# US food market

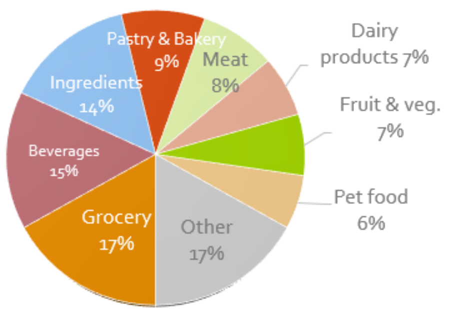
## *Unigrains' opinion on the key events of the quarter*

## Headline news: overview of US M&A transactions in 2020

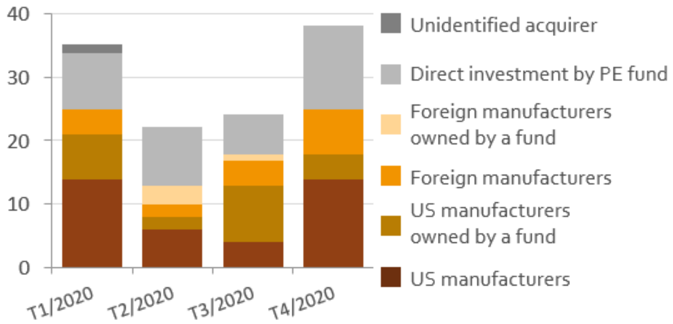
Nearly 120 deals involving US agri-food manufacturers (excluding restaurants, wholesalers and retailers) were listed by MergerMarket in 2020, down from 150 in 2019. The coronavirus crisis put a brake on deals in the second and third quarters. The urgent priority for companies was to handle operational management, with the health restrictions making process implementation more complicated. Activity picked up sharply in the fourth quarter, however, with deals delayed during the year being wrapped up together with a more upbeat outlook.

### Mergers and acquisitions in the US agri-food industry in 2020

Sector breakdown




Breakdown by type of buyer




*Unigrains based on MergerMarket, excluding venture capital investments*
*Scope: industrial production (excluding catering and wholesale and retail trade)*
*119 deals analysed*
*PE: private equity*

In the context of the coronavirus crisis, transactions targeted first and foremost companies with a strong retail focus, with grocery products ranking first, driven by snacks and seasonings. That said, the beverages sector remains in second place (beer and wine accounting for more than 40%). Ingredients stood out in particular in 2020.

Overall, nearly two-thirds of acquisitions were made by strategic investors, i.e. manufacturers, with US companies representing 70% of the buyers. The strategy of the major groups has not changed with the pandemic and aims mainly at rebalancing their portfolio towards sectors that provide long-term growth, such as plant-based products and health and wellness. Some also prefer to focus on a smaller number of brands in order to strengthen their growth potential.

For example, J.M. Smucker sold its Crisco vegetable oils brand (around $550m) to BG Foods, a manufacturer of grocery products, in order to focus on its flagship brands. Nestlé USA acquired Freshly for $1.5bn (including a potential $550m earn-out), i.e. approximately 3.5x expected sales in 2020. The purchase of this fresh meal delivery specialist responds to the growing demand for healthy ready meals that can be ordered online and eaten at home.

It is worth noting the increase in acquisitions made by companies held by funds (nearly 20% of deals in 2020). These companies have financial resources and have been encouraged by shareholder funds to pursue their external growth strategy. Conversely, growth capital funds made fewer direct investments in agri-food companies, but they fed the market by selling portfolio companies (20% of disposals).

Acquisitions made by foreign companies fell to 17% of transactions in 2020. They continue to be dominated by European manufacturers, with the United Kingdom in particular accounting for nearly a quarter of all deals. The United Kingdom and Canada accounted for just under half of cross-border transactions. On the other hand, two European groups sold assets: Aryzta, which confirmed in February 2021 a withdrawal from the US market following its reorganisation, and Ebro Foods, as part of the divestment process of its pasta business, but which remains active in rice in the US.

Although slightly less active than in 2019, French manufacturers stood out. With the acquisition of most of Kraft Heinz's cheese activities, Lactalis signed the second biggest deal of the year: €2.7bn, or 12 times EBITDA. Also of note, the acquisition of Real Food Blends by Danone and that of Diamond Creek Vineyards by Louis Roederer.

2021 kicked off with an active January...

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**"The opportunities are there but you have to be nimble and adaptable"**

After the shock of March and April, the M&A market quickly adapted to the unprecedented situation created by the pandemic. Digital technology has taken a central place in the sale and acquisition process and one year after the start of the crisis, some players can now carry out the entire process remotely, using videoconferences and site visits by drones. Generally speaking, the environment encourages strategic decision-making and is therefore favourable to M&A activity, as evidenced by the return to a high level of transactions at the end of 2020.

2021 looks set to be a year of economic optimism, with massive fiscal and monetary support and the prospect of a return to normal health conditions in the near future. Joe Biden pushed through a massive $1.9 trillion stimulus package, adding to the mountain of cash already injected by Donald Trump. The Fed is keeping rates low, fuelling the robust health of financial markets. Regarding the epidemic, a return to normal is expected for the summer – unless a new variant comes along to call everything into question. Vaccination is in full swing and activities are slowly but surely picking up.

In this buoyant environment, M&A players are all very active, and competition is keeping valuations at very high levels. Private equity funds have large amounts to invest. The major agri-food groups are both buying and selling, keen to continue reshaping their business portfolios. In 2020, they generally gained more leeway to finance the repositioning of their product portfolios: major brands performed well in the context of the pandemic, supported by efficient logistics and the ability to produce large volumes.

Investment banks and M&A firms are supporting the movement. And although they are not yet well developed in the agri-food industry, SPACs[1] are becoming increasingly popular. For a medium-sized private company, accessing the market via a SPAC may be less complex than via a direct IPO. A case in point is Collier Creek Holdings' acquisition of Utz (the fourth-largest savoury snack manufacturer in the US) back in July.

To sum up, the opportunities are there, but all the M&A players are on the lookout. The market therefore requires a high level of nimbleness in decision-making and a strong capacity to adapt, especially as the acceleration of process digitisation often shortens deal agendas. Ultimately, the lifting of health restrictions that currently hinder transatlantic travel should make life easier for European players looking for acquisitions in the United States.

# Key events of the last quarter

## Consumer trends

### *Frozen products are on the rise*

Retail sales of frozen products, up 1.7% per year from 2015 to 2019 (source: Euromonitor), jumped 21% in 2020 to $65.1bn according to Iri data published by the American Frozen Food Institute (AFFI). This acceleration concerns all segments and particularly seafood products (+35%), poultry (+35%) and aperitif products (+29%).

Easy to store and prepare, frozen foods were one of the main beneficiaries of the change in purchasing behaviours during the coronavirus crisis. An AFFI survey published in February 2021 suggests that the renewed interest in this product category is set to continue: 30% of American households increased their storage capacity in 2020 and, above all, 57% are continuing to buy more than before the crisis, in stores and increasingly online.

There are opportunities for manufacturers, both in developing ranges and surfing on current trends in terms of product composition.

### *Decline in brand loyalty and increased sensitivity to promotions during the pandemic*

According to a November 2020 Inmar survey, 61% of American consumers say they switched to cheaper brands during the coronavirus crisis. Sensitivity to promotions also increased, leading 70% of respondents to actively seek out new products and brands.

While brands expanded their customer base during the crisis, they are facing a decline in consumer loyalty. As for promotional activities, they were not a priority given the context in 2020, but the survey underlines the importance for retailers and manufacturers to reactivate this lever and offer consumers cost-saving options.

[1] *SPAC: Special Purpose Acquisition Company. These are de facto empty shells, purely financial structures that are brought to the stock exchange for the purpose of using the money raised to make acquisitions.*

# Retail

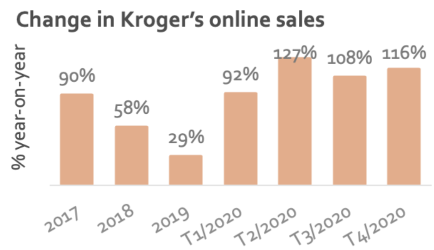
### Amazon discontinues its Pantry service

Amazon announced in early January that it was discontinuing its Prime Pantry offer of home delivery of groceries and household items packaged in large boxes. This service, launched in the US in 2014, marked a greater involvement of the group in the food sector at the time. A subscription option for non-Prime members was launched in 2018.

This decision is part of Amazon's reorganisation of its food offering given the rise of historical players in e-commerce retailing. The Pantry range is being transferred to amazon.com and made more accessible (no additional subscription or minimum purchase). Amazon is also focusing on other areas that are more in line with consumer expectations: express delivery and pickup, using its network of Whole Foods stores for this purpose.

### Kroger accelerates in e-commerce with Ocado

Kroger, the No. 2 retailer in the United States, reported a 116% growth in online sales in 2020 and has made a noteworthy entry into the top 10 US e-retailers (all products combined). According to eMarketer, its online sales reached $11.3bn in 2020.




*Source: Unigrains based on Kroger communication*
*Home delivery, Pickup, Shipt and pharmacy*

Kroger operated 2,223 pickup points and 2,472 home delivery points at the beginning of March. In terms of logistics, the brand stands out from other retailers with the partnership signed in May 2018 with Ocado (in which it became a shareholder) to create a network of large-scale automated warehouses. This partnership has moved into high gear with the first of the 20 announced warehouses coming on stream soon. Around ten other locations are known, mainly for formats of more than 30,000 sq.m. In parallel, Ocado is providing Kroger with technology solutions for its in-store order picking business.

### Instacart revises its pickup service

A specialist in home delivery, Instacart has developed a pickup offer that it is now rolling out in 3,300 stores in partnership with some sixty retailers, including Aldi, Food Lion, Publix, Sprouts and Wegmans.


The partnership conditions have also evolved. Instacart normally assigns its own in-store staff to prepare orders ("Instacart In-Store Shopper Pick" service). However, a growing number of retailers prefer to use their own employees for picking while using Instacart technology so as to increase their margins. In response to these new expectations, Instacart launched a new service, "*Partner Pick*", in January. As a result of this change, the company is letting go of nearly 1,900 of its 10,000 order-picking employees.

Instacart has also strengthened its management and raised a new $265m round of funding in March that values the company at $39bn, double the previous round in October 2020.

### Save A Lot pursues its store franchise strategy

Discount supermarket chain Save A Lot will sell 51 stores in Tampa, Florida to Fresh Encounter, a retailer that owns 61 outlets in Ohio. Fresh Encounter will continue to operate the stores under the Save A Lot banner.

Save A Lot is facing strong competition in the discount segment and needs to reduces its debt. The deal is part of a programme launched in 2020 to franchise almost all of the 300 stores the brand still owns (out of 1,000 under the Save A Lot banner), bringing the number of outlets transferred to 82 in 2020. In order to buttress store activity, franchisees can adapt the assortment to better meet the specificities of local customers.

# Agri-food industry

### Danone acquires vegan pioneer Follow Your Heart

In February, Danone acquired 100% of the shares of Earth Island, the parent company of Follow Your Heart, a company founded in the 1970s and a pioneer of the vegan movement. The brand is the leader in egg-free mayonnaise in the United States ("Vegenaise") and a major player in plant-based alternatives to cheese.

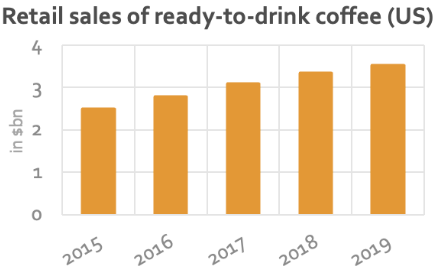
Under the leadership of Emmanuel Faber, Danone has made plant-based alternatives one of the pillars of its "One Planet One Health" strategy. A major turning point came in 2017 with the $12.5bn takeover of Whitewave. With the acquisition of Follow Your Heart, the group is notably ramping up in cheese analogues, an emerging market in which it launched a new range under the So Delicious brand in January.

At the same time, a new page was turned for Danone with the departure of Emmanuel Faber, announced on 14 March. This departure follows several months of governance crisis under pressure from shareholder funds calling for a revision of the group's strategy to increase profitability.

***Chobani launches ready-to-drink coffee business and is said to be considering an IPO***

Chobani is launching a raft of innovations and taking a new step out of the yogurt section with a range of ready-to-drink coffee positioned in the premium cold brew segment.

The company is thus entering a dynamic market (+7.7% per year between 2015 and 2019 according to Euromonitor) and is competing with PepsiCo, the big leader via its partnership with Starbucks (more than 60% market share in 2020), as well as with other multinationals (Danone, Coca Cola, Nestlé).



Source: Euromonitor International Limited

To accelerate its growth, Chobani is reported by the Wall Street Journal to be considering an IPO in 2021, with a target valuation of $7-10bn.

***Nestlé sells its US bottled water business and buys functional water company Essentia Water***

In February, Nestlé announced the sale of its regional spring water and purified water brands in North America to the funds One Rock Capital Partners and Metropoulos & Co. The scope includes brands such as Poland Spring, Deer Park, Ozarka and Ice Mountain, with sales of $3.8bn (2019). The deal is worth some $4.3bn.

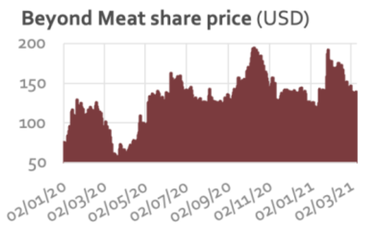
Nestlé sees this as a repositioning rather than a withdrawal from this highly competitive market, which is exposed to increasing plastic bashing. The group is refocusing on its emblematic, higher-margin international brands (Perrier, San Pellegrino and Aqua Panna), for which it wants to achieve carbon neutrality by 2022.

Nestlé is also focusing on functional waters (which provide a health benefit), a market dominated by Coca Cola (Smartwater) and PepsiCo (LIFEWTR). In early March, the group acquired Essentia Water ($192m in sales in 2020), a pioneer and leader in alkaline ionised water in the United States.

***PepsiCo teams up with Beyond Meat to develop new plant-based product lines***

PepsiCo and Beyond Meat have created a joint venture, The PLANet, specialising in the production and marketing of plant-based snacks and drinks. PepsiCo sees these categories as "a tremendous growth opportunity" and will be able to leverage Beyond Meat's technology to develop new product lines. Beyond Meat will benefit from PepsiCo's marketing and sales clout.

The partnership marks a major step in Beyond Meat's development. The announcement was greeted on the stock market by a jump in the share price. In parallel, the company is continuing its experiments with major food service chains, notably McDonald's and Taco Bell.



Source: Unigrains based on Capital IQ

# Regulation

***Sanctions set up in the Airbus-Boeing dispute suspended for four months***

US President Joe Biden and European Commission President Ursula von der Leyen agreed on 5 March to suspend for four months, until 11 July, the reciprocal customs sanctions put in place in the context of the Airbus-Boeing conflict.

The US has been applying duties of 25% on a list of US imports (including wine, spirits, cheese and olives) since 18 October 2019, for a cumulative amount of up to $7.5bn. In turn, the EU introduced additional duties on US imports (notably wheat, vegetable oils, fruit and juices, spirits, chocolate, sweet potatoes) on 10 November 2020 to the tune of $4bn. This suspension should allow the parties to reach a negotiated solution to put an end to this dispute.

# Main corporate events of the last quarter

Main deals involving targets in the United States in the fourth quarter of 2020
Deal value expressed in € million and EBITDA multiples Sources: MergerMarket and press.

| Sector | Date | Deal | Value |
|---|---|---|---|
| Pastry & bakery Biscuits | 03/11/2020 | **Benestar Brands** (**Highlander** fund) acquires **Miller Baking Company** (pretzels and buns) | n/a |
| | 02/11/2020 | **Main Street Gourmet** (**Shore Capital** fund) acquires **Biscotti Brothers** (biscuits) | n/a |
| | 01/10/2020 | **Eurazeo** fund (France) backs the takeover of **Dewey's Bakery** (cookies) by its managers | 21 |
| Rice, pasta | 10/11/2020 | **Bunge** acquires **Pacific International Rice** | n/a |
| | 05/11/2020 | **Ebro Foods** sells its dry pasta subsidiary **Riviana Foods** to private label specialist **TreeHouse** | 206 |
| Snacks | 02/12/2020 | **Mars** acquires fig bar maker **Nature's Bakery** | 331 |
| | 17/11/2020 | **Mars** acquires healthy snack bar maker **Kind** | n/a |
| | 12/11/2020 | **Insignia Capital** fund sells **Truco Enterprises** (tortilla chips) to snack specialist Utz Brands | 407 |
| Delicatessen | 01/12/2020 | **Entrepreneurial Equity Partners** fund takes control of sausage and hot dog specialist **Salm Partners** | n/a |
| Dairy products | 08/12/2020 | **Bregal Partners** fund acquires ice cream manufacturer **The Mochi Ice Cream Company** | n/a |
| Catering | 08/12/2020 | **Paine & Schwarz** fund acquires pizza pasta manufacturer **Urban Farmer** | n/a |
| | 07/12/2020 | **Aryzta** sells its pizza preparation activities to **Great Kitchens** (**Brynwood** fund) | n/a |
| | 04/11/2020 | **The Fillo Factory** (frozen food) acquires **GeeFree** Foods (gluten-free frozen dough) | |
| Egg products | 14/12/2020 | **AGR Partners** fund sells egg product manufacturer **Almark** to **Post Holdings** | n/a |
| Pet food | 16/12/2020 | **Trinity Hunt Partners** fund sells **Mid America Pet Food** to **Ergon Capital Partners** fund | n/a |
| | 03/12/2020 | **J.M. Smucker** sells part of its pet food assets (**Natural Balance Pet Food**) to **Nexus Capital** | 41 |
| | 04/11/2020 | **VMG Partners** fund sells **Solid Gold Pets** to the Chinese group **H&H** (formerly Biostime) | 139 |
| | 01/10/2020 | **Alvarez & Marsal** fund acquires **BrightPet Nutrition** | n/a |
| Sauces, condiments | 21/12/2020 | **Olam** acquires the US chilli pepper business of Japanese company **Mizkan** | 44 |
| | 11/12/2020 | **San Francisco Equity Part.** sells **Brinkhoff & Monoson** to **Norwest Equity Part.** | n/a |
| | 24/11/2020 | **L Catterton** fund sells **The Cholula Food Company** to **McCormick** | 674 |
| | 19/11/2020 | **Shore Capital** fund acquires condiments specialist **Old World Spices & Seasonings** | n/a |
| Fruit and vegetables | 31/12/2020 | **Benford** fund backs MBO on **Brothers International** (fruit processing) | n/a |
| | 22/10/2020 | **Spanos Barner** fund acquires **The Perfect Puree of Napa Valley** (fruit purées) | n/a |
| | 09/10/2020 | Canadian group **Oppenheimer** acquires 65% of **Eco Farms Avocados** | n/a |
| Fats | 07/12/2020 | **Conagra** sells **Peter Pan** peanut butter business to **Post Holdings** | 84 |
| | 26/10/2020 | **B&G Foods** group acquires **Crisco** (vegetable fats) from **J.M. Smucker** | 465 |
| Beverages | 21/12/2020 | **Caisse de Dépôt et Placement du Québec** invests $200m in **Zevia** (soft drinks) | 164 |
| | 04/11/2020 | Canadian cannabis specialist **Aphria** acquires **SweetWater Brewing** from **TSG Consumer** fund | 257 |
| Ingredients | 30/12/2020 | **McCormick** acquires flavourings manufacturer **Fona International** | 578 |
| | 17/12/2020 | **Whole Earth Brands** acquires sweetener manufacturer **Wholesome Sweeteners** | 192 |
| | 10/11/2020 | **Whole Earth Brands** acquires sweetener and mix manufacturer **Swerve** | 68 |
| | 30/10/2020 | **Abundant Life Foods** sells assets (flavour enhancers) to **Herbalife Nutrition** | 10 |
| | 22/10/2020 | **Core Industrial Partners** fund acquires **J&K Ingredients** (pastry and bakery ingredients) | n/a |
| Other | 21/12/2020 | **Baxter** (Scotland) acquires grocery contract manufacturer **Truitt Bros** | n/a |
| | 25/11/2020 | **Unilever** acquires vitamin manufacturer **SmartyPants** from funds | n/a |
| | 21/10/2020 | **Nutricia** (**Danone** subsidiary) acquires **Real Food Blends** (medical nutrition) | n/a |
| | 15/10/2020 | **Arcadia Consumer Healthcare** (**Avista** fund) acquires **Naturelo Premium Supplements** | n/a |

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