INDUSTRY OVERVIEW

In 2015, the Food & Beverage Industry witnessed the crescendo of what SDR calls the “Conscious Consumer” movement. This movement was not new in 2015 but it became more mainstream than ever. Consumers of all demographics and income levels increasingly want to identify and connect with brands that exemplify ethics and values that mirror their own. While Food & Beverage companies still compete on price, they also are interacting with more educated and involved consumers who want local, fresh, healthy and responsibly sourced products and ingredients. On Whole Foods’ Q3 earnings call, CEO John Mackey emphasized this point, “Yes, we’re going to be competitive on price where we need to be, but, first and foremost, the Whole Foods Market brand stands for the highest quality, selection and service. We believe values matter. It’s what our customers tell us they love most about us, and we’re not changing that.” The Conscious Consumer trend should continue to establish its mainstream foothold in 2016.

Conscious Consumers have a mandate for simple ingredients. A research study conducted by Hershey’s found that 68% of global consumers want to be familiar with every ingredient on the package, and 40% preferred foods with minimal ingredients. Foods bearing “free-from” labels have become increasingly important as consumers can quickly identify the label and associate it with foods that are natural or less processed. This trend has resulted in the top 25 U.S. Food & Beverage companies losing an equivalent of $17 billion in market share since 2009 according to Credit Suisse. Consumers are seeking brands that give them fewer ingredients, and large retailers such as Wal-Mart and Safeway have responded. Shelf space that was once dominated by mega brands is now being shared with brands such as Chobani, Nature’s Path and Amy’s Kitchen.

Large Food & Beverage companies have responded to the Conscious Consumer trend by acquiring smaller on-trend companies with strong brands built on simple, healthy ingredients and with dedicated regional followings. Fourth quarter examples include Pinnacle Brands’ $975-million acquisition of Boulder Brands for 17.5x EBITDA and Constellation Brands’ acquisition of Ballast Point, a San Diego craft brewer with a loyal consumer base. Food & Beverage M&A activity should remain high in 2016. Input costs for the industry should remain low as spot commodity prices remain cheap, resulting in increased cash flows to large strategics enabling them to take on more debt to fund acquisitions. Private equity groups are expected to remain active as well, with capital overhang near historically high levels.

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

Sources: Fortune Magazine: The War on Big Food, Capital IQ, Whole Foods Third Quarter Earnings Call, Hershey’s 2015 CAGNY Presentation

TRANSACTION HIGHLIGHTS

TRANSACTIONS BY SEGMENT (Q4)

<table>
<thead>
<tr>
<th>Segment</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Distributors</td>
<td>11</td>
</tr>
<tr>
<td>Food Retail</td>
<td>41</td>
</tr>
<tr>
<td>Food Products</td>
<td>105</td>
</tr>
<tr>
<td>Beverages</td>
<td>49</td>
</tr>
</tbody>
</table>

Source: S&P Capital IQ

HIGHLIGHTED TRANSACTIONS

STRATEGIC TRANSACTIONS

12.07.15 JAB Holding Company entered into a definitive agreement to acquire Keurig Green Mountain, Inc. (NASDAQ:GMCR) for $13.9 billion. The Keurig purchase is part of a much bigger global strategy.

10.27.15 The Hain Celestial Group, Inc. (NASDAQ:HAIN) entered into a definitive agreement to acquire Chopt Creative Salad Company LLC for $27.21 million. Chopt Creative Salad Company is a chain of fast casual restaurants with locations on the east coast.

FINANCIAL TRANSACTIONS

12.16.15 Encore Consumer Capital sold portfolio company FreshKO Produce Services, LLC to C&S Wholesale Grocers, Inc. for an undisclosed amount. FreshKO is the biggest produce distribution company on the West Coast.

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>Date</th>
<th>Target</th>
<th>Buyer(s)</th>
<th>Transaction Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>11/16/2015</td>
<td>Ballast Point Brewing &amp; Spirits, Inc.</td>
<td>Constellation Brands Inc.</td>
<td>Constellation Brands Inc. purchased Ballast Point Brewing &amp; Spirits, Inc. in a $1 billion deal to gain Ballast Point’s strong brand and regional following. The acquisition will expose Constellation Brands Inc. to craft beer business for the first time.</td>
</tr>
<tr>
<td>11/16/2015</td>
<td>ThinkThin LLC</td>
<td>Glanbia plc (LONDON:GLB)</td>
<td>Irish food company Glanbia plc acquired ThinkThin LLC for $217 million. Glanbia plc believes the purchase will significantly boost the sales of its nutrition bar segment, and extend its presence in the U.S. market since ThinkThin LLC has been a successful nutrition bar company.</td>
</tr>
<tr>
<td>10/28/2015</td>
<td>Diamond Foods Inc. (NASDAQ:DMND)</td>
<td>Snyder’s-Lance Inc. (NASDAQ: LNCE)</td>
<td>Snyder’s-Lance Inc. acquired Diamond Foods Inc. in a stock-and-cash offer for $1.9 billion, a 16% premium over DMND’s stock price. The strategic acquisition will enable Snyder’s-Lance to become a more dominant industry leader and increase snack sales significantly. Diamond Foods Inc. has a strong brand name, and can be well fitted into Snyder’s-Lance’s distribution network.</td>
</tr>
<tr>
<td>10/13/2015</td>
<td>BrightFarms Inc.</td>
<td>NGEN Partners LLC; WP Global Partners Inc.; Emil Capital Partners LLC</td>
<td>BrightFarms Inc. received $13.65 million in Series B-1 funding, led by NGEN Partners, WP Global Partner, Emil Capital Partners and other primary investors. BrightFarms will utilize the new capital to build strong commercial-scale greenhouses with fresh and locally grown produce, and enlarge its capacity to offer a more superior customer service.</td>
</tr>
</tbody>
</table>


## U.S. FOOD & BEVERAGE M&A ACTIVITY

![Chart showing deals closed and capital invested over years 2010 to 2015](image)

Source: S&P Capital IQ

## FOOD & BEVERAGE TRANSACTIONS BY QUARTER

![Chart showing transactions by quarter for years 2010 to 2015](image)

Source: S&P Capital IQ

*Note: These data represent recorded transactions only, and are not all-inclusive. Nevertheless, they are typically representative of the industry.*
2015 was a notable year for the Food & Beverage Industry as companies sought to realign their corporate strategies to attract consumers. For many major players, revenue stagnated or decreased in 2015, resulting in increased M&A activity to generate growth. A lesser, but equally important, theme throughout the year was the continued innovation and implementation of technology to increase brand awareness.

- JAB Holding Co. announced its agreement to purchase Keurig Green Mountain Inc. for $13.9 billion, a 78% premium for Keurig’s shares. This acquisition follows a series of other coffee-related deals including Caribou Coffee, Peet’s Coffee, Stumptown Coffee Roasters and Intelligentsia Coffee. According to JAB, Keurig is “a fantastic company that uniquely brings together premium coffee brands.” Keurig has roughly 20% market share of the packaged-coffee market in the U.S., and with Keurig’s unique technology and brand recognition, JAB has become a strong player along with its largest competitor in the retail segment, Nestlé.

- Starbucks continues to innovate technologically and “sits at the intersection of the physical and digital worlds like no other company anywhere in or out of retail,” according to Howard Schultz, Starbucks CEO. In July 2015, Starbucks announced its partnership with The New York Times to offer free articles for Starbucks Loyalty members through its mobile app. This partnership will help Starbucks to further promote its mobile e-commerce business, which launched in 2012. With more than 11.2 million followers on Twitter and various technology movements such as ordering through its mobile application, Starbucks continues to increase its brand recognition.

- Some food industry investors have started to suspect that companies are overpaying in this heated market. ConAgra purchased Ralcorp in 2013 for $5 billion, despite the fact Ralcorp had spun-off its large cereal business and had continued to struggle from rising costs. After the transaction, ConAgra struggled with both its finances and operations. After being pressured by activist investor Jana Partners, ConAgra announced its agreement with Treehouse to sell Ralcorp for $2.7 billion.

Looking toward 2016, we expect to see large companies with developed sourcing and distribution strategies acquire maturing, small brands that attract the Conscious Consumer. However, the Food and Beverage Industry can still expect to see mid- to small-size consumer companies that are on trend to remain increasingly attractive acquisition targets.

**Sources:** EContent, WSJ, The New York Times

### Food & Beverage Industry vs. S&P 500

**Running 12 months**

![Graph showing the performance of the Food & Beverage Industry vs. S&P 500 over 12 months.](image)

**Source:** S&P Capital IQ
INDUSTRY SEGMENTS

In Q4 2015, the performance of the Beverage Products segment stood out significantly compared to other segments within Consumer Products and the S&P 500 Index average. The segment returned 8.73% in Q4, outperforming the S&P 500 by 2.28%. Major leading global players in the Beverage Industry such as Anheuser-Busch InBev, Coca-Cola and PepsiCo performed well in Q4 due to the incremental demands from international emerging markets. Large-cap companies contributed most of the overall success of the Beverage Industry.

The Distributors segment disappointed in 2015. Increasing labor costs driven by increased truck drivers’ salaries have dragged down sector performance. Specifically, United Natural Foods Inc. (NASDAQ:UNFI), one of the prominent companies in the industry, performed poorly in Q4. In July, Albertsons terminated its contract with UNFI as a distributor. UNFI’s stock dropped 14% the same day and has continued its downward trend as the company attempts to regain its footing. CEO Steve Spinner did his best to temper market reactions: “We are disappointed to end our existing relationship with Albertsons. However, we believe that this course of action is in the best long-term interests of United Natural Foods as it will now allow us to redirect our resources to pursue our previously announced plans to expand our focus in fresh categories such as proteins and specialty cheeses across the country, grow our gourmet and ethnic business, and serve as an e-commerce solution for our customers.”

Food Products outperformed the S&P 500 in Q3 of 2015. In Q4, the Food Products segment continued its trend and produced quarterly growth of 5.08%. Specifically, Tyson Foods Inc., a large-cap firm in the sector, achieved a 20% jump from the strong synergy created from the acquisition of Hillshire Farms in 2014. Overall, the U.S. macroeconomic environment provides a thriving opportunity for Food Products to grow because of stable U.S. GDP growth and increasing real consumer spending.

<table>
<thead>
<tr>
<th>Market Segment</th>
<th>Average Market Cap</th>
<th>Quarter</th>
<th>Stock Price Delta</th>
<th>Price/ LTM EPS</th>
<th>Price/ LTM</th>
<th>TEV/ Sales</th>
<th>TEV/ EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributors</td>
<td>$ 3,878</td>
<td>0.3%</td>
<td>(5.3%)</td>
<td>36.57x</td>
<td>2.90x</td>
<td>1.14x</td>
<td>10.87x</td>
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<tr>
<td>Retail</td>
<td>$ 13,090</td>
<td>0.0%</td>
<td>(12.9%)</td>
<td>20.54x</td>
<td>3.73x</td>
<td>0.87x</td>
<td>12.77x</td>
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<td>Food Products</td>
<td>$ 9,030</td>
<td>5.1%</td>
<td>11.6%</td>
<td>33.78x</td>
<td>8.03x</td>
<td>1.98x</td>
<td>15.81x</td>
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<td>Beverage Products</td>
<td>$ 42,369</td>
<td>8.7%</td>
<td>12.0%</td>
<td>29.30x</td>
<td>7.84x</td>
<td>2.52x</td>
<td>19.70x</td>
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<td>Industry Average</td>
<td>$ 11,420</td>
<td>0.6%</td>
<td>(2.4%)</td>
<td>33.40x</td>
<td>7.01x</td>
<td>1.70x</td>
<td>17.81x</td>
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<tr>
<td>S&amp;P 500 Average</td>
<td>$ 39,140</td>
<td>6.5%</td>
<td>(0.7%)</td>
<td>26.95x</td>
<td>5.37x</td>
<td>3.32x</td>
<td>12.05x</td>
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Sources: S&P Capital IQ Net Advantage, Thompson One, Brewers Association Reports Big Gains For Small And Independent Brewers, Bloomberg Business, First Research

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

Source: S&P Capital IQ
INDUSTRY GEOGRAPHY

FOOD & BEVERAGE COMPANY HEADQUARTERS BY REGION
AS OF DECEMBER 31, 2015

Source: S&P Capital IQ

COMPANIES BY SIZE

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<tr>
<th>States</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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<td>8</td>
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<td>68</td>
<td>42</td>
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<td>1</td>
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* Revenue in millions

Source: S&P Capital IQ

TRANSACTIONS BY REGION

Source: S&P Capital IQ

*Note: These data represent recorded transactions only, and are not all-inclusive. Nevertheless, they are typically representative of the industry.
M&A MARKET ACTIVITY, OVERALL LOWER MIDDLE MARKET

CAPITAL STACK - $10-25 MILLION TEV

<table>
<thead>
<tr>
<th>Year</th>
<th>Senior Debt</th>
<th>Sub Debt</th>
<th>Equity</th>
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</thead>
<tbody>
<tr>
<td>2011</td>
<td>35.1%</td>
<td>16.7%</td>
<td>48.2%</td>
</tr>
<tr>
<td>2012</td>
<td>37.8%</td>
<td>16.4%</td>
<td>45.8%</td>
</tr>
<tr>
<td>2013</td>
<td>34.3%</td>
<td>17.4%</td>
<td>48.2%</td>
</tr>
<tr>
<td>2014</td>
<td>39.9%</td>
<td>13.2%</td>
<td>46.9%</td>
</tr>
<tr>
<td>2015 Q3*</td>
<td>39.4%</td>
<td>19.9%</td>
<td>40.7%</td>
</tr>
</tbody>
</table>

Source: GF Data*

U.S. MIDDLE-MARKET M&A ACTIVITY

TRANSACTION MULTIPLES
EBITDA MULTIPLES BY TRANSACTION SIZE

*The most current source of GF Data is as of September 30, 2015 and lags one quarter behind the current quarter.

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

Ben Rudman
Director – Food & Beverage Team
p. 720.221.9220
e. brudman@sdrventures.com

Spencer Tweed
Analyst – Food & Beverage Team
p. 720.221.9220
e. stweed@sdrventures.com

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CONTACT US
Phone
720.221.9220
Website
sdrventures.com
Address
5613 DTC Parkway, Suite 830 | Greenwood Village, CO 80111

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