



Cheese takes a big slice of the retail segment

SPOT ON | CHEESE | NOVEMBER 2020

“During the COVID-19 pandemic, dairy groups have focused on properly managing their own operations and benefitting from the mass retail channel demand. Sales to the hotel, restaurant and catering (HoReCa) segment dropped to zero, but for the majority of industry players they already represented only a minor share of turnover.

Balance sheets in 2020 will be even stronger than before, and consequently, as M&A specialists in the international cheese arena, we expect transactions to pick up again early next year, when hopefully things will go back to some kind of normality.”

DAVIDE MILANO

CHEESE SPECIALIST, OAKLINS

MARKET TRENDS (pg.2)

Stockpiling of food during the COVID-19 pandemic has increased sales for some food & beverage companies.

INTERVIEW WITH NEWLAT (pg.3)

Oaklins interviewed Angelo Mastrolia and Giuseppe Mastrolia, the president and the CEO, respectively, of Newlat Food S.p.A., about recent market trends and the importance of M&A in remaining competitive in the industry.

M&A ACTIVITY (pg.6)

M&A in the cheese market suffered from the uncertainty caused by the coronavirus outbreak, registering 23 completed transactions in the first three quarters of 2020. Notable M&A deals in 2020 have included the acquisition of Kraft Heinz's natural cheese business by Lactalis.

LISTED PLAYERS AND VALUATION DYNAMICS (pg.10)

Valuations of listed players in the cheese market dropped during February and March 2020 in line with the general financial markets.



MARKET TRENDS

The financial damage the current pandemic has inflicted on the general economy is undeniable. However, certain players — such as the food & beverage companies working mainly within the large retail channel — have unexpectedly benefitted from COVID-19.

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Market trends

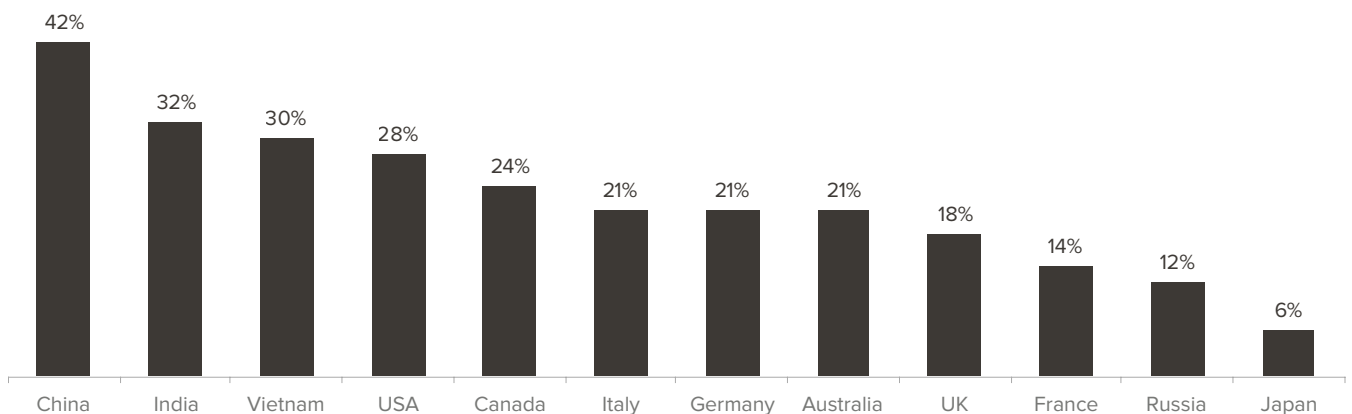
COVID-19'S UNEXPECTED IMPACT ON FOOD CONSUMPTION

The coronavirus pandemic has led to an uptick in purchases as consumers stockpile food and spend more time at home, or are simply reluctant to venture out as often to the grocery store.

A survey conducted by Statista showed that, as of March 2020, Chinese consumers stockpiled food due to the coronavirus pandemic. Although comparatively unscathed by the pandemic at that time, India had the second highest number of respondents who admitted to stockpiling (32%), followed by Vietnam (30%), the United States (28%) and Canada (24%).

Increased demand for food staples means higher sales for food companies. Food giant Kraft Heinz reported higher revenue in the first quarter of 2020 and stated that some of its factories were working three shifts to meet high demand for products such as its macaroni and cheese.

Share of worldwide consumers that stockpiled food because of coronavirus in March 2020, by country



Source: Statista



NEWLAT FOOD IS A RELEVANT PLAYER IN THE ITALIAN AND EUROPEAN AGRI-FOOD SECTOR, WITH A MULTINATIONAL, MULTIBRAND AND MULTICHANNEL APPROACH.

The group retains an established position in the Italian market and a significant presence in the German market. It is mainly active in the pasta, dairy, bakery and special products sectors (particularly, in health & wellness, gluten free and baby food). Newlat's products are marketed under several proprietary brands, many of which have national and international recognition. The group seeks consumer well-being by selling healthy, high-quality products at affordable prices, while

promoting the best Italian traditions through an established international platform and sales network. The company strives to consolidate as a global, leading provider of "Made in Italy" healthy food products. Newlat has grown significantly over the last 10 years, mainly as a result of acquisitions of established Italian and international agri-food companies, and has a significant track record in acquiring companies and business divisions that operate in the food & beverage sector.

Oaklins Italy has twice advised the Newlat group on two acquisitions: the Kraft Heinz production plant in Parma; and Delverde branded pasta from Molinos Rio de la Plata.



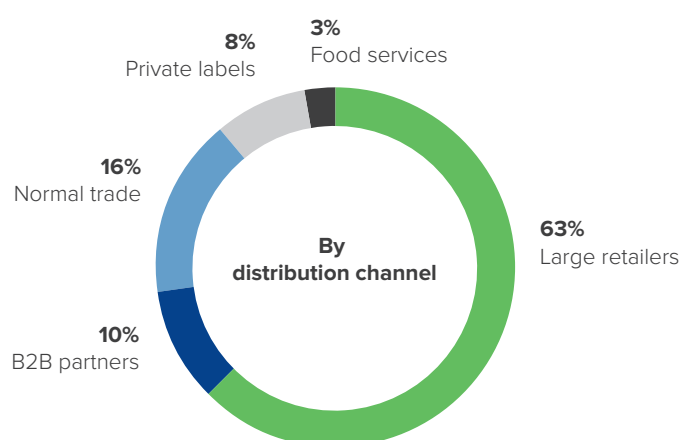
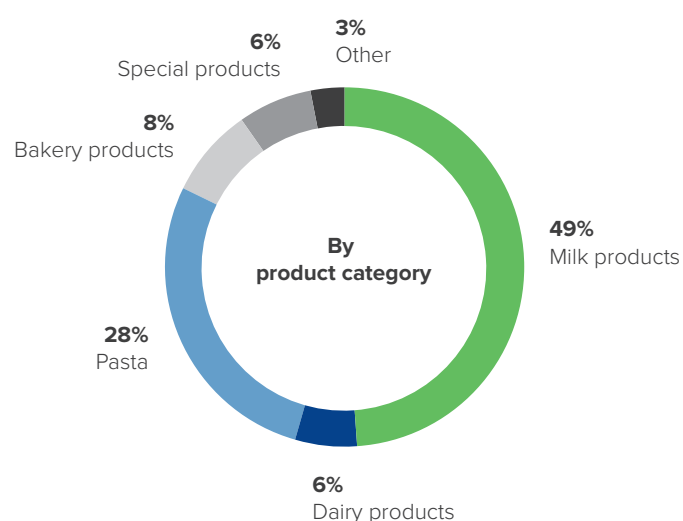
US\$472m

Sales (LTM Jun-30-20)

US\$41m

EBITDA (LTM Jun-30-20)

Newlat Food sales breakdown as of 30 June 2020



Source: Newlat Annual Report 2019

INTERVIEW WITH ANGELO MASTROLLA, PRESIDENT OF NEWLAT FOOD S.P.A.



Angelo, as founder and president of leading Italian multibrand company Newlat Food, your role has been crucial in marking important milestones in the Italian food & beverage market. Newlat was the first company within the sector to go public on the stock exchange. Can you comment on the success you've achieved so far?

It has been an exciting journey. I've always thought that, in order to reach a considerable size and improve margins in this industry, it is, indeed, crucial to grow through M&A.

Now both my son and my daughter have joined me in this venture, which I started in 2004. They are really enthusiastic about it.

The main reason for our listing in October 2019 was to be able to attract more food & beverage companies to our project in order to become a leading food & beverage platform in Europe.

A key driver in your development was the ability to consolidate the market by using M&A to grow. How important were acquisitions in your overall growth history? Was it tough to handle external growth without neglecting organic growth?

In the last 15 years we have closed a total of 11 deals. We went from being a small player to becoming one of the biggest food companies in Italy in a matter of a couple of years.

Our main goal is to consolidate historical Italian and European brands into one big family.

In this sense, it is important to work with consultants with extensive experience in the food & beverage business who have a good understanding of its dynamics and have priority access to certain deals. In this way, we have closed two great deals with the involvement of Oaklins Italy: the acquisition of a Kraft Heinz business and the acquisition of pasta Delverde from Molinos Rio de la Plata.

Your success story culminated with the initial public offering (IPO) on the Italian Stock Exchange in 2019, and then with the recent acquisition of Centrale del Latte. What can we expect in the near future from Newlat? Are you looking into any hot areas?

We recently announced that we have put in a bid for Hovis, a UK bread maker with over 100 years of history. Other than that, we are looking at companies in complementary sectors, like bakery and dairy, within European markets, such as Germany, the UK, Greece and Switzerland, as well as Italy.



INTERVIEW WITH GIUSEPPE MASTROLIA, CEO OF NEWLAT FOOD S.P.A.



Giuseppe, before becoming the CEO of Newlat Food, your role was head of sales. What major challenges have you faced in the development of the business, especially managing different brands in different food segments?

When managing many brands and product categories, it may be difficult to keep focused on all of them. However, when you realize that you can offer more than just products to your customers, that is when you learn that this is a positive rather than a negative. Having many products and brands offers a service to customers — a buyer will be

happier buying five different product categories from the same company as it is easier to manage on their side and means they can also pick different brands with different positioning within the same category.

By continuously monitoring the cheese market, we have noticed multiple developments in consumers' preferences, especially towards healthier-diet, lactose-free, new-packaging formats. How is Newlat Food dealing with these new trends?

This is only true when looking at Western markets, such as continental Europe and North America. In this context, we have always been able to adapt to new consumer demand and preferences, and we have introduced healthier alternatives, such as plant-based drinks, which we produce in our Vicenza plant. We are the only company producing A2 milk in Italy, in our Turin plant, at the moment. At the same time, traditional dairy products have great export potential when looking at Eastern geographies, like China, Thailand, Taiwan, the Philippines and South Korea.

2020 has not been an easy year, due to the COVID-19 pandemic. However, most food companies somehow benefitted from the situation, thanks to the increase in food sales registered by large-scale retailers during the lockdown. How did Newlat manage the situation, and what we can expect in the aftermath of the pandemic?

We saw an overall increase in sales in most categories, especially in pasta and other shelf-stable products, as well as ultra heat treated (UHT) and extended shelf life (ESL) milk. At the end of February, we started practicing what we call "fair share," which means that we communicated to our clients that we could only fulfill demand of up to 20% more than their orders of the same period last year. This benefitted us as we were able to satisfy all of our customers' demands and avoid production bottlenecks, while retaining and strengthening our relationships with our customers. Now, after lockdown, sales have started to normalize. However, eating habits have definitely shifted more towards eating at home as a result of the pandemic, which is visible in higher sales in the large retailers' channel to this day.

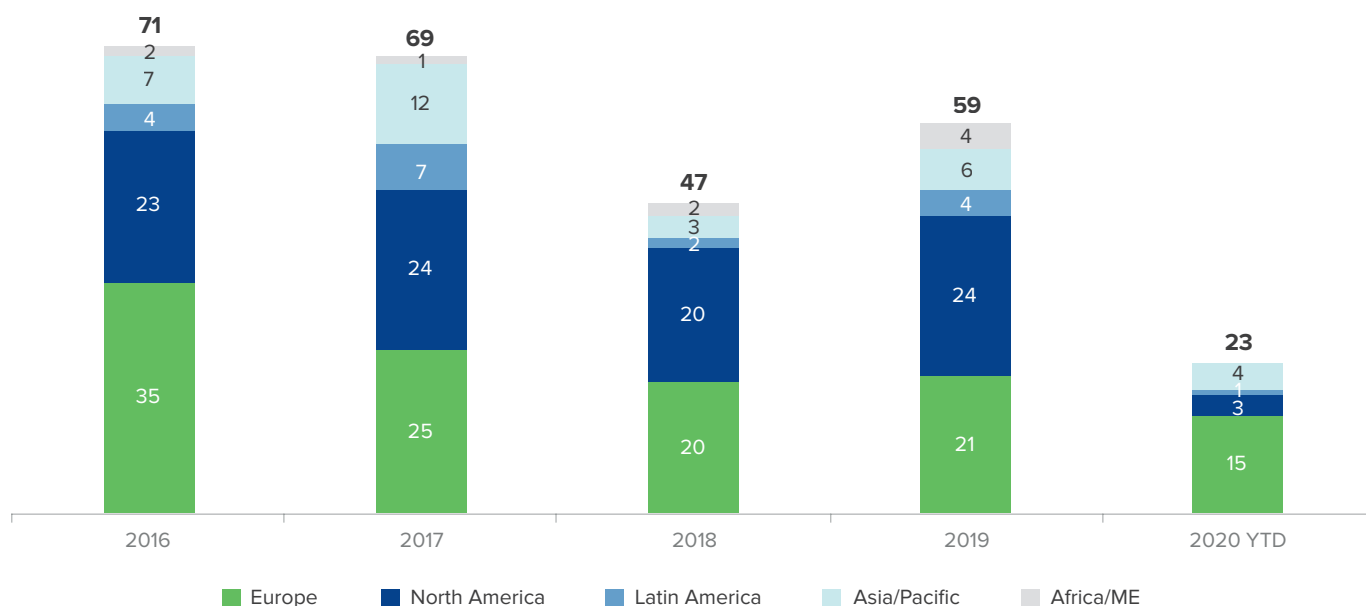


M&A activity

During the first three quarters of 2020, only 23 M&A transactions were closed in the cheese sector worldwide, down -48% compared with the same period last year. This result has been impacted by the macroeconomic upheaval brought on by the COVID-19 pandemic. According to Mergermarket data, M&A transactions in Europe dropped by 31% in the first half of 2020, compared with 2019.

However, dealmakers expect that a rebound in deal activity may not be too far away due to the fact that COVID-19 has forced corporates to assess their portfolios, focus their efforts on core business and strengthen balance sheets.

Cheese M&A completed transactions, 2016–2020 YTD*



Source: Capital IQ

*Year-to-date as of 30 September 2020

























“M&A activity in the dairy sector during the last few months has slowed down for obvious reasons, but we see that dairy groups that are more active are already restarting their engines and considering new acquisition dossiers. In H1 2021 we expect M&A will become hot again in this industry.”

DAVIDE MILANO
OAKLINS CHEESE SPECIALIST

A SELECTION OF CHEESE INDUSTRY M&A DEALS AND THEIR RATIONALE

Date	Target	Country	Rationale	Buyer	Country	Valuation					
						Enterprise value	LTM revenue	LTM EBITDA	EBITDA margin	EV / Revenues	EV / EBITDA
Announced	Natural cheese business of Kraft Heinz		Natural cheese business of the Kraft Heinz company comprises cheese manufacturing business and brands, such as Breakstone's, Knudsen, Polly-O, Athenos, Hoffman's, Cracker Barrel and Cheez Whiz			3,200	1,800	N/A	N/A	1.8x	12.0x
Announced			Rørosmeieriet AS offers organic foods through industrial craft production, which includes milk and cream, butter, milk, fresh cheese, yogurt and other related products			N/A	N/A	N/A	N/A	N/A	N/A
5-Aug-20			Erlaufalter Käsewölfe GmbH manufactures and supplies cheese			N/A	N/A	N/A	N/A	N/A	N/A
30-Jul-20			Centrale del Latte d'Italia S.p.A. produces and markets dairy products in Italy			124	213	17	8.2%	0.6x	7.2x
18-Jun-20			All In Foods S.A. produces plant-based cheese products			N/A	N/A	N/A	N/A	N/A	N/A
1-Apr-20			As of 1 April 2020, Dairyworks operates as a subsidiary of Synlait Milk Limited			71	N/A	N/A	N/A	N/A	7.5x
1-Aug-19			Westland Co-operative Dairy Company Limited operates a dairy cooperative that engages in the production and supply of dairy and nutritional products.			330	475	24	5.0%	0.7x	13.9x
18-Jul-19			Amsterdam Cheese Company B.V. produces cheese			N/A	N/A	N/A	N/A	N/A	N/A
2-Jul-19	Canadian natural cheese business of Kraft Heinz		Canadian natural cheese business of Kraft Canada Inc. comprises natural cheese brands, including Cracker Barrel, P'tit Quebec and aMOOza!			1,234	427	100	23.4%	2.9x	12.3x
Announced			Fromageries Papillon SAS produces and sells cheese and other dairy products			N/A	N/A	N/A	N/A	N/A	N/A
29-May-19			Nuova Castelli S.p.A. produces and markets cheese products			300	512	30	5.9%	0.6x	10.0x
28-May-19	Cheese business in Middle East and Africa (MEA) of Kraft Heinz		The transaction includes all Kraft-branded cheese products in the MEA markets, as well as the cheese manufacturing facility in Bahrain			N/A	N/A	N/A	N/A	N/A	N/A
16-May-19	Latteria-Tinis Sp. z o.o.		Latteria-Tinis Sp. manufactures Italian cheese, such as caciotta, mozzarella and ricotta			4	N/A	N/A	N/A	N/A	N/A
15-May-19			Caseificio Tonon S.r.l. is an Italian dairy company active in the production of mozzarella cheese			10	20	2	8.9%	0.5x	5.5x

Date	Target	Country	Rationale	Buyer	Country	Valuation					
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Announced	Speciality Cheese Business of 		Speciality Cheese Business of Lion Dairy and Drinks comprises a portfolio of cheese products	<i>Saputo</i>		197	N/A	N/A	N/A	N/A	N/A
22-Apr-19			Schuman Cheese Inc. processes, produces, distributes and exports Italian and Italian-style cheeses			N/A	N/A	N/A	N/A	N/A	N/A
15-Apr-19			Dairy Crest Group Limited processes, manufactures and sells branded dairy products in the United Kingdom and internationally	<i>Saputo</i>		1,575	615	156	25.4%	2.6x	10.1x
10-Apr-19			Sunfres Agro Industries Private Limited produces and supplies dairy products			172	215	N/A	N/A	0.8x	N/A
Announced			Clover Industries Limited produces and distributes a range of dairy and consumer products	Consortium of Investors		406	633	61	9.6%	0.6x	6.7x
22-Jan-19			Greenland Group For Food Industries Sae produces white cheese, processed cheese, mozzarella, ghee, milk, juice and dairy products			50	N/A	N/A	N/A	N/A	N/A
Announced			Martin Sengele Produits Laitiers (Valmartin) is a France-based company engaged in the production and distribution of cheese			N/A	N/A	N/A	N/A	N/A	N/A
Announced	30% stake in 		Greek Family Farm S.A. produces and processes cheese in Greece			N/A	N/A	N/A	N/A	N/A	N/A
January 2019			Rotkäppchen Peter Jülich GmbH & Co. KG. is a German cheese maker			N/A	45	N/A	N/A	N/A	N/A
2-Jan-19			Ladismith Cheese Company (Pty) Ltd. manufactures cheese			37	48	N/A	N/A	0.8x	N/A
19-Dec-18			Best Cheese Corporation produces cheese products			N/A	N/A	N/A	N/A	N/A	N/A
12-Dec-18			Millán Vicente S.L. engages in the packaging and distribution of cheese			N/A	N/A	N/A	N/A	N/A	N/A
30-Nov-18			Activities of F&A Dairy Products Inc. comprises the business of manufacturing a variety of natural cheeses, including mozzarella and provolone	<i>Saputo</i>		85	N/A	N/A	N/A	N/A	N/A
17-Oct-18			Pirate Brands LLC manufactures cheese snack products			420	N/A	N/A	N/A	N/A	N/A
17-Aug-18	Koroit dairy processing facility of <i>Saputo</i>		Koroit dairy processing facility of Saputo Dairy Australia Pty Ltd., part of the acquisition of Murray Goulburn from Saputo			185	N/A	N/A	N/A	N/A	N/A















Date	Target	Country	Rationale	Buyer	Country	Valuation					
						Enterprise value	LTM revenue	LTM EBITDA	EBITDA margin	EV / Revenues	EV / EBITDA
31-Jul-18	 BRAZI BITES Brazilian Cheese Bread		Brazi Bites LLC produces and sells ready-to-bake Brazilian cheese bread snacks	 SAN FRANCISCO EQUITY PARTNERS		N/A	N/A	N/A	N/A	N/A	N/A
19-Jun-18	 Shepherd Gourmet dairy		Shepherd Gourmet Dairy (Ontario) Inc. produces cheese and yogurt	 Saputo		77	44	N/A	N/A	1.8x	N/A
17-May-18	 ROGUE CREAMERY		Rogue Creamery is one of the best-known cheese producers in the Rogue Valley in southern Oregon	 SAVENCIA FOODS & DAIRY		N/A	N/A	N/A	N/A	N/A	N/A
3-Apr-18	 CASEIFICIO VAL D'AVETO		Caseificio Val d'Aveto S.r.l. produces cast yogurt and traditional cheeses	 Sabelli		3	5	1	11.7%	0.7x	6.0x
21-Feb-18	 MOON CHEESE		nutraDRIED LLP produces cheese snacks under the brand Moon Cheese	 ENWAVE		4	7	N/A	N/A	0.6x	N/A
6-Feb-18	 Bontà Viva		Senoble Italia S.p.A. produces fresh milk-based products	 Eurial		N/A	N/A	N/A	N/A	N/A	N/A
High						3,200	1,800	156	25.4%	2.9x	13.9x
Median						148	214	27	9.3%	0.7x	8.8x
Low						3	5	1	5.0%	0.5x	5.5x
Average						424	361	49	12.3%	1.1x	9.1x

Source: Capital IQ; Mergermarket (figures in US\$ million)



Selected listed players

MAJOR LISTED PLAYERS AND VALUATION DYNAMICS

Company	Country	Market cap.	Net debt	Enterprise value	LTM revenues	LTM EBITDA	EBITDA margin	EV / Revenues	EV / EBITDA
		42,108	14,266	56,374	27,941	5,726	20.5%	2.0x	9.8x
		10,295	2,885	13,180	10,782	1,023	9.5%	1.2x	12.9x
		4,242	3,422	7,665	13,509	863	6.4%	0.6x	8.9x
		3,054	875	3,929	4,445	313	7.0%	0.9x	12.6x
		2,439	892	3,332	3,918	(144)	NM	0.9x	NM
		5,354	235	5,589	3,806	371	9.7%	1.5x	15.1x
		858	936	1,795	5,616	375	6.7%	0.3x	4.8x
		781	163	944	1,031	51	4.9%	0.9x	18.5x
Median								0.9x	12.6x
Average								1.0x	11.8x
Max								2.0x	18.5x
Min								0.3x	4.8x

Source: Capital IQ as of 30 September 2020
(figures in US\$ million)

Economic turmoil associated with the COVID-19 pandemic has had wide-ranging and severe impacts upon financial markets, including stock, bond and commodity (including crude oil and gold) markets.

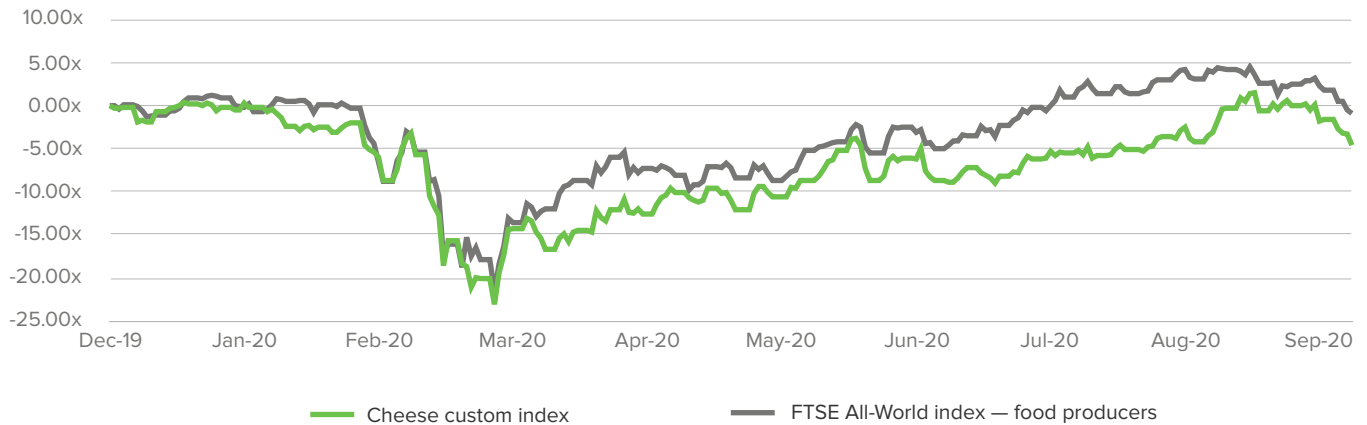
We created and analyzed a custom index of cheese companies (that includes all the abovementioned listed players) as a benchmark in order to analyze the cheese industry's stock performance and valuation dynamics during year 2020.

Cheese listed players, valuations dropped during February and March 2020 in line with the general financial markets, due to the outbreak of COVID-19. They started to recover in April to reach the same valuation levels recorded at the beginning of the year.

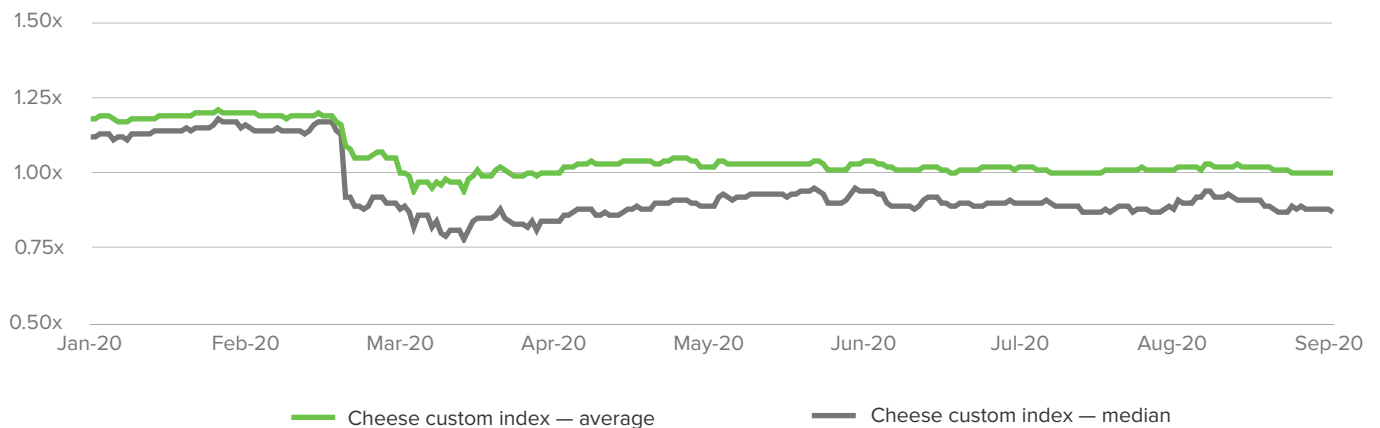
The major selected listed players active in the cheese industry are traded at a median multiple EV/revenues of 0.9x and a multiple EV/EBITDA of 12.6x.

Valuation trends

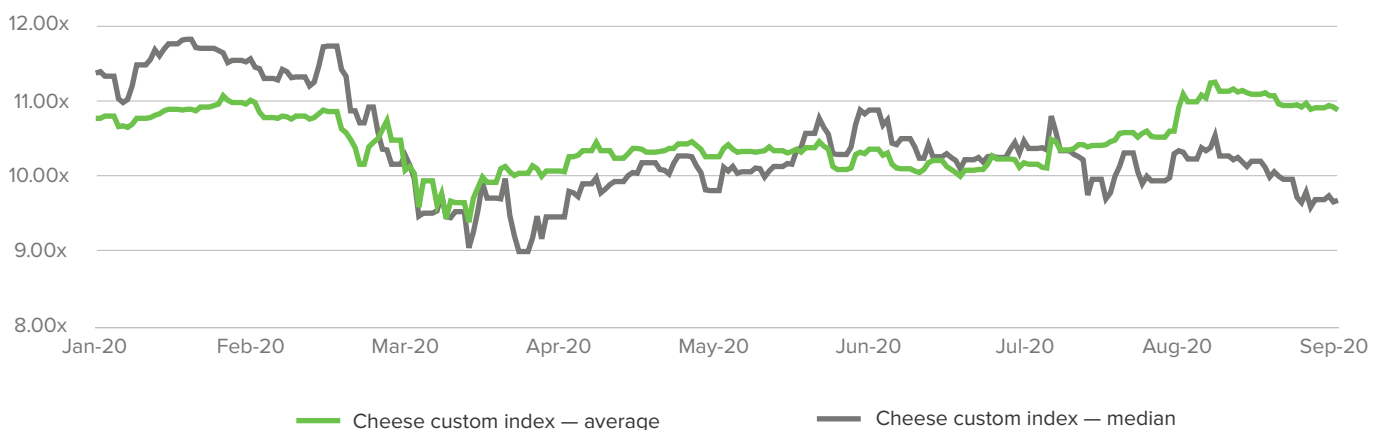
2020 YTD cheese custom index vs food market index



2020 YTD EV/Revenues trend



2020 YTD EV/EBITDA trend



Source: Capital IQ

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- M&A advisory (buy- and sell-side)
- Growth equity and equity capital markets advisory
- Debt advisory
- Corporate finance services

Cheese is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in the cheese sector, with a large network of relevant market players worldwide. This results in the best possible merger, acquisition and divestment opportunities for cheese companies.

If mergers, acquisitions, or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.

✉ DAVIDE MILANO

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Davide leads Oaklins' cheese team and is also a partner at Oaklins Italy. As part of his sector focus, he continuously follows developments, visits the major events and maintains regular contact with the key players. Consequently, he has a deep understanding of the market dynamics and value drivers in the cheese industry. Most recently, Davide advised Newlat Food and Sabelli S.p.A. on their recent acquisitions of Trevisanlat S.p.A. (mozzarella cheese) and Caseificio Val d'Aveto S.r.l. (yogurt), respectively.



Oaklins is the world's most experienced mid-market M&A advisor, with over 850 professionals globally and dedicated industry teams in more than 45 countries. We have closed 1,700 transactions in the past five years.

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