

Clearview

Spring 2020

Flavours, Fragrances & Ingredients

M&A activity in the flavours, fragrances and ingredients sector is supported by strong sector dynamics. The sector is growing as a result of increased innovation, consumer demand and consolidation.

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Market commentary

M&A activity in the flavours, fragrances and ingredients sector is supported by strong sector dynamics. With numerous consolidation opportunities within the market, groups such as Archer Daniels Midland Co, Corbion NV, Firmenich SA, Givaudan SA, International Flavors & Fragrances Inc, Kerry Group plc, Mane SA, Nactis SA and Symrise AG, continue to pursue bolt-on acquisitions.

Strong growth in the sector is the primary driver for this M&A activity, particularly as many players focus on increased innovation and product enhancements in response to changing consumer and end-user demands. Areas of focus for new developments include amino acids, botanicals, enzymes, minerals, prebiotics and probiotics, proteins and vitamins, as well as natural extracts and ingredients. The more traditional areas of acidulants, anti-caking agents, anti-oxidants, aroma chemicals, colourants, emulsifiers, esters, hydrocolloids, oleoresins, phenols, preservatives and sweeteners also remain important.

This growth is supported by consumer demand in the cosmetics, food and beverage, household products, oral care and personal care markets. The rising global population and increased urbanisation across the world are driving the appetite for more products

and increased innovation. In addition, certain increased legislative and regulatory forces are driving changes in the sector as well, particularly around product labelling, as consumer product and food safety issues come to the fore.

At the same time consolidation in the sector is being driven by large groups seeking to enhance their portfolio of products. Whether they are manufacturers or distributors, this strategy provides them with considerable cross-selling opportunities into their customer bases. Geographic expansion is also playing an important part in many acquisition strategies. Whilst Europe and North America are the largest markets, Asia is now becoming an increasingly important destination for many global players.

Meanwhile, mature markets are seeing more demand for enhanced and improved flavours, fragrances and ingredients, often based on natural products. New market opportunities have also developed around aromatherapy, dietary supplements, nutraceuticals and pharmaceutical products for health and wellness applications. These developments will have a dramatic effect on the demand for natural-based ingredients in the food and personal care sectors.

The fragrance market is expanding considerably on the back of increasing demand for natural products which are perceived to be healthier, safer and more therapeutic. These developments can be positive for manufacturers and distributors as these products typically come with a 'green premium'. Equally, there is greater acceptance of synthetic fragrances in detergents, perfumes, soaps and toiletries as these products tend to emit stronger fragrances, last for longer, and are less expensive compared to natural products, providing manufacturers with greater product creativity. An additional benefit of synthetic fragrances is that they mitigate risk for manufacturers of the fluctuating supply of essential and natural oils.

The market is also experiencing strong growth on the back of increasing consumer demand for more diversified and exotic product offerings, as well as more functional materials which provide certain end products with differentiated and enhanced characteristics in food processing. Linked to this is increasing interest in halal, kosher, ISO and organic certified products, with all of these dynamics inevitably having an impact on the entire supply chain for flavours and food ingredients.

M&A activity

Large global groups in the flavours, fragrances and ingredients sector are looking to take advantage of the strong fundamentals in the industry in order to make acquisitions which bring economies of scale, provide them with international expansion opportunities, or which reduce their internal costs. They are also keen to differentiate their own product offerings in order to compete more effectively with their peers. Equally, some large groups look to make acquisitions in order to mitigate the effects of their own lower rates of organic growth.

Ongoing corporate appetite for bolt-on acquisitions is also driven by the fact that there are strong margin enhancement opportunities in the sector, whilst acquisitive groups with strong balance sheets can make multiple acquisitions in order to satisfy their demand. The end result is that there is increasing competition for any acquisition targets which demonstrate strong innovation and access to growth markets, which in turn keeps valuations of businesses high.

The fragmented nature of the sector means that large groups have

considerable opportunities to make acquisitions, although the modest rate at which targets become available means that it is a sellers' market which allows vendors to be much more selective with regard to which potential buyers they interact with. The scarcity of high quality acquisition targets means that potential buyers can no longer benefit from finding uninformed vendors who might sell at a low price. The result is that valuations from both private equity and trade buyers are typically in the range of 8 to 10 times earnings before interest, tax, depreciation and amortisation (EBITDA), and sometimes even higher.



M&A activity

		Target	Buyer	
Company Name	Country	Activities Manufacturer (M), Supplier (S) or Distributor (D)	Company Name	Country
Nutrition & Biosciences division of US peer EI Dupont de Nemours Co	US	Enzymes, flavours, fragrances, nutritional products, probiotics and proteins (M)	International Flavour & Fragrances Inc (IFF)	US
Frutarom Industries Ltd	Israel	Flavours and fragrances (M)	International Flavour & Fragrances Inc (IFF)	US
Speximo AB	Sweden	Emulsifiers for oil-water based products for natural applications (M)	International Flavour & Fragrances Inc (IFF)	US
Pinova Group LLC	US	Flavours and ingredients for the food and beverages, fragrance, pharmaceutical and veterinary industries (S)	Nagase & Co Ltd	Japan
Avon Products Inc	UK	Cosmetics (M)	Natura Cosméticos SA	Brazil
Naturex SA	France	Ingredients for the cosmetics, healthcare and food industries (M)	Givaudan SA	Switzerland
Albert Vieille SA	France	Aromatic products (M)	Givaudan SA	Switzerland
AMSilk GmbH	Germany	Spider silk materials (M)	Givaudan SA	Switzerland
Drom Fragrances GmbH	Germany	Fragrances (M)	Givaudan SA	Switzerland
Fragrance Oils International Ltd	UK	Essences and natural herbal extracts for hair care products, fragrances, household products and personal care products (M)	Givaudan SA	Switzerland
Golden Frog Corp	Vietnam	Essential oils, flavours and fragrances (M)	Givaudan SA	Switzerland
Indena SpA	Italy	Cosmetic ingredients (M)	Givaudan SA	Switzerland
Ungerer & Co	US	Flavours and fragrances (M)	Givaudan SA	Switzerland
Robertet SA	France	Flavours, fragrances and ingredients (M)	Firmenich SA	Switzerland
Campus Srl	Italy	Functional ingredients for the food and beverage industry (M)	Firmenich SA	Switzerland
Evonik AG's CO2 extraction division	Turkey	Flavours and fragrances (M)	Firmenich SA	Switzerland
Natural Flavors Inc	US	Organic flavours for the food and beverage industry (M)	Firmenich SA	Switzerland
Nelixia SA	Guatemala	Natural oils for flavours and fragrances (M)	Firmenich SA	Switzerland
Senomyx Inc	US	Flavour ingredients and natural sweeteners for the food and beverage industry (M)	Firmenich SA	Switzerland
VKL Seasoning Pvt. Ltd	India	Flavours and seasonings for the food and beverage industry (M)	Firmenich SA	Switzerland
American Dehydrated Foods Inc	US	Natural flavour and protein ingredients (M)	Symrise AG	Germany
International Dehydrated Foods Inc	US	Natural flavour and protein ingredients (M)	Symrise AG	Germany
IsoNova Technologies LLC	US	Natural flavour and protein ingredients (M)	Symrise AG	Germany
CUTECH Srl	Italy	Cosmetic ingredients for hair and skin treatments (M)	Symrise AG	Germany
American Dehydrated Foods' chicken-based food ingredients division	US	Chicken food and pet food ingredients (M)	Kerry Group Plc	Ireland
GlobeNatural Internacional SA	Peru	Natural food ingredients (M)	Sensient Technologies Corp	US
Mazza Innovation Ltd	Canada	Solvent-free bioactive ingredients from botanical sources (M)	Sensient Technologies Corp	US
Erich Ziegler GmbH	Germany	Natural citrus flavour ingredients for the food and beverage industry (M)	Archer Daniels Midland Co	US
Florida Chemical Co Inc	US	Citrus flavour ingredients for the food and beverage industry (M)	Archer Daniels Midland Co	US
Creative Flavors & Fragrances Srl	Italy	Fragrances (M) (D)	SH Kelkar and Co Ltd	India
Fragrance Design LLC	US	Fragrances (M)	Eurofragrance SL	Spain
SIAS Food Co	China	Flavours and food ingredients (M)	Kerry Group Plc	Ireland
Zhejiang Hangman Food Technologies Co Ltd	China	Flavours and food ingredients (M)	Kerry Group Plc	Ireland
Season to Season Flavour Manufacturers Pty Ltd	South Africa	Flavours and seasonings for food and beverages (M)	Kerry Group Plc	Ireland
Arles Agroalimentaire SA	France	Emulsifiers, functional additives and proteins (D)	Caldic BV	Netherlands
Diffusions Aromatiques SA	France	Natural, organic and synthetic ingredients for aromatherapy products, cosmetics and fragrances (D)	Indukern SA	Spain
Earthoil Plantations Ltd	UK	Organic and pure cold pressed and essential vegetable seed oils for cosmetics and personal care products (S)	Univar Inc	US



Appetite from private equity

Private equity (PE) investors are highly attracted to the flavours, fragrances and ingredients sector because of the strong performance of players in the sector, the attractive end market dynamics, and the differentiated product offerings. They also appreciate the defensible market position of these companies, as well as the fact that their added-value products are associated with strong levels of cash conversion.

PE firms also regularly establish new platform investments in the sector which are often the subject of ongoing buy-and-build strategies. Thanks to the increasing firepower of the PE market, investors can look at bringing together multiple players in the sector to create an enlarged entity, which in time will itself be an attractive acquisition target for the large global groups.

Target			Buyer	
Company Name	Country	Activities	Company Name	Country
Azelis SA	Belgium	Distributor of commodity and speciality chemicals	EQT Partners	Sweden
Euroconsultant Spzoo	Poland	Distributor of flavours and preservatives for the food industry	Azelis SA	Belgium
MK Ingredients & Specialties Ltd - Distribution division	India	Distributor of food ingredients	Azelis SA	Belgium
Italcanditi SpA	Italy	Manufacturer of flavours, fragrances and ingredients	Investindustrial	Italy
Prodotti Rubicone Srl	Italy	Manufacturer of flavourings and food ingredients	Italcanditi SpA	Italy
Iberchem SA	Spain	Manufacturer of fragrances	Eurazeo	France
Versachem Pty Ltd	South Africa	Manufacturer and distributor of colourants and flavours for the food industry	Iberchem SA	Spain
AromataGroup Srl	Italy	Manufacturer and distributor of natural colourants and flavours for the food and beverage, and pharmaceutical industries	Ambienta	Italy
Nactis Flavors SA	French	Manufacturer of aromatic ingredients and flavours	AromataGroup Srl	Italy
Frulact Ltda	Portugal	Manufacturer of fruit-based ingredients	Ardian	France
Florida Food Products Inc	US	Manufacturer of curing agents, ingredients and preservatives for the cosmetics, food, nutraceutical and pharmaceutical industries	MidOcean Partners	US
Groupe Unipex SA	France	Manufacturer of active ingredients for the cosmetics, nutrition and pharmaceutical industries	BNP Paribas Developpement	France

Recent transactions

 sold to  Sell-side Undisclosed	 invested in  Buy-side Undisclosed	 sold BNT chemicals to IBU tec Sell-side Undisclosed	 MBO supported by  Sell-side Undisclosed	 sold  to Keva UK Ltd Sell-side Undisclosed	 acquired  Buy-side Undisclosed
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