Oaklins

Savor the benefits of **healthy beverages**

SPOT ON | HEALTHY FOOD | OCTOBER 2019

MARKET TRENDS

Now that wellness has become a mainstream lifestyle, companies in the food and beverage industry have to continuously reposition their products and brands to meet consumers' needs. Wellness trends started affecting the beverage segment at the beginning of the 2010s, when functional drinks attracted demand away from traditional carbonated soft drinks. Today's beverages landscape has increased in complexity as the new categories of natural and organic have emerged, responding to new and increasingly tangled consumer requirements.

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MARKET TRENDS (pg.2)
Wellness trends have led to increasingly tangled consumer requirements for healthier alternatives.

WHAT DRIVES THE HEALTHY BEVERAGES MARKET? (pg.3)
Fast shifts in consumer preferences have forced companies to adapt their product ranges to include new features.

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We chart the size of regional markets in 2018 and expected growth 2018–2023.

PLAYERS AND M&A ACTIVITY (pg.6)
Large beverage corporations and diversified international food industry players dominate the sector but small, local dynamic companies have created a competitive market in which multinationals seek to expand their product portfolio.

"The global health movement caused a shift in consumers' demand that has required continuous innovation in the beverage market and forced a change in traditional non-carbonated beverages to match consumers' requirements. New opportunities have emerged for dynamic companies, while large corporations are increasing M&A activity to acquire strong brands in this growing segment."

PAOLO RUSSO
OAKLINS HEALTHY FOOD SPECIALIST

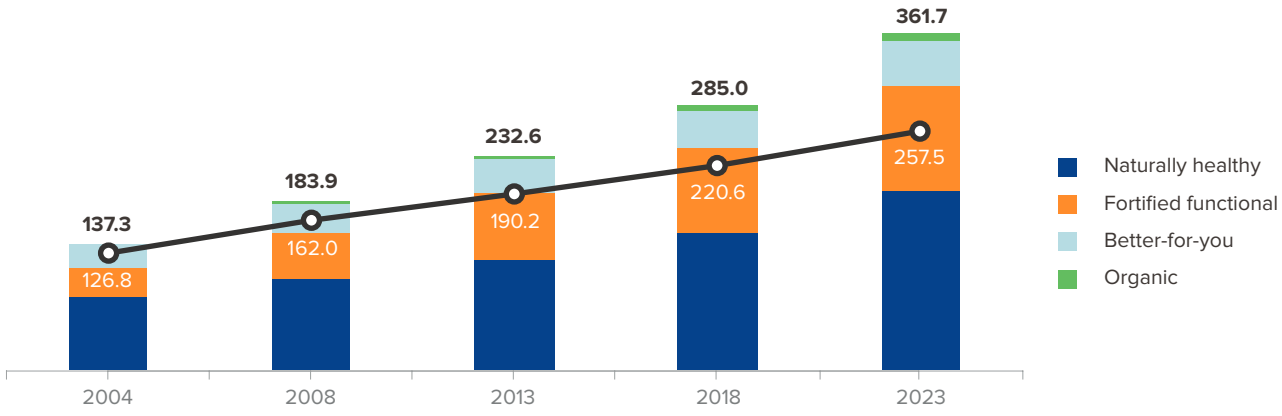
Market trends

We see consumers demanding instant access to healthier alternatives, produced sustainably, with natural ingredients and functional benefits.

Alternatives are rapidly sought after in adjacent segments, generating cross-category competition. For example, functionality features are required from beverages in a growing number of categories, with functional water, coffee and tea invading the space historically ruled by more traditional sports, nutrition and performance drinks.

As a result, the global market of healthy beverages has doubled its size in the last 15 years, reaching a total value of US$285.0 billion in 2018. Healthy living is becoming more and more integrated into consumers' lifestyles and even supported by government actions, therefore the market is expected to continue on its growth path at a 5% compound annual growth rate (CAGR) to reach a value of over US$360.0 billion by 2023.

Healthy beverage market size evolution by category (US$ billion)



Source: Euromonitor International

WHAT DRIVES THE HEALTHY BEVERAGES MARKET?

Healthy beverages can be divided into four sub-categories: naturally healthy, fortified functional, better-for-you and organic. Fast shifts in consumers' preferences have blurred the boundaries among these categories, and companies need to rapidly adapt their product range to include new features that have traditionally defined other categories of products.

Categories and main trends in the healthy beverages market

REDUCED SUGAR
Supported by levies on sugar content in drinks and government campaigns against high consumption of sugar

CLEAN AND TRANSPARENT LABELING
Shorter lists of ingredients; sustainability actions carried out by companies

THE FOUR HEALTHY CATEGORIES

NATURALLY HEALTHY BEVERAGES

Products naturally containing a substance that improves health and well-being. These beverages include mineral and spring water, 100% fruit/vegetable juices, superfruit juices, ready-to-drink and hot green tea, etc.

BETTER-FOR-YOU (BFY) BEVERAGES

Substances that are considered to be less healthy have been actively reduced during production, as for example in no-sugar carbonated soft drinks.

FORTIFIED & FUNCTIONAL BEVERAGES

Drinks enhanced through added ingredients or nutrients, which are highlighted in the product label together with their health/nutritional claim. The category includes energy drinks but also waters and juices fortified with, for example, calcium, magnesium, etc.

ORGANIC BEVERAGES

Those that have been produced, processed and marketed in accordance with specific standards that entitle the beverage to receive an "organic" certification by an institutional body. Carbonated soft drinks and juices that present the "organic" label are included here.

CROSS-CATEGORY COMPETITION

Naturally healthy products represent over half of the market and responded better than other categories to the demand for low sugar content and for shorter and more transparent lists of ingredients. Above all, the water segment has picked up steam and drives growth in every country. Flavored, fortified and carbonated waters are perceived as a healthy beverage with an indulgent feel and have become the main alternative to soft drinks and juices. Water now competes on a whole different level and with virtually every beverage category.

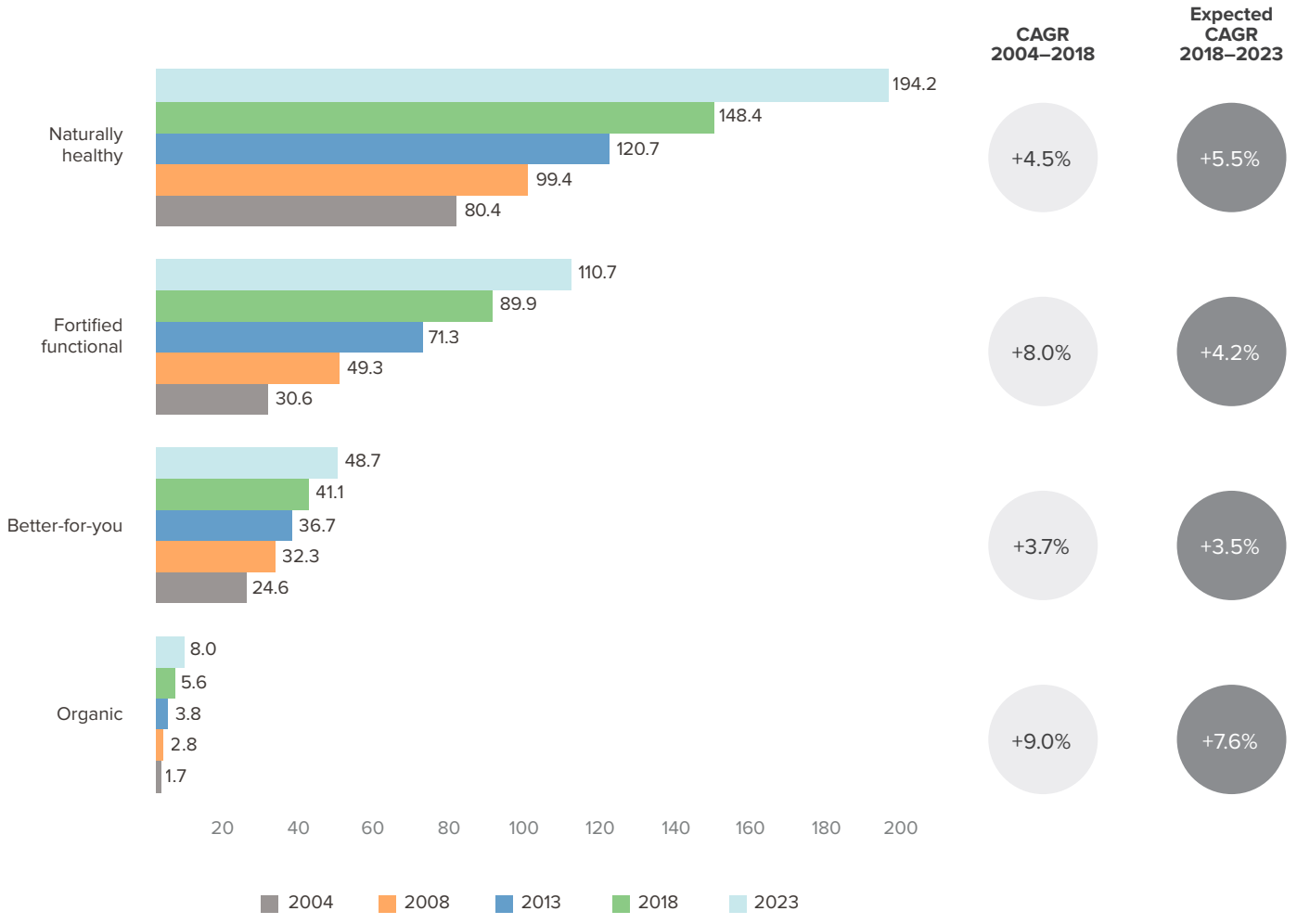
Within the naturally healthy category, ready-to-drink teas (e.g. kombuchas) and juices without sugar and enriched with healthy and probiotics ingredients (e.g. superfruits) are the most dynamic products in terms of product launches. Teas have evolved from "grandmother fashion" to trendy beverages with well-being claims and are expected to grow at double-digit rates.

Cross-competition has instead dampened the sales of better-for-you (BFY) drinks, which are the only rather stagnant category. This is due to the fact that "natural" is preferred to "reduced" and naturally healthy products are eroding the market share of BFY beverages.

Within fortified and functional beverages the energy function remains the most appealing property, so much so that they are only moderately affected by concerns regarding sugar content. However, consumers also appreciate organic, caffeine-free and premium energy drinks and demand more transparency and clearer labels from manufacturers.

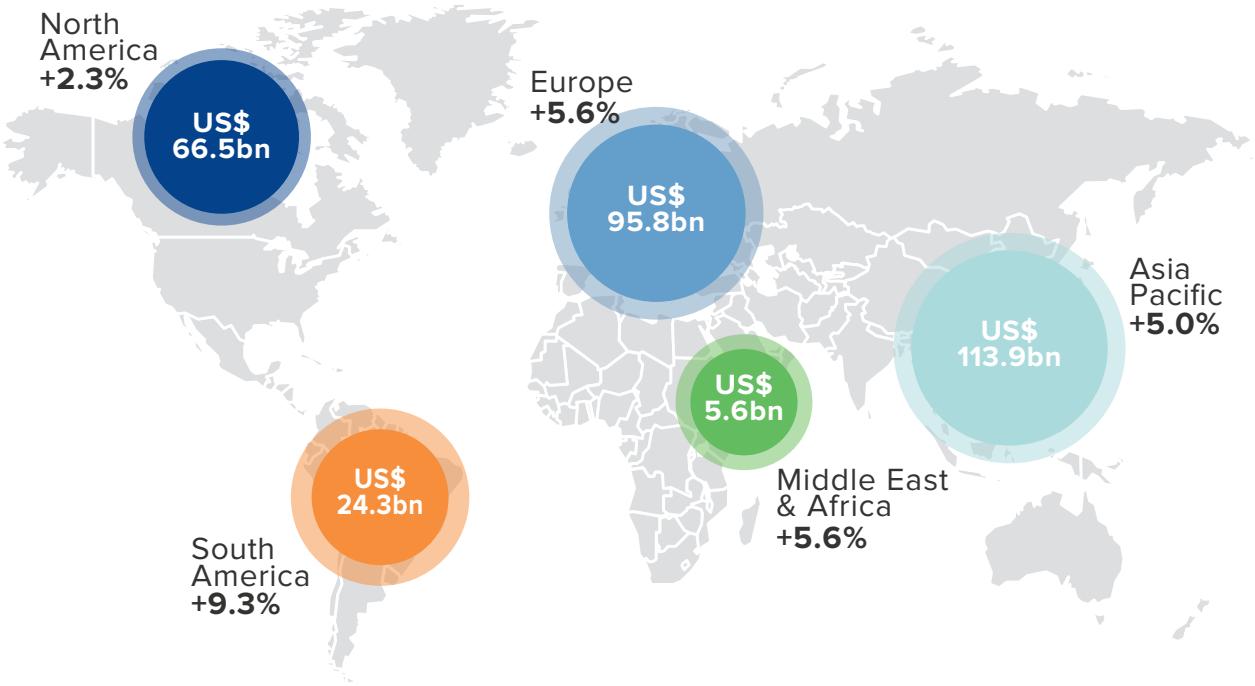
Organic beverages exhibited the strongest growth, both in current value terms and average unit prices, following the increasingly mainstream consumption of organic products. This small niche involves all beverage products, from fruit juices to cola, and offers opportunities to many small, specialized companies and private-label producers.

Healthy beverage categories' global growth (US$ billion), 2004–2023



Sources: Euromonitor International; Oaklins research

Global outlook



Sources: Euromonitor International; Oaklins research

NORTH AMERICA

- The largest global market is in the USA, with a value of US$60.3 billion
- Naturally heathy beverages account for the majority of soft drinks' growth, but the market is rather mature
- Fast-growing niches include ready-to-drink teas, superfruit / fortified juices and fortified waters
- Energy drinks remain strong, despite their high sugar content

EUROPE

- Europe accounts for 26% of the global market
- Germany alone constitutes 50% of the European market, followed by the UK, France, Spain and Italy
- Bottled mineral water is the preferred substitute for carbonated soft drinks, and launches of fortified functional waters have been successful in France, Italy and Spain
- Teas are back in fashion, with a double-digit growth rate
- Governments are introducing levies on foods' sugar content, supporting sales of BFY drinks
- Organic is going mainstream
- Private labels have a strong presence
- Small local manufacturers perform well in their niches and retain loyal customers

ASIA PACIFIC

- Asia Pacific represents 40% of the global market
- The Chinese and Japanese markets are valued at US$56.8 billion and US$33.3 billion, respectively
- Naturally healthy beverages, such as tea and aloe water, are traditionally consumed in this region
- Growing mistrust regarding the quality of tap water has boosted bottled water sales
- Government campaigns that encourage healthier diets and the growing wealth of the middle- and upper-classes are driving growth
- The Chinese market is expected to overtake the US market by 2020

SOUTH AMERICA

- BFY sales have grown due to government-introduced levies on beverages' sugar content
- Large corporations—such as Coca-Cola and PepsiCo—remain market leaders, thanks to the expansion of their product offer to BFY beverages, and sales supported by strong brand awareness and well-developed distribution networks

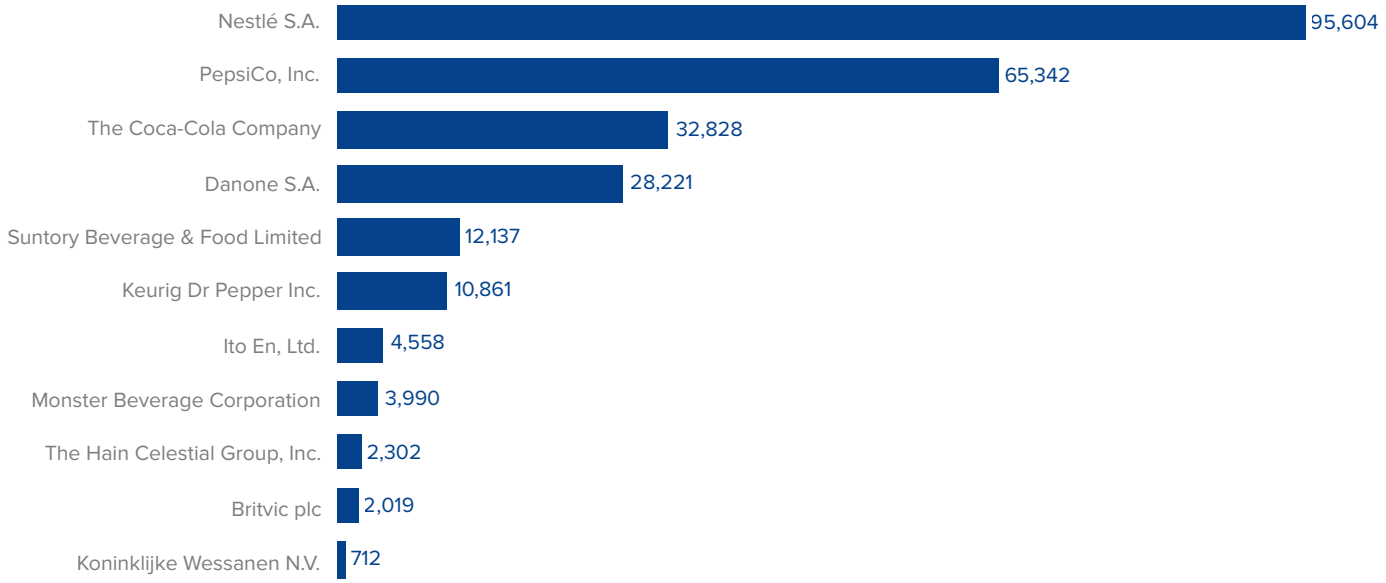
Sources: Euromonitor International; Oaklins research

Players and M&A activity

The non-alcoholic beverage industry is highly competitive, consisting of numerous small or emerging and very large and well-established companies.

The latter include companies that, like Coca-Cola, PepsiCo and Keurig Dr Pepper, compete in multiple geographic areas, as well as businesses that are primarily regional or local in operations. This is the case for Britvic, which reported about 60% of sales volumes and value in the UK in 2018; and Ito En, a leader in Japan with its green tea products.

Listed market leaders in the non-alcoholic beverage sector by LTM revenues (US$ million)



Source: S&P Capital IQ as of 01 October 2019

As well as the large beverage corporations, diversified international players of the food industry, such as Groupe Danone and Nestlé, also hold large market shares in the healthy beverage segment—mostly thanks to their large portfolios of water brands, which are sold in numerous countries.

Additionally, healthy-food specialized companies have traditionally included beverages in their products portfolios. These companies, such as Royal Wessanen and The Hain Celestial Group, benefit from strong consumer loyalty to their brands, which are valued for their transparency regarding ingredients and overall sustainability.

On a global scale, these large companies dominate the healthy beverage sector, but small companies that can respond dynamically to rapidly shifting consumer preferences have added increasing competition to the market.

Large corporations have been able to retain their market share by repositioning their portfolios through M&A, in order to include on-trend products and brands.

OVERVIEW OF M&A ACTIVITY IN THE HEALTHY BEVERAGE SECTOR

We have analyzed global M&A activity in the last 10 years, considering only closed transactions with majority investments. A total of 181 deals were closed between 2018 and mid-September 2019, with very few involving a majority investment from private equity firms.

The yearly number of deals ranges between 10 and 25—with a drop in the period 2012–2014, followed by a peak of 23 deals in 2015. The M&A market has remained dynamic in the last three years, reaching a record 25 transactions in 2018. The current year is expected to set another record, as 22 deals have already been closed by mid-September.

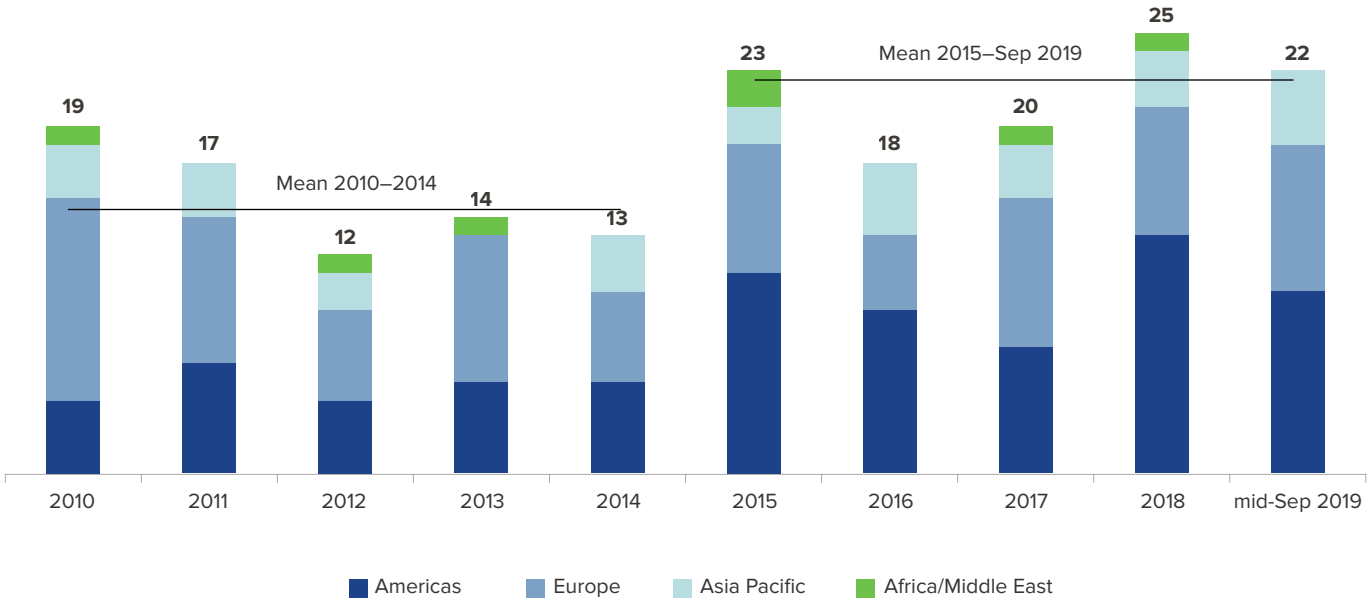
The USA and Canada are driving the market: the average number of deals that involved a North American target increased from five in the period 2010–2014 to 10 in the period 2015–2019. Europe is the second most active region, with an average of seven deals per year.

It is interesting to note that the vast majority of transactions involved bidders and targets from the same geographic region. For instance, only five out of 70 deals with European targets had a buyer outside the continent and less than 20% of the transactions within Europe were cross-border. However, almost all cross-border transactions in Europe occurred in the last five years, with a rate that rises to about 36% during this period.

2015 can therefore be considered a threshold for M&A in the beverage segment.

Not only has the number of transactions increased sharply, but we are also seeing an increasing differentiation in the products of target companies and a rising international dynamism.

M&A deals by geographic area, 2010–2019



Sources: S&P Capital IQ

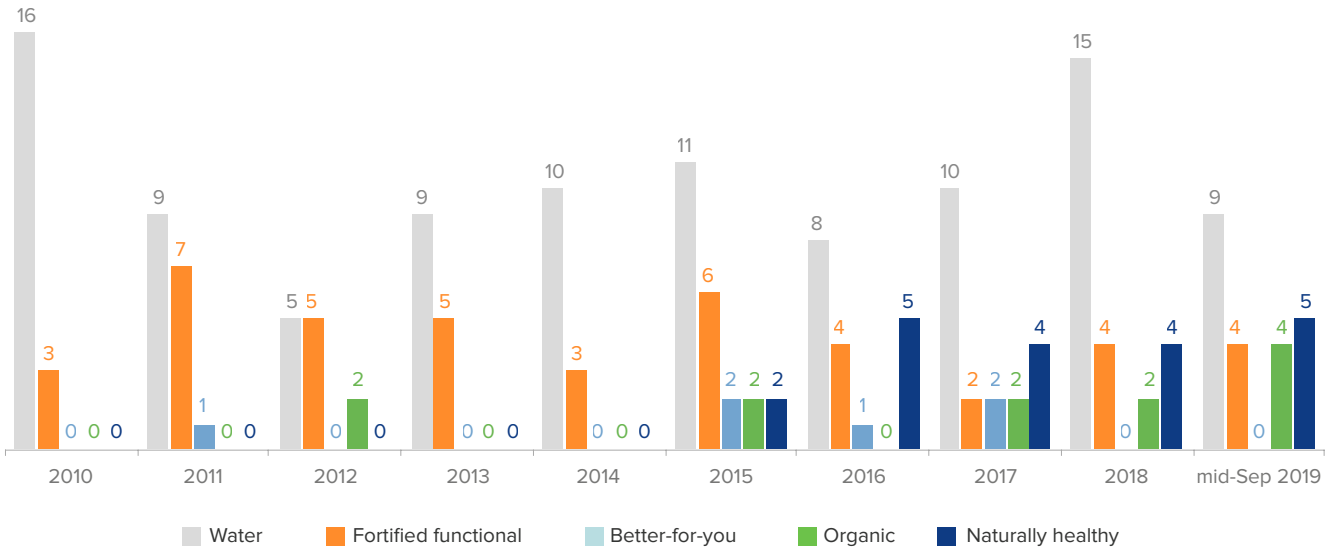
We analyzed the yearly number of deals by category, excluding water producers from the category of naturally healthy beverages. Despite being the most active sub-segment in the healthy beverage sector, the number of deals in the water segment has remained rather stable over the years. Between 2010 and 2014, fortified and functional beverages were the second and almost only other active category. M&A activity was driven by the double-digit growth experienced by energy drinks sales in the early 2010s.

In the last five years, new product categories have emerged. While M&A in the waters and fortified and functional sub-segments has remained strong, companies have started acquiring on-trend, naturally healthy and organic brands. Usually, acquired companies offer products that cross more than one category.

For example, La Galvanina S.p.A., acquired in July 2019 by The Riverside Company, is an Italian producer of premium waters, organic carbonated soft drinks and 100% natural and organic juices. The company was valued at US$88.6 million, equal to 1.5x 2018 revenues and 9.4x 2018 EBITDA.

Even fortified and functional products crossed the boundaries of their category to overcome the slowing down in sales. The Chinese pharmaceutical group Xiamen Kingdomway acquired the US healthy energy brand Zipfizz in May 2018 for a total consideration of US$80.0 million, with an EV/sales multiple of 1.5x. Zipfizz sports products contain no sugar and only natural ingredients, without any artificial flavors or aromas added.

M&A deals by category, 2010–2019



Sources: S&P Capital IQ

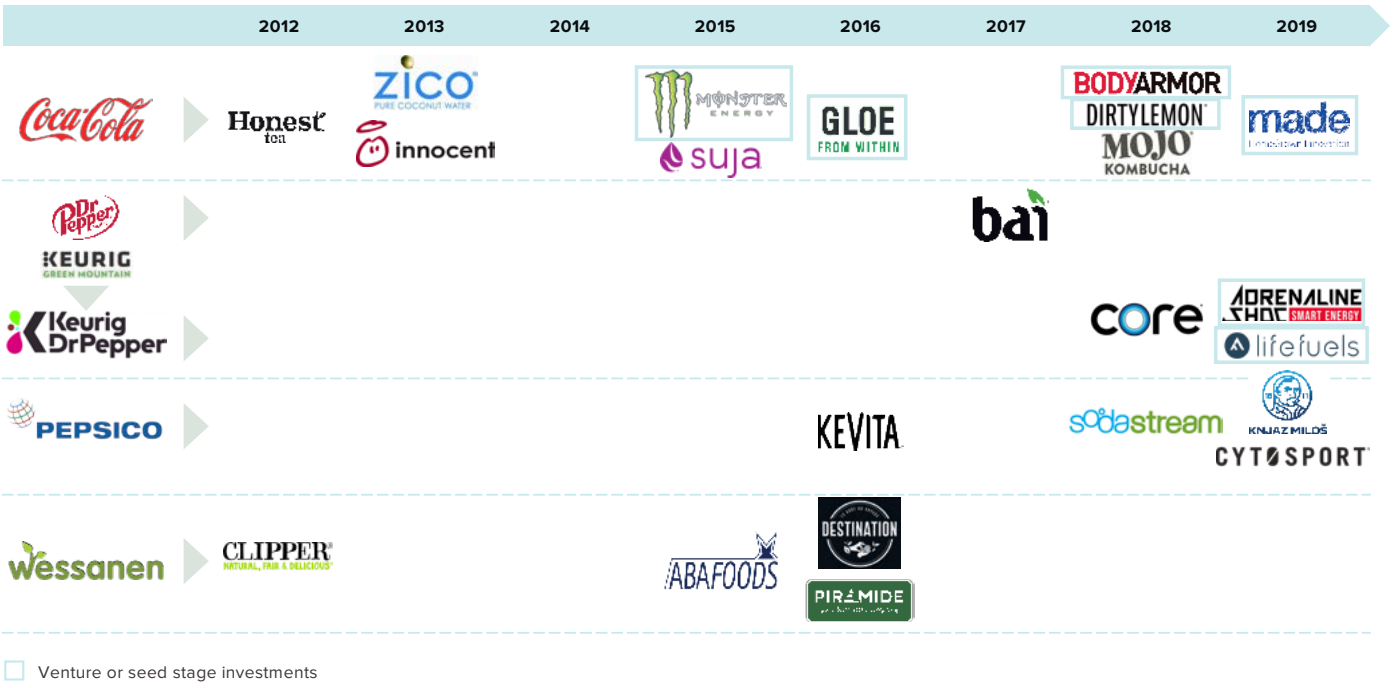
HOW HAS M&A BEEN FUNCTIONAL FOR LARGE PLAYERS?

The strongest M&A activity in the healthy food and beverage space has been carried out by corporations with large portfolios of beverage brands, namely Coca-Cola, Keurig Dr Pepper and PepsiCo.

These companies started acquiring healthy brands as early as the beginning of the 21st century. In 2007, Coca-Cola acquired Glacéau Vitaminwater (Energy Brands Inc.) for US$4.2 billion when non-carbonated soft drinks and energy drinks were eroding its market share. At the beginning of the 2000s, PepsiCo merged with The Quaker Oats Company, owner of the brand Gatorade, in a US$14.7 billion deal, and in 2007 it acquired Naked Juice Company, owner of the brand V Waters.

Thus began the journey towards the rebranding of the beverage giants. The common driver for established corporations was the need to reposition their portfolios and brands, as the overall beverage market was being reshaped by the growing wellness trends. These trends have become even more evident in recent years, and we are seeing a new wave of acquisitions that involves all four healthy beverage categories. These corporations are traditionally acquisitive and, even if they pursued different strategies, they all aimed to acquire new but renowned brands. These brands usually become successful locally and, after the acquisition, they can leverage the international distribution network of established companies to boost their sales.

M&A activity of leading players in the non-alcoholic beverage market



Sources: S&P Capital IQ; Mergermarket

Over the years, Coca-Cola has acquired a growing number of brands in all sub-categories of the healthy beverage segment, often using its venturing branch. PepsiCo instead diversified its portfolio, including both food and beverage healthy brands.

Keurig Dr Pepper emerged as the third strongest beverage player after the merger in 2018 of Keurig Green Mountain and Dr Pepper, the beverage industry's largest deal, which amounted to US$18.7 billion. The subsequent acquisition of Core Nutrition filled important gaps; adding multiple soft drinks, including functional and organic products, to the portfolio of the group.

In contrast, Dutch healthy food group Wessanen's acquisitions aimed to strengthen the organization's position in multiple European markets and to diversify its portfolio of organic food brands. Wessanen exploited synergies in research and development (R&D) and production capabilities of target companies, acquiring strong brands with unique manufacturing expertise in market niches, as was the case with the dairy-alternative beverages specialist Abafoods.

PARTNERSHIPS: THE CASE OF COCA-COLA MINORITY INVESTMENTS

Coca-Cola's highly acquisitive strategy is largely supported by its Venturing & Emerging Brands (VEB) unit. The unit is dedicated to the identification of emerging brands and startups in emerging niches that have the potential to grow and become part of Coca-Cola's multibillion brands portfolio.

Honest Tea, Zico Coconut Water and Innocent are three recent examples. In 2008, 2009 and 2010, respectively, Coca-Cola acquired a minority stake (about 40%) in each of them, with the option to buy the remaining shares. After three years, Coca-Cola completed all three acquisitions.

Through low-cost and low-risk alliances, the group has immediate access to innovative products under already recognized brands and can make use of its expansive bottling and distribution systems to boost their growth. Most importantly, Coca-Cola embraced, or rather did not change, the sustainable actions of these companies, therefore placing its own traditional brand within the healthy environment.

In 2016 Coca-Cola invested in the organic aloe water brand Gloe. In 2018 it acquired minority stakes in the functional companies Body Armor and Dirty Lemon, and again in 2019 invested in the Australian Made Group. Similarly, in 2019 the newly born Keurig Dr Pepper (KDP) invested in the sports and water startups Adrenaline Shoc and LifeFuels. KDP will handle the national sales and distribution of the two. The alliance will allow the group to rapidly access the already crowded energy drinks segment though brands in the healthier energy performance sub-segment.

As the market for healthy beverages is forecasted to grow, we expect further consolidation from these corporations as they go on to acquire majority stakes in these companies after the first venturing stage.

M&A VALUATIONS AND RATIONALES

We have seen a reshaping of M&A activity in the beverage sector, with a rising number of deals in the healthy beverage space and a growing diversification among acquired businesses. As often happens in young markets and segments, M&A activity has been mainly driven by acquisitions of brands with strong shares in specific market niches.

These small and medium-sized enterprises (SMEs) with a well-known brand represent an appealing alternative to time-consuming product development and marketing campaigns. We have indeed seen how the large corporations that dominate the beverage market have consistently used M&A to reposition their brands and access fast-growing niches in the healthy beverage space. Even the giant, marketing multinational Coca-Cola prefers to fulfil its growth through acquisitions, with both majority and minority stakes, of small but well-recognized brands.

Diversification motives have moved specialized healthy-food companies into the beverage market. The slowing down of other food niches, such as gluten-free products, required these companies to seek growth by expanding their product offering to include healthy beverages.

Finally, private equity firms have played a crucial role in consolidation of the market as buy-and-build strategies enable the creation of larger-size companies in young segments. In Italy, a very recent example is Coca-Cola's acquisition of Lurisia. Lurisia is an Italian premium beverage company that offers mineral water and drinks and has very strong financial results in the highly competitive Italian waters market. Lurisia was formerly owned by the food-sector-focused private equity fund Idea Taste of Italy and by the company's founder.

Despite the small number of deals with disclosed data, we have identified relevant recent transactions covering the different categories of healthy beverages. With an average EV/EBITDA of 9.6x, valuations are very attractive and reflect a premium attached to successful brands and products in a market experiencing innovation.

We believe that the EV/EBITDA multiple will continue to be in the sector's high range as more consolidations take place with the objective of maximizing production synergies and acquiring well-known brands.

M&A deals in the healthy beverage sector

					Rationale						
Date	HF Category	Cross-border	Target	Acquiror	Product diversification	Acquisition of strong brand	Access to fast growing market	Buy-and-build	EV (US$m)	EV/ Sales	EV/ EBITDA
Jun-19		✓	Galvanina	Riverside				✓	88.7	1.5x	9.4x
Aug-18		✓	zipfizz	Kingdomways		✓	✓		80.0	1.5x	-
May-18		✓	Old Orchard	Lassonde	✓	✓			158.9	1.5x	10.1x
May-18			thurella	ORIOR		✓	✓		176.0	0.5x	9.6x
Mar-18		✓	Crystal Rock	COTT	✓				34.7	0.6x	8.0x
Apr-17		✓	WhiteWave	DANONE				✓	12,446.7	3.0x	24.8x
Mar-17		✓	AdeS	Coca-Cola		✓	✓		575.0	2.0x	-
Dec-16			Glacier Water	PRIMO WATER	✓				225.5	1.8x	11.1x

Naturally healthy · Better-for-you · Fortified & functional · Organic

Sources: S&P Capital IQ; Mergermarket

KEY TAKEAWAYS AND PROSPECTS

Healthy beverages are the most recent innovation within the food and beverage industry and one of its most successful and exciting stories.

The beverage market, in contrast to the food market, is mainly dominated by multinational companies that have started to expand their product mix to meet new customer needs. At first, players such as Coca-Cola or PepsiCo sold carbonated soft drinks with high quantities of sugar, before they moved towards a range that included low-sugar drinks. Now they are turning to a broader portfolio of natural, functional and organic drinks.

This evolution happened because of the wellness-trend invasion of every corner of consumer products. Product innovation and cross-category competition also allowed new businesses to emerge in the beverage market. This dynamism has been reflected in a rising number of M&A deals, in which large corporations play a central role in the shift towards market concentration.

The forecast is for the growth trend experienced in recent years to maintain its pace in the future. We therefore expect M&A activity and valuations to remain strong, attracting the interest of diversified food companies and private equity funds.

This is also great news for us as consumers, as innovation in the sector will enable improvements in the quality of what we drink, undoubtedly leading to positive consequences for population well-being and health.

OUR EXPERTISE IN THE HEALTHY BEVERAGES SECTOR

Sanpellegrino (Nestlé Waters)

has sold the mineral water brand, business and assets of

RECOARO

to

Refresco

M&A SELL-SIDE

Food & Beverage

Sanpellegrino (Nestlé Waters)

has sold

S.Bernardo

to

GRUPPO MONTECRISTO

M&A SELL-SIDE

Food & Beverage

wessanen

has acquired

ABAFOODS S.r.l.

M&A BUY-SIDE

Food & Beverage

OUR EXPERTISE IN THE HEALTHY FOODS SECTOR

Triodos Investment Management

has acquired

NATURGIE

M&A BUY-SIDE

Food & Beverage

LÉA COMPAGNIE BIODIVERSITÉ

has acquired a minority stake in

Soup' idéale®

M&A BUY-SIDE

Consumer & Retail/Food & Beverage/Private Equity

Exotic SNACKS PASSION FOR NATURE

has been acquired by

ROOTFRUIT

M&A SELL-SIDE

Food & Beverage/Private Equity

Deep local roots, global commitment

Oaklins brings you opportunities from across the world and we meet you with our expertise wherever you are

OAKLINS OFFERS A COMPREHENSIVE RANGE OF SERVICES

- M&A advisory (buy-side and sell-side)
- Growth equity and equity capital markets advisory
- Debt advisory
- Corporate finance services

Healthy food is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in the healthy food sector, with a large network of relevant market players worldwide. This results in the best possible merger, acquisition and divestment opportunities for healthy food companies.

If mergers, acquisitions or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.

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