

Quarterly M&A Market Review

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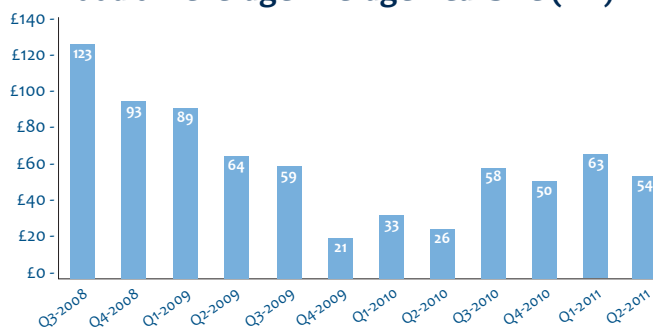
Food & Beverage Q2 2011

UK Food & Beverage Industry Overview

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

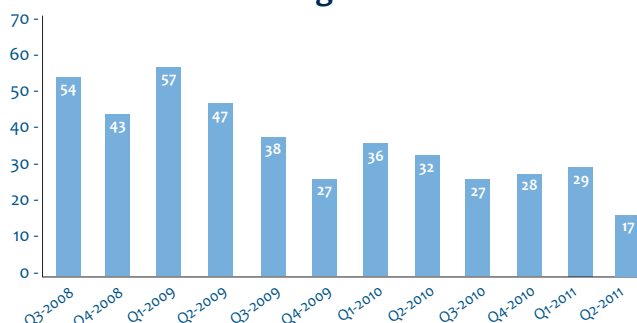
- **To acquire:** The M&A environment remains positive with a number of good acquisition opportunities available at sensible valuations. We anticipate valuations to continue to increase in the medium term.
- **Private Equity:** UK private equity houses are continually seeking to invest in food and beverage 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)*

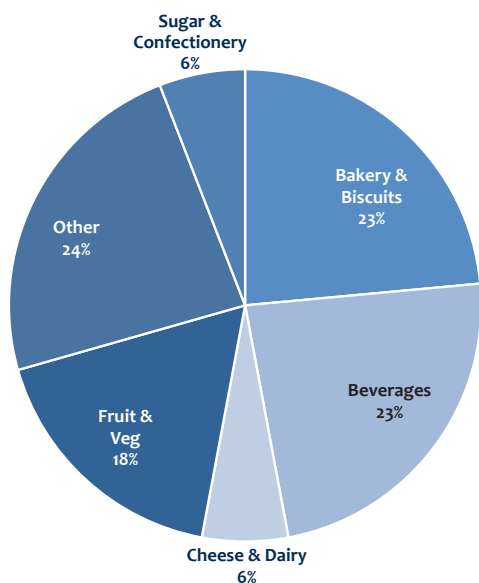


*Average transaction value for all deals with disclosed values under £1 billion

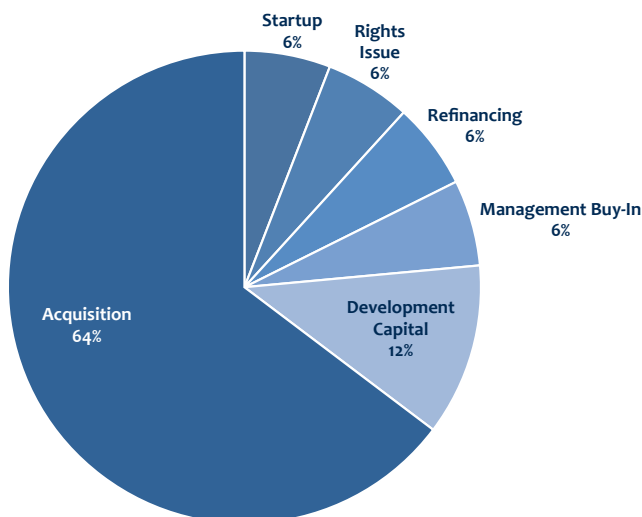
Food & Beverage Deal Volumes



Q2/2011 UK Food & Beverage Deals by Sector



Q2/2011 UK Food & Beverage Deals by Deal Type



M&A Highlights

- The average deal size for Q2/2011 was £54 million, over double that in the same quarter in 2010 (£26 million), underpinned by an increase in underlying valuations.
- Food and beverage deal volumes dropped by 41% in Q2/2011 compared with Q1/2011. This was a trend experienced in the global M&A market in Q2/2011.
- Trade acquisitions continued to dominate transaction activity in Q2/2011, accounting for 64%.
- The food and beverage sector remains very competitive, so clearly defined strategy and growth objectives have never been more important. The primary drivers for transaction activity, especially acquisitions in the food and beverage sectors are:
 - Gaining access to geographic markets as companies pursue acquisitions to establish or expand into different segments of the market;
 - Allowing companies to establish new growth platforms and to pursue acquisitions to enter new markets or gain market share; for example in areas such as functional foods, ready-to-eat, or the organic food and beverage market;
 - Multi-national companies looking to acquire companies to expand their geographical presence or expand their brand portfolio. Also, such companies may have a strategy to divest underperforming brands that may serve better in a more focused portfolio or stand alone product offering; and
 - Acquisitions also enable companies to gain access to resources, capabilities and / or proprietary technologies, in many instances in a more cost effective way.

Feature:

Continued investment in the food and beverage manufacturing sector.....

The food and beverage manufacturing sector remained relatively stable through the economic downturn. Whilst it reduced its output, it has returned to pre-recession levels quickly. As a sector it currently represents 15% of UK manufacturing turnover and employment.

Despite the cost pressures facing the industry, such as volatile raw material prices and increased fuel and energy costs, the competitiveness and success of food and beverage companies is highly dependent on investment in a number of areas, including capital expenditure, research and development, product innovation and skills of its current and future workforce.

With the recent publication of the Food and Drink Federation business confidence survey concluding that the net increase of combined investment in capital expenditure, research and development and upgrading skills was almost three times higher in Q1/2011 than in Q4/2010.

Leading food and beverage manufacturers appear to be undertaking significant capital investment projects including Kraft Foods investing £9 million on updated coffee extraction technology in its Banbury factory; Warburtons is on schedule to complete a £25 million refurbishment of its Bolton bakery; Gregg's is on target to complete its £40 million project to construct a confectionery centre of excellence at Penrith and new build bakeries in Newcastle and Wiltshire. Capital investment decisions are not taken lightly with focus on growth categories, for example, Warburtons and Finsbury investing to service growing markets for gluten free and lower-carb bakery products; Kettle Chips and Tyrrells Crisps are investing to meet the increased demand for premium bagged snacks. It is evident that the significant investment decisions are being made by multi national brand owners.

The lack of secure contracts in the food industry supply chain make significant investment decisions riskier than in other manufacturing sectors. Own label suppliers are particularly restricted by lack of supply chain contracts as the only route to market of any significant volume is through the multiple retailers.

An interesting concept is the recent announcement of the landmark partnership between Coca-Cola and Heinz. This strategic partnership enables Heinz to produce its ketchup bottles using Coca-Cola's breakthrough PlantBottle™ packaging. This is a model of collaboration where food and beverage companies can work together to benefit from major capital investment and proprietary technology and also have significant commercial and environmental benefits, as in this case with the two major brands raising awareness of this new packaging technique.

Valuation Parameters:

	Q4/2009 EV / EBITDA	Q4/2010 EV / EBITDA	Q1/2011 EV / EBITDA	Q2/2011 EV / EBITDA
Food Manufacturers				
Associated British Foods	7.49x	8.59x	7.33x	8.34x
Dairy Crest Group	5.81x	6.76x	6.13x	5.95x
Finsbury Food Group	4.42x	4.02x	3.91x	3.89x
Glanbia	8.79x	9.37x	9.69x	10.84x
Greencore Group	5.35x	6.24x	6.20x	6.10x
Kerry Group	9.72x	9.27x	9.70x	10.60x
Lees Foods	3.95x	3.51x	2.75x	1.27x
Northern Foods	7.17x	5.93x	6.47x	n/a*
Sara Lee Corp	6.87x	9.68x	8.60x	9.46x
Unilever	12.33x	10.53x	10.24x	10.75x
Average	7.19x	7.39x	7.10x	7.47x
Beverage Manufacturers				
AG BARR	9.78x	11.09x	12.33x	12.81x
Britvic	9.10x	9.56x	8.48x	8.67x
C&C Group	10.35x	8.82x	8.58x	10.25x
Coca-Cola	7.15x	7.27x	7.44x	7.86x
Diageo	12.60x	12.26x	12.17x	12.90x
Nichols	7.87x	9.90x	10.07x	11.95x
SABMiller	14.96x	14.79x	14.52x	14.17x
Average	10.26x	10.53x	10.51x	11.23x

*Delisted in May 2011

Commentary

After average EV/EBITDA multiples for food manufacturers dropped to 6.02x and for beverage manufacturers 7.88x in Q4/2008, valuation multiples have increased to 7.47x for food manufacturers and 11.23x for beverage manufacturers in Q2/2011 both up on Q1/2011. This indicates a continued increase in investor confidence and continued improvement in the financial performance of food and beverage manufacturers.

An illustration of current opportunities.....

Opportunities in the UK and Europe:

Gambit Corporate Finance LLP, together with our international network Corporate Finance International (“CFI”), 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.

UK	Speciality Ingredients	A company seeking acquisition opportunities of food importers / wholesalers of speciality ingredients, preferably with a brand or an exclusive supply agreement distributing to the food service sector or multiple retailers. Turnover up to £10 million.
France	Bakery	A French company with a turnover of in excess of €500 million is seeking acquisitions supplying fresh sandwiches.
Holland	Soft Drinks	A leading European manufacturer with a turnover in excess of €1.2 billion supplying soft drinks and juices to the private label market is seeking acquisition opportunities.
Italy	Bakery	An opportunity to acquire an Italian company supplying sponge based products (cakes and snacks) primarily own label to the major retail multiples in Italy. Turnover in excess of €500 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.
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