

HelloFresh: a recipe for success

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Lawrence Burns (LB): Meal kits are harder than people think

Dominik Richter (DB): At HelloFresh our mission is to change the way people eat forever.

LB: Having a founder that is thinking over the long-term time horizon, that is ambitious and is willing to delay gratification to achieve that ambition is absolutely vital.

DR: My North Star is that I want to be very confident that, every year, the product that we're building is much, much better than the product that we had in the year before.

LB: You know the opportunity set is large, we spend trillions of dollars on food, but you don't know how large it is, and it's unbounded. And that's a very good place to be.

Claire Shaw (CS): Hello and welcome to Season 2 of Invest in Progress, brought to you by Scottish Mortgage. I'm Claire Shaw, an investment specialist in the team. In this podcast, we take you behind the scenes to hear the conversations that take place between the Scottish Mortgage managers and the leaders of some of the world's most exceptional growth companies.

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Think about what's involved in cooking a meal. If you're anything like me, you decide what you fancy, and then you browse through books and websites to find a suitable recipe. You then rake through the cupboards to see which ingredients you have, head to the supermarket to pick up the ones you don't have. You then cruise the aisles, getting everything you need, go to the checkout, load up the car. You get home, unpack and maybe realise you've forgotten something. And that's all before you've even started cooking.

The company featuring in this episode addresses all of that. HelloFresh takes the hassle out of meal planning and grocery shopping by providing convenient and healthy meal options straight to your doorstep. You simply select the meals you like ahead of time and then receive a box with the exact amount of the right ingredients, an easy-to-follow recipe card, and voila.

To tell us more about the company revolutionising grocery shopping and our daily eating habits, we welcome the CEO and Founder of HelloFresh, Dominik Richter. But before we chat to Dominik, I'm here with Lawrence Burns.

So, Lawrence, with this episode, I think we're going to be tapping into people's everyday lives and their food habits. I myself am a keen cook, but I also love the convenience of the HelloFresh meal kits. So opening question to you. Are you a keen cook, or do you enjoy the weekly shop, or is the flexibility and convenience of HelloFresh something you enjoy as well?

Lawrence Burns (LB): So I'm a terrible cook, so anything that makes life on that front easier, I'm a big fan of. And the way, in my family, that we use HelloFresh is we fall into the category of people that use it more when there are certain changes in our lifestyle happening.

So every time my parents come up to visit us and stay with us, which we're very fortunate, we haven't put them off coming up, they come up quite frequently still, is usually when we go into using HelloFresh. And the reason we do it is the complexity of cooking meals at home for us in those periods goes up massively, trying to get everyone's orders of what they want to eat, the cooking, the shopping, the ingredients. And HelloFresh takes all of that hassle away for those periods of really high complexity.

CS: And for Scottish Mortgage, we first bought HelloFresh back in 2015, when it was a private company. It's now public. But generally, if you look across our private holdings, the majority of our companies and opportunities tend to have been concentrated in the US, particularly West Coast US. HelloFresh is a lot closer to home, a company founded in Berlin. So how surprising is it that HelloFresh has come out of Berlin?

LB: So Berlin is an interesting place. It has interesting cultural dynamics of rebellion against order or authority. It's a wonderful place to live. But it is surprising in that how successful HelloFresh have been on the global stage. Not only have they been very successful across Europe and in Australia as well, but it's also been the US market, where they've gone into the US, competed against an American meal kit company and really won and taken control of the market.

And that is more unusual, to have Europeans go and beat American tech and growth companies at their own game. And I think it speaks to the quality of Dominik as a CEO and leader of the business, who we're about to talk to, and I also think it speaks to the process mindset of him and the team. Making meal kits right and scaling it up is a really complex process, and they've been able to nail various parts of that process really well.

CS: I am really looking forward to listening to yourself and Dominik. Lawrence, we will catch up afterwards. So with that, I will hand over to you.

LB: Hi, Dominik. Good to see you. I hope you're doing well.

DR: Hi, Lawrence. Great seeing you.

LB: I really appreciate you taking the time to join us on this podcast today. I know you're very busy. You've got millions of meals every day to deliver to hungry people, and so your time is greatly appreciated.

DR: Thanks a lot. I have been listening to some previous episodes, and it sounded like a lot of fun. So more than happy to be here, and happy to see you and to speak to you again, Lawrence.

LB: Maybe just to start off, for those who haven't used HelloFresh, your service, before, what is HelloFresh? Take us through it. How does it work, at a high level for the customer?

DR: So at HelloFresh, our mission is to change the way people eat forever. And for the first eight years, we've really been focused on going after the weeknight-at-home dinner opportunity. And what we did is we pioneered the concept of direct-to-consumer meal kits.

So as a customer, you pick anything from two to six meals from a new and rotating menu of about 50 meals per week that we send every week to you as a customer. And you decide then how many times you'd actually like to cook that week, for how many people in the household, when to receive your delivery to your front door.

And on the back end, what we do is we not only develop the recipes and menus but then go out, source all of the ingredients, repackage them into the exact quantities you actually need to cook these delicious meals and deliver them right to your doorstep once per week.

LB: That's fascinating. And obviously, you're doing it at some scale, with about a billion meals every year.

DR: That's right.

LB: Before founding HelloFresh, you weren't a chef, but you were a footballer. Could you just talk us through that early stage, your career change, and how you became part of HelloFresh's founding team back then?

DR: Yes, for sure. I guess the modern way to describe it is that probably between the ages of ten to 18, I really identified as an athlete, and there was little question in my mind that I would become a footballer. I hadn't really thought about anything else.

And I was good. I was talented. But the more I learned about really the probabilities of actually achieving and becoming a professional footballer, the more I realised that it's quite unlikely. And even if you play academy youth football, the chances are maybe 5 per cent for you to actually make a good living and make it beyond age 25 in professional football.

And so when I was about 18-19, I started thinking 'hey, what's next, and am I really good enough?' and all these things, and at some point decided to end my career, about aged 20, went to university instead, and was looking for something new and felt immediately drawn toward entrepreneurship.

I dabbled with a few other friends in setting up one or two companies during our university times, spent a lot of time discussing different ideas, and developed a real passion for that. And after a brief one-year stint post-university in finance, I then got together with two of my smartest friends, and we eventually settled on the food space and came up with the concept of HelloFresh and pioneering meal kits in a direct-to-consumer way.

LB: I admit that's a pretty analytical way to think of the career path of football, of looking through the probability and odds, which has no doubt served you well as you've gone into thinking and selecting what business you then wanted to build. Maybe just taking us back to that period, what were some of the original thoughts and vision of HelloFresh, and what attracted you to the concept and made you think this would work?

DR: So what I really learned in starting the first business together with friends during university was that we were always looking at, hey, what's a problem that is really just one for ourselves and what is something that looks like a good business opportunity? But we didn't look enough at 'is it something that we're actually passionate about, and is it something that's a really big market?'

Because I think you always hit rough patches when building a business, and if you do something that you have a true passion for, and if you do something that's in a big market, then you don't even need to become the biggest company in that market, you don't need to get to a huge market share to build a big business. And those were two things in the back of our minds when actually trying to choose what to do.

And so back then, we then also, in I guess a very analytical way, went through different sectors and different consumer categories, because it was clear to us that we want to build something for consumers, something that we can personally relate to, have a personal passion for.

And as we settled on the food space and really tried to identify problems, work backwards really from 'what are the problems and challenges that consumers have today in cooking the right meals, cooking healthy and nutritious meals?', we basically came up with the concept of meal kits, and then started that first in Germany but then eventually moved all across Europe and then also to North America.

LB: Maybe you could take us through how complex, in some ways, this business has become. Because from a customer like myself that orders HelloFresh, I get the meal, I get the ingredients. The complicated bit for me is assembling them and

making a decent meal, which doesn't always... which I struggle at more than most people.

But take us through that process of getting the meal kit to the customer, from choosing the recipes through to getting it to a customer's door. What are the different steps? What are the pain points and complexities that you have to solve to do that efficiently and to do that at the scale that you're doing it at today?

DR: Let me start at the process of recipe development and actually putting together the right menu. I think that's something that is vastly underappreciated. And I think a lot of competitors, also like big retailers in the past who tried to compete with us, really underappreciated the art and science that is behind that.

That's really where it starts. We started out with a very, very small assortment. So it was all about what are five or ten meals that really have mass market appeal, and how can you still make sure that you have variety week over week, month over month.

Now that we have a much larger assortment, we don't have as many constraints, but it's still quite difficult to think about our recipe database that contains about 10,000 recipes, and picking the ones that from a cost perspective, from a taste perspective, but also from a variety perspective, really appeal most to different customer groups.

That's the first thing that it really starts with and that we, as a direct-to-consumer company, can really fully control, and we also put a lot of both art and science into that process of coming up with the right recipes, and then translating, from all of the recipes that we have, that into the right menu that actually we then publish toward customers.

On the whole supply chain and logistics side, we have direct relationships with around about 2,500 suppliers around the globe. We built that up over the last decade. So probably for the first three to five years, we were mainly going via food service offerings, but then really started to understand that not only is it better for freshness but also for our margin if we actually directly integrate with a lot of suppliers along our supply chain.

So today, no matter whether you talk about cattle farmers, chicken farmers, fishermen, dairy farmers, vegetable farmers, etc., there's a lot of different suppliers that we work with directly and that we have built very tight integrations and relationships with.

On the logistics side, more and more, we do some of our deliveries ourselves, because we can guarantee better quality, better on-time delivery and a better customer experience if we actually run that ourselves. So I think that's also something where, depending on where you live, which country, which market, which delivery slot you have, it becomes a pretty complex function to solve.

When is the right slot for you? What's the best delivery window for you? And what also makes sense for us from a cost perspective?

LB: I think what's always been striking to us is that people look at meal kits and because you make it simple and because it's about ingredients in a box, they think it's a more simplistic, and easy to run, and scaled business than it really is. But I think that brings to life that there's quite a lot of different skills sets you need to master, and you need to master every single week, from the data science to the recipes, to the fulfilment, right across the supply chain. Given your menu changes every week, and it's dependent as well on what customers are choosing, how do you manage suppliers? Presumably some ingredients you order every week, like garlic, and then some will be seasonal, like mangoes. How do you balance those relationships with suppliers, given there's huge amounts of variables you're dealing with.

DR: That's right. There are some categories which are pretty much featured every single week in a menu. If you think about chicken, if you think about beef, if you think about potatoes, tomatoes and a bunch of other ingredients, those are featured almost every week in some of our meals, and hence on our menus. And for those categories, we tend to actually go into longer-term contracts with some of the suppliers.

Then there are some categories, such as dairy or certain cheeses or pastas, which we feature every other week or every other month. And sometimes, you have longer-term contractual obligations, sometimes you actually choose to buy that on the spot market. So that's always then a case-by-case decision - how much do we actually want to lock in prices versus how much flexibility we actually would like to have up until the last minute that we need to order or might want to change our menu?

And then there are certainly ingredients that we only use a couple of times per year, and those are either some that we buy on the spot market directly, or where we collaborate closely with different farmers or growers for them to actually plant exactly what we need from them, for those meals.

And very often, we actually collaborate with them three to six months in advance, and say, 'Hey, in week 42, we're going to be featuring purple potatoes on the menu. Can you grow for us half a million purple potatoes for that, for three months' or in six months' time?' And that is something where, very often, you can strike good deals and really build very deep and meaningful relationships with some of your suppliers.

LB: And presumably, over the years, as you've gone directly to more and more suppliers, that means that the freshness you're able to offer versus other ways of eating is higher, because you're not going through a wholesaler, it's not sitting in a distribution centre for a week or then sitting on a supermarket shelf for

another few days, so that the time from farm to table is shorter with HelloFresh than most other ways of eating.

DR: Absolutely. And I think that also makes intuitively sense. The less touches a product requires, the less stops, the less middlemen, the fresher it is and also the more potential to extract margin you actually have. So it's both good for business, it's both good for the consumer, it's good for the environment, so it's a win-win.

But it actually requires building up a strong internal muscle to do that, and you can't do that from day one. You need certain economies of scale first. You need to get to certain thresholds for that to make sense. But once you are able to do that, really everybody benefits.

LB: And you mentioned the environment there. Your business generates quite large reductions in food waste. How meaningful is that for your business and the impact that you're having on food waste?

DR: It's quite meaningful. The small challenge is that we're operating in so many markets globally, 18 markets globally at the moment, and food supply chains are often very local, that it's always hard to make generic statements. But traditional food supply chains have huge problems with food waste, all the way from source to table.

In the US, which is probably the most studied market, about one third of the harvest never makes it to the customer because of shrink, waste along the supply chains, you have odd shapes of the produce, and due to the fact that no consumer actually wants to buy the last avocado or tomato left in the store. So the picture is slightly better in Europe but still produces significant food waste issues.

LB: And I think people can see it in their own households, because obviously, when you go shopping, you order and buy more than you need, whereas HelloFresh gives you the exact filled-out amount of ingredients most of the time, and that's always a big, big saving.

And what I've found fascinating about HelloFresh has been just how radically your proposition has improved over the time that we've invested in you. So if you go back to 2015, when we first met, there was about maybe five meal options that you could have in a week. And you take it to where we are today, as you were alluding to, in some markets, you have over 50 meal options.

DR: When I look back, I feel very embarrassed about the product that we were offering to consumers at that point. But at the same time, I hope that I look back at 2023 in five- or ten-years' time and actually be very embarrassed of what we're actually offering to consumers today.

But in the end, the menu expansion, so basically going from five to 50 choices, that has allowed us to customise much better our offering to different segments of the market. There are some who don't want to spend more than 20 minutes

cooking, others who don't want to spend more than 30 minutes cooking. There are some who want to eat low-carb, others don't eat fish or pork or shellfish.

So there's so many different taste profiles and so many different preferences, and food is such a personal thing for many people, where they have such... Where they're such opinionated about what they actually want to eat or don't want to eat, that this has been one of the most important dimensions for us, to go from niche product to a much more mass-market appeal.

And I definitely don't think that we're at the end of the road here. I still do see that there's a lot of consumers that wish for... At the moment, for example, vegan meals is a big trend. I think in a lot of markets, we feature at the moment about three to five vegan meals, but not in all markets. And the vegan meals, I think we can still do better, and there's a lot more other diets and more convenient options that customers actually want to have.

So enabling, across all of our supply chain, to have a lot more choice for consumers, that then enables you to really reach out to more and more audiences and to really make it a no-brainer for a lot of people to, when they think about weeknight dinners, weeknight cooking, that there shouldn't be any other solution or any other viable alternative that can really deliver much, much better on the promise that it gets you the best, healthiest and most nutritious meal on the table. And that's also what I try to challenge everybody internally on that. It's not about thinking 'what are we today?' but really 'what can we be in five years or in ten years?'

And my vision, very, very clearly, is that all of the different excuses why somebody is not using HelloFresh today, whether that's we don't have the right delivery windows or we don't have the meals that you like or we are not affordable enough for you, all of these things, I think with additional scale and with investing into additional choice, into a better customer experience, should go away, so that hopefully, in ten years' time, we're not talking about serving about 1 per cent of all of the meals that our target groups cook at home, but hopefully that goes up to 2 per cent, to 3 per cent, to 5 per cent, and then we obviously also grow into a much, much bigger business.

LB: Yes. As you point out in a lot of your materials, globally, people are spending about \$7 trillion on food. So in some ways, how big a share you can get of that, it's not about the TAM, we know the TAM is huge, it's can you get the proposition to match with what people want over time, which I think you've been excellent at doing.

The other element there you mentioned is scale, because you mentioned it earlier in terms of we need to scale so that we can go directly to the producer, so that it can be fresher, so that it can be more cost effective. But presumably, when you started out, the idea of offering 50 meals was just a no go, because you were trying to scale to make it profitable to do five.

But over time, what's been key, at least observing HelloFresh, has been using your growth, using your scale, and reinvesting it back in the business to offer more to customers, whether that's handling more complexity on the meal side or whether that's raising prices much lower than inflation. Is that the right way to think about it in terms of you've consistently tried to reinvest in this proposition?

DR: I like to always think about, number one, what is the cost to serve that we have? And how can we lower that cost to serve? And that, we should really celebrate, if we can actually lower it. Because then, as a second step, we can make a decision. Do we want to take that to our bottom line and potentially make investors happy? Do we want to invest that into a better customer proposition to be able to hold on to customers longer or to reach out to new customer audiences, etc.? But the more you can improve your product or the more you can improve your cost to serve, the more opportunities you actually have to make your product better.

LB: And you mentioned investors there a couple of times. I hope you know, over the years, our preference has always been, if you're facing a very large market opportunity and you can reinvest to grow that opportunity, to improve that proposition and therefore grow what you can become over a five- or ten-year period, we've always been very happy to delay that margin progression for that big long-term reward that you've been going after.

DR: Unfortunately, not everybody thinks like you, Lawrence, but we've always appreciated that. And I think, as a founder-led company, we also usually try not to be disturbed too much by any short-term noise around what investors want for the next quarter or not, but really think about the next three years, the next five years and the next ten years. And I always felt that at least we were always very aligned on that.

LB: And Dominik, you won't know this, but after we first met in 2015, I told my parents about HelloFresh as a customer proposition. Because I think, as an investor, when you come across consumer companies, if you're passionate about them and you think that they're a good proposition, you end up telling your friends and family. And that becomes quite a helpful feedback loop of when they use it, do they like it, what are their problems?

And I've done this with a lot of companies over the years. But what was striking with introducing HelloFresh to my parents was they started it in 2015, and they basically used it solidly and probably became some of your hopefully most loyal customers in the UK. That was quite telling to me, about how much they used it and how much it became a part of their lifestyle once they'd made that transition.

And a lot of people now will probably have got to know HelloFresh during the pandemic. Maybe we could talk a little bit about what was that pandemic period

like for you as a business. It must have been a huge operational challenge, both dealing with the conditions of operating a business in the real world in a pandemic situation, but also, at the same time, having to cope with a huge surge of demand that you got through that period.

DR: That's right. We really entered the pandemic period already on a pretty steep growth trajectory. So if you think back to 2019, I think we grew the business by about 50 per cent year over year. And as we have discussed over the last couple of minutes before, it's a very challenging supply chain that you actually need to set up. So it's not easy to double your business or triple your business in any given period, because it has a lot of downstream effects on your manufacturing capabilities, on your suppliers, on consumers, the load on your technology, on your systems, etc.

We've always been a high-growth company, and actually, 2019 was the year that was the lowest year-over-year-growth year up to that point in time, with about 50 per cent year-over-year growth. And we were going into 2020 probably looking for 35 per cent to 40 per cent year-over-year growth, which again, given the supply chain that we operate, is already something that is not easy.

We then ended up 2020 with almost doubling our revenues and then almost doubling revenues again in the year after. And hence, as you rightly pointed out, between 2020 and 2022, we more than tripled revenues, which definitely was something that was a super intense period for us on all different frontiers, so from scaling up our fulfilment centre, from scaling up our technology workforce to demand management that we really had to do, because a lot of people, stuck at home, wanted to try out something new, etc.

So it was operationally, and in terms of company building, organisation building, a very, very intense time. I think, generally, we did a lot of things that made a ton of sense retrospectively, and more things right than wrong. And I was quite amazed, looking back, how we navigated through some of those periods as a company. And a lot of people came together really, really well to make that happen.

But it's also been a double-edged sword, and there are certainly some things that, in retrospect, you would have done differently, or would have made different decisions if you had more time to think it through, and wouldn't have been driven so much by such short-term demand spikes, which are really, I think, a once-in-a-lifetime experience in terms of at the scale that we were at, I think at that point 2-2.5 billion, and then doubling your business and almost doubling it again.

So that's something that was really a unique experience, which I think, looking back, or with hindsight bias, we did more things right than wrong, but we operated in a big realm of uncertainty, and there were a lot of things that were

unknowns and unknown unknowns. And overall, a very, very challenging period, for sure.

LB: I remember when we met a couple of months back in Berlin, you gave the example of, look, there are customers that came in during the early part of the pandemic, in 2020, that tried our product for a bit, got used to how it worked, and then said, but it's not for me, the meal choices aren't enough, there aren't enough delivery days.

But you now see in the data some of those customers that tried it in the pandemic for a while, churned off, coming back and almost rediscovering HelloFresh, and going, actually, this proposition is now better than I thought it was before, and converting back into customers.

DR: That's right. And it's something that generally I think we have seen over the years that, number one, it's about getting the brand out in front of people, it's about making people aware of what it is and where does it fit into their schedule, but then we continuously work on the proposition and on the customer experience. And every year, I think my North Star is that I want to be very confident that, every year, the product that we're building is much, much better than the product that we had in the year before.

And I think if we continue doing so, then there is also much more growth for the business ahead of us, because a better proposition always leads to more customers buying into that, customers staying longer, customers finding more value in your product. And so to me, my personal North Star for the business is always thinking about, do I have the feeling that in this department, in this function, in the customer proposition, we're clearly much better today than we were 12 months ago?

LB: And the other thing, of course, that you did during the last few years, and it happened to be in the pandemic period that you alluded to before, was that you moved into ready-to-eat. And that's been a phenomenal business, when you bought Factor, 100 million in revenue, going to 1 billion in just a couple of years. Could you talk a little bit about what motivated you to go into that area, and the experience of doing so?

DR: We always listen a lot to what customers are telling us. So we're polling customers about how much did they like the recipes that they got, what do they think we can improve with the service, etc. And one of the feedbacks that we always get is, we like the meals, but we want it even more convenient.

So what we did in the meal kit business, we went from meals that five years ago took on average 45 minutes, to now I think it's about 30 minutes. There is a range of 15- to 20-minute meals that we have on the menu. That's on the meal kit side. But we also heard the same thing about... Even with the 15- and 20-minute meal range, we still hear people saying, yes, I like the meals, I like the taste, but can it

even be shorter? So that was one data point that we really took seriously and tried to understand how can we target even shorter cooking time windows.

But then also realised, when looking at the different providers in the ready-to-eat space and in also assessing whether we should set something up ourselves or go for an M&A opportunity, that the other thing that's really interesting is that ready meals are usually consumed when you're alone, so either when you're eating lunch at the desk in your office or when you're eating at home, when you're not eating together with your family, with your kids, whereas meal kits are actually something that you usually do together.

There's less than 10 per cent of our customers who at cook for themselves a meal kit and then eat that by themselves, whereas when we think about our ready meal customers, a lot of them are actually using that for those meal occasions that they spend alone, that they spend at the office, spend at home but spend alone, don't engage in family dinners. So we felt it was really complementary.

And we also felt that a lot of the muscles that you need and that you need to be good at to operate a ready-to-eat business are actually the same muscles that you need to be good at to operate a meal kit business. And I think the combination of customer research, of our own capabilities and of also understanding that it is something that can enlarge our total addressable market was what really made us excited about that space.

And we eventually decided to pursue an M&A opportunity and, for the last three years, have been working super closely with the ex-Factor team and Factor75, that's the brand that we took over, in the US, to make this one of the strongest ready-to-eat players on the market, by most accounts, the largest ready-to-eat player on the market, and have also recently started to internationalise that business, first to Canada, and more recently to Europe as well.

LB: And it's been great to see it coming to Europe. How big and important part of your overall business do you think RTE can be in the long run?

DR: It's always a bit tough to say, to give you an exact number or an exact total addressable market that we're going after, because in my view, going for ready-to-eat meals in a direct-to-consumer fashion completely changes the proposition.

So if you don't have to go through that long and windy retail supply chain, all of a sudden, you can have a much bigger assortment, you can cater to a lot more different tastes and a lot more different diets than you can in retail. You can offer it at a very competitive price point. You can use a lot less preservatives than you usually do in a retail model.

And so I actually do think that we're reimagining the category at the moment, and I do think that the ready meal category, in five or ten years from now, will be much, much bigger than what it is today, but at the same time, much more

nutritious, much tastier and much healthier than what most people think of ready meals today.

But in my view, there is really very little reason why this business line shouldn't become as big as meal kits is today. If I think about the dynamics that I see in the business, then it very much reminds me of the growth momentum that we saw across markets in meal kits in 2015-2016. So those were the early days, where we felt like we have strong product-market fit, we can really go after a big market, we can scale. And that is very much what the ready-to-eat market reminds me of today.

LB: Yes. And I thought it was amazing that it's been the second fastest-growing direct-to-consumer brand in the US, second only to Shein, which is pretty phenomenal, to have that level of growth and impact in the US market.

DR: Yes. No, for sure.

LB: Yes. And I think, again, what you've achieved in the ready-to-eat business is a good validation of that ability to go into areas that are a bit different and build and scale really impressively. How often today do you get time to use meal kits yourself? And what is your favourite recipe?

DR: I'd say I probably cook, on average, about two to three HelloFresh meals per week. And I don't really have the one favourite recipe, but what I very often go for are fish recipes. I think it's really hard to get the right quality and quantity of fish yourself, to understand how to prepare it.

And for me personally, or for our household, it's been a real game-changer to introduce a lot more fish and fish recipes into our household with HelloFresh. But on that, and on really eating your own dog food and making sure that you're staying close to the business, I think it's incredibly important.

LB: And the ready-to-eat meals, as they're coming to Europe, are they going to compete for your attention as well if you have competition almost for your existing meal kits there in your daily life?

DR: I think complementary, because there are a lot of meals that I eat by myself, whether that's lunch every other day in the office or whether that's a few times per week potentially eating dinner by myself. So there are some occasions where I'm eating by myself. And there, I think ready meals actually come in very handy, whereas I definitely don't or wouldn't want to miss family dinners and cooking healthy, wholesome meals from scratch for family dinners with meal kits.

LB: The final question I was just going to ask was what does the world look like if HelloFresh succeeds for you?

DR: In short, I think the world will be a better place. I think we'll offer consumers great choices for all of their different meal occasions. So that means whether you come for dinner, for lunch or for breakfast options, whether you want to have options

for consumption at home or in the workplace, we will have that readily available for you, for all members of that family. And through our vertical integration consumers can be sure they get the highest quality of meals, at an affordable price point.

And so success for us is that a lot of consumers will agree with the statement that it's an absolute no brainer to cover as many of your weekly meal occasions with HelloFresh, because our HelloFresh products are the tastiest, highest quality and most sustainable products out there.

LB: Great. Well, thank you so much for joining us and updating us on that long-term vision of HelloFresh. It's been remarkable to watch and observe it as you've grown and moved into new areas. And look forward to having you back on in the future to talk about the three or four new businesses that don't exist today that are billion-dollar businesses in the future.

DR: It was a lot of fun. Thanks a lot, Lawrence. And I look forward to seeing you in person sometime soon.

CS: So welcome back, Lawrence. I thoroughly enjoyed that conversation there. And I loved Dominik's, I think, opening phrase about the mission of HelloFresh, this concept of changing the way people eat forever. Not an easy problem to solve, but it sounds like they're doing a pretty good job of achieving that.

With this season, we are finishing off each episode by asking the managers the same five questions about the investment case. So for HelloFresh, the first question that we have today is, how did you come across the company, and what's the journey that Scottish Mortgage has been on with HelloFresh since the beginning?

LB: Yes. So HelloFresh started its life as a private company investment within Scottish Mortgage. And we got to know the company through another investment, which was in Rocket Internet that were a large shareholder of HelloFresh. And, Dominik came up to Edinburgh in 2015. He met us and introduced us to the concept, and we decided to invest.

And as we covered in that podcast, at the time, it was a more restricted proposition of only five meal choices, and we've seen it radically evolve over that journey. We supported them in a subsequent private round, as we tend to do, being supportive to our companies over the long term. They then went to IPO, where we were again supportive.

And it's been a volatile journey for HelloFresh, because I think they've always been greeted by market scepticism throughout their time as a public company. But as we stand today, as I said, it is a business that's about four times larger and has higher margins. And I think what becomes really interesting is actually what's next in the journey, as we've talked about, with ready-to-eat, with new D2C offerings over time.

CS: And just following on from that, Lawrence, you and Tom talk a lot about the importance of founder-led companies. I think Dominik might be the first ex-professional footballer founder that we have in the portfolio. But just tell us, in your opinion, a little bit more about what is it about Dominik's personality and the culture that he instils in the business that improves the odds of success, in your eyes, for HelloFresh.

LB: Well, I think some of what he was saying, you'll have got a taste for that. He thinks about things over five- and ten-year timescales. If you go back in time, they could have reached profitability sooner and produced much higher margins than even they do today had they decided to sit back and basically not reinvest that money into the product. And so I think having a founder that is thinking over the long-term time horizon, that is ambitious and is willing to delay gratification to achieve that ambition is absolutely vital. And Dominik has that in spades.

CS: He alluded to that in your conversation, that people maybe underappreciate both the art and the science that goes into meal kits. So I'd be interested in your take. What for you is the competitive edge that HelloFresh has?

LB: Yes. So I think you hinted on it quite well. Meal kits are harder than people think.

CS: Yes.

LB: So you've got your data science for managing recipes. You've got working with suppliers. You've got your customer acquisition machine and customer management. You've got your distribution and fulfilment assembly. And then you've got your last-mile logistics and that overarching passion for food. And you have to execute perfectly, basically, on all of those. And what was really difficult when there was a more crowded field of meal kit companies was that it was very hard to get people to make that big personal change in their lifestyle.

LB: Because when you order your HelloFresh box for the first time, you're investing quite a lot of your own time in that proposition, the time of making those five meals or so. And food is something quite personal and quite important to our families. And so that required a fair amount of upfront marketing costs.

And that meant that a lot of these businesses, when they started, they had to scale quite a lot before they could scale to hit profitability. And being able to scale and get all of those skill sets right and execute it right was not something that everyone could achieve, and there have been a lot of competitors that have fallen by the wayside in that process.

And then as you move forward to today, what I think further pushes HelloFresh out of the rest of the pack has been they've been incredibly successful, they've scaled, but again, they've reinvested those benefits of scale back into the proposition, going from five meal choices to 50-plus, having the ambition to go well beyond that. And that's meaning that the ability for others, I think, to compete and deal with what they're doing only becomes harder over time.

CS: So maybe just moving tack a little bit, Lawrence, thinking about some of the challenges, Dominik referenced the pandemic during your conversation. He said the company had got more things right than wrong, but overall, it was a tough time for the company, trying to navigate that volatile backdrop. So in your opinion, if you look at the potential threats that faces HelloFresh now, what do you think is the most significant, and how well placed are they to overcome some of those threats?

LB: Yes. I think, with some of the muscles in different parts of their business that they have today in customer acquisition, a bank of customers that they can reactivate, the fulfilment and delivery infrastructure that they've built up, that makes them very well positioned against anyone that wants to come in and largely just do what they do. Trying to do that better, I think, would be a really, really tough challenge.

So there, I think you then move on to the long-term risks. Are there form factors that could change, that mean that there's a new way of doing food at home that directly challenges HelloFresh that we haven't thought of? And there, I think we're quite well positioned in Scottish Mortgage, because we're investing in lots of companies that are approaching food in different ways, whether it's Ocado with your grocery shop, whether it's Delivery Hero with your restaurant meals, and DoorDash as well. And so I think that helps us monitor how food might be changing and evolving in quite a helpful way. But the real risk is that there's some form change that we don't really anticipate happening.

CS: Yes.

LB: The other challenge, I think, is just they've come off a period of exceptional demand, and we need to be patient and see what that normalised growth looks like, post-pandemic. They grew over 25 per cent last year, so that was a pretty good growth rate, and I think for this year and for the next few years, what's really key is really what Dominik was talking about, which is they keep improving the proposition, that they're not standing still.

CS: Yes.

LB: And if you're not standing still, that really helps you to deal with any potential future threats that might come your way.

CS: Thanks, Lawrence. And just as a final question, we say at Scottish Mortgage we're trying to identify, own and support the world's most exceptional growth companies. So in your opinion, how do you think about HelloFresh being an exceptional growth company, and how would you describe the scale of the opportunity that they have ahead?

LB: So the first thing I'd say is when we first invested in 2015, we underestimated HelloFresh. It's shown us that their market opportunity is a lot larger than we thought. And what is interesting about HelloFresh is that you could say that the

opportunity is absolutely huge. It's \$7 trillion of the amount spent on food at home. And they're obviously a tiny, tiny percentage. Dominik gave the number of they're 1 per cent of meals.

And so it's less, I think, about how big is the opportunity, and more, how can they improve their proposition to tap into that opportunity set? Because the opportunity of their addressable market will be determined by how good they can make their proposition.

So going back to 2015, when you're doing five meal options, you have a much smaller opportunity set. If you can do 50, it's a lot bigger. If you can do 100, it gets even bigger. And if you can start adding in ready-to-eat, where suddenly, if you don't have as much time or you're very ashamed of your culinary skills, as I might be, it becomes again more attractive, and more options over time.

As Dominik said, there's an element of it being not just competitive but complementary to how people eat. And so that means that I think the opportunity set is huge, but I think it will be determined by how much they can improve their product.

And then the final element was one we touched on within that, which is they've built these muscles up as a D2C brand machine, and there's an interesting question of where can they apply those muscles? So ready-to-eat is one and I think validates, look, we can move into a new area and build a big billion-Dollar business here. They've got Pets Table. They have another one about premium meat cuts that they're trying as well.

And as he said, there'll be a number more. And so that means that it's very, very hard to actually say what the opportunity set is here. But I think the best things that we invest in are ones where you know the opportunity set is large, we spend trillions of dollars on food, but you don't know how large it is, and it's unbounded. And that's a very good place to be. Now it makes it very difficult to model the different scenarios of what a company might be able to achieve, but having an opportunity set that is large, somewhat unbounded, and within your control, those are pretty good starting conditions.

CS: Well, that sounds like a pretty optimistic note to leave it on. And actually, ironically, when you and Dominik were talking, my HelloFresh box was actually delivered on my doorstep, during your conversation. So looking forward to seeing what's on the menu tonight. So, Lawrence, thank you very much for your time. I really enjoyed that conversation.

LB: Great. Thanks.

CS: So a huge thank you to our guests today, Dominik Richter of HelloFresh and Deputy Manager of Scottish Mortgage, Lawrence Burns. Next on Season 2, we welcome Paul Sciarra, the Executive Chairman of Joby Aviation. The team at Joby are determining the future of aviation by developing electric aircraft. Described

as the 'Uber of the skies', these aircraft are designed to make traditional, long and congested routes such as the one from JFK Airport to Manhattan faster and cleaner. Be sure to tune in.