

FOOD INDUSTRY INSIGHTS

Frozen Food's Middle Market Is an Underserved Credit Opportunity

BY MICHELE OCEJO

Frozen food has moved from backup dinner option to everyday growth engine, reshaping how consumers shop and how manufacturers finance production. But behind the freezer aisle's momentum is a middle-market financing challenge that secured lenders may be uniquely positioned to solve—if they understand the seasonal rhythms, inventory demands and receivables pressures driving the industry.

Frozen food is one of the quieter growth stories in American retail. Category sales are up more than \$27 billion since 2019. Nearly everyone you know bought frozen food at some point last year. Behind that growth sits a segment of manufacturers whose capital needs are structurally different from most middle-market borrowers, and largely underserved by traditional cash-flow lending.

The compressed time scales of frozen food manufacturing create opportunities for asset-based lending solutions. Many frozen processors, particularly seasonal packers of fruits, vegetables and proteins, compress an entire year's production into a matter of weeks, then sell down that inventory over the following 12 to

15 months.

"Building that inventory requires the bulk of our working capital needs during the processing season, even though we won't be selling it for up to a year later, sometimes longer," says one frozen food manufacturing executive, who has worked on both the year-round prepared meal and IQF supplier sides of the industry. "The challenge is terms that are reasonable and align with how slow inventory turns. Our industry operates on thin margins."

"Capital is generally tied up in inventory and other costs, so cash cycles can be long," says a frozen foods CEO, describing the rhythm of processing an entire season's supply and carrying some of it over into the next. That mismatch shows up in more than one seasonal window. A hamburger and hot dog bun crunch can show up every May through July, with a separate bump around frozen pizza in October and during the Super Bowl, and a smaller back-to-school lift as buying habits reset. Each window can call for its own mix of equipment, trailers or short-term bridge funding, on a schedule that doesn't map cleanly onto an annual credit facility.

Capital needs extend beyond inventory carry into equipment and automation, though the picture there is more mixed. Larger processors often fund routine food safety upgrades internally. Asset-based lending tends to matter more for mid-tier companies facing a bigger equipment outlay tied to a specific, dedicated need, rather than a speculative bet on a new product line.

"Not every project gives the same ROI," one CEO says. Food safety and quality investments, he notes, are a must-have regardless of return, while other capital improvements can be weighed more conventionally against payback.

Lenders need to know the landscape and build

trust with their prospective partners. For example, an asset-based facility built to fund capacity for a named customer with a known volume commitment carries a completely different risk



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profile than a facility for another borrower that wants to expand into an unproven adjacent category in the hope that demand will follow.

Once a company's capital needs cross into seven figures, board approvals and covenant structures typically pull the deal toward other financing avenues. The sweet spot for asset-based lending in this industry sits squarely in the middle market, which is also where access is thinnest.

This is exactly where relationship-driven ABL lenders can build lasting value. Processors who've used ABL repeatedly with the same lender will experience a due diligence process that gets easier over time, as the lender gets to know the operation, sometimes literally touring the plant, and a 20-question intake shortens to 15.

Factoring, a receivables-based cousin of ABL, opens up a complementary path for processors whose working capital gap sits less in inventory and more in accounts receivable. Many frozen food manufacturers sell into large grocery chains, club stores or foodservice distributors that pay on 30- to 90-day terms, stretching the cash cycle further out past the months already tied up in seasonal inventory. By selling those invoices to a factor, a processor converts receivables into cash almost immediately rather than waiting out a big retailer's payment schedule.

That structure can be especially useful for smaller or newer processors that haven't yet built the borrowing base or track record a traditional ABL revolver requires, since factors underwrite largely against the credit strength of the retailer or distributor paying the invoice rather than the manufacturer itself. For a company with a concentrated customer base, that shift in underwriting focus can open financing that wouldn't otherwise be available, and factoring facilities can typically be put in place faster than a full asset-based lending relationship.

Not every frozen food capital need maps neatly onto ABL, and lenders should go in with that clearly in mind. National distribution buildouts, for instance, tend to get financed through other channels. And while pure seasonal-inventory carry looks like an obvious fit on paper, it isn't always the first port of call for a potential deal. In an underexplored corner of the market, relationships and education are everything.

For secured finance executives willing to learn the rhythms of this industry, frozen food's middle market offers exactly what ABL and factoring do best: financing tied to the real, verifiable value of inventory and receivables, deployed on a timeline that matches how the business actually operates. Lenders who show up season after season, whether through an inventory-based revolver or a factoring facility, tend to keep their borrowers for the long haul. ■

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