

Quarterly M&A Market Review

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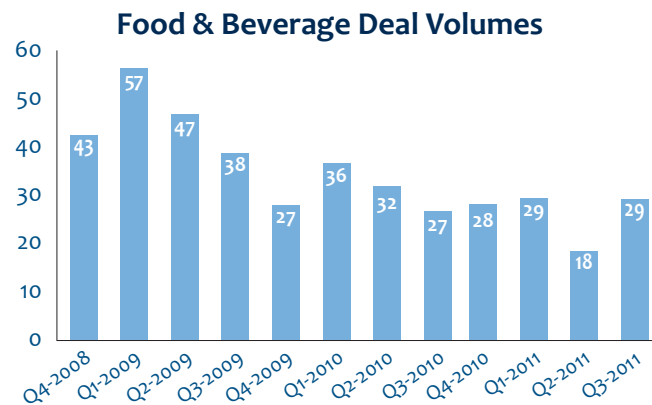
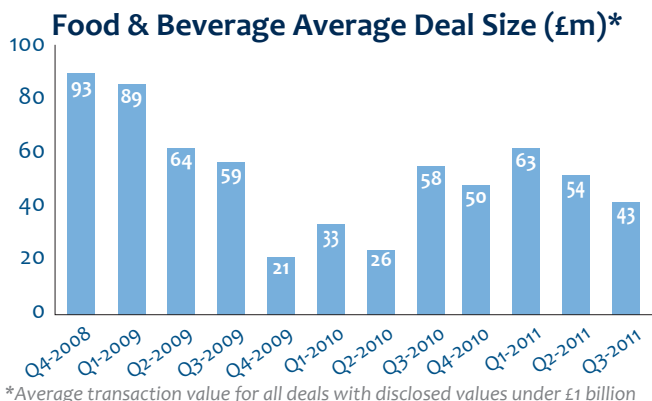
Food & Beverage

Q3 2011

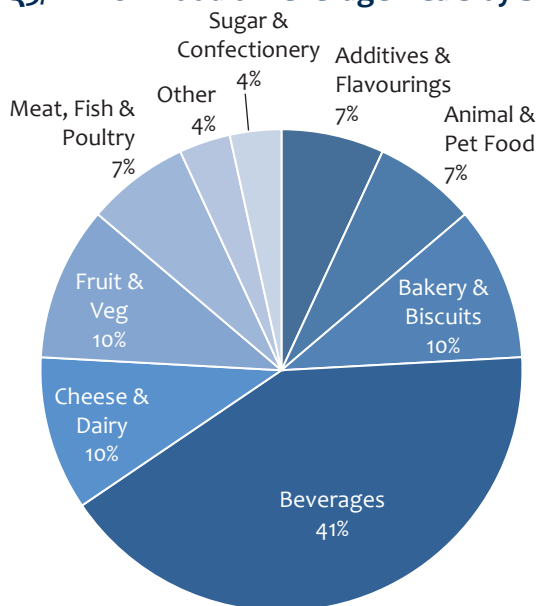
UK Food & Beverage Industry Overview

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

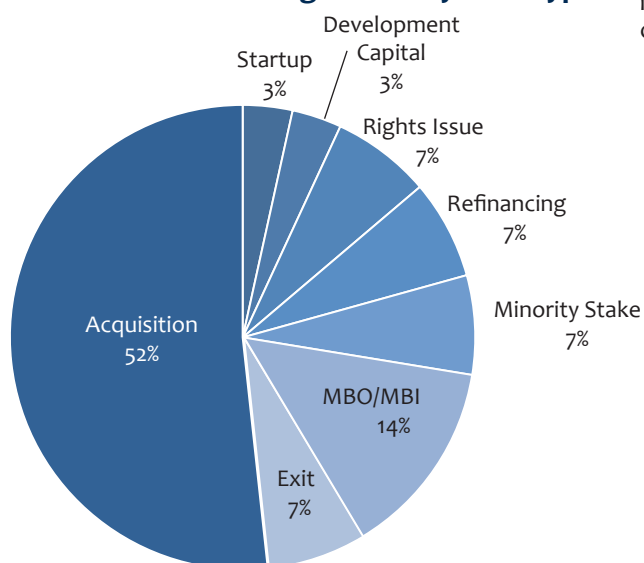
- **To acquire:** The M&A environment remains positive with a number of good acquisition opportunities available at sensible valuations. We anticipate valuations to continue to increase in the medium term.
- **Private Equity:** UK private equity houses are continually seeking to invest in food and beverage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



Q3/2011 UK Food & Beverage Deals by Sector



Q3/2011 UK Food & Beverage Deals by Deal Type



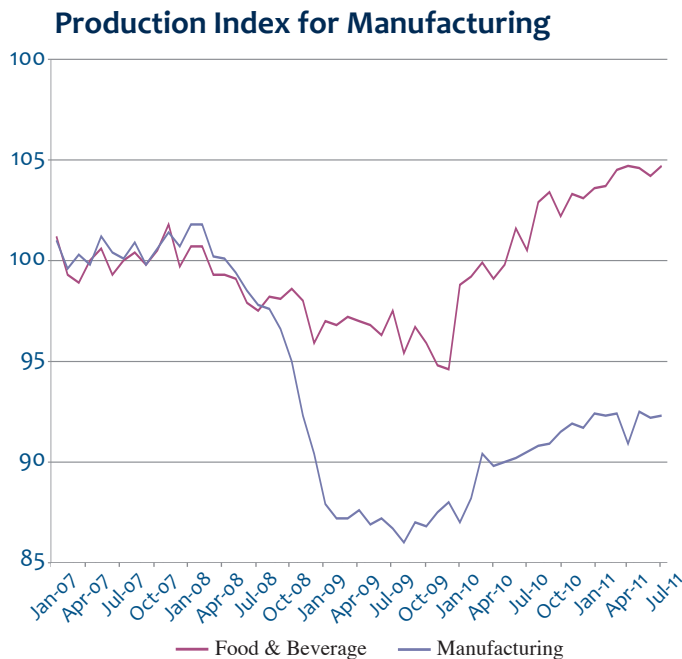
M&A Highlights

- The average deal size for Q3/2011 was £43 million, 26% down on the same quarter in 2010.
- Food and beverage deal volumes increased by 61% in Q3/2011 compared with Q2/2011. Deal volumes in Q3/2011 remain comparable to those in Q3/2010.
- Trade acquisitions continued to dominate transaction activity in Q3/2011, accounting for 52%.
- Global market forces are driving the continual evolution of the food and beverage industry. Consolidation, changing consumer preferences, increasing government regulations and the status of the economy are dramatically impacting strategic options for food and beverage companies.
- To maximise shareholder value, in this fiercely competitive marketplace, food and beverage companies must be constantly mindful of the following:
 - The product offering to ensure consumer demands and ever changing preferences are being met;
 - Financial performance and maximising growth opportunities. Although growth via acquisition is prominent, the key to sustained positive financial performance is the ability to understand and respond to consumer demands and competitive pressures while keeping tight control of costs;
 - Protecting the brand equity of the company. The perceived brand qualities associated with food and beverage companies is key to maintaining customer loyalty in the sector; and
 - Turning sustainability challenges facing food and beverage manufacturers to their advantage. Energy conservation and efficiency, good environmental practices will contribute to the corporate and social responsibility of the business.

Feature Article

Manufacturing... a positive message for the UK food and beverage industry

The Office for National Statistics (ONS) has recently published (July 2011) its production index for manufacturing and the food and beverage sector. Over the last two years, the sector has maintained the most consistent level of production of all the manufacturing sectors in the UK economy.



The Production Index for Manufacturing graph shows an index of production adjusted for seasonal changes and inflation (base year 2006 at 100), i.e. if production levels are higher than 100 then output levels are higher than in 2006. The food and beverage sector has been outperforming 2006 levels consistently since June 2010. The majority of other sectors, covered by ONS statistics, including for example, machinery and equipment, textiles, fabricated metals etc have all been falling behind 2006 output levels. The food and beverage sector has continued to experience an upward trend in 2011 but other sectors have seen sharp decreases in output. This is clearly illustrated by the general manufacturing sector struggling to achieve output levels close to 2006, although increasing, it is at a far slower rate.

The stability in the food and beverage sector is due to the success in increasing exports and maintaining demand levels through out the economic downturn. It also reflects the industry's ability to innovate and develop new products and market them effectively to appeal to changing consumer demands. The diversity of products within the industry has also contributed to the stability of the sector as a whole.

Strong demand for meat, fish, dairy, biscuits, pastries and cakes have all contributed to the overall index increase between July 2008 and July 2011, helped by a 36% increase in exports over this period. This demonstrates that the industry is capable of growth throughout difficult trading times.

Valuation Parameters

	Q4/2010	Q1/2011	Q2/2011	Q3/2011
	EV / EBITDA	EV / EBITDA	EV / EBITDA	EV / EBITDA
Food Manufacturers				
Associated British Foods	8.59x	7.33x	8.34x	8.51x
Dairy Crest Group	6.76x	6.13x	5.95x	5.76x
Finsbury Food Group	4.02x	3.91x	3.89x	3.79x
Glanbia	9.37x	9.69x	10.84x	8.75x
Greencore Group	6.24x	6.20x	6.10x	6.39x
Kerry Group	9.27x	9.70x	10.60x	8.68x
Lees Foods	3.51x	2.75x	1.27x	2.69x
Northern Foods	5.93x	6.47x	n/a*	n/a*
Sara Lee Corp	9.68x	8.60x	10.75x	8.78x
Unilever	10.53x	10.24x	10.24x	9.07x
Average	7.39x	7.10x	7.55x	6.94x
Beverage Manufacturers				
AG BARR	11.09x	12.33x	12.81x	11.58x
Britvic	9.56x	8.48x	8.67x	7.62x
C&C Group	8.82x	8.58x	10.25x	7.72x
Coca-Cola	7.27x	7.44x	7.86x	7.33x
Diageo	12.26x	12.17x	12.90x	13.18x
Nichols	9.90x	10.07x	11.95x	11.10x
SABMiller	14.79x	14.52x	14.17x	13.34x
Average	10.53x	10.51x	11.23x	10.27x

*Delisted in May 2011

Commentary

Average EV/EBITDA multiples for food and beverage manufacturers have remained relatively stable since Q4/2010. Valuation multiples dropped to 6.02x for food manufacturers and 7.88x for beverage manufacturers in Q4/2008. These multiples have increased to 6.94x for food manufacturers and 10.27x for beverage manufacturers in Q3/2011 both up on Q1/2011. This indicates a continued increase in investor confidence and a steady 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.

France	Bakery	A company specialising in the supply of a wide range of bakery products including flans, tarts, pastry products to both the retail and catering industry is seeking acquisition targets across Europe.
France	Ingredients	A company specialising in the manufacture of high quality ingredient based solutions in the culinary, nutritional sector. The company has a buy and build strategy for Europe.
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.

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. (www.cfi-network.com)

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