



HOULIHAN LOKEY

The Food Distribution Sector's 'Black Swan' Shock

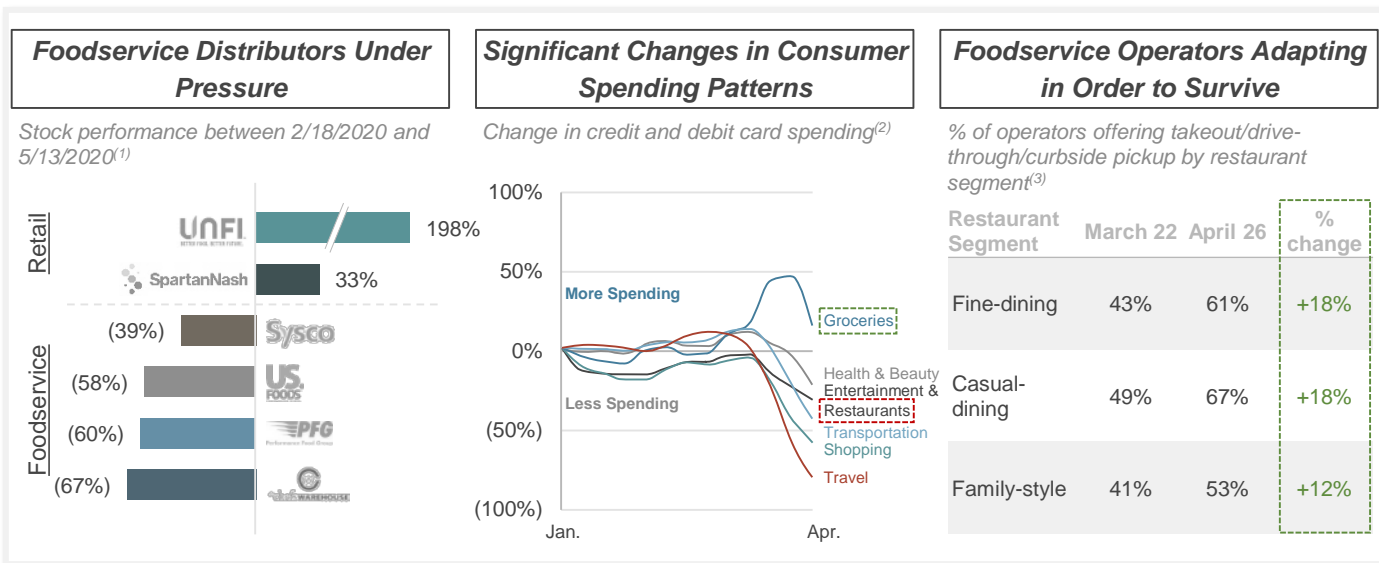
How Food Distribution Companies Are Addressing Threats and Opportunities
Arising From COVID-19

A Special Report From Houlihan Lokey's Specialty Distribution Coverage Team



Foodservice Distributors Facing Unprecedented Challenges, While Retail Distributors Focus on Execution

- The rapid and profound migration of food consumed away-from-home to food consumed in-home continues apace; the food industry has never experienced such a transformative shock over such a short period of time.
- Distributors to retail customers are experiencing moderation in order volumes from their customers during late April and May, albeit still at substantially higher levels compared to a year ago.
- Distributors, manufacturers, and service providers within the foodservice channel are experiencing year-over-year revenue **declines generally between 30% and 90%**.
 - **Foodservice distributors reporting least pernicious volume declines:** Distributors to customer segments that serve “habitual” consumption categories (e.g., coffee or pizza), value-priced, and/or non-food essentials (e.g., gloves, paper, and masks) within quick-serve, delivery-oriented, and/or healthcare segments of foodservice.
 - **Foodservice distributors that have been particularly challenged:** Specialty distributors of categories that are not easily consumed off-premise (e.g., produce, seafood, other fresh products); customer segments that more slowly pivoted to carry-out/delivery/curbside pickup.



Select Tactical Responses by Foodservice Distributors to the COVID-19 Crisis

Aggressively reducing labor and overhead costs	Pivoting to retail channel customers—distributing product and providing logistics services	Assisting restaurant customers to develop takeout/delivery capabilities	Assisting customers navigate the Federal PPP loan program
Leveraging kitting capabilities to serve meal solutions	Leveraging fleet to build direct-to-consumer delivery capabilities in high-density urban areas, such as New York City	Developing and scaling up e-commerce infrastructure to grow direct-to-consumer sales	Partnering with retail distributors/warehousing companies to shift labor to productive adjacent opportunities

(1) Source: S&P Capital IQ; (2) Source: NYTimes “How The Virus Transformed The Way Americans Spend Their Money” - 4/11/20; (3) Source: Technomic “Coronavirus – The Foodservice View” - 5/1/20.

Publicly Traded Foodservice Distributors Fortifying Their Balance Sheets for Fallout From COVID-19

- Although the consensus view on prospects for foodservice has improved since March as more states relax certain restrictive measures, there **remains significant variation and uncertainty** surrounding the path to some semblance of normalcy—below, we attempt to bookend the feedback we have heard from market participants.
- On earnings calls with Wall Street analysts during the week of May 4, 2020, Performance Food Group, Sysco, and US Foods each reported sequential restaurant volume growth beginning in late March, potentially indicating that restaurant volumes reached a nadir in the several weeks following nationwide lockdowns.



- All four of the publicly traded foodservice distributors have bolstered their liquidity positions** in anticipation of a potentially prolonged demand impairment.
- UNFI and SpartanNash (as well as other privately held companies with which we have spoken) are primarily focused on managing supply chains and distribution networks to respond to unprecedented demand from retail customers and any “snap-back” effects from retail demand normalizing.

Foodservice Distributors

Retail Distributors

	Sysco	US Foods	PFG Performance Food Group	The Chefs' Warehouse	unfi	SpartanNash
LTM Revenue/LTM Adj. EBITDA ⁽²⁾⁽³⁾ (\$ millions)	\$59,502/ \$3,310	~\$27,350/ ~\$1,225 ⁽⁴⁾	~\$30,200/ ~\$700 ⁽⁵⁾	\$1,610/ \$56	\$24,527/ \$587	\$8,536/ \$178
Stock Price Change From 2/18/20 ⁽²⁾	(39%)	(58%)	(60%)	(67%)	+198%	+33%
Q1 2020 Organic Case Volume Growth ⁽³⁾	(6%) ⁽⁶⁾	(7%)	(7%)	(5%) ⁽⁷⁾	+12% ⁽⁸⁾	Earnings to be released end of May
March 2020 Case Volume Growth ⁽³⁾	(60%) weekly by end of March	(50%) weekly by end of March	(50%) weekly by end of March	(28%) for month of March	Not disclosed	
Funded Significant Revolver Availability ⁽³⁾	✓	✓	✓	✓	✗	✗
Raised Incremental Debt Financing ⁽²⁾⁽³⁾	✓	✓	✓	✗	✗	✗
Raised Incremental Equity ⁽³⁾	✗	✓	✓	✓	✗	✗

(1) Source: IHME via Technomic “Coronavirus – The Foodservice View” – 5/1/20; (2) Source: S&P Capital IQ; (3) Source: Sysco, US Foods, PFG, The Chefs' Warehouse, United Natural Foods, and SpartanNash press releases, earnings announcements, and quarterly filings; (4) Estimated pro forma for acquisition of Smart Foodservice on 4/24/2020; (5) Estimated pro forma for acquisitions of Eby-Brown on 4/29/2019 and Reinhart on 12/30/19; (6) Represents U.S. volume; (7) Represents specialty category volume; (8) Represents preliminary net sales growth for the 13-week period ending 5/2/2020.

Houlihan Lokey Specialty Distribution Team

Houlihan Lokey has deep knowledge and experience advising leading distribution companies that provide food and related foodservice products to retail and foodservice channels.

Houlihan Lokey Specialty Distribution Sector Contacts



Reed Anderson
Managing Director
Specialty Distribution
RAnderson@HL.com
612.215.2256



Matt Kaczmarek
Managing Director
Food & Beverage
MKaczmarek@HL.com
312.456.4761

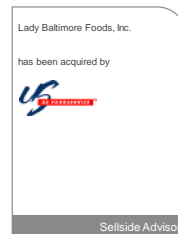
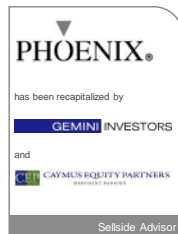
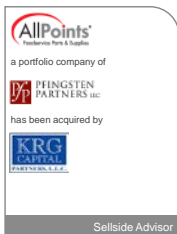
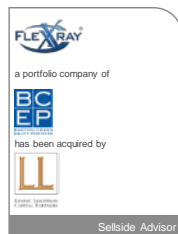
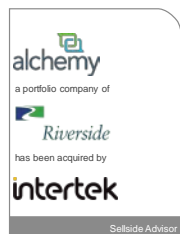
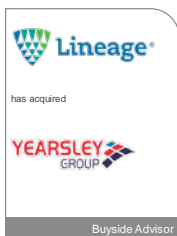
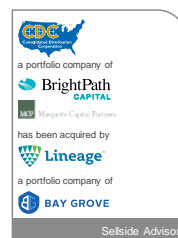
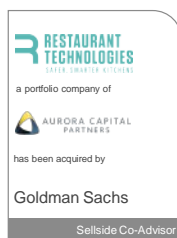
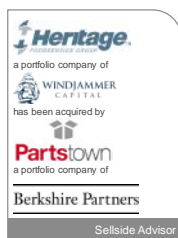


Dane Gilmour
Senior Vice President
Food Distribution
DGilmour@HL.com
312.456.4760



Ben Blohm
Associate
Specialty Distribution
BBlohm@HL.com
612.215.2258

Representative Food Distribution and Foodservice Channel Distribution Transactions



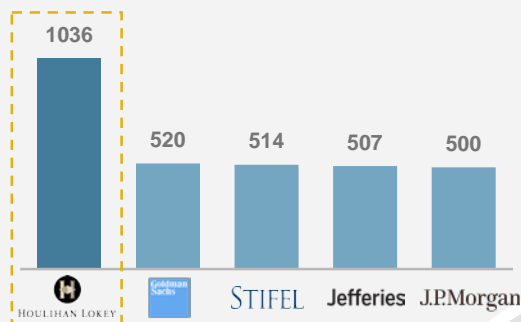
Tombstones included herein represent transactions closed from 2002 forward.

No. 1 M&A Advisor All U.S. Transactions

LEADING M&A ADVISOR

- No. 1 M&A advisor for all U.S. transactions under \$1 billion since 2006
- No. 1 M&A advisor all U.S. transactions for the past 5 years

Completed Transactions Under \$1.0 Billion Since 2014



Refinitiv (formerly Thomson Reuters)

2019 M&A Advisory Rankings All U.S. Transactions

Advisor	Deals
1 Houlihan Lokey	184
2 Goldman Sachs	178
3 J.P. Morgan	178
4 Morgan Stanley	178
5 Evercore	178

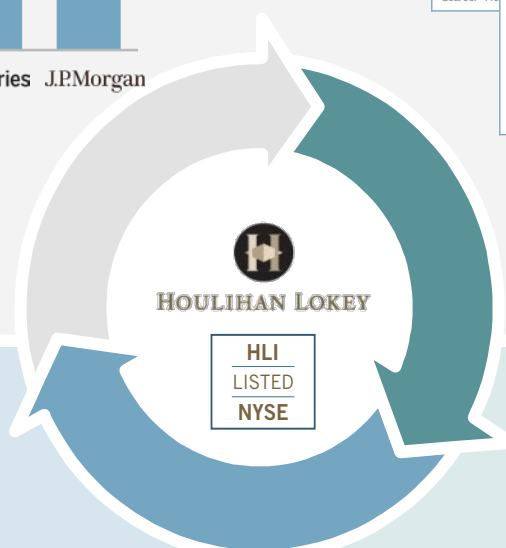
2019 M&A Advisory Rankings U.S. Transactions Under \$3 Billion

Advisor	Deals
1 Houlihan Lokey	180
2 Goldman Sachs	178
3 J.P. Morgan	178
4 Morgan Stanley	178
5 Evercore	178

2019 M&A Advisory Rankings U.S. Transactions Under \$1 Billion

Advisor	Deals
1 Houlihan Lokey	178
2 Raymond James Financial Inc	102
3 Goldman Sachs & Co	96
3 Jefferies LLC	96
5 Piper Jaffray Cos	94

Source: Refinitiv (formerly known as Thomson Reuters)



FULLY INTEGRATED DEBT CAPITAL MARKETS AND FINANCIAL SPONSORS COVERAGE TEAMS

Debt Capital Markets

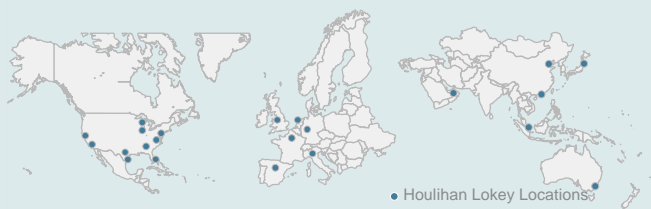
- Global team of ~45 professionals with unmatched capabilities
- Broad knowledge of, and senior level contact into, all major credit investors
- Raised more than \$30 billion of capital in the past three years
- Among largest dedicated alternative investor coverage team in the industry

Financial Sponsor Coverage

- 19 senior officers dedicated to the sponsor community in North America and Europe
- Coverage of more than 900 private equity firms, 250 hedge funds, and 125 family offices worldwide
- Worked on more than 1,000 engagements for financial sponsors in 2019

FIRST-CLASS SELL-SIDE M&A EXECUTION WITH LOCAL PRESENCE AND GLOBAL REACH

- 22 locations in the U.S., Europe, the Middle East, and the Asia-Pacific region
- 340+ cross-border deals since 2011
- Presence required to access cross-border buyers and extract outlier valuations



Our integrated project teams work hand-in-hand from day one and are fully aligned to reach one common goal: delivering the maximum result for our clients in any situation.

Houlihan Lokey Capital Markets Capabilities

Houlihan Lokey's Capital Markets Group is comprised of approximately 45 dedicated professionals across eight offices in five countries that raised approximately \$11.5 billion in more than 55 transactions during 2019 with over 40 different financial sponsors.

Capabilities

Private Capital Solutions

- Placement of solution-oriented capital for a wide range of financing needs
- Differentiated investor relationships and access to decision-makers
- High-touch, confidential, targeted process
- Senior debt to minority equity
- Market leading franchise

Capital Markets Advisory

- Independent advisor on bank commitments and securities offerings
- Liability management—tender offers, exchange offerings, and consent solicitations
- Evaluate public vs. private markets
- Value-added distribution (anchor investors)
- Ability to act as bookrunner/co-manager

Syndicated Leveraged Finance Platform (LBO Finance)

- Arranger of underwritten financings, via HL Finance, LLC
- “Side-car” committed funding—up to \$1 billion per transaction
- Dedicated team of seasoned professionals
- Club distribution, broadly syndicated loans, and bond/bridge underwritings

Bespoke Capital for Complex Assets/Situations

Opportunistic/Situational Capital Needs

- Working capital
- Growth initiatives
- Opportunistic acquisitions
- Covenant-lite/loose
- Equity minimization
- Shareholder liquidity
- Bridge/transitional capital
- Short timeline
- Confidentiality/discretion
- Recapitalizations
- Market dislocation
- Delayed-draw facilities
- Liquidity facilities
- Rescue finance

Complex Stories or Financial Performance

- Carve-outs
- Customer concentration
- Cyclical business
- Geographic diversity
- Misunderstood sectors
- Operational turnarounds
- High capex
- Hypergrowth
- Misunderstood trends
- Add-backs/synergies
- Run-rate adjustments
- Maturity adjustments

How Houlihan Lokey Can Help

Our firm is extremely well-equipped to help our clients navigate uncertain times. We respond quickly to challenging situations and are constantly helping clients to analyze, structure, negotiate, and execute the best possible solutions from both a strategic and a financial perspective.

What We Offer

1 Corporate Finance

Mergers and Acquisitions

Capital Markets

Private Funds Advisory

Board Advisory Services

2 Financial Restructuring

Company Advisory

Distressed M&A

Liability Management

Creditor Advisory

3 Financial and Valuation Advisory

Portfolio Valuation and Fund Advisory

Transaction Opinions

Corporate Valuation Advisory Services

Transaction Advisory Services

Real Estate Valuation and Advisory

Dispute Resolution Consulting

Corporate Finance

We have been the most active advisor to the North American food and beverage industry for over a decade and have long-standing relationships with capital providers, including private equity funds, family offices, commercial banks and other senior credit providers, insurance funds, asset managers, and mezzanine fund investors.

Financial Restructuring

We have the largest financial restructuring practice of any global investment bank. Since 1988, we have advised on more than 1,000 such transactions (with aggregate debt claims in excess of \$2.5 trillion). We served as an advisor in 12 of the largest 15 bankruptcies from 2000–2019.

Financial and Valuation Advisory

For nearly four decades, we have established ourselves as one of the largest financial and valuation advisory firms. Our transaction expertise and leadership in the field of valuation helps inspire confidence in financial executives, boards of directors, special committees, investors, and business owners we serve.

Disclaimer

© 2020 Houlihan Lokey. All rights reserved. This material may not be reproduced in any format by any means or redistributed without the prior written consent of Houlihan Lokey.

Houlihan Lokey gathers its data from sources it considers reliable; however, it does not guarantee the accuracy or completeness of the information provided within this presentation. The material presented reflects information known to the authors at the time this presentation was written, and this information is subject to change. Houlihan Lokey makes no representations or warranties, expressed or implied, regarding the accuracy of this material. The views expressed in this material accurately reflect the personal views of the authors regarding the subject securities and issuers and do not necessarily coincide with those of Houlihan Lokey. Officers, directors, and partners in the Houlihan Lokey group of companies may have positions in the securities of the companies discussed. This presentation does not constitute advice or a recommendation, offer, or solicitation with respect to the securities of any company discussed herein, is not intended to provide information upon which to base an investment decision, and should not be construed as such. Houlihan Lokey or its affiliates may from time to time provide investment banking or related services to these companies. Like all Houlihan Lokey employees, the authors of this presentation receive compensation that is affected by overall firm profitability.

Houlihan Lokey is a trade name for Houlihan Lokey, Inc., and its subsidiaries and affiliates, which include those in (i) the United States: Houlihan Lokey Capital, Inc., an SEC-registered broker-dealer and member of FINRA (www.finra.org) and SIPC (www.sipc.org) (investment banking services); Houlihan Lokey Financial Advisors, Inc. (financial advisory services); HL Finance, LLC (syndicated leveraged finance platform); and Houlihan Lokey Real Estate Group, Inc. (real estate advisory services); (ii) Europe: Houlihan Lokey EMEA, LLP, and Houlihan Lokey (Corporate Finance) Limited, authorized and regulated by the U.K. Financial Conduct Authority; Houlihan Lokey S.p.A.; Houlihan Lokey GmbH; Houlihan Lokey (Netherlands) B.V.; Houlihan Lokey (España), S.A.; and Houlihan Lokey (Corporate Finance), S.A.; (iii) the United Arab Emirates, Dubai International Financial Centre (Dubai): Houlihan Lokey (MEA Financial Advisory) Limited, regulated by the Dubai Financial Services Authority for the provision of advising on financial products, arranging deals in investments, and arranging credit and advising on credit to professional clients only; (iv) Singapore: Houlihan Lokey (Singapore) Private Limited, an “exempt corporate finance adviser” able to provide exempt corporate finance advisory services to accredited investors only; (v) Hong Kong SAR: Houlihan Lokey (China) Limited, licensed in Hong Kong by the Securities and Futures Commission to conduct Type 1, 4, and 6 regulated activities to professional investors only; (vi) China: Houlihan Lokey Howard & Zukin Investment Consulting (Beijing) Co., Limited (financial advisory services); (vii) Japan: Houlihan Lokey K.K. (financial advisory services); and (viii) Australia: Houlihan Lokey (Australia) Pty Limited (ABN 74 601 825 227), a company incorporated in Australia and licensed by the [Australian Securities and Investments Commission](http://www.afsl.gov.au) (AFSL number 474953) in respect of financial services provided to wholesale clients only. In the European Economic Area (EEA), Dubai, Singapore, Hong Kong, and Australia, this communication is directed to intended recipients, including actual or potential professional clients (EEA and Dubai), accredited investors (Singapore), professional investors (Hong Kong), and wholesale clients (Australia), respectively. Other persons, such as retail clients, are NOT the intended recipients of our communications or services and should not act upon this communication.

