

Food & Beverage Industry

M&A Market Update

At A Glance...

- According to a leading food safety information solutions expert, the humble UPC barcode can help drive the construction of a transparent and digital food supply chain that will facilitate industry participants developing deeper relationships with consumers, and enable long-term, data-driven decision making for a more sustainable food industry.
- E-commerce in the grocery trade is growing at a rate of 10x that of brick-and-mortar stores, and its share is expected to top 10% within a decade, at the expense of traditional supermarkets. Amazon is driving much of this trend, and its recent purchase of Whole Foods is another indicator that it will continue in earnest.

See inside for more detail on these topics



HT Capital's M&A Market Observations

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

- Valuation multiples continued near historically high levels especially for transactions involving target companies with high growth attributes. The average Total Enterprise Value-to-EBITDA multiple for food and beverage transactions in the second and third quarters of 2017 (for which data was disclosed in our selected sample set) was 13.8x, while the average revenue multiple was 2.6x.
- Food and beverage M&A transaction volume picked up materially over the previous two quarters. According to Capital IQ, the second and third quarters of 2017 had 225 announced industry transactions in North America compared to 194 announced transactions in the fourth quarter of 2016 and first quarter of 2017.

Guest Column

By Andrew Kennedy, Co-Founder, FoodLogiQ¹

➤ Building a Transparent, Digital Food Supply Chain

The good old UPC barcode has been around for nearly a half century, but savvy consumers are pushing hard for advancements in the way we track supply chains and deliver product information. The ubiquity of web-connected mobile devices with high-quality cameras enables mobile app developers to leverage the barcode in fresh ways. They can now provide consumers with digital food transparency, creating profound effects on the food industry. Whether they are trying to eat healthy, avoid allergens, support religious beliefs or other dietary convictions, [consumers now want more information](#) about food ingredients, nutrients, allergens, countries of origin, growing methods, production practices, company conduct, and recalls. Food businesses and technology providers who can efficiently and accurately digitize and share transparency information from their supply chain earn the informed consumer's trust and loyalty.

Digital transparency begins with the common [GS1](#) UPC Barcode. This 12-digit number is linked by the manufacturer of a product to its brand, description, country of origin, price, weight, size, nutrients, allergens, production practices and thousands of other attributes and [shared electronically](#). When scanned at retail, just a few of those attributes are displayed on the checkout monitor and printed on consumer receipts.

The ease of using a mobile application to scan a UPC barcode provides consumers with the impression that the information provided is simple to collect. However, nothing could be farther from the truth. Today, most information is collected manually or in spreadsheets. To improve the quality, availability and timeliness of information, the food industry, led by GS1—the originator of the UPC Barcode, is upgrading its systems globally to [identify, capture and share](#) information with trading partners and consumers beginning with three new barcodes. These barcodes attach serial, batch, and lot information to cases of food, but collecting this information can be costly and logistically challenging. Systems such as [FoodLogiQ](#), however, offer easier collection and communication requirements.

The benefits of having real-time product and batch/lot information are numerous and distributed across the supply chain from grower to restaurant or retail store. This level of digital transparency will help food industry participants develop deeper relationships with consumers and enable long term, data-driven decision making for a more sustainable food industry.



¹FoodLogiQ is the leading SaaS provider of food safety compliance, whole chain traceability, and supply chain transparency solutions. It was originally published by the [US Chamber of Commerce Foundation](#).

Current Industry Trends

➤ E-Commerce's Rapid Growth

The e-commerce portion of the grocery trade is growing at almost ten (10) times the annual growth rate of brick-and-mortar stores according to many industry analyst estimates. In fact, projections are that e-commerce activity will account for 10% of all grocery sales within a decade, up from an approximate 2% share currently. Traditional supermarkets' dollar share of sales are expected to suffer the greatest effect, dropping 3.0 percentage points within the next few years to about 35% according to Willard Bishop / Inmar Analytics.

Also of note is the higher spend rate associated with e-commerce. Retailers with click-and-mortar programs, where consumers buy online and pickup at store, are capturing more incremental sales. Households that shop both online and in-shore average a \$141 register ring, whereas those that shop only in-store average a \$102 ring, which is a 38% more incremental dollar sales.

Studies show that e-commerce appeals to non-price sensitive shoppers because of the convenience factor, which creates new opportunities for increasing margin.

Amazon's strategic growth in the grocery trade is fueling much of the e-commerce share gain, and analysts expect this drive to continue with the recent purchase of Whole Foods Market.

M&A Transaction Roster

Food & Beverage
Notable Transactions – Second and Third Quarters 2017

Date	Target Company	Buyer	Transaction Size (\$m)	TEV / Revenue	TEV / EBITDA
9/22/2017	Angie's Artisan Treats, LLC	Conagra Brands, Inc. (NYSE:CAG)	\$250	2.5x	-
9/20/2017	Sager Creek Vegetable Company, Inc.	McCall Farms, Inc.	\$55	-	-
9/19/2017	Bob Evans Farms, Inc. (NasdaqGS:BOBE)	Post Holdings, Inc. (NYSE:POST)	\$1,611	4.1x	29.8x
9/14/2017	Blue Bottle Coffee Company, Inc.	Nestle S.A.	\$425	-	-
9/7/2017	Gertrude Hawk Chocolates, Inc., Ingredients	Barry Callebaut AG (SWX:BARN)	ND	-	-
8/29/2017	Popcorn, Indiana LLC	Eagle Family Foods Group LLC	ND	-	-
8/20/2017	Back to Nature Foods Company, LLC	B&G Foods, Inc. (NYSE:BGS)	\$163	2.0x	9.6x
8/17/2017	Fontanini Italian Meats and Sausages	Hormel Foods Corporation (NYSE:HRL)	\$425	1.7x	-
8/17/2017	Labriola Baking Company	J&J Snack Foods Corp. (NasdaqGS:JJSF)	ND	-	-
8/14/2017	Tasty Bite	Mars Inc.	\$163	0.6x	3.5x
8/12/2017	Del Sol Foods (Brianna's Salad Dressing)	Sabormex, S.A. de C.V.	ND	-	-
7/27/2017	Daiya Foods Inc.	Otsuka Pharmaceutical Co., Ltd.	\$324	5.5x	-
7/20/2017	East Balt, Inc.	Grupo Bimbo, S.A.B. de C.V. (BMV:BIMBO A)	\$650	1.5x	9.3x
7/18/2017	Reckitt Benckiser Group Plc (Food Business)	McCormick & Company, Incorporated	\$4,200	7.4x	20.4x
7/10/2017	L.B. Maple Treat Corporation	Lantic Inc.	\$125	1.1x	10.7x
7/6/2017	Pacific Foods of Oregon, Inc.	Campbell Soup Company (NYSE:CPB)	\$700	3.2x	-
7/3/2017	Stonyfield Farm, Inc.	Groupe Lactalis S.A.	\$875	2.4x	20.0x
6/30/2017	NORPAC Foods, Inc., Canning Business	Seneca Foods Corporation (NasdaqGS:SENE.A)	ND	-	-
6/19/2017	IT'SUGAR, LLC	BBX Sweet Holdings, LLC	\$57	0.7x	8.4x
6/19/2017	Robert Rothschild Farm, LLC	Clearbrook Farms (Glencoe Capital)	ND	-	-
6/8/2017	Rao's Specialty Foods, Inc.	Sovos Brands Intermediate, Inc.	ND	-	-
5/30/2017	Conagra Brands, Inc., Wesson Oil	The J. M. Smucker Company (NYSE:SJM)	\$285	1.2x	9.5x
5/26/2017	Wise Company, Inc.	Bruckmann, Rosser, Sherrill & Co. L.L.C.	ND	-	-
5/24/2017	Kicking Horse Coffee Co. Ltd	Luigi Lavazza S.p.A.	\$128	-	-
5/23/2017	Tillamook Country Smoker, Inc.	Insignia Capital Group, LLC	ND	-	-
5/2/2017	Karoun Dairies, Inc.	Parmalat	\$130	2.4x	-
4/25/2017	Treehouse Foods, Inc., Soup and Infant Feeding Business	Insight Equity	ND	-	-
4/25/2017	AdvancePierre Foods Holdings, Inc.	Tyson Foods, Inc. (NYSE:TSN)	\$4,121	2.6x	16.6x
4/20/2017	Sir Kensington's	Unilever PLC (LSE:ULVR)	\$140*	-	-
4/5/2017	Kar Nut Products Company	Palladium Equity Partners	ND	-	-
Mean				2.6x	13.8x
Median				2.4x	10.1x

Notes:

- Transactions in green are pending
- TEV = Total Enterprise Value
- ND = Not Disclosed
- Estimates based on approximated data are italicized
- *Total consideration may include contingent payments

Sources: MergerMarket, Capital IQ, and HT Capital research

Select Industry Transaction Activity

- **Tyson Foods (NYSE: TSN)** announced in April and completed in June the acquisition of **AdvancePierre Foods (NYSE: APFH)** in a total transaction value of \$4.1 billion. The price, which included over \$1 billion in debt assumption, represented a 2.6x revenue multiple and 16.6x EBITDA multiple. The acquisition of AdvancePierre reflects Tyson's strategic intent to "sustainably feed the world with the fastest growing portfolio of protein packed brands". Concurrently, Tyson announced it will evaluate whether to divest non-core, non-protein focused assets.

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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