

HEARTHSTONE FOOD SOLUTIONS BUYS COOKIES, BARS MAKER. Hearthstone Food Solutions has acquired Oak State Products, a privately held contract manufacturer of cookies, bars and other baked foods based in Wenona, Ill. Terms were not disclosed. Oak State Products, which opened in 1956, operates out of a 200,000-square-foot bakery that is capable of producing 80 million lbs annually. The company has annual sales of \$50 million and employs 300 people, according to the "2016 Directory and Buyers Guide" published by Sosland Publishing Co., Kansas City. The acquisition gives Hearthstone a total of 24 facilities, including 21 in the United States and 3 in Europe. "Oak State represents an opportunity to add instant capacity to our network," said Rich Scalise, founder and chairman of Downers Grove-based Hearthstone, when the deal was announced Aug. 2. "Their flexible production lines complement our existing large scale lines, creating additional options for our customers. We see synergies in operations, cultures and customers. Most importantly, Oak State is already a mature, well-run operation. We anticipate a smooth and rapid integration."

KELLOGG TO CLOSE INDIANA SNACKS PLANT BY END OF 2017. The Kellogg Co. said it will close its snacks plant in Seelyville, Ind., by the end of 2017, citing overcapacity as a key factor in the decision. The company makes crackers at the plant under such brands as Keebler, Club and Cheez-It. "Kellogg has a compelling business need to better align our manufacturing assets with marketplace trends and customer requirements," said Kris Charles, a spokesperson for Kellogg. "To that end, we continue to evaluate our global manufacturing network to ensure that we have the right manufacturing capacity – in the right locations – to better meet our current and future production needs, and the evolving needs of our customers. As part of that process, we assessed our U.S. cracker manufacturing network and determined that we have more capacity than is required to meet demand." Ms. Charles said the closing will occur in phases, likely beginning in February 2017 and concluding by September 2017. In total, approximately 150 roles will be impacted as a result of the plant closing, she said. Kellogg acquired the Seelyville plant as part of its \$42 million acquisition of IndyBake Products L.L.C. in August 2008.

FROM THE BAKERY PIPELINE

In an era of healthy mindsets and better-for-you options, indulgence doesn't have to be a dirty word. When it comes to their decadent products, more bakeries are putting an emphasis on using wholesome ingredients rather than making "diet" versions of otherwise indulgent treats. Consumers want authenticity in the foods they eat, and they define that as ingredients they recognize, that they can pronounce and that they could find in their own kitchens. A greater number of bakeries are going back to basics: eggs, milk and butter. All-butter pie crusts are more common now. Butter was previously not the fat of choice in the quest for making the flakiest pie crust, but shoppers are reading labels and voting with their dollars. With the clean label and organic movements in full force, consumers seeking indulgence and decadence can still find what they're looking for in retail chains like Whole Foods Market. For example, Just Desserts, San Francisco, launched a line of organic and non-GMO-certified grab-and-go items that include single-serve cupcakes, cakes and mini Bundts, all of which are Whole Foods compliant. As *Baking & Snack* observes in its July issue, indulgent desserts are finding growth today, and it's at the intersection of mini, premium and clean label.

PRIVATE EQUITY FIRM ACQUIRES THAW-AND-SERVE BAKED FOODS MAKER... Private equity firm Thomas H. Lee Partners, L.P. (THL) has acquired Give and Go Prepared Foods Corp. from OMERS Private Equity. Financial terms of the transaction were not disclosed. Founded in 1989, Give and Go Prepared Foods is an Etobicoke, Ont.-based maker of thaw-and-serve baked foods. The company's products include Two-Bite Brownies, Cinnamon Crunchies, Butter Tarts and Two-Bite Coffee Cakes. The company markets its products throughout Canada, the United States, Mexico, Europe, Australia and Japan. Give and Go operates four production facilities located in Toronto.

...ALSO FORMS NEW DIVISION CALLED CREATE-A-TREAT. Concurrent with the closing of the acquisition by Thomas H. Lee, Give and Go said it has completed the acquisition of Create-a-Treat Ltd., NAFTA Foods and Packaging Inc., and related entities. Collectively known as NAFTA CAT, the entities will form a new division inside Give and Go called "Create-a-Treat." Based in Toronto, NAFTA CAT makes edible craft products for celebrations and holidays and is the largest North American manufacturer of gingerbread house kits. NAFTA CAT sells under the Create-a-Treat and Orbit brands, as well as under private label brands. NAFTA CAT operates three manufacturing facilities in Toronto. Both Give and Go and NAFTA CAT sell predominately through the in-store bakeries of North American retailers and grocers. The executive team of NAFTA CAT will be assuming leadership roles at Give and Go. "We are excited about our new partnership with THL whose extensive experience in the consumer goods sector will be a terrific asset for the company as we continue to invest in innovative new products and accelerate our acquisition strategy," said Joel Flatt, chief executive officer of Give and Go.

BFY BRANDS ROLLS OUT OUR LITTLE REBELLION BRAND. BFY Brands has introduced a new brand identity for its PopCorners, Bean Crisps and Crinkles line of products: Our Little Rebellion. Packaging for products under the Our Little Rebellion brand features bright colors coupled with real food photography showcasing the "perfectly imperfect, light and crispy texture of each popped snack," according to BFY Brands. "Our vision with Our Little Rebellion is to give consumers undeniably delicious snacks that don't sacrifice taste, nutrition or quality, and our new packaging better communicates this commitment while creating cohesion across all of our brand pillars," said Paul Nardone, chief executive officer at BFY Brands. Our Little Rebellion snacks are Non-GMO Project verified, certified gluten-free and OU kosher. BFY Holdings was formed in June 2015 after Permira, an international private equity firm, acquired Medora Snacks, L.L.C. and Ideal Snacks Holding Corp. PopCorners, Bean Crisps and Crinkles previously were marketed under the Medora Snacks brand.

FRITO-LAY INCREASING EFFICIENCY OF VEHICLE FLEET. Frito-Lay, a division of PepsiCo, Inc., has come a long way since putting its first compressed natural gas (C.N.G.) vehicles into service back in 2011. The company on Aug. 4 announced its C.N.G. truck fleet has logged more than 100 million miles driven on routes across the United States over the past six years. Frito-Lay placed 16 C.N.G. freight trucks into service back in 2011, and today it has more than 500 vehicles, representing more than 35% of the company's long-haul inventory. C.N.G. freight trucks emit 23% less greenhouse gas (G.H.G.) tailpipe emissions than the diesel freight trucks they replace, according to Frito-Lay.

Bakery Newsletter

Please send news items to Dan Malovany at (816) 756-1000; e-mail dmalovany@sosland.com

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WESTON FOODS EBITDA, SALES CLIMB. Adjusted EBITDA in the Weston Foods segment of George Weston Ltd. totaled C\$59 million (\$45.1 million) in the second quarter of fiscal 2016 ended June 18, up 1.7% from the same period in fiscal 2015. Sales increased 7% to C\$496 million (\$378.8 million) from C\$464 million. "Weston Foods continued to deliver results in line with our expectations, reflecting the impact of increased capital expenditures and incremental investments to support growth initiatives," Pavi Binning, president and chief executive officer, said during a July 29 conference call. "Our capital investments are on track. Of the seven new lines that I've talked to previously, three are now fully operational, and four are in the start-up and testing phase. These lines, when fully operational, will add approximately 20% in incremental capacity in cake, donuts and pies. With this capital investment, we expect volumes to continue to grow through the next two quarters as we get through the start-up period and begin to win new business." Mr. Binning said Weston Foods expects sales growth generated by new capacity and productivity improvements to drive an increase in adjusted EBITDA in 2016. The increase is expected to be greater in the second half of the year, as new plant capacity and capability come on-line, he said.

APRIL-JUNE FLOUR OUTPUT DOWN 1.1% FROM A YEAR AGO. Flour production by U.S. mills in the second quarter of 2016 totaled 103,971,000 cwts, down 1.1% from 105,104,000 a year ago, according to the National Agricultural Statistics Service (NASS) of the U.S. Department of Agriculture. Output also was down 1.8% from the record second quarter of 105,923,000 in 2014. The second quarter did gain 0.1% over 103,905,000 in the first quarter of this year when quarterly output was a high for that period. NASS data are now available for eight consecutive quarters, or since July-September 2014, when NASS took over quarterly compilations from the North American Millers' Association. While the two 2016 quarters and all the 2015 data were compiled by NASS, for 2014 only the third and fourth quarters came from NASS. January-June data originated from NAMA's panel of the largest U.S. milling companies and subsequent interpolation by *Milling & Baking News* to make the data comparable with earlier statistics compiled by the U.S. Census Bureau. Along with the first-quarter record, January-June flour output aggregated 207,876,000 cwts, down 0.2% from 208,220,000 in the first half of 2015.

SAVINGS EFFORTS PROPEL KELLOGG EARNINGS. The results of the Kellogg Co.'s Project K efficiency effort and the switch to zero-based budgeting (Z.B.B.) in North America drove the company's earnings during the second quarter of fiscal 2016, ended July 2. The successful savings programs have given management breathing room as they strive to grow the businesses' top line. For the second quarter, net income at Kellogg was \$280 million, equal to 80c per share on the common stock, up 26% from \$223 million, or 63c per share, in the same period a year ago. Sales for the quarter fell 6.6% to \$3,268 million.

STERRETT CAMPBELL, 2010 BAKING HOF INDUCTEE, DIES. Sterrett "Red" Campbell, who originated the design and manufacture of truly revolutionary equipment for the baking industry, died July 28. He was 84 years old. A 2010 inductee into the American Society of Baking Baking Hall of Fame, Mr. Campbell was the founder of two equipment companies and the holder of several dozen milestone patents that revolutionized high-speed bread and roll production. He was a pioneer in dough movement and an innovator in extrusion technology, developing equipment for extrusion dividing of dough for bread and buns, and many important inventions of equipment for the baking industry. In 1980, Mr. Campbell developed the rotary, extrusion-style bread divider. The technology was a success and, in 1984, he sold Pak-It to a Fortune 500 company - AMF (Union Machinery Division). AMF successfully marketed the bread divider and in 1987 with Mr. Campbell's help began development of the rotary/extrusion bun divider. In the late 1980s, the first such system was installed at New Southwest Baking in Bryan, Texas, producing buns for McDonald's. Survivors include his wife of 60 years, Janet Sweeney Campbell; two sons; a sister; and several grandchildren.

FLOUR - Bookings of bakery flour were light this week. Price adjustments were mixed with pan bread and soft flour lowered and spring grades raised. The principal constraint on business was the already extensive coverage held by most bakers. Coverage through September was solid and for October-December was estimated at 50% for completed contracts. When component positions, primarily futures coverage, were taken into account, bakers' commitments were much higher. Some bakers earlier extended futures coverage into the first quarter of 2017. Flour coverage for pan bread bakers and spring grade users was similar, while cookie-cracker and specialty bakers continued to lag but not by much. Millers and pan bread bakers made progress in deciding how best to manage the transition to working with mostly new crop wheat, which in many cases will require blending of hard red winter and hard red spring because of the historically low average protein in this year's hard red winter wheat crop. "It's a cost challenge and not a functional one," a miller said. Spring wheat prices remain well above hard winter wheat prices, but low wheat prices overall cushioned the blow. K.C. bulk middlings were \$65 to \$75 a ton.

WHEAT - Wheat futures posted mixed changes this week but not before new contract lows were set in Chicago and select Minneapolis wheat contracts. Kansas City futures traded just above contract and multi-year lows set earlier in July. The Chicago September future on Aug. 2 traded below \$4 a bu, marking the first time since 2005 that a Chicago contract was priced so low. The Kansas City September wheat future traded below \$4 for the first time since 2005 on July 5. Bulls continued to search for a feature to fuel a rally but found nothing convincing. At the same time, large speculators still held record short positions, which may come into play. Corn and soybean futures also dropped this week amid prospects for record or near record large crops, which further deprived the wheat market of support. The winter wheat harvest was 89% completed by July 31 versus 86% as average for the date. Spring wheat harvest was 10% completed versus 9% as average. Producer prices for hard red winter wheat in many areas were the lowest since 2003. Some growers were able to claim loan deficiency payments or enter wheat under the marketing assistance loan program for the first time in several years. World wheat prices seem to have stabilized despite expected near record high global production in 2016-17.

SHORTENING - Bookings of edible oils were limited this week. Price changes were mixed. Soybean oil prices advanced. Soybean oil futures were slightly higher despite wide declines in soybean and soybean meal futures. The cash basis on soybean oil moved higher, but the adjustment had little effect with basis coverage on average completed for the third quarter and at about 50% for October-December. Users were hopeful the fourth-quarter basis would weaken under the weight of a near-record or record soybean crop. Soybean oil users with basis positions booked physical supply to keep contract balances extended from 60 to 75 days. The U.S.D.A. said 154 million bus of soybeans were crushed in June compared with 161 million bus in May and 152 million bus in June 2015. Crude soybean oil stocks on June 30 were 2,049 million lbs compared with 2,063 million lbs on May 31 and 1,773 million lbs a year ago. The premium to soybean oil asked for refined canola oil in the Midwest rose to at least 4c a lb in the wake of a fire at Bunge's Nipawin, Sask., canola crushing plant, which was expected to be down at least a couple weeks and will tighten supply. Palm oil prices rose as Malaysian palm oil futures hit seven-week highs.

SUGAR - Beet sugar prices were lowered 0.5c, to 28.5c to 29.5c a lb f.o.b. Midwest for delivery before Sept. 30. Most sales still were around 29c a lb. Processors were becoming more comfortable with their unsold stocks, but most expected to carry sugar into the new crop year that begins on Oct. 1. Cane sugar prices were unchanged at 33c to 35c a lb f.o.b. plant, with 33c available. Pricing of both beet and cane sugar for 2016-17 was slightly above nearby levels. New sales from Mexico were lacking as traders on both sides of the border awaited possible changes to the suspension agreements, which some expect could drag on for several weeks. In an Aug. 1 letter to existing customers, Cargill said its 2017 pricing program for regular corn syrup, 55% HFCS and liquid dextrose was up \$2.50 a cwt from 2016 contracted levels, and for 42% HFCS was up \$1.50. Contracting was limited to current customers with volume equal to 2016 levels. Other refiners were expected to make price offers shortly.

EGGS - Egg products were steady except for weakness in liquid whole eggs.

COCOA - Powder was steady except for slight weakness in black alkaliized.

FLOUR PRICES (\$/cwt, bulk, mill)

	K.C. all-winter standard	Mpls. all-spring standard	Chicago soft wheat straight
8-5-16	11.90-12.00	13.05-13.15	10.70-10.80
Week ago	12.15-12.25	12.70-12.80	11.05-11.15
Year ago	14.40-14.50	13.80-13.90	13.70-13.80

PROTEIN PREMIUMS (c/bu)

		8-5-16	Week ago
Basis K.C. (Sept.)	11%	-10 to 0	-10 to 0
	12%	+38 to +48	+51 to +61
	13%	+112 to +122	+105 to +115
	14%	+112 to +122	+107 to +117
Basis Mpls. (Sept.)	12%	No quote	No quote
(Delivered Chicago)	13%	+55	No quote
	14%	+80	+70 to +75
	15%	+115 to +130	+130 to +150

WHEAT FUTURES (\$/bu)

		Closing price		Season's	
		8-5-16	Week ago	High	Low
K.C.	Sept.	4.11 ³ / ₄	4.09 ³ / ₄	6.93 ¹ / ₂	3.99
	Dec.	4.37 ¹ / ₄	4.36	6.95 ³ / ₄	4.24
	March	4.54	4.53	6.95 ³ / ₄	4.41 ¹ / ₂
Mpls.	Sept.	4.95	4.88 ¹ / ₄	6.55	4.82
	Dec.	5.04 ³ / ₄	5.03 ³ / ₄	6.60	4.97
	March	5.17 ¹ / ₂	5.18 ³ / ₄	6.68	5.12 ¹ / ₄
Chicago	Sept.	4.16	4.07 ³ / ₄	6.54 ¹ / ₂	3.99 ¹ / ₄
	Dec.	4.38	4.35 ³ / ₄	6.65 ¹ / ₂	4.26 ¹ / ₂
	March	4.59 ³ / ₄	4.60 ¹ / ₄	6.65 ¹ / ₂	4.52 ¹ / ₂

CASH PRICES

	8-5-16	Week ago
Hard wheat, Gulf (Basis K.C. Sept., \$/bu)	5.05 ³ / ₄	5.02 ³ / ₄
Soft wheat, Gulf (Basis Chicago Sept., \$/bu)	4.41	4.17 ³ / ₄
Cocoa powder, N.Y. (10%-12% nat., \$/lb)	1.05-1.10	1.05-1.10
Sweeteners (c/lb) *Nearby through 2016		
Cane sugar, N.E., bulk*	33.00-35.00	33.00-35.00
Beet sugar, Midwest, bulk*	28.50-29.50	29.00-30.00
Beet sugar, West, bulk (delivered)*	34.00-35.00	34.00-35.00
42% HFCS, Midwest, bulk (2016 list)	26.75	26.75
55% HFCS, Midwest, bulk (2016 list)	31.75	31.75
Bakery shortening (c/lb)		
Corn oil, Chicago	44.25	44.00
Soybean oil, Decatur	30.00	29.25
Cottonseed oil, Valley	44.75	44.75
Loose lard, Chicago	33.00	33.00
Canola oil, Midwest	34.50	33.50
Palm oil, c.i.f. ports	33.00	30.50
Frozen eggs, national, 30# tins (c/lb)		
Wholes	50-52	50-52
Whites	50-52	50-52
Sugared yolks	92-95	92-95
Dried eggs, national, drums (\$/lb)		
Wholes	1.75-1.85	1.75-1.85
Whites	3.65-3.75	3.65-3.75
Yolks	2.25-2.35	2.25-2.35
USDA dry dairy products, Central (c/lb)		
Nonfat milk, high-heat	93.50-102	93.50-102
Whey	26-31	25-31
34% whey protein concentrate	65-76	65-73