

Food Industry

In Focus



*Leading Independent North American Financial Advisor
to the Food & Agriculture Sector*

Q1 2024 HIGHLIGHTS AND TRENDS

- ▶ See inside for useful trends in the latest earnings, stock prices and M&A activity among food companies in North America
- ▶ Common trends among many are optimizing current businesses or portfolios instead of making bold new acquisitions
- ▶ Many groups are practicing caution navigating high debt service costs resulting in a renewed focus on “core” business and maximizing margin profile and cash flow generation

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1 Focus and Efficiency Over Breadth, Leading to Divestitures

- We've noticed while some of the large, branded food players are on the hunt for big branded acquisitions, others have been focused on rationalizing their portfolio and in many cases divesting divisions or segments that haven't been successful in driving growth, margins and/or cash flows
- SunOpta, Utz, B&G, Benson Hill, IFF, for instance have all appeared more focused on divestitures rather than acquisitions

What it Means

After a period of growth at all costs, margins are in focus. In some cases, the best way to grow margins is gaining scale in your niche, but in the current market where there isn't a private company to buy, looking to a divestiture can be a great win. Big food companies can't be focus on everything

2 We Might be at a Price Growth Plateau

- More commentary from the big brands has us hearing that costs have stabilized which has meant price increases can stabilize as well
- As we flirt with the idea of a recession (or a soft landing – however it may be characterized), most companies are hesitant to hike prices at the expense of volumes

What it Means

There's great value in owning brands and products at different price points in the category. For instance, if you own a premium cereal brand and a cheaper substitute (cereal, oats or something simpler) it can help protect volume when customers decide to switch. In times like these, this product depth can be critical

3 "Everyone" is Being Cautious with Capital

- The climate for investing in "new" business or growth stories is still slow. For instance, Pitchbook's Q4 2023 report on VC funding into foodtech showed a nearly 60% drop in financing volume in 2023 from 2022. Anecdotally, we're seeing similar trends – capital is going to established businesses with proven models and profitability rather than new ideas
 - Then of course to buck the trend, Marc Lore raised \$700 million for his delivery startup, Wonder, proving there still is money out there for the right people and the right ideas

What it Means

A lot of companies within private equity, public and founder-owned hands are focused on improving margins in their existing business over strategic activity. But, there are some great deals out there for experienced and knowledgeable investors and strategic acquirors

KEY INDUSTRY TRENDS, M&A AND OTHER NEWS

► Q3 Earnings

- Of the 16 companies we track, 10 released EBITDA results above the prior year and 6 were below. Overall, EBITDA margins on average were down 9% in Q4 as sales volume decline
- Share prices have overall remained down in the last 3 months with only 2 of the companies showing 10% plus share price growth and groups like TreeHouse Foods and J&J Snack Foods down more than 10%

► M&A and Other Trends

- There were some big deals announced in 2023 (Hostess, Sovos), but there haven't been major splashes yet in 2024. On top of that, the **Kroger-Albertson** merger is still in limbo as the FTC has sued to stop it from happening
- A few smaller deals have happened including:
 - **Swander Pace** selling their pickle business **Patriot Pickle** to **H.I.G. Capital**
 - **Twin City Foods** and **Smith Frozen Foods** merged to create TCF Holdings. The companies both focus on frozen fruits and vegetables
- PE shop **Brynwood Partners** has hired Houlihan Lokey to sell their **Hometown Food** business, a portfolio of brands previously owned by **Smuckers**
- **Utz** sold a variety of brands and assets including 3 facilities, **Good Health** and **R.W. Garcia** brands for \$182 million in proceeds so they can repay debt
- A salad and lettuce brand called **80 Acres Farms** acquired Toronto based **Mother Raw** to add salad dressings to its product offering

KEY PUBLIC COMPANY METRICS

All Figures in USD millions unless indicated

| | TEV | TEV/EBITDA | | EBITDA Margin | | 3 Year Growth | |
|-----------------|---------|--------------|--------------|----------------|--------------|---------------|-------------|
| | | 2024E | 2025E | Recent Quarter | LTM | EBITDA | Revenue |
| Mondelez | 114,930 | 15.5x | 14.6x | 17.8 % | 20.0 % | 6.2 % | 9.0 % |
| Kraft Heinz | 61,302 | 9.5x | 9.2x | 23.6 % | 23.9 % | 0.6 % | 1.1 % |
| General Mills | 49,632 | 11.9x | 11.6x | 21.3 % | 20.3 % | 0.5 % | 3.4 % |
| Hershey | 44,794 | 14.6x | 13.9x | 21.3 % | 26.4 % | 9.0 % | 8.6 % |
| Kellogg | 24,841 | 11.1x | 10.6x | 15.4 % | 13.9 % | 2.9 % | 3.1 % |
| McCormick | 23,054 | 18.2x | 17.1x | 19.7 % | 18.2 % | (0.5)% | 2.5 % |
| Conagra | 22,673 | 9.8x | 9.5x | 17.3 % | 18.7 % | 0.0 % | 2.6 % |
| Hormel | 21,043 | 14.7x | 13.9x | 11.1 % | 10.8 % | 2.5 % | 1.6 % |
| Lamb Weston | 18,436 | 11.6x | 10.6x | 21.8 % | 21.7 % | 34.4 % | 23.4 % |
| Campbell Soup | 17,472 | 9.5x | 8.6x | 18.7 % | 18.8 % | (1.5)% | 4.6 % |
| Post | 12,477 | 9.3x | 9.0x | 16.9 % | 15.7 % | 16.2 % | 17.6 % |
| TreeHouse Foods | 3,337 | 9.0x | 8.3x | 8.4 % | 10.0 % | 23.6 % | 6.9 % |
| Utz Brands | 3,138 | 15.8x | 14.1x | 8.4 % | 7.9 % | 30.6 % | 11.1 % |
| B&G Food | 2,948 | 9.5x | 9.3x | 14.7 % | 15.1 % | (2.6)% | (1.5)% |
| J&J Snack Foods | 2,921 | 14.7x | 13.1x | 7.6 % | 11.3 % | 17.8 % | 6.7 % |
| Mean | | 12.3x | 11.6x | 16.3% | 16.8% | 9.3% | 6.7% |

KEY INDUSTRY TRENDS, M&A AND OTHER NEWS

► Q3 Earnings

- Of the 8 companies we track, 6 released EBITDA results above the prior year and 2 were below. Overall, EBITDA margins on average were up 3% in Q4
- Over the past three months, share price trends have varied. Tate & Lyle's shares fell by 9% due to missed topline performance in the quarter ending December 31, whereas Glanbia's shares increased by over 10%, driven by robust earnings for the full year of 2023

► M&A and Other Trends

- **Benson Hill** divested its soy processing plant in Creston, Iowa for US\$72 million. This continues Benson Hill's strategic review process and is the second soybean processing divestiture to White River in the past six months
- **EASY BIO**, a leading South Korean animal nutrition company has successfully acquired a 100% stake in **Devenish Nutrition LLC**, a prominent U.S. feed ingredient/additive company. The acquisition, finalized on February 29, marks a strategic move by EASY BIO to reinforce its feed additive and premix business in North America
- **Harwood Private Equity** acquired **Crest Foods**, which develops stabilizer formulations for the dairy world. It also has a contract packaging segment of the business.
- **Sugar Foods** acquired **Concord Foods**, producer of custom ingredients and retail food products based in Massachusetts. Sugar Foods has 4 facilities and makes things like crunchy toppings, croutons, beverage ingredients and pizza toppings.
- **ADM** expanded capabilities in the manufacturing of syrups, sauces and extracts by acquiring **Fuerst Day Lawson**
- **New Horizons Baking** acquired **Graffiti Foods**, which supplies customized liquid blend solutions for restaurants based in Ohio
- **Kerry** announced acquisition of **Lactase Enzymes Business** of Chr. Hansen and Novozymes, for US\$162 million. This acquisition will enhance Kerry's biotechnology solutions capability
- In a big deal, **Roquette** intends to acquire the pharma unit of International Flavours & Fragrances (IFF) for US\$ 2.85 billion. The acquisition will help Roquette expand its drug delivery and oral dosage solutions business

KEY PUBLIC COMPANY METRICS

All figures in USD millions unless indicated

| | TEV/EBITDA | | | EBITDA Margin | | 3 Year Growth | |
|--------------------|------------|--------------|-------------|----------------|--------------|---------------|-------------|
| | TEV | 2024E | 2025E | Recent Quarter | LTM | EBITDA | Revenue |
| IFF | 30,883 | 15.1x | 13.7x | 14.9 % | 15.3 % | 4.0 % | 2.9 % |
| Associated British | 25,198 | 7.2x | 6.8x | 10.8 % | 10.2 % | 19.7 % | 5.2 % |
| Kerry | 17,241 | 12.7x | 11.5x | 16.3 % | 14.2 % | 6.1 % | (1.8)% |
| Darling | 11,590 | 7.0x | 6.6x | 18.8 % | 16.2 % | 25.1 % | 11.5 % |
| Ingredion | 9,781 | 8.1x | 7.8x | 13.2 % | 14.5 % | 10.1 % | 1.6 % |
| Glanbia | 5,375 | 10.3x | 9.8x | 8.1 % | 8.1 % | 16.4 % | 10.0 % |
| Tate & Lyle | 3,348 | 8.0x | 7.6x | 20.8 % | 17.2 % | 0.8 % | 5.1 % |
| Sensient | 3,598 | 14.2x | 13.2x | 13.5 % | 16.3 % | 4.7 % | 9.0 % |
| Mean | | 10.3x | 9.6x | 14.5% | 14.0% | 10.8% | 5.4% |

KEY INDUSTRY TRENDS, M&A AND OTHER NEWS

▶ Q3 Earnings

- Of the 6 companies we track, 4 released EBITDA results above the prior year and 2 were below. Overall, EBITDA margins on average were up 6% in Q4
- Over the last 3 months Whole Earth Brands and SunOpta saw the biggest increase in their share price, rising over 35% owing to a strong growth reported during the quarter. Meanwhile, the other players declined on average 15% over the last 3 months

▶ M&A and Other Trends

- **Creations Foods** (owned by Rio Investment Partners) acquired **Highkey Snacks** based in Florida. Both companies are all about healthy cookies, wafers and cheese snacks
- **RIND Snacks** acquired **Small Batch Organics** to get into the world of granola (beyond just dried fruit)
- Though growth has slowed down, there's still lots of focus on plant-based. For instance, **Kraft Heinz** announced it will develop plant-based sausages and hotdogs with **NotCo** under the Oscar Mayer brand. They also launched the first plant-based KD offering, "KD NotMacand Cheese", which marks the first Canadian brand to launch a product out of Kraft Heinz and Not Company, Inc. Joint Venture
- **Sababa Holdings** is looking to acquire **Whole Earth Brands** who focuses on plant-based sweeteners, flavour enhancers and other better-for-you products, for an all-cash transaction with \$4.87 per share with an estimated 9x - 10x EBITDA. The transaction concludes a strategic review process, providing immediate liquidity to the shareholders at a significant premium
- **Maple Leaf Foods** is merging its plant and meat protein divisions as many in the "meat" industry fumble with how dominant plant-based will become in their portfolios

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|--------------------------------|-------|--------------|--------------|----------------|--------------|---------------|-------------|
| | | 2024E | 2025E | Recent Quarter | LTM | EBITDA | Revenue |
| The Simply Good Foods Company | 3,586 | 13.5x | 12.6x | 18.7 % | 18.3 % | 10.6 % | 9.5 % |
| The Hain Celestial Group, Inc. | 1,671 | 10.6x | 9.8x | 9.0 % | 7.3 % | (12.0)% | 12.2 % |
| Beyond Meat, Inc. | 1,557 | neg | neg | (56.3)% | (59.9)% | (9.3)% | (2.8)% |
| SunOpta Inc. | 1,199 | 13.4x | 11.2x | 8.4 % | 9.9 % | 30.2 % | (10.9)% |
| Whole Earth Brands, Inc. | 619 | 7.7x | 6.8x | 11.3 % | 9.4 % | 15.4 % | 11.4 % |
| Lifeway Foods, Inc. | 156 | 10.0x | n.a. | 14.3 % | 10.6 % | n.a. | 5.4 % |
| Mean | | 11.0x | 10.1x | 0.9% | -0.7% | 7.0% | 4.1% |



KEY INDUSTRY TRENDS, M&A AND OTHER NEWS

► Q3 Earnings

- Of the 9 companies we track, 6 released EBITDA results above the prior year and 3 were below. Overall, EBITDA margins on average were up 17% in Q4.
- Canadian food stocks have trended sideways over the last 3 months, with 3 year revenue growth fairly modest (5% average for our companies)

► M&A and Other Trends

- Canadian private equity firm **Fengate** made a move in the food space, acquiring **Saco Foods** based in Wisconsin to serve as a branded and private label platform
- The once fast-growing keto protein bar company **Love Good Fats** declared bankruptcy as the business was hit hard by the pandemic and wasn't able to recover. You'll still see it on shelves, but a group called **Propel Natural Brands** has taken over the brand and certain assets
- Continued consolidation in the meal-kit space as Vancouver based **Fresh Prep Foods** (backed by Yellow Point and Renewal) acquiring Montreal based **Cook it** (backed by District Ventures and Fonds)
- Restaurant group **Foodtastic** acquired Archibald Restaurants and their 6 brewpubs in Quebec
- **Swander Pace** continues their activity in the Canadian food market acquiring bakery business **Boulangerie St-Method** in a partnership with **Roynat**
- **Prime Drink Group** announced an offer to acquire **Triani**, specializing in producing and bottling beverages. The transaction implies an initial multiple of 4.5x trailing EBITDA but includes a significant earnout over 3 years that if fully paid would imply 8.5x
- In a small deal, **Pilot Coffee** based in Toronto acquired **Bridgehead**, a coffee brand with over 15 locations in the Ottawa area. They paid \$3.5 million
- **Protein Industries Canada** announced multiple new projects to advance the creation of product formulations targeted to plant-based alternative products such as yogurt, dairy and seafood as well as high-protein product formulations. Key food and ingredient players involved in the projects include **Avena Foods**, **Burcon**, **HPS Food**, **Puratos Canada**, **Konscious Foods**, **Canadian Pacifico Seaweeds**, **Prairie Fava**, **DL Seeds** and **Three Farmers**

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|-----------------------|--------|-------------|-------------|----------------|-------------|---------------|-------------|
| | | 2024E | 2025E | Recent Quarter | LTM | EBITDA | Revenue |
| Saputo | 11,081 | 10.0x | 8.7x | 8.7 % | 8.0 % | 0.5 % | 3.9 % |
| Premium Brands | 4,934 | 10.3x | 9.0x | 7.0 % | 6.2 % | 22.0 % | 9.3 % |
| Maple Leaf Foods | 3,539 | 8.4x | 7.1x | 4.2 % | 5.2 % | 18.5 % | 1.2 % |
| Lassonde | 940 | 5.6x | n.a. | 8.6 % | 7.8 % | 7.4 % | 5.9 % |
| Rogers Sugar | 824 | 9.3x | 8.9x | 11.0 % | 10.3 % | 1.4 % | 7.9 % |
| High Liner | 560 | 5.8x | 5.2x | 7.9 % | 7.9 % | 7.4 % | (2.9)% |
| Andrew Peller | 299 | 12.9x | 7.4x | 13.2 % | 8.4 % | (7.6)% | n.a. |
| Corby Spirit and Wine | 343 | n.a. | n.a. | 26.9 % | 23.7 % | n.a. | 6.7 % |
| Swiss Water | 103 | 9.7x | n.a. | 16.1 % | 8.9 % | n.a. | n.a. |
| Mean | | 9.0x | 7.7x | 11.5% | 9.6% | 7.1% | 4.6% |

ABOUT US

Origin Merchant Partners is a leading Independent North American Financial Advisor to the Food & Agriculture Sector.

To learn more about our active food & agriculture practice, please reach out to any of our team members below.

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