



Production



Distribution

Processing



Restaurant

Retail

Australian Food & Beverage M&A Transactions Report

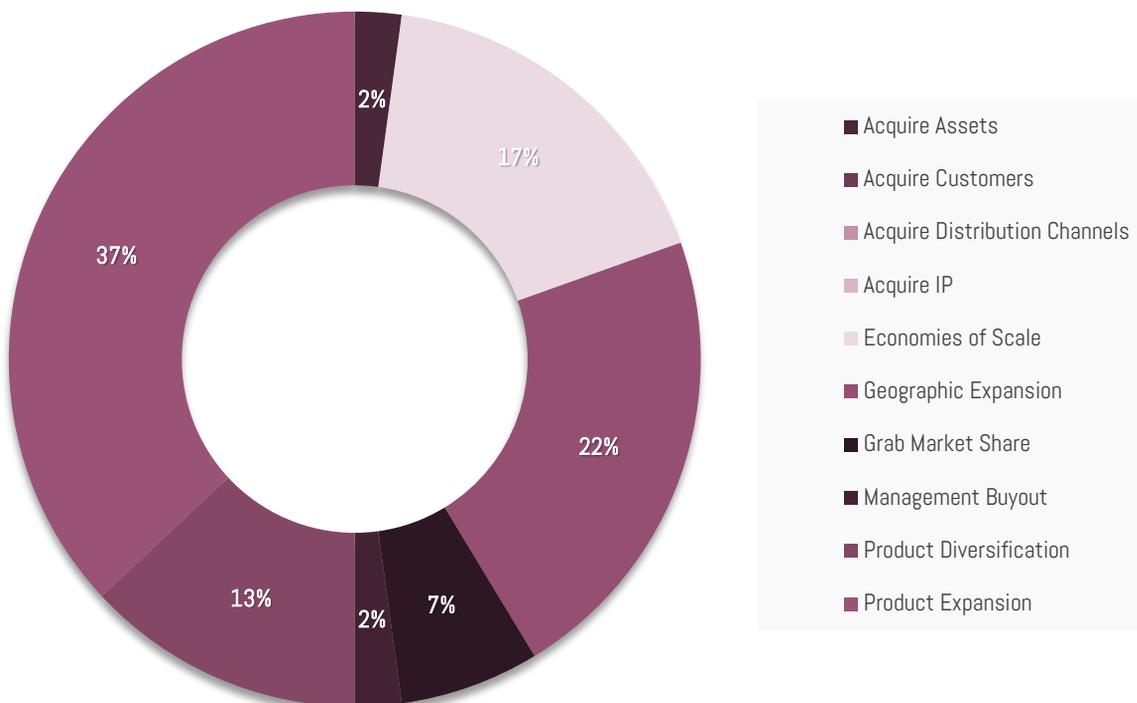


**STRATEGIC
TRANSACTIONS**
M&A SOLUTIONS • VALUATIONS

Transaction Review
Buyer Motivations
PE v Trade Sales
Industry Growth rates
Outlook and beyond

What is the motivation behind these acquisitions?

Product expansion was the motivation for 37% of the acquisitions in 2017. This was the most common primary motivation for transactions in the space where, private equity firms have been looking to invest in and grow mid-market businesses. The Beer, Wine, and Spirit manufacturing segment has also received attention, but primarily from expanding trade buyers.

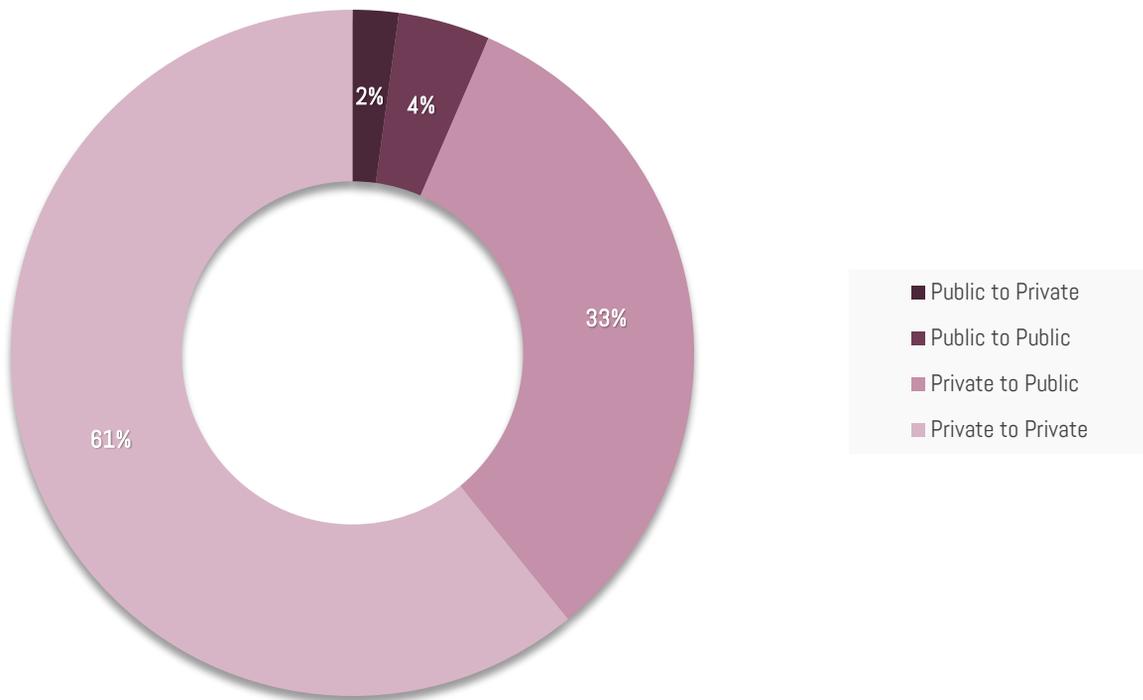


Geographic expansion was the motivation for 22% of acquisitions, significantly behind product expansion. Deals in the Beer, Wine, and Spirit industry were commonly transacted by international companies interested in entering or expanding within the Australian market. Most notably, Belgium-based Anheuser Busch InBev exhibited this motivation through its acquisition of two Australian craft beer breweries.

Rounding up the top three acquisition motivators this year was **economies of scale** which accounted for 17% of transactions. This was an evidently popular rationale in the Dairy industry where it was the primary motivator for 50% of the acquisitions. The explanation for this lies in the state of the Dairy industry after a difficult period of global oversupply and low milk prices. Some of the stronger surviving businesses have been picked up by larger companies looking to capitalize on the rebounding milk prices and growing Asian markets.

What is the buyer profile?

Food & beverage products and services sector was of interest to private buyers as they were responsible for 84% of the acquisitions leaving the remaining for private buyers.



In total, we tracked 46 publicised mid-market transactions with a combined estimated value of \$1.62 billion. In this report, we have further divided the Food & Beverage industry into groups based on similar business activity.

These are the subgroups:

- BWS (Beer, Wine, and Spirits)
- Dairy
- Food & Non-alcoholic Beverages Manufacturing
- Agriculture
- Distribution, Bottling & Packaging
- Other Transactions

Beer, Wine, and Spirits

We tracked 7 publicised mid-sized acquisitions in the cosmetics industry. The combined estimated value of the transactions was just under \$81.92m.

There was significant activity involving manufacturers of beer, wine, and spirits particularly in the craft beer sector where all three publicised acquisitions targeted small Australian craft breweries. The three transactions were all trade sales by larger beer companies looking to expand in the rapidly growing craft beer industry. In all cases, significant capital is expected to be poured into the targets to expand production and/or improve automation. The wine industry saw two deals this year, significantly reduced from last year's four transactions. Notably, NSW-based Casella Wines added to their acquisitions in the previous year by acquiring SA-based Shaw Family Vintners.

Dairy

We tracked 10 publicised mid-market transactions this year across the dairy industry with a combined disclosed deal value of \$444.67m.

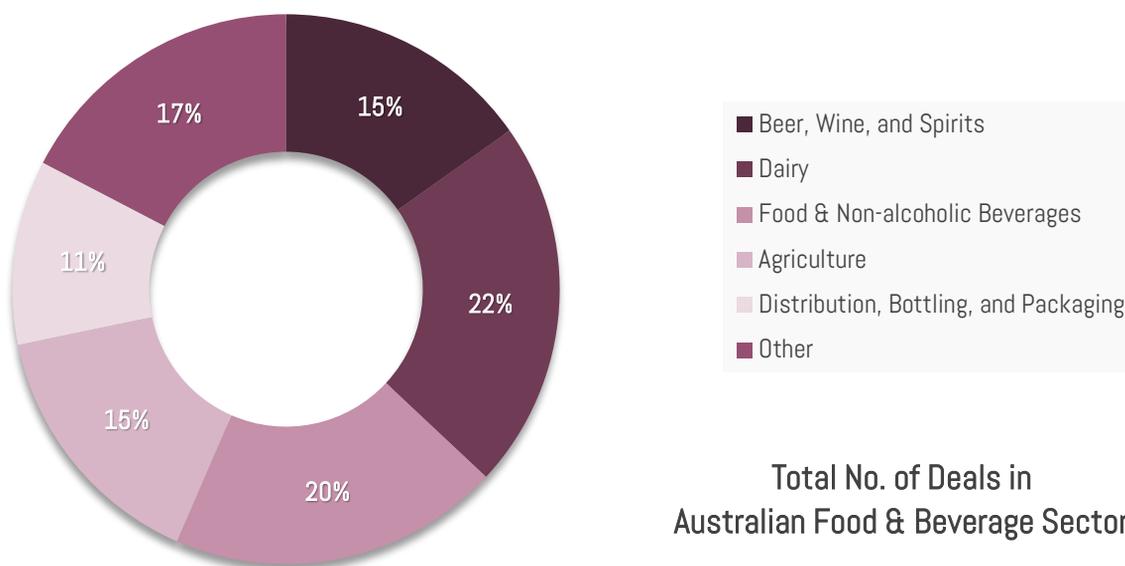
By far the largest acquisition in this space (by value) was Mead Johnson & Company's acquisition of the spray drying and infant formula finishing capabilities from Bega Cheese. MJN paid \$200mn to enable continued expansion in its infant formula business in the Chinese market as well as diversify its presence in the global supply chain network. Transaction activity in the dairy industry has been strongly influenced by trade buyers looking to expand their capacity and product offerings to capitalize on burgeoning Chinese demand.



Food & Beverage Manufacturing

We tracked 10 transactions in the food & beverage (Non-Alcoholic) manufacturing industry with a combined disclosed deal value of \$526.67m.

A Chinese partnership between Archstone Investment Co. and the Hui Family was responsible for the largest publicised deal (by value) with their 51% acquisition of Australian beef processor/exporter Bindaree Beef for \$120mn. This is a continuation of Chinese investment in Australian mid-market food manufacturers, building on Legend Holdings acquisition of a seafood business last year. Increasing demand for Australian food products in Asian markets and growing consumer interest in healthy options have been influential drivers for acquisitions this year.



Total No. of Deals in
Australian Food & Beverage Sector

Agriculture

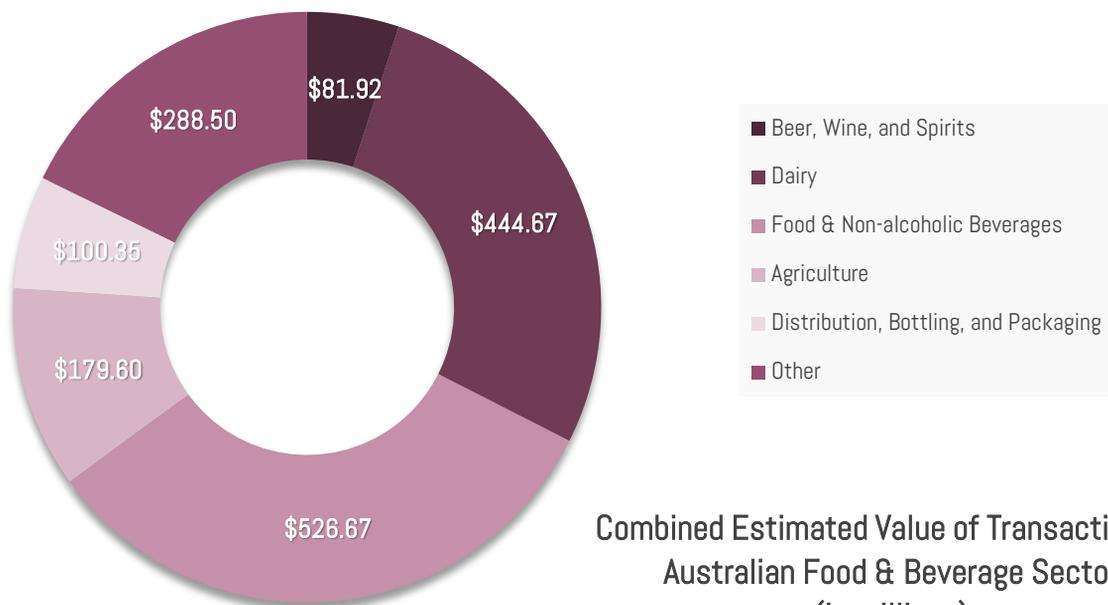
We tracked a total of 7 transactions in the agriculture subsector with a combined disclosed deal value of \$179.6m.

There was a common theme for all acquisitions involving cattle stations in 2017 - an Australian trade buyer pursuing geographic or product expansion. The largest such transaction was the Rural Funds Group pursuing growth within the industry by acquiring three cattle stations for a total of \$53mn. Similar deal rationales were apparent across the industry with almond and walnut producers in Australia also seeking inorganic growth through acquisitions.

Distribution, Bottling, and Packaging

We tracked 5 transactions in this industry with a total disclosed deal value of just over \$100.35m.

The deals in this segment are largely characterised by strategic acquisitions involving large players in the industry acquiring relatively small Australian businesses to enable expansion. Most notably, the Philippines-based giant San Miguel went on a spree acquiring three wine bottling and packaging companies to expand its presence in the contract filling markets.



Combined Estimated Value of Transactions in Australian Food & Beverage Sector (in millions)

Other Transactions

We tracked 8 other publicised mid-sized acquisitions related to food & beverage industry. The combined estimated value of the transactions was \$288.5m.

Allegro Funds, an Australian based private equity firm has acquired Healthy Life Group, an Australian private company for an undisclosed consideration. This acquisition adds to their already expansive and diverse portfolio and fits strategically along with their other acquisition.

Deal Conditions

Within the Food & Beverage industry there was only one transaction with a publicised earnout clause.

The deal in question involved Australia-based The Retail Zoo (owned by Bain Capital) acquiring Betty's Burgers and Concrete, an Australian restaurant chain. As per the terms of the deal consideration, The Retail Zoo has agreed to pay \$20mn plus a deferred consideration of another \$20mn over the next two to three years. The earnout is contingent on the performance of Betty's Burgers' post-acquisition, although the specific details are private.



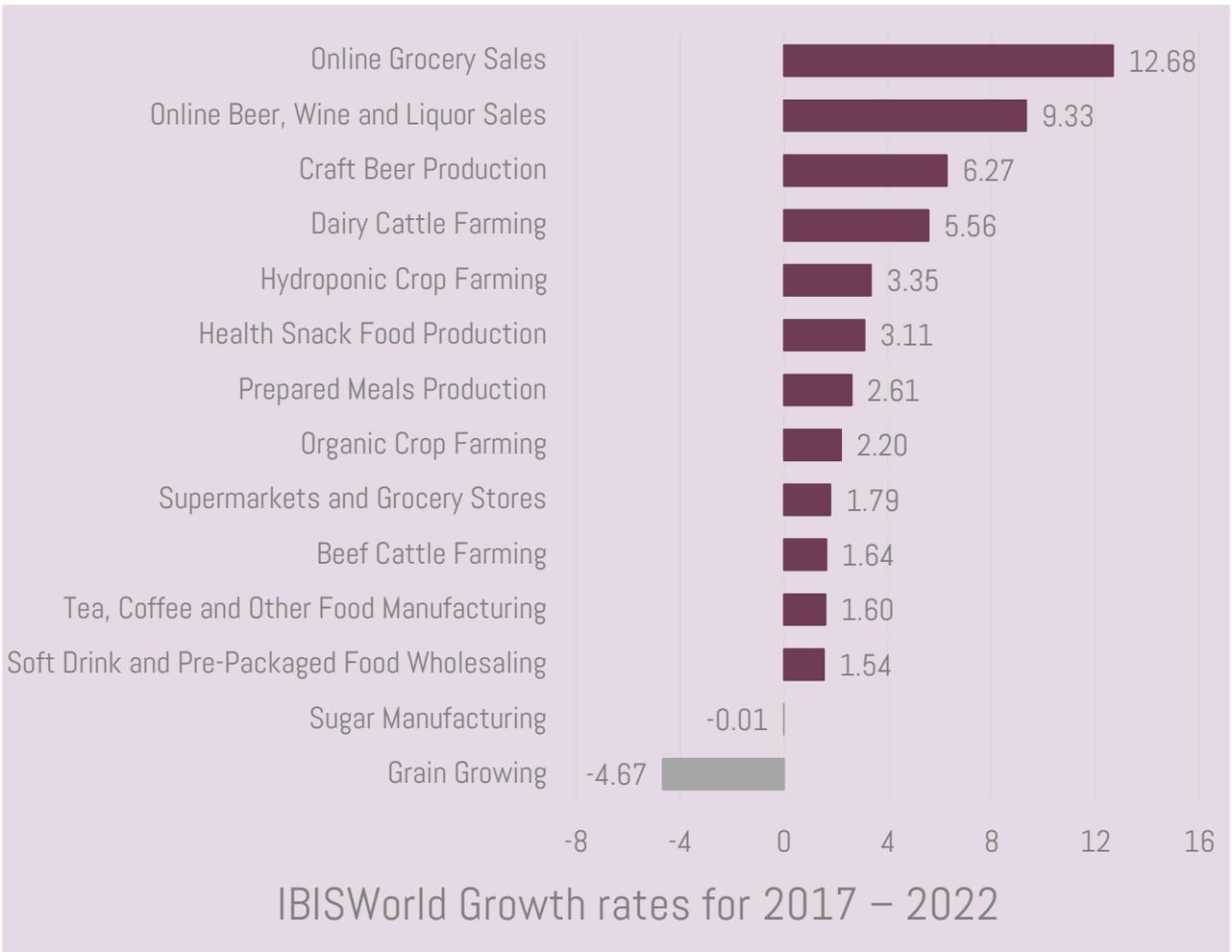
PE's v Trade Sales

This year, interest from private equity firms has been most focused towards the Retail, Food & Non-alcoholic Beverage Manufacturing, and Food Services segments of the industry. Together, these three segments account for 62% of acquisitions by PE firms. Overall, the Food & Beverage industry in 2017 has seen thirty trade sale transactions and thirteen PE acquisitions. Most notably, Hong Kong-based PE firm PAG Capital acquired The Cheesecake Shop (cake retailer) for a total consideration of \$100mn with the intention of providing funding to enable previously inaccessible growth.

PE transaction volume in this industry was dominated by Blue Sky Private Equity who engaged in three deals this year. The firm targets businesses that already have a well-developed strategy for growth, a need for additional capital, and evidence of a sustainable competitive advantage. This year, a fast food chain operator (THR1VE), a salad & side dish producer (Sunfresh Salads), and a food distributor (Quality Food Services) fit the bill.

Industry Growth trends

Total combined revenue for food & beverage businesses in the next 5-years will increase from \$726.38 billion in 2017 to \$774.60 billion in 2022. The compounded annual growth rate (CAGR) will be 1.29%.



Top 3 fastest growing industries are Online Grocery Sales (12.68%), Online Beer, Wine and Liquor Sales (9.33%) and Craft Beer Production (5.88%). Growth is predominantly driven by traditional retail businesses using the online platform.

Bottom 3 slowest growing or negative growth industries are Grain Growing (-4.67%), Cereal Growing Wholesaling (-2.21%), Biscuit Manufacturing (-2.15%).

Outlook for 2018 and beyond.....

The craft beer segment has been lifted on the back of rising household discretionary income and an increase in the willingness of drinkers to experience different brands and styles. Presently, craft beer exports are relatively low, but they have been increasing over the past half-decade and are expected to continue increasing due to swelling demand for Australian craft beers in Asia.

In contrast, the broader beer industry is stagnating due to the largely homogenous nature of traditional beers, heated internal and external competition driving down profit margins, and increased regulation & taxation. In this climate, it would not be surprising to see a continuance in the trend of large beer producers acquiring small craft breweries.

The milk powder/infant formula industry has been facing turbulence in the past half-decade primarily due to global oversupply driving down milk powder commodity prices. However, this year we have seen large industry players both nationally (Bellamy) and internationally (Japan's Megmilk Snow Brand, USA's Mead Johnson & Co.) pursue acquisitions in this segment which potentially indicates a growing appetite for investment.

The broader dairy industry is also expected to rally after many dairy farmers suffered under depressed milk prices below the cost of production in 2015-16. Developments in

farming & milking technology, higher forecasted farm gate milk prices for 2017-18, growing demand in the Asian markets for Australian dairy products, and the benefits of economies of scale underpin a convincing argument for continued transactions in the dairy farming industry going forward.



Outlook for 2018 and beyond.....

The beef cattle farming industry has enjoyed strong growth over the past five years due to industry and market conditions. Following difficulties that encouraged farms to reduce herd size, the saleyard cattle prices and demand for Australian beef overseas has since surged and thereby contributed to strong revenue growth.

While these factors are still expected to carry forward, supply is now more commensurate with demand and so a lower, more sustainable growth rate is forecast. Cattle farming is dominated by owner-operator businesses with about 85% of industry operators being non-employing family businesses.

It is also seen as a lifestyle choice and it is not uncommon for farmers to refuse exiting the industry even in difficult times. For these reasons, it seems unlikely that we will see increased deal activity in the beef cattle farming industry going forward.

Australian food manufacturers have generally enjoyed a period of prosperity in the last five years, although certain segments such as biscuit manufacturing have suffered. Going forward, the industry is expected to slow down across the board and this is primarily due to consumer preferences shifting towards premium and healthier options as well as increased global competition.

The industries that have recently performed the best owe their growth in large part to strong export channels, but competition is expected to increase in export markets going forward. Altogether, there appears to be significant opportunity for growth in specific areas of the broader industry. Businesses that are able to capitalize on the shifting consumer preferences or who are able to secure strong export channels are likely to be seen as attractive targets for acquisitions going forward.



Contributors



Mark Ostryn

CEO / Founder – Strategic Transactions – 1300 862 511

Mark Ostryn is the founder and CEO of Strategic Transactions. Mark's focus is to transact the sale or acquisition of a business at the optimal value and terms for the owner. This involves detailed market search, financial decision support and project management throughout the transaction.



Divesh Bidhuri

Analyst – Strategic Transactions – 1300 862 511

Divesh Bidhuri is focussed on medical & cosmetic industries as well as strategic partners & alliances. Divesh graduated from the University of Nottingham and recently obtained his Professional Accounting Masters from UTS. He is also an accomplished athlete, debater and dancer.

Strategic Transactions

We are mid-market **M&A specialists** helping mid-sized food & beverage businesses **maximise their business value** and **acquire or sell businesses**.

