

# Quarterly M&A Market Review

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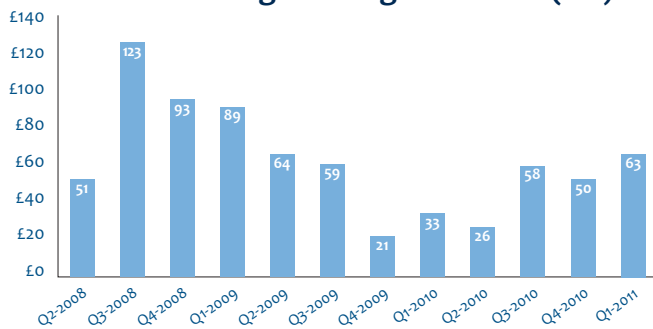
## Food & Beverage Q1 2011

# UK Food & Beverage Industry Overview

**Summary: If you are a mid-market Food & Beverage company seeking.....**

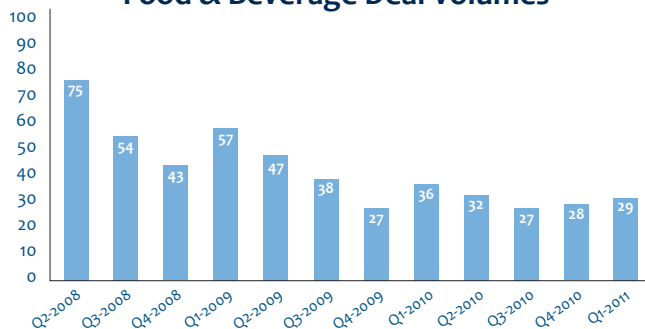
- **To acquire:** The M&A environment remains positive with a number of good acquisition opportunities available at sensible valuations. We anticipate valuations to continue to increase in the medium term.
- **Private Equity:** UK private equity houses are continually seeking to invest in food and beverage companies recognising the benefits of well established markets and predictable returns.
- **Financing:** There has been a steady increase in liquidity within the debt markets in recent months and banks have become more willing to lend to companies with strong balance sheets, proven business models and strong cash generation.

## Food & Beverage Average Deal Size (£m)\*

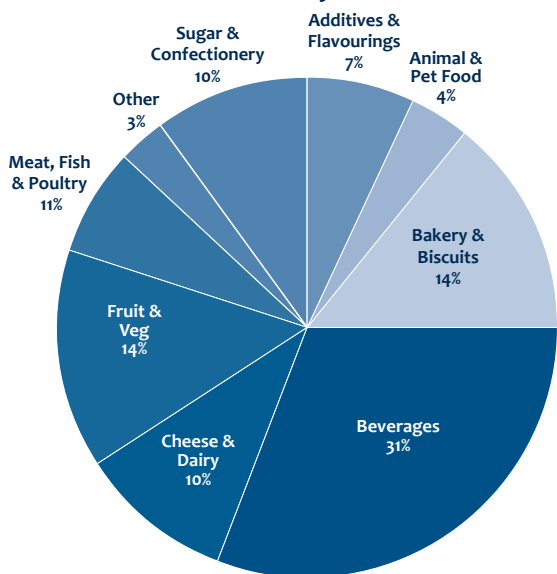


\*Average transaction value for all deals with disclosed values under £1 billion

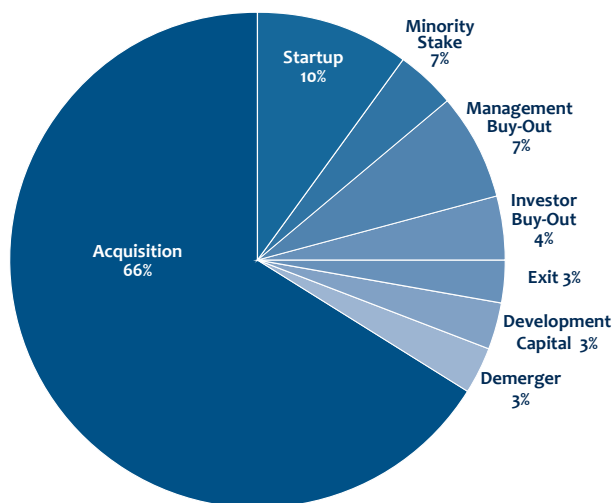
## Food & Beverage Deal Volumes



## Q1/2011 UK Food & Beverage Deals by Sector



## Q1/2011 UK Food & Beverage Deals by Deal Type



## M&A Highlights

- The average deal size for Q1/2011 was £63 million up from £50 million in Q4/2010 and almost double that in the same quarter in 2010 and the 2010 average deal size (£43 million).
- Whilst there is a clear upward trend in average deal value since its low point in Q4/2009, the number of food and beverage transactions has remained relatively static. We anticipate the volume of transactions to increase during 2011 as liquidity in debt markets continue to strengthen and deal values continue to increase.
- Trade acquisitions accounted for 66% of all food and beverage transactions in Q1/2011. This continues the trend seen in 2010.
- The trend in trade acquisitions is a result of the operating environment that food and beverage manufacturers are facing. In an extremely competitive environment, consolidation by acquisition is often the only real option for growth since selling more products and extending product lines and winning more customers to win market share is extremely difficult.
- The recent increase in UK CGT Entrepreneurs Relief to £5 million per person is also considered an important driver in stimulating deal activity.
- Overseas food and beverage operators are increasingly focusing their acquisition activities on the UK due to its favourable labour laws and legal system, exchange rates, its stable economic landscape and the English language.

## Feature:

### Will private label foods hold onto their gains.....

Private label was estimated to have reached £36.5 billion in 2010, a growth of 25% over 2005-10 (Mintel 2011). With an economic recovery, pressure will be put on private label products to hold onto the gains made in market share during the recession. During previous recessions, private labels lost much of the progress made as the economy recovered. However, in 2010 market research repeatedly showed that own label brands were retaining market share and some have speculated that increased quality and innovation in the sector is changing consumer perception. The private label sector is likely to continue to put pressure on branded products that are not category leaders, but those commonly known as 'A' brands will survive.

The growth of the private label sector will be fuelled by the indirect effects of the recession in the coming years, as consumers have become more aware of the quality and value of private label products as a result of making the shift from branded products. According to research, 44% of consumers consider quality to have improved in the private label sector over the last five years.

The manufacturers of 'B' branded products (which are categorised as those brands that do not lead in their sector) will be further squeezed in this already competitive operating environment. These manufacturers will have to find a market niche, invest in quality and innovation, target the premium market, concentrate on cost leadership or specialise in producing private label products for retailers.

Branded products and own label products are important to both the consumer and the retailer. Brands are used by consumers to benchmark the price competitiveness of supermarkets and food retailers need the leading brands to compare the quality and price of own label products.

Consolidation in the private label sector looks to be inevitable to achieve economies of scale and reduce the manufacturers' cost base. This activity is likely to be triggered by the consolidation of leading brands and private equity involvement.

Growth by acquisition is an important strategy for own label manufacturers. This strategy avoids manufacturers adding to their own production facilities to expand, thus flooding the market with more competition and potentially reducing margins further. Acquiring the competition can reduce commercial pricing pressures and improve the chances of attaining relative cost leadership.

## Valuation Parameters:

	Q4/2008 EV / EBITDA	Q4/2009 EV / EBITDA	Q4/2010 EV / EBITDA	Q1/2011 EV / EBITDA
<b>Food Manufacturers</b>				
Associated British Foods	7.24x	7.49x	8.59x	7.33x
Dairy Crest Group	5.31x	5.81x	6.76x	6.13x
Finsbury Food Group	4.12x	4.42x	4.02x	3.91x
Glanbia	7.31x	8.79x	9.37x	9.69x
Greencore Group	5.10x	5.35x	6.24x	6.20x
Kerry Group	6.96x	9.72x	9.27x	9.70x
Lees Foods	4.37x	3.95x	3.51x	2.75x
Northern Foods	4.68x	7.17x	5.93x	6.47x
Sara Lee Corp	6.31x	6.87x	9.68x	8.60x
Unilever	8.81x	12.33x	10.53x	10.24x
<b>Average</b>	<b>6.02x</b>	<b>7.19x</b>	<b>7.39x</b>	<b>7.10x</b>
<b>Beverage Manufacturers</b>				
AG BARR	7.86x	9.78x	11.09x	12.33x
Britvic	7.34x	9.10x	9.56x	8.48x
C&C Group	6.03x	10.35x	8.82x	8.58x
Coca-Cola	8.62x	7.15x	7.24x	7.44x
Diageo	11.17x	12.60x	12.26x	12.17x
Nichols	6.58x	7.87x	9.90x	10.07x
SABMiller	7.59x	14.96x	14.79x	14.52x
<b>Average</b>	<b>7.88x</b>	<b>10.26x</b>	<b>10.53x</b>	<b>10.51x</b>

### Commentary

The average food manufacturers' EV/EBITDA multiple dropped to 6.02x in Q4/2008. Valuation multiples have since recovered and stabilised at approximately 7.1x for food manufacturers and 10.5x for beverage manufacturers. This indicates stable investor confidence and this, coupled with liquidity in the quoted markets, augers well for an increase in M&A activity.

# An illustration of current opportunities.....

## Companies with an acquisition strategy:

**Gambit Corporate Finance LLP, together with our international network Corporate Finance International (“CFI”) currently have clients seeking acquisitions across many food and beverage sub-sectors. Below is an illustration of certain clients but if you would like to find out more about our current mandates across the network, please contact one of our Food and Beverage team.**

**Poultry Processing** – Company supplying fresh and frozen poultry to the retail, processing and foodservice sectors. It currently has an active buy and build strategy and is looking for acquisitions with a turnover of up to £100 million.

**Speciality Ingredients** – A supplier of speciality food ingredients is seeking a food importer / wholesaler of speciality ingredients, preferably with a brand or an exclusive supply agreement distributing to the foodservice sector or multiple retailers. Turnover up to £10 million.

**Dairy** – A company with an extensive product range which includes baby and infant foods, milk based drinks, cheese, milk, yogurts, dairy based ingredients and fruit based drinks. The company will consider acquisitions in all its product categories. Turnover up to £500 million.

**Fruit and Vegetables** – An international fresh fruit and vegetable supplier is seeking to increase its market position via acquisition. Turnover up to £500 million.

**Processed Meat and Seafood** – Global company seeking acquisitions in meat or fish products including ready meals. Turnover up to £100 million.

**Condiments** – Company specialising in vinegar products, gherkins, mixed pickles, olives and capers is seeking acquisitions in the sauce and condiment sectors. Turnover up to £20 million.

## Gambit’s Food & Beverage Team

Gambit has a dedicated food and beverage team with a demonstrable track record in the sector. We maintain ongoing contact and relationships with a wide range of knowledgeable sources to stay abreast of the issues and trends that impact the industry’s M&A activity or otherwise influence our clients’ businesses.

The food and beverage team at Gambit would be delighted to meet with you or receive your feedback on your experiences within the sector or answer any questions you may have on the current M&A market or our transaction experience in the current market.

## About us

Established in 1992, Gambit is an independent corporate finance advisory firm specialising in advising private and public companies on mid-market transactions in the UK and overseas. Gambit is widely recognised as a market leader in M&A advice in the Food and Beverage industry having built up detailed industry knowledge and an enviable track record in deal origination and execution.

Mergers & Acquisitions ~ Disposals ~ Management Buy-Outs  
Fundraising ~ Financial Restructuring ~ Strategic Advice and Consultancy



Gambit is the sole UK representative of Corporate Finance International, a global network of leading mid-market investment banking firms with members in North America, Western & Eastern Europe and Asia.  
([www.cfi-network.com](http://www.cfi-network.com))

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