

January 2019
Investment Banking

M&A Trends in Private Label 2.0

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Food for Thought



M&A Trends in Private Label 2.0

Acquirers’ healthy appetites for private label food and beverage companies are being driven by more than just cyclical forces.

Historically, private label products have been viewed as one of the leading examples of a counter-cyclical category: during a recession, consumers would “trade down” to private label options—and then revert back to their favorite brands once the economy recovered.

Consumer behavior in the decade since the financial crisis has proved that this theory only partly applies today. In 2008, grocery private label products experienced their biggest gain in market share ever, according to L.E.K. Consulting. But during the economic recovery that gained steamed over the ensuing decade, private label products didn’t give back market share, with penetration rates hovering in the mid- to upper teens since 2010.

We believe that this resiliency reflects a new and potentially golden age for private label products, especially in the food and beverage industry. While private label products are still well positioned to capture more market share in grocery aisles during the next downturn, the appeal of store brands is no longer perceived as being a cheaper and inferior alternative.

Thanks to shifting consumer perceptions, advancements made by traditional grocers and other retailers

in promoting store brands, and the current stage of the economic cycle, financial sponsors and strategic acquirers view private label as one of the food and beverage industry’s most promising growth areas, particularly in the United States. The robust interest in the private label industry is exemplified by the record attendance at the PLMA’s 2018 Private Label Trade Show in Chicago.

Based on conversations we had at the PLMA conference with investors and executives, as well as our advisory work in the industry, we examine the forces that are defining “Private Label 2.0” and leading to attractive multiples for private label-focused food and beverage companies.

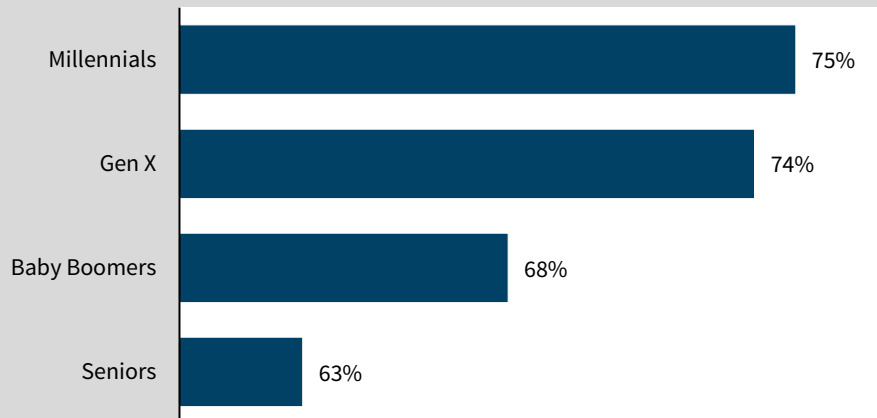
Shifting Millennial Mindsets

Millennials, who will soon overtake baby boomers as the generation with the most discretionary spending power in the United States, are less brand-loyal and more focused on value than older generations. For example, 63% of millennials say they often buy private label brands instead of name brands, compared with 54% of baby boomers, according to an IRI survey. In addition to being more brand-agnostic, millennials are more focused on products with specific attributes, such as better-for-you or better-for-the-environment, which bodes well for private label’s continued expansion into less commodity-oriented and higher-value specialty products.

Perceptions of Private Label Quality by Generation

More so than older generations, millennials believe that the quality of private label brands is on par with brand names. This belief is fueling millennials’ brand agnosticism and driving the growth of private label in the food and beverage industry.

Private Label Products Are Just as Good in Quality as National Brands



Source: IRI Consumer Connect™, Q3 2018

White Space in the United States

While private label penetration has increased in the United States in the past decade, it still significantly trails private label's market share in Europe. Several European countries have private label penetration of about 40%, compared with 18% in the United States, according to L.E.K.

Much of the expected growth in private label food and beverage sales over the next decade will be driven by grocers. Across the spectrum—from value-oriented retailers such as Aldi and Lidl, to premium chains such as Trader Joe's and Amazon's Whole Foods—retailers are becoming much more sophisticated in terms of how they merchandise and market their store brands, which provide higher margins, drive store traffic, and build consumer loyalty.

Aldi and Lidl, two Germany-based chains that generate the vast majority of sales through their private brands, are expanding rapidly in the United States. Meanwhile, private label brands continue to be extremely popular at Whole Foods, Trader Joe's, and big-box club retailers such as Costco and Sam's Club. Amazon, which views private label as a critical growth area in e-commerce, has been aggressively promoting private label offerings and inviting manufacturers to create exclusive, private label products.

Expansion into Specialty Products

In the past, food retailers' private label offerings focused on aisles that are viewed primarily as commodities,

including eggs, milk, and canned vegetables. But today private label is being deployed across a host of higher-value, specialty categories, including almond milk, nut butter, and other on-trend, better-for-you categories.

As consumers'—especially millennials'—demand for specialty products grows, private label offerings are well positioned to attract new consumers and gain market share thanks to improved quality, lower price points, and greater alignment with consumers' personal values.

Kroger continues to pour investment into its highly successful Simple Truth brand, which already accounts for over \$1.5 billion in revenue, and Aldi has rolled out a number of private label offerings that are attuned to health-conscious consumers, including antibiotic-free and hormone-free products.

Amazon has significantly expanded its private label offerings into more specialized categories. In addition to its AmazonBasics line, which originally just included consumer electronics but now includes non-commoditized products across the home and office, Amazon is growing the 365 Everyday Value brand through traditional Whole Foods stores and the streamlined, private label-focused 365 by Whole Foods Market chain.

Window of Opportunity for M&A

While strategic buyers and financial sponsors alike continue to

aggressively pursue high-quality private label companies across the food and beverage industry, financial sponsors have shown an especially healthy appetite for such deals recently. Given where we are in the economic cycle, sponsors view private label as an attractive play in the broader food and beverage industry.

Meanwhile, after a period of pronounced dealmaking, many of the largest strategic buyers in the private label industry are turning their attention inward, which may present an opening for near-term M&A opportunities. In its December 11, 2018, investor presentation, TreeHouse Foods announced that it would focus on optimizing its portfolio, including a strategic review of its snacks business and evaluating additional divestitures of up to \$300 million in revenue. TreeHouse also said its future inorganic growth strategy would focus on smaller, bolt-on acquisitions.

In addition to several ongoing processes involving private label companies, William Blair served as sell-side advisor to many of the leading private label food and beverage producers over the past decade, including frostkrone, Sunrise Growers, American Blanching Company, and Advanced Refreshment.

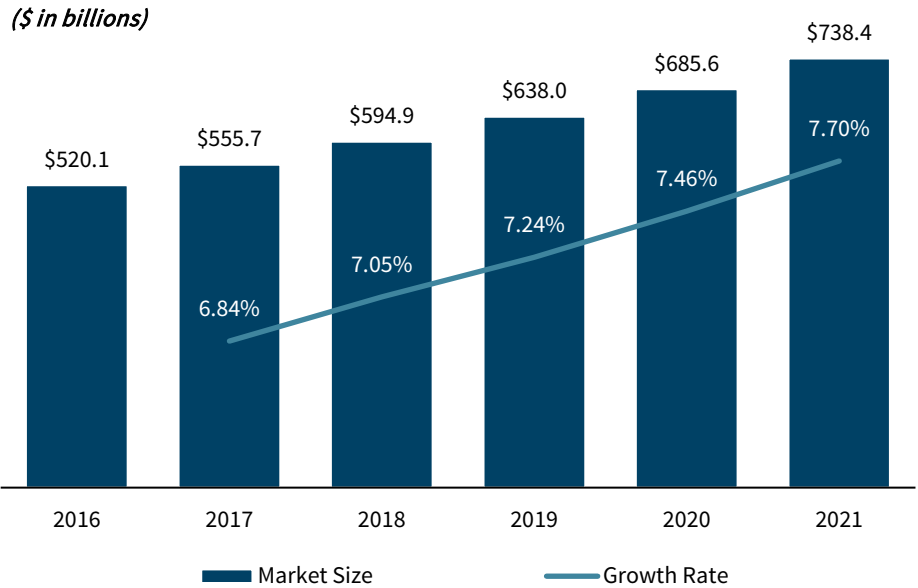
To learn more about these and other trends that are shaping dealmaking activity in the food and beverage industry, please don't hesitate to contact us.

Market Analysis

We look behind the numbers to examine the market dynamics that are driving trends in the deal-making and capital-raising landscape in the food and beverage industry.

Global Private Label Food and Beverage Market

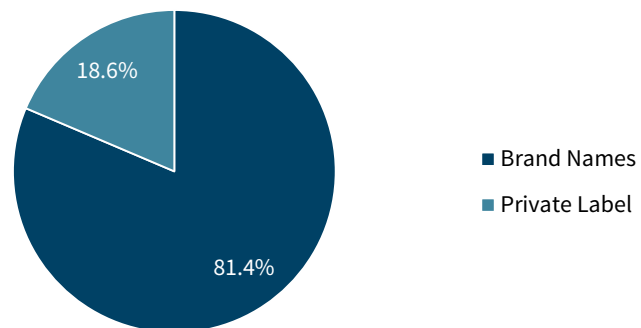
Globally, the private label food and beverage market is expected to expand at a compound annual growth rate of 7.26% from 2016 to 2021. Amid fears of an eventual downturn in the U.S. economy and economic uncertainty around the world, these growth rates make private label companies attractive acquisition targets.



Sources: Technavio

U.S. Private Label Food and Beverage Penetration – 2018

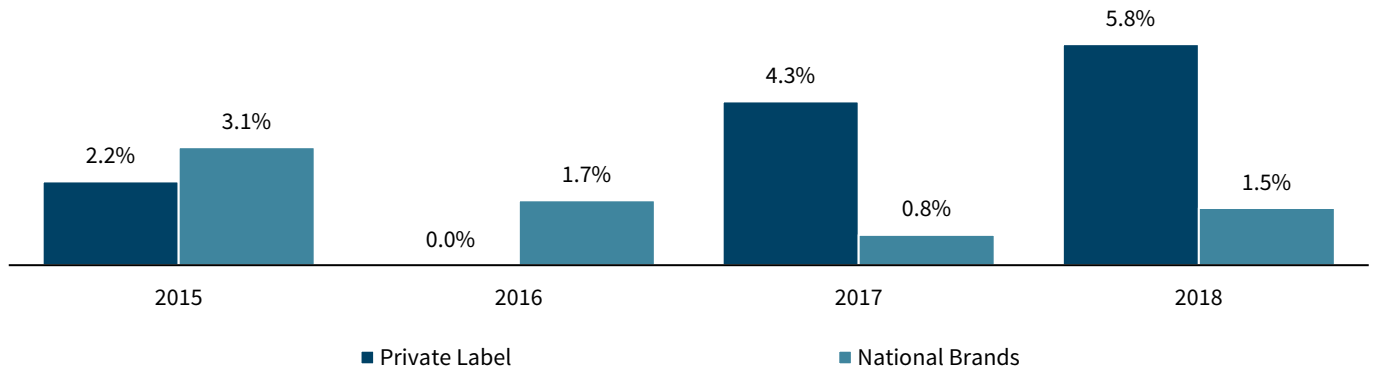
In the United States, private label penetration rates in food and beverage have hovered around 18% the past several years. This could increase as private label-focused grocers Aldi and Lidl execute on their aggressive expansion plans in the United States and as Amazon expands its private label offering through Whole Foods and e-commerce channels.



Source: Technavio

Growth Rates – Private Label vs. National Brands (All CPG Categories)

Across all consumer packaged goods categories, private label sales growth has significantly outpaced growth for national brands each of the past two years—even as unemployment has remained low and the economic recovery has maintained momentum.

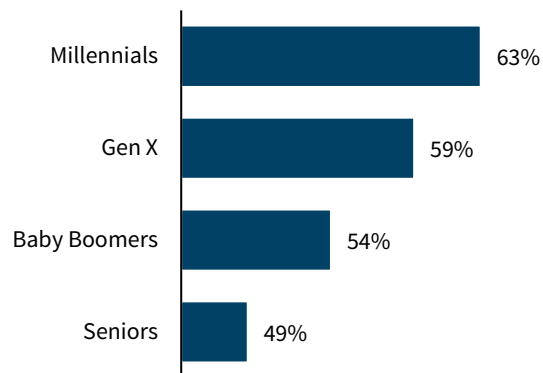


Source: IRI Market Advantage™, year-to-date ending Oct. 7, 2018, and same period prior years; MULOC

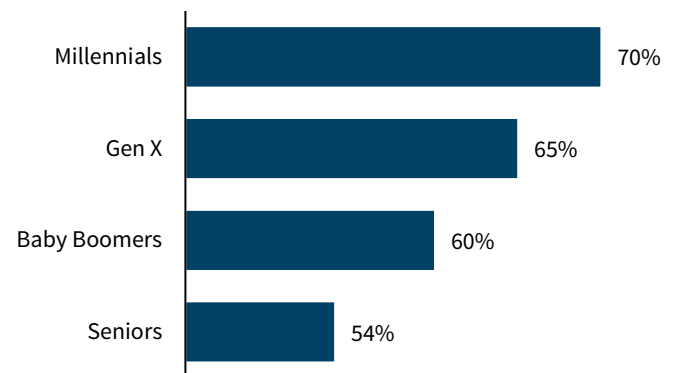
Private Label Shopping Decisions by Generation

Millennials, who will soon overtake baby boomers as the generation with the most discretionary spending power in the United States, are less brand-loyal and more focused on value than older generations.

I Often Buy Private Label Solutions Instead of Name Brands

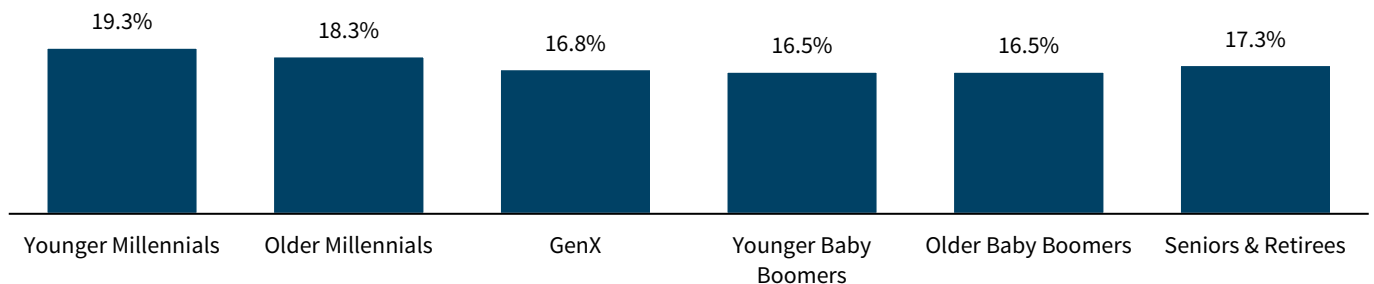


I Prefer Stores That Have a Large Variety of Private Label Solutions to Choose from



Source: IRI Consumer Connect™, Q3 2018

Private Label's Share of CPG Spending



Source: IRI Consumer and Shopper Insights Advantage™, All Outlets, 52 weeks ending Oct. 7, 2018

Drawing on our deep sector expertise and the strength of our relationships, William Blair has built a leading food and beverage investment banking franchise. Business owners turn to us for outstanding execution for their M&A and capital-raising objectives.

Recent consumer & retail transactions include:

Not Disclosed



has been acquired by



November 2018

\$393,000,000



has been acquired by



November 2018

Not Disclosed



has been acquired by



November 2018

\$288,000,000



Initial Public Offering

October 2018

Not Disclosed



has been acquired by



October 2018

Not Disclosed



has been acquired by



October 2018

Not Disclosed



has been acquired by



September 2018

Not Disclosed



has been acquired by



August 2018

Not Disclosed



has been acquired by



August 2018

**William Blair
By the Numbers**

300+

bankers globally with local cultural knowledge

1,050+

completed transactions since 2014

\$300 billion+

in advisory and financing transactions since 2014

Data as of December 31, 2018

Selected Upcoming Industry Events

January 2019

- 13-15 Winter Fancy Food Show, San Francisco, CA
- 14-16 ICR Conference, Orlando, FL
- 20-22 Retail Industry Leaders Association – The Leadership Forum, Amelia Island, FL
- 20-23 Dairy Forum, Orlando, FL
- 25-28 FMI's Midwinter Executive Conference, Miami Beach, FL

February 2019

- 12-14 International Production & Processing Expo, Atlanta, GA
- 23-26 Winter Snack & Dry Grocery EPPS, Las Vegas, NV
- 23-26 AFFI-CON 2019 Frozen Food Convention, San Diego, CA
- 24-27 The NGAShow Where Independents Gather, San Diego, CA
- 24-27 2019 Retail Supply Chain Conference, Orlando, FL
- 25-28 Convenience Retailing University, Orlando, FL

March 2019

- 03-05 Annual Meat Conference 2019, Dallas, TX
- 03-05 NCA State of the Industry Conference, Boca Raton, FL
- 03-06 ShopTalk, Las Vegas, NV
- 05-09 Natural Products Expo West, Anaheim, CA
- 17-19 Seafood Expo North America & Seafood Processing North America, Boston, MA
- 26-27 Grocery Manufacturers Association Science Forum, Washington, DC
- 31-Apr 03 AFFI Annual Food and Beverage Environmental Conference, New Orleans, LA

Access to Industry Leaders

William Blair is committed to providing the consumer and retail community with access to leading industry investors and corporations around the globe. To learn more about attending our upcoming conferences, please contact James Bertram at jbertram@williamblair.com.

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William Blair’s investment banking group enables corporations, financial sponsors, and owner/entrepreneurs around the world to achieve their growth, liquidity, and financing objectives.

Drawing on the collective intellectual capital and deep sector expertise of a global team that reaches across more than 15 cities on four continents, the investment banking group brings a rigorous and innovative approach to corporate board advisory projects, mergers and acquisitions, and equity and debt financing. From 2013 to 2017, the team advised on more than \$265 billion in completed transaction volume.