



Food & Beverage State of the Market

Winter 2025



Food & Beverage State of the Market: Winter 2025

As we enter 2025, the *TM Capital Food & Beverage State of the Market* summarizes the key themes from recent discussions and public company earnings calls. The food and beverage (F&B) industry continues to grapple with slower-than-expected consumer recovery, prolonged value-seeking behaviors, and evolving shopping and consumption patterns. Despite these challenges, brands are finding opportunities to adapt through innovation, pricing strategies, targeted marketing and promotional tactics and channel diversification.

This quarter, public F&B company executives highlighted:

- **Slower-than-Expected Consumer Recovery**
- **Better-for-you Tailwinds Set to Accelerate in 2025**
- **Prolonged Value-Seeking Behavior**
- **Private Label Brands Continue to Evolve and Gain Ground**

As the F&B industry navigates these shifting dynamics, resilience and adaptability have become critical for sustained growth. In 2025, we expect brands and manufacturers will focus on new ways to deliver both differentiation and value to consumers, while also seeking ways to mitigate potential tariff and regulatory risks that loom on the horizon.

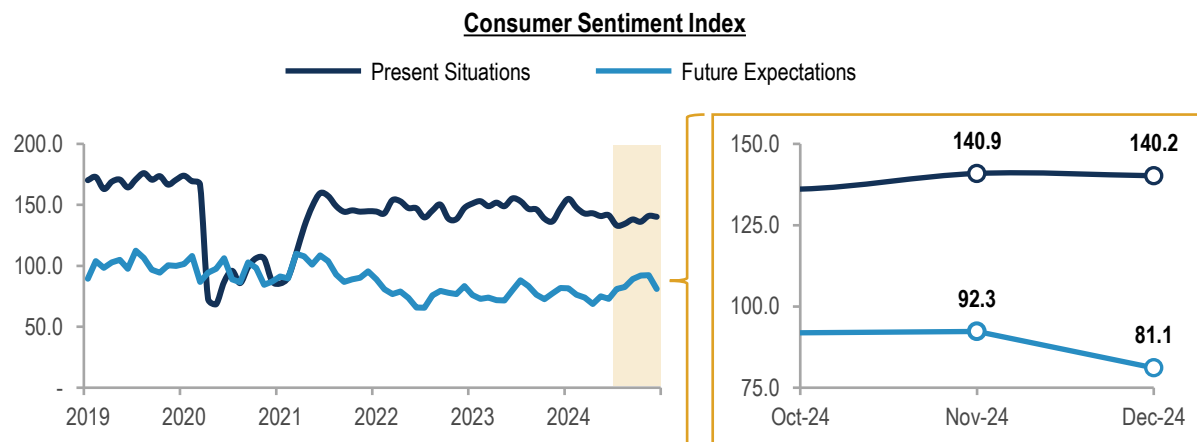
In this edition, we highlight current market perspectives from key food industry leaders, including:

 Casey Keller CEO B&G Foods	 Sean Connolly CEO ConAgra Brands	 Michele Buck CEO & Chairman The Hershey Company	 George Paleologou CEO Premium Brands
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A Slower-than-Expected Recovery

Throughout 2024, consumer purchasing patterns remained subdued, challenging the optimistic outlook many companies held at the start of the year. B&G Foods CEO, Casey Keller, remarked, **“We have not seen much improvement relative to the first half, with consumers adjusting their purchasing patterns in the wake of high food inflation.”** Consumer adjustments included trading down, reducing pantry stock, and opting for smaller pack sizes to manage expenses. While there were pockets of growth in certain categories, many brands did not experience the anticipated rebound as the year progressed. Flowers Foods CEO, Ryals McMullian, noted, **“Shifting consumer spending patterns have led to headwinds in fresh packaged breads. As a result, category sales declined in both units and dollars. The encouraging volume trends we noted last quarter did not persist.”** An additional factor contributing to the sluggish recovery in the most recent quarter was some retailer de-stocking, with major chains reducing warehouse and shelf inventory in some categories.

Consumer confidence also took a hit. Following a rebound in October and November, the December Consumer Confidence Index dipped down 5.4% over last year. This decline was primarily driven by consumer expectations for the future. While the Present Situations Index, which reflects consumer assessment of the current business and labor market conditions, was only down slightly, the Expectations Index, which measure consumers' short-term outlook for income, business and labor market conditions, was down more significantly to 81.1, just above the 80.0 threshold that typically signals recession. Despite the fragile state of the consumer, executives are still erring on the side of optimism regarding the 2025 outlook. The CEO Confidence declined from 52 in November to 51 in December, but remains above 50, which indicates more optimism than pessimism overall.



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Better-for-you Tailwinds Set to Accelerate in 2025

Global food and beverage sales rose 2.6% in 2024, fueled by 1.6% price/mix growth and 1.1% volume growth. While price/mix growth fell below historical averages and overall retail volumes returned to growth territory, the pace of recovery did not meet the expectations of many F&B executives. But all categories were not created equal in 2024, and the better-for-you (BFY) segment was a standout, reflecting consumers' growing focus on healthier choices. Natural products saw accelerated growth in dollars and units, driving material outperformance vs. conventional products across all channels.

The regulatory environment in 2025 is poised to drive further growth in the natural and BFY segments. The U.S. Food and Drug Administration (FDA) recently announced a ban on Red Dye No. 3 in foods, dietary supplements and oral medications, citing its links to cancer in animal studies. This move signals a broader shift toward greater scrutiny of food additives and transparency in labeling. With these changes gaining momentum, manufacturers will face increasing pressure to reformulate products and reconfigure supply chains to meet regulatory requirements and consumer demand.

October 1, 2024

FDA's Human Foods Program in effect, emphasizing modernized food safety, nutrition and transparency

December 19, 2024

FDA Updates "Healthy" Claim, Providing a Refreshed Tool for Consumers

January 14, 2025

FDA Proposes Requiring At-a-Glance Nutrition Information on the Front of Packaged Foods

November 14, 2024

RFK's promise to 'Make America Healthy Again'

January 6, 2025

FDA Releases Allergen, Food Safety, and Plant-Based Alternative Labeling Guidances

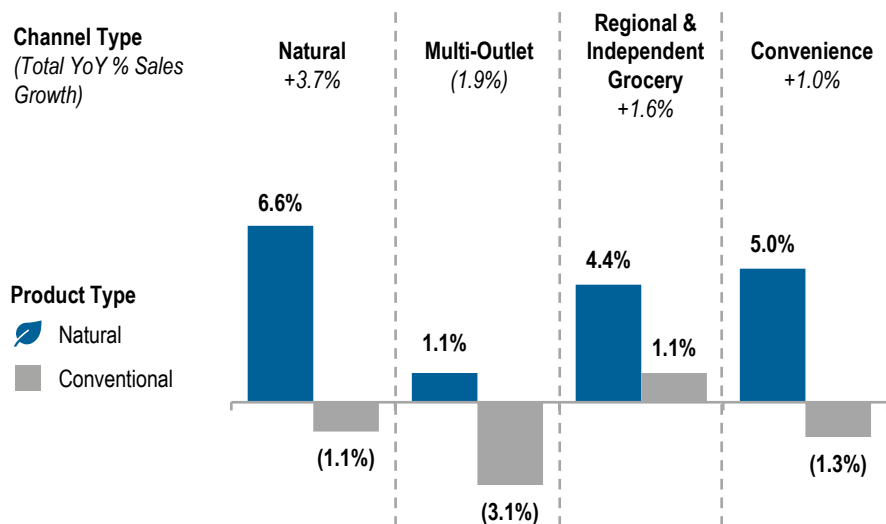
January 17, 2025

FDA bans red dye No. 3 over link to cancer in rats

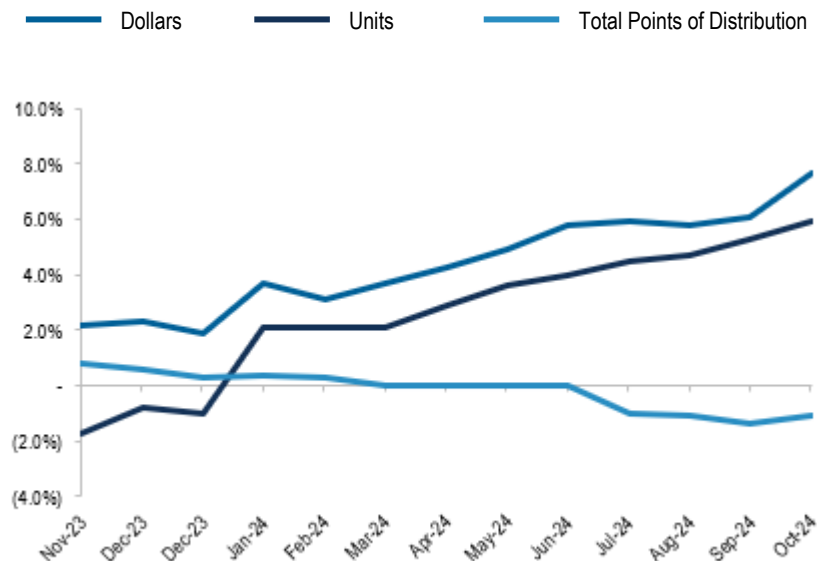
Food and beverage manufacturers must reformulate thousands of products, including candy and cereal, that use the petroleum-based coloring by Jan. 15, 2027.

Better-for-You Category Significantly Outperforms vs. Conventional

(YoY Sales Growth as of Oct-24)



Natural Product Sales Growth Accelerated Throughout 2024



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Prolonged Value-Seeking Behavior

The economic environment in 2024 led consumer value-seeking behavior to persist longer than anticipated, with nearly 87% of consumers altering their shopping habits to manage expenses. Shopping trips increased 8% year-over-year, but basket sizes shrank by -11%, reflecting a shift toward more frequent but smaller purchases. These trips also represented 2.1% more items from the perimeter of the store (e.g. deli, produce, prepared meals), which benefitted from continued growth in at-home cooking.

At-home consumption remains a dominant trend, with 86% of total eating occasions now occurring at home. Rising restaurant prices—estimated to be four times higher than eating at home—are a key driver of this behavior. Google searches for copycat recipes of the top 200 restaurant chains reached 18 million in 2024, a 9% year-over-year increase, further underscoring the growing appeal of home-cooked alternatives. Categories supporting at-home cooking, such as spices, fresh produce, and proteins, have benefited significantly. Flowers Foods CEO, Ryals McMullian, noted, **“Meal preparation ingredients like protein, spices, and oils have shown particular strength.”**

Consumers across income levels continue to migrate toward value-oriented channels at the expense of the grocery, convenience and drug channels. Budget-conscious consumers are gravitating toward the dollar and mass channels. Simultaneously, higher-income consumers remain committed to premium and super-premium products but are now shopping in more diverse channels. Hain Celestial CEO Wendy Davidson observed, **“Traffic in the convenience and drugstore [channels] is shifting to mass and club, where people are buying premium items in bulk or larger quantities.”**

This prolonged focus on value has forced brands to rethink how to create value – and how to communicate that value – to consumers, and meet consumers wherever they are shopping. Kraft Heinz CEO, Carlos Abrams-Rivera, emphasized, **“We know the right way for us to continue to build our brands is by driving superior products with better marketing and ensuring full value formats for all consumers, which is why we have continued to drive innovation in our products while we continue to focus on expanding our club, dollar and omnichannel distribution.”** Some brands are reframing their value propositions and price positioning relative to a restaurant meal or DoorDash order. Campbell’s started marketing its Rao’s premium pasta sauces as an affordable alternative to Italian takeout, while Kraft Heinz is leveraging the Taco Bell brand to help consumers recreate restaurant favorites at home. Campbell’s CEO, Mark Clouse, said, **“One area that continues to fuel incremental growth is the strong value and quality comparison between Rao’s and mainstream Italian takeout. This position allows Rao’s to source volume from a far bigger addressable market and a broader range of consumer income levels.”** This reframing of the value proposition relative to a meal away-from-home has broadened the target market for a premium brand like Rao’s. Clouse continued, **“I think what we’re seeing in Rao’s that is so encouraging is a fair amount of this growth that we’re experiencing is coming from middle and lower middle-income households.”**

Brands have also responded to the focus on value with increased promotional activity. Conagra CEO, Sean Connolly, remarked, **“Across the industry, manufacturers are deploying a similar playbook to address the [consumer] challenges, increasing investments in advertising, promotions, trade initiatives, and innovation. These measures are designed to appeal to increasingly stretched consumers and drive growth, but the consumer response to these investments has varied significantly by category and by company.”** Promotional levels increased in the second half of the year, but F&B executives have generally noted that promotional activity remains rational and below pre-pandemic levels. Campbell’s CEO, Mark Clouse, noted, **“I do not see, nor do I believe we will need any type of disproportionate reduction in the price points.”** He continued, **“We know that at the end of the day, we’ve got to win [competitive] fights through the balance of equity driven by marketing, innovation and appropriate levels of promotion, but we do not intend to lose sight of the fact that we need to remain disciplined on price.”**



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Private Label Brands Continue to Evolve and Gain Ground

Private label brands outperformed the broader market in 2024, driven by consumers' focus on value. Volume growth for private brands rose by 3% compared to a 1% decline for mainstream branded products. Hershey CEO, Michele Buck, commented, *"I think the private label [trends] are driven by the consumer pressure and focus on value. And certainly, I think retailers looking to at their margins and the potential that exists there."*

Private label brands have steadily gained share in the F&B marketplace over the past two decades and are projected to account for 24% of total F&B sales by 2030. Walmart CEO, Doug McMillon, remarked, *"While private brand penetration is in the low 20s as a percent of sales, more than half of all customer grocery baskets over the last year have had a private brand in them."* Kroger's recent performance highlights the momentum of private brands. CEO, Rodney McMullen, remarked, *"Our brands had a strong quarter with sales outpacing national brands again this quarter, led by mid-single-digit growth in our most premium brand, Private Selection. Customers continue to demand premium products, but at the same time, are looking for value. Our Private Selection brand is a perfect solution by offering our customers premium quality at an attractive price."* This example highlights the dual appeal of some private label brands that resonates well in today's market: delivering both affordability and premium quality.

Beyond margin advantages, private label brands are increasingly being used by retailers to differentiate themselves and build loyalty. As McMillon further noted, *"Several years ago, we recognized an untapped opportunity for growth in these products and envisioned a future where our private label products would match or exceed the innovation, quality and recognition of national brands, which is why we coined the phrase our brands."*

In 2024, several retailers announced significant private brand launches. Albertsons introduced Overjoyed, its first private brand in many years, focused on treats, gifts and décor. The brand complements its Overjoyed Boutique line, which features giftable decorative and seasonal items. Walmart also unveiled bettergoods, its largest private food brand launch in 20 years. Bettergoods caters to consumer trends such as culinary experiences, better-for-you attributes and premium quality, while maintaining affordability - 70% of bettergoods items are priced under \$5. Unlike traditional private label brands that serve as direct alternatives to branded products, these new brands emphasize unique items that differentiate the retailer. This strategic focus on private label illustrates the evolving role these products play in the marketplace. Private brands are no longer just competing on price; retailers are using private brands to deliver innovation, quality and exclusivity that resonate with value-conscious and premium-seeking consumers alike.

Consumer Perceptions of Private Label Brands

44%

Of consumers believe store brands offer good value for money

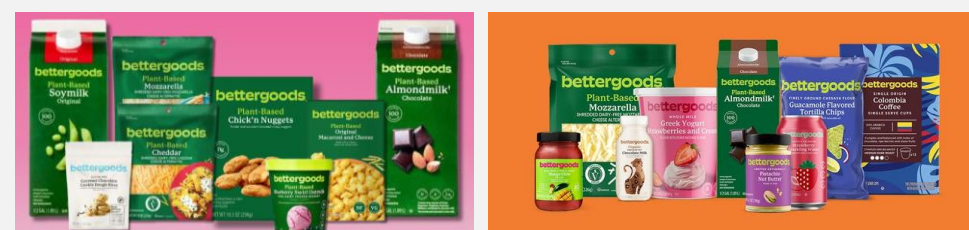
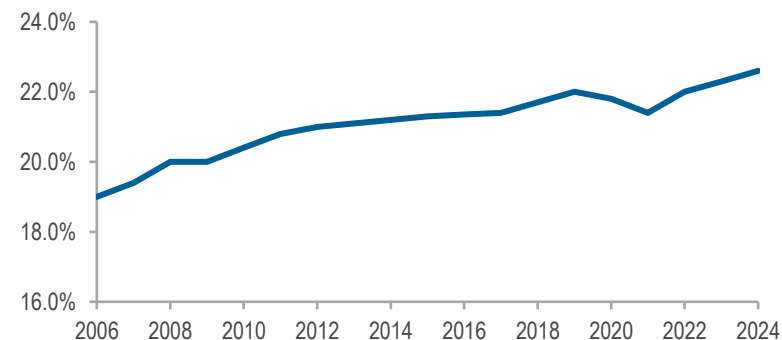
35%

Of all consumers think that store brands are equal to or higher quality than name brands

67%

Of Gen Z consumers think store brands are just as good as name brands

Private Label Brands Share of Total CPG Sales



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M&A Market Remains Active

Deal volume continues to rebound, with preliminary estimates suggesting that 2024 deal volume in the US and Canada is up ~6% over 2023. Brands and investors continue to seek brands that are in line with consumer trends and growth categories, including better-for-you, products that support or enhance at-home cooking and multi-cultural cuisines. Flowers Foods announced its acquisition of Simple Mills, a provider a premium better-for-you crackers, cookies, snack bars and baking mixes, for \$795 million. The acquisition accelerates Flowers Foods' expansion plans in the better-for-you snacking category and complements its recent organic investments Dave's Killer Bread bars and snack bites.

Private Equity firm Advent International announced its acquisition of Sauer Brands, a provider of condiments and seasonings brands, such as Duke's Mayo, Mateo's Gourmet Salsa and The Spice Hunter, that are positioned to benefit from consumers eating more meals at home. M&A activity in the multi-culture food space continues to remain active with Peak Rock-backed Ziyad Brothers acquiring Indo-European Foods, an importer and distributor of eastern Mediterranean and Middle Eastern specialty foods, and private equity firms AUA and Avance acquiring Tropical Cheese Industries, a provider of Hispanic dairy and meat products.

A new area of heightened focus for businesses and investors is the potential impact of geopolitical risks and potential tariffs on supply chains and input costs. In response, Canada-based Premium Brands recently announced the acquisition of NSP Quality Meats, Casa di Bertacchi, and Italia Salami. These businesses, specializing in cooked protein products, deli meats, and salami, also bring valuable in-house manufacturing capabilities to the table. Highlighting the strategic importance of the acquisitions, Premium Brands CEO, George Paleologou, stated, **"NSP and Casa will play major roles in supporting the continued growth of our market-leading branded cooked protein initiatives in the U.S. by providing much needed capacity and improving our access to additional key U.S. markets. In addition, these businesses will significantly enhance our Specialty Foods Group's ability to largely mitigate any potential border and tariff related risks."** The integration of these companies not only strengthens Premium Brands' U.S. footprint but also serves as a proactive measure to navigate evolving geopolitical and trade complexities.

Outlook

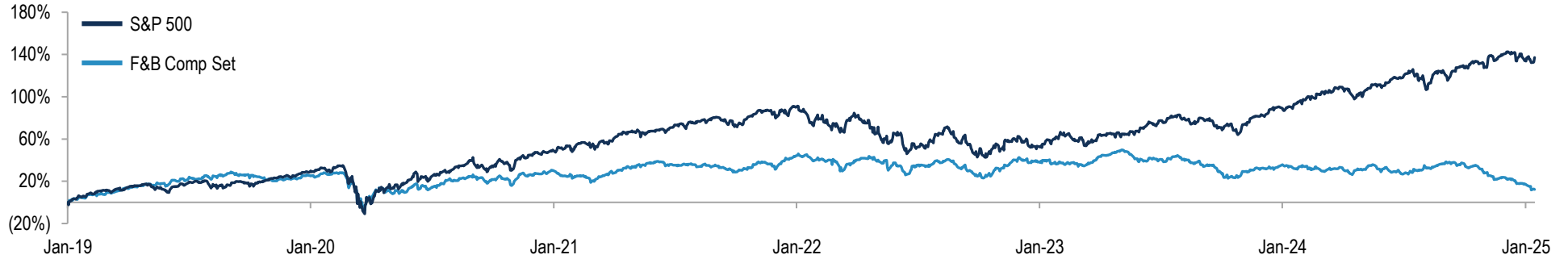
While 2024 fell short of expectations for a robust consumer recovery, the persistent focus on value, increased private label penetration, pockets of growth in certain categories and evolving shopping behaviors have underscored the need for agility and innovation. Companies that can meet consumers where they are—whether through better-for-you offerings, strategic pricing, or diversified channel strategies—will be best positioned to thrive in this dynamic environment.

Looking ahead, many executives anticipate volume recovery gaining momentum in the second half of the year as consumer confidence stabilizes and purchasing behaviors normalize. However, the recovery path remains uncertain, with geopolitical risks, input cost volatility, and evolving macroeconomic conditions presenting both challenges and opportunities. Ultimately, the brands that remain resilient and forward-thinking—those that can effectively balance affordability with differentiation and value with innovation—will define the next phase of growth in the F&B sector.

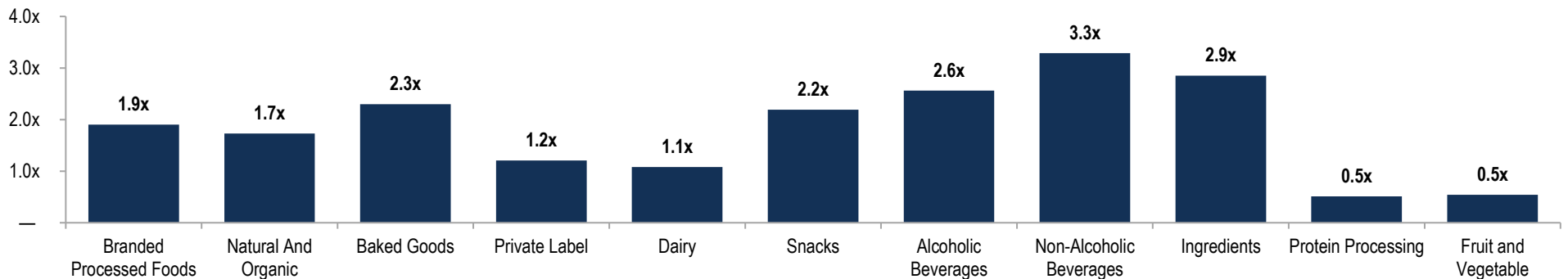


Market Valuations – Stock Price & Multiples

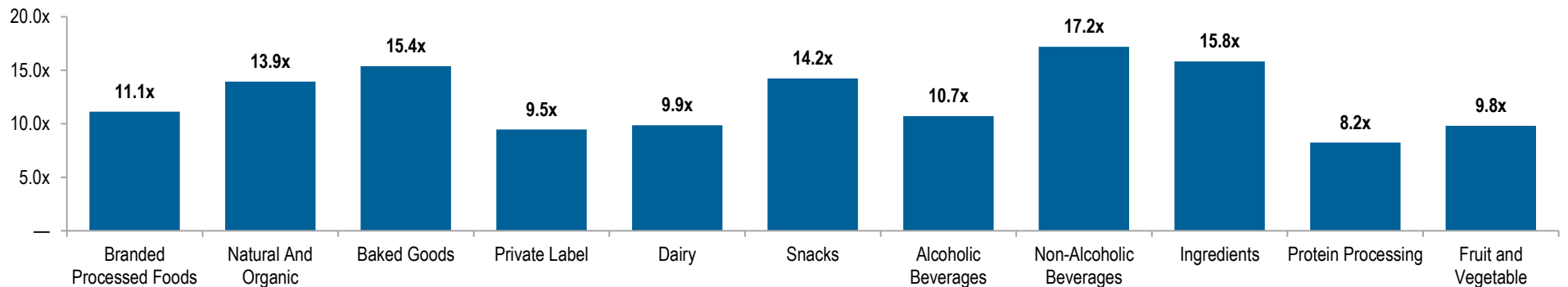
Stock Price Performance (2019 – 1/15/2025)



EV/Revenue Multiples

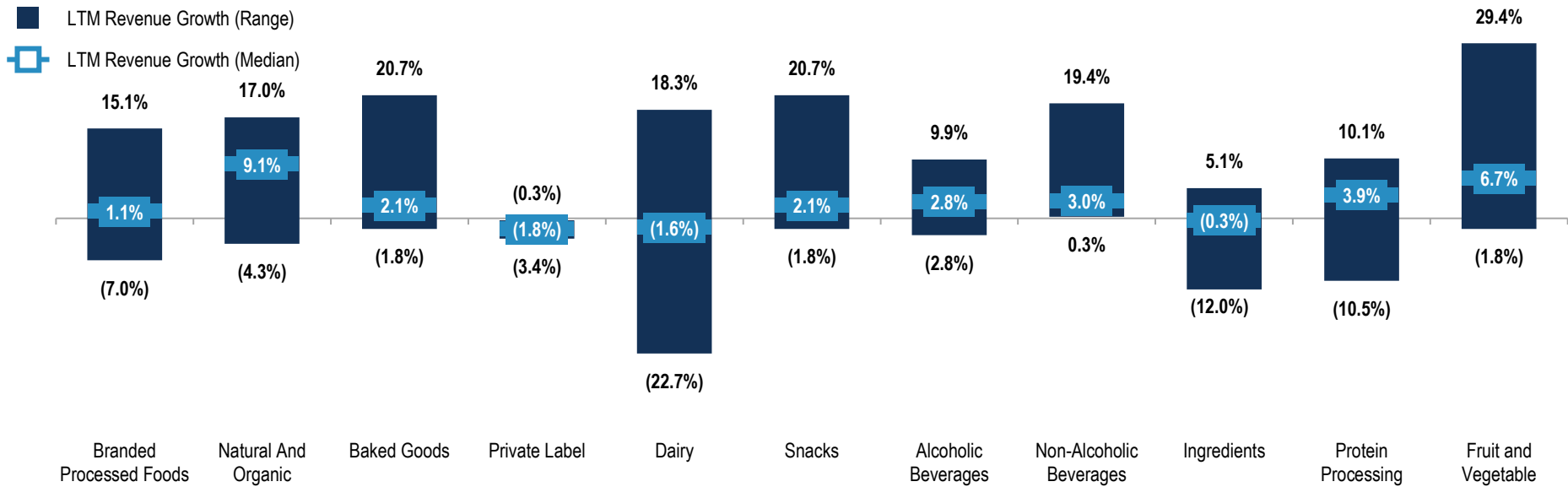


EV/EBITDA Multiples

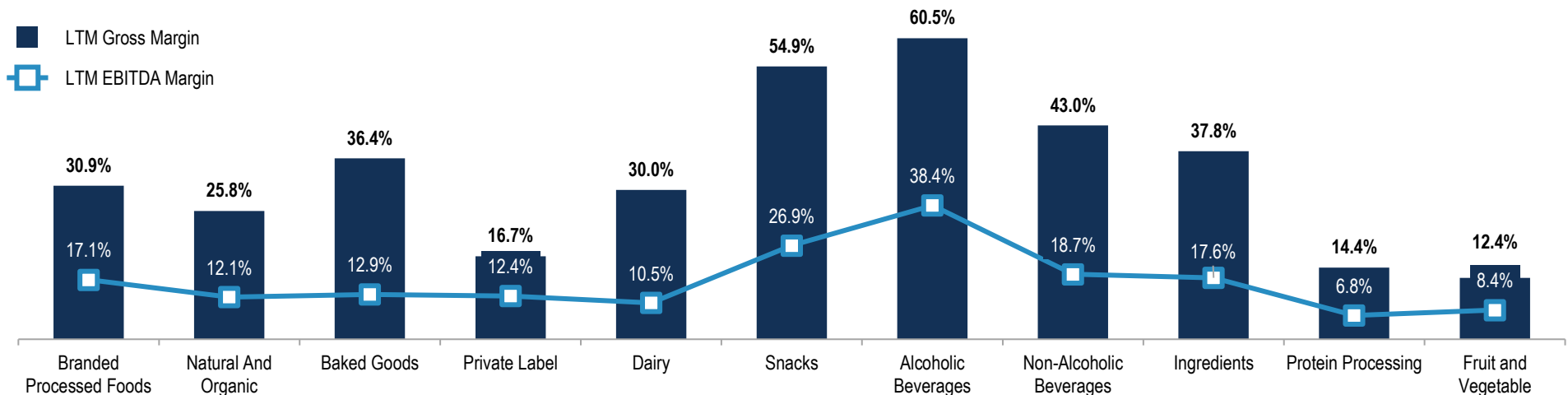


Category Growth & Margins

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 sa'co, Inc. in connection with this transaction.

A PORTFOLIO COMPANY OF
encore*
CONFECTION CO. CO.
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 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



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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