M&A activity in the Swiss Food Industry

Large players are the driving force behind the consolidation

In the last couple of years, one could read in the newspapers about prominent M&A transactions which had a lasting effect on the Swiss food service landscape, such as Coop's acquisition of Mövenpick's Marché restaurants or the takeover of Brezelkönig & Ditsch by Valora. It comes as little surprise that larger food service groups as well as retailers were the main driving force behind the consolidation. In a stagnating or even declining market, the ten largest players were able to increase their revenues by 16% in the last 10 years (from CHF 3.2bn to CHF 3.7bn), largely driven by inorganic growth through M&A.

Market overview

According to the VAT statistic of the Federal Tax Administration, the roughly 21'000 businesses active in the Swiss food service market (gastronomy and catering together) generated overall revenues of around CHF 18.2bn in 2016 (latest available figures). Given a stagnating market development, these figures are not expected to change significantly over the following years. Based on a rough calculation, an average business generated approximately CHF 840'000 in revenues.

However, this calculation falls short as the market structure of the Swiss food service market is highly skewed, with few large groups and countless smaller single players operating one up to a handful of locations. To gain an overview of the most important market participants, Table 1 lists the 30 largest food service groups in Switzerland in terms of revenues. With close to 30'000 employees and more than 2'500 locations, the top-30 generated total revenues of around CHF 5.2bn in 2018, accounting for almost one third of overall industry revenues.

No.	Company	Category	Revenues	Locations	Employees	Ø per location	Ø per employee
			in CHFm	*in #*	*in #*	*in CHFm*	*in CHFm*
1	McDonald's	CS	761.0	169	3'700	4.50	0.21
2	Migros	RC	749.0	252	3'470	2.97	0.22
3	SV Group	CF	513.0	316	2'566	1.62	0.20
4	Coop	RC	355.1	232	2'178	1.53	0.16
5	Groupe Eldora	CF	348.6	291	2'215	1.20	0.16
6	ZFV	CF	277.7	179	1'859	1.55	0.15
7	Compass	CF	205.0	213	1'362	0.96	0.15
8	Gategroup	TC	183.0	2	1'100	n.m.	0.17
9	Autogrill	TC	175.0	105	994	1.67	0.18
10	Burger King	CS	166.0	56	830	2.96	0.20
Top-10			**3'733.4**	**1'815**	**20'274**	**2.06**	**0.18**
11	Candrian	CS	156.0	43	1'066	3.63	0.15
12	Bindella	CS	151.8	41	917	3.70	0.17
13	Starbucks	CS	106.0	62	700	1.71	0.15
14	Valora	TC	101.0	93	298	1.09	0.34
15	Manor	RC	98.0	44	609	2.23	0.16
16	Elvetino	TC	88.5	108	650	0.82	0.14
17	Two Spice	CS	87.7	31	500	2.83	0.18
18	Remimag	CS	73.5	29	549	2.53	0.13
19	Ikea	RC	71.0	9	262	7.89	0.27
20	Dieci	CS	65.0	43	390	1.51	0.17
21	Freddy Wiesner	CS	61.0	29	280	2.10	0.22
22	tibits	CS	55.0	10	375	5.50	0.15
23	Globus	RC	52.0	51	140	1.02	0.37
24	SSP	TC	50.0	20	324	2.50	0.15
25	Sodexo	CF	49.0	104	1'100	0.47	0.04
26	Hiltl	CS	47.0	7	250	6.71	0.19
27	Gastrag	CS	45.5	22	230	2.07	0.20
28	Subway	CS	35.0	51	310	0.69	0.11
29	Tavolago	CS	33.0	32	245	1.03	0.13
30	Mövenpick	CS	19.0	8	162	2.38	0.12
Top-30			**5'178.4**	**2'652**	**29'631**	**1.95**	**0.17**

Legend: *CS = concept specialist RC = retail catering CF = catering / food service TC = travel catering*
n.m. = not meaningful

Table 1: Overview of 30 largest food service groups in Switzerland (as of 2018)
Source: foodservice (issue 09/2019 – Top-30 Ranking Schweiz

Within the top-30, significant size differences can be observed. The ten largest players account for three quarters of total revenues and for two thirds of total locations and employees. Ten years ago, the top spots of the list didn't look all too different. Nine of them had already a presence in 2008. Only Mövenpick fell out of the top-10 due to the sale of its Marché restaurants to Coop in 2014 (see below).

Comparing median revenues per location of the top-30 players to the market, it is interesting to note that the industry leaders generate more than twice the revenues per location compared to the market average (CHF 2.07m vs. CHF 840k). And even within the top-30, the ten largest players recorded slightly higher per-location and per-employee revenues.

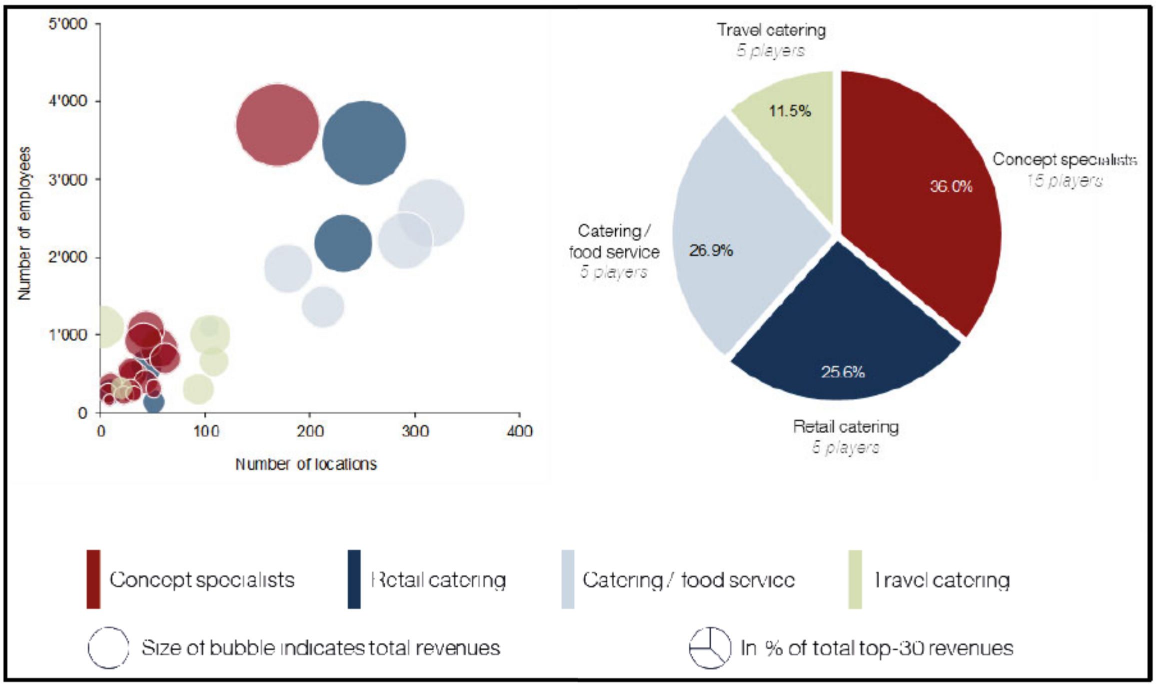

Figure 1: Insights into revenues, locations and employees distribution of top-30 players
Source: Wineus analysis based on foodservice (issue 09/2019) – Top-30 Ranking Schweiz

Looking further into the figures of the top-30 players and at the risk of stating the obvious, one can see a clear positive relationship between size metrics (i.e. revenues, locations and employees). Concept specialists (except McDonald's) and travel catering players in the top-30 tend to record smaller total revenues, whereas groups active in the segments retail catering and general catering/food service tend to be larger. With only ten spots in the list of top-30 players, the latter two groups account for over half of total revenues. This underpins the fact that size matters, especially in the highly competitive catering market which offers only few opportunities to set oneself apart from the competition (in contrast to concept specialists).

General trends affecting the industry

The food service industry is on the one hand affected by general trends concerning various sectors, such as e.g. increased regulation, ongoing skills shortage, sustainability or digitalisation (whereas the latter two offer opportunities as well). In addition, there are several industry-specific factors, such as comparably high raw material and personnel costs, the difficulty to find well-frequented and reasonably priced locations or an increase in takeaway as well as convenience food consumption.

On the other hand, certain trends offer some promising opportunities as well. First, households dispose of a higher average income and there are more single households than ever. Second, growing e-commerce offers opportunities for new outlets as city centre locations become less attractive for (smaller specialty) retailers. Third, people are more experimental and willing to try new innovative restaurant concepts (e.g. vegan, foreign cuisines).

Overall, the current environment remains challenging for food service operators which do not have enough size to realise economies of scale. However, there will always be room for new innovative concepts, as long as they are well-managed from an operating and financial point of view.

Ongoing consolidation

Even though the top-30 players in Switzerland generated a significant proportion of overall industry revenues, they only account for roughly one third of the Swiss food service market (gastronomy and catering together). As previously mentioned, the market is rather fragmented, even larger players directly behind the top-30 generate revenues in the low two-digit million range. This market structure has and continues to offer opportunities for consolidation.

As smaller players lack the size and the financial strength to stem significant acquisitions, the M&A playing field is left to larger food service groups and retailers. This has been confirmed in the past years when looking at the M&A activity in the Swiss food service industry.

# Number of transactions	#	Before 2010	#	2010-2014	#	Since 2015
MIGROS	-	-	1	Molino (18 locations)	3	Hitzberger (6 locations) Chickeria (disposal planned) L'Osteria (disposal completed)
coop	-		2	Marché (28 locations) Betty Bossi	2	Two Spice (minority, 24 locations) Aperto (30 locations)
valora	1	avec (24 locations)	1	Brezelkonig & Ditsch (35 Swiss locations)	1	Naville (175 locations)
CANDRIAN GASTRONOMIE & HOTELS	3	Brasserie Lipp Lions Pub Jules Verne	1	Zum Braunen Mutz	1	Walhalla
Bindella la vita è bella	2	Lorenzini Du Théâtre	-	-	1	BANK
Remimag Gastronomie AG	1	Zunfthaus zu Pfistern	2	toi et moi Wirtschaft Brandenberg	2	Gamag (14 locations) Riviera (2 locations)
TOTAL	7	30 locations	7	85 locations	10	253 locations

Figure 2: Key consolidators and their major acquisitions in the last years
Source: Wineus research, company homepages, press releases

Valora, Coop and Migros have focussed on acquiring or taking a stake in larger competitors. The most notable transactions include Coop's acquisition of Mövenpick's Marché restaurants in 2014 (28 restaurants), Molino's sale to Migros in 2014 (18 pizzerias) and Valora's takeover of Brezelkönig in 2012 (35 points of sale in Switzerland). However, after a growth phase in the past, Migros has decided to divest certain non-core concepts (Chickeria and L'Osteria). Further disposals are currently not announced, but the ten co-operatives under the Migros umbrella are following different strategies in terms of food services.

Other large players such as Bindella, Candrian or Remimag have taken over single restaurant operations. Typically, they look for add-ons which complement their existing offering from a conceptual and/or geographical point of view. Larger acquisitions, such as Remimag's takeover of Gamag in 2015 (9 restaurants & 5 hotels), have been rare in the past.

Reasons for M&A

The reasons for the ongoing consolidation are manifold but can be summed up to four main motives:

Market share & economies of scale

Given the fact that margins in the food service industry are traditionally on the lower end, many players aim to gain market share and increase their profitability by economies of scale. Larger groups have more negotiating power towards suppliers, can combine back-office functions, can distribute costs for centralised services to more stores and have an increased brand recognition.

Example: Remimag acquired Gamag in 2015.

Diversification

This motive applies especially to "outside" buyers, such as the two largest Swiss retailers Migros and Coop. As they both are reaching their limits in their core business, they have tried to diversify into related sectors. Furthermore, they have already an infrastructure in place from which acquired restaurants can benefit (e.g. supply chain, location portfolio).

Example: Migros acquired the pizzeria chain Molino in 2014.

Innovation & cross-selling

Larger players constantly pose themselves the "make-or-buy" question, whether innovation should be run in-house or be acquired. Many have opted for the latter in the past, looking for promising concepts which complement their existing offerings. Furthermore, certain cross-selling activities may generate additional revenue growth.

Example: Coop acquired a minority stake in Two Spice (Yooji's, Nooba, Rice Up!) in 2018.

Succession planning

On the seller's side, many restaurant owners struggle to find a suitable successor, be it within their own families or outside. Given the skills shortage in the food service industry, a trade sale to a competitor is considered a viable option.

Example: Valora acquired Ditsch and Brezelkönig in 2012.

Nota bene, these four motives are not mutually exclusive, and an ideal target can satisfy multiple motives (however, at a certain level of saturation, cannibalistic effects can occur). In any case, calling in an experienced advisor with industry know-how and a broad network to major market participants helps in achieving a successful transaction.

Private equity involvement

Compared to other markets, private equity investors have been involved only rarely in Swiss food service transactions so far. Potential reasons for this absence are Switzerland's small market size, the existence of only few restaurant chains and a fragmented market structure with few large players at the top (whereas many of them are subsidiaries of international food groups, family-owned or foundations/cooperatives).

However, this has not stopped certain financial investors from entering the market. Notable financial investors with current exposure to the Swiss food service industry include Ace & Company (Pouly, Capocaccia, Luigia), BCGE-backed Capital Transmission (Gilles Desplanches), Consumer Investment Partners (Stripped Pizza, B.Good, Beetnut) or Wineus (Gärtnerei).

Swiss food service industry – quo vadis?

Given the market fragmentation behind the top-30 players, we expect the Swiss food service industry to continue to develop dynamically in terms of M&A activity. An ongoing challenging environment presents market participants with difficult decisions but offers strategic investors promising opportunities for further consolidation.

Concerning private equity, the involvement of financial investors in the Swiss food service industry is expected to remain limited, given the challenging market environment described above. Parties already exposed to the industry continue to follow a growth strategy driven by organic growth through launching new concepts as well as opening new stores, complemented by selected add-on acquisitions. Eventually, the most promising exit option is a trade sale to a domestic or foreign strategic investor, which can lead to attractive exit valuations.

In this context, we expect large strategic players to remain the driving force behind the ongoing consolidation of the Swiss food service industry.

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About Wineus

Wineus is a private equity and investment advisory company led by entrepreneurs with offices in Zug and Zurich. Since 2008, Wineus has accompanied entrepreneurs and corporations in all matters regarding investment decisions, company participations, M&A and financing projects on a partnership-based collaboration.

Hospitality is one of the four core industries of Wineus, where we advised renowned clients on numerous transactions in the restaurant and hotel industries, such as Aura, Candrian, Hotel InterContinental Davos, iKentoo, Tao's, Two Spice, Vapiano, Victoria-Jungfrau Collection and many more. Furthermore, Wineus' investors are invested in the healthy fast food chain Gärtnerei since 2015.