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Food Processors of Canada

Benchmarking for success 2018

Financial performance and trends within the North American food and beverage processing industry

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Strong performances and growing uncertainty

We are pleased to present the 14th edition of *Benchmarking for success*. This report has been providing insights to the food and beverage (F&B) industry since the early 1990s. As in previous releases, we bring financial analysis, industry trend analysis, and key insights from the North American F&B industry.

Our last report in 2014 illustrated that the F&B industry was demonstrating impressive growth following the 2008 recession. This report outlines the current state of the North American F&B sector, how the sector has recently performed, and what the future may look like.

In this report, we found that the industry and the market as a whole continued its bullish run. However, the markets are currently facing uncertainty due to unpredictable political, economic, and social factors. Despite this uncertainty, the market remains robust, profitability ratios across the sector increased year over year, with the United States generating stronger profitability as compared to Canada, primarily due to size and scale.

We also found merger and acquisition (M&A) activity remained strong, indicating that strategic and financial purchasers alike continue to have confidence to invest in high- growth and well-managed companies, which demonstrates confidence in the economy and industry. The F&B market is transforming as a result of easy access to information. Consumer trends and preferences have been influenced by social media and information sharing. Not surprisingly, consumer trends have changed M&A appetites, and we have witnessed increased investment in health and wellness, ethnic, organic and sustainable, convenience, and technology-focused F&B companies.

Unpredictable growth forecast for the Canadian and United States economy driven by various macro components F&B players to seek ways to remain nimble, whether it be through defensible product offerings or investments in technological and process efficiencies. The pressure to stay current and on top of the consumer and technological trends demonstrates the need to actively engage in potential strategic acquisitions to preserve and grow market share.

Our survey results highlight the financial attributes of a broad range of F&B companies and segmenting those that are achieving top quartile growth or top quartile profitability. Along with the quantitative analysis in the following pages, our insights from working with many leading F&B companies provide important qualitative insights and assist us in getting behind the numbers and understanding many important priorities and capabilities that are driving success.

We hope you find the survey insightful and useful. If you have any questions or would like to explore any of the topics further, we would be happy to address your questions or commentary by whatever means you find convenient.

Summary of results

Benchmarking for Success 2018 analysed industry data for the fiscal years 2014, 2015, and 2016 for F&B companies in Canada and the United States. Financial information for public companies was gathered from publicly available audited financial numbers. Financial information for private companies was gathered from surveys collected on a confidential basis. A glossary of terms and financial ratio definitions is included in the appendices to this report. In this report, 78 F&B processors were analysed, including 23 Canadian companies.

The findings for this year vary for F&B processors, reflecting current market sentiment. Ratios for return on investment (ROI) and return on equity (ROE) show upward trends, indicating better returns for shareholders. While the previous survey highlighted consistent profitability ratios, the consistency was primarily driven by a return to normal levels from the market momentum witnessed after the 2008 recession. Conversely, there is market, volatility, reflective of broader economic, political, and social trends. Events such as Brexit, flattened yield curves, and the increased use of technology to transform traditional distribution channels create a requirement for incumbent F&B companies to actively assess the dynamics affecting competition in the industry such as threat of new entrants, threat of substitution, buyer power and supplier power.

As a result of this uncertainty, companies may become more cognizant about their levels of debt, as access to credit tightens, as seen through recent and expected interest rate hikes. In the periods studied, debt levels have remained steady. While capital becomes slightly more restricted, companies will seek to streamline internal processes to maximize cost efficiencies and increase profitability. Increasing interest rates on current debt reinforces the need to act vigilantly to maintain margins to ensure sufficient liquidity to service growth initiatives and service existing debt.

In both Canada and the US companies in the top-quartile for profitability had higher than or similar to average revenues, suggesting that the most profitable F&B companies tend to be the large players. Most significantly, top-quartile performers realized high gross margins compared to other companies in this study. However, the fastest growing companies in both Canada and the United States in terms of revenue growth were smaller than the average Canadian and US processors studied. This could be a result of smaller companies entering niche, high-demand segments of the market, resulting in high growth.

Over the past number of years, M&A activity has continued to be very active in terms of number of deals, as both strategic and financial buyers continue to invest. High multiples and record uninvested capital from financial buyers have contributed to record M&A activity. Based on the number of transactions in 2017, M&A activity is back to peak levels it achieved in 2007. However, expected interest rate hikes and economic uncertainty create an environment where investors could potentially become more cautious and strategic with invested capital. Given the pressures facing current F&B companies, such as intensifying use of technology, the entry of major competition, such as Amazon, and rapidly changing consumer trends, investors will continue to seek high-quality, value-added businesses and brands.

The uncertainty in the market is being driven by increased political, social, and economic turbulence. US president Donald Trump's "America First" strategy is causing major uncertainties on key trade agreements-, such as NAFTA. New social norms, centred on food quality and safety are putting operators under the microscope, and increased technological advancements are squeezing mid-sized operators as they inevitably need to adapt to keep pace with large-cap players.

Capital markets in the US and Canada improved over the past three years, but have recently seen a correction. Over the same time period, the Canadian TSX appreciated in value by 19%, while Canadian F&B processors, aggregate value increased by 55%. Similarly, US F&B processors' aggregate value has increased by 64% whereas the S&P500 has appreciated 46%.

Industry analysis

Profitability

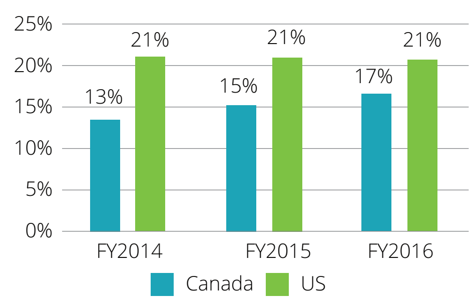
Return on investment (ROI) has remained stable from 2014 to 2016 for US companies while, Canadian companies showed an improvement of ~2% year-over-year. Though US companies have historically achieved larger ROIs, Canadian companies are slowly bridging the gap as they achieve scale and invest in research and development (R&D). This represents a slight increase in ROI for Canadian companies, as our 2014 report showed increases of only ~1% over the 2010 – 12 time period.

When profitability is measured using return on equity (ROE)—which accounts for the cost of servicing debt—the results show a fluctuation of ~2 – 4% for Canadian and US companies with 2016 being a year of improvement for both countries.

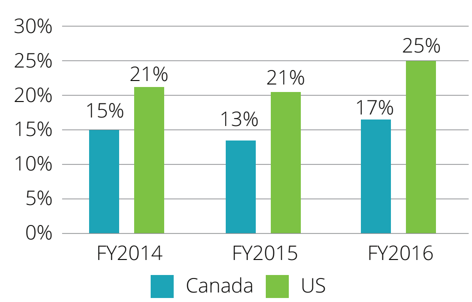
As the US companies are able to benefit from economies of scale, they tend to have higher earnings before interest, tax, depreciation and amortization, which in turn results in higher ROE and ROI ratios compared to Canadian companies.

While the Canadian tax system is commonly cited as a reason for lower overall Canadian profitability, analysis shows the tax rate paid by Canadian processors is actually lower than the US rate in the time period studied. However, recent US tax reforms have leveled the playing field between US and Canadian corporate tax environments.

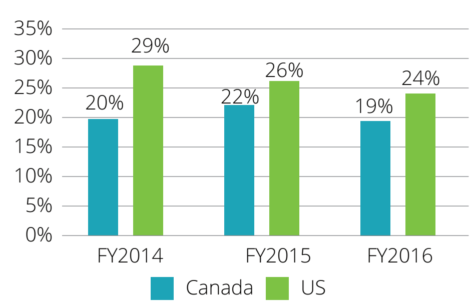
Return on investment



Return on equity (before tax)



Tax rate



Efficiency and effectiveness

Based on the data gathered, it appears that US companies are able to generate slightly larger gross margins compared to their Canadian counterparts. Furthermore, while Canadian margins have been stagnant, US food processors have shown consistent improvement over the three-year period.

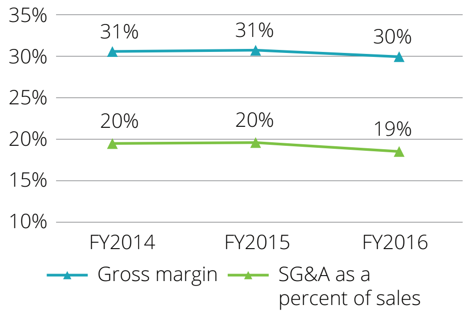
The stagnant gross margins for Canadian companies can be attributed to rising competition, a rise in price-conscious Canadian consumers, and increased cost of raw materials sourced for the US due to the weakening Canadian dollar over this time period.

With regards to sales, general and administrative expense (SG&A) ratios, both US and Canadian companies are hovering around the 20% mark. That being said, it is important to note that due to Canadian disclosure practices, SG&A is sometimes included in cost of goods sold (COGS), artificially reducing gross margin and SG&A as a percentage of sales.

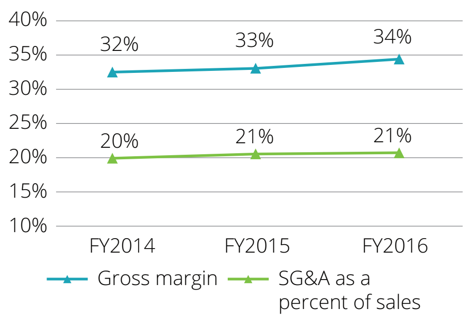
To account for the disparity between US and Canadian accounting practices, EBITDA as a proportion of sales, which uses income remaining after COGS and SG&A have been accounted for. When comparing EBITDA as a percent of sales between the two countries, the US companies have outperformed Canadian companies consistently by 300 to 400 basis points from 2014 to 2016.

While it's difficult to neatly attribute the differences in margin to a handful of factors, the differences might be due to elements such as higher premiums being charged for stronger brands, greater economies of scale, and higher investments in information technology, innovation, and consumer insights.

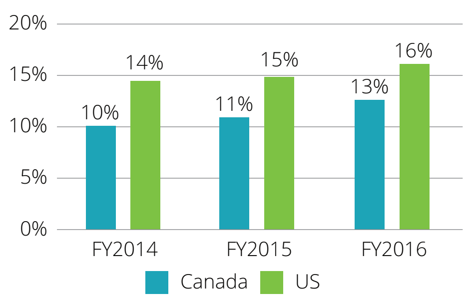
Gross margin & SG&A (Canada)



Gross margin & SG&A (US)



EBITDA as a percent of sales



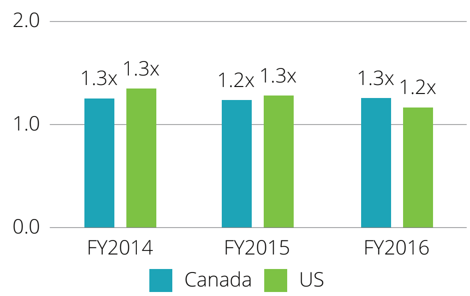
Over the time period studied, Canadian processors nearly matched their US counterparts in asset utilization. That being said, US processors' asset turnover is negatively impacted by the high amount of intangible assets they tend to carry on their balance sheets, due to their more acquisitive nature.

This is evident when the tangible asset turnover ratio is calculated. The tangible asset turnover ratio measures the amount of sales for every dollar of property, plant and equipment (PP&E) and net working capital. This ratio shows the US companies outperforming the Canadian companies in all three years.

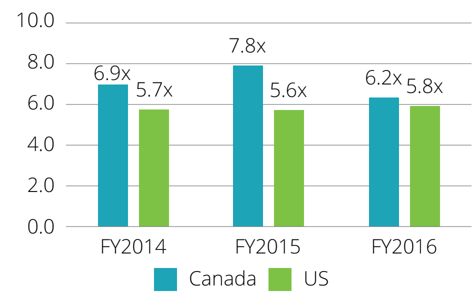
When it comes to net PP&E turnover, Canadian companies have largely outperformed their US peers, consistently achieving a higher turnover. This indicates that Canadian processors are more effectively using their investments in fixed assets to generate revenue.

As noted in past *Benchmarking* studies, there is little difference between US and Canadian companies when days of receivables are compared. Processors in both countries are collecting their invoices in ~31 days.

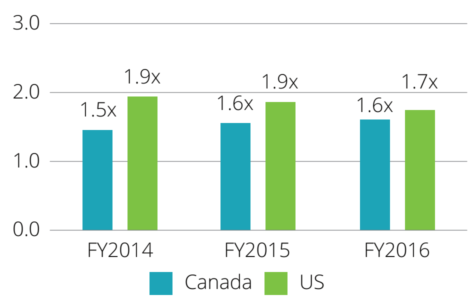
Asset turnover



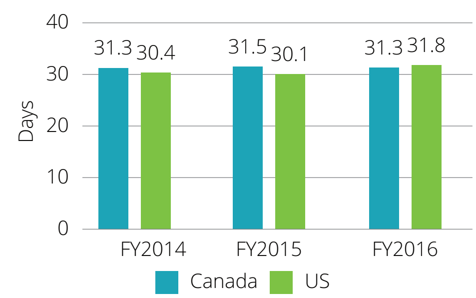
Net PP&E turnover



Tangible asset turnover



Days of receivables

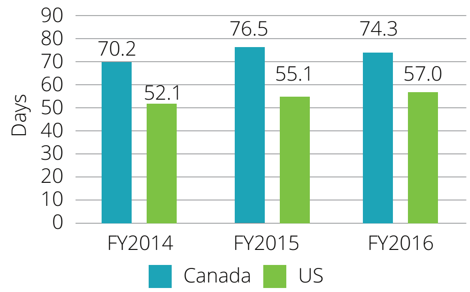


Overall, Canadian processors of F&B products (excluding wine and spirits processors, whose ratios would substantially change the data since they routinely holds 350-plus days of inventory) carry an average of ~19 days of extra inventory compared to their US counterparts. Based on the companies included in the study, US companies appear to carry more fresh products (e.g., perishable products such as protein) whereas the Canadian companies appear to carry more diversified and confectionary products, which have a longer shelf life.

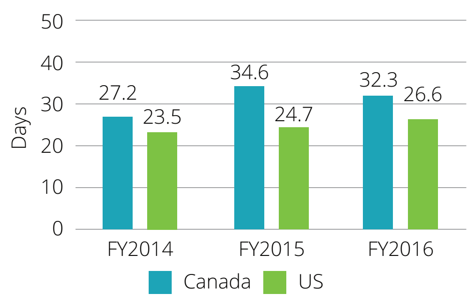
Canadian companies are held on to more payables than their US counterparts over the three-year period from 2014 to 2016. Previous studies have shown a similar advantage for Canadian companies in days payable, with Canadian companies typically holding their payables for ~6 days longer than their US counterparts. However, this advantage may be misleading as Canadian accounting practices tend to allow Canadian companies to include accrued liabilities with trade accounts payable, inflating this metric relative to their US peers.

US companies appear to show an advantage in cash conversion, mainly due to stronger inventory turnover. The high cash conversion indicates that US companies are more efficient at managing their net working capital and can reinvest the revenue faster than their Canadian counterparts.

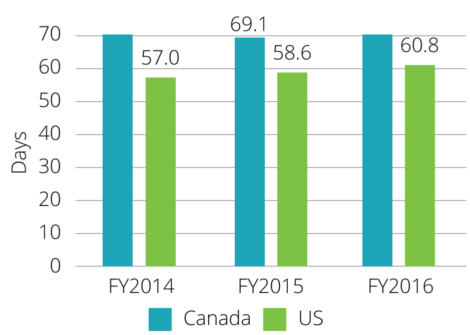
Days of inventory



Days of payables



Cash conversion cycle



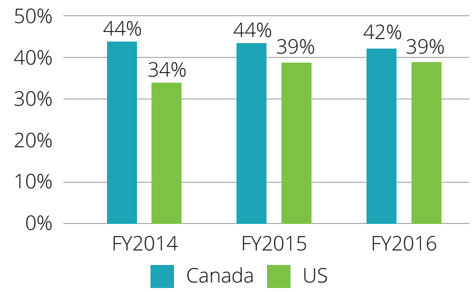
Financial leverage

Improved market conditions and significant availability of capital in the time period studied have resulted in both Canadian and US processing companies having reasonably high levels of debt relative to their total capitalization. It appears that US companies, are taking on more debt, whereas Canadian companies are remaining around the ~42 – 44% levels. However, given recent and pending interest rate hikes, companies may be more proactive in managing their current levels of debt.

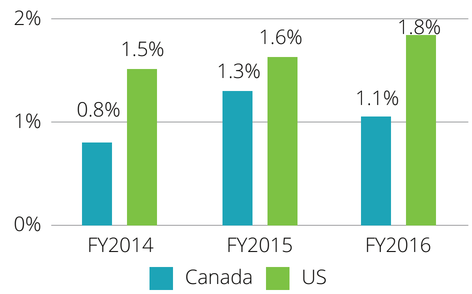
Even with lower levels of debt as a percent of total capitalization, US companies spent more on interest as a percent of sales compared to their Canadian counterparts between the period of 2014 to 2016.

US companies show increasing debt-to-EBITDA ratios through the 2014 to 2016 period. Though historically, Canadian debt-to-EBITDA levels have been greater than the US, 2016 showed US debt-to-EBITDA levels inching higher those of their Canadian counterparts. Canadian processors saw a significant improvement in 2016 with their ratio dropping from 3.0x to 2.1x in the span of a year.

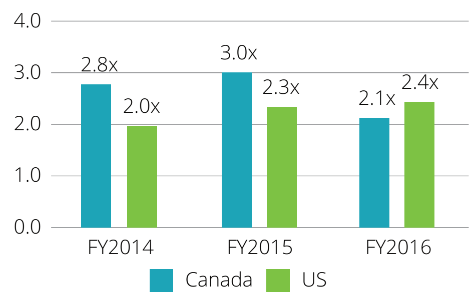
Debt-to-total capitalization



Interest as a percent of sales



Debt-to-EBITDA

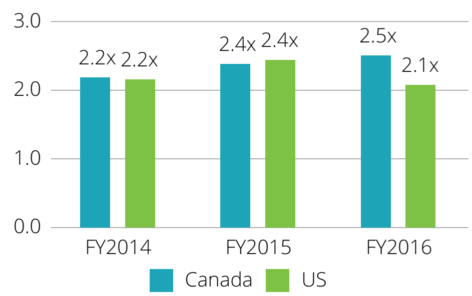


Canadian companies displayed an improving current ratio through the years observed, even surpassing their US counterparts in 2016. This suggests that Canadian processors are in a state of improving financial health and are adequately positioned to cover short-term liquidity requirements.

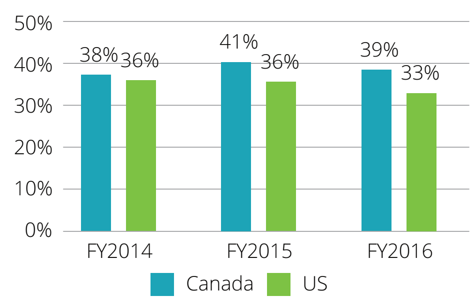
US companies show a lower percentage of PP&E as a their total capitalization; this is largely because US companies have significant amounts of intangible assets on their balance sheets. As a result, they tend to have higher values of debt and equity to fund those assets, thus increasing their total capitalization.

Similarly, these same US companies tend to carry higher amounts of "other liabilities," which could include employee benefits and pensions. These liabilities could be considered as a means to fund the additional assets carried by US firms.

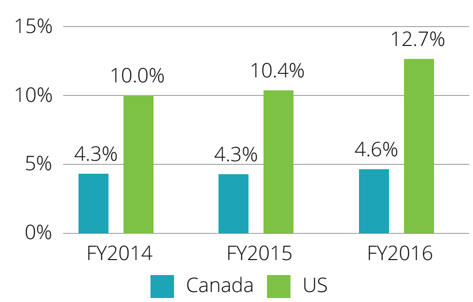
Current ratio



PP&E-to-total capitalization



Other liabilities/total assets



Subsector performance

Baked goods/snack foods

This year's study included 16 US-based baked goods or snack foods processors. No Canadian baked goods or snack foods processors were included given the lack of public Canadian players and survey respondents in the sector. Therefore, the analysis below only assesses US baked goods and snack foods companies against all other US processors.

The data below suggests that on average, this subsector scores below the average of other processors in terms of profitability with slightly lower gross margins, ROI and ROE.

From an efficiency point of view, the performance of US baked goods and snack foods companies is in line with the US food processors industry as a whole, with the subsector showing a preferable SG&A as a percentage of sales figure and an EBITDA as a percentage of sales figure at par with the average of all US processors.

That being said, this subsector's cash conversion cycle has deteriorated over the years observed, and is almost 14 days higher than the average of all US processors in 2016.

Finally, this subsector shows a stronger current ratio relative to the average of all US processors throughout the three years observed. This suggests that the US baked goods and snack foods companies are well-positioned to satisfy short-term liquidity or cash requirements.

	FY2014	FY2015	FY2016	FY2016 (All processors)
	US	US	US	US
Return on equity, before tax	17%	12%	19%	25%
Return on investment	18%	20%	18%	21%
Tax rate in %	32%	34%	20%	24%
Gross margin	30%	30%	31%	34%
Asset turnover	1.4x	1.3x	1.2x	1.2x
SG&A as a percent of sales	16%	17%	17%	21%
Days of inventory	51.0	61.4	65.9	57.0
Days of receivables	22.1	25.0	28.9	31.8
Days of payables	15.9	19.9	20.5	26.6
Cash conversion cycle	57.2	66.6	74.3	60.8
Net PP&E turnover	5.4x	5.4x	5.6x	5.8x
EBITDA as a percent of sales	14%	13%	15%	16%
Debt-to-total capitalization	32%	36%	34%	39%
Interest as a percent of sales	2%	3%	3%	2%
Current ratio	2.6x	2.5x	2.3x	2.1x
PP&E-to-total capitalization	38%	37%	31%	33%

Beverage

This year's study included 20 US and 10 Canadian beverage processors.

In 2016, the average revenue for US based beverage processors was US $7.1 billion, compared to $495 million for Canadian processors.

From 2014 to 2016, Canadian beverage companies were slightly less profitable than the Canadian group as a whole, on both ROE and ROI measures. Canadian beverage processors also lagged behind their US counterparts on these same profitability measures. The US beverage companies were less profitable than the US group as a whole, on both ROE and ROI measures.

The beverage group leads all subsectors in the gross margin category, in both Canada and the US.

Gross margins for the beverage group in Canada were 40% in 2016 compared to 30% for all Canadian processors. Similarly, US beverage processors also demonstrated a higher-than-average gross margin in 2016 of 42% versus 34% for all US processors.

However, these margin advantages are offset to some degree by higher than average SG&A expenses for the beverage group in both countries. This could be a result of higher spending on marketing and promotional activities, which is a key driver of sales in the beverage sector, particularly alcohol.

The large inventories carried by the beverage companies can be attributed to the wine and spirits processors, which skew the results for the beverage group as a whole. North American beverage companies primarily engaged in wine production or spirit distilling typically have inventory days as high as 360 days.

	FY2014		FY2015		FY2016		FY2016 (All processors)	
	Cda	US	Cda	US	Cda	US	Cda	US
Return on equity, before tax	15%	16%	12%	22%	15%	27%	17%	25%
Return on investment	14%	21%	16%	21%	17%	19%	17%	21%
Tax rate in %	18%	23%	26%	19%	20%	27%	19%	24%
Gross margin	42%	39%	41%	40%	40%	42%	30%	34%
Asset turnover	0.9x	1.4x	1.0x	1.4x	1.0x	1.2x	1.3x	1.2x
SG&A as a percent of sales	25%	28%	25%	29%	23%	29%	19%	21%
Days of inventory	236.1	109.4	219.9	112.2	191.0	121.9	74.3	57.0
Days of receivables	37.2	39.2	36.3	37.2	36.6	39.2	31.3	31.8
Days of payables	30.3	28.0	38.7	26.6	37.2	29.8	32.3	26.6
Cash conversion cycle	81.5	51.5	64.7	50.2	63.2	56.8	70.7	60.8
Net PP&E turnover	8.0x	6.1x	10.9x	6.1x	6.2x	6.5x	6.2x	5.8x
EBITDA as a percent of sales	17%	15%	17%	16%	18%	17%	13%	16%
Debt-to-total capitalization	41%	35%	38%	39%	36%	40%	42%	39%
Interest as a percent of sales	1%	1%	2%	1%	2%	2%	1%	2%
Current ratio	2.3x	1.9x	2.8x	2.7x	3.0x	2.0x	2.5x	2.1x
PP&E-to-total capitalization	34%	41%	37%	41%	37%	37%	39%	33%

Protein processing

This year's study included six US and four Canadian protein processors.

In 2016, the average revenue for Canadian protein processors was $1.3 billion. The average revenue for US protein processors was US$9.2 billion.

While US meat processors were more profitable than US processors overall, their Canadian counterparts fared poorly in 2016, with a ROI of 11% compared to 17% for Canadian processors as a whole.

While US and Canadian protein processors typically have lower gross margins than the rest of the processor group, they also enjoy lower SG&A expenses.

US protein processors have higher asset turnover than their Canadian counterparts and also have higher asset turnover than the industry average. Canadian protein processors have exhibited asset turnovers in line with the other non-protein processors.

The capital structure of Canadian and U.S. protein processors is markedly different. Whereas US protein processors have less debt than the US group as a whole, Canadian meat processors carry more debt than Canadian processors overall.

	FY2014		FY2015		FY2016		FY2016 (All processors)	
	Cda	US	Cda	US	Cda	US	Cda	US
Return on equity, before tax	23%	30%	22%	24%	17%	30%	17%	25%
Return on investment	14%	33%	8%	31%	11%	35%	17%	21%
Tax rate in %	34%	36%	13%	34%	17%	32%	19%	24%
Gross margin	12%	17%	13%	18%	15%	20%	30%	34%
Asset turnover	1.4x	2.0x	1.4x	1.8x	1.4x	1.8x	1.3x	1.2x
SG&A as a percent of sales	8%	7%	8%	7%	9%	7%	19%	21%
Days of inventory	51.7	34.1	55.6	33.9	53.8	35.5	74.3	57.0
Days of receivables	18.4	21.2	16.0	20.7	16.5	18.4	31.3	31.8
Days of payables	20.5	13.9	23.6	14.6	24.9	14.6	32.3	26.6
Cash conversion cycle	49.6	41.4	48.0	40.0	45.4	39.3	70.7	60.8
Net PP&E turnover	5.2x	6.7x	4.2x	6.7x	5.9x	6.2x	6.2x	5.8x
EBITDA as a percent of sales	4%	12%	5%	14%	9%	16%	13%	16%
Debt-to-total capitalization	38%	10%	52%	22%	49%	22%	42%	39%
Interest as a percent of sales	0%	0%	1%	0%	0%	0%	1%	2%
Current ratio	2.1x	3.2x	2.0x	3.6x	1.9x	3.3x	2.5x	2.1x
PP&E-to-total capitalization	32%	41%	40%	40%	25%	44%	39%	33%

Processed branded foods

This year's study included 13 US and six Canadian branded food processors.

In 2016, the average revenue for Canadian companies in this subsector was $578 million while average revenue for US companies was US$8.9 billion.

In 2016, the profitability of Canadian processed branded food processors was comparable to that of the Canadian group as a whole (19% versus 17% for both ROE and ROI). Their US counterparts also showed strong profitability throughout the years since ROI and ROE consistent with all of US processors. The processed branded food subsector shows some differences between US and Canadian companies. First, on a margin basis, US processors in this subsector were at par with the other processors, but their Canadian counterparts showed significantly lower margins in 2016 (22% compared to 30% for all Canadian processors). This difference is most likely a result of lower economies of scale for Canadian counterparts since they are smaller than US peers.

Secondly, with regards to efficiency, Canadian processors in this subsector had a significantly longer—almost 22 days longer—cash conversion cycle than the Canadian processors as a whole, whereas their US counterparts were operating at the same level as the other US processors Again, this is probably attributable to the larger size of American counterparts in the processed and branded foods sector. Their larger size and scale allow them to leverage the benefits of economies of scale.

	FY2014		FY2015		FY2016		FY2016 (All processors)	
	Cda	US	Cda	US	Cda	US	Cda	US
Return on equity, before tax	13%	30%	13%	27%	19%	28%	17%	25%
Return on investment	13%	19%	16%	19%	19%	20%	17%	21%
Tax rate in %	12%	30%	19%	26%	23%	22%	19%	24%
Gross margin	27%	32%	26%	32%	22%	33%	30%	34%
Asset turnover	1.8x	0.9x	1.6x	0.8x	1.7x	0.8x	1.3x	1.2x
SG&A as a percent of sales	20%	19%	20%	18%	18%	19%	19%	21%
Days of inventory	84.3	70.0	92.7	70.3	96.2	64.3	74.3	57.0
Days of receivables	30.9	31.2	36.1	29.6	32.8	30.1	31.3	31.8
Days of payables	26.9	30.4	35.1	32.4	28.5	34.4	32.3	26.6
Cash conversion cycle	82.5	70.8	87.6	67.6	95.1	60.0	70.7	60.8
Net PP&E turnover	6.4x	4.9x	5.1x	4.9x	6.5x	4.9x	6.2x	5.8x
EBITDA as a percent of sales	3%	16%	5%	16%	6%	17%	13%	16%
Debt-to-total capitalization	55%	46%	49%	49%	50%	51%	42%	39%
Interest as a percent of sales	1%	2%	1%	2%	1%	2%	1%	2%
Current ratio	2.1x	1.5x	1.8x	1.5x	2.0x	1.4x	2.5x	2.1x
PP&E-to-total capitalization	51%	26%	49%	26%	43%	25%	39%	33%

Top quartile performance

Profitability
Companies that formed the top quartile for profitability were ranked by their performance on before-tax earnings over sales. In 2016, the average revenue for Canadian companies in this group was $649 million, compared to US$6.9 billion for US companies. In the same period, the average revenue for all Canadian and US processors included in the study was $675 million and US$6.1 billion, respectively.

As both Canadian and US companies in the top quartile for profitability had higher than or similar to average revenues, this suggests that more profitable companies tend to be larger on both sides of the border.

The most significant advantage that companies in the top quartile for profitability appear to enjoy is high gross margins compared to the rest of the processors in this study. In 2016, Canadian companies in this group had an 11% gross margin advantage over the rest of their peers (41% versus 30%). US companies in this group had a similar 13% advantage relative to their peers (47% versus 34%). This translates into higher EBITDA margins, which is driving the higher profitability.

While the top quartile companies for profitability have a gross margin advantage, asset efficiency seems to lag the rest of the industry. For Canadian companies in this group, asset turnover in 2016 was 0.9 versus 1.3 for all processors. In the US, asset turnover was 0.8 compared to 1.2 for all processors.

	FY2014		FY2015		FY2016		FY2016 (All processors)	
	Cda	US	Cda	US	Cda	US	Cda	US
Return on equity, before tax	16%	36%	19%	27%	22%	35%	17%	25%
Return on investment	13%	27%	24%	29%	21%	26%	17%	21%
Gross margin	49%	47%	48%	47%	41%	47%	30%	34%
Asset turnover	0.6x	0.9x	0.9x	0.9x	0.9x	0.8x	1.3x	1.2x
SG&A as a percent of sales	33%	24%	27%	25%	23%	23%	19%	21%
Days of inventory	NM	48.8	86.4	42.0	55.1	55.1	74.3	57.0
Days of receivables	38.5	31.5	27.8	34.0	35.9	36.9	31.3	31.8
Days of payables	38.0	20.7	29.9	22.4	29.7	28.0	32.3	26.6
Cash conversion cycle	NM	55.0	67.7	49.4	67.7	59.8	70.7	60.8
Net PP&E turnover	12.2x	5.9x	12.8x	6.1x	6.0x	5.2x	6.2x	5.8x
EBITDA as a percent of sales	24%	26%	22%	26%	24%	27%	13%	16%
Debt-to-total capitalization	38%	39%	29%	41%	19%	44%	42%	39%
Interest as a percent of sales	1%	2%	0%	2%	0%	3%	1%	2%
Current ratio	2.8x	2.0x	3.5x	2.6x	4.6x	1.9x	2.5x	2.1x
PP&E-to-total capitalization	20%	27%	39%	31%	40%	26%	37%	33%

Revenue growth

Companies that formed the top quartile for revenue growth were ranked on their compound annual revenue growth rate from 2014 to 2016. In 2016, the average revenue for Canadian companies in this group was $423 million and for US companies, it was US$2.7 billion.

Note that the fastest-growing companies in both Canada and the US were smaller than the average Canadian and US processor studied ($675 million and US$6.1 billion, respectively). This could be a result of smaller companies entering niche but high demand markets resulting, in high growth.

From a profitability perspective, Canada's fastest growing companies outperformed their Canadian peers, achieving an ROE of 31% in 2016 compared to 17% achieved for all processors combined. The opposite is true for their US counterparts where the fastest-growing companies are generating far lower ROEs compared to their peers (18% versus 25%).

Conversely, both the US and Canadian fastest-growing companies are performing at par with their peers when it comes to generating gross margins.

Both the Canadian and US companies in this group have significantly higher debt-to-total capitalization ratios. This is due to the fact that to achieve high levels of revenue growth, both of these companies have to either make acquisitions or invest in R&D to spur growth, which can result in increased levels of debt.

	FY2014		FY2015		FY2016		FY2016 (All processors)	
	Cda	US	Cda	US	Cda	US	Cda	US
Return on equity, before tax	17%	9%	24%	7%	31%	18%	17%	25%
Return on investment	13%	12%	19%	18%	18%	16%	17%	21%
Gross margin	32%	32%	33%	33%	32%	35%	30%	34%
Asset turnover	1.3x	0.9x	1.3x	0.9x	1.4x	0.7x	1.3x	1.2x
SG&A as a percent of sales	11%	18%	15%	18%	13%	19%	19%	21%
Days of inventory	84.6	52.0	76.2	58.5	73.7	53.8	74.3	57.0
Days of receivables	24.6	34.7	29.1	33.4	28.0	35.5	31.3	31.8
Days of payables	26.4	24.8	34.9	23.5	26.3	26.0	32.3	26.6
Cash conversion cycle	81.8	58.4	70.4	65.9	73.4	61.2	70.7	60.8
Net PP&E turnover	3.4x	4.7x	3.7x	5.0x	4.2x	4.9x	6.2x	5.8x
EBITDA as a percent of sales	7%	15%	10%	17%	11%	19%	13%	16%
Debt-to-total capitalization	69%	43%	64%	49%	63%	52%	42%	39%
Interest as a percent of sales	1%	3%	0%	3%	0%	4%	1%	2%
Current ratio	1.9x	2.3x	2.1x	2.7x	4.6x	2.2x	2.5x	2.1x
PP&E-to-total capitalization	53%	23%	54%	23%	62%	18%	37%	33%

Size

The largest companies (based on sales in 2016) were analyzed. Canadian processors in this group had average sales of $2 billion, while US processors averaged US$18.6 billion in sakes.

The profitability of the largest processors varied across countries. In Canada, large processors performed poorly compared with the country average ROE and ROI.

By contrast, in the US, large companies were far more profitable than the others. Large US companies had an ROE of 40% in 2016, compared to the country set average of 25%.

While Canada's largest processors trailed the Canadian set on a gross margin basis (22% versus 30%), this is mostly offset by an advantage in SG&A costs amongst large producers (14% versus 19%) and can be explained by structural differences between sub-sectors.

When looking at the current ratio, the largest processors in both Canada and the US trail their respective industries, indicating deficiencies in their operating cycle. A lower current ratio suggests weaker financial health and can result in liquidity issues if unexpected cash needs arise.

Lastly, it appears that the largest US processors are far more leveraged than their Canadian counterparts and their peers in the US.

	FY2014		FY2015		FY2016		FY2016 (All processors)	
	Cda	US	Cda	US	Cda	US	Cda	US
Return on equity, before tax	14%	14%	10%	42%	8%	40%	17%	25%
Return on investment	12%	12%	10%	25%	13%	24%	17%	21%
Gross margin	22%	22%	21%	36%	22%	35%	30%	34%
Asset turnover	1.0x	1.0x	1.1x	1.2x	1.1x	1.1x	1.3x	1.2x
SG&A as a percent of sales	17%	17%	15%	21%	14%	20%	19%	21%
Days of inventory	45.6	45.6	60.5	49.2	62.2	50.5	74.3	57.0
Days of receivables	35.3	35.3	35.2	28.1	34.0	27.9	31.3	31.8
Days of payables	34.8	34.8	53.1	28.6	28.6	31.7	32.3	26.6
Cash conversion cycle	46.1	46.1	63.4	47.2	97.1	45.2	70.7	60.8
Net PP&E turnover	4.6x	4.6x	5.4x	4.8x	6.2x	4.7x	6.2x	5.8x
EBITDA as a percent of sales	11%	11%	10%	18%	8%	18%	13%	16%
Debt-to-total capitalization	45%	45%	40%	56%	40%	56%	42%	39%
Interest as a percent of sales	2%	2%	1%	2%	1%	2%	1%	2%
Current ratio	1.9x	1.9x	1.7x	1.3x	1.7x	1.2x	2.5x	2.1x
PP&E-to-total capitalization	27%	27%	27%	36%	26%	36%	37%	33%

Capital and input markets

The capital markets in the US and Canada have improved over the past four years. Over the same time period, the Canadian TSX appreciated in value by 19% and the aggregate value of Canadian F&B processors increased by 55%. Similarly, US F&B processors' aggregate value has increased by 64% whereas the S&P500 has appreciated 46%.

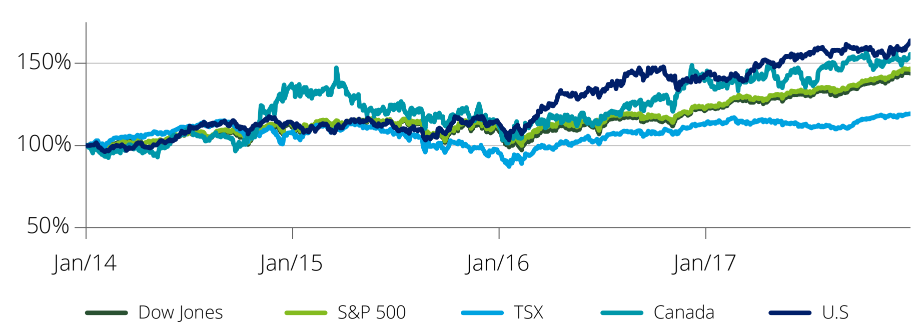
Current trends in commodity prices are positively affecting the industry. Key ingredients for F&B processors, such as oil, wheat, and barley, have decreased in price by 40%, 33%, and 28%, respectively between January 2014 and December 2017.

Despite these downward trends, commodity prices remain volatile. For example, while the price of sugar over the period studied changed by only 6%, the difference between its high and low price was $218. This volatility is consistent with previous studies.

Commodity	Low	High	Change
Corn(Maize)	$ 147	$ 222	-25%
Barley	$ 90	$ 182	-28%
Sugar	$ 227	$ 445	-6%
Wheat	$ 142	$ 335	-33%
Rice	$ 357	$ 459	-10%
Sorghum	$ 144	$ 234	-17%
DAP Fertilizer	$ 315	$ 505	-12%
Oil	$ 30	$ 108	-40%

All in US$ per metric ton, except oil which is US$ per barrel. Change reflects percentage change from January 2014 to December 2017.

Period Returns: F&B processors versus equity indices



Food retail environment

Canada

The food retail industry comprises food sold at F&B retailers such as supermarkets and grocery stores, convenience stores, mass merchandisers, and specialty stores.
In Canada, retail sales of stores offering food and beverage totalled over $110 billion in 2016, with market value forecasted to exceed $117 billion by 2019.

Grocery stores make up the majority of the over 40,000 F&B stores in Canada. Supermarket chains Costco, Loblaws, and Walmart are among the leading food retailers.

Leading Canadian F&B companies include food processors such as Saputo, Maple Leaf Foods, and Weston Foods. Maple Leaf Foods, a packaged meats company, generated over $3 billion in revenue in 2016 and held a 99% share of the lunch kits category that year.

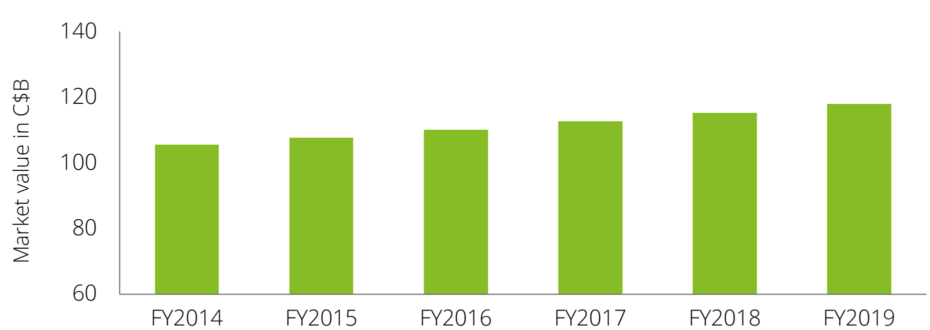
With the recent rise in food costs in Canada, price remained a key factor for consumers selecting F&B products.

In a recent survey[1], consumers in Canada also indicated that it's vital for them to know where their food comes from, with many preferring to buy locally grown products. Only 22% of the respondents said they support the development and sale of genetically modified foods in Canada as of March 2016.

In 2016, Loblaw's discount banners (Maxi, No Frills, Extra Foods, and Lucky Dollar Foods) saw the biggest increase in sales owing to the increase of discounter consumerism in Canada. The discounter trend bolstered consumer demand to buy at discounted prices. The recent rise in food costs in Canada has contributed to this increased demand for value products.

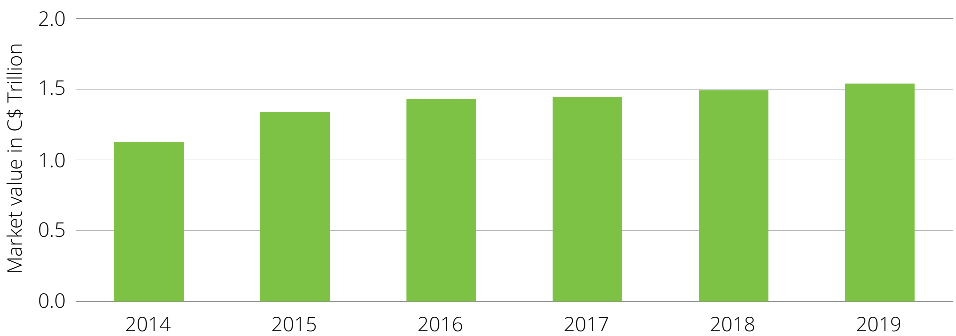
Although not a pure discounter, Walmart also continued to leverage its position as a competitively priced retailer to lead grocery retailers in value terms in 2016, as it did in 2015.

Food Retail in Canada, 2014 – 2019



[1]"Report on Consumer Views of Genetically Modified Foods"; The Strategic Counsel; June 24, 2016

Food Retail in US, 2014 – 2019



United States

The US food retail industry was valued at $1.1 trillion in 2014, with the market value forecasted to reach $1.5 trillion by 2019. The beverage industry was valued at $384 billion in 2014 and forecasted to reach $491 billion by 2019.

Supermarkets and hypermarkets make up the majority of the players in the F&B retail industry in the US. Retail players such as Kroger, Walmart, and Costco represent the leading companies in the sector.

The US F&B industry is highly competitive, and although prospects for further growth are modest by global standards, it remains strong when compared with the other developed markets.

The industry is being affected by demographic changes, most notably:

- The increasing number of smaller households, creating demand for convenient, easy-to-prepare packaged food.
- The rise of health-conscious millennial consumers, driving up demand for fresh, healthy, and organic products.
- The growing Hispanic population, with specific tastes and preferences.

The industry has also seen the adoption of inorganic growth strategies by means of mergers and acquisitions. Companies are striving to increase their market share, cut costs, diversify, and strengthen their product lines through M&A activities.

The economy

Canada reported a strong H1 2017 with an annualized growth of 4%, the fastest among the G7 economies. More recently, the pace of economic expansion has cooled, with real GDP slowing to 1.7% annualized growth in Q3 2017. Gains in consumer spending, business and government investment and inventories were partially offset by drags from residential investment and net trade.

Canadian consumers have accounted for about three quarters of GDP growth since 2015. However, recent income growth trends haven't kept pace with the very strong desire among consumers to spend, leading to a drawdown in household savings that has caused the household savings rate to trend down for several quarters, reaching 2.6% in Q3 2017.

The ratio of household debt to disposable income was 167% in the first quarter of 2017. House prices continue to rise on an annual basis, notably in major cities such as Toronto and Vancouver. The Bank of Canada raised interest rates in January 2018 for the third time in the current hiking cycle pushing up borrowing costs.

The Canadian food and beverage retail market is concentrated, with the top five chain stores currently accounting for more than 40% of all sales, compared with less than one-third in the US Health concerns continue to influence food shopping, and the trend towards organic, hormone-free, gluten-free, and other specialized foods will continue. Further impetus in this direction will come from current moves by the federal government to tighten food-labelling regulations.

Primary farm output accounts for 1.5% of GDP, but the agri-food sector, including downstream sectors such as food processing, represents closer to 10% of GDP.

Canadians are among the world's heaviest internet users, and online sales are growing rapidly. About 1 in 10 Canadians makes an online purchase every week.

As part of current talks to renegotiate NAFTA, the US has proposed that Canada push up the value of online purchases in the US from the current US$20 to US$800 so they can be imported duty-free. Numerous Canadian sectors have objected strongly, fearing fiercer competition from online giants south of the border.

Donald Trump's victory in the 2016 US presidential election has injected uncertainty into the US economy. President Trump has pledged more protectionist trade policies and sweeping tax reforms, the implementation and effects of which remain uncertain.

Physical and online retailers are diversifying and offering a wider variety of delivery options in a bid to deepen customer loyalty and cater to an ever-widening array of niche markets. This trend is spurring competition and blurring the line between food retailers and others. On another front, signs are emerging of a shift in consumer demand from material goods to services such as restaurant meals and streaming services.

All major retailers are placing more emphasis on online services as competition mounts from e-commerce. Walmart said in October 2017 that it expected its US online sales to climb by 40% in its fiscal year to January 2019. It plans to add 1,000 online grocery pick-up locations during that period. Credit Suisse predicted in June 2017 that 20 – 25% of the US's 1,100 shopping malls would close within the next five years, owing to the growing popularity of online shopping and of discount chains, which tend to stand alone. The US Census Bureau reported that online sales accounted for 8.9% of total retail sales on a seasonally adjusted basis in Q2 2017, more than double their share in 2010.

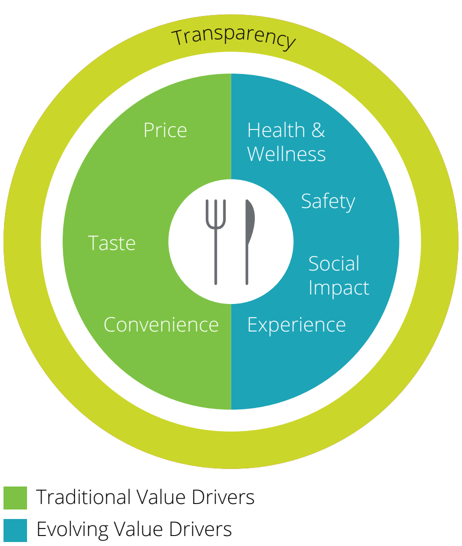
Trends and a look ahead

Highlighted below are some of the most notable trends that we're seeing in the food and beverage industry, with a focus on some interesting examples of M&A activity that these trends are driving.

Evolving consumer value drivers

Historically, traditional value drivers such as price, taste, and convenience largely determined consumer purchasing decisions. Today, however, an increasing number of consumers are making purchasing decisions based on the "full plate" (Figure 1) by combining traditional and evolving value drivers—a shift that is fundamentally altering the value equation for retailers and manufacturers.

Figure 1: The consumer value driver plate



Source: Deloitte food value equation survey 2015, Deloitte analysis

Deloitte's food value equation survey showed that approximately half of consumers surveyed say that they weigh evolving drivers such as health and wellness, safety, social impact, and experience more heavily in purchasing decisions than they do traditional value drivers such as taste and price. This was evident in 2017, as we saw continued and increasing consumer demand for sustainable, plant-based protein food products. Naturally, traditional players in the protein market have begun to respond to this trend in part by acquiring high-growth, early-stage companies specializing in plant-based products. Acquisitions of plant-based companies increased from just four in 2016 to seventeen in 2017. Notable transactions in 2017 included:

- Maple Leaf Foods' acquisitions of Lightlife Foods, a U.S.-based producer of refrigerated, plant-based protein, and Field Roast Grain Meat Co., a leading brand of premium grain-based and vegan cheese products. The acquisitions are part of Maple Leaf Foods' shift toward achieving its vision of becoming a leader in sustainable protein.
- Nestlé USA acquired Sweet Earth, a plant-based foods manufacturer based in California, as it works to build out its portfolio of vegetarian and flexitarian choices.

In addition, ethnic influences continued to find their way into the mainstream, enabling innovative twists to traditional food product as consumers looked to further enhance their eating experience. A recent transaction was Parmalat acquisition of Karoun Dairies, a producer of ethnic cheeses and dairy products.

Shifting retail landscape and e-commerce

The grocery retail sector in 2017 saw food retailers using innovative approaches to shift from conventional methods of selling to offering online and home delivery options.

- Loblaws and Costco partnered with Instacart, a California-based company that enables customers to shop from local stores' inventory and use an app to place their order which is then delivered to the customer's door.
- Amazon acquisition of Whole Foods sent shockwaves throughout the North American grocery sector. The deal is viewed as perhaps the most significant step to date in the transformation of the grocery retail sector as the largest e-commerce company in the world enters the space.
- Walmart announced a partnership with Buzzfeed's social food network Tasty, prompting users to purchase Walmart.com and Jet.com products directly from recipes in Tasty's app. They also plan to integrate Walmart's online grocery services directly into the app.

The North American online grocery market is expected to grow at a considerable rate over the next several years as more consumers adopt buying groceries online.

The coming of the e-commerce age in the food and beverage industry means consumers will now have more choices than ever before. What required a trip to a specialized health food store 5 to 10 years ago will now be available with a click of a button. This will only amplify the importance of the consumer's value drivers and accelerate the rate at which the market responds to them.

Outlook for 2018

2017 was a noteworthy year for the industry as a whole. We expect further growth in food and beverage M&A activity in 2018 driven by increasing scale and efficiency, further innovation and e-commerce integration, continued digitization, and analytics implementation, and ongoing globalization.

Participant perspectives

A number of Canada's leading privately owned F&B companies were surveyed as part of our assessment and asked to provide a perspective on what is currently 'top of mind'. Although the responses varied, there was a neutral outlook from both the economy and in the general business environment. This was evident as 43% of the Canadian private companies surveyed are expecting marginal growth of only 0 – 5%, with another 43% expecting growth of 5 – 10%.

Over half of the respondents reported that improved gross margins over the last 12 months were primarily because of price efficiencies. In terms of future business opportunities and profitability, companies cited customer growth, product expansion, geographic expansion, and new customers as key areas of growth. Participants were also asked what they considered the single biggest threat to their business and growth. Respondents cited fluctuations in commodity prices, labour issues (such as the recent minimum wage hike in Ontario), competition, and potential NAFTA effects as threats that could potentially jeopardize growth.

NAFTA remains top of mind as the agreement's future remains uncertain. Among the participants surveyed, respondents claimed that increases in raw materials and inventory procurement costs and a potential decrease in revenues could surface if the agreement is terminated.

Similar to our previous benchmarking studies participants cited technological innovation as a top priority in 2018, as operators look to survive in an increasingly evolving market. Expect industry players to place an emphasis on further innovation and e-commerce integration, continued digitization, and analytics implementation.

What % change are you expecting in total sales in 2018 versus 2017?

Projected sales	Percent of responses
(-5%) – 0%	0%
0%	0%
0 – 5%	43%
5 – 10%	43%
Other	14%

What do you believe to be the cause of the improved gross margins realized in the industry over the past 12 months?

Business Improvement	Percent of responses
Raw materials	10%
Price increases	30%
Price efficiencies	60%

If NAFTA is terminated, what area of your business would be most impacted?

Business impact	Percent of responses
Raw materials	40%
Revenues	60%
Skilled Labour	0%
Decrease in Investments	0%

What do you consider the biggest threat to your business is at present?

Business threat	Percent of responses
Commodity prices	38%
Labour Issues	25%
Competition – CAD	0%
Competition - US	25%
Potential NAFTA affects	12%

What do you consider to be the biggest opportunity to your business at present?

Business opportunity	Percent of responses
Customer Growth	14%
Product Expansion	29%
Consolidation	14%
Geographic Expansion	29%
New Customers	14%

Merger & acquisition activity

North American M&A activity in the F&B sector has remained strong. Start-ups saw significant profit increases in 2017, and new companies are seeing explosive growth across the industry.

Not surprisingly, the majority of M&A activity occurred in the US during 2014–2017, with the total number of transactions rising considerably in 2015. Similar to previous years, 10 – 15% of all M&A transactions targeted Canadian companies over this period.

The beverage sector has experienced record M&A levels, whereas retail grocery saw a decline in number of transactions, with 27 deals in 2017 as compared to 39 deals in 2014.

Additional M&A activity is expected in 2018 and beyond as consolidation continues to be perceived as a viable route to short-term growth. Private equity investors are looking for opportunities among legacy food companies similar to the synergies developed from the 2015 Kraft-Heinz merger. However, market uncertainty and recent interest rate hikes may decrease M&A volume.

Furthermore, investors are investing in disruptive start-up F&B companies with innovative and healthier product choices that appeal to modern consumers. In 2017, there were approximately 270 transactions in the F&B space as compared to 271 transactions in 2016 highlighting the stable nature of M&A activity in North America.

In line with the trend of recent years, 12% of all M&A transactions from 2014 to 2017 targeted Canadian companies. Additionally, the vast majority of North American F&B M&A activity continues to involve privately held companies; almost 9 out of 10 target companies were private.

Recent transactions in the space indicate consumers have redefined the food supply chain through their willingness to pay more for healthier products.

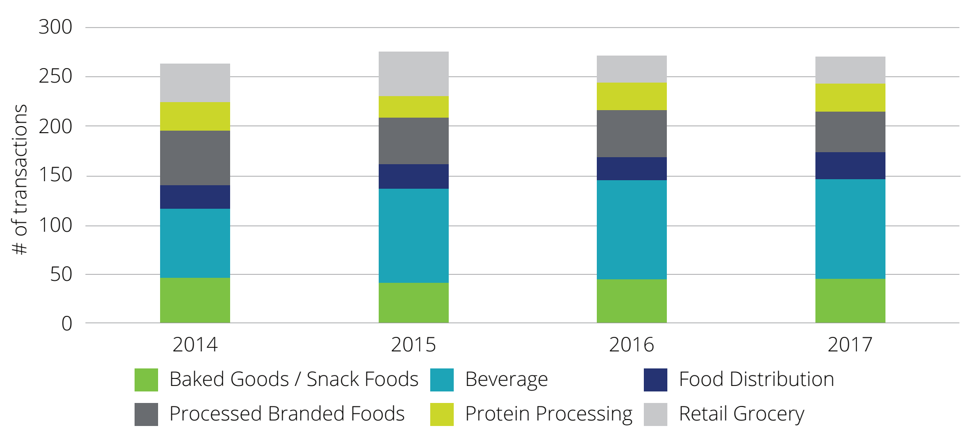
Key trends likely to drive F&B M&A activity

Start-ups gain market share:
Large F&B companies are attempting to adjust their business models from a high-volume, low-profit margin model focused on affordability, convenience, and taste to fit the new consumer profile. Start-ups focused on producing healthy, fresh, local, and organic ingredients are likely to continue their exponential growth and challenge legacy brands for market share.

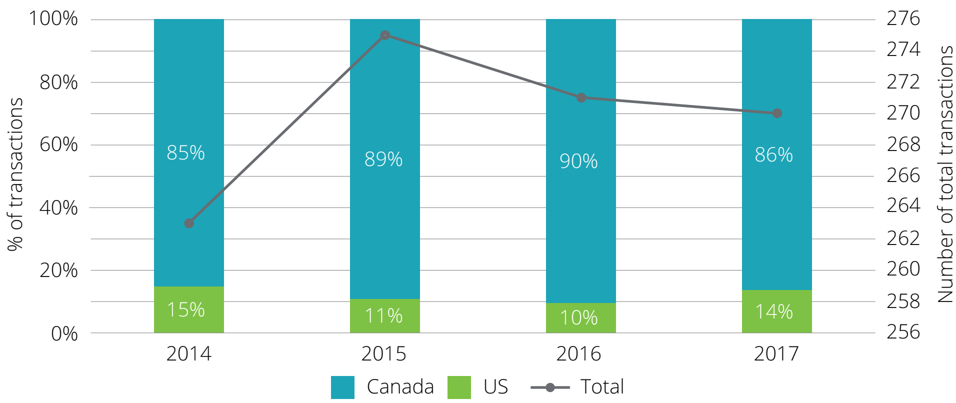
Legacy brands are struggling:
Campbell's has seen negative growth for 11 consecutive quarters. General Mills and Nestlé have experienced considerable reduction in profits. Kraft–Heinz has been profitable; however, the gains largely resulted from cost-cutting efforts.

PepsiCo has proven to be one of the active legacy brands that has driven revenue growth with its healthier product lines. Other legacy brands will likely need to follow similar suit if they're to remain competitive.

Number of Transactions By Sub-Sector, 2014 – 2017



Proportion of M&A Transactions By Target Country, 2014 – 2017



Select F&B M&A activity 2014 – 2017: Canadian targets

Buyer	Target/issuer	Year	Deal value (C$ millions)
Marine Harvest ASA (OB:MHG)	Northern Harvest Sea Farms Inc.	2017	315
Otsuka Pharmaceutical Co., Ltd.	Daiya Foods Inc.	2017	405
Lantic Inc.	L.B. Maple Treat Corporation	2017	160
Metro Canada Holdings Inc	Alimentation Couche-Tard Inc. (TSX:ATD.B)	2017	2,016
Ontario Teachers' Pension Plan Board	Arterra Wines Canada, Inc.	2016	1,030
Labatt Brewing Company Limited	Mark Anthony Group, Inc., Ready-to-Drink, Cider and Craft Beer Brands in Canada	2015	464
Viterra Inc.	Twin Rivers Technologies – Entreprises de transformation de graines oléagineuses du Québec inc.	2015	190
Agropur Dairy Cooperative	Sobeys Inc., Four Plants in Edmonton, Winnipeg, and Burnaby	2014	356
Davide Campari-Milano S.p.A. (BIT:CPR)	Forty Creek Distillery LTD	2014	198
ARYZTA AG (SWX:ARYN)	Pineridge Bakery, Inc.	2014	378
Grupo Bimbo, S.A.B. de C.V. (BMV:BIMBO A)	Canada Bread Company Ltd.	2014	1,837

Note: Transactions listed include those with deal values of $150 million or greater only.

Select F&B M&A activity 2014 – 2017: U.S. targets

Buyer	Target/issuer	Year	Deal value (C$ millions)
The Hershey Company (NYSE:HSY)	Amplify Snack Brands, Inc. (NYSE:BETR)	2017	1,975
Campbell Soup Company (NYSE:CPB)	Snyder's-Lance, Inc. (NasdaqGS:LNCE)	2017	7,893
Hormel Foods Corporation (NYSE:HRL)	Columbus Manufacturing, Inc.	2017	1,096
Post Holdings, Inc. (NYSE:POST)	Bob Evans Farms, Inc.	2017	2,157
Refresco Group N.V. (ENXTAM:RFRG); Refresco US Holding Inc.	Traditional Carbonated Soft Drinks & Juice business in US, Canada, Mexico and UK	2017	1,564
Groupe Lactalis S.A.	Stonyfield Farm, Inc.	2017	1,137
Diageo North America Inc.	Casamigos Spirits Co.	2017	1,331
Amazon.com, Inc. (NasdaqGS:AMZN)	Whole Foods Market, Inc.	2017	19,336
Mott's, LLP	BAI Brands LLC	2016	2,284
Charoen Pokphand Foods Public Company Limited (SET:CPF)	Bellisio Foods, Inc.	2016	1,444
Onex Corporation (TSX:ONEX)	Moran Foods, LLC	2016	1,795
Danone (ENXTPA:BN)	The WhiteWave Foods Company	2016	16,229
Apollo Global Management, LLC (NYSE:APO)	The Fresh Market, Inc.	2016	1,848
Monster Beverage Corporation (NasdaqGS:MNST)	American Fruits and Flavors, LLC	2016	950
Acorn Holdings B.V.	Keurig Green Mountain, Inc.	2015	19,427
Pinnacle Foods Inc. (NYSE:PF)	Boulder Brands, Inc.	2015	1,341
Constellation Brands, Inc. (NYSE:STZ)	Home Brew Mart, Inc.	2015	1,365
Molson Coors Brewing Company (NYSE:TAP)	MillerCoors LLC	2015	15,955
The Kroger Co. (NYSE:KR)	Roundy's, Inc.	2015	1,109
Snyder's-Lance, Inc. (NasdaqGS:LNCE)	Diamond Foods, LLC	2015	2,560
JBS USA Lux S.A.	Cargill Pork, LLC	2015	1,820
Hormel Foods Corporation (NYSE:HRL)	Applegate Farms LLC	2015	963
The Kraft Heinz Company (NasdaqGS:KHC)	Kraft Foods Group, Inc.	2015	68,946
Mac's Convenience Stores, LLC	The Pantry, Inc.	2014	2,098
Cott Corporation (TSX:BCB)	DSS Group, Inc.	2014	1,425
Arthur T. Demoulas	Market Basket, Inc.	2014	1,719
Tyson Foods, Inc. (NYSE:TSN)	The Hillshire Brands Company	2014	9,779
Energy Transfer Partners, L.P. (NYSE:ETP)	Susser Holdings Corporation	2014	2,796
Post Holdings, Inc. (NYSE:POST)	MFI Holding Corporation	2014	2,747
Suntory Holdings Limited	Beam Suntory Inc.	2014	17,418

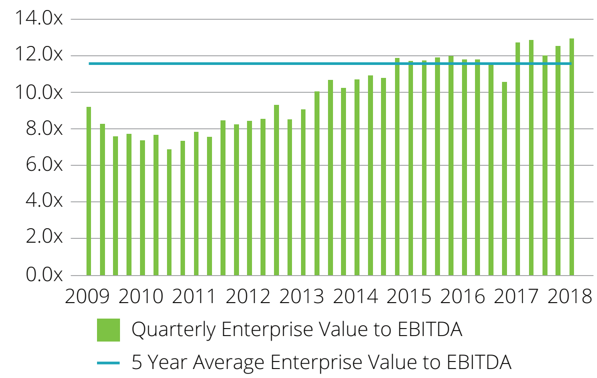
Note: Transactions listed include those with deal values of $950 million or greater only.

Valuation snapshot

Baked goods and snack foods

Baked goods and snack foods companies are trading above the long-term average of 11.8x EBITDA.
(All values in trading currency $ millions)

Company	Currency	Enterprise Value (EV) ($)	EV/EBITDA
George Weston Limited	CAD	32,359	7.4x
Snyder's-Lance, Inc.	USD	5,987	21.3x
Flower Foods, Inc.	USD	4,897	11.9x
J&J Snack Foods Corp.	USD	2,685	16.8x
John B Sanfilippo & Son Inc.	USD	779	10.8x
Adjusted average			13.2x
Adjusted median			11.9x

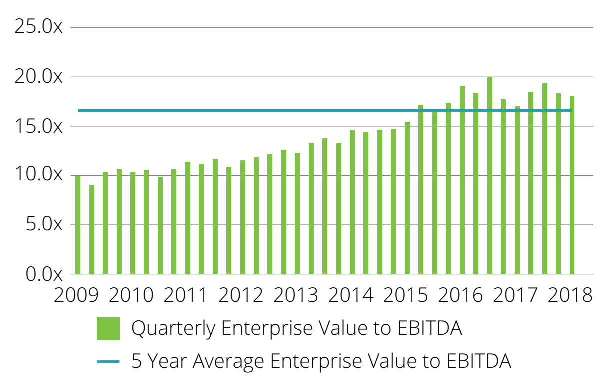


Source: Capital IQ Note: EBITDA multiples taken as of January 1, 2018

Beverage

Beverage companies are trading above the long-term average of 16.3x EBITDA.
(All values in trading currency $ millions)

Company	Currency	Enterprise Value (EV) ($)	EV/EBITDA
The Coca-Cola Company	USD	217,322	19.9x
PepsiCo, Inc.	USD	191,395	15.2x
Constellation Brands Inc.	USD	53,523	19.6x
Monster Beverage Corporation	USD	34,597	26.3x
Molson Coors Brewing Company	USD	29,240	11.9x
Brown-Forman Corporation	USD	28,143	24.6x
Cott Corporation	CAD	4,751	11.3x
National Beverage Corp.	USD	4,407	21.7x
Lassonde Industries Inc.	CAD	2,018	11.7x
Adjusted average			17.8x
Adjusted median			19.6x

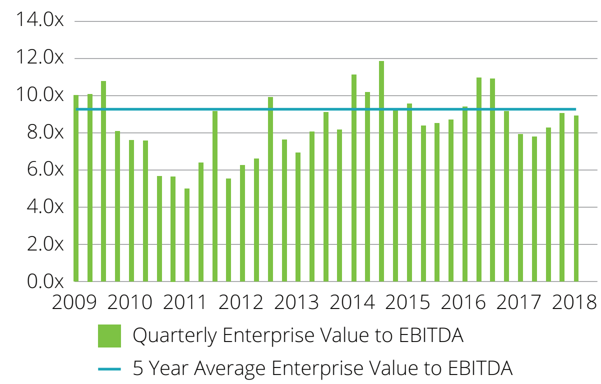


Source: Capital IQ Note: EBITDA multiples taken as of January 1, 2018

Protein processing

Protein processing companies relatively close to the long-term average of 9.2x EBITDA.
(All values in trading currency $ millions)

Company	Currency	Enterprise Value (EV) ($)	EV/EBITDA
Tyson Foods, Inc.	USD	40,300	10.2x
Pilgrim's Pride Corporation	USD	9,945	8.2x
Maple Leaf Foods Inc.	CAD	4,360	11.8x
Sanderson Farms, Inc.	USD	2,748	5.2x
Adjusted average			8.9x
Adjusted median			9.2x

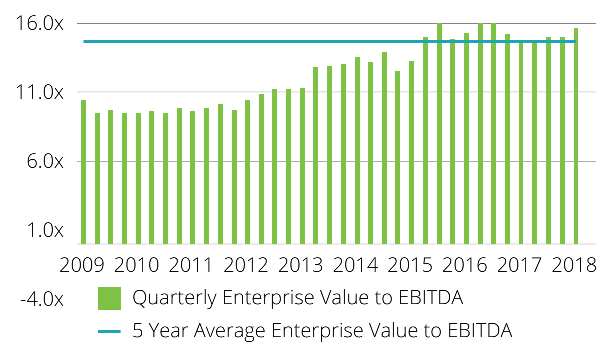


Source: Capital IQ Note: EBITDA multiples taken as of January 1, 2018

Processed branded foods

Processed branded foods companies are trading above the long-term average of 14.7x EBITDA.
(All values in trading currency $ millions)

Company	Currency	Enterprise Value (EV) ($)	EV/EBITDA
Mondelez International, Inc.	USD	82,200	18.1x
General Mills, Inc.	USD	43,656	13.5x
Kellogg Company	USD	31,475	13.7x
The Hershey Company	USD	26,827	15.2x
The J. M. Smucker Company	USD	19,187	11.9x
Hormel Foods Corporation	USD	19,085	13.9x
ConAgra Foods, Inc.	USD	18,832	13.1x
McCormick & Company, Incorporated	USD	18,557	23.3x
Campbell Soup Company	USD	17,765	9.0x
The Hain Celestial Group, Inc.	USD	5,038	18.2x
SunOpta Inc.	CAD	1,550	23.7x
Adjusted average			15.6x
Adjusted median			13.9x



Source: Capital IQ Note: EBITDA multiples taken as of January 1, 2018

Closing remarks

The North American F&B industry experienced a strong three years. While the majority of profitability and key operating ratios improved in the years studied, there is some uncertainty in the market, due to political, social, economic pressures, and more importantly, a rapidly evolving consumer dynamic. Operators within the F&B industry will need to remain vigilant and nimble to remain ahead of the curve and maintain strong growth and profitability.

Overall, the F&B industry has experienced a competitive decade which is expected to continue as disruptions test market players in the coming years. As the industry becomes more technologically advanced, participants will continually need to innovate and refocus their strategic priorities in order to maintain and capture market share. An uncertain economic outlook and tighter capital restrictions will require companies to be thoughtful with their money.

In today's global community, technology is driving pervasive disruptions across many industries. Technological developments are exerting profound changes on the way people live, work, access information, and even how they perceive the goods and services they consume. Historically, traditional value drivers such as price, taste and convenience largely determined consumer purchasing decisions. Today, however, an increasing number of consumers are making purchasing decisions based on the "full plate," combining traditional and evolving value drivers (e.g., health and wellness, social impact, safety)—a shift which is fundamentally altering the value equation for retailers and manufacturers.

As the industry continues to evolve with increased innovation and technological advancement, it will not come without some challenges. Current political, social and economic pressures are creating uneasiness in the marketplace as operators try to adjust to a rapidly changing landscape. In North America, key trade agreements such as NAFTA pose a major risk to Canadian operators, especially those who depend on exports to the US. Minimum wage hikes in both Ontario and Alberta will squeeze operators as they must adjust to a mandatory payroll increase. Competition will remain fierce, with the full impact of Amazon's surprising acquisition of Whole Foods yet to be felt, as well as the increasing number of high-growth and on-trend products accessible to consumers.

In conclusion, we are excited to see what lies in store (or online) for the F&B industry as the sector continues to adapt to a fundamentally different landscape. We look forward to sharing this report with the F&B community and engaging in dialogue and idea sharing around these findings.

Participating companies

Participating companies

A total of 77 food and beverage processors were included in Benchmarking for Success 2018.

Participant Profile	Canadian	U.S.
Public companies	11	55
Private companies	11[1]	0

1. The names of private company participants are being withheld for confidentiality purposes.

Participating public companies - Canada

- Andrew Peller Limited
- Brick Brewing Co. Limited
- Corby Spirit and Wine Limited
- High Liner Foods Incorporated
- Lassonde Industries Inc.
- Liquor Stores N.A. Ltd.
- Maple Leaf Foods Inc.
- Molson Coors Canada Inc.
- Premium Brands Holdings Corporation
- SunOpta Inc.
- Ten Peaks Coffee Company Inc

Participating public companies - U.S.

- Amplify Snack Brands, Inc.
- B&G Foods, Inc.
- Bob Evans Farms, Inc.
- Bridgford Foods Corporation
- Brown-Forman Corporation
- Cal-Maine Foods, Inc.
- Campbell Soup Company
- Castle Brands Inc.
- Coffee Holding Co., Inc.
- Conagra Brands, Inc.
- Constellation Brands, Inc.
- Cott Corporation
- Craft Brew Alliance, Inc.
- Crimson Wine Group, Ltd.
- Crystal Rock Holdings, Inc.
- Dean Foods Company
- Dr Pepper Snapple Group, Inc.
- Farmer Bros. Co.
- Flowers Foods, Inc.
- General Mills, Inc.
- Hormel Foods Corporation
- Hostess Brands, Inc.
- Inventure Foods, Inc.
- J&J Snack Foods Corp.
- John B. Sanfilippo & Son, Inc.
- Kellogg Company
- Lamb Weston Holdings, Inc.
- Lancaster Colony Corporation
- Lifeway Foods, Inc.
- McCormick & Company, Incorporated
- MGP Ingredients, Inc.
- Molson Coors Brewing Company
- Mondelez International, Inc.
- Monster Beverage Corporation
- Nathan's Famous, Inc.
- National Beverage Corp.
- Pepsico, Inc.
- Pilgrim's Pride Corporation
- Pinnacle Foods Inc.
- Post Holdings, Inc.
- Potbelly Corporation
- Primo Water Corporation
- Reed's, Inc.
- Sanderson Farms, Inc.
- Seaboard Corporation
- Seneca Foods Corporation
- Snyder's-Lance, Inc.
- The Boston Beer Company, Inc.
- The Coca-Cola Company
- The Hain Celestial Group, Inc.
- The Hershey Company
- The J. M. Smucker Company
- The Simply Good Foods Company
- Treehouse Foods, Inc.
- Tyson Foods, Inc.

Glossary of terms

Category	Ratio	Original calculation / interpretation	Unit
Profitability	Return on investment	Year-end income before interest, taxes, depreciation & amortization / (year-end value of total shareholders' equity + minority interest + total debt)	N/A
	Return on equity, before tax	Year-end income before taxes / (year-end value of total shareholders' equity + minority interest)	N/A
	Tax rate	Year-end tax expense / year-end income before taxes	%
Efficiency	Gross margin	(Year-end value of net sales - cost of goods sold) / year-end value of net sales	%
	SG&A as a percent of sales	Year-end value of sales, general & administrative expenses / year-end value of net sales	%
	EBITDA as a percent of sales	Year-end income before interest, taxes, depreciation & amortization / year-end value of net sales	%
	Asset turnover	Year-end value of net sales / year-end value of total assets	N/A
	Tangible asset turnover	Year-end value of net sales / year-end value of tangible assets	N/A
	Net PP&E turnover	Year-end value of net sales / year-end value of net property, plant & equipment	N/A
	Days of inventory	(Year-end values of inventory * 365) / year-end value of cost of goods sold	days
	Days of receivables	(Year-end values of accounts receivable * 365) / year-end value of net sales	days
	Days of payables	(Year-end values of accounts payable * 365) / year-end value of cost of goods sold	days
	Cash conversion cycle	Days of inventory + days of receivables - days of payables	days
Solvency	Debt-to-total capitalization	Year-end value of total debt / (year-end value of total shareholders' equity + minority interest + total debt)	%
	Interest as a percent of sales	Year-end value of interest expense / year-end value of net sales	%
	Debt-to-EBITDA	Total debt / year-end income before interest, taxes, depreciation & amortization	%
	Current ratio	Year-end value of current assets / year-end value of current liabilities	N/A
	PP&E-to-total capitalization	Year-end value of net property, plant & equipment / (year-end value of total shareholders' equity + minority interest + total debt)	%
	Deferred taxes / total assets	Year-end value of deferred taxes / year-end value of total assets	%
	Other liabilities / total assets	Year-end value of other liabilities / year-end value of total assets	%

Data Sources

Deloitte obtained financial data for Canadian and US publicly held food and beverage processors through public filings available through CapitalIQ.

Neither CapitalIQ nor any third-party suppliers of data or software to Deloitte make any warranty, express or implied, as to results to be obtained by you or others from use of the databases or software or any reports generated therefrom, and there are no express or implied warranties of merchantability or fitness for a particular purpose or use. The accuracy and completeness of any reports generated by CapitalIQ's software and databases are not guaranteed, and Deloitte's third-party suppliers shall have no liability to you for errors or omissions with respect to CapitalIQ's databases or software or reports generated therefrom, regardless of the cause or source of such error or omission. In no event will you have any cause of action against Deloitte for any losses or damages (including any lost profits or indirect, special consequential, punitive or exemplary damages), even if Deloitte is advised in advance of the possibility of such damages.

Financial and qualitative data on privately held processors was gathered by surveying industry participants on a confidential basis.

Consistent definitions were used to ensure data consistency and to allow for comparison. Identical formats and definitions were used for the compilation of Canadian and U.S. processors' financial information.

When compiling financial data a small number of data points were deemed "extreme outliers" which substantially altered the profile of the data set and in our opinion obscured the "story" told by the financial data as it pertains to the "typical" or "average" company in the study. The proportion of data points deemed extreme outliers and removed from consideration represented approximately 2% of all data points included in the analysis.

Commodity prices and indices performance over the studied time period were collected from Index Mundi. Historical stock price performance for public companies was collected from CapitalIQ.

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