



Food, Beverage & Agriculture

Sector Update - Winter 2024

Los Angeles
San Francisco
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intrepidib.com
310.478.9000

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Key Themes We are Tracking Across Food and Beverage Categories in 2024



- Industry ripe for M&A; strategics have accumulated record cash reserves, sponsors have record dry powder, and falling interest rates should improve M&A market conditions



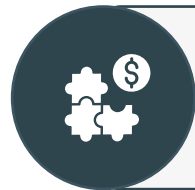
- Large strategics pruning portfolios and focusing on core offerings; increasing investment in growing categories, geographies and end-consumer demographics



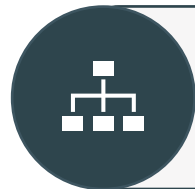
- Food manufacturing cost inflation is moderating; retailers and consumers are calling for prices to come down



- Private label gaining share across food categories in current economic environment; opportunity for retailers to follow branded players' innovation



- Post-pandemic, investors favor owned manufacturing, sustained profitability, omnichannel distribution, and reduced customer concentration; moving away from plant-based trends and brand risk towards B2B and supply chain focused models

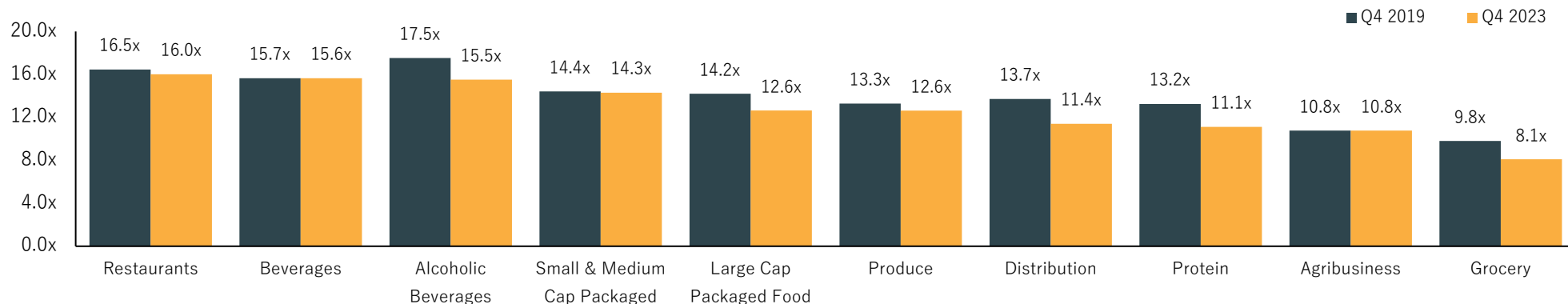


- Sectors / categories that have seen significant deal activity and should remain top of mind in 2024 include ethnic foods, frozen foods, baked goods, ingredients / flavors, and distribution

Multiples Down Slightly Today vs. Pre-Pandemic; Stock Performance has Cooled Due to Investors Shifting from Defensive / Safety Stocks, Inflation Pressures and Changing Eating Patterns (Including Potential GLP-1 Impacts)

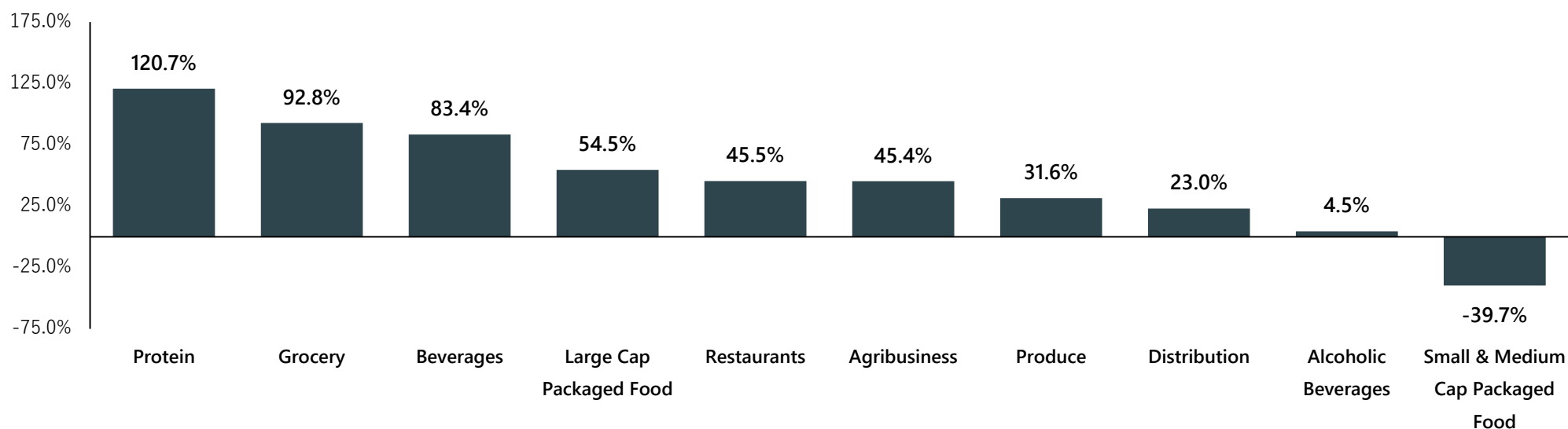
But over the four-year period, the peer group added \$30B of cash on balance sheets, arming them for more M&A going forward.

EV / LTM EBITDA Multiples by Subsector – (Q4 2019 vs. Q4 2023)⁽¹⁾



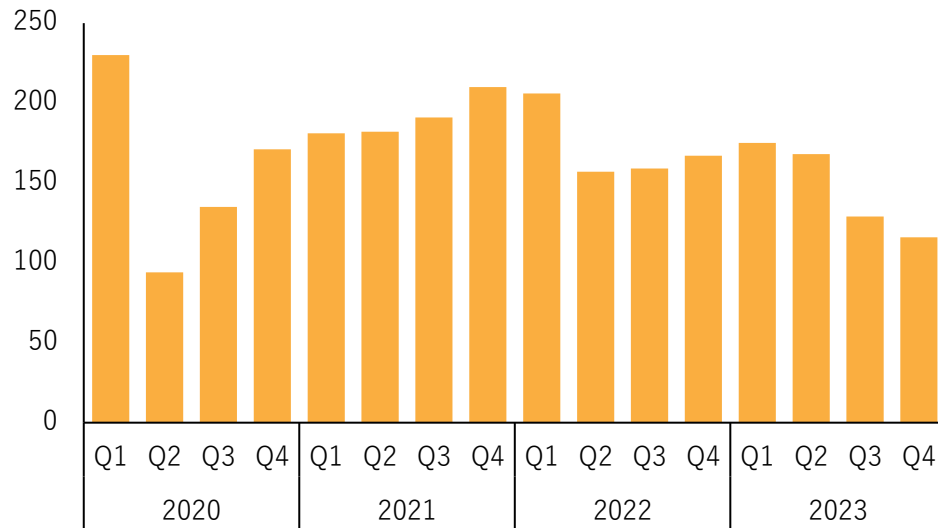
Median Change in Stock Price	Since Q4 '19	LTM
	23.9%	18.8%
	19.8%	-4.6%
	-9.0%	4.9%
	3.6%	-2.4%
	2.2%	-20.9%
	-24.3%	0.2%
	8.1%	-4.3%
	-9.0%	5.6%
	74.1%	-19.5%
	69.1%	7.6%

Change in Cash Reserves by Subsector – (Q4 2019 vs. Q4 2023)⁽¹⁾



Industry M&A Volume Should Improve Over 2023 Levels Given Lower Interest Rates, Strategic Buyer Cash Stockpiles, and PE Fund Dry Powder

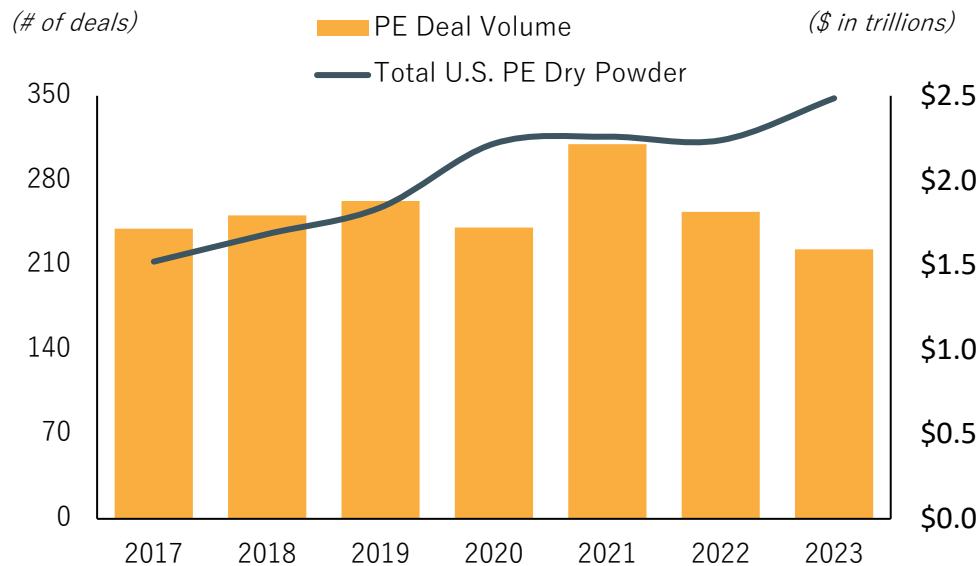
U.S. FB&A Deal Volume by Quarter⁽¹⁾



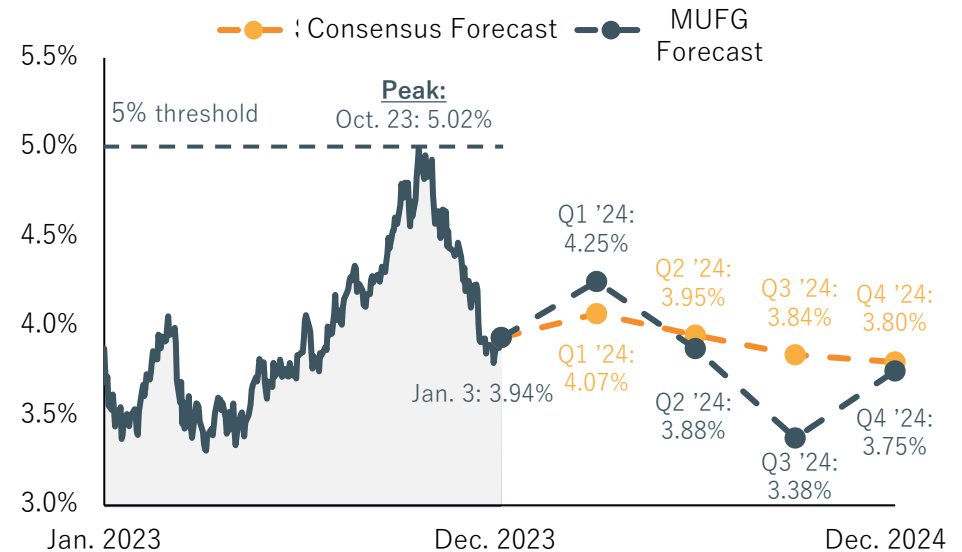
Commentary

- 2022-2023 industry M&A volumes were impacted by high interest rates, commodity driven earnings suppression, and stubborn seller-buyer gaps.
- While PE fundraising has also slowed, \$2.5T of dry powder remains ready to deploy
- MUFG is forecasting 10-year treasury yields to decline to 3.75% by year-end 2024, a helpful bellwether for leveraged buyouts
- We expect the buyer-seller valuation gaps to narrow (in part because input cost normalization is improving earnings consistency) vs. 2022-2023

U.S. PE FB&A Deal Volume and Total PE Dry Powder⁽¹⁾



10-Year UST Yield Outlook⁽²⁾



Large Food Companies are Investing in Growing Categories / Geographies While Simultaneously Pruning Portfolios

Companies like Campbell's and J.M. Smucker can leverage large cash stockpiles to diversify away from slow-growth legacy brands and into attractive brands / categories (e.g. pet, indulgent snacking, BFY sauces) core to the companies' focus.

Pre-2019 Acquisitions⁽¹⁾



\$1,550M



\$688M



\$6,110M



THE J.M. SMUCKER Co



\$430M



\$11,300M



\$1,900M



\$510M



\$2,200M



sovos brands

\$2,700M



THE J.M. SMUCKER Co



\$110M



\$1,200M



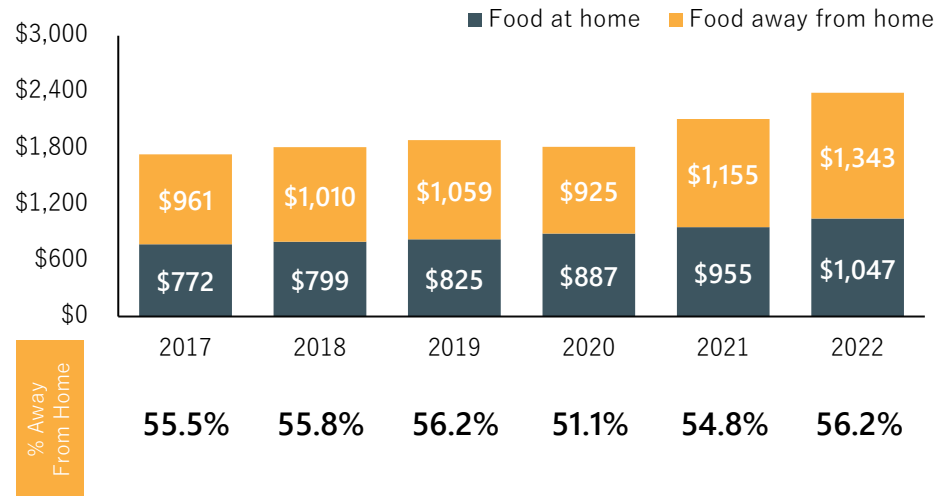
\$5,600M

Manufacturer Cost Inflation has Slowed – When Will Retail Prices Begin to Fall?

Despite calls for lower wholesale prices from certain retailers, high prices generally benefit retailers' bottom lines and many input costs (e.g. beef) will take years to come down.

U.S. Food & Beverage Spend – (Nominal Dollars)⁽¹⁾

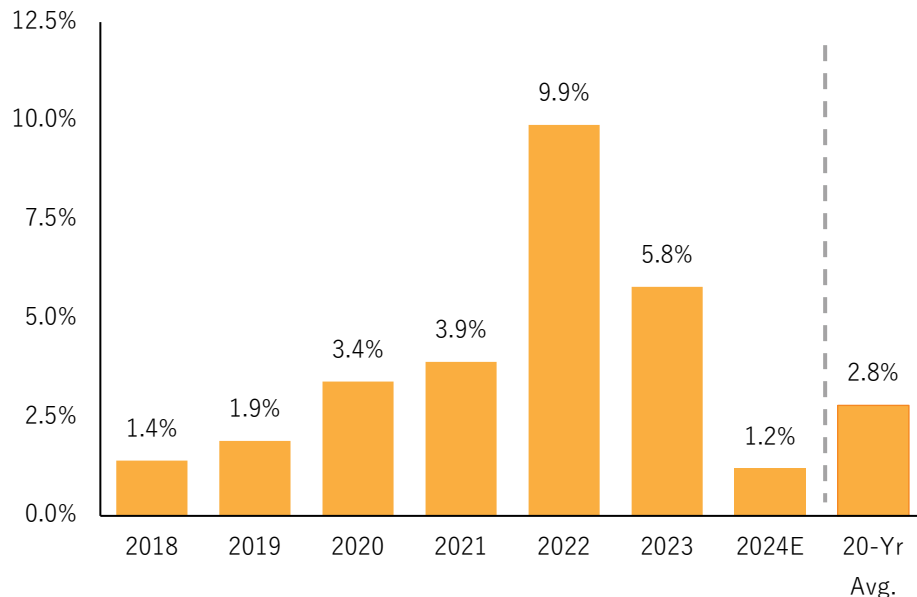
(\$ in billions)



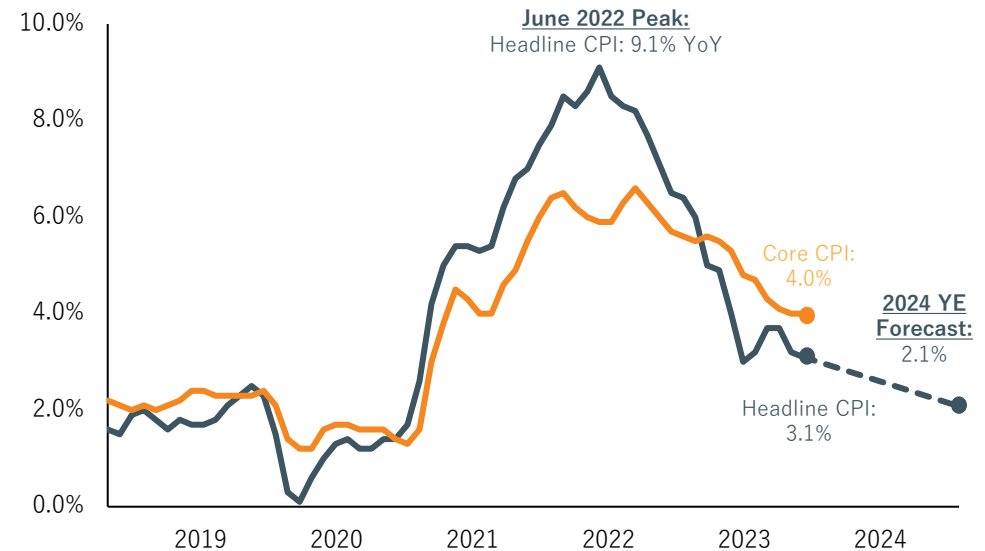
Commentary

- Intrepid's parent company, MUFG, forecasts that inflation will drop close to the Fed's 2% target by year-end 2024
- While 2023 total food prices grew at roughly 5.8% YoY, the USDA forecasts that 2024 food prices will increase by 1.2% YoY
- The USDA forecasts a slight decrease in grocery prices this year and a 4.9% increase in restaurant food prices in 2024
- The restaurant industry will eagerly watch California, as the \$20 fast food worker minimum wage takes effect April 1st

% Change in U.S. Consumer Food Price Indexes – (All Food)⁽²⁾



U.S. Headline and Core CPI – (YoY Change)⁽³⁾



Private Label Rapidly Progressing with Consumer Demands and an Evolving Omnichannel Food Retail Landscape Forever Changed by the Pandemic



Private Label Food & Bev. Trends / Observations

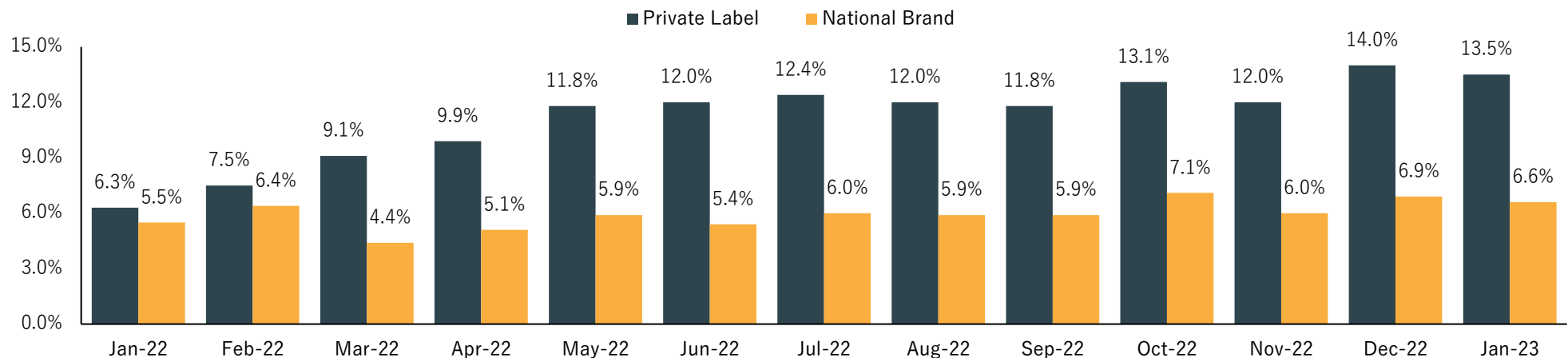
- Significant price gaps between private label brands and national brands, combined with increasingly minimal perceived differences in product attributes / claims, attract consumers to private label food and beverage products
- PLMA reports that by the end of 2022, annual 'store brand' dollar sales totals had increased by nearly 40% over a five-year period – PLMA predicted that store brand sales across all categories will grow to \$233bn in 2023
- Over the first nine months of 2023, store brand dollar sales grew by 5.9%, outpacing national brands, which grew by 4.3% (Circana)
- 61% of shoppers say they purchased more store brands in 2023 versus the 26% of shoppers that say they have purchased more brand products (Supermarket Perimeter)



Industry Implications Going Forward

- Best-in-class retailers treating private label brands like true brands
- Private label brands will begin to develop identities of their own, introducing unique flavors and characteristics separate of national brands, resulting in increased competition for shelf space
- Retailer-manufacturer relationships will become more important than ever to ensure private label products are developed, promoted and sold in the most effective way possible
- As private label brands pursue innovation and build brand awareness, they will need to maintain price regardless of inflationary pressure

Private Label Growth vs. National Brand Growth – (Change in \$ Sales vs. 2021)⁽¹⁾



Food, Beverage & Agriculture Dealmaker's Perspective: 2024 Value Drivers



Outsourced
Manufacturing



Owned
Manufacturing



- Pandemic exposed weaknesses in co-man dependency - labor shortages, input procurement, cost pass-through
- PE investors and acquirers place more of a premium today on owned manufacturing



Customer
Concentration



Diverse
Customer base



- PE investors (and lenders) as well as acquirers have recently reconsidered their customer concentration thresholds
- Concentration of 30+%, particularly in the club channel, is driving down multiples and / or putting deals on hold



Plant-Based



Traditional
Protein



- Consumer preferences shifting back towards traditional sources of protein such as meat, eggs and dairy
- Accessibility and affordability of traditional protein becoming more attractive to GenZ and Millennial consumers
- Retailers have over SKU'd the plant-based set and consumer are past initial trial period; greater focus on differentiated offerings of more the traditional products



DTC Business
Model



Omnichannel
Business Model



- E-commerce market highly saturated; crowding of new entrants, established brands and niche players make it harder to differentiate
- PE investors and acquirers need to see a successful omnichannel distribution strategy to justify premium valuations and remain focused on profitable business models



Branded
Companies



Private Label
& Co-Man



- PE investors increasingly seeking contract manufacturing investments to avoid single brand risk / customer flexibility
- Co-man businesses can produce for branded and private label customers, diversifying away single brand risk



Growth at
Any Cost








Profitability



- Current market dynamics in both minority and majority deals put a much greater emphasis on LTM profitability
- Cost of capital and recessionary fears driving conservative investor / acquirer behavior

Selected Industry Subsectors to Watch: Overview and Opportunities

	Key Sector Tailwinds	Key Investor / Acquirer Considerations
 <p>Ethnic Foods</p>	<ul style="list-style-type: none"> Demographic growth of a diverse and expanding ethnic population Mainstream exploration and acceptance of more varied and intense flavors driven by Gen Z and Millennials Increased and accelerated adoption and innovation of out-of-home food trends into home-based products 	<ul style="list-style-type: none"> Players are primarily family or founder-owned Succession planning is driven by certain ethnic groups (e.g. Mexican) reaching 2nd or 3rd generation depending on immigration patterns Strategics seek scale for entry or acquisition, offering private equity platform-building opportunities
 <p>Frozen Foods</p>	<ul style="list-style-type: none"> The pandemic boosted the frozen food sector, setting the stage for sustained growth Technological advancements drive a focused quality and offerings Benefits of convenience and value resonate with Gen Z and Millennial entering household formative years 	<ul style="list-style-type: none"> Opportunity for frozen private label to follow branded innovation (e.g.) ethnic categories Foodservice turns to frozen amid labor, supply chain and ingredient cost challenges Fewer strategic exit partners, high barriers for brands to secure costly freezer case shelf space
 <p>Baked Goods</p>	<ul style="list-style-type: none"> In-store bakeries serves as a key differentiator for retailers Growing consumer interest in artisanal / premium offerings Indulgence and comfort food made a comeback during the pandemic 	<ul style="list-style-type: none"> Fragmented market offers growth opportunities Frozen distribution facilitates national distribution growth for smaller companies Self-manufacturing and physical assets optimize operations offering investors protection while limited in-store brand presence aligns with risk avoidance
 <p>Distribution</p>	<ul style="list-style-type: none"> Consumer focus on fresh, healthy and specialty products drives distribution needs for these items Return of eating away-from-home post-pandemic Distributors play a vital role in connecting the complex and fragmented base of customers and suppliers 	<ul style="list-style-type: none"> Fragmented fresh markets, such as produce, protein and seafood, challenges broadliners Enhance margins with services like fresh-cut produce, portion control meat and skin pack seafood Roll-up to boost regional density scale and expansion driving valuation multiple expansion
 <p>Ingredients</p>	<ul style="list-style-type: none"> Consumer preference for clean, healthy and natural ingredients remains strong Foodservice channel growth, amid challenging labor conditions Continued trend toward outsourcing elements of value chain by CPG companies 	<ul style="list-style-type: none"> Ingredients as essential part of formulations fostering customer stickiness Consolidations in fragmented landscape reduce customer concentration Strategic buyers keen as targets scale optimizing margins with R&D

WHO WE ARE

Intrepid's Food, Beverage & Agriculture team delivers superior client results in mergers, acquisitions, and capital raising transactions through utilizing a bespoke approach that is not only informed by each client's needs, but also by our backgrounds ranging from a major bulge bracket firm to dedicated middle market advisory boutiques and long-standing industry relationships. Our team's advisory experience includes emerging disruptors, family / founder owned, private equity backed and marquee public company strategic transactions—ensuring a deep understanding of the most important drivers in the industry.

Agriculture & Processing

Consumer Packaged Goods

Other Value Chain Participants

AN IDEAL PARTNERSHIP

Intrepid is relentlessly focused on the middle market and driving superior outcomes for entrepreneur and private equity owned businesses across the Food, Beverage & Agriculture landscape. Our senior team directly manages our processes, leveraging years of experience to tailor a compelling message for each investor and buyer. While we serve clients of all shapes and sizes, the majority fit the following criteria:

- Entrepreneurs / investors interested in growth capital or liquidity event
- Compelling competitive market position
- Consistent operating performance with attractive growth opportunities
- Enterprise value ranging from \$25 million to \$500 million
- Businesses seeking buy-side advisory or search assistance to find and complete acquisitions
- Strong customer base and products / services offering

OUR TEAM



Mike Seccuro

Managing Director | Co-Head
Food, Beverage & Agriculture
mseccuro@intrepidib.com



Brian Levin

Managing Director | Co-Head
Food, Beverage & Agriculture
blevin@intrepidib.com



Gavin Daniels

Managing Director
Food, Beverage & Agriculture
gdaniels@intrepidib.com

Bloom

has received an equity investment from an investment group led by



backed by



Tritek International Inc.
HyLife Foods Windom, LLC
Canwin Farms, LLC

have sold substantially all of their assets in a chapter 11 bankruptcy

WATKINS

has received financing from



and



Wine Warehouse
CALIFORNIA DISTRIBUTOR OF FINE WINE, BEER & SPIRITS

has been acquired by



a portfolio company of



has been acquired by
Private Investor Group

JOCKO FUEL

has received a growth equity investment from



popchips

a portfolio company of



has been acquired by



transaction was executed while at prior firm

Gilbert's
CRAFT SAUSAGES

has been acquired by



transaction was executed while at prior firm



has been acquired by



Provided financial advisory services to



HEN HAVEN

has completed a debt and equity financing

Rock Hill

has been acquired by
PETE and GERRY'S
ORGANIC EGGS

a portfolio company of



has been acquired by



SPROUT

a portfolio company of
Morgan Stanley
(Morgan Stanley Expansion Capital)

has sold a controlling interest to



(NASDAQ: NEPT)

Substantially all the assets of



has been acquired by



UNIX-PACKAGING INC.
UNIVERSAL PACKAGING SOLUTIONS



has received a growth investment from



a portfolio company of



has been acquired by



transaction was executed while at prior firm

GEORGE'S

has acquired Ozark Mountain Poultry



transaction was executed while at prior firm



has been acquired by



a portfolio company of
HIGHLANDER
partners, L.P.

transaction was executed while at prior firm

SEABOARD
CORPORATION

has acquired
Butterball LLC



transaction was executed while at prior firm

Intrepid & MUFG



In 2019, Intrepid became a member of banking and financial services company, MUFG (Mitsubishi UFJ Financial Group), one of the largest and most prominent financial institutions in the world, with a rich history and extensive global footprint.

This ownership structure provides our clients with a unique value proposition: the multinational reach and liquidity of the world's biggest banks (\$3 trillion in assets and 2,700 locations in over 50 regions), combined with the highly personal, relationship driven philosophy of a specialty boutique. Or as we like to say, human centric banking at a global scale.

Access to MUFG's vast network allows Intrepid's bankers to customize the unique resources, infrastructure and expertise your business requires.

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