



Food & Beverage State of the Market

Fall 2024



Food & Beverage State of the Market: Fall 2024

As we move into the back half of 2024, the *TM Capital Food & Beverage State of the Market* summarizes the key themes from recent discussions and public earnings calls. After several years of extraordinarily high price-driven growth, consumers are feeling the pressure on their wallets and F&B brands and manufacturers are getting more creative about ways to deliver value and differentiated products that meet evolving consumer needs.

This quarter, public F&B company executives highlighted:

- **High prices continue to influence where consumers eat and what they buy**
- **Consumers are shifting channels to seek value**
- **Premium and value-oriented products are capturing most of the growth, while the middle is squeezed**
- **Cautious optimism for a return to volume growth**
- **Increasing M&A appetite, particularly in the better-for-you segment**

In this edition, we highlight current market perspectives from key food industry leaders, including:




Ramon Laguarta
CEO & Chairman
PepsiCo




Wendy Davidson
President & CEO
Hain Celestial Group




Brendan Foley
CEO & President
McCormick & Co.




Steve Cahillane
Chairman, President & CEO
Kellanova

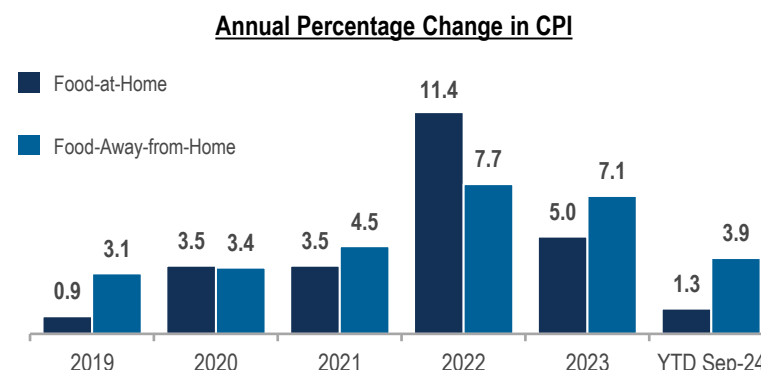
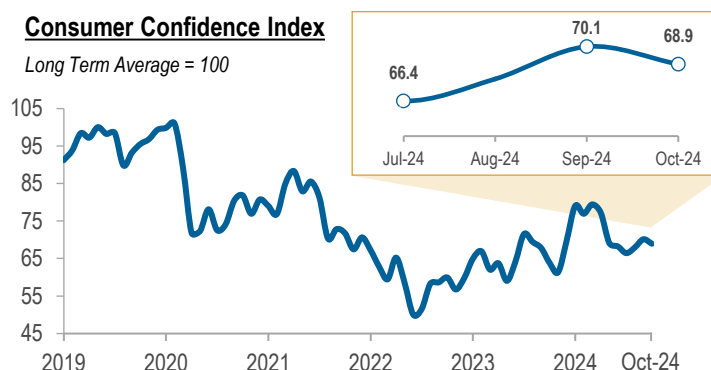
As the industry navigates these dynamics, companies are focused on balancing price pressures with innovation to stay competitive. Looking ahead, the combination of consumer shifts and a drive for F&B brands to offer differentiated products while also providing value to consumers will likely shape the next phase of growth and consolidation in the F&B sector.

Consumers Navigate High Prices with Value-Driven Choices

While signs of economic recovery are emerging—such as easing inflation expectations and the first interest rate cut in four years—consumers are still feeling the strain of high prices. In October, the consumer confidence index dropped by 1.7%, interrupting a two-month streak of gains. However, the index remains 8.0% higher than the same time last year, reflecting a cautious but improving outlook. While grocery prices are up over 30% compared to 2019, food-at-home inflation has moderated to 1.3% over the last 12 months, whereas food-away-from-home inflation remains elevated, up 3.9% over the same period.

Executives across the industry are seeing this play out with consumers seeking value and opting to eat at home more often. General Mills' CEO Jeff Harmening shared, ***"In the U.S., we've begun to see consumers shift a bit more to at-home food occasions as a way to economize since the meal away-from-home costs more than 4x as much as a meal-at-home on average."*** Flowers Foods CEO Ryals McMullian backed up this observation, noting, ***"Away from home, as you've heard from a lot of the big QSR operators is under pressure given all the inflation. That's somewhat benefiting branded retail because it's shifted [consumers] back into in-home eating."*** While overall foodservice traffic trends have continued to be weak, there are areas within the foodservice industry seeing positive momentum. General Mills noted growth in away-from-home markets like K-12 schools, healthcare, and colleges, where consumer traffic has been on the rise.

Nielsen's recent *Mid-Year Consumer Outlook* study highlighted that consumers are being more intentional with their shopping and entertainment spend and looking for ways to cut back, with 43% of consumers indicating they plan to spend more time at home and 38% planning to spend less on out-of-home dining.



Food & Beverage State of the Market: Fall 2024

Consumers are also changing how they shop. McCormick & Company CEO, Brendan Foley, noted, “[Consumers] are exhibiting value-seeking behavior, making more frequent trips to the grocery store with smaller baskets and shopping just for what they need. They are also focused on reducing waste and stretching their budgets.”

The consumer tradeoffs have been a tailwind for certain F&B categories. As consumers rationalize F&B spend and continue to cook more at home, fresh produce, refrigerated, and deli sections are thriving. This behavior has also increased demand for ingredients, like spices and extracts, which have become the fastest-growing center aisle category.

Channel Shift to Value

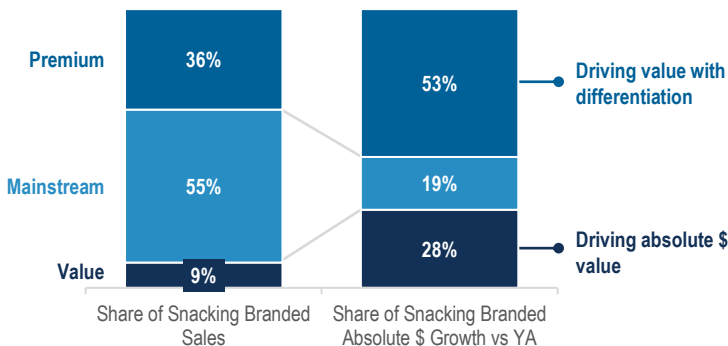
Though higher-income consumers have weathered recent challenges better, it’s not just low-income households feeling the pinch. As Pepsico CEO, Ramon Laguarta, noted, “Everything is impacted by affordability even for medium-income consumers or medium high-income consumers.” Consequently, consumers are shifting where they shop, moving some of their spend from traditional grocery stores to value-oriented channels like mass, club, and dollar stores. Flowers Foods CEO, Ryals McMullian, commented, “We’re seeing the channel shift, and we’ve been calling that out for several quarters now from grocery to mass, club, and dollar. And that’s kind of across income spectrums, too.”

This spending shift has benefited brands with diverse channel exposure and strong distribution in mass-market, club, and dollar channels. Flowers Foods management remarked, “To maximize the value of their spending, consumers have shifted more of their purchases to food at-home and specifically to value channels like mass and club stores, areas where we have a strong presence.” Other brands are responding to this shift by expanding their presence in these channels to capture the growth. Kraft Heinz CEO, Carlos Abrams-Riviera, explained, “It’s no accident that we have increased our distribution in our Dollar General stores by 13% and we have increased our distribution in club stores by 10%, and that we continue to make sure we have the right formats.”

On the flip side, brands with more concentration in the grocery and convenience channels, haven’t fared as well. Hershey CEO, Michele Buck, noted, “Hershey was particularly impacted given our strength in the convenience channel, which saw a notable slowdown in the quarter.” Similarly, Hain CEO, Wendy Davidson, mentioned, “We did see value-seeking behavior in terms of where [consumers] shop. And that is where I think Hain has historically been challenged because we weren’t really distributed across the marketplace.”

At the same time, travel and leisure channels are also seeing an uptick, which has created high growth revenue streams for the brands that sell into these channels. Kraft Heinz management pointed out, “The 10 biggest days of travel ever happened in 2024. People are actually traveling and spending money in different ways than they have in the past. Consumers are very much focused on value and cash flow, but also making choices about how they spend their money by doing more traveling and going to different locations. And for us, it’s important that we also think about our away-from-home business, so we have now expanded to be more in travel and leisure, to hotels.” Expanding into these new channels allows brands to meet consumers wherever they are shopping.

Premium & Value Snacks Capture Majority of the Growth

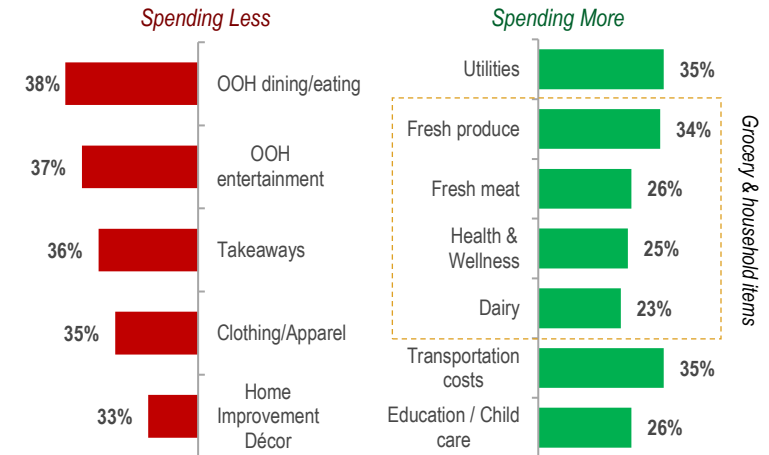


Mainstream Brands Feel the Squeeze

Consumers across the income spectrum are focused on value, but at the same time they are also prioritizing premium products. Flowers Foods management highlighted this trend: “The bottom end of the category is doing very well. The top end of the category, Dave’s, Canyon, etc., is doing very well; the middle, Nature’s Own, our largest brand is the area where it’s getting squeezed a little bit.”

This dynamic has resulted in a greater proportion of the category growth driven by premium and value brands, at the expense of mainstream brands. For example, in the snacking market, premium snacks represent 36% of sales and over half of category growth over the last year; value snacks, though only 9% of sales, contributed to 28% of growth. Campbell’s CEO, Mark Clouse, elaborated on this trend: “The snacking industry is experiencing temporary headwinds following years of significant growth. The pace of normalization is being impacted by financial strain, especially in the middle- and lower-income households. We see a clear bifurcation of consumer behavior with continued growth in premium segments and increased trade down to the value options.”

Consumer Tradeoffs



Food & Beverage State of the Market: Fall 2024

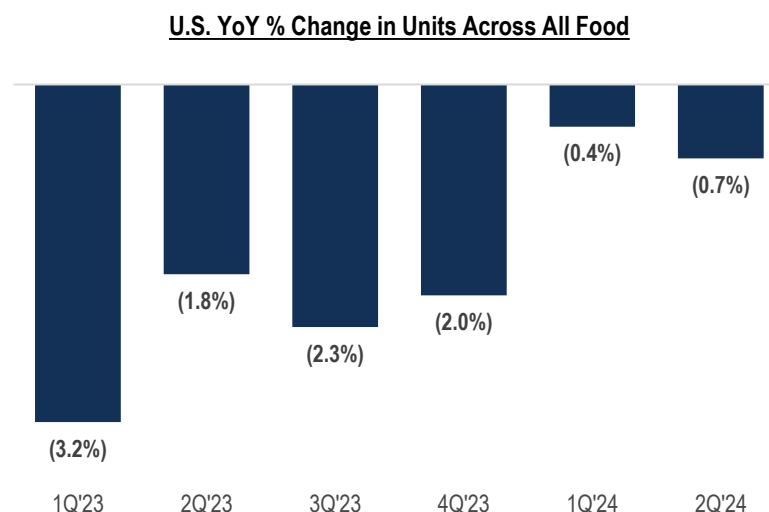
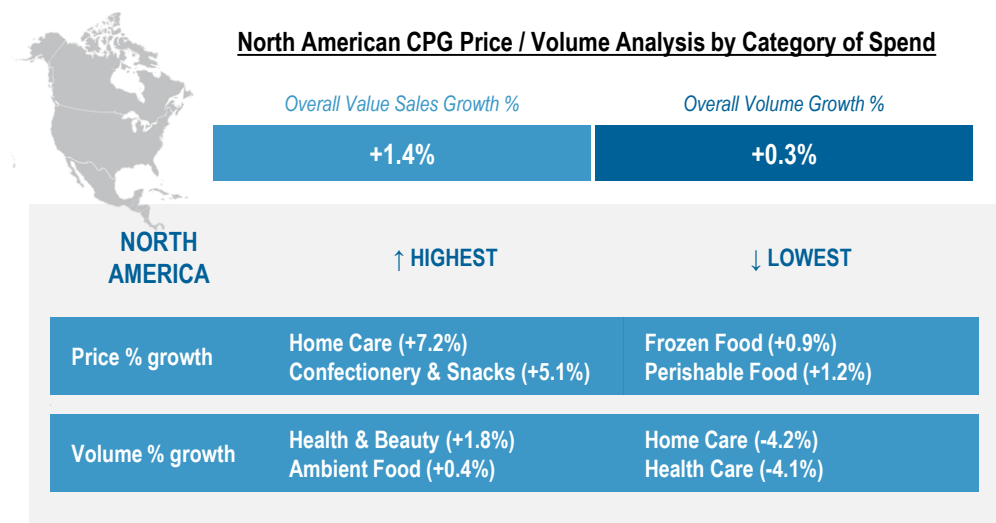
The demand for premium, differentiated products extends beyond high-income consumers. Mondelez and Kellanova both observed that lower-income consumers are increasingly focused on managing the total basket price rather than seeking the best price for individual items. Interestingly, in some instances these consumers are allocating a portion of their budget to premium, differentiated products, even if it means buying fewer items overall. A prime example is the premium bread brand, Dave’s Killer Bread, where the brand’s fastest-growing income segment is low-income households, illustrating that the desire for quality and differentiation cuts across income levels.

Brands are responding to this shift by innovating and adapting their portfolios to align with consumer trends and capture growth at the premium end of the market. Several F&B brands noted a focus on key trends, such as the continued rise of better-for-you options, Gen Z’s preference for unstructured “mini meals,” and the growing demand for multicultural foods. By addressing these changing consumer needs, brands can create differentiated products that command a premium price.

To address consumer demand for value, many brands are optimizing price pack architecture to offer consumers compelling value per unit or more accessible entry price points. McCormick & Company CEO, Brendan Foley, noted, **“From a value perspective, we are seeing several trends. Demand for larger sizes remains elevated. At the same time, there is increased demand for small or trial sizes, as well as onetime use recipe mixes, highlighting that flavor exploration remains important to consumers and our plans need to match that demand with the right product offering.”** Similarly, Hershey management commented, **“In terms of levers, we’ve talked about in the past, but [price pack architecture] is a big one. We want to make sure that we are bringing value to consumers where they are.”** Kellanova CEO, Steve Cahillane, also noted, **“We’ve been investing in the capability to have more pack sizes to hit different price points,”** he continued, **“And as the consumer is so strained, it’s become heightened in terms of making sure that you hit those right price points, particularly with consumers under \$100,000 in household income with kids, which is where we’re seeing the price sensitivity.”** Brands across the price point spectrum that are agile in adjusting pack sizes and price points will be better positioned to compete for consumers’ total basket dollars.

Slow and Steady Volume Recovery

After a couple of years of exceptional price-driven growth, it’s no surprise that F&B executives expect future growth to come from volume recovery as we approach 2025. The overall CPG category volume growth inflected positive in the first half of the year, however price still accounted for most of the sales growth – with the confectionery and snacks category experiencing the highest growth from price at 5.1%. Food category volume growth has followed a similar trend, with volume declines tapering off the last couple quarters. While some brands are already experiencing healthy volume growth, most executives have a modest outlook for near-term volume growth, given the slower-than-expected consumer recovery. Mondelez CEO, Dirk Van de Put, observed, **“We’re seeing slight volume growth at the moment, nothing to get too excited about. But from negative volume growth, now it’s flat to slightly positive.”**



Food & Beverage State of the Market: Fall 2024

M&A Activity Picks Up


F&B deal flow has been rebounding over the past year, with year-to-date deal volume in North America up more than 6% through September. As the M&A market gains momentum, brands are targeting acquisitions that align their portfolios with current consumer trends, especially in the better-for-you segment. Many F&B executives have signaled M&A as a top priority in better-for-you categories. Flowers Foods CEO Ryals McMullian recently commented, **“We are seeking compelling brands that complement our existing portfolio and skew towards a better-for-you nutritional profile.”** Several recent deals reflect this shift toward health-conscious offerings. In August, Saco Foods, supported by Fengate Private Equity and Weathervane Investment Corp, acquired Quinoa Corporation — a plant-based food manufacturer with brands like Ancient Harvest and Pamela’s — from Encore Consumer Capital. Mars also announced a major acquisition, entering a definitive agreement to purchase Kellanova, the global snacking division spun off from Kellogg’s in 2023, for \$35.9 billion (16.4x EBITDA). This acquisition broadens Mars’ snacking platform with brands such as RX Bar and NutriGrain. Kellanova CEO Steve Cahillane noted that the deal will allow Mars to “accelerate innovation to meet evolving consumer tastes and preferences, investing locally to expand reach and introducing more better-for-you nutrition options.” In October, Pepsico followed suit, announcing a pending acquisition of Siete Foods, a better-for-you Mexican American food brand, for \$1.2 billion (2.4x revenue).

Other areas of M&A focus include multicultural foods, exemplified by Rotunda’s acquisition of Latin American food brand Mama Lycha and the Pepsico/Siete deal, and brands supporting at-home cooking, such as Platinum Equity’s acquisition of Fratelli Polli, a producer of pasta condiments and vegetable preserves. With major brands reshaping portfolios to align with consumer demand, the food and beverage M&A market is poised for further growth in the coming year.


Market Outlook

The food and beverage sector is entering a period of cautious optimism as brands and manufacturers adjust to shifting consumer behaviors and economic pressures. While price sensitivity remains a challenge for many households, the industry is responding with innovation, premium offerings, and value-driven strategies to meet changing consumer demands. As brands work to balance affordability with differentiation, alongside an active M&A landscape and early signs of consumer rebound, the outlook for volume recovery and sustained growth appears promising.

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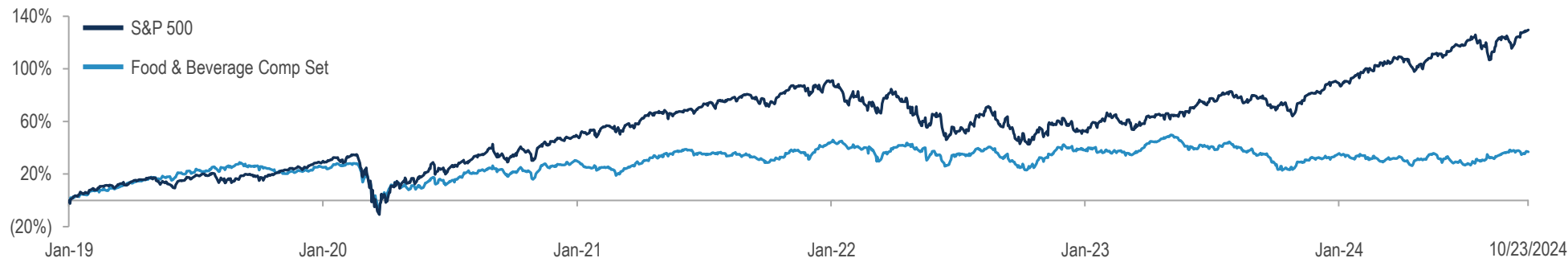


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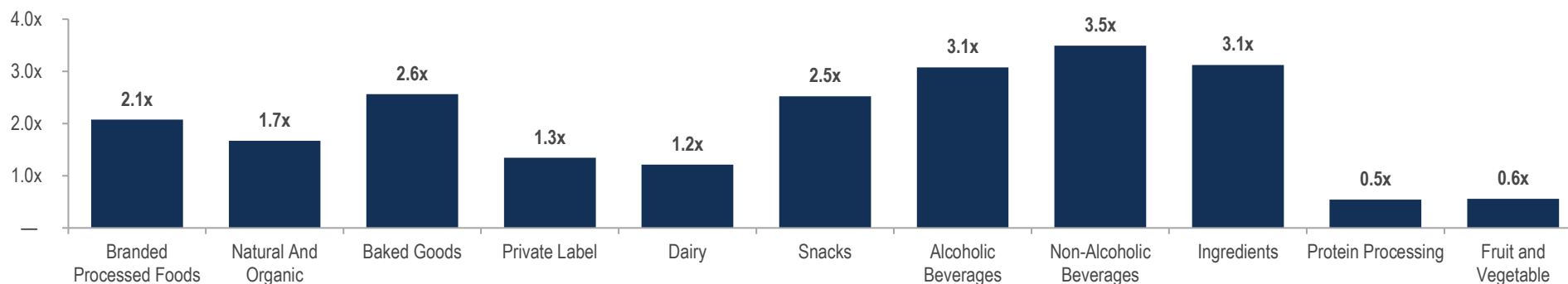


Market Valuations – Stock Price & Multiples

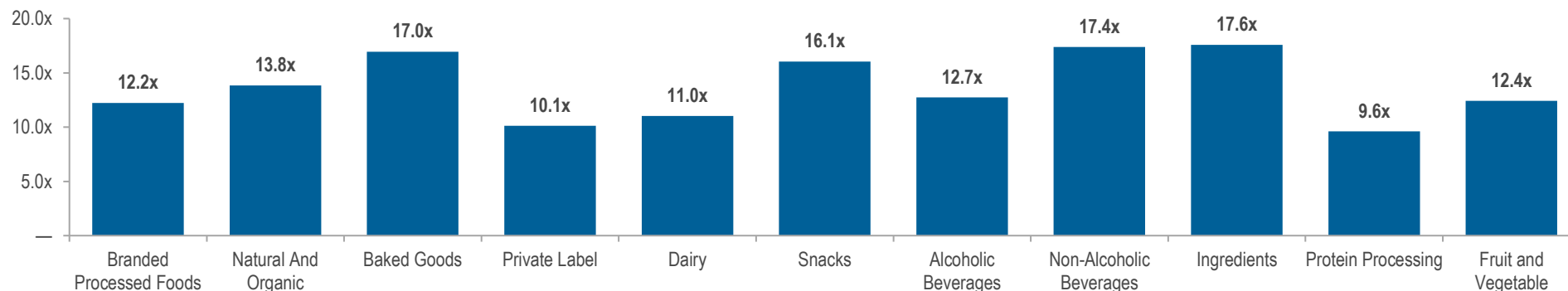
Stock Price Performance (2019 – 10/23/2024)



EV/Revenue Multiples

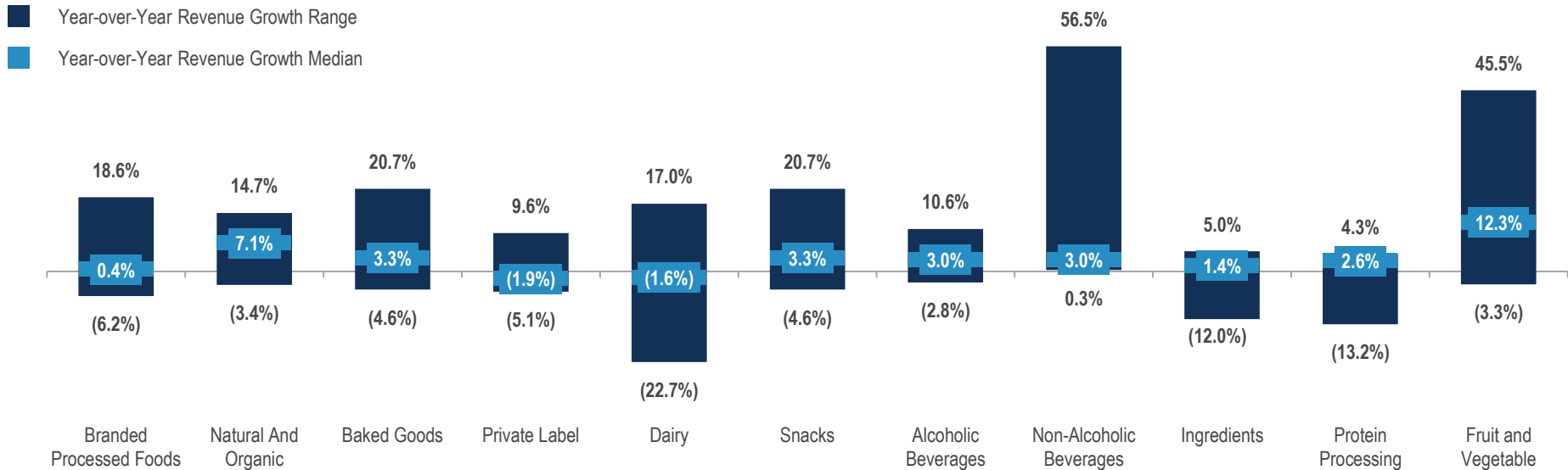


EV/EBITDA Multiples

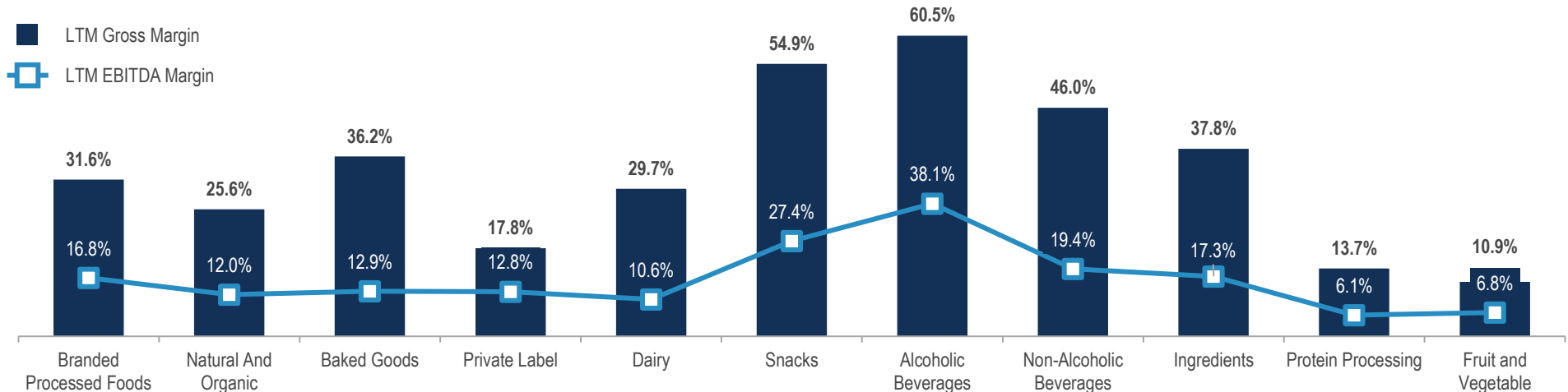


Category Growth & Margins

LTM Revenue Growth (Range and Median)



LTM Gross Margin and EBITDA Margin



TM Capital Food & Beverage Team

TM Capital's Food and Beverage investment banking group has completed many of the marquee transactions across the branded, private-label, ingredient, retail and restaurant landscape. Please feel free to reach out to our leadership team:



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Selected Transactions




A PORTFOLIO COMPANY OF
B·C·P
Benford Capital Partners
HAS BEEN ACQUIRED BY
FENGATE

The undersigned served as financial advisor to Tate's Bake Shop, Inc. in connection with this transaction.

A PORTFOLIO COMPANY OF
encore
A PORTFOLIO COMPANY OF
SECOND NATURE BRANDS
A PORTFOLIO COMPANY OF
CAPVEST

The undersigned served as financial advisor to the Company in connection with this transaction.




ENGELMAN'S
BAKERY


HAS BEEN ACQUIRED BY





The undersigned served as financial advisor to The Engelman's Bakery in connection with this transaction.


HAS BEEN ACQUIRED BY





The undersigned served as a financial advisor to Tate's Bake Shop in connection with this transaction.


HAS SOLD A DIVISION TO





The undersigned served as financial advisor to Hostess Brands, Inc. in connection with this transaction.


HAS BEEN ACQUIRED BY




The undersigned served as financial advisor to Superior Cake Products, Inc. in connection with this transaction.

HAS COMPLETED A RECAPITALIZATION WITH



The undersigned served as financial advisor to Tate's Bake Shop, Inc. in connection with this transaction.




HAS SOLD AN INTERNATIONAL DIVISION TO


Baristas Del Caribe, LLC
an affiliate of
Empresas Fonalledas Inc.

The undersigned served as financial advisor to Starbucks Corporation in connection with this transaction.



V&S



HAS SOLD



TO




The undersigned served as financial advisor to V&S Group in connection with this transaction.


HAS BEEN ACQUIRED BY

BUNKER HILL CAPITAL

AND



The undersigned served as financial advisor to The Smith & Wollensky Restaurant Group, Inc. in connection with this transaction.




HAS ACQUIRED



A DIVISION OF


SENSIENT

The undersigned served as financial advisor to Lesaffre et Compagnie in connection with this transaction.



RTM
RESTAURANT GROUP


A SUBSIDIARY OF



HAS ACQUIRED

TRIARC

The undersigned served as financial advisor to Core Services Corporation in connection with this transaction.



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