

# KEY CONSUMER TRENDS IN FOOD & AGRICULTURE

2018 SERIES

## TRANSPARENCY & TRACEABILITY

INSIGHT FROM  
ORIGIN MERCHANT PARTNERS  
SENIOR ADVISOR, STEVE BROMLEY



We have been exploring key consumer trends in food & agriculture and assessing what they mean to the industry in our ongoing multi-part series.

We have noted that consumers are making more informed decisions than ever before when it comes to their food choices, driving significant demand for perceived healthier foods including non-GMO, organic, clean label options and “free from” foods to name a few. The food & agriculture industry is responding rapidly to these changing consumer preferences and the impact is substantial.

Are the changes here to stay? We explore key trends with Origin Merchant Partners Senior Advisor, Steve Bromley. Mr. Bromley has over 30 years of food, beverage and general business experience in private and public companies at both executive management and board levels.

Source: 1. The Hartman Group: Sustainability 2017

### Consumer Demand Driving A New Era of Accountability

“Today’s consumers want to make better purchase decisions and to do this they want to be better informed. They want to know “what’s inside” before they buy. And what they want to know extends well beyond product and packaging characteristics. Consumers today increasingly view sustainability and corporate responsibility – from organic ingredients to animal welfare to company treatment of employees and energy conservation – as aspects of quality, not just a “feel good” factor.”<sup>1</sup>

In our past Insights reports we have discussed both the organic and clean label trends. One of the key tenants underlying both of these trends, plus others such as non-GMO, free from foods, is the consumers desire for transparency and traceability. More than ever, consumers want to know more about their food – where it came from, how it was made, who made it, what was the impact on the environment, how the workers were

treated, and on and on. Consumers are voting with their wallets, and in response the food industry is moving towards a more transparent and consumer-oriented approach. Gone are the days of loyalty to foods based solely on name recognition and marketing dominance. Instead today’s consumers are demanding specific information about a particular product before making a purchase decision.

# Consumer Demand For Transparency

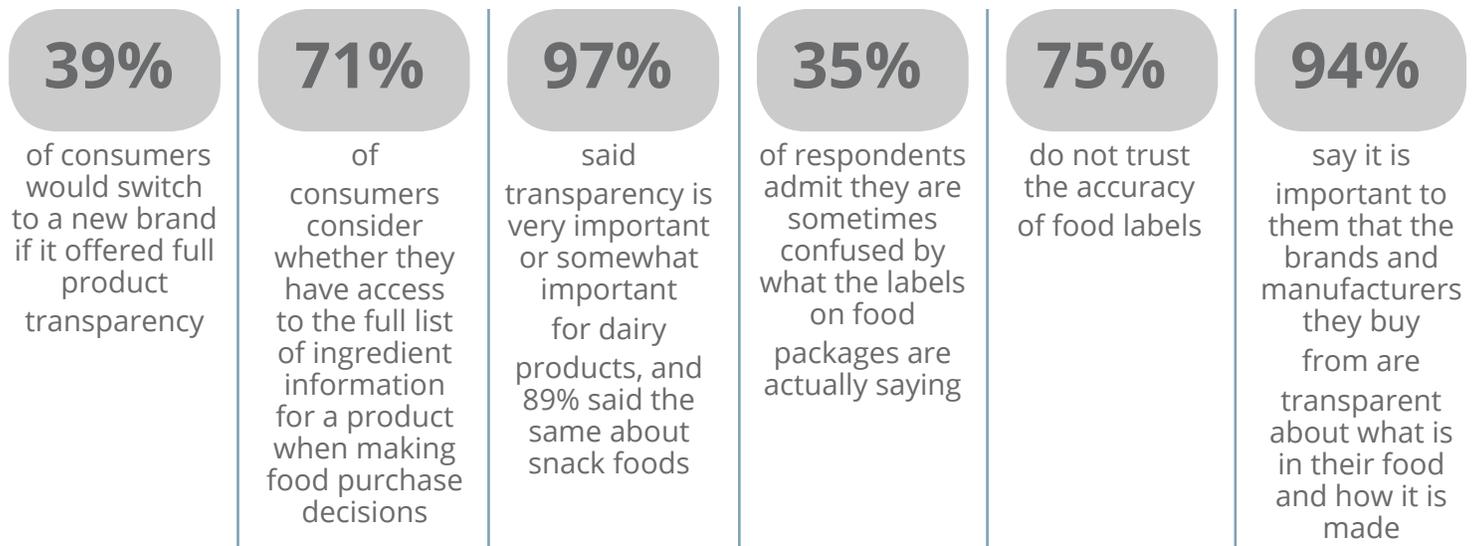


Consumers are more engaged, involved, and tuned into the inner workings of companies than ever before.

**Consumers are demanding transparency from companies in an unprecedented way, rewarding those who are transparent and penalizing dishonesty.**

“Full disclosure” is expected, and this is being led by a combination of the millennial generation, the digital economy and new and changing food safety regulations which are driving food producers to have traceability and transparency throughout their supply chains.

A recent study from Label Insight revealed the following:



**81%** would consider a brand's entire portfolio of products if they switched to that brand as a result of increased transparency

Source: 1. Label Insight Food Revolution Study 2016

# Linking Consumer Categories to the Trend

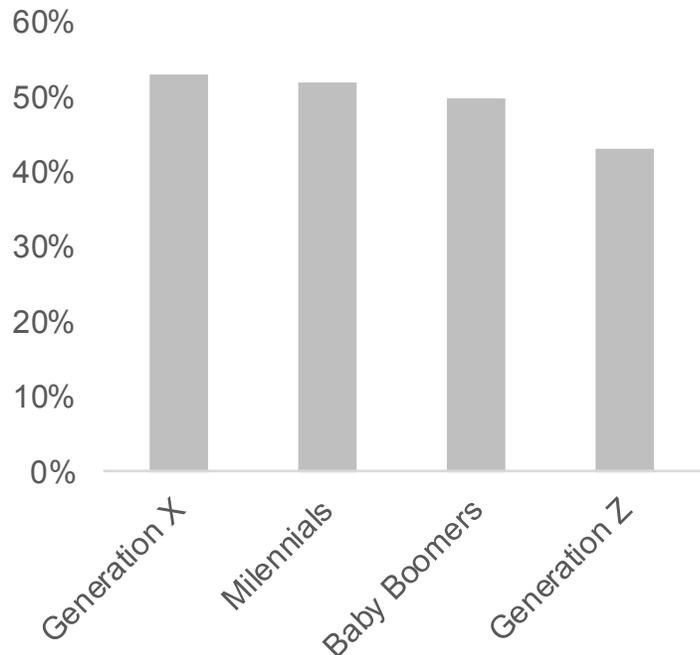


The demand for product transparency crosses all age groups. Generally older consumers value label transparency, but younger generations who have been at the forefront of the digital economy have much higher expectations for information in general beyond just labelling. As this younger age group gains purchasing power, the demand for food transparency and traceability will only continue to grow and demands on the food system continue to rise. We take a look at three emerging consumer groups whose habits are further contributing to industry disruption and demand for transparency and accountability.

## TRUTH MINERS

- Consumer trust is lower than ever, in part due to distrust in politics and the rise of 'fake news' or unsubstantiated media. This distrust has spilled over to companies and 'truth miners' are digging for the truth, and holding companies accountable for their dishonesty
- They are sceptical of mass-produced items and the values of the companies producing them
- They want to know everything about the product, starting from sourcing, production, transportation, packaging, environmental impacts, animal-welfare, certifications, etc.
- If truth miners don't find tangible truth in the form of videos and pictures, they will begin researching independent sources for their information
- They use their purchasing power to ignite change, and trust is key

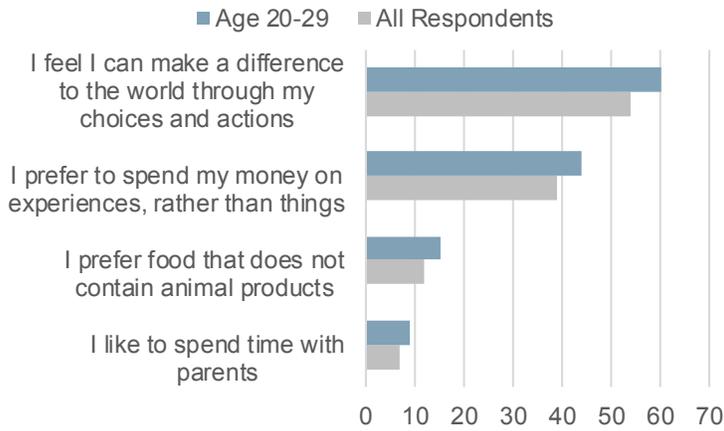
## Respondents That Only Buy from Companies and Brands They Trust <sup>1</sup>



Source: 1. Euromonitor International Global Consumer Trends Survey 2017 Note: Refers to % of respondents who agree or strongly agree with the statement

# Linking Consumer Categories to the Trend

## Strong Beliefs and Preferences Among Consumers Aged 20-29 <sup>1</sup>



### BACK TO THE BASICS

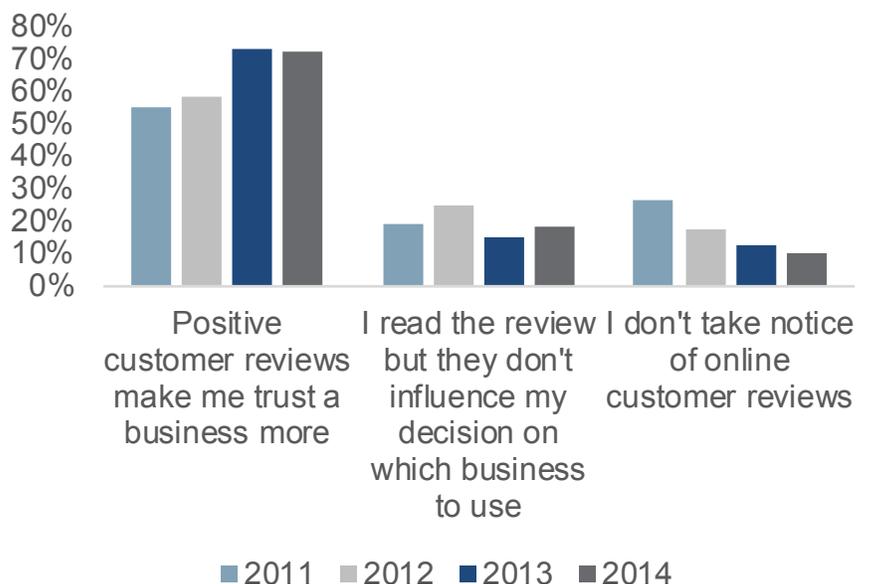
- This group of consumers is participating in a minimalist, back to the basics movement
- They believe less is more (in food and material possessions)
- They believe that their actions can make a difference and demand transparency
- “Clustering around educated 20–29-year-olds, a new generation of “straight edge” consumers has grown up knowing deep recession, terrorism and troubled politics, and has a wider world view than previous generations.”<sup>2</sup>

According to a report by Edelman, 57% of consumers are more likely to buy, switch from, avoid or boycott a brand based on its stance on a controversial political or social issue.<sup>3</sup>

### HASHTAG ACTIVISTS

- As more people gain access to the internet, internet activism is increasingly gaining the ability to inspire real change, which can be both positive and negative for food companies
- Viral movements can cause real change, demonstrated by the recent success of the #MeToo movement. Consumers can use their collective voice to call out companies for accountability, creating online waves that permeate into the real world
- This online influence is likely to continue with it's momentum picking up as internet access increases and the risk of negative reviews cannot be understated

### How do online customer reviews affect your opinion of a local business? <sup>4</sup>



Source: 1. Euromonitor International Global Consumer Trends Survey 2017 2. Euromonitor International; Top 10 Global Consumer Trends for 2018  
3. Edelman Earned Brand report 2017 4. BrightLocal Local Consumer Review 2014

# TRANSPARENCY TRENDS

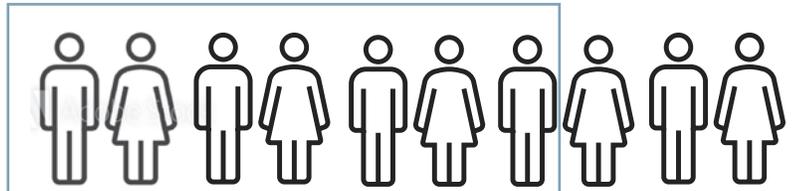


are likely to be more loyal to a brand that offers complete transparency<sup>1</sup>

Consumers that would be **loyal for life** if brand offered complete transparency<sup>2</sup>

56%

7 out of 10 consumers would like companies **sustainability** practices to be **more visible**<sup>2</sup>



**29%** of global food/beverage launches used **natural claims**<sup>3</sup>  
(which includes no additives/preservatives, organic, non-GMO)

**22%** of global food/beverage launches use **ethical and environmental claims**<sup>3</sup>  
(including environmentally friendly packaging, human & animal welfare claims)



# TRANSPARENCY

## Food For Thought

### How The Food Industry is Transforming in Response to Consumer Demand for Transparency

Providing complete transparency can be very complicated and involved for food companies. Companies need to understand every step in the supply chain and provide details in a transparent manner. Progress is not always as fast as consumers would hope, and in this day and age there is very little time for companies to recover from perceived shortcomings. Here are some examples of companies who have realized success from transparency, and their journey to improvement:

#### McDonald's combats rumours with facts in 'Our Food, Your Questions' campaign

One of the most talked about transparency campaigns is McDonald's 'Our Food, Your Questions' campaign, in which they addressed rumours by sharing facts. This resonates with consumers, because even though they know McDonald's is not a 'healthy' option, they feel they are making an informed decision.

#### Panera Bread's Responsibility Report updates consumers with progress on commitments

Panera Bread's 'Food as it Should Be' campaign saw them launch a transparent menu that listed all calories, ingredients and a Responsibility Report in detailing things like animal welfare, and positive impact, which keeps consumers in the loop on their progress to improving their social responsibility.

#### Waitrose's Animal Welfare Report and live-streaming 'cow cam'

Waitrose, a British supermarket chain produces an Animal Welfare Report outlining their commitment to the treatment of all the animals they source from UK farmers. They also famously had a 'cow cam' campaign in which a cow from a farm they buy product from wore a Go Pro and they live-streamed it for 7 days to display it's quality of life.

Source: Company Press Releases & Company Websites



terra20

## COMPANY PROFILE

terra20 is a modern Canadian retail concept that has intertwined transparency and consumer ethics into the fabric of their business, addressing consumer demand for transparency.

**“Our goal was to make it easy to buy healthier, more sustainable products. We also wanted to create connections between our guests at the store and the vendors that make the products. We thought this personal connection was important to form a bond of trust between the vendor, the guest and us at terra20.” - Steve Kaminski, Founder, terra20**

### FILTER BY:

#### ETHICS

-  Vegan
-  Organic
-  High efficiency
-  Made in Canada
-  Waste reducing
-  Free of harmful chemicals
-  Sustainable
-  Green certification
-  Fair trade

- ⦿ The terra20 business model is rooted in full transparency, using a system of ethics that guide their purchasing decisions.
- ⦿ terra20 researched every product listed in their stores and filters out products that do not meet their strict criteria.
- ⦿ Once listed, products are labelled based on ethics that help customers find brands that fit their values<sup>1</sup>

### Shelf tag displays ethics:

**Lemongrass All Purpose Cleaner**

Live for Tomorrow

☆☆☆☆☆ no reviews

BRAND Live for Tomorrow

SKU 551011113

**\$14.99**



# TRANSPARENCY: TREND OR FAD?

## Long-Term Trend

### Implications For Consumer Products Companies

#### Trust and Transparency: The Recipe for Success

We believe that transparency and traceability are long-term trends and are not “the flavour of the day”. Consumers are more aware and wanting to know more than ever before, with digital access to information expanding each and every day.

This long-term trend is being driven by the millennial generation who are more connected than prior generations, and this trend will most certainly increase along with millennial purchasing power..

As trust in large consumer products companies reaches new lows, companies have the opportuni-

ty to differentiate themselves by committing to full transparency. A new study from Dalhousie University shows that consumer trust in the food sector as a whole has fallen by 6.31% in Canada following a price fixing scheme involving several major Canadian retailers.<sup>1</sup> To provide consumers with the type of transparency they demand, end-to-end supply chain traceability is key.

In our opinion, adopting transparency should lead to new customers while making existing customers happy. “Data shows that product transparency impacts purchasing decisions,” notes Reid Paquin,

industry solutions director, food and beverage, at GE Digital, “and those brands that take advantage can increase their market share. Companies that believe food transparency is not a top consumer priority are putting themselves at risk.”<sup>2</sup>

Consumer products companies must earn the trust of consumers in order to survive going forward and being transparent is key. Companies must work to ensure their supply chains are traceable and their actions transparent in order to thrive in today’s ever-changing marketplace.

**In summary, consumer products companies that offer transparency and traceability to their consumers should be well positioned in today’s ever-changing food industry.**

# PRECEDENT TRANSACTIONS

## Organic/All Natural Branded Food and Beverage

Generally speaking, organic and specialty food and beverage transactions have been at premium multiples to their conventional counterparts.

Date	Announced	Target	Acquiror	TEV	LTM		TEV/	
					Revenue	EBITDA	Revenue	EBITDA
<i>(In \$US millions, unless otherwise indicated)</i>								
<b>Organic/All Natural Branded Food / Beverage</b>								
23-Feb-18		Blue Buffalo Pet Products Inc	General Mills Inc	8,000	1,300.0	319.0	6.2x	25.1x
29-Nov-17		Kind LLC	Mars Inc	4,000	718.9	n.a	5.6x	n.a.
06-Jul-17		Pacific Foods	Campbell Soup	700	218.0	n.a	3.2x	n.a.
12-Apr-17		WhiteWave	Danone	12,475	4,158	501	3.0x	24.9x
06-Feb-17		Grass Advantage / Body & Fit	Glanbia Performance Nutrition	206	113	19	1.8x	10.6x
02-Dec-16		Victoria Fine Foods	B&G Foods	70	41	9	1.7x	7.8x
29-Nov-16		GNP	Pilgrim's Pride	350	n.a	67	n.a.	5.2x
22-Nov-16		BAI Brands	Dr. Pepper Snapple Group	1,753	400	124	4.4x	14.1x
06-Jun-16		Nutraceutix	Probi	108	36	9	3.0x	12.5x
02-May-16		Boundless Nutrition	Amplify Snack Brands	31	7	2	4.4x	17.1x
24-Nov-15		Boulder Brands	Pinnacle Foods	1,007	523	71	1.9x	14.1x
09-Sep-15		Alpine Valley Bread	Flowers Foods	120	85	7	1.4x	17.5x
12-Aug-15		Dave's Killer Bread	Flowers Foods	275	165	14	1.7x	19.5x
07-Aug-15		Wallaby Yogurt	WhiteWave	125	46	21	2.7x	6.0x
09-Jul-15		Vega	WhiteWave	550	99	20	5.5x	28.0x
08-Jul-15		Garden Fresh Salsa	Campbell Soup	231	100	15	2.3x	15.2x
07-Jul-15		Manitoba Harvest	Compass Diversified	133	45	6	3.0x	20.7x
25-May-15		Applegate Farms	Hormel Foods	775	340	50	2.3x	15.5x
20-Apr-15		Iglo Foods	Nomad Holdings	6,444	1,841	364	3.5x	17.7x
26-Jan-15		MOM Brands	POST	1,152	800	120	1.4x	9.6x
<b>Mean</b>							<b>3.1x</b>	<b>15.6x</b>

# PRECEDENT TRANSACTIONS

## Conventional Food and Beverage

Date	Announced	Target	Acquiror	TEV	LTM		TEV/	
					Revenue	EBITDA	Revenue	EBITDA
<i>(In \$US millions, unless otherwise indicated)</i>								
<b>Conventional Branded Food / Beverage</b>								
11-Jan-18		Nestle (Confectionary)	Ferrero	2,800	915	135	3.1x	20.7x
21-Dec-17		Sandwich Bros	Conaga Food	87	60	na	1.5x	na
18-Dec-17		Dole Foods Co.	Greenyard NV	2,500	4,492	201	0.6x	12.5x
21-Mar-17		Ready Pac Foods	Bonduelle	409	800	37	0.5x	11.0x
23-Feb-16		American Fruits & Flavors	Monster Beverage	690	na	87	na	7.9x
02-Nov-15		Green Giant & Le Sueur Brands	B&G Foods	823	550	98	1.5x	8.4x
28-Oct-15		Diamond Foods	Snyders Lance	1,942	864	116	2.2x	16.7x
23-Sep-15		Willamette Egg Farms	POST	90	n.a	15	n.a.	6.0x
27-Oct-14		Chiquita	Cutrale-Safra	1,300	3,090	102	0.4x	12.8x
04-Jul-14		Apple & Eve	Lassonde Industries	150	190	15	0.8x	9.9x
12-Sep-12		Dole Foods Co.	ITOCHU	1,700	2,500	189	0.7x	9.0x
09-Jul-12		Bolthouse Farms	Campbell Soup	1,550	689	152	2.2x	10.2x
15-Feb-12		Pringles	Kellogg	2,695	1,585	299	1.7x	9.0x
18-Jun-11		Clement Pappas & Co	Lassonde Industries	390	390	60	1.0x	6.5x
25-Nov-10		Del Monte Foods	KKR & Co.	5,300	3,825	646	1.4x	8.2x
08-Jul-10		Cliffstar Corp	Cott Corp	500	625	94	0.8x	5.3x
25-Feb-10		Kettle Foods Inc	Diamond Foods LLC	615	215	40	2.9x	15.2x
19-Nov-09		Birds Eye Foods	Pinnacle Foods Group	1,300	871	159	1.5x	8.2x
<b>Mean</b>							<b>1.4x</b>	<b>10.4x</b>
<b>Median</b>							<b>1.4x</b>	<b>9.0x</b>

# SELECTED FOOD & AG TRANSACTIONS

Origin Merchant Partners - Extensive Food and Agriculture Expertise

1	2	3	4
 Exclusive Financial Advisor on its Sale to  June 2017	 Financial Advisor on Acquisition of Farm Fresh Poultry Co-operative Inc. September 2016	 Exclusive Financial Advisor on Sale to  September 2016	 Financial Advisor on Recapitalization with an Investment from  January 2013

1. Avena Foods Limited (“Avena”) is a leading supplier of pure, organic certified, gluten-free oats to the North American market. Avena has an established network of gluten-free and organic oat growers across the Canadian prairies and a dedicated gluten-free and allergen-free milling facility in Regina, SK. Origin Merchant Partners advised Avena on its sale to Ironbridge Equity Partners.
2. Yorkshire Valley Farms (“YVF”) is a leading Ontario-based organic chicken, eggs and turkey producer, supplying product under the Yorkshire Valley Farms brand name to customers all across Canada. Origin Merchant Partners advised YVF on its acquisition of Farm Fresh Poultry Co-operative Inc.
3. Continental Ingredients Canada Inc. (“CIC”) is a leading independent provider of healthy food ingredient solutions, Quadra Chemicals Ltd. is North America’s 7th largest distributor of nutritional/functional specialty and commodity chemicals. Origin Merchant Partners acted as exclusive financial advisor to CIC on its sale to Quadra.
4. Organic Meadow Inc. (“Organic Meadow”) is a leading, trusted brand in the Canadian organic dairy sector. Origin Merchant Partners acted as advisor to Organic Meadow on its recapitalization.

## Other Recent Food & Agriculture Transactions

 Exclusive Financial Advisor on Acquisition of Special Crops Division of Legumex Walker November 2015	 Financial Advisor on Sale of Dexter, New Mexico Processing Facility  May 2014	 Financial Advisor to the Special Committee of the Board of Directors August 2013	 Financial Advisor on Acquisition by  June 2013	 Financial Advisor on Acquisition of  March 2012
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**FOR MORE INFORMATION** on our insights into the food & agriculture sector or to discuss this report further,  
**PLEASE CONTACT OUR ADVISORY TEAM**



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