



Blue Apron (APRN) – The Answer to Food Inflation

Convenient, Healthy, Sustainable... and About to Hit Scale

\$40 Price Target

Introduction

- **Bigger than even the metaverse, crypto, or EV's – FOOD**
- Blue Apron, the innovator of meals kits, has spent its life as a public company as a horribly mismanaged, money losing operation but all of that is about to change and in the words of the new lead investor Joe Sanberg:

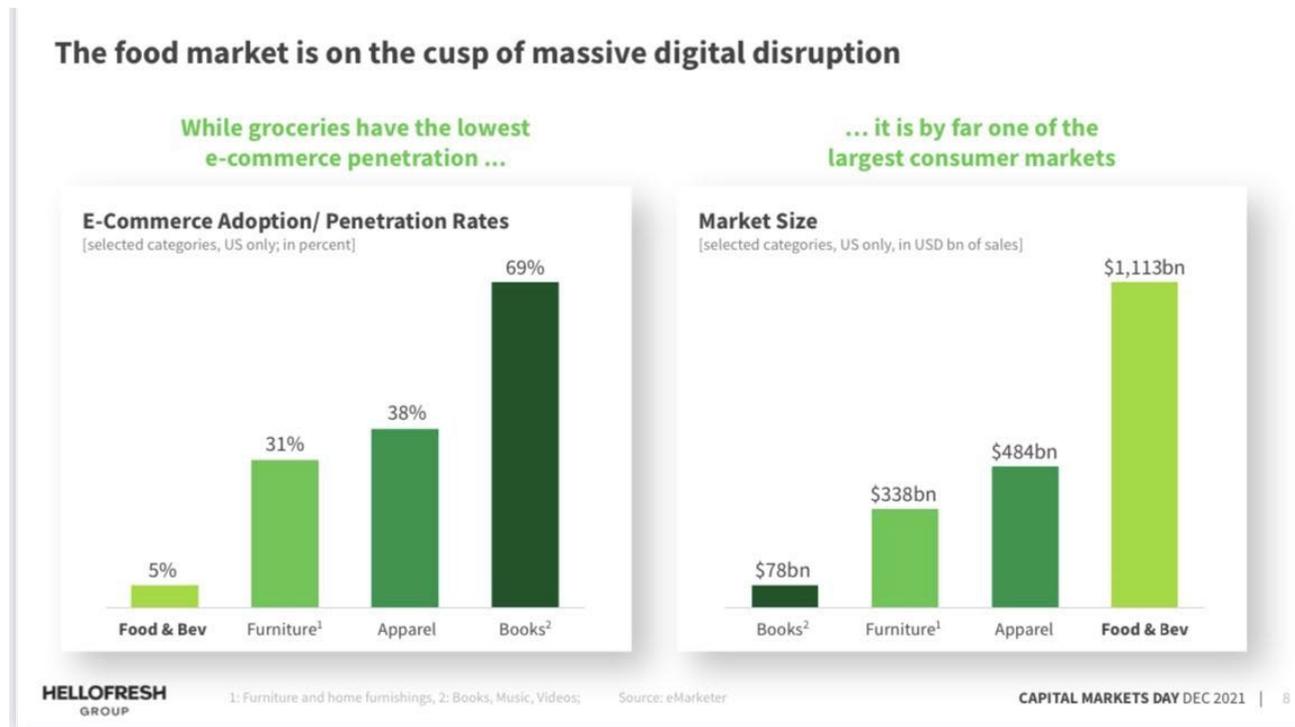
“Blue Apron is going to prove to be one of the greatest corporate turnaround stories of this century!”
<https://twitter.com/JosephNSanberg/status/1471202248248086528>
- For 2022, meal kits have been called the #1 trend in the grocery industry by Produce Blue Book as they state:

“Enter the resurgence of meal kits, more sophisticated and better tasting ready-made meals from a variety of outlets, food subscription boxes, and enhanced and easier-to-navigate online grocery”
<https://www.producebluebook.com/2022/01/05/top-5-food-trends-for-2022/#overview>
- For 2022, grocers including Instacart, are feeling the competition from meal kits as consumers are experiencing decision fatigue
<https://www.thegrocer.co.uk/online/meal-kit-providers-are-at-the-forefront-of-consumer-trends-retailers-watch-closely/663569.article>

Introduction

- The food market is on the cusp of massive digital disruption as ecommerce penetration rates are low single digits despite food being by far one of the largest consumer markets. HelloFresh is off to an early lead... but the race has just begun

https://ir.hellofreshgroup.com/download/companies/hellofresh/Capital_Markets_Day/CMD_Final_Presentation.pdf



Background Info

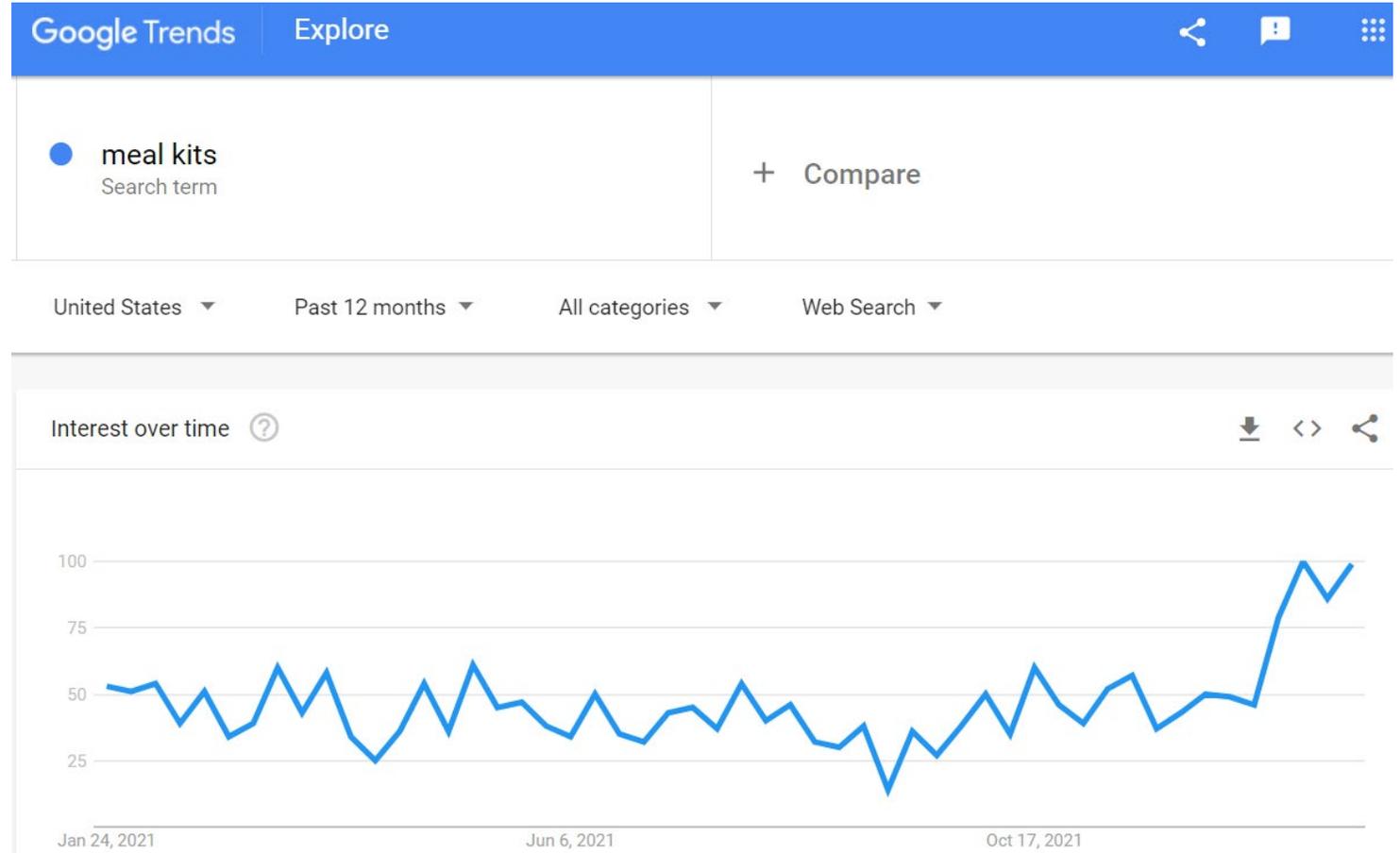
- Food inflation is real and is hurting most of America
<https://www.cnbc.com/2022/01/12/how-to-save-at-the-supermarket-as-inflation-hits-food-prices-hard.html>
- 80% of Americans say rising food costs is a major problem
<https://www.cnn.com/videos/business/2021/12/15/biden-economy-approval-rating-food-costs-cnn-poll-ip-vpx.cnn>
- Blue Apron is able to provide Americans organic food at fast food prices as 75% of APRN ingredients are directly sourced from farms or 1 step away from the farm while supermarkets are 3-4 steps away from the farm, which is why supermarkets have higher pass through of costs and food inflation
- The old days of going to the supermarket is making less and less sense... buying food for dinner, wasting half of it, and spending your valuable time, regardless of your economic situation
- Just look at this recent KPMG consumer survey from last month on food/grocery costs:

“Roughly 61% said they intend to use meal kits more often in 2022. HelloFresh is set to be the most popular meal kit brand in 2021, followed by Blue Apron and Home Chef, according to the survey.”

<https://www.fooddive.com/news/grocery-budgets-set-to-climb-nearly-15-in-2022/611829/>

Background Info

- This positive momentum for the meal kit industry highlighted by KPMG is already noticeable on Google Search trends
<https://www.marketwatch.com/story/inflation-was-killing-my-grocery-budget-meal-delivery-company-uses-inflation-fears-in-latest-ad-11642094734>
- **What is amazing is while they are spoken in the same breath far too often, HelloFresh is a >\$10 billion company while Blue Apron is valued at just \$160 million**



Citron Introduces the New Blue Apron

- Before we even go into the financials, valuation, and market opportunity, we must first establish the quality of the product the company offers
- **Blue Apron is Good Food at a Good Price**
- There are hundreds of meal kit reviews online and Blue Apron is always at the top of the list on food quality, price, and ease of use. Instead of listing all of the reviews, here is a quick excerpt from People Magazine from last Thursday which ranked Blue Apron as the #1 meal kit provider. Writer Samantha Jones noted:

"Blue Apron is hands down the best meal delivery service I've tried so far. I loved the quality of the ingredients and the variety of the menu, and Blue Apron's easy-to-follow instructions helped me strengthen my cooking skills. Though I initially tried Blue Apron in order to review it, I ended up asking for a subscription to it for Christmas because I enjoyed the meals so much!"

<https://people.com/food/meal-delivery-healthy/>

- If the product was broken – there would be no reason to discuss the stock. This is everything but that

SoftBank's Meal Kit Investment Last Week Highlights

Asymmetry in Blue Apron's Stock Price

- To show the asymmetry in Blue Apron's valuation and the potential for its stock, just look at Softbank's investment last week in Gousto, a London based meal kit service focused on the UK
- SoftBank, one the leading tech investors in the world, invested \$100 million into Gousto at a valuation of \$1.7 billion. Gousto's valuation at 6.6x 2020 revenue highlights how cheap APRN is at just 0.3x. Assuming Gousto grew revenue by 50% in 2021, Softbank's investment would value Gousto at 4.4x 2021 revenue
<https://www.pymnts.com/news/investment-tracker/2022/uk-meal-kit-subscription-service-gousto-grabs-150m-in-funding/>
<https://www.bgf.co.uk/gousto-announces-maiden-full-year-profit-driven-by-market-share-gains-from-uk-supermarkets/>

	<u>Gousto</u>	<u>Blue Apron</u>
Valuation	\$1,700	\$160
2020 Revenue	\$259	\$461
2021 Revenue Estimate	\$389	\$473

EV / 2020 Revenue	6.6x	0.3x
EV / 2021 Revenue	4.4x	0.3x

Recent Recapitalization of Company

- Blue Apron was not able to grow proportionally during the pandemic because previous management ran the company into the ground as they focused more on building the infrastructure and did not focus on customer acquisition costs. This left them with little cash going into 2020. All that has changed and the terms are meaningful
- Two months ago, APRN completed a fully backstopped rights offering that recapitalized the company and put over \$80 million of net cash on the balance sheet. As part of the deal, APRN collapsed its dual class share structure and the founder relinquished control enabling a future sale of APRN (important for multiple as shown later). The going-concern discount on APRN's multiple should be erased and a takeout premium is now warranted
- The almost \$80 million raise was at \$10 per share with fractional warrants at \$15, \$18, and \$20, with insiders including the current CEO, a board member, the founder and lead investor Joe Sanberg all participating in the deal. Investors should pay attention to the structure of this recent capital raise as it signals that management and smart investors believe the stock can trade almost 10x higher from current levels
- The math is simple. Prior to APRN announcing the fully backstopped rights offering, the stock was trading below \$3.50. Let's assume that these four smart insiders/investors would have bought stock in the open market with a cost basis as high as \$5, then this deal only makes economic sense if the stock goes >\$58 (i.e., insiders and smart investors clearly think APRN is a multi-bagger)
<https://investors.blueapron.com/press-releases/2021/11-04-2021-201606410>

Superior Unit Economics vs. HelloFresh

- Citron acknowledges that Hello Fresh has become the dominant brand in meal kits but that is reflected in HelloFresh having a >\$10 billion valuation today vs. APRN at \$160 million. Yet, APRN has superior unit economics when compared to HelloFresh with 50% higher contribution margins. On an EV per customer basis, APRN trades at \$457 vs. HelloFresh at \$1,499

	<u>Blue Apron</u>	<u>HelloFresh</u>
Customers in mn	0.4	6.9
# of orders in mn	1.8	27.6
Revenue in mn	\$109.7	€ 1,415.5
Contribution in mn	\$36.3	€ 318.0
Contribution margin	33%	22%
Average order value	\$62.3	€ 51.3
Orders per customer	5.0	4.0

	<u>Blue Apron</u>	<u>HelloFresh</u>
Enterprise Value in mn	\$160	\$10,400
Customers in Thousands	350	6,940
EV per customer	\$457	\$1,499

APRN Valuation is Too Low to Ignore

- Beyond the Gousto investment, there is no questioning that there has been meaningful consolidation in the meal kit space. These acquisitions highlight APRN's discounted valuation at 0.3x LTM sales given APRN's peers were acquired at an average multiple of 3.0x sales

(\$ in millions)

<u>Date</u>	<u>Target</u>	<u>Acquirer</u>	<u>Acquisition Price</u>	<u>Revenue</u>	<u>Acquisition Multiple</u>
Nov 2020	Factor75	HelloFresh	\$277	\$100	2.8x
Oct 2020	Freshly	Nestle	\$1,500	\$430	3.5x
May 2018	Home Chef	Kroger	\$700	\$250	2.8x
Sep 2017	Plated	Albertsons	\$300	\$100	3.0x

Average					3.0x
Blue Apron			\$160	\$473	0.3x

Note - all acquisition prices include earn-outs

<https://www.businesswire.com/news/home/20201122005102/en/HelloFresh-Acquires-Ready-to-Eat-Meal-Company-Factor75-Inc>

<https://techcrunch.com/2020/10/30/nestle-acquires-freshly/>

<https://www.builtinchicago.org/2018/05/23/home-chef-be-acquired-potential-700m>

<https://www.businesswire.com/news/home/20180320006435/en/HelloFresh-Acquires-Green-Chef>

<https://www.cnbc.com/2017/09/22/how-shark-tank-business-plated-sold-to-albertsons-for-300-million.html>

<https://www.supermarketnews.com/news/albertsons-acquire-plated-meal-kit-service>

APRN Valuation is Too Low to Ignore

<u>Companies</u>	<u>Valuation Date</u>	<u>Latest Valuation</u>	<u>Valuation Year Revenue</u>	<u>Revenue Multiple</u>
HelloFresh	Public	\$10,400	\$8,323	1.2x
Goodfood Market	Public	\$220	\$304	0.7x
Marley Spoon	Public	\$201	\$442	0.5x
Gousto	January 2022	\$1,700	\$389	4.4x
Chef Good	December 2021	\$18	\$19	1.0x
Daily Harvest	November 2021	\$1,100	\$250	4.4x
AllPlants	October 2021	\$106	\$52	2.0x
RealEats	October 2021	\$49	\$15	3.3x
CookUnity	September 2021	\$223	\$17	13.1x
Trifecta (Food Products)	August 2021	\$220	\$77	2.9x
Hungryroot	June 2021	\$800	\$170	4.7x
Sakara	March 2021	\$75	\$150	0.5x
Tovala	February 2021	\$190	\$45	4.2x
Territory Foods	January 2021	\$70	\$80	0.9x
Factor	December 2020	\$277	\$100	2.8x
Mindful Chef	November 2020	\$1,000	\$60	16.7x
Freshly	October 2020	\$1,500	\$430	3.5x
FreshMenu	August 2019	\$49	\$14	3.4x
Purple Carrot	May 2019	\$25	\$43	0.6x
SunBasket	May 2019	\$555	\$275	2.0x
Graze	February 2019	\$195	\$49	4.0x
Chefs Plate	November 2018	\$70	\$120	0.6x
Home Chef	June 2018	\$700	\$250	2.8x
Plated	September 2017	\$300	\$100	3.0x
Average				3.5x
Blue Apron	Public	\$160	\$536	0.3x

Sources: PitchBook, CB Insights

APRN is Trading Below Liquidation Value

- At its current enterprise value of \$160 million, APRN has ZERO fundamental downside in our opinion and the company could be liquidated for a minimum of \$27 a share. Consider this:
 - APRN has approximately 150K customers that have been subscribers for >3 years. Applying a 6x multiple to the contribution profit from these 150K long-term subscribers implies a value of \$372 million (i.e., APRN's customer list alone is worth multiples of the current market value of the entire company)
 - APRN's state of the art 495K square foot New Jersey facility which was featured on Modern Marvels has a net book value of \$120 million
<https://play.history.com/shows/modern-marvels/season-18/episode-8>
 - APRN has net cash of over \$80 million
 - APRN has spent \$600 million in marketing since 2014 (i.e., value of brand). We can conservatively assume APRN's brand is worth half of what they've spent to date at \$300 million
 - Despite the large difference in market cap, APRN's brand is consistently mentioned side by side with HelloFresh. As noted by HelloFresh in the company's latest annual report:
"There are several direct and indirect competitors for meal kit solutions in each of the individual markets in which we operate. Among the direct competitors of size are companies such as Blue Apron and Home Chef in the USA, Gousto in the UK"
<https://ir.hellofreshgroup.com/download/companies/hellofresh/Annual%20Reports/DE000A161408-JA-2020-EQ-E-00.pdf>

APRN is Trading Below Liquidation Value

- Net, we estimate that APRN has a liquidation value of \$27 today and this gives zero value for APRN's other 200K customers and >\$500 million of NOLs

APRN Customers for >3 Years	150,000
Average Revenue per Customer	\$1,252
Contribution Margin	33%
Contribution Profit in mn	\$62
Contribution Profit Multiple	6x
Value of APRN Customers for >3 Years	\$372
Value of APRN Customers for >3 Years	\$372
Net Book Value of New Jersey Facility	\$120
Net Cash on Balance Sheet	\$80
APRN Brand Equity	\$300
Liquidation Value	\$872
Shares Outstanding	31.8
Liquidation Value per Share	\$27

Brand Alone Is Worth Multiples of the Current Market Cap

- Consider this...
- This week, Wethrift.com released the results from its survey of >1K American adults assessing what are the most popular subscription services by generation across various categories
- Within food subscription, Blue Apron was the #1 most popular subscription service and was notably ahead of its much higher valuation peer HelloFresh <https://www.wethrift.com/articles/subscription-service-statistics/>
<https://www.pcmag.com/news/boomer-vs-gen-z-most-popular-subscription-services-by-generation>

Food Subscription Favorites

Overall	Baby Boomers	Generation X	Millennials	Generation Z
Blue Apron (17%)	Candy Club (15%)	Hello Fresh (14%)	Blue Apron (18%)	Blue Apron (25%)
Candy Club (16%)	Blue Apron (12%)	Blue Apron (13%)	DoorDash DashPass (15%)	Candy Club (25%)
Grubhub+ (14%)	ButcherBox (11%)	Candy Club (13%)	UberEats Pass (14%)	Grubhub+ (24%)
HelloFresh (14%)	UberEats Pass (11%)	ButcherBox (11%)	Candy Club (14%)	HelloFresh (18%)
Aprés (12%)	HelloFresh (10%)	Aprés (11%)	Google Play Music (23%)	Aprés (17%)

With regards to food service subscriptions, subscription rates were relatively equally distributed. Though Blue Apron was the most popular at 17%, Graze (in 10th place) had a 11% usage rate, showing a relatively small difference between the two. Furthermore, Blue Apron, Candy Club, and GrubHub+ were particularly popular subscriptions for Gen Zers, with each having subscription rates of 25%, 25%, and 24%, respectively.

New Management is Already Executing

- In 2019, APRN brought in Linda Findley who was previously the former COO of Etsy. While it is easy to look at the company's inability to execute during COVID, it is important to note that Findley and team did not inherit a well-capitalized company and were able to improve key KPIs while being cash strapped
- Orders per customer and AOV have steadily improved to multi year highs. As you can see, APRN today has been completely transformed vs. its prior state from 2016-2019... with little money. The most impressive transformation is the expansion of the menu which now makes the company ready to scale <https://investors.blueapron.com/~media/Files/B/BlueApron-IR/reports-and-presentations/blue-apron-investor-meetings-as-of-november-2021.pdf>



Product Advancements and Expansion

Prior State	Current State		Planned Future State
2016-2019	H1'21	H2'21	2022
2 serving recipes ✖ 11 options	2 serving recipes ✖ 14 options	2 serving recipes ✖ 16 options	Mix and match number of servings for recipes (2,4,6) ✖ 20 options
4 serving recipes ✖ 6 options	4 serving recipes ✖ 8 options	4 serving recipes ✖ 8 options	Meal Prep ✖ 3 options
Wine Subscription	Meal Prep ✖ 2 options	Meal Prep ✖ 3 options	Butcher Bundle ✖ 4 options
17 Food Options	Butcher Bundle ✖ 4 options	Butcher Bundle ✖ 4 options	Customizations / Upgrades ✖ 12 options
	Customizations / Upgrades ✖ 9 options	Customizations / Upgrades ✖ 12 options	Premium ✖ 2-4 options
	Premium ✖ 2 options	Premium ✖ 2-4 options	Heat & Eat ✖ 5 options
	Add-ons (appetizers, sides, desserts) ✖ 3 options	Heat & Eat ✖ 5 options	Add-ons (appetizers, sides, desserts) ✖ 3 options
	Wine Subscription & À La Carte ✖ 17 new wines	Heat & Eat (appetizers, sides, desserts) ✖ 3 options	Wine Subscription & À La Carte
	40 Food Options + 23 new food options + 3 new digital options	Wine Subscription & À La Carte	Wine Subscription & À La Carte
		Order more recipes in each box	Order more recipes in each box
		Order multiple boxes per week	Order multiple boxes per week
		Sign-up for Wellness Recipes	Sign-up for Wellness Recipes
		Pause your account	Pause your account
		Non Subscription Meal Kits + 4-6 options	Non Subscription Meal Kits + 4-6 options
		53 Food Options + 15 additional new food options + 1 new digital option	53 Food Options Ultimate flexibility for serving sizes and a non-subscription offering

We have already executed on significant product advancements focused on providing more variety, flexibility, and choice

Partnerships

- Blue Apron understands that getting back to 1 million subs is best done through partnerships
- When announcing the recent Amazon Alexa partnership, Blue Apron noted:

“This collaboration with Alexa is part of Blue Apron’s plan to double the number of its partnerships in 2022, while continuing to invest in current brand and acquisition partners”

<https://investors.blueapron.com/press-releases/2021/12-02-2021-140532327>

- We have already seen additional new meaningful partnerships such as Blue Apron’s co-branded credit card with Aspiration, which plans to market Blue Apron to Aspiration’s robust targeted customer list
<https://investors.blueapron.com/press-releases/2021/12-15-2021-220513199>
- Lastly, the ability to turn a focus to enterprise sales (e.g., insurance companies and unions) would allow Blue Apron to add customers not just one at a time but thousands at a time

Highly Accurate Credit Card Data Sets Indicate Large Q4 Beat

- The credit card data from Second Measure and Earnest have both historically been very accurate in predicting APRN's quarterly results
- Second Measure data implies APRN Q4 revenue through 12/31/21 is tracking up 6% vs. consensus sell-side estimate at down 5%
- Earnest data implies APRN Q4 revenue through 12/31/21 is tracking up 4% vs. consensus sell-side estimate at down 5%
- In addition, we expect forward guidance to be strong as meal kits are getting a boost from food inflation

The ESG Game Changer – Food Equity

- In the past, meal kits have been marketed to people with incomes of \$50K a year and higher whereas lower income families were targeted with ads for fast food. You can expect employers to soon subsidize meals for their workers as food inflation and class divide has never been more concerning. Consider this. The top 3 companies whose employees receive SNAP benefits (formerly food stamps) are Amazon, Walmart, and McDonald's. Last week we read that Kroger workers went on strike as they cannot afford food
<https://nypost.com/2022/01/13/kroger-workers-strike-as-employees-cant-afford-groceries-report/>
<https://www.news-medical.net/news/20211222/Fast-food-giant-focuses-on-kids-in-lower-middle-income-countries-with-child-friendly-marketing.aspx>
- Blue Apron is prepared to address this challenge and has partnered with one of the most respected people in the world – Michelle Obama
- Last year, APRN collaborated with Partnership for a Healthier America to launch Pass the Love boxes, which were created to support Michelle Obama's initiative to spread the joy of cooking to families in need across the US
<https://www.businesswire.com/news/home/20210719005148/en/Blue-Apron-Creates-Pass-the-Love-Boxes-in-Collaboration-with-Partnership-for-a-Healthier-America>

The ESG Game Changer – Food Equity

- *“Cooking meals with loved ones is not only a fun way to spend time, research shows it can actually improve your family’s diet. That’s why I’m so thrilled to see Blue Apron stepping up to create meal kits that are both affordable and easy to use—whether you’re a mom, dad, grandparent, or a kid. The private sector plays a critical role in supporting parents and helping children build healthy habits as they relate to food, and it’s encouraging to see everything Blue Apron is doing for our Pass the Love campaign. With their help, we’ll be able to highlight the benefits of a home-cooked, nutritious meal—and get one step closer to building a healthier country for all our kids”*
– Former First Lady and PHA Honorary Chair Michelle Obama
- *"Blue Apron's willingness to bring amazing food to families at price points that compete with fast food is groundbreaking"*
– Nancy E. Roman, President and CEO of Partnership for a Healthier America
<https://investors.blueapron.com/press-releases/2021/07-19-2021-130015844>
- With rising food costs on the minds of every working family in America, access to organic fresh food at a low cost is more important than ever. Citron expects Blue Apron to partner with private enterprise to subsidize meals for employees. This could take the subscriber count into the millions in only a few short years

The ESG Game Changer – Food Equity

- *“Food insecurity is becoming more widespread—and more difficult to resolve. The ripple effects expand across the economy, as food insecurity drives economic inequality, which in turn is a barrier to cultivating a healthy workforce”*
– New York Federal Reserve President John Williams
<https://www.bloomberg.com/news/articles/2022-01-13/desk-salads-hit-by-worst-inflation-in-u-s-with-romaine-prices-up-61?sref=U4oscr91>
<https://www.bloomberg.com/news/articles/2021-12-16/u-s-kids-go-hungry-as-safety-net-ebbs-and-inflation-soars?sref=3cTPhknw>
<https://nypost.com/2022/01/15/supermarkets-face-empty-shelves-from-labor-shortages-shipping-costs/>
- Just like health insurance, food equity is becoming a theme that private enterprise is embracing and scaled players like Blue Apron will benefit
- As noted by Paul Tudor Jones last week, ESG companies that do good for society and their employees outperform in the stock market
<https://www.cnbc.com/2022/01/11/paul-tudor-jones-says-the-most-important-stock-metric-isnt-profit.html>
- The good economy is here to stay and we believe APRN will outperform this year

How Does This All Play Out

- We expect one of two scenarios to play out for Blue Apron
 1. APRN executes on its turnaround and the stock trades to at least \$30
 2. APRN gets acquired at a significant premium by HelloFresh or a strategic buyer (e.g., large grocery chain, delivery company, online retailer) that is looking to expand into the meal kit category
- Regardless of which outcome comes to fruition, we believe at a valuation of \$160 million the risk/reward is highly asymmetric and skewed heavily to the upside

Peloton (PTON) Acquisition of Blue Apron (APRN)

- Believe it or not of all the obvious potential acquirers including large grocery chains and delivery companies, Citron believes the company most likely to acquire Blue Apron (APRN) is Peloton (PTON)
- PTON is facing the dilemma of how to grow its subscription revenue and the answer is to sell your customers more items
- As noted by CNBC, “Peloton wants to be known as a health and wellness company, not a fitness business”. PTON sells a lifestyle and the two key components of a healthy lifestyle are diet and exercise. PTON lacks a diet offering today. They already have the ultimate sales people with star fitness instructors and people love to know what these instructors eat
<https://www.cnbc.com/amp/2021/10/07/how-peloton-builds-a-community-around-health-and-wellness.html>
<https://www.womenshealthmag.com/food/a38677310/peloton-instructor-kendall-toole-diet/>
<https://www.delish.com/food-news/a37158070/peloton-instructor-tunde-oyeneyin-diet/>
<https://www.womenshealthmag.com/food/a35890334/jess-king-peloton-diet/>
<https://www.delish.com/food/a26741814/what-peloton-instructors-eat-in-a-day/>
- PTON has >6 million members. The crossover of the PTON and APRN customer base is huge. They both care about nutrition and mindfulness. If only 10% of PTON members convert to APRN subscribers then the subscriber base of APRN goes to over 1 million
- With \$2 billion of cash on PTON’s balance sheet, we cannot think of a better use of capital than buying APRN which PTON would be lucky to buy for anything under \$40 a share. Fortunately, the relationship is already there with former APRN executives having joined PTON in recent years
<https://www.linkedin.com/in/lillianjamesmith>
<https://www.linkedin.com/in/christopherjebes>

Cautious Investing to All

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