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Third quarter 2018

Food and beverage recap

The re-emergence of private label



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The food industry is undergoing a revolution as consumers today face a “paradox of choice”. In almost every category, consumers have a vast range of product choices marketed under traditional brand banners but also a growing number of private label banners. According to the latest Neilson data, approximately one-quarter of Canadian consumer purchases are private label products and private label in Canada has experienced consistent market share growth over the past five years. While price continues to be one of the top reasons that Canadian consumers select private label products, consumers have positive sentiments toward private label brands indicating that they trust and have had positive experiences purchasing them. In fact, 34% of consumers indicated that they would consider paying more for private label products than traditional branded products, which has encouraged retailers to develop more premium private label offerings.

Millennial consumers today have less brand loyalty than older generations and perceive private label brands as being of equal or sometimes better quality than branded products in addition to being reasonably priced. More importantly, consumers value transparency, clean ingredients and brand owner values when making selections today. Private label brands have also evolved to meet changing consumer trends, such as the development of specialty, premium products (eg. organic, vegan, gluten free, etc.). This has created more private label options for health-focused consumers at a lower price point than comparable manufacturer branded products. Certain North American retailers such as Trader Joe’s and Farm Boy are also focusing on developing exclusive private label products that are unique and cannot be purchased elsewhere. These products stand to generate a loyal base of customers who would be willing to pay higher prices for these exclusive products.

Private label growth is also being influenced by a shifting retail landscape. Hard discounters and online platforms has given retailers new ways to access consumers. In the US, the entry of German discounters Aldi and Lidl has significantly increased the demand for private label products. Albertsons has also announced their plan to double the number of private label product introductions in 2018. Online retailers, such as Amazon and Thrive Market, have outlined aggressive private label growth strategies. Looking to the future, the continued development of voice-enabled ordering technology, such as Amazon’s Alexa platform, is likely to continue to further this dynamic.

Private label and branded products will continue to co-exist. Retailers continue to up their game and focus on private label as one tool to generate customer loyalty and differentiation in a very competitive and evolving consumer landscape.

Following are the brief summaries of selected transactions in the North American food and beverage industry for third quarter of 2018:

All currencies in USD unless otherwise stated.

Bakery

- ▶ Greenwich, CT-based private equity firm Brynwood Partners agreed to acquire The J. M. Smucker Company's US-based baking business for approximately \$375 million. The transaction represents an enterprise value of approximately 1.0 times revenue.
The assets of J. M. Smucker Company sold to Brynwood Partners primarily include brands such as Pillsbury, Martha White, Hungry Jack, White Lily and Jim Dandy.

- ▶ Stamford, CT-based private equity firm Olympus Partners acquired Rise Baking Company. The financial terms of the transaction were not disclosed.
Rise Baking Company, based in Minneapolis, MN, manufactures bakery products, including breads, cookies and bars and operates 6 manufacturing facilities in North America.

- ▶ Atlanta, GA-based US Highland, a franchise development company, has acquired Supreme Sweets Inc. The financial terms of the transaction were not disclosed.
Supreme Sweets Inc., based in Toronto, Ontario, operates a commercial bakery that makes custom private label products for restaurant chains and grocery retailers. Products include fresh-baked, par-baked, frozen and fried products.

- ▶ San Antonio, TX-based C.H. Guenther & Son, Inc. acquired Cookiecreeper Inc. The financial terms of the transaction were not disclosed.
Cookiecreeper Inc., based in Salt Lake City, UT, manufactures cookies for the foodservice industry.

- ▶ New York, NY-based Union Capital Associates acquired Albie's Foods Inc. The financial terms of the transaction were not disclosed.
Albie's Foods Inc., based in Gaylord, MI, produces food products such as breadsticks, calzones, sandwiches, pastries and pot pies.

- ▶ Austin, TX-based private equity firm Peak Rock Capital LLC has entered into an agreement to acquire TNT Crust Inc. The financial terms of the transaction were not disclosed.
TNT Crust Inc., based in Green Bay, WI, produces partially baked, self-rising, flat breads and other pizza crusts.

Beverages

- ▶ Franklin Park, IL-based Dean Foods Company acquired an additional minority stake in Good Karma Foods, Inc. for \$15 million. Post completion, Dean Foods will own majority stake in the company.
Good Karma Foods Inc., based in Boulder, CO, produces flavoured flax milk beverages and yogurts.
- ▶ Waterbury, VT-based Keurig Dr Pepper Inc. entered into an agreement to acquire the additional stake in Big Red Inc. The financial terms of the transaction were not disclosed.
Big Red Inc., based in Austin, TX, is a beverage company that produces and sells soda through retail and online stores in the US.

- ▶ Purchase, NY-based PepsiCo Inc. has entered into an agreement to acquire SodaStream International Ltd. for approximately \$3.2 billion. The transaction represents an enterprise value of approximately 5.3 times revenue and 26.0 times EBITDA, respectively.
SodaStream International Ltd., based in Israel, is a manufacturer and supplier of home beverage carbonation systems.
- ▶ Ontario, Canada-based Kraft Heinz Canada acquired the assets of Ethical Bean Coffee Company Ltd. The financial terms of the transaction were not disclosed.
Ethical Bean Coffee Company Ltd., based in British Columbia, Canada, is a coffee roaster that produces and supplies coffee beans and coffee pods.
- ▶ Waterbury, VT-based Keurig Dr Pepper Inc. has agreed to acquire Core Nutrition LLC for approximately \$478 million.
Core Nutrition LLC, based in Beverly Hills, CA, produces organic beverages and bottled water.

Dairy

- ▶ New South Wales, Australia-based Bega Cheese has entered into an agreement to acquire a local dairy processing facility located in Koroit, Australia from Saputo Inc. for a deal value of \$184.5 million.
Saputo Inc., based in Québec, Canada, produces, markets and distributes dairy products across the globe.

Fresh food

- ▶ Caen, France-based Agrila S.A. has acquired Saladexpress Inc. The financial terms of the transaction were not disclosed.
Saladexpress Inc., based in Québec, Canada, is a vegetable processing company that provides fresh, transformed vegetables (for example: pre-washed, pre-cut vegetables) and salads to the grocery and food service industries.
- ▶ Corona, CA-based Pacifica Foods LLC and Orange, CA-based Stir Foods LLC acquired the salsa business of Sabra Dipping Co. LLC for approximately \$11 million.
Sabra Dipping Co. LLC, based in White Plains, NY, is a manufacturer of authentic Mediterranean style refrigerated dips and spreads.

Frozen food

- ▶ Los Angeles, CA-based CJ America Inc. has entered into an agreement to acquire Kahiki Foods Inc. The financial terms of the transaction were not disclosed.
Kahiki Foods Inc., based in Gahanna, OH, produces natural frozen Asian meals and appetizers.
- ▶ Lynn, MA-based Kettle Cuisine, a portfolio company of Kainos Capital, has acquired the frozen soup business of NORPAC Foods Inc. The financial terms of the transaction were not disclosed.
The frozen soup business of NORPAC Foods Inc. sold to Kettle Cuisine services the foodservice, retail and international channels.

- ▶ San Francisco, CA-based Swander Pace Capital acquired Fine Choice Foods Ltd. The financial terms of the transaction were not disclosed.
Fine Choice Foods Ltd., based in British Columbia, Canada, manufactures and markets Asian food, including appetizers and entrées for the North American market.

Ingredients

- ▶ The Management Group of Saskatchewan, Canada-based AGT Food and Ingredients Inc., in partnership with Fairfax Financial Holdings, has agreed to acquire a 72.5% stake of the company for CA\$320 million. The transaction represents an enterprise value of approximately 0.7 times revenue and 25.9 times EBITDA, respectively.
AGT Food and Ingredients Inc. produces and exports pulses, staple foods and food ingredients globally.

Packaged foods

- ▶ British Columbia, Canada-based Ocean Brands GP. acquired Club Des Millionnaires. The financial terms of the transaction were not disclosed.
Ocean Brands is a subsidiary of The Jim Pattison Group Inc.
Club Des Millionnaires, based in Ontario, Canada, is a leading Canadian brand of premium canned sardines and anchovies.
- ▶ Richmond, British Columbia-based Premium Brands Holdings Corporation, acquired the sandwich manufacturing business of Select Food Products Inc.
Select Food Products Inc., based in Plymouth, MN, manufactures sandwiches, snacks and desserts for retail and foodservice customers.

Pet food

- ▶ Chicago, IL-based Arbor Investments has agreed to acquire Exclusive Brands business of Mars Petcare US. The financial terms of the transaction were not disclosed.
The division of Mars Petcare US sold to Arbor Investments produces and distributes private label pet food products across the US.

Protein

- ▶ British Columbia, Canada-based Premium Brands Holdings Corporation acquired 62.6% stake in Yorkshire Valley Farms Ltd. The acquisition of Select Food Products Inc. that occurred in August 2018 and Yorkshire Valley Farms Ltd. had a total combined purchase price of \$46.2 million.
Yorkshire Valley Farms Ltd., based in Ontario, Canada, processes and distributes organic chicken products and has annual sales of approximately CA\$65 million.
- ▶ Shanghai, China-based Shanghai Kai Chuang Deep Sea Fisheries acquired 70% stake in French Creek Seafood Ltd. for CA\$7.7 million. The deal includes the commitment to acquire the remaining 30% over the course of 5 years.
French Creek Seafood Ltd., based in British Columbia, Canada, purchases, processes and sells fresh, frozen and live seafood.

EY food and beverage index

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

US food and beverage companies

Food processing	Ticker symbol
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

Food processing	Ticker symbol
Maple Leaf Foods Inc.	MFI
George Weston Limited	WN
Saputo Inc.	SAP
High Liner Foods Inc.	HLF

Beverages

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

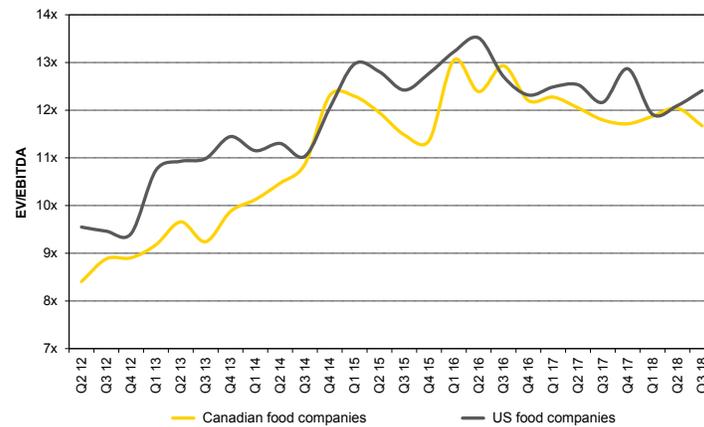
EY* food and beverage index

Enterprise value trends by sector



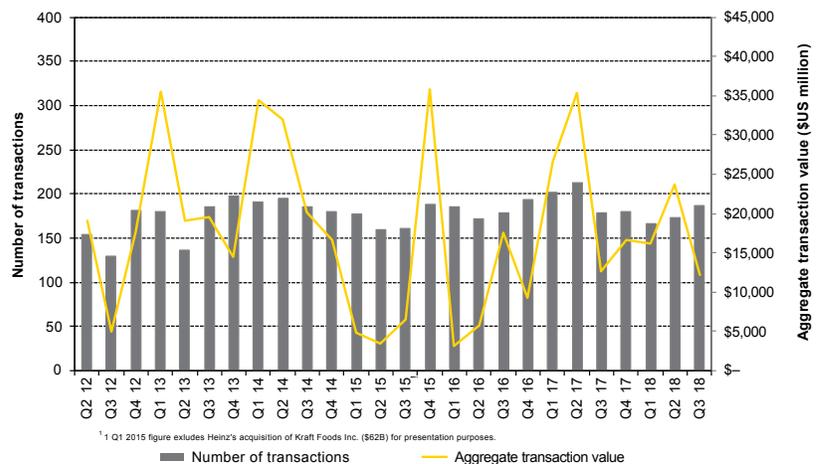
EY food and beverage index

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.

- ▶ British Columbia, Canada-based Premium Brands Holdings Corporation agreed to acquire Ready Seafood Co. for approximately \$85 million. The transaction represents an enterprise value of approximately 0.7 times revenue and 9 times EBITDA, respectively. Ready Seafood Co., based in Portland, ME, operates as a leading processor, distributor and marketer of lobsters in the US.
- ▶ Reno, NV-based Armand Agra Inc., a portfolio company of Founders Group of Food Companies Inc., has acquired MacDonald Meat Company LLC. The financial terms of the transaction were not disclosed. MacDonald Meat Company LLC, based in Seattle, WA, processes and supplies high quality meat products to restaurants and hotels.
- ▶ Delphi, IN-based Indiana Packers Corporation, a subsidiary of Mitsubishi Corporation, agreed to acquire Specialty Foods Group Inc. for approximately \$27 million. Specialty Foods Group Inc., based in Owensboro, KY, produces and markets meat products.
- ▶ Springdale, AR-based Tyson Foods entered into an agreement to acquire Keystone Foods LLC for approximately \$2.16 billion. The transaction represents an enterprise value of approximately 0.9 times revenue and 10.2 times EBITDA, respectively. Keystone Foods LLC, based in West Chester, PA, is engaged in processing and supply of beef, fish and pork products and is a major supplier of these products to quick service restaurant chains, retail and convenience stores globally.

Restaurants

- ▶ Winston-Salem, NC-based Krispy Kreme Doughnut Corp. entered into an agreement to acquire a majority stake in Insomnia Cookies LLC for approximately \$500 million. The company will continue to operate as an independent, standalone entity. Insomnia Cookies LLC, based in Philadelphia, PA, operates a chain of bakeries offering chocolate, oatmeal and peanut butter cookies and cold milk.
- ▶ Québec, Canada-based MTY Food Group Inc. agreed to acquire the assets of Sweet Frog Enterprises LLC for approximately \$35 million. The transaction represents an enterprise value of approximately 0.4 times revenue. Sweet Frog Enterprises LLC, based in Richmond, VA, owns and operates self-serve premium yogurt restaurants.
- ▶ Washington, DC-based Cava Group Inc. acquired Zoës Kitchen, Inc. for approximately \$300 million. The transaction represents an enterprise value of approximately 0.9 times revenue and 13.5 times EBITDA. Zoës Kitchen, Inc., based in Plano, TX, operates a range of restaurant formats, including in-line, end-cap and free-standing restaurants.
- ▶ Philippines-based Jollibee Foods Corporation acquired a 47% stake in Tortas Frontera LLC for approximately \$12 million. Tortas Frontera LLC, based in Chicago, IL, owns and operates a Mexican restaurant chain.

Retail

- ▶ Nova Scotia, Canada-based Empire Company Limited has agreed to acquire Farm Boy Inc. for approximately CA\$800 million. The transaction represents an enterprise value of approximately 1.2 times revenue and 19 times EBITDA, respectively. Farm Boy Inc., based in Ontario, Canada, owns and operates retail grocery stores focusing on private label, local fresh produce, meat and a range of ready-to-eat foods prepared in-store. Approximately 80% of Farm Boy's products are fresh with the remaining 20% being grocery/dairy.
- ▶ Atlanta, GA-based The Coca-Cola Company agreed to acquire Costa Limited for approximately \$3.8 billion. The transaction represents an enterprise value of approximately 2.9 times revenue and 16.0 times EBITDA, respectively. Costa Limited, based in Dunstable, England, operates a chain of coffee shops in the United Kingdom and globally.

Snacks

- ▶ British Columbia, Canada-based C21 Investments Inc. acquired Grön Chocolate LLC/ Grön Confections LLC for \$6.8 million plus bonus earn-out shares of \$4.375 million. Grön Chocolate LLC/ Grön Confections LLC, based in Portland, OR, manufactures and markets cannabis infused chocolates.
- ▶ Hershey, PA-based The Hershey Company agreed to acquire Pirate Brands LLC for approximately \$420 million. Pirate Brands LLC, based in Parsippany, NJ, is a manufacturer of snack products such as baked rice and corn puffs.
- ▶ Parsippany, NJ-based B&G Foods Inc. acquired US-based McCann's brand of premium Irish oatmeal for \$32.0 million. The transaction represents an enterprise value of approximately 2.5 times revenue and approximately 12 to 13 times EBITDA. McCann's Irish Oatmeal is traditional steel cut Irish oatmeal and is offered across Canada as a convenience-oriented product.

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