CIM Two-Page Brief

Transaction Code / Project Name: 4C Capital / Pampanga Food Company
Date (ISO-8601): 2024-08-19
Industry / Sub-sector: Specialty Food Manufacturing / Frozen Filipino & Ethnic Foods
CIM Effective Period: Historical FY2021â€“FY2023; Forecast FY2024â€“FY2026
Deal Temperature: Warm

EXECUTIVE CAPTION

* Pampanga Food Company (PFC) is the leading North American Filipino frozen food manufacturer with ~70% market share, strong brand recognition, and a projected 13-14% sales CAGR over FY24-FY26. Located in Anaheim, CA, the company operates a 32,100 sq.ft USDA-certified facility with high-quality products and an experienced multi-generational management team driving growth and efficiency (pp. 5-11, 25, 33).

KEY INVESTMENT MERITS (â€œGoodâ€)

* Dominant Market Position: PFC commands over 70% share of the North American Filipino frozen food market with four brands and strong private label presence, serving diverse customers including major distributors, retail chains, military commissaries, and e-commerce (Weee!) (pp. 5, 6, 23).

* Large, Growing Market: The wholesale frozen food market is estimated at $182.7B in 2023, growing steadily driven by demographic shifts, cultural diversity, product innovation, retail and e-commerce expansion, and convenience demand; PFC is well positioned to leverage these trends (pp. 5, 8-9).

* Strong Unit Economics & Improving Margins: FY23 revenue reached $14.1MM, up 8.3% YoY, with gross margins expanding from 29.8% (FY22) to 42.3% (FY23) and adjusted EBITDA increasing 14.6% to $2.5MM, driven by economies of scale, bulk purchasing, lower shipping costs, and increased plant automation (pp. 5, 33).

* Advanced Production Capabilities: State-of-the-art 32,100 sq.ft Anaheim facility housing multiple processing rooms, blast freezers, and modern equipment supports scaling demand; $1MM invested in equipment upgrades over three years, supporting product quality, consistency, and efficiency (pp. 5, 25-27).

* Experienced Management Team: The Reyes family leads with 40+ years of industry experience; CEO Coni Reyes, President Rey Reyes, and COO Anthony Reyes (CFA holder) provide stable, visionary leadership complemented by a loyal, low-turnover staff and capable middle management totaling 100+ years of combined industry knowledge (pp. 8-11, 28-31).

* Favorable Operational Location: Anaheimâ€™s strategic proximity to major ports (Los Angeles, 30 miles), highways (Interstates 5, 10, 91), and airports (LAX 35.4 miles, John Wayne 14 miles) enables efficient raw material import and wide product distribution across US markets and internationally (pp. 9-10, 25).

* Brand & Distribution Moat: Long-established brand reputation, HACCP and USDA certifications, and deep relationships with major distributors (Sysco 36% of sales, Island Pacific 11%) provide resilience against new entrants and competitive pressures (pp. 8-9, 23, 32).

* Robust Product Portfolio & Innovation: Extensive product line of 47 SKUs across four brands including Tocino, Tapa, Sausages, Egg Rolls, and Empanadas serves Filipino and broader Asian and American consumers; new product development and marketing expansion on social media and retail demos increase brand awareness (pp. 18-22, 7, 24).

* Exit Potential: PFCâ€™s forecasted EBITDA growth, expanding gross margins, and market-leading position in a fragmented niche suggest potential for multiple expansion; public peers trade at 13-15x EBITDA multiples while smaller M&A deals average ~9.4x EBITDA (pp. 14).

KEY CONCERNS & DILIGENCE AREAS (â€œBadâ€)

* Customer Concentration: Top customer Sysco represents 36% of revenue; top five customers collectively account for ~63% of sales, signaling concentration risk if key relationships weaken or payment terms shift (pp. 23, 34).

* Market Headwinds & Competition: Although frozen food demand grows broadly, PFC faces increasing competition as mainstream grocery chains broaden ethnic food offerings, pressuring growth and requiring continued product innovation and marketing investment (pp. 5, 8, 13).

* Margin Sustainability Risks: The sharp gross margin jump from 29.8% to 42.3% in one year warrants verification; reliance on reduced input costs and shipping delays easing could reverse; inflationary pressures on raw materials or wages could constrain future margin gains (pp. 5, 33-34).

* Working Capital & Capital Structure: The Company currently lacks a Working Capital Revolving Credit Line; net debt is low ($<1MM SBA loan and capital leases), but future growth will require expanded credit facilities to fund inventory and receivables (pp. 34).

* Regulatory & Compliance Risk: Food manufacturing is highly regulated; although PFC has daily FSIS inspections and annual local health visits and USDA certification, any lapses or changes in food safety regulations could cause operational disruption or product recalls (pp. 13, 25).

* Integration & Scale-Up Risk: Management intends growth via add-on acquisitions and geographic expansion; execution risk exists given the small current scale, with potential challenges in maintaining quality, culture, and operational efficiency across acquisitions (pp. 8-11, 34).

* Limited Independent Financial Audit: Financials have not been CPA reviewed; Quality of Earnings analysis will be needed in due diligence to confirm normalization assumptions and adjustments (pp. 32-33).

* Exposure to Macroeconomic Cycles: While frozen foods are recession-resistant, sudden input price hikes, shipping disruptions, or demand shifts in pandemic recovery phases could temporarily impact performance (pp. 5, 8).

CRITICAL NUMBERS SNAPSHOT

* Revenues (in $MM): FY21 $11.1; FY22 $13.0; FY23 $14.1; FY24F $16.0; 3-yr CAGR FY21-FY24F: ~12.8% (pp. 5, 33).

* Adjusted EBITDA ($MM): FY21 $1.1; FY22 $2.2; FY23 $2.5; FY24F $2.7; 3-yr CAGR FY21-FY24F: ~25.8% (pp. 5, 33).

* EBITDA Margin: FY21 9.9%; FY22 16.9%; FY23 17.7%; FY24F ~16.9% (pp. 5, 33).

* FCF Conversion: Not explicitly disclosed; CapEx averaged $250K-$500K annually with $1MM over 3 years invested in upgrades; no major capex planned near-term (pp. 34).

* Net Debt: Under $1MM (SBA loan + capital leases) expected to amortize by 2025; No working capital line of credit (pp. 34).

* Customer Concentration: Top 1 (Sysco) 36%; Top 5 ~63% combined (p. 23).

* Geographic Mix: Distribution extends throughout US major metropolitan markets and territories (Guam, Saipan); specific region % not disclosedâ€”follow-up recommended (pp. 5, 23).

NEXT-STEP QUESTIONS

* Can management provide audited financial statements or Quality of Earnings reports to validate normalization adjustments and margin improvements? (p. 32-33)

* What contingency plans or alternative customers exist to mitigate customer concentration risk, especially with Sysco? (p. 23)

* What is the anticipated timeline and capital requirements for potential add-on acquisitions or geographic expansions? (pp. 8-11, 34)

* Could management provide a detailed breakdown of revenue by geography and customer segment to better understand market exposure? (p. 23)

* Are any regulatory or compliance issues pending or recently encountered beyond routine inspections? What is the risk profile around food safety? (pp. 13, 25)