

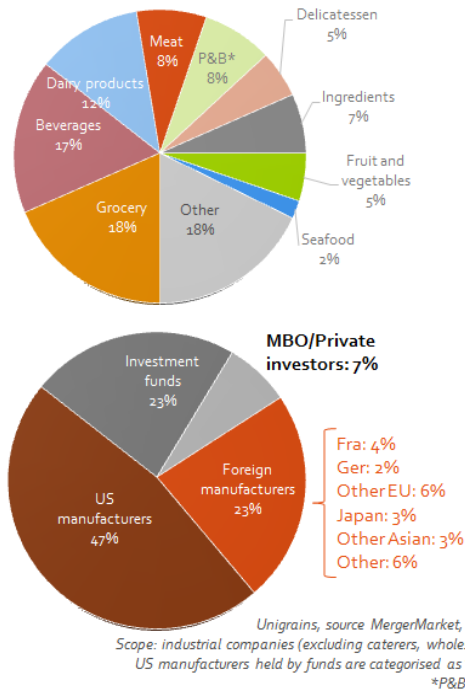


# US food market

## Unigrains' opinion on the quarter's key events

### Headline news: company deals in the US in 2019

#### US agrifoods mergers and acquisitions in 2019



MergerMarket listed just over 150 deals involving United States agrifood manufacturers in 2019.

More than a third of these concerned grocers (mostly in the snacks, sauces and condiments segments) and drinks manufacturers (of which more than 60% in beers and spirits). Next up were dairy (two-thirds in cheese and ice cream), meats, and pastry and bakery (premium breads and pastries in particular).

US manufacturers were responsible for almost half of all acquisitions. The number of mega mergers dipped as large groups continued to integrate recent acquisitions following results below their expectations or introduced deleveraging measures and sold non-core assets. They are tending towards targeted acquisitions of smaller companies allowing them to reposition on ranges more aligned with new market trends.

Private equity funds were very active, investing either directly or through existing portfolio companies and, in some cases, even launching dedicated agrifood funds. This fast-changing sector gives them an entry point into high-growth markets and allows them to acquire both high-profile brands and assets dumped by big manufacturers. Most private equity deals were in the dairy, beverages and pastry and bakery segments.

Cross-border transactions accounted for nearly a quarter of deals, with Europeans responsible for the lion's share. This

shows the draw of the US market for Europe, despite the latter's higher valuation multiples. France was among the most active players, with deals by Axérial (Cargill's malt business), Pernod Ricard (three acquisitions), Louis Roederer (Merry Edwards Winery) and Lactalis (acquisition of the US subsidiary of German dairy group Ehrmann).

As Fabrice Pasquinelli, Unigrains Senior Adviser for North America, points out, activity in the United States M&A market is expected to remain intense in 2020 as local strategic investors, private equity funds and foreign groups continue to scout for deals and US businesses keep the door open to offers from serious buyers.



**Eric Lanthiez**, Managing Director of Messis Finance, a Unigrains-group mergers and acquisitions advisory firm to agrifood and agribusiness companies.

#### "The US continues to be a land of opportunity"

"Should I buy a company in the United States?" Many managers of European SMEs and intermediate-sized companies are asking that question – and rightly so. Expanding across the Atlantic is usually something you only do when you have a solid base in your domestic market and successful operations in nearby countries. But the United States has pulling power, as the clients who ask us to identify targets there would testify.

What makes it so attractive? First off, the US continues to generate GDP far in excess of any other country in the world (more than 50% of China's) and is still growing steadily. Second, it has a company-friendly business environment.

Next, in terms of the food sector, American consumers are demanding healthier food and are increasingly drawn to new products and foreign specialities. This represents an opportunity for European groups used to high nutritional standards and able to monetise their culinary heritage.

Lastly, mass retail in the States remains very local and much more fragmented than in Europe. Supplier-retailer relations there are much more collaborative too, which partly explains the much higher profit margins (sometimes twice as high) that US companies enjoy compared to their European counterparts of similar size and revenue.



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The entrepreneurial culture dominates in the US, and many businesses have the express aim of selling when the right time comes, to "realise their investment". This is borne out by the size of country's M&A market, which accounts for around half of all deals worldwide (more than \$1.8 trillion for US transactions in 2019 out of \$3.9 trillion globally, according to Refinitiv). The US continues to be a land of opportunity!

## Key events of the last quarter

### Consumer trends

#### *Drinks, snacks and plant-based alternatives driving the "niche foods" segment, says Mintel*

According to Mintel, the market in niche foods (natural products, healthfoods, local, fairtrade and sustainable foods, etc. that stand apart from the mainstream offers) was worth \$149 billion in 2018, or 16% of the US food market, and is growing more quickly than that in conventional products.

The research firm points in particular to growth in the drinks segment, driven by ready-to-drink teas and coffees, water, fresh fruit juices and functional beverages, which are sold as aids to relaxation, concentration or digestion, etc. It also highlights the high-performing snacks market, which alone accounts for 27% of niche food sales and is driven in particular by protein-enhanced ranges (with meat-based products such as jerky growing the fastest) and low-sugar alternatives. Lastly, Mintel mentions the numerous innovations driving growth in the market for plant-based alternatives to dairy and meat.


#### *US manufacturers' growing appetite for oat-based dairy alternatives*

Chobani shocked the market in November 2019 when it launched a range of oat-based milks, yoghurts and coffee creamers as an alternative to dairy. This marked a major break with tradition for this iconic dairy producer, which disrupted the market just over ten years ago with its Greek yoghurt.

The launch reflects both the US boom in plant-based drinks and the current trend in oat-based products. Danone was the precursor with its release last summer of an alternative yoghurt and an oat drink, and at January's Winter Fancy Food Show a number of companies were showcasing new ranges featuring this fibre-rich, low-gluten cereal and comprising alternatives to milk, cream and butter. The appetite for oats is spreading to other categories, with the launch in August by RXBAR (Kellogg's) of portion-sized porridges, for example.

### Retail


#### *Walmart and Amazon continue to dominate food e-retailing*

 According to Retail Feedback Group research, Walmart remained the biggest food e-retailer in 2019, gaining 5 points of market share y.o.y. to 37%, ahead of Amazon, whose share contracted from 31% to 29%. Amazon remains the top company for customer satisfaction, however.

These results are testament to Walmart's investment in the US food e-retailing channel, which has become the group's main growth driver. The retailer rolled out its new unlimited delivery scheme nationwide, for example, under which regular grocery customers can pay \$98 a year or \$12.95 a month for delivery instead of \$9.99 each time.


Amazon, meanwhile, continued to push food shopping by removing on 29 October its \$14.99 monthly fee for Amazon Fresh for its Prime customers, subject to a minimum order size. Prime subscribers who have not yet signed up for Amazon Fresh must make a specific request to benefit from the offer.

#### *Shoppers Value placed under Chapter 11 protection*

 Along with its parent company JHJ Inc., Louisiana-based discounter Shoppers Value was placed under Chapter 11 bankruptcy protection. The company is facing serious financial difficulties following its 2018 takeover of six Winn-Dixie points of sale, five of which have since closed. JHJ Inc. hopes to use the procedure to resolve its debt problems, but will have to find new growth drivers in the face of strong regional competition from Brookshire Grocery et al. Southeastern Groceries, another regional retailer, also filed for bankruptcy back in 2018.




### *Kroger sells its stake in Lucky's Market*

 **Lucky's Market** In early December, the United States' second largest retailer Kroger sold its stake in the Lucky's Market minimarket chain, comprising 39 outlets across 10 states. Its withdrawal comes a mere three years after its acquisition, which the market took at the time to be Kroger's ticket into the Florida market. The group has encountered fierce competition, however, not least from the state's biggest retailer, Publix, with its relaunch of the Greenwise brand.

Kroger baulked at the investment needed to relaunch Lucky's Market. Although the group has abandoned that brand, it is continuing to invest in minimarkets through a partnership under which it will operate small grocery outlets in the stores of Walgreens, the pharmacist. Meanwhile, less than two months after Kroger's exit, Lucky's Market announced that it would close 32 stores.



### *Ahold Delhaize invests \$480 million to integrate its east coast supply chain*

 Ahold Delhaize announced its intention to fully integrate its supply chain on the United States' eastern seaboard. The retailer will buy three sites from its current supplier C&S Wholesale Grocers for \$480 million, lease two others and build two fully automated frozen goods warehouses.

It is expecting efficiency savings through shorter goods-to-shelf times and \$100 million of annual cost savings within three years of roll-out.


## Agri-food industry

### *US group IFF merges with DuPont's nutrition and bioscience division*

  US group International Flavor & Fragrances (IFF, revenue \$5 billion), one of the world's biggest manufacturers of food flavourings and nutrition products, has agreed to merge with DuPont's nutrition and bioscience arm. The new company is valued at \$45 billion, with DuPont to hold 55.4% and IFF 44.6%. The merger is awaiting regulatory approval, with completion billed for Q1 2010.

This agreement will give rise to an ingredients giant with revenue of \$11 billion, a nutrition market in its sights and strong existing franchises in segments such as proteins, enzymes and soy-based probiotics.


### *Nestlé sells its US ice cream business to joint venture Froneri*

 Nestlé announced in December that it was contributing its US ice cream business to Froneri, a joint venture between Nestlé and R&R, a PAI Partners fund holding. The business generated revenue of \$1.8 billion in 2018 and the deal is worth some \$4 billion.

Froneri (2018 revenue \$2.94 billion) was born of the 2016 merger between the ice cream activities of Nestlé and R&R Ice Cream, which was limited to 20 countries. Nestlé will continue to run its Canadian, Latin American and Asian ice cream operations directly.


The group is pursuing the strategy it announced in 2017 of restructuring its portfolio to focus on its Nutrition, Health and Wellness activities. It sold its US confectionery activities to Ferrero in 2018, for \$2.8 billion.

### *Chapter 11-protected Dean Foods in talks with DFA*

 Dean Foods filed for Chapter 11 bankruptcy protection in November. The liquid milk specialist (66 plants, 2018 revenue \$7.8 billion) has been suffering for some years from the fall in milk consumption (54 litres per head in 2019 compared with 70 litres in 2010 according to Euromonitor) and competition from plant-based drinks producers and retailer brands. Walmart, for one, decided in 2018 to build its own liquid milk plant for its Great Value brand, and Kroger and Albertson have made similar investments.

Having sold WhiteWave in 2013 (bought subsequently by Danone and now the market leader in plant-based drinks) to refocus on cow's milk, in recent years Dean Foods has been trying to diversify, but the deals it has struck (Friendly's ice cream, joint venture with Organic Valley for organic milk, Uncle Matt's fruit juices and Good Karma linseed products) have fallen short of its objectives. The group has begun talks for the sales of its assets with Dairy Farmers of America (DFA), the country's leading dairy cooperative, of which Dean Foods is the biggest customer.

### *Bumble Bee canned tuna producer taken over by Taiwanese company F.C.F Fishery*

 **BUMBLE BEE.** Bumble Bee, a leading producer in the declining US canned tuna market and another company to have filed for bankruptcy (early December), has finally been bought out by the Taiwanese company F.C.F Fishery, one of its main creditors, for \$926 million.

Bumble Bee had already been the target of a takeover by Thai Union in 2015 that was ruled out by the American competition authorities. The group was convicted of price fixing in 2017 and is facing other charges.



## Regulatory developments

### Six-month grace period for implementation of new nutrition labelling

New nutrition labelling requirements were due to come into force on 1 January 2020 for companies generating annual revenue of more than \$10 million. But as the United States French Embassy points out, the FDA has announced that in the first half of the year it will only carry out checks and provide information, and not impose penalties.

Published in May 2016, these new rules stipulate the display of nutritional information and update recommended daily intakes with the aim of providing clearer guidelines.

## Main deals in the last quarter

Main deals featuring US companies in the last three months (at end-September 2019)

Deal value expressed in € million and EBITDA multiples Sources: MergerMarket and press.

Sector	Date	Deal	Value
Pastry & Bakery	23/10/2019	<b>Brynwood</b> fund sold <b>Joseph's Pasta</b> (pasta) to <b>LaSalle</b> fund	n/a
Bakery	08/10/2019	<b>The Hain Celestial</b> sold <b>Arrowhead Mills</b> and <b>SunSpire</b> to <b>Hometown Food</b> (Brynwood fund)	14
Pasta products	01/10/2019	Buyout of <b>The Bakery Companies</b> by managers and <b>Arbor</b> fund	n/a
Snacks	02/12/2019	<b>Pepsi Co</b> acquired <b>BFY Brands</b> (savoury snacks) from <b>Permira</b> fund	n/a
	29/10/2019	Japanese company <b>Calbee</b> acquired 80% of <b>Warnock Food</b> (crisps)	n/a
	09/10/2019	<b>VMG Partners</b> fund acquired <b>Popchips</b> from Belgian fund <b>Verinvest</b>	n/a
Grocery	19/12/2019	<b>Act II Global Acquisition Corp</b> acquired table sweetener manufacturer <b>Merisant</b>	458
	18/12/2019	Italian company <b>Buona Compagnia Gourmet</b> acquired control of <b>Casa DiLisio</b> (sauces)	n/a
	12/12/2019	<b>Mill City</b> fund sold <b>JMH International</b> (sauces and seasonings) to <b>Southeastern Mills</b>	n/a
	10/12/2019	Mexican company <b>Kua Candy</b> acquired the <b>Wisconsin factory of Impact Confections</b> (confectionery)	n/a
	22/10/2019	<b>Olam</b> (Singapore) acquired <b>Hughson Nut</b> (almonds)	48
Dairy products	11/12/2019	<b>Froneri</b> (Nestlé/R&R joint venture) acquired <b>Nestlé's ice cream business</b> in the USA	3 605
	06/12/2019	<b>Wind Point Partners</b> fund acquired <b>Tropicale Foods</b> (Mexican-style ice cream)	n/a
	25/11/2019	MBO of <b>Handel's Homemade Ice Cream &amp; Yogurt</b> (ice cream) with the <b>ClearLight Partners</b> fund	n/a
	28/10/2019	Canadian cooperative <b>Upstate Niagara</b> acquired <b>Byrne Dairy</b> (fresh dairy products)	n/a
	21/10/2019	Center Partners Management fund acquired <b>Wisconsin Cheese</b> (cheese)	n/a
Fish	21/11/2019	Taiwanese company <b>F. C. F. Fishery</b> acquired <b>Bumble Bee Foods</b> (canned fish)	835
Fruit and vegetables	24/12/2019	Sapporo and Toyota Tsusho (Japan) sold <b>Country Pure Foods</b> (fruit juices) to <b>Blue Point</b> fund	65
	20/11/2019	Diversified group <b>Universal Corporation</b> acquired <b>FruitSmart</b> (fruit processing)	n/a
Pet food	16/10/2019	<b>Better Choice Company</b> acquired <b>Halo Purely For Pets</b> (pet food)	n/a
Ingredients	18/12/2019	<b>Mantrose-Hauser</b> acquired ingredients manufacturer <b>Profile Food</b>	n/a
	17/12/2019	<b>International Flavors &amp; Fragrances</b> merged with the nutrition and bioscience division of <b>DuPont</b>	40,900*
	16/12/2019	<b>Balchem Corp</b> acquired <b>Zumbro River Brand</b> (extruded products)	
	07/10/2019	<b>Vestar</b> fund acquired a minority stake in <b>Simple Mills</b> (pastry and bakery ingredients)	n/a
Beverages	17/12/2019	Singapore fund <b>Temasek</b> invested in <b>Califia Farms</b> (plant-based drinks)	179
	03/12/2019	<b>Constellation Brands</b> sold <b>Ballast Point Brewery</b> (craft beer) to <b>Kings &amp; Convicts Brewing</b>	n/a
	20/11/2019	<b>Artisanal Brewing Ventures</b> acquired <b>Bold Rock Hard Cider</b> (cider)	n/a
	20/11/2019	<b>Fermented Sciences</b> (kombucha) sold a minority stake to an investor syndicate	23
	19/11/2019	Japanese company <b>Kirin</b> acquired <b>New Belgium Brewing Company</b> (beer)	n/a
	15/11/2019	<b>Bacardi</b> acquired <b>Stillhouse</b> (spirits)	n/a
	11/11/2019	<b>Anheuser-Busch</b> acquired 68.8% of <b>Craft Brewers Alliance</b> (craft beer)	221/21X
Other	08/11/2019	<b>Butterfly Equity</b> and <b>Ontario Teachers</b> funds acquired control of <b>Orgain</b> (organic protein products)	n/a
	04/11/2019	<b>Axereal</b> acquired <b>Cargill's malt activities in the United States</b>	n/a

\*Enterprise value

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