HT CAPITAL ADVISORS, LLC

Spring 2016

Food & Beverage Industry

M&A Market Update

HT Capital's M&A Market Observations

HT Capital has observed the following trends 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:

- Valuation multiples have yet to retreat from record levels, due in large part to transactions involving large strategic buyers and high growth targets. The average Total Enterprise Value-to-EBITDA multiple paid involving food & beverage transactions in the fourth quarter of 2015 and first quarter of 2016 (for which data was disclosed in our selected sample set) was 13.3x, a full turn above the 12.2x multiple of the prior two quarters in 2015.
- Despite record multiples, broad middle market deal flow volume dropped at the end of the period. In March, completed deals were down 40% from the same month in 2015, and down 18% from February 2016, according to data from Thomson Reuters. Another source (Mergers & Acquisitions' Mid-Market Index) reflected mixed data, indicating leads for new deals and signed LOIs dropped, but divestitures increased and availability of financing picked up in March.
- As a way to establish early relationship strategies aimed at transforming their portfolios, large multinational food companies are increasingly forming investment arms to take stakes in small, high growth start-ups. The start-ups benefit from having a "big brother" with resources like large, technologically proficient R&D labs as well as consumer insights, customer development, and marketing expertise to build an early national leader in emerging grocery categories.

At A Glance…

- Clean labels, or simpler ingredient lists, have become an important trend as evidenced by their adoption by companies large and small at the recent Natural Products Expo West this past March.
- Many center-of-store categories have lost share to those on the periphery of the store. However, on an aggregate basis center-of-store categories continue to grow, not decline, despite some reports to the contrary.
- Potential headwinds for consumer product companies in 2016 include systemic declines in brand loyalty and ineffective innovation capabilities, uncertainty about consumer spending, and increased regulatory scrutiny.

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Current Industry Trends

- **Clean Labels**

HT Capital professionals who attended this year's Natural Products Expo West in Anaheim encountered clear evidence of one of today's hottest trends in food: clean labels. While Expo West has always been the domain of natural and organic foods with naturally clean labels, older iconic food brands are now hurriedly reformulating their recipes to remove artificial ingredients and chemically derived substances.

Millennial purchasing habits are driving the movement toward clean labels as they approach the age of starting families. Kraft, for instance, is reformulating its Macaroni & Cheese and Velveeta lines. Hormel unveiled a clean label initiative recently as well for its Spam, Dinty Moore and Hormel Chili brands. In addition to in-house changes, large food companies are on the prowl for emerging clean label brands that may be put up for sale, particularly those that have strong consumer goodwill with key demographics and are viewed as authentic brands.

- **Center-of-Store Far From Dead**

While center-of-store sections, comprised of grocery, frozen, dairy and alcohol, have been losing share to categories on the perimeter of the store, they continue to grow and contribute to overall retail store growth according to a recent Nielsen report. Center-of-store has grown 2.2% on a CAGR basis since 2011, though it has lost 1.6% share of total food spend in the past two years as consumers shift more dollars to the produce, deli, bakery, meat and seafood departments.

A key factor driving growth in the center of the store is consumer prevalence of snacking. Six of the top 10 snacks are found in the center aisles. While many shoppers are choosing prepared foods in the deli, center-of-store categories still account for roughly half the plate.

Large center-of-store category gains have come in salty snacks (up 5.1%), "new age" beverages (7%), candy (4.1%), coffee (8.4%), eggs (7.9%), yogurt (6.1%) and nuts (6%). Offsetting those gains are category declines in ready-to-eat cereals (down 2.1% since 2011 on a CAGR basis), soft drinks (-0.7%), gum (-3.1%) and margarine (-4.3%).

Forward Looking M&A Drivers

- **Food Giants and Start-Ups:** Large food companies are increasingly forming business development and venture capital arms in a bid to seek out and learn from start-ups. Food giants like General Mills, Coca-Cola and Campbell Soup are forming these investment/development vehicles to avoid the risk of being outflanked or surprised by hot, young food industry "disruptors". General Mills' 301 Inc., for example, has invested in Rhythm Superfoods, Good Culture, and Beyond Meat just in its first two years.

As the large food companies attempt to transform their product lines toward more fresh, natural options, early investments in start-ups in this area become increasingly important. It gives the large companies an opportunity to build a relationship early and help accelerate start-ups growth, with the possibility that if all goes well the businesses created can become part of the portfolio down the road. Start-ups can draw not only from product or marketing expertise of the larger company, but the technical expertise of an R&D lab as well. Furthermore, having a "big brother" can give some start-ups the chance to become a national leader in a grocery category that doesn't exist yet.

- **Potential Headwinds for Consumer Companies in 2016:** According to a March Deloitte article, a few of the biggest challenges consumer packaged goods companies face this year which could impact performance and M&A postures include:
  - Declines in Brand Loyalty - Fewer than one-third of the brands consumers buy are now "must haves" (will buy at retail price if substitutes are available)
  - Uncertainty About Consumer Spending – US consumer spending expected to stay restrained due to low wage growth and lackluster economic performance in some overseas markets.
  - Ineffective Innovation Capabilities – Difficulties in more rapidly commercializing ideas and products while maintaining current performance and competing against proliferation of nimble new entrants.
  - Increased Regulatory Scrutiny – US and international regulators are increasingly focused on issues such as product safety, sustainability and transparency.

M&A Transaction Metrics

Food & Beverage
Some Notable Transactions – Fourth Quarter 2015 and First Quarter 2016

Date	Target Company	Buyer	Transaction Size ($mm)	TEV / Revenue	TEV / EBITDA
3/23/2016	Vitasoy USA, Inc. (Tofu Business)	Pulmuone Foods Co., Ltd.	$50.0	-	-
2/23/2016	American Fruits & Flavor	Monster Beverage Company	$690.0	*4.1x*	*7.9x*
1/6/2016	EPIC Provisions LLC	General Mills, Inc. (NYSE:GIS)	$100.0	5.0x	-
12/16/2015	Central Roast Inc.	GreenSpace Brands Inc (TSXV:JTR)	$11.0	1.5x	-
12/15/2015	Hemp Oil Canada Inc.	Fresh Hemp Foods Ltd.	$30.6	2.2x	*8.5x*
12/7/2015	Keurig Green Mountain, Inc.	Acorn Holdings B.V.	$14,253.0	3.1x	13.3x
11/24/2015	Boulder Brands, Inc. (Nasdaq:BDBD)	Pinnacle Foods Inc. (NYSE:PF)	$975.0	1.9x	15.5x
11/20/2015	Farmer Brothers Co., Spice Products Division	Harris Spice Company Inc.	$11.0	-	-
11/19/2015	Suntree, LLC	Satori Capital, LLC	$20.0	*0.2x*	-
11/16/2015	thinkThin LLC	Glanbia plc (ISE:GL9)	$217.0	2.6x	*17.0x*
11/2/2015	Ralcorp Holdings Inc. (ConAgra Foods Inc Private Brands segment)	Treehouse Foods, Inc. (NYSE:THS)	$2,700.0	0.8x	-
11/2/2015	Gray & Company, Inc.	Seneca Foods Corp. (NasdaqGS:SENA.A)	$36.5	*0.5x*	-
10/28/2015	Diamond Foods, Inc. (NasdaqGS:DMND)	Snyder's-Lance, Inc. (NasdaqGS:LNCE)	$1,916.0	2.2x	18.3x
10/15/2015	Woolwich Dairy	Saputo	$61.1	1.1x	-
10/15/2015	Island Oasis, Inc.	Kerry Group Plc	$735.0	2.4x	12.5x
Mean				**2.1x**	**13.3x**
Median				**2.2x**	**13.3x**

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

- Pinnacle Foods on November 11, 2015 agreed to buy Boulder Brands for $975 million including the assumption of $265 million of debt. Pinnacle, the owner of old-line brands such as Duncan Hines and Birds Eye, brings into the fold brands such as Udi's gluten-free pizzas and Evol natural frozen dinners in a bid to attract younger shoppers and accelerate growth. Pinnacle's priorities include streamlining Boulder's brand portfolio, realizing benefits of scale in procurement, manufacturing and logistics, and eliminating duplicative costs. Because approximately 40% of the Boulder business was co-manufactured, Pinnacle is looking for opportunities to harmonize the co-manufacturing network or bring manufacturing in-house. From a sales standpoint, Pinnacle says it foresees opportunities to expand Boulder's brands into the conventional grocery channel.

- On January 6, 2016 General Mills announced it had acquired EPIC Provisions, a rapidly growing, premium meat snacks company based in Austin, TX. Terms of the deal were not officially disclosed, however several reports indicated the purchase price was approximately 5x EPIC's revenues of $20 million. For General Mills, the acquisition represented the potential for high growth in a highly "authentic" brand in a new natural snacking category. Two year-old EPIC will operate under the Annie's business. For EPIC, the opportunity to tap into General Mills' resources (while continuing a certain amount of autonomy in Austin) was too good to pass up according to its founders, and will allow it to ramp up its roll-out of new products "over a period of 12 months, which would have taken 20 years" had they stayed independent.

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 (201) 881-6830 or tgirardi@htcapital.com or Steve Tardio at (440) 571-1330 or stardio@htcapital.com

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