



# food&beverageREPORT

## INDUSTRY OVERVIEW

The quality and quantity of household food and beverage consumption are influenced by disposable income. Service providers, such as bars, cafes, coffee shops and restaurants are significantly more elastic to that input than most businesses, denoting that the industry's thin margins have been experiencing gains on the heels of the US's economic recovery and subsequent spending increases. With relatively higher cash than normal – and managers who are hedging against another economic fallout – two broad consolidation tactics have been in play, with no exception to this past quarter. One is the consolidation of luxury and common goods, the other is the consolidation of the vast number of small, specialized operators; interestingly, these two plays work in tandem. Craft beers, for example, command high profit margins as the demand for flavor profile has eroded market share of the major brewers. Distribution, however, prevents microbrewers from expanding their footprint at a substantial level. Thus, the consolidation plays are driving efficiency into the industry.

M&A activity in this industry is off to a great start in 1H 2014, posting about a 10% gain in deal volume over last year and a nearly 25% gain in capital invested. Value-added products and services, particularly those that emphasize flavor profile, health and wellness, should continue to command the highest trading multiples as the industry maintains its consolidation trend.

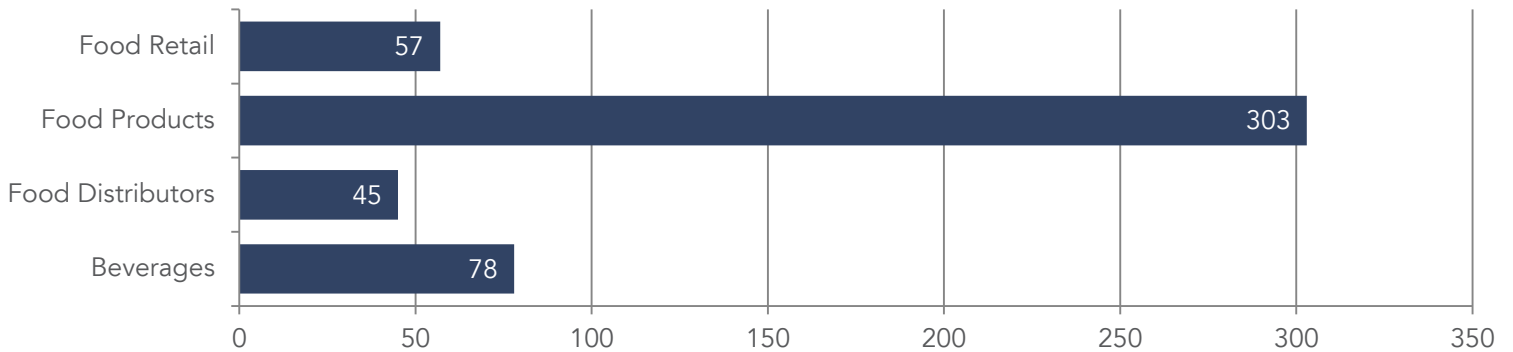
If you have any questions please contact us.

- Travis Conway, Director ([tconway@sdrventures.com](mailto:tconway@sdrventures.com))

- David Purinton, Analyst ([dpurinton@sdrventures.com](mailto:dpurinton@sdrventures.com))

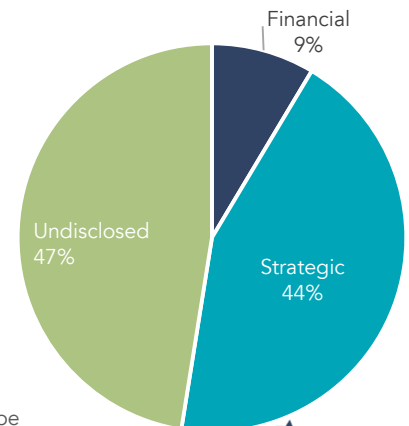
## TRANSACTION HIGHLIGHTS

### TRANSACTIONS # BY SEGMENT (Q2)



### STRATEGIC VS. FINANCIAL TRANSACTIONS HIGHLIGHTS

STRATEGIC ACQUISITIONS	04.21.14	The Hillshire Brands Company acquired Van's International Foods, Inc. for \$165 million.
	04.03.14	B&G Foods North America, Inc. acquired Specialty Brands of America for approximately \$160 million in cash.
	04.28.14	The Hain Celestial Group acquired Charter Baking Company for \$50 million in cash and \$1.3 million in common shares.
FINANCIAL ACQUISITIONS	6.16.14	CVC Capital Partners acquired majority stake in Advantage Sales & Marketing for \$4.2 billion.



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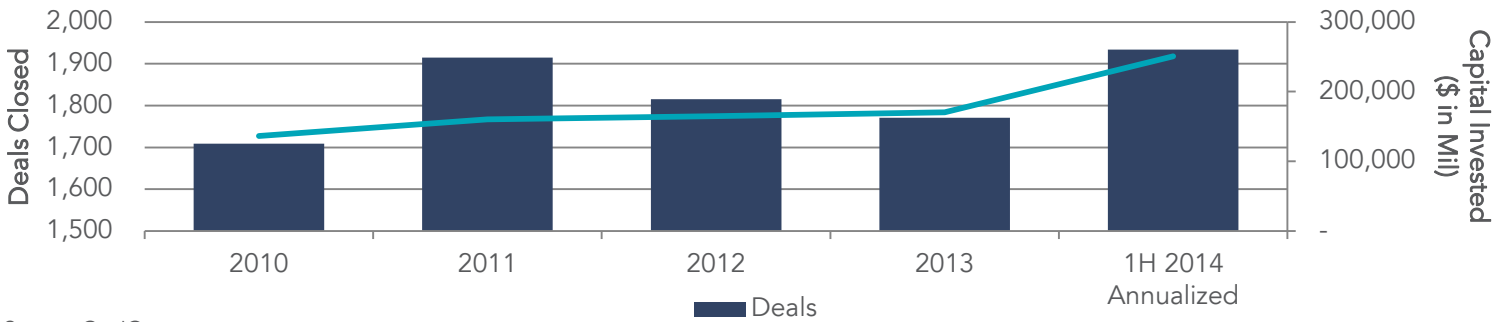
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## TRANSACTION ACTIVITY

Date	Target	Value (\$mm)	Buyers	Transaction Comments
5/2/2014	Charles Medley Distillers Kentucky, LLC	\$ 6	TerrePURE Kentucky Distillers Inc.	TerrePURE Kentucky Distillers acquired Charles Medley Distillers Kentucky for \$6 million. Terressentia will invest \$23 million into the distillery, including the renovation costs and add 50 jobs to the area's economy.
6/4/2014	True Salmon Pacific Holding Co., LLC	1.5	True Pacific Holding Company, Inc.	True Pacific acquired a 50% stake in True Salmon Pacific for \$1.5 million. Due to the difference between book value & sale price, a net loss equivalent to \$2.2 million will be reflected in 2014 balance results of TSP.
5/29/2014	Hudye Farms US, Inc.	24.5	Farmland Partners Inc. (AMEX:FPI)	Farmland Partners entered into an agreement to acquire Hudye Farms US for \$24.5 million. The acquisition is subject to final documentation and customary closing conditions.
5/24/2014	Contessa Premium Foods, Inc.	21	Red Chamber Co.	Red Chamber acquired the assets of Contessa Premium Foods from Sun Capital Partners, Main Street Capital Holdings, Rosetta Capital and others for \$21 million.
4/15/2014	Medallion Foods, Inc.	33.5	Shearer's Foods, Inc.	Shearer's Foods acquired the assets of Medallion Foods from RH Financial Corporation for \$33.5 million. The transaction will be financed by new \$40 million sponsor guaranteed senior unsecured demand loan.
4/28/2014	Charter Baking Company, Inc.	61.3	The Hain Celestial Group, Inc. (NasdaqGS:HAIN)	The Hain Celestial Group acquired Charter Baking Company for \$61.3 million. Hain Celestial paid \$50 million of cash and issued 0.13 million common shares as consideration.
4/3/2014	Specialty Brands of America, Inc.	155.0	B&G Foods North America, Inc.	B&G Foods North America acquired Specialty Brands of America for approximately \$160 million in cash. The acquisition is expected to be immediately accretive to earnings per share and free cash flow of B&G.
4/21/2014	Van's International Foods, Inc.	165	The Hillshire Brands Company (NYSE:HSH)	Hillshire Brands acquired Van's International Foods for approximately \$170 million. Van's will become part of Hillshire Brands' retail segment and Van's management will continue to lead the business.
5/5/2014	Beyond Organic LLC	6.2	Youngevity Essential Life Sciences	Youngevity Essential Life Sciences acquired Beyond Organic for \$6.2 million. Youngevity will pay a monthly fixed amount of \$92,500 for 10 months, followed by monthly payments based on % of distributor revenues.

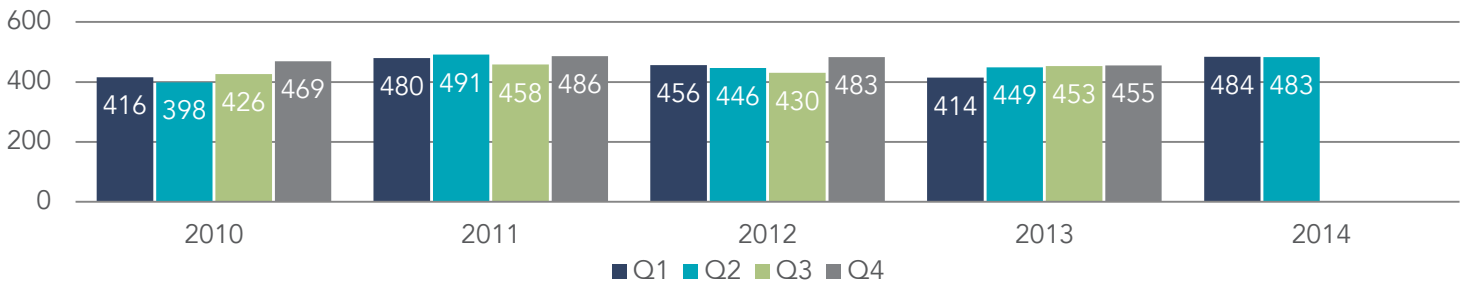
Source: CapIQ

## US FOOD & BEVERAGE M&A ACTIVITY



Source: CapIQ

## FOOD & BEVERAGE TRANSACTIONS # OF TRANSACTIONS BY QUARTER



Source: CapIQ

\*Note: These data represent the recorded transactions, are not all inclusive of completed transactions, and are meant to be representative of the industry.



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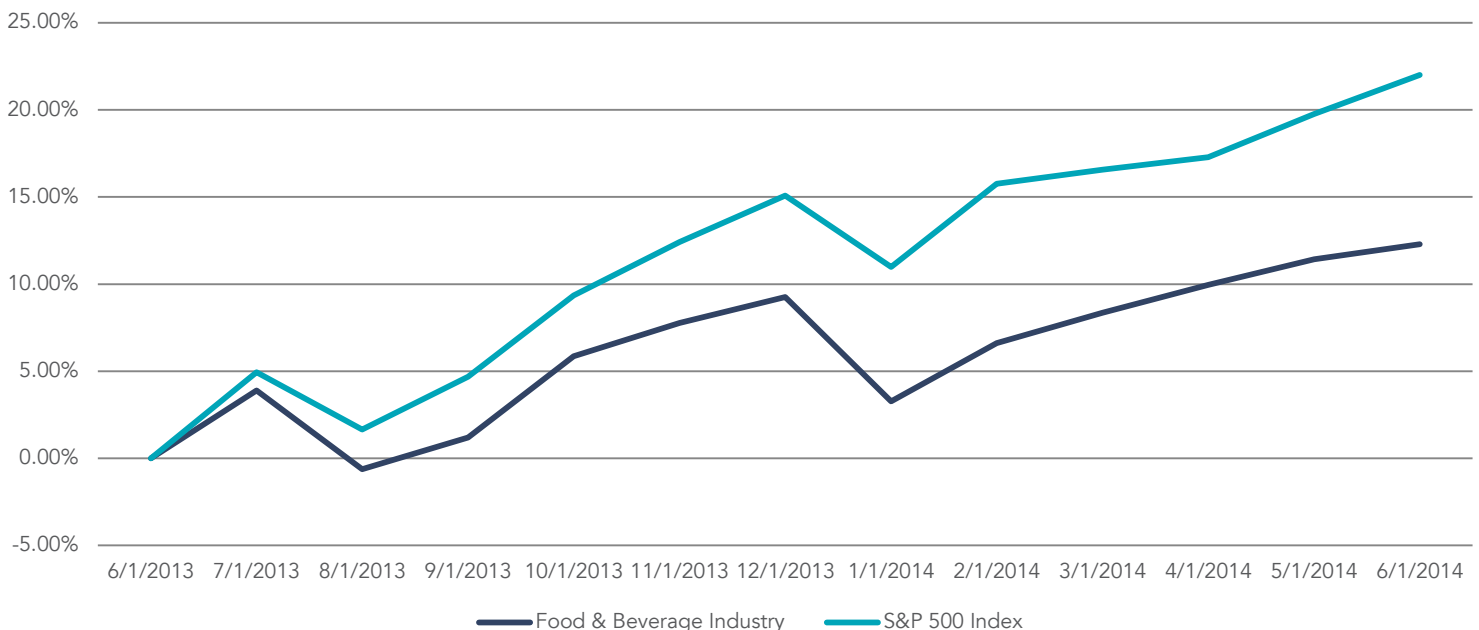
## PUBLIC BASKET

Although inflation ticked back up to the Fed's 2% target rate in 1H 2014, food and beverage service providers and grocery stores – and, subsequently, their upstream value chain – were not able to adjust prices, in fear of customer price sensitivity. Additionally, severe weather resulted in consumers making fewer trips to retailers like Natural Grocers (NYSE:NGVC) and Whole Foods (NASDAQ: WFM), resulting in both companies missing growth projections, taking big hits on share price and trading multiples, and adjusting 2H 2014 projections. Meanwhile, Anheuser-Busch (NYSE:BUD) and Molson Coors (NYSE:TAP) benefited from investor's expectations that, among other things, BUD's completion of the Goose Island acquisition and TAP's introduction of Czech beer, Staropramen, into the US were tactically sound moves to stay relevant as customer demand shifts toward craft, specialized beers. Other segments experienced similar trends: customer expectations are amidst a massive shift.

Company	Symbol	State	Market Cap		Stock Price		Price/ LTM EPS	Price/ Book	Price/ Rev	Price/ EBITDA
			(\$ in Mil)	Date	Month Change	YTD Change				
Anheuser-Busch InBev SA/NV	ENXTBR:ABI	N/A	\$ 135,422	\$ 84.3	4.70%	9.10%	37.9x	3.7x	5.2x	13.4x
Coca-Cola Enterprises Inc.	NYSE:CCE	GA	\$ 11,955	\$ 47.6	4.18%	7.75%	21.7x	5.8x	1.9x	11.7x
Dean Foods Company	NYSE:DF	TX	\$ 1,646	\$ 17.6	1.32%	2.44%	NM	2.4x	0.3x	8.4x
Farmer Brothers Co.	NasdaqGS:FARM	CA	\$ 339	\$ 21.6	8.88%	(7.22%)	86.8x	2.8x	0.6x	10.1x
Natural Grocers by Vitamin Cottage	NYSE:NGVC	CO	\$ 478	\$ 21.3	2.21%	(49.94%)	39.3x	5.2x	1.0x	13.1x
Starbucks Corporation	NasdaqGS:SBUX	WA	\$ 58,809	\$ 78.1	6.66%	(0.34%)	34.7x	11.9x	3.8x	17.3x
Core-Mark Holding Company, Inc.	NasdaqGS:CORE	CA	\$ 1,074	\$ 46.6	12.69%	22.71%	25.2x	2.5x	0.1x	10.9x
Rocky Mountain Chocolate Factory Inc.	NasdaqGM:RMC	CO	\$ 78	\$ 12.6	9.26%	8.70%	16.1x	3.8x	2.0x	11.4x
SpartanNash Company	NasdaqGS:SPTN	MI	\$ 811	\$ 21.5	(11.45%)	(11.45%)	14.7x	1.1x	0.3x	9.6x
The Cheesecake Factory Incorporated	NasdaqGS:CAKE	CA	\$ 2,279	\$ 47.1	2.68%	(2.42%)	26.8x	4.5x	1.2x	9.9x
<b>Average</b>			<b>\$ 21,289</b>	<b>\$ 39.8</b>	<b>4.11%</b>	<b>(2.07%)</b>	<b>33.7x</b>	<b>4.4x</b>	<b>1.7x</b>	<b>11.6x</b>

Source: CapIQ

## FOOD & BEVERAGE INDUSTRY VS. S&P 500 RUNNING 12 MONTHS



Source: CapIQ



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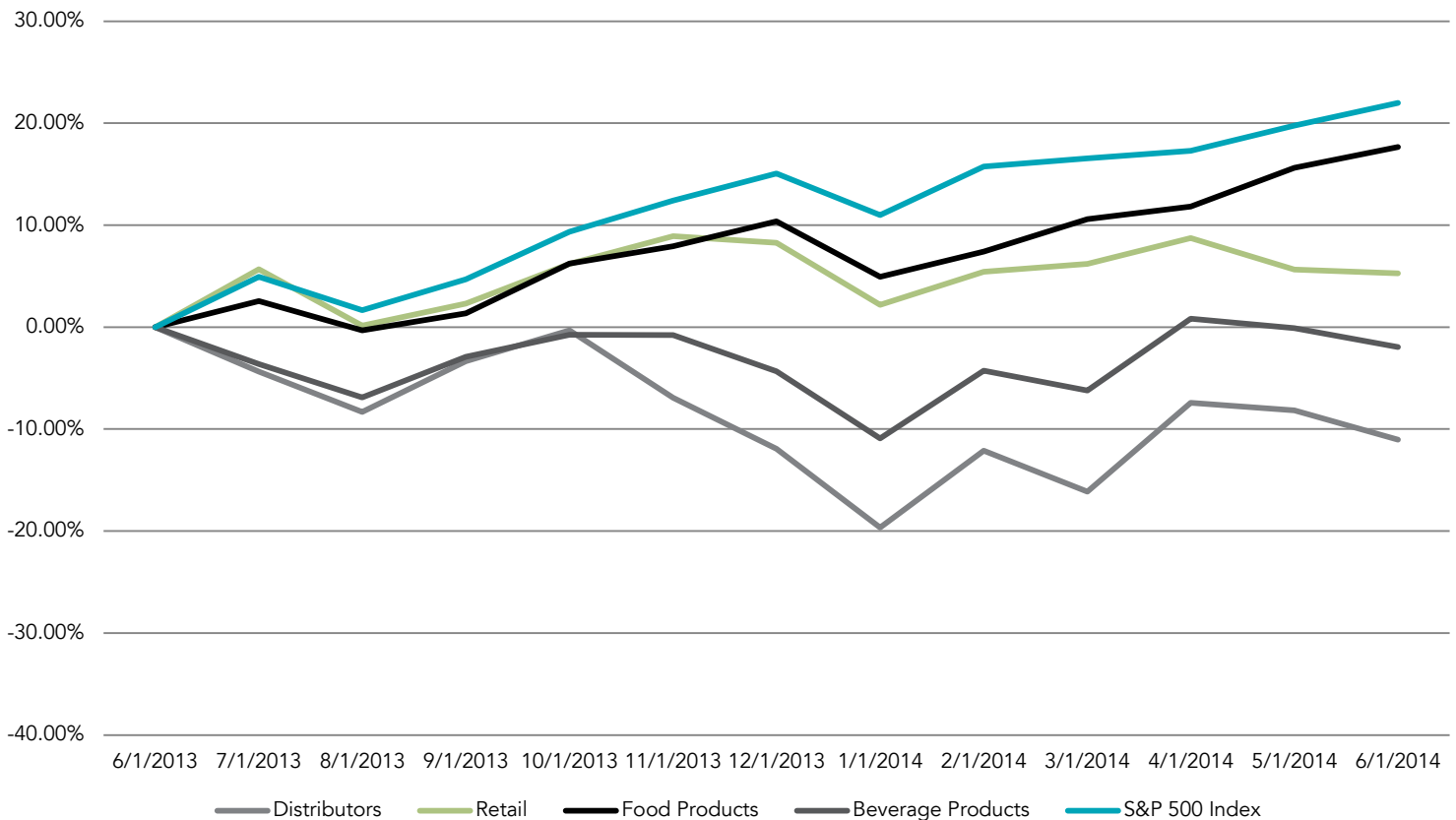
## INDUSTRY SEGMENTS

The retail segment had the most mixed results in Q2, with shares of companies like Kroger (NYSE:KR) growing at 10% while Safeway (NYSE:SWY) dropped by about the same amount. Certainly the star segments in 2014 have been the producers of food and beverage products, which are trading at about 12.5x and 18.5x EBITDA, respectively, in public markets. Middle market operators in those segments are becoming increasingly attractive targets to large players that are looking to deploy cash on horizontal acquisitions that will integrate local, craft, and specialized items into their core offerings. On the other hand, distributors, which realized more losses than the other segments, will look to the middle market to increase their footprint in mission-critical geographies and customer bases.

Market Segment	Market Cap	Stock Price Delta			Price/ LTM EPS	Price/ Book	Price/ Sales	Price/ EBITDA
		Month	YTD	LTM				
Distributors	\$ 111,110	(3.1%)	1.0%	(11.0%)	27.47x	2.73x	1.22x	11.62x
Retail	\$ 12,407	(0.3%)	(2.8%)	5.3%	27.21x	4.56x	0.88x	10.77x
Food Products	\$ 13,034	1.7%	6.6%	17.7%	30.20x	5.84x	2.30x	12.68x
Beverage Products	\$ 129,845	(1.9%)	2.5%	(2.0%)	28.22x	7.49x	2.31x	18.56x
Industry Average	\$ 16,004	4.9%	(3.0%)	31.7%	54.62x	8.02x	4.74x	27.98x
S&P 500 Average	\$ 35,548	1.9%	6.0%	22.0%	27.74x	4.76x	3.13x	11.61x

Source: CapIQ

## FOOD & BEVERAGE SEGMENTS VS. S&P 500 RUNNING 12 MONTHS



Source: CapIQ

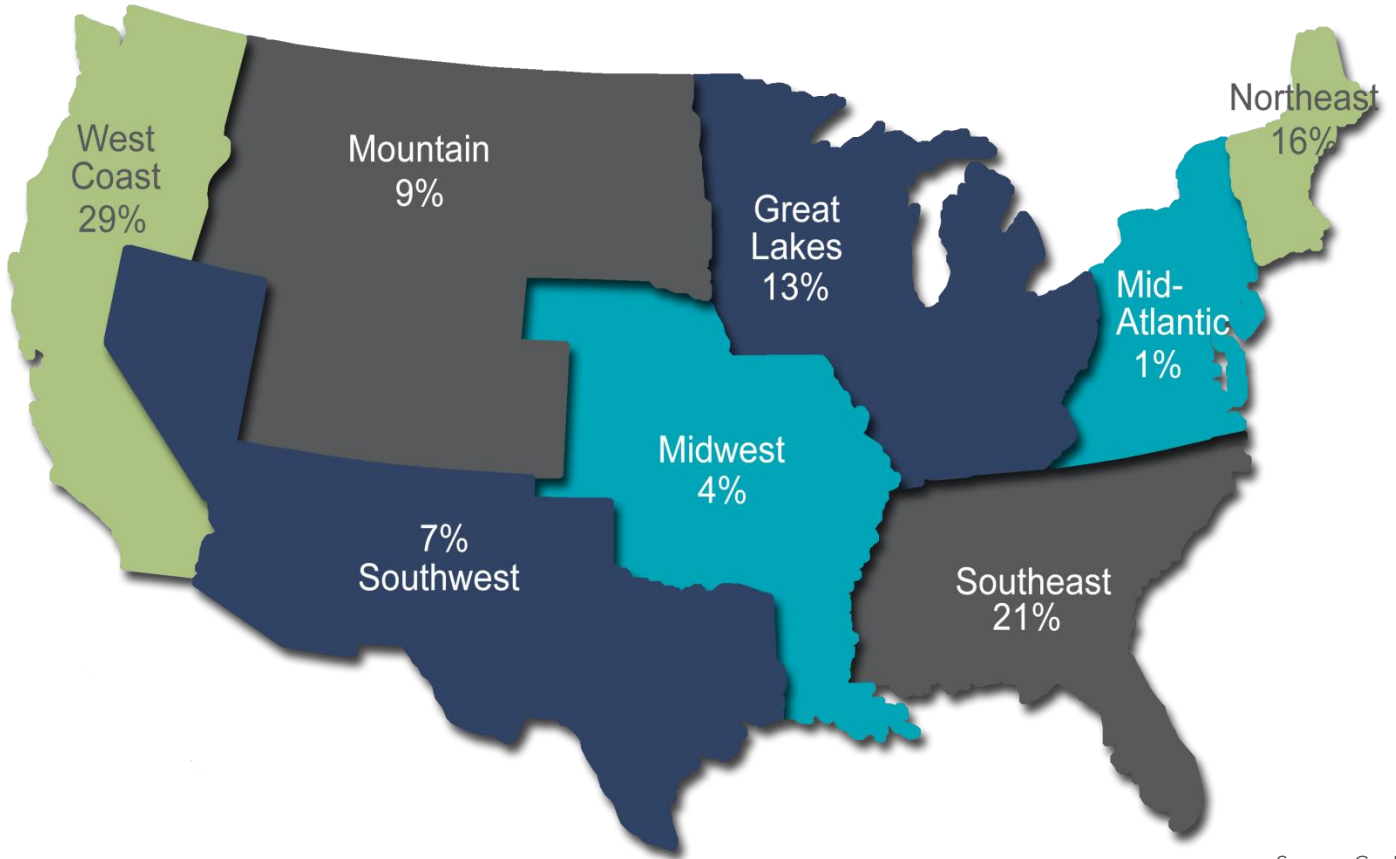


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## INDUSTRY GEOGRAPHY

### COMPANIES BY REGION

FOOD & BEVERAGE COMPANIES BY REGION AS OF JUNE 30, 2014



Source: CapIQ

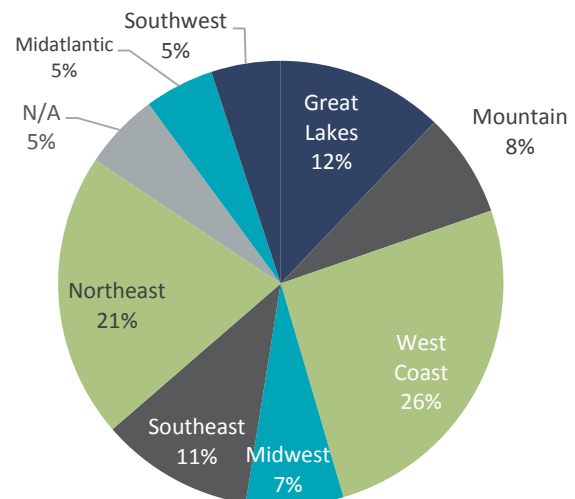
### COMPANIES BY SIZE

State	Undisclosed	\$ 0 - 5 Revenue	\$ 5 - 10 Revenue	\$ 10 - 25 Revenue	\$ 25 - 50 Revenue	\$ 50 - 100 Revenue
AZ	240	25	22	21	9	0
CO	319	20	34	23	2	3
KS	215	6	25	22	9	5
ND	107	5	11	9	1	3
NE	198	7	21	11	1	5
NM	85	3	22	8	1	1
OK	174	5	24	23	4	4
SD	83	7	10	10	2	1
TX	1033	65	128	80	27	7
UT	161	8	26	18	5	5
WY	20	1	4	1	1	0

\*Revenue in millions

Source: CapIQ

### TRANSACTIONS BY REGION



Source: CapIQ

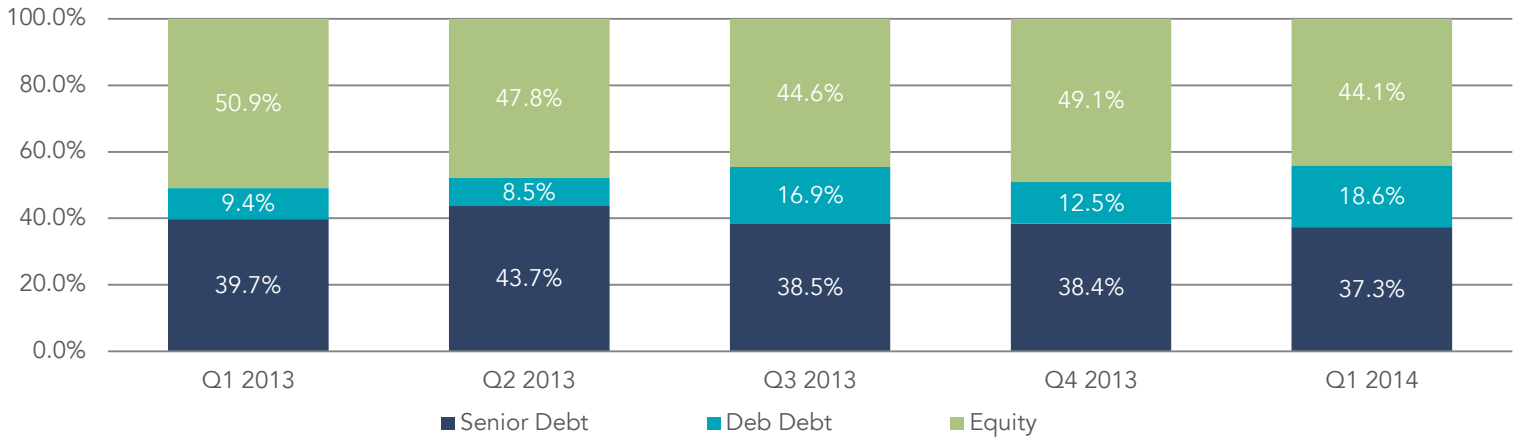
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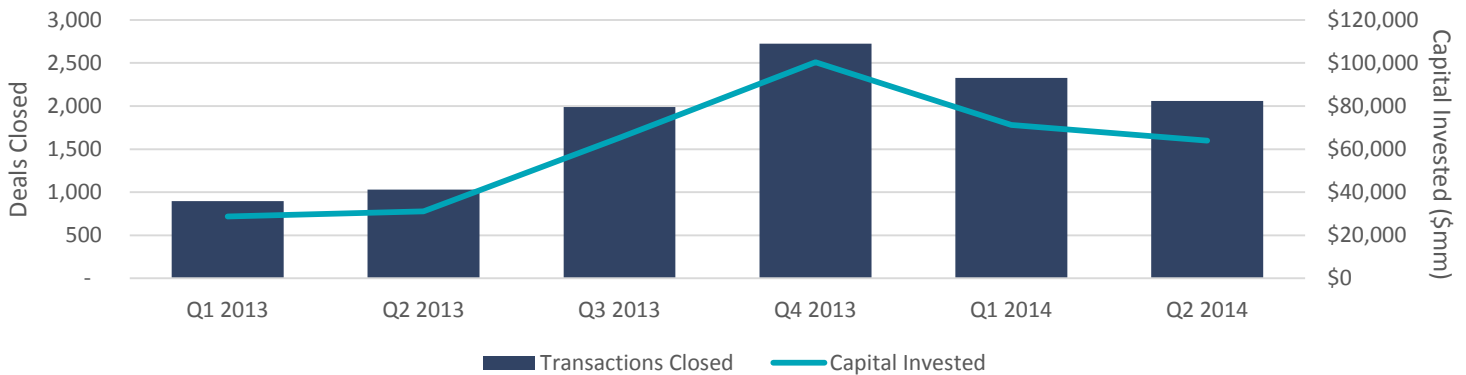
## M&A MARKET ACTIVITY – OVERALL LOWER MIDDLE MARKET

### CAPITAL STACK



Source: GF Data

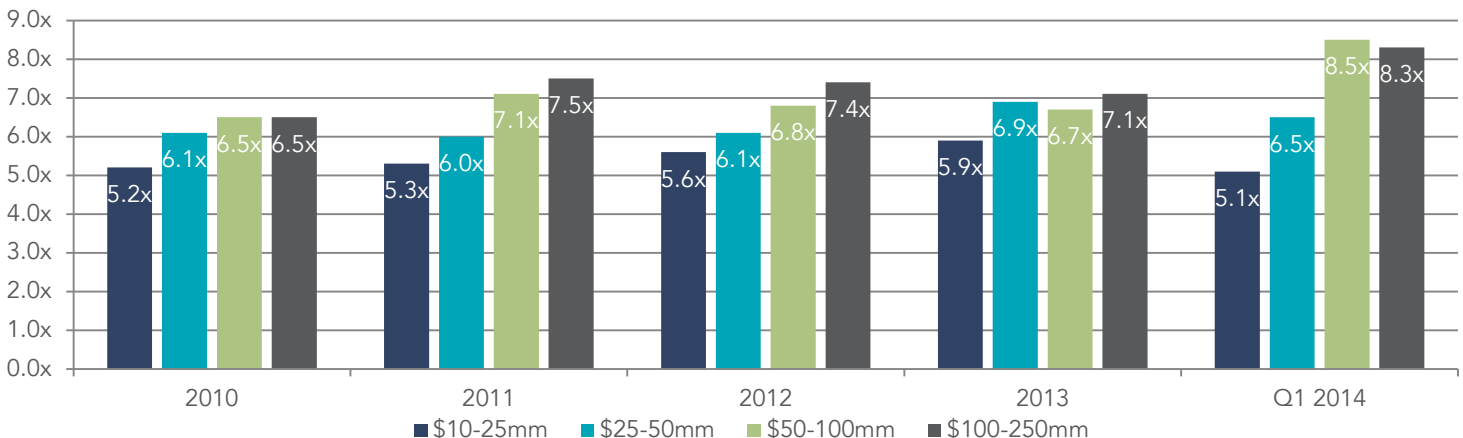
### US MIDDLE MARKET M&A ACTIVITY



Source: CapIQ

### TRANSACTION MULTIPLES

#### EBITDA MULTIPLES BY TRANSACTION SIZE



\*Note: These data represent the recorded transactions, are not all inclusive of completed transactions, and are meant to be representative of the lower middle market.

Source: GF Data



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## ABOUT SDR VENTURES

SDR Ventures is a boutique investment bank serving privately held business owners of companies with values up to \$300 million. Operating beyond the confines of a traditional investment bank, SDR's approach of Thinking Like Owners<sup>SM</sup> helps business owners maximize value in their business. SDR offers transaction advisory, capital formation, strategic advisory and performance exchange services.



**Travis Conway**  
Director – Food & Beverage Team  
p: 720.221.9220  
e. tconway@sdrventures.com



**David Purinton**  
Analyst – Food & Beverage Team  
p: 720.221.9220  
e. dpurinton@sdrventures.com

## SERVICES

### TRANSACTION ADVISORY

#### Buy Side

Running a proven process effective at generating responses, identifying "off-the-radar" opportunities, negotiating and closing accretive acquisitions.

#### Sell Side

Our process is designed to identify the "right" buyer and maximize shareholder value for our clients.

### CAPITAL FORMATION

#### Private Capital Placement

An effective and efficient process negotiating favorable debt and equity with the right capital partner for our clients

## RECENT TRANSACTIONS

<p>JULY 2014</p> <p>Has been acquired by</p> <p>REVELSTOKE CAPITAL PARTNERS LLC</p> <p>SDR Ventures SELL SIDE TRANSACTION</p>	<p>JULY 2014</p> <p>Has been acquired by</p> <p>FRONTENAC COMPANY</p> <p>SDR Ventures SELL SIDE TRANSACTION</p>	<p>APRIL 2014</p> <p>Has been acquired by</p> <p>Barkwood, Inc.</p> <p>SDR Ventures SELL SIDE TRANSACTION</p>	<p>MARCH 2014</p> <p>PAN Capital Holdings LLC</p> <p>Commercial real estate loan provided by</p> <p>Hexagon</p> <p>SDR Ventures CAPITAL FORMATION</p>	<p>NOVEMBER 2013</p> <p>Has acquired</p> <p>A Business Unit of a Public Company</p> <p>SDR Ventures BUY SIDE TRANSACTION</p>	<p>OCTOBER 2013</p> <p>Debt Financing provided by</p> <p>CoBiz Structured Finance CoBiz Financial</p> <p>SDR Ventures CAPITAL FORMATION</p>
<p>SEPTEMBER 2013</p> <p>SDR Ventures CAPITAL FORMATION</p>	<p>SEPTEMBER 2013</p> <p>Has acquired</p> <p>Zeus &amp; Company</p> <p>SDR Ventures BUY SIDE TRANSACTION</p>	<p>NOVEMBER 2012</p> <p>Has acquired</p> <p>SDR Ventures BUY SIDE TRANSACTION</p>	<p>JUNE 2012</p> <p>Has been acquired by</p> <p>newlogistics. SHIPPING HAS A NEW HOME</p> <p>SDR Ventures SELL SIDE TRANSACTION</p>	<p>MAY 2012</p> <p>Cohio Ventures LLC</p> <p>Has acquired</p> <p>Mountain Tech Manufacturing Co.</p> <p>SDR Ventures BUY SIDE TRANSACTION</p>	<p>MARCH 2012</p> <p>Capital provided by</p> <p>Mutual of Omaha Bank</p> <p>SDR Ventures CAPITAL FORMATION</p>

## CONTACT US

**Address**  
5613 DTC Parkway, Suite 820 | Greenwood Village, CO 80111

**Website**  
www.sdrventures.com

**Phone**  
720.221.9220

