Valley Proteins eyes geographic expansion through acquisitions – co-owner

Valley Proteins (VP), a family-owned recycler of animal byproducts and waste cooking oils, will need to make acquisitions in new geographies to grow, President and CEO Gerald Smith Jr. said.

“We've pretty much made all the acquisitions that can be made in our footprint,” Smith said at his company’s headquarters near Winchester, Virginia.

Valley Proteins, which Smith said is the largest private company in the sector in North America, pulls in about USD 550m in revenue per year and has 2,000 employees. It processes about 108 million pounds of waste products per week, he added.

Smith is interested in purchasing new supply in Texas, Oklahoma, North Carolina and Pennsylvania, expanding its geographic presence in states where it already operates. States where VP has no presence are an option if the deal is large and the plants in question are modern and efficient. Future acquisitions will likely involve targets with at least USD 10m in revenue.

VP would also consider buying a small operation if the target only services restaurant grease – which doesn’t involve the wastewater and bone-crushing that rendering requires. It purchased Mulberry, Florida-based Florida By Products, which only services restaurant grease, in 2018 for USD 4.5m.

“I could see us going to Chicago and doing a restaurant grease plant,” Smith said. But that’s only if there’s an opportunity to buy a decent-sized rendering plant that’s already done some consolidation in that area.

Valley Proteins can make single-plant and small-system acquisitions with cash, Smith said. If the company is going to buy a large, multi-plant system, it would likely do so with senior debt.

Smith said he is not in detailed discussions with any targets now and does not look to make deals in any particular timeframe.
Some of the company’s growth has been organic, particularly as the US poultry industry has grown. But the company, with more than 30 locations across 13 states, has grown primarily through acquisitions, typically targeting areas where it is already present.

Smith said he’s made about 50 acquisitions in his career with VP, ranging from USD 50,000 to USD 125m in deal size.

Valley Proteins bought Enterprise Rendering, of Oakboro, North Carolina, for USD 20m in November.

Smith said that deal would not have happened if Valley Proteins had not had its own operation nearby. Enterprise is about a tenth of the size of the VP plant in that region and uses an old system – the deal was mostly made to acquire Enterprise’s supply of animal and oil waste to recycle.

Valley Proteins has used TM Capital Corp. to negotiate the terms of large acquisitions for 22 years, Smith said. “I don’t really need investment bankers beating the bushes to find deals,” Smith said.

Sector fighting for supply

Supply is increasingly precious to renderers as large industrial packers such as Tyson Foods, integrate their own rendering operations, the CEO said. Renderers don’t have the ability to compel consumers to eat more chicken and pork, so independent rendering operations must contract their own supply from other businesses like restaurant groups and industrial food processors, Smith said.

He said five companies in the space besides Valley Proteins are likely to make acquisitions in North America: Dallas-based Darling Ingredients [NYSE:DAR], Montreal’s Sanimax, Vernon, California-based Baker Commodities, Vancouver, British Columbia-based West Coast Reduction and Redwood Falls, Minnesota-based Central Bi-Products.

Companies in the space tend to sell to strategic buyers, Smith said. Some companies believe they can get more money selling to a financial sponsor, but Smith said he’s yet to see that pan out.

Smith mentioned SC Pet Food Solutions, a Ward, South Carolina-based subsidiary of 3D Corporate Solutions, as an example of a private equity-backed company in the industry. 3D sold to Olympus Partners in May.
Ownership transition on the horizon

Smith, who is also the chairman of Valley Proteins’ board, co-owns the company equally with his brother Michael Smith. The company was founded by Clyde Smith, their grandfather, in 1949, and moved from Pennsylvania to Winchester in 1951.

Smith is almost 59 and is looking toward retirement, he said. He has three children, all under 30, pursuing other educational and professional interests. He'd like to think they will take over his company, but he is preparing for an alternative.

Smith recently hired a new COO as “a bridge” to his children and is looking to hire outside his family in part to make the company a more attractive target in eight to 10 years.

If Smith's children do take over Valley Proteins, he said he'd like to put some capital behind them to see if they can take the company into new verticals. He's considered getting into waste hauling and carbohydrates recycling but isn’t terribly interested at his age.

If the company is going to be sold, Smith said he will likely be the one to sell it. He's not interested in an IPO.

Valley Proteins uses Troutman Sanders law firm via offices in Richmond, Virginia.

By Onofrio Castiglia in Charlottesville, Virginia

Grade: Confirmed

BIDDERS

Valley Proteins, Inc.

Financial advisor

TM Capital Corp

Lawyer

Troutman Sanders

OTHERS

Darling Ingredients Inc.

Baker Commodities

Sanimax (rendering, grease collection and trap servicing business)

Countries

USA

States

Florida (FL)
Georgia (GA)
Illinois (IL)
Maryland (MD)
New Jersey (NJ)
New Mexico (NM)
North Carolina (NC)
Pennsylvania (PA)
South Carolina (SC)
Tennessee (TN)
Texas (TX)
Virginia (VA)
West Coast Reduction Ltd.
Central Bi-Products
3D Corporate Solutions, LLC
Private Equity House
Olympus Partners

TARGET
Valley Proteins, Inc.

West Virginia (WV)

Sectors
Chemicals and materials
Industrial products and services
Manufacturing (other)

Sub-Sectors
Agrochemicals
Food additives/ ingredients
Industrial Services
Industrial equipment and machinery
Pollution and recycling related

Topics
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Companies for sale
Family Owned/Closely Held
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