

# *Bob Evans*

**Discussion Materials: Separating BEF Foods and Bob Evans Restaurants**

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August, 2016



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## Introduction

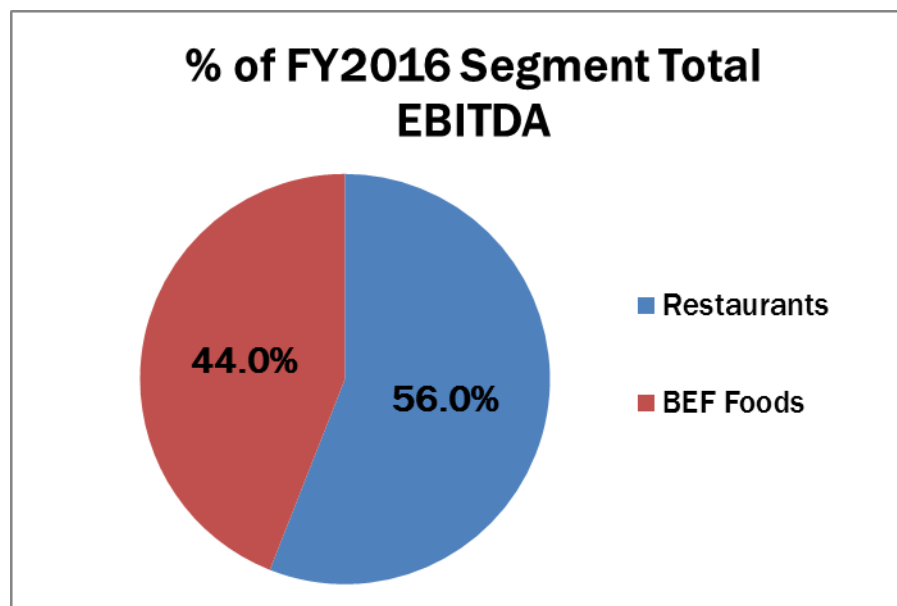
- We believe the underlying value of Bob Evans Farms, Inc. (“Bob Evans” or the “Company”) (NASDAQ: BOBE) is substantially higher than its current stock price and we believe that the value of the wholly-owned Bob Evans Farms Foods (“BEF Foods”) business may exceed the enterprise value of the entire Company. We continue to believe the Company should pursue a separation of its Bob Evans Restaurants (“Restaurants”) and BEF Foods business segments
  - Bob Evans Restaurants operates 527 family-dining restaurants in 18 states, primarily in the Midwest, mid-Atlantic and Southeast regions of the United States and at the end of Fiscal 2016 wholly-owned the real estate (land and building) to 305 of its operating restaurants along with at least 21 closed restaurants. Bob Evans received \$197 million (approximately \$164 million after-tax) from the sale-leaseback of 143 of its owned and operating restaurant properties in April, 2016, and these 143 restaurants are in addition to the aforementioned 305 operating properties
  - BEF Foods is a leading packaged foods business, producing home-style refrigerated side dishes, frozen food items and pork sausage products distributed to over 30,000 retail locations in all 50 states as well as Canada
  - BEF Foods operates independently, has its own management team, and Bob Evans reports the results of each business segment separately
  - BEF Foods is rapidly growing, highly profitable and generated segment EBITDA of over \$90 million for the Fiscal Year ending April, 2016 (FY2016). **It is our belief that the value of BEF Foods may approach \$1.2 billion, which would exceed the enterprise value of the entire Company**



## Segment Contribution

- Bob Evans continues to be viewed as a restaurant company by investors and there are no packaged foods analysts following Bob Evans, even though almost half of Company EBITDA is generated by the growing and highly-profitable BEF Foods packaged foods segment

| (\$ in millions) | FY2016<br><u>Revenue</u> | FY2016<br><u>EBITDA</u> | EBITDA<br><u>Margin</u> |
|------------------|--------------------------|-------------------------|-------------------------|
| Restaurants      | \$951.2                  | \$115.5                 | 12.1%                   |
| BEF Foods        | <u>387.6</u>             | <u>90.8</u>             | 23.4%                   |
| Segment Total    | \$1,338.8                | \$206.3                 | 15.4%                   |
| Corporate        |                          | <u>(58.9)</u>           |                         |
| Total            | \$1,338.8                | \$147.5                 | 11.0%                   |



Source: SEC filings



# BEF Foods

- BEF Foods has three key product lines of business as well as a food service presence and is the #1 dinner refrigerated side dish brand, with a 50% share of dinner sides in its Fiscal 4Q. **More than half of last fiscal year's BEF Foods volume was generated from the high margin, fast-growing and strategically important refrigerated side dish category**

## Refrigerated side dishes



## Breakfast sausage

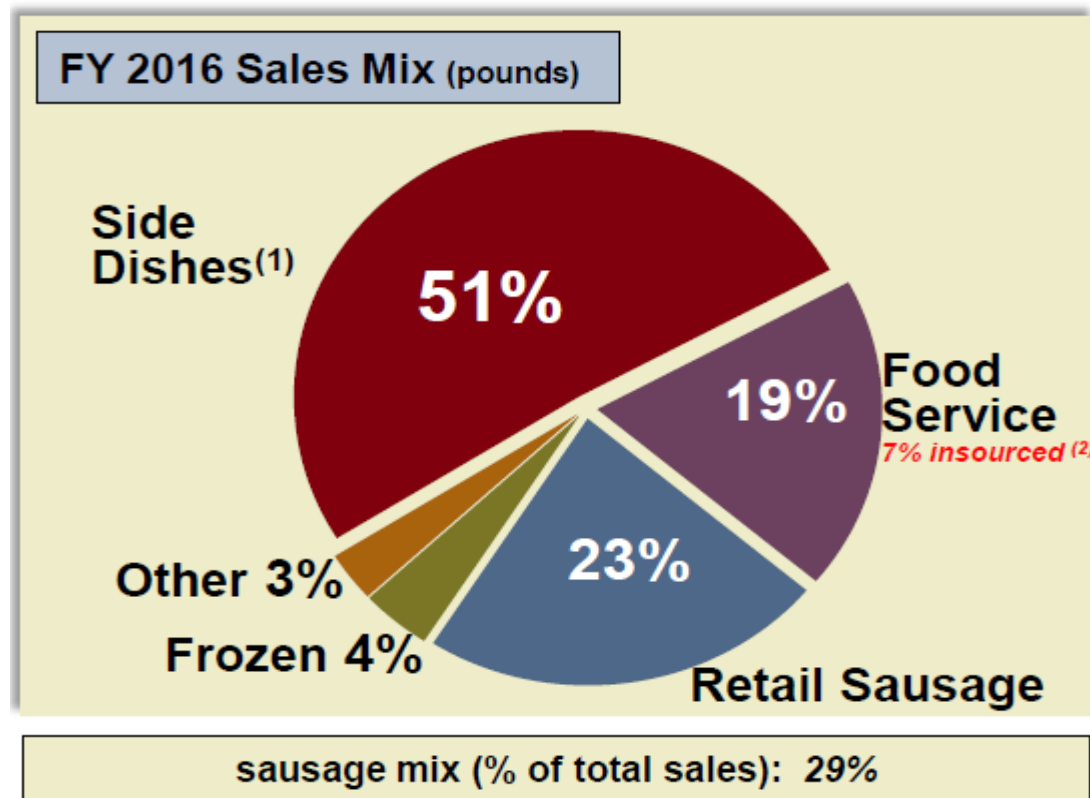


## Frozen



## BEF Foods Sales Mix

- **Over half** of the sales volume at BEF Foods over the last year was from refrigerated side dish products



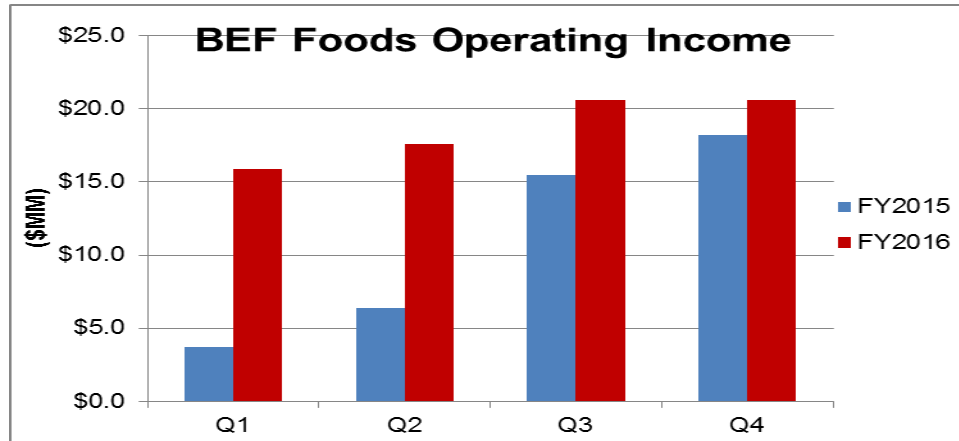
Source: Bob Evans Investor Presentation, 6/21/16

- (1) Side dish product lines include mashed potatoes, mac-n-cheese, pasta, vegetables, and seasonal favorites
- (2) Insourced sales data reflects sales to Bob Evans Restaurants.

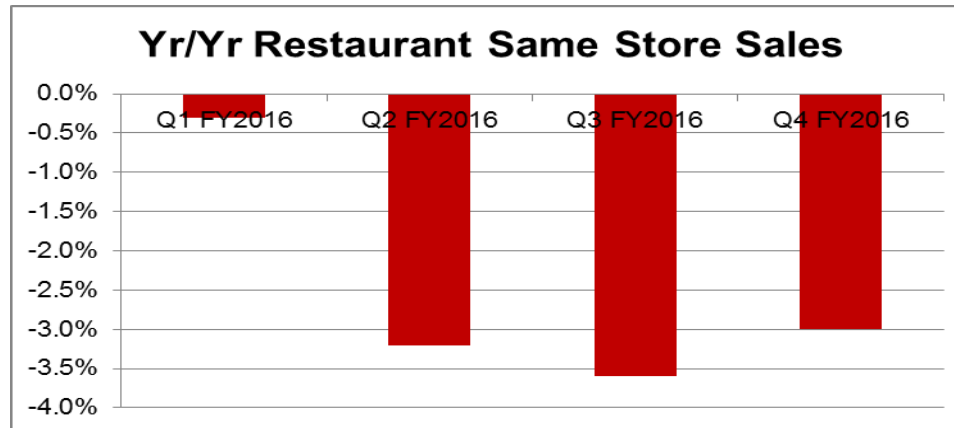


## Growth of BEF Foods is Unrecognized

- BEF Foods has demonstrated remarkable growth in overall profitability...



...but this is going un-recognized by the investment community, who continue to fixate on the negative same store sales performance of the Restaurants business:



Source: SEC filings



## Current Valuation

- Bob Evans trades at a multiple of EBITDA even lower than that of many restaurant companies, with strikingly little value consideration for its growing and highly-profitable BEF Foods packaged foods business

(\$ in millions)

### Bob Evans Valuation

|                            |               |
|----------------------------|---------------|
| Stock Price (8/22/16)      | \$37.57       |
| Shares Outstanding         | 19.8          |
| Market Value               | \$742.2       |
| Add: Debt                  | 339.1         |
| Less: Cash and Equivalents | <u>(12.9)</u> |
| Enterprise Value (EV)      | \$1,068.4     |
| FY2017E EBITDA (Bloomberg) | \$137.0       |

|                          |              |
|--------------------------|--------------|
| <b>EV/FY2017E EBITDA</b> | <b>7.8 x</b> |
|--------------------------|--------------|

|                    | <u>Market Value</u> | <u>Enterprise Value (EV)</u> | <u>EV to EBITDA</u> |                                | <u>Market Value</u> | <u>Enterprise Value (EV)</u> | <u>EV to EBITDA</u> |
|--------------------|---------------------|------------------------------|---------------------|--------------------------------|---------------------|------------------------------|---------------------|
| <u>Restaurants</u> |                     |                              |                     | <u>Packaged Food Companies</u> |                     |                              |                     |
| BJ's               | \$977.1             | \$1,045.2                    | 7.9                 | B&G Foods                      | \$3,182.9           | \$4,622.4                    | 14.2                |
| Bloomin' Brands    | 2,170.5             | 3,343.9                      | 7.5                 | Campbell Soup                  | 18,923.1            | 22,224.1                     | 12.5                |
| Brinker            | 3,009.6             | 4,118.8                      | 8.9                 | ConAgra Foods                  | 20,664.6            | 25,439.3                     | 12.5                |
| Cheesecake Factory | 2,504.9             | 2,425.3                      | 8.5                 | Hormel                         | 20,940.1            | 20,955.5                     | 14.5                |
| Cracker Barrel     | 3,866.9             | 4,090.2                      | 11.5                | Lancaster Colony               | 3,667.7             | 3,549.6                      | 16.4                |
| Darden             | 7,759.7             | 8,052.9                      | 8.2                 | Snyder's-Lance                 | 3,383.7             | 4,756.7                      | 15.0                |
| Red Robin          | 673.1               | 952.3                        | 6.5                 | Pinnacle Foods                 | 6,007.3             | 9,037.4                      | 14.0                |
| Texas Roadhouse    | 3,201.5             | 3,164.5                      | 11.9                | Post Holdings Inc.             | 5,941.1             | 9,416.8                      | 10.3                |
|                    |                     | <b>Average</b>               | <b>8.9</b>          |                                |                     | <b>Average</b>               | <b>13.7</b>         |

Source: SEC filings, Bloomberg as of 8/22/16



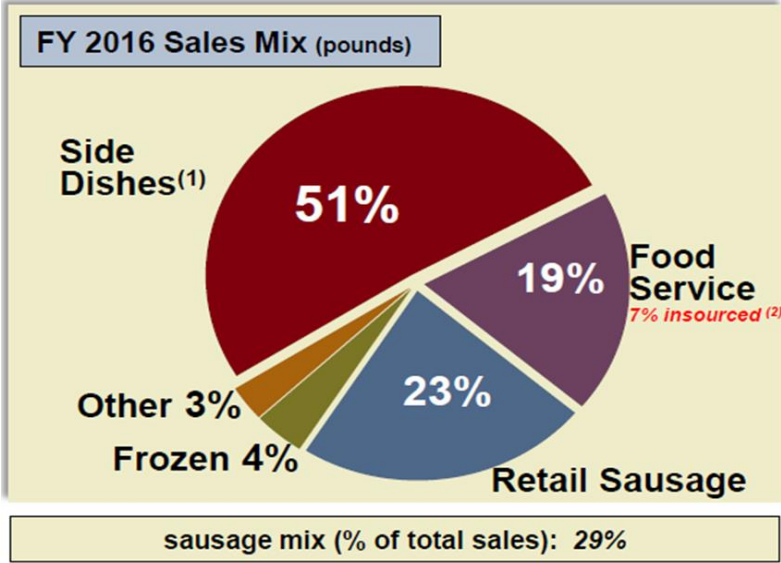
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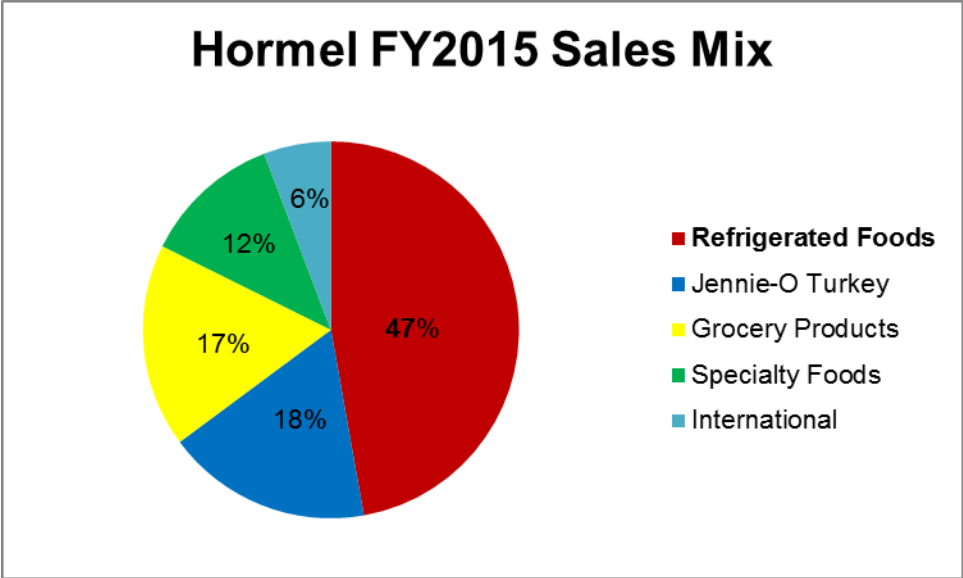
# BEF Foods vs Hormel

- We believe Hormel Foods Corporation (NYSE: HRL) is a close comparable to BEF Foods in terms of underlying business mix and similar evolution away from a meat and protein-oriented business towards a branded, value-added packaged foods company. Hormel generated **47%** of its revenue from its “Refrigerated Foods” business in its last fiscal year; BEF Foods generated **51%** of its revenue from its refrigerated “Side Dishes” business line over the last year

**BEF Foods**



**Hormel**



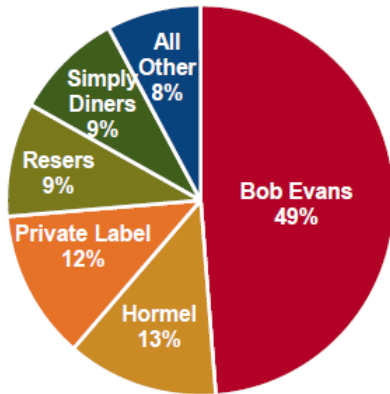
Source: SEC filings, Bob Evans Investor Presentation, 6/21/16

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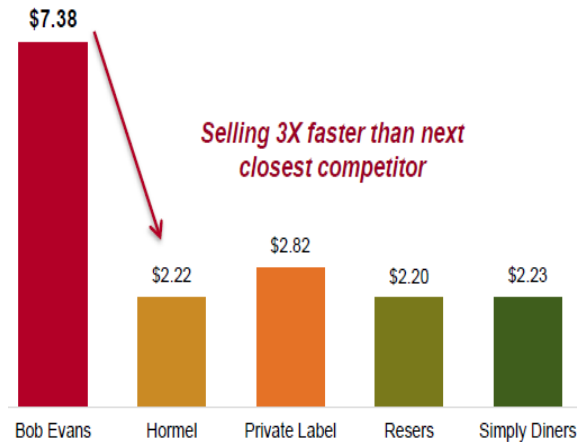
## BEF Foods vs Hormel (cont'd)

- In the Investor Presentation filed by Bob Evans, the Company itself has drawn many comparisons to Hormel

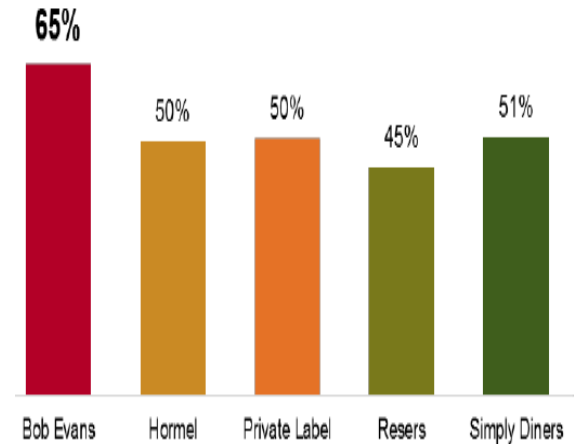
Refrigerated Side Dish Dollar Share (\$576MM)<sup>(1)</sup>



Refrigerated Side Dish Dollar Velocity<sup>(1)</sup>



Repeat Rate - Refrigerated Side Dishes<sup>(2)</sup>



Source: Bob Evans Investor Presentation, 6/21/16

(1) Source: IRI, 52 weeks ending 4/17/16; Total US MULO; Dollar Share, Avg. Weekly \$/MM ACV

(2) Source: IRI Panel; 52 weeks ending 4/17/16; Total US MULO; % of Buyers, 2x+ Buyers



## Industrial Logic for a Business Separation

- We believe there are highly-compelling industrial reasons to pursue a separation of the Bob Evans Restaurants and BEF Foods businesses
  - There are few synergies between Bob Evans Restaurants and BEF Foods
  - BEF Foods operates independently and has a separate management team
  - The new CEO Saed Mohseni is an expert in restaurant operations but has little apparent packaged foods experience
  - The presence of BEF Foods serves as a distraction which may hinder the ability of Mr. Mohseni to focus his efforts on the under-performing restaurant business
  - A separation of the two businesses would allow management of each business to be incentivized with equity directly tied to the performance of each segment
  - There may be revenue dis-synergies associated with a packaged foods business and a restaurant business under one corporate umbrella, as the ability of BEF Foods to sell product to other restaurant chains may be hampered
  - The investor universe for Bob Evans stock is constrained, as most equity analysts that cover food products companies do not cover restaurants, and vice-versa, leading investors to avoid Bob Evans, as it is neither a pure play in restaurants or packaged foods



*“The same market forces that have sent former Bob Evans and Bravo Brio patrons to faster, cheaper and more convenient options like Wendy’s and Panera are also apparent in grocery stores, said John Rand, senior vice president of retail insights at Kantar Retail. “Refrigerated side dishes are a huge time saver at what is perceived as moderate expense,” Rand said. And to Gordon’s point that **the two Bob Evans’ divisions have diverged: At the grocery store, the brand name doesn’t matter; product perception is everything in the cold case, Rand said. “The restaurant’s own brand may be largely irrelevant. It may assist early trial and adoption, but the item has a stand-alone value even if a shopper is not particularly aware of the restaurant chain,” Rand said.**”(emphasis added)*

- The Columbus Dispatch, 2/5/16

*“It is time to sell the division now that a new CEO, Saed Mohseni, is on board, said John Gordon, a food and beverage analyst and principal of Pacific Management Consulting Group. Gordon sees all those side dishes as a distraction. In his view, Bob Evans' core business is restaurants and needs the company’s full attention.”*

- The Columbus Dispatch, 2/5/16



## Transactions

- There has been rampant M&A activity in the packaged foods space, which has served to highlight the very high valuations associated with packaged foods companies

### Selected Comparable Packaged Foods Transactions

| (\$ in millions)   |                       |                          |                                      |
|--|-----------------------|--------------------------|--------------------------------------|
| <u>Name</u>  | <u>Announced Date</u> | <u>Transaction Value</u> | <u>Value as a Multiple of EBITDA</u> |
| WhiteWave Foods<br>(Note: Danone is the acquiring company)         | 7/7/2016              | \$12,349.1               | 21.1 x                               |
| Boulder Brands<br>(Note: Pinnacle Foods was the acquiring company) | 11/24/2015            | \$944.2                  | 15.2 x                               |
| Diamond Foods<br>(Note: Snyder-Lance was the acquiring company)    | 10/28/2015            | \$1,899.6                | 15.6 x                               |
| Applegate Farms<br>(Note: Hormel was the acquiring company)        | 5/26/2015             | \$775.0                  | 18.0 x                               |
| Hillshire Brands<br>(Note: Tyson was the acquiring company)        | 5/29/2014             | \$8,396.6                | 16.7 x                               |
| Average  |                       |                          | 17.3 x                               |

Source: Bloomberg, internal estimates

## Consolidation

*“It’s not going to be easy for food and beverage companies to satisfy investors’ appetite for growth. As consumer preferences shift, companies such as Kellogg, Hormel and Campbell Soup face slowing sales in their packaged cereals, lunch meats and snacks. Aggressive cost-cutting is keeping profits afloat, but slashing expenses can only go so far. **These companies need to buy sales growth by gobbling up smaller businesses that sell the healthy foods shoppers increasingly want. The only problem is, there don’t seem to be enough sellers to satiate the bevy of buyers.** At this week’s Consumer Analyst Group of New York conference in Boca Raton, Florida -- where investors gather each year for free snack samples and a read on where the industry is heading -- **executives have made it clear they are armed for deals.**”*  
(emphasis added)

Bloomberg, 2/18/16

*“The highly competitive nature of food and beverage M&A over the past few years led to those soaring valuations in the first place. **Manufacturers have raced to compete not only against each other, but against private equity firms that have also been active in the space.** Larger food and beverage companies, however, can often offer competitive perks that private equity and other investment firms can’t, such as an existing distribution platform and relationships with retailers, suppliers and others in the industry.”*  
(emphasis added)

Food Dive, 7/25/16



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## Tax Matters

- While we believe there is a compelling industrial logic to separating Bob Evans Restaurants and BEF Foods into two distinct companies, the Company needs to be mindful of tax matters. We believe the following are some taxably-favorable options available to Bob Evans
  - Spin-off or split-off of BEF Foods
  - “Sponsored” spin-off of BEF Foods
  - Reverse Morris Trust with BEF Foods or Bob Evans Restaurants
  - Spin-off of Bob Evans Restaurants
- While we are not specifically advocating one option over the other, a spin-off of Bob Evans Restaurants merits further discussion and we believe a spin-off of Bob Evans Restaurants could be effected on a tax-free basis
- If Bob Evans were to spin-off (or sell, for that matter) Bob Evans Restaurants, the existing parent company Bob Evans would in essence become the stand-alone BEF Foods business and thus a pure-play packaged foods company, which should trade in line with other packaged foods companies; given the previously-mentioned scarcity value of packaged foods companies, coupled with the rampant industry consolidation taking place, the parent company could trade at a multiple possibly in excess of Hormel, its most comparable peer

- In his review of a *Wall Street Journal* article that discussed potential “tax issues” relating to Bob Evans, Robert Willens, one of the nation’s leading tax experts, published the following in The Willens Report

### ***Bob Evans’ Spin-Off Fears Seem Unfounded***

*Today’s Wall Street Journal contains an article describing a dispute between Sandell Asset Management Corporation and the board of directors of Bob Evans Farms, Inc. (BEFI) regarding the question of whether BEFI and its shareholders would benefit from a separation of BEFI’s packaged-food unit from its restaurant-chain business. Each of these businesses has been actively conducted by BEFI for well in excess of five years...**The BEFI spin-off, it goes without saying, exhibits none of the characteristics that the IRS finds so objectionable.** It is, as far as we can tell, a “textbook” spin-off which should have no trouble at all satisfying each of the requirements imposed by the statute and the regulations for tax-free treatment. Thus, in our view, while tax issues are always a consideration in deciding whether to proceed with a transaction, **it is inconceivable to us that executing the spin-off that Sandell is advocating could, under any theory, “result in hefty (or for that matter, any) taxes.”**(emphasis added)*

The Willens Report, March 11, 2016

Note: We are not specifically advocating one option over the other, but believe that the potential spin-off of BEF Foods, as addressed in the above passage, is one option to be considered



## Shocking Undervaluation

- As an illustration of the skepticism surrounding Bob Evans, the following illustrates the shocking undervaluation of the Company, suggesting that BEF Foods may be worth more than the current enterprise value of the entire Company

(\$ in millions)

|   |                    |                            |                                       |                                       |
|---|--------------------|----------------------------|---------------------------------------|---------------------------------------|
| BEF Foods FY2016 Segment EBITDA             |                    | \$90.8                     |                                       |                                       |
| Current Enterprise Value of Bob Evans       |                    | \$1,068.4                  |                                       |                                       |
| Value of BEF Foods Based on:                | Multiple of EBITDA | Implied Value of BEF Foods | Current Enterprise Value of Bob Evans | Implied Value of Restaurants Business |
| Hormel                                      | 14.5 x             | \$1,317.1                  | \$1,068.4                             | -\$248.7                              |
| Average of Public Packaged Foods Companies  | 13.7 x             | \$1,243.3                  | \$1,068.4                             | -\$174.9                              |
| Average of Selected Comparable Transactions | 17.3 x             | \$1,572.8                  | \$1,068.4                             | -\$504.5                              |

Source: Bloomberg as of 8/22/16, internal estimates

- Based on the above, the Company's Restaurants business is being ascribed negative value. This is made all the more shocking when one considers that the Company still wholly-owns the land and building to 305 of its operating restaurants along with at least 21 closed properties. Even in a draconian scenario that assumes all of the Restaurants operations are shuttered, which we do not advocate, we believe that the "bricks and mortar (and land)" value for just the Company's wholly-owned restaurant real estate assets would yield over \$300 million, as Bob Evans recently stated that it expects to receive \$20 million for 21 closed locations, or close to \$1 million for each non-operating property

## Range of Potential Values

- The following assumes that Bob Evans separates BEF Foods and Restaurants through a tax-free spin-off of its Restaurants business; that is, the existing parent company Bob Evans effectively becomes the stand-alone BEF Foods business and thus a pure-play packaged foods company

| (\$ in millions)   | FY2016<br>Segment<br><u>EBITDA</u> | Additional<br>Lease<br><u>Expenses</u> | Pro-Forma<br><u>EBITDA</u> |
|--|------------------------------------|--|----------------------------|
| Restaurants  | \$115.5                            | (\$11.0)                               | \$104.5                    |
| BEF Foods  | <u>90.8</u>                        |  | <u>90.8</u>                |
| Segment Total  | \$206.3                            |  | \$195.3                    |
| Corporate Expense  | <u>(58.9)</u>                      |  | <u>(58.9)</u>              |
| Total  | \$147.5                            |  | \$136.5                    |
| Shares Outstanding   |                                    |  | 19.8                       |
| Less: Remaining Repurchase Authorization (\$78.5MM @ \$40/share) |                                    |  | <u>(2.0)</u>               |
| Pro-Forma Shares Outstanding                                     |                                    |  | 17.8                       |
| Total Debt   |                                    |  | \$339.1                    |
| Add: Debt Incurred for Repurchase                                |                                    |  | 78.5                       |
| Less: Closed Restaurant Sale Proceeds                            |                                    |  | (20.0)                     |
| Less: Cash and Equivalents                                       |                                    |  | <u>(12.9)</u>              |
| Pro-Forma Net Debt   |                                    |  | \$384.7                    |

### Implied Bob Evans Value per Share

(Assumes Corporate Expense Capitalized @ 7.0x)

| Multiple<br>of Restaurant<br>Pro-Forma<br>EBITDA | Multiple of BEF Foods Pro-Forma EBITDA |             |             |             |             |
|--|--|-------------|-------------|-------------|-------------|
|  |  | <u>12.5</u> | <u>13.0</u> | <u>13.5</u> | <u>14.0</u> |
| 6.5  | \$57.21                                | \$59.76     | \$62.31     | \$64.87     | \$67.42     |
| 7.0  | \$60.14                                | \$62.70     | \$65.25     | \$67.80     | \$70.35     |
| 7.5  | \$63.08                                | \$65.63     | \$68.19     | \$70.74     | \$73.29     |
| 8.0  | \$66.02                                | \$68.57     | \$71.12     | \$73.67     | \$76.23     |
| 8.5  | \$68.95                                | \$71.51     | \$74.06     | \$76.61     | \$79.16     |

Source: SEC filings and internal estimates

Note: We do not advocate an outright, tax-disadvantaged sale of BEF Foods. Should an effective sale of stand-alone BEF Foods eventually take place by way of a stock purchase of the parent company Bob Evans after the spin-off (or sale) of the Restaurants business, in a worst-case scenario that assumes the spin-off of Bob Evans Restaurants was ultimately deemed taxable, it is our belief that the corporate taxes incurred in such a scenario would be quite manageable and far, far less than the corporate taxes that would be paid in an outright, tax-disadvantaged sale of the BEF Foods segment



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