



# APPETITE FOR DEALS

M&A activity in the UK's food sector has been brisk over the past year, particularly in the mid-market, as companies scrambled to cater for new and changing consumer tastes. Vicky Meek reports

The UK food sector is among the most dynamic in the country's economy. Together, food and drink comprise the largest manufacturing industry in the UK - bigger than automotive and aerospace combined - contributing more than £31.1bn to the economy according to the Food and Drink Federation.

Yet, despite its scale the industry appears to be bucking the global trend across other sectors of ever-larger M&A deals. In 2019 to the end of November, there were 160 deals involving UK food businesses, valued at a total of \$5bn. It's a 37% decrease in value over the same period compared to 2018, but there has been a 19% increase in volume, according to Refinitiv data.

The market in 2019 also contrasts sharply with activity a few years ago when food megadeals were all the rage. In the first 11 months of 2015, there were 110 deals worth a total of \$163.5bn. Transactions included China's Bright Food's £1.2bn acquisition of Weetabix and Nomad's £1.9bn purchase of frozen food giant Iglo.

The figures for 2019 clearly show a move towards smaller, more mid-market deals among food groups

as the industry attempted to capture shifting consumer tastes. These included an increased focus on healthier, more convenient foods, snacking and - the current megatrend - meatless products.

## ANALYSING THE INDUSTRY

In many ways, the deal profile for the past year reflects the make-up of the industry. While the list includes deals by some big groups - including Premier Foods and Bakkavör - it mainly consists of a long tail of SMEs. "The UK food industry is dominated by privately owned and family-owned businesses," says Chris Stott, partner and head of UK food and drink at KPMG. "The big deals may grab the headlines, but these usually often only account for around 10% of deal volume activity."

And it's often these SMEs that capture some of the mega-trends mentioned above. "One of the current drivers of M&A in the industry is that larger players are looking to access niche brands that appeal to today's consumer so they can push them through their own large distribution channels," explains Jason Whitworth, a corporate finance partner at BDO. "Over the past few years we've seen innovative

smaller companies emerge offering new products.”

One example is Unilever’s recent £150m acquisition of Graze from The Carlyle Group in a bid to capitalise on the acquired company’s image of producing healthy, convenient snacks. In a statement that demonstrated how large groups are attempting to gain traction with certain groups of consumers, the president of Unilever’s food and refreshment arm, Nitin Paranjpe, said that Graze “brilliantly met the needs of millennial customers”. However, it’s not just the larger, publicly listed groups leading the M&A market. Many smaller, privately owned food groups are snapping up businesses to gain access to newer product lines that resonate with today’s consumers.

In 2019, UK meat-packing business Hilton completed the acquisition of a 50% stake in Dutch vegetarian produce manufacturer Dalco Food; meat processor Cranswick bought Katsouris Brothers, which makes Mediterranean foods under the Cypressa brand, for £43.5m; and London Food Corporation bought ‘free-from’ food maker Big Oz Industries for an undisclosed sum. Meanwhile, vegan and ‘free-from’ food producer Gosh is currently believed to be for sale.

#### EQUITY HUNGRY

Some of this activity is being fuelled by private equity investment, in particular because food is seen as a defensive sector in an environment where many are expecting an economic downturn in the short to medium term. “Private equity and unitranche debt providers are very interested in this sector,” says Stott. “These businesses have assets, good cash flows and strong growth prospects - and they’ll still exist in four years’ time. They’re looking for companies with a USP.”

One serial private equity-backed acquirer is Ireland’s Valeo Foods. Backed by CapVest, the company has grown through M&A since 2010, with its most recent deals including its £66m acquisition of the Norwich-based European arm of Kettle Foods from US food giant Campbell Soup Company, which was seeking to move out of European snacks. It also acquired Christmas pudding manufacturer Matthew Walker from 2 Sisters Food Group in a transaction valued at £67m.

Exponent-backed Meadow Foods is also growing through M&A. A supplier of dairy-based ingredients to companies such as Nestlé, Terry’s and Bakkavör, the



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**Chris Stott,**  
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of UK food and  
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**£43.5m**

Cranswick’s  
acquisition of  
Katsouris Brothers

**52.5%**

of UK grocery  
sales are private-  
label products

**£67m**

Valeo Foods’  
acquisition of  
Matthew Walker



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BDO



#### BEYOND THE BRAND

It’s hard to understate the importance of brands in this sector, especially given that supermarkets usually only want to stock the top two or three names in a given category. Yet the private label segment is growing in many markets, including the UK. Private-label products now account for 52.5% of UK grocery sales, according to IRI figures.

“There is a misconception that brands are always better than private label,” argues Charles Lanceley, director in the consumer team at Alantra. “But actually, a weak or average brand is probably the worst place to be, because it’s so hard to cut through. Private label is the less sexy end of the food sector, but many of these businesses are growing. They are looking to expand through M&A to increase their competency and buy businesses that plug gaps in their offerings.” Private-label convenience food manufacturer Greencore’s £56m acquisition of salad and chilled snacks maker Freshtime is just one recent example of this.

The ingredients segment is another attractive non-branded area in the food sector. There is clearly strategic interest in these businesses - with examples ranging from Swedish ingredients group AAK’s acquisition of meal accompaniments producer BK Food, through to Norwegian Orkla Food Ingredients’ purchase of UK fudge and toffee manufacturer Confection by Design.

Private equity is also keen, demonstrated by deals such as the 2018 buy-out of prepared vegetables, fruit and carbohydrates business Freshcut by Perwyn and by the expansion of acquisition-hungry Exponent-backed Meadow Foods.

## BREXIT EFFECT

The UK's Food and Drink Federation says the sector employs a third of its workforce - 400,000 people - from the EU. So Brexit clearly has an impact on the sector. Over half of respondents to BDO's *Food and Drink Report 2018* said they had difficulties recruiting the people and skills needed. And 55% said the UK's exit from the EU would have a negative impact on labour and skills. Added to this are concerns about supply chains, so it's hardly surprising that 42% also said that Brexit was the biggest threat to their business.

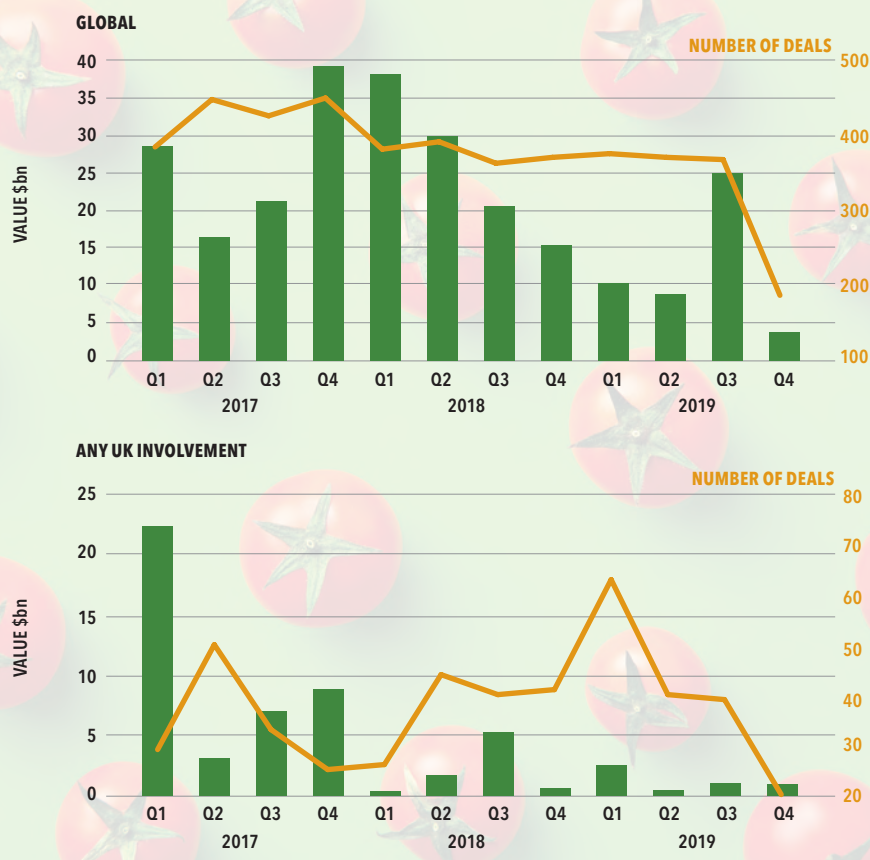
Even so, Brexit hasn't had a huge impact on M&A in the sector through 2019, says Charles Lanceley, director, consumer team, Alandra. "It has made private equity more cautious," he says. "There's been a scarcity of food businesses coming on to the market and a lot of competition. Private equity firms don't want to pay the most and so they are looking much more at the smaller, more unique businesses that remain attractive regardless of Brexit."

Yet increased certainty that Brexit will happen following December's general election is likely to push some owners to sell in the early part of 2020. "Sellers that had been waiting will now push on and get deals done in the first quarter of the year," says Christopher Stott, partner and head of UK food and drink at KPMG. "That will drive deal flow - we're working on about six deals now that will complete in Q1 2020."

But he also points to another type of deal that may emerge as a result of Brexit: "Issues such as disruptions on the border, the potential for higher tariffs and the war for talent may lead some food businesses into distress. We may well see some consolidation activity as a result."



## FOOD &amp; BEVERAGE SECTOR M&amp;A



SOURCE: REFINITIV



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**£31.1bn**

The amount the UK food sector contributes to the economy, according to the Food and Drink Federation

business acquired ghee maker Roil Foods in 2018 and Welsh toppings and decorations business Nimbus Foods from Valeo in October 2019. In addition, Exponent itself acquired Indian food supplier East End Foods in September 2019.

## BIGGER PORTIONS

While most of the activity in 2019 was focused at the mid-market and smaller end of the deal spectrum, there were still a few larger deals. Canada's Saputo, for example, acquired Dairy Crest for £975m in February 2019 in a deal that demonstrates the attractiveness of UK food groups to international buyers. "There has been a slight drop-off in international activity over recent years," says Whitworth. "Yet UK food groups are always of interest to international buyers because of the trust in the quality of the products and high food standards."

As 2020 progresses, the scene is set for further activity in the space. With many businesses in the sector putting deals on hold in the face of Brexit uncertainty through most of 2019, the decisive election result should unblock the pipeline. One adviser told us that he received a call at 2am the morning after election day to press the button on a stalled deal process.

BDO's Whitworth echoes this: "We're already seeing increased confidence among dealmakers in the sector. I'm pretty optimistic that we'll see a loosening of the purse strings in 2020 as companies invest in M&A and in their infrastructure." ●