



Executive Insights

A Hunger for Deals in European Food Ingredients?

The European food and beverage ingredients market has seen considerable M&A activity in recent years by corporates and private equity investors. These investors have been attracted to the huge growth and value generation opportunity the sector offers as consumers increasingly demand clean and healthy products — those that are more natural, good for health and environmentally friendly. As well as landmark transactions such as Givaudan's acquisition of Naturex, deal flow has also been high in private equity — notable transactions include Astorg's recent takeover of Solina and Ardian's acquisition of Florida Food Products.

High-quality ingredients acquisition targets are now less common, so buyers have to work hard to seek them out. The huge complexity of this €100 billion market, including the range of product types and their varying growth and financial trajectories, makes the task tougher than before. But for those willing to conduct the level of industry analysis and target due diligence required, there are exciting acquisition prizes to be won.

Having advised on dozens of deals in the European ingredients sector, to help buyers as they review the market, we have outlined below the core drivers of the industry, the main ingredients sub-sectors, and how the industry is shifting from being a supplier of raw products towards becoming a solutions provider.

Macro factors are driving growth

The hourglass economy. The proportion of the population in higher and lower income categories has been growing whilst the middle income group has been shrinking. The food industry has evolved in response, and the focus of product innovation, including in the clean and healthy ingredients space, is on premium and value offerings rather than in the mid-market. The trend is also impacting where products are bought and consumed. Traditional restaurants are being pushed aside to make way for higher-end and fast-food restaurants, for instance, with both categories wanting clean and healthy product options.

The 'clean' and 'good for your health' label trends are here to stay. Consumers and regulators are demanding cleaner and healthier foods. The global clean ingredients market was worth €33 billion in 2018, representing 28% of all new food product launches (see Figure 1), and is forecast to reach a value of €55 billion by 2026, growing 6.7% annually.¹ The food majors have already responded in a big way. Nestle reformulated over 6,500 products in the past 10 years to make them healthier² and recently said that over 60% of its food and beverage products are still not healthy enough.³ Unilever's strategy includes a focus on more plant-based products, and Ferrero has an emphasis on smaller, lower-calorie portions.

Environmental responsibility. The demand for cleaner and healthier food aligns with the broader global goal of decarbonisation and the need for all to take far greater responsibility for the environment. The food industry contributes approximately 26% of global greenhouse gas emissions, so it has an enormous contribution to make to the sustainability of the planet by taking measures to reduce its emissions levels.⁴ Change is happening. The amount of agricultural land in the European Union used for organic farming reached 16.5 million hectares in 2019,⁵ growing 65% since 2010 (see Figure 2).

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And the environment is now a mass-market concern for people when spending their money (see Figure 3). For example, 86% of French consumers say they now consider the environmental and sustainability credentials of food and beverage products when shopping.⁶

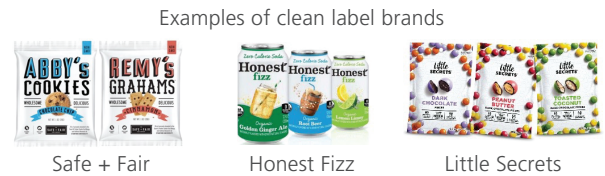
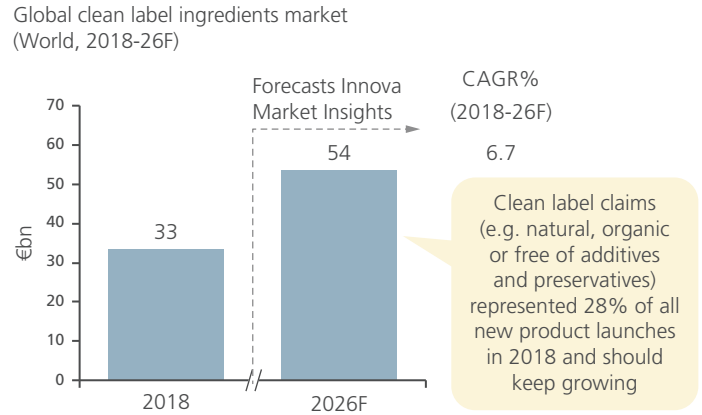
Food traceability and safety are growing in importance. Increasingly, consumers want transparency about the ingredients of the food and beverages they buy — and assurance that the products have been sourced responsibly. The past few years have seen a growing number of major supply chain traceability initiatives. Examples include Carrefour's Act of Food programme and Danone's Track & Collect service, launched in 2020, which enables customers to verify the quality and authenticity of its baby formula products. Consumer apps have also emerged, including Yuka, which enables shoppers to scan a product's barcode and see how healthy the item is.

Four highly dynamic ingredients sectors to review

Bioprotection. Ingredients with antimicrobial and antioxidant properties are widely used, enabling long shelf life for foods. Many, however, are listed as 'e-numbers' and are not favoured by customers. Natural alternatives meet increasing consumer preference for natural preservation methods rather than chemical ones. Multiple solutions ranging from simple plant extracts to more complex solutions such as yeasts are growing rapidly.

Nutraceuticals. Nutraceuticals are ingredients providing health benefits. There are two key segments: dietary supplements — including vitamins, probiotics, enzymes and minerals — and functional foods and beverages, such as omega and probiotic fortified foods, and energy and other beverages infused with antioxidants and vitamins. The functional foods market is on the cusp of substantial growth; it is expected to experience 8% annual expansion (see Figure 4) from its current value of around €239 billion.⁷ Key drivers include the ageing global population

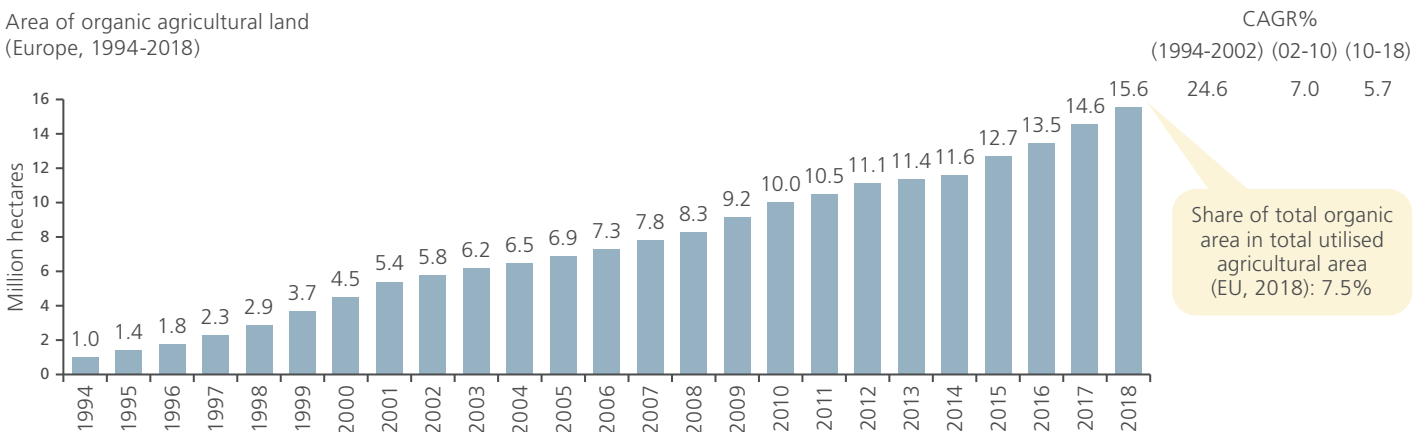
Figure 1
The number of new product launches with clean label claims is growing rapidly



Source: Innova Market Insights, L.E.K. interviews and analysis

and the increase in diabetes and obesity. One of the most dynamic sub-sectors of nutraceuticals is probiotics — products to boost digestion and immunity — which grew nearly 45% from 2015 to 2020 to become a €48 billion industry.⁸ Nutraceuticals is one of the hottest food ingredients spaces, but it is also one of the most complex, requiring very robust analysis to understand the most promising niches and players, as health allegations are now tightly controlled.

Figure 2
The food industry is committed to expanding organic agriculture



Source: AMI, Eurostat, FiBL, Statista, L.E.K. research and analysis

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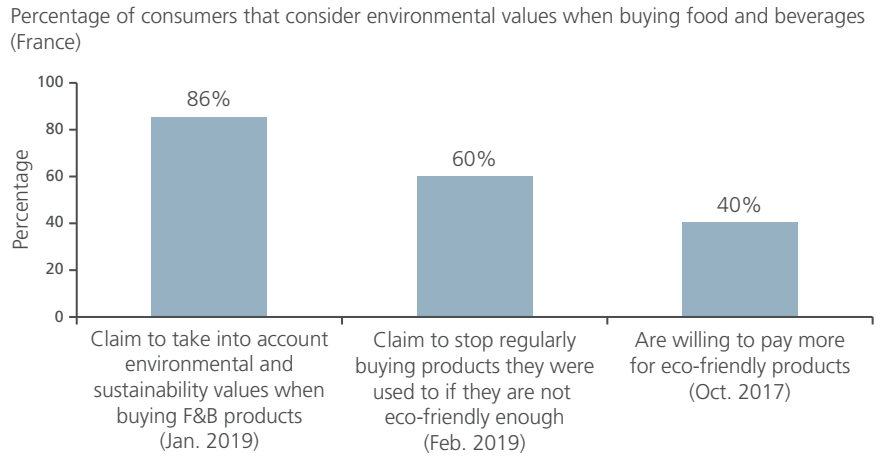
Plant-based proteins. The use of plant-based ingredients as substitutes for meat is another area of huge growth, with the value of the global market expected to have an annual growth rate of 12% in the seven years to 2027 (see Figure 5), more than doubling to €63 billion.⁹

Buyers need to be aware that each of the four main plant-based meat substitute markets — soy, wheat, peas and mycoprotein — are driven by unique dynamics and face significant challenges in creating attractive products. Hurdles include research and development and getting the taste and texture right through to market identification and commercialisation at scale. This applies to both companies that might have worked with a particular ingredient for many years and are developing new formulations and to those that are new to the market and creating a proposition from scratch. One exciting development to watch is the transition of microalgae-based ingredients, especially chlorella and spirulina, from the R&D stage to the mass market. The primary application is dietary supplements as microalgae are high in omega 3 — other more nascent areas are food ingredients and colourants. The sector has already captured the attention of the majors. Nestle recently

struck a partnership with Dutch microalgae producer Corbion; Unilever with the UK's Algenity.

Cultivated meat and insect proteins. Other more niche alternatives to meat are experiencing rapid expansion, too. The number of cultivated meat start-ups has jumped from just two in 2016 to over 80 now, with early movers Mosameat and Memphis

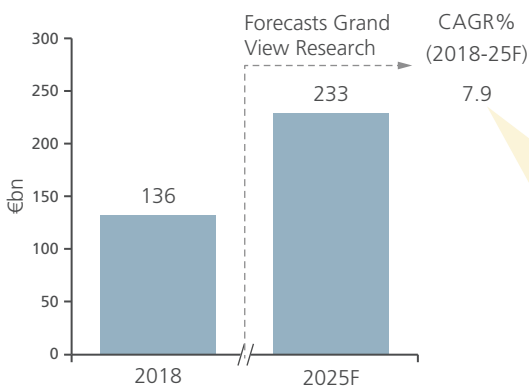
Figure 3
Consumers are increasingly cautious about the ecological footprint of their food and beverage purchases



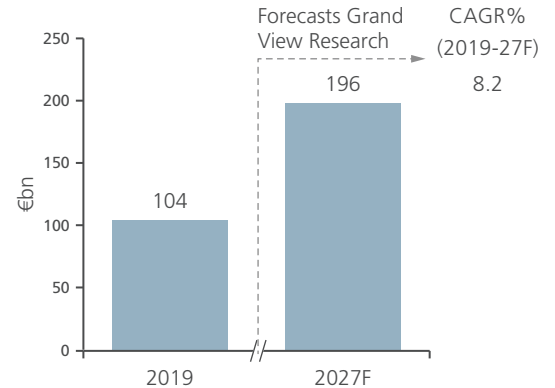
Source: Harris Interactive, Kantar, LSA, L.E.K. research and analysis

Figure 4
The global nutraceuticals market is estimated at c. €240bn and is expected to grow at c. 8% p.a. up to the end of 2025

Global functional food and beverages market* (World, 2018-25F)



Global dietary supplements market** (World, 2019-27F)



Strong growth of both functional F&Bs and dietary supplements driven by:

- Ageing population
- Increase in morbidities such as diabetes and obesity
- Increasing attraction for naturalness, wellness and healthier lifestyle
- Increasing knowledge about nutraceuticals and associated health benefits
- Sophisticated marketing driving consumer awareness

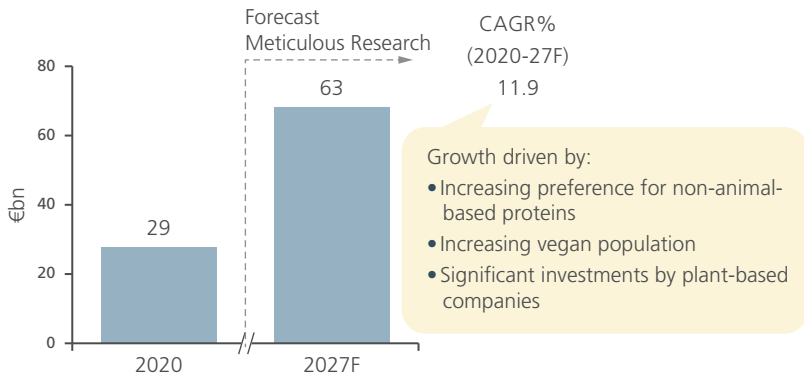
*Functional ingredients include carotenoids, dietary fibre, fatty acids, minerals, prebiotics, and probiotics and vitamins, and are used to improve the nutritional value of food products and beverages (primarily dairy products, bakery and cereals, but also meat, fish and egg-based products, soy products, and fats and oils); **Dietary supplements include vitamins, botanicals, minerals, proteins, amino acids, fibre, speciality carbohydrates and omega fatty acids and take the form of tablets, capsules, soft gels, powders, gummies or liquids

Source: Grand View Research, L.E.K. research and analysis

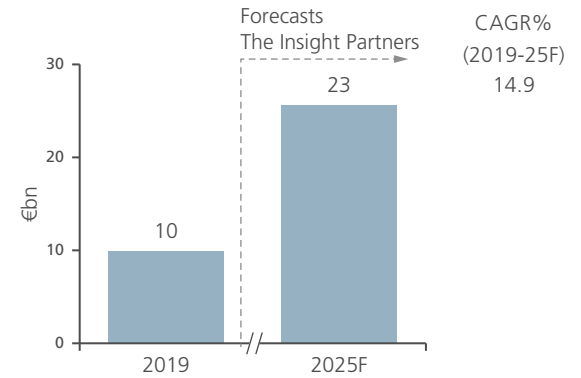
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Figure 5
Plant-based ingredients are gaining ground over animal-based and artificial ones

Global plant-based food* market
(World, 2020-27F)



Focus on plant protein** market
(World, 2019-25F)



*Including dairy alternatives, plant-based meat and egg substitutes, and confectionery; **Including isolates, concentrates and protein flours made from soy, wheat, pea or other plants and used in protein beverages, dairy and meat alternatives, protein bars and bakery
Source: Meticulous Research, The Insight Partners, L.E.K. research and analysis

Meats being joined by Aleph Farms, BlueNalu and Finless Foods as leaders in the segment. Currently valued at just €159 million, the market is expected to grow nearly 13% a year to be worth nearly €600 million by 2032.¹⁰ North America is set to be the biggest market (see Figure 6), with the lead cultivated meat being poultry due to the popularity of quick-service restaurants.

The European-based insect-protein market is another niche market — but is set for even faster growth. Currently worth €75 million, it's projected to expand 28% annually (see Figure 7) to become a half-billion-dollar market by 2027.¹¹ Again, there are multiple start-ups. French company Ynsect is the leading player. Having raised €360 million since its foundation in 2011 for the production of insect-based proteins for pets, fish, plants and humans, Ynsect is constructing the largest insect farm in the world and plans to launch in North America.

Ingredients suppliers are becoming solutions providers

Prior to the boom in new ingredient types and applications, manufacturers tended to provide their ingredients to food and beverage companies for them to do their own application engineering. As a result of the transformation of the market opportunity, increasingly manufacturers are recognising the commercial benefits of shifting their

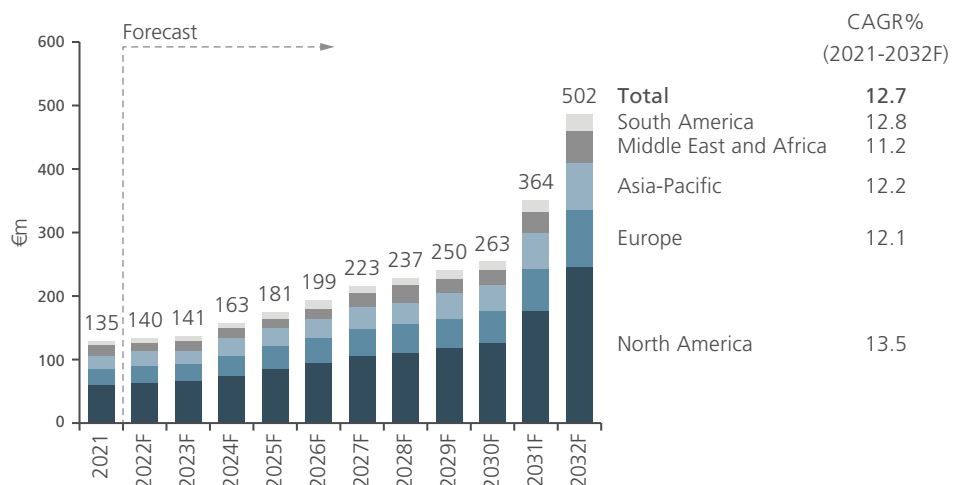
focus more towards developing full application solutions themselves and becoming added-value providers to their customers. Selling solutions-based branded ingredients for proprietary recipes is now central to many manufacturers' value proposition.

The way ahead

The high growth rates, long-term drivers and innovation in the European clean and healthy ingredients markets make it

Figure 6
Cultivated meat is expected to grow by 12.7% annually to €502m by 2032

Cultivated meat market forecasts by region
(2021-2032F)



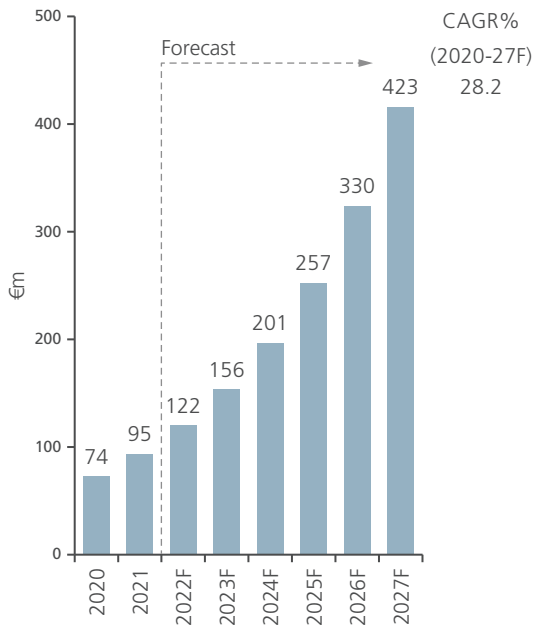
Source: MarketsandMarkets, Embo reports, Feed Navigator, The Guardian, L.E.K. research and analysis

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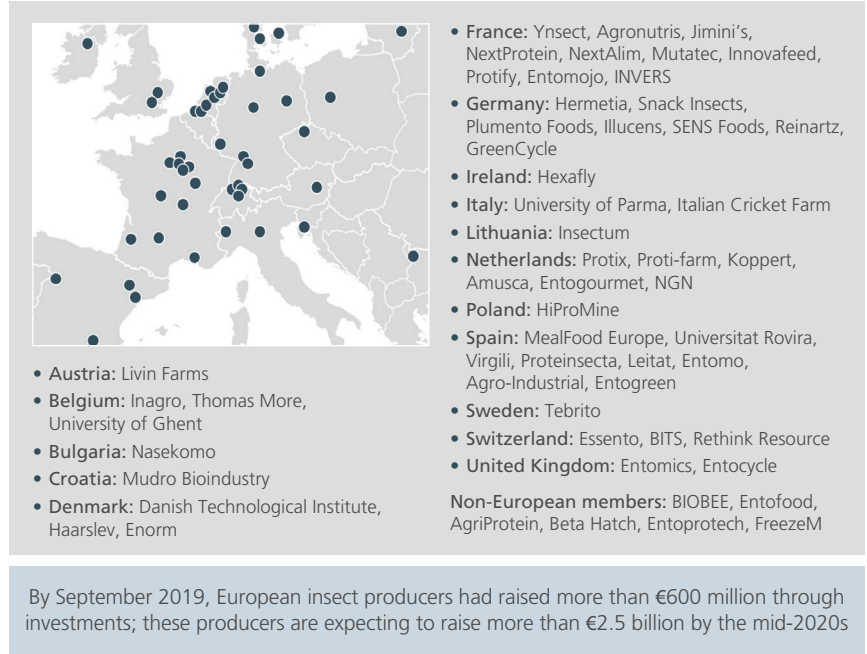
Figure 7

The insect-based protein market is projected to increase by 28% annually to 2027

European insect-based protein market size (2020-27F)



Insect-based protein producers in Europe



Source: Data Bridge Market Research, L.E.K. research and analysis

clear that there are significant value-enhancing investments for corporates and private equity firms to expand their portfolios in the industry, or potentially enter it for the first time. Easy wins may have been taken already, but there are plenty of exciting acquisition opportunities out there for players willing to put the effort in. This means taking the time to properly scope the market and undertake rigorous analysis of the competitive positioning and outlook of potential targets.

Endnotes

¹Innova Market Insights; L.E.K. analysis and interviews

²Institute of Food Technologists. 'Clearing up clean label confusion.' <https://www.ift.org/news-and-publications/food-technology-magazine/issues/2020/february/features/clearing-up-clean-label-confusion>

³Financial Times. 'Nestlé document says majority of its food portfolio is unhealthy.' <https://www.ft.com/content/4c98d410-38b1-4be8-95b2-d029e054f492>

⁴Our World in Data. 'Food production is responsible for one-quarter of the world's greenhouse gas emissions.' <https://ourworldindata.org/food-ghg-emissions>

⁵AMI, Eurostat, FiBL, Statistica and L.E.K. analysis

⁶Harris Interactive, Kantar, LSA and L.E.K. analysis

⁷Our World in Data. 'Food production is responsible for one-quarter of the world's greenhouse gas emissions.' <https://ourworldindata.org/food-ghg-emissions>

⁸AMI, Eurostat, FiBL, Statistica and L.E.K. analysis

⁹Harris Interactive, Kantar, LSA and L.E.K. analysis

¹⁰Markets and Markets. 'Cultured Meat Market by Source (Poultry, Beef, Seafood, Pork, and Duck), End-Use (Nuggets, Burgers, Meatballs, Sausages, Hot Dogs), and Region (North America, Europe, Asia Pacific, Middle East & Africa, South America) - Global Forecast to 2032.' <https://www.marketsandmarkets.com/Market-Reports/cultured-meat-market-204524444.html>

¹¹Data Bridge Market Research and L.E.K. analysis

About the Authors



Aubry Pierre is a Partner in L.E.K.'s London office and leads the firm's Organization & Performance (O&P) practice. Aubry serves boards, CEOs and business unit heads on high-stakes strategy issues and helps organizations improve their business performance by defining differentiated go-to-market strategies, aligning their organizational capabilities with their strategic intent, and ensuring the cost-effectiveness of their organizational strategy.



Frédéric Dessertine is a Partner in L.E.K. Consulting's Paris office. Frédéric joined L.E.K. in 2005 and has more than 20 years of management consulting experience. He has extensive experience in the agribusiness, building and construction, and technology sectors. Before joining L.E.K., Frédéric worked for a corporate venture fund in the U.S.

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