

Feeding frenzy

Consolidation on food industry menu

By **CLAUDE SOLNIK**

Amazon sent shock waves through the food industry when it announced it would acquire Whole Foods. Uber's launch of to-go orders through Uber Eats marked another example of tech impacting the dinner table.

But a roundtable of those involved with the food industry said that is just a taste of big changes to come as consolidation, regulation and technology transform how we buy, distribute and serve food.

Mergers and acquisitions, they say, are on the menu for this industry, which traditionally has faced a tough time in financing growth.

"The food industry isn't a dying breed. It's thriving, but it's changing," said Chris Valsamos, vice president of Hauppauge-based Castella, a food importer and distributor. "Companies need to be able to adapt. They can't be reactive anymore. They have to be proactive."

Amazon's appetite to get into the food industry is only the latest big buy in an increasingly global industry.

Netherlands-based Royal Ahold last year bought Delhaize, creating Ahold Delhaize, which includes Stop & Shop, Food Lion, Peapod and other brands.

"We are accelerating investments in our e-commerce operations," CEO Dick Boer said in a written statement with some of the same shades of Amazon's announcement. "Our U.S. brands are well-placed in a fast-changing, competitive landscape."

While mergers are part of the change, money is pouring in from private equity and hedge funds into a once staid industry.

"I've seen a lot of private-equity funds, hedge funds buy companies," Valsamos

said. "I'm seeing this more and more."

In a high-profile venture capital deal, Vestar Capital Partners acquired Manhattan-based specialty foods importer American Roland Food Corp.

Sysco, a public company with about \$50 billion in sales, and U.S. Foods, a firm with \$23 billion in sales, have been acquiring companies in still fragmented industries.

Meanwhile, distributor United Natural Foods bought a privately held organic food company based in the Bronx.

"Food businesses historically are small, family run. As time goes by, they're becoming bigger," Jennifer Hartmann, an associate at Uniondale-based Ruskin Moscou Faltischek, said. "Things are consolidating and combining."

She said other forces are driving consolidation, including difficulty in finding successors and, sometimes, capital to grow.

"The solo butcher exists here and there, but there are fewer and fewer as time goes by," Hartmann said. "More people aren't going into that field. When people retire, they can close up shop or sell it. There aren't that many people to sell it to, so they sell it to a bigger company."

Mark Meinberg, partner in charge of Long Island for EisnerAmper, in Syosset, said companies sometimes sell to tap funds, as they face big costs for inventory, labor and leases.

"I always say to them that debt is cheaper than equity," he said. "The ones that are successful figure out at what stage you bring in the equity."

Private equity firm The Riverside Co. in 2004 acquired Southampton-based Tate's Bake Shop.

Riverside Managing Partner Loren Schlachet at the time said he sees the brand as able to meet "rising demand for all-natural and authentic gourmet foods."

Difficulties in obtaining loans in the food industry may help fuel consolidation.

Banks often are reluctant to lend against perishable inventory, such as food.

"All their money's locked up in inventory. It really straps their cash flow," said one person familiar with the industry. "Access to capital in the food industry is always going to be a huge problem."

Consolidation not only impacts shoppers and employees, but means firms that supply supermarkets have fewer, albeit bigger potential customers.

"We talk about Amazon buying Whole Foods and customers having fewer choices," Valsamos added. "Companies like mine have fewer choices."

Consolidation is making certain practices, such as creating private food labels, riskier. As supermarkets consolidate, those private labels can vanish with deals.

"The private label is becoming more dangerous," Valsamos said. "If you have two customers, you can have one. Branding builds security, but it's expensive."

Increased regulation and voluntary information also are changing the food industry, as companies beef up food labels, placing calories on the front label rather than the back, indicating when products are free of preservatives, all natural, gluten free and without GMOs.

"There's been a shift in the industry to more transparency on the label," Valsamos said. "Companies want a competitive advantage. They seem to try and find it, by having a clean label, a non-GMO label."

Firms also are obtaining third-party certifications to verify claims beyond USDA organic certified or non-GMO certified.

"They'll put a sticker on the product they ship out," Hartmann said. "They need intellectual property advice so someone can't infringe on their rights."

Lately, she said, attorneys are getting more engagements to work on business combinations as consolidation becomes king.

"We work on disclosure agreements to open up finances for mergers or acquisitions," Hartmann said.

While Amazon may be the biggest merging of food and clicks, not every effort to tap the web works well.

Maple, an exclusive online or virtual restaurant that was delivery only, didn't survive. But its intellectual property did attract interest.

"They got purchased, because they have an algorithm that enabled them to deliver meals quicker than other services," Hartmann said.

It's still not clear how much of the food business will shift to orders placed online, but the internet could lead to more interest and consolidation.

"People were always hesitant to buy produce online. They want to touch their



JENNIFER HARTMANN: The food business is consolidating as companies grow, tapping attorney services for acquisitions and mergers.



MARK MEINBERG: Debt can be cheaper than equity.



CHRIS VALSAMOS: The food industry is changing with the times.

tomatoes. Maybe the idea of (Amazon acquiring) Whole Foods will let them be more trusting," Valsamos added. "We have less time. We want it now. I can have it on my doorstep in a couple of hours."

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FOOD BIZ GETS GLOBAL TASTE

Maps matter as much as menus these days for many companies in the food business.

Globalization isn't just coming about as firms based abroad, like Royal Ahold, buy U.S. chains and merge. Companies like Castella that import say tweets, tariffs, economies abroad and other global forces impact their business.

"It's becoming harder for distributors in Mexico to buy from us," Chris Valsamos, vice president of Castella, said. "Every time Trump says something, the peso goes crazy."

Imports from Europe already are affected by changing currency rates, although he said fluctuations aren't as big an issue as more enduring trends.

"When the euro rises or lowers, that affects us," Valsamos said. "It doesn't affect us if it goes up or down. It affects us if it keeps going up or down."

The Greek economic crisis impacted Castella, which imports olives from that nation. Suppliers suddenly had trouble getting loans.

"There were instances where we had to help out our vendors," Valsamos said. "Instead of credit, they needed funds to buy product. They might have needed our funds quicker."