

Food and Beverage Recap

Market shakeups and company breakups

Conglomerates separating businesses and growth profiles to unlock value

Late this summer, troubling economic indicators from Europe and a prolonged and involved government debt renegotiation in the US heightened uncertainty in the market, raising the stakes for public market equity-dependent M&A transactions.

In many cases, significant spreads resulted from initially agreed upon deal valuations and subsequent offer values after a series of market yo-yos during the quarter. These fluctuations caused dealmakers and buyers and sellers alike to incorporate uncommon forms of transaction risk hedging, such as reverse breakup fees and increased attention to the quality of financing paper. This disconcerting setting caused certain parties to pump their brakes with ongoing deals and IPOs. But, oddly enough, the situation managed to generate opportunity for value creation among others.

Meet Ralcorp Holdings, Inc.

After wavering over multiple takeover attempts by ConAgra in the second quarter and the uncertainty associated with the value proposition of a complete sale in turbulent market conditions, Ralcorp decided that the greatest opportunity for shareholder value was to break up its business units. This narrowing of strategic focus prompted a spinoff to shareholders of its Post Foods business, which, going forward, will operate as a separate public entity from Ralcorp. The original business, private-branded Ralcorp, and the newly created Post Foods, a branded cereal manufacturer, obtain distinct growth profiles and unique platforms for strategies specific to their businesses – refuting the concept that “the whole is greater than the sum of the parts.”

This “unlocking value” philosophy was also exhibited by Sara Lee earlier in the year when the company announced a separation of its tea and coffee business from its meat business and further was demonstrated by Kraft Foods, Inc. in early August with the announcement of their intention to create two independent public companies: a high-growth global snacks business and a high-margin North American grocery business.

As we head into the fourth quarter, again, talks of a possible double-dip recession have become prevalent due to the unknown impact of the outcome associated with debt repayments in both Greece and Italy, coupled with a US economic slowdown. However, according to Ernst & Young’s Global Capital Confidence Barometer published in early October, the outlook for deal volumes remains stable against this backdrop of significant short-term volatility. The survey panels over 1,000 executives representing a cross-section of over 40 industry sectors in 51 countries. Results indicate that 41% of respondents expect to make acquisitions in the next 12 months, while 26% of respondents see divestment as likely or highly likely over this same period, an increase of 30% since April 2011.

Looking ahead to the end of calendar 2011, the financial world awaits the resolution of the world economy, and savvy deal-makers will try to time the consumer cycle and cherry-pick attractive valuations.

Following are brief summaries of selected transactions in the North American food and beverage industry from the third quarter of 2011:

Baked goods

- ▶ Ralcorp Frozen Bakery Products, Inc., a division of Ralcorp Holdings, acquired Sara Lee's North American refrigerated dough business for US\$545 million. The transaction represents a reported enterprise value of approximately eight times EBITDA, pre-synergies and tax benefits. The refrigerated dough business provides a full range of private brand products, including basic and specialty biscuits, crescent rolls, pizza and pie crusts and toaster pastries. The business generates revenues in excess of US\$300 million and employs approximately 700 people. The transaction includes manufacturing facilities in Georgia and Texas.

Prepared foods

- ▶ Oregon-based Reser's Fine Foods, Inc. acquired Oklahoma-based Vaughan Foods, Inc. for US\$18.3 million in cash. Vaughan Foods, Inc. is an integrated manufacturer and distributor of refrigerated foods such as fresh-cut vegetables, fruits, salad kits and other products to both the retail and foodservice sectors. The acquisition complements Reser's existing national network of production facilities.

Protein

- ▶ Private equity firm Wind Point Partners acquired Florida-based Rupari Food Services, Inc. in partnership with the active CEO of the business. The financial terms of the transaction were not disclosed. Rupari supplies pre-cooked, ready-to-eat pork ribs and other barbecue products sold at food retailers and through foodservice operators under the Tony Roma's and Butcher's Prime brands.
- ▶ Richmond, BC-based Premium Brands Holdings Corporation acquired Waterloo, Ont.-based Piller Sausages & Delicatessens Ltd. in a cash and stock transaction valued at CDN\$113 million. The transaction represents an enterprise value of approximately 7.5 times EBITDA. The transaction will create a national deli meats platform that will feature two of Canada's most respected deli brands, Grimm's in the west and Piller's in the east, along with state-of-the-art production capabilities. Piller's is one of Canada's leading manufacturers of specialty European deli meats with annual

sales of approximately CDN\$180 million and over 600 employees.

Frozen foods

- ▶ Private equity firm Sun Capital Partners acquired the assets of Contessa Premium Foods, Inc. for US\$51 million in a US bankruptcy sale. Headquartered in San Pedro, Calif., Contessa is a leading US processor and distributor of premium seafood and frozen bagged convenience meals. Contessa's branded and private-label products include a range of frozen seafood products, most notably shrimp, as well as convenience and home-style meals, vegetable stir-fries, sauce blends, pizza and exotic fruits. The transaction includes substantially all of Contessa's assets including its intellectual property.
- ▶ New Jersey-based Smart Balance, Inc. acquired Glutino Food Group from Claridge, Inc., a Montreal-based investment firm, for CDN\$63.5 million in cash. The transaction represents an enterprise value of approximately 1.2 times revenue. Based in Laval, Que., Glutino is a leading manufacturer and marketer of innovative, premium-priced, gluten-free foods sold under the Glutino and Gluten Free Pantry brands. Glutino offers a wide range of shelf-stable and frozen gluten-free products, including snack foods, frozen baked goods, frozen entrees and baking mixes throughout North America.

Beverages

- ▶ Pennsylvania-based ARAMARK Refreshment Services, LLC acquired all outstanding shares of Van Houtte US Coffee Service (Filterfresh) from Vermont-based Green Mountain Coffee Roasters, Inc. for US\$145 million. The transaction represents an enterprise value of approximately 8.5 times EBITDA. The Filterfresh business offers single-cup coffee services and is a leader, along with ARAMARK, in providing quality office coffee and other refreshments to corporate customers. ARAMARK will continue to be a valued distributor to Green Mountain Coffee Roasters, Inc.
- ▶ Private equity firm OpenGate Capital acquired the Wisconsin-based dairy processing plant and related assets from Dean Foods Company. The financial terms of the transaction were not disclosed. OpenGate will acquire the Golden Guernsey and La Vaca Bonita brands as part of the transaction. The business manufactures, bottles and distributes its

dairy products to schools, grocery stores, convenience stores and major retailers in Illinois, Michigan and Wisconsin.

- ▶ St. Louis-based Luxco Corporation agreed to acquire Cleveland-based Paramount Distillers, Inc. The financial terms of the transaction were not disclosed. Luxco will continue to operate both the Cincinnati and Cleveland facilities which include laboratories, labeling and bottling assembly lines, larger warehousing facilities and an in-house print shop to supply labels and point of sale. Paramount Distillers, Inc. produces vodka, gin, blended and bourbon whiskey while imports and bottles brandy, cognac, tequila and rum products.
- ▶ New Orleans-based Sazerac Company, Inc. entered into an agreement to acquire 17 brands and a manufacturing and bottling facility in Montreal from Corby Distilleries Ltd. for CDN\$32.9 million plus the value of inventory on hand at closing. The brand portfolio includes spirits and liqueurs, including De Kuyper Geneva gin, De Kuyper Peachtree schnapps, Red Tassel vodka and Silk Tassel Canadian whisky while the manufacturing and bottling facility blends and bottles a variety of spirits and related products. Ernst & Young Orenda Corporate Finance Inc. acted as the exclusive financial advisors to Corby Distilleries Ltd.

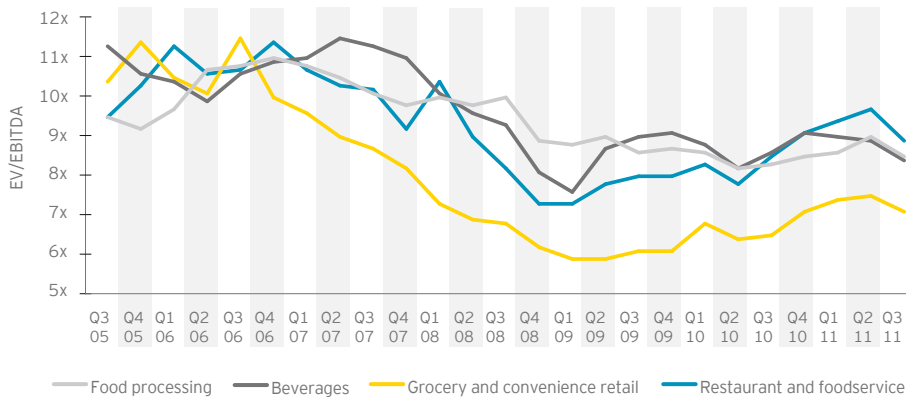
Restaurants

- ▶ Private equity firm Advent International Corporation acquired North Carolina-based Bojangles' Restaurants, Inc. from Falfurrias Capital Partners. The financial terms of the transaction were not disclosed. Bojangles' is a leading quick-service restaurant operator in the southeastern US known for its Cajun-style fried chicken, buttermilk biscuits and iced tea. Bojangles' currently operates more than 500 restaurants across 10 states and is one of the fastest-growing chicken and freestanding drive-thru chains in the US.
- ▶ Franchisor and operator of quick-service restaurants, MTY Tiki Ming Enterprises Inc., has agreed to acquire the assets of Toronto-based Mr. Submarine Limited for CDN\$23 million in cash. Mr. Submarine has approximately 335 outlets operating under franchise or operator agreements 80% of which are located in Ontario. Mr. Submarine generated system sales exceeding CDN\$100 million for its 2011 fiscal period.

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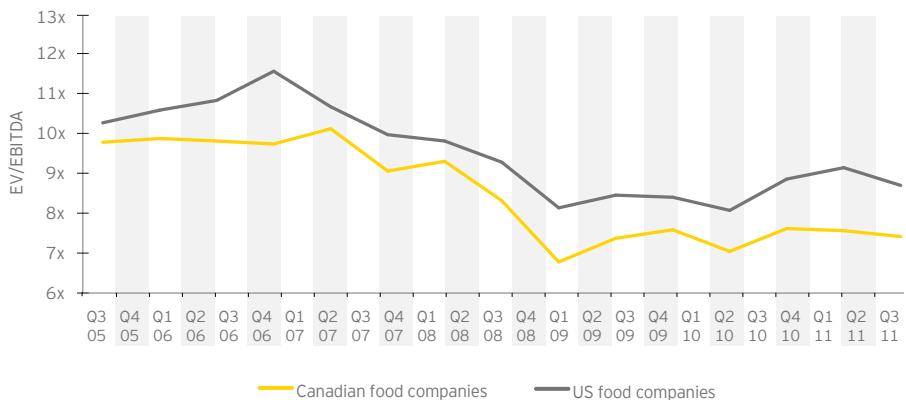
Ernst & Young Orenda food and beverage index

Enterprise value trends by sector



Ernst & Young Orenda food and beverage index

Enterprise value trends by country



Note: The indices used in this newsletter have been compiled by Ernst & Young Orenda Corporate Finance Inc. solely for illustrative purposes. The companies chosen are publicly traded companies that are commonly used for industry composites to show stock performances within a sector. The indices do not include all public companies that could be categorized within each sector, and were not created as benchmarks, nor should they imply benchmarking or recommendations for a particular stock and/or sector.

Charts: Ernst & Young Orenda Corporate Finance Inc.

Data source: Capital IQ, Inc., Bloomberg

Ernst & Young Orenda food and beverage index

Our food and beverage index consists of the following publicly traded companies:

US food and beverage companies	Ticker symbol
Food processing	
HJ Heinz	HNZ
Tyson Foods	TSN
Kraft Foods	KFT
General Mills	GIS
ConAgra Foods	CAG
Smithfield Foods	SFD
Dean Foods	DF
Campbell Soup	CPB
McCormick & Co.	MKC
Hormel Foods	HRL
Hershey Co.	HSY
Kellogg Company	K
Beverages	
The Coca-Cola Company	KO
PepsiCo	PEP
Constellation Brands	STZ
Grocery and convenience retail	
Safeway	SWY
SuperValu	SVU
Kroger	KR
Whole Foods	WFMI
Restaurant and foodservice	
Starbucks	SBUX
McDonald's	MCD
Jack in the Box Inc.	JACK
Yum! Brands	YUM
Darden Restaurants	DRI
Brinker International	EAT
Dine Equity Inc.	DIN
Canadian food and beverage companies	
Food processing	
Maple Leaf Foods	MFI
George Weston	WN
Canada Bread	CBY
Saputo	SAP
High Liner Foods	HLF
Beverages	
Molson Coors	TAP
Cott Corporation	BCB
Lassonde Industries	LAS.A
Andrew Peller	ADW.A
Corby Distilleries	CDL.A
Grocery and convenience retail	
Loblaw Companies	L
Metro Inc.	MRU.A
Alimentation Couche-Tard	ATD.B

- ▶ Yum! Brands, Inc. has agreed to sell its Long John Silver's restaurants to LJS Partners LLC and the A&W All-American Food chain to A Great American Brand LLC. The financial terms of the transactions were not disclosed. A&W has about 300 stores in the US and 300 abroad while Long John Silver's chain has grown to about 1,000 restaurants, mostly in the US. The restaurant chains were originally put up for sale in January 2011 as Yum! Brands, Inc. continues to focus on international expansion.

Snacks

- ▶ Snyder's-Lance, Inc. acquired Rhode Island-based George Greer Company, Inc., a snack food distributor serving the Rhode Island, eastern Massachusetts and New Hampshire markets. The financial terms of the transaction were not disclosed. Greer operated a direct store distribution (DSD) system encompassing 120 independent operators and the addition of this DSD system will further strengthen that of Snyder's-Lance in New England. Greer primarily distributes potato chips and snack products under the Cape Cod, Lance, Archway and Stella D'oro brands, as well as other leading brands and private label products.

Confectionary

- ▶ Brynwood Partners acquired Minnesota-based Pearson Candy Company. The financial terms of the transaction were not disclosed. Pearson, founded over 100 years ago, is a leading manufacturer and marketer of widely recognized confectionery brands including Pearson's Salted Nut Roll, Pearson's Mint Patties, Pearson's Nut Goodies and Pearson's Bun. Pearson will join Brynwood's snack portfolio with companies such as Balance Bar Co., DeMet's Candy Co., Lincoln Snacks and Stella D'oro.

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- ▶ Divestitures
- ▶ Mergers and acquisitions
- ▶ Management and leveraged buyouts
- ▶ Recapitalizations

Structured finance

- ▶ Structure and arrangement of debt and equity
- ▶ Project finance and infrastructure advisory services

Financial advisory services

Real estate transaction advisory

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