

Houlihan
Lokey

The background is a blurred photograph of a professional kitchen. In the foreground, there are stacks of white plates and fresh produce, including yellow and red bell peppers and a bunch of green grapes. In the background, several chefs in white uniforms and hats are working, their figures blurred to convey a sense of motion and activity.

Food Distribution Market Update

Fall 2024

Looking for perspective on deciphering *quality* companies and *quality* investments amid a foggy operating environment?

The markets have been choppy but continue to improve steadily as we approach the end of the year.

In this piece, we provide some perspective on assessing valuation and performance benchmarks in the food distribution industry, which remains a large and opportunity-rich marketplace.

We are seeing more signs of improvement and welcome opportunities to share our perspectives and be a strategic resource for you.

We hope this piece is useful for you, and we always welcome your feedback on how to focus future editions.

dane gilmour

Managing Director, Houlihan Lokey



Aggregating conversations and feedback from our clients and relationships in the industry, three questions emerge:

1

Pages 3–10

Valuations across the food distribution industry vary widely, and much has changed since 2020–2021; **how do I assess fundamental valuations for companies in this market?**

2

Pages 11–13

Is the environment becoming **any more conducive to volume growth?**

3

Pages 14–15

What are successful distributors doing to **navigate the operating environment?**

1

Valuations Across the Food Distribution Industry Vary Widely, and Much Has Changed Since 2020–2021; How Do I Assess Fundamental Valuations for Companies in This Market?



Definitely an Emerging Pattern in Public Share Prices

Divergence in public share price performance points to what is working.

Foodservice distributors have clearly re-established themselves as the preferred profile for public market investors.

Sharper focus on core markets and executing margin-enhancement initiatives.

Sources: S&P Capital IQ as of September 11, 2024.

Public Food Distribution Companies' Stock Price Change Since 2023

(Individual stock price index; Indexed to January 2023=100)

Foodservice-focused distributors

Retail-focused distributors



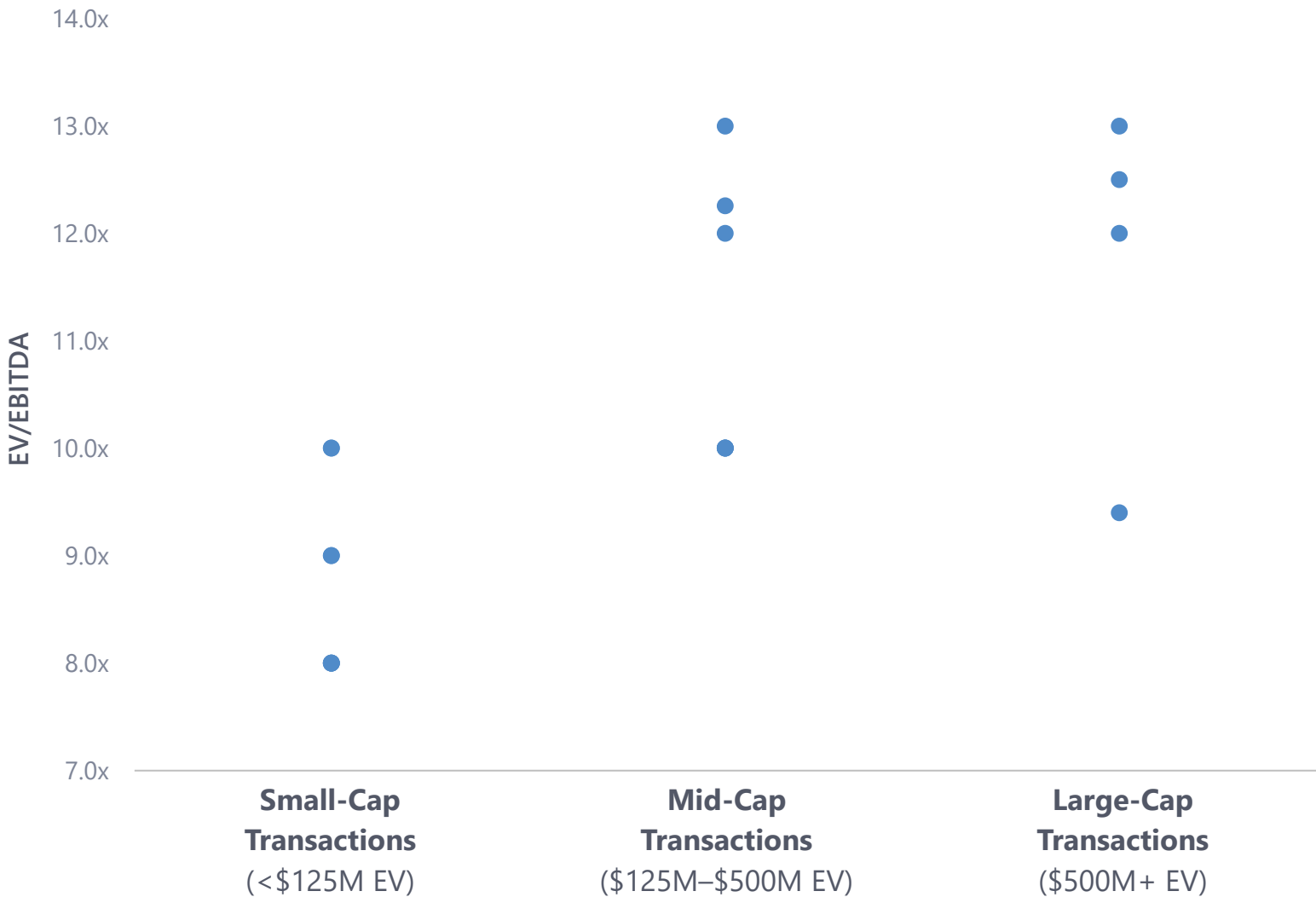
Maybe a Pattern Emerging in M&A Market Multiples?

Arguably, now more than ever, a clear size premium has emerged in the M&A market.

The market for smaller deals has been very slow to recover, while larger established platforms are benefiting from improved capital markets activity.

Selected Food Distribution Precedent Transaction Multiples Since 2022

Albeit with a limited sample size, we believe the size premium is a meaningful new(er) trend in the M&A market.



Source: Public filings.

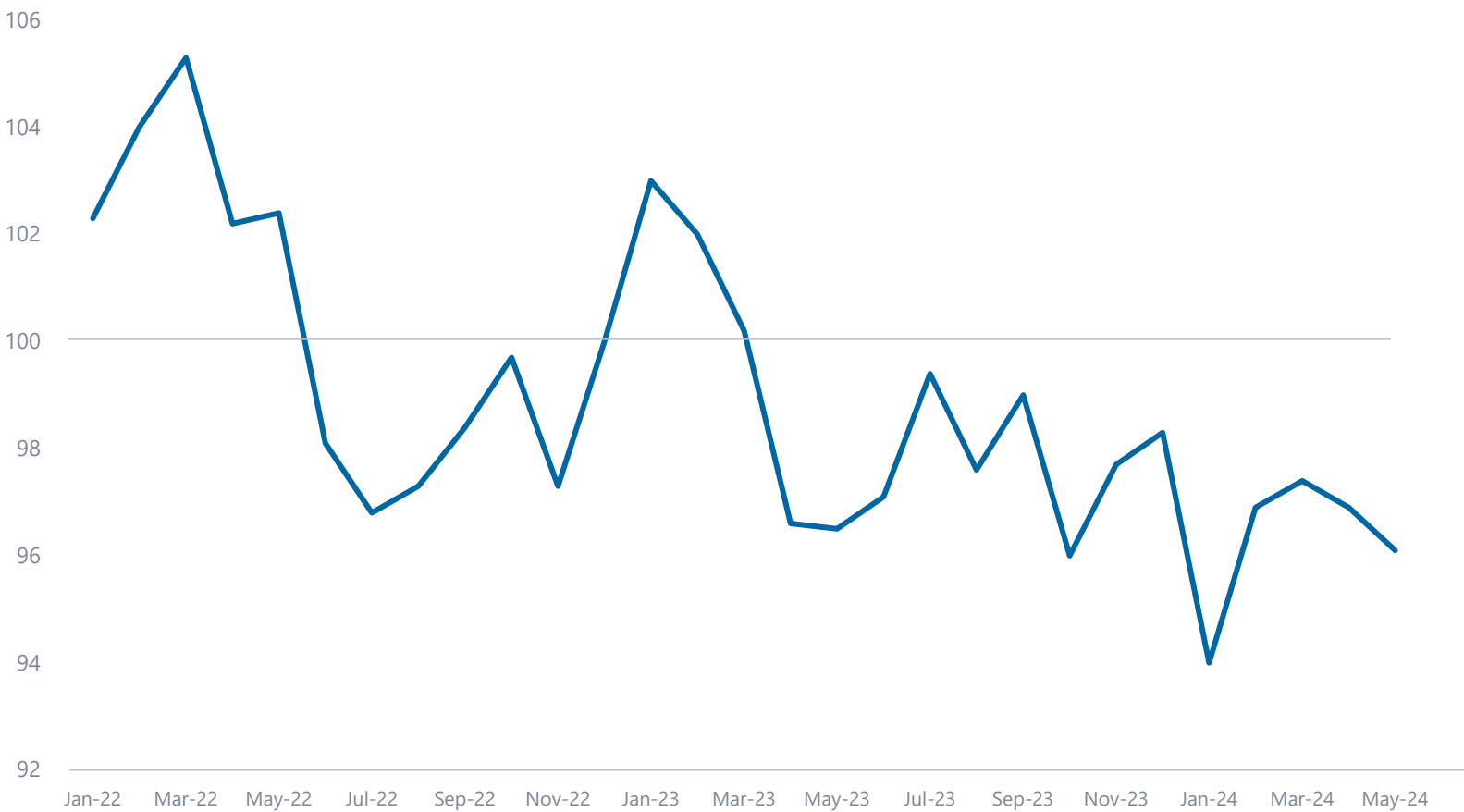


What Is Fogging the Valuation Lens Right Now?

On a national view, continued sluggishness in restaurant foot traffic.

Restaurant Foot Traffic Index

(National Restaurant Association customer traffic current situation index)



Sources: National Restaurant Association; Q2 2024 company earnings call transcripts.



"U.S. comparable restaurant sales were negative 10 basis points, and **traffic was negative 380 basis points...** it all comes down to traffic. **We've seen a lot of volatility in the industry.**"



"The [Maggiano's] brand reported 2.5% positive comp sales... **offset by negative 8.9% traffic...**When we do our building blocks for our traffic, we built in a 4% to 5% **decline in the industry**, which is what we hear from our third-party insight groups."



"Same-restaurant sales at both Capital Grille and Eddie V's were negative as **the fine dining category as a whole continues to be challenged.**"

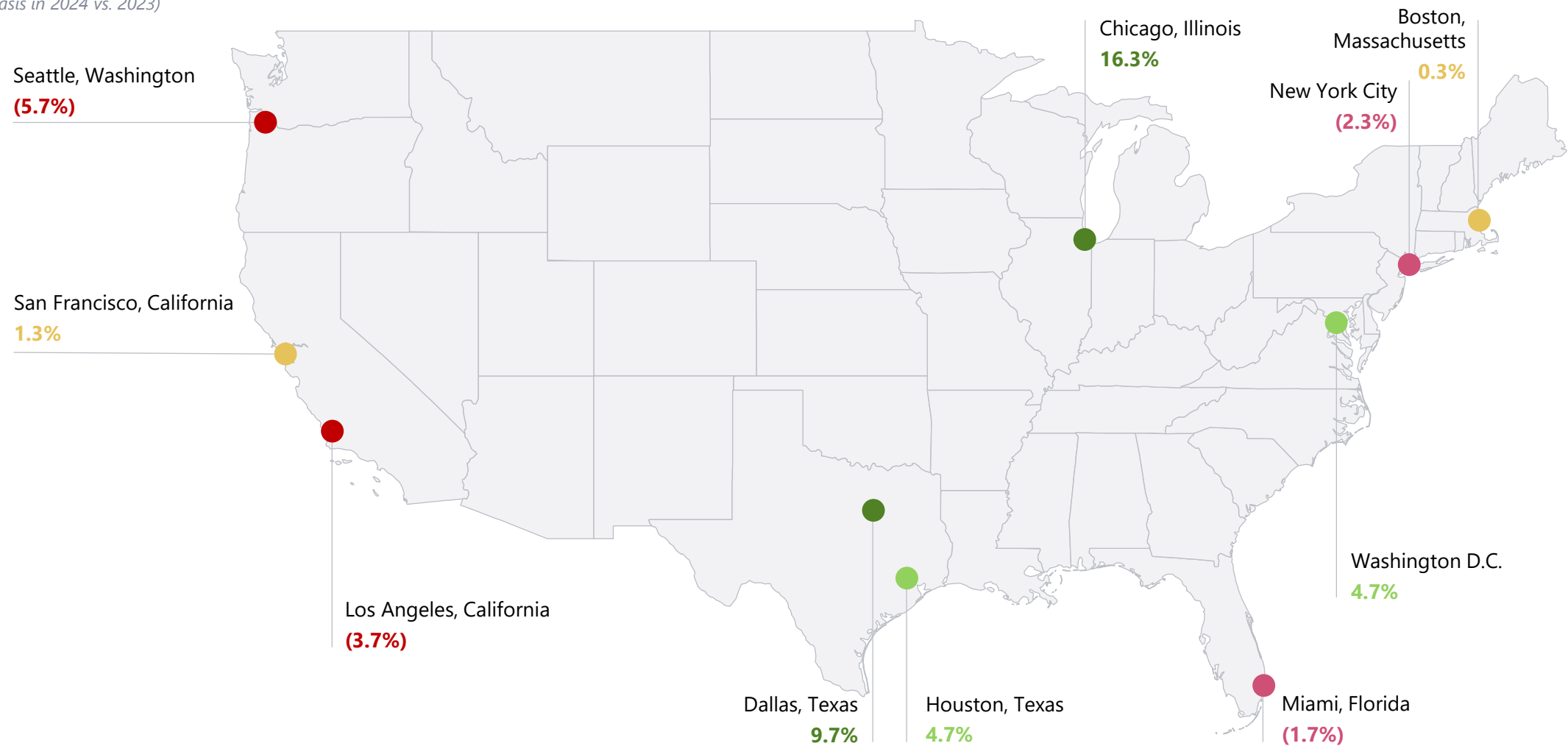


What Is Fogging the Valuation Lens Right Now?

Uneven restaurant traffic/volume trends across the country.

YoY Trends in Seated Diners

(Volume of seated diners from online reservations on a monthly basis in 2024 vs. 2023)



Source: OpenTable.
Note: Represents YTD 2024 data.

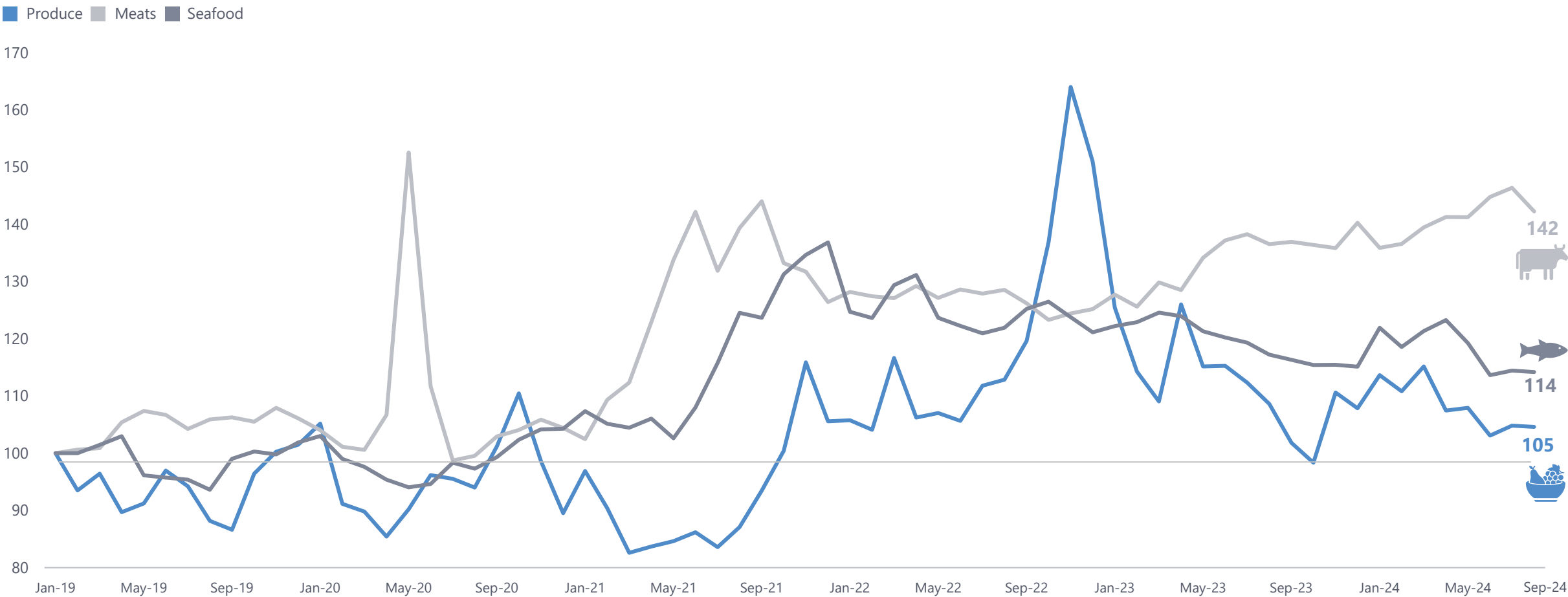


What Is Fogging the Valuation Lens Right Now?

Uneven commodity trends.

Meat Prices Continue Comparatively Steady Climb, Bucking the Conventional Wisdom From 2020/2021

(Producer Price Index; indexed to January 2019=100)



Sources: FRED Producer Price Index; Fruits and Melons, Fresh/Dry Vegetables and Nuts, Meats, and Unprocessed and Prepared Seafood.

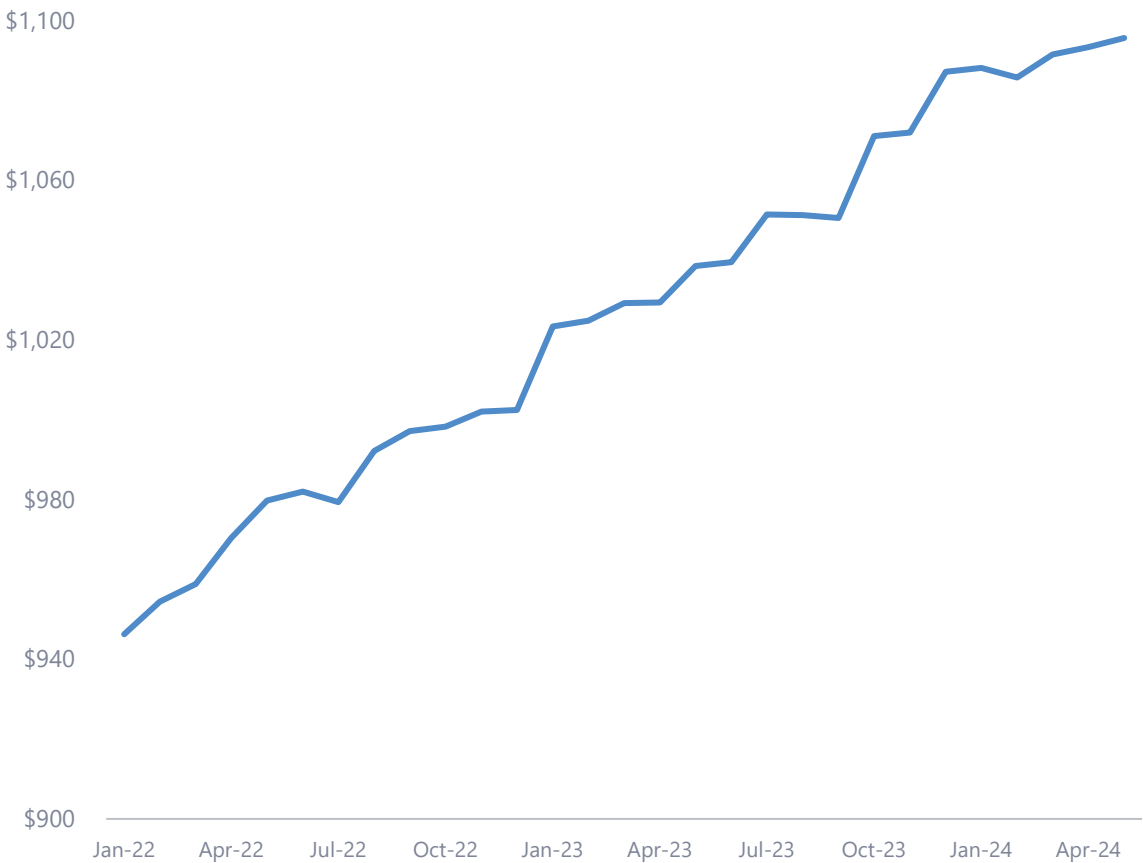


What Is Fogging the Valuation Lens Right Now?

Persistent cost structure inflation.

Industry Wage Levels Seem to Be Sticky

(Transportation and warehousing industry average weekly earnings)⁽¹⁾



Watching Fuel Prices as Further Potential Relief for Profit Margins

(U.S. on-highway diesel fuel prices; \$ per gallon)⁽²⁾



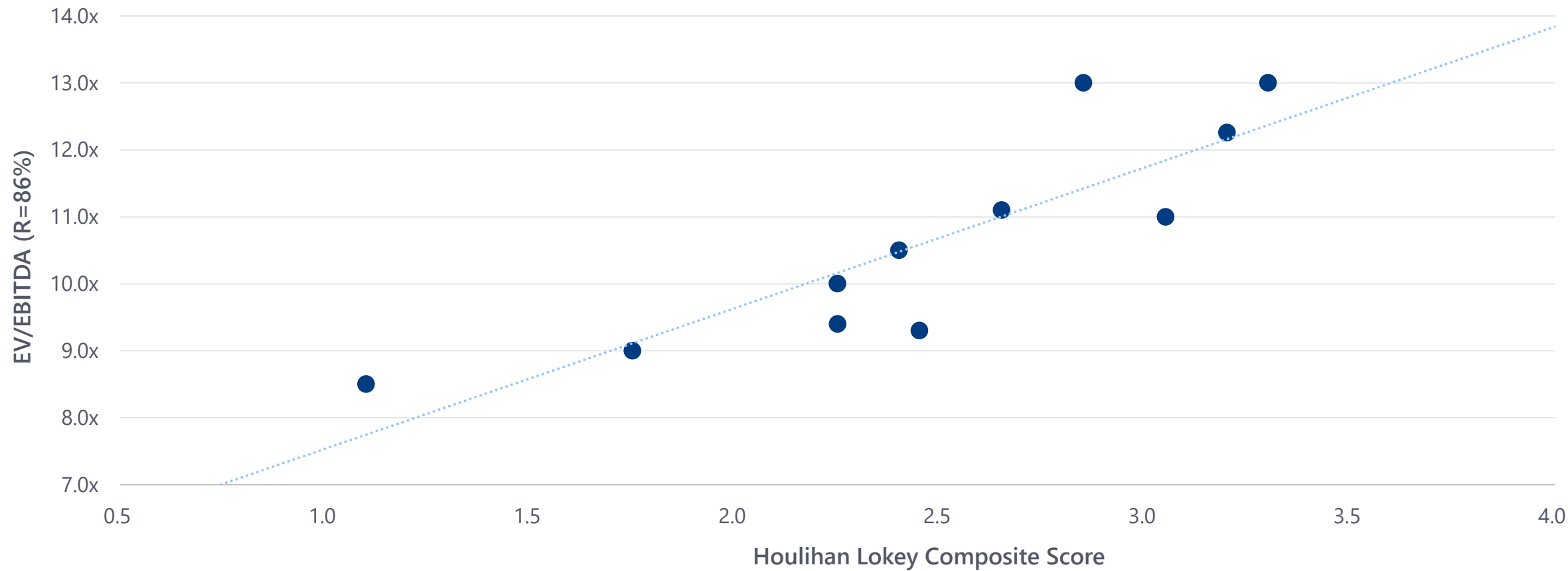
Notes: (1) U.S. Bureau of Labor Statistics; Production and nonsupervisory employees, seasonally adjusted; (2) U.S. Energy Information Administration.



How Houlihan Lokey Can Help You Decipher a Signal Amid the Noise

Houlihan Lokey Proprietary Composite Score and EV/EBITDA Multiple of Selected Food Distribution Transactions

(Deals between 2016 and 2024)



Contact us to discuss our methodology and perspective



Request more information



2

Is the Environment
Becoming Any More
Conducive to
Volume Growth?



Continued Mixed Performance Across Channels From Q2 Public Company Earnings Releases



“ We had really good year-over-year volume and revenue growth...



“ We're doing very well in specialty, and we need to continue to run the play in international because they are working. What we need to improve is local, and we're not satisfied with our volume growth in local...



“ In wholesale, we again saw sequentially improving volumes as well as declining levels of inflation, continuing the trends we discussed on our third quarter call... This continued volume improvement was largely driven by the natural side of our business, although conventional volumes improved as well, but at a slower pace. This volume improvement has also continued into early fiscal 2025...



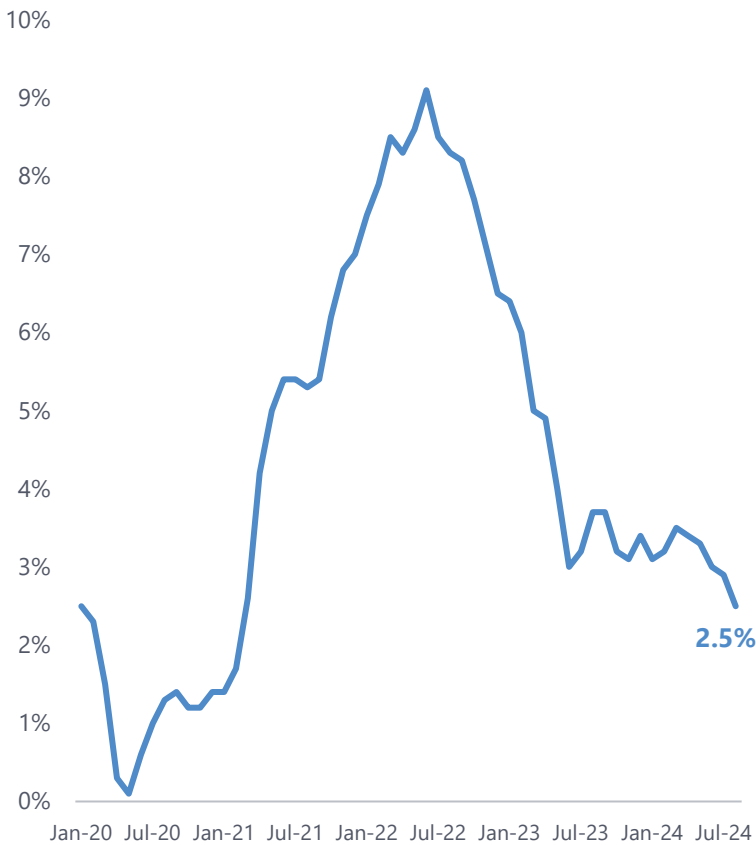
“ The macro is a little softer than we expected coming into the year... We've seen lower foot traffic, as we pointed out, down 3% in the second quarter... Customers are still buying the same number of lines, but they're buying [fewer] cases on those lines as their volume is challenged...



Reasons for Optimism

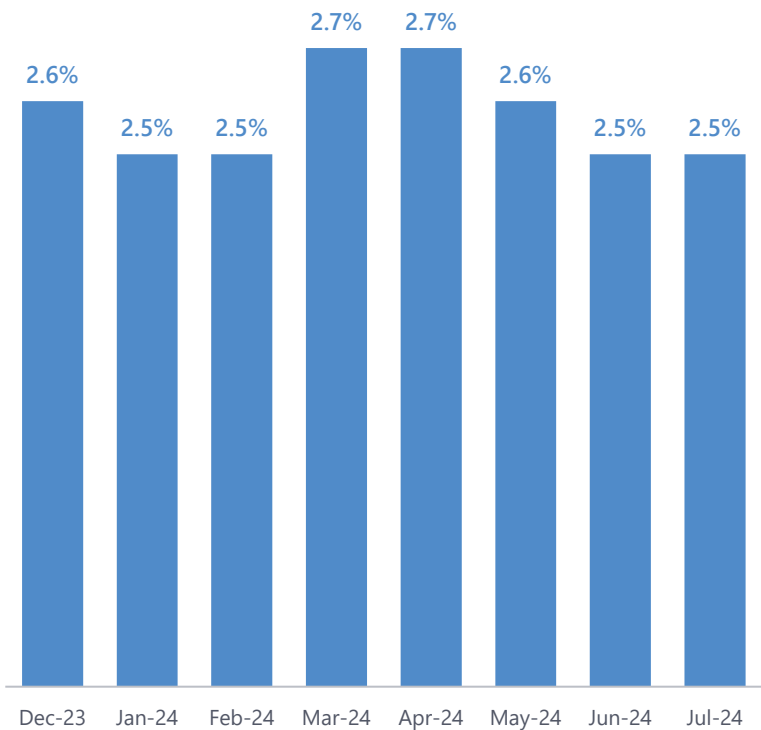
Inflation Seems to Have Tamed and Interest Rates Are Coming Down

(Consumer Price Index 12-month % change—all items, not seasonally adjusted)⁽¹⁾



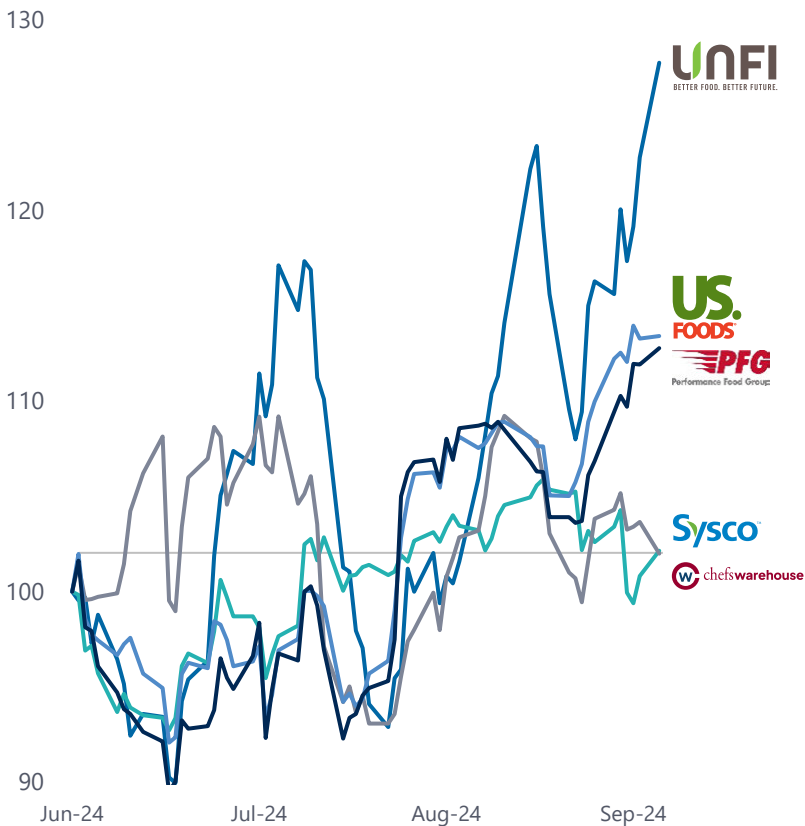
Resilient Consumer Spending

(YoY % change in Personal Consumption Expenditures)⁽²⁾



Publicly Traded Food Distribution Stock Prices Have Increased Markedly in the Past Three Months

(Individual stock price index; indexed to June 24, 2024=100)



Sources: (1) Bureau of Labor Statistics; (2) Bureau of Economic Analysis; S&P Capital IQ as of September 24, 2024.

3

What Are Successful
Distributors Doing to
Navigate the Operating
Environment?



Discussion Topics From Our Summer 2024 Executive Roundtable



How are you finding growth and margin expansion amid a sluggish consumer spending backdrop and persistent cost structure inflation?



How are you adapting to changes in how customers want to interact?



How are you demonstrating that your business can scale?



How are you widening your moat of differentiation against headline distributors that are extremely focused on share gain?



How do you articulate to the capital markets your value proposition beyond “boxes come in; boxes go out”?

In case you missed
the discussion,
get in touch with us!



We Look Forward to Discussing Your Goals



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Experienced Perspective and Unique Sector Focus in Consumer Channel Distribution

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has received a significant investment from

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Sellside Advisor

BAKEMARK

a portfolio company of

PAMPLONA
CAPITAL MANAGEMENT

has been acquired by

CLEARLAKE

Sellside Advisor

PRAIRIE
CAPITAL

has acquired

FOREVER CHEESE

Buyside Advisor

FORTUNE
INTERNATIONAL
THE SEAFOOD & GOURMET SPECIALISTS

has been recapitalized by

INVESTCORP

Sellside Advisor

Greco
AND SONS

has been recapitalized by

ARBOR
INVESTMENTS

Sellside Advisor

WC WYNNCHURCH | CAPITAL

has acquired

Handgards®

a portfolio company of

WIND POINT PARTNERS

Buyside Advisor

BradyIFS

a portfolio company of

KELSO
PRIVATE EQUITY

has merged with

ENVOY
SOLUTIONS

a subsidiary of

FEMSA

with an equity investment from

WARBURG PINCUS

Sellside Advisor

The Foodware Group

a portfolio company of

Olympus PARTNERS

has been acquired by

CFS BRANDS

a portfolio company of

TJC

Sellside Advisor

Heritage
FOODSERVICE GROUP

a portfolio company of

WINDJAMMER
CAPITAL

has been acquired by

Partstown

a portfolio company of

Berkshire Partners

Sellside Advisor

CDC
Consolidated Distribution Corporation

a portfolio company of

BrightPath
CAPITAL

MCP Marquette Capital Partners

has been acquired by

Lineage

a portfolio company of

BAY GROVE

Sellside Advisor

PERKINS
OUR PEOPLE DELIVER MORE®

has been acquired by

GFS
gordon food service

Sellside Advisor

PARTNER LOGISTICS

has been acquired by

Lineage®

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Tombstones included herein represent transactions closed from 2012 forward.



Appendix

Selected Public Food Distribution Companies—Current Valuation Landscape

(\$ in Millions)

	Market and Leverage Data					LTM Financial Detail			NTM Financial Detail			LTM Cash Flow Detail		
	Enterprise Value	Equity Value	Net Debt	EV/ LTM EBITDA	EV/ NTM EBITDA	Net Sales	Gross Profit % Margin	EBITDA % Margin	Net Sales	Gross Profit % Margin	EBITDA % Margin	Capex	FCF	FCF % of EBITDA
Foodservice-Focused														
 Sysco	\$49,740	\$37,459	\$12,250	11.4x	11.1x	\$78,844	18.5%	5.5%	\$82,218	18.6%	5.4%	(\$832)	\$3,531	80.9%
 US Foods	\$18,678	\$14,184	\$4,494	12.7x	10.3x	\$36,700	17.3%	4.0%	\$38,783	17.4%	4.7%	(\$357)	\$1,116	75.8%
 PFG Performance Food Group	\$16,069	\$11,120	\$4,948	11.6x	9.8x	\$54,681	12.0%	2.5%	\$60,473	11.4%	2.7%	(\$396)	\$988	71.4%
 chefswarehouse	\$2,429	\$1,553	\$876	14.1x	10.6x	\$3,661	23.9%	4.7%	\$3,886	23.9%	5.9%	(\$67)	\$105	60.9%
Retail-Focused														
 UNFI BETTER FOOD. BETTER FUTURE.	\$4,439	\$863	\$3,576	12.2x	8.1x	\$30,242	13.4%	1.2%	\$31,170	13.6%	1.7%	(\$322)	\$41	11.3%
 SpartanNash	\$1,575	\$711	\$865	6.7x	5.9x	\$9,546	15.5%	2.5%	\$9,607	15.6%	2.8%	(\$127)	\$108	46.0%

Sources: S&P Capital IQ as of September 11, 2024.



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