Food & Beverage

A Roundtable Discussion

BEN HELFMAN
Attorney - Restaurant, Food & Beverage Group
Greenberg Glusker LLP

STEPHEN REDMOND
CPA & Partner – Food, Beverage & Agribusiness Practice
Moss Adams

DONALD SNYDER
Partner and Food and Beverage Practice Leader
Green Hasson Janks

The food and beverage industry as a whole is unique in many ways — and here in Los Angeles, where we have some of the best dining and food-for-purchase options in the nation, there's perhaps an even more finely tuned set of rules for success. Stir in an unpredictable economy and unique regulatory conditions and you've got a sector of Southern California business that continues to evolve as swiftly as any other. To make some sense of this exciting and unpredictable realm, the Los Angeles Business Journal has once again turned to some of the leading experts in the region to get their diverse insights and assessments regarding the current state of the industry that Angelenos most certainly couldn't live without.

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FOOD & BEVERAGE ROUNDTABLE

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STEPHEN REDMOND

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BEN HELFMAN

What elements are driving innovation in the food and beverage industry in 2019?

HELFMAN: It's a combination of forces: mission-driven founders, conscious consumers, and technological advances. Founders of companies (including chefs), inspired by thought leaders like Alice Waters, Michael Pollan and Dan Barber, understand the shortcomings of a system that has been shaped disproportionately by the big food industry. At the same time, consumers are demanding tastier, healthier, and functional food—all in the blink of an eye. And there's a growing expectation that food will be produced in an environmentally sustainable and socially responsible way. Scientific and technological advances have been a catalyst for much of this innovation across the food ecosystem, in farming, the meat industry, restaurants, and consumer branded products. Not wanting to get left behind, big food recognizes the need to innovate. In addition to investing in R&D, companies like Mondelez, PepsiCo, and Kraft have been launching incubators and accelerators.

What are different ways customer demands are shaping industry trends?

REDMOND: The food we buy provides consumers with more than simple sustenance these days. It signals who we are and what we support (or don't support). The link between consumption and identity provides a powerful connection for the marketing, selling and designing of food and beverage products.

SNYDER: Food and beverage companies are listening to their customers, and as a result, new products are being developed that are becoming trends, which leads to even more new products. For example, over the past few years the healthy foods movement has pushed companies to come out with products that are gluten free, organic, no preservatives and much more. Whole product lines are being created. Another example is the rise of grab-and-go complete meals or meal kits. This answers the customer desire to spend less time in stores and less time cooking. Although more than 80 percent of all consumers still eat their food at home, it does not mean they are making their food at home. They could be ordering delivered meal kits, getting restaurant delivery or picking up meals at fast-food restaurants. The trend is that fine dining is down, casual dining is down and fast-food restaurants are up. Innovative food retailers are also changing store layouts, which in turn affects what food and beverage companies are placing in stores. The center floor space of grocery stores has been traditionally stocked with items such as soft goods, packaged goods and canned goods, which are lower margin. For higher profits, stores have been making changes in the peripheries, where the fresher and more impulse-driven purchases are made.

HELFMAN: Consumers have the power of the purse and they've been wielding this power. Companies are responding to consumer demands for food that is not only natural and organic, but also sustainable, plant-based, and functional (e.g., improved gut-health and mental wellness). Take the meat substitute segment, as an example. To date, Beyond Meat's IPO has been a resounding success (trading at nearly 5x its initially listed offer price). In its latest round, Impossible Burger raised $300 million at a roughly $2 billion valuation. Now, companies like Tyson and Nestle are getting into the fold, announcing their own meat and poultry substitute products, and multinational fast food chains also want in on the action. Additionally, consumers continue to identify with mission-driven brands that have demonstrated a commitment to social responsibility—by donating proceeds to a certain charity, reducing food/packaging waste, combatting climate change, or helping to close the food inequality gap.

How have e-commerce and the digital marketplace (such as Amazon), impacted the food and beverage industry?

REDMOND: The once distinct worlds of offline and online are becoming blurred. From selling through Amazon or going direct-to-consumer (DTC) on your own website, food and beverage companies who directly interact with consumers can listen and learn from them. The DTC process can provide the brand the opportunity to own their consumer's entire experience from end-to-end, and if positive, can add deep meaning to the relationships they have with their brand evangelists. The ability to build these direct relationships opens up a treasure trove of consumer insight that can't be obtained through traditional channels.

HELFMAN: Consumers increasingly expect food and beverage on demand, which has led to a continued migration to ready-to-eat, subscription, pre-order, and delivery models. Nearly half of Sweetgreen orders are pre-ordered through the company's app (per Wired). This shift has also given rise to a new business model: delivery-only kitchens. CloudKitchens, backed by Travis Kalanick, is leasing shared-kitchen facilities to its partners, which range from chefs to national chains. Uber Eats' virtual restaurant program leverages its customer data analytics and existing infrastructure to create new delivery-only restaurants. Locally, La Scala jettisoned its sit-down restaurant in Brentwood for a Westside delivery hub. Delivery is eating into restaurant margins, as delivery services charge restaurants fees ranging from 10-25%. Similarly, delivery of groceries by InstaCart is impacting grocery stores' already low profit margins. Some larger companies are developing proprietary delivery technology in-house, but smaller players can't afford the R&D costs.

What role is social media playing in food and beverage innovation?

SNYDER: Social media is an increasingly important tool for the industry. Food and beverage companies are changing as a result and creating space for new and different innovation. Digital media and social media connect companies with their customers in a way that is not intrusive but reinforces their loyalty on a frequent basis. Social media does not need to be passive either — it can be a way to create a dialogue. A good example is weekly Twitter chats. Social media is also an important way to draw customers into stores. It provides a quick, easy and cheap way to publicize new products or special promotions. Social media users tend to be younger, and younger people are heavy consumers of many products, so social media and online advertising can lead to a big return in customer engagement. Social media also provides food and beverage companies the opportunity to generate actionable data that help them understand the needs of their customers. Data analytics then can help with making more-informed decisions about new products and services. There can be a downside, however. For restaurants, it started with Yelp. As a result, restaurants have had to respond to platforms that trumpet consumer opinions. Social media puts a demand on companies to be transparent, and that can increase certain kinds of risk. Yelp or Yelp-like applications allow consumers to have a voice that is outsized compared to individual consumer power. It opens up the possibility of public relations risk. To quote Warren Buffet: "It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

HELFMAN: Social media is playing a huge role, both in the creation and marketing of food and beverage products. Today, it's essential to have an omnichannel marketing strategy that can capture consumers in traditional retail and through social media platforms. Instagrammable food and beverages can drive foot traffic to brick-and-mortar locations. Thanks to social media, brands now have a constant, direct line of communication with their consumers. Companies can crowdsource ideas for new products—which can significantly reduce R&D expenses—and track customer satisfaction of existing products. Additionally, certain influencers, like Chrissy Teigen and Gwyneth Paltrow have the power to catapult brands. And just recently, Wendy's announced that it will be bringing back the Spicy Chicken Nuggets thanks to a tweet by Chance the Rapper that went viral.

REDMOND: It's clear that social media—when done right—establishes the connection between brands and consumers. Social media is being embraced by brands as the new channel to advertise. At its core, social media breaks down barriers between brands and their customers. Brands are able to get a window into what their followers expect from the brand through these interactions and engagements. To personalize the brand social media experience, successful companies take engagement one step further by allowing their audience to influence different aspects of the brand. Listening through online reviews of products can spur new products, new flavors and, with that, new revenue streams.

How are companies leveraging technology to innovate?

SNYDER: The strategic use of technology can be a major driver of growth for food and agribusiness companies. The right technology requires research and development in machinery and equipment. The recent Tax Reform Act

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has helped push R&D with additional tax advantages. For example, companies can take a one-time expense rather than depreciating a new piece of machinery over seven years. That puts extra cash in their pocket, which can be deployed for more innovation and growth. It can also reduce labor costs because some of that machinery can automate processes. Another technology that is being leveraged is the use of data analytics, which offers ways for food and beverage companies to "see the future." There is more data available from an array of sources, and companies that collect and use it well may have an advantage.

REDMOND: Food companies are aiming to stay profitable amid profound shifts in consumer preferences, the economic landscape and the planet itself. The massive sustainability challenges that food companies face in their supply chains — exploited food sources, poor crop management, food waste, water stress, resource depletion and climate change — must be addressed to ensure a successful and fruitful future. The most impactful and watched area of technology, in my opinion, is AgTech. This is an emerging sub-industry that encompasses diverse solutions to almost every step in the food production process. On today's farm, smart phones and tablets are as common as combines and tractors. Apps connected to crop sensors and drones can see what the human eye can't. These devices can help increase efficiencies and reduce waste by helping to monitor each plant and provide the exact amount of fertilizer, water, and pesticides that specific plant needs.

HELFMAN: Companies are leveraging technology to build companies that could not have previously existed. The classically "futuristic" example of this includes automating the role of line chefs, like Zume's robotic pizzaiolos. Beyond automation, technology can address larger problems with our food system. Some companies are bringing food to historic food deserts and furthering the "eat local" movement by developing state-of-the-art, urban, sustainable farms. Others are working to introduce blockchain technology to the supply chain, creating transparency, traceability of ingredients, and improved quality. Still others are leveraging technology to reduce food waste. According to the non-profit ReFED, food waste in the U.S. alone totals 63 million tons annually. Introduce Apeel, a company tackling this problem through its proprietary plant-based film. When sprayed on fruits and vegetables, Apeel's product significantly increases the shelf life—reducing food waste (as well as inputs, like water) and helping farmers, grocers, consumers, and the environment.

'Food and beverage companies are listening to their customers, and as a result, new products are being developed that are becoming trends, which leads to even more new products.'

DONALD SNYDER

Have there been significant changes in how people are consuming their food in recent times?

REDMOND: Today's key consumer wants a convenient healthy meal that minimally impacts their time and positively impacts the planet. Basically, people want to deepen their connection to companies that are good for them and the environment. Most notably, we see a rise in home delivery meal kits, grab-and-go food options, and the importance to consumers of convenient quality.

What should food and beverage companies do right now to increase their sustainability efforts?

SNYDER: You cannot effectively run any company without sustainability standards these days. A company's strategy should reflect its values, customer expectations, and a point of view on where the environment is going. For food and beverage companies, the issue is even more critical: they need to demonstrate a true commitment to their values and they need a message that resonates in the marketplace to appeal to consumers, who are increasingly looking to buy products that are sustainable and healthy. As food and beverage companies continue to swiftly move more and more toward sustainability, some interesting trends have taken hold. For example, locally sourced ingredients — food and beverage companies looking to reduce their supply chain's impact on the environment are turning to locally sourced ingredients that take just a short drive to deliver, which saves the fuel and reduce the carbon footprint. Another example is getting certified for sustainable practices. Also labeling is increasingly important because it helps consumers see whether their food is healthy and/or organic, where it is produced/sourced and even what the food is wrapped in. If a consumer has a choice of two products and the label on one says their package is zero-waste vs. another product, they will often choose the environment-conscious one. Consumers want to contribute to future generations. While recycling is not a new sustainability trend, the focus on becoming a zero-waste, sustainable business has gained a lot of traction in recent years. This is especially true when it comes to product packaging. Consumer demand is a huge part of why companies are looking to incorporate sustainability strategies. With that comes the ability to market these practices to those buying the products. A social responsibility initiative is how businesses give back and make reinvestments in the planet. It benefits the environment AND humanity. It is important to have a marketing message that reflects those beliefs and status as a value-based organization. For example, when partnering with other organizations, craft alliances that do good.

HELFMAN: There are a variety of ways for food and beverage companies to improve sustainability and reduce their carbon footprint. Companies can increase clean energy usage, adopt zero-waste packaging, ensure that produce is cultivated in a biodiverse way, incentivize customers to recycle/compost, etc. Companies can also create accountability throughout their supply chain by aligning with partners (be it farmers, processors, manufacturers, co-packers, distributors or suppliers) that share these values. When a company's commitment to sustainability is authentic and in-line with its brand, it can drive customer loyalty. Doing so may be more expensive upfront—though less expensive than just a few years ago—but can be an excellent strategy for long-term profitability, both by engaging consumers and reducing expenses over time.

REDMOND: Building a sustainability program from scratch can seem daunting. It comes down to finding an internal team that's passionate about the company's sustainability efforts. From there, that team can start by identifying which key performance indicators (KPIs) are most important to company stakeholders, including customers, investors and employees. Companies can't manage what they don't measure, which makes securing good baseline data a critical step in working toward any sustainability goal. It's also essential to implement internal controls to ensure the data being reported on is accurate. The best part of this process occurs once the data is gathered: telling the company's story. There are various models and frameworks available for building a corporate social responsibility (CSR) report. The Global Reporting Initiative and Sustainability Accounting Standards Board both offer resources.

Considering costs and raw material sourcing, what is the impact on revenue from sustainable practices?

SNYDER: The evidence is mostly anecdotal on whether a social responsibility policy directly impacts revenue. However, there is one exception — companies that are founded on a sustainability strategy owe ALL their revenues to being socially conscious by definition. For the rest, while there might not be a direct link to revenue, it makes sense that companies that embrace social responsibility will do well in the marketplace, even if their appeal shifts to socially conscious consumers, which is a growing segment, especially in California. California companies like Barnana and Santa Monica Seafood are good examples. Sustainability is part of Barnana's business plan, so their revenues are directly related to sustainability. Similarly, Santa Monica Seafood that has a sustainability department, and they ask vendors/customers to give money to a sustainability fund. This philosophy is indirectly increasing their revenues. It helps the seafood industry and helps with overfishing and species survival, plus it makes their products renewable. Another advantage to being sustainable is that socially responsible food and beverage companies attract customers that expect to pay a higher price for items that are healthier or better for the earth. Companies such as Whole Foods have taken this approach and have had tremendous success. An indirect advantage is that certain sustainability measures like water reclamation, solar or wind power, and/or a reduced carbon footprint have advantages beyond attracting conscious consumers — these measures will reduce expenses, which could translate to higher profits.

HELFMAN: Sustainability is more than just a buzzword. Consumer demand for sustainable practices is here to stay, and consumers are more educated and can directly communicate with companies via social media like never before. The initial costs can drive long-term revenue, and costs (e.g., organic produce, renewable energy, green packaging) will only continue declining as sustainable practices continue to be adopted. Big food players' recent investments in, and acquisitions of, sustainable startups support this thesis. Unilever, Kellogg and others are targeting these companies because they understand and are reacting to consumer's growing demands for mission-driven, sustainable companies.

What are the most critical legal issues that a new start-up food/beverage company should allocate its limited resources to addressing at the very beginning, and what items can wait a while until additional funds have been secured?

HELFMAN: From day one, a start-up should ensure that it's properly licensed to do business and structured in a way to address its founders' concerns. Protecting intellectual property is also a must. IP counsel should file trademark registrations (after conducting searches) to protect the company's name and logo; additional filings can wait until the company has more funding. The company should also enter into confidentiality and invention assignment agreements with its employees and consultants. As you onboard employees, you should ensure employees are not misclassified as exempt. More formal HR policies and training, while important, can wait until additional funds have been secured. On the regulatory front, you should make sure that your products and suppliers comply with the Food Safety Modernization Act and other applicable laws. Finally, you should post your privacy policy on your website—which site should be ADA-compliant to prevent frivolous lawsuits.

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How has the Amazon acquisition of Whole Foods changed the industry?

REDMOND: Amazon didn't enter the grocery category to only control a small percentage of it; Amazon wants to become the leader. As of now, Amazon has not had the significant impact that other grocers feared could happen. This is mainly due to online sales representing a small portion of the overall food market, a space where the traditional grocery store still dominates. Amazon's presence in the retail grocery industry is spurring traditional grocers to move into ecommerce either on their own or through partnering with the likes of Instacart. Conversely, traditional grocery retailers are motivating Amazon to focus on price reductions at Whole Foods and maintain well-designed storefronts. Amazon wants to be the lead omnichannel retailer but to truly challenge traditional grocers, Amazon must drastically increase its in-person store footprint and enhance the in-store consumer experience to thrive.

SNYDER: The Amazon acquisition of Whole Foods is a game changer, but do not count out brick and mortar stores just yet. There will be changes, however — for example, the grab-and-go concept should only increase, as millennials and Generation Z consumers start to dominate the market. Stores are starting to sell more non-food items as a way to diversify — they are realizing that to compete with Amazon, they have to expand their thinking. There may be negative industry effects, however — there have been some notable bankruptcies of chains like Tops and Southeastern, Winn-Dixie's parent company, so industry consolidation seems inevitable. There is strength in the Whole Foods brand from a customer experience perspective and there should be continued growth. Many customers are passionate about shopping at Whole Foods because the brand represents the standards of high quality. They have become a destination. They have also moved into experiential programs like wine bars and, most recently, wellness and home goods departments that experientially extend the brand. That builds loyalty. Amazon will only be capitalizing on Whole Foods' brand and consumer loyalty. For example, Amazon is creating brick and mortar stores now, using Whole Foods as testing sites for related products. That helps Whole Foods and Amazon, so the synergy of the acquisition is growing already.

What changes are we seeing in the role of "labeling" in the food and beverage industry today?

HELFMAN: A food or beverage label is an opportunity to attract a consumer. A company can use a label to quickly tell its story or highlight its socially responsible initiatives. Customers will often choose the healthier, more ethical option—even for a premium, assuming they can afford to do so. But companies should be sure their labels are accurate and comply with FDA and USDA regulatory requirements. In recent years, there has been a wave of litigation over the use of "organic", "all natural", and "non-GMO" on labels. Using these terms inherently increases risk, especially in a consumer-friendly state like California. Even more recently, Congress's passage of the 2018 Farm Bill last December has opened the door to marketing food and beverages as having hemp-based cannabidiol (CBD) and hemp seed oil. Though it's worth noting, the law here is still very much unsettled at both the state and federal level.

SNYDER: The movement toward clear labeling means that consumers now know what goes into the foods and beverages they are buying. Knowledge is power, and the result has been new trends that are catalysts for change in the industry. Attention to labeling and packaging is not a new concept, however. It is more an extension of the paradigm shift occurring with consumers who are now expanding from not just caring about their food being healthy and/or organic to also caring where it is produced/sourced and even what their food is wrapped in. Consumers want to contribute to future generations. As consumers become more educated, package labeling has also become a key component of marketing. In a recent Green Hasson Janks food and beverage industry survey, 61 percent of respondents said they would choose one product over another if they note some type of corporate social responsibility practices on the packaging.

What advice would you offer to an early stage restaurant company seeking growth capital in 2019?

HELFMAN: Several questions need to be answered:
(1) Do you have a comprehensive business plan (and can your hockey stick projections pass the laugh test)?
(2) How much money are you looking to raise?
(3) Are you looking to raise debt and/or equity?
(4) What ownership and control rights are you willing to surrender?
Traditional banks are likely out of the picture given the risk profile. You may want to explore SBA loans, as well as equipment/inventory-financing. Founders often turn to family and friends, as well as angel investors, as an initial source of capital—whether through a SAFE, convertible note, or series seed round. Finally, as eager as you may be to receive funding, be sure to do your diligence on any potential investors. Ideally, you're looking to establish a long-term strategic partnership, and you should ensure that you want these investors along for the ride.

At what stage is a restaurant company ready for venture capital or private equity funding and how does it attract the interest of such investors?

HELFMAN: It's not a one-size-fits-all model. Deciding whether a restaurant company should accept venture capital or private equity funding ultimately depends on the founders' short-, medium-, and long-term goals for the restaurant company. However, any potential VC investor or PE buyer is assessing several factors: the restaurant's food and beverage program, management team, hospitality, customer engagement, social media presence, technological capabilities (i.e., both front-of-house and back-of-house), and data analytics. Investors are also increasingly focusing on a restaurant's percentage of digitally sourced transactions. Beyond this, investors will want to see proof of concept and scalability. There's no shortage of money chasing good deals, whether it's via a formal auction process or financial investors approaching a restaurant company to circumvent an auction.

What are the main challenges and opportunities facing food and beverage companies doing business in California compared to other states?

REDMOND: One of the main issues that California food and beverage manufactures face is the high-cost of the labor. In January 2019, the statewide minimum wage increased from $11 to $12 per hour for employers with more than 25 employees. With further increases planned, this will continue to put pressure on companies operating in California. The increase in employee costs is also spurring food- and ag-tech advancements throughout the industry to reduce headcount to help manage costs. Automation is reducing labor costs and headcount, which adds money back into the business for reinvestment.

HELFMAN: Challenges include the relative cost of doing business and employee-friendly laws. Depending on where in California you're headquartered or operate brick and mortar, rent is likely higher than the national average. The cost of labor is also on the rise. Locally, the hourly minimum wage increased to $14.25 earlier this month and will rise to $15.00 next July. Despite the growing gig economy, companies should tread carefully when classifying workers as independent contractors. In last year's Dynamex decision, the California Supreme Court established the presumption that workers are employees. We help clients stay current with evolving legislation and case law, as complex issues like employee misclassification can be costly. As for the opportunities, if California were a country, its economy would rank as the world's fifth largest. California is known for innovation and its residents are receptive to new products and trends in the food and beverage space—including cannabis.

SNYDER: Regulations, employee issues and environmental concerns are some key challenges and opportunities for food and beverage companies doing business in California. The Safe Drinking Water and Toxic Enforcement Act (Proposition 65), which was enacted in 1986, is intended to help Californians make informed decisions about protecting themselves from chemicals known to cause cancer, birth defects or other reproductive harm. This proposition requires the State to publish a list of chemicals known to cause these issues. This list, which must be updated at least once a year, has grown to include approximately 800 chemicals since it was first published in 1987. The Office of Environmental Health Hazard Assessment (OEHHA) administers the Proposition 65 program. OEHHA, which is part of the California Environmental Protection Agency, also evaluates all currently available scientific information on substances considered for placement on the Proposition 65 list. It is important for companies doing business in California to be aware of what is on this list and if anything in their products uses those ingredients. Additionally, Immigration has become a hot topic for the current administration. Bringing in labor from out of the country is a common practice in the food and beverage industry, and while this still can be done legally, the key is to be careful about using undocumented labor. The IRS and the State of California are spending a significant amount of resources to identify undocumented workers that are performing services. Other key issues such as minimum wage and the possibility of fewer workers are also top of mind for many in the California food and beverage industry. The state's minimum wage is rising to $15 an hour in the year 2022 for employers with 26 or more employees, and by 2023 for smaller employers. Interestingly, many California cities and municipalities are racing to implement increases that are ever higher and faster. The State has also implemented paid sick leave for all employees, and various cities and municipalities are putting in place an even higher number of paid sick days. On top of that, there are predictive scheduling rules in cities like San Jose and San Francisco that are trying to lock in advance scheduling of employees and impose penalties if employers do not give enough notice before changing employees' schedules. Additionally, in some locations, job openings need to first be offered to current employees, enabling them to work more hours and become eligible for group medical insurance. Companies operating in California need to keep abreast of these changes so they stay compliant. On the environmental front, California also has a water-shortage issue, especially in the south. Although we recently emerged from long-term drought, water is essential for much of what the food and beverage industry does. Water-related threats to food production include risks to grain, vegetable, fruit crops, livestock and fisheries. While there are some challenges with working in California, such as those listed above, that food and beverage companies should be aware of, there are also many opportunities. Consumers here are eager for new products, especially those that are eco-friendly and healthy. There are also opportunities for new CBD and cannabis-based products as new laws and changing viewpoints have opened up that market to the average consumer.

How can food and beverage companies keep up and remain current with regulatory changes?

HELFMAN: Companies have several options: they can join trade groups, regularly check websites of relevant state and federal agencies, attend industry conferences, subscribe for newsletters, and consult with experts—including their counsel. Keeping up with regulatory changes is a risk mitigation strategy. Companies that stay current of the evolving regulatory framework are also well positioned to capitalize on opportunities. Food and beverage companies that are producing or considering cannabis-related products should take note. Although California has legalized recreational cannabis, the regulatory framework can change weekly. The 2018 Farm Bill legalized hemp (including hemp-derived CBD), but the regulation of food and beverage products containing hemp-derived ingredients remains unclear. For now, California regulators have indicated that they will follow FDA guidance, so best to avoid marketing the medical benefits of any such products. Given this shifting regulatory landscape, all the more reason to consult with professionals.

How can a food and beverage company prepare for an investment by private equity?

SNYDER: There is currently heightened awareness in the food and beverage industry regarding transactions. The Amazon/Whole Foods deal is a catalyst for a lot of companies looking at themselves. They are now asking: "How am I going to

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compete with a new, disruptive business model?" "Do I need to change my business model?" "Do I need to consider a merger or acquisition to enhance my business model?" "Is this the time to consider selling?" "Are there opportunities that are presented by this disruption that I might be able to take advantage of, and how do I organize my company in order to do so?" So what should food and beverage companies be doing to prepare for potential changes in the industry or other systemic changes? Every company, whether they are thinking of a deal or not, should be looking at their business model and their sales strategy and thinking about whether they are working in practice or just on paper. They should be getting timely information and reports that are providing accurate visibility into the future. They should be looking at their management team and whether it will take them where they need to be. These are hard conversations to have, but they are necessary as you consider the company's future growth. And having a growth plan is key to all of this. Another important consideration is getting an independent, unvarnished assessment of a company, its business model, management, systems, reporting and sales strategies. Look at a business model through the lens of "if I bought this business, how would I make it better? What products, practices, and processes would I continue to enhance, and what would I fix?" Providing consulting services such as this is something Green Hasson Janks does regularly with clients. We are able to provide an objective view as an outside party and have helped numerous clients create strong growth plans to carry them into the future. I highly recommend to any company to find a business advisor who can provide that insight. The basic deal-building blocks to a successful food and beverage deal are to:

- Have the books and records in shape
- Have them reviewed by an independent accounting firm
- Have a management team that will show well in a process
- Have forward-looking projections that are both enticing to parties but realistic in nature

You want the buyer to be excited about the deal, but you must have credibility in the financial projections.

REDMOND: Private equity investors are increasingly investing in food, beverage, and agribusiness companies, and for good reason. With record fundraising levels and the need to deploy capital—combined with high levels of innovation and rising demand for quality food internationally—it's an opportune time for investment in this space. Once interest is obtained, it's important to understand the financial metrics that buyers are evaluating to gauge the health and fit of your company with their portfolio. What are the working capital needs? What's the profile of the customer base and product margins? How competent are your operational and finance management teams? These are just a few of the questions to ask. Consider engaging experts to perform sell-side due diligence including a quality of earnings assessment before a buyer comes in. This will help identify areas of weakness that could be used as negotiating points to reduce the company's purchase price. Anticipate that all buyers will be highly sophisticated and will uncover any weaknesses in your operations. Understanding your company's financials inside and out and being able to present and articulate that financial picture are important considerations for dealing with potential investors.

HELFMAN: Ideally, you will have been working closely with counsel throughout your company's lifecycle. In any event, it's important to engage an attorney early in the process. Outside money—whether from traditional private equity or venture capital sources, family offices (a growing trend), or a strategic—will be coming from a sophisticated investor or group of investors. From a legal perspective, the investor will want to ensure that the company is "clean." This includes: (1) that there are no material issues with your company's formation, prior issuances of equity, or governance; (2) that your IP is adequately protected (including unregistered IP, such as recipes, customer lists and other trade secrets); (3) that you don't have employee misclassification or other employment-related issues; (4) that you have agreements in place with key suppliers; and (5) that you've identified back-up suppliers to mitigate any disruptions in the supply chain.

How often should companies in the food and beverage industry assess their business valuation and why?

REDMOND: People seek valuations for different reasons and uses throughout the life of a business. It's advisable to assess your business's valuation prior to each fundraising round. While the tech startup model might be tempting to follow, it's important to remember that food and beverage startups operate very differently, and therefore require a different valuation model. The only real advice to give on valuations is: Do NOT overvalue your business. This is the only way that you can really get a valuation wrong. If one investor feels that your valuation is too high, word can get around to other investors. This leads to drawn out fundraises that make your business unattractive to potential investors plus it could cause your existing investors to lose confidence in the business.

HELFMAN: You should determine your valuation at least annually, and there are several reasons for doing so. First, valuations are required in connection with your equity incentive plan. If you're granting stock options or incentive units to directors, employees, consultants, and advisors, you need to ensure that the exercise price for such options or valuation of the incentive units is at least equal to their fair market value. Grants of "cheap stock" violate the requirements of 409A of the IRS Code, leading to unfavorable tax consequences for the very individuals that you're trying to incentivize. Second, if you're looking to raise outside capital, it's important to have a general sense of your company's value heading into the process. This allows you to drive the narrative that will be told to potential investors/buyers. Finally, valuations may be required if your existing equity holders are looking to sell their ownership interest.

From Soup to Nuts, Comprehensive Restaurant, Food & Beverage Counsel.

Greenberg Glusker provides legal counsel for the full range of operations, growth, and business issues that its food and beverage clients encounter. This includes employment and litigation issues, real estate sales and leasing, asset purchases, mergers, acquisitions, cybersecurity, trademark applications, and raffle contests.

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