



CAPITAL INSIGHTS

FEEDING FRENZY: THE TRENDS BEHIND THE UPTICK IN FOOD M&A

INTRODUCTION

M&A activity in the food industry has been robust in 2018, with more than 100 deals closed over the first six months. Mega-sized deals continue to drive headlines throughout the industry with five deals topping the \$1 billion mark this year. Most have heard of Amazon's [\\$13.7 billion acquisition](#) of Whole Foods, but the Campbell Soup Company, Post Holdings, and the Hershey Company each executed deals over \$1 billion.

Last month, Conagra announced its [\\$10.9 billion acquisition](#) of Pinnacle Foods—making good on its pledge last year that it would make acquisitions a priority. General Mills and Hershey, among other companies, have made similar pledges, providing further evidence that the balance of 2018, and likely 2019, will be similarly active.

THE VARIABLES DRIVING M&A ACTIVITY

Confronted with flattening sales with many of their traditional brands, large food companies are increasingly attentive to consumer preferences for food made with natural and organic ingredients. Innova Market Insights describes this “mindfulness” as the foremost industry trend for 2018. Consumers also favor brands with local roots—a characteristic that is widely regarded as a hallmark of authenticity.



CONSUMER PREFERENCES

“Consumers today have never been more aware of how their food is made and what it’s made with. For many, what they eat is a reflection of their personal values ranging from health and nutrition to the environment and fair trade,” said Kevin O’Sullivan, Principal of SC&H Capital. “In response, companies are diversifying their portfolios to ensure that they have products that satisfy these shifting consumer sentiments.”



CAPITAL MARKETS

Compounding the deal flow has been the abundance of capital in the private markets. [Record levels of private equity dry powder](#) is making its way into key industries, including food and beverage. What’s more, established food and agribusiness companies, according to an [industry outlook report](#) published earlier this year, are making venture capital investments ranging in size from \$100 to \$150 million—a level befitting many middle market deals.

“Many food companies are shifting their growth and product development focus to M&A and strategic investments at a time when there is plenty of capital to be had. As a result, valuations have ratcheted higher as middle market food brands have an abundance of potential growth partners.

Matthew Roberson
Director
SC&H Capital

HOW THE MIDDLE MARKET IS BEING AFFECTED

[Mondelez's recent acquisition of Tate's Bake Shop](#) is a microcosm of how food companies are responding to these trends. The Fortune 500 maker of Oreo and Chips Ahoy cookies paid \$500 million for the Southampton, N.Y.-based producer of natural-baked cookies, cakes, brownies, and pies. Whereas Mondelez's North America sales dipped over the past five years, Tate's sales have quadrupled during the same time period.

“In general, large food companies are highly adept at recognizing strong brands with significant growth potential, while providing them with superior distribution channels which exponentially expands their reach and drives revenue growth” said Christopher Helmrath, Managing Director of SC&H Capital.

The abundance of capital, coupled with the added financial security of a highly active food industry, means that many private equity investors are active in the lower middle market in ways they are not for most other industries. That may be especially true in the Mid-Atlantic market, where there is no shortage of local and regional food companies.

“The Mondelez acquisition of Tate's is evidence of how a PE firm or large food company can be active at this level. It bears noting that the company made clear that Tate's will continue to operate as an independent entity following the acquisition,” said Kevin O'Sullivan, Principal of SC&H Capital.

WHAT BUYERS ARE LOOKING FOR IN POTENTIAL ACQUISITIONS

Food companies contemplating either a sale or a strategic investment should be mindful of the variables of particular interest to larger food companies and PE firms:



UNIQUE INGREDIENTS

Companies whose products include “better-for-you” ingredients that are in favor with health conscience consumers, including lentils, chickpeas, almonds, and shelf-stabled meats. The same is true of products made with all-natural and non-gmo ingredients.



BRANDS WITH LOCAL OR REGIONAL ROOTS

Foods with robust sales, but are nevertheless limited in their penetration of other geographic markets. In addition to benefitting from enhanced distribution channels, these brands are preferred to national brands by many consumers who are increasingly displaying loyalties to regional brands.



DIVERSIFIED CUSTOMER BASES

Consumer and private label companies that have diversified customer bases are viewed as having limited downside potential, while signaling potentially broad appeal in other markets.



DOUBLE-DIGIT EBITDA MARGINS

The foremost yardstick measuring any company’s overall fiscal health, strong EBITDA margins are a prerequisite for most, if not all, deals in the food industry.

WHAT SELLERS NEED TO KNOW

Food companies contemplating either a sale or a strategic investment should also take steps to address several basic priorities:



CLARIFY THE BUSINESS OBJECTIVES

After weighing the relevant variables, determine if the primary business objective is to grow the company or to sell it.



UNDERSTAND A COMPANY'S VALUATION AND MULTIPLES

Based on an analysis of EBITDA margins, but also other variables, estimate the company's valuation. At a time of record-high multiples, this is an especially important undertaking.



IDENTIFY POTENTIAL BUYERS

Based on a company's business objectives, determine which type of buyers—another food company, the venture arm of a food company or a private equity firm—constitutes the best potential suitor.

“We have regular conversations with many business owners to help answer many of these questions and develop strategies to best position their company for a potential sale. For many business owners this is a one-time event, so it's essential they find the right partner for their business and maximize their opportunity.

Greg Hogan
Director
SC&H Capital

CONCLUSION

The middle market food industry is one of the most active and sought after areas of the economy. Everyone from the large multi-national food corporations to lower middle market private equity investors are searching for the next fast-growing brand or value-added manufacturer.

With a limited supply of quality companies and an abundance of buyers, it truly is a seller's market that shows no signs of slowing down. For many food entrepreneurs, this represents an opportunity that is no less than once-in-a-generation.





ABOUT SC&H CAPITAL

SC&H Capital, an affiliate of SC&H Group, is a premier investment bank and advisory firm providing merger and acquisition (M&A), employee stock ownership plan (ESOP), and business valuation solutions globally leading middle market companies. SC&H Capital advises leading companies across numerous industries including technology, healthcare, manufacturing, and government contracting to help owners maximize their exit planning goals and liquidity objectives. To learn more visit www.schcapital.com

CONTACT US



CHRISTOPHER HELMRATH

Managing Director
410. 988.1351
chelmra@schgroup.com



GREGORY HOGAN

Director
410. 988.1352
ghogan@schgroup.com



MATTHEW ROBERSON

Director
410.988.1359
mroberson@schgroup.com



KEVIN O'SULLIVAN

Principal
410. 988.1358
kosullivan@schgroup.com
