

# Middle Market Metrics



Summer 2010

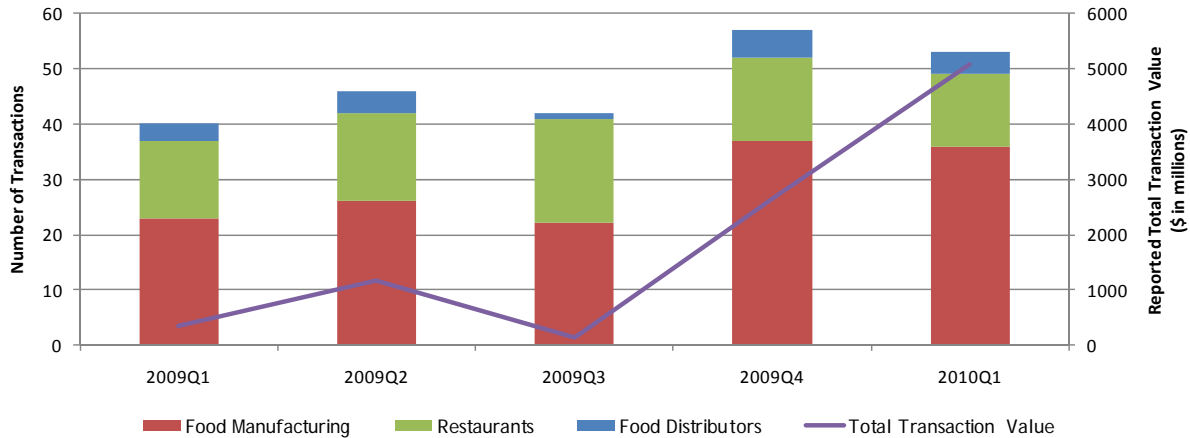
## M&A in the Food Industry: What's on the Menu for 2010

Given the apparent end to what the popular press has dubbed “The Great Recession,” many are wondering what the food industry will see in terms of mergers and acquisition activity in the near term. While we certainly do not have a crystal ball, we do look at three key indicators when contemplating M&A activity going forward. These three indicators are: 1) recent M&A activity in the industry, 2) liquidity available for transactions, and 3) broad economic indicators. Let's visit each of these topics in detail.

### Recent Food M&A Activity

In general, the food industry has shown a remarkable resilience in M&A activity during the recession, with over 250 transactions reported since the beginning of 2009. With the emerging recovery, deal volume has been on a major upswing since 3Q09 as shown below:

Recent M&A Trends in the Food Industry



Source: Capital IQ

The data above includes several large, notable transactions consummated at impressive multiples of EBITDA:

### Recent Notable Transactions in the Food Industry

Source: Capital IQ

Date Announced	Target	Status	Buyers/Investors	Sellers	Implied TEV	Target Revenue	Target EBITDA	TEV/Revenue	TEV/EBITDA	Industry
May-10	Michael Foods Inc.	Announced	Goldman Sachs	Thomas H. Lee Partners	\$2,569	\$1,537	\$219	1.7x	11.8x	Food Mfg / Dist
May-10	Captain D's, LLC	Closed	Sun Capital	Sagittarius Restaurants	-	\$235	-	-	-	Restaurants
May-10	Dave & Buster's Holdings, Inc.	Closed	Oak Hill Capital	Wellspring Cap. Mgnt, HBK	\$570	\$521	-	1.1x	-	Restaurants
Apr-10	CKE Restaurants Inc.	Announced	Apollo Management	-	\$1,029	\$1,419	\$155	0.7x	6.6x	Restaurants
Mar-10	Papa Murphy's International, Inc.	Closed	Lee Equity Partners	Charlesbank Capital Partners	-	\$630	-	-	-	Restaurants
Mar-10	Dakota Growers Pasta Co. Inc.	Closed	Agricore United	MVC Capital, Inc., others	\$218	\$262	\$47	0.8x	4.6x	Food Manufacturing
Feb-10	Kettle Foods, Inc.	Closed	Diamond Foods, Inc.	Lion Capital	\$615	\$260	\$62	2.4x	9.9x	Food Manufacturing
Feb-10	Best Brands Corporation	Closed	CSM Bakery Supplies	Brantley Partners, others	\$510	\$538	-	0.9x	8.5x	Food Manufacturing
Jan-10	Kraft's NA Frozen Pizza Business	Closed	Nestlé USA, Inc.	Kraft Foods	\$3,700	-	\$297	-	12.5x	Food Manufacturing
Dec-09	Sturm Foods, Inc.	Closed	Treehouse Foods	HM Capital Partners	-	\$331	\$81	-	-	Food Manufacturing
Nov-09	Birds Eye Foods, Inc.	Closed	Pinnacle Foods	Vestar Capital Partners; others	\$1,434	\$921	\$144	1.6x	10.0x	Food Manufacturing
Nov-09	Landry's Restaurants Inc.	Announced	Tilman J. Fertitta	-	\$1,185	\$1,069	\$191	1.1x	6.2x	Restaurants
Jun-09	Centerplate, Inc.	Closed	Admiral Capital	Kohlberg & Company	-	\$819	\$52	-	-	Restaurants
Jun-09	Cajun Operating Company	Closed	Friedman Fleischer &	Arcapita Bank	\$367	\$1,200	\$50	0.3x	7.3x	Restaurants
May-09	National Dairy Holdings, LP	Closed	Grupo Lala, S.A. De	Dairy Farmers of America	\$435	\$1,600	\$38	-	-	Food Manufacturing

**IMPLICATION:** In our estimation, the recent momentum in food industry M&A activity is a very positive sign, and we anticipate an acceleration in deal volume throughout 2010.

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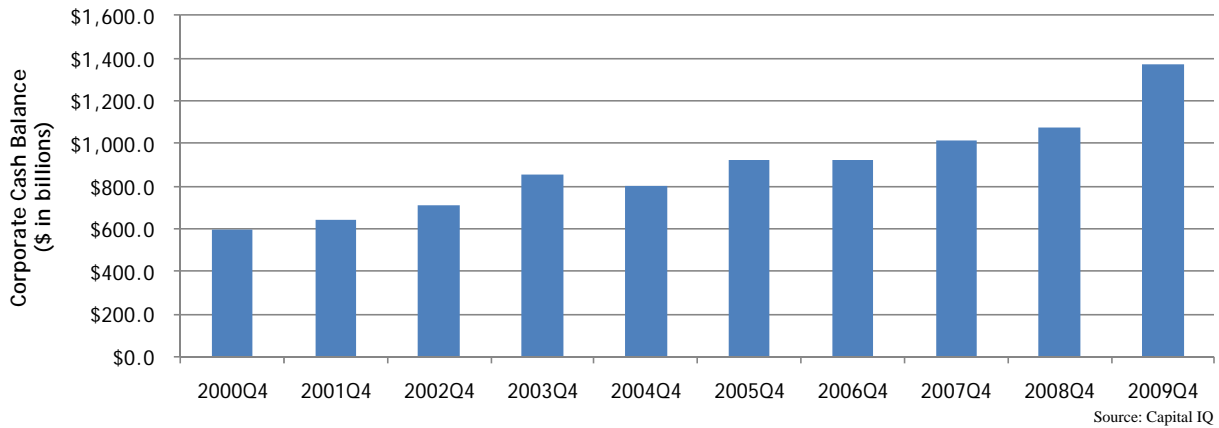
## What's on the Menu? (cont.)

### Liquidity Available for Transactions

When we discuss liquidity, we really need to examine each of the three major “currencies” available to acquirers for transactions, namely 1) cash on the balance sheet, 2) debt, and 3) company stock.

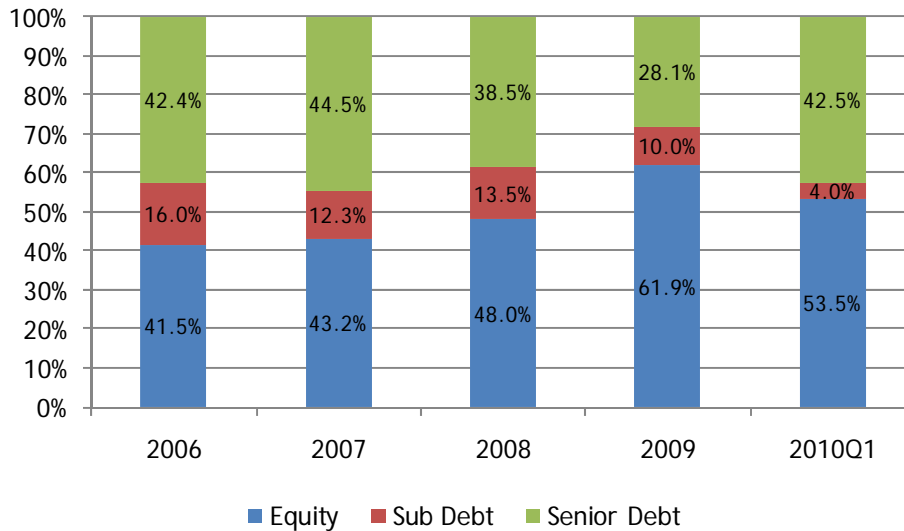
First, cash balances among major corporations are at an all-time high (though companies’ willingness to deploy that cash for acquisitions instead of on other activities such as share buybacks, etc., remains to be seen):

**Total Cash and Cash Equivalents among Companies in the S&P500**



Second, the debt capital markets are loosening, with senior debt as a percentage of overall capital structure approaching levels not seen since 2007...

**Middle Market Equity & Debt Contributions for Middle Market Transaction**



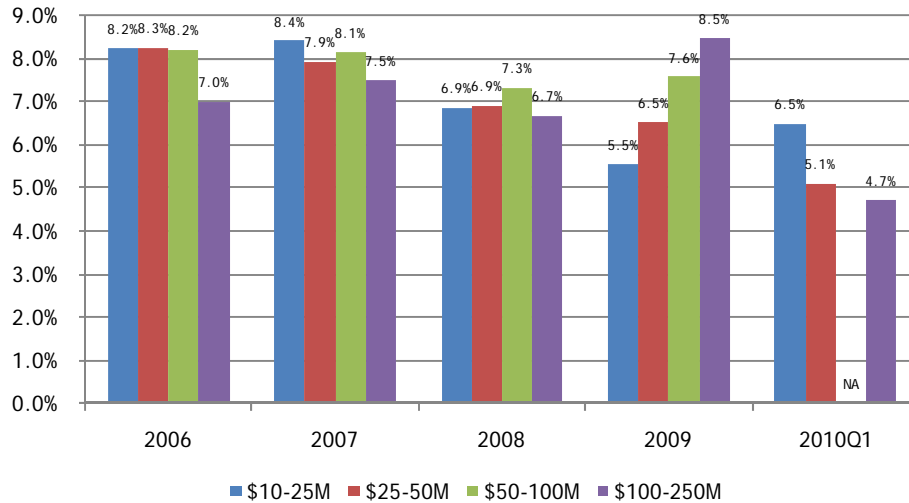
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# MIDDLE MARKET METRICS

## What's on the Menu? (cont.)

...with pricing on senior debt through the first quarter of 2010 at or near four year lows.

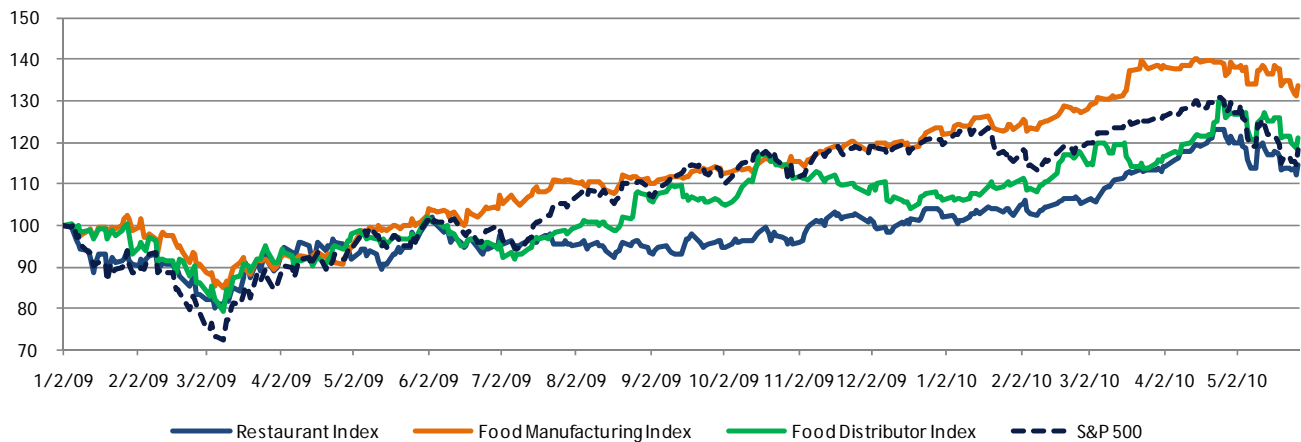
Senior Debt Initial Pricing by Transaction Size



Source: GF Data Resources

Finally, in spite of a recent pullback, stock prices (and, presumably, companies' willingness to use stock in a transaction) have rebounded along with the broader indices, with food manufacturers' stock prices significantly outperforming the S&P 500 since the beginning of 2009.

Recent Stock Prices Performance of Major Food Indices



Source: Capital IQ

**IMPLICATION: Companies have the ability to pay for strategic M&A transactions.**

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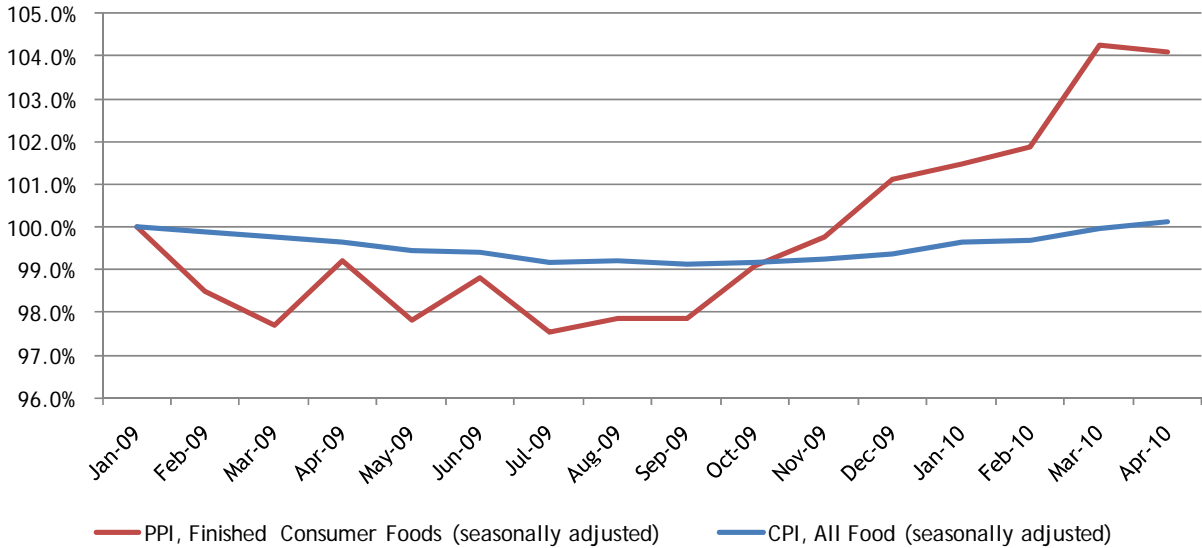
# MIDDLE MARKET METRICS

## What's on the Menu? (cont.)

### Broad Economic Indicators

The U.S. economy has rebounded significantly in the past 12 months. For the food industry in particular, the rebound is readily apparent in the recent acceleration in both consumer and producer food prices, driven primarily by a marked increase in demand.

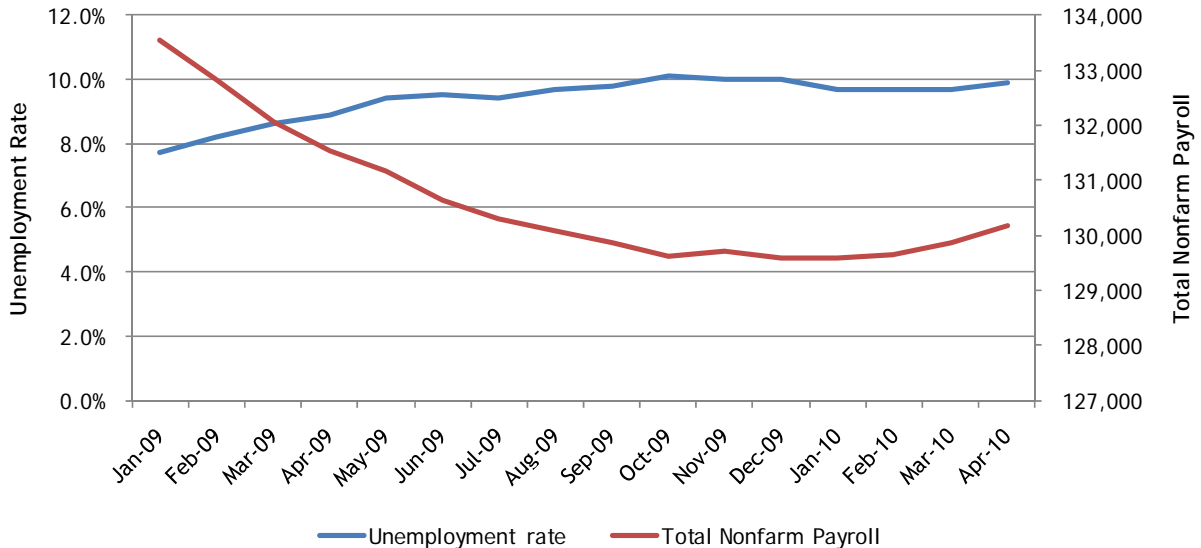
#### Food Consumer Price Index and Producer Price Index



Source: Bureau of Labor Statistics

How sustainable is this latest trend? Three key indicators we monitor are the unemployment rate, total nonfarm payroll numbers, and consumer sentiment. As shown below, while unemployment is expected to remain near 10 percent for the foreseeable future as more and more unemployed individuals resume their job searches, it is clear that payrolls are on the upswing, which should help sustain the current recovery.

#### Unemployment Rate and Nonfarm Payroll



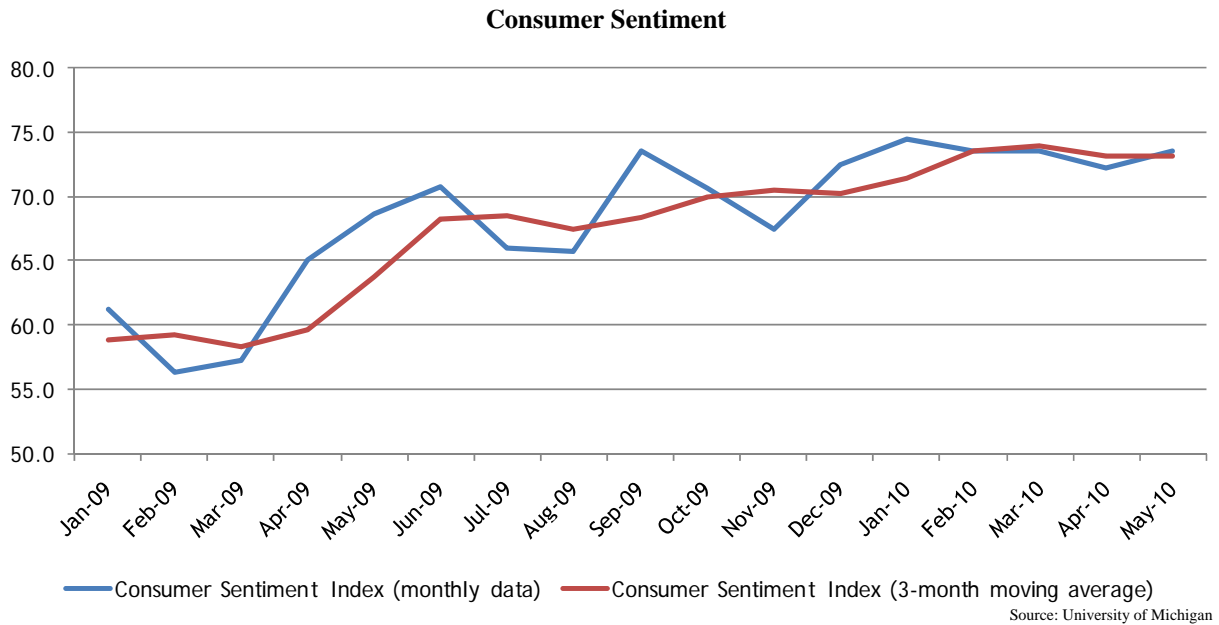
Source: Bureau of Labor Statistics

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## What's on the Menu? (cont.)

Consumer sentiment, which reached a 30-year low in early 2009 and is still below levels seen for most of the past decade, has steadily improved since March of last year. Clearly, consumers are still reeling from the perfect storm of plunging retirement accounts, disappearing home equity, and un- or under-employment. Yet, despite challenges in Europe and persistently high unemployment the general mood is one of optimism and hope that the recovery will continue and economic conditions will steadily improve.



**IMPLICATION: Consumer spending, which accounts for 70 percent of total Gross Domestic Product, will supplement business investment; as trailing twelve month results begin to include four full quarters of improved earnings, shareholders and corporate boards will begin to reconsider strategic M&A transactions.**

### Conclusion

“The Great Recession” appears to be behind us, with a slow, but hopefully sustainable recovery underway. We have already begun to see the ice breaking for M&A activity, assisted by buyers’ ability to pay and sellers’ willingness to sell. It is important to note, though, that how long the current window for transactions will remain open is unclear at best; and if past recessions are any indication, when the window does close, it could close swiftly and decisively.

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Strong sector expertise...  
experienced execution.



Has raised new capital.

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Debt and equity financing was provided by:



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The undersigned was the exclusive financial advisor  
to Protein Solutions, LLC in this transaction



June 2010

Chicago, IL

For more information on our food industry  
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