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Consumer Products M&A Insights

Spring 2016

Contents

Foreword

In this, our latest Consumer Products M&A Insights review, we look back on 2015 as a year of significant European deal activity set against a backdrop of improved consumer confidence together with investors carrying significant accumulated funds to deploy.

From a UK economic perspective, consumer confidence returned with the GfK index in positive territory for the entire year. This was coupled with a return to a positive trend in real growth in earnings over an extended period for the first time since mid-2010. The increase in confidence was mirrored by an increase in 2015 deal activity with 36 large (+€200m) European deals with a combined value of €142.9billion ahead of the 34 deals with a value of €39.7 billion in 2014.

A significant highlight of 2015 was the €95.5 billion megadeal between ABInBev and SABMiller which, representative of many large deals, is likely to trigger further M&A activity amongst its competitors but also, importantly, resulted in follow-on divestments (namely the disposal of its share in the Molson Coors JV, the sale of its European Peroni, Grolsch and Meantime brewing assets, and sale of its 49% stake in China Resources Snow Breweries).

Similarly, the Reynolds Tobacco/Lorillard deal also triggered further activity by Imperial Tobacco and BAT as a direct consequence.

The Food & Beverage sector continues to be active, accounting for over half of major (+€200m) European deal activity, and has proved to be a favourable hunting ground for a number of major overseas investors.

Latin American headquartered companies have been particularly active with Brazil's JBS acquiring UK's Moy Park (meat processing), Brazil's BRF (via its Austrian subsidiary) acquisition of Thailand's Golden Foods for poultry production, Grupo Cuervo's swap of assets with Diageo – Jose Cuervo for Diageo's Old Bushmills whiskey and Alfa SAB's bid for Campofrio (meat processing).

We also saw clear examples of other overseas buyers flexing their financial muscle with Philippines' Monde Nissin delivering a knock out bid for Marlow Foods (Quorn), as did Asahi for SAB Miller's selected European brewery assets.

One of the other themes to emerge is that of ongoing sector consolidation with Nomad Foods reinforcing its position in the frozen food market with its acquisition of both Iglo Group and Findus. Elsewhere JAB Holdings, a major shareholder in DE MasterBlenders, further consolidated its position in the global coffee market with its acquisition of Keurig, having previously acquired some of Mondelez's coffee business.

In terms of the outlook for deal activity for 2016, the picture remains less certain. Our most recent CFO survey indicated that business confidence may be stalling over the sustainability of the global recovery and the impact of uncertainty over the UK's referendum on EU membership amongst other potential economic shocks. These factors have, in turn, appeared to have shifted CFOs to adopt more defensive strategies.

However, there a number of more positive reasons why the momentum in deal activity is likely to continue in 2016:

- the relative decline in the strength of the Euro and Sterling against other major global currencies;
- the presence of overseas buyers and private equity investors with significant war chests;
- the attractive multiples being achieved by sellers at the moment.

On this latter point we would expect major companies to continue to take the opportunity to divest non-core branded assets such as Procter & Gamble's divestment of its international brands to Henkel. Other such current processes include Mondelez's proposed disposal of its Philadelphia branded cream cheese business and Two Sisters' planned divestment of its Fox's biscuits business.

Taking all this into account, 2016 offers the prospect of another active year for M&A in the Consumer Products sector, with continued investor interest, particularly through the Asian and US deal corridors into the European market.

Kind regards,

Conor Cahill

Conor Cahill
Partner, Financial Advisory

Economic outlook – UK

- In 2015, the UK economy put in a resilient performance with GDP rising by 2.2%, albeit down on the 2.9% growth recorded in 2014 and with future growth indications tuned downwards to c. 2.1% in the Chancellor's recent budget. While the 2015 performance represents the slowest rate of annual growth for three years, the UK still remains one of the fastest growing of the developed nations.

- Continuing uncertainty over a potential Brexit, slowing global demand and volatility in financial markets remain a concern for the corporate sector, with the Deloitte CFO Survey showing that both business confidence and risk appetite are trending down.

- UK consumer confidence, as measured by the UK GfK Consumer Confidence Index, recorded a promising increase in January 2016 recording a level of +4, however this had been pegged back to zero at the end of February 2016. Confidence in personal finance remained strong given the end to a six year squeeze on incomes, low interest rates and inflation having created a benign environment for UK consumers. However, concerns over the general economic situation over the next 12 months have eroded overall confidence levels, nonetheless the UK GfK Major Purchases Index remains positive at +12.

In 2015, the UK economy put in a resilient performance with GDP rising by 2.2%, (albeit) with future growth indications tuned downwards to c.2.1%. The UK still remains one of the fastest growing of the developed nations.

- Unemployment remains at a ten-year low, falling again in December 2015. Wages continue to rise, albeit at a slower rate of 1.9%, down from the 2015 peak of 3.3%. With inflation at 0.3%, consumers should still feel a positive impact in their pockets. However, questions remain over why the strength of the job market has yet to translate into stronger and more sustained wage growth as well as how the introduction of the National Living Wage in April 2016 will impact on employment prospects for 2016, particularly given our expectation for many businesses to focus on productivity increases.

- Inflation edged up to 0.3% in January 2016, its highest rate for a year, driven by a lower decline in energy prices than in January 2015. However the consensus view for 2016 is that inflation and interest rates will remain at a low level, which combined with low mortgage rates and intense competition in the grocery market, will continue to take pressure off consumers spending on non-discretionary items.

- Borrowing costs also remain at a historically low level and through 2015 we saw a rise in unsecured lending and a decline in the savings ratio as consumers appeared happy to increase their personal leverage, borrowing more and saving less.

- The outlook for 2016 is, on the whole, positive with GDP growth forecast to be at or near the same level as in 2015. However, some clouds remain on the horizon, with uncertainty over the ongoing strength of consumer spending coupled with the slowdown in growth in emerging markets, a potential Brexit and continuing volatility in the financial markets.

The 'UK GfK Consumer Confidence Index' remained positive throughout 2015 (ending at +2 in Dec-15, compared to -4 in Dec-14), the first time it has done so since the start of the Consumer Confidence Barometer in 1974. A strengthening UK job market, continuing levels of low-inflation (with sharp falls in petrol prices) and interest rates have boosted UK consumer confidence about their own personal economic situation and the outlook for the next 12 months. (see figure 1).

Improvements in discretionary income and consumer confidence in short-medium term outlook drove the 'UK GfK Major Purchases Index' from +5 in January 2015 (then a seven-year high) to +7 in December 2015, with the number of shoppers agreeing that "now" is a good time for people to make major purchases such as furniture or electrical goods peaking in June 2015 and August 2015 at +17. (see figure 2).

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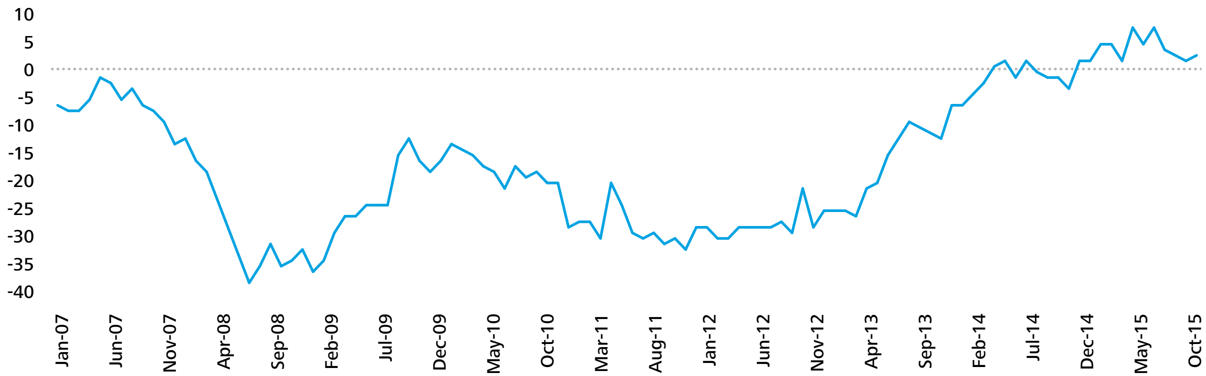
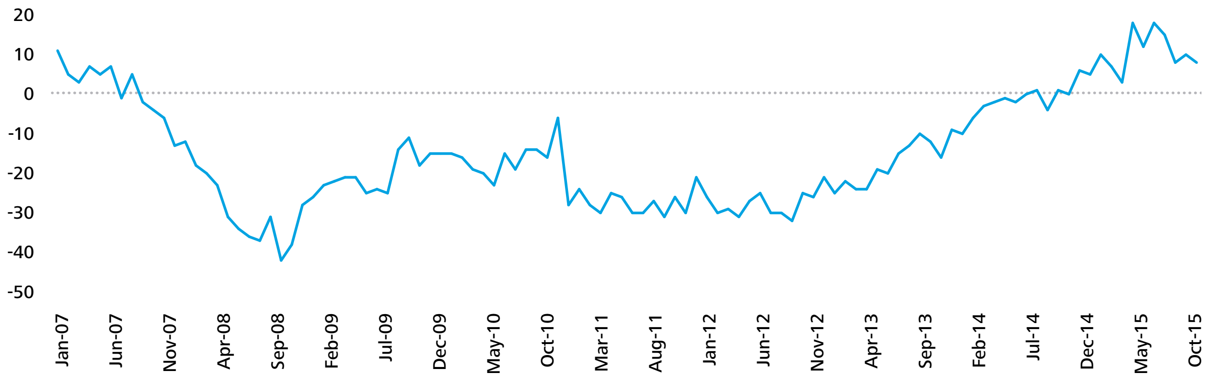
Figure 1. GfK Consumer Confidence



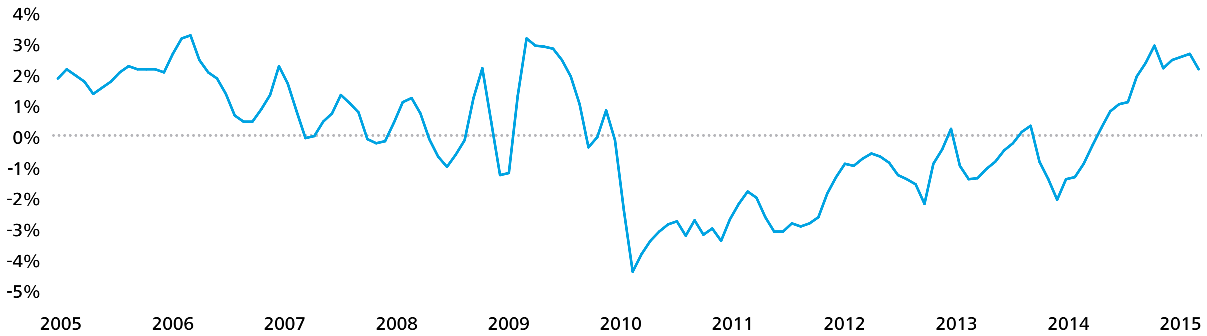
Source: GfK

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



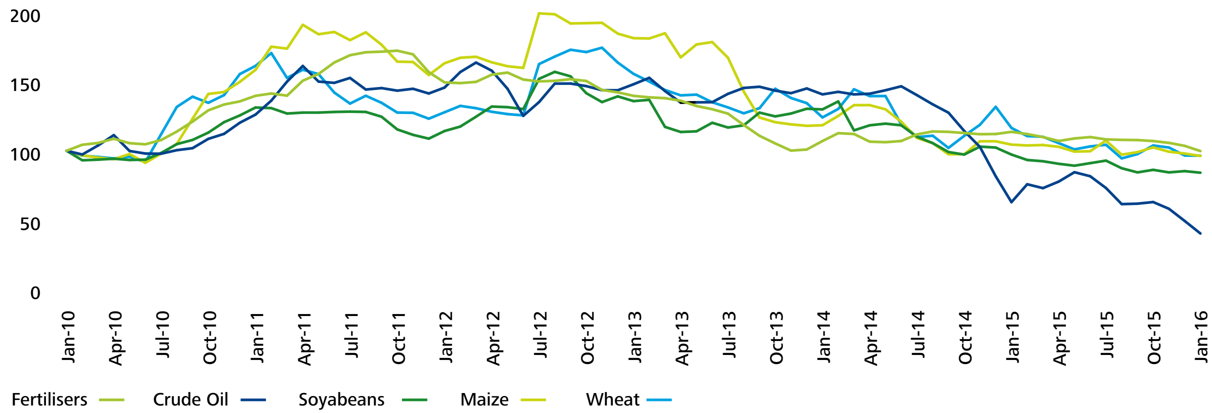
Source: GfK

Figure 3. Real growth in earnings after taxes (%)



Source: ONS

Figure 4. Selected commodities



Source: World Bank
(Indexed to January 2010 = 100)

Improvements in real earnings (adjusted for tax and inflation) continued with average household incomes in the UK back to pre-financial crisis levels. Median household disposable income in the UK rose to £25,700 in the year to Dec-15, up £1,500 from the year before and marginally above the £25,400 pre-recession level, according to the Office for National Statistics figures. The new National Living Wage from April 2016 is expected to deliver a further boost to pay packets; however, its potential impact on employment levels remains uncertain. (see figure 3).

Agri-commodity prices continued to decline in 2015, with the decline in crude oil prices during the second half of 2015 being the most prominent (close to 40% decline since the start of the year). The continuing decline in prices seen in the early part of 2016 is likely to favourably impact consumer spending in 2016. (see figure 4).

Median household disposable income in the UK rose to £25,700 in the year to Dec15, up £1,500 from the year before and marginally above the £25,400 pre-recession level, according to the Office for National Statistics figures. The continuing decline in commodity prices seen in the early part of 2016 is likely to favourably impact consumer spending in 2016.

Corporate risk appetite

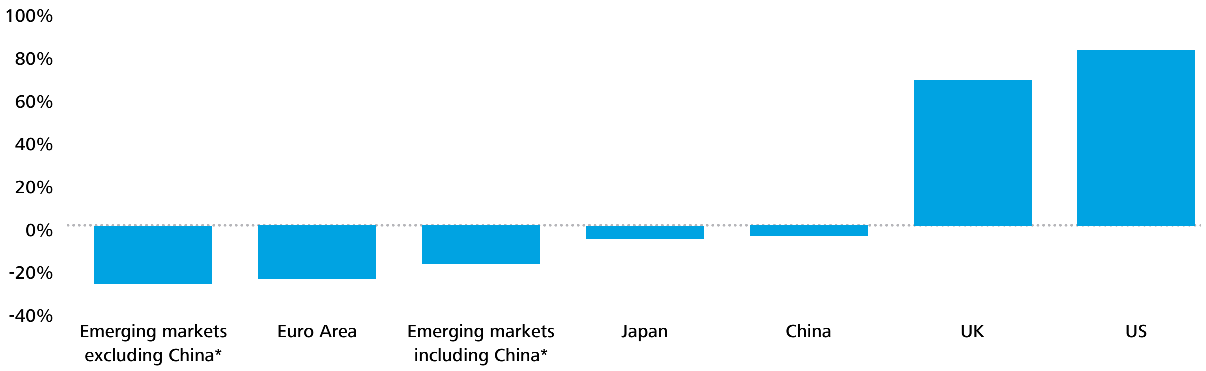
The Deloitte CFO Survey is the only survey of major corporate users of capital that gauges attitudes to valuations, risk and financing. The following charts are from the Q4 2015 survey.

CFOs are optimistic about the UK's economic prospects in 2016 as well as for the US, the world's largest economy. But despite stronger than expected growth in the Euro area last year, CFOs remain pessimistic about prospects for the region, with confidence levels about growth in the Euro area lower than for emerging market economies. (see figure 5).

The decline in the FTSE 100 UK equity index since last summer has been accompanied by a softening in corporate risk appetite with the proportion of CFOs who think now is a good time to take risk having dropped to 37% in Q4 2015 from 47% in Q3 2015 and compared to a peak of 72% in Q3 2014. (see figure 6).

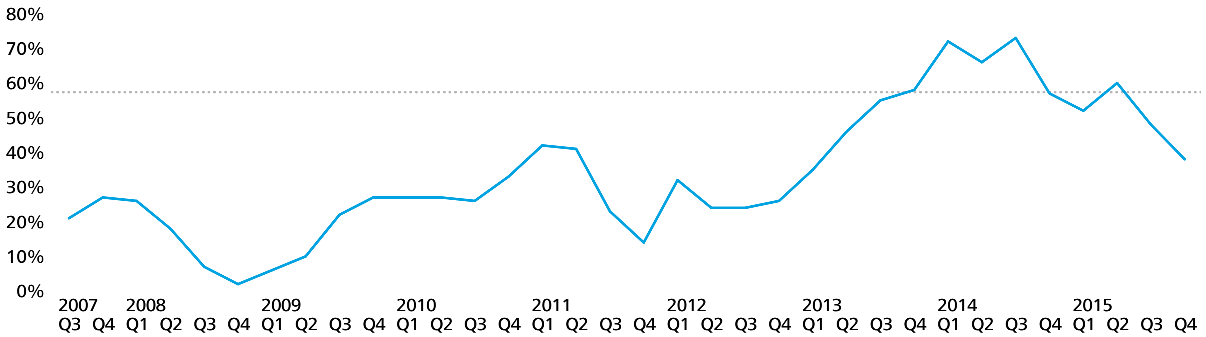
The decline in the FTSE 100 UK equity index since last summer has been accompanied by a softening in corporate risk appetite.

Figure 5. Growth prospects
Net % of CFO respondents who are optimistic about prospects of growth in the following regions in 2016



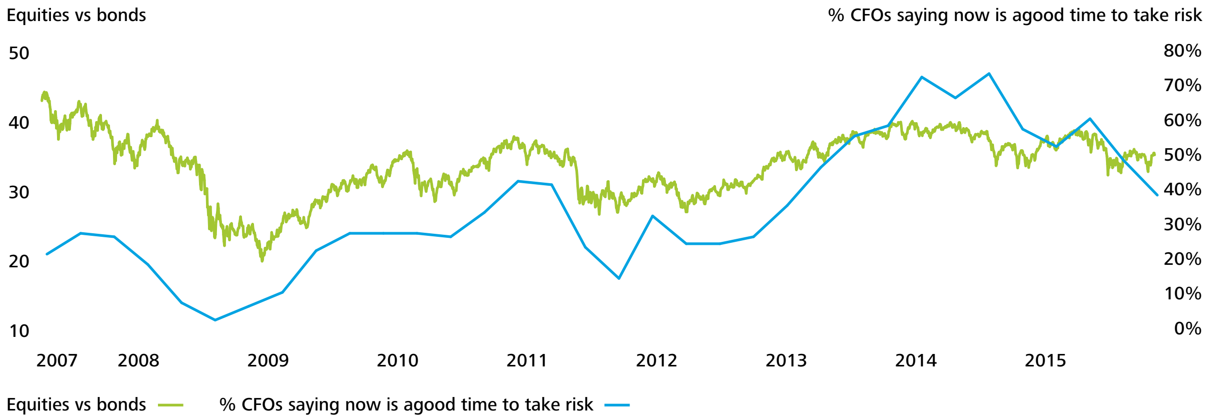
Source: Deloitte CFO Survey

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



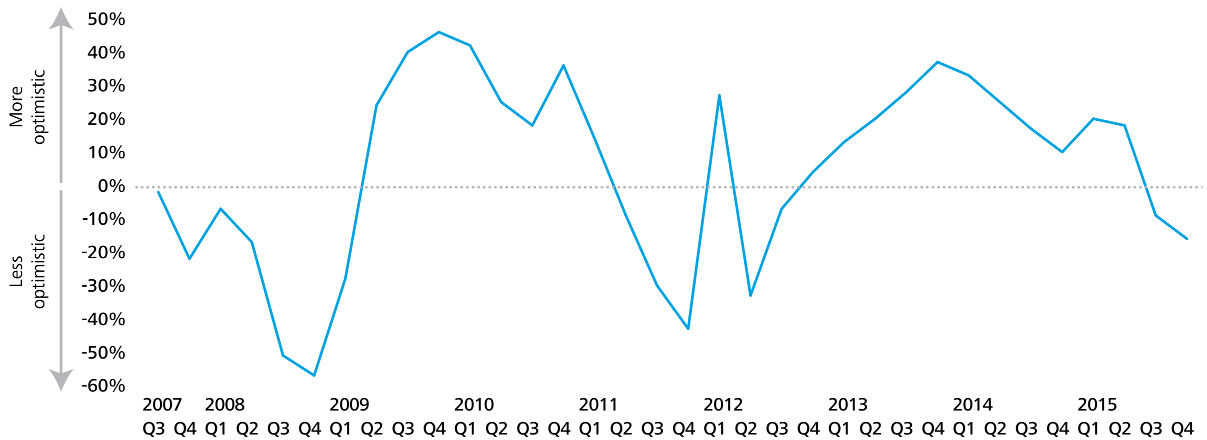
Source: Deloitte CFO Survey

Figure 7. CFO and investor risk appetites
% of CFOs who think this is a good time to take greater risk onto their balance sheets and change in UK equities over bonds



Source: Deloitte CFO Survey

Figure 8. Business confidence
Net % of CFOs who are more optimistic about financial prospects for their company now than three months ago



Source: Deloitte CFO Survey

The decline in investor risk appetite mirrors the decline in corporate risk appetite, as growing investor caution saw investments being moved from riskier assets, including equities, into safer government bonds, particularly during the second half of 2015. (see figure 7).

Business confidence fell for the third consecutive quarter, falling to early 2012 levels when the Euro area was in recession, as doubts about the pace and sustainability of the global recovery are weighing on business sentiment. (see figure 8).

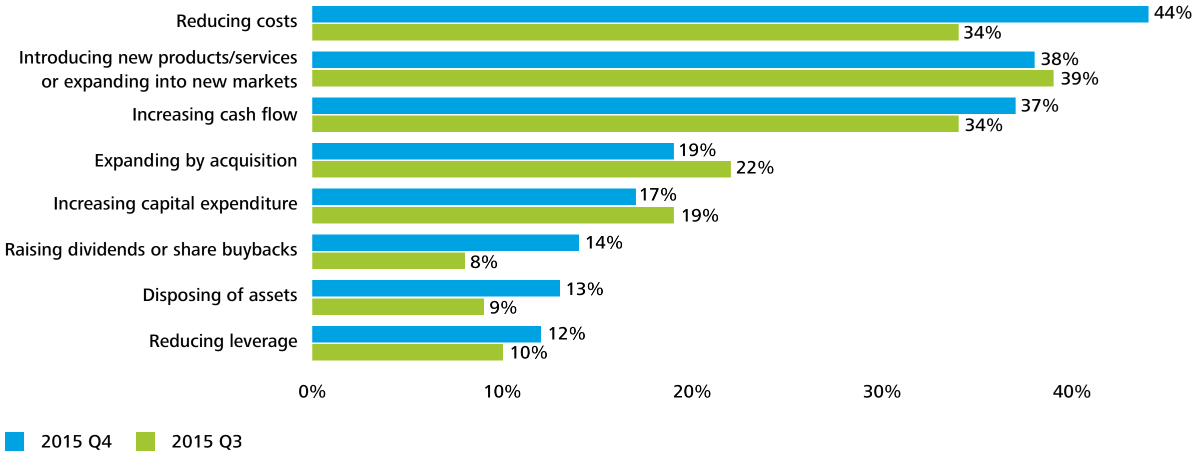
Business confidence fell for the third consecutive quarter, falling to early 2012 levels.

CFOs appear to have shifted towards slightly more defensive strategies of cost control and increasing cash flows. The search for maintaining growth by introducing new products and markets remains an important priority, but with one in five still seeing expansion through acquisitions as a key priority. (see figure 9).

A majority of CFOs still expect UK corporate revenues to increase over the next 12 months, despite a dip in expectations on both revenue and margin growth during the second half of 2015. (see figure 10).

A majority of CFOs still expect UK corporate revenues to increase over the next 12 months.

Figure 9. Corporate priorities in the next 12 months
% of CFOs who rated each of the following as a strong priority for their business in the next 12 months



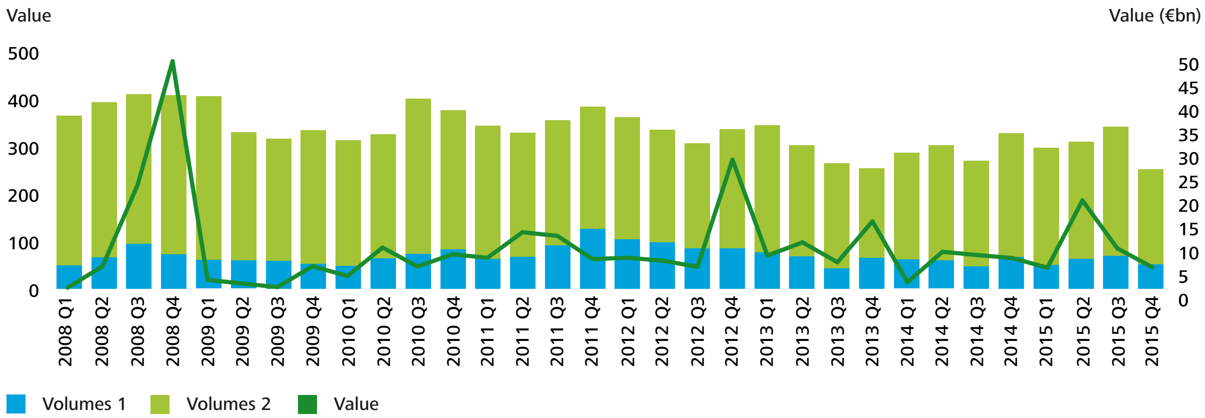
Source: Deloitte CFO Survey

Figure 10. Outlook for corporate revenues and margins
Net % of CFOs who expect UK corporates' revenues and margins to increase over the next 12 months

Source: Deloitte CFO Survey

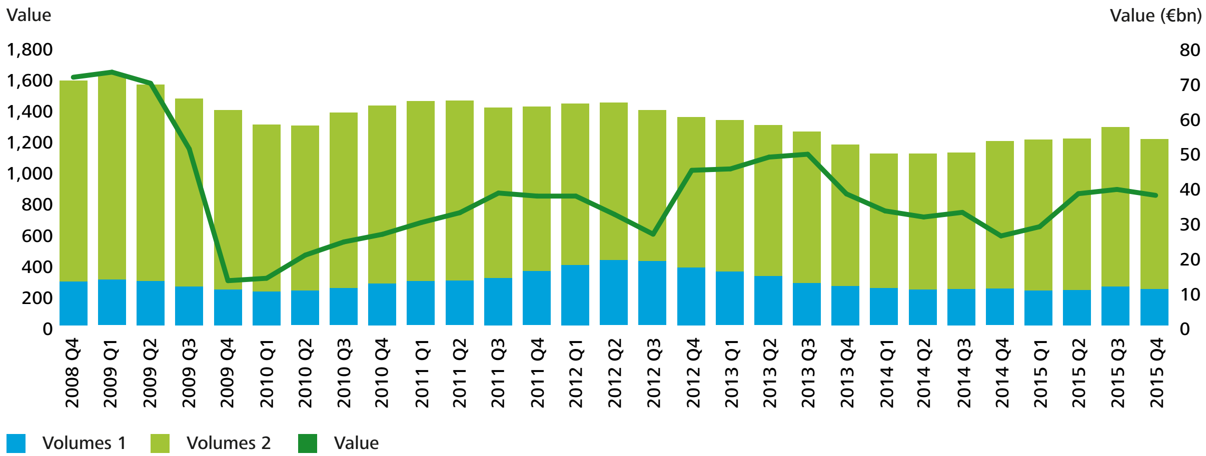
Consumer M&A trend analysis

Figure 11. Consumer Products completed deals by quarter



Source: Thomson Reuters, Deloitte Analysis

Figure 12. Consumer Products completed deals – rolling last four quarters



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

Source: Thomson Reuters. Deloitte Analysis

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 quarterly completed deal activity in 2015 at higher levels than that seen in 2014.

There were 36 announced and completed European deals over €200m enterprise value in 2015 with a combined deal value of €142.9bn, ahead of the 34 deals and €39.7bn in 2014. Of the 36 deals, 10 deals were over €1bn (deal value €132bn) which includes the €95.5bn mega tie-up between ABInBev and SABMiller and 19 over €500m (deal value €137.8bn).

Food and Beverage transactions accounted for just over half the deals by volume and value (excluding the sizeable impact of the ABInBev – SABMiller deal). Deal activity in other subsectors, such as Personal & Home Care and Tobacco, also saw an uptick over 2014 levels. In Personal & Home Care, the increasing attractiveness of the skin and hair care segments combined with improving economic and housing market conditions primarily drove deal activity. The 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 which combined with continued investment in e-cigarettes largely drove deal activity in the tobacco sector.

The data reflects quarterly completed deal activity in 2015 at higher levels than that seen in 2014.

Large deal activity in the food sector in 2015 was characterised mainly by consolidation and opportunistic acquisitions with transactions such as the acquisitions of the Iglo Group by Nomad Holdings and Marlow Foods (Quorn) by Monde Nissin Corp, respectively. The sector witnessed the highest number of deals over €200m in 2015 as seen from the graph opposite.

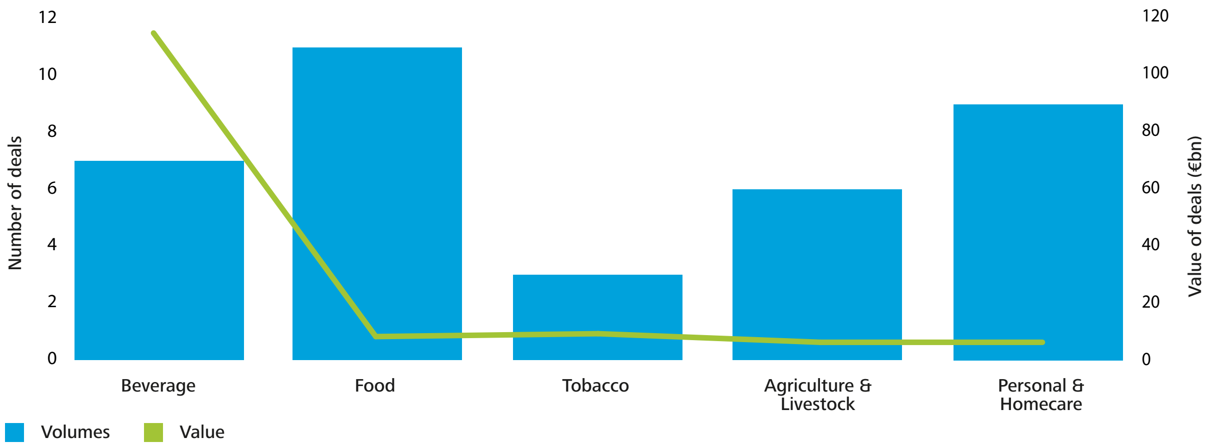
The European beverage sector recorded the highest activity by deal value, mainly due to the c.€95bn ABInBev - SABMiller merger which was announced in late 2015. Other large deal activity cut across various segments including liquor (beer, spirits, etc.), coffee and soft drinks. The recent acquisition of Grand Marnier by Campari for c.€685m highlights the ongoing demand for high quality beverage brands.

While deal volumes were lowest in the Tobacco sector, the level of deal values reflect the sizable transactions linked to the merger of American tobacco companies Reynolds Tobacco and Lorillard.

Large deals in the Agriculture & Livestock sector in 2015 primarily focussed on livestock (fish and poultry in the main) and livestock nutrition/feed products. The most sizeable deal in the year was the acquisition of the Dutch animal feed group Nutreco by SHV Holdings, a family owned Dutch trading company which has historically been focussed on the energy and resources industry.

The Personal & Homecare sector has started to reflect high levels of deal activity, with transactions in Homecare (furnishings, appliances, household products) dominating the large deal activity in the sector but complemented by a number of deals in the Personal care space, with the key underpinning theme being access to new markets and/or strengthening market position.

Figure 13. Announced and completed deals over €200m in 12 months to 31 December 2015



Source: Thompson Reuters, Deloitte analysis

Consumer products M&A market trend analysis

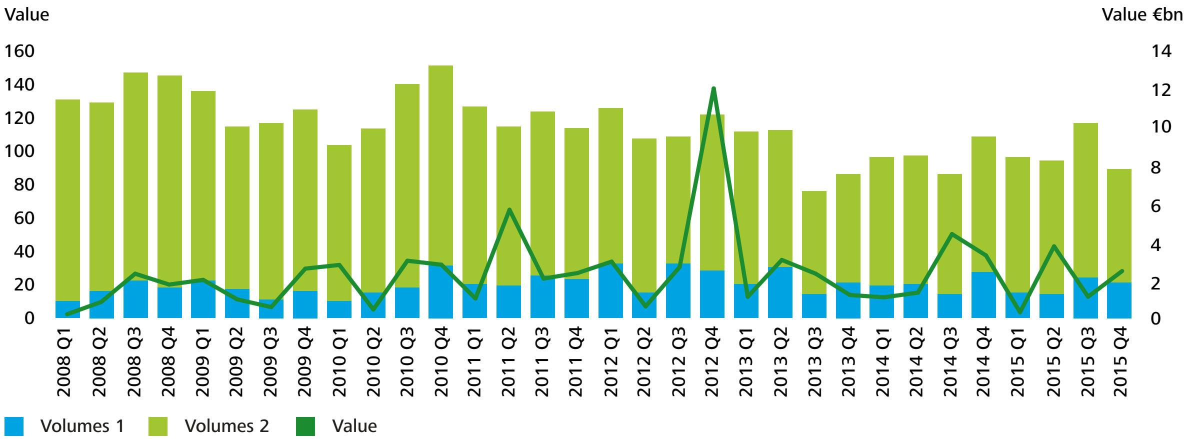
Announced and completed deals over €200m from 1st January 2015 to 31st December 2015

Announced date	Effective date	Target name	Target nation	Acquirer name	Acquirer nation	Enterprise value (€m)
Sep-15	–	SABMiller PLC	United Kingdom	Anheuser-Busch Inbev	Belgium	105,506
Dec-15	–	Keurig Green Mountain Inc	United States	JAB Holding Co	Netherlands	13,078
Jul-14	Jun-15	Reynolds American Inc – cigarette and e-cigarette brands	United States	Imperial Tobacco Group PLC	United Kingdom	5,233
May-14	Jul-15	Mondelez-Coffee Business	Netherlands	DE Master-Coffee Business	Netherlands	7,047
Jul-14	Jun-15	Reynolds American Inc	United States	British American Tobacco PLC	United Kingdom	–
Oct-14	Apr-15	Nutreco NV	Netherlands	SHV Holdings NV	Netherlands	3,568
Sep-14	Jan-15	BSH Bosch & Siemens	Germany	Robert Bosch GmbH	Germany	6,570
Apr-15	Jun-15	Iglo Foods Group Ltd	United Kingdom	Nomad Holdings Ltd	United Kingdom	2,607
Aug-15	Oct-15	Ewos AS	Norway	Cargill Inc	United States	1,350
Jun-15	–	Moy Park Holdings (Europe) Ltd	United Kingdom	JBS SA	Brazil	1,328
Jul-15	Jul-15	Coca-Cola Iberian Partners SA	Spain	Cobega Invest SL	Spain	5,787
Sep-15	Oct-15	Marlow Foods Ltd	United Kingdom	Monde Nissin Corp	Philippines	741
Aug-15	Nov-15	Findus Sverige AB	Sweden	Nomad Foods Ltd	British Virgin	715
Oct-15	Oct-15	Desnoes & Geddes Ltd	Jamaica	Heineken NV	Netherlands	1,177
Oct-15	–	Red Arrow Products Co LLC	United States	Listed ingredients business	Ireland-Rep	646
Jul-15	–	Agro Invest Brinky – Poultry business	Russian Fed	CPF Netherlands BV	Netherlands	773
Feb-15	Apr-15	Danube Foods d.o.o	Serbia	Mid Europa Partners LLP	Guernsey	575
Jun-15	Sep-15	TDR d.o.o	Croatia	British American Tobacco PLC	United Kingdom	550
Feb-15	Feb-15	Hugo Boss AG	Germany	Investor Group (Marzotto family)	Italy	7,143
Jun-15	Sep-15	Balta	Belgium	Lone Star Funds	United States	430
Nov-15	–	Productos Internacionales Mabe	Mexico	Ontex Group NV	Belgium	400
May-15	Jul-15	WWRD Holdings Ltd	United Kingdom	Fiskars Oyj Abp	Finland	387
Dec-15	–	Golden Foods Siam Ltd	Thailand	BRF GmbH	Austria	341
Nov-14	Feb-15	Old Bushmills Distillery Co	Ireland-Rep	Grupo Cuervo SA de CV	Mexico	327
Apr-15	–	Partner in Pet Food Kft	Hungary	Pamplona Capital Management	United Kingdom	315
Jun-15	Jun-15	Campofrio Food Group SA	Spain	Alfa SAB de CV	Mexico	1,227
Aug-14	May-15	Fujian Sunner Dvlp Co Ltd	China	KKR Poultry Investment S.a.r.l	Luxembourg	1,684
Aug-15	Aug-15	Classic Fine Foods (S) Pte Ltd	Singapore	Metro AG	Germany	301
May-15	Jul-15	Cerelia SAS	France	IK VII Fund	United Kingdom	300
Jun-15	Jul-15	Lucas Meyer Cosmetics SAS	France	IFF	United States	283
Nov-15	–	Beam Suntory Inc-Brandy,Sherry	Spain	Grupo Emperador Spain SL	Spain	275
Apr-15	Nov-15	Eaststarch CV-Wet Corn Mills	Turkey	Archer Daniels Midland Co	United States	240
May-15	–	Colgate-Palmolive Co - Laundry Brands	Australia	Henkel AG & Co KGaA	Germany	221
Mar-15	Mar-15	InVivo Nutrition	France	Investor Group	France	659
Jun-15	Sep-15	SimonsVoss Technologies AG	Germany	Allegion Luxembourg Holding	Luxembourg	210
Nov-15	Dec-15	thinkThin LLC	United States	Glanbia PLC	Ireland-Rep	203

Deal size (€m)	Revenue (€m)	EBITDA (€m)	Revenue multiple	EBITDA multiple	Deal rationale
95,453	20,544	7,206	5.1	14.6	Consolidation of global beer players and access to Latin America and African markets
12,812	4,034	951	3.2	13.8	Strengthens market position as a global coffee player
5,233	1,910	n/a	2.7	n/a	Acquires established US brands to boost market position in the US
3,594	2,900	n/a	2.4	n/a	Creation of global leading pure-play coffee company
3,416	6,042	2,302	n/a	n/a	Maintaining strategic investment of 42% ownership
3,178	5,253	266	0.7	13.4	Take private of Dutch animal nutrition and fish food business
3,000	10,508	886	0.6	7.4	Acquisition of remaining stake in the branded household appliances business
2,607	1,470	306	1.8	8.5	Consolidation of the frozen food market
1,350	1,285	73	1.1	18.5	Obtains a leading position in the salmon and trout feed market
1,328	365	158	3.6	8.4	Strengthens portfolio of prepared and convenient products
800	3,000	332	1.9	17.4	Consolidation of European Coke bottlers
741	194	39	3.8	19.0	Expansion into European health and wellness sectors by acquiring Quorn and Cauldron brands
715	604	66	1.2	10.8	Nomad continues consolidation of European frozen food sector
692	104	29	11.3	40.6	Acquisition of Red Stripe and Dragon brands to provide access to the Caribbean and South Asian markets
646	265	52	2.4	12.4	Acquisition of US taste and nutrition business
619	228	87	3.4	8.9	Entry into Russian poultry markets
575	400	n/a	1.4	n/a	Acquisition of strong portfolio of iconic brands in the former Yugoslavia region
550	n/a	44	n/a	12.5	Acquisition of leading independent cigarette maker in Central Europe
500	2,572	572	2.8	12.5	Permira divest minority stake to the Marzotto family
430	520	65	0.8	6.6	Acquisition of leading European carpets and rugs manufacturer
400	400	n/a	1.0	n/a	Acquisition to drive growth in the US and South American sanitary products market
387	402	n/a	1.0	n/a	Fiskars acquires iconic Waterford, Wedgewood and Royal Doulton brands
341	n/a	n/a	n/a	n/a	Acquisition of chicken processor with activities in Thailand and Europe
327	71	n/a	4.6	n/a	Extension of premium spirits portfolio to include whiskey
315	235	n/a	1.3	n/a	Secondary buyout of European pet food producer
314	1,953	174	0.6	7.1	Mexican conglomerate expands into Europe via Spanish meat producer
303	n/a	n/a	n/a	n/a	Minority investment in China’s largest chicken producer
301	183	16	1.6	18.8	Acquisition of Asian premium brands distributor
300	212	34	1.4	8.8	Acquisition of Europe’s largest ready to bake dough manufacturers
283	n/a	n/a	n/a	n/a	Acquisition of leading manufacturer of innovative ingredients for the cosmetics and personal care industry
275	n/a	n/a	n/a	n/a	Addition of Spanish brandy and sherry businesses to existing spirits portfolio
240	n/a	n/a	n/a	n/a	Buyout of corn wet mills in Turkey and Bulgaria from existing joint venture with Tate & Lyle
221	110	n/a	2.0	n/a	Establishes a leading position in laundry detergents and pre-wash in the Australia, New Zealand and Fiji markets
215	n/a	n/a	n/a	n/a	Eurazeo and CDC International capital acquire minority stake to accelerate acquisition programme in the animal nutrition and health sector
210	52	n/a	4.0	n/a	Broaden global offering of electronic lock solutions while strengthening EMEIA portfolio
203	75	n/a	2.7	n/a	Acquisition of premium nutrition brand business to expand presence in the nutrition bar category
142,874					

M&A market – food sector

Figure 14. Food



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.

In the food sector, 2015 was a year marked by a mixture of both consolidation and opportunistic acquisitions.

After its €2.6bn acquisition of the Iglo Group, Nomad Holdings, as expected, consolidated its position in the European market through the acquisition of Findus' Nordic and continental European businesses from Lion Capital. This now leaves the Young's business in the UK as one of the few scale players left for further consolidation.

Nomad has become a major player in the European Foods market and we expect will now look to enlarge its global footprint in areas where it has limited presence.

Opportunistic transactions from overseas buyers is the other important theme that played out in the sector this year. As had been highlighted in our previous insight report, Marlow Foods, (a significant producer of meat alternative brands Quorn and Cauldron) was subject to a well contested auction process with significant strategic and private equity buyer interest, that was cut short by a pre-emptive knock-out bid by Monde Nissin Corp.

Notably, other significant inbound activity came from LatAm with Brazil's JBS acquiring Moy Park, Mexican conglomerate Alfa buying a major stake in Campofrio and Brazil's BRF acquiring Thai based poultry producer Golden Foods through its Austrian subsidiary.

Elsewhere, after much speculation, the process to take control of Bakkavor finally concluded with Gudmundsson brothers teaming up with the US hedge fund The Baupost Group in early 2016.

The food sector's ongoing interest in health and wellness also continued with Lotus Bakeries, the Belgium biscuit maker, snapping up two healthy alternative snacks businesses, namely Natural Balance Food (producer of Nakd bars) quickly followed by Urban Fresh Foods (producer of Bear fruit snacks and cereals).

We expect 2016 to be a year of continued consolidation across the mainstream categories within the food sector. We also expect that there will be continued rationalisation of category portfolios by some of the bigger food companies. At the time of publishing this report, there was continued speculation that Mondelez was looking to divest its UK Grocery and French confectionery businesses.

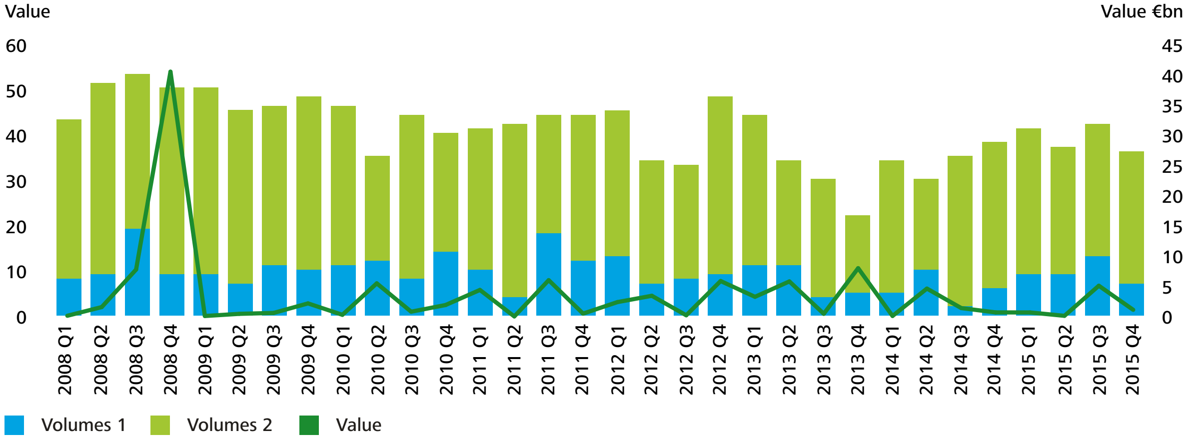
Globally, there continues to be pressure from activist investors to combine businesses (Mondelez – Pepsi snack foods). We expect this pressure to continue though the potential for these mega deals remains limited.

Top 10 completed food deals in 12 months to December 2015

Date	Target	Target nation	Value (€m)	Acquirer	Acquirer nation	Deal rationale
Jun-15	Iglo Foods Group Ltd	United Kingdom	2,607	Nomad Holdings Ltd	United Kingdom	Consolidation of the frozen food market
Oct-15	Marlow Foods Ltd	United Kingdom	741	Monde Nissin Corp	Philippines	Expansion into European health and wellness sectors by acquiring Quorn and Cauldron brands
Nov-15	Findus Sverige AB	Sweden	715	Nomad Foods Ltd	British Virgin	Nomad continues consolidation of European frozen food sector
Apr-15	Danube Foods d.o.o	Serbia	575	Mid Europa Partners LLP	Guernsey	Acquisition of strong portfolio of iconic brands in the former Yugoslavia region
Jun-15	Campofrio Food Group SA	Spain	314	Alfa SAB de CV	Mexico	Mexican conglomerate expands into Europe via Spanish meat producer
Aug-15	Classic Fine Foods (S) Pte Ltd	Singapore	301	Metro AG	Germany	Acquisition of Asian premium brands distributor
Jul-15	Cerelia SAS	France	300	IK VII Fund	United Kingdom	Acquisition of Europe's largest ready to bake dough manufacturers
Nov-15	Eaststarch CV-Wet Corn Mills	Turkey	240	Archer Daniels Midland Co	United States	Buyout of corn wet mills in Turkey and Bulgaria from existing joint venture with Tate & Lyle
Dec-15	thinkThin LLC	United States	203	Glanbia PLC	Ireland-Rep	Acquisition of premium nutrition brand business to expand presence in the nutrition bar category
Oct-15	Panrico SAU	Spain	190	Grupo Bimbo SAB de CV	Mexico	Expansion of capacity and strengthening of Bimbo's sweet bakery coverage
		Total value	**6,186**			

M&A market – beverage sector

Figure 15. Beverage



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 long anticipated mega-merger amongst beer players became a reality in November 2015 with SABMiller finally accepting AB InBev's improved bid, following a few rounds of initial sparring. Unsurprisingly, given the scale of the parties involved, the proposed merger has also triggered a number of pre-emptive disposals, in anticipation of potential competition authority challenges, in a number of key markets where the respective businesses' activities overlap (namely the US, Europe and China).

First to go was SABMiller's 50% share in its North American joint venture with Miller Coors, sold for a reported $12bn to its partner (Molson Coors) to address potential US anti-trust issues.

This was followed swiftly by the auction of some of SABMiller's European brewing assets namely: Peroni (Italy); Grolsch (Netherlands); and Meantime (craft beer business in the UK). Asahi emerged as the winner, in a hotly contested auction, with both private equity and strategic buyer interest, with a binding €2.55bn bid (at a reported 14 times EBITDA), albeit with the deal predicated on the successful completion of the AB InBev / SABMiller transaction.

Asahi's bid highlights both the significant market appetite for brands with strong market positions, as well as the willingness of Asian (and in this case Japanese buyers) to deliver knock-out bids on very short timescales.

Craft beer continues to be an area of focus in the brewing industry, with AB InBev's acquisition of Camden Town Brewery highlighting the continued interest of big brewers in this area.

Elsewhere, Heineken has continued to pursue acquisitions which offer it either a leading local market position (Pivovarna Lasko in Slovenia) or access to growth markets. Heineken now effectively owns 42% of India's United Breweries, giving it access to one of the world's fastest growing beer markets. Heineken also acquired a major stake in Desnoes & Geddes, owner of Red Stripe and Dragon brands from Diageo, whilst simultaneously selling Diageo its 20% stake in Guinness Ghana breweries and swapping assets with Diageo in South Africa as well.

Global spirits companies have continued to reorganise their premium spirits portfolios with Grupo Cuervo acquiring Bushmill's Irish whiskey from Diageo, whilst in return giving Diageo control of tequila brand Don Julio. Terrior Distillers expanded its spirits range with the acquisition of the Louis Royer cognac brand from Suntory.

The wine sector has also seen significant activity with Diageo's divestment of its significant wine interest with the sale of Percy Fox and Chateau and Estate Wines, having previously identified them as being non-core to operations.

Elsewhere, the tea and coffee sector continues to be subject to increasing consolidation by active acquirers with JAB Holding, the parent company of DE MasterBlenders (which subsumed Mondelez's coffee business in July 2015) acquiring Keurig Green Mountain for €13.1bn (at a reported 13.8 times EBITDA) to further secure its position as a major coffee player. The merger of DE MasterBlenders and Mondelez International in May 2014, which created a business with revenues in excess of $7bn, triggered the planned disposal in 2015 of Mondelez's Carte Noire brand with Italy's Lavazza sealing the deal for €750m in 2016, following significant interest from both trade and private equity buyers in the asset.

In the soft drinks sector, the consolidation of bottlers continues with The Coca Cola Company and Cobega obtaining joint control of Coca-Cola European Partners, effectively creating one of the world's largest Coca Cola bottlers. This follows on from the previous consolidation of Coca Cola bottlers in South Africa.

Britvic, looking at counter challenging sales levels in its existing markets, acquired Brazilian squash maker Ebba in a deal that gives it access to the sixth largest soft drinks market in the world.

Soft drinks manufacturers are also likely to continue to focus on addressing health and wellness challenges. Whilst on a smaller scale, Nicoll's acquisition of Feel Good (the natural juices with no additional sugar business), and Hain Celestial's acquisition of Orchard House with its fruit and juices business, highlight the likelihood of further transactions in this space.

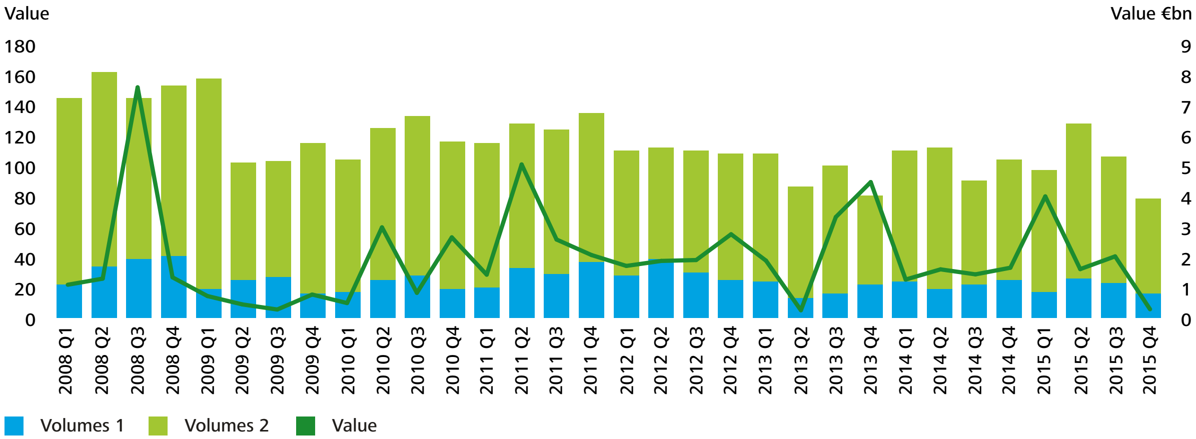
In our view, the long anticipated step-up in activity in the beverage sector commenced in 2015 with a number of significant transactions likely to have major players re-evaluating their competitive positioning and options going forward. The carbonated soft drinks sector continues under the regulatory spotlight in terms of healthy alternatives and, whilst this brings challenges, it also opens the door to further acquisitions of healthy, innovative alternatives.

Top 10 completed beverage deals in 12 months to December 2015

Date	Target	Target nation	Value (€m)	Acquirer	Acquirer nation	Deal rationale
Jul-15	Mondelez-Coffee Business	Netherlands	3,594	DE Master-Coffee Business	Netherlands	Creation of global leading pure-play coffee company
Jul-15	Coca-Cola Iberian Partners SA	Spain	800	Cobega Invest SL	Spain	Consolidation of European Coke bottlers
Oct-15	Desnoes & Geddes Ltd	Jamaica	692	Heineken NV	Netherlands	Acquisition of Red Stripe and Dragon brands to provide access to the Caribbean and South Asian markets
Feb-15	Old Bushmills Distillery Co	Ireland-Rep	327	Grupo Cuervo SA de CV	Mexico	Extension of premium spirits portfolio to include whiskey
Feb-15	Hawesko Holding AG	Germany	178	Tocos Beteiligung GmbH	Germany	Strategic long-term investment
Sep-15	EBBA SA	Brazil	161	Britvic PLC	United Kingdom	Entry into new markets for soft drinks and largest global concentrates market
Jul-15	United Breweries Ltd	India	125	Heineken International BV	Netherlands	Access to one of the world's fastest growing beer markets
Oct-15	Pivovarna Lasko dd	Slovenia	120	Heineken NV	Netherlands	Strengthen market position within the region and bringing two complementary strong local brands into existing portfolio
Sep-15	Louis Royer SAS	France	100	Terroirs Distillers SAS	France	Expansion of product portfolio in the Cognac segment
Feb-15	Robert Roberts Ltd	Ireland	60	Valeo Foods Group Ltd	Ireland	Expansion of product portfolio
		Total value	6,157			

M&A market – personal & household products, apparel and other sectors

Figure 16. 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.

Deal activity in 2015 has been driven by global players reassessing growth strategies by divesting non-core products while acquisition activity focussed on seeking targets which provide access to new geographies, strengthening portfolios with high growth/premium margin products or enabling brand diversification.

From March to July 2015, Unilever, known for its mass beauty brands such as Simple and Dove, made almost monthly acquisitions, including premium skincare brands REN, Dermalogica, Kate Somerville and Murad Inc., reflecting Unilever's strategy to become a major player in selective skincare areas.

The increasing attractiveness of the skin and hair care segments to companies was further evident from International Flavors & Fragrances' first foray into the cosmetics ingredients arena, with its €283m acquisition of Lucas Meyer Cosmetics.

Household products, including furnishings and appliances, continued to benefit from the growing improvement in the housing market across various economies, low interest rates and rising consumer confidence. One such example was the acquisition of Balta, a leading European carpets and rugs manufacturer, by Lone Star Funds for €430m.

Targeting the premium end of its market, Fiskars, a leading global supplier of consumer products for the home, garden and outdoors, acquired the WWRD group of companies and its portfolio of iconic luxury home and lifestyle brands for €387m to capture the ongoing growth in luxury demand.

In 2016, we expect the following themes to impact M&A activity in these segments:

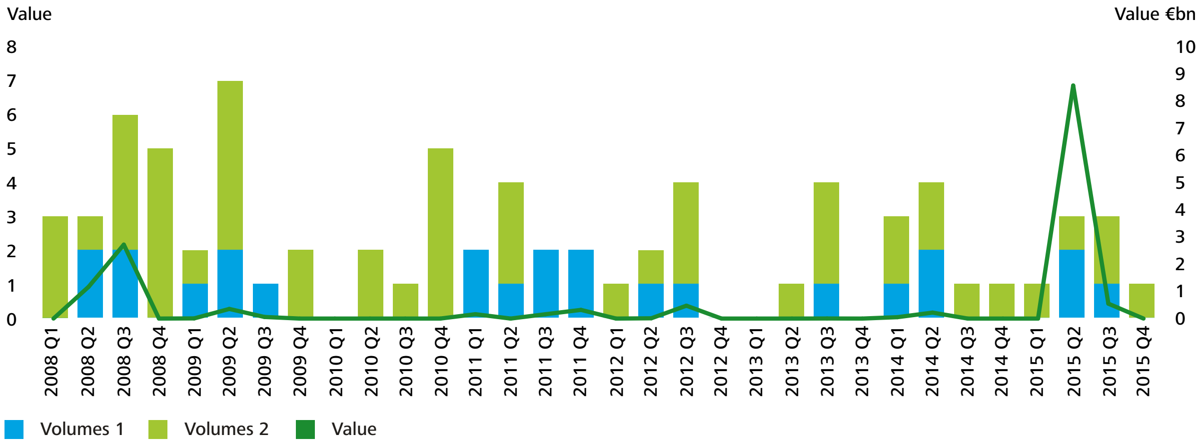
- continued focus on building high growth, high margin product portfolios or diversifying into new but complementary and differentiated segments;
- ongoing capture of growth in consumer spending tempered by the level of corporate confidence in the European macro outlook; and
- increasing market position, access to new markets or new capabilities (e.g. omnichannel, digital, distribution channels).

Top 10 completed personal & household products, apparel and other sectors deals in 12 months to December 2015

Date	Target	Target nation	Value (€m)	Acquirer	Acquirer nation	Deal rationale
Jan-15	BSH Bosch & Siemens	Germany	3,000	Robert Bosch GmbH	Germany	Acquisition of remaining in the branded household appliances business
Feb-15	Hugo Boss AG	Germany	500	Investor Group (Marzotto family)	Italy	Permira divest minority stake to the Marzotto family
Sep-15	Balta	Belgium	430	Lone Star Funds	United States	Acquisition of leading European carpets and rugs manufacturer
Jul-15	WWRD Holdings Ltd	United Kingdom	387	Fiskars Oyj Abp	Finland	Fiskars acquires iconic Waterford, Wedgewood and Royal Doulton brands
Jul-15	Lucas Meyer Cosmetics SAS	France	283	IFF	United States	Acquisition of leading manufacturer of innovative ingredients for the cosmetics and personal care industry
Sep-15	SimonsVoss Technologies AG	Germany	210	Allegion Luxembourg Holding	Luxembourg	Broaden global offering of electronic lock solutions while strengthening EMEIA portfolio
Jul-15	Liz Earle Beauty Co Ltd	United Kingdom	195	Walgreens Boots Alliance Inc	United States	Acquisition of award-winning premium skincare range that uses naturally active ingredients
Sep-15	Aga Rangemaster Group PLC	United Kingdom	182	Middleby UK Residential Hldg	United Kingdom	Global expansion in the premium kitchen appliances segment and access to new lines of distribution outside UK
Mar-15	Ontex Group NV	Belgium	129	Groupe Bruxelles Lambert SA	Belgium	Acquisition of strategic minority stake in business with scope for high growth, capital appreciation and geographic diversification to emerging markets
Apr-15	SASA Polyester Sanayi AS	Turkey	87	Erdemoglu Holding AS	Turkey	Acquisition of supplier of polyester fiber, yarn and related products
		Total value	**5,403**			

M&A market – tobacco sector

Figure 17. Tabacco



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 US mega-merger of leading US players Reynolds Tobacco and Lorillard resulted in a subsequent shake-out 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.

In the combustibles sector, BAT acquired TDR in September 2015. TDR is the leading independent cigarette manufacturer in Central Europe with a market leading position in Croatia and a position of scale in Bosnia and Serbia which will provide BAT with the opportunity to significantly grow its business in the region.

In the e-cigarette sector, in Q3 2015 BAT announced the acquisition of CHIC Group, the market leading e-cigarette business in Poland, in line with BAT's strategy to expand its market and product reach in Europe and e-cigarettes, respectively. BAT's commitment to the next generation products category is also evident from the vapour collaboration agreement (signed in December 2015) between BAT and R.J Reynolds Tobacco Company (RJRTC), a subsidiary of Reynolds. The agreement with Reynolds includes collaboration and mutual cross-licensing of the parties' vapour product technologies up to 31 December 2022.

Separately, Japan Tobacco has also been active with the acquisition of Natural American Spirit Business outside the US from Reynolds (completed in January 2016). This follows on from its acquisition of Logic, a US e-cigarette business (completed in July 2015).

In 2016, 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 2015

Date	Target	Target nation	Value (€m)	Acquirer	Acquirer nation	Deal rationale
Jun-15	Reynolds American Inc – cigarette and e-cigarette brands	United States	5,233	Imperial Tobacco Group PLC	United Kingdom	Acquires established US brands to boost market position in the US
Jun-15	Reynolds American Inc	United States	3,416	British American Tobacco PLC	United Kingdom	Maintaining strategic investment of 42% ownership
Sep-15	TDR d.o.o	Croatia	550	British American Tobacco PLC	United Kingdom	Acquisition of leading independent cigarette maker in Central Europe
Sep-15	Parodi Holdings LLC	United States	n/a	Manifatture Sigaro Toscano	Italy	International expansion
Sep-15	Pipe tobacco operations of Imperial Tobacco Group PLC	United Kingdom	n/a	Mac Baren Tobacco Co A/S	Denmark	Strengthening of global market position, through greater scale
Mar-15	Tabak Market AD	Bulgaria	n/a	Bulgartabac Holding AD	Bulgaria	Acquisition of minority stake in former subsidiary
		Total value	9,199			

Global M&A drivers

- 2015 was a record year for M&A markets, with around $4.3 trillion worth of deals announced, beating the previous vintage year of 2007, when $3.99 trillion worth of deals were announced. Many of these deals have been multi-billion dollar deals including the mega tie-ups between drug makers Pfizer and Allergan, brewers AB InBev and SABMiller, and oil majors Royal Dutch Shell and BG Group.

- The Consumer Business sector witnessed a significant surge in deal activity ($833bn over 8,910 deals). Despite record domestic and continuing high levels of outbound US activity, a strong performing UK and Ireland and a distribution of deals across a variety of sectors last year, deal values recovered faster than volumes during 2015, suggesting that the momentum is yet to gather in mid-market segments and some geographies like Europe.

- The conditions that fuelled M&A over the last couple of years are rapidly changing and concerns over global growth are back at the start of 2016, with a slowdown in financial and commodities markets, fears over growth in the Euro area, potential Brexit concerns along with divergence in economic and monetary policies. Looking ahead, such divergence will create M&A opportunities and define deal making through the rest of 2016.

Our view of 2016 M&A major themes and impact on Consumer Business sector:

- **Divergence in economic growth:** The recent slowdown in US growth with customers cutting back on spending and fall in manufacturing exports; the expected increase in consumer spending and exports in the UK and Eurozone due to commitment by the central banks to keep interest rates low; the threat of UK referendum over EU membership; and India overtaking China as the fastest growing major economy with the South East Asian region expected to be the fastest growing region in the world are all expected to create significant imbalances in global markets which should translate to continued deal activity as companies actively look out for new markets.

- **Divergence in corporate performance:** There has been a divergence in corporate performance between US and Europe since 2012, with UK and European corporate earnings trailing those of US companies. As European demand picks up following the stimulus, this gap is expected to narrow and gives US companies the opportunities to buy UK and European assets from their significant cash reserves (estimated to be $1.6 trillion for non-financial companies which are part of S&P Global 1200 Index) to bolster revenues and maintain/improve margins.

2015 was a record year for M&A markets, with around $4.3 trillion worth of deals announced.

- **Divergence in deal P/E multiples:** European corporate earnings and valuations are on the rise; however these are still close to their long-term averages and significantly below US and Asia. With Europe having access to local markets that are expected to grow faster than many other developed economies, European companies make attractive acquisition targets with favourable P/E multiples.

- **Impact of China and Japan on deal flows:** There has been a significant uptick in outbound deal-making from China and Japan. Chinese investment into UK and Europe is at its highest level, the rebalancing from an export oriented economy to a consumption driven one is expected to give a massive boost to deal activity in the Consumer Business sector.

  Japanese companies, on the other hand, are saddled with falling consumption and are aggressively looking for investment and growth opportunities overseas with companies like Ajinomoto and Asahi having publicly announced M&A war chests. Asahi's recent announced acquisition of SABMiller's Peroni and Grolsch brands for €2.55bn is an example of the attractiveness of well recognised brands with strong market presence to Japanese investors.

- **Delivering synergies to create shareholder value:** While we estimate that announced cost synergies represent on average 3-4% of the transaction value (based on $5.5 trillion worth of corporate deals announced globally since 2014), our experience on delivering post-merger integration projects suggests that total cost of integration represents, on average, 4-5% of the deal value, implying that companies would therefore need to work hard to deliver the announced synergies and create shareholder value.

- **Innovation and "Businesses of tomorrow":** As companies are increasingly challenged for growth in their traditional businesses and the threat of disruptive innovation from non-traditional entrants rises, there is an increasing imperative on consumer business companies to innovate and create "businesses of tomorrow" or alternatively tap into external innovation through corporate venturing and cross-industry alliances, thereby unlocking new sources of growth. Tapping into external innovation could lead to smaller, but more strategic deals with consumer companies like Diageo and Unilever likely to be at the forefront of corporate venturing.

Divergence in economic and monetary policies, corporate performance and deal multiples; rising levels of M&A activity from Chinese and Japanese investors; increasing emphasis on delivering announced cost synergies; and growing imperative on innovation will create M&A opportunities and define deal making through the rest of 2016.

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.

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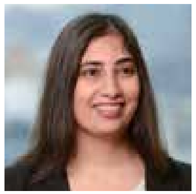

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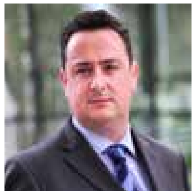

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