

Bakery

Sector and M&A Update

SPRING 2017



Getting a rise out of Bakery

It's been a big year for M&A in European Bakery, with close to half of all reported deals worldwide. Deal flow is strong because Europe is the world's largest market, remains fragmented and is undergoing increasingly heavy consolidation.

The market is divided into two main segments: players that focus on production, supplying branded and unbranded products to retailers; and players who also leverage retail by developing their own stores, or more commonly, a restaurant-chain franchise model. The former are being targeted by larger trade buyers (including retail), while the latter are looking to extend their offer via roll-outs. For all, it is necessary to respond to shifting growth and demand patterns - to answer challenges from the rise of large discounters (supermarkets & online), as well as increasingly health-conscious consumers. Valuation multiples are typically double-digit EBITDA, with premiums being paid for market leaders and 'hot' new growth concepts.

Key insights:

- Product innovation and positioning are vital in mature markets (Europe & US), to tackle changing consumer demands and to drive growth. The biggest value-adds are in 'healthy' (organic, gluten-free, etc.), 'premium' (traditional, artisan); and 'convenience' (smart packaging & service models). Trade buyers and Private Equity (PE) are positioning themselves around these new growth themes.
- Large trade buyers are seeking geographic growth to increase product ranges and market share. These international players also tend to be market leaders in their home countries.
- International deals are on the rise, as bakery businesses get more global and consolidation ramps up in Europe and the US. Between 2011 and 2016, cross-border deals rose steadily from 14% of total deals to 25%. Average deal values are also rising.
- European corporates are looking to target Asia, or more specifically China, where the Bakery sector is growing at a CAGR5Y of 7% - much higher than in home markets. By 2020, China will be the world's second largest market, thanks to rising incomes, urbanization and a newfound appetite for wheat-based products (esp. pastry). Moreover, this generational shift in consumer demand is still in the early stages of growth.
- PE is an active market participant and present in around a third of all deals in Europe. Financial investors are on the lookout for buy-and-build platforms that tap growth in healthy and artisan product segments, as well as opportunities to expand production and sales channels. Producers with specialization know-how and high levels of customer loyalty are in the most demand.



Jan Willem Jonkman,
Managing Partner, Capitalmind

"The European Bakery is changing - competing on price alone has become more challenging. The best growth opportunities can now be found in the 'healthy', 'artisan' and 'convenience' segments of the market. This is also where we are seeing the most M&A activity, as trade buyers position themselves around these new growth themes. Those with strong brands and loyal customers are receiving the highest valuations"

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A world map with various countries labeled in white text. The labels are arranged in three columns across the map.

Australia	Germany	South Africa
Benelux	India	Spain
Brazil	Italy	Sweden
Canada	Japan	Switzerland
Chile	Mexico	Thailand
China	Peru	Turkey
Denmark	Poland	UK
France	Russia	USA



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