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Second quarter 2018

## Food and beverage recap

# Cannabis: The edible opportunity



**Stephen Dewis**  
Canadian Food and Beverage Leader  
Toronto, Ontario | +1 416 943 2063 | [stephen.dewis@ca.ey.com](mailto:stephen.dewis@ca.ey.com)

With the recent passing of Bill C-45 in Canada, new frontiers await the food and beverage industry. It presents a significant opportunity for Canadian food and beverage manufacturers to innovate new products in the cannabis category. While the sale of edible marijuana products is not yet legal, the federal government has indicated that this will follow in 2019. A recent study indicated that 46% of Canadians would be interested in trying legal marijuana edibles recreationally, suggesting that the future of the category will be highly tied to food and beverage products.

The Canadian legal marijuana market could reach \$7.7 billion in 2025, and edibles are likely to represent a sizable part of the market. In Colorado, Washington and Oregon, where recreational marijuana is already legal, edibles make up 12% of the US cannabis market and are the third most popular and fastest growing cannabis product. Consumer preference seems to be towards edibles versus smoking as it provides more accurate dosing, resulting in a predictable and comfortable experience. Infused products can come in a variety

of forms, such as beverages, candies, gummies and chocolates. Gummies and chocolates are currently the most popular edibles, making up 28% and 21% of the market, respectively, followed by hard candies (8%), baked goods (7%) and beverages (5%). There is also significant opportunity for new innovative products outside these leading product types, such as infused sauces and oils, granola bars and sodas. In the US, the majority of product manufacturers are smaller, have not established significant market presence or brand loyalty and don't have the ability to scale production volumes to meet significant demand increases. This presents a significant opportunity for already established Canadian food and beverage manufacturers to gain a foothold in this new market.

Despite presenting a significant market opportunity, it will not be without challenges. Regulations around marketing, sales and distribution are still in flux. Manufacturers will have to consider the impact and costs of understanding and complying with new regulations. Furthermore, the provincial governments are responsible for

regulating recreational marijuana, similar to the alcohol industry. Manufacturers will therefore have to develop individual relationships by province, for example the LCBO/OCS (Ontario Cannabis Store) in Ontario and the SAQ in Québec, to be able to distribute their products. Further, as legislation evolves, relationships may also have to be established with new distribution partners. For traditional food and beverage manufacturers, partnerships, joint ventures or licensing agreements with cannabis producers may be a logical solution through either white label or branded products. Leveraging producers' strength in infusing and selling cannabis with food manufacturers' depth and experience in distribution, marketing and manufacturing can provide an efficient path to market.

Building an industry from scratch is not without its challenges, and competition will be fierce. However, manufacturers who approach the market strategically stand to gain significant market presence in one of the fastest growing industries in North America.

# Following are the brief summaries of selected transactions in the North American food and beverage industry from the second quarter of 2018:

All currencies in USD unless otherwise stated.

## Bakery

- ▶ Mount Kisco, NY-based Kohlberg & Company LLC entered into an agreement to acquire the Sara Lee frozen bakery and Van's brands from Tyson Foods Inc. for approximately \$600 million.

Sara Lee Foods, LLC, based in Chicago, IL, produces and markets frozen bakery foods, including pies, cakes and other baked goods. Van's International Foods Inc., based in Phoenix, AZ, produces and supplies food products such as gluten-free cereals, multigrain chips, pancakes, pastas and waffles.

## Beverages

- ▶ British Columbia, Canada-based Harvest One Cannabis Inc. entered into an agreement to acquire Dream Products, LLC and Dream Water Products Canada Inc. for CA\$34 million. This transaction represents an enterprise value of approximately 5.6 times revenue.

Dream Products, LLC, based in Hollywood, FL, and Dream Water Products Canada Inc. produces a water-based beverage that promotes relaxation and supports restful sleep. Currently, the product is sold through retail stores and online.

- ▶ Denver, CO-based Molson Coors Brewing Company acquired a minority stake in Bhakti Chai LLC. The financial terms of the transaction were not disclosed.

Bhakti Chai LLC, based in Boulder, CO, produces and sells concentrates, ready-to-drink teas and organic juices.

- ▶ Rougemont, QC-based Lasseonde Industries Inc. entered into an agreement to acquire Old Orchard Brands, LLC for approximately CA\$202 million. The transaction represents the enterprise value of 1.54 times revenue and 10.06 times EBITDA.

Old Orchard Brands, LLC, based in Sparta, MI, produces fruit juices.

## Frozen food

- ▶ Chicago, IL-based Conagra Brands Inc. has agreed to acquire Pinnacle Foods Inc. for approximately \$8.1 billion. The transaction represents an enterprise value of approximately 16.5 times EBITDA and 3.5 times revenue.

Pinnacle Foods Inc., based in Parsippany, NJ, manufactures, markets and distributes branded convenient food products including frozen vegetables, frozen seafood, shelf-stable cake and cookie mix, gluten-free and natural meal offers, amongst others.

## Dairy

- ▶ Montreal, QC-based Saputo Inc. has entered into an agreement to acquire Shepherd Gourmet Dairy (Ontario) Inc. for approximately CA\$100 million. The transaction represents an enterprise value of approximately 1.75 times revenue.

Shepherd Gourmet Dairy Inc., based in St. Marys, ON, is a manufacturer, marketer and distributor of specialty cheeses and yogurt.

## Packaged Foods

- ▶ Québec, Canada-based consortium of investors including Fonds de solidarité FTQ, Fondation, Investissement Québec and Champlain Financial Corporation acquired Baxters Canada. The financial terms of the transaction were not disclosed.

Baxters Canada, based in St. Hyacinthe, QC, manufactures canned soups and sauces. The Company operates under three brands, namely Aylmer, Primo and Baxter, and sells approximately 60 million cans per year.

- ▶ Manitowoc, WI-based Lakeside Foods Inc. entered into an agreement to acquire Good Eats Food Co. The financial terms of the transaction were not disclosed.

Good Eats Food Co., based in Fayetteville, AR, produces packaged soups and beans, as well as frozen vegetable products.

- ▶ Manitowoc, WI-based Lakeside Foods Inc. acquired Riverside Foods, Inc. The financial terms of the transaction were not disclosed.

Riverside Foods, Inc., based in Two Rivers, WI, develops, manufactures and markets branded specialty cheese, frozen vegetables and seafood products.

## Protein

- ▶ Saint-Hyacinthe, QC-based Olymel S.E.C. / L.P. entered into an agreement to acquire Pinty's Delicious Foods Inc. The financial terms of the transaction were not disclosed.

Pinty's Delicious Foods Inc., based in Burlington, ON, produces and supplies fresh and frozen chicken products for the retail and food service industry in Canada.

- ▶ Saint-Hyacinthe, QC-based Olymel S.E.C. / L.P. acquired the assets of Aliments Triomphe Inc. The financial terms of the transaction were not disclosed.

The acquired assets of Aliments Triomphe, based in Blainville, QC, consist of three production facilities and two distribution centres of pork and poultry meats.

- ▶ Brampton, ON-based Cardinal Meat Specialists Limited acquired D&S Meat Products Ltd., which goes by the name The Elite Meat Company. The financial terms of the transaction were not disclosed.

The Elite Meat Company, based in Ajax, ON, produces and markets beef, pork, veal, lamb and poultry-based meat products and is the top Canadian producer of peameal bacon from Canadian pork.

- ▶ Mississauga, ON-based Maple Leaf Foods Inc. acquired select poultry plant assets from Cericola Farms. The financial terms of the transaction were not disclosed.

Cericola Farms, based in Bradford, ON, comprises of poultry plants and the associated supply business.

- ▶ Richmond, BC-based Premium Brands Holdings Corporation acquired an additional 30% stake in McLean Meats Inc., increasing its stake from 36.2% in 2013 to 66.2%. Premium Brands Holdings also purchased the assets and operating divisions of Oberto Sausage Co. Together, the combined deals reflect a purchase price of approximately \$240 million.

McLean Meats Inc., based in Vancouver, BC, produces preservative-free and organic processed deli meat products.

Oberto Sausage Co., based in Seattle, WA, produces beef jerky and other protein-based snack foods.

- ▶ Springdale, AR-based Tyson Foods, Inc. entered into an agreement to acquire the poultry rendering and blending assets business of American Proteins, Inc. and AMPRO Products, Inc. for approximately \$850 million.

American Proteins, Inc., based in Cumming, GA, operates in business related to poultry rendering and blending.

AMPRO Products, Inc., based in Gainesville, GA, provides protein feed supplements.

- ▶ Springdale, AR-based Tyson Foods, Inc. acquired Tecumseh Poultry, LLC. The acquisition of Tecumseh Poultry includes the air-chilled Smart Chicken brand. The financial terms of the transaction were not disclosed; however, the purchase price is estimated to be approximately \$400 million, representing approximately 10 times EBITDA.

Tecumseh Poultry, LLC, based in Waverly, NE, does business under the brand name of MBA Poultry LLC. The company produces and processes chicken and distributes them through online and retail channels.

- ▶ Brazil-based Marfrig Global Foods S.A. entered into an agreement to acquire a 51% stake in National Beef Packing Company, LLC for approximately \$969 million. The transaction represents an enterprise value of approximately 0.31 times revenue and 4.4 times EBITDA.

National Beef Packing Company, LLC, based in Kansas City, MO, processes, packages and delivers fresh and frozen beef and beef by-products in the US and internationally.

# EY food and beverage index

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

## US food and beverage companies

Company	Ticker symbol
<b>Food processing</b>	
Tyson Foods	TSN
The Kraft Heinz Company	KHC
Mondelez International, Inc.	MDLZ
General Mills, Inc.	GIS
ConAgra Foods, Inc.	CAG
Dean Foods Company	DF
Campbell Soup Company	CPB
McCormick & Company, Incorporated	MKC
Hormel Foods Corporation	HRL
The Hershey Company	HSY
Kellogg Company	K

## Beverages

The Coca-Cola Company	KO
Pepsico, Inc.	PEP
Constellation Brands Inc.	STZ

## Grocery and convenience retail

SuperValu Inc.	SVU
Kroger Co.	KR
Weis Markets, Inc.	WMK

## Restaurant and foodservice

Starbucks Corporation	SBUX
McDonald's Corp.	MCD
Jack in the Box Inc.	JACK
Yum! Brands, Inc.	YUM
Darden Restaurants, Inc.	DRI
Brinker International, Inc.	EAT
Dine Equity Inc.	DIN

## Canadian food and beverage companies

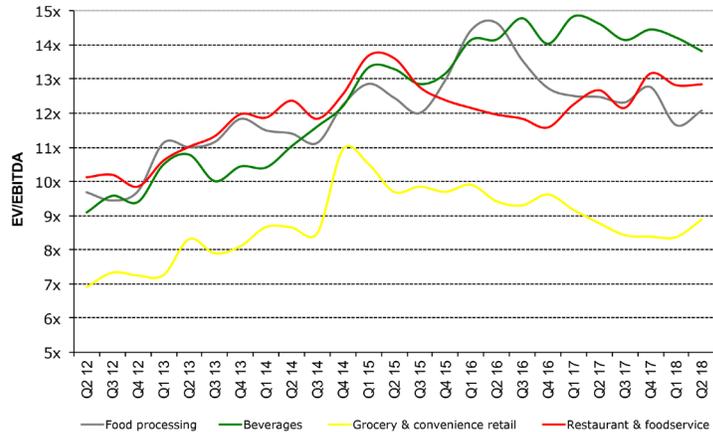
Company	Ticker symbol
<b>Food processing</b>	
Maple Leaf Foods Inc.	MFI
George Weston Limited	WN
Saputo Inc.	SAP
High Liner Foods Inc.	HLF
<b>Beverages</b>	
Molson Coors Brewing Company	TAP
Cott Corporation	BCB
Lassonde Industries Inc.	LAS.A
Corby Spirit & Wine Limited	CSW.A

## Grocery and convenience retail

Loblaw Companies	L
Metro Inc.	MRU.A
Alimentation Couche-Tard Inc.	ATD.B

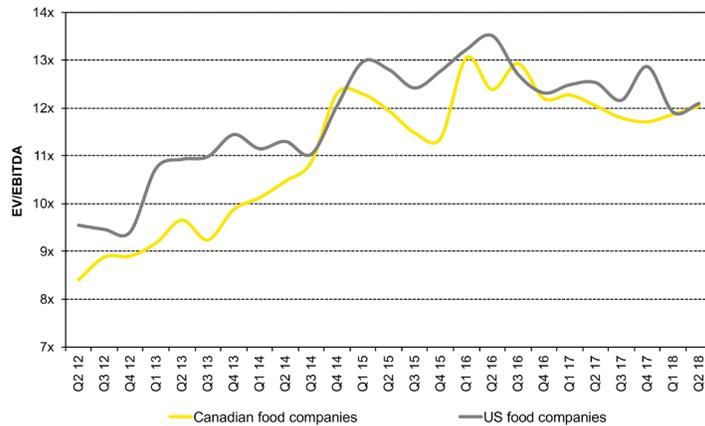
# EY\* food and beverage index

Enterprise value trends by sector



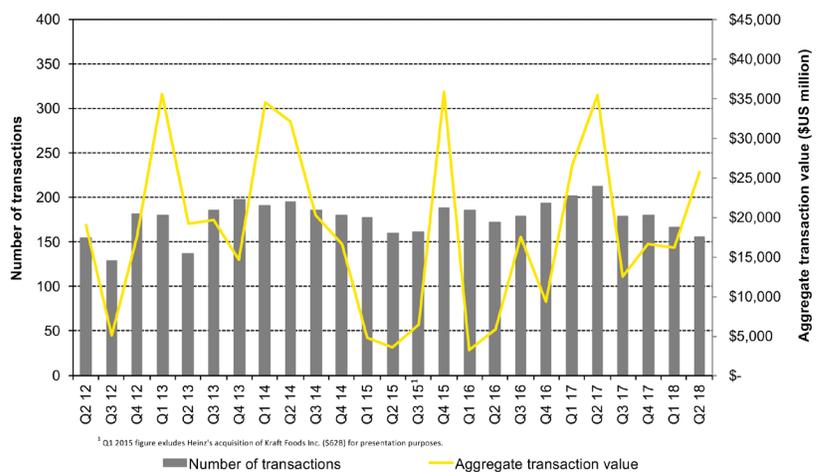
# EY food and beverage index

Enterprise value trends by country



# EY food and beverage index

North American transaction volume and size



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: EY Orenda Corporate Finance Inc.  
 Data source: Capital IQ, Inc., Bloomberg  
 \* Ernst & Young Orenda Corporate Finance Inc.

## Restaurants

- ▶ Calgary, AB-based Equicapita Income GP Ltd. acquired Smitty's Canada Inc. The financial terms of the transaction were not disclosed.

Smitty's Canada Limited, based in Calgary, AB, operates one of Canada's largest family oriented franchised restaurant chains through a network of 85 stores across Canada.

- ▶ Southlake, TX-based Del Frisco's Restaurant Group, Inc. entered into an agreement to acquire Barteca Restaurant Group, LLC for approximately \$330 million. The transaction represents the enterprise value of 2.54 times revenue and 10.25 times EBITDA.

Barteca Restaurant Group LLC, based in Norwalk, CT, operates a chain of restaurants under the name Barcelona Wine Bar & Restaurant. The restaurant serves seasonal picks from local markets and specialties from Spain and the Mediterranean region.

## Snacks

- ▶ British Columbia, Canada-based High Hampton Holdings Corp. entered into an agreement to acquire California Gold Bars, Inc. for CA\$8 million.

California Gold Bars, Inc., based in Berkeley, CA, produces cannabis infused chocolate bars.

- ▶ Plano, TX-based Frito-Lay North America, Inc. entered into an agreement to acquire Bare Foods Co. The financial terms of the transaction were not disclosed.

Bare Foods Co., based in San Francisco, CA, produces fruit and veggie-based chips. The company serves its customers through multiple outlets.

## Pet Food

- ▶ Toronto, ON-based Dane Creek Capital Corp. acquired Spring Meadows Natural Pet Food. The transaction represents enterprise value of 0.72 times revenue.

Spring Meadows Natural Pet Food, based in Saskatoon, SK, manufactures frozen raw pet food.

- ▶ Montréal, QC-based La Coopérative fédérée de Québec acquired Standard Nutrition Canada Co. The financial terms of the transaction were not disclosed.

Standard Nutrition Canada Co., based in Winnipeg, MB, offers animal nutrition products and services.

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