

FOOD & BEVERAGE INDUSTRY

2016 REVIEW OF CORPORATE ACTIVITY

2017 is shaping up to be a dynamic year across the food and beverage industry, with a number of potential M&A opportunities. Although transaction levels did not reach the heights of 2015, it was still a strong year with several high-profile transactions completed. To provide insight into future activity, we have reviewed the key transactions concluded in 2016. For the purposes of this review we classified businesses operating in the food and beverage industry into three categories: **Primary Production, Processed / Packaged Foods and Other Food and Beverage.**

KEY TRENDS IDENTIFIED

Our review identified the following key trends in 2016:

Fewer large transactions

In 2016 the sale of Snack Brands Australia to Universal Robina Corporation was the only transaction with a value of greater than \$400 million (transaction value of \$600 million). In comparison four M&A transactions with transaction values of \$400 million or larger were announced in 2015. The 2015 transactions included Swisse Wellness (\$1.67 billion), Goodman Fielder (\$1.3 billion), Menulog (\$850 million) and VIP Petfoods (\$410 million).

Sector rotation

The dairy sector recorded only 4 transactions in 2016 compared with 10 transactions in 2015. Conversely the

fresh produce sector recorded 6 transactions in 2016 with no transactions reported in this sector in 2015.

Offshore buyers favour larger transactions

Offshore buyers were responsible for four of the five acquisitions with transaction values greater than \$100 million in 2016. Three of the offshore buyers are based in Asia, with the other based in the USA. Australian based private equity fund Pacific Equity Partners (PEP) was the only domestic entity to announce an acquisition with a reported transaction value of greater than \$100 million.

The Sealanes acquisition by Superior Food Services is also likely to exceed \$100 million, however the transaction value is not publicly available. Quadrant Private Equity owns Superior Foods Services making private equity firms PEP and Quadrant the ultimate acquirers behind the two largest domestic acquisitions in 2016.

Our review includes an outlook of key drivers of corporate activity for selected sectors.

We hope you find it of value to reflect on these transactions and if you have any specific questions, please don't hesitate to contact us at:

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PRIMARY PRODUCTION

DAIRY

Acquisitions announced

DATE	TARGET NAME	ACQUIRER	DEAL VALUE
5 May 16	Burra Foods (79% interest)	Fuyuan Farming	\$300 million
29 Aug 16	Riverina Fresh	Blue River Group	Not disclosed
14 Sep 16	Australian Provincial Cheese	Beston Global Food	\$2.2 million

We observed 3 transactions in the dairy sector with the acquisition of 79% of Burra Foods by Chinese dairy farming company, Inner Mongolia Fuyuan Farming, for \$237 million (EV \$300 million), the standout transaction in 2016. Itochu Corporation and Grant Crothers remain invested in Burra Foods with a combined 21% interest in the company.

Fonterra Australia sold its Wagga Wagga manufacturing site and the Riverina Fresh brand to Blue River Group in August 2016. The disposal is consistent with Fonterra's strategy of divesting non-core assets.

Beston Global Food Company acquired Australian Provincial Cheese and the cream cheese brands Mable's and Grange Peak for \$2.2 million in September 2016.

Listings on the ASX

DATE	ENTITY NAME	CAPITAL RAISED	ISSUE PRICE	30 DEC 16 PRICE
8 Apr 16	China Dairy Corporation	A\$17 million	\$0.20	\$0.135

Capital raised by ASX listed dairy companies

DATE	ENTITY NAME	CAPITAL RAISED	ISSUE PRICE	PURPOSE OF CAPITAL RAISE
10 Jun 16	Warrnambool Cheese and Butter	A\$142 million	\$6.75	Proceeds will be used to repay debt

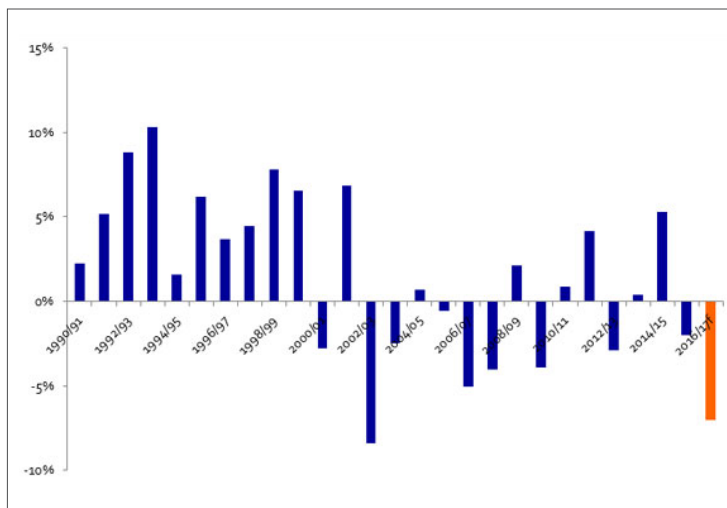
Outlook for the dairy sector

The biggest challenge facing the dairy industry in 2017 is the reduction in milk production that occurred in 2016. Rabobank estimated that Australian milk production may have reduced by 7% to 10% in 2016.



The biggest challenge facing the dairy industry in 2017 is the reduction in milk production that occurred in 2016

Figure 1: Annual % change in Australian national milk production



Source: Rabobank

Securing reliable sources of supply and passing on increases in dairy input prices will be a challenge for certain Australian dairy processors in 2017. Businesses with effective supply arrangements in place may see the supply volatility as an opportunity to expand market share or acquire competitors. Dairy businesses that do not have secure and reliable sources of supply will be most at risk.

POULTRY

Acquisitions announced

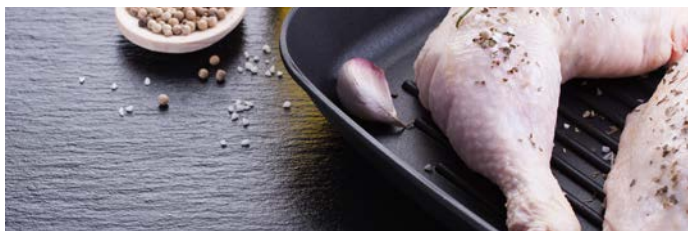
DATE	TARGET NAME	ACQUIRER	DEAL VALUE
18 Feb 16	Nichols Poultry	Tasfoods	\$12.6 million

Listings on the ASX

DATE	ENTITY NAME	CAPITAL RAISED	ISSUE PRICE	30 DEC 16 PRICE
4 May 16	Tegel Group Holdings	NZ\$299 million	\$1.55	\$1.40
7 Nov 16	Inghams Group	A\$596 million	\$3.15	\$3.19

The poultry sector had an active year with the leading poultry businesses in New Zealand and Australia listing on the ASX and the NZX during 2016.





POULTRY continued

Tegel Group dual listed on the ASX and the NZX in May 2016. Tegel Group's controlling shareholder, Affinity Equity Partners, reduced its shareholding in Tegel to 45% as part of the listing. Affinity acquired Tegel Group in January 2011 for NZ\$605 million (A\$463 million).

Inghams Group was one of the largest IPO's on the ASX in 2016, raising almost \$600 million through the listing. Inghams is the poultry market leader in Australia with a 40% market share and is second largest in New Zealand with a 34% market share. Inghams Group's major shareholder, private equity firm TPG, sold 40% of its shareholding as part of the IPO and continues to hold 47% of Inghams. Capital raised through the IPO was priced at 13.5x 2017 net profit.

Outlook for the poultry sector

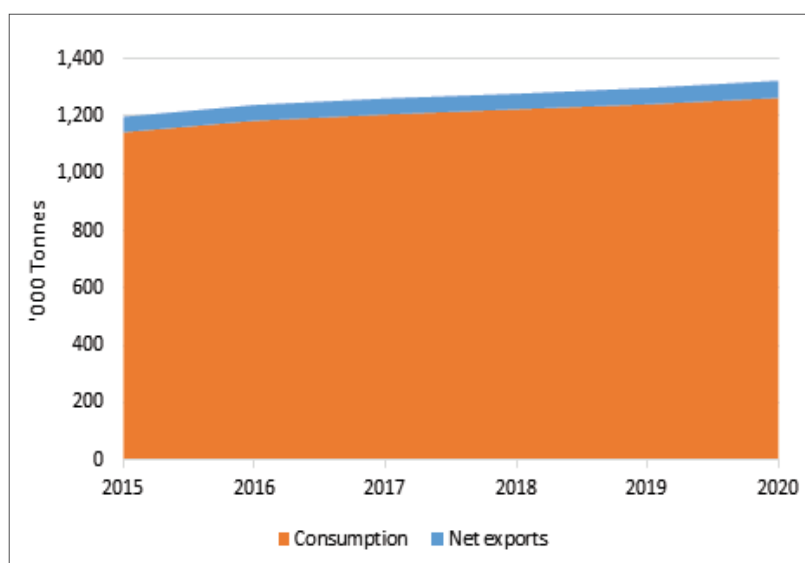
The outlook for the poultry sector remains strong with chicken's growing popularity as an affordable source of animal protein.

The industry remains protected with the bulk of poultry product produced in Australia being consumed in the domestic market. A fraction of poultry production is exported with almost no imports.

Consumption of poultry product in Australia is expected to increase by 6.7% over the 4-year period to 2020, with the balance of production destined for the export market.

The IPO's of Tegel Group and Inghams Group gave investors insight and entry points into the poultry sectors in Australia and New Zealand. The poultry sector in both countries are concentrated with the top two participants in each country holding market shares of 73% and 82% respectively.

Figure 2: Forecast production and consumption of poultry product in Australia



Source: OECD Agricultural Outlook

In 2017 we expect consolidation in the poultry sector through all parts of the growing, processing and distribution supply chain as participants focus on increasing scale and maximising efficiencies.



SEAFOOD

Acquisitions announced

DATE	TARGET NAME	ACQUIRER	DEAL VALUE
2 Feb 16	Certain assets of Focus Fisheries	Mareterram	\$1.2 million
30 Mar 16	Kailis Brothers	Legend Holdings	90% for \$180 million
8 Apr 16	Mareterram	Sea Harvest	40% for \$20 million

The acquisition of a 90% shareholding in Perth based seafood processor and wholesaler, Kailis Brothers, by Legend Holdings for \$180 million is the standout transaction for the seafood sector in 2016. Legend Holdings is a Hong Kong listed Chinese conglomerate with interests across the agriculture and food industries.

South African fishing company, Sea Harvest, increased its shareholding in ASX listed Mareterram from 19.9% to 56% through a proportional takeover offer. Sea Harvest, one of the largest vertically integrated fishing companies in South Africa, became a 19.9% shareholder when Mareterram listed in January 2016. Sea Harvest is a key supplier of hake products to Mareterram.

These two deals in the seafood sector is evidence of the interest foreign investors have in the Australian seafood sector.

Listings on the ASX

DATE	ENTITY NAME	CAPITAL RAISED	ISSUE PRICE	30 DEC 16 PRICE
6 Jan 16	Mareterram	A\$18 million	\$0.20	\$0.22
19 Oct 16	NZ King Salmon Investments	NZ\$30 million	NZ\$1.12	NZ\$1.28

Mareterram reverse listed on the ASX on 6 January 2016. Mareterram acquired the food services division of the Craig Mostyn group and NorWest Seafoods in 2015.

New Zealand King Salmon dual listed on the ASX and NZX in October 2016. The NZ King Salmon IPO was priced at 8x forecast EBITDA and enabled private equity investor, Direct Capital, to dispose of \$45 million of shares as part of the public offer. The proceeds from the IPO will be applied to repay debt and partially fund a new fish farm.

Prospective listings in 2017 include:

- Ocean Grown Abalone, an abalone aquaculture business that is developing artificial abalone reefs at Flinders Bay in Western Australia; and
- Murray Cod Australia, an aquaculture business that integrates the hatching, nursing and growing out of Murray Cod to control the entire life cycle of the fish. Murray Cod Australia is expected to reverse list via Timpetra Resources in mid-January 2017.



Consumption of fish and seafood product in Australia is expected to increase over the next four years

SEAFOOD continued

Capital raised by ASX listed seafood companies

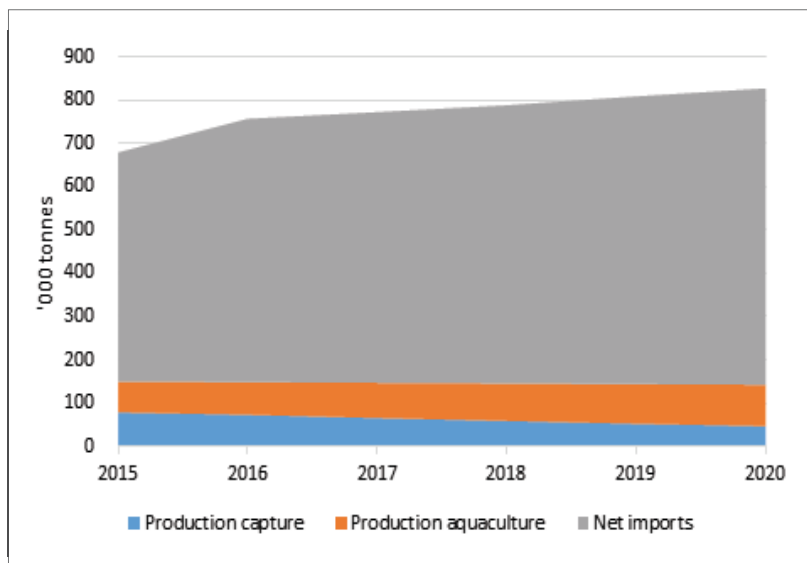
DATE	ENTITY NAME	CAPITAL RAISED	ISSUE PRICE	PURPOSE OF CAPITAL RAISE
6 Jun 16	SeaFarms Group	\$10 million	\$0.07	To fund the completion of a feasibility study of prawn farming project in NT

SeaFarms Group raised \$10 million to fund the completion of a feasibility study into prawn farming in the Northern Territory.

Outlook for the seafood sector

The bulk of the fish product consumed in Australia are imported. Domestic production is split between wild capture and aquaculture, with the production of the latter forecast to increase over the next four years and production from wild capture expected to decrease.

Figure 3: Forecast production and consumption of fish product in Australia



Source: OECD Agricultural Outlook

Consumption of fish and seafood product in Australia is expected to increase over the next four years, with imported product the main source of supply. The increased production expected from aquaculture will require increased investment which should provide opportunities for investors to participate in the seafood sector. We expect generational change to be a key driver of corporate activity for businesses focusing on wild capture.





FRESH PRODUCE

Acquisitions announced

DATE	TARGET NAME	ACQUIRER	DEAL VALUE
14 Feb 16	Perth wholesale fruit & veg market (9%)	Rural Funds Group	\$5.3 million
24 Jun 16	Premier Fruits Group (merger)	La Manna Group (merger)	Undisclosed
2 Aug 16	Calypso Mangoes – distribution rights	OneHarvest	Undisclosed
8 Sep 16	Perfection Fresh (table grape business)	Fruit Master (merger)	Undisclosed
23 Sep 16	Oakville Produce	Mitolo Group	Undisclosed
5 Dec 16	Avocado Ridge orchards and packing operations	Costa Group	~\$50 million

Premier Fruits Group and New Zealand-owned La Manna Group announced a merger of equals in late June after a 10-year joint venture relationship. The combined entity has revenue of \$500 million, is the second largest fruit and vegetable supplier in Australia after Costa Group and will focus on enhancing its export strategy.

Perfection Fresh and Fruit Master, announced the merger of their table grape businesses in September 2016. 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 largest supplier of potatoes to Woolworths, entered receivership in May 2016, with Commonwealth Bank of Australia a substantial lender to Oakville Produce.

Costa Group has acquired the Avocado Ridge orchards and packing operations in central Queensland from the Carney family. The transaction is a joint venture between Costa Group and Macquarie Agricultural Funds Management whereby MAFM will purchase the farms and Costa Group will operate the farms under a 20-year lease. The transaction increases Costa Group's avocado plantings to 400 hectares.

Listings on the ASX

DATE	ENTITY NAME	CAPITAL RAISED	ISSUE PRICE	30 DEC 16 PRICE
26 Apr 16	Abundant Produce	A\$3.5 million	\$0.20	\$0.66

Abundant Produce a company that developed agriculture intellectual property, listed on the ASX in April 2016. Abundant Produce develops seeds that grow under non-ideal conditions such as poor soil, water scarcity and temperature extremes that can occur outside of modern greenhouses. The development work is done jointly with the University of Sydney's Plant Breeding Institute. Products are developed for the Middle East and Asian markets.



HEALTH & NATURAL

Acquisitions announced

DATE	TARGET NAME	ACQUIRER	DEAL VALUE
7 Jul 16	50% of Western Honey Supplies	Capilano Honey	\$2.5 million
29 Jul 16	Capilano's Manuka beekeeping assets	Joint Venture with Comvita	\$9.2 million
5 Sep 16	Shenzhen Comvita Natural Food Co	Joint Venture with Comvita	NZ\$30 million
28 Sep 16	Power Super Foods	Validity Brands Worldwide	Undisclosed

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

Comvita acquired 51% of its Chinese distributor for NZ\$30 million in an all-stock deal. Shenzhen Comvita Natural Food Co (SCNF) has a sales and distribution network in China of over 400 Comvita branded department store kiosks and 35 branded Comvita stores. As a result of the transaction SCNF increased its holding in Comvita from 5% to more than 11%.

Listings on the ASX

DATE	ENTITY NAME	CAPITAL RAISED	ISSUE PRICE	30 DEC 16 PRICE
16 Dec 16	Murray River Organics	\$35 million	\$1.30	\$1.19

Organic dried fruit company Murray River Organics listed on the ASX in December 2016. Murray River Organics is a producer and marketer of organic dried fruit including sultanas, raisins and currants. Natural and organic product is one of the current growth themes in the food industry. Murray River Organics is positioned to benefit from the increased demand for organic products both in domestic and global markets.

Capital raised by ASX listed companies

DATE	ENTITY NAME	CAPITAL RAISED	ISSUE PRICE	PURPOSE OF CAPITAL RAISE
25 May 16	Capilano Honey	A\$16.8 million	\$19.50	To fund acquisitions, NPD & export market expansion





PROCESSED / PACKAGED FOODS

SNACKING, BISCUITS & CONFECTIONERY

Acquisitions announced

DATE	TARGET NAME	ACQUIRER	DEAL VALUE
13 Jan 16	Koko Black	Simon Crowe	Undisclosed
17 Aug 16	Snack Brands Australia	Universal Robina Corp	\$600 million
23 Sep 16	Modern Baking	Unknown	Unknown
11 Dec 2016	Green's Foods (43.5%)	Raphael Geminder	\$24 million

The standout transaction in 2016 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.

Raphael Geminder, chairman of Pact Group, acquired CVC's 43.5% shareholding in Green's Foods for approximately \$24 million. The acquisition resulted in Geminder becoming the controlling shareholder of Green's Foods.

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

Yowie Group is a marketer and distributor of a character-moulded, children's chocolate product in the USA. The proceeds from the \$32 million capital raise is being used to fund the rollout of Yowie's products in the USA, with a focus on distribution through Walmart.





BAKED GOODS & PREPARED MEALS

Acquisitions announced

DATE	TARGET NAME	ACQUIRER	DEAL VALUE
1 Jun 16	Patties Foods	Pacific Equity Partners	\$232 million
Nov 16	Temptation Bakeries	Private investors	Undisclosed
30 Nov 16	Leader Group	Patties Foods	Undisclosed

Pacific Equity Partners' acquisition of Patties Foods is the standout transaction in the baked goods sector. Since exiting the frozen berry business in 2015, Patties Foods has focused on its core capability in the frozen savoury category. PEP's offer of \$232 million for Patties Foods (priced at 9.5x FY15 underlying EBITDA) was accepted by the Patties shareholders and the company was delisted from the ASX.

Following the acquisition by PEP, Patties Foods announced in November 2016 that it had acquired New Zealand-based frozen convenience food manufacturer, Leader Foods. Leader Foods was started in 1998 and exports to Australia and Asia. The product range includes meatballs, burger patties, toppas, finger foods and meal solutions. The acquisition positions Patties as a frozen food group with a footprint across Australia and New Zealand, with the ability to expand into Asia. PEP is expected to exit the Patties Foods investment over the next 2 to 4 years via trade sale or IPO.

PEP is an active investor in the food and beverage industry in Australia and New Zealand. Recent additions to the PEP portfolio include food assets such as Manuka Health and Pinnacle Bakery & Integrated Ingredients.

Temptation Bakeries, a manufacturer of baked products including pies, quiches and pastries was sold to private investors in November 2016. Comet Line Consulting acted as the financial advisor to Temptation Bakeries.

Outlook for the baked goods and prepared meals sectors

The baked goods and prepared meals sectors are highly fragmented with many smaller participants. Capacity utilisation is an important determinant of success in both sectors. We have received anecdotal evidence of surplus capacity in certain segments of both sectors. Our expectation is that larger industry participants will drive corporate activity to increase throughput and fully utilise capacity. Generational change is also viewed as a driver of corporate activity in the baked goods and prepared meals sectors.

“The baked goods and prepared meals sectors are highly fragmented with many smaller participants”





PACKAGED FOODS

Acquisitions announced

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
11 May 16	Kialla Pure Foods	Blue Sky Investments	30% for \$12 million
24 May 16	Shima Wasabi	Tasfoods	\$2.75 million
22 Jul 16	"Chicken Tonight", "Raguletto" and "Five Brothers" sauce brands	Simplot	Undisclosed
3 Oct 16	Fehlsbergs Fine Foods	Riviana Foods	Undisclosed
5 Oct 16	Buderim Ginger – 23% of equity	Asia Mark Development & Wattle Hill RHC Fund 1	\$26.1 million
6 Oct 16	Hillcrest Litigation Services / Bubs Australia	Infant Food Holding Company	\$16.4 million

The standout transaction in the packaged foods sector was the acquisition of Botanical Food Company by McCormick & Co 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 on a transaction multiple of 12x EBITDA and 2.1x revenue. McCormick plans to expand the Gourmet Garden brand through McCormick's global distribution network.

Primary Opinion acquired 48% of Maggie Beer Products for a consideration of \$15 million. Primary Opinion acquired the stake in Maggie Beer Products on an 1.5x annualised revenue multiple and a 12.3x EBITDA multiple. The transaction represents a shift in focus for Primary Opinion to the food and beverage industry with a focus on health and premium foods.

In October 2015, Asia Mark Development and Wattle Hill, acquired a 23% shareholding in ASX listed Buderim Ginger for \$26 million through a share issue. Buderim Ginger will use the proceeds from the share issue to reduce bank debt and fund the expansion of core business segments.

Wattle Hill is also an investor in Bubs Australia, an organic infant formula company. Bubs Australia acquired Infant Food Holding Company for \$16.4 million in October 2016. Bubs Australia (formerly Hillcrest Litigation Service) commenced trading on the ASX on 3 January 2017 after completing a \$5.2 million capital raise.





OTHER FOOD AND BEVERAGE

NON-ALCOHOLIC BEVERAGES

Acquisitions announced

DATE	TARGET NAME	ACQUIRER	DEAL VALUE
8 Apr 16	Aqua Essence	Beston Food Group	51% for \$875k
8 Aug 16	Roxdale Foods & bioactive IP	Gravity Solutions Global	\$2.9 million

Listing on the ASX

DATE	ENTITY NAME	CAPITAL RAISED	ISSUE PRICE	PRICE 31/12/16
12 Feb 16	The Food Revolution Group	A\$12 million	\$0.10	\$0.079

The Food Revolution Group listed on the ASX on 12 February 2016 after completing a reverse takeover of Crest Minerals. Food Revolution Group owns Langtech International, a food processing company located in Victoria and New Zealand. The business manufactures fruit juices, fibers and infused fruits. Product is distributed under several brands including Juice Lab, a brand that is ranged across corporate retail.

In August 2016, The Food Revolution Group announced that it had sold its interests in Roxdale Foods and the bioactives IP assets for \$2.9 million.

Tianmei Beverage Group a supplier of premium bottled water in China indicated that that it may list on the ASX in 2017. Tianmei's product is distributed through 941 supermarkets and retailers in China's Guangdong province.

PET FOOD & ACCESSORIES

Acquisitions announced

DATE	TARGET NAME	ACQUIRER	DEAL VALUE
5 May 16	Animal Supplies Wholesale	Petbarn	Undisclosed

Real Pet Food Company is an active acquirer and acquired Billy & Margot (a UK pet business) to increase its overseas footprint.





VITAMINS, SUPPLEMENTS & NUTRACEUTICALS

Acquisitions announced

DATE	TARGET NAME	ACQUIRER	DEAL VALUE
6 May 16	Global Therapeutics	Blackmores	\$23 million
3 Aug 16	Mr Vitamins	Consortium of investors	Undisclosed
4 Aug 16	Vitaco Holdings	Shanghai Pharmaceutical	\$314 million
5 Sep 16	Australian Pharmaceutical Manufacturers	Pact Group	\$90 million
6 Oct 16	New Hope Group	Australian NaturalCare	Undisclosed
15 Dec 16	Swisse Wellness (remaining 17%)	Biostime International	\$311 million

The vitamins, supplements and nutraceuticals sector has seen a flurry of corporate activity over the past two years. Blackmores acquired Global Therapeutics, a leading provider of Chinese herbal medicine formulations for \$23 million. The acquisition was priced at 7.7x 2016 EBITDA and 1.15x revenue.

Shanghai Pharmaceutical and Primavera Capital's acquisition of Vitaco Holdings is the standout transaction in 2016 for the sector. Vitaco Holdings listed on the ASX in September 2015 following a sell down by private equity firm Next Capital. The offer from Shanghai Pharma and Primavera placed a value of \$314 million on the equity of Vitaco, implying a 14.7x forecast EBITDA acquisition multiple.

Mr Vitamins, a specialist Sydney based vitamins and health foods retailer was sold to a consortium of investors which include Brett Blundy, Trent Peterson (former managing director of Catalyst Investment Managers) and Josh McKean (formerly with Ironbridge).

In September 2016 Pact Group announced the acquisition of Australian Pharmaceutical Manufacturers for \$90 million. The acquisition was priced at 6.5x 2016 EBITDA. Australian Pharmaceutical Manufacturers is one of the largest providers of manufacturing and packaging services for nutraceuticals in Australia.

In December 2016 Biostime International acquired full ownership of Swisse Wellness when it bought the remaining 17% of Swisse Wellness from a consortium of investors that included the CEO of Swisse Wellness, Radek Sali.

Outlook for the vitamins, supplements and nutraceuticals sector

The demand from China for "clean and green" brands has driven the strong performance of the vitamins, supplements and nutraceuticals sector. The sector experienced a slowdown in mid-2016 due to changes in cross-border e-commerce regulations in China. The situation stabilised at the end of 2016 with a recovery in demand for product.

Demand from China is an important factor in the performance of the sector and will ultimately determine the performance of several Australian brands that rely heavily on demand from China.



FOODSERVICE DISTRIBUTION

Acquisitions announced

DATE	TARGET NAME	ACQUIRER	DEAL VALUE
6 May 16	Allclypt	Superior Food Services	Undisclosed
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 Sep 16	Central Choice Foods	Bidvest Australia	Undisclosed
5 Oct 16	Mastercut Meats	Bidvest Australia	Undisclosed
5 Oct 16	Pye Proveedores	Bidvest Australia	Undisclosed
9 Nov 16	Superior Food Services	Sealanes	Undisclosed

The foodservice distribution sector witnessed high levels of corporate activity in 2016. Notable transactions include the merger of CFA and Countrywide, the acquisition of Hudson Pacific Corporation by Retail Food Group and the acquisition of Sealanes by Superior Food Services.

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.

Hudson Pacific Corporation was acquired by Retail Food Group in August 2016 for \$88 million. The acquisition provides RFG with access to the foodservice market coupled with vertical integration into a cheese processing and a bakery manufacturing asset. The transaction valued Hudson Pacific Corporation at 5.7x one-year forward EBITDA.

The acquisition of WA-based Sealanes by Superior Food Services from the Paino family is an important transaction in the foodservice distribution sector. The acquisition represents a push into the WA market for Superior Food Services, which was acquired by Quadrant Private Equity in 2015. Superior Food Services also acquired Allclypt earlier in 2016 providing Superior with a distribution footprint in South Australia.

Outlook for the foodservice distribution sector

Distribution to the foodservice sector is becoming increasingly important for food manufacturers as they explore distribution options outside the corporate retail channel. The foodservice distribution sector remains fragmented outside of Bidvest and PFD. The fragmented nature of the sector has attracted attention from parties looking to improve their position through consolidation initiatives. The acquisitions of Superior Foods and Sealanes by Quadrant Private Equity and Hudson Pacific by RFG in 2016 may signal the start of the long-awaited consolidation of the foodservice distribution sector.

DRIVERS OF CORPORATE ACTIVITY IN 2017

We have identified several strategic factors that will drive corporate activity in 2017.

Financial and operational

Financial and operational performance that result in a negative outlook for a business and cause business owners to consider a divestment, disposal or capital raise. The two developments listed below are expected to result in a larger than normal impact on the outlook of businesses:

- Access to distribution channels and specifically the current SKU rationalisation initiatives being rolled out in the corporate retail channel; and
- Volatility in input prices and the exchange rate increasing the cost base with limited ability to pass through cost increases to retailers and consumers.

Strategic considerations

Includes strategic positioning and capabilities that make a business attractive as an acquisition target to a potential acquirer. The top strategic considerations for 2017 are:

- Businesses with surplus production capacity and desired manufacturing capabilities, especially relevant for overseas acquirers looking to enter the domestic market;
- Brands that provide access to desired distribution channels. Brands of food products that can be grown and distributed in overseas markets will also be viewed as attractive; and
- Distribution networks that provide potential acquirers with access to a market not currently serviced by the potential acquirer.

Stakeholder objectives

Includes business owner objectives on exit from a business such as retirement and management of a portfolio of assets.



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 25 years corporate advisory experience and has advised on a variety of transactions including acquisitions, disposals and capital raisings. Ben has held senior corporate advisory roles with KPMG Corporate Finance, Challenger and PSG Group where he advised on several high-profile transactions.

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