GROCERY DIVE

Food execs signal a strong appetite for M&A in 2024

As Mondelēz, General Mills and other CPG firms scour the market for deals, high asking prices could remain a sticking point preventing some purchases from taking place.

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Courtesy of Clif Bar

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Major food makers are poised to accelerate M&A in 2024, with companies such as Mondelēz International claiming to be in “active” discussions.

Once known for consummating big transformational deals, the food and beverage sector has been focused during the last six years on so-called “bolt-on” transactions. These purchases give companies a deeper presence in certain categories without saddling their businesses with huge amounts of debt or the complexities of integrating a new business.

Executives attending the annual Consumer Analyst Group of New York conference in Florida last month said smaller transactions are likely to remain popular, and they are poised to strike if the right deal comes along.

“We have a pipeline. That pipeline is active,” Dirk Van de Put, CEO of Mondelez, told Wall Street analysts. “There are good discussions going on.”

Van de Put said the Oreo and Ritz manufacturer, which has completed nine acquisitions since 2018 including Tate’s Bake Shop, Perfect Snacks and Clif Bar, looks at 35 or 40 potential M&A targets at the beginning of each year and, if necessary, starts establishing a relationship to build trust and familiarity with the smaller businesses. The majority of them never lead to a deal.

The past few years have seen food makers engage in a handful of billion-plus deals, but in nearly every case it has been with a single company or brand that fills a void within their already burgeoning portfolios.

Last year, jam and peanut giant 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 deal is expected to close later this year.

Scott Olson via Getty Images

Several acquisitions have been smaller, including Hershey's purchase of two popcorn operations from a co-manufacturer to increase production capacity and flexibility for its SkinnyPop brand.

Louis Biscotti, the head of the food and beverages group at national accounting and advisory services firm Marcum, told Food Dive recently that CPG companies are hesitant to make too bold of an acquisition. Instead, they are likely to focus on purchases 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."

Jeff Harmening, CEO of General Mills, said the Cheerios and Old El Paso maker has been looking "at a lot of acquisitions" in the past few years but has often been stymied by higher asking prices than his company was willing to pay.

Before that, General Mills snapped up brands such as Annie's, frozen pizza crust maker TNT Crusts and pet food offering Blue Buffalo, the latter an $8 billion deal in 2018.

Harmening is hopeful opportunities for M&A could improve as the food industry moves further away from the effects of the COVID-19 pandemic, which boosted demand for some offerings and temporarily elevated the value of several businesses. At the same time, higher interest rates could deter involvement from private equity firms. Together, these changes could place General Mills in a better position to capitalize.

"I think it sets up for a pretty good environment for somebody like us," Harmening said. "We'll remain disciplined."

Retrieved from Sovos Brands.

Van de Put said he is often asked if the current economic turmoil has helped bridge the divide between the price sellers are seeking, and what companies like Mondelēz are willing to pay. So far, that hasn't been the case, with asking prices in many cases actually going up.

"They're becoming more expensive because there's more interest," he said. "We will not force it. ... We're trying to let it run its course in a natural way without going crazy."

Hershey CEO Michele Buck also said the sweet and salty snacks maker continues to evaluate potential acquisition opportunities. The Reese's and Kisses maker has a strong balance sheet that gives it the flexibility to make a deal if it finds the right target. Hershey has set its sights on scalable brands with strong margins that allow the Pennsylvania company to reach incremental consumers or occasions.

The last major purchase for Hershey came three years ago when it bought the fast-growing Dot's Homestyle Pretzels and its Midwest co-manufacturer Pretzels Inc., for $1.2 billion — a combined deal that was the second-largest transaction in its history and further broadened the company's salty snacks portfolio.

Some companies are still digesting the debt they incurred from deals several years ago. Sean Connolly, CEO of Slim Jim and Healthy Choice manufacturer Conagra Brands, said the Chicago-based company is focused on paying down debt it took on as part of its $10.9 billion purchase of frozen food maker Pinnacle Foods in 2018.

Still, Connolly added that Conagra wouldn't turn down the right deal if it made strategic and financial sense. It's eyeing opportunities in snacks and frozen; two categories that currently make up two-thirds of its $14 billion in retail sales during the last year.

"I can't see us pursuing any sizable acquisitions these days, because debt reduction is a priority," he said in an interview. "We could look at smaller bolt-on stuff at some point."