



Food, Beverage and Agriculture



Intrepid Spotlight - June 2023

Extra Spicy: The Market for Ethnic Foods Heats Up

Ethnic (adjective) – “pertaining to or characteristic of a people, especially a group sharing a common and distinctive culture, religion, language, or the like”

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Dynamic & Shifting Ethnic Food Trends in America



Demographic shifts and a changing population are leading to an increase in ethnic cuisines



Younger generations' increasing comfort level with new flavors and foods has created demand for exotic flavors



Legacy ethnic food brands of large CPG companies are losing market share as a result of their inability to adapt to social trends



Emerging and family-owned businesses are meeting the needs of consumer's desire for diverse, authentic foods



Increasing opportunity for companies with niche cuisines and products to go mainstream and build large brands

Key Stats

43%

of American consumers said a **top reason for selecting a food was "authentic ethnic flavors"**

77%

of consumers **add flavorful spices & ingredients when cooking or preparing a meal**

32%

of American consumers are **willing to pay more for "authentic" ethnic cuisine and ingredients**

73%

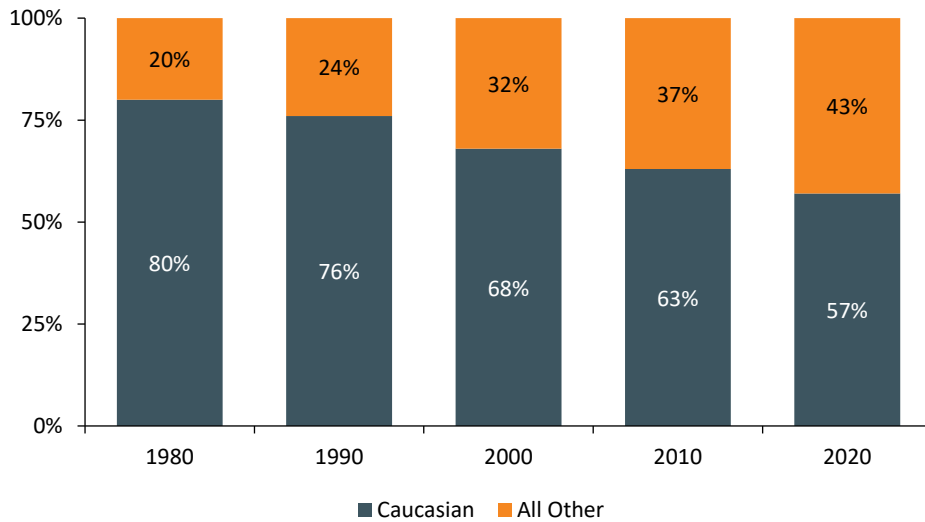
of consumers **feel experimenting with new flavors is exciting**

65%

of consumers **like to explore new flavors**

An Ever-Changing Demographic

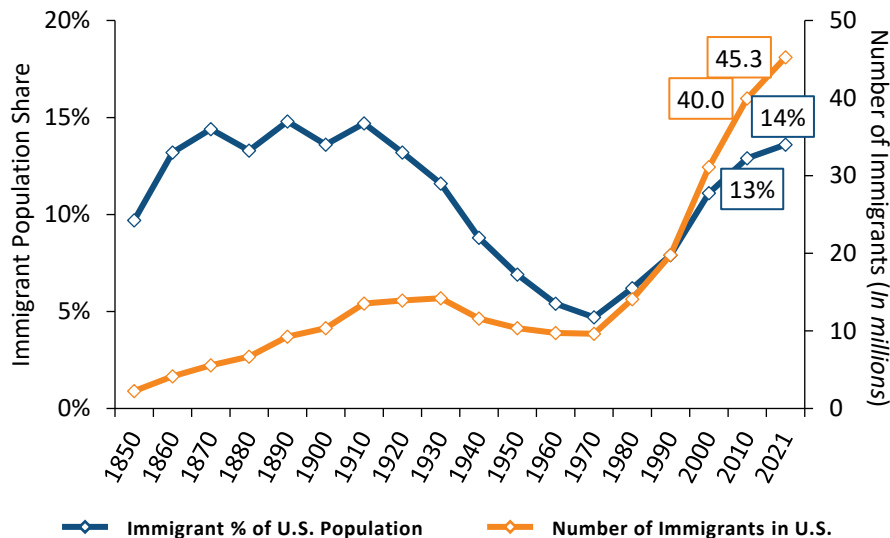
U.S. Population Mix by Ethnicity | 1980 – 2020



Within the last 40 years, non-Caucasian ethnicities have become nearly half of the U.S. population – with such a dramatic shift, the desire for authentic cuisines have reached new levels and restaurants are no longer the only solution for authentic foods & flavors

Ethnic products are increasingly available on grocery store shelves as new businesses seek to connect consumers' love for at-home cooking with their want for global flavors

U.S. Immigrant Population and Share | 1850 – 2021



The influx of immigrants from various parts of the world has not only brought with it a rich tapestry of cultural traditions, but also a plethora of exotic ingredients and cooking techniques, paving the way for a new era of culinary fusion











As the immigrant population continues to grow, so too does the demand for authentic cuisine, prompting a flurry of entrepreneurs to explore and experiment with new and exciting flavors

U.S. Immigration Trends

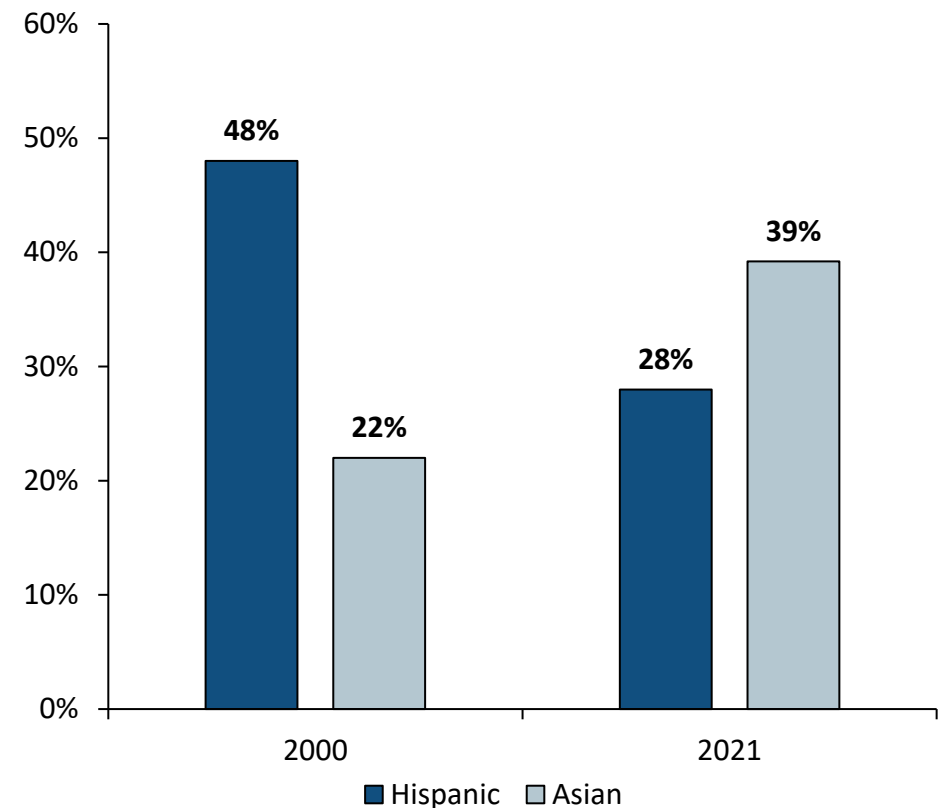
Key Observations

- 20th century migration from Italy, Ireland, Germany, China, and Eastern Europe gave us many major food trends that today are mainstream, but were considered “exotic” or “ethnic” decades ago
- Mexico became the top origin of migration after 1980 and remains the largest group of foreign-born population, but a wider variety of diverse origins are taking shape, with Asians surpassing Hispanics in recent years as top source of immigrants
- These diverse new groups are certain to shape food trends in the years to come

Top 10 Largest U.S. Immigrant Groups (2021)

Country	Foreign Born Population (#)	Foreign Born Population (%)
	10.7M	23.6%
	2.7M	6.0%
	2.4M	5.3%
	2.0M	4.4%
	1.4M	3.1%
	1.3M	3.0%
	1.3M	2.8%
	1.3M	2.8%
	1.1M	2.4%
	1.0M	2.2%

% of Immigrants Arriving in the U.S.



Ethnic Foods Overview



Key Insights	<ul style="list-style-type: none"> ❖ Authentic Asian food & flavor products are becoming highly accessible at big-box retailers and not just specialty markets ❖ Frozen Asian food brands are growing ~2x faster than the total U.S. frozen food category ❖ There has been significant investment in manufacturing capabilities to provide restaurant-quality products ❖ Big CPG brands lack authenticity and Asian based players have established themselves in the U.S. with greenfield operations or purchase of legacy U.S. assets ❖ Asian no longer means just Chinese or Japanese but has expanded to Korean, Thai, Filipino, and Indian
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Key Insights	<ul style="list-style-type: none"> ❖ Largest ethnic group in the U.S. with 45% of Gen Z consumers saying they would choose Mexican if they could eat only one cuisine for the rest of their lives ❖ Larger Hispanic grocery chains have been altering their stores' layouts to attract non-Hispanic consumers ❖ Conventional grocers are dedicating more space to Hispanic offerings in order to capitalize on the growth trends ❖ Hispanic is no longer monolithically Mexican as Caribbean, Central and South America are rising in influence ❖ New, better-for-you players are innovating traditional Hispanic cuisine
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Legacy Brands	
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Legacy Brands	
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Next Generation Brands	
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Next Generation Brands	
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Ethnic Foods Overview (Cont'd)



Key Insights

- ❖ Once considered an “ethnic food”, Italian food has become largely mainstream
- ❖ The U.S. is the largest, non-European importer of Italian foods and continues to rise as represented by a 13.1% growth in Italian agri-food imports
- ❖ Italian inspired foods account for two of the top five most frequently consumed frozen meals in the U.S.
- ❖ 44% of U.S. consumers eat Italian food one or two times each week
- ❖ As tastes have evolved and with the rise of more sophisticated Italian restaurants as well as increased European travel, consumers are looking for more authentic and premium Italian experiences



Key Insights

- ❖ The Mediterranean diet was named the best overall diet for 2023 and the previous five years, led by the Gen Z consumers increased focus on health & wellness
- ❖ Middle Eastern / Mediterranean style foods are amongst the fastest growing items in the deli department while hummus alone is set to command a \$6.6B market by 2028
- ❖ Over 40% of Gen Z and Millennial consumers enjoy Middle Eastern / Mediterranean food especially due to the emphasis on plant-based ingredients
- ❖ While hummus, falafel and certain Greek items have become common place, recent trends have shown consumers expanded interest in Middle Eastern flavors such as za'tar and harissa and dishes like shakshuka



Deal Activity

Selected Private Equity Investments

PE Fund	Investments / Brands
Advent International GLOBAL PRIVATE EQUITY	
ARBOR INVESTMENTS	
CAPVEST	
Entrepreneurial Equity PARTNERS	
Hatcheri CAPITAL	

PE Fund	Investments / Brands
HIGHLANDER partners, L.P.	
THE BAUPOST GROUP	
Verlinvest	

Selected Strategic Investments

U.S. Acquirers	Investments / Brands
B&G FOODS, INC.	

International Acquirers	Investments / Brands
AJIINOMOTO	
CJ FOODS	
GRUP	
Bringing Flavor to Life	

Deal Observations

Key Observations



Large CPG Strategic Activity Limited

- ❖ Strategics are underweight ethnic foods with portfolios heavily reliant on legacy brands
- ❖ CPG activity has centered on larger established, even legacy brands or restaurant focused brands / licenses
- ❖ Asian players have established scale with acquisitions of legacy brands and are building off these platforms with more authentic products from home markets



Private Equity has been More Active Looking for Targets

- ❖ Natural option for family business exits / succession planning needs
- ❖ More flexible with respect to size, will enter with smaller buys and build from there
- ❖ Can bring operational expertise to grow distribution and enhance manufacturing



Many Up-and-Coming Players Continue to be Family-Owned

- ❖ Often are in first generation or second generation of family ownership
- ❖ Most family business struggle to make it to third generation ownership
- ❖ Emerging cuisines have generally arrived with immigration since the 1980s contributing to the prevalence of these dynamics



Significant Opportunity for Owners and Investors

- ❖ Secular tailwinds from mainstreaming of cuisines and consumer interest
- ❖ Large CPG needs to acquire authentic brands (difficult to develop / grow internally)
- ❖ Size and evidence of beginnings of mainstream success key to attracting larger acquirer interest

Mainstreaming of Ethnic Trends Can Create Big Businesses

RAO'S HOMEMADE

- Began as a small New York tavern in 1896
- By the mid 1950s, Rao's transitioned to a restaurant and, with the help of Frank Pellegrino Sr., slowly built a reputation for authentic, clean-label Italian dishes
- By the early 90s, Rao's was one of the most popular restaurants in NYC and in 1992, the company started selling sauce commercially
- As demand skyrocketed, Rao's expanded their product line in 2005 and by 2016 achieved \$20M+ of EBITDA
- Sovos Brands, backed by Advent International, acquired the business in 2017 and went public in 2021

#1 Dollar Share in the U.S. MULO Channel in Q1 2023

Chobani

- Founded in 2007 by Hamdi Ulukaya after he immigrated to the U.S. and noticed a lack of high-quality, Greek-style yogurt brands
- Chobani initially found success by selling to various local grocers in New York but was able to expand operations by taking over Kraft's old yogurt manufacturing facility
- In 2009, Chobani's success took off when it landed Costco as the company's first major customer
- Chobani now dominates the segment and controls 25% of the U.S. yogurt market

#1 Selling Yogurt Brand in U.S.

Sabra

- Started producing hummus in 1986 in a small NYC warehouse
- Initial customers primarily consisted of Israelis living in the U.S.
- Under a new ownership in 2002, the company was able to gain access to grocery retailers in the U.S. and was growing 50% annually
- In 2005, Strauss Group, headquartered in Israel, acquired a majority share of Sabra and shortly after, Pepsi Co invested in the business
- The influx of capital allowed Sabra to build a \$68M plant in 2010 and by 2015 Sabra reached over \$300M+ in revenue

#1 Selling Hummus in U.S.

CHOLULA HOT SAUCE

- Cholula originated in Jalisco, Mexico and was inspired by a 100-year-old family recipe
- The company made its U.S. debut in Austin, TX in 1989 where it gained national recognition when baseball star Noah Syndergaard declared he used it before, during and after a game
- Consumers quickly became obsessed and prompted widespread adoption by restaurants to include the hot sauce on every table-top
- In 2018, the company was acquired by L Catterton
- Cholula was acquired by McCormick in 2020 for \$800M

#2 Selling Hot Sauce in U.S.

Areas for Owners and Investors to Consider



Balancing Focus with Expansion

- Implications of remaining focused on specific ethnic cuisine vs. being a multi-ethnic platform
 - More quickly gain scale, broaden add-on acquisition opportunities with multi-ethnic, but..
 - May limit attractiveness to larger CPG acquirors looking for more focused target
- How should I think about temperature-state?
 - Whether single cuisine or multi-ethnic, multiple temperature states can be considered (shelf-stable / center-store, refrigerated, frozen)
 - Added complexity of multiple temperature states can also limit attractiveness to larger CPG acquirors



What Can I Do to Increase Value

- Demonstrate increasing mainstream acceptance
 - Growth in mainstream retailers vs. reliance on ethnic retail trade
 - Increase awareness potentially through foodservice opportunities or selective licensing opportunities
- Deliver secure supply chain with ability to grow
 - Especially important if products require specialized processes that may not fit with larger CPG operations
 - Owned manufacturing or multiple co-manufacturers



Alternatives to Traditional Branded Packaged Food to Play the Ethnic Trend

- Private label or co-manufacturers serving the demand
 - Spread risk across multiple brands, retailers and channels
 - As brands pave the way, private label demand will follow
- Ethnic distributors or retailers
 - Leading edge of changing demographics
 - Valuable insights into up-and-coming authentic brands for potential separate investment
 - Spread risk across multiple brands and customers

Overview of Intrepid's Food, Beverage and Agriculture Group

Meet the Team



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Private Investor Group

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have received a growth equity investment from

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