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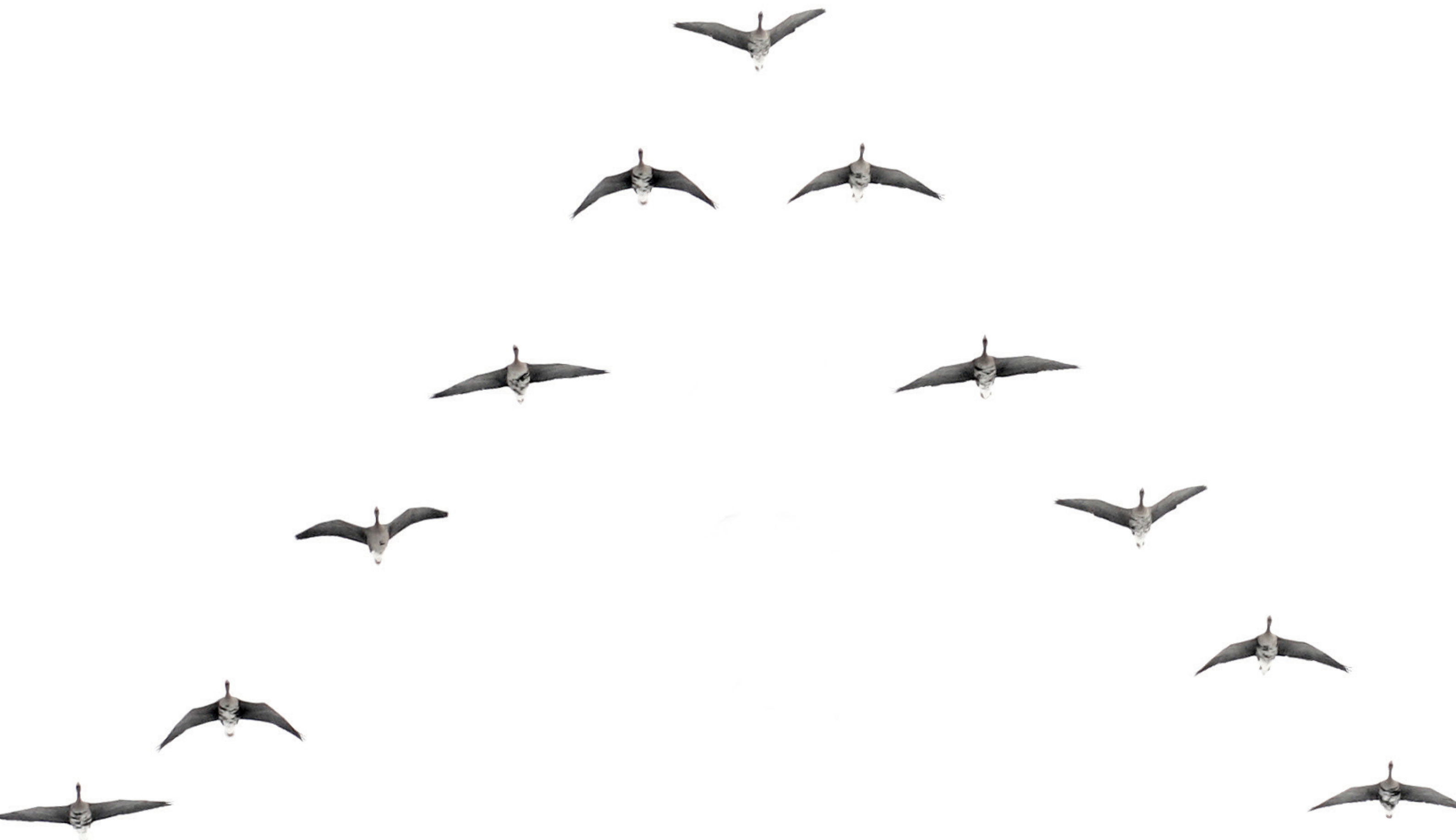
Winter 2014

The Deloitte Consumer Products M&A Survey
Heading in the right direction?



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Foreword

Heading in the right direction?
Welcome to this our seventh review of deal activity in the European Consumer Products sector.

Looking back at our survey two years ago headlined "Stick or Twist?", the Consumer Products industry was facing major economic headwinds ranging from political instability in the Middle East, the Eurozone crisis, commodity price spikes and regular economic growth downgrades. At that time we highlighted the major strategic options that many consumer company leaders were facing; namely whether to continue focusing on pushing through cost reduction programmes and new product development or to invest in newer, potentially riskier, higher growth markets.

In the intervening period, whilst the potential for economic shocks remain, the level of perceived risk in most areas has receded while at the same time, consumer confidence has bounced back.

Improved credit availability, low interest rates and resurgent capital markets offer many of the right economic ingredients to stimulate deal activity, but also have led to heightened expectations amongst vendors of the disposal values that might be achieved.

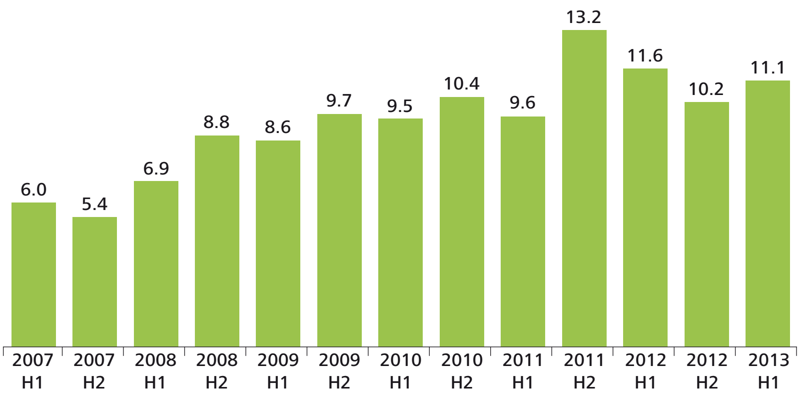
Looking at the cash holdings of the 30 largest FTSE Consumer Products companies (shown below), it is evident that they have been very effective at managing their cash during the downturn, rebuilding their cash reserves to a peak in 2011 (c. £13 billion) before starting to deploy it. This is evidenced by the significant M&A activity of some of the larger UK companies such as SABMiller with its Fosters and Anadolu Efes (Turkish beer) transactions, AB InBev's purchase of Oriental Breweries, Unilever's acquisition of Alberto Culver and Diageo's investments in Mey Icki (Turkish Raki), Sichuan (Chinese baijiu), Ypioca (Brazilian cachacha) as well as most recently with United Spirits (Indian made foreign liquor) and Pelligroso (premium US tequila).

There are a number of other indicators that deal activity levels are now heading in the right direction with some of the larger Consumer Products companies reviewing their portfolios to shed for non-core assets, (as in the case of GlaxoSmithKline divesting of its Ribena Lucozade business) as well as a wider buyer pool for such assets. Private equity is showing a renewed interest in the sector which has been underlined by PAI's acquisition of R&R ice cream, CVC's acquisition of Campbells European dinner's business, Gores' investment in Hovis, Hain Celestial's acquisition of Ella's Kitchen and Tilda rice and Ontario Teacher's Pension Fund winning the hotly contested acquisition of Burton's biscuits.

Conor Cahill

Another significant driving factor of deal activity is the realisation of the much anticipated increase in M&A undertaken by major Asian buyers following on from Mizkan's acquisition of Branston's and Sarsons. Suntory first made headlines over the summer with its knock-out bid for Ribena Lucozade, which it most recently followed up with the announcement of its major acquisition of Jim Beam in the United States. The Jim Beam deal is notable as it challenges the common assumption that significant future growth opportunities would primarily be obtained from developing markets, whilst the underlying reality is that specific sub-sectors of the Consumer Products market continue to deliver impressive growth in developed markets at lower risk. This, at a time, where there has been broad coverage of the softening of growth levels in China, Latam and India albeit their absolute growth levels remain high.

Chart 1. Cash and short term investments – Half-yearly reporting (in GBP billion)



The impact of rejuvenated capital markets has also had a bearing on M&A activity levels, with the successful IPOs of Italian high end fashion Moncler (Milan Stock Exchange) and central/eastern European drinks producer Stock Spirits (London Stock Exchange) offering successful exits to their investors, which might have gone, under different circumstances, to trade or financial buyers.

In terms of our survey outlook, over 70% of respondents indicated that they were optimistic about the financial prospects for Consumer Products companies over the next 12 months, the highest level since June 2011. Interestingly respondents also identified that investing in new channels and increasing marketing spend both appear to be clearly back on the growth agenda.

Well over half of our respondents continue to be optimistic about the M&A outlook, with international expansion, obtaining growth platforms in adjacent categories and market consolidation being highlighted as the primary focus for deal doing.

Around three quarters of those surveyed anticipated further valuation levels to be broadly unchanged, however the balance anticipated further valuation increases. This latter expectation was also picked up by a number of respondents with over a third highlighting price expectation gaps between buyer and sellers as being a primary obstacle to increased M&A activity. The ability to develop specific value creation plans to successfully compete in and win contested auctions has become an increasingly critical factor in driving the required levels of investment returns for acquirers.

Whilst concerns over economic uncertainty have abated significantly, shareholder and director caution continue to be a source of potential deal inertia, and indicate that a sustained ongoing uptick in deal activity may lag the general economic recovery.

Our summer 2013 survey asked the question whether "The return of the feel good factor" was here to stay and, whilst it might be premature to crack open the champagne, the early signs are that deal activity may now be heading firmly in the right direction.

My thanks once again to the 21 Consumer Products companies and investors who participated in this survey.

Kind regards

Conor Cahill
Partner, Corporate Finance

At a glance

70%
feel optimistic about financial prospects for Consumer Products companies over the next 12 months – up from 56% six months ago.

Investment
in new channels and marketing spend back on the growth agenda.

International expansion
and obtaining growth platforms in adjacent categories seen as main drivers for M&Aactivity.

£11.1bn
amount of cash reserves Top 30 listed UK consumer product companies are sitting on – with a number of major deals already completed.

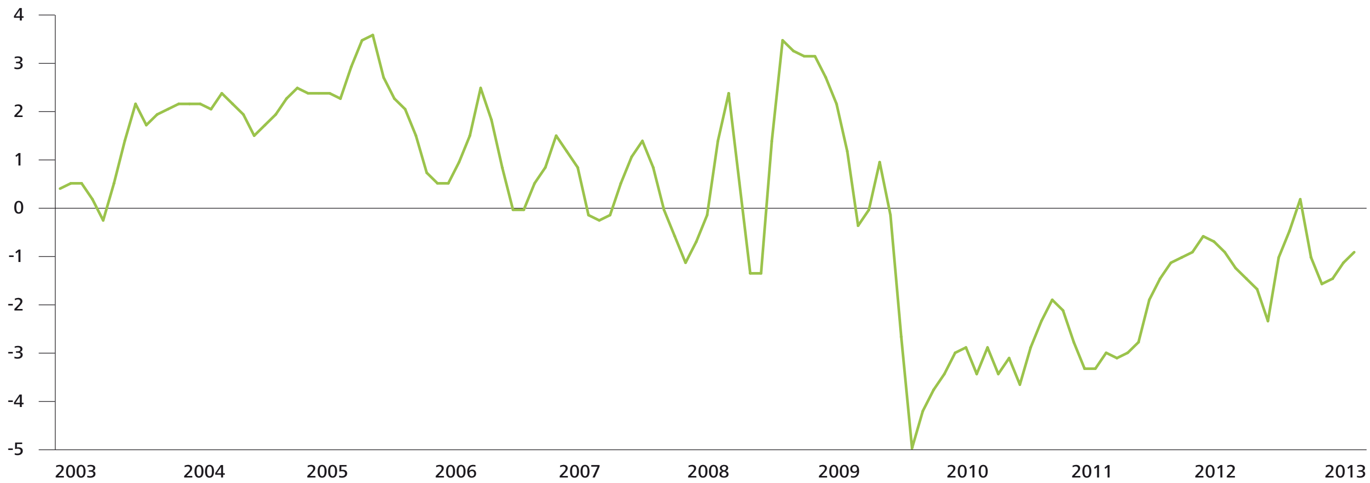
M&A activity barriers
continue to be economic uncertainty, price expectation gaps, and shareholder and director caution.

Economic outlook – UK

The backdrop

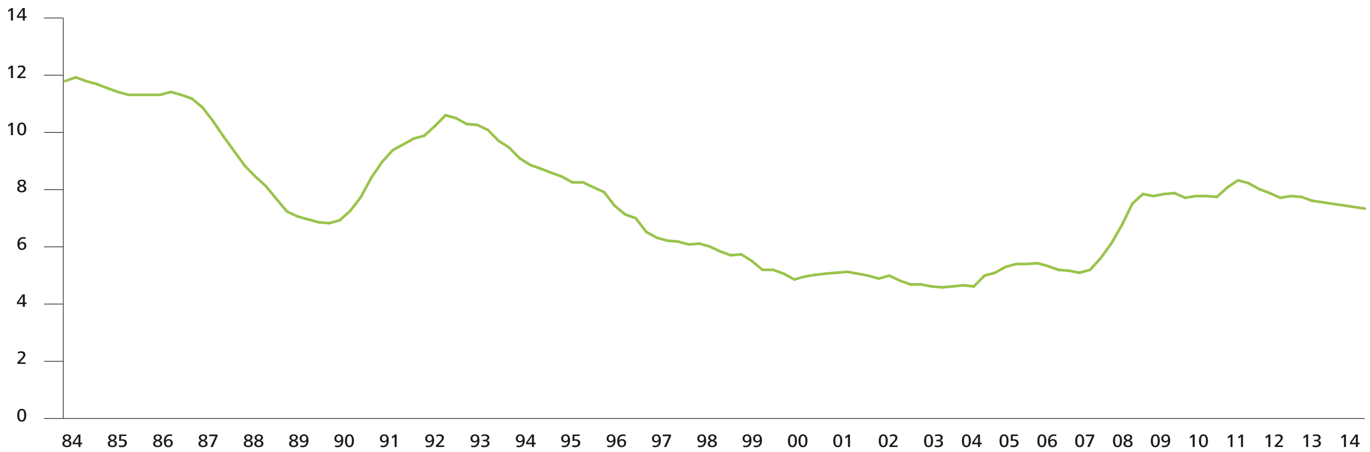
- The CPI or inflation rate in UK fell to 2% in December 2013, down from 2.1% in November 2013, hitting the Government set threshold of 2% for the first time since November 2009. The drop in inflation levels sits against a backdrop of the growing popularity of major discount retailers amongst UK consumers, with discount offers dominating the Christmas shopping season. Importantly the Bank of England has also indicated that it expects real incomes to rise for the first time in four years during 2014.
- UK unemployment levels (claimant count) continue to decline reaching 7.4% by December 2013 (or 7.1% under the much publicised unemployment rate measure), the lowest-level since 2009, improving faster than market expectations. The Bank of England once again kept the interest rates on hold at 0.5% in February 2014, a level which it has maintained since March 2009.
- The fourth quarter of 2013 saw GDP growth of 0.7% for UK and overall growth for the year coming in at a respectable 1.9%. With sterling trading at two-and-a-half year highs, there is a concern that its strength may put a drag on an export lead recovery but provides some respite for raw material importers.

Chart 2. Real growth in earnings after taxes %



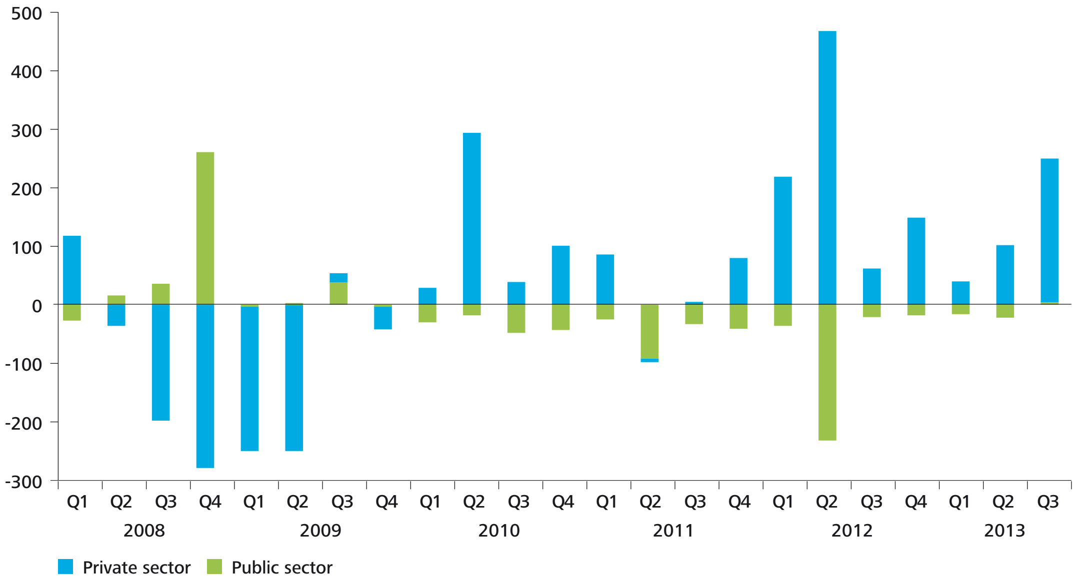
Source: ONS

Chart 3. UK unemployment claimant count (%)



Source: ONS

Chart 4. Number of jobs added/lost each quarter, private sector vs public sector



Source: ONS

Deloitte view

The UK economy grew at a faster-than-expected rate in the first three quarters of 2013 and it is widely expected to accelerate in 2014. Employment is also falling faster than many anticipated and the economic outlook continues to improve. The cost of credit recently hit a six year low while the availability of credit is close to a six year high, as discussed in the Deloitte CFO Survey Q4 2013. These findings, combined with rising confidence in the corporate sector and decreasing levels of uncertainty, create a healthy backdrop to support an upturn in M&A activity.

Consumer indicators

The backdrop

- Whilst consumer confidence fell backwards in the final quarter of 2013 it has progressed a considerable way since the close of 2012 and started January 2014 with a marked uptick.
- Political debates continue about the recovery of real income levels with ongoing concerns about household and personal finances continuing to restrain the momentum to make major purchases.

Chart 5. GfK Consumer Confidence

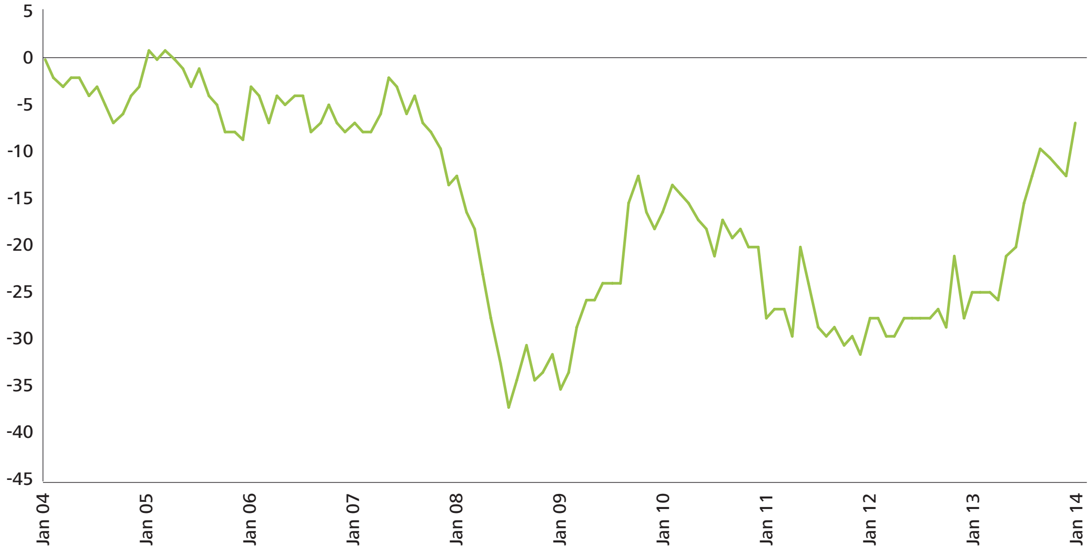
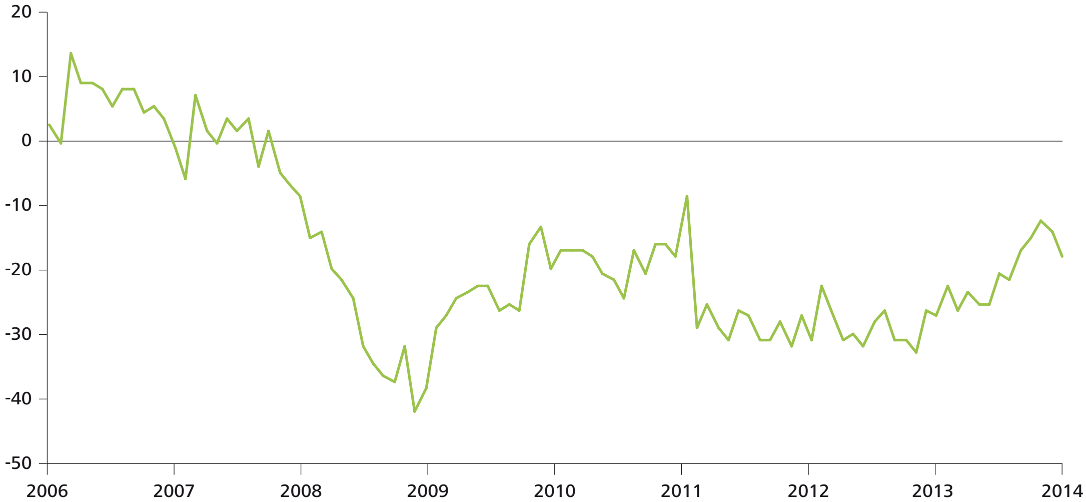
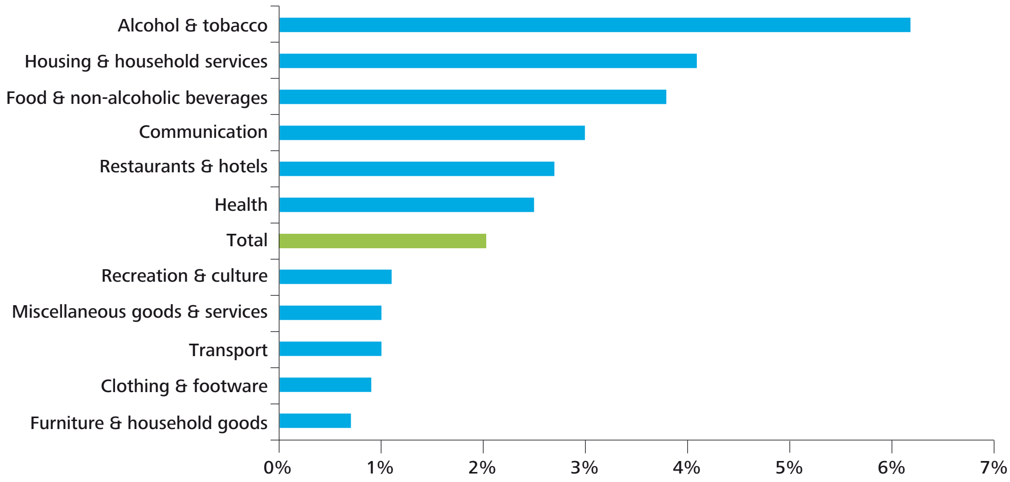


Chart 6. Climate for major purchases – Is now the right time?



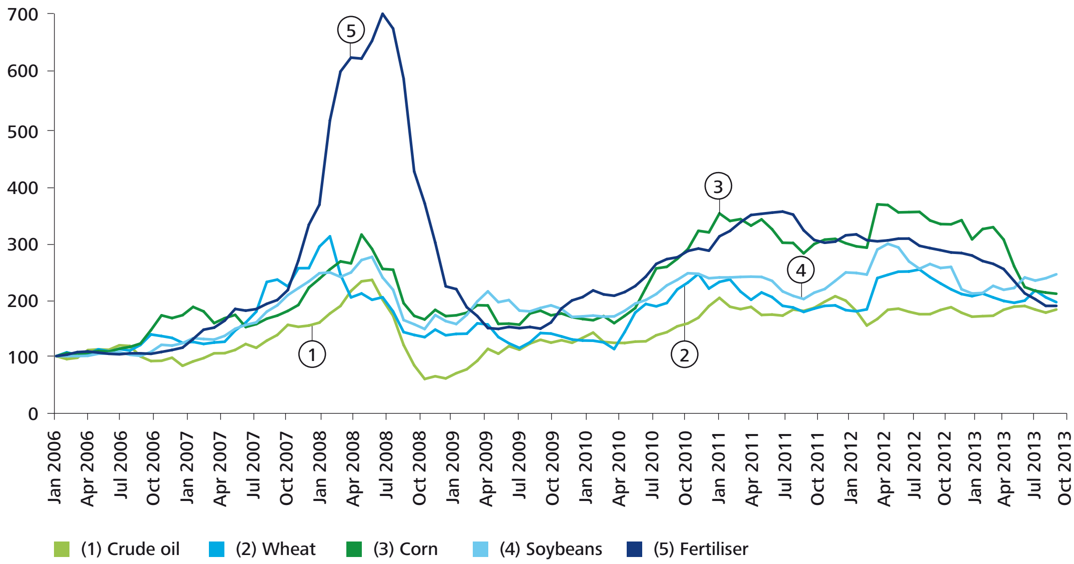
Source: GfK

Chart 7. Inflation (% change over 12 months to Dec 2013)



Source: ONS Consumer Trends

Chart 8. Selected commodities



Source: FAO – Indexed (01/2006 = 100)

Corporate risk appetite has recovered

The backdrop

- The risk appetite of CFOs continue to rise as recovery in UK economy becomes more and more visible.

- According to latest Deloitte UK CFO Survey Q4 2013, more CFOs are preparing for expansion, investment, and hiring in 2014 as a result of low-levels of uncertainty in the UK economy, supported by improved access to finance and greater confidence in the Bank of England's policies.

Chart 9. Financial market risk appetite (inverted VIX index)

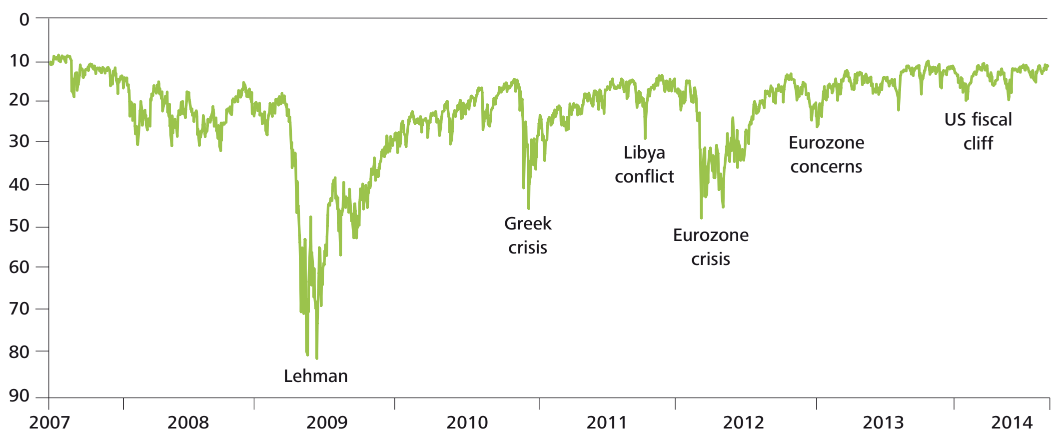
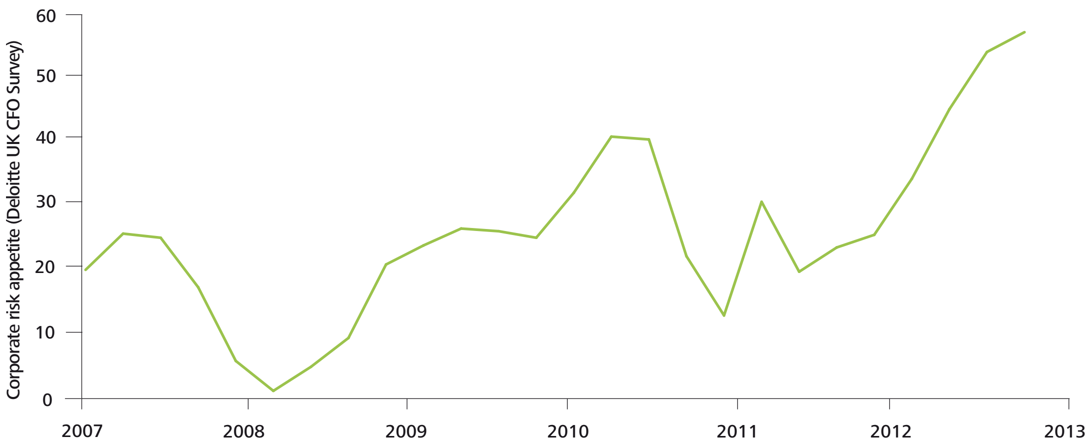


Chart 10. Corporate risk appetite



Source: Deloitte CFO Survey

Deloitte view

Improving economic growth and positive economic data, whilst welcome, need to be assessed in the context of their relative performance against historical levels. As such, the improvements reported look more like a modest return to growth than a major correction.

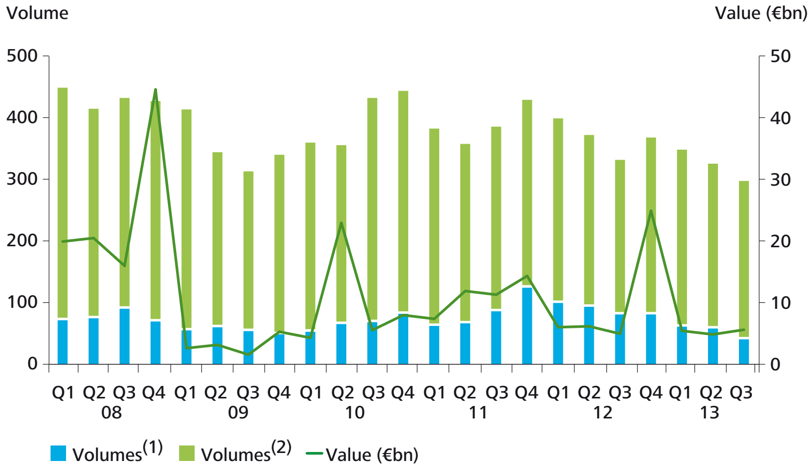
Media coverage of the economic recovery appears, on balance, to be largely positive. However the uneven nature of the recovery, house price increase concerns and the sluggish recovery of real wage growth highlight both the fragile nature of the recovery and its ability to absorb any significant economic shocks.

Positively our broader recent Deloitte UK CFO survey indicates a firm shift in business attitudes from a defensive to a more expansionary stance, with CFOs placing a greater emphasis on capital spending and with 88% of those surveyed expecting M&A activity to increase in the next 12 months. These findings are echoed by those of the respondents from the Consumer Products survey.

M&A market – Historical trend analysis

- Deal values are typically only disclosed on around only 20% of completed deals and reported deals tend to reflect transactions that are likely to have been in process for at least six to nine months prior to announcement. As such reported deal trends tend to lag actual M&A activity levels.
- The delayed reporting of completed deals (taking up to six months from completion) partly suppresses the activity of more recent quarters.
- Total deal quarterly volumes have been consistently above the 300 mark for quarters prior to July 2013, but are still around 100 deals a quarter lower than pre-recession levels.
- In the 12 months to 31 December 2013 there were 29 deals announced or completed with deal values in excess of €200m (combined transaction value €28.3bn). This included 14 deals in excess of €500m (combined value just under €22.8 bn) and, of these, there were 6 deals over €1 billion (combined value just over €17.2bn). The relative sluggishness of the M&A market in 2013 is particularly noticeable when compared to 2012 levels which delivered 46 deals over €200m, 21 over €500m and 8 over €1bn.
- Historically the Food and Beverage sectors have dominated deal activity in the sector, but 2013 is notable for the relative increase of deals in the Luxury and Personal Care space as producers look to tap into the increasing affluent populations in new markets with strong brands continuing to attract consumer spend.
- A number of the major deals in the year were covered previously in our Summer survey, so our comments below focus on more recent transactions.
- Major activity in the Beverage sector included Suntory's €1.6 billion acquisition of Lucozade Ribena. Suntory's significant bid, at a reported c 2.7 times sales and 13.6 times EBITDA, effectively pre-empted an organised auction process where the domestic strength of the brands was expected to attract significant private equity interest, albeit with their route to market outside of GSK and overseas growth potential yet to be fully proven.

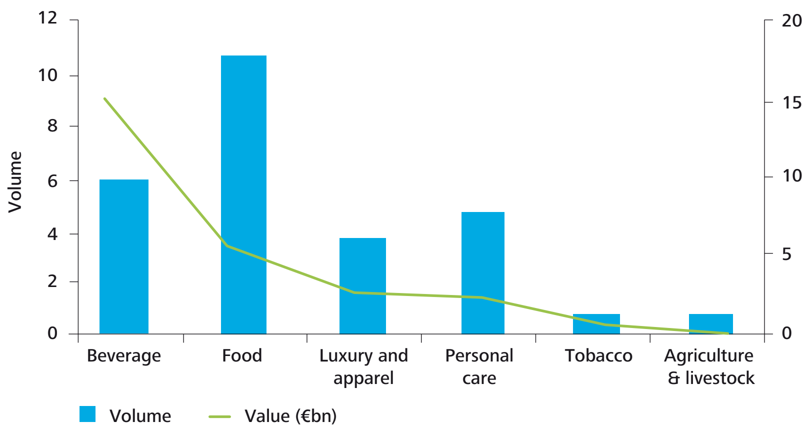
Chart 11. Consumer Products completed European deals by quarter



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

Source: Thomson Reuters, Deloitte analysis

Chart 12. Announced and completed deals over €200m in last 12 months



Source: Thomson Reuters, Deloitte analysis

Note: European deals refer to deals where the acquirer or the target is European.

- Similarly in the Food sector, the auction for Burton's biscuits was contested by a number of private equity players, marking the resurgence of a business which had undergone a major debt and business restructuring to return to growth, despite significant competitive pressures from private label products in its sector. This hot on the heels of CVC's acquisition of Campbell Foods' European simple meals division, as Campbell looks to reshuffle its focus and invest in other identified key brands.

- The Personal Care sector has seen significant activity in the latter part of the year with expansion into China by both Vinda International (tissue) and L'Oreal (cosmetics), coupled with Revlon's (cosmetic) and Domtar (adult hygiene) acquisitions in Spain accompanied by brand acquisitions by L'Oreal in its home market.

Deloitte view

Strong flagship brands continue to attract significant prices and drive competitive auction processes. Private equity interest in the sector continues, with a number of non-core businesses spun out of major Consumer Products companies offering the potential to generate returns on the back of a broader general market recovery. Increasingly pricing in auctions will require innovative value creation strategies post deal in core operational competencies, rather than financing, to unlock earnings growth potential. The resilience of consumer spend in the luxury and premium end of the market continues to drive M&A interest in this area. AB Inbev's €4.2 bn acquisition of KKR's stake in South Korean Oriental Breweries in January 2014 marks a further consolidation of the global beer market.

Announced and completed European deals over €200m in 12 months to December 2013

Announced date	Effective date	Target name	Target nation	Acquirer name	Acquirer nation	Enterprise value (€m)
Mar-13	Oct-13	DE Master Blenders 1753 BV	Netherlands	Joh A Benckiser	Austria	7,694
Jul-12	Jan-13	Asia Pacific Breweries Ltd	Singapore	Heineken International BV	Netherlands	8,883
Jul-13	TBC	Loro Piana SpA	Italy	LVMH	France	2,500
Sep-13	TBC	GSK – Lucozade and Ribena brands	UK	Suntory	Japan	1,600
Dec-13	TBC	Megapolis Distribution BV	Russian Federation	Japan Tobacco/PMI	Japan/US	5,530
Sep-13	Nov-13	Vinda International	Hong Kong	SCA Group	Netherlands	1,278
Apr-13	TBC	R&R Ice Cream	UK	PAI Partners	France	850
Mar-13	Jul-13	CSM NV- Bakery Supplies	Netherlands	Rhone Capital LLC	US	1,044
Nov-12	May-13	United Spirits Ltd	India	Diageo PLC	UK	3,879
Dec-12	TBC	Petra Foods (Cocoa Ingredients Division)	Singapore	Barry Callebaut AG	Switzerland	732
Aug-12	Apr-13	Rieber & Son ASA	Norway	Orkla Brands AS	Norway	835
Aug-13	TBC	Magic Holdings International	China	L'Oreal SA	France	513
Jan-13	Mar-13	Harry Winston	US	Swatch Group	Switzerland	748
Jun-12	Feb-13	Centrale Laitiere SA	Morocco	Danone SA	France	1,470
Aug-13	Oct-13	The Colomer Group	Spain	Revlon Consumer Products Corp	US	497
Aug-12	Apr-13	Tortuga Cia Zootecnica Agraria	Brazil	DSM NV	Netherlands	495
Sep-13	TBC	Arab Investor – TA	Algeria	Philip Morris Int'l	US	959
Nov-12	Feb-13	Cole Haan Holdings Inc	US	Apax Partners Worldwide LLP	UK	449
Nov-13	TBC	Burton's Biscuits	UK	Ontario Teachers Pension Fund	Canada	413
Oct-13	Oct-13	Campbell Food – Simple meals	Belgium	CVC Capital Partners Ltd	UK	400
Nov-13	TBC	Campofrio Food Group SA	Spain	Sigma	Mexico	1,178
Jul-13	Aug-13	Oy Hartwall Ab	Finland	Royal Unibrew A/S	Denmark	442
Oct-13	TBC	R Griggs Group	UK	Permira Advisers	UK	353
Nov-13	TBC	Laboratories Indas SAU	Spain	Domtar Corp	Canada	425
Feb-13	Apr-13	Klemme AG	Germany	Aryzta AG	Switzerland	280
Jan-13	Jan-13	JSC Turnif	Russian Fed	Russkoye more – Dobycha	Russian Fed	263
Jun-13	TBC	Sichuan Chengdu Quanxing Group	China	Diageo PLC	UK	495
Jul-13	Jul-13	Epax Nutra Holding III AS	Norway	FMC Corp	US	260
Oct-13	TBC	Shiseido's Decleor and Carita brands France	France	L'Oreal SA	France	230
						44,695

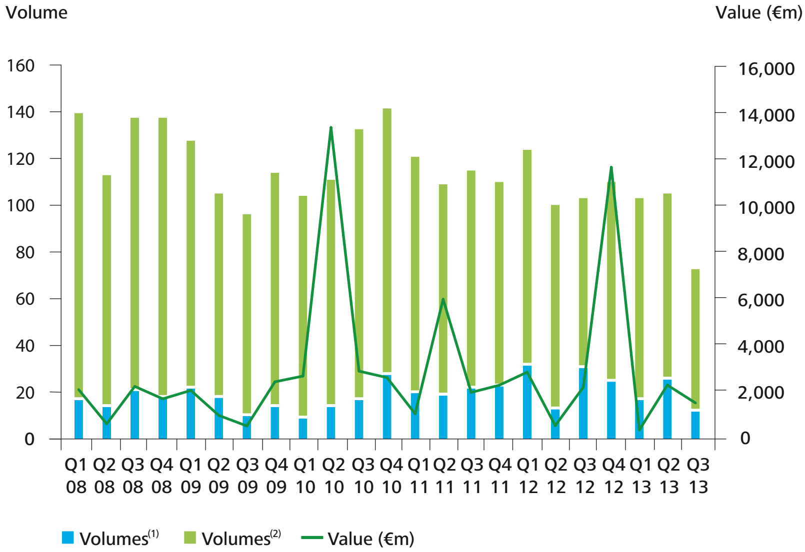
Source: Thomson Reuters, Deloitte analysis
Note: Deal values are reported in Euros as per Thomson Reuters exchange rates

Deal size (€m)	Revenue (€m)	EBITDA (€m)	Revenue multiple	EBITDA multiple	Deal rationale
6,317	2,842	481	2.7	16.0	Continued development of global portfolio in hot beverage sector
5,144	1,811	416	4.9	21.4	Expansion of foothold in Asian beer market
2,000	700	n/a	3.6	n/a	Acquistion of luxury cashmere business
1,600	592	118	2.7	13.6	Major acquisition to bolster existing European drinks position
1,106	n/a	n/a	n/a	n/a	Acquistion of a 40% stake in a Russian tobacco distributor
1,043	594	95	2.2	13.5	Promotes expansion into the Chinese tissue market and expands production capacity
850	600	n/a	1.4	n/a	Ice cream producer enhances existing portfolio of well known consumer brands
845	2,562	107	0.4	9.8	Divesture of bakery supply business to focus on bio-based ingredients
825	1,434	202	2.7	19.2	Access to India's growing spirits market
732	949	49	0.8	14.8	Leading cocoa production and greater security of supply growth Asian and LatAm
638	588	64	1.4	13.0	Refocus of business on consumer branded products
635	166	28	3.1	18.3	Expansion in the high growth Chinese cosmetics market
561	305	33	2.4	23.0	Portfolio infill acquisition of luxury watches and jewellery business and bolster presence in the Americas
550	597	101	2.5	14.5	Purchase of controlling stake in Morocco's largest dairy business
497	n/a	n/a	n/a	n/a	Broadens product offering geographically and enhance access to beauty salons channel
495	270	70	1.8	7.1	Provides a foothold in Latin American animal nutrition market and extends move into higher margin products
470	n/a	n/a	n/a	n/a	Access to major future growth market
449	429	n/a	1.0	n/a	Private equity acquisition of a US fashion brand
413	401	47	1.0	8.8	Acquisition of iconic UK biscuit brands
400	400	n/a	1.0	n/a	Acquisition of iconic European food brands business
386	1,918	151	0.6	7.8	Recovery play investment in Spanish meat processing market
375	309	50	1.4	8.8	Expansion of brand portfolio in Nordic and Baltic regions
353	189	29	1.9	12.3	Further development of portfolio of fashion businesses
285	190	46	2	6	Expands its personal care business in Europe
280	229	n/a	1.2	n/a	Capture of frozen bakery growth and access to large retailers
263	n/a	n/a	n/a	n/a	Consolidation of the Russian pollock and herring fishing market
260	n/a	n/a	n/a	n/a	Acquistion of a leading international Baiju white spirits brand
260	n/a	n/a	n/a	n/a	Omega 3 producer enhances FMC's nutrition and health offerings
230	100	n/a	2.3	n/a	Acquisitiion of strong cosmetic brands with promising international growth prospects
28,261					

M&A market – Food

- The food sector continues to consolidate at a steady pace with a reasonable number of deals being pursued by both Corporate and Private Equity Players.
- Developed markets cross-border activity dominates the space with a number of international acquirers looking at closing down regional portfolio gaps. Examples include Hain-Celestial (Histon Sweet Spreads, Covent Garden Soup Company, Ella's Kitchen and Tilda Rice), Mizkan (Branston Pickle and Sarsons) and Orkla (Reiber & Sons).
- Private Equity was also active in acquiring assets mainly coming out of Corporates that have renewed their focus on core activities resulting in Rhone Capital acquiring the Bakery Supplies Business from CSM and CVC acquiring Campbell Soup's continental European business.
- Though not related to the above, long term financial investors have also looked at the sector as a long term growth opportunity, especially through international expansion, resulting in Ontario Teachers Pension Plan winning the hotly contested auction for Burton's Biscuits and Investcorp's acquisition of Tyrell Crisps.
- Another new trend appears to be a potential increased partnering between private equity and corporates to acquire assets. Premier Foods divested a majority share in its Hovis and milling business to Gores Group (a turnaround fund) and others are expected to team together to look at United Biscuits, which is expected to come to market later this year.

Chart 13. Food



Source: Thomson Reuters, Deloitte Analysis

Deloitte view

The market will continue to consolidate with international buyers – Asian (Japanese and Chinese) and US – increasingly active in European auctions. The availability of cash, lower risk profile and the desire to grow in Europe will make these buyers increasingly willing to pay more for trophy assets.

Large corporates will continue to look to rationalise their portfolios with sales of brands in lower growth categories and markets, most of which will attract both PE and corporate interest.

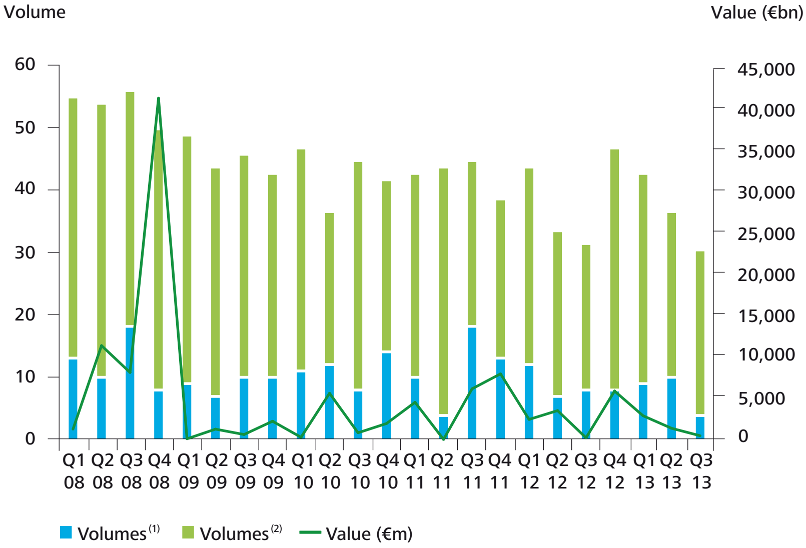
Completed food transactions over €100m in 12 months to December 2013

Date	Target	Target nation	Value (€m)	Acquirer	Acquirer nation	Deal rationale
Jul-13	CSM NV – Bakery Supplies	Netherlands	845	Rhone Capital	US	Divesture of bakery supply business to focus on bio-based ingredients
Jun-13	Petra Foods – Cocoa Ingredients	Singapore	732	Barry Callebaut	Switzerland	Leading cocoa production position and greater security of supply to growth Asian and Latin American markets
Apr-13	Rieber & Son	Norway	638	Orkla Brands	Norway	Refocus of business on consumer branded product
Feb-13	Centrale Laitiere	Morocco	550	Danone	France	Purchase of controlling stake in Morocco's largest dairy business
Apr-13	Tortuga Cia Zootecnica Agraria	Brazil	495	Koninklijke DSM NV	Netherlands	Provides a foothold in Latin American animal nutrition market and extends move into higher margin products
Oct-13	Campbell Food – Certain Assets	Belgium	400	CVC Capital Partners	UK	Acquisition of iconic European food brands business
Apr-13	Klemme	Germany	280	Aryzta	Switzerland	Capture of frozen bakery growth and access to large retailers
Jul-13	Epax Nutra	Norway	260	FMC	US	Omega 3 producer enhances FMC's nutrition and health offerings
Dec-13	Snacks International SAS	France	190	Apax Partners SA	France	Entry into European savoury snack market
May-13	Marine Harvest	Norway	118	Geveran Trading Co	UK	Stakebuilding by family owner of acquisitive seafood company
Feb-13	Premier Foods PLC – Sweet Pickle	UK	115	Mizkan Group	Japan	Acquisition of iconic UK sweet pickle brand (Branston)
Aug-13	Tyrrells Potato Chips	UK	114	Investcorp	UK	Acquisition of premium brand with international growth ambitions
			4,838			

M&A market – Beverage

- While some way off its pre-recession level, beverage sector activity continues to see a reasonable number of sizeable strategic deals.
- Benckiser's takeover of the recently listed DE Master Blenders business compliments its existing hot beverage investments in Peet's Tea & Coffee and Caribou.
- The larger drinks companies have also continued to be active with Heineken, AB Inbev and Diageo completing significant deals which provides them with greater access to South East Asian, China and Indian growth markets.
- It also appears that a number of the major drinks companies have been in the process of realigning their brand portfolios with a number of recent divestments of non-core brands namely: Heineken's disposal of Hartwells (the second largest brewer in Finland); Remy Cointreau's divestment of its Nordic cognac business; and Pernod Ricard's sale of its predominantly Danish aquavit brands.
- The whisky market has also continued to receive interest from investors with Distell's acquisition of Burn Stewart (Scottish Leader, Bunnahabhain) following on from Remy Cointreau's previous acquisition of Bruichladdich.

Chart 14. Beverage



Note: Volume[1] denotes volumes of deals where deal value is disclosed, Volume[2] denotes volumes where deal values are not disclosed

Top ten completed beverage transactions in 12 months to December 2013

Source: Thomson Reuters, Deloitte analysis

Deloitte view

The recently announced acquisition of Oriental Breweries by AB InBev for €4.2 billion from KKR highlights the ongoing strategic consolidation in the global beer market, with particular interest being paid to gaining (or regaining) a presence in new and emerging market territories.

The Scottish whisky market is likely to receive further attention from investors with the proposed disposal of Whyte & Mackay, offering one a few opportunities of heritage brands with attractive export growth volumes.

Whilst outside of our European analysis, Suntory's high profile €11.6 billion acquisition of Jim Beam highlights the long anticipated step up in action of Asian buyers looking to make significant strategic acquisitions of a flagship portfolio of brands.

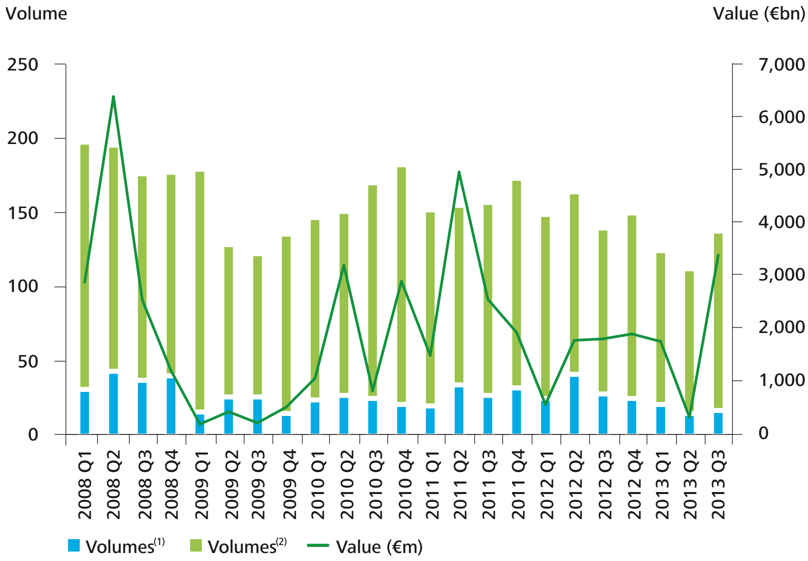
Top ten completed beverage transactions in 12 months to December 2013

Date	Target	Target nation	Value (€m)	Acquirer	Acquirer nation	Deal rationale
Oct-13	DE Master Blenders 1753 BV	Netherlands	6,317	Joh A Benckiser	Netherlands	Continued development of global portfolio in hot beverage sector
Jan-13	Asia Pacific Breweries Ltd	Singapore	5,144	Heineken International	Netherlands	Secures key brewing asset in growth market
May-13	United Spirits	India	825	Diageo	Netherlands	Delivers a prominent position in India's growing spirits market
Aug-13	Oy Hartwall Ab	Finland	375	Royal Unibrew A/S	Denmark	Expansion of brand portfolio in Nordic and Baltic regions
Apr-13	Nanchang Asia Brewery	China	309	AB InBev	Belgium	Access to growing Chinese beer market
Apr-13	Burn Stewart Distillers Ltd	UK	186	Distell Group Ltd	South Africa	Secures access to heritage Scotch whisky brands
Mar-13	Duvel Moortgat NV	Belgium	125	Investor Group	Belgium	Family shareholders consolidate their position
Jan-13	Pernod Ricard – Nordic Brands	Denmark	103	Arcus-Gruppen AS	Norway	Divestment of aquavit and bitters business to existing Nordic player
Aug-13	Larsen "Le Cognac des Vikings"	France	53	Altia Oyj	Finland	Acquisition of Cognac brand to strengthen position in Nordic market
Jun-13	United National Breweries	South Africa	28	Diageo PLC	UK	Growth market South Africa beer producer
			13,465			

M&A market – Personal, household, textiles and apparel

- The two largest completed personal care and household products transactions have been characterised as those driven by geographical expansion.
- SCA's acquisition of Vinda International, providing expansion into the Chinese tissue market, is the largest personal and household product transaction in the last twelve months. This follows SCA's €1.3bn acquisition of a European tissue business in July 2012.
- In November 2013, Domtar announced the acquisition of the Spanish personal care business, Laboratorios Indas, S.A.U.
- In the cosmetics and beauty area, Revlon has broadened its European product offering with its acquisition of Colomer.
- In January 2014, L'Oreal received regulatory clearance to proceed with the acquisition of Hong Kong listed Chinese cosmetics and beauty company, Magic Holdings International.
- Activity in the luxury brands sector has continued with LVMH's acquisition of Loro Piano, the high end cashmere brand, and Swatch's acquisition of Harry Winston, a luxury watch and jewellery business.

Chart 15. Personal & household products, apparel and other



Source: Thomson Reuters, Deloitte analysis

Deloitte view

We expect continued M&A activity where it offers the opportunity for product leadership in growth or resilient markets, as well as the potential for inbound acquisitions where product brands can be rolled out into high growth markets. The potential acquisition of Merck Consumer Care highlights the continued interest for established brands in this sector.

In the luxury brands sector, we expect to see continued interest in strong brands from both established players and also increasingly from Asian and Middle Eastern firms.

Completed personal and household products, transactions over €50m in 12 months to December 2013

Date	Target	Target nation	Value (€m)	Acquirer	Acquirer nation	Deal rationale
Nov-13	Vinda International	Hong Kong	1,043	Svenska Cellulosa Aktiebolaget SCA	Sweden	Promotes expansion into the Chinese tissue market and expands production capacity
Oct-13	The Colomer Group	Spain	497	Revlon Consumer Products	US	Broadens product offering geographically and enhances access to beauty salons channel
Jan-13	Lornamead Acquisitions Ltd	UK	143	Li & Fung Ltd	Hong Kong	Acquisition of traditional and heritage brands to strengthen health and beauty portfolio
Jun-13	Iberchem SA	Spain	80	Magnum Capital Industrial Partners SL	Spain	PE acquistion of flavours and fragrance business
Jan-13	Royal Copenhagen A/S	Denmark	66	Fiskars Oy AB	Finland	Creation of portfolio of leading Scandinavian design brands
Apr-13	Monalisa Co Ltd	South Korea	63	MSPE Tissue Holdings AB	Sweden	Acquisition of sanitary tissue company
			1,892			

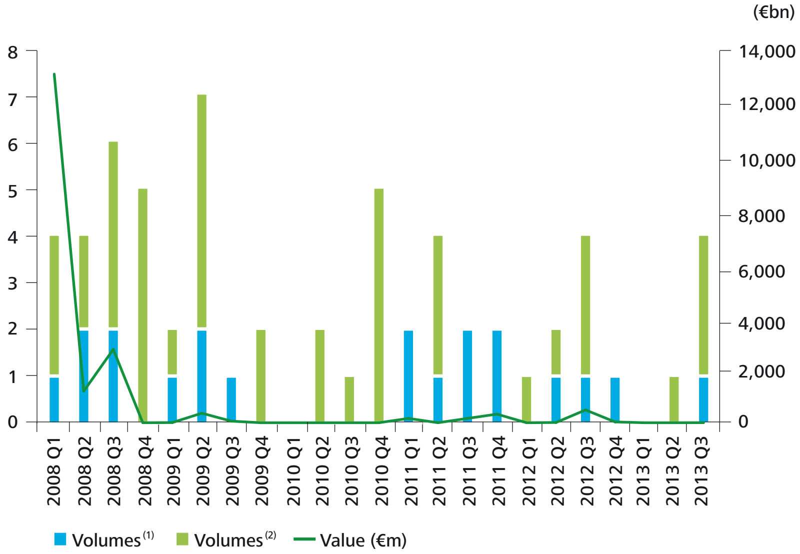
Completed textiles and apparel transactions over €50m in 12 months to December 2013

Date	Target	Target nation	Value (€m)	Acquirer	Acquirer nation	Deal rationale
Nov-13	Loro Pliana SpA	Italy	2,000	LVMH	France	Acquisition of luxury Italian cashmere busines
Mar-13	Harry Winston Inc	US	561	Swatch Group SA	Switzerland	Portfolio infill acquisition of luxury watches and jewellery business and bolster presence in the Americas
Feb-13	Cole Haan Holdings Inc	US	449	Apax Partners Worldwide LLP	UK	Private equity acquisition of a US fashion brand
Jun-13	La Perla Srl	Italy	69	SMS Finance SA	Luxembourg	Private investor acquires premium lingerie brand
Feb-13	Lee Cooper Group Ltd	UK	54	Iconix Luxembourg Holdings Sarl	Luxembourg	Brand licensor acquires UK iconic jean brand
			3,133			

M&A market – Tobacco

- Recent European Tobacco M&A activity has been characterised by the investment in smokeless tobacco initiatives as companies seek to utilise new technologies and offer alternatives to traditional cigarettes.
- BAT, Lorillard and Imperial Tobacco have all made acquisitions in the e-cigarettes market.
- Following on from its acquisition of CN Creative in December 2012, BAT launched its first e-cigarette Vype in July 2013.
- Lorillard acquired Skycig, a known brand in the European e-cigarette market. In 2012 Lorillard had acquired the US e-cigarette brand Blu.
- Imperial Tobacco acquired e-vapour assets and expertise from Dragonite in September 2103 and plans to launch its own e-cigarette product in 2014.
- Whilst not completed at the time of this survey, the announcement by Japan Tobacco and Philip Morris International to each buy 20% stakes in Russian distributor Megapolis provides them with a greater reach into the Russian market and provides Megapolis with its distribution network and aid further regional expansion.
- Philip Morris International also looked to enhance its strategic positioning in the North African market with the announcement of a 49% stake in Arab Investors – TA, a major stakeholder in the Algerian tobacco market.

Chart 16. Tobacco



Source: Thomson Reuters, Deloitte analysis

Deloitte view

We expect there will be continued demand from the Tobacco giants for companies that offer new technologies and alternative risk reducing products.

In addition, acquisition activity is also likely in emerging markets where demand for traditional tobacco products remains strong.

Top completed tobacco transactions in 12 months to December 2013

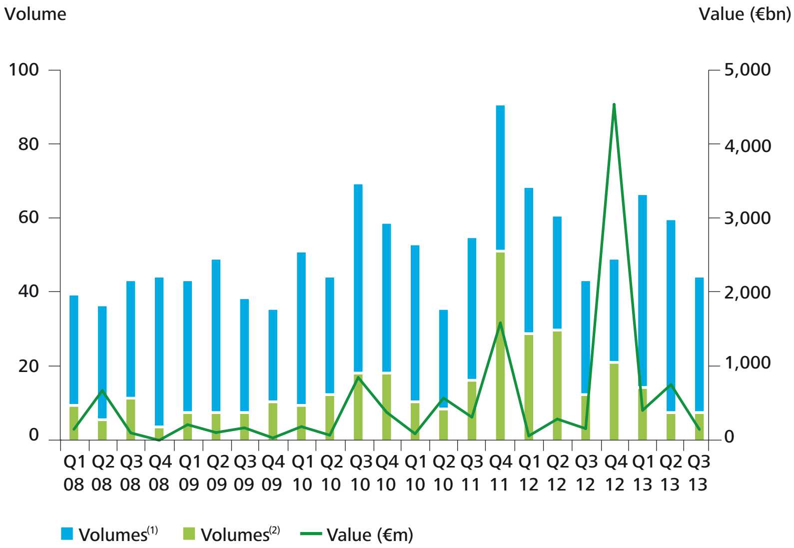
Date	Target	Target nation	Value (€m)	Acquirer	Acquirer nation	Deal rationale
Sep-13	Dragonite E-Cigarette	China	57	Imperial Tobacco	UK	Building of position in e-cigarette market
Oct-13	Skycig	UK	36	Lorillard	US	Building of position in e-cigarette market
Dec-12	CN Creative	UK	30	British American Tobacco	UK	Building of position in e-cigarette market
Jul-13	Greek Coop	Greece	3	OAO "Donskoy Tabak"	Russian Fed	Entry into MENA tobacco market via Greek tobacco market
			126			

M&A market – Agriculture and livestock

Commentary

- In terms of activity levels, 2013 marked a relatively quiet year for this sector. The chase for genetics/traits enhancing livestock and crops for the future continues (e.g. Genus/Genetiporc and Agromillora/Nazca). In addition to the completed deals identified there are several smaller deals/collaborations taking place in anticipation of exploitation of gene technology giving rise to improved production and product attributes.
- Political concerns and falling commodity prices are restricting some wider supply chain integration although the recently announced Cargill investment in UkrLandFarming a leading Ukraine producer is a welcome sign.
- The market is still seeing some consolidation on the supply side and, interestingly, the continued expansion of Chinese industry's footprint with their acquisition of Smithfield in the US.

Chart 17. Agriculture and livestock



Source: Thomson Reuters, Deloitte analysis

Deloitte view

After a game changing five years for the agricultural sector in terms of market attention and appreciating values, 2013 was a quieter year. We believe this is more down to the relative dilution effect from the pick up in activity in other sectors and improvement in economic outlook generally, rather than a downgrading of agriculture.

The longer term food production and consumption projections have not changed and whilst there is currently downward pressure on agricultural commodity prices, climate driven production shortages/shocks will keep rejuvenating interest in the sector. The fundamentals are still strong and we expect more activity in 2014 and beyond.

Top completed agriculture transactions in 12 months to December 2013

Date	Target	Target nation	Value (€m)	Acquirer	Acquirer nation	Deal rationale
Jan-13	JSC Turnif	Russian Fed	263	OOO "Russkoye more –Dobycha"	Russian Fed	Consolidation of the Russina pollock and herring fishing market
May-13	Sovgavan'ryba	Russian Fed	146	OOO "Russkoye more –Dobycha"	Russian Fed	Consolidation of fishing market
Jun-13	Cermaq ASA	Norway	128	Naerings – og Handels departmentet	Norway	Norwegian government increases stake in fish farmer with Chilean interest
Feb-13	Morpol	Norway	101	Marine Harvest	Norway	Consolidation of seafood sector, with purchase of Norway listed salmon farmer
Jan-13	Westway Feed Products LLC	US	86	ED & F Man Holdings Ltd	UK	Building of position in liquid feeds market
Nov-13	Grieg Seafood ASA	Norway	77	Marine Harvest ASA	Norway	Building of stake in salmon farmer
Oct-13	Genetiporc Inc	Canada	30	Genus PLC	UK	Strengthening position in genetic livestock herd farmer
Jan-13	Paraguay Agricultural Corp	Paraguay	25	DEG-Deutsche Investitions-und Entwicklungsgesellschaft	Germany	German development bank invests in Paraguayan farming programme
Jan-13	Aqua Gen AS	Norway	24	EW Group GmbH	Germany	Acquisition of world leader in salmon and trout breeding
May-13	Agromillora Iberia SL	Spain	20	Nazca Capital SGECR SA	Spain	Investment in agricultural propagator
Mar-13	Bisco Bio Sciences Pvt Ltd	India	20	Vilmorin & Cie SA	France	Establishment of footprint in Indian corn market
			818			

Source: Thomson Reuters, Deloitte Analysis

Striving for growth?

"High performing companies will actively consider M&A to drive growth faster in adjacent categories and to some extent overseas expansion in the form of mid cap level companies or smaller."

"Sellers are hoping to cash in on high price expectations hoping that economic/financial improvement will support high prices."

"Positive due to pent up (cash rich) companies who have been unable/not willing to invest, now in confident position to invest."

M&A – Outlook on activity

About half of our respondents are optimistic in their outlook on M&A deal activity for CPG companies over the next 12 months, with international expansion and category-wise growth and leadership being seen as the key drivers. Consolidation to achieve further economies of scale and portfolio rationalisation/non-core divestments are also seen are key drivers by many of our respondents.

Perhaps unsurprisingly, this is at a lower level following the major swing in sentiment in the first-half of 2013, when over three quarters of our respondents were optimistic in their outlook for deal activity. This also potentially reflects that as the economic recovery takes hold, the previous expectations of a marked improvement are yet to be met.

In terms of the primary drivers for M&A, growth strategies look to be returning to the boardroom agenda with emerging market expansion and obtaining platforms in adjacent categories ranking highly. Following on from recent deals trends there continues to be a strong preference for leading brands in high-margin or premium categories.

Consolidation to drive further 'economies-of-scale' and cost efficiency also continues to be high priority recognising that the recession has focused on cost conscious consumers on value driven purchasing for many of their staple requirements.

While a number of major players have announced their intentions to pursue portfolio right-sizing through the divestment of non-core assets over the next 12 months, the divestment option was seen less favourably by the respondents to this survey than in previous surveys. This may, in part, reflect the reticence of some companies to dispose of brands that provide a contribution to central costs, offer category coverage in brand portfolios or the unpalatable position of selling them to an existing competitor. However, there is anecdotal evidence that a number of companies are reassessing the efficacy of their investment in a number of brands or business units. We would expect to see further disposals in this area particularly where current market prices remain favourable.

Unsurprisingly distressed driven deals ranked considerably lower than previous surveys given the improved availability of credit and general recovery.

Chart 18. How do you feel about the M&A outlook for CPG companies in the next 12 months?

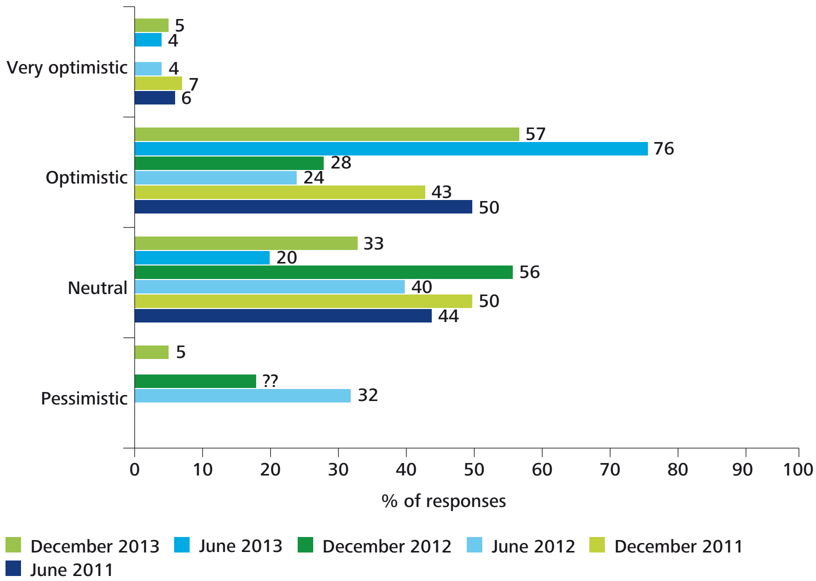
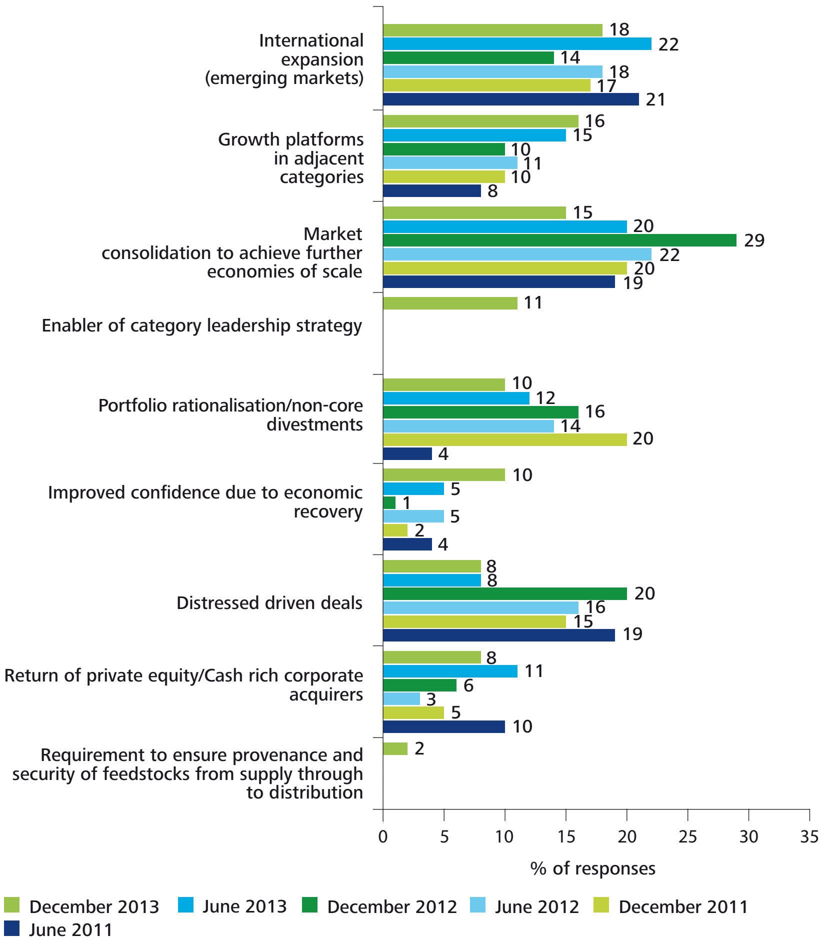


Chart 19. Please identify from the list the three main drivers of M&A activity for CPG companies in the next 12 months:



Our respondents also expressed the following comments regarding sentiment to future M&A activity:

"Positive due to pent up (cash rich) companies who have been unable/not willing to invest, now in confident position to invest."

"High performing companies will actively consider M&A to drive growth faster in adjacent categories and to some extent overseas expansion in the form of mid cap level companies or smaller."

"Sellers are hoping to cash in on high price expectations hoping that economic/financial improvement will support high prices."

The recipe for a smooth transaction

“Integration leadership & locking in key talent is very important to realising value early.”

“Acquisition must clearly support company strategy and have achievable, material cost synergies.”

“Having an integration plan set up well in advance of completion also helps smooth the transition period and gives new management a prescriptive benchmark against which to deliver in early days.”

M&A – Outlook on transactions

There is an ongoing element of justified caution about the level of pick-up in M&A deal activity, partly as a result of previous false dawns, but also that much of the widely covered economic improvement is simply a return of growth back to more modest historical levels. Whilst concerns over economic uncertainty have receded, there continues to be a high level of shareholder and director caution and this is likely to be primarily around identifying the right targets and exercising pricing discipline when pursuing them.

Our survey clearly indicates that many feel the gap between vendor and buyer expectations has become more widely divergent. This appears to be particularly the case where flagship brands are on offer with recent auctions (Lucozade Ribena, Burton's Biscuits) attracting significant competitive investor interest.

Our respondents continue to highlight the importance of alignment with acquirer company strategy as a key success factor to deal doing, as well as the capability to execute a clearly identified post-merger integration.

Not-overpaying on competitive auctions and retention of the key personnel both rank highly. Clearly, while the former could be dismissed as aspirational, the importance of identifying implementable value creation opportunities is increasingly a key differentiator in winning auctions, allowing the potential purchaser to readily recover any premium required to succeed with a bid, in the short term after deal completion.

Chart 20. Please identify from the list the three main obstacles regarding M&A activity for CPG companies in the next 12 months:

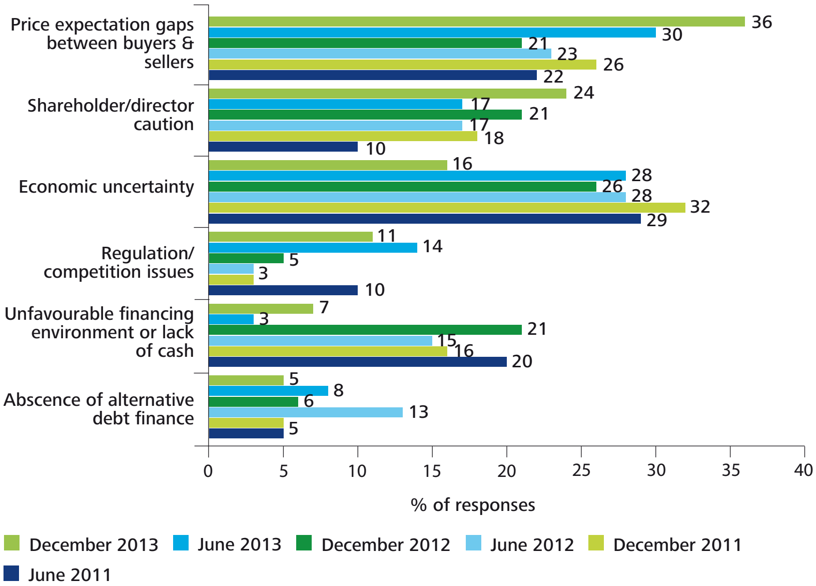
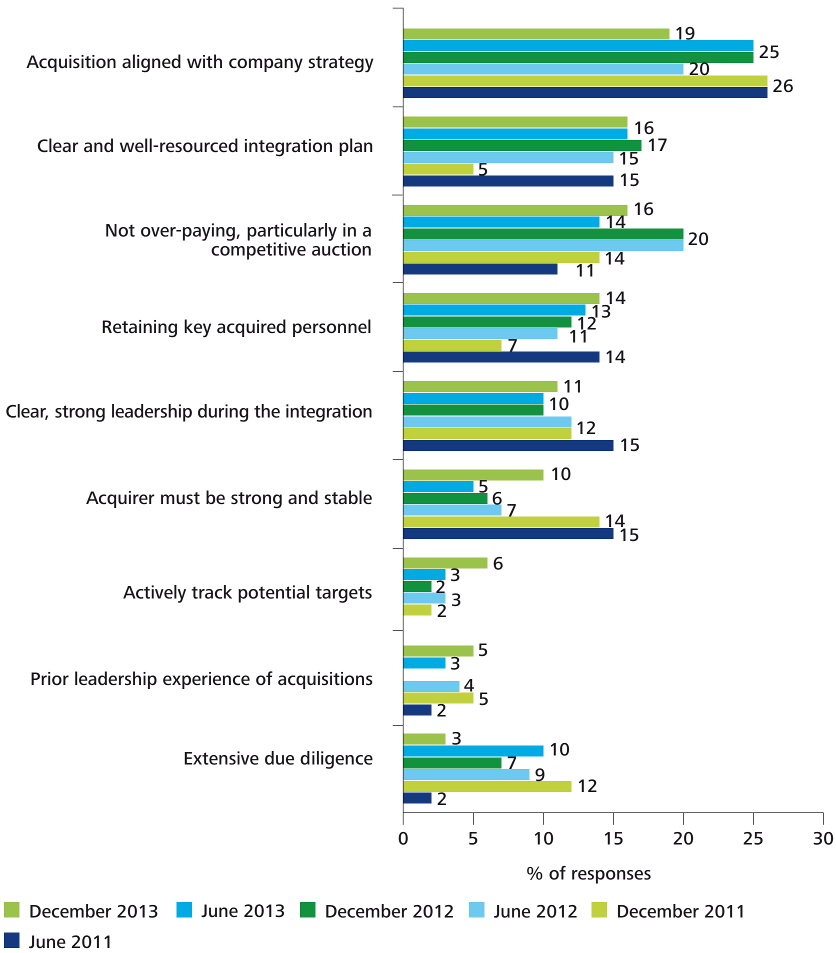


Chart 21. Drawing on your experience, please identify from the list the three most important factors that underpin a successful M&A transaction of a CPG company:



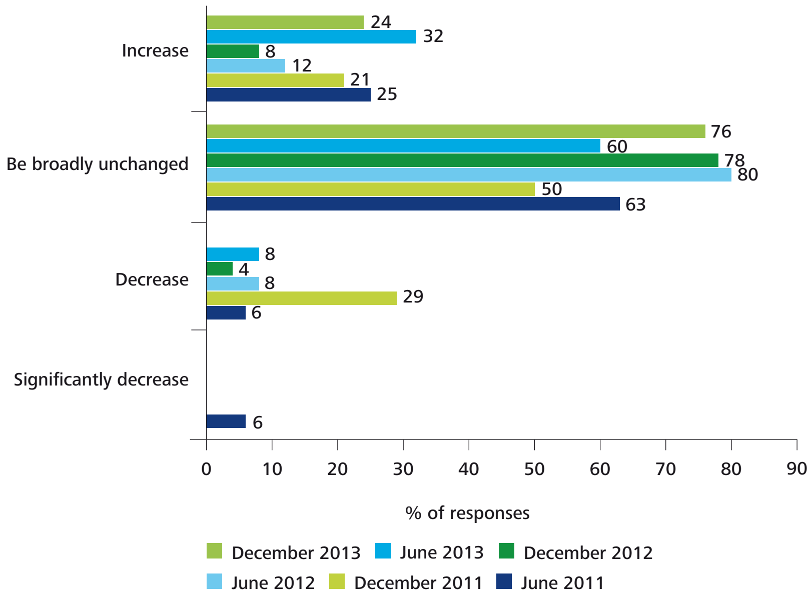
Bridging the valuation gap

"Strong competition for assets due to the scarcity of quality assets and the improving financial firepower of buyers likely to lead to increasingly challenging valuations."

"Valuations will continue to be driven by strong growth strategy, supported by management teams with a track record of delivery against historical plans."

M&A – Outlook on valuation trends

Chart 22. M&A valuations for CPG companies in the next 12 months will:



Just over three-quarters of our respondents expect M&A valuations to remain broadly unchanged in the next 12 months, with the balance expecting to see an increase. Looking back though our previous surveys, it appears that a significant positive shift in pricing expectations occurred between December 2012 and June 2013.

"Strong competition for assets due to the scarcity of quality assets and the improving financial firepower of buyers likely to lead to increasingly challenging valuations."

"Tail brands – valuations broadly unchanged. Lead brands – will demand a premium price."

"As money from cash rich companies begin to flow – valuations will move up, but only on 'attractive' businesses."

"Expect M&A valuations to continue to be driven by fundamental factors e.g. attractiveness of categories, strategic positioning – unlikely to increase significantly based on improving market sentiment."

"Valuations will continue to be driven by strong growth strategy, supported by management teams with a track record of delivery against historical plans."

"Our analysis shows an increase in valuation multiples in 2013 and I'd expect this to continue. Picking the winning sectors and products as the economy recovers continues to be key."

Pricing expectation gaps between buyers and sellers, as well as the future performance of acquired entities, remain key concerns among Consumer Products companies. However, the majority of respondents did not anticipate an increase in the use of earn-outs to bridge the pricing gap, potentially recognising that unless such earn-out are carefully constructed, their impact is simply to defer a major pricing dispute to a later date.

One potential alternative approach to bridge the gap is the use of shares, in addition to cash, as part of the purchaser's consideration. However historically this has not been a common approach other for the largest Consumer Products transactions.

Faced with the prospect of fuller pricing, it is likely that the initial attention of successful acquirers is likely to be squarely focussed on short term valuation creation opportunities on their transactions.

Innovation and customer engagement is key

"Successful innovation, supported by increased marketing investment and quality is more important than ever."

"Food market volumes as a whole have been flat to declining in the past couple of years. We are working even harder to engage consumers and ensure our products are visible to them."

M&A – Consumer behaviour

Chart 23. How do you feel about the financial prospects for CPG companies over the next 12 months:

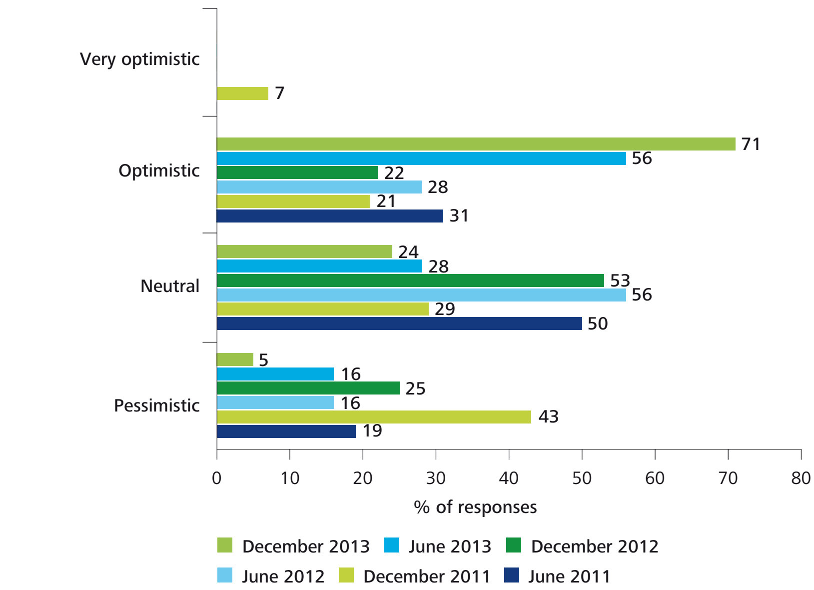
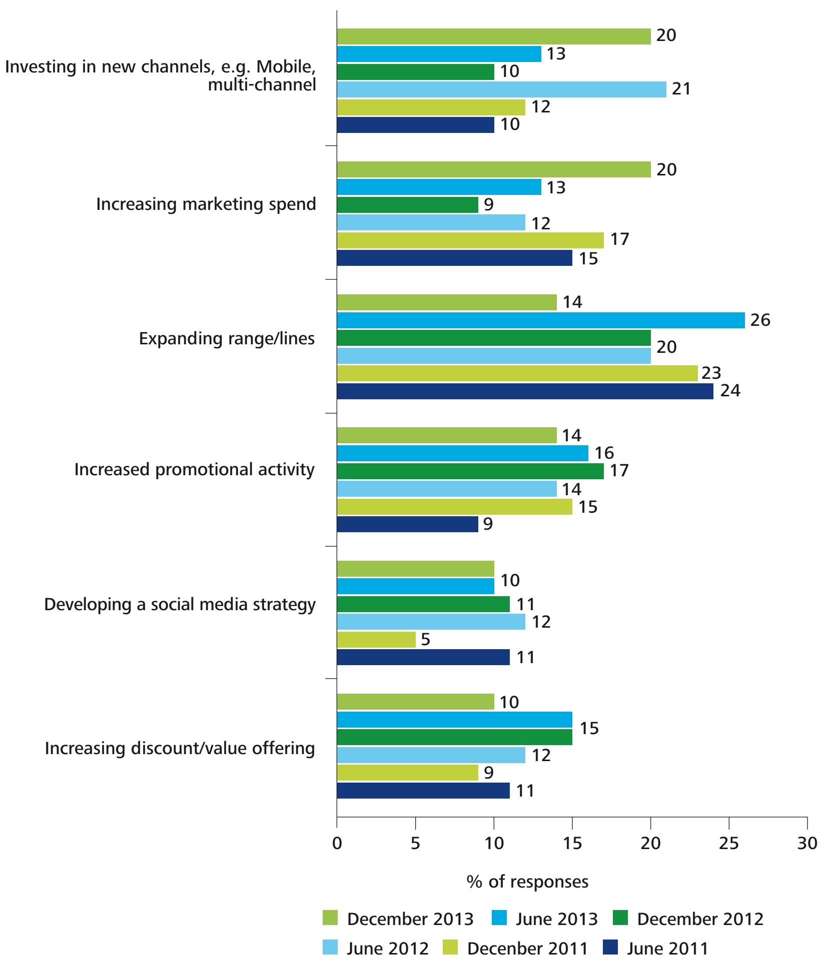


Chart 24. Please identify what measures you are taking to engage with your consumers in the current trading environment:



On a positive note, over 70% of respondents feel optimistic about their financial prospects in the next 12 months, which marks a major shift in sentiment.

Our respondents indicated that they would actively look to increase spending to engage their consumers in this more upbeat trading environment. Sentiment appears to have moved away from introducing wider product ranges and lines to meet the needs of value and price conscious shoppers, to a focus on increasing communication with resourceful, tech-savvy consumers requiring better product information and convenience.

According to our respondents, investments in new channels, such as mobile and multi-channel, would be the most likely measures to engage consumers. Companies are likely to increase marketing spend to convey the "right message" to the "right audience", leveraging analytics and social media to ensure consumers' needs are addressed, as well as to ensure the effectiveness of promotion and discount strategies.

The ability of Consumer Products companies to effectively communicate their brand values, product features and price points will continue to be a critical factor in competing against both branded and private label competitors.

"We are having to justify our premium price position through activity in promotional spend and marketing."

"Move to mobile for information/choice is accelerating."

"Moving more to social media communication."

"Consumers have been trained to search for value and to shop the promotions. There is less brand loyalty."

"Consumption appears to be polarising, to some extent, with many consumers increasing their consumption of value or economy products, whilst high-end/premium products are also growing , albeit those segments are much more fragmented, allowing smaller, often independent, brands to increase market share."

"Behaviour amongst our consumers does not appear to be changing massively. We remain focused on quality and consumers still appear willing to pay a fair price."

"Significant cut-backs in local Govt. expenditure has choked off a great deal of discretionary spending in areas heavily reliant on local authority employment."

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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About the Deloitte UK Consumer Products M&A Survey

The Deloitte UK Consumer Products M&A Survey is a biannual survey of CEOs, CFOs and M&A Directors of European Consumer Products companies. The Deloitte UK Consumer Products M&A Survey gauges forward-looking expectations for M&A and the capital markets. This survey took place between December 2013 and January 2014. 21 companies participated across all sub sectors of the Consumer Products landscape.

Notes

Notes

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