



HelloFresh: Business Breakdowns Research

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Primary Research Sources

- [Latest Annual Report](#)
- [Latest Quarterly Report](#)
- [Capital Markets Day 2020 Investor Presentation](#)
- [Capital Markets Day 2019 Investor Presentation](#)
- [Sohn Hearts & Minds 2020 Stock Pitch on HelloFresh](#) - 10-minute overview of the bull case for HelloFresh

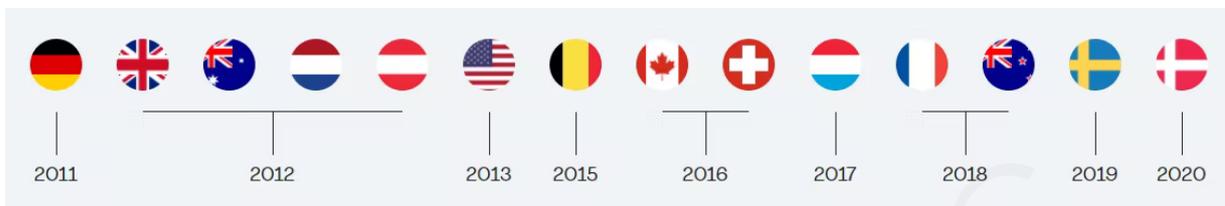
Interesting Facts & Figures

- Largest meal-kit service in the world - 600M+ meals delivered in 2020
- 7.7M active customers as of Q2 2021A (+84% increase y-o-y)
- Less than 1% wastage at its manufacturing sites compared to 15-20% wastage in the traditional grocery supply chain

Company History & Key People

- **2011:** HelloFresh was founded in Berlin by Dominik Richter, a former semiprofessional Austrian soccer player and co-chief executive Thomas Griesel, also a former athlete. In Dominik's own words, "Thomas and I were always entrepreneurs looking to start a business together, all other stints pre-starting HF were short (they held positions at a VC, Goldman, an Incubator etc.) but none of them are well-suited to describe us."
- Between **2012** and **2016**, HelloFresh raised ~\$300M in venture capital funding. Key investors included Rocket Internet, Insight Partners, Baillie Gifford, Qatar Investment Authority.
 - Insight Partners' \$34M investment in 2014 at several times HelloFresh's previous valuation represented a major step-shift - Insight was HFG's first U.S. based investor - allowing aggressive pursuit of countrywide expansion plans in a bid to compete effectively against their well-funded meal-kit delivery peers
- **2015:** HelloFresh shelves IPO plans owing to muted investor appetite and concerns about existing "burn"
- **2017:** Successfully raises EUR 277M in its IPO on the Frankfurt Stock Exchange at a valuation of EUR 1.7B (Ticker: HFG)
- **2018:** Pursues acquisition-led multi-brand strategy, driving TAM penetration and expansion into key geographies and customer segments. Acquisitions include:
 - [Green Chef](#), a Colorado-based meal-kit company with premium organic offerings
 - [BeCool Refrigerated Couriers](#), an Australian refrigerated delivery company

- Chef's Plate, a Toronto-based meal-kit company
- **2020-21:** Inorganic expansion into the ready-to-eat meal segment via these acquisitions:
 - Factor 75, an Illinois-based, health & wellness focused, ready-to-eat meal delivery service
 - YouFoodz, an Australian D2C ready-to-eat meal manufacturer
- **Sept. 2021** - promoted to the DAX as one of the 40 largest publicly listed German companies.
- **Timeline of Geographic Expansion:** HelloFresh operates in 15 countries globally (Norway not pictured, where operations launched in Q2 2021)



Source: Company website

- As of 8/27/21, the business is valued at EUR ~16B, with revenues of ~3.7B EUR (2020A)

Key People

- Dominik Richter, Group CEO and Co-founder
- Thomas Griesel, CEO International and Co-founder
- John H. Rittenhouse, Chairman - Supervisory Board

Business Model, Value Proposition, Secret Sauce

Business Model

- HelloFresh delivers at-home meal solutions on a weekly basis via a membership/plan-based model - see [Interview Prep](#) section as to why HelloFresh prefer not to describe their model as subscription. HFG is the largest meal-kit company in the world by revenue and its product offerings fall into two main categories: 1) pre-proportioned, personalized meal-kits that require ~15-30 minutes cooking time, and 2) fully prepared, ready-to-eat meals with a cooking time of 2-5 minutes. The company also recently began offering sides/add-on items.
- The company operates a vertically integrated supply chain. HFG sources ingredients directly from an integrated network of 1,500+ suppliers using a 'just in time' model, which are then apportioned and packaged in its manufacturing centers. Meal-kits are delivered to consumers primarily via 3PL, and some portion via an in-house fleet.

Value Proposition

- **Consumers**
 - Convenience: HFG enables households to save time on shopping (by avoiding a trip to the grocery store) and planning (through its curated recipes) while helping them maintain a healthy diet. Consumers receive weekly meal recipes (mostly dinners for now) with necessary ingredients in the required quantities. They also have the flexibility to pause the program at any time with a week's notice, lowering friction to trial and reactivation.
 - Selection: Customers have the option to choose between more than 30 recipes each week across four price-differentiated brands serving different customer segments.
 - HelloFresh ("Affordable Premium" legacy brand, available globally)
 - EveryPlate and Chefs Plate ("Value" brands, available in the US, Canada and Australia)
 - Green Chef ("Specialty" premium, organic brand serving niches such as vegan, gluten-free, etc.)

- Factor75 (“Fully Prepared”, ready-to-eat meals with a low cooking time)
 - N.B.: Factor was a recent acquisition that over-indexes for 1P households, male demographics and for the lunch opportunity, allowing HFG to go after a distinct new customer segment (HFG’s traditional customer segment, according to a 2018 interview, was ~80-85% female)
- **Price:** The cost to consumers is in line with what they would pay at grocery stores and ~40-50% less than the cost of takeaway. Consumers pay around EUR 50 per order per week (varies across countries) and order on average 14x per year (FY20).

	\$\$\$	\$9.99 to \$12.99 per Meal	<ul style="list-style-type: none"> ▪ Organic, premium ingredients ▪ Catering to long-tail of specific dietary niches ▪ Leverage scale from HF core
	\$\$	\$7.49 to \$10.99 per Meal	<ul style="list-style-type: none"> ▪ Investment in Selection, choice and personalization ▪ Clear Price Leadership
	\$	\$4.99 per Meal	<ul style="list-style-type: none"> ▪ Establish the leading value meal kit brand targeting median US household incomes ▪ Leverage scale from Ops Platform

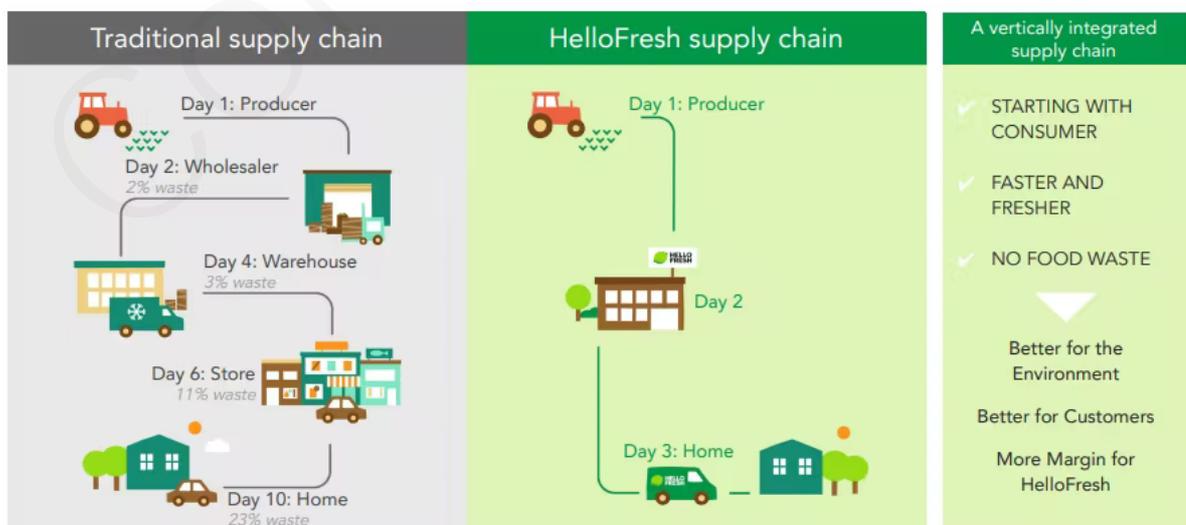
Source: *Capital Markets Day 2019 Investor Presentation*

○ **Partners**

- HFG operates a valuable business model for its partners, both suppliers and logistics operators, owing to high visibility of demand. HFG has developed advanced algorithms and predictive analytics for demand forecasting. The data-driven, stage-gated menu planning process adds in another layer of predictability.
- By reconfiguring the value chain towards a “pull” motion, versus the traditional grocery “push” motion, HFG orders exactly what it needs, and maximizes efficiency and minimizes waste for its partners.

○ **Sustainability**

- HFG is maniacally focused on sustainability across every component of its value chain, reducing food waste (only 1% food waste at its 18 production facilities), lowering CO2 emissions and minimizing packaging (first global carbon-neutral meal-kit company) and sourcing ingredients responsibly. This makes it a better corporate citizen, an attractive business partner and enhances brand value for its core customers. Win-Win-Win.



Source: *Capital Markets Day 2019 Investor Presentation*

● **Geographies**

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HFG services customers across 15 countries globally: the US (55% of FY20 revenue) and Austria, Australia, Belgium, Canada, Denmark, France, Luxemburg, New Zealand, Sweden, Switzerland, Netherlands, New Zealand, United Kingdom (combined 45% of FY20 revenue). HFG prioritizes geographical expansion in markets with high disposable incomes, high internet penetration and strong infrastructure.

Economics

Revenue and Operational KPIs

- 2020 Revenue (EUR): 3.75B (+107% y-o-y). Reporting segment breakdown below:
 - Revenue US (EUR): 2.07B (+102% y-o-y); 55% of overall
 - Revenue International (EUR): 1.68B (+114% y-o-y); 45% of overall
- Revenue Drivers = Active Customers x Average Order Rate x Average Order Value

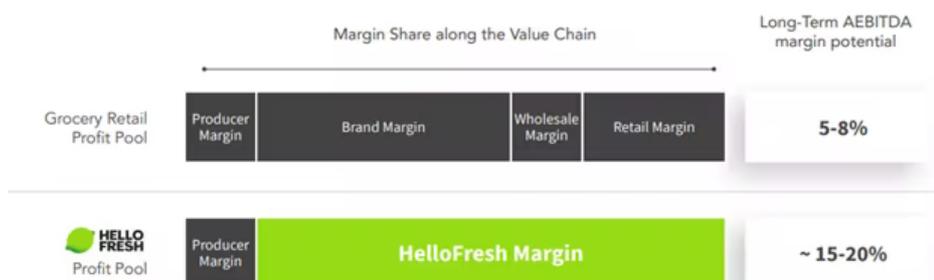
KPI Evolution

Metric	Q2'19	Q2'20	Q2'21	Y-o-2Y
Active Customers (M)	2.4	4.2	7.7	+220%
Average Order Rate (per Quarter)	3.7	4.3	4	+8%
Average Order Value (EUR)	48.8	53.7	50.2	+3%

- Clearly, revenue growth is driven by a dramatic growth in Active Customers. The AOV and Order rates have seen a renormalization to slightly above pre-COVID levels even as pandemic restrictions ease, while Actives continue to increase. This may be evidence of network effects / social proof enabling COVID-impacted consumer behaviors to persist for a while at least. Would be key to monitor the resilience of Actives over the next few quarters to understand the extent to which the baseline has shifted.

Cost structure

- HelloFresh is essentially a branded food manufacturer that sells DTC; their margin structure and cost structure is most comparable to CPG companies at scale. They design, source and manufacture their own product (very comparable cost structure to CPG's here) but then differ in the distribution strategy. Rather than selling the product via retail (and splitting margin 50-50 with retailer), they own the customer relationship and due to that, pay their own Marketing dollars to acquire customers and also pay for Logistics directly to their door. They don't split the margin with retailers though.
 - Retailers in general have a completely different value chain and supply chain, so they aren't comparable to HelloFresh.
 - **To underline this**, gross margins at the typical retailer range between 7-25%, whereas HelloFresh's gross margins are significantly higher at 65% (procurement costs are ~35%).



Source: *Capital Markets Day 2019 Investor Presentation*

- **Customer acquisition costs** were around EUR 75 per user pre pandemic, which decreased during the pandemic. The current payback period is ~6 months.

- N.B. The company suggests that reactivations have significantly higher return on marketing efficiency, and over the long term, constant increase in reactivations from the lapsed customer base is expected to be a driver of lower CAC.

- **Profitability**

- Contribution margins of 27-29% that have stayed fairly range bound pre- and post-pandemic, owing to relative stability in procurement and fulfilment costs
- Adjusted EBITDA margin benefitted ~300 bps from COVID owing to a decreased marketing spend (from 22% in FY19 to 12% in FY20). Part of the reason was an increase in at-home meal preferences during COVID, while part of it was driven by a reduction in marketing spend owing to capacity constraints.
- HelloFresh turned Free Cash flow positive in the pandemic, ~13% FCF margin
- Profitability essentially boils down to the resilience of topline growth post pandemic and return on marketing efficiency over the medium to long term term. This is a function of retention rates, churn, reactivation rates and CAC trend.

Secret Sauce: Scale wins!

- **Deepening Moats and Increasing Returns to Scale:** HelloFresh is executing the Amazon playbook to a T. Their growth flywheel has allowed HFG to scale much more efficiently over time, and these advantages continue to get more pronounced. Some of their barriers to entry and barriers to scale include:
 - Best-in-class, proprietary data collection tools and algorithms, software development investments, supply chain automation investments built up over the last 10 years
 - Their Engineering team is now close to 1000 people (and has been at a couple of hundred for many years), something that allows them to go much deeper in all functions of the business with bespoke, inhouse built software solutions compared to late entrants, smaller competitors or traditional ecommerce retailers.
 - ~60%+ aided brand awareness (2019) created by >EUR 500M in manufacturing and advertising investments (imagine a new entrant or sub-scale competitor trying to amortize those costs over 1-2 orders of magnitude smaller number of meal kits!)

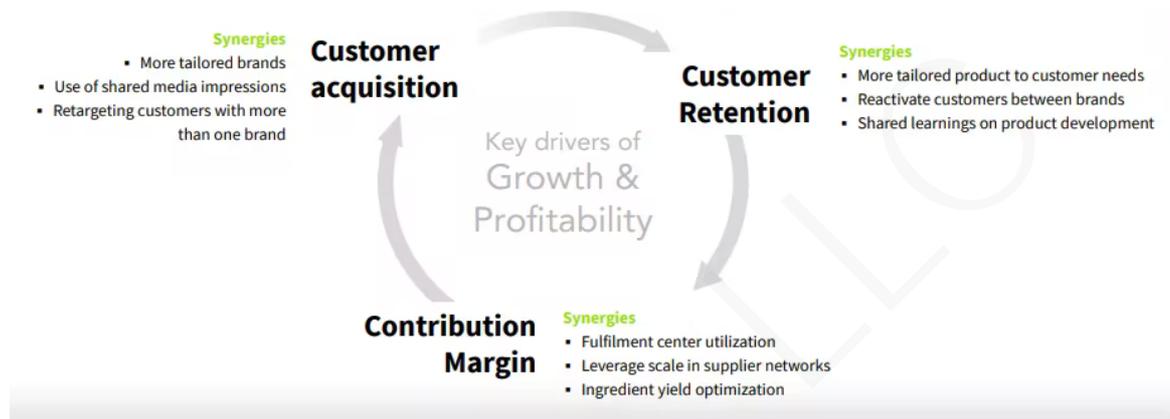


Source: [Capital Markets Day 2020 Investor Presentation](#)

- **Hard-to-replicate, complex end-to-end value chain:** HelloFresh has prioritized and made significant investments into in a fully vertically integrated supply chain. Its facility network built over 6+ years

now operates on a large scale, with a network of ~1,500 suppliers. HFG has invested over EUR500M in its state-of-the-art manufacturing facilities and automation technology till date. It has a 4 year head start on Supply Chain Automation Technology explicitly designed for the meal kit business and its intricacies. These compounding advantages will not be easy to overcome for a potential new entrant, in particular because of how hard it is to develop such networks in the physical world.

- The value chain efficiencies that derive from a direct-to-grower model allow for more robust margins vs. traditional grocery peers as well as working capital inflows, which can then be reinvested into acquiring yet greater scale and leverage, thereby deepening the moat.
- **Multi-brand strategy driving TAM expansion and improvement in unit economics:** Growth will continue to be fueled by an inorganic brand roll-up strategy. There exists significant scope for synergies between brands in marketing, fulfillment and procurement.



Source: [Capital Markets Day 2020 Investor Presentation](#)

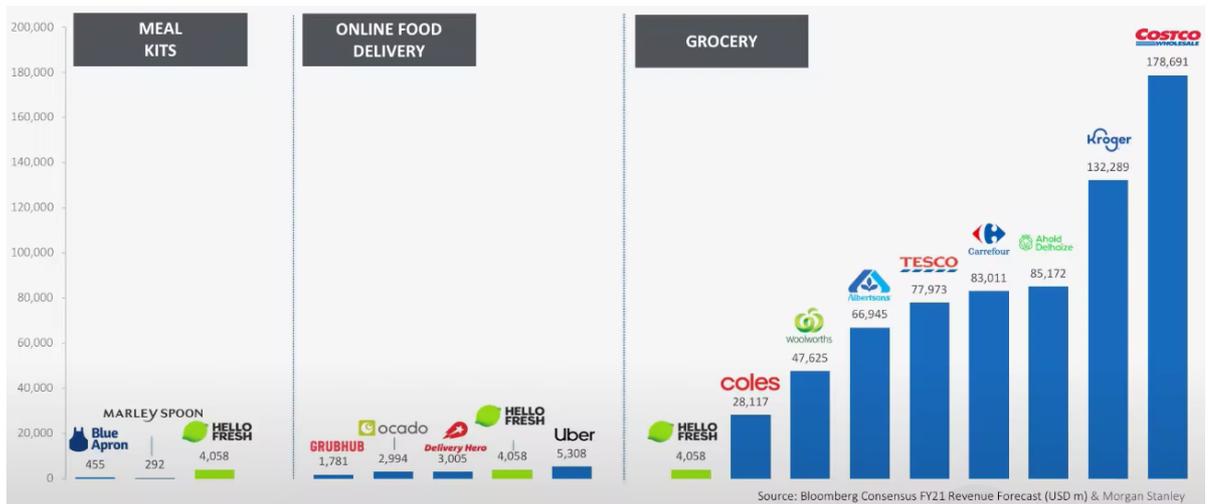
- **Market leadership in a massive, increasing TAM with low penetration and COVID tailwinds:** HelloFresh operates in a massive and increasing TAM (\$3.3tn grocery market), with low and expanding penetration (~5% household and ~0.3% grocery penetration). The meal-kit market is expected to grow >100% over the next 5-6 years. The model also received a shot in the arm from COVID as the category moved from “novelty” to “a solution” in the minds of consumers. As market leader, HelloFresh should continue to be the beneficiary of both these trends and get a significant share of new trials.
- **Phenomenal track record of excellence in execution:** Strong leadership team with skin in the game and a long runway (founders only in their 30s). They deserve full credit for driving excellence in execution across every step of the value chain.

“Like a world class athlete, in complex systems & markets, every single muscle needs to perform in order to succeed.” - Capital Markets Day, 2019

Emerging from an extremely crowded field, HelloFresh is today the world’s largest meal kit operator by a distance and is still continuing to gain market share. The team has demonstrated a track record of capturing market share in the most competitive markets. History suggests that they should be able to continue to execute on their stated strategy to enter at least one new additional market per year for the foreseeable future.

Competitive Position

Industry Landscape



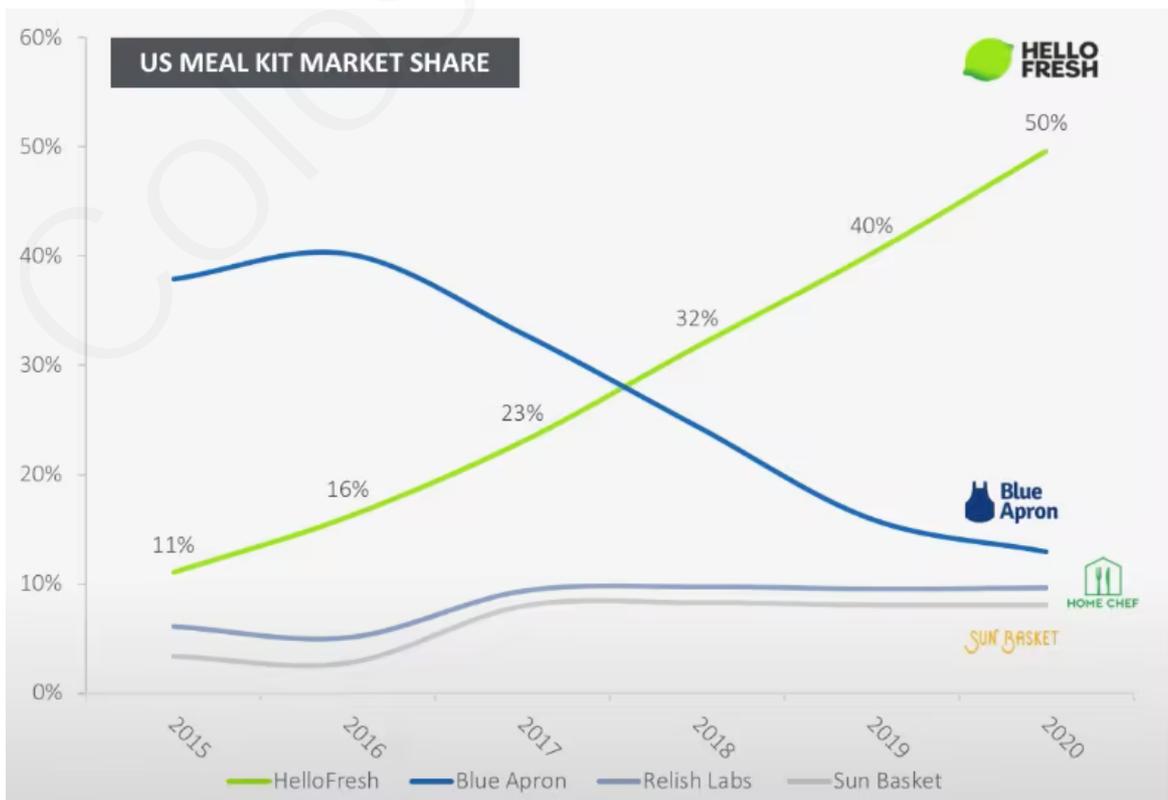
Source: Sohn Hearts & Minds Conference 2020 - Munro Partners

o Barriers to entry/exit

- There are no formal barriers to entry in the meal-kit market. Prior to 2018, the market went through a hyper competitive phase where over a 100 startups burned through \$1B+ of venture money. The industry now seems to have entered a consolidation phase. Any barriers revolve around customer acquisition, customer retention and increasing contribution margin.
- In the short-term, competition will stem from existing meal kit companies. Over the medium term, a competitive risk could emerge if e-commerce players such as Amazon decide to focus on a meal-kit proposition (likely by acquiring an existing HFG competitor). Offline grocery operators may also pose a risk, but their immediate priority seems to be e-grocery.

Position within the industry

- HelloFresh is clearly dominant from a market share perspective, with an order of a magnitude difference in share versus the next meal kit peer. Trend seems to indicate that HFG's dominance will continue to increase for the foreseeable future.



Biggest risks to competitive position

- Top-line momentum slows down post-COVID because of lack of resilience of COVID-time consumer behavior
- Margins are negatively impacted by the top-line deceleration (as a consequence, marketing efforts intensify)
- User churn accelerates post-COVID as consumer preferences revert to dine-out options, and finding new customers or reactivating lapsed ones proves challenging
- As the market scales, grocers or ecommerce majors might be tempted to increase competitive intensity for what are now larger, more established profit pools

Useful Resources

Title	Type	What You Will Learn (140 Characters)	URL (Must be https://)
Sohn Hearts & Minds Stock Pitch - HelloFresh (Nov'20)	Video	Munro Partners' insightful investment thesis on HelloFresh	https://youtu.be/FUGLkP7gJbo
Fireside Chat - HelloFresh CEO and Insight Partners (2018)	Video	A brief discussion of the history and consumer insights from early in HelloFresh's journey	https://youtu.be/O0D4rcApzLI
Daniel McCarthy - Twitter thread on HelloFresh (2021)	Article	Insightful discussion on the trends and drivers of HFG's post-pandemic unit economics	https://twitter.com/KrumMan/status/1398094881545990146?s=20
Nikhil Basu Trivedi - How Blue Apron Compares to Other Subscriptions in One Graph (2017)	Article	An early discussion of meal kit companies Blue Apron and HelloFresh's retention curves	https://medium.com/@nbt/how-blue-apron-compares-to-other-subscriptions-in-one-graph-6404a74ccf2d
InPractise - Cook it, Goodfood, & The Canadian Meal Kit Market	Article	A brief interview with the former CEO of Cook It, a large meal kit company in Canada, including a discussion on HelloFresh's channel strategy and offerings	https://inpractise.com/articles/cook-it-goodfood-and-the-canadian-meal-kit-market

Colossus, LLC