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# Emerging Trends in the Specialty Food Space

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# EMERGING TRENDS IN THE SPECIALTY FOOD SPACE: AN OVERVIEW[1]

For several years, Specialty Food & Beverage has been one of the fastest growing segments of the food and beverage industry. According to the former president of the Specialty Food Association, the segment has historically been defined as non-mass market food which relies on different distribution channels and routes to market, typically involving importers, brokers and/or specialized retailers[2]. Some examples of specialty foods include exotic foods, ethnic foods, confections, foods part of special diets and unique regional items. Today, given the segment's rapid rise in popularity, the definition has expanded, and many specialty food companies obtain over 80% of their sales through supermarkets. The new definition is broadly "unique and high-value food items made in small quantities from high-quality ingredients that offer distinct features to targeted customers who pay a premium price for perceived benefits"[3]. Specialty food and emerging brands today compete head-on with upscale mass-market brands, as retailers and mature firms follow trends to appear upmarket.

## GROWTH AND SIZE OF MARKET

According to the Specialty Food Association, the U.S. Specialty Food & Beverage market has grown to $148.7 billion in sales in 2018, implying a 10-year CAGR of approximately 9.3%. This segment accounts for 16.1% of the total food and beverage market. The majority of specialty food sales come through retail channels (76%), with foodservice representing 22% of the total, and online retail with 2.5%. While the share of foodservice and online channels are rapidly increasing over time, specialty food retailing has been highly successful as well. The specialty food retail market grew 10.3% between 2016 and 2018, compared to only 3.1% for all other food retail markets over the same time period. From 2013 to 2018, the specialty food retail market grew 7.2% annually, and is projected to grow at a 5.9% CAGR to reach $89.1 billion in 2023.

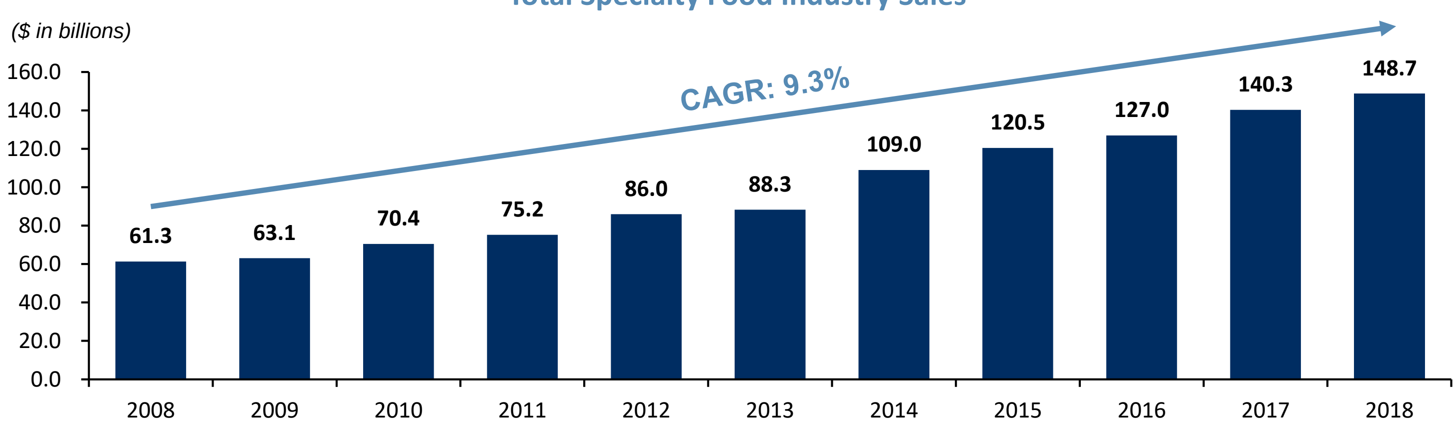
## CONSUMER TRENDS

Millennials and Gen-Zs are the largest and most likely consumers of specialty food. This is largely attributed to the importance they place on quality foods that are health, diet and value-conscious. Transparency, for instance, is key: 35% of consumers like to learn about the story behind the products they buy, up from 26% last year. Gen-Zs alone were the largest share of specialty food buyers in 2018, but have dipped considerably this year, potentially as a result of increased cost consciousness and fiscal conservatism. Nevertheless, they remain one of specialty food companies' primary and target consumers.

**Top 5 Highest Growth Categories[4]**

1. **Refrigerated Plant-Based Meat**
2. **Healthy Snacks**
3. **Frozen Plant-Based Meat**
4. **Infused Waters**
5. **Refrigerated RTD Tea and Coffee**

### Total Specialty Food Industry Sales






*(1) Specialty Food Association Magazine*
*(2) SpecialtyFoodResouce.com*
*(3) Specialty Foods: Processing Technology, Quality, and Safety*
*(4) Top 5 categories within the specialty food segment ranked by dollar growth YoY*

# PLANT-BASED FOOD AND MEAT ALTERNATIVES

As indicated on the previous page, plant-based meat alternatives in both refrigerated and frozen form are two of the top three fastest growing segments of the specialty food industry. Plant-based food retail sales overall grew 20% YoY to $3.3 billion in 2018[1]. This rise in popularity is aligned with the most current consumer food trends, although plant-based meat alternatives, specifically, is not a new concept. Veggie burgers have been sold widely for years, but the marketing was largely focused towards vegetarians and vegans, which represent a small, niche portion of the population. Once it became clear that the majority of consumers were open to trying plant-based protein (given that it would be tasty and affordable) a rise in innovation was sparked.

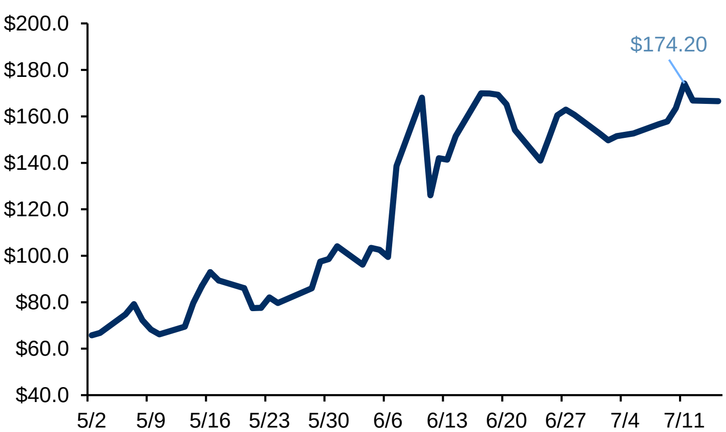
## SIGNIFICANT INVESTMENTS[2]

Investors see the potential for a worldwide plant-based food and meat alternatives market, and have made significant capital investments already. Investments in plant-based food brands have topped $17 billion since 2009, with $13 billion raised in the last two years alone. In total, as of May 2019, there have been 233 deals and 228 unique investors. Venture capital investors generated 43% of the plant-based food deals done last year, and many of these are impact investors who consider social good as well as financial returns when deciding where to invest. The three most active VC funds in this space (with 12 investments each) are Blue Horizon, New Crop Capital, and Stray Dog Capital. Investment arms of mature food companies have also made strategic investments. Currently, the top nine plant-based food companies (branded and private label) account for 91% of total industry sales. One plant-based company in particular, Beyond Meat, has garnered significant attention, investments and valuations.

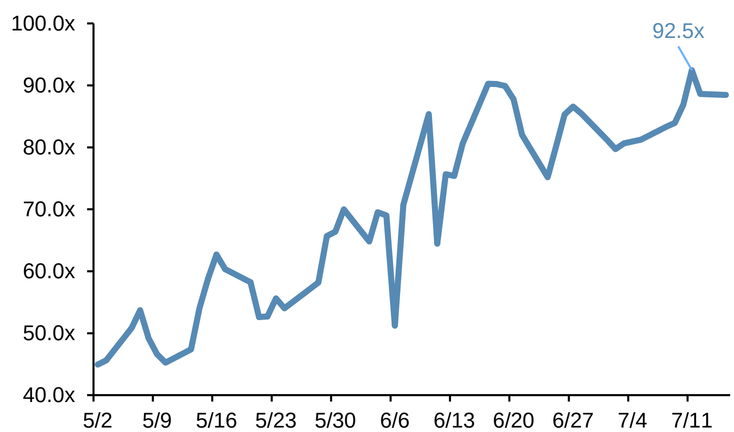
## CASE STUDY: BEYOND MEAT (NASDAQ: BYND)[3,4]


Founded in 2009, Beyond Meat (BYND) produces plant-based burgers, ground beef, sausage and crumbles. These products are sold in retail stores and through restaurant chains, such as TGI Fridays and White Castle, through the company's partnership with Sysco. Beyond Meat's IPO in early May was distinct, as the typical exit strategy for plant-based investors has historically been acquisitions by larger companies. It was also this year's best IPO debut, with a current market capitalization of ~$10.0 billion and a share price in the mid-$160s, from an original $25 per share and ~$1.5 billion valuation at IPO. This success is all despite LTM revenues of only $115 million and a $30 million earnings loss.

**BYND Share Price[5]**




**TEV / LTM Revenue[5]**






(1) Food Business News
(2) Forbes
(3) Vox.com
(4) Nosh.com
(5) S&P Capital IQ

## DISRUPTIVE BRANDS: SKY HIGH VALUATIONS[1,2]

The extremely high valuations and significant capital invested into Beyond Meat is not unique to just this company. Impossible Foods, one of Beyond Meat's biggest competitors, received an additional $300 million in VC funding earlier this year, reaching a combined investment total of over $750 million since its founding in 2011, and valuing the company at $2 billion, despite uncertain profitability[3]. Other emerging food companies that are innovative, transparent and espouse the health benefits of their products are also achieving major growth and attracting significant capital. For example, Revolution Foods, a school meal foodservice company, has raised $100+ million and is potentially valued at $1 billion with only $150 million in revenue. Additionally, the cold-pressed drink company Suja Life achieved a valuation of $300 million four years ago with only ~$40 million in revenue. The company currently earns $100 million in revenue and has raised about $200 million in the last five years.

These emerging brands have invigorated interest from not only financial investors, but also larger food companies (including CPGs), which have seen new, disruptive brands cut significantly into sales of their long-established brands. This has required mature companies to refocus their strategy on high-growth segments through organic means, inorganic (through M&A and investments) means or both. For example, Tyson was a high-profile investor in Beyond Meats and also recently announced its own line of plant-based protein. Research analysts have noted that large food companies are increasingly shying away from large, transformational M&A and are instead "pruning their portfolios" with smaller M&A in an effort to tap into high-growth segments[4]. Many major food and beverage companies, such as AB InBev, Barilla, Campbell's Soup, Coca-Cola, Constellation Brands, Danone, General Mills, Kellogg, Kraft Heinz and Tyson have developed distinct venture capital arms with the express purpose to evaluate and invest in high-growth brands. Several recent transactions between large, mature food companies and rising brands listed on the following page are indicative of this trend.

## STRATEGIC OPPORTUNITIES AHEAD

In all, the rapid rise and sensation surrounding specialty food products of any and all types have meaningfully disrupted the food and beverage industry. Profitable, staple brands with decades of success found their revenues slashed and have come to the realization that their historical reputation and prestige are not enough to sway values-driven and health-minded consumers. It became evident that they had to keep up and innovate or face eventual irrelevance. What has been made clear by investors, buyers and the free market is that companies like Beyond Meat are able to command extremely high valuations without significant profits or revenues. With these expectations set, it makes more traditional food companies of all types look cheaper in comparison to over-hyped emerging brands. If investors and buyers are willing to pay double-digit revenue multiples for emerging brands and internalizing this as the norm, then mature and profitable companies trading at more traditional valuations will continue to appear much more reasonable and will garner significant attention. Indeed, we have seen a significant lift in valuations over the last thirty-six months.

These massive valuation discrepancies clearly have food industry insiders scratching their heads and asking the question: when will emerging growth companies' valuations start converging with traditional food company valuations (which have historically been measured by profitability rather than revenue growth)? Essentially, for business owners of profitable food companies, it is a good time to consider discussing a potential sale, divestment or private placement from a strategic or financial buyer to best take advantage of these valuation discrepancies between emerging brands and the rest of the food ecosystem.

*(1) CB Insights*
*(2) Company press releases*
*(3) Food Business News*
*(4) Fooddive.com*

## SELECTED PRECEDENT SPECIALTY BRANDED M&A TRANSACTIONS

| Buyer | Target | Announcement Date | Strategic Rationale | Branded Products |
|---|---|---|---|---|
| Mondelēz International | Perfect Snacks | 6/19/2019 | Refrigerated wellness snacks is a very high-growth segment, and Mondelez wants to accelerate this momentum |  |
| Litehouse | Sky Valley Foods | 5/23/2019 | Organic, shelf-stable dressings and sauces provide great synergies to Litehouse in its better-for-you segment |  |
| Unilever | Olly | 4/18/2019 | Saw Olly as truly innovative in the health and well-being space and fits nicely with its other food and personal care brands |  |
| pepsi | CytoSport | 4/15/2019 | PepsiCo had been a long-standing distributor and wanted to continue its growth in the sports nutrition category |  |
| Peet's Coffee | Revive Kombucha | 12/20/2018 | Consumers who enjoy RTD coffee often also enjoy kombucha. Focus on functional beverages is critical |  |
| KraftHeinz | Primal Kitchen | 11/29/2018 | Operates via “Springboard” platform. Disruptive brand that is a natural complement to core condiments line |  |
| Keurig DrPepper | core | 9/27/2018 | KDP managed most of Core’s distribution but had lacked its own sports beverage brand |  |
| MARS | KIND | 11/29/2017 | To adjust to consumer preferences, Mars wanted to partner with a leader in the health & wellness space |  |
| Unilever | TAZO | 11/2/2017 | Bought explicitly for the purpose of appealing to millennials and to complement existing new brands |  |
| Kellogg's | RXBAR | 10/6/2017 | Kellogg is focused on growth from more nutritional breakfast and snacking products, making RXBAR a good fit |  |
| Conagra Brands | Angie's Boom Chicka Pop | 9/22/2017 | Noticed consumers’ affinity for popcorn but without the artificial flavors and mess of traditional microwave popcorn |  |
| B&G Foods, Inc. | back to Nature | 8/20/2017 | Diversifying its portfolio of brands and continuously seeking relevancy among today’s consumers |  |
| pepsi | KeVita | 11/22/2016 | Part of PepsiCo’s “Performance with Purpose” initiative to evolve its health and wellness options |  |
| Hormel Foods | Justin's | 5/18/2016 | Wanted to get increased access to younger consumers through fast-growing, healthy food brands |  |

*Source: S&P Capital IQ, company filings and press releases.*

# REPRESENTATIVE RAYMOND JAMES FOOD & BEVERAGE TRANSACTIONS

| | | | | |
|---|---|---|---|---|
| SunOpta<br>Specialty and Organic Soy and Corn Business<br>Has been acquired by<br>Pipeline Foods | Terressentia corporation<br>Fairness Opinion and Private Placement | Robin Gentry McGee's functional formularies<br>Has been acquired by<br>SPC Swander Pace Capital | Backerhaus Veit<br>Has been acquired by<br>SPC Swander Pace Capital | Indiana Packers Corporation<br>Has acquired<br>SFG Specialty Foods Group, Inc. |
| Corky's Ribs & BBQ<br>Has been acquired by<br>Dobbs Equity Partners LLC | Atrium Innovations<br>Has been acquired by<br>Nestlé | SunOpta<br>Resealable Beverage Pouch Business<br>Has been acquired by<br>Skjodt-Barrett | KKR<br>Debt financing to support the acquisition of<br>Nature's Bounty | CVP Systems<br>Has been acquired by<br>The Middleby Corporation |
| Indo-European<br>Has been acquired by<br>Corridor Capital, LLC | Spectrum Brands<br>Has acquired<br>PetMatrix | Plumrose USA<br>Has been acquired by<br>JBS | Stonemill Slow Crafted Bakehouse<br>Has been acquired by<br>Canada Bread | Hochland<br>Has acquired<br>Franklin Foods |
| AGT Foods<br>Senior Notes Offering | Karbach Brewing Co<br>Has been acquired by<br>AB InBev | Five Star Food Service<br>Has been recapitalized by<br>PNC Riverarch Capital | Joy<br>Has acquired<br>BoDeans Baking Group | American Farmland Company<br>Has been acquired by<br>Farmland Partners |
| Freshway Foods<br>Has been acquired by<br>US Foods | Give & Go<br>Has been acquired by<br>THL Thomas H. Lee Partners | True Citrus<br>Has received a strategic investment from<br>Juggernaut Capital Partners | Il Fornaio<br>Wholesale Bakeries<br>Has been acquired by<br>Aryzta Passion for good food | Beverage Innovations<br>Tropics Mixology<br>Has been acquired by<br>bevolution group |
| Wirtz Beverage Group<br>Has merged with<br>The Charmer Sunbelt Group | novozymes<br>Has acquired<br>Pacific Vet Group | Mama Mary's<br>A portfolio company of<br>Linsalata Capital Partners<br>Has been acquired by<br>B&G | Transnational Foods<br>Has been acquired by<br>CC CM Cave Creek Capital Management | Mallet<br>Has received a strategic investment from<br>ICV Partners |

For more information on how Raymond James Consumer Investment Banking can help you achieve your business objectives, visit rjconsumerbanking.com.

*Note: Includes transactions completed by RJ team members at prior firms.*

## RAYMOND JAMES FOOD & BEVERAGE SENIOR BANKING TEAM

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Mr. Boyle heads the Food & Beverage practice within the Raymond James Consumer Investment Banking Group. Prior to joining Raymond James, Mr. Boyle was Managing Director and Co-Head of the Consumer team at PwC Corporate Finance, where he focused on advising Food & Beverage and Agribusiness clients. Mr. Boyle has over 30 years of capital markets experience, including 13 years at Lehman Brothers,12 years at RSM Capital Markets (where he ran the firm's Food & Beverage Group and was a member of the firm's Leadership Committee) and 4 years at DA Davidson as head of the Food & Nutrition practice. Mr. Boyle has successfully negotiated and completed over 90 sale and recapitalization transactions within Food & Beverage and Consumer related businesses. Mr. Boyle received a Bachelors degree from the University of Pennsylvania, where he attended the Wharton School of Business.

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Mr. Goodman joined Raymond James in 2014. Most recently, he was head of the consumer and business services group at Oppenheimer & Co., having joined Oppenheimer/CIBC World Markets in February 2002. A 30-year industry veteran, Mr. Goodman previously headed consumer investment banking at Deutsche Bank and at Alex. Brown for 12 years. Prior to founding the group at Alex. Brown in 1990, Mr. Goodman was a managing director at Drexel Burnham Lambert. Mr. Goodman has an MBA from the Harvard Business School and an undergraduate degree from Yale University.

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Rob Arnold joined Raymond James in 2011 from FBR Capital Markets, where he served as a vice president. Previously, he was a vice president at Piper Jaffray, where he worked on a multitude of transactions across the restaurant, apparel, retail, food and beverage, grocery and consumer products industries. Prior to joining Piper Jaffray, he was an associate at Financial Technology Partners and an analyst at Donaldson, Lufkin & Jenrette prior to CSFB's acquisition of DLJ in 2000. Mr. Arnold has been providing broad industry and transactional, including mergers, acquisitions, public offering and private placement, advice to growth-oriented consumer companies and private equity firms for approximately 10 years. He has advised on over 40 M&A and financing transactions totaling more than $8 billion of aggregate value. Mr. Arnold received his Bachelor of Arts degree from Southern Methodist University.

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Prior to joining Raymond James in 2018, Mr. Barrymore spent five years leading the food and nutrition M&A practice at Duff & Phelps. Prior to Duff & Phelps, Mr. Barrymore founded 6Pacific Group, a merchant-banking firm focused on advising and investing in food, nutrition and consumer health companies. During his investment banking career, Mr. Barrymore has been involved in numerous significant industry transactions while representing family-held businesses, private equity firms and global corporations on buy-side, sell-side and capital raising transactions. Prior to founding 6Pacific Group, Mr. Barrymore held various leadership roles at BMO Capital Markets, Piper Jaffray & Co. and DLJ/CSFB. A graduate of Southern Methodist University with a bachelor's degree in Economics and International Studies, Mr. Barrymore also received his Indian Certificate from the London School of Economics and Political Science.

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Taso Skalkos joined Raymond James in 2013 and has over 12 years of experience working with consumer growth companies. Most recently, Mr. Skalkos worked for C.W. Downer (now Alantra) where he primarily focused on consumer and industrial M&A transactions. Prior to that, he spent five years at Thomas Weisel Partners (now Stifel) working in both the consumer and healthcare investment banking groups. Mr. Skalkos received his Bachelor of Arts degree from Harvard University in 2005.

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Monika Nickl joined Raymond James in 2016 and has almost 15 years of mergers and acquisitions experience. Prior to Raymond James, Ms. Nickl joined Mummert & Company in 2004 and served as managing director since 2014 advising companies within the consumer, retail, tech and health care industries. Before joining Mummert & Company, Ms. Nickl was responsible for business development at a real estate investment company. Ms. Nickl earned a Master of Science in Business Administration from Ludwig-Maximilians-University, Munich and was awarded a scholarship for highly talented students.

## NOTES AND DISCLOSURES

Source: S&P Capital IQ as of July 15, 2019.

*Past performance is not indicative of future results.

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