

STEER

PARTNERS

Fall 2024

Adding Spice
to Your Portfolio

Ethnic Food Industry



The ethnic food industry in the U.S. has garnered increased investor interest and is well-positioned to grow over the coming years. While price inflation provided some nominal growth for the industry since the pandemic, increased immigration and changing consumer preferences to eat healthier or embrace new flavors offer sustainable tailwinds for the industry going forward.

While certain cuisines such as Italian and Chinese are already widely popular in the U.S., STEER has identified additional cuisines expected to lead the charge for additional growth, along with key trends within the segment that industry participants can capitalize on. Investing in the space continues to be an appealing opportunity, and understanding key trends can empower investors to make more informed decisions within the industry.



Hispanic

Cuisine originating from Spanish-speaking countries located in the Americas. While Mexican cuisine is the most prevalent, the category takes influence from other Spanish-speaking countries such as Honduras, El Salvador, and the Dominican Republic



Korean

Dishes native to the Korean peninsula, with a specific emphasis on South Korean cuisine that is largely based on rice, vegetables, meat, and seafood. Many dishes take influence from neighboring countries such as China and Japan but use ingredients native to the Korean peninsula



Indian / South Asian

Food commonly found in the region previously defined by the boundaries of the British Empire, which now includes India, Bangladesh, and Pakistan. Dishes typically include a heavy assortment of spiced meats served with rice or flatbreads, along with a vast array of vegetarian options

U.S. Hispanic Population (2022):
~64M

U.S. Korean Population (2022):
~2M

U.S. South Asian Population
(2022): ~6M



Market Drivers

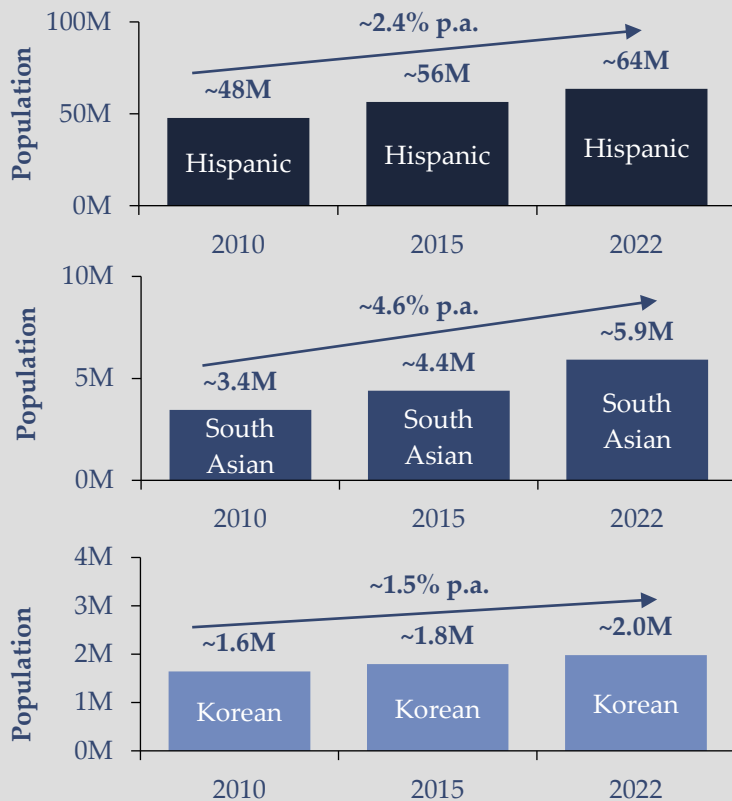
Growth of Ethnic Populations

While the total U.S. population grew by ~0.7% p.a. from 2010 to 2022, ethnic populations far exceeded standard population growth. Specifically, the Hispanic, South Asian, and Korean populations in the U.S. increased by ~2.4% p.a., ~4.6% p.a., and ~1.5% p.a., respectively, over the same period. Growth in the ethnic populations of the U.S., which drives spending on ethnic foods, points to the recent increases in immigration and diversity throughout the country. Recent immigration data (as of 2022) suggests that **~14% of the U.S. population is foreign born, its highest mark in over 100 years.**

The appetite for ethnic foods will continue to grow due to the emerging foreign-born and ethnic populations. With an increasing base of consumers seeking authentic foods familiar to their home country or ancestry, ethnic grocery stores and food brands will experience steady growth as the base of shoppers who purchase their products grows. Specifically, the U.S. Census Bureau projects Hispanic and Asian populations in the U.S. to continue to grow **3x faster than the overall population** until 2030, primarily due to the expected increase of foreign-born Americans that start families in the U.S.

U.S. Population of Select Ethnicities

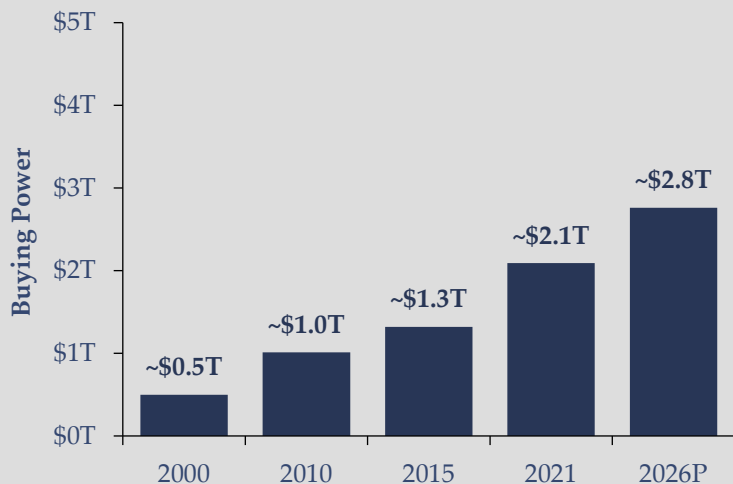
2010-2022



Source: U.S. Census Bureau

Buying Power of U.S. Hispanic Population

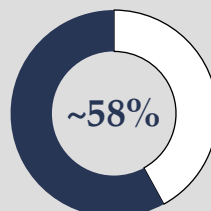
2000 - 2026P



Source: Insider Intelligence

Note: Buying power defined as after-tax disposable income

With increasing population comes greater buying power for specific ethnicities. For example, the increasing Hispanic population combined with greater buying power should provide strong tailwinds for the Hispanic retail foods industry, especially since Hispanic households are more than twice as likely to fall into the top 20% of U.S. households for grocery spend. For brands and grocery stores alike, offering authentic Hispanic flavors while adhering to broader food trends can put those in position to capitalize on the growing Hispanic consumer base.



of the projected population growth in the U.S. over the next 5 years will come from the Hispanic segment

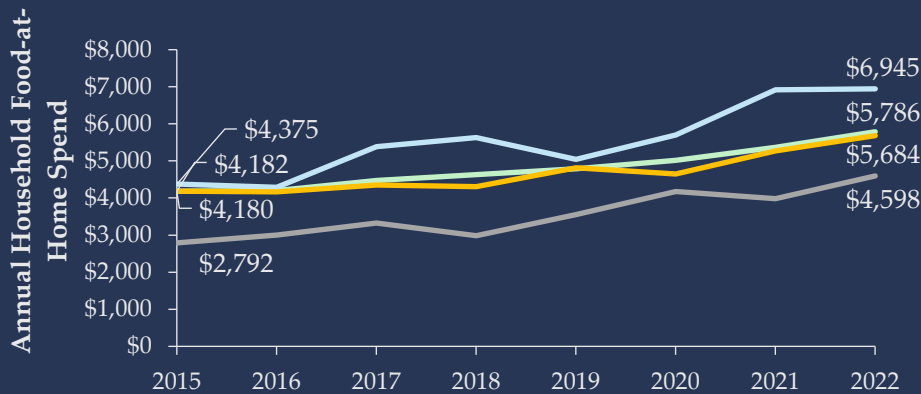
Source: Claritas

Market Drivers

Increased Grocery Spend

Annual Food-at-Home Spend

2015 - 2022



CAGRs	'15-'19	'19-'22
Asian	~3.6% p.a.	~11.7% p.a.
Caucasian	~3.5% p.a.	~6.5% p.a.
Hispanic or Latino	~3.6% p.a.	~5.6% p.a.
African-American	~6.2% p.a.	~8.9% p.a.

Source: BLS Consumer Expenditure Survey

Increases in food expenditure have been well documented since the end of the COVID pandemic. Overall food-at-home spend increased ~7.1% for the average American household from 2019 to 2022, almost doubling the ~3.7% growth from the prior four years.

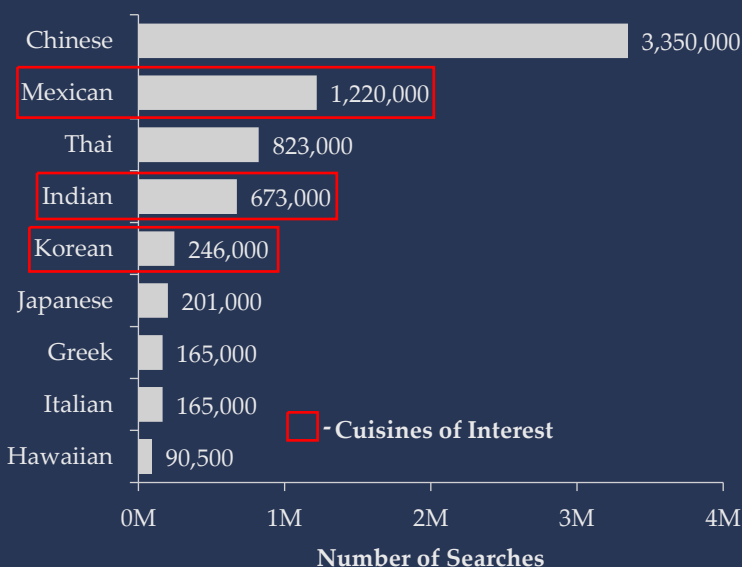
Post-pandemic spending on food-away-from-home increased significantly as consumers sought to experience what was lost from COVID lockdowns. Yet, the continuing price hikes and wage pressures makes this spending on eating-out unsustainable for most households, particularly those of cultures that tend to spend more of their disposable income on food-at-home than others such as South Asian or Hispanic.

Shifting Consumer Preferences

Changing consumer preferences, specifically among White, non-Hispanic shoppers, are driving further growth for the ethnic foods industry. Health consciousness, cultural curiosity, convenience, and sustainability are key drivers of this evolution. As consumers continue to seek out diverse and authentic culinary experiences, the ethnic foods market is likely to expand further, offering a broader range of products that cater to modern tastes and lifestyles.

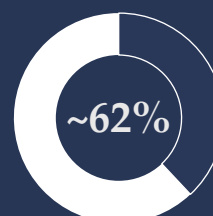
Average Monthly Google Searches for Food

U.S.; 2022



Source: Google Analytics

Many mainstream consumers in the U.S. are introduced to new cuisines at local ethnic restaurants, which are becoming increasingly common. **Notably, 73% of U.S. counties have an Asian restaurant, and 85% have a Mexican restaurant, reflecting the widespread availability of these cuisines across the country.** Following their visits, consumers seek out the ingredients from these cuisines to recreate the dishes at home, leading to increased spend on international cuisines at mainstream grocery stores.



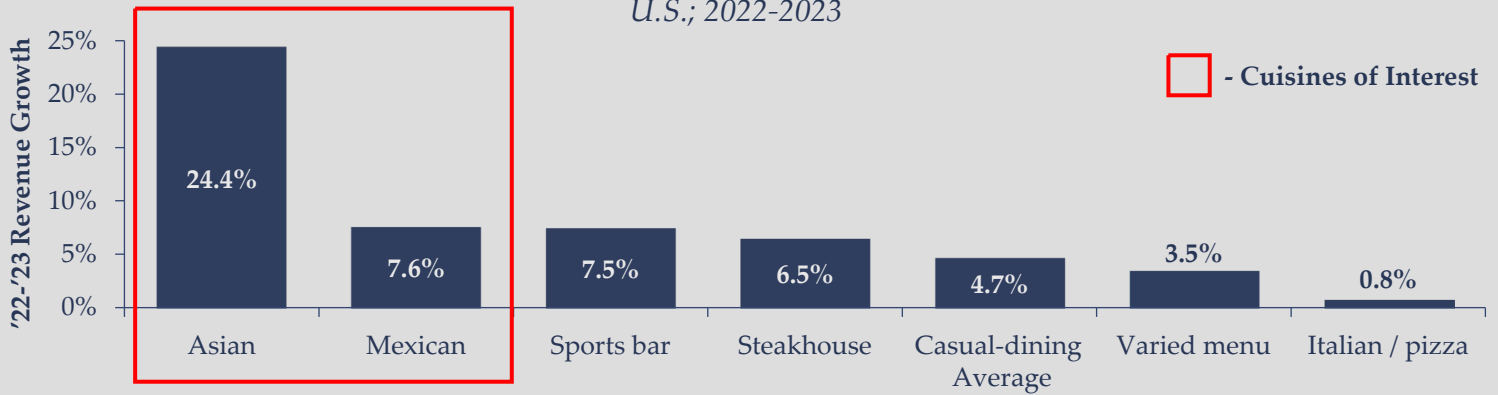
of young adults aged 18-22 say they cook international cuisines at home from social media, compared to 46% of Millennials (aged 23-40) and 23% of Gen X (aged 41-52)

Source: Mintel

Market Drivers

Casual-Dining Revenue Growth by Cuisine

U.S.; 2022-2023



Source: Technomic 2024 Top 500 Chain Report

Authentic Flavors & Taste Profiles

With interest in ethnic foods increasing, consumers look for the authentic taste profile of the cuisine to shine through the brands they shop for. Consumer reports indicate that ~32% of consumers are willing to pay extra for authentic ethnic foods (Datassential).

Better-For-You Offerings

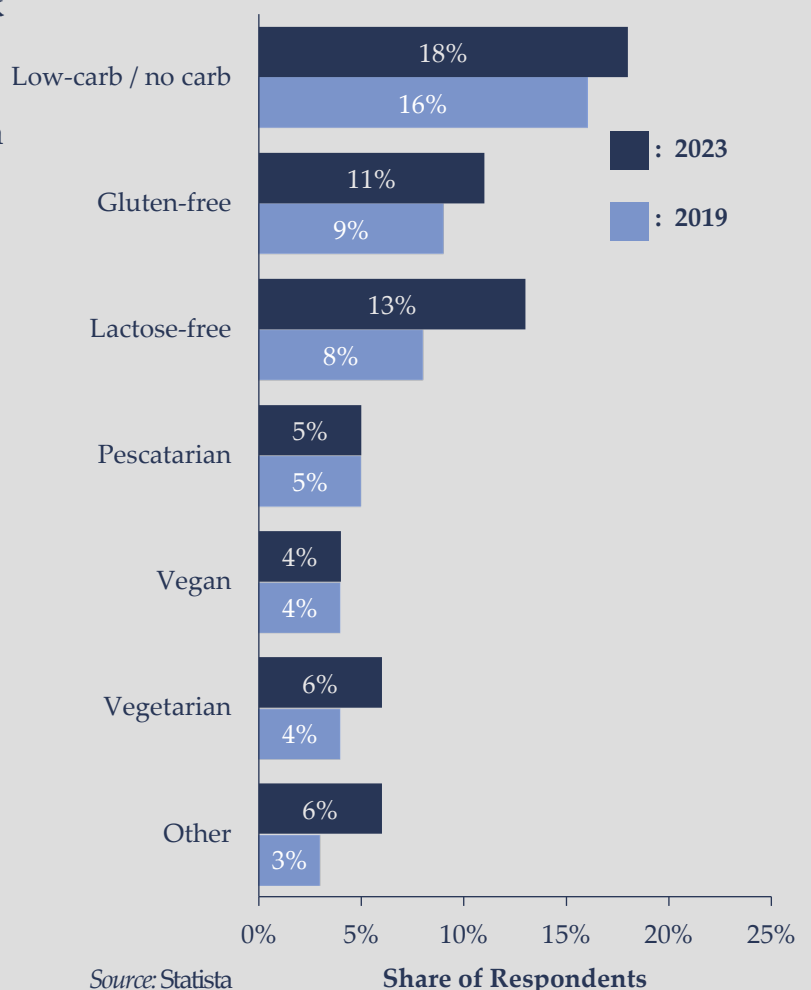
In recent years, consumers have become increasingly health-conscious when it comes to the foods they eat. Compliance to different nutritional rules has increased among Americans over the last 5 years, signaling an increasing need for ethnic brands to cater to specific dietary restrictions.

Ready-to-Eat Products

More so than their parents, Millennial and Gen Z consumers place an emphasis on convenience when it comes to food-at-home. Because of this, ethnic food brands are capitalizing on the emerging trend by shifting resources to develop fully-prepared products that save time for the consumer while maintaining the authentic taste profile of the cuisine.

Compliance to Nutritional Rules - Consumers

U.S.; 2019 & 2023; n=2,034



Source: Statista

Conclusion

With a more attractive dealmaking environment on the horizon, now is a great opportunity to invest in the ethnic food industry. Ethnic populations continue to account for a greater portion of the U.S. population, many of which desire the flavors and taste profiles of their heritage. With the aforementioned ethnicities **accounting for ~72M consumers alone**, the ethnic food industry already holds a strong consumer base that will only continue to grow.

Meanwhile, it has become increasingly clear that ethnic foods have gained increased notoriety from **mainstream consumers looking to incorporate international flavors into their diets**. Whether it be due to consumers more apt to try new dishes that they discover online and at local restaurants or taking advantage of different cuisines' better-for-you properties, ethnic foods will gain further traction among ordinary Americans.

Among prominent ethnic food manufacturers, specialty distributors, and international brands, investors have multiple avenues for investment that can yield strong returns for their portfolios. Given these factors, growth in the ethnic food industry is not merely a short-term fad, but an attractive space that will become an integral part of the broader food & beverage industry.

Spotlight Companies

Hispanic Cuisine: Siete & Del Real Foods



- A family-owned manufacturer of tortillas, tortilla chips, salsas, and other snacks.
- Specializes in grain-free products that are vegan, paleo, and gluten-free. Received a minority investment from Stripes Group in 2018.
- Largest independently-owned Hispanic snack brand in the U.S. Expected to hit ~\$500M in sales in 2024.
- Leading manufacturer of ready-to-eat Hispanic foods, holding true to authentic flavors while presenting it in a convenient format.
- Backed by Palladium Equity Partners since 2016.
- Del Real is especially popular among millennial shoppers, ~23% of which are Hispanic.



Sample Hispanic Foods Transactions

Benford Capital Partners	▶	RP Foods
Apollo	▶	Cadenas Markets
McCormick Foods	▶	Cholula
Centre Partners	▶	Sabrosura Foods
Capvest	▶	Lakeview Farms

South Asian Cuisine: Patel Brothers & Deep Foods



- South Asian-focused grocery chain with 52 locations.
- Patel Brothers also launched two additional companies to vertically integrate some of their processes.
- Swad serves as Patel Brothers' mid-tier private label option in their stores while Raja Foods serves as the chain's primary distributor.



- Deep Foods is a leading domestic producer of Indian snacks, frozen meals, and other South Asian specialties dishes in a convenient, heat-and-eat format.
- Fastest growing frozen Indian food brand in the U.S., with the company experiencing ~71% growth in 2023.
- Found in over 20,000 retail locations across the U.S., including Costco in eight states.

Sample South Asian Foods Transactions

North Castle Partners	▶	Maya Kaimal Foods
ICV Partners	▶	Desi Fresh Foods
Hatcheri Capital	▶	Sukhi's

Korean Cuisine: Bibigo & H Mart



- The largest Korean food brand in the U.S. and offers a variety of frozen dumplings, entrees, and appetizers.
- Acquired as a part of the CJ CheilJedang / Schwan deal.
- Bibigo's U.S. retail sales have increased ~1,100% since 2019, with more than 17M units of frozen dumplings sold in 2023 following a viral stint on TikTok.

Sample Korean Foods Transactions

CJ CheilJedang	▶	Schwan's Company
Schwan's Company	▶	Cosmos Foods
Daesang	▶	Lucky Foods Inc.

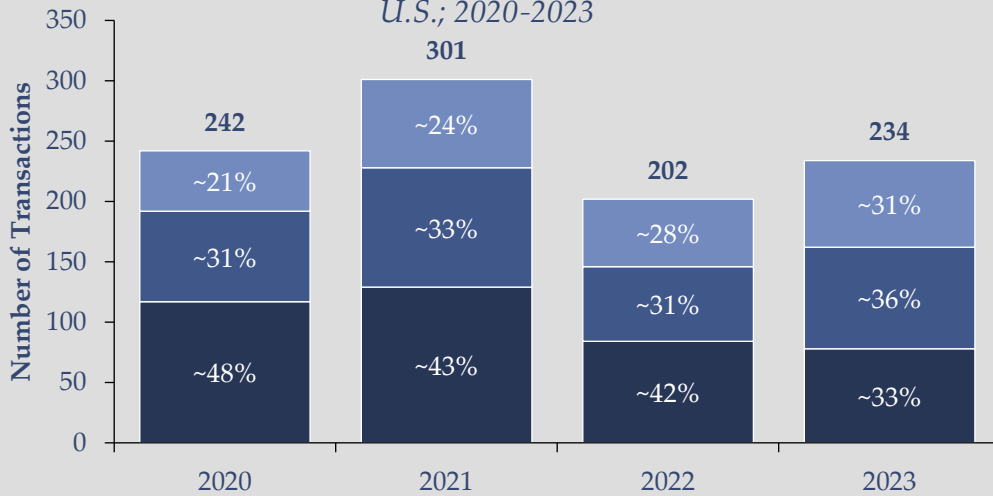


- Provides authentic Korean grocery staples, alongside its Western product category and ready-to-eat foods.
- H Mart has become the largest Asian grocery chain in the United States with almost 100 locations, 14 of which have opened since 2020.
- Captured a ~21.4% increase in sales in 2022, making it one of the fastest-growing grocery retailers in the U.S.

Food M&A Overview

Food Sector M&A Deal Count by Service Type

U.S.; 2020-2023



CAGRs

Total M&A **~(6.9%) p.a.**

Food **~(1.1%) p.a.**

- : Branded Products
- : Distribution
- : Manufacturing & Private Label

Source: Pitchbook, Capital IQ, FactSet, Capstone Partners, EY Parthenon Deal Barometer
Note: Figures may not sum to 100% due to rounding

Branded Products

Since 2020, branded products have continued to capture an increasing portion of food & beverage transactions. Increased interest in the subsector, as of early 2024, has been primarily driven by PE platform add-ons

Distribution

Rapid food price increases following the pandemic drove distribution M&A activity in 2024. However, early 2024 data shows activity slowing as inflation cools. Most transactions were completed by strategic acquirers targeting broadline distributors

Manufacturing & Private Label

Manufacturing M&A activity dipped last year due to reduced activity from private equity. Early 2024 transactions have surpassed 2023 by ~46% over the same period, with strategic buyers being particularly active in the subsector so far

Broader economic headwinds reduced private equity's presence in food & beverage transaction space in 2023. However, pressure to utilize record amounts of dry powder will prompt investors to find suitable investment topics. With an increasing focus on branded products, ethnic food brands provide an ideal opportunity to put capital to work while taking advantage of emerging trends within the food & beverage industry.

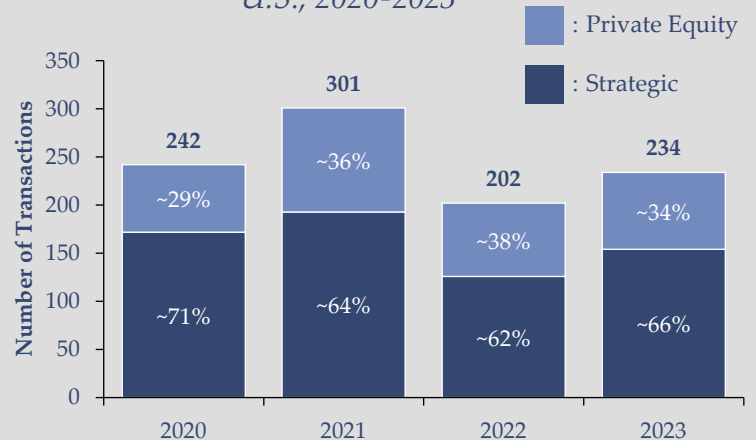
CAGRs

Private Equity **~4.6% p.a.**

Strategic **~(3.6%) p.a.**

Food Sector M&A Deal Count by Buyer Type

U.S.; 2020-2023



Source: Pitchbook, Capital IQ, FactSet, Capstone Partners