

SPOT ON CHEESE

Davide Milano, Oaklins' cheese specialist, is pleased to share some insights into the latest trends in this edition of Spot On.

"The cheese industry — like many others in the food category — is heading towards a period of deep consolidation. Local players with little international reach can no longer afford to properly protect their niches, and bigger players are eager to include such specialties in their product portfolio and offer them via their wider sales channels. Some cheese products are getting into a commodity-like battle, and price is perhaps the most relevant driver: this will lead many small players to seriously consider joining bigger groups in order to leave the price battle arena, before it's too late.

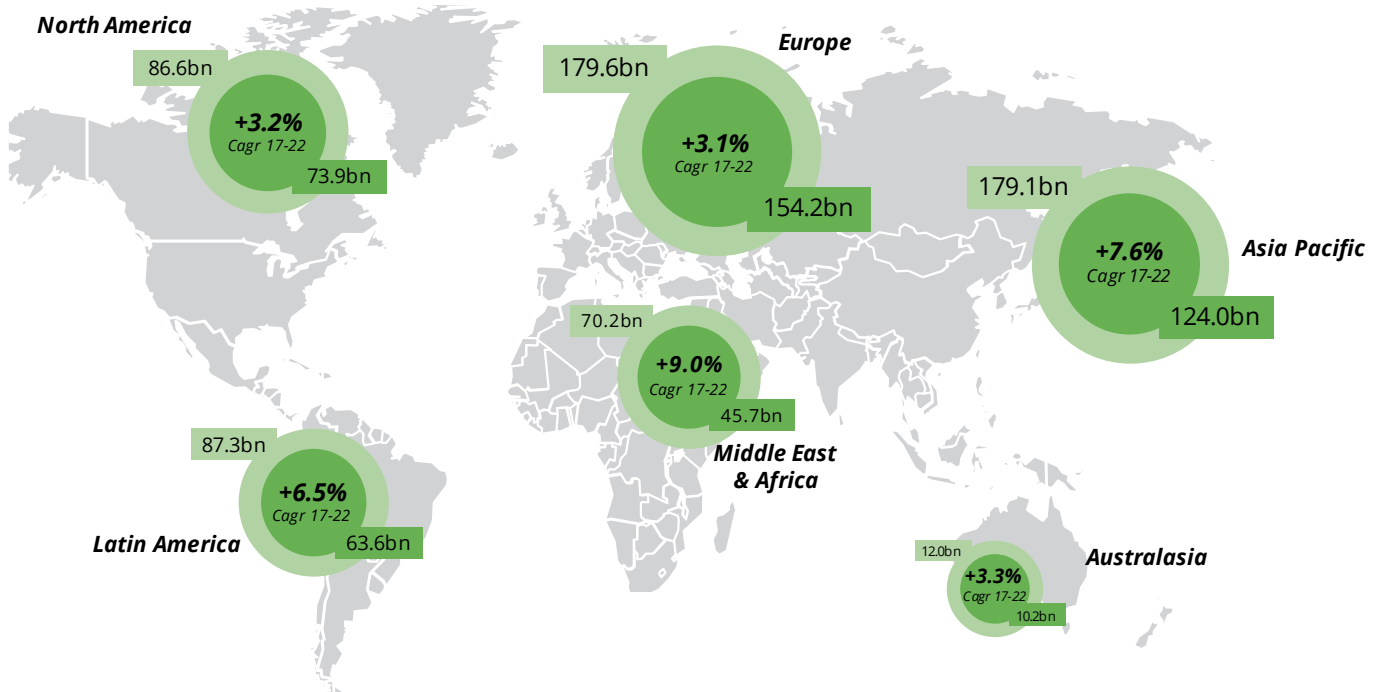
Added-value cheese products and specialties considered cool at the moment (such as mozzarella with buffalo milk) are still offering good margins to the producers lucky enough to be involved, but critical mass (size) and wider sales coverage — with significant export sales — still remain the key factors in the industry.

As M&A advisors we are participating in this buy & sell activity and, thanks to our international coverage, we can facilitate the best combinations between cheese players active in different geographies, thus activating immediate synergies."



General overview of the dairy industry

Dairy sales value in 2017 vs 2022 & forecasted CAGR (2017–2022) US\$



- Inner circle indicates market value in 2017
- Outer circle indicates forecasted market value in 2022

Source: Euromonitor

Dairy products play a major role in many consumers' daily diet. It is estimated that the dairy industry generates 17% of total food revenues worldwide. The global dairy market size was estimated at US\$471.6 billion in 2017 (having grown by a CAGR of 2.8% over the 2012–2017 period) and is expected to reach US\$614.7 billion by 2022. Europe and Asia Pacific are the dairy industry's largest markets, accounting for ca. 60% of total market size.

In 2017, Asia Pacific and the Middle East & Africa registered the most significant dairy consumption growth, due to a strong demand for fresh milk (mainly driven by the expanding population). On the other hand, Western Europe (CAGR of -0.6%, 2012–2017) has the most stagnant dairy market, due to slow population growth and the growing interest of consumers in dairy-alternative foods.

The worldwide trade of cheese products

Main categories of dairy products



Cheese



Drinking milk products

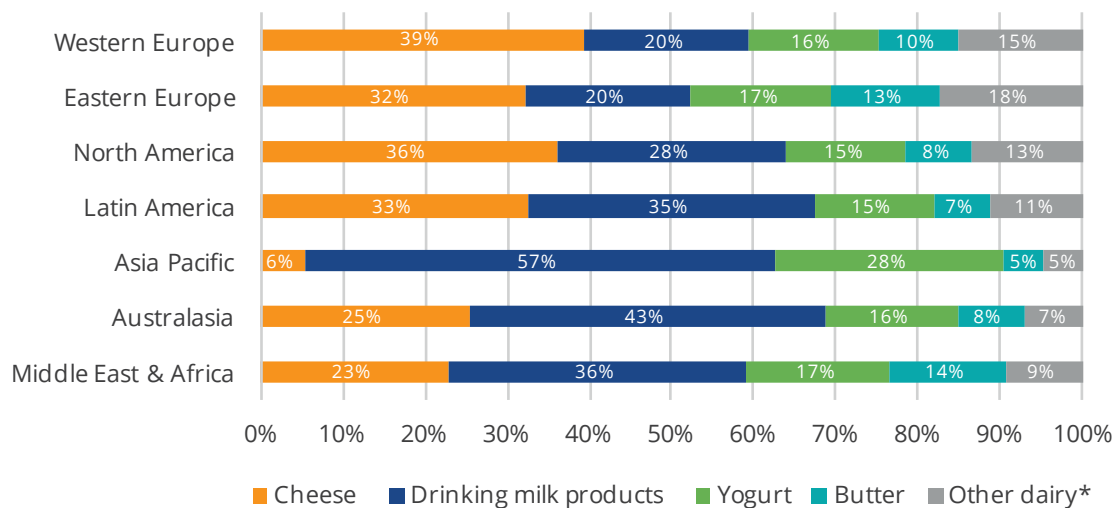


Yogurt and sour milk products



Butter and margarine

Dairy regional sales by product type (2017)



*Includes basic dairy products, such as cream and condensed milk products (desserts, etc.).
Source: Euromonitor dairy market value

In terms of sales, cheese is the key dairy subcategory in Europe and the Americas, while drinking milk products dominate the other markets.

The yogurt and sour milk products category is expected to grow fastest in each region by 2022, as consumers recognize yogurt's health benefits. By contrast, these health and wellness trends are hindering the growth of butter and margarine products in every region.

The worldwide trade of cheese products

Top countries with the highest value of cheese exports (2017)

Nr.	Country	Export value US\$	% of total cheese exports
1	Germany	4.4bn	14.5%
2	Netherlands	4.1bn	13.4%
3	France	3.5bn	11.3%
4	Italy	3.0bn	9.8%
5	Denmark	1.7bn	5.6%
6	United States	1.5bn	4.8%
7	New Zealand	1.4bn	4.5%
8	Belgium	950.2m	3.1%
9	Ireland	922.8m	3.0%
10	Poland	799.5m	2.6%
11	Belarus	792.2m	2.6%
12	United Kingdom	791.4m	2.6%
13	Australia	721.5m	2.4%
14	Austria	629.6m	2.1%
15	Switzerland	610.2m	2.0%

Global cheese product exports totalled US\$30.4 billion in 2017, registering a year-over-year growth of +14.2%. However, the value is still lower if compared to 2013 (-3.8%).

European countries are dominating the trade balance, accounting for 82.4% of globally exported cheese. The only non-European countries appearing in the top fifteen ranking of top cheese exporters are the United States (6th), New Zealand (7th) and Australia (13th).

The country with the fastest growing cheese exports since 2013 was Belarus (+22.0%), followed by New Zealand (+19.5%), the United Kingdom (+14.3%), the Netherlands (+9.6%) and Italy (+8.8%).

On the other hand, the country that experienced the greatest decline in cheese exports during the analyzed period was Germany (-14.3%), followed by France (-13.9%), Poland (-12.7%) and Belgium (-7.7%).

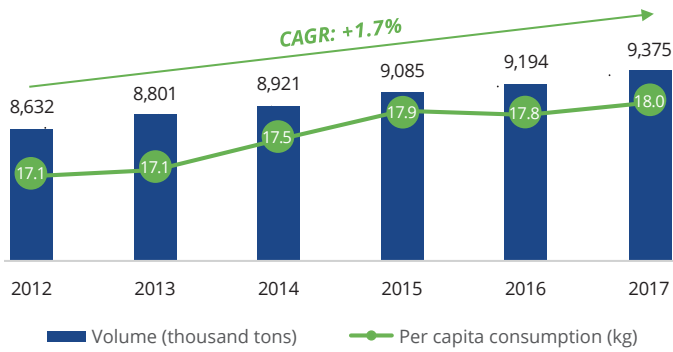
Source: AAFC-AID

Top dairy companies that dominate the worldwide trade of cheese



Overview of the European cheese market

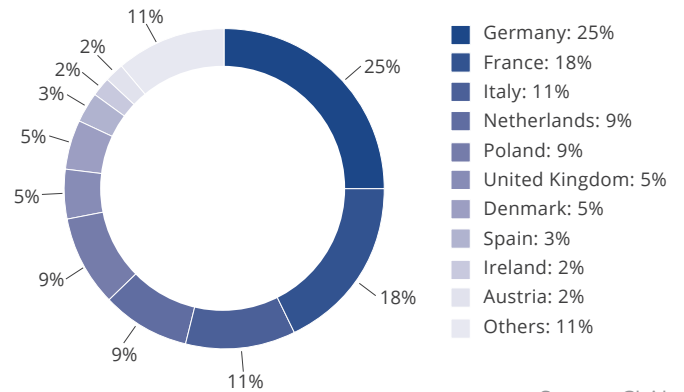
Production and consumption of cow's milk cheese in Europe (2012-2017)



Source: CLAL

Despite the dairy industry's stagnant growth and the contraction in drinkable milk demand in Europe, the volume of cheese produced has continuously risen over the last few years, peaking at 9.4 million tons in 2017 (CAGR of +1.7%, 2012–2017). Also, cheese consumption per capita has increased in Europe during the last few years, rising from 17 to 18 kg.

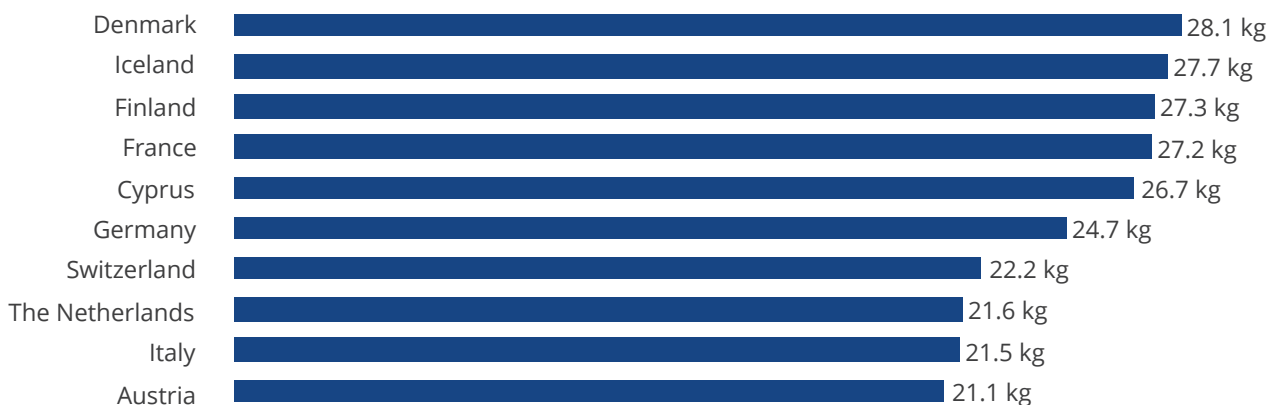
Top European countries for cheese production (2017)



Source: CLAL

In 2017, Germany was confirmed as the largest cheese producer, accounting for 25% of total cheese produced in Europe, followed by France (18%), Italy (11%), and Poland and the Netherlands (both 9%).

Top ten countries by per capita consumption of cheese worldwide (2016)



Source: AAFC

The chart above represents the top ten countries by per capita consumption of cheese worldwide in 2016. Notably, the entire top ten is composed of European countries. The Nordics take the lead in per capita cheese consumption: Denmark, Iceland and Finland

consume 28.1, 27.7 and 27.3 kg, respectively. France ranks fourth with 27.2 kg and Cyprus is fifth with 26.7 kg, while Germany takes the sixth spot (24.7 kg), followed by Switzerland, the Netherlands, Italy and, finally, Austria.

Founded in 1921 and now based in Ascoli Piceno (Central Italy), today **Sabelli Group** is one of the leading family-owned dairy companies in Italy.

The group is mainly specialized in the production of mozzarella cheese, gastronomic specialties, ricotta and other cheese products.

Today, Sabelli Group achieves consolidated revenues of more than US\$200 million.

The success of Sabelli Group, nowadays managed by Simone Mariani and Angelo Galeati — the sons of the two Sabelli sisters — started with a significant and ambitious expansion plan aimed at extending its existing product range to include fast-growing cheese products, as well as increasing its exposure to foreign markets.

This plan culminated in 2016, when Sabelli — advised by Oaklins' Italian team — acquired Trevisanalat, a leading private label mozzarella cheese producer, giving birth to the second largest production group of table mozzarella in Italy.

During 2018, Sabelli Group completed the second M&A transaction in its history — as always, advised by Oaklins — with the acquisition of Caseificio Val d'Aveto, a company that produces typical Ligurian cheeses and strained yogurt.



CASEIFICIO
VAL D'AVETO

la Mozzarella
trevisanalat
dà gusto alla freschezza.

Sabelli product range



Mozzarella



Ricotta and
mascarpone



Italian
gastronomic
specialties



Aged cheese



Food service
cheeses



Strained yogurt

The cheese industry, like the dairy industry in general, is dominated at global and local level by various, well-known multinationals. How was a family-owned company like Sabelli able to resist this competitive pressure and stand out in the Italian market throughout its history?

It has been crucial to focus on what has distinguished us since the beginning of our history: the high quality of our raw materials, the freshness of our products and the manufacturing know-how developed throughout our long history, combined with the continuous innovation of our plants and equipment in order to be at the forefront of technological developments as they evolve.

We decided to position ourselves in those product segments in which quality is a key factor in the consumers' preference, such as burrata, stracciatella and high-end mozzarella. This strategy set us apart from the traditional competitive logic, based mainly on price policies.

Then, we consolidated our position — becoming one of the leading players in this segment — thanks to our acquisition strategy, aimed at acquiring complementary companies rather than competitors. This choice introduced Sabelli to new channels and broadened its range of action.

Your main products are fresh cheeses, such as mozzarella, burrata and stracciatella — products that certainly have a lot of traction in foreign markets. Can the reduced shelf-life of these products represent a limit to your current commercial firepower abroad?

Foreign-market performance is currently the real growth driver of this sector. Hence, there is increasing attention to the innovation of technologies and processes in order to meet the specific logistics and transportation needs and to optimize the supply chain.

Consumer preferences have changed in recent years. Now there seems to be a greater tendency towards private label products, which have registered unprecedented growth rates. How did Sabelli Group react to this shift in preferences?

This specific trend has not caught us unprepared. In fact, in November 2016 we acquired Trevisanalat, a company located in Resana (in the province of Treviso), with the aim of strengthening our position as a partner in the



**Angelo Galeati
and Simone Mariani**

CEOs of Sabelli Group



large-scale retail industry. Trevisanalat — a company with a turnover of US\$65 million in 2017 — has a strong and recognized specialization in the private label field, both in Italy and abroad. This acquisition, together with the acquisition of Ekolat in Slovenia, has enabled the Sabelli Group to open new distribution channels and reach new clients, allowing us to achieve strong industrial and commercial synergies capable of transforming this private label trend into an opportunity.

Talking about trends, the market of free-from and organic products is growing, capturing more and more space on large retailers' shelves. How does Sabelli Group perceive the growth trend towards lactose-free products? As a threat, or an opportunity to be exploited?

Thanks to our innovation capabilities and our leadership in specific product segments, such as stracciatella and burrata, the healthy food trend has, undoubtedly, represented an opportunity to differentiate our product range in a context in which product quality is a more important factor to consumers. We were therefore the first to launch a lactose-free stracciatella and lactose-free burrata. The latter has also been awarded 2018 Product of the Year after a market research study involving more than 12,000 consumers.

Thanks to M&A, you have become the second largest producer of mozzarella in Italy. What were the drivers that led you to undertake this important consolidation process in the fresh cheese sector?

In order to face the competition of the larger dairy groups and to be more competitive in the international markets, we have understood the need to widen our range of action by acquiring complementary businesses capable of expanding our product range.

After all, dynamism and entrepreneurial spirit have been part of Sabelli's DNA since its inception, and these are the factors that allowed an artisan cheese factory founded in 1921 to become, after four generations,

one of the leading Italian groups in the production of mozzarella (the second in terms of volume, if we combine that of Trevisanalat and Sabelli).

With your latest acquisition, you have added the premium yogurt brand Caseificio Val d'Aveto to your portfolio. What drove you towards a product that had never been in your product range before?

The acquisition of Caseificio Val d'Aveto is part of our strategy of aggregating within our group the best companies in their respective Made in Italy food niches. In particular, it allowed us to integrate products that were missing from our portfolio — first of all, yogurt, but also San Stè cheese (traditional Ligurian cheese) — and to reach new customers and consumers in the premium segment.

Moreover, we share many of our corporate values with Caseificio Val d'Aveto, such as links with the region, attention to raw materials and product quality, sustainability and, finally, family ownership. All of these characteristics, which have been part of our identity since our inception, are recognized and valued by all our interlocutors.

In which other cheese industry segments do you see strong potential for future development, and which are (or could be) targeted by your expansion strategy?

Following the path started with the acquisition of Caseificio Val d'Aveto, we will certainly focus on niches that represent production excellence and that can complement our product range. We also have plans to decisively increase our presence in foreign markets, so we do not exclude the possibility of strategic acquisitions outside Italy.





















In Italy, it is estimated that more than 85% of companies are family-owned. However, these entrepreneurs are often frightened by undertaking extraordinary transactions. What would you say to those entrepreneurs who are critical of M&A?

As far as we are concerned, the acquisitions allowed us not only to grow in terms of turnover, but also to open up new distribution channels, reach new targets and expand our market. Of course, it is essential to choose the right partner, one that is consistent with your development strategies and your company's values. These are crucial factors in order to maximize your investment in M&A.



Selected listed players

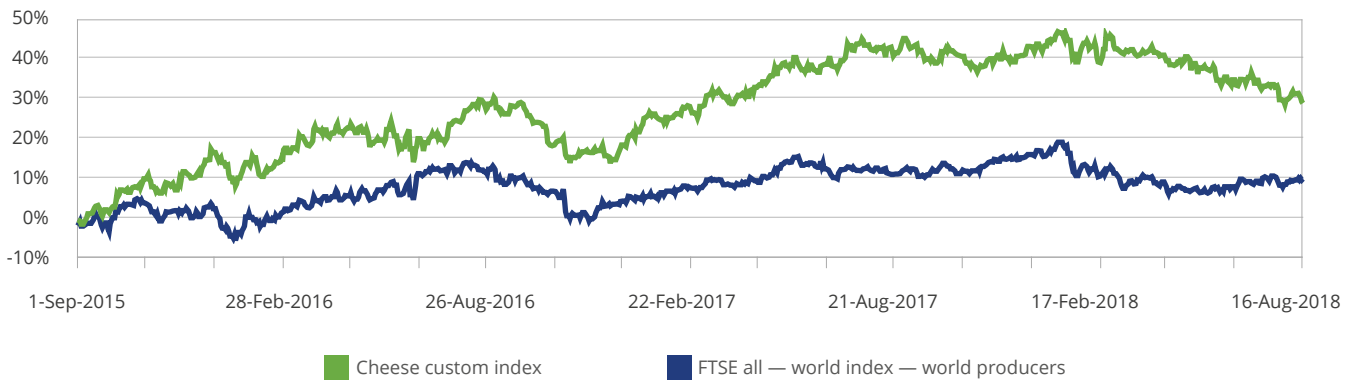
Performance of major listed players

Company	Website	Country	Market capitalization	Net debt	Enterprise value	Revenues	EBITDA	EBITDA margin	EV / revenues	EV / EBITDA
 DANONE	www.danone.com		49,647	20,828	71,417	26,346	4,638	17.6%	2.6x	14.5x
 Saputo	www.saputo.com		12.99	1.07	14,099	8.79	1.02	11.6%	1.5x	13.3x
 Fonterra	www.fonterra.com		7,139	4,406	11,777	14,407	1,136	7.9%	0.9x	9.5x
 parmalat	www.parmalat.com		6,778	-72	6,407	7,754	447	5.8%	0.8x	14.2x
 glanbia	www.glanbia.com		5,506	882	6,437	2,669	368	13.8%	1.8x	13.9x
 bel	www.groupe-bel.com		4,353	836	5,323	3,596	445	12.4%	1.4x	11.5x
 Emmi	www.emmi.com		3,561	353	3,966	3,408	337	9.9%	1.2x	11.7x
 SAVENCIA	www.savencia-fromagedairy.com		1,394	486	1,929	5,342	376	7.0%	0.4x	5.1x
 DAIRY CREST	www.dairycrest.co.uk		1,073	378	1,416	552	107	19.4%	2.6x	13.8x
 Bega	www.begacheese.com.au		1.01	-200	804	941	53	5.6%	0.8x	16.4x

Source: Capital IQ as of 30 Aug 2018; LTM figures in US\$m

Median	1.3x	13.6x
Average	1.4x	12.4x
Max	2.6x	16.4x
Min	0.4x	5.1x

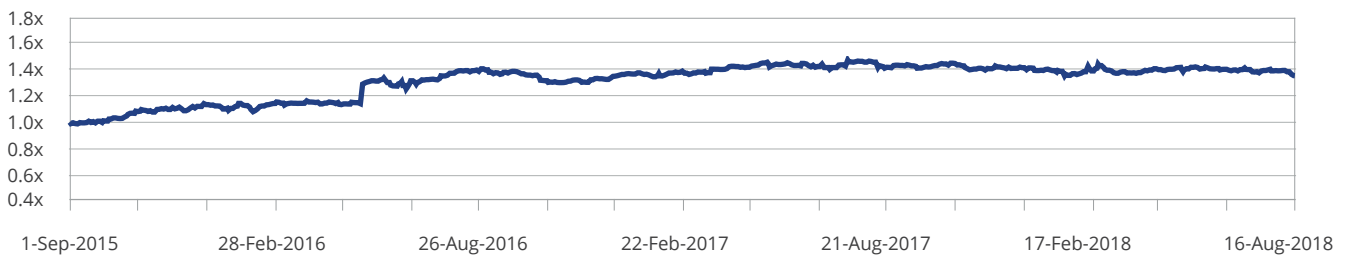
Cheese custom index vs food market index



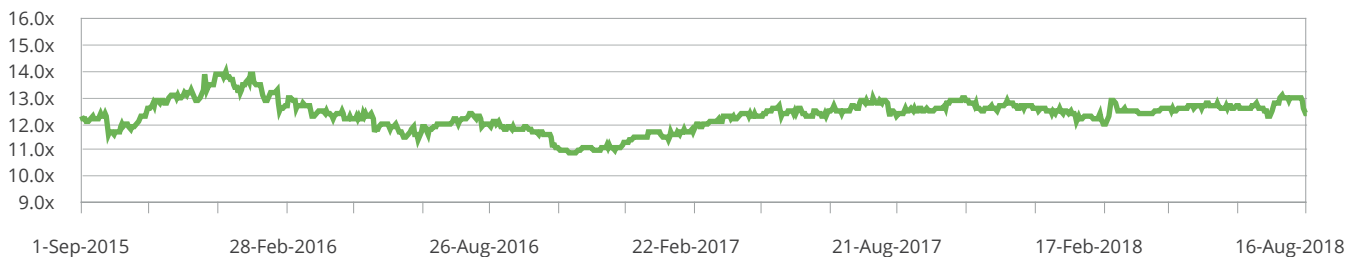
Source: Capital IQ

During the last three years, the **cheese custom index** benchmark (FTSE all — food producers — world index) has outperformed the food & beverage industry

Past three years' EV/sales multiples



Past three years' EV/sales multiples



Source: Capital IQ

During the last three years, average revenues and EBITDA trading multiples — of the selected cheese listed players — have registered interestingly different patterns. Even though the average revenue multiple has linearly increased from 1.0x to 1.4x, the average EBITDA multiple has followed a less regular route. In fact, after having peaked at 14x EV/EBITDA in December 2015, the set touched its lowest value the following year, namely at 11x in December 2016.

The reason behind this erratic movement can mainly be attributed to the drop in raw material prices (during 2016, European farm-gate milk prices reached their lowest value since 2009; source: CLAL). As proof, the set's average EBITDA margin as of December 2016 reached 11.5% vs 10.2% registered in December 2015. The increase in farm-gate prices after 2016 has brought the EV/EBITDA back to a normal level of 12.5x.

Selected private transactions in the segment


















Date	Target	Bidder	Rationale	Country	Valuation			
					EV (US\$m)	EV/Sales	EV/EBITDA	EV/EBIT
19-Jun-2018	 Shepherd Gourmet dairy	 Saputo	Increase its presence in specialty cheese and expand its yogurt offering in Canada		78	1.8x	N/A	N/A
17-May-2018	 ROGUE CREAMERY	 SAVENCIA FROMAGE & DAIRY	Strengthen market position in specialty cheeses and complements high-end portfolio		N/A	N/A	N/A	N/A
30-Mar-2018	 CASIFICIO VAL D'AVETO	 Sabelli	Include in its portfolio a premium yogurt and traditional ligurian cheeses		N/A	0.7x	6.0x	7.0x
6-Feb-2018	 BONTA VIVA	 Eurial	Part of Senoble divestment plan		N/A	N/A	N/A	N/A
22-Dec-2017	 Alpina	 belalp	Minority investment to further boost company's growth		N/A	N/A	N/A	N/A
22-Dec-2017	 Beseceleseni	 SAVENCIA FROMAGE & DAIRY	Strengthen its presence in a country with a high level of cheese consumption will help to develop a strong position for specialty brands in the Russian market		N/A	N/A	N/A	N/A
12-Dec-2017	 MONTCHEVRE	 Saputo	Enable Saputo to broaden its presence in specialty cheese in the United States		264	2.3x	N/A	N/A
26-Oct-2017	 VIGOR	 LALA	Expand its value-added dairy business in South America and extend the product portfolio to top-selling cheese categories		1,543	1.0x	16.5x	21.8x
20-Sep-2017	 VENCHIAREDO	 GRANAROLO	Part of Granarolo's industrial growth plan, which has seen it acquire a number of small and medium-sized companies in Italy and abroad		N/A	N/A	N/A	N/A
4-Jul-2017	 LACTALIS	 LACTALIS	Further expand its business in Romania		40	0.9x	N/A	N/A
1-May-2017	 KROON	 parmalat	Increase its current portfolio of gourmet cheeses and enter the yogurt market		130	2.4x	N/A	N/A
12-Apr-2017	 WhiteWave	 DANONE	Strengthen and expand its position in resilient growth markets and double its size in North America business		12,511	3.0x	24.8x	33.7x
31-Mar-2017	 SONOMA CREAMERY	 SVOBODA	Support company's growth initiatives, including the development of new products and the build-out of additional production capacity		N/A	N/A	N/A	N/A
29-Mar-2017	 vermont creamery	 LAND LAKES	Accelerate growth in dairy business with trusted brands and innovative products		N/A	N/A	N/A	N/A

Selected private transactions in the segment (continued)

Date	Target	Bidder	Rationale	Country	Valuation			
					EV (US\$m)	EV/Sales	EV/EBITDA	EV/EBIT
6-Mar-2017			Obtain full ownership of its Australian cheese and butter business		530	1.0x	16.6x	27.8x
13-Jan-2017			Expand its business in the US market and boost its growth into the cream cheese segment		N/A	N/A	N/A	N/A
12-Jan-2017			Strengthen its goat's milk business		N/A	N/A	N/A	N/A
28-Nov-2016			Obtain full ownership of the biggest Romanian dairy business		101	0.9x	7.3x	12.1x
20-Oct-2016			Build up additional production capacity to become one of the largest producers of mozzarella in Italy		30	0.5x	6.7x	14.3x
6-May-2016			Start of a new phase of Lactalis' internationalization strategy		1,016	1.3x	23.0x	32.0x

Source: Capital IQ

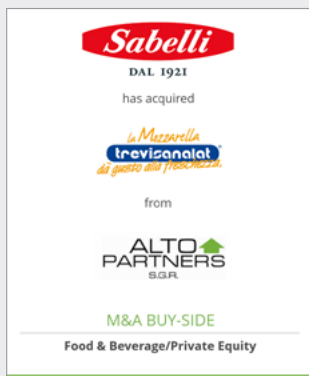
Selected Oaklins transactions

 DAL 1921 has acquired  CASEIFICIO VAL D'AVETO M&A BUY-SIDE Food & Beverage	 has been acquired by  Arlon™ M&A SELL-SIDE Food & Beverage/Private Equity	 has sold Glanbia Plc (Dairy Ireland) to  M&A SELL-SIDE Agriculture/Food & Beverage	 DAL 1921 has acquired  from  M&A BUY-SIDE Food & Beverage/Private Equity
 has sold its remaining 40% stake in Mittelland Molkerei AG to  M&A SELL-SIDE Food & Beverage	 has entered into a joint venture agreement with  SAHAR DAIRY JOINT VENTURE Food & Beverage	 has been acquired by  M&A SELL-SIDE Food & Beverage	 has acquired  M&A BUY-SIDE Food & Beverage



Case study

Over the years, **Oaklins** has become one of the most experienced and informed M&A advisors in the cheese sector. By continuously monitoring industry developments, visiting all the major events and maintaining regular contact with the leading players, Oaklins has managed to develop a solid understanding of the market dynamics and the key consolidators.



In October 2016, **Sabelli** completed its first M&A transaction with the acquisition of **Trevisanalat** from the private equity **Alto Partners SGR**.

Trevisanalat is a leading Italian dairy company active in the production of private label products and its own branded mozzarella cheese products. In 2015, the company generated US\$55 million in revenue and an EBITDA in the region of US\$5 million.

The Sabelli Group is an Italian, family-owned dairy company, active in the production of mozzarella cheese, gastronomic specialties, ricotta and other cheese products.

This acquisition will strengthen the Sabelli Group's strategic position by completing its product portfolio, penetrating new distribution channels, increasing its overall production capacity and accessing new supply sources for raw materials.

Oaklins' team in Italy advised the buyer in this transaction. The Italian team acted as the exclusive advisor to Sabelli throughout the process, from the analysis of the opportunity and the negotiations with the seller up to the closing. The team also advised on the debt by raising the required acquisition financing from a pool of Italian banks on behalf of the client.

Simone Mariani and Angelo Galeati, CEOs of Sabelli, stated: "This was a great achievement for our company. The acquisition of Trevisanalat is the first step in our build-up strategy, aimed at consolidating the industry at an international level. **Oaklins' team in Italy is the natural M&A partner for our company. We appreciated the high level of professionalism and their hard work.**"

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60  offices

40  countries

1,500  transactions

15  sectors

Oaklins offers a comprehensive range of services

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

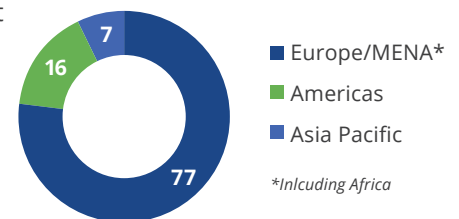
Our food & beverage transactions in the past five years

Closed deals

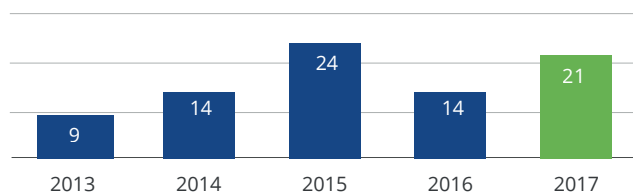
82 transactions closed 2013-2017

46% cross-border transactions

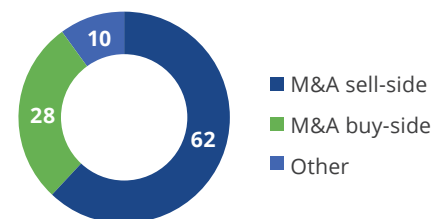
Geographic split in %



Number of transactions per year



Advisory role in %



Oaklins industry specialists

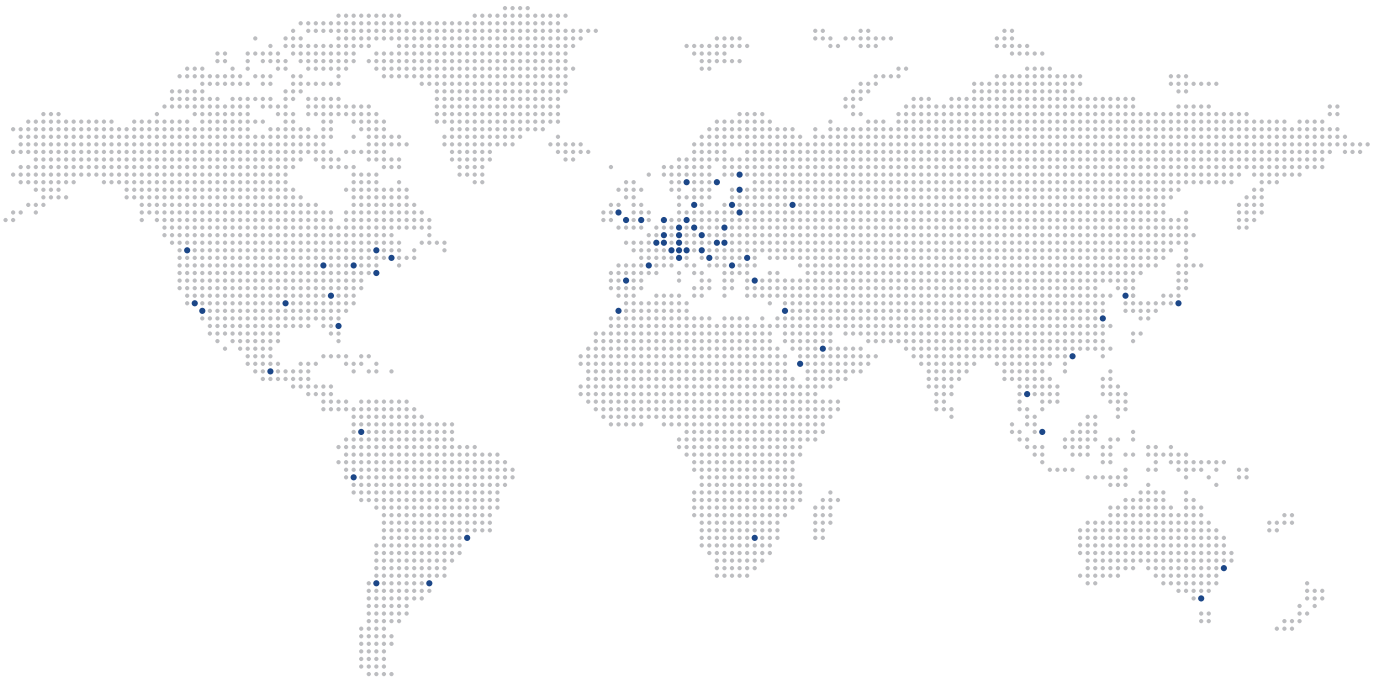
Cheese is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become the most experienced M&A advisor in the cheese sector, with a large contact network of the most relevant market players worldwide. This results in the best possible merger, acquisition 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. Please find our contact details below.



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