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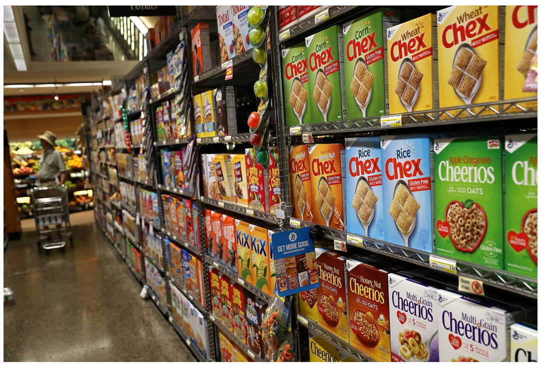
Why Food CEOs Are Rushing for the Exits

Packaged food companies are in trouble, squeezed by changing consumer preferences, more aggressive supermarkets and stagnant prices. More mergers may be on the way



Packaged food companies are struggling amid changing consumer preferences, more aggressive supermarkets and stagnant prices. Boxes of cereal line an aisle at Scotty's Market in San Rafael, Calif., on Sept. 20. PHOTO: JUSTIN SULLIVAN/GETTY IMAGES

By Spencer Jakab
Oct. 1, 2017 11:00 a.m. ET

A cereal killer is stalking the executive offices of packaged food companies, with Kellogg boss John Bryant being the latest victim.

Other companies where chief executives have left since the spring of 2016 or are on their way out include General Mills , GIS -0.37% ▼ Mondelez, Hormel, Hershey, Nestlé NSRGY -0.67% ▼ and Coca-Cola . KO -0.35% ▼

As recently as 2015 many of these companies saw strong investor demand for their shares in a “boring is beautiful” trade—a bet helped along by speculation that there would be more industry consolidation like H.J. Heinz’s purchase of Kraft Foods. But industry fundamentals have been horrific.

Of the 10 largest U.S.-listed food companies by revenue, not a single one has outperformed the S&P 500 in the past 12 months. An equal-weighted portfolio would have lagged behind by 31 percentage points before dividends. Six of those 10 companies experienced lower sales per share in the past 12 months than the previous fiscal year.

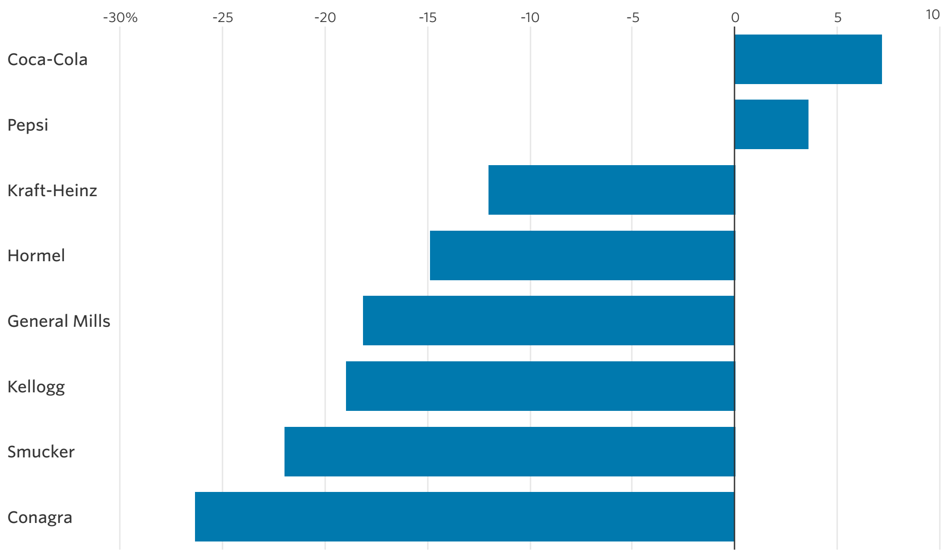
One reason is moribund food prices. Last month’s U.S. consumer-price index for food eaten at home was essentially unchanged from the spring of 2014.

Even as prices stagnate, consumer preferences have shifted toward fresher and healthier food. Meanwhile, supermarkets are suffering too and are responding by cutting the number of brands stocked or pushing store brands.

Food companies have reshuffled or pruned brands to appeal more to consumers and done expensive acquisitions, such as General Mills’ 2014 purchase of organic food company Annie’s. To really move the needle, though, they will have to focus ruthlessly on costs. Kraft Heinz’s aborted deal with Unilever UL 0.13% ▲ early this year is a sign of things to come—a trend that turnover in their executive ranks may accelerate.

Food for Thought

Share price change, last 12 months



Source: FactSet

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Appeared in the October 2, 2017, print edition as 'Why CEOs of Food Firms Are Exiting.'