



# The Ingredients Landscape

October 2024

 Harris Williams



OC&C  
Strategy consultants







# 「Our Perspectives」 「on Ingredients」

 Harris Williams



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Strategy consultants

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# Key Themes of the Ingredients Landscape

1

**A Large and Growing Market ...**

Robust aggregate market growth in the long term, with the higher-margin value-added subsegments (30-40% market value) growing ~5%; some supply normalization occurring after rapid growth during COVID

2

**... With Attractive Structural Dynamics**

High technical or capital requirements to participate; sticky customer relationships, given low share of cost stack, but high criticality (as many ingredients are formulation specified), and economic resiliency result in attractive category fundamentals and high barriers to entry

3

**Nuanced Subcategory Trends & Growth Hot Spots ...**

Subcategories align differently to evolving consumer trends (e.g., natural, clean label, etc.), resulting in hot spots of growth, while also seeing differing levels of participation from the major scaled players

4

**... Leading to Differing Archetype Business Models (and Value Creation Levers)**

This landscape is served by a range of different archetype business models – winners in the market typically have specialist knowledge and experience of ingredient applications in specific end markets, with an operating model aligned to specific value creation levers

5

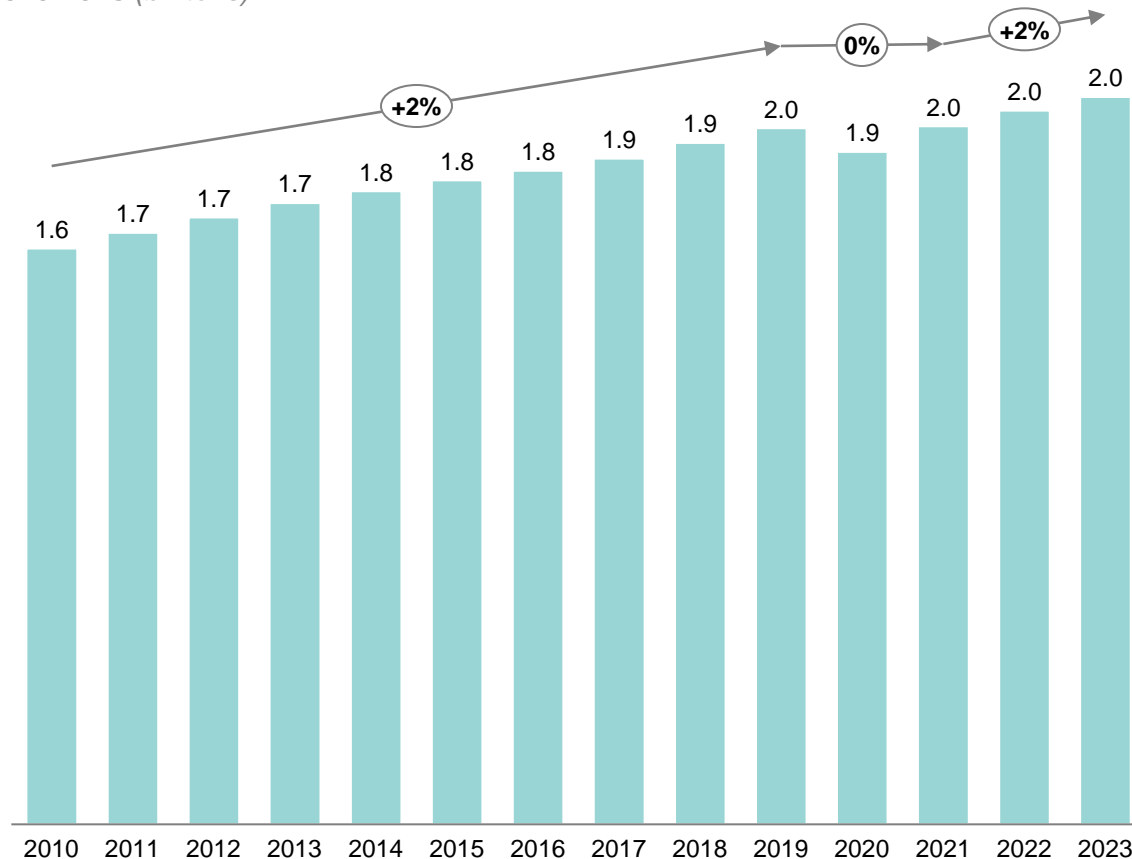
**All Supporting an Active M&A Landscape**

These factors have supported a fertile space for M&A, with many of the major players actively shaping their portfolios / capabilities; and private equity driving professionalization and consolidation across a still-fragmented landscape

# The overall market has seen muted, but steady, volume growth – value-added segments have grown well above commoditized ingredients

## Ingredients Market Growth

Volume Evolution of Ingredients, Global  
2010-2023 (bn tons)



Value-added ingredients  
account for ~30-40% of  
the total market value...

... and have historically  
grown at ~5% p.a.  
(vs. 1-2% for more  
commoditized ingredients)

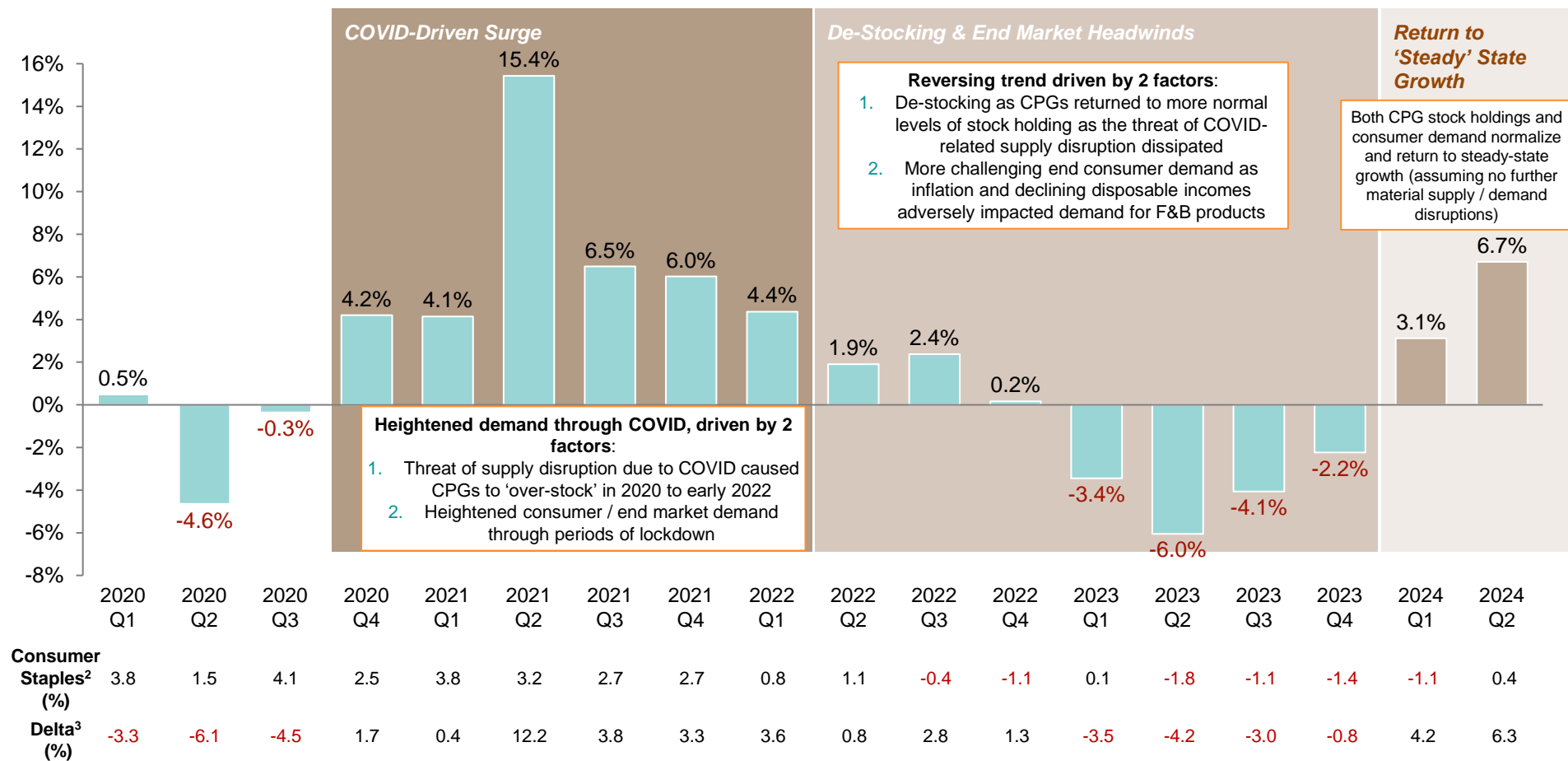


# The market saw a significant volume increase through COVID, which led to a downswing in 2022/23 growth before returning to strong growth through '24

Ingredients Weighted-Average Organic Volume YoY Growth<sup>1</sup> (%)  
as of October 2024

Lapping effect accentuates YoY fluctuation

Volume trends from public listed ingredients players – as such skew toward CPG vs Foodservice



1. Novonesis, Croda, Givaudan, IFF, Symrise, (2022-24) Kerry, DSM-firmenich, Ingredion; (2020-24) 2) Unilever, Nestle, Danone, Kraft Heinz, Mondelez, P&G, Reckitt, Colgate; 3) Ingredients minus Consumer Staples  
Source: Capital IQ, Company websites, UBS, JP Morgan, Berenberg & Credit Suisse broker reports, OC&C analysis

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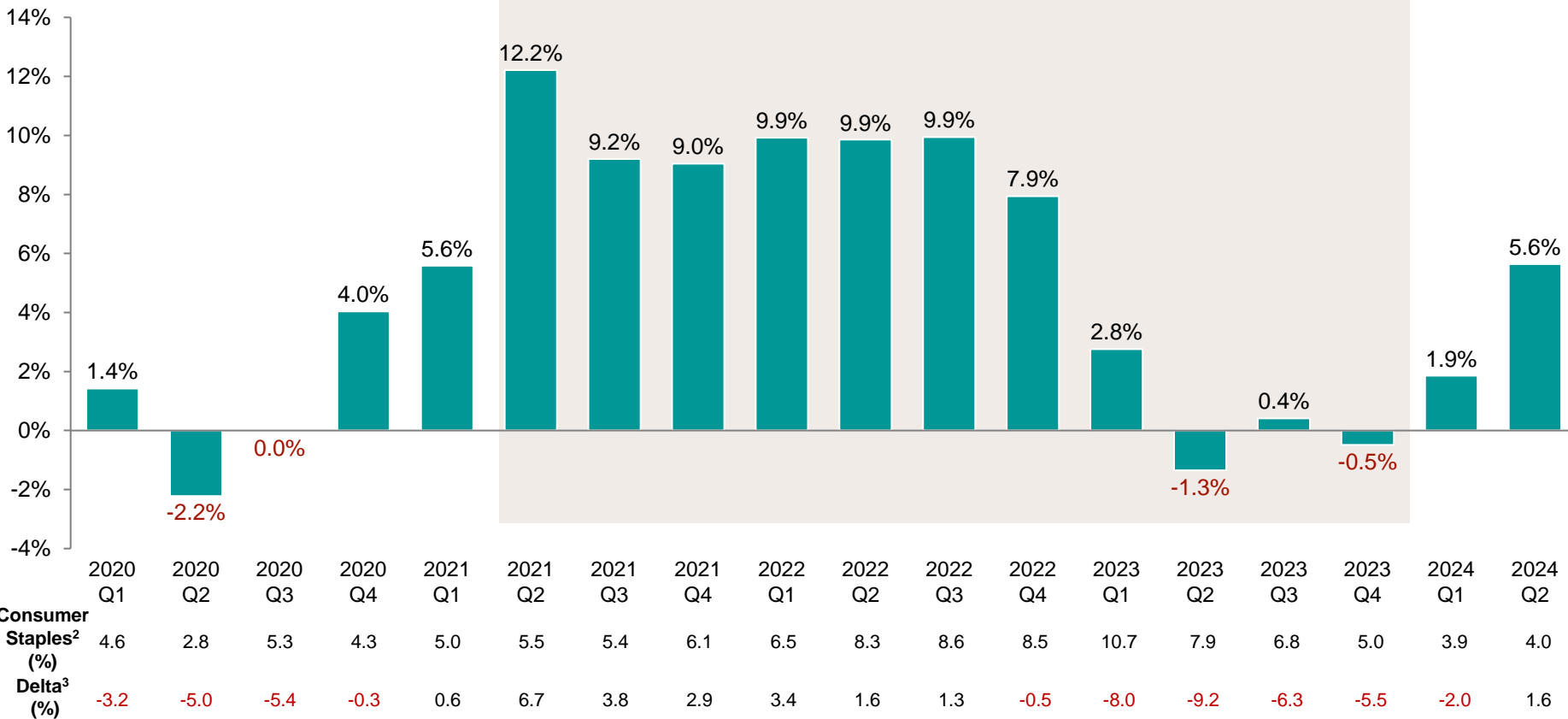


# Price increases mostly offset the slower volume growth over 2022/23 and appear to be normalising through 2024

Ingredients Weighted-Average Organic Value Growth<sup>1</sup> (%)  
as of October 2024

Volume trends from public listed ingredients players – as such skew toward CPG vs Foodservice

End of COVID and Inflation

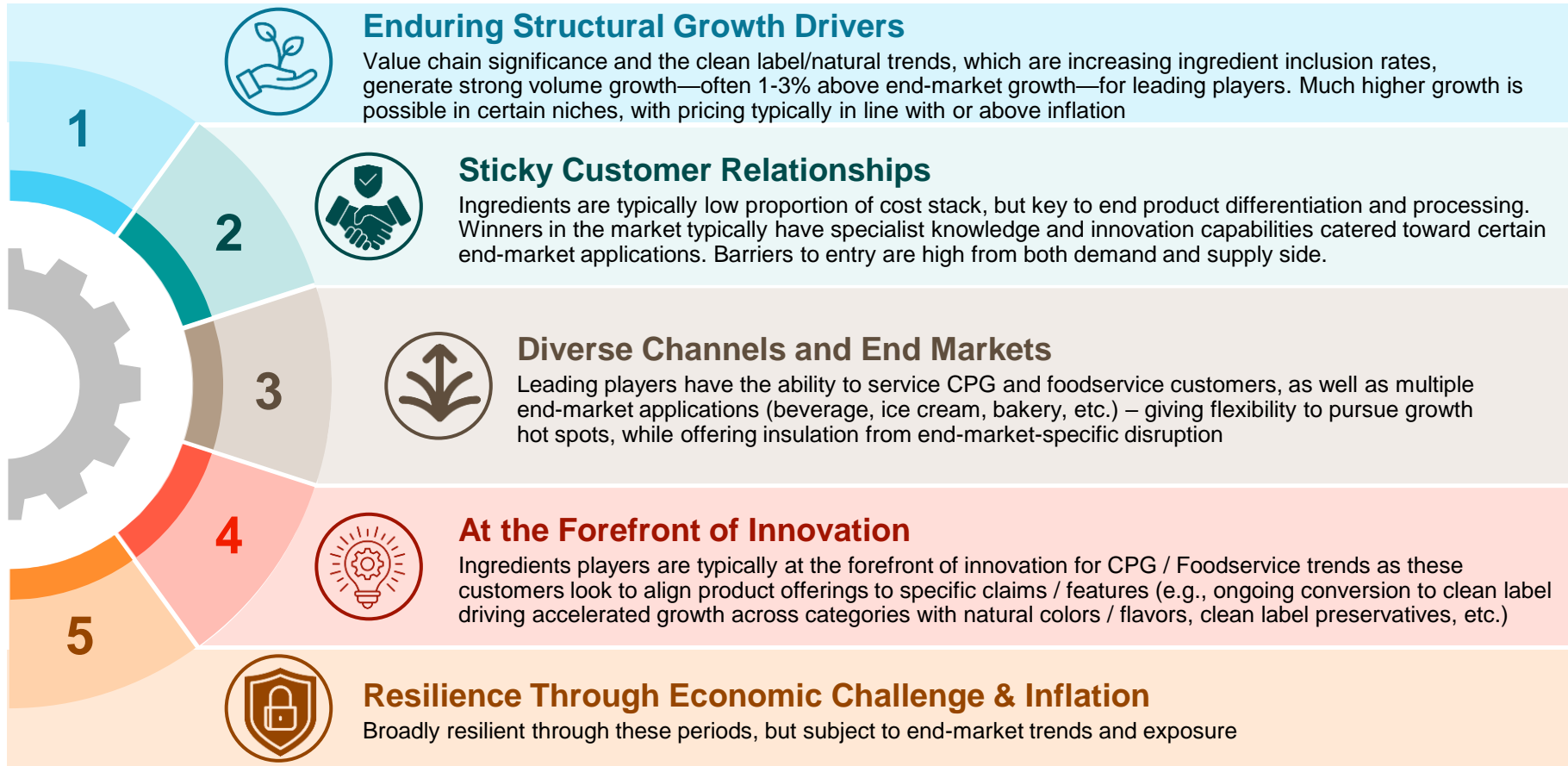


1. Novonesis, Croda, Givaudan, IFF, Kerry, Symrise, DSM-firmenich, Ingredion, Tate & Lyle, Sensient, Treatt; 2) Unilever, Nestle, Danone, Kraft Heinz, Mondelez, P&G, Reckitt, Colgate; 3) Value Growth Delta – Ingredients vs CPG



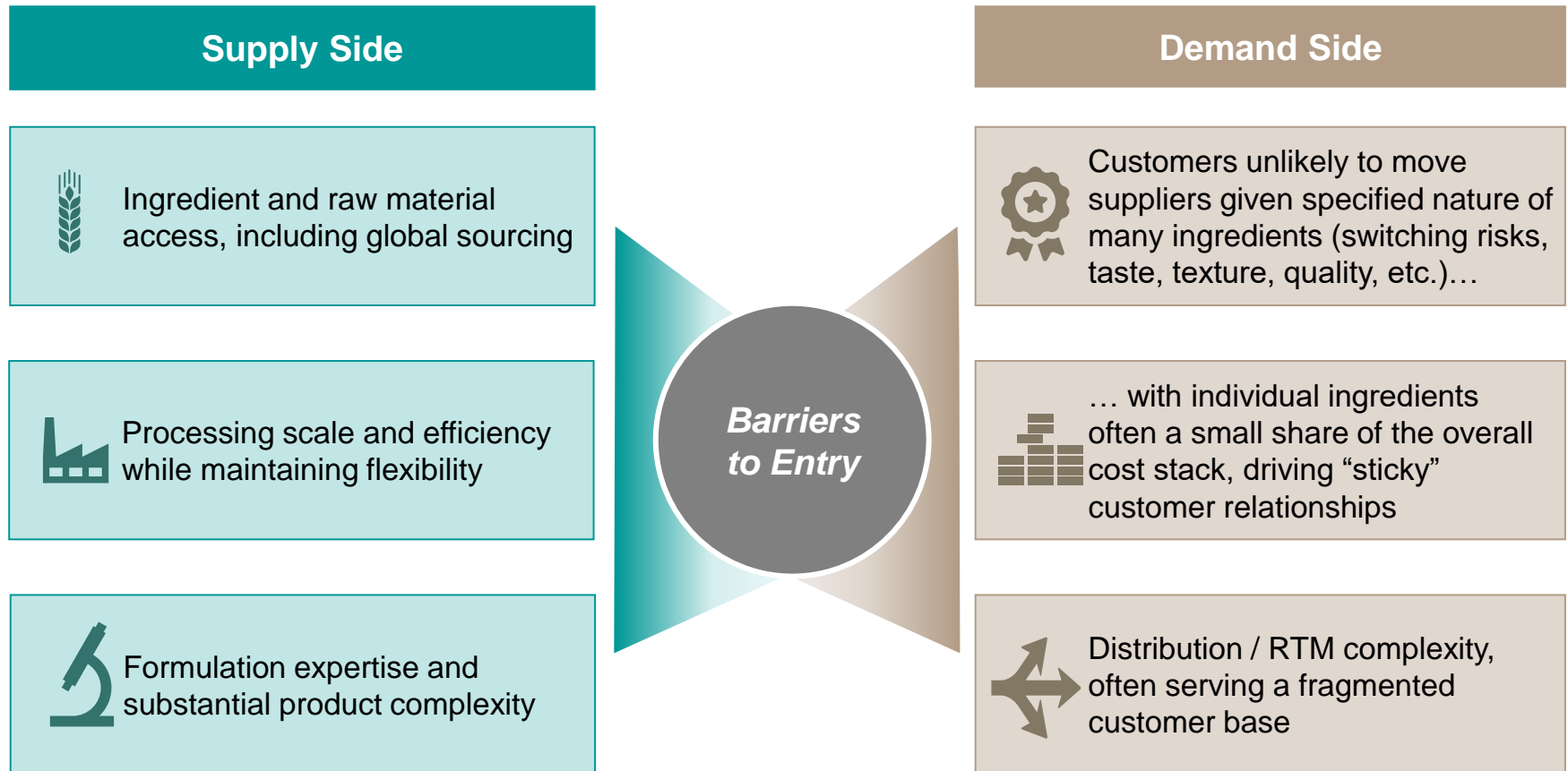
# Beyond volume growth, the ingredients market benefits from attractive market fundamentals – it is large, resilient, and sticky

## Ingredients Market Fundamentals



# Sticky customer purchasing behavior and specialist capabilities on the supply side mean incumbents benefit from high barriers to entry

## Stickiness & Barriers To Entry





# However, the space is not homogenous, and there are specific hot spots of growth across ingredient types

## Ingredient Hot Spots

### Flavors and attached value chain

*Momentum in core end markets; new end usages (alternative proteins) and new applications*

#### Key ingredient types:

- Flavors
- Base Notes
- Flavor Masking



### Natural ingredients

*Consumers demanding natural alternatives out of health and sustainability concerns*

#### Key ingredient types:

- Flavors & Colors
- Preservatives
- Texturants & Stabilizers
- Plant-Based Ingredients



### Value-added inclusions

*Consumer demand for innovative and novelty snacking products*

#### Key ingredient types:

- Ice Cream & Yoghurt Inclusions
- Mix-ins
- Snack Inclusions



### Nutritionals

*Strong dynamics in core end markets; new applications emerging from food functionality*

#### Key ingredient types:

- Probiotics, Specialty Carbs & Fibers
- Enzymes
- Proteins



### Processing aids & bio-solutions

*Demand driven by input cost increase and sustainability concerns*

#### Key ingredient types:

- Enzymes
- Cultures



### Cosmetics & VMS active ingredients

*Positive consumer trends, offer- and innovation-driven categories with opportunities for branding*

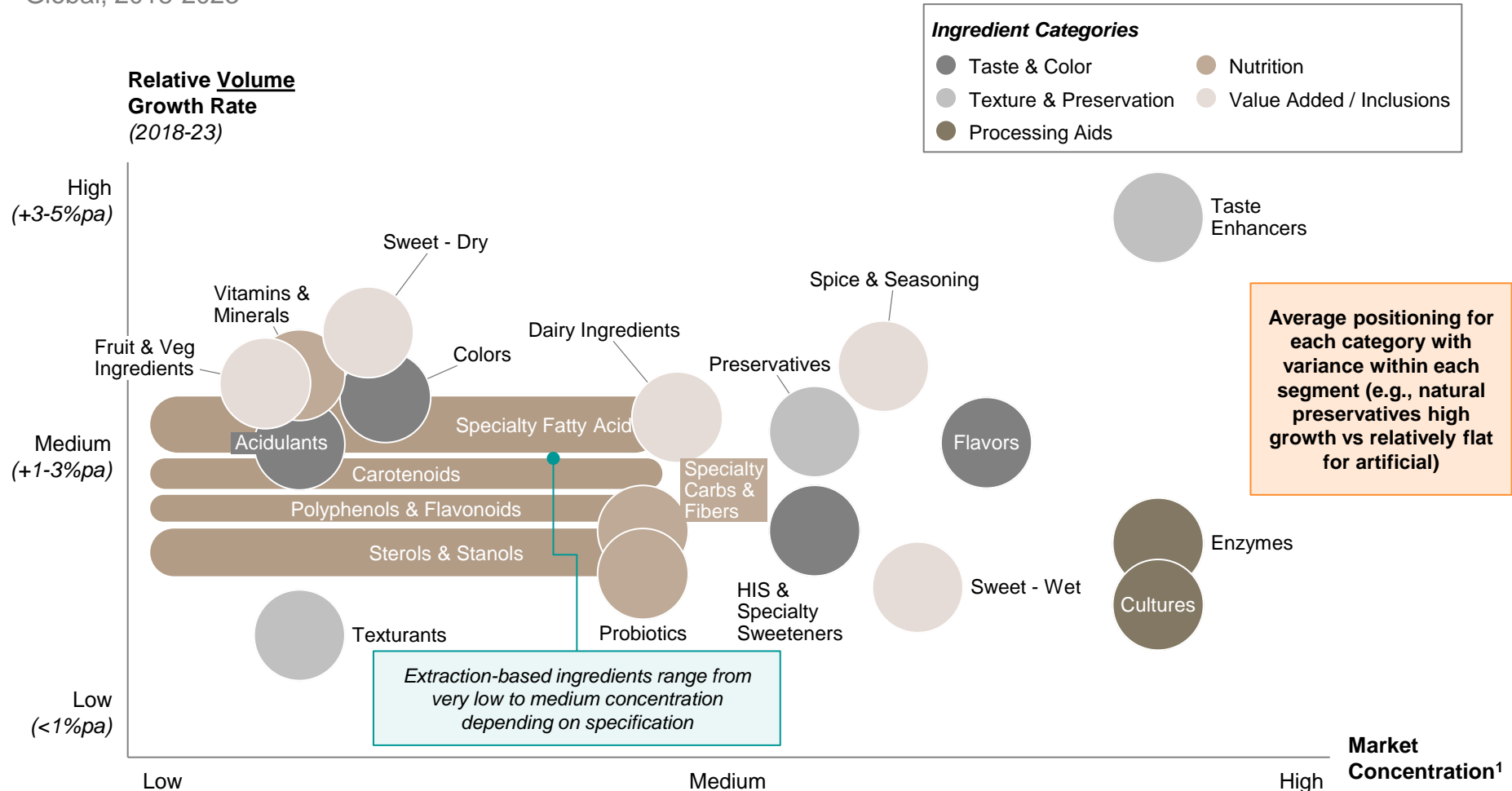
#### Key ingredient types:

- Plant extracts
- Probiotics, Specialty Carbs. & Fibers
- Enzymes



# Difference in performance can be seen at the product level, with divergent performance across product types

Size, Growth & Competitiveness by Ingredient Category  
Global, 2018-2023




















1. Market concentration reflecting to what extent most of the market is controlled by a few players

Source: The Grocer, Euromonitor, Previous OC&C Market Modelling, OC&C analysis

# There are 3 primary player archetypes in ingredients, with different sources of competitive advantage for each group

## Player Archetypes & Sources of Differentiation

Ingredient Player Archetypes		Sources of competitive advantage	Indicators of advantage	Examples
 <b>Input Processors</b>	Processors of commodity / raw ingredients – typically large scale	<ul style="list-style-type: none"> <li>• <b>Advantaged access to raw materials</b></li> <li>• Focused on a raw material &amp; monetizing that across applications</li> <li>• Built on differentiated or preferential upstream access to raw material(s) and primary processing scale efficiency / capability, and a superior ability to valorize products ...</li> <li>• ... enabling downstream expansion to serve different end products / value-added applications to generate a superior return on inputs (further enhancing advantaged raw material access)</li> </ul>	Return on raw materials (\$/tonne)	  
	Enhance basic / input ingredients through processing & innovation to offer specialized products (e.g., bakery mixes, frozen novelties)	<ul style="list-style-type: none"> <li>• <b>Solution breadth – a ‘one-stop shop’</b></li> <li>• Superior breadth of product offering &amp; service proposition result in an advantaged solution for customer segments (e.g., typically industry vertical-led)</li> <li>• Expansion focused on growth in these customer segments (new sub-segments / channels, new markets, increasing share of wallet)...</li> <li>• ... or customer groups with a similar need for the business' core products</li> </ul>	Relative customer share of wallet	     
 <b>Highly Technical</b>	Specialty ingredients providers offering highly technical product ranges (e.g., flavor, color, texturant, etc.)	<ul style="list-style-type: none"> <li>• <b>Superior manufacturing / technical capability or cost position</b></li> <li>• Superior R&amp;D capability, manufacturing capability, or cost position provides a differentiated product proposition (either via quality, bespoke-ness, or cost positioning)</li> <li>• Opportunity to leverage core capability / product offering into emerging high-growth product categories, and to target the latest cross-category trends (e.g., specific functional benefits)</li> </ul>	<ul style="list-style-type: none"> <li>• Advantaged cost position</li> <li>• Product quality advantage</li> <li>• Product or process-led IP</li> </ul>	     

# Assessing asset attractiveness and growth opportunities varies by the different archetypes

## Belief Conditions To Test To Have Confidence in Asset Attractiveness

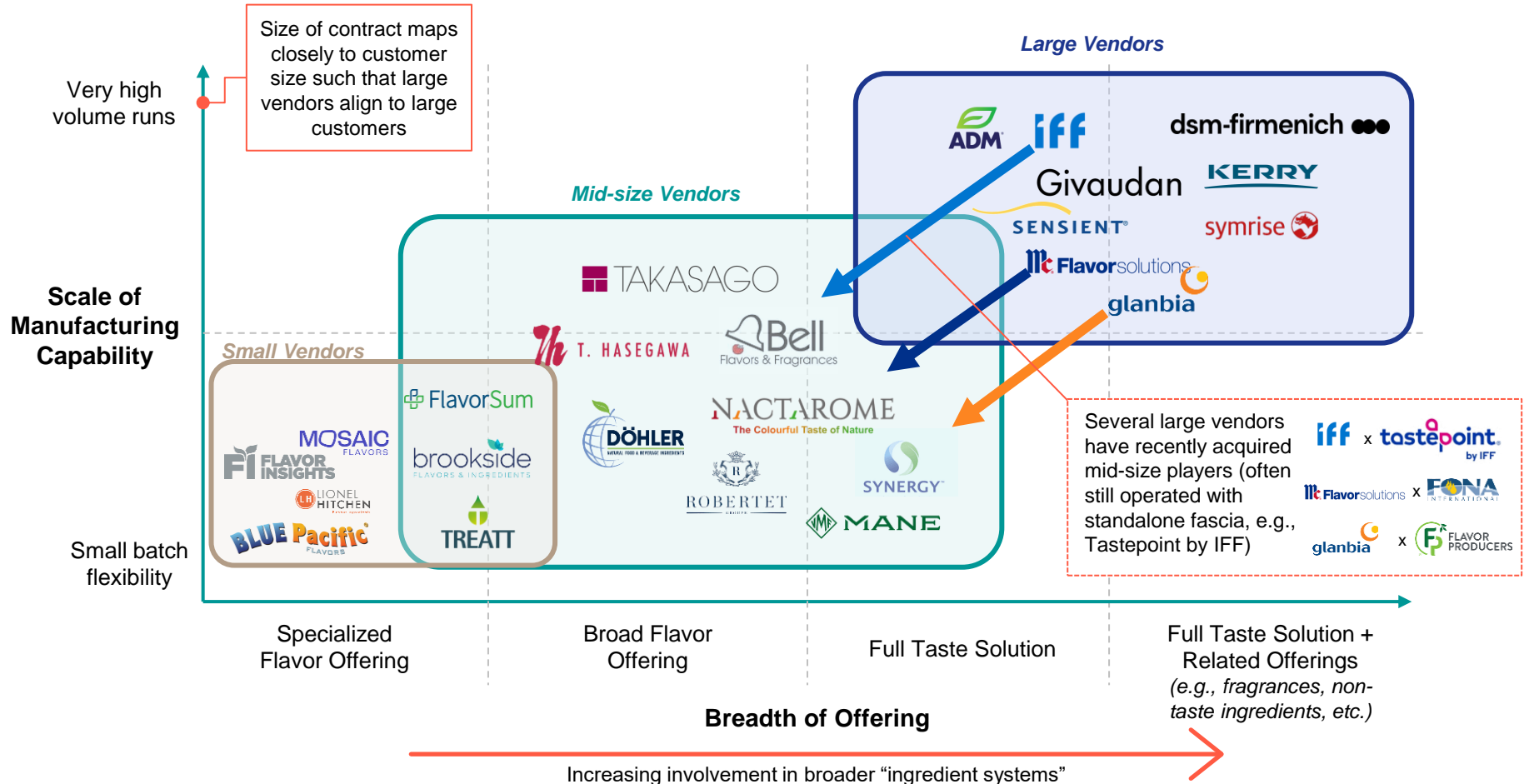
Belief Conditions To Build Confidence In Attractiveness		
	Characteristics of attractive businesses	Achievable opportunities to drive future growth
Input Processors	<ul style="list-style-type: none"> <li>The business has advantaged access to raw materials from a cost or quality perspective</li> <li>The business is better able to valorize inputs, through a combination of differentiated processing and commercial relationships</li> <li>The advantage in access or knowledge is defensible and not easily replicable by others</li> </ul>	<ul style="list-style-type: none"> <li>The breadth of potential applications is wide, with many applications already proven</li> <li>There is a substantial scale of opportunity in new applications / end industries</li> <li>New product development</li> <li>Continued ability to drive up valorization per input</li> </ul>
Value-Added Ingredients	<ul style="list-style-type: none"> <li>The brand or proposition is strong among target industries and customers</li> <li>Customer relationships are sticky, with significant barriers to switching</li> <li>The business captures a significant share of the customer's wallet</li> </ul>	<ul style="list-style-type: none"> <li>There is substantial headroom for growth with existing customers through new products or services</li> <li>There is potential for international growth</li> <li>Other customers with similar needs are attractive for expansion, with high growth and profit potential</li> </ul>
Highly Technical	<ul style="list-style-type: none"> <li>The business differentiates itself through scale, cost position, technical expertise, or a protected niche</li> <li>The business's offering is highly advantageous today, with positive perceptions from customers</li> <li>Current products are competitive compared to known or upcoming alternatives</li> </ul>	<ul style="list-style-type: none"> <li>The business can extend its reach to new end markets and customers with its current product offering</li> <li>There is significant opportunity for growth in new markets and customers</li> <li>The business's offer in new markets is differentiated compared to competitors</li> </ul>



# The complex landscape creates a broad competitive field, but there is potential to create clear moats vs the largest players, as seen in flavors

## Flavor Provider Landscape Deep Dive

Conceptual Flavor Capability Example;  
Not Exhaustive



# There are clear value creation levers – but these will vary, depending on the business model and category participation

## Value Creation Levers

	<i>Description of Value Creation Potential</i>	<i>Previous Examples</i>
<b>Act as a 'one-stop shop' to Customers</b>	<ul style="list-style-type: none"> <li>Brands are increasingly outsourcing R&amp;D, and looking for comprehensive solutions</li> <li>Establishing strong customer intimacy allows for better value extraction and premium pricing</li> </ul>	<i>Bakery and Ice Cream Ingredients in Europe, Savory Solutions</i>
<b>Consolidate and Optimize subscale Businesses</b>	<ul style="list-style-type: none"> <li>Operate within a fragmented market with often unsophisticated businesses, presenting opportunities for top-line growth through cross-selling and R&amp;D scale</li> <li>Pricing, industrial optimization, and enhanced commercial potential are achievable</li> </ul>	<i>Natural Value-added Ingredients in F&amp;B, VMS, and Cosmetics</i>
<b>Take advantage of Niches</b>	<ul style="list-style-type: none"> <li>Diverse customer needs and product technicalities have resulted in multiple niches, often dominated by a single player</li> <li>These niches frequently hold untapped pricing power</li> </ul>	<i>Specialty Base Aromas, VMS &amp; Cosmetics Active Ingredients, Processing aids, ...</i>
<b>Look for Divestments of Big Players</b>	<ul style="list-style-type: none"> <li>Resulting from redeployment toward flavors / nutrition</li> <li>Value creation rationale coming from increasing commercial impact and taking advantage of superior scale &amp; reach of business</li> </ul>	<i>Sweeteners, Excipients, Natural Extracts, ...</i>
<b>Push Adjacencies</b>	<ul style="list-style-type: none"> <li>Several ingredient families (biotics, flavors, active cosmetics ingredients) spreading out of their traditional end market / applications as traditional frontiers between categories are blurring</li> </ul>	<i>Flavors, Nutritionals, Specialized Dairy Derivatives, Bio Solutions</i>
<b>Capture Margin along the Value Chain</b>	<ul style="list-style-type: none"> <li>Downstream opportunities (e.g., formulation, distribution) with benefits on pricing and ROCE</li> <li>Opportunities in upstream integration as clients want shorter supply chains</li> </ul>	<i>Bakery Ingredients in Europe</i>

# All of these factors make Ingredients a fertile space for M&A, especially when the value creation levers and synergy potential are considered

## Reasons Why Ingredients Is An Attractive Investment Space



# Large players are actively shaping their portfolios through divestments and acquisitions – which has implications for potential investors

Large-Scale Ingredients Players' M&A Examples

Select Examples Shown

## Recent M&A Activity from Large-Scale Players



## Implications for Investors

- 1 Liquid market for bolt-on acquisitions from scaled strategics present opportunity for broader set of exit options
- 2 Divestments of non-core BU's from strategics offer opportunities for professionalized bolt-on acquisitions
- 3 Competitive landscape within ingredients categories continually evolving – diligence is key



# And there is also significant private equity investment, capitalizing on the scope for professionalization

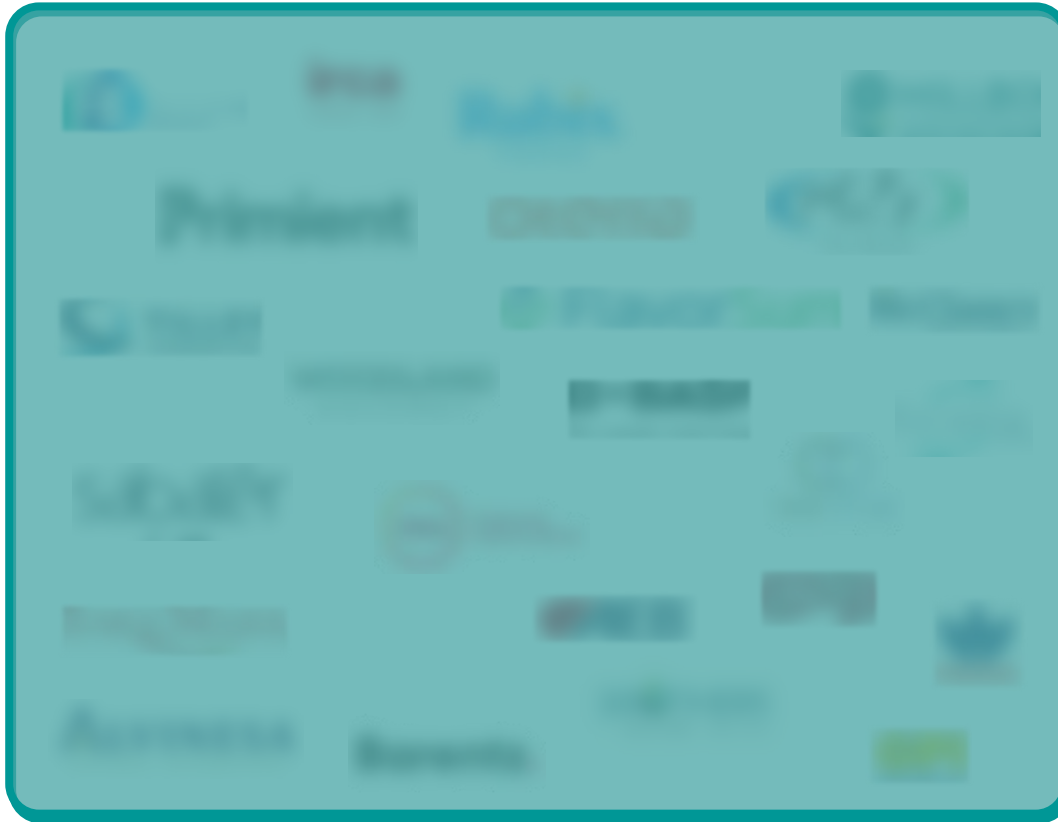
Recent Ingredient M&A involving Private Equity, 2017-24

Not Exhaustive



# Ingredients continues to be an active space for M&A, with a number of assets expected to come to market in the near future

Western Europe and USA Near-Term Potential Targets



*Please reach out to the Harris Williams and OC&C teams to discuss more about potential future transactions*

A decorative background featuring a dark blue surface with a variety of spices and herbs. Several ornate silver spoons are scattered across the surface, some containing powders of different colors like white, yellow, and brown. Small green seeds and other spices are also visible.

# 「 Introduction to OC&C & Harris Williams Teams 」

 Harris Williams



**OC&C**  
Strategy consultants

Certified  
  
Corporation

# Credentials

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## HARRIS WILLIAMS



## Harris Williams / GLOBAL INVESTMENT BANK

### 8 INDUSTRY GROUPS

With Robust Experience  
Across the Globe

### 3 DECADES

Providing Award-Winning  
Advisory Services

### 1 UNIFIED TEAM

Bringing Firmwide Dedication  
to Every Engagement



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