

## Food & Beverage M&A Trends, 1<sup>st</sup> Half 2009

### Sector Highlights

- M&A activity in the food & beverage sector ticked upwards in the second quarter of 2009, following a gradual decline over the previous 10 quarters.
- Aggregate reported deal size for transactions announced in the first half of 2009 (\$1.984 Billion) was less than one-third of aggregate reported deal value in the first half of 2008 (\$6.859 Billion) – evidencing the decline in mega-deals and reflecting overall market trends since the onset of the credit crisis in Fall 2008. Reported transaction values reached a low of \$587 million in the first quarter of 2009, rebounding to \$1.4 billion in the second quarter of 2009.
- The number of transactions announced in the first half of 2009 (86) was approximately three-quarters the number of transactions announced in the first half of 2008 (119), reflecting decreased but ongoing dealmaking activity in the middle market despite the decline in mega-deals.

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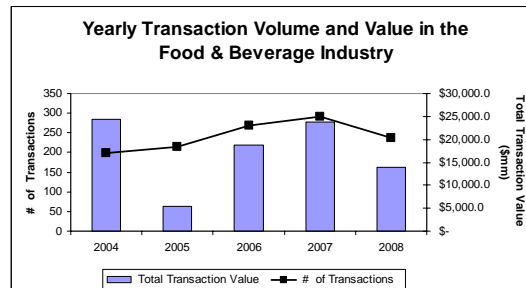
Sector Highlights

Valuation Analysis

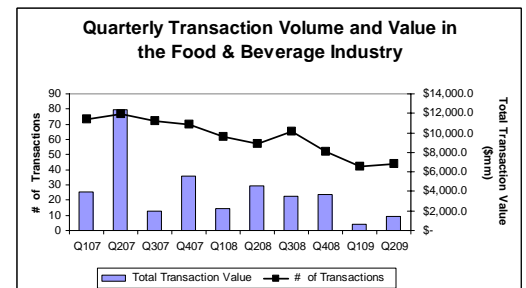
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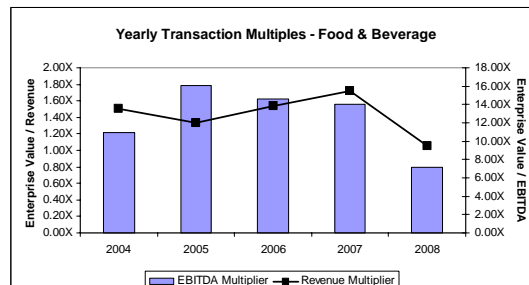


Source: Capital IQ, transactions < \$10 billion

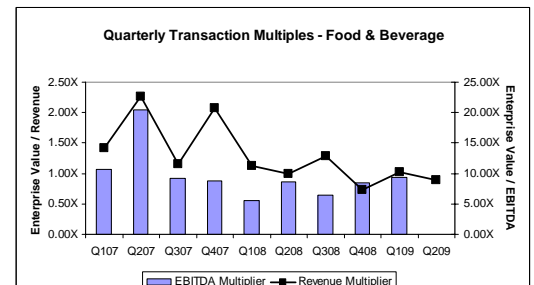


### Valuation Analysis

Food & beverage enterprise values as a multiple of EBITDA dropped significantly in the second half of 2007, but crept upwards in late 2008 and early 2009. Enterprise values as a multiple of revenues (a less commonly used valuation metric) trended downward over the past 10 quarters, to a low of 0.75X in the fourth quarter of 2008, and then stabilized in the first half of 2009 at approximately 0.9X to 1X revenues.



Source: Capital IQ



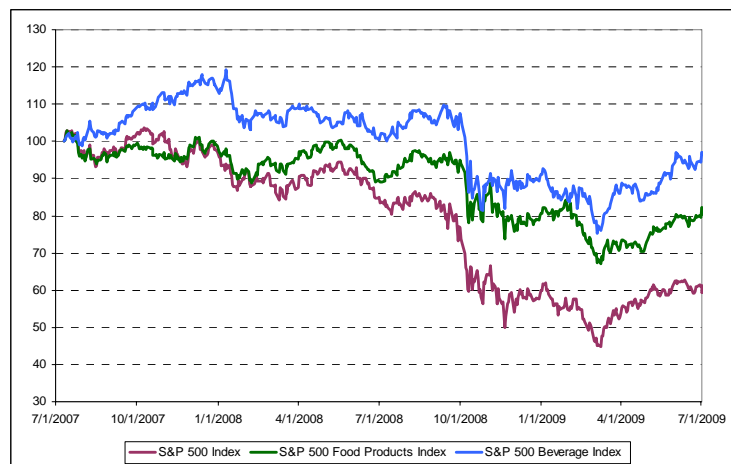
Andrew Crain  
Managing Director  
781.239.2900 x16  
acrain@tullyandholland.com

60 William St.  
Suite 100  
Wellesley, MA 02481  
tullyandholland.com

A number of factors combined to suppress valuations in the broader M&A market in the first half of 2009, including:

- Limited availability of credit to fund acquisitions, and the higher cost of available credit
- Depressed price/earnings and price/EBITDA ratios of comparable publicly-traded companies
- Increased numbers of distressed sales
- Uncertainty about near-term revenue and profit projections, making comparisons to EBITDA multiples in precedent transactions less relevant and lowering valuations

Thus, the resilience in EBITDA valuations of food & beverage companies is somewhat surprising. But this result might be explained by comparison to the public markets, where the food and beverage sectors have both outperformed the broader S&P 500 index since mid-2007, reflecting the recession-resistant demand for consumer staples.



## Transaction Analysis

Food & beverage deals in the first half of 2009 reflected a mix of distressed sales and strategic positioning. Bankruptcy transactions spanned the spectrum of size and sector, from poultry processors (Pilgrim's Pride Farmerville chicken complex sold to Foster Farms for \$80 million) to gourmet meal catalogs (Home Bistro's assets sold to DineWise for \$1 million). This continued the trend of distressed sales begun in 2008 when, for example, Archway & Mothers Cookie Co. was divided and sold through bankruptcy to Keebler and Lance.

Strategic maneuvering motivated both sellers and buyers as food companies positioned themselves in early 2009 for the coming recovery. General Mills divested various bread manufacturing assets from its Bakeries and Foodservice segment by selling four frozen bread dough plants and related assets to bakery ingredients manufacturer Pennant Foods, selling its Brazilian bread business to Laticinios Condessa Ltda, and selling its bread concentrates product line and its Cedar Rapids plant to Flowers Foods. Other buyers positioned themselves to capitalize on the ongoing health & wellness trend, as Campbell Soup Co. purchased artisan breadmaker Ecce Panis for \$65 million and Sunny Delight Beverage Co. acquired Bossa Nova Beverage Group and its line of acai juice and other superfruit drinks.

In contrast to recent years, private equity groups participated in very few food & beverage deals in the first half of 2009, as the investor class grappled with frozen credit markets. Among the few financial sponsor-backed transactions in 2009, Wind Point Partners acquired a majority stake in private label/contract manufacturer Hearthside Food Solutions, while Argus Capital Partners and Annex Capital Management acquired majority ownership of soda marketer Big Red. Other private equity owners expanded their existing food holdings, including Highlander Capital Partners, whose portfolio company Diehl Food Ingredients acquired the nondairy creamer business of ACH Food Companies. Other financial sponsors sold companies to strategic buyers, as Silver Brands divested Ecce Panis and Greenmont Capital Partners sold Bossa Nova Beverage Group.

Going forward, we expect to see increased dealflow in the food & beverage sector in the second half of 2009, as well-capitalized industry players continue to consolidate in areas of strategic interest as the recession nears its end. These transactions also promise favorable investment returns, as acquisitions completed in down markets have historically outperformed the returns on deals done in times of economic growth. Supporting this activity, we see credit beginning to flow again for middle market transactions as regional banks continue to lend and as larger institutions report a resumption of commercial lending. Meanwhile, parties are bridging gaps in capital structure through seller financing and higher equity contributions from buyers, and are bridging discrepancies in valuation expectations with increased use of earnout provisions and other forms of risk sharing. As confidence returns to the economy, creative structures and solutions should benefit both sellers and buyers as pent-up merger & acquisition activity resumes.

## Food & Beverage Transactions – 1<sup>st</sup> Quarter 2009

Announcement Date	Target	Buyer	Transaction Status	Total Transaction Value (\$mm)
06/30/2009	Sustainable Systems, Inc.	Carbonics Capital Corporation	Closed	4.0
06/30/2009	Barnacle Seafood, Inc.	Fishbuster Fisheries Inc.	Closed	-
06/26/2009	World Sourcing & Supplier Development, Inc., Worldwide Rights for Certain Beverage Products	Brand Neue Corp.	Closed	-
06/24/2009	Bossa Nova Beverage Group, Inc.	Beverages Holdings LLC	Closed	-
06/23/2009	Agriprocessors, Inc.	Hershey Friedman, Daniel Hirsch and Mitch Kirschner	Announced	8.5
06/23/2009	F & A Dairy of California, Inc.	Saputo, Inc.	Announced	-
06/17/2009	Zapata Corp.	Harbinger Capital Partners; Harbinger Capital Partners Offshore Manager, LLC	Announced	74.18
06/17/2009	L.A. Juice Company, Inc.	City Capital Corporation	Closed	-
06/16/2009	Stirrings, LLC	Diageo North America, Inc.	Closed	-
06/15/2009	Associated Proteins LP	Viterra, Inc.	Closed	56.31
06/12/2009	Access Beverage, Inc.	Guangzhou Du Ye Trading Company Ltd.	Announced	-
06/08/2009	Ab-Tex Beverage, Ltd.	Pepsi Bottling Group Inc.	Announced	-
06/08/2009	ConAgra Foods, Inc., Fernando's and El Extremo Foodservice Brands	Foster Poultry Farms, Inc.	Closed	-
06/08/2009	Renaissance Food Group LLC	The Really Cool Food Company	Closed	-
06/07/2009	Humboldt Creamery Association Inc., Fernbridge and Stockton Plants	Foster Dairy Farms	Announced	-
06/03/2009	Marley Coffee, Inc.	David O'Neil	Closed	-
06/03/2009	ACH Food Companies, Inc., Emulsified Powders and Non-Dairy Creamer Business	Diehl Food Ingredients, Inc.	Closed	-
06/01/2009	SK Foods, L.P., Plants in Lemoore and Williams	Olam International Limited	Announced	39.0
05/29/2009	Home Bistro Foods, Inc.	Dinewise, Inc.	Closed	0.99
05/28/2009	Atkins, Inc.	Awrey Bakeries, LLC	Closed	-
05/26/2009	Blue Ridge Farms, Inc.	Marvin Sussman	Closed	-
05/23/2009	Ugly Mug Coffee Company, LLC	Lambert's Coffee Service Inc.	Closed	-
05/22/2009	Biodroga Canada	Not Reported	Closed	-
05/18/2009	Big Red, Inc.	Argus Capital Partners LLC; NAXOS Capital Partners; Annex Capital Management LLC	Closed	-
05/15/2009	General Mills, Cedar Rapids Plant	Flowers Foods, Inc.	Announced	-
05/12/2009	Fairfield Gourmet Food, Corp., David's Cookies	GiftBack, Inc.	Announced	-
05/08/2009	National Dairy Holdings, L.P.	Grupo Lala, S.A. De C.V.	Closed	435.0
05/08/2009	The Crown Supermarket	Marc Bokoff	Closed	-
05/07/2009	Golden West Brewing Co. Inc., Certain Brewery Assets	People's Holding Company, LLC	Closed	0.17
05/05/2009	Cargill Animal Nutrition, Swift Current Plant	The Progressive Group of Companies	Closed	-
04/24/2009	The p.i.n.k Spirits Company	Prohibition Beverage, Inc.	Closed	-
04/24/2009	MidAtlantic Vegetable Shortening Co., Inc.	Bunge North America, Inc.	Closed	-
04/14/2009	Tomales Bay Oyster Company	The Marshall Store, Inc.	Closed	-
04/13/2009	Heartland Farms Inc.	Dean Foods Co.	Announced	90.0
04/13/2009	GLA International Incorporated	RBID.com Inc.	Closed	-
04/10/2009	Country Style Food Services Inc.	MTY Tiki Ming Enterprises, Inc.	Closed	13.44
04/09/2009	Bebida Beverage Co.	Potencia USA, LLC	Announced	-
04/08/2009	Austin, Nichols Distilling Co., Inc.	Gruppo Campari SpA	Closed	575.0
04/08/2009	Organic Chef, LLC	Fresh Harvest Products, Inc.	Closed	0.087
04/08/2009	The Warrell Classic Company	The Warrell Corporation	Closed	-
04/06/2009	Blue Hills Spring Water Company, Inc.	Vermont Pure Holdings Ltd.	Closed	-
04/02/2009	Ecce Panis, Inc.	Campbell Soup Co.	Closed	65.0
04/02/2009	Foremost Farms USA, Two Milk Processing Plants in Waukesha and De Pere	Dean Foods Co.	Closed	35.0
04/01/2009	Flowers Foods, Inc., Thirteen Bakery Facilities	Suntrust Equity Funding, LLC	Closed	-

## Food & Beverage Transactions - 2<sup>nd</sup> Quarter 2009

Announcement Date	Target	Buyer	Transaction Status	Total Transaction Value (\$mm)
03/31/2009	Better Beverages, Inc.	Pepsi Bottling Group Inc.	Closed	-
03/31/2009	Kantner Ingredients, Inc., Certain Assets in Wapakoneta	IDI, Inc.	Closed	-
03/27/2009	A.T. Reynolds & Sons, Inc.	Boreal Water Collection Inc.	Closed	-
03/26/2009	Bar Harbor Brewing Co.	Atlantic Brewery Company	Closed	-
03/25/2009	Hearthside Food Solutions LLC	Wind Point Partners	Closed	-
03/23/2009	Apple Valley Juice Corp.	A. Lassonde Inc.	Closed	1.25
03/20/2009	Harvest Manor Farms, LLC	Ralcorp Holdings Inc.	Closed	59.0
03/19/2009	Natural Harmony Foods Inc.	Heathrow Natural Food and Beverage, Inc.	Announced	-
03/19/2009	Natural Harmony Foods Inc., Substantially All Assets	Heathrow Natural Food and Beverage, Inc.	Announced	-
03/13/2009	Zappala Farms LLC	Bland Farms, LLC	Announced	4.1
03/12/2009	S.J. Irvine Fine Foods Ltd.	Premium Brands Income Fund	Closed	1.94
03/11/2009	Pilgrim's Pride Corporation, Farmerville Chicken Complex	Foster Poultry Farms, Inc.	Closed	80.0
03/09/2009	General Mills Bakeries & Foodservice Ltd., Part of Frozen Dough Business	Pennant Foods, Inc.	Announced	-
03/02/2009	Maple Mountain Pumpkins & Agriculture	Piccolo Educational Systems	Closed	-
03/01/2009	Flavors Specialties, Inc.	Frutarom USA, Inc.	Effective	27.0
02/28/2009	Eos Catering & Special Events and Nama Sushi Bar	Not Reported	Closed	-
02/27/2009	Vita Food Products Inc.	Howar E. Bedford	Closed	3.27
02/27/2009	Greenfield Winery Company, Custom Crush Arm	Sonoma Wine Company, LLC	Closed	-
02/26/2009	Kuleto Estate Family Vineyards	William Foley	Closed	-
02/22/2009	Labatt USA	North American Breweries, Inc.	Closed	-
02/19/2009	Plum Organics	The Nest Collective, Inc.	Closed	-
02/19/2009	Angel Eyes Produce, Inc.	Sustainable Power Corp.	Closed	-
02/13/2009	Baltzell Agri Products, Trace Minerals Business	Prince Agri Products, Inc.	Closed	24.0
02/13/2009	High Falls Brewing Company, Inc.	North American Breweries, Inc.	Closed	-
02/12/2009	Chomp, Inc.	Sergeant's Pet Care Products, Inc.	Closed	-
02/10/2009	New Mexico Piñon Coffee Co.	CinFranky LLC	Closed	-
02/09/2009	Galaxy Nutritional Foods Inc.	Mill Road Capital; Galaxy Partners	Closed	4.57
02/06/2009	Fresh Made, Inc.	Lifeway Foods Inc.	Closed	11.84
02/05/2009	Gleukos, Inc.	Mark Jensen and Kurt Peterson	Closed	-
02/04/2009	Dairy Fresh Farms Inc.	Energy 1 Corp.	Closed	-
01/31/2009	Stampede Meat, Inc., Headquarters and Principal Processing and Distribution Facility	AG Net Lease Corp.	Closed	14.0
01/30/2009	Grand Carnival Manufacturing, LLC	Xcell International Corp.	Closed	-
01/21/2009	Cecchetti Wine Company, Inc.	Racke USA, Inc.	Closed	-
01/19/2009	Great Western Products Co.	Yankee Hill Capital Management, LLC	Closed	-
01/16/2009	Niman Ranch, Inc.	Hilco Equity Partners	Closed	22.0
01/12/2009	Constellation Brands Inc., Value Spirits Brands	Sazerac Company, Inc.	Closed	334.5
01/07/2009	Ceres Organic Harvest, Inc.	Mach One Corp.	Closed	-
01/06/2009	Pepsi-Cola Bottling Company of Twin Falls and Nagel Beverage Company	Pepsi Bottling Ventures LLC	Announced	-
01/05/2009	Deutsch Kase Haus, Inc.	Guggisberg Cheese, Inc.	Closed	-
01/02/2009	Sanford Coca-Cola Bottling Company	Arbor Private Investment Company	Closed	-
01/02/2009	Triangle Vending Service Inc.	Clarence Barnette	Closed	-
01/01/2009	Roth Kase U.S.A., Ltd.	Emmi AG	Closed	-

Andrew Crain  
Managing Director  
781.239.2900 x16  
acrain@tullyandholland.com

## About Tully & Holland

### INVESTMENT BANKING SOLUTIONS FOR CONSUMER PRODUCT COMPANIES

Tully & Holland, Inc. is a leading US investment bank that provides sophisticated corporate finance advisory services to consumer product companies with special emphasis on food & beverage 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. Founded in 1992, Tully & Holland's transaction success is facilitated by long-term relationships with financial and strategic buyers around the world.

60 William St.  
Suite 100  
Wellesley, MA 02481  
tullyandholland.com