2017 Deal Volume Increases from Q4 2016 Lows

The first quarter of 2017 experienced a slight improvement in middle-market deal flow, with volumes up 2.2% over Q4 2016. With the presidential election uncertainty behind us, the M&A market has improved and appears to be accelerating into Q2 2017, despite volumes 2.9% below the first quarter of 2016. Additionally, the last two quarters represent the lowest level of deal volume for back to back quarters since the first half of 2013. These lower levels are likely tied to the uncertainty resulting from the election, with anticipated changes in taxes, regulation, government spending and healthcare. As this uncertainty subsides, deal volume will likely continue to increase.

Strategic and Foreign Acquirers Gain Market Share

The first quarter of 2017 experienced notable changes in the composition of acquirers. Strategic acquirers comprised 69% of the buyer base for middle-market deal volume. This is the highest level witnessed for any quarter over the past five years and represents an increase from 67% in the fourth quarter of 2016. Conversely, the continued decrease in private equity-backed transactions hit a recent low of 31% of total transaction volume. However, given the underlying dynamics of the economy and the credit markets, we anticipate that the remainder of 2017 will show a significant upswing in private equity activity.

In addition to strategic buyers gaining share, Q1 2017 experienced continued strength in foreign buyers’ portion of overall transaction volume. Foreign buyers comprised 13.0% of the buyer base during the first quarter of 2017. Despite the slight decrease from the prior quarter, in which foreign buyers made up 13.4% of the buyer base, these two quarters represent the highest level of cross border deal flow in the U.S. for any period since 2009. Continued strength in cross border deal activity and strategic acquirer interest, coupled with an anticipated upswing in private equity activity, should continue to provide momentum for deal volumes and multiples.

Observed Valuation Multiples Improve

Valuation multiples (as measured by enterprise value / EBITDA) for reported deals increased from 9.4x EBITDA during the fourth quarter of 2016 to 10.3x in the first quarter of 2017. The aforementioned uncertainty around the presidential election is believed to have driven deal multiples downward during the fourth quarter. Observed EBITDA multiples were similar, but slightly higher than those observed in Q1 2016. It is anticipated that Q2 2017 will show a continued improvement in valuation multiples as the election uncertainty subsides, with the potential to eclipse the five year highs set in 2014. The data presented herein is indicative of the middle-market M&A environment, despite the limited number of deals with disclosed enterprise values and EBITDA multiples.
Private Equity Continues to be a Significant Component of Food and Beverage M&A

Both strategic and financial buyers have remained active in the Food and Beverage ("F&B") industry, accounting for 76% and 24% of acquisitions, respectively, in Q1 2017. Strategic buyers continue to dominate overall deal flow and have sought acquisitions to offset slowing organic growth and to diversify their offerings. However, for the last five quarters, financial buyers have continued to play a meaningful role, accounting for an average of 27% of total transaction volume, demonstrating a steady interest in the industry. Q1 2017 saw a modest dip in this trend which appears to be an anomaly likely driven by available supply vs. private equity demand. 2016 and continuing through Q1 2017 saw private equity investments outpacing exits, driven primarily by the attractiveness of the industry’s stability and relatively constant market demand.

As the overall consumer demand for fresh, healthy and organic packaged foods has increased, large companies have adopted a buy vs. build mentality to keep up with demand. A great example of this can be seen with the recent acquisition in March 2017 of Ready Pac Foods Inc., a portfolio company of H.I.G. Capital, by Bonduelle Group. This deal gave Bonduelle increased access to the “better for you” single-serve and ready-to-eat salad and meals market.

F&B M&A Activity Continues to be Driven by Packaged Foods

Consolidation within the Packaged Foods and Meats sector will continue to drive strategic acquisitions, especially as favorable market conditions (i.e., low interest rates, proposed tax reform) and idle cash stockpiles promote deal flow. Q1 2017 was a key indicator of this trend, with 32% of all F&B transactions involving packaged food companies. While many sectors experience growth via product or technology innovation, growth in the Packaged Foods segment comes almost exclusively from adding new offerings. With significant shifts in what consumers are demanding, the quickest and often most efficient way for industry participants to grow revenue, and thus market share, is through mergers and acquisitions.

Deal Flow Driven by Lower Middle-Market

Q1 2017 saw a continued trend towards deals below $250 million. Nearly 95% of transactions were valued below $250 million for the quarter, demonstrating the sustained propensity of large strategic companies to make a greater number of investments in smaller companies rather than making large acquisitions, such as Maple Leaf Foods acquiring Lightlife foods for $140 Million in February 2017. A key driver in this continued trend is the increase in lower middle-market private equity interest, which has led to smaller add-on investments for their respective platform portfolio companies.
About Greenwich Capital Group

GCG is a middle-market focused investment bank offering a range of strategic and financial advisory services to privately held businesses, private equity investors and divisions of publicly traded companies. Our senior bankers have held leadership positions at global investment banking firms, bringing a wealth of experience to each of our clients.

Research Methodology

For the purpose of this report, GCG defines middle-market M&A as an announced and/or completed transaction in which one company purchases a minority or majority equity stake in another company that is based in the United States and has an undisclosed or disclosed enterprise value less than or equal to $500 million. The information provided in this market overview was obtained from sources believed to be reliable, but its accuracy cannot be guaranteed. Statements provided herein reflect GCG’s objective opinions and are not to be construed as legal, accounting, financial or investment advice.

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