

M&A Quarterly Review

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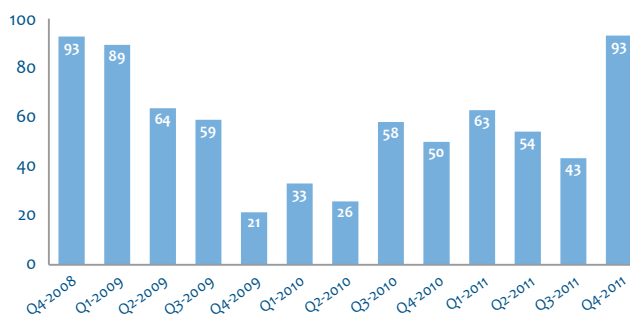
Food & Beverage Q4 2011

UK Food & Beverage Industry Overview

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

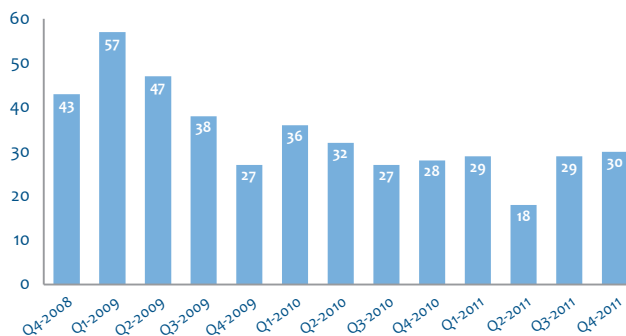
- **To acquire:** The M&A environment remains positive with a number of good acquisition opportunities available at sensible valuations. We anticipate valuations to continue to increase in the medium term.
- **Private Equity:** The benefits of well established markets and predictable returns in the food and beverage industry means that UK private equity houses are repeatedly looking to invest in companies.
- **Financing:** With pressure from the Government and a stabilising of liquidity within the debt markets in recent months, 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)*

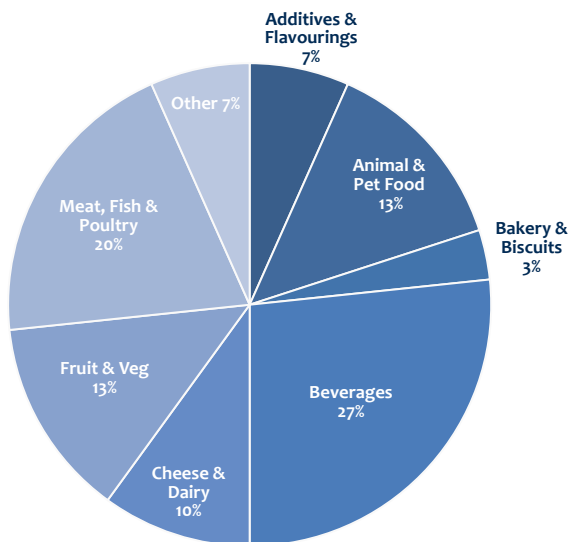


*Average transaction value for all deals with disclosed values under £1 billion

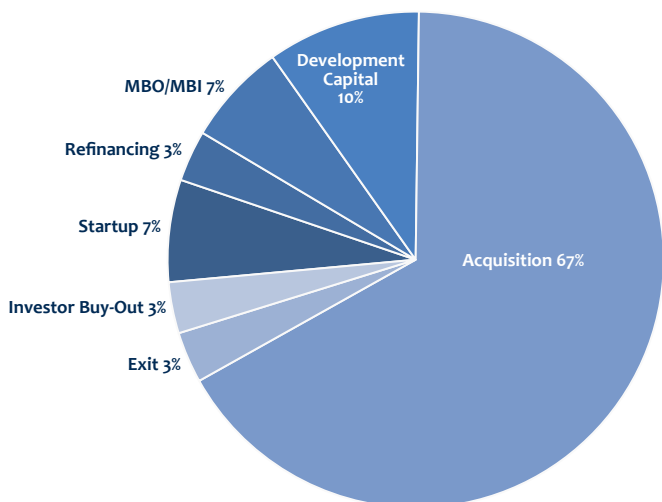
Food & Beverage Deal Volumes



Q4/2011 UK Food & Beverage Deals by Sector



Q4/2011 UK Food & Beverage Deals by Deal Type



M&A Highlights

- The average deal size for Q4/2011 was £93 million. The average deal size for Q4/2011 is distorted due to the acquisition of RBS' Galaxy Pub Estate by Heineken in a £422 million cash deal. If this deal was excluded, the average deal size for Q4/2011 would be £38 million.
- Deal volumes have remained relatively static in Q4/2011 compared with Q3/2011. The total deal volume for 2011 was 106, down from 123 in 2010 reflecting a degree of caution and a focus on internal operations.
- Acquisitions accounted for 67% of all food and beverage transactions in Q4/2011 (Q3/2011: 52%) and 62% of all deals in the year.
- Despite the reduction in the number of deals in 2011, optimism within the sector is increasing. Emerging consumer trends offer new revenue and profit opportunities and many food and beverage companies are looking to capitalise on these trends through future M&A activity.
- Although M&A volumes remain way off pre-recession levels, there are still a good number of transactions taking place despite the current economic climate. Good businesses are still attracting good valuations.
- Since the downturn, companies have focused internally on cost reduction and improved operational efficiency. Having realised most internal gains, companies are now starting to look for growth externally through M&A activity to take advantage of prudent valuations.

Feature:

2012....What Will It Bring?

What challenges will the food and beverage industry face in 2012? Pricing pressures and input price inflation squeezing margins, changing consumer preferences, continued power of the major food multiples, are a few that are likely to stay with the industry for some time to come. The ability of businesses to identify the challenges and opportunities and respond appropriately to these will impact on their success in the short and long term. The influences that we believe will be at the forefront of the food and beverage industry in 2012 include:

Health and nutrition - continued pressure from the Government to take responsibility for combating obesity and health effects of poor diets. This is likely to be through continued education, labelling requirements and product modifications.

Environmental and social factors - there is an increasing preoccupation with climate change and corporate responsibility among consumers. Being seen to be “green” is now a key element of many business strategies. Environmental and social pressures are likely to continue to grow during 2012 and the way in which companies conduct this side of their business will be looked at increasingly more.

Changing brand equity - consumers have tightened their belts saving money by purchasing own label brands which closely imitate established brands in terms of both quality and appearance. Many commentators believe that this trend will continue into 2012.

Continued regulatory burden - food and beverage companies face an increasingly complex set of regulations around the world, along with emerging sustainability standards. Businesses are not only faced with the task of keeping up-to-date with legislation, but also dealing with the additional pressure on prices and margins.

Continuing industry consolidation - industry consolidation was a significant factor for a number of deals that took place during 2011. It is likely that this trend will continue into 2012 with businesses looking to develop strong brand portfolios by acquiring complementary businesses.

The competitiveness of hard discounters - with the downturn in the economy more and more consumers are turning to no-frills outlets, places that were previously considered as “downmarket”. This trend will continue to put more downward pressure on prices and margins.

The role of private equity - due to the influence of private equity investment, more and more attention is being paid to management efficiency. Any company not working to its full potential could find itself a target for acquisition.

	Q1/2011	Q2/2011	Q3/2011	Q4/2011
	EV / EBITDA	EV / EBITDA	EV / EBITDA	EV / EBITDA
Food Manufacturers				
Associated British Foods	7.33x	8.34x	8.51x	8.61x
Dairy Crest Group	6.13x	5.95x	5.76x	5.51x
Finsbury Food Group	3.91x	3.89x	3.79x	4.11x
Glanbia	9.69x	10.84x	8.75x	8.75x
Greencore Group	6.20x	6.10x	6.39x	6.44x
Kerry Group	9.70x	10.60x	8.68x	8.68x
Lees Foods	2.75x	1.27x	2.69x	2.68x
Sara Lee Corp	8.60x	9.46x	9.07x	9.07x
Unilever	10.24x	10.75x	10.69x	10.64x
Average	7.17x	7.47x	7.15x	7.17x
Beverage Manufacturers				
AG BARR	12.33x	12.81x	11.58x	11.59x
Britvic	8.48x	8.67x	7.62x	7.78x
C&C Group	8.58x	10.25x	7.72x	7.19x
Coca-Cola	7.44x	7.86x	7.33x	7.33x
Diageo	12.17x	12.90x	13.18x	13.18x
Nichols	10.07x	11.95x	11.10x	11.10x
SABMiller	14.52x	14.17x	13.34x	12.46x
Average	10.51x	11.23x	10.27x	10.09x

Commentary

The average EV/EBITDA has remained fairly consistent throughout 2011 with food and beverage manufacturers peaking in Q2. Average EV/EBITDA for Q4 has seen only a very small movement on Q3. Despite what is happening in Europe, investor confidence appears to be remaining strong.

An illustration of current opportunities

Opportunities in the UK, Europe and beyond

Gambit Corporate Finance LLP, together with its international network Corporate Finance International, currently has clients seeking M&A opportunities across many food and beverage sub-sectors. Below is an illustration of certain clients. If you would like to find out more about our current mandates across the network, please contact one of our Food and Beverage team.

UK	Ingredients	A global food ingredients business is looking to aggressively expand within the European ingredients market. It is seeking acquisition targets with a turnover between \$30m and \$150m.
Spain	Dried fruits & snacks	Purchasers are sought for two related companies that manufacture, pack and distribute dried fruits, snacks and appetizers. They have a combined turnover of €15m.
Brazil	Coffee	A strategic partner is sought for one of the largest coffee producers in Brazil with a turnover of €25m. A controlling interest is available for the right partner.
South America	Cereal grains & rice products	Purchasers are sought for a business specialising in cereal grain and rice products and condiments. It has over 20 product lines and 250 SKUs. Based in South America, its activities extend across North America, Europe and Asia. It has its own distribution network and an annual turnover of €132m.
Portugal	Spirits & liqueurs	Purchasers are sought for a market leading producer of branded wines, fortified wines, spirits and syrups. Annual turnover €4.2m.
India	Fruit	Purchasers are sought for one of the largest importers and distributors of fruit in India. The business has a turnover of €6.5m and an established distribution network throughout India.

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, 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)

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