



FOOD, BEVERAGE & AGRICULTURE



*Fall 2021 Report*

## *The Intrepid Foodie*

# Changing Paradigms Post-Pandemic

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## What's Old Is New Again

As we all get back to some semblance of normal post-pandemic, we at Intrepid have been focused on what's different now and what the near-term future holds. The trends regarding home delivery, direct-to-consumer, and sustainability are well documented changes in consumer behavior reflecting a new, more high-tech future. Still, as we survey the landscape, we are also reminded of broader macro sector trends we have not seen in a decade or some cases several decades.

- Unprecedented food price inflation has not been seen since the price freezes put in place by the Nixon administration in the 1970s, a time when the country was gripped by double-digit inflation
- Supply chain disruption and out-of-stocks causing manufacturers and retailers to rethink their just-in-time and inventory de-stocking that occurred over the last few decades
- Increasing power of the workforce after a decade's long decline of labor unions and wage increases being outpaced by inflation as evidenced by the recent John Deere United Auto Workers strike, union organizing efforts at Amazon, and the sheer number of food manufacturers with meaningful unfilled positions we find in our travels
- Pull back of large strategic buyers to an appetite for more focused targets closer to their core, with the disbanding of many venture efforts and re-thinking of their previous push down market to earlier stage companies
- Re-emergence of the public markets as a financing source for earlier stage companies in the food and beverage sector with the market both accepting smaller offering sizes and smaller market caps, as well as companies leveraging the public markets for a new generation of consolidators

In this issue, we dive a little deeper on several of the above topics including a profile of several recent IPOs including Sovos Brands, which represents a new generation of consolidator and, given our location in Los Angeles – home to the busiest port in the U.S., insights into supply chain issues, inflation, and how food companies are adapting.



**Mike Securo** | Managing Director





## Inside the Fall 2021 Issue

### Deal of the Quarter

- Sovos Brands IPO highlights several trends in the market, including the pullback of larger strategies to a more focused acquisition strategy, the emergence of a new group of public market financed consolidators, and increased market receptivity to smaller players

### Commodity Corner

- We do something a little different this issue, focusing on supply chain issues, how it has impacted prices of goods, and what food companies have done to adapt

### Observations from the Aisle

- The Michelada and the Chelada: in the age of pre-mixed and flavored cocktails, is this SoCal and Southwestern U.S. staple poised for greater mass appeal?
- Return of açai: after a fast start and subsequent growing pains, açai has made a comeback with broadened use occasions and a more tested business model

### What We Are Watching

- A survey of some of our favorite titles connected to the food industry we have seen since Spring across streaming and on-demand platforms







**“ The secret of success in life is to eat  
what you like and let the food fight it  
out inside.”**

**– Mark Twain**





## Deal of the Quarter

**Packaged food and beverage companies are increasingly using public markets to access capital and provide investors with a path to exit.**

Sovos Brands, best known as the maker of Rao's branded food products and owner of a portfolio of "one-of-a-kind" brands, closed its initial public offering ("IPO") this past September at a share price of \$12.00, raising \$280 million. Despite pricing below the filing range of \$14.00 - \$16.00, the stock is up ~33% from the IPO price (as of 11/11/21), valuing the company at an enterprise value of \$2.4 billion – representing a multiple of 20.8x LTM EBITDA of \$112.8 million (see Figure A).

The closing of this IPO capped off a particularly robust period in public market activity for packaged food and beverage companies, especially for those considered middle-market companies. In 2020, the market saw IPOs and SPAC transactions from companies such as Whole Earth Brands, Utz, Tattooed Chef, Vital Farms, and Laird Superfood. In 2021, in addition to Sovos, Strye, Vita Coco, Oatly, Real Good Foods, and Zevia tapped into public markets.

All this activity has partially been the culmination of two key trends the past couple of years – increasing selectivity from strategic acquirors and the market's receptivity to a new generation of consolidators and smaller players.

### Increasing Selectivity of Strategic Acquirors

Large-cap packaged food companies (those with a market capitalization of >\$10 billion) have slowed down their acquisition strategy in recent years. This can partially be blamed due to the pandemic and supply chain issues, forcing companies to focus on volume driving products with well-established supply chains. However, a broader theme is evident in that strategic acquirors are less inclined to explore outside of their core competencies. They seem to be focusing on their current categories and are even refining their portfolio through divestitures or discontinuation of non-core products.

This shift in strategy may have been due to (i) a string of acquisitions for high growth brands which buyers paid especially high prices for and expected returns have not materialized and (ii) experimentation in new markets that may have not turned out the way they expected. For example, in 2014, Hormel acquired Cytosport (includes Evolve and Muscle Milk brands) and later sold the brand(s) to PepsiCo in 2019. Hormel is primarily a packaged meat business with complementary sauces and spreads and savory snack products – so it would make sense that Cytosport would be a natural divestiture candidate, especially as the supplements/protein space continues to see fierce competition. Likewise, Campbell's Soup Company made several acquisitions to expand its reach into produce and the perimeter of the store with Bolthouse Farms and Garden of Eatin'. Both assets were subsequently divested at deep discounts to their purchase prices.

Valuation (in millions except share price)	
Share Price (as of 11/11/21)	\$15.93
Shares Outstanding	100.9
<b>Market Capitalization</b>	<b>\$1,607.2</b>
Plus: Debt	787.1
Less: Cash	(43.1)
<b>Enterprise Value</b>	<b>\$2,351.2</b>
<i>Multiple of LTM Revenue</i>	<i>3.4x</i>
<i>Multiple of LTM EBITDA</i>	<i>20.8x</i>

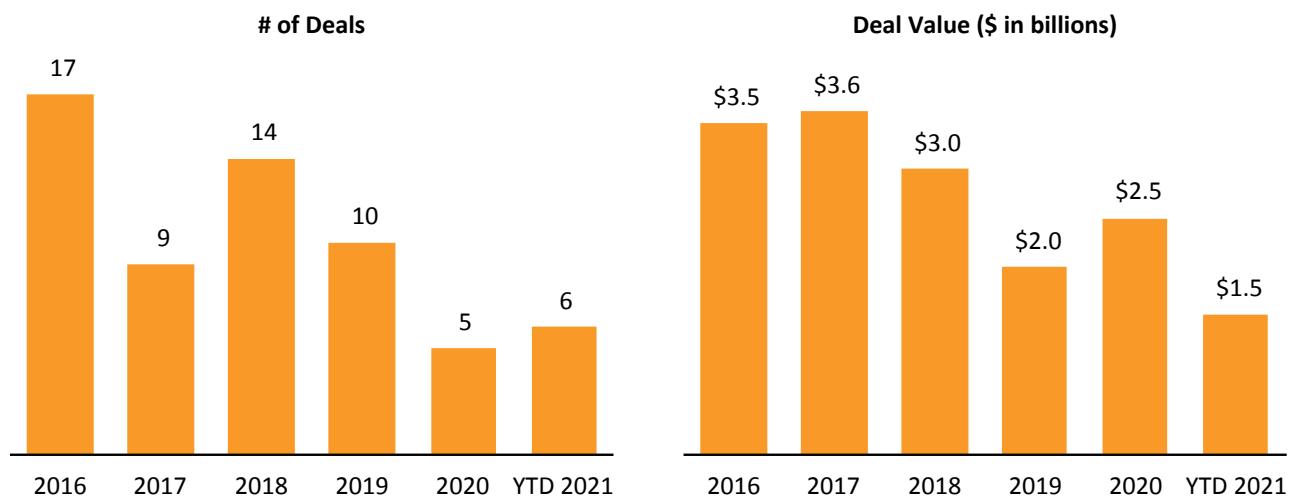
**Figure A: Sovos Brands Valuation (per company filings)**



## Deal of the Quarter (cont'd)

Strategic acquirors are now looking more selectively for companies (i) with enough scale and distribution, and that (ii) are an obvious fit from a channel or category perspective. For example, in 2020, McCormick acquired Cholula and Coca-Cola acquired the remaining stake in Fairlife. Both brands are leaders in their category and are complementary to their acquiror's product portfolio. This is also why in the case of Sovos Brands, an IPO was its owners' primary exit option as it likely has too much product/category diversification for large cap strategics preferring more focused acquisition targets. In addition, many of the corporate venture arms of large-cap strategics have been disbanded (Acre / Campbells, Springboard / KraftHeinz, Cultivate / Hain Celestial), further evidencing a shift to targets with sufficient scale.

Figure B below illustrates the slowdown in large cap strategic acquisition activity both in terms of number of deals and dollar volume between 2016 and YTD 2021 (as of 11/11/2021).



**Figure B: Large Cap Food and Beverage Acquisitions of Companies with Less than \$1 Billion of Enterprise Value**

### Emergence of a New Generation of Consolidators and Receptivity of Public Markets to Smaller Players

Due to this increased selectivity, high-growth brands have turned to IPOs and SPAC mergers. These brands typically have an attractive growth profile or brand recognition, but at this point, they may not have enough scale, category leadership, or a strategic fit with larger cap packaged food players. This is all somewhat of a cyclical trend (see Figure C). Back in the 1990s, the market was receptive towards IPOs of sub-scale food companies. Then there was consolidation by large-cap strategic players. Now once again, the market is seeing openness to public market activity by middle market food players.



## Deal of the Quarter (cont'd)

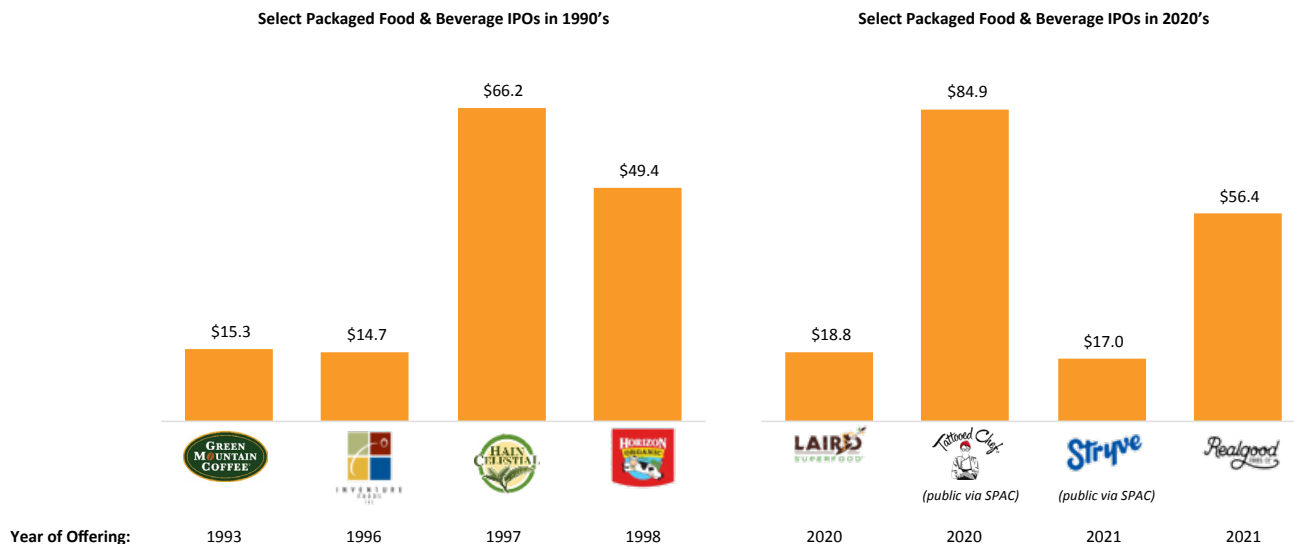


Figure C: Revenue (in millions) by Select IPO or SPAC Merger

These newly public companies, in some cases, have become acquirors themselves as they have reloaded their balance sheets post-IPO or SPAC merger and are further armed with a public acquisition currency. For example:

- Simply Good Foods acquired Quest
- Utz acquired RW Garcia (announced – not yet closed), Festida Foods, Truco, and C.J. Vitner
- Whole Earth Brands acquired Swerve and Wholesome Sweeteners
- Tattooed Chef acquired Belmont Confections

Selectivity by large-cap food companies has also meant more buying opportunities for privately-held consolidators – typically having access to significant amounts of capital with support from private equity funds specializing in roll-up strategies. For instance:

- Sovos Brands (recently public and backed by Advent International) was created through the combination of brands across sauces, frozen entrees, yogurts, and waffle and pancake mix
- Stonewall Kitchen (backed by Audax) is a consolidator of specialty foods and home good products such as coffee, spices, candles, and canned foods
- Panos Brands (packed by HKW) is a consolidator of shelf-stable and specialty foods across cheeses, snacks, baking, and instant
- Sauer Brands (backed by Falfurrias Capital) is a consolidator of products across spices, extracts, sauces, and flavorings





## Deal of the Quarter (cont'd)

In conclusion, packaged food and beverage companies still have a variety of options when considering an exit – the primary question would be fit from size and category perspective. A brand with enough category leadership and strategic fit would be a natural option for large-cap acquirors. On the other hand, brands with high growth and lower ACV or those with more diversified category participation would likely be candidates for an IPO or sale to an emerging consolidator.

## Commodity Corner

### Supply Chain Issues Wreak Havoc on the U.S. Food Industry and Global Economy. Will the Result be Runaway Inflation?

Winter is coming, and so is the season of gift-giving. Every year I order a few gift baskets for friends and family, but something changed compared to last year – each gift basket increased in price by \$15. It was a whopping 20% more I would have to spend for the same thing I could afford last year. So naturally, I found another option that was slightly cheaper but with fewer items. Unfortunately, things have gotten more expensive, and the quality of what I'm getting is not what I'm used to receiving. So what's the deal?

The answer, as everyone now knows, is inflation. One of the largest impacts coming out of the world "re-opening" from COVID-19 has been hiccups and stresses up and down the global supply chain. A variety of factors have combined to create a supply chain crisis unlike anything previously seen in recent memory, and the impacts and timing of the current crisis remain unknown.

For companies that deal with imported goods, the biggest supply chain issue has been related to shipping. Overseas shipping has become both more expensive and now takes longer than ever. While prices for shipping containers have started to stabilize (see Figure D), shipping delays appear to be a systematic issue with no real end in sight. Several factors are driving timing

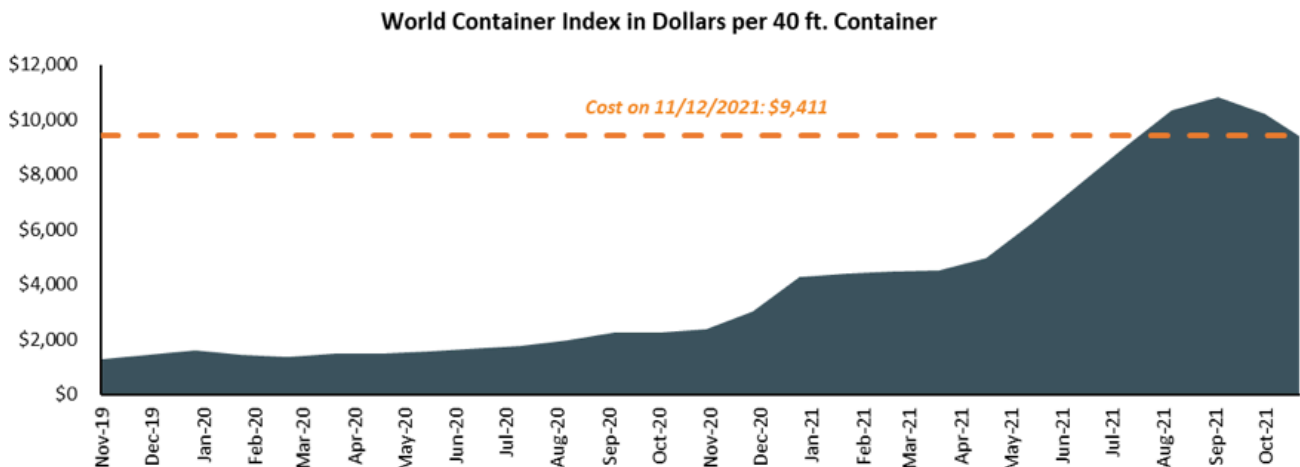


Figure D: Global Container Freight Price Index

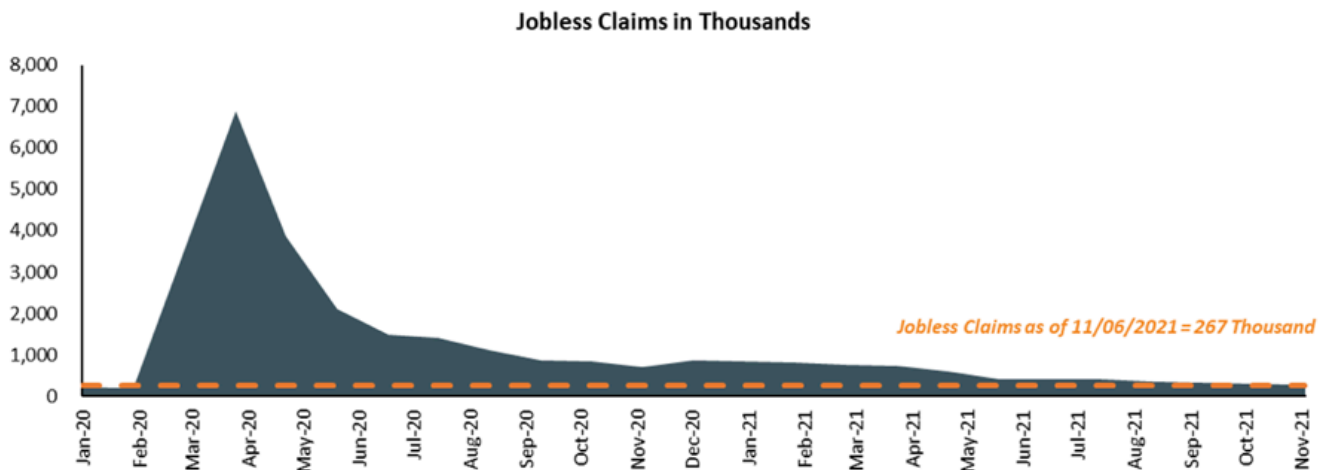




## Commodity Corner (cont'd)

delays including: (i) a surge in demand for goods, (ii) log jam at shipping ports for both loading and unloading goods, and (iii) limited availability of truck drivers to move goods within the U.S.

In addition to dealing with overseas supply chain issues, many companies, especially those involved in the food, beverage, and agriculture industry, face further problems resulting from continued labor shortages. Companies that are somehow able to receive raw materials (inputs, packaging, etc.) promptly are then forced to grapple with if they have enough employees to meet production demands. This is happening across the supply chain, from manufacturing to distribution to shelving. Even with restrictions being lifted, vaccines being widely available, and governmental support being lessened, the labor market is not where it needs to be. With the newest jobless numbers released on November 10, 2021, showing the fewest jobless claims since the start of the pandemic, the labor market is expected to remain very tight (see Figure E). This new reality is forcing many in the food industry to seek alternatives included new manufacturing techniques and increased automation.



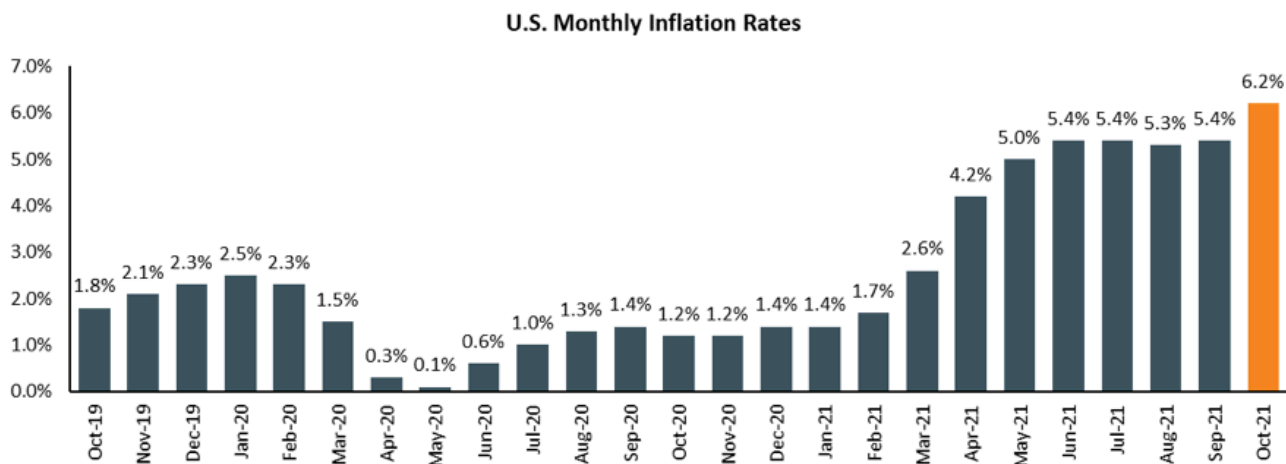
**Figure E: U.S. Jobless Claims**

All of the factors above have combined to create a rapidly developing inflationary environment impacting all consumers and forcing the Federal Reserve and White House to scramble for tools to manage inflation before entering hyperinflation territory (see Figure F). In other words, interest rates may have to rise soon.

So, what to make of all of this? Food companies are left to think about accommodating these higher costs under their infrastructure. How will they manage increasing payroll costs and material costs, delayed resets, and lower than expected growth? We are seeing multiple strategies being implemented by clients, including finding secondary sourcing options, price



## Commodity Corner (cont'd)



**Figure F: Historical Monthly U.S. Inflation Rates**

negotiations with vendors, product reformulations, and price increases (among others). These companies are left to think about how they can compete with private label and will consumers be open to increased pricing, or will they walk away from the purchase? Not all consumers will choose the “cheaper gift basket” if they know the value is not up to par. Plus, if interest rates rise, will companies be willing to retract their price increases willingly, or will they need to maintain them to service their loans and pay for increased wages? All this indecisiveness in how prices should behave is the real danger – i.e., should prices continue to grow because it feels like they should, or do we collectively agree things will get better from here?

In the 1970s, the country was gripped by double-digit inflation caused by soaring gasoline and meat prices and heavy spending on the Vietnam War and Great Society. Things were so bad that Nixon temporarily froze prices, but still, prices skyrocketed. Despite these efforts, inflation was out of control. Why? Economists believe that it was because Americans thought high inflation was here to stay, which became a self-fulfilling prophecy. In other words, if I believe inflation will be 5%, I may raise the price of my services and goods by 5%, and in another year, if I think it will go up 1%, then I may increase prices by 1%. You see this happening today – I am sure many of the people you know are skeptical that the inflation we are experiencing is transitory. So, what ended up resolving the inflation issue in the 1970s? Increased interest rates – which rose to 20%.

Hopefully, things will clear up soon, and the hope is that this inflation is truly transitory, but only time will tell. As the children begin to get vaccinated and the world looks to turn the page from pandemic to endemic, economists are hopeful that many of the current supply chain issues will start to resolve themselves. However, many of the issues regarding shipping times, availability of products, and labor will take months (if not years) to revert to pre-pandemic levels. During that time, it will be critical for consumers to continue to believe the current increase in global prices is truly “transitory inflation”, versus a more substantial period of inflation which could lead to cyclical hyperinflation and leave the U.S. and global economies dealing with rising prices for much longer than the Federal Reserve is currently prepared for.





## Observations from the Aisle

### How About a Cold Michelada?

If you are a LA Dodgers fan, you might still be mourning the playoff loss to the Atlanta Braves from last season, which ended the Dodgers' quest for a back-to-back World Series title. On top of this tough loss, you might also be already missing the opportunity to go to Dodger Stadium and get yourself a Dodger Dog and an ice-cold Michelada or Chelada. But fear not regarding the latter because at home, Michelada and Chelada options are many and growing.

The Michelada is a Mexican drink that combines beer with lime juice, salt, spices, tomato juice, and chiles, usually served in a chilled, salt and Tajin rimmed glass. The Chelada is the tamer version of the Michelada that combines beer with lime juice and salt. However, the lines are blurring, and the terms can sometimes be used interchangeably. Both drinks represent a "cerveza preparada" or a beer cocktail. Riding the consumer demand for ethnic foods and alcoholic drink varieties such as hard seltzer, hard kombucha, boozy teas, canned wine, and premixed cocktails, Micheladas and Cheladas can be found throughout Southern California and the Southwest, in large grocery store chains, convenience stores, gas stations, and online stores. With the U.S. Hispanic population projected to reach 68.5 million in 2025 (approximately 20% of the U.S. population), beer giants and regional brands have ample runway to expand national distribution to urban and rural regions with large Hispanic populations. Additionally, the mainstreaming of ethnic foods and flavors across the food and beverage sector bodes well for the Michelada / Chelada trend. It expands eastward and north regionally and outside the Hispanic community to a broader audience.

The consumer has several options of the traditional Mexican refreshing drink, including premixed cans, bottled mixers, and just-add-beer spice blends cups. Internationally established beer brands such as Budweiser, Modelo, and Tecate, dominate the premixed can category, while independent regional brands such as Don Chelada, Baja Michelada, Camaronazo, La Helada, Twang, Sinaloca, and others share the bottle mixers and just-add-beer spice blend cups categories. Established brands have begun to extend the product line across the category with increasing flavor varieties such as mango and chile, guava, tamarind, and extra spicy. In addition, while the opportunity still exists for the creation of a more premium or craft segment, AB InBev has selectively introduced Michelada and Chelada items under its West Coast craft brand Golden Road and premium Estrella Jalisco brand.

As Mexican flavors continue to penetrate the American mainstream, with approximately 87% of Americans having tried Mexican food and beverage, expect to see the Michelada and Chelada trend gain traction across the broader U.S., especially among Millennials and Gen Xers, who have shown to have a stronger connection to Mexican flavors already.





## Observations from the Aisle (cont'd)

### It's Pronounced AH-sigh-EE!

While most of the population debates the proper pronunciation of açai, one thing is for certain, these berries are the fruit of the 21st century. Even though açai berries have been a staple food in South America for centuries, it wasn't until the early 2000s that they made their way into the U.S. Sambazon became the first company to import frozen açai pulp to the U.S., starting out selling to juice bars in Southern California, but quickly making its way to the East Coast, and in 2006 into a branded line of ready-to-drink juice and smoothie products. Since then, açai has been associated with numerous health claims such as weight loss, increased brain function, cancer prevention, heart protection, and many more. These berries grow on palm trees in the Amazon River delta and contain antioxidants, omegas, fatty acids, and dietary fibers, but scientific research is still in the preliminary stages of determining the true health benefits of açai.

Nevertheless, with the increased awareness of these potential health benefits, consumers are buying more açai than ever, typically in the form of smoothies or "açai bowls" found at your local mom-and-pop shops. These bowls are really what gave a shot in the arm to the industry in 2017 as social media users began posting an incredible number of vibrant images on Instagram, Facebook, and Snapchat. The Daily Meal stated açai bowls were the trendiest breakfast item in 2020, seeing a surge of over 359% in popularity on Instagram. Rest assured, you can also find additional products in the grocery store or online in the likes of frozen sorbet, juices, powders, fruit cups, and energy drinks.

As the top players in the industry like Sambazon, Açai Roots, Acai Exotic, and Nativo Açai continue to innovate, and we can expect to see outsized growth. An estimate from Market Data Research projects the industry to grow ~13% over the next five years to \$2 billion, driven by secular mega-trends focused on healthy lifestyles and better-for-you products. We will be seeing a larger share of traditional beverage and better-for-you brands enter this market soon, either through new brands or M&A. However, franchisors such as Smoothie King and Tropical Smoothie Café have been quick to introduce açai into their lineup. For now, this lucrative berry will continue to make headway across the U.S., whether it be through social media, arguments of pronunciation, or proposed life-changing health benefits.



acai exotic







## What We Are Listening to and Watching

2021 provided us foodies with much to choose from across streaming and on-demand platforms ranging from series and competition shows to documentaries and even scripted drama. See below for a sampling of titles we discovered in the last few months...

**Food that Built America:** While the first season (3 episodes in 2019) of this History Channel series focused on food innovation throughout key historical events (e.g., the Civil War, Great Depression, WWII), the second season, which first aired this Spring, is 16 episodes profiling the icons of American food empires (e.g., James Kraft, Milton Hershey, Herman Lay, William Wrigley) and the competitive struggles that they faced in the early days. In true History Channel fashion, episodes feature somewhat cheesy historical reenactors.



**High on the Hog: How African American Cuisine Transformed America:** The limited series from Netflix (4 episodes) garnered significant media attention in 2021 following the events of 2020. The series is hosted by chef and food writer Stephen Satterfield and is inspired by the Jessica B. Harris book. The series is a mix of history lessons, a visually moving travelogue, and an education on how African American cooking has shaped the American culinary landscape. The series was subsequently renewed for a second season.



**Pig:** This film represents a rare blend of food-focused topics and scripted drama. When I saw the trailer, and it starred Nicholas Cage, I thought it was a joke, but I found the film thoroughly enjoyable, a bit suspenseful, and just enough of social commentary on the sycophantic world revolving around celebrity chefs. Cage plays a hermit named Robin Feld who lives in a cabin in the woods of Oregon with his truffle pig which intruders kidnapped. Cage must return to Portland to find the pig with it being revealed to the viewer that Cage was a formerly celebrated Portland chef. The movie has shades of *John Wick* as Cage returns to the scene of the "crime" (i.e., his former life).







## What We Are Listening to and Watching (cont'd)

**Roadrunner: A Film About Anthony Bourdain:** An anguished documentary tackling the extraordinary life and tragic death of a beloved chef, writer, and TV personality who committed suicide in 2018. What many don't know is Bourdain didn't get famous until he was in his 40s with the book *Kitchen Confidential*. Most know him from the various iterations of his Hunter S. Thompson-esque travelogue shows beginning with *A Cook's Tour* on the Food Network, moving on to *No Reservations* on the Travel Channel, and ending with *Parts Unknown* on CNN. The sense you get from the documentary is that the guy you saw on TV was who the guy really was. His shows remain among my favorites and inspired my children to learn Mandarin, love travel, and try new cuisines without hesitation.



**Selena + Chef:** The third season of this cooking show from HBOMax first aired this fall. The show is a COVID-driven phenomenon, with the first season airing in summer 2020 and the second in winter 2021. While in quarantine during the COVID-19 pandemic, singer, actor, director, and producer (and former Disney child star) Selena Gomez brushes up on her cooking skills with the help of master chefs as they remote in from their respective locations. The show is funny (hey stars are real people too and are a mess in the kitchen), instructive and the perfect quick escape (each show is only 30 minutes). Your kids may even watch this one with you.



**Top Chef Amateurs:** The latest installment (July) from the BravoTV franchise, features home cooks instead of professional chefs. In each episode, two home cooks compete head-to-head in challenges drawn from previous seasons of *Top Chef*. In addition, each amateur is paired with a past *Top Chef* contestant, who acts as an advisor and sous chef. The series is hosted by Gail Simmons, who also serves as head judge. In my opinion, the *Top Chef* franchise is the best food competition series on TV, and *Amateurs* doesn't disappoint, answering the question we have all had while watching, "could real people do any of these challenges?"







## Passionate About the Food, Beverage & Agriculture Industry

### Select Recent Transactions



**HEN HAVEN**

has completed a debt and equity financing

Advisor to Hen Haven



has been acquired by

**PETE and GERRY'S**  
ORGANIC EGGS

a portfolio company of



butterfly

Advisor to Rock Hill Foods



a portfolio company of


**Morgan Stanley**  
(Morgan Stanley Expansion Capital)

has sold a controlling interest to





**NEPTUNE**  
WELLNESS SOLUTIONS  
(NASDAQ: NEPT)

Advisor to Sprout Foods



has been acquired by

Advisor to Mighty Spark Food Company

Substantially all the assets of



**DRYFT**  
SCIENCES

have been acquired by



**BAT**  
(LSE: BATS)

Advisor to DRYFT Sciences



**UNIX-PACKAGING INC**  
UNIVERSAL PACKAGING SOLUTIONS



**WGP** | Western Group Packaging

has received a growth investment from



**CYPRIMUM**  
PARTNERS  
Non-Control Capital for the Middle Market

Advisor to Unix-WGP Packaging

### Food, Beverage & Agriculture Team



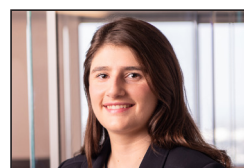
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## How Intrepid Can Help

Leading Advisory Services	 <b>Mergers &amp; Acquisitions</b> <ul style="list-style-type: none"><li>• Proven expertise in both sell-side and buy-side M&amp;A transactions</li></ul>	 <b>Capital Raising Advisory</b> <ul style="list-style-type: none"><li>• Bespoke private capital situations are our specialty</li></ul>	
Full Coverage Across the Value Chain	<div><b>Agriculture &amp; Processing</b></div> <ul style="list-style-type: none"><li>• Agricultural Inputs</li><li>• Grains &amp; Commodities</li><li>• Produce</li><li>• Protein &amp; Seafood</li></ul>	<div><b>Consumer Packaged Goods</b></div> <ul style="list-style-type: none"><li>• Branded Food &amp; Beverage</li><li>• Private Label</li><li>• Contract Manufacturing</li><li>• Nutritional Supplements</li></ul>	<div><b>Retail &amp; Foodservice</b></div> <ul style="list-style-type: none"><li>• Distribution</li><li>• Grocery</li><li>• Restaurants</li></ul>
Extensive Relationships & Reach	<ul style="list-style-type: none"><li>• Network of industry and private equity contacts developed over 20-plus year career in the food, beverage &amp; agriculture industry</li><li>• Ability to leverage broad reach of parent company MUFG Union Bank corporate relationships</li></ul>		

## About Intrepid's Food, Beverage & Agriculture Practice

Intrepid's **Food, Beverage & Agriculture** team delivers results in mergers, acquisitions and capital raising transactions through utilizing a bespoke approach that is not only informed by each client's needs, but by our background and long-standing relationships. Our team's experience ranges from emerging disruptors to marquee strategic transactions – ensuring a deep understanding of the most important drivers in the sector.