

STAYING AHEAD OF THE CURVE

A DRESNER PARTNERS NEWSLETTER

FOOD & BEVERAGE

SPRING 2018



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Major food and beverage consumer packaged goods companies, struggling with slowing demand and rapidly changing consumer tastes, are pursuing acquisitions as a major part of their business plans in 2018 in search of elusive growth.

At a recent annual Consumer Analyst Group of New York conference, many executives in attendance stated they were not so much focused on deal size but rather they did not want to overpay, and whatever acquisitions they did make had the capacity to produce cost savings and generate revenue growth to justify the purchase price.

The desire to consolidate follows an active 2017 where Tyson Foods, Campbell Soup and McCormick all successfully completed deals topping more than \$4 billion dollars; all these transactions expanded the respective companies' reach in organic, better for you, snacking, or other "on-trend" ingredients and flavors.

Acquisitions made by these companies presented a faster means to acquiring these on-trend products. CPGs like General Mills plan on continuing to look for bolt on acquisitions in both North America and Europe.

Many of the targeted companies will not significantly impact total sales in the short run for these CPGs, but rather they open up more doors to innovation. These emerging brands have had much greater success in developing the on trend products than their larger counterparts, despite their large R&D budgets and resources.

2017 Review

While a much-anticipated mega-merger failed to materialize in 2017, multiple significant transactions took place:

- Tyson Foods bought ready-to-eat convenience food producer Advance Pierre in a deal valued at \$4.2 billion.
- McCormick purchased Reckitt and Benckiser food division for \$4.2 billion.
- In December, Campbell Soup, closed on two important deals: Pacific Foods and snack maker Snyder Lance for nearly \$5 billion, the largest deal in its history.
- Hershey acquired Amplify Snack Brands, parent company of Skinny Pop, for \$1.6 billion.

Many of other noteworthy middle-market deals were completed in the healthy category:

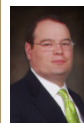
- ConAgra's \$250 million purchase of Angie's Boomchickapop.
- Kellogg's acquisition of Chicago Bar Company, producer of RXBAR for \$600 million.
- B and G Foods purchased Back to Nature Foods from Brynwood Partners for \$163 million.
- Lactalis purchased Sigg's Icelandic Style Yogurt for an estimated \$300 million.
- Nestle acquired Atrium Innovations, owned by Permira Funds, for \$2.3 billion, extending Nestle's product range with value-added solutions such as probiotics, and plant-based protein nutrition.

1. 2018 Freedonia Focus Reports. 2. 2018 Euromonitor International.

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2018 Outlook

M&A Activity in 2018 is off to a fast start with announcements of several multi-billion dollar transactions. Keurig Green Mountain acquired Dr. Pepper Snapple for \$18.7 billion, resulting in the largest nonalcoholic beverage deal on record (according to Dealogic). It will create a new public company with about \$11 billion in annual sales and more than \$16 billion in debt.

Ferrero, the Italian global confectionary group and producer of Nutella, seeking to consolidate its position in the US market, acquired Nestle's US confectionery business for \$2.8 billion. The transaction followed on the heels of Ferrero's acquisition of Ferrara Candies, owned by private equity firm L Catterton, for an estimated \$1 billion. Demand for chocolate confections is projected to remain the largest of any snack food segment through 2022.³ Consumer interest in premium chocolate products will continue to be an ongoing theme in 2018, making these brands increasingly more valuable to potential acquirers as the list of attractive targets diminishes.

General Mills stepped out of its comfort zone and acquired Blue Buffalo in February for \$8 billion. The transaction establishes General Mills as the leader in the U.S. Wholesome Natural pet food category, the fastest growing portion of the overall pet food market, and accelerates its portfolio reshaping strategy.

Looking forward, 2018 will be every bit as active as 2017 where M&A activity will likely be driven by either 1) acquisitions for growth and differentiation or 2) divestitures to become leaner organizations focused on core brands and profitability. Mirroring the trends from 2017, Food & Beverage will likely continue to constitute over 60% of deal activity in the Consumer sector. Primary M&A drivers in the F & B space will include: innovative solutions, sustainable foods growth, consolidation of mature brands, and continual changes in the retail sales model.

With respect to which food categories will attract the most interest, the demand for snack foods in the US market is expected to reach about \$93 billion by 2022.¹ More specifically, the healthy snack sector is generating the most demand as that market is estimated to be about \$9 billion in the United States in 2017, having gained nearly 15 percent over the past five years. The healthy sweet-snacks market is worth \$10.37 billion, rising more than 20 percent in the same period.²

Many CPGs, such as Hershey's, are particularly interested in US snacking brands with strong growth potential. Companies that have been plagued by slow or no growth will be looking to secure brands and products in the faster growing categories like snacking, natural or organics.

Recent changes in tax law will boost cash flow for many companies in the food space with significant US operations. A report produced by Bank of America Merrill Lynch stated that US companies could see a record number of mergers and acquisitions in 2018 as they are more likely to use excess cash from the new tax law to complete deals rather than on capital expenditures.

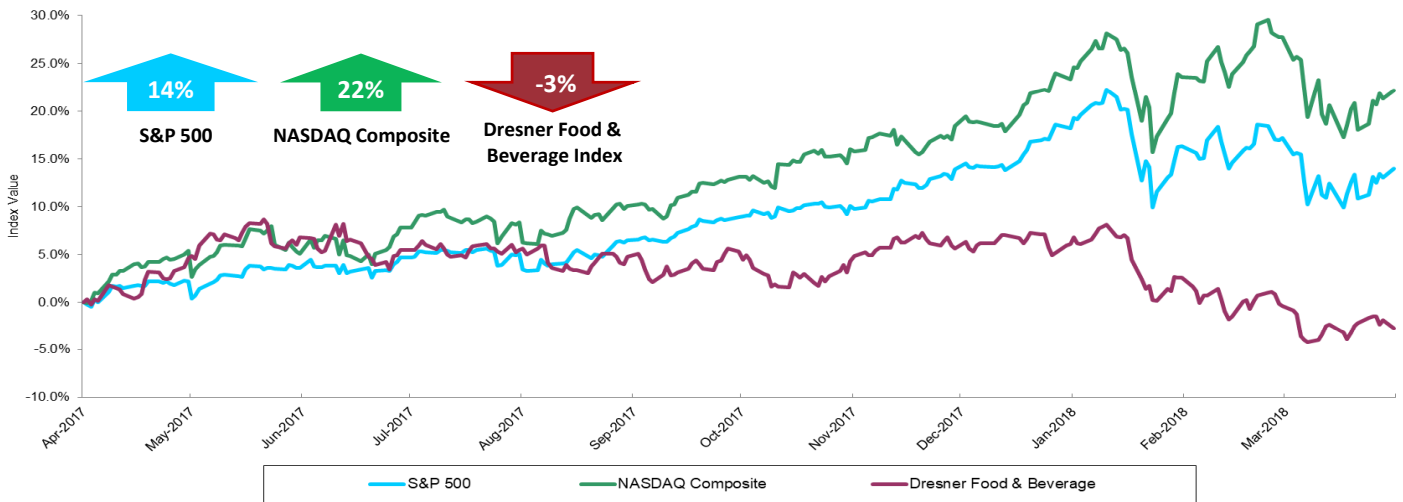
One potential challenge on completing a major deal could be high valuations. In the fourth quarter of 2017, multiples in the Food and Beverage sector ratcheted up to 2.8x Median EV/LTM Revenue, and 18.5x EV/Median LTM EBITDA (2018 CapIQ).

1. 2018 Freedonia Focus Reports.

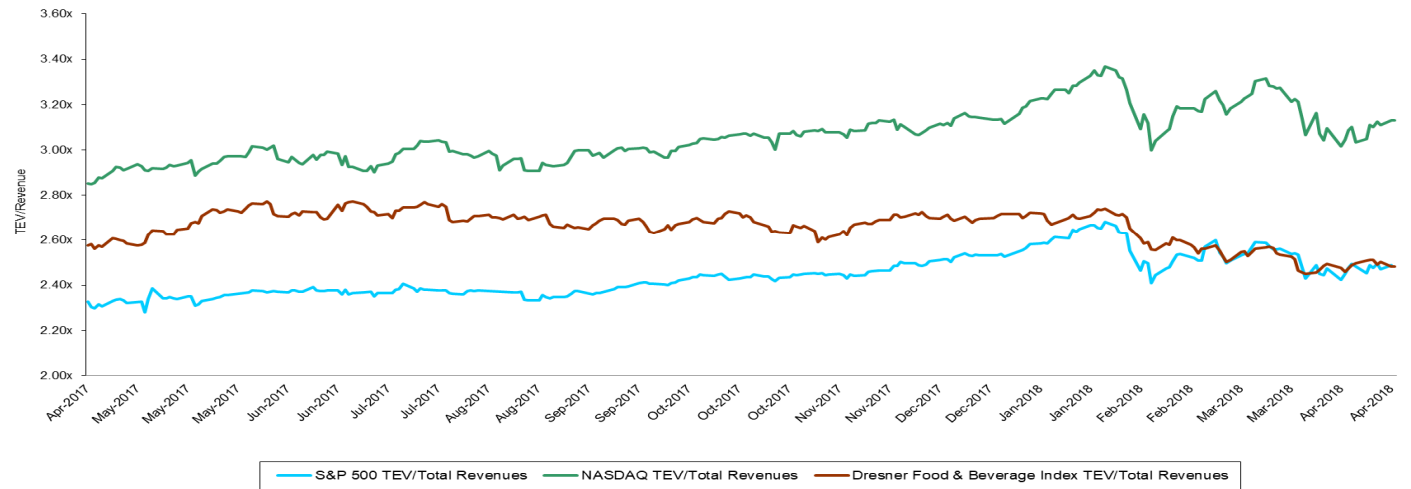
2. 2018 Euromonitor International.

3. Freedonia Group

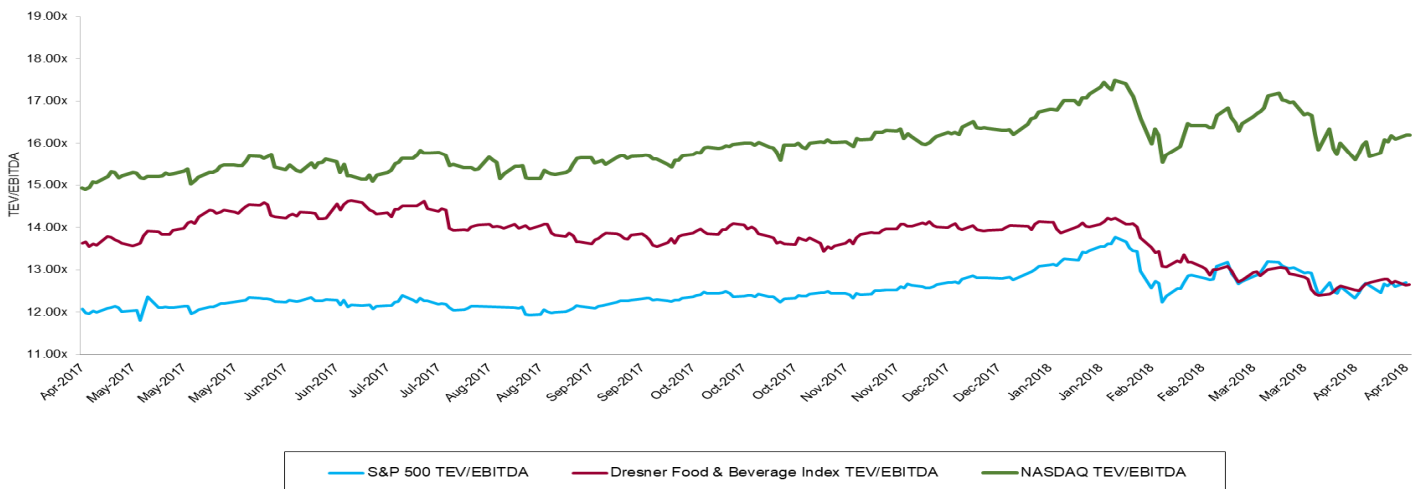
Relative Stock Price Performance ⁽¹⁾



Average EV / LTM Revenue ⁽¹⁾



Average EV / LTM EBITDA ⁽¹⁾



Source: S&P CapitalIQ as of April 17, 2018

1) Dresner Partners Food & Beverage Index consists of 16 companies

Selected Food & Beverage M&A Activity⁵

Closed Date	Target	Buyer	Implied
			Enterprise Value (\$ in millions)
Apr-12-2018	McLean Meats Inc.	Premium Brands Holdings Corporation (TSX:PBH)	-
Apr-10-2018	Lortscher Animal Nutrition Inc.	C. J. Foods, Inc.	-
Apr-09-2018	National Beef Packing Co. LLC	Marfrig Global Foods S.A. (BOVESPA:MRFG3)	\$2,300
Apr-06-2018	Riverside Foods, Inc.	Lakeside Foods Inc.	-
Apr-05-2018	Accolade Wines Australia Limited	The Carlyle Group L.P. (NasdaqGS:CG)	\$768
Apr-04-2018	Ainsworth Pet Nutrition, LLC	The J. M. Smucker Company (NYSE:SJM)	\$1,900
Apr-03-2018	Pure Breed Poultry Co.	Almarai - Joint Stock Company (SASE:2280)	\$39
Mar-20-2018	Green Chef Corporation	Grocery Delivery E-Services USA INC.	-
Mar-20-2018	Finest Made Ales	Council Brewing Company, LLC	-
Mar-08-2018	Exo, Inc.	Aspire Food Group USA, Inc.	-
Feb-27-2018	La Mexicana Food Products	Italian Rose Garlic Products, Inc.	-
Feb-27-2018	Pedernales Brewing Company, LLC	Uncle Billy's Brewery	-
Feb-20-2018	The Dark Star Brewing Co. Ltd	Fuller, Smith & Turner P.L.C. (LSE:FSTA)	-
Feb-12-2018	Crystal Rock Holdings, Inc.	Cott Corporation (TSX:BCB)	\$35
Feb-08-2018	Pets4Life	Dane Creek Capital Corp.	-
Feb-08-2018	Avani Snacks	Celebrate Brands LLC	-
Feb-06-2018	Olympic Brewery S.A.	Carlsberg A/S (CPSE:CARL B)	-
Feb-06-2018	Food Associates NV	BNP Paribas Fortis Private Equity	-
Feb-04-2018	Mullins Food Products Inc.	Newly Weds Foods, Inc.	-
Feb-02-2018	Atoka Cranberries Inc.	Ocean Spray Cranberries, Inc.	-
Feb-01-2018	Dole Food Company, Inc.	Total Produce plc (ISE:T70)	\$1,902
Jan-31-2018	SC Betty Ice SRL	Unilever PLC (LSE:ULVR)	-
Jan-31-2018	Westland Co-operative Dairy Company Limited	Southern Pastures Limited Partnership	-
Jan-30-2018	Paleo Meals to Go	Wild Zora Foods, LLC	-
Jan-30-2018	Minsa Corporation	Bunge North America, Inc.	\$75
Jan-30-2018	California Natural Products Inc.	Gehl Foods, LLC	-
Jan-30-2018	MyDrink Beverage Company	BevSource, Inc.	-
Jan-25-2018	Fairfield Dairy (Pty) Ltd.	Woodlands Dairy Pty Ltd	-
Jan-18-2018	Maison Bleue Winery	Willamette Valley Vineyards, Inc. (NasdaqCM:WVVI)	-
Jan-17-2018	Green Isle Foods Ltd.	Nomad Foods Limited (NYSE:NOMD)	\$275
Jan-17-2018	Aviã³n Spirits LLC	Pernod Ricard USA, LLC	-
Jan-16-2018	Monticello Spring Water Company	Samantha Springs, L.P.	-

Food and beverage transaction multiples trended marginally downward in Q1 2018 versus Q4 2017 as CPGs sold legacy low growth businesses at lower valuations than in the previous quarter, 2017. Emerging premium brands, such as RXBAR, drove up multiples during latter half of 2017. As we progress into 2018, expect transactions multiples to trade at or near historically high levels due to a backlog of premium emerging businesses slated to be sold or already in market, such as Rise Bakery and Eddy Packing.

5. Capital IQ & Dresner Partners Research

ABOUT DRESNER PARTNERS

Dresner Partners is a FINRA-registered, middle-market investment bank headquartered in Chicago, Illinois with offices in New York City, Fort Lauderdale, Palo Alto, and Irvine, CA. For more than 25 years, Dresner Partners has provided financial advisory services to middle market companies throughout the world, including institutional private placements of debt and equity, merger and acquisitions advisory, financial restructuring and corporate turnarounds, valuations and strategic consulting services. Dresner Partners is also a member of IMAP, an exclusive global organization of leading merger and acquisition advisory firms.



Through our IMAP partnership, Dresner Partners maintains a network of international offices in over 30 countries. Thomson Reuters' most recent annual league tables report references IMAP advisers as having completed 179 global transactions, with an aggregate transaction value of more than \$6 billion. Our relationships with global legal and accounting networks, and multinational private equity groups are extremely valuable when completing a cross-border transaction. We have people on the ground with first-hand knowledge of the local cultural and business environment.

SELECTED DRESNER TRANSACTIONS

 <p>Frozen food company</p> <p>Working Capital Facility</p> <p>financing provided by</p>  <p>Financial Advisor</p> 	 <p>Salty Snack Manufacturer</p> <p>has been acquired by</p>  <p>Sell-Side Advisor</p> 
 <p>Supplier of Waffle Mix and Irons</p> <p>has been acquired by</p>  <p>PNC Riverarch Capital</p> <p>Sell Side Advisor</p> 	 <p>has been acquired by</p>  <p>Sell-Side Advisor</p> 

FOR MORE INFORMATION

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