



HOULIHAN LOKEY

# INNOVATING BEHIND THE SCENES

Emerging Trends in  
the Beverage Space





**Houlihan Lokey's industry expertise is evidenced by the firm's successes in the consumer, food, and retail industry.**

One of Houlihan Lokey's best-known capabilities is bringing this expertise to bear on behalf of companies across a wide range of dynamic market spaces within the food and beverage sector. One of the more rapidly evolving and difficult-to-understand market spaces is beverage. Companies within the beverage space continue to confront a rapid pace of change, and sector-focused investors continue to be perplexed by how to deploy capital in the beverage space. In addition, companies and investors are seeking to understand how they fit into the overall market space and how best to prepare for current or future opportunities in the market for M&A and capital. Houlihan Lokey has proven the ability to add value by leveraging industry knowledge, a deep experience base, and a myriad of connections.



## As in any market space, some of the most valuable companies in the beverage space are also some of the least appreciated.



Houlihan Lokey has proven the ability to add value by leveraging industry knowledge, a deep experience base, and a myriad of connections.



Many observers perceive that excitement around the beverage space must primarily be reserved for the purveyors of brands in newer and/or high-growth categories who provide finished beverages that are merchandised on the shelf of the grocery, club, or mass merchant. Although many such companies are worthy of excitement, many other participants in the beverage space are equally valuable yet not as immediately visible. This universe of companies is also worthy of excitement, and investors exploring the beverage space should understand the value of companies in this universe.

One such segment of companies in this universe is those that supply ingredients, components, formulation services, or manufacturing services to the makers of finished beverage products consumers see on the shelf. These innovative, trend-setting products are the culmination of equally innovative suppliers further upward in the supply chain, including ingredient providers and formulators, concentrate manufacturers, and contract manufacturers/fillers/packagegers. These behind-the-scenes innovators are enabling the beverage space to better respond to changing consumer expectations and stay ahead of the trends.

A second such segment of companies in this universe is those that enable beverage-related innovation in the out-of-home/non-retail channels, such as restaurant chains and other foodservice venues. Just as the consumer's expectation for a beverage product purchased in a retailer has changed, so also the consumer's expectation for a beverage consumed in a restaurant or another foodservice venue has changed. This innovation does not happen automatically; rather, it is the byproduct of unique market-facing and supply chain capabilities from companies servicing this channel.

A final such segment of often less-appreciated companies in the beverage space is those that continue to provide consistent product quality in more traditional beverage categories. These brands may not be the fastest-growing, but they remain a major part of life for consumers. While newer beverage categories and more significant innovation "leaps" generally garner the most attention at industry trade shows and among earlier-stage investors, many companies that on the surface appear to be more traditional provide more incremental but important innovation in categories that still attract tens of millions of American consumers.

In this paper, Houlihan Lokey draws attention to each of these company universes and aims to help the market better appreciate them.

# #1

## M&A Advisor for All U.S. Food and Beverage Transactions

Refinitiv (formerly Thomson Reuters) ranks Houlihan Lokey as the top U.S. M&A advisor in the food and beverage space, based on number of transactions.

→ 2014 → 2015 → 2016 → 2017 → 2018 → 2019 →

### Houlihan Lokey's Activity in the Beverage Space



has been acquired by



Sellside Advisor



a portfolio company of



has been acquired by



Sellside Advisor



a portfolio company of



has been acquired by



Sellside Advisor



a portfolio company of



has been acquired by



Sellside Advisor



has been acquired by



Sellside Advisor



has been acquired by



Sellside Advisor & Fairness Opinion



owned by



has been acquired by



Sellside Advisor



has been acquired by



Sellside Advisor

Tombstones included herein represent transactions closed from 2006 forward.



## The Innovation Behind the Experience



These behind-the-scenes innovators are enabling the beverage space to better respond to changing consumer expectations and stay ahead of the trends.



Today's consumer doesn't merely want new beverage options; rather, they want rich consumption experiences. An increasingly common consumer prototype desires products with new sensory appeal, whether through new textures, bold and bright colors, or unique, exotic, and adventurous taste profiles. Examples abound: beverages with thick, creamy, and foamy textures; beverages containing chewy textures within them; beverages with naturally colorful ingredients, such as turmeric, beet, matcha, or spirulina; beverages with botanicals and herbs, indulgent and nostalgic flavors, an exotic array of superfruits and vegetables. There is seemingly no end in sight for the beverage innovation that consumers will embrace. These themes have been common in newer and/or high-growth beverage categories and have captured significant attention both on retail shelves and among industry trade show goers and early-stage investors.

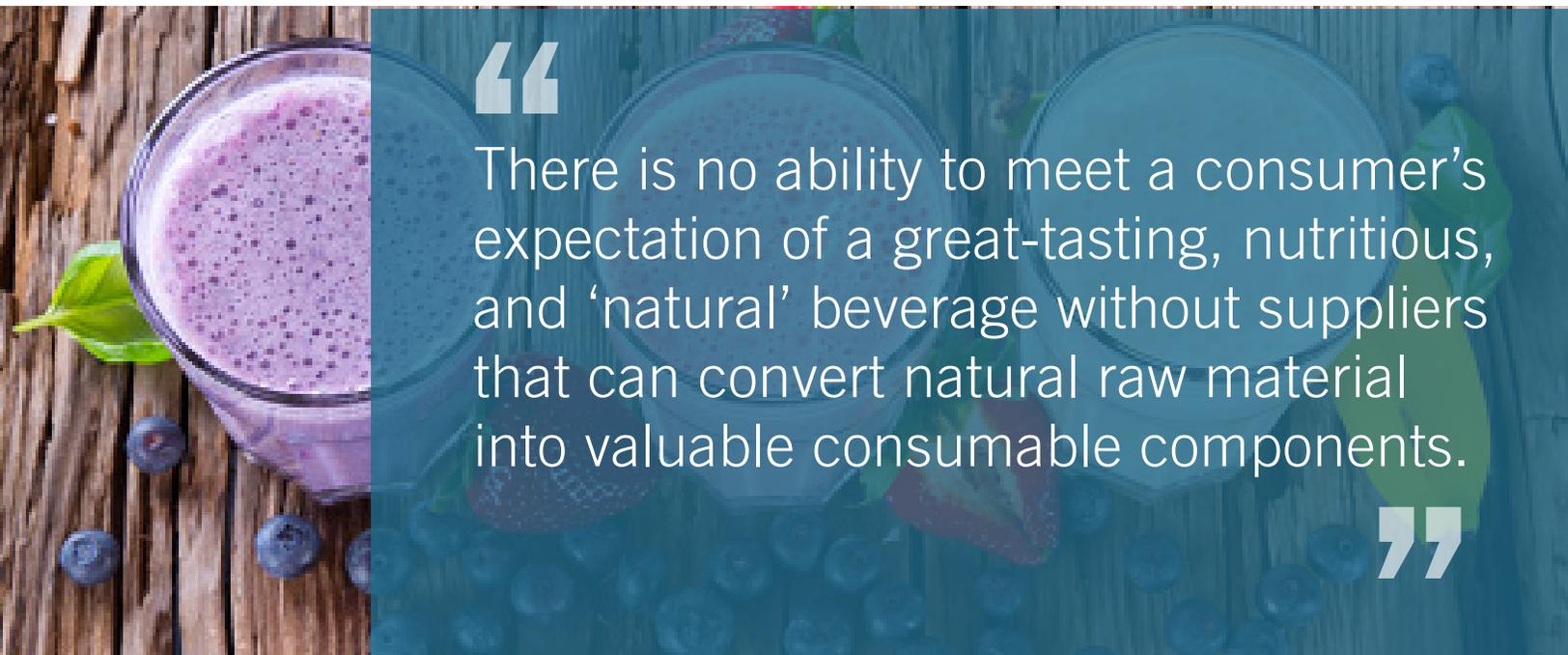
But behind every innovation on the shelf is an "ecosystem" that makes the innovation possible. It is innovators further back in the beverage supply chain that have allowed certain products to rise to the top. Many of the most valuable companies in the beverage space are those that support the innovation in finished products consumers see on the shelves. Companies that provide ingredients critical to the sensory experience or nutritional profile of the finished product are nothing short of indispensable in the beverage supply chain. For that reason, some of the most profitable and stable companies in the industry are those that provide flavor, nutrition, texture, or other specialty ingredients to beverage customers, and/or those that provide formulation or product application services. Companies of this ilk with customer bases in higher-growth beverage categories have experienced strong growth in addition to their inherent profitability and stability characteristic.

“

An increasingly common consumer prototype desires products with new sensory appeal, whether through new textures, bold and bright colors, or unique, exotic, and adventurous taste profiles. ”



Another valuable subsegment of companies is those with advanced manufacturing or filling capabilities. There is no ability to meet a consumer's expectation of a great-tasting, nutritious, and "natural" beverage without suppliers that can convert natural raw material into valuable consumable components. Companies with this ability often have additional features. Their own products—typically ingredients derived from natural raw material substrates, or blends of such ingredients—can often be sold into a myriad of applications and channels. They can be sold as ingredients to a wide range of finished beverage manufacturers or marketers, or even to foodservice operators preparing finished beverages at the point of consumption. They can be sold as turnkey beverage concentrate systems, whereby a beverage bottler only has to add water (along with perhaps a limited number of other more commodity ingredients) to have a finished beverage substance. These ingredients themselves can even be sold as finished beverages if adequately diluted. This segment of companies can provide a level of flexibility and diversity that is all too rare in the food and beverage industry.



“ There is no ability to meet a consumer's expectation of a great-tasting, nutritious, and 'natural' beverage without suppliers that can convert natural raw material into valuable consumable components. ”

Furthermore, consumer demands cannot be satisfied unless finished products have adequate shelf life without relying heavily on artificial preservatives. Brands will also struggle to compete with the price points of industry giants such as Coca-Cola, PepsiCo, Keurig Dr Pepper, and others, all of whom possess enormous unit cost advantages and high-efficiency manufacturing or bottling operations. Industry giants aside, no purveyor of finished beverage products comes close to having all of these capabilities under its own roof. In fact, many innovation-focused, marketing-minded branded beverage companies have no operating assets or capabilities. This lack of assets or capabilities highlights why capital-intensive, technologically advanced manufacturers that support finished brands play such an indispensable role in the beverage supply chain. Although underappreciated by consumers and casual observers, the beverage brands consumers find on the shelf are the products of technologically advanced manufacturing and bottling capabilities, such as high-acid aseptic and more nuanced forms of pasteurization; scarce processes, such as extraction and low-acid aseptic; and capital-intensive bottling processes, including hot-fill. Companies with these capabilities possess a very real value that casual observers often fail to see.



Whether we realize it or not, beverages have increasingly become a destination item in out-of-home channels.



The casual observer primarily conceives of the beverage space as retail-dominated, but companies innovating in out-of-home channels represent yet another segment of companies contributing great value to the beverage space. Whether we realize it or not, beverages have increasingly become a destination item in out-of-home channels. We visit coffee chains and other bespoke coffee shops for coffee, coffee-like, or other indulgent beverages. We even expect our favorite gas station or convenience store to offer a full-service beverage bar with robust offerings. We have long expected the fast casual and other restaurant chains we visit to offer “different kinds” of food experiences; we now expect them also to provide us with a “different kind” of beverage experience. Beloved chains such as Panera and Chipotle have extended their modern, better-for-you, premium brand imaging to include offering first-class beverage alternatives to traditional carbonated soft drinks or traditional juices. Panera, Chipotle, and other foodservice venues capitalizing on this trend do not create these innovative products. Instead, development-minded, manufacturing-competent companies up the supply chain make these innovative products possible.



## Not Just New Brands in High-Growth Categories, but Longstanding and Trusted Brands in Traditional Categories

Lest we forget, there is yet another group of underappreciated beverage companies: those that remain a trusted source of quality and innovation in traditional categories that still attract tens of millions of consumers—lemonades, juices, ades, and sodas. None of these categories are thought of as high-growth, and neither are they going away. Trusted brands that stand for quality and offer some point of difference in these categories may not capture the headlines at beverage trade shows, but they remain valuable nonetheless. Brands that can adjust to a dynamic marketplace will nonetheless have opportunities for growth by renovating existing products to outflank their competitors and capture their fair share of emerging consumer demographics, as well as by capitalizing on different channel and geographic opportunities. In many cases, consumers love these brands because they have been a part of their lives for decades and may even have a nostalgia factor.



## How Will the Beverage Space Recover After COVID-19?



It remains to be seen how consumers will moderate their purchasing patterns in the post-COVID-19 economy and during what could potentially be a deep recession. The likelihood that consumers will demonstrate the same level of demand and appetite for more expensive premium beverages seems promising among certain consumers. The consumer cohort with the fastest growing purchasing power—millennials—have demonstrated that they are more price inelastic regarding food and beverage choices than previous generations. Millennials' consumption preferences and expectations could be more durable than forecasters' expectations, especially since these consumers might be spending less money on expenses related to large gatherings. They would thus have sufficient reserve purchasing power to remain devoted consumers of premium products.

Sales to foodservice channels could be temporarily hamstrung, as most forecasters envision a period of challenge for restaurants and other foodservice operators. Companies operating in this space, as outlined earlier, possess a high level of versatility and flexibility. Their products can be sold as finished beverages, concentrate systems, or industrial ingredients, and their potential end channel applications encompass much more than just foodservice. In addition, American consumers have proven their resilience following disruptive events in the past, and it seems a stretch to think that out-of-home consumption will go away, especially given the recent increase of curbside, delivery, and takeout options.



Traditional brands represent an attractive option to those who remain unconvinced about the durability of demand for premium beverages in newer, higher-flying categories. Brands with a differentiated strategy and track record in servicing multiple channels could serve as attractive "fall back" options for consumers seeking a quality product at an affordable price point.

## Our Contribution

Houlihan Lokey has long been the top M&A advisor in the food and beverage sector. The beverage space is certainly no exception, and our track record in the space speaks for itself.

It's more than understanding savvy consumers or hot trends. It's about the leadership and the connections that come from our day-in, day-out devotion to this space. For companies seeking to explore how they fit into this space and what their opportunities might be, our longstanding leadership in this space will provide you with several advantages:

**Access to sources of capital**—acquirers and investors that other organizations cannot approach as easily or as deeply.

**Visibility in the marketplace**—thanks to our successful track record.

**Institutional knowledge and expert advice**—pertaining to all aspects of the beverage market supply chain.

**Peace of mind**—that comes from a hands-on approach, long-standing leadership in this space, and senior-level attention.

It's not just our leadership and connections. It's about what our leadership and connections can do for your business. For a conversation about your business and goals, contact an advisor on our industry team.

### FOOD AND BEVERAGE CONTACTS

#### North America

---



**Jay Novak**  
*Global Head of Consumer,  
Food & Retail Group*  
[JNovak@HL.com](mailto:JNovak@HL.com)  
312.456.4754



**Matt Kaczmarek**  
*Managing Director*  
[MKaczmarek@HL.com](mailto:MKaczmarek@HL.com)  
312.456.4761



**Tim Larsen**  
*Managing Director*  
[TLarsen@HL.com](mailto:TLarsen@HL.com)  
312.456.4786

#### Europe

---



**Shaun Browne**  
*Managing Director*  
[SBrowne@HL.com](mailto:SBrowne@HL.com)  
+44 (0) 20 7747 7570



**Michael Collinson**  
*Managing Director*  
[MCollinson@HL.com](mailto:MCollinson@HL.com)  
+44 (0) 20 7747 6628



**James Scallan**  
*Managing Director*  
[JScallan@HL.com](mailto:JScallan@HL.com)  
+44 (0) 20 7747 7582



**Garyth Stone**  
*Managing Director*  
[GStone@HL.com](mailto:GStone@HL.com)  
+44 (0) 20 7747 7580



# HOULIHAN LOKEY

Houlihan Lokey is a trade name for Houlihan Lokey, Inc., and its subsidiaries and affiliates, which include those in (i) the United States: Houlihan Lokey Capital, Inc., an SEC-registered broker-dealer and member of FINRA ([www.finra.org](http://www.finra.org)) and SIPC ([www.sipc.org](http://www.sipc.org)) (investment banking services); Houlihan Lokey Financial Advisors, Inc. (financial advisory services); HL Finance, LLC (syndicated leveraged finance platform); and Houlihan Lokey Real Estate Group, Inc. (real estate advisory services); (ii) Europe: Houlihan Lokey EMEA, LLP, and Houlihan Lokey (Corporate Finance) Limited, authorized and regulated by the U.K. Financial Conduct Authority; Houlihan Lokey S.p.A.; Houlihan Lokey GmbH; Houlihan Lokey (Netherlands) B.V.; Houlihan Lokey (España), S.A.; and Houlihan Lokey (Corporate Finance), S.A.; (iii) the United Arab Emirates, Dubai International Financial Centre (Dubai): Houlihan Lokey (MEA Financial Advisory) Limited, regulated by the Dubai Financial Services Authority for the provision of advising on financial products, arranging deals in investments, and arranging credit and advising on credit to professional clients only; (iv) Singapore: Houlihan Lokey (Singapore) Private Limited, an "exempt corporate finance adviser" able to provide exempt corporate finance advisory services to accredited investors only; (v) Hong Kong SAR: Houlihan Lokey (China) Limited, licensed in Hong Kong by the Securities and Futures Commission to conduct Type 1, 4, and 6 regulated activities to professional investors only; (vi) China: Houlihan Lokey Howard & Zukin Investment Consulting (Beijing) Co., Limited (financial advisory services); (vii) Japan: Houlihan Lokey K.K. (financial advisory services); and (viii) Australia: Houlihan Lokey (Australia) Pty Limited (ABN Disclosures and Disclaimers (cont.) 11 74 601 825 227), a company incorporated in Australia and licensed by the Australian Securities and Investments Commission (AFSL number 474953) in respect of financial services provided to wholesale clients only. In the European Economic Area (EEA), Dubai, Singapore, Hong Kong, and Australia, this communication is directed to intended recipients, including actual or potential professional clients (EEA and Dubai), accredited investors (Singapore), professional investors (Hong Kong), and wholesale clients (Australia), respectively. Other persons, such as retail clients, are NOT the intended recipients of our communications or services and should not act upon this communication.