2019 Deals of the Year

Continued enthusiasm amid emerging caution

By Ian Malone, Aspect Consumer Partners

For the U.S. Nutrition Industry, 2019 was the year of the missing mega-deal. While 2018 saw a number of multi-billion dollar transformative deals, such as **Keurig Green Mountain's** $25 billion merger with **Dr. Pepper Snapple Group**, **General Mills'** $8 billion acquisition of **Blue Buffalo Pet Products** and **Conagra's** $11 billion acquisition of **Pinnacle Foods**, 2019 only saw a handful of deals that cracked the $1 billion mark. In fact, each of these large 2018 mega-deals mentioned above were larger than our selection of 2019's top 10 deals combined. This also oc-curred with the backdrop of a robust over-all M&A market—worldwide mergers and acquisitions activity (across all industries) topped $3.9 trillion in 2019, a 3% improvement over 2018 and the sixth consecutive year of total volume more than $3 trillion.

But don't panic! While 2019 marked a hiatus from the blockbuster nutrition industry deals witnessed in prior years, strategics continued to be enthusiastic acquirors of growing, innovative brands such as **OLLY**, **Quest Nutrition** and **Drunk Elephant**, and private equity remained very active acquirors and investors in companies across VMS, food and beverage, beauty and personal care. Underlying consumer market trends remain in place, namely that consumers are increasingly seeking healthier, cleaner products with functional benefits. The brands best able to meet consumers' evolving needs are predominantly newer, fast-growing, entrepreneur-led companies. Large incumbent strategics, with their portfolios of legacy brands, have struggled to grow, leading them to acquire the brands that are growing. Naturally, a robust private equity ecosystem has evolved to finance and grow these brands to scale. These underlying factors remain fundamental drivers of M&A activity in the industry, and they haven't gone anywhere.

On one hand, the explosion of mega-deals in 2017 and 2018 was simply bound to revert to the mean, but the dearth of such deals in 2019 does signal a growing caution that has emerged among large strategics in the industry, and it has manifested in more transactions involving strategics selling assets. For some, large deals done in previous years have caused indigestion. **Campbell Soup Company**, which acquired **Snyder's Lance** and **Pacific Foods** in 2017 for a combined value of nearly $7 billion, sold off five businesses in 2019, including **Bolthouse Farms**, **Garden Fresh Gourmet** and several international businesses, in part due to pressure from an activist investor. The market applauded these moves, and Campbell Soup's stock price rose 53% in 2019. Another blow to the mega-deal was the implosion of **KraftHeinz**, which saw its stock price decline 26% in 2019. This brought into question the "3G model" (brought to prominence by Brazilian private equity firm 3G Capital) of consolidating large CPG companies with legacy brands in large-scale M&A transactions and slashing costs to drive profitability and cash flow. While 3G's strategy had worked extremely well for years, it hit a wall with KraftHeinz and its portfolio of slow-growing and declining brands as the market realized the company could no longer cut its way to earnings growth.

While the traditional private equity playbook of buying growing brands, scaling them and selling them to large strategics is clearly still in place, private equity can also play the opposite role of buying businesses and assets that strategics no longer want.

For 2019's top deals, while mega-deals didn't show up to the party, there remained a steady drumbeat of strategic acquisitions, private equity activity and a few high-profile IPOs driven by strong underlying consumer trends. We see several different themes among 2019's top deals, including:

Strategics buying growth and innovation – We continue to see large strategics acquiring brands for growth and innovation. We see this in all segments of the broader nutrition / healthy living industry, including food, VMS and clean beauty. Highlights include **Unilever**'s acquisition of **OLLY**, **Simply Good Foods Company's** acquisition of **Quest Nutrition**, **Shiseido's** acquisition of clean-beauty leader Drunk Elephant, **Mondelez'** acquisition of **Perfect Bar** and **Hershey's** acquisition of **ONE Brands**.

Private Equity activity – We continue to see strong private equity activity in the Nutrition Industry. There is a robust investment ecosystem providing growth capital to emerging challenger brands, such as **Swander Pace's** investment in **Bragg Live Food Products** and **VMG Partners**' investment in **NutPods**. Private equity has also increasingly become buyers of business lines that strategics have cast off, such as Campbell Soup Company's sale of their Bolthouse Farms brand and their Arnott's/ international business to Butterfly Equity and KKR, respectively.

Strategics selling assets / restructuring – Divestments gained pace among strategics in 2019, as they restructured and refocused their portfolios. While not an entirely new trend (witness Unilever's sale of its spreads business, now named Upfield, to KKR and **Reckitt Benckiser's** divestment of its food division to **McCormick** in 2017), 2019 saw an uptick in the number of these transactions, including **Hormel**'s sale of its **CytoSport** brand to **PepsiCo** and **Danone's** sale of **Earthbound Farm** to **Taylor Fresh Foods**.

Unicorns (and budding unicorns) making waves – The two leading plant-based meat unicorns had a memorable 2019, with **Beyond Meat** having its successful initial public offering and (honorable mention) **Impossible Foods** raising over $300 million at a $2 billion post-money valuation with private investors (both in May). Another unicorn to go public, Peloton Interactive, also had a strong showing in 2019. Honorable mention also goes to **Siete Family Foods** (a budding future unicorn) on their investment from **Stripes Group.**

Following are NBJ's top 10 deals of 2019.

Unilever acquires OLLY Nutrition

Co-founded in 2014 by Eric Ryan, who also co-founded clean home products brand **method**, **OLLY** shook up the traditional vitamins and supplements retail set, focusing on products that make nutrition simple, easy and delightful. Best known for its gummy vitamins and its millennial-friendly packaging and marketing, OLLY grew quickly after launching with an exclusive in Target in 2015. OLLY won over consumers by making product uses and benefits clear (e.g., "Sleep", "Undeniable Beauty", "Daily Energy") on a friendly package and delivering a great-tasting, effective product. OLLY also recently expanded into functional foods with its line of protein bars and powders.

Unilever's acquisition of OLLY marks the anglo-dutch giant's first significant foray into the VMS category, but Unilever saw a clear fit for OLLY among its portfolio of beauty, personal care and food brands. With rival **Nestlé's** push into the VMS sector with their acquisition of **Atrium Innovations** in 2017, Unilever likely saw an opportunity in OLLY to stake a claim in the growing VMS category with a strong, disruptive brand. Although terms were not disclosed, the deal was rumored to be in the hundreds of millions. OLLY will continue to be headquartered in San Francisco, but look for Unilever to help the brand unlock growth, particularly in international markets.

The deal is one of several instances in 2019 of large European firms acquiring growing U.S. brands that fill important VMS niches. In August, **Bayer Aktiengesellschaft** acquired **Maty's Healthy Products**, a maker of organic and natural health remedies for babies and children. Also in August, Nestlé Health Science expanded into personalized nutrition with its acquisition of Persona, a personalized vitamin company founded in 2017. Finally, in February, Reckitt Benckiser acquired **UpSpring, Ltd.**, an innovative maker of vitamins, supplements and other products for mothers and babies.

Beyond Meat initial public offering

One of the most important deals in 2019 wasn't an M&A transaction; it was an IPO, and not just any IPO. Beyond Meat went public in May amid a crescendo of excitement around plant-based meat. It closed its first day of trading up 163% from its $25/share IPO price, one of the strongest one-day pops seen in the IPO market in some time. The stock hit a peak of $235 in July (a market cap of over $14 billion) before coming down to Earth and finishing the year around $76/share ($4.7 billion market cap). By any traditional metric, BYND's valuation is still rich, trading at nearly 9x forward revenues (as of the end of the year—it has since risen higher), but plant-based meat is much more than a food trend, and Beyond Meat is much more than a branded food play. It's branded food, industry disruptor, planet-saving technology and a cultural movement all wrapped into one.

Americans have become more open to plant-based meat alternatives for health and sustainability reasons. Beyond Meat and its rival Impossible Foods have further reduced the barriers to adoption by making great strides in the taste profiles of their offerings. Engineering taste and texture to approximate real meat is not an easy feat, and for many consumers, Beyond's and Impossible's offerings still aren't quite there yet. But in a sign of increasing mass-market adoption, Beyond Meat entered into partnerships with a number of fast food outlets including Subway, Dunkin', Denny's, Carl's Jr. and Tim Horton's. Not to be outdone, Impossible Foods inked deals with Burger King, White Castle and others.

Impossible Foods also had a major deal in May 2019, raising over $300 million from private investors including Temasek Holdings, Horizon Ventures, and a slew of a-list celebrities including Jay-Z, Katy Perry and Serena Williams, at a post-deal valuation of $2 billion. The investors were likely pleased with the stock performance of Beyond Meat after its May IPO, which portends well for Impossible's own potential IPO down the road.

The Simply Good Foods Company acquires Quest Nutrition

The Simply Good Foods Company (Nasdaq: SMPL), formerly known as **Atkins Nutraceuticals**, acquired **Quest Nutrition** from Voyage Holdings and VMG in August for a cool $1 billion. By acquiring the sports and active nutrition brand, SMPL expands its nutritional snacking portfolio and diversifies its consumer base with Quest's predominantly young, active and affluent demographic. With a focus on high-protein, minimal sugars and low net carbs, Quest has parlayed its runaway success in bars to expand into new product formats, such as powders, cookies, chips and pizzas, making it a well-rounded nutritional snacking platform.

The deal nearly doubles The Simply Good Foods Company's revenue to over $800 million and adds a high-growth brand to complement its slower-growing Atkins brand, making SMPL a more durable public company.

VMG Partners had an exceptional year as it realized significant exits for four of its portfolio companies, including three deals in *NBJ's* top 10 (Quest Nutrition, Drunk Elephant and Perfect Bar) as well as Sun Bum.

Shiseido acquires Drunk Elephant

In October, Japanese beauty giant Shiseido reportedly beat out rival Estée Lauder to acquire leading clean beauty and skincare brand Drunk Elephant for $845 million. With the brand reportedly on track to do more than $100 million of revenue in 2019, the deal was struck at a rich ~8x multiple of sales, which reflects the growing importance of the clean beauty trend and its outsized growth in the category.

Founded by Tiffany Masterson in 2012, Drunk Elephant was an early proponent of greater ingredient transparency in beauty products. Just as consumers began paying more attention to the ingredients in the food they eat, consumers became increasingly aware of undesirable ingredients in beauty products they put on their skin, creating a significant market opening for brands like Drunk Elephant, **Juice Beauty**, **Kosas** and others. Drunk Elephant's formulations are free of essential oils, drying alcohols, silicones, chemical sunscreens and fragrances, dyes and sodium lauryl sulfates.

With the emergence of more clean brands and new clean-only retail sets such as the "Clean at Sephora" program and clean-only retailers such as **Credo Beauty**, the clean trend is here to stay and can't be ignored by large strategics. Just as we have seen in better-for-you food and beverage, large strategics in the beauty space have increasingly turned to M&A to acquire clean beauty brands they can further scale. In June, **Unilever** acquired **Tatcha** for an estimated $500 million. Expect to see more deals in this space in 2020 and beyond.

Butterfly Equity acquires Bolthouse Farms from Campbell Soup Company

When Campbell Soup Company bought Bolthouse Farms in 2012 for $1.55 billion, they were focused on the growth potential of the maker of packaged fresh carrots, dressings and beverages and the enhanced position Bolthouse would give them in the "fresh perimeter" of the store. They certainly couldn't have imagined that seven years later they would sell off the business for over $1 billion less than they paid for it, but times change.

In late 2018, after the departure of CEO Denise Morrison, Campbell Soup announced would be shutting down its Fresh Division and putting Bolthouse Farms and Garden Fresh Gourmet on the market as part of a broader restructuring initiative. Fast forward to April 2019, and the company announced Bolthouse Farms would be sold to private equity investor Butterfly Equity for $510 million. The deal also marked the return of Jeff Dunn, the former CEO of Bolthouse Farms when it was originally sold to Campbell Soup and who later led Campbell's Fresh Division.

The deal was notable as it represented one of the largest asset sales among large strategics in 2019, and because it was another example of private equity continuing to be active in the space in a variety of different capacities. While the traditional private equity playbook of buying growing brands, scaling them and selling them to large strategics is clearly still in place, private equity can also play the opposite role of buying businesses and assets that strategics no longer want. With a mountain of unspent "dry powder" to invest and fierce competition for the best deals, expect to see more interest among private equity investors in creative deals and corporate carve-outs.

In addition to Bolthouse, Campbell Soup sold four other businesses in 2019: the Kelsen Group to Ferrero for $300 million, Garden Fresh Gourmet to Aliments Fontaine Santé for $55 million, Arnott's and other international assets to KKR for $2.2 billion and **Habit**, their personalized nutrition business, to **Viome** for an undisclosed price.

Tivity Health acquires Nutrisystem

Weight loss is big business. Programs such as Nutrisystem, Jenny Craig and Weight Watchers generate billions in revenue, and of course weight loss is a significant demand driver for the broader nutrition industry in general. At $1.34 billion, Tivity Health's acquisition of Nutrisystem was one of the largest deals of the year. Tivity Health, known for its fitness programs for corporate clients and seniors, was clearly focused on the "calories out" side of metabolic calculus but now with Nutrisystem, a leading we,ight loss meal-delivery provider, they have a strong foothold in the "calories in" side, as well. The company's goal is to be a provider of overall wellness and weight management solutions.

The transaction, which closed in March 2019, wasn't the only important deal in the category. In April, Jenny Craig was acquired by H.I.G. Capital for an undisclosed price, the fourth time the company has traded hands in recent history. MidOcean Partners and ACI Capital acquired the business in 2002, then sold it to Nestlé in 2006 for $600 million. Nestlé sold it seven years later to North Castle Partners in 2013.

PELOTON

Peloton Interactive Initial Public Offering

At the intersection of healthy living, fitness and technology, the second big public offering among our top deals was the September IPO of Peloton Interactive. The maker of $2,500 exercise bikes with $40/month subscriptions raised $1.2 billion in the offering, valuing the business at a $8+ billion market cap. But the stock, which priced days before WeWork threw in the towel on its ill-fated IPO, fell 7% in its first day of trading and finished the year a hair lower than its IPO price of $29/share.

As a leader in 'connected fitness,' Peloton's hardware + software/media business model has won over legions of fans and has barely scratched the surface of its addressable market. At ~8x revenues, the company is certainly valued more like a software company than a mere maker of exercise equipment, and the company doesn't project it will generate positive EBITDA until 2024. The question is, will users still be sweating along or will the bikes be gathering dust in their garages by then? The market is certainly betting on the former, and this is where Peloton's focus on content and community is critical. Peloton keeps users engaged with live classes and motivated with a dynamic community. With a monthly churn rate currently less than 1%, the formula appears to be working.

CYTOSPORT

PepsiCo acquires CytoSport from Hormel

Hormel's acquisition of CytoSport, the maker of **Muscle Milk** and a 2014 *NBJ* deal of the year mention, marked their first foray into ready-to-drink protein and sports nutrition, but after five years, the maker of Spam and Dinty Moore beef stew realized it just wasn't the right long-term owner of the business. Hormel passed that baton to PepsiCo in February in a deal valued at $465 million, about the same price Hormel originally paid for the business. PepsiCo had been a long-standing distribution partner for CytoSport, and the Muscle Milk brand has attributes complementary to Gatorade, which has recently expanded into protein shakes and bars. The tuck-in acquisition was PepsiCo's first under new CEO Ramon Laguarta, who took over in October 2018. With its massive scale and distribution reach, PepsiCo should be able to grow the brand to new heights. The deal is another example of large strategics selling assets, sometimes among themselves. In 2018, B&G Foods sold **Pirate Brands**, the maker of Pirate's Booty puffed snacks, to Hershey in a similarly sized deal.

PERFECT SNACKS

Mondelez acquires Perfect Snacks

In June, **Mondelez** acquired a majority stake in **Perfect Snacks**, the maker of Perfect Bar and a pioneer in the refrigerated bar category. The category as we know it today hardly existed ten years ago, and only in the last several years has it solidified into a major force in food retail. Perfect Bar was a trailblazer and built the fresh bar category into one of the fastest growing segments in snacking. But it wasn't easy getting there. Cold chain distribution can be challenging, shelf life is short, and retailers have high velocity expectations in their refrigerated perimeter which is some of the most valuable shelf real estate in the store. There also hasn't been a consistent location in the store for refrigerated bars across retailers, which can lead to consumer confusion, but the category has come a long way, and Perfect's $70 million of sales and presence in 27,000 retail stores are proof positive.

ONE

Hershey acquires ONE Brands

Hershey added to its stable of better-for-you offerings with its acquisition of ONE Brands in August. ONE's line of low-sugar, high-protein bars has grown rapidly following the company's rebrand from OhYeah! and receiving investment capital from CAVU Venture Partners. With indulgent flavors like Birthday Cake, Peanut Butter Pie and Blueberry Cobbler, the brand gives Hershey a stronger foothold in the snack bar category while remaining true to its confectionary roots.

The $400 million deal marks the latest addition to Hershey's **Amplify Snack Brands** division and will complement its **Oatmega** brand in particular. ONE Bar also gives Hershey more exposure to important morning snacking occasions and a greater presence in e-commerce and nontraditional channels.

It is unclear if 2020 will see a return of mega-deals to the Nutrition Industry, but activity in the middle market (sub-$1 billion) shows no signs of slowing. With entrepreneurial brands continuing to make up a large share of industry growth, private equity investors will continue to fund them and strategics will continue to acquire them as they reach scale. While uncertainty around the 2020 election and the economy could curtail M&A activity, as long as underlying consumer trends remain intact, expect a steady stream of deals to continue.

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2019 Top Deals – Honorable Mentions

- **Voortman Bakery acquired by Hostess Brands** – Hostess expanded its reach beyond Twinkies and HoHos with its $320 million acquisition of Voortman Bakery, a portfolio company of Swander Pace Capital and a maker of cookies and indulgent snacks featuring real ingredients (no artificial colors, flavors, high-fructose corn syrup or trans-fat), as well as a line of sugar-free products.
- **Halo Top acquired by Wells Enterprises** – Low calorie ice cream darling Halo Top was acquired by Wells Enterprises, owner of the Blue Bunny brand, in September. Halo Top had previously explored a sale in 2017 for upwards of $2 billion. Terms of the sale to Wells were not disclosed.
- **Bragg Live Food Products acquired by Swander Pace Capital** – Bragg Live Food Products, famous for its apple cider vinegar and other condiments, seasonings and beverages, was acquired by an investor group led by Swander Pace Capital, with co-investments from Dragoneer Investment Group and celebrities Katy Perry and Orlando Bloom.
- **Impossible Foods capital raise from Temasek Holdings and others** – Impossible Foods raised over $300 million from private investors, including Temasek Holdings, Horizon Ventures, and a slew of a-list celebrities, including Jay-Z, Katy Perry and Serena Williams, at a post-deal valuation of $2 billion. The investors were likely pleased with the stock performance of Beyond Meat after its May IPO, which portends well for Impossible's own potential IPO down the road.
- **Danone sells Earthbound Farm to Taylor Fresh Foods** – In yet another example of large strategics shedding non-core assets, Danone sold Earthbound Farm to fresh cut greens leader Taylor Fresh Foods. Earthbound came to Danone as part of its $12.5 billion acquisition of WhiteWave Foods in 2016. WhiteWave acquired Earthbound Farm in 2014 for $604 million.
- **Jenny Craig acquired by H.I.G. Capital** – Jenny Craig was acquired by H.I.G. Capital for an undisclosed price in April, the fourth time the company has traded hands in recent history. MidOcean Partners and ACI Capital acquired the business in 2002, then sold it to Nestlé in 2006 for $600 million. Nestlé sold it seven years later to North Castle Partners in 2013.
- **Siete Family Foods capital raise from Stripes Group** – When Gwenyth Paltrow and Ryan Seacrest spontaneously wax poetic about your chips and dips live on national TV during the Golden Globes, you know you're doing something right. With its line of grain-free chips and tortillas and better-for-you dips and hot sauces, Siete has carved out a significant niche as a next-generation Mexican-American food brand. The company raised $90 million from Stripes Group early in the year to accelerate growth—a brand to watch.