

Food & Beverage Update

First quarter 2014



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Industry Trends

Euro-zone General Economic Trends ⁽¹⁾

Euro area real GDP increased by 0.2% in the Q4'13, following a growth of 0.1% in the Q3'13 and 0.3% in Q2'13. Expectations that the ongoing recovery will turn into a continued moderate growth thanks to the domestic demand were confirmed during Q1'14. At the same time, even though the labour markets have shown signs of improvements, the unemployment rate in the euro area remains high and the unutilised capacity is sizeable. The risks related to the economic outlook of the euro continue to be on the downside due to the developments in the global financial markets and in emerging market economies, as well as the geopolitical risks. Weaker than expected domestic demand, insufficient implementation of structural reforms and weaker export growth might also affect the economic conditions negatively.

According to Eurostat's flash estimate, euro area annual HICP inflation was 0.5% in March 2014 down from 0.7% in February 2014. However, these numbers are expected to pick up in April 2014, before gradually increasing during 2015 to reach 2% towards the end of 2016. At the same time, medium to long-term inflation expectations remain firmly anchored in line with price stability.

The governing Council of the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.25%, 0.75% and 0.00% respectively. Progress have been made, in terms of monetary policy, in improving the funding situation of banks and, in terms of fiscal policies, in correcting fiscal imbalances. Further decisive steps are needed to improve competitiveness, raise potential growth, generate employment opportunities and make the euro economies more flexible.

European price index trends ⁽²⁾

The FAO Food Price Index averaged 212.8 points in March 2014, almost 4.8 points above its revised value for February, and nearly 2.1 points lower than in March 2013. The increase compared to February 2014 is caused by a boost in cereal, oil and sugar prices countered by an adverse effect in dairy prices. Latest estimates suggest international sugar prices countered over 19 points in March 2014 compared to December 2013 and cereals over 14.4 points.

European and Belgian M&A trends – on a quarterly basis ⁽³⁾

European M&A activity (all industries) in the first quarter of 2014, (being 1,119) showed to be lower compared to the fourth quarter of 2013 when 1,218 deals were reported. When comparing Q1'14 to Q1'13 the announced transaction volume is also lower (decrease by 9.6%).

In Belgium (all industries), 34 transactions were announced in the first quarter of 2014, being higher by 1 deal compared to the Q4'13. Compared with Q1'13 (being 52), the number of announced transactions decreased by 34.6%.

Transaction volume in the European Food and Beverage industry in Q1'14 (being 70) decreased by 9.1% compared with the 77 reported deals in the fourth quarter of 2013. Looking at the announced deal volume in the first quarter of 2013 (being 81), the deal volume decreased by 13.6%.

Total transactions in the Belgian Food & Beverage industry in Q1'14 amount to 9 deals, of which only one deal was a private equity transaction, compared to a total of two reported private equity deals in Q4'13.

European F&B M&A trends – on a LTM basis ⁽³⁾

Looking at the yearly deal volume in the European Food and Beverage industry, the number of announced transactions in LTM'14 amounted to 292 which is at a lower level compared to the annual deal volume of LTM'13 (316 deals).

Most of the transactions in Europe were closed with target companies in France, the UK, the Netherlands and Italy.

76% of the transactions in the European Food and Beverage industry were corporate transactions, whereas 24% involved a financial sponsor/private equity player. Over all industries, on average, corporate transactions represented c. 69% of total deal volume.

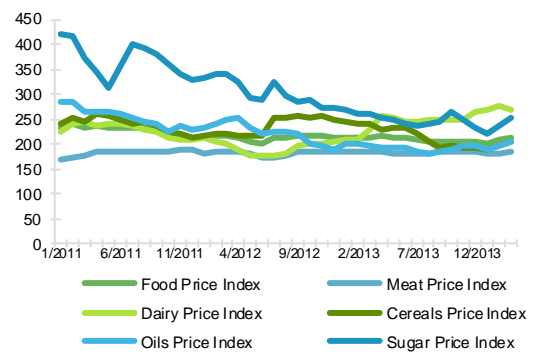
The median deal size amounted to EUR 54m in LTM'14. This is an increase compared to the median deal size of full year 2013 (EUR 41m).

Belgian F&B M&A trends – on a LTM basis ⁽³⁾

In Belgium, 23 deals were announced in the Food and Beverage industry, or 17.4% of the total announced deals over all industries in Belgium in LTM'14 (being 132).

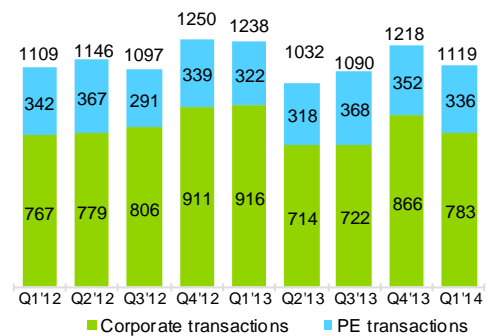
A vast majority (83%) of the transactions in the Belgian Food and Beverage industry during LTM were corporate transactions.

Food commodities price indices



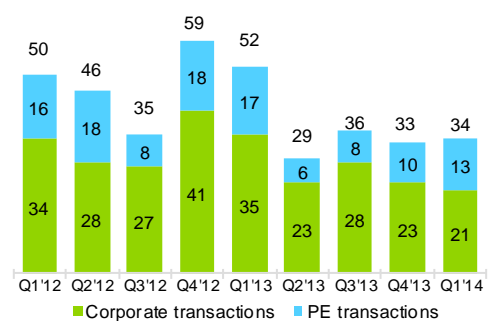
Source: Food and Agriculture organization of the United Nations

Quarterly transaction volume European M&A, All industries



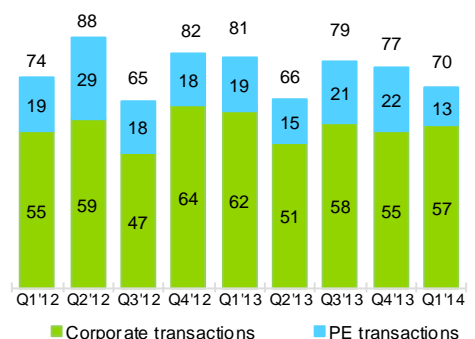
Source: Mergermarket

Quarterly transaction volume Belgian M&A, All industries



Source: Mergermarket

Quarterly transaction volume EU M&A, Food & Beverage

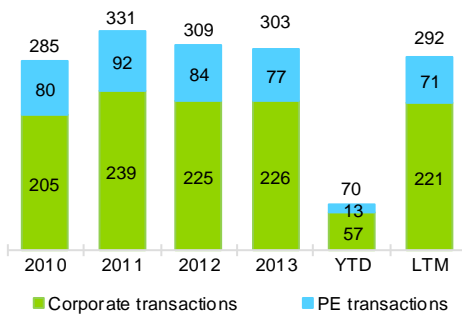


Source: Mergermarket

Sources: (1) ECB Monthly Bulletin, (2) FAO, Food and Agriculture organization (3) Mergermarket

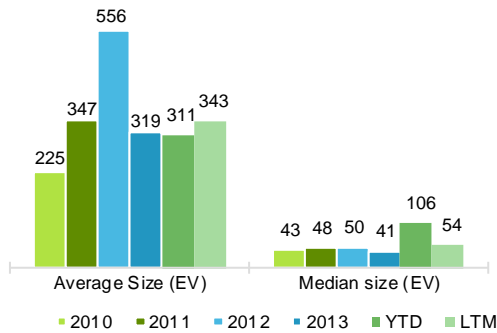
Highlighted Transactions

Yearly transaction volume EU M&A, Food & Beverage



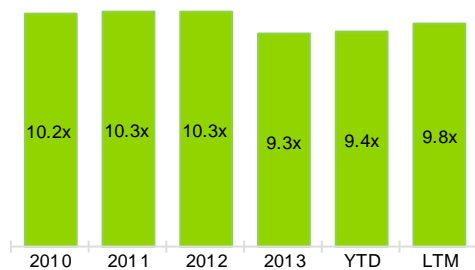
Source: Mergermarket

Average and median size (€m) EU M&A, Food & Beverage



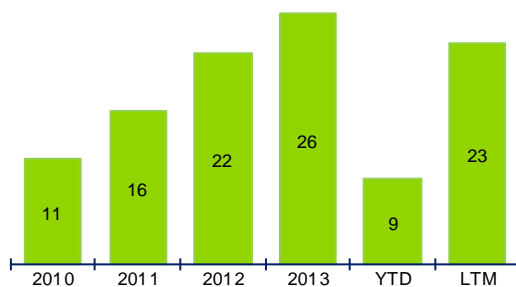
Source: Mergermarket

Average EV/EBITDA multiples EU M&A, Food & Beverage



Source: Mergermarket

Transaction volume Belgian M&A, Food & Beverage



Source: Mergermarket

Selected deals announced in Q1'14 involving a European company

- January 2014 – **Hain Frozen Foods UK Limited**, the UK based company engaged in manufacturing, distributing and selling frozen vegetarian products and other frozen meat-free products and dessert lines and a subsidiary of The Hain Celestial Group Inc., has acquired **Tilda Limited**, the UK based global supplier of rice and rice products, particularly Basmati rice, from Braunstone Properties Limited, Tilda Rice Limited and Salcott Associates Limited, for a consideration of **EUR 260m**. The acquisition will enable Hain to expand its product portfolio and further grow its brands through its existing distribution platform.
- February 2014 – The management of **Nuova Castelli S.p.A**, has acquired the company, in a management buyout backed by Charterhouse Capital Partners LLP, from **Mr. Dante Bigi** for a consideration of **EUR 410m**. Nuova Castelli S.p.A., the Italy based company headquartered in Reggio Emilia, Emilia Romagna, is engaged in the production and marketing of dairy products and canned fish. The transaction will enable Nuova Castelli to increase its production from 120m to 140m by 2017.
- February 2014 – **European Refreshments Limited**, the US based producer and seller of non-carbonated beverages, and a subsidiary of The Coca-Cola Company, has acquired a 17% stake in **Coca-Cola Erfrischungsgetraenke AG**, the Germany based company that provides bottling and distribution of Coca-Cola brand products, for a consideration of **EUR 367m**.
- March 2014 - **Chiquita Brands International, Inc.**, the North-Carolina-headquartered NYSE-listed producer and distributor of bananas and other produce, has agreed to merge with **Fyffes Plc**, the Irish listed fruit and fresh produce company. The share offer implies an offer price of EUR 1.22 per share, based on Chiquita and Fyffes's share prices and USD/EUR exchange rate at closing on 7 March 2014, thereby implying the entire equity values of Fyffes at **EUR 363m**. The transaction is consistent with the strategic goals of both businesses and is expected to create value through scale, operational efficiencies and cost savings, portfolio diversity and combination of complementary businesses, expansion of sourcing capability, and financial strength.

Selected deals announced in Q1'14 involving a Belgian company

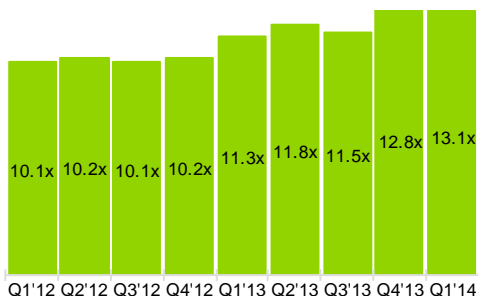
- January 2014 – **CPF Europe S.A.**, the Belgium based company engaged in production and distribution of chilled, processed and semi-processed meat, and a subsidiary of Charoen Pokphand Foods Public Company Limited, the listed Thailand based company having operations into livestock and aqua-culture business, has agreed to acquire 80.02% stake in **Tops Foods N.V.**, the Belgium based company engaged in production and distribution of chilled foods, for a consideration of **EUR 9m**. The acquisition is in line with CPF Europe's strategy to expand its business and enhance its sales and marketing capabilities.
- January 2014 – **Milcobel cvba**, the Belgium based company that through its subsidiaries operates as a cooperative of dairy farmers and is engaged in buying and collecting milk; producing butter and milk powder; and producing, trading, packing, and cutting cheese, has acquired **Heremans**, the Belgium based importer and distributor of cheese, for an undisclosed consideration. Through this transaction, Milcobel cvba would be able to enhance its focus on cheese distribution to its customers.
- March 2014 – **Ardo and Dujardin Foods** are pleased to report the signing of a Merger Agreement. The two Belgian frozen food companies are preparing to come together as one firm, subject to approval by the relevant competition authorities. As part of the transaction, NPM Capital, a private equity firm which held a minority stake in Dujardin Foods is selling its stake. In the new Group 100% of the shares will be owned by the Haspesslagh families. The rationale behind the planned merger is to create a robust working platform that enables the business to operate sustainably in the frozen vegetable, fruit and herb sector for years to come, and to lay the basis for a third-generation, professionally-managed family business.
- March 2014 – **Diversi Foods**, a Belgian specialist in frozen food products for bakeries, is being acquired by the Dutch-Belgian investment fund **Waterland**. Diversi Foods is part of the Unimar holding company.

Market Snapshot

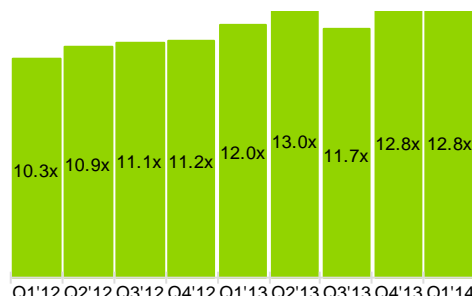
In millions	Rep. ccv	Rep. date	Market cap.	Enterprise Value (EV)	EV to: Sales	EV to: EBITDA	EBITDA Margin	Rep. P/E	Stock perf. Quarter
Food Producers									
DANONE	EUR	12/2013	32,864	40,995	1.9x	11.5x	16.6%	19.6x	(0.7)%
NESTLE SA-REG	CHF	12/2013	216,707	232,961	2.5x	13.2x	18.9%	19.9x	0.6%
ASSOCIATED BRITISH FOODS PLC	GBP	08/2013	23,204	24,331	1.8x	15.1x	12.2%	29.9x	10.2%
UNILEVER NV-CVA	EUR	12/2013	91,693	100,428	2.0x	12.1x	16.5%	20.6x	2.6%
SUEDZUCKER AG	EUR	02/2013	3,168	4,853	0.6x	3.9x	15.9%	5.5x	6.8%
ARYZTA AG	EUR	07/2013	7,354	7,095	1.6x	12.4x	12.9%	23.4x	12.7%
LINDT & SPRUENGLI AG-REG	CHF	12/2013	11,097	10,374	3.6x	20.2x	17.9%	36.3x	6.6%
KERRY GROUP PLC-A	EUR	12/2013	9,862	10,931	1.9x	15.2x	12.3%	22.1x	11.2%
BARRY CALLEBAUT AG-REG	CHF	08/2013	6,444	8,146	1.6x	18.9x	8.7%	28.2x	3.6%
PARMALAT SPA	EUR	12/2013	4,557	3,780	0.7x	8.5x	8.2%	20.3x	1.0%
Average					1.8x	13.1x	14.0%	22.6x	5.5%
Median					1.9x	12.8x			
Beverage Producers									
ANHEUSER-BUSCH INBEV NV	USD	12/2013	127,087	219,519	5.1x	13.0x	39.2%	16.3x	(0.5)%
PERNOD RICARD SA	EUR	06/2013	22,760	31,544	3.7x	12.9x	28.3%	17.8x	3.4%
HEINEKEN NV	EUR	12/2013	29,307	41,139	2.1x	9.8x	21.7%	18.4x	4.9%
SABMILLER PLC	USD	03/2013	49,826	101,107	4.3x	16.8x	25.6%	13.1x	(1.7)%
DIA GEO PLC	GBP	06/2013	45,601	55,256	4.8x	14.1x	34.5%	17.7x	(6.3)%
CARLSBERG A S-B	DKK	12/2013	82,358	122,543	1.8x	9.0x	20.5%	14.2x	(9.6)%
REMY COINTREAU	EUR	03/2013	2,975	3,280	2.7x	12.1x	22.6%	18.6x	(1.1)%
DAVIDE CAMPARI-MILANO SPA	EUR	12/2013	3,563	4,425	2.9x	13.1x	22.1%	22.6x	(2.5)%
DAMM SA	EUR	12/2013	1,209	1,285	n/a	n/a	n/a	n/a	(7.8)%
COCA-COLA CO/THE	USD	12/2013	179,452	198,728	4.2x	14.9x	28.2%	19.2x	(4.4)%
Average					3.5x	12.8x	27.0%	17.5x	(2.6)%
Median					3.7x	13.0x			
Food & beverage retailers									
TESCO PLC	GBP	02/2014	24,271	31,969	0.49x	6.58x	7.4%	10.0x	(10.6)%
CARREFOUR SA	EUR	12/2013	20,282	25,065	0.33x	6.75x	4.9%	21.2x	(1.3)%
CASINO GUICHARD PERRACHON	EUR	12/2013	10,046	15,753	0.32x	4.69x	6.9%	17.1x	4.6%
KONINKLIJKE AHOLD NV	EUR	12/2013	13,319	12,754	0.39x	5.92x	6.6%	14.1x	11.3%
SAINSBURY (J) PLC	GBP	03/2013	6,167	8,400	0.36x	6.28x	5.7%	10.8x	(15.5)%
WM MORRISON SUPERMARKETS	GBP	01/2014	4,621	7,393	0.41x	5.58x	7.4%	7.0x	(17.5)%
DELHAIZE GROUP	EUR	12/2013	5,377	6,906	0.33x	5.08x	6.4%	12.7x	24.9%
COLRUYT SA	EUR	03/2013	6,596	6,014	0.72x	8.79x	8.2%	18.9x	(1.5)%
AXFOOD AB	SEK	12/2013	17,446	18,086	0.48x	9.27x	5.2%	17.8x	11.6%
SLIGRO FOOD GROUP NV	EUR	12/2013	1,387	1,425	0.57x	9.57x	5.9%	17.4x	7.5%
Average					0.44x	6.85x	6.5%	14.7x	1.3%
Median					0.40x	6.43x			

Source: Bloomberg, March, 2014

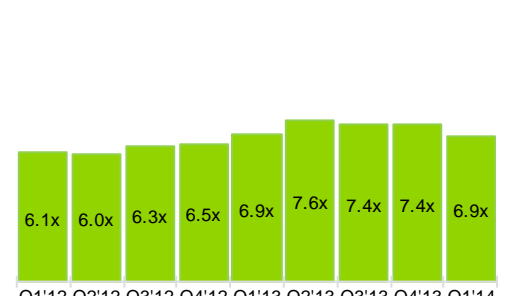
Food producers
Average EV/EBITDA multiples



Beverage producers
Average EV/EBITDA multiples



Food & Beverage retailers
Average EV/EBITDA multiples



Source: Bloomberg, Deloitte analysis

EU1169 Food Labeling legislation for online selling

From regulatory compliance to business value

Food manufacturers, retailers and other organization that sell food & beverage products through webshops or other online channels, need to comply with the EU1169 legislation. In short: also when buying online, consumers need to be able to review information such as the nutritional values and ingredients and they need to be warned for allergens. Whilst most manufacturers and retailers are busy preparing for compliance to the legislation that will turn into effect by the end of this year, there are several opportunities to create additional business value.

Background: the legislation

The legislation for food labeling has evolved over the past decades to inform and protect consumers. In 2011, the EU has approved an important enhancement to the existing legislation, taking into account new evolutions in society including the growth of online shopping. The new legislation will turn into effect by December 2014, and has an impact both for physical labels as for the information provided to online shoppers.

It is the responsibility of the 'food operators' under whose name or business name the products are put in the market, to provide accurate food information. For distance selling this means that the food operator is responsible to provide the (online) retailers with product information that can be integrated in their e-Shops. This not only includes ingredients and nutritional information, but also warn the consumer about allergens or other health related aspects.

Some information is mandatory for all products, some information is only mandatory to specific product categories (such as 'country of origin' is applicable to beef and fish but not for soft drinks).

In principle, for distance selling the same information needs to be provided as on the physical labels, with some exceptions like the 'expiration date/use by'.

The impact on food manufacturers and (online) retailers

Although many food manufacturers and retailers have implemented some kind of production information system, they are often not completely aligned and not yet 'connected'. The reality is that many organization still face a number of challenges:

- Product information is stored in different databases and applications. Databases exist sometimes by product category, country and business function: marketing uses another application than manufacturing or sales... As a result there is duplication, inconsistency and lack of transparency regarding product information.
- Some information that is relevant to food labeling is stored in Ms-Office documents (Word/Excel) or in applications for Graphic Design of the Labels.
- Some information is stored at brand level, other information is stored at SKU level. Not always in a consistent way...
- Exchange of product informations across business partners is focused on the information required for the supply chain, and not for food labeling and other information.
- Processes for creation and change of product information do not depend on automated workflows with adequate controls, approvals and audit trail.
- As legislation and local expectations for food labeling are different between countries, differences in information structures and processes make it difficult to come to a unified, European process and system.
- Processes for the exchange of product information often still rely on manual activities.
- The standards for the exchange of the necessary product information are only emerging (eg GS1).

This means that most organizations struggle to find good solutions to comply with the new legislation. They have to overcome the above

mentioned barriers, knowing the time is short to implement new systems and processes that work. And this not only internally, but also in the information chain with the retailers.

Typical solutions

Deloitte is supporting various players in the Food & Beverage industry to implement solutions for EU1169 compliance. These vary from very simple and pragmatic to advanced and integrated solutions. Some key components for these solutions are highlighted below:

- **Communication using GS1 standards**
As GS1 is heavily used as standard for exchanging information, we promote the usage of GS1 for the exchange of product information.
- **Product data model in line with GS1 standards**
The more aligned the data model of the product information applications is with GS1, the easier it will be to generate the required 'XML messages' using the GS1 standards. As it is not always feasible to change the data model of existing applications, either new applications are created that collect the product information before sending out to the retailer, or transformation logic is built to automatically translate the product information in the required structure.
- **Product data information system shared between functions**
In many cases, the various departments use different systems. For EU1169 legislation, this information needs to be combined. This means that it is preferred to streamline the systems and create transparency and consistency across departments. Ideally, the same product information database is used, assuring the proper governance and data protection. This also means that typical marketing information (such as pack shots / imagery) is stored close to the structured product information such as nutritional values.

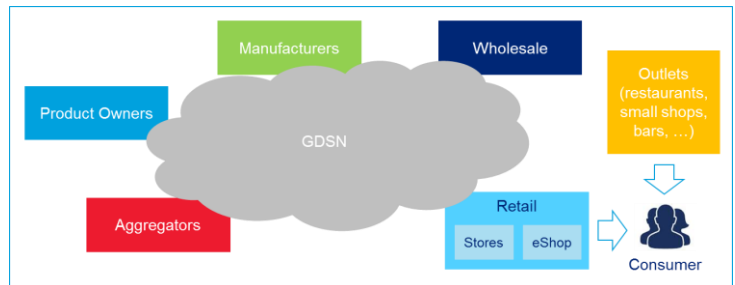


Figure 1. Alignment of product information across the supply chain is critical

The larger business opportunity

Under pressure of the EU1169 regulation, most companies are busy changing their systems and processes. In many cases, the focus is on the 'must do' functionality. Keeping the scope limited reduces the risk to be late in delivery of the information chain. We however see several opportunities to leverage the initiatives, either still during 2014 or as a next phase after December 2014:

- **Include additional commercial product information**
Although not mandatory for EU1169, it could be interesting to include all kind of other product information in the information exchange to the retailers, and get this information published on their websites (and/or linked in the web-shops). Also there could be links to social media (such as relevant, controlled Facebook groups), commercial video's or educational information.
- **Reduce cost and complexity by simplifying the IT landscape**
In most organizations there still is a variety of IT systems dealing with product information. As technology has a lot evolved over the past few years, there is an opportunity to rationalize the system landscape and replace a number of existing systems by one harmonized product information system.

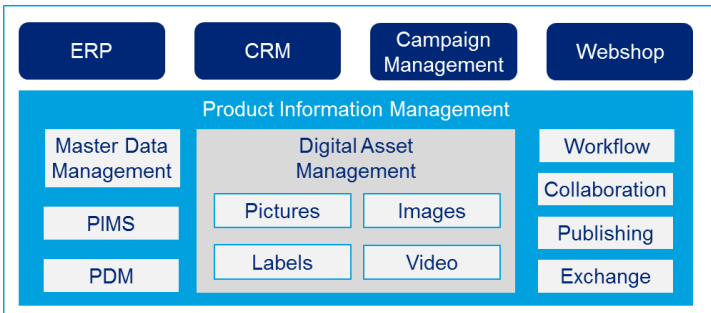


Figure 2. All parties in the supply chain are dealing with the challenge to efficiently manage product information

Our approach

With our experience in the Food & Beverage industry and the business processes related to the EU1169 regulation, Deloitte helps small and large organizations in the industry. Deloitte supports different technologies such as SAP, SharePoint, OpenText, K2, ADAM, Adobe, IBM and knows the different aggregators active in the industry. Based on that experience Deloitte can offer technology independent advice. Whatever the current state of your change project for EU1169 compliance, Deloitte offers to perform a QuickScan to identify opportunities and risks. Based on the outcome of the QuickScan we can offer a wide range of consulting and system integration services to ensure compliance first, followed by harvesting additional business value. For more information, please contact: Koen De Staercke or Aart Joppe.

Related Content

In addition to information regarding the Food & Beverage industry being provided by Deloitte, you may be interested in additional events and informational sources available through Deloitte.

EU legislation on EU1169

[Click here](#) for more information about the EU legislation on EU1169

General Economic Trends

[Deloitte University Global Economic Outlook – 1st Quarter 2014](#)

Eurozone: Three areas to watch in 2014

Three interrelated factors are critical to the Eurozone’s growth performance in 2014 and beyond: accelerating business investments, stabilizing credit conditions, and decreasing uncertainty.

[Click here](#) to explore the issue.

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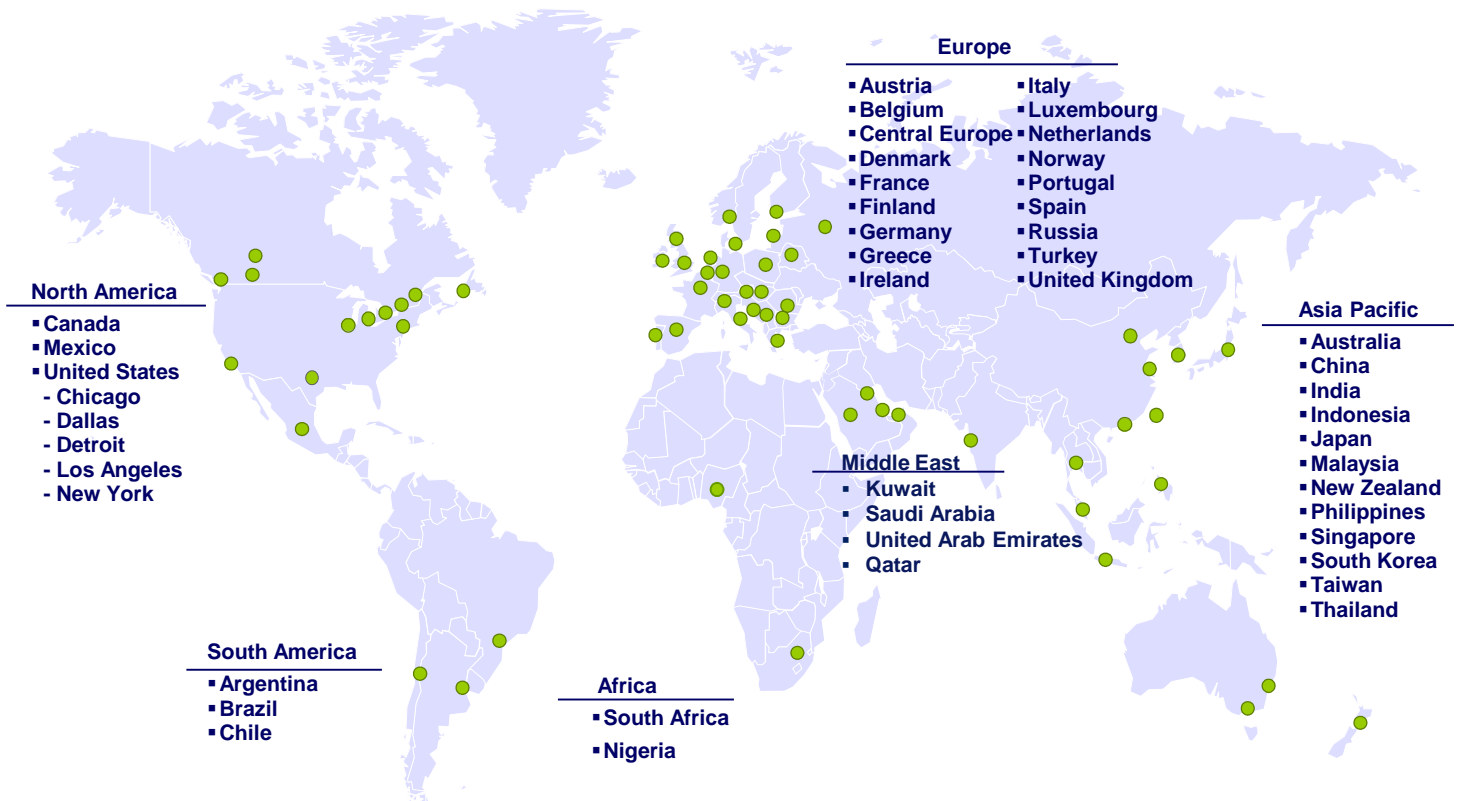
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