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A Balancing Act: 4 potential food and beverage deals on the radar

By Carolyn Heneghan | August 15, 2016 print

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Editor's note: "A Balancing Act" is the sixth in a series for Food Dive, where experts examine trends uncovered in earnings reports and discuss strategies that impact the balance sheet. You can read the first piece here, the second here, the third here, the fourth here and the fifth here.

Mergers and acquisitions may have slowed so far in 2016, but experts have confirmed that this doesn't necessarily signal a downturn in activity for the industry. The capital is available, interest rates are low, and multiples, while lower than recent years, are still favorable for sellers.

It's all about who's going to pull the trigger next as industry consolidation and interest in startups continue.

"You're starting to see big companies making big acquisitions — lots of

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money and all in line with the evolving consumer trends that they need to be focused on," said Lou Biscotti, partner and head of the food and beverage practice at WeiserMazars. "I think it's very healthy for the companies, the economy and the consumer."

With just over four months left in the year, these four combinations have hit analysts' and Food Dive's radars as potential deals for the future.

General Mills and Hain Celestial

Hain Celestial has been at the center of much takeover speculation, particularly since its natural and organic counterpart WhiteWave Foods accepted a $12.5 billion takeover bid from Danone last month. While Hain's potential suitors run the gamut, the most likely suitor may be General Mills, said Biscotti.

In recent years, General Mills has actively pursued integrating better-for-you products into its portfolio. That includes acquisitions like Annie's, startup investments through its 301 Inc. platform and overhauls of its own brands, with moves like removing artificial ingredients from its cereals and revamping its yogurt portfolio.

Lou Biscotti Credit: WeiserMazars

With Hain as a leader in the natural and organic food and beverage space, its portfolio could fit well into General Mills' plans for the future. Hain's stock may also be undervalued at the moment, Biscotti said. This gives General Mills leeway with offering a multiple that would be affordable while attractive enough to Hain shareholders.

After 20 consecutive quarters of double-digit sales growth, Hain's revenue growth lingered in the high single-digits for two quarters earlier this year before hitting 13% again in fiscal Q3 2016. That kind of revenue growth would be more than welcome at General Mills, which reported a 6% sales decline in fiscal 2016 and a 2% dip in fiscal 2015.

Kraft Heinz and Kellogg

In July, Kellogg's stock spiked on speculation of a takeover by Kraft Heinz or Coca-Cola. Though analysts have since dispelled those rumors, a Kraft Heinz-Kellogg takeover may not be so farfetched.

The Kraft Heinz-Kellogg takeover rumor emerged when intrepid watchers

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tracked private planes from Battle Creek, MI, where Kellogg has its headquarters, to Chicago, where Kraft Heinz has its headquarters. CNBC confirmed at the time that no takeover talks were ongoing.

Credit: Deborah Barrington

Kraft Heinz co-owners Berkshire Hathaway and 3G Capital have not shied away from growth and profitability opportunities, and Kraft Heinz exemplifies the level of profitability these financial giants can achieve in food and beverage. Earlier this month, Kraft Heinz announced it had quadrupled pro forma profits year over year after identifying opportunities for synergies, reducing costs and slashing the size of its workforce.

Since late 2013, Kellogg has embarked on its own aggressive cost-cutting efforts, including zero-based budgeting and Project K. The company has since shut down or announced the closure of several plants with the intent to "better align our manufacturing assets with marketplace trends and customer requirements," Kellogg spokesperson Kris Charles said in a statement earlier this month.

As a result, Kellogg's net income soared 26% and operating profit increased 9.1%, allowing Kellogg to raise its full-year EPS guidance in the most recently reported quarter. That kind of profitability could be tantalizing to 3G and Berkshire.

But profitability aside, Kraft Heinz may see an opportunity in Kellogg's portfolio. Kellogg was already among targets named for potential acquisition by Berkshire and 3G before they announced they would merge Heinz with Kraft in March 2015.

If Kraft Heinz is looking to diversify, Kellogg offers access to a number of categories that Kraft Heinz isn't currently dominant in, such as cereal and snacks. Acquiring Kellogg would make Kraft Heinz more competitive against companies like General Mills, which already has a strong presence in both categories.

Kraft Heinz and ConAgra

In July, ConAgra confirmed it was moving forward with the Lamb Weston spinoff the company first announced last November, despite short-lived speculation in June that Lamb Weston could merge with Post. Also, over the past year, ConAgra has pursued an aggressive overhaul of its business model, ranging from divestments of private-label brands Spicetec and JM Swank to steep job cuts and a new headquarters in Chicago.

"Without Lamb Weston, (does ConAgra) become more of an acquisition candidate at this point? I think so," said Biscotti. "They definitely are making moves possibly to head in that direction."

Credit: Flickr user usc_ty

Between the Lamb Weston spinoff and the slimmed-down version of ConAgra and its consumer brands, both individual companies could be acquisition targets. Today's more focused ConAgra is a much more attractive target for buyers than when it had a more unwieldy structure just a year or so ago following many years of rapid acquisitive growth.

Kraft Heinz also makes sense here as a possible buyer. ConAgra offers a number of center-store grocery and frozen brands that could expand Kraft Heinz's portfolio. At the same time, ConAgra brands could be synergistic with grocery categories where Kraft Heinz has already established a presence.

Also, neither Kraft Heinz nor ConAgra have made the same level of better-for-you portfolio overhauls compared to companies like General Mills, Campbell and Nestle — and they may not have to. A study published in BMJ Open earlier this year found that Americans on average still consume about 58% of their total daily calories from "ultra-processed" foods, which primarily comprise both companies' portfolios.

"Think about some of (ConAgra's) brands — they're not in line with some of the healthier for you (trends)," said Biscotti. "If you think about companies selling off their brands and their divisions, what is the ultimate goal? I think the goal would be to increase profitability and possibly posture themselves for a sale."

Hershey and Mondelez

Hershey may have quickly shut down Mondelez's $23 billion takeover offer earlier this year, but that hasn't shut down speculation that the deal could still happen. Mondelez may return with another, potentially more attractive bid.

Also key to the success of a future bid are changes at the Hershey Trust, including settling with the Pennsylvania attorney general last month, which will likely end in a shakeup of the trust's board. The trust controls 81% of Hershey's voting power, so with a new board and a new offer from Mondelez — or any other buyer — a Hershey sale could have a different outcome.

However, the trust isn't the only party involved. The Milton Hershey School is the beneficiary of the Hershey Trust, which could argue that any decision may not be in the institution's best interest. The attorney general, who has oversight powers over the Hershey Trust, can also step in if he or she believes the deal could negatively impact the local economy.

Credit: Flickr user trekkyandy

"It's going to be very tough for someone to acquire Hershey based upon the logistics and the ownership structure and everything surrounding the trust," said Biscotti. "That's a company that's definitely ripe for acquisition, but because of the impediments, it's going to very difficult."

If Mondelez does return with a sweeter offer, and Hershey shareholders consider the bid to be favorable, they could take action, Biscotti said. They could bring a shareholder suit against the company, saying Hershey did not respond appropriately to the bid.

"The amount of complexities here are just tremendous," said Biscotti. "It's a shame because with Mondelez, it would combine (two of the leading) chocolate companies in the world. The unification of the brand would be a very powerful company."

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