

# Food Supplement

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Summer 2013

Welcome to the Summer edition of our quarterly food and beverage review, "Food Supplement". Each quarter we comment on some of the latest issues affecting the food and beverage industry along with our review of current M&A activity and any resulting trends that appear.

In this edition we take a look at the new front of pack food labelling scheme recently introduced by the UK Government. We also provide analysis of M&A activity during the second quarter of 2013 and we review the latest middle market transaction completed by Gambit's food and beverage team.



Adrian Jones  
Partner, Food & Beverage

### Hot Topic - Food Labelling Changes

The UK Government recently launched its nutrition labelling scheme which will appear on front of pack. The new labelling will use a combination of colour coding and nutritional information to clearly show the levels of fat, saturated fat, sugar and salts. It is designed to give the consumers much clearer guidance on the nutritional content of food products. The UK Government claims it will reduce the confusion that the consumer has been facing because of the myriad of labelling systems currently in place.

All of the major supermarkets and companies such as Premier Foods, Nestle UK, Mars UK, McCain Foods and PepsiCo UK have all pledged their support for the scheme. Many health campaigners, consumer groups and charities including The British Heart Foundation, Children's Food Campaign and Diabetes UK have welcomed the introduction of the new labelling scheme. Richard Lloyd of consumer group Which? said it was a "big step forward". It is argued that a clear and consistent system of food labelling would help combat obesity which is a significant problem in the UK, estimated to cost the NHS £5 billion a year.

However, not everyone is happy. It is estimated that only 60 per cent of food products will end up in the new system because it is being introduced purely on a voluntary basis. Unfortunately mandatory regulations require agreement on a European level. Companies such as Cadbury, Coca-Cola, Unilever, Heinz and United Biscuits have held back from adopting the scheme. United Biscuits commented that "The colour scheme is based on 100g, which is the same as seven digestives. Very few people would actually eat that many at a time". United Biscuits said that it had chosen to give information by biscuit rather than by weight because this makes more sense to consumers. Cadbury and Coca-Cola both issued statements that they preferred the existing method of guideline daily amounts.

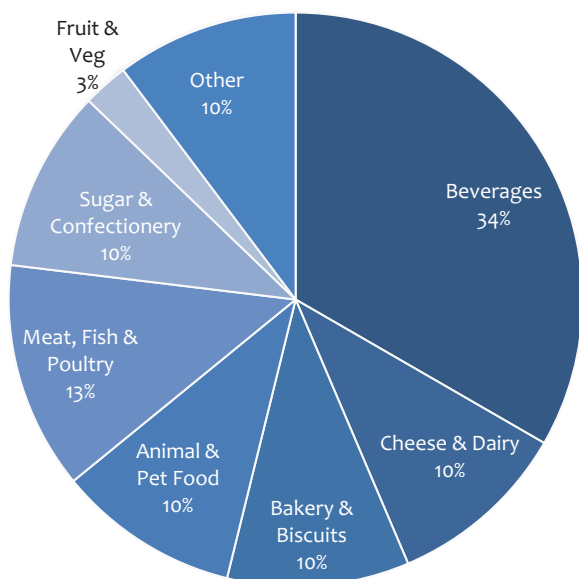
The Food & Drink Federation, which represents many of the major food brands, commented that their members are committed to continuing to provide front of pack nutrition labelling and have voluntarily provided this information for many years in the UK but that each company had many factors to consider before deciding whether to adopt the new labelling.

Clearly those adopting the new labelling scheme will have to swallow the cost of doing so. But not complying could also be risky with the Children's Food Campaign already calling for those companies not complying to be named and shamed. Manufacturers will need to consider carefully not just the costs of adopting the new labelling system, but they also need to consider the intangible costs of not adopting the new system.

# M&A Activity Review

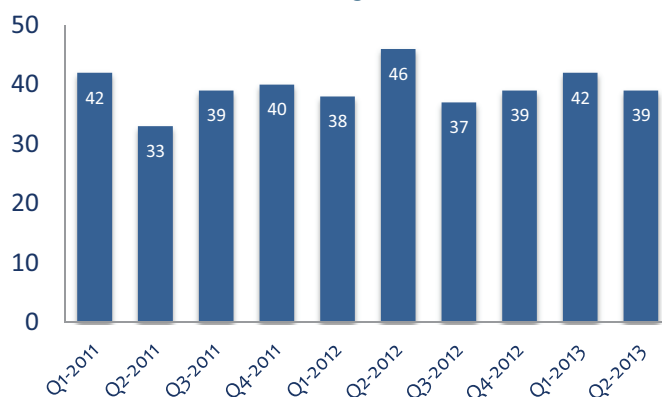
- Announced deal volumes in Q2 2013 remained fairly consistent falling slightly from 42 in Q1 2013 to 39 this quarter.
- Average announced deal values fell for the second quarter running and are considerably down on the average deal values seen at the end of 2012.
- There was a significant amount of private equity activity in the quarter, most notably the purchase of R&R Ice Cream by PAI Partners for a reported £716 million from Oaktree Capital. During the quarter there were three other transactions involving private equity acquirers.
- Other deals announced in Q2 2013 worthy of note include:
  - Warburtons made its first acquisition for 20 years as it purchased speciality bread and pastry manufacturer Giles Foods for an undisclosed amount.
  - Whisky firm Burn Stewart Distillers has been acquired by South African drinks group Distell for £160 million.
- The trend of large corporates looking to dispose of non-core brands appears to be continuing with rumours that Unilever look to be focusing on fewer, bigger brands. It is understood that they are seeking buyers for their meat snack brand, Pepperami. After a strategic review GlaxoSmithKline has also said they are looking to divest their two consumer drinks brands, Lucozade and Ribena.

## Q2/2013 UK Food & Beverage Deals by Sector

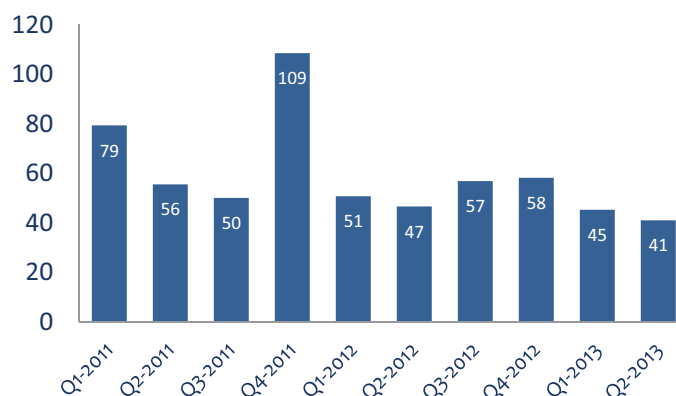


## Quarterly Food & Beverage Review

### Food & Beverage Deal Volumes



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



\*Average transaction value for all deals with disclosed values under £500 million

Valuation Parameters	Q4/2012	Q1/2013	Q2/2013
<b>Food Manufacturers</b>	<b>EV/EBITDA</b>	<b>EV/EBITDA</b>	<b>EV/EBITDA</b>
Associated British Foods	9.37x	11.17x	9.60x
Dairy Crest Group	4.40x	4.85x	7.27x
Finsbury Food Group	4.71x	4.61x	5.10x
Glanbia	12.39x	13.26x	17.65x
Greencore Group	7.63x	7.85x	8.26x
Kerry Group	13.46x	15.63x	13.53x
Unilever	11.43x	12.85x	12.33x
<b>Average</b>	<b>9.06x</b>	<b>10.03x</b>	<b>10.53x</b>
<b>Beverage Manufacturers</b>			
AG BARR	14.53x	16.25x	14.58x
Britvic	8.92x	10.58x	11.21x
C&C Group	11.21x	13.15x	11.13x
Coca-Cola	7.56x	7.80x	7.90x
Diageo	15.24x	16.57x	15.25x
Nichols	14.86x	15.32x	16.62x
SABMiller	16.86x	20.64x	17.08x
<b>Average</b>	<b>12.74x</b>	<b>14.33x</b>	<b>13.40x</b>

## Food Brands Group sold to Löffbergs Lila



Gambit Corporate Finance LLP acted as lead adviser to the shareholders on the sale of Food Brands Group (Holdings) Limited to Swedish domiciled Löffbergs Lila AB. Food Brands' shareholders included Electra Partners LLP and management.

Founded in 1983, Food Brands Group owns and distributes a number of coffee and related brands in the UK market. It owns the foremost UK super-premium quality Fairtrade coffee brand, Percol, a range of 11 roast and ground and eight instant coffee product lines which are widely distributed in the UK through all leading retail supermarket chains. It also owns the Rocket Fuel brand, an innovative range of caffeine enriched, guarana based hot coffee and chocolate energy drinks.

In the past 10 years, Food Brands has won over 40 industry awards for taste and quality, including a number of Great Taste awards. It has also won the "Business in the Community" award for six consecutive years, the maximum permitted.

Löffbergs, a major supplier to Food Brands, is one of the largest coffee roasters in the Nordic region and is one of the world's largest importers of ecological and Fairtrade labelled coffees. Löffbergs' turnover exceeds €200 million per annum.

Gambit's team, which has significant experience in the food and beverage sector and with private equity transactions, was led by Geraint Rowe, Andrew Charter and Adrian Jones.

Brian Chapman, Managing Director of Food Brands, commented, "Gambit worked hard to successfully meet the shareholders' objectives while at the same time being very supportive of Food Brands' management to ensure it was business as usual."

Oliver Huntsman, Investment Director at Electra Partners LLP, stated "We were very pleased with the outcome and were extremely impressed by the commerciality, level of support and assistance received from the entire Gambit team throughout all aspects of the transaction."

Geraint Rowe, Partner, commented, "The premium and super-premium coffee sector is the fastest growing sector of the UK hot beverage market. These strong market demographics resulted in a considerable level of interest in the company from a number of overseas purchasers seeking to access the important UK retail market."

Andrew Charter, Director, commented, "Food Brands is a very well-run business which has created an exceptional brand position and reputation for premium products with an impressive level of product listings with the UK's leading supermarket chains. These factors made Food Brands a very attractive opportunity for Löffbergs."

## 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.



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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.

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