SC&H CAPITAL

A 2020 Vision of Food & Beverage

Challenges and Opportunities

What's the Future in Food and Beverage?

The answer depends on which M&A expert you listen to…

NEW TECHNOLOGY and whirlwind changes in consumer tastes have a way of getting industries in trouble fast if they're not paying attention: From phone-booth factories to map makers to typewriter manufacturers, the message is the same: Morph with the market or become irrelevant fast.

Consider Martha Smith's story: With Type 2 diabetes and a weight problem, the suburban Washington, D.C., single mother of two decided it was time to clean up her act, and, on her doctor's advice, started by ditching the three Orange Fantas per day and the pork-rind snacks at work, replacing them with natural fruit drinks and fat-free vegetable chips.

Smith is part of a wave of change confronting the food and beverage industry: Eating habits are changing, thanks to a torrent of healthy-eating information and medical evidence, and it's compelling the manufacturers to face an existential challenge.

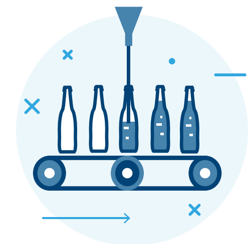
Switching to new products is an answer, of course, but that usually takes investment to fund market research, R&D, new machinery, and costly advertising campaigns. Consider moving from retailing to private-label manufacturing? Or take a lesson from the tobacco giants and move more sales of unhealthy products to the Third World (tariff wars notwithstanding)?

"If you made a chart, there are really four parts of this discussion," says Christopher Helmrath, managing director of SC&H Capital, an investment banking and advisory firm outside Baltimore.

"There's the manufacturing part, which food and beverage execs understand; there are the changes in health trends, which they'd have to be blind not to see; and there's the subsequent changes in consumer and customer habits, which their bottom line may already be feeling. Everybody in the business has some grasp of those three elements.

"What these execs don't have is an understanding of the capital markets, and what opportunities are out there if they get the right advice from a company with vast resources in M&A opportunity research—and a company that can also make the introduction with potential buyers."

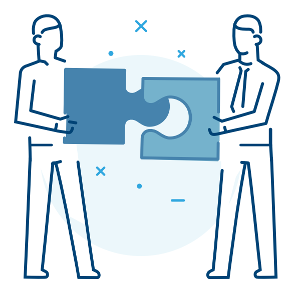
But there are also cases where industry managers don't understand the possibilities in the manufacturing part of the equation: Could, for instance, the machine that blows air into a cheese curl—called an extruder—also be used to make puffed vegetable snacks? It was an actual factor in a deal managed by SC&H Capital.



MANUFACTURING

HEALTH TRENDS

CONSUMER HABITS



CAPITAL MARKETS

Take the example of baking soda, which was invented by the Egyptians in 3500 B.C. as a cleaning agent (and to make mummies). It's subsequently been both branded and used in countless ways, a message to any industry that needs to change.

In any case, doing nothing effective—or doing nothing fast—in many cases means being swallowed up by a more agile and prescient competitor—or just going out of business as sales tank.

But Helmrath answers the biggest question—he says the money is out there. Both in the U.S. and abroad, there are private investors sitting on the sidelines holding billions in cash, and who aren't satisfied with recessionary responses like the 2 percent yield on U.S. Treasuries. (Did someone say recession? Yes, it's overdue, but people still need to eat, so food and beverage is relatively recession-proof, as long as they're hawking the right products). Instead, those investors are lying in waiting for a smart acquisition.

And the consulting part? You need a firm that's not only got its finger on the pulse of the next merger and acquisition wave, but that also can play matchmaker with those hungry investors.

"You need an experienced, connected investment banking firm that has a team of food and beverage industry bankers looking under every rock all over the world for investors and strategic buyers in the worldwide capital markets," says Helmrath.

He cites the example of his firm representing the inventors of a well-known South American banking security app, headquartered in Brazil, that ended up being acquired by a U.S. company and integrated into their software platform for use in multiple markets.

"Our job is as a matchmaker," says Helmrath, "to connect these different parties, and introduce the investors to what we see as the prime M&A opportunities out there that no one's thought of yet—before anyone else gets there."

> *"You need an experienced, connected investment banking firm that has a team of food and beverage industry bankers looking under every rock all over the world for investors and strategic buyers in the worldwide capital markets."*

Proving the M&A Point

CONSUMERS curbed their appetite for snacks in the year ending in March 2019, but manufacturers in the $150 billion industry are betting the right products will bring the demand back.

Consumption has dipped for many grab-and-go foods, according to The Wall Street Journal, citing market research by NPD Group Inc. Yet there is still fresh interest in major snack investments from companies that make well-known products such as Goldfish crackers and Oreo cookies.

Here’s a brief list of some of the more noteworthy M&As and other recent investment activity in the food and beverage industry, illustrating the growth in opportunities in the current market:

1. Illinois-based **Mondelez International**, which makes Triscuit crackers as well as Oreos, is acquiring snack-maker Perfect Bar, in Sorrento, California, which makes refrigerated snack bars and protein bars, including a line of healthy products for children. It’s an example of a large consumer packaged goods (CPG) firm buying a middle-market company (about $70 million in revenue) focused on healthy snacks.

2. SC&H managed the acquisition of privately held **G&S Foods** in Pennsylvania, which makes pellet snacks, pita chips, popcorn, flavored pretzels, and cheese products, as well as having a range of packaging capabilities. After a national search by SC&H, G&S selected MAW Acquisitions.

3. **Impossible Foods** closed a $300 million fundraising round, a record for the plant-based meat industry, bringing their total funding to $750 million and market valuation to $2 billion. There are some VIPs behind Impossible Foods’ funding, too, including Serena Williams, Jay-Z, Trevor Noah, and Bill Gates. The deal came within a week of Beyond Meat’s record-breaking public offering, showing that the plant-based meat market is here to stay.

SC&H advised in the recapitalization of **Graybill Processing**, a family-owned, Pennsylvania-based firm that for 25 years has recycled human-grade food by products such as single serve packaged food, raw candy inputs and bakery goods into top quality, high-energy animal feed supplements for hogs, dairy cattle and beef cattle. The company also provides cocoa-shell mulch products and other related services. Graycliff selected a pair of private equity firms, NCK Capital and Graycliff Partners, as partners to scale the company nationally and capitalize on the convergence of the single serve food packaging trend and the growing recycling/green living trends. 4

J.M. Smucker Co., meanwhile, plans to open a new Colorado factory to produce bite-sized sandwiches filled with peanut butter and jelly and other spreads. 5

After years of acquiring, large CPG companies are starting to divest unwanted or underperforming brands and products, with private equity being the beneficiary. One example is the sale by Campbell Soup of its Bolthouse Farms business to L.A.-based private equity firm **Butterfly** for $150 million. Bolthouse produces organic beverages, dressing, and carrots. As part of a continuing effort to reposition Campbell's, it followed the soup giant's sales of its Garden Fresh Gourmet brand and Campbell's refrigerated soup business. 6

Another example of PE firms looking for opportunities in middle-market companies in food and beverage is the purchase by **Aterian Investment Partners III** of Hain Protein Corp. from the Hain Celestial Group for $80 million. Hain Pure Protein brands include Empire Kosher and FreeBird, which produces gluten-free chicken burgers and other healthy products. It was the second divestment by Hain Celestial within a month: It sold its WestSoy plant-based food business to Keystone Natural Holdings, a portfolio company of PE firm Keystone Capital. Keystone Natural Holdings manufactures plant-based protein products, including tofu, meatless veggie burgers, and other soy-based and vegetarian items under several brand names, selling them to both retail and food-service outlets. 7

ABOUT SC&H CAPITAL

SC&H Capital, an affiliate of SC&H Group, is an investment banking and advisory firm providing merger and acquisition (M&A), employee stock ownership plan (ESOP), capital raising, and business-valuation solutions to middle-market and growth companies nationwide.

SC&H Capital delivers investment banking and advisory services across numerous industries including technology, healthcare, manufacturing, and government contracting to help owners achieve their exit planning goals and liquidity objectives.

To learn more visit **schcapital.com.**

ABOUT CHRISTOPHER HELMRATH

Upon joining the firm in 2005, Helmrath founded SC&H Capital Group, the investment banking and advisory practice of SC&H.

In addition to his 30-plus years of investment banking experience, he has served as a corporate strategy professor in two graduate schools of business, the Loyola University Sellinger School of Business and the Johns Hopkins University Carey Business School, where he served as the Director of the M.B.A. Capstone Program for over 10 years.

chelmrath@schgroup.com | 410-988-1351