

# Food, Beverage and Agribusiness

## 2020: Mid-year review

### Key market drivers

2019 was another strong year in terms of M&A activity within the food, beverage and agribusiness industry and momentum through most of Q1 2020 continued at a robust pace followed by an unprecedented slowdown due to COVID-19 and the resulting global economic crisis. Many dealmakers passed up larger, transformational transactions in lieu of smaller, opportunistic acquisitions while shoring up balance sheets and focusing on liquidity until the post-COVID “unknown” becomes more of a known quantity. A majority of middle market deals staged to go to market in late-Q1/early-Q2 were put on hold, while timelines for deals in-market have been stretched. Better news has surfaced in

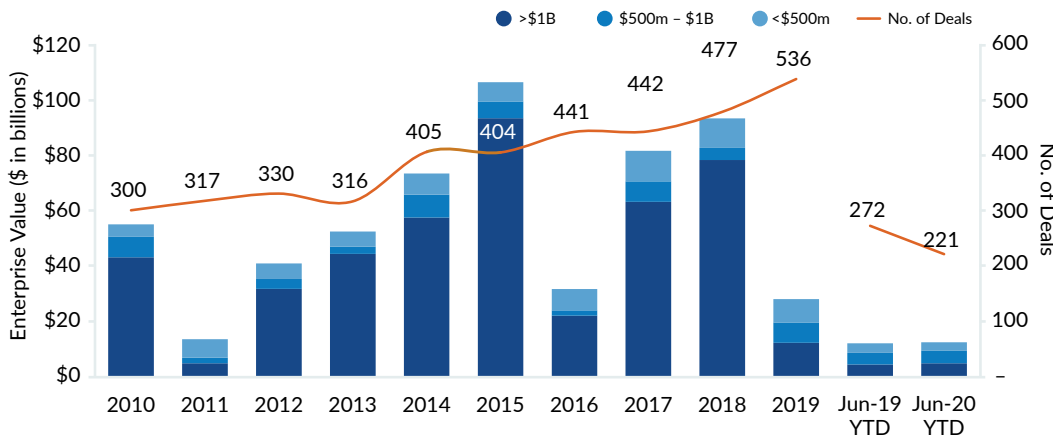
recent weeks with investors/buyers having experienced a significant uptick in (pent-up) M&A activity as local economies continue to open and credit providers refine their outlooks regarding risk appetite and deal structures.

221 control deals were announced during the first half of 2020, an 18.8% decline from a year prior, equating to \$12.5 billion of disclosed value, which was a 2.9% increase compared to the same period one year ago. While the broader market has taken a temporary hit, certain sub-sectors within the value chain, such as alcoholic beverages, center-of-the-store packaged food, retail distribution, retail grocery and snack foods have proven resilient.



**Paul Mariani**  
Managing Director  
Investment Banking

**CHART 1: U.S. FOOD, BEVERAGE AND AGRIBUSINESS M&A VOLUME**



Source: FactSet.

TABLE 1: SELECTED NOTABLE FOOD, BEVERAGE & AGRIBUSINESS M&A DEALS (MY 2020)

| Announced Date | Acquirer  | Target   | Sub-sector               | Rationale                         | EV (\$MM) |
|----------------|---|--|--------------------------|-----------------------------------|-----------|
| Jun-20         |                    |                     | Snack Food               | Brand Dominance                   | \$736     |
| Jun-20         |                    |                     | Snack Food               | Brand Dominance                   | n/d       |
| May-20         |                    | <br>(Cooke Seafood) | Protein                  | Consolidation                     | n/d       |
| May-20         |                    |                     | CBD                      | Diversification                   | \$82      |
| Apr-20         | ALTAIR ACQUISITIONS   |                     | Meal Kits                | Private Equity                    | n/d       |
| Apr-20         |                    |                     | Protein                  | Private Equity / Merger           | n/d       |
| Apr-20         |                    | HARVEST  | Cannabis                 | Geographic Expansion              | \$68      |
| Mar-20         |                   | <br>44 Facilities  | Dairy                    | Bankruptcy / Consolidation        | \$1,087   |
| Mar-20         |                  |                   | Beverage                 | Diversification                   | \$3,850   |
| Mar-20         |                  |                   | Foodservice Distribution | Diversification                   | \$970     |
| Feb-20         |                  |                   | Protein                  | Private Equity                    | \$190     |
| Feb-20         |                  |                   | Protein                  | Brand Dominance                   | \$238     |
| Feb-20         |                  |                   | Snack Food               | Brand Dominance                   | \$1,200   |
| Jan-20         | <br>FCF Co. Ltd. |                   | Protein                  | Bankruptcy / Geographic Expansion | \$930     |
| Jan-20         | INVESTCORP  |                   | Protein                  | Private Equity                    | \$105     |
| Jan-20         |                  |                   | Baked Goods              | Brand Dominance                   | \$33      |
| Jan-20         |                  |                   | Beverage                 | Consolidation / Carve-Out         | \$405     |

Source: FactSet. Mesiraw Financial did not represent any of the acquirers or targets in connection with the transactions noted on this page and is not currently representing any of the listed acquirers or targets.

## COVID-19 impact on M&A processes:



### PROLONGED PROCESSES

Processes currently underway are experiencing longer timelines as potential buyers evaluate the impact of COVID-19 on prospective targets. Travel limitations have hampered in-person meetings and on-site evaluations.



### PROCESSES DELAYED OR PUT ON HOLD

Companies that anticipated going to market in late-Q1/early-Q2 have temporarily delayed or shelved processes as they work through more immediate business and liquidity needs.



### INCREASED DUE DILIGENCE SCOPE

Further scrutiny regarding the impact of the pandemic on potential acquisition targets. Increased scope of diligence into customer contracts, vendor obligations and complexity of transaction purchase agreements.



### ADJUSTMENTS TO INCOME STATEMENT

Revenue and EBITDA + COVID-related adjustments are prevalent for certain businesses impacted materially by the pandemic. Public and private companies are making cases for adding back loss of operating cash flow and other extraordinary items that would have otherwise been realized had it not been for the pandemic.



### FINANCING UNCERTAINTY

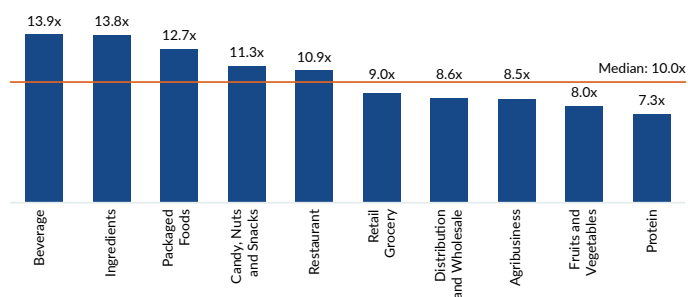
Temporary deterioration in credit markets has caused deals heavily financed with debt to become delayed. Despite the Fed's recent monetary actions, lenders have taken a "wait and see" approach to better understand how prospective targets will hold up during the current environment and in the future.



### LOWER VALUATION LEVELS

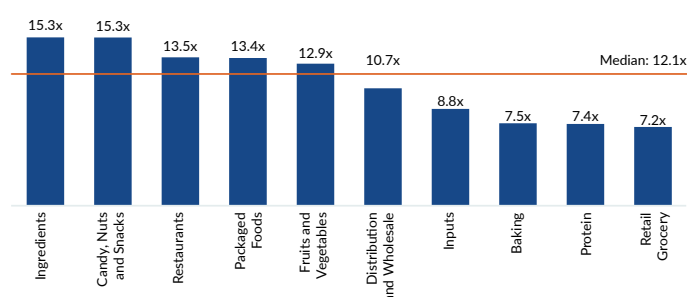
While public equities have traded 40.6% off pandemic lows, broader transaction valuations are expected to decline due to use of lower leverage and increased equity contributions. We expect greater emphasis on forward multiple analysis and potentially longer/pre-COVID look-back periods as well as increased scrutiny on trailing results.

CHART 2: DISCLOSED M&A MULTIPLES BY SUB-SECTOR – EV/EBITDA<sup>1</sup>



Source: FactSet.  
1. Three-year sector averages.

CHART 3: PUBLICLY TRADED COMPANIES BY SUB-SECTOR – EV / LTM EBITDA<sup>1</sup>



Source: FactSet.  
1. As of June 30, 2020.

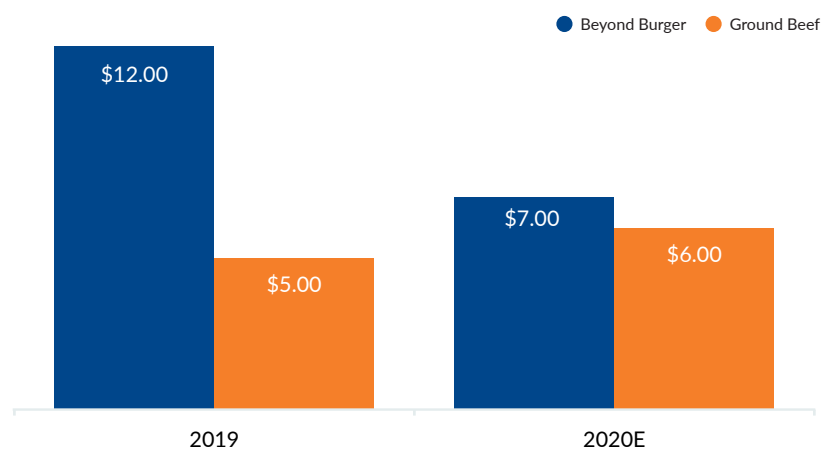
## Sector spotlight: dislocation in protein

The spread of COVID-19 has caused major disruptions throughout the meat sector and created a significant imbalance among (i) livestock production, (ii) slaughter rates at meat packing facilities and (iii) consumer demand for beef, chicken and pork. With prices of animal proteins increasing, item shortages becoming more commonplace at retail and alternative protein providers making progress toward per pound price parity, consumers are turning to faux meat now more than ever.

Alternative proteins, which generally include plant-based meat, seafood, egg and dairy substitutes as well as cell-based (or cultured) meat, have been disrupting the food industry since the first “veggie” burgers arrived in store freezers in the early 1980’s. Until recent years, plant-based proteins had limited appeal outside of vegetarian, vegan and dietary-restricted consumers due to lackluster taste, texture and appearance. That’s changed considerably as continued adoption of healthier and more sustainable diets has increased and further shaped consumer purchasing preferences. Grocery store sales of fresh meat alternatives demand increased ~170% during the week ended June 6th versus one year ago according to Nielsen. Processors have invested heavily in R&D to meet demand with a focus on flavor, texture, sensory appeal and SKU choice, causing naysayers to question their wholesale commitment to animal proteins—a trend that is expected to accelerate through 2020 and beyond.

Investors poured more than \$930 million into alternative protein companies through Q1 2020, exceeding all funds raised in 2019 (~\$825 million), as strategic partnerships with retailers and restaurant chains, and the onset of COVID-19, have further transcended consumer demand for faux meat from fad to food staple.

CHART 4: ANIMAL-BASED AND FAUX MEAT RETAIL PRICE CONVERGENCE (PER POUND)



Sources: UBS, Wells Fargo Securities, Press.

TABLE 2: SELECTED ALTERNATIVE PROTEIN TRANSACTIONS

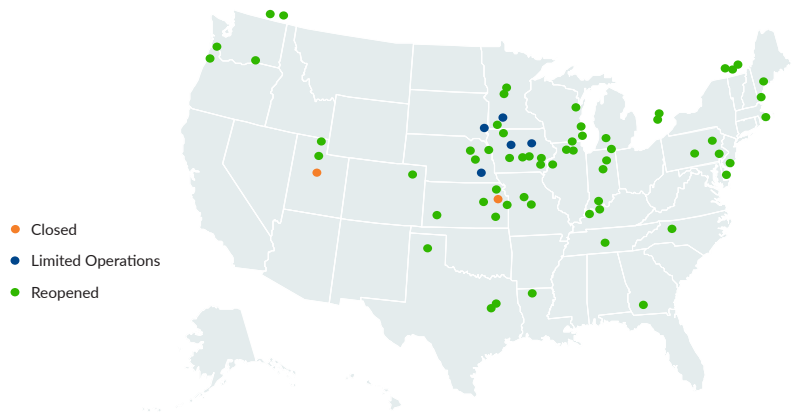
| Announced Date | Acquirer / investor                        | Target                  | Sub-sector          | Type     | Size (\$MM) |
|----------------|--|-------------------------|---------------------|----------|-------------|
| Mar-20         | MIRAE ASSET Global Investments and various | IMPOSSIBLE™             | Plant-based Meat    | Series E | \$500       |
| Mar-20         | Bluebird bio and various                   | LIVEKINDLY              | Plant-based Protein | Seed     | \$200       |
| Jan-20         | ShyDog Capital and various                 | GOOD BATCH              | Plant-based Seafood | Series B | \$32        |
| Jan-20         | Upfield™                                   | arivia.                 | Plant-based Cheese  | M&A      | \$552       |
| Dec-19         | TEMASEK HOLDINGS and various               | Perfect Day             | Dairy Alternative   | Series C | \$140       |
| May-19         | Various                                    | BEYOND MEAT             | Plant-based Meat    | IPO      | \$200       |
| May-19         | NEW PROTEIN Cargill                        | ALEPH FARMS             | Cell-based Meat     | Series A | \$12        |
| Dec-18         | Unilever                                   | THE VEGETARIAN BUTCHER™ | Plant-based Meat    | M&A      | n/d         |
| May-18         | Tyson Ventures                             | FUTURE MEAT             | Plant-based Meat    | Seed     | \$2         |
| Mar-18         | KERRY                                      | Ojah                    | Plant-based Meat    | M&A      | \$25        |
| Sep-17         | Nestlé                                     | SWEET EARTH             | Plant-based Meat    | M&A      | n/d         |
| Feb-17         | MAPLE LEAF                                 | LIGHTLIFE™              | Plant-based Meat    | M&A      | \$140       |

Source: FactSet, press releases and proprietary data. Mesirow Financial did not represent any of the acquirers or targets in connection with the transactions noted on this page and is not currently representing any of the listed acquirers or targets.

### Sector spotlight cont.

If the COVID-19 pandemic has taught us anything about food supply chains, it is that they are a complex network of systems involving numerous participants, many of whom are people needing to work in close proximity to each other. Large-scale meatpacking plants have become a hotbed for COVID-19 spread, forcing many of the country’s largest facilities to slow down processing and/or temporarily close. Disruption within this highly consolidated sector (i.e., 50 U.S. meat plants account for 98% of meat production) has exacerbated existing pressure on supply chains as more people work and eat from home. Unlike meatpacking plants, where employees typically work shoulder-to-shoulder portioning meat, plant-based facilities are highly automated, which greatly reduces the risk of infection.

CHART 5: MEAT PLANT CLOSURES



Source: Meat & Poultry as of June 26, 2020.

CHART 6: PERCEIVED HEALTH BENEFITS AND SUSTAINABILITY – MAJOR DRIVERS OF DEMAND FOR FAUX MEAT

Beyond Burger processes use...



... than the equivalent beef burger.

Source: Press.

“Despite the near-term impact of COVID-19, the defensive and essential nature of the food industry should continue to drive strong, long-term fundamentals...”

### Market outlook

While it is difficult to predict the scope of the lingering effects of the shutdown and pace at which the broader market recovers, Mesrirow remains optimistic food, beverage and agribusiness M&A will continue at a relatively robust pace with demonstrable short-term disparity in certain sub-sector performance (e.g., grocery, packaged food, retail distribution vs. restaurants, foodservice distribution) through the remainder of the year. Despite the near-term impact of COVID-19, the defensive and essential nature of the food industry should continue to drive strong, long-term fundamentals, while the short-term effects will disproportionately cater to opportunistic and idiosyncratic situations for well-positioned strategic and financial buyers.

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## Dedicated Advisor to the Food, Beverage and Agribusiness Sector

Mesirow Financial Investment Banking is consistently focused on elevating the experience for our clients. With extensive sector-specific expertise and deep long-standing relationships, our dedicated Food, Beverage and Agribusiness team has a proven track record of completing highly tailored and successful transactions. Our highest priority is helping individuals and organizations achieve their financial and strategic goals.

### Mesirow serves the following sectors within the value chain:

- Beverages
- Branded packaged food
- Cannabis
- Contract and private label manufacturing
- Dairy and dairy alternatives
- Distributors and wholesalers
- Fruits and vegetables
- Ingredients and flavors
- Inputs and agribusiness
- Milling, baking and confectionery
- Natural and organics
- Nutraceuticals
- Pet food and feed
- Protein
- Restaurants and retail grocery
- Snack foods

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