Business Sales Market Update FY24-25

Food and Beverage Companies

STRATEGIC TRANSACTIONS

INTRODUCTION

We are delighted to share our latest report on small and medium-sized Australian Food & Beverage transactions.

While the volume and value of transactions fell in 2023, initial indicators point to a transaction backlog and optimism returning to the market. The acquisition appetite for larger food & beverage companies to fast-track their strategies also appears to be increasing in 2024.

Strategic Transactions is privileged to support our food & beverage clients as they seek to grow or exit their businesses. We provide our clients with unrivalled expertise, deep industry expertise and personal attention as they seek to maximise their M&A activity throughout the deal cycle. The perspectives we share here are built from this extensive experience and research. Our report offers these perspectives to drive successful value creation within dealmaking.

We hope you find this a worthwhile background for your transaction strategy.

Mark Ostryn

Director

Mark's significant business sale and acquisition experience assists Australian business owners to maximise the value of their food and beverage company in a buy or sell transaction. Mark successfully project manages the entire cradle-to-grave process to ensure that it is as lucrative, efficient, and stress-free as possible.

MARKET SUMMARY

After a subdued period, Australia's Food & Beverage deal activity is forecast to rebound in FY24-25. This challenging era from late 2022 resulted from business owners, business buyers and private equity grappling with economic uncertainty, geopolitical crises, supply chain disruptions, labour shortages and rising capital costs.

Price inflation resulted in margins being squeezed by shifts across the supply chain, and many companies struggled to maintain their profitability. This happened against a background of technology, including digitalisation, the growth of the direct-to-consumer model, and the need to deploy technology to improve profitability and decrease costs.

Private equity took a cautious approach, with volumes dropping due to rising interest rates and tightening credit markets.

Even though 2023 saw the lowest number of deals in more than ten years, some deals were consummated. Certain agile F&B companies prospered post-COVID by adapting their business models or being innovative in their product focus or marketing mix. These are the ones that retained or gained value throughout the last two to three tumultuous trading years.

We saw a widening valuation gap between potential sellers who are waiting for improved valuations before bringing their business to market and buyers who said that sellers had unrealistic expectations given the unstable state of the market. This will likely change for lower-value businesses where increasing numbers of retiree baby boomers are keener than ever to exit and have no family succession plan.

How can these shifting trends in the food & beverage industry assist business owners wishing to sell and exit over the next five years? For such entrepreneurs who have the time and patience to engage in value creation before sale, it is essential to understand the extra value that can be derived from a strategic acquirer through:

- Understanding how such strategic acquirers determine the quality and value of an SME food & manufacturing business, and,
- What motivates such acquirers to consider transactions of such businesses?

SALES & VALUATIONS

Globally, food and beverage manufacturer sales volume decreased by around one-third in 2023. This was mirrored in Australia, where the number of sub-$50m private transactions declined by more than 50%. Also, more of those transactions resulted from a liquidation or voluntary administration event.

Subsectors in food and beverage where acquisitions took place included Wine and other alcoholic beverages, soft drinks and water, food delivery and logistics platforms, plant-based food, and chicken.

Our clients' crucial question is usually, "What's my business worth?" Sale values are typically measured as a multiple of current profit. So, if a business with an EBITDA (*Earnings Before Interest Tax Depreciation & Amortisation*) of $1.5m sells for $4.5m, the multiple is 3x.

According to *Bizstats*, the average EBITDA multiples for transactions below $5m between 2021 and 2024 has ranged from 2.31x (Supermarkets and Specialty Retailers), to 2.44x (Food, Beverage and Tobacco Wholesalers) to 2.72x (Small Food & Beverage Manufacturers) This has trended downwards from an average of 2.89x from the three years to 2021 and does not include food & beverage businesses that fail to sell.

More optimistically, the average EBITDA number hides critical factors. It includes well-managed food & beverage businesses with innovative products that could sell for up to 6-7x EBITDA. **Although, a business will sell for whatever the highest bidder will pay for it, there must be competitive tension in the marketing of a business to drive up this price.**

This average multiple increases when business values exceed the $5m-$10m mark. Larger businesses in an industry tend to be more stable, diversified, and independent of a specific supplier or customer. They have found a way to grow beyond the owner's presence and are less likely to suffer when the owner departs.

Valuation multiples in food and beverage companies have increased significantly in the innovative alcohol sectors, healthy snacks, and ready-to-eat meals. Packaged food multiples have remained stable, and the future of plant-based foods is questionable.

VALUE ENHANCERS

FINANCIAL

Effective financial management includes robust systems to oversee cash flow, supplier and customer management, investment, and risk management. Revenues should be recurring and spread across a broad range of customers, while costs should be controlled.

PRODUCT

Strong value drivers include a broad and expanding product range, proactive product innovation via a market-aware approach that innovates new product development, ingredient mixes, packaging, and retailer support optimisation.

CUSTOMER

Valuable businesses typically have a deep awareness of customer shifts and can consistently excite consumers by producing the “next best thing”. In pet foods, the pandemic resulted in deepening bonds between people and their pets resulting in an upsurge in quality, “human grade” pet food. Awareness of and responding to customer trends is crucial to driving values.

PEOPLE

A business that values its employees and motivates and invests in them through training, participation, involvement, and recognition is more highly valued than one that doesn’t. This results in productivity, efficiency, loyalty, and product and process innovation.

SYSTEM

Integrating internal systems and cloud-based supply chain processes enables food manufacturers to grow and scale through standard operating procedures. A digital platform can assist with ingredient location tracking, storage, reduction of food waste and minimise safety risks. These system features tend to drive higher valuations.

COMPETITIVE

Multiple distribution channels reduce dependency on individual retailers to stock products. Contracts and agreements with downstream markets, including supermarkets, wholesalers and retailers, minimise revenue volatility and enable demand. The best food producers have become more omnichannel, implementing e-commerce, enabling direct delivery to retailers and direct to consumers via the internet.

BRAND

A positive public perception of a brand established through effective marketing and an excellent reputation is a key to value. Branding enables food producers to end-customer relationships through being explicit about matters such as the ethical sourcing of ingredients, food preparation tips and techniques and expanded direct-to-consumer helplines and chatbots.

IP

This is the proprietary knowledge of food and beverage businesses that underpins current and future products and customers. A company's future values depend on a portfolio of intellectual property assets or trade secrets that ensure innovation and competitiveness.

WHO ARE THE BUYERS?

Just over 70% of all food & beverage acquirers were Australian-based, with international acquirers mainly participating in higher-value deals. Breaking down the identity of acquirers:

Large Australian and internationally-owned food & beverage businesses

They have the financial means to acquire smaller businesses and may have multi-billion turnovers. These include serial acquirers such as Fonterra, JBS, Coca-Cola Amatil, and Lion. Of Australia's 100 largest food and beverage businesses, 53 are overseas-owned, and only 17 of the 100 are publicly listed.

In FY2023, overall financial performance across the top 100 groupings varied dramatically. While five of the Top 100 companies' revenue fell by double digits, 31 companies in this top 100 grew their revenues by double or triple.

Large food & beverage businesses typically seek growth niches and strengthen those niches they already occupy.

Many larger companies continue to actively review and acquire small and medium Australian food & beverage businesses, often to horizontally integrate their existing portfolio into a new but related range of products. In 2023, Lamb Weston, a US-based US$3.4b producer of frozen potato products, acquired Crackerjack Foods, a A$20m manufacturer of potato cakes and hash browns. Meanwhile, Lion, the Australian subsidiary of Japanese behemoth drinks manufacturer Kirin Holdings Company, acquired the Four Pillars Gin brand.

To spread risk and ensure post-acquisition performance, acquirers may seek to acquire successive tranches of a business over several years. In 2023, Thomas Food International (TFI), an Australian meat and seafood producer, acquired the remaining 50% of Victoria-based Frew Foods International they didn't already own.

Australian Publicly Listed Businesses

As of March 2024, 70 publicly (ASX) listed Australian businesses were listed in the Food, Beverage & Tobacco industry group. They vary in size, with market caps ranging from just over $1m to over $10b.

An ASX listing means they are more likely to have greater capacity to raise capital to fund acquisitions. Many look for “accretive” deals, meaning they can increase their value by making acquisitions that buy at a multiple higher than a typical private-to-private transaction multiple but below the trading multiple on the ASX. This transaction increases their market valuation above the rate paid for the target business.

They are also on the lookout for bargains. On the buy-side, Woolworths purchased the grocery delivery app Milkrun after its collapse. On the sell side, ASX listed TasFood sold Shima Wasabi to Hillwood Berries Tas as the seller was unable to scale Shima sufficiently to justify it as a core brand. Then, later in 2023, TasFood sold Betta Milk and Meander Valley to Bega for $11m

Other acquisitions from Australian-listed businesses included Inghams, ANZ’s largest integrated poultry producer. It acquired New Zealand-based Bromley Park Hatcheries in 2023 and Bostok Brothers in 2024 to strengthen its general and organic poultry position. Also, in 2023, Retail Food Group snapped up the award-winning Sunshine Coast family pie shop chain Beefy’s.

Private Equity

Private equity has been cautiously interested in the Australian food and beverage sector at the higher and lower end of the market. In 2022, across all industries, there was around $118b of private capital assets under management (AUM), which grew at around 21% from the previous year. There is also a record amount of $37b undeployed capital available for investment in Australia.

At the high end of food & beverage transactions, notable transactions include the take-private of ASX-listed Costa Group by a consortium led by private equity firm Paine Schwartz Partners for approximately A$2.5 billion and the take-private of ASX-listed United Malt by private equity-backed European malt firm Malteries Soufflet for approximately A$2.1 billion.

There was also activity at the lower end, with businesses acquired from Administration PAG’s Craveable Brands acquired Chargrill Charlies in 2023, and the Quinn Family acquired the Australian arm of dessert manufacturer Sara Lee in 2024. Growth businesses such as the Yume food distribution tech platform successfully obtained seed funding from Investible earlier in 2024.

Finally, private equity can also be viewed as a stepping-stone to an eventual 100% acquisition. Advent Partners took a stake in dessert and treat manufacturer Frosty Boy in 2016. It created substantial value by ramping up its operations to more than 15,000 outlets in 70 countries before selling to US-based Kent Corporation.

Other

Family offices, high-net-worth individuals and investment consortiums are increasingly becoming influential in food & beverage acquisitions. Their acquisition may be strategic, purely financial or even quasi-strategic. In mid-2023, Aaron Zerefos Enterprises added Add Water to their portfolio, including synergistic products such as Fiji Water and C Organic Coconut Water. They also have interests in, amongst other areas, make-up, real estate and horse racing.   In 2024, the Bain Consortium, which included several independent groups of asset managers, bought out Accolade wines suffering from high debt levels after COVID and Chinese tariffs.

FUTURE TRANSACTION FORECASTS

M&A activity will be more careful and strategic, as companies will face challenges in maintaining profit margins, expanding market share and valuations in a high-cost environment. Companies will look for acquisitions to enhance their efficiency and innovation in product and technology. Market differentiation will remain a key factor as consumer tastes evolve.

Geographically, Australia is well-placed. A more stable economy with more certainty about macroeconomics makes deal-making easier. Internationally, Australia is regarded as more investor-friendly, with good growth potential, legal transparency, and language familiarity.

M&A activity will be driven by niche categories and geographies as companies seek to expand their presence and portfolio in fast-growing segments, such as snacking, frozen foods, plant-based, organic, and functional products. Additionally, digital transformation and supply chain optimisation will be significant deal drivers.

Additionally, with the current economic stability where inflation appears to be under control, mid-market food & beverage companies will increasingly look to bolt-on acquisitions to enhance their capabilities inorganically.

The uncertainty remains. How successful will plant-based businesses be? How will F&B manufacturers and distributors use AI to gain traction and a competitive advantage in areas such as cost and ROI, system integration, data management, cybersecurity and privacy, talent and the skills gap? And will ESG (Environmental, Social, and Governance) continue to feature strongly in investment considerations?

Despite the recent decline in M&A activity, executives globally remain optimistic about the food and beverage industry. Supply chains continue to improve, and companies are better able to control margins through reduced inflationary pressures.

This rebound in activity may result in a heated market as companies and private equity compete to buy assets using capital waiting to be deployed. Deal financing costs are likely to be more predictable as interest rates stabilise. However, much will also depend on access to capital or financing, particularly at the lower end of the market.

Looking longer term, food and beverage companies will be valued for their proactiveness in meeting shifts in consumer preferences towards sustainability, health consciousness, and technological innovation. Factors such as a company's environmental impact, ethical sourcing practices, product innovation (e.g., plant-based alternatives), and digitalisation of distribution channels will play a more prominent role in determining their valuation. Additionally, as food security and supply chain resilience concerns grow, companies with solid supply chain management and resilience strategies may be valued more highly.

ACQUIRER MOTIVES

So, what do corporate buyers and private equity look for in an Australian SME food & beverages company? Some recent Australian transactions include:

IP

Established large food & beverage businesses often aren't great innovators. They may seek to buy in innovation, often from start-ups or producers of niche products. The rationale for this is clear – internal development is risky, both in terms of time, effort, and the probability of success. That risk can be defrayed by buying in technologies, processes and products that have already been proven in the marketplace.

Examples of acquiring innovative products and technologies abound. They range from kombucha to plant proteins to food distribution platforms.

In 2023, Ordermentum, the digital food ordering system for pubs and clubs acquired food wholesaling business Foodbomb. This had the stated motive of shoring up the number of suppliers using their tech while accessing their food products.

GEOGRAPHIC

Acquirers may look for a business that is strong in a specific location to also market their own products within that territory. Acquirers will also access quality product from the seller and, through their much larger marketing budget, provide those products with a much larger geographic footprint.

Noting the growth in tourism in SA's Eyre Peninsula, Barrister Rock acquired Boston Bay Wines to capitalise on cellar door sale opportunities. Likewise, Tasmania's reputation for fresh, quality foods has encouraged acquisitions from local and interstate. large acquirer may use the current geographical footprint of a smaller seller to get access to their geographical market. The acquisition of Select Fresh Group by Costa gave them access to the WA market and state of the art warehouses in Perth.

CONSOLIDATION

Consolidating operations within food & beverage production can result in significant savings or improvements in efficiency. In food & beverages merging two or more production plants, breweries or distilleries can result in improved product capacity and significant economies of scale.

Additionally, specialised production facilities, through acquiring vegetable growers, can make access to facilities like large glass houses far more cost-efficient.

Two rival plant meat manufacturers, All G Foods and Fenn Foods merged their businesses to consolidate its market power as it seeks to raise capital in an environment of high operating costs and falling sales volumes. Within dairy, Nature One's acquisition of Nepean River Dairy in 2021 gave it access to excess capacity in manufacturing. In food services, New West Foods acquisition of Elite Food Co made it cost effective to utilise a larger site allowing for larger freezer, chiller, and dry storage for a new, expanded product range in fresh, frozen, chilled, and dry goods.

MARKET SHARE

Often it is easier for an acquirer to buy an existing product range than to try to replicate that product range by building it themselves. The acquirer can sell more food product to their existing customers, sell their own product to new customers, or extend their product range. Greater market share also provides additional leverage for greater supermarket or bottle shop shelf space.

v2, a leading plant-based ingredients company acquired Soulara, a plant based ready meals brand. This acquisition broadens the range and availability of ingredients that can be used in ready-made meals. Generally, acquirers are also looking to fill all spaces within a specific product category. Another example is the large company Kilcoy acquiring lamb assets to complete its meat portfolio.

CUSTOMER / CHANNEL

Aside from increasing market share through acquiring the customers of the acquired food & beverage business, the acquirer also has access to their distribution channels. Commonly in the food industry, acquirers may seek to vertically integrate enabling them to control more of the supply and product chain, such "farm to market" strategies.

In 2023, Kommunity Brew's acquisitions of Melbourne's Cool Cool Beverage Company (CCBC) gave KB access to CCBC's Victorian distributor network, their relationship with the major supermarkets and Amazon and export opportunities. Larger businesses will also acquire to diversify their customer base such as the earlier decision by Patties Foods, to acquire the ready-to-eat meals business, Fitness Outcomes.

KEY PEOPLE

The seller may have an extensive knowledge base of skilled personnel that can provide expertise to drive the buyer's business. In niches such as winemaking, capturing the expertise of the people employed are a key driver towards acquisition of a business. Fundamental to an acquirer's due diligence is to evaluate the skills, commitment and stability of the target company workforce. Typically, they seek a qualified, educated, future focused and motivated workforce with an emphasis on employee upskilling while the leadership is supportive.

This ensures continuity for the new owners and the confidence that the merged companies are likely to work together harmoniously.

Often the charismatic founder adds significant brand value to the acquirer, and the acquirer will seek to retain the founder. This is particularly so in the craft beer industry where Mighty Craft recognised the value of the key people in the Adelaide Hills Group and sought to maintain their individual personalities within the merged group.

In 2023, Afoodz acquired the assets of CoLab, a Gourmet ready-meal and pantry goods delivery service, to benefit from the expertise of key CoLabs personnel intellectual property, digital infrastructure, technology and their database.

PRODUCT EXPANSION/ DIVERSIFICATION

The products marketed by the seller can be rebranded and sold by the acquirer to the customer. More significantly, many cashed up or publicly listed food & beverage corporates seek to pick "winners" early on and acquire to develop these businesses. The acquirer may also have access to some developing technologies, products, and services.

In 2021, the giant JBS, traditionally a beef specialist diversified into both pork through their acquisition of Riverlea and seafood through Huon Aquaculture, Aaron Zerefos acquisition of Drinkscene has enabled a milk distributor to diversify into broader non-alcoholic beverages. Cases of diversifying into related markets are abundant, Arnotts bought Diver Foods as an entrée into breakfast cereal and snacks sector while pie market, Patties Food diversified into health food by purchasing fitness outcomes. Global food company Procter & Gamble acquired the high growth vitamins, minerals, and supplements company, Voost while alcoholic drinks manufacturer Asahi purchased Allpress to diversify into coffee.

DEFENSIVE

A buyer may acquire to remove a competitive threat, strengthen their own market position in a competitive marketplace or lock in supply.

The net effect may be to reduce the number of players in a market. A defensive acquisition could be a response from a new competitor entering a market, a competitor becoming stronger, or to remove excess capacity in a market.

In 2023 Randall Wine Group, a large Barossa winemaker acquired Gemtree wines in order to tap into the growing global organic wine market driven primarily by Millenials.

Chinese company, KGF's 2021 acquisition of lamb producer, Hardwicks in enabled KGF to deepen their Australian meat asset portfolio. It enabled them to pool their diverse assets to capitalise on revenue and cost synergies strengthen their positioning against adverse market conditions.

ACQUIRERS' CHECKLIST

Technology

Evaluate the target company's technological infrastructure. Has the seller implemented automation, AI, and data analytics to optimise production, distribution, and supply chain management?

Innovation

Seek out companies with a track record of innovation. Look for unique product offerings, proprietary technology, or novel approaches to food and beverage production.

Trading Patterns

Consider issues such as customer concentration and retention, revenue sources, and recurring revenues to assess stability and growth potential, mitigate risk, and foreshadow strategies for product innovation and customer loyalty.

Underutilised assets

Identify underutilised assets within potential acquisitions, such as products, production facilities, distribution networks, or intellectual property, and explore opportunities to optimise their utilisation for higher profitability.

Health and Wellness

With a growing emphasis on health and wellness, prioritise acquiring companies that offer nutritious and functional food and beverage products. Consider trends such as plant-based alternatives, clean-label products, and personalised nutrition.

Digital Presence

Review investments in digital marketing and e-commerce capabilities to reach consumers directly. Has the target developed engaging content, utilised social media platforms, and optimised online sales channels to maximise brand visibility and customer engagement?

Geographical Expansion

Look for companies with scalable business models and international growth potential. Consider emerging Asian markets and the capability to adapt products to local preferences and regulations.

Consumer Trends

Select companies that stay abreast of evolving consumer trends and adapt their product portfolio accordingly. Monitor market shifts, consumer preferences, and emerging technologies to remain competitive.

Talent and Diversity

Review businesses that have invested in talent development and diversity initiatives. Which ones foster a culture of inclusivity and innovation to attract top talent and drive organisational success?

Buy v Build

Internal growth is an alternative to acquisition if seeking to replicate the success of a specific product. Evaluate risk / return factors such as speed to market, cost efficiency, strategic fit, internal knowledge / innovative capability and risk of failure to determine.

Strategic Partnerships

Where are existing alliances with suppliers, distributors, or other industry stakeholders to enhance operational efficiency, access new markets, or collaborate on joint marketing initiatives?

Regulatory Compliance

Consider companies well-informed about changing regulations and compliance requirements in the food and beverage industry. Who prioritises food safety, quality control, and adherence to regulatory standards to maintain consumer trust?

Synergies

Identify synergies with potential acquisitions, such as complementary product lines, shared distribution channels, or overlapping customer bases, to create economies of scale and operational efficiencies.

Customer Experience

Seek out businesses that deliver exceptional customer experiences across all touchpoints. From product design to post-purchase support, prioritise customer satisfaction to build brand loyalty and advocacy.

NEXT STEPS

Strategic Transactions understands the Australian food & beverage industry and we work beyond just finding and executing transactions. Through our Fit 4 Sale services, we'll help you maximise your transaction value – even if it is several years away.

We provide critical support throughout the negotiation and due diligence process. Strategic Transactions' goal is to find you the best deal terms and structure and, meanwhile, normalise your working environment so your business can concentrate on its operations and profitability.

Contact us for a confidential consultation to discuss how we can work with you.

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BUSINESS FOR GOOD

Strategic Transactions believe that it is our responsibility to create more so that we can contribute more. The UN Goals for Sustainable Development provide a growth framework for developing countries. A portion of our revenues is provided to support various charities relating to Goal 8 (Decent Work & Economic Growth.) of the framework.

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