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SPOTLIGHT ON **COVID-19**

HOULIHAN LOKEY

The Future of M&A in a Post-COVID-19 Consumer Market

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Webinar Summary

At the beginning of 2019, even the most weathered of institutions could not have foretold the significant global downturn in M&A over (approximately) the last three months. In the first six months of 2020, global food and beverage transactions have decreased by 34% since last year; European transactions are down by 29%, and in the UK alone, we have seen a decrease of 25%. To put this into perspective, only 12 M&A transactions have occurred in the food sector in the UK since the beginning of the year, a c. 40% decrease against the same period in 2018.

There are four key reasons for the downturn in UK food M&A volume this year. The first is confidence, or a lack thereof. Businesses must be confident the market will hold up if they are to make a substantial acquisition. The second is availability of debt. The majority of banks and credit funds are currently spending most of their time focusing on their existing portfolio, so they do not have the bandwidth to take on anything new. The third is the restriction of travel and access. Deals are unlikely to take place without meetings with management, factory visits, and substantive relationship-building. The final is valuation. There may currently be the perception of an opportunity to buy things more cheaply, while businesses are reluctant to sell. It will therefore take time for the market to reach a consensus once more.

So, what are the prospects for food M&A in Europe? Arguably, the positives outweigh the negatives on this—a welcome change. Restricted travel, reluctance to start doing business with “new” clients, difficulty forecasting future financial performance, and the inclination to wait until performance recovers (particularly in regards to foodservice and food to go) are some of the negatives. On the plus side, however, it is becoming increasingly easy to find alternative ways of meeting with key players, and most deals have been postponed rather than cancelled, meaning there is likely to be a rush of launches in the latter stages of this year. In addition, stock markets have recovered significantly since March, and given that many food companies have exceeded their budgets due to the pandemic, they may accelerate their planned disposal timelines. Furthermore, private equity has, and always will have, the need to invest, given that this is their raison d’être.

In summary, there is no reason to believe that transactions shouldn’t start happening within Europe as soon as September. However, this is dependent on the numbers of COVID-19 cases continually declining.

In regards to European private equity trends, significant funds remain available to invest, which will likely be invested alongside significant third-party debt in order to increase equity returns. There is also the view that, because of COVID-19, valuations will be reduced. Concurrently, with hindsight of the 2008 financial crisis, some wished they had invested more when it transpired that some of the best returning funds were invested in 2009 and 2010. Therefore, there is an expectation here that those who were able to invest in 2008 (but didn't) will invest heavily after this crisis.

What are the key ingredients needed when making food companies valuable? Although it is highly unlikely that one company will meet all the criteria, a strong cohort is needed to establish an uplift in valuation multiple. Examples of recent success factors are direct-to-consumer, a motivated and talented management team, reasonable scale, strong gross margins, and a diverse and robust customer base. Additional value-raising components include health and wellness, personalisation, branded, fast growth (top-line), convenience, being international in nature, a well-invested manufacturing footprint, new category (or very-early-mover advantage), and significant intellectual property.

We look forward to observing how these insights play out as the market unfolds in the coming months.

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Mr. Browne is Co-Head of UK Corporate Finance, working with all industry sectors as well as (most notably) in the Finance Sponsors and Capital Markets groups. His personal area of expertise lies in the food and beverage sector, where he has advised on more than 150 completed global transactions during his career.

Previously, Mr. Browne was a Managing Director and co-founder of McQueen, the London-based investment bank focused on the consumer sector, which grew to be one of the most successful M&A advisors in the European consumer sector prior to its acquisition by Houlihan Lokey in 2015.

Prior to McQueen, Mr. Browne co-founded the Consumer M&A team at HSBC (1999–2002) and led the startup of HSBC Investment Bank in India (1996–1999).

Mr. Browne qualified as a Chartered Accountant with PricewaterhouseCoopers in 1988 and joined HSBC 1992.

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