

## Quarterly M&A Market Review

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# Food & Beverage

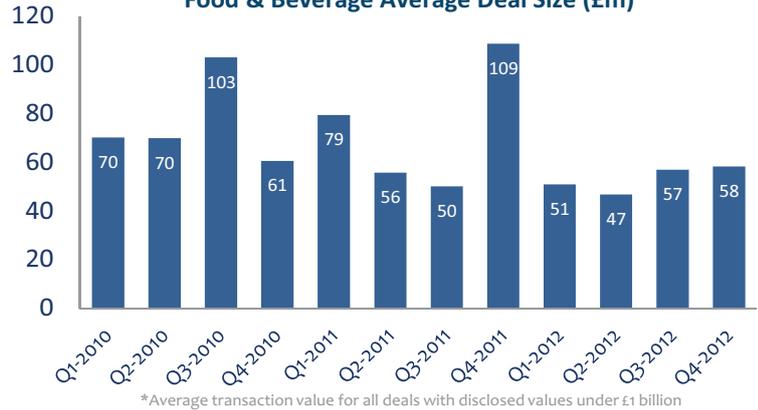
## Q4 2012

# UK Food & Beverage Industry Overview

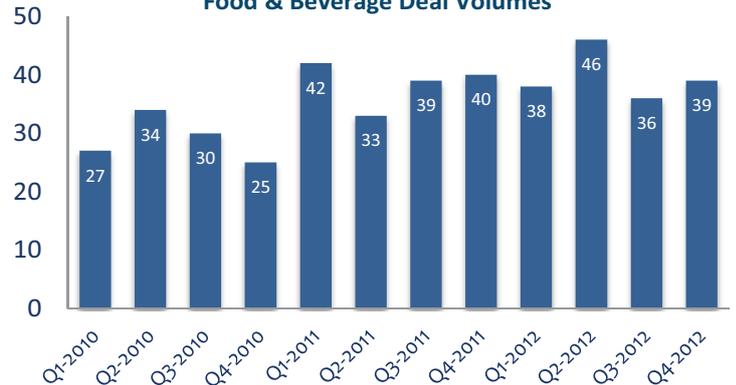
**Summary: If you are a mid-market Food & Beverage company seeking.....**

- **To sell:** The increase in the number of transactions in Q4/2012 coupled with an increase in corporate valuation multiples, should result in a positive effect on private company valuation multiples.
- **Financing:** With pressure from the Government and the introduction of the Bank of England's Funding for Lending scheme, banks have become more willing to lend to companies with strong balance sheets, proven business models and demonstrable cash generation. Providers of finance are also starting to offer a wider range of alternative financing options such as asset-based lending which is allowing businesses to access greater levels of capital.

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



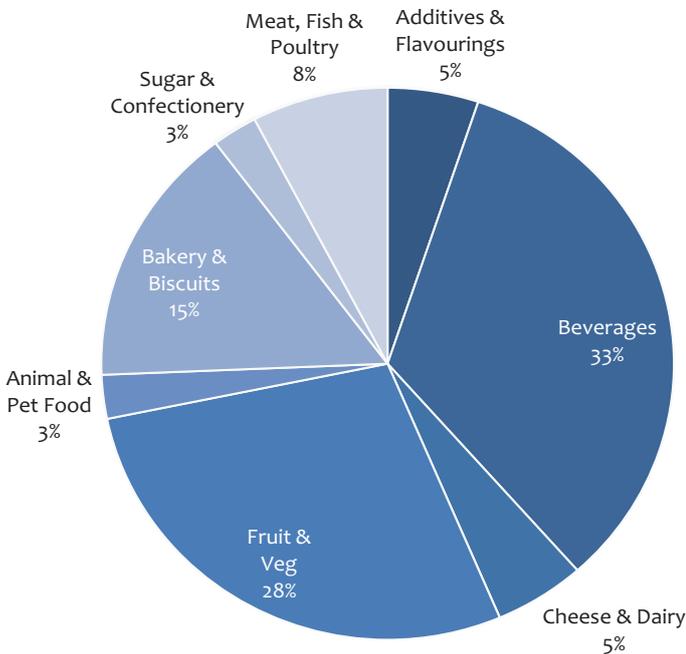
**Food & Beverage Deal Volumes**



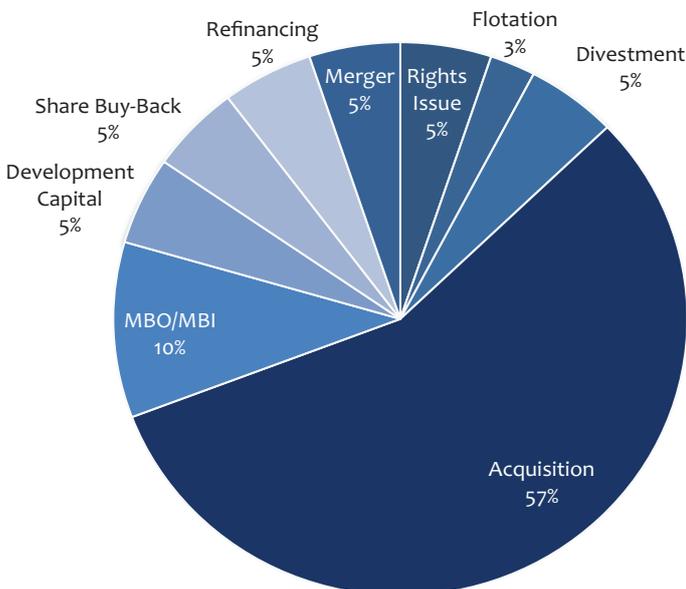
**M&A Highlights**

- Announced deal volumes in Q4/2012 were slightly up on that of Q3/2012 rising from 36 deals to 39 deals.
- The total number of announced deals in 2012 compared with 2011 increased from 154 to 159 and were 37% up on the numbers seen in 2010.
- The average size of announced deals in Q4/2012 was £58 million remaining broadly consistent with that of £57 million in Q3/2012. The average deal size for 2012 was £53 million significantly down on the average deal size of £74 million in 2011. There were few big ticket deals in 2012 as companies continued to closely watch the macro-economic environment.
- Acquisitions accounted for 57% of all announced deals in Q4/2012 and 61% of all announced deals in the whole of 2012. In a difficult economic environment, growth through the acquisition of a pre-existing manufacturing base, brand, new product offering, customer base, or distribution, or distribution channel can be a sensible strategy.
- There were a number of significant deals announced in the quarter:
  - Britvic and its Scottish rival AG Barr agreed a £1.4 billion merger, creating one of the largest soft drinks companies in Europe. Britvic shareholders will own 63% of the new company, with AG Barr holding the balance.
  - Diageo Plc, whose brands include Guinness and Smirnoff, announced it is acquiring a 53.4% stake in India's United Spirits for £1.28 billion. The deal has been subject to delays but Diageo are hoping to complete in Q1/2013.
  - Premier Foods Plc announced it has agreed to sell its sweet pickles and table sauces to Japan's Mizkan Group for £92.5 million. This is the second transaction between the two companies in four months. In June, Premier Foods sold its vinegar and sour pickles business to Mizkan for £41 million.

**Q4/2012 UK Food & Beverage Deals by Sector**



**Q4/2012 UK Food & Beverage Deals by Deal Type**



## Feature:

### A summary of 2012 and the factors that will drive M&A activity in 2013

2012 saw the number of British food and beverage businesses acquired by foreign investors double. One of the largest deals was the £1.2 billion acquisition of a majority stake in Weetabix by China's Bright Food Group. This was the largest single investment by a Chinese firm in the overseas food and beverage market. Foreign investment activity is being fuelled by the millions of aspirational Asian consumers seeking iconic Western brands, the access to UK and European markets and also an interest in importing the ingenuity and knowhow of British companies.

Much of the M&A activity in 2012 was undertaken by those companies within the industry with deals focused in the small-to-medium sized value range. The current economic climate led to Private Equity investors being more inclined to keep hold of their food and beverage assets, although they did provide some activity. Lion Capital disposed of Weetabix and acquired UK firm Cumbrian Seafoods, Blackstone and PAI disposed of half of United Biscuits, while Montagu Private Equity acquired Dairy Crest's French business.

Industry consolidation was again a major factor in a number of the deals announced in 2012, for example, the acquisition of Robert Wiseman Dairies by Muller, Arla's merger with Milk Link and Kellogg's acquisition of Pringles. Consolidation is driven by a number of factors such as the need to save costs, increase market share, widen product offering, or revive or off-load distressed companies.

Premier Foods rationalisation of its businesses, in order to reduce its debts and focus on its so-called "power brands", led to a number of transactions in 2012. Most significant was the acquisition by US food company Hain Celestial of the major packaged grocery brands of Premier Foods Plc for £200 million. The deal included the sale of brands such as Hartley's jams and spreads and Sun-Pat peanut butter. There were also two deals with Japan's Mizkan Group which saw the sale of a number of high profile brands.

What is clear from 2012 is the significant role those investors outside of Europe have in driving M&A activity in the food and beverage market in the UK. These overseas entrants are helping the revival of M&A activity within the sector and are creating competition between potential buyers. Foreign investment is set to be a continuing theme in 2013 and will help drive M&A activity in the UK food and beverage sector.

As internal cost cutting exercises imposed since the start of the financial crisis in 2007 become more difficult to achieve, the cost synergies of M&A activity will become more attractive. We expect to see M&A activity in 2013 rise as a result of increasing cost pressures, new consolidation opportunities, and the weak liquidity position of many small companies. The need for growth in a generally flat market and the healthier balance sheets of some of the larger industry players will also contribute to increased M&A activity.

Valuation Parameters:	Q1/2012	Q2/2012	Q3/2012	Q4/2012
Food Manufacturers	EV/EBITDA	EV/EBITDA	EV/EBITDA	EV/EBITDA
Associated British Foods	7.36x	9.52x	9.51x	9.37x
Dairy Crest Group	6.06x	5.59x	5.71x	4.40x
Finsbury Food Group	3.97x	4.54x	4.59x	4.71x
Glanbia	9.43x	10.05x	10.44x	12.39x
Greencore Group	6.20x	7.76x	7.76x	7.63x
Kerry Group	9.38x	12.13x	13.16x	13.46x
Unilever	9.84x	11.03x	10.93x	11.43x
<b>Average – food manufacturers</b>	<b>7.46x</b>	<b>8.66x</b>	<b>8.87x</b>	<b>9.06x</b>
Beverage Manufacturers	EV/EBITDA	EV/EBITDA	EV/EBITDA	EV/EBITDA
AG BARR	12.02x	11.98x	13.09x	14.53x
Britvic	8.16x	7.92x	8.84x	8.92x
C&C Group	8.57x	7.47x	8.26x	11.21x
Coca-Cola	7.39x	8.22x	7.83x	7.56x
Diageo	12.75x	16.67x	14.88x	15.24x
Nichols	9.72x	12.97x	13.78x	14.86x
SABMiller	14.12x	16.80x	17.22x	16.86x
<b>Average – beverage manufacturers</b>	<b>10.39x</b>	<b>11.72x</b>	<b>11.99x</b>	<b>12.74x</b>

#### Commentary

Average EV/EBITDA multiples for both food and beverage manufacturers monitored by Gambit have seen an increase in every quarter of 2012. The average EV/EBITDA multiple for food manufacturers increased from 8.87x in Q3/2012 to 9.06x in Q4/2012 and the average EV/EBITDA multiple for beverage manufacturers increased from 11.99x in Q3/2012 to 12.74x in Q4/2012. This trend creates a favourable environment for the valuation of private food and beverage companies.

# An illustration of current opportunities.....

## Opportunities in the UK, Europe and beyond

Gambit Corporate Finance LLP and our international partners currently have clients seeking M&A opportunities 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 partnership, please contact one of our Food and Beverage team.

Netherlands	Fruit & Vegetables	A producer of conserved fruit, pickles and vegetables is looking to expand within Europe. It is seeking acquisition targets with a turnover between €15m and €50m.
Spain	Ingredients	Purchasers are sought for a Spanish based company in the ingredients sector. Annual turnover some €50m.
Italy	Health Food	A producer of soya based products is looking to expand within Europe. It is seeking acquisition targets who produce soya-based health foods.
Spain	Rice & Pasta	A global rice and pasta producer is looking to expand internationally. It is seeking acquisitions within the same sector with a turnover over €50m.

## 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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