



NAVIGATING THE “NEW NORMAL” IN FOOD & AG: POSITIVE IMPACT IN A POST-COVID WORLD

OUR VIEWS AND ADVICE ON INVESTING FOR THE FUTURE OF
FOOD THROUGH TECH-DRIVEN POSITIVE IMPACT



WHO WE ARE: Better Food Ventures is a dedicated Food Tech and AgTech Fund focused on funding IT Innovators for Positive Impact Now. Learn more:

www.betterfoodventures.com



CONTENTS

I. NAVIGATING INVESTMENT IN A POST-COVID FOOD SYSTEM..... 3

II. POSITIVE IMPACT IN A POST-COVID WORLD 4

- WHAT IS POSITIVE IMPACT IN THE FOOD & AG INDUSTRY?..... 4
- THE SHIFT OF POSITIVE IMPACT 4
- THE POWER OF NOW 5
- OUR APPROACH TO POSITIVE IMPACT NOW 5
- CAPTURING VALUE EARLY IN EXPANDING FOOD & AG ECONOMIES 6

III. LESSONS FOR INVESTORS FROM THE FOOD & AG TRENCHES..... 6

- WHAT CAN BE LEARNED FROM COVID’S SPOTLIGHT ON SUPPLY AND DEMAND DISLOCATIONS?..... 6
- FROM FARMGATE TO TABLE: SCALING UP IN A COMPLEX FOOD PRODUCTION SYSTEM 7
- CUTTING THROUGH COMMON NARRATIVES TO CONFRONT FOOD LOSS & WASTE 8
- INVESTING INTO THE FUTURE OF RESTAURANT TECH..... 8

IV. MAXIMIZING INVESTMENT OPPORTUNITIES TOGETHER..... 9

- WE LOOK FORWARD TO CONNECTING WITH YOU 9

I. NAVIGATING INVESTMENT IN A POST-COVID FOOD SYSTEM

Feeding 10 billion people by 2050 has often been trumpeted as the ubiquitous call to action to build new solutions across the global food ecosystem.

However, as we begin to emerge from a pandemic that will reshape nearly every aspect of our global, national, regional, and local economies, the current fragility of the food sector is being re-examined in a manner not seen since the post-war era modernization. This strongly aligns with our team's investment thesis which prioritizes near-term catalysts to form the building blocks for a stronger food system, rather than outcomes for 2050.

Prior to COVID-19, our investment outlook was shaped by pragmatism about our monolithic food supply chain, and a belief that the current system was designed to withstand massive disruption; this meant food security for many but made large-scale disruptive innovation difficult. We saw a slower primary path towards innovation, oftentimes driven by collaboration among incumbents and start-ups.

In this new reality however, we recognize that a number of essential components must be reconsidered from the ground up. Rather than slower incremental disruption, we need a fresh perspective for value streams within the food system that are intrinsically dysfunctional.

With a deep acknowledgement of the suffering COVID-19 has brought to much of the world, we believe this systemic shock has created an opportune moment that will allow the food sector to leapfrog the evolutionary path from incremental, component-level change to disruptive, system-level innovation which will strengthen and secure our future.

We see a new sense of urgency to unleash innovation to modernize the massive, brittle food production system and its support structures. The increasing application of information technology across value chain actors will help create the linkages and precision necessary to make the food/ag sectors more agile, personalized, sustainable, productive, profitable and lead to better nutritional and wellness outcomes.

The Better Food Ventures team believes now more than ever, it's time to further sharpen our definition of change and identify compelling near-term opportunities to strengthen and impact the food ecosystem in a positive way.

It's time to sharpen our definition of change, and identify compelling near-term opportunities to strengthen the food ecosystem

*To help other impact investors considering the Food & Ag sector during this time of change, we updated our **2019 Positive Impact Thesis**, looking back over 20 years of experience in both the technology investing world and food and agriculture, including our most recent investments in Food Tech and AgTech, to share insights that may be helpful in developing a capital deployment outlook that incorporates **Positive Impact in a Post-COVID World**.*

II. POSITIVE IMPACT IN A POST-COVID WORLD

● WHAT IS POSITIVE IMPACT IN THE FOOD & AG INDUSTRY?

At Better Food Ventures, we utilize the framework of “Positive Impact” to evaluate AgTech and Food Tech investment opportunities with the express goal of achieving competitive financial returns in addition to positive externalities.

This means that while we first and foremost assess opportunities to optimize for financial returns, we then review the full consequence of potential social, economic and / or environmental impacts (both positive and negative) in order to understand how our portfolio investments are strengthening the broader food ecosystem.

We consider the full consequence of potential impacts in order to ensure investments are strengthening the broader food ecosystem

Fundamentally, the digitization of the food and agriculture sectors has the ability to strengthen economic, nutritional, and environmental outcomes across the world.

IT-Driven Positive Impact Across the Food Sector



● THE SHIFT OF POSITIVE IMPACT

We are encouraged to see that intentional and values-driven investment strategies are increasingly proliferating among individuals, family offices, and corporations in such a way that is both meaningful and positive, particularly the significant number of impact-driven pathways fostered by foundations, philanthropies, and NGOs.

For years we have believed that technology will prove to be the single biggest catalyst to solving critical problems across the global food ecosystem; the technology-driven innovations and frameworks we have seen during this time period have only made us more confident of this.

Today, as the foundational hurdles are clearing, and scalable IT-driven business models are emerging, the seeds are being sown for impact-driven commercial opportunities suited for institutional, venture-like returns. This recent shift towards digital infrastructure is paving the way for the Food and Ag sector to support scalable, private sector business models which incorporate positive externalities into their ongoing growth plan.

We believe technology will prove to be the single biggest catalyst to solving critical problems across the global food ecosystem

● THE POWER OF NOW

Framing Positive Impact with near-term intent, rather than outcomes in 2050, allows for the support of technologies that are both necessary catalysts for increased digitization in 2020, as well as strategic enablers of future innovation, thus the building blocks for 2050.

The COVID-19 pandemic has also unleashed a new, palpable sense of urgency within Food and Ag incumbents. This is not a moment for platitudes and future-casting; we need to think about what is failing NOW and how to realign the systems around agility, value creation, risk / reward sharing, and incentive structures to meet customer and market demand. We must not forget the devastating impacts we are seeing every day or allow ourselves to become complacent; this is a complex, daunting system-level crisis that we cannot shy away from.

Further, as more consumers make buying decisions based on a new set of values, expectations, and relationships with food, CPG brands, retailers, and restaurants are waking up to the new demands of the growing \$13 trillion global food economy. At the same time, farmers, ranchers, and food producers are under pressure to invest in transparency and traceability within a system that isn't yet designed to capture and report it.

Focusing on NOW allows for the support of technologies that are both necessary catalysts for increased digitization in 2019, as well as strategic building blocks for the needs of 2050

● OUR APPROACH TO POSITIVE IMPACT NOW

It is precisely this confluence of structural pressures and technology adoption readiness that makes it the right time to scale up investment activity that supports entrepreneurs and innovators who have identified product / market fit, are solving real problems now with the necessary roadmap for the future, and are meeting a social, economic or environmental threshold for Positive Impact.

In that light, our objective at Better Food Ventures is to both maximize risk-adjusted investor returns through methodical sourcing, due diligence and portfolio management, while also evaluating investments through a lens of Positive Impact.

As an example, we point to investable macro themes (right) with our current pre-fund portfolio that are connecting Positive Impact outcomes with the potential for compelling financial returns.



● CAPTURING VALUE EARLY IN EXPANDING FOOD & AG ECONOMIES

As an early stage technology investor, Better Food Ventures is focused on potent yet capital efficient IT innovations. We are enthusiastic about the breadth of IT-driven investment opportunities and have identified key market categories across the Food and Ag ecosystem (as illustrated below) where we believe digital transformation is best poised to solve real problems while also unlocking economic value.

Key Food & Ag Markets Unlocked by Digital Transformation



This extensive knowledge of key sub-sectors helps us to calibrate our investment timing for appropriate market adoption, while also keeping an eye on the sector-specific drivers of outsized exits.

III. LESSONS FOR INVESTORS FROM THE FOOD & AG TRENCHES

To help other impact investors considering the Food and Ag sector, we wanted to share some insights that may be helpful in developing a capital deployment strategy that incorporates Positive Impact NOW.

Core to this outlook is an understanding of the importance of foundational IT systems-building, and the ability to identify which successes (and even more importantly, failures) are required in order to develop the robust technology ecosystem of the future.

● WHAT CAN BE LEARNED FROM COVID’S SPOTLIGHT ON SUPPLY AND DEMAND DISLOCATIONS?

Today’s food system is fundamentally supply-driven, in which farmers are price takers and disproportionate margins accrue to middlemen and market-makers. As brands, retailers, and foodservice providers continue to gather important consumer demand signals, this information is increasingly disconnected from the food producers and suppliers.

Without the right data to inform their operations, food system participants lack agility and responsiveness to adequately respond to supply or demand dislocations. The dairy industry has been particularly hard hit by challenges in the “messy middle”. In the current system, repurposing processing plants to changes in demand requires time and millions of dollars in investment which many processors have concluded just isn’t worth it. Yet this reinforces the disproportionate share of economic risk food producers bear from both lost revenue and sunk costs. Similar stories are playing out in pork and poultry production, as well as fresh produce and seafood.

A fresh perspective is needed at a number of levels, such as: the role of physical and human assets; the imbalance between risk/reward along the value chain; as well as mistrust, a lack of accountability, and behavioral (mis)alignment among stakeholders.

In some places along the value chain, we may be able to fix what is broken. In many other places, we may need to abandon what is broken and redesign modern food production systems that can adapt to today’s environment. We should not double down on a hard-coded system architected to meet society’s needs 70 years ago.

● FROM FARMGATE TO TABLE: SCALING UP IN A COMPLEX FOOD PRODUCTION SYSTEM

Sweeping generalities and pronouncements about food production reform may be well intentioned, but overlook unique sector influences from regional, trade, labor, policy, etc. which need to be well understood to advance system-level change. As an investment community, we need more precision in how we understand and talk about each food supply chain and its specific challenges, demands and solutions.

Across all sectors however, it is clear we need to increase overall digitalization and integrate the massive amounts of existing siloed data. It is essential to enable the modernization of the food production system, and will not only inject more agility and flexibility, but also address the labor and worker safety challenges that COVID has exposed.

The timing and type of capital structure necessary to rethink and redesign some supply chains is well-suited for large capital investors such as institutional funders, project finance sources, and perhaps even real estate investors. Following this, incremental innovation and venture investment are appropriate to expand data insights through scalable software or applications for equipment, manufacturing processes, logistics, and warehouse management. Moreover, the recent shift to in-home consumption and D2C models is further driving the urgency for more sustainable solutions to sourcing, packaging, transportation and logistics, and waste.

This sector is fundamentally unpredictable and uncomfortable for many VC’s that are used to traditional tech timing and metrics, and thus we believe our nuanced understanding of the sector helps position Better Food Ventures as a leader and a true value-added investor.

● CUTTING THROUGH COMMON NARRATIVES TO CONFRONT FOOD LOSS & WASTE

Among our frustrations with the feeding 10 billion people by 2050 mantra, there is a decidedly unsustainable assumption that the only answer is to increase yield per acre. While making each acre both productive and sustainable may be part of the solution, we believe addressing supply chain waste is equally pressing and ideally positioned for IT innovation.

The size and magnitude of the food waste (post-harvest) and loss (in-field) challenge, especially in the supply chain, is over \$1 trillion annually. While a large proportion takes place in the home or food service, billions of dollars' worth of loss and waste still happens in the "messy middle", which includes the many processes and stakeholders from the farmgate through distribution. On that point, our recent investment in Afresh, an AI-powered fresh food optimization platform for grocers to reduce food waste and slippage, addresses challenges within the fresh food supply chain across the grocery industry.

Applying innovation across the food supply chain also holds the potential to transform more supply chains into value chains and, in effect, expand markets by creating new revenue streams. One such example of innovation in a waste stream is the recent surge in startups which are using spent brewers' grains and other spent commodities to turn production food waste into value-added food products via unique food processing technology.

● INVESTING INTO THE FUTURE OF RESTAURANT TECH

Well before COVID-related shutdowns, the increasing customer demands for convenience had already fuelled a major shift from dine-in to take out / delivery. As restaurant operators increasingly respond to our "new normal", we have seen many full-service restaurant concepts testing a more "fast casual" off-premise approach, with increased tech-focused integration, minimized employee/customer exposure, and a lot of creativity to inject hospitality into socially-distanced interactions.

The bottom line is that the restaurant experience – from QSR to Fine Dining – will increasingly no longer be confined to the four walls of a restaurant. We have reached an urgent point where the basic premise of dine-in restaurants must evolve in order to generate the sales volume and margins necessary to remain financially viable.

To thrive in this fluid environment restaurant operators will need to accelerate pre-COVID digital trends, embrace new notions of what constitutes a restaurant, and look to technology to strengthen their brand and relationship with customers. Digitization alone will not save the restaurant industry, but it is becoming economically and operationally imperative to upgrade IT systems for more seamless integration across all digital channels,

digitize the guest relationship through omnichannel loyalty, and adding specific task automation to back of house operations.

IV. MAXIMIZING INVESTMENT OPPORTUNITIES TOGETHER

The combination of structural pressure for change and technology breakthroughs make this an important time to help plant the seeds for an agile, digitized food sector capable of incrementally improving the food system in the near-term, and develop a plethora of solutions to deploy and adapt to the challenges foreseen in 2050.

The team at Better Food Ventures looks forward to continuing to build the ecosystem with other investors and partners who are charged to maximize Positive Impact in Food and Ag.

Our doors are open to exchange opportunities and ideas regarding the remaining foundational building blocks, as well as the innovators and entrepreneurs solving for current market pain points and market-ready solutions. *Read more of our Industry Insights and Deep Dives here: <https://betterfoodventures.com/insights>.*

WE LOOK FORWARD TO CONNECTING WITH YOU



15+ years in global IT venture investing, five years angel investing in Food & Ag Tech

+1.650.580.3869

rob@betterfoodventures.com



15+ years of investment, M&A advising, tech experience in US & EU, Ag roots in Central Valley

+1.415.825.2021

seana@betterfoodventures.com



25+ years in US & EU new venture creation and corporate innovation in the tech and restaurant sectors

+1.650.714.4655

michael@betterfoodventures.com



15+ years of investment, M&A, and strategy experience within the Food / FoodTech verticals

+1.415.298.1973

brita@betterfoodventures.com