Industry Report

June 23, 2014

Packaged Snacks

Highlights

Clarkston Consulting analyzed information from the latest earnings releases of eleven dominant players in the U.S. snack manufacturing category including: chips, crackers, cookies, nuts, and other sweet or savory packaged snack foods. The companies included in this analysis are Campbell Soup Company, ConAgra, Diamond Foods, Flowers Foods, General Mills, The Hain Celestial Group, Kellogg Company, Kraft Foods, Mondelez International, PepsiCo (Frito-Lay North America), and Snyder's-Lance. The Snack Industry continues to show robust growth both in the U.S. and internationally. Emerging Markets continue to be an area of growth for most companies, despite a recent slowdown, and several companies have seen growth in Europe. Multiple companies continue to report a shift in consumer preferences toward healthy snacks and are making strong pushes toward that segment, as evidenced by HAIN's recent acquisition of Rudi's Organic Bakery Inc. Recent increases in commodity costs (see Figures 3-6) in early 2014 provide a strong headwind for companies in the industry, after seeing a relatively favorable environment in 2013, when many companies reported gains on derivatives used to hedge these costs. Multiple companies expect to continue seeing gross margin expansion as revenues begin to reflect pricing adjustments due to rising commodity costs, in addition to cost savings from productivity projects. The companies in this report are trading at a median 20 times forward earnings, higher than the S&P 500's current forward P/E multiple of about 16.

Proven Trends

As we presented in our 2014 Food Trends paper in December of 2013, a few key trends are driving the discussion and direction of companies in the food industry, specifically the health conscious consumer, innovative packaging, and data sources to track promotional and marketing spend.

Health Conscious Consumers

Sixty-four companies made direct statements in their most recent presentations of the increased consumer interest in better-for-you products. Frequent snacks are replacing meal occasions for consumers, giving the snack segment a tremendous opportunity to serve consumer needs. Continued success will come to the portfolios that include snacks with natural ingredients, a wholesome, healthy taste, or are sensitive to dietary restrictions like gluten-free or low-fat.

GIS saw 35% growth in 2013 U.S. retail sales in their organic and natural foods division, Small Planet Foods, compared to 1% growth in all other divisions. Since 2010, MDLZ has seen their belVita products double in revenue, currently generating $0.5 billion. Manufacturers will not continue to win during the next five years in developed markets if they do not capitalize on the natural and healthy trends. All-natural is the fastest growing segment of the ready to eat category, and the current MDLZ portfolio is not deep in better-for-you snacks. Especially after the merger announcement of their coffee business with D.E. Master Blenders and their increased focus on snacks, MDLZ shows potential for acquisition activity for a natural line, such as TH Foods out of Illinois. TH Foods makes Crunchmaster crackers and private label snacks that can make a number of nutritional claims, like gluten-free or non-GMO, as well as allow access to custom private label goods with international flavorings.

Subscription-based startups such as NatureBox, Vermont Snacks, and Kinderhook represent a new way of snacking by allowing customers to seamlessly subscribe and receive new snacks every month. NatureBox, specifically, focuses on healthy snacks and lets customers choose products that are gluten-free, dairy-free, nut-free, etc. As consumers' preferences shift toward healthy alternatives and the trend toward subscription based models continues, expect this type of service to take off. Similar to how Dollar Shave Club (subscription-based men's razors) has caused Gillette to worry about its market dominance, these new subscription-based snacking companies will cause some of the larger snacking companies to re-think their strategy of reaching the end consumer. GIS has responded by launching Nibblr, a subscription-based snack delivery service and other snack manufacturers should consider their e-commerce presence, since shelf stable packaged snacks are the best bet for the food industry to dive into the underpenetrated e-commerce channel.

Wal-Mart's recent announcement that they are partnering with Wild Oats to bring organic products to their shelves at a lower price point has numerous implications for the snack food industry and solidifies the idea that healthy eating is here to stay. HAIN has positioned itself to ride this trend as a natural and organic food company. They have not been shy about growth through M&A, acquiring Tilda – which produces Basmati rice – and Rudi's Organic Bakery in 2014. Similarly, LNCE has acquired Baptista's Bakery, a private-label "better-for-you" snacks manufacturer, in an effort to better position itself by expanding the size of healthy snacks in its portfolio, which was already at an impressive 25%, and to provide a cheaper alternative for healthy snacks. Expect HAIN and LNCE to see excellent long-term growth because of their investment in this long-term trend.

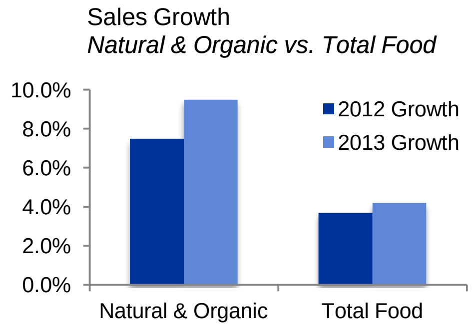

Figure 1. Natural and organic food categories are experiencing growth at double the rate of the rest of the food industry. The natural and organic food segment is estimated by the *Nutrition Business Journal* to reach $35 billion in 2014.

***Source**: USDA Economic Research Service, Organic Trade Association 2013 Survey, U.S. Census Bureau*

Innovative Packaging

As snack manufacturers work to drive penetration in non-traditional retail channels, especially dollar and club, their packaging is changing to suit the channels accordingly. Online food sales, one of the last consumer goods to take hold in the fast-growing ecommerce channel, are expected to grow from 1% of food sales (currently estimated at $2.1 trillion globally) now to 5% of food sales in 2020[2]. KRFT spoke of shifting from category managers to item merchants to hit the right price pack variety combinations to succeed in the different purchase occasions offered by the dollar and club channels.

Packaging is also an important consideration when broadening portfolios; for instance, HAIN is using larger packaging as a way to increase consumption of their baby products as snacks for older children, and K is using convenient packaging for their on-the-go products to treat breakfast as a snacking occasion, not only a morning meal. K experienced double digit growth in Q1 from handheld breakfast products consumed as snacks.

The recent acquisition of Protenergy Natural Foods' line of private label soups, broths, and gravies by TreeHouse Foods Inc. (THS) puts pressure on CPB. THS is looking to leverage Protenergy's innovative packaging applications, especially resealable packaging for shelf stable liquids to replace cans, to evolve their existing categories. THS will gain share with retailers who are investing in the growth of private label products and differentiate themselves through attractive and convenient packaging. Private label manufacturers cannot rely on traditionally plain packaging and expect to stay ahead. CAG entered into a supply agreement with Ardagh Group for a quarter billion dollar investment to construct new can making facilities that will convert the majority of CAG's canned products to state-of-the-art Drawn and Wall Ironed (DWI) style. The new DWI cans use 15% less material, have a sleek surface for printing or labeling, and can withstand greater pressures.

CPB's hunt for continued acquisition opportunities to expand their international presence and their presence in the fresh perimeter of the retail environment, following the success of the Bolthouse Farms acquisition in 2012, could lead them down a similar road to realize the benefits of packaging ingenuity. With their wholesome halo, product development in cooking sauces, and movement into the premium retail store perimeter, Chobani is a desirable target for CPB. Chobani's recent corporate move to Delaware and $750 million loan from TPG Capital are signs of an imminent IPO.

Several companies, like Hillshire in its failed attempt to acquire Pinnacle and Treehouse Foods' recent activity, are taking an acquisition approach to sell products all over the retail environment, from dressings to ready meals to pickles. With so many SKUs throughout various categories, these companies will drop lower selling products to invest more heavily in the leading options, like we've seen with CAG and LNCE.

KRFT's new P3 protein packs that hold a serving of cheese, nuts, and meat are an interesting combination of brand power to suit the needs of the on-the-go consumer looking for a protein boost. Protein continues to be a buzz word in the industry as consumers avoid gluten or carbohydrates in their diets and look for satiating consumption opportunities. Other manufacturers would be wise to look across their portfolios to offer one-hit packs of their popular offerings for various snacking occasions, or for promotional opportunities to display snacks with complementary products for a protein punch. DMND is well positioned to harness the protein angle of their Emerald Nuts brand through labeling or product pairings.

Data Sources

Trade promotion is on the mind of many, requiring investment in scalable, real-time analytics and good retail relationships. PEP and CAG are both very focused on leveraging retail relationships; PEP is using retail and restaurant data and relationships to craft new, enticing products, while CAG is focused on boosting sales of both private label and branded products through joint promotions.CAG also considers pricing analytics around their trade spend to be one of its major profit-enhancing strategies.

There has been a large shift toward digital and mobile marketing and a focus on flavor development to incorporate bold twists into new and existing brands; as seen in Figure 2, new product releases had a solid contribution to total sales in 2013 for many companies. PEP is leading the industry in consumer engagement and crowdsourcing campaigns across a number of their flagship brands. They are having remarkable success with their consumer engagement campaigns like "Do us a Flavor," where they received more than 12 million consumer suggestions from around the world for the new flavor of Lay's chips. Crowdsourcing and other mechanisms to engage an active relationship with consumers will continue to be a winning strategy as other manufacturers figure out how to navigate their digital and social media strategies. Consumer engagement becomes the manufacturer's own direct line to the pulse of their audience, a new data source by which to directly measure consumer sentiment with their products.

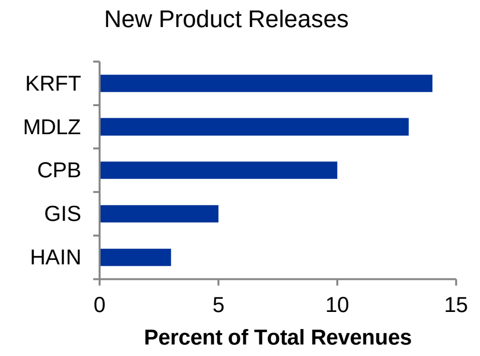

Figure 2. Percent contributions of new product releases that make up 2013 total revenues.
Source*: 10-K reports and recent public presentations*

What to Expect

Productivity Projects

Many companies involved in the packaged snacks market have productivity projects underway. Eliminating overhead is a key goal for many, including K, KRFT, and MDLZ, and one byproduct is layoffs in the thousands. Through the productivity projects, several companies ran into issues with plant consolidations. MDLZ is reducing plant redundancy between the U.S. and Canada, and better aligning their DC locations after their split from KRFT. LNCE experienced trouble with a poorly executed plant consolidation, as did CAG, who had to make a pricing concession to stabilize volume.

The recent consolidation of plants to eliminate redundancy or optimize geographies provides an opportunity for manufacturers to buy up new facilities to use for gluten-free lines or to increase capacity. Manufacturers with an expertise in gluten-free have an opportunity to become an outsourced manufacturer, which could ensure legitimately gluten-free production with capacity advantages. Boulder Brands' vocal support for the FDA's decision to standardize gluten-free labeling and their years of experience in gluten-free manufacturing position them as one company who could capitalize on producing gluten-free goods for other snack and baked goods manufacturers.

In 2013 K announced Project K, a four-year efficiency and effectiveness program. They realized $15 million in savings in 2013 and expect to realize $50 to $60 million in 2014. They expect annual cost savings of $425 to $475 million by 2018.

PEP announced a multi-year productivity plan in February of this year, in addition to the productivity plan they began implementing in 2012. They incurred $163 million ($110 million due to the 2012 plan and $53 million due to the 2014 plan) in restructuring charges in 2013, including $19 million ($8 million due to the 2012 plan and $11 million due to the 2014 plan) in the Frito-Lays North America segment.

CAG continues to evaluate a plan that led the integration of Ralcorp, which incorporates other supply chain initiatives in an effort to address their entire organization's supply chain. This plan was approved in February and is expected to incur charges of $280 million. CAG also reported that their Administrative Efficiency (incurred costs of $18.7 million) and Network Optimization (incurred costs of $76.7 million) plans are substantially complete as of the end of fiscal 2013.

MDLZ recently announced that they're accelerating their supply-chain cost reduction efforts and expect to deliver $1.5 billion in net productivity savings and $1 billion in incremental cash over the next 3 years. MDLZ's gross margin of 37% today, which is in-line with the median 36% for all snacks companies, will certainly improve as a result of this and is being priced in by investors, as evidenced by their multiple of 21 times forward earnings (Appendix, Table 1).

Expect companies to continue to aggressively pursue efficiency improvements in their operations. LNCE, for example, will probably announce a large productivity project in the near future, once the acquisition of Baptista's Bakery and the sale of their private label brand to Shearer's are complete. LNCE continues to mention looking for opportunities to reduce costs, but doing so after the acquisition and sale are complete.

Consumer Purchasing Power

Changing consumer demographics were discussed as a challenge by 64% of companies. The increasing Asian and Hispanic populations, the growth and shifting desires of the millennials, and the aging baby boomer population are all changes that companies must tackle head on through product development and marketing. We will see increases in new products with Hispanic and spicy flavors, as well as increased spend on promotions aimed at the Hispanic audience in English and Spanish. PEP will pull ahead with the Hispanic consumer segment, due to their bilingual promotional and advertising strategy and in part to their strong presence and investment in Mexico. The Millennials' preference for natural products will be beneficial to HAIN, due to their focus on natural and organic food, and LNCE, given their healthy snacks line that already comprises a large portion of their overall portfolio.

U.S. SNAP (Supplemental Nutrition Assistance Program) reductions enacted in November 2013, affecting roughly one in seven Americans, are making grocery decisions very difficult and negatively impacting consumer spending, further bifurcating purchasing power and increasing the search for private label options and products on promotion.[3] CAG is well-positioned to benefit from this, as they are experiencing good progress in their private-label strategy. LNCE's recent sale of their private-label strategy to Shearer's Foods, a private snack food company, might prove to be a misstep given the SNAP reductions and millennials' cost-conscious mindsets.

Commodity Cost Pressures

Manufacturers have begun passing on their input costs to their customers due to recent commodity inflation, but pricing has not yet caught up to commodity costs, creating softer top line situations than previously expected. Rising tree nut costs, notably almonds and walnuts, is a concern for many snack makers. Crop quality issues bring down manufacturing efficiency, as experienced by CAG with potatoes. This year's harsh winter and lasting drought in California are likely to have significant effects on commodity costs in the near term.

Commonly purchased commodities in the food and beverage industry include wheat, sugar, soybean oil, and groundnuts, among others. These commodities saw a price increase in early 2014 (Figures 3-6) which is projected to continue into 2015, according to the International Monetary Fund.

Multiple companies have mentioned pricing as a solution to the volatility in commodity costs, noting that they are better at pricing than at predicting commodity costs. This is of primary concern to larger, multinational companies. Consumers who experience increased pricing as a result of the volatile commodity costs are more influenced by well-executed retail promotions. They are also more attracted to the relatively cheaper private label products, positioning CAG to potentially benefit from commodity cost volatility. Over the long-term, this dislocation between pricing actions and commodity costs should stabilize. MDLZ is ahead of the curve when adjusting pricing and should be the first to see their revenues and costs, due to commodity price increases, stabilize. CAG announced that they expect the Ardent Mills transaction, a joint venture to take part in a milling business, to close in Q2 of 2014 which will help improve commodity risk management.

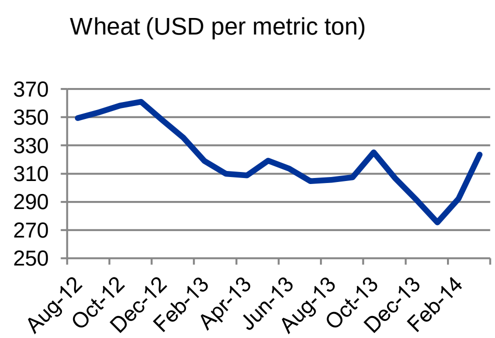

Figure 3. Wheat cost from 2012 through 2014 in USD per metric ton.
***Source**: International Monetary Fund*

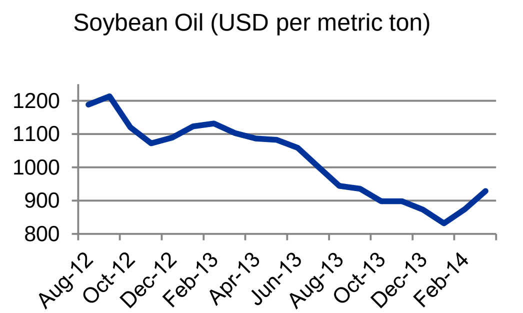

Figure 4. Soybean oil cost from 2012 through 2014 in USD per metric ton.
***Source**: International Monetary Fund*

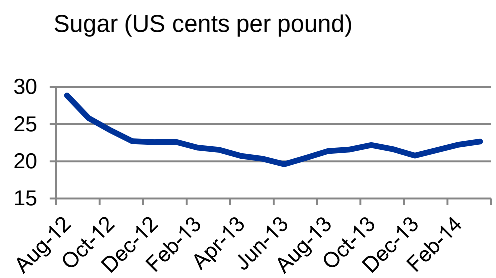

Figure 5. Sugar cost from 2012 through 2014 in US cents per pound.
***Source**: International Monetary Fund*

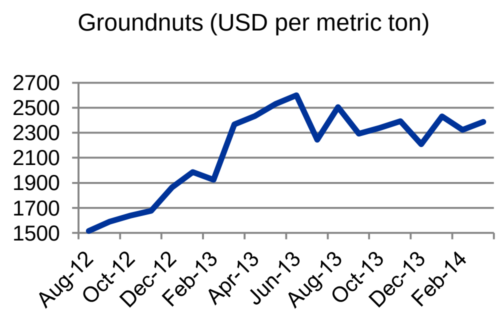

Figure 6. Groundnut cost from 2012 through 2014 in USD per metric ton.
***Source**: International Monetary Fund*

Individual Recaps

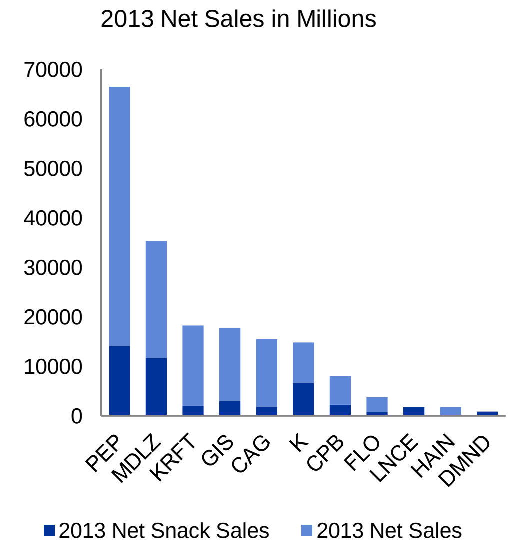

Figure 7. 2013 Net Sales displaying portion of total sales made up by snack segments.
***Source**: 10-K reports and recent public presentations*

PepsiCo (PEP)

PEP is going to accelerate in developed markets with their leadership in understanding and meeting consumer preferences. Their promotional and marketing capabilities continue to pave the way to engage with consumers and develop flavor profiles that people love, allowing them to ignore the health conscious angel on their shoulder. They are preparing on the go options, diversified flavor profiles, and targeted marketing to suit consumer preferences. They are focusing on putting marketing in the hands of consumers with campaigns like the Doritos' 'Crash the Superbowl.' However, with their flagship brands in the junk food categories, they will have to grow their healthy portfolio in the next 5 years or shift their efforts more toward emerging markets that have less prominent health food movements. The short term increase in food prices in Mexico due to new taxation is a minor concern for their operations in Mexico. They will look to use their scale as an advantage, especially for their R&D and procurement teams.

Mondelez (MDLZ)

MDLZ will experience temporary setbacks until they eliminate redundancy of facilities in the U.S. and Canada and upgrade their manufacturing sites, as they have many DCs in sub optimal locations and outdated equipment. They made note of macroeconomic headwinds and are cognizant in their expansion into emerging markets of the direct relationship between GDP and snack consumption. MDLZ is seeking acquisition opportunities as they grow in scale and distribution, especially in emerging BRIC markets. Two possibilities for acquisition are Intersnack, headquartered in Germany, who has revenues of 2 billion Euros from great snack distribution throughout Europe and operations in Brazil, and Lorenz Snack-World, also headquartered in Germany with operations in Russia. They are investing in digital programming as they have found it derives twice the ROI of TV ad spending. Expect gross margin expansion over the medium-term as their revenue begins to reflect the pricing adjustments due to rising commodity costs and their cost-reduction efforts become fruitful. MDLZ's business will lag in developed markets where they are not targeting the health conscious consumer, but accelerate in emerging markets where they are investing heavily.

Kellogg Company (K)

Based on our take on the trends of health conscious consumers and packaging innovation, K is in a position to accelerate as a business. They are using their strength in the breakfast category, which is often considered a healthy category, to carry over into the snack category to stretch breakfast beyond the morning. Their healthy on the go options are growing as they embark on campaigns like Simple 5, a Special K cross-portfolio weight management program. K is focused on price mix, as it proves very important to revenue growth in developed markets. K is investing in brand building in the belief that over time, trade spend does not drive growth in their categories. They are also running into reduced consumer spending in Mexico due to the new taxes, but anticipate alleviation as consumer sadjust to the new taxation. They are investing heavily in their supply chain through Project K, which they expect to return savings later in 2014; so far in 2014 they have experienced the best people safety record in their history, a leading indicator of supply chain strength.

General Mills (GIS)

GIS acquisition pursuits are on the backburner for 2014. However, after double digit net sales gains in Latin America and Asia Pacific, GIS is looking to move into emerging markets in Indonesia and India. GIS also sees huge opportunity due to the growing Hispanic population and is trying to take advantage through targeted advertising and packaging, showing how their products can complement other staples of Hispanic diets. GIS has taken notice of multiple long-term trends, such as the rise of the health conscious consumer and the impact of millennials and Hispanic populations. GIS experienced 4% growth on net snack sales, due in part to good performance in convenience stores. Better for you snacking is a point of interest, with notice of 30% of households limiting gluten and meal replacement bars up 10%. However, their lack of any significant changes to their business to address these long-term trends positions them as a follower, which hurts their ability to establish loyalty among these groups.

Campbell Soup Company (CPB)

CPB is working to gain the attention of millenials with their shift toward cooking sauces and Go Soups in adventurous flavors. They are also focused on brand loyalty of the millenials who grew up with Goldfish as they form their own families. CPB spoke of the global economic realignment with a squeeze of the U.S. middle class and growth in the middle classes in developing nations. This sparked the acquisition of the Kelsen Group, which has a strong presence in baked snacks and sweet biscuits (a $60 billion market) across many developing countries. With soup sales down 1% in the U.S., CPB is focusing on new growth channels: club and dollar and creating a DSD network. They will use their Bolthouse acquisition for beverage distributors to drive penetration of their other brands and drive expansion into the retail perimeter. Their alignment of their wholesome halo marketing and options in the premium, fresh section of the retail environment will get CPB back on track to win with families and those seeking feel-good options.

Kraft Foods (KRFT)

Though KRFT has a 98% household penetration rate, they are seeing a bifurcation of consumer spending, partially attributed to reductions in the SNAP program, lagging underemployment, and cost pressures from high heating bills and taxes in Q1. KRFT's current portfolio, heavy in meats and cheeses, is seeing the largest spike in commodity costs. Though they are growing ad spending versus a stagnant rest of the industry, with a specific effort in disruptive digital and mobile program, if they cannot successfully connect with consumers through marketing, they will decelerate as they cover costs via pricing. They are preparing flavors for the rising Hispanic population and millenials who want ready meals with simpler ingredients that are transparent from farm to table. They are working to get their own brands back on their feet before looking for acquisition.

Snyder's-Lance (LNCE)

LNCE had two projects come in behind schedule last quarter: a consolidation of two plants, and a bakery line. They have cut their low margin businesses and are working to push snack volumes through upgraded promotional systems and greater capacities. They are investing in better-for-you initiatives in response to health conscious consumers, with a focus on low-fat, natural, and gluten-free. They are investing also in R&D and innovation, as well as a 21% increase in marketing across TV, endorsements, and digital, depending on the brands.

ConAgra (CAG)

CAG's dominant position in the private label market will cause their business to accelerate to ride out the growth of private label goods. Consumers continue to be cost conscious and demand more goods for cheaper prices; CAG's scale, safety expertise, and ability to invest in attractive packaging will give them a leader position as long as consumers remain frugal. They do not feel traditional advertising is as effective now, so promotions are key for them, including positioning branded and private label products together. This too will set CAG apart with prudent shoppers seeking promotions. They are focusing on best sellers and discontinuing low selling SKUs. They have experienced some setbacks in the early part of the year following some issues with the Ralcorp integration. CAG experienced a poorly executed plant consolidation as well as the loss of a major food service customer, all which contributed to softer earnings. There was also a quality issue with their potato crop that brought down efficiency for their potato brands.

Diamond Foods (DMND)

DMND is working its way back from struggles last year with rising tree nut costs, especially walnuts, and class action law suit costs. They have projects to grow their gross margin and are looking to expand their Kettle UK brand into Germany and France. They are considering productivity projects and will probably undertake a large one in the near-term. Their nut products did well given the headwind in rising nut costs and should see good top line growth as pricing offsets these costs. Their portfolio is also positioned well for long-term growth, offering protein, gluten-free, all-natural, and non-GMO options. DMND's focused portfolio on chips, nuts, and popcorn gives them an opportunity to follow KRFT's lead to combine brands to mix flavors or snacking occasions into trail mix, nut bars, or popcorn and nut mixes to gain loyalty and provide promotional opportunities.

Flowers Foods (FLO)

FLO has reported success with their acquired brands and continue to see excellent gross margins in the high 40s. They are putting a greater infrastructure in place to handle higher volumes after experiencing a decline in manufacturing efficiencies. As FLO continues to expand their brands across retailers while keeping productivity a priority, expect their business to thrive. Former Hostess brands are getting a lot of attention to rebrand through marketing and promotions. If they keep a long-term portfolio without any healthier snack options, their snack business will not continue to grow at desirable rates in developed markets.

The Hain Celestial Group (HAIN)

To offset recent input cost increases of almonds, quinoa, and milk and increases from moving their GMO products to non-GMO, HAIN is setting productivity targets. They are building out their platform in India and the Middle East after success in the UK and Europe. Since money is cheap right now, they are seeking bolt-on acquisitions, with a focus on targets' business models, as a compliment to organic growth, as evidenced by their recent acquisitions of Tilda and Rudi's in 2014. Wal-Mart's announcement of offering better-for-you snacks at a lower price will put heavy pressure on HAIN, as that is their largest customer, but at the same time it reinforces the trend towards healthy eating. HAIN's unique position as a natural and organic food company will allow them to ride this major trend into the future, even with some short-term headwinds. They made note of the awkward position of brands that are acquired by large companies who are fighting GMO legislation, so they are not a likely acquisition target from any large companies who have core values significantly different from their own.

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Conclusion

Based on the combination of our predicted trends from the beginning of the year and the trends we see being influential moving forward, K is best positioned over the next 36 months. Their healthy portfolio and convenient, on-the-go options are setting them up to take advantage of the important millennial demographic. PEP will continue to thrive in their snacks in the short-term due to their leadership in connecting with consumers through crowdsourcing and advertising engagement, especially with their special attention to the Hispanic consumer. HAIN will see tremendous growth as they ride the health conscious consumer trend with their unique position in the natural and organic food space. We are expecting heavy merger and acquisition activity in the coming 36 months as manufacturers work to establish themselves in the parts of the various retail channels; CPB especially will lead the way working into the fresh retail perimeter to grow beyond the struggling soup category. Productivity projects will continue to sweep the industry as manufacturers work to cut costs in the face of volatile input costs, as well as prepare for or react to M&A activity. We will see many more plant consolidations in the next 36 months, especially after M&A events, to ensure that supply chains and distribution capabilities are geographically optimal.

For More Information

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Appendix

NAME	TICKER	MARKET CAP ($M)	P/2014E	P/S	TEV/EBITDA	GROSS MARGIN
Pepsico, Inc.	PEP	$134,777	19x	2.7x	16.1x	54%
Mondelez International, Inc.	MDLZ	$63,531	21x	1.9x	17.4x	37%
Kraft Foods Group, Inc.	KRFT	$35,432	20x	2.0x	10.8x	36%
General Mills, Inc.	GIS	$33,600	18x	1.9x	12.9x	35%
Kellogg Company	K	$23,999	17x	1.6x	10.1x	41%
Campbell Soup Company	CPB	$14,443	18x	1.8x	11.9x	34%
ConAgra Foods, Inc.	CAG	$12,833	14x	0.7x	8.6x	22%
The Hain Celestial Group, Inc.	HAIN	$4,492	25x	2.0x	15.7x	27%
Flowers Foods, Inc.	FLO	$4,373	20x	0.9x	9.5x	49%
Snyder's-Lance, Inc.	LNCE	$1,921	23x	1.1x	14.5x	34%
Diamond Foods, Inc.	DMND	$870	29x	1.1x	19.3x	24%
Median		**$14,443**	**20x**	**1.8x**	**12.9x**	**35%**

Table 1. Financial metrics based on most recent earnings. HAIN's forward earnings multiple displays investors' confidence surrounding their unique position in the natural and organic space. Overall the companies have higher valuations than the broad market (S&P 500 P/2014E of 16x), indicating optimism around the snack food industry.
***Source**: S&P Capital IQ, 6/19/14*

NAME	TICKER	MARKET CAP ($M)	CURRENT QTR NORMALIZED EPS	2013 NORMALIZED EPS	2014 NORMALIZED PROJECTED EPS
Pepsico, Inc.	PEP	$132,154	$0.70	$3.75	$4.56
Mondelez International, Inc.	MDLZ	$64,208	$0.25	$1.28	$1.78
Kraft Foods Group, Inc.	KRFT	$34,075	$0.84	$4.59	$3.22
General Mills, Inc.	GIS	$33,428	$0.61	$2.58	$3.04
Kellogg Company	K	$24,131	$1.09	$5.33	$4.07
Campbell Soup Company	CPB	$14,244	$0.71	$2.16	$2.61
ConAgra Foods, Inc.	CAG	$12,959	$0.58	$1.98	$2.31
The Hain Celestial Group, Inc.	HAIN	$4,597	$0.81	$2.72	$3.53
Flowers Foods, Inc.	FLO	$4,378	$0.20	$0.87	$1.04
Snyder's-Lance, Inc.	LNCE	$1,860	$0.21	$0.98	$1.37
Diamond Foods, Inc.	DMND	$949	$0.04	-$0.82	$0.94

Table 2. EPS from most recent earnings release. Most companies are projected to have earnings growth in 2014 despite recent headwinds in commodity prices.

Source*: S&P Capital IQ, 6/19/14*

Important Disclosures

Clarkston Consulting analyzed information from the latest public presentations and SEC filings of eleven dominant players in the U.S. snack manufacturing category including: chips, crackers, cookies, nuts, and other sweet or savory packaged snack foods. The companies included in the analysis are Campbell Soup Company, ConAgra, Diamond Foods, Flowers Foods, General Mills, The Hain Celestial Group, Kellogg Company, Kraft Foods, Mondelez International, PepsiCo (Frito-Lay North America), and Snyder's-Lance.

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