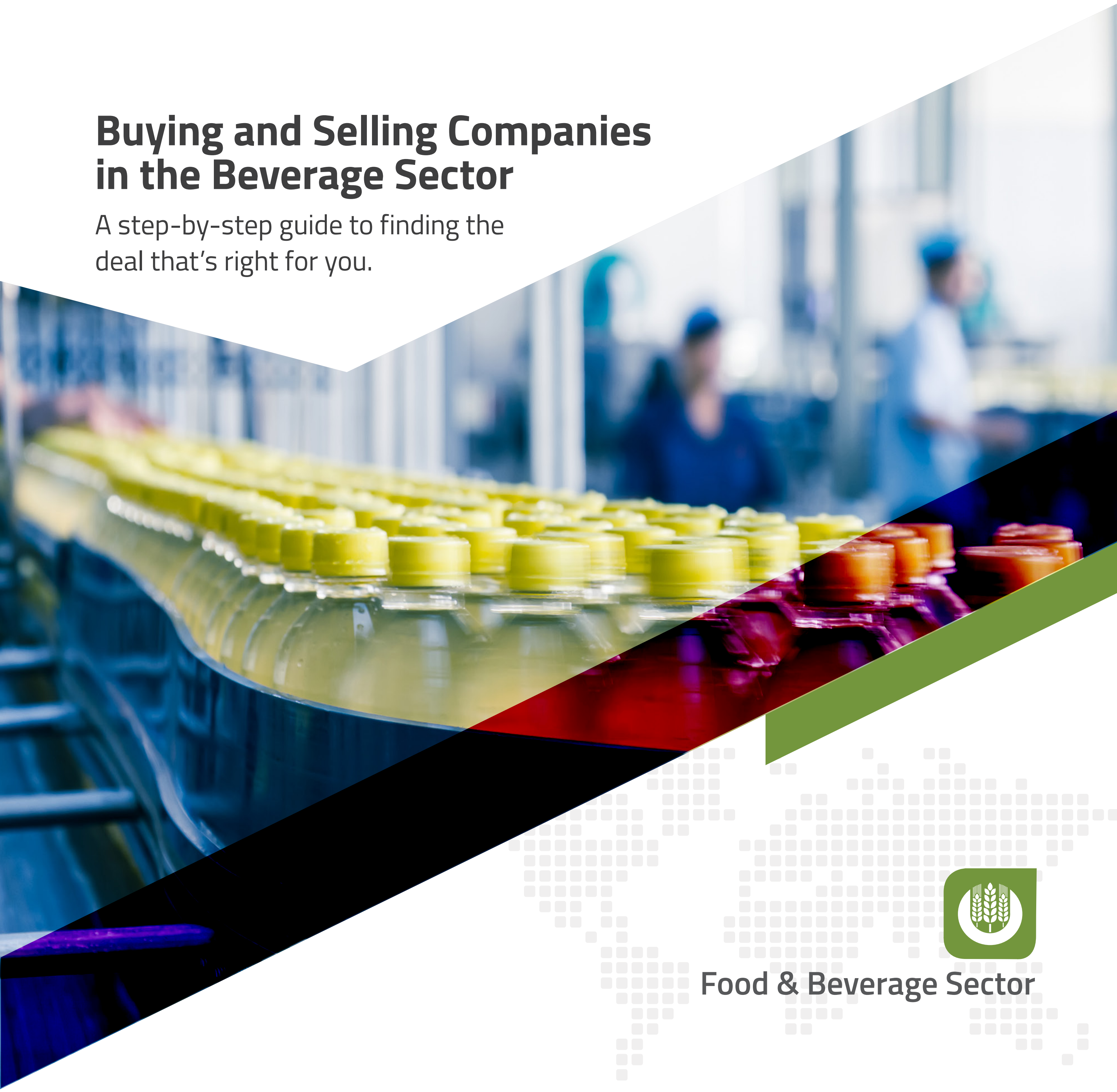
CDI GLOBAL

Buying and Selling Companies in the Beverage Sector

A step-by-step guide to finding the deal that's right for you.



Food & Beverage Sector

Executive Summary

The value of this guide

CDI Global has advised companies on mergers and acquisitions (M&A) for nearly five decades. We have a deep knowledge of the Food & Beverage sector and understand the prime importance of making informed choices in this complex global industry. Opportunities are plentiful, but so are potential pitfalls. This guide aims to explain both and demonstrate that, with the right expertise, there are deals to be made that can greatly benefit your business.

Who is it for?

Companies throughout the Food & Beverage sector and those seeking investment opportunities, including strategic players as well as private equity firms and family offices. In particular, senior executives and owners of smaller and middle market companies who want to know more about mergers and acquisitions in Food & Beverage, whether it has been on their 'to do' list or not. If you've never considered acquiring or divesting, we hope this guide will provide a fresh perspective.

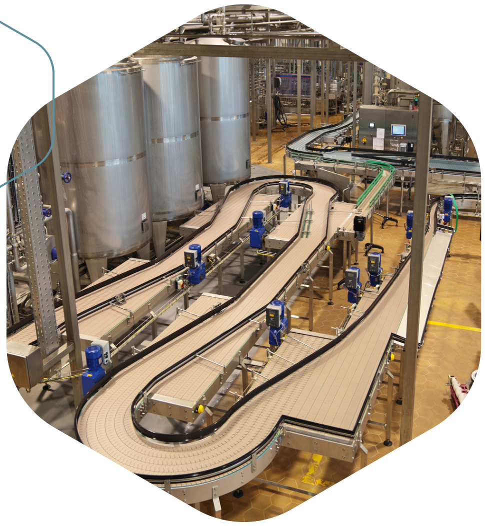
Key takeaways

- The state of the Food & Beverage sector and M&A current market
- Benefits of buying or selling for growth and diversification
- Transactions - the promise and pitfalls
- Open Auctions - Is there another way to buy?

Get an experienced perspective on your Food & Beverage sector ambitions.

CDI Global works with Food & Beverage business owners and management teams throughout the world to achieve the very best outcomes. We have extensive knowledge of the dynamic and innovative changes occurring in the industry. Ass your partner, we help navigate market changes and position our clients for extraordinary growth.Our deep experience with deal-making in the Food & Beverage industry provides expertknowledge and insights for advising clients on complex deals, capital raising and corporate finance. If you are considering buying or selling , or would simply like to discuss your options, sign up now for a free, no-obligation consultation with our experts.

FIND OUT MORE HERE



Why buy or sell in the Food & Beverage sector?

Food & Beverage by nature is a high growth sector and if you're not growing, you're probably getting replaced. While R&D (Research & Development) can help you fill holes in your product roadmap, most companies in Food & Beverage now recognize that by the time you develop a new product someone else is already in the market.

Therefore, M&A can often be the highest value method to get new products to market in the highly competitive Food & Beverage space.

An important driver can also be the need to focus on strengths. Strip non-core elements out of the business and build excellence and specialty in your field. This may include buying competitors and complementary businesses. Acquisition is also effective for securing growth in new geographies or for increasing scale and market power in more mature market segments in Europe, Asia, and North America.

That said, if your company is operating in a legacy Food & Beverage sector, the opposite approach – branching into a new high growth field – might be the correct strategy. The right acquisition can deliver R&D, diversification, and access to new markets in one deal. As we have said, the Food & Beverage sector is complex and there is simply no single best strategy.

However, one thing is certain: the right 'fit' is as important as the right price and, for this, custom-tailored deals informed by sector expertise are best.

CDI Global's international presence, with offices on all continents, gives a unique added value to sellers and buyers. CDI Global provides a wide spectrum of Food & Beverage investment opportunities for specific regions and countries around the world. CDI Global has local partners with the industry expertise to provide invaluable advice throughout the demanding process required for successful deal-making in the Food & Beverage sector.

The State of the Food & Beverage Market

Where do the opportunities lie?

Everywhere! Most important is being clear on your strategic rationale for the purchase/sale you seek and having the means to find the right company to make the deal, wherever it may be. Therefore, having someone who can source the right targets can be critical. Such targets represent a strong strategic business fit, are actionable, and can be transacted at the right price. Some of the important trends driving transaction opportunity are discussed below:

- Growing adoption of organic food and beverages owing to associated health benefits and eco-friendly characteristics is expected to drive demand for at least the next six years.

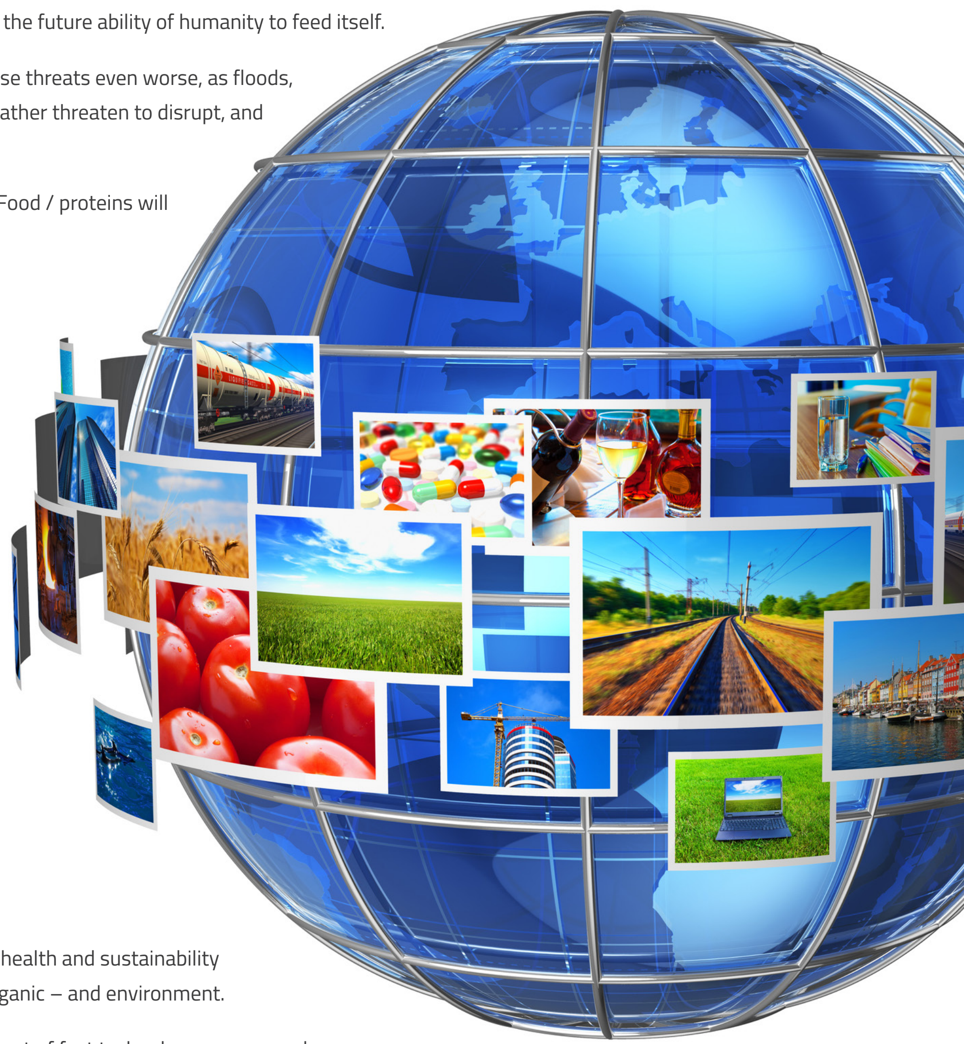
- Environmental, Social & Governance (ESG). In all sectors, but particularly in food production, producing in a way that focuses on improving environmental and social impacts while achieving professional governance will be paramount to producing sustainable businesses and thus investor confidence. This important aspect will push sellers to adapt their businesses towards ESG and therefore increase business value. Buyers will be enticed by these efforts and willing to pay higher prices for companies that put value in ESG impacts.

- The manner in which institutional investors approach environmental, social, and governance (ESG) issues is gaining increased attention across OECD countries. Pension funds, insurers, asset managers and any professional institutional investor should be equipped to understand and respond to potential risks and opportunities arising from ESG-related factors in order to safeguard the assets that they invest on behalf of their beneficiaries and clients. When we talk about environment, the Food Sector always deserves relevant analysis.

- More than half of the world's GDP growth is expected to come from countries outside the OECD. As these countries are getting richer and more people are moving to cities, their diets are changing too (more calories, more processed food, and more animal protein). In fact, to meet demand from a growing population with changing tastes, global meat production will need to increase by 74% by 2050. The companies that can answer this problem will score big in the global landscape.

What are the challenges?

- Water and limited availability of good quality agriculture lands: The world's current water supplies will only satisfy approximately 60% of world demand, and thus this phenomen will directly impace efficient food production. The world's land and water resources are being exploited at "unprecedented rates," a new United Nations report warns, which combined with climate change is putting dire pressure on the future ability of humanity to feed itself.
- Climate changes: Climate change will make those threats even worse, as floods, drought, storms and other types ofextreme weather threaten to disrupt, and over time shrink, the global food supply.
- World Population is growing annualy and fast: Food / proteins will always be a big a need and scarce resource.



Trends

- Globally, consumers are more conscious about health and sustainability extending to both diet –such as gluten-free, organic – and environment.
- Technology applied to food production: The impact of fast technolgy progress and process automation to growing demand for organics, the Food & Beverages sector is undergoing a period of important change
- Emerging market growth, urbanization, and rising living standards: Important growth in emerging markets urbanization, and rising living standards are causing a shift to higher-value-added product consumption, increasing demand for processed and packaged food.
- Changing consumer preferences: An increasing focus on health (organic and healthier food) is driving product/menu expansion and the need for higher standards and traceability.
- Increased demand for convenience "on-the-go" food presents a growth opportunity for the food service sub-sector.

"Identify the Right Opportunity"

What to do if you're looking to buy

"It's vital that you have a clear rationale for seeking an acquisition in the first place, underpinned by your company's growth strategy. This will provide the framework for defining the criteria when choosing your target."

1 Next Steps:

Craft a specific buy-side mandate. Specify criteria and decide which are critical/important, then quantify each one (e.g. target size, profitability, growth rate, sales in key segments, etc.). A preliminary list of targets can be drawn up but, at this point, a reality check is crucial. Do you have the time or expertise to locate the best targets? If not, you need help from an expert in the sector who will also advise on how and when to approach the companies in question.

2 Finance:

Engage with potential debt or equity providers to ensure they understand and back the plan, and that you will have sufficient financial firepower to do the deal. Also calculate how any extra leverage might affect the company.

Be mindful of fluctuations in currency exchange rates, they tend to be self-hedging if the changing value of debt and profits go hand in hand. Investing heavily in emerging economies/markets with volatile currencies can be tricky to manage, if they constitute a significant proportion of your corporate earnings. CDI Global's M&A advisors understand global markets and can shepherd you through the landscape and financial ramifications of your deal.

3 Acquisition Plan: Identifying the Right Opportunity:

As we have said, many companies seek to strengthen their core when acquiring; but other businesses may diversify, either into higher margin sectors or to hedge against shocks in specific markets or geographical areas. M&A here requires a very rigorous approach as almost every opportunity will be different. Whatever the strategy, ideal targets for acquisition will likely have one or more important characteristics:

i. A steadily growing sales and profit profile
ii. Good growth potential based on factors such as holding a niche position and/or valuable intellectual property.
iii. Fragmented supplier and customer bases, relatively immune to cost/price pressures and more able to sustain margins.

4 Auctions:

On the face of it, auctions appear a good solution for time-poor senior executives seeking acquisitions. Initially the selling company does all the work, hiring an investment banker to prepare a prospectus, to be read at your leisure. But there are three immediate disadvantages:

- the prospectus will often go to many other potential buyers
- you may receive it irrespective of the suitability of the offer
- the focus for the bank conducting the auction is getting the best price for the seller.

So, your chance of acquiring a company that's a good fit at a reasonable price is diminished. And companies can waste a lot of time evaluating prospectuses to discover there would be little strategic benefit acquiring what's for sale.

Following the herd is rarely fruitful. Unfortunately, companies disappointed by auctions can allow this to color their view of M&A as a whole, to their detriment. This is a missed opportunity as other approaches are available, such as specialist search, which can be extremely effective.

5 Why use a specialist?

Serendipity is not an effective strategic tool. You need experienced advisors who will help you diagnose your requirements and know where to find what you need, anywhere around the globe. You need someone who understands your sector inside out and talks your language, yet also fluent in cross-border transactions, with a global knowledge and reach. Someone who is also used to managing the whole M&A process, dealing with the myriad of accounting, legal and specialist advisors ultimately driving the deal home.

CDI Global deploys experienced specialists that listen to your needs in order to craft comprehensive strategies based on your precise requirements. Having an expert in your corner means maximizing your team's time and getting the job done to secure the best possible M&A outcome.

"We remove the complexity from these negotiations by having global reach, with local experts that facilitate a smooth transaction."

6 Due diligence:

CDI Global has the experience to recognize the warning signs of a bad deal and works with you to avoid those pitfalls. These warning signs include:

i. The seller appears not to be irrevocably committed to selling.
ii. The seller has limited or poorly prepared due diligence materials.
iii. The seller may not have proper support from professional advisors.
iv. The timetable is unclear or key deadlines in the process are missed or not respected by the seller.
v. The business starts to under-perform or miss key financial targets.
vi. The seller reneges on key aspects that have already been agreed.
vii. Due diligence uncovers one or more 'skeletons in the cupboard'.

However, cross-border deals in the Food & Beverage sector can have specific pitfalls, especially when dealing in countries where regulatory and accounting standards are different. Once again expert advice is needed to avoid costly mistakes.

7 Managing the transition:

With the deal nearing agreement, you will need clear plans (30-day, 100-day or similar) on what will be done immediately once the new business is acquired. It's vital to get an integration plan solidified and on track with sensitive role changes and/or redundancies implemented quickly. Will the owner or senior managers continue to be involved? Will you have to act to prevent departures of key personnel? You will need to have clear answers to these important questions and only experience and best practices can guide you to successful integration. CDI Global can help develop a strategy to navigate your post-merger integration to help optimize efficiency and synergies.

What to do if you're looking to sell?

1 The starting point:

For private companies, this often arrives when the owner reaches a certain age and wants to enjoy the fruits of their labor. Is the next generation willing or able to pick up the reins? If not, what are the options to transition the business? Is selling the right answer?

2 Next steps:

Do you sell all the business or keep a stake? The latter could be an attractive option if you're confident about future growth with your shares becoming more valuable in time. Even if you sell everything, be prepared for buyers who want to lock you into the business for a period, post-sale, particularly if they're paying a high price. Typically, buyers will have very well-defined requirements and what they want is usually simple – certainty about what they are buying and the risks and liabilities that come with it.

For your part, be clear about your minimum price and whether you wish to stay involved in the business in future. Don't compromise on these points. There is usually no need for negotiations to become as complex as they often do. Again, an experienced M&A advisor can usually craft a plan based on your desired timing. They also know where to find potential problems in the small print – anything that could claw back money from you as the seller in future years or leave you with residual liabilities (particularly with environmental issues or pension liabilities).

3 Finance:

It is the buyer who ultimately fixes the value of your business based on market, competition, and your unique selling points. It's important that you have a view, and make your calculations accordingly, but in the final analysis what they are willing to pay is the critical determinant of value. Every deal is different, so basing your valuation on what has happened previously can lead to disappointment and disruption to your business planning. Be clear, but also realistic, about your price and expectations and be prepared to walk away if these are not met.

Also, in any deal, be careful about committing to significant investment to make your business more saleable. This may be necessary to remove an obstacle to sale (e.g. an environmental issue), but investment aimed at producing future growth may not impress buyers, particularly if the future profit uplift is reflected in the expected sale price. Buying on a promise is not attractive to either strategic acquirers or financial buyers, i.e. private equity.

4 Due Diligence:

What does a 'good' buyer look like?:

i. They have the right attitude and commitment to do the deal.
ii. They can provide proof of sufficient finances to complete the transaction.
iii. They have the resources, in particular the right people, to progress the deal.
iv. They have a track record of closing other similar deals.

5 Legacy / Cultural Considerations:

A final important consideration is whether the buyer is willing to meet terms you may set for the treatment of your staff after you depart. You must decide how important that is and be very clear if it is a requirement. In addition, for a privately-owned company, do you want the company name and brand to continue?

Case Study

CDI Spearheads Sale of Breeders & Packers Uruguay to NH Foods Group

CDI Uruguay and CDI ANZ are pleased to announce the sale of Breeders & Packers Uruguay (BPU) to NH Foods Group for $135M. The transaction has been announced to the Tokyo Stock Exchanges on April 28th, 2017. This transaction shows the strength of the CDI network, where the transaction involved a global search and deal negotiations between entities located in Uruguay, Japan and Australia.

CDI was the lead Corporate Advisor to BPU. After a global search for potential acquirers NH Foods Australia was identified as providing the best offer for the business. NH Foods Australia owns a number of significant beef business in Australia, including Oakey Beef Exports, Wingham Beef, Thomas Borthwick & Sons and Walhalla Beef.

Whilst the initial negotiations were with NH Foods Australia, once the Non-Binding Letter of Intent was signed, NH Foods Group engaged Goldman Sachs as their lead Corporate Advisor. CDI ANZ managed communication with Goldman Sachs and CDI Uruguay managed communication with BPU and NH Foods Corporate Advisors in Uruguay.

CDI developed the Divestment Plan with BPU and Information Memorandum, identified acquirers of the business and conducted a global search for potential partners. They then reached out and managed communication with each acquirer, managed initial discussions and site visits, and negotiated and finalized the Non-Binding Offers. CDI was the lead Corporate Advisor for BPU and Goldman Sachs for NH Foods group. CDI ANZ managed communication with Goldman Sachs and CDI Uruguay managed direct communication with BPU and NH Corporate Advisors in Uruguay. They also developed and managed the virtual data room, corporate advisors and face-to-face meetings.

BPU meat URUGUAY

Breeders & Packers Uruguay

NH Foods

About BPU

Uruguay is an excellent country for meat producers because of its stable government, economy, and less climate change such as droughts. BPU is a leading slaughterhouse in Uruguay with professional management team and excellent business systems. BPU processes meat with the most modern equipment, and exports the products to China, Europe, the United States and other countries. It has sales of around $200M and over 700 employees.

About NH Food Groups

NH Foods Group, founded in 1942, is one of the leading global companies in food production, with 155 farms, 2 fish farms, 100 processing plants, 3 research centers and 361 logistic and sales points, with operations in about 100 locations in 18 countries and regions excluding Japan. NH Foods Group produces fresh meat and marine products with annual revenues of over $11.3B. By acquiring BPU, the Company intends to expand its sales in enormous beef consumption markets including North America and Europe as well as emerging markets in Asia and other regions where the demand for the beef is rapidly increasing.

About CDI Global

We hope this guide has stimulated your interest in M&A – and alerted you to both its potential opportunities and hazards. Our 40 years of experience has shown CDI Global how to navigate the shifting marketplace, and guide companies through the process to find opportunities that match their goals.

We have the knowledge.
Would you like to reap the benefit?

CDI Global offers expertise in:

- Food & Beverage sectors – unlike banks and investment advisors, our team has both worked and conducted M&A advisory within various sectors across the industry. We know the industry structure and dynamics inside out.
- Custom-tailored, pro-active approach. We go out and find the best deal for your unique requirements, and offer pragmatic, hands on support.
- Extensive network of contacts, particularly among privately owned companies in the Food & Beverage sector.
- Cross-border M&A expertise and global footprint. CDI Global has expertise on the ground in each territory and operates on the basis of cross-border cooperation.
- We focus on best strategic fit, not just best price.
- Experience in search projects and approaching SME owners on a highly confidential basis, improving closing rates and sourcing “not-for-sale” vs auction opportunities.
- Experience and support in organizing local Due Diligence, managing negotiations and providing results.
- Commitment to the long-term, both in our strategic advice and when working with clients.
- Respect we have earned from both parties in our transactions - based on trust and professionalism.

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