

FOOD · BEVERAGE

THIRD QUARTER

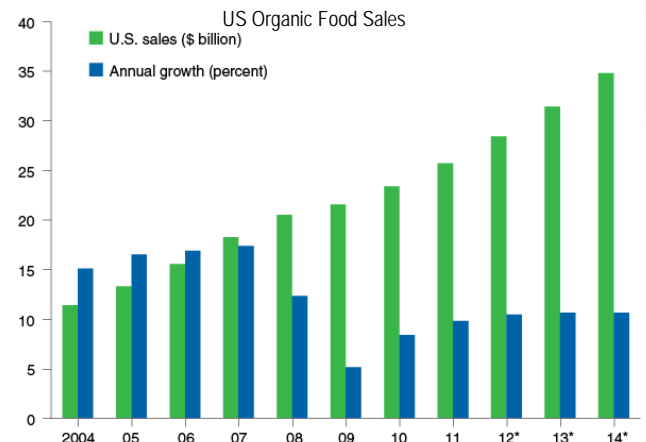
2015

This Industry Practice Group was established to draw on the experience of CFA advisors, many of whom as former business owners and CEOs, have first-hand knowledge and have completed many transactions in this industry. Working with your local CFA representative, you can be sure that the collective wealth of knowledge is available to every CFA client.

Food & Beverage M&A

M&A activity for North American based target companies in the Food and Beverage sector for Q2 2015 included 64 closed deals, according to data published by industry data tracker FactSet. The average transaction value was \$108 million. A key trend has been diversification as established brands look to increase sales by tapping into new markets. This was illustrated earlier in the year when J.M. Smucker agreed to acquire Big Heart Pet Brands from private equity groups KKR, Vestar, and Centerview for \$5.8 billion. The deal showed an established brand in the breakfast condiments sector to moving into the pet food space with its biggest acquisition ever.

This trend of diversification is expected to continue for the remainder of the year as traditional brands look to acquire positions in the growing organic food space. U.S. consumer demand for organically produced products has increased consistently since the USDA established national standards for organic production and processing in 2002. Although the USDA does not maintain official statistics on U.S. organic food sales, data suggest that the market share of organic sales held by various food categories has been remarkably stable over the last decade.



*Estimated. Source: USDA, Economic Research Service using data from *Nutrition Business Journal*, 2013.



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Transactional Overview

Notable closed transactions for the period in the Food and Beverage sector include:

June 2015 - Frutarom Industries Ltd acquired Crestmont Investment Co for US\$4 million in cash. Frutarom Industries Ltd. engages in the development and manufacture of flavors and ingredients for industries such as food, beverage, fragrance, pharmaceutical, nutraceutical, and cosmetic. Crestmont develops, manufactures and markets of flavor extracts for the pharma, food and beverages industries.

June 2015 - Campbell Soup Co acquired Garden Fresh Salsa Co Inc. for US\$231 million. Campbell Soup Co. engaged in manufacturing and marketing of convenience food products includes soup and sauces, baked snacks and healthy beverages through its subsidiaries. Garden Fresh Salsa Co produces refrigerated salsa products.

June 2015 - Riviana Foods Inc., subsidiary of Ebro Foods SA, acquired the operations and assets of the US consumer rice business of Ricetec Inc. for US\$45 million in cash. Riviana Foods, Inc. processes, markets and distributes rice products and other food products. Its brands include Mahatma, Carolina and Success. RiceTec, Inc. develops, produces and markets hybrid rice products. The company's products include Texmati, Jasmati, Kasmati, and aromatic rices like couscous, risotto, and sushi rice.

Selected Q2 Closed Transactions	
Target/Issuer	Buyers/Investors
Crestmont Investment Co.	Frutarom Industries Ltd.
Lamb's Markets	Bales Marketplace
Ricetec Inc /US Consumer Rice Bus/	Riviana Foods, Inc.
Golden County Foods, Inc.	Monogram Appetizers
Investissements BSA, Inc.	Frutarom Industries Ltd.
Bad Daddy's International LLC	Good Times Restaurants, Inc.
Okanagan Specialty Fruits, Inc.	Intrexon Corp.
B&R Liquid Adventure LLC	American Brewing Co., Inc.

M&A Trends

As the global trend toward healthier foods continues, a key driver for M&A activity are targets in the organic, gluten-free, natural foods segments. Larger established brands are counting on M&A as means to grow in the newer healthier environment. An example is Hormel Foods' recent acquisition of Applegate Farms and its Applegate brand for \$775 million. Applegate is a leading brand in the natural and organic value-added prepared meats category.

Industry Update

The trend towards healthier foods is also impact the value of established "junk food" brands. Diversified food companies in the US are shedding manufacturing operations amid weak demand for cookies and snacks. Post Holdings announced plans in March 2015 to close its PowerBar manufacturing facility in Boise, Idaho and shift production of the products to a third-party provider. Post's decision reflects the difficult environment in the food and beverage industry, which has struggled as consumers' tastes have shifted to healthy, fresh food, according to The Wall Street Journal. Post's announcement comes a month after General Mills announced it will close a Pillsbury refrigerated baked goods plant in New Albany, Indiana, and little more than a year after Kellogg decided to shutter a cookie plant in Charlotte, North Carolina.

Key Indicators

- US nondurable goods manufacturers' shipments of food products, an indicator of demand for food manufacturing, fell 0.8 percent year-to-date in May 2015 compared to the same period in 2014.
- US retail sales for food and beverage stores, a potential measure of food demand, increased 3.2 percent in the first six months of 2015 compared to the same period in 2014.
- According to data from the Interindustry Economic Research Fund, Inc. (IERF), revenue for US food manufacturers is forecast to grow at an annual compounded rate of 4 percent between 2015 and 2019.

The Food and Beverage Practice Group provides M&A advice to public and private companies in all sectors of the food and beverage industry, including frozen and non-frozen food manufacturing, meat processing, dairy, beverages, snack foods, restaurants, food franchises, food packing equipment and food distribution.

