



FOOD & BEVERAGE MANUFACTURING M&A QUARTERLY

Q1 2023

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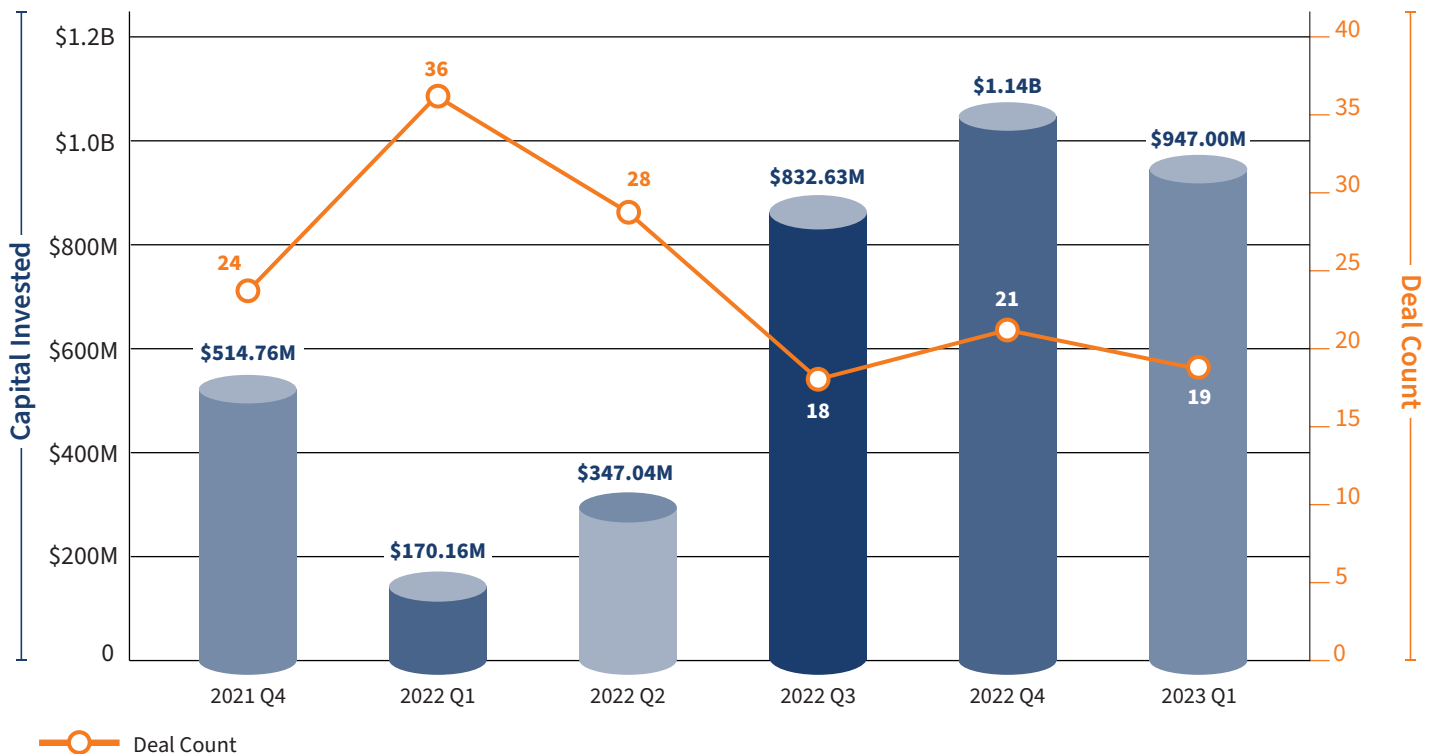
Following broader market trends, food and beverage M&A slowed during Q1 while external forces like inflation, rising interest rates, recessionary fears, and a banking crisis all took center stage. The collapse of Silicon Valley Bank, whose customers included F&B companies like The Better Meat Co. and Equii Foods, cast a shadow over the final weeks of the quarter. Many recent F&B acquisitions were completed by venture firms (e.g., Cercano Management, Female Founders Fund, and New Leaf Invest). This may continue to slow down M&A activity for the sector as venture funds focus on their current portfolio businesses and make sure proper cash management and controls are in place before pursuing further investments.

SKIP TO A SECTION:

- Market factors impacting the deal space
- Key F&B trends to watch

Q1 2023 TRENDING NUMBERS & TOP DEALS

All data gathered from PitchBook Data, Inc., as of April 3, 2023.





For the first quarter of 2023, \$947 million in capital was invested in 19 F&B deals. This is compared to a slightly stronger Q4 of 2022, when a total of \$1.14 billion was allocated to 21 deals. However, for the prior four quarters (Q4 2021 through Q3 2022), M&A for the F&B sector remained fairly steady, ranging anywhere from \$170 million to \$832.6 million per quarter.

The primary investors in the F&B space during the first quarter included Ares Capital Corporation, Ares Management, Beach Point Capital Management, MavenHill Capital, Monticello AG Center, New Leaf Invest, and Peak Rock Capital. One of the more interesting deals involved Kansas City Chiefs' player Travis Kelce, who took an equity stake in Casa Azul Tequila Soda, a ready-to-drink canned cocktail brand.

Other F&B deals that closed during the quarter included:

- The acquisition of Vintage Foods, a distributor of premium European and Mediterranean specialty food products, by Ziyad Brothers. Ares Capital Corporation BDC, Ares Management, Barings, and Peak Rock Capital bought the company via a leveraged buyout (LBO) for an undisclosed sum.
- Sandinista Tequila's \$14.4 million in equity crowdfunding raised on StartEngine. The company produces flavored tequila reposado intended to create a new category of differentiated tequila.
- The sale of Devault Foods, which produces and distributes meat products, by Miami Beef Company (via its financial sponsor Trivest Partners) through an LBO for an undisclosed amount.

MARKET FACTORS IMPACTING THE F&B SPACE

Strategic buyers remain the most active F&B investors right now and are expanding into sub-sectors that are doing well. Buyers are also carving out divisions and products that don't fit their needs. For example:

- During Q4 2022 Imperial Sugar, a processor and marketer of refined sugar, was acquired by United States Sugar for \$315 million. The acquisition will help United States Sugar better serve its domestic customers.
- Kellogg announced a formal legal and operational split of its products. The Chicago-based global snack business will be called Kellanova, a \$14 billion business that includes big household names like Pop-Tarts, Pringles, Eggo, Rice Krispies Treats, Cheez-It, RXBar, and Morningstar. The remaining \$2.5 billion business will keep the company's iconic cereals, including Froot Loops and Frosted Flakes, and will be known as WK Kellogg Co.
- Saratoga Food Specialties (a subsidiary of Smithfield Foods), a producer of dry spice blends and flavorings, was acquired by Solina Group via its financial sponsor, Astorg, through a \$587.5 million LBO in November. The acquisition accelerates Solina Group's footprint into North America by adding liquid solutions to its existing dry seasoning capabilities, doubling its number of facilities in the region and establishing Solina's North American organization.
- Santa Monica-based Starco Brands [acquired](#) meal replacement-product developer Soylent. This was Starco's third acquisition within just six months.



Strategic buyers also continue to innovate within their core product segments in response to changing consumer tastes and demands. Customers are seeking new and exciting flavors, concepts, and experiences. So, while nutrition and sustainability continue to influence our food system, in the end flavor and taste are still key. Here's how companies are responding:

- Pretzel manufacturer Eastern Standard Provisions has begun making waffles that have textures and flavors similar to their core products. The company launched the initiative in Whole Foods, Meijers, Costco, and regional grocery stores.
- Known for its protein pancake and waffle mixes, Kodiak is moving into protein bars.
- Jelly Belly launched a sparkling water line that was featured prominently at the national food conference Expo West, and is available currently on its website.

Other flavors and options that F&B makers are experimenting with include Churro flavors (for both bagged snacks and ice cream); mochi (going beyond ice cream and now being used as a chip flavor); hot, spicy, salsa, and Sriracha flavors; and Yuzu, a mix of lemon and mandarin orange that also tastes like lime and grapefruit.

KEY F&B MANUFACTURING TRENDS TO WATCH

At Expo West this year, attendees saw a significant decline in vegan cheeses being promoted. Vegan cheese makers may be struggling to produce non-dairy products that have the same properties as real cheese (i.e., meltability, taste, etc.) that consumers desire.

Alternative meat product makers are facing their own struggles as consumers tighten their purse strings and realize that these meat substitutes may not be worth the higher price. As a whole, plant-based products are not seeing the strong revenue growth realized in prior years as non-vegetarian consumers return to eating meat that, in some cases, isn't as expensive as plant-based alternatives. The good news is vegan seafood is catching on and the market is expected to reach \$1.3 billion by 2031. The founder of Gardein and Yves Veggie Cuisine introduced the first frozen vegan sushi and onigiri and, in the M&A world, Good Catch was recently acquired by Wicked Kitchen to further expand its product distribution and portfolio.

Other key trends we will continue to see in the F&B space throughout 2023 include:

- FoodNavigator USA [reports](#) that private label food brands have “recovered momentum” lost during the pandemic, in part due to inflation and the fact that consumers are paying closer attention to rising food prices.
- Companies using regenerative agriculture — an outcomes-based food production system that nurtures and restores soil health — to protect the climate, water resources, and biodiversity. This technique also enhances farms' productivity and profitability. The process involves covered crops, reduced tilling, rotated crops, compost spreading, and moving away from synthetic fertilizers, pesticides, and herbicides (among other regenerative techniques).
- Consumers wanting to know more about the “healthy foods” they're consuming and skipping those processed brands for others that offer cleaner and truly healthier formulations. For example, sugary sodas and artificially sweetened foods have been linked to cancer, heart disease, and other diseases. Knowing this, consumers are looking for healthier alternatives to sweeteners commonly used in soda. In 2023, look for more food and beverage manufacturers to use natural sweeteners like agave nectar, stevia, dates, and monk fruit.



After taking a pause during the pandemic to ensure ample shelf space for staples, online and offline grocers are now open to stocking new products. Manufacturers are leveraging the opportunity in different ways:

- Coca-Cola released several experimental soda varieties based on abstract concepts like “space” and “dreams.”
- Kraft Macaroni & Cheese launched a limited-edition ice cream in partnership with Brooklyn-based Van Leeuwen Ice Cream.
- Known for its crackers and pancake mixes, the Chicago-based Simple Mills introduced a new line of sandwich cookies made with nut flour and filled with nut butter crème. The products hit the Whole Foods and Sprouts shelves in November 2022.

The F&B industry, from the start-ups to the billion dollar companies, continues to remain active in M&A and product innovation to meet the evolving needs of consumers. We look forward to following the trends and seeing how they evolve as market forces create some challenges to how consumers spend their money.

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