Unlocking Growth: M&A Trends in the Food & Drink Industry

Navigating the Future of Food & Drink M&A

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Speakers

Here with you today...

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Agenda

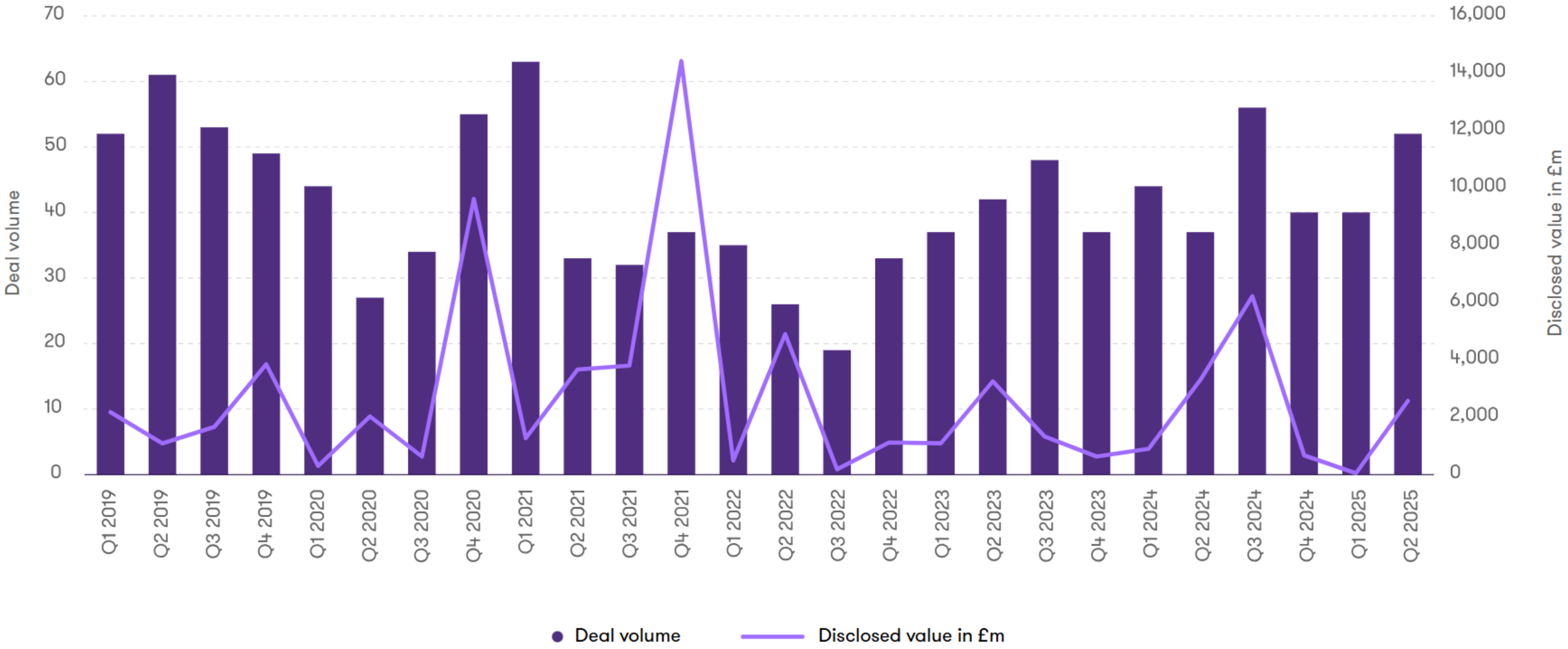
1	Key M&A trends	Doug Bentley
2	Insights into buyer and investor appetite	Doug Bentley
3	Discussion on some key deals from 2025 so far	Doug Bentley
4	Practical guidance for businesses considering a transaction – Diligence and Preparation, Tax, Operations	Jon Throup Martin Verrall Matthew Woodgate
5	Live Q&A with Grant Thornton's Deals specialists	

1 Key M&A trends

Grant Thornton

M&A trends

Positive outlook and momentum following a strong second quarter



Source: The data is an amalgamation of BvD Zephyr, Mergermarket and industry intel and the categorisations are our own.

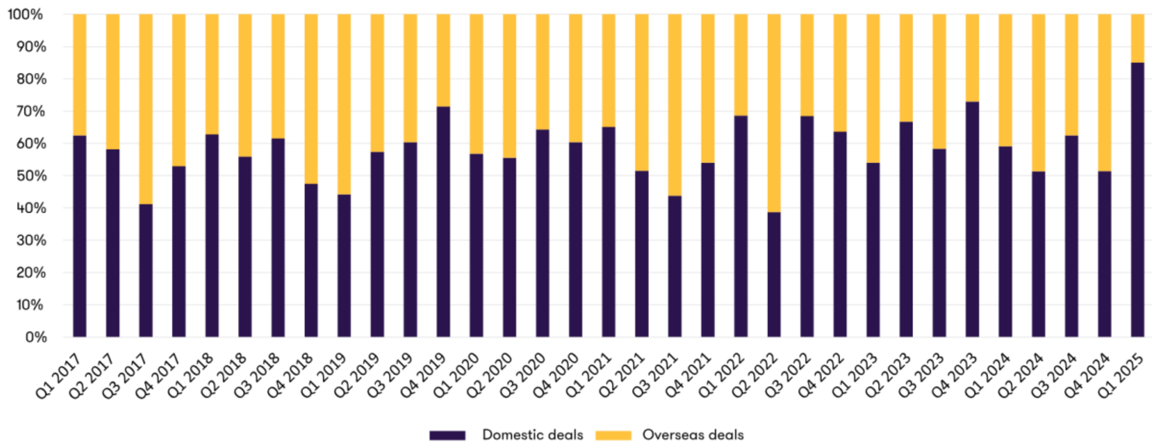
M&A trends

UK activity strongest since 2017

Summary

- Q1 2025 marked the strongest quarter for UK-to-UK domestic M&A since Grant Thornton started tracking it in Q1 2017
- Driven by:
  - ✓ PE activity, with funds and family offices still having significant capital to deploy; and
  - ✓ PE-backed trade deals

Cross border analysis of deals (quarterly)



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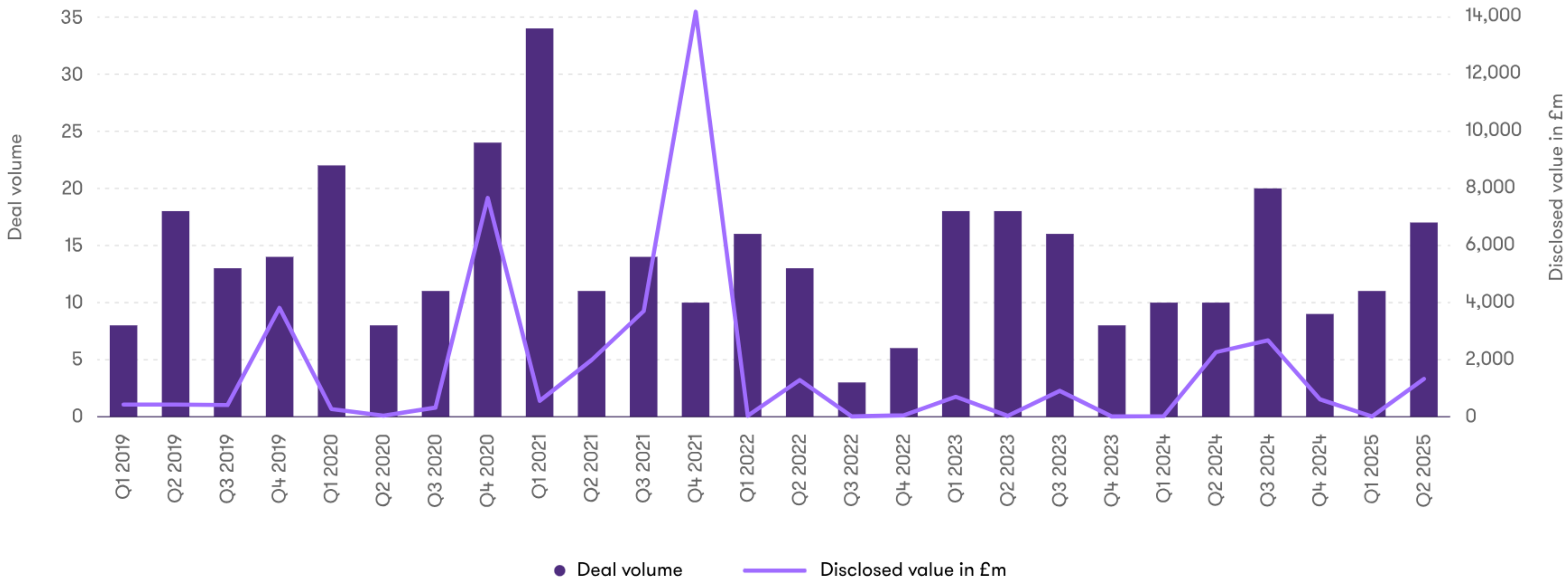
[1] Domestic deals refer exclusively to transactions between UK-based buyers and sellers, while overseas deals include both inbound (international buyers acquiring UK businesses) and outbound (UK buyers acquiring international businesses).

M&A trends

A growing appetite for F&B from Private Equity



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M&A market outlook

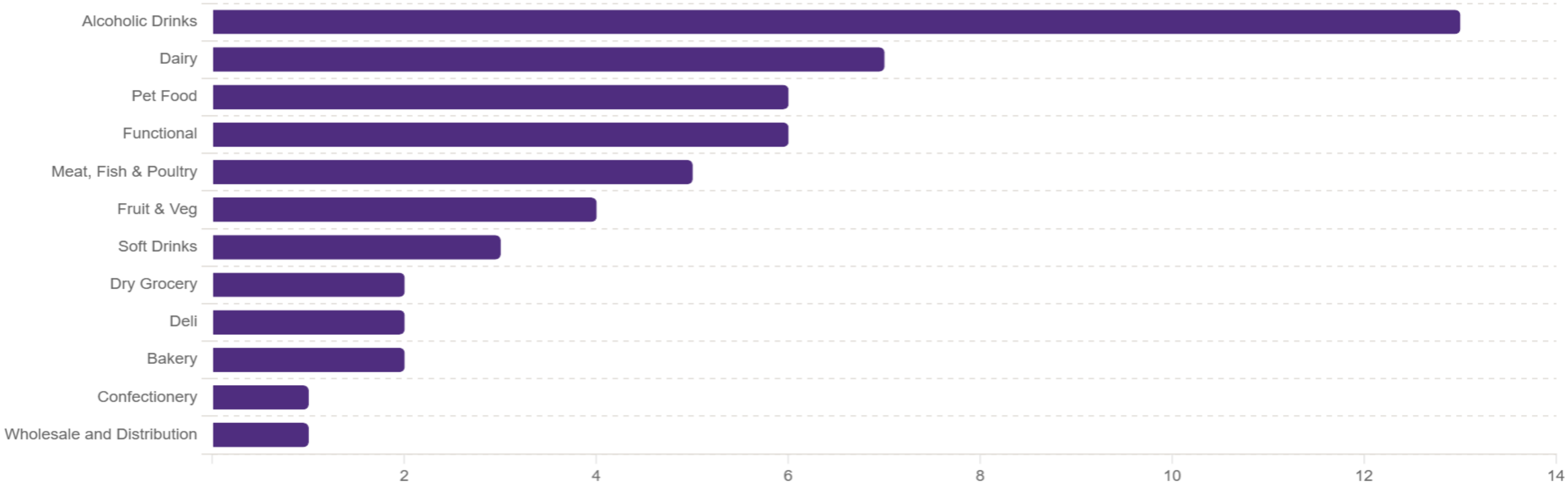
Positive outlook underpinned by activity in a variety of subsectors

Beers and ales accounted for half of the alcoholic drinks deals

Dairy continues its resurgence

The Pet Food sector continues to perform well

Functional health remains key to the consumer



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Question

Are you more or less confident in the market than 12 months ago?

a) More confident

b) Less confident

c) No change

2 Insights into buyer and investor appetite

Buyer insights and Private Equity appetite

M&A appetite has been driven by PE activity, with funds and family offices still having significant capital to deploy, and PE-backed trade deals

Private Equity has significant dry powder to deploy and remains attracted to the underlying dynamics of the F&B sector

PE-backed trade deals are a long-term trend in the fragmented UK F&B sector

Supply chain pressures and commodity prices are driving the need for consolidation

Sub sectors such as alcoholic drinks and functional health, with strong growth brands and diversification close to core activities remain strong drivers of activity

3 Discussion on some key deals from 2025 so far

Key deals

Strategic UK-centred trade deals have enabled acquirers to strengthen and diversify their brand portfolios, expand into new product categories, and enhance supply-chain capabilities

- **Carlsberg Britvic:** Danish brewer builds on UK position
- **Bakkavor Group plc:** potential combination with Greencore plc
- **Yeo Valley:** acquires The Collective
- **Muller:** German manufacturer enters into UK functional foods market
- **Premier Foods:** continuation of growth strategy

4 Practical guidance for businesses considering a transaction

Due diligence trends

Due diligence is taking longer

Data Analytics and AI

EV based on Run Rate / Pro forma EBITDA

Commercial / market due diligence

ESG due diligence

Financial due diligence focus areas and trends

Given increased buyer scrutiny on the sustainability of earnings and cashflows, robust data to support trends and EBITDA adjustments is a must for vendors

Quality / Integrity of data

- Buyers expect to see:
  - Transactional level data
  - Data cubes
  - Dashboard of KPIs
- Not always readily available / usable format
- Reconciliation issues

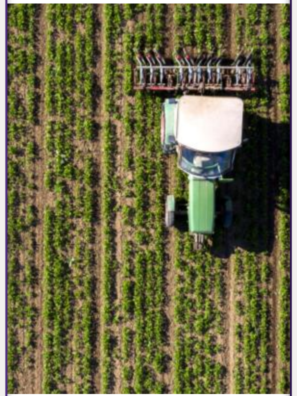
Poor quality data results in bottlenecks in due diligence process

Use of data analytics and vendor assist to prepare and present data

Underlying Profitability

- Buyers are laser focused on underlying EBITDA
- Use of pro forma / run rate EBITDA
- Aggressive adjustments in respect of:
  - Production efficiencies / inefficiencies
  - Normalisation of ingredients costs and other inflation
  - Supply chain disruption
  - Promotional spend
  - NPD

Importance of robust and credible adjustments to EBITDA



Revenue and Gross margin

- Key buyer questions include:
  - Is revenue driven by price or volume
  - Are inflationary price increases sustainable
  - Customer concentration
  - Promotional dependency
  - How often are sales prices negotiated
  - Do contracts include escalation clauses for the pass through of cost inflation

Financial due diligence focus areas and trends

Given increased buyer scrutiny on the sustainability of earnings and cashflows, robust data to support trends and EBITDA adjustments is a must for vendors

Supply chain risk

- Buyers want to see a resilient supplier base
- Deeper reviews and focus on:
  - Key supplier dependencies
  - How has commodity / ingredient price inflation and volatility been managed
  - What has been the impact of supply chain disruption and how did Management seek to mitigate

Evidencing that costs stabilising and/or Management has taken actions to offset impact

Net debt and working capital

- Analysis to understand how inflation, cost pressures, supply disruption impacted "normal" working capital
- Stock risks – slow moving, promotional, packaging stock
- Seasonality - how is build in working capital managed and funded
- Treatment of invoice financing

Capital expenditure

Buyers want to see a well invested asset base.

Focus on:

- Age of asset base
- Production capacity & utilisation
- Level of investment in automation and productivity
- Maintenance vs Compliance vs Expansion

Tax trends

With processes taking longer, it is even more important to be tax 'exit-ready'

Due diligence

- What are your tax risk areas that could impact your deal?
- Buyer protections range from general warranties and indemnities through to cash retentions, purchase price deductions, and even aborted transaction processes
- Negotiating with purchasers often results in delays to transaction timetables

EMI / CSOP option schemes and employee shareholdings	
Off payroll workers	
Director/shareholder remuneration	
R&D tax relief claims	

Equity structure

- Will your current equity structure deliver the intended value to shareholders and key management personnel in a way which is tax efficient?

EMI / CSOP option schemes and employee shareholdings	
Multiple share classes / differing capital rights	
'Promised equity'	
Anti-embarrassment payments	

Transaction Perimeter

- Do you need to extract assets/activities that a purchaser won't wish to acquire / won't place value on / you want to retain?
- Do you have assets/activities outside of the corporate group that a buyer will want to acquire?

Excess cash	
Commercial / residential property	
Non-core subsidiaries	
Non-core activities	
Lack of a 'corporate group'	

Tax assets

- Do you have tax assets which will result in pre and/or post transaction tax savings that could be priced into the transaction?

Tax losses used pre-completion	
Tax losses used post-completion	
Share scheme deductions	
R&D tax relief claims	
Significant capital allowances pools	

A tax exit-readiness healthcheck is highly recommended!

Question

Which of the following changes, that took effect from April this year has had most impact on your business?

a) increase in employer NIC cost (increase in rates and reduced thresholds)

b) increases in national minimum wage

c) changes to reliefs from business rates

Key considerations when acquiring and integrating

Common pitfalls to avoid

Creating the vision

- Not being clear on the integration goals and lack of alignment
- Lacking early clarity on the combined leadership team and appropriate 'release point'
- Rushing IT integration and making tactical decisions before defining the 'end game'
- Failing to set up the integration governance for success

Engaging people

- Leadership not consistently setting the right tone
- Not addressing politics and egos early on
- Failing to consider organisational cultures and values
- Failing to communicate with employees reasonably openly and in a timely manner
- Not clearly addressing how employees will be personally impacted or adequately selling the benefits of change

Taking control and delivering integration

- Not involving the integration workstreams in due diligence
- Underestimating the effort and resource required to deliver integration effectively
- Putting the wrong people in key roles on an integration
- Failing to move at pace

Capturing value

- Not considering the full range of value drivers
- A lack of clear targets
- Insufficient focus and accountability for synergy delivery and tracking
- Insufficient consideration of data value and complexity
- Backing away from taking tough decisions, particularly in relation to people and roles

Question

Do you plan to undertake a transaction in the next 12 months?

a) Yes

b) No

c) In the future, but not in next 12 months

Q&A

Get in touch...

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