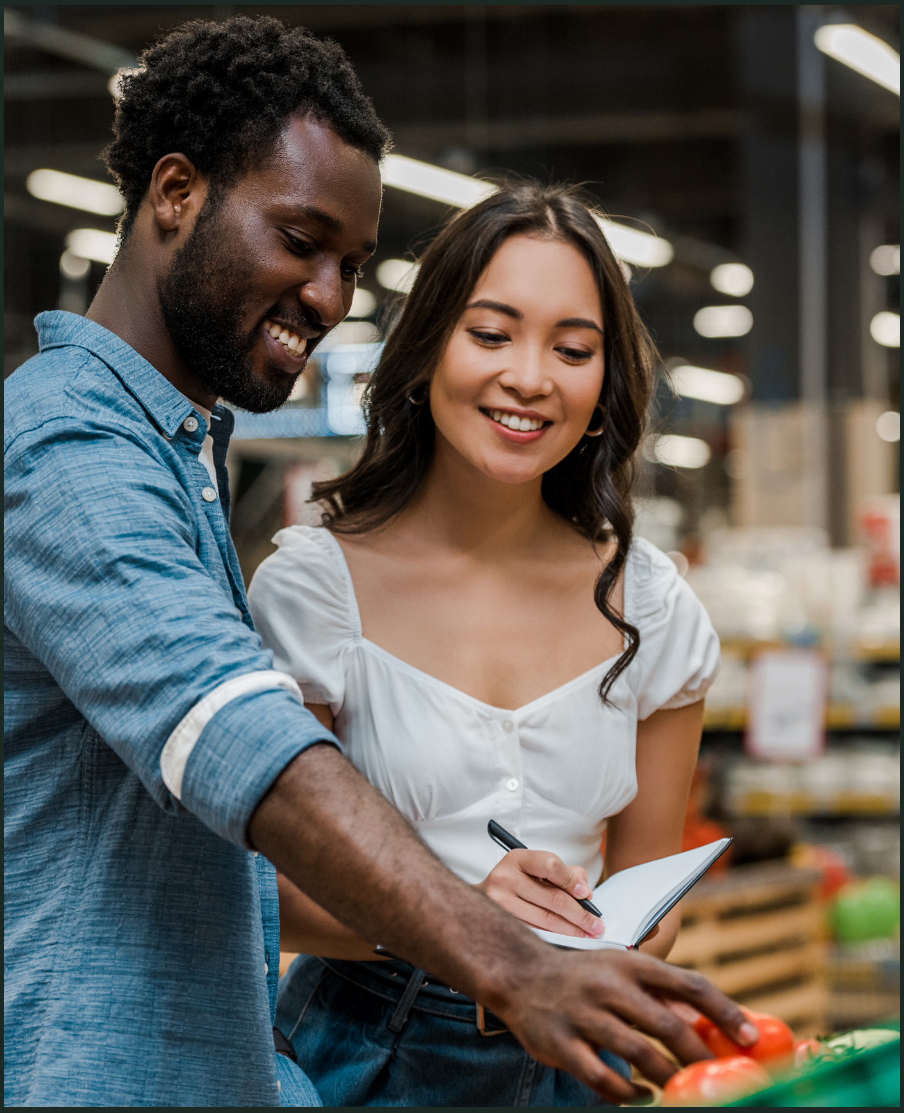
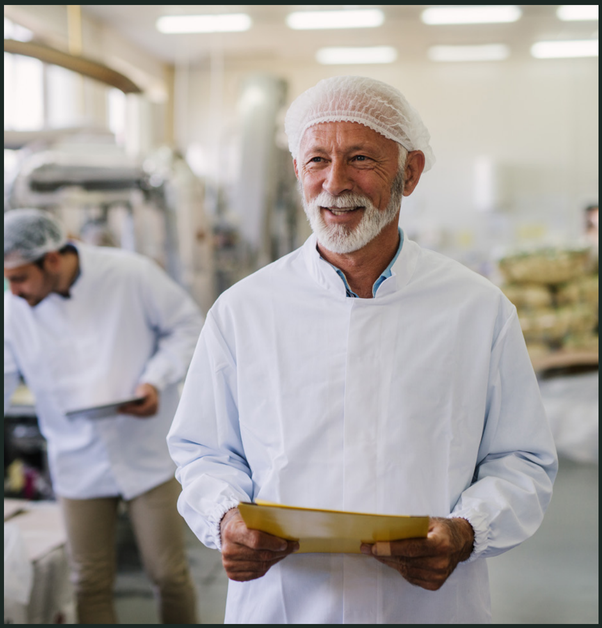
MANNATREE

The Food System is Broken.

Here's Why We Believe Finance Can Fix It.

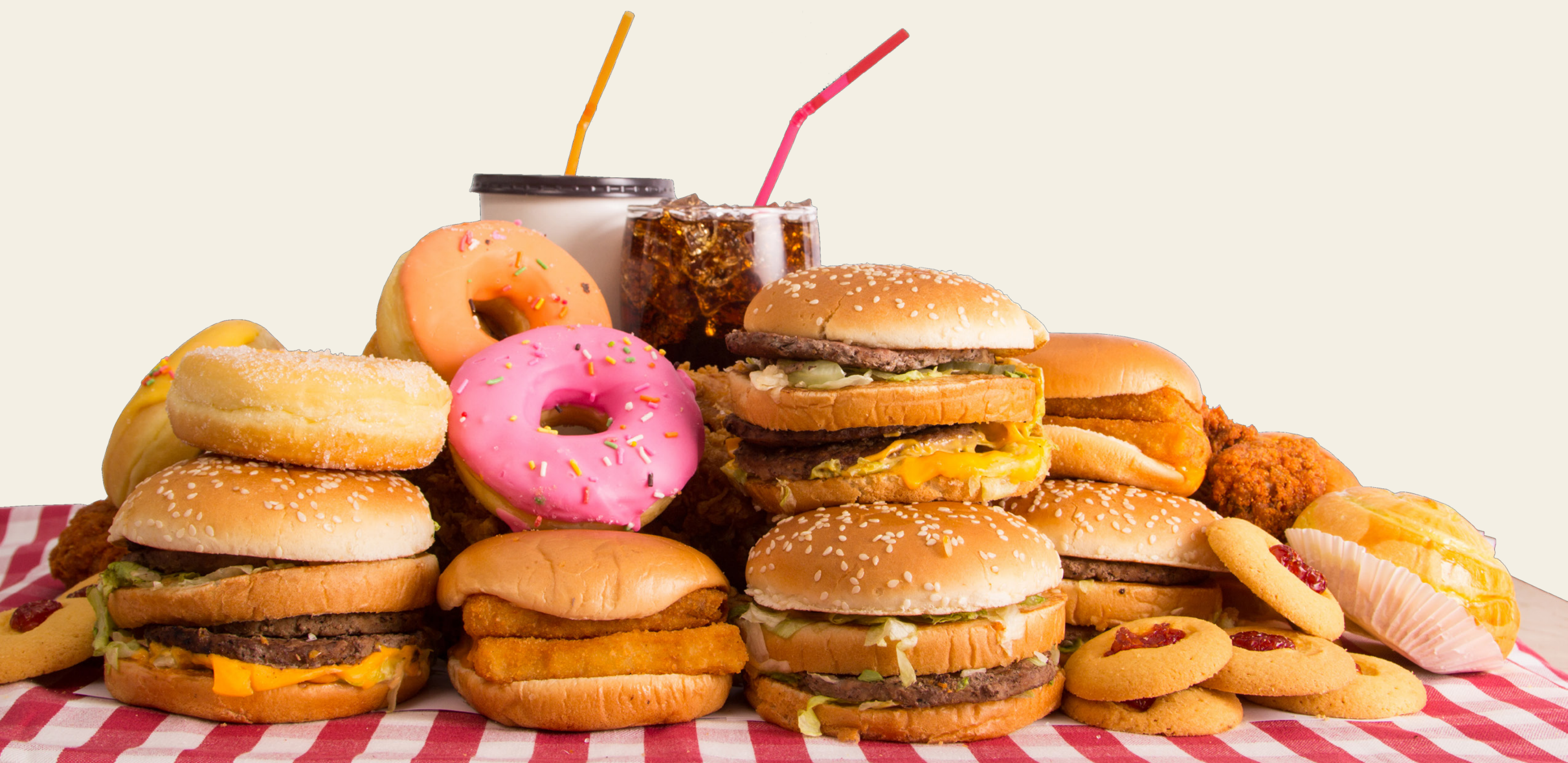




Food in America is harming our health:

Research shows food in America is harming our health: Six in 10 Americans live with at least one chronic disease, and some of that stems from the proliferation of processed foods packed with laundry lists of artificial and chemical ingredients.[1]

But the way we eat could fundamentally shift to healthier options if innovative food companies scale fast enough to reach mainstream consumers—and subsequently be acquired by Big Food[2]. Piece by piece, each young food brand acquisition could introduce a new food concept, a new niche market, a different supply chain and possibly regenerative agricultural processes that could shift broader market dynamics and allow big food companies to reshape their portfolios with brands and companies that are aligned with modern food values of Millennial and Generation Z. The upshot: innovative companies, by the hundreds, can fundamentally shift how and what we eat.



Small and emerging brands are key in this equation—bringing nutrition led innovation to consumers. But these companies can't always grow fast enough to be acquired, nor do they have enough capital to scale for an initial public offering or to be sustainable long-term.

Private market firms that have former consumer packaged executives can identify blind spots and formulate strategies for growing and competing against the massive advantages held by big companies. Deep operating expertise, retail relationships, and supplier networks can be gamechangers for healthy food companies to get the footing they need in the marketplace.

We believe the food system still needs an additional $50 billion to $100 billion to recapitalize the industry and upgrade existing and outdated ideas of what food is.

America's health has deteriorated partly because of diet[3]

	TODAY	IN THE 1970s
Obesity	42% of American adults are obese	15% of American adults were obese
Diabetes	11.3% of Americans have diabetes	2.7% of Americans had diabetes

73% of America's food supply contains ultra-processed foods[4]

But people are demanding healthier food...

The pandemic drove people to cook, eat, shop and think about food differently.

85% of people have changed their diets since the pandemic

80% of Millennials consider health benefits when selecting foods

How Did We Get Here?

Agricultural subsidies have played a key role in unhealthy eating patterns and the obesity epidemic.[5]

1960s

Food insecurity became a national issue

1970s

A food crisis drove up food prices by as much as 250%. In response, the federal government created agricultural subsidies that aided farmers in the production of corn, soybeans, wheat, rice, sorghum, dairy, and livestock feed.

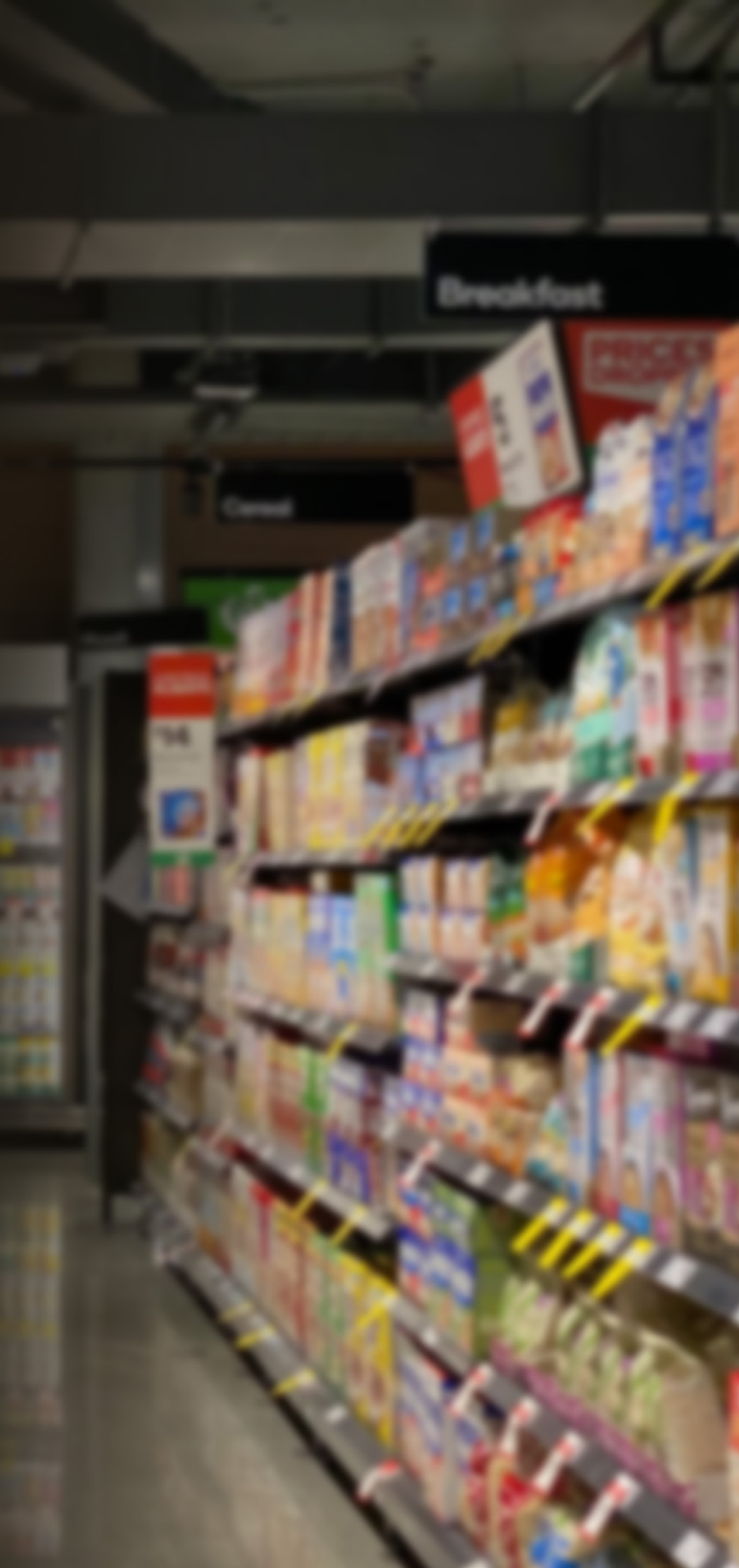
Mid-1980s and 2000s:

Big Food attempted to grow by adding ingredients to processed foods.

Today

The largest 15% of farm businesses receive 85% of the farm subsidies, allowing them to oversupply crops and drop prices.

Monocropping—or growing one single crop each year instead of rotating crops— increased the use of pesticides and water and disturbed the natural balance of soils.



Big Food is Not the Enemy

Much of the decline in America's health can be chalked up to an unhealthy diet filled with processed foods filled with salt, fat, sugar, refined carbohydrates, trans fats, high fructose corn syrup and a laundry list of other artificial, chemical and highly processed ingredients. New research has also shown that those same processed foods may be addictive, firing up cravings, and rewiring the brain's reward circuits.[6]

Yet Big Food is not necessarily the enemy. These large food giants are actually key to introducing better-for-you food. Why? We believe the best way for large food companies to innovate is through acquisition. Without those outside purchases, Big Food doesn't have the economic model that rewards healthy food innovation. While they may be packed with young smart people who may genuinely want to create healthier food, there is no economic incentive to go back to the drawing board for new healthier products. If, for example, a company is trying to come up with a new yogurt, why would it waste time on something niche like Greek yogurt, when it could just sell more of its existing business?

We believe one of the best ways to drive growth with those niche new products is through acquiring young companies.

Emerging Food Brands Need Big Food

Even if an innovative company breaks into the mainstream, it can still be tough to go it alone and bring meaningful change to the food system. They need a large company. Take, for instance, Annie's Mac & Cheese.

When the better-for-you organic macaroni and cheese brand sold to General Mills in 2014 for $820 million, the brand gained access to the giant's purchasing network with farmer relationships. The move accelerated the conversion of crops from conventional farming to organic. The acquisition of Annie's may have expanded their reach and amplified the potential impact the brand could have on that particular consumer segment. The deal also aided in Annie's logistics, allowing it to tap into the vast distribution and logistics network and influence that General Mills held in the marketplace.

There has been a steady parade of healthier-for-you acquisitions in recent years, including:[7]

A = Acquirer
B = Brand

2015
$275 million
A: Flower Foods
B: Dave's Killer Bread

2015
$231 million
A: Campbell's Soup
B: Garden Fresh Gourmet

2015
Undisclosed
A: Nature's Path
B: Country Choice Organic

2015
Undisclosed
A: American Halal Company
B: Mediterranean Snack Food

2018
$420 million
A: The Hershey Co.
B: Pirate's Booty

2020
$5 billion
A: Mars
B: Kind Bars

2022
$2.9 billion
A: Mondelez International
B: Clif Bar

2023
$800 million
A: Mars
B: Kevin's Natural Foods

This slide includes a sample list of CPG companies and their acquisition process. Manna Tree does not expect to invest in these companies. Performance of these companies are not an indication of Manna Tree's future investment results. The company logos are for illustrative purposes only and do not represent potential investments by Manna Tree.

More investment is needed

Investment markets have slowed after nearly a decade of record-breaking deals and dollars. Three years ago, when interest rates were zero and capital was free, investors easily bet on new ventures that hadn't fully proven themselves out.

Now, the fallout has begun. After breaking funding and valuation records in 2021 with $51.7 billion in funding, the market for food investments cooled in 2022 at $29.6 billion, or a 44% decline, according to the 2023 AgFunder Global AgriFoodTech Investment Report.[8]

Food bankruptcies have soared this year. As many as 85 food, beverage and tobacco companies have filed for bankruptcy through the first half of the year, according to New Generation Research. Some of the high-profile flameouts include plant-based food company Tattooed Chef and indoor farming firms AppHarvest and AeroFarms.[9]

The companies that lacked strong management teams and deep pockets are falling away in a very competitive environment for young companies. **Like a forest fire, the healthy food markets are being cleaned out so only the strongest brands can continue to grow.** The current market for food investments has cooled, but we expect food acquisitions to accelerate going forward.

Big Food is primed for acquisitions

After a long period of mega-deals, companies are now buying one-off brands, sometimes in deals valued at $1 billion or more.[10] Last year, Mondelez International bought Clif Bar for $2.9 billion,[11] and earlier this year, Mars acquired Kevin's Natural Foods, a nutritious meal company for $800 million[12]. Last year, food companies made 254 U.S. food and beverage acquisitions, down from 304 in 2021, according to financial analytics firm Dealogic. Acquirers also spent less money on those transactions: the average deal size was $67.5 million, versus $148.4 million in 2021.[13]

We continue to see a lot of dry powder[14] sitting inside these large companies waiting to be deployed. In September, Nestle, the world's largest food company, said it wanted to increase sales of better-for-you products by as much as $27.3 billion by the decade's end—that's 50% more than 2022.[15]

Momentum is also building for healthier federal food programs. Tufts University has championed a Food as Medicine initiative within the White House—an effort to raise awareness about the impact of food on national wellbeing.[16] It includes integrating food-based nutrition programs and interventions into the healthcare system and highlighting the link between poor diets, chronic illness and health care costs.

Americans Are Hungry For:

Protein

10% annual growth in new protein products between 2017–2022

1 in 5 consumers changed their protein intake in the past 12 months[17]

Protein products have seen a big jump in recent years, as awareness grows about the benefits of protein-rich products in cellular growth, repair and function, and a flood of food and beverage options appeared on the market. At least 55% of Americans said in 2020 that they were seeking foods that are high in protein, up from 45% in 2011.[18] That demand is especially high for younger generations. Some of the hot plant proteins include chickpea, brown rice, fava bean, mung bean, lentil, wheat and flaxseed protein.[19]

Example
Kodiak Cakes, which makes high-protein pancake mixes

Minimally processed and clean ingredients[20]

6.8% predicted growth rate in clean products

2 in 3 consumers say clean labels influence their purchase decisions

Demand grows for foods with fewer artificial colors and ingredients. People know ultra processed foods are bad for them, and 78% of consumers say they'll pay more money for a clean label.[21] Companies are working to develop new ways of preserving the shelf life of products and removing chemical additives. At least 8 in 10 manufacturers have reformulated for clean labels in the past two years with at least six in 10 reporting they are currently reformulating their products for clean labels.[22] The market for clean products is expected to grow to $64 billion in 2026.[23]

Example
Savor by Suzie Sea Salt Grain-Free Pretzels

No added sugar[24]

300% annual growth rate of new products with low sugar claim between 2019 and 2021[25]

1 in 4 consumers said low sugar was their top diet change in the past 12 months[26]

Sugar is the new demon because it's linked to obesity and health problems.[27] The World Health Organization recommends that adults consume no more that 6 to 9 teaspoons of added sugar per day, but the average American consumes 17 teaspoons per day.[28] The avoidance of sugar and especially added sugar will continue to have big momentum in the marketplace. Coca-Cola, for instance, launched 246 low or no-sugar products in 2022 and cut sugar by 30% in its leading brands.[29] The sugar-free food and beverage market is projected to grow to $23.3 billion by 2028, up from today's $19.17 billion.[30]

Example
Magic Spoon
Og of sugar cereal

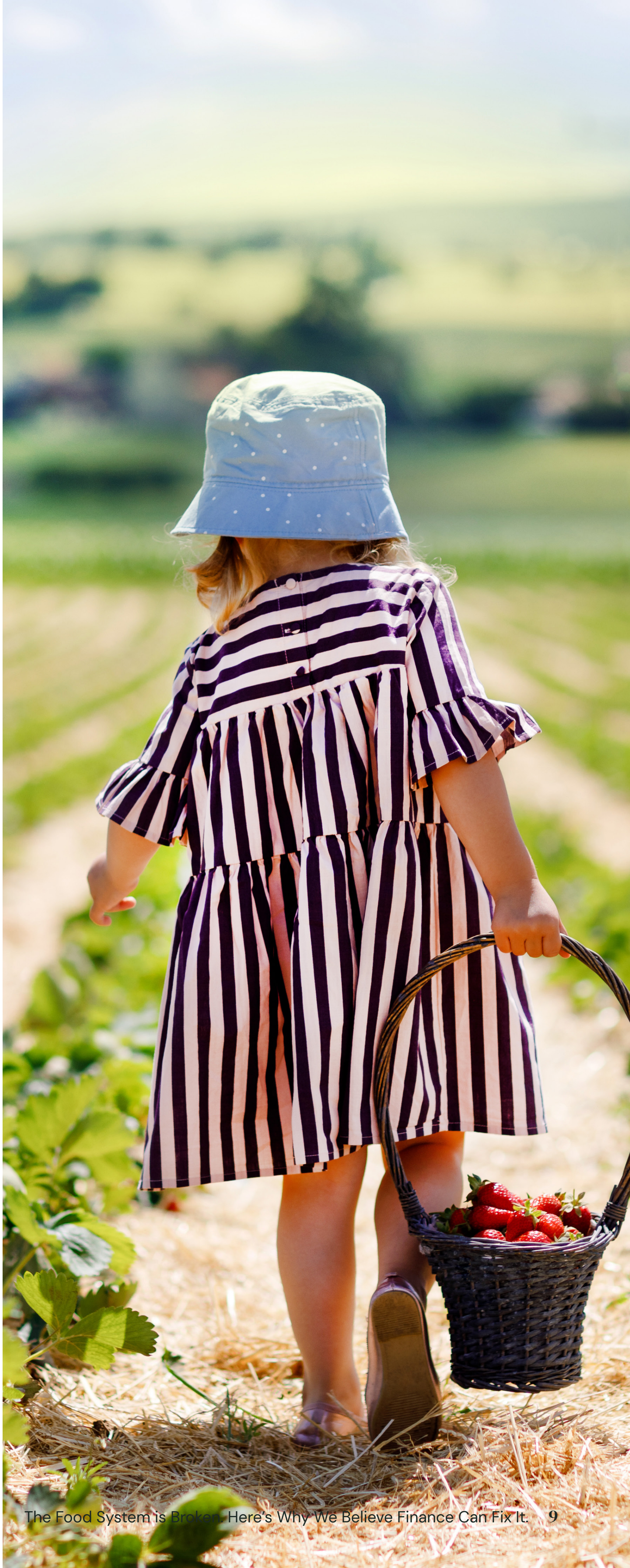
Looking ahead in 2024

We expect acquisition deals to accelerate in 2024. Food companies will be looking for new products that can drive sales volume as price elasticity drops among consumers.

Food prices have increased on average about 2% a year, but between 2021 and 2022, they increased 11%, according to the Government Accountability Office.[31] Over time, consumers may deem these food products unaffordable—and that will drive down unit volume. We expect acquisitions to be key ways that food companies work to add more volume to their businesses.

We believe the investment environment will also remain robust. The quality companies that persevered amid rising inflation and slowed capital markets will prove to be strong in the marketplace. The survivors will be looking for growth capital and partners to drive additional scale. They need partners to help them build and expand their exit optionality, whether that's selling to a large strategic partner or a private equity firm or pursuing an initial public offering. Strong companies will be assessing who they want in their camp moving forward, and there will be an increase in deal activity and continued strength in valuations. Young companies that manage their cash will avoid being subject to the whims of the market.

The food system is an unwieldy beast with deep decades-old tentacles, but by deploying investment capital into innovative healthy food companies, incremental change is possible. Five or ten acquisitions won't likely make a dent, but once Big Food companies have folded 50 to 100 healthy food growth companies into their walls, we believe true change may begin.



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2 We will refer to the large food strategic as Big Food, which includes large companies from food manufacturing, processing, and retailing sectors.

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CULTIVATING VITALITY

MANNATREE

About Manna Tree: Manna Tree is a global private equity firm committed to improving human health through nutrition. The firm invests and actively partners with growth-stage companies, driven by the core belief that health, well-being, and longevity are attainable through innovation in food.

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