Stay-at-Home Trade Continues

The food and beverage value chain is a wonder of modern day synchronicity and synergy as companies work together to make, move and sell product to customers. This essential mission has taken on an even greater importance in the midst of COVID-19 as people stock their pantries, refrigerators and freezers for extended stays at home. Consumers have leaned heavily on grocery and quick service restaurants to provide a range of comfort food and drink for in-store purchase, curbside pick-up, delivery and drive-thru. Grocers like Albertson’s and Kroger are generating double-digit growth in revenues on a year-over-year basis. Insatiable demand for pizza and chicken wings are driving the fortunes of Papa John’s and Wingstop. Even restaurants like Wendy’s and Chipotle are able to temper sales declines by effectively running a drive-thru play.

At the other end of the spectrum, dine-in operators have experienced a dramatic fall-off in traffic from closings, partial re-openings and rollbacks as COVID-19 spreads across different parts of the country. The wide range of company results are highlighted in the comparative graphs below.
Suppliers aligned with the grocery retail and foodservice channels are experiencing similar feast and famine dynamics. Boston Beer is generating explosive top line growth given the unquenchable consumer thirst for hard seltzer. Conagra Brands, General Mills and Campbell Soup are seeing a resurgence from shoppers for essential packaged goods that deliver on convenience and value. Hostess and PepsiCo are tapping into favorable demand fundamentals as home dwellers reach for snacks ranging from indulgent to healthy. On the other hand, food and beverage suppliers over-indexed to away-from-home consumption remain in the red from a top-line performance perspective.

**Lifting and Shifting Prices, Purchases**

Coronavirus-induced demand and supply dislocations are lifting prices on a basket of grocery products. The June 2020 year-over-year increase is one of the largest in four decades. Potato chips, bread, steak, eggs and ground beef are all up double digits. A range of other essential food and beverage staples are up single digits over the same time period, as seen below.

![Figure 2: July 2020 Year-over-Year Grocery Retail Price Change](image)

Source: U.S. Bureau of Labor Statistics

**Investing in Customer Fulfillment**

Families are searching for ways to stretch their dollars in the midst of an ongoing pandemic that is evolving into an economic recession. In an efforts to meet consumer need, retailers and manufacturers are simplifying stock-keeping-units by focusing on family value and bulk packs. Industry leaders like Mondelez and Coca-Cola have announced plans to focus on the most important, higher velocity product offerings while reducing complexity in their supply chains.

Foodservice operators are likewise simplifying menus, adding grocery and investing in take-out, drive-thru and delivery capabilities. Chipotle, Shake Shack, Panera and Wawa are rolling out digital drive-thrus in their stores. Wingstop is updating its restaurant design to include contact-less pickup for mobile orders. Texas Roadhouse and Brinker are building take-out and delivery services. Investment in customer fulfillment has even extended to the employment side of the equation as Chipotle, Papa John’s and Domino’s each announced plans to hire another 10,000 workers.

**Generating, Stockpiling, Allocating Cash**

Liquidity remains a C-suite issue, particularly in the midst of the pandemic. Since March, treasury teams have been generating, stockpiling and allocating cash to fund working capital and business investment. Inventory management is moving from just-in-time to just-in-case. Capital expenditures are on the rise as manufacturers expand their own plant capacity and/or work with third party co-packers. The cost of doing business is also rising as operators invest in personal protective equipment, social distancing and other mitigation efforts to protect employees, customers and other stakeholders.

Within this context, industry leaders are balancing capital allocation between business investment and shareholder rewards. By preserving cash and building liquidity, companies can better bridge to the other side of this crisis, as illustrated below.

![Figure 3: Year-over-Year Operating Cash Flow Outlays, Cash Build](image)

Source: S&P Capital IQ
Turning to Banks, Bond Markets for Help

For external cash sourcing, the food and beverage industry is turning to relationship banks and bond markets during these unprecedented times. The foodservice sector is leading the way with more than half of the number of cash sourcing transactions by public companies since early March. Borrowers of various sizes and ratings spectrums began stockpiling cash in early March through initial drawdowns under existing revolvers and new short-term liquidity facilities. This was followed by public issuers tapping the investment grade and high yield bond markets. Publicly-traded companies in the food and beverage space have pulled a range of liquidity levers to raise more than $100 billion in cash in the last five months.

Figure 4: Illustrative Cash Sourcing (Public filings, Bloomberg, Informa, Reuters LoanConnector, S&P CapIQ)

How PNC Supports the Industry

In the midst of these extraordinary times, PNC’s local bankers and industry experts are working together to deliver full-service banking solutions to help our clients optimize cash generation, accumulation, activation and allocation. Our strategy is simple. With more than $14 billion in total loan commitments, we holistically cover the end-to-end food and beverage value chain to provide sector-centric content, conversation and solutions designed to bring the best out of your business.