

Perspective in MANUFACTURING

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE MANUFACTURING SPACE.

The first half of 2015 saw high levels of deal-making in the food manufacturing sector as firms look to scale up and find efficiencies.



Worldwide, the food manufacturing sector has seen high levels of deal-making during the first half of this year, as firms look to cut costs

and scale up in what has become a low-growth industry, the *Financial Times* reports.

Several mega-deals have captured national attention this year, including the recent Kraft-Heinz merger, which could push other large food manufacturing and distribution companies to seek consolidation in order to remain competitive, according to the *Wall Street Journal*.

"In the 2015 RiskFactor Report for Manufacturing, 96 percent of manufacturers mention competition and consolidation, up from 94 percent last year," said Howard Sosoff, Assurance Partner and national Manufacturing practice leader. "This increase could likely be attributed to the number of strategic acquisitions food manufacturers continue to make in order to enter new markets or expand their existing portfolios."

Brazilian PE firm 3G, together with Berkshire Hathaway, purchased Heinz in 2013 as part of a series of big acquisitions over the last five years that included Burger King and Tim Hortons. 3G cut costs so successfully at Heinz with its "zero-based budgeting" approach that other firms in the industry, such as Kellogg, Mondelez and Kraft, have been trying to emulate it, *The Wall Street Journal's* MoneyBeat blog reports. More takeovers could be on the horizon for 3G, although it could take some time – the Kraft deal was two years in the making.

The U.K. saw generally subdued deal-making during the run up to its general election in April – especially in the middle market. But there were a couple of large, one-off transactions, including PE firm Nomad's April acquisition of frozen foods maker Iglo in a deal

valued at EUR 2.6 billion. This is the first in a series of deals as Nomad looks to build a global consumer brands business, according to the *Financial Times*. The PE firm is currently in talks to acquire the continental European business of frozen foods maker Findus.

Large food manufacturing companies (Mondelez International, Hain Celestial Group, J.M. Smucker, Hershey, Campbell Soup, Kellogg and General Mills) are increasingly targeting smaller "healthy" brands with labels such as "all natural," "organic" or "gluten-free", to take advantage of evolving eating trends, according to *The Deal*. Firms are prepared to pay huge multiples to win auctions – Hershey paid nine times revenues for the all-natural gourmet meat snack brand Krave Pure Foods earlier this year, *The Deal* reports.

Food tech – using technology to disrupt the food industry – is another hot sector, in both Silicon Valley and India. VC funding is flowing to the space: Maple, Munchery and Blue Apron have raised hundreds of millions of dollars in recent months. In India, food tech M&A activity is up, as food startups look to scale up operations, according to the *Economic Times*.

Global PE firms are also increasingly interested in Indian food distribution and agri-logistics companies. For example, according to *Reuters*, after bidding against other firms including Blackstone, Carlyle Group and Bain Capital, Canadian fund Fairfax India Holdings is set to take a minority stake in Indian firm National Collateral Management Services, which designs and implements risk management solutions for clients at commodity multi-link points and factory locations. PE firms are drawn to the scalability the sector potentially offers – 45 percent of farm produce currently gets wasted due to inefficiencies in the existing food distribution infrastructure, the *Economic Times* reports.

With deal-making activity high, there are opportunities for PE firms of all sizes – be they giants like 3G, or smaller players looking to pick up a portfolio of smaller, (domestic or global) food tech, health brand or food distribution assets.



People who know Manufacturing, know BDO.

www.bdo.com/manufacturing

Manufacturing Industry Contacts:

MATT BECKER

Grand Rapids
616-802-3413 / mkbecker@bdo.com

BRIAN ECCLESTON

New York
212-885-8220 / becleston@bdo.com

SEAN HENAGHAN

Chicago
312-233-1803 / shenaghan@bdo.com

ISSY KOTTON

Los Angeles
310-557-8266 / ikotton@bdo.com

FRED ROZELLE

Detroit
248-244-6544 / frozelle@bdo.com

RICK SCHREIBER

Memphis
901-680-7607 / rschreiber@bdo.com

JOHN TUCCI

Woodbridge
732-750-0900 / jtucci@bdo.com

Private Equity Industry Contacts:

LEE DURAN

San Diego
858-431-3410 / lduran@bdo.com

SCOTT HENDON

Dallas
214-665-0750 / shendon@bdo.com

KEVIN KADEN

New York
212-885-8000 / kkaden@bdo.com

RYAN GUTHRIE

Costa Mesa
714-668-7385 / rguthrie@bdo.com

DAN SHEA

Los Angeles
310-557-8205 / dshea@bdocap.com

JOE BURKE

McLean, VA
703-770-6323 / jburke@bdo.com

FRED CAMPOS

Miami
305-420-8044 / fcampos@bdo.com

JERRY DENTINGER

Chicago
312-239-9191 / jdentinger@bdo.com

JOE GORDIAN

Dallas
214-969-7007 / jgordian@bdo.com

TUAN HOANG

Los Angeles
310-557-8233 / tmhoang@bdo.com

TODD KINNEY

New York
212-885-7485 / tkinney@bdo.com

MATT SEGAL

Chicago
312-616-4630 / msegal@bdo.com

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through 63 offices and more than 450 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of 1,328 offices in 152 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

Material discussed is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.