

## Condiments & Sauces

### Industry Update – Strength Amidst a Difficult Economy

#### EXECUTIVE SUMMARY

The condiments and sauces industry has performed considerably well through difficult economic conditions, depressed consumer spending and elevated price sensitivity. Since 2008, consumers have become increasingly more inclined to prepare meals at-home, as opposed to dining out. Given the relative contribution that sauces and condiments make to ease of meal preparation and taste enhancement, coupled with moderate price points, this sector has been one of the few bright spots among consumer products during the recession. We expect M&A volume in this sector to continue to increase as attractive opportunities for strategic acquisition and consolidation arise.

#### MARKET OVERVIEW

- The condiment and sauce market is a large, growing market. Annual revenue growth in the condiment and sauce industry has been relatively steady since 2005, generating a Compound Annual Growth Rate (CAGR) of 3.1%. Looking forward, revenue growth is expected to improve at an even more impressive pace, with a projected CAGR of 4.9% through 2015, when the market is expected to reach \$8.9 billion.<sup>1</sup> Condiments have become the second largest specialty food category behind cheese, and grew over 9% from 2007 to 2009. Growth continues to be fueled in large part by a growing propensity for at-home cooking during a recovering economy, as consumers stock their homes with essential condiments and sauces that can easily improve the taste of a home-cooked meal.

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	Total U.S. retail sales of Condiments & Sauces			
	Current Prices		Inflation-adjusted	
	(\$MM)	Growth (%)	(\$MM)	Growth (%)
2005	\$ 6,035	-	\$ 6,750	-
2006	6,103	1.1	6,613	(2.0)
2007	6,160	0.9	6,490	(1.9)
2008	6,320	2.6	6,415	(1.2)
2009	6,665	5.5	6,789	5.8
2010 (est.)	7,014	5.2	7,014	3.3
2011*	7,395	5.4	7,285	3.9
2012*	7,765	5	7,530	3.4
2013*	8,140	4.8	7,774	3.2
2014*	8,519	4.6	8,003	2.9
2015*	8,900	4.5	8,225	2.8

\*Forecasted sales  
Sources: Mintel, U.S. Bureau of Labor Statistics, T&H Estimates

## INDUSTRY TRENDS

- Low price points, ease of use and rising dining-out costs have all contributed to increased sales for condiment and sauce manufacturers. In addition, these products are readily available through a variety of channels, including grocery stores, big box stores and online.
- The weak economy has driven customers to switch to inexpensive store brands. Premium and natural private label products have gained in popularity through high quality and all-natural claims in combination with lower price points. In trying to capitalize on this trend, private labels have outpaced name brands with new product innovations and now make up 25% of the U.S. condiment market.<sup>2</sup>
- Name brands that have achieved the most significant success in recent years include those which focus their efforts on a single category as opposed to over-extending their product mix. Good examples include Frank's RedHot (hot sauce) and Sweet Baby Ray's (barbecue sauce). Among all segments in the sauce and condiment industry, "other sauces," which is a category made up primarily of hot sauces, has outpaced all others, including 8.4% growth in 2009.<sup>3</sup>
- Sales of basic condiments and sauces, such as ketchup, mustard, barbecue sauce, soy sauce and hot sauce are projected to continue to thrive with the popularity of at-home dining. Quick marinade products, used to easily flavor meats, poultry and fish, have become quite popular among consumers and the prospects for future growth are impressive. These products enable consumers to recreate popular restaurant tastes at a fraction of the price. The cooking sauce/marinade market is on a trajectory to reach \$4.3 billion in sales by 2012.<sup>4</sup>
- Consumers continue to express health-oriented concerns and are limiting consumption of condiments and sauces which are perceived to have high levels of fat, calories and sodium. Sales of healthier varieties should continue to rise amid a health-conscious population. Rising pressure for gluten-free product development continues to be a significant issue, as celiac disease and gluten intolerance becomes more visible and widely diagnosed. 13% of 2009 new sauce product launches claimed to be "gluten free," and the trend is expected to continue throughout 2010 and beyond.<sup>5</sup>
- Regional flavors of sauces and marinades, including Tex-Mex, Southern and Cajun/Creole, continue to gain in popularity among U.S. consumers. Given the popularity of grilling in the United States, the use of marinades and sauces used specifically for grilling is at an all-time high.<sup>6</sup>
- Ethnic sauces and condiments represent another viable growth opportunity in the U.S. This segment currently stands at \$1.3 billion in sales, and has grown steadily throughout the economic downturn.<sup>5</sup> Population growth of foreign ethnicities, such as Hispanics, has significantly outpaced other groups in the U.S. In recent years, over half of the aggregate population growth in the United States has been fueled by Hispanics. Additionally, more than one million foreigners have become permanent legal U.S. residents each year since 2005.<sup>7</sup> These growth trends have implications for the continued prosperity of ethnic sauce and condiment sales in the United States.

Claim	% of New Launches Making Claim
Upscale	46.7%
Natural	41.2%
No preservatives	17.3%
Fresh	15.8%
Gourmet	13.3%
No gluten	13.0%
Quick	10.8%
Private label	9.3%
Organic	9.0%
Real	8.4%

\*in the U.S. 2009; category includes condiment sauces, dips, dry cooking sauces, table sauces and wet cooking sauces.  
Sources: Prepared Foods, Datamonitor's Product Launch Analytics

## PUBLIC COMPARABLES

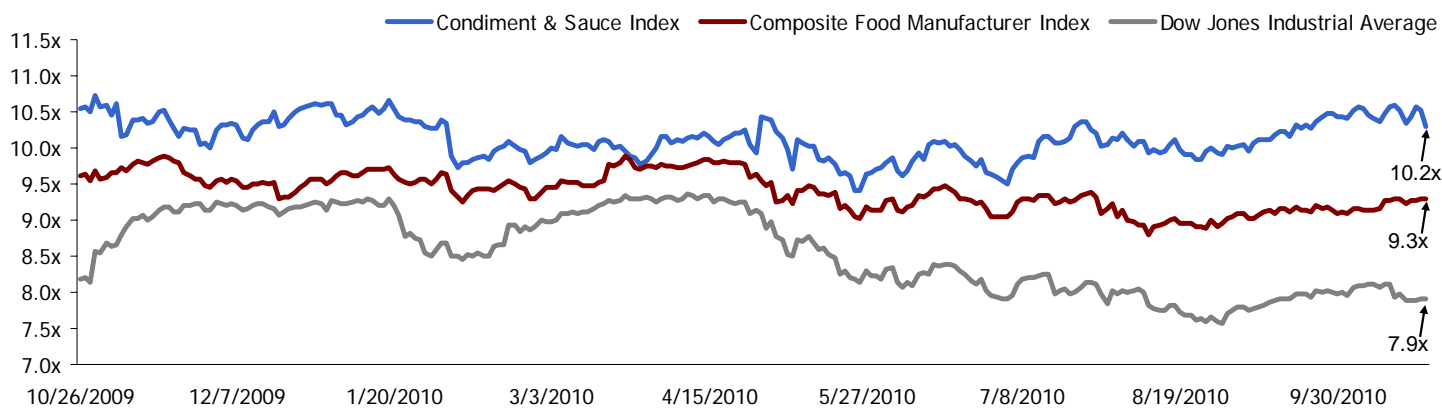
The following selected publicly traded companies represent significant manufacturers and sales drivers within the sauce and condiment industry. As of October 25, 2010, these market leaders were trading at mean and median of 10.2x and 8.8x last twelve months (“LTM”) earnings before interest, taxes, depreciation and amortization (“EBITDA”). Several of these companies with higher multiples appear to trade at a premium, which is likely attributable to their size. The Condiment and Sauce sector has also consistently outperformed the broader Packaged Food Industry and the Dow Jones Industrial Average over the last twelve months, as depicted in the index comparison below.

## T&H Condiments & Sauces Index

(\$ in millions)	Enterprise Value ("EV") <sup>2</sup>	LTM Revenue	LTM EBITDA	EBITDA Margin	Last Twelve Months <sup>1</sup>	
					EV / Revenue	EV / EBITDA <sup>3</sup>
B&G Foods Inc.	947.3	505.8	108.2	21.4	1.9x	8.8x
Campbell Soup Co.	14,738.2	7,676.0	1,615.0	21.0	1.9x	9.1x
HJ Heinz Co.	19,900.4	10,534.1	1,903.1	18.1	1.9x	10.3x
Hormel Foods Corp.	5,927.3	6,832.8	741.3	10.8	0.9x	7.9x
Lancaster Colony Corporation	1,315.3	1,056.6	197.2	18.7	1.2x	6.7x
Lassonde Industries Inc.	390.0	525.9	65.1	12.4	0.7x	6.0x
McCormick & Co. Inc.	6,717.3	3,282.0	605.1	18.4	2.0x	10.6x
Ralcorp Holdings Inc.	4,768.0	3,902.5	621.2	15.9	1.2x	7.7x
The J. M. Smucker Company	8,262.5	4,601.1	1,034.8	22.5	1.8x	8.0x
Treehouse Foods, Inc.	2,518.1	1,627.0	208.8	12.8	1.5x	12.1x
Unilever plc	58,529.6	41,755.0	6,228.0	14.9	1.7x	11.2x
<b>Median</b>	<b>\$ 5,927.3</b>	<b>\$ 3,902.5</b>	<b>\$ 621.2</b>	<b>18.1 %</b>	<b>1.7x</b>	<b>8.8x</b>
<b>Mean</b>	<b>\$ 11,274.0</b>	<b>\$ 7,481.7</b>	<b>\$ 1,211.6</b>	<b>17.0 %</b>	<b>1.5x</b>	<b>10.2x</b>

(1) as of 10/24/2010  
(2) Enterprise value equals market capitalization of equity plus net debt  
(3) EV / EBITDA mean represents a EV weighted average of components

## Enterprise Value / EBITDA Condiments and Sauces Index Last Twelve Months



Source: Cap IQ, Tully & Holland as of 10/25/10

EV / EBITDA multiple represents the quotient of the summation of EVs and EBITDAs for each component over LTM

T&H Condiment & Sauce Components: BGS, CPB, HNZ, HRL, LANC, LAS.A, MKC, RAH, SJM, THS, ULVR

## VALUATION

The last twelve months have seen a handful of precedent transactions in the condiment and sauce industry. The majority of valuation metrics have not been publicized, as these deals have been private. Given the limited recent M&A activity, the public equity markets provide the most accurate and relevant valuation guidance. It is difficult to isolate a comparable “pure-play” public company for valuation purposes, as large, diversified food manufacturers make up some of the principal condiment and sauce providers. As of October 25, 2010, eleven of the major sales drivers in the condiment and sauce industry were trading at a median Enterprise Value multiple of 8.8x EBITDA.

## CONDIMENT & SAUCE SPECIFIC M&A TRANSACTIONS

Date	Type	Target	Acquiror
9/14/2010	Merger/Acquisition	California Creative Foods, Inc.	Sabra Dipping Co. LLC
6/21/2010	Merger/Acquisition	Green Garden Food Products	Litehouse, Inc.
3/31/2010	Merger/Acquisition	DUSO Enterprises Ltd.	Premium Brands Holdings
2/24/2010	Private Placement	Vaughan Foods Inc.	Hillson Financial Management, Inc.
12/31/2009	Private Placement	Foodswing, Inc.	Private Investor
11/18/2009	Merger/Acquisition	Birds Eye Foods, Inc.	Pinnacle Foods Finance LLC
11/5/2009	Private Placement	Ting, Ltd.	Private Investor
10/8/2009	Merger/Acquisition	Monterey Gourmet Foods, Inc.	Pulmuone Wildwood, Inc.

Source: CapIQ

## CONCLUSION

Despite widespread recessionary weakness among consumer product companies over the last several years, sauce and condiment manufacturers have remained relatively strong and prosperous. As price-conscious consumers save by dining at home, these manufacturers provide a broad variety of moderately-priced sauce and condiment options that can easily improve the quality of a home-cooked meal. Given the abundance of cash-heavy strategic buyers, there will likely be an appetite for acquisitions of identifiable brands and strong growth prospects. We expect continued consolidation and a rise in the number of transactions within this sector.

## ABOUT TULLY & HOLLAND

### INVESTMENT BANKING SOLUTIONS FOR CONSUMER PRODUCT COMPANIES

Founded in 1992, Tully & Holland, Inc. is a leading US investment bank that provides merger & acquisition advisory services and private placements to consumer companies with special emphasis on food companies, multi-channel marketers, consumer product manufacturers/distributors, and retailers. Tully & Holland’s Managing Directors have a combination of deep industry knowledge and sophisticated financial experience enabling them to craft innovative solutions for each client’s needs.

Footnotes

<sup>1,2,3,6</sup> *Mintel*

<sup>4</sup> *Association for Dressings & Sauces*

<sup>5</sup> *Prepared Foods*

<sup>6</sup> *Harris Interactive*

<sup>7</sup> *Forrester Research*

<sup>1</sup> *U.S. Census Bureau*

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