



Investing in Food & Beverage

What Lies Ahead?

June 23, 2021

 Harris Williams

 L.E.K.

Introducing your presenters



Dominic Miles
Partner

- Global Co-Head of L.E.K.'s Consumer Practice
- Over 30 years of advisory experience in strategy consulting
- Led numerous route to market, format, operating model reconfiguration and transactional engagements for retail and consumer clients



Mark Boyd-Boland
Partner

- Partner in L.E.K.'s London office
- Member of L.E.K.'s global consumer practice
- Led a number of high-profile strategy and transformation projects for large corporates as well as providing buy-side and sell-side support on a range of F&B and broader consumer transactions



Will Bain
Managing Director

- Managing Director in the Harris Williams Consumer Group
- Based in the firm's London office
- Nearly 20 years of experience advising clients on merger and acquisition, capital raise, and strategic advisory assignments



Andreas Poth
Director

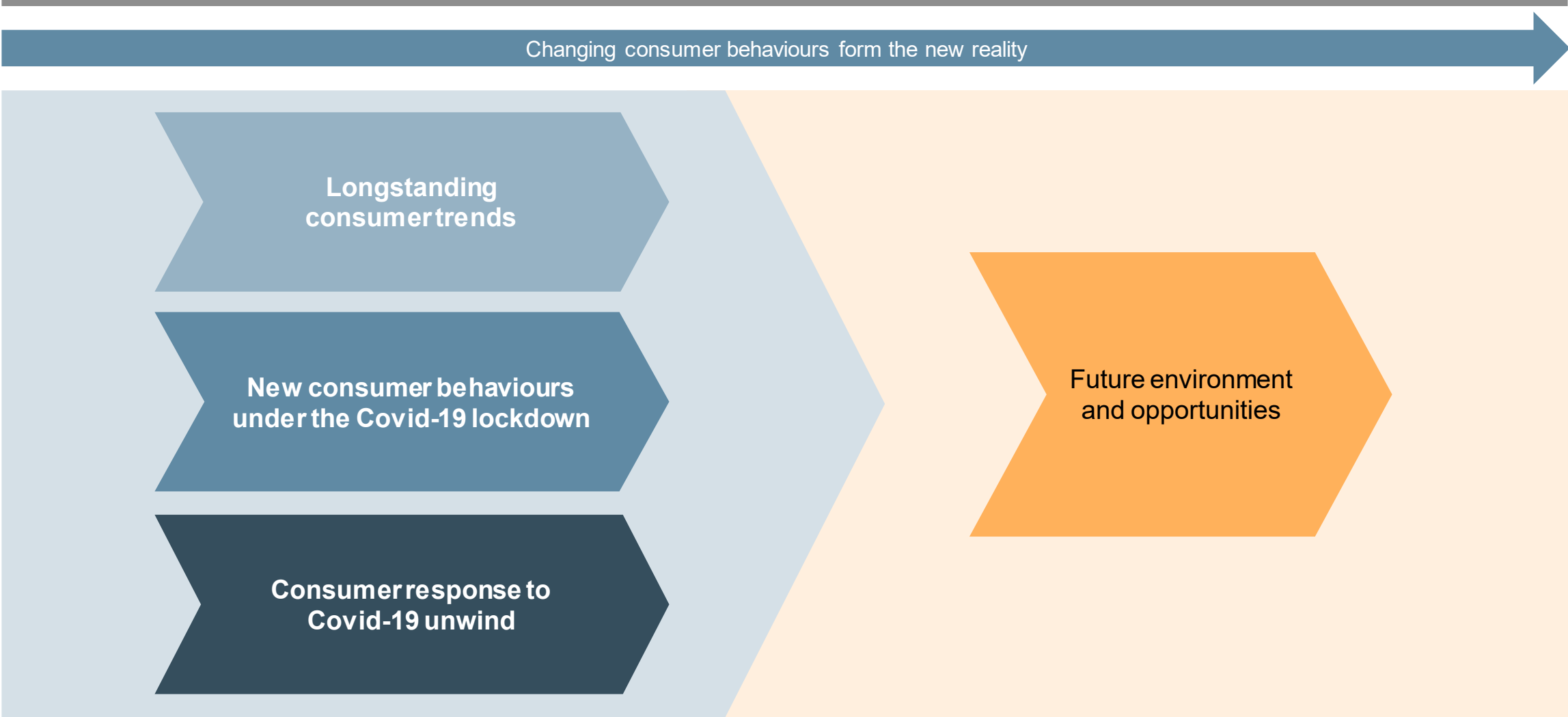
- Director in the Harris Williams Consumer Group
- Based in the firm's Frankfurt office
- 14 years of experience advising multinational and privately held/family-owned companies on a range of M&A and capital markets transactions

Key topics for today

- **How much really changed under COVID-19?**
- **What does the release path look like?**
- How are participants creating value?
- How do investors currently view the sector?



Future consumer behaviour is likely to be shaped by a combination of three factors



There are ten major longstanding consumer trends, forged by socio-economic forces and supported by technology advances – four are in focus today

Longstanding consumer trends

 F&B trends in focus today



Pre-Covid, these four consumer trends had been showing strong positive momentum

Longstanding consumer trends



Cleaner living

- Being more **health conscious**
- Placing greater importance on a **healthy diet** (e.g., healthy snacks), exercise and lifestyle

Key related socio-economic factors



Life expectancy

Pre-Covid momentum



Affordable indulgence

- Seeking **discretionary indulgences** or treats
- Underpinning premiumisation in categories such as alcohol, snacks, desserts etc.



Work for longer

Spend not save



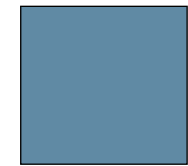
Sustainable consumption

- Placing more importance on **minimising waste**, **recycling** and **reusing** products
- Increasing demand for **supply-chain transparency** and **locally-sourced** products



Urbanisation

Life expectancy



Online converts

- Increasing adoption of **e-commerce** and expecting **quick fulfilment**



Internet access



Key: Strong positive momentum Positive momentum Neutral Negative momentum

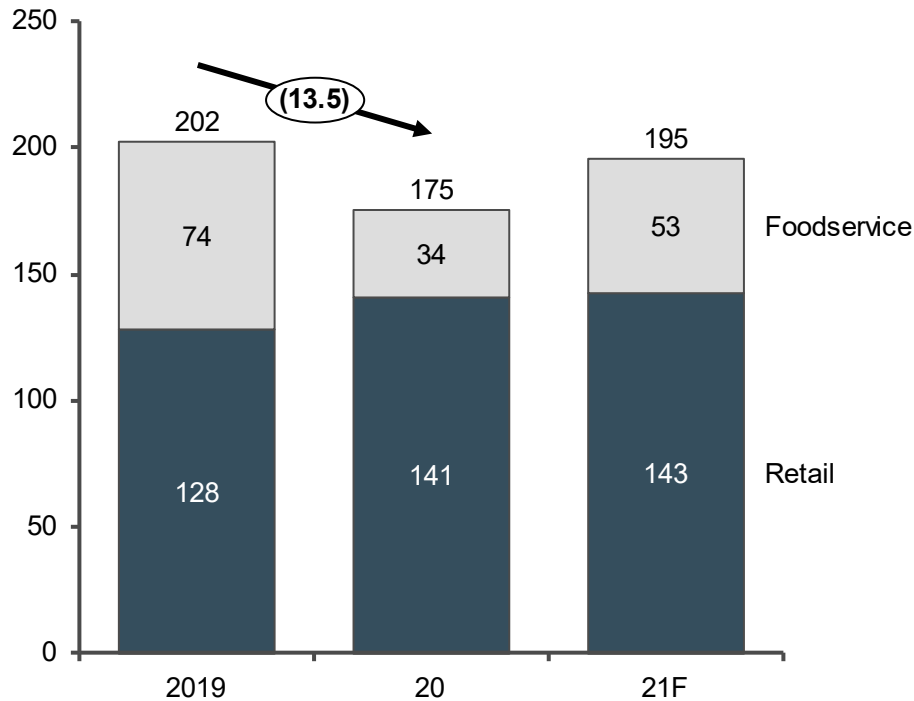
Foodservice contracted significantly during lockdown and is projected to remain squeezed in the short-term; online was the key winner within retail F&B

New lockdown behaviours

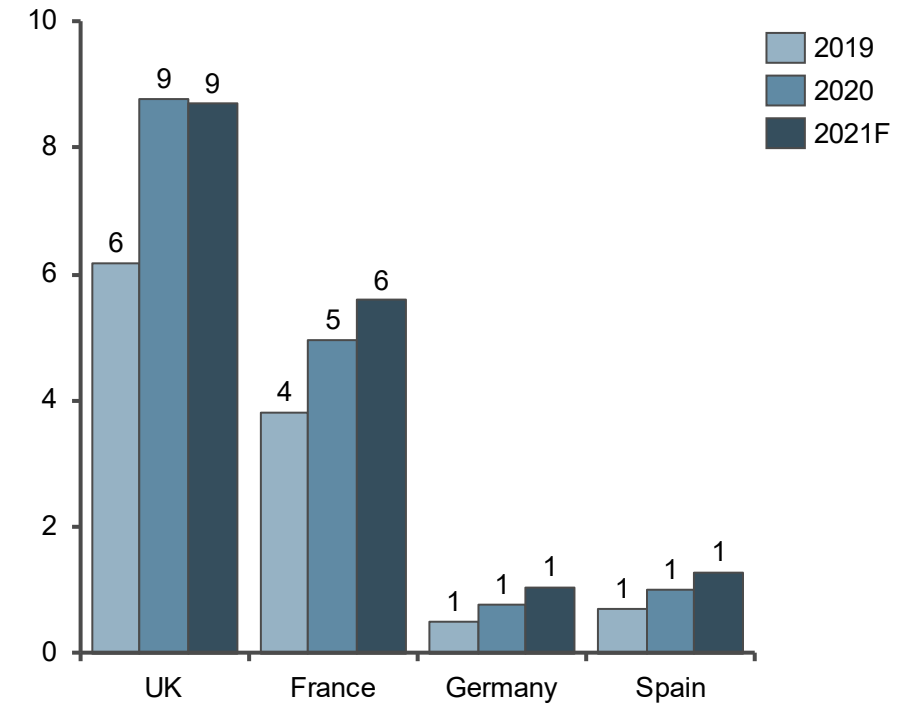


Online converts

UK food and beverage market (2019-21F)
Billions of GBP



Online grocery penetration by country (2019-21F)
Percent



Source: IGD

Lockdown led to more time at home and contributed to an increase in family meals, cooking from scratch, meal kit sales for new recipes, and snacking

New lockdown behaviours



Cleaner living



Affordable indulgence

Greater propensity to eat as a family



26-31%

of UK **households** were eating as a family more from May to July 2020*

44%

of UK **households with children** were eating as a family more in May 2020*

More cooking from scratch



38-55%

of people plan on **cooking from scratch more** since the lockdown in the UK**

50%

more website traffic of **BBC Good Food** in April 2020

Surge in meal kits



111%

YoY increase in 2020 revenue for



425%

YoY increase in 2020 revenue for Mindful Chef

Increase in snacking



57-63%

of young people have increased **snacking** since lockdown in the UK^

Similar

share of **healthy snacking** occasions in 2020 compared to the pre-Covid level (c.31%)^{^^}

Note: * Online survey of more than 2,000 UK adults. Excludes those who stated that they have not eaten with family in the past month; ** YouGov online survey of 4,343 UK adults conducted on 7-9 April 2020. Mintel survey conducted 26 March – 1 April 2020. Obesity Health Alliance online survey of 2,025 UK adults on 17-20 April 2020; ^ Survey of 1,000 young people, aged 14-19, in England in May and June 2020; ^^ 2020 data in the 52 weeks to 22 March 2020. Pre-Covid data in the 52 weeks to 29 December 2019

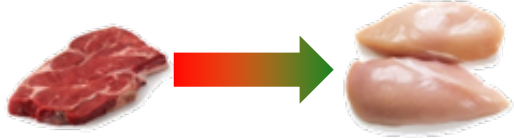
Source: Food Standards Agency; Ipsos; SimilarWeb; Bite Back 2030; Nielsen; YouGov; Mintel; Obesity Health Alliance; The Grocer; Kantar

Over the longer-term, consumers will continue to make healthier consumption choices

New lockdown behaviours



Swapping red meat to white



74%

of UK households have **reduced** the amount of **red meat** they consume in 2019*

32%

of UK consumers are **swapping red meat** for fish or chicken in 2019*

Increasing plant substitutes



€2.5bn

sales of **meat substitutes** in 2025 in Europe

10% p.a.

Projected sales **growth** of plant substitutes from 2019 to 2025 in Europe (vs. 0-1% growth rate in overall meat market)

Increase in low / no alcohol drinks



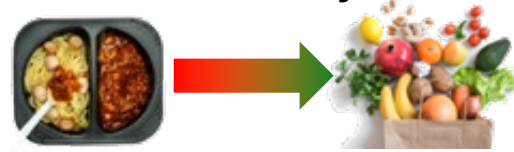
2% p.a.

projected volume growth in **overall alcoholic** drinks between 2020-24 (global)

vs. 7% p.a.

projected volume growth in **no / low alcoholic** drinks between 2020-24 (global)

Decrease in ready meals



(4)%

reduction in **chilled ready meals** sales in 2020 in the UK

vs. 10%

growth in overall **grocery retail** sales in 2020 in the UK

Note: * Leatherhead Food Research survey of 999 UK adults in August 2019;
Source: The Grocer; Leatherhead Food Research; Kantar; ING; IWSR; Press releases

As environmental sustainability becomes a key consumer focus, more are seeking to make active behaviour changes to protect the planet

New lockdown behaviours



Sustainable consumption



Packaging concerns



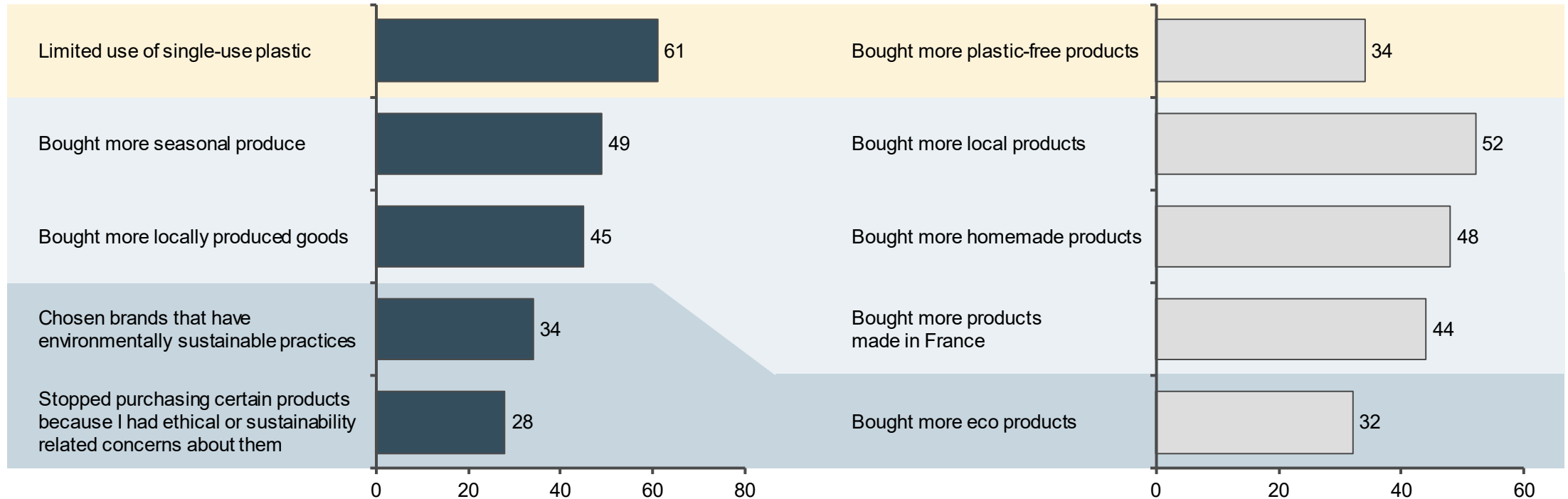
Buying local / seasonal products



Eco / environmental concerns

UK: Consumer actions taken in last year to adopt a more sustainable lifestyle* (March 2021)
Percent of consumers

France: Change in consumption behaviour vs. 3 years ago across different criteria (Feb 2019)**
Percent of consumers (n = 1,000)



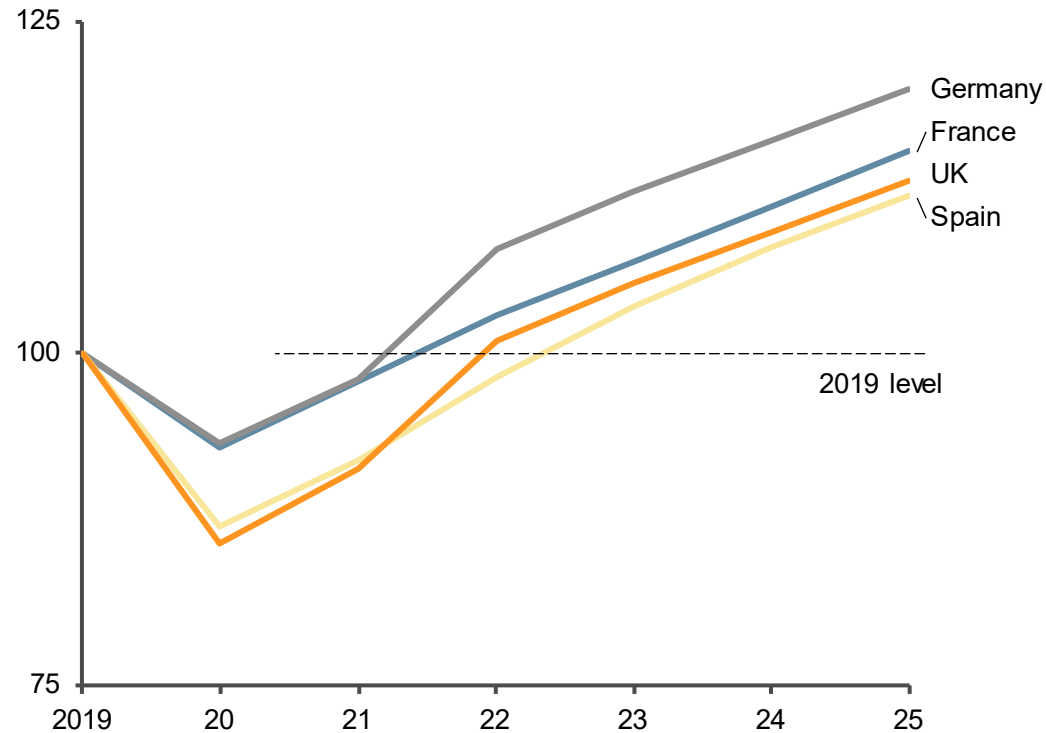
Note: * In the last 12 months, which of the following have you personally done, specifically in an effort to adopt a more sustainable lifestyle?; ** How has your consumption changed compared to 3 years ago for the following types of products?; ^ I have done this in the past 12 months but not to adopt a more sustainable lifestyle

Source: Deloitte, HarrisInteractive

The consumer unwind from Covid-19 is currently forecast to deliver strong growth over 2021-22 before reverting to longer term trend rates from 2023

Covid unwind

**Nominal consumer spend
(2019-24)***
Index (2019=100)



- Driven by:
 - significant monetary and fiscal policy measures, now expected to support incomes and aggregate demand
 - anticipated vaccine-powered recovery in the second half of 2021
 - continued adaptation of economic activity to reduced mobility
- Even European Bank 'Severe' case maintains nominal growth of 1-2% across countries

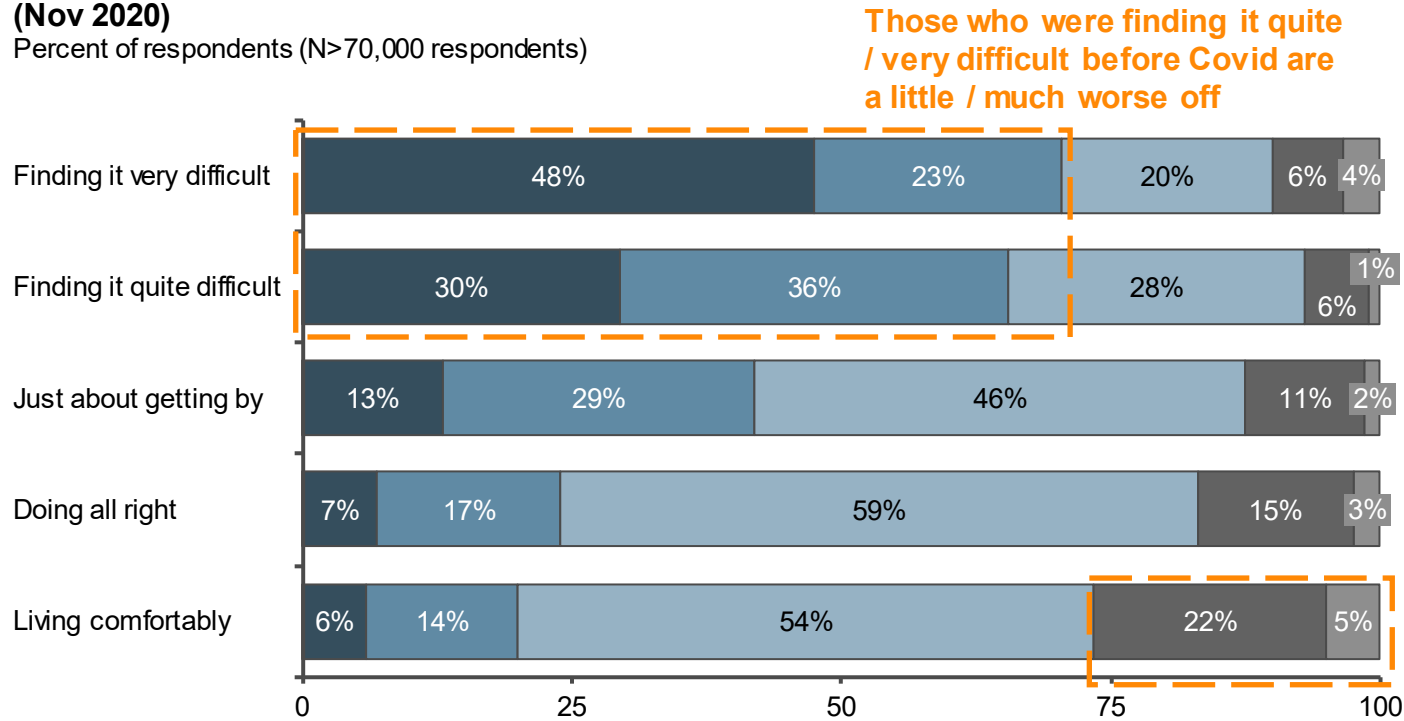
Note: * Last update on 13 November 2020; ** Last update 15 April 2021
Source: Oxford Economics; Financial Times; Capital Economics

However it is becoming clear that the pandemic has contributed to a widening of the wealth gap

Covid unwind

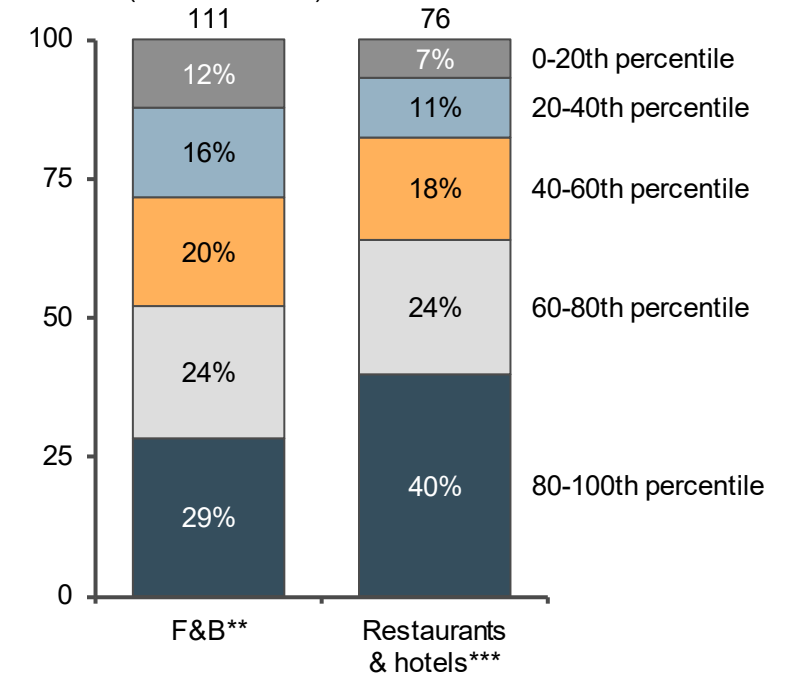
UK: Changes in financial status during COVID-19 crisis* (Nov 2020)

Percent of respondents (N>70,000 respondents)



UK: Household spending on key categories by income percentile (2020)

Percent (Billions of GBP)



■ I'm much worse off ■ I'm a little worse off ■ I'm about the same ■ I'm a little better off ■ I'm much better off

Note: * Respondents were asked how their financial situation had changed since before the pandemic from "much worse off" to "much better off"; ** Includes food, beverages, tobacco and narcotics; *** Includes food-to-go and takeaways

Source: Covid Social Study, UCL and Nuffield Health; ONS

Consumer outlook may be divided between those who are living comfortably and those who aren't – which could contribute to a twin-speed recovery

Covid unwind

Living comfortably

Finding it difficult

Overall Covid unwind



- Likely to continue adopting **healthy diet** and **snacking**
- Expected to continue spending more on **premium / organic** products

- Greater focus on **value** and potential increase in **cooking from scratch** given greater financial constraints
- Potential increase in **ready meals**



- Likely rebound to **spending more in restaurants**, benefiting higher spend outlets

- Expected to see increased spend on **affordable indulgence items** (e.g., cakes, confectionery)
- Unlikely to be regular restaurant-goers



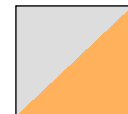
- Have seen tangible impact of own behaviour on environment during Covid (e.g., reduction in flights)
- Expected to spend on products with **improved sustainability credentials**

- Likely to prioritise **value**, with more **limited consideration on sustainability**
- Expected to focus on **reducing food waste** for budgeting reasons



- Expected to continue shopping online due to **convenience** and **time saving**

- Some online grocery consumers may aim to return to physical stores to avoid **delivery charges**



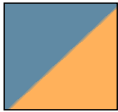















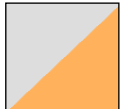







Key: Strong positive momentum Positive momentum Neutral Negative momentum

Source: Speciality Food; IGD

Overall, the four socio-economic forces are likely to continue to maintain positive momentum in the near- to medium-term

Covid unwind

	Pre-Covid	Covid impact	Covid unwind	Outlook	Commentary
 <p>Cleaner living</p>					<ul style="list-style-type: none"> In the longer term, consumers are expected to continue to swap red meat for white, consume more plant-based alternatives and low / no alcohol drinks
 <p>Affordable indulgence</p>					<ul style="list-style-type: none"> Consumers are expected to revert back to pre-Covid habits / consumption behaviour in the long-term
 <p>Sustainable consumption</p>					<ul style="list-style-type: none"> Continued positive momentum for sustainable consumption, driven by increased consumer awareness of their impact on the environment
 <p>Online converts</p>					<ul style="list-style-type: none"> Positive momentum from COVID is likely to return as consumers continue to look for convenience and time savings

Key:  Strong positive momentum  Positive momentum  Neutral  Negative momentum

Key topics for today

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- What does the release path look like?
- **How are participants creating value?**
- **How do investors currently view the sector?**



Historical impact of a recession on F&B deal volumes

F&B sector deal volumes decreased during recessions, but rebounded quickly thereafter

European F&B deals as a % of total European deals (all sectors) and total # European F&B deals



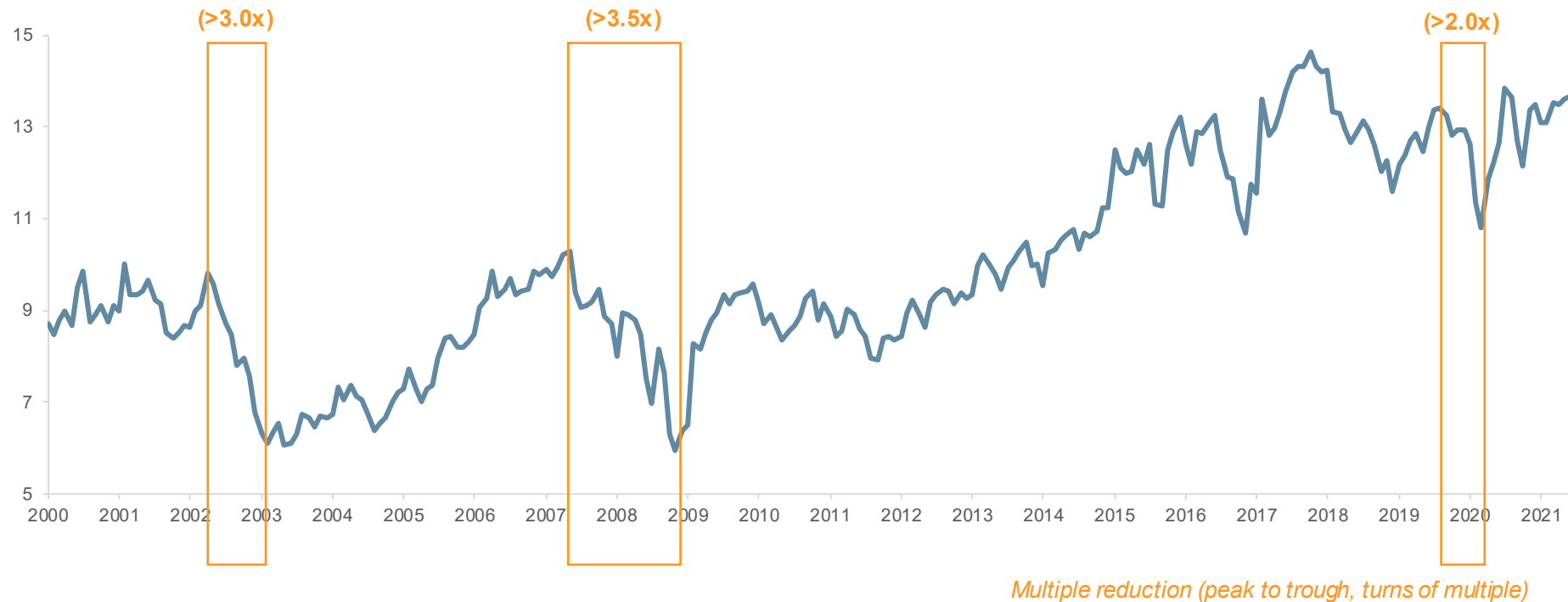
- F&B deals have generally accounted for between 3.5% and 6.0% of all deals - at their highest in post-recessionary periods
- While F&B deal volumes have dropped in past recessions, the recovery is generally rapid with overall volumes rebounding within ~3 years
- Split between Strategic and Private Equity buyers in the F&B space has remained stable at approximately 75% / 25% over time

Source: Mergermarket, HW analysis

Historical impact of a recession on sector valuations

F&B sector valuations have tended to remain robust during and post recessions

EURO STOXX Food & Beverage – NTM EV/EBITDA multiples over time



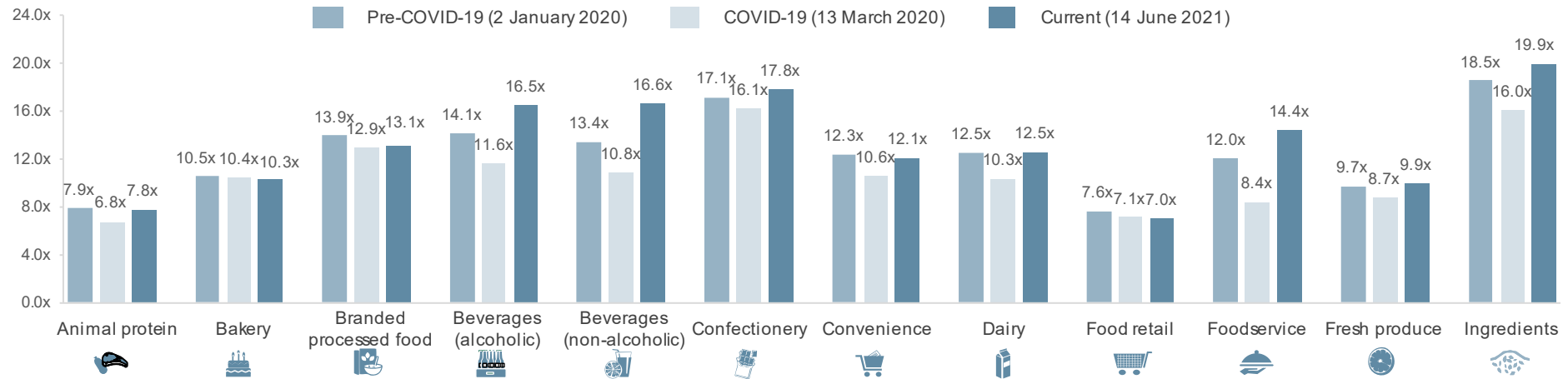
- In prior recessions, peak to trough valuation declines ranged between 3.0x – 3.5x turns of EBITDA multiple
- In the recent period, average valuations only fell by ~2.0x
- Following another dip in valuations during 2020, valuation levels have recovered quickly and strongly, already exceeding pre-COVID levels
- We continue to see strong M&A activity in the sector and this is unlikely to change in the short term

Source: Capital IQ as of 15 June 2021, HW analysis

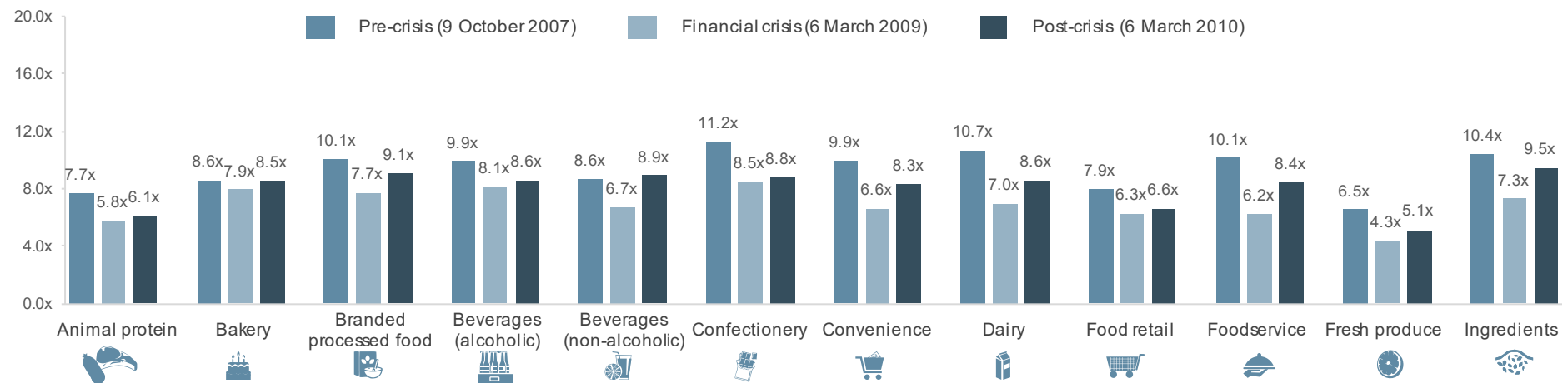
How sub-sector valuations have rebounded

During COVID-19, valuation levels have bounced back quickly and partially exceed prior levels

NTM EV/EBITDA multiples by sub-sector during COVID-19



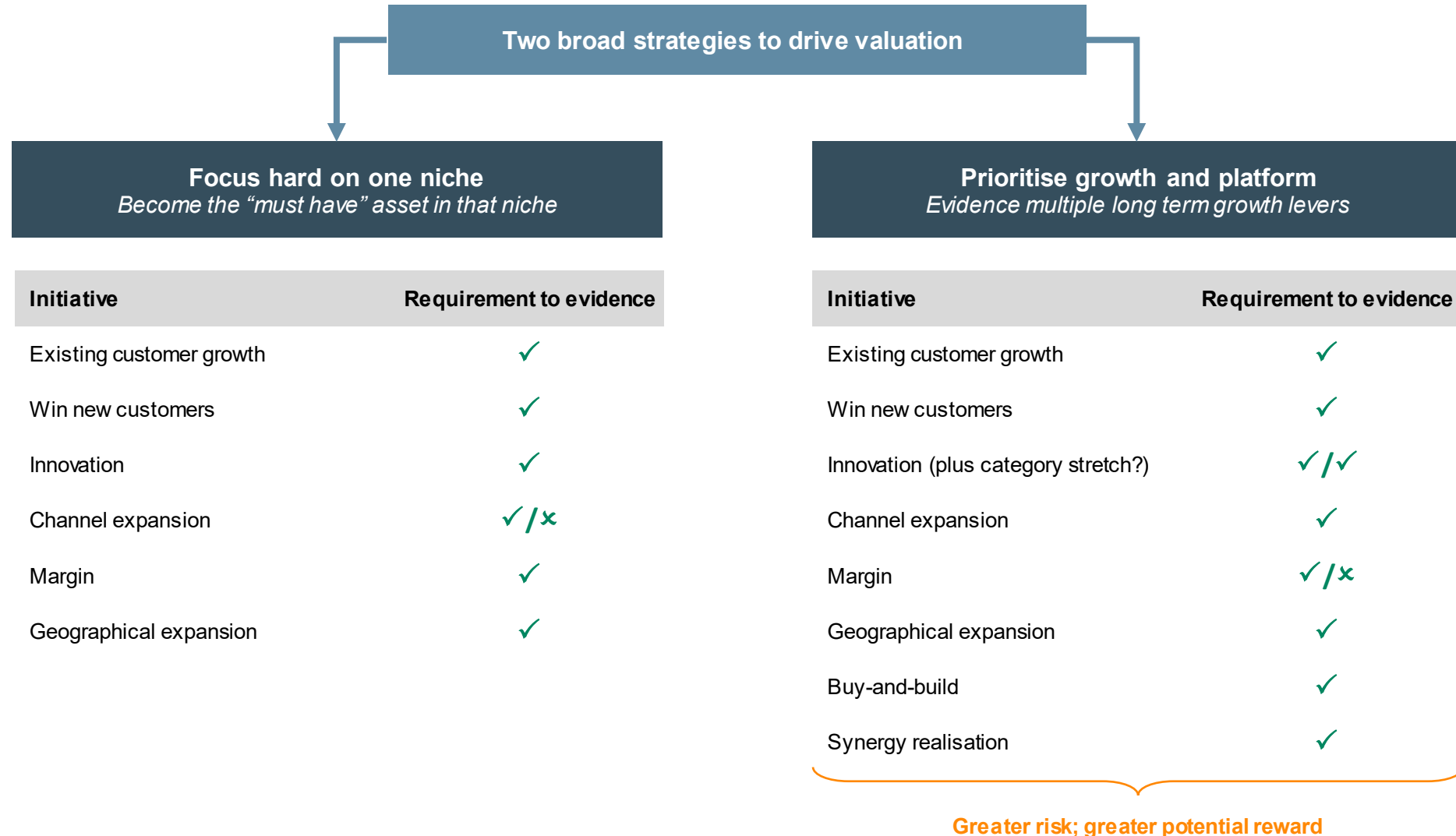
NTM EV/EBITDA multiples by sub-sector during the financial crisis 2007/2008



Source: Capital IQ as of 14 June 2021, HW analysis

How we think about value and the drivers of value in private M&A

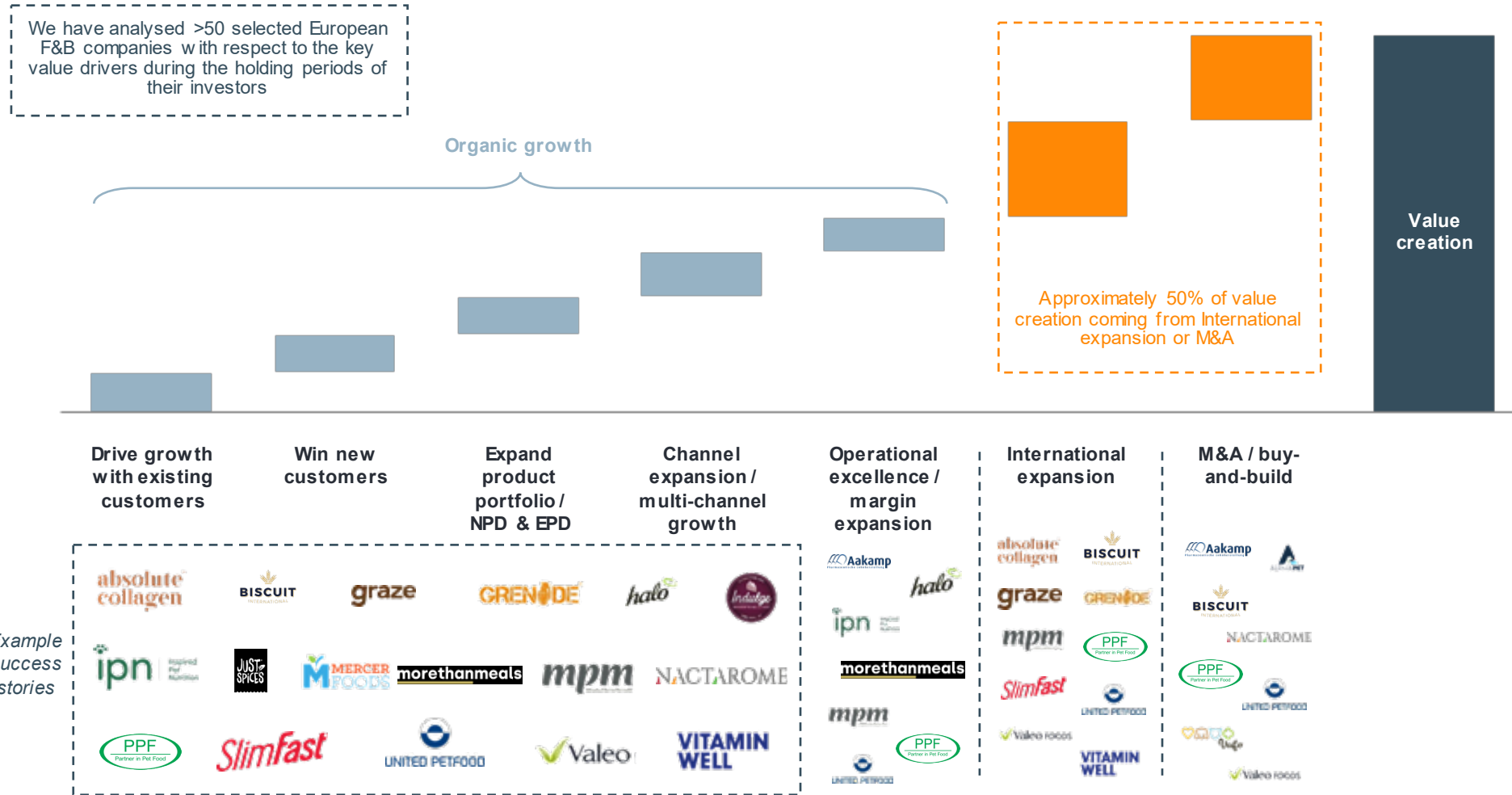
Companies can either focus hard on one niche or prioritise growth and becoming a platform



How investors are creating value over their holding period

International aspirations and M&A platform capabilities are key to really maximising value in Europe

Importance of value creation building blocks for selected F&B companies¹



Note: 1) Ranking of importance of value creation building blocks based on points attributed to each building block on a scale from 0 to 5 for >50 F&B companies; value creation building blocks depend on the type of company (branded vs. private label / co-manufacturer)

Source: HW analysis

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Which themes and strategies are dominating (1/3)

Six core themes that investors have on their radar in the current market environment

1 Challenger brands (Nimble and disruptive)

Selected examples

Alternative protein 	Confectionery 	Pet food
Snacks 	Spices 	VMS

Why are they winning?

- Superior and highly effective marketing (digital-led)
- DTC prevalence – but often as door-opener into retail
- More and faster innovation than legacy brands, which fail to attract younger customers

2 Private label / Co-manufacturers

Selected examples

Biscuits 	Chilled convenience 	Ice cream
Juice 	Pet food 	VMS

Why is this back in vogue for investors?

- Ability to play the category and not only a brand (risk diversification)
- Buy-and-build opportunity in largely fragmented markets
- Production excellence
- Strong retailer relationships provide medium/long term visibility (more so than suppliers of B-/C- brands)

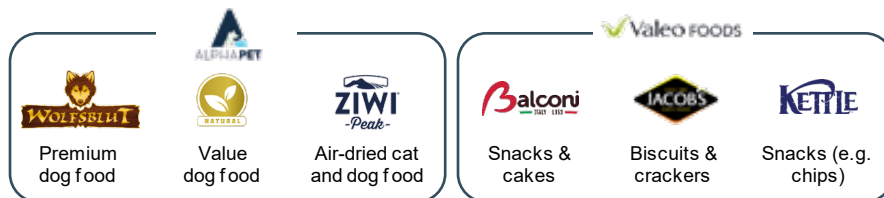
Which themes and strategies are dominating (2/3)

Six core themes that investors have on their radar in the current market environment

3 Buy & Build (House of brands and PL / co-man roll-ups)

Selected examples

House of brands



PL / co-man roll-ups



What are the key attractions?

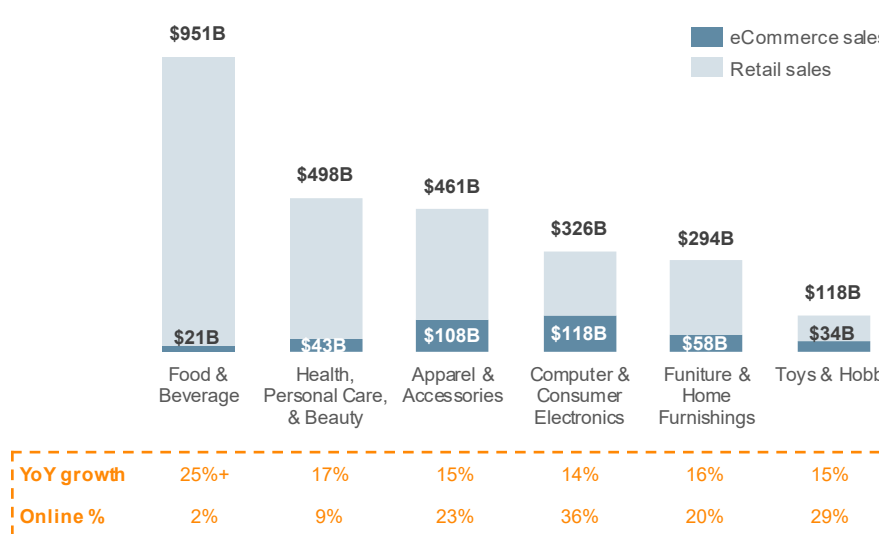
Largely fragmented markets and availability of M&A targets

Immediate cost synergies (manufacturing, procurement, overhead), as well as revenue synergies delivered over the longer term

Facilitates entry into new markets

Increased portfolio effect over time driving stability, evidenced white space for growth and ultimately multiple arbitrage

4 Channel shift and DTC



Significant opportunity from channel shift

F&B remains underpenetrated in the digital channel

Vast investment going into DTC/Online – the jury is still out on whether, in the long run, DTC is a model in its own right, or merely a channel (in F&B)

Competition and incessant PPC inflation will result in winners as well as losers; how many players will actually ever become break even?

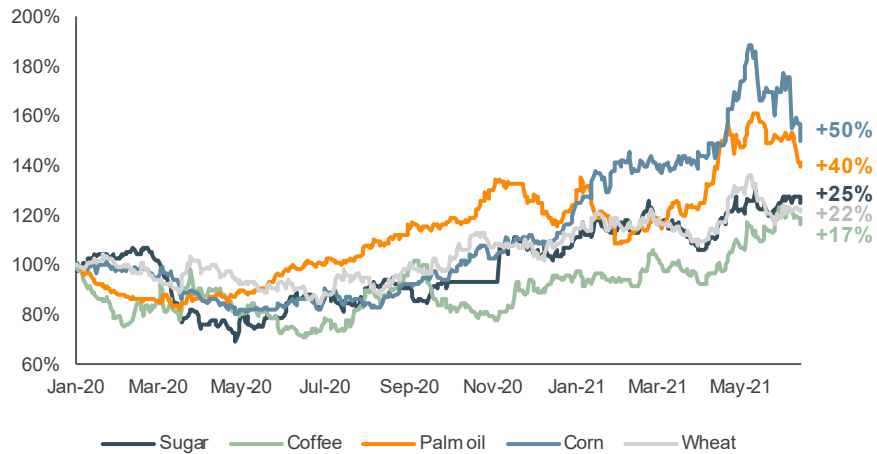
DTC is also facilitating key customer demands such as personalised nutrition

Which themes and strategies are dominating (3/3)

Six core themes that investors have on their radar in the current market environment

5 Raw material price volatility

Significant increases of F&B raw material prices since January 2020

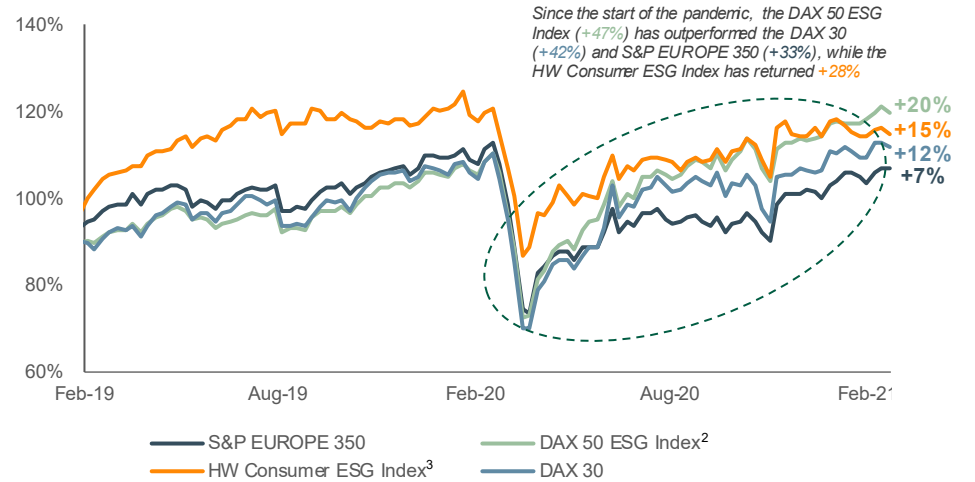


How are businesses addressing the risk?

- Strong brands and strategic partners able to push through price increases to retailer
- Innovation (NPD / EPD)
- Supplier rationalisation / rotation
- Weakening of USD has been helpful as an offset

6 ESG

ESG assets and indices¹ tend to outperform the broader market



How are investors thinking about ESG?

- Significantly upweighted scrutiny across the whole value chain (raw material sourcing, labor, packaging etc.)
- Increasingly binary in outcome
- Evidence to support that the most ethical businesses are growing faster, are more resilient and command higher valuations

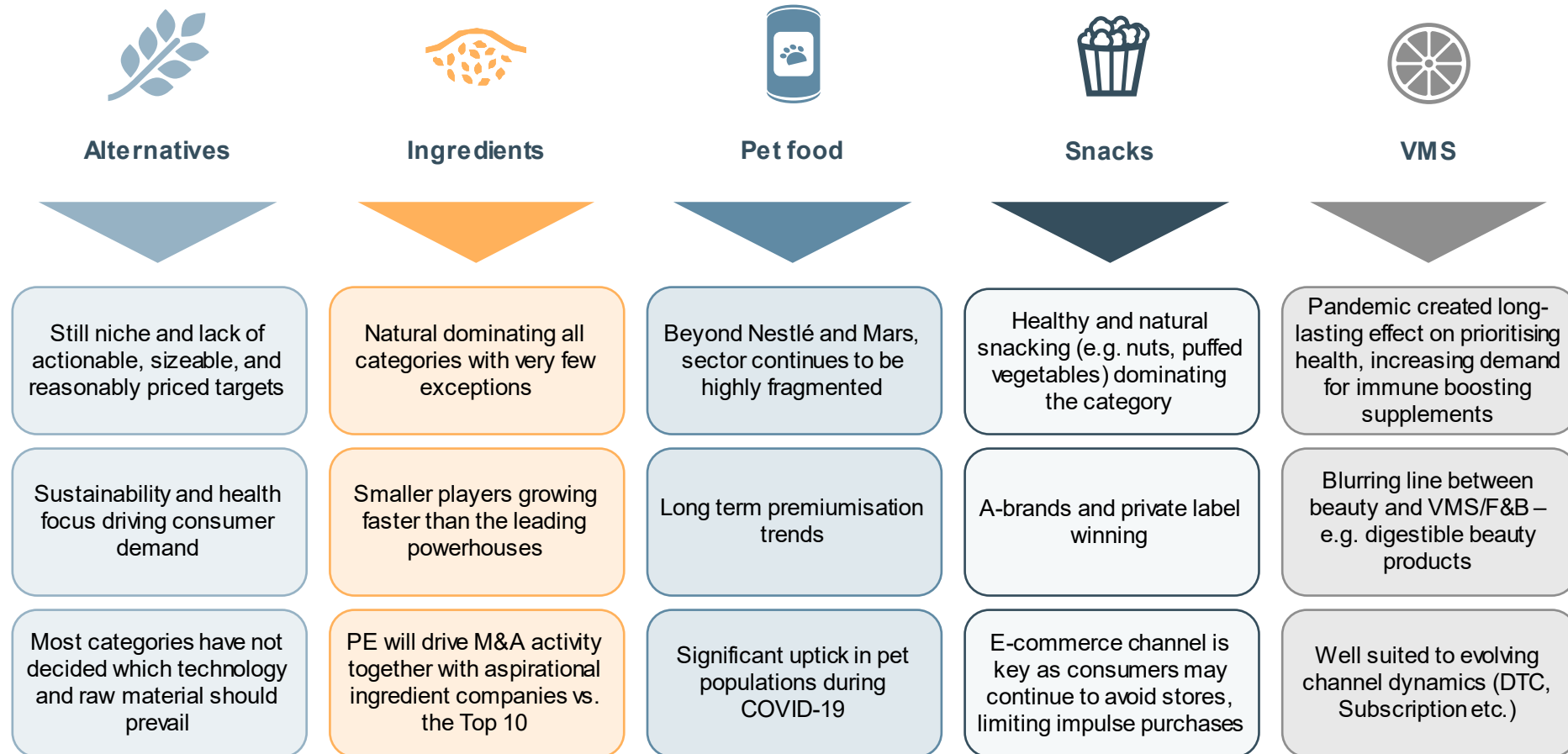
Notes: 1) S&P EUROPE 350 and DAX30 are performance indices and the ESG indices are recreated price indices; 2) DAX50 ESG Index comprises equally weighted stock performance of constituents in official DAX 50 ESG Index as of 23 February 2021; 3) HW Consumer ESG Index comprises 15 equally weighted European companies in the Consumer sector that score AAA or AA on MSCI's ESG rating scale.

Sources: Capital IQ, HW analysis

Which sub-sectors are of most interest?

Sub-sectors exhibiting maximum resilience and growth potential will see the most interest

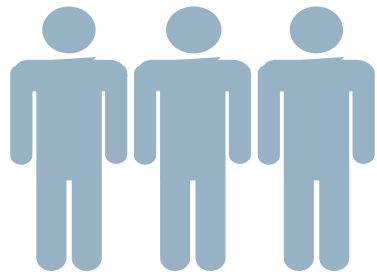
Alternative protein, Ingredients, Pet food, Snacks and VMS are most sought-after sectors by investors



In Summary

1. F&B continues to evolve at pace, shaped by a combination of longstanding consumer trends and contemporary shifts in behaviour
2. Many of the changes that have occurred as a result of Covid should be sustained into the medium term (online shift, focus on consumer wellness etc)
3. The F&B sector remains very attractive to investors – a mix of stability and growth
4. We see M&A activity continuing to remain buoyant in the months and years ahead

L.E.K. has deep experience in the food & beverage industry



L.E.K.'s Food & Beverage Practice

The **market leader**
in growth strategy

Completed **800+**
engagements in the
food and beverage
industry

Supported
300+ transactions
in the food and beverage
industry

Clients include
5 of the top 6 largest
global **food & beverage**
CPG companies

Clients include **2 of**
the top 3 foodservice
operators




Experts in
M&A Strategy,
Acquisition Screens
and Commercial Due
Diligence

Deep market insights
across Ambient Food,
Fresh Food and
Beverages (Soft + BWS)

Extensive experience
with **Corporate strategy**

Dedicated, "Hands-on"
Senior Team
that leads projects
execution

Harris Williams – Leading middle market M&A food and beverage practice

(Pending)

 a portfolio company of

 has been acquired by



 has been acquired by

 a portfolio company of



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 has been acquired by



 a portfolio company of

 has merged with



 a portfolio company of

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 a portfolio company of

 has been acquired by





 has invested in



 a portfolio company of


 has been acquired by



 has acquired




 a subsidiary of

 has been acquired by

 a portfolio company of



 a portfolio company of

 has been acquired by



 has entered into a partnership with



 a portfolio company of

 has been acquired by



 has received an investment from



 Land Animal Protein Division
 has been acquired by



 a portfolio company of

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The Soup & Infant Feeding Business of

 has been acquired by



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 Taco Bueno
 a portfolio company of

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