GREENWICH CAPITAL GROUP

Food & Beverage M&A Update

Q1 2018

Q1 2018
U.S. Middle-Market M&A Update

Middle-Market M&A Activity Accelerates in Q1 2018

A combination of favorable interest rates, lower corporate tax rates, strong earnings and a thriving economy resulted in a very strong M&A market in Q1 2018. During the quarter, there were 6,910 reported middle-market transactions in the U.S. This is a sharp increase over prior quarters, specifically 9% growth over Q4 2017 and a 7% increase when compared to the first quarter of 2017. Q1 results put 2018 on pace to be the most active M&A market since 2015.

Middle-market deal values averaged $74.2 million in Q1, a level that has not been reached in the last five years. The Q1 average value also represents a 13% increase over the recent high in 2017 of $65.7 million. The increase in valuations can also be observed through the gradual shift away from the lower middle market in favor of slightly larger deals. Companies valued at less than $100 million have historically dominated the middle market and, while they still represent a large portion of total volume, those valued over $100 million are gaining share. In Q1 2018, deals valued over $100 million accounted for 24% of middle-market activity, representing another five-year high. For perspective, this segment accounted for 15% of activity in 2010 and has gradually increased to its recent high of nearly 22% in 2017.

Strategic and Domestic Buyers Continue to Dominate Middle-Market M&A

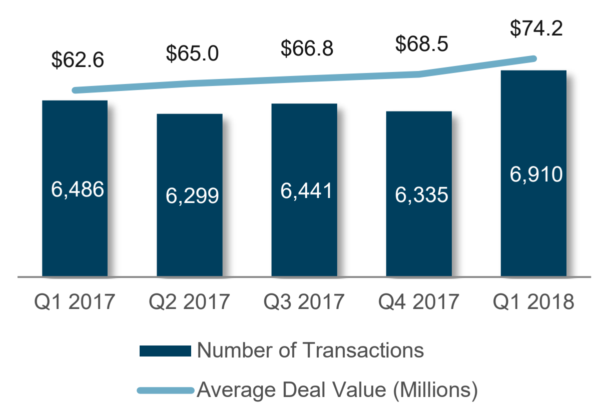
Strategic buyers continue to be the dominant buyer between strategic and financial buyers. This is to be expected given the strong earnings of strategic buyers, their cash positions and the recent tax cuts. Strategic buyers accounted for 68% of middle-market deals during Q1 2018. Despite this being in line with recent results, it is significantly higher than historical levels. From 2012 through 2016, for example, strategic buyers' share of M&A activity ranged between 62% and 65% of total deal flow.

The other component of the buyer base which continues to show strength is the domestic acquirers vs. foreign acquirers. In Q1 2018, domestic buyers accounted for 87% of the buyers targeting U.S.-based companies in the middle market. While this level is consistent with prior quarters, it is notably lower than historical levels due to a growing interest among foreign acquirers. From 2012 through 2016, foreign buyers ranged between 9% and 12% of the buyer base. Foreign buyers' increase to 13% of activity this quarter indicates the growing attractiveness of U.S.-based companies, which is expected to continue due to the relative strength of the U.S. economy and low interest rate environment.

Industry Sectors Tell a Clearer Story

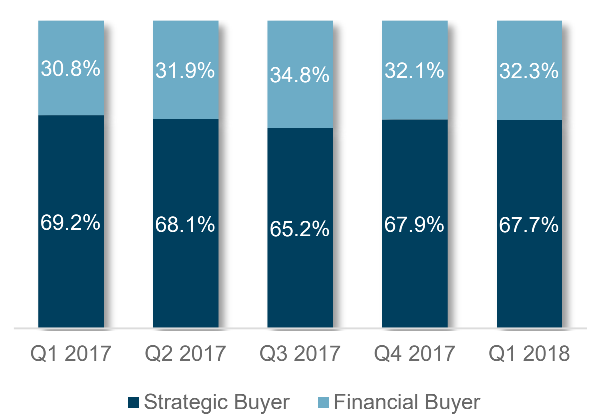
While the overall deal volume and value were quite strong during the first quarter of 2018, the underpinnings of this strength tell a clearer story. Three industries grew significantly in deal activity during the first quarter: Industrials, Healthcare and Technology. Conversely, the Energy, Utilities, Consumer and Financial sectors all showed a decline in deal activity from the prior quarter. While the overall deal activity is strengthening, certain industries are benefitting more than others from this increase.

M&A Volume and Average Enterprise Value



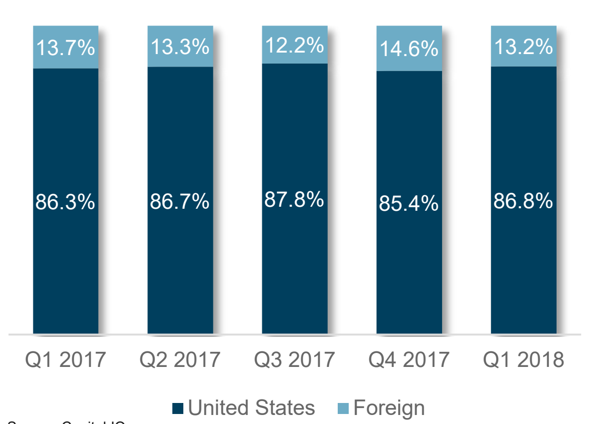
Source: Capital IQ

M&A Activity by Buyer Type



Source: Capital IQ

M&A Activity by Buyer Region



Source: Capital IQ

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Industry Highlight | Food & Beverage

Deal Values and Volume Temporarily Decline

Q1 2018 proved to be a down quarter in terms of deal volume for Food and Beverage ("F&B") middle-market M&A, with deal activity down nearly 10% compared to Q4 2017. Although F&B activity has continued to decline in recent quarters, transaction volumes are still at historically high levels and should see continued momentum in 2018. The average deal value in Q1 2018 of $62.5 million is an increase of nearly 20% vs. Q1 of 2017. The sustained increase in deal value over the last three quarters can be attributed to the ongoing trend of large food companies making acquisitions in excess of $100 million. Large companies with brands that are struggling to find organic growth are looking to up-and-coming brands that have developed consumer loyalty and meaningful market share to energize sales. A key example of this can be seen through Del Monte's acquisition of Mann's Packing Company for $361 million in February 2018. The Mann's brand represents a better-for-you line of products backed by a generational family-owned business that consumers have come to know and trust.

Private Equity Interest Continues to Grow

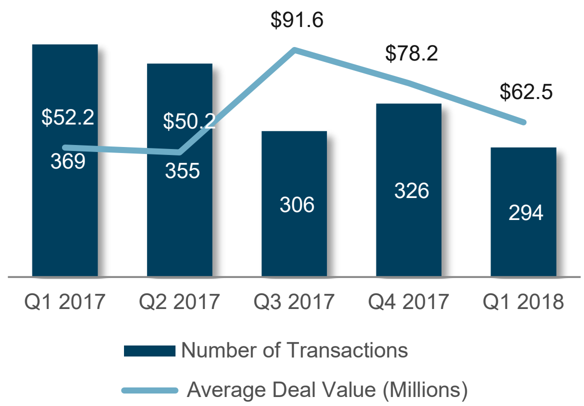
Both strategic and financial buyers have remained active in the Food and Beverage industry, accounting for 70% and 30% of acquisitions, respectively, in Q1 2018. Strategic buyers continue to dominate deal activity and have sought acquisitions to offset slowing organic growth and to diversify their offerings. However, Q1 2018 demonstrated a continued increase in financial buyer interest, representing over 30% of all deal volume for two consecutive quarters. Financial buyers continue to look for established brands that require capital and strategic insight to drive growth. A primary example of this can be seen with Spice Private Equity's acquisition of Bravo Brio Restaurant Group in March 2018 for $102 million.

Industry Outlook and Trends for 2018

Deal activity for 2018, although down in Q1, is expected to be in line with 2017 levels. As large Consumer Packaged Goods ("CPG") companies continue to move away from their tired and traditional product lines in order to cater to evolving consumer preferences, they will look to make acquisitions to bolster their positions in the Better-For-You sector. Consumers will continue to demand transparency in ingredient labels, sourcing and manufacturing processes. Historically, large CPG companies ignored industry fads that would come and go, but trends such as "natural", "organic" and "non-GMO" are here to stay as the millennials demanding these products are putting their money where their mouth is, literally.

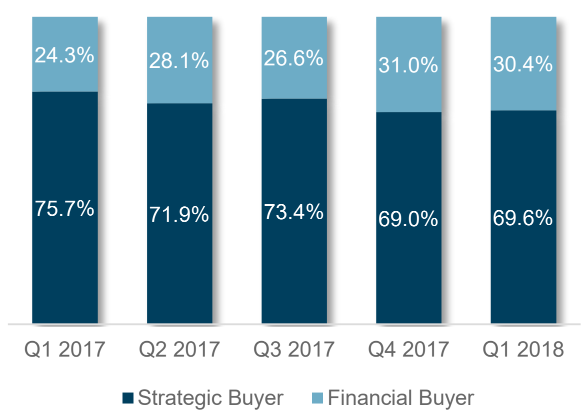
Another factor that will drive F&B deal activity will be the compounding pressure on retailers to develop scalable online grocery and fulfillment strategies. Traditional grocers and retailers are building their capabilities to compete in a new age, where groceries can be delivered to your doorstep in two hours and where you can pre-order goods at your local grocery store for quick pick up. Amazon's acquisition of Whole Foods in 2017 has put the industry on notice, and M&A activity will continue to follow as companies seek to acquire technological and delivery capabilities that will give them an edge over the competition and cater to evolving consumer demands.

F&B M&A Volume and Average Enterprise Value



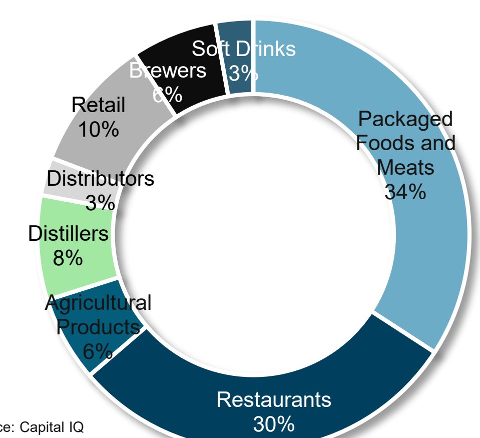
Source: Capital IQ

F&B M&A by Buyer Type



Source: Capital IQ

Q1 2018 F&B M&A by Sector



Source: Capital IQ

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About the Report

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About Greenwich Capital Group

GCG is a middle-market focused investment bank offering a range of strategic and financial advisory services to privately held businesses, private equity investors and divisions of publicly traded companies. Our senior bankers have held leadership positions at global investment banking firms, bringing a wealth of experience to each of our clients.

Research Methodology

For the purpose of this report, GCG defines middle-market M&A as an announced and/or completed transaction in which one company purchases a minority or majority equity stake in another company that is based in the United States and has an undisclosed or disclosed enterprise value less than or equal to $500 million. The information provided in this market overview was obtained from sources believed to be reliable, but its accuracy cannot be guaranteed. Statements provided herein reflect GCG's objective opinions and are not to be construed as legal, accounting, financial or investment advice.

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