FOOD INDUSTRY DEAL DISH

BY GREENWICH CAPITAL GROUP

GCG'S PULSE ON THE CURRENT STATE OF THE FOOD & BEVERAGE INDUSTRY

The alternative food industry continues to experience a remarkable renaissance, as evidenced by the notable presence at Expo West earlier this year. As consumers increasingly opt for healthier and environmentally friendly alternatives, companies in the sector are rising to the challenge. The influx of investment and focus on technological advancements has resulted in alternative foods with more authentic textures and flavors, broadening their appeal among mainstream consumers. Smaller brands are venturing into unconventional areas such as confectionery, seafood, and chicken alternatives, demonstrating innovation and breaking the mold. In the pursuit of diversification, larger players are increasingly showing interest in acquiring these creative ventures. The emphasis on sustainability, particularly regenerative farming, is commendable and is a promising trend in meeting consumers' evolving preferences.

As the industry continues to evolve with consumer preferences, so has the way strategic and financial buyers in the sector think about valuing these companies. The recent F&B industry shift from revenue-centric valuations to EBITDA focus reflects a prudent approach towards acquisitions, emphasizing profitability and stability that historically hasn't existed.

NOTABLE M&A ACTIVITY

$800M

MARS acquires kevin's natural foods

July 5, 2023

Mars to acquire Kevin's Natural Foods

Kevin's Natural Foods is a high-growth maker of chef-inspired entrees, sides and sauces sold online and in retail locations across the US. This acquisition will play a critical role in furthering Mars Food & Nutrition's goals of offering convenient and healthy meal options.

$935M

PAINE SCHWARTZ PARTNERS acquires costa well grown

July 4, 2023

Paine Schwartz Partners ("PSP") to acquire the remaining shares of Costa Group Holdings

Costa Group Holdings is Australia's leading grower, packer and marketer of fresh fruit and vegetables. PSP already acquired a 13.78% stake in Costa Group this past October. This transaction will expand PSP's presence in the food and agriculture sector and instill itself as a leading investor in the space, adding to their already expansive fruit and vegetable portfolio.

$999M

Groupe soufflet acquires UNITED MALT

July 3, 2023

InVivo's Malteries Soufflet to acquire United Malt

Malteries Soufflet is a branch of the French agribusiness InVivo. This acquisition will propel Malteries Soufflet to become a top leader in the malt production industry, expanding sales into new geographic markets and customers while capturing the growth of the beer market.

INDUSTRY TRENDS

Growth of Alternative Food Options

The significant investment and growth of the alternative foods sector was ever apparent at Expo West. As consumer preferences continue to evolve, companies providing alternative protein and dairy options have been steadily gaining market share and experiencing remarkable expansion. The influx of investment in this space has spurred technological advancements, resulting in more authentic textures and flavors for these alternative products, which has increased acceptance among mainstream consumers. While big players like Impossible Foods and Beyond Meat showcased new product offerings, it was the smaller brands that caught attention by breaking away from the conventional plant-based solutions. Venturing into unconventional areas such as confectionery, seafood, and chicken alternatives, these innovative companies are capitalizing on the momentum of the health and environmentally friendly food trend. As a result, larger players are increasingly showing interest in acquiring these creative ventures, drawn by the ability to diversify their portfolios.

Sustainability at the Forefront

Brands are placing a significant emphasis on sustainability, proactively engaging with consumers to highlight their environmentally friendly initiatives. We are noticing that smaller brands have garnered considerable traction among consumers by effectively communicating their sustainability claims, emphasizing their use of sustainable ingredients and packaging. A key driver of the push for sustainability revolves around overhauling traditional packaging materials, particularly single-use plastics and non-recyclable materials. Companies are actively exploring alternative packaging solutions, prioritizing biodegradable and compostable materials to underscore their commitment to waste reduction. As consumers increasingly vote with their wallets, they tend to favor those that align with their goals of environmental responsibility and those that embrace sustainability. One specific trend that continues to gain momentum is regenerative farming. Brands that are being built with a focus on carbon sequestration, water management, holistic grazing and reduced chemical inputs are starting to come to the forefront to meet the evolving preferences of consumers.

M&A TRENDS

Shift from Revenue-Centric Valuations to EBITDA Focus

The current landscape of interest rates has brought about notable changes impacting M&A, particularly the food and beverage sector. Noteworthy is the growing challenge faced by buyers in securing financing for their acquisitions, compounded by the wariness exhibited by conventional lenders when it comes to funding ventures perceived as carrying higher levels of risk. Consequently, a discernible trend has surfaced, wherein industry buyers are recalibrating their approaches to valuation, shifting away from a primary focus on revenue and instead giving precedence to Gross Margin and EBITDA performance.

This shift is reflective of equity providers and lenders displaying a clear inclination towards enterprises that can substantiate a robust history of profitability, rather than those undergoing rapid expansion in revenue without a concurrent consistency in generating profits. The prevailing sentiment in the market is indicative of buyers actively seeking investment opportunities that provide a heightened sense of security and stability, opportunities that they can confidently acquire with a strong foundation.

Slow-Down in QSR M&A Activity

The Quick Service Restaurant (QSR) sector experienced remarkable growth in 2021 and early into 2022, with soaring valuations, readily available capital, and a wave of consolidation led by some of the major players. As an example, FAT Brands went on an acquisition spree, buying Global Franchise Group, Twin Peaks, Fazoli's and other concepts, and Restaurant Brands International acquired Firehouse Subs to add to their QSR portfolio. However, we have noticed a meaningful slowdown in M&A activity for QSR concepts, and buyers are becoming increasingly hesitant to pursue acquisitions in the space. In large part, this is due to margin erosion that has affected the whole industry. Escalating labor costs, supply chain disruptions leading to higher prices for ingredients and materials, and a scarcity of available workforce have all created a challenging operating environment for QSR businesses. All these factors have prompted buyers to exercise caution and adopt a wait-and-see approach as they monitor economic uncertainties. As the industry continues to adapt and respond to the evolving economic conditions, the QSR sector is poised for growth and the potential for improving financing terms will have buyers keeping a watchful eye on the sidelines. One key indicator to watch will be the performance of CAVA since its recent IPO in June of 2023. Although the company has witnessed impressive growth, it is still struggling to find a path to profitability. How the market views CAVA over time will indicate overall QSR sentiment, particularly with younger brands.

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