

Food & Beverage: Black Legend Capital Explains How Changing Consumer Habits Are Reshaping the Industry

With health concerns in the U.S. growing and per capita income improving, the rapidly growing health-oriented food markets will support industry growth.

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Key Sub-Sectors (U.S.)	Annual Growth		
	Revenue in 2015	2010-2015	2015-2020
Organic Foods	\$30.1	12.0%	14.0%
Meal Replacement	3.2	3.6%	3.0%
Soft Drink, Baked Goods, and Other Grocery Wholesale	302.5	1.7%	1.4%
Fast Food Restaurants	225.1	2.5%	2.0%
Soda Production	43.1	(1.2%)	(1.1%)

The organic foods sector continues to grow at a rate much higher than other key sub-sectors, like fast food and soda, in the food and beverage industry.

1) Source: IBISWorld Market Research Industry Report
2) Revenue in billions of U.S. dollars.

The U.S. Food and Beverage Industry is remains strong, though changing consumer habits and health concerns have upended traditional strategies and business models in the space. Annual U.S. Food & Beverage retail sales increased from \$650 billion in 2013 to \$681 billion in 2015, growing steadily at an annual rate of 2% as reported by the U.S. Census Bureau. With per capita income improving, consumers, and producers in turn, are placing more emphasis on healthy alternatives instead of the cheapest and quickest options. The organic foods market, for example, is of particular focus in the U.S. and continues to grow at a rate that far outpaces the overall U.S. food market. The [industry climate](#) lends itself to growth opportunities for businesses who are quick to adapt to this trend.

Drivers of Growth in Food & Beverage Industry

While the food and beverage industry boasts massive size and the ability to weather risks during economic downturn, it suffers from continued low organic growth. Many companies are actively working to complement this limited industry growth. Drivers of growth include:

- Rapid expansion of food manufacturers supplying high-growth markets
- Industry leaders and established companies targeting new markets through acquisition or new products in order to revive sales
- Opportunity to improve margins through economies of scale

Though consumer lifestyles still demand time-saving and convenient products, traditional “junk foods” and fast foods are falling behind alternatives like meal replacement products. As they lose ground, recent years have seen a sector-wide adjustment in fast food marketing and product offering too (you can now get a kale salad at McDonald's). Though the actual health benefits of such menu items may be suspect, the message is clear: the industry is responding to the [change in consumer values](#). Though the U.S. has been slower than many European countries to accommodate the shifting demand, health food sub-sectors continue to grow as producers try to capture a share of the [quickly growing market](#).

Financial Sponsor & Strategic Buyer Activity in the Food & Beverage Industry

In Q1 2016, 94 strategic investments versus 18 financial buyouts indicate that strategic buyers continue to outpace financial sponsors in the sector. They actively seek acquisitions as they reposition their product portfolios and expand into new markets. M&A activities retain the same momentum as in 2015.

Private equity firms remain active in the industry due to the fragmentation, capitalizing on large companies looking to sell non-core businesses. 2015 witnessed a record high in private equity investments, with 65 financial buyouts taking place in the sector. Although these companies may be experiencing slow growth, many maintain strong cash flow positions, enabling financial buyers to use leverage in making acquisitions.

About Black Legend Capital, LLC

Black Legend Capital is an investment bank and M&A advisory group based in Los Angeles with satellite offices in Houston, New York and London.

Black Legend Capital was founded in 2011 by former Merrill Lynch and Duff & Phelps senior investment bankers involved in over \$13bn transactions in the USA, and focuses on energy, consumer products and technology. Black Legend Capital partners with corporations and management teams to provide strategy and consulting resources to facilitate industry projects to generate leading returns for clients.

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