



Food & Beverage Industry

Mergers & Acquisitions Q2 2016

Corporate activity in the food and beverage industry accelerated in the second quarter of 2016 with thirteen acquisitions announced. Transactions spread across multiple sectors with the seafood and packaged foods sectors reporting the highest levels of activity. Transactions in the packaged food sector included leading brands such as Maggie Beer, Patties Foods and Gourmet Garden.

Capital raisings in the public and private markets also increased sharply with businesses seeking additional funds to capitalise on domestic and international growth opportunities.

A growing investment theme is the increasing value placed on a diversified customer base. As a result, initiatives to develop distribution outside the corporate supermarket retailers and gain access to other channels, including foodservice and industrial, is a growing strategic priority.

The fragmented nature of the foodservice market makes entering this channel a challenge. The spread of customers in foodservice provides a diversification benefit to suppliers. We expect this channel diversification strategy to extend across all the sectors in the food and beverage industry. We have also witnessed a growing number of distribution joint ventures with manufacturing businesses seeking access to new markets including export.



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SEAFOOD

Date	Target Name	Acquirer	Deal Value
30 Mar 16	Kailis Brothers	Legend Holdings	90% for \$180 million
8 Apr 16	Mareterram	Sea Harvest	40% for \$20 million

Seafood was an active sector in Quarter 2, with two transactions announced. The largest transaction was the acquisition of a 90% shareholding in Perth based seafood processor, Kailis Brothers, by Legend Holdings. Legend Holdings is a Hong Kong listed Chinese conglomerate with interests across the agriculture and food industries.

The proposed acquisition of a controlling stake in Mareterram by Sea Harvest is another notable transaction in the sector. Sea Harvest was a 19.9% shareholder in Mareterram when the company listed on the ASX in January 2016. Sea Harvest recently extended an offer to acquire 50% of the shares held by remaining Mareterram shareholders. The offer is conditional on Sea Harvest achieving a 50.1% shareholding in Mareterram. The offer from Sea Harvest closes on 8 July 2016. The two deals are further evidence of the interest of foreign investors in the seafood sector.

Prospects of soaring international seafood consumption bodes well for businesses in the seafood sector. The limited entry points into the sector is a hurdle for investors seeking exposure to the sector. We expect more corporate activity in the sector as investors continue to pursue protein based food businesses.

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PACKAGED FOODS

Date	Target Name	Acquirer	Deal Value
19 Apr 16	Gourmet Garden	McCormick & Co	\$150 million
11 May 16	Maggie Beer Products	Primary Opinion	48% for \$15 million
1 June 16	Patties Foods	Pacific Equity Partners	\$232 million

The packaged food sector saw three notable transactions in Quarter 2. US food giant, McCormick & Co, acquired Botanical Food Company from Advent Private Capital. Botanical Food Company manufactures and sells the Gourmet Garden brand of packaged herbs and spices. McCormick paid \$150 million for the business and plans to further expand the Gourmet Garden brand through McCormick's global distribution network. McCormick acquired the business on a 2.1 times revenue multiple.

Primary Opinion entered into an agreement to acquire 48% of Maggie Beer Products for a consideration of \$15 million. The offer from Primary Opinion values Maggie Beer Products at an annualised revenue multiple of 1.5 times and a 12.3 times EBITDA multiple. The acquisition of a significant shareholding interest in Maggie Beer Products represents a shift in focus for Primary Opinion to the food and beverage industry.

Primary Opinion has signalled future investment in the industry and foresees a shift to health and premium foods as incomes rise and consumer preferences shift. Primary Opinion, together with Tasfoods and Beston Global Foods are examples of ASX listed companies that focus on investing in premium food and beverage assets.

The proposed acquisition of Patties Foods by Pacific Equity Partners is another standout transaction in the sector. The Patties share price fell sharply in February 2015 after the company recalled its frozen berry range. Since exiting the frozen berry business, Patties has focused on its core capability in the frozen savoury category. Patties will be a welcome addition to the Pacific Equity Partners portfolio which includes food assets such as Manuka Health and Pinnacle Bakery supplies.



DAIRY

Date	Target Name	Acquirer	Deal Value
5 May 16	Burra Foods	Fuyuan Farming	Undisclosed

One transaction was announced in the dairy processing sector during the quarter. Chinese dairy farming company, Inner Mongolia Fuyuan Farming, acquired a 79% shareholding in Burra Foods. Although the terms of the transaction were not disclosed, the Burra Foods deal is likely to be the largest deal in the food and beverage industry in Quarter 2, with reports of a \$300 million transaction value.

Despite the Burra Foods acquisition, we note the substantial drop-off in the number of dairy processing transactions compared to 2015. With no reported transactions in Quarter 1, the first half of 2016 has reported significantly less than the 10 transactions in the sector during 2015. There is still strong demand for dairy products, however investors may prefer to wait until the current supply situation stabilises before acting on acquisition opportunities in the sector.

OTHER SECTORS

Date	Target Name	Acquirer	Sector	Deal Value
8 Apr 16	Aqua Essence	Beston Food Group	Beverages	51% for \$875k
18 Apr 16	Dairy Technical Services	Bureau Veritas & AsureQuality	Food technical	Undisclosed
5 May 16	Animal Supplies Wholesale	Petbarn	Pet food & accessories	Undisclosed
6 May 16	Global Therapeutics	Blackmores	Natural health	\$23 million
6 May 16	Allclypt	Superior Food Services	Food service distribution	Undisclosed
11 May 16	Kialla Pure Foods	Blue Sky Investments	Flour processing	30% for \$12 million
24 May 16	Shima Wasabi	Tasfoods	Agriculture	\$2.75 million

The acquisition of Allclypt by Superior Food Services is a transaction of interest in the food services sector. Superior Food Services was acquired by Quadrant Private Equity in 2015. Allclypt is a bolt-on acquisition for Superior Food Services, as it expands its distribution footprint to South Australia. The fragmented nature of the food services distribution sector has attracted attention from parties looking to improve their position through consolidation initiatives.





CAPITAL MARKETS TRANSACTIONS

Listings on the ASX

Date	Entity name	Capital raised	Issue price
8 Apr 16	China Dairy Corporation	A\$17 million	\$0.20
26 Apr 16	Abundant Produce	A\$3.5 million	\$0.20
4 May 16	Tegel Group Holdings	NS\$299 million	\$1.55

Three food and beverage companies listed on the ASX during Quarter 2 2016. Tegel Group was the largest food and beverage listing on the ASX and is also dual listed on the New Zealand Stock Exchange. The growth of global chicken consumption continues to accelerate, with Tegel seeking to expand production capacity to support future growth. Affinity Equity Partners retained a 45% interest in Tegel after the listing.



Capital raised by ASX listed companies

Date	Entity name	Capital raised	Issue price	Purpose of capital raise
16 May 16	Yowie Group (Confectionery)	A\$32 million	\$0.90	To fund rollout of product in the USA
25 May 16	Capilano Honey	A\$16.8 million	\$19.50	To fund acquisitions, NPD & export market expansion
6 Jun 16	SeaFarms Group	A\$10 million	\$0.07	To fund the completion of a feasibility study of prawn farming project in NT
10 Jun 16	Warrnambool Cheese and Butter	A\$142 million	\$6.75	Proceeds will be used to repay debt

Four ASX listed companies raised additional equity capital during Quarter 2. Yowie Group is the marketer of a character-moulded, children's chocolate product. With Kinder Surprise being locked out of the lucrative USA market (authorities have deemed its small toy as a choking hazard), Yowie has the only patent approved by the US FDA for a chocolate encased toy. The proceeds from the \$32 million capital raise will be used to fund the rollout of Yowie's products in the USA, with a particular focus on Walmart.

The proceeds from both the Capilano Honey and WCB capital raises will be used to fund expansion. SeaFarms Group raised \$10 million to fund the completion of a feasibility study into prawn farming in the Northern Territory.





Capital raised by unlisted companies

Date	Entity name	Capital raised	Purpose of capital raise
Mar 16	Marley Spoon	A\$22 million	To fund expansion on the east coast of Australia and the west coast of the USA
Apr 16	PERKii Probiotic	A\$4 million	To fund product rollout and achieve scale

Two companies not listed on the ASX raised capital from private sources during Quarter 2. PERKii is a probiotic drink that was developed in conjunction with scientists at the University of Queensland. The capital raised by PERKii will be used to fund the rollout and commercialisation of the product as it seeks to establish a presence in the functional drinks market.

Businesses currently pursuing capital raises include meal delivery business, My Food Bag, and IRExchange (Independent Retailers Exchange), a digital marketplace for independent retailers and suppliers.

BUSINESSES PLACED UNDER ADMINISTRATION

Date	Entity name	Sector	Administrator
4 Mar 16	Pronto E Fresco	Antipasto	McGrath Nichol
18 Mar 16	Cakes Galore	Patisserie	SV Partners
7 Apr 16	Direct Wellbeing	Vitamins	HLB Mann Judd
28 Apr 16	Gawler River Cattle Co	Meat & livestock	Duncan Powell
13 May 16	Oakville Produce	Potatoes	Deloitte
1 Jun 16	Jones the Grocer	Food Retail	PPB Advisory

A number of food and beverage businesses were placed under administration during the quarter. Gourmet retailer, Jones the Grocer, went into voluntary administration for the second time in almost two years.

For some retailers the gourmet retail sector has proved challenging as evidenced by Woolworth's shrinking of the Thomas Dux chain.



Comet Line Consulting

Comet Line Consulting is a strategic advisory business that specialises in acquisitions and divestments within the Australian food & beverage industry. Deep industry knowledge and strong relationships with business owners, trade investors and financial investors are defining features of the Comet Line Consulting business.

For a free confidential discussion on how to best position your food and beverage business for the future, please do not hesitate to contact either David Baveystock or Ben van der Westhuizen.

David Baveystock has worked in the Australian food and beverage industry for over 20 years including senior roles with Nestle Australia and Manassen Foods. David is recognized as a leading executive in the food and beverage industry and consults to senior management and business executives.



Ben van der Westhuizen has more than 20 years corporate advisory experience and has advised on a variety of transactions including acquisitions, disposals and capital raisings.



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