A Sweet Investment

Whole Earth Brands (NASDAQ:FREE) is now the Forager International Shares Fund's largest single investment. Whole Earth is a branded consumer goods company focused on natural and artificial sweetener products, as well as being a leading global supplier of licorice extract and derivative products — a business that has been around for 150 years.

You may be familiar with some of the company's portfolio of zero calorie, low calorie and natural and sweetener products, including the Whole Earth, Equal, Canderel and Pure Via brands. These products are generally the number one brand in Australia, Europe, South Africa and the United States (subsequent to their two recent acquisitions, discussed below).

It operates both of its businesses globally, distributing table top sweetener products into the retail, food service and e-commerce channels while supplying licorice products to some of the largest manufacturers in the world, including Haribo and Hershey's. The business's global platform distributes to more than 100 countries with six manufacturing facilities of its own and a broad network of distribution partners and co-manufacturers.

Whole Earth should benefit from consumer trends that continue to shift towards natural alternatives and "free-from" additive solutions. Moreover, the natural sweetener growth opportunity in emerging markets is significant and the company is currently expanding into the Indian and Chinese markets. Global sweetener penetration sits at only 3% in those markets, versus just over 12% in Europe and North America.

In today's stock market, these types of reliable businesses with growth prospects are not cheap. But Whole Earth Brands is an exception.

A forced seller helps

It was listed on the Nasdaq stock exchange in mid 2020 through a reverse merger with a Special Purpose Acquisition Company. Prior to going public, the two businesses that comprise Whole Earth Brands — Merisant and Mafco — were owned by corporate raider Ron Perelman. This prior ownership is key to the opportunity.

Perelman has been an aggressive seller of his assets over recent years (including his impressive art collection) as he seeks to reduce high levels of debt. Historically, the majority of Whole Earth's cash flow was used to service debt and pay out dividends to Perelman, so that he would not default elsewhere. The business was starved of capital for integration, cost-cutting, brand-building and, most importantly, growth.

Thanks to COVID, Perelman had to take a discount on the reverse merger deal and his continued selling after the listing further depressed the price, giving us our opportunity.

A sweet investment opportunity

We love the shareholder-friendly capital allocation policies of the business. Within months of becoming a public company management authorised a US$20m buyback (more than 5% of its market capitalisation).

And it now has the capacity to plug more adjacent businesses into the network. Whole Earth recently announced the acquisition of the Swerve and Wholesome brands, two natural sweetener products which expand the company's product footprint and provide significant topline and cost synergies. The two acquisitions have almost doubled Whole Earth's annual revenues since the business listed and increased its market share in North America, from 5.4% to 11.6%.

Trading at less than 10 times expected 2021 operating profits, we see significant tailwinds and a management team that is being set free from its high debt burden for the first time. It should all translate to higher profits and a much higher share price over the coming years.

This is an excerpt from the December 2020 Quarterly Report. You can read the full report here:

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