

FOOD INDUSTRY DEAL DISH

BY GREENWICH CAPITAL GROUP

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

As we push further into 2024, we want to take a deep dive into the expanding role of cold chain management in the Food & Beverage sector, driven partially by the growth in online grocery shopping. This article addresses the challenges and opportunities in the U.S. cold storage industry, including the rising demand for fresh and perishable goods and the significant need for modernized storage facilities. We also delve into merger and acquisition trends, focusing on the growing interest in middle-market companies by larger strategic food companies seeking diversification and innovation. Additionally, we explore the dynamic Contract Packing (Co-packing) industry, highlighting its resilience and attractiveness as an M&A target.

TRENDS

Cold Chain Management and Continued Growth of Online Grocery Shopping

The cold storage industry in the United States, particularly in the Food & Beverage sector, is undergoing significant growth and facing certain challenges. Substantial demand for additional cold storage has been driven by various factors, including the rise in online grocery sales, subscription meal services, consumer preferences for fresh and perishable goods, and the increasing need for pharmaceutical products requiring specialized storage. A major challenge facing the cold storage industry is that the demand for cold storage is outstripping supply. In the U.S., many cold storage facilities are outdated, and the construction of modern facilities is lagging behind the growing demand. Over 78% of cold storage buildings in the U.S. were built before 2000, often lacking the resources of modern operations. To address these challenges, there has been considerable activity in terms of acquisitions, retrofitting older warehouses, and implementing innovative strategies. Companies like Lineage Logistics and Americold have been actively expanding their footprint through acquisitions and innovations. These include investments in new distribution strategies, increased automation, contactless technologies, and blockchain solutions. In 2023, the U.S. cold storage market was valued at approximately \$43.7 billion. This market is expected to continue growing, reaching an estimated \$107.6 billion by 2032, with a compound annual growth rate (CAGR) of 10.5% from 2023 to 2032.

Cold chain enhancements have become increasingly important due to the growth of F&B within the e-commerce industry. Industry experts are projecting that F&B sales will constitute 21% of total e-commerce revenue by 2027. This growth is driven by changing consumer behaviors, particularly the increasing preference for online grocery shopping accelerated by the COVID-19 pandemic. In 2020, online grocery sales in the U.S. jumped to \$110.7 billion,

NOTABLE 2023 M&A ACTIVITY

\$500M



August 14, 2023

Envision Cold Receives \$500M Investment

Envision Cold, a developer and operator of cold storage assets, received a \$500M investment from an undisclosed investor to launch its cold chain platform. Envision Cold was founded by a leadership team with over 50 years of collective experience in the cold storage industry. Envision Cold plans to acquire \$1.5 billion of cold storage assets to provide cold chain services to various markets, including Food & Beverage.

\$262.5M



September 8, 2023

Graphic Packaging to acquire Bell, Inc.

Graphic Packaging completed the acquisition of Bell Inc., a folding carton company specializing in food packaging, food service packaging, consumer packaging, and mailers. The acquisition is expected to grow Graphic's presence in the food service packaging business.

\$235M



October 10, 2023

Post Holdings (NYSE: POST) to acquire Perfection Pet Foods

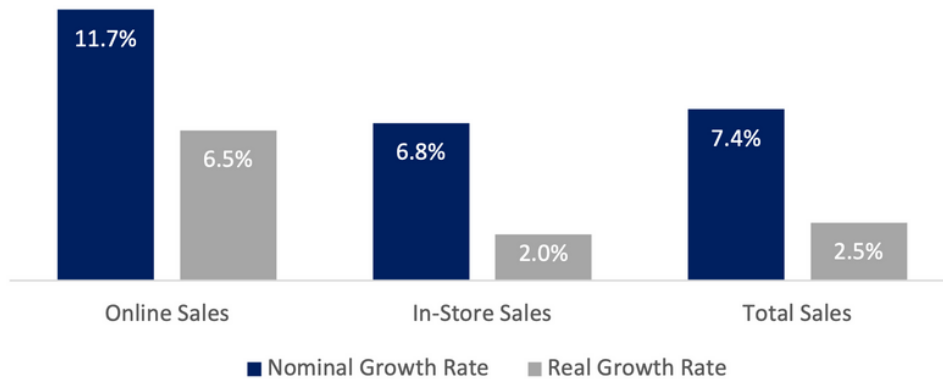
Post Holdings announced that it will acquire Perfection Pet Foods, a manufacturer and packager of private-label and co-manufactured pet food and baked treat products. The acquisition will further bolster Post's Consumer Brands segment and, more specifically, its manufacturing capabilities within its pet food category.

a significant increase from previous years, highlighting the shift towards digital platforms for food purchases. Online grocery shopping is expected to continue its robust growth, with a projected CAGR of 6.5% through 2027. While the lion's share of consumers still prefers the touch-and-feel aspect when buying their groceries, in-store grocery sales are only projecting a modest CAGR of 2% through 2027. Convenience-seeking consumers increasingly opt for "curbside pick-up" or at-home deliveries over traditional in-store shopping. This trend is further bolstered by the rising popularity of meal kits and ready-to-cook meals. Efficient cold chain management is vital in this landscape, ensuring the quality and safety of perishable goods from warehouse to doorstep. The emphasis on reliable cold chain systems is not just a response to immediate needs but a strategic investment for companies aiming to capitalize on the ongoing shift in consumer preferences and maintain a competitive edge in the rapidly evolving F&B e-commerce sector.

GCG anticipates that the growing need for efficient cold chain management will drive key players to engage in M&A as a means to enhance supply chain capabilities and maintain competitiveness. Mirroring trends in retail e-commerce, F&B companies may acquire third-party logistics (3PL) firms or invest in technology companies for in-house AI or IoT capabilities, aiming to improve inventory management and cold chain transparency. As the F&B sector expands in e-commerce, expect innovative investments to strengthen the cold chain infrastructure. One example of this can be seen with Atlanta-based cold storage operator and developer Envision Cold, which launched its cold chain platform with a \$500m investment from an undisclosed capital partner.

The investment will allow Envision Cold to acquire and develop over \$1.5 billion of cold storage assets. Since the company's foundation last year, Envision Cold has closed on acquiring cold storage operations and assets in Oakland, California; San Francisco, California; Laredo, Texas; and Vancouver, BC. The company says it plans to continue acquiring and developing a network of facilities across North America, focusing on markets that are underserved by cold storage from both a physical infrastructure and customer service perspective. Envision Cold provides its users with various services, including traditional cold storage, import/export services, transportation, and blast freezing.

U.S Grocery Sales Growth Forecast (5-Year CAGR Ending 2027)



Nominal Growth Rate includes effects of price inflation; Real Growth Rate excludes it

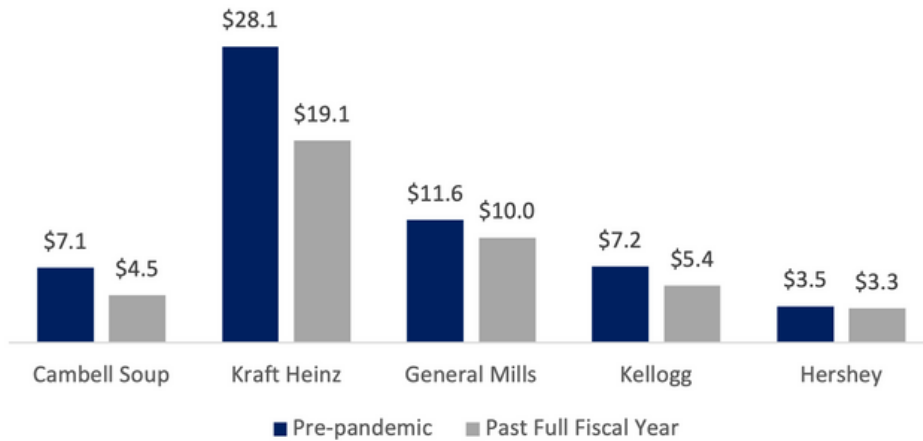
M&A TRENDS

The demand for co-packing capacity in the F&B industry has been growing due to several factors. These include the increasing complexity of food production, the rise in small and medium-sized food businesses requiring production support, the need for specialized packaging capabilities, and the growing trend of outsourcing to manage costs and increase efficiency. Additionally, as consumer preferences shift towards more diverse and specialized food products, companies are turning to co-packers to meet these niche demands without the need for significant capital investment in their own production facilities.

Resilience of F&B M&A in the Middle Market

As the debt levels of large strategic buyers have come down dramatically from pre-pandemic levels, middle-market companies have seen acquisition interest increase. Large strategics have turned to smaller company acquisitions that allow them to diversify their product portfolios, enter new markets, and tap into innovative products and processes that smaller companies often pioneer. Additionally, these acquisitions can provide access to specialized skills or niche market segments, enhance supply chain capabilities, and offer opportunities for cost synergies and efficiency improvements. Larger corporations can also gain competitive advantages and increase their market presence by acquiring middle-market companies.

Long-Term Debt at U.S. Packaged Food Firms
(\$ in billions)



Pre-Pandemic refers to the last full fiscal year before the pandemic.

M&A in the Co-Packing Industry

The Contract Packing (Co-packing) industry, driven by stable end markets such as packaged foods, home care, and pharma, continues to see significant M&A activity. Resiliently through economic downturns, these sectors attract investors aiming for value creation through margin expansion and revenue growth. The co-packing industry's fragmented landscape provides an opportunity for buy and build strategies by acquiring smaller companies to enhance capabilities and increase market share. Additionally, co-packing businesses benefit from recurring revenue streams and long-term contractual agreements as customers continue to produce products that are in need of consistent distribution services, adding to these businesses' stability and long-term visibility. The model has become more attractive to acquirers in recent years as the proliferation of F&B companies focused solely on marketing and sales has dramatically increased. Co-packers, particularly those that can operate in specific niches (e.g., gluten-free, allergen-free, nut-free), continue to be in high demand and are attractive to potential acquirers. The burden of driving sales falls on the brands they partner with, so co-packers can focus exclusively on increasing throughput and quality while reducing costs.

Sources: Colliers, Grocery Dive, Prism Logistics, PR Newswire, Packaging Dive, Post Holdings, SEC Filings

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