

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 –  
EVALUATING CALAVO GROWERS' ATTRACTIVENESS FOR AN LBO

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**Abstract:**

This Work Project is an individual part of Investment Committee Paper on Calavo Growers, an American fresh fruit and healthy on-the-go fresh food developed by a group of Master's in Finance. The company is divided into three segments: Fresh Products - 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 component analyses the markets in which Calavo operates as well the investment thesis for the company and an initial overview of the value creation strategies that will be pursued.

**Key words:**

Calavo, Private Equity, Fresh Fruit, Avocado, Guacamole, Fresh Packaged Food, Market Overview, Investment Thesis, Value Creation Strategies, LBO, China, Trops, Syros

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## 2. Market Overview | Fresh Fruit | Avocado

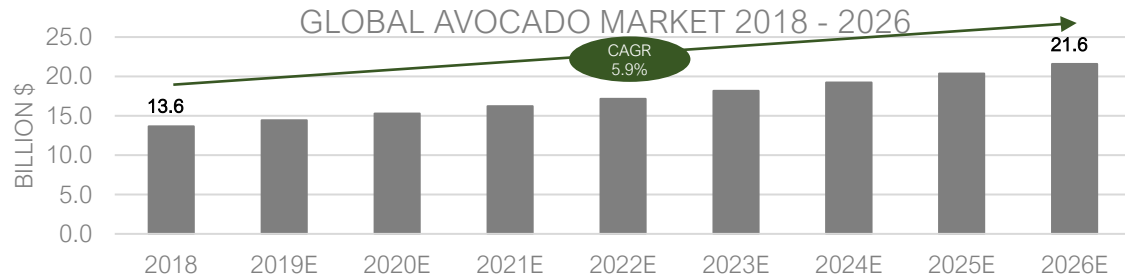
Avocado market expected to reach \$21B by 2026, with a CAGR of 5.9%, mainly driven by rising health concerns and intake from Hispanic population.

### AVOCADO

Overview

Avocado was first produced in Central and South America. Commercialization started in the early 1900s and was mainly targeted at the wealthy. Afterwards, the Californian Avocado Association was created and by the 1950s production scale had grown and prices fell to 25 cents each. Demand further increased in the 60s with Hispanic emigration and later on with the lift of a ban that allowed Mexican exports into the US (stable supply chain).

Avocado Market



- The global avocado market has seen an upward trend since 2012. In 2018, it was valued at **\$13.64B** and is predicted to reach **\$21.56B by 2026**, displaying a **CAGR of 5.9%**;
- U.S. is the major consumer of avocado - per capita consumption in 2018 was around **8 pounds**, growing at a **CAGR of 8%** during the past decade.

Growth drivers



- Growing health concerns** and intake of healthy foods – avocados are rich in nutrients, vitamins, minerals and good fats that help lower cholesterol and fight chronic diseases;
- Hispanic population** is an **avid avocado consumer** - they currently account for 18% of the U.S. population (number expected to double by 2050);
- Avocado toast is now a **trendy social media menu item** across the globe;
- Usage of avocado in the **cosmetics and pharmaceutical** sectors;
- Continuing **expansion of planted area and marketing** of the product.

#### Global trade

**Major importers** of avocado 2019 (in Million \$) – **US** (2864) ; Germany (344); UK (342); Spain (341); Japan (239); Canada (237); Belgium (96); Italy (80); Poland (72).

**Major exporters** of avocado 2019 (in million \$) – **Mexico** (2790); Spain (385); Chile (330); US (154); Israel (79); South Africa (71); New Zealand (70); Belgium (69); Morocco (51); Germany (46).

**Major producers** of avocado in 2018 (in thousand tons) – **Mexico** (2184); Dominican Republic (644); Peru (504); Indonesia (410); Colombia (327); Brazil (236); Kenya (233); US (169); Venezuela (136); Israel (132).

#### Key trends

**Usage:** guacamole, salads, sandwiches/wraps and burgers; **Barriers:** too expensive and turns brown too quickly; **Attributes:** healthy and rich in good fats; **Decision hierarchy buying process:** 1) eye-catching display/abundance; 2) ripeness; 3) price; 4) size; 5) other (variety, brand, organic, locally grown);

**Geography:** Production **keeps growing** - Mexico has increased production from 1.47M metric tons in 2013/14 to 2.26M in 2019/2020. **Yield:** lean season usually followed by a more productive one; **Costs:** fruit very sensitive to weather conditions and in need of large amounts of water (600L/kg). However, plant-growth control and irrigation improvements optimized water consumption, reducing this figure 300-400L to a value lower than of other less nutritional fruits as apples (822L/kg) or bananas (790L/kg); **Chemicals:** amongst the fruits with lower pesticide needs. **Labour:** The industry has created employment opportunities and improved the standard of living of producing countries such as Mexico or Peru;

**Price** Price variation mainly explained by production costs and availability – heatwaves and droughts reduce yield and drive prices up;

**COVID-19** Logistical problems, labour shortages and closures of the hospitality industry have impacted both production and prices. However, as trade begins to resume, the avocado **industry shows promise for recovery and growth.**

European and Asian demand for avocados is growing and higher volumes in the market will continue to drive up consumption.

### European and Asian Markets

#### Europe

- There has been recorded a strong interest for avocados in Europe over the years due to their versatility and healthy nature;
- However, despite having increased **8% between 2017-2018** when compared to 2016-2017 and **110% since 2012-2013**, **European consumption** is still **underdeveloped**, when compared to America's;
- Average consumption per capita in **Europe is 2.3 pounds**, while the **USA consumes on average 8 pounds** and Canada 5.5 pounds, which evidences the large growth potential;
- France is the largest European market for avocados whilst Spain, the United Kingdom, Germany and Italy are registering strong growth. Other high potential markets include Scandinavia, a large per capita consumer, and Eastern Europe, where consumption is rising. The Netherlands are the largest European importer of avocados.
- Avocados are contractually planned by retailers, and their promotion can help sell additional volumes. Nevertheless, there is a **limit to Europe's ability to absorb supply**: if there is oversupply, prices end up falling (which is what happened in 2018 – imports volume exceeded 600M tonnes but prices dropped 30%);

#### China

- Therefore, despite the expected increase in European demand in future years, **new markets should be considered in order to attain a growing and sustainable supply**;
- The Asian market shows good prospects. Although still with low levels of consumption, **China shows the greatest potential** in the long run as imports increased at a **CAGR of 115% from 2013 to 2017**, motivated by the increase in familiarity and popularity;
- Considering current growth rates, the **market could mature within five to eight years** with the fruit becoming a staple product for European retailers.



## 2. Market Overview | Competitive Landscape | Segment Overview

All markets are highly fragmented, creating a competitive environment with many players entering the market. Furthermore, there has been intense M&A activity to grow inorganically, either through expansions to other food businesses or through vertical integrations.

	FRESH FRUIT	GUACAMOLE	FRESH PACKAGED FRUIT
Market	<ul style="list-style-type: none"> <li>As demand for high-quality nutritional fruit increases, <b>new players are entering the market, fragmentating it.</b> With a standardized product, firms tend to <b>invest in technology</b> for quality improvement. They usually have <b>close relationships with growers</b> in order to maximize yield and adequacy of the fruit.</li> </ul>	<ul style="list-style-type: none"> <li>As usual in new markets, the guacamole one is still under big changes. This leads to the <b>entrance and exit of many companies, creating a fragmented market..</b> The largest labeled player, Wholly Guacamole, represents around 5% of the labelled market.</li> </ul>	<ul style="list-style-type: none"> <li>The fast-increasing demand for the fresh food packaged products led to the <b>entrance of several companies</b>, which created a <b>highly fragmented market</b> with a mix of very large, large and medium sized companies. No player has more than 5% market share.</li> </ul>
Players			
Sales dynamics	<ul style="list-style-type: none"> <li>Players <b>focus on marketing actions</b> to show product quality and boost reputation and sales. <b>[Tomato] Competition is price-based</b>, making developed countries highly dependent on imports; <b>[Avocado] Quality and market proximity</b> (i.e. lower logistics costs) are sources of competitive advantages.</li> </ul>	<ul style="list-style-type: none"> <li>Most players focus on <b>improving their brand awareness</b> by investing in marketing campaigns (e.g. advertising during the Super Bowl). Others, besides their own branded product, <b>produce and pack guacamole for private labeled companies</b>, the largest share of the market.</li> </ul>	<ul style="list-style-type: none"> <li>Competition comes in <b>terms of price and quality.</b> The <b>pure packaging companies focus</b> on improving packaging quality and reducing costs. Conversely, <b>fresh food companies aim to build an idea based on healthy eating through products' quality</b> and sustainable suppliers' network.</li> </ul>
M&A Activity	<ul style="list-style-type: none"> <li>The <b>need to have a stable supply</b> has been driving M&amp;A activity. It is also a <b>growth vehicle</b> (mostly domestically) in a mature industry with few growth opportunities other than changing health trends.</li> </ul>	<ul style="list-style-type: none"> <li>Typically seen as a complementary market, <b>there is not much M&amp;A activity.</b> Nonetheless, if <b>parent companies consider expanding</b> into new food sectors, the <b>scenario might change completely.</b></li> </ul>	<ul style="list-style-type: none"> <li>The market <b>has had intense M&amp;A activity</b> with players in the food market <b>entering the market due to its growth outlook.</b> Thus, medium sized firms are integrated usually into larger corporations.</li> </ul>

The industry is characterized by fierce competition and threat of newcomers, average power of suppliers and customers and low threat of substitutes.

**PORTER'S 5 FORCES**

**COMPETITION IN THE INDUSTRY**

- Competition mainly based on price and quality;
- High number of competitors with different sizes;
- Major competitors are highly diversified, covering several markets of the industry.

**THREAT OF NEW ENTRANTS**

- Low barriers to entry, although crops take between 3-4 years to become profitable;
- Standard product;
- High production costs (e.g. water, pesticides) in the fresh segment;
- Low production costs of processed food for players that also cover the fresh market.

**POWER OF SUPPLIERS**

- Moderate power of suppliers;
- Product is undifferentiated and there are many players in the market, but close relationships are important to secure availability and quality of the product.

**POWER OF CUSTOMERS**

- Medium bargaining power of customers as there are few good distribution networks, but the product is standard and the market is saturated.

**THREAT OF SUBSTITUTE PRODUCTS**

- Products such as egg yolks, extra-virgin oil and leafy green vegetables provide some of the benefits of avocados at a lower price, but they are not as nutritional nor as widely recognized.

**PEER GROUP**

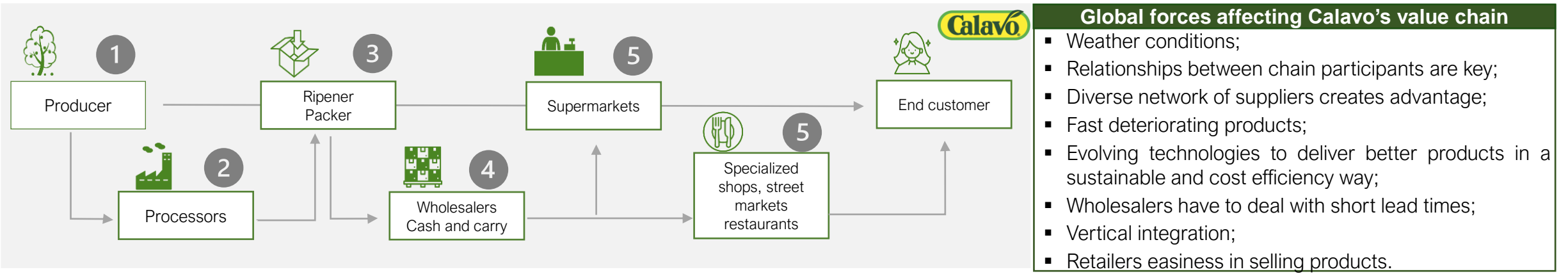
Company	Current Market Capitalization	Sales 2019	EBITDA Margin	Current EV/EBITDA
	N/A	\$1.20B	6.91%	N/A
	\$1.17B	\$4.49B	4.50%	11.18x
	\$918M	\$883M	8.65%	13.99x
	\$990M	\$1.52B	12.81%	11.68x
	\$221M	\$3.91B	2.38%	9.92x
	\$330M	\$1.17B	5.28%	10.29x

**COMMENTS**

- Direct competitors tend to be medium-sized companies;
- There is no product differentiation. Thus, having relationships between players in the value chain is of increased importance;
- Low profit margins are a standard feature in the industry;
- Highly fragmented market with many entrants due to its attractiveness;
- Players usually operate in various markets related to the global Fresh food industry.

## 2. Market Overview | Value Chain

In a mature value chain where deliveries are time sensitive and weather conditions highly affect its proper functioning, vertical integration is a common feature as players seek more efficient and profitable processes.



- ### Global forces affecting Calavo's value chain
- Weather conditions;
  - Relationships between chain participants are key;
  - Diverse network of suppliers creates advantage;
  - Fast deteriorating products;
  - Evolving technologies to deliver better products in a sustainable and cost efficiency way;
  - Wholesalers have to deal with short lead times;
  - Vertical integration;
  - Retailers easiness in selling products.

### Fresh products | RFG | Calavo Foods

Proximity with suppliers is key to guarantee quality products;  
 Long term relationships are important for two reasons: better **knowledge between the involved parties** and **increased cooperation** to improve the efficiency of both;  
**1** **Having geographically spread suppliers** is a competitive advantage as it enables a year-round supply of quality products;  
 Weather conditions highly affect crops either positively or negatively, forcing **prices to fluctuate with unpredictable patterns**.

The ripening and packaging process has been under constant developments with more **accurate ripening machines and sustainable packaging materials**;  
 It is essential for the **facilities to be strategically located** to avoid loss of quality or even food waste. **3**

Focusing in the packaging itself to avoid products contamination and **increase their shelf life** without using preservatives;  
 Packaging is done at this stage, either with **companies' own labels or with private labels**. **2 3**

Responsible for products transformation, has the central role in the value chain;  
 High **focus on maintaining products under perfect conditions** throughout entire process to ensure the final product has the desired quality. **2 3**

With the role of connecting the final seller with the product transformer, it bears the responsibility of **delivering the products with the desired characteristics**;  
**4** Must have a **strong distribution network** as the products have short shelf life, increasing the risk of deterioration;  
**Long term contracts** is the standard procedure in the market;  
 It often occurs that processing companies **vertically integrate these players** by leveraging on their know-how and operational capabilities.

**5** **Supermarket chains** are the largest retailers in the market due to the stable condition they can offer to wholesalers;  
 Healthy food **specialized shops, restaurants and fast food chains** (for the Calavo Foods segment) compose the rest of the retailers network;  
 Their task of **selling the products is facilitated in these markets** due to their health benefits that have been boosting demand.



## 4. Investment Thesis | A: Organic Growth

Value creation for the existing segments will be built on better and more predictable operational performances that can take full advantage of each growing market.

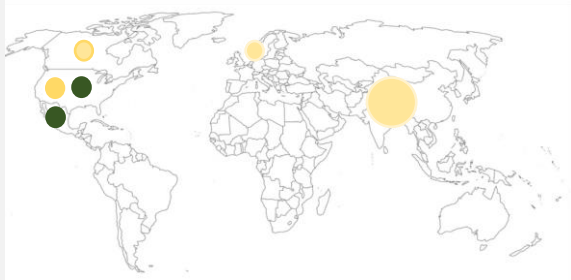
	Value creation	Strategy execution	Rationale	Impact	Risks
Fresh products	Reduce unpredictability of profits to fully capture the value of a growing market.	<ul style="list-style-type: none"> <li>▪ <b>Diversification of the supplier base</b> to get a more consistent product availability. Specifically, establish a partnership with Agrokasa to stabilize margins as Peruvian avocados' costs depend on the selling price.</li> </ul>	<ul style="list-style-type: none"> <li>▪ External factors consistently affect the quantity and quality of avocados supplied. Moreover, it reduces price dependency on Mexican avocados.</li> </ul>		<ul style="list-style-type: none"> <li>▪ Sourcing from more distant locations might translate into large transportation costs.</li> </ul>
		<ul style="list-style-type: none"> <li>▪ <b>Acquisition of hazel bags</b> to include in avocado packages, as these will increase products' shelf life.</li> </ul>	<ul style="list-style-type: none"> <li>▪ With these, Calavo and its retailers are able to reduce food waste and improve cost of sales.</li> </ul>		<ul style="list-style-type: none"> <li>▪ Bad reputation that may arise from using chemicals.</li> </ul>
		<ul style="list-style-type: none"> <li>▪ <b>Educate growers on new developments on water consumption</b> and on other areas to grow avocados more efficiently.</li> </ul>	<ul style="list-style-type: none"> <li>▪ A more efficient and cheaper process would allow growers to produce more avocado and Calavo to lower its costs.</li> </ul>		<ul style="list-style-type: none"> <li>▪ Resistance from growers to adapt to new technologies if they prove to be too expensive.</li> </ul>
Calavo Foods	Expand the customer base and reinforce position in a high-growth market.	<ul style="list-style-type: none"> <li>▪ <b>Establishment of exclusive partnerships with fast-food chain.</b></li> </ul>	<ul style="list-style-type: none"> <li>▪ The growing fast-food industry is using guacamole more often;</li> </ul>		<ul style="list-style-type: none"> <li>▪ Healthier trends might turn consumers away from fast-food restaurants.</li> </ul>
		<ul style="list-style-type: none"> <li>▪ <b>Raise brand awareness</b> through marketing campaigns, improved social media presence and the redesign of Calavo's website.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Social media platforms are significantly influencing consumers' food habits.</li> </ul>		<ul style="list-style-type: none"> <li>▪ Costs incurred with marketing actions do not generate the expected revenues</li> </ul>
		<ul style="list-style-type: none"> <li>▪ <b>Hedge against market shocks</b> to stabilize profits (for Fresh products too).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Net losses of between \$0.3 and \$0.8M in currency remeasurements (2017-2019).</li> </ul>		<ul style="list-style-type: none"> <li>▪ Costs with defining hedging strategies might exceed benefits.</li> </ul>
RFG	Efficiency improvements and expansion of market presence.	<ul style="list-style-type: none"> <li>▪ <b>Development of retail partnerships and of infrastructures</b> in new areas to keep supplying within hours of production.</li> </ul>	<ul style="list-style-type: none"> <li>▪ High market growth, coupled with fast-paced lifestyles, demand convenient and on-the-go options.</li> </ul>		<ul style="list-style-type: none"> <li>▪ New infrastructures might not be as efficient at the beginning, leading to lower margins.</li> </ul>
		<ul style="list-style-type: none"> <li>▪ <b>Leverage recently integrated facilities to improve efficiency</b> and drive profitability upwards.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Current low margins prevent the RFG segment from capturing the value of an expanding market.</li> </ul>		<ul style="list-style-type: none"> <li>▪ Overusage can damage equipment and lead to excessive maintenance CAPEX.</li> </ul>

## 4. Investment Thesis | B: Internationalization to China

*Outstanding levels of growth and low operational costs positions the Chinese market in a highly attractive position for Calavo to explore.*

### Calavo's current position

- With **very little presence** in markets outside US, and with **no defined internationalization strategy**, Calavo is foregoing the opportunity of operating in high growth markets and establish itself as a worldwide leading player.



- Sales outside the U.S. only represent **around 5% of Calavo's overall sales.**

### Expansion rationale

- Highest predicted growth worldwide**, with a 40% to 50% CAGR, following a 115% imports' growth p.a. between 2013 and 2017;
- Local governments' measures** to promote a healthy lifestyle, coupled with a **rising middle-upper class** prone to try international food and conscious of avocado health benefits ;
- Lower avocado consumption** than in Europe or Australia;
- Lower costs** than in other potential expansion locations;
- Small players** with no know-how on handling avocados;
- Emergence of growing sites in China** may expand the market;
- Option to import** from New Zealand or South Africa;
- Focus on avocados** as processed items are still unknown there.

### Execution strategy

- Open a ripening and packaging facility** to ensure avocados are delivered in optimal conditions;
- Joint venture with local distributor Yumsun** to ease the market entry and **leverage its know-how and networks**;
- Leverage relationship with Walmart US to develop one with **Walmart China**. Moreover, **establish deals with JD.com**, one of China's largest online and offline retailers, in which Walmart has ownership;
- Place an experienced team in the field** to transmit their know-how to local workers on how to be efficient;
- Develop a growers network** like in Mexico, starting with Yunnan Lüyin Agriculture Development Co, a large local grower. Also, **capitalise on New Zealand growers** to ensure stable supply along with **Mexican ones.**

### Strategic goals






- Expanding Calavo's geographical reach to **high growth regions**;
- Position Calavo as a leading player** through a first-mover advantage;
- Raise global brand awareness** while keeping avocados' healthy and tasty reputation;
- Reduce the high dependency on the U.S. market.**

### Expected results



- Achieve high revenue growth**, in line with the predictions for the market;
- Increase operational margins** when compared to the U.S. market;
- Attain **strong, stable win-win relationships with new stakeholders** to support predicted levels of growth;
- Increase weight in Calavo's total net sales** over time, representing nearly **3% in 2027.**


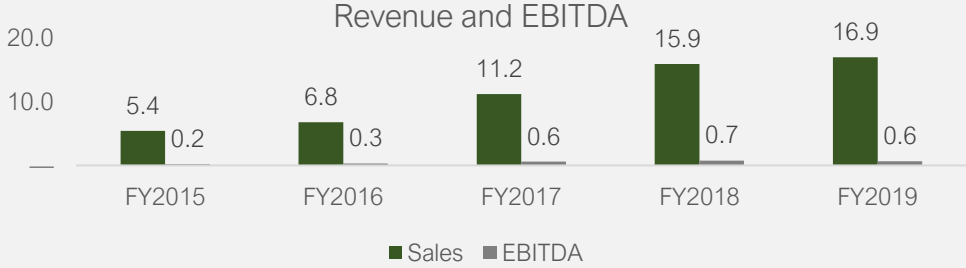
### Potential risks


- Inefficient supply chains**, namely in product refrigeration that tends either to fail deliveries or deliver bad quality products. 
- Abundance of low-dry-matter avocados** arriving in the country (around 17%), which will never ripen and be proper to eat, scaring away first-time consumers. 
- Cultural differences** that may affect Calavo's ability to construct an efficient network, both quality and cost-wise. 

Geographical diversification of the current avocado portfolio makes Trops an attractive M&A target for Calavo.

Acquisition Overview	Company Overview	Expected Impact																		
<div data-bbox="224 275 461 372" data-label="Image"> </div> <p data-bbox="53 454 637 601">Trops is a Spanish company with more than 36 years of experience, that specializes in <b>producing and selling fresh produce</b>.</p> <p data-bbox="53 644 384 676"><b>Acquisition Rationale</b></p> <p data-bbox="53 719 637 982">By acquiring Trops, Calavo will be able to <b>strengthen its position in the European avocado market and expand its sourcing range</b>, tackling possible seasonality issues. Furthermore, it will also <b>extend</b> its fresh products portfolio and benefit from cost synergies from consolidation.</p>	<p data-bbox="665 225 996 258"><b>Company description</b></p> <ul data-bbox="665 265 1490 868" style="list-style-type: none"> <li>▪ Trops is <b>specialized in producing, packing and selling a small range of fresh fruits</b>.</li> <li>▪ Its goal is to ensure fair trading with farmers in order to supply <b>high-quality tropical fruit</b>;</li> <li>▪ Trops has a qualified team that ensures its harvests meet the industry's high standards;</li> <li>▪ Focused on an <b>environmentally responsible production</b>. The company's technology optimizes resource consumption while granting fundamental aspects such as the taste and healthiness of the fruit, maximizing consumer satisfaction;</li> <li>▪ Also acts as a purchasing center to obtain the best terms for the inputs required by growers;</li> <li>▪ The company has a <b>competent and effective management team</b>, focused on maximizing operations efficiency and providing high quality products all year.</li> </ul> <p data-bbox="665 911 919 943"><b>Global presence</b></p> <ul data-bbox="665 951 1490 1058" style="list-style-type: none"> <li>▪ The company sells <b>mainly to European supermarket chains</b> but is also present in the U.S., Africa and Asia, selling to a total of 25 countries.</li> </ul> <p data-bbox="665 1100 932 1133"><b>Product Portfolio</b></p> <ul data-bbox="665 1140 1490 1286" style="list-style-type: none"> <li>▪ Trops produces and distributes avocados, mangos, litchis and kumquats;</li> <li>▪ Vast packaging options: boxes of 4 Kg, Gir Sack, box 2 Kg, Flow pack, Ready to eat.</li> </ul>	<div data-bbox="1531 225 1600 297" data-label="Image"> </div> <p data-bbox="1625 232 2491 304"><b>Revenue and EBITDA contribution</b> - Additional revenue and EBITDA from international markets, diversifying market risk.</p> <div data-bbox="1531 332 1600 404" data-label="Image"> </div> <p data-bbox="1625 339 2491 411"><b>Operational synergies</b> – lower relative cost of sales as a result of cost efficiencies.</p> <div data-bbox="1531 446 1600 518" data-label="Image"> </div> <p data-bbox="1625 454 2491 525"><b>Multiple arbitrage</b> – gain on multiple arbitrage after consolidation, given the lower acquisition multiple.</p> <div data-bbox="1518 539 2497 846" data-label="Figure"> <p data-bbox="1854 561 2160 594">Revenue and EBITDA</p> <table border="1"> <thead> <tr> <th>Fiscal Year</th> <th>Sales</th> <th>EBITDA</th> </tr> </thead> <tbody> <tr> <td>FY2014</td> <td>9.3</td> <td>0.3</td> </tr> <tr> <td>FY2015</td> <td>9.8</td> <td>0.6</td> </tr> <tr> <td>FY2016</td> <td>16.7</td> <td>1.3</td> </tr> <tr> <td>FY2017</td> <td>21.6</td> <td>1.8</td> </tr> <tr> <td>FY2018</td> <td>27.3</td> <td>2.0</td> </tr> </tbody> </table> </div> <p data-bbox="1964 861 2053 893"><b>Risks</b></p> <div data-bbox="1531 936 1600 1008" data-label="Image"> </div> <p data-bbox="1625 929 2491 1001"><b>Perspective of robust future market growth attracts new entrants;</b></p> <div data-bbox="1531 1043 1600 1115" data-label="Image"> </div> <p data-bbox="1625 1036 2491 1108"><b>Post-merger integration process might not go as planned due to cultural differences;</b></p> <div data-bbox="1531 1150 1600 1222" data-label="Image"> </div> <p data-bbox="1625 1143 2491 1215"><b>European growers' incapacity of increasing production and therefore achieving higher efficiencies;</b></p> <div data-bbox="1531 1258 1600 1329" data-label="Image"> </div> <p data-bbox="1625 1250 2491 1322"><b>External factors</b> like COVID and other unexpected events can negatively affect the company.</p>	Fiscal Year	Sales	EBITDA	FY2014	9.3	0.3	FY2015	9.8	0.6	FY2016	16.7	1.3	FY2017	21.6	1.8	FY2018	27.3	2.0
Fiscal Year	Sales	EBITDA																		
FY2014	9.3	0.3																		
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<p data-bbox="168 1072 519 1105">Segment: Fresh Products</p>																				
<p data-bbox="186 1148 501 1180">Acquisition Year: 2022</p>																				
<p data-bbox="244 1223 443 1256">Price: \$35.6M</p>																				
<p data-bbox="206 1299 481 1332">EV/EBITDA: 10.35x</p>																				

Syros's acquisition will allow Calavo to expand to new markets and further capture the large value potential of the fast-growing guacamole market.

Acquisition Overview	Company Overview	Expected Impact																		
 <p>Syros is a Belgian company with almost 25 years of experience in importing and distributing avocado products.</p> <p><b>Acquisition Rationale</b></p> <p>Syros' strong presence in the European market, enlarged portfolio and close geographical proximity to Trops (avocado producer) combined with expected synergies from consolidation, makes it an attractive target to reinforce Calavo's international presence and broaden its offering with the frozen segment.</p>	<p><b>Company description</b></p> <ul style="list-style-type: none"> <li>Syros is specialized in sourcing, producing, packaging and delivering mostly chilled and frozen avocado products, but also a range of salsas and dips;</li> <li>Focused on delivering a fine and innovative food concept through the continuous introduction of highly nutritional products, the development of recipes in partnership with Belgian chefs considering Europe's cuisine trends and the investment in new technological processes (high pressure processing) to increase product shelf life;</li> <li>The company is also ESG oriented, taking actions to reduce food waste.</li> </ul> <p><b>Global presence</b></p> <ul style="list-style-type: none"> <li>Syros supplies mostly food retailers and restaurants in France, but is also present in Belgium, the Netherlands, Scandinavia, Germany and UK;</li> <li>It sources from around the world, ensuring quality and taste and avoiding seasonality problems.</li> </ul> <p><b>Product Portfolio</b></p> <ul style="list-style-type: none"> <li>Includes guacamole (mild, spicy, extra spicy, light, mango, kiwi..), avocado (pulp, chunks, cubes, slices, halves,..), salsa (tomato, mango,..) and dips (red bean, beetroot,..).</li> <li>Products are distributed through salsalicious, guacalicious and wonky brand but also through private labels.</li> </ul>	<p><b>Expected Impact</b></p> <ul style="list-style-type: none"> <li><b>Revenue and EBITDA contribution</b> - Additional revenue and EBITDA from international markets, diversifying market risk.</li> <li><b>Operational synergies</b> – lower cost of sales as a result of cost efficiencies.</li> <li><b>Multiple arbitrage</b> – gain on multiple arbitrage after consolidation, given the lower acquisition multiple.</li> </ul>  <table border="1"> <caption>Revenue and EBITDA</caption> <thead> <tr> <th>Fiscal Year</th> <th>Sales</th> <th>EBITDA</th> </tr> </thead> <tbody> <tr> <td>FY2015</td> <td>5.4</td> <td>0.2</td> </tr> <tr> <td>FY2016</td> <td>6.8</td> <td>0.3</td> </tr> <tr> <td>FY2017</td> <td>11.2</td> <td>0.6</td> </tr> <tr> <td>FY2018</td> <td>15.9</td> <td>0.7</td> </tr> <tr> <td>FY2019</td> <td>16.9</td> <td>0.6</td> </tr> </tbody> </table>	Fiscal Year	Sales	EBITDA	FY2015	5.4	0.2	FY2016	6.8	0.3	FY2017	11.2	0.6	FY2018	15.9	0.7	FY2019	16.9	0.6
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<p>Segment: Calavo Foods</p> <p>Acquisition Year: 2023</p> <p>Price: \$9.9M</p> <p>EV/EBITDA: 10.35x</p>		<p><b>Risks</b></p> <ul style="list-style-type: none"> <li>Post-merger integration problems due to cultural differences;</li> <li>Syros size and strong competition in the European market can make it difficult for Calavo to grow its share;</li> <li>Negative impact of macroeconomic factors such as potential commercial wars or unfavorable outcome for Covid-19 pandemic.</li> </ul>																		



I. Market Overview & Investment Thesis

II. ESG in Private Equity

III. Appendixes

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*Despite not being yet a crucial element considered in PE funds, the prioritization of ESG principles in evaluating investments is a growing trend in the industry that can generate additional returns.*

## Intro

In a society ever more conscious about the problems that it faces, such as environmental issues and gender equality, Corporate Governance is becoming paramount to the corporate world as it affects consumer behaviour. In spite of not being in the public eye as much as some major corporations, this trend has affected the Private Equity (PE) industry as well. In this context, the Environmental, Social and Governance (ESG) standards are becoming an integral part of the industry, although still not commonplace.

## ESG in Private Equity

The ESG criteria evaluates a company's impact and relationships in areas such as environment, employees, suppliers or the communities in which they are inserted. In the PE industry, the popularity and importance given to these standards is increasing. For instance, many funds are starting consider it as a part of the Due Diligence process.


This trend is evidenced by data provided by Bain & Company which suggests that impact fund assets raised by the first half of 2019 amounted to \$28B, marking a 154% increase since 2015, supported by the increase in the number of megafunds (i.e. that have more than \$1B in assets under management) that have raised such assets. In addition, according to research by BDO LLP, almost two thirds of UK-based funds consider ESG principles in their investments. However, the integration of these standards in the industry still has some way to go: only 29% of those same PE firms have a publicly available ESG policy report.

The reasons for the rising importance given by PE funds to ESG practices are two-fold: firstly, investors, particularly pension-funds, are more conscious about the ESG practices of prospective funds in which to invest and thus are more selective when choosing in which ones to invest; secondly, funds have understood that employing ESG programs can actually improve performance. In particular, there is some academic evidence that points out that long-term performance metrics, such as Return on Invested Capital (ROIC), is better in companies that prioritise ESG.

PE funds are then encouraged to come up with ESG plans. It can not only be a source of competitive advantage when gathering investors but also an area where target companies can be improved, which certainly would help generate additional returns.

## Conclusion

In sum, ESG is becoming an integral and differentiating component of the corporate world to which the PE industry does not escape. Although it is not yet a commonplace feature and it still has some problems such as there not being an accurate way of measuring such values, in particular for private entities, its benefits are starting to show. As such, PE funds must look to this as an opportunity and try to incorporate such practices in their investments as soon as possible if they want to stay one step ahead of competition.



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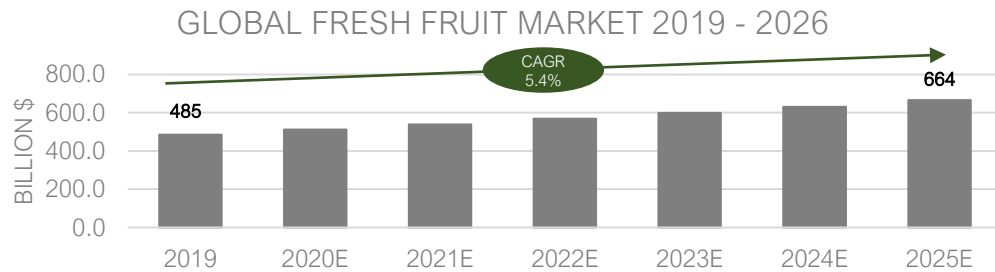
Fresh fruits market expected to reach \$664B by 2025, with a CAGR of 5.4%, mainly driven by rising health concerns and intake of healthy food items.

## FRESH FRUITS MARKET

Overview

Fruit is an essential part of a healthy diet as it is low in calories and high in nutrients and fiber. Fruit is most beneficial in its fresh state, as frozen one loses water-soluble nutrients (B and C vitamins), canned fruit has also less C vitamin and dried fruit has a higher glycemic index.

Fresh Fruit Market



- The global market was valued at **\$485B in 2019 (increase of 15% from 2012)** and is expected to reach **\$664B by 2025 (CAGR of 5.4%)**. It is large and stable but with regular changes in short-term needs and prices. As production increases gradually, external resources are needed to meet demand.
- **EUR represents 45% of the global trade and the U.S. market the highest increase in the per capita consumption (17% from 2000 to 2018).**

Growth drivers

- i) Growing focus on health and longevity and the benefits of eating fruit** – Specially in north/western Europe, superfoods such as avocado are becoming very popular;
- ii) Increasing marketing actions** are driving a boom in sales of **healthy snacks**;
- iii) Growing inclination for plant-based diets**, a market expected to reach \$2.5B by 2023;
- iv) High trending of exotic fruits**;
- v) Growing production in the Asia-Pacific region (China, Japan, India) of fruit and vegetables.**

Global trade

**Major importers** of fruit and vegetables 2017 (in USD Billions) – **US (10.2)** ; Germany (6.8); UK (4.1); India (3.9); France (3.7).

**Major exporters** of fruit and vegetables 2017 (in USD Billions) – **China (11.3)**; Netherlands (7.5); Spain (6.8); Mexico (6.5); US (4.8).

### Key trends

Consumption

Consumers value: i) **healthy and organic** food ii) food **safety, quality and environmental aspects** iii) **convenience** (mini-products, cut/sliced fruit and vegetables); and iv) **exotic** fruit and vegetables.

Price

**Market driven by price**, but with consumers complementing shopping actions with interest in exotic and special-quality fruit and vegetables more and more.

Supply

**Shorter and more efficient supply lines**, that allow to build specific expertise and comply with strict delivery terms of large retailers. E-commerce expected to gain market share (in line with convenience trend).

Sustainability

Growing interest on it along all levels of the value chain – working conditions, water use, waste management. Area likely to attract investment in order to improve brand reputation.

Regulation

Food safety requirements: i) **phytosanitary requirements** to prevent the introduction and spread of organisms harmful to plants and plant products; ii) maximum **residue levels for pesticides**.

Risks

Pests and disease, weather patterns, changes in demand by consumers, food safety advisories, reduction/cancellation of orders, market acceptance, quality and price of raw materials.

COVID-19

Restaurant chains and retail food outlets closed and consumers shifted to non-perishable food items. Nevertheless, in Q22020 consumers returned to normal buying patterns and the foodservice industry opened for delivery and take-out, **normalizing the demand for fresh fruit**. Despite this fact, profits were still affected due to cancelled orders and foreign currency activities.



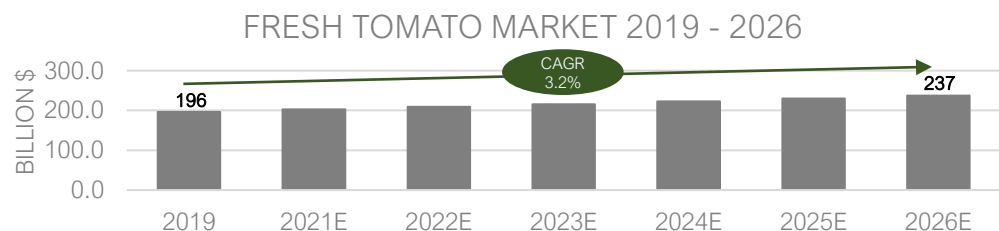
The tomato market is expected to reach \$196B by 2026, with a CAGR of 3.2%, mainly driven by rising health concerns and intake as a complementary item.

TOMATO

Overview

Original from South America, it spread around the world following the Spanish colonization of the Americas with commercial production starting in the mid-1800s. In 2017, the fresh tomato market accounted for a consumption of 20.5 pounds per capita and the processed one for 73.3 pounds. Today, tomatoes are the second most consumed vegetable in the U.S, behind potatoes, and have a significant nutritional value (good source of vitamin C, A and antioxidants).

Tomato Market



- The global tomato market amounted to **\$196B in 2019**. From 2007 to 2018, the market rose at a **CAGR of 3.1%**, with noticeable fluctuations – it reached a peak in 2014 at \$196B and remained at a lower figure from 2015 to 2018;
- From 2007 to 2018, output rose at an average rate of **2.9%**. In 2018 production peaked, standing at 188M tons, and registering an increase of 3.5% from the previous year. Production is projected to grow at a **CAGR of 3.2%** between 2020-2026, reaching **237M tons**.

Global trade

**Major exporters** of tomato 2018 (in tonnes) – **Mexico** (1.8M); Netherlands (1.1M); Spain (797k); Morocco (550k); Turkey (364k); France (287k); Belgium (220k); US (216k); Canada (191k); Azerbaijan (172k); Lithuania (157k) and China (143k). In value, Mexico (\$2.3B), the Netherlands (\$1.9B) and Spain (\$1.3B), accounting for 57% of global exports level.

**Major importers** of tomato 2018 (in tonnes) – **US** (1.9M); Germany (729k); Russia (578k); France (493k), UK(418k); Netherlands (230k), Canada (228k); Pakistan (182k); Poland (153k); Spain (147k) and Italy (129k).

**Major producers** of tomato 2018 (% total production) – **China** (31.8%); India (10.4%); US(7.4%); Turkey (7.1%); Egypt (4.5%); Others (17.6%).

Growth drivers



- i)** Expanding emphasis on **health and nutrition** - tomatoes have lycopene, which is believed to help protect against prostate cancer and heart disease;
- ii)** Consumption of tomato continues to grow primarily due to the popularity of **salads, salad bars and submarine sandwiches**;
- iii)** Increase in **varieties** of tomatoes and the interest of customers on them;
- iv)** Surge of new emigrants into the US who eat **vegetable-intensive diets**;
- v)** Increased consumption of **tomatoes as snacks**;
- vi)** Increase in **processed tomato products** ( purees, sauces, pastes).

Key trends

Consumption

**Type most consumed:** Grape cocktail (30.3%); **Characteristics:** Flavour is the most valued attribute by consumers; **Use:** majority (80%) is freshly consumed and the remaining processed into purees, soups, ketchup, pickles, juices and sauces.

Production

Tomatoes are warm-season crops that are sensitive to frost. Thus, **greenhouse production** has become trendy, with benefits including uniform appearance and quality, consistency in production, increased yields and year-round production.

Trade

Tomatoes grown in Europe are mainly sold and consumed in Europe. The **excess demand is mainly addressed by Moroccan imports**.

Cost

**Price is highly affected by meteorological conditions.** Nefarious meteorological conditions cause the yield to decrease, which in turn drives prices up, as was the case of Mexico in early 2020.

COVID-19

COVID forced many farmers to destroy their crops as their clients (restaurants, schools, hotels, cruise lines and theme parks) were temporarily out of business, while US retailers had their shelves mostly packed with imported tomatoes. This event, along with food shortage, and media coverage **evidenced the need to buy and support local produce**.

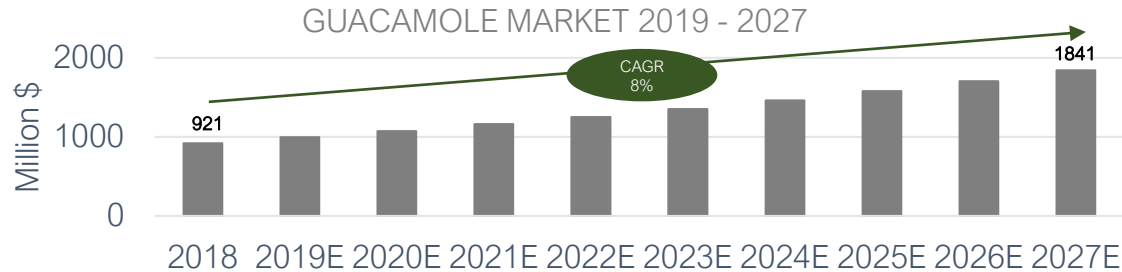
Driven by health benefits, increasing popularity and versatility, Guacamole market expected to reach \$1.8B by 2027, with a CAGR of 8%.

**GUACAMOLE**

Overview

Guacamole was created by Aztecs in the 15<sup>th</sup> century. Being essentially a mix of mashed avocado and spices it became very popular within the Mexican people due to its good taste and healthy characteristic. Due to the lifting of a ban on avocado imports in the 1990s and the growth of Hispanic population, US became a huge market. Guacamole's versatility was key for its amazing growth because gave people a good product to be used in various situations with various other products.

Guacamole Market



- Global Guacamole market has been growing at a fast pace since the 2000s due to the increasing Hispanic population in the US. Valued at \$921M in 2018, the guacamole market is predicted to grow at a CAGR of 8%, leading to a market value of \$1800M in 2027.

Global trade

- In terms of geographical disposition, the US alone accounted for 60% of guacamole market, making it the most significant and important market. US growth is expected to be maintained, while Europe and Asia regions are predicted to have the highest growth for the foreseeable future;
- Virtually all the supply of guacamole worldwide comes from Mexico. This tendency comes from the already established infrastructure for avocado packaging and processing and from the ability of having equally skilled workers in the field for lower wages than other countries.

**Growth drivers**

- i) Increasing popularity in many international cuisines;
- ii) Avocados' proven health benefits and changing food habits towards healthier diets;
- iii) The growth of the global fast-food industry, which uses it as a condiment or dip;
- iv) Social media platforms influence on food habits;
- v) Guacamole's versatility to be used with various products;
- vi) High quality guaranteed all year.

**Key trends**

Consumption

Guacamole is segmented in fresh refrigerated and in frozen guacamole, having the former the biggest share of the market. It is typically used with products such as a dip for chips, on toasts, as a salad dressing and many others. It is broken down in mild, spicy and organic guacamole.

Production / packaging

Guacamole production is a simple process, being the key step the HPP (high hydrostatic pressure) treatment. This treatment increases products shelf life from around 5 to 60 days without adding any preservatives. Product's demand and avocado "surplus" are the two factors driving its production, having therefore the function of reducing food waste.

Cost

The cost of producing guacamole is directly tied to the price of its major component, the avocado. The other costs come from the small presence of other produce products and from the packaging itself.

COVID-19

COVID-19 has negatively affected the Guacamole market, with less gatherings and consumers using home-made products instead of prepared ones. Also, the reduced activity in restaurants and fast-food chains led to a reduction of avocado consumption. These effects forced companies to reduce guacamole production in order to avoid its oversupply and food waste.

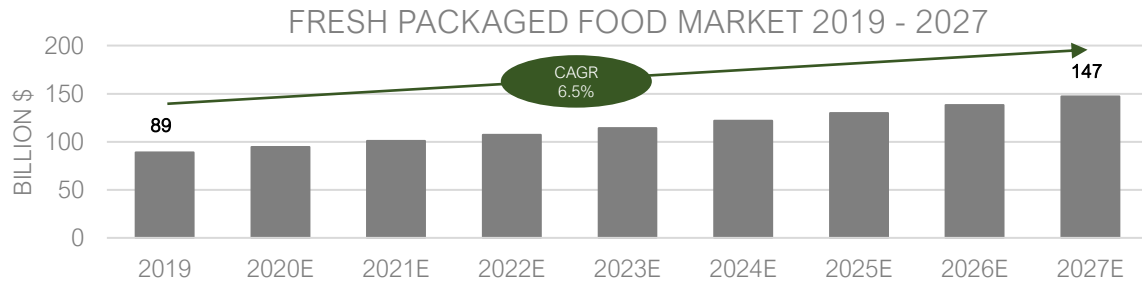
Driven by fast-paced lifestyles and health benefits, Fresh packaged food is expected to reach \$130B by 2026, with a CAGR of 6.5%.

## FRESH PACKAGED FOOD

Overview

The fresh packaged food market is relatively recent and had two main forces promoting its development. Firstly, the technological development that allowed for bacteria free packaging techniques while reducing the usage of preservatives. Secondly, the current fast paced world forced people to look for on-the-go healthy options to ensure the necessary quantities of nutrients was obtained.

Fresh Packed Food Market



- The refrigerated fresh packaged food market has recently experienced an increase in popularity. This popularity led to a **market value of US\$ 89B in 2019** and to projections of a **6.5% CAGR**, leading to a value of **US\$ 130B in 2027**.

Global trade

- The supply network is **extremely dispersed**, both in number of producers and geographically. As the market depends on various products, it is virtually impossible for one supplier to dominate the market. Geographically,, the **major contributors come from the US and South America** for two reasons, the US because it represents the biggest consumer worldwide and South America because its soil and climate conditions are ideal for the harvest of many produces.
- Regarding consumers, **North America and Europe are the markets with the biggest market share** and similar consumption patters. **The most growing market is the Asia-Pacific** one, mainly China and India, with a **remarkable growth in the Fruit and Vegetables imports of 51.6%**, compared to the 17.6% globally.

### Growth drivers



- i) Increasing consumer consciousness of the health benefits tied to the consumption of fresh food**, namely fruits and vegetables;
- ii) Rising awareness for food waste**, increasing the demand for products with longer shelf life;
- iii) Increased concern with bacteria and other types of contamination;**
- iv) Growing demand for convenience and on-the-go healthy food;**
- v) Lifestyles are becoming more fast-paced** and interest in easy and convenient foods is growing.

### Key trends

Consumption

The **Meat and sea food segment represent the biggest share of the market**, and the **cut fruits and vegetables the fastest growing one**. Ready to eat entrées, wraps, sandwiches, snacks, salads, prepared meals roughly constitute the rest of the market.

Packaging

The packaging process starts with the **products' transformation and assembling**(sandwiches for example). The rest of the process is the packaging itself, which must be constantly improving in order to **reduce contamination and increase the usage of sustainable, convenient and affordable packaging materials**. Moreover, these techniques always focus on **increasing product's shelf life**. **Active and intelligent packaging** are two examples that helped the industry to grow by addressing the issues on the packaging process.

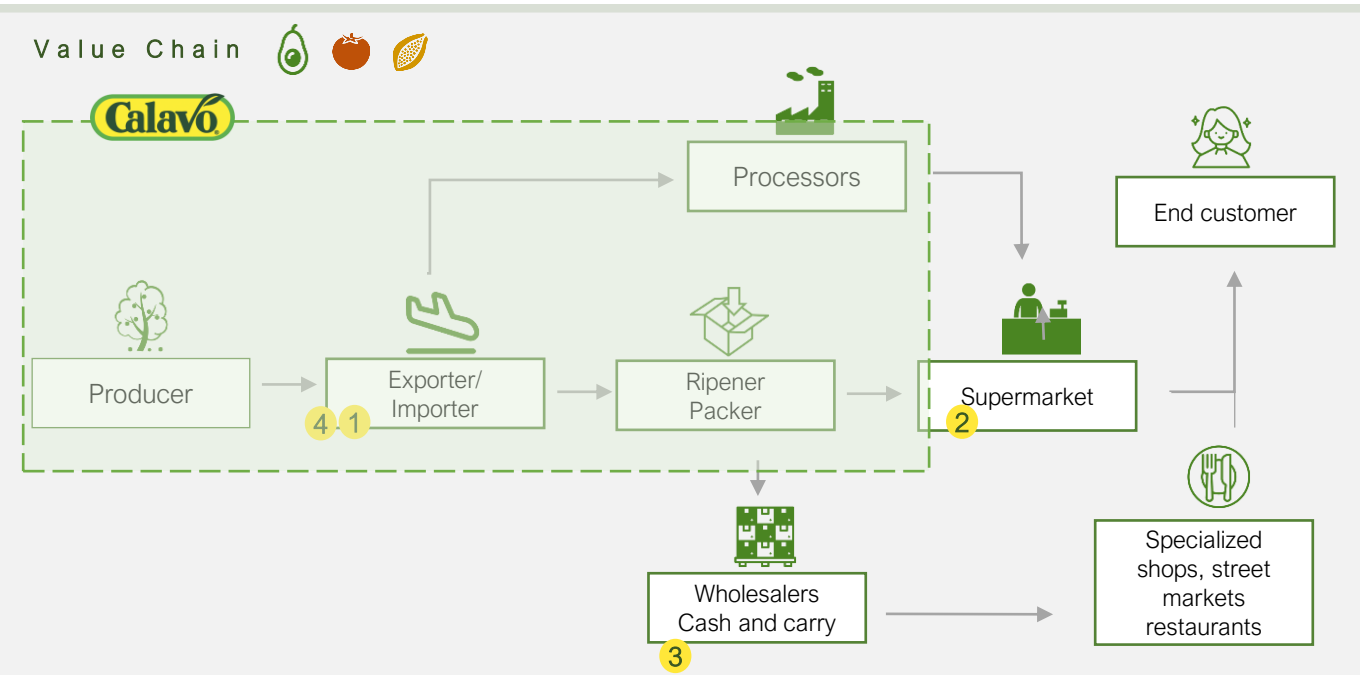
Cost

The costs are mainly **driven by the cost of raw materials**, with the packaging process constituting a relatively small portion of all costs. Hence, the very same packaging might lead to different cost structures based on products' costs.

COVID-19

The pandemic encouraged remote work, which **reduced the demand for convenience products**, as consumers could maintain a healthy consumption pattern without the need for ready to eat food.

Calavo Growers insures control over the fresh fruit value chain by taking care of the production, ripening/packing and distribution stages.



## 1. Importers and service providers

Play a **major role in the distribution** of the fruit. They are well aware of client requirements and distribute to different channels, including supermarkets and wholesalers. A number of them have **own ripening and packing facilities** (key for supplying supermarkets and for the segment of ready-to-eat avocados), allowing them to **become service providers for large retailers**.



## 2. Retailer

Avocados are majorly **sold through supermarkets** via supply contracts. Supermarkets are becoming increasingly involved in the sourcing of avocados, either by working with **annual contracts** or **selecting a dedicated service provider**.



## 3. Wholesalers

Traditionally cover the spot market and **act according to fluctuations of fresh trade**. They supply restaurants, hotel chains, specialised shops and street merchants. They **do not take risks in importing long-distance avocados**, although sometimes both import and wholesale activities are combined. Big fruit wholesalers have large international networks and offer their own cash and carry service point. Non-specialised (cash & carry) wholesalers supply the same end market, although they are more reliant on the service of importing companies or have their own purchase centres. Furthermore, They can also work with long term contracts, like supermarkets.



## 4. Exporters

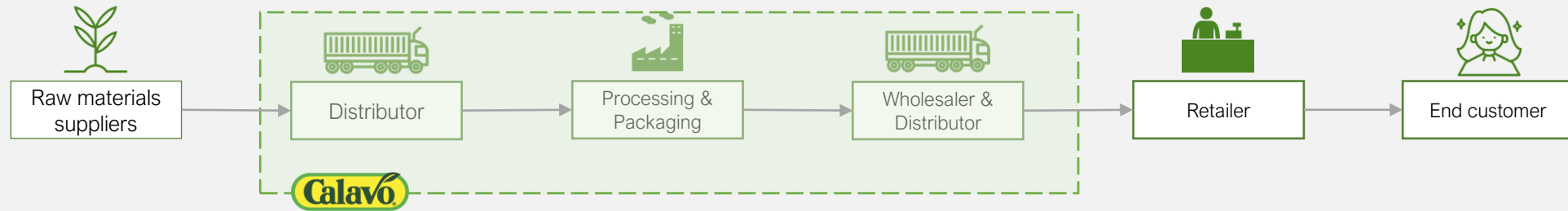
### Export requirements for fruit

- Pesticide residues and contaminants maximum levels to avoid health and environment risks - crucial issue for fruit and vegetable suppliers;
- Phytosanitary regulations (EU) – plant health checks;
- Quality standard: information on size, quality and packing requirements;
- Maturity requirements – development/maturity state must be such so as to enable the continuing of the ripening process in order to reach a desirable level of ripeness;
- Size and packing – fruit must be packed together according to a certain interval of weight and size.

### Additional requirements

- Certification: buyers require a set of certifications to exhibit food safety and good practices;
- Sustainability and social compliance – excessive water use, social issues and deforestation issues have led buyers to ask for assurances for good practices.

With a very mature value chain, companies tend to vertically integrate other players both to ensure quality and to improve efficiency.



### 1. Raw material suppliers

Constant supply of raw materials is essential for the proper functioning of any value chain. However, in a market where the supplies are **highly dependent on external conditions**, such as the weather, having **geographically dispersed producers is key** for a year-round supply of quality products. Amongst the producers, the most important ones are the avocado, onion, garlic, jalapeno peppers, tomatillo, serrano peppers and cilantro producers, as these represent guacamole's major components.

### 2. First distributor

This second participant of the value chain is usually seen as the mere connection between the producer and the manufacturer. Yet, this connection **plays a fundamental role** in all the process. With the task of **ensuring the products have the quality wanted**, the distributor has many times the power of forcing the producers into a certain type of behaviour. Furthermore, they are typically the ones guaranteeing that all **governments regulations are fulfilled** in what regards produce products.

### 3. Processing & Packaging

With the majority of Guacamole's production occurring in Mexico, the **manufacturing and exporting activity tend to be centered in the same company**. This is the central piece of all value chain, with the raw materials being **transformed and packaged usually in the same facility**. The main aspect at this point is guaranteeing that the **products are in perfect conditions and free of contamination** until the packaging process is completed. The final step at this stage is to assure the final products fulfils all the requirement to be exported.

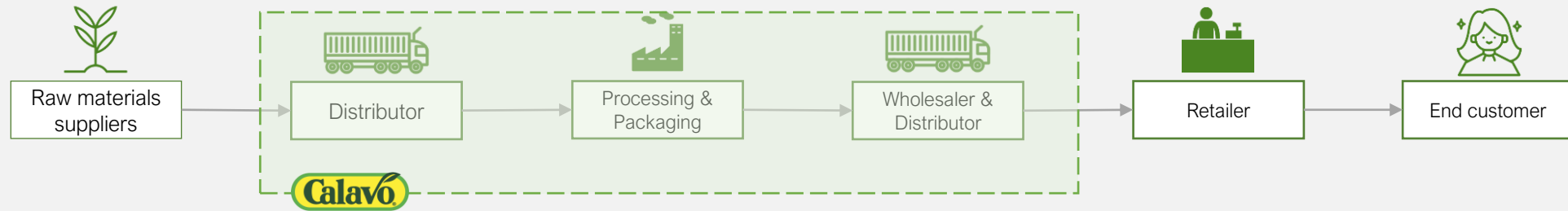
### 4. Wholesaler

Wholesaler's role in the guacamole value chain to connect the provider of a certain product with the final seller. However, in this industry, **there is almost none pure wholesaler** because the majority of the **manufacturers also perform the role of the wholesaler**, by selling directly to retailers. Being the manufacturer and wholesaling activity performed by the same company, there is no need for agreements between the two stages. Nonetheless, there is still the need for **agreements between the wholesaler and the retailer**, that **tend to have long term durations**.

### 5. Retailer

Guacamole's retailers are mainly **big supermarket chains** for two reasons, firstly their **capacity of signing longer contracts** and secondly the fact they can **absorb bigger quantities of the products**, which attracts wholesalers, as it reduces their cost structure. Regarding **retailer's strategy** for the selling of guacamole, it varies in terms of store disposition, some choose to **place the product in the produce section** while others prefer to place it in the **deli section**. Both ways seem to be function as retailers seem to be happy with sales volume increase. **Fast food and coffee&snacks chains** such as Starbucks, started to retail guacamole for some years now to serve as a dip, which **was key as highly promoted the product**.

Strong supplier network is key, and therefore established relationships benefit the involved players in terms of margins and stability. Treat of vertical integration is at place.



### 1. Raw material suppliers

Companies supplying the fresh packaged food market come from **very distinct backgrounds**. From **fruit to meat and fish passing through vegetables**, just the supply network required to create the final products has a **high level of complexity**. Furthermore, as many of these supplies are created under different conditions, they come from **different geographical regions** and therefore added complexity. The products provided tend to be unprocessed but treated for contamination prevention.

### 2. First distributor

Due to the broad range of raw materials products required in this market, there is the need for a **vast network of distributors that operate with very different products**. With the purpose of connecting suppliers with processing and packaging companies, there is often the case these **packaging companies become a distributor**. This usually happens **when the products are not very distinct**, for example fruit only processors.

### 3. Processing & Packaging

These participants of the value chain play the central role of **transforming the raw material products into the finished products**. At this stage, it is critical to **ensure the perfect packaging** of the products, primarily to **avoid contamination but also to increase products' shelf life**.

### 4. Wholesaler

Typically to the raw material suppliers and the first distributor, the wholesalers in this market **are usually very distinct**. Some focusing in one type of product such has the **fruits or vegetables**, others in **meat** and even others in the **seafood wholesaling**. There is also some wholesalers that cover all the areas, however, that does not happen a lot because they tend to specialize themselves in particular segments. Sometimes the **processing & packaging company also performs the role of wholesaler**, taking advantage of having the **capabilities to ensure the products will be delivered under the best conditions possible**.

### 5. Retailer

Fresh packaged food retailers are varied, ranging from the typical **big supermarket chains to restaurants, specialized shops and vending machines**. The typical contract retailers agree to with wholesalers, have **long term durations with a predefined delivery schedule** due to the short shelf life of the products. In what regards **retailers' strategy** to attract customers, **there is not much choice because these products have to be refrigerated**, which reduces retailers' options of disposing them in a more attractive way. **Vending machines are gaining importance** as many healthy and fresh snacks are appearing in the market to meet customer demand for such products.

## S

- **Leader in high-growth product categories** such as avocados, fresh-cut fruit, fresh-cut vegetables or guacamole;
- **Strong brand image** as Calavo is widely recognized as a producer of fine avocados, enabling it to maintain their loyal customer base;
- Somewhat insured against significant raw material shortages by having a **large supplier base** (and alternative suppliers);
- **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
- Hedged against aggregate risk by being diversified within end markets;
- Well capitalized and diversified;
- Operational capability is reinforced by the **strategic partnerships in place, by its state-of-the-art facilities and by its cutting-edge technology.**

## O

- In the U.S., the **growth of the Hispanic community** presents an opportunity, as avocado-related products are a staple product for them;
- Moreover, **avocados are present increasingly more in typical dishes;**
- Abroad, the enormous potential of the China market beckons;
- **Growth of the refrigerated fresh packaged goods market**, a fast-growing segment of the retail grocery industry;
- Increasing adoption of plant-based diets;
- **Social media** platforms influence on food habits;
- Usage of avocado in the **cosmetics and pharmaceutical** sectors;
- Increased concern with **bacteria and other types of contamination;**
- **Lifestyles are becoming more fast-paced** and interest in easy and convenient foods is growing.

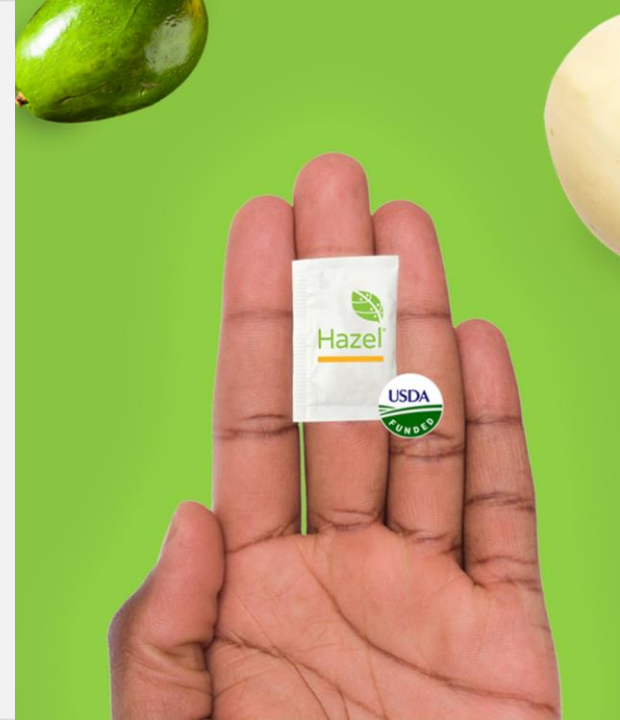
## W

- **RFG segment has exhibited decreasing profitability**, with margins decreasing in the most recent years;
- **RFG's product recalls**, which may affect brand reputation;
- **Investment in the unconsolidated entity FreshRealm has impacted profitability considerably** through net losses and large impairments to this investment, with little hope of a turnaround;
- **Subject to fluctuations in the exchange rate** between the Mexican Peso and the US Dollar, as they do not engage in hedging practices;
- **High dependence on raw materials prices**, which fluctuate considerably due to unpredictable weather conditions and other external factors.


## T

- **Fragmented market with intense competition;**
- **Regulation regarding environmental practices and imports into the US;**
- **Unfavorable weather patterns** affecting yields;
- Pests and diseases;
- **Food safety advisories** impacting fresh perishable products;
- Expected **preference for local produce** by US customers as a result of COVID-19;
- Existence of **closures due to the COVID-19** or any other pandemic;
- Increase in **organized crime** in Mexico;
- **Foreign trade risk;**
- Increase **costs of raw materials.**

- Hazel technologies was founded in 2015 with the goal of developing biotechnology for reducing waste in the agricultural supply chain
- The hazel bag 1-MCP technology allows to condition the storage atmosphere to decrease respiration rate and increase resistance to ethylene (a hormone released by many fruits and vegetables that self-triggers continued ripening), improving the shelf life and quality of fruit during storage and ultimately reducing food waste up to 30%.
- To be effective, the bag just needs to be added to the box as it is.
- Nowadays, Hazel Tech products are used by over 150 growers, packers and retailers of fresh produce in their supply chain







I. Market Overview & Investment Thesis

II. ESG in Private Equity

III. Appendixes

IV. Reference List

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