

Food Supplement

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Welcome to our quarterly food and beverage market review. In this edition we explore the value of British provenance and provide an analysis of M&A activity during the final quarter of 2013 and key highlights from 2013. This quarter's edition also features a guest article from Andrew Lord, former director of Serious Food Group and Noble Food Group.



Adrian Jones
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Hot Topic: The value of British provenance?

There are many advantages to buying British. When buying British meat you can be assured of much higher standards of animal welfare than in most other countries. Buying British usually means fewer food miles and supporting our farmers. Our flag is synonymous with quality and world leading food standards.

Before we get patriotic and sing our national anthem, does the idea of buying British really appeal more to the consumer than the reality? When does provenance and quality overtake price? Do we lower our provenance standards when times become tougher?

Consumers making purchasing decisions at the value end of the market are less concerned with local provenance and ethical considerations and are more price focused. Consumers tend to trade up on items where an ethical or sourcing concern is prevalent. According to a recent YouGov Sixth Sense Food Provenance Survey the categories most likely to come under scrutiny are poultry, red meat and eggs, with well over half of consumers regarding origin as important or very important for these foods.

Between 2001 and 2007 ethical considerations and food provenance featured heavily in consumer buying habits and people were willing to pay a premium. Following the recession in 2008, household incomes were squeezed and consumers redirected their priorities towards price. However, the horse meat scandal, which broke in January 2013, has put the spotlight once again on food provenance. In a survey conducted by consumer researchers IGD, 56% of all those surveyed wanted to know more about where their food originates. This is compared to 34% who responded to the same question in 2011.

Price, though important, is failing to provide enough of a differentiating factor for retailers any more and for provenance read "reputation". Most of the major retailers responded swiftly following the horse meat crisis, keen to highlight their British credentials. Tesco launched its Love Every Mouthful campaign to highlight links to fresh food and Morrisons launched its high profile TV advertising campaign featuring quality products from its own British farms.

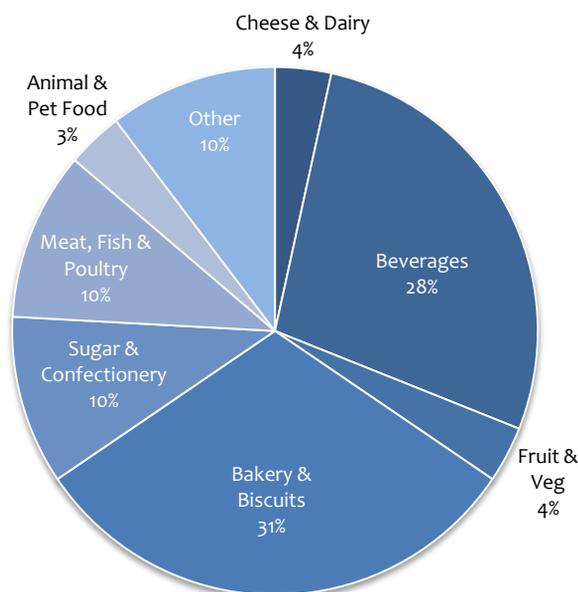
For Waitrose, food provenance has always been critical and it may not be a coincidence that in the first Christmas following the horse meat scandal, the premium food retailer has experienced its most successful Christmas ever with like-for-like sales over the five-week Christmas trading period up by 4.1%. Waitrose's results underlined the fact that more and more consumers were looking to trade up with its Heston label growing by 46.4%, Seriously by 22.7% and Duchy by 9.2%.

So is provenance such a valuable card or is it a convenient mask when retailer reputation is on the line? What is abundantly clear is that consumers are prepared to respond when food quality is in question. Media coverage, however repetitive it is these days, has helped consumers realise that how they spend their money can have an impact on business decisions and this has led to an increased attraction to heritage and independent food brands. Of course this is not just from consumers as we are also seeing it from potential acquirers of F&B businesses both nationally and internationally.

M&A Activity Review

- After a solid start to 2013, deal volumes in the second half of 2013 were rather subdued falling by 19% between Q3 2013 and Q4 2013.
- Average deal size in Q4 2013 increased by £32 million compared to Q3 2013. However, this was distorted by the £350 million acquisition of Burton's Biscuits, maker of Wagon Wheels and Jammie Dodgers, by the Canadian based Ontario Teachers' Pension Fund.
- Much of the activity in 2013 focused on the realignment of the portfolios of the large corporates. Premier Foods completed the sale of its sweet pickles and table sauces business, while Unilever announced the disposal of its Wish-Bone dressings and Skippy peanut butter businesses.
- The largest UK food and beverage deal of 2013 was the sale by GlaxoSmithKline of its Lucozade and Ribena drinks brands to Japanese company Suntory Beverage & Food in a deal worth £1.35 billion.
- Private equity appeared to regain its appetite for investment in the food and beverage sector in 2013. This started off in some style with the \$28 billion acquisition of Heinz by Warren Buffett's Berkshire Hathaway fund and private equity firm 3G Capital. Other significant private equity deals in 2013 included the acquisition of Tyrrells by Investcorp and the acquisition of Whitworths by Equistone Partners.
- With the debt lending market beginning to reopen, albeit tentatively, both trade and private equity buyers may find it slightly easier to justify inflated multiples in the future than we have seen previously. We expect this to be much more likely for well sought after branded assets where competition is likely to be more prevalent and where suitors will be less willing to accept being outbid.

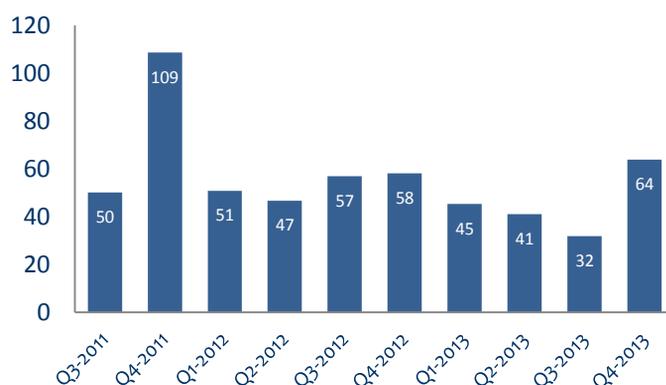
Q4/2013 UK Food & Beverage Deals by Sector



Food & Beverage Deal Volumes



Food & Beverage Average Deal Size (£m)*



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

Valuation Parameters	Q2/2013	Q3/2013	Q4/2013
Food Manufacturers	EV/EBITDA	EV/EBITDA	EV/EBITDA
Associated British Foods	9.60x	10.29x	12.67x
Dairy Crest Group	7.27x	7.28x	10.22x
Finsbury Food Group	5.10x	3.99x	4.60x
Glanbia	17.65x	15.84x	17.97x
Greencore Group	8.26x	8.80x	11.35x
Kerry Group	13.53x	13.04x	14.34x
Unilever	12.33x	11.21x	11.38x
Average	10.53x	10.06x	11.79x
Beverage Manufacturers			
AG BARR	14.58x	14.46x	15.47x
Britvic	11.21x	12.16x	12.43x
C&C Group	11.13x	10.49x	10.88x
Coca-Cola	7.90x	7.42x	8.67x
Diageo	15.25x	15.28x	15.54x
Nichols	16.62x	19.64x	19.11x
SABMiller	17.08x	16.64x	17.75x
Average	13.40x	13.73x	14.26x

Reversing the decline in the consumption of British food

In 2012 only just over 50% of the food consumed in the UK originated here (DEFRA) and this figure has been in steady decline since the 1980s. The astronomical rise of the discounters reflects the consumers' demands for cheaper and cheaper food. With input costs across all areas of the supply chain rising, the multiples have been forced to look overseas to source their products where costs are cheaper in order to maintain their market share.

The discovery of horse meat in the UK supply chain threw the media spotlight onto the provenance of food. Consumers have become acutely aware of food safety issues and are starting to pay more attention to how they spend their money. This has created an opportunity for smaller independent British food businesses to align themselves with being British.

Increasingly, consumers are buying into brands that have developed a strong sense of authenticity and a sense of local provenance. Smaller companies are well placed to capitalise on these trends with the consumers' tendency to trust locally sourced produce. In fact, SMEs may find it easier to operate within the local market than their larger rivals due to their smaller requirements in terms of raw materials. Provenance has become a major area of growth and a differentiator which can outweigh the promotions offered by the multiple retailers.

A recent poll by Ipsos Mori, run in partnership with The Grocer magazine, has shown that almost a third of respondents said the horse meat incident had "permanently impacted" the way in which they chose and bought food. In addition, a recent survey conducted on behalf of Which?, found that 17% of respondents said that they bought more products from butchers and farmers' markets.

Retailers, both large and small, should permanently embrace the opportunity to emotionally connect and work in partnership with consumers to support the British economy by sourcing British produce and actively encouraging the use of British sourced ingredients. Some of the multiples have successfully introduced schemes in which a small premium goes directly to the British producer, demonstrating a willingness on the part of the consumer to prefer British.

Although price increases will not help their market share in the short term, as the economy improves, suppliers and retailers alike could reap the rewards as consumers continue to buy British. By reinforcing the appreciation amongst consumers of the links between cost, quality and provenance, there is a tremendous opportunity to reverse the decline in the consumption of British food and in so doing, benefit the entire British food supply chain, from producer to retailer. Rule Britannia!!



Andrew Lord

Former Director of Serious Food Group & Noble Food Group

Winter Newsreel

- Produce Investments PLC, the parent company of one of the UK's biggest potato producers, has reported that it is in talks to acquire Jersey Royal Company, one of the country's largest producers of the famous Jersey Royal potato.
- Canned food manufacturer Princes posted record results with sales rising 15 per cent to £1.74 billion in the year to March 31 with its post-tax profits growing from £31.1 million to £40.4 million. Sales outside the UK grew by 25% to £350 million, meaning that a fifth of the company's sales are now overseas. The company has attributed the uplift to organic growth in its core markets and the successful integration of acquisitions made during the year.
- Professor of Clinical Epidemiology at the University of Liverpool, UK, Simon Capewell has said that, "Sugar is the new tobacco". Health chiefs have called on food giants to cut levels by a third.
- A year on from the horse meat scandal the FSA are about to start testing a range of foods for their provenance. Due to the increasing importance being placed on the origin of certain food items by the consumer, the FSA feels that there is a risk of non-UK foods being sold as British.
- Online grocery shopping in the UK is growing at a rate of about 16%. Tesco launched their Tesco.com service 14 years ago, however Morrisons did not make its first online delivery until January this year after reporting disastrous Christmas trading results which it has partly blamed on its lack of an online presence.

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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