

Eataly's Next Step - Investindustrial acquires controlling stake in the Italian Food and Beverages group

Introduction

On September 21st, European private equity fund Investindustrial announced that it is buying 52% stake in Italian luxury food and beverages group Eataly. The deal will see Investindustrial invest €200m in the company, with plans to increase its worldwide presence. This came as a surprise to many investors, as Eataly was seen as a candidate for a domestic listing, after the previous controlling stakeholders, the Farinetti family, changed the company's statute, allowing it to issue participative financial instruments, hinting towards a listing. This is still likely to happen in the future, with Investindustrial founder Andrea Bonomi declaring that a listing is probable. For now, a private equity investment was seen as more profitable by Eataly shareholders.

About Eataly

Eataly is a chain of Italian marketplaces comprising a variety of restaurants, food and beverage counters, bakeries, retail items, cafes, and educational offerings. It was founded by Oscar Farinetti in 2003, opening its first store in Turin in 2007. The vision of the company was to offer an authentic Italian retail and dining experience, through high-quality, sustainable products. Since then, Eataly expanded its global footprint through 44 shops in 5 countries, across the US, Europe, Asia, and the Middle East.

Eataly has seen relatively stable growth over the years, with its biggest challenge coming in 2020, during the COVID-19 pandemic, under the leadership of newly appointed CEO, Nicola Farinetti, Oscar's son. The company saw a decrease in its turnover of 20% during this period, synonymous with the temporary closure of retail stores around the world. The marketing of Eataly around the world is based on offering customers an authentic Italian experience through its range of product offerings, which without the possibility of physical presence did not succeed.

Despite this, the company managed to bounce back in 2021, a rebound also fueled by the opening of a flagship store in central London, reporting revenues of €464m, at a 2020-2021 CAGR of 290%. Eataly is forecasted to bring in a turnover of €600m in 2022, signaling a strong recovery from the challenge that the COVID-19 pandemic posed.

About Investindustrial

Investindustrial is a European group of independently managed investment, holding and advisory companies with over €11bn worth of raised fund capital. The group's strategy is focused on acquiring majority stakes in mid-market companies and providing capital, expertise and operational focus to create value and fuel global expansion. The main sectors covered by the company are consumer and leisure, healthcare and services, industrial manufacturing and technology. Investindustrial has previously had a series of highly successful investments, such as its 150m acquisition of a controlling stake in Aston Martin at 37.5%, back in 2013. The company went public in 2018, at a valuation of £5bn, with Investindustrial selling some of its shares, previously bought when the company was valued at £740m pounds, yielding an ROI of 1150% at the time of Astom Martin's IPO.

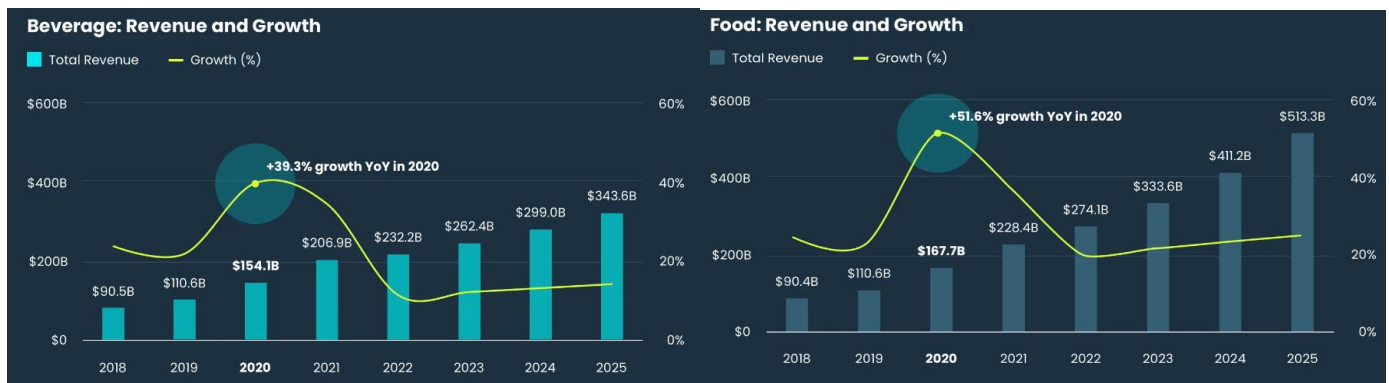
The acquisition of a controlling stake in Eataly is part of a broader strategy employed by the private equity group targeting food brands in Italy and the US, in what is seen as a sector with high growth potential. Investindustrial has invested over €2.5bn in the food sector over the past two years, recently acquiring Italian food manufacturer

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La Doria, ingredient producer Parker Foods and US-based private label distributor Treehouse Foods. Investindustrial founder and CEO Andrea Bonomi also took luxury fashion house Zegna public through a SPAC last year, declaring that he sees a similar outcome for Eataly.

Industry analysis

The Global Food & Beverages industry is highly fragmented and it consists of companies that package and distribute food and beverages through various distribution channels such as supermarkets, convenience stores and e-commerce. The size of the market is estimated at \$506.3bn in 2022 and is forecasted to increase to \$856.9bn by 2025, mainly driven by projected meteoric rises in the Confectionery & Snacks and Non-Alcoholic Drinks segments. That translates to a 19.2% CAGR in the 2022-2025 period, with the growth of the food sector expected to outpace that of the beverage sector by 9% in the next three years.



The threat of climate change has reshaped the industry in the last few years. This has prompted consumers to demand more accountability and sustainability in production, be that through transparency in food processing or recyclable packaging. This has given rise to marketing focused on sustainability in food processing, packaging and delivery. Despite a dip in the popularity of supermarkets during the COVID-19 pandemic, physical stores are set to rebound by 2023, a trend which favors Eataly’s product offering, marketed as an authentic Italian experience.

The biggest recent challenge faced by the industry was the COVID-19 pandemic, through its negative impact on supply chains. Disruptions and trade restrictions forced food and beverage manufacturers to halt production, leaving many supermarket shelves empty. This especially affected retailers that source their food internationally, through the unpredictability of lockdowns and delivery halts. Eataly was no exception, with its sales outside of Italy being severely hit, due to disruptions in deliveries of key products such as its famous “air-dried pasta from southern Gragnano” and “freshly-jarred pesto Genovese”.

Looking at the luxury segment of the Food & Beverages industry, valued at \$267.85bn in 2020, there is a close correlation between people’s disposable incomes and the growth of the industry. This fueled positive forecasts after the COVID-19 pandemic, with the industry expected to be valued at \$500bn by 2027. This was not the case during the pandemic though, with the closure of gourmet stores and restaurants, as well as a trend of cooking at home, giving way to a decline of almost 30% in the value of the industry. This seems to have been left behind though, with forecasts suggesting a strong 7.5% CAGR between 2021 and 2027

Deal structure

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As announced on September 21st, Investindustrial acquired Eataly by purchasing shares from existing shareholders and invested an additional €200m in the company. Following the acquisition of the holdings of the Saper and Bastianich families, Investindustrial is now the majority shareholder owning 52% of Eataly. The other 48% of the company remained in the hands of the previous shareholders, including the Farinetti family, the Baffigo/Miroglio family, and Tamburi Investment Partners.

The deal also allowed Investindustrial to acquire all minority shares in Eataly's existing US stores, such as the two in New York and the ones in Los Angeles, Chicago, Boston, Dallas and Silicon Valley. However, the one in Las Vegas is entirely owned by MGM Resorts International and managed by Eataly.

Nicola Farinetti, son of Eataly's founder Oscar Farinetti, who held the position of Chief Executive Officer until the transaction, will assume the position of Chairman of the company. The new CEO is Andrea Cipolloni, former CEO of Autogrill Italia and Europe, from which he resigned to undertake the new role at Eataly. North American locations are led by Chief Operating Officer Raffaele Piarulli, based in New York, who will remain in that position.

Deal rationale

The €200m capital injection will allow Eataly to retire net financial debt and maximise financial flexibility for the company's future expansion plans. As Nicola Farinetti, former Eataly's CEO, stated, the agreement is a "strategic partnership that propels Eataly into a new phase of its history". Investindustrial and the other current shareholders intend to support Eataly's further expansion through new flagship stores and other outlets in large cities across the world, mainly in North America, Europe, the Middle East, and Asia. They are also considering complementing the current megastores with small ones that can bring additional growth. Over the years, aiming to raise funds to finance Eataly's expansion, the company considered going public several times, but they never carried out the transaction. Eataly's shareholders have agreed to Investindustrial's takeover to benefit from the private equity firm's strong knowledge of the food sector and its presence in the Italian, North American, European, and Asian markets.

Eataly and Investindustrial share the same philosophy regarding sustainability. This partnership aims to support Eataly in achieving the goal of being the Italian ambassador for "Made in Italy" worldwide by opening new stores and acquiring all the minority shares in Eataly's existing US business. From Investindustrial press release: the goal of this transaction is to support "Eataly's next stage of growth, preserving its unique DNA and maintaining its profile of sustainability, supply chain control and integrity."

Investindustrial founder, Andrea Bonomi, stated that the private equity firm is targeting food brands in Italy and the US because the industry has a lot of growth potential. For example, earlier this year, the firm acquired Italian food manufacturer La Doria delisting it from the Milan stock exchange. It also announced the acquisition of US-based companies Treehouse Foods and Parker Foods. Out of the €11bn in assets managed by Investindustrial, €2.5bn have been invested in the food sector in the last two years.

What the future holds

Many people affirm that Eataly's business model is inefficient and that the company has experienced a severe fall over the past years. In 2018, when Eataly's shareholders were considering listing it on the public market, there were rumours that the company's valuation almost reached €3bn. However, after having experienced a constant decline in EBITDA and an increase in debt, Eataly closed the fiscal year of 2021 with a net loss of €22m. Although Eataly reached €464m in revenues in 2021, the company faced a loss because of its high net debt: €237m.

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Investindustrial is planning to lead Eataly towards new prosperity by evolving and changing the business model and by taking Autogrill as a reference. This is probably the reason why the new CEO appointed by Investindustrial is Andrea Cipolloni, former CEO of Autogrill. Investindustrial intends to invest the injected capital into new restaurants by opening Eataly dining places on highways and in airports. The company has attempted something similar in the past. Eataly is, in fact, already present inside the Fiumicino Airport in Rome and inside an Autogrill close to Modena.

Another critical target of Investindustrial's strategy is to expand Eataly internationally, increasing stores in the US and opening the first ones in China. In addition, the private equity firm is planning to create a new format called "Casa Eataly". These new stores will be characterised by reduced sizes and be located in smaller cities around the world. Investindustrial founder Bonomi declared that he would also like to open Eataly stores inside international airports around the world. Finally, Bonomi, who helped take Italian luxury fashion house Zegna public in New York through a SPAC, stated: "Eataly is the Zegna of tomorrow, and in the future a listing is probable."

Advisors

UniCredit acted as Investindustrial's financial advisor, Boston Consulting Group carried out the commercial due diligence, and Deloitte was appointed accounting and tax advisor. The legal advisor for the transaction was Studio Legale Chiomenti.

Eataly's Italian legal advisor was Studio Legale e Tributario Fivelex, while Tarter Krinsky & Drogin LLP, Danow, McMullan & Panoff, P.C. and Olshan Frome Wolosky LLP advised the firm on US legal matters. Biscozzi Nobili Piazza was the accounting and tax advisor.

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