gamBIT CORPORATE FINANCE

Quarterly M&A Market Review

Food & Beverage
Q1 2013

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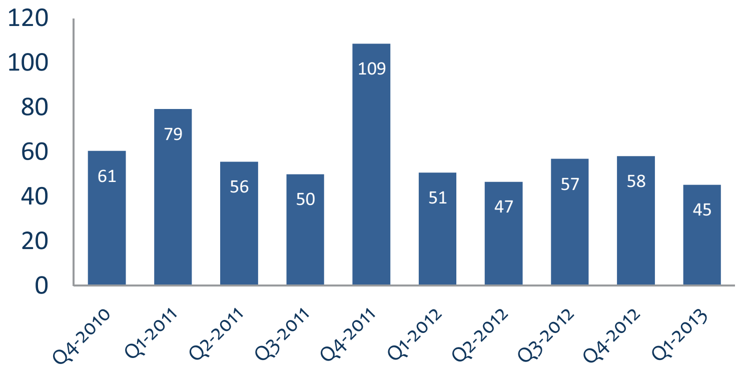
UK Food & Beverage Industry Overview

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

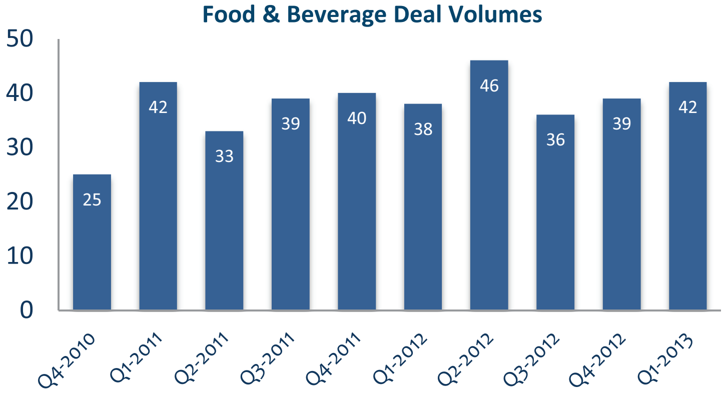
- **Private Equity:** There remains a large number of private equity investors with significant cash reserves to be invested in businesses with high growth potential, strong management teams and a clear exit plan.
- **Financing:** The recent SME Finance Monitor highlights that confidence in the availability of finance is lower than actual success rates. Nevertheless, banks are taking a more cautious approach to lending. Considering alternative debt structures and having realistic expectations will assist in securing a suitable funding package.

Food & Beverage Average Deal Size (£m)*

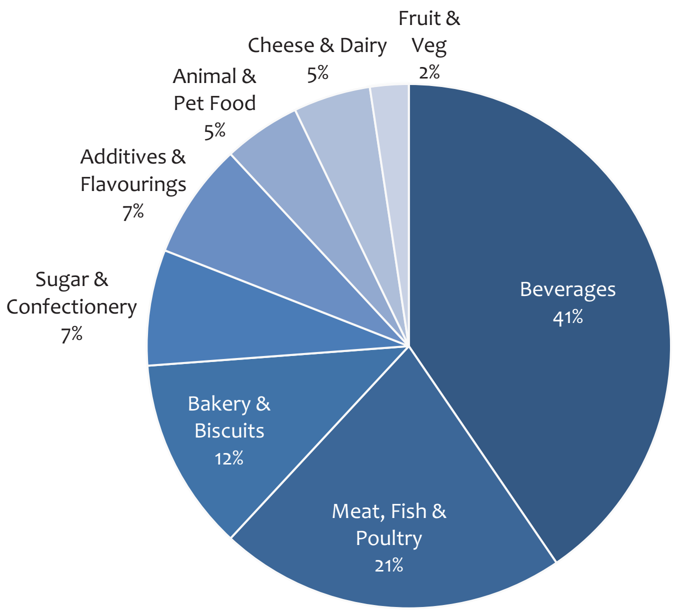


*Average transaction value for all deals with disclosed values under £1 billion

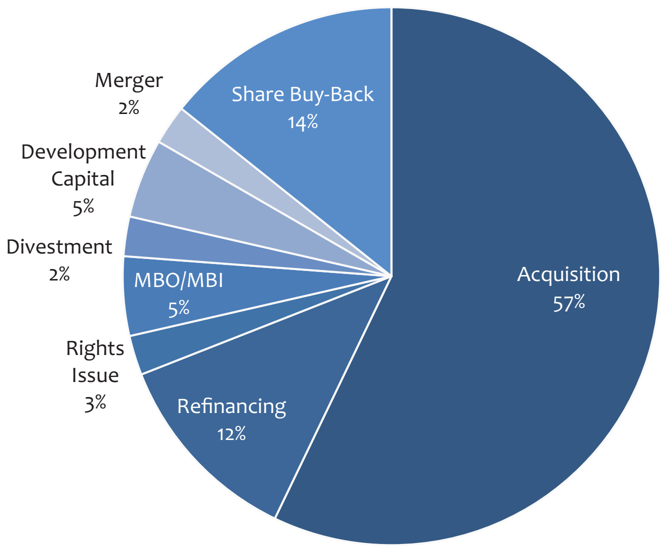
Food & Beverage Deal Volumes



Q1/2013 UK Food & Beverage Deals by Sector



Q1/2013 UK Food & Beverage Deals by Deal Type



M&A Highlights

- Announced deal volumes in Q1 2013 were slightly up on that of Q4 2012, rising from 39 deals to 42 deals. The second quarterly increase in a row. Deal activity though remains relatively subdued compared to pre-recession levels, with economic uncertainty and the market still recovering from food contamination scares across the UK and Europe.
- The average size of announced deals in Q1 2013 was £45 million. The lowest level seen for a number of quarters. There appears to be no discernible improvement in the prices being paid for companies coming onto the market.
- Acquisitions accounted for 57% of all announced deals in Q1 2013, with beverage related deals dominating the overall food and beverage sector with a 41% share.
- Significant deals announced in Q1 2013 worthy of note are:
  - Hormel Foods completed the acquisition of the United States based Skippy peanut butter business from Unilever for around £433 million.
  - Finsbury Food Group disposed of its free-from business to Genius Foods for £21 million in order to focus on its core bread and cake business and reduce debt.
  - R&R Ice Cream, Europe's largest own-label ice cream manufacturer has acquired the Yoomoo frozen yogurt brand for an undisclosed sum.
  - 2 Sisters Food Group acquired Vion's UK poultry and red meat businesses for an undisclosed sum.
- A number of the above deals highlight the continuing trend of corporates disposing of non-core assets in order to concentrate on their key activities and core brands.

Feature:

The Rising Importance of Food Provenance to the Consumer

Once again the glare of publicity has been put on the sourcing of food, principally the way in which meat from overseas enters the UK market. The impact of the recent emergence and escalation of the horse meat scandal across Europe, promptly reached the shores of the British Isles. With consumers' attitudes towards ready meals and associated brands severely affected by the ever-escalating aspersion, an immediate drop in sales of subsequent products was reported in the first quarter of 2013.

With retailers striving to drive down prices, food businesses are continually looking to improve efficiencies and source cheaper raw materials; both becoming essential processes in an attempt to stay competitive in the current climate. One can argue there is a clear link between the horse meat crisis and the continual price-cutting nature spearheaded by retailers, driving producers to extremes in order to survive. This will unquestionably become harder in the near future as consumers become more aware and interested where their food actually comes from, opting for more ethically sourced and higher quality products. In turn, this may provide British products and farmers with a much needed boost, with all British produce providing precise traceability mechanisms in accordance with certain British assurance schemes, such as Red Tractor.

In the wake of the horse meat scandal the importance of food being British has increased in popularity, with National Farmers' Union polls suggesting over three quarters of British consumers would like to see more British produce on supermarket shelves. A number of supermarkets and brands are already highlighting the positive attributes of buying British in their advertising campaigns, such is the growing importance of food provenance to the consumer. This is particularly encouraging news for British food manufacturers and will hopefully lead to increased investment in the UK food and beverage sector in order to meet consumer requests.

With food provenance taking centre stage in the early months of 2013, thanks to the horse meat scandal across Europe, consumers' shopping habits will most definitely shift and continue to do so far into 2013. The consumers' better understanding of ingredients and where their food comes from will have a greater influence on their preferences towards products they buy. A greater focus will be put on the provenance of goods purchased in lieu of price, with brand trustworthiness becoming an even bigger issue.

Valuation Parameters:	Q2/2012	Q3/2012	Q4/2012	Q1/2013
Food Manufacturers	**EV/EBITDA**	**EV/EBITDA**	**EV/EBITDA**	**EV/EBITDA**
Associated British Foods	9.52x	9.51x	9.37x	11.17x
Dairy Crest Group	5.59x	5.71x	4.40x	4.85x
Finsbury Food Group	4.54x	4.59x	4.71x	4.61x
Glanbia	10.05x	10.44x	12.39x	13.26x
Greencore Group	7.76x	7.76x	7.63x	7.85x
Kerry Group	12.13x	13.16x	13.46x	15.63x
Unilever	11.03x	10.93x	11.43x	12.85x
Average – food manufacturers	**8.66x**	**8.87x**	**9.06x**	**10.03x**
Beverage Manufacturers				
AG BARR	11.98x	13.09x	14.53x	16.25x
Britvic	7.92x	8.84x	8.92x	10.58x
C&C Group	7.47x	8.26x	11.21x	13.15x
Coca-Cola	8.22x	7.83x	7.56x	7.80x
Diageo	16.67x	14.88x	15.24x	16.57x
Nichols	12.97x	13.78x	14.86x	15.32x
SABMiller	16.80x	17.22x	16.86x	20.64x
Average – beverage manufacturers	**11.72x**	**11.99x**	**12.74x**	**14.33x**

Commentary

Average EV/EBITDA multiples for both food and beverage manufacturers monitored by Gambit have seen an increase on all of the previous four quarters. The average EV/EBITDA multiple for food manufacturers increased by around 11%, from 9.06x in Q4/2012 to 10.03x in Q1/2013 and the average EV/EBITDA multiple for beverage manufacturers increased by almost 13% from 12.74x in Q4/2012 to 14.33x for Q1/2013. One would expect that this trend will result in a positive effect on private company valuation multiples.

Digesting the Heinz Deal

The month of February saw the largest food deal in history taking place with the privatisation of H.J. Heinz Co., one of the top five key players in the international food industry. The American household name Warren Buffett and his conglomerate holding company, Berkshire Hathaway Inc, bid for the $23 billion mega takeover deal alongside funding partner 3G Capital. Shareholders of the US food giant would receive $72.50 for each share, a gratifying 20% premium on the closing value of the stocks at $60.48 after announcement of the planned deal hit the media on February 14. Despite this astonishing premium, the 14x EBITDA value agreed is in fact in line with the price Kraft paid for Cadburys, the British confectionery company back in 2010.

In spite of the criticism regarding Buffet's actions towards the proposed acquisition of Heinz, it has been reported by both investment companies that Heinz's working ethos will be maintained. Its historic headquarters will remain in Pittsburgh, Pennsylvania and the company's philanthropic associations will continue with the Heinz family still retaining a small stake in the privatised business.

The 140 year old food supplier is another attractive long-term, low risk investment, which matches with what seems to be Buffett's current long-term growth strategy. Providing a secure product line far into the future, in an economy where historically safe assets such as governmental and corporate bonds are uncertain due to transient growth prospects, the attractiveness of investing in food companies becomes evident.

Relatively impermeable to external conditions and fluctuations, Heinz has seldom wavered during the recession, let alone dipped. With eating habits unlikely to change abruptly in the near future and food consumption levels set to rise in concordance with global markets and population growth, the benefits of investing in a global brand-dominated food company are clear. The inherent protection offered against inflation occurs by the comparative increase of food prices inline with underlying inflation rates, protecting against value attrition, a fundamental flaw when compared with bond natures.

With a strong characteristic of steady growth with continuous generation of money, year upon year, profits can easily flow down through to investors with efficacy. This reliability provides food companies with a high degree of leveragability. Coupled with Heinz's considerable lack of presence in emerging markets, the untapped potential is evidently visible.

Ensuing closure of the deal, efficiency reviews will most probably result in Heinz divesting of its lesser brands, opening opportunities for further strategic transactions to occur in the market. This, coupled with 3G Capital's notorious managing techniques and cost cuttings, may force rivals such as Nestle and Danone to replicate these efficient lean tendencies.

Gambit's Food and 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 to 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
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CFI Network

Gambit is the sole UK representative of Corporate Finance International, a global partnership of leading mid-market investment banking firms with members in North America, Western & Eastern Europe and Asia.
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