

2019: Year-End Review

The period under review in this year-end Industry Outlook precedes the global onset of COVID-19. As we all now navigate this unprecedented moment, the health and safety of our employees and their families, our clients, our business partners and the communities in which we operate are our primary concern. Our thoughts are with all those around the world who have been affected by COVID-19.

Key Market Drivers

2019 marked yet another active year for M&A in the food, beverage and agribusiness industry. Disruption, repositioning, innovation, “all things vegan” and sustainability dominated the headlines. The number of control deals (including restaurants and retail grocery) increased by 12.4% to 536; however, disclosed deal value fell to \$28.0 billion from \$93.0 billion one year prior. Disclosed deals under \$100 million accounted for more than 70% of the number of deals as “big food” emphasized smaller transactions. Private equity (PE) firms remained highly influential, collectively supporting higher than average multiples for quality food assets.

The number of deals increased across most sectors with better-for-you (BFY), beverage, cannabis, protein and restaurants topping the list as buyers continued to mine top-line growth, margin expansion, R&D / IP capabilities, channel expertise and / or customer diversification opportunities. Strategic acquirers drove the majority of M&A activity in 2019, benefiting in part from historically high equity market valuations, which traded in the aggregate at ~85% of their 52-week highs at year end.

PE continued to play a critical role due to the abundance of capital available for deployment in addition to a variety of sectors ripe for leveraged “buy-and-build” strategies. Active sectors of PE interest in 2019 included contract and private label manufacturing, food distribution, protein and restaurants, among others.



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Selected Trends to Watch in 2020:

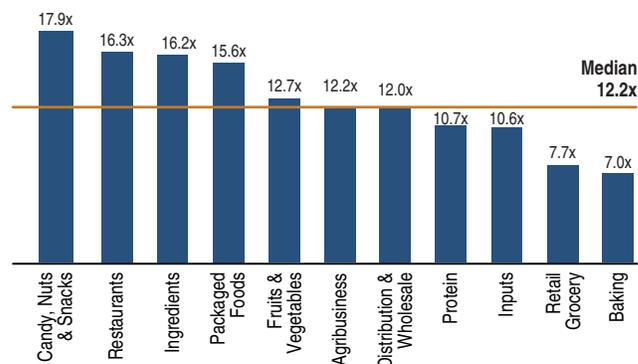
- Alcohol-alternative beverages
- BFY “graze-” or grab-and-go items
- CBD-infused products
- Environmental sustainability
- Plant-based and blended meat alternatives

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



Sources: FactSet, The Food Institute.

CHART 2 | Publicly Traded Companies by Sector — EV / LTM EBITDA¹



Source: FactSet.
1. As of December 31, 2019.

Notable Sector Trends and Patterns



Freight impacting margins. Processors, marketers, distributors and retailers are exploring alternative approaches to shipping, as transportation costs, regulations and driver shortages continue to rise in the wake of historically high demand for consumer goods.



Legalization of hemp in the U.S. opened the door for hemp farmers to access government programs, fueling the prevalence of CBD-derived food and beverage products and ingredients making their way to the mainstream consumer.



Health and wellness is the new norm. Clean label consumers continue to seek out safe 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 are spending more on products and experiences promoting well-being and health.

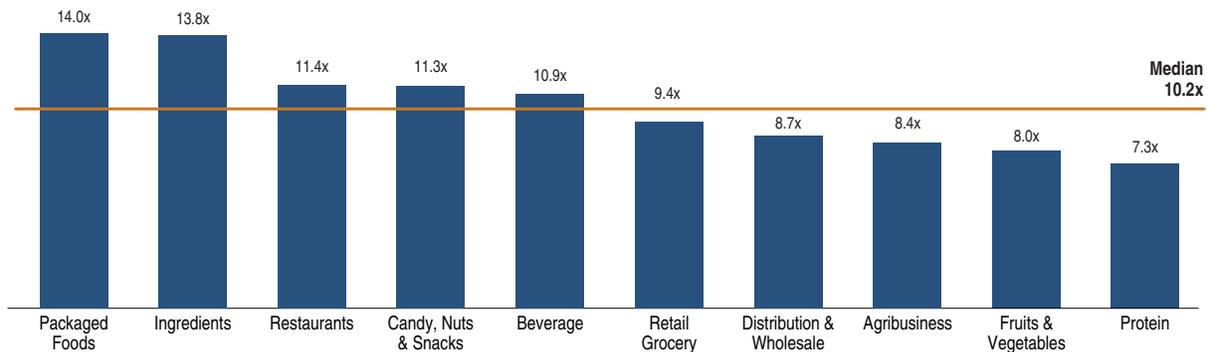


Changing retail grocery landscape. Grocers in competing sub-channels continue to fight for foot traffic. At the same time, disruptors like Amazon and Walmart have been integral in responding to changing shopper preferences for convenience, value and technology-enabled experiences such as checkout-free environments, home delivery and pick-up alternatives.



Dislocation in protein marked by lower average feed costs, production capacity expansion, a continued rise in organic and ABF (animal protein) capacity and a surge in alternative protein consumption.

CHART 3 | Food, Beverage and Agribusiness M&A Multiples by Sector — EV / EBITDA¹



Sources: S&P Capital IQ, FactSet.
1. Three year sector averages.

TABLE 1 | Selected Notable Deals

Announced					
Date	Acquirer	Target	Sector	Rationale	EV (\$MM)
Dec-19	Froneri	Nestle U.S. Ice Cream Business	Dairy / Frozen Foods	Carve-Out / Geographic Expansion	\$4,000
Nov-19	Universal Corporation	Fruit Smart	Fruit Processing & Distribution	Diversification	\$105
Oct-19	Cal-Maine Foods, Inc.	Mahard Egg Farm	Protein	Consolidation	n/d
Sep-19	Entrepreneurial Equity Partners	Daniele	Protein	Private Equity	n/d
Aug-19	Insight Equity	Strauss	Protein	Private Equity	n/d
Jul-19	Ares Capital	Cooper's Hawk Winery & Restaurants	Restaurants	Private Equity	n/d
Jun-19	Mondelez	Perfect Snacks	Snack Food	Brand Dominance	n/d
May-19	Olympus Partners	3D Corporate Solutions Animal Protein Business	Pet / Ingredients	Private Equity	n/d
Apr-19	Butterfly Equity	Bolthouse Farms	Branded Packaged Food	Private Equity	\$510
Mar-19	Freeman Spogli & Co.	Five Star Food Service	Foodservice Distribution	Private Equity	n/d
Feb-19	Pepsico	CytoSport	Beverage	Product Line Expansion	\$465
Jan-19	H.I.G. Capital	Lipari	Specialty Food Distribution	Private Equity	n/d

Sources: FactSet, The Food Institute.

Sector Spotlight: Food Distribution

M&A volume in the food distribution sector increased steadily over the last ten years (CAGR of +5%) as strategics and PE-backed platforms used M&A to increase scale, expand into new categories, channels and markets, strengthen capabilities and access or leverage new technologies. Factors influencing strategic and financial buy-and-build decisions included market fragmentation, independent customer acquisition, differentiation and access to value enhancing capabilities, among others.

Serial strategic acquirers continued their binge of add-ons and transformative acquisitions at historically high multiples to further diversify and fill in geographic “gaps”. PE firms are targeting platforms as a (relatively) lower-cost means of accessing the food value chain due to significant sustainable growth potential, high free cash flow conversion and a long runway of M&A opportunities that provide financial support for leveraged buy-and-build strategies. PE firms have been willing to pay historically high multiples for platform acquisitions and average down with add-ons to lower the blended multiple for platforms.

“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”

Outlook

While a number of significant headwinds exist, including COVID-19 uncertainty and fluid China trade discussions, Mesirow remains optimistic strong yet lower than normal levels of food, beverage and agribusiness M&A activity will materialize in 2020. The drivers that contributed to a robust environment in 2019 remain relatively intact, and there are no secular indicators suggesting this will change any time soon. We expect existing transaction processes to lengthen and access to debt financing to be more sector- and company-specific as certain food verticals slow significantly or come to a temporary halt, while others such as retail grocers and distributors / wholesalers abnormally benefit from the current climate. The good news is private capital providers are sitting on more than \$1.6 trillion of dry powder and have the flexibility to deploy capital that addresses control and non-control equity, structured equity and / or alternative financing solutions.

Dedicated M&A Advisor to the Food, Beverage and Agribusiness Sector

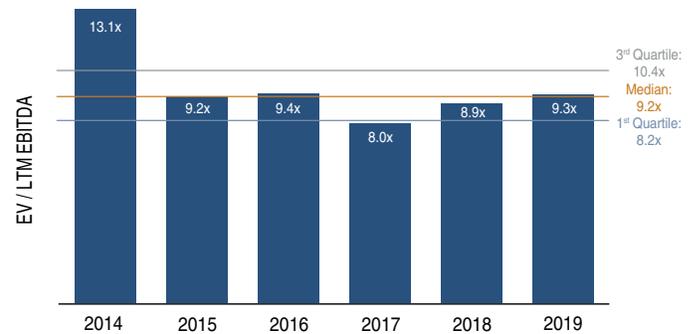
Mesirow Financial Investment Banking is consistently focused on elevating the experience for our clients. With extensive sector-specific expertise and deep long-standing relationships, our dedicated food, beverage and agribusiness team has a proven track record of completing highly tailored and successful transactions. Our highest priority is helping individuals and organizations achieve their financial and strategic goals.

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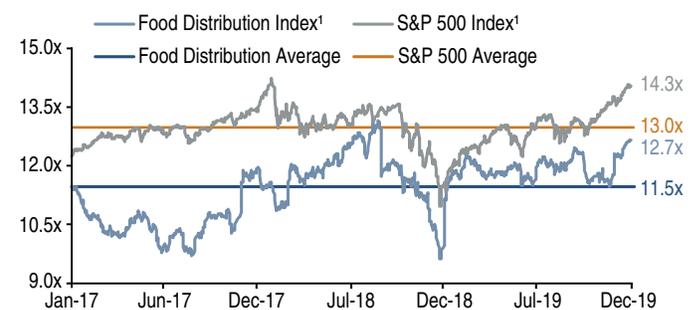
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CHART 4 | Selected Foodservice and Wholesale Distribution M&A Transactions — EV / LTM EBITDA¹



Sources: S&P Capital IQ, FactSet, company filings and equity research.
1. Includes estimates and / or synergy-adjusted multiples where applicable.

CHART 5 | Public EV / LTM EBITDA Multiples – Latest Three Years¹



Sources: S&P Capital IQ, FactSet, company filings and equity research.
1. Mesirow Food Distribution Index: AMCON Distributing Company (AMEX:DIT); Core-Mark Holding Company, Inc. (Nasdaq:CORE); Performance Food Group Company (NYSE:PFGC); SpartanNash Company (Nasdaq:SPTN); Sysco Corporation (NYSE:SY); The Chef's Warehouse, Inc. (Nasdaq:CHEF); Total Produce plc (ISE:T7O); United Natural Foods, Inc. (NYSE:UNFI).

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