NOSH Voices: Why the Krave Deal Matters

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Earlier this year Hershey acquired KRAVE Pure Foods, and according to Hershey's SEC filing, at a price valued around six times sales (2014 sales were reported at $35 million; Hershey reported they paid $220 million with another $20 million potential earnout for KRAVE shareholders). The deal clearly involved a lot of money and a high multiple. Since then, there have been other high-profile, high-priced deals in the natural food and beverage space, like WhiteWave's acquisition of Vega at a reported 5.5X sales. There have been also many lower-priced, less-reported (or unreported) deals. There are winners, there are losers and there are those in the middle. Why? What differs between the deals? Are the big multiples justified?

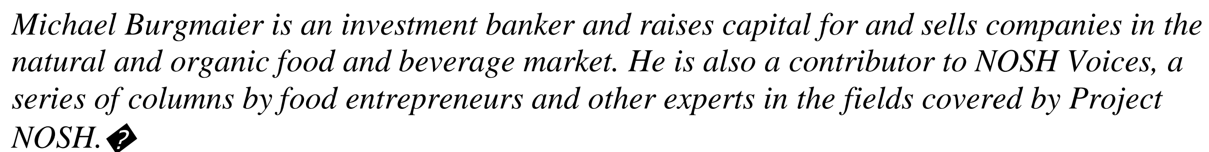
KRAVE shares many of the same attractive characteristics as other high-profile, better-for-you food and beverage brands: broad millennial consumer appeal; leadership in a large, growing new white space; quality that justifies an accessible, premium price point; a high-demand benefit – protein; large, multi-channel distribution opportunities; demonstrated success in both the natural and conventional channels; strong growth; an expandable brand and scale.

The deal has had spawned significant discussion in the industry – it seems to be on everyone's mind. But what's the impact? Can one deal drive the tide up to lift all boats? Was price a function of fundamentals or Hershey doing a real estate play?

The impact is real, for some. Krave was founded in 2009, had its first real market push in 2011 and sold four years later for over $200 million. A venture firm, Alliance Consumer Growth, invested in the brand in 2013 and one would assume made a hefty return on the investment in a very short timeframe. The price paid by Hershey for a sub-$50 million company signals that large CPG companies recognize the trends and will acquire hot brands at an earlier-stage than traditionally thought – ConAgra acquiring Blake's All Natural also reflect this trend. And investors who understand this and come in earlier with strong valuations will either capitalize on this trend if they select the right brands or fail if they overpay for the wrong ones.

The facts are that the deal and price may make sense for Hershey. Yes, KRAVE needs to grow into the price it paid for the company, but that could happen. KRAVE, together with Brookside (a brand that Hershey acquired in 2012) provides the company with a fast-growth, highly-scalable heathy snack platform with distribution (C-stores; snack aisle, etc…). And in an age where traditional legacy brands are dying a slow and somewhat inevitable death, such growth is highly desirable. If the large CPGs wait too long to acquire, they may see the same multiples at much higher base sales (think of Annie's and General Mills).

But there can also be negative consequences. Vitamin Water was a similar deal and caused many entrepreneurs to overestimate the value of their own companies. The fact is that there will be entrepreneurs and investors who lose their money on bad, over-priced deals – but there will also be more KRAVE-like deals as well. The trends are real and they are not going away. The large CPGs need to act proactively, and the smart ones will.



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