



GREENWICH
CAPITAL GROUP



INDUSTRY UPDATE

Food & Beverage

Q4 2017

INDUSTRY UPDATE | U.S. Middle-Market M&A

Middle-Market M&A Remains Strong Despite a Dip in Transaction Volume

Deal flow in Q4 2017 remained consistent with prior quarters and concluded another strong year for middle-market M&A. Transaction volume totaled 25,561 at an aggregate value of \$168.2 billion for the year. While this represents a 3.3% decline from 2016 levels, 2017 still demonstrated a relatively strong M&A market. M&A activity has been on a modest decline since hitting its peak in 2014 with deal flow totaling 28,804 transactions. While 2017 represents an 11.3% decrease from this high, which may signal a weakening market, all of the underlying trends are quite strong.

One clear sign of the strength of this M&A market is the reported average valuation multiple, as measured by Enterprise Value / EBITDA, of 10.7x EBITDA, which represents the highest multiple witnessed over the past six years. Similarly, the average deal value for middle-market transactions has continued to rise over the same time period, reaching a high of nearly \$66 million in both 2016 and 2017. Additional indications of the strength of this market include the greater level of activity resulting from foreign investors, as well as the increased activity among strategic investors. Overall, this is a broad-based market with strong demand from both domestic and global buyers.

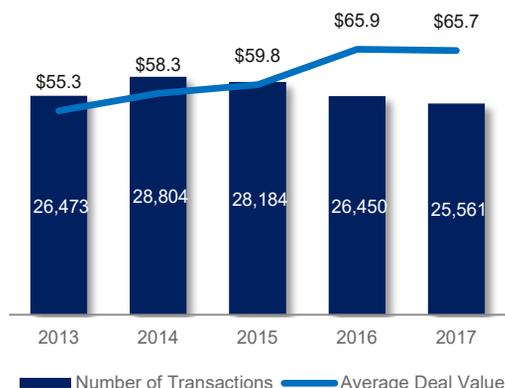
Strategic Buyers Make a Push

One of the more noticeable trends witnessed in 2017 was the continued strengthening of strategic acquirers. During 2017, strategic buyers accounted for 68% of the buyer base for middle-market transactions. This is the highest percentage we have seen from strategic buyers since 2010, a year where this percentage was heavily influenced by a lack of private equity activity due to the financial crisis. The level of activity from strategic buyers has shown continuous growth from the 2014 lows of 62% to the recent high observed in 2017. This trend is anticipated to accelerate even more aggressively in 2018 due to the tax reform taking effect. The corporate tax cuts have primed the pump for strategic buyers to use tax savings on acquisitions and other growth initiatives. The tax bill also provides additional advantages that should allow strategic buyers to pay a higher value for middle-market deals, making them more competitive in the hot M&A market. With lower tax rates and escalating public market multiples, it is expected that middle-market companies will continue to see a growing interest from strategic acquirers.

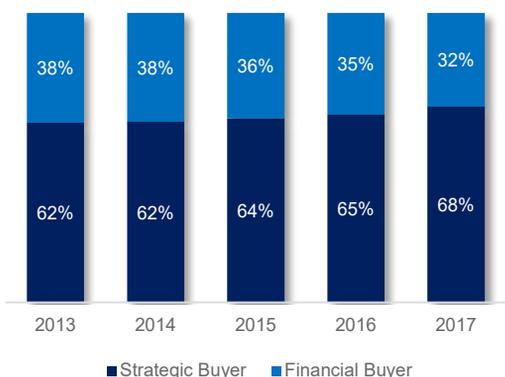
Foreign Buyers Focused on the U.S. Middle Market

Foreign acquirers continue to enhance their focus on the U.S. middle market. During 2017, foreign buyers accounted for 13.4% of the buyer base for middle-market M&A. This is a continuation of the increase in the foreign buyer impact from its low in 2013 of 9.1% of the M&A buyer base. Foreign buyers continue to show interest in U.S. assets given the relative strength of the U.S. economy and the low interest rate environment. This trend picked up considerably in the fourth quarter of 2017 where this percentage jumped to 14.6%. This trend is expected to continue into 2018 as tax reform takes effect and the resulting corporate tax cuts make this business environment more attractive to foreign buyers.

Middle-Market M&A Volume and Value



M&A Activity by Buyer Type



M&A Activity by Buyer Region



Source: Capital IQ



INDUSTRY UPDATE | Food & Beverage

Deal Values and Volume Remain Steady

Q4 2017 proved to be a steady quarter for Food and Beverage (“F&B”) M&A in the middle market, with deal flow up nearly 7% compared to Q3 2017. Although overall deal volume decreased in the back half of the year, there was a significant increase in overall deal value. Aggregate deal value in the last two quarters of 2017 totaled \$5.3 billion, an increase of nearly 40% over the first half of 2017. On an annual basis, F&B experienced another strong year. Despite a slight dip in volume of 4% from 2016, aggregate value was up 13% from the prior year. The increase in deal value can be attributed to the ongoing trend of large Consumer Packaged Goods (“CPG”) companies making acquisitions in excess of \$100 million. CPG companies continue to struggle to find organic growth and 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 Unilever’s acquisition of Tazo Tea Company for \$384 million in November 2017.

Private Equity Continues to be a Significant Component of Food and Beverage M&A

Both strategic and financial buyers have remained active in the Food and Beverage industry, accounting for 69% and 31% of acquisitions, respectively, in Q4 2017. Strategic buyers continue to dominate overall deal activity and have sought acquisitions to offset slowing organic growth and to diversify their offerings. However, Q4 2017 demonstrated an increase in financial buyer interest, representing the highest levels for all of 2017. 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 Apollo Global Management’s acquisition of Qdoba Restaurant Corporation in December for \$305 million from Jack in the Box, Inc.

2018 F&B M&A Outlook and Trends

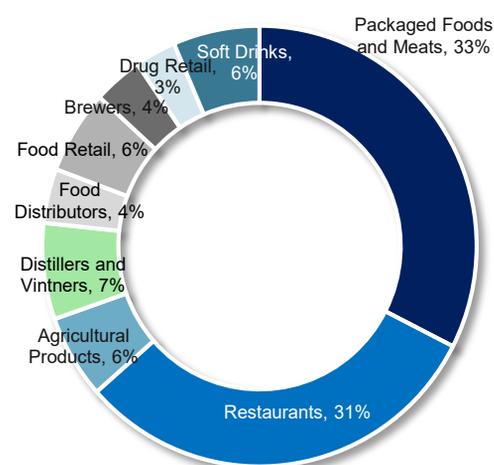
The M&A outlook for F&B remains very strong going into 2018 with favorable capital markets, a broad variety of F&B companies looking to sell and strategic buyers continuing to aggressively pursue transactions to drive growth and unlock value.

- Distributors have become increasingly popular acquisition targets with significant consolidation occurring amongst traditional wholesale, grocery and convenience distributors.
- Private label brands continue to gain market share within CPG. The attractive price point, usually 25-50% below the national brand, have kept customers making purchases even as household incomes have reached the highest levels since 2008. Increased interest in private label brands will drive additional deal activity in this segment in 2018.
- Valuation multiples are expected to continue increasing in 2018, reflecting the competitiveness and strategic interest in sale processes.
- CPG is expected to remain as the most active segment within the F&B sector as larger industry participants continue to look for new ways to grow market share and capture positions in growing categories.

F&B M&A Volume and Avg. Value



Q4 2017 F&B Activity by Sector



F&B M&A Activity by Buyer Type



Source: Capital IQ



ABOUT THE REPORT

Food & Beverage Expertise

GCG offers a unique breadth and depth of expertise in Food & Beverage from both an operational and transactional standpoint. Our professionals bring direct experience in senior operating roles within the industry to augment our investment banking and consulting services.

The range of segments that GCG has worked in extends from snack foods to dairy products, private label, manufacturing, retail and distribution, among many other segments. Our Food & Beverage professionals have deep roots in the industry and can provide clients with the guidance and support needed to expand their businesses, allow them to run more effectively and venture into new markets both domestically and globally. Our experience, community of networks and relationships have positioned us as industry leaders surrounding M&A, private placements and financial advisory in the Food & Beverage sector.

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.

More about Greenwich Capital Group

Greenwich Capital Group ("GCG") is a middle market focused advisory firm offering a range of investment banking and consulting services to private companies, public companies and private equity investors. For additional perspective or to discuss M&A related opportunities in the food and beverage industry, please reach out to GCG's F&B practice leader, Andrew Dickow. For more information, please visit www.greenwichgp.com.



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