

Spring 2018

Food & Beverage Industry

M&A Market Update



HT Capital's M&A Market Observations

At A Glance...

- Market forces are driving disruptive change in supermarkets. Consumer purchase patterns, online shopping, adept discounters and continued rise in private label brands are key trends impacting the supermarket business. Supermarkets are undergoing an evolution and adopting new key characteristics such as fewer, more highly curated aisles and “surprise and delight” sections, all supported by the newest digital technologies.
- The sustainable food market in the U.S. is the largest market for such products in the world, and is significantly outgrowing the overall packaged foods market as sustainable products with ethical labels become a feature of the mainstream consumer market.

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

- Continuing the trend of the past several years, valuation multiples remain high, as strategic transactions in “better-for-you” categories dominate in the upper end of the market. The average Total Enterprise Value-to-EBITDA multiple paid, involving food & beverage transactions, in the fourth quarter of 2017 and first quarter of 2018 (for which data was disclosed in our selected sample set) was 13.5x, virtually identical to the prior six months average multiple of 13.8x.
- Food and beverage M&A transaction volume was down in the last period. According to Capital IQ, the fourth quarter of 2017 and first quarter of 2018 saw 189 announced industry transactions in North America, compared to 236 in the second and third quarters of 2017. We believe this recorded decline in M&A deal volume likely reflects only a temporary respite, as underlying fundamentals for 2018 remain favorable, bolstered by lower corporate tax rates.

Tom Girardi
Managing Director
(212) 319-3701
tgirardi@htcapital.com

Steve Tardio
Managing Director
(440) 571-1330
stardio@htcapital.com

Current Industry Trends

➤ The Evolving Supermarket

The traditional supermarket layout and function is being rethought now more than perhaps ever, in response to wider consumer and technology trends. In a report by Forbes who interviewed industry expert John Karolefski of GroceryStories.com, “the stores that survive will be the ones that meet the expectations and desires of the changing consumer”. Trends to watch for in 2018 include more online shopping options, mobile payment acceptance, meal kits and in-store drinking and dining.

In January 2018, Reuters reported on Amazon’s opening of its checkout-free grocery store to the public after more than a year of testing. The store known as Amazon Go, located in Seattle, relies on cameras and sensors to track what shoppers remove from the shelves, and what they put back. There is no longer a need for cash registers and checkout lines because customers are billed after leaving the store using credit cards on file.

Looking even further down the road, Symphony RetailAI, a provider of artificial intelligence-enabled decision platforms, solutions and insights for retailers and CPG manufacturers, recently announced key findings about the market forces driving radical disruption in supermarkets, along with suggestions on how the grocery industry can transform itself. Supermarkets are being driven by key consumer trends such as:

- Large weekly shopping trips displacing online shopping and preference for prepared foods
- Amazon’s disruption through acquisition of Whole Foods.
- Growth of private label brands.
- Strong competition from discounters Aldi, LIDL and Walmart.

Distinct characteristics of “Supermarket 2020” stores that address these trends and others included:

- Stores will have less than 10 aisles instead of

today’s 15+, with a product range of fewer than 10 highly curated SKUs per category. A million SKUs can then be offered online as part of a multichannel strategy.

- Stores may remove the center aisles to make room for prepared foods, on which shoppers spend 3-4x more.
- A special products aisle can offer a “surprise and delight” section that engages shoppers with products that change twice a week.
- Grocers can recreate a farmer’s market in every store, supplied by local and regional farms.
- Private label will represent 40-45% of SKUs, up from 18-20% today.
- Stores will offer shoppers convenient tools such as click & collect, 3D store navigation, and AI-enabled, real-time basket cost reduction offers.

➤ The Sustainable Food Market in the U.S.

Manufacturers and retailers have both been responding to demand and leading the trend of food sustainability in the U.S. as it steadily becomes a feature of the mainstream consumer market. How big is the trend and the market?

Definitions of sustainable food can vary, but according to provider of market and consumer data Statista, it generally refers to food that is produced using methods that protect the environment and welfare of the people producing them. Euromonitor International’s related Ethical Labels food and beverage database estimated the U.S. market for these products was \$262.5 billion in 2017.

This sizable market is expected to outpace growth in the overall packaged foods sector. Euromonitor forecasts “retail value sales of ethical claim products will increase year-on-year by 4% in the U.S. between 2018 and 2020 as increased awareness, availability and affordability continue to drive consumer interest in ethical food purchases”.

M&A Transaction Roster

Food & Beverage
Notable Transactions – Fourth Quarter 2017 and First Quarter 2018

Date	Target Company	Buyer	Transaction Size (\$m)	TEV / Revenue	TEV / EBITDA
3/15/2018	Concord Premium Meats and 3 Other Companies	Premium Brands Holdings Corporation (TSX:PBH)	\$174.0	0.9x	-
2/27/2018	La Mexicana Food Products	Italian Rose Garlic Products (Blue Point Capital Partners)	-	-	-
2/20/2018	Del Monte Processed Fruit And Vegetable Business In Canada	Bonduelle SA (ENXTPA:BON)	\$34.3	0.7x	-
2/20/2018	TCHO Ventures, Inc.	Ezaki Glico Co.,Ltd. (TSE:2206)	-	-	-
2/12/2018	Crystal Rock Holdings, Inc. (AMEX:CRVP)	Cott Corporation (TSX:BCB)	\$34.3	0.6x	6.7x
2/6/2018	Mann Packing Co., Inc.	Del Monte Fresh Produce N.A., Inc.	\$360.9	0.7x	-
2/2/2018	Maraschino Cherry Business of Burnette Foods, Inc.	Seneca Foods Corporation (NasdaqGS:SENE.A)	-	-	-
2/1/2018	Dole Food Company, Inc.	Total Produce plc (ISE:T7O)	\$300.0	0.4x	8.6x
1/30/2018	California Natural Products Inc.	Gehl Foods, LLC (Wind Point Partners)	-	-	-
1/29/2018	Dr Pepper Snapple Group, Inc. (NYSE:DPS)	Keurig Green Mountain, Inc. (Maple Parent Hldgs.Corp.)	\$23,057.1	-	-
1/16/2018	U.S. Confectionary Business of Nestlé S.A.	Ferrero International S.A.	\$2,800.0	3.3x	22.0x
1/9/2018	Atlanta Cheesecake Cafe, LLC	Dessert Holdings (Gryphon Investors Inc)	-	-	-
1/4/2018	The Icelandic Milk & Skyr Corporation	Groupe Lactalis S.A.	\$300.0	-	-
12/21/2017	Sandwich Bros. Of Wisconsin Business of Kangaroo Brands, Inc.	Conagra Brands, Inc. (NYSE:CAG)	\$87.0	1.5x	-
12/20/2017	Galaxy Nutritional Foods, Inc.	GreenSpace Brands Inc. (TSXV:JTR)	\$17.8	1.1x	-
12/19/2017	Alter Eco, Inc.	NextWorld Evergreen	-	-	-
12/18/2017	Amplify Snack Brands, Inc. (NYSE:BETR)	The Hershey Company (NYSE:HSY)	\$1,527.3	3.9x	17.4x
12/18/2017	Snyder's-Lance, Inc. (NasdaqGS:LNCE)	Campbell Soup Company (NYSE:CPB)	\$6,113.6	2.7x	18.3x
11/30/2017	Squirrel Brand LP., Certain Assets	John B. Sanfilippo & Son, Inc. (NasdaqGS:JBSS)	\$31.5	0.9x	-
11/30/2017	Field Roast Grain Meat Co., Inc.	Maple Leaf Foods Inc. (TSX:MFI)	\$120.0	3.2x	-
11/29/2017	KIND LLC (minority)	Mars, Incorporated	\$4,000.0	5.6x	-
11/27/2017	Deep River Snacks	Arca Continental, S. A. B. de C. V. (BMV:AC *)	-	-	-
11/22/2017	Raybern Foods, LLC, Shaw Bakers (50%), and Buddy's Kitchen	Premium Brands Holdings Corporation (TSX:PBH)	\$156.5	1.4x	-
11/20/2017	Decacer	L.B. Maple Treat Corporation (Lantic Inc.)	\$31.3	-	8.2x
11/14/2017	Nonni's Foods LLC	Vestar Capital Partners, Inc.	-	-	-
11/3/2017	Chameleon Cold Brew, LLC	Nestlé USA, Inc.	-	-	-
11/3/2017	Original Philly Holdings, Inc.	Tyson Foods, Inc. (NYSE:TSN)	-	-	-
11/2/2017	Richelieu Foods Inc.	Freiberger USA Inc.	\$435.0	1.3x	-
11/2/2017	Tazo Tea Company	Unilever United States, Inc.	\$384.0	3.4x	-
11/1/2017	Montchevre (Betin, Inc)	Saputo Inc. (TSX:SAP)	-	-	-
10/31/2017	Columbus Manufacturing, Inc.	Hormel Foods Corporation (NYSE:HRL)	\$850.0	2.8x	-
10/27/2017	Standard Functional Foods Group, Inc.	Hearthside Food Solutions LLC (Goldman Sachs & Vestar)	-	-	-
10/26/2017	Inventure Foods, Inc. (NasdaqGS:SNAK)	Utz Quality Foods, LLC (C. Dean Metropoulos & Co.)	\$167.3	0.6x	-
10/18/2017	Ferrara Candy Company, Inc.	Group Ferrero	-	-	-
10/6/2017	Chicago Bar Company LLC	Kellogg Company (NYSE:K)	\$600.0	5.0x	13.0x
Mean				2.2x	13.5x
Median				1.4x	13.0x

Select Industry Transaction Activity

- On December 18th, 2017, **The Hershey Company (NYSE:HSY)** entered into a definitive agreement to acquire **Amplify Snack Brands, Inc. (NYSE:BETR)**, producer of the Skinny Pop brand, for a total deal value of \$1.53 billion. The acquisition positions Hershey with the #2 share in the attractive RTE popcorn category, which has a CAGR in excess of 14% over the past five years.

Notes:

- Transactions in green are pending
 - TEV = Total Enterprise Value
 - ND = Not Disclosed
 - Estimates based on approximated data are italicized
- Sources:** MergerMarket, Capital IQ and HT Capital research

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

CAPITAL ADVISORS, LLC

New York Cleveland Boca Raton
 (212) 759-9080

<http://www.htcapital.com>

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