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Mergers Make Headlines, But What Makes Them Work?

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The success of acquisitions depends on factors such as strong strategy, expertise, good integration, ... [+] GETTY

Mergers in the food and beverage industry have been going strong, with big F& B companies showing no shortage in their appetite for billion-dollar deals. J.M. Smucker Co. recently announced it would expand its family of brands significantly by acquiring Hostess for $5.6 billion, following a string of other acquisitions. And the urge to merge has been alive and well in F&B.

Monster Energy entered the alcohol sector with its $330 million acquisition of Canarchy Craft Brewery. Hormel Foods HRL +0.1% announced a "transformative" $3.35 billion acquisition of Planters. J & J Snack Foods said it would buy Dippin' Dots for $222 million. And those are only a few from a big menu of megadeals as F&B companies pursue growth by acquisition.

Deal Drivers

Many things are driving deals these days. At least until recently, cheap money helped. Dry powder, money on the sidelines seeking targets, meant the financial fuel was there. Difficulties in organic growth encouraged firms chasing growth to buy big. Changes in customer behavior, including a plant-based boom, prompted companies to buy into the trend. And innovation by small players prompted takeovers. Then, the difficulties of the pandemic led more companies to seek buyers. Add to that aging Baby Boomers seeking exits, and this has been a busy time for acquisitions that often make headlines.

M & A Metrics and Measures

But once the dust settles and the deals are done, are they living up to expectations? What makes acquisitions move forward or falter? Strong strategy, expertise, good integration, riding the waves of short and long-term trends, expansion, and strong management all help. Not properly integrating, faulty strategic vision, too much leverage, incorrect assumptions regarding scaling, savings, and synergy are all possible culprits. Poor due diligence and unforeseen events or simply changing tastes and trends can impact deals.

The appetite is there, and the attitude and aptitude for acquisition remain key growth drivers. But what drives and determines how well these deals perform in terms of revenues and results? Even the Hostess deal provides a window into what Wall Street thinks, what makes deals work, and what can throw a wrench into them.

Smucker's Appetite for Acquisition

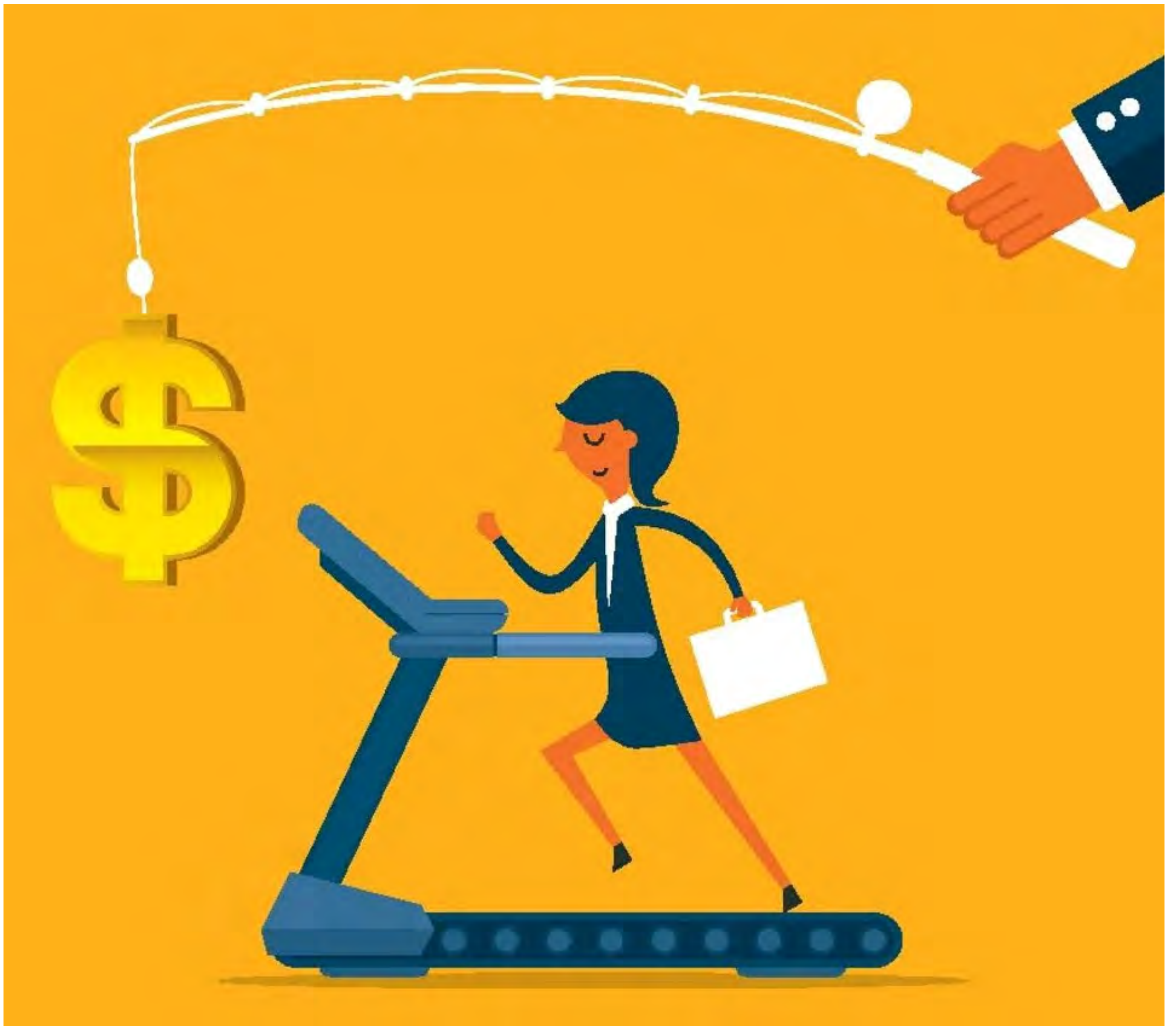
After J.M. Smucker Co. announced its $5.6 billion acquisition of Hostess Brands TWNK +0.1%, Wall Street weighed in with an initial verdict. Smucker shares on Sept. 11, the day the deal was announced, closed at $131.66, down from a previous close of $141.58 the prior Friday on Sept. 8. Meanwhile, Hostess Brands shares closed at $33.50 per share on Sept. 13, up 19% from a $28.11 close on Sept. 8. A deeper look shows both promise and potential problems for this wedding of two big businesses beyond the immediate Wall Street reaction. What a difference a day can make, but results take much longer.

Synergies Can Mean Success

Cowan and Co. gave the deal a vote of confidence, keeping J.M. Smucker Co. at "outperform" on Sept. 12, saying acquisitions already boosted growth, according to Bakingbusiness.com. Smucker has expanded into new categories, becoming a major player in pet foods, and more. Smucker sees as much as $100 million in synergies, which could be a big factor in the merger's success. Plus, this could help Smucker expand into convenience stores, a key driver of some deals. Expanded distribution can be a major benefit of any deal. And synergies exist between products as well. Some have speculated that chocolate versions of Smucker products could boost sales, while jelly versions of Hostess products could also grow revenues.

Greater Reach, Greater Risk

Some, however, have been skeptical of this big deal. BofA Global Research downgraded Smucker shares from "buy" to "neutral" on Sept. 14. The deal expands Smucker but could add new risk as expanding into new categories can. Sugar can produce an instant high, but will it play out in the long run? And Smucker's M&A record may be mixed. Smucker spent $7.7 billion to enter pet foods by buying Big Heart Pet Brands in 2015 and Ainsworth Pet Nutrition in 2019. While these categories provide growth, the company sold more than 60% of this segment for about $1.3 billion over the past two years, according to Bakingbusiness.com.



Pursuing health has driven several deals in the food and beverage industry, providing growth ...
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Chasing Health

As Smucker hungers for sugar, health has driven some other deals, providing potential growth opportunities. Mondelēz $2.9 billion acquisition of Clif Bar & Co. in August of 2022 has paid off in many respects, expanding the company beyond Oreo and Ritz into healthy snacks, a key and growing category. Mondelēz, in 2022, reported a 9.7 percent jump in revenues to $3.15 billion, boosted by nearly $351 million primarily from the takeover of Clif Bar. Mondelēz CEO Dirk van de Put pointed to the "strength and diversification of our portfolio as we delivered broad-based growth in terms of regions, categories, and brands." The deal gave Mondelēz the brands Clif, Clif Kid, and Luna along with a strong presence in healthy snacks. Other giants have been chasing healthy bars. Mars bought Kind in 2020 in a deal valued at over $5 billion.

Properly integrating a company into the acquirer is key. It's not just steady as she goes, but where the company can go that it couldn't before. It's not just who does the acquisition but who leads the integration. Mondelēz put its managers in charge of Clif, naming Alexandre Zingliara (a former Coca-Cola KO -1% executive already with a high rank at Mondelēz) as president of Clif, succeeding Sally Grimes, who had led that operation.

Going Nuts

In June 2021, Hormel bought Planters for $3.35 billion from Kraft Heinz in the biggest deal in the company's 131-year history. Planters became the biggest brand in Hormel's portfolio and a critical step in a strategy to expand into plant-based foods. It also grew Hormel's presence in a sector where it has experience after acquiring nut butter company Justin's and Skippy peanut butter. This was a strategic acquisition, not just chasing growing sales. And like many deals, this one gave Hormel more shelf space in convenience stores. Do we see a trend as companies seek to buy their way into convenience stores? Distribution can be a significant driver behind deals.

Plus, Hormel now has a bigger presence at parties and events with products that work together. About a quarter of Hormel's portfolio today is non-meat, according to Food Dive. The company debuted new nut flavors and is updating advertising and packaging, according to Motley Fool. Planters products are in about 96 percent of convenience stores, not so far a major market for Hormel, according to Motley Fool. According to that site, Planter shipments jumped 8 percent year over year in the second quarter. Still, according to that site, demand has been slipping for the nut category, a trend that could be a headwind for Hormel.

Coffee Cravings

If you crave coffee in the morning, you're not the only one. Companies are chasing coffee brands. Nestlé recently announced it is acquiring the Seattle's Best Coffee brand from Starbucks SBUX -1% for an undisclosed sum. As people spend more time at home and less at the office, home coffee brands are proving a hit. Nestlé already has Nescafé, Taster's Choice, and Nespresso, but it's been growing its coffee holdings. The company bought a majority stake in coffee shop chain Blue Bottle in 2017 and, in 2018, paid $7.15 billion to Starbucks for the right to sell that brand's packaged coffee around the world. Seattle's Best could fit in with Nestlé's strategy, giving it more shelf space in the middle and lower price points. Price increases are also likely to boost revenues. When Nestlé reported results for the first nine months of the year, it pointed to good performance by coffee in North America. Beverage growth, including Starbucks at-home, creamer brand Coffee Mate, and Nescafé, was knocking on the door of double digits.

Sapporo Holdings' acquisition of Anchor Brewing Company did not yield the desired results, with the ... [+] GETTY IMAGES

In One Deal, Out the Other

While many deals, well-made and managed, grow companies, it's possible to look back on some and see where they may have gone wrong. A little more than five years ago, Japanese brewery Sapporo Holdings paid $85 million for San Francisco-based Anchor Brewing Company. But this year, Sapporo said it is closing Anchor with only 61 employees, about half of what it had just a few years ago, and slipping sales. What happened? Sapporo blamed the pandemic, inflation, and tough times. Rising freight and materials costs, rent, labor, taxes, and fees also ate away at profits.

But others also said Sapporo may have strayed from its core customers while seeking to expand Anchor, a niche brewer. It just didn't grow as Sapporo had hoped. At some point, Sapporo felt the work wasn't worth the result. On August 31, 2022, Sapporo shifted gears when it closed on the $165 million acquisition of Escondido, Calif.-based Stone Brewing, a bigger brewery. Its strategy hadn't really shifted much, but it now sought a new path to success. Anchor in 2021 ranked 47, well behind Stone Brewing at 18, among all brewers, according to the Brewers Association.

Deals Undone

Longevity is one way of measuring successful acquisitions. If a company sells an asset after acquiring it, that can be a change of heart, strategy, or priorities. Some other brewery deals also have been undone. After acquiring Mexican beer brands Corona and Modelo, Constellation in 2015 bought Ballast Point for $1 billion. That romance made in Mexico didn't last. Constellation, in 2019, said it was selling Ballast Point to Chicago-based brewery Kings & Convicts at a price that Brewbound.com estimated at under $100 million. We can expect to see many more mergers. Acquisition is a great way to grow, expanding in existing categories, and entering new ones. But timing, cost and management are all key. M&A is alive and well in F&B. The ability to target and integrate acquisitions may remain a key factor in many companies' future and success.

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