

## CIM Two-Page Brief

Transaction Code / Project Name: Pampanga Food Company\_Acquisition

Date: 2024-08-19

Industry / Sub-sector: Food Manufacturing / Frozen Specialty Foods

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

Deal Temperature: Warm

**EXECUTIVE CAPTION** Pampanga Food Company (PFC) is the leading North American manufacturer of Filipino frozen foods capturing over 70% market share with a \$14.1MM revenue base in FY23. Operating from a 32,100 sq ft California facility, PFC combines strong brand loyalty, experienced management, and a growing frozen food market to deliver stable growth and margin expansion in a recession-resistant segment (p. 5-7, 25, 32-33). **KEY INVESTMENT MERITS** (â€œGoodâ€ )

- \* Market leadership: PFC commands over 70% share in the North American Filipino frozen food segment, showing entrenched brand recognition with banner products under Pampanga, Mister Swifts, Cabalen, and Senor Rey (p. 5, 8).
- \* Large and growing market: Operating within the \$183B wholesale frozen food market (2023), PFC benefits from rising multicultural consumer demand, globalization of tastes, convenience trends, product innovation, and e-commerce expansion driving expected 13-14% sales CAGR through FY26 (p. 8-9, 32, 33).
- \* Strong unit economics and margin expansion: FY23 revenues grew 8.3% YoY to \$14.1MM with Gross Profit margin improvement from 29.8% to 42.3%. EBITDA increased 14.6% YoY to \$2.5MM, reflecting operating leverage through bulk purchasing and cost efficiencies (p. 5, 33).
- \* High production standards and efficient plant: PFC operates from a 32,100 sq ft owned facility in Anaheim, CA, equipped with state-of-the-art processing lines, USDA certification, strict quality control, and vendor certification programs, supporting scalable operations and product quality consistency (p. 5, 25-27).
- \* Experienced, stable management team: Founder/CEO Coni Reyes brings 40+ years of industry knowledge, supported by President Rey Reyes (30+ years operations) and CFO/COO Anthony Reyes (CFA, 5 years, likely successor). Combined top management experience exceeds 80 years, complemented by long-tenured middle management (p. 5, 28-29).
- \* Diverse, loyal customer base: Strong distribution relationships with Sysco (36% of sales), Island Pacific, 99 Ranch Market, and others stabilize revenues with timely payment terms and broad geographic reach including U.S. military commissaries (p. 6, 23).
- \* Recession resistant sector: Frozen food demand grew during COVID-19 as consumers shifted to at-home meals; PFC's products benefited from being deemed USDA essential, alongside broader market resiliency and multi-year growth trend (p. 5, 6).
- \* Attractive exit potential: Public comparables trade at 15.3x EBITDA on average, with recent M&A multiples around 9.4x; PFC's growth trajectory, cost structure, and brand moat provide multiple expansion opportunity for a strategic or financial buyer (p. 14).

## KEY CONCERNS & DILIGENCE AREAS (â€œBadâ€ )

- \* Market concentration: Sysco alone accounts for 36% of revenue, with top five customers representing ~60% of sales, posing risk if key distributor relationships weaken (p. 23, 34).
- \* Limited scale relative to competitors: With \$14.1MM revenue in FY23, PFC remains smaller than other Asian food manufacturers and public players, potentially limiting bargaining power and scale advantages despite strong niche position (p. 8, 14).

- \* Margin sustainability risks: Significant gross margin expansion in FY23 (29.8% to 42.3%) driven by lower raw material cost, shipping improvements, and wage efficiencies may be difficult to sustain fully given industry cost inflation and potential supply chain volatility (p. 5, 33).
- \* Working capital constraints: PFC does not currently utilize a working capital line of credit, which may limit growth capital flexibility given planned revenue expansion and distributor payment terms of Net 30-45 days (p. 34).
- \* Modest capex requirements but ongoing upgrades needed: Historical maintenance and upgrade CapEx runs \$250k-500k annually with ~\$1MM invested last three years; future investments may be needed to support growth or regulatory changes (p. 34).
- \* Regulatory complexity: Daily USDA FSIS inspections and strict compliance impose operational risk; any regulatory failures could impact market access and brand reputation (p. 13, 25).
- \* Fragmented competitive landscape with rising competition: While PFC dominates Filipino frozen foods, the broader Asian food sector is fragmented and subject to increased competition and potential consolidation by larger players (p. 13).
- \* Execution risks: Management's plan to expand customer base, marketing, and geographical reach requires effective execution, including leveraging new financial partners and potential acquisitions (p. 8-11).

## **CRITICAL NUMBERS SNAPSHOT**

- \* Revenue: \$11.2MM (FY21), \$13.0MM (FY22), \$14.1MM (FY23), forecast \$16.0MM (FY24) - ~11% 3-yr CAGR (p. 33).
- \* EBITDA: \$1.7MM (FY21), \$2.2MM (FY22), \$2.5MM (FY23), forecast \$2.7MM (FY24) - ~18% 3-yr CAGR; EBITDA margin expanded from ~15% in FY21 to ~18% in FY23 (p. 33).
- \* FCF conversion: Not explicitly disclosed, but adjusted EBITDA and working capital appear stable; capex ~\$0.25-0.5MM per year (p. 34).
- \* Net debt: <\$1MM (SBA loan + capital leases), low leverage with most leases ending by 2025 (p. 34).
- \* Customer concentration: Top customer (Sysco) 36%, top 5 roughly 60%+ of sales (p. 23).
- \* Geographic mix: Revenue distributed nationally with key hubs Los Angeles, San Francisco, New York, Chicago, Portland, Houston, Georgia, Seattle, and Hawaii; international sales include New Zealand and Canada (p. 5, 8, 23).

## **NEXT-STEP QUESTIONS**

- \* What is the projected free cash flow conversion percentage (EBITDA to FCF) over the next 3 years and working capital cycle dynamics?
- \* Can management provide detail on customer retention rates and potential risks to top distributor relationships, especially Sysco?
- \* What are the planned marketing budget allocations and KPIs to support the forecasted 13-14% sales CAGR?
- \* Are there any pending regulatory changes or operational risks flagged by USDA FSIS inspections that could impact near-term operations?

\* How will management prioritize use of proceeds and capital structure post-transaction, particularly regarding working capital lines and potential add-on acquisitions?