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M&A activity likely to stay hot in 2018, report says

By Hank Schultz

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M&A activity in the dietary supplement realm is unlikely to slow down anytime soon, according to a new report from an investment firm.

The new report from investment firm Green Circle Capital Partners makes the case that the dietary supplements and functional foods sectors have hooked in to many positive trends. That is likely to help keep growth in the sector reliably ahead of the growth in the overall economy in the year to come.

Sports nutrition leads the pack

"The VMS/nutraceutical industry is growing at a very healthy rate, exceeding that of other consumer non-durables such as food and beverages and dramatically outpacing growth of the sluggish overall American and global economies. Certain segments are growing faster than others. Sports nutrition leads the pack, with a 10.2% compounded annual growth rate (CAGR) over the last 5 years, with meal replacement at 9.3%; herbs and botanicals at 6.9%; and specialties, including products containing ingredients such as probiotics and omega-3 oils, at 5.9%," the report states.

Bakley Smith, vice president of Green Circle, said investment capital has been flowing back into the market in the period after the hangover from the 2008-2009 financial crisis. But despite the almost irrational exuberance of the stock market, the underlying fundamentals of many market categories means there are few reliable places for that capital to roost.

"They have been sitting on capital since about '06 or '07," he said.

According to a recent report from the Bureau of Economic Analysis, the overall rate of GDP growth hit 3.3% in the third quarter of calendar 2017, up from 3.1% in the second quarter. Even the more sluggish of dietary supplement categories have easily outperformed those measures. According to the report, by comparison the overall food and beverage category grew only about in line with overall GDP growth.

Don't expect many more billion dollar deals

The hottest news in the dietary supplement M&A wire in 2017 were a several huge deals, including the most recent: the $2.3 billion acquisition of Atrium by Nestlé. That followed on the mid-year announcement that KKR would acquire a majority stake in Nature's Bounty, a deal which Green Circle pegged at about $3 billion value. Another mega deal in 2017 was **$432 million sale of Nutraceutical International**. Smith said plotting those deals would yield a graph with a hockey stick-like shape. And while the future looks good, it might not necessarily look THAT good.

"There are not so many billion dollar companies out there to be acquired, although Herbalife is one that people have talked about," Smith said.

Lifetime consumers a plus

The report details several significant tailwinds that are filling the sails of the dietary supplement industry. One of the biggest is the aging population. The report notes that supplement use tends to increase with age. Less than 50% of 30-34 year olds are supplement users, whereas 73% or more consumers 65 years old or older are buying supplements. And as consumers in the Millennial generation age, they'll add to this trend, the report says.

"Data from the National Center for Health Statistics shows that over the last 30 years, the percentage of adults over 20 years old that use vitamins and supplements has increased from just under 30% in a survey conducted between 1988 and 1994 to 54% in the most recently available survey, ended in 2014. We believe this trend toward wider adoption will continue," the report states.

Smith said acquirers are in particular interested in brands that have younger demographics. One thing that's a big positive for the dietary supplement industry is this ability to grow lifelong consumers. Smith contrasts that to other consumer goods categories that are more closely tied to one life stage or another. Take sneakers, for example.

"I don't have hard data, but my guess is that if you are a company like Nike, you have to make the majority of your sneaker sales to an individual consumer before they turn 30 or so. With supplements, you can look forward to make more sales as the years go on," he said.

There are some caveats to this rosy picture, he said. Unlike sneakers, to stay with that example, the dietary supplement industry is subject to exogenous shock. Few mainstream press headlines urge consumers to stop wasting their money on sneakers when a moot study result crops up. But these negative reports continue to plague the dietary supplement industry. And growth in multivitamins has slowed to a trickle as consumers loo

Enhancing business value

One of Green Circle's missions is to enhance the enterprise value of companies so that they can command more at the time of sale. The report notes that condition specific supplements offer the best hope for category-beating growth. And personalization and authenticity are key to consumer engagement.

But one of the biggest drivers of attractiveness of a given company for acquirers is the quality of the data that supports the finished products or ingredients, Smith said. There has been significant innovation within the dietary supplement industry around channel distribution, package design, marketing message and so forth. While all that is important and good to have, the real core is what the ingredients do and how you can prove that, he said.

"The investors we talk to, both on the financial and strategic side, for all of them if there is legitimate science, real meat on the bone, they are way more interested. That's of more interest to them than if it's a straight marketing play," he said.