

ANNUAL SHAW REPORT:

Food & Drink

AN INDUSTRY BENCHMARKING REPORT FOR OWNERS TO COMPARE PERFORMANCE, DEBT CAPACITY AND M&A ACTIVITY

Prepared by:
Alexei Garan, Director at Shaw & Co

Date:
July 2022

FOREWORD.

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Welcome to our second ‘Shaw Report’ into the Food and Drink (F&D) industry which provides SME business leaders with a powerful benchmarking tool to aid their decision making.

In this report we have segmented 1,905 F&D businesses with earnings of over £1m by size and sub-sector to track their performance, debt levels and M&A activity. To analyse the trends, we have compared their performance in the latest published financials to those of the prior year.

Larger blue-chip corporates have regular access to this type of analysis from investment banking advisers. However, it is our mission to provide SME business leaders with free access to the same market intelligence in a clear, concise and easy-to-use way.

This report will help you benchmark your business relative to others in your industry. It will also provide you with valuable insight regarding your relative creditworthiness and attractiveness from a M&A point of view.

I hope you find this a useful tool. If there are any emerging themes that resonate with you, please feel free to get in touch.

Alexei Garan
Director, Shaw & Co



AT A GLANCE.

Data Sources

- Companies House.
- Zephyr.
- Mark-to-Market.

Businesses Analysed

- 1,905 UK SMEs with earnings (Ebitda) of £1m+.

Data Points

- Last available financials as filed up to 30 June 2022.

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SCALE IS KING

7% of the 1,905 companies analysed account for 76% of total turnover. Achieving scale opens more options to borrow, grow and win market share.



£5m EBITDA TIPPING POINT

It is easier to borrow higher multiples of debt once Ebitda hits £5m. As with many sectors, larger businesses are offered more lender support which opens more options for growth.



91 M&A DEALS

The high level of acquisition deals within this industry is reflective of the importance of achieving scale. However, deal numbers have fallen since the Russian invasion of Ukraine.



77% UK BUYERS

77% of the 91 M&A deals over the last 12 months were completed by UK buyers suggesting market knowledge is an advantage when looking to scale quickly.

HOW DOES MY BUSINESS PERFORMANCE COMPARE TO THE INDUSTRY?

TURNOVER BY SIZE OF BUSINESS.

What is the data showing?

This chart shows average sales across the industry based on company size measured by earnings (last reported Ebitda). 82% of the 1,905 companies analysed have an average turnover between £1-10m and account for just 8% of total turnover in the industry. Conversely, 7% of companies achieve an Ebitda over £30m+ and account for 76% of total turnover. The broad turnover picture looks flat over the last 12 months, but with companies in the £30m+ Ebitda bracket seeing a decline, sector sales are down.

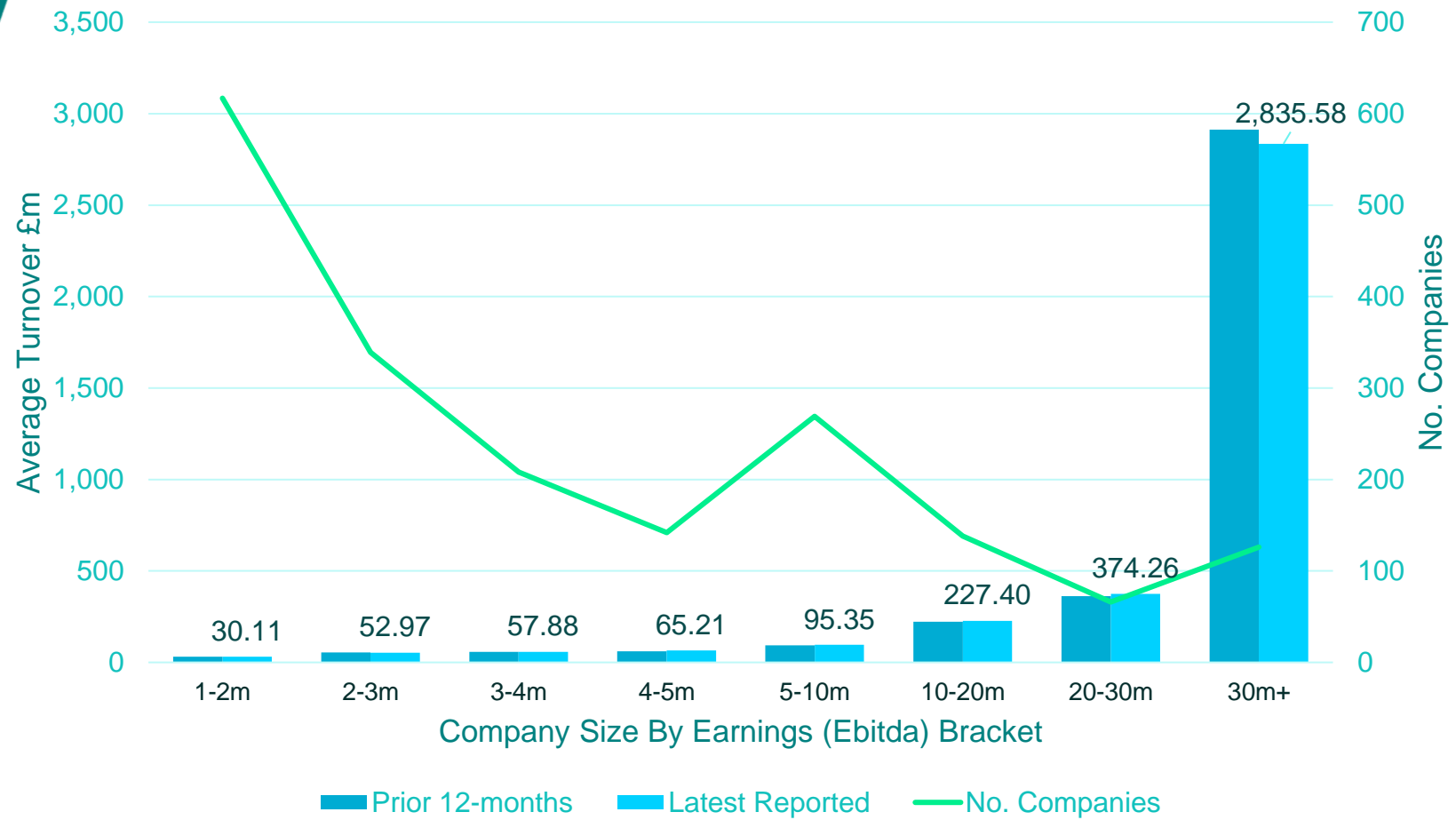
What does this mean for me?

An environment of acute food inflation and a severe squeeze on household budgets rewards product innovation. It makes it easier to break into a market as customers are keener on product substitution in order to find cheaper alternatives to branded or premium products or services.

With widespread supply chain interruptions, having stock on hand can be an advantage over your interrupted competitors. You should review your available cash and working capital, because paying for goods upfront could secure supplier preference for your business.

What are my options?

If you can grow revenue - generating capacity either organically or by acquisition and fund such growth with fixed rate debt (eroded by inflation) – you'll win in the current environment. With debt markets still benign, you could fund organic revenue growth through product innovation, better online presence or just having stock by shoring up working capital. You could also consider funding an acquisition of a competitor or key supplier.



TURNOVER BY SUB-SECTOR.

What is the data showing?

The data suggests that average turnover has remained broadly flat across the F&D industry over the 12-months period, except for the Bars & Restaurants sub-sector which is still reporting effects of lockdown interruptions.

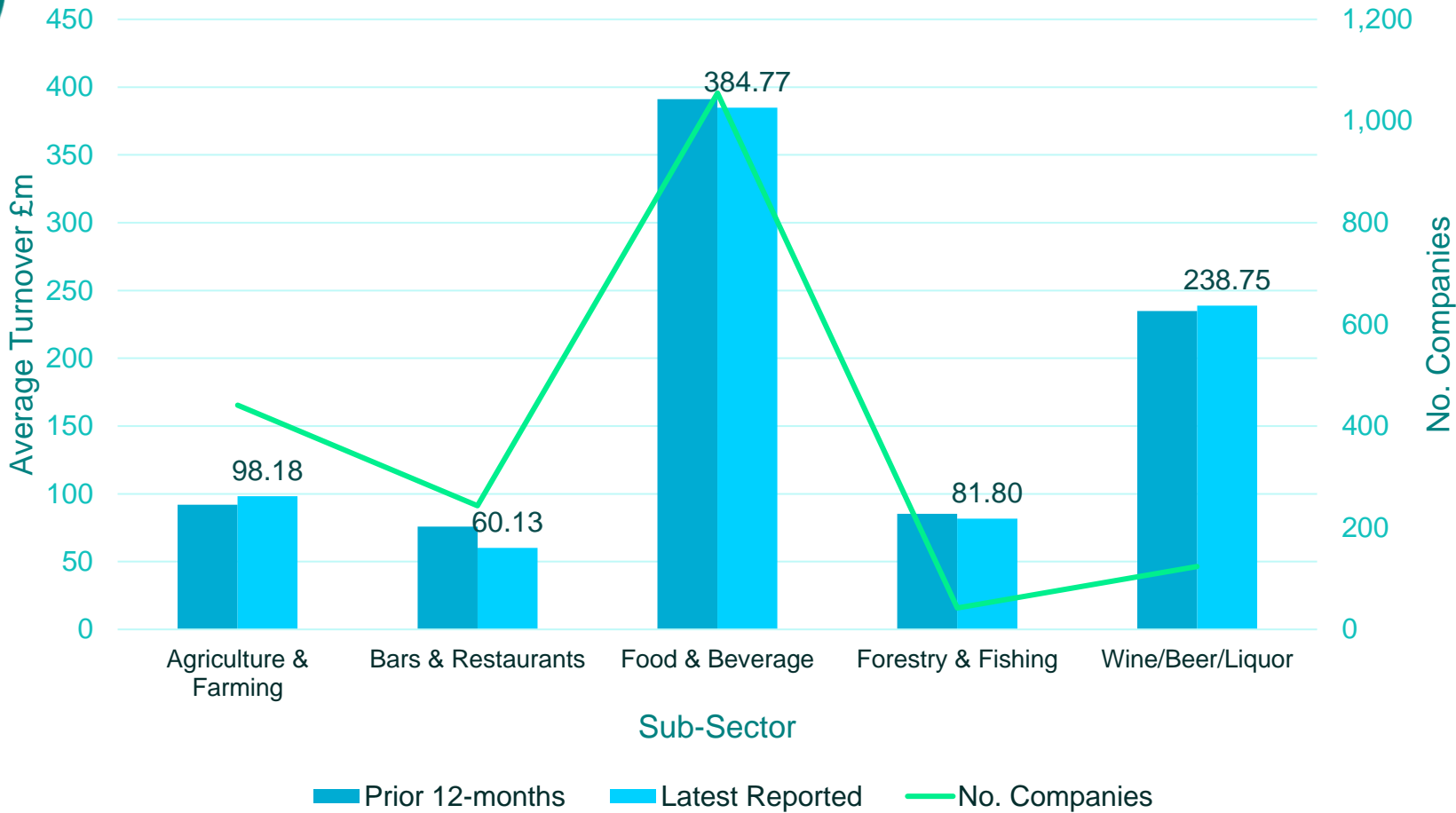
What does this mean for me?

When benchmarking your performance with this data, it is important to remember that the figures contain major companies. If you are a smaller business with good performance, you may consider an acquisition strategy to take advantage of economies of scale for this industry, or you could be an acquisition target for one of the larger industry players.

What are my options?

If you're looking to scale through organic growth or by acquisition, your appeal to potential funders will be driven by the strength of your strategy and value proposition to the customer.

The rise in the cost of living favours products of need and established routes to market rather than discretionary products and speculative plans.



BENCHMARKING AVERAGE GROSS PROFIT MARGIN.

What is the data showing?

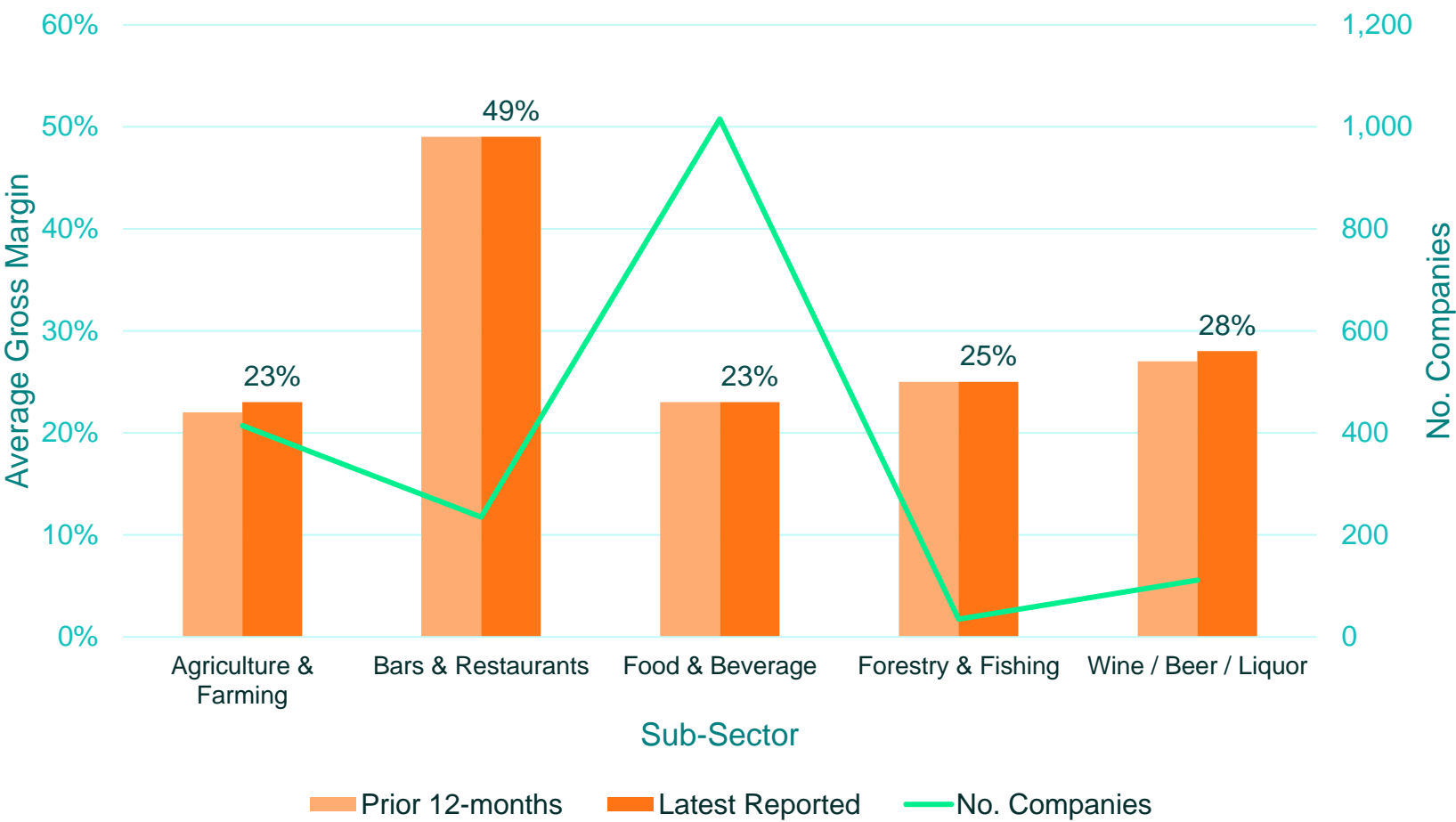
Gross profit margins remained healthy across all sub-sectors within the F&D industry. The data for the period considered does not yet capture gross margin pressure due to rising energy and raw material costs, as well as interruptions in the supply chain.

What does this mean for me?

If your gross margin is notably higher than your sub-sector average, or your product is seen as premium, you are better positioned to deal with margin pressure or to pass on input price increases to your customers. If your gross margin is significantly lower than the sub-sector average, you need to consider how to improve pricing or entice customers to switch to your product as a cost saving alternative to pricier competitors.

What are my options?

If your business is performing well, any growth initiative will be of interest to funders, or you could potentially be an acquisition target for a larger market player. If you're underperforming, a comprehensive analysis could help identify where margin is being lost and whether your corporate priorities need to change.



AVERAGE GROSS MARGIN & SCALE.

What is the data showing?

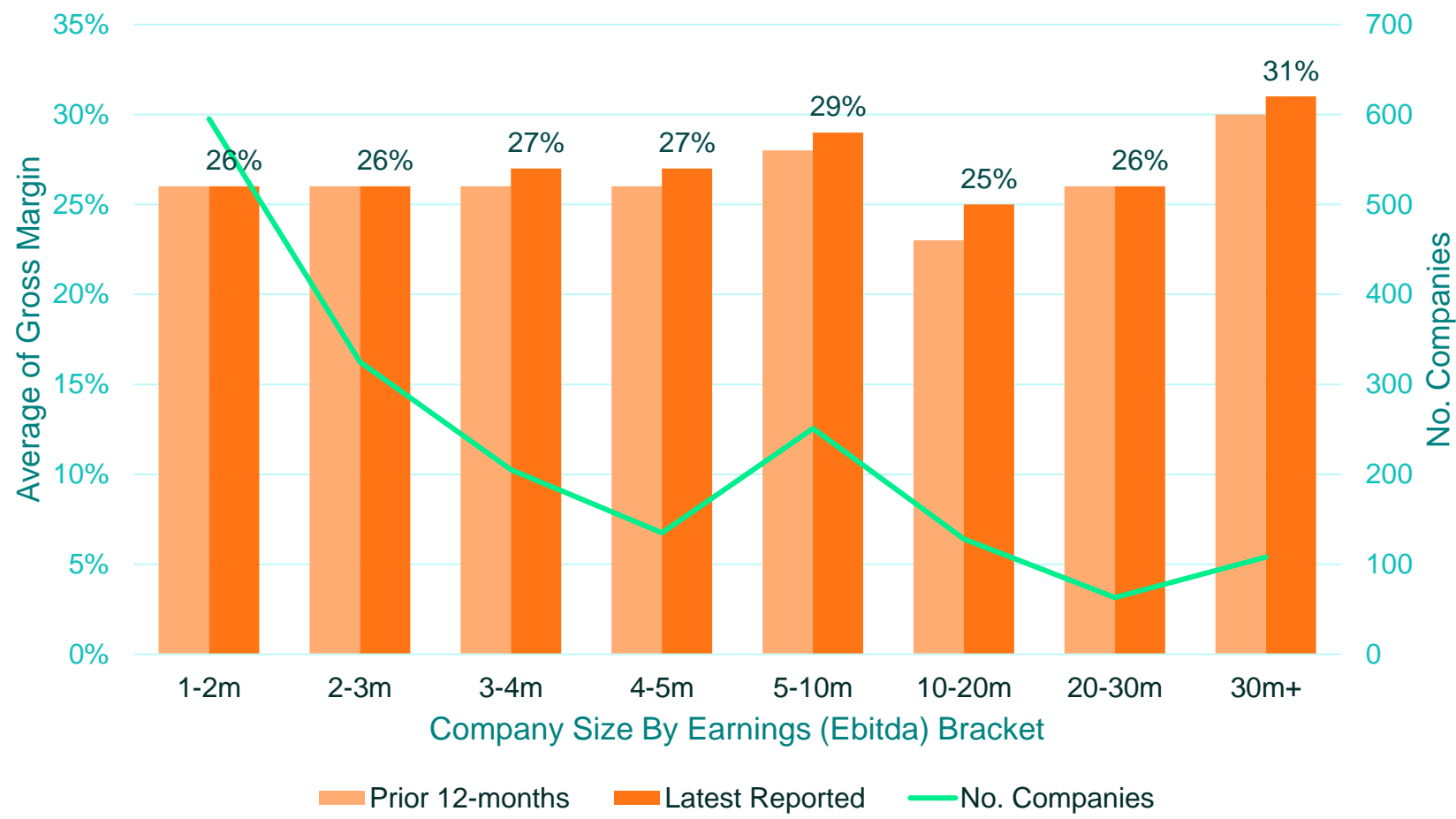
Regardless of company size by earnings, owners operating in the F&D industry should be looking to achieve between 25%-31% average gross margin. Performance has been healthy over the last 12 months positioning the sector well to deal with inflationary shocks.

What does this mean for me?

The numbers show that scale does not necessarily bring healthier gross margin in F&D. However, this masks the bargaining power of larger players with their suppliers, which then enables them to compete more aggressively on price vs smaller players.

What are my options?

If your gross margin is below the industry average, you will need to evaluate your business model, pricing and cost structure. Supply chain issues and commodity input price inflation will be an important consideration in the year ahead. If your gross margin performance is significantly above the industry average, you may want to consider lowering your price to sell more units or develop more projects to achieve scale. However, consideration must be given to both supply chain issues, which could delay projects, and input price inflation.



PROFITABILITY & GROWTH.

What is the data showing?

Companies across all industry sub-sectors have seen an increase in average Ebitda margins over the last 12 months which vary between 1% to 5%. The industry has been supported through the pandemic by consumers switching to online sales and government furlough schemes.

What does this mean for me?

You are likely to be leaner as a business than you were pre-pandemic. If your profitability (Ebitda) margin is higher than sub-sector average, you may be carrying a leaner cost structure or achieving a higher sales price. You may want to consider reinvesting your profits to scale your business or consider an exit. A strong Ebitda margin could also be masking an artificially low-cost structure that could jeopardise your future growth. Labour and skills shortages will be an important consideration in the time ahead.

What are my options?

Your growth strategy should be focused on at least retaining the Ebitda margin performance and efficiency achieved in the last year. Further improvements may be achieved through operational efficiencies, scaling up organically, or by acquisition.



ECONOMIES OF SCALE.

What is the data showing?

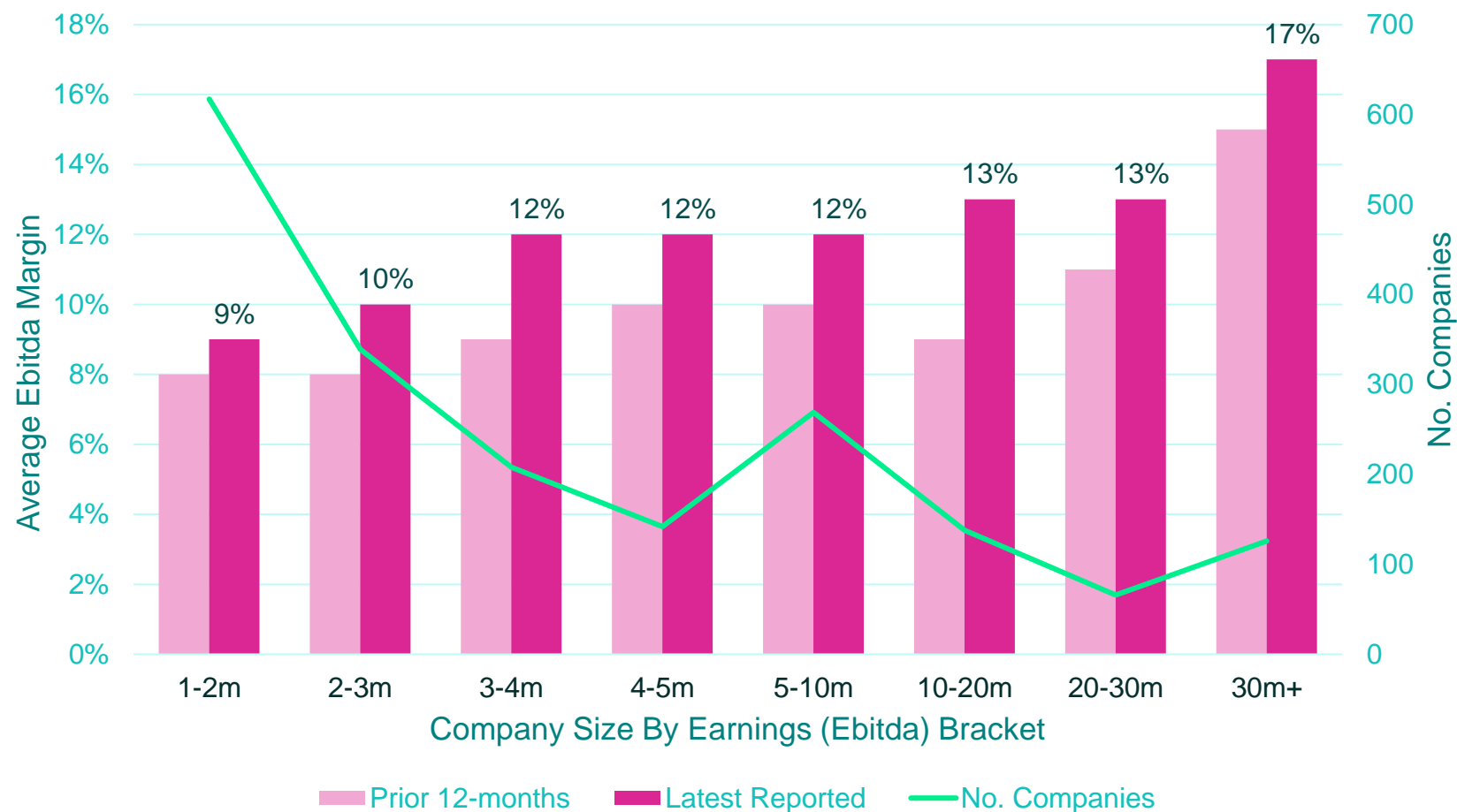
This graph shows average Ebitda margin by size of company and suggests that generally large scale brings greater profitability. However, profitability of companies with earnings of between £3m and £30m varies only marginally, highlighting how efficient smaller players perform compared to larger competitors.

What does this mean for me?

Reported numbers are showing the sector profitability recovering well post-lockdown but does not yet reflect inflation effects which are particularly volatile in food inputs and energy. Passing on cost inflation through price increases can't really be avoided, but any initiatives to expand your revenues at fixed cost must be considered.

What are my options?

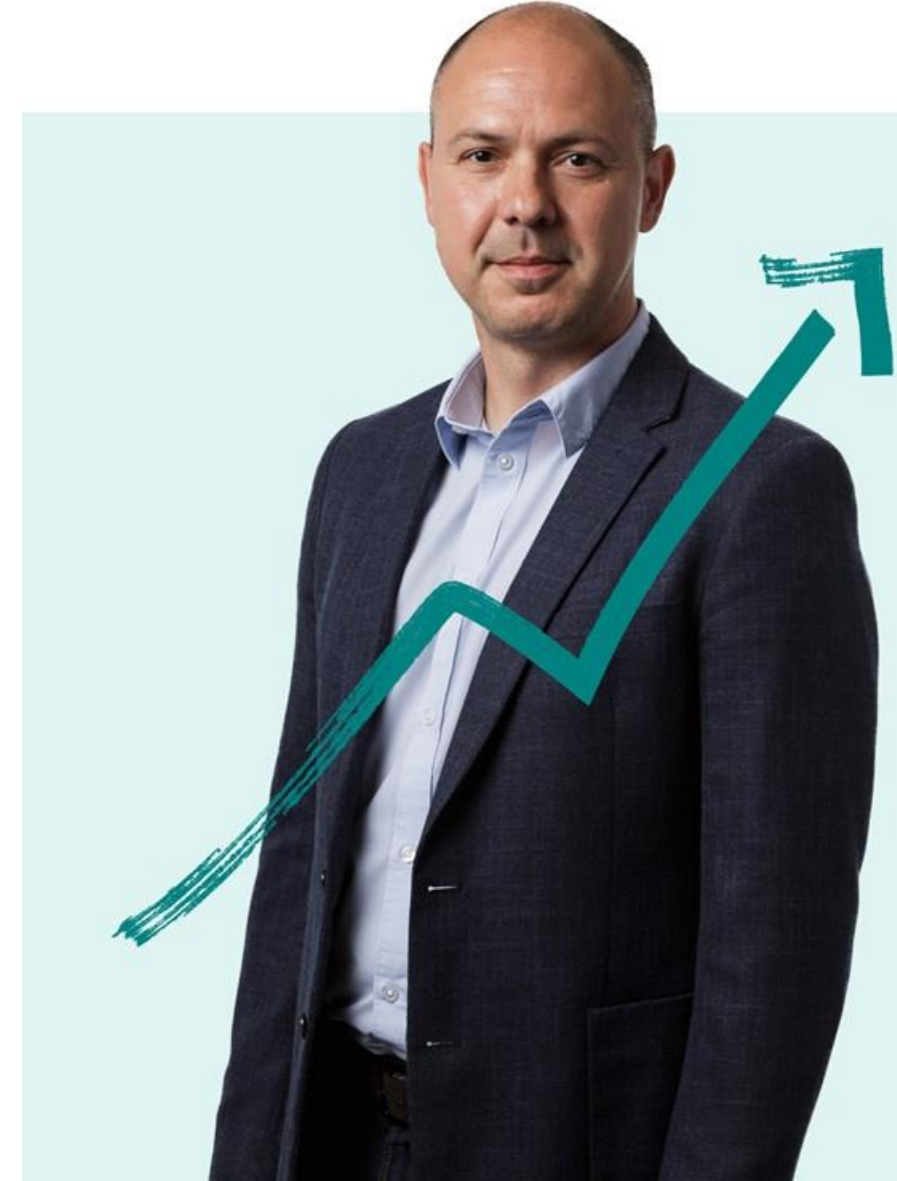
Funding remains available despite worries about inflation and supply chains. Could you shore up working capital to become a preferred customer to your suppliers by buying in bulk or paying upfront? Could you acquire a competitor to add revenue (exposed to inflation), whilst funding the deal with fixed rate debt (eroded by inflation)? With healthy valuations, could this be your time to exit?



INDUSTRY PERFORMANCE SUMMARY.

KEY POINTS & PREDICTIONS

- The industry is concentrated, with just 7% of firms accounting for 76% of turnover. However, with larger firms' sales declining, the data shows how effective smaller businesses have been at competing with the giants, with many seeing their sales rise.
- This shows at gross margin level and bottom-line profitability being largely comparable between firms with Ebitda of £3m and those with up to £30m. Most likely, this also implies that whatever scale advantages larger players generate, are passed on to consumers in more aggressive pricing from larger players.
- The industry has been buoyed through lockdowns, both by consumers shifting online and government support schemes such as furlough and grants. We have seen a number of direct-to-consumer online businesses struggling to convince investors/funders that their sales growth will persist post lockdowns.
- The sector recovered well from the pandemic but is facing supply chain interruption and acute food and energy commodity inflation issues, which are not yet reflected in the reported performance numbers.
- But with good performance, the industry is well positioned to outgrow inflation through organic expansion or by acquisition, if entrepreneurs can recognise opportunities in the midst of uncertainty.



WHAT IS THE LEVEL OF BORROWING IN THE INDUSTRY?

INDUSTRY DEBT BY SUB-SECTOR.

What is the data showing?

Over the last 12 months, debt levels have remained mostly flat across all sub-sectors. Nearly 70% of the total industry debt is carried by the Food & Beverage sub-sector

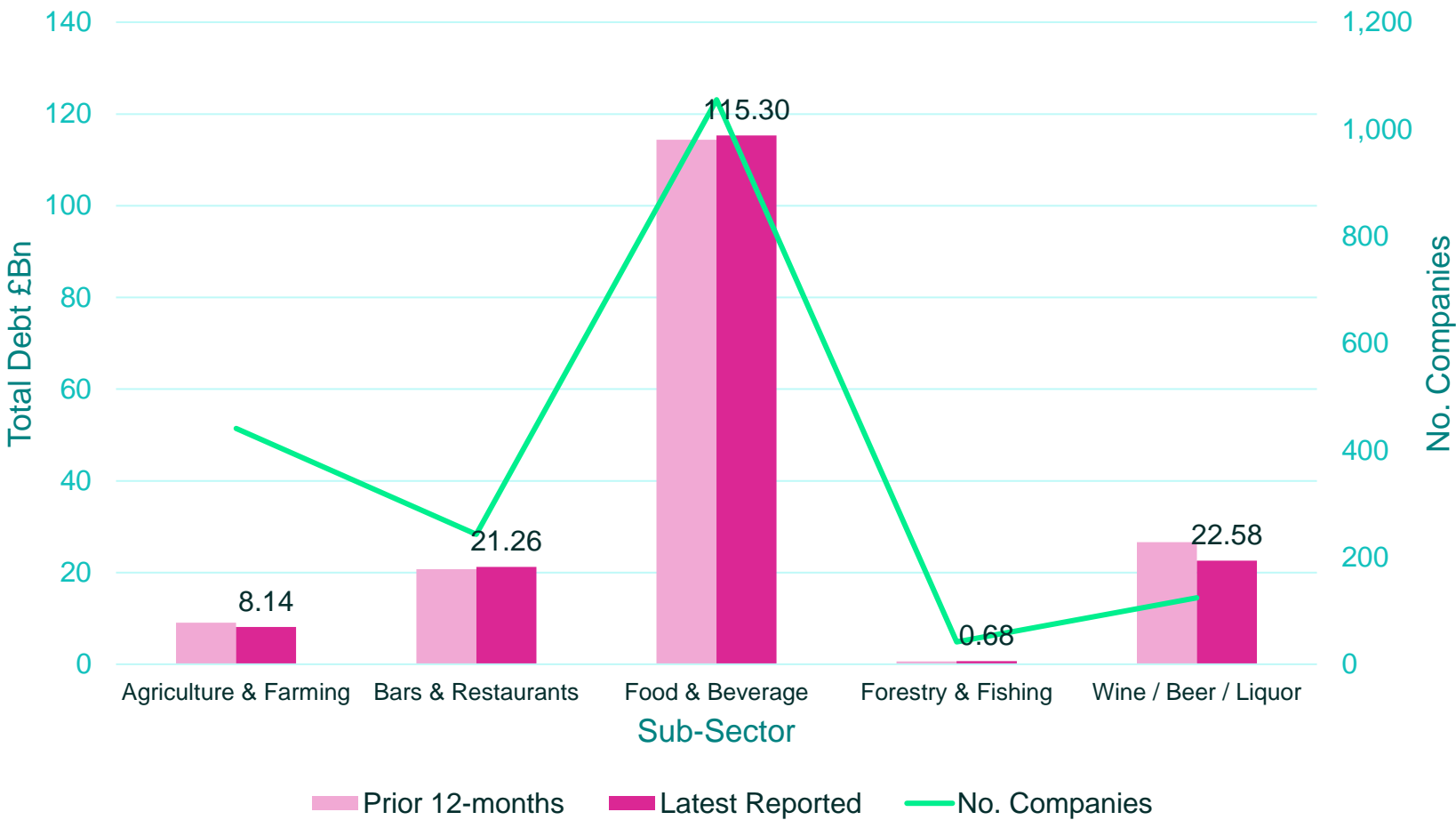
What does this mean for me?

Value of debt, especially fixed rate debt, is naturally eroded by inflation. With funding markets remaining accommodating, owner managers should not be so cowed by the economic uncertainty as to miss opportunities for organic or acquisitive growth.

What are my options?

If you're a profitable and well-managed business with growth aspirations, you could consider the alternative lending market to fund growth projects or scale-driven acquisitions of competitors, key suppliers or distributors.

Underperforming businesses will be more pressured by macroeconomic forces and should focus on reviewing pricing and product innovation strategies, as well as cash and capital sufficiency.



SHORT-TERM BORROWING.

What is the data showing?

Most companies are carrying slightly higher levels of short-term debt compared to 12 months ago. Companies with Ebitda exceeding £10m are carrying 2-4x the short-term debt carried by the smaller companies. This mirrors the long-term debt trend.

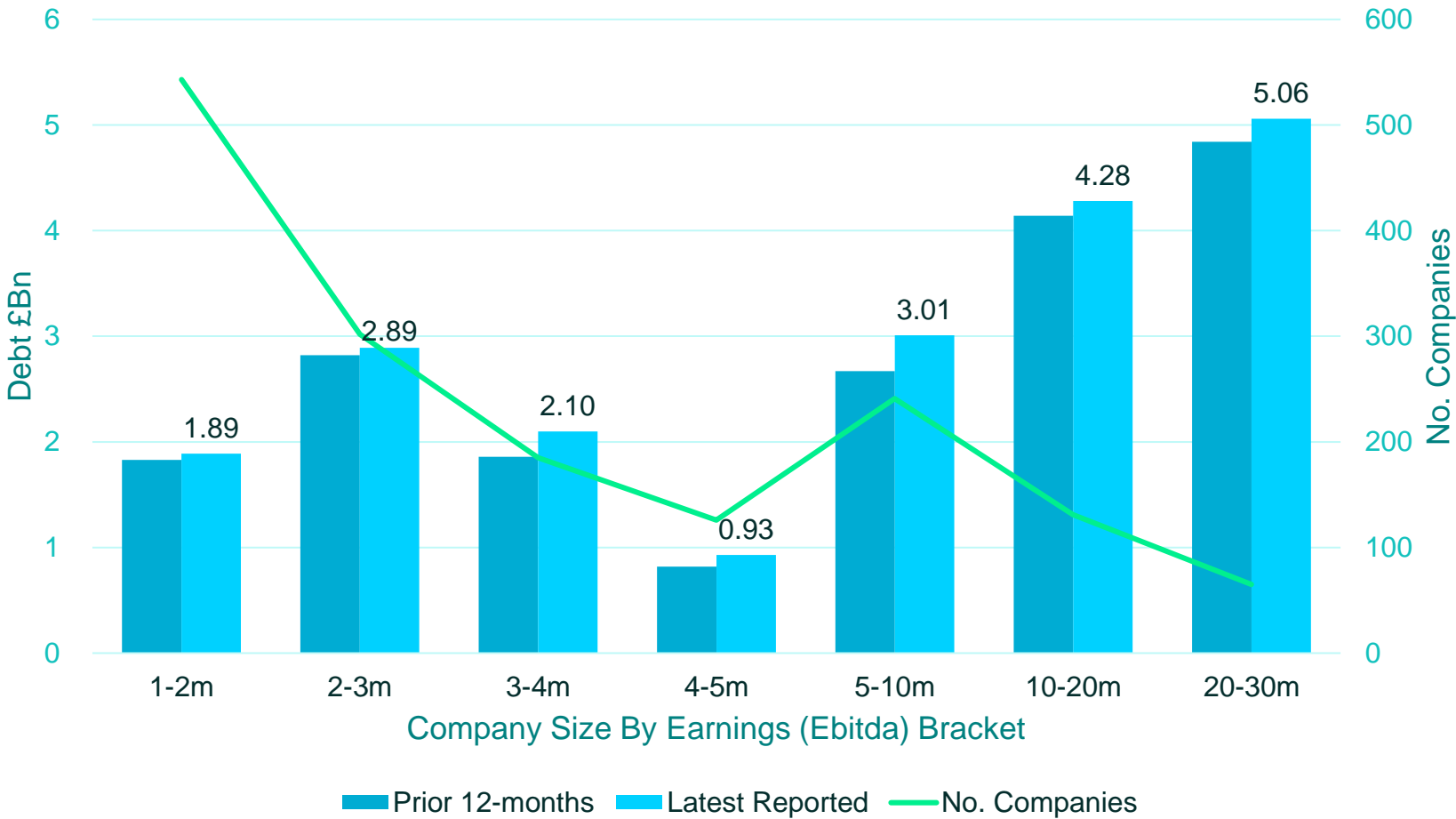
What does this mean for me?

For smaller businesses, high street bank lending for working capital may be constrained or even unavailable. We see plenty of examples of businesses restricting their growth or 'over-trading' based on capital shortage. Both are unadvisable and ultimately dangerous.

What are my options?

Consider alternative market funding options to fund short-term working capital needs.

We are available for free, no obligation funding health check if you need support or a confidential third-party view.



LONG-TERM BORROWING.

What is the data showing?

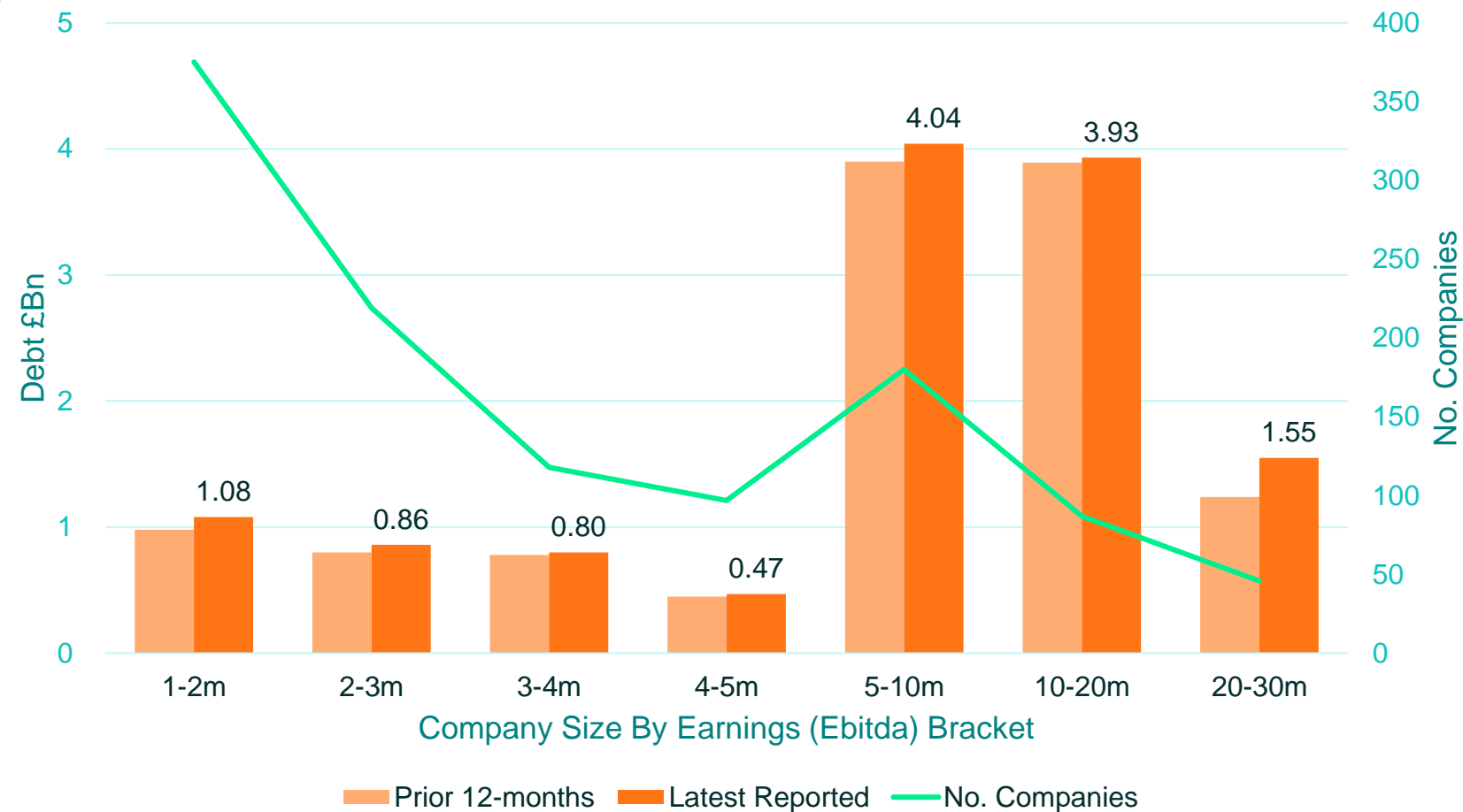
Companies of any size are carrying higher amounts of long-term debt compared to 12 months ago.

What does this mean for me?

Smaller businesses tend to explore their long-term funding capacity only with traditional banks or, often, just with their incumbent bank. Few will explore the many viable funding options from alternative lenders, despite the substantial advantages a well-structured funding can bring when trying to outgrow competitors.

What are my options?

If you're a profitable and well-managed business, don't be disheartened by a 'no' from your bank. There are many well suited and affordable alternative funding options and advice is readily available, including from ourselves.



WHAT IS MY BORROWING CAPACITY?

BORROWING CAPACITY BY SUB-SECTOR.

What is the data showing?

Over the last 12 months, all F&D industry sub-sectors have seen significant levels of de-leveraging (ie carrying less debt compared to their earnings), which is largely a reflection of stronger earnings than debt repayment.

What does this mean for me?

Regardless of sub-sector, you should be able to raise around 4x your Ebitda level in debt for a well-thought-out growth initiative or an acquisition.

You can use your funding capacity as a highly effective tool against less agile competitors or to outgrow inflation.

What are my options?

Review your borrowing capacity with alternative as well as high street lenders. You may find alternative products, whilst pricier, being more suited to your cashflow plan and ultimately lead to higher growth. Use us or another experienced adviser to conduct a free and confidential health-check. Remember to seek additional capital before you desperately need it, especially in the currently turbulent environment.



BORROWING CAPACITY BY SIZE.

What is the data showing?

Over the last 12 months, companies across the F&D industry have deleveraged. Regardless of size, leverage has been brought down to a very manageable levels of between 2x and 4x earnings. Given slight growth in absolute borrowing amounts, this effect is largely a result of earnings recovery.

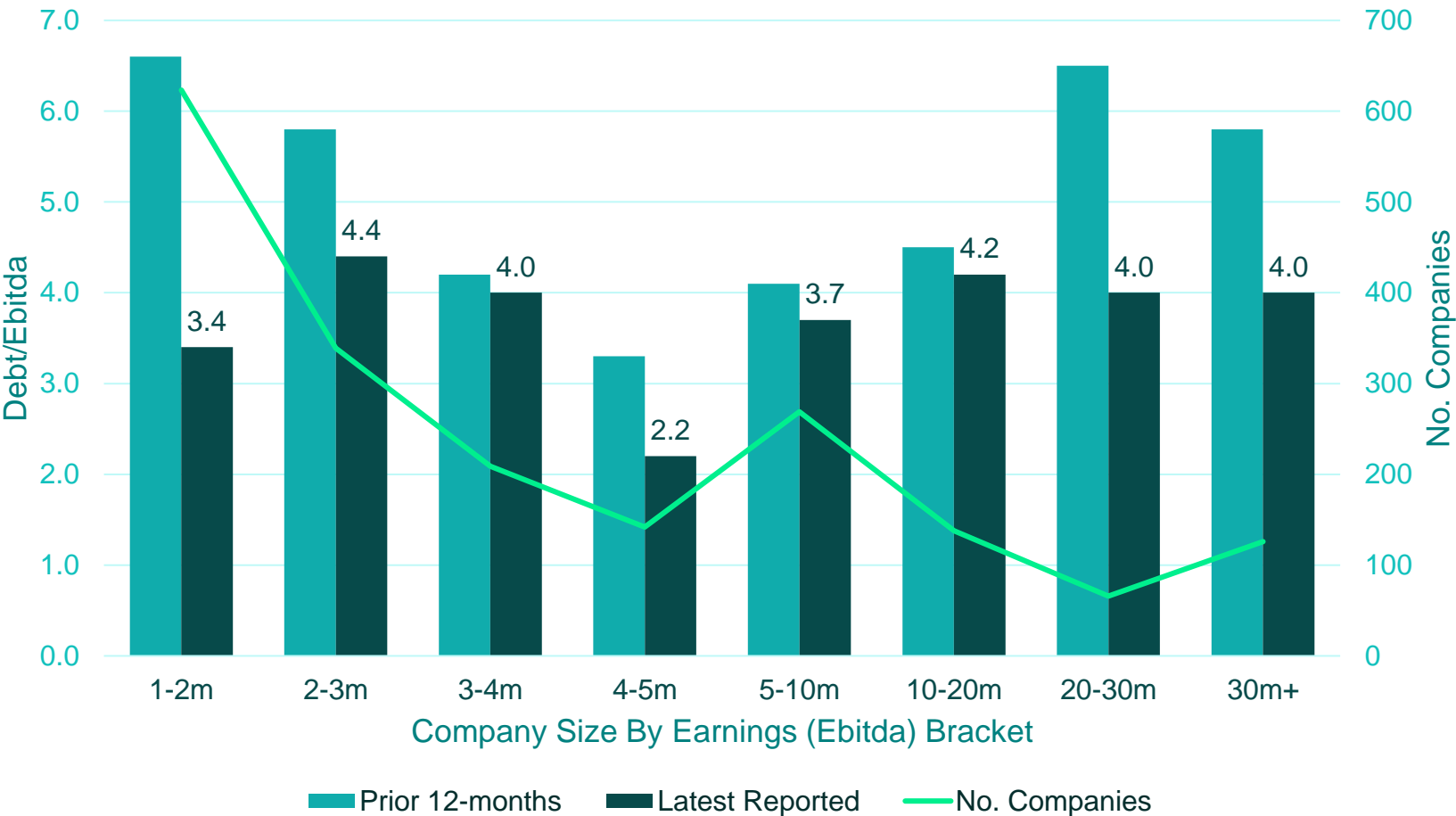
What does this mean for me?

For a well-performing business borrowing less than 4x earnings suggests available borrowing capacity. This ought to be explored if you see opportunities to grow your revenues either organically or through acquisition(s). Having a good track record with your lender is advantageous through turbulent times. Prior debt repayment or good covenant compliance generally win favour with banks and alternative lenders.

What are my options?

During turbulent times, it pays to be continuously aware of your funding options and capacity, not only with high street banks, but also with the alternative lenders. Seek advice from experience debt advisors.

Secure additional facilities well in advance of having a desperate need, bearing in mind that lending appetites and interest rates can change rapidly.



INDUSTRY BORROWING SUMMARY.

KEY POINTS & PREDICTIONS

- Whilst the sector borrowing has increased slightly, the recovery in sector earnings has substantially deleveraged F&D businesses.
- This positions the industry well post-pandemic, but with the onslaught of food and energy price inflation and supply chain interruptions, we can expect volatility in sector performance in the coming period.
- A well-structured capital and funding strategy could bring substantial advantages to F&D businesses over immediate competitors. You should consider both traditional high street and alternative funding options or a blend of both.
- Smaller businesses, or those rejected by banks, should seek expert advice on approaching alternative lending market to fund growth or consider an acquisition or a merger to add scale.



M&A ACTIVITY - ARE BUSINESSES LIKE MINE IN DEMAND?

HOW MANY M&A DEALS HAVE COMPLETED IN MY INDUSTRY?

How attractive is my industry to buyers?

There has been a lot of M&A activity in the last year in the Food & Drink Industry. This is driven by a rebound following the pandemic, when deal activity was subdued. However, this strong demand has since slowed following the Russian invasion of Ukraine and the cost-of-living crisis.

Food & Drink is a sector in demand from domestic and overseas buyers and even businesses of relatively small scale can trade at attractive levels.

How does this compare to other industries?

As with M&A activity in the other industries we are tracking, deal flow was strong in the first half of the period and then dropped off from March 2022.

What should I be thinking?

Although there was positive activity in the first half of the covered period, the return of rising inflation and geopolitical uncertainties have put coping with uncertainty at the top of many businesses' lists. However, if your business is performing well, now may be a good time to look for an acquisition as a way of outgrowing inflation, especially as funding markets remain accommodating.

91

M&A DEALS

WHEN ARE THE M&A DEALS HAPPENING?

What is the data showing?

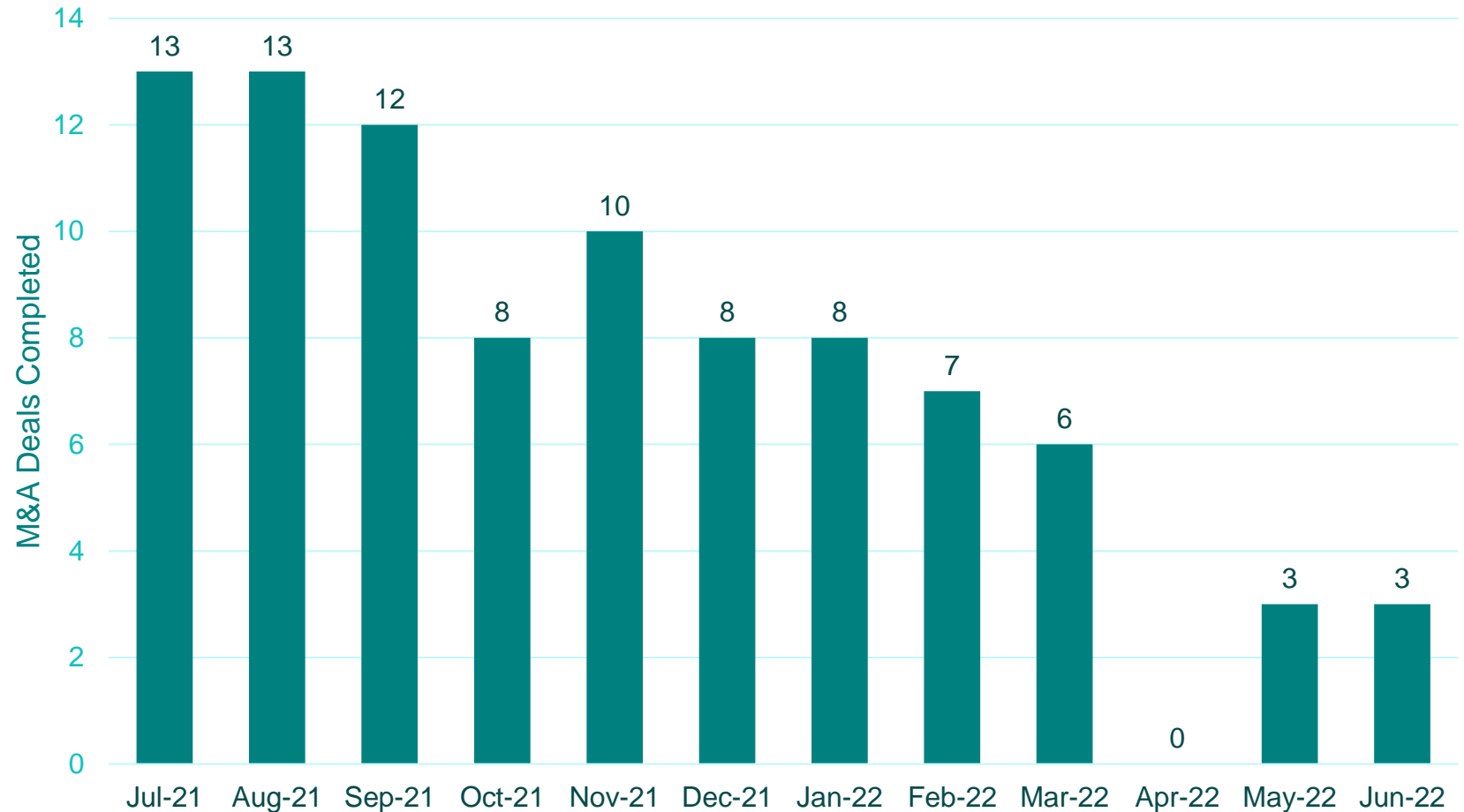
There was a strong appetite for deals until March 2022, helped by the bounce back from COVID-19. However, since the Russian invasion of Ukraine and the return of inflation, businesses have started to focus on coping instead of expansion through acquisition.

What does this mean for me?

If your business is performing well then this could be a good time for an acquisition to take advantage of the reduced number of bidders in the market.

What are my options?

Planning an exit or acquisition early is important, as is awareness of your funding capacity, potential acquirers and targets. Engaging an advisor is key to ensure value is maximised.



WHERE ARE THE BUYERS LOCATED?

What is the data showing?

UK buyers – or at least companies with an existing UK presence – make the most acquisitions of UK companies in this industry. This is particularly true for smaller deals. Outside the UK, US and European buyers are the most prominent.

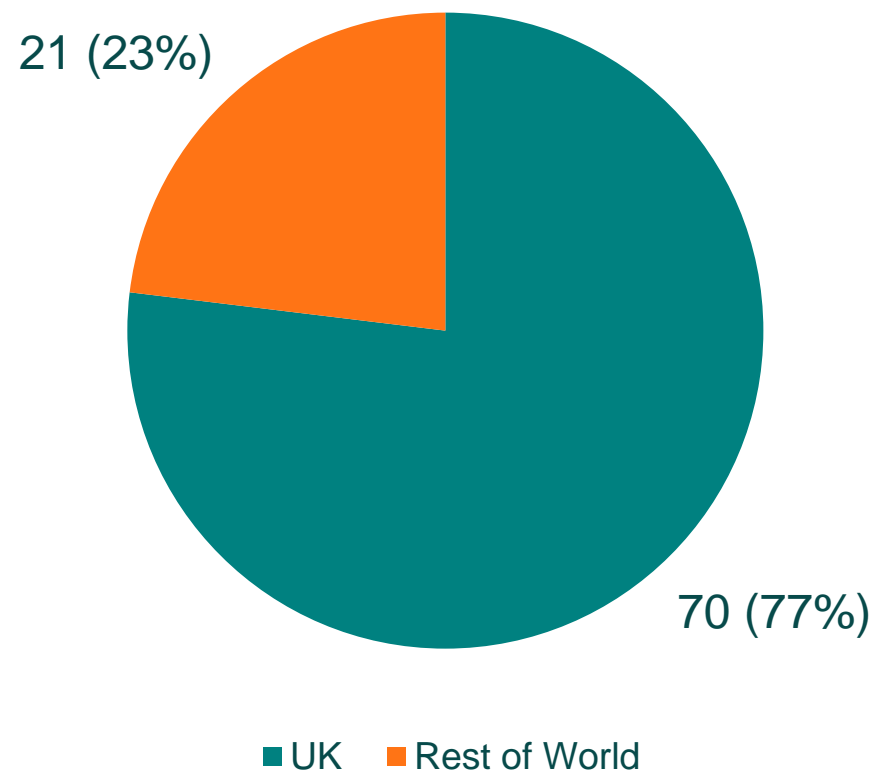
What does this mean for me?

In many cases you will already know the companies that are most likely to acquire your business as they will already be key players in your market.

What are my options?

Starting to prepare early and engaging with a corporate finance adviser will allow you to identify potential buyers both in the UK and internationally. If not already on their radar, it is often advisable to direct your PR and marketing efforts to raise your profile with potential buyers or acquisition targets.

Location of Buyers



COMPANIES ACQUIRED BY LOCATION.

Where are the M&A deals happening?

The highest volume of deals was in the South East of England which is unsurprising. The North of England also had a high volume of deals relative to other regions.

What are the M&A trends in my industry?

What has been notable is the sub-sector with the most activity was food & beverage. Within this sub-sector it is interesting to see many deals involving vegan and gluten free products, reflecting the increasing trend towards environmentally friendly and sustainable products.

Of note is the relatively small number of deals in the bars and restaurants sector. This follows the trend of companies in this subsector struggling through the pandemic and feeling the squeeze of the reduction in consumer disposable incomes.

What does this mean for me?

If your firm is in the food & beverage sub-sector and has seen a boost in trading, then it is likely to be of interest to bigger players in the space. Companies within the bars and restaurants subsector are less likely to be of interest to potential acquirors as companies focus on riding out the cost-of-living crisis and increased uncertainty of changing customer habits.



EXAMPLES OF M&A DEALS IN THIS INDUSTRY.

What companies are making the acquisitions?

There has been a high level of interest from private equity houses in the food and beverage industry. The split between trade and private equity buyers has been fairly even in this period.

What price is being paid?

Aside from the exceptionally sized takeover of Stock Spirits Group for £767m, the average deal size was £65m. This is the level which is affordable for a buyer whilst also offering significant strategic gains.

What's the typical Ebitda multiple?

Average disclosed Ebitda multiples range from 12x to 18x, with an average multiple of 15x.

ACQUIROR	TARGET NAME	BUSINESS	DEAL TYPE	DEAL VALUE £m	TARGET EBITDA £m
Sunray Investments	Stock Spirits Group plc	Spirits and liqueurs manufacturer	Institutional buy-out 100%	767	58
AT Brady	Hawthorn Leisure Reit Ltd	Pub operator	Acquisition 100%	222	N/A
EBITDA Investments	Bread Products Ltd	Baked products wholesaler	Institutional buy-out 75%	200	18
Scottish Sea Farms	Grieg Seafood Hjaltland Ltd	Fish farming and processing services	Acquisition 100%	164	N/A
Humble Group	Solent Global	Health foods manufacturer	Acquisition 100%	114	1.9
Sonae SGPS	Gosh Foods! Ltd	Vegan food manufacturer	Acquisition 94.5%	64	4.1
S Ventures	Pulsin Ltd	Plant-based nutrition protein bars manufacturer	Acquisition 100%	7	N/A

(This table provides a hand-picked selection of the deals that took place during the reported period.)

M&A SUMMARY.

KEY POINTS & PREDICTIONS

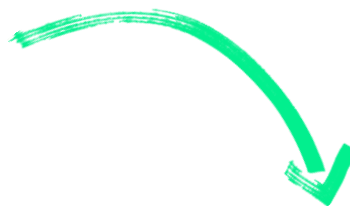
- Deal activity was buoyant in the first half of the period but tailed off following the cost-of-living crisis and a surge in inflation.
- Confidence is key to deal making, so if your business is well placed to ride out the financial and geopolitical storms, then now may be a good time to seek an acquisition.
- If an exit is desired and your business is performing well there is still an appetite for deals. Early planning is essential if all value is to be extracted from the business.
- The limited activity in May and June 2022 suggests that M&A activity may start to bounce back following the economic headwinds. However, the outlook is uncertain as businesses seek to ensure survival during this difficult period. Nevertheless, we predict that as the year goes on, M&A activity will continue to return to rebound.
- An early indication might be the recently announced acquisition of European chocolate maker Natra by PE firm CapVest. Natra has operations in Sain, France and Belgium in Europe as well as in Canada and has revenue of over £350m.
- Another recent acquisition of note is that of Barburrito by The Restaurant Group which represents a positive development for the UK's casual dining sector.



OUR CREDENTIALS.



OUR INDUSTRY EXPERTS.



ALEXEI GARAN

Director

Alexei leads our Business Funding team. He joined Shaw & Co in 2018 having built his corporate finance career over 20 years in various companies including PVE Capital, Credaris, Halifax (Bank of Scotland Treasury Services) and Lazard Brothers.

Over the last 15 years, Alexei has advised on over £2bn in restructured post-crisis client portfolios and has arranged over £400m in SME funding.

Typical mandates include all types of growth funding, acquisition, MBI or MBO financing with facilities ranging from £2m to £100m.

Alexei is an innovator who blends winning solutions and structures across different sectors and markets for the benefit of each client assignment.



MYLES HAMILTON

Director

Myles joined Shaw & Co in 2011 and is a mergers and acquisitions specialist. He is also a member of the Chartered Institute for Securities and Investment. Myles built his corporate finance career over 17 years in companies including KPMG and Target Corporate Finance.

Myles is entrepreneurially focused and at Shaw & Co his corporate finance advisory and transactional support includes MBO's and MBI's, buying or selling a business, mergers, business valuations and exit planning.

Myles' clients typically come from a range of sectors including manufacturing, professional services, public sector, food & beverages and energy & natural resources. During his time at Shaw & Co, Myles' largest deal to date has been a £47m trade sale.

SUCCESS STORY – NEPTUNE RUM.

HELPING A FORMER CLIENT SAVE AN AWARD-WINNING BRAND FROM ADMINISTRATION

SITUATION

Neptune Rum was recognised as the worlds' most awarded rum of 2018/19, winning Best British rum brand and best Barbados rum. But when it went into administration, a former client asked us to help him save the business.

CHALLENGE

Incorporated in 2016 with a registered office in Cheltenham, Gloucestershire, Neptune Rum has won more than 65 global awards since 2018. The brand had ambitious growth plans for the future, with the aim of securing world-wide travel retail distribution. But, as with many other businesses, the COVID-19 crisis jeopardised these projects. The pandemic had a huge economic impact on the business and as a consequence, Neptune Rum went into administration. A former client came to us to help save the brand.

RESULT

With our support, two of our former clients and long term business partners purchased Neptune Rum and its assets from the administrator, KRE Corporate Recovery. Its new owners have ambitious plans with the objective to enable Neptune Rum to recover from the devastating effects of the pandemic and to resume its growth plans.



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Jim and his team worked tirelessly to help complete the deal. He was superb again on buying a business as well as when he sold our last company.

Outstanding from start to finish, what you get from Shaw & Co is a passionate, honest and totally professional team.

They work really well with lawyers, save cost by helping to support the deal and get great results.

James Strickland
Owner, Neptune Rum



SUCCESS STORY – PUKKA HERBS.

A PUKKA TRADE SALE OF UK HERBAL TEA BRAND TO UNILEVER

SITUATION

The rapid growth and popularity of Pukka Herbs' products meant there was an opportunity to go global. Its owners came to us to help find a new owner to take the brand to the next level.

CHALLENGE

Pukka Herbs started life in the year 2001 as a simple idea: connect people with the incredible power of plants. This manifested itself in a highly successful range of herbal teas and supplements, growing to a £26m turnover with sales in 45 countries. It became the clear number two fruit and herbal tea brand in the UK with sales in 45 other countries, but it was time to become truly global.

Its owners Tim and Sebastian wanted to explore options for taking the business to the next level. Mapping their ambitions for the brand made it clear that a finding trade partner with global distribution and aligned ethical standards was required.

RESULT

Through our advisory, Pukka Herbs was successfully acquired by Unilever. Unilever was chosen as the right new owner due to its Sustainable Living Plan and its clear intention to adhere to the standards it set itself. In Unilever, Tim and Sebastian saw an opportunity to partner with a business to make a real difference on a global scale.



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At every step of the journey, through the build up to our sale, and in the subsequent acquisition by Unilever, Shaw & Co worked with us to protect and champion Pukka’s values and mission. They have helped us find the right home in Unilever, and to create an exciting future for Pukka Herbs.

Tim Westwell

Co-Founder & Chief Executive Officer, Pukka Herbs



ACCESSIBLE NATIONAL REACH.

FIVE CITY LOCATIONS

We help the business leaders of UK privately-owned SMEs to achieve their greatest ambitions.

We are easily accessible to support clients from across the UK and you can find us in these locations:

- **BIRMINGHAM** 20 Colmore Circus, Birmingham B4 6AT 0121 314 9410
- **BRISTOL** 22-24 Queen Square, Bristol BS1 4ND 0117 325 8510
- **GLASGOW** 9 George Square, Glasgow G2 1QQ 0141 280 0410
- **LONDON** 33 St James' Square, London SW1Y 4JS 0207 183 5010
- **MANCHESTER** 3 Hardman Square, Manchester M3 3EB 0161 505 2010



CONTACT.

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