



Food & Beverage Industry

Mergers & Acquisitions Q3 2016

Corporate activity in the Australian food and beverage industry peaked in the third quarter of 2016 with nineteen transactions announced. Transactions were spread across multiple sectors with foodservice distribution reporting the highest level of activity.

Transactions in the foodservice distribution sector included the acquisition of Hudson Pacific Corporation by Retail Food Group for \$88 million. Consolidation in the foodservice distribution sector is underway as evidenced by Quadrant's acquisition of Superior Foods in 2015 and the merger of Combined Foodservices Australia and Countrywide in June 2016.

The standout transaction in the quarter was the acquisition of Snack Brands Australia by Philippines based Universal Robina Corporation for \$600 million. The transaction confirms the high level of interest from offshore investors for high quality Australian and New Zealand food and beverage businesses.

The prospects for the remainder of the year remain positive with the prospective IPO's of Inghams Enterprises and Nelson-based King Salmon.

The deal pipeline is also considered healthy with financial and trade investors showing strong interest in the food and beverage sector, especially where products have export exposure.



The \$600 million acquisition of Snack Brands Australia by Universal Robina is the standout transaction



SNACKING

Date	Target Name	Acquirer	Deal Value
17 Aug 16	Snack Brands Australia	Universal Robina Corp	\$600 million
23 Sept 16	Modern Baking	Unknown	Unknown

The standout transaction in the quarter was the acquisition of Snack Brands Australia by Universal Robina Corporation for \$600 million. The acquisition fits neatly with Universal Robina's portfolio of snacking assets that includes Griffin's Foods, which was acquired in 2014 for NZ\$700 million.

Universal Robina acquired Snack Brands from a consortium of investors, led by The Real McCoy Snackfood Co. The Real McCoy Snackfood acquired Snack Brands Australia from Arnott's Biscuits in 2008 for an undisclosed sum. Arnott's asking price for the

Snack Brands business in 2008 was said to be \$30 million.

In another snacking transaction private equity firm MH Carnegie, sold its indirect stake in biscuit manufacturer Modern Baking for a negligible amount. MH Carnegie acquired the stake in Modern Baking in July 2014 through its 40% shareholding in Saleslink. Historically, the Modern Baking business has found it challenging to compete against the corporate biscuit manufacturers in Australia.

FOODSERVICE DISTRIBUTION

Date	Target Name	Acquirer	Deal Value
22 Jun 16	Combined Foodservice Australia	Countrywide	Undisclosed (merger)
22 Jul 16	B&F Distributors	JB Metropolitan	Undisclosed
25 Aug 16	Hudson Pacific Corporation	Retail Food Group	\$88 million
27 Sept 16	Central Choice Foods	Bidvest Australia	Undisclosed

The foodservice distribution sector experienced another busy quarter with four transactions concluded.

The merger of Combined Foodservice Australia and Countrywide increased the membership base of the merged group to 118 members. With almost \$3 billion in revenue, the enlarged Countrywide is now the leading foodservice buying group.

The largest announced transaction in foodservice distribution was the acquisition of Hudson Pacific Corporation by Retail Food Group for \$88 million. The acquisition provides RFG with access to the foodservice market coupled with vertical integration into a cheese processing and bakery manufacturing asset.

The Hudson Pacific acquisition was settled with \$55 million in cash and \$33 million in Retail Food Group shares. The acquisition valued Hudson Pacific on an enterprise value of 5.7-times one-year out EBITDA. The acquisition will be earnings per share accretive for Retail Food Group.

Other transactions during the quarter included the acquisition of B&F Distributors by JB Metropolitan and

the acquisition of Central Choice Foods by Bidvest Australia.



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DAIRY

Date	Target Name	Acquirer	Deal Value
29 Aug 16	Riverina Fresh	Blue River Group	Not disclosed
14 Sept 16	Australian Provincial Cheese	Beston Global Food	\$2.2 million

Two transactions were announced in the dairy and processed dairy sector. Fonterra Australia sold its Wagga Wagga manufacturing site and the Riverina Fresh brand to investment firm Blue River Group. The divestment is consistent with Fonterra's divestment of other non-core assets including the yoghurt and dairy desserts business and Fonterra's minority shareholdings in Bega Cheese and Dairy Technical Services.

Beston Global Food Company acquired Australian Provincial Cheese for \$2.2 million. The acquisition includes APC's cream cheese brands Mable's and Grange Peak. The acquisition adds to Beston's growing dairy portfolio which includes the Wellington, Kurleah and Pedra Branca dairy farms and dairy processing assets Paris Creek Organic Dairy Products and Beston Pure Foods.

FRESH PRODUCE

Date	Target Name	Acquirer	Deal Value
24 Jun 16	Premier Fruits Group (merger)	La Manna Group (merger)	Undisclosed
2 Aug 16	Calypso Mangoes – distribution rights	OneHarvest	Undisclosed
8 Sept 16	Perfection Fresh (table grape business)	Fruit Master (merger)	Undisclosed
23 Sept 16	Oakville Produce	Mitolo Group	Undisclosed

The fresh produce sector showed a spike in corporate activity with four transactions announced in the quarter.

Premier Fruits Group and New Zealand-owned La Manna Group announced a merger of equals in late June. The combined entity has revenue in excess of \$500 million and is the second biggest fruit and vegetable supplier after Costa Group.

Perfection Fresh and Fruit Master, announced a merger of their table grape businesses. The merged business, 'FruitMaster Australia', is the country's largest table grape growing business and marketer and maintains the exclusive rights to several grape varieties. Perfection Fresh is a family-owned fresh produce business, while Fruit Master was established in 2011 as an Australian exporter of grapes.

Mitolo Group, a South Australian potato and packaging company, acquired the South Australian farms and all the packaging businesses of Oakville Produce. Oakville

Produce, the biggest supplier of potatoes to Woolworths, entered receivership in May 2016, with Commonwealth Bank of Australia a substantial lender to Oakville Produce.





OTHER SECTORS

Date	Target Name	Acquirer	Sector	Deal Value
7 Jul 16	50% of Western Honey Supplies	Capilano Honey	Health & natural	\$2.5 million
22 Jul 16	"Chicken Tonight", "Raguletto" and "Five Brothers" sauce brands	Simplot	Sauces	Undisclosed
29 Jul 16	Capilano's Manuka beekeeping assets	Joint Venture with Comvita	Health & natural	\$9.2 million
Aug 16	Smith's Snack Vending	IVendGroup	Distribution	Undisclosed
4 Aug 16	Vitaco Holdings	Shanghai Pharmaceutical	Vitamins & supplements	\$314 million
8 Aug 16	Roxdale Foods & bioactive IP	Gravity Solutions Global	Juice	\$2.9 million
5 Sept 16	Australian Pharmaceutical Manufacturers	Pact Group	Therapeutic product manufacturing	\$90 million
6 Sept 16	Pizza Hut master franchise license	Allegro Funds and 3 former McDonalds executives	QSR	Undisclosed
3 Oct 16	Riviana Foods	Fehlsbergs Fine Foods	Antipasto	Undisclosed

Capilano Honey concluded two joint venture transactions during the quarter. Capilano Honey acquired 50% of Western Honey Supplies and sold its Manuka beekeeping assets to a joint venture with Comvita.

ASX listed Vitaco Holdings announced in August that it had entered into a scheme implementation deed with Shanghai Pharmaceutical and Chinese private equity group, Primavera. Vitaco Holdings listed on the ASX in September 2015 with private equity group, Next Capital, the largest shareholder (15.3% shareholding) in the group. The buyout offer is priced at \$2.25 per Vitaco share placing a value of \$314 million on the equity of Vitaco. This implies a 14.7 forecast EV/EBITDA acquisition multiple. Vitaco shareholders are expected to vote on the buyout offer in November 2016.

ASX listed Pact Group announced the acquisition of Australian Pharmaceutical Manufacturers for \$90 million. The acquisition was priced at a 6.5x 2016 EV/EBITDA acquisition multiple. Pact Group was founded in June 2002 by Raphael Germinder and is the largest supplier of rigid plastics and industrial metals in Australia. The company has pursued a growth through acquisition strategy, acquiring 34 companies prior to listing on the ASX in December 2013. Since listing on the ASX, the share price has almost doubled with the company continuing to pursue and conclude further acquisitions.

The Pizza Hut master franchise license was acquired by private equity firm Allegro Funds and 3 former McDonalds executives. Pizza Hut is reportedly in discussions with franchisees of fast food chain, Eagle Boys. The Eagle Boys head office was placed under administration in July 2016 but the franchisees have continued to operate. A combined Pizza Hut and Eagle Boys business will hold a 35% share of the takeaway pizza market in Australia and will have the second most outlets after market leader Dominos Pizza.





CAPITAL MARKETS

There were no new listings of food and beverage businesses on the ASX and the NZX during the third quarter of 2016.

Prospective listings on the ASX

Proposed IPO Date	Entity name	Sector
Not available	Inghams Group	Poultry
Not available	Murray River Organics	Organic
19 Oct 16	King Salmon	Seafood

The proposed listing of **Inghams Enterprises** on the ASX is likely to be the largest IPO of a food and beverage business in 2016, exceeding the IPO of New Zealand based poultry producer **Tegel Group** that listed in May. Inghams was acquired by private equity firm, TPG, in 2013 for \$880 million and the IPO is expected to exceed the \$1 billion mark. Inghams is the market leader in Australia with a 40% market share and is second placed in New Zealand with a 34% market share.

Organic dried fruit company **Murray River Organics** is also a candidate for a listing on the ASX. Murray River Organics is a producer and marketer of organic dried fruit including sultanas, raisins and currants. Comet Line has identified natural and organic products as one of the

growth themes in the food industry and Murray River Organics is positioned to benefit from the increased demand for organic products both in domestic and global markets.

Nelson-based **King Salmon** is another candidate for an IPO. King Salmon is reported looking to raise \$77.5 million through a joint IPO on the NZX and the ASX. King Salmon operates seven farms in the Marlborough region and has three new farms under development. The IPO will provide an exit to private equity shareholder Direct Capital and a number of smaller shareholders. The proceeds from the IPO will be applied to repay debt and partially fund a new farm.

Joint ventures

New distribution and supply joint ventures include:

- A2 Milk Company and Synlait Milk entered into a 5-year agreement for the supply of a2 Platinum infant formula. The new arrangement is expected to progress future growth plans.
- Beston Global Food Company announced that it established a kids nutrition joint venture with

Singapore based Mindchamps Holdings to supply fresh and nutritious food to pre-school children in Singapore.

- Beston Global Food Company announced that it is in discussions with Korean company, Taekyung Food & Processing to form a strategic alliance to supply food products into the Korean market.

OUTLOOK

2016 is on track to equal and potentially exceed the levels of corporate activity recorded in the food and beverage industry in 2015. Over the first 3 quarters of 2016, the industry has proved to be attractive to both trade and financial investors.

We expect the high levels of interest in the industry to persist as investors search for growth opportunities in a low-growth corporate environment.



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.

Contact details:

David Baveystock



+61 400 217 471



david@cometlineconsulting.com.au

Ben van der Westhuizen



+61 405 512 119



ben@cometlineconsulting.com.au

For more information please visit www.cometlineconsulting.com.au

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