

Bardi Co. M&A Industry Publications: Key Trends and Statistics in the Coffee Industry

Prepared by the Bardi Co. research and analytics group.

Why industry research is important for business owners:

Running a business is an incredibly difficult endeavor, and overseeing the myriad of tasks involved with any large-scale operation requires focus, drive, and an unparalleled ability to execute. When a business hits a more mature stage in its lifecycle, or the business owner is considering selling the business for any number of reasons such as lack of succession, it is important to take a step back and gain perspective on the overall industry in which the business is operating.

As a part of our series of research-based publications, Bardi Co.'s *M&A Industry Publications* present an analysis of the industries in which we have particular expertise. We believe that it is important to take a critical look at the overall industry in order to better inform an owner's decision regarding a possible merger or acquisition. By understanding how a company aligns with similar companies in terms of operating metrics and other key factors, a company can better prepare itself for a potential sale and position itself more attractively in the M&A market. For the full-length research report on other relevant M&A topics, please contact us directly at info@bardico.com.

Coffee Industry Snapshot

Key Statistics & Ratios

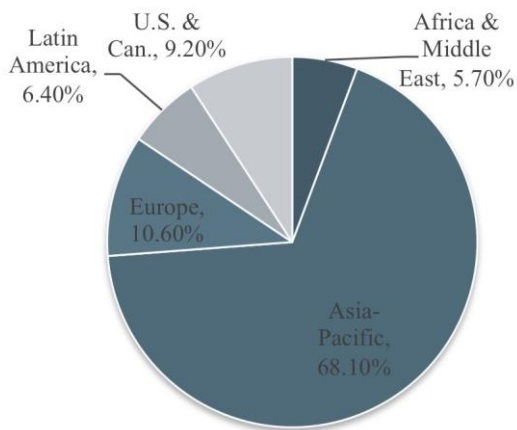
TEV ¹ /Rev:	1.8x
TEV/EBITDA ² :	12.2x
TEV/EBIT ³ :	14.9x
Revenue Growth (3-yr):	4.5%
Profit Growth (3-yr):	1.3%
EBITDA Growth (3-yr):	4.8%

¹ TEV: Total Enterprise Value.

² EBITDA: Earnings Before Interest, Taxes, Depreciation, & Amortization.

³ EBIT: Earnings Before Interest & Taxes.

Industry Geography



Key Industry Trends

Competition in the U.S. coffee industry is fierce, with a handful of brands controlling 85% of the retail market share.

Vertical integration and consolidation are popular trends in the industry, and this is likely to continue for the foreseeable future.

In an effort to integrate vertically and provide quality across all stores, many retail operators have been purchasing roasting companies and facilities. Since 2011, there have been more than 15 reported

transactions involving roasters (a sizeable number of deals are not announced publicly).

Large coffee companies, including J.M. Smucker and Starbucks, are focusing their efforts on mergers & acquisitions to improve their market position in the coffee industry. These larger coffee companies are turning to acquisitions to diversify their operations and extend into other portions of the food and beverage sector.

Changing Global Demands

Consumer Preferences are Evolving

Many consumers frequent Gourmet coffeehouses and cafes that serve specialty drinks because they offer a place where patrons can study, socialize or simply relax.

Coffee drinkers are increasingly choosing higher end roasts, forcing places like McDonald's, Dunkin Donuts, and Tim Horton's to switch to freshly brewed premium coffee.

The Single Cup Coffee Trend

Single cup coffee, originally popularized by Green Mountain coffee's Keurig brewer, is expected to continue its high growth rate.

Single cup coffee sales increased 145% to \$922 million by the end of 2012, up from \$415 million at the close of 2011.

From 2007 to 2012, sales for single cup coffee grew at a CAGR of 79%.

New Factors Set to Influence the Private Label Branding Dynamic

The 2013 expiration of Green Mountain's patent on its signature K-Cups is expected to increase private label branding.

Drops in sales of private label coffee & tea indicate that as the economy recovers, consumer spending on brand names may increase.

Input Costs & Pricing

Input costs reached a notable peak in the middle of 2011, and have since been steadily declining.

Coffee Beans

Coffee bean prices dropped 32% in 2012 in response to expectations of a robust harvest from Brazil.

Retail Prices

A Recent drop in the price of coffee beans has allowed companies to both reduce retail prices and widen margins. Both Kraft and J.M. Smucker lowered retail coffee prices by 6% as of May 2012.

Consumer prices

Overall, consumer prices tend to be somewhat stable despite short-term swings in coffee bean prices due to extensive use of hedging in the coffee industry.

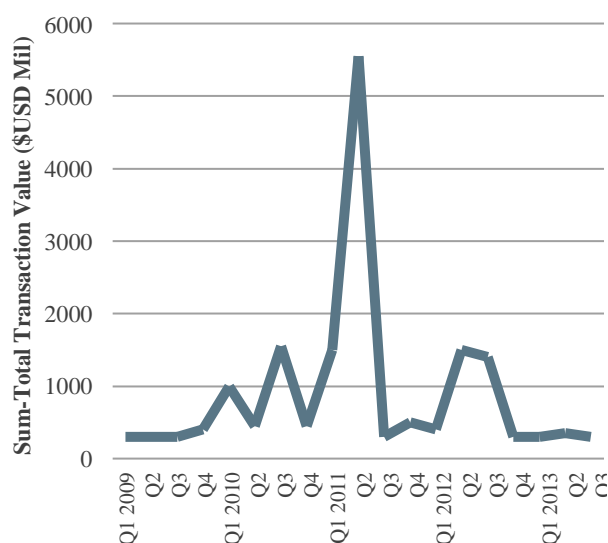
Recent Transactions

The data below summarize transactions in the Coffee Industry. This particular set of graphs is quite telling of the overall M&A environment within this specific industry. The top graph indicates M&A Transaction Size for each stipulated period. A high spike in the graph indicates that one or several unusually large transactions were closed during that period. It is important to note the dollar size of the transactions on the left axis, because this indicates the average industry transaction size. It is important to note that not all transactions have published data; many private transactions do not publish the size of the transaction, so the average is neither comprehensive nor representative of middle market transaction averages.

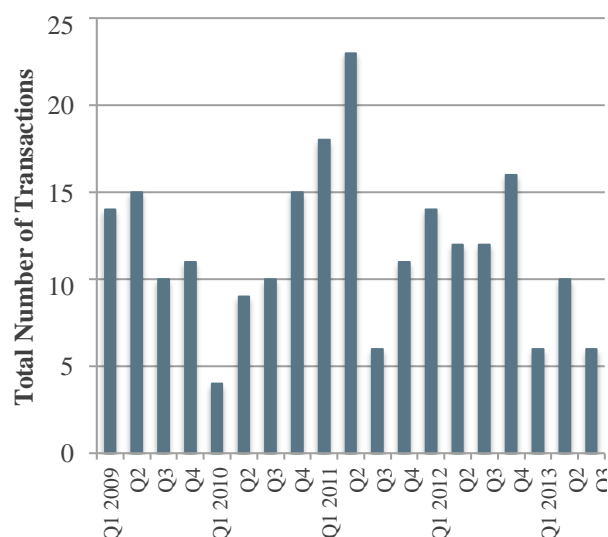
The bottom graph indicates M&A Transaction Volume for each period. This indicates how many overall transactions were closed during each period. A high number shows several acquisitions were completed. While these numbers seem straightforward, a business

owner should interpret this data thoughtfully. In general, a high level of activity in the space is a positive sign that buyers have an appetite for acquisitions in this industry. A low level indicates that it is a 'seller' market, creating an environment where valuations are not compressed by the presence of several similar firms for sale.

M&A Sum-Total Transaction Value by Period, \$USD Millions



M&A Transaction Volume by Period



COFFEE INDUSTRY KEY OPERATING STATISTICS

SELECTED REPRESENTATIVE COMPANIES

Company Name	Margins (%)				Growth – 1 Year (%)				Tot Debt/Cap	LT EPS Growth
	Gross	EBITDA	EBIT	Net Inc	Tot Rev	EBITDA	EBIT	Net Inc		
Coffee Holding Company, Inc.	7.6	2.7	2.4	1.2	18.3	41.1	266.6	212.5	2.3	16.2
Farmer Brothers Co.	37.7	5.3	-1.3	-3.6	1.7	NM	NM	NM	33.0	20.0
Viz Branz Limited	37.7	17.5	15.7	10.5	-3.8	19.8	24.1	15.5	24.7	-
Tata Global Beverages Limited	47.8	10.5	9.1	5.1	10.7	19.6	21.4	4.7	19.8	20.8
PT Ultrajaya Milk Industry & Trading Company Tbk	32.0	21.0	16.9	14.2	31.7	101.3	162.1	212.8	4.5	-
The J. M. Smucker Company	34.6	20.5	16.5	9.2	6.7	8.4	6.8	18.4	28.2	8.9
Green Mountain Coffee Roasters, Inc.	35.0	21.2	16.1	9.7	19.8	32.5	28.1	23.1	13.0	18.9
Kraft Foods Group, Inc.	32.0	18.6	16.1	8.8	-1.5	6.5	3.9	-8.8	72.7	7.2
D.E Master Blenders 1753 N.V.	37.4	14.0	11.3	5.6	0.7	-4.7	-5.6	-26.0	67.8	10.6
Crystal Rock Holdings, Inc.	51.9	9.3	3.3	-27.0	-0.7	-17.4	-28.2	-1333.3	86.6	-

Bardi Co. Industry Report Sources

S&P Industry Reports – Trends, Global Environment, and other key points.

Capital IQ – Key Statistics & Ratios, Industry Search, Industry Transactions, and other data.

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