

A COMMENTARY ON COVID-19 AND
UK FOOD & BEVERAGE
M&A ACTIVITY FOR H2 2019

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SECTOR SNAPSHOT

A COMMENTARY ON COVID-19 PLUS A REVIEW OF FOOD & BEV M&A ACTIVITY FOR H2 2019



H2 deal volume increase to be followed by a decline in M&A activity in 2020

H2 saw an uptick in M&A activity in the food and beverage sector, with this trend expected to continue into H1 2020 on the back of some Brexit certainty and an overall increase in business confidence. However, the Covid-19 epidemic has had a seismic impact on the food sector as a whole with a number of businesses seeing their turnover shrink almost over night whilst a number deal with unprecedented levels of demand. On the back of this, we would expect sector M&A to be significantly reduced in 2020 as large corporates and private equity focus on their own portfolio's and SMEs look to manage demand, change their business models, or go into a period of hibernation. The post-Corona world is, as yet, still unknown, however it is clear the epidemic has accelerated some underlying trends such as on-line shopping, meal kit purchases and a desire to consume perceived healthier products. We would expect these trends to underpin M&A strategies going forward, along with a desire from large corporates to diversify their customer base and routes to market to reduce the impact of large scale events in the future.

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COVID-19 – TRENDS & ANALYSIS



RETAIL

- After a period of consumer stockpiling, retailers are starting to see stock levels stabilise as social distancing measures begin to take force. Despite this, demand will continue to remain at 'above normal' levels for the foreseeable future.
- Retailers have begun to drastically cut product lines as they seek to improve manufacturing efficiencies for suppliers and reduce time for getting products to shelf.
- Multibuy promotions have largely been removed as retailers seek to manage consumer demand and encourage 'responsible' shopping. This has been most prevalent in the fresh food and food cupboard categories.
- Retailers are ramping up investment in safety measures through the installation of perplex screens at checkouts, limits on the number of consumers in stores and directional floor markings.



FOOD MANUFACTURE

- Food manufacturers continue to cope with Christmas-like volume levels from retailers, particularly those providing everyday staples such as bread, fruit & veg and long-life cupboard stores..
- Small food brands who have benefitted from the diversification of the grocery aisles are feeling the squeeze as retailers reduce product SKU's and focus on big brands and essential items.
- Manufacturers continue to balance surges in demand with staff health and safety with a number hiring specialist hygiene workers and employ stricter guidelines on working protocols.
- Disruption for some elements of food processing looks likely as businesses deal with shortages of labour, blockages to transport routes and difficulty importing produce and ingredients.
- Volatile currency fluctuations are likely to continue causing increased headaches for importers and exporters.



FOODSERVICE

- A number of restaurants continue to offer food via online ordering platforms such as Deliveroo or via contactless collection. This includes fine dining restaurants and gastro pubs who have never previously sold through these channels.
- All restaurants will benefit from a 12 month business rate holiday, whilst those with a rateable value of between £15k-£51k will also be able to apply for an additional cash grant of £25k.
- Traditional takeaway companies such as Domino's have switched to contactless delivery only, with increased deliveries more than offsetting the loss of collection services.
- Food distribution businesses such as Bidfood and Wellocks who have previously supplied the Horeca sector have quickly moved towards a B2C model, supplying directly to consumers using online ordering platforms.



ON-LINE

- The large retailers continue to battle with heavy demand for on-line delivery services with many now booked out weeks in advance.
- Recipe box delivery companies such as Mindful Chef and HelloFresh have seen weekly orders spike by as much as 400% as consumers seek the safety and convenience of meals/ingredients delivered directly to their doors.
- Online food suppliers of all kinds – fruit & veg, dairy, meat & seafood, alcohol – have seen a huge increase in website traffic with delivery dates pushed out weeks in advance as consumers seek to avoid busy retail stores.
- A number of pubs are taking their offering on-line, with the likes of Brewdog launching new virtual bars offering beer tastings, homebrewing masterclasses, quizzes and live music.

CONSUMER HABITS

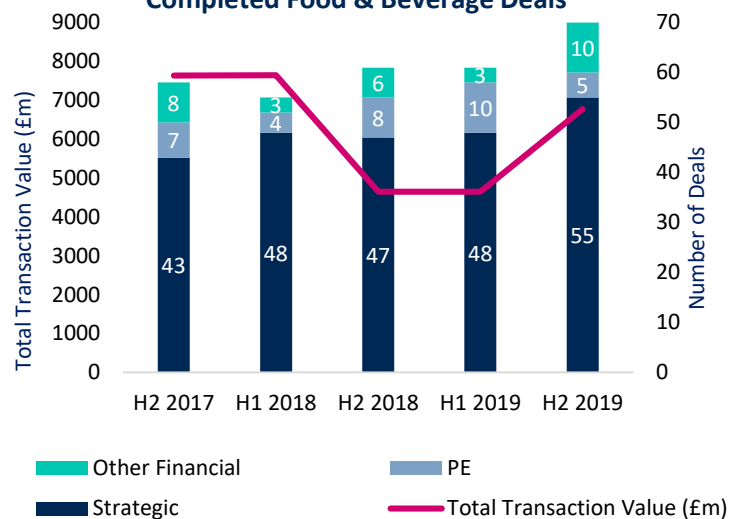
An increase in on-line shopping and consumption of meal kits

Increased consumption of healthy products such as foods rich in Vitamin C, probiotics and vitamins

An increase in 'comfort' eating of chocolates, sweets and ice cream as a way to reduce stress

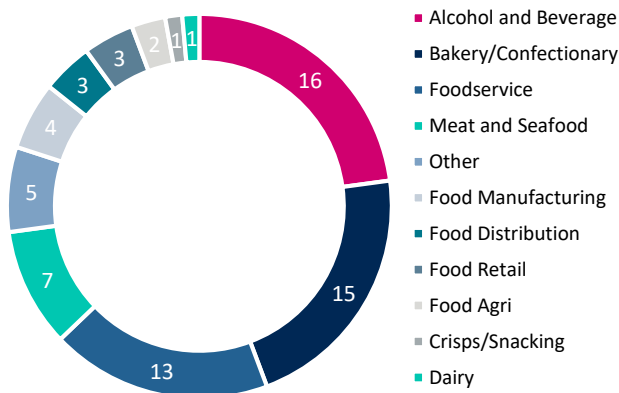
H2 2019 M&A – VOLUMES & SUBSECTORS

Completed Food & Beverage Deals



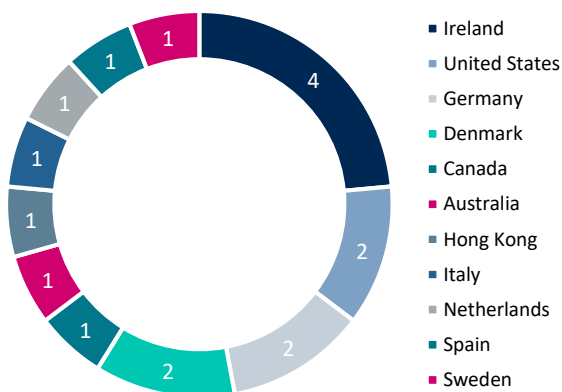
Other financial primarily relates to debt funded deals with no disclosed equity investor.

No. of Food & Beverage Deals by Sub-Sector – H2 2019



H2 2019 M&A – OVERSEAS INVESTORS

No. of Overseas Buyers – H2 2019



H2 saw overseas investors continue to take a significant interest in the UK food and beverage sector with 17 overseas deals completed. The largest overseas deal saw Hong Kong billionaire, Victor Li acquire Greene King, taking advantage of the weak pound to strike a £4.6bn deal for the UK's biggest listed pub and brewery group.

MEAT & SEAFOOD

Despite the championing of veganism and growing plant-based alternatives, the meat and seafood sector was active in H2 with 7 deals completed. This included the acquisition of Tulip, the UK's largest pig producer, by Pilgrims Pride for £290m. This will help to position Pilgrim as a leading global prepared food player and will enhance their value-added portfolio.



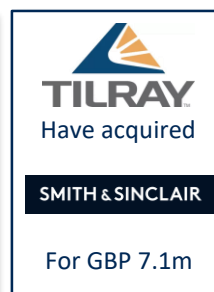
Brexit implications for the UK seafood sector means uncertainty regarding fisheries policies and set quotas. Despite this, one of the largest deals of H2 saw the acquisition of The Scottish Salmon Company by Bakkafrost for £393m. More recently, the Faroe Island salmon producer has increased its shareholding to 80.8% with plans to buy out the remainder of SSC shares in the near future.

Listed meat processor Cranwick was busy during H2 with two acquisitions completed including the purchase of London-based Mediterranean food producer, Katsouris Brothers, for £50.5m. The acquisition aims to support Cranwick's existing continental product range and increase their offering in the plant-based category. H2 also saw Cranwick acquire premium pig farming business Packington Pork, helping them to secure direct control over a significant part of the supply chain for free-range and outdoor bread pigs.

CONFECTIONERY

Consumers appetite for vegan sweets and chocolate continues to increase as they look for healthier alternatives to the traditional offering. On the back of this trend, German confectioner, Katjes International, acquired UK-based vegan confectioner Candy Kittens as they look to gain a foothold in the growing vegan market.

H2 also saw innovative 'boozy' gummy maker Smith and Sinclair acquired by Tilray, one of the largest producers of medical cannabis products, with the aim of creating a line of CBD edibles. CBD is a growth area within the food industry with further M&A expected in this space.



FOOD INGREDIENTS

The Food Ingredients market saw high-levels of M&A activity during H2, particularly within the bakery and confectionery ingredients sub-sector. October saw diary processor Meadow Foods acquire decorations and toppings manufacturer Nimbus Foods, an acquisition which supports Meadow's growth strategy of pushing further into the value-added ingredients space.



Along a similar theme, Dr. Oetker continued its expansion in the baking industry with the acquisition of UK cake decorating business, Cake Craft World. July also saw Kent Foods, one of the largest independent suppliers of sugar, oils and fats acquire Henley Bridge, a distributor of high-end ingredients to chocolatiers and bakers. These acquisitions demonstrate the continued appetite of large corporates to add smaller, specialist businesses to their portfolio in order to strengthen their product offering and routes to market.

In other notable food ingredients deals, September saw the acquisition of East End Foods by Exponent Private Equity. This follows on from Exponent's acquisition of Asian food cash and carry business TRS in June. TRS and East End Foods will operate under one umbrella and will continue serving Indian restaurants, stores and independent retailers as well as pursuing new growth opportunities.

ALCOHOL & BEVERAGE

With millennials drinking less or not at all, the alcohol industry has seen an increase in businesses bringing new products to market in the 'low or no' alcohol category. On the back of this trend, Diageo acquired Seedlip, the world's first distilled non-alcoholic spirit. Diageo believe Seedlip will be a 'global drinks giant of the future' helping to solve the dilemma of 'what to drink when you're not drinking'.

Gin continued to be at the centre of a number of transactions, including Irish gin producer, West Cork buying out Halewood's majority stake in the business with support from the Ireland Strategic Investment Fund for £16.2m.



BRANDED RETAIL

H2 saw M&A activity within branded retail products continue with a number of large corporates adding new categories to their portfolios. This followed on from the acquisitions of Graze, Bounce and Higgidy Pies during H1. Dublin-based Valeo Foods has made a number of acquisitions over the past few years as the group seeks to expand its range of pan-European branded food products.



The owner of Rowse Honey and Jacob's Crackers continued this M&A activity in H2 with the acquisition of premium crisp brand, Kettle Chips, from US-based Campbell Soup Company, in a deal worth £66m. The sale comes less than a year on from Campbell's acquisition of Kettle from Pepsico for an estimated £20m. Following on from this deal, Valeo also confirmed the acquisition of Christmas pudding manufacturer, Matthew Walker, from 2 Sisters Food Group for £67m. This deal comes as 2 Sisters seeks to sell off non-core elements of the group in order to focus on its core meat business.

In other retail activity, leading Spanish ingredients business, Ebro Foods, acquired premium rice brand Tilda from Hains Celstial for £280m. The acquisition will enhance Ebro's portfolio of global food brands whilst also providing them with a strong foothold in the UK market where, to date, they have had minimal presence.

OTHER SELECTED H2 DEALS



Orbis is an independent corporate finance advisory firm, working with business owners, management teams and investors to advise them through every aspect of corporate finance including company sales, management buy-outs/buy-ins, acquisition support, capital raising and business improvement.

The partners have over 100 years of deal-making experience and combine their broad network of global relationships with deep sector knowledge and investor skills to deliver a specialist M&A experience.

Orbis is the UK partner for Clairfield International, a global investment bank, offering clients access to over 400 corporate finance professionals situated in over 20 countries across the globe.

Orbis Partners : Food & Beverage Case Study

Orbis Advises the Unsworth Family on Major Investment in Geary's Bakeries

Business Overview

Geary's was established in 1906 and has remained family-run throughout four generations. The business recently received £15m of investment in 2018 to support the development of a new, purpose-built factory in Leicester to keep pace with the exponential growth demand of its biggest customer, Aldi. Geary's introduced the now-famous bloomer to the category and now supply a range of award-winning loaves and sourdough breads to supermarket retailers as well as food manufacturers.

Orbis was retained as the exclusive corporate finance advisors to the Unsworth Family over an 18-month period, helping to originate and invest in high-quality food manufacturing businesses. Geary's was identified as a superior investment opportunity due to the Company's reputation supplying award-winning artisan breads and it's unique market position. The Orbis team, led by Partner Gary Ecob and Associate Director Steve Nock, acted as lead advisors on the deal.

THE
UNSWORTH
FAMILY

Have acquired

est. 1906

GEARY'S

craft bakers

For undisclosed value

Orbis Partners : Food & Beverage Credentials

 <p>Was sold to</p>  <p>For undisclosed value</p> 	 <p>Was sold to</p>  <p>For undisclosed value</p> 	 <p>Have acquired</p>  <p>For undisclosed value</p> 	 <p>Have acquired</p>  <p>For undisclosed value</p> 	 <p>Was sold to</p>  <p>For undisclosed value</p> 
 <p>Have merged with</p>  <p>For undisclosed value</p> 	 <p>Was sold to</p> <p>A Group Of Investors</p> <p>For undisclosed value</p> 	 <p>Have acquired</p>  <p>For undisclosed value</p> 	 <p>Have acquired</p>  <p>For EUR 20.5</p> 	 <p>Sold a production subsidiary to</p>  <p>For undisclosed value</p> 

If you are considering your strategic options for enhancing the value of your business or your client's business, please contact either Gary or Steve.



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6

SECTOR TEAMS OF SPECIALIZED
EXPERTISE BACKED BY

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COUNTRY TEAMS
ACROSS THE WORLD

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DEALS CLOSED WITH
INTERNATIONAL BUYERS

70

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IN EUROPEAN
MIDMARKET RANKINGS

Top 20

IN WORLDWIDE
MIDMARKET RANKINGS

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DEALS CLOSED ANNUALLY

EUR 20 billion

CUMULATIVE DEAL VALUE
LAST 5 YEARS

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