

WESTPEAK RESEARCH ASSOCIATION

Hostess Brands, Inc (NASDAQ: TWNK)

Consumer Staples – Snack Foods

As Sweet as Can Be

February 16, 2020

Hostess Brands, Inc. (“the company” or “Hostess”) produces, markets and distributes Sweet Baked Goods (SBG) throughout North America. The company is well known for its beloved products which date back to the early 1900s.

Thesis

The company plans on solidifying their leading position and expanding on it by creating new, innovating product lines and making accretive acquisitions. With immense brand power and an entrepreneurial spirit, the company looks poised to capture a sizable amount of the growth that is occurring in the snack foods industry.

Drivers

The increasing consumption of snack foods and continued dominance of sweet, flavourful snacks provide key drivers for the company. Furthermore, Hostess’ recent acquisition of Voortman Cookies allows the company to take advantage of the growing trend towards healthier products. The implementation of a “Direct-To-Warehouse” model of distribution and extended shelf life since the company’s relaunch shows progress towards improving efficiency. Lastly, the expansion into new product categories will be essential in driving growth.

Valuation

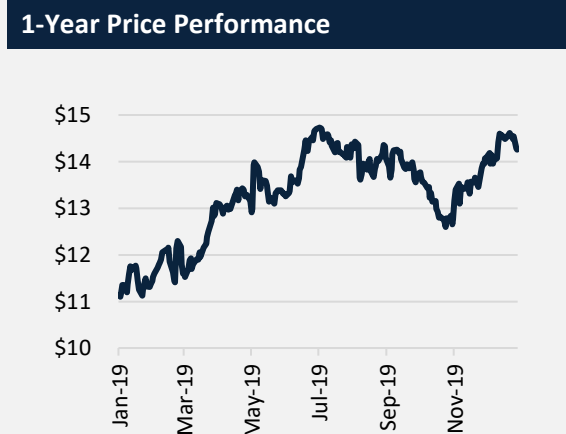
Our target share price is \$20.00 based on the EV/EBITDA exit multiple from our DCF, weighted 50%, as well as the PE/EBITDA multiple and EV/EBITDA multiple from our comparable companies analysis, each weighted 25%. This share price gives a total return of 49.6%. We believe that Hostess is currently undervalued, so we initiate a **Buy** rating on Hostess Brands.

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| Equity Research | US |
|-----------------------------|-------------|
| Price Target | USD\$ 20.00 |
| Rating | Buy |
| Share Price (Feb. 14 Close) | USD\$ 13.37 |
| Total Return | 49.6% |

| Key Statistics | |
|------------------------------|-----------------|
| 52 Week H/L | \$14.86/\$10.96 |
| Market Capitalization | \$1.72B |
| Average Daily Trading Volume | 985.37K |
| Net Debt | \$983M |
| Enterprise Value | \$2.55B |
| Net Debt/EBITDA | 3.9x |
| Diluted Shares Outstanding | 121.1M |
| Free Float | 89.6% |
| Dividend Yield | 0% |

| WestPeak's Forecast | | | |
|---------------------|--------|--------|--------|
| | 2018E | 2019E | 2020E |
| Revenue | \$850M | \$922M | \$989M |
| EBITDA | \$163M | \$179M | \$213M |
| Net Income | \$81M | \$74M | \$90M |
| EPS | \$0.61 | \$0.65 | \$0.74 |
| P/E | 20.7x | 19.6x | 18.3x |
| EV/EBITDA | 15.3x | 12.6x | 11.1x |



Business Overview/Fundamentals

Company Overview

Hostess Brands Inc is a packaged food company focused on manufacturing and selling sweet baked goods (SBG) such as Twinkies® and Ding-Dongs® under the brand names of Hostess® and Dolly Madison® within the United States. The company's brands date back to 1919 and have survived multiple bankruptcies. In April 2013, the Hostess® and Dolly Madison® brands were acquired during the bankruptcy liquidation process of their prior owners. The brands were purchased by Apollo Global Management and C. Dean Metropoulos and Company, two private equity firms with a great deal of experience reviving troubled companies with strong brands. After a short stoppage of production, Hostess products were available again in July 2013. The company rapidly regained market share by combining the company's brand reputation with innovative technology and a new Direct-To-Warehouse (DTW) business model. Since then, the company has significantly invested in manufacturing, new IT systems and production efficiency. This has propelled the company into a premium brand position within the US SBG industry.

Exhibit 1: Selected Hostess Brands' Products



Source: [Company Website](#)

Business Segments

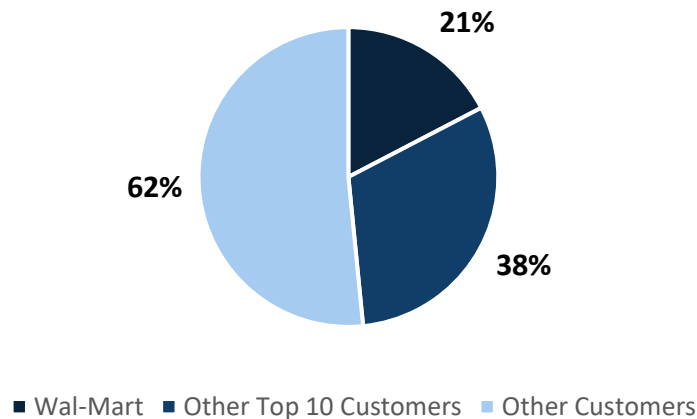
Hostess recently divested from one of its two reportable segments. Before the divestiture, the two segments were "Sweet Baked Goods" and "In-Store Bakery". SBG consists of fresh and frozen products such as Twinkies, Ding-Dongs and Hostess CupCakes. The In-Store Bakery segment consisted of Superior on Main® branded products sold in the bakery section of grocery and club stores and was sold to an unrelated party in the third quarter of 2019.

Customers

A wide variety of retailers including supermarkets, convenience stores and drug stores make up Hostess' customers. The company's top 10 customers made up 58.6% of revenue in 2018 and Wal-Mart, Hostess' largest customer, accounted for 21.0% of revenue. This means Hostess' customers have high buyer power. A loss of one of these major customers or any business interruption at a top 10 customer would have a massive impact on profitability.

Exhibit 2

Customers as % of Revenue



Direct-To-Warehouse Model

When the company was relaunched in 2013, Hostess implemented its innovative DTW model which eliminated the need for Direct-Store-Delivery (DSD). Under the DTW model all transportation and shipping is done through third parties to customers' warehouses. This reduces costs that came from delivery routes to each individual store and opens doors to distribute to smaller convenience and drug stores that would have previously been very expensive to ship to. The DTW model is made possible through the extended shelf-life of the company's products that was introduced in 2013 after the relaunch.

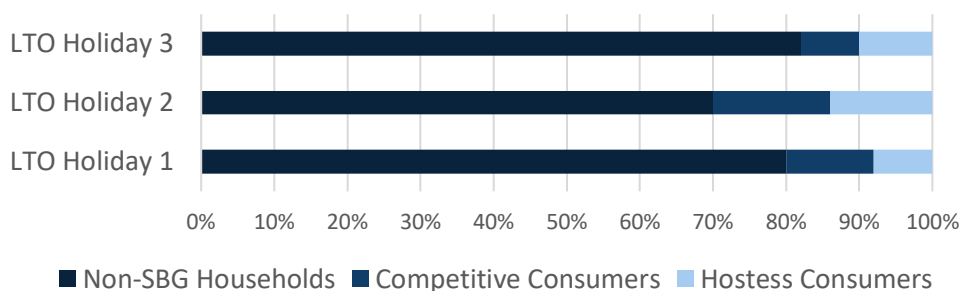
Company Strategy

Organic Growth

Hostess has had proven success using core product extensions and limited time offerings to spark growth. Core extensions such as new flavour variations of historic products and expansion into adjacent categories like breakfast foods has caused an outsized impact on sales growth. Limited time offers (LTO), along with new products, have been instrumental in capturing new consumers, adding \$160m in annual revenue. Hostess is also planning on further taking advantage of the spontaneous nature of their consumers by increasing spending in consumer advertising in 2020. Impulse food brands such as Hostess respond to advertising seven times faster than habitual shopping, so this investment seems likely to pay off.

Exhibit 3

Sales Volume of LTOs by Consumer Type



70-80+% of LTO Sales Volume Came from Non-SBG Households

Source: [Investor Presentation](#)

Acquisitions

Hostess has low capital spending needs compared to the competition. They convert 68% of Operating Cash Flow into Free Cash Flow, whereas their peer set averages a conversion rate of 57%. Hostess sees the opportunity to use this impressive Free Cash Flow conversion to create value through acquisitions in appealing, adjacent categories. By leveraging their brand power and proven business model and taking advantage of significant cost synergies, the company believes acquisitions are an effective use of excess funds. Hostess' recent acquisition of Voortman Cookies provides a great example of this. In November the company announced its \$320 million USD cash acquisition of the leading manufacturer with the highest market share in both the wafer and sugar-free cookie SBG segments. Not only is Voortman a leading company, they are rapidly growing with 5.1% CAGR over the past five years. This is a great example of the strategy behind Hostess' acquisitions. Voortman provides an opportunity to expand into a new category that will meet changing consumer tastes and diversify the company's product portfolio as well as manufacturing capabilities. The company believes Voortman will lead to growth in EBITDA of \$40-50 million annually by 2022.

Industry Analysis

Sweet Baked Goods

The U.S. SBG category is one of the largest categories within the \$74 billion U.S. Total Snack category, with approximately \$6.6 billion in annual sales. Hostess is #2 within the US SBG category with 19% market share. The three largest brands, Hostess, Little Debbie and Entenmanns account for 62% of SBG sales according to Nielsen, while the rest of the category is quite fragmented. There is very little private label penetration within the SBG category. Private labels have only 3.9% market share in comparison to 17.4% for overall packaged food. This shows the consumers preference for reliable, well known brands. The leading position of the top three brands should remain stable due to their expansive product portfolios,

immense brand awareness, and long-term relationships with vital retailers. Additionally, a large amount of capital investment is required to establish manufacturing and distribution with any scale providing further barriers to entry.

Continued Snacking Growth

There was a 21% increase in snacking frequency in the US from 2017-18, and the space seems poised for further expansion. Increasing demand for on-the-go nourishment has propelled 95% of American adults to snack daily and indulge in snack foods 3-5 times per day. This has caused a prediction of \$30 billion of growth in the US Snack Market by 2022.

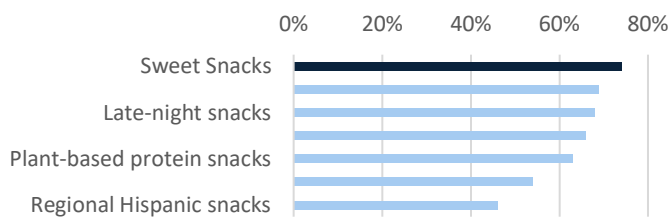
Consumer Trends and Purchase Drivers

Although consumers are beginning to look for “better-for-you” and “ingredient-conscious” products, indulgence is still king in snacking. Sweet snacks are the most appealing to consumers and flavour is the most important attribute.

Exhibit 4

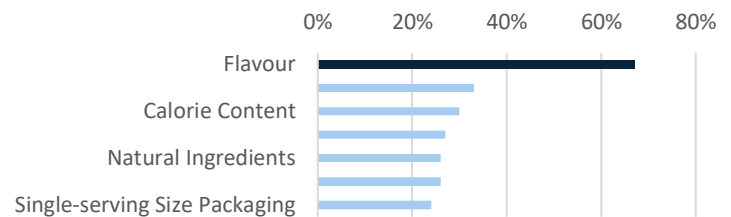
Most Appealing Snacking Categories

(% Who find Category Appealing)



Preferred Attributes of Snack Foods

(% Who Prefer Attribute)



Source: [Investor Presentation](#)

Still, Hostess is not ignoring industry trends. They are continuing to diversify their product portfolio to satisfy the needs of a wider group of consumers, with the recent acquisition of Voortman (which has the #1 selling sugar-free wafer) being a fantastic example. Other key competitors like McKee Foods are entering the sugar-free segment, however, the acquisition of a growing but well-established brand puts Hostess a step ahead of peers.

Although Hostess has a leading position within the U.S. SBG category, they still face strong competition from a variety of companies. The key purchase drivers and competitive factors in the industry are product quality, price, customer service, brand recognition and loyalty, promotional activities, and shelf space. Hostess experiences some pricing pressure from competitors; however, its brand recognition and product quality has created consumer loyalty which helps minimize this impact.

Catalysts

Future Acquisitions

The consumer-packaged goods market is quite fragmented, providing Hostess with the opportunity to grow through acquiring assets and other companies. The company continues to take advantage of their relatively limited need for capital spending to generate impressive amounts of free cash flow. Acquisitions are an intended use of these funds. If management continues to use this as a growth strategy and pursues future acquisitions the sales growth generated from the deals could increase the share price.

Expansion into New Categories

As Hostess continues to integrate its previous acquisitions and searches for innovative ways to meet changing consumer preferences, the company is provided with the opportunity to grow its product portfolio by offering adjacent categories of sweet-baked goods. Specifically, Hostess is looking to develop into the growing SBG Breakfast category. Breakfast items make up 48.7% of the SBG category, which seems likely to increase because of consumers' demand for more portable breakfasts. Hostess has used recent asset purchases to obtain a large market share in this category relative to its share in the entire Snacking industry. The introduction of new products has the potential to spark revenue growth and could be a catalyst for the company.

Management Team

C. Dean Metropoulos – Chairman

Mr. Metropoulos has served on the Hostess Brands Inc board since 2016. He is the founder and CEO of Metropoulos & Co. which is a private equity firm that specializes in reviving brands in the food and beverage and consumer products sectors. He has more than 30 years experience in acquiring and restructuring businesses worldwide and has been involved in nearly 80 transactions. Mr. Metropoulos has a very large stake in the company, owning 23.2% of common stock at a market value of \$434,341,390. His total compensation in 2018 was \$364,003 with over 90% under "Other Compensation".

Andrew Callahan – President & CEO

Callahan has served as President & CEO since May 2018. He was previously President of North American Foodservice & International at Tyson Foods. Prior to his role at Tyson Foods, he had a variety of experiences within the consumer-packaged goods industry, and in the U.S. Navy. He owns less than 1% of the company \$1,056,324. Total compensation in 2018 for Mr. Callahan was \$3,789,016 with over 75% coming from stock and incentive-based compensation.

Shareholder Base, Liquidity

Shareholder Base

Hostess Brands currently has 121 million diluted shares outstanding. The company's shareholder base mostly consists of institutional investors, whereas insiders (other than Metropoulos) only own 3.63%. Its largest 5 shareholders are listed below.

Exhibit 5

Ownership Breakdown

| Shareholder | Shares Owned | % Of Shares Outstanding |
|------------------------------------|-------------------|-------------------------|
| Vanguard Group, Inc. (The) | 10,849,810 | 8.97% |
| River Road Asset Management, LLC | 9,431,101 | 7.80% |
| Blackrock Inc. | 9,431,101 | 7.56% |
| Champlain Investment Partners, LLC | 9,143,371 | 7.17% |
| Dimensional Fund Advisors KO | 8,673,360 | 5.99% |
| Top 5 Investors | 47,528,743 | 37.49% |

Source: [Yahoo Finance](#)

Liquidity

Hostess Brands has an average daily trading volume of 1.01mm, which is quite healthy considering the companies \$1.9 billion market cap. In comparison to its peers, the company is average in terms of average volume vs. shares outstanding. Therefore, investors are not likely to have a liquidity risk.

Exhibit 6

Comparable Companies Share Turnover Ratios

| Company | Avg 3 Month Volume (mm) | Shares Outstanding | Turnover Ratio |
|-----------------------|-------------------------|--------------------|----------------|
| B&G Foods | 1.30 | 64.04 | 49.26 |
| Flowers Foods | 0.92 | 211.51 | 229.90 |
| Hain Celestial Group | 0.70 | 104.33 | 149.04 |
| J&J Snack Foods | 0.08 | 18.90 | 236.25 |
| Lancaster Colony Corp | 0.11 | 27.48 | 249.82 |
| Simply Good Foods | 1.03 | 95.29 | 92.51 |
| Hostess Brands | 0.99 | 120.95 | 122.17 |
| Industry Mean | 0.69 | 86.93 | 125.98 |

Source: [Yahoo Finance](#)

Valuation

DCF Assumptions

Revenue

We believe Hostess Brands' revenue will continue to increase over time as they expand into new product categories and acquire new brands. The growth in revenue is driven through square footage growth. We expect expansion of approximately 10,000 square footage per year on average and sales per square footage to gradually increase. This will be realized through acquisitions such as Hostess' recent purchase of Voortman Cookies.

CAPEX

We have forecasted \$43.1mm in CAPEX for FY2020, 19% of beginning PP&E. We believe this percentage will hold constant as Hostess Brands continuously invests in improving manufacturing and distribution capabilities.

Gross Margin

Based on revenue forecasts and CAPEX estimates, we believe gross margin will be similar to recent years at around 33-36%. Although this estimate could be affected by volatile ingredient prices, Hostess mitigates this risk by using a variety of suppliers.

Weighted Average Cost of Capital

For our valuation, we used a WACC of 4.2% with a cost of equity of 4.7% and a cost of debt of 4.7%. We made these estimates using the 5-year U.S. Treasury of bill to determine the risk-free rate of 1.62% and an expected market return of 8.0%, resulting in a market risk premium of 6.4%. Additionally, we used Bloomberg to find a beta of 0.48 and used an effective tax rate of 21.0%.

Dividend Policy

The company plans to continue using capital towards growth so Hostess will continue to issue no dividends.

EV/EBITDA Exit Multiple

Based on our analysis, we decided to use an 11.0x EV/EBITDA exit multiple. We believe this a fair estimate for what Hostess will trade at going forward.

Comparable Company Analysis

B&G Foods, Inc

B&G Foods sells and distributes a variety of branded frozen food and household products across the United States, Canada, and Puerto Rico. They distribute their products to all major U.S. food channels, similar to Hostess Brands.

Flowers Foods Inc

Flowers Foods produces and markets fresh and packaged bakery food. The company's products include a wide range of breads, buns, rolls, snack cakes and tortillas.

The Hain Celestial Group, Inc

The Hain Celestial Group manufactures, markets and distributes "better-for-you" food and personal care products. One of their core platforms in the United States is snacking. Like Hostess Brands, the company sells their products to customers such as supermarkets and convenience stores.

J&J Snack Foods Corp

J&J Snack Foods manufactures snack foods and distributes frozen beverages which are marketed to food service and supermarket industries within North America.

Lancaster Colony Corporation

Lancaster Colony Corporation manufactures and markets specialty food products for retail and foodservice markets. The company's brands span many categories including rolls, salad dressings and wraps.

Simply Good Foods Co

Simply Good Foods develops and sells branded nutritional foods and snacking products. The company also has Walmart as its largest customer.

Recommendation

Buy

Hostess Brands has proven it can leverage its strong brand power, acquisitions and innovation to recapture market share after its bankruptcy in 2013. By continuing to focus efforts on changes that create outsized impacts like limited time offers and product expansion, Hostess is heading in the right direction in pursuit of top line growth. However, the company is very susceptible to competition from lower priced brands and changes in consumer preferences.

Based on our DCF model and our Comparable Companies Analysis, we determined an implied share price of \$20.00 and upside of 49.6%. With this in consideration, we recommend a **Buy** on Hostess Brands, Inc.

Risks

Competition with Lower Priced Brands

The success of the company is very dependant on its ability to leverage its brand value and charge a premium price. If consumers do not believe there is a difference in value and/or quality between Hostess products and economy brands the

company could lose market share and sales volume. This problem could be exacerbated by weak economic conditions that would cause consumers to spend less on discretionary products.

Change in consumer preferences

The consumer tastes and preferences for snacking products is continually changing. If the company fails to identify these changes sales and market share will decrease. Moreover, the consumers' focus on health and wellness, and awareness of product ingredients can create negative perceptions of the company's products.

Dependence on Shelf-Space from Retailers

For Hostess' revenue to continue to grow they must obtain additional shelf/display space from retailers. Either a decrease in sales or a disruption of operations for their key retailers would be a major blow. If any of the top ten customers, especially Wal-Mart, decide to purchase less of the company's products or go through financial hardships Hostess may have a hard time increasing sales.

Manufacturing costs are subject to price volatility

The company purchases large quantities of commodities, such as flour and sweeteners, to manufacture its products. The prices of these commodities can be volatile and are difficult to predict. Although the company is taking action to minimize its exposure to this risk, an increase in the cost of these commodities could drive prices upwards and profitability could suffer.

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Exhibit 1: Model Summary

| | Dec-16 | Dec-17 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 | Dec-19 | Dec-20 | Dec-21 | Dec-22 | Dec-23 | Dec-24 |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| (Figures in mm USD) | FY2016 | FY2017 | FY2018 | Q1-2019 | Q2-2019 | Q3-2019 | Q4-2019 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 |
| Income Statement | | | | | | | | | | | | | |
| Revenue | 727.6 | 776.2 | 850.4 | 222.7 | 241.1 | 227.2 | 231.1 | 922.1 | 989.0 | 1,061.3 | 1,148.5 | 1,247.0 | 1,356.9 |
| EBITDA | 129.4 | 272.2 | 163.0 | 47.0 | 47.9 | 34.3 | 49.2 | 178.5 | 213.2 | 226.1 | 244.6 | 265.6 | 289.0 |
| Net Income | 51.9 | 258.1 | 81.4 | 26.6 | 16.7 | 10.7 | 19.6 | 73.6 | 89.8 | 98.9 | 112.0 | 126.7 | 143.2 |
| Earnings Per Share | \$ 0.54 | \$ 2.13 | \$ 0.61 | \$ 0.21 | \$ 0.10 | \$ 0.07 | \$ 0.27 | \$ 0.65 | \$ 0.74 | \$ 0.82 | \$ 0.92 | \$ 1.05 | \$ 1.18 |
| Cash Flow Statement | | | | | | | | | | | | | |
| Capital Expenditures | (35.1) | (32.9) | (44.6) | (9.5) | (5.9) | (13.0) | (10.8) | (39.2) | (43.1) | (43.0) | (42.9) | (42.8) | (42.7) |
| Acquisitions | (471.0) | - | (23.2) | - | - | - | - | - | - | - | - | - | - |
| Divestitures | - | - | - | - | - | 63.4 | - | 63.4 | - | - | - | - | - |
| Balance Sheet | | | | | | | | | | | | | |
| Current Assets | 151.4 | 279.0 | 299.4 | 338.6 | 370.6 | 433.5 | 446.4 | 446.4 | 544.7 | 649.1 | 769.7 | 906.2 | 1,060.2 |
| Non-Current Assets | 2,696.5 | 2,687.2 | 2,711.3 | 2,705.3 | 2,698.3 | 2,633.3 | 2,633.2 | 2,633.2 | 2,632.6 | 2,632.1 | 2,631.6 | 2,631.1 | 2,630.5 |
| Assets | 2,847.9 | 2,966.3 | 3,010.7 | 3,043.8 | 3,069.0 | 3,066.8 | 3,079.6 | 3,079.6 | 3,177.4 | 3,281.2 | 3,401.3 | 3,537.3 | 3,690.7 |
| Current Liabilities | 103.9 | 127.9 | 141.1 | 154.7 | 166.9 | 158.7 | 151.9 | 151.9 | 159.8 | 164.7 | 172.8 | 182.0 | 192.3 |
| Non-Current Liabilities | 1,512.6 | 1,365.9 | 1,319.4 | 1,312.8 | 1,331.6 | 1,350.8 | 1,350.8 | 1,350.8 | 1,350.8 | 1,350.8 | 1,350.8 | 1,350.8 | 1,350.8 |
| Liabilities | 1,616.5 | 1,493.7 | 1,460.5 | 1,467.5 | 1,498.6 | 1,509.5 | 1,502.7 | 1,502.7 | 1,510.6 | 1,515.5 | 1,523.7 | 1,532.9 | 1,543.2 |
| Shareholders' Equity | 897.2 | 1,130.3 | 1,199.8 | 1,221.4 | 1,326.3 | 1,452.2 | 1,471.8 | 1,471.8 | 1,561.7 | 1,660.6 | 1,772.6 | 1,899.3 | 2,042.5 |
| Cash | 26.9 | 135.7 | 146.4 | 160.5 | 189.3 | 266.9 | 285.9 | 285.9 | 369.4 | 464.7 | 570.2 | 689.5 | 824.4 |
| Debt | 1,004.9 | 999.2 | 988.0 | 987.7 | 985.3 | 983.0 | 983.0 | 983.0 | 983.0 | 983.0 | 983.0 | 983.0 | 983.0 |
| Net Debt | 978.0 | 863.5 | 841.6 | 827.2 | 796.0 | 716.1 | 697.2 | 697.2 | 613.6 | 518.3 | 412.8 | 293.5 | 158.6 |
| Minority Interests | 334.2 | 342.2 | 350.5 | 355.0 | 244.1 | 105.1 | 105.1 | 105.1 | 105.1 | 105.1 | 105.1 | 105.1 | 105.1 |
| Debt/EBITDA | 7.6 x | 3.2 x | 5.2 x | | | | | 3.9 x | 2.9 x | 2.3 x | 1.7 x | 1.1 x | 0.5 x |
| Operating Metrics | | | | | | | | | | | | | |
| Return on Equity (ROE) | 5.8% | 22.8% | 6.8% | 2.2% | 1.3% | 0.7% | 1.3% | 5.0% | 5.8% | 6.0% | 6.3% | 6.7% | 7.0% |
| Return on Assets (ROA) | 1.8% | 8.7% | 2.7% | 0.9% | 0.5% | 0.3% | 0.6% | 2.4% | 2.8% | 3.0% | 3.3% | 3.6% | 3.9% |
| Return on Invested Capital (ROIC) | 4.9% | 11.7% | 3.9% | 1.4% | 0.9% | 0.7% | 1.0% | 4.0% | 4.5% | 4.8% | 5.3% | 5.8% | 6.4% |
| Valuation Metrics | | | | | | | | | | | | | |
| Stock Price (High) | \$ 13.50 | \$ 17.18 | \$ 15.36 | \$ 12.63 | \$ 14.86 | \$ 14.72 | \$ 13.56 | \$ 14.86 | \$ 13.56 | \$ 13.56 | \$ 13.56 | \$ 13.56 | \$ 13.56 |
| Stock Price (Low) | \$ 9.50 | \$ 11.00 | \$ 9.86 | \$ 10.63 | \$ 12.78 | \$ 12.56 | \$ 13.56 | \$ 10.63 | \$ 13.56 | \$ 13.56 | \$ 13.56 | \$ 13.56 | \$ 13.56 |
| Stock Price (Average) | \$ 11.50 | \$ 14.09 | \$ 12.61 | \$ 11.63 | \$ 13.82 | \$ 13.64 | \$ 13.56 | \$ 12.75 | \$ 13.56 | \$ 13.56 | \$ 13.56 | \$ 13.56 | \$ 13.56 |
| Diluted Shares Outstanding (Average) | 97.8 | 105.3 | 103.1 | 100.8 | 109.5 | 121.1 | 121.1 | 113.1 | 121.1 | 121.1 | 121.1 | 121.1 | 121.1 |
| Market Capitalization (Average) | 1,124.6 | 1,483.8 | 1,300.1 | 1,172.0 | 1,513.4 | 1,652.1 | 1,642.4 | 1,441.9 | 1,642.4 | 1,642.4 | 1,642.4 | 1,642.4 | 1,642.4 |
| Enterprise Value (Average) | 2,436.8 | 2,689.5 | 2,492.2 | 2,354.2 | 2,553.6 | 2,473.3 | 2,444.6 | 2,244.1 | 2,361.1 | 2,265.8 | 2,160.3 | 2,041.0 | 1,906.1 |
| P/E | 21.3 x | 6.6 x | 20.7 x | | | | | 19.6 x | 18.3 x | 16.6 x | 14.7 x | 13.0 x | 11.5 x |
| EV/EBITDA | 18.8 x | 9.9 x | 15.3 x | | | | | 12.6 x | 11.1 x | 10.0 x | 8.8 x | 7.7 x | 6.6 x |
| FCF Yield to Market Capitalization | 10.5% | 20.0% | 9.3% | | | | | 7.7% | 7.8% | 8.6% | 9.3% | 10.2% | 11.3% |
| FCF Yield to Enterprise Value | 4.8% | 11.0% | 4.8% | | | | | 4.9% | 5.4% | 6.2% | 7.1% | 8.2% | 9.8% |
| Free Cash Flow | | | | | | | | | | | | | |
| EBIT | 113.3 | 234.0 | 121.6 | 36.1 | 36.9 | 23.6 | 38.3 | 134.9 | 169.6 | 182.5 | 201.2 | 222.3 | 245.8 |
| Tax Expense | 7.3 | 67.2 | (13.0) | 1.2 | (9.1) | (3.0) | (8.0) | (28.3) | (35.6) | (38.3) | (42.2) | (46.7) | (51.6) |
| D&A | 16.1 | 38.2 | 41.4 | 10.9 | 11.1 | 10.7 | 10.9 | 43.6 | 43.6 | 43.5 | 43.4 | 43.3 | 43.2 |
| Capital Expenditures | (35.1) | (32.9) | (44.6) | (9.5) | (5.9) | (13.0) | (10.8) | (39.2) | (43.1) | (43.0) | (42.9) | (42.8) | (42.7) |
| Changes in NWC | 16.5 | (10.1) | 15.3 | (6.5) | 5.0 | 2.2 | (0.7) | (0.1) | (6.8) | (4.2) | (7.0) | (7.9) | (8.8) |
| Unlevered Free Cash Flow | 118.1 | 296.4 | 120.7 | 32.2 | 37.9 | 20.4 | 29.6 | 110.8 | 127.7 | 140.5 | 152.5 | 168.2 | 185.9 |

Exhibit 2: Discounted Cash Flow Analysis

| (Figures in mm USD) | FY2014 | FY2015 | FY2016 | Q1-2017 | Q2-2017 | Q3-2017 | Q4-2017 | FY2017 | Q1-2018 | Q2-2018 | Q3-2018 | Q4-2018 | FY2018 | Q1-2019 | Q2-2019 | Q3-2019 | Q4-2019 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 | |
|--|----------------|----------|--------------|-------------|-------------|-------------|--------------|--------------|-------------|-------------|-------------|-------------|--------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--|
| WACC Calculations | | | | | | | | | | | | | | | | | | | | | | | | |
| Cost of Equity | | | | | | | | | | | | | | | | | | | | | | | | |
| Risk-free rate | 1.6% | | | | | | | | | | | | | | | | | | | | | | | |
| Expected market return | 8.0% | | | | | | | | | | | | | | | | | | | | | | | |
| Market Risk Premium | 6.4% | | | | | | | | | | | | | | | | | | | | | | | |
| Beta | 0.48 | | | | | | | | | | | | | | | | | | | | | | | |
| Cost of Equity | 4.7% | | | | | | | | | | | | | | | | | | | | | | | |
| Cost of Debt | | | | | | | | | | | | | | | | | | | | | | | | |
| Pre-tax cost of debt | 4.2% | | | | | | | | | | | | | | | | | | | | | | | |
| Effective tax rate | 21.0% | | | | | | | | | | | | | | | | | | | | | | | |
| Cost of Debt | 3.3% | | | | | | | | | | | | | | | | | | | | | | | |
| WACC | | | | | | | | | | | | | | | | | | | | | | | | |
| Market value of equity | 1,642.4 | | | | | | | | | | | | | | | | | | | | | | | |
| Market value of debt | 983.0 | | | | | | | | | | | | | | | | | | | | | | | |
| Total Capitalization | 2,625.4 | | | | | | | | | | | | | | | | | | | | | | | |
| Cost of equity | 4.7% | | | | | | | | | | | | | | | | | | | | | | | |
| Cost of debt | 3.3% | | | | | | | | | | | | | | | | | | | | | | | |
| WACC | 4.2% | | | | | | | | | | | | | | | | | | | | | | | |
| Free Cash Flow | | | | | | | | | | | | | | | | | | | | | | | | |
| EBIT | - | - | 113.3 | 44.7 | 49.8 | 38.7 | 100.8 | 234.0 | 32.9 | 34.6 | 23.7 | 30.3 | 121.6 | 36.1 | 36.9 | 23.6 | 38.3 | 134.9 | 169.6 | 182.5 | 201.2 | 222.3 | 245.8 | |
| Less: Tax expense | - | - | 7.3 | (10.0) | (11.3) | (10.3) | 98.8 | 67.2 | (6.5) | (0.2) | (2.6) | (3.6) | (13.0) | 1.2 | (9.1) | (3.0) | (8.0) | (28.3) | (35.6) | (38.3) | (42.2) | (46.7) | (51.6) | |
| Add: Depreciation and amortization | - | - | 16.1 | 9.3 | 18.9 | 28.6 | (18.5) | 38.2 | - | 10.6 | 10.7 | 20.1 | 41.4 | 10.9 | 11.1 | 10.7 | 10.9 | 43.6 | 43.6 | 43.5 | 43.4 | 43.3 | 43.2 | |
| Less: Capital expenditures | - | - | (35.1) | (4.5) | (10.6) | (7.7) | (10.2) | (32.9) | (8.0) | (11.8) | (13.1) | (11.7) | (44.6) | (9.5) | (5.9) | (13.0) | (10.8) | (39.2) | (43.1) | (43.0) | (42.9) | (42.8) | (42.7) | |
| Less: Change in net working capital | - | - | 16.5 | (12.9) | (6.5) | 8.5 | 0.9 | (10.1) | 3.7 | 8.4 | 2.6 | 0.5 | 15.3 | (6.5) | 5.0 | 2.2 | (0.7) | (0.1) | (6.8) | (4.2) | (7.0) | (7.9) | (8.8) | |
| Unlevered Free Cash Flow | - | - | 118.1 | 26.6 | 40.2 | 57.8 | 171.8 | 296.4 | 22.1 | 41.6 | 21.4 | 35.7 | 120.7 | 32.2 | 37.9 | 20.4 | 29.6 | 110.8 | 127.7 | 140.5 | 152.5 | 168.2 | 185.9 | |
| Discount factor | | | | | | | | | | | | | | | | | 0.25 | 0.25 | 1.25 | 2.25 | 3.25 | 4.25 | 5.25 | |
| Present Value of Unlevered Free Cash Flow | | | | | | | | | | | | | | | | | 29.3 | 29.3 | 123.1 | 128.2 | 133.5 | 141.4 | 150.0 | |

| Perpetuity Growth Method | | | | Exit Multiple Method | | | | WACC | | | | | | | | | |
|----------------------------|-----------------|-----------------------------|-----------------|------------------------|----------|-----------------------------|-----------|-----------|-----------|-------|--|-------|--|-------|--|-------|--|
| Perpetuity Growth Rate | | Terminal EV/EBITDA Multiple | | Perpetuity Growth Rate | | Terminal EV/EBITDA Multiple | | 5.17% | | 4.67% | | 4.17% | | 3.67% | | 3.17% | |
| PV sum of unlevered FCF | 764.0 | PV sum of unlevered FCF | 764.0 | 1.00% | \$ 27.30 | \$ 32.08 | \$ 38.38 | \$ 47.04 | \$ 59.71 | | | | | | | | |
| Terminal value | 4,628.7 | Terminal value | 2,489.3 | 1.50% | \$ 31.18 | \$ 37.32 | \$ 45.76 | \$ 58.11 | \$ 77.87 | | | | | | | | |
| Enterprise Value | 5,392.7 | Enterprise Value | 3,253.3 | 2.00% | \$ 36.29 | \$ 44.51 | \$ 56.55 | \$ 75.81 | \$ 111.61 | | | | | | | | |
| Add: Cash | 266.9 | Add: Cash | 266.9 | 2.50% | \$ 43.30 | \$ 55.03 | \$ 73.81 | \$ 108.70 | \$ 196.03 | | | | | | | | |
| Less: Debt | 983.0 | Less: Debt | 983.0 | 3.00% | \$ 53.56 | \$ 71.87 | \$ 105.88 | \$ 191.01 | \$ 790.17 | | | | | | | | |
| Less: Other EV adjustments | 105.1 | Less: Other EV adjustments | 105.1 | | | | | | | | | | | | | | |
| Equity Value | 4,571.5 | Equity Value | 2,432.1 | | | | | | | | | | | | | | |
| Shares outstanding | 121.1 | Shares outstanding | 121.1 | | | | | | | | | | | | | | |
| Implied Share Price | \$ 37.74 | Implied Share Price | \$ 20.08 | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| Current Price | \$ 13.37 | Current Price | \$ 13.37 | | | | | | | | | | | | | | |
| Implied Price | \$ 37.74 | Implied Price | \$ 20.08 | | | | | | | | | | | | | | |
| Total Return | 182.3% | Total Return | 50.2% | | | | | | | | | | | | | | |

Exhibit 3: Comparable Companies Analysis

(Figures in mm USD)

| Company | Ticker | Share Price | Shares Outstanding | Equity Value | Cash | Debt | Other EV Adjustments | Enterprise Value | EV/EBITDA Multiple | | | | | | P/E Multiple | | | | | |
|--------------------------------|-----------------------|-----------------|--------------------|----------------|--------------|--------------|----------------------|------------------|--------------------|--------------|--------------|-----------------|-----------------|-----------------|---------------|----------------|----------------|---------------|---------------|---------------|
| | | | | | | | | | 2018A EBITDA | 2019E EBITDA | 2020E EBITDA | 2018A EV/EBITDA | 2019E EV/EBITDA | 2020E EV/EBITDA | Diluted EPS | Diluted EPS | Diluted EPS | 2018A P/E | 2019E P/E | 2020E P/E |
| The Hain Celestial Group, Inc. | (NASDAQ:HAIN) | \$ 26.88 | 104.3 | 2,804.4 | 20.5 | 413.5 | 0.1 | 3,197.5 | 220.8 | 189.0 | 179.5 | 14.5 x | 16.9 x | 17.8 x | 0.1 \$ | 0.65 \$ | 0.69 \$ | 298.7 x | 41.4 x | 39.0 x |
| J & J Snack Foods Corp. | (NASDAQ:JJSF) | \$ 173.05 | 18.9 | 3,270.6 | 192.4 | 1.1 | (52.1) | 3,027.2 | 157.2 | 164.5 | 176.0 | 19.3 x | 18.4 x | 17.2 x | 5.5 \$ | 5.05 \$ | 5.31 \$ | 31.4 x | 34.3 x | 32.6 x |
| Flowers Foods, Inc. | (NYSE:FLO) | \$ 22.39 | 211.5 | 4,735.5 | 7.0 | 1,301.9 | 0.4 | 6,030.8 | 405.9 | 424.3 | 447.1 | 14.9 x | 14.2 x | 13.5 x | 0.7 \$ | 0.96 \$ | 1.02 \$ | 30.3 x | 23.3 x | 22.0 x |
| Lancaster Colony Corporation | (NASDAQ:LANC) | \$ 154.74 | 27.5 | 4,255.4 | 173.5 | 28.3 | (2.4) | 4,107.8 | 200.5 | 218.4 | 230.1 | 20.5 x | 18.8 x | 17.9 x | 4.9 \$ | 5.29 \$ | 5.42 \$ | 31.5 x | 29.3 x | 28.5 x |
| B&G Foods, Inc. | (NYSE:BGS) | \$ 13.63 | 64.0 | 872.3 | 267.0 | 2,177.9 | 0.7 | 2,784.0 | 308.2 | 301.4 | 305.5 | 9.0 x | 9.2 x | 9.1 x | 2.6 \$ | 1.67 \$ | 1.72 \$ | 5.2 x | 8.2 x | 7.9 x |
| The Simply Good Foods Company | (NASDAQ:SMPL) | \$ 24.84 | 95.2 | 2,364.8 | 266.3 | 190.9 | (0.1) | 2,289.3 | 71.8 | 96.6 | 152.1 | 31.9 x | 23.7 x | 15.1 x | 1.0 \$ | 0.67 \$ | 0.75 \$ | 25.9 x | 37.1 x | 33.1 x |
| Hostess Brands, Inc. | (NASDAQ: TWNK) | \$ 13.37 | 120.9 | 1,616.4 | 266.9 | 983.0 | 105.1 | 2,437.6 | 172.1 | 204.5 | 221.2 | 14.2 x | 11.9 x | 11.0 x | 0.6 \$ | 0.61 \$ | 0.73 \$ | 21.9 x | 21.9 x | 18.3 x |
| Median | | | | | | | | | | | | | 17.7 x | 16.1 x | | | | | 31.8 x | 30.6 x |
| Mean | | | | | | | | | | | | | 16.9 x | 15.1 x | | | | | 28.9 x | 27.2 x |
| High | | | | | | | | | | | | | 23.7 x | 17.9 x | | | | | 41.4 x | 39.0 x |
| Low | | | | | | | | | | | | | 9.2 x | 9.1 x | | | | | 8.2 x | 7.9 x |
| Median | | | | | | | | | | | | | | | | | | | | |
| Mean | | | | | | | | | | | | | | | | | | | | |
| High | | | | | | | | | | | | | | | | | | | | |
| Low | | | | | | | | | | | | | | | | | | | | |