NEWSLETTER

Baking Industry

Functionality in Focus

Fall 2020

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The Baking Industry is evolving due in part to trends driven by changing consumer demographics. Millennials are influencing demand for conventional, yet health-focused bakery products such as breads and cookies, whereas fancy, clean-label cakes and pastry treats are gaining popularity as Gen Z shoppers come to the forefront. Innovation in ingredients, flavors, packaging, and marketing, as well as robust M&A activity, are evident as manufacturers look to increase their competitive market position.

Our Global Food & Beverage Team provides sector-specific expertise and close relationships with global buyers and sellers, both within your home territory and throughout the world. Many of our advisory transactions are cross-border.

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Introduction

In this edition, we cover the current state of the Baking Industry and explore key trends driving the industry, including: better-for-you (BFY), functional, diet-friendly, innovative flavors, and indulgence. In addition, we discuss changes in consumer demographics, preferences, and retailing that are supporting growth for a market that is currently estimated at ~$350 billion globally.[1]

The Baking Industry continues to experience a high level of M&A activity with increased deal activity expected as industry participants look to leverage acquisitions and orient product portfolios towards shifting consumer demand for innovation and functionality. Broadly defined, M&A within the industry can be categorized into two core themes:

- Acquisitions or investments in niche, fast-growing brands and products with BFY, organic and health-focused attributes;
- Divestitures of under-performing or non-core assets.

Recent strategic acquisitions are reflective of category and geographic expansion efforts, with keen interest in brands serving niche segments with on-trend attributes to broaden consumer reach and enhance competitive positioning. Recent private equity activity has been driven by the desire to acquire non-core or under-performing assets from strategics or the investment in smaller emerging brands with clean labels that consumers perceive as being more authentic.

Key Product Categories

Broadly, the Baking Industry can be classified into six key product categories:

Cookies & Crackers

Breads

Unsweetened Goods

Desserts

Sweet Goods

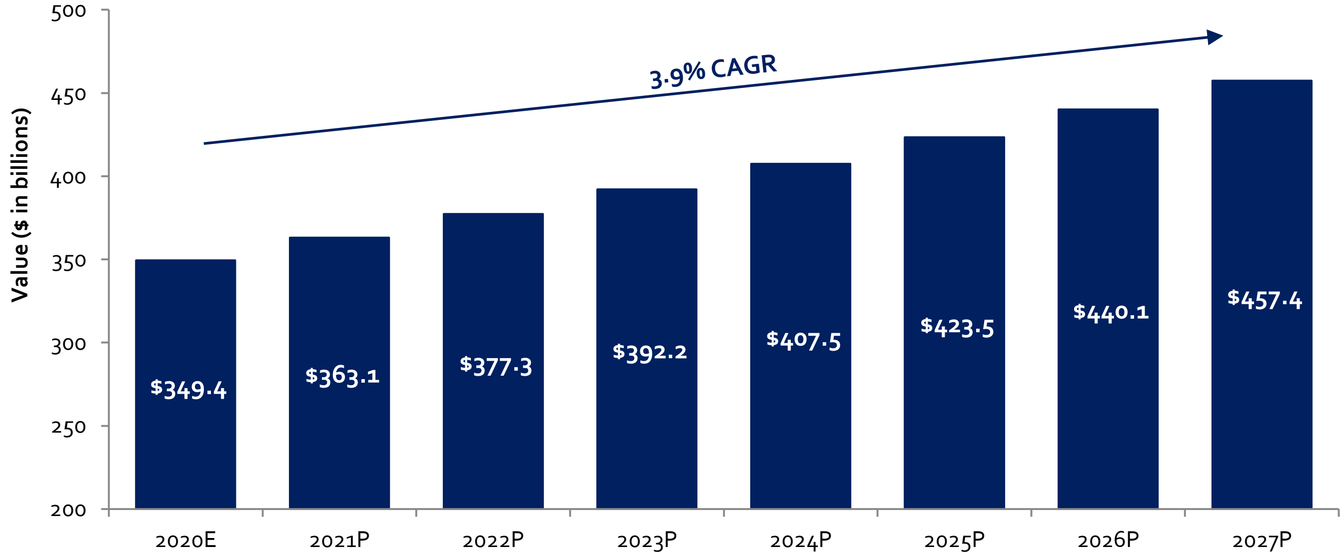
Breakfast Products

Source: 1) Global Bakery Products July 2020 Industry Report

2 Baking Industry Dynamics

The Baking Industry represents a large portion of the broader Food & Beverage (F&B) Industry with global sales estimated at ~$350 billion.[1] The industry is projected to grow at a compound annual growth rate ("CAGR") of 3.9% through 2027 fueled by evolving preferences. One of the most significant factors driving these trends is an increasingly health-conscious individual. In addition, more discerning palates and taste profiles have resulted in a shift towards bolder, more intense flavors. Today's consumer is becoming more engaged and connected, and social media is influencing new product innovation as younger generations become the primary target demographic.

Projected Global Bakery Product Sales[1]

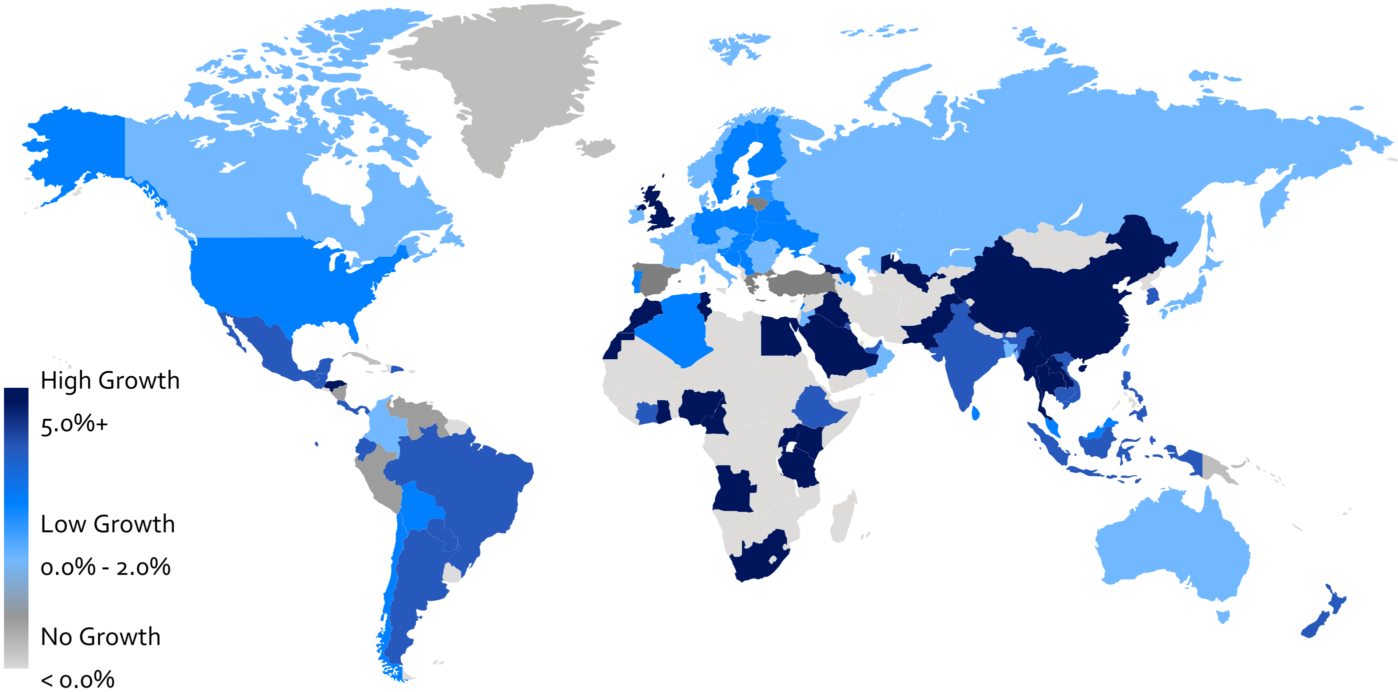


Regional Overview

The Americas and Europe regions are two of the largest global bakery markets. However, given their current sizes, they have shown signs of maturity and are expected to exhibit only modest growth. To the contrary, China, currently estimated at $60.8 billion, is forecasted to reach a projected market size of $98.2 billion by 2027, representing a CAGR of 7.1%.[1] Growth expectations in this market are driven by increased urbanization, greater adoption of social media, and access to incremental disposable income. Other noteworthy bakery markets are Japan and Canada, with each forecasted to grow at 1.2% and 3.0%, respectively[1], through 2027.

Source: 1) Global Bakery Products July 2020 Industry Report

Baked Goods Growth Forecast by Country[1]



Americas

- The North American baking products market is led by the U.S. with an overall market value estimated at ~$94 billion [1], making it one of the largest in the world.
  - Mexico, another major market in the region, has the highest growth expectations largely driven by the consumption shift from unpackaged (or homemade) to packaged products.
- The South American bakery market, primarily led by Brazil and Argentina, is being fueled by urbanization and an increase in working populations
  - This effect is driving the consumption of products outside of the home, leading to increased demand for nutritious, on-the-go bakery products.

Europe

- Europe remains one of the core markets for the global Bakery Industry, owing its foundation to its historical relevance as a staple food in many European countries.
- The market is well established in terms of product offerings, distribution channels, retail formats, and consumer preferences.
- Traditionally, the bakery market has trended toward freshly baked products, with bread making up the largest product category.

Asia

- The Asian bakery market is forecasted to grow at a rapid rate as the proliferation of various retail formats provides consumers easier access to a variety of products.
- Baked goods sales from China and Japan are expected to drive further growth in the region.
- Changing consumer demands in flavors and product types are responsible for the expansion of distribution channels and product innovation.
  - Increased production of artisanal baked goods is a key growth driver as consumers in this region demand fresher and healthier products, including low sugar, low trans-fat, and no preservatives.

Source: 1) Euromonitor

Industry Trends

Bakery manufacturers are leveraging the critical food trends outlined below to shape their portfolios and product offerings to remain at the forefront with target consumers.

Organic, Better-For-You

- Consumers have a personalized definition of health, shifting focus to organic, vegan, and other healthy options, including BFY, free-from, and clean label.
  - Since 2010 U.S. organic food sales have doubled, reaching $50 billion.[1]
  - The global BFY foods market is expected to reach $171.4 billion by 2022, growing at a CAGR of 4.3%.[2]
  - Global sales of clean label food products are expected to reach $180 billion in 2020.[2]

Functional Ingredients

- Consumer food choices are shifting towards non-GMO, dairy-free, protein-rich, and limited sugar.
- Use of premium ingredients and functional/super-foods including caffeine, teas, berries, plant-based, and proteins are becoming increasingly popular among bakers.
- Functional food ingredients are growing ~6% YoY, with high demand coming from daily use baked goods like breads.[3]

Small Indulgences

- Companies are introducing products that are more suitable with healthier consumer lifestyles, including finding ways to add protein and fiber.
- Smaller portion sizes are an ideal way to convert special occasion products like cakes into everyday indulgences combined with the convenience of on-the-go packages.
- Although clean labels and free-from statements are becoming increasingly popular, not all consumers are solely focused on BFY, and there will always be a spot on the shelf for indulgent baked goods.

Diet-Friendly

- Popular gluten-free, keto, and paleo diets have paved the way for diet-friendly products in the bakery category.
  - Gluten-free was the top diet-friendly claim, as the gluten-free bakery market is projected to grow at a 11.2% CAGR from 2019-2024.[4]
  - Keto-friendly product claims have tripled over recent years.

Innovative Flavors

- Evolving consumer palates are shifting demand towards bold and natural flavors in the bakery market.
  - Mexican mole spice, Indian curry, Middle Eastern spices, Mediterranean herbs, Japanese cherry blossom, matcha, and yuzu are gaining traction in the space.
  - Natural floral and fruity flavor trends such as botanicals, citrus, and mild herbs are emerging.

Instagram-able Offerings

- Social media is one of the most influential trends among young consumers who constantly share their lives online, requiring foods to have quirky designs, popping colors, and unique textures to suit social media platforms like Instagram.
  - In 2019, 69%[1] of millennials took a picture or a video of their food before eating.
- Retail bakery and foodservice outlets continue to focus on bright colors and decoration for sweet baked goods to drive impulse purchasing among consumers.

Source: 1) BakingBusiness.com/Sosland Publishing; 2) Euromonitor; 3) Transparency Market Research; 4) Mordor Intelligence

Ingredient Trends in Baking

Overview

Innovation within the baking ingredients market is being driven by various consumer trends, including natural, organic, plant-based, healthy fats, sugar-free, and creative color-flavor combinations. Product characteristics such as quality, texture, taste, appearance, and shelf life are paramount. Ingredient manufacturers must ensure that specialized preferences are met, while achieving product results similar to conventional counterparts through R&D efforts.

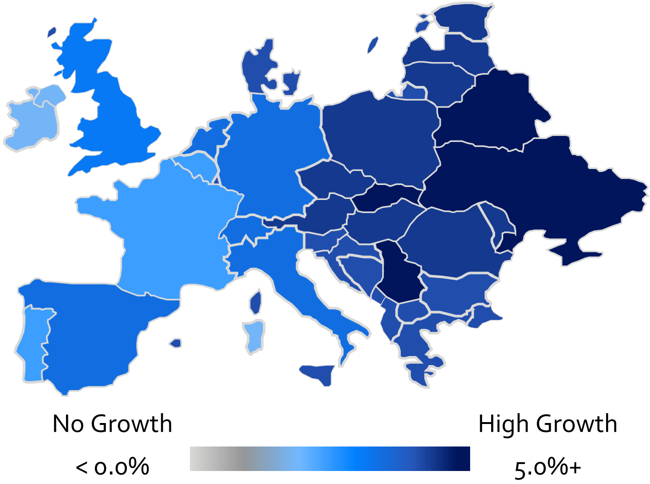
A key theme for baking manufacturers is catering to enhanced benefits and functionality preferences. Furthermore, manufacturers are continuously tackling taste and texture issues due to enrichment while maintaining product structure in the absence of gluten (the fundamental base for dough).

- Ardent Mills offers a range of whole and ancient grain flours that fulfills both nutritional and functional benefits.
- Ingredion offers texturizing agents, pulse flours, sweeteners, and starches that help manufacturers optimize texture, add nutrition, and reduce sugar.

*Estimated at **$14.5 billion** in 2019, the baking ingredients market is expected to reach **$16.9 billion** by 2022, growing at a CAGR of **5.4%**[1]*

The European bakery ingredients market is expected to see strong growth with a forecasted CAGR of 3.5%-6.0% through 2022.

European Baking Ingredients Market Growth



"Now more than ever, bakery customers are seeking BFY items. Because of this, we are seeing major innovation in clean label, vegan, and gluten-free offerings." – Melissa Trimmer, Senior Bakery Application Chef, Dawn Foods

Flour Power

- One of the biggest ingredient breakthroughs has been substitutes for all-purpose flour, which has been the traditional foundation of commercial baking.
- As consumers demand diet-specific and gluten-free products, manufacturers are compelled to use alternatives that still meet these dietary requirements.
- In addition to health benefits and supporting consumers' dietary restrictions, alternative flours have the ability to create unique flavors that today's adventurous eaters demand.
  - For example, the Keto diet has furthered the use of nut flours and encouraged the extensive use of cauliflower flour.

Source: 1) MarketsandMarkets Baking Ingredients Industry Report

Ingredient Trends in Baking

- Gluten-free/grain-free has driven the use of fruits and vegetables including apples, banana, coconut, sweet potatoes, cabbage, and pumpkins, which can be dried and pressed into flour and incorporated into baked goods.
- Other flour options currently in use include oats, tubers, and seeds. Sunflower, flax, hemp, and poppy are also being explored by bakers to offset traditional baking flour.

Vegetable-based flours have grown to become the third-largest product category, right behind wheat and rice products, and account for approximately 13% of the U.S. flour milling market.[1]

Protein Rich

Today's consumer is seeking nutritional benefits from bakery products, with fortification and nutrient additions having particular appeal among millennials.

- 27% of U.S. consumers between the ages of 25-34 who consumed baked goods said that added nutrients are important when choosing in-store bakery products.[2]
- Protein has become a major attraction for consumers, influencing the purchasing decisions of 65% of U.S. consumers and 45% of U.K. consumers.[3]

Findings from the 2019 study Consumer Attitudes and Usage of Plant-based Protein[4] revealed that:

- 75% of respondents said baked goods made with plant proteins taste better.
- 74% of respondents considered such foods healthier.
- 73% of respondents felt such foods were more nutritious.

Manufacturers have incorporated protein-rich elements into baked goods, offering consumers the choice to indulge responsibly, while also providing nutritional upside.

- Bakery is the leading F&B category among alternative protein-based product launches, accounting for 27% of total new launches.[5]
- Pea and soy proteins are popular protein-boosters used for baking. Off-taste challenges and textural issues due to protein content have been mitigated with formulation advances.
  – For example, Cargill formed a joint venture with PURIS to scale pea protein, an ingredient that boosts the protein level without compromising taste or texture.
- Kodiak Cakes, one of the most prominent brands in the protein segment, reached ~$160 million in revenue in 2019 from just $6.7 million in 2014 through increased sales of its protein-packed power cakes, waffle mixes, crackers, and muffin cups.[6]
- Today's consumers are aware of the benefits of regular nut and seed consumption, and are interested in taste-testing new formulations that feature a variety of these ingredients, creating opportunities for baking manufacturers to expand product offerings.

Source: 1) IBISWorld; 2) Kerry Inc.; 3) Innova Market Insights; 4) Institute of Food Technologists; 5) FoodIngredientsFirst.com; 6) Snackandbakery.com/BNP Media

Industry Drivers

Evolution of Consumer Preferences

- Consumers expect food to satisfy specialized needs for nutrition, diet, health conditions, convenience, authenticity, and luxurious indulgence.
- A growing working population has driven consumption of commercial baked pre-packaged goods including breads, cakes, and cookies that were previously prepared at home.
- Food consumption is no longer meant solely for sustenance, but stands for a holistic experience.

Change in Demographics

- Millennials and Gen Z generations are more exploratory and prefer convenient, ready-to-eat, healthy packaged foods.
- Increased disposable incomes in emerging economies have empowered consumers to increasingly indulge in extravagant food experiences
- Exposure to global culture has led to increased experimentation with different foods and flavors.

Growth of Retail Channels

- Proliferation of various retail formats in emerging economies provides consumers easier access to a variety of F&B products.
- In more mature economies, eCommerce has gained significant share, providing a new route to market for key bakery product categories.
  - F&B is the fastest-growing eCommerce segment in the U.S., estimated at $27.7 billion in 2020 and expected to reach $40 billion by 2022.
  - Among U.S. consumers who purchased online, 20-25% of them purchased a baked good product online in 2019.[1]
  - Online sales are now forecasted to comprise ~6% of total grocery spend in 2020, compared to 3.5% in 2019.[2]

Advances in Baking Tech and Offerings

- Technical innovation in bakery equipment has resulted in process improvements and the efficient delivery of a variety of artisanal baked products at scale.
- Manufacturers are empowered to test new flavors, ingredients, and formats to fuel the interest of consumers, and offer products based on organic, free-from, and other trending concepts.
- Increased adoption of automation and other technologies is facilitating this experimentation at reduced costs and increased margins.
- Technology today allows enzymes to be developed with specific activities and produced to deliver the exact level of functionality required.

Source: 1) eMarketer; 2) Morgan Stanley COVID-19 Impact on Consumer Staples

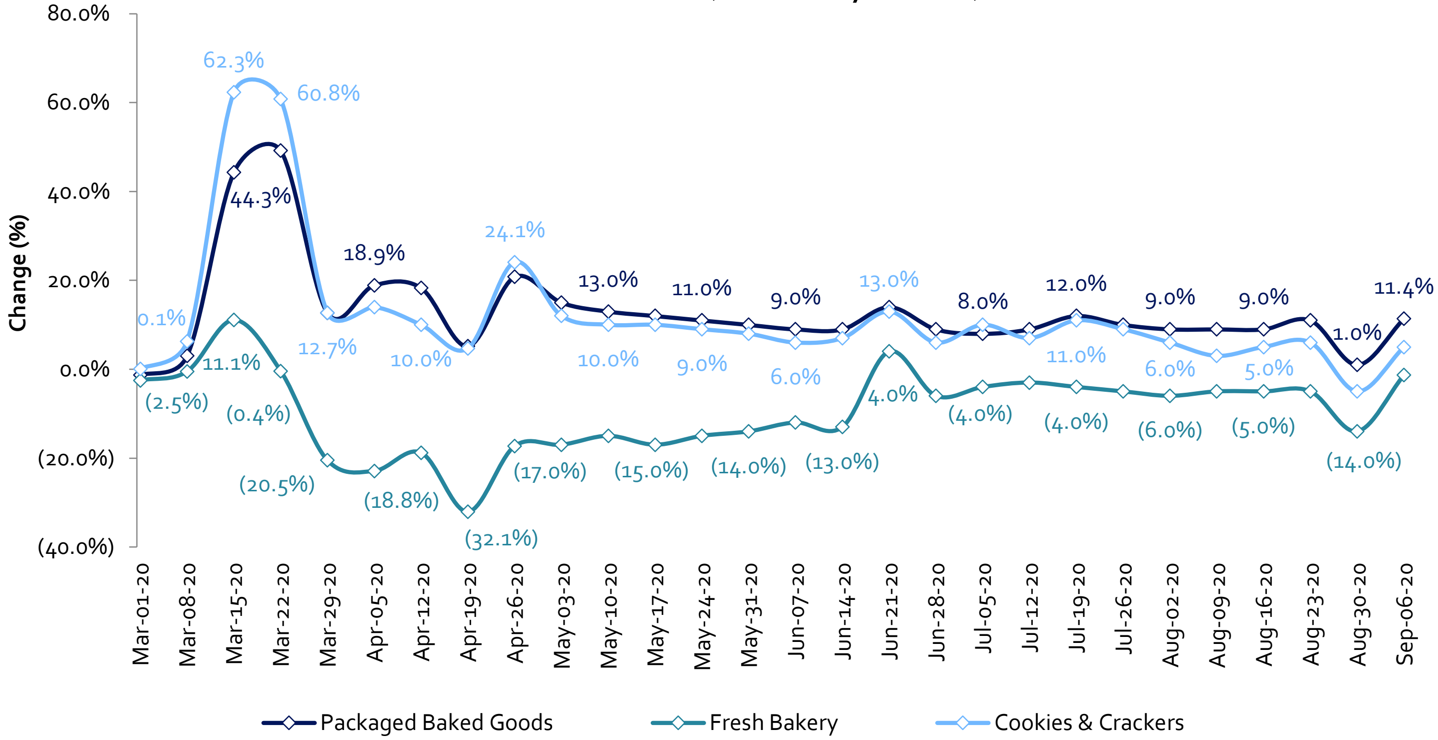
3

Baking Industry Product Category

The COVID-19 pandemic ushered in a new growth phase for food sales as consumers began eating more at home and avoiding foodservice outlets. Baking as a hobby has become even more prevalent in a post-COVID-19 world as consumers shift towards comfort foods, including brand and product staples. Food retailers experienced unprecedented demand as consumers, abiding by lockdown restrictions, shifted purchasing to packaged food products.

- **Among product categories in the U.S., the bakery sector witnessed the second highest spike in mid-March.**
  - Bread, bagels, and muffins saw a significant increase in sales.
  - Cookies & Crackers found in the center store aisle were big winners.
  - Packaged Baked Goods experienced an 11.4% year-over-year increase for the week ending September 6, 2020.[1]
  - Conversely, many retailers closed or reduced their in-store bakery offerings leading to a decline in fresh baked.

YoY Sales Growth (U.S. Bakery Product)[2]



Source: 1) IRI U.S. data; 2) International Dairy Deli Bakery Association (IDDBA)

Cookies & Crackers

Key segments include Cookies, Brownies, Biscuits, and Crackers.

The Cookies & Crackers category is evolving to meet changing consumer preferences, with some products qualifying as BFY snacks. The category recorded sales of more than $9.0 billion in 2019, making it the third-largest within the U.S. Bakery Industry.[1]

- Category leader Mondelēz International's cookie sales increased by +8.6%.[2]
- Players such as Pepperidge Farm and Bimbo Bakeries registered growth of 9.3% and 12.7%, respectively.[1]

The Refrigerated Cookie/Brownie Dough segment grew by 9.3% to $571.8 million in August 2020.[2]

- General Mills experienced strong sales for its Pillsbury brand dough products, which grew 20.6% to $274.5 million.[1]
- Clean-label, vegan Cookie Dough brand Sweet Loren's grew 52.8% to reach $17.7 million in sales.[1]
- Ben & Jerry's "Snackable Dough" line took the Cookie Dough segment by storm, generating $12.8 million in sales.[1]
- Private Label offerings, albeit smaller, grew by 24.5% to reach $1.7 million in sales.[1]

The Frozen Cookies segment grew 18.0% reaching sales of $12.9 million in Q2 2020.[1]

- Private Label led in segment sales, while the branded segment also expanded due to new entrants, including Sublime Desserts, Conagra Brands (Duncan Hines), and Casa del Gelato.

The Cracker segment has also experienced an uptick in sales in recent quarters.

- The overall segment is expected to grow 3.8% over the next four years as snacking is expected to outpace several other food and beverage subsectors.[2]

> ➢ **GMO-free and Gluten-free products registered CAGRs of 20% and 15%, respectively, from 2015 to 2019.[1]**

KEY TRENDS

- Clean label
- Specialty diets (keto)
- Better-for-you
- Vegan
- Gluten-free
- Reduced-sugar

Source: 1) IRI U.S. data 52 weeks ending April 2020; 2) Nielsen+Bernstein 4 weeks ending August 2020

The U.K. Biscuits market is valued at £2.7 billion[1] and accelerated growth in Q2 2020 as the COVID-19 impact drove a surge in demand of biscuits with consumers stockpiling shelf-stable products. The market overall is fairly diversified with the top five brands making up no more than one-third of total sales.

- Pladis, the manufacturer of McVitie's Digestives biscuits, was the highest selling brand in the U.K. with £532 million in sales.[1]
- Second was Mondelēz at £258 million, followed by Nestlé with £122 million, and Burton's with £116 million.[1]

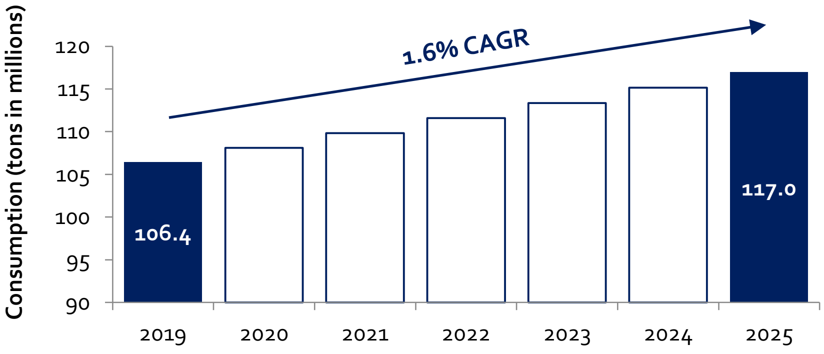
Notable product trends within the Biscuits segment include: sugar-salt reduction, BFY, optimized pack formats, coated wafer biscuits, and clean labels.[2]

Breads

Key product segments include Fresh Breads, Bagels, and Buns & Rolls.

Global Bread consumption is forecasted to reach 117 million tons by 2025, driven by urbanization in developing countries and steady growth in the established European and American markets.[1]

Global Bread Consumption[3]



Fresh Bread growth has benefited post-COVID-19 as preferences have shifted towards core pantry staples, driving sales across almost every segment.

- The Fresh Bread segment grew 3.5% to $9.4 billion in the U.S.[1]
- Two of the largest companies in the segment posted gains, with Grupo Bimbo growing 1.4% reaching sales of $2.5 billion and Flowers Foods growing 9.0%, reaching sales of $2.3 billion.[1]

The Bagels segment witnessed strong growth of 7.8% in Q2 2020, generating more than $1.0 billion in sales.[1]

- Grupo Bimbo bagel products grew by 5.2% with help from its January 2020 acquisition of Lender's Bagels from Conagra Brands.[1]
- Flowers Foods bagel products reported another strong year with sales up 28.5%, aided by organic brand Dave's Killer Bread, which offers whole grain and protein-rich options.[1]

KEY TRENDS

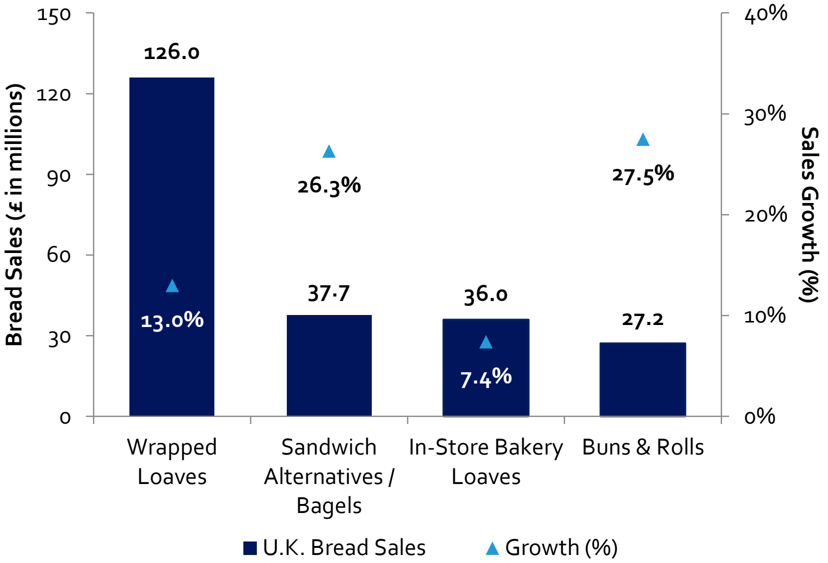
- Clean label
- Specialty diets
- Better-for-you
- Frozen
- Artisan
- Globally inspired ethnic cuisine/flavor fusion

Source: 1) IRI U.S. data 52 weeks ending April 2020; 2) Confectionery Production/Bell Publishing; 3) IndexBox

The Buns & Rolls segment saw strong demand in Q2 2020, in part due to the growing popularity of Hawaiian rolls and similar products.

- The Hamburger & Hot Dog Buns subsegment grew by 5.6% to $2.3 billion in sales, while "Other Fresh Rolls/Buns" grew by 8.5% with sales of nearly $2.1 billion.[1]
- Private Label maintained a strong segment presence with $803 million in sales, increasing 0.7% YoY.[1]
- Grupo Bimbo was the leading company within the segment with sales of $432.6 million, a 9.3% increase.[1]

U.K. Bread Sales and Growth[3]



The U.K. baking market is one of the largest markets in the Food Industry, as total volume is approximately 4 billion units; the equivalent of 11 million loaves sold daily.[2]

- Large bakery manufacturers, in-store bakeries, and craft bakers produce approximately 85%, 12%, and 3%, of bread sold in the U.K., respectively.[2]
- A large number of manufacturing plants produce bread for sale under retailer labels, including convenience stores and major multiple retailers.
- Many craft bakers have now diversified into catering and takeout food.

Unsweetened Goods

Key product segments include Pizzas, Flatbreads, Tortillas, and Croissants.

Convenience and comfort have led consumers to purchase more Pizzas, especially during a time when consumers are eating more at home. Frozen Pizza, in particular, increased 10.4% in Q2 2020, reaching $5.5 billion.[1]

- Nestlé's DiGiorno brand dominated the U.S. segment with sales of $1.2 billion.[1]
- Caulipower, an emerging BFY brand, grew 54.2% YoY with $79.3 million in sales.[1]
- Of note, the Frozen Pizza Crusts & Dough segment grew 29.0%, reaching sales of $45.3 million.[1]
- Refrigerated Pizza, on the other hand, only grew 5.7% generating sales of $370.1 million. Private Label accounted for 90% of the refrigerated segment, with growth of 9.9% YoY.[1]

Source: 1) IRI U.S. data 52 weeks ending April 2020; 2 Federation of Bakers; 3) IBISWorld Bread and Bakery Goods in the U.K.

Across the U.K. and Germany, the Frozen Pizza and Flatbread segments also experienced growth in recent quarters as they are considered affordable alternatives to more expensive, fresher options.

- Frozen pizza sales in the U.K. grew by 18.1%, reaching £45.4 million in sales, with volumes growing 9.5%.[1]
- German consumers spend on frozen pizza grew 11.5% YoY.[2]

Tortillas, fueled by a consumer sentiment shift to ethnic, healthy, and convenient functional food products, grew 11.5% to $2.9 billion in sales.[2]

- U.S. market leader Mission Foods reported sales of $981.3 million and 16.9% growth, accounting for roughly one-third of segment sales.[2]
- Refrigerated tortilla sales in the U.S. grew by 10.9% reaching $107.2 million in sales, led by Circle Foods with sales of $40.1 million.[2]
- Germany, a key tortilla market in Europe, is forecasted to grow slightly slower than the U.S. at a CAGR of 1.8% from 2020-2027.[3]
- The Asia-Pacific tortilla market is forecasted to reach $6.9 billion by 2027, led by growing demand in Australia, India, and South Korea.[3]
- The Latin America tortilla market is projected to grow at a CAGR of 4.5%, already partially saturated due to the products' heritage in the region.[3]

KEY TRENDS

- Better-for-you
- Authentic artisan crusts
- Specialty diets (low-carb, gluten-free, keto)
- Vibrant flavors & colors
- Plant-based nutrition
- Vegetable-based flours (chick pea, cauliflower, cassava)

Desserts

Key product segments include Cakes, Cheesecakes, Pies, and Snack Cakes.

Sweet treats are a favorite among consumers of all ages. Smaller portion sizes, vegan claims, and healthier-oriented products are driving trends and are important factors impacting consumer purchasing decisions. COVID-19 implications have put a strain on fresh, in-store bakery products given the consumer shift towards more "safety assured" packaged products.

The Pies & Cakes segment grew by 1.9% to reach $1.9 billion in sales in Q2 2020. The Cake segment alone totaled $1.5 billion in sales, generating annual growth of 2.4%.[2]

- Private Label cakes registered $918.2 million in sales, of which Grupo Bimbo contributed $126.7 million.[2]
- The Pie segment registered near stagnant growth of 0.1% with sales of $427.3 million. The positive growth of several branded companies somewhat offset the 3.6% decline in Private Label within this segment.[2]
- The Frozen Pies subsegment recovered from the previous year's decline growing 5.7% and reaching $524.8 million in sales.[2]

Source: 1) Datassential; 2) IRI U.S. data 52 weeks ending April 2020; 3) Research and Markets

KEY TRENDS

- Clean label
- Plant-based
- Free-from
- Almond flour
- Assorted packs
- Floral & savory flavors
- Bite-sized indulgence

The Cheesecake segment has seen three consecutive years of gains with sales of $341.6 million, up 6.7% YoY as of April 2020.[1] Brands such as Sara Lee are focusing on portion control and packaging in order to keep up with consumer preferences.

- Private Label brands led the segment with $206.3 million in sales and 11.1% growth.[1]
- Mango, peanut butter, and dulce de leche were the top three flavors growing 51%, 32%, and 22% year-over-year, respectively.[1]

The U.K. Ambient Cake (non-refrigerated/non-frozen) subsegment is valued at over £965 million and registered nominal growth in 2019.[4]

- The Ambient Packaged Cake subsegment is served only by a few manufacturers that can produce large quantities of cakes at consistent standards.
- One of the key goals in food technology among cakes is to design Ambient Cakes in which the characteristics of individual components are not adversely affected during distribution and subsequent storage.
- Key cake market trends including "free-from" generated retail segment sales of £51.7 million.[2]
- Baked snack cakes have found a good fit within the overall snacking trend that continues to evolve as consumers alter eating habits away from only three meals a day.

Sweet Goods

Key product segments include Pastries, Doughnuts, Muffins, and Cinnamon Rolls.

Estimated at ~$3.0 billion in 2018, the U.K. Sweet Goods market is expected to reach $3.2 billion by 2023.[3] In the U.S., sales increased 3.3% to $5.3 billion as of Q2 2020.[1]

- Pastries, which primarily includes danishes and coffee cakes, is the largest segment with $2.0 billion in sales representing 3.1% YoY growth. Private Label led the segment with $447.0 million in sales.[1]
- The Doughnuts segment grew a modest 1.6% to nearly $2.0 billion in sales, with Private Label accounting for one-quarter of the total. However, branded products are driving growth as Private Label has experienced a 2.8% decline.[1,4]

KEY TRENDS

- Better-for-you
- Plant-based nutrition
- Free-from
- Permissible indulgence
- Sourdough
- Globally inspired flavors
- Specialty diets (gluten-free, low-carb)

Source: 1) IRI U.S. data 52 weeks ending April 2020; 2) Kantar/Finsbury Food Group; 3) JustFoods.com; 4) Datassential

- Hostess Brands grew by 8.2% to $425.2 million in sales.[1]
- The Muffins segment grew by 6.3% to $1.3 billion in sales. Grupo Bimbo led this segment with sales of $473.9, a 15.5% YoY increase.[1]
- Cinnamon Rolls is the third most popular segment gaining traction as a baked breakfast menu offering, growing by 5% YoY in April 2020.[1]

Breakfast Products

Key product segments include Pancakes, Waffles, French Toast, and Breakfast Sandwiches.

Consumers continue to seek flavorful, convenient breakfast options that meet dietary needs. Manufacturers are adapting to this demand by providing frozen breakfast products and ready-to-eat waffle and pancake mixes, which are increasingly becoming popular among masses.

- Sales in the U.S. Frozen Breakfast segment has grown to $3.7 billion, up 7.0%.[1]

The French Toast/Pancake/Waffle Mixes segment grew 17.5% YoY in Q2 2020 to $601.9 million in sales.[1]

- Frozen Waffles grew 5.4% to $989.8 million in sales.[1]
- Kellogg led the segment with $725.4 million in sales, supported by its flagship Eggo brand with sales of $526.3 million.[1]
- An increase in consumers eating, baking, and cooking at home has aided growth in the Breakfast Mix segment.[1,2]

The Frozen Breakfast Entrées subsegment, which includes frozen pancakes, grew 9.5% in the 52 week period ending April 2020, to $778.7 million.[1] The affordable, convenient, and balanced nature of breakfast sandwiches has enabled segment growth, particularly for people "on the go". The growing popularity has also encouraged foodservice operators to offer breakfast options throughout the day.

KEY TRENDS

- Better-for-you
- Reduced-sugar
- Protein-rich
- Classic& ethnic flavors
- Specialty diets (low-carb)
- Nutrition
- Quick and convenient

- The three fastest growing sandwich varieties offered by U.S. restaurants include globally inspired bánhmì, torta, and croque madame. Multigrain, rye, and toasted are popular as breads for breakfast sandwiches, while chia-seed, steamed, and gluten-free options are fast-growing favorites.[2,3]

Valued at £4.6 billion in 2019, the U.K. retail morning/breakfast goods market is quite large, with the free-from segment contributing £130.2 million in sales.[4]

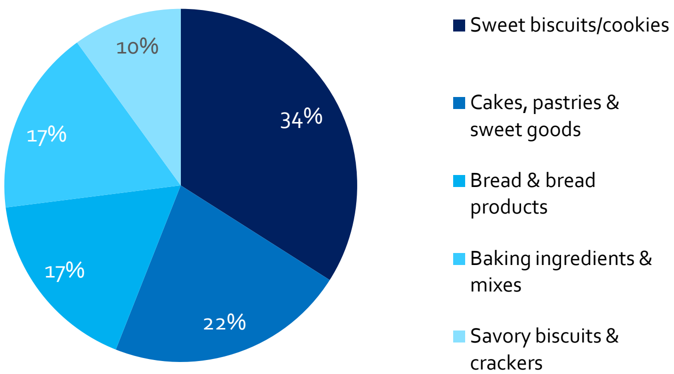
- This market is expected to grow further with remote working and home schooling. In the week following school closures in the U.K., the Bird's Eye potato waffles brand favored by kids experienced a 54.0% surge in sales.[5]

Source: 1) IRI U.S. data 52 weeks ending April 2020; 2) Datassential; 3) Mintel; 4) Kantar/Finsbury Food Group; 5) Nielsen/The Grocer

New Product Launches

The total number of new bakery product launches increased 7.0% globally in 2019. Sweet Biscuits/Cookies led the way with 34% of new launches.[1]

New Bakery Products by Category, 2019[1]



Products manufactured from alternative ingredients including fruits, vegetables, nuts, and seeds gained traction driven by health trends. Wheat was the leading ingredient (66%) in a majority of the products launched.[1]

Top 5 trending bakery product claims launched in 2019:[1]

- No additives/preservatives: 12%
- Vegetarian: 11%
- Gluten-free: 10%
- High-fibre: 7%
- Organic: 7%

Small indulgent treats

All natural, preservative-free fruit bakes

Grain-free & gluten-free

Source: 1) FoodIngredientsFirst.com

4

M&A Activity

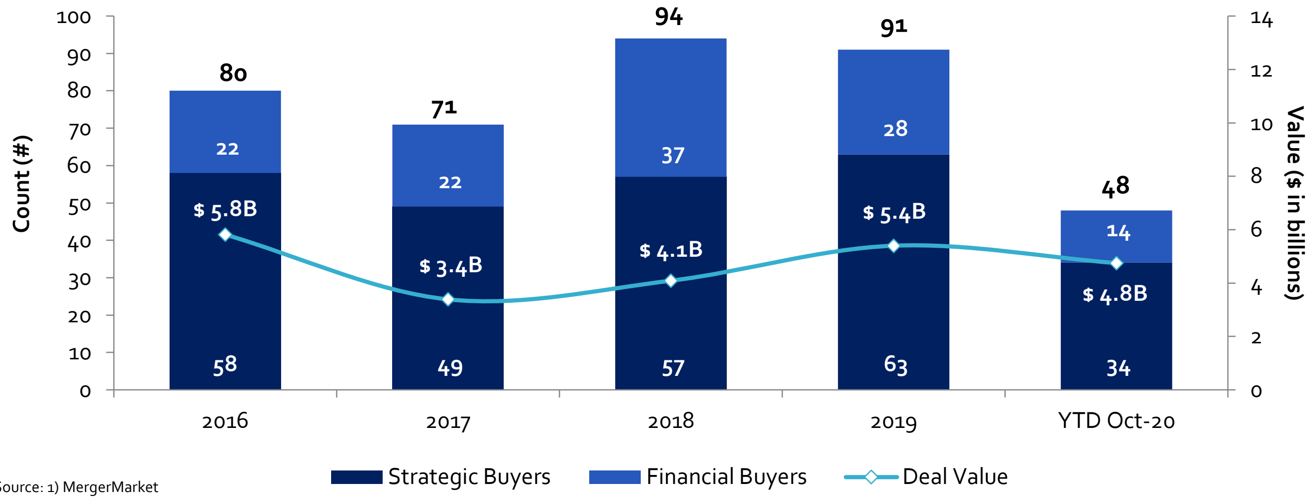
Overview

From 2016 to 2019 the Baking Industry experienced robust M&A activity, peaking in 2018 with 94 transactions totalling $4.1 billion. Over that same time period more than two thirds of the transactions involved a strategic buyer versus a financial buyer. While activity initially slowed in Q2 2020 following COVID-19, which notably impacted M&A activity across all industries, deal flow has picked up steam in the second half of the year. The focus of M&A continues to be strategic in nature, and an uptick is expected as industry participants look to further leverage acquisitions and orient product portfolios towards consumer-driven innovation and functionality. Broadly speaking, M&A activity within the industry can be categorized into two core themes:

- Category disruption/evolution driven by investments in niche, fast-growing brands with BFY, health-focused products.
- Divestitures of under-performing or non-core assets by large players looking reshape their portfolios, some resulting from the impacts of COVID-19.

Recent deals are reflective of category and geographic expansion efforts, with keen interest in funding for innovative brands serving high-growth niche segments to broaden consumer reach and enhance competitive positioning on the shelf. Large bakery and snack product manufacturers including Mondelez International, Treehouse Foods, Dawn Foods, and Nestlé have divested non-core, under-performing brands and divisions to reshape their portfolios towards premiumization and on-trend products. This has led to an uptick in private equity presence in the space as these assets have significant scale and are often divested at attractive valuations. After private equity platforms are solidified, their focus often shifts to extracting cost savings and leveraging synergies by rolling-up other non-core assets or smaller emerging brands in niche segments that consumers perceive as being more authentic or on-trend.

M&A Activity (2016 – YTD Oct-20)[1]



Source: 1) MergerMarket

Key Strategic & Financial Buyers

Recent Strategic Buyer Activity

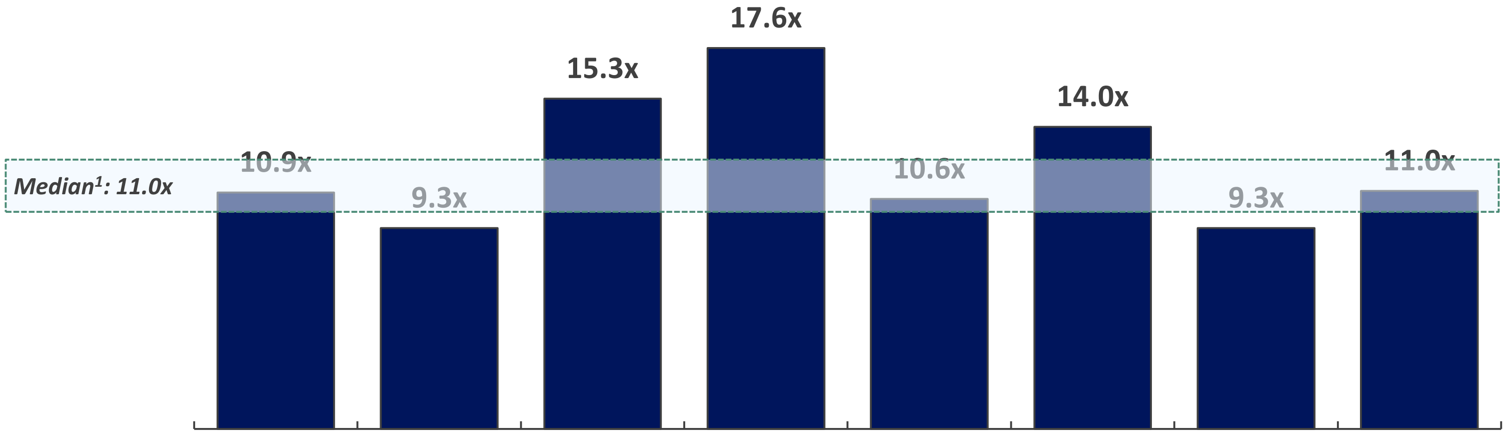
More ⟵⟶ Less

Grupo Bimbo, Lantmännen Unibake, Mondelēz International, Dr. Oetker, Biscuit International, T.Marzetti, C.H. Guenther & Son, Inc., Ferrero, Yamazaki, Hostess, Flowers Foods, TreeHouse, Bäckerei Dorner, Finsbury Food Group

Relevant PE Platforms & Investments

Ellison Bakery	Garudafood / munchy's	Rubicon Bakers	Hometown Foods USA	The Engelman's Bakery	The Bakery Co.
tilia	CVC Capital Partners	Trive Capital	Keystone Capital	Shoreline Equity Partners	Arbor Investments
Forno d'Asolo	Biscuit International	Café Valley / Backerhaus	mlinar	Sari Roti Rotinya Indonesia	TNT Crust
BC Partners	Platinum Equity	SPC Swander Pace Capital	MidEuropa Partners	KKR	Peak Rock Capital

Relevant Recent M&A Drilldown



Target		East Balt Bakeries	Sari Roti Rotinya Indonesia	piraquê	Ultrapharm	Kelsen Group	Superior on Main	Forno d'Asolo
Acquirer	Nordic Capital	Grupo Bimbo	KKR	M. Dias Branco	Finsbury Food Group	Ferrero	Sara Lee Frozen Bakery	BC Partners
Consideration:	$153M	$650M	$631M	$490M	$22M	$300M	$65M	$220M
Date	Jun-17	Jul-17	Oct-17	Jan-18	Sep-18	Jul-19	Aug-19	Jan-20
Focus Area	Bakery Retail	Breads	Breads	Crackers	Breads	Desserts	Desserts	Breads

Source: 1) EV/EBITDA multiples, S&P Capital IQ, MergerMarket

M&A Transactions

Ann. Date	Target Company	Target Description	Country	Bidder Company	Country	EV ($M)
01-Oct-20	Dewey's Bakery (minority stake)	US-based cookie and cracker manufacturer	USA	Eurazeo SA	France	
30-Sep-20	H&F Bread Company	Wholesale bakery offering artisan breads primarily to restaurants	USA	Engelman Baking Co., LLC	USA	
18-Sep-20	Indulge Desserts	US-based desserts maker	USA	Emmi Group	Switzerland	90.0
31-Aug-20	Alysse Food S.A.	Belgium-based company that manufacture and supply pastries and bread, muffins, brownies, bagels and cupcake	Belgium	Roullier Group	France	
26-Aug-20	Birch Benders, LLC	US-based pancakes and waffles maker company	USA	Sovos Brands Intermediate, Inc.	USA	
25-Aug-20	Creative Food Ingredients, Inc.	US-based cookie manufacturer	USA	Parker Products Inc	USA	
14-Aug-20	Ellison Bakery, LLC	US-based manufacturer of cookies and cookie-based products	USA	Tilia Holdings, LLC	USA	
31-Jul-20	Frische und Service GmbH	Germany-based baking food products company	Germany	Tavola Holding AG	Switzerland	
22-Jul-20	Gel Spice Company, Inc.	US-based family owned importer and manufacturer of spices, seasoning, and bakery ingredients	USA	Olde Thompson Inc.	USA	
1-Jul-20	Ab Chipsters Food Oy	Finland-based fish processor and marketer. Its also sells meat, squash, dairy, egg and bakery products	Finland	PNM Holding Oy	Finland	
26-Jun-20	Roberto Industria Alimentare S.r.l.	Italy-based manufacturer of baked products	Italy	Morato Pane S.p.A	Italy	28.0
24-Jun-20	PEK Group as	Czech Republic- based company engaged in baking and selling of bakery products	Czech Republic	Investment PG 2020	Czech Republic	
12-Jun-20	French Bakery Co. AS	Norway-based bakery	Norway	Lantmannen Unibake International	Denmark	
4-Jun-20	Boulangerie-Patisserie Dumas Inc.	Canada-based puff pastries, croissants and vol-au-vents producer	Canada	An investor group led by Champlain Financial Corporation	Canada	
1-Jun-20	Siro El Espinar SL	Spain-based company engaged in production of pastries	Spain	Dulmatesa SL.	Spain	32.8
22-May-20	Brunchco21	Beligum and France-based bakery-restaurant group	Belgium	Cobepa S.A.; M80 Partners	Belgium	
21-May-20	Harvest Gold Industries Pvt. Ltd. (35% Stake)	India-based company engaged in producing bakery products	India	Grupo Bimbo S.A.B. de C.V.	Mexico	
19-May-20	Hanina GmbH	Germany-based producer of cakes, sponge cakes, other bakery products	Germany	Dan Cake A/S	Denmark	
7-May-20	Rudi's Organic Bakery Inc.	US-based company providing organic bakery products	USA	Promise Gluten Free	Ireland	
7-May-20	Three Bakers Gluten Free Bakery	US-based bakery providing gluten-free baking products	USA	Promise Gluten Free	Ireland	

Source: MergerMarket

M&A Transactions

Ann. Date	Target Company	Target Description	Country	Bidder Company	Country	EV ($M)
18-Apr-20	Rich Graviss Products Pvt. Ltd. (50% Stake)	India-based company engaged in providing of products for food service and in-store bakeries	India	Rich Products Corporation	USA	
16-Apr-20	Margherita Srl	Italy-based premium pizza manufacturer	Italy	KADI AG	Switzerland	
31-Mar-20	Steck Wholesale Foods, Inc.	US-based producer of English muffins and biscuits	USA	The Bakery Companies	France	6.2
6-Mar-20	Bells of Lazonby Limited	UK-based family bakery producing a variety of breads, brownies and cakes	United Kingdom	Management Vehicle	United Kingdom	
5-Mar-20	Engelman Baking Company, Inc.	US-based wholesale bakery offering a complete line of fresh and frozen bread products primarily serving the foodservice industry	USA	Shoreline Equity Partners	USA	
2-Mar-20	NPO Margaron (75% Stake)	Russia-based engaged in production and development of margarines and fats for the bakery and confectionery industries.	Russia	AAK AB	Sweden	
27-Feb-20	La Romainville S.A	France-based maker of pastry and festive cakes	France	BIP Investment Partners SA	Luxembourg	
25-Feb-20	Give and Go Prepared Foods Corp	Canada-based baked food manufacturer	Canada	Mondelēz International, Inc.	USA	
24-Feb-20	Cyrus O'Leary's Pies	US-based bakery of baked and cream pies	USA	Sara Lee Frozen Bakery LLC	USA	
13-Feb-20	TreeHouse Foods, Inc. (two in-store bakery facilities)	US-based two in-store bakery facilities	USA	Rich Products Corporation	USA	
12-Feb-20	Georg Parlasca Keksfabrik GmbH	Germany-based biscuit manufacturer	Germany	AUCTUS Capital Partners AG	Germany	
30-Jan-20	The Mochi Ice Cream Company	US-based company engaged in the manufacturing and distribution of bakery products and ice-creams	USA	Lakeview Capital, Inc.	USA	
28-Jan-20	Pasticceria Bindi S.p.A.	Italy-based producer and distributor of frozen patisserie products such as desserts, bakery products, including patisserie and ice cream mono-portion desserts, cakes and ice-creams.	Italy	BC Partners Limited	United Kingdom	220.3
27-Jan-20	Sid Wainer & Son, Inc.	US-based company engaged in distribution of specialty food	USA	The Chefs' Warehouse, Inc.	USA	50.5
20-Jan-20	Sfoglia Torino S.r.l. (30% Stake)	Italy-based producer and distributor of frozen puff pastry	Italy	The Perrino family (Private Family)	Italy	
17-Jan-20	M-Back GmbH (33% Stake)	Germany-based producer of baked products	Germany	Meggle AG	Germany	
17-Jan-20	Vuohelan Herkku Oy	Finland - based company engaged in developing and manufacturing only gluten-free products	Finland	Oy Karl Fazer AB	Finland	
14-Jan-20	Selma's Cookies	US-based bakery which produces private-label cookies for casinos, grocery chains, theme parks and coffee shops	USA	Byrd Cookie Company, Inc.	USA	
14-Jan-20	Artebianca Natura & Tradizione S.r.l	Italy-based company manufactures bakeries products	Italy	Panealba s.r.l.	Italy	

Source: MergerMarket

M&A Transactions

Ann. Date	Target Company	Target Description	Country	Bidder Company	Country	EV ($M)
19-Dec-19	Nestle S.A. (Herta) (60% Stake)	France-based charcuterie and baked food business of Nestle S.A.	France	Casa Tarradellas S.A.	Spain	767.6
19-Dec-19	Lender's Bagels	US-based provider of refrigerated and varieties of frozen packaged bagels.	USA	Bimbo Bakeries USA, Inc.	USA	33.2
2-Dec-19	Voortman Cookies Limited	Canada-based producer and seller of cookies	Canada	Hostess Brands, LLC	USA	320.0
22-Nov-19	Biscuit International S.A.S.	France-based producer and distributor of biscuits and cookies	France	Platinum Equity, LLC	USA	508.2
1-Oct-19	Cerealto Siro Foods S.L. (Paterna plant)	Spain-based plant that produces of sliced bread and buns for Mercadona, under the brand Hacendado	Spain	Grupo Bimbo S.A.B. de C.V.	Mexico	
29-Aug-19	Lizzi Srl	Italy-based producer of croissant and pastry	Italy	Forno d'Asolo S.p.A	Italy	55.4
22-Aug-19	The Christie Cookie Co.	US-based manufacturer of fresh cookies, crackers, pretzels and other dry bakery products	USA	Rich Products Corporation	USA	
6-Aug-19	Mr. Bagel's Limited	UK producer of baked goods for Private Label Retailers and Foodservice Customers	United Kingdom	Grupo Bimbo UK Ltd	United Kingdom	
1-Aug-19	Superior Cake Products, Inc.	US-based company engaged in bakery business	USA	Sara Lee Frozen Bakery LLC	USA	65.0
31-Jul-19	Guzman Gastronomia, S.L. (bakery and bread products business)	Spain-based bakery and bread products business of Guzman Gastronomia, S.L.	Spain	Europastry, S.A.	Spain	1.6
22-Jul-19	Mavalério	Brazil-based manufacture of bakery and confectionery products and ingredients	Brazil	Dr. Oetker	Germany	
16-Jul-19	Perfect Bar	Offers bakery snack bars in a variety of flavors	USA	Mondelēz International, Inc.	USA	284.0
12-Jul-19	Kelsen Group A/S	Denmark-based producer of baked snacks	Denmark	Ferrero SpA	Italy	300.0
12-Jun-19	Higgidy Limited	UK-based food manufacturer.	United Kingdom	Samworth Brothers Limited	United Kingdom	39.6
7-Jun-19	Aviateur Banketbakkerijen B.V.	Netherlands-based bakery that produces biscuits and cakes filled, canoes and goat legs	Netherlands	Biscuit International S.A.S.	France	149.4
3-Jun-19	Corporacion TDN SAC	Peru-based company engaged in baking having brands like Todinno, Pasqualino, Puro Amor and Todinno Celebrations	Peru	Empresas Carozzi SA	Chile	35.6
2-Apr-19	Mid South Baking Company, LLC	US-based supplier of buns and English muffins to quick-serve restaurants	USA	C.H. Guenther & Son, Inc.	USA	
1-Apr-19	Kellogg Company (Selected cookies and fruit snacks business)	US-based business of Kellogg Company consisting of selected cookies, fruit and fruit-flavored snacks, pie crusts, and ice cream cones businesses	USA	Ferrero SpA	Italy	1,300.0
4-Feb-19	Wback GmbH	Germany-based bakery producing hamburger and hot dog buns	Germany	C.H. Guenther & Son, Inc.	USA	

Source: MergerMarket

5

Peer Trading Analysis and Share Price Performance

Peer Trading Analysis

Overall Bakery Products market traded at an average EBITDA multiple of 16.4x, significantly influenced by higher multiples of the larger diversified players. North American and European players traded significantly higher than Asian peers.

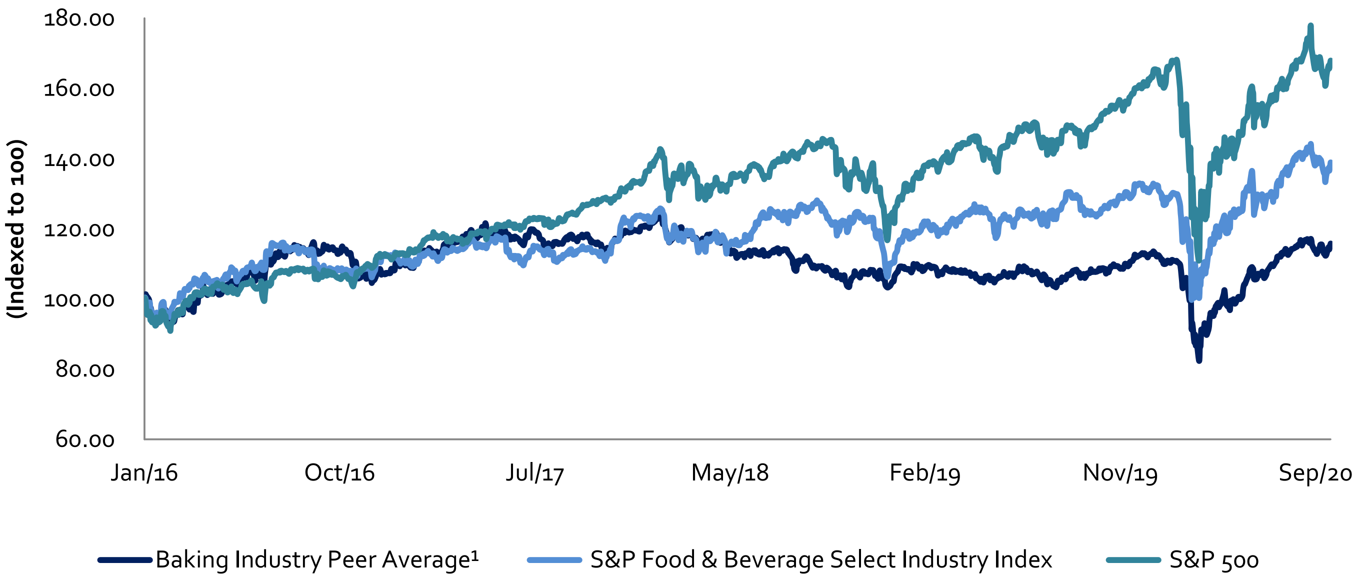
			Margin (%)		EV/		
Company Name	Market Cap (Capital IQ)	EV (USDm)	EBITDA LTM	EBIT LTM	Sales (x) LTM	EBITDA (x) LTM	EBIT (x) LTM
Bakery Products							
George Weston Limited	11,444	29,972	7.9%	5.0%	0.8x	9.9x	15.6x
Grupo Bimbo, S.A.B. de C.V.	8,356	14,288	12.2%	8.8%	1.1x	8.7x	12.0x
Britannia Industries Limited	12,614	12,678	17.6%	16.1%	7.8x	44.3x	48.4x
Flowers Foods, Inc.	5,273	6,379	10.6%	7.7%	1.5x	14.1x	19.6x
Gruma, S.A.B. de C.V.	4,555	5,779	16.5%	12.4%	1.6x	9.5x	12.6x
Toly Bread Co.,Ltd.	5,958	5,926	19.0%	16.7%	7.2x	37.8x	43.0x
Lancaster Colony Corporation	4,919	4,748	16.1%	13.3%	3.6x	22.1x	26.8x
TreeHouse Foods, Inc.	2,327	4,392	10.9%	6.2%	1.0x	9.3x	16.4x
Yamazaki Baking Co., Ltd.	3,784	3,624	5.8%	2.0%	0.4x	6.4x	18.4x
Hostess Brands, Inc.	1,551	2,630	18.2%	13.5%	2.8x	15.3x	20.6x
M. Dias Branco S.A. Indústria e Comércio de	2,076	2,164	14.2%	11.2%	1.8x	12.4x	15.7x
J & J Snack Foods Corp.	2,512	2,313	9.4%	4.6%	2.1x	22.7x	46.7x
Greggs plc	1,643	2,040	7.6%	1.6%	1.8x	23.5x	NM
ARYZTA AG	630	1,588	8.6%	0.1%	0.4x	5.0x	NM
Premier Foods plc	1,079	1,636	15.7%	11.3%	1.6x	9.9x	13.8x
President Bakery Public Company Limited	1,010	898	32.0%	25.9%	3.6x	11.3x	13.9x
Fujiya Co., Ltd.	600	476	5.9%	1.6%	0.5x	8.7x	32.0x
Tehmag Foods Corporation	258	233	18.6%	17.5%	1.7x	9.2x	9.7x
Kawan Food Berhad	214	201	16.9%	10.0%	3.6x	21.3x	36.0x
Finsbury Food Group Plc	92	144	10.5%	7.8%	0.4x	3.6x	4.9x
First Baking Co., Ltd.	65	79	0.9%	NM	0.3x	39.4x	NM
		Mean	**13.1%**	**9.7%**	**2.2x**	**16.4x**	**22.6x**
		Median	**12.2%**	**9.4%**	**1.6x**	**11.3x**	**17.4x**

Source: Capital IQ as of 05 October 2020

Share Price Performance

The composite Baking Industry index increased 2.6% year-to-date and 5.7% since 2016. All indices are gradually recovering from the steep decline due to the impact of the global lockdown brought on by the ongoing COVID-19 pandemic as markets steadily return to normalcy.

Peer Average vs. S&P Index



Note 1: Baking Industry: ARYZTA, Britannia Industries, Finsbury Food Group, First Baking, Flowers Foods, Fujiya, George Weston, Greggs, Gruma, Grupo Bimbo, Hostess Brands, J & J Snack Foods, Kawan Food, Lancaster Colony, Premier Foods, President Bakery, Tehmag Foods, Toly Bread, TreeHouse Foods and Yamazaki Baking.

Source: Capital IQ as of 05 October 2020

6 Overview of GMAP Food and Beverage Team

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Note: * Denotes Co-heads of the Food & Beverage team

Global M&A Partners Select Transactions

Food Ingredients and Agricultural Products

Frutarom acquired Rieber & Son, a leading supplier of industrial ingredients to the Norwegian food industry
Israel, Norway
Saga Corporate Finance & Value Base M&A
Advisor to the seller

AAK AB acquires Fanagra, a Colombian company in the oil and fats industry.
Advisor to the buyer

Sale of Ojah, producer of high protein meat substitutes to management and the family office Korys
JBR
Advisor to the seller

Reorganization of the capital of Naturex
France, Spain
Financière de Courcelles
Advisor to the seller

Sale of controlling shares of Grobest, one of the largest producers of aquatic feed in Asia, to Permira.
United Kingdom, Taiwan
FCC Partners
Advisor to the seller

Food Processing, Food Manufacturing

Undisclosed Bakery Products Manufacturer
Hungary
Invescom
Advisor to the seller

Warnock Food Products, Inc. has been acquired by Calbee, Inc. (TSE:2229)
Japan, USA
Brown Gibbons Lang & Company
Advisor to the seller

Gimv made a significant investment in Snack Connection
Belgium, Luxembourg, Netherlands
JBR
Advisor to the seller

Merger of the two largest Latvian dairy products manufacturers JSC "Rigas piena kombina?ts" and JSC "Valmieras Piens"
Russia, Baltics
Prudentia

DIVESTITURE of Mediterranean antipasti manufacturer Ceposa AG (CH) to an investor group led by Verium AG (CH)
Zetra International
Advisor to the seller

Food Distribution, Food Retail, Restaurants

Sale of 80% of the shares of the leading French distributor of Japanese food products for hotels and restaurants
Japan, France
Financière de Courcelles
Advisor to the seller

Acquisition of Massey Fair, a U.S. ingredient broker/distributor by Batory Foods
Brown Gibbons Lang & Company
Advisor to the buyer

Advisory to Alsea on the sale of a majority stake in the master franchisee of P.F. Chang's in Brazil
Brazil, Mexico
Condere & RIóN
Advisor to the seller

YO! Sushi owns, operates, and franchises conveyor belt sushi restaurants, principally in the UK and the US
United Kingdom, USA
Zeus Capital
Advisor to the buyer

Grupo Premier, the master franchisee of Carl's Jr. for the Mexico City region, has been acquired by Taco Holding.
RIóN
Advisor to the seller

About Us

Established in 1999, Global M&A Partners is one of the major international M&A networks comprised of independent investment banking firms partnering to provide international scope and local market expertise to our clients. We operate in more than 30 countries across 4 continents and have completed over 1,500 transactions during the last five years typically ranging from €20 to €500 million.

Our Food & Beverage team is comprised of seasoned M&A professionals from more than 17 partner countries with extensive knowledge of the dynamics and innovative changes occurring globally and locally in the Food & Beverage industry (e.g., changing consumer preferences, rapid food innovation, shifting supply chain, etc.).

Our M&A activity in the Food & Beverage sector is robust and includes many cross-border transactions, driven by international growth, strategic tuck-ins, and consolidation. Given our sector experience, transaction expertise, and unparalleled access to local decision makers, we can work together to offer customized M&A solutions and premium valuations for our clients.

IOM Advisory GmbH