



FOOD & BEVERAGE INDUSTRY

REVIEW OF CORPORATE ACTIVITY

Mergers & Acquisitions Q3 2021

Welcome to the Comet Line quarterly newsletter, where we review corporate activity in the third quarter of 2021.

20 transactions were announced in the quarter. The standout transactions in the quarter are listed below:

- the acquisition by Intersnack of full control of Universal Robina Oceania by acquiring the remaining 60% of the company; and
- Lion's acquisition of Fermentum Group, which includes the Stone & Wood craft beer brand.

We also review the 2019-20 economic data for the food and non-alcoholic beverage industry that was recently released by the Australian Bureau of Statistics. The 2019-20 economic data includes the impact of the first 4 months of the COVID-19 pandemic.

The food and beverage industry grew sales income by 4.3% in 2019-20 to \$103.6 billion. Sales income delivered compound annual growth (CAGR) of 3.9% over the 3-year period to 2019-20.

The industry reported strong profitability with EBITDA increasing by 16% in 2019-20. EBITDA increased by 10.6% CAGR over the 3-year period to 2019-20.

The 2019-20 EBITDA included increased government support payments (JobKeeper, etc.), which boosted the 2019-20 performance. The 2019-20 EBITDA/sales ratio amounted to 8.3%, an increase from the 2018-19 EBITDA ratio of 7.5%. If the above average government support payments are normalised to the 2018-19 level, then EBITDA/sales ratio is recalculated as 7.9%.

The 2019-20 economic data paints a rosy picture for the food and beverage manufacturing industry. The economic data is not split between the different channels (retail, foodservice and export). The COVID-19 lockdown and trading restrictions in the last 4 months of 2019-20 negatively impacted suppliers to the foodservice channel, while suppliers to the larger retail channel on the whole benefited from the lockdown and trading restrictions. The differential impact of the restrictions on the channels are not reflected in the industry-wide economic data.



Acquisitions announced

Date	Target Name	Acquirer	Sector
2 July 2021	Hardwick's Meats	Kilcoy Global Foods	Meat processing
5 July 2021	Lyka (\$6.5m capital raise)	Shearwater and Wattle Hill	Petfood
13 July 2021	Harvest B (\$3.5m seed funding)	Woolworths and Aura Ventures	Plant-based foods
13 July 2021	Youfoodz	HelloFresh	Ready-made meals
23 July 2021	Fruit Master Australia	Perfection Fresh	Fresh produce
27 July 2021	Nepean River Dairy	Nature One	Dairy
28 July 2021	Cameron of Tasmania	Yumbah Aquaculture	Seafood
30 July 2021	Universal Robina Oceania (60%)	Intersnack	Snacking and biscuits
23 July 2021	Comfresh Group (20% acquisition)	Far East Group	Fresh produce
29 July 2021	Foodbomb (\$4.5m capital raise)	Various investors	Foodservice distribution
1 August 2021	DrinkScene	Aaron Zerefos Enterprises	Beverage distribution
8 August 2021	Ordermentum (minority disposal)	Various investors	Foodservice distribution
8 August 2021	Huon Aquaculture	JBS Foods	Seafood
17 August 2021	Fable Foods (\$6.5m capital raise)	Various investors	Plant-based meat
24 August 2021	Sara Lee	South Island Office	Bakery
30 August 2021	Lucky and Sunsol brands	Prolife	Snacking
30 August 2021	Boujee Wine	80 Proof Liquor	Alcoholic Beverages
9 September 2021	Fermentum Group	Lion	Alcoholic Beverages
15 September 2021	Blue Dinosaur	Forbidden Foods	Healthy snacking
24 September 2021	Seven Miles Coffee Roasters	Liverpool Partners	Coffee

Kilcoy Global Foods acquired Victorian beef and lamb processor, Hardwicks Meats. Post acquisition, Hardwicks will continue to trade as a separate brand and will operate as a division of Kilcoy Global Foods.

HelloFresh submitted a \$125 million offer (93 cents per share) to acquire ASX-listed meal manufacturer, Youfoodz. The offer is subject to Youfoodz shareholder approval with the scheme meeting scheduled for 8 October 2021. Youfoodz listed on the ASX in December 2020 and shares were issued at \$1.50 per share during the IPO.

Perfection Fresh acquired full ownership of Fruit Master Australia. Perfection Fresh obtained a shareholding in Fruit Master Australia in 2016, when the companies merged their table grape businesses. The acquisition enables Perfection Fresh to expand its presence and capability in export markets.

Nature One acquired Nepean River Dairy for \$36.5 million. Nepean River Dairy sells a range of milk products including cows milk, flavoured milk and long-life milk. The manufacturing capabilities and product portfolio of Nepean River Dairy will be merged under the Nature One Dairy brand.



Germany-based Intersnack acquired full control of Universal Robina Oceania by acquiring the remaining 60% shareholding. Universal Robina Oceania operates through Snack Brands Australia and Griffin's Foods (New Zealand).

Far East Group, a diversified Singapore-based group, subscribed for a 20% shareholding in Comfresh Group for a consideration of \$7.3 million. Comfresh is an Adelaide-based grower and distributor of fresh produce to wholesalers, retailers and supermarkets. Comfresh's application to build three glasshouses at an estimated cost of \$58.5 million was approved by the South Australian government in June 2021.

Sydney-based Foodbomb, a fresh produce wholesale marketplace, raised \$4.5 million in a series A capital raise. The \$4.5 million capital raised will fund Foodbomb's existing operations in NSW and Victoria and an expansion of operations to Brisbane. The Foodbomb platform enables hospitality outlets to order fresh produce at bulk buying prices.

Ordermentum announced the sale of a minority shareholding, held by RoZetta, to a group of new investors. The sell-down of the RoZetta shareholding made up the bulk of a \$6 million secondary funding round for Ordermentum.

JBS Foods agreed a takeover deal with the major shareholders of Huon Aquaculture to acquire the ASX-listed salmon farmer. The deal values Huon Aquaculture at \$546 million. Other participants in the sale process included Tattarang and Cooke Aquaculture. The takeover offer for Huan Aquaculture is subject to FIRB approval.

South Island Office, a Christchurch-based investor group, acquired the Sara Lee brand and business from McCain Foods. South Island Office's first investment was Original Foods Baking Co, a manufacturer of sweet baked goods, which it acquired in 2019. The acquisition of Sara Lee may create opportunities to sell Original Foods branded product to stockists of Sara Lee product in Australia.

Fable Foods, a plant-based meat company that uses shitake mushroom stems as a base ingredient, raised \$6.5 million in seed funding from investors. The funding round was led by Blackbird Ventures. The \$6.5 million capital raised will be used to fund R&D and to expand manufacturing capabilities.

Fermentum Group, owner of the popular craft beer brand, Stone & Wood, was acquired by Lion. The value of the acquisition was not disclosed and media reports estimated the transaction to be valued at \$300 million. Fermentum Group's product portfolio includes Sunly Seltzer, Two Birds, Fixation and Little Dragon. As part of the transaction Lion plans to build on Fermentum's existing Stone & Wood brand and the legacy created by the company's founders.

ASX-listed Forbidden Foods acquired snack bar company, Blue Dinosaur for an upfront consideration of \$3.2 million and an earnout consideration of \$0.8 million.

Listings on the ASX

Olive Oil producer Cobram Estate listed on the ASX on 11 August 2021. Cobram Estate did not raise any capital as part of the listing process and had a market capitalisation of \$780 million on 30 September 2021.



Review of 2019-20 Economic Data

Comet Line has reviewed the Australian Bureau of Statistics' economic data for 2019-20 financial year. This information was released in the second quarter of 2021. The economic data provides interesting insights into the historical performance and state of the food and non-alcoholic beverage manufacturing industry.

Growth in Sales Income by Product Category

The food manufacturing industry continued its growth trajectory in 2019-20 with a 4.3% increase in sales income in the year to 30 June 2020. The standout performance was the meat manufacturing category which grew by 7% in 2019-20. Meat manufacturing accounted for 31% of food manufacturing sales income. Meat processing (65% of the meat manufacturing category) grew sales income by 6% and small goods grew sales income by 16% in 2019-20.

Excluding the meat category, sales income for the remaining categories grew by 3.2% in 2019-20 (3.4% over a 3-year period). Fruit and vegetable processing grew by 10% in 2019-20, the fastest annual growth rate in the food manufacturing industry.

Sales income by product category (A\$'million)



(Source: Australian Bureau of Statistics)

Annual growth in sales income by category

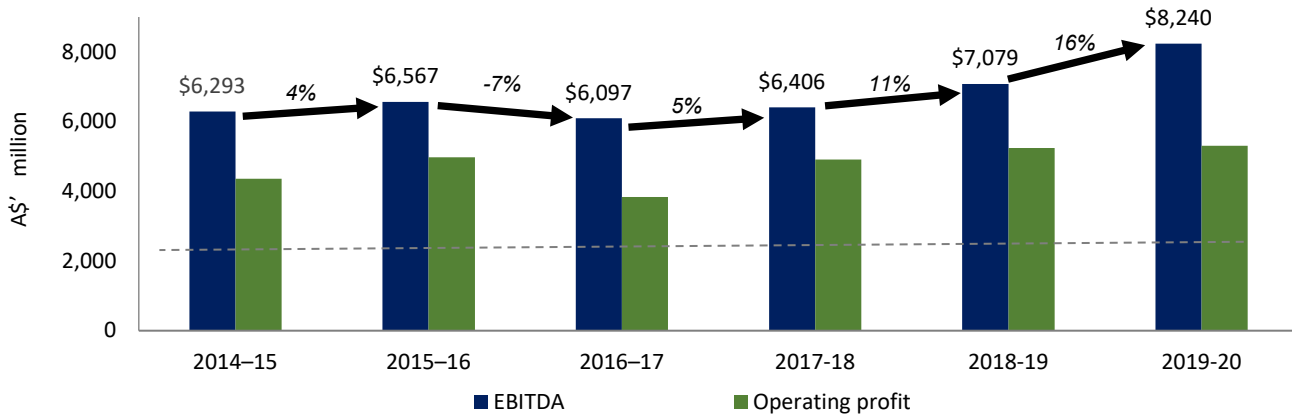
Category	3 years	2 years	1 year
Meat product manufacturing	5%	6%	7%
Dairy product manufacturing	4%	3%	4%
Other food manufacturing	9%	8%	7%
Sugar and confectionery	-1%	3%	2%
Bakery manufacturing	2%	1%	2%
Soft drinks and cordials	-3%	0%	1%
Grain mill and cereal	2%	0%	-6%
Fruit and veg processing	4%	6%	10%
Oil and fat manufacturing	5%	5%	2%
Seafood processing	0%	-1%	-2%



Profitability of the food and beverage manufacturing industry

Financial performance of businesses in the food and beverage industry continued to improve in 2019-20 with a 16% increase in EBITDA. Operating profit before tax grew by 1% in 2020, compared to a 7% increase in the 2019 year.

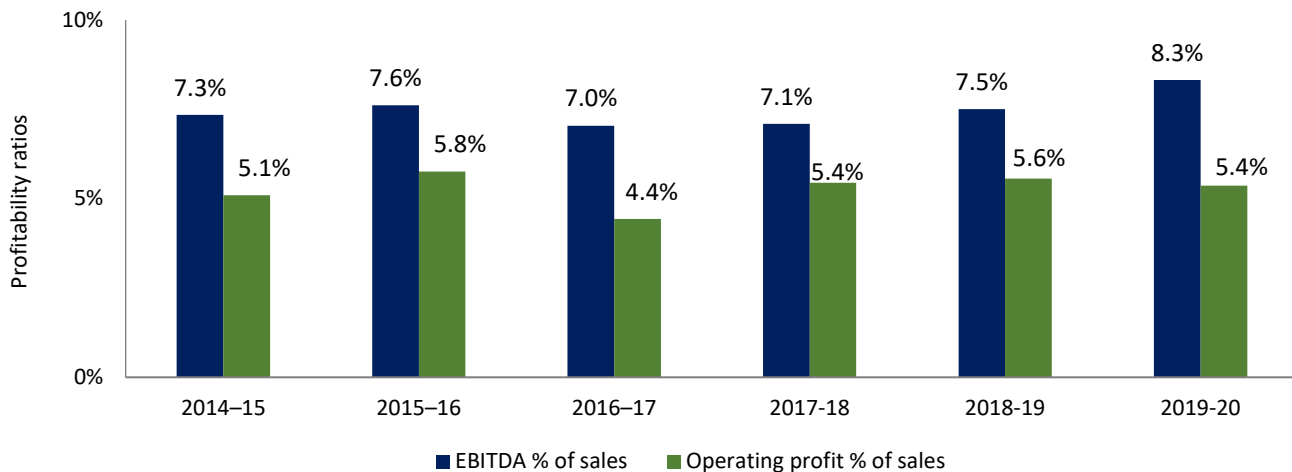
Financial performance



EBITDA increased from \$7.1 billion (2018-19) to \$8.2 billion (2019-20), a 16.4% increase. The compound annual growth rates in EBITDA over 2 years and 3 years to 2019-20 are 13.4% and 10.6% respectively.

The EBITDA growth in 2019-20 was supported by an increase in government funding support. Government funding support in 2019-20 was \$577 million up from \$69 million in 2018-19. If government funding support in 2019-20 is normalised to the 2018-19 level, then 2019-20 EBITDA is reduced to \$7.7 billion, a 9% increase on the 2018-19 EBITDA.

Key profitability ratios

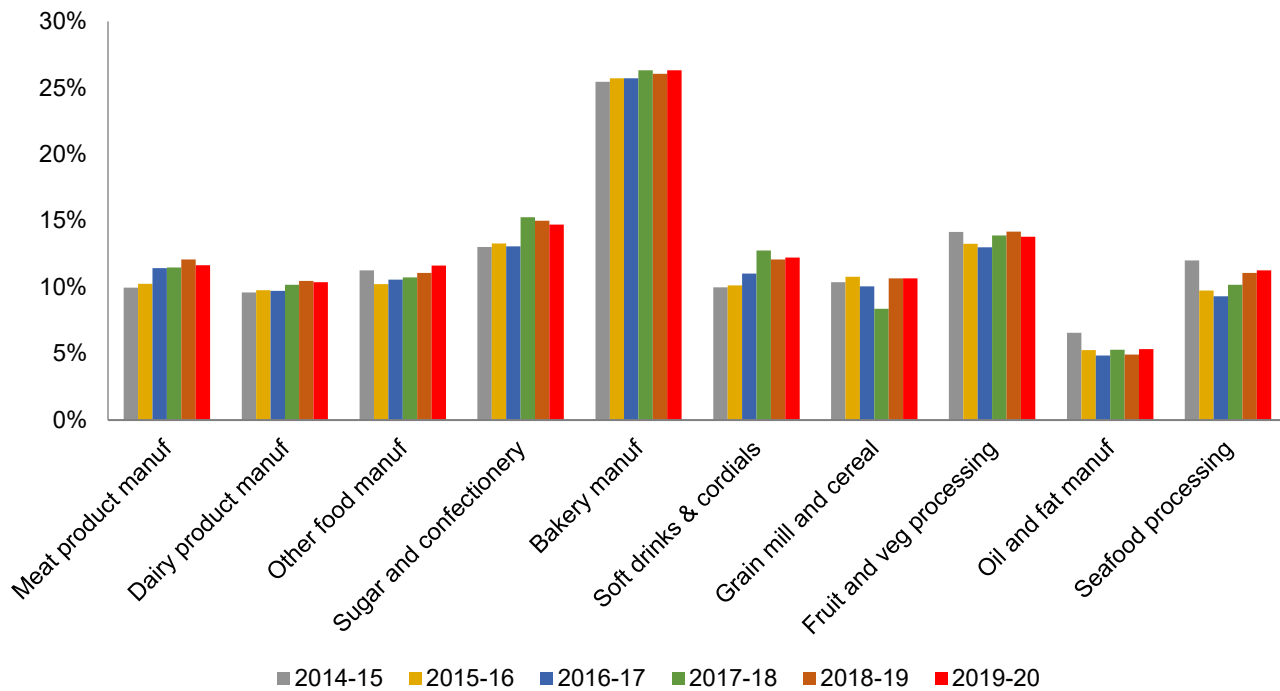


EBITDA as a percentage of sales income increased from 7.5% (2018-19) to 8.3% (2019-20). Operating profit before tax as a percentage of sales income decreased slightly from 5.6% (2018-19) to 5.4% in 2019-20.



Labour

Labour costs as % of sales income



Labour costs for the food manufacturing industry increased by 4.6% in 2019-20. The number of staff employed in the food and beverage industry decreased by 1% and the average labour cost per employee increased by 4.8% in 2019-20.

Labour costs as a percentage of sales income is the highest for the bakery category with 26% of sales income applied to pay salaries and wages. The bakery category is highly fragmented and employs the highest number of staff. In 2019-20 the bakery industry employed 29% of all staff employed in the food and beverage industry but incurred only 18% of industry labour costs. The bakery category and the meat manufacturing category jointly employ 57% of all staff in the food and beverage industry and account for 46% of the industry labour costs.

The bakery category has the lowest average labour cost per employee (~\$36,700).

Comet Line Consulting is a strategic advisory business that specialises in acquisitions and divestments within the Australian and New Zealand 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.



David Baveystock has worked in the Australian food and beverage industry for over 25 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 with a collective value in excess of \$2 billion. Ben has advised on acquisitions, disposals and capital raisings in both Australia and South Africa. Ben has held senior corporate advisory roles with KPMG Corporate Finance, Challenger and PSG Group where he advised on several high-profile transactions.



Lindsay Cunningham has worked in the Australian and international food industry for over 35 years, with executive roles at Givaudan, Arnott's, Uni Chef and I&J Foods. After a corporate career, Lindsay has directly provided strategic consulting services to a range of clients including Allied Mills, Arnott's, Nestle, Fonterra, Goodman Fielder International, Lindt and the Sydney Fish Market.

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