

Quarterly M&A Market Review

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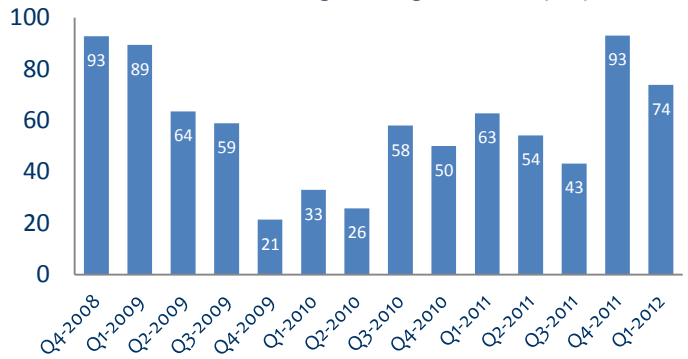
Food & Beverage
Q1 2012

UK Food & Beverage Industry Overview

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

- **To acquire:** The transaction environment remains positive with a number of good acquisition opportunities available at sensible valuations.
- **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 the sector.
- **Financing:** With pressure from the Government and a stabilising of liquidity within the debt markets, banks have become more willing to lend to companies with strong balance sheets, proven business models and strong cash generation.

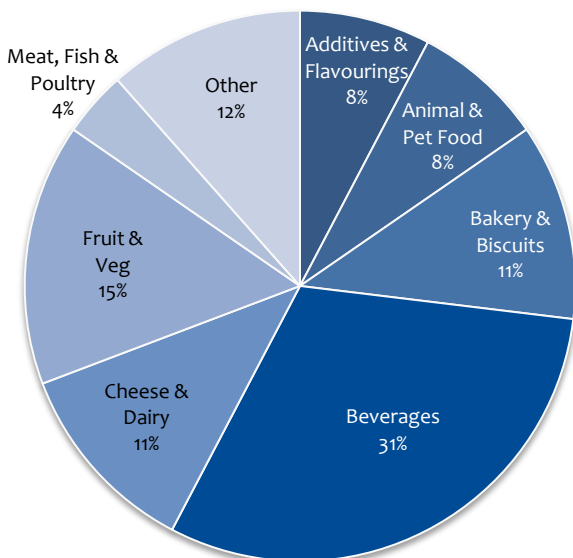
Food & Beverage Average Deal Size (£m)*



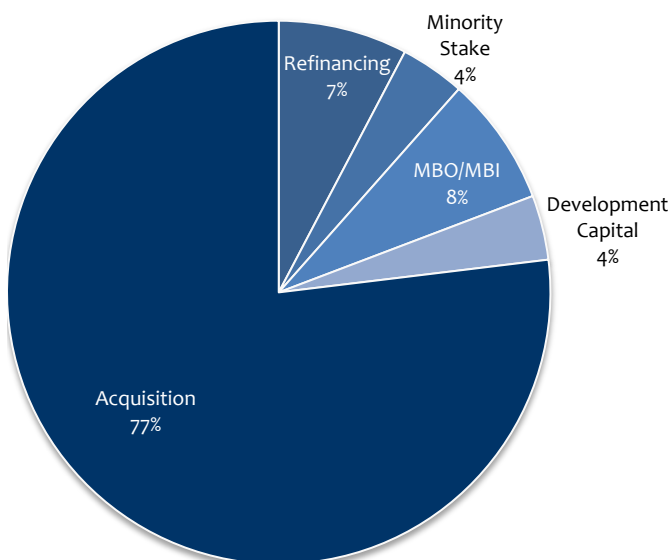
Food & Beverage Deal Volumes



Q1/2012 UK Food & Beverage Deals by Sector



Q1/2012 UK Food & Beverage Deals by Deal Type



M&A Highlights

- The average deal size for Q1/2012 was £74 million. Since Q4/2009 there has been an upward trend in the average deal size.
- There were two sizeable deals within the quarter. Diageo Plc acquired Meta Abo Brewery, based in Ethiopia, for £144.94 million (subject to post completion adjustments) and Muller Dairy (UK) Limited acquired the entire issued and to be issued share capital of Robert Wiseman Dairies Plc, the UK's largest supplier of milk, for a consideration of £279.5 million.
- There were also a number of instances of larger companies within the sector snapping up their smaller rivals. Tyrrells Potato Chips acquired Glennans, a manufacturer of vegetable chips. Tangerine Confectionery purchased rival Smith Kendon and Irish food producer Kepak purchased rival burger brand Feasters to compliment its own convenience food business Rustlers.
- Deal volumes have remained fairly consistent since Q4/2009. The prolonged economic stagnation in the US and Europe has led to a mood of conservatism among manufacturers that could have been looking to expand via acquisition.
- Trade acquisitions continued to dominate transaction activity in Q1/2012, accounting for 77% of all transactions. This continues the trend seen since 2010.
- Consolidation is likely to be a key driver of M&A activity in the year ahead. With growing competition between the major retailers it is likely that they will look to pass on the cuts they are making, which may lead to more deals among the manufacturers this year. This has already been seen in the early weeks of 2012 with the sale of Robert Wiseman Diaries Plc to Muller, bringing together two key players in the UK dairy market.

Feature:

Private equity investment in the food and beverage industry

The stable nature and return profile of food and beverage manufacturing has long made companies within it attractive propositions for investors. They play an important role in protecting investor returns, particularly during economic downturns. Cash generative qualities and the benefits of well established stable markets with predictable returns make food and beverage companies highly attractive propositions for banks and private equity firms. Access to debt funding, especially in connection with an acquisition, enables investors and shareholders to enhance their returns above that available if debt funding were not accessed.

With access to unprecedented levels of investment funds, private equity firms in particular are increasingly targeting the food and beverage sector. They have helped to shape numerous deals and we anticipate that they will continue to do so for the foreseeable future.

Private equity firms are often viewed as opportunists only out to make a quick profit. However, private equity firms are often sector consolidators and brand builders and companies such as Birds Eye, Tyrrells, Weetabix and United Biscuits have developed well under private equity ownership.

Many commentators believe there could be a number of private equity deals in the UK food and beverage sector in 2012 as it is still a largely fragmented market and ripe for consolidation. There have been a number of stories in the press over recent weeks with regards to private equity investors taking an interest in a number of UK food brands. It is widely reported that Premier Foods, Symington and United Biscuits are looking set to divest a number of their non-core brands which include household names such as Sarson's Vinegar, Hartley's Jam, and Twiglets.

Private equity can come in a variety of different forms, from large funds raising debt to buy large cash-generative businesses, to smaller funds seeking to assist growing and dynamic entrepreneurial businesses. There are a number of private equity funds with specific focus on the food and beverage industry and such investors can often be a good source of funds for businesses seeking capital to assist with growth.

When considering the suitability of an investment, private equity firms will focus on: management, historic performance, strategic vision and prospects, and a clearly defined exit strategy. Whilst ultimately the success of a fund raising is substantially dependent on the quality of the overall investment opportunity, appropriate presentation of information on the business in the form of a detailed business plan will be a key determinant in the overall assessment of an investment opportunity. A good corporate finance adviser will be able to assist with the preparation and presentation of a detailed business plan and will also advise on the types of funding available and effect suitable introductions to the most appropriate sources of funding. They will project manage the fund raising process from inception to completion ensuring the client's best interests are protected throughout the process.

Valuation Parameters:	Q2/2011	Q3/2011	Q4/2011	Q1/2012
Food Manufacturers	EV / EBITDA	EV / EBITDA	EV/EBITDA	EV/EBITDA
Associated British Foods	8.34x	8.51x	8.61x	7.36x
Dairy Crest Group	5.95x	5.76x	5.51x	6.06x
Finsbury Food Group	3.89x	3.79x	4.11x	3.97x
Glanbia	10.84x	8.75x	8.75x	9.43x
Greencore Group	6.10x	6.39x	6.44x	6.20x
Kerry Group	10.60x	8.68x	8.68x	9.38x
Lees Foods	1.27x	2.69x	2.68x	2.71x
Sara Lee Corp	9.46x	9.07x	9.07x	10.57x
Unilever	10.75x	10.69x	10.64x	9.84x
Average – food manufacturers	7.47x	7.15x	7.17x	7.28x
Beverage Manufacturers				
AG BARR	12.81x	11.58x	11.59x	12.02x
Britvic	8.67x	7.62x	7.78x	8.16x
C&C Group	10.25x	7.72x	7.19x	8.57x
Coca-Cola	7.86x	7.33x	7.33x	7.39x
Diageo	12.90x	13.18x	13.18x	12.75x
Nichols	11.95x	11.10x	11.10x	9.72x
SABMiller	14.17x	13.34x	12.46x	14.12x
Average – beverage manufacturers	11.23x	10.27x	10.09x	10.39x

Commentary

Despite a slight reduction in EV/EBITDA multiples since Q2/2011, Q1/2012 has seen a slight increase for both food and beverage manufacturers with multiples rising to 7.28x for food manufacturers and 10.39x for beverage manufacturers. In contrast to the pessimism about the economy in 2012, especially in Europe, valuation multiples remain consistently stable within the food and beverage industry.

An illustration of current opportunities.....

Opportunities in the UK, Europe and beyond

Gambit Corporate Finance LLP, together with our 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 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.

Italy	Bakery	An Italian producer of sweet bakery products and breakfast biscuits is looking to expand internationally, especially within Europe. It is seeking branded businesses within the same sector with a turnover between €5 and €50m.
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.
Italy	Meat	Purchasers are sought for a family owned Italian company who produce a number of different kinds of cured meat products. Annual turnover €35m.

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 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.
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