

Food & Beverage M&A Update

Signs of M&A Acceleration Despite Market Uncertainty



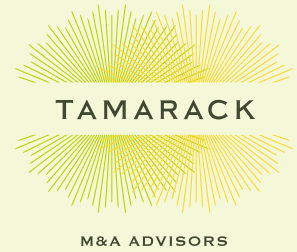
Restaurant price inflation has increased pressure on QSRs. (Photo: Dribbble)

KEY SECTOR TAKEAWAYS

Tamarack Partners is pleased to share its Food & Beverage M&A Update. Moderating inflation and normalizing of supply chains encourage optimism for sector participants. Food inflation fell to a two-year low of 4.3% YOY in August, from 4.9% in July and a peak of 11.4% in August of 2022. Prices slowed down for food-at-home (FAH) and food-away-from-home (FAFH), though restaurant price inflation continues to outpace grocery prices as operators struggle with higher wages and input costs.

Certain plant-based meat and dairy manufacturers have [closed their doors](#) recently as the market reaches a crossroads. Plant-based meat sales peaked in 2020 but have stagnated or declined since then due to inflation as well as taste, texture issues and clean label concerns. Meanwhile, consumer interest in eating less meat is on the rise, with 47% of Americans defining themselves as “flexitarian” ([Sprouts Farmers Market](#)). Sustainability is still a top consumer priority, creating potential for business leaders with more realistic expectations.

Venture financing continues to accelerate in AgriFoodTech despite rising interest rates and cannabis capital, in particular, has faced some interesting ups and downs. In 2021, investors were bullish on cannabis, but by the end of 2022, the money had begun to dry up. Last year, cannabis investments grew in biotech/pharma, infused products and extracts. M&A of distressed assets are also in demand as well as ancillary businesses like cultivation and retail. These headwinds won’t last forever and projections for the cannabis market are still in the billions, particularly as states continue to pass “green legislation” at an unprecedented pace.



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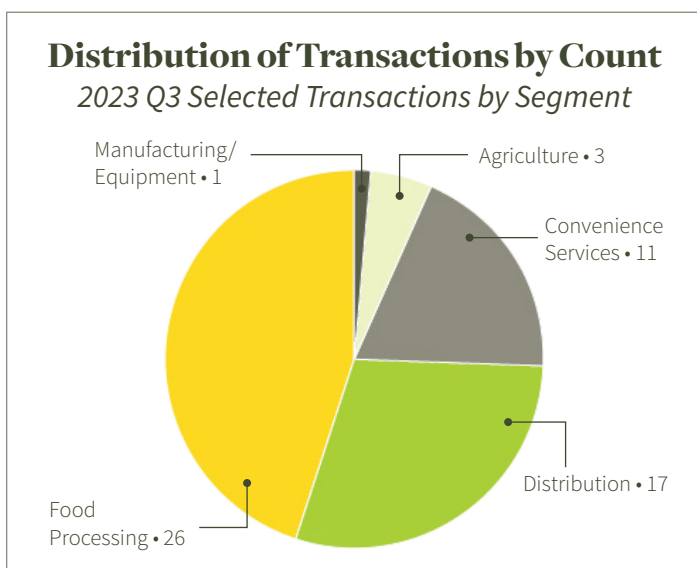
Barry Friends
Industry Partner



Michael Kessler
Founder & President

M&A COMMENTARY

A slowdown in Food & Beverage mergers and acquisitions has coincided with a decline across broader M&A markets, as lower-middle market Q3 deal volume across all industries fell 22.2% from Q2. That being said, the food industry has always weathered downturn storms rather effectively and the sector has recorded a steady stream of transactions this year. Disinflation in food prices has reduced pressure on sector participants' gross margins, allowing for implementation of more aggressive growth strategies. Tamarack Partners tracks U.S. domestic acquisitions across select Food Processing, Distribution, Convenience Services, Agriculture and Manufacturing/Equipment sectors. 58 deals were announced or completed in Q3 as compared to 63 in Q2.



Strategic buyers have dominated consolidation activity over the nearly two years of transactions we've tracked, accounting for the majority of deal volume each quarter since Q1 2022. In Q3, 70.7% of acquisitions were strategic and 53.4% were completed by private strategic buyers. Public strategics (17.2% of Q3 deals) have also been active participants in M&A markets in recent months, often aligning acquisition strategy with broader consumer preferences for snacks and premium products. Notably, TreeHouse Foods (NYSE: THS) sold its snack bars business to John B. Sanfilippo & Son (NASDAQ: JBSS) (September, \$63 million) and Campbell's (NYSE: CPB) acquired Sovos Brands

(NASDAQ: SOVO), producer of premium Italian sauces (August, \$2.7 billion). The convenience store industry has been increasingly targeted by private and public strategics alike, as small, single-store operators are challenged by declining categories (tobacco and fuel) and rising operating costs. Casey's (NASDAQ: CASY) picked up 63 c-stores from EG Group for an undisclosed sum (August), marking the chain's third acquisition this year.

Financial buyers have maintained a healthy presence in the space but have been increasingly selective in their acquisition pursuits. Private equity (PE) accounted for 29.3% of Q3 transactions as compared to 36.8% in Q3 2022, and exhibited a preference for add-ons. 76.5% of PE acquisitions in Q3 were add-ons, up from 50% in Q2. Higher financing costs have precluded large-scale platform investments, instead causing financial buyers to pursue smaller deals. This shift towards middle market M&A may provide healthy competition and contribute to a favorable pricing environment for quality sellers. Notably, Quad-C formed Legacy Food Group in September and acquired four mid and upper tier foodservice distributors in a strategy to build a super-regional competitor in foodservice distribution.

Sector Activity by Acquirer Group

Q3 2023	Strategic	PE Platform	PE Strategic	TOTAL
Food Processing	19	2	5	26
Distribution	10	1	6	17
Convenience Services	9	0	2	11
Agriculture	2	1	0	3
Manufacturing/Equipment	1	0	0	1
TOTAL	41	4	13	58

While the probability of a recession in the coming year has declined, Tamarack expects a steady pace of consolidation activity to continue in the Food & Beverage sector in Q4 2023 and into 2024. However, quality and strength of earnings will remain a focus for both strategic and financial buyers.

INDUSTRY INSIGHT: FOODSERVICE LABOR SCARCITY



Barry Friends
Industry Partner

The scarcity of able-bodied foodservice workers over the past few years has led many restaurants to close 2-3 days per week and squeak by with a core employee roster on peak traffic days. That may work where consumer demand varies enough to warrant non-traditional approaches, but institutional operators feeding residents 365 days/year have no such option. They must find people who will show up and do the essential work.

The root of today’s crisis lies in generational demographics. The foodservice industry employs younger, lower-wage workers and would never have grown to its current scale if not for past generations of abundant, cheap labor serving millions of busy people who increasingly enjoyed fast food, drive-thru windows and endless inexpensive food offerings. In 1978, nearly 60% of teens aged 16-19 held jobs.

By 2000, only 50% of baby boomers’ kids were active in the workforce. Today, only 37% of teens are working, with far fewer to pick from due to sharply lower U.S. population growth.

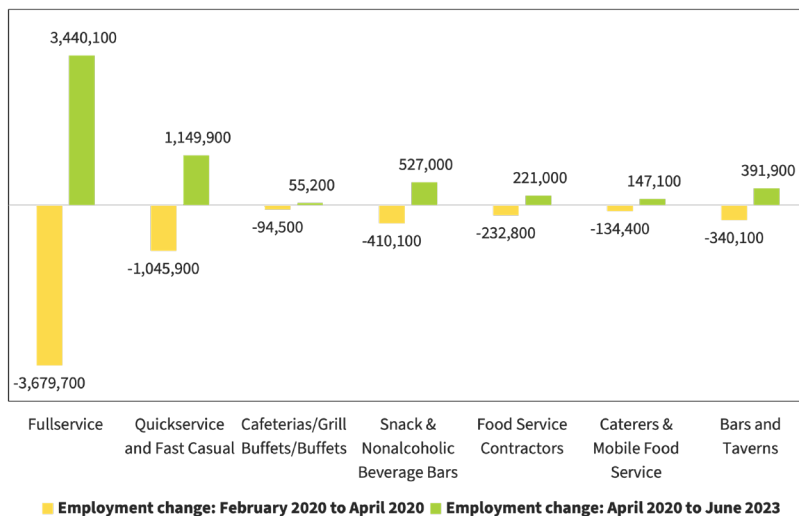
“In 1978, nearly 60% of teens aged 16-19 held jobs. Today, only 37% of teens are working.”

Shrinking birth and immigration rates have hampered the foodservice industry for years, but a combination of lower supply (population) and desire to work (participation) on top of baby boomer attrition (retirements) has exacerbated the issue. For employers seeking reliable, modestly compensated workers, the picture is painfully bleak.

According to the Bureau of Labor Statistics’ (BLS) Employment Cost Index, the average foodservice worker earns 81.3% more today than 18 years ago. Real wage gains among foodservice workers have occurred almost entirely in the past few years to the dismay of operators who’ve been forced to contend with rapidly rising wage and turnover rates.

Operators are passing along higher expenses in menu prices as reflected in the BLS’s Food Away from Home (FAFH) Consumer Price Index (currently 6.5% over 2022). Consumers continue to patronize restaurants, but have traded down in search of value. This important discretionary shift is reflected in the BLS’s foodservice employment data recently showing **240,000 fewer Full-service workers** in contrast to **104,000 additional Quick service workers** since 2020 (Figure 1).

Figure 1: Restaurant Employment by Segment



Good news (perhaps?): There may be some signs of cooling. Job openings across all employment sectors have declined to 9.5 million while the number of people seeking jobs has stabilized around 6.5 million, a much smaller gap than existed a year ago. It’s also possible higher wages might help the industry attract candidates from the 37% of working age Americans not seeking employment outside the home. Nevertheless, the era of abundant, low-cost labor is bygone and staffing “always open” foodservice operations will remain difficult for many years to come.

Editor’s Note: This article was originally published on [New Horizon Foods](#) and has been lightly edited for length and clarity.

Sources: Bureau of Labor Statistics, National Restaurant Association; figures are seasonally adjusted and preliminary

NOTABLE DEALS



Second Nature Brands, U.S.-based creator of premium, nutritional and better-for-you snacks and treats, has agreed to acquire Sahale Snacks from The J.M. Smucker Co. for \$34 million (September). Sahale is a leading manufacturer and marketer of premium, branded nut and fruit snack mixes, sold across the U.S. and internationally.

Blue Road Capital has acquired NatureSweet, a vertically integrated greenhouse grower of vegetables and the #1 selling brand of snacking tomatoes in North America (September). Terms of the deal were not disclosed. Blue Road is an independent investment firm focused on vertically integrated food and agricultural business.



Legacy Food Group, a new entity backed by Quad-C, has acquired four mid and upper tier foodservice distributors in a strategy to create a super-regional competitor in foodservice distribution (September, undisclosed). [Tamarack's Food & Beverage industry partner, Barry Friends, will join Legacy Food Group's board of directors.](#)

Casey's (NASDAQ: CASY) has agreed to acquire 63 c-stores from EG Group for an undisclosed sum (August). The acquisition—the convenience retailer's third this year—is consistent with accelerating sector M&A activity as small, single-store operators are challenged by declining categories and rising operating costs.



Tilray Brands (NASDAQ: TLRY), the world's largest cannabis company, has agreed to acquire eight beer and beverage brands of AB InBev (NYSE: BUD) (August, \$85 million). The move will make Tilray the first cannabis brand to enter the U.S. alcohol market to create a CPG portfolio focusing on adult-use and medical cannabis, beer, spirits and infused foods.

Bimbo Bakeries has acquired European-style bagel maker National Choice Bakery for an undisclosed sum (July). The transaction includes National Choice Bakery's 66,000 sq. ft. kosher certified production plant. Adding manufacturing capacity has been a key motivation for sector players, particularly in the Baked Goods segment.

LISTED TRANSACTIONS

Date	Target	Acquirer	Target Business Description
09-30-2023	Moelker Orchards	Farmhouse Cider Co.	Apple orchard
09-30-2023	Minamoto Wholesale	Mutual Trading Co.	Wholesaler of Japanese food products
09-29-2023	Blue Apron (NASDAQ: APRN)	Wonder Group	Meal kit company
09-27-2023	Sahale Snacks business line of The J. M. Smucker Co. (NYSE: SJM)	Second Nature Brands	Manufacturer and marketer of premium, branded nut and fruit snack mixes
09-27-2023	O'Neill Coffee Roasters	George J. Howe Company	Coffee roaster
09-26-2023	Nor-Cal Beverage Company	Manna Beverages & Ventures	Co-packer of teas, Ades, chilled juices, waters, and energy drinks
09-26-2023	Sea Fresh USA	Oceano Seafood	Supplier and processor of premium local seafood
09-25-2023	Ballreich Snack Foods	Grippo's	Snack food maker
09-21-2023	Valley Distributing of Montana	Shamrock Foods	Food distributor
09-19-2023	NatureSweet	Blue Road Capital	Controlled Environment Agriculture company
09-15-2023	Lamm Food Service	GS Foods Group	Full-line food distributor
09-13-2023	4 c-stores of Free Enterprises Inc.	True North Energy	Convenience and fuel retailer
09-12-2023	Mendez International	GrubMarket	Provider of fresh tropical fruits and vegetables sourced from Central America
09-11-2023	Hostess Brands (NASDAQ: TWNK)	The J. M. Smucker Co. (NYSE: SJM)	Sweet baked goods and cookie brands
09-08-2023	Keck's Food Service/M&V Provisions/Thomsen Foodservice/Legacy Foodservice Alliance	Legacy Food Group	Mid and upper tier foodservice distributors
09-08-2023	North Country Packaging	Heartisan Foods	Producer of Wisconsin cheese and cheese spreads
09-06-2023	Snack bar assets of TreeHouse Foods (NYSE: THS)	John B. Sanfilippo & Son (NASDAQ: JBSS)	Private label food and beverage manufacturer
09-05-2023	City Line Distributors	Frontenac	Specialty foodservice distributor
09-05-2023	Superior Foods International	Viru Group	Manufacturer and supplier of frozen vegetables, fruits and value-added frozen food products
09-04-2023	Southern Vending	Five Star Food Service	Full-line vending and micro market operator

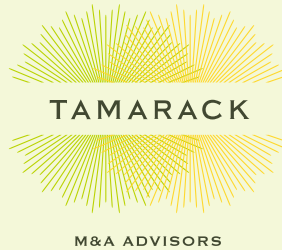
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09-01-2023	Nagatoshi Produce	Kamei Corporation (TYO: 8037)	Wholesaler and distributor of USA grown Japanese fruits and vegetables
09-01-2023	New England Charcuterie	Parmacotto	Producer of high quality cured meats
08-29-2023	Envoy Solutions	BradyIFS	Provider of JanSan products, foodservice disposables, industrial packaging, and marketing execution
08-29-2023	Kum & Go	Maverick	Convenience store operator
08-22-2023	7 c-stores of Olin Oil	WRE LLC	Convenience and fuel retailer
08-22-2023	Argo Tea	The Planting Hope Company (TSXV:MYLK)	Tea brand
08-22-2023	The Urgent Company	Superlatus	Animal-free CPG company
08-21-2023	ifiGOURMET	Roland Foods	Importer and distributor of high quality bakery ingredients
08-17-2023	H.A Mapes	Nouria Energy	Convenience and fuel retailer
08-15-2023	63 c-stores of EG Group	Casey's (NASDAQ: CASY)	Convenience store operator
08-08-2023	Cardinal Vending of Virginia	Trolley House Refreshments	Full-service vending company
08-08-2023	8 beer & beverage brands of Anheuser-Busch InBev	Tilray Brands (NASDAQ: TLRY)	Drink and brewing company
08-08-2023	CanSource	TricorBraun	Provider of can packaging and related services
08-07-2023	Franks Vending	Five Star Food Service	Vending machine and micro-market operator
08-07-2023	Sovos Brands (NASDAQ: SOVO)	Campbell Soup Company (NYSE: CPB)	Producer of premium Italian sauces and products
08-04-2023	3 c-stores of Deloy L. Brown Petroleum	Rogers Petroleum	Convenience and fuel retailer
08-03-2023	London Fruit	GrubMarket	Wholesale distributor of fresh tropical fruits
08-03-2023	AMES International	Puyallup Tribe of Indians	Manufacturer of gourmet tea, nut and chocolate confections
08-02-2023	Nona Lim	DayDayCook	Producer of fresh, better-for-you noodles, broths and stir-fry kits
08-01-2023	Leachman Cattle of Colorado	URUS Group	Cattle rancher
08-01-2023	Alpha Foods	LIVEKINDLY Collective	Plant-based brand



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Date	Target	Acquirer	Target Business Description
08-01-2023	Kevin's Natural Foods	Mars	Nutritious meal company
07-25-2023	High Brew	Beliv	Ready-to-drink cold brew coffee brand
07-24-2023	A.H. Management	Sodexo (EPA: SW)	Convenience solutions operator
07-22-2023	Sirna & Sons Produce	FreshEdge	Wholesale food distributor
07-21-2023	Comercializadora Del Midwest	Lipari Foods	Provider of Central and South American specialty items
07-21-2023	NYSW Beverage Brands	A1 Group (OTC: AWON)	Bottled water supplier
07-20-2023	Marie's & Dean's Dip business lines of Ventura Foods	West Madison Foods	Salad dressing and dips & spreads brands
07-19-2023	National Choice Bakery	Bimbo Bakeries USA	European-style bagel manufacturer
07-17-2023	Mama Rosie's	Seviroli Foods	Manufacturer of frozen pasta products
07-14-2023	MBC Companies	Entrepreneurial Equity Partners	Diversified frozen breakfast platform
07-12-2023	JR's Fuel Stop stores of Duran Oil	Alta Convenience	Convenience and fuel retailer
07-12-2023	Colonial Wholesale Distributing	National Convenience Distributors	Whole distributor to the convenience and grocery store industries
07-10-2023	Piedmont Candy Company	Sequel Holdings & Embassy Park Investment Company	Manufacturer and marketer of candy and snacks
07-05-2023	Jenny Craig	Wellfull	Provider of weight loss food products and plans
07-05-2023	Triple F Distributing	Imperial Dade	Distributor of foodservice packaging supplies, janitorial supplies and sustainable packaging
07-05-2023	Kevin's Natural Foods	Mars	Nutritious meal company
07-05-2023	Vital Pharmaceuticals	Monster Beverage (NASDAQ: MNST)	Maker of performance beverages, supplements, and workout products



ABOUT US

Tamarack Partners is a partnership of senior professionals formed to advise and provide sell-side M&A services to owners of closely-held companies.

What sets us apart is that we serve our clients with a team that includes successful operating executives who have built and sold businesses like yours throughout their careers.

If you are considering an ownership transition, we would be happy to provide you with guidance. Feel free to start a conversation with us today.

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