KSA FOODSERVICE UPDATE
Merger & Acquisition Trends

February 2013

Nine ID Top 50 Distributors Acquired In 2012

$3+ Billion in Distributor Sales
Exit the Independent Network

Acquisition activity in the US was robust in 2012 as the desire to "acquire vs. grow" profitable revenues picked up momentum. Here are some highlights:

- At least 27 independent companies were acquired over the year – a 25% increase over 2011.
- The "Big 5" (Sysco, US Foods, PFG, Gordon and Reinhart) secured 20 independents across 16 states.
- Nine ID Top 50 distributors, representing cumulative revenues of $2.8 billion, were acquired. The acquired revenues were five times that from all other Top 50 companies purchased in 2010 and 2011 combined.
- The "multiples" paid for profitable and well-managed companies were the highest in the past 4 years.
- In addition to broadliners, the interest in meat, produce and specialty companies continued.
- Chef's Warehouse also acquired two businesses in 2012, and then announced another on January 2, 2013.

Here are the nine ID Top 50 companies purchased last year:

ID Rank	Seller	Buyer	Location	Month
12	IFH	PFG	NC	May
13	Agar	Reinhart	MA	September
16	Perkins	Gordon	MA	January
20	Fox River	PFG	IL	December
29	Hawkeye	US Foods	IA	July
37	Yancey's	SGA	CO	June
41	Appert's	Sysco	MN	December
43	American	Reinhart	MO	December
46	Glover	US Foods	GA	October

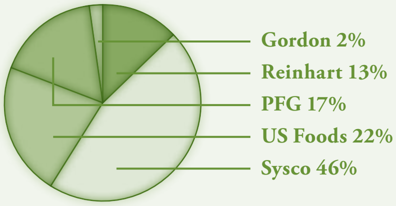
The Trend Continues – The Big Get Bigger

Over the past five years, adjustments in facilities, geographic reach and resulting revenues for many of the ten largest distributors was significant. A combination of organic growth and acquisitions produced these results:

	REVENUE IN BILLIONS 2007	2012	CHANGE	% CHANGE	SOURCE
SYSCO	$35.00	$42.38	$7.38	21.1%	1
US FOODS	$20.00	$21.40	$1.40	7.0%	1
PFG*	$6.30	$13.00	$6.70	106.3%	3
GORDON	$6.70	$8.60	$1.90	28.4%	2
REINHART	$3.09	$6.50	$3.41	110.6%	3
MAINES	$2.40	$3.08	$0.68	28.3%	2
BEN E KEITH	$1.64	$2.82	$1.18	72.1%	3
SGA	$2.55	$2.75	$0.20	7.8%	2
SHAMROCK	$1.86	$2.11	$0.25	13.4%	2
CHENEY BROTHERS	$0.63	$1.00	$0.37	58.7%	3
TOTAL	$80.2	$103.6	$23.5	29.3%	

* Includes Vistar

Sources: 1-Public Filings; 2-*Forbes* Magazine; 3-KSA Confirmed



Companies Purchased	
Sysco	29
US Foods	14
PFG	11
Reinhart	8
Gordon	1
Total:	63

Since 2008, a total of 86 independent companies were reported sold – and there were undoubtedly more. Of those independents acquired in the past five years, 63 were purchased by the Big 5.

KEITER STEPHENS ADVISORS
Foodservice Finance Specialists

Looking Forward Into 2013

KSA expects the acquisition trend to continue as we move further into this year.

BUYERS

Understanding what will cause buyers to pay a premium for a business has gotten more complicated. We recently had extensive conversations with the principal buying companies and here are some of our thoughts for 2013:

- The Big 5 + will continue to aggressively target larger regional houses.
- Savvy independents also know they must grow; many will choose to buy to remain competitive.
- Both groups will be a bit more selective due to higher multiples they are paying and the returns they expect.
- Based on lessons learned, several due-diligence areas will become more intensive.
- Interest in independents that can be "folded in" to existing facilities will continue to be strong.
- The search for distributors with profitable niche markets and unique product sets will intensify.
- Some buyers will shy away from companies with a preponderance of low-margin chain business. However, when the acquiring company already has a satisfactory relationship with a chain, it is often willing to expand that relationship.

SELLERS

Last year, KSA saw signs of a shift in a growing number of owners' attitudes regarding their long-term view of our industry. Many who sold last year, along with others we work with, cited these reasons for exiting:

- Earnings—The relentless pressures on margins – "it's gotten down to buying the business from our competitors."
- Succession—Many companies have no next generation to take over and selling is the best way to secure the family wealth built up in the company.
- Valuation—Current performance and market conditions, including higher multiples, favor a near-term transaction.
- Taxes—Concern about the uncertainty of capital gains and other tax rates drove several transactions.
- "The Grind"—Distributors report that the industry is just "harder" due to increased competition, the growth of chains, more friction on earned income, union concerns, and increasing governmental regulations.

POTENTIAL SELLERS

We also see an increase in the number of owners who want to exit but realize their current performance will not bring the value they need. In many cases, we have helped them develop multi-year strategies to improve results and to focus on the activities that will drive shareholder value. This involves a situation assessment and a determination of what needs to be improved. These findings are generally followed by a specific plan, measurement standards, and a realistic timeline for achieving those improvements.

Finally, it's been 43 years since Sysco was formed and the great industry consolidation started in earnest. We had the big roll-up years in the late 1980's, and intermittent bursts thereafter. We feel 2012 may mark the beginning of a similar period. **Buyers want to buy growth, sellers want to harvest value, and interest rates are low. Sounds like the right combination for a lot of activity over the next two years.**

Please call me if you would like to discuss your situation – in confidence and without any obligation.

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About Keiter Stephens Advisors

KSA has helped over 100 foodservice distributors resolve their most challenging business issues. Keiter Stephens Advisors is the only financial advisory and consulting firm dedicated to the foodservice distribution industry. KSA is recognized as the national leader in assisting owners:

- Buy or sell foodservice distribution and meat processing companies
- Examine the profitability of their business and develop viable improvement programs
- Renegotiate existing financing arrangements and secure new lenders
- Plan and execute transition strategies, including family and partner buy out initiatives

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