

Food Supplement

Q3 2014

+44 (0) 845 643 5500
www.gambitcf.com

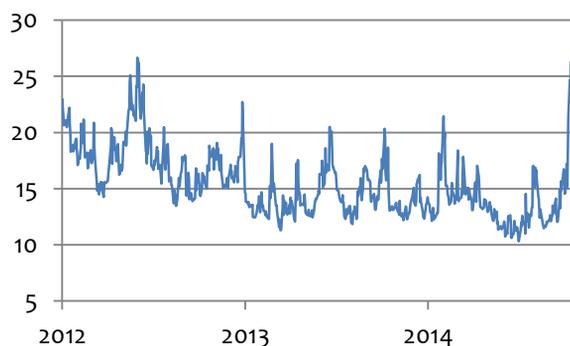
Content Summary:

M&A Market Review	Given the recent reduction in the IMF growth forecast and volatility in the stock market, we would expect that a number of potential food and beverage IPOs will be deferred or owners may seek an alternative exit route.
Public Comparables	There has been a moderate reduction in the average EV/EBITDA multiples in all of the sub-sectors followed by Gambit in Q3 2014. Notably the most severe drop came in food retailing, where the average EV/EBITDA multiple fell by almost 13% between Q2 2014 and Q3 2014.
Commodity Prices	With the exception of meat, there were significant decreases in all of the FAO Food Indices. Prices are being pushed down by the increasing supply of most commodities, a weakening global economy and a reduction in demand from China.
Guest Article	This edition: Chris Hook, Free From Business Director at Warburtons' Newburn Bakehouse, looks at the evolution of the bakery sector and in particular the growing Free From market.

Macro Outlook

The macro outlook throughout the world took an uncertain turn as autumn began. The VIX Volatility Index, which is a measure of stock market volatility and commonly referred to as the “fear index” reached its highest levels since 2012. In addition to this the International Monetary Fund (IMF) recently downgraded its global growth forecasts to 3.3%, 0.4% down on its April World Economic Outlook. Growth has been slower than expected in the first half of 2014 and the IMF has also pointed towards increased downside risks to global growth, including financial and geopolitical. However, the IMF said the outlook was brighter in the US and the UK, which were “leaving the crisis behind and achieving decent growth”.

VIX Volatility Index

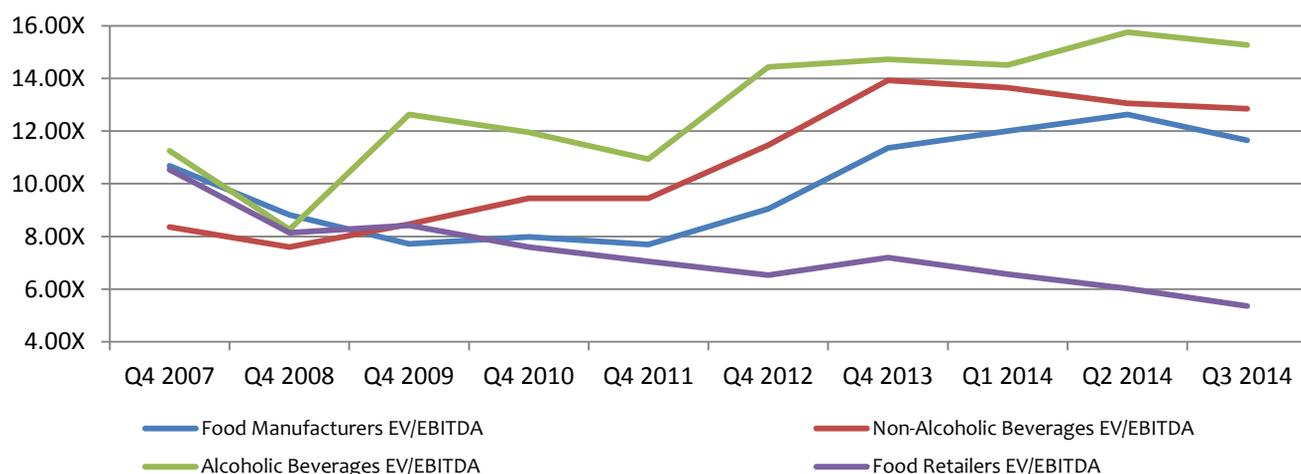


Summary: Despite market volatility favourable M&A conditions are in place for mid-market Food and Beverage companies

To sell: Buoyed by ever strengthening balance sheets, UK and US economies and the beginnings of a re-emergence of debt markets as a source of finance, there is growing demand from trade parties for strategic acquisitions. This is translating into higher acquisition multiples being paid and coupled with a favourable tax environment, now is a good time for those thinking of a potential sale.

Private equity: With the benefits of well established markets and predictable returns, private equity houses are repeatedly looking to invest in the sector. In recent months we have noted a significant increase in the number of management teams embarking on potential buy-outs supported by accommodating vendors and private equity funds.

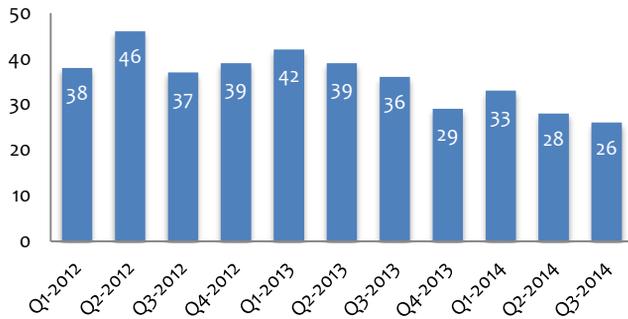
Financing: With pressure diminishing for an imminent increase in interest rates, an increasing availability of debt from traditional sources and emerging challenger banks, the availability of finance is no longer an impediment for businesses seeking to adopt a growth strategy, be that investment in new facilities or strategic acquisitions.



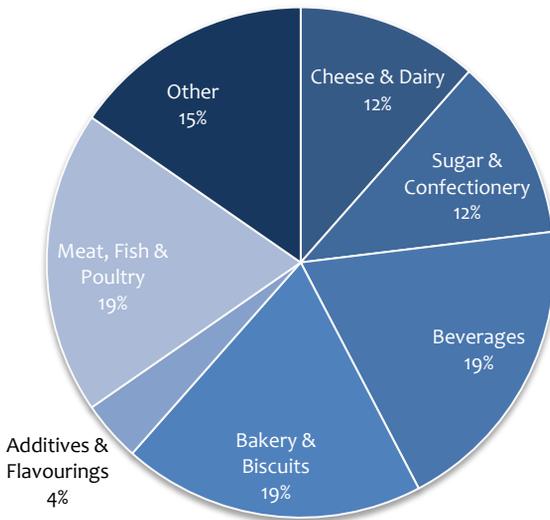
- There has been a moderate reduction in the average EV/EBITDA multiples in all of the sub-sectors monitored by Gambit in Q3 2014. Notably the most severe drop came in food retailing, where the average EV/EBITDA multiple fell by almost 13% between Q2 2014 and Q3 2014, following the release of challenging trading results from the major multiples.
- Premier Foods saw the biggest fall in its EV/EBITDA multiple across all the companies monitored by Gambit. Its share price dropped by almost a third between Q2 2014 and Q3 2014 and was down 70% on this time last year to a near 3 year low. Recently released trading figures have shown a further decline in sales in its third quarter trading results. Premier Foods has been particularly hampered by the challenges facing the UK's major retail multiples.
- Associated British Foods and Dairy Crest also experienced a noticeable fall in their EV/EBITDA multiples, with both being affected by falling commodity prices.
- Tesco saw its share price fall by more than a third in Q3 2014 and by over 10% on the day when it announced it had overstated its half-year profits by an estimated £250m. Following an internal investigation, the overstatement was revised to £263m. In the wake of the announcement, its share price hit an eleven year low and according to data from Kantar Worldpanel, its market share has also shrunk to its lowest level in almost a decade. To add to Tesco's woes, its financial irregularities are now being investigated by the Serious Fraud Office. Can the new management team turn the business around or is it inevitable it will become the focus of a potential take over?

	Enterprise Value (£m)	EV/EBITDA
Food Manufacturers		
Associated British Foods	22,283	13.94x
Dairy Crest Group	663	7.80x
Finsbury Food Group	51	4.73x
Glanbia	3,001	17.84x
Greencore Group	1,219	11.97x
Kerry Group	8,512	15.29x
Premier Foods	873	9.13x
Unilever	81,303	12.50x
Food Manufacturers Average		11.65x
Non-Alcoholic Beverages		
A.G.Barr	716	15.01x
Britvic	2,169	12.09x
Coca-Cola	764	10.31x
Nichols	332	13.99x
Non-Alcoholic Beverages Average		12.85x
Alcoholic Beverages		
C&C Group	1,227	10.05x
Diageo	54,340	15.96x
SABMiller	64,726	19.81x
Alcoholic Beverages Average		15.27x
Food Retailers		
Tesco	23,308	5.16x
Wm. Morrison	6,536	6.72x
J. Sainsbury	6,067	4.18x
Food Retailers Average		5.35x

UK Food & Beverage Deal Volumes



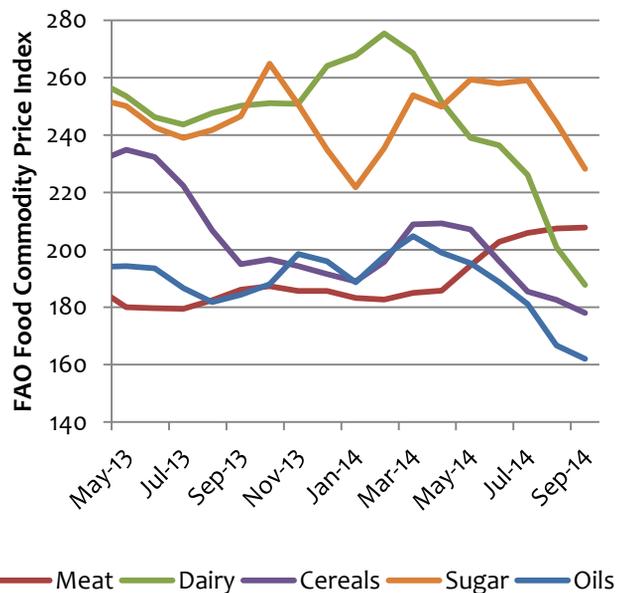
Q3/2014 UK Food & Beverage Deals by Sector



- Overall deal volumes in the food and beverage sector have remained stagnant in Q3 2014 and hit their lowest level for a number of quarters. Total deal values in Q3 2014 were also significantly down, reflecting a lack of larger deals being done in the quarter.
- A number of the UK's larger food and beverage corporates are sitting on significant cash reserves and have acquisition strategies in place but they are struggling to find suitable available targets, which is a major contributor to the reduction in deal volumes.
- Given the recent reduction in the IMF growth forecast and volatility in the stock market, we would expect that a number of planned food and beverage IPOs will be deferred or owners may seek an alternative exit route. This has already been highlighted in recent announcement that United Biscuits is to be sold to Turkish food giant Yildiz. It is understood that until recently a public listing was the preferred option for private equity owners Blackstone and PAI.
- One of the most significant deals in Q3 2014 was the sale by DCC of its Robert Roberts and Kelkin businesses to private equity backed Valeo Foods. The consideration for the deal was £47 million, which represents an EV/EBIT multiple of approximately 7.6x. It is expected that DCC will dispose of its remaining food and beverage interests in due course.
- Other notable deals in Q3 2014 include the management buy-out of Enterprise Foods Limited for a consideration of around £30 million and the acquisition by Pork Farms Limited of the chilled savoury pastry assets of Kerry Foods.

Commodity Prices

- With the exception of meat, there were significant decreases in all of the FAO Food Indices. Prices are being pushed down by the increasing supply of most commodities, a weakening global economy and a reduction in demand from China.
- The FAO meat index rose by 2.5% quarter on quarter with meat prices reaching historic highs. However, with prices stabilising in August, the FAO has suggested that prices may have reached their peak.
- There was a fall of almost 21% in the FAO dairy index quarter on quarter. Recent Russian sanctions on European Union dairy exports and abundant export availability are pushing prices downwards.
- In September 2014 the FAO Cereal index dropped for the fifth consecutive month. Bumper global harvests were the biggest contributor to the fall in prices.
- The IMF has indicated that futures markets show agricultural commodity prices trending upwards with the exception of rice.



The Evolution of the Bakery Market

The bakery market is evolving. The humble loaf of bread is no longer our only option when it comes to making purchases. Bread has been adapted for children, for the convenience of parents and comes in an endless number of varieties which are designed to give consumers choice. More recently, there has been an influx in the levels of health conscious individuals. Consumers want products that provide them with healthy alternatives and, as a result, there has been a growing improvement and greater innovation of products that cater to consumers' diets and food intolerances.

The Free From sector in particular has seen double digit growth figures (1), with an additional 20% of households now buying Free From bakery products (2). Moreover, 55% of purchasers do not actually suffer from or live with anyone who has an allergy or intolerance, they simply prefer this as a bread alternative (3). This has largely been driven by consumers' demand for quality, and a desire for a wider range of products.

Warburtons has responded to this consumer demand and over time has launched a number of gluten and wheat free alternatives under the Newburn Bakehouse brand, including Square Wraps, which launched in March 2013 and Sandwich Thins, which launched in January 2014. The Sandwich Alternatives range has seen the largest growth in the Free From market, with Newburn Bakehouse Wraps contributing to 70% of its overall sales in this category (4). Most recently Newburn Bakehouse is raising the bar on bread quality launching a new range of Farmhouse loaves and soft rolls into retailers in October 2014, offering improved quality, softness and nutrition.

Newburn Bakehouse has become a key industry leader in the Free From market, and has begun to respond further to the increasing demand of Free From products by consumers. As well as strong listings in multiple grocery main estates, the launch of gluten free White and Seeded Thins into Tesco Express in September 2013 was an important milestone, opening up availability in the Free From market. Newburn Bakehouse products are now available in 1,000 Tesco Express and 160 Sainsbury's local stores.

These successful launches have proved that there is a demand for gluten free, wheat free and dairy free products within the convenience sector. Retailers and brands are beginning to dedicate more shelf space to these products and are starting to recognise that there are huge potential growth opportunities in the future. Yet despite the fact that 73% of people are choosing their supermarket based on their range of gluten free products (5), convenience stores still remain relatively untapped for the Free From market.

In addition to the convenience sector, there is also a growing demand for Free From products in the foodservice sector. As well as launching 12 new products in the last year, Warburtons' Newburn Bakehouse has responded to this demand by becoming a part of the Foodservice channel. This has seen its Newburn Bakehouse wraps now available in Starbucks, Costa, Pret and URBAN Eat. The UK's eating out market is set for more growth, with an additional £10 billion predicted to be added in value. There has also been an 85% increase in people searching for gluten-free restaurants.

Whilst gluten free is still relatively underserved in the foodservice market, it is clear that there is an increasing demand for this to change. The above statistics suggest that there is room for food producers to develop a more comprehensive range. It will be Warburtons' future focus to continue to cater to the changing and rising consumer expectations. We want to expand our dairy free range even further and will strive to continue to offer choice and great taste to families across the UK.

References

- (1) Mintel Meat-free and Free-from foods- UK- September 2013
- (2) Kantar Worldpanel: Free From Bakery, 52 w/e 27-Apr-14
- (3) You Gov, Understanding food allergies and intolerances – the consumer viewpoint, 2014
- (4) Nielsen Units data up to 1st February 2014
- (5) Coeliac UK



Chris Hook
Free From Business Director,
Newburn Bakehouse

“ The Free From sector in particular has seen double digit growth figures ”

“ Gluten free is still relatively underserved in the foodservice market ”



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.



Frank Holmes
Partner
+(0) 77 6825 5194
Jfrank.holmes@gambitcf.com



Andrew Charter
Director
+(0) 77 8714 8208
andrew.charter@gambitcf.com



Geraint Rowe
Partner
+(0) 78 9992 8029
geraint.rowe@gambitcf.com



Matthew Wood
Executive
+(0) 79 1238 9671
matthew.wood@gambitcf.com

Our team would be delighted to meet with you to discuss our experiences in the sector and to answer any questions you may have on the current M&A market.



About us

Gambit is an independent corporate finance advisory firm specialising in advising private and public companies on mid-market transactions in the UK and overseas.

We are 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.

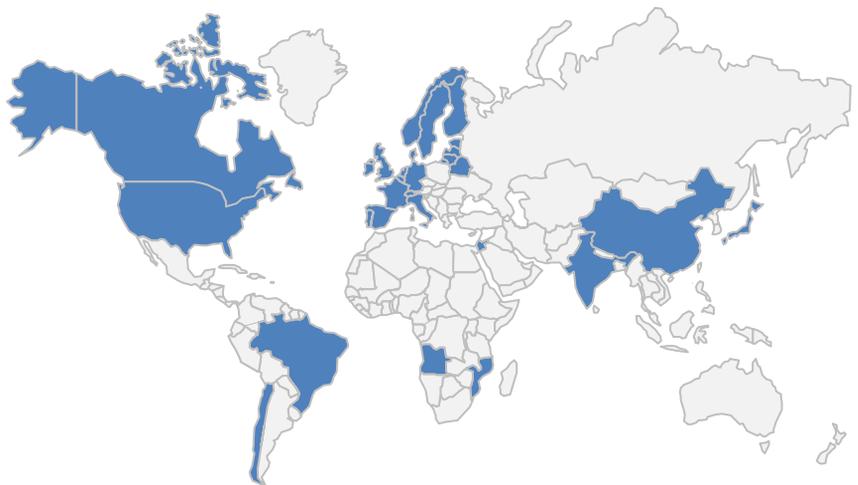
Mergers & Acquisitions ~ Disposals ~ Management Buy-Outs
Fundraising ~ Financial Restructuring ~ Strategic Advice and Consultancy

London Office
23 Berkeley Square
London, W1J 6HE

Cardiff Office
3 Assembly Square, Britannia Quay,
Cardiff, CF10 4PL

Our International Presence

We are the sole UK representative of Corporate Finance International, a global partnership of leading mid-market investment banking firms with members in North America, Western & Eastern Europe and Asia. (www.thecfigroup.com)



For more information, visit www.gambitcf.com

This market overview is not an offer to sell or solicit an offer to buy any security. It is not intended to be directed to investors as a basis for making an investment decision. This market overview does not rate or recommend securities of individual companies, nor does it contain sufficient information upon which to make an investment decision.

The information provided in this market overview was obtained from sources believed to be reliable, but its accuracy cannot be guaranteed. It is not to be construed as legal, accounting, financial, or investment advice. Information, opinions, and estimates reflect Gambit Corporate Finance LLP's judgment as of the date of publication and are subject to change without notice. Gambit Corporate Finance LLP undertakes no obligation to notify any recipient of this market overview of any such change.

The charts and graphs used in this market overview have been compiled by Gambit Corporate Finance LLP solely for illustrative purposes.

This market overview is not directed to, or intended for distribution to, any person in any jurisdiction where such distribution would be contrary to law or regulation, or which would subject Gambit Corporate Finance LLP to licensing or registration requirements in such jurisdiction.