

A Work Project, presented as part of the requirements for the Award of a Master's degree in Finance from the Nova School of Business and Economics.

PRIVATE EQUITY CHALLENGE  
CALAVO GROWERS AS A POTENTIAL LBO TARGET

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**Abstract:**

This Work Project is an individual part of an Investment Committee Paper on Calavo Growers, an American fresh fruit and healthy on-the-go fresh food enterprise, developed by a group of Master's in Finance students. The company is divided into three segments: Fresh - which handles avocados and other fresh fruits; Calavo Foods – produces processed avocado products such as guacamole; and RFG – a producer of a portfolio healthy foods such as fresh-cut fruits. This individual part focus on Calavo's overview as a company, namely its three segments, its business model, its end markets and its management team. Moreover, it analyses company's past financial performance and Covid-19 impact during 2020.

**Key words:**

Avocado, Calavo Foods, Calavo Growers, Covid-19, Emerging Economies, Fresh Packaged Food, Fresh Products, Guacamole, LBO, Private Equity, RFG

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# 1. Company Overview | Operating Segments



Calavo's complementary operating segments allow the company to diversify its operations within one core industry.

Fresh Products	Calavo Foods	RFG
 <p>Avocado</p>  <p>Tomato</p>  <p>Papaya</p>	 <p>Guacamole</p>  <p>AvoMayo</p>  <p>Avocado Chocolate Mousse</p>  <p>Salsa</p>	 <p>Fresh cut fruit</p>  <p>Salads</p>  <p>Wraps</p>  <p>Wraps</p>  <p>Meal Kits</p>
<h3 data-bbox="377 445 535 478">Avocados</h3> <ul data-bbox="89 485 828 892" style="list-style-type: none"><li>As the world's largest avocado marketer, Calavo sells and distributes avocados of four origins:<ol style="list-style-type: none"><li>California, sold in the U.S., Europe and China;</li><li>Mexico, sold in North America, Europe and Asia;</li><li>Chile, sold in the U.S. and Europe;</li><li>Peru, sold in the U.S. and Canada.</li></ol></li><li>Avocados from Mexico, Chile and Peru meet demand when Californians are not in peak season;</li><li>Marketed in the U.S. and abroad or used to make Calavo Foods's prepared products;</li></ul> <h3 data-bbox="275 939 637 972">Papayas and Tomatoes</h3> <ul data-bbox="89 978 828 1199" style="list-style-type: none"><li>Supplies Mexican tomatoes all year-round;</li><li>Its farms are in Mexico's prime west coastal growing region;</li><li>Tomatoes include round, romas and mature greens;</li><li>Leader in growing and shipping Hawaiian papayas;</li><li>Offers fresh and flavorful papayas all year-round.</li></ul>	<h3 data-bbox="1019 445 1490 478">Fresh Refrigerated Guacamole</h3> <ul data-bbox="853 485 1656 856" style="list-style-type: none"><li>Hand-made with fresh ingredients;</li><li>The recipes are made with a mix of fresh ingredients, including garlic, onion, tomatillo, jalapeno peppers, serrano peppers and cilantro. Calavo's ready-to-eat, hand-prepared fresh guacamoles have no preservatives and are sold to retail or used in foodservice industry;</li><li>The innovative Ultra-High-Pressure method is used to kill harmful bacteria and to increase product shelf life without affecting its characteristics.</li></ul> <h3 data-bbox="968 902 1541 935">Calavo AvoMayo &amp; Chocolate Mousse</h3> <ul data-bbox="853 942 1656 1092" style="list-style-type: none"><li>Made with fresh Hass avocados, this Mayo is an option with less calories and less fat than the leading brands.</li><li>The vegan Avocado-made chocolate mousse has no dairy, gluten or preservatives and has low carbs.</li></ul> <h3 data-bbox="1172 1130 1337 1163">Salsa Lisa</h3> <ul data-bbox="853 1170 1656 1278" style="list-style-type: none"><li>In February 2010, Calavo partnered with Salsa Lisa, a producer of homemade salsa, that complements Calavo's line of fresh, all-natural avocado products.</li></ul>	<h3 data-bbox="1898 445 2229 478">Acquisition Rationale</h3> <ul data-bbox="1681 485 2458 778" style="list-style-type: none"><li>RFG was acquired by Calavo in 2011, with the goal of addressing the needs of today's consumers for healthy, convenient and flavorful fruit, vegetables and prepared food;</li><li>The acquisition enabled Calavo's entry in the refrigerated packed fresh foods, the fastest growing segment of the retail grocery category;</li><li>RFG revenues quadrupled since the acquisition.</li></ul> <h3 data-bbox="1936 825 2204 858">Product Portfolio</h3> <ul data-bbox="1681 863 2458 1235" style="list-style-type: none"><li>Include fresh cut fruits and vegetables, wraps, sandwiches fresh prepared salads, snacks, as well as other ready-to-heat items (pasta, grains, cooked vegetable blends) and meal kits;</li><li>Sold under the Garden Highway Fresh Cut, Garden Highway and Garden Highway Chef Essentials names, but also under store-brand and private label programs;</li><li>Leader in the industry due to its ability to create diverse items in various cut and pack sizes.</li></ul>

# 1. Company Overview | Business Model



Calavo's business model consists on handling quality fruits in state-of-the-art facilities and on selling them to retailers both across the U.S. and abroad.

Fresh products	
Growers	<ul style="list-style-type: none"> <li>▪ Californian avocado growers are provided with daily field quotes, based on Calavo's estimated sales and desired margins;</li> <li>▪ Settlements occur every month.</li> <li>▪ Usually yields lower margins but more stability as the price volatility is pushed to the growers.</li> </ul>
Costs	<ul style="list-style-type: none"> <li>▪ Calavo negotiates with Mexican growers a tentative general price for all the fruit in a grove, which is harvested and sent to Calavo's Mexican packinghouses.</li> <li>▪ Usually yields higher margins but is more volatile since avocados are cheaper but Calavo only negotiates with clients after dealing with growers.</li> </ul>
Value Adding	<ul style="list-style-type: none"> <li>▪ Tomatoes as well as both Peruvian and Colombian avocados are negotiated on a consignment basis: the price paid to growers is a percentage of the final net selling price (minus costs of other certain added services).</li> </ul>
Costs	<ul style="list-style-type: none"> <li>▪ Fruit and freight costs are reflected in the net sale price to Calavo's costumers;</li> <li>▪ A large part of the avocado handling costs are fixed. Thus, recurrent changes in pound of avocados sold changes the average packing unit costs. Nevertheless, Calavo attributes part of its success to its per pound return.</li> </ul>
Value Adding	<ul style="list-style-type: none"> <li>▪ Ripeness state is of major importance for retailers' ability to sell avocados;</li> <li>▪ Calavo can meet retailers' strict demands and improve sales due to its state-of-the-art ripening facilities and its workforce know-how in handling avocados.</li> </ul>
Value Adding	<ul style="list-style-type: none"> <li>▪ Calavo's innovative product packing options have led to an increase in sales;</li> <li>▪ Calavo's own research suggests that consumers buy more avocados when they are presented in a bag (Calavo's packing option) than when in a bulk.</li> </ul>
Calavo Foods	
Production	<ul style="list-style-type: none"> <li>▪ Fruit procurement and pulp processing take place in Mexico to take advantage of the cheaper local processed products;</li> <li>▪ Calavo sometimes uses high-quality co-packers that use similar techniques to complement production from its Uruapan facility.</li> </ul>
Sales	<ul style="list-style-type: none"> <li>▪ Fresh packaged guacamole is sent to several retail, club and foodservice customers spread throughout the U.S. and abroad;</li> <li>▪ Most sales in the U.S. and Canada are made with the contribution of a nationwide network of commissioned brokers, aided by Calavo's regional sales managers;</li> <li>▪ Packaged guacamole can also be frozen to ensure a longer shelf-life.</li> </ul>
RFG	
Production	<ul style="list-style-type: none"> <li>▪ RFG operates in both company-owned and independently-operated U.S. Department of Agriculture (USDA)-certified fresh food facilities that are leased to Calavo. Its speed to market, innovation and broad product portfolio position RFG as a reliable supplier of retailers that tackle demand for quality fresh packaged goods;</li> <li>▪ Network of facilities allows Calavo to deliver nationwide retailers its fresh goods with the highest quality within hours from production.</li> </ul>
Sales	<ul style="list-style-type: none"> <li>▪ RFG sells to the retail channel including: regional and national supermarkets; club stores; mass merchandisers; convenience stores; and specialty/natural retailers;</li> <li>▪ Retail partnerships are key to the success of the segment.</li> </ul>

Retail is Calavo's most significant distribution channel, followed by foodservice and others.

### Sales mix and distribution channels

	Retail	Foodservice	Others
Fresh products			
Calavo Foods			
RFG			

In what concerns COVID-19, sales volatility is relatively low as foodservice, which is the sector historically more impacted by the pandemic, accounts for a small percentage of total sales

- Calavo Growers sells to retail grocery, foodservice, mass merchandisers, food distributors, club stores and wholesale customers
- Its ten major clients accounted for 59% of sales in 2019
  - Kroger (and its affiliates) represented 21% of sales
  - Wal-Mart (and its affiliates) represented 13% of sales
  - These are the only costumers that represent more than 10% of sales

Some of its clients include :

GROCERY RETAILERS



MASS/CLUB STORES



E-COMMERCE/ONLINE



FOODSERVICE/RESTAURANT



## Positioned for continued growth

### Leader in Fresh, Healthy and Convenient Foods



- **Leader in high-growth products** such as avocados, guacamole or fresh-cut fruit and vegetables;
- U.S. avocado consumption grew 8% p.a. in 10 years;
- U.S. consumers' preference for convenient, on-the-go healthy foods made value-added fruit and vegetables the fastest growing produce segment;
- Consumers are choosing more often refrigerated fresh fruit and vegetable dips such as guacamole, salsas and similar ones.

### Complementary, Multi-Platform Model



- **Business segments are complementary**, contributing to the recurrent growth of yearly results;
- **Refrigerated distribution infrastructure and synergistic sourcing** benefit all segments;
- **Possibility of tracking value-adding M&A opportunities** in every business unit.

### Investment for Continued Growth



- **One of the U.S.'s largest and most complete infrastructure networks within the fresh food industry;**
- Recent expenditures in PP&E positions Calavo to **exploit potential growth opportunities;**
- **Calavo's production and distribution facilities are spread across the U.S. and still with room to grow.**

## On-Trend Operating Divisions

### Fresh products

- **Rising consumer demand for avocados;**
- **Health and demographic profiles are advantageous;**
- **Market leader** in the avocado industry;
- Calavo has invested to **enhance capacity** in North America;
- Has a brand image of a **quality and consistent supplier.**



### Calavo Foods

- **Highly complementary** to other two business units;
- **Growth of the fresh dips & spreads products;**
- **Adds branding presence** in retail;
- **Expanding product portfolio and packaging options.**



### RFG

- **Fast growth in the fresh foods industry in retail**, mostly among value-added/prepared foods;
- **Captures consumer trends** towards fresher, more convenient products with no preservatives;
- **Partnerships with retailers** to offer a complete fresh prepared food solution;
- Can deliver made-to-order items within hours of production due to its nationwide facilities network.



# 1. Company Overview | Management Team

Knowledgeable, experienced and committed management team which is capable of pursuing both organic and inorganic growth opportunities and that is well-connected within the avocado industry.

Name	Position	Since	Previous Experience	Education
James Gibson	Chief Executive Officer	02/20	Co-founder of Renaissance Food Group LLC; President of the Farm Bureau of Ventura County and of the Ventura County Resource conservation district; President of the RFG division	Bsc in Plant and Soil Science; Msc in Business Administration
Mark Lodge	Chief Operations Officer	08/20	Executive Vice President Operations RFG; Executive Vice President Operations Revolution Foods; Senior VP Manufacturing operations, supply chain and logistics Fresh&Easy	N/A
Kevin Manion	Chief Financial Officer	05/20	Board member Liquid Biosciences; Board member Country Fresh; CFO Ceter for Neuro Skills; CFO Green Dot Corporation; CFO New Century Snacks	BBA in Accounting
Raina Nelson	Executive Vice President of Business Development	08/20	Imports Manager, C.H. Robinson; Director of Food Safety and Quality Assurance Rosemont Farms	Bsc in Food Science; Msc Food Science and Technology
Joel Silva	Corporate Controller and Chief Accounting Officer	03/20	Controller Fresh&Foods	Holder of Bsc from University of Texas
Robert Wedin	Executive Vice President of Fresh Sales	08/20	Director of the California Avocado Commission; Board member and member of the executive committee of Producesupply.org;	Bsc in Sociology and History
Ronald Araiza	Vice President, Foods Sales and Operations	01/17	Director of sales of Mission Produce; Vice president of Del Rey Avocado Co	Bsc in Political Science and Government; Juris Doctor, Law
Dionisio Ortiz	Director of Operations, Calavo de Mexico	N/A	N/A	N/A



### 3. Historical Financials | Fresh Products



Quality of the farming year is the main profitability driver in a segment characterized by a recurring excess demand for avocados.

FRESH PRODUCTS												
in millions of USD, except price	FY2016	FY2017	FY2018	FY2019	LTM2020	CAGR	FY2016	FY2017	FY2018	FY2019	LTM2020	
<b>Net sales</b>	<b>538.7</b>	<b>582.7</b>	<b>551.7</b>	<b>618.9</b>	<b>609.3</b>	<b>3.1%</b>	Asset Turnover	4.7x	4.4x	3.7x	4.0x	3.9x
Avocados <sup>1</sup>	493.4	546.4	511.7	569.8	548.2	2.7%	ROIC <sup>4</sup>	17.4%	20.1%	13.3%	28.8%	10.2%
<i>Pounds sold (in millions)</i>	387.7	299.3	357.0	354.8	379.9	-0.5%	Trailing ROIC	N/A	23.3%	14.6%	30.1%	10.5%
<i>Avg. Price per pound</i>	1.27	1.83	1.43	1.61	1.44	3.2%	Trailing RONIC <sup>5</sup>	N/A	N/A	-38.5%	183.0%	-410.6%
Tomatoes <sup>2</sup>	36.3	29.2	31.6	40.9	52.4	9.6%	<sup>1</sup>	<ul style="list-style-type: none"> <li>In FY2017, the average price per pound of avocados increased 46% as consumer demand kept exceeding industry supply;</li> <li>In FY2018, Avocado sales decreased after a 22% drop in the average price per pound, following FY2017's unusually high market values. Higher freight costs led to a lower margin</li> <li>Prices rose in FY2019 as consumer demand kept exceeding supply. <b>Production and distribution efficiency gains</b> led to a better margin;</li> <li>Impact of COVID-19, fruit quality issues and <b>a remeasurement loss regarding the Mexican peso</b> contributed to the lower gross margin registered in LTM2020, namely between January and July.</li> </ul>				
<i>Cartons sold (in millions)</i>	2.8	3.0	3.0	4.0	4.0	9.0%	<sup>2</sup>	<ul style="list-style-type: none"> <li>Weather pattern changes during FY2017 increased the availability of tomatoes, leading to a 24% drop of the average price per carton. This, coupled with certain fixed overhead costs, lowered the gross margin.</li> </ul>				
<i>Avg. Price per carton</i>	12.74	9.74	10.43	10.14	13.02	0.6%	<sup>3</sup>	<ul style="list-style-type: none"> <li>The overall decrease of Gross profit by an average 3.2% per year is due to the worse LTM2020. <b>The CAGR for 2016-2019 was of 14.2%.</b></li> </ul>				
Other Fresh Products	15.1	9.8	12.2	12.3	11.8	-6.0%	<sup>4</sup>	<ul style="list-style-type: none"> <li>During FY2018, ROIC lowered due to the increase in Invested Capital and the decrease in NOPLAT versus 2017.</li> <li>ROIC of FY2019 and LTM2020 result from the NOPLAT changes, doubling during the former and shrinking nearly 3x during the latter.</li> </ul>				
Inter-company eliminations	-6.2	-2.8	-3.9	-4.0	-3.2	-15.3%	<sup>5</sup>	<ul style="list-style-type: none"> <li>The RONIC changes come from the large annual NOPLAT variation too.</li> </ul>				
<b>Gross profit</b> <sup>3</sup>	<b>58.0</b>	<b>72.4</b>	<b>54.2</b>	<b>86.4</b>	<b>51.0</b>	<b>-3.2%</b>						
<i>Overall Gross Margin</i>	10.8%	12.4%	9.8%	14.0%	8.4%							
Avocados <sup>1</sup>	53.8	69.4	49.6	81.5	45.2	-4.3%						
<i>Gross Margin</i>	10.9%	12.7%	9.7%	14.3%	8.2%							
Tomatoes <sup>2</sup>	4.2	2.7	3.2	4.3	N/A	0.8%*						
<i>Gross Margin</i>	11.6%	9.2%	10.1%	10.5%	N/A							
<b>SG&amp;A</b>	<b>-26.7</b>	<b>-30.7</b>	<b>-28.9</b>	<b>-30.6</b>	<b>-32.3</b>	<b>4.8%</b>						
<i>as % of Net Sales</i>	5.0%	5.3%	5.2%	4.9%	5.3%							
<b>EBITDA</b>	<b>36.6</b>	<b>47.9</b>	<b>33.0</b>	<b>63.8</b>	<b>27.2</b>	<b>-7.2%</b>						
<i>EBITDA Margin</i>	6.8%	8.2%	6.0%	10.3%	4.5%							
<b>D&amp;A</b>	<b>-5.3</b>	<b>-6.2</b>	<b>-7.7</b>	<b>-8.0</b>	<b>-8.4</b>	<b>12.3%</b>						
<i>as % of Net Sales</i>	1.0%	1.1%	1.4%	1.3%	1.4%							
<b>EBIT</b>	<b>31.3</b>	<b>41.7</b>	<b>25.2</b>	<b>55.8</b>	<b>18.7</b>	<b>-12.0%</b>						
<i>EBIT Margin</i>	5.8%	7.2%	4.6%	9.0%	3.1%							
Taxes	-11.2	-14.9	-5.7	-11.3	-2.6	-30.8%						
<b>NOPLAT</b>	<b>20.0</b>	<b>26.8</b>	<b>19.6</b>	<b>44.4</b>	<b>16.2</b>	<b>-5.2%</b>						

\* - for period 2016-2019

### 3. Historical Financials | Calavo Foods



Calavo Food's higher margins compared to other segments should be taken advantage of by scaling up the amount of prepared avocado products sold.

#### CALAVO FOODS

in millions of USD, except price	FY2016	FY2017	FY2018	FY2019	LTM2020	CAGR
<b>Net sales</b>	<b>63.5</b>	<b>74.4</b>	<b>88.2</b>	<b>90.8</b>	<b>77.0</b>	<b>4.9%</b>
Prepared avocado products	73.0	85.2	99.6	100.8	86.2	4.2%
<i>Pounds sold (in millions)</i>	26.8	29.9	32.3	32.0	N/A	6.1%*
<i>Avg. price per carton</i>	2.73	2.85	3.08	3.15	N/A	4.9%*
Salsa	3.6	4.0	3.4	3.3	2.9	-5.0%
Sales incentives	-13.1	-14.8	-14.9	-13.3	-12.2	-1.9%
<b>Gross profit, net of D&amp;A</b> <sup>1</sup>	<b>22.4</b>	<b>13.4</b>	<b>26.3</b>	<b>20.2</b>	<b>20.4</b>	<b>-2.4%</b>
<i>Gross Margin</i>	35.4%	17.9%	29.8%	22.2%	26.5%	
<b>SG&amp;A</b>	<b>-3.2</b>	<b>-3.9</b>	<b>-4.6</b>	<b>-4.5</b>	<b>-4.1</b>	<b>6.6%</b>
<i>as % of Net Sales</i>	5.0%	5.3%	5.2%	4.9%	5.3%	
<b>EBITDA</b>	<b>20.0</b>	<b>10.2</b>	<b>22.7</b>	<b>16.7</b>	<b>17.4</b>	<b>-3.4%</b>
<i>EBITDA Margin</i>	31.5%	13.8%	25.7%	18.4%	22.6%	
<b>D&amp;A</b>	<b>-0.7</b>	<b>-0.8</b>	<b>-1.0</b>	<b>-1.0</b>	<b>-1.1</b>	<b>13.0%</b>
<i>as % of Net Sales</i>	1.1%	1.1%	1.1%	1.1%	1.4%	
<b>EBIT</b>	<b>19.3</b>	<b>9.4</b>	<b>21.7</b>	<b>15.7</b>	<b>16.3</b>	<b>-4.1%</b>
<i>EBIT Margin</i>	30.4%	12.7%	24.6%	17.3%	21.2%	
Taxes	-6.9	-3.4	-4.9	-3.2	-2.1	-25.6%
<b>NOPLAT</b>	<b>12.4</b>	<b>6.1</b>	<b>16.8</b>	<b>12.5</b>	<b>14.2</b>	<b>3.5%</b>

\* - for period 2016-2019

	FY2016	FY2017	FY2018	FY2019	LTM2020
<b>Returns</b>					
Asset Turnover <sup>2</sup>	5.5x	5.1x	4.9x	5.2x	4.5x
ROIC <sup>3</sup>	107.2%	41.3%	93.9%	71.2%	82.8%
Trailing ROIC	N/A	52.6%	115.1%	69.7%	80.8%
Trailing RONIC <sup>4</sup>	N/A	N/A	345.1%	-130.6%	-181.8%

- FY2017 was marked by record-high fruit costs, which negatively impacted the gross margin for that year;
  - During FY2019, the gross profit for the prepared avocado products decreased due to higher raw material input costs, which lowered in the last quarter of that year;
  - Large changes in the exchange rate between the Mexican Peso and the US Dollar also affect the gross profit for this segment;**
  - In spite of COVID-19, lower fruit input costs and decreasing manufacturing costs led to an improved Gross Margin in LTM2020.

- The high gross margin, coupled with the low Invested Capital values, result in a considerable Asset Turnover in FY2016. With sales growth and lower margins throughout the remaining years, the ratio decreases, if only slightly;
  - Despite registering the best performance in all the years considered, the decrease in the Asset Turnover for FY2018 comes from the large surge in Invested Capital.

- The outstanding ROIC registered in all years evidences that Calavo Foods is an incredible value creator for the overall firm;**
  - The lower values of FY2017 and FY2019, albeit still very high, are explained by the decreased NOPLAT of both years.

- Having significantly improved its efficiency in FY2018 versus the previous year, the Trailing RONIC value becomes extraordinary;
  - In FY2019, the lower recorded Gross Margin due to higher fruit costs ensured profitability fell, leading to a negative RONIC value;
  - In the following year the value of RONIC is misleading: it is negative as Invested Capital of FY2019 is lower than FY2018's.

### 3. Historical Financials | RFG



Once the recent infrastructure investments start to operate at capacity and produce efficiency gains, RFG can capture value from its superior growth.

in millions of USD	FY2016	FY2017	FY2018	FY2019	LTM2020	CAGR
<b>Net sales</b> ①	333.5	418.5	448.9	486.1	430.9	6.6%
Fresh-cut fruit & veg. and prepared foods	337.0	420.0	451.2	488.4	432.6	6.4%
Inter-company eliminations	-3.5	-1.5	-2.3	-2.3	-1.7	
<b>Gross profit</b> ②	27.1	28.8	33.1	21.6	22.0	-5.1%
<i>Gross Margin</i>	8.1%	6.9%	7.4%	4.4%	5.1%	
<b>SG&amp;A</b>	-16.6	-22.0	-23.5	-24.0	-22.8	8.3%
<i>as % of Net Sales</i>	5.0%	5.3%	5.2%	4.9%	5.3%	
<b>EBITDA</b>	13.4	10.4	13.9	2.1	5.0	-21.9%
<i>EBITDA Margin</i>	4.0%	2.5%	3.1%	0.4%	1.2%	
<b>D&amp;A</b> ③	-2.8	-3.7	-4.3	-4.6	-5.8	19.4%
<i>as % of Net Sales</i>	0.9%	0.9%	1.0%	0.9%	1.3%	
<b>EBIT</b>	10.5	6.8	9.6	-2.5	-0.8	N/A
<i>EBIT Margin</i>	3.2%	1.6%	2.1%	-0.5%	-0.2%	
Taxes	-3.8	-2.4	-2.2	0.5	-0.1	-63.5%
<b>NOPLAT</b>	6.8	4.4	7.4	-2.0	-0.8	N/A

#### RFG

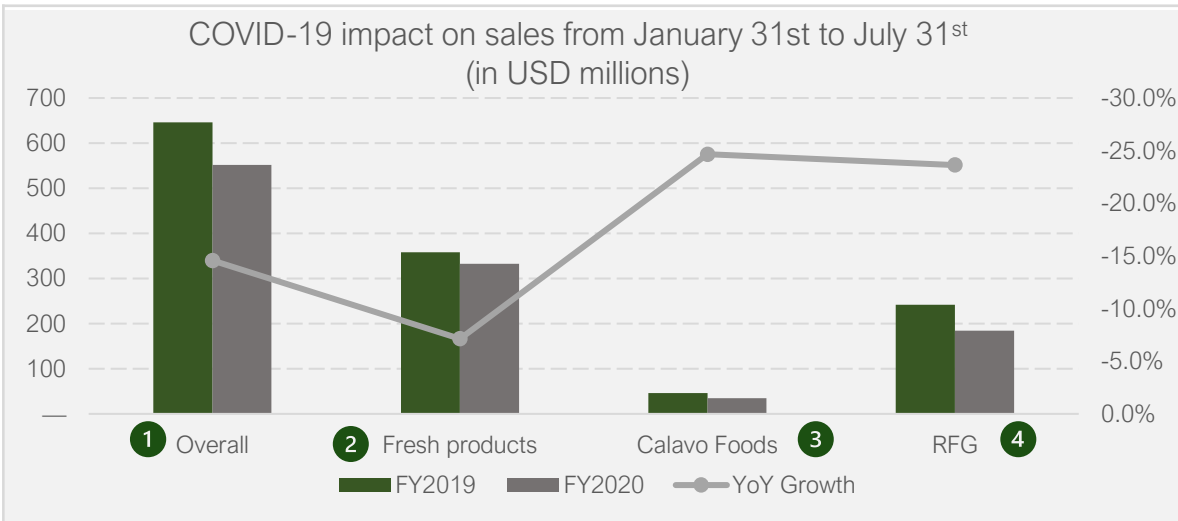
- Net sales growth has been achieved by expanding and developing new retail partnerships, mainly where production capacity increased;
  - Between January and July 2020, Net sales decreased partly due to the closure of a co-packer in the Midwest US, partially offset by increased sales elsewhere;
  - Calavo acquired Simply Fresh Fruit (SFFI), a producer and supplier of fresh-cut fruit in the foodservice and hospitality sectors, in February 2020. It will complement RFG's current sales channels. There is no pro-forma results of operations for SFFI available as its impact was not material.
- Start-up & ramping up periods at new facilities and development & optimization costs for new products led to a lower margin in FY2017;
  - Issues with raw materials affected profitability during the first half of FY2019 and the non-recurring issue with its Midwest co-packer led to a lower margin;
  - During LTM2020, there were efficiency gains in Calavo-owned facilities operating for at least one year. Namely, the gross margin for the nine and three months ended July 31<sup>st</sup> 2020 was higher than that of the same period of FY2019. However, COVID-19's impact weakened overhead absorption whilst the issues with the co-packer also had a negative impact on the margin.
- With the SFFI investment, the increase in NWCR and the lower Net Sales, Asset Turnover shrank considerably in LTM2020. Such ratio should improve with the expected efficiency gains and as COVID-19's impact diminishes.
- The ROIC decreased in FY2019 and LTM2020 because of the lower NOPLAT, related with the new inefficient infrastructures.
- The ramp-ups affected the FY2019 RONIC too: having invested \$15M in capital in FY2018, the NOPLAT decrease led to a negative RONIC;
  - As with Calavo Foods, the RONIC of LTM2020 is misleading: the value is negative as the Invested Capital decreased from FY2018 to FY2019.

	FY2016	FY2017	FY2018	FY2019	LTM2020
<b>Returns</b>					
Asset Turnover ③	5.7x	6.1x	5.4x	6.3x	3.8x
ROIC ④	11.5%	6.3%	9.0%	-2.5%	0.1%
Trailing ROIC	N/A	7.4%	10.9%	-2.4%	0.1%
Trailing RONIC ⑤	N/A	N/A	30.9%	-64.7%	-25.2%

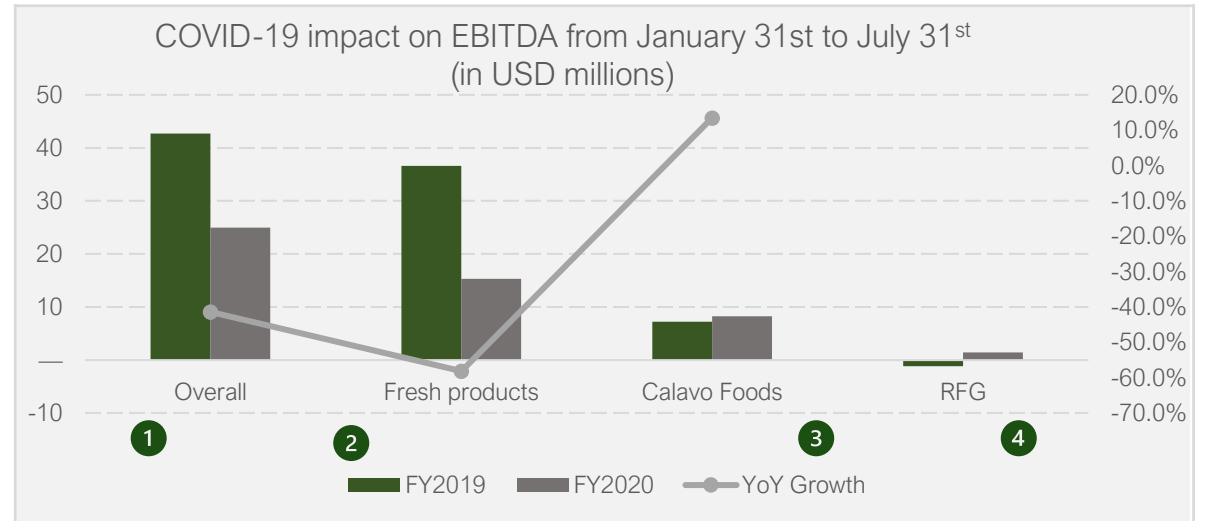
### 3. Historical Financials | COVID-19



Avocado consumption in the U.S. is expected to increase in 2021 regardless of COVID-19, whose contribute to the EBITDA shrinkage of around 41% was mainly on account for the cancellation of orders and returned shipments in March and April that decreased Fresh products' gross margin.



- 1 **The outbreak of the COVID-19 pandemic affected Calavo's net sales the most during the months of March and April 2020, improving afterwards.** It resulted in cancelled orders and in a change in consumers' buying patterns. Demand from Calavo's foodservice customers affected net sales the most, whilst retail business costumers were not as impacted.
- 2 **As the majority of Fresh products' sales are made to retailers, its sales have not been as impacted by COVID-19 as other segments.** Nevertheless, avocado sales decreased around 10%, partly on account for the lower demand from foodservice customers. Tomato sales improved 42%.
- 3 **Prepared avocado product sales declined 24% as the demand from foodservice customers shrank.** Salsa products registered 10% less sales.
- 4 **The majority of the RFG's sales deterioration is not related with COVID-19 but rather with the closure of its co-packing partner in the Midwest region.** Nevertheless, the pandemic still impacted its performance.



- 1 **COVID-19 reduced the EBITDA for the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of FY2020 by creating losses on products that were not sold and by not allowing Calavo to achieve scale,** due to a lower manufacturing throughput. Moreover, SG&A costs did not decrease as much as sales, leading to a two percentage points decrease in the EBITDA margin.
- 2 **Fresh products' lower EBITDA in FY2020 is partly due to FY2019's favourable market conditions that led to a traditionally high gross margin. However, COVID-19 also contributed to this with cancelled orders and returned shipments in March.**
- 3 **Calavo Foods' EBITDA managed to improve versus the homologue period** due to lower fruit input costs and due to efficiencies gains.
- 4 **RFG's EBITDA improved due to cheaper raw material and due to labour efficiencies. Still, COVID-19's impact on sales weakened overhead absorption.** Note: RFG's YoY growth is not shown as its values is illogical.





I.

I. Company Overview and  
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II. Private Equity Impact in  
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III. Appendixes

IV. Reference List

*Private equity has the potential to be a key driver for emerging economies if the proper conditions are in place. To that end some structural barriers must be addressed to create an environment prone to foreign investment.*

The private equity asset class has been topic of discussion for many time, with some defending its essential role in the economy while others showing high levels of scepticism to the real value it creates for the society. Nevertheless, the data support the key role of private equity, showing that private equity backed companies grew its sales by 134% and its jobs by 83.7%, while all other companies had much smaller figures, 31% and 27%, respectively. However, this beneficial patterns verified in developed countries were not been yet replicated in non-developed regions, contributing therefore to increasing countries wealth gap.

## PE as a game changer for the underdeveloped world

As in any economy worldwide, SMEs play a fundamental role in emerging markets' economic growth. This contribution encompasses the pure economic growth, the creation of several jobs and the development of poorer regions. However, emerging markets' SMEs have not been as successful as they could be for two main reasons. Firstly, the very limited access to sources of capital, which is a key factor for companies to growth, either internally or even externally. Secondly, the scarce access to the best practices regarding corporate governance that would boost efficiency levels, forgoing therefore the opportunity to generate more value with the same resources. These challenges could be very easily overcome with a bigger presence of PE funds in emerging economies, particularly within the SMEs. Ensuring all the necessary funding with fair conditions, whilst giving companies access to the top professionals and extensive know-how in how to efficiently manage a company, would be critical to guarantee the maximum economic value was created. As a consequence, the wealth gap could be reduced and countries' overall competitiveness would increase.

## Main barriers

Even though developing countries present the biggest opportunity for returns, they have not been a target for PE funds for some reasons. Firstly, the way PE structures its funding is extremely difficult to put in place in developing countries, as international investors consider these investments much riskier, demanding therefore higher returns and local investors tend to be reluctant in investing in PE fund due to the little information they have about it. Secondly, the environmental challenges PE funds have to face in emerging countries. These challenges range from unattractive for foreign investments, complicated and not structured processes and no defined laws protecting the investments made, either from any governmental action or corruption. Moreover, the huge information gap always leave PE funds retracted from considering these markets.

## Conclusion

All in all, the benefits of having a more intense PE activity in emerging economies can be key to faster improve these countries living conditions. Additionally, it would be a great opportunity for PE funds to exploit projects with higher returns perspectives. This said, it is essential to create an optimal environment where emerging economies needs can be fulfilled by the PE industry. The key factor in getting to that ideal point is in educating emerging markets' governments and wealthy people than PE can create a framework where all the parties can be better of.





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Calavo has one of the nation's largest, most complete fresh-food infrastructure networks.

## Facilities Network

- Three fresh avocado packinghouses in Santa Paula, Michoacán (Mexico) and Jalisco (Mexico);
- One packinghouse in Hawaii used to pack Hawaiian papaya;
- Eight production and distribution facilities located across US for the RFG segment;
- Two production facilities for Calavo Foods in Michoacán, Mexico and Minnesota;
- Four warehouses in Santa Paula, Texas, Florida and New Jersey.

## Core Values

- Quality Centric** - Quality is key. Calavo uses only the finest and freshest ingredients to craft delicious food that meets its high-quality standards.
- Freshly Innovative** - Calavo strives to be first to the table, it empowers therefore fresh thinking to meet the ever-changing culture of eating and offer valued-added food.
- All in Good Faith** - Integrity and loyalty are highly valued, as Calavo only works with like-minded people.
- Family at Heart** - People is in the center. Calavo believes in empowering passionate individuals who share the same sense of family, dedication, and pride.



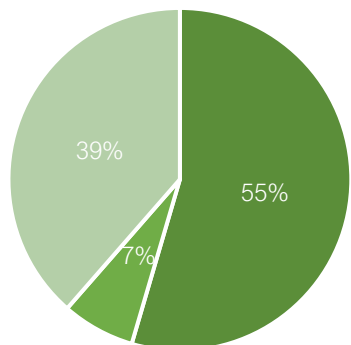
TIMELINE	1924-1940	1941-1964	1964-2003	2004-2020
	<ul style="list-style-type: none"> <li>Calavo is founded under the name "California Avocado Growers Exchange" as a grower-owned cooperative;</li> <li>It then becomes Calavo and diversifies its offering with avocado oil and limes.</li> </ul>	<ul style="list-style-type: none"> <li>Reaches the Million dollars in sales;</li> <li>Enters the papaya market under the Calavo Gold name. Expands product offerings to Asian pears, kiwifruit, mangoes and coconuts;</li> <li>Acquires Frigid Foods in California.</li> </ul>	<ul style="list-style-type: none"> <li>Launches its first processed product, the guacamole;</li> <li>Opens its first automated facility in Temecula, CA;</li> <li>Opens packinghouse in Michoacán, Mexico, from which avocados are exported to US, Japan, Europe, and Canada;</li> <li>Calavo's IPO in NASDAQ.</li> </ul>	<ul style="list-style-type: none"> <li>Introduces ultra-high pressure guacamole product;</li> <li>Annual packing volume exceeds 152M pounds;</li> <li>Announces equity cross-investments with Limoneira Company, one of the largest avocado growers;</li> <li>Enters in a partnership with Platinum Produce to form Maui Fresh International;</li> <li>Introduces premium tortilla chips (Calavo Guacamole and Calavo Sea Salt Tortilla Chips)</li> <li>Partners with St. Paul, a popular fresh salsa maker;</li> <li>Acquires Renaissance Food Group;</li> <li>Calavo Foods create a distinctive new Avocado Hummus - a novelty for the market;</li> <li>Invests in FreshRealm, a fresh food cloud-based technology business.</li> </ul>



Diverse profitability characteristics among the three segments characterize a company that is subject to some seasonality.

SEGMENTATION

% of Net Sales LTM2020\*



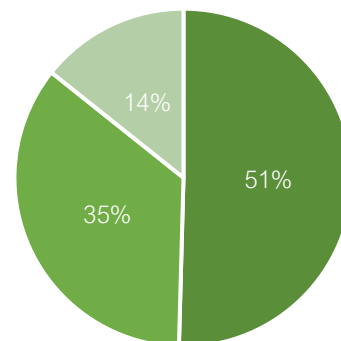
■ Fresh Products ■ Calavo Foods  
■ RFG

- Fresh products has always represented more than 50% of total Net Sales since FY2016, reaching as high as 58% in FY2016 and as low as 51% in FY2018. Considering the five years since FY2016, **on average, the Fresh products share of total Net Sales was fixed at 54%**;
- Calavo Foods's share remained stable throughout the period, accounting for 7% or 8% of total Net Sales. As such, the **average value for the entire period was 7%**;
- Lastly, the RFG segment experienced the most growth since FY2016. Weighing 36% of the total value in FY2016, it ended LTM2020 accounting for 39%, reaching as high as 41% in between. **The average RFG share figure for the five years is equal to the value of LTM2020: 39%.**

\* - ended July 31<sup>st</sup>, 2020

PROFITABILITY

Profitability LTM2020

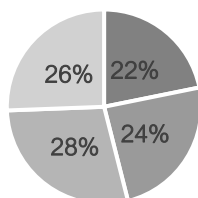


■ Fresh Products ■ Calavo Foods  
■ RFG

- **Fresh Products remains the most profitable segment in absolute values**, weighing 51% of the total EBITDA, a value consistent with sales segmentation ;
- The Calavo Foods segment exhibits a significantly distinct profitability versus the two other segments: totalling only 7% of Net Sales, **it generates 35% of the total EBITDA. This comes as a result of the much higher gross margins it presents;**
- **As for the RFG, it only accounts for 14% of total EBITDA** despite representing 39% of sales. Contrarily to Calavo Foods, **it has the lowest gross margins.** Moreover, their operational efficiency declined throughout, especially in FY2019 and LTM2020, mainly due to new acquisitions not operating at scale yet.

Overall

Average % of Net Sales 2016-2019

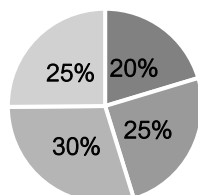


■ January 31st  
■ April 30th  
■ July 31st  
■ October 31st

Albeit not significant, Calavo presents some seasonality related to its Net Sales. **Calavo sold more during the 3<sup>rd</sup> and 4<sup>th</sup> quarters of its fiscal year** (i.e. May 1<sup>st</sup> to July 31<sup>st</sup> and August 1<sup>st</sup> to October 31<sup>st</sup>, respectively).

Fresh products

Average % of Fresh sales 2016-2019

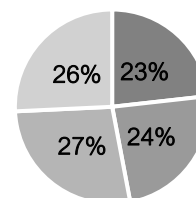


■ January 31st  
■ April 30th  
■ July 31st  
■ October 31st

**Fresh products registered on average 30% of its Net Sales in the three months ended July 31<sup>st</sup>** and only 20% in the three months ended January 31<sup>st</sup>, with the other six months recording the remaining 50%, evenly split.

Calavo Foods

Average % of division sales 2016-2019

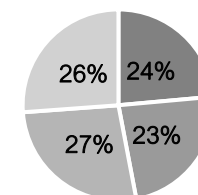


■ January 31st  
■ April 30th  
■ July 31st  
■ October 31st

**On average, 53% of Calavo Foods's Net Sales were made in the six months ended October 31<sup>st</sup>** (27% until July 31<sup>st</sup> and 26% until October 31<sup>st</sup>), with Net Sales in the 1<sup>st</sup> quarter accounting for 23% of the total value).

RFG

Average % of RFG sales 2016-2019



■ January 31st  
■ April 30th  
■ July 31st  
■ October 31st

**RFG displays the exact same distribution as Calavo Foods for the 3<sup>rd</sup> and 4<sup>th</sup> quarters**, on average, although sales in the 1<sup>st</sup> one represented 24% instead.

SEASONALITY

## Growers

- Calavo treasures relationships with growers, being its **foremost priority**. Most are even present in the Board of Directors;
- They allow Calavo to achieve scale, leading to a better management of overhead costs, effectively spreading fixed costs;
- Calavo's grower community includes approximately 2300 people, ranging from small producers to California's two largest ones, who enjoy the resources and marketing clout that Calavo provides;
- They also benefit from Calavo's expertise on the market, on its active field management and on educational and informational programs. In order to maximize profits and optimize harvest, Calavo's Field Managers offer support to growers for, among other things,:
  - Estimating crop sizes to define harvest strategy;
  - Getting to know current market conditions through up-to-date information regarding sales trends and prices;
  - Introducing useful new products and services to growers, especially pest control-related ones;
- **Independent companies** such that if Calavo cannot consistently pay growers a competitive price for their crops, they might choose to work with other handlers.

## A Strategic Alliance - Limoneira

- In 2005, Calavo established a cross-equity agreement with Limoneira Company to take advantage of potential synergies between Calavo's complementary business units and Limoneira's growers.
- Results:
  - Calavo acquired a 15% ownership stake in Limoneira, a 112-year-old international land, farming and food company and the industry's second-largest grower of avocados;
  - Limoneira became Calavo's second-largest shareholder;
  - Calavo gained access to Limoneira's packing volume;
  - Possibility for future Limoneira-Calavo joint ventures;
  - In 2005, Calavo changed its headquarters to an historic Craftsman-period lodge on the Limoneira Ranch in Santa Paula, California. This move offers a showcase for visiting customers as well, as it presents an end-to-end experience that includes growing, packing, ripening and shipping, all in the same region.



Calavo's profitability is hampered by investments in underperforming entities, harming its already COVID-19 impacted average growth of 4.5% per year.

in millions of USD	FY2016	FY2017	FY2018	FY2019	LTM2020	CAGR
<b>Net Sales</b>	935.7	1 075.6	1 088.8	1 195.8	1 117.1	4.5%
Cost of sales, net of D&A	-828.1	-961.0	-975.1	-1 067.7	-1 023.8	5.3%
<b>Gross profit, net of D&amp;A</b>	107.5	114.5	113.6	128.1	93.4	-3.5%
<i>Gross Margin</i>	11.5%	10.6%	10.4%	10.7%	8.4%	
<b>Selling, general and administrative</b>	-46.4	-56.7	-57.1	-59.1	-59.1	6.2%
<i>as % of Net Sales</i>	5.0%	5.3%	5.2%	4.9%	5.3%	
<b>EBITDA</b>	69.9	68.6	69.6	82.6	49.6	-8.2%
<i>EBITDA Margin</i>	7.5%	6.4%	6.4%	6.9%	4.4%	
<b>Depreciation and amortization (D&amp;A)</b>	-8.8	-10.7	-13.0	-13.6	-15.3	14.8%
<i>as % of Net Sales</i>	0.9%	1.0%	1.2%	1.1%	1.3%	
Other income, net	0.4	0.5	0.6	0.5	3.1	
Net loss on Limoneira shares <sup>1</sup>	—	—	—	-9.7	-10.6	
Loss on investments in FreshRealm <sup>2</sup>	—	—	—	—	-37.2	
Gain on sale of Temecula packinghouse <sup>3</sup>	—	—	—	2.1	0.2	
Interest income	0.1	0.0	0.3	2.7	—	
<b>EBIT</b>	60.9	57.4	56.6	63.6	-11.0	N/A
<i>EBIT Margin</i>	6.6%	5.4%	5.3%	5.4%	-0.9%	
Interest expense	-0.8	-1.0	-0.8	-0.9	-0.8	
Provision for income taxes	-21.9	-20.5	-12.7	-12.9	4.8	
Net income (loss) from unconsolidated entities	-0.6	0.4	-11.9	-14.1	-8.5	
<b>Net income</b>	38.5	37.3	32.0	36.6	-14.8	N/A
Other comprehensive income (loss), net of tax	4.1	3.9	1.7	—	—	
<b>Comprehensive income</b>	42.6	41.2	33.7	36.6	-14.8	N/A

Note: LTM2020 comprises the period from August 1<sup>st</sup> 2019 to July 31<sup>st</sup> 2020

- <sup>1</sup>
- With the adoption of a new accounting standard during the FY2019, Calavo must record its equity investments at fair value, with changes in them to be recorded in the Income Statement;
  - Changes in Limoneira's stock price, to be measured every quarter-end, must be recorded, thus impacting profitability.

- <sup>2</sup>
- Calavo is both equity and debtholder at FreshRealm;
  - With the worsening of its results during the third quarter of FY2020, FreshRealm will need further capital injections to operate as a going concern;
  - However, Calavo does not plan to commit any more capital to FreshRealm;
  - In accordance with its own analysis, Calavo has impaired the entirety of its equity investment (\$2.8M), recorded a reserve for collectability of the totality of its note receivable of \$34.1M and registered \$0.2M of trade account receivables as doubtful allowances.

- <sup>3</sup>
- In April 2019, Calavo sold its Temecula, California packinghouse for \$7.1M;
  - Approximately one-third of its total square footage was leased back, as part of the same deal;
  - This generated a gain of \$6.4M, of which \$1.9M were recognized in second quarter of 2019;
  - The remaining \$4.5M were recorded as a deferred gain, to be recognized throughout the lifetime of the lease.

Regardless of displaying a promising proposition to tackle a growing market, FreshRealm's poor operating performances have been a cause for concern for Calavo.

## Business Description

- FreshRealm LLC was founded in 2013 as a **seller, producer and distributor of fresh food meal kits** to home meal distribution providers and national retail grocery businesses, helping deliver prepared perishable foods to store shelves;
- The company connects its customers to a national network of food suppliers, food makers and food packers through its cloud-based platform. In 2017, it started using it to deliver fresh food meal kits to retailers;
- The containers used in the home delivery segment are 100% recyclable, while the porters in which the food is shipped are reusable;
- Operates in four facilities across the U.S., three of which leased from Calavo;
- RFG has sold \$2M, \$9.9M and \$7.3M worth of products to FreshRealm in the years ended October 31<sup>st</sup>, 2019, 2018 and 2017, respectively

## Business Model

- After purchasing food from several manufacturers, **FreshRealm assembles it into either meal kits for retailers or porters**;
- The meal kits are then **sent to retailer distribution centers, whilst porters are shipped to customers** through third-party carriers;
- FreshRealm is **present in four different sales-channels**: grocery and club, its largest one; convenience and gas stations; restaurants and QSR; and direct to consumer.

## Outlook

- Michael Lippold, CEO, has stated that COVID-19 has been an accelerator in the demand for cook-at-home fresh meals;
- FreshRealm intends to expand aggressively in 2021 beyond its current locations.



Examples of FreshRealm's fresh food meal kits



Reusable containers in which meal kits are shipped

In millions of USD	FY2016 <sup>1</sup>	FY2017 <sup>1</sup>	FY2018	FY2019	FY2020 <sup>2</sup>
<b>Income Statement<sup>3</sup></b>					
<b>Net revenue</b> <sup>1</sup>	4.2	18.2	37.7	22.4	16.1
Cost of goods sold	7.3	26.0	49.0	27.1	18.6
<b>Gross loss</b>	<b>-3.1</b>	<b>-7.8</b>	<b>-11.4</b>	<b>-4.6</b>	<b>-2.5</b>
<i>Gross Margin</i>	-75.0%	-42.6%	-30.2%	-20.7%	-15.6%
Selling, general and administrative	6.5	13.9	21.5	21.6	-11.6
<b>Loss from operations</b>	<b>-9.6</b>	<b>-21.7</b>	<b>-32.8</b>	<b>-26.2</b>	<b>-14.1</b>
<i>EBIT Margin</i>	-229.4%	-119.0%	-87.2%	-116.9%	-87.8%
Other expenses (income)	0.0	0.0	0.5	3.1	-5.2
<b>Net loss</b>	<b>-9.6</b>	<b>-21.7</b>	<b>-33.3</b>	<b>-29.4</b>	<b>-19.3</b>
<b>Cash Flows<sup>3</sup></b>					
<i>NOPLAT</i>		-21.7	-32.9	-26.5	
<i>Depreciation</i>		1.6	2.0	2.3	
<i>NWCR</i>			1.2	0.1	
Operating Cash Flow	N/A	-20.1	-29.7	-24.1	N/A
CAPEX	N/A	-1.6	-3.6	2.6	N/A
<b>Unlevered Free Cash Flow</b>	<b>N/A</b>	<b>-21.7</b>	<b>-33.3</b>	<b>-21.5</b>	<b>N/A</b>
<b>Financing from Calavo, at October 31<sup>st 4</sup></b>					
<b>Fair value of notes receivable</b> <sup>2</sup>	—	—	—	35.2	—
Face value	—	—	—	35.2	34.2
<b>Equity investment in FreshRealm</b> <sup>2</sup>	21.0	28.4	19.9	5.8	—
Δ Investment in FreshRealm	3.2	7.5	3.5	—	1.5
<i>Ownership percentage</i>	46%	43%	37%	38%	37%

1: Unaudited; 2: Nine months ended July 31<sup>st</sup>; 3: at FreshRealm's year end, December 31<sup>st</sup>, except for 2020; 4: except in 2020.

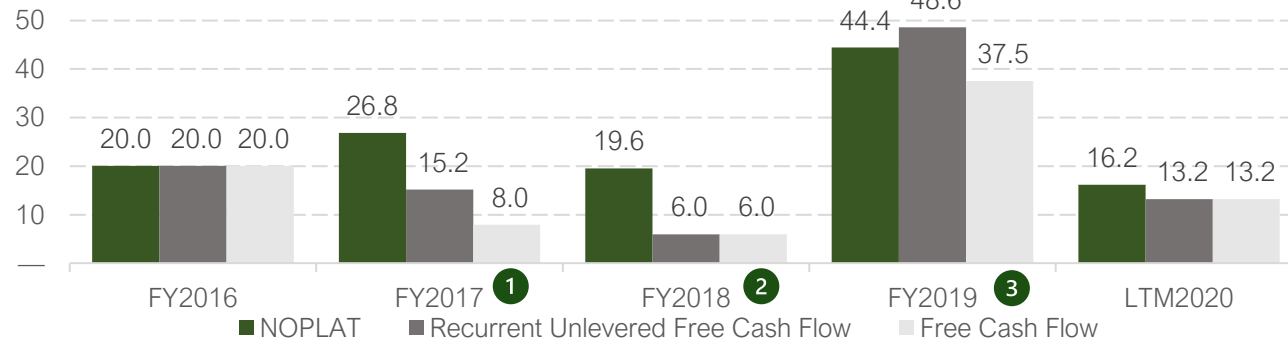
- In December 2018, FreshRealm ceased its relationship with its most relevant customer, which comprised 81% of total Net revenues of the previous year;
- During FY2020, FreshRealm sold 10% less than in FY2019, whilst the value for the most three months ended July 31<sup>st</sup>, 2020 was 56% lower.
- As of July 31<sup>st</sup>, 2020, Calavo has impaired its \$2.8M equity investment, recorded a reserve for collectability of its note receivable worth \$34.1M.



The cash flow generation ability of the Fresh products segment is mainly dependent on the NOPLAT for the year as it is not a CAPEX intensive segment.

## FRESH PRODUCTS

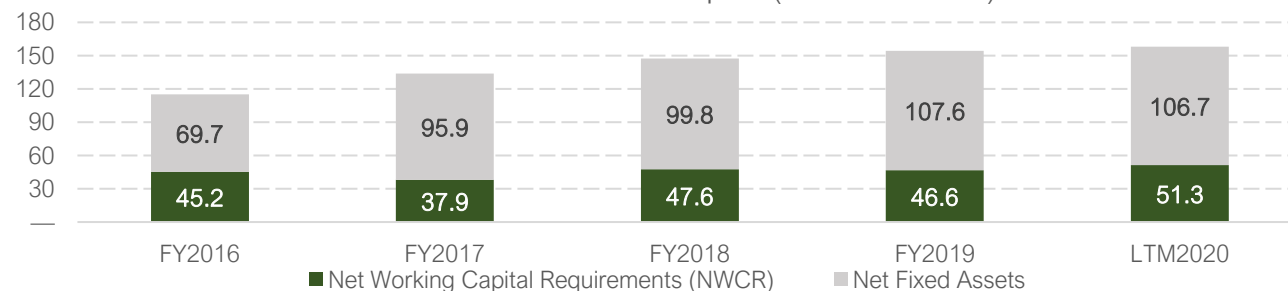
Fresh products' Cash Flow breakdown (in USD millions)



CAPEX in Fresh Products (in USD millions)



Fresh Products Invested Capital (in USD millions)



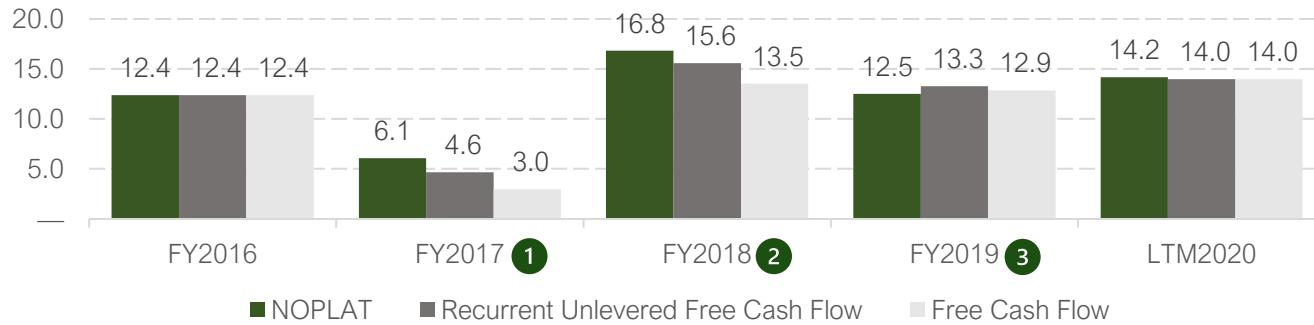
In days	FY2016	FY2017	FY2018	FY2019	LTM2020
Avg. Holding Period (AHP)	16	14	14	15	15
Avg. Collection Period (ACP)	27	24	22	19	24
Avg. Payable Period (APP)	19	15	10	11	11
Cash Conversion Cycle (CCC)	25	23	25	23	28

1. NWCR variation in FY2017 is essentially due to the reduction of accounts receivable, contributing positively to the Recurrent FCF; Nevertheless, the high CAPEX values registered in this year outweigh such decrease in the NWCR.
2. In FY2018 the movement in NWCR was opposite to that of FY2017, with Short-term payables falling 22%. Hence, in part, the Recurrent FCF being 3x times lower than the NOPLAT.
3. In FY2019, a better NWCR management and the low Maintenance CAPEX registered that year ensured that the Recurrent FCF was higher than the NOPLAT.
4. Expansion CAPEX are given by the product of the 5-year average Fixed Assets/Net Sales ratio and the annual change in Net Sales; Opening of a new facility justifies the CAPEX values for FY2017. The formula used led to most of it being attributed to Maintenance rather than Expansion CAPEX.
5. NWCR compose approximately 33% of the capital invested in the Fresh products segment, on average. Its largest caption is Accounts Receivables.
6. The short CCC suggests that cash can be quickly generated, which will be important when paying debt service in the future.

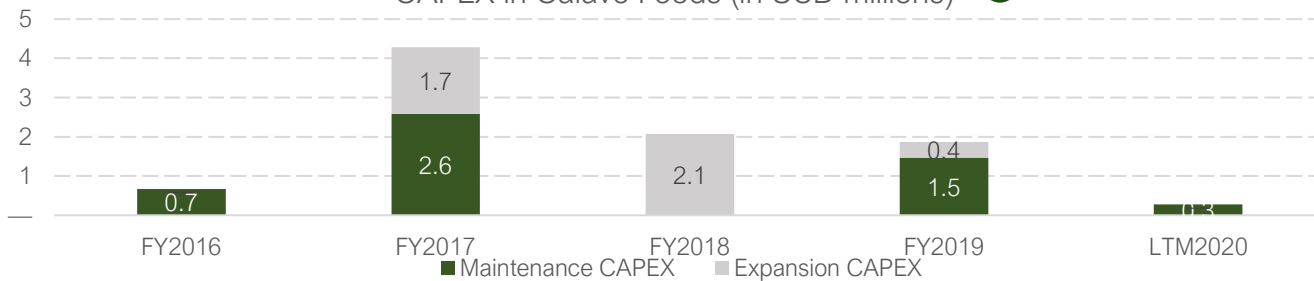
The reliability of cash flows evidences Calavo Foods's attractiveness, which should improve further after scaling up.

## CALAVO FOODS

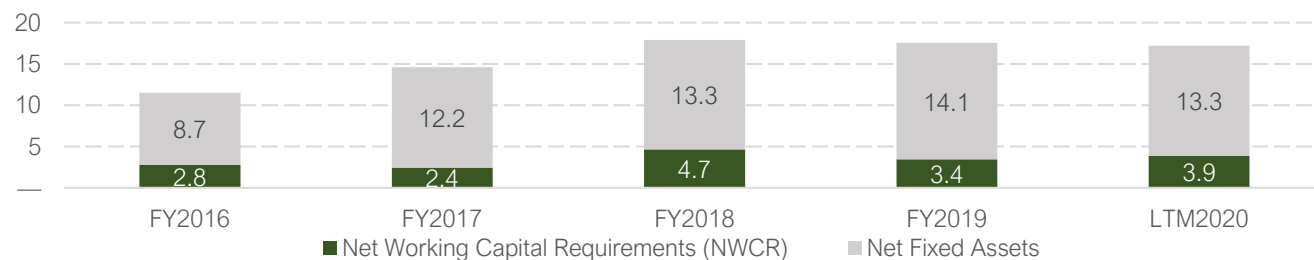
Calavo Foods Cash Flow breakdown (in USD millions)



CAPEX in Calavo Foods (in USD millions)



Calavo Foods Invested Capital (in USD millions)

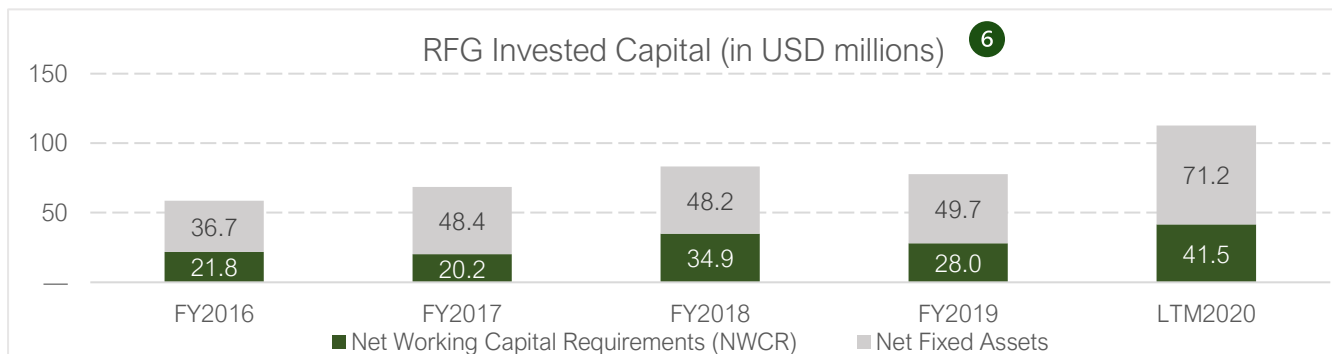
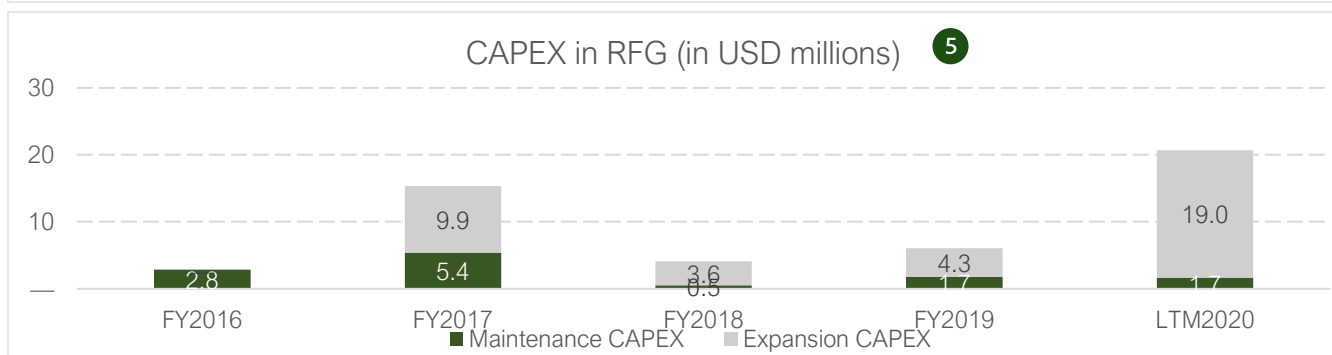
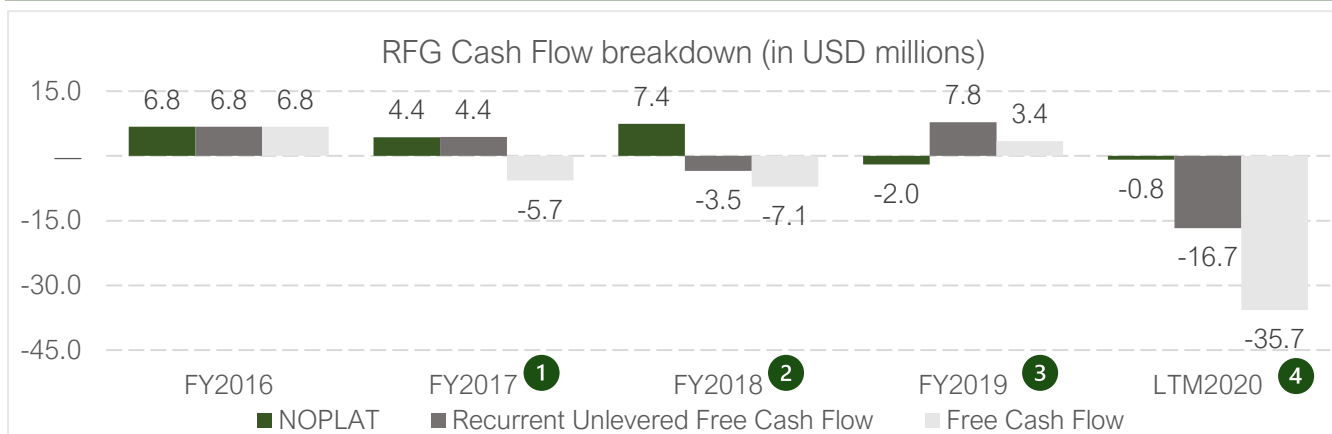


In days	FY2016	FY2017	FY2018	FY2019	LTM2020
AHP	5	4	5	4	8
ACP	27	24	22	19	31
APP	26	16	13	12	18
CCC	6	11	14	12	20

- The lower cash generated in FY2017 is entirely related with the lower operational profitability in that year.
- The larger difference between each metric for FY2018 relates to a surge in NWCR and by the CAPEX;
  - The former is justified by the increase of both Receivables and Inventories.
- In FY2019, better management of Receivables, particularly of Accounts Receivable and Prepaid Expenses, led to a decrease in the NWCR.
- Large capital expenditures during FY2017 result from the assumptions used to allocate assets to each segment: as Calavo's overall CAPEX was higher, so was the value for this segment.
- NWCR constitutes on average 22% of the Invested Capital attributed to the segment:
- The short CCC suggests that cash flows can be quickly generated, which will prove to be important when paying interest expenses in the future.

Negative cash flow generation for RFG segment comes from the various recent investments made, which have not been completely productive yet.

## RFG



In days	FY2016	FY2017	FY2018	FY2019	LTM2020
AHP	12	10	14	11	18
ACP	27	24	22	19	22
APP	18	14	10	10	10
CCC	21	19	26	21	30

- A positive NWCR management resulted in Recurrent FCF being slightly higher than the NOPLAT. However, the large CAPEX values in FY2017, particularly for expansion projects, led to a negative FCF.
- The large variation in the NWCR in FY2018 that results in the negative Recurrent FCF comes from both the increasing values of Inventories and of Prepaid expenses & other current assets and from the decrease in Trade accounts payable;
- In FY2019, the partial reversal of what had passed in the previous year, along with an higher value for Other long-term liabilities, produced the positive cash flow;
- LTM2020 saw an increase in Inventories and in Prepaid expenses & other current assets, leading to more cash spent on NWCR.
  - Moreover, the CAPEX in acquiring SFFI and in expanding into new facilities resulted in a large cash outflow during the LTM2020.
- As stated before, the acquisition of a new facility for RFG resulted in the significant change in Expansion CAPEX during FY2017;
  - Most assets acquired from SFFI are Goodwill and Intangibles in 2020.
- The several investments made throughout the period culminate in Invested Capital having grown by a CAGR of 17.7% since FY2016.





I.

I. Company Overview and  
Historical Financials

II. Private Equity Impact in  
Emerging Economies

III. Appendixes

IV. Reference List



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