



Mergers & Acquisitions

Capital Raising

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### Overview

Metronome Partners has added a food & beverage effort to its independent M&A advisory practice. Accordingly, we are launching a periodic newsletter to offer insights on areas of the food supply chain. In our inaugural food & beverage note, we will explore the drivers of acquisitions by non-U.S. corporate acquirors in value-added dairy businesses, as well as areas in these markets where private equity investors can create value and generate attractive returns. There has been both significant private equity and corporate M&A activity in the sector. However, in this sector, it is important to note that nearly all corporate M&A has been driven by international acquirors instead of domestic firms.

### Recent Experience

We recently advised on the sale of Calabro Cheese Corporation to Granarolo SpA. Granarolo is the largest independent dairy business in Italy and produces fresh Italian cheeses, hard Italian cheeses, yogurt, cheese snacks, fluid milk and organic plant-based products. Calabro is a family business founded in 1953 by Italian immigrants and produces high-quality authentic Italian fresh mozzarella, burrata, ricotta, mascarpone and a variety of other cheeses. The family viewed Granarolo as a means to secure the legacy of the business and Granarolo viewed the brand, with its family-founded origins in Italy, as an opportunity to leverage the brand's authenticity in the U.S.

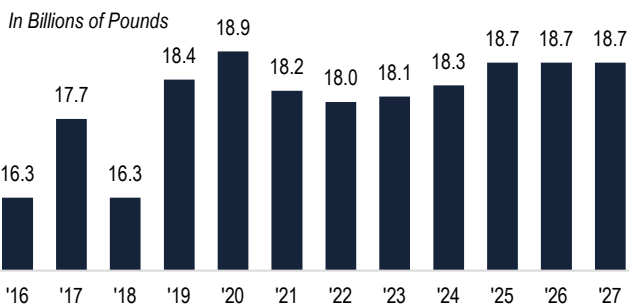
In Italy, the fresh cheese market is crowded and mature, with end-market price pressure. In the U.S., the specialty cheese market is projected to grow 5.3% per year, on average, from 2020 to 2027. U.S. market access represents a meaningful opportunity for growth when compared to a flat Italian market. In addition, in this case, fresh cheese must be produced within the U.S. because of constraints on shelf-life. Granarolo's acquisition of Calabro is an illustrative case study on the drivers of European corporate interest in the U.S. market: growth and margin. The acquisition of an established business carries less risk than embarking on a greenfield investment. However, this is only a partial explanation for the considerable interest in the U.S. market from abroad.



### Why So Much Interest in the U.S. Market: Growth, Structure, Food Safety & Demographic Fragmentation

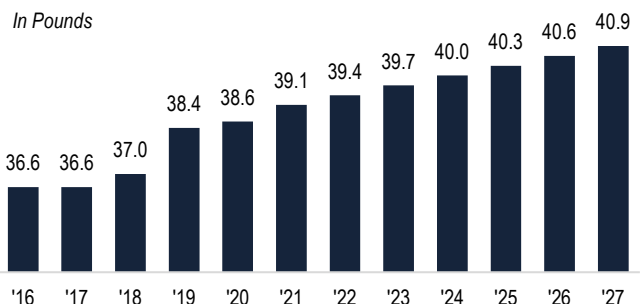
The U.S. represents the largest unified market in the world, with a growing & diverse population and a robust consumer culture. For example, the market for cheese, specialty cheese and dairy ingredients (along with certain downstream derivative products) are enjoying attractive growth. While the industry is regulated, there are no supply controls on raw milk production and there are liberal foreign investment policies. Therefore, acquirors can freely invest into a growing market, with a food-safety culture and structure that promotes the growth of milk production. European acquirors are seeking growth due to mature markets; Canadian acquirors have structural impediments to growth because of their quota system; Asian acquirors & traders are seeking sources of unadulterated dairy ingredients for their home markets; and investors from Latin America are seeking to serve the growing population of American Hispanics.

#### U.S. Annual Milk Production



Source: IBISWorld Dairy Production in U.S. Report

#### U.S. Per Capita Annual Consumption of Cheese



Source: Statista



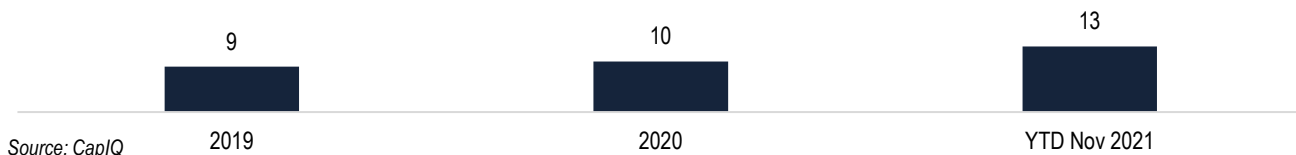
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### Universe of Corporate Acquirors

Number of Domestic Corporate M&A Deals in the Dairy Industry



Source: CapIQ

Over the years, many non-U.S. acquirors have made investments in the U.S. into the dairy sector; including, for example, Charterhouse-backed Nuovo Castelli (Italian, now owned by Lactalis), Danone (French), Groupe Bel (French), Saputo (Canadian), Agropur (Canadian) Vinmilk (Vietnamese), Arla (Danish), Grupo LaLa (Mexican), Grupo Alpina (Colombian), Emmi (Swiss), Glanbia (Irish) and Ornuu (Irish) – and now Granarolo (Italian). Several Asian and European trading companies have also made investments or struck deals to establish a market in U.S. dairy ingredients, such as milk powder, milk protein concentrate or whey protein concentrate & isolate. There have been several serial non-U.S. acquirors of American value-added dairy businesses.

#### Corporate Acquiror



#### Select Acquisitions



There is no indication that global interest in the U.S. market will moderate. It is also important to note that in most cases, foreign acquirors have invested in order to expand, grow and operate facilities in the U.S. Corporate acquirors in general do not shutter operations or strip assets. Instead, they often expand them to address a growth market.



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### Private Equity in the Value-Added Dairy Sector

A significant number of family-owned dairy processing businesses remain throughout the U.S. Many of them must actively address succession issues or resolve shareholder disputes stemming from a diffusion of ownership to family members who are often not involved in the business. Some businesses have never had any non-family professional managers and others have been under-invested over time. The opportunity for professional investors is to invest in fundamentally strong family-owned businesses that produce value-added dairy products (e.g., cheese, ingredients, flavors, yogurts, ethnic products, organic products, dairy protein, etc.), in situations where they can assist families to address the key issues noted earlier. Private equity funds that can “roll up their sleeves” and assist these businesses in adding appropriate management resources, reporting tools and benchmark KPIs that corporate buyers look to are likely to enjoy attractive returns in the sector alongside their family partners.

#### Private Equity Activity

 Processed Cheese (2019)	 Cheese Snacks (2019)	 Specialty Dairy Ingredients (2019)	 Organic Dairy Products (2019)	 Ingredients & Flavorings (2019)	 Greek Yogurt (2018)	 Specialty Cream (2017)	 Fresh Fluid Dairy (2017)
 Premium Cheese (2016)	 Human & Animal Nutrition (2016)	 Food Distributor (2015)	 Cheese Products (2014)	 Italian Cheese Producer (2014)	 Australian Yogurt (2014)	 Yogurt Toppings (2013)	 Cheese Products (2012)

### Valuation Multiples

There are no publicly-traded dairy businesses in the U.S., and very few around the world that are useful as comparable valuation benchmarks. However, it is notable that where there are public companies in the sector, they mostly trade at valuations of more than 10x EBITDA. In addition, most of the large participants in the sector have ready access to low-cost capital to finance acquisitions. Most M&A activity in the sector is private and valuation metrics are not often in the public domain. M&A practitioners in the sector, however, understand quality businesses routinely trade at high-single to double-digit multiples of EBITDA.



Source: CapIQ

### Conclusion

The U.S. dairy sector is a strategic priority for non-U.S. corporate buyers. Many businesses in the sector are privately-held and family-owned, and could benefit by an interim investment from a private equity investor. Metronome professionals have a deep understanding of the sector and are pleased to engage with interested investors. Please contact Stephen Rusch at [srusch@metronomepartners.com](mailto:srusch@metronomepartners.com).