

# Food & Beverage Industry

## M&A Market Update

### At A Glance...

- Credit markets remain fluid with favorable rates and terms. However, volume declined 15% Q3 vs. Q2 in the high yield market and pricing for leveraged loans has increased. This may be an initial signal of a shift in the favorable trends that have fueled robust M&A and recapitalization activity this year.
- Food input prices generally declined during the third quarter, although the ongoing drought in California has impacted dairy and beef costs.
- Food & Beverage M&A transaction volume and valuation multiples have been markedly higher 2014 YTD versus the same period in 2013.

### HT Capital's Market Observations

Backed with pertinent market data, discussions this year with U.S. and multinational companies and private equity groups that have an interest in the Food and Beverage industry have revealed to HT Capital the following trends:

- Valuation multiples continue to increase on a quarter-on-quarter basis, driven by the fluid debt markets described above, as well as continuing high corporate cash balances and commitments in private equity and family office investment funds. The average Total Enterprise Value-to-EBITDA multiple paid involving food & beverage transactions in the third quarter of 2014 (for which data was disclosed) was 16.3x. This is an increase from the 1st quarter of 2014 where the multiple stood at 13.8x, and the second quarter of 2013 when it was 11.9x.
- Global food, beverage and agribusiness leveraged loan volume totaled \$80 billion in the first half of 2014, a 15% increase versus the prior year. Debt issuers continue to benefit from ample market liquidity, relaxed covenants and low borrowing costs. Depending on size, and the nature of the borrower and transaction, leverage multiples in excess of 6x EBITDA remain feasible. However, the high-yield / leveraged loan market has slowed and experienced some pricing increase recently. This along with recent overall financial markets volatility may signal a shift in trends.

## Current Industry Trends

### ➤ Input Costs Vary

Most commodity food input prices trended lower through the third quarter. These included sugar, wheat, soybean, corn as well as crude oil and gasoline. However, ongoing drought conditions in parts of the U.S. and other producing regions, such as Brazil, have driven up prices for certain agricultural goods. This includes beef, cocoa, dairy and tomatoes. The Producer Price Index for Finished Consumer Foods was up around 5% over 2013, reflecting mainly beef, chicken and egg price increases. The key growing region of California is forecast to incur agricultural related losses of >\$2 billion in 2014, according to the Center for Watershed Sciences at University of California. Also a shortfall in durum wheat crop harvest could result in higher prices for products such as pasta in 2015.

### ➤ Consumer Trends: Millennials and Nutrition

Millennials represent the consumer demographic born between 1981 and 2000, and they now range in age from 14 to 33 years old. According to US Census, they number 85 million and will represent a significant percentage of the workforce and mothers by 2020.

Millennials food preferences are skewed toward healthier, natural / organic, fresh and less processed items than their baby boomer parents. Use of functional foods and beverages as a preventative health measure is high in this age group.

Key consumer trends in 2014 that are driving the market for functional foods and beverages include:

- Specialty nutritional ingredients including: calcium, prebiotics, probiotics, anti-oxidants
- Real ingredients (no artificial flavors / colors, high fructose corn syrup, etc.)
- Hispanic Health (more than half of the 50 million US Hispanic population are trying to eat healthier and boost energy / physical performance – per IFT)
- Protein based foods and beverages
- Food & beverages promoting weight management

## Forward Looking M&A Drivers

➤ **Private Equity Sponsors Continue to Take Advantage of Market Liquidity:** Private equity funds invested in food companies have taken advantage of the M&A market's increased transaction multiples all year to gain liquidity on their investments in many cases on an accelerated timeline.

➤ **Public Company Divestiture Disincentives:** Publicly-traded food companies are generally disincentivized from pursuing divestitures of brands and businesses that are strategically non-core because of 1) usually the resulting earnings-per-share dilution without an earnings replacement in-hand and 2) a lack of a material tax basis (particularly with respect to brand divestitures) in many cases that would result in a large tax upon consummation of a transaction. Despite this, there have been several highly publicized "strategic portfolio reviews" announced recently that may result in divestitures before the end of 2015 where isolated financial or tax considerations are overridden.

➤ **Mainstream Organics:** The acquisition of Annie's by General Mills may just have been a catalyst or defining moment in the evolution of the organic and natural food business that puts more such companies on the acquisition hit list of the major food companies. Healthy eating may now be viewed as a true mainstream trend, and companies like White Wave and Boulder Brands are now viewed as potential takeover candidates by industry analysts.

➤ **Continued Robust Deal Flow Anticipated:** An increase in early stage pipeline deal flow observed earlier this year will translate to a significantly higher food & beverage transaction volume over 2013. This reflects sellers try to take advantage of peaking valuation multiples amidst ample strategic and private equity prospective acquirers flush with cash and debt capacity. While this momentum is expected to carry over into the first quarter of 2015 subject to continued favorable macro-economic factors, a very recent downtick in September of early stage pipeline deal flow could be a harbinger of lower volume toward the middle or end of 2015.

## M&amp;A Transaction Metrics

Food & Beverage  
Some Notable Transactions\* – Second and Third Quarters 2014

Date	Target Company	Buyer	Transaction Size (\$mm)	TEV / Revenue	TEV / EBITDA
9/18/2014	Pabst Brewing Company, Inc.	TSG Consumer Partners; Oasis Beverages Cyprus Limited	\$750.0	0.75x	9.4x
9/17/2014	Turtle Mountain, LLC	The WhiteWave Foods Company (NYSE:WWAV)	\$195.0	1.70x	-
9/10/2014	Windsor Quality Food Company, Ltd	Ajinomoto North America, Inc.	\$800.0	1.20x	10.0x
9/8/2014	Annie's Inc. (NYSE:BNNY)	General Mills, Inc. (NYSE:GIS)	\$823.0	3.90x	38.6x
8/6/2014	Sahale Snacks	J.M. Smucker Co.	-	-	-
8/1/2014	Mighty Leaf Tea Company	Peet's Coffee & Tea, Inc.	-	-	-
7/14/2014	Russell Stover Candies, Inc.	Chocoladefabriken Lindt & Spruengli AG (SWX:LISN)	\$1,400.0	2.33x	14.0x
7/14/2014	All Market Inc. (Vita Coco), 25% Stake	Reignwood Group	\$166.0	3.33x	-
7/10/2014	Unilever PLC, Slim-Fast Brand	Kainos Capital, LLC	-	-	-
7/4/2014	Apple & Eve, LLC	Lassonde Industries Inc. (TSX:LAS.A)	\$147.9	0.74x	9.7x
7/2/2014	Nestle USA, Inc., Juicy Juice Business	Brynmor Partners	\$200.0	0.73x	-
6/30/2014	CytoSport (Muscle Milk)	Hormel Foods Corporation	\$470.0	-	-
6/30/2014	Flagstone Foods	Treehouse Foods, Inc. (NYSE:THS)	\$860.0	1.20x	16.1x
5/29/2014	The Hillshire Brands Company (NYSE:HSH)	Tyson Foods, Inc. (NYSE:TSN)	\$8,932.1	2.14x	15.8x
5/22/2014	Unilever PLC, North America Pasta Sauces Business (Ragu and Bertolli)	Mizkan Holdings Co., Ltd.	\$2,150.0	3.58x	13.0x
5/7/2014	Baptista's Bakery, Inc.	Snyder's-Lance, Inc. (NasdaqGS:LNCE)	\$195.0	1.90x	-
5/7/2014	Snyder's-Lance, Inc., Private Label	Shearer's Foods, Inc.	\$430.0	1.51x	-
4/28/2014	Charter Baking Company, Inc.	The Hain Celestial Group, Inc.	\$61.3	1.02x	-
4/25/2014	Deoleo	CVC Capital Partners	\$1,261.8	1.16x	12.5x
4/21/2014	Protenergy Natural Foods	Treehouse Foods, Inc. (NYSE:THS)	\$154.3	0.77x	-
4/21/2014	Van's International Foods, Inc.	The Hillshire Brands Company (NYSE:HSH)	\$165.0	2.75x	-
4/17/2014	Michael Foods	Post Holdings, Inc. (NYSE:POST)	\$2,499.5	1.28x	9.6x
4/15/2014	Medallion Foods, Inc.	Shearer's Foods, Inc.	\$33.5	1.16x	-
4/3/2014	Specialty Brands of America, Inc.	B&G Foods North America, Inc.	\$155.0	1.82x	7.8x
Mean				1.75x	14.2x
Median				1.40x	12.5x

\* HT Capital Advisors advised parties involved in 5 of these transactions

## Notes:

- Transactions in green are pending  
- TEV = Total Enterprise Value

- Estimates based on approximated data are italicized

Sources: Mergermarket and Capital IQ

## Select Industry Transaction Activity

➤ On September 8, 2014 General Mills announced that it entered into a definitive agreement to acquire Annie's, Inc. (NYSE: BNNY) for \$46 / share in cash. This equates to sales multiple of 3.9x and EBITDA multiple of 38.6x, which was a key driver of overall food & beverage higher average multiples in third quarter. The transaction which is pending closing will expand General Mills' fast-growing natural and organic foods business.

➤ On September 10, 2014 Japanese global food company Ajinomoto said it entered into an agreement to acquire privately held Windsor Quality Holdings for approximately \$800 million. The transaction will help Ajinomoto achieve its objective of becoming the leading Asian/Ethnic Frozen Food Manufacturer in North America. Texas based Windsor brands' include Tai Pai and Jose Ole.

➤ TreeHouse Foods, Inc. (NYSE: THS) announced on June 30, 2014 its acquisition of Flagstone Foods, a leading provider of healthy private label snacks for approximately \$860 million. According to Treehouse's CEO, "Flagstone Foods is ideally situated at the intersection of health and wellness, snacking and the perimeter of the store, and represents an attractive new platform for TreeHouse to enter the on-trend, rapidly growing \$7.1 billion healthy snacks category". The associated valuation multiples (1.2x Sales / 16.1x EBITDA) highlight the growing importance and attractiveness of private label segment.

With over half a century of experience, HT Capital believes it 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 (440.571.1330 or [stardio@htcapital.com](mailto:stardio@htcapital.com))



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