

FOOD, BEVERAGE AND AGRIBUSINESS

INVESTMENT BANKING

2019: Mid-Year Review

M&A Overview

Momentum in the food, beverage and agribusiness mergers and acquisitions (“M&A”) market continued during the first half of 2019, with the number of U.S. announced (control) deals increasing more than 20 percent to 169 versus 140 one year prior, while disclosed dollar volume declined from \$28 billion to \$6 billion. Disclosed deals under \$100 million accounted for most of the transaction volume as the number of deals over one billion USD declined precipitously. Acquisition activity increased markedly in terms of number of deals across most subsectors, including the better-for-you (“BFY”) and beverage categories, which topped out the list, as suitors continue to mine top-line growth, margin expansion, R&D/ intellectual property capabilities, channel expertise and/or customer diversification opportunities.

Notable transactions announced during the first half of 2019 include:

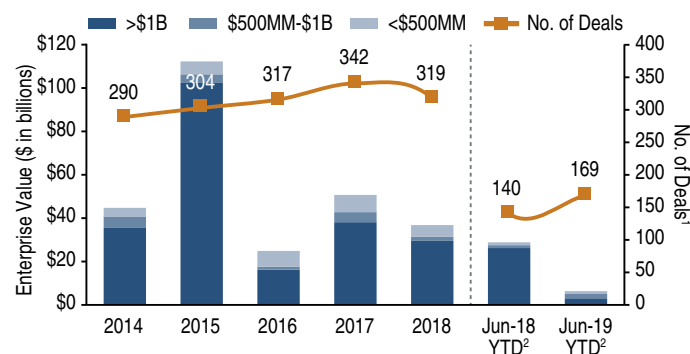
- Post Holdings’ (NYSE:POST) acquisition of Treehouse Foods’ (NYSE:THS) ‘Ready-to-eat Cereal Business’ (divestiture/private label),
- Mondelez International’s (NASDAQ:MDLZ) acquisition of Perfect Bar & Co. (snack foods),
- Ferrero International’s acquisition of Kellogg’s (NYSE:K) ‘Cookies and Fruit Snacks Business’ (snack foods, \$1.3 billion),
- Symrise’s (XTRA:SY1) acquisition of International Dehydrated Foods, Inc./American Dehydrated Foods, Inc. (ingredients/pet, \$900 million) and
- Aterian Investment Partners’ acquisition of Hain Pure Protein (divestiture/protein, \$80 million).

Strategic acquirers are driving the majority of M&A activity in the industry, with private equity continuing to play a critical role given the amount of capital available for deployment and a surge in the disposal of orphaned assets and divestiture opportunities. These have peaked over the latest three years as consumer packaged goods (“CPG”) companies reposition their portfolios to focus on core competencies and innovation to align with changing trends and consumer preferences. ■

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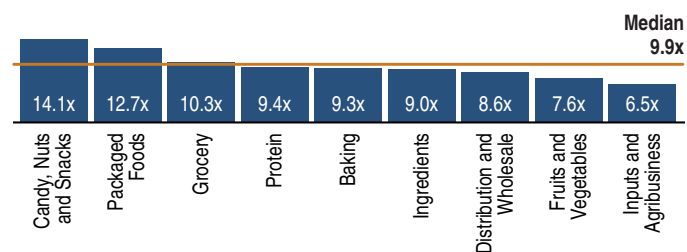
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CHART 1 | U.S. Food, Beverage and Agribusiness M&A Volume – Latest Five Years



Source: S&P Capital IQ.
 1 Announced control deals.
 2 YTD as of June 30, 2019.

CHART 2 | Median Enterprise Value / EBITDA M&A Multiples by Sector – Latest Three Years



Source: Mesirow Financial and S&P Capital IQ.

Sector Spotlight: Cannabis

The Trump administration and Congress legalized hemp by signing the 2018 Farm Bill in December; however, it's been left up to state legislatures to establish their own health and safety regulations, further complicating the ground rules for marketers and retailers selling hemp-derived products across state lines.

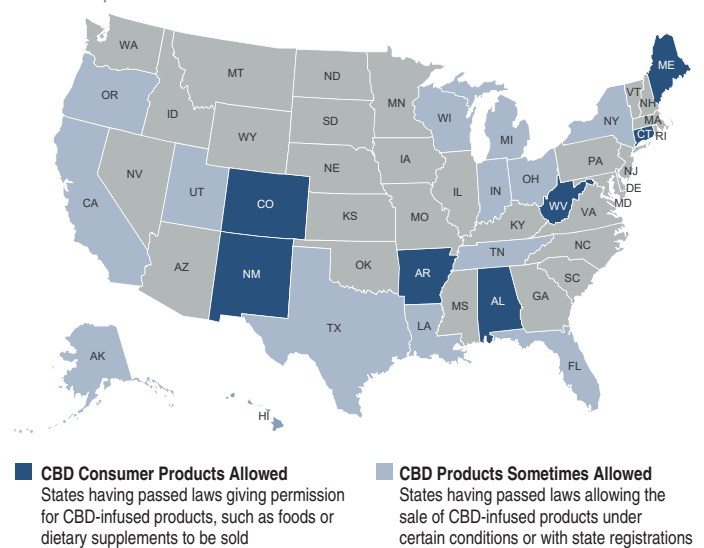
Hemp comes from the same plant that produces marijuana, which has both a medical compound with health benefits (cannabidiol or "CBD") and a psychoactive chemical (tetrahydrocannabinol or "THC") that produces a "high". Hemp is produced with nearly 100 percent CBD, and according to the new federal law, is a legal agricultural commodity if it contains no more than 0.3 percent THC. Anything greater constitutes a controlled substance under federal law.

Hemp/CBD sales projections vary widely, but several industry sources estimate retail sales may exceed \$20 billion by 2024, up from approximately \$600 million in 2018 or a projected compound annual growth rate of ~80 percent.

Cannabis-, hemp- and CBD-infused beverages, snacks and confections as well as consumer goods, such as lotions, ointments and other topicals have proliferated in the market. Cannabis, and specifically, CBD have gained mounting popularity and adoption by consumers amid an increasingly complicated regulatory environment and a competitive landscape that calls into question the efficacy of certain products and ingredients, while the breadth and availability of cannabis-derived products have grown significantly.

Several established investors and strategic players have taken the leap and made sizeable investments in cannabis-/hemp-related businesses. For example, Constellation Brands, Inc. (NYSE:STZ) purchased a 35 percent stake in Canadian cannabis grower, Canopy Growth Corp. (TSX:WEED), while tobacco giant, Altria Group, Inc. (NYSE:MO), invested nearly \$2 billion in Toronto-based medical marijuana investment firm, Cronos Group, Inc. (TSX:CRON). Anheuser-Busch InBev (ENXTBR:ABI) entered into a \$100 million joint venture with Canadian cannabis company, Tilray, Inc. (NasdaqGS:TLRY), to produce non-alcoholic cannabis-infused beverages.

CHART 3 | CBD – "New Rules"



Source: Hemp Industry Daily.

Other CPGs like The Coca-Cola Company (NYSE:KO) and Nestlé S.A. (SWX:NESN) have begun talks to potentially develop their own CBD-infused foods and beverages.

Changing legislation, mainstream consumer acceptance, significant scale/growth potential, CPG/retailer adoption, product refinement/development and increasing consumer health awareness have contributed to a strong M&A environment and "stratospheric" forward revenue (NTM) multiples in the cannabis sector, as many of the industry's largest players are exhibiting explosive top-line growth, but have yet to generate operating cash flow. Mesirow Financial's universe of publicly traded cannabis companies have traded north of 5.0x median NTM revenue over the latest 30 days (ended June 30, 2019), while 129 deals and more than \$4 billion of disclosed M&A transaction value changed hands over the twelve-month period ended June 30, 2019.

TABLE 1 | Selected Cannabis-related Transactions (YTD 2019)

Date	Acquirer	Target	EV (\$MM)	EV / Revenue ¹	Target Location	Description
Pending	Aurora	HempCo	51.0	N/M	Vancouver, Canada	Manufactures and sells hemp food products
Jun-19	CBD Capital Group	Medix	N/D	N/D	Aventura, FL	Manufactures and supplies CBD and hemp oil
Jun-19	MedMen	One Love Beach Club	13.0	2.17x	Long Beach, CA	Markets and distributes cannabis and hemp oil-based products
May-19	Supreme	BlissCo	38.6	N/D	Langley, Canada	Processes and distributes cannabis and CBD products
May-19	Hexo Corp	Newstrike Brands	197.7	N/M	Oakville, Canada	Produces and sells medical marijuana in Canada
May-19	Biovelle	TransCanna	N/D	N/D	Irvine, CA	Produces organic hemp-infused CBD oils
May-19	Curaleaf	Cura Cannabis Solutions	1,147.6	9.81x	Portland, OR	Manufactures and distributes cannabis and hemp-based products
May-19	Canopy Growth	C3	252.6	8.34x	Neumarkt, Germany	Manufactures natural and synthetic CBD
Mar-19	Aleafia Health	Emblem	135.6	N/M	Winnipeg, Canada	Cultivates, processes and sells cannabis and cannabis derivatives in Canada
Mar-19	Aurora	WMMC	117.3	N/D	Whistler, Canada	Produces organic medical cannabis and cannabis oil
Feb-19	Tilray	Manitoba Harvest	314.8	N/D	Winnipeg, Canada	Produces hemp-based food and oil products

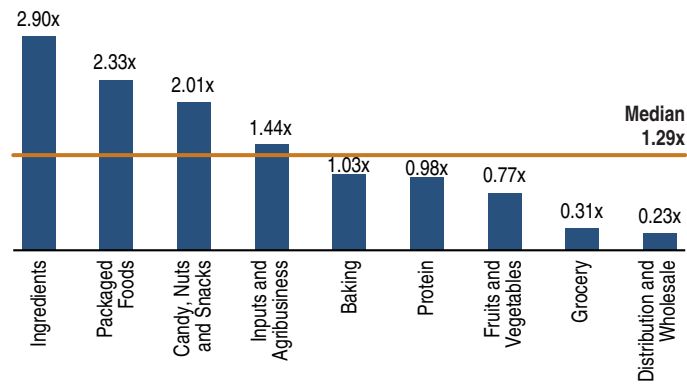
Source: S&P Capital IQ.

¹ NTM and/or synergy-adjusted; Multiples for Hempco, Newstrike and Emblem are disclosed, but not meaningful ("N/M").

Analysis of Selected Publicly Traded Companies

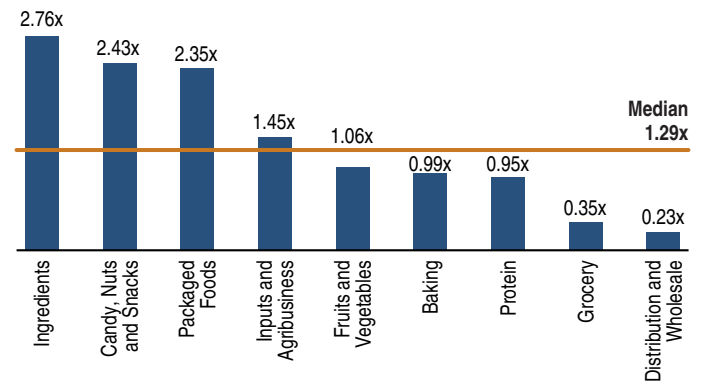
Multiples, Margins and Growth

CHART 4 | Enterprise Value / LTM Revenue



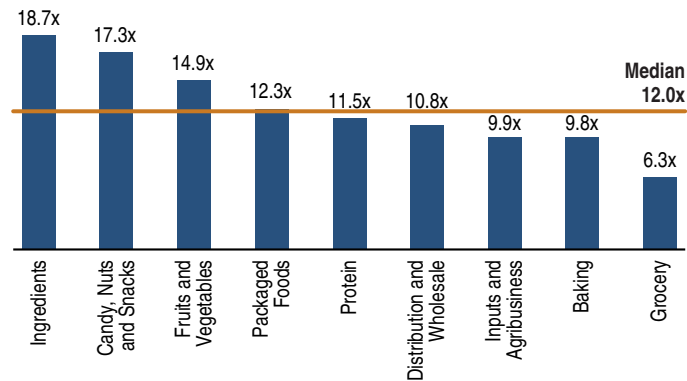
Source: S&P Capital IQ as of June 30, 2019.

CHART 5 | Enterprise Value / NTM Revenue



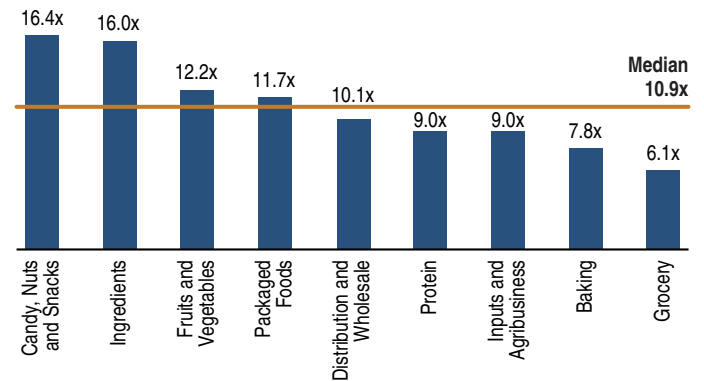
Source: S&P Capital IQ as of June 30, 2019.

CHART 6 | Enterprise Value / LTM EBITDA



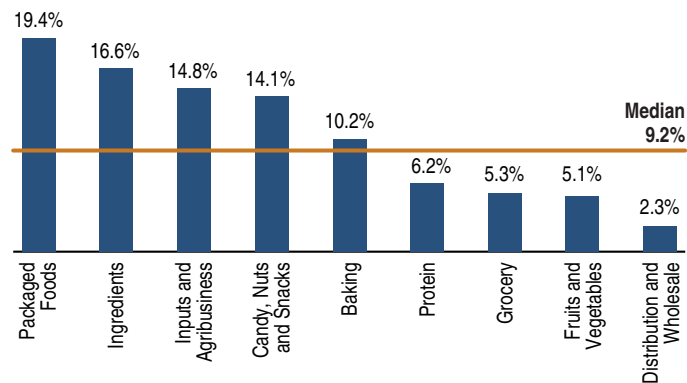
Source: S&P Capital IQ as of June 30, 2019.

CHART 7 | Enterprise Value / NTM EBITDA



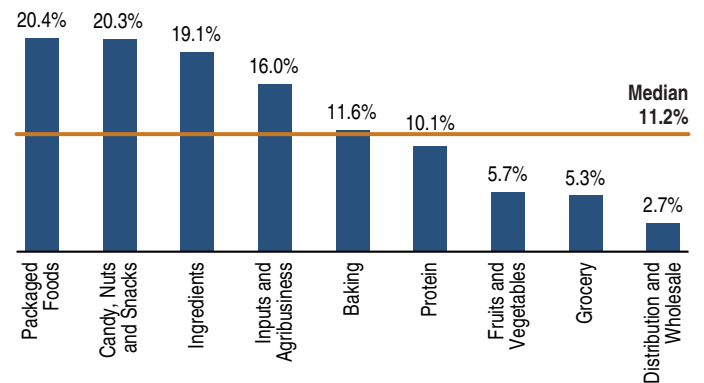
Source: S&P Capital IQ as of June 30, 2019.

CHART 8 | LTM EBITDA Margin



Source: S&P Capital IQ as of June 30, 2019.

CHART 9 | Revenue Growth (LTM to NTM)

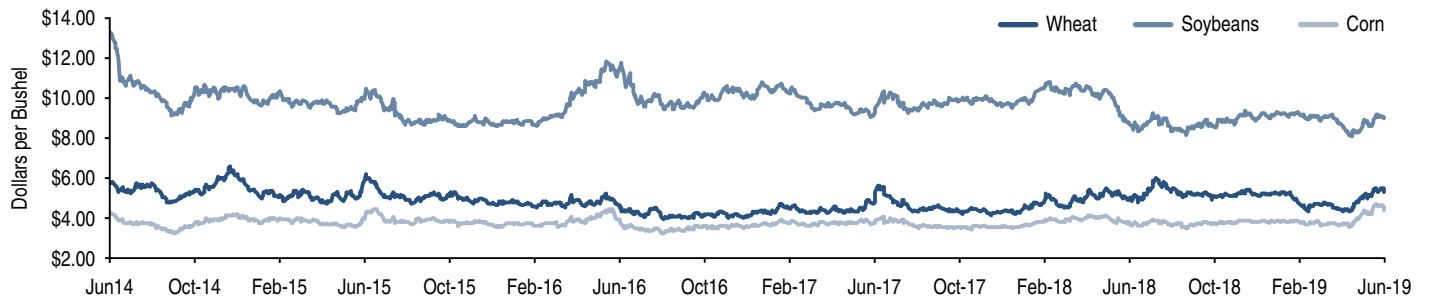


Source: S&P Capital IQ as of June 30, 2019.

Grain and Agricultural Livestock Commodities

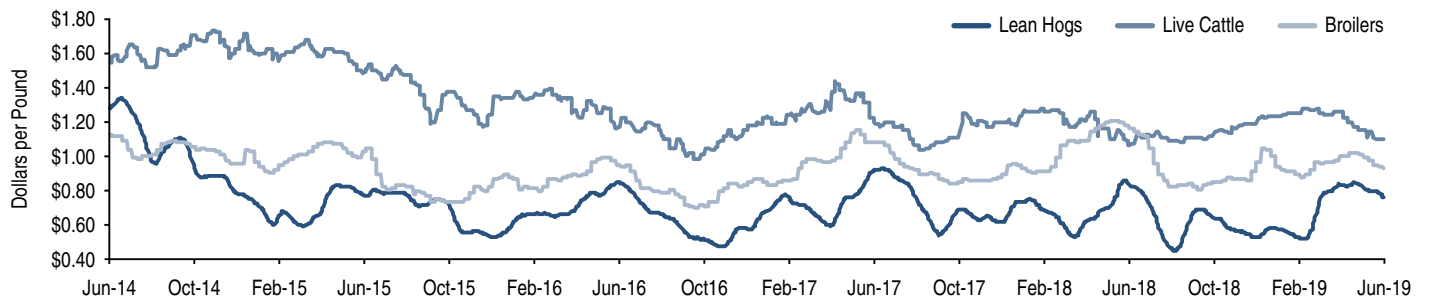
Commodity Prices

CHART 10 | Grain Commodities Pricing – Latest Five Years



Source: S&P Capital IQ as of June 30, 2019.

CHART 11 | Agricultural Livestock Commodities Pricing – Latest Five Years



Source: S&P Capital IQ as of June 30, 2019.

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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