

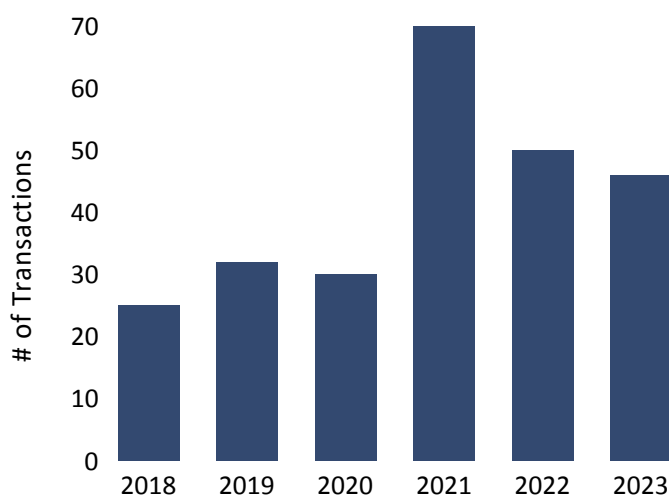


## Food Distribution is Ripe for M&A

*In this article, which joins our ongoing coverage of the Food & Beverage industry, we introduce an overview of M&A activity in food distribution with a focus on fresh food. Our upcoming articles will cover a range of topics, from CEO interviews on navigating growth opportunities and industry challenges to profiles of companies shaping the future of food.*

Constantly changing but in no danger of becoming obsolete, the Food & Beverage sector underpins economies locally, regionally, nationally, and globally. The pandemic accelerated innovation at all levels as it spotlighted weaknesses and systemic inefficiencies, particularly in food distribution. Longer term industry and technology trends, like the rising demand for fresh foods and the introduction of AI, demand that companies adapt, and adapt quickly. M&A activity flourishes in large industries undergoing growth and stress, making food distribution ripe for dealmaking.

**Food Distribution M&A Transactions, U.S.  
(2018 - 2023)**



Source: S&P Capital IQ and FOCUS research (April 2024)

### Dependability, Resiliency Attracts Buyers

Food distribution has always had its place in the M&A market. Large corporates have pursued acquisitions to increase their market share, grow their customer base, and/or expand their footprint. Financial acquirers have been drawn to the sector's stable cashflows and opportunities for consolidation. Between 2013 and 2019, food distribution generated a steady flow of deals with strategics driving the majority of activity. During the same time, private equity firms started betting on the sector, particularly in specialty segments. Yet food distribution still had momentum to gain from an M&A perspective.

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With the arrival of 2020 and the global pandemic, niche categories like fresh and specialty foods emerged as long-term trends. Consumers turned to fresh fruits and vegetables as they prioritized health and wellness. Large corporates turned to regional suppliers to stabilize supply chains. And private equity firms saw untapped growth potential in food distribution, especially in the produce segment.

## Across Buyer Types, a Focus on Fresh

Recent years have shown an uptick in fresh food deals as companies responded to the heightened consumer focus on healthy food, while also pursuing acquisitions to reshape their product portfolios, strengthen their supplier base, create operational efficiencies, or shorten their food miles. Private equity platforms have also emerged as legacy businesses look to partner on growth opportunities, particularly through an M&A strategy.

## Illustrative Transactions

Buyer	Select Acquisition	Notes
	   	<ul style="list-style-type: none"> <li>• One of the most active acquirers in fresh/specialty distribution</li> <li>• 23 acquisitions in recent years with 10 acquisitions alone in 2021</li> <li>• Continues to target traditional, offline fruit/vegetable wholesalers especially specialty distributors</li> </ul>
	   	<ul style="list-style-type: none"> <li>• Leading fresh and specialty distributor known for its customized offerings</li> <li>• Wind Point Partners, a PE firm, acquired the company from Rotunda Capital Partners in 2022</li> <li>• FreshEdge made 6 acquisitions of produce companies (all in 2023)</li> <li>• Continues to target fresh food distributors as part of its growth strategy</li> </ul>
	 	<ul style="list-style-type: none"> <li>• Significant M&amp;A over the past decade</li> <li>• Greater focus on produce segment with 2023 acquisitions of Hardie's Fresh Foods and Greenleaf Produce &amp; Specialty Foods</li> </ul>
	 	<ul style="list-style-type: none"> <li>• Strong history of acquisitions; recent years has focused on specialty and fresh</li> <li>• In 2021 acquired the Coastal Companies for \$525 million to add to FreshPoint, its specialty produce business</li> <li>• Acquired BIX Produce in 2023, a specialty and fresh cut distributor</li> </ul>
		<ul style="list-style-type: none"> <li>• Leading distributor in SE U.S. of fresh produce and specialty products</li> <li>• Sterling Investment Partners, a PE firm, acquired the company in 2023 from Shoreline Equity Partners</li> <li>• Like FreshEdge, Mr. Greens marks the emergence of PE platforms in the high demand produce segment</li> </ul>

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## What's Ahead?

We expect dealmaking to continue in 2024 and beyond, as active buyers signal expected growth for the sector. Just a few months into the year, several transactions have closed, and key players have announced that M&A is part of their recipe for growth. This doesn't come as a surprise, as companies in food distribution have experienced a tempering in revenues and earnings after enjoying a favorable pricing environment in 2022. In its recent earnings release, Sysco shared its plans to pursue M&A and indicated that it has a "strong pipeline of tuck-in acquisitions focused on broadline, specialty, and cuisine-type opportunities."<sup>1</sup> U.S. Foods, also in its recent earnings release, announced agreement to purchase IWC Foodservice, a broadline distributor serving the Nashville area, in addition to prioritizing accretive tuck-in M&A opportunities.<sup>2</sup> Financial buyers, equally as important to M&A markets and sitting on trillions of dollars of dry powder, will also look to resilient sectors like food distribution to deploy capital.

### Who Are the Buyers in Food Distribution M&A?

*A disciplined M&A process involves targeted outreach to a broad buyer universe, which sets the stage for a competitive auction. The benefit to a seller? Greater competition can bring increased value to a deal.*

**Strategic:** Typically public companies or large corporations that operate in the same or closely adjacent industry. They can be foreign or domestic; or they may be a supplier, customer, or competitor.

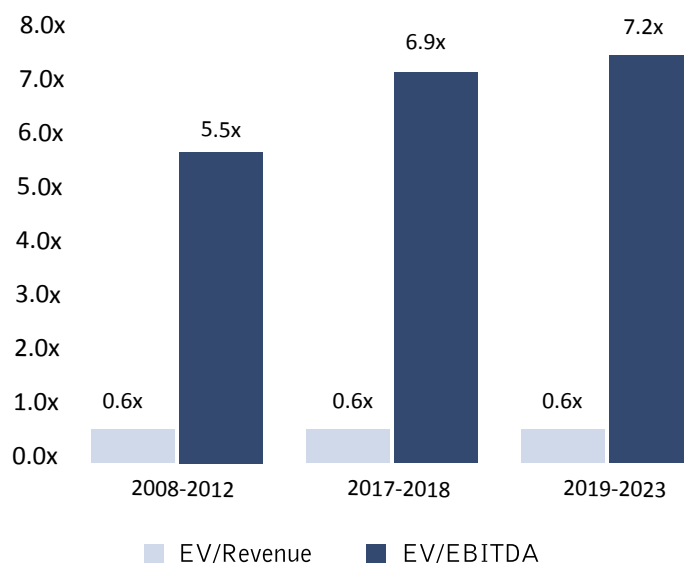
**Financial:** Private equity groups seeking to acquire a company as an investment. These buyers acquire businesses, grow them, and then typically sell them at higher price than initially paid to achieve a return.

**Sponsor-backed Strategic:** Companies that are majority/fully-owned by a financial sponsor. The sponsor acquires the business, creating a "platform", and then pursues add-on acquisitions to drive rapid growth.

## Active Buyers, Attractive Valuations Offer Opportunities to Sellers

With large companies expanding their positions via acquisitions, operators of regional and/or specialty distribution businesses may be interested in taking a closer look at their options, whether it's pursuing growth opportunities or moving towards an exit. Along with greater buyer interest in recent years, valuations have also experienced an upswing with EV/EBITDA multiples steadily increasing since 2013.

**Valuation Multiples Fresh Fruit and Vegetable Distribution**



Source: GF Data; these statistics cover a subset of private equity-involved deals

<sup>1</sup> Sysco, "Sysco Reports Second Quarter EPS Growth, Driven by Increasing Volumes and Positive Operating Leverage"

<sup>2</sup> U.S. Foods, "U.S. Foods Reports Fourth Quarter and Fiscal Year 2023 Earnings"

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Taking an “outside in” approach in assessing the strengths and weaknesses of the business can put owners in a stronger position as they begin the M&A process. For owners considering a sale, prioritizing key business and financial attributes can enhance a company’s position in the market and increase its valuation. While no deal looks the same, these attributes along with other considerations like market conditions often inform what a buyer will pay.

## Target Attributes Driving Strong Valuations in Food Distribution



### Suppliers

- Direct, preferred relationships with producers that provide predictability and consistent delivery
- Diversified supplier base



### Product Mix

- Robust portfolio of products that offer growth potential with customers across channels



### Distribution

- Established footprint in high-density market



### Services

- Capabilities to deliver value-added services



### Vertical Integration

- Ability to integrate production and processing to deliver efficiencies, reduce costs



### Volume Growth

- Sustained volume growth (especially relevant in an inflationary environment)



### Customer Base

- Diverse customer mix, supported by defined offerings and differentiators that drive loyalty



### Profit Growth

- Strategies identified/implemented to deliver operational improvements and drive margin expansion

### *Final Thoughts*

Owners and operators of food distribution companies, like many in the Food & Beverage industry, bring their unique stories and histories to the business. Multi-generation family businesses have customer relationships spanning decades. They have direct relationships with their producers and know every detail of their products, whether it’s citrus from farmers in Texas or gourmet foods imported from Europe. They’ve optimized their distribution and logistics to ensure deliveries are made on time, week after week.

For owners considering an exit, pursuing a sale in today’s active M&A market is an opportunity to define their company’s future. A partnership with a buyer offers many benefits: opportunities to add new capabilities, incorporate current technologies, gain efficiencies, and create a long-term pathway for employees. While each deal looks different, owners that work with an experienced M&A advisor will be in a better position to negotiate favorable terms, maximize transaction value, and enjoy a successful closing.

# FOOD & BEVERAGE INDUSTRY



**Barry Calogero**  
**Managing Director**  
**US EAST**



*Barry Calogero, a FOCUS Managing Director, brings more than 30 years of executive management and consulting experience, with an emphasis on driving operational excellence and improving the enterprise value of companies around the world. He has deep expertise across industries including food & beverage manufacturing and distribution. Previous to FOCUS, he was COO of Coastal Sunbelt Produce, where he was responsible for operations, supply chain management, street sales, and asset velocity of the private equity-backed, \$300 million company.*



**Rick Thomas**  
**CEO**  
**US WEST**



*Rick Thomas, FOCUS' CEO, has 25 years of consulting, management and M&A advisory experience across industries including manufacturing, distribution, and food service. Prior to joining FOCUS, he served as Vice President at VSI, a boutique investment banking firm located in Washington, DC. He led M&A activities for publicly and privately held companies in the middle market, several of which have annual revenues in excess of \$1 billion.*



**Alan Kelly**  
**Managing Director**  
**EUROPE**



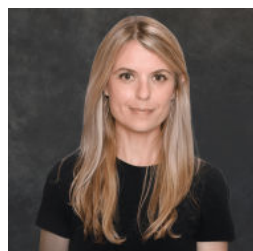
*Alan Kelly, a FOCUS Managing Director, has over 25 years' experience working with start-ups, founder-owned businesses and multi-million euro organizations. He started his career at Deloitte and then worked as FC of KWE Ireland, a Japanese Logistics Company specializing in services to the Pharmaceutical and Electronics Industries. Alan has extensive experience working with food distributors and agriculture businesses across the US and Europe.*



**Kate Elliott**  
**Director of Research**  
**US EAST**



*Kate Elliott is the Director of Research and oversees the production of research, financial modeling and analysis, and writing assignments that are integral to FOCUS' process-driven methodology for executing M&A transaction work.*



**Beth Johnson**  
**Associate**  
**US EAST**



*Beth Johnson, a FOCUS associate, supports buy-side and sell-side engagements as well as capital raising. Prior to FOCUS, she led capital raise events as the Director of Development at 4P Foods, a fresh foods distributor serving B2B and B2C customers across the mid-Atlantic region. Her experience includes working with founder-owned businesses in the natural/organic segment and agtech ventures, with an emphasis on regenerative agriculture.*

To learn more about the FOCUS Food & Beverage team click [here](#).