CIM Two-Page Brief

Transaction Code: Pampanga Food Company | Date: 2024-08-19 | Industry: Specialty Frozen Food Manufacturing | CIM Period: FY 2021â€“FY 2026 (forecast) | Deal Temperature: Warm

EXECUTIVE CAPTION

* Pampanga Food Company (PFC) is a leading North American Filipino frozen food manufacturer with over 70% market share in its niche, sustained revenue CAGR of 10.8%, and strong EBITDA growth of 50.4% over the last 3 years (p. 5, 6, 33).

* The Company operates from a modern 32,100 sq ft USDA-certified Anaheim facility with state-of-the-art equipment and a loyal, experienced management team driving profitable growth (p. 5, 25, 28).

KEY INVESTMENT MERITS (â€œGoodâ€)

* Market Leadership: PFC is the dominant Filipino frozen food producer in the U.S. with banner products capturing over 70% share, supported by four proprietary brands and private label production (p. 5, 8).

* Strong Revenue & EBITDA Growth: FYâ€™23 revenue of $14.1MM represents an 8.3% YoY increase; EBITDA grew 14.6% to $2.5MM, delivering a 3-year CAGR of 10.8% (revenue) and 50.4% (EBITDA). FYâ€™24 revenue forecast exceeds $16MM with continued margin expansion (p. 6, 33).

* Robust Margin Expansion: Gross margin improved materially from 29.8% in FYâ€™22 to 42.3% in FYâ€™23, driven by economies of scale on raw materials, lower shipping costs post-COVID, and increased plant automation reducing labor intensity as a percentage of COGS (p. 6, 33).

* Large Market Opportunity: The $183B wholesale frozen food market is growing steadily due to demographic shifts, globalization, convenience trends, and e-commerce expansion. PFCâ€™s ethnic product line aligns well with rising multicultural consumer demand and changing food preferences (p. 8â€“9).

* Superior Operations & Location: Based in Anaheim, CA, PFC benefits from proximity to the Ports of Los Angeles/Long Beach (30 miles), major airports (LAX, SNA), and strong transportation infrastructure facilitating efficient sourcing and distribution (p. 9â€“10, 25â€“27).

* Experienced Management: Founding CEO Coni Reyes has 40+ years in the industry. The leadership team has over 80 years combined experience and a proven track record in operations, production, marketing, and finance, with low employee turnover and strong local community ties (p. 5, 28â€“29, 31).

* High Quality & Regulatory Compliance: PFCâ€™s USDA certification, daily FSIS inspection, vendor certification program, and strict QA protocols ensure consistent product quality and safety above industry standards (p. 5, 13, 25).

* Stable Customer Base with Growth Potential: Key customers include Sysco (36% of sales), Island Pacific, 99 Ranch Market, and Weee!, providing stable wholesale and retail access; recent international exports initiated (p. 23, 24, 8).

* Facility & Equipment Investment: Recent $1MM capex on modernizing equipment supports volume growth and operational efficiency in a 32,100 sq ft facility valued at approx. $9MM excluding equipment, running standard 8-hour shifts 5 days/week (p. 25, 34).

* Low Debt & Capital Expenditure Requirements: Less than $1MM in long-term debt (SBA loan and capital leases), with leases expiring by 2025. Annual capex of $250Kâ€“$500K for maintenance

and upgrades, enabling continued growth without major new capital outlays (p. 34).

* Exit Potential: The combination of PFCâ€™s leading market position, accelerating growth trajectory, margin expansion, and proximity to a $183B market suggests robust multiple expansion opportunities aligned with industry comparables trading at median 13.6x EBITDA (p. 14).

KEY CONCERNS & DILIGENCE AREAS (â€œBadâ€)

* Market Concentration Risks: Top customer Sysco accounts for 36% of sales; top five customers represent a combined ~63%, implying potential revenue concentration and exposure to shifts in customer purchasing or payment behavior (p. 23).

* Competitive Pressures: Despite strong niche leadership, the ethnic frozen food segment remains fragmented with competitors like Martin Purefoods and Ramar Foods in the $10â€“20MM revenue range. Traditional grocery chainsâ€™ expansion into specialty foods may intensify competition and pricing pressure (p. 13).

* Margin Sustainability: FYâ€™23 gross margin leap from 29.8% to 42.3% linked to transient factors such as improved bulk raw material pricing and lower shipping costs post-COVID. Sustaining these elevated margins amid raw material inflation or logistics volatility requires validation (p. 6, 33).

* Working Capital Constraints: PFC does not currently have a working capital line of credit; given the planned growth and seasonal demand patterns, lack of such a facility could limit short-term liquidity and operational flexibility (p. 34).

* Regulatory & Food Safety Risks: Operating in a heavily regulated environment with USDA and FSIS oversight, compliance lapses or new regulatory requirements could impose operational disruptions or cost increases (p. 13).

* Execution Risks in Scaling: Plans to grow through geographic expansion, new product development, and potential add-on acquisitions will test management bandwidth and require migration from a family-owned model to a more complex platform (p. 6, 11).

* Succession Considerations: CEO Coni Reyes is founder and visionary; COO Anthony Reyes (5 years tenure, CFA) is identified as likely successor. Transition risks should be evaluated to ensure continuity of culture and strategic vision (p. 28).

* International Expansion Early Stage: Current exports to New Zealand and Canada are nascent; risks remain around scaling international distribution channels and navigating diverse regulatory environments (p. 24).

CRITICAL NUMBERS SNAPSHOT

* Revenue: $11.8MM FY21, $13.0MM FY22, $14.1MM FY23 (8.3% YoY growth), forecast $16MM+ FY24; CAGR ~10.8% FY21â€“FY23 (p. 6, 33).

* EBITDA: $1.7MM FY21, $2.2MM FY22, $2.5MM FY23 (14.6% YoY growth), forecast $2.7MM FY24; CAGR ~50.4% FY21â€“FY23 (p. 6, 33).

* EBITDA Margin: Improved from ~15% FY21 to 17.7% FY22 to 18%+ FY23 (exact FY23 margin derived from EBITDA/revenue) (p. 33).

* FCF Conversion: N/A - specific free cash flow conversion not disclosed; question regarding normalized EBITDA to FCF conversion requested.

* Net Debt: Below $1MM as of 7/1/24, comprising SBA loan and capital leases; leases terminating by 2025 (p. 34).

* Customer Concentration: Top 1 customer (Sysco) 36%, top 5 customers ~63% of revenue (p. 23).

* Geographic Mix: Primarily North America with presence across major U.S. metro areas (LA, SF, NY, Chicago, Portland, Houston, Atlanta, Seattle, Hawaii), plus Guam, Saipan, and nascent export markets of New Zealand and Canada (p. 5, 8, 24).

NEXT-STEP QUESTIONS

* What is the detailed free cash flow conversion profile for the last three years and projected for FY24â€“26?

* How sustainable are the FY23 gross margin improvements given raw material inflation risk and ongoing supply chain dynamics?

* Can management provide more granularity on customer contracts and payment terms, highlighting risks around key customer concentration?

* What is the status and scalability plan for the working capital line of credit to support growth plans?

* Details on succession planning and management incentive programs as ownership transitions to external investors?