

CIM Two-Page Brief

PFC_TransactionCode / Pampanga Food Company

2024-08-19

Industry: Specialty Frozen Food Manufacturing / Food & Beverage

CIM Effective Period: Historical FY21–FY23; Forecast FY24–FY26

Deal Temperature: Warm

EXECUTIVE CAPTION

- * Pampanga Food Company (PFC) is the leading North American Filipino frozen food manufacturer with 70% market share, showing strong growth, margin expansion, and a seasoned management team driving operational and strategic growth. The business is positioned for consolidation and scaling with a financial partner (p. 5-11).

KEY INVESTMENT MERITS (Good)

- * Market leadership: PFC dominates the Filipino frozen food subsector holding over 70% market share, with a diversified customer base including major distributors, retailers, institutional accounts, and military commissaries nationwide (p. 5, 8, 16).
- * Large & growing market: The US wholesale frozen food market reached \$182.7B in 2023 with steady growth driven by demographic shifts, globalization, convenience, product innovation, e-commerce expansion, and retail channel diversification (p. 8-9, 5).
- * Strong brand portfolio: Four proprietary brands—Pampanga, Mister Swifts, Cabalen, Senor Rey—plus private label, offered in 47 SKUs, blend cultural authenticity with broad appeal enabling expansion into Asian and mainstream US markets (p. 21-22, 5).
- * Efficient, modern facilities: Operating out of a 32,100 sq ft Anaheim CA campus equipped with state-of-the-art processing and cold storage, USDA-certified, catering to surges in demand with high QC standards and vendor certification programs (p. 10, 25-27, 16).
- * Experienced management: Founder-CEO Coni Reyes (40+ years industry experience), President Rey Reyes (30+ years operations), and COO Anthony Reyes (CFA, active 5 years) lead a senior team with 80+ combined years, supported by stable middle management and 100+ employees with low turnover (p. 10-11, 28-31).
- * Financial momentum: FY23 revenues grew 8.3% to \$14.1MM with gross margin expansion from 29.8% to 42.3%, EBITDA up 14.6% to \$2.5MM, reflecting scaling benefits from bulk raw material discounts, lower logistics costs, and increased automation (p. 6, 33-34).
- * Growth & margin outlook: Management forecasts 13–14% annual revenue growth through FY26, with further margin improvements predicated on marketing expansion, new product development, and higher client penetration (p. 6, 33).
- * Strategic location: Anaheim site benefits from proximity to major Southern California ports (30 miles to Los Angeles port), robust highway access (I-5, I-10), and multiple airports (LAX, SNA), supporting supply chain efficiency and future scale (p. 9-10).
- * Low capital intensity: The company invests \$250K–\$500K annually on maintenance CAPEX and discretionary equipment upgrades; recently invested \$1MM in modernization over 3 years, with no major capex hurdles anticipated for planned growth (p. 34).

- * High barriers to entry: Capital intensive, complex regulatory compliance (USDA, FDA), established supplier/distribution networks, brand recognition, and technological know-how protect PFC from competition and new entrants (p. 11).
- * Potential for multiple expansion: Fragmented Filipino food manufacturing sector (<\$20MM peers), no major PE roll-ups to date; public comparables in related food processing segments trade at median ~13.6x LTM EBITDA, implying upside to PFC's private market valuation (p. 14).

KEY CONCERNS & DILIGENCE AREAS (Bad)

- * Customer concentration: Top customer Sysco accounts for 36% of revenues; top five customers generate approximately 64%, raising exposure to distributor risk and payment terms concentration (p. 23).
- * Exposure to raw material cost volatility: Although margins improved recently due to bulk buying and lower shipping, inflationary pressures on raw materials and wage costs remain risks to sustaining 40%+ gross margins (p. 33).
- * Limited working capital facility: The Company does not currently utilize a working capital line of credit, constraining liquidity; growth plans will require access to expanded credit facilities (p. 34).
- * Small scale relative to public peers: At \$14.1MM revenue, PFC is substantially smaller than public comparables (\$100MM+ revenues), necessitating a margin of pricing and execution risk on scaling and multiple expansion (p. 14).
- * Regulatory complexity: Daily USDA FSIS oversight and annual Health Dept inspection create ongoing compliance burden; any issues could disrupt operations or require costly remediation (p. 13, 16).
- * Limited geographic diversification: Primary markets concentrated in U.S. and certain territories (Guam, Saipan, Armed Forces commissaries); growth beyond current footprint requires successful market entries (p. 5, 8).
- * Family ownership and governance: Current 100% family ownership with no independent board; transition to professional governance and advisory board post-transaction will be critical to execute growth strategy (p. 11).
- * Integration risk: Plans to scale through acquisitions and add-ons will require management bandwidth and robust integration capabilities beyond current scope (p. 11).
- * Online channel still nascent: Although marketing via social media and e-commerce (Weee!) growing, it remains a small fraction of sales and requires further investment (p. 7, 24).

CRITICAL NUMBERS SNAPSHOT

- * Revenue (\$MM): FY21: ~\$11.47; FY22: ~\$13.03; FY23: \$14.1; FY24F: >\$16.0; CAGR FY21-23: 10.8% (p. 33, 6)
- * EBITDA (\$MM): FY21: ~\$1.65; FY22: ~\$2.26; FY23: \$2.5; FY24F: \$2.7; CAGR FY21-23: 50.4% (p. 6, 33)
- * EBITDA margin: FY23 17.7% (2.5/14.1); expanding from ~12-15% prior years (p. 6, 33)
- * Free cash flow conversion: N/A; quality of earnings and full working capital analysis pending; low capex and strong EBITDA margin suggest strong cash conversion potential (p. 34)
- * Net debt: <\$1MM as of 7/1/24 including SBA loan and capital leases, with most leases expiring by 2025 (p. 34)

- * Leverage multiple: Low, estimated under 0.4x EBITDA (p. 34)
- * Customer concentration: Sysco 36%, top 5 = ~64% revenue (p. 23)
- * Geographic mix: US-wide distribution with penetration in CA, NY, TX, HI, and territories Guam & Saipan; also U.S. Armed Forces commissaries (p. 5, 8, 16)

NEXT-STEP QUESTIONS

- * Request QofE report, detailed working capital analysis, and evidence of normalized EBITDA adjustments (p. 32-33)
- * Clarify customer contracts/term length with top customers, specifically Sysco and retailer distributors, and any customer retention risks (p. 23)
- * Detailed capex plan and forecast: expected spend to support 13-14% growth, especially on automation or capacity expansion (p. 34)
- * Details on the export growth strategy, international distributor contracts, and revenue contribution expected from these channels (p. 7, 24)
- * Management succession details and timeline: Confirm COO Anthony Reyes's™ likely ascension to CEO and any management development plans (p. 28)