



Food ingredients sustain the market during the pandemic

SPOT ON | FOOD INGREDIENTS | FEBRUARY 2021

In this Spot On issue, Oaklins' food ingredient specialist Michele Manetti and his team analyze the latest market trends: from sustained M&A activity to the foreseeable resistance of multiples to COVID-19's effects. We also interview Martino Verga, chairman and managing director of Sacco System Group, an Italian leading player in the production of milk enzymes and food microorganisms, probiotics, rennet and other enzymes, to gain his invaluable industry insights.

STRATEGIC MOVES BY KEY CONSOLIDATORS IN THE SECTOR (pg.2)

A brief overview of the latest M&A transactions carried out by a selection of key consolidators in the industry.

SPOTLIGHT: THE SACCO SYSTEM GROUP (pg.3)


A quick portrait of Sacco System, an Italian leading enzymes and food cultures, probiotics, rennet and other enzymes producer, by its chairman and managing director Martino Verga.

LISTED COMPANIES AND VALUATIONS TRENDS (pg.5)

After the drop in multiples in March 2020 caused by the spread of COVID-19 around the world and its aftermath, multiples of listed food ingredients players have recovered strongly and reached new peaks.

RECENT PRIVATE TRANSACTIONS (pg.9)

A focus on M&A private transactions in the food ingredients sector, with an analysis of the most relevant deals, involved geographies and transaction size ranges.



“After an initial slight downturn during the early economic uncertainty generated by the COVID-19 outbreak, which affected all industries, the food ingredients market reacted very well to the pandemic. Companies maintained good levels of profitability and valuations rose, as demonstrated by the increase in listed companies' multiples.”

MICHELE MANETTI

FOOD INGREDIENTS SPECIALIST, OAKLINS

Strategic moves by key consolidators in the sector

A selection of key consolidators in the sector, with M&A transactions carried out in the last five years:



Source: MergerMarket, Capital IQ and corporate websites

During COVID-19

As shown in the above chart, even in a difficult year like 2020 the main players in the sector continued their consolidation process. In particular, during the COVID-19 period, the following seven M&A deals have been finalized:

- In April 2020, **Kerry Group** plc concluded the acquisition of **Tecnispice, Sociedad Anónima**, a Guatemalan-based company, in the effort to increase its manufacturing capacity and geographic reach.
- In May 2020, **Firmenich** entered into exclusivity with private equity firm Ardian, Tikehau Capital and family shareholders to acquire **Les Dérives Résiniques et Terpéniques (DRT)**. "DRT would further strengthen our leading perfumery & ingredients business, enabling us to offer our customers the world's best palette of renewable and sustainable ingredients," said Gilbert Ghostine, CEO, Firmenich.
- In May 2020, **Nactarome Group** (a leading European platform in natural ingredients for the food and beverage sector, composed of AromataGroup, IPAM and Nactis Flavours) announced that it had acquired **Create Flavours**. Create Flavours significantly boosts Nactarome's research and development capabilities and represents a strong base in the UK market to cross-sell the combined group's products.
- In May 2020, **Givaudan** announced the acquisition of **Alderys** as part of its long-term strategy to expand its capabilities in bio-engineering technologies.
- In November 2020, **Kerry Group plc** acquired the probiotic business of **Bio-K+ International Inc.** The acquisition allows the Bio-K+ brand to expand globally through the Kerry Group.
- In November 2020, **Sensient Technologies Corporation** agreed to sell its fragrance business to **Symrise AG**. The transaction will enable Symrise to position itself as a leading supplier of fragrance ingredients and expand its presence in the Europe Africa and Middle East (EAME) and Latin American regions.
- In December 2020, **DAIZ Inc.** announced that it will raise a round of funding. The transaction included participation from **Ajinomoto Co. Inc.**



Spotlight: Sacco System Group

Sacco System is the convergence of international biotech excellence applied to the food, nutraceutical and pharmaceutical industry. The group is a producer of enzymes for dairy and food cultures, probiotics, rennet and other enzymes, and markets laboratory products for food control.

The history of the group began in 1872, when Martino Verga's great-grandfather founded the Caglificio Clerici, Italian leader in rennet production. In 1984, Verga Family acquired Sacco, a producer and partner in research, production and packaging of selected frozen and lyophilized microbial cultures used for the production of food and probiotic products. Then, in 2006 Caglificio Clerici acquired the Swedish company Kemikalia, market leader in the developing, manufacturing and marketing of ingredients for the dairy food industry in Sweden, the Nordic countries and other EU nations. Sacco furthermore acquired the Italian culture producer Centro Sperimentale del Latte (CSL) in 2013.

Therefore, as of today, Sacco System Group consists of four independent companies: Caglificio Clerici, Sacco, CSL and Kemikalia, which make up a single network that shares resources and know-how but preserves the

characteristics and production specificities of the individual companies.

Sacco System has consolidated revenues over US\$120 million and distributes its products in all key markets (110+ countries), with exports accounting for more than 60% of its turnover.

Q&A

The transition from a purely family-owned company to a brand with an international footprint has involved a number of acquisitions, opening offices abroad and dealing with different players. How did you plan your acquisition strategy? How important were the acquisitions for your transformation, and what were the main difficulties you faced?

Martino Verga: Our transition began in 1983, when Verga Family acquired Sacco. This transaction allowed us to reduce risk by diversifying and expanding our product range. In fact, as Clerici we produced enzymes, while Sacco produced Cultures and Lactic Acid Bacteria (LAB) that were complementary to our products and were marketed in the same sectors.

Subsequently, in order to consolidate our leadership in the Italian market and



MARTINO VERGA

Chairman and managing director
Sacco System Group
Italy

increase our market share, we acquired some of our Italian competitors. The motivations behind our acquisitions, both those already completed and those we are currently evaluating, are basically twofold: expanding our product catalogue and increasing market share.

However, the fact that the targets belong to our sector, or are in any case active in sectors where we can make use of our decades of experience, has been, and will be in the future, the main guideline for Sacco System in this type of operation. We are not interested in entering other sectors, and we do not consider it particularly efficient to operate in several sectors at the same time.

The main difficulty we have encountered in our M&A growth process is that we

operate in a niche sector, and this has two closely related consequences: the scarcity of attractive players and a high level of expected multiples.

Sacco System has more than doubled its turnover in the last five years. How has the market changed, and what are the future prospects?

Martino Verga: The market has not changed particularly much, but as Sacco System we focus a lot on the probiotic and pharma niches, which have seen greater increases in demand than the traditionally safer and more stable food sector. At this moment in history, probiotics is slowing down, but we expect a further leap forward in pharma.

In addition to pharma, we think the fermentation industry will also have good developments in the areas of:

- Plant protection/well-being — in favour of a reduction in the use of pesticides, plant protection products, herbicides, chemical fertilizers, etc. As of today, in fact, the market is underdeveloped, but a thriving market is being created, and as Sacco System we want to be present in this sector
- Animal health — in Europe, the reduction in the use of antibiotics in animal breeding is a fact, and the trend aims to totally abolish their use. The new frontier is to replace antibiotics with other elements able to guarantee the good health and growth of the animals themselves. For example, it seems that many intestinal bacteria can fill this need.

We have, in fact, recently developed a line, called “4CHOICE,” for the treatment of alternatives to animal products (soya and almond milk, cold meats with soya and vegetables). We see this as a trend to which it is right to adapt, while maintaining our focus on the dairy industry. At Sacco System we have always been very flexible, anticipating market trends.

There is increasing consumer awareness of the importance of eating healthy, natural and sustainably produced food. What impact has this trend had on the food ingredients industry?

Martino Verga: It is becoming increasingly important for consumers to consume healthier and better-quality food. Fortunately, Sacco System products are perceived as an absolute guarantee of health and well-being. We have just launched a campaign called “INgredients” which aims to educate the consumer about the fact that our products are present in a multitude of food products, even though the end consumer is often not aware of this. To this end, we have founded the IN (abbreviation of “INgredients”), which some of our customers are happy to apply to their products as a mark of quality.

It should also be stressed that, in terms of quality and food safety, Italy is a reference point for the whole world. In fact, as an example, the personnel employed by the Italian state (ATS and NAS) to carry out food controls is about six times the number used in Germany.

COVID-19 has certainly changed the buying and consuming behavior of most of us, with an increase in retail sales (large-scale distribution) and a decrease in out-of-home consumption (restaurants, bars, etc.). What impact has this event had on the dairy industry?

Martino Verga: This influence has been clearly felt in the sector, as restaurant products have suffered a major setback, while sales of products consumed at home have soared. For example, demand for D.O.P. (registered trademark) and high-end cheeses, available in supermarkets, has increased. Demand for probiotics sold directly to the consumer, without the intermediary of players such as pharmacies, has also grown considerably, and this has had an impact on the changing shape of the supply of these products.

Given the current trends and future challenges, who will be successful in your industry?

Martino Verga: Success will be achieved by those who, on the one hand, try to reduce risk by focusing on more than one market sector and, at the same time, maintain the highest quality standards in each niche.

Sacco System, for example, in the pharma and probiotic sectors is a specialist in fermentation, and we try to be the ideal partner for companies that need these types of products. Fortunately, we have a good reputation in the market, and we also receive requests from distant markets such as the United States.

What are the upcoming challenges for Sacco System?



Martino Verga: We started building a production plant in the United States at the beginning of October, as we believe that a widespread presence in several parts of the world is necessary. On the other hand, we are becoming more and more a managerial company, so we are looking for high-profile and independent personnel to whom we can entrust the management of a complex company.

We are therefore focusing on geographical expansion, managerialization and looking for opportunities to acquire companies to expand our product range.




















Selected listed companies

After the March 2020 stock market drop in almost all industries, caused by COVID-19, multiples of listed companies in the food ingredients sector have recovered over the last eight months, marking new peaks for the sector. In April 2020, the adjusted average of the EV/EBITDA and EV/sales multiples of the food ingredient listed companies stood at 12.8x and 2.2x, respectively. At the end of December 2020 we observed the following multiples of the food ingredient listed companies (adjusted average): EV/EBITDA and EV/sales fell, respectively, to 15.9x and 2.9x.

Company	Country	Market cap (US\$m)	EV/Sales (US\$m)	EV/EBITDA (US\$m)
Givaudan S.A.		38,566	6.6x	32.3x
Koninklijke DSM N.V.		29,522	3.0x	20.2x
Kerry Group plc		25,624	3.5x	25.1x
McCormick & Company Incorporated		24,925	5.3x	24.3x
Associated British Foods plc		24,564	1.5x	14.2x
Symrise AG		17,985	5.0x	24.2x
Novozymes AS		16,057	7.5x	21.5x
Chr. Hansen Holding AS		13,496	13.0x	31.6x
Solvay S.A.		12,387	1.3x	7.4x
International Flavors & Fragrances Inc.		11,769	3.1x	14.5x
Angel Yeast Co. Ltd.		5,910	5.0x	21.2x
Ingredion Incorporated		5,316	1.2x	8.6x
AAK AB (publ.)		5,152	1.8x	18.1x
Tate & Lyle plc		4,253	1.3x	7.4x
Glanbia plc		3,714	1.0x	14.9x
Corbion N.V.		3,342	3.3x	22.6x
Sensient Technologies Corporation		3,145	2.8x	18.2x
Anhui Jinhe Industrial Co. Ltd.		2,777	4.5x	18.3x

Selected listed companies

Company	Country	Market cap (US\$m)	EV/Sales (US\$m)	EV/EBITDA (US\$m)
Robertet S.A.		2,534	4.1x	24.8x
MeiHua Holdings Group Co. Ltd.		2,168	1.2x	7.4x
ChenGuang Biotech Group Co. Ltd.		1,409	2.8x	23.4x
AGRANA Beteiligungs-Aktiengesellschaft		1,222	0.6x	8.9x
T. Hasegawa Co. Ltd.		867	1.2x	7.5x
Guilin Layn Natural Ingredients Corp.		803	7.1x	47.2x
Nantong Acetic Acid Chemical Co. Ltd.		513	1.2x	7.6x
Apple Flavor & Fragrance Group Co. Ltd.		477	1.0x	12.4x
Takasago International Corporation		453	0.6x	8.2x
Qianjiang Yongan Pharmaceutical Co. Ltd.		417	1.9x	7.7x
S H Kelkar and Company Limited		235	1.9x	11.3x
Camlin Fine Sciences Limited		217	1.8x	12.9x
EnWave Corporation		104	3.8x	NM
Vidhi Specialty Food Ingredients Limited		79	2.8x	12.3x
Allied Biotech Corporation		57	2.6x	9.7x
Dynemic Products Limited		38	2.1x	9.3x
Changmao Biochemical Engineering Company Limited		38	0.4x	2.4x
	Adj. average	6,713	2.9x	15.9x
	Average	7,432	3.1x	16.4x
	Median	2,777	2.6x	14.4x

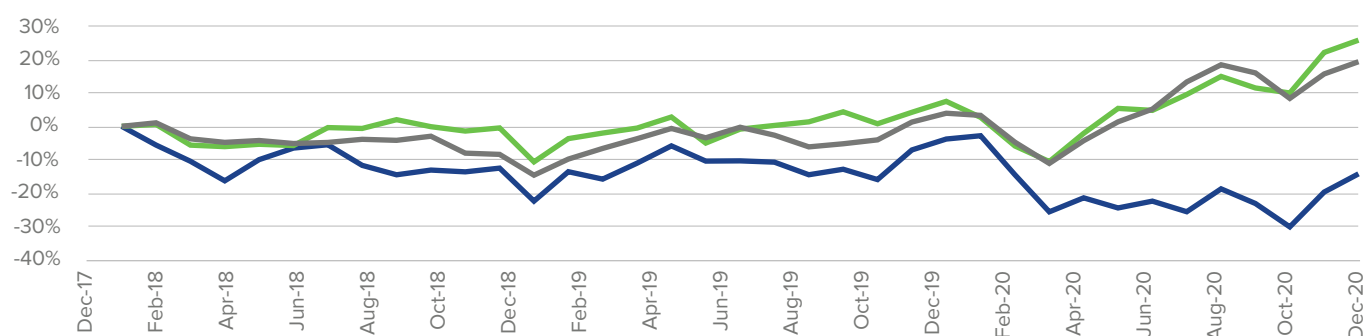
Source: Capital IQ, data in US\$m as of 28 December 2020

Valuation trends

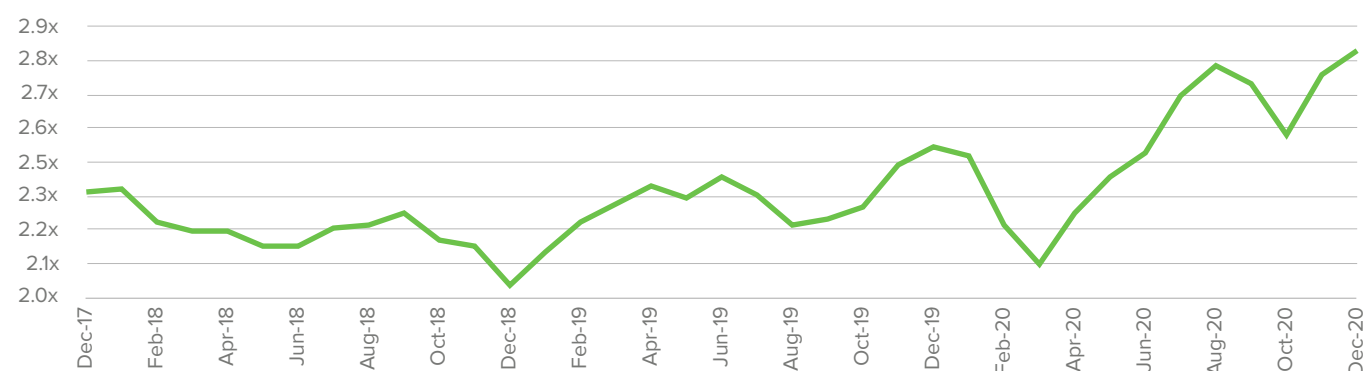
Oaklins' food ingredients specialists have created a custom food ingredients index, composed of the 35 selected listed companies active in the food ingredients industry (see the Listed players section).

Over the past three years, listed food ingredients companies have performed in line with traditional food and beverage players included in the S&P Food & Beverage Select Industry Index, while they have overperformed constituents of the FTSE 350 Food Producers & Processors Index. Furthermore, the following two graphs — one referring to the EV/sales and the other to the EV/EBITDA multiple — represent the food ingredients sector trend during the last three years.

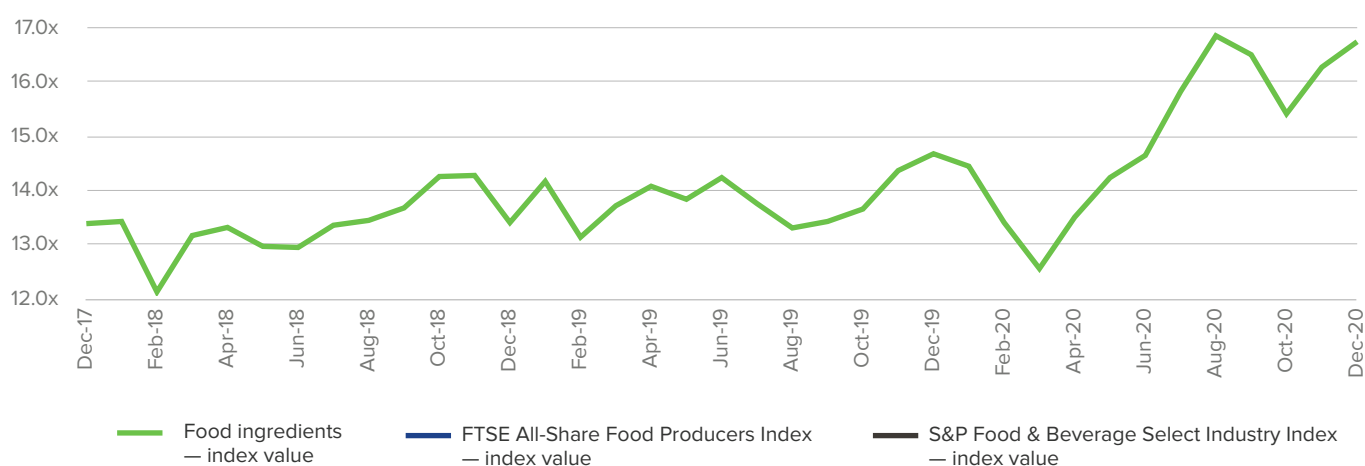
Custom Food Ingredients Index versus FTSE 350 Food Producers & Processors Index versus S&P Food & Beverage Select Industry Index



Last three years' EV/sales multiples — Food Ingredients Index



Last three years' EV/EBITDA multiples — Food Ingredients Index



Food ingredients
— index value

FTSE All-Share Food Producers Index
— index value

S&P Food & Beverage Select Industry Index
— index value

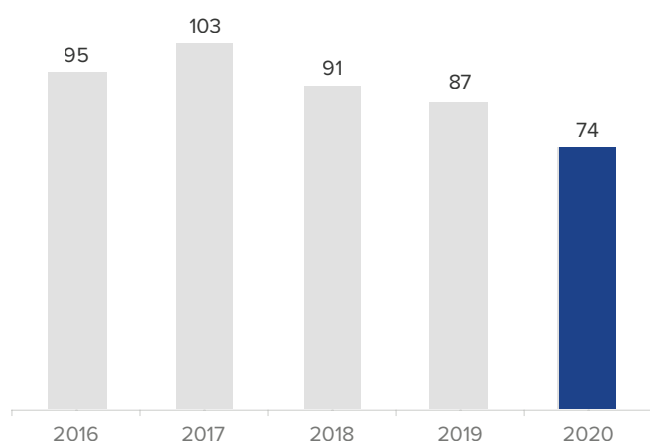
Source: Capital IQ, data in US\$m as of 28 December 2020

M&A activity

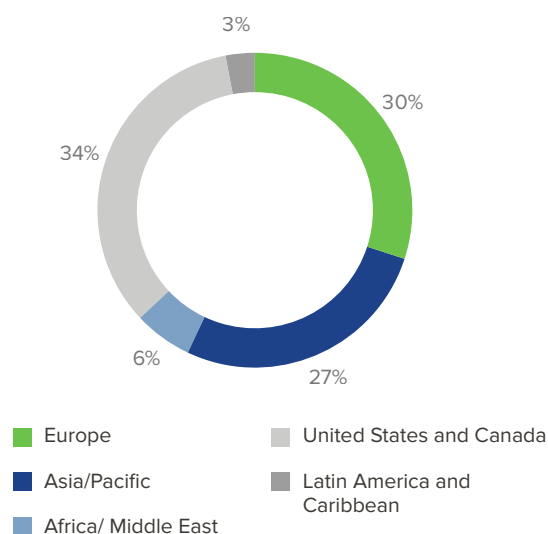
Although a troubled year marked by the COVID-19 health emergency, 2020 saw 74 M&A transactions involving targets active in the food ingredients sector closed.

With regard to the targets' countries, in 2020 the United States and Canada were the most active locations (34%), followed by Europe (30%), Asia/Pacific (27%), Africa/ Middle East (6%) and Latin America and Caribbean (3%).

Total food ingredients M&A deals



Number of transactions by region (2020)



Source: Capital IQ and MergerMarket, transactions related to food ingredients, food additives/ingredients, flavors and fragrances industries.

























M&A activity

A selection of recent private transactions in the sector:

Date	Target	Bidder	Rationale	Country	Valuation			
					EV (US\$m)	EV/ Sales	EV/ EBITDA	EV/ EBIT
17-Dec-2020			Producer and supplier of sweeteners and honey		241	N/A	N/A	N/A
16-Dec-2020			Producer of improvers and ingredients for the baking industry		N/A	N/A	N/A	N/A
16-Dec-2020			Flavor and ingredient solutions for safeguarding the aroma, taste, appearance and safety of your food products		N/A	N/A	N/A	N/A
1-Dec-2020			Producer of stevia leaves used as a sweetness solution in various food products		N/A	N/A	N/A	N/A
1-Dec-2020			Producer of glue/technical gelatine from bovine hides		N/A	N/A	N/A	N/A
18-Nov-2020			Manufacturer and distributor of fragrances and flavors		973	4.6x	21.8x	N/A
16-Nov-2020			Processing of dried fruit, candied fruit, fruit in syrup and jams, hazelnuts, cherries and sour cherries for ice cream, pastry, confectionery and yoghurt industries		N/A	N/A	N/A	N/A
4-Nov-2020			Probiotics producing business in Canada		N/A	N/A	N/A	N/A
22-Oct-2020			Specialist in development, production and distribution of organic, vegan and gluten-free baking and cooking ingredients		N/A	N/A	N/A	N/A
6-Oct-2020			Manufacturer and distributor of bakery ingredients for artisanal pastry and bakery shops		N/A	N/A	N/A	N/A
25-Sep-2020			Producer of natural coloring ingredients for the food and beverages industry		929	3.7x	N/A	N/A
17-Aug-2020			Producer of flavors, such as fruity, alcoholic, dairy, vanilla and sweet flavors		N/A	N/A	N/A	N/A
28-Jul-2020			Producer and distributor of fragrances		33	0.9x	14.0x	N/A

Date	Target	Bidder	Rationale	Country	Valuation			
					EV (US\$m)	EV/ Sales	EV/ EBITDA	EV/ EBIT
1-Jul-2020	 PureCircle Everything stevia	 Ingredion	Production, marketing and distribution of natural sweeteners and flavors		320	2.0x	10.0x	15.0x
12-Jun-2020	 DBFF	Management	Producer of food flavors and fragrances		32	N/A	N/A	N/A
28-May-2020	 DRT the Best for Nature	 Firmenich for good, naturally	Manufacturer of pine-based ingredients, gum rosin and turpentine for industrial applications		1,859	3.0x	16.8x	N/A
30-Apr-2020	 TecnisSpice Masters of Taste	 KERRY	Production and distribution of condiments, spices, additives and ingredients for the food industry		57	N/A	N/A	N/A
30-Apr-2020	 Create FLAVOURS	 Aromata Group	Producer of sweet and savory clean label flavourings		N/A	N/A	N/A	N/A
2-Apr-2020	 zucasa	 DÖHLER NATURAL FOOD & BEVERAGE INGREDIENTS	Producer of juices, purees and sweet fruit concentrates, vegetables and plants		N/A	N/A	N/A	N/A
6-Feb-2020	 Flavor Inn Corporation	 iberchem FRAGRANCES OF NATURE	Flavor manufacturer offering tailor-made solution		N/A	N/A	N/A	N/A
6-Feb-2020	 duomei 朵美香料	 iberchem FRAGRANCES OF NATURE	Flavor manufacturer		N/A	N/A	N/A	N/A
31-Jan-2020	 MARROQUIN ORGANIC INTERNATIONAL	 GRAN	Production and distribution of organic and non-GMO ingredients		N/A	N/A	N/A	N/A
21-Jan-2020	 gruplasem	Private Investor	Producer of enzymatic applications for the food sector		N/A	N/A	N/A	N/A
16-Jan-2020	 frulact	 ARDIAN	Producer of fruit and veg preparations, flavors and plant-based ingredients		168	1.3x	N/A	N/A
20-Dec-2019	 nactis flavours	 Aromata Group	Developer of aromatic raw materials, flavors and ingredients for the food industry		N/A	1.1x	12.0x	N/A
20-Dec-2019	Buhler Bangsheng Food Ingredient	 BAKELS BAKERY INGREDIENTS SINCE 1904	Producer of tailor-made ingredient solutions for the flour milling and baking industry		N/A	N/A	N/A	N/A
17-Dec-2019	 tan international	 BRENNTAG	Distributor and blender of specialty and industrial chemicals and ingredients		N/A	N/A	N/A	N/A
20-Nov-2019		 IMCD	Distribution of raw material for the food, personal care, pharmaceutical and veterinarian sectors		8	1.0x	N/A	N/A

Date	Target	Bidder	Rationale	Country	Valuation			
					EV (US\$m)	EV/ Sales	EV/ EBITDA	EV/ EBIT
18-Nov-2019			Producer of dairy ingredients to the food industry		166	2.2x	N/A	26.3x
29-Oct-2019		Undisclosed bidder	Development and production of vitamin K2 as menaquinone-7		N/A	N/A	N/A	N/A
26-Sep-2019			Production and distribution of flavor and perfume additives and ingredients		1,713	2.8x	16.4x	20.0x
26-Sep-2019			Producer of natural products for customers in flavor and fragrance market		N/A	N/A	N/A	N/A
11-Sep-2019			Manufacturer and supplier of food ingredients and non-GMO and organic products		N/A	N/A	N/A	N/A
24-Jul-2019			Food-ingredients producer		29	1.4x	12.5x	17.9x
28-Jun-2019			UK- and Chile-based natural colors business		N/A	N/A	N/A	N/A
18-Jun-2019			Supplier of baking products		N/A	N/A	N/A	N/A

Source: CapitalIQ and MergerMarket



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OAKLINS OFFERS A COMPREHENSIVE RANGE OF SERVICES

- M&A advisory (buy-side and sell-side)
- Growth equity and equity capital markets advisory
- Debt advisory
- Corporate finance services

Food ingredients is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in the food ingredients sector, with a large network of relevant market players worldwide. This results in the best possible merger, acquisition and divestment opportunities for food ingredients companies.

If mergers, acquisitions or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.

✉ **MICHELE MANETTI**

Partner
Milan, Italy
T: +39 335350 866

Michele leads Oaklins' food ingredients team. He is also a partner at Oaklins Italy. He has advised several food ingredients clients, such as AromataGroup in its acquisition of a 76% stake in Fiorio Colori S.p.A. He is currently involved in other transactions in the sector, including AromataGroup's build-up project in Europe, together with several of Oaklins' European teams. He has also worked with financial food ingredients specialists, such as Cerea Capital Partners and Unigrains Capital, and has advised large multinational food players, like Holland Royal Wessanen, in finding bio-organic targets.



Oaklins is the world's most experienced mid-market M&A advisor, with over 850 professionals globally and dedicated industry teams in more than 45 countries. We have closed 1,700 transactions in the past five years.

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