



Meal Kits: Climate Change Friend or Foe?

During the UK's second lockdown, my flatmates decided to order their first HelloFresh meal kit. They had been in a routine of making the same meals over lockdown and wanted a change but did not feel like going through the effort of researching recipes online, putting together a grocery list, collecting all the right spices and condiments for one or two novel dishes. They came across a Hello Fresh trial offer and ordered their first box.

This story had been a familiar one before the pandemic, however. Lockdown restrictions increased the adoption of meal kits for obvious reasons. HelloFresh, a leading company in the US and Europe, reported that active customers grew 78% YoY as of December 2020, with orders reaching 22m (109% YoY growth).

Meal kits were seen as a substitute to dining out and an alternative to grocery shopping where consumers were unable to book an online delivery slot or were concerned about contagion in stores. Aubrey is an investor in HelloFresh and is positive on sales growth, expecting mid-double-digit growth for the medium term.

As Covid-19 restrictions wind down, demand is now driven by the consumer's call for convenient, affordable, and healthy quick meals. These factors are widely accepted as the growth drivers for the global meal kit industry, which was valued at \$10.3bn in 2020, is estimated to reach \$12bn by the end of this year and is expected to grow to \$24bn by 2027.

We believe the increased enthusiasm for home cooking, my own included, is likely to stay. A survey conducted by YouGov suggests that 73% of households enjoyed cooking over the first 12 months of lockdown and 91% said they intend "to cook as much or more over the next 12 months". 55% of these households believe home cooking has health benefits and 58% believe it saves money. As the industry has evolved, the main players now offer between 30-50 recipes at any one time and have developed recipes covering a wider variety of cuisines, food preferences and dietary requirements.

Interestingly, the sustainability attributes of meal kits is a factor which has not yet gained the same recognition by the average consumer. This might appear a curious assertion, given the home delivery and the packaging. How can the meal kit concept be better for the environment than going to the grocery store for a weekly shop?

Key sustainability benefits of meal kits come from their supply chains. Compared to purchasing from large scale supermarkets, the direct-to-consumer model of meal kits means a shorter supply chain. This cuts layers of wholesalers, retailers and their distribution networks, and ultimately reduces total transport time.

In the US, a study by the University of Michigan (2019) concluded that, on average, a meal bought in a supermarket had 33% higher greenhouse gas emissions than its equivalent meal kit. Meal kits saw lower food waste and lower last-mile transportation emissions, which offset the increase in packaging. Meal kit refrigeration packs also saw lower emission than supermarket retail refrigeration.

Despite 81% of people in the UK expressing concern about climate change, only 32% acknowledge its correlation with food waste. According to Waste & Resources Action Programme, about 1/3 of global food produced is wasted, contributing 8-10% of total greenhouse gas emissions. In the UK alone, households create 6.6m tonnes of food waste annually. Meal kits directly reduce food waste as they are designed to provide the exact amount of ingredients needed for a recipe. This reduces leftovers and minimises the chances of food expiring before it can be used. A 2020 study by HelloFresh, comparing itself to 12 global leading food retailers, suggests that its operations and made-to-order model resulted in 82% less food waste compared to traditional food retailers.



We recently spoke to several participants across the global industry, and each acknowledged there is still more to be done. Interestingly, all of them had sustainability initiatives embedded in their core strategy. Blue Apron announced that it aims for its meal boxes to be 100% recyclable, reusable or compostable, and 75% of its meal boxes will be made from post-consumer recycled content by 2025. In 2020, HelloFresh became the first carbon-neutral meal kit company, offsetting 100% of its carbon emissions.

The meal kit direct-to-consumer model is a revolutionary food option for households and a strong contender as a more sustainable option. However, there is still a lot of work to be done. For example, whether meal kit packaging is sustainable is reliant on the consumer adhering to a proper recycling process and the reduction of food waste is dependent on the consumer cooking and finishing their meal kits completely. While not a perfect sustainable solution, the meal kit industry offers an alternative to the traditional bricks and mortar retail model. The industry will grow, driven by consumer trends and rising awareness, and its processes should improve as companies prioritise sustainability in their growth strategies. Something they will be held accountable for by both investors and environmentally conscious consumers.

Performance

Net Performance (EUR) as at 30 September 2021	YTD	1 Year	3 Years	5 Years	10 Years
Aubrey European Conviction Equity Strategy	18.0%	33.9%	61.9%	119.5%	337.7%
MSCI AC Europe Net TR Index (€)	16.8%	29.7%	26.1%	48.8%	149.4%

The above figures have been calculated using a combination of Aubrey's European Strategy (10 years to 31 March 2019) and the Aubrey European Conviction Fund (AECF Share Class EUR) from 31 March 2019. The resultant combined performance is presented net of management fees and transaction costs. The Aubrey European Strategy performance has been used to simulate the past performance of the Aubrey European Conviction fund because they have both followed the same strategy. However past and simulated performance is not a reliable indicator of future results, you may not get back what you originally invested and investment returns may increase or decrease as a result of currency fluctuations.

Biography

Klyzza Lidman | Investment Analyst



Klyzza Lidman is an Investment Analyst working on Aubrey's Global and Emerging Markets Strategies.

An Edinburgh University graduate, with an MSc in Banking and Risk Management, Klyzza joined Aubrey Capital Management in 2015. She is a Swedish national and attended education institutions in the Philippines, Sweden, Bahrain, United Arab Emirates and Saudi Arabia.

Klyzza holds the Investment Management Certificate and was awarded the 2019 Young Investment Woman of the Year Award (small to medium firms) by Investment Week.

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