

January 2020

Investment Banking

2019 Recap: On-Trend Categories Gain Momentum as Broader Dealmaking Slows

In This Report

Strategics' heightened discipline creates opportunities for financial sponsors

Beyond Meat and Chewy IPOs headline 2019 equity capital markets

Private label continues to gain market share and shelf space

Plant-based becomes vital outlet for innovation and growth

E-commerce: The untapped frontier for food and beverage

Food for Thought



2019 Recap: On-Trend Categories Gain Momentum as Broader Dealmaking Slows

M&A activity and capital-raising in the food and beverage industry slowed in 2019 but remained at healthy levels. The proliferation of plant-based foods and private-label brands as well as the untapped potential of e-commerce should continue to drive growth and dealmaking in 2020.

The food and beverage industry saw no shortage of major developments in 2019. Headline-grabbing events during the year included the initial public offerings of Beyond Meat and Chewy, a slew of cost-cutting measures and divestitures by some of the world’s largest branded food companies, and Kraft Heinz writing down more than \$15 billion to account for the deteriorating value of some of its most well-known brands.

Despite a mild slowdown in overall deal activity in 2019, the M&A environment remains attractive for sellers. Much of the buyer demand is being driven by financial sponsors that are rotating into more defensive sectors as a recession draws nearer; financial sponsors are also taking advantage of opportunities to bid aggressively for assets that in past markets would have been acquired by strategic buyers. Trends related to plant-based foods, e-commerce, and

private label are certain to command investors’ attention and drive acquisition strategies in 2020.

In this issue of Food for Thought, we examine the major trends that shaped the food and beverage industry in 2019 and how they will affect M&A and capital-raising activity in 2020.

Strategics’ Heightened Discipline Creates Opportunities for Financial Sponsors

In 2019, there were 891 food and beverage M&A transactions completed globally, a 9% decrease from 2018. The number of U.S. transactions held steady at 172. One of the most notable

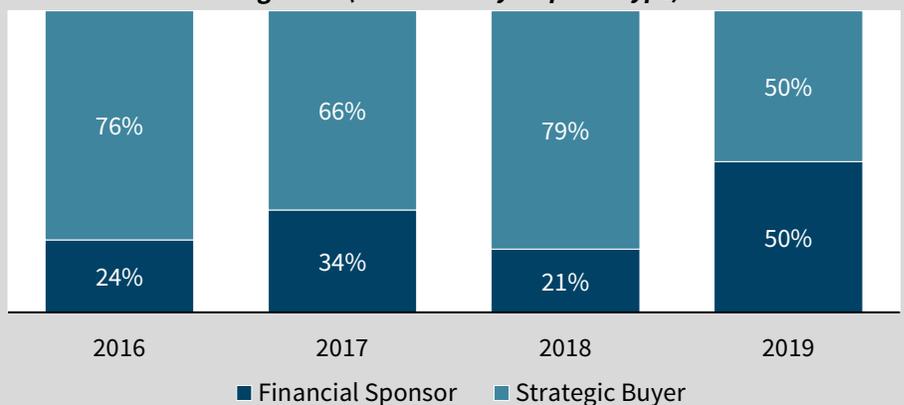
trends in the food and beverage M&A marketplace in 2019 was the increasing importance of financial sponsors. Sponsors accounted for slightly more than half of U.S. activity in terms of deal value, up from 21% in 2018. Globally, sponsors accounted for 37% of deal value in 2019, up from 20% in 2018.

Strategic buyers are focusing on their core businesses and being more disciplined in their M&A pursuits. Several large strategic buyers that previously had been active consolidators, such as TreeHouse and ConAgra, are now focused internally on optimizing past acquisitions and

Financial Sponsors’ Growing Influence in Food and Beverage

Financial sponsors accounted for half of U.S. food and beverage M&A activity by deal value in 2019. As a possible recession draws nearer, sponsors view food and beverage as an attractive industry because of its low levels of cyclicality. Meanwhile, many traditional consolidators have become more internally focused, creating opportunities for sponsors to compete for assets that traditionally would have gone to strategic buyers.

U.S. Food and Beverage M&A (Deal Value by Acquirer Type)



Source: Dealogic

thus are not currently active acquirers. CPGs have realized that innovation and growth cannot come exclusively through acquisitions. Instead, CPGs must invest to develop on-trend products and reinvigorate legacy brands, leveraging the company's strengths in distribution and manufacturing.

Many of 2019's most notable food and beverage transactions were divestitures, a result of large CPGs looking to streamline their portfolio of brands and focus on core strengths. This backdrop has enabled financial sponsors to compete for assets that historically would have gone to strategic buyers. In July, Campbell Soup announced that it was selling its Australian snack unit, Arnott's, to KKR for \$2.2 billion. The divestiture allows Campbell to reduce debt and focus on its core U.S. business.

High-growth brands struggling to generate positive cash flow and EBITDA are not generating nearly as much buyer interest as they had previously. Nevertheless, acquisition targets that check all of the boxes of strategic fit, innovation in on-trend categories, and positive cash flow generation are still achieving high valuations. Recent examples include Mondelez acquiring refrigerated protein bar maker Perfect Snacks; Hershey acquiring nutrition bar maker One Brands; PepsiCo acquiring sports nutrition company CytoSport; and Simply Good Foods acquiring protein bar maker Quest Nutrition.

With a potential recession looming, financial sponsors are attracted to the food and beverage industry because it offers lower levels of cyclicality. This sector rotation, as well as the opportunity to compete for assets that traditionally would have been targeted by large consolidators, has caused financial sponsors to become increasingly aggressive in food and beverage. In addition to KKR's acquisition of Campbell's Arnott's unit, other notable financial sponsor acquisitions of food and beverage assets include VMG Partners acquiring popchips; Highlander Partners acquiring Evans Food Group; and Butterfly acquiring Bolthouse Farms, a unit of Campbell Soup.

Many of these transactions reflect the growing attractiveness of snacking as a high-growth category for financial sponsors. Coinciding with its acquisition of popchips, VMG Partners is also launching Velocity Snack Brands as an incubator for its portfolio of snack brands. Highlander announced that Evans, a leading producer of pork rinds, would be part of Highlander's recently created Benestar Brands snack food platform.

Beyond Meat and Chewy IPOs Headline 2019 Equity Capital Markets

Food and beverage companies remained largely on the sidelines of equity capital markets in 2019. There were, however, several notable public debuts, headlined by plant-based leader Beyond Meat and e-commerce

pet consumables retailer Chewy. William Blair served as an underwriter for Beyond Meat and Chewy, which were 2019's highest-profile IPOs. Thanks to major advancements in flavor and texture, investors began to see the potential for plant-based meats to rapidly gain market share and replicate the success of dairy alternatives but in a significantly larger category. Another food and beverage IPO in 2019 was nutrition holding company BellRing Brands.

ECM activity in 2020 will likely involve on-trend categories, including better-for-you, snacking, and plant-based foods. Impossible Foods, which makes the plant-based Impossible Burger, raised \$300 million in private capital at a \$2 billion valuation in May. In November, Reuters reported that Impossible Foods was in talks with investors about another round of fundraising that could double that valuation. This fundraising round could position Impossible Foods for an IPO as early as 2020.

Private Label Continues to Gain Market Share and Shelf Space

With financial sponsors broadly viewing the food and beverage industry as a defensive play, private label has become an attractive opportunity for investors preparing for a potential downturn. During the last recession, private label gained significant market share—a phenomenon that was not surprising given the assumption that consumers

typically “trade down” as their disposable income decreases. Importantly, private label maintained much of those gains through the ensuing decade-long period of economic growth and low unemployment. Private-label penetration in the United States still significantly trails levels seen in many of Europe’s largest markets, leaving whitespace for continued private-label growth in the United States.

This shift reflects the gains private label has made in delivering higher-quality products. This enhanced quality has changed perceptions of private label, particularly among younger consumers, who tend to be less loyal to brands. Many of the fastest-growing grocers, namely Aldi and Lidl, focus on private-label offerings. Additionally, more traditional grocers, including mainstream chains like Kroger and high-end chains like Amazon-owned Whole Foods, are expanding their private-label offerings to increase profitability and drive consumer loyalty. The unit share of Kroger’s private brands topped 30% in 2019, and the U.S.’s largest grocer launched a private-label plant-based line last year.

Plant-Based Becomes Vital Outlet for Innovation and Growth

Plant-based options are no longer a niche part of today’s food and beverage industry; they are now mainstream, increasingly appealing to not just vegetarians or vegans, but

also a growing number of flexitarians and traditional consumers who want to eat healthier and lower their environmental impact. Retail sales for the U.S. plant-based food and beverage market reached \$4.5 billion, growing 11% in the past year, compared with only 2% for all foods, according to a July 2019 report published by the Plant Based Foods Association.

Many of the world’s largest, most well-established CPGs have begun repositioning their portfolio of brands to capture the surging demand for plant-based meats. Tyson Foods, one of the world’s largest meat producers, introduced the Raised & Rooted brand, a selection of plant-based meats and blended products. Nestle’s Sweet Earth Foods brand is launching the plant-based Awesome Burger and Awesome Grounds. Meanwhile, other players such as Maple Leaf and Morningstar, which is owned by Kellogg, are ramping up investments in the space. Maple Leaf announced in April its plans to build a \$310 million plant-based protein food processing facility in Indiana, the largest of its kind in North America.

E-Commerce: The Untapped Frontier for Food and Beverage

The food and beverage industry has been slow to move online relative to other consumer goods and services. This slow transition has been driven by multiple factors, including the category’s low margins, legacy physical assets supporting traditional retail, slow-to-evolve consumer

preferences, and the challenges of stocking and distributing a large number of SKUs, many of which are perishable.

Despite current low levels of online penetration, e-commerce is responsible for much of the growth occurring in food and beverage. Amazon’s acquisition of Whole Foods in 2017 signaled where the category was moving. An array of online-enabled options, such as curbside pickup or third-party home delivery services, has proliferated to complement—or in some cases, replace—the traditional grocery store experience.

Beauty and pet food provide a useful roadmap for how food brands can find success online. Despite having similar price points and channel dynamics as food, both beauty and pet food have experienced massive growth online. Beauty especially has been heavily reliant on social media to drive awareness and connect with consumers directly, disintermediating retailers. Pet food is notably recurring, which lends itself well to e-commerce and auto-shipment; about two-thirds of Chewy’s sales come through auto-shipments.

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

Food and Beverage Market Analysis

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

Food and Beverage M&A Values and Volume

M&A activity in the food and beverage industry slowed in 2019 but remains at healthy levels. Trends such as the rise of plant-based foods, private label, and e-commerce should be major drivers of dealmaking activity across the industry in 2020.

All Transactions Globally

Number of Transactions



Transaction Values (\$ in billions)

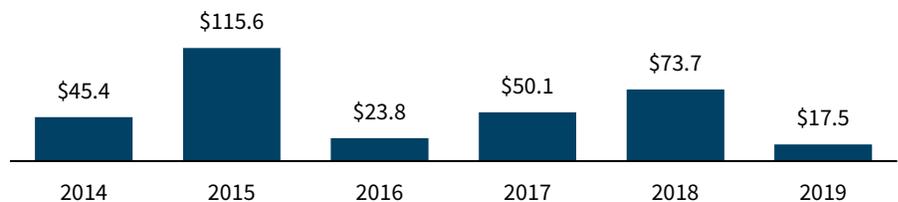


U.S. Transactions

Number of Transactions



Transaction Values (\$ in billions)



Source: Dealogic

Private Label: A Powerful Force in Food and Beverage

Private label has emerged as a major driver of growth in the food and beverage industry, thanks to advances in the quality of private-label products and shifting consumer attitudes. Private-label brands have steadily gained shelf space at grocers and offer significantly greater margins for retailers. As a result of all of these factors, private label’s market share gains may accelerate during the next downturn.

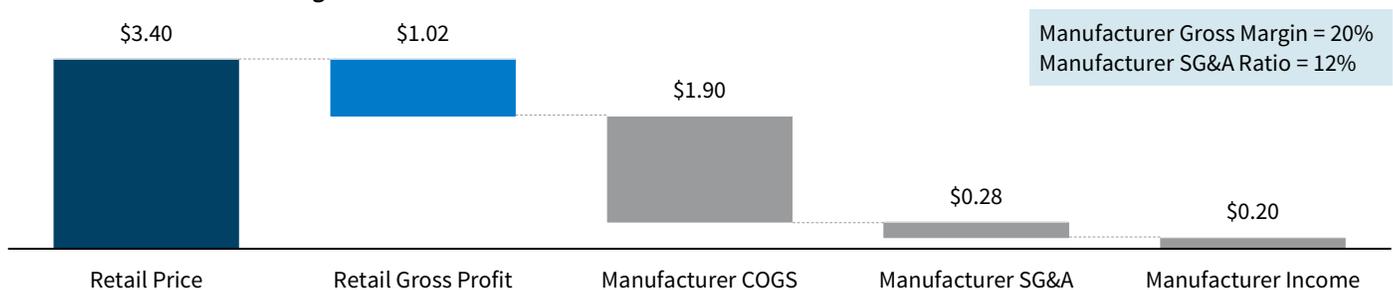
The Development and Enhancement of Private Brands

Dimension	1980s	1990s	2000s	Today
Value Proposition	Value offering for low income households	Value and NBE offering for price sensitive	Value, NBE, & NBB offering for mainstream	Full range of offerings relevant for all consumers
Product Positioning	No-name generics	Store brands	Multiple price tiers	Multiple price tiers and specialty segments
Packaging	Basic	Mainstream	Distinctive	Differentiated
Marketing Support	Limited	On shelf	In-store merchandising, print advertising	TV, print, and digital marketing; endorsements
Retailer Objective	Improve margins	Improve margins, increase share	Build loyalty, increase profit	Drive store selection, optimize share and profit
Consumer Perception	Low price, low quality	Improved value	Quality at a good value	Parity to NBB - product and category specific

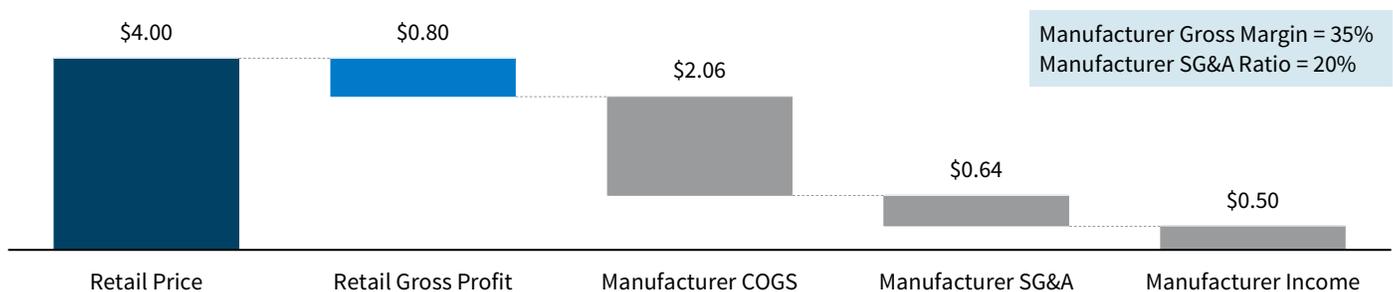
Private Label Offers Economic Incentives for Food Retailers

This is an illustrative example of private brand economics relative to national brand economics in a center-of-store food category.

Private Brand Economics – Signature Select



National Brand Economics – National Food Brands



Note: Private brand manufacturer SG&A ratio lower due to lack of advertising/marketing spending

Source: William Blair Equity Research, “Brand Matters”

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.

Select William Blair Food & Beverage Recent Transactions include:

<p>Not Disclosed</p>  <p>has been acquired by</p>  <p>August 2019</p>	<p>\$874,718,750</p>  <p>BEYOND MEAT™</p> <p>Initial Public Offering and Follow-on Offering</p> <p>May 2019, August 2019</p>	<p>Not Disclosed</p>  <p>has been acquired by</p>  <p>November 2018</p>
<p>Not Disclosed</p>  <p>has been acquired by</p>  <p>October 2018</p>	<p>\$74,752,300</p>  <p>PRIMO WATER</p> <p>Follow-on Offering</p> <p>May 2018</p>	<p>PLN 780,579,707</p>  <p>has been acquired by</p>  <p>January 2018</p>
<p>\$1,200,000,000</p>  <p>has been acquired by</p>  <p>December 2017</p>	<p>Not Disclosed</p>  <p>ATLANTIC AQUA FARMS PREMIUM SHELLFISH</p> <p>has been acquired by</p>  <p>ONTARIO TEACHERS' PENSION PLAN</p> <p>November 2017</p>	<p>Not Disclosed</p>  <p>has been acquired by</p>  <p>PAINE SCHWARTZ PARTNERS</p> <p>November 2017</p>

**William Blair
By the Numbers**

400+

bankers globally with local cultural knowledge

1,050+

completed transactions

\$365 billion+

in advisory and financing transactions

In the past five years as of December 30, 2019

Selected Upcoming Industry Events

February 2020

- 18-19 Convenience Retailing University, New Orleans, LA
- 18-20 The Snack, Winter Program, Las Vegas, NV
- 23-26 The NGA Show, San Diego, CA
- 23-26 2018 Retail Supply Chain Conference, Dallas, TX
- 29-03 AFFI-CON 2018 Frozen Food Convention, Las Vegas, NV

March 2020

- 01-03 NCA State of the Industry Conference, Boca Raton FL
- 02-04 Annual Meat Conference 2020, Nashville, TN
- 03-07 Natural Products Expo West, Anaheim, CA
- 15-17 Seafood Expo NA & Seafood Processing NA, Boston, MA
- 22-25 Restaurant Leadership Conference, Phoenix, AZ

April 2020

- 04-08 AFFI Annual Food and Beverage Environmental Conference, Palm Springs, CA
- 07-09 NACS State of the Industry Summit, Chicago, IL
- 19-22 American Bakers Association Annual Convention, Scottsdale, AZ
- 21-23 Grocery Manufacturers Association Regulatory & Science Forum, Washington DC
- 29-30 NGA Day In Washington, Washington, DC

May 2020

- 16-19 National Restaurant Association Show, Chicago, IL
- 18-21 NCA Sweets & Snacks Expo, Chicago, IL
- 26-27 PLMA's Annual "World of Private-Label," Amsterdam
- 31-02 International Dairy Deli Bakery Association Annual Convention, Indianapolis, IN
- 31-04 NGA Leadership Development Program (Cornell) Ithaca, NY

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.

William Blair Senior Investment Banking Team

Adam Filkin

Group Head, Consumer & Retail
+1 312 364 8077
afilkin@williamblair.com

Brent Smith

*Managing Director,
Head of Consumer & Retail M&A*
+1 312 364 5392
bsmith@williamblair.com

Food and Beverage

James Bertram

*Managing Director,
Head of Food & Beverage*
+1 312 364 5426
jbertram@williamblair.com

Chu-An Lee

Director, B2B Food & Beverage
+1 312 364 5216
cllee@williamblair.com

John LeVert

Director, Branded Food & Beverage
+1 312 364 5217
jlevert@williamblair.com

Food and Convenience Retail

Michael Siska

Managing Director
+1 312 364 5393
msiska@williamblair.com

Europe

Alexander Matthes

Managing Director
+49 69 509527 612
amatthes@williamblair.com

Disclosure

“William Blair” is a trade name for William Blair & Company, L.L.C., William Blair Investment Management, LLC and William Blair International, Ltd. William Blair & Company, L.L.C. and William Blair Investment Management, LLC are each a Delaware company and regulated by the Securities and Exchange Commission. William Blair & Company, L.L.C. is also regulated by The Financial Industry Regulatory Authority and other principal exchanges. William Blair International, Ltd is authorized and regulated by the Financial Conduct Authority (“FCA”) in the United Kingdom. William Blair only offers products and services where it is permitted to do so. Some of these products and services are only offered to persons or institutions situated in the United States and are not offered to persons or institutions outside the United States.

This material has been approved for distribution in the United Kingdom by William Blair International, Ltd. Regulated by the Financial Conduct Authority (FCA), and is directed only at, and is only made available to, persons falling within COB 3.5 and 3.6 of the FCA Handbook (being “Eligible Counterparties” and Professional Clients). This Document is not to be distributed or passed on at any “Retail Clients.” No persons other than persons to whom this document is directed should rely on it or its contents or use it as the basis to make an investment decision.

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 20 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 2015 to 2019, the team advised on more than \$365 billion in completed transaction volume.