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Creating Shareholder Value for Food & Beverage Companies through M&A

BOSTON, Mass., March 20, 2014 - Good evening & welcome to ACG Boston's Food and Beverage Conference For those of you who don't know me, I'm Tim Tully, President of Tully & Holland, an investment banking boutique that has advised food & beverage companies on M&A and corporate finance matters for 22 years.

I am pleased to introduce you tonight to three senior executives that have been active investors in the food and beverage sector. Over the next hour they offered to share with us some of their experiences and lessons learned. In order to keep the discussion lively and interactive we've organized the event around a question & answer format, where I will be posing questions to our panelists, who I'd now like to introduce:

- Erik Kahler -- Senior Vice President, Corporate Development of TreeHouse Foods.
- Liam McClennon -- CEO of Greencore USA, a subsidiary of Dublin-based of Greencore Group plc, of which Liam is also a Board Member
- Tim Fulham -- Managing Partner of Fulham & Company

It is not often that one gets to hear stories as interesting as what these gentlemen have to say, so I will keep my introductory remarks mercifully short. However, before we get into the stories that the panelists have to tell I think it's important that I provide a bit of context:

- To begin, the industry is large:
  - At wholesale, the combined US packaged food & beverage sector is a $433 billion industry. Of this:
    - Packaged food is $265 billion
    - Beverage is $168 billion
    - And within this Chilled processed food is $20 billion, private label packaged food is $44 billion, and craft beer is $3.9 billion ($14.3 billion at retail per Brewers Association.)
  - Overall industry growth is relatively modest. While industry sector exceptions exist, industry growth rates are roughly in line with US inflation rates [2.1% average 2010-2013]:
    - Packaged food is up 2.1% on a 4 year CAGR basis. Beverage growth is up 3.0%.
  - For those of you who track this industry, the impact of this slow growth are real, examples of which include HJ Heinz laying off 5% of its workforce since being taken private; Kellogg doing the same, laying off 7% of its global workforce as part of a 4 year billion dollar cost cutting program, and InBev reducing head count in St. Louis by 6% since its takeover of Anheuser-Busch in 2008.
  - With growth difficult to come by, established food and beverage companies are seeking it externally. Deal volume averaged 270 reported deals in 2012 & 2013 as compared to 207 in 2009.

        - 2009 was a soft year to be sure. However if you compare a two longer periods of time – the last 8 years vs. the prior 8 years, the number of reported deals increased 50%.
    - Who you may ask is buying these companies. Over the last four years 80-85% of the reported transactions involved a strategic buyer acquiring another food or beverage company with private equity comprising the remainder.
    - When I oversaw the New Business unit for Heinz the very first thing Bill Johnson and I cut when we faced an earnings miss was the New Business budget.
    - So, in a sense large strategic acquirers are letting the entrepreneurial owners assume the risk of creating new businesses and brands. And once established they are willing to pay handsomely for them.

- **Background Questions**:
    - Our representation of Cains Foods in its sale to TreeHouse Foods is an example of such a transaction. It is within this context that I had the pleasure of meeting Erik Kahler, Chief Strategy Officer and Senior Vice President of Corporate Development of TreeHouse Foods.
        - Erik, let me begin if I may, by asking if you could please describe for the audience the work that you do at TreeHouse and the evolution of the Company. The Company is quite a bit different since its inception in 2005.
        - Liam, your experience at Greencore Group and Greencore USA is quite a bit different. Perhaps you can tells a bit about Greencore, your business in the US, and the opportunities that Greencore and other European food companies see in US marketplace.
        - And Tim, perhaps you can describe Fulham & Company for the audience – its formation, investment focus, and the decision to invest in the craft beer sector beginning with the acquisition of Longtrail in 2006 and the subsequent acquisition of Otter Creek in 2010. These two investments are considerably different from most of Fulham's existing portfolio, are they not?
            - ❖ Can you comment on the learning curve associated with owning a branded portfolio of beverages?

    - **Strategic Questions:**
        - Tim, several years ago Tully & Holland represented North American Brewers, the owners of Magic Hat and Pyramid craft beers to Independent Brewers United, which owned Genesee and Labatt. That transaction was primarily driven by IBU's pursuit of scale and consolidation savings prior to the combined company's subsequent sale to Cerveceria Costa Rica (12/12).

          Can you comment on the strategic rationale for your subsequent acquisition of Otter Creek?

            - ❖ In an industry that is growing 15% per annum and where there is an average of 10 M&A transactions per year, how do you evaluate acquiring an existing craft brewer vs. building additional capacity behind one of your existing brands?

        - Erik, your business, in contrast, is mostly non-branded and most of the transactions that you've completed since 2005 have involved manufacturers of non-branded food companies.

        - Can you comment on how TreeHouse views the value of private label vs. branded food companies?
        - How many deals per year do you look at?
        - How do valuations of private label food companies compare to a branded equivalent?

    - Liam, your experience in a very general sense is similar to Erik's. You've built a business from scratch in the US via a series of acquisitions of mostly non-branded food companies.
        - You described previously Greencore's view of the opportunity to build a business in the US, can describe for us the strategy that you employed to build the business that you have today in the US.
        - When I ran the Corporate Development group at Heinz in the late 1980's we did a multi-faceted study that confirmed the consumer preference for refrigerated meals vs. frozen entrees, but also identified a level of supply chain complexity and food safety risk that we weren't prepared to assume. What role do logistics and supply chain considerations play in your acquisition strategy and how have you become comfortable with transporting short shelf life product great distances?
        - How many acquisition opportunities do you see in an average year?
        - What are the valuations at which these companies are trading?

- **Qualitative Questions:**
    - Liam, a question that we're often asked by clients – what are strategic buyers looking for in a target company? Can you tell us a little about this – how do you put a value on a company and what are the overriding criteria against which you judge the success of an acquisition.
    - Erik, same question – what are you looking for in the acquisitions that you seek to make? How do you value a target and how do you define success?
        - Erik, can you comment on how last year's acquisition of Cain's is going?
    - Tim, as the owner of privately held businesses, perhaps your criteria are different, are they?

- **Wrap-up Question:**
    - So, gentlemen, circling back to the discussion topic -- What Role Does M&A Have in **Creating Shareholder Value for Food & Beverage Companies**
        - Can you summarize what your experiences have been and how you see the future?

About Tully & Holland, Inc.

Tully & Holland **www.tullyandholland.com** is a leading Boston, MA-based investment bank established in 1992. The firm provides corporate finance and mergers & acquisitions advisory services to middle market consumer product companies. Tully & Holland has particular expertise representing food & beverage companies, multi-channel marketers, retailers, and consumer product manufacturers and distributors.

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