Inventure Foods. Inc.
(NASDAQGS:SNAK)

Analyst: Hugo Perrin
Sector: Consumer Goods

BUY

Price Target: $14.13

Key Statistics as of 2/12/2014

Market Price:	$11.39
Industry:	Processed & Packaged Goods
Market Cap:	$222.64
52-Week Range:	$9..60 – $14.11
Beta:	0.13

Thesis Points:

- Recent acquisition that will increase margins
- Growing industry forecast
- Constant product innovation
- Niche to mainstream market

Company Description:

Inventure Foods, Inc. manufactures and markets healthy/natural and indulgent specialty snack food products in the United States and internationally. It operates in two segments, Frozen Products and Snack Products. The company's healthy/natural food products include Rader Farms frozen berries; Boulder Canyon Authentic Foods branded kettle cooked potato chips; Willamette Valley Fruit Company branded frozen berries; Fresh Frozen branded frozen vegetables; Jamba branded blend-and-serve smoothie kits; Seattle's Best Coffee Frozen Coffee Blends branded blend-and-serve frozen coffee beverage; and private label frozen fruits and healthy/natural snacks. Its indulgent specialty snack food products include snack food under the T.G.I. Friday's, Nathan's Famous, and Vidalia brands; kettle cooked potato chips under the Poore Brothers and Bob's Texas Style brands; Tato Skins brand potato snacks; and Sin In A Tin chocolate pate and other frozen desserts. The company also manufactures private label snacks for grocery retail chains and co-packs products for snack and cereal manufacturers. It markets its products through grocery, natural, mass merchandisers, drug, club, value, vending, food service, and convenience stores, as well as through company-owned and satellite warehouses, direct store delivery, distribution centers, and other facilities. The company was formerly known as The Inventure Group, Inc. and changed its name to Inventure Foods, Inc. in May 2010. Inventure Foods, Inc. was founded in 1986 and is headquartered in Phoenix, Arizona.

Thesis

Inventure Foods is constantly setting itself apart from the competition thanks to its product innovation and the recent acquisitions that will allow the company to expand its margins. The healthy/natural products are now being embraced by a more important part of the population in the U.S., which will potentially insure a revenue growth in the coming years. What appeared to be a niche market few years ago is becoming more popular and Inventure Foods will take advantage of it thanks to its several private labels that offer a competitive advantage.

Product Segmentation

Currently, Inventure Foods operates under two segments that are as follow: frozen products and snack products.

Frozen products:
This segment gathers the production of frozen fruits, vegetables, beverages and frozen desserts for sale primarily to groceries, club stores and mass merchandisers. All of them are considered "part of the healthy/natural food category". In this segment, the products that account for the most in the revenues are the Rader Farms frozen berries, Boulder Canyon, Fresh Frozen, Jamba and Jamba Juice Company. The breakdown of the revenue for both segments and the forecast will be provided later.

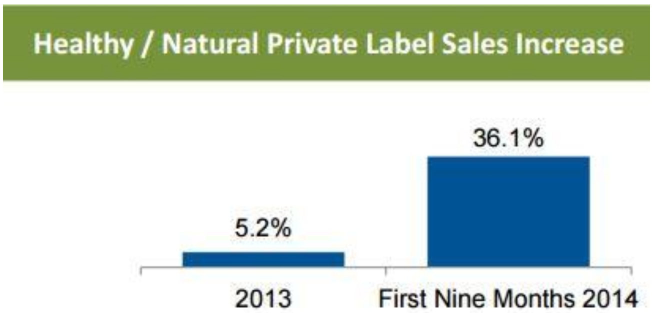
Snack products:
In this segment, Inventure Foods produces several snacks products such as potato chips, kettle chips, potato crisps, potato skins and extruded products for sale primarily to snack food distributors and retailers. Some of those products are considered part of the indulgent specialty snack food category, as well as products considered part of the healthy/natural food category.
Inventure Foods has products that include T.G.I. Friday's brand snacks under license from T.G.I. Friday. Other products are sold under license from Nathan's Famous Corporation, Vidalia Brands, Poore Brothers, Bob's Texas Style and other brands.

Product Innovation

As for the firm's competitors in the frozen products segment, the quasi totalities of Inventure Foods' competitors are small private companies. The situation is completely different for the snack segment where the competitors are large market capitalization companies operating worldwide, such as The Kellogg Company, ConAgra Foods Inc., Diamond Foods, Inc., etc. Despite this high competition, the snack segment of Inventure Foods is improving its margins as it will be shown later.

To face this competition, Inventure Foods is constantly launching new products. In 2014, the company launched new flavors of Boulder Cayon Kettle Chips, including organic, olive oil and avocado oil chips, etc.

Another action took by Inventure Foods is to increase the products offered through private labels that offers a competitive advantage and additional sell-through opportunities for branded products.



The chart above clearly shows the importance of private label sales increase in the current year. Inventure Foods is known for its different private labels that highly contribute to the top line of the company.
The smoothie line is also a segment that Inventure Foods is investing in. They are currently investing in their brand Jamba and enhance the smoothie line with unique blends of vegetables and fruits.

Firm's Financials

	Year Ended		
	December 27, 2014	December 28, 2013	% Change
Frozen Products	$ 179,518	$ 117,124	53.3%
Snack Products	106,145	98,456	7.8%
Consolidated	$ 285,663	$ 215,580	32.5%

The table above provides the breakdown of the sales based on the two segments. Between FY 2013 and FY 2014, it appears that the consolidated growth in sales has been significant at 32.5%. Concerning the two segments, they do not have the same growth in revenues. The Frozen products segment's sales increased by 53.3% or $62.4 million while the Snack segment increased by 7.8% or $7.7 million. In 2013, the frozen products segment represented 55% of the sales and the snack products accounted for the rest, 45%. A year later, proportion of revenue generated by each segment started to be less balanced with 63% for the frozen products and 37% for the other category. Inventure Foods is becoming more and more dependent over the frozen products that can be categorized as healthy/natural products. Also, this shift is sales is part of the current strategy that is developed by the firm.

	Year Ended			
	December 27, 2014	% of Net Revenues	December 28, 2013	% of Net Revenues
Frozen Products	$ 32,329	18.0%	$ 22,745	19.4%
Snack Products	20,792	19.6%	16,141	16.4%
Consolidated	$ 53,121	18.6%	$ 38,886	18.0%

The table above shows the evolution of the gross margin per segment from 2013 to 2014. Consolidated, gross margin have improved by 60 basis points. It is the snack segment that saw a significant increase in the gross margin, from 16.4% to 19.6%, while the frozen segment's gross margin has slightly decrease by 1.4% to 18%.

To explain the decrease, Inventure Foods argue that it is imputable to the lower margins from its Fresh Frozen Foods business and the increase in trade promotional spending.

In Millions of USD	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Current/LTM
12 Months Ending	2010-12-25	2011-12-31	2012-12-29	2013-12-28	2014-12-27	2014-12-27
Market Capitalization	79.4	69.7	123.5	267.3	245.9	232.2
- Cash & Equivalents	1.0	0.7	0.4	0.9	0.5	0.5
+ Preferred & Other	0.0	0.0	0.0	0.0	0.0	0.0
+ Total Debt	22.4	26.8	18.7	71.2	85.1	85.1
Enterprise Value	100.7	95.8	141.7	337.6	330.5	316.7
Revenue, Adj	134.0	162.2	185.2	215.6	285.7	285.7
Growth %, YoY	10.7	21.1	14.1	16.4	32.5	32.5
Gross Profit, Adj	29.0	30.1	36.9	38.9	53.1	53.1
Margin %	21.7	18.6	19.9	18.0	18.6	18.6
EBITDA, Adj	11.9	9.9	16.0	18.0	24.6	24.6
Margin %	8.9	6.1	8.7	8.4	8.6	8.6
Net Income, Adj	4.9	2.8	6.7	7.6	9.1	9.1
Margin %	3.6	1.7	3.6	3.5	3.2	3.2
EPS, Adj	0.26	0.15	0.34	0.38	0.46	0.45
Growth %, YoY	25.0	-42.8	129.0	10.0	21.3	21.6
Cash from Operations	7.1	4.7	11.2	5.3	-1.3	-1.3
Capital Expenditures	-8.0	-9.7	-5.6	-9.8	-11.8	-11.8
Free Cash Flow	-1.0	-5.1	5.6	-4.4	-13.1	-13.1

The table above states Inventure Foods' key statistics over the last few years. Since fiscal year 2010, the firm's has been able to generate double-digit top line growth to a pick last year with a revenue growth of 32.5%. Concerning the EBITDA margin, it has been relatively steady during the last years, but it set to increase during at least the next two years, as it will be explained later. As for the free cash flow, Inventure Foods has almost always been cash flow negative during the last eight years and more recently due to high investments that will be detailed. However, the firm will be cash flow positive next year, as predicted by Bloomberg.

On the SG&A side, those expenses have increase by 21% or $34.2 million in FY 2014. However, due to the significant growth in revenues, those expenses decreased by 0.8% to 13% as a percentage of sales. The dollar increase is mainly imputable to the transaction and integration related costs of $1.4 million associated with the acquisition of Willamette Valley Fruit Company and Fresh Frozen Foods, and with additional costs associated with that.

Consequently, it is believed that this increase in trade promotion for Fresh Frozen Foods will not be that significant for the future years. Therefore, the current increase in the firm's EBITDA margin should –at least- remain constant.

Recent acquisitions:

Willamette Valley Fruit Company LLC has been acquired in May 2013. The company is a berry processing business that has enabled the company to increase its production capability. It appears that this acquisition was on point for Inventure Foods as it has been shown before the significant increase demand for frozen berries, proven by the increase in the frozen products segment of 42% last year. Additionally, Willamette will keep the same executive staff in order to maximize the capabilities of the company.

As for Fresh Frozen Foods, this firm is a branded frozen vegetable processor that has been acquired in November 2013. During the last three years, Fresh Frozen Foods reported 15% average annual revenue growth over the last three years. It is believed that this acquisition will allow the two entities to leverage each other's sales organizations, distribution channels and products. This acquisition contributes to the expansion of the healthy/natural portfolio of Inventure Foods. This will enable Inventure Foods to diversify its products to vegetables, which will bring value to the continuing growing demand for healthier products.

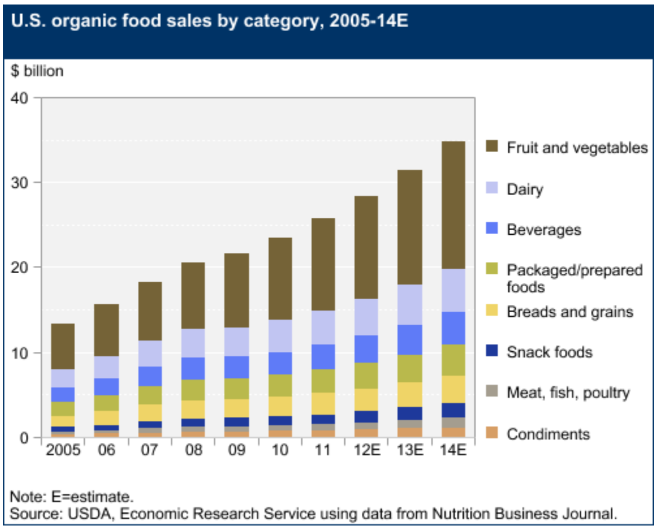
A factor to consider is the fact that the company does not break out the revenue for every side of the business, meaning that it is not possible to have the revenue contribution for Fresh Frozen or other entities within Inventure Foods.

The two companies that have been acquired in 2013 have been acquired with debt, which explains the significant increase of debt in the firm's balance sheet. In 2013, Inventure Foods borrowed $60 million from U.S. Bank.

Concerning future acquisitions, nothing shows that Inventure Foods will acquire new companies in the coming future. Therefore, the firm should increase its cash positions in the short-term.
The increase in inventories can be explained by the inventory requirements related to the recent acquisitions.

Growth forecasts

As stated previously, the contribution of healthy and natural frozen products account for the majority of the firm's sales and show a meaningful appreciation in terms of sales increase. A recent study provided by TechSci Research called "United States Organic Food market Forecast & Opportunities", 2018" states that the US organic food market will grow at a CAGR of around 14% until 2018. To put that into perspective, the organic food production has increased about 240% between 2002 and 2011, compared with 3% in the non-organic food market. Even if the organic segment is not as developed as the traditional food segment, this increase remains notable. In 2012, sales were at $82.3 billion, an increase of 13.5% compared to the previous year. As 100% of the sales are made in the US, it seems appropriate to focus on the growing market in the U.S.



As fruits and vegetables have been the top selling category of organically grown food since the organic food started retailing products over 3 decades ago, Inventure Foods has everything in its hands to gain market share and in some extent, increase its margins. According to the Organic Trade Association, 93% of the organic sales occur through conventional and natural food supermarkets and chains, which is exactly what Inventure Foods.

In the frozen berries segment, prices have been close to an all-time high during the last three years due to weather conditions. It is believed that prices will either remain constant or decrease this year, which is more likely.

To remain competitive in this industry, Inventure Foods will continue brand investments in 2015 to drive continued sales and earnings growth in the long term.

CENTER FOR GLOBAL FINANCIAL STUDIES

Inventure Foods, Inc.	SNAK	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		Hugo Perrin	$11.37	$12.24	$14.13	0%	24.29%	

General Info

Sector	Consumer Staples
Industry	Food Products
Last Guidance	Feb-26-2015
Next earnings date	4/27/2015

Market Data

Enterprise value	$304.63
Market Capitalization	$933.35
Daily volume	0.86
Shares outstanding	19.55
Diluted shares outstanding	19.99
% shares held by institutions	77.02%
% shares held by insiders	3.62%
Short interest	4.72%
Days to cover short interest	7.23
52 week high	$14.11
52-week low	$9.60
5y Beta	0.78
6-month volatility	31.91%

Peers	Market Cap.
Diamond Foods, Inc.	$1,044.37
Boulder Brands, Inc.	$596.76
SunOpta Inc.	$918.12
Omega Protein Corporation	$303.40
ConAgra Foods, Inc.	$16,151.11

Current Capital Structure

Total debt/market cap	28.04%
Cost of Borrowing	3.31%
Interest Coverage	625.19%
Altman Z	3.56
Debt Rating	BB
Levered Beta	1.04
WACC (based on market value weights)	6.90%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
McDaniel, Terry	Chief Executive Officer, Presiden	$ 1,222,689.00	$ 858,148.00	$ -
Weinberger, Steve	Chief Financial Officer, Principal .	$ 649,819.00	$ 518,309.00	$ -
Sklar, Steven	Senior Vice President of Marketir	$ -	$ -	$ -
Roles, Kirk	Senior Vice President of Human	$ -	$ -	$ -
Griffin, Bill	President of Fresh Frozen Foods	$ -	$ -	$ -
Rader, Brad	General Manager of Rader Farms	$ -	$ -	$ -

Historical Performance

	SNAK	Peers	Industry	All U.S. firms
Growth	15.8%	5.5%	8.7%	6.0%
Retention Ratio	36.1%	66.9%	59.5%	61.6%
ROIC	46.9%	10.4%	13.5%	11.8%
EBITA Margin	5.3%	12.8%	11.6%	13.7%
Revenues/Invested capital	119.9%	120.5%	178.1%	202.3%
Excess Cash/Revenue	0.5%	2.2%	6.4%	18.5%
Unlevered Beta	0.65	0.78	0.64	0.95
TEV/REV	0.6x	1.2x	1.5x	2.4x
TEV/EBITDA	11.8x	10.1x	12.1x	11.3x
TEV/EBITA	18.7x	12.8x	15.3x	15.4x
TEV/UFCF	33.0x	11.8x	28.3x	26.8x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	2.7%	-9.4%	-10.5%
Last Quarter-1	-1.4%	-14.9%	-21.4%
Last Quarter -2	-3.6%	16.2%	9.1%
Last Quarter -3	-2.9%	11.9%	0.0%
Last Quarter -4	5.7%	11.6%	27.3%

Non GAAP Adjustments

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	50%	Straightline	10 years

Proforma Assumptions / **Forecasted Profitability**

		Period	Rev. Growth	Adj. Op. Cost/Rev	Revenue	NOPLAT	Invested capital	UFCF
Operating. Cash/Cash	0.0%	LTM	33%	85%	$285.66	$21.38	$211.97	$54.97
Unlevered Beta	0.80	LTM+1Y	6%	84%	$303.45	$21.96	$263.78	$3.79
Rev/Invested Capital	120.0%	LTM+2Y	9%	84%	$331.35	$23.85	$280.78	$6.86
Continuing Period Revenue Growth	3.0%	LTM+3Y	7%	84%	$354.53	$25.42	$296.48	$9.71
Long Term ROIC	15.1%	LTM+4Y	6%	84%	$375.81	$26.84	$311.37	$11.96
Invested Capital Growth	Equals to Maintenance	LTM+5Y	6%	84%	$398.35	$28.42	$326.36	$13.42
Justified TEV/REV	1.0x	LTM+6Y	6%	84%	$422.24	$30.02	$346.98	$9.41
Justified TEV/EBITDA	11.0x	LTM+7Y	5%	84%	$443.34	$31.42	$361.44	$16.95
Justified TEV/EBITA	18.0x	LTM+8Y	4%	84%	$461.06	$32.59	$374.33	$19.70
Justified TEV/UFCF	20.0x	LTM+9Y	3%	84%	$474.90	$33.46	$385.27	$22.51

Valuation

	ROIC	WACC	EVA	Enterprise Value	Total Debt	Other claims	Equity	Adjusted Price
LTM	8.7%	6.9%	$3.83	$341.27	$85.41	$24.45	$231.41	$12.48
LTM+1Y	10.4%	7.0%	$8.84	$382.46	$85.41	$22.21	$274.84	$14.40
LTM+2Y	9.0%	7.0%	$5.63	$398.15	$85.41	$17.26	$295.48	$15.48
LTM+3Y	9.1%	7.1%	$5.67	$416.04	$85.41	$10.15	$320.47	$16.77
LTM+4Y	9.1%	7.2%	$5.64	$433.24	$85.41	$1.51	$346.32	$18.11
LTM+5Y	9.1%	7.3%	$5.84	$450.72	$85.41	-$7.95	$373.26	$19.56
LTM+6Y	9.2%	7.4%	$6.29	$474.09	$85.41	-$12.77	$401.45	$20.95
LTM+7Y	9.1%	7.5%	$5.70	$490.87	$85.41	-$24.50	$429.96	$22.43
LTM+8Y	9.0%	7.6%	$5.36	$506.89	$85.41	-$38.27	$459.75	$23.95
LTM+9Y	8.9%	7.7%	$4.86	$521.34	$85.41	-$53.94	$489.87	$25.06

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Op. Costs Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Market Risk Premium	**6%**	**N/A**	**5%**	**7%**	**Triangular**
Long term Growth	**3%**	**N/A**	**3%**	**16%**	**Triangular**
Terminal Value	**0**	**0.1**	**N/A**	**N/A**	**Normal**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$12.48	$14.40
σ(ε)	$0.08	$0.09
3 σ(ε) adjusted price	$12.24	$14.13
Current Price	$11.37	
Analysts' median est.		$14.25