HT CAPITAL ADVISORS, LLC

Fall 2016

Food & Beverage Industry

M&A Market Update

At A Glance…

- Food facility site selectors are more prone than ever to consider green-field sites or clean, non-food facilities. This is especially true for public and private developers looking to build "spec" food buildings that provide utopian configuration and design, without the possibility of pre-existing site contamination.
- Millennials hold clear views on what brands they consider authentic and why, which are not necessarily the same as other age groups.
- Growth in the food and beverage market is being driven by thousands of small firms, not the top CPG companies. Through product innovation, smaller companies are taking advantage of the differences (not disadvantages) between them and larger competitors.

HT Capital's M&A Market Observations

This year, HT Capital has observed the following trends based on relevant market data and interactions with U.S. and multinational companies, along with private equity groups that focus on the food and beverage industry:

- Valuation multiples remain near historic record levels, especially involving highly strategic transactions in "better-for-you" categories. The average Total Enterprise Value-to-EBITDA multiple paid, involving food & beverage transactions, in the second and third quarters of 2016 (for which data was disclosed in our selected sample set) was 12.1x, on par with the same period in 2015.
- The number of completed M&A transactions has decreased. In the second and third quarters of 2016, FactSet identified 122 completed food and beverage transactions in the U.S. and Canada, versus 162 in the same period in 2015, a reduction of almost 25%.
- Anecdotal observations from multiple sources indicate a relatively robust pipeline of actionable opportunities and sales processes underway in the second half of 2016. Typical factors, including quality of assets and timing, will determine whether this activity will correlate to an upswing in completed transactions during the fourth quarter and into early 2017.

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Current Industry Trends

Millennials: What Makes a Brand Authentic?

Watershed Communications recently asked 400 18-35 year-olds what food and beverage brands they find authentic and why. The top five reasons were:

1. **Clean Ingredients.** Real, all-natural, fresh, organic ingredients are expected and demanded.
2. **Quality Product / Great Tasting.** Authentic foods and beverages must still be quality products. Top-shelf ingredients and great flavor are non-negotiable.
3. **True to Mission.** Stating mission is half the battle. Once it's laid out, set the compass and stick to it. Brands must stay true to their claims and slogans.
4. **Culturally Accurate**. Millennials have generally been exposed to global flavors since birth. They appreciate brands that genuinely honor culture and heritage.
5. **Transparency.** Skip the fine print and be upfront in **BIG BOLD** letters. Packaging should expressly state what is in the product and its story.

Innovation Being Driven By Small Firms

The Nielsen Company's 2016 Breakthrough Innovation Report notes that consumer products innovation is being driven by companies outside the top 100. In 2015, the top 25 largest food and beverage companies generated 45% of category sales in the U.S., but drove only 3% of total category growth between 2011-2015, with a CAGR of 0.1%. By contrast, the 20,000 companies below the top 100 drove 49% of all category growth, with a CAGR of 6.3%.

What are smaller firms doing differently? According to Nielsen, they are:

1. Playing "speed chess" by moving much faster than traditional planning cycles.
2. Embracing cost-effective digital sourcing.
3. More focused with being authentic and relevant than size.
4. Disrupting the scale economics of large firms' integrated operations with lean, flexible economics of modular operations.
5. Owner-operators, who immerse themselves in the context of the consumer rather than rely on the efficiencies of reports and subordinates to filter and organize the outside world's messiness.

Guest Column, By Jeffrey J. Counsell, Co-Founder, Global Food Properties[1]

Food Facility Occupancy Trends 2016

Occupancy in food manufacturing and distribution remains in flux. Generally, supply is constrained, particularly for Class A facilities. As consumer demand changes unpredictably, sellers increasingly bundle plant and equipment in a single transaction, particularly in waning high-carb and grain-based sectors. For older, functionally obsolete properties, time-on-market (often measured in years), and discounted pricing, have become transaction drivers.

Demand increasingly turns on size. Expandable facilities upwards of 250,000 square feet are most desirable, as size and throughput act as necessary antidotes to thin margins. Likewise, compliance with evolving food safety regulations is pressuring occupiers like never before. Previous use, historic occupancy and product profiles, and recalls, if any, are among the first data examined. At its extreme, mega-cap manufacturers are reluctant to consider second-generation food facilities in site selection, opting instead for new construction, renovation of temperature-controlled warehouses, or the acquisition of infrastructure heavy non-food related industrial properties. Critically viewed, and increasingly punished by time-on-market and price, are refrigerated production plants more prone to e. coli, listeria, and mold.

In summary, site selectors are more prone than ever to consider green-field sites, or clean non-food facilities, particularly those with concrete walls, 28-foot ceiling clearances, and linear configuration. In contrast, sellers must bake discounted pricing in to all but the best plant sales, as post-closing food-safety and efficiency mandates push investment to extraordinary levels. Ever efficient, the market is realizing this imbalance between supply and demand, with private and public developers looking to build "spec" food buildings that provide the utopian configuration and design, without the possibility of pre-existing contamination. We have every reason to believe this trend will increase as the industry continues to deal with compressed margins and food-safety concerns.

GLOBAL FOOD PROPERTIES

[1]Global Food Properties is a boutique real estate brokerage firm with offices in Chicago and Los Angeles concentrating exclusively on food production and food distribution facilities.

M&A Transaction Metrics

Food & Beverage
Notable Transactions – Second and Third Quarters 2016

Date	Target Company	Buyer(s)	Transaction Size ($mm)	TEV / Revenue	TEV / EBITDA
9/30/2016	Golden Enterprises Inc.	UTZ Quality Foods, Inc.	$144.4	1.0x	16.3x
9/26/2016	Fresh Direct, LLC	J.P. Morgan Investment Management Inc.	$189.0	-	-
9/26/2016	Frontera Foods, Inc.	ConAgra Foods, Inc.	$108.9	*2.5x*	-
9/21/2016	ACH Food Companies, Inc., Spices and Seasonings Business	B&G Foods North America, Inc.	$365.0	-	9.4x
9/8/2016	All Seasons Mushrooms Inc.	Highline Produce Limited	$45.9	-	*8.1x*
8/11/2016	S&D Coffee, Inc.	Cott Corporation	$355.0	-	6.0x
7/25/2016	ConAgra Foods Food Ingredients Company, Inc.	Givaudan SA	$340.0	1.8x	-
7/6/2016	The WhiteWave Foods Company	Danone	$12,539.6	3.0x	24.9x
7/5/2016	Hostess Brands, LLC	Gores Holdings, Inc.	$2,198.4	3.5x	12.1x
6/20/2016	Friendly's Ice Cream, LLC, Manufacturing and retail ice cream business	Dean Foods Company	$155.0	0.9x	-
5/30/2016	Laguna Dairy, S. de R.L. de C.V.	Grupo Lala, S.A.B. de C.V.	$246.0	-	-
5/26/2016	Justin's, LLC	Hormel Foods Corporation	$286.0	-	-
4/29/2016	Boundless Nutrition, LLC	Amplify Snack Brands, Inc.	$30.8	3.5x	-
4/25/2016	Ripple Brand Collective, LLC (barkThins)	The Hershey Company	$300.0	4.3x	-
4/1/2016	Highline Produce Limited	Fyffes plc	$111.8	-	8.1x
Mean				**2.6x**	**12.1x**
Median				**2.8x**	**9.4x**

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 July 7, Danone announced it would acquire The WhiteWave Foods Company through a merger agreement for $12.5 billion in enterprise value including debt and assumption of other liabilities. The deal values WhiteWave, with its stable of alternative dairy beverage brands, at approximately 3x sales and 25x EBITDA. Strategic benefits key to Danone's acquisition of WhiteWave are: 1) creating a leader in alternatives to milk and yogurt that is strongly aligned with consumer trends for healthier and sustainable eating and drinking options; 2) building a stronger North American platform; and 3) driving strong value and delivering attractive financial benefits, both in terms of significant sales growth opportunities and approximately $300 million in EBIT cost saving synergies.

- On May 26, Hormel Foods completed its acquisition of Justin's LLC and its eponymous specialty nut butter brand. Justin's is considered a pioneer in nut butter based snacking and the acquisition allows Hormel to enhance its presence in the specialty natural and organic nut butter category, complementing its *SKIPPY* peanut butter products. The Justin's brand resonates with younger, on-the-go and more health conscious consumers. Justin's will continue to operate out of its office in Boulder, Colorado, as a subsidiary of Hormel's Grocery Products segment. ***Note: HT Capital was the exclusive advisor to Hormel for this acquisition.***

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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