

Spring 2015

Food & Beverage Industry

M&A Market Update

At A Glance...

- Most of the same market dynamics that drove record transaction activity in 2014 remain in place at the start of 2015, which bodes well for deal making this year. Although some uncertainty has entered the market around potential interest rate increases, this may be a near-term catalyst.
- Small, better-for-you brands are eating into the market share of large national brands as demographics and eating habits shift.
- The premium grocery channel (e.g. Whole Foods) is growing at ~15% per year, whereas the traditional grocery channel is flat. As such, food and beverage companies are paying increased attention to the premium grocery channel.



HT Capital's Market Observations

Based on pertinent market data and discussions 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:

- U.S. corporations have substantial cash on hand, with 12 straight quarters of rising profits and nearly \$2 trillion in corporate cash reserves. Private equity has historically high levels of dry powder – worldwide over \$1 trillion is available – and over a quarter of fund managers are currently in the market with a new fundraise.
- 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 fourth quarter of 2014 and first quarter of 2015 (for which data was available) was 10.6x. This is a slight increase from the prior two quarters in 2014.
- Overseas markets remain attractive for large North America based acquirers, particularly with the recent strengthening of the dollar. The relatively low recent cross-border transaction volume belies the fact that many North American acquirers continue to search for international businesses that complement their portfolio and provide entry to new faster growing markets.

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Current Industry Trends

➤ **Small, Healthy Brands Muscle in on Big Names**

Small food and beverage companies specializing in natural and organic, better-for-you, and artisanal offerings that are in-line with shifting tastes among consumers distrustful of established food companies products and ingredients are grabbing market share, especially among the millennial demographic. The rise of these smaller companies, helped by growing interest from large food retailers, is eating into demand for brands that for decades were staples in American kitchens. Following in the footsteps of companies like Annie's and Amy's Kitchen, these brands, such as Krave, Udi's and EVOL, have expanded beyond the world of specialty grocers into mainstream supermarkets.

In beverages for example, health consciousness is driving a major redistribution of the market. According to Beverage Marketing, U.S. sales of non-alcoholic beverages rose 2.2% last year, much of it in the bottled water segment. Soft drinks however, including diet soda, posted their tenth straight yearly decline.

➤ **Premium Grocery Channel: A Growth Engine**

Although grocery is flat overall, the premium grocery channel is expanding 15% per year. In a study by L.E.K. Consulting, retailers like Whole Foods, Natural Grocers, Sprouts and The Fresh Market are playing to the hourglass economy and providing a unique shopping experience that consumers love. Despite being small compared to the leading grocery stores, their growth trajectories warrant increased attention from market participants:

- **Premium grocery retailers** should expect a more crowded market going forward, continue to focus on differentiation from competitors, and increase customer loyalty.
- **Traditional grocery retailers** will need to diversify their offerings as premium retailers become more influential and likely more price competitive, particularly in terms of customer segmentation and capital allocation.
- **Food brands** are recognizing premium grocery retailers as a key segment of their growth strategy, and differentiating their offerings in both retail channels. The same strategy that worked with traditional retailers (e.g. heavy promotion/BOGO) may be less effective with premium players.

Forward Looking M&A Drivers

➤ **Many Factors That Drove 2014 Deal Activity Still In Play:** The outlook for 2015 remains positive, as many of the drivers that existed last year remain strong, and offer continued hope for buyers and sellers. The significant amount of cash stockpiled and committed capital gave both corporates and private equity the confidence and ability to execute transactions. Friendly debt markets, low interest rates, and high equity valuations continue to boost deal activity. Many strategic buyers are also conducting portfolio reviews and going back to basics by divesting their non-core assets to focus on faster growing categories and their core competencies.

➤ **Latin America Remains an Attractive Target:** Weakening currencies and opening markets are drawing foreign investors to consider select countries in Latin America, especially Mexico and Colombia. Global companies seek cost efficiencies and to sell more products. Latin America possesses both: cost-favorable production and growing middle class populations. Of the emerging economies in Latin America, Brazil holds the largest population and with the most 'westernized' consumer habits. Despite gloomy predictions for its economy, which is expected to grow by only 0.5% this year, Brazil remains appealing for M&A investors with a long-term time horizon. The devaluation of the Real versus the U.S. dollar should facilitate cross-border deals in 2015, and foreign PE firms have recently announced new funds to invest in Brazil. As of late 2014, according to Mergermarket's "Heat Chart", Latin America had more consumer companies for sale than any U.S. region or Canada.

➤ **An Interest Rate Increase Could Impact Deal Making in 2015:** One big question mark that the M&A market is wrestling with is the impact of a hike in interest rates by the Federal Reserve, which is possible later in 2015. Of course it is clear that an increase will affect the cost of capital, and thus deal valuation, but the increase is likely to be modest and some of its impact is already priced into both equity and long-term debt markets.

M&A Transaction Metrics

Food & Beverage
Some Notable Transactions – Fourth Quarter 2014 and First Quarter 2015

Date	Target Company	Buyer	Transaction Size (\$mm)	TEV / Revenue	TEV / EBITDA
3/27/2015	Gehl Foods, Inc.	Wind Point Partners	Note 4	-	-
3/25/2015	Kraft Foods Group, Inc. (NASDAQGS:KRFT)	H.J. Heinz Holding Corporation	\$55,032.0	3.0x	22.6x
3/13/2015	Flatout, Inc.	T. Marzetti Company, LLC	\$92.0	2.0x	-
3/11/2015	Sager Creek Vegetable Company	Del Monte Foods, Inc.	\$75.0	0.3x	-
3/9/2015	American Beverage Corporation	Harvest Hill Beverage Company	\$55.0	0.5x	6.0x
3/9/2015	Brand Aromatics, Inc.	McCormick & Company, Incorporated (NYSE:MKC)	\$63.0	2.2x	10.0x
3/4/2015	Empire Kosher Poultry, Inc., Remaining 80% Stake	The Hain Celestial Group, Inc. (NasdaqGS:HAIN)	\$57.6	0.6x	-
2/27/2015	Shadow Beverages and Snacks, LLC, 'No Fear' Brand Asset	Mix 1 Life, Inc. (OTCPK:MIXX)	\$12.2	2.9x	-
2/16/2015	Enjoy Life Foods, LLC	Mondelez International, Inc.	-	-	-
1/29/2015	Krave Pure Foods, Inc.	The Hershey Company (NYSE:HSY)	\$200.0	3.0x	-
1/26/2015	MOM Brands Company	Post Holdings, Inc. (NYSE:POST)	\$1,151.7	1.5x	9.5x
12/25/2014	Distant Lands Coffee Company	ITO EN (North America) Inc.	\$83.2	0.6x	-
12/18/2014	Bumble Bee Foods, LLC	Thai Union Frozen Products Public Company Limited (TUF)	\$1,500.0	1.0x	8.6x
12/18/2014	Saputo Bakery Group, Inc.	Canada Bread Company Ltd.	\$103.4	0.9x	7.7x
12/2/2014	Talenti Gelato e Sorbetto	Unilever plc (LSE:ULVR)	\$200.0	2.0x	-
11/21/2014	Noosa Yoghurt, LLC	Advent International Corporation	-	-	-
11/14/2014	Garden Protein International, Inc.	Pinnacle Foods Inc. (NYSE:PF)	\$154.8	3.0x	-
11/6/2014	DSS Group, Inc.	Cott Corporation (TSX:BCB)	\$1,246.5	3.0x	9.5x
Mean				1.8x	10.6x
Median				2.0x	10.6x

Notes:

- 1) Transactions in green are pending
 - 2) TEV = Total Enterprise Value
 - 3) Estimates based on approximated data are italicized
 - 4) Estimated revenue of Gehl Foods - \$250 million
- Sources: Mergermarket and Capital IQ

Select Industry Transaction Activity

➤ On March 25, 2015, investment firms 3G Capital Partners and Berkshire Hathaway announced a deal to create a new company through the merger of H.J. Heinz Co. and Kraft Foods Group. The Kraft Heinz Group, as the new company will be known, will be the world's fifth largest food company measured by annual sales. The transaction, which is expected to close in the second half of 2015, has been valued at approximately \$55 billion, representing a multiple of 3.0 times sales and 22.6 times EBITDA. H.J. Heinz's buyout of Kraft demonstrates how a simple concept with an arcane name is reshaping the U.S. food industry. The transaction highlights 3G Capital Partners' use of zero-based budgeting, an austerity measure that requires managers to justify spending plans from scratch every year. The technique has triggered sweeping cost cuts at 3G-owned companies, including Heinz, and has eliminated hundreds of management jobs and perks such as corporate jets. The cost rationalization technique has drawn praise from activist investors and puts other publicly-held companies on notice.

➤ On March 9, 2015, McCormick & Company acquired Brand Aromatics to expand the breadth of its value-added flavor offerings in its industrial/food service business. The transaction was valued at \$63 million, or 2.3x sales and 10.0x EBITDA, and highlights the growing importance of food ingredient capabilities.

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) or Stephen Tardio (440.571.1330 or stardio@htcapital.com)



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