

# Food & Beverage Industry

## M&A Market Update

### At A Glance...

- While many of the same market dynamics that drove record transaction activity in 2014 remain in place through the first three quarters of 2015, recent transaction data from September indicate a potential reversion to the norm for both middle market transaction count and dollar volume. Middle market IPO activity this year through September was down 53% which may be a sign that market uncertainty may be eroding some investor and issuer confidence.
- Food producers continue to benefit from lower commodity input costs.
- Fundamental shifts in consumer behavior and preferences continue to impact the processed food industry as well as trigger M&A activity.

### HT Capital's Market Observations

Based on relevant market data and interactions this year with U.S. and multinational companies as well as private equity groups that focus on the Food and Beverage industry, HT Capital has observed the following trends:

- Inbound interest in M&A by foreign buyers is ramping up. Completed cross-border transactions into the U.S. rose 15% in the first half of 2015. Corporate buyers in countries such as Japan have turned their attention to offshore markets like the U.S. that offer better demographic trends and stronger growth opportunities to help achieve their strategic objectives.
- Valuation multiples continue near record levels, driven by the substantial capital availability referred to above and the increasingly positive outlook by potential buyers. The average Total Enterprise Value-to-EBITDA multiple paid involving food & beverage transactions in the second and third quarters of 2015 (for which data was disclosed) was 12.2x, above the 10.6x multiple of the prior two quarters in 2014/2015 and primarily due to high-growth, natural/organic outliers in our sample set.
- Food companies are enjoying the favorable tailwind of generally lower key commodities input costs in 2015. Sugar, wheat, soybean oil and crude prices are at five year lows. Despite continued drought conditions in California, beef and processed tomato prices have declined since last year. An exception to the overall downward trend is cocoa prices, which remain high and have begun increasing again in the second half.

## Current Industry Trends

### ➤ Demand for Natural / Organic Products Continues to Grow as Processed Food Companies React to Evolving Consumer Demographics and Preferences

According to SPINS, sales of natural/organic products are approaching \$100 billion and have penetration in nearly 70% of US households. This reflects younger demographic groups such as Millennials seeking out fresher, better-for-you food products with “clean” labels. According to Mintel, 60% of Millennials and 55% of Gen-Xers are concerned about potentially harmful ingredients in their food purchases.

These trends have created performance challenges for large processed food companies whose existing brands and product portfolio have been perceived less favorably by certain demographic groups. While some companies focus on reformulating and repositioning their existing product lines, others have embraced the trend via acquisitions, for example General Mills / Annie’s and Hormel / Applegate Farms. These trends can also be viewed as an indirect catalyst for larger scale M&A, such as 3G / Heinz - Kraft.

### ➤ Savory Snacks Market to Benefit from a Convergence of Consumer Trends

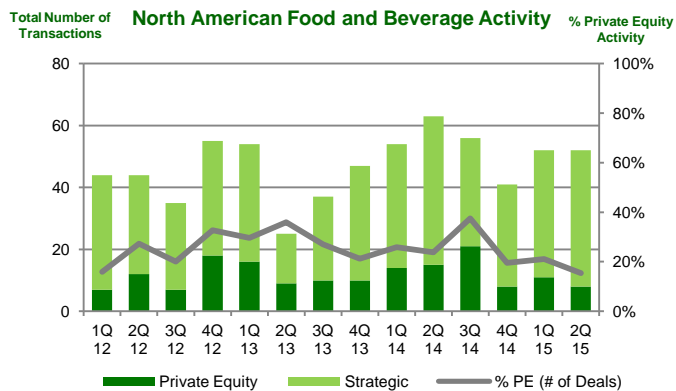
According to research conducted by Canadean, the \$32 billion US savory snacks market is projected to grow at 5.5% p.a. which would outpace the growth of most other processed food categories through 2019. This trend is driven by underlying consumer motivation factors of convenience, indulgence and fun/enjoyment. As such, the category is conducive to innovation, especially around flavors and single serve packaging. Savory snacks, including potato chips, remain popular across all age demographics, with highest consumption rates for tweens / teenagers.

- **Private Label** penetration which stands at 11% overall for savory snacks is expected to continue to increase. It already reached 30% in the nuts and seeds segment.
- **Popcorn** will continue to be one of the fastest growing categories (currently \$2.5 billion) as it is also beneficiary of “better for you” food trends. Ready-to-Eat will account for more growth than microwavable products.
- **Meat Snacks** (currently a \$4 billion category) are also expected to enjoy double-digit growth through 2019 as they benefit from consumer interest in protein along with convenience.

## Forward Looking M&A Drivers

➤ **Inbound US Acquisition Interest:** Against a favorable economic and industry growth backdrop in the U.S. relative to their own countries and regions, potential foreign buyers across industries have ramped up their inbound inquiries and pursuit of businesses and assets in the U.S. Japanese corporate buyers, for example, have large amounts of cash to deploy and are eager to buy companies from abroad that support their strategic objectives, such as diversification away from their home market with a declining population toward markets with higher growth prospects. Completed transaction data are beginning to roll in that support this emerging trend: Inbound transaction value rose 15% in the first half of 2015 to \$163 billion, according to White & Case and based on currently available market data.

➤ **Recent Softness in Consumer/Retail M&A Could Signal Reversion To Normal Dealmaking Levels:** M&A activity in the U.S. consumer/retail sector slowed, particularly in September, compared to extraordinarily high levels evident last year and the years immediately preceding the Great Recession according to Mergermarket. September 2015’s USD value of \$940 million was a precipitous plunge from September 2014’s \$9.4 billion total USD value, and marked the lowest September on record in more than 9 years. The number of deals this September was 21, which also represented a notable drop from last September’s 49 deals. Separately but perhaps relatedly, middle market IPOs across industry sectors are down 53% through the 3<sup>rd</sup> quarter according to CohnReznick, as market uncertainty may have eroded some investor and issuer confidence, particularly in marginal offerings.



Sources: Capital IQ, Mergermarket and Industry Research

## M&amp;A Transaction Metrics

**Food & Beverage**  
Some Notable Transactions – Second Quarter 2015 and Third Quarter 2015

Date	Target Company	Buyer	Transaction Size (\$mm)	TEV / Revenue	TEV / EBITDA
9/9/2015	Alpine Valley Bread Company	Flowers Foods, Inc.	\$120.0	1.3x	-
9/2/2015	Hampton Creek, Inc.	Mitsui & Co. Ltd.	\$15.0	-	-
9/2/2015	Green Giant and Le Sueur	B&G Foods North America, Inc.	\$765.0	1.3x	7.8x
8/19/2015	Suja Life, LLC	The Coca-Cola Company	\$150.0	7.1x	-
8/12/2015	Dave's Killer Bread	Flowers Foods, Inc.	\$275.0	1.8x	-
8/7/2015	Wallaby Yogurt Company, Inc.	The WhiteWave Foods Company (NYSE:WWAV)	\$125.0	2.8x	-
7/31/2015	Sunrise Growers	SunOpta, Inc. (TSX:SOY)	\$450.0	2.5x	11.3x
7/13/2015	Spartan Foods of America, Inc.	B&G Foods Inc. (NYSE:BGS)	\$50.0	1.4x	6.7x
7/8/2015	Kerr Concentrates, Inc.	Ingredion Incorporated	\$100.0	0.6x	10.0x
7/1/2015	Golden County Foods, Inc.	Monogram Food Solutions, LLC	\$37.0	0.4x	-
7/1/2015	Cargill Pork, LLC	JBS USA, LLC	\$1,450.0	0.6x	6.8x
6/24/2015	One World Foods, Inc. - Stubbs BBQ Sauce	McCormick & Company, Incorporated (NYSE:MKC)	\$100.0	3.3x	-
6/9/2015	Vega	The WhiteWave Foods Company (NYSE:WWAV)	\$550.0	5.5x	22.0x
6/9/2015	Garden Fresh Salsa Company, Inc.	Campbell Soup Company (NYSE:CPB)	\$231.0	2.3x	12.5x
6/8/2015	Fresh Hemp Foods Ltd.	Compass Diversified Holdings	\$107.0	3.0x	20.7x
6/2/2015	The New Bakery Company, LLC	East Balt, Inc.	\$80.0	1.3x	-
5/29/2015	Investissement BSA Inc. (95% Stake)	Frutarom Industries Ltd.	\$36.0	1.1x	-
5/26/2015	Applegate Farms, LLC	Hormel Foods Corporation	\$775.0	2.3x	-
5/12/2015	Blake's All Natural Foods	ConAgra Foods, Inc. (NYSE:CAG)	\$20.7	2.3x	-
4/15/2015	Preferred Brands International Inc. (70% Stake)	Kagome Co Ltd	\$80.0	-	-
<b>Mean</b>				<b>2.3x</b>	<b>12.2x</b>
<b>Median</b>				<b>2.1x</b>	<b>10.7x</b>

**Notes:**

- 1) Transactions in green are pending
  - 2) TEV = Total Enterprise Value
  - 3) Estimates based on approximated data are italicized
- Sources:** Mergermarket and Capital IQ

## Select Industry Transaction Activity

➤ On May 26, 2015, Hormel Foods entered into an agreement to purchase Applegate Farms, the #1 brand in the natural and organic, value-added prepared meats category. The acquisition allows Hormel to expand the breadth of its protein offerings, and is in direct response to increasing consumer demand for better-for-you products. The companies believe the combination will provide a faster path to expanded offerings in the high-growth category. Hormel paid \$775 million, or approximately 2.3 times Applegate's expected 2015 revenues of \$340 million. It is planned that Applegate will operate autonomously as a standalone subsidiary. Applegate has strategic relationships with a diverse set of manufacturers and processors who draw from 1,800 family farms.

➤ ConAgra announced on May 12, 2015 that it had acquired Blake's All Natural Foods, a family-owned company which makes natural and organic frozen meals including pot pies, casseroles, and pasta dishes, for approximately \$21 million or an estimated 2.4x revenue. According to IRI data, the natural and organic, single-serve meals category grew by more than 33% between 2011 and 2015. Separately and later in the quarter, ConAgra announced it had completed a strategic review and determined it would sell its private label division, formerly known as Ralcorp. The business is ConAgra's smallest, accounting for a quarter of its sales, and sales at the division were down 6 percent over the last two years. ConAgra said it would turn its focus to cutting costs and growing its consumer brands and Lamb Weston potato products business.

**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 (212) 759.9080 or [tgirardi@htcapital.com](mailto:tgirardi@htcapital.com) or Stephen Tardio (440) 571.330 or [stardio@htcapital.com](mailto:stardio@htcapital.com)

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