

Post Holdings' Acquisition of The JM Smucker Company for \$1.2bn

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Division:

Consumer & Retail

M&A Analysts:

Alexander Kozlov

Daniel Ribeiro

Market Analysts:

Aliyan Hussain

Ignacio Paz Garcia

Mats Gadajev

Yadavi Madani



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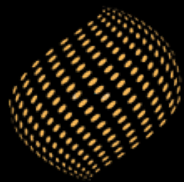
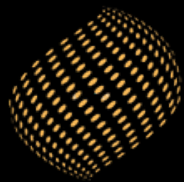


TABLE OF CONTENTS

1	Deal Introduction
2	Industry Overview
5	Acquirer Overview
8	Target Overview
11	Deal Analysis
13	Valuation Analysis
15	Conclusion
16	Glossary

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DEAL INTRODUCTION

DETAILS ABOUT THE DEAL

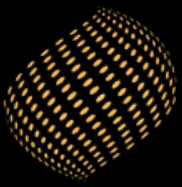
On February 8th, Post Holdings announced it intends to enter the US pet-food market by acquiring several brands from local manufacturer J.M. Smucker in a deal valued at \$1.2bn. SJM stock is 4.7% up since the announcement as of March 16th.

In the friendly bid, Post Holdings has agreed to pay \$700 million in cash and provide around \$500 million worth of new shares of Post common stock (equivalent to about 5.4 million new shares) on a cash-free, debt-free basis to The J.M. Smucker Co. The price is fairly right at 12x EBITDA considering a historically lower-growth area of the pet food business with an operating margin that may be below 5%. But it is probable that in a deal where only cash was involved, the sale price would have been lower. That's why SJM may have accepted a slightly higher valuation in exchange for taking on some degree of risk.

The deal might be quite accretive to SJM's margins, adding nearly 2.4% to the EBIT margin even before any stranded costs or dis-synergies are eliminated. This could be a rare divestiture that's accretive to both the company's longer-term growth rate and EPS.

From Post Holdings' views, the Pet Food Business is anticipated to produce a significant amount of incremental free cash flow while introducing portfolio optimization through long-term, risk-adjusted growth. This will supplement Post's business model which is focused on generating cash and safeguarding its capacity to manage its financial structure.

Barclays and Evercore acted as financial advisors to Post Holdings, while Goldman Sachs served J.M. Smucker. Wachtell Lipton was the main legal advisor of the transaction.



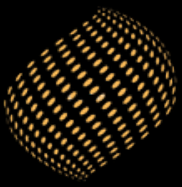
INDUSTRY OVERVIEW

WHAT IS THE INDUSTRY?

- **CPG - consumer packaged goods industry**
- **Acquiring pet-food brand company**
- **Manufacturing, marketing, sales of branded and private label food products**
- **Supplying of value-added products**

MAIN PLAYERS/COMPETITORS

- **Main players: Procter & Gamble, Unilever, L'Oreal, Colgate-Palmolive, Kraft Heinz Co., Siemens, Oracle**
- **Post Holdings: Mondelez International, General Mills, Treehouse Foods, Kellogg**
- **JM Smucker: Nestlé USA, McCormick & Co., Kraft Heinz Co., Danone**



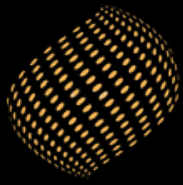
INDUSTRY OVERVIEW

2022 TRENDS

- Overall positive growth in share prices and performance over 2022 but fall in 2023 performance (cost of living, higher supply/energy costs etc)
- Trends towards increased demand for convenient meal solutions, on-the-go options, self-care, homecare
- Big players rushing into deals with competitors and launching new brands
- More private label brands emerging
- Renewed focus on faster and easier options for delivery
- Increased consumer demand for sustainability and clearer brand values
- Expectation from consumers for personalisation in products

FUTURE TRENDS

- Notable emerging markets are Japan and South Korea
- Industry anticipated to rise from 2023-2029 period
- Investors optimistic in this area despite recessionary period
- Feeling effects of Russia-Ukraine war but still optimistic about industry recovery and performance



REASONS FOR M&A

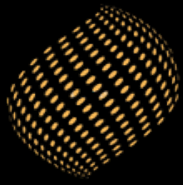
Post Holdings are set to acquire certain Pet Food Brands from The J.M Smucker Co. in a \$1.2 billion deal in an attempt to follow company traditions and expand Post Holdings' portfolio of packaged foods into a new rapidly-growing sector, the pet foods market.

The global pet food market size was valued at USD 90.4 billion in 2020 and is expected to grow at a CAGR of 8.8% from 2023 to 2027. The growing trend of pet humanisation, the increasing awareness of pet health and nutrition, and a transition into organic and premium food products are the major drivers of the pet food industry's growth.

After the deal closes, Post Holdings have stated it will create a new pet food platform within its consumer brand; it is expected to be immediately effective contributing \$100 million of adjusted EBITDA in its first 12 months.

An acquisition of J.M Smucker creates synergies through operational efficiencies and cost savings, as both companies operate in a similar market. In essence, due to the overlap in the production of human and animal foods, Post Holdings can increase purchasing power, amalgamate production, and stack supermarket shelves with an increased number of products.

Mark Smucker, CEO of J.M. Smucker stated this transaction will 'streamline operations' and 'prioritise resources into areas of the business with the strongest profit and growth potential'; this follows a similar ideology of firms like Pepsi Co and Nestle, who have divested billion-dollar brands to help prioritise resources and focus on other faster-growing products.



ACQUIRER OVERVIEW

TICKER: POST

POST HOLDINGS

Post Holdings is an American consumer packaged goods firm, originally founded in 1895 as a breakfast cereal manufacturer.

With \$5.85b in total revenue in FY2022, Post Holdings generates revenue through its several primary business segments.

- **Post Consumer Brands;** consists of a wide portfolio of America's most popular breakfast cereals, such as Shredded Wheat, Fruity Pebbles and Honey Bunches of Oats. As Post Holdings' largest revenue source, generating \$2b in FY2020, these cereal brands capture 20% of the Ready To Eat (RTE) cereal market.
- **Weetabix Brands;** consists of the famous 'Weetabix' brand, and its sub-brands such as Alpen and UFIT Protein Drinks. As of 2023, Weetabix was the #1 cereal brand in the UK.
- **Foodservice;** consists of Post Holdings' value-added egg and potato business, producing and distributing through America's largest supplier, Michael Foods.



POST HOLDINGS (CONTINUED)

- **Refrigerated Retail; consists of frozen dinner products ranging from Macaroni and Cheese and Mashed Potatoes. As of 2023, Post Holding's subsidiaries were the #1 selling frozen dinner provider in America.**

Post Holding operations are likened to that of a private equity firm, acquiring well-established brands with strong market positions that complement their existing portfolio; previous acquisitions of Michael Foods, MOM Brands, Weetabix and Bob Evans Farms have been successful in leveraging Post Holdings' strong distribution network reputation, and patience to grow brands.

The company is well-positioned to continue its growth through a combination of organic growth and strategic acquisitions focused on expanding Post Holdings' presence in other packaged-food sectors.



Source: Freepik



TARGET OVERVIEW

JM SMUCKER COMPANY

Ticker: SJM

The J.M. Smucker Company is a consumer goods company that produces and sells various food and beverage products globally. The company operates through four main segments: U.S. Retail Coffee, U.S. Retail Consumer Foods, International, and Away From Home.

The company has an established ESG framework that includes commitments to sustainability, responsible sourcing, and reducing its environmental impact.

The company's sustainable sourcing efforts include investing in programs that promote sustainable farming practices and working with suppliers to ensure responsible sourcing of ingredients.

J.M. Smucker Company is also committed to reducing waste and greenhouse gas emissions in its operations through initiatives such as using renewable energy sources and reducing packaging materials.



BUSINESS MODEL

The J.M. Smucker Company's business model centres on product innovation and quality across various food and beverage categories.

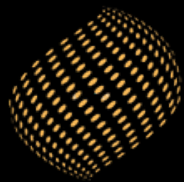
The company's portfolio includes leading brands sold through multiple distribution channels, including grocery stores, mass merchandisers, and e-commerce platforms.

The company's innovation efforts involve developing new products and enhancing existing ones to meet changing consumer preferences and market trends.

J.M. Smucker Company's product quality initiatives include rigorous testing and quality control processes to ensure consistency and safety.

The company's distribution channels allow it to reach a broad range of consumers through various retail and online platforms.

J.M. Smucker Company's e-commerce efforts involve leveraging digital technologies to enhance customer experiences and increase online sales.



ESG PRACTICES

The J.M. Smucker Company is dedicated to sustainability and has set ambitious environmental goals to reduce greenhouse gas emissions, water use, and waste. The company's goals include reducing greenhouse gas emissions by 50% by 2030 and sending zero waste to landfills by 2020.

J.M. Smucker Company's sustainable sourcing initiatives also include investing in programs that support farmers and communities to improve their livelihoods and protect natural resources.

In terms of social responsibility, the company is committed to diversity and inclusion and has received recognition for its efforts in this area.

In 2020, the company was named to the Forbes list of America's Best Employers for Diversity and received a perfect score on the Human Rights Campaign Foundation's Corporate Equality Index.

The company also supports various community initiatives, including donating food to food banks and supporting disaster relief efforts.

KEY FINANCIALS

Revenue: \$8.2 billion

Market Cap: \$14.7 billion

EBITDA: \$1.5 billion

EBIT: \$1.3 billion

Net income: \$972 million

Market Share: 3.2%

P/E Ratio: 15.85

Share Price: 156.46 (28th of March)



DEAL ANALYSIS

STRENGTHS

- JM Smucker's strong free cash flows provide resources for company expansion into new projects / gives financing for Post Holdings product diversification
- Acquisition gives Post Holdings access to strong base of JM's reliable suppliers of raw materials → overcome supply chain bottlenecks
- JM investing heavily into training and development programmes for its employees → gives Post Holdings access to skilled and motivated workforce

WEAKNESSES

- Spending on training costs in addition to high attrition rate at JM could pose high costs for Post Holdings in acquisition
- JM has below average profitability ratio and net contribution
- Will need to compensate for JM's lower ability at product demand forecasting (has lead to higher rate of missed opportunities than competitors which has lead to JM having to keep higher in-house/in-channel inventories)



DEAL ANALYSIS

OPPORTUNITIES

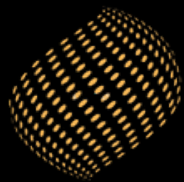
- New technologies for product differentiation and access to new markets
- Increased consumer base from online channels and increase in e-commerce
- Opportunity for new environmental policies and ESG initiatives to meet consumer demands and trends

THREATS

- Intense competition in industry due to increased players - downward pressure on profitability and sales
- Consumer shift towards online-shopping could pose threat to existing infrastructure and supply chain model
- Liability laws in different countries could pose threat to JM and Post Holdings if wish to expand to different global markets (could incur costs and red-tape inefficiencies)



Source: Freepik



VALUATION ANALYSIS

DISCOUNTED CASH FLOW (DCF) ANALYSIS

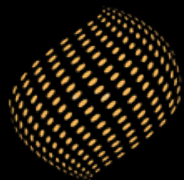
Enterprise Value (NPV)	16,406
+ Cash and Cash Equivalents	170
- Preferred Stock	-
- Minority Interest	-
- Debt and Capital Lease	4,468
Equity Value	12,108
Implied Share Price	111.60

[Please click on the table to access full model.](#)

In the DCF Analysis, JM Smucker's share price was estimated through the projection of **free cash flows**, from which the enterprise and equity values were estimated, arriving at the implied price per share.

As seen in the table above, the DCF analysis estimated an enterprise value of \$16.4bn, resulting in an implied share price of \$111.60. This valuation would suggest that Post Holdings paid a significant premium in the acquisition, considering it paid \$156.46 per share.

In the DCF, a **sensitivity analysis** was also conducted, in which the implied share price of JM Smucker can be seen with varying figures of the **Terminal Growth Rate (TGR)**, and the **Weighted Average Cost of Capital (WACC)**.



VALUATION ANALYSIS

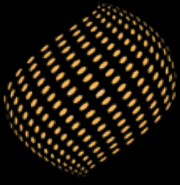
COMPARABLE COMPANIES ANALYSIS (CCA)

	Low	High
Selected EBITDA Multiple:	12.69	19.41
Implied Enterprise Value	19,686.85	21,333.86
Net Debt	(4,303.7)	(4,303.7)
Implied Equity Value	15,383.15	17,030.16
Equity Value per share	144.31	159.76
Premium / (Discount) %	8.42%	-2.06%
JM Smucker Share Price Offer	156.46	156.46

Based on the comparable company analysis (CCA), JM Smucker's **valuation multiples** appear to be in line with the comparable group of companies chosen. Out of the 10 comparable companies, the focus was to obtain a range of close competitors within JM Smucker's lines of business, resulting in similar **EV/EBITDA** multiples.

As a result, the low and high EBITDA multiples were chosen to be 12.69x and 19.41x, giving the implied enterprise values of \$19,687m and \$21,334m, respectively.

At the end of the valuation, the implied share price was found to be between \$144.31 and \$159.76, in line with the share price offer of \$156.46. Thus, the CCA analysis suggests that the company was acquired at a fair price, within a range of 8% **premium** and 2% **discount**.



CONCLUSION

In conclusion, if Post Holdings were to acquire JM Smucker Company, it could potentially result in a significant consolidation of the food and beverage industry.

The acquisition could provide Post Holdings with access to JM Smucker Company's well-known brands and product lines, while also allowing for greater efficiencies and cost savings through economies of scale.

However, the success of the acquisition would depend on several factors, including the execution of the integration plan and the ability to maintain the quality and reputation of JM Smucker Company's products.

Ultimately, the acquisition could lead to increased shareholder value for Post Holdings, while also positioning the company for long-term growth in a competitive market.



Source: Freepik



GLOSSARY

Equity Value: Total value of a publicly traded company's outstanding common shares owned by the stockholders.

EV/EBITDA: Enterprise Value 'Multiple', gives insight into the value of companies against their cash earnings less their non-cash expenses.

Free Cash Flow: Cash generated by company after accounting for its operating and capital expenditures.

Premium (Discount): increased (decreased) amount paid per share in comparison to the share price at the time of the M&A transaction, often presented as a percentage.

Sensitivity Analysis: The analysis of how a change in assumptions (inputs) can impact the output of a financial model.

Terminal Growth Rate: A growth rate that a company is expected to grow at forever based on the market and industry conditions.

Valuation Multiples: Financial tool providing one metric as a ratio of another; often used to compare similar companies.

WACC: Cost of capital used to represent a firm's after-tax costs from all resources.

