



# The Food and Drink Report

A look back at 2009 and a look forward to the year ahead



While the food industry is better equipped than most to resist economic pressures, the industry faced its share of challenges in 2009, mainly due to a change in discretionary spending by consumers. As companies strive to improve their business strategies and goals for 2010 and beyond, food and drink manufacturers and processors first and foremost need to be flexible in their strategies as they seek to regain market share, retain a competitive edge, and keep their brands relevant.

## What's your company worth?

### What Customers Want

- Organic products but demand is slowing
- Restaurant-like foods for home cooking
- Frozen or ready-to-serve foods
- Quick-service restaurants
- Healthy, naturally fresh, as well as minimally processed products—but affordable
- Easy-to-read nutrition labels
- Private label / Store brand
- High quality food, with an assurance of safety
- More variety on the shelves
- Locally grown products

### Optimism increases among executives

In 2009, the food/drink industry weathered pressures resulting from lower consumer spending, higher operating costs, and limited working capital. Despite all that, executives are optimistic about business conditions in 2010, according to a KPMG survey.

*Food Processing* magazine reports similar conclusions. In 2009, only 56% of food and drink manufacturing managers predicted an increase in production for their company. Today, that number has increased to 68%. Pair these stats with increasing levels of optimism among managers and executives—43% felt optimistic in 2009 compared to 66% in 2010—and one might wonder what has caused this optimism.

First, some food and drink sectors have grown throughout the past year, most notably in bakery, confectionery, frozen products, fruits and vegetables, shelf-stable foods, and snacks. Of these sectors, according to Boston-based research firm *AberdeenGroup*, the companies that experienced the most growth in 2009 focused on expanding or creating sales channels.

Additionally, despite lower consumer spending, the specialty food industry grew by 2.7% in 2009 with the most growth occurring in the fourth quarter, according to *Specialty Food Magazine*, April 2010. Improving economic and financing conditions continue to drive this growth.

Of the managers polled by *Food Processing* magazine, 72% report that their company intends to either grow or stay the same size in 2010. At the same time, 8.7% of respondents see consolidation challenges as a top priority.

According to Grant Thornton LLP, in 2009 many companies deferred planned capital investments for at least a year. Some continue to push these plans off, but larger companies are returning to growth goals, specifically in acquiring smaller companies that will help them meet consumer demands.



### \$660mm

TreeHouse Foods moves into the dry grocery private label space with its acquisition of *Sturm Foods*

### \$45.8mm

*Monterey Gourmet Foods*, maker of gourmet refrigerated foods, acquired by Pulmuone USA

### \$3.3mm

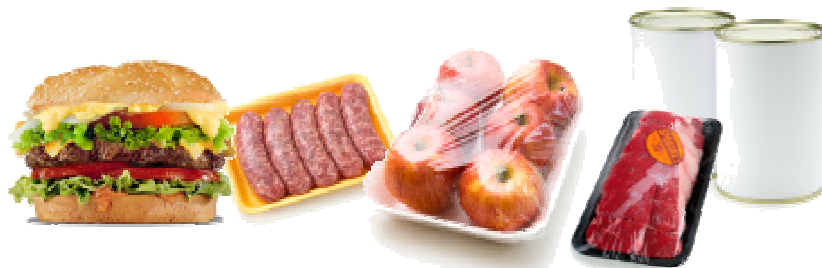
To expand its concentrated apple juice production capacity, SkyPeople Fruit Juice purchased *Yingkou*

### \$66mm

Campbell Soup Company acquired *Ecce Panis*, an artisan bread maker, to grow the product line under its Pepperidge Farm division

### \$27mm

Frutarom Industries extends its reach into flavor extracts with its purchase of *Flavors Specialties Inc.*



The figures and information above reflect some of the industry's reported merger and acquisition activity in 2009 and early 2010.



## The proof is in the pudding Merger and acquisition activity reflects consumer trends

2009 may have been the year of repairing balance sheets, but 2010 will be about expansion and looking for new revenue sources.

For some, this means purchasing similar, including competitive, companies that complement existing brands. These acquisitions might offer valuable production space, further geographic reach, and a larger market share, as was the case with Saputo's 2009 acquisition of F&A Dairy of California as well as Fresh Harvest Products' purchase of Organic Chef. Continued consolidation of the grocery industry in 2010—with large stores like Publix potentially buying up smaller ones—also demonstrates this acquisition strategy.

Other companies' strategies focus on gaining new customers by purchasing product lines unlike the ones they currently offer. To gain this competitive advantage, some of these food/beverage companies are looking for what consumers are looking for too: companies that offer healthy and nutritious food at an affordable price. This buying trend of healthier, less-processed foods started in 2008 but continues to grow in popularity.

In 2009 alone: GMB Foods acquired d'Oni Enterprises, in the expectation of gaining access to new markets; TreeHouse Foods acquired Sturm Foods, which allowed a move into the private-label dry grocery space; and Pinnacle Foods bought Birds Eye Foods, citing Birds Eye's strong health and nutrition credentials as a top reason for acquisition.

## Billow Butler & Company serves the food and beverage industry

Acquisitions appeal to companies that want to enter new or emerging markets, grow operations, build a stronger business platform, eliminate competitors, and gain market share. But there are advantages aplenty to companies that sell, including more distribution capabilities, more resources, flexibility, and protection from foreign competition.

Investment banking professionals, such as those at Billow Butler & Company (BBC), act as advisors for shareholders and company executives in the corporate finance and selling process. Specifically, BBC serves middle-market companies in the food and drink space that are looking to grow, sell, or make a change in their ownership or capital structure.

With BBC's 13-year history, we have developed a network of connections locally, nationally, and globally, which includes strategic buyers actively pursuing acquisitions, as well as private equity and financial buyers who continued to invest in the food and drink industry throughout the recession.

There is no need to hesitate in pursuing your growth and investment strategy; in fact, according to the *Financial Times*, evidence points to companies involved in mergers and acquisitions over the past year actually performing better in the market by over 3 percentage points.

Contact us today, so we can evaluate what your business is worth and assist you in deciding which strategy is best for you as we push forward into 2010.

### Contact us today, if you wonder:

- What's my company worth?
- Is now a good time to sell?
- How do I navigate the process in order to sell my company for what it's worth?
- What do I do if I want to sell a product line or division?
- How do I proceed in making a change to my capital structure?
- How do I raise capital for expansion?

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*The above represents a sampling of transactions that BBC has advised.*

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