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# Food & Beverage Industry

## Q4/2010 Review

### Contents:

North American M&A and Financial Trends

Featured Transactions

Key Industry Trends

Valuation & Operating Metrics

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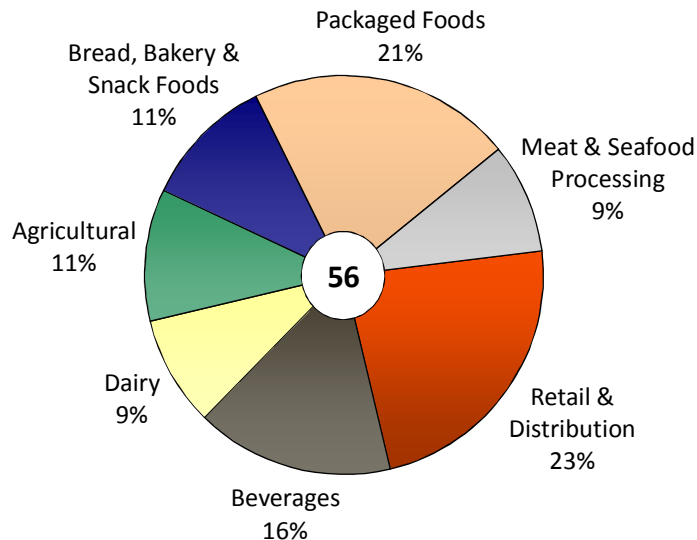


# North American M&A and Financial Trends

## North American M&A Highlights

- Food and beverage (“F&B”) transaction activity was down in Q4/10 for the first time since Q1/09:
  - 56 transactions were announced in Q4/10, compared to 78 in Q3/10 and 73 in Q2/10.
  - Average deal size remained consistent with the previous quarter due to several smaller transactions.
  - Average deal size in Q4/10 of US\$55M decreased by 36% compared to US\$86M in Q4/09.
  - Average deal volume in Q4/10 of 56 deals decreased by 14% compared to 65 deals in Q4/09.
  - The biggest quarterly increase of deal volume by segment was Packaged Foods which jumped by 6% from the previous quarter to 21% of all F&B deals completed in Q4/10.

## Q4/10 North American F&B Deal Volume by Segment



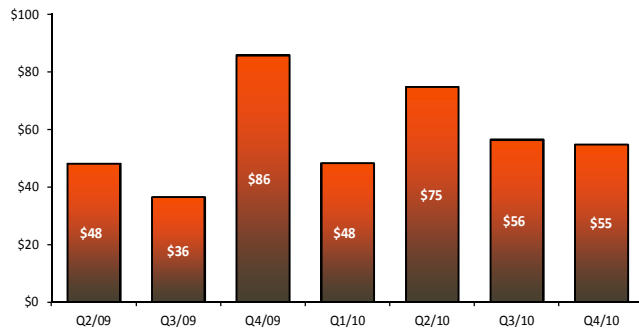
## North American Private Equity (“PE”) Trends

- Since the beginning of 2009, 63 PE investors have completed 70 investments in the F&B industry.
- The most active U.S. F&B investors in the past few years have been KPS Capital Partners with 5 deals and Wind Point Capital Partners, Catterton Partners and Mistral Equity Partners with 3 deals each.
- The U.S. PE industry deal flow as a whole was up 11% from 2009 with a total of 1,498 PE deals during 2010.
- U.S. PE deals under US\$50M made up for 40% of deal flow in 2010 which was actually the lowest percentage seen by the lower-middle market since before 2005.

## Current Canadian Debt Terms

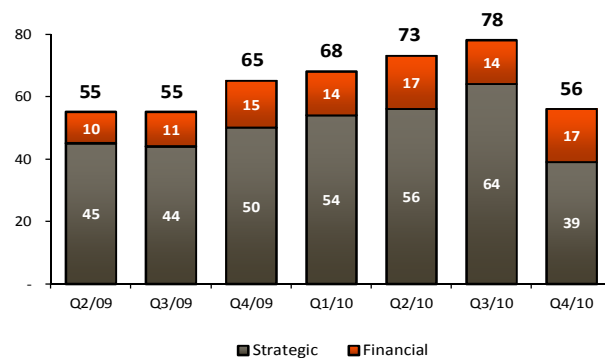
- Senior debt funding: up to 3.25x Earnings Before Interest, Taxes, Depreciation & Amortization (“EBITDA”)
- Senior debt pricing: Gov’t of Canada Yield +3.25% - 3.75% (6.25% - 6.75%)
- Total debt funding: up to 4.5x EBITDA
- Up to 5 year term
- Up to 10 year amortization
- Subordinated debt pricing: 14% – 16%+

## North American F&B Average Deal Size (US\$M)<sup>(1)</sup>



(1) Average transaction value for all deals with disclosed values under US\$500M

## North American F&B Announced Deal Volume



# Q4/10 Featured Transactions

## Featured North American Transactions

### Bread, Bakery & Snack Foods

- Weston Foods (Canada) Inc., a subsidiary of George Weston Ltd., acquired Toronto-based **ACE Bakery Limited** from RBC Capital Partners, and Glencoe Capital, LLC and other investors for approximately CAD\$110M on November 1, 2010.
- Atlanta-based FOCUS Brands Inc., an affiliate of Roark Capital Group, acquired Pennsylvania-based pretzel manufacturer **Auntie Anne's Inc.** on November 8, 2010.
- Prepared food manufacturer Greencore USA, a subsidiary of Greencore Group plc (ISE:GCG) acquired Massachusetts-based **On a Roll Sales Inc.**, on December 7, 2010. On a Roll Sales produces sandwiches & wraps.
- U.S. private equity firm Gryphon Investors acquired Minnesota-based **American Importing Company, Inc.** ("Amport") on November 15, 2010. American Importing Company offers dried fruits and snack products. In a related transaction, Gryphon Investors acquired Maryland-based **Ann's House of Nuts, Inc.** from Olympus Partners on November 14, 2010.
- Minnesota-based Sunrich LLC, a subsidiary of SunOpta, Inc. (TSX:SOY) acquired **Dahlgren & Company, Inc.** for US\$44M in cash on November 8, 2010. The deal represents a **Total Enterprise Value ("TEV") to Last Twelve Months ("LTM") Revenue of 0.6x**. Dahlgren & Company is a processor and supplier of confection sunflower seed products.

### Beverages

- Montreal-based Global Biotech Corp. (OTCPK:GBIQ) agreed to acquire an unknown majority stake in New York-based **Boreal Water Collection, Inc.** (OTCPK:BRWC) on December 28, 2010.
- FIJI Water Company LLC acquired California-based **Justin Vineyards & Winery Inc.** on December 5, 2010.
- Crystal Springs Water Co., a subsidiary of Georgia-based DS Waters of America Inc. acquired Tennessee-based **Echota Beverage Group, Inc.** on November 5, 2010. In a related transaction, DS Waters of America acquired Utah-based **Mount Olympus Waters, Inc.** on November 9, 2010.

### Food Retail & Distribution

- Phoenix-based Cole Real Estate Investments acquired **32 grocery store properties from Albertson's, LLC** for approximately US\$266M in cash in a sale leaseback transaction on November 4, 2010.
- Connecticut-based Endeavour Capital Advisors Inc. along with the management of Bristol Farms acquired **Bristol Farms, Inc.** from SUPERVALU Inc. (NYSE: SVU) on October 29, 2010.
- Casey's Marketing Company and Casey's Retail Company agreed to acquire Nebraska-based convenience store operator **Kabredlo's Inc.** for US\$45.8M on October 28, 2010. The deal represents a **TEV to LTM Revenue of 0.9x**.

### Meat & Seafood Processing

- U.S. private equity firm Sun Capital Partners, Inc. acquired **Burlington Pork Processing Operations** from Maple Leaf Foods Inc. (TSX:MFI) for CAD\$20M on November 10, 2010.
- California-based lamb packer Superior Farms Inc. agreed to acquire **Iowa Lamb Corporation** on October 22, 2010.
- U.S. private equity firm Carson Private Capital and U.K. private equity firm Lion Capital LLP acquired Maine-based **Stinson Seafood 2001 Inc.** and Netherlands-based **Clover Leaf Seafood B.V.** for US\$980M from Connors Bros. Income Fund on December 15, 2010.
- Nova Scotia-based High Liner Foods Inc. (TSX:HLF) acquired Massachusetts-based **Viking Seafoods, Inc.** for CAD\$31.5M in cash on December 13, 2010.

### Agricultural Food

- Iowa-based Pioneer Hi-Bred International, Inc., a developer and producer of hybrid seeds and plant genetics acquired U.S. seed companies **Seed Consultants Inc.** and **Terral Seed, Inc.** on December 27, 2010.



## Q4/10 Featured Transactions

### Featured Transactions (cont'd)

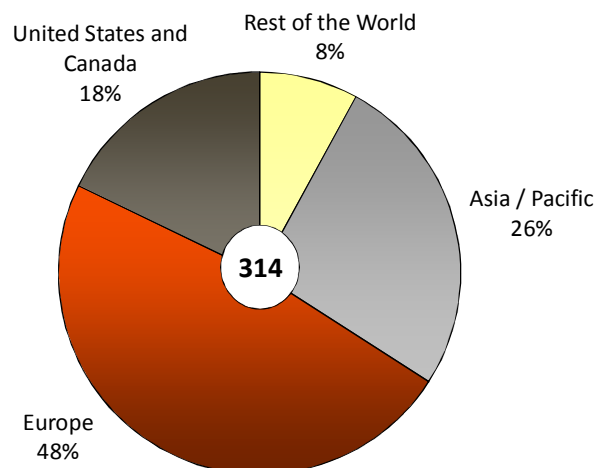
#### Packaged Foods

- U.S. private equity firms Ancor Capital Partners, Centerfield Capital Partners, L.P., CapitalSouth Partners and Westbury Partners acquired California-based **Fresh Food Concepts, Inc.** from Swander Pace Capital on December 13, 2010.
- U.S. private equity firms Kohlberg Kravis Roberts & Co. (NYSE: KKR), Vestar Capital Partners and Centerview Partners Management LLC agreed to acquire pet food and consumer food producer **Del Monte Foods Co. (NYSE: DLM)** for approximately US\$4B on November 24, 2010. The deal represents a **TEV to LTM Revenue of 1.5x** and a **TEV to LTM EBITDA of 9.0x**.
- Gourmet condiments manufacturer Beaverton Foods, Inc. acquired Oregon-based **Pacific Farms USA, LP** on December 29, 2010. Pacific Farms USA produces fresh Japanese wasabi and wasabi paste.
- U.S. private equity firm Roark Capital Group acquired New York-based **Atkins Nutritionals Holdings, Inc.** from North Castle Partners, LLC on December 10, 2010.
- U.S. private equity firms Sun Capital Partners, Inc. and Main Street Capital Holdings, L.L.C. acquired Oregon-based **The Harris Soup Company** from Basic American Foods, Inc. in November 2010.
- U.S. private equity firm Centerview Partners Management LLC along with the management of Richelieu Foods, Inc. acquired private label and packing food company **Richelieu Foods, Inc.** from Brynwood Partners on November 18, 2010.
- B.C. based Premium Brands Holdings Corporation (TSX:PBH) acquired Washington-based **SK Food Group Inc.** for approximately CAD\$42.6M on October 18, 2010. The deal represents a **TEV to LTM Revenue of 0.5x** and a **TEV to LTM EBITDA of 5.3x**. SK Food Group engages in the manufacture and wholesale of food products in the U.S. and internationally.

#### Dairy

- Yoplait France SA acquired dairy manufacturer and Brampton-based **Liberté Natural Foods, Inc.** from Pineridge Foods, Inc. on December 15, 2010. In 2009, Liberté had revenue of CAD\$175M.
- General Mills, Inc. (NYSE:GIS) agreed to acquire the **Mountain High Yogurt Business** from Dean Foods Co. (NYSE:DF) on November 18, 2010.
- Quebec-based Agropur cooperative agreed to acquire Wisconsin-based **Main Street Ingredients, LLC** on December 22, 2010. Main Street Ingredients reported revenues of US\$115M for 2009.
- California-based and family owned Foster Dairy Farms acquired Nevada-based ice cream producer **Matterhorn Group, Inc.** from Pacific Private Capital, L.L.C. and other investors on November 24, 2010.
- France-based Danone (ENXTPA: BN) acquired Portland-based **YoCream International, Inc. (OTCPK: YOCM)** for approximately US\$103M from Columbia Ventures Corporation and other shareholders on December 27, 2010. The deal represents a **TEV to LTM Revenue of 1.9x** and a **TEV to LTM EBITDA of 9.5x**.

### Q4/10 Global F&B Deal Volume by Region





## Q4/10 Key Industry Trends

### North American Food & Beverage Key Industry Trends

**“Buying local” is an important part of a product’s overall value proposition when perceived by consumers.**

*Commentary: Consumers often see local origin or purchasing as a way to get certain product benefits, such as freshness, geographic convenience or good customer service, not just as a way to “do good” for a region. It also shows that consumers seek a sense of personal connection to products, brands, manufacturers and retailers.*

**Continuing M&A activity expected in 2011.**

*CCC Commentary: Indications are that companies that remained strong during the recession are now looking to expand. But with economic growth still sluggish, food companies looking for M&A opportunities are likely to look to emerging markets for deals that could represent a faster return on investment.*

**2011 Packaging Trends**

*CCC Commentary: Despite the economy, the food packaging industry is set to grow steadily for the short-term future thanks to rising demand for environmental concerns and technological innovations. The food packaging industry must stay on top of the changing needs of the market.*

**Men are becoming more dominant in the role of food purchases**

*CCC Commentary: Traditionally product developers and marketers have focused their attention more on women in regards to food purchases, however, a recent study showed that 75% of men surveyed are primarily or at least partially responsible for buying groceries.*

**Many consumers are turning away from meat**

*CCC Commentary: The decline in meat consumption can be summed up by four key drivers: health, ethics, price and ethnocentrism. With this decline, meat-free products should be flourishing, however, consumers are disappointed with the variety of meat-free products due to a strong perception of poor taste.*

**U.S. food chains continue to gather interest in Canada**

*Commentary: The Canadian market appeals to the U.S. chains because it is not yet saturated, and close proximity to the U.S. makes it easy for U.S. companies to develop and manage Canadian operations.*

**Expected higher food prices could cause consumer caution in 2011**

*Commentary: The U.S. Department of Agriculture (USDA) predicts that food price inflation, after dropping to its lowest rate in 18 years, will accelerate during the first half of 2011, leading to a two to three percent food price inflation during the year.*

**Convenience is driving the microwavable foods market**

*CCC Commentary: Other factors influencing this category are the increasing number of young people with few cooking skills, higher disposable incomes, changing consumer food purchasing patterns, busy lifestyles, and interesting innovations in microwavable foods.*

**The supply of lamb is becoming a concern**

*CCC Commentary: With only 1% of all meat sales, the sheep industry contributes US\$1.4B annually to the economy. Unfortunately, the demand for lamb was down 10% in 2009 as livestock costs and subsequent retail prices increased. Supply is definitely a concern as in 1990, U.S. ranchers had 11.1 million head of sheep compared to 5.6 million in 2010. Supply, along with grain and feed pricing, has caused prices for the protein to steadily increase.*

**The food industry launches its own voluntary front-of-package labeling system**

*CCC Commentary: Without waiting for the U.S. government to draw up regulations, food and beverage manufacturers have come up with their own labels which will appear on the front of products instead of the back. These labels will be designed by the Food Marketing Institute and the Grocery Manufacturers Association. It will list calories, saturated fat, sodium and total sugars contained in each product.*

# Q4/10 Valuation and Operating Metric Trends

## Selected North American Public Companies: Valuation & Operating Metrics

| Ticker  | Company                    | Stock Price<br>31-Dec-10 | 52 Week |         | Total<br>Enterprise<br>Value<br>(TEV) | Total<br>Debt   | LTM<br>Revenue | LTM<br>EBITDA | EBITDA<br>Margin | Total<br>Debt to<br>LTM<br>EBITDA | TEV / LTM<br>Revenue <sup>(1)</sup> | TEV / LTM<br>EBITDA <sup>(1)</sup> |
|---|----------------------------|--------------------------|---------|---------|---------------------------------------|-----------------|----------------|---------------|------------------|-----------------------------------|-------------------------------------|------------------------------------|
|   |                            |                          | High    | Low     |                                       |                 |                |               |                  |                                   |                                     |                                    |
| <b>Food Conglomerates Market</b>              |                            |                          |         |         |                                       |                 |                |               |                  |                                   |                                     |                                    |
|   |                            |                          | (US\$)  |         |                                       | (US\$ millions) |                |               |                  |                                   |                                     |                                    |
| NYSE:KFT                                      | Kraft Foods Inc.           | \$31.51                  | \$32.67 | \$27.09 | \$83,133                              | \$30,362        | \$47,663       | \$7,902       | 17%              | 3.84x                             | 1.74x                               | 10.52x                             |
| NYSE:GIS                                      | General Mills Inc.         | 35.59                    | 38.98   | 33.11   | 29,353                                | 7,046           | 14,879         | 3,087         | 21%              | 2.28x                             | 1.97x                               | 9.51x                              |
| NYSE:CAG                                      | ConAgra Foods, Inc.        | 22.58                    | 26.32   | 21.02   | 12,620                                | 3,237           | 12,072         | 1,576         | 13%              | 2.05x                             | 1.05x                               | 8.01x                              |
| NYSE:HNZ                                      | HJ Heinz Co.               | 49.46                    | 50.77   | 40.00   | 19,659                                | 4,455           | 10,502         | 1,908         | 18%              | 2.33x                             | 1.87x                               | 10.30x                             |
| <b>Food Retailing Market</b>                  |                            |                          |         |         |                                       |                 |                |               |                  |                                   |                                     |                                    |
| TSX:L   | Loblaws Companies Ltd.     | \$40.59                  | \$45.22 | \$33.32 | \$14,599                              | \$4,747         | \$30,732       | \$1,918       | 6%               | 2.47x                             | 0.47x                               | 7.47x                              |
| TSX:MRU.A                                     | Metro Inc.                 | 45.45                    | 47.73   | 38.29   | 5,564                                 | 1,002           | 11,046         | 728           | 7%               | 1.38x                             | 0.49x                               | 7.40x                              |
| NYSE:KR                                       | Kroger Co.                 | 22.36                    | 24.14   | 19.08   | 21,267                                | 7,808           | 80,812         | 3,715         | 5%               | 2.10x                             | 0.26x                               | 5.72x                              |
| NYSE:SVU                                      | SUPERVALU Inc.             | 9.63                     | 17.89   | 8.20    | 9,291                                 | 7,331           | 38,079         | 1,952         | 5%               | 3.76x                             | 0.24x                               | 4.76x                              |
| <b>Beverages Market</b>                       |                            |                          |         |         |                                       |                 |                |               |                  |                                   |                                     |                                    |
| TSX:BCB                                       | Cott Corporation           | \$9.00                   | \$9.05  | \$5.69  | \$1,512                               | \$663           | \$1,664        | \$170         | 10%              | 3.90x                             | 0.88x                               | 8.64x                              |
| TSX:ADW.A                                     | Andrew Peller Ltd.         | 8.85                     | 9.05    | 7.40    | 226                                   | 89              | 256            | 29            | 11%              | 3.01x                             | 0.85x                               | 7.40x                              |
| NYSE:KO                                       | The Coca-Cola Company      | 65.77                    | 65.88   | 49.47   | 153,143                               | 13,393          | 32,135         | 10,663        | 33%              | 1.26x                             | 4.77x                               | 14.36x                             |
| NYSE:TAP                                      | Molson Coors Brewing Co.   | 50.19                    | 51.11   | 38.44   | 10,085                                | 1,447           | 3,240          | 619           | 19%              | 2.34x                             | 3.11x                               | 16.30x                             |
| <b>Agricultural Food Market</b>               |                            |                          |         |         |                                       |                 |                |               |                  |                                   |                                     |                                    |
| TSX:VT  | Viterra, Inc.              | \$9.33                   | \$10.86 | \$7.00  | \$4,364                               | \$977           | \$7,519        | \$407         | 5%               | 2.40x                             | 0.56x                               | 10.34x                             |
| TSX:SOY                                       | SunOpta Inc.               | 7.86                     | 9.05    | 2.83    | 605                                   | 96              | 1,038          | 52            | 5%               | 1.83x                             | 0.57x                               | 11.21x                             |
| NYSE:ADM                                      | Archer Daniels Midland Co. | 30.08                    | 34.03   | 24.22   | 26,770                                | 8,903           | 63,560         | 3,217         | 5%               | 2.77x                             | 0.42x                               | 8.32x                              |
| NYSE:CPO                                      | Corn Products Int'l Inc.   | 46.00                    | 48.00   | 26.23   | 3,690                                 | 1,775           | 3,918          | 516           | 13%              | 3.44x                             | 0.94x                               | 7.16x                              |
| <b>Bread, Bakery &amp; Snack Foods Market</b> |                            |                          |         |         |                                       |                 |                |               |                  |                                   |                                     |                                    |
| TSX:WN  | George Weston Limited      | \$84.66                  | \$86.37 | \$66.93 | \$15,868                              | \$6,054         | \$31,700       | \$2,109       | 7%               | 2.87x                             | 0.49x                               | 7.39x                              |
| TSX:CBY                                       | Canada Bread Company Ltd.  | 46.01                    | 57.80   | 41.98   | 1,073                                 | 11              | 1,576          | 158           | 10%              | 0.07x                             | 0.66x                               | 6.56x                              |
| NYSE:K  | Kellogg Company            | 51.08                    | 56.00   | 47.28   | 23,720                                | 5,471           | 12,437         | 2,503         | 20%              | 2.19x                             | 1.91x                               | 9.48x                              |
| NYSE:RAH                                      | Ralcorp Holdings Inc.      | 65.01                    | 69.86   | 53.90   | 6,104                                 | 2,710           | 4,049          | 669           | 17%              | 4.05x                             | 1.51x                               | 9.12x                              |
| <b>Dairy Market</b>                           |                            |                          |         |         |                                       |                 |                |               |                  |                                   |                                     |                                    |
| TSX:SAP                                       | Saputo, Inc.               | \$39.79                  | \$40.47 | \$27.18 | \$8,416                               | \$399           | \$5,693        | \$744         | 13%              | 0.54x                             | 1.42x                               | 10.89x                             |
| NYSE:DF                                       | Dean Foods Co.             | 8.84                     | 18.79   | 7.13    | 5,713                                 | 4,188           | 12,004         | 794           | 7%               | 5.27x                             | 0.48x                               | 7.19x                              |
| NasdaqGS:CALM                                 | Cal-Maine Foods, Inc.      | 31.58                    | 38.88   | 26.23   | 696                                   | 113             | 918            | 143           | 16%              | 0.79x                             | 0.76x                               | 4.86x                              |
| <b>Meat &amp; Seafood Processing Market</b>   |                            |                          |         |         |                                       |                 |                |               |                  |                                   |                                     |                                    |
| TSX:MFI                                       | Maple Leaf Foods Inc.      | \$11.45                  | \$13.07 | \$8.52  | \$2,612                               | \$932           | \$4,921        | \$341         | 7%               | 2.73x                             | 0.51x                               | 7.38x                              |
| TSX:CLR.UN                                    | Clearwater Seafoods L.P.   | 1.03                     | 1.29    | 0.76    | 265                                   | 208             | 275            | 35            | 13%              | 5.88x                             | 0.94x                               | 7.29x                              |
| NYSE:TSN                                      | Tyson Foods Inc.           | 17.22                    | 20.57   | 12.15   | 8,151                                 | 2,536           | 28,430         | 2,044         | 7%               | 1.24x                             | 0.29x                               | 3.99x                              |
| NasdaqGS:SAFM                                 | Sanderson Farms Inc.       | 39.15                    | 59.43   | 38.61   | 854                                   | 63              | 1,925          | 254           | 13%              | 0.25x                             | 0.44x                               | 3.36x                              |

Notes:

As at December 31, 2010

(1) All trading multiples based upon trading currency

Source: Capital IQ



# CCC Investment Banking

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Established in 1975, CCC is Canada's leading independent middle market investment bank. CCC has a specialization in the North American food and beverage industry. CCC provides advisory services in:

- ◆ Mergers & Acquisitions ◆ Management Buy-outs ◆ Divestitures ◆ Financing Strategy and Placement
- ◆ Restructurings ◆ Strategic Reviews ◆ Valuations and Fairness Opinions

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- CFI specializes in cross-border transactions with a focus on the food and beverage sector



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- To find out how CCC can add value to your business, please contact one of our food and beverage specialists:

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