

Quarterly M&A Market Review

For additional information or enquiries, please contact one of our Food & Beverage team members:

Geraint Rowe
Partner, Food & Beverage
O: +44 (0) 29 2047 5500
M: +44 (0) 78 9992 8029
geraint.rowe@gambitcf.com

Adrian Jones
Partner, Food & Beverage
O: +44 (0) 121 262 4062
M: +44 (0) 78 9990 5614
adrian.jones@gambitcf.com

Andrew Charter
Director, Food & Beverage
O: +44 (0) 29 2047 5500
M: +44 (0) 77 8714 8208
andrew.charter@gambitcf.com

Food & Beverage

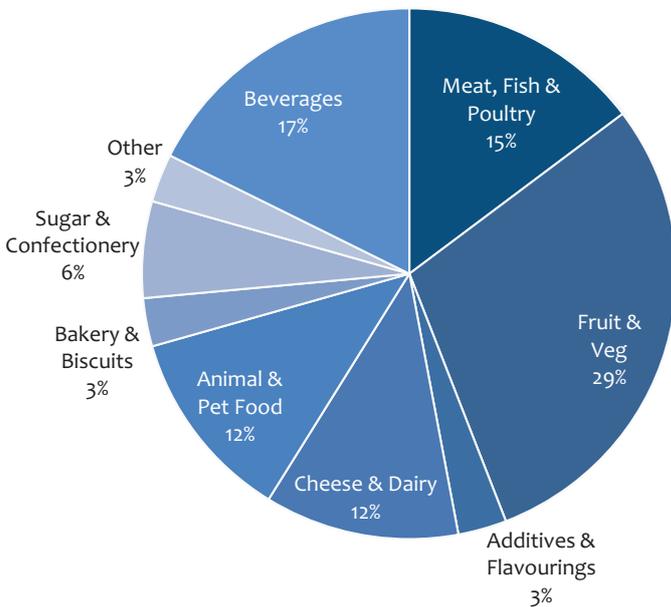
Q2 2012

UK Food & Beverage Industry Overview

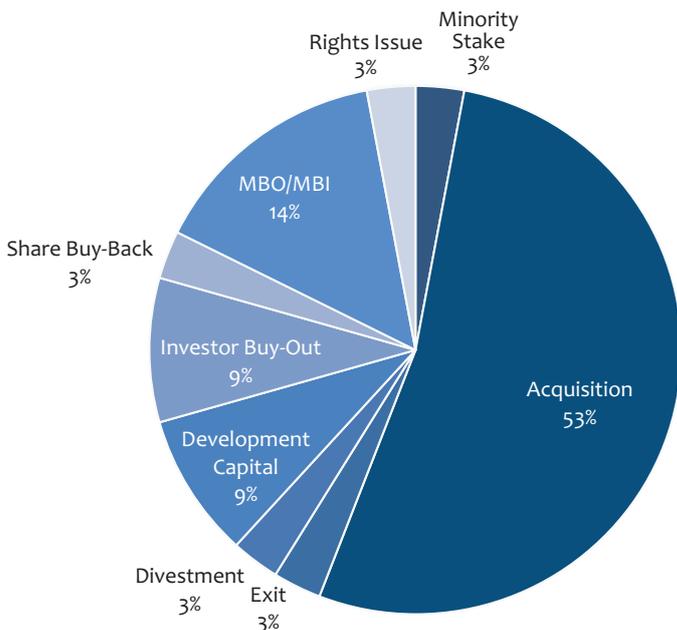
Summary: If you are a mid-market Food & Beverage company seeking.....

- **To sell:** There has been an increase in both the average deal size and deal volumes in Q2/2012. These factors, along with an increase in corporate valuation multiples in the sector, should result in a positive effect on private company valuation multiples.
- **Private Equity:** The benefits of well established markets and predictable returns in the food and beverage industry means that UK private equity houses are repeatedly looking to invest in the sector.
- **Financing:** With pressure from the Government and a stabilising of liquidity within the debt markets, banks have become more willing to lend to companies with strong balance sheets, proven business models and strong cash generation.

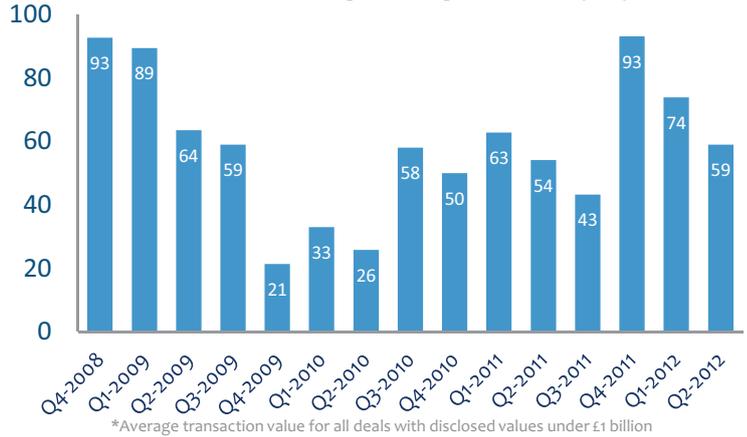
Q2/2012 UK Food & Beverage Deals by Sector



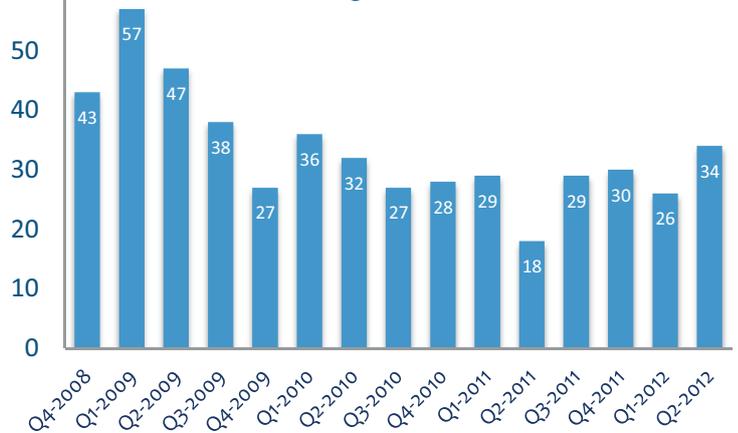
Q2/2012 UK Food & Beverage Deals by Deal Type



Food & Beverage Average Deal Size (£m)*



Food & Beverage Deal Volumes



M&A Highlights

- The average deal size for Q2/2012 was £59 million, an increase on normalised levels to Q4/2011 and Q1/2012. There were two deals in Q1/2012 that materially influenced the average deal size. Namely the acquisitions of Meta Abo Brewery by Diageo and Robert Wiseman Dairies by Muller. There was also a large distortion in Q4/2011 due to the acquisition of RBS' Galaxy Pub Estate by Heineken. Excluding these deals the normalised average deal size in Q4/2011 and Q1/2012 would have been £38 million and £18 million respectively.
- Although deal volumes still remain some way off pre-recession levels, Q2/2012 has produced the largest number of transactions since Q1/2010, which has continued a general upward trend since the first half of 2010.
- 2012 has got off to a strong start with 60 deals being announced already this year, compared with 47 at the same point last year. Despite this, trading conditions still remain tough.
- Acquisitions accounted for 53% of all food and beverage transactions in Q2/2012. Acquisitions are often the quickest and lowest risk route to expand and achieve economies of scale which are vital for companies to remain competitive in the food and beverage industry.
- There were a number of significant deals during the quarter:
 - Indian leisure company India Hospitality Corp acquired the UK's Adelle Food, a manufacturer and distributor of ready to eat food products to retail chains, for a consideration of £221 million.
 - Dairy Crest disposed of its highly profitable St Hubert spreads business which it sold to Montagu Private Equity for £347 million.
 - Japan's Mizkan Group acquired Premier Foods Sarson's, Hayward pickled onion and Dufrais vinegar brands for a consideration of £41 million.
- M&A activity is expected to increase as a result of increasing cost pressures, new consolidation opportunities and the weak liquidity position of many small companies.

Feature:

Foreign investment in the UK food and beverage industry

British brands have grown internationally by exploiting their reputation for ingenuity, heritage, design and quality, making them sought after targets for foreign investors. There has always been a steady stream of foreign investment in UK food and beverage entities but during the first six months of 2012 there has been a noticeable increase in the number of foreign companies making significant acquisitions of UK food and beverage entities.

One of the most significant was the acquisition of a controlling stake in breakfast cereal maker, Weetabix, by China's Bright Food Group. The largest single investment from a Chinese firm in the overseas food and beverage market. The acquisition will give Bright access to technical and product development capability that will help it grow both at home and overseas. Within a month of the Weetabix deal, another Asian buyer, Japan's Mizkan Group acquired Premier Foods Sarson's, Hayward pickled onion and Dufrais vinegar brands. These deals could set a precedent for other Asian companies.

Food analysts in China are suggesting that Western eating habits are beginning to catch on in Asia, with millions of aspirational consumers seeking non-Asian iconic brands. This should make strong Western brands highly sought after by Asian purchasers.

With supermarkets continuing to reduce prices, the drive for efficiency is paramount. This could see smaller firms becoming targets of larger foreign companies which have the financial resources to consolidate. This was likely to have been a strong motivating factor behind the acquisition of Robert Wiseman Dairies, the UK's leading milk supplier, by the German owned Muller Dairy for a consideration of £279.5 million. The deal gives Muller greater purchasing power in the UK's highly competitive liquid milk sector and also strengthens its position with the supermarkets.

There has also been a number of other instances of foreign companies making notable acquisitions of UK food and beverage entities in the first part of 2012. Tangerine, which is owned by US private equity group Blackstone acquired the York Fruits and Smith Kendon Travel Sweets brand for an undisclosed sum. Indian leisure company India Hospitality Corp acquired the UK's Adelle Food for £221 million to try and exploit the rising demand among the Indian middle classes for quality fast food products. There was also the acquisition by the US company Kellogg of Procter and Gamble's Pringle business for a consideration of £1.8 billion. This deal has further strengthened its position in global snacks, making Kellogg the world's second largest savoury snacks business.

There were a number of different motivating factors behind these deals. The Mizkan transaction was driven by the desire to acquire strong brands, the Bright Food's transaction with Weetabix by the acquisition of leading UK manufacturing capabilities, and the Muller acquisition of Robert Wiseman by the opportunity to consolidate supply chains. There is clearly an increased appetite amongst American, Asian and Middle Eastern entities to invest in UK food and beverage companies. With UK brands under economic pressure, the completion of an acquisition brings with it cash and economic stability.

Valuation Parameters:	Q3/2011	Q4/2011	Q1/2012	Q2/2012
Food Manufacturers	EV / EBITDA	EV/EBITDA	EV/EBITDA	EV/EBITDA
Associated British Foods	8.51x	8.61x	7.36x	9.52x
Dairy Crest Group	5.76x	5.51x	6.06x	5.59x
Finsbury Food Group	3.79x	4.11x	3.97x	4.54x
Glanbia	8.75x	8.75x	9.43x	10.05x
Greencore Group	6.39x	6.44x	6.20x	7.76x
Kerry Group	8.68x	8.68x	9.38x	12.13x
Unilever	10.69x	10.64x	9.84x	11.03x
Average – food manufacturers	7.51x	7.53xx	7.46x	8.66x
Beverage Manufacturers				
AG BARR	11.58x	11.59x	12.02x	11.98x
Britvic	7.62x	7.78x	8.16x	7.92x
C&C Group	7.72x	7.19x	8.57x	7.47x
Coca-Cola	7.33x	7.33x	7.39x	8.22x
Diageo	13.18x	13.18x	12.75x	16.67x
Nichols	11.10x	11.10x	9.72x	12.97x
SABMiller	13.34x	12.46x	14.12x	16.80x
Average – beverage manufacturers	10.27x	10.09x	10.39x	11.72x

Commentary

Average EV/EBITDA multiples for both food and beverage manufacturers monitored by Gambit have seen a noticeable increase on Q1/2012. The average valuation multiple for food manufacturers increased by 16% between Q1/2012 and Q2/2012. In contrast Dairy Crest which disposed of its high EBITDA business St Hubert in Q2/2012 saw its multiple decrease from 6.06x in Q1/2012 to 5.59x in Q2/2012. The average EV/EBITDA multiple for beverage manufacturers has increased from 10.39x in Q1/2012 to 11.72x for Q2/2012. With strengthening liquidity in private and public companies and an increase in the average EV/EBITDA multiples monitored by Gambit, the outlook is favourable for valuations of mid-market food and beverage companies which will have a positive impact on the transaction environment.

Selling Your Business? What You Should Know...

A company sale is more than a business transaction – it is a life transition

Gambit Corporate Finance LLP recently set about conducting a survey of business owners who had sold their companies in order to better understand the issues and experiences they had encountered during the transaction.

Specifically, sellers were asked what factors influenced their decision to sell, the profile of the purchaser, how the sale experience differed from their expectations and advice they would give to other owners contemplating the sale of their businesses.

The theme of managing surprises was consistent throughout the interviews. Numerous times, interviewees cited “preparation” as the key to a smooth process and satisfying outcome.

Sellers were also asked to reflect on the most difficult challenges of selling their businesses and to cite issues they wish they had known before beginning the process.

Perhaps the most revealing question we asked former business owners was this: What are the most important pieces of advice you would give to someone contemplating the sale of their business? Answers focused upon three themes:

- 1) Be certain you want to sell the business.
- 2) Assemble a deal team that not only understands your business, but also understands the ins and outs of selling a business. Operating a business demands different skills to selling one.
- 3) Be prepared to give up some control if required to report to someone within a more rigid corporate structure.

The process of selling a business is lengthy and complicated. Consequently, things rarely go perfectly. Sellers should be certain of what they want and stick to their goals. The key to staying on the right road is to have the right individuals on your team and the flexibility to adjust to unforeseen challenges.

If you would like to receive a copy of the full publication it is available in electronic or hard copy upon request.

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 to 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)

Cardiff Office Birmingham Office

3 Assembly Square, Britannia Quay, Colmore Plaza, 20 Colmore Circus,
Cardiff, CF10 4PL Birmingham, B4 6AT
Tel: +44 (0)29 2047 5500 Tel: +44 (0)121 262 4060

For more information, visit www.gambitcf.com

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