

Food & Beverage Year-in-Review

More Balanced Value Chain, 2023 Outlook Positive



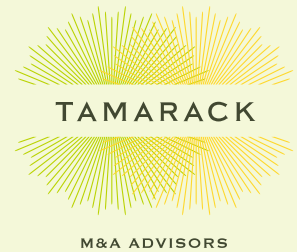
UPSIDE Foods' cultivated chicken receives FDA approval. (Photo: [UPSIDE Foods](#))

KEY SECTOR TAKEAWAYS

Tamarack Partners is pleased to share its Food & Beverage M&A Year-in-Review. Deal activity in 2022 was subdued relative to the prior year due to significantly higher than normal M&A levels in 2021 following the pandemic slowdown. Moreover, companies scaled back their investment appetites as they navigated inflation, rising interest rates and global conflict. Despite this, transaction volumes surpassed pre-pandemic levels as market participants continued putting their robust amounts of capital to work through M&A.

A number of post-pandemic shifts have added flexibility to the food value chain in the face of continued high labor costs and operational disruptions. A striking example has been the growth of contract manufacturing. Contract manufacturing, or co-manufacturing, refers to the outsourced production of food and beverage items for brands and retailers, as well as packaging, custom formulation or research and development. During the pandemic, co-manufacturing enabled food businesses to keep up with the rising demand for groceries, while giving them more time to focus on branding and marketing.

In 2022, emerging foodtech companies and products experienced an influx of investments. In November, UPSIDE Foods was the first company to receive a "No Questions Asked" letter from the FDA, indicating that its cultivated chicken is safe to eat. This milestone marks a major step towards a new era in meat production. By 2030, plant-based alternatives are expected to grow from low single digits today to 10-15% for meat and 10-20% for dairy. In the mean time, controlled environment agriculture has attracted attention from private equity, pension funds and retailers.



In This Issue

Key Sector Takeaways

M&A Commentary

Industry Insight

Notable Deals

Listed Transactions

Contact Our Food & Beverage Experts



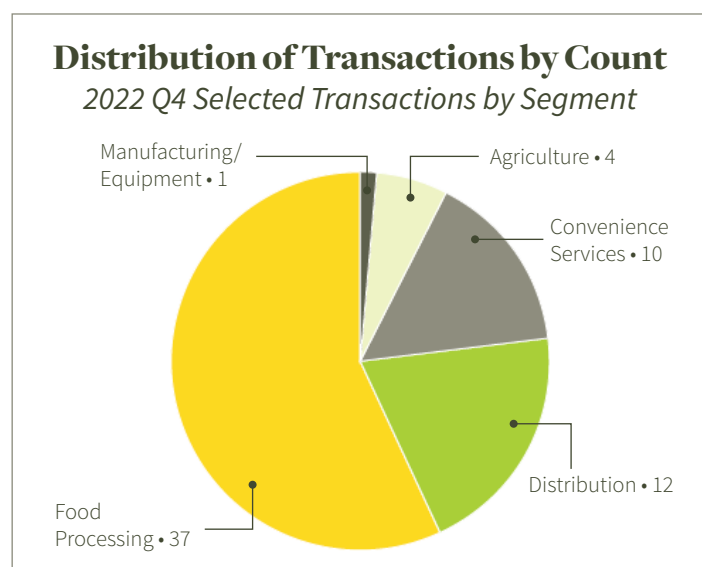
Barry Friends
Industry Partner



Michael Kessler
Founder & President

M&A COMMENTARY

U.S. Food & Beverage M&A volume peaked in 2021 but the market continued to be resilient and arguably more balanced throughout the value chain in 2022. Tamarack Partners tracks U.S. domestic acquisitions across select Food Processing, Distribution, Convenience Services, Agriculture and Manufacturing/Equipment sectors. Transaction volume reached a second peak in 2022 with 64 deals announced or completed in Q4 as compared to 64 in Q1, 56 in Q2, and 57 in Q3. This has demonstrated both the defensive nature of the industry as well as the growth of strategic opportunities in several sub-sectors.



Convenience Services saw a flurry of mid- and smaller-sized deals in 2022. Private equity and public companies slowed down their pace of activity or took a more cautious approach, but M&A in the small operator segment remained active. Active buyers included publicly-traded ARKO and Global Partners as well as privately-owned Majors Management, who respectively announced or completed 3, 3 and 5 transactions during the year. This trend is expected to continue in the short term as purchase price multiples have been at record highs and interest rates are rising fairly quickly.

Food Processing deals made up the majority of transaction volume in all four quarters, totalling 32 (49%) in Q1, 31 (55%)

in Q2, 30 (53%) in Q3, and 36 (56%) in Q4. New consumers flocked into the food-at-home segment during the pandemic and certain stay-at-home behavior has persisted, influencing the types of Food & Beverage investments in 2022. Alcoholic and non-alcoholic beverages, better-for-you, general and ingredients categories were the most active in terms of deal volume. As compared to other sectors where deal activity was consolidated among a few active buyers, many strategic and financial buyers participated in the Food Processing sector in 2022, announcing or completing 1-2 transactions each during the year.

Private strategic buyers led transaction activity in all four quarters, accounting for 45% of total M&A volume in Q1, 46% in Q2, 54% in Q3, and 52% in Q4. At the same time, ample dry powder and robust fundraising activities favored high levels of private equity (PE) activity in the sector in 2022. PE deal flow decreased in Q4 as compared to Q3 but remained strong at 30% of total deals. Financial buyers have demonstrated an appetite for packaged food products and private label food and beverage manufacturers, often adding on to portfolio holdings through acquisitions.

Sector Activity by Acquirer Group

Q4 2022	Strategic	PE Platform	PE Strategic	TOTAL
Food Processing	24	7	6	37
Distribution	8	3	1	12
Convenience Services	10	0	0	10
Agriculture	3	0	1	4
Manufacturing/Equipment	0	1	0	1
TOTAL	45	11	8	64

As we look to 2023, we believe that the outlook for the U.S. Food & Beverage industry is positive as inflation subsides. This industry has historically proven resilient during recessionary environments, and lessons learned in the past two years will only strengthen that performance.

INDUSTRY INSIGHT: COVID'S LASTING IMPACT ON "STOMACH SHARE"



Barry Friends
Industry Partner

There are not many things Americans relate to or discuss more than food and beverage. At roughly 12% of Disposable Personal Income, consumer food spending trails housing (31%), taxes (26%) and transportation (15%), while outpacing healthcare (8%), entertainment (5%) and apparel (3%). Yet while only 12% of spending (the world's lowest), food and beverage mindshare reigns supreme. The Bureau of Labor Statistics closely monitors consumer food spending and divides the category into two parts: "Food At Home" (FAH) for purchases prepared by the consumer (albeit often minimally), and "Food Away From Home" (FAFH) for food and beverages prepared by others, primarily restaurants, but also institutional settings such as schools, hospitals, and prisons. The two have hovered around 50/50% for most of the last twenty years, with short spikes and dips during recessions (when FAFH slips in favor of lower-cost FAH).

The COVID-19 pandemic and its lingering effects have materially altered a longstanding equilibrium between FAH and FAFH. The Bureau of Labor Statistics (BLS) maintains a Consumer Price Index (CPI) for both and tracks monthly shares of consumer spending via the two sub-channels. When COVID arrived and mandated safety measures ensued, consumers adjusted behaviors and FAFH contracted dramatically due to dining room closures. If not for restaurant drive-thru windows, carryout and delivery services, the foodservice industry would have suffered far worse damage.

It is important to note that FAFH/FAH 50-50 split is a "nominal" metric. That is, consumer spending is evenly divided but physical consumption (let's say "calories") skews much more heavily to FAH due to the much lower cost associated with self-preparation of meals. In other words, Food "Service" comes at a cost – the labor and facilities required to prepare and serve food that is ready to consume, be that on premise, in a car, or back at one's home or office. We refer to the "real" ratio as "stomach share". Consider, for example, the price of a draft beer at Applebee's: \$5-8 depending upon the brand, easily 3-4 times the cost of an equivalent quantity at a local retailer.

FAFH lost stomach share to FAH in 2020 and has yet to recover to 2019 levels (2019 was a peak year for FAFH). Whereas 81% of meals were FAH pre-COVID, the number today is approximately 83%. That may not sound like an earth-shattering difference, but it has been enough to greatly improve results at Walmart, Kroger and other supermarket chains, while decimating thousands of foodservice operators.

Two years into COVID-19, with the U.S. economy running strong on stimulus and full employment, a new set of problems emerged. Shortages of labor, vital ingredients (think corn starch) and international supply chain logjams spurred inflation on all fronts. But unlike past price surges, this one revealed demand inelasticity that allowed food makers and sellers to raise prices with confidence (so long as they had products to sell). With supply chains in disrepair, availability became a key differentiator and, with that, an ability to raise prices in an environment where buyers of all types were happy just to get what they need.

This historically atypical environment has allowed certain companies to capitalize on their ability to meet customer requirements. With diminished competition, strong demand translated to improved pricing power. Some firms recognized the uniqueness of the situation and greatly capitalized on the environment. Meanwhile, some founder-owned firms sought refuge with investors, having capitalized on the current situation while 2020-21 remains a fresh memory.

NOTABLE DEALS — Q4



Teton Waters Ranch, a purveyor of packaged meats backed by Sunrise Strategic Partners, merged with SunFed Ranch, a leader in domestic grass fed beef, in November. The combination will form Grass Fed Foods, one of the nation’s largest grass fed beef platforms.



Majors Management, a retail petroleum industry leader, acquired all 13 Maritime Farms convenience stores from Maritime Energy for an undisclosed sum in December. The acquisition represents Majors’ first entry into the State of Maine and active M&A in the small operator segment.



Russ Davis Wholesale acquired produce wholesaler Liberty Fruit Co. for an undisclosed sum in December. Russ Davis operates five distribution centers and three manufacturing facilities, serving wholesale and retail customers across 12 states. The combined entity will bring the company’s total reach to 16 states.



Worldwide Produce, a portfolio company of Sole Source Capital and one of the largest fresh produce and dairy distributors on the West Coast, acquired Left Coast Food Company for an undisclosed sum in October. Left Coast is a premier foodservice distributor of frozen goods, dry goods and produce.



The Ferrero Group announced an agreement to acquire Wells Enterprises, maker of ice cream brands Blue Bunny® and Bomb Pop®, for an undisclosed sum in December. The partnership between these family companies demonstrates increased consolidation in the confectionery segment.



Mubadala Capital acquired TruFood Manufacturing, a leading snack food contract manufacturer in several categories, for an undisclosed sum in October. The acquisition highlights private equity’s strategy of scaling their contract manufacturing holdings through add-ons.

LISTED TRANSACTIONS — Q4

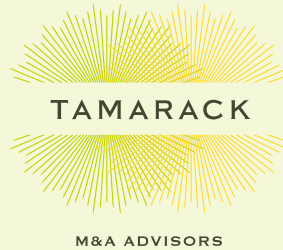
Date	Target	Acquirer	Target Business Description
12-30-2022	Morey's business line of Rich Products	Highwood Harbor	Seafood distributor
12-23-2022	Milk Specialties Global	Butterfly Equity	Dairy ingredient processor and supplier
12-22-2022	21 c-stores of Davis Oil	Majors Management	Convenience and fuel retailer
12-21-2022	MightyVine	Plant Agricultural Systems	Hydroponic tomato grower
12-21-2022	13 Maritime Farms c-stores of Maritime Energy	Majors Management	Convenience store operator
12-20-2022	Savory Solutions Group of IFF (NYSE: IFF)	PAI Partners	Ingredient manufacturer for prepared foods and foodservice
12-20-2022	Westbrae Natural business line of Hain Celestial	Bush Brothers	Producer of non-dairy beverages, canned beans and soups
12-19-2022	Trü Frü	Mars	Whole-fruit snacking brand featuring fruit coated in chocolate
12-16-2022	Just the Cheese business line of Specialty Cheese Company	John B. Sanfilippo & Son (NASDAQ: JBSS)	Baked cheese snacking brand
12-16-2022	Back to Nature business line of B&G Foods	Barilla Group	Manufacturer of cookies, crackers, granola and nuts and trail mix
12-15-2022	Red's All Natural	Bansk Group	Brand of clean-label frozen burritos and breakfast sandwiches
12-13-2022	Papa Pita Bakery	Flowers Foods (NYSE: FLO)	Manufacturer and distributor of flatbreads, tortillas, bagels, buns and muffins
12-08-2022	Pride Convenience Holdings	ARKO (NASDAQ: ARKO)	Convenience store operator
12-08-2022	Henry's Foods	AMCON Distributing Company (NYSE: DIT)	Foodservice provider to the convenience distribution industry
12-08-2022	DairyAmerica	California Dairies	Federated dairy cooperative
12-07-2022	24 Uncle's c-stores of WTG Fuels	ARKO (NASDAQ: ARKO)	Convenience and fuel retailer
12-07-2022	Liberty Fruit Co.	Russ Davis Wholesale	Produce wholesaler
12-07-2022	Wells Enterprises	Ferrero Group	Maker of ice cream brands Blue Bunny® and Bomb Pop®
12-06-2022	14 c-stores of Anderson Oil	Pops Mart Fuels	Convenience and fuel retailer
12-06-2022	Brownie Brittle	Second Nature Brands	Category-defining brownie snack brand
12-06-2022	Southwest Spice	Gulf Pacific	Packager and processor of dry edible beans and spice blends
12-06-2022	City Foods	LHG Foods	Processor & distributor of assorted shelf-stable, salt-cured meats

LISTED TRANSACTIONS — Q4

Date	Target	Acquirer	Target Business Description
12-02-2022	Vertullo Imports	Mill Point Capital	Specialty food importer
12-02-2022	Seviroli Foods	Mill Point Capital	Frozen pasta manufacturer
12-01-2022	Cartridge Brewing	Saucy Brew Works	Craft beer maker
12-01-2022	Sway Energy	Golden Grail Technology (OTC: GOGY)	All-natural energy drink manufacturer
11-30-2022	Imperial Sugar	U.S. Sugar	Refined sugar processor
11-28-2022	Owensboro Grain Company	Cargill	Soybean processing facility and refinery
11-23-2022	SunFed Ranch	Teton Waters Ranch	Producer of domestic grass fed beef
11-22-2022	MTC Distributing Co.	Harbor Foods	Independant foodservice distributor
11-22-2022	Swig	Larry H. Miller Company	Beverage manufacturer
11-21-2022	Hi-Touch Distributing	L.A. Libations	Direct store perishable food and beverage distributor
11-15-2022	S.S. Logan Packing Company	Buzz Products	Wholesale meat distributor
11-15-2022	Pulp Flavors	Edible Garden (NASDAQ: EDBL, EDBLW)	Producer of sustainable gourmet sauces and chili-based products
11-14-2022	Poppilu	American Beverage Corporation	Lemonade brand for kids
11-14-2022	Kohana Coffee	Westrock Coffee Company (NASDAQ: WEST)	Manufacturer of specialty coffee and cold brew concentrate
11-10-2022	This Saves Lives	Good Worldwide	Manufacturer of grain-based foods including snack bars, granola and oatmeal
11-09-2022	Holt Oil Co.	Petroleum Marketing Group	Convenience and fuel retailer
11-09-2022	K & H Truck Plaza	Majors Management	Convenience and fuel retailer
11-07-2022	Montauk Brewing Company	Tilray Brands (NASDAQ: TLRY)	Craft beer maker
11-04-2022	10 Chevron c-stores of Morgan Oil	Majors Management	Convenience store operator
11-03-2022	XED Beverages	Next Century Spirits	Better-for-you RTD hard seltzer porfolio
11-02-2022	6 c-stores of Bay Shores Oil	Majors Management	Convenience store operator
11-02-2022	Mac's Cheese Spreads	Hall's Beer Cheese	Beer cheese and flavored cheese spreads producer

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Date	Target	Acquirer	Target Business Description
11-02-2022	Universal Pure Holdings	Aurora Capital Partners	High pressure processing provider
10-31-2022	Dianne's Fine Desserts	Dessert Holdings	Provider of premium frozen thaw-and-serve desserts
10-26-2022	Left Coast Food Company	Worldwide Produce	Foodservice distributor of frozen goods, dry goods and produce
10-26-2022	Vive Organic	Suja Life	Brand of immunity-supporting juice shots
10-24-2022	NW Foodservice Distribution	Harbor Foods	Broadline foodservice distributor
10-23-2022	Founder's Store' c-store of Kum & Go	Casey's (NASDAQ: CASY)	Convenience store operator
10-19-2022	Seattle's Best Coffee	Nestlé (SWX: NESN)	Coffee roaster and wholesaler
10-18-2022	TruFood Manufacturing	Mubadala Capital	Snack food contract manufacturer
10-13-2022	GoodWest Industries	Sunny Sky Products	Manufacturer and supplier of low-acid aseptic beverages solutions
10-12-2022	Culinary International	Ruiz Foods	Contract manufacturer of ready-to-eat frozen and refrigerated Mexican foods
10-11-2022	Sunflower & roasted snacks business line of SunOpta (NASDAQ: STKL)	Pacific Avenue Capital Partners	Manufacturer of sunflower and roasted snacks
10-10-2022	Frosty Packing	Columbia Fruit Packers	Grower and packer of apples and cherries
10-10-2022	Bake Crafters	Murry's	Breakfast goods maker for the K-12 foodservice channel
10-07-2022	Joe's Garage Coffee	Pod Pack International	Private label coffee manufacturer
10-04-2022	Sunrise Produce	Investcorp	Wholesale produce distributor
10-04-2022	FreshEdge	Wind Point Partners	Family of produce and food distribution companies
10-03-2022	Southwind Farms	Wilcox Fresh	Grower of fingerling potatoes
10-03-2022	Meal preparation business line of TreeHouse Foods (NYSE: THS)	Investindustrial	Manufacturer and supplier of private label food
10-03-2022	Denali Ingredients	Orkla (OSL: ORK)	Ice cream ingredients manufacturer
10-03-2022	Saratoga Food Specialties	Solina	Provider of custom dry seasoning blends and sauces



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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