



WELLVEST CAPITAL

Wellness Investing™

COVID-19 HEALTH AND WELLNESS SECTOR UPDATE AND INSIGHTS

March 23, 2020

The safety of Wellvest's clients, employees and community is paramount; health and wellness has always been at the forefront of everything we do. We have taken the CDC's, federal and local authorities' guidance to heart; working remotely and actively practicing social distancing. Our hope is that this message finds you healthy and out of harm's way in this environment that is so dynamic and changing daily.

The Wellvest team has been directly affected by and survived the key catastrophic health and economic events since the early 1980's. As we reflect on the Health & Wellness (HNW) industry we serve, and are an active part of, we can take solace in the fact that the sector is providing much needed solutions today and in the future. Wellvest has been in continual contact with our clients, industry peers, contacts and advisors to gain near real-time feedback and insights on market conditions and future perspectives. It is through these lenses that we share our thoughts on the current state of the sector and what this means to our investment partners and the companies we serve.

Supply Chain Conditions

Our view, at this time, is that supply chains in food, beverage and supplements generally remain well positioned to continue to get products to market and serve consumers. As widely reported, delays getting retail shelves restocked continue but should abate relatively soon. While the production pipeline is ok for now, producers are concerned about future raw material dynamics including delays and shortages due to labor challenges and worldwide sourcing issues. While the timing is still unknown, some market participants are forecasting issues in about two months' time. For some, COVID-19 has freed up capacity with co-manufacturing partners as they pivot to supporting the most in-demand products.

Category Demand Spikes

Toilet paper and sanitizer aside, certain HNW categories are seeing material spikes in demand. Wellvest's network of vitamin, mineral and supplement (VMS) brands are all reporting very strong year over year growth in the 20-30% range or greater. This spans across multiple channels including Health Care Practitioner (HCP), Retail and DTC. Given the expanding "shelter-in-place" orders we suspect that Retail and HCP

HNW SECTOR GETS RENEWED FOCUS

- Supply chains ok for now, potential challenges to come
- Vitamin, Minerals & Supplements in high demand, distribution pivoting to DTC
- Frozen food seeing spike in sales
- Mixed bag for small CPG brands
- Silver lining as health and wellness takes global center stage

Proactively investing and preparing now will ensure future opportunities are maximized.

channels could be negatively impacted as patients and consumers are restricted from visiting their practitioners and favorite retailers. However, this may be offset by DTC sales enabled by distributor technology platforms and Amazon. Frozen food is emerging as another bright spot as the format provides consumers with extended storage times and a wide selection of options. Our brand contacts are reporting materially increased demand resulting in factories running at or near capacity. This includes frozen brands that are distributed via retail as well as direct to consumer.

Small and Innovative Brands

The impact of COVID-19 has been a mixed bag for the smaller innovative food and beverage brands (<\$20M revenue) that are prevalent in the natural products industry. The cancelling of the Natural Products Expo-West in early March was absolutely necessary, but a major disappointment as many brands launch new products, gain much needed exposure and secure distribution commitments during the show. Fortunately, their flexibility and nimbleness has been an asset as they are providing solutions for retailers in need of product to restock shelves. Some brands are reporting that packaging refreshes and new SKU roll outs have been accelerated since shelf space is now available and inventories have been depleted. In other situations, delays are occurring as retailers struggle to keep basic necessities in stock. Given their limited financial resources, premium pricing and millennial buyers, we believe that a shake-out is possible if the crisis results in a deep and/or protracted recession. The beneficiaries will be those brands that have solid business models, a strong value proposition, a broad audience, and the right financial partners.

A Health & Wellness Silver Lining

Coming out of this crisis we believe a silver lining for the health and wellness industry will emerge. It has been widely reported for years the enormous financial, emotional and societal toll of unhealthy lifestyle habits. It is extremely unfortunate, but not unexpected, that the COVID-19 Pandemic has the greatest impact on people with chronic health conditions including hypertension, lung disease, diabetes and heart disease. As governments, healthcare leaders and individuals around the world reassess the need to keep themselves and the global population healthy, we believe public and private investment in HNW will dramatically increase. This will have a very wide-ranging impact spanning healthcare, food and beverage, supplements, fitness, functional medicine and a host of other HNW categories. We believe the macro trends that the sector has enjoyed over the last decade will accelerate dramatically.

Coil the Spring – *be prepared*

Being prepared for the influx of opportunities will ensure investors are well positioned to take advantage of this unprecedented dynamic. While we anticipate that investor interest will be high, we also acknowledge that valuations, deal terms, capital structure and the time to close will change. As this storm abates and for those with the resources and capacity, investing now and planning for future investment or acquisitions is a proactive step that will ensure future opportunities are maximized.