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Investors zero in on recession-resistant foods, strong track records as economy resets

By Elizabeth Crawford

Despite the difficult economic reset underway in the capital markets and lingering supply chain challenges, rising inflation and the growing threat of a recession, investors are still interested in the food and beverage space, according to one investment banker with four decades of experience.

But, they are proceeding more cautiously than even just three or four months ago and placing a bigger emphasis on entrepreneurs' track records, said Lloyd Greif, president and CEO of Greif & Co., which has engineered a range of transactions from initial public offerings and private placement financings to mergers and acquisitions ranging from $25m to $2b.

“It is a pretty active environment right now. Obviously, there are clouds on the horizon,” but there are still financing options for companies that hold significant promise, he told attendees at the annual IFT FIRST conference in Chicago last month.

“I can tell you that it all starts and stops with management. So, if you’re trying to get a deal done in this environment, you better have a track record. A track record is key—having been there and done it before. Investors are more confident in situations where they are backing a team and know it is not all about one strong entrepreneur, but multiple strong executives - preferably ones who’ve done it before as a team but, even if they haven’t done it before as a team, the person who is in charge has done it,” he said.

They also are more likely to invest in a private company than one that is trying to go public in this current environment, he added. He explained that, before the pandemic, special purpose acquisition companies were a popular funding vehicle that allowed experienced management teams and sponsors to take fast-growing and promising companies public quickly, but those have quickly fallen out of favor.

“Most SPACs are substantially underwater. They have crashed and burned, and the vast majority of them are down a lot more than the market, which is down about 20-25% overall year-to-date,” he said.

He added the current environment also isn’t ideal for more traditional initial public offerings as investors are becoming increasingly cautious and, therefore, are more likely to invest their money in treasury bills rather than equities.

The exception is private equity, which Greif said has “record amounts of capital to put to work and they’re actively looking for new investments.”

Minority investments gain popularity

However, the type of investments they want to make have scaled down so that they are more likely to make a minority investment than an outright acquisition with sky-high multiples, as was the case for quite a while, he said.

“Some will even make investments on a pre-revenue basis, but that is much harder to achieve now and that is really going to reflect the presence of a great management team, a good product and an unmet market need in a hot area,” he said.

“Beyond that, if you’re looking for later rounds of financing for mature companies, they need to be making money now whereas, just three or four months ago, people didn’t care as much. Now, if you’ve been around a few years, you’ve got to have meaningful revenues and they expect you to have profits, too,” he said.

What's hot from investors' view?

According to Greif, investors are most interested in the obvious areas, like plant-based foods and beverages, but also better-for-you and functional solutions, such as nutraceuticals or healthy products that support consumers' immunity and general well-being.

Surprisingly, he also called out traditional animal protein as a space in which he is active. But he qualified that, in the current economic environment, players at the low end of the spectrum - affordable ground beef and chicken - better reflect current shopper needs and are easier to sell to investors.

Overall though, he said the food and beverage space is generally recession-proof or at least recession-resistant, making it an appealing space for investors operating in today's weakening economic landscape.