FOODTECH BRANDS

TOP EUROPEAN FOODTECH STARTUPS BRANDS INVENTING THE FUTURE OF FOOD

DigitalFoodLab with EUTOPIA

OCTOBER 2020

HELLO,

We're DigitalFoodLab & Eutopia.

DigitalFoodLab is the **European FoodTech** insight and strategy **consultancy**.

Eutopia is a **European VC fund** specialised in **consumer startups**.

We joined our efforts for this report to give you (entrepreneurs, corporates, retailers and investors) insights to on the potential of European FoodTech brands.

DIGITALFOODLAB,

is the European FoodTech insight and strategy consultancy. We work with startups, F&B corporations and retailers to help them shape the future of the food industry.

I

Expertise

Talks, Board participation

II

Intelligence

Briefings, mappings

III

Strategy

M&A, innovation strategy, new products & services

DIGITALFOODLAB,

Has been founded by Matthieu & Jérémie

- **Entrepreneurs**, founders of one of the first French FoodTech startups (2010-16), raised €1M+ capital and successfully exited
- **FoodTech experts**, co-founder of DigitalFoodLab
- **Angels**, **coach** and **board members** of FoodTech startups

EUTOPIA,

We are a European early-stage investment fund dedicated to consumer startups with a purpose. Eutopia's investment thesis is driven by current shifts in consumer behavior. We back founders who are rethinking the way we eat, shop, sleep and feel through a "good for me, good for communities, good for planet" approach.

The team manages 160 million euros and has invested in 24 companies including Hari&Co, Feed, Gourmey, Nous Anti Gaspi and Pazzi in the food industry.

INTRODUCTION
A NEW PLAYBOOK FOR FOODTECH BRANDS

Direct-To-Consumer Food Brands have made waves in the last couple of years with numerous investments and acquisitions from major corporations (Olly and Graze bought by Unilever, Foodspring by Mars). After the **lockdown** and the massive change in consumer habits it created, incumbent leaders are looking more than ever to transform their brands into DTC and e-commerce operations.

With this report, we have looked at the history of DTC/DNVB food brands and what has been their evolution. We have identified a notable transformation in the "Food DTC playbook" ranging from a renewed focus on community rather than paid acquisition and product quality.

Another element of this playbook is the growing focus of new food brands to go as soon as possible into retail stores.

Some **European startups have successfully applied these guidelines** (Oatly and Brewdog are even Unicorns). The European ecosystem is still in its infancy, but it is growing. Indeed, after a few years of decline, **funding into food brands is finally taking off** in the first half of 2020. Outside of the UK (the driving force of FoodTech in Europe), many promising startups are emerging in Germany, the Nordics, the Netherlands, and France.

WHAT IS FOODTECH?
FROM FARM TO FORK

FoodTech is the **ecosystem** made up of all the **agrifood** entrepreneurs and startups (from production to distribution), innovating on products, distribution, marketing or business model.

MORE?

[All the definitions (6 categories, sub-categories) here]

FOODTECH BRANDS

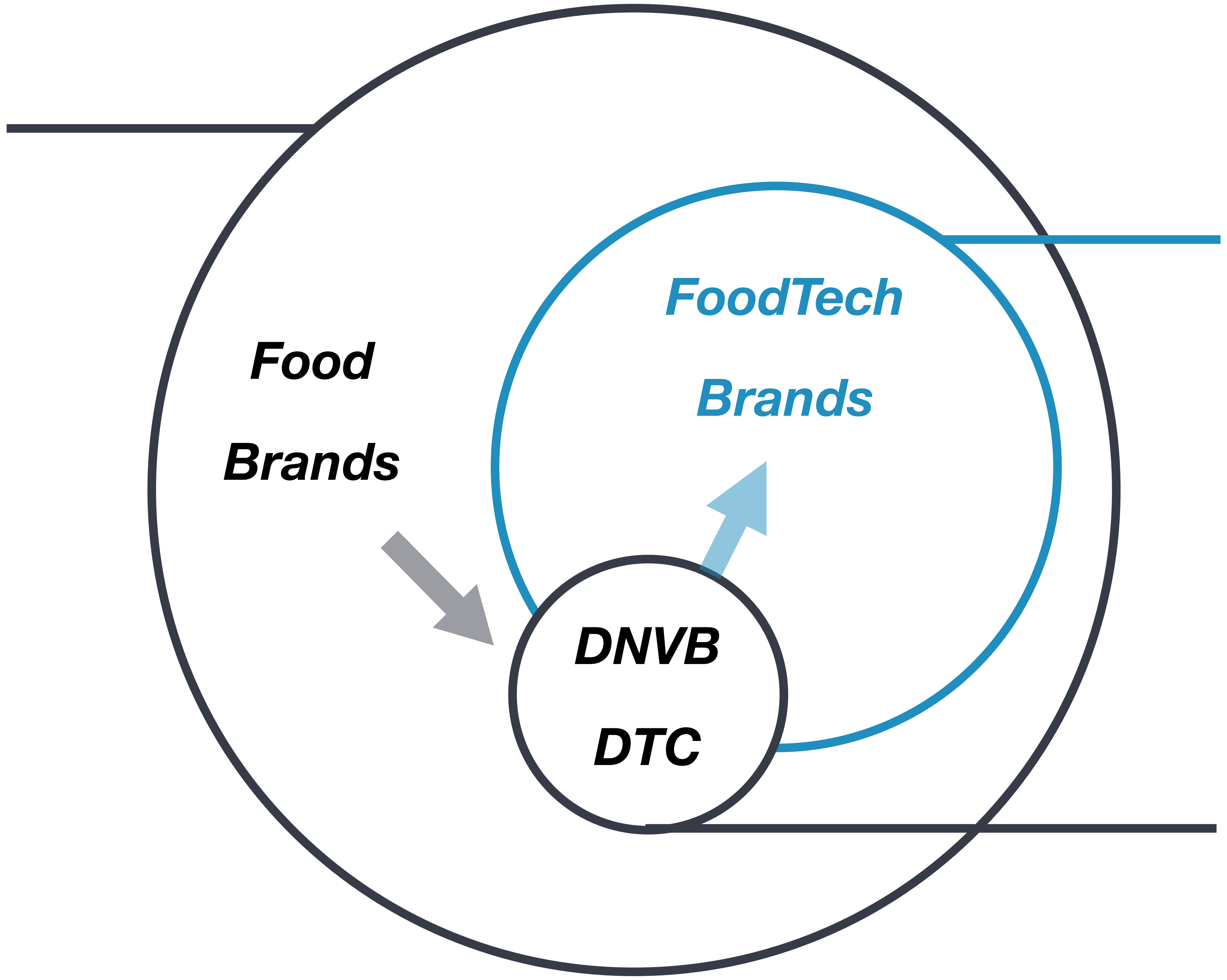
I - FOODTECH BRANDS: WHAT ARE WE TALKING ABOUT?

I - FOODTECH BRANDS

WHAT ARE WE TALKING ABOUT?

Food Brands are all the household names that we have grown with or discovered more recently. They can be massive and global such as Nestlé or tiny local players with a strong history. They sell their products mostly through traditional mass retail and use conventional marketing.

Interestingly, many are looking to operate as DTC brands to create more connection with their customer and bypass retailers.



FoodTech Brands are all the **startups** selling food products to the consumers, directly or through retail channels. They use their agility to grow fast and compete with food giants in key markets.

DTC / DNVB (see next page) are brands born and operated online. After an initial stage, they often want to grow in the "physical world" (retail) while keeping their agility.

I - FOODTECH BRANDS

DNVB AND DTC - WHAT DOES THAT MEAN? 1/2

DNVB is an acronym you may have already heard. It is becoming more and more common when talking about all these startups selling their products online, directly to the consumer. It stands for **Digital Native Vertical Brands**.

It was initially coined by Andy Dunn, to sum up, what he has done and learned with Bonobos (which he co-founded in 2007 until selling it to Walmart in 2017). Even if DNVBs come from fashion, they are taking over many industries, among which Food.

DVNB term was created by Bonobos' founder

I - FOODTECH BRANDS

DNVB AND DTC - WHAT DOES THAT MEAN? 2/2

A **DNVB**:

- **targets mostly digital natives and millennials** through online and mobile e-commerce: therefore, **a DNVB is a direct-to-consumer brand**. Contrary to a traditional brand, a DNVB experience is primarily thought to be online.
- **has a high level of interactions with their customers**. It's about being present on social media (with a focus on Instagram), but it's even more about building an engaged community. It also means being transparent and interactive on the process of production, pricing, etc.
- **is vertically integrated from upstream to downstream** and has high margins
- **goes from digital to brick and mortar stores when successful** with innovative and consumer-centric experiences.

You can find DNVB in many industries

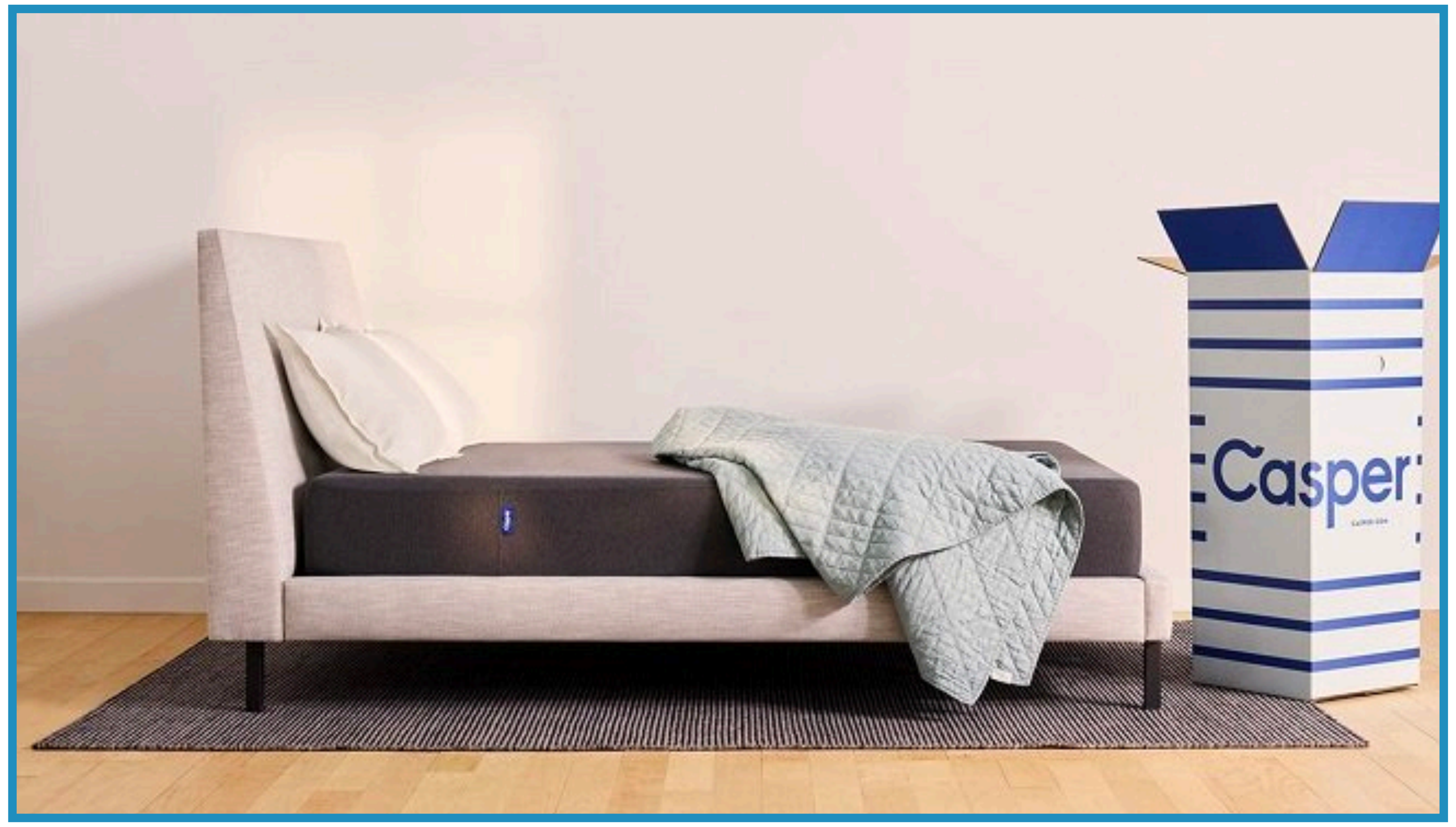
here: Method

I - FOODTECH BRANDS

DTC EVOLUTION

After a first wave of DTC at the beginning of the 2010’s we assist today at what we can call the “second wave of DTC companies”.

The differences that we can highlight between the two generations of DTC is the focus of the new one on **profitability**, even if it implies a growth a bit slower. First-generation brands suffer today of high customer acquisition costs (CAC), notably in areas repeat buying can’t be expected (for instance: mattress startups). They could afford it during their first years and get funded by investor believing it will drop. But today some of them face more and more difficulties. These are ironically due (notably) to more investors pouring money into DTC startups which raises the marketing prices and lowers customers loyalty.



A complicated DTC story that started well.
Casper sells mattresses online with a strong brand a strong promise: one mattress fits all your needs.
However, high customer acquisition costs, low repeat (you don’t change your furniture every week) and a growing competition created an uncomfortable situation and an unsuccessful IPO.

I - FOODTECH BRANDS

FOODTECH BRANDS - MOVING TOWARD RETAIL

In the food sector, the first wave of FoodTech brands was represented by startups like Soylent or Foodspring. Interestingly, while many started as 100% online brands, many of the most successful ones moved to retail partnerships. Indeed, after conquering loyal early adopters consumers online, new brands have to adapt for the majority, which still massively test new products through retail stores.

Physical stores enable three important features for a brand:

- affordable testing (by avoiding online bulk orders often required to reduce expedition costs)
- Reach to mass market
- Emotion link with consumers used to pick their daily staples in the store

Soylent is a striking example. It is only after the removal of this founder and CEO that the company moved to sale its meal replacement products in retail.

I - FOODTECH BRANDS

FOOD BRANDS SUCCESS STORIES - RXBAR

RXBAR may be the most striking success story when considering Food brands created by entrepreneurs in the last decade:

- RXBAR, a raw “no bullshit” snack was created in 2013
- 2014-2015: adoption by CrossFit practisers, online sales and start of retail partnership
- 2015-2017: steep increase in sales, RXBAR can be found almost everywhere
- Kellog’s acquired RXBAR for $600M in 2017
- RXBAR acquisition for Kellog’s seems to have been a good move as <u>sales keeps soaring</u> (over $200M in 2019)

PS: you should try it, it’s really a good guilt free raw snack, my (Matthieu) favorite is sea salt chocolate!

I - FOODTECH BRANDS

FOOD BRANDS SUCCESS STORIES - OLLY

Olly: functional food supplements in a new format (gummies)

- Venture started in 2014 as a discussion between Eric Ryan (successful entrepreneur) and Target. It was meat to be a DTC with e-commerce and retail presence.
- Launched in April 2015
- Raised a limited amount of capital ($11.5M)
- Retail sales of more than $100M in 2018 (Olly does only 10% of its sales online) and is sold in other supermarket across the US.
- Many copycat in the US, Asia and Europe (Les Miraculeux)
- Acquired by Unilever in 2019

I - FOODTECH BRANDS

WHEN DTC STARTUPS GO OFFLINE, CORPORATIONS GO ONLINE 1/4

MARKETING DRIVEN UNTIL RECENTLY

While being present in retail is now part of most FoodTech Brands playbooks (and not only as an afterthought, more and more newcomers are retail-first), major brands are venturing online.

However, most of the experiments done in the last decade have been either more marketing-driven (without the expectation of selling many products) or semi-failures. Indeed, these giants have lost the agility required to manage both the massive orders of retailers and the single-item ones from online customers (without mentioning the customer support).

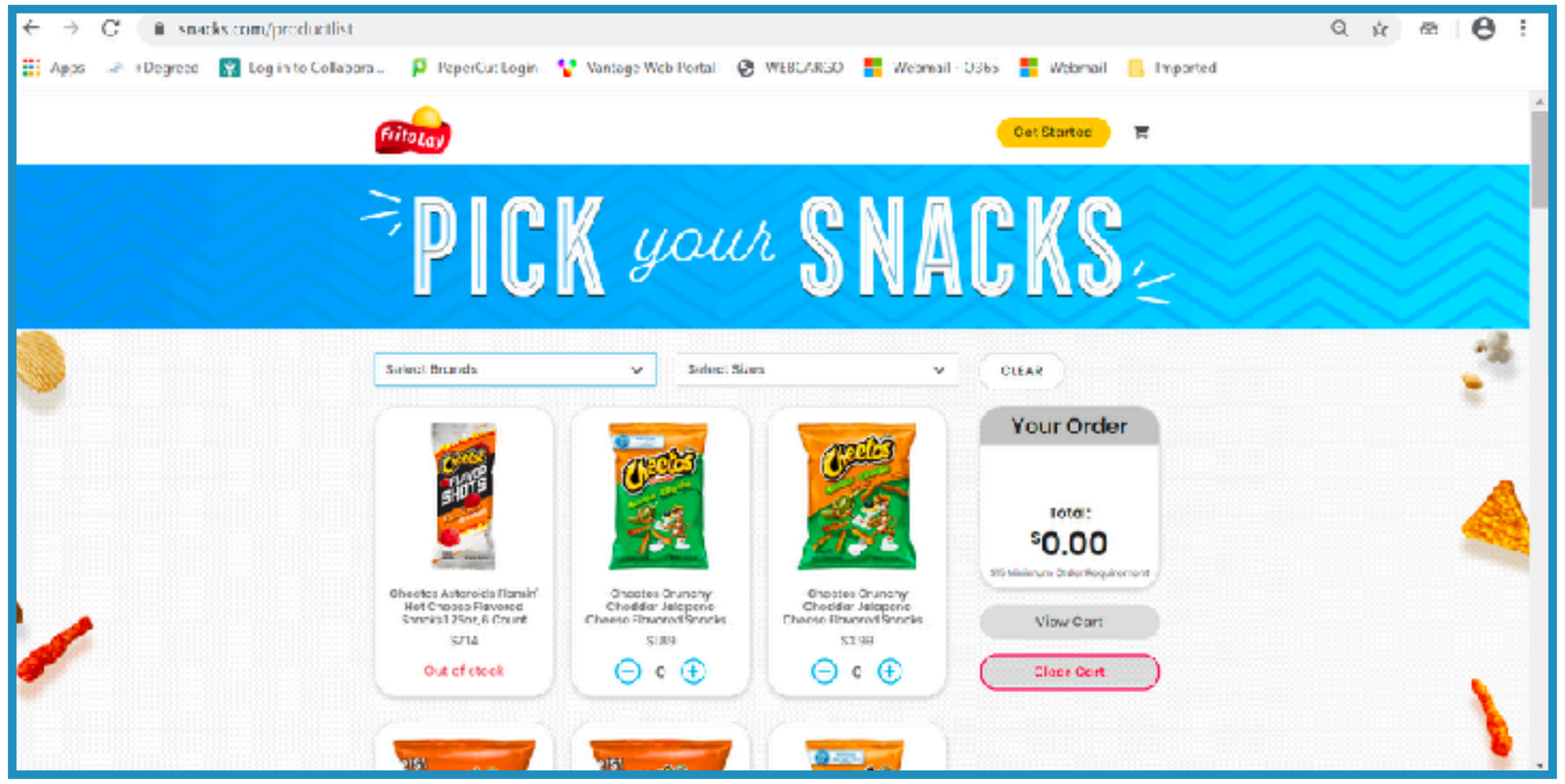
Evian (Danone) was among the first to go online with its DTC water delivery website as soon as 2013.

I - FOODTECH BRANDS

WHEN DTC STARTUPS GO OFFLINE, CORPORATIONS GO ONLINE 2/4

COVID HAS A DRIVER OF CHANGE

Being active (independently) online is now seen as an important sales channel for many brands. That's even in true in fresh foods, as startups such as Beyond Meat and Impossibles Foods have launched their DTC operations in the summer.



PepsiCo used the COVID-19 lockdown period as an opportunity for testing new digital channels, at a low cost and with great speed. It launched 2 DTC services, one which has been closed after a few months (left) and one still operating (right).

I - FOODTECH BRANDS

WHEN DTC STARTUPS GO OFFLINE, CORPORATIONS GO ONLINE 3/4

BIG BRANDS GROWING THEIR CAPABILITIES

After many attempts at creating their own DTC brands internally, many leading corporations have now analysed that they need some additional capabilities notably in e-commerce operations (marketing, customer support) and logistics.

Some, as Nestlé (see opposite) are partnering with with top DTC specialists to manage their online operations while keeping the control of products' development.

Others (see next page) are rather betting on acquisitions.

Nestlé health science signed a deal with THG (The Hut Group, known for its DTC brands such as MyProtein).
THG will provide e-commerce services to Nestlé's brands from customer acquisition to product delivery across 20 markets.

I - FOODTECH BRANDS

WHEN DTC STARTUPS GO OFFLINE, CORPORATIONS GO ONLINE 4/4

SHOPPING FOR DTC STARTUPS

In the last couple of years, many investments and acquisitions have been made in the DTC food brands space. Here are a few of the most notable. We can expect many more in the years to come as incumbent leaders move online.

Mars *acqu*
German startup ***Foodspring****, known*
for its sport food supplements. (2019)

ack box delivered by the
post was acquired by ***Unilever*** *in*
2019 for £150M

Vital Proteins*, a US collagen brand was acquired in 2020 by* ***Nestlé***

Halo Top*, a $200M a year ice cream startup was sold in 2019 to Wells Entreprises (Blue Bunny) after refusing to sell to Unilever and General Mills*

I - FOODTECH BRANDS

NEXT-GEN DTC PLAYBOOK

As we have seen with the previous examples, it takes more than an online presence to be a successful food brand DTC these days. Here are the top four criteria that can help you judge of the relevance of a DTC startup. As you can see, they are notably relevant to food & beverage products.

Strong repeat & good margins

It's not because its a startup that it should be a money pit. If margins are low, repeat should be high and predictable.

If someone buys it, when and how often will it buy it again?

Online & Offline From scratch

If food brands launched by startups will be only active online initially, they have to think and plan for a retail presence if they want to grow (and plan for the according margins).

Community > paid acquisition

Being a DNVB also means making consumers part of the venture as partners rather than clients. Price increases in online paid acquisitions make this more true.

Product quality > marketing

A good branding is nice to have, but a good product is a must. Good means that a consumer will know what to do with it, will buy again and will recommend to its family and friends.

FOODTECH BRANDS

II - STARTUP FOOD BRANDS IN EUROPE

DigitalFoodLab with EUTOPIA

II - STARTUP FOOD BRANDS IN EUROPE

MAPPING

Meal replacement
- Feed.
- Huel®
- YFood

Sport nutrition and supplements
- Vitafy
- foodspring®
- les miraculeux

Drinks
- ETNO CAFÉ
- BREWDOG
- WOOHA

Snacking
- PROPER Corn
- N!CK'S
- MISTER FREE'd

EUROPEAN FOODTECH BRANDS

TOP 30 DigitalFoodLab

Others
- JUST SPICES
- Mr Lee's Noodles
- Yooji
- infarm

Alternative proteins
- heura by Foods for Tomorrow
- THIS
- THE MEATLESS FARM Co
- MOVING MOUNTAINS
- THE ORIGINAL OATLY!
- planted.
- STRONG ROOTS
- MADE WITH LUVE
- HARi&CO
- mosa meat
- LEGENDAIRY FOODS

Acquired

II - STARTUP FOOD BRANDS IN EUROPE

MAPPING

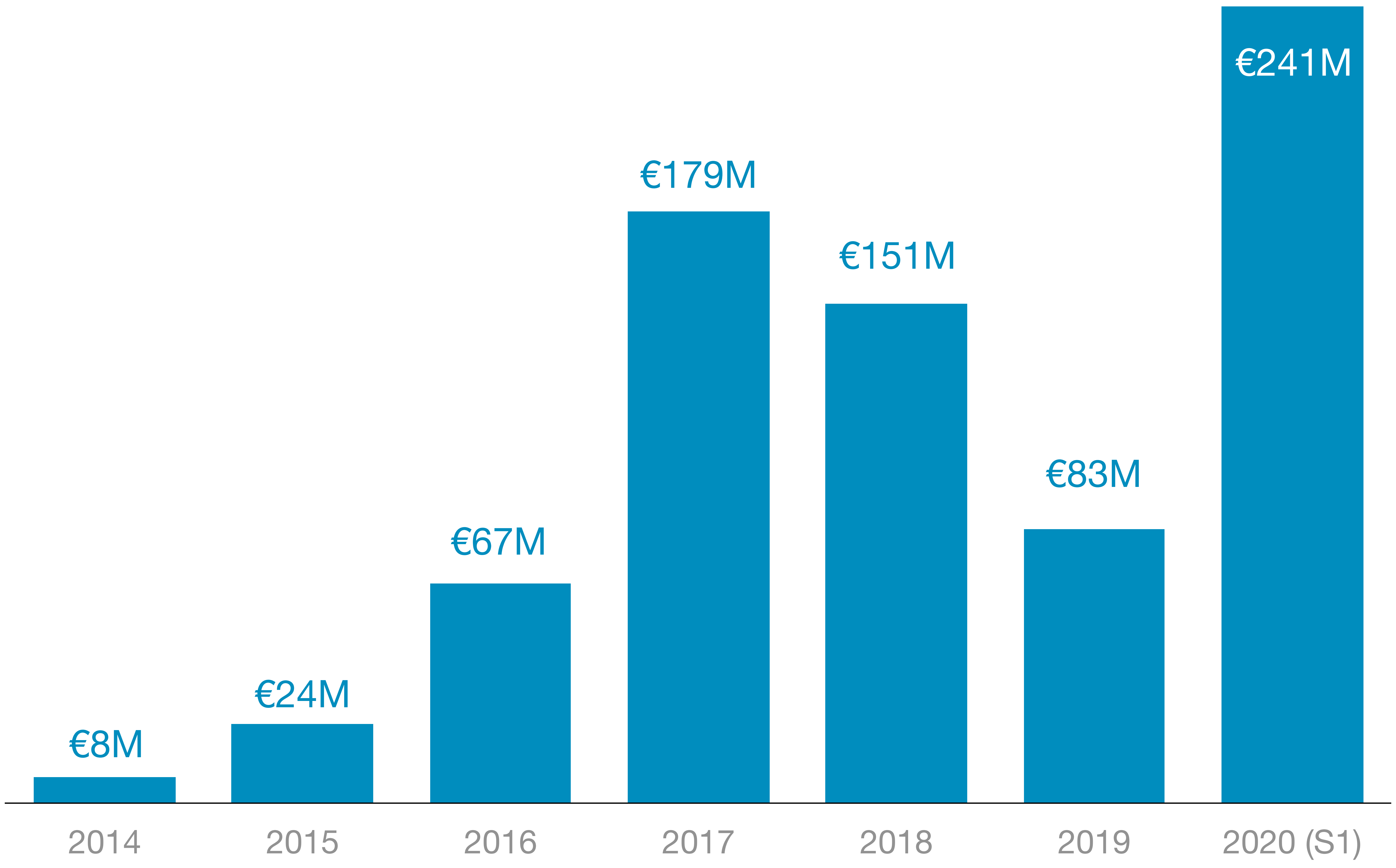
We have selected the 30 startups of this report on:

- The amount of money raised in the last couple of years. We use the criteria of raising money as proof that someone else had already put some faith in the company.
- The most promising startups for each category
- Startups that were sufficiently equipped or could make a profit during the economic aftermath of the pandemic.

Finally, as we had a larger list, we got down (with a lot of debate) to this mapping with one simple question: “**Which are the startups that we could send to someone looking to have a view of What is happening in the European DTC food landscape?**”.

II - STARTUP FOOD BRANDS IN EUROPE

FUNDING



Investments in European FoodTech brands have been declining over the last three years after a peek in 2017.

The massive investment in Oatly (to grow its presence in the US) leads 2020 first half deals. However, it can't hide that the appetite for food brands has been limited in Europe.

As shown in the mapping, the top category for investments is plant-based startups. These are on the rise and may reverse the declining trend.

II - STARTUP FOOD BRANDS IN EUROPE

EUROPEAN LEADERS ARE IN THE NORTH

The following graph (next page) displays the investments in FoodTech brands in the top 6 European countries from 2017 to the end of 2020 (H1) with all the startups which raised more than €4M in the period:

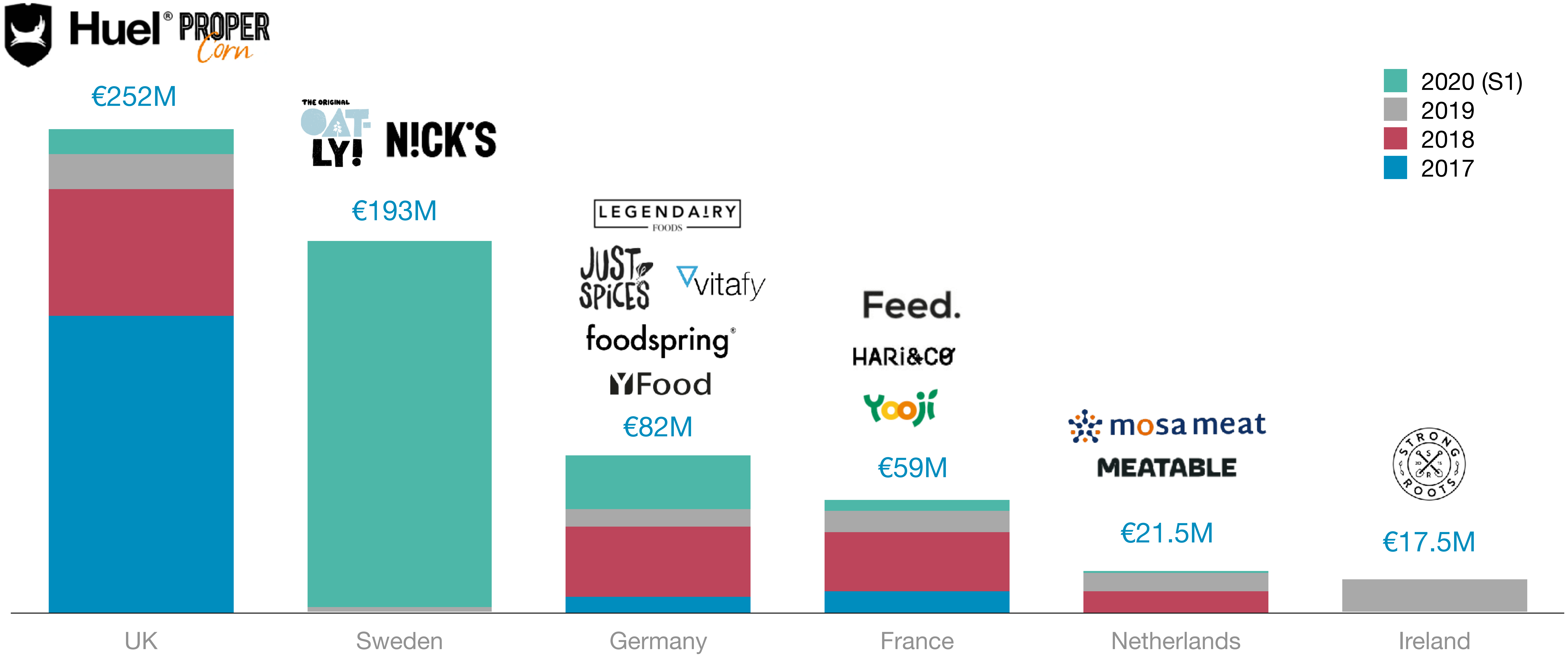
- Oatly and Brewdog, the two European Unicorns food brands outshine all of the other deals.
- Excluding these two companies, **we identify three locations, almost equal in terms of FoodTech investments: the UK, France and Germany (and more precisely London and Paris in the case of the first two countries).**

BrewDog is a craft beer brewery that produces bottled and canned beers in a variety of styles.

Oatly is a Swedish oat drinks company. While founded in 1990, it has accelerated and raised capital in the last couple of years.

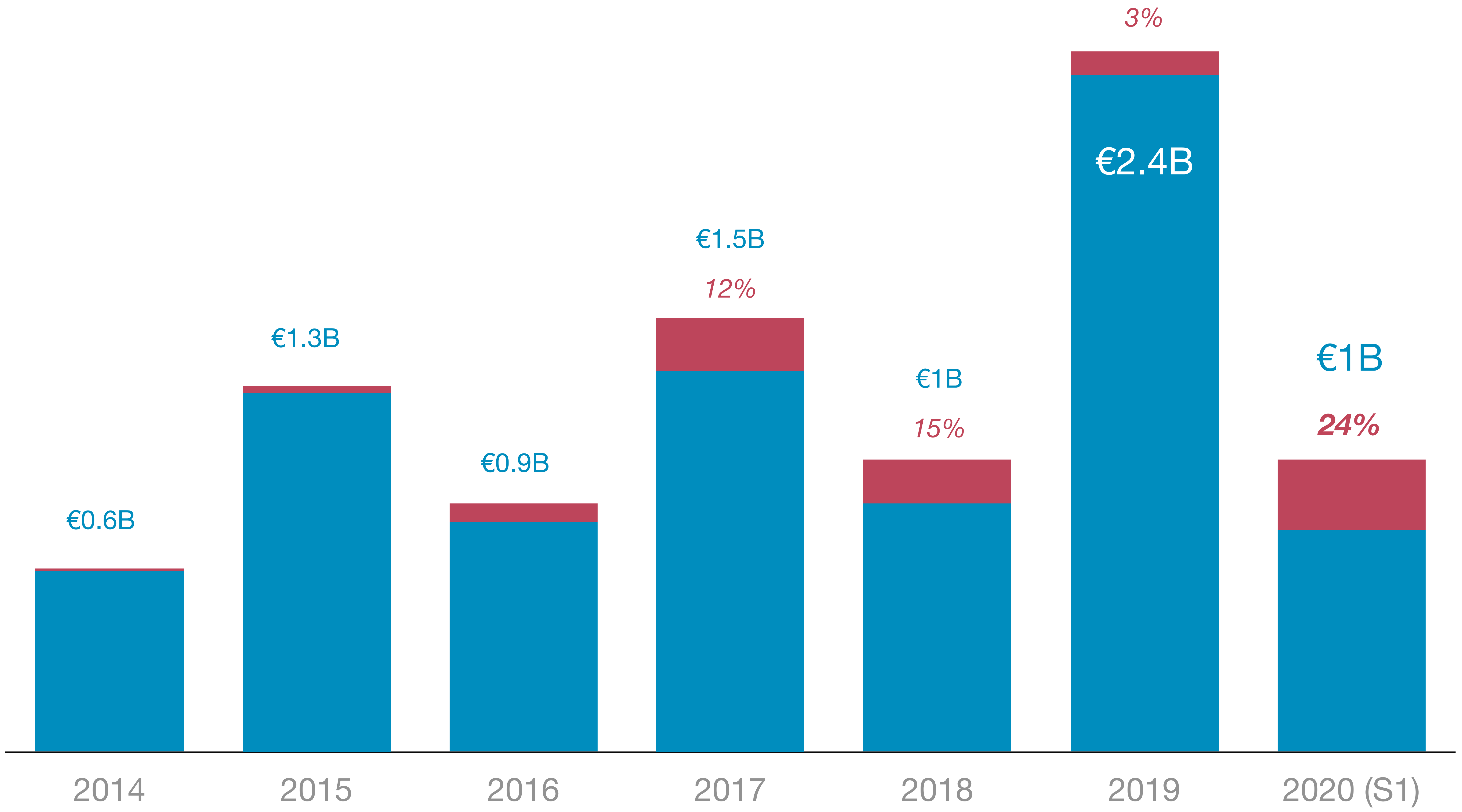
II - STARTUP FOOD BRANDS IN EUROPE

EUROPEAN LEADERS ARE IN THE NORTH



II - STARTUP FOOD BRANDS IN EUROPE

FOOD BRANDS V.S. FOODTECH

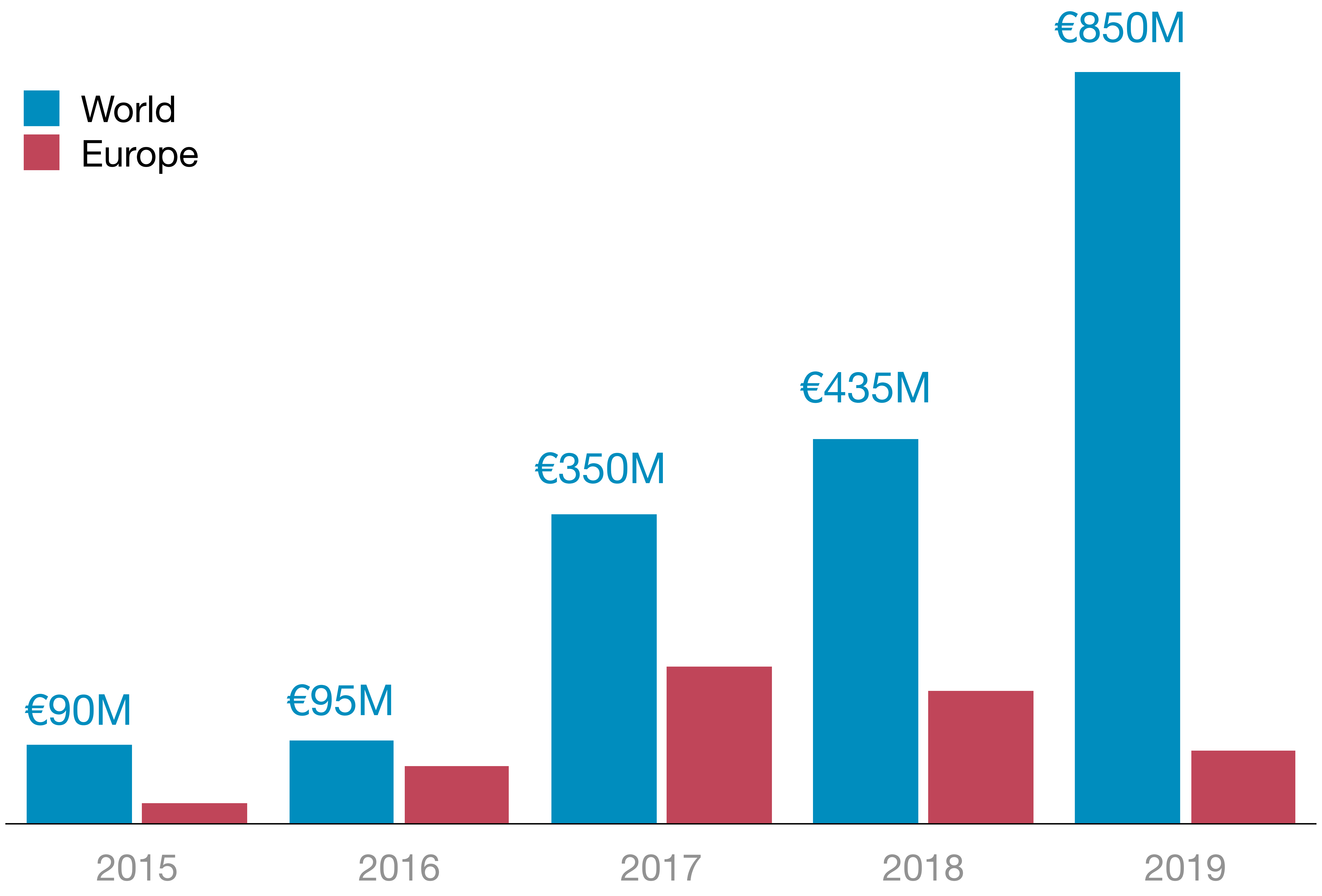


If the investments in the later have decreased, it is not the case of those in the whole European FoodTech which rose sharply.

Therefore, the share of the investments into food brands startups, which one could consider at the center of what FoodTech is (or should be) is no more than 10%.

II - STARTUP FOOD BRANDS IN EUROPE

EUROPEAN FOODTECH BRANDS IN THE WORLD



In the opposite graph, we compare the global (blue) investments in FoodTech brands to those in Europe (red).

Interestingly, and somewhat unexpectedly, Europe's share of global investments in FoodTech brands was significant until 2017, but has steadily declined in the last couple of years. This is notably due to the rise of investments in the US (and now global) plant-based startups such as Beyond Meat, Impossible Foods and Just.

II - STARTUP FOOD BRANDS IN EUROPE

OPTIMISM FOR THE YEARS AHEAD

As more entrepreneurs are considering launching new food brands, the challenge of their initial funding remained. Indeed, if more food and/or brands oriented VCs (such as Eutopia) emerged recently, the pre-seed rounds are still complicated to finance. However, we have observed a **notable increase in the number of crowdfunding platform**s able to help startups raise funds to launch their products. The most relevant example in Europe is Crowdcube, with many 1M€+ food-related deals made on the platform.

On the other end of the spectrum, **most food & beverage corporations now have their venture arm**. For instance, Danone has created its Manifesto Venture fund. Some as Diageo's Distill Ventures or Barilla's Blu1877 can even act as seed investors and accelerators.

All these investments help food brands to grow faster and further. In turn, the number of acquisitions increases sharply with some corporations, such as Unilever, going a regular shopping spree for new brands for their portfolio.

II - STARTUP FOOD BRANDS IN EUROPE

INVESTOR OPINION - EUTOPIA

Camille KRIEBITZSCH

Partner & Co-Founder

Eutopia

Eutopia is a European VC fund specialised in consumer startups. Eutopia bases its investment thesis on the transformations of the consumer society which have brought out a new wave of brands that reinvent and improve our daily lives.

Which FoodTech categories do you follow?

With Eutopia, when looking at FoodTech, we focus on foodscience and retail:

- Foodscience: we have the conviction that the consumer society as we know it is nearing the end of a cycle. Environmental issues and the rising demand for products that are more local, less processed and better for your health will accelerate this transformation. Animal protein alternatives (from plant-based replicates to lab-grown meat) have a huge potential here. These new products answer a surge in demand for foods that are both more healthy and more respectful of the environment
- Retail: this category is yet mostly ignored by investors. It should be very dynamic in the incoming years. “E-grocery” models, which were already successful, have been reinforced by the COVID-19 crisis. Many consumers are now convinced by how convenient grocery delivery can be. New models are emerging, notably around shortening the supply chain, reducing waste and improving the customer experience through personalisation.

II - STARTUP FOOD BRANDS IN EUROPE

INVESTOR OPINION - EUTOPIA

What do you look for in a food startup?

We invest in projects which are “good for me, good for the communities, good for the planet”. As for any investment, our first bet is on the people behind it. We look for committed and highly ambitious teams which have values aligned with their projects. As food is a highly competitive ecosystem, we also look for projects:

- operating in growing markets where new players can become leaders.
- providing high value to the market while mastering sourcing, production and / or distribution.
- with a high brand potential proven by sales or community engagement.

Why focusing on brands?

We have the conviction that consumers are waiting for more: more values, more transparency, more authenticity and a stronger connection to the product they buy. Moreover, the digital revolution (and social media in particular) has completely changed the consumers’ attitude toward brand communication and distribution. New players are both more legitimate and more agile to answer these challenges. That’s why we bet on this new generation of entrepreneurs aiming to shake up things.

FOODTECH BRANDS

III - CATEGORIES

DigitalFoodLab with EUTOPIA

III - CATEGORIES

FOCUS ON 4 SEGMENTS

As shown in the mapping, we have identified six sub-categories. In this part, we will focus on four of them: drinks, supplements, meal replacement and alternative proteins.

III - CATEGORIES

DRINKS - 1/3

While many entrepreneurs have been working on launching new beverages, very few of them succeeded in Europe at developing a strong brand. Two factors are:

- The distribution strategy. Drinks are a hard sell online (heavy, breakable bottles). Therefore, building an online community is only efficient if the products are widely distributed in bars or grocery stores.
- Other limitation associated to food and beverage such as the challenges facing fresh-pressed juice, legally complicated or ressources constrained products (notably CBD).

Brewdog is untypical for a startup. It grew global through retail (its own bars and store distribution) and online sales and raised money through crowdfunding.

III - CATEGORIES

DRINKS - 2/3

Most European drink entrepreneurs fall into one of these pitfalls. The most successful ones have notably bet on alcohol using a mix of old and new techniques to grow:

- local communities united around local values, often a location (many craft beers have one or more bars which were key in the initial years of their history)
- Crowdfunding (alcohol can be a hard sell for investors)
- A smart mix of online sales, grocery stores and hospitality expansion with exclusive products or formats for each.

Outside of alcohol drinks, the first generation of FoodTech brands startups are focused on:

- coffee and tea
- Juices of exotic fruits such as açai juice or coconut water (Vitacoco, Innocent)

Vaïvaï coconut water

III - CATEGORIES
DRINKS - 3/3

Looking forward, the most promising trends for FoodTech drinks are low or non-alcoholic substitutes to alcohol to sustain the trend toward a reduced consumption of alcohol, nootropics and functional drinks and CBD drinks.

This new generation now uses the now well-defined DTC playbook to go faster from fringe drinks to mass market.

Seedlip (acquired by Diageo) is a non-alcoholic gin substitute made of distilled vegetables.

Little Rick is a British startup focused on CBD drinks looking to the right "mix" to maximise the effects while remaining in the legal limits.

III - CATEGORIES

SPORT NUTRITION AND SUPPLEMENTS

Fitness and nutrition brands are a natural fit for a Direct-To-Consumer (DTC) strategy. Many startups have been venturing in this space in the last decade. Interestingly, few of them have either entered a more traditional retail distribution or become international (on this part, MyProtein and FoodSpring are almost exceptions).

GYMQUEEN
BODYLAB SPORTS NUTRITION
LINEAVI
WYLD

Vitafy is a marketplace for fitness and nutrition. The German startup also operates four fitness and nutrition brands

Foodspring is an impressive success story. It succeeded where few did by becoming International and entering retail distribution. The acquisition by Mars may transform it into a global brand.

III - CATEGORIES

SPORT NUTRITION AND SUPPLEMENTS - 2/2

A new generation of supplements brands has been developing for the last three years or so. If they are often born online, backed by crowdfunding, they, intend to be distributed in the physical world and look to reach a broader market.

We can observe two trends:

- Personalisation with products claiming that they will relieve the customer from the burden of finding the right supplements by selecting them for him, based on its genome, microbiome or simply a questionnaire.
- Functionality with startups such as Les Miraculeux which provides food supplements in a new format (gummies) each matching a function (sleep, stress, energy…) , inspired by US-based startup Olly (acquired by Unilever).

Les miraculeux and its gummies made of natural super ingredients.

III - CATEGORIES

MEAL REPLACEMENT - 1/2

One of the main hurdles for a European foodscience startup is the limited size of its national market. The difference between two European markets creates many challenges. Hence, it can take a long period of time for a food brand startup to be truly European.

As many innovative often emerge in the US or in the UK, they are then copycat in multiple European countries in more or less the same timeframe. Then, in each country, one leader emerges, only to face other strong contenders in most European states. This creates something looking like a stalemate.

This path quite perfectly illustrated by the meal replacement market (see next page).

Similar product, different branding strategies adapted to each local market

III - CATEGORIES

MEAL REPLACEMENT - 2/2

2012

Soylent (US) was the first successful startup working on a meal replacement offer with the "ready to drink" meal in a bottle.

2014

Two years later, a handful of copycats appeared in the UK (Huel), The Netherlands (Jimmy Joy) and the Czech Republic.

2016

Two years later, Feed and two competitors launched in France and competed there until Feed raised enough capital to dominate the market.

2017

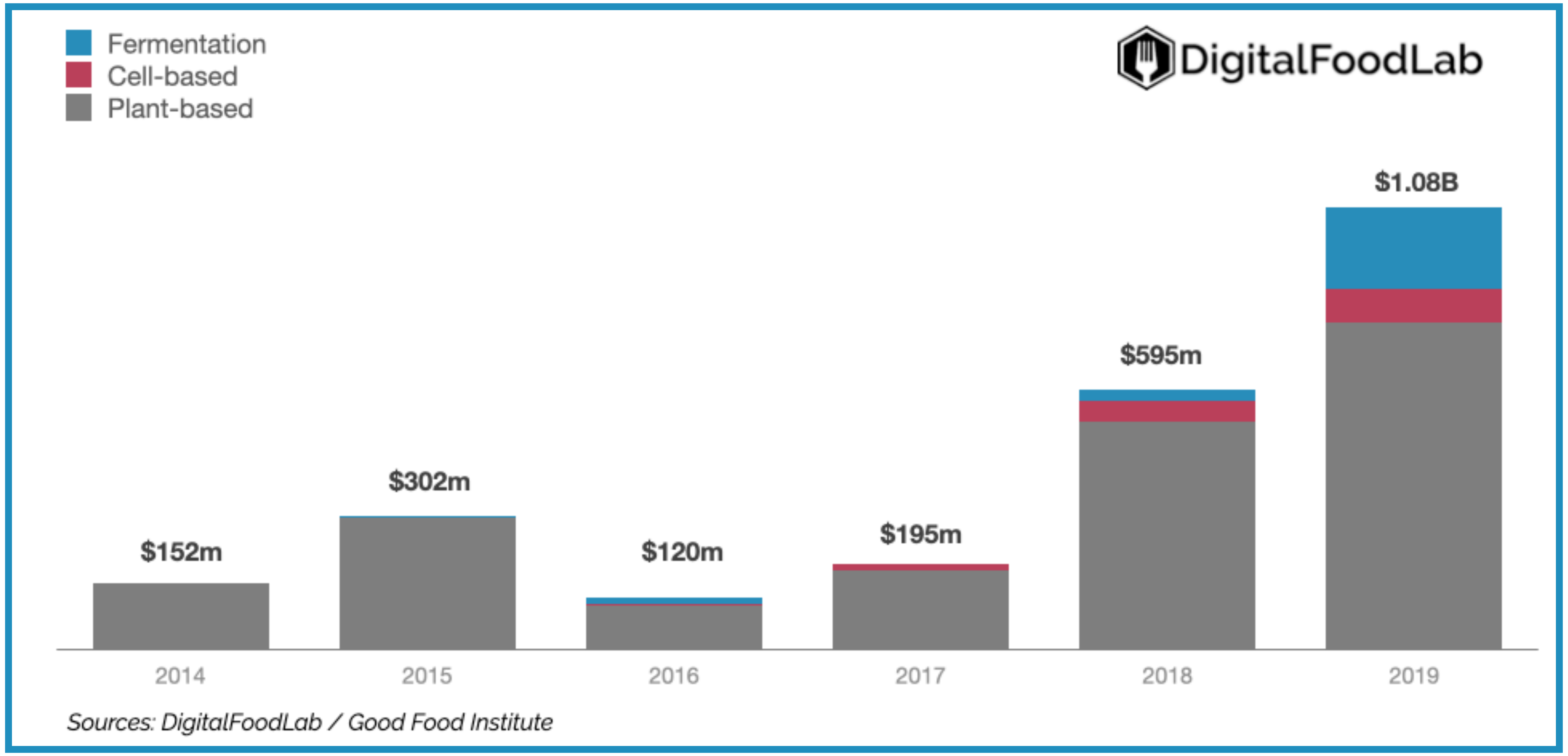
In 2017, last but not least, YFood was launched in Germany. It raised its funding in 2019 to create a local offering.

Now, Europe has 2 or 3 well-developed "Soylent-like" companies, most of them dominant in their home country. Will one be able to grow bigger and even reach the US?

III - CATEGORIES

ALTERNATIVE PROTEINS - 1/3

Alternative proteins startups are maybe the most discussed topic in FoodTech brands. Beyond Meat's IPO (in mid-2019) has demonstrated the potential of a food startup to become as attractive has a software one. This has led to a surge in the creation of new protein alternative startups (This, Hari&co, Gourmey, MosaMeat) and reinforced the investments in the ecosystem.



Investments in alternative proteins startups (globally)

III - CATEGORIES

ALTERNATIVE PROTEINS - 2/3

This ecosystem can be divided into three parts, two of which are relevant to this report:

1- **plant-based startups** which focus on replicating the experience of animal proteins with a mix of vegetables. Theses companies compete both on their recipes and on their brand power. The range of startups is broad from meat-oriented startups such as Beyond Meat to dairy alternatives as Oatly.

2- **cellular agriculture and fermentation-based startups** which aim at replicating meat and dairy products and selling them through their own brands. If fermentation startups (notably Perfect Day) now have products on the market, cellular agriculture ones are still far from it. However, all are working on their brands to educate the eventual consumer and create an anticipated desire for their products, hence their presence in our report.

3- a new category of “support startups” which are developing **new forms of proteins** or building blocks for alternative protein startups, with a 100% B2B focus, thus not relevant here.

III - CATEGORIES

ALTERNATIVE PROTEINS - 3/3

Europe is lagging in terms of alternative proteins startup development. As for meal replacement startups, one of the main challenges seems to find ways to cross borders in a very fragmented retail market.

Endorsement by quick-service restaurants (and before that by higher-end joints) have been a boon for the brand awareness of Beyond Meat and Impossible Foods. In Europe, this strategy is notably followed by This in the UK. Unfortunately disrupted by COVID-19, this foodservice-first approach may return and become the playbook of many European startups in the next couple of years.

The two leaders of the meat replicate market, Impossible Foods and Beyond Meat are facing more competition from food giants such as Nestlé than European competitors.

GOT A QUESTION?

CONTACT US!

contact@digitalfoodlab.com

DigitalFoodLab

EU TO PIA