



WELLVEST CAPITAL

Wellness Investing™

THE NEXT NORMAL FOR THE HEALTH AND WELLNESS SECTOR

April 9, 2020

It is impossible to accurately predict what the near and long-term impact of COVID-19 will have on the Health and Wellness (H&W) sector. But sector performance in past recessions is a good place to begin, coupled with an assessment of the possible behavioral changes of consumers on given segments of the sector post-virus. This reflection can provide valuable insights and inform how investors and companies focused on H&W can adjust to the next normal post-COVID-19.

Past Recessions: Health and Wellness Sector Performance

Although each recession has its own idiosyncrasies we have seen firsthand that consumers who have made the switch to living a healthier lifestyle by embracing more nutritious food and beverage options, incorporating supplements in their diets, adopting exercise as a way of life and improving their sleep - tend to stay on these programs during and through stressful financial and personal times. Furthermore, those who have not made a commitment prior to the event often do, as adopting a healthy lifestyle allows them to take control over at least some part of their life. We like to say once you start eating nutrition bars you won't go back to eating twinkies. Given that a pandemic is the driver of the coming recession, it's almost a given that healthy lifestyles will remain at the forefront post-COVID-19.

Consumer Behavioral Change Drivers

Our view, at this time, is that two major drivers will dictate consumer behavioral changes; cultural and economics. Culturally, quarantines have forced individuals and families to spend considerably more time at home without most of the external commitments that often dominate personal and family agendas. The economic impact is having a direct and indirect impact on consumers as many are, or will be, out of work, suffer reduced wages, experience loss of wealth and heightened uncertainty over future earnings expectations. For Millennials this is the first major social and economic upheaval after an adult lifetime of stability and prosperity.

Cultural Impact on Consumer Behavior

Fighting the pandemic via social distancing in all its forms has resulted in a dramatic increase in people eating at home, leveraging on-line tools for work and entertainment, finding alternative forms of exercise and discovering more free time.

NEW THEMES EMRGING IN H&W SECTOR

- Cultural changes will positively affect healthy living consumption habits
- Consumers will trade down to better values, but not leave the H&W sector
- All H&W product categories will benefit
- A big test for Millennial's commitment to key trend drivers

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

As time elapses many of these new behaviors will become engrained habits and impact consumption patterns.

Food and Beverage

For food and beverage, post-COVID-19 manifestations may include a sustained increase in at-home meals benefiting grocery at the expense of the food service business. Additionally, a shift to more traditional food preparation such as baking and cooking from scratch are driving consumers to make healthier ingredient selections and allowing them to control exactly what is in the meals and snacks they prepare. We believe this shift benefits natural and organic products and will put pressure on certain brands with a heavy reliance on convenience as a point of difference and value proposition.

The benefits of working from home may drive lasting changes with more employers and employees utilizing this approach than prior to the virus, further increasing demand for at-home meals. More at-home eating will step up the trends we have seen develop in the food sector over the past 20 years. Natural, organic, plant based, nutritionally sound offerings with supply chain transparency will accelerate as consumers demand healthier, great tasting foods. This will create increased demand for a new generation of frozen foods and shelf stable brands. Once today's supply chain shortages abate, we believe the uptick in old-line legacy brands will not be sustainable as these brands do not align to on-trend consumer demands.

Fitness

Widespread quarantines coupled with the focus on health has resulted in people finding alternative methods of exercise and sedentary people motivated to adopt a healthier lifestyle. Gyms, fitness centers, yoga studios and the like are not options during this period of quarantine; walking, running, and on-line yoga/meditation and fitness classes have filled the gap. As consumers become more comfortable with on-line fitness options, we believe traditional operators and new upstarts will develop unique on-line fitness programs that will improve customer retention and provide new streams of subscription revenue. Walking and running could experience renewed popularity benefiting sport apparel brands and hydration products along with ancillary services like on-line instruction, coaching, community building and influencers/bloggers. At-home fitness equipment is another possible bright spot however the value proposition and price point will drive the winners and losers in this competitive sub-segment.

Supplements

Sales of nutritional supplements have skyrocketed in the four weeks ending March 15, 2019 driven by consumers desire to improve their internal defense systems. Although data is still coming in, past recessions have proven that new consumers enter the sector and occasional consumers become heavier users. A new higher market revenue level appears to be establishing itself. Given that this has been a health driven event we believe the positive impact on the vitamin, mineral and supplement (VMS) industry will be significant. It has been made very clear to the American people, daily, that those with underlying health issues are more at risk than

those who are healthier. Incorporating nutritional supplementation as part of a healthy living regime will become the next normal.

Economic Impact on Consumer Behavior

The economic impact of COVID-19 will result in a global recession. The breadth and depth of this recession is unknown. Historically, the H&W sector has done well in downturns driven by food and beverage, VMS and fitness. We have witnessed consumers moving down market, but not out-of-the market. For consumer packaged goods (CPG), super-premium brands may suffer as consumers seek more value. Present day on-trend and niche brands targeting Millennials, leading with a mission driven value proposition (sustainability, transparency, novel ingredients and flavors, etc.) sold at a high premium to legacy products may find themselves in a difficult position. The wildcard in this scenario is how Millennials will respond. While their generational values of “do good and cause no harm” are strongly entrenched, this is the first time their economic wellbeing has been materially negatively impacted. Will they continue to spend on high-end H&W goods and services, or will they demand these same attributes, but at price points they can afford? If former generations are a guide, we expect Millennials will trade down market to brands with better economic value propositions that retain many, if not all, the value attributes Millennials have previously demanded. For this demographic, we believe the most successful CPG brands will be those that combine on-trend attributes with a very competitive value proposition.

Coil the Spring – *be prepared*

COVID-19 has brought unprecedented rapid change that will be felt for years to come. While prudence dictates attending to critical matters at hand, thoughtful allocation of resources to contemplate and prepare for what comes next will support success post-crisis. The health and wellness landscape is rapidly evolving, presenting opportunities that previously did not exist for many market participants only weeks ago. Wellvest believes and historical evidence confirms that taking proactive steps during upheavals produces very fruitful long-term results.

