FOOD DIVE

Food and beverage makers to be ‘more careful and strategic’ with M&A in 2024

Inflation and higher interest rates are among the challenges expected to weigh on deal-making in the new year.

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CHICAGO, IL - DECEMBER 11: Hostess snacks are offered for sale at a Jewel-Osco grocery store on December 11, 2012 in Chicago, Illinois. Scott Olson via Getty Images

Food and beverage manufacturers expect to be “more careful and strategic” when it comes to M&A in 2024 as executives face challenges that will likely suppress their willingness to engage in more risky deals.

Louis Biscotti, the head of the food and beverages group at national accounting and advisory services firm Marcum, said there is growing hesitancy among CPG companies to make too bold of an acquisition. He said companies will look to make purchases in the new year in trendy categories, such as snacking, frozen foods and better for you.

“You start looking at all these different challenges out there right now,” Biscotti said. “They’ll be much more careful and strategic.”

Companies are facing headwinds including declines in product volume, wage growth, inflation, supply chain disruptions, a slowing job market and higher interest rates. The White House also has shown a penchant to scrutinize transactions more closely across multiple industries for antitrust concerns, including food, that may prompt CEOs to hold off on a deal they would have otherwise done.

General Mills CEO Jeff Harmening said the maker of Nature Valley bars and Cheerios will be “disciplined” when it comes to acquisitions. He told Wall Street last September that he’s in no hurry to strike a deal to help offset slumping volume at the Minnesota-based company.

“We don’t play the short-term game when it comes to M&A. We go get brands we like. We hold them for a long time. We grow them,” Harmening added. “We’ve been doing that for 165 years, and we’ll continue to do that. And so, what isn’t going to be the case is that we see volumes going in a certain direction, therefore we have to make up that gap, that’s really not part of our plan.”

Erin Lash, a director of consumer equity research at Morningstar, said most companies will find it easier to focus on growing their existing portfolio in the current environment. She said dealmaking in 2024 is likely to mirror last year, with companies looking for acquisitions to get them into niche categories or geographies “as opposed to being more transformational and altering its financial prospects or competitive standing.”

Once known for sticking big transformation deals, the food and beverage sector has been largely focused during the last six years on so-called “bolt-on” transactions that give companies a deeper presence in certain categories without saddling the businesses with huge amounts of debt.

Conagra Brands CEO Sean Connolly said the Chicago company remains focused on improving its balance sheet following its $10.9 billion purchase of Pinnacle Foods in 2018, which brought together

Healthy Choice, Marie Callender's, Birds Eye and Duncan Hines under one roof.

"Our focus is on continuing to pay down debt. And then when we get to the time when we can add something to the portfolio, odds are it would be in our key strategic domains of frozen and snacks," he told analysts in October.

The inability of some businesses to innovate quickly enough is already causing some to fall behind, with a handful turning to M&A as a way to fill gaps within their portfolios. This is forecast to continue to be a major catalyst in the new year for spurring activity.

Two of the biggest deals in the food space last year occurred with companies looking to fill gaps in their portfolios.

J.M. Smucker dolled out nearly $6 billion to buy Hostess Brands to deepen its presence in indulgence categories and consumer occasions focused on convenience.

And Campbell Soup, which already owns Prego, announced plans in August to buy Sovos Brands, the owner of premium pasta sauce brand Rao's, for $2.7 billion. The transaction was delayed until the middle of this year after the Federal Trade Commission asked the CPG company for more information about the deal.

The deals follow similar deals in the space, including Coca-Cola's purchase of the rest of the better-for-you sports drink BodyArmor it didn't already own for $5.6 billion in 2021, and Mondelēz International agreeing to buy healthy bar maker Clif for at least $2.9 billion a year later.