Grant Thornton
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Bite Size

Recent activity in the food and beverage sector

Summer 2015

Welcome to the latest edition of 'Bite Size', our quarterly overview of activity in the food and beverage sector. This edition provides analysis of M&A activity in the second quarter of 2015 and looks ahead to the trends we believe will shape the market in the coming months.

In this issue we also take a look at how companies can take advantage of a retrospective billing audit to recover monies they have overpaid on utilities contracts. In addition, we present a case study of how we are helping Aston Manor Cider, one of the world's largest independent cider producers, expand into the Indian market.

We hope that you find this newsletter useful. If you have any further questions or queries, or would like to know how Grant Thornton can help you and your business please do not hesitate to contact me.

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We know how complex the world of retrospective billing audit is.

Could your business benefit?

All businesses are now faced with increased costs – especially the food and beverage sector where the rising cost of utility contracts in recent years has had a direct impact on profit margins. Our clients are increasingly looking at the services of experts who can add significant value to their bottom line in this area. In one typical example, we identified a financial benefit of more than £650,000 from a review of the historical charges of one of the UK's largest and most successful consumer goods companies.

The complex pricing structure in our industry has meant that, inevitably, problems occur within your suppliers' billing platforms. Unknowingly, you may well have been affected at some point during the past six years. Our Cost Assurance team specialises in providing clients with a full health check on all utilities costs incurred from suppliers over the past six years. Our aim is to ensure that your business has only paid for the services you have used. By performing an independent retrospective audit of your billing, we could help your business by:

- Ensuring that bills presented by your suppliers are in line with your contracts and relevant pricing mechanisms
- Ensuring you receive supplier refunds where errors have been made
- Ensuring consequential savings are identified and immediately credited to your account

The errors we find are not traditionally software driven, or items you can identify yourselves. They tend to be more forensic in nature and further down the supply chain, often residing within the suppliers' own billing systems.

Cost Assurance is an increasingly business critical exercise for all industries to perform. Put simply, it ensures that you only pay for those services that you utilise, freeing up funds to reinvest in your business and help it grow. At Grant Thornton, we are helping our clients to recover monies they have been overcharged over the past six years – the UK's Statute of Limitation.

For more information and to find out how we can help you please contact:

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Aston Manor Cider

Read about Aston Manor Brewery's recent trade mission to India and their advice on exporting to the country, please refer to the back page for the story of their success to date.

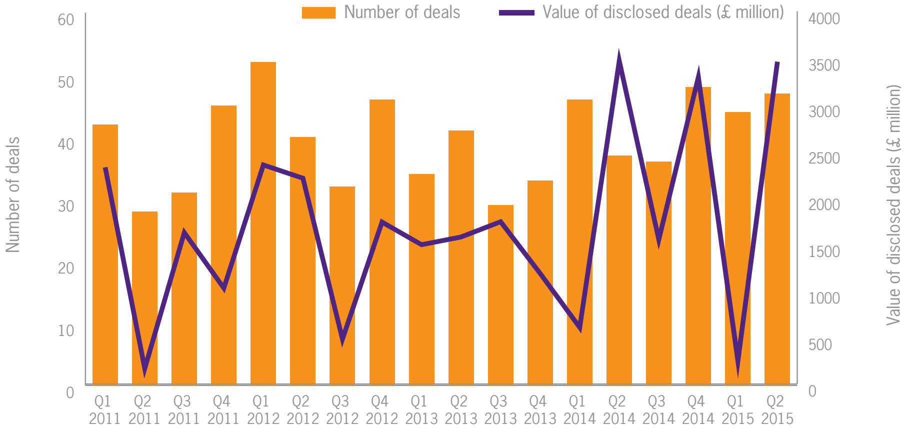
M&A activity – Q2 2015

At the halfway point in the year, M&A in the food and beverage sector has continued on a robust path, supported by both improved global economic conditions and the on-going competitive challenges in the sector. Activity in the lower middle market is healthy as larger companies fill in gaps in their portfolios, while sporadic big-ticket deals also continue to play a role in sector consolidation.

Deal volumes in Q2 2015[1] increased to 47 from 44 in the first quarter and this first half total of 91 transactions compares with 82 transactions in the first half of 2014.

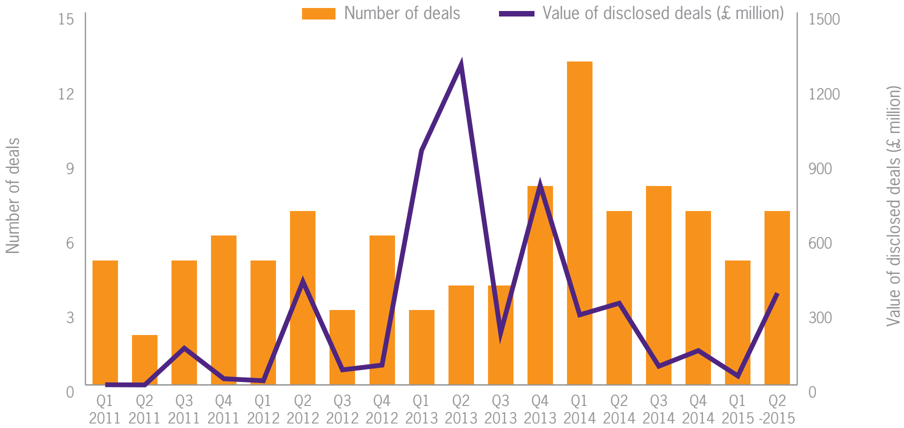
Total Q2 disclosed deal value[2] jumped sharply to £3.38 billion driven by two megadeals, the sale of Iglo Foods to Nomad and the purchase of Moy Park by JBS. The materialisation of megadeals has to be borne in mind when looking at quarter-on-quarter comparisons, but looking at the year-to-date, total disclosed deal value has reached £3.5 billion, an increase of 26% on the same period last year.

Announced M&A activity in food and beverage - quarterly



The spikes in deal values are attributable to: the £1.1 billion acquisition of a stake in United Spirits by Diageo plc, and the £1.3 billion sale of Unilever's Ragu and Bertolli pasta sauce business (Q2 2014); the £2 billion United Biscuits transaction (Q4 2014) and the £1.9 billion Iglo Foods deal (Q2 2015).

Announced PE activity in food and beverage - quarterly



The spike in Q2 2013 deal value is attributable to the £493 million Euro Cater IBO and £715 million R&R Ice Cream IBO; the spike in Q4 2013 deal value is attributable to the £350 million Burton's Biscuit IBO.

Growing overseas appetite

There has been a marked change in the number of overseas companies investing in the UK and Ireland. During the second quarter there were 14 deals with overseas acquirers, with half emanating from Europe, four from the US, and the remainder from Brazil, Japan and the British Virgin Islands. There have been 21 deals with overseas acquirers in the first half of 2015 overall, which compares with 21 for the whole of 2014. This trend towards greater overseas appetite in UK M&A is also supported by the percentage split between domestic and overseas acquirers in total volume, which was running at 51:49 in Q2 compared with 67:33 in 2014.

Megadeals: M&A winning out in the dual track approach

In June, Brazilian food group JBS, the world's largest meat packer, announced that it is to acquire UK-based poultry business Moy Park from fellow Brazilian group Marfrig for £945 million. The deal, which is subject to regulatory approval, will significantly expand JBS's European operations, broadening its portfolio of high value added prepared and convenience products.

Previous owner Marfrig pursued a dual track strategy for the disposal of the UK poultry unit. The dual-track IPO approach, in which a company gauges interest for a public listing, but at the same time looks for outright buyers, is becoming more popular. According to Dealogic, the number of planned listings this year that were subsequently concluded as a private sale had reached nine by mid-June, the highest since records began in 2008. This compares with a total of nine transactions for the whole of last year.

The second quarter's largest deal was the £1.9 billion sale of Permira Capital-backed Iglo Foods (the owner of Birds Eye) to Nomad, a listed investment vehicle set up a year ago by two American consumer goods dealmakers. Nomad has stated that Iglo is the anchor acquisition of the Group and it has a pipeline of further targets in its sights. Nomad plans to create a sizeable European frozen food manufacturing group supplying frozen goods to the UK's major supermarkets as well as exposure to Scandinavia, Spain and France. The company has confirmed that it is in talks to acquire Findus' European frozen foods businesses, known for its Crispy Pancakes and Young's seafood brands.

Sweet cravings

M&A activity in the bakery and confectionery space in recent years has been slightly subdued, in part because of the shift in dietary habits towards healthier foods. Recently, however, there has been a subtle pick-up in M&A in the space, as companies pursue consolidation to meet the challenges of weakening demand, increases in commodity prices and stiffening competition.

The most noteworthy deal in the second quarter in the bakery and confectionery space was the acquisition of ailing British chocolatier Thorntons. Italian family-owned company Ferrero acquired the 70% stake it did not already own for £70 million, equating to a total enterprise value of £132 million. Thorntons has struggled in recent years and many greeted the acquisition by Ferrero with surprise. However, the deal allows Ferrero to access a branded product, expand its UK business, as well as gain a UK manufacturing presence and retail platform. Thorntons has suffered from weak sales in supermarkets and Ferrero will hope to have greater bargaining power thanks to its size and its power brands, particularly Nutella.

Despite the ongoing challenges in the bakery segment as consumers seek healthier solutions, there were a number of transactions in Q2 in the cakes and desserts segment. Valeo Foods, the Irish food products group owned by private equity group CapVest, continued its

Deals summary – Q2 2015

buy-and-build strategy with the acquisition of Balconi, an Italian producer of sponge based cake products, wafers and biscuits, for an estimated €200 million. In the frozen bakery space, IK Investment Partners agreed in June to acquire a majority stake in Cérélia, a French manufacturer of ready-to-bake chilled dough, for an estimated €300 million.

Ongoing squeeze drives significant rise in companies in distress

A major contributor to Thorntons' woes was the on-going battle of the Big Four supermarkets with the discounters, which led to the multiple retailers significantly reducing their volume of stock as well as delays in placing orders and making payments. Thorntons' struggle, however, is the tip of the iceberg and the brutal price war is affecting the entire food industry, down to the smallest food manufacturers through to farmers and independent grocers.

Unsurprisingly perhaps, in the first six months of 2015 the number of companies going into administration or liquidation increased by 178%, compared with the last half of 2014. According to analysis by Grant Thornton, 47 companies went into administration/liquidation at the end of 2014, compared with 131 so far in 2015.

There has also been a corresponding upturn in the number of businesses acquired from administration. Four companies have been acquired from administration in both the first and second quarters of 2015, representing a 50% increase on the last six months of 2014. The large majority of companies being rescued have been small operators in the bakery/confectionery sector and niche companies with strong/heritage brands.

In the bakery sector, Finsbury Food snapped up Johnstone's Just Desserts, a supplier to coffee shops producing desserts such as caramel shortcake. The acquisition allows Finsbury to diversify into a new and growing channel and continue its push into the foodservice 'out of home eating' market. Also in the bakery segment, House of Vantage acquired Bakeaway, a chilled home bakery product manufacturer, out of administration; and London-based corporate restructuring specialists ReSolve acquired Cooplands of Doncaster. In confectionery, whilst Ferrero has secured the future of Thorntons, at the smaller end of the scale Creative Confectionery acquired the business and assets of Cumbria-based chocolate maker J E Wilson & Sons, one of the original makers of Kendal mint-cake.

Private Equity looks abroad

Private equity investment in Q2, of both new stand-alone investments and bolt-on acquisitions to existing portfolio companies, brought seven transactions, compared to five in Q1, and a total disclosed deal value of £406 million. Notably, five of the seven transactions in the last quarter

Large deals with disclosed values (>£250m deal value)

Sector	Date	Target	Acquirer	Deal value (£ million)
Poultry	Jun-15	Moy Park	JBS SA (Brazil)	944.9
Frozen	Apr-15	Iglo Foods	Nomad Holdings	1,865.0

Mid market deals with disclosed values (£50m - £250m deal value)

Sector	Date	Target	Acquirer	Deal value (£ million)
Confectionery	Jun-15	Thorntons plc (70%)	Ferholding UK Ltd/ Ferrero SpA (Italy)	70.0
Frozen/Cake	Jun-15	Cérélia SA (France)	IK Investment Partners	220.0*
Cake	May-15	Balconi SpA (Italy)	Valeo/CapVest Partners	143.8*

*estimate

Small deals with disclosed values (<£50m deal value)

Sector	Date	Target	Acquirer	Deal value (£ million)
Wholesale	May-15	Musgrave Retail Partners	Booker Group plc	40.0
Functional	Apr-15	Napier Brown Sugar	Tereos Group (France)	34.0
Alcohol	Apr-15	United National Breweries's traditional sorghum beer business (South Africa)	Diageo plc	24.3
Dairy	Apr-15	Nutricima (Nigeria) (50%)	PZ Cussons plc	21.0
Alcohol	Apr-15	Camden Town Brewery (20%)	Private Investors (Belgium)	10.0
Catering	Apr-15	Schulz (Israel) (80%)	Apax Partners LLP	6.9

involved UK private equity groups investing overseas. In the catering sector, examples include Apax Partners' acquisition of an 80% stake in Schulz, an Israeli catering services provider, Permira's purchase of two healthy snack manufacturers (Medora Snacks LLC and Ideal Snacks Corporation) to tap into the fast-growing US healthy snacks food segment and the previously mentioned deals of Balconi/ CapVest and Cérélia/ IK Investment Partners. Other transactions of note include MML Capital's support of the acquisition and merger of CH&Co Catering with Catermasters Contract Catering in the UK, and Change Capital's buy-and-build strategy for investee company Macduff Shellfish, which acquired shellfish fishing and processing company Greendale Seafoods.

Microbreweries: small but growing quickly

The domestic market for craft beer is growing quickly and export sales are also booming, which is attracting interest from global players. In May, SABMiller entered the UK craft beer market with the acquisition of London's Meantime Brewing Company for an undisclosed sum. SABMiller plans to increase sales of Meantime beer in Britain beyond the brewer's London base and is considering exporting to Europe. Also during the quarter, London microbrewery Camden Town announced plans to sell a 20% stake to a Belgian manufacturing family for £10 million. Concurrently, it is also raising funds through a crowdfunding campaign, and its growth plans reportedly include building a second brewery.

Interest from overseas groups in niche UK spirits has also continued in the latest quarter, with US acquirers particularly active. Slane Castle Irish Whiskey was acquired by Brown-Forman and Bacardi purchased a minority share in Compass Box Whisky Co., an artisan Scottish whisky producer. Germany's MBG International Premium Brands has continued its M&A growth programme in 2015, acquiring a minority share in UK alcohol distribution company Proof Drinks.

Notes [1] All deal activity is based on announced date of the deal and includes deals where there has been any UK or Ireland involvement (target or acquirer). Administrations, liquidations and receiverships are collated but not counted as M&A unless they have subsequently been acquired. [2] Deal values are primarily sourced from corporate websites, however if no press release is available they are sourced from deal databases including BvD Zephyr, mergermarket and ThomsonReuters or from press commentary released at the time of the deal. Deal values may subsequently be amended pending earn outs or other finance arrangements and/or as further detail is released by the acquirer.
Sources: All deal data is gathered as it takes place from numerous sources including trade press, BvD Zephyr and mergermarket.

Looking forward

The difficulties faced by Thorntons, which have now led to its acquisition by Italy's Ferrero, are a further clear illustration of the impact on food and beverage manufacturers of the intense competitive pressures in the UK supermarket sector.

Thornton's battle goes to the heart of the question of how best to reach the end consumer in a structurally shifting food and beverage retail market. The established large multiple retailers are fighting an ongoing price war against a backdrop of increasing market penetration by the discounters and ongoing trends towards convenience and online purchasing. In Thornton's case, the company's efforts to develop a supermarket retail channel ultimately backfired as it undermined the company's own dedicated stores and devalued the brand.

Our more successful clients have followed several route to market strategies. They have made an early entry into relationships with the discounters, developed the food service channel and expanded into export markets. The flipside is that companies that remain largely dependent on the Big 4 will continue to face strong pressure on their businesses as those supermarket retailers continue to rationalise the number of SKUs they carry. Both sides of this trend will help drive deal activity as growing businesses expand into new channels and the strong acquire the weak.

At the same time, the fact that the decrease in the multiple retailers' SKUs has been greater than the reduction in overall supermarket shelf space creates opportunities for the more successful suppliers. But there is more to this trend than a simple volume opportunity. As the retailers reduce SKUs there could be potential for manufacturers to simplify their supply chains, taking out complexity, for example, by shifting towards greater packet standardisation.

However, this decrease in the number of variations of products being carried by the retailers does not mean that innovation has declined in importance. Supermarkets are rationalising their portfolios, but still want innovative, high end products that play well to the healthy eating, wellness and indulgence trends. Large companies operating on low margins often can't afford to innovate and therefore will look to acquire innovation rather than do it themselves, further underpinning levels of M&A activity.

Aston Manor Brewery

Aston Manor Cider

Grant Thornton's continued commitment to support leaders of dynamic MSBs was recently illustrated in a trade mission to India.

Aston Manor Cider in Birmingham is one of the world's largest independent producers of cider and already exports to more than 20 countries including America, Russia and a number of countries in Africa. Several years ago it conducted some top-line research into the Indian market, but with the company growing quickly, the idea of breaking into India was put on the backburner – until Grant Thornton organised a trade visit to New Delhi earlier this year.

It was the perfect chance for Aston's Managing Director Gordon Johncox to test his assumption that India's young middle classes are ready for a cider drink. "Grant Thornton created contacts with credible and realistic business partners," says Gordon, "and the people there had great insights into the challenges, opportunities and ways of working in India."

So what did Gordon learn about doing business in India?

"India is a difficult market to enter, no question, but we believe this offers us a fantastic opportunity. India has a very large beer market. Premium imported beers are being consumed by younger, more affluent consumers who don't want to drink what their parents drank."

The market is also very complex. Each state has different levels of excise duty and different laws around how alcohol is retailed, so moving alcohol from state to state is like an import-export transaction.

Gordon has some advice for other mid-sized businesses thinking of taking their first step overseas: "You have to invest time, effort and energy in building relationships at senior level. And that means face-to-face contact and visiting that country. You also have to be patient."

Grant Thornton's advice on doing business in India

- Businesses in India will show a lot of interest in doing business with you but it is up to you to assess and progress those opportunities. Culturally they will be very positive and accepting of the idea. But this may create a false sense of hope, so do your due diligence.
- Research your sector and the local buying culture. For example, in India being seen drinking the 'right' drink is as important as the percentage of alcohol.
- Having the time to explore a new market is the battle for UK CEOs. Our South Asia Group can help guide you on this, as well as setting up potential contacts to meet through Grant Thornton India when you are ready to take the next step.

See more at:
On a mission to bring cider to India

Growth 365 is a unique CEO service from Grant Thornton. The bespoke service gives members access to contacts, information, experts and advice to help them realise and achieve their ambition to grow.

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