

Food Industry

In Focus



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

Q3 2024 HIGHLIGHTS AND TRENDS

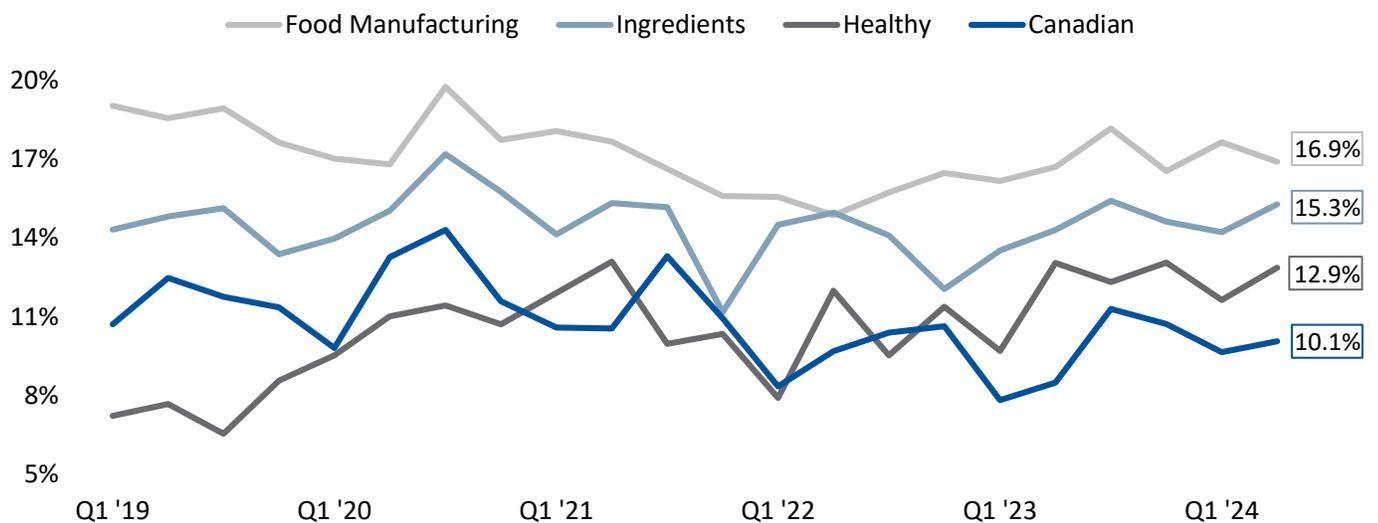
- ▶ Inflation and its impact on margins is still persistent across the industry, but there are some positive signs of stabilization
- ▶ Larger public company deals have been happening across subsectors and at healthy multiples
- ▶ Financing activity and availability of capital in Canada is picking up in select segments



Biting into Inflation: How Food Companies Are Adapting

- ▶ Inflation has been the talk across the food industry as we saw the highest inflation rates in over 40 years in North America due to supply chain disruptions, transportation challenges and labour issues
- ▶ Typically, higher costs have been challenging to fully pass onto consumers. This can be seen in some of the margin impacts to the major public food companies and lags within the B2B side. Margins for the food manufacturers dipped in 2022 at the same time as ingredient players strengthened
- ▶ Since 2023, margins have generally improved, but for the Canadian players we track below, and the large food manufacturing and CPG names, margins have yet to recover from 2019 levels

QUARTERLY FOOD FOCUS EBITDA MARGINS BY SECTOR



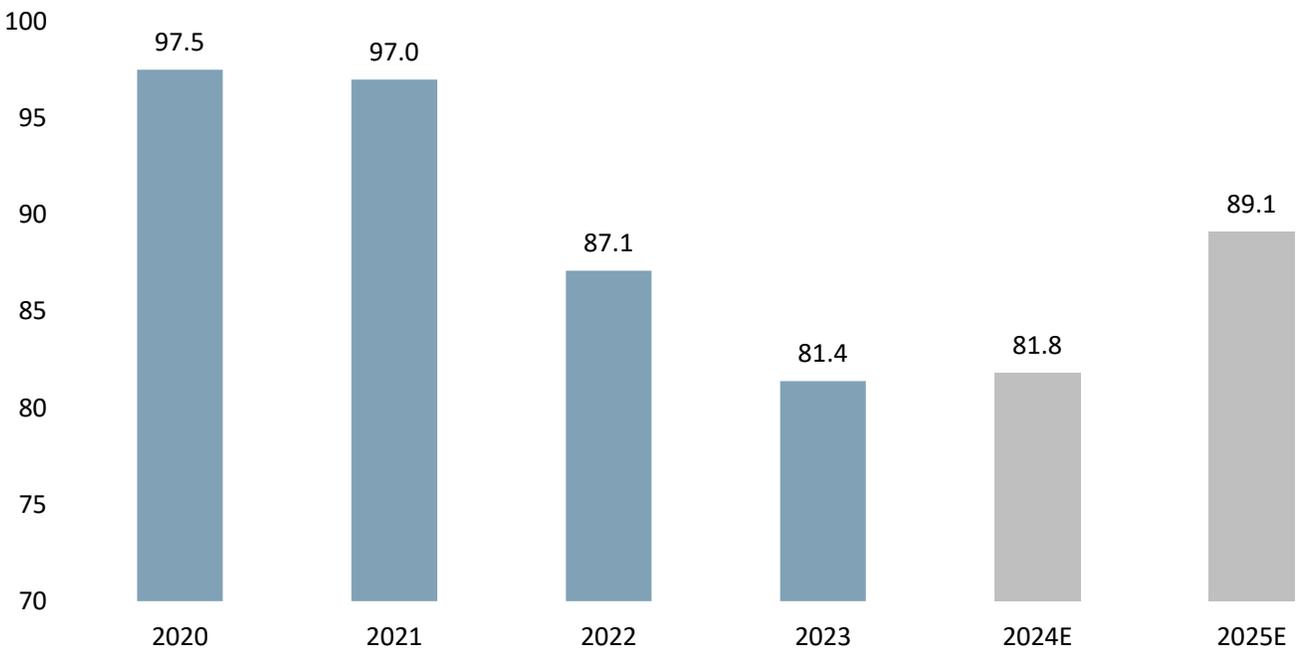
5-Year Average EBITDA Margin	
Food Manufacturing	17.2%
Ingredients	14.5%
Healthy	10.5%
Canadian	10.8%

Biting into Inflation: How Food Companies Are Adapting (cont'd)

- ▶ There have been challenges across the food chain which has forced producers and distributors to focus on internal efficiencies and cost reduction initiatives
- ▶ As inflation rates decline to 'normalized' levels, we are likely to see margin and profitability improvement across the board, as we saw in the latest quarter of results in our Q3 report
- ▶ Lowering interest rates and a need for internal efficiencies and growth, has focused many groups in the food industry on M&A growth as a next step to diversification, scale, stability and profitability

ANNUAL FOOD AND BEVERAGE MARGINS

Gross Margin Index (2019 = 100)



KEY INDUSTRY TRENDS, M&A AND OTHER NEWS

▶ Q3 Earnings

- Of the 16 CPG and Manufacturers we track, 7 released EBITDA results above the comparable prior year period and 9 were below. Overall, EBITDA margins on average were up 13.5% in Q3
- Share prices overall rebounded in the last 3 months with only 2 of the companies showing share price decrease and groups such as **General Mills** and **Mondelez** up more than 10%

▶ M&A and Other Trends

- M&A and financing activity in Q3 included some notable transactions by global CPG behemoths like Mars, General Mills and PepsiCo. With inflation subsiding and increasing visibility on interest rate cuts, large strategics are coming back to the market to both acquire or divest significant assets
- Notable deals involving large strategics:
 - Premium California wine-maker **Duckhorn Portfolio** was targeted for a take-private deal by **Butterfly Equity**, with the current offer valuing Duckhorn at roughly US\$2.0 billion or 13.8x EV/EBITDA
 - **General Mills** announced the break-up and sale of its North America yogurt business for US\$2.1 billion. **Lactalis** will acquire the U.S. business and **Sodiaal** will buy the Canadian division
 - **PepsiCo** announced the acquisition of **Siete Foods** for US\$1.2 billion from PE fund **Stripes Group**. Siete is a Mexican-American brand of grain-free tortillas, salsas, seasonings, sauces, cookies and snacks
 - **Tilray Brands** announced the acquisition of **Terrapin Beer Co., Atwater Brewing Co., Hop Valley Brewing Co.**, and **Revolver Brewing** from **Molson Coors**
- Some additional transactions notable in the quarter:
 - **Rise Baking**, a U.S.-based provider of baked goods, was purchased by **Platinum Equity** and **Butterfly**
 - Chicago-based sponsor **Benford Capital** acquired **Turri's Italian**, a RTE pasta and rice maker
 - **QualiTech** (backed by **MidOcean Partners**) has acquired **Ellison Bakery** from **Tilia Holdings**

NOTABLE DEAL OF THE QUARTER

Kellanova

MARS

- ▶ **Mars** announced the acquisition of publicly traded snack-maker **Kellanova** for an enterprise value of US\$35.9 billion, or 16.4x trailing EV/EBITDA
- ▶ Mega-merger of two behemoths in the CPG food space, with Mars now controlling *Pringles, Cheez-It, Pop-Tarts, Rice Krispies Treats, NutriGrain* and *RXBAR* among others
- ▶ Key strategic rationale drivers include acquisition of high growth, complimentary snacking brands, as well as some cost efficiencies across the organizations
- ▶ Kellanova's product lineup complements Mars' existing businesses and broadens its scope beyond chocolate and pet care and further into non-sweet snack foods from competitors like PepsiCo and Mondelez
- ▶ A key takeaway: Major portfolios of attractive brands are rare and typically garner significant interest and value in nearly any market environment

KEY INDUSTRY TRENDS, M&A AND OTHER NEWS

▶ Q3 Earnings

- Of the 8 Food Ingredients companies we track, 5 released EBITDA results above the prior year comparable quarter and 3 were below. Overall, EBITDA margins on average were up 7.4% in Q3
- Over the past three months, share price trends have been mixed. **Glanbia’s** shares fell by 17% on weak earnings, whereas **Kerry Group** and **Ingredion’s** shares increased by 19% and 18%, respectively, on strong quarterly results

▶ M&A and Other Trends

- Q3 M&A activity in the ingredient space saw continued demand by well-capitalized parties seeking transactions delivering geographic/market expansion and margin accretion through additional value-added/technical ingredients
- Swiss ingredient producer **Jungbunzlauer**, announced a Canadian investment of US\$200 million in a “first-of-its-kind” facility in Ontario, focused on xanthan gum (a thickening and stabilizing agent derived from corn, soy, dairy or wheat)
- The French fermentation ingredient producer **Lesaffre**, acquired a majority stake in **Biorigin**, a business unit of **Zilor**, to improve the supply of yeast derivatives for savory ingredients
- **Corbion**, the global specialty ingredient player, has acquired the bread enhancement business from **Novotech Food Ingredients** India, to expand its regional presence and diversify its portfolio
- A couple of notable transactions in the flavour ingredient space:
 - **Mosaic Flavors** acquired flavour supplier **First Coast Flavors**. Mosaic Flavors is the rebranded amalgamation of OC Flavors and Novotaste and is backed by **Shore Capital Partners**
 - Japan-based fragrances and flavours player **T. Hasegawa**, broadened its North American presence with the acquisition of California-based **Abelei Flavors**
- In primary processing, **Bay State Milling Company** acquired the assets of **Montana Gluten Free LLC** to expand its capabilities in and processing of gluten-free oats and related products

NOTABLE DEAL OF THE QUARTER



- ▶ French sauces and coatings manufacturer, **Solina**, expands its premium food solutions portfolio with the acquisition of **Rich Sauces**
- ▶ Rich Sauces is a UK based manufacturer of sauces, marinades and condiments across foodservice and retail
- ▶ This acquisition marks the fourth sauces and coatings acquisition by Solina since the beginning of 2023
- ▶ Follows the trend around premium artisanal products for Solina and bolstering consumer interest for bold flavours and international cuisines

KEY INDUSTRY TRENDS, M&A AND OTHER NEWS

▶ Q3 Earnings

- Of the 5 'Better-for-You' companies we track, 3 released EBITDA results above the prior year comparable quarter and 2 were below. Overall, EBITDA margins on average were down 2.7% in Q3
- Over the last 3 months Lifeway Foods saw the largest share price increase, rising over 122% from Danone's takeover offer. The Hain Celestial Group and SunOpta's shares were up 22% and 17%, while **The Simply Good Foods Company** and **Beyond Meat** saw single digit percent share price retreat

▶ M&A and Other Trends

- Healthy food is trending again, although it's hard to draw conclusions yet. Transaction sizes tend to be smaller than more mature deals, and there is significant activity in the 'better-for-you' sector as major players wade back in to find innovation and growth
- Alcohol companies expand into the rapidly growing non-alcohol space; **Diageo** acquired non-alcoholic gin and whiskey business called **Ritual Beverage**
- **Perricone Farms**, a California juice company acquired **Natalie's Orchid Island Juice Company** based in Florida
- In the trend of high-protein and low carb, **Our Home** acquired **ParmCrisps** from **Hain Celestial** and **Pop Secret** from **Campbell**
- **Saco Foods** recently acquired by **Fengate** completed an add-on of **Quinoa Corp** which includes the brands Ancient Harvest and Pamela's
- **Uproot** which makes dispenser systems for food services was acquired by **Califia Farms**
- **Manna Tree**, which first invested in 2020, acquired control of **Verde Farms**, a pioneer in grass fed and pasture raised beef
- One of North America's largest food importers, **Atalanta Corporation**, acquired **Big Picture Foods**, a high-quality line of fermented products (olives, peppers etc...) without fillers / preservatives

NOTABLE DEAL OF THE QUARTER

Lifeway
EST. 1986

DANONE

- ▶ **Danone** made an unsolicited offer to acquire **Lifeway Foods** for \$25.00 per share or roughly US\$280 million
- ▶ Lifeway is a kefir-based brand undergoing a family dispute, the offer implies over 15x LTM EBITDA
- ▶ The acquisition is both opportunistic and strategic for Danone as it extends the product set across fermented dairy
- ▶ Danone's current related brands, Activia and Oikos, now become stronger against competitors like General Mills and Nestle
- ▶ This segment of dairy has been growing due to perceived health benefits including gut health and probiotic content along with kefir's high protein and low sugar properties



KEY INDUSTRY TRENDS, M&A AND OTHER NEWS

▶ Q3 Earnings

- Of the 9 Canadian Food companies we track, 7 released EBITDA results above the prior year comparable quarter and 2 were below. Overall, EBITDA margins on average were up 5.5% in Q3
- Canadian food stocks were mixed, with a slight bias towards share price growth as 7 companies had their shares increase, anywhere from flat to 17%, while Saputo and Maple Leaf Foods had 10% contractions in their share prices

▶ M&A and Other Trends

- **Happy Belly**, the up-and-coming QSR acquisition leader of Canada acquired a couple salad focused brands in **SALUS** and **IQ Foods**
- **Ya Ya Foods** (owned by E2P) acquired **Truss Beverage** from **Tilray Brands** and its 186,000 square foot beverage facility in Belleville, Ontario. Truss Beverage was originally a cannabis drink venture between Tilray and **Molson-Coors**
- Healthy cracker company, **The Humble Seed**, was acquired by **Manitoba Harvest**
- **Valeo Foods** of Europe acquired **Appalaches Nature**, a Canadian maple syrup business
- **Natura Market** was sold out of **Freshii/Foodtastic**, acquired by **Revive Superfoods**
- Looking into the food industry beyond restaurants, Canadian based **Gestalt Capital** acquired **CDS Foods** based in Montreal where it imports fresh produce including garlic and ginger
- Some notable financings:
 - **New School Foods** raised \$8 million to advance plant-based seafood
 - **Uni-One** food distribution raised \$10 million
 - Athlete nutrition business **Naak** raised \$5 million
 - Vertical farm company **Vision Greens** raised \$18 million
 - **Sperry** raised capital to expand its beverage line into the US
 - **Maison Russet** raised \$30 million for more potatoes

NOTABLE DEAL OF THE QUARTER



- ▶ **Sagard-backed Courchesne Larose**, based in Quebec, entered Ontario with the acquisition of **Veg-Pak**, a business focused on value-added produce products
- ▶ There have been a variety of notable transactions in smaller distribution businesses across North America as the industry matures and develops
- ▶ Many founders are looking to exit, while some of the highly acquisitive groups in the space like **GrubMarket** are using technology to drive volume and efficiencies along with bigger scale through acquisitions

CPG & FOOD MANUFACTURING

All Figures in USD millions unless indicated

	TEV	TEV/EBITDA		EBITDA Margin		3 Year Growth	
		2024E	2025E	Recent Quarter	LTM	EBITDA	Revenue
Mondelez	113,783	15.3x	15.1x	14.9 %	21.9 %	6.8 %	8.4 %
Kraft Heinz	61,089	9.5x	9.2x	25.5 %	24.7 %	0.4 %	0.2 %
General Mills	53,114	12.8x	12.8x	20.4 %	21.3 %	0.4 %	3.3 %
Hershey	43,117	14.2x	14.3x	21.0 %	27.4 %	8.5 %	8.1 %
Kellogg	34,060	15.0x	14.4x	18.7 %	14.8 %	3.4 %	2.6 %
McCormick	25,845	20.2x	18.9x	20.5 %	19.0 %	(0.1)%	1.9 %
Conagra	22,632	9.7x	9.9x	18.2 %	18.8 %	0.3 %	2.6 %
Campbell Soup	21,573	11.6x	10.6x	16.6 %	18.5 %	(1.1)%	4.5 %
Hormel	19,296	13.6x	12.8x	11.1 %	11.3 %	2.2 %	1.7 %
Lamb Weston	14,058	9.3x	10.2x	18.3 %	20.0 %	32.1 %	21.3 %
Post	12,679	9.2x	9.0x	16.9 %	16.5 %	17.5 %	16.5 %
TreeHouse Foods	3,552	9.7x	8.6x	9.2 %	8.6 %	23.4 %	7.1 %
Utz Brands	2,910	14.6x	13.0x	10.6 %	8.6 %	30.8 %	6.4 %
B&G Food	2,701	9.0x	8.8x	14.4 %	14.9 %	(3.6)%	(1.7)%
J&J Snack Foods	3,348	16.3x	14.2x	15.5 %	11.9 %	19.0 %	11.4 %
Mean		12.7x	12.1x	16.8%	17.2%	9.3%	6.3%

FOOD INGREDIENTS

All Figures in USD millions unless indicated

	TEV	TEV/EBITDA		EBITDA Margin		3 Year Growth	
		2024E	2025E	Recent Quarter	LTM	EBITDA	Revenue
IFF	35,529	16.3x	15.1x	17.2 %	16.1 %	6.3 %	(1.1)%
Associated British	25,912	6.8x	7.0x	12.2 %	11.5 %	22.8 %	12.4 %
Kerry	19,443	14.2x	13.0x	13.8 %	14.5 %	6.5 %	1.3 %
Darling	10,348	8.5x	6.6x	13.5 %	14.9 %	12.5 %	7.8 %
Ingredion	10,053	8.3x	7.9x	16.9 %	14.5 %	10.5 %	3.6 %
Glanbia	5,040	9.7x	9.2x	13.9 %	10.5 %	16.3 %	(7.5)%
Tate & Lyle	3,633	8.8x	7.9x	20.0 %	18.4 %	0.2 %	8.5 %
Sensient	3,909	15.0x	13.6x	16.4 %	16.0 %	5.7 %	4.0 %
Mean		11.0x	10.0x	15.5%	14.5%	10.1%	3.6%

BETTER-FOR-YOU FOOD MANUFACTURERS

All Figures in USD millions unless indicated

	TEV	TEV/EBITDA		EBITDA Margin		3 Year Growth	
		2024E	2025E	Recent Quarter	LTM	EBITDA	Revenue
The Simply Good Foods Company	3,405	12.8x	11.8x	20.0 %	18.9 %	10.7 %	9.8 %
The Hain Celestial Group, Inc.	1,558	10.2x	9.7x	7.9 %	7.8 %	(12.7)%	(4.1)%
Beyond Meat, Inc.	1,500	neg	neg	(30.8)%	(56.8)%	(10.0)%	(11.2)%
SunOpta Inc.	1,193	13.2x	11.1x	10.9 %	9.9 %	30.5 %	13.0 %
Lifeway Foods, Inc.	377	15.7x	12.9x	12.7 %	13.0 %	40.1 %	17.9 %
Mean		13.0x	11.4x	4.1%	-1.4%	11.7%	5.1%

CANADIAN FOOD COMPANIES

All Figures in USD millions unless indicated

	TEV	TEV/EBITDA		EBITDA Margin		3 Year Growth	
		2024E	2025E	Recent Quarter	LTM	EBITDA	Revenue
Saputo	11,436	10.4x	9.5x	8.3 %	7.9 %	0.2 %	3.6 %
Premium Brands	5,099	11.1x	9.9x	7.5 %	6.5 %	20.5 %	8.0 %
Maple Leaf Foods	3,392	8.4x	7.1x	6.4 %	8.8 %	16.6 %	0.3 %
Lassonde	1,072	5.6x	4.9x	10.4 %	8.9 %	12.4 %	7.9 %
Rogers Sugar	832	8.3x	8.1x	7.1 %	9.3 %	5.8 %	8.5 %
High Liner	522	5.4x	5.1x	10.0 %	9.0 %	7.3 %	1.9 %
Andrew Peller	305	8.4x	8.1x	12.9 %	8.4 %	(7.8)%	(3.0)%
Corby Spirit and Wine	343	n.a.	n.a.	16.5 %	23.5 %	5.1 %	21.3 %
Swiss Water	97	n.a.	9.2x	11.4 %	8.9 %	n.a.	7.4 %
Mean		8.2x	7.7x	10.1%	10.1%	7.5%	6.2%

ABOUT US

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

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