ORIGIN MERCHANT PARTNERS

KEY CONSUMER TRENDS IN FOOD & AGRICULTURE

2017 SERIES

CLEAN LABEL

INSIGHT FROM ORIGIN MERCHANT PARTNERS SENIOR ADVISOR, STEVE BROMLEY

We are exploring key consumer trends in food & agriculture and assessing what they mean to the industry in our ongoing multi-part series. Consumers are making more informed decisions than ever when it comes to their food choices, driving significant demand for perceived healthier foods such as non-GMO, organic, clean-label options and 'free from' foods.

The food & agriculture industry is responding to these changing consumer preferences. 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.

Globally the leading clean labels in terms of sales in 2015 centered around the concept of 'no artificial ingredients':

- **$73.4b - 'no artificial preservatives'**
- **$63b - 'no artificial colours'**
- **$48.1b - 'no artificial flavors'[1]**

Consumers are calling for simpler ingredients and supply chain transparency, and the food & agriculture industry is answering that call with the push for 'clean label' and transparent products. According to Canadean's Global Survey in 2015[2], 86% of consumers found food & drink formulated with the lowest number of ingredients 'appealing'. While 'clean label' is not as well-defined a concept as ***organic*** or ***non-GMO***, there is support for food products that are perceived to be more natural and free from potentially harmful ingredients, additives and supply chains. Awareness is growing with consumers checking labels for ingredients that they do not recognize, preferring products with fewer and more recognizable ingredients.

Source: 1. Natural Products Insider Vol.7 No.18 August 2017 2. Canadean's Global Survey, 2015

CLEAN LABEL: Defining The Trend - The Basics

WHAT IS CLEAN LABEL?

Clean label, while not well-defined, basically means a product that has both fewer and more recognizable ingredients.

Consumers are coming to believe that the fewer ingredients a product has, the better.

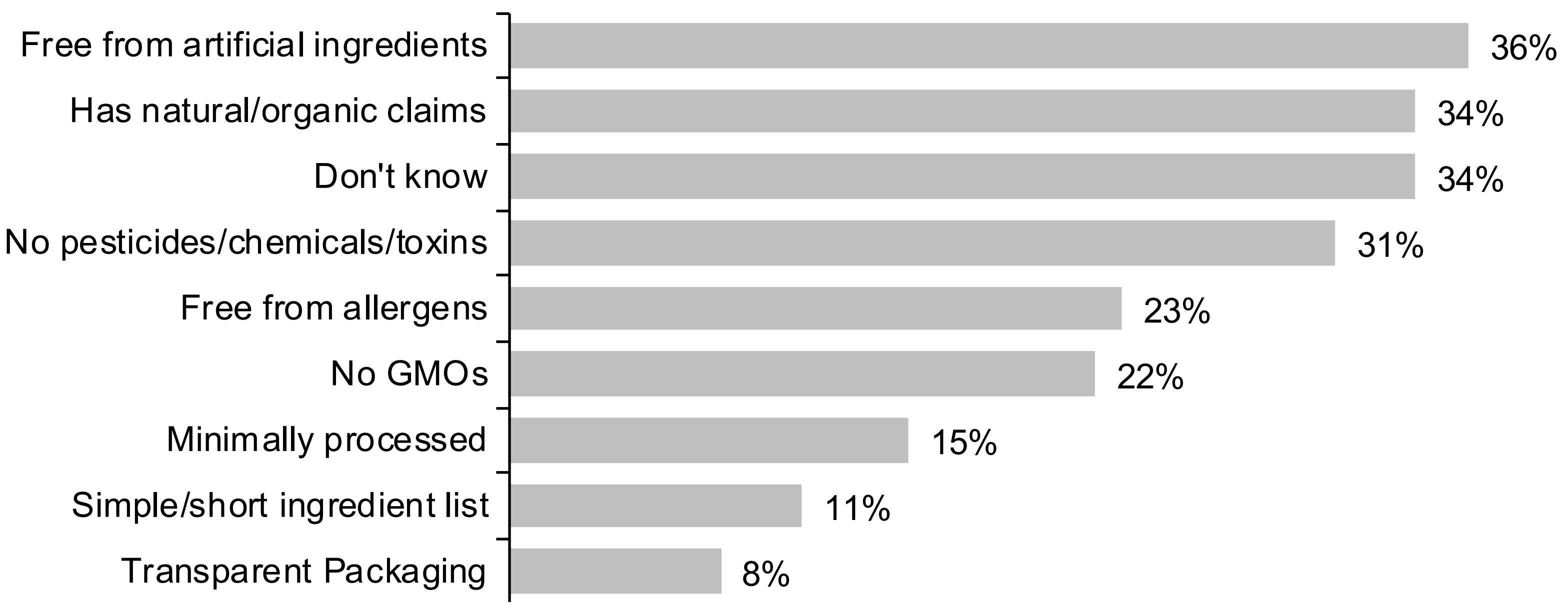
TRANSPARENCY IS CRUCIAL

Consumer preference for ingredient transparency, mindful eating and accessibility to the source and production of products has contributed to this 'back to the basics' consumer buying pattern. In a global survey by Trace One, 91% of respondents said that it was important to know where their food came from.

CLEAN LABEL ALIGNS WITH KEY TRENDS IN FOOD & AGRICULTURE

- NON-GMO
- TRANSPARENCY
- NO ARTIFICIAL INGREDIENTS
- FREE FROM
- ORGANIC
- MINIMALLY PROCESSED
- SIMPLE / FRESH

What does the term 'clean-label' mean to you?



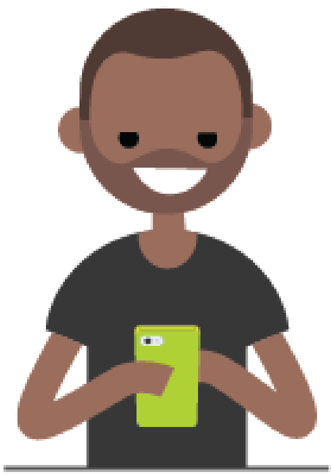
Source: Food Business News, 2016

CLEAN LABEL TRENDS

Global clean label market is expected to grow at a CAGR of 6.8% to 2023[1]

Top Concerns by Age[2]

Millenials



Amount of sugar
All-natural
Amount of protein
Sodium levels
Free from preservatives

Of the three generations, millenials are most concerned with products that are gluten-free, fair trade and vegan.

Generation X

On sale
All-natural
Amount of sugar
Hormone-free
Trans fats

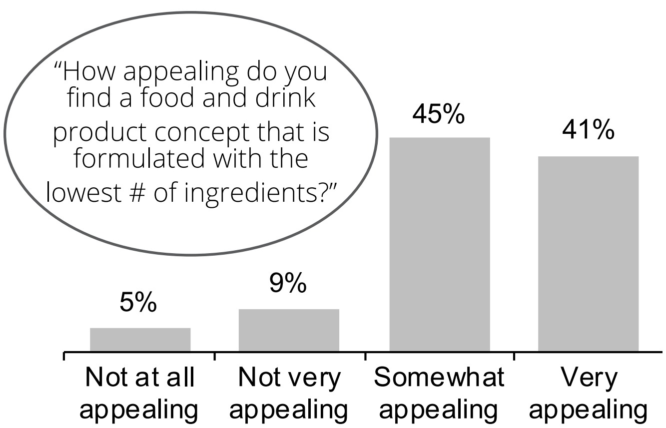
Of the three generations, Gen Xers are least concerned with ingredients and additives, and most likely to fall in the "Not Bothered" category.

Baby Boomers

Amount of sugar
Sodium levels
Trans fats
Contains artificial sweeteners
High-fructose corn syrup

Of the three generations, boomers are most likely to report that sugar and fat levels influence what they buy.

86% Find food or drink with fewest # of ingredients "appealing"[3]



Source: 1. Mordor Intelligence Global Clean Label Ingredients Market - Growth, Trends, and Forecast (2018 - 2023) 2. Consumer interpretation of clean label trend varies by generation , C&R Research 3. Canadean Global Survey, Q2 2015

CLEAN LABEL:
The Industry Steps Up To The Plate

Millenials are demanding clean label and transparent products at unprecedented levels and branded food companies and retailers are reacting quickly;

- Whole Foods has banned almost 80 ingredients from its stores
- Panera Bread has removed all artificial flavours, sweeteners, preservatives and colours from it's grocery store products
- Subway, Taco Bell and Pizza Hut have removed artificial flavours, colours and preservatives in Canada
- General Mills has removed artificial flavours, colours from artificial sources and high fructose corn syrup from many of its cereals
- Kelloggs announced it will phase out the use of all artificial colours and flavours from its products by 2018
- Campbell Soup to eliminate use of artificial colours, flavours and high-fructose corn syrup by end of 2018
- Mondelez to remove artificial colours / flavours by 2020
- Nestle to remove artificial colours and 'unfamiliar ingredients' from products by 2020

88% of millennials in the US are willing to pay more for food with a cleaner label, significantly higher than the 75% average[1]

Simple and Honest

Different consumers and brands define 'clean label' differently but what it all boils down to is product quality, authentic transparency and honest marketing[2]

- Retailers and consumers want to know where ingredients are sourced from and what the values of the brand are. Any dishonesty will result in distrust in the brand.
- Many ingredient suppliers and finished product brands have told their clean label story succesfully after investing in their business and marketing plans.
- For example, McDonald's employed their very successful 'Our Food, Your Questions' in which they answered 20,000 consumer questions about sourcing, production and ingredients and were able to dispel myths about their food.
- Panera Bread had launched the "Food as it Should Be" campaign with the tagline being "100% of our food is 100% clean" to introduce their new transparent menu and 'clean' products.

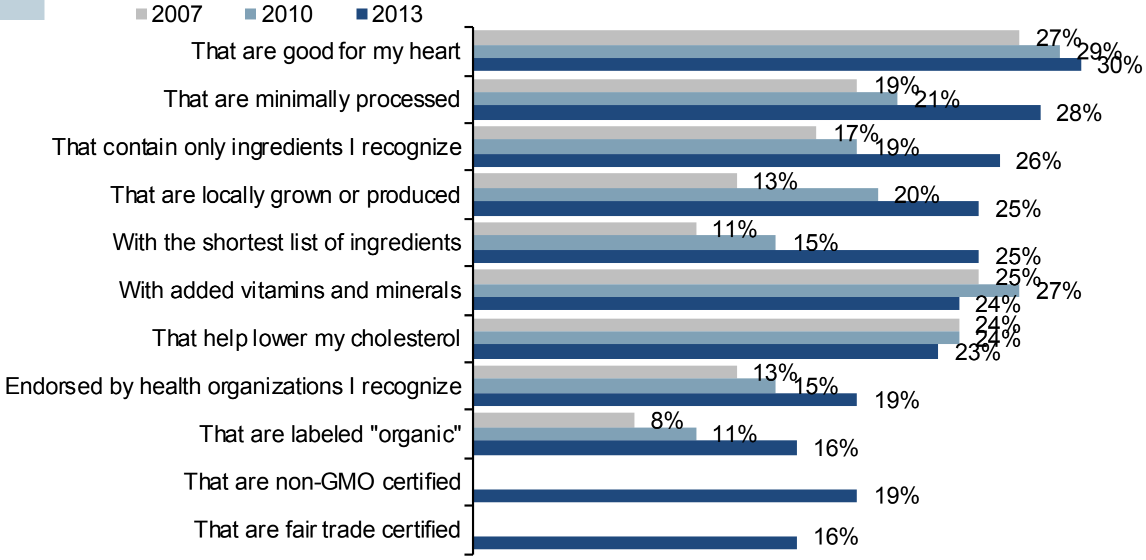
Photo Credit: Panera Bread

75% of American consumers evaluate the ingredients on packaged food[1]

Source: Company Press Releases 1. Kerry Propietary Consumer Research 2. Natural Products Insider, August 2017

CLEAN LABEL

Shopping Behaviour - I look for foods...



14% more consumers started shopping for foods with the shortest ingredient list over past 7 years[1]

Ingredient Conscious Trend Not Limited to Food & Beverage

According to the Beauty Sector M&A Report* by Origin Merchant Partners' international partners, the natural & organic beauty product segment was estimated to be worth €9.7bn in 2016, and will be worth €19.4bn by 2024, which implies a CAGR of 9% a year.

Natural & organic beauty products are no longer niche

Source: 1. The Hartman Group, Health + Wellness: A Culture of Wellness 2013
* To obtain a copy of the report please contact roxanne.swatogor@originmerchant.com

CLEAN LABEL

TREND OR FAD?

The convergence of numerous market factors position clean label foods as a **LONG-TERM TREND**

Clean label and transparent products are becoming the new default position for most major producers and retailers. Millenials have entered the workforce and become a rapidly growing consumer segment and the driving force behind these trends:

- Desire for transparency in foods
- Desire to avoid GMOs
- Desire for simple ingredients - less is better
- Desire for fresh and nutrient rich foods
- High expectations for quality and food safety
- Awareness of linkage between diet and health

IMPLICATIONS

- Significant opportunity exists as clean label is set to continue its growth.
- Companies with perceived simple/wholesome ingredients will see growth opportunities, as will manufacturers who have the ability to quickly reformulate products into clean label alternatives, addressing both the technical and pricing challenges of doing so.
- Implies far greater demand for applied food science, precision processing, traceability in the production process, food safety, etc.
- Clean label is moving beyond ingredient lists to include greater transparency, fair sourcing and minimal packaging. Companies with the ability to leverage beyond ingredients will see further growth opportunities.

CLEAN LABEL

PRECEDENT TRANSACTIONS

Ingredient Processing

Date Announced	Target	Acquiror	TEV	LTM Revenue	LTM EBITDA	TEV/ Revenue	TEV/ EBITDA
(In $US millions, unless otherwise indicated)							
Ingredient Processing							
31-Aug-17	Novel Ingredients	Innophos	125	100.0	n.a	1.3x	n.a
11-Jul-17	L.B. Maple Treat	Rogers Sugar Inc.	124	119.0	12.0	1.0x	10.3x
21-Feb-17	Lightlife Foods Inc	Maple Leaf Foods	140	40.0	n.a	3.5x	n.a
31-Jan-17	Allied Mills Plt Limited	Pacific Equity Partners	345	382.5	33.0	0.9x	10.5x
08-Jul-15	Kerr Concentrates	Ingredion Corporation	100	n.a.	10.0	n.a	10.0x
23-Apr-15	Ridley Inc.	Alltech, Inc.	516	582.1	44.0	0.9x	11.7x
15-Dec-14	ADM Cocoa	Olam International	1,300	n.a	90.3	n.a	14.4x
05-Dec-14	McCleskey Mills, Inc.	Olam International	179	n.a	29.8	n.a	6.0x
15-Oct-14	Penford Corporation	Ingredion Corporation	366	438.3	28.8	0.8x	12.7x
07-Jul-14	WILD Flavors GmbH	Archer Daniels Midland	3,097	n.a	188.8	n.a	16.4x
05-Jul-10	Sucrogren	Wilmar International	1,539	n.a	169.1	n.a	9.1x
27-May-10	21st Century Grain Processing	Viterra Inc.	91	n.a	14.0	n.a	6.5x
Mean						**1.4x**	**10.8x**
Median						**1.0x**	**10.4x**

Source: Capital IQ, Company Press Releases

PRECEDENT TRANSACTIONS

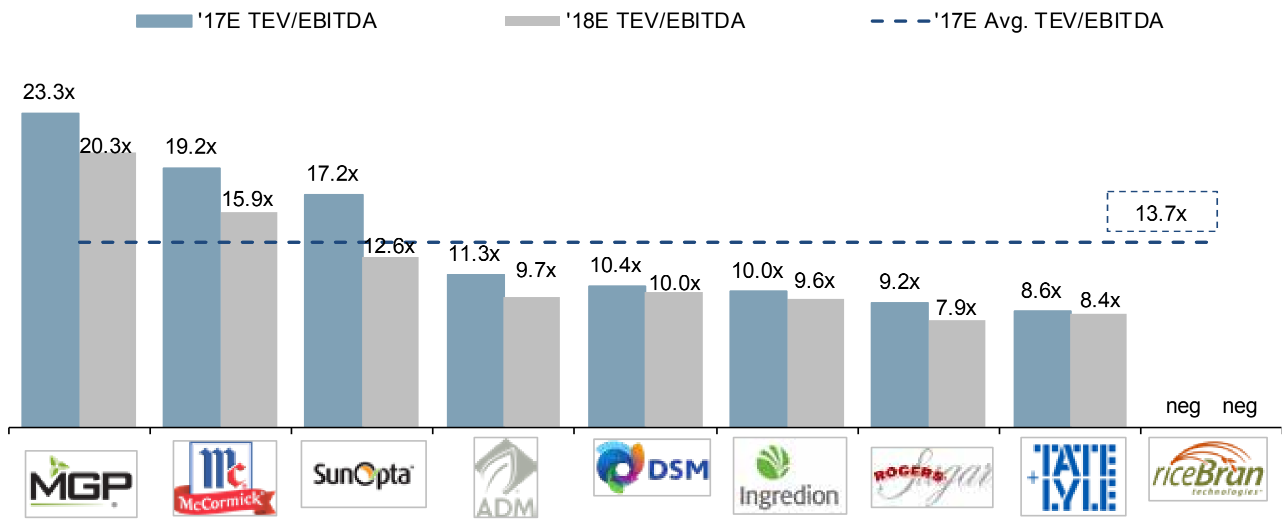
Organic Food / Beverage

Date Announced	Target	Acquiror	TEV	LTM Revenue	LTM EBITDA	TEV/ Revenue	TEV/ EBITDA
(In $US millions, unless otherwise indicated)							
Origanic Food / Beverage							
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
03-Oct-16	Fleischmann's Vinegar	Green Plains	250	109	25	2.3x	10.0x
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
02-Nov-15	Ralcorp	Treehouse	2,700	3,375	360	0.8x	7.5x
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
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
31-Jul-15	Sunrise	SunOpta	444	296	30	1.5x	15.0x
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
Mean						**2.6x**	**14.1x**

Source: Capital IQ, Company Press Releases

PUBLIC COMPANIES

Select Public Food Companies



(In US$ millions)									
TEV	1,292	17,670	1,317	28,829	17,138	11,041	661	4,867	24
Market Cap	1,229	12,313	753	21,962	15,016	9,315	510	4,236	21
2017E Revenue	344	4,828	1,308	61,831	9,877	5,826	568	3,722	14
'17E-'18E Revenue Growth	5.0%	11.8%	3.3%	2.9%	2.8%	2.5%	16.3%	(1.2%)	9.8%
'17E-'18E EBITDA Growth	14.6%	21.1%	37.2%	16.8%	4.4%	5.0%	17.1%	1.7%	n.a.
'17E EBITDA Margin	16.1%	19.0%	5.8%	4.1%	16.6%	18.9%	12.6%	15.3%	neg
Net Debt / '17E EBITDA	0.5x	5.7x	6.1x	2.6x	1.2x	1.4x	2.1x	1.0x	neg

Source: Capital IQ, Company Press Releases

SELECTED FOOD & AG TRANSACTIONS

Extensive Natural and Organic Foods & Ingredients Expertise

1	2	3	4
Avena Foods — Healthy for life Exclusive Financial Advisor on its Sale to Ironbridge June 2017	Yorkshire Valley Farms Financial Advisor on Acquisition of Farm Fresh Poultry Co-operative Inc. September 2016	Continental Ingredients Exclusive Financial Advisor on Sale to Quadra — Specialized. Effective. Trusted. September 2016	Organic Meadow — Local. Organic. Farmer-Owned. Financial Advisor on Recapitalization with an Investment from Avrio Capital January 2013

1. Avena Foods Limited ("Avena") is a leading supplier of pure, organic certified, gluten-free oats to the North American retail and ingredients 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 and clean label food ingredient solutions. Quadra Chemicals Ltd. is North Americas 7th largest distributor of nutritional/functional specialty and commodity chemicals. Origin Merchant Partners acted as exclusive financial advisor to CIC on it's 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 Food & Agriculture Transactions

The Scoular Company Exclusive Financial Advisor on Acquisition of Special Crops Division of Legumex Walker November 2015	Hi-Pro Feeds / Birch Hill Equity Partners Financial Advisor on Sale of Dexter, New Mexico Processing Facility The Scoular Company May 2014	Ceres Global Ag Corp. Financial Advisor to the Special Committee of the Board of Directors August 2013	Thompsons Financial Advisor on Acquisition by The Andersons / Lansing Trade Group, LLC June 2013

Sofina Financial Advisor on Acquisition of Janes March 2012	Legumex Walker $70 Million Lead Manager on Initial Public Offering July 2011	Roy Legumex Merger with WSL June 2011	SunOpta $68 Million Financial Advisor on Sale of Canadian Food Distribution Assets unfi May 2010	Lilydale Financial Advisor on Acquisition by Sofina February 2010

Note: Includes transactions led by Origin Merchant principals at prior employers

FOR MORE INFORMATION on our insights into the food & agriculture sector or to discuss this report further,

PLEASE CONTACT OUR ADVISORY TEAM

Steve Bromley
Senior Advisor
steve.bromley@originmerchant.com
t: 416-775-3697

Andrew Muirhead
Principal
andrew.muirhead@originmerchant.com
t: 416-800-0697

Jim Osler
Principal
jim.osler@originmerchant.com
t: 416-800-0784

Matt Rome
Director
matthew.rome@originmerchant.com
t: 416-800-1712

Andy Park
Analyst
andy.park@originmerchant.com
t: 416-775-3658

Roxanne Swatogor
Business Development Manager
roxanne.swatogor@originmerchant.com
t: 416-775-3585