

## **CJ CheilJedang to Acquire Schwan's Company, Leading US Frozen Food Company**

### **Acquisition to Serve as Growth Driver for CJ CheilJedang in Becoming a "Global Leading Food Company"**

- With Access to Manufacturing, Distribution, and R&D Infrastructures across the United States, CJ CheilJedang will Utilize as the Acquisition an Expansion Platform for Korean Food such as, Dumplings and Dried Seaweed

- This is CJ Group's Largest Overseas M&A Transaction ever and will Lay Foundation to Fulfill Chairman Jay Hyun Lee's Philosophy on Food Business – "Globalization of Korean Food Culture"

CJ CheilJedang ("CJCJ") has entered into a definitive agreement to acquire Schwan's Company ("Schwan's" or the "Company"), a US-based frozen food company. This transaction will provide CJCJ a platform for Korean Food ("K-Food") expansion with access to manufacturing and distribution infrastructures across the US as well as extensive R&D capabilities. The acquisition will further lay foundation to fulfill Chairman Jay Hyun Lee's philosophy and ambition of spreading Korean food culture across the world.

CJCJ convened board of directors meeting on November 15, 2018 to pass a resolution to acquire an 80% equity stake in Schwan's Company for cash consideration of US\$1.84Bn (KRW2Tn). As part of the transaction, the sellers of Schwan's will retain a 20% equity stake in order to provide stability and strategic knowhow for business expansion, and the Home Service business unit of the Company will be carved-out for the sellers to retain 100% ownership.

CJCJ plans to fund the transaction with proceeds from the sale of CJ HealthCare and KRW550Bn of acquisition financing. The transaction, subject to customary closing conditions and regulatory approvals, is expected to close early next year.

Founded in 1952 and incorporated in Minnesota, Schwan's Company is a frozen food company that operates nationwide frozen food manufacturing infrastructure and sales network. The Company has 17 manufacturing facilities and 10 distribution centers in the US, and competes with global food companies including Nestlé in the frozen pizza, frozen pie, and frozen Asian appetizer categories with #1 or #2 in market shares. The Company is expected to generate Net sales of KRW2.3Tn and EBITDA of KRW250Bn in 2018, excluding Home Service business unit.

With the acquisition of a company with nationwide coverage, CJCJ has gained momentum to expand in North America, the largest processed food market in the world.

CJCJ's infrastructure of manufacturing facilities in the US will grow from five facilities in California, New York, New Jersey, and Ohio by fourfold to 22 facilities. It will also gain access to logistics, distribution, and sales networks across the US. Previously limited to selling *Bibigo* brand mainly through club channels such as Costco, newly added infrastructure from the transaction will enable CJCJ to rapidly expand its brands in the North American market.

CJCJ's ready meal product line focused on dumplings and noodles will be extended with additional categories including pizza, pies, and appetizers, which are beloved by consumers in the US. CJCJ is also expected to add unique, Korean flavor to the existing product categories to further develop variety of new entrées. CJCJ will soon be offering a differentiated, wide range of Asian foods. CJCJ expects its food portfolio to reach consumers in neighboring countries including Canada and Mexico in the longer term.

CJCJ commented that "the transaction entails more than simple combination of businesses. We expect to realize meaningful synergies by combining both companies' differentiated capabilities across the entire operational value chain including R&D, manufacturing, marketing and sales." It also added, "CJCJ will

achieve its mission to become the most-recognized Asian HMR company by 2025 with superior Korean food culture by integrating Schwan's brand power and infrastructure with CJCJ's R&D capabilities."

Shin Ho Kang, CEO of CJ CheilJedang, emphasized that "through penetration of North America market, the largest market in the global food industry, CJ will accelerate the 'Globalization of Korean Food Culture' as proposed by CEO Lee Jay Hyun's philosophy on food business as well as to realize CJ group's vision of 'World Best CJ.'<End>

► **Why US? Why Schwan's Company?**

Recently, with the expansion of K-Culture, interest and the growth potential of 'K-Food' and its 'Healthy diet' image has accelerated. With the millennials leading well-being focused life & culture trends in the largest food product market globally, US has been strategically important market for CJ CheilJedang. Also, similarity in food culture offers possibility of 'K-Food' expanding into neighboring countries such as Canada and Mexico

To this end, CJ CheilJedang identified Schwan's Company as a potential partner for acquisition in the local M&A market. Schwan's Company is a leading US frozen food company with over 60 years of history and experience, similar to CJ CheilJedang. Schwans' is #2 in the US frozen pizza market (market size: 5 trillion won), right after global #1 player Nestle. It is #1 in the frozen pie and appetizer market. Popular brands include 'Red Baron', 'Tony's', 'Edwards', and 'Pagoda'.

The combination of CJ CheilJedang and Schwan's Company signals foundation for 'K-Food' expansion has been laid with the establishment of world-class infrastructure in the biggest food market globally. CJ's strategy in the developed food market is to develop product complements existing characteristics of the local foods with Korean food characteristic. Also CJ will look to localize 'Bibigo' products to create new food category. Combination of core technologies of each company will lead to 'ultra-superior' competitive advantage for the pro forma company.

US frozen food market is a formidable 35 trillion won in size (excluding frozen desserts) as of last year. Among these, Ethnic Food and Clean Label (food produced without food additives and with minimally processed ingredients) is growing faster. Given such trend, frozen ready meal and 'Bibigo' main product growth potential is bright.

CJ CheilJedang has penetrated the US market through acquisition of US food companies such as Annie Chun (2005), Omni (2009), TMI (2013), Kahiki (2018). Subsequently, it has built its business based on frozen 'Bibigo Dumpling' brand. Through preemptive investments in the US, CJ is producing frozen dumplings, ready meals, and noodles in major eastern & western cities. In 2016, CJ established a R&D center in California and has been focused on spreading 'K-Food' food culture based on differentiated technology.

Through the acquisition of Schwan's Company, CJ's goal is to become a major player in the global frozen food market. With core technology procured in advance, CJ plans to diversify the sensationally popular frozen dumpling category, localize existing products and develop new Korean menus. Also it will focus on developing a variety of recipes as to create new market based on 'ultra-superior' R&D capabilities <End>

**[About Schwan's Company]**

<b>Company Overview</b>	Name: Schwan's Company Founder: Marvin Schwan Headquarters: Marshall, Minnesota, United States
<b>History</b>	1952: Establishment 1966: Started Ice cream bar, Pizza business 1970: Acquired TONY'S pizza, 1976: Launched Red Baron Pizza 1986: Entered Asian appetizer business, 2001:Acquired Edwards desserts 2003: Acquired Mrs.Smith's desserts 2017: Acquired MaMa Rosa's, Better Baked Foods and Drayton Foods
<b>Facility &amp; Employees</b>	5 R&D centers, 10 distribution centers, 17 manufacturing facilities 12,000 employees

<b>Business Overview</b>	<p><b>[Consumer Brand]</b> Frozen pizza US M/S #2, Pie &amp; appetizer # 1 (FY17 Revenue KRW 1.1 Tn Won) Major Brands include Red Baron, Edwards, PAGODA, MaMa Rosa's and etc.</p> <p><b>[Food Service]</b> Diverse product line-up from dough to finished products. Supply agreement with schools, hospitals, restaurant chains and etc. (FY17 Rev 0.6 Tn Won)</p> <p><b>[B2B]</b> Product manufacturing and packaging to F&amp;B Retail Companies (FY17 Revenue 0.2 Tn Won)</p> <p><b>[Home Service]</b> Provides delivery service for self and third party (FY17 Rev 0.8 Tn Won - carved-out)</p>
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