ValueInvestor INSIGHT
The Leading Authority on Value Investing
February 28, 2021

Sweetening the Pot

Newly issued SPACs are probably not fertile ground for value investing ideas. One-time SPACs where the deals have been done and the hot money has moved on might offer much better opportunity. Witness Whole Earth Brands.

The woolly world of special purpose acquisition companies [SPACs] is filled with fun backstories, but the birth of Whole Earth Brands is of some note. The SPAC through which the company was formed was set up by Irwin Simon, the founder and long-time CEO of organic-foods pioneer Hain Celestial, who named his new acquisition vehicle Act II after being pushed out of Hain. The two original assets of Whole Earth, an artificial sweeteners business and a producer of licorice extract used in flavoring, were bought during a fire sale of financier Ronald Perelman's assets. The purchase price was reduced twice from the original announced deal.

With the dust settled, Laughing Water Capital's Matthew Sweeney thinks Whole Earth Brands is set up for success. Funded partly by the cash-cow flavoring business – which sells into tobacco and food markets – the company's main goal is to build out its sweetener business. Legacy brands include aspartame-based Equal and Canderel (popular in Europe), as well as zero-calorie Whole Earth, which is made with stevia and monk fruit and has been an option in Starbucks since 2016. In November the company paid $80 million to buy Swerve, which sells non-sugar sweeteners that measure "cup-for-cup" with sugar, making them more attractive for baking. Earlier this month it completed the $180 million – before earn outs – purchase of Wholesome, America's leading maker of organic sweeteners and baking mixes.

Whole Earth's current management had run the predecessor companies under Perelman, and now that the business is independent and not being milked for cash a number of operating improvements are underway, says Sweeney. They're investing in innovation, rolling out 30 new stock-keeping units in 2021. Duplicate administrative functions are being streamlined. They're also moving quickly to leverage the company's global reach to expand distribution of U.S.-focused Swerve and Wholesome products internationally.

The market has yet to take notice. At $12.80, the stock trades at just 8.8x the $100 million in annualized EBITDA Sweeney expects it to earn in 2021, pro-forma for the two recent acquisitions. Comparable consumer-products firms trade generally today at 12-14x EBITDA, he says.

INVESTMENT SNAPSHOT

Whole Earth Brands
(Nasdaq: FREE)

Business: Producer of consumer food products and ingredients, including organic sugar, non-sugar sweeteners and licorice extract.

Share Information (@2/26/21):

Price	**12.83**
52-Week Range	6.92 – 14.29
Dividend Yield	0.0%
Market Cap	$493.0 million

Financials (Pro-forma 2021 Est.):

Revenue	$510.2 million
Operating Profit Margin	15.1%
Net Profit Margin	9.1%

Valuation Metrics
(@2/26/21):

	FREE	S&P 500
P/E (Pro-forma 2021 Est.)	11.6	43.7
Forward P/E (2022 Est.)	10.5	22.5

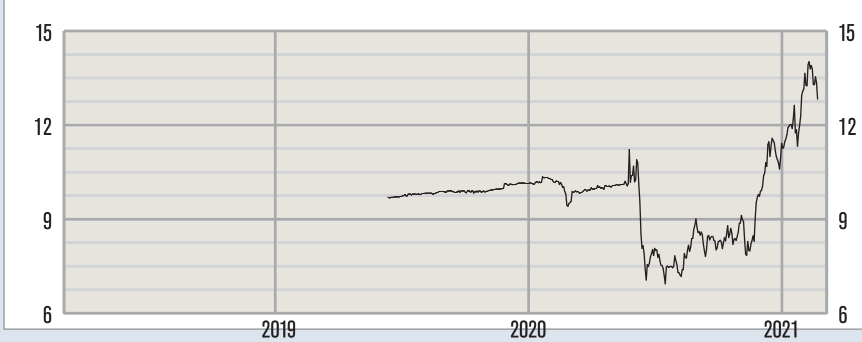
Largest Institutional Owners
(@12/31/20 or latest filing):

Company	% Owned
River Road Asset Mgmt	7.6%
Rubric Capital	6.8%
Baron Funds	5.2%

Short Interest (as of 2/15/21):

Shares Short/Float	5.1%

FREE PRICE HISTORY



THE BOTTOM LINE

Unshackled by constraints under previous ownership, the company's prospects are much brighter than its pedestrian share valuation would indicate, says Matthew Sweeney. At peer multiples on his 2021 pro-forma estimates, the shares would trade at least at $22.

Sources: Company reports, other publicly available information

Hain Celestial itself – firmly positioned in the organic and "better for you" space – trades at closer to 17x. At the broader peer multiple, Whole Earth shares would trade at $22 to $26. At Hain's multiple, they'd fetch in the mid-$30s.

"In a market where many stocks are trading on hope, I'd rather own something like this that I can buy at a discount, isn't economically sensitive, and has a dash of an on-trend dynamic," Sweeney says. "You don't have to believe big numbers to make it work." One near-term catalyst: he expects the stock to be added to the Russell 2000 index when it's next rebalanced. Wall Street's sell side is also showing interest. Both Jeffries and Cantor Fitzgerald initiated research coverage in the past 90 days with $22-plus target prices. VII