INTRODUCTION - PEAK LEVELS OF ACTIVITY

The UK’s food industry is currently being re-shaped largely by record acquisition activity, with more than 600 UK players changing hands in 2016 alone⁹.

From farm to fork, the entire supply chain has been as busy as ever, responding to changing customer eating habits, rising food prices, and looking to add shelf-space among the UK’s powerful food retail giants.

But while the reasons may not be new, acquirers large and small are flocking to a handful of ‘hot’ market segments in increasing numbers to shore up their positions and deliver future growth.

INDUSTRY ISSUES

As with all industries, a handful of factors are driving up acquisition and investment activity in the food sector. These are:

BREXIT

Post-Brexit arrangements have the potential to affect the food industry greatly, from import tariffs and the protected status of regional specialities, to migrant labour arrangements and the location of production sites.

Against this uncertain backdrop, EU acquisitions of UK businesses have actually increased by 22% since last year’s referendum⁹.

EATING & SHOPPING HABITS

Renewed interest in healthier eating, coupled with a desire to try new world cuisines is the top driver for deal activity at the moment. In addition, the trend away from big format stores and multi-buy offers has seen a flurry activity around other channels, from vending machines to corner shops.

INNOVATION GOES GLOBAL

New technology including production automation, stock ordering, and packaging innovations are forcing firms to invest and upgrade to meet customer demand. Some smaller independents struggle to commit over the investment cycle, and are choosing now to hand over the business to a larger parent company.

MARGIN PRESSURE

Food inflation is running at a three-year high, as rising raw material and transport costs are passed down to customers. With bigger companies under shareholder pressure to maintain profit margins, many are acquiring fast-growing SMEs.

⁹ Source: Thomson Reuters, FY 2016
DEAL TYPES

Recent deal-making in the food industry covers most major transaction types, offering buyer and seller the widest range of options. High profile examples include:

1. **Vertical integration** – Tesco’s acquisition of food wholesaler Booker
2. **Diversification** – The Boparan/2 Sisters’ purchase of Bernard Matthews and Ed’s Easy Diner chain
3. **Growth capital** – institutional investors looking for strong brands rather than own label, such as Lloyds Development Capital’s purchase of Seabrook Crisps, or Bridges Ventures’ investment in Vegetarian Express, in a deal managed by BCMS.
4. **Venture capital** – several big food producers, such as Kellogg, Unilever, and Tate & Lyle have set up their own venture capital (VC) funds to gain early access to fast-growing food start-ups. Together with traditional VCs, these equity-based investments are accelerating growth in everything from nut butters to ethnic spice mixes.
5. **Horizontal integration** – at the top end, Ferrero’s acquisition of United Biscuits, or Samworth Brothers’ purchase of the West Cornwall Pasty company.

SPOTLIGHT ON HOT SECTORS

Healthy snacks

The ongoing trend for healthy snacking has seen new players line up alongside established names to snap up key brands. US-based Kettle Chips acquired Metcalfe’s Popcorn, South Africa’s Pioneer Food Group bought the Fruit Bowl brand of children’s fruit snacks for £7.5m, and AIM-listed Real Good Food secured a majority stake in Brighter Foods for £9m.

Food to go

Big names are actively snapping up companies in other convenience segments, with Greencore buying The Sandwich Factory from Cranswick PLC for £15m; and US-owned Flagship Europe acquiring sandwich filling maker Calder Foods. Meanwhile, Lloyds Development Capital snapped up sausage roll and pork pie producer Addo Foods, and has gone on record saying it is now looking for suitable bolt-on acquisitions “in adjacent markets”.

Sport nutrition

Energy bars, gels, drinks and related products have taken the UK by storm, growing 27% in the last two years (source: Mintel). As a young market, most of the leading players are still relatively small, but have been targeted by the big corporations, from Ireland’s Glanbia to Associated British Foods – which acquired BCMS client High5 early in 2017.

Logistics

Dominated by small family firms, the food transport industry has been under pressure from rising fuel costs, causing a new wave of consolidation. Culina acquired Great Bear Distribution – which delivers for Kraft, Sainsburys and Vimto – while Bidfood snapped up Devon restaurant delivery specialist Caterfood Holdings to extend its UK reach, in a deal managed by BCMS. Large-scale customer mergers – such as the Muller-Dairycrest tie-up – are also leading to logistics firms to diversify as a way to manage risk.

Agri-food

Farm businesses that have developed ready-to-sell products have also been on the shopping list for some big names. French salad producer Florette Group acquired the Lincolnshire Beetroot Company, while Vitacress’ turnaround plans saw it divest Wight Salads APS Group, in a move that makes the latter the UK’s largest tomato grower.

“MARKET ACTIVITY PEAKING - 10 UK FOOD BUSINESSES CHANGE HANDS EVERY WEEK”
CONCLUSION

Despite the rising raw material costs, and trend for big manufacturers to offshore production to eastern Europe, deal activity in the sector is being driven by strong brands in attractive categories.

And with the whole food chain in acquisition mode and benign market conditions, food business owners have the widest choice of options – from crowdfunding or management buyout to acquisition or flotation.

However, many SME owners are receiving unsolicited offers to sell up, entrepreneurs may risk leaving money on the table by negotiating alone against multinationals and their advisors.

KEY TAKEAWAYS

* One in five UK food companies have secured private equity investment
* Market activity peaking - 10 UK food businesses change hands every week
* Kraft/Unilever style mega-deals out of favour due to political or customer hostility

BCMS & FOOD

BCMS has sold dozens of UK food businesses to some of the biggest names in the industry, including:

**NEWRY**
Meat supplier Town View Foods sold to Irish food group Norish PLC

**PRESTON**
Cake decoration manufacturer and supplier Rainbow Dust Colours sold to Real Good Food PLC

**BLACKPOOL**
Matrix Sports Nutrition acquired by multi-brand owner BVG

**STAFFORD**
Dessert sauces maker Regency Mowbray sold to Rothay International

**PAIGNTON**
Regional foodservice supplier Caterfood sold to South Africa’s Bidfood

**GLASGOW**
Coffee supplier Espresso Adresso acquired by Miko Coffee of Belgium

**LEICESTER**
Sports nutrition manufacturer High5 acquired by ABF PLC

**ABINGDON**
Online hamper retailer Clearwater Hampers acquired in management buyout

**WATFORD**
Leading category distributor Vegetarian Express secured investment from Bridges Ventures

**WINDSOR**
Fast-growing airline catering supplier En Route International sold to Emirates Airlines owner Dnata

**LONDON**
Mediterranean food importer George Skoulikas acquired by Ireland’s Total Produce