

Grcocery Innovation

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THIS VIDEO WAS SHOT BEFORE CORONAVIRUS SWEEPED ACROSS THE WORLD AND VOLATILITY HIT THE MARKETS.

HOWEVER, WE CONTINUE TO BELIEVE IN THE THESIS IT CONVEYS AND WE HOPE YOU FIND IT VALUABLE.

After decades of stagnation, we've finally entered a period with the greatest innovation in the grocery industry in recent history. And at Alger, that's great because innovation is driving Positive Dynamic Change, which creates investment opportunities.

As of 2017, over the last 25 years, there had been very few innovations in the grocery industry. For the most part, the incumbents had not embraced the internet or much innovation at all. This is due to just the fact that grocery has very low margins; there's not a lot of money to invest in technology.

In 2017, Amazon completely changed the whole industry when they acquired Whole Foods. This announcement sent shockwaves through the industry. On the day of the acquisition, shares of Kroger, Sprouts, Costco, even Walmart took a major hit. But also it served as a wake-up call; the incumbents in the industry realized that they needed to actually start innovating just in order to survive.

A few new initiatives have come out, the first being Click & Collect. This is a model where the consumer orders their groceries online and then drives to the store and picks it up curbside pre-bagged. Walmart, Target, Kroger have all rolled out this initiative. Our research indicates that up to 8% of sales are now generated

through Click & Collect in stores where it's available and half of those are incremental.

Another innovation has been home delivery. Walmart has been testing this in certain markets and Kroger has actually partnered with a British e-grocer named Ocado. Smaller grocers have newly embraced Instacart on a much wider scale.

Amazon has of course continued to drive innovation. They have two major initiatives. The first is called Ultra Fast and this is essentially home delivery for groceries within one or two hours. The second innovation is called Amazon Go Stores. Amazon now has two dozen Go Stores. These are smaller bodega-like stores where you scan your app to go inside, take what you want, and then leave. It's extremely easy. In fact, why don't I just show you. Isn't that easy?

This new wave of innovations is of major benefit to consumers in the form of convenience. These innovations require a lot of investment, so the incumbents like Walmart and Kroger are going to take a margin hit while implementing them. However, we view these as table stakes merely to keep up, compete, and not lose market share to the Amazons and Instacarts of the world.

At Alger, we're always looking for companies that embrace Positive Dynamic Change and drive innovation. We believe the companies that can innovate and best serve the customers will win not only market share, but also drive profits in the long run.

Inspired by Change, Driven by Growth.

DISCLOSURE

The following positions represented the noted percentages of Alger's assets under management as of January 31, 2020: Fresh Direct, private; Instacart, private; Amazon.com, Inc., 7.2%; The Kroger Co., 0.0%; Costco Wholesale Corp., 0.1%; Sprouts Farmers Market, Inc., no holdings; Walmart Inc., 0.2%; Target Corporation, 0.0%; and Ocado Group plc, no holdings.

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