INDUSTRY OUTLOOK / March 2019

FOOD, BEVERAGE AND AGRIBUSINESS

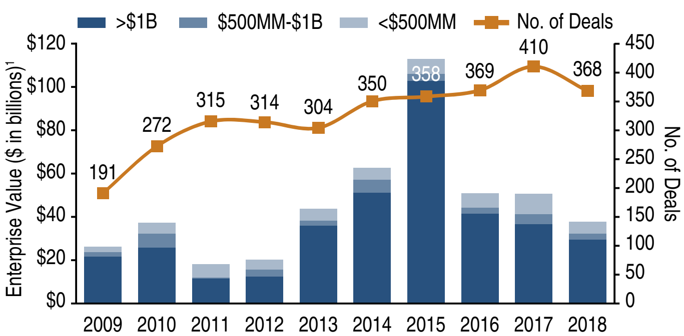
INVESTMENT BANKING

2018: Year-End Review

M&A Overview

2018 marked yet another busy and transformative year for the food, beverage and agribusiness industry as disruption, repositioning and 'finding outlier growth' continued to dominate the merger and acquisition ("M&A") headlines. When all was said and done, approximately $38 billion of U.S. M&A deals were announced with deals over $1 billion accounting for the vast majority of dollar volume and only one mega-deal north of $10 billion to note (Conagra Brands' $10.9 billion acquisition of Pinnacle Foods). While the number of deals (368) was down marginally year-over-year, activity was robust and in line with the five-year average.

CHART 1 | **Food, Beverage and Agribusiness M&A Volume (2009 – 2018)**



Source: S&P Capital IQ.
1. Only includes deals with disclosed deal value.

Targets in the protein (Keystone Foods and National Beef), specialty ingredients (Frutarom), pet food (Ainsworth and Blue Buffalo), confectionery (Nestle's candy business) and packaged food (Schwan and Pinnacle Foods) sectors comprised much of the dollar volume and addressed a number of strategic rationales on both sides of the transactions including, but not limited to, category extensions, channel diversification, consolidation and portfolio rationalization. While strategic acquirers dominated transaction volume, private equity continued to play a critical role in reshaping the competitive landscape.

IN THIS ISSUE

Some notable industry highlights and trends in 2018 include:

Continued Consolidation in Specialty/Food Distribution

Food distribution M&A continued to be an active sector within the value chain with several large strategics, such as US Foods (NYSE: USFD), United Natural Foods (NYSE: UNFI) and Total Produce (ISE: T70), leading the way with multibillion dollar consolidation plays while middle-market financial sponsors, such as Arable Capital, Hammond Kennedy Whitney, Highview Capital, Huron Capital and KCM Capital, among others, made platform investments and/or completed add-ons in the sector, a trend that's accelerated since early 2015. Healthy consumption trends, the proliferation of food safety, margin enhancement, geographic reach, build-out-the-store strategies and market fragmentation continue to broadly drive M&A activity within the sector.

Dislocation in Protein

Sustained growth in protein consumption, lower average feed costs, production capacity expansion, continued rise in organic and ABF (animal protein) capacity and the surge in alternative protein consumption have contributed to elevated financing and M&A activity within the sector. Plant-based proteins gained considerable momentum in 2018 and according to CB Insights, the global market is now estimated at $11 billion. Several market participants have begun to look beyond dairy and meat alternatives, which have been on the shelves for several years, to other channels such as foodservice and plant-based alternatives

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TABLE 1 | **Selected Food, Beverage and Agribusiness M&A Transactions (2018)**

Date	Target	Acquirer	Sector	Rationale	Enterprise Value ($MM)	EV / Revenue	EV / EBITDA[1]
Dec-18	Wesson Oil Brand (Conagra Brands Inc.)	Richardson International Ltd	Packaged Foods	Brand Dominance	$180	–	–
Dec-18	Simply Fresh Foods Inc.	Lakeview Farms LLC	Packaged Foods	Brand Dominance	–	–	–
Dec-18	Yucatan Foods LP	Apio Inc. (nka: Curation Foods Inc.)	Packaged Foods	Brand Dominance	$80	1.33x	13.3x
Nov-18	Blommer Chocolate Co.	Fuji Oil Holdings Inc.	Ingredients	Consolidation	$750	0.83x	13.4x
Nov-18	Pearson's Candy Co.	Spell Capital Partners LLC	Candy, Nuts & Snacks	Private Equity	–	–	–
Nov-18	The Schwan Food Co. Inc.	CJ Foods America Corp.	Packaged Foods	Brand Dominance	$2,300	–	–
Nov-18	Canyon Bakehouse LLC	Flowers Foods Inc.	Baking	Brand Dominance	$205	2.56x	–
Oct-18	Noosa Yoghurt LLC	Sovos Brands Intermediate Inc.	Packaged Foods	Consolidation	–	–	–
Oct-18	Fleischmann's Vinegar Co. Inc.	Kerry Group plc	Packaged Foods	Consolidation	$398	2.33x	–
Oct-18	Morley Candy Makers LLC d/b/a Sanders	Kar Nut Products Co. (Palladium Equity Partners)	Candy, Nuts & Snacks	Brand Dominance / Private Equity	–	–	–
Oct-18	SlimFast/Health and Nutrition Systems	Glanbia plc	Packaged Foods	Brand Dominance	$350	1.65x	14.6x
Sep-18	Pirate Brands LLC	Amplify Snack Brands Inc.	Candy, Nuts & Snacks	Brand Dominance	$420	–	–
Sep-18	Ciao Bella Gelato Co. Inc.	High Road Craft Ice Cream Inc.	Packaged Foods	Brand Dominance	–	–	–
Sep-18	Ready Seafood Co.	Premium Brands Holdings Corp.	Protein	Consolidation	–	–	–
Aug-18	Keystone Foods LLC	Tyson Foods Inc.	Protein	Consolidation	$2,400	0.96x	9.2x
Aug-18	Pizza Crust Business of Tyson Foods Inc.	Peak Rock Capital	Baking	Private Equity	–	–	–
Aug-18	Dakota Growers Pasta Co. Inc.	THL Equity	Packaged Foods	Private Equity	$400	–	–
Jul-18	Food Group Cos. of Services Group of America	US Foods Inc.	Distribution & Wholesale	Consolidation	$1,800	0.56x	8.6x
Jul-18	Supervalu Inc.	United Natural Foods Inc.	Wholesale Grocery	Consolidation	$2,907	0.19x	4.8x
Jul-18	McCann's Brand of Premium Irish Oatmeal	B&G Foods Inc.	Packaged Foods	Brand Dominance	$32	2.28x	–
Jul-18	U.S. Baking Business of The J. M. Smucker Co.	Brynwood Partners	Baking	Private Equity	$375	1.01x	–
Jun-18	Pinnacle Foods Inc.	Conagra Brands Inc.	Packaged Foods	Brand Dominance	$10,904	3.45x	12.1x
Jun-18	Tecumseh Poultry LLC	Tyson Foods Inc.	Protein	Brand Dominance	–	–	–
May-18	Frutarom Industries Ltd.	International Flavors & Fragrances	Ingredients	Consolidation	$7,080	4.90x	14.3x
May-18	Tate's Bake Shop Inc.	Mondelez International Inc.	Candy, Nuts & Snacks	Brand Dominance	$500	–	–
Apr-18	Old Orchard Brands LLC	Lassonde Industries Inc.	Packaged Foods	Brand Dominance	$159	1.54x	10.1x
Apr-18	Hearthside Food Solutions LLC	Charlesbank Capital Partners LLC	Candy, Nuts & Snacks	Private Equity	$2,400	4.93x	11.3x
Apr-18	National Beef Packing Co. LLC	Marfrig Global Foods SA	Protein	Consolidation	$2,300	0.32x	4.4x
Apr-18	Ainsworth Pet Nutrition Parent LLC	NU Pet Co. (The J.M. Smucker Co.)	Pet Food	Brand Dominance	$1,900	–	–
Mar-18	Naturex SA	Givaudan SA	Ingredients	Consolidation	$1,819	3.61x	20.9x
Mar-18	Concord Premium Meats Ltd, The Meat Factory Ltd., Country Prime Meats Ltd and Frandon Seafood Inc.	Premium Brands Holdings Corp.	Protein	Brand Dominance	$174	0.85x	–
Feb-18	Blue Buffalo Pet Products Inc.	General Mills Inc.	Pet Food	Brand Dominance	$8,044	6.30x	22.0x
Feb-18	Mann Packing Co. Inc.	Del Monte Fresh Produce NA Inc.	Distribution & Wholesale	Consolidation	$361	0.67x	–
Feb-18	Dole Food Co. Inc.	Total Produce plc	Fruits & Vegetables	Consolidation	$1,902	0.42x	8.0x
Jan-18	U.S. Confectionery Business of Nestlé SA	Ferrero International SA	Candy, Nuts & Snacks	Brand Dominance	$2,800	3.11x	20.7x

Note: Mesirow Financial did not represent any of the acquirers or targets in connection with the transactions noted on this page and is not currently representing any of the listed acquirers or targets.
Sources: Mesirow Financial and S&P Capital IQ.
1. NTM and / or synergy-adjusted as applicable.

to seafood, aimed at consumers who have allergies or do not eat raw fish for safety or sustainability reasons. Some of the most successful and fastest growing plant-based protein companies are those that have positioned themselves as providers of mainstream products that serve as alternatives and not simply replacements for animal protein rather than catering solely to vegans and vegetarians who represent less than five percent of the U.S. population, according to a 2018 Gallup poll. This mainstream approach enables market participants to appeal directly to a broad range of consumers, including those who typically eat animal proteins, and compete directly in the $1.4 trillion global meat industry.

General Mills (NYSE: GIS), through its venture fund, 301 Inc., has been active in the plant-based protein space since 2015 when it backed Beyond Meat, a California-based alternative protein company, which filed its S-1 in the fall. Traditional meat companies, most notably Tyson Foods (NYSE: TYN), have chosen to promote plant-based and animal protein rather than trying to compete against it. Tyson also invested in Beyond Meat on two separate occasions in its efforts to position itself as a “global protein company” rather than a meat company.

Earlier this year, Cargill invested in PURIS, the largest producer of pea protein in North America, which plans to open a second U.S. plant. Ingredients companies, Archer Daniels Midland (NYSE: ADM) and Farbest Brands, will also open new pea protein facilities, while Roquette, a global leader in plant-based ingredients and a pioneer of new vegetal proteins, will expand upon its October 2018 acquisition of a pea protein processing unit.

Beyond Meat Files Form S-1

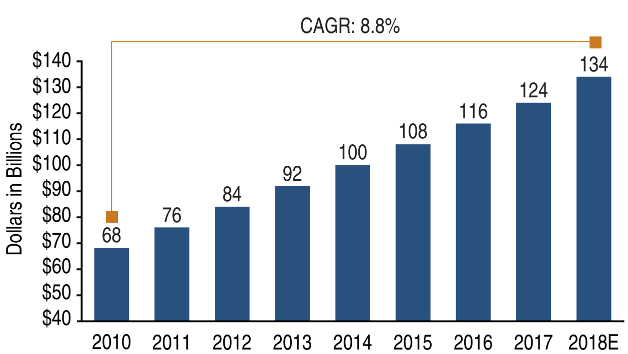
Beyond Meat is planning to go public and will be listed on the Nasdaq under the ticker "BYND" with an initial public equity offering of $100 million, a number that analysts say should imply a valuation north of $1 billion. Beyond Meat, which was founded in 2009, is best known for its pea protein-derived Beyond Burger® which is a meatless burger made to look, cook, smell and taste like traditional ground beef, and sold primarily in the retail grocery meat case and through foodservice. According to FactSet, the IPO marks the first food company public offering (excluding restaurants and retail grocery) since AdvancePierre Foods (NYSE: APFH) went public in 2016. Beyond Meat generated net revenue of $68 million during the LTM period ended September 30, 2018 and posted an EBITDA loss of $20.1 million according to the company's S-1 dated November 16, 2018.

Health and Wellness is the New Norm

Clean label consumers continue to seek out safe, better-for-you ("BFY"), free-from foods and brands with a mission and purpose. Healthy lifestyles and intensive fitness routines have become the new status symbols as Millennials, the United States' largest generation, are spending more on products and experiences promoting well-being and health than any prior generation. With U.S. healthcare costs on the rise and life expectancy at historical highs, many Americans question the sustainability of the current system and seek to avoid the over-reliance on pharmaceuticals as they age. In 2018, we have seen more consumer emphasis on digestive health products such as probiotics, BFY waters, alternative proteins and free-from foods. Companies have been capitalizing on the wellness trend by moving to natural ingredients and promoting the sensory and functional benefits of their products.

The natural and organic packaged food segment has experienced strong compound annual growth of 8.8 percent over the last eight years. This has fueled a flurry of strategic and sponsor-led M&A transactions at historically high valuations. According to SPINS data, the global market for these goods is estimated to have exceeded $134 billion in 2018.

CHART 2 | **Global Natural Products Industry Revenue (2010 – 2018E)**



Source: SPINS – Investing in Natural, February 2018.

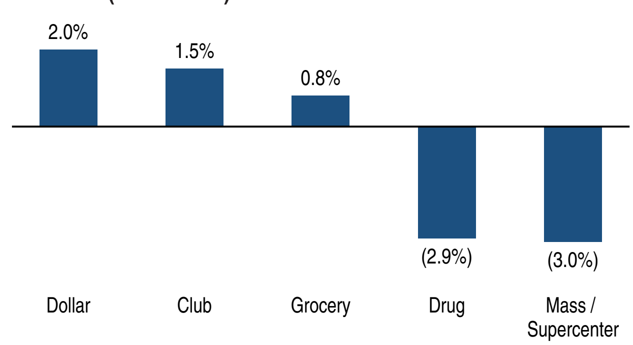
Freight Impacting Margins

Processors, marketers, distributors and retailers are exploring alternative approaches to shipping as transportation costs and driver shortages continue to rise in the wake of historically high demand for consumer goods. According to *The Wall Street Journal*, operators are contemplating a variety of cost-optimizing solutions, such as investing in their own truck fleets, reducing the frequency of pickups/deliveries and seeking better rates through freight technology and consolidation. Experts suggest the current environment represents "the perfect storm" of high consumer demand and lower trucking supply, both of which are having a significant impact on profit margins and causing what some say is the "most acute cost pressures" for major players.[1] Further, the regulatory climate enforces a federal law requiring all interstate trucking companies and operators to install an electronic logging device (ELD) that records drive-time and limits drivers to no more than 11 hours of drive-time in a 14-hour period. This ensures driver and roadway safety, and comes at both a benefit and a cost to operators and consumers.

Changing Retail Grocery Landscape

The U.S. grocery industry is experiencing some of the most radical changes since supermarkets first emerged in the 1930s. Consumers are highly choice-driven in part due to value-seeking behavior, which is tied to changing demographics, and unique and continued consumer preferences for specialty, clean label and BFY foods, among other factors. As grocers in competing subchannels continue to fight for foot traffic, today's average consumer makes 1.6 trips per week to shop for groceries and typically shops within five sub-channels to meet their needs.[2]

CHART 3 | **Total CPG – Trips by Channel, Year-over-Year Growth (2017 – 2018)**



Source: IRi Report – Navigating The Transformation, May 2018.

Disruptors, such as Amazon and discount/everyday low price retailers, such as Walmart and recent U.S. entrant, Lidl, have been integral in responding to changing shopper preferences for convenience, value and technology-enabled experiences, such as checkout-free environments, and home delivery and pick-up alternatives.

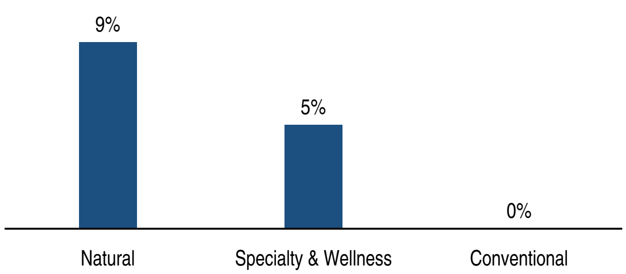
1 Source: Forbes.com.
2 Source: FMI Trends Report.

Today, many marketing areas are largely overstored and highly competitive, suggesting that structural changes in the retail grocery sector will continue and result in more store rationalization, as multiple subchannels chase a finite pool of the grocery-consuming dollar. One can clearly point to the retail grocery M&A and bankruptcy markets over the last decade as further evidence of major realignment within the industry.

Some notable highlights in 2018 pointing to continued realignment within the industry include:

- Southeastern Grocers, the Florida-based operator of supermarket chains Winn-Dixie and Bi-Lo, filed for bankruptcy in March 2018 and announced its plans to close almost 100 stores. The reorganized company emerged from bankruptcy roughly three months later with 575 stores and plans to remodel 100 units in 2018.
- SpartanNash (Nasdaq: SPTN), one of the largest wholesalers to independent retail grocery stores and institutional customers, announced the acquisition of Martin's Super Markets Inc., a 21-unit Indiana-based independent conventional grocery chain. According to the company, the acquisition further emphasized SpartanNash's commitment to its corporate retail business.
- Aldi, one of Lidl's primary competitors in Europe and the U.S., announced it is looking to expand by approximately 700 stores, significantly increasing its selection of fresh, organic and single-serve products by up to 40 percent. The investment strategy also includes in-store bakery makeovers and will bring the total number of Aldi locations to approximately 2,500 units by 2022.
- Lidl reinforced its U.S. growth strategy, albeit counter to its original "organic" growth plans, by announcing it would acquire Best Market, a 27-store New York-based grocery chain. The transaction is expected to close in early 2019.

CHART 4 | **Three-year Sales Growth by Retail Channel (2015 – 2018)**

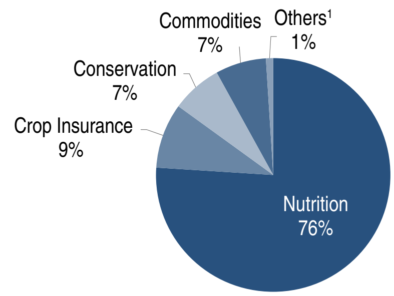


Source: SPINS – Investing in Natural, February 2018.

Agriculture Improvement Act of 2018

Congress and President Trump signed the Agricultural Improvement Act of 2018 (the "Farm Bill") into law on December 20, 2018. The Farm Bill is the primary food, nutrition and agricultural policy tool of the federal government and it will remain in effect until it comes up for renewal in 2023.

CHART 5 | **2018 Farm Bill Spending by Category**



Source: American Farm Bureau Federation.
1. Includes trade, credit, rural development, research and extensions, forestry, horticulture and miscellaneous.

Perhaps the most notable and public change to the Farm Bill was the removal of hemp from the DEA's controlled substance list, classifying it as a legal "agricultural commodity" to be regulated by the federal government. This opens the door for hemp farmers to have access to banking, crop insurance, grants and other federal programs and further fuels the notion that cannabis is one of the hottest topics in the food and agribusiness industry. Ultimately, the Farm Bill legalizes hemp, but it doesn't create a system in which people can grow it as freely as they can grow produce. Moving forward, hemp will be a highly regulated crop in the U.S. for both personal and industrial production. Further, states will now have to create their own regulatory frameworks subject to federal approval. There is a lot to learn about this industry which is still in its infancy, even as the stigma associated with CBD- and THC-infused products continues to diminish.

Outlook for 2019

Guidance for the food, beverage and agribusiness industry in 2019 remains cautiously optimistic with increasing changes to consumer preferences and the expected implementation of food safety regulations. While the factors contributing to a strong M&A environment remain intact, unforeseen macroeconomic factors may provide a relative headwind to deal-making activity in the future; however, there is no short-term belief that the boom will not continue through 2019.

Sector Spotlight: Specialty Ingredients

The shift from sensory to functional ingredients in line with the health and wellness trend will continue to drive M&A volumes and valuations as large players target smaller, innovative players.

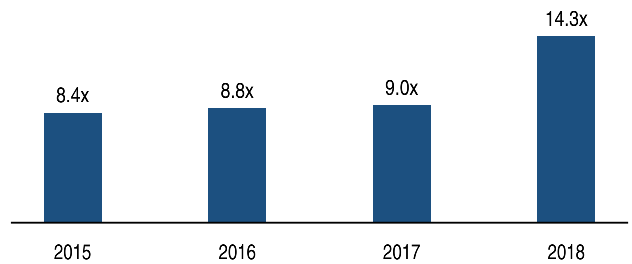
M&A volume in the specialty ingredients sector has increased steadily over the last five years as strategic acquirers are using M&A to expand into new categories and markets, strengthen capabilities and access new technologies. In 2018, 34 M&A deals accounted for a total disclosed transaction value of $12.7 billion and a median EV / EBITDA multiple of 14.3x (*see Chart 6*).

Private equity firms are targeting food ingredients companies due to their high margins and significant sustainable growth potential, which provides financial support for leveraged buy-and-build strategies. As a result, private equity firms are paying historically high multiples for platform acquisitions. Furthermore, these firms are increasingly seeking add-on acquisitions to lower the blended multiple for platforms.

Transaction multiples in this sector have ranged from 5.8x to 24.0x over the last four years, which are among the highest in the food, beverage and agribusiness industry. These lofty valuations can be attributed to a variety of key value drivers, including:

- **Shift from sensory to functional.** Participants seeking to take advantage of increasing demand for healthier food and beverage products is driving M&A as developers of functional ingredients with proven nutritional benefits continue to be attractive acquisition targets.
- **Innovation is vital to the industry.** Technology is a key differentiator of margins and growth, and addresses impact on operating costs, product efficacy, convenience and quality.
- **Highly fragmented market.** Consolidators are in search of niche, value-added players with strong innovation capabilities; however, these companies may lack the resources or scale to grow aggressively.
- **Increasing consumer health awareness.** High-profile food scares, retailer leverage and the need for consumer reassurance are creating significant opportunities for players who can support clean label claims and growing demand for enhanced natural and organic products.

CHART 6 | **Specialty Ingredients Median EV / EBITDA Multiples (2015 – 2018)**



Sources: Mesirow Financial and S&P Capital IQ.

Some notable specialty ingredients acquisitions in 2018 are shown below.

TABLE 2 | **Selected Specialty Ingredients Transactions (2018)**

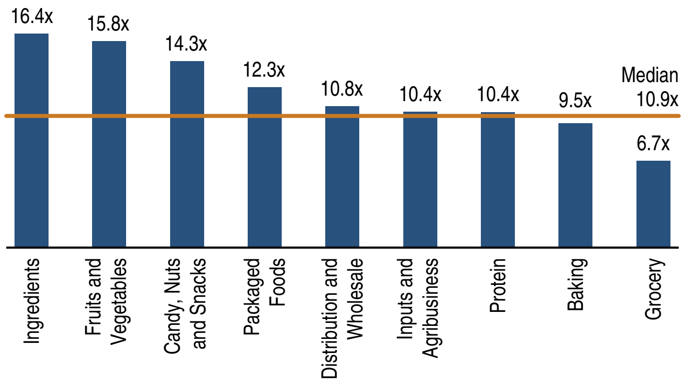
Date	Target	Acquirer	EV / EBITDA[1]	Description
Oct-18	Frutarom	IFF International Flavors & Fragrances	14.3x	Processor / wholesaler of ingredients and flavors
Sep-18	Naturex	Givaudan	20.9x	Natural ingredients processor / wholesaler
Sep-18	Florida Food Products	MidOcean Partners	–	Natural ingredients processor / wholesaler
Jul-18	Earth Circle Organics	Cambridge Commodities Ltd	–	Distributor of raw and organic ingredients / superfoods
Jul-18	HT Griffin Food Ingredients	Caldic / Goldman Sachs	–	Processor / distributor of flavors and ingredients
Apr-18	Nebraska Cultures	UAS Labs / Lakeview Equity	–	Probiotic ingredients processor
Mar-18	Lentz	JM Swank / Platinum Equity	–	Ingredients distributor
Jan-18	California Natural Products	Gehl Foods / Wind Point Partners	–	Natural ingredients processor

Note: Mesirow Financial did not represent any of the acquirers or targets in connection with the transactions noted on this page and is not currently representing any of the listed acquirers or targets.
Source: S&P Capital IQ.
1. NTM and / or synergy-adjusted.

Public Company Trading Analysis by Subsector

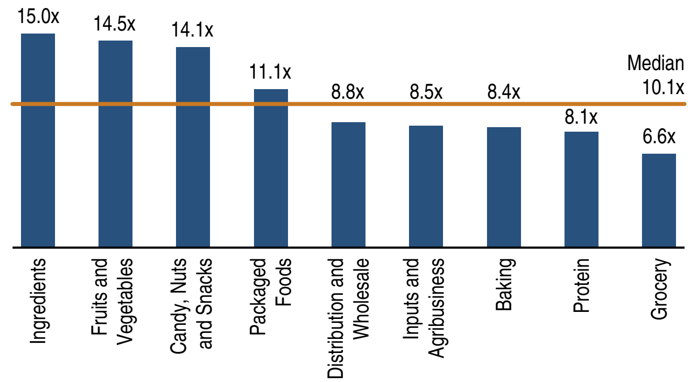
Multiples, Margins and Growth

CHART 7 | **Enterprise Value / LTM EBITDA**



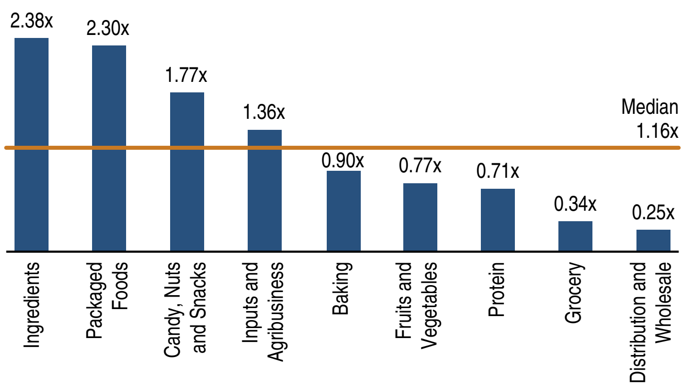
Source: S&P Capital IQ.

CHART 8 | **Enterprise Value / NTM EBITDA**



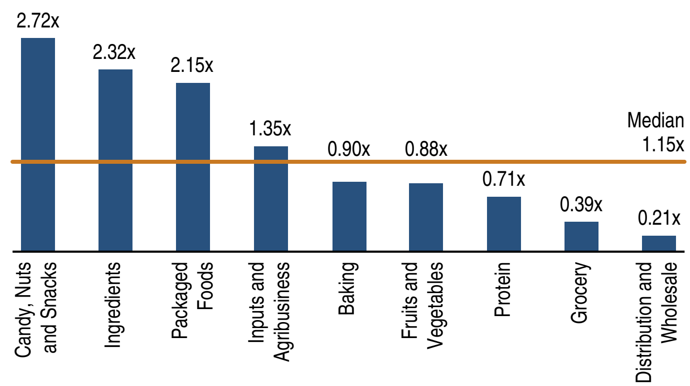
Source: S&P Capital IQ.

CHART 9 | **Enterprise Value / LTM Revenue**



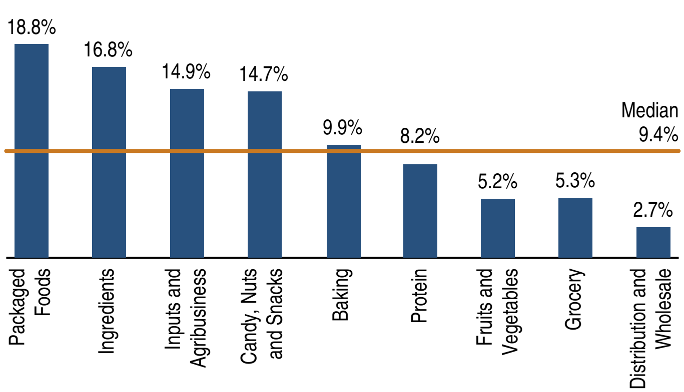
Source: S&P Capital IQ.

CHART 10 | **Enterprise Value / NTM Revenue**



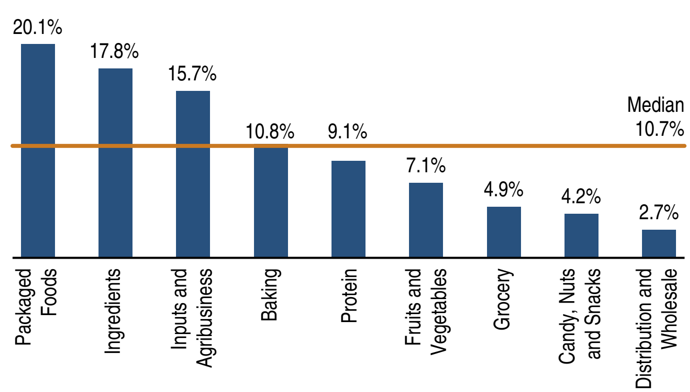
Source: S&P Capital IQ.

CHART 11 | **LTM EBITDA Margin**



Source: S&P Capital IQ.

CHART 12 | **NTM to LTM Revenue Growth**

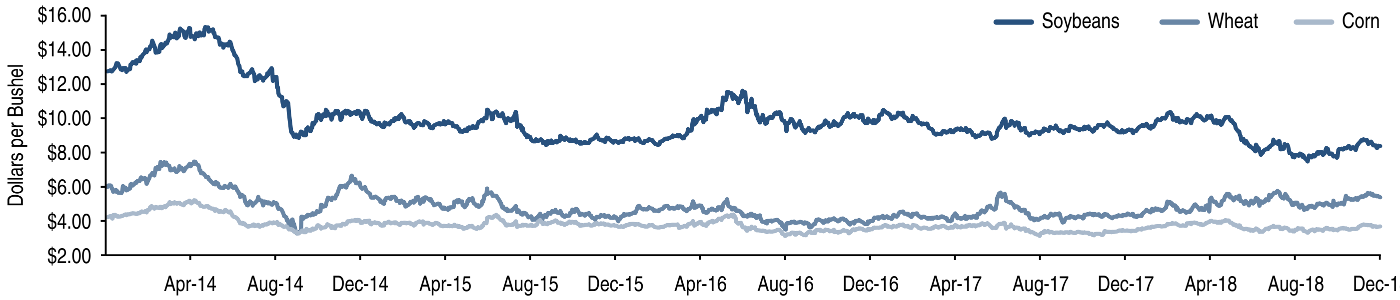


Source: S&P Capital IQ.

Agricultural Commodities

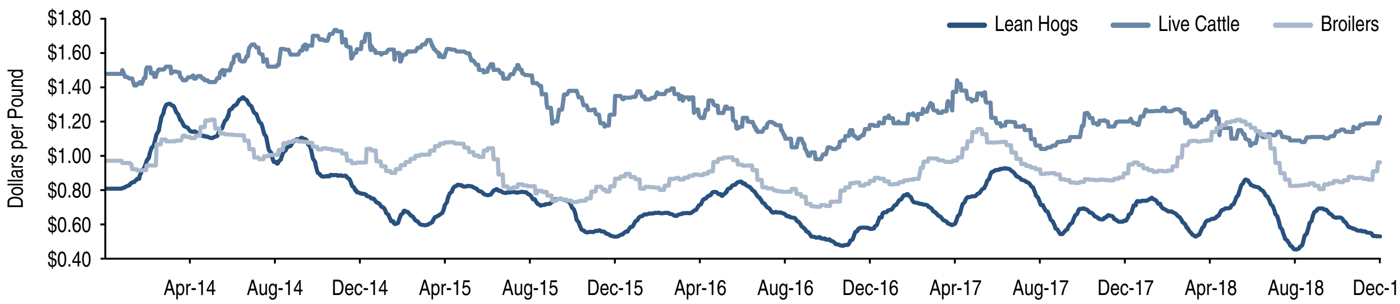
Commodity Prices

CHART 13 | **Grain Commodities Pricing (2014 – 2018)**



Source: S&P Capital IQ dated December 31, 2018.

CHART 14 | **Livestock Commodities Pricing (2014 – 2018)**



Source: S&P Capital IQ dated December 31, 2018.

Our Approach

Mesirow Financial's exclusive focus on the middle market means we understand and relate to entrepreneurial business owners and their management teams. We take a long-term approach, often taking the time to advise and prepare clients years in advance of a transaction by serving as a resource as they consider strategy, financing, growth and liquidity. We maintain relationships with executive decision makers at the relevant strategic, private equity and lending participants in the industry. These relationships, combined with our extensive experience, allow us to add substantial value in achieving the strategic and financial goals of our clients.

Our Services

We assist private and public companies by providing a full range of services, including:

- Merger and Acquisition Advisory
- Equity and Debt Capital Raising
- Restructuring and Special Situations Advisory
- Fairness and Solvency Opinions
- Board and Special Committee Advisory

Other Sector Concentrations

In addition to food, beverage and agribusiness, we are a leading advisor to a wide array of middle-market companies and have developed an in-depth expertise in a range of industries, including:

- Aerospace and Defense
- Business Services
- Consumer and Retail
- Distribution and Supply Chain
- Healthcare
- Industrials
- Paper, Plastics and Packaging
- Technology

About Mesirow Financial

Mesirow Financial is an independent, employee-owned firm founded in 1937. As specialists in investment, risk management and advisory services, we are committed to helping our institutional, corporate and individual clients achieve their objectives. Our professionals are inspired by an entrepreneurial desire to develop tailored solutions designed to deliver measurable results. To learn more, please visit mesirowfinancial.com.

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