

**Deloitte.**

Consumer Products  
M&A Insights  
Summer 2015



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# Foreword

Welcome to our Consumer Products M&A Insights review, that looks to capture both the latest macro-economic and Consumer Products M&A trends, alongside our perspectives of the M&A environment and the key factors driving deals within the sector.

In our previous review issued in Summer 2014, we highlighted the initial signs of recovering deal activity with investors being spurred on as consumer confidence returned to positive territory for the first time in nearly a decade. This was reinforced by our CFO survey which also indicated a strong shift in the sentiment expressed by business leaders towards more positive expansionary strategies.

Indications of the long anticipated uptick in deal activity are yet to fully feed through into reported European deal activity levels. Total deal value levels (for those deals over €200m) in 2014 of €39.7 billion were well ahead of the €33.6 billion of deals seen in 2013, albeit with 34 deals of this size in 2014, one fewer than in 2013. The six deals (over €200m) in the first four months of 2015, with a combined value of €7.2bn, offer an early indication of ongoing deal activity, albeit the time lag in deal reporting means that it is likely the levels in this period will be revised upwards as the year progresses.

Whilst our review is focussed on significant trends in the European market, it would be remiss not to mention the significant global interest of investors in the Consumer Products sector, with 3G Capital following on its previous acquisition of Heinz in 2013 with its proposed acquisition of Kraft, US based Nomad Food's acquisition of Birds Eye, Coty's acquisition of Procter & Gamble's beauty and haircare products, coupled with Asian buyers also looking to make major acquisitions in the sector as evidenced by Suntory's acquisition of Beam. In terms of ongoing sector attractiveness, the consumer sector is seen as offering significant resilience as well as areas of growth opportunities in specific sector categories. We expect these North American and Asian investor deal corridors to be a significant driver of deal activity going forward.

One of the other significant key themes highlighted in our review is that a number of the major consumer product players have transitioned from evaluating their existing market positions to now implementing their future growth strategies. A key feature of this involves the divestment of non-strategic assets to increase focus on key market positions that offer both sustainable earnings and ongoing growth.



Both Procter & Gamble and Unilever have announced a significant re-profiling of their brand portfolios which, in turn, has put a number of assets in play, with Procter & Gamble looking to rationalise its brand portfolio and Unilever's stated focus on higher margin personal care products.

Helped by relatively benign credit markets, auctions for flagship assets continue to achieve high prices and we would expect consumer product companies to take advantage of this to further streamline and realign their business portfolios.

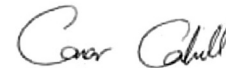
We continue to see ongoing positive signs of deal activity growth, although headwinds continue to exist in the form of broader geopolitical uncertainty and foreign exchange risk, albeit uncertainty over the outcome of the UK general election has now passed. However, we expect M&A activity to maintain its momentum as global investors continue to demonstrate an appetite for attractive brands in a recovering consumer environment.

We believe three key factors, in particular, will drive M&A in 2015, namely:

- i. Europe as a favoured destination for inbound investment for US and Asian investors to increase global presence;
- ii. Currency depreciation in the Eurozone;
- iii. The need to re-align businesses to pursue profitable growth to meet investor expectations.

In summary, 2015 promises to continue to be an exciting period for M&A in the Consumer Products sector and I look forward to updating you further later in the year.

Kind regards



**Conor Cahill**

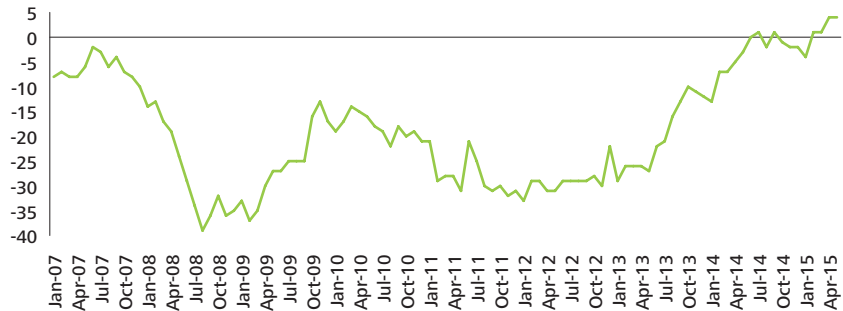
Partner, Financial Advisory

# Economic outlook – UK

- In 2014, the UK economy grew 2.6%, its best performance since the 3% growth last achieved in 2007. Whilst this healthy level of growth is welcomed, some 60% of UK CFOs remain cautious, rating the level of financial and economic uncertainty facing their businesses as above normal, high or very high – the same as in Q4 2013. This level perhaps reflected unease around policy uncertainty in the UK on account of the May elections, but also an increase in global geo-political and economic uncertainties.
- UK consumer confidence, as measured by the 'UK GfK Consumer Confidence Index', maintained its +4 reading in March 2015 and April 2015 (well above the -3 position recorded in April 2014), thus signalling an upbeat message for a potential increase in consumer spending in 2015. With the 'UK GfK Major Purchases Index' crossing over to positive territory, its highest since June 2007, UK consumers seem to be more confident about their personal finances and spending plans. The continued decline in global commodity prices, end of wage contraction, and current near zero inflation in the UK would also have contributed to the boost to confidence.
- The end of wage contraction in the UK in 2014, marked by average wage growth overtaking inflation for the first time since 2010, is expected to drive a recovery in disposable incomes and consumer spending. With wage growth expected to continue to outpace inflation in 2015 and the rate of unemployment heading to its lowest level in six years, 2015 appears to be seeing the end of the prolonged squeeze on consumer purchasing power in the UK.
- A combination of cheaper energy costs, record low mortgage rates, and falling food and beverage prices aided UK inflation's downward trajectory from 0.3% in January to (0.1)% in April 2015. Ongoing fierce competition in the UK retail market continues to put significant pressure on retailers and producers alike.
- Buoyed by declining inflation levels and cheaper consumer credit, UK consumers have more disposable income for discretionary spending and big ticket items, as net spending on utilities and groceries grew slowly during Q4 2014, according to Deloitte Consumer Tracker (Q1 2015).
- The share of business investments, as a proportion of UK GDP, has reached its highest level in 15 years as the UK economy focuses on rebalancing towards private investments and exports, away from government expenditure and debt-driven private consumption.
- With 2015 expected to be a year of investment and recovering real earnings, the UK economy looks set to post strong growth this year. However, business leaders remain concerned about the prospects for overseas markets particularly given recent levels of forex volatility and geopolitical uncertainty.

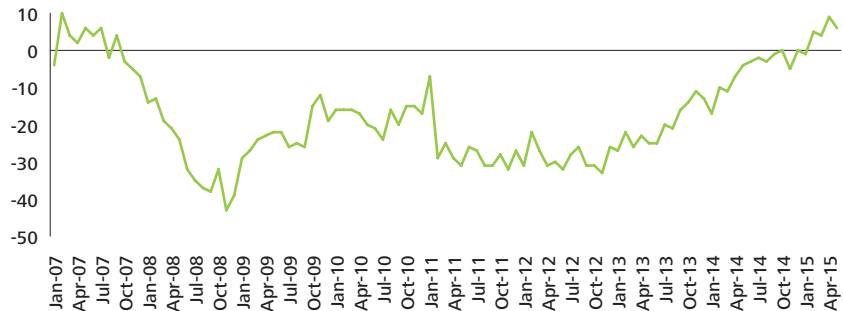
# Economic outlook – UK

Chart 1. GfK Consumer Confidence



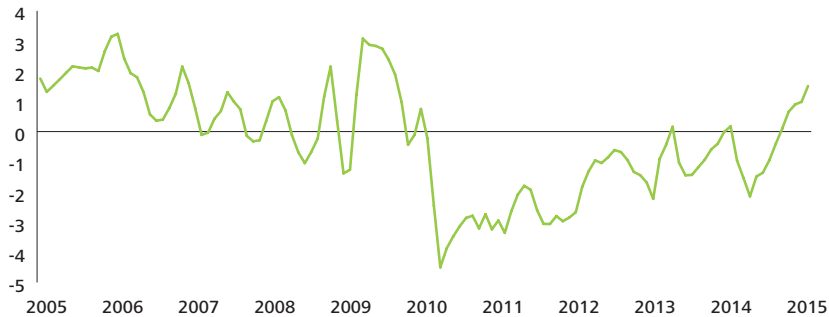
The 'UK GfK Consumer Confidence Index' continued its recovery in April 2015, recording its second monthly consecutive reading of +4, mostly due to a decline in prices of essential consumer goods and a marginal rise in wages.

Chart 2. Climate for major purchases – Is this the right time?



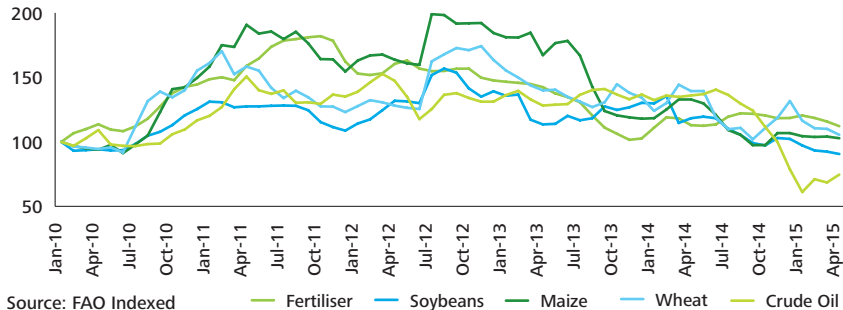
Improvements in discretionary income and confidence in long-term economic growth drove the 'UK GfK Major Purchases Index' from -1 in December 2014 to +6 in April 2015, building on the +5 reading achieved in January 2015 (which was a seven-year high).

**Chart 3. Real growth in earnings after taxes (%)**



Source: ONS

**Chart 4. Selected commodities**



Source: FAO Indexed  
(1 Jan 2010 = 100)

— Fertiliser — Soybeans — Maize — Wheat — Crude Oil

Consumer spending power is expected to recover with improvements in real earnings adjusted for tax and inflation, which, coupled with easing inflation, has benefitted employee wallets. The Deloitte Consumer Tracker index has risen to its highest level since its commencement in 2011, with the net percentage of households which received a pay rise in Q1 2015 being 14%.

The continued decline in agri-commodity prices in 2014, along with the unprecedented decline in crude oil prices during the second half of 2014, could have major implications for consumer spending in 2015. Fertilizer prices remain flat due to the absence of any major declines in chemical processing and natural gas costs.

# Corporate risk appetite

The Deloitte CFO Survey is the only survey of major corporate users of capital that gauges attitudes to valuations, risk and financing. The following charts are from the Q1 2015 survey.

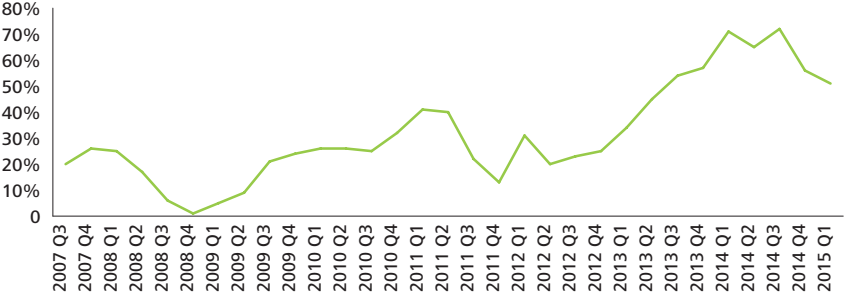
**Chart 5. Uncertainty**  
 % CFOs who rate the level of financial and economic uncertainty facing their business as above normal, high or very high



Source: Deloitte CFO Survey

CFO perceptions of external financial and economic uncertainty declined in Q1 2015, with 43% of CFOs reporting above normal, high or very high levels of uncertainty facing their businesses – down from 52% a year earlier in Q1 2014. The ongoing uncertainty can be attributed to weaker growth expectations arising from foreign exchange volatility, geopolitical uncertainty, as well as the uncertainty around the UK general election which now appears to have been resolved following the election of a majority Conservative government.

**Chart 6. Risk appetite**  
 % CFOs who think this is a good time to take greater risk onto their balance sheets



Source: Deloitte CFO Survey

The easing in corporate risk appetite in Q1 2015 could be linked to the rise in CFO perception about economic uncertainty in the UK, with nearly 51% of CFOs saying that this is a good time to take greater risks onto their balance sheets, down from 56% in Q4 2014 but still well above the long term average (31%).



**Chart 7. Business confidence**

Net % of CFOs who are more optimistic about financial prospects for their company now than three months ago

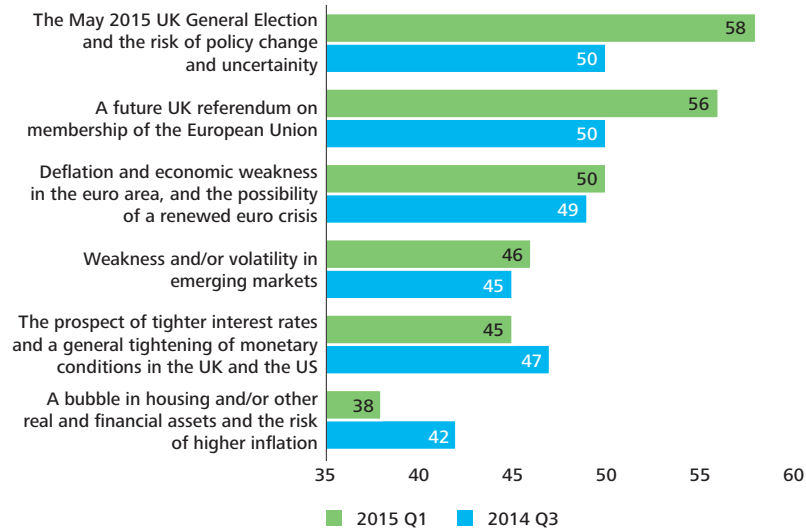


Source: Deloitte CFO Survey

While CFO optimism has faltered over recent quarters, the proportion of CFOs who are more optimistic continues to outnumber the 'less optimistic' group.

**Chart 8. Risk to business posed by the following factors**

Weighted average ratings on a scale of 0 – 100 where 0 stands for no risk and 100 stands for maximum risk

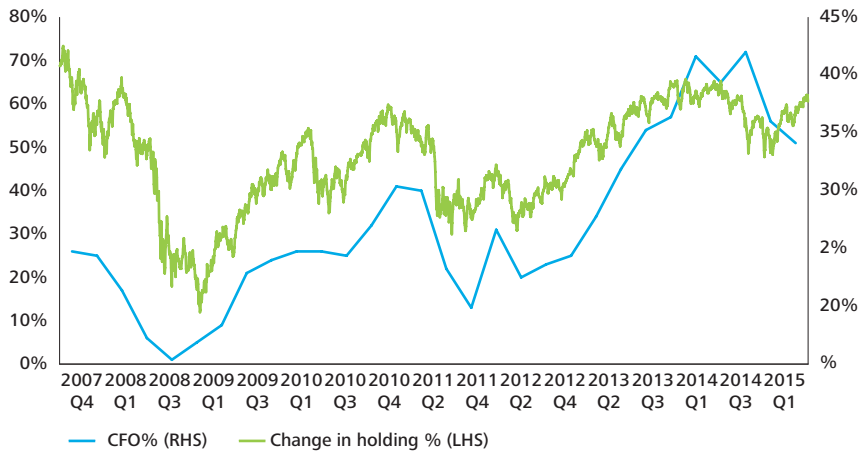


Source: Deloitte CFO Survey

The uncertainty around the UK General Election and potential policy changes was clearly playing on the minds of those who participated in our Deloitte CFO survey in Q1 2015. This is followed by concerns about economic weakness in the euro area and the future UK referendum on membership in the European Union.

**Chart 9. CFO & Investor risk appetites**

% of CFOs who think this is a good time to take greater risk on to their balance sheets (RHS) and change in equities over bonds (LHS)

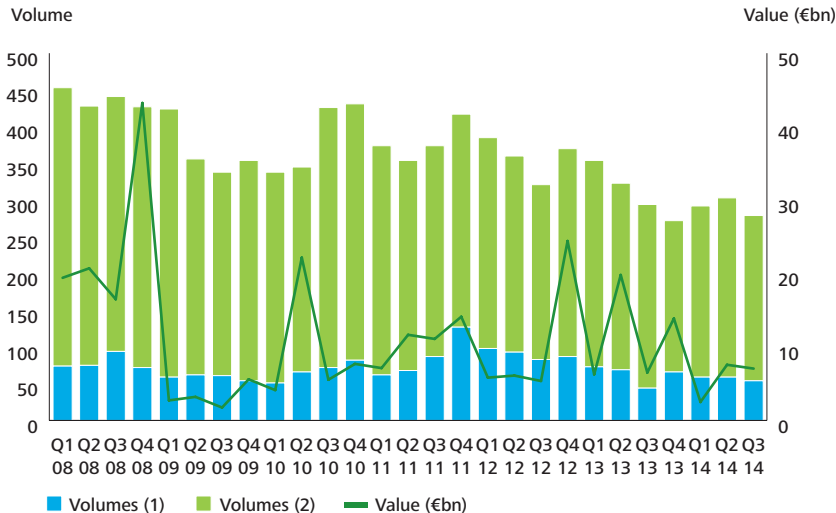


Source: Deloitte CFO Survey

The decline in CFO risk appetite coincided with the investor movement from equities into “less-risky” government bonds in the UK, in line with the general trend of changes in CFO risk appetite mirroring changes in investor risk appetite.

# Consumer M&A trend analysis

Chart 10. Consumer Products completed deals by quarter



Source: Thomson Reuters, Deloitte analysis

Note: Volumes (1) denotes volumes of deals where value is disclosed. Volumes (2) denotes volumes where deal values are not disclosed.

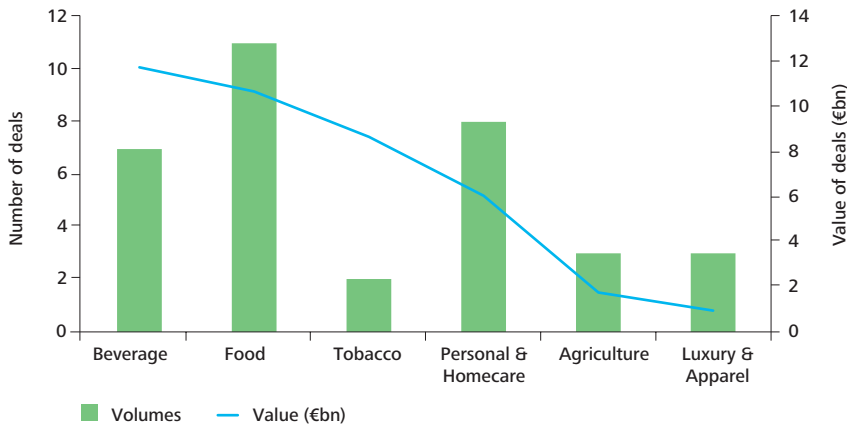
As has been highlighted in previous surveys, reported completed deal activity tends to lag actual activity due to a six to nine month delay in deals being reported. However, the data reflects completed deal activity exhibited a rising trend for the three quarters to Q2 2014.

Including both announced and completed European deals, with a deal size over €200m, there were 34 deals in the 12 months to December 2014 with a combined deal value of €39.7bn (12 months to 31 December 2013 – 35 deals, €33.6bn). Of the 34 deals, 11 deals were over €1bn (deal value €29.8bn) and 17 over €500m (deal value €34.2bn).

Whilst Food and Beverage continue to account for just over half the deals by value and volume, there has been a noticeable increase in the level of deal activity in the Personal & Home Care (“PHC”) sector. The PHC sector activity appears to have been driven by an increased push for economies of scale, the capture of attractive category positions in key markets and a push into Asian markets.

The beverage sector’s largest deals saw ABInBev repurchasing South Korean based Oriental Breweries from KKR, and premium brand investor JAB Holding further consolidating the coffee sector, announcing the proposed merger of Mondelez’s coffee business (Kenco, Millicano and Tassimo) into its Douwe Egberts business to create the world’s second largest coffee business.

Chart 11. Announced and completed deals over €200m in 12 months to 31 December 2014



Source: Thomson Reuters, Deloitte analysis

As highlighted in our previous review, deal activity in the food ingredients sector sprang into life with Symrise's acquisition of France's Diana Group (a natural flavours business) and Archer Daniels Midland's acquisition of Germany's Wild Flavors (flavours colouring and ingredients to the food and beverage sector) both at reported multiples of 14 times EBITDA.

The biscuit sector also became an area of increased activity with Turkey-based Yildiz Holding winning a highly contested auction to acquire United Biscuits and its stable of household brands.

Japan's Mizkan group has continued on its acquisition spree. Having previously picked up the Sarson's and Branston brands from Premier Foods, it acquired the Ragu and Bertolli pasta sauce businesses from Unilever in the US, as Unilever continues to dispose of non-core assets.

The tobacco sector also saw two of the top five deals in the year to December 2014, with the primary trigger being the mega-merger of US tobacco leaders Reynolds and Lorillard resulting in the disposal of a number of brands to address competition issues. Imperial Tobacco has also looked to significantly enhance its US market position acquiring US brands: Winston, Maverick Kool and Salem brands as well as "blu" electronic cigarettes. BAT, an existing investor in Reynolds, looked to subscribe to additional shares in Reynolds to maintain the level of its existing 42% stake. More recently BAT has also demonstrated its ambitions to grow in Central Europe with the Apr-15 announcement of its €550m purchase of TDR as it looks to offset slower growth levels in western markets.



# Consumer Products M&A Market trend analysis

# Consumer Products M&A Market trend analysis

Announced and completed deals over €200m from 1st January 2014 to 31st December 2014

Announced date	Effective date	Target name	Target nation	Acquirer name	Acquirer nation	Enterprise value (€m)
Jul-14	–	Reynolds American Brands	United States	Imperial Tobacco Group PLC	United Kingdom	5,233
Jan-14	Apr-14	Oriental Brewery Co Ltd	South Korea	Anheuser-Busch Inbev	Belgium	4,276
May-14	–	Mondelez-Coffee Business	Netherlands	DE Master Blenders	Netherlands	7,047
Jul-14	–	Reynolds American Inc	United States	British American Tobacco PLC	United Kingdom	n/a
Sep-14	–	GEC - Applications business	United States	Electrolux AB	Sweden	2,553
Nov-14	Nov-14	United Biscuits Limited	United Kingdom	Yildiz Holding A.S.	Turkey	2,530
Jul-14	Oct-14	WILD Flavors GmbH	Switzerland	Archer Daniels Midland Co	United States	2,300
Apr-14	Jul-14	United Spirits Ltd	India	Diageo plc	Netherlands	6,172
Apr-14	Jul-14	Diana Ingredients SAS	France	Symrise AG	Germany	1,300
May-14	Jul-14	Ragu and Bertolli Pasta Sauce	Consumer Staples	Mizkan Group	Japan	1,275
Sep-14	Nov-14	Cermaq ASA	Norway	MC Ocean Holdings Ltd	United Kingdom	1,346
Jun-14	–	Spotless Group SAS	France	Henkel AG & Co KGaA	Germany	940
Apr-14	–	Deoleo SA	Spain	Ole Investments BV	Netherlands	851
Jul-14	Oct-14	Indesit Company SpA	Italy	Whirlpool Italia Holdings Srl	Italy	1,756
Nov-13	Sep-14	Campofrio Food Group SA	Spain	Investor Group	China	1,172
Aug-13	Apr-14	Magic Holdings Intl Ltd	China	L'Oreal SA	France	538
May-14	Oct-14	Whyte & Mackay Ltd	United Kingdom	Emperor	Philippines	527



Deal size (€m)	Revenue (€m)	EBITDA (€m)	Revenue multiple	EBITDA multiple	Deal rationale
5,233	1,910	n/a	2.7	n/a	Acquires established US brands to boost market position in the US
4,276	n/a	369	n/a	11.6	Regaining foothold in South Korean brewing market and strengthens position in South East Asia
3,594	2,900	n/a	2.4	n/a	Creation of one of the largest global coffee and tea businesses
3,416	n/a	n/a	n/a	n/a	Merger to enhance US market position following Reynolds acquisition of Lorillard
2,553	4,140	283	0.6	8.4	Increases scale to deliver synergies in sourcing and operations in the US market
2,530	1,148	143	2.2	17.7	Expands market share in the overseas biscuit and snacking markets
2,300	n/a	n/a	n/a	n/a	Shift into higher margin flavours and speciality ingredients
2,275	1,434	202	4.3	30.6	Increased investment in leading Indian spirits business to gain a majority stake
1,300	425	89	3.1	14.6	Creation of integrated flavour company with strong focus on emerging markets
1,275	362	82	3.5	15.5	Unilever divests non-core businesses to Asian investor
1,089	588	82	2.3	n/a	Mitsubishi strengthens position to become the world's second largest salmon producer
940	280	78	3.4	12.1	Captures attractive country category positions in mature markets
851	554	33	1.5	26.1	CVC invests in major bottled olive oil producer
758	2,671	178	0.7	9.8	Positioning for growth in the European appliances market
705	1,918	151	0.6	7.8	Investment in Spanish meat processing market
632	166	28	3.1	18.3	Expansion in to the high growth Chinese cosmetics market
527	316	27	1.6	19.3	Philippine beverage producer enhances product portfolio with whisky acquisition

Announced date	Effective date	Target name	Target nation	Acquirer name	Acquirer nation	Enterprise value (€m)
Mar-14	Mar-14	Cloverhill Pastry-Vend LLC	United States	Aryzta AG	Switzerland	485
Apr-14	–	Ginsber Draft Beer Co Ltd	China	Anheuser-Busch Inbev	Belgium	450
Dec-13	Sep-14	Shanghai Golden Monkey Food	China	Hershey Netherlands BV	Netherlands	518
Nov-13	Jan-14	Laboratorios Indas SAU	Spain	Domtar Corp	Canada	285
Jun-14	Sep-14	DBApparel SAS	France	Hanesbrands Inc	United States	400
Nov-14	–	Old Bushmills Distillery Co	Ireland-Rep	Grupo Cuervo SA de CV	Mexico	327
Feb-14	Aug-14	Co-operative Group-Farm Bus	United Kingdom	Gower Place Investments Ltd	United Kingdom	313
Aug-14	–	Fujian Sunner Dvlp Co Ltd	China	KKR Poultry Investment S.a.r.l	Luxembourg	1,684
Nov-14	–	Hawesko Holding AG	Germany	Tocos Beteiligung GmbH	Germany	406
Mar-14	Jul-14	Abasic SL	Spain	Eurazeo SA	France	2,850
Nov-14	–	Centrale Laitiere SA	Morocco	Danone SA	France	1,342
Jan-14	Jan-14	Tilda Ltd	United Kingdom	Hain Celestial Group Inc	United States	260
Jun-14	Sep-14	WMF AG	Germany	Finedining Capital GmbH	Germany	689
Mar-14	Apr-14	Pineridge Bakery Inc	Canada	Aryzta AG	Switzerland	245
Feb-14	Mar-14	Poltrona Frau SpA	Italy	Haworth Inc	United States	488
Oct-13	Apr-14	Laboratoires Decleor SAS	France	L'Oreal SA	France	228
May-14	Jul-14	Fenix Outdoor AB	Sweden	Nidron Holding AG	Switzerland	524
					<b>Total</b>	<b>51,308</b>

Deal size (€m)	Revenue (€m)	EBITDA (€m)	Revenue multiple	EBITDA multiple	Deal rationale
485	n/a	n/a	n/a	n/a	Expansion of North American bakery footprint
450	n/a	n/a	n/a	n/a	Strengthens position as third largest brewery in the Chinese market
427	169	n/a	3.1	n/a	Expansion of candy business into China
425	190	46	2.2	9.2	Expansion of personal care business in Europe
400	875	53	0.5	7.5	Enhancement of leading market position in branded apparel
327	71	n/a	4.6	n/a	Portfolio reshuffle with Irish whiskey business exchanged for ownership of Don Julio tequila brand
313	n/a	n/a	n/a	n/a	Building of position in the agriculture land (farm) market
303	n/a	n/a	n/a	n/a	KKR take minority stake in major Chinese poultry producer
300	465	29	0.9	13.8	Investment company acquires wine merchant with growth ambitions
285	828	240	3.4	11.9	Investment in Spanish Desigual fashion brand with ambitions to grow in LatAm and Japan
278	621	65	2.2	20.6	Expansion of operations in North African markets with acquisition of Morocco's largest dairy production company
260	138	n/a	1.9	n/a	Acquisition of branded rice business to expand range of healthy foods
253	1,015	74	0.7	9.4	KKR acquires additional stake in German cutlery maker with substantial growth opportunities in Asia and the USA
245	150	n/a	1.6	n/a	Entrance into Canadian market
243	n/a	19	n/a	13.0	Acquisition of Italian luxury furniture brand
228	100	n/a	2.3	n/a	Focus on hair care business and Asia markets
207	n/a	n/a	n/a	n/a	Acquisition of branded outdoor accessories company to scale globally

39,683

# Consumer Products M&A Market trend analysis – first four months of Apr-15

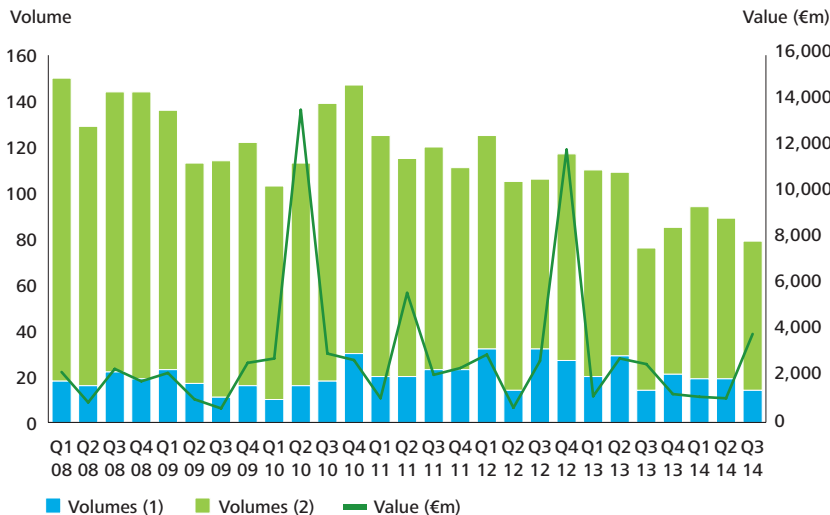
Announced and completed deals over €200m from 1st January 2015 to 30th April 2015

Announced date	Effective date	Target name	Target nation	Acquirer name	Acquirer nation	Enterprise value (€m)	Deal size (€m)
Apr-15	Apr-15	Ostrov	Germany	Robert Bosch GmbH	Germany	6,000	3,000
Apr-15	–	Iglo Group	United Kingdom	Nomad Holdings	United Kingdom	2,600	2,600
Feb-15	–	Danube Foods doo	Serbia	Mid Europa Partners LLP	United Kingdom	n/a	575
Apr-15	Apr-15	Briju SA	Germany	Marzotto family office	Italy	6,919	500
Mar-15	Mar-15	Barentz International BV	Hungary	Pamplona Capital Management LLP	United Kingdom	n/a	315
Apr-15	Apr-15	Paltus	France	Eurazeo	France	726	215
<b>Total</b>						<b>16,243</b>	<b>7,205</b>

Revenue (€m)	EBITDA (€m)	Revenue multiple	EBITDA multiple	Deal rationale
n/a	n/a	n/a	n/a	Buyout of JV partner strengthening position in household appliances market
1,470	306	1.8	8.5	Acquisition of leading European frozen food company
400	n/a	1.4	n/a	Acquisition of the largest independent dairy and confectionery business covering the former Yugoslavian market
n/a	n/a	n/a	n/a	Italian family acquires stake in Hugo Boss
n/a	n/a	n/a	n/a	PE investment in Eastern European pet food market
n/a	n/a	n/a	n/a	Sale of stake by animal nutrition business to fund future expansion

# M&A Market – Food sector

Chart 12. Food sector



Source: Thomson Reuters, Deloitte analysis

Note: Volumes (1) denotes volumes of deals where value is disclosed. Volumes (2) denotes volumes where deal values are not disclosed.

Transactions in the food sector continued at a steady pace in the second half of 2014.

As expected, private equity (Blackstone/PAI) owned United Biscuits was successfully sold in a keenly contested auction, with Yildiz Holding, the Turkish conglomerate beating other significant trade players to the finishing line. The newly acquired brands fit with Yildiz's ongoing acquisition strategy, joining its existing Godiva and DeMet brands, as it continues to build its position as a major player in the global food industry.

Another key development was Unilever's return to the acquisition trail with the purchase of Talenti, Galato & Sorbeto, a premium gelato brand in the United States. This marked a temporary change in tack from the series of food related divestments undertaken over the last 24 months as it re-profiles its brand portfolio (see commentary on personal care sector).

More recently, the €2.6bn sale of Iglo Group to Nomad Holdings highlights the on-going interest of US corporates looking for attractive assets in the European Market. At this point, Nomad has also confirmed ongoing discussions to acquire Findus' European businesses.

We expect that large food producers will continue to refocus their portfolios divesting both lower margin products and businesses and will look to deploy proceeds in more premium and margin accretive businesses, with Nestlé's recent disposal of Davigel an example of the trend.

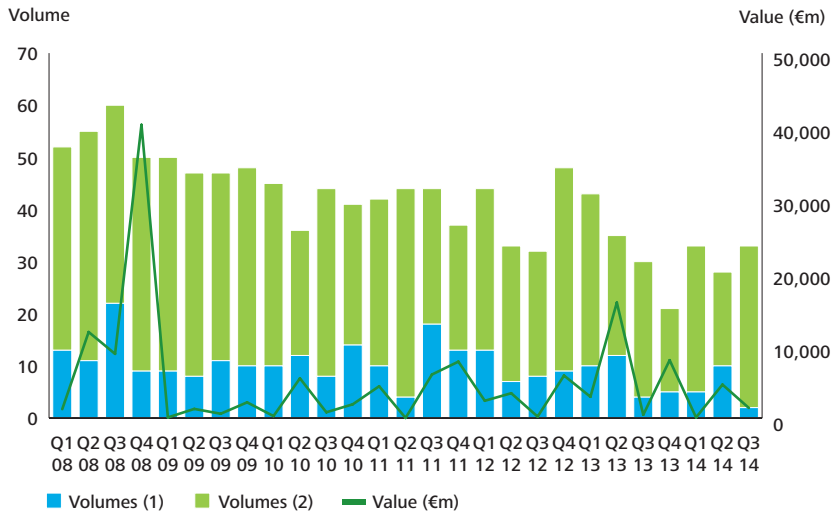
There is a pipeline of corporate and private equity/bank held assets expected to come to market towards the middle of the year and include Exponent's Quorn business and, separately, the sale of a stake in Bakkavor.

### Top 10 completed Food deals in 12 months to December 2014

Date	Target	Target Nation	Value (€m)	Acquiror	Acquiror Nation	Deal Rational
Nov-14	United Biscuits Limited	United Kingdom	2,530	Yildiz Holdings AS	Turkey	Expand market share in the overseas biscuit and snacking markets
Oct-14	WILD Flavors GmbH	Switzerland	2,300	Archer Daniels Midland Co	United States	Long-term strategy to reduce volatility of revenue streams
Jul-14	Diana Ingredients SAS	France	1,300	Symrise AG	Germany	Creation of integrated flavour company with strong focus on emerging markets
Sep-14	Campofrio Food Group SA	Spain	705	Investor Group	China	Recovery play investment in Spanish meat processing market
Mar-14	Cloverhill Pastry-Vend LLC	United States	485	Aryzta AG	Switzerland	Enlarges US bakery North American footprint
Sep-14	Shanghai Golden Monkey Food	China	427	Hershey Netherlands BV	Netherlands	Expansion of candy business into China
Jan-14	Tilda Ltd	United Kingdom	261	Hain Celestial Group Inc	United States	Acquisition of UK's 2nd largest rice brand with international growth appeal
Apr-14	Pineridge Bakery Inc	Canada	245	Aryzta AG	Switzerland	Acquisition of Canada-based bakery group to enhance portfolio in North America
Jun-14	Biscuits Poult SAS	France	170	Qualium Investissement SAS	France	Long-term investment with a strategy for expansion in the European biscuit market
Nov-14	Inalca SpA	Italy	165	Investor Group	Italy	Qatar and Italian state funds invest in Italian meats and snacks business
Jan-14	DeMet's Candy Co	United States	161	Yildiz Holding AS	Turkey	Major Turkish confectioner acquires US confectionery business
		<b>Total value</b>	<b>8,749</b>			

# M&A Market – Beverage sector

Chart 13. Beverage sector



Source: Thomson Reuters, Deloitte analysis

Note: Volumes (1) denotes volumes of deals where value is disclosed. Volumes (2) denotes volumes where deal values are not disclosed.

As 2014 came to a close, it marked a 12 month period of both renewed interest and M&A activity in the beverage sector.

The year opened with Suntory's acquisition of Lucozade Ribena, which it then followed rapidly with its successful bid for Jim Beam in the US, casting a significant spotlight on the beverage sector more generally.

Whilst in the UK (and Europe more broadly) the intensity of competition amongst retailers has been experienced by suppliers and producers alike, it has also acted as a catalyst for M&A activity; whether in the form of consolidation (to drive economies of scale), geographic expansion (to capture growth) or portfolio realignment (acquiring established brands and divesting non-core assets).

The whisky sector saw a number of significant deals. Diageo successfully divested of Whyte & MacKay to Emperador, to address a regulatory requirement, this followed Diageo's strategic acquisition of United Spirits to gain greater access to the Indian spirits market. Private equity house Exponent acquired Loch Lomond, one of the few remaining independent whisky producers, as it looks to tap into the ongoing growth in exports to developing markets, whilst William Grant picked up Drambuie, as it looked to strengthen its brand portfolio and leverage its greater distribution network to drive growth.



Rumours of a mega-merger of major beer players continued to persist in 2014, however actual activity has been limited to the acquisition of craft or territory leading brands.

AB InBev's repurchase of Oriental breweries earlier in 2014, was followed by it also increasing its stake in China's Sipsong Ginsber Drafft Beer, as it looks to tap into growth in the Asian market. SABMiller's announcement to enter into a joint venture with Coca Cola reflects its focus on bolstering its soft drinks footprint across sub-Saharan Africa. The auction of Pivovarna Lasko, Slovenia's largest brewery group, recently won by Heineken, offered the potential to acquire a leading local market brand, with both trade and private equity buyers competing for the asset highlighting significant investor interest in brands with a leading market position. Increased interest in the fast growing craft brewing sector is also attracting deal focus, with SABMiller's acquisition of Meantime being a prime example.

There were also some market rumours of a bid by 3G Capital to acquire a major spirits player but these appear to be pure speculation at the moment.

Whilst the soft drinks market activity was more organically focussed in 2014 (with the launch of lower sugar variety drinks such as Coca Cola Life and Pepsi True), the listing of Fever Tree in November 2014 on the London Stock Exchange marked a successful exit for LDC and highlighted investor appetite for a differentiated premium mixer business.

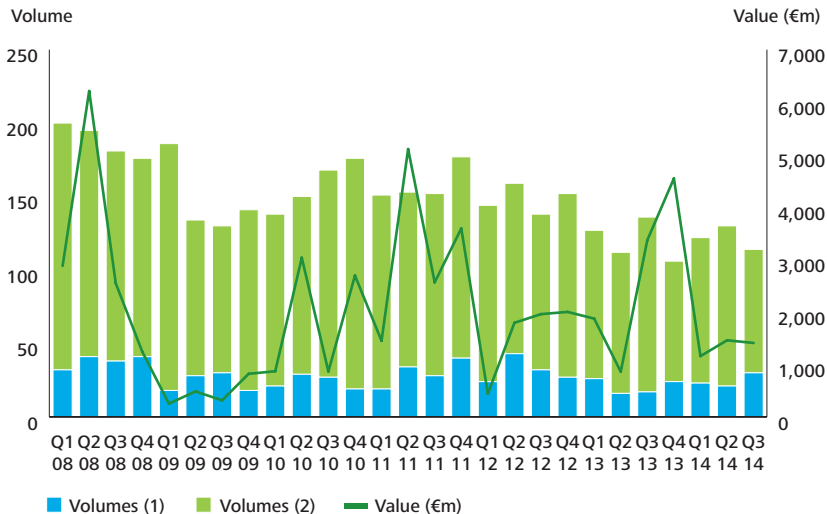
The coffee and tea sector has also seen significant activity following the proposed merger of DE MasterBlenders and Mondelez International in May 2014, which created a business with revenues in excess of \$7 billion. This proposed merger, in turn, has triggered the planned disposal in 2015 of Mondelez's Carte Noire brand with significant interest from both trade and private equity buyers.

#### Top 10 completed Beverage deals in 12 months to December 2014

Date	Target	Target Nation	Value (€m)	Acquiror	Acquiror Nation	Deal Rational
Apr-14	Oriental Brewery Co Ltd	South Korea	4,276	Anheuser-Busch Inbev	Belgium	Regaining foothold in South Korean brewing market and strengthens position in South East Asia
Jul-14	United Spirits Ltd	India	1,376	Relay BV	Netherlands	Increased investment to hold controlling stake in leading Indian market spirit company
Oct-14	Whyte & Mackay Ltd	United Kingdom	526	Emperador UK Ltd	United Kingdom	Enhancement of product portfolio with established whisky brand
Jun-14	Forty Creek Distillery Ltd	Canada	120	Davide Campari-Milano SpA	Italy	Growth acceleration in its core US market
Jun-14	Fratelli Aversa SpA	Italy	104	Davide Campari-Milano SpA	Italy	Adds further to its existing portfolio of premium brands
Dec-14	SUMOL+COMPAL Marcas SA	Portugal	88	COPAGEF SA	France	Castel brand owner builds stronger position in African juice markets
Feb-14	Bodega Las Copas SL	Spain	61	Grupo Emperador Spain SL	Spain	Strategic focus on establishing a large scale footprint in the global brandy market
May-14	Aimia Foods Group-Subsidiaries	United Kingdom	59	Cott Corp	Canada	Acceleration of diversification strategy on both hot and cold beverage platforms and foodservice relationships
Dec-14	Co Group Alita AB	Lithuania	21	UAB Mineraliniai Vandeny	Lithuania	Expansion in the alcoholic beverages sector in the Baltic Region
Dec-14	J Garcia Carrion SA	Spain	16	Garcia Carrion	Spain	Repurchase of full stake in Spanish soft beverage/wine company
<b>Total value</b>			<b>6,647</b>			

# M&A Market – Personal & household products, apparel and other sectors

Chart 14. Personal & household products, apparel and other



Source: Thomson Reuters, Deloitte analysis

Note: Volumes (1) denotes volumes of deals where value is disclosed. Volumes (2) denotes volumes where deal values are not disclosed.

Companies operating in personal & household products (collectively Personal and Home Care), and apparel have continued to seek targets which provide access to new geographies, strengthen their portfolios or enable brand diversification.

L’Oreal made its biggest investment to date via its acquisition of Magic (China’s leading brand of facial masks) to give it a foothold in the Chinese beauty market. The cosmetics giant also acquired Decl or to support its strategic intent to become a major player in the professional beauty market.

Unilever recently acquired Kate Somerville, a leading skin care brand based in the US to increase its presence in the high value prestige category. In addition, it also acquired the Camay (global luxury soap brand) and Zest (Mexico’s leading soap brand) brands from P&G. These, coupled with the acquisition of Talenti in the ice-cream category, reflects Unilever’s appetite to acquire assets in specific high growth categories or markets.

Household products, especially furnishings and appliances, may be benefiting from strengthening real estate markets as shoppers seek to refurbish and furnish their homes. One such example is the acquisition of Victoria Plumb, the online bathroom retailer, by TPG Capital.

At the more luxury end of the market, Haworth bought Poltrona Frau in an effort to create a global operator in the luxury furnishing market, opening up new distribution channels and market segments to the US office furniture giant.

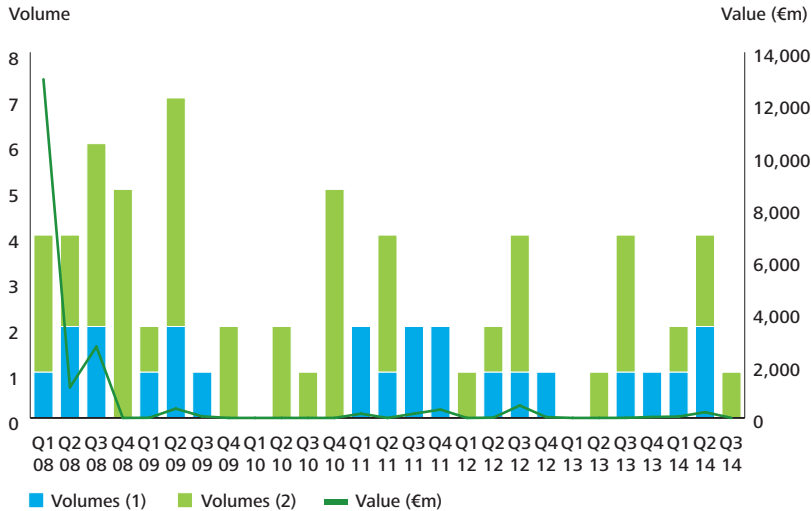
At the time of going to print, Coty announced the acquisition of Wella, Clairol, MaxFactor, Covergirl and the premium fragrances business from P&G through an auction process. This circa \$12bn deal will make Coty a key player in the global personal care category.

**Top 10 completed personal and household products deals over €50m in 12 months to December 2014**

Date	Target	Target Nation	Value (€m)	Acquiror	Acquiror Nation	Deal Rational
Oct-14	Indesit Company SpA	Italy	758	Whirlpool Italia Holdings Srl	Italy	Majority stake to solidify and maintain a foothold in the European appliances market
Apr-14	Magic Holdings Intl Ltd	China	632	L'Oreal SA	France	Expansion in the high growth Chinese cosmetics market
Jan-14	Laboratorios Indas SAU	Spain	425	Domtar Corp	Canada	Expands its personal care business into Europe
Jul-14	Abasic SL	Spain	285	Eurazeo SA	France	Strategy to expand in Europe and consolidate development internationally
Apr-14	Victoria Plumb Ltd	United Kingdom	241	TPG Capital LP	United States	TPG invests in leading e-commerce bathroom retailer
Apr-14	Laboratoires Declor SAS	France	230	L'Oreal SA	France	Strategy to focus on hair care business and Asia markets
Mar-14	DFS Furniture-Property	United Kingdom	210	LMP Retail Warehouse JV Property Unit Trust	United Kingdom	Portfolio expansion
Jul-14	Fenix Outdoor AB	Sweden	207	Nidron Holding AG	Switzerland	Portfolio expansion
Sep-14	WMF AG	Germany	188	Finedining Capital GmbH	Germany	KKR acquires German cutlery maker with substantial growth opportunities in Asia and the USA
May-14	Poltrona Frau SpA	Italy	134	Haworth Inc	United States	Enhances long-term growth strategy
		<b>Total value</b>	<b>3,310</b>			

# M&A Market – Tobacco sector

Chart 15. Tobacco sector



Source: Thomson Reuters, Deloitte analysis

Note: Volumes (1) denotes volumes of deals where value is disclosed. Volumes (2) denotes volumes where deal values are not disclosed.

Broadly speaking, the historical M&A activity in the tobacco sector has been characterised by:

- the consolidation of the major players with substantial deals being infrequent but significant;
- the expansion of major players into either developing or markets where state owned local players are being privatised;
- the continued diversification of major players into smokeless tobacco and tobacco harm reduction products; and
- the consolidation of specialised e-cigarette companies.

The US mega-merger of leading US players Reynolds Tobacco and Lorillard resulted in a shake-out, to navigate competition rules, of a number of key cigarette brands (Winston, Maverick Kool and Salem) as well as Blu e-cigarettes, which were acquired by Imperial Tobacco. In addition, BAT moved to subscribe for additional shares in the enlarged Reynolds group to maintain its existing 42% shareholding.

Separately, Japan Tobacco has been active with its acquisition of 40% of its listed Malaysian business that it did not already own, which follows on from its acquisition of Zandera (owner of “e-lites” in the UK) in 2014 and the more recently proposed acquisition of Logic, US e-cigarette business (announced in April 2015).

To date Victory Electronic Cigarettes has made three acquisitions in the UK to provide a platform for European growth and consolidate local players.

We expect ongoing deal activity in the e-cigarette space, particularly for companies that:

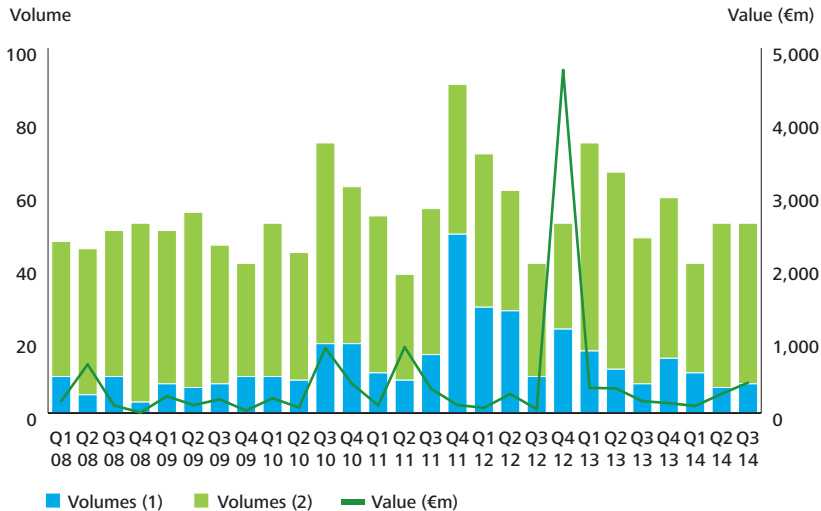
- provide a platform for growth in new geographical markets;
- have a multi-channel distribution model; and
- have a portfolio of products covering the disposable and rechargeable e-cigarette categories, together with refills and accessories.

**Top 10 completed Tobacco deals in 12 months to December 2014**

Date	Target	Target Nation	Value (€m)	Acquiror	Acquiror Nation	Deal Rational
Jun-14	JT International Bhd	Malaysia	184	JT International BV (Japan Tobacco Inc)	Netherlands	Increased stake to solidify position in the market
Jun-14	Ten Motives Limited	United Kingdom	76	Victory Electronic Cigarettes Corporation	United States	Consolidation of e-cigarette market
Jan-14	The VAPESTICK Group Ltd	United Kingdom	51	Victory Electronic Cigarettes Corp	United States	Consolidation of e-cigarette market
Apr-14	VIP Electronic Cigarette Ltd	United Kingdom	36	Victory Electronic Cigarettes Corp	United States	Consolidation of e-cigarette market
<b>Total value</b>			<b>347</b>			

# M&A Market – Agriculture and livestock sector

Chart 16. Agriculture & livestock sector



Source: Thomson Reuters, Deloitte analysis

Note: Volumes (1) denotes volumes of deals where value is disclosed. Volumes (2) denotes volumes where deal values are not disclosed.

The downward trend in commodity prices in 2014 looks to have continued into 2015. This has tended to dampen M&A activity other than where a consolidation strategy is underway. The general fall in profitability in this subsector is being driven by a number of factors including an increased supply of commodity crops, falling consumption of fresh produce, the Russian import ban leading to excess supply in Europe, coupled with supermarkets continuing to strive for price competitiveness above all else, potentially at the expense of quality and provenance.

There is, however, a considerable growing interest by institutions in obtaining a long term exposure to agricultural land as illustrated by The Wellcome Trust's acquisition of the Co-op's farming business for £250m. The sheer scale of this opportunity captured the attention of many interested global institutions who are, on the whole, looking for large blocks of such assets to build their exposure. It also signalled the willingness of such funds to acquire an operating company, as well as the underlying assets, to enhance yields. The base case for acquiring land remains strong – especially in politically stable countries – offering favourable yields when compared to other asset categories.



In the UK, supermarket procurement strategies continue to evolve under the watchful eye of an active regulator. ASDA already has a well developed procurement arm (International Produce Limited) which has acquired suppliers in certain segments (e.g. Fenmarc) and continues to work with other suppliers who are consolidating or forming supply joint ventures (Produce World with Lincolnshire Field Products). Dairy and food production businesses continue to face the challenge of delivering ongoing cost efficiency and we would expect more mergers and joint venture activity (as illustrated on a European scale with the Univeg/Greenyard Foods tie-up). The ongoing pressure on profitability growth is also seeing some interesting wider global consolidation plays with Monsanto's offer for Swiss-based pesticide maker Syngenta, with the potential for similar transactions to happen in other agri-related sectors.

That said, the long term strategic importance of agricultural land and food production remains strong. We would also expect renewed interest in funds for investment in primary production and production innovation.

### Top completed Agriculture and Livestock deals in 12 months to December 2014

Date	Target	Target Nation	Value (€m)	Acquiror	Acquiror Nation	Deal Rational
Nov-14	Cermaq ASA	Norway	1,089	MC Ocean Holdings Ltd	United Kingdom	Strengthening position to become the world's 2nd largest salmon producer
Aug-14	Co-operative Group-Farm Business	United Kingdom	313	Gower Place Investments Ltd, wholly owned subsidiary of the Wellcome Trust	United Kingdom	Building of position in the agriculture land (farm) market
Oct-14	Nova Austral SA	Chile	134	Ewos AS	Norway	Acquisition of distressed business in the Chilean fish farming market
Jun-14	Bonifiche Ferraresi SpA	Italy	104	B.F. Holding SpA	Italy	Building of stake in the agriculture manufacturing market
May-14	Bergvik Skog AB	Sweden	99	Stora Enso Oyj	Finland	Increasing investment in the development of forest nurseries, and production and supply of wood products
Dec-14	Acuinova Chile SA-Salmon Asts	Chile	93	Marine Harvest ASA	Norway	Building sustainable production capability in Chilean salmon farming market
Jan-14	ATF	Russian Fed	47	OOO Virma	Russian Fed	Establishment of footprint in the Russian fishing and fish processing market
Nov-14	Spojene farmy as	Czech Republic	44	Czech Property Investments as	Czech Republic	Entry into the agriculture business via European market
Dec-14	Stofnfiskur hf	Iceland	39	Benchmark Holdings Plc	United Kingdom	Access to all-year round salmon egg production
<b>Total value</b>			<b>1,962</b>			



# Global M&A drivers

- 2014 ended with a bang and globally around \$3.3 trillion worth of deals were announced the highest level since 2008. The global consumer business sector also saw uptick in deals in 2014 with a total of \$401 billion worth of announced deals, an increase of 38% over 2013. Europe saw the most significant increase in deal making, there was a 51% increase in deal values over 2013.
- Consolidation is still the major theme that is driving large deals, the obvious one being the merger of Mondelez and DE Master Blenders combining their coffee businesses to gain economies of scale and cost synergies. Increasingly growth is coming back as a strong driver for deal making. Some of the growth oriented deals include Suntory's acquisition of Beam, Post Holding's acquisition of Michael Foods.

- Consistent with European deal drivers, many companies are reviewing their portfolio of assets and divesting non-core assets, which we believe is likely to be one of the key themes of 2015. The divestment of non-core consumer businesses divisions, such as Maersk's divestment of Dansk Supermarked or P&G's pet food sale to Mars underlines this theme. The availability of prized assets is sparking fierce competition between private equity and strategic buyers. For instance, the sale of Co-op's pharmacy business sparked interest from both private equity buyers such as Carlyle, Charterhouse etc. as well as the strategic buyers such as Alliance Boots, with eventually Bestway Group picking up the asset.

## Divestments

- Global consumer business divestment values reached \$129 billion in 2014, its highest level since 2007, with divestment volumes showing a 65% increase compared to 2013. This trend is expected to continue with, Procter & Gamble announcing a major strategic review of its portfolio and planning to divest several high profile brands such as Duracell and Wella over the coming year.

- As the economic recovery continues to take hold, many companies are looking to strategically realign themselves towards core businesses that generate sustainable growth. This strategic realignment is expected to unleash another wave of divestments that is also expected to bring previously scarce high quality assets to the market. Such divestments are giving companies the opportunity to free up cash, pay down debt and more importantly reallocate capital and resources towards other growth activities. In fact, in a separate Deloitte Global Divestment Survey, 87% of the executives polled expected to make a divestment in the next three years.
- The pressure to divest assets for strategic realignment purposes is also coming from external sources. Shareholder activism has returned with force and the annual number of activist events has been rising over the last few years. Divestment of non-core assets is high on the activist agenda. It is estimated that 45% of the activists who initiated public campaigns in 2014 made demands relating to M&A activities.
- A Deloitte study of whether divestments can create shareholder value for buyers and sellers analysed the short and long share price performance of a number of companies over a seven year time horizon. Our findings highlighted that given the appetite for good quality assets in the current market conditions, if executed well, divestments can create value for both the buyers and sellers. Our findings indicate that both sellers and buyers of divested assets outperform their relative share price index by three times.

# Deloitte view

Going forward we expect levels of deal activity to increase as companies and investors continue to focus on delivering growth, divestment of non-core assets and react to consolidation and expansionary strategies of competitors. This is happening against a backdrop of an improving economic environment and relatively plentiful and available institutional credit.

In particular, at a macro-level we expect three significant themes to play out:

- Given the strengthening of the US dollar, US based businesses will look to use their considerable scale and cash reserves to acquire scale assets in Europe.
- Large strategic players will continue to monitor and divest low growth and non-core assets as deal valuations increase and exceed internal return on capital benchmarks.
- Asian buyers especially from Japan, China and South East Asia will continue to acquire brands to distribute in their home markets or acquire manufacturing and distribution assets in developed markets to enable them to manufacture and distribute their own products.

The food sector continues to look to address general issues around health and wellbeing and provenance of goods, which in turn may drive focused investments that play to healthy living themes and the potential divestment of brands that do not align to this strategy.

The beverage sector continues to see high levels of activity from both strategic and financial buyers, which is being driven by consolidation, geographic expansion and portfolio realignment strategies, with the focus being on gaining access to high growth markets or market leading positions.

The luxury brands and personal care market is likely to remain focussed on harnessing the growth in buying power in the rising affluent classes in a number of high growth markets, namely South East Asia, China and Latin America.

# Our Consumer Business M&A specialists

Our team of M&A experts across the firm have extensive experience in providing innovative industry specific solutions to the Consumer Products industry. If you would like to discuss any of the findings in this survey or find out more about our services to the Consumer Products industry, please contact one of the specialists listed below:

## Authors



**Conor Cahill**

**Partner, Financial Advisory**

+44 20 7007 4379

[conorcahill@deloitte.co.uk](mailto:conorcahill@deloitte.co.uk)

Conor is a UK Partner based in our Transaction Services practice with over fourteen years of transaction experience with both corporate and private equity clients. Conor specialises in the Consumer Products industry and has extensive experience in delivering complex cross border acquisitions and disposals for many of the FTSE 100 and 250 companies across the food and beverage sector.



**Sandeep Gill**

**Partner, Financial Advisory**

+44 20 7303 3325

[sandeepgill@deloitte.co.uk](mailto:sandeepgill@deloitte.co.uk)

Sandeep is a UK Partner who specialises in the Consumer Products industry and has extensive experience leading cross-border transactions for both corporate and private equity investors in India, Africa, Europe, Asia, South America and the United States. Sandeep also has extensive experience in advising clients on growth market strategy and M&A execution.



**Richard Hooper**  
Director, Financial Advisory  
+44 20 7007 0440  
rihooper@deloitte.co.uk

Richard is a Director based in our London Transaction Services group with extensive transaction experience with corporate and private equity clients, and working in both buy side and sell side roles. He has worked with many of the FTSE 100 and 250 Consumer Products companies across the tobacco, food and beverage sectors.



**Mark Hill**  
Partner, Audit  
+44 117 984 2870  
mahill@deloitte.co.uk

Mark has been a Partner in our Assurance and Advisory practice since 1990, and heads our UK Food and Agriculture Group. His clients are across the supply chain and include agricultural input suppliers, producer cooperatives and food processors as well as many large arable, fruit and veg, dairy, pig and poultry farms. He has a degree in Agriculture and over 20 years' experience advising agribusiness in both the UK and abroad.



**Richard Crane**  
Partner, Audit  
+44 1223 259544  
ricrane@deloitte.co.uk

Richard is an Audit Partner of Deloitte in Cambridge of 15 years standing and throughout that time he has focused on the food and agriculture industries, both in the UK and overseas. He has a very strong and unique understanding of the whole of the food chain from raw material production to processing to selling to retailers.



**Anthony Reid**  
Director, Consulting  
+44 20 7007 9122  
anthonyreid@deloitte.co.uk

Anthony is a Director in Deloitte's strategy practice with over 15 years experience advising a broad set of clients, including corporates, private equity firms, and banks, on strategic, market and commercial issues. His expertise includes portfolio reviews, performance improvement plans, channel strategies, synergy reviews, new market entry strategies and commercial due diligence across consumer products and retail.



# Our Consumer Business M&A specialists

## Leadership

### **Richard Lloyd-Owen**

Global Consumer  
Business M&A Leader

+44 20 7007 2953

[rlloydowen@deloitte.co.uk](mailto:rlloydowen@deloitte.co.uk)

### **Iain Macmillan**

UK Consumer Business  
M&A Leader

+44 20 7007 2975

[imacmillan@deloitte.co.uk](mailto:imacmillan@deloitte.co.uk)

### **Nigel Wixcey**

UK Consumer Business  
Leader

+44 20 7303 5007

[nigelwixcey@deloitte.co.uk](mailto:nigelwixcey@deloitte.co.uk)

### **Howard da Silva**

Switzerland Consumer  
Business Leader

+41 58 279 62 05

[hdasilva@deloitte.ch](mailto:hdasilva@deloitte.ch)

## Contributors

### **Ben Perkins**

Head of Insight  
Consumer Business

+44 20 7007 2207

[bep Perkins@deloitte.co.uk](mailto:bep Perkins@deloitte.co.uk)

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Designed and produced by The Creative Studio at Deloitte, London. 44736A