

The Hidden Gem in European Pet Food: European Investors Spot New Opportunity in Raw & Gently Cooked Pet Food

European investors are capitalizing on the fastest growing segment of the European pet food category, powered by pet owners' ongoing desire for higher quality and natural food options for their pet family members. The European pet edibles market is now worth approximately €30 billion and is growing at 4-6% CAGR, whilst the natural segment is worth approximately €5 billion, outgrowing the broader market with approximately 7-9% CAGR. However, within this natural segment, the market for natural and minimally processed foods i.e. raw and gently cooked ('freshly prepared') pet food, whilst smaller in scale (approximately €1 billion), is experiencing the fastest growth (9-11% CAGR), grabbing the attention of private equity and strategic investors.

Consumers are increasingly pursuing the same qualities in their pet foods that they demand for themselves: wellness and clean, high-quality ingredients. The raw and gently cooked category is considered the most premium pet food, being minimally processed and retaining high nutritional content without additives often used to lengthen a product's shelf life. Even during times of economic downturn, we've observed that most pet owners continue to prioritize premium products for their companion animals.

In the European market, many raw and gently cooked pet food brands are smaller venture capital-backed or privately-owned companies. Many of these early-stage brands are balancing the rapidly changing, inflationary conditions defining today's marketplace with the rate of consumer demand and their own ambitions to grow. As it may become more difficult to raise venture funding, Lincoln International expects brands to consider mergers and acquisitions (M&A) as an alternative in the near-term.

LINCOLN PERSPECTIVE

As investors take note of the attractive growth rates among raw and gently cooked brands, a handful of scale players have begun to emerge. Earlier this year, Axcel agreed to purchase Voff Premium Pet Food, a European platform business comprised of nine natural pet food brands. Agrolimen, a Spanish-based business, has also grown its presence in minimally processed food offerings in both Europe and the U.S. Butternut Box, the UK-based direct-to-consumer (D2C) freshly prepared foods business, recently received fundraising in a round led by L-Catterton and subsequently saw sales grow by 51% in the year to December 2021.

Although platforms are being established, the subsector remains highly fragmented with a large number of early-stage companies ripe for consolidation. As buyers and sellers navigate the fast-growing industry, there are several considerations to note:

D2C sales channels set brands apart: Across Europe, digital sales in the pet food market comprise roughly 15% of sales. In the minimally processed, raw or gently cooked category, online share of sales is typically much higher. As investors evaluate opportunities, a strong direct-to-consumer pattern with a sticky customer base can materially enhance the success of a brand.

Co-manufacturing strategy is less relevant: A number of more mainstream brands rely on co-manufacturers, outsourcing their manufacturing process to a partner and avoiding owning their own factories. This approach allows brands to scale quickly and without raising additional capital needed to self-manufacture. However, minimally processed pet foods are more complex and require an extra level of care in the manufacturing process. There is an element of risk involved in manufacturing from live bacteria in chilled food (previously gently cooked) and raw food. Brands must employ specialists that understand high-care manufacturing and ensure health risks are mitigated.

Local nature of minimally processed brands adds advantage: While mainstream pet food brands have fallen victim to supply chain shortages and delays in recent months, minimally processed food brands are generally domestically focused businesses. Self-manufactured strategies and the ability to source ingredients locally, guarantees safe and clean processes and delivery to the customer in a timely fashion, which is a major advantage.

Customer loyalty remains key: Investors are tracking targets that deliver rapid growth, and this is often fuelled by a sticky customer base. Many investors will look to conduct cohort analyses to measure the loyalty to a brand among consumers as well as the longevity of a cohort's allegiance to a brand. Brands with these long-standing customer relationships and recurring revenue streams attract investor capital.



For other perspectives, visit us at www.lincolninternational.com/perspectives.

Interested in learning more? Get to know Lincoln's Consumer Group at www.lincolninternational.com/consumer.