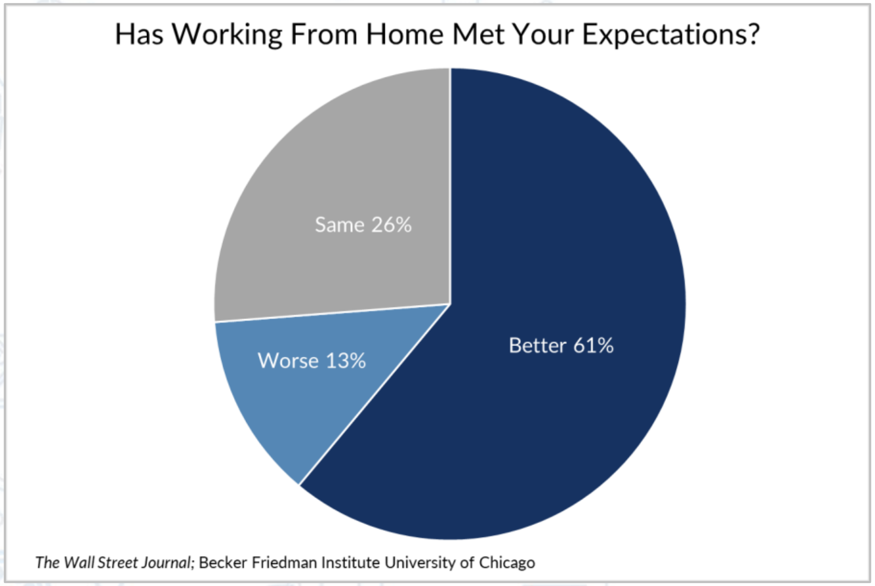


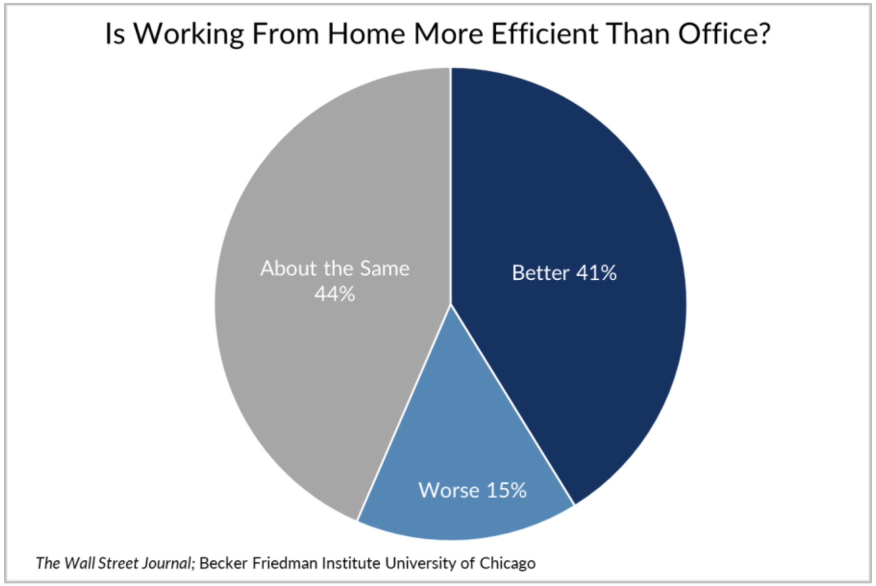
- E-commerce sales up 22% in 2020 versus 2019
- Online grocery sales are up more than 5x versus pre-pandemic levels
- So: how does dairy adapt?

questions for further study

- How does the dairy industry address perishability in an online/delivery/pickup world?
- How does the dairy industry address portability in an online/delivery/pickup world?
- How does the dairy industry recreate “impulse sales” in an online/delivery/pickup world?

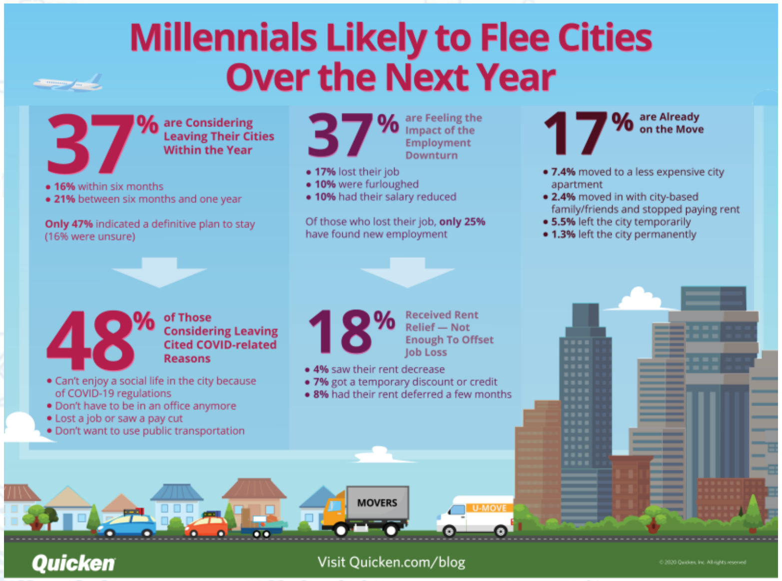
wfh will continue into 2021 and beyond

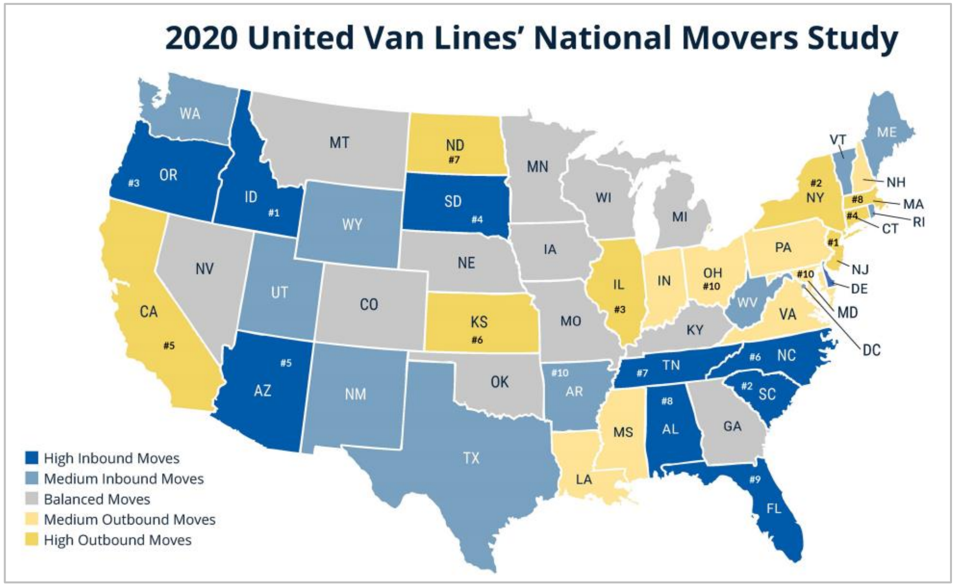




- A vast majority of Americans say that working from home has met or exceeded expectations (87%), with 85% saying they are more efficient
- Willis Towers Watson polling shows that companies believe 30% of their full-time employees will be working from home in three years, up from 5% three years ago

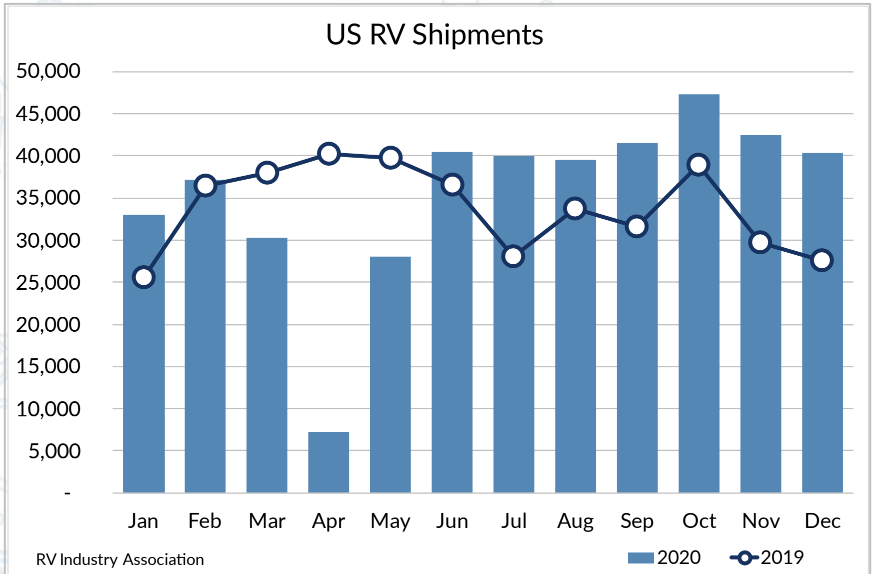
wfh spurring urban retreat?





- More than one-in-three millennials say they are considering leaving their cities within the next year
- More than 150,000 people out of Brooklyn and Manhattan
- Let's go to Texas: 7 of 10 cities with biggest net gains

sleeping in the new rv




Bloomberg

Hyperdrive

Airstream's New Trailer Comes With Beds That Transform Into an Office

The bougie RV brand doubles down on digital nomads with a model that makes work feel more like a vacation.

Airstream's Flying Cloud 30FB Office *Source: Airstream*

- With no need to go to the office, people are taking to the open road
- RV sales up 33% year-over-year for July through December

questions for further study

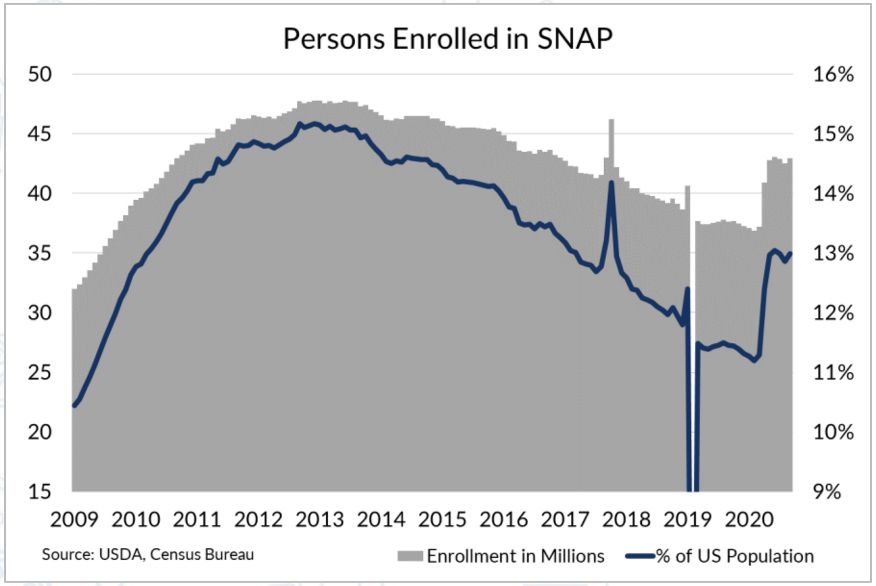
- What's the impact of less commuting on drive through breakfast/coffee?
- If we are working from home, are we going out to lunch?
- Does migration to suburban or rural areas change restaurant spending and habits?

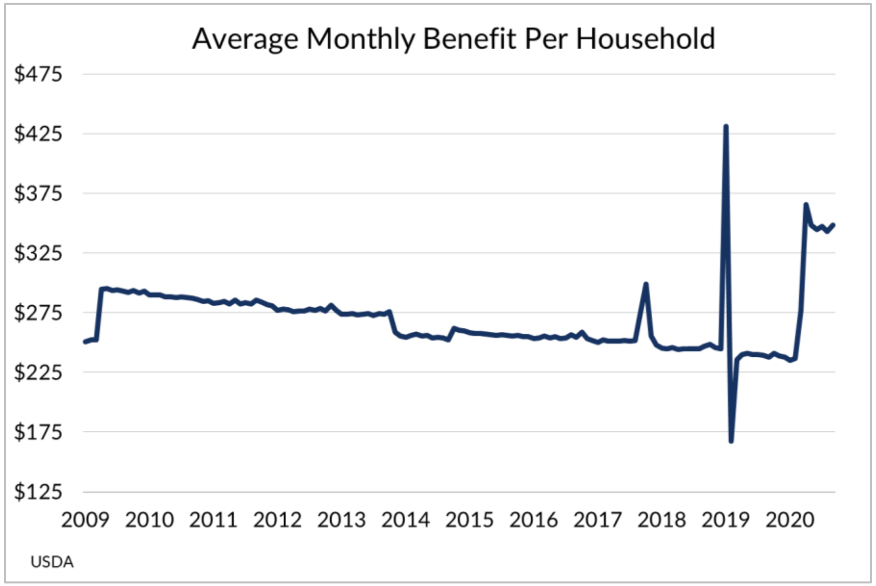
farmers to families food boxes: take five

Round	Dollars
Round 1: May 15-June 30	$947,000,000
Round 2: July 1-August 31	$1,472,000,000
Round 3: September 1-October 31	$865,222,361
Round 4: November 1-December 31	$485,648,660
Total	**$3,769,871,021**
Round 5: January-April 2021 (Allocated)	$1,500,000,000

- Round 5 will roll out in three waves – one each for February, March and April.
- If USDA is satisfied with contractor performance over the course of wave one, the contract terms will renew for wave two. Same is true for wave three.
- As initially laid out, the three waves add up to ~$1.1 billion and 33.3 million boxes.
- Filling the program will consume a lot of milk over the next few months, but things are a lot different than in previous iterations:
    - Milk production is strong – up 3% year-over-year in December,
    - Food service demand remains soft (it was in recovery mode during Round 1/Round 2),
    - Cheese exports are light (they were rising sharply in May/Jun because of Apr bookings),
    - New cheese plant in Michigan is putting new, extra cheddar into the marketplace.
- Biden Administration already taking steps to boost SNAP funding. While that's not the same as direct dairy purchases, extra dollars could boost overall demand at retail.

snap





- Stimulus packages expanded SNAP dollars and eligibility
- Guessing that the Biden administration has a bias for SNAP versus direct purchases

questions for further study

- What's the comparative impacts on demand from government spending via direct procurement versus providing additional SNAP dollars and/or eligibility?

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Marin Bozic • University of Minnesota
Yin Woon Rani • Milk PEP
Michael Flood • Los Angeles Food Bank
Kurt Epprecht • Great Lakes Cheese
John Newton • American Farm Bureau
Collin Peterson • US Congress/MN
Dee Davis • Center for Rural Strategies
Marshal Cohen • NPD Group
Greg Ferrara • National Grocers Association
Bob Costello • American Trucking Association
Darci Vetter • Former USTR Negotiator
Brooke Markley • Leprino Foods
Mike Brown • Kroger
Jessica Tomlinson • Fleming's Steakhouse
Ryan Pandya • Perfect Day
Chase Purdy • "Billion Dollar Burger"
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