TULLY & HOLLAND "HEALTHY" FOOD & BEVERAGE UPDATE

January 2018

CURRENTLY, THE M&A MARKET VALUES THE "HEALTHY" SEGMENT VERY DIFFERENTLY FROM THE PUBLIC AND PRIVATE FINANCING MARKETS

TULLY & HOLLAND
INCORPORATED

"Healthy" Food and Beverage
Have M&A Valuations Peaked?

EXECUTIVE SUMMARY

The "Healthy" Food and Beverage ("F&B") industry segment has become a distinct category within the broader food and beverage universe and is one of Tully & Holland's ("T&H") key focus areas. Our interest and client advisory experience extends to every part of the supply chain - from farming to retail distribution. We have also worked closely with both branded and private label food and beverage businesses.

T&H has chosen to look at this segment with a separate lens from the overall food and beverage sector because there are unique valuation trends developing, notably;

- "Healthy" F&B companies are trading at significantly higher valuations in the M&A market than more mainstream F&B companies – particularly with deals at $100mm and below. The F&B sector as a whole also commands a premium versus the Overall M&A Market index in most size categories (see page 3).
- The private financing markets have been an important and reliable source of capital for both "Healthy" F&B companies and F&B companies in general (see pages 4-5).
- Despite the growth prospects, "Healthy" F&B companies do not enjoy the same premium valuations in the public equity markets versus the overall market and the F&B sector as a whole as investors are discounting "Healthy" F&B for lack of scale, earnings stability and product mix (see pages 6-8).

From our analysis and experience, a business owner's decision to sell is a function of personal timing, reaching a certain scale to appeal to a suitor and meeting an acceptable valuation target. Increasingly, food & beverage conglomerates faced with margin pressure and eroding market share from smaller brands focused on healthy food and beverage are prepared to consider acquiring smaller businesses that fit a strategic growth initiative. There is also a large universe of financial buyers interested in this market area. As a result of these trends, many owners are now considering a sale sooner than in years past.

We expect a continued pick-up in deal activity as the U.S. economic environment remains buoyant, and strategic buyers and financial buyers continue to look for attractive new brands. The recent passage of the U.S. tax legislation should be another catalyst that encourages owners to consider moving forward with a sale process.

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Comparing "Healthy" Food & Beverage and Mainstream Food & Beverage

In order to select "healthy" companies within the overall F&B sector, we identified companies that have a focus on healthy products. These companies come in all shapes and sizes and include companies with a focus on organic products or on a single product that targets healthy consumption. These companies tend to be smaller in scale as most large-scale companies diversify their product offering. In this report, Tully & Holland takes a look at trends in M&A, Private Financing and Public Equity markets in relation to the valuations of "Healthy" F&B companies versus broader sector and market benchmarks. "Healthy" F&B companies were screened for key words in the description of their business operations that differentiate them from Mainstream F&B sector companies.

➢ M&A Trends

Over the last 5 years, there have been 1,566 total M&A deals in the overall F&B sector with 261 (17%) qualifying as a target that has the characteristics of a "Healthy" F&B company. Deal flow has remained stable throughout this time period. T&H has analyzed M&A activity in the overall F&B sector and compared "Healthy" F&B to Mainstream F&B (which excludes the "healthy" sector).

The biggest difference between the overall sector and the "healthy" segment over the last 5 years has been the size of the deals. The median deal size for the mainstream sector has been just $21 million, while the median size deal for the "healthy" segment has been 4x larger at $84 million. These trends are similar when we looked at a more recent timeframe. At the same time, the average revenues for businesses sold are similar in the "healthy" segment ($33mm) and in the mainstream segment ($38mm). This illustrates that buyers are willing to pay more for growth potential in the "healthy" segment.

Strategic buyers represent an 81% share of the M&A activity over the last 5 years in the "Healthy" F&B space as they are under pressure to fill gaps in their product portfolio. Increasingly, strategic buyers are favoring acquisitions over growing businesses organically. These buyers are also becoming more flexible with their size parameters and are often willing and able to pay more for an asset than many financial buyers would consider paying. Over the last five years, the median deal size for "healthy" companies has more than tripled. In the last 18 months, more than 10% of deals for "healthy" companies exceeded $300 million in size while less than 3% of the mainstream universe was above $300mm.

Table 1 – Last 5 Years: Comparing Mainstream F&B to "Healthy" F&B

Overall F&B		Mainstream F&B		"Healthy" F&B	
# of Deals	**1,566**	**# of Deals**	**1,305**	**# of Deals**	**261**
# of Strategic Buyers	1,205	# of Strategic Buyers	992	# of Strategic Buyers	213
# of Financial Buyers	361	# of Financial Buyers	313	# of Financial Buyers	48
Average Deal Size ($mm)	$539	Average Deal Size ($mm)	$350	Average Deal Size ($mm)	$1,416
Median Deal Size ($mm)	$25	Median Deal Size ($mm)	$21	Median Deal Size ($mm)	$84
Average EV/REV	**1.7x**	**Average EV/REV**	**1.7x**	**Average EV/REV**	**1.8x**
Average EV/EBITDA	**12.8x**	**Average EV/EBITDA**	**11.6x**	**Average EV/EBITDA**	**14.5x**
Median Rev ($mm)	$36	Median Rev ($mm)	$38	Median Rev ($mm)	$33

Note: Data sourced from Capital IQ (Mainstream F&B equals Overall F&B minus "Healthy" F&B).

When comparing "Healthy" F&B companies to Mainstream F&B companies over the past 5 years in different size categories, the "healthy" sector enjoys significantly higher EV/ EBITDA valuations in every segment. From an EV/ Revenue perspective, the multiples are similar with the exception of smaller deals where the valuations for "Healthy" F&B are significantly higher in the $0mm to $100mm size range underscoring the value of being on-trend.

Table 2 – Valuation Comparison by Deal Size (Last 5 Years)

Deal Value ($mm)	Overall M&A Market*		Overall F&B		Mainstream F&B		"Healthy" F&B	
	EBITDA	REVENUE	EBITDA	REVENUE	EBITDA	REVENUE	EBITDA	REVENUE
$0-$100	9.2x	1.7x	7.4x	1.2x	5.2x	1.1x	9.7x	1.7x
$100-$300	10.7x	2.0x	11.8x	2.2x	11.1x	2.2x	16.3x	1.9x
$300-$1,000	11.3x	2.2x	13.1x	1.7x	11.6x	1.7x	13.8x	1.7x
>$1,000	13.1x	3.0x	14.3x	2.1x	12.9x	2.1x	17.9x	2.2x

Note: Data sourced from Capital IQ (Mainstream F&B equals Overall F&B minus "Healthy" F&B). Shows average valuation multiples.

- *The M&A multiples include all sectors for deals from North America (including Canada) and only include deals where valuation data is available. The multiples are TTM averages. Data as of 1/26/18.*

Overall, F&B businesses are valued on average slightly higher than Overall M&A Market index. The notable exception to this trend is deals below $100mm where both Overall F&B and Mainstream F&B businesses are valued significantly lower than the M&A Market Index which illuminates that significant variability in valuing F&B businesses that are not considered "on-trend." While most of these statistics may seem intuitive, a big gap has materialized between the M&A market valuations and public equity market valuations which is worth examining more closely (please see pages 6 to 8).

While not profiled in these charts, we have observed that the valuation differences in 2017 have compressed somewhat between the "healthy" sector and the "mainstream sector. At the same time, deal activity has increased markedly in the "healthy" sector suggesting that some of these businesses are more motivated to sell.

Private Financing Trends

There have been 1,330 private placement transactions over last five years in the Food & Beverage sector from Series-A financings to pre-IPO convertibles and PIPE transactions.

Table 3 – Annual Private Placement Analysis

	2013	2014	2015	2016	2017
Overall F&B Sector					
# of Placements	**220**	**267**	**264**	**278**	**309**
Average Capital Raise ($mm)	$4.0	$4.3	$4.4	$6.1	$9.1
Median Revenue ($mm)	$22.9	$12.5	$15.0	$13.2	$16.0
"Healthy" F&B					
# of Placements	**63**	**74**	**70**	**62**	**71**
Average Capital Raise ($mm)	$2.7	$2.5	$4.6	$4.9	$6.7
Median Revenue ($mm)	$20.7	$35.1	$31.9	$15.3	$27.2

Data Sourced from Capital IQ.

More than a quarter of overall F&B private placement activity has been in the "healthy" segment. In both the Overall F&B sector and in the "Healthy" F&B sector, there has been a steady increase in the average size of these financings. Average capital in a given year has risen from $4.0 to $9.1 million for the overall sector and from $2.7 to $6.7 for "healthy" sector. Median revenues for Company's involved in these financings have remained fairly flat across both sectors. This data coupled with the rising number of deals suggests that smaller companies are more actively seeking private financing. While we do not have great source valuation data to draw firm conclusions, T&H has observed rising valuations for "healthy" F&B companies" seeking private financing as the number of investors that are interested in investing in this sector is expanding. Meanwhile, valuations for more traditional F&B businesses have been mixed with no discernable trends.

Liquidity in the private market has primarily been sourced from VC funds focused on helping start-up businesses. In most years VC funds have participated in well over half of the transactions for both the overall sector and for "healthy" companies. PIPE transactions comprise a relatively small component of the "healthy" F&B private market and are a more traditional source of financing for larger more diversified F&B businesses. A large portion of these start-ups are "healthy" companies. There have also been a large number of VC financings in craft beer, juice companies, dairy, and coffee roasters. Even traditional tech-oriented venture firms have allocated capital to the makers of food and beverages. High-end technologies such as management of direct-to-consumer relationships, creation of an e-commerce brand to reach early customers, the use of big data analytics to develop flavors and proteins demanded by the customers, and implementation of artificial intelligence have been some major trends for VC financed food and beverage companies. Today, VC firms continue investing in the food and beverage space, seeking an opportunity to integrate those high-end technologies to grow the companies and generate superior returns in the future.

Table 4 – Sources of Liquidity

Overall F&B Sector	2013	2014	2015	2016	2017
Venture Capital	**128**	**161**	**142**	**169**	**192**
% of Transactions	58.2%	60.3%	53.8%	60.8%	62.1%
Growth Capital/Private Equity	**71**	**76**	**105**	**89**	**96**
% of Transactions	32.3%	28.5%	39.8%	32.0%	31.1%
PIPE	**21**	**30**	**17**	**20**	**21**
% of Transactions	9.5%	11.2%	6.4%	7.2%	6.8%
Healthy F&B	**2013**	**2014**	**2015**	**2016**	**2017**
Venture Capital	**38**	**42**	**37**	**35**	**43**
% of Transactions	60.3%	56.8%	52.9%	56.5%	60.6%
Growth Capital/Private Equity	**16**	**27**	**32**	**25**	**25**
% of Transactions	25.4%	36.5%	45.7%	40.3%	35.2%
PIPE	**9**	**5**	**1**	**2**	**3**
% of Transactions	14.3%	6.8%	1.4%	3.2%	4.2%

Note: Data Sourced from Capital IQ.

The most active participants in the private market are financial firms who seek start-ups or small businesses that they can help re-capitalize and grow. This investment channel is a riskier but potentially a more rewarding way for financial firms to participate in the upside of a business and secure more reasonable valuations. Many financial firms have found the need to seek smaller and earlier stage opportunities as well as be more flexible in terms of accepting minority investments in order to gain a foothold in this sector as justifying the lofty valuations of later stage opportunities is harder to stomach.

Larger strategic F&B companies are also embracing external start-ups through investment arms such as Tyson New Ventures (Tyson Foods), Acre Venture Partners (Campbell Soup), VEB (Coca-Cola), 301 Inc. (General Mills) and Eighteen94 Capital (Kellogg's) to name a few. As larger companies continue to lose market share in their traditional product categories, they are trying to get out in front of small and innovative food and beverage companies by making investments via these finance arms and increasingly seeking acquisitions at an earlier stage. Often, these businesses are being left fairly intact as consumers are more attracted to independent brands.

The vast majority of private financings in the F&B Sector and "Healthy" F&B space are equity deals with roughly a quarter of the deals structured as convertible securities.

Table 5 – Financing Transactions by Type

Overall F&B Sector	2013	2014	2015	2016	2017
Convertible Debt	52	63	66	57	69
Equity	167	202	198	216	234
Undisclosed	1	2	-	5	6
% Equity	**75.6%**	**75.4%**	**74.7%**	**77.4%**	**75.5%**
Healthy F&B	**2013**	**2014**	**2015**	**2016**	**2017**
Convertible Debt	16	23	17	11	12
Equity	47	50	53	51	59
Undisclosed	-	1	-	-	-
% Equity	**73.6%**	**66.7%**	**74.7%**	**81.0%**	**82.0%**

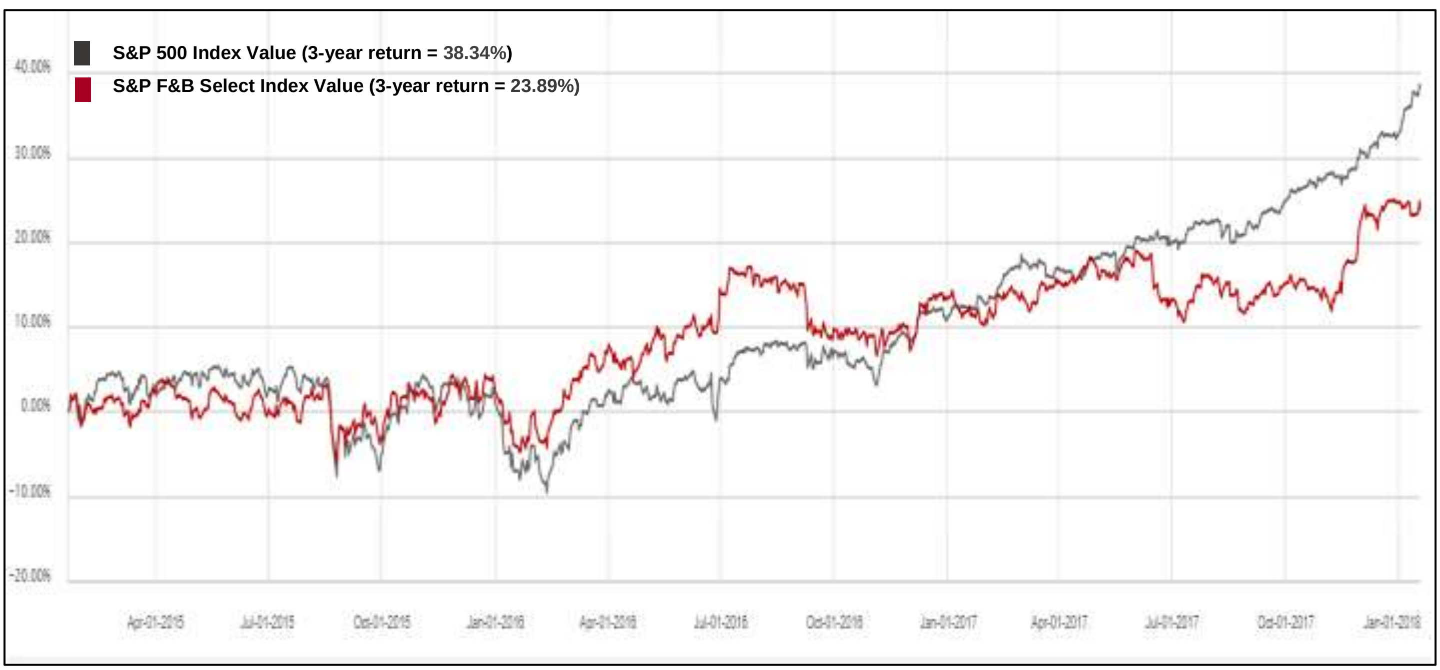
Note: Data Sourced from Capital IQ.

Public Equity Market Trends

The Standard & Poor's (S&P) F&B index has underperformed the S&P 500 index in the last several years as larger food companies have been losing market share to both upstart healthy food brands as well as to the grocery and retail chains such as Trader Joe's and Whole Foods that are increasingly promoting their own brands at the expense of the large branded food manufacturing businesses. We have seen countless examples of major food companies, such as Campbell Soup, Kraft Heinz among others, report weaker sales amidst erosion in their category sales and retailers carrying fewer of their products. The same trend holds true among large drinks manufacturers, large beer companies, and chain restaurants. Competition from "healthy" clean label products or what is deemed to be unique, trendy and better for you, and better tasting is outperforming.

The chart below shows the performance of S&P F&B Index versus the S&P 500 Index. After a strong performance in 2016, the F&B index has underperformed the overall market in public equities, and after a recent rally, still lags the overall market by a considerable margin (nearly a 15% lag in performance over the past 3 years). On the following pages, we will highlight how "Healthy" F&B has fared against this overall market backdrop.

Graph 1 – S&P 500 versus S&P Food and Beverage Select Index (3 Year Change)



Note: Data Sourced from Capital IQ.

In order to further analyze the valuations of "healthy" companies versus the broader F&B category, Tully & Holland created two indices of stocks - one for Mainstream F&B and one for "Healthy" F&B. The Mainstream Index was created with large, diversified food and beverage companies while the Healthy Index was a select group of public companies that, similar to the analysis of private placement and M&A transactions, describes their business operations that target a healthy diet. We have attempted to include a cross section of different types of businesses and have eliminated some companies that would have an outsized impact on their respective index (such as Coca Cola) or had significant market volatility due to issues with Company performance (such as Chipotle). Each index is market cap weighted.

One additional challenge in selecting companies for the "healthy" Index is that the companies that have differentiated themselves from the General F&B companies are still in a growth phase and are more volatile, whereas the companies in the Mainstream F&B index are more established, diversified, and relatively stable. One company that was considered for the "Healthy" Index was United Natural Foods, Inc. (Ticker: UNFI). In 2015, UNFI stock fell 55% from its high because its contract with Albertson's, which accounted for only 5% of its revenue, was not renewed. The stock sold-off despite the fact that in that year UNFI grew its earnings by 9.5%. An even more extreme example from the same year is from Hain Celestial, which has a large portfolio of natural and organic brands, saw a price decline of 31% in its stock price from its high because it snapped a 5-year streak of quarterly revenue growing double digits in Q4 2015 (it grew 9% for the quarter). Therefore, we have excluded larger companies that have exhibited this type of performance as it significantly skews the index. Nevertheless, it would be fair to conclude that we have under-represented some of the volatility that a "healthy" food company might face in the public equity markets. The components of each index are outlined below:

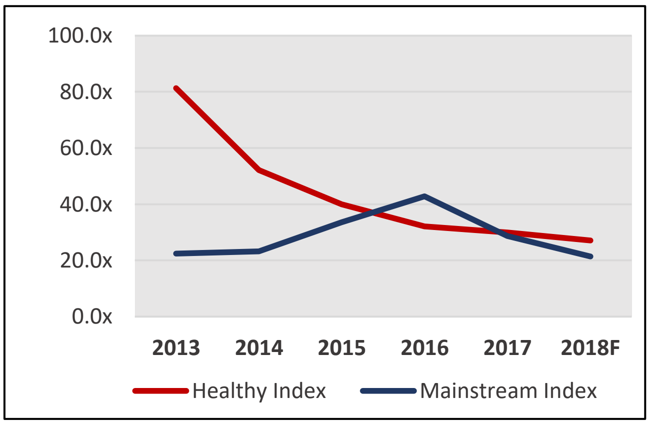
Table 6 – U.S. Public Company Indices

Healthy Index	Mainstream Index
Calavo Growers, Inc. (NasdaqGS:CVGW)	Brown-Forman Corporation (NYSE:BF.B)
Farmer Bros. Co. (NasdaqGS:FARM)	Campbell Soup Company (NYSE:CPB)
Fresh Del Monte Produce Inc. (NYSE:FDP)	Conagra Brands, Inc. (NYSE:CAG)
iFresh, Inc. (NasdaqCM:IFMK)	General Mills, Inc. (NYSE:GIS)
Lamb Weston Holdings, Inc. (NYSE:LW)	Hormel Foods Corporation (NYSE:HRL)
Lifeway Foods, Inc. (NasdaqGM:LWAY)	J&J Snack Foods Corp. (NasdaqGS:JJSF)
Maple Leaf Foods (TSX: MFI)	Kellogg Company (NYSE:K)
Natural Grocers by Vitamin Cottage, Inc. (NYSE:NGVC)	McCormick & Company, Incorporated (NYSE:MKC)
Omega Protein Corporation (NYSE:OME)	Mondelez International, Inc. (NasdaqGS:MDLZ)
Smart & Final Stores, Inc. (NYSE:SFS)	National Beverage Corp. (NasdaqGS:FIZZ)
Sprouts Farmers Market, Inc. (NasdaqGS:SFM)	PepsiCo, Inc. (NYSE:PEP)
SunOpta Inc. (TSX:SOY)	Pinnacle Foods Inc. (NYSE:PF)
The Simply Good Foods Company (NasdaqCM:SMPL)	The Hershey Company (NYSE:HSY)
Tofutti Brands, Inc. (OTCPK:TOFB)	The J. M. Smucker Company (NYSE:SJM)
	The Kraft Heinz Company (NasdaqGS:KHC)
	Tyson Foods, Inc. (NYSE:TSN)

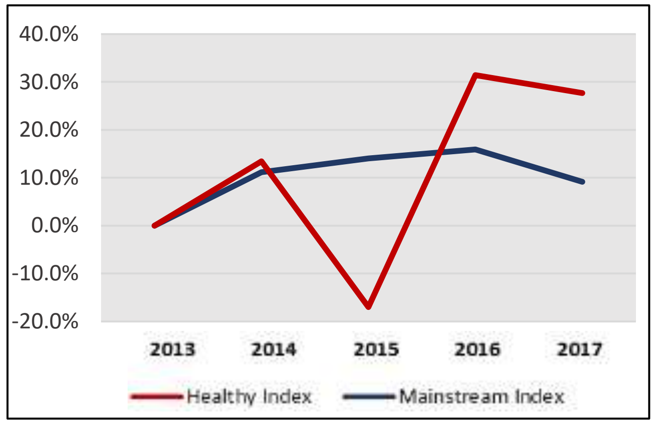
Note: Key identifiers for healthy companies are the use of "Healthy", "Organic" or "Non-GMO" in a description of their business operation.

Unlike the trends we have witnessed in the private markets, publicly traded “Healthy” Food & Beverage companies do not enjoy a valuation premium by investors despite their higher growth prospects. PE multiples for “Healthy” stocks have traded down from more than 80x in 2013 to closer to the F&B industry norm of 20x (see Graph 2 below). As one might expect, the “Healthy” F&B index is more volatile than the Mainstream F&B index (see Graph 3 below). The mature businesses in the Mainstream F&B Index tend to be more diversified and have greater earnings stability which is valued by investors.

Graph 2 – TTM Cap Weighted P/E Multiples



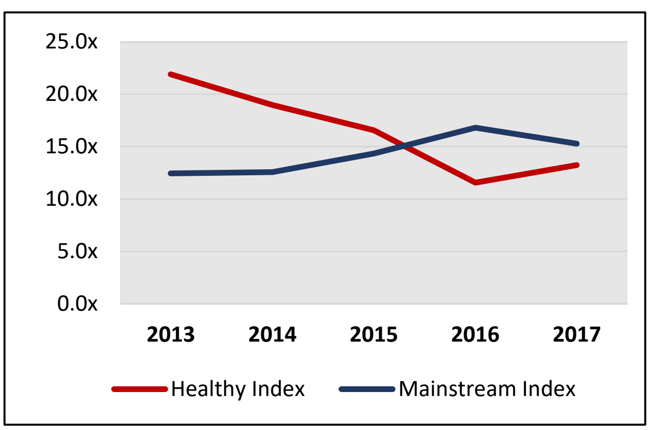
Graph 3 – YoY % Gains for Cap-Weighted Indices



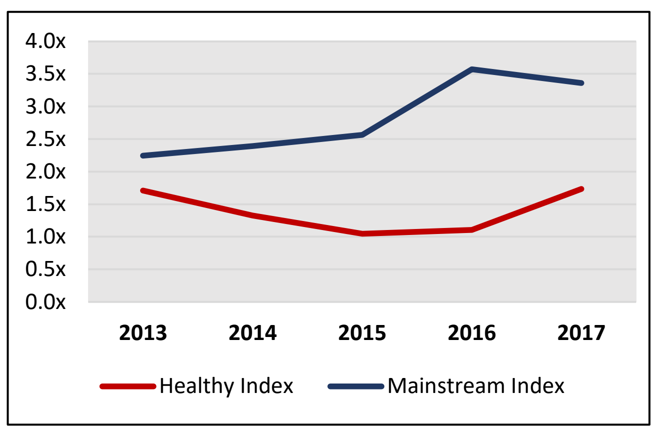
Note: Data Sourced from Capital IQ.

From a valuation perspective, EV/EBITDA multiples are similar in both indices at close to 15x (see Graph 4), however, revenue multiples (see Graph 5) for the Mainstream Index are significantly higher. This reflects the higher EBITDA margins of “healthy” F&B companies and underscores the point that the public markets are now valuing stability of earnings, size and scale over growth potential.

Graph 4 – EV/EBITDA Cap Weighted Multiples



Graph 5 – EV/Revenue Cap Weighted Multiples



Note: Data Sourced from Capital IQ.

CONCLUSIONS

As we profiled in our September 2017 F&B report, consumers armed with technology are more cost conscious but are also prepared to pay more for healthier, fresher, organic and locally produced items. "Healthy" F&B companies are benefiting from a strong economy and a desire for unique products or experiences. Large food companies, grocery chains and restaurants are modifying their operations or in many cases acquiring the competition in order to better meet these shifting consumer demands.

These profound shifts in consumer behavior have led to an increase in M&A activity across the entire F&B landscape as an increasing number of financial investors look to take advantage of these trends and strategic buyers see value in acquiring businesses that have gained traction with the consumer and possess above average growth potential. While technology has leveled the playing field for advertising and product promotion, greater customer awareness should ultimately benefit larger players that are able to adapt their products to consumer tastes while offering more competitive prices.

Tully & Holland believes that the elevated premiums that "Healthy" F&B companies are enjoying will continue to last for a while buoyed by the strong economy, but these valuation differences are not sustainable in the longer term. Any period of prolonged market or economic weakness will likely have a larger negative impact on "Healthy" F&B valuations – particularly in lower and middle market businesses. Eventually, we anticipate that M&A market valuations in this sector will start to converge more in line with the equity market valuations. Therefore, T&H believes that from a valuation perspective, the current environment is ideal for business owners of "Healthy" F&B companies that might be contemplating a sale.

ABOUT TULLY & HOLLAND

INVESTMENT BANKING SOLUTIONS FOR CONSUMER PRODUCT COMPANIES

Tully & Holland is a boutique investment bank that specializes specifically in the consumer products space. We have been in existence for over 25 years and have completed a large number of transactions for food and beverage companies as part of our broader consumer practice. We are led by a senior management team with significant industry and investment banking experience. Tim Tully, our President, spent almost 20 years advising companies such as Procter & Gamble Co. and General Mills, Inc. and held senior management positions with H.J. Heinz Company and RJR Nabisco, prior to joining Tully & Holland in 1992. Tim is joined by his colleagues Jon Pratt and Stuart Rose. They collectively have more than 100 years of industry and investment banking experience.

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➢ Recent T&H Case Studies in the "Healthy" F&B Sector

This announcement appears as a matter of record

VeggieLand™

J.P Veggies, Inc.
has been acquired by
Keystone Natural Holdings,
a portfolio company of
Keystone Capital LLC.

Financial Advisor to Seller

This announcement appears as a matter of record only

Vitasoy®

Vitasoy International Holdings, Ltd.
has sold selected assets to
Pulmuone Foods Co., Ltd.

Financial Advisor to Seller

2017: Tully & Holland advised J.P. Veggies, Inc. in its sale to Keystone Natural Holdings, a portfolio company of Keystone Capital LLC.

The Company was an independently owned, broadly known brand name in the meatless industry with brands such as Franklin Farms and Jens and Marie under its portfolio. VeggieLand does a broad mix of private label, food service and retail business. With its superior products, clean labels, healthy on-trend product line, diversified customer base and distribution channels, solid financial performance and additional growth potential, VeggieLand was an attractive candidate to several of the strategic and financial buyers we spoke with. VeggieLand has been a family business since its founding and the owners saw an attractive opportunity to exit as the demand for meatless protein products increases and the market consolidates.

Keystone integrated VeggieLand into its recently acquired Nature's Soy and Superior Tofu platforms which are major U.S. and Canadian suppliers of soy and vegetarian products to specialty and Asian grocery stores. Keystone Natural Holdings provides a platform for the Company to offer its current and prospective clients a broader range of healthy products backed by ownership willing to invest in growth.

Through this transaction and our dialogue with various parties, Tully & Holland has gained tremendous insight into the industry and demand dynamics for both prospective buyers and sellers.

2016: Tully & Holland represented Vitasoy International Holdings in the sale of the majority of the assets in its wholly-owned North American subsidiary, Vitasoy USA, to Pulmuone Foods Co., Ltd of Seoul, South Korea.

Vitasoy USA, based in Ayer, Mass., is the dominant market leader in the manufacturing and marketing of refrigerated Asian food and beverages to consumers in North America. The Company's products include organic water-packed and baked tofu, under the leading NASOYA® and AZUMAYA® brands, Asian wraps and noodles, nayonaise, kimchi, and other soy beverages.

This transaction adds to Pulmuone Foods strong North American portfolio of Asian and vegetarian food brands. "Pulmuone now has a strong national platform and presence that will not only drive manufacturing and logistic synergies, but will also enable us to leverage a comprehensive sales and distribution infrastructure to further drive availability of our brands and products within the USA." said H.Y. Lee, CEO of Pulmuone Foods Co., Ltd.

This transaction highlights Tully & Holland's experience in advising international companies on strategic sale assignments.