

Spring 2017

Food & Beverage Industry

M&A Market Update



HT Capital's M&A Market Observations

At A Glance...

- Multiple year studies now being conducted on the digitally engaged food shopper preliminarily indicate that online food shopping in the United States will reach maturation far faster than other industries have adapted to the online channel.
- Large food companies with diverse portfolios are increasingly turning to “premiumization” strategies to drive topline growth in the face of stagnant sales. While the strategy is challenging for some brands, in certain cases 10-15% growth targets can be achieved.

Over the past half year, HT Capital has encountered and observed the following trends based on relevant market data and interactions with U.S. and multinational companies, along with family offices and private equity firms that focus on the food and beverage industry:

- Valuation multiples remain historically high, as strategic transactions in “better-for-you” categories dominate in the upper end of the market. The average Total Enterprise Value-to-EBITDA multiple paid, involving food & beverage transactions, in the fourth quarter of 2016 and first quarter of 2017 (for which data was disclosed in our selected sample set) was 11.9x, virtually identical to the prior six months results.
- Food and beverage M&A transaction volume remains steady. According to Capital IQ, the fourth quarter of 2016 and first quarter of 2017 saw 194 announced industry transactions in North America, compared to 188 in the second and third quarters of 2016.
- The transaction pipeline continues strong in the food & beverage sector, belying anecdotal observations in other industries that indicated a drop off in deal flow at the end of 2016 caused by sellers pausing for clarity in the direction of tax law changes.

Current Industry Trends

➤ Shift to Digital Accelerating at Retail

In the first quarter of 2017, Food Marketing Institute (FMI) and Nielsen (NYSE: NLSN) released their first set of data on their joint study of the “Digitally Engaged Food Shopper”. Initial findings show that within the next decade, online food shopping will reach maturation in the U.S., far faster than other industries that have come online before (see below). The research estimates that in the current climate of technology adoption and evolution, consumer spending on online grocery shopping could reach \$100 billion by 2025. Put in context, that is the equivalent of 3,900 grocery stores based on store volume.

Key initial findings of the research were:

- 1. Multi-channel shopping:** More shoppers are buying more of their groceries across channels. In fact, 23% of American households are buying food online today. This upward trend is continuing: 60% of those who grocery shop online are expected to spend over a quarter of their food dollars online in ten years.
- 2. Digital Experimentation:** Grocery retailers and manufacturers are meaningfully experimenting with business models and technologies to find their way online. However, the “road to success” has not been paved.
- 3. Grocery Saturation:** Grocery shopping will reach digital maturity and saturation faster than other industries before, such as publishing or banking.
- 4. Center Store Migration:** Center store categories are already migrating online and this migration is expected to continue.
- 5. Young & Digital:** Younger, newer, and more engaged digital shoppers adopt grocery related digital technologies more quickly and will hasten the expansion of digital grocery shopping further.

➤ Premiumization To Drive Top Line Growth

Increasingly, the large food companies are turning to “premiumization” strategies to drive top line growth given the numerous headwinds to growth they see at every turn. However, this is not a strategy that is necessarily limited just to large firms.

According to a study by Information Resources, Inc. (IRI), for several post-recession years, shoppers have shown a willingness to purchase premium products. There continues to be room in the market for additional brands to move to a more premium positioning.

IRI estimates that manufacturers who adopt a well-strategized and executed premiumization initiative can gain an incremental 10-15 percent in topline revenue.

Among the top 10 food and beverage categories in, 2015, all saw share gains in the premium tier. Indications are the large packaged food companies took note and ramped up implementation of these strategies, judging by a sampling of their recent presentations at the Consumer Analyst Group of New York (CAGNY) conference in February.

Premiumization strategies often take the form of product enhancements, such as differentiated flavor offerings or higher quality ingredients to stand out. The key determinant of success for this strategy is the willingness of consumers to accept the brand’s premium value proposition.

M&A Transaction Roster

Food & Beverage
Notable Transactions – Fourth Quarter 2016 and First Quarter 2017

Date	Target Company	Buyer	Transaction Size (\$mm)	TEV / Revenue	TEV / EBITDA
3/16/17	THANASI Foods, LLC	Conagra Brands, Inc.	ND	-	-
3/13/17	Plumrose USA, Inc.	JBS USA Food Company, LLC	\$230.0	0.5x	-
2/23/17	Ready Pac Produce, Inc.	Bonduelle SA (ENXTPA:BON)	\$409.0	0.5x	11.0x
2/21/17	Lightlife Foods, Inc.	Maple Leaf Foods Inc. (TSX:MFI)	\$140.0	3.5x	20.0x
2/10/17	Mead Johnson Nutrition Company	Reckitt Benckiser Group plc	\$17,872.2	4.8x	17.4x
2/1/17	Michael Angelo's Gourmet Foods	Sovos Brands Intermedate, Inc. (Advent International)	ND	-	-
1/24/17	Pineland Farms Potato Company, Inc.	BEF Foods, Inc.	\$140.0	-	-
12/20/16	TIC Gums, Inc.	Ingredion Incorporated (NYSE:INGR)	\$400.0	-	-
12/2/16	Victoria Fine Foods, LLC	B&G Foods, Inc. (NYSE:BGS)	\$70.0	1.7x	7.8x
11/25/16	GNP Company	Pilgrim's Pride Corporation (NasdaqGS:PPC)	\$350.0	-	5.2x
11/22/16	BAI Brands LLC	Dr. Pepper Snapple Group, Inc. (NYSE: DPS)	\$1,700.0	5.5x	-
11/17/16	Bellisio Foods, Inc.	Charoen Pokphand Foods (SET:CPF)	\$1,075.0	1.6x	13.1x
11/14/16	Peacock Foods LLC	Greencore Group plc (LSE:GNC)	\$747.5	0.8x	8.5x
10/31/16	Hillside Candy	Highlander Partners, L.P.	ND	-	-
10/10/16	Allied Specialty Foods, Inc.	AdvancePierre Foods Holdings, Inc. (NYSE:APFH)	\$60.0	-	-
10/7/16	Florida Food Products, Inc.	Kainos Capital, LLC	ND	-	-
10/4/16	Kronos Foods, Inc.	Grey Mountain Partners, LLC; Maranon Capital, L.P.	ND	-	-
Mean				2.4x	11.9x
Median				1.7x	11.0x

Notes:

- Transactions in green are pending
- TEV = Total Enterprise Value
- ND = Not Disclosed
- Estimates based on approximated data are italicized
- HT Capital advised companies in **bold**

Sources: MergerMarket, Capital IQ and HT Capital research

Select Industry Transaction Activity

- **Maple Leaf Foods (MFI: TSX)** of Canada entered the alternative proteins market by announcing in February it would acquire **Lightlife Foods** from **Brynwood Partners** for \$140 million. Lightlife has annual revenues of \$40 million and 38% market share of the U.S. refrigerated plant proteins market. The price represented a 3.5x revenue multiple according to Wall Street analysts. The acquisition establishes a platform in plant based proteins for Maple Leaf and marks the company as a leader in the category.
- On November 17, **Centre Partners** announced that its portfolio company **Bellisio Foods** would be acquired by **Charoen Pokphand Foods Public Company Limited** ("CP Foods") of Thailand for \$1.075 billion. Reportedly, the price represented a revenue multiple of 2.0x. Bellisio is the third largest frozen food company in North America, and produces such brands as Boston Market, Chili's, and Atkins, in addition to its own core brand Michelina's. The deal represents a significant strategic expansion into the North American market for CP Foods.

With over half a century of experience, HT Capital is uniquely qualified to assist you in achieving your strategic objectives. For more information on subjects in this newsletter including the transaction environment or to have a confidential discussion on how HT Capital might be of assistance, please contact our practice leaders Tom Girardi at (212) 319-3701 or tgirardi@htcapital.com or Steve Tardio at (440) 571-1330 or stardio@htcapital.com



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