The Food and Beverage Industry continued to outperform the S&P 500 index for the third quarter of 2015. Behind this continued growth is rising consumer demand for food categories with perceived health benefits, such as natural/organic, gluten-free, high protein or non-GMO. As this niche segment faces heavy consolidation efforts domestically, many larger players are looking toward developing markets in other countries as the next healthy segment frontier. Growing demand for organic food, increasing spending habits, life quality and changing trends in demographics in Asian and African countries have provided American companies with major growth opportunities.

The past four quarters of M&A activity demonstrate this growth of healthy consumer trends into Asian markets. In April 2014, WhiteWave Foods entered into a joint venture with China Mengniu Dairy Co. Ltd., the biggest dairy company in China. WhiteWave also has continued efforts to acquire smaller domestic organic-food companies throughout 2015, perhaps in preparation for expanding global demand. In Q2 and Q3 of 2015, the Company acquired Wallaby Yogurt Company, a specialty organic yogurt producer, and Sequel Naturals, a plant-based health products company, for a combined value of $675 million.

Chinese consumer preferences have increasingly shifted toward Western brands over the past few years, driven by food safety issues in China such as the 2008 melamine outbreak. A perception of Western products as being safer, healthier and better quality continues to spread throughout the country. In an effort to take advantage of this trend, many Chinese players are pursuing joint ventures or acquisitions of American companies in the health-related niche categories. For example, Inner Mongolia Yili Industrial Group Co., Ltd., the second largest dairy company in China, formed a US milk powder joint venture with Dairy Farmers of America, Inc. in July 2013 in an effort to sell under an American brand.

As global consumers continue to pursue healthy food choices, the Food and Beverage Industry can expect to see American mid- to small-size healthy consumer companies becoming increasingly attractive acquisition targets.

- Travis Conway, Managing Director
- Ben Rudman, Director
- Spencer Tweed, Analyst

## TRANSACTIONS

### TRANSCTIONS

# BY SEGMENT (Q3)

<table>
<thead>
<tr>
<th>Segment</th>
<th># of Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Distributors</td>
<td>7</td>
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<tr>
<td>Food Retail</td>
<td>24</td>
</tr>
<tr>
<td>Food Products</td>
<td>98</td>
</tr>
<tr>
<td>Beverages</td>
<td>61</td>
</tr>
</tbody>
</table>

Source: CapIQ

## STRATEGIC VS. FINANCIAL TRANSACTIONS

### HIGHLIGHTS

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.03.15</td>
<td>B&amp;G Foods Inc. (NYSE:BGS) entered into an agreement to acquire Green Giant International, LLC for approximately $765 million in cash. The deal also includes Le Sueur canned vegetables.</td>
</tr>
<tr>
<td>7.31.15</td>
<td>SunOpta Inc. (TSX: SOY) has entered into a definitive agreement to acquire Sunrise Growers, Inc. for $450 million. The transaction positions the combined unit to become a global leader in the frozen fruit category.</td>
</tr>
<tr>
<td>8.18.15</td>
<td>Goldman Sachs (NYSE:GS) acquired Suja Juice Inc. for $150mm with Coca Cola (NYSE:KO). Suja Juice Inc. produces cold-pressed organic juices and smoothies.</td>
</tr>
</tbody>
</table>

The information contained herein is based on sources we believe reliable but is not guaranteed by us and is not to be considered all inclusive. It is not to be construed as an offer or consultation of an offer to sell or buy any securities.
## TRANSACTION ACTIVITY

<table>
<thead>
<tr>
<th>Target</th>
<th>Value ($mm)</th>
<th>Buyer(s)</th>
<th>Transaction Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dave's Killer Bread Company</td>
<td>$275.0</td>
<td>Flowers Bakeries, LLC</td>
<td>Flowers Bakeries, LLC agreed to acquire the assets and business of Dave's Killer Bread Company for approximately $275 million. Dave's Killer Bread Company bakes and distributes organic whole grain breads in the western United States.</td>
</tr>
<tr>
<td>Alpine Valley Bread Company</td>
<td>$120.0</td>
<td>Flowers Bakeries, LLC</td>
<td>Flowers Bakeries, LLC entered an agreement to acquire the assets and business of Alpine Valley Bread Company for approximately $120 million. Alpine Valley Bread Company produces and distributes organic whole grain breads, and private-label breads.</td>
</tr>
<tr>
<td>Kerr Concentrates, Inc.</td>
<td>$100.0</td>
<td>Ingredion Incorporated (NYSE:INGR)</td>
<td>Ingredion Incorporated (NYSE:INGR) agreed to acquire Kerr Concentrates, Inc. for $100 million. Kerr’s ingredients can be used to enhance the nutrition, texture, flavor and appearance of a number of foods.</td>
</tr>
<tr>
<td>One World Foods, Inc</td>
<td>$100.0</td>
<td>McCormick &amp; Company, Incorporates (NYSE:MKC)</td>
<td>McCormick &amp; Company, Incorporated (NYSE: MKC) acquired One World Foods, Inc for $100 million in cash. One World Foods, Inc. is a leading premium barbeque sauce brand in the US.</td>
</tr>
<tr>
<td>Spartan Foods Of America, Inc.</td>
<td>$50.0</td>
<td>B&amp;G Foods Inc. (NYSE:BGS)</td>
<td>B&amp;G Foods Inc. (NYSE:BGS) agreed to acquire Spartan Foods of America, Inc. for $50 million. B&amp;G Foods Inc. offers gluten free pizza crusts.</td>
</tr>
</tbody>
</table>

Source: CapIQ

## US FOOD & BEVERAGE M&A ACTIVITY

- **Deals Closed**
  - 2010: 400
  - 2011: 600
  - 2012: 800
  - 2013: 900
  - 2014: 1000
  - Q3 2015 Annualized: 1000

- **Capital Invested ($ in Mil)**
  - 2010: 80,000
  - 2011: 110,000
  - 2012: 130,000
  - 2013: 150,000
  - 2014: 180,000
  - Q3 2015 Annualized: 180,000

Source: CapIQ

## FOOD & BEVERAGE TRANSACTIONS # OF TRANSACTIONS BY QUARTER

- **Q1**
  - 2010: 115
  - 2011: 131
  - 2012: 148
  - 2013: 165
  - 2014: 196
  - 2015: 206

- **Q2**
  - 2010: 125
  - 2011: 153
  - 2012: 145
  - 2013: 174
  - 2014: 203
  - 2015: 195

- **Q3**
  - 2010: 132
  - 2011: 149
  - 2012: 142
  - 2013: 186
  - 2014: 208
  - 2015: 190

- **Q4**
  - 2010: 127
  - 2011: 141
  - 2012: 174
  - 2013: 186
  - 2014: 202
  - 2015: 190

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.*
**PUBLIC BASKET**

The food and beverage industry slightly outperformed the S&P 500 in Q3 2015, largely due to the energy sector’s poor performance dragging down the S&P and because of increased discretionary spending on food and beverages. Key food and beverage stocks that SDR Ventures tracks quarterly posted generally favorable results in Q3. Notable movers include:

- Walmart Stores, Inc. (WMT) – Although Walmart slightly outperformed analyst expectations in Q3 2015, a decline in operating income continues due to rising operating expense and, specifically, a rise in wages due to new wage structures. However, Walmart is currently urging its Chinese suppliers to cut costs in order to offset increasing human capital expenses.
- Starbucks Corporation (SBUX) – Starbucks continued its strong performance from the previous quarter. It continues to compete at a high level in its established markets and to expand into Asia, with great success in China and Japan. Consolidated net revenues were driven up in part by the incremental revenues from the acquisition of Starbucks Japan in 2014.
- Farmer Brothers Co. (NasdaqGS: FARM) – Farmer Brothers’ stock price rose by 24.6% after its latest earnings release. The company’s EPS was recorded at $0.23, which beat the consensus by roughly 44%. According to the company’s CEO, Farmer Brothers is working on relocating its headquarters, which is expected to incur an estimated $25 million in aggregate costs.

### Market Cap vs Stock Price

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Walmart Stores Inc.</td>
<td>NYSE:WMT</td>
<td>AR</td>
<td>$ 201,900</td>
<td>$ 64.8</td>
<td>0.17</td>
<td>(24.50%)</td>
<td>36.7x</td>
<td>4.2x</td>
<td>5.6x</td>
<td>14.7x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anheuser-Busch InBev SA/NV</td>
<td>ENXTR:ABN</td>
<td>GB</td>
<td>$ 151,800</td>
<td>$ 94.9</td>
<td>(2.61%)</td>
<td>1.13%</td>
<td>26.9x</td>
<td>3.6x</td>
<td>4.8x</td>
<td>12.4x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Coca-Cola Company</td>
<td>NYSE:KO</td>
<td>CA</td>
<td>$ 174,522</td>
<td>$ 40.1</td>
<td>2.03%</td>
<td>(4.97%)</td>
<td>25.0x</td>
<td>6.1x</td>
<td>4.2x</td>
<td>14.9x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dean Foods Company</td>
<td>NYSE:DF</td>
<td>TX</td>
<td>$ 1,560</td>
<td>$ 16.5</td>
<td>0.36%</td>
<td>(14.76%)</td>
<td>30.2x</td>
<td>2.7x</td>
<td>0.3x</td>
<td>7.3x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farmer Brothers Co.</td>
<td>NasdaqGS: FARM</td>
<td>CA</td>
<td>$ 443</td>
<td>$ 23.7</td>
<td>19.20%</td>
<td>(7.47%)</td>
<td>58.4x</td>
<td>4.9x</td>
<td>0.8x</td>
<td>10.7x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Natural Grocers by Vitamin Cottage, Inc.</td>
<td>NYSE: NGVC</td>
<td>CO</td>
<td>$ 510</td>
<td>$ 22.7</td>
<td>(8.55%)</td>
<td>(19.45%)</td>
<td>31.3x</td>
<td>4.5x</td>
<td>0.9x</td>
<td>10.9x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Starbucks Corporation</td>
<td>NasdaqGS: SBUX</td>
<td>WA</td>
<td>$ 84,362</td>
<td>$ 56.8</td>
<td>3.89%</td>
<td>38.55%</td>
<td>39.7x</td>
<td>14.5x</td>
<td>4.6x</td>
<td>19.4x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The WhiteWave Foods Company</td>
<td>NYSE: WAW</td>
<td>CO</td>
<td>$ 7,057</td>
<td>$ 40.2</td>
<td>(12.98%)</td>
<td>14.75%</td>
<td>47.9x</td>
<td>6.1x</td>
<td>2.4x</td>
<td>21.3x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rocky Mountain Chocolate Factory Inc.</td>
<td>NasdaqGM: RMCF</td>
<td>CO</td>
<td>$ 67</td>
<td>$ 11.3</td>
<td>(6.02%)</td>
<td>(14.25%)</td>
<td>16.5x</td>
<td>3.7x</td>
<td>1.6x</td>
<td>8.1x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Cheesecake Factory Incorporated</td>
<td>NasdaqGS: CAKE</td>
<td>CA</td>
<td>$ 2,550</td>
<td>$ 54.0</td>
<td>(0.57%)</td>
<td>7.26%</td>
<td>28.7x</td>
<td>4.5x</td>
<td>1.3x</td>
<td>10.6x</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Industry Average</strong></td>
<td></td>
<td></td>
<td>$ 62,117</td>
<td>$ 42.9</td>
<td>(0.31%)</td>
<td>(2.37%)</td>
<td>13.0x</td>
<td>5.6x</td>
<td>2.5x</td>
<td>12.9x</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CapIQ

### FOOD AND BEVERAGE INDUSTRY VS. S&P 500 Running 12 months

![Graph showing the comparison between the Food & Beverage Industry and the S&P 500 Index over 12 months.](image)

Source: CapIQ
INDUSTRY SEGMENTS

In the third quarter of 2015, the Food and Beverage Industry experienced varied performance across its segments compared to the S&P 500. Although market cap for most segments decreased over 2015, this trend is slowing down, with Q3 market capital decreasing 1.6% compared to 3.0% in Q2.

Retail outperformed the S&P 500 over the trailing 12 months by 1.9%. In Q3 2015, the retail segment declined 4.8% and lost $1.2 billion in market cap. The largest factor in this decline was Walmart’s market cap falling by 9.0% this quarter due to rising operating expenses throughout the year.

The Beverage segment outperformed the S&P 500 by 8.9% over 12 months, despite Anheuser-Busch InBev losing $20.6 billion in market cap due to Eurozone exposure during the Greek credit crisis. Distributors also outperformed S&P 500 by 4.8% over the same period in 2014, despite Bunge Limited facing negative affects of the global oil seed market.

The Food Products segment outperformed the S&P 500 for the past 12 months by 1.4% due to strong performances by Starbucks, which has benefited from a strong showing in Japan, and Kellogg, which expanded its international market by acquiring an Egypt-based cereal company for $50 million.

Overall, opportunity and exposure in the international market continue to play a larger role in domestic food and beverage performance.

<table>
<thead>
<tr>
<th>Market Segment</th>
<th>Average Market Cap</th>
<th>Stock Price Delta</th>
<th>Price/ LTM EPS</th>
<th>Price/ LTM EPS</th>
<th>TEV/ Book</th>
<th>TEV/ Sales</th>
<th>TEV/ EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributors</td>
<td>$3,746</td>
<td>(2.0%)</td>
<td>(5.6%)</td>
<td>2.1%</td>
<td>35.75x</td>
<td>2.73x</td>
<td>1.10x</td>
</tr>
<tr>
<td>Retail</td>
<td>$12,739</td>
<td>(4.8%)</td>
<td>(12.9%)</td>
<td>(0.8%)</td>
<td>20.68x</td>
<td>3.75x</td>
<td>0.90x</td>
</tr>
<tr>
<td>Food Products</td>
<td>$9,450</td>
<td>(4.7%)</td>
<td>(4.7%)</td>
<td>(1.2%)</td>
<td>25.34x</td>
<td>5.59x</td>
<td>1.94x</td>
</tr>
<tr>
<td>Beverage Products</td>
<td>$42,277</td>
<td>0.2%</td>
<td>(2.4%)</td>
<td>(1.1%)</td>
<td>29.02x</td>
<td>6.00x</td>
<td>2.41x</td>
</tr>
<tr>
<td>Industry Average</td>
<td>$10,735</td>
<td>(1.6%)</td>
<td>(6.6%)</td>
<td>(0.7%)</td>
<td>29.33x</td>
<td>5.60x</td>
<td>1.61x</td>
</tr>
<tr>
<td>S&amp;P 500 Average</td>
<td>$35,107</td>
<td>(6.9%)</td>
<td>(6.7%)</td>
<td>(2.6%)</td>
<td>25.85x</td>
<td>5.03x</td>
<td>3.15x</td>
</tr>
</tbody>
</table>

*Average Market Cap in Millions

Source: CapIQ

FOOD AND BEVERAGE SEGMENTS VS. S&P 500

RUNNING 12 MONTHS

Source: CapIQ
INDUSTRY GEOGRAPHY

FOOD & BEVERAGE COMPANY HEADQUARTERS BY REGION
AS OF SEPTEMBER 30, 2015

Source: CapIQ

COMPANIES BY SIZE

<table>
<thead>
<tr>
<th>State</th>
<th>Undisclosed</th>
<th>$0 - 5 Revenue</th>
<th>$5 - 10 Revenue</th>
<th>$10 - 25 Revenue</th>
<th>$25 - 50 Revenue</th>
<th>$50 - 100 Revenue</th>
<th>$100+ Revenue</th>
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<tbody>
<tr>
<td>AZ</td>
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<td>19</td>
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<td>KS</td>
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</table>

* Revenue in millions

Source: CapIQ

TRANSACTIONS BY REGION

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.
M&A MARKET ACTIVITY, OVERALL LOWER MIDDLE MARKET

CAPITAL STACK - $10-25 MILLION TEV

Source: GF Data*

US MIDDLE-MARKET M&A ACTIVITY

Source: CapIQ

TRANSACTION MULTIPLES

EBITDA MULTIPLES BY TRANSACTION SIZE

Source: GF Data*

*The most current source of GF Data if as of August 2015 and lags one quarter behind the current quarter.

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ABOUT SDR VENTURES

Established in 2002, SDR Ventures has developed deep M&A and capital transaction knowledge and expertise. SDR offers transaction advisory, private capital formation and business consulting services across a wide range of industries. We serve business owners and operators of privately held companies and provide them with a professional-class experience.

Travis Conway
Managing Director – Food & Beverage Team  
Phone: 720.221.9220  
Email: tconway@sdrvventures.com

Ben Rudman
Director – Food & Beverage Team  
Phone: 720.221.9220  
Email: brudman@sdrvventures.com

Spencer Tweed
Analyst – Food & Beverage Team  
Phone: 720.221.9220  
Email: stweed@sdrvventures.com

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RECENT TRANSACTIONS

CONTACT US

Address
5613 DTC Parkway, Suite 830 | Greenwood Village, CO 80111

Website
sdrvventures.com

Phone
720.221.9220