



A McLean Group Whitepaper

California Food Processing: A Powerhouse of Value

By Neil Paschall
2011

TABLE OF CONTENTS

INTRODUCTION..... 3

I. MERGERS AND ACQUISITIONS IN THE US 3

 A. FOOD INDUSTRY M&A..... 3

 B. FOOD PROCESSING M&A..... 4

 C. FRUIT & VEGETABLE PROCESSOR M&A 5

 D. FOOD INDUSTRY M&A TRENDS AND IMPACT 6

 E. PUBLIC COMPANY COMPARABLES 7

 F. US FOOD INDUSTRY M&A CONCLUSIONS 9

II. CALIFORNIA FRUIT & VEGETABLE FOOD PROCESSING 9

III. CALIFORNIA FOOD/FRUIT & VEGETABLE VALUES 11

IV. CALIFORNIA FRUIT & VEGETABLE MANUFACTURING PROCESS FLOW 13

V. CALIFORNIA FRUIT & VEGETABLE MANUFACTURING EMPLOYMENT 15

VI. CALIFORNIA COMMODITIES PRODUCTION AND VALUE 16

VII. CALIFORNIA AGRICULTURAL EXPORTS..... 18

VIII. CONCLUSION..... 19

IX. REFERENCES 20

INTRODUCTION

This report will address California's Fruit & Vegetable Food Processing Industry, a Food Industry subsector that historically has driven towards greater efficiency while continuously increasing the economic value realized over the past decade and reducing the relative labor required. Increased per capita productivity reflects significant investments in machinery, technology and proactive coordination with growers. M&A activity has generated increased efficiencies as well. The US Department of Agriculture recently conducted a study of M&A activity's effect on efficiency and the creation of synergies in food manufacturing companies and concluded:

This study used plant-level data consisting of all plants surveyed in the Census of Manufacturers to examine whether mergers and acquisitions in food manufacturing were efficient and, if so, whether the resulting combinations yielded synergies. We evaluated labor productivity, a measure of efficiency, before and after M&As over two merger periods and found that acquired plants were highly productive before their mergers and became more productive afterward. These results lead us to conclude that since labor productivity grew, M&As were efficient, and since acquired plants had high labor productivity before their mergers, M&As yielded synergies.¹⁷

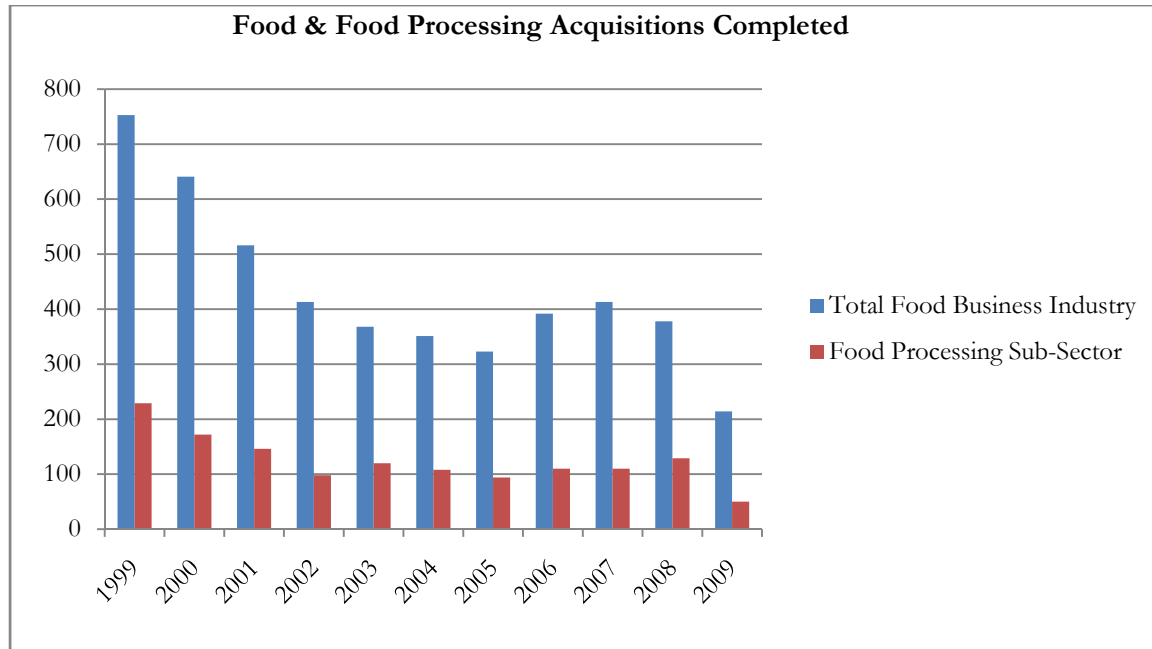
We will profile the Fruit & Vegetable Food Processing subsector in California as a component of the larger food sector and as a component of the total Food Processing Industry in California. We begin with a look at mergers & acquisitions within the entire US Food Industry sector.

I. MERGERS AND ACQUISITIONS IN THE US

A. FOOD INDUSTRY M&A

Closed US Food Industry M&A activity declined 43.9% from 378 transactions in 2008 to 214 transactions in 2009.¹⁶ In the wake of the 2008 recession, a severe constriction in available capital significantly impacted M&A activity as private equity groups (PEGs) moved to the sidelines and strategic players became the dominant force in closed M&A transactions. In 2007, PEGs accounted for 96 out of 413 closed M&A transactions. In 2008 and 2009, respectively, PEGs accounted for 48 out of 378 and 38 of 214 transactions.

From 1997 to 2008, the US Food Industry as a whole generated an average of 508 M&A transactions annually (1998's 813 closed transactions and 2005's 323 deals completed reflected M&A activities' peak and trough for the period).¹⁹



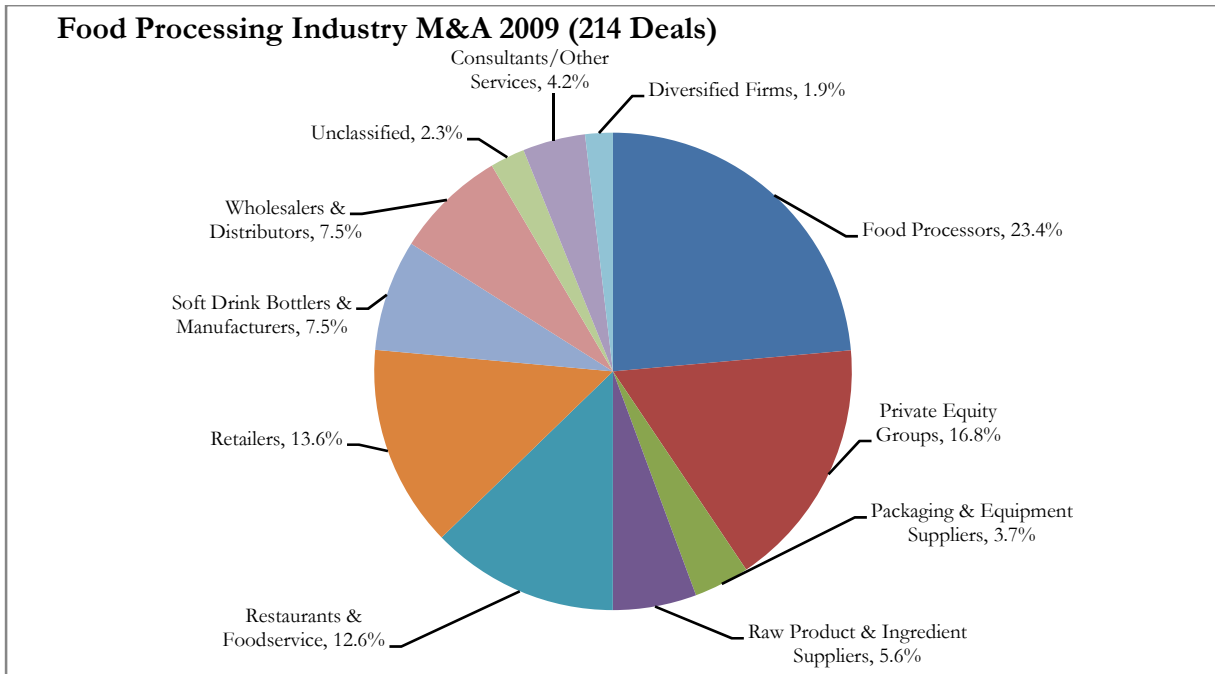
Source: The Food Institute

B. FOOD PROCESSING M&A

In 2009, closed Food Processing Industry M&A transactions accounted for 50 of 214 Food Industry deals or 23.4%.¹⁶ Private equity groups accounted for 16.8% of closed M&A transactions while retailers accounted for 13.6% and restaurants & foodservice generated 12.6%. Food Processing subsector M&A closed deals averaged 144 annually from 1997 to 2008, with 230 deals completed in 1998 (peak) and 94 deals closed in 2005 (trough).¹⁹

Closed US Food Industry M&A in the US declined 43.9% from 378 in 2008 to 214 in 2009.¹⁶

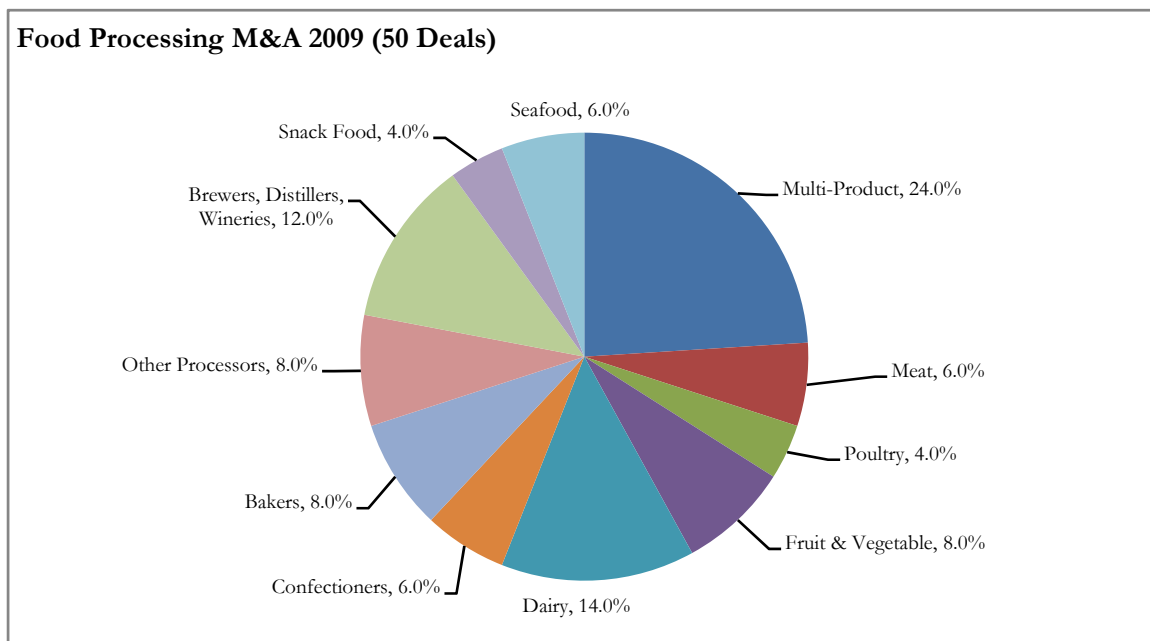
From 1997 to 2008, M&A transactions in the US Food Industry averaged 508 annually, with a high of 813 deals in 1998.¹⁹



Source: The Food Institute

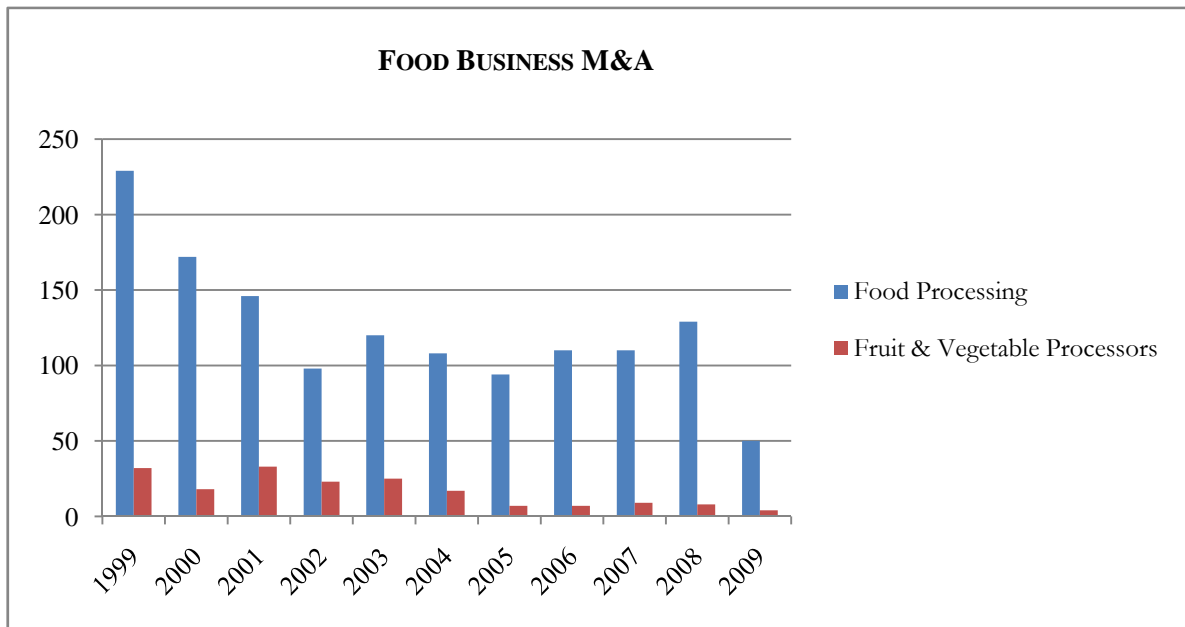
C. FRUIT & VEGETABLE PROCESSOR M&A

Fruit & Vegetable Processors accounted for 8% of the Food Processing M&A transactions completed in 2009, with 4 out of 50 deals.¹⁶ Multi-Product Food Processors generated 12 of those 50 deals, or 24%, followed by Dairy with 7 deals (14%) and Brewers, Distillers and Wineries with 6 deals (12%).



Source: The Food Institute

In 2009, Fruit & Vegetable Processors closed the fewest M&A deals of the decade. Only one California Fruit & Vegetable processor, Driscoll’s Strawberry Associates of Watsonville, CA, was involved in one of the 4 M&A deals completed in the Fruit & Vegetable Processor subsector in 2009 by increasing its investment and shareholdings of Driscoll’s of Santiago, Chile. From 1999 to 2008, M&A activity in the Fruit & Vegetable sector averaged 18 deals annually, with 33 deals closed in 2001 (peak) and 7 deals closed in 2005 and 2006 (trough).¹⁹



Source: The Food Institute

D. FOOD INDUSTRY M&A TRENDS AND IMPACT

Despite the decline in Food Industry M&A activity in the past 10 years, a consolidation trend has arisen in the industry. The US Organic Food Processing sector’s rapid growth and high profit margins have caught the attention of most of the largest and nationally branded companies. The 2002 implementation of the US national organic standard replaced a patchwork of differing state and regional organic standards, thus facilitating increased involvement by larger firms. The largest US Food Industry companies employ two methods of entry to the organic market: horizontal integration (buying and merging organic processors) or concentric diversification (internal introductions of organic brands). By 2007, one half of the North American Food Processing Industry’s 30 largest firms had acquired organic brands within the past decade.¹⁸

Food Manufacturing Company	Number of Organic Companies Acquired (1997-2007)
Cargill	22
Heinz	20
Kellogg	4
Dean	4
JM Smucker	3
Swift & Co.	3
Danone	2
General Mills	2
ConAgra	2
Kraft	2
M&M Mars	1
Cadbury	1
Hershey Foods	1
Nestle	1
Coca-Cola	1
Pepsi	1

Source: Organic Food Processing Studies

Food Industry and, in particular, Food Processing subsector M&A have a significant impact on the production and market of their products. When larger firms with massive multi-national production and distribution chains begin acquiring Food Processing companies that produce such specialized products as organic foods, they maximize the availability of such foods market-wide by introducing the specialized food to national and global markets where people otherwise would have had little access to them. Buyouts of organic or specialty brands by transnational corporations also tend to lower prices of the specialized products while increasing the amount of farmland converted to organic or specialized production.

E. PUBLIC COMPANY COMPARABLES

Evaluating a private business based on valuations of similar public companies can provide useful market multiples that in turn are used to generate a market value of a private business. We chose the following public companies that were representative of the broad range of businesses operating in the Food Industry to establish our comparables. These public companies also are comparable in size to the middle market in which The McLean Group specializes. The following chart presents select Food Industry public companies' size, leverage, liquidity, profitability and growth to establish Revenue and EBITDA multiples that can be used to calculate potential ranges of value for private Food Industry firms.

Buyouts of organic food products increase the availability, decrease the prices, and increase the amount of farmland converted to organic food cultivation and production.

Company	Enterprise	LTM	EBITDA	EV / LTM		EV / FY10		Proj. EBITDA Growth		Cash	Assets	Net Debt	Book Value
	Value	Revenue	Margin	Rev	EBITDA	Rev	EBITDA	FY10	FY11				
Food Business													
Alico Inc.	227.9	78.9	13%	2.9x	22.3x	NA	NA	NA	NA	19.4	203.6	619	109.1
Bridgford Foods Corp.	102.1	122.2	8%	0.8x	10.9x	NA	NA	NA	NA	16.1	59.5	-16.1	33.8
Calavo Growers Inc.	3216	372.1	7%	0.9x	117x	0.8x	10.3x	25.90%	45.40%	14	145.1	11	88.9
Cal-Maine Foods, Inc.	616	912.9	16%	0.7x	4.2x	0.7x	7.2x	-43.70%	-13.90%	170	609.7	-53.8	380.4
Chiquita Brands International Inc.	1,093.70	3,401.60	4%	0.3x	7.4x	0.3x	5.7x	-7.30%	7.20%	139.2	2,076.30	500.2	743.2
High Liner Foods Inc.	256.5	556.2	8%	0.5x	6.1x	0.4x	5.7x	2.10%	2.10%	6.5	265.1	71.7	134.6
Inventure Foods, Inc.	816	124.2	10%	0.7x	6.9x	0.6x	6.7x	15.50%	35.80%	1.3	74.8	16.1	35.5
J&J Snack Foods Corp.	716.2	679	15%	1.1x	6.8x	1.0x	6.6x	14.80%	19.10%	54.3	467.2	-54	365.3
Overhill Farms Inc.	84.1	198.6	9%	0.4x	4.8x	NA	NA	NA	NA	4.7	65.8	9	37.8
Smart Balance, Inc	284.8	238	9%	1.2x	13.3x	1.2x	8.5x	100.50%	113.50%	3.5	440.3	49.5	314.5
Tasty Baking Co.	1719	174.1	6%	1.0x	16.8x	1.0x	NA	NA	83.10%	0	197.2	114.9	21
Low	816	78.9	4.4%	0.3x	4.2x	0.3x	5.7x	-43.70%	-13.90%	0	59.5	-54	21
Mean	359.67	623.44	9.6%	.95x	10.1x	.75x	7.25x	15.40%	36.5%	37.85	418.60	64.58	205.83
Median	256.5	238.0	9%	0.8x	7.4x	.75x	6.7x	15%	27.45%	6.5	203.6	16.1	109.1
High	1,093.70	3,401.60	16%	2.9x	22.3x	1.2x	10.3x	100.50%	113.50%	170	2076.3	500.2	743.2

Public company valuations reflect the readily marketable nature, or liquidity, of their underlying publicly-held securities. Liquidity constitutes a significant factor in public company valuations. To adjust for the relative lack of liquidity of privately-held companies, we apply a lack of marketability discount to the public company multiples. The average discount derived from empirical studies falls between 20% and 40%. For most privately-held Food Industry companies, a mid-range discount of 30% from comparable public company valuations is appropriate.

Food Business					
Size & Liquidity Discount (30%)					
		EV / LTM		EV / FY10	
		Rev	EBITDA	Rev	EBITDA
Min		0.2x	2.9x	0.2x	3.9x
Mean		0.66x	7x	0.52x	5x
Median		0.56x	5.2x	0.52x	4.7x
Max		2.9x	15.6x	.84x	7.21x

The resulting mean average private company valuation multiples are: 7.0x trailing EBITDA; .66x trailing revenue; 5.0x forward EBITDA, and 0.52x forward revenue.

F. US FOOD INDUSTRY M&A CONCLUSIONS

The current economic recession has reduced M&A activity throughout the entire Food Industry, the Food Processing Industry and the Fruit & Vegetable Processing Industry. Completed deals fell to 12-year lows in 2009 for each industry and subsector respectively. However, by driving the industry to aggressively: reduce costs; access new and expanded markets; enhance margins, and create operating synergies, the recession has helped companies throughout the industry become leaner, more efficient and potentially far more profitable as the economy recovers, making these companies more attractive as acquisition candidates even as a pent-up demand for M&A continues to build. This pent-up demand, combined ongoing industry-wide productivity gains and consolidation in the organic and specialized markets, should help increase overall M&A activity to levels realized before the arrival of 2008's recession. We expect to see M&A activity increase significantly among the 5,500 California companies directly involved in Food Processing and Manufacturing as well as the thousands of additional California companies that support the industry by providing equipment, products and services.

II. CALIFORNIA FRUIT & VEGETABLE FOOD PROCESSING

The Fruit & Vegetable Preserving and Specialty Food Manufacturing Industry (NAICS 3114) consists of companies that process fruits and vegetables or manufacture specialized fruit or vegetable products. Industry practices include canning, freezing, juicing, specialty, drying, dehydrating and pickling manufacturing processes. This industry classification includes both Primary Food Processors and Food Manufacturers.

The California Fruit & Vegetable Manufacturing Industry accounts for just over 20% of total US Fruit & Vegetable Manufacturing in terms of output, value-added and employment.⁷

2008 Food Processing Industry (\$MM)	CA Output	US Output	CA/US Output	California Value-Added	US Value-Added	CA/US Value-Added	California Employees	US Employees	CA/US Employees
Fruit & Vegetable	\$13,150	\$63,187	20.8%	\$5,797	\$28,045	20.6%	34,861	167,691	20.7%

Source: US Census Bureau

California’s Fruit & Vegetable Manufacturing Industry employs just over 22% of California’s Food Manufacturing workforce. Fruit & Vegetable Manufacturing also generates nearly 20% of California’s total Food Manufacturing output. California Fruit & Vegetable Manufacturing output was valued at \$13.1 billion, second only to California Dairy which was valued at \$14.1 billion. The Value-Added of California Fruit & Vegetable Manufacturing was \$5.8 billion, second only to Other Food Manufacturing which itself includes snack foods and other foods with typically high margins. Fruit & Vegetable Manufacturing accounts for 34,861 permanent jobs in California, second only to California Bakeries which include many localized smaller operations with labor devoted to the business’ services aspect.

CA Food Processing Sub Sector 2008	Establishments	CA Output (\$MM)	CA Value-Added (\$MM)	CA Employees	Share of CA Output	Share of CA Value-Added	Share of CA Employees
Fruit & Vegetable	225	\$13,150	\$5,798	34,861	19.8%	21.7%	22.2%
Dairy	211	\$14,068	\$3,031	16,129	21.2%	11.4%	10.2%
Other Food Manufacturing*	536	\$12,940	\$6,616	29,363	19.4%	24.7%	18.6%
Animal Slaughter /Seafood	590	\$8,890	\$3,412	24,276	13.4%	12.7%	15.4%
Bakeries	1,364	\$6,529	\$3,829	37,506	9.8%	14.4%	23.8%
Grain & Oilseed	112	\$4,903	\$1,675	4,106	7.4%	6.2%	2.7%
Animal Food	132	\$3,487	\$1,209	4,549	5.2%	4.5%	2.8%
Sugar & Confectionary	242	\$2,538	\$1,155	6,795	3.8%	4.4%	4.3%
Totals (rounded up)	3,412	\$66,505	\$26,725	157,585	100%	100%	100%

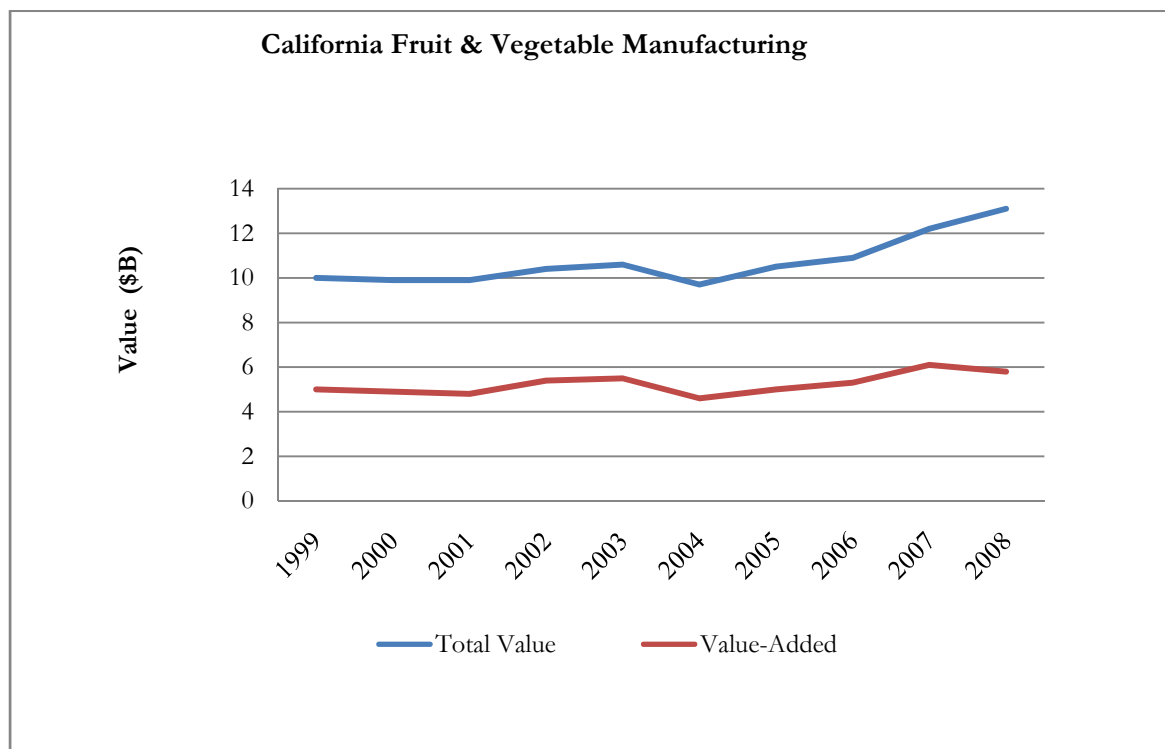
*Snack foods, nuts, coffee and tea, syrups, seasonings, dressings, spices and all other miscellaneous perishables.

**Due to changes in NAICS classification, Beverages & Tobacco Manufacturing is no longer included in Food Manufacturing, but is its own sector and consequently excluded from the table and respective computations.

III. CALIFORNIA FOOD/FRUIT & VEGETABLE VALUES

From 1997 through 2004, the annual total value produced by the California Fruit & Vegetable Manufacturing Industry remained relatively flat compared to 1997 through 2008’s 40.3 % growth trend, moving from \$9.3 billion to \$9.7 billion respectively. However, an increase in international demand coupled with favorable California farming conditions, increased manufacturing output capacity, and higher final product prices have pushed the yearly Total Value upwards since 2004, to \$13.1 billion in 2008.⁷

Value-Added is the difference between the manufacturer’s total processing costs (inputs, labor, machinery, energy) and the total value of their finished products. Value-Added for California Fruit & Vegetable manufacturers followed the slow growth of total value from 1997 to 2004, moving from \$4.4 billion to \$4.6 billion respectively. Value-Added also followed the increased upward trend of Total Value from 2004 until 2008, when skyrocketing energy and commodity (raw food) costs caused the Value-Added to decrease while Total Value continued to increase.⁷



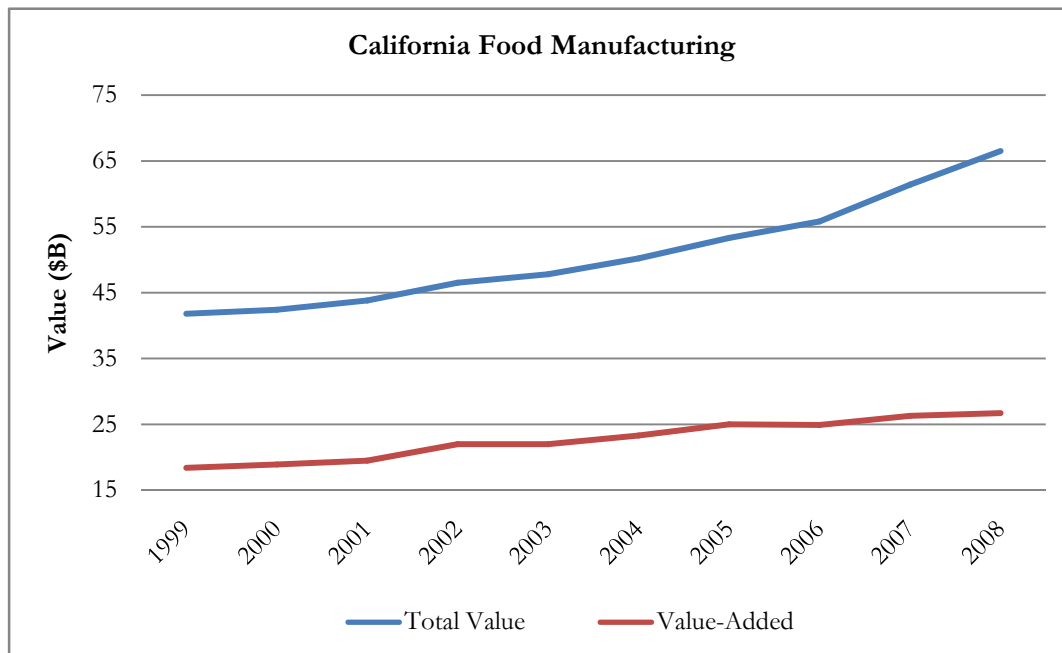
Source: US Census Bureau

Total Value for California Fruit & Vegetable Manufacturing has grown 40.3 % from 1997 to 2008 while Total Value for California Food Manufacturing grew 68.2 %.
- Annual Survey of Manufacturers

Increasing energy costs, which have a compounding effect, have eroded Value Added in Food Manufacturing, especially for California Fruit & Vegetable Processors.
-Bureau of Economic Analysis

By comparison, the Total Value of all California Food Manufacturing (NAICS 311) has been growing at a more accelerated pace for the past eleven years. From 1997 to 2008, the Total Value of California Food Manufacturing had a growth rate of 68.2% with an average annual growth rate of 6.2%, growing from \$39.5 billion in 1997 to \$66.5 billion in 2008.⁷ However, the growth rate from 2003 to 2008 increased to 7.8% per year. While international demand has helped increase the growth rate recently, most of the increase is due to the higher prices received for Food Manufacturing products.

The Total Value-Added of all California Food Manufacturing has increased steadily over the past eleven years with minor but consistent growth. The Value-Added of all Food Manufacturing in California grew from \$16.6 billion in 1997 to \$ 26.7 billion in 2008, a 60.6 % increase.⁷ Rising energy and raw food commodity input costs have outpaced the increase in demand and the value of the products produced, especially from 2006 to 2008.



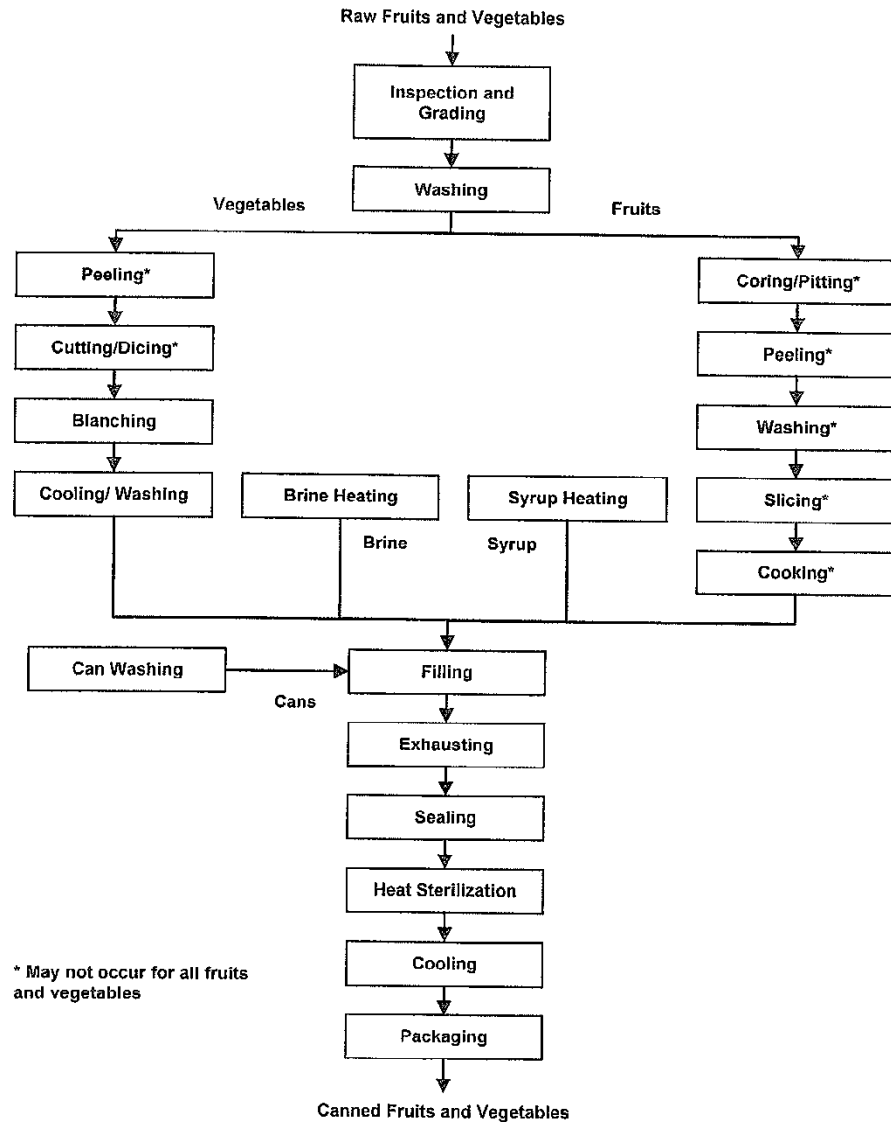
Source: US Census Bureau

Energy costs have increased across the board for the Food Industry. Natural gas, electricity and fuel have directly affected the processors and manufacturers as well as the growers; which in turn increases the costs of raw food inputs for processors and manufacturers. Increased energy costs also raise the price of other products like glass and plastic containers and transportation, which adds to the compounding effect and further erodes the Value-Added for Food Processors and Manufacturers. Population increases have offset the decline in domestic per capita demand for processed fruits and vegetables, creating a kind of stagnant demand. The increase in Value has come entirely from increasing Food Products' prices. In an effort to combat this leveled demand, Food Manufacturing Companies have invented new ways to add value to their final products in an effort to stay competitive while increasing margins for the whole industry.

IV. CALIFORNIA FRUIT & VEGETABLE MANUFACTURING PROCESS FLOW

The diagram provided on the following page represents the general process flow employed by the Fruit & Vegetable Manufacturing Industry. While the diagram is not necessarily comprehensive and does not include all of the processes employed in the processing of all Fruit & Vegetable products manufactured, the diagram is representative of the major process flow steps required to produce most Fruit & Vegetable Manufacturing products. The process flow diagram highlights various intricacies of the transformation of raw fruits and vegetables into the various products brought to market by the industry. The diagram provided focuses on canning as the end result because the Fruit & Vegetable Manufacturing Industry's canning subsector (NAICS 311421) is the industry's largest economic contributor by a significant margin, accounting for nearly half of total industry value.¹²

FRUIT & VEGETABLE MANUFACTURING INDUSTRY PROCESS FLOW



* May not occur for all fruits and vegetables

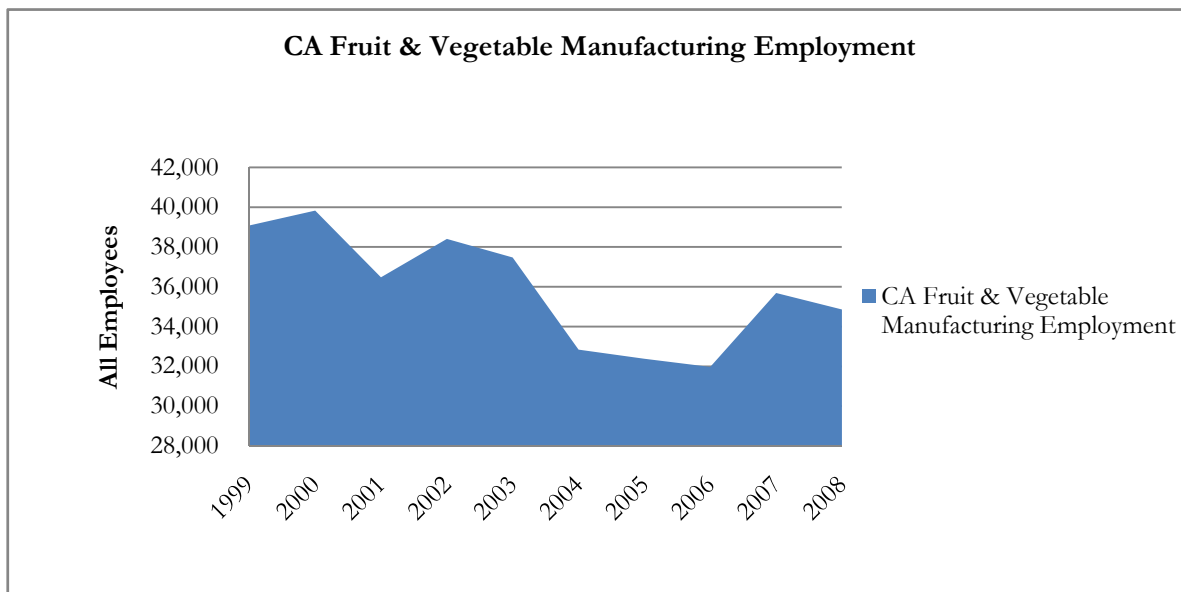
Source: Lawrence Berkeley National Laboratory

The processes diagrammed above, requiring special machinery and laborers, support an entire industry devoted to the individual processes. The vast array of manufacturing processes and their complementary and supplementary industries in large part drive the Food Manufacturing Industry's high 'job multiplier.' A 'job multiplier' is the factor by which an individual industry's impact on the entire economy's overall employment can be gauged. The US Bureau of Economic Analysis uses a final-demand employment multiplier of 5.5 for the Food Manufacturing Industry.¹ A 5.5 final-demand employment multiplier indicates that the demand for Food Manufacturing products can either increase or decrease full time jobs in California and US regional economies by 5.5 for every incremental \$1 million change in output demand. By way of comparison, the farming and

agricultural industry, construction industry and motor vehicles and equipment industry respectively boast job multipliers of 2.1, 2.3 and 1.8.¹³

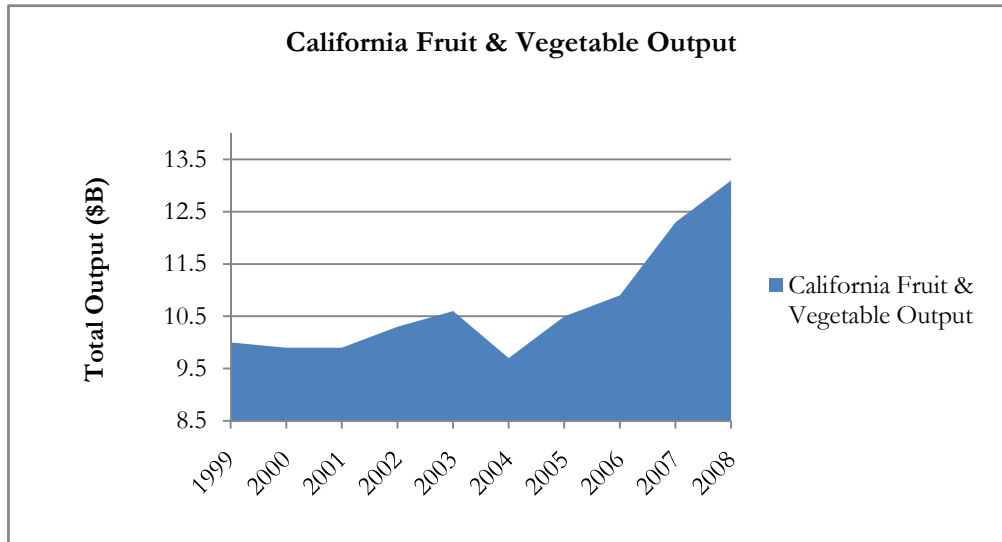
V. CALIFORNIA FRUIT & VEGETABLE MANUFACTURING EMPLOYMENT

California’s permanent Fruit & Vegetable Processing subsector manufacturing jobs have declined over the course of the last eleven years. Increases in Fruit & Vegetable Manufacturing output have reflected employees’ greater per capita productivity and increased mechanization of production capacity arising from significant investments in harvesting and processing technologies combined with increased coordination with growers. Efficiencies arising from increased automation have generated steady declines in California Fruit & Vegetable Processing employment by decreasing the need for manufacturing plant floor employees.⁵



Source: US Census Bureau

At the same time, the value of California Fruit & Vegetable Manufacturing output has grown steadily. Fruit & Vegetable Processors and Manufacturing companies have incorporated cutting edge innovations into their businesses to diversify Fruit & Vegetable food product offerings beyond traditional offerings while creating alternative packaging methods for the food products. These methods have helped increase jobs in the respective supporting industries, as estimated by the BEA final-demand employment multiplier, which helps soften the coinciding decrease of California Fruit & Vegetable Manufacturing employees.⁶



Source: US Census Bureau

VI. CALIFORNIA COMMODITIES PRODUCTION AND VALUE

California is the nation’s sole producer (99% or more) of 12 specialty crops, including clingstone peaches, figs, persimmons, raisins, artichokes, dried plums, olives and pomegranates.⁴ These specialty crops tend to have relatively small production volumes in tonnage. California also produces 96% of total US tomato production or approximately 32% of global tomato production.³ California’s agricultural abundance includes 400 different commodities, with the top 10 exceeding \$1 billion in value for 2007. Fruit & Vegetable cultivation account for 9 of the 20 most valuable agricultural commodities produced in California.

It is especially important that Fruit & Vegetable Manufacturing companies locate their operations in close proximity to geographic regions where their raw food inputs are cultivated. This facilitates easier negotiations of the growing contracts between growers and processors while also promoting the flow of information sharing between growers and processors during the season (thereby affording processors better response time in the event any production adjustments must be made.) Fruits and vegetables can be allowed to fully vine ripen before being harvested when transportation time and distance is small enough to mitigate spoilage. This maximizes the freshness, quality and nutritional value of those fruits and vegetables that comprise processed end products and makes Fruit & Vegetable Manufacturing products more healthy, appetizing and desirable to consumers.

Total Processed Production		
Food Commodity	California Production (tons)	US Production (tons)
Tomatoes	11,822,000	12,305,800
All Peaches	560,000	580,310
Pears	147,500	297,979
Apricots	51,620	53,770
Spinach	67,400	103,692

California produces about half of all US-grown fruits, nuts and vegetables. In 2008, California produced 16.5 million tons of processed foods cultivated on approximately 1.5 million acres of farmland.

-USDA

Source: CA Dept of Food and Agriculture

California Top Commodities (2007 \$MM)	
1. Milk & Cream	\$7,328.0
2. Grapes	\$3,078.0
3. Nursery	\$3,066.0
4. Lettuce	\$2,178.0
5. Almonds	\$2,127.0
6. Cattle & Calves	\$1,784.0
7. Hay	\$1,435.0
8. Strawberries	\$1,339.0
9. Tomatoes	\$1,242.0
10. Floriculture	\$1,003.0
12. Chickens	\$713.0
13. Broccoli	\$669.0
14. Cotton	\$599.0
15. Rice	\$583.0
16. Pistachios	\$562.0
17. Oranges	\$518.0
18. Lemons	\$513.0
19. Carrots	\$495.0
20. Celery	\$401.0

Source: CA Dept of Food and Agriculture

VII. CALIFORNIA AGRICULTURAL EXPORTS

California's agricultural exports were valued at \$10.9 billion in 2007.⁴ Fruit & Vegetable products, including both processed and raw commodities, represent a significant majority of the value of California's international agricultural exports. California Fruit & Vegetable products accounted for 40 of the 55 most valuable California agricultural exports. California's 55 most valuable agricultural exports accounted for 85% of California's total agricultural export value in 2007. Furthermore, California commanded a 65.3% share and a 54.7% share of total US Fruits & Products and total US Vegetable export value, respectively, in 2007.⁴

Commodity	CA Export Value 2007 (\$MM)	US Export Value 2007 (\$MM)	CA Share of US Exports
Raisins	\$212.7	\$212.7	100 %
Dried Plums	\$175.4	\$175.4	100 %
Kiwi	\$13.9	\$13.9	100 %
Dates	\$18.3	\$18.3	100 %
Olives	\$17.4	\$17.4	100 %
Figs	\$11.1	\$11.1	100 %
Garlic	\$25.1	\$25.1	100 %
Table Grapes	\$553.5	\$557.9	99.2 %
Plums	\$51.3	\$52.9	97.0 %
Celery	\$62.6	\$64.5	97.0 %
Strawberries	\$297.1	\$314.4	94.5 %
Apricots	\$16.1	\$17.1	94.2 %
Lemons	\$168.9	\$183.8	91.9 %
Broccoli	\$118.7	\$130.7	90.8 %

* *Export values include both raw and processed commodity products.*

Source: Vegetable Research Center, University of California

Overall California agricultural exports grew from \$11.2 billion in 2007 to \$12.9 billion in 2008. Avocados (+170%) and tangerines (+159%) posted the highest year-over-year increase in export value while grapefruit (-74%) and asparagus (-31%) realized the steepest export value declines during the same period.

Food Commodity	2007 Export Value (\$MM)	2008 Export Value (\$MM)	% Change 2007-2008
Avocados	\$4	\$10	+170%
Tangerines/Mandarins	\$11	\$29	+159%
Processed Tomatoes	\$300	\$489	+63%
Oranges	\$260	\$422	+62%
Grape Juice	\$32	\$48	+50%
Fresh Tomatoes	\$74	\$70	-5%
Kiwi	\$14	\$13	-7%
Onions	\$51	\$47	-9%
Asparagus	\$16	11	-31%
Grapefruit	\$79	\$21	-74%

Source: CA Dept of Food and Agriculture

VIII. CONCLUSION

Although the Total Value of California Food Manufacturing and California Fruit & Vegetable Processing have been increasing steadily, the current economic recession reduced 2009 M&A in both sectors. As the economy recovers, pent-up M&A demand and consolidation trends involving specialty products should cause M&A activity to revert to the mean number of deals. Increasing energy costs impacting the industry, compounded by the increasing energy costs experienced by suppliers, have leveled off Value-Added calculations during a period of stagnant demand and increasing revenues. This in turn has forced Food and Fruit & Vegetable Processing companies to pursue innovative means to remain marketable while reducing production costs.

As the Fruit & Vegetable Manufacturing sector realizes the fullest benefits from machinery and technology implementation, the decline in the sector's permanent personnel employment levels should begin to level off. The increasing skill requirements arising from broader usage of more efficient technological production methods likely will create new permanent positions. Innovations in processing, packaging and product diversification similarly should increase jobs in these respective areas while possibly increasing future demand for Fruit & Vegetable products. Increasing demand itself may generate higher prices though production efficiencies may counter-balance upward price pressures.

As US and international markets continue to benefit from the proficiency of California Food Manufacturers, California businesses will remain highly attractive to US and international Food Manufacturing and Fruit & Vegetable Manufacturing companies. Given fairly low barriers to entry,

favorable growing seasons and renowned and diverse commodity production, we believe the number of California-based Food Manufacturing establishments should increase during the coming decade. California Food Manufacturing and Fruit & Vegetable Processors will remain attractive due to efficiencies implemented in response to the challenging business climate experienced in recent years. California's share of total US and world production for raw food commodities and processed food products will remain equally significant. The demand for California raw food commodities and processed food products likely will increase as the population continues to grow and increasingly health conscious consumers choose to eat healthier foods.

California produced 65.3% of total US Fruit exports and 57.4% of total US Vegetable exports in 2007.

IX. REFERENCES

1. Bureau of Labor Statistics, US Dept of Labor, *Career Guide to Industries 2010*, Food Manufacturing
2. The US Food Marketing System: Recent Developments, 97-06, Economic Research Service, USDA
3. Almanac of Tomato Products 2009, The Food Institute
4. California Department of Food and Agriculture, California Agricultural Production Statistics 2009-2010
5. The California Energy Commission, Energy in Agriculture Program
6. Labor Market Information, California Employment Development Department
7. Annual Survey of Manufacturers (ASM), US Census Bureau, 1997-2008
8. 2007 Economic Census, US Census Bureau
9. 2002 Economic Census, US Census Bureau
10. 1997 Economic Census, US Census Bureau
11. The Almanac of Canning, Freezing, Preserving Industries, The Food Institute
12. Energy Efficiency for the Fruit & Vegetable Processing Industry, Lawrence Berkeley National Laboratory
13. The Bureau of Economic Analysis, US Department of Commerce
14. National Agricultural Statistics Service, United States Department of Agriculture
15. Processing Vegetable Production in California, Vegetable Research/Information Center, University of California
16. Food Industry Mergers & Acquisitions 2009, The Food Institute
17. Food Industry M&A Leads to Higher Labor Productivity, October 06, ERS/USDA

18. Consolidation in the North American Organic Food Processing Sector 97-07, Agriculture Studies at Michigan State University
19. Food Industry Mergers & Acquisitions 1997-2008, The Food Institute
20. Capital IQ

©COPYRIGHT 2011 California League of Food Processors and The McLean Group, LLC. Reproduction of the California Food Processing: A Powerhouse of Value in any form is prohibited except with the prior written permission of both California League of Food Processors (CLFP) and The McLean Group. CLFP and The McLean Group do not guarantee the accuracy, adequacy, completeness or availability of any information and are not responsible for any errors or omissions or for the results obtained from the use of such information. CLFP and THE MCLEAN GROUP GIVE NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANT ABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall CLFP or The McLean Group be liable for any indirect, special or consequential damages in connection with any use of the California Food Processing: A Powerhouse of Value.

The McLean Group has exercised reasonable professional care and diligence in the collection, processing, and reporting of this information. However, the data used is from third-party sources and The McLean Group has not independently verified, validated or audited the data. The McLean Group makes no representations or warranties with respect to the accuracy of the information, nor whether it is suitable for the purposes to which it is put by users.

Agriculture & Food Processing Services Team

Charles Andrews
Managing Director
candrews@mcleanllc.com

Zane Markowitz
Senior Managing Director
zmarkowitz@mcleanllc.com

Neil Paschall
Managing Director
npaschall@mcleanllc.com

Brian Sullivan
Managing Director
bsullivan@mcleanllc.com

Todd Warner
Managing Director
twarner@mcleanllc.com

Burt Yarkin
Managing Director
byarkin@mcleanllc.com

Selected Agriculture & Food Processing Services Engagements



The McLean Group Agriculture & Food Processing Practice

The McLean Group's Agriculture & Food Processing practice works with a wide range of agribusiness interests, including food production, farming and contract farming, seed production and supply, agrichemicals, farm machinery, wholesale and distribution, and food processing. Our bankers assist companies operating along all points of the food continuum to develop strategic growth initiatives and keep track of industry trends and technologies. We have provided advisory services to major corporations within this segment, including Kellogg and General Foods.

About the Author

Neil Paschall, Managing Director at The McLean Group's Sacramento, CA office, has 35 years' experience, including public accounting with a Big Four firm, serving as a Fortune 500 company's corporate financial executive responsible for acquisition due diligence and valuation, and serving as a business valuation and investment banking firm's CEO.

He is a highly-regarded speaker, author and instructor on acquisition due diligence, corporate valuation and transaction analysis, enhancing business value, and M&A. Mr. Paschall sits on the editorial board of the national magazine, *The Value Examiner*.

Have questions about this whitepaper? Email npaschall@mcleanllc.com

Services

MERGERS & ACQUISITIONS

The McLean Group has an experienced team of senior investment bankers with a legacy of successful advisory transactions. Our seasoned professionals combine in-depth industry knowledge with M&A best practices to help middle market companies achieve their strategic objectives. We work closely with our clients to develop a comprehensive set of strategic alternatives and then evaluate and execute the most suitable approach.

BUSINESS VALUATION

As a core competency and complement to its merger & acquisition business, The McLean Group provides business valuation services, including intangible asset and financial security valuations for a variety of transaction, financial reporting and tax purposes.

CORPORATE FINANCE

The McLean Group helps clients determine and implement the most desirable capital structure to support future growth while managing risk effectively.

MARKET INTELLIGENCE

McLean, Markowitz & McNaughton (M|M|M) delivers more than powerful information tools – it provides the validated foundation required for business executives to create and implement winning strategies. By leveraging superior competitive analyses, M|M|M supplies executives with comprehensive market intelligence reports that reduce risk and uncertainty in strategic decision making.

Industry Groups

- Defense & Government Services
- Agriculture & Food Processing
- Business Services
- Consumer, Retail & Entertainment
- Diversified Industrials
- Education Services
- Energy & Clean Technologies
- Healthcare & Life Sciences
- Real Estate
- Technology & Telecommunications
- Transportation and Logistics
- Travel & Hospitality