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About the report

This sector report was edited by André Johnston of the Mergers Alliance central team. To compile our findings we conducted interviews with our sector experts from each member firm within the Mergers Alliance partnership. We also surveyed owners and senior executives within consumer good sector organisations and private equity investors worldwide.

For more information on this report please contact André Johnston, Mergers Alliance Research Manager.

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Other sector reports available to download from mergers-alliance.com include:
- Global Cleantech Report
- Global Engineering Review
- Global Food & Drink
- European Plastic Packaging

Deal Focus

Within each country’s Deal Focus we review merger and acquisition (M&A) activity, focusing on key deals and trends within the consumer goods sector with an emphasis on branded goods.

We have included tables of recent transactions where the target company is located in the country under review. Additionally, we provide an overview of the consumer goods sector as a whole, highlighting the market structure as well as commenting on the key trends and the factors influencing M&A.

We provide our own insight on how we think the market might play out over the coming 18 months and attempt to identify key investment opportunities.

Key terminology: FMCG (Fast moving consumer goods)
CF+T (Cosmetics, fragrances and toiletries) y-o-y (year on year), CAGR (Compound annual growth rate) BRIC (Brazil, China, India, Russia). All deal values are in US dollars unless otherwise stated.

Disclaimer

This publication contains general information and is not intended to be comprehensive nor to provide financial, investment, legal, tax or other professional advice or services. This publication is not a substitute for such professional advice or services, and it should not be acted on or relied upon or used as a basis for any investment or other decision or action that may affect you or your business. Before taking any such decision you should consult a suitably qualified professional adviser. Whilst reasonable effort has been made to ensure the accuracy of the information contained in this publication, this cannot be guaranteed and neither Mergers Alliance nor any of its member firms or other related entity shall have any liability to any person or entity which relies on the information contained in this publication, including incidental or consequential damages arising from errors of omissions. Any such reliance is solely at the user’s risk.
Caution and uncertainty continue to affect the major economies and depress consumer confidence levels, especially in the US and Europe. Whilst the consumer product industry has been particularly exposed to the prevailing economic conditions we are optimistic that confidence will improve in 2012, creating new opportunities across all consumer markets.

As you will see from our report, mergers and acquisitions (M&A) activity in the sector has been progressively rising since the nadir of the global downturn in 2009. The report highlights that despite very challenging markets transactions are being completed in many different consumer segments and geographies. In addition a large proportion of these deals are cross-border transactions reflecting the increasingly global characteristics of the sector.

Our report also contains a great deal of market-leading insight into the key issues facing the sector in 2012 and beyond: how emerging markets are critical to consumer product company growth; why multi-channel sales strategies are driving investment activity and how companies at the value, premium and luxury ends of consumer markets are benefiting from those operating in the middle of the market. Our work also highlights the level of private equity investment in the sector and how mid-cap companies and global corporates are shaping their acquisition strategies.

As the global recovery takes hold, we at Mergers Alliance are ideally placed to help you. Whether you seek growth through acquisitions, wish to restructure or realise value in your business, our international advisors are in a unique position to help you. Our member firms have a prominent position in boardrooms across the world and are renowned for delivering an award-winning partner-led advisory service with seamless international cooperation.

We hope you find our report enlightening and welcome any feedback on our observations and conclusions.

Andy Currie
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Managing Partner of Catalyst Corporate Finance LLP
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We at Mergers Alliance believe the main factors to shape M&A in the consumer goods sector over the next three years will be:

**Consumer confidence ready to recover**

Whilst there remains much uncertainty in the global economy, the latest consumer polls indicate that consumer confidence has reached a plateau and that tentative signs of a recovery are emerging (see Figure 1).

We expect this recovery in consumer confidence, which may be slow initially, to feed into consumer markets over the next two years. Consequently this will further stimulate corporate and institutional investment and M&A activity across the consumer goods sector (see Figure 2).
Emerging markets rising

Consumer goods companies have recognised that emerging markets are a requisite for growth rather than just a complementary source of revenue. We expect this corporate focus to drive more Western investment into emerging economies directly through acquisitions or joint ventures.

Our research shows the rise of consumer sector M&A in emerging markets and in particular Asia. Since 2008, the proportion of M&A in these economies has increased by over a fifth to represent 30% of all deals globally (see Figure 3).

Figure 3: Emerging markets

The deal flow is two way. Indian consumer companies Godrej and Gitanjali have been among the ten most active acquirers globally over the past three years, having completed 15 deals between them. As with other BRIC headquartered multinationals, they have set ambitious growth plans and have acquired branded goods companies in both developed and other developing countries.
Adoption of multi-channel sales approach driving M&A

Almost all consumer product companies have adopted a multi-channel retail distribution model, which included high street retail, online, mail order and television distribution. Online shopping accounted for the majority of overall retail sales growth in a number of developed markets during 2011 and is set to continue to dominate growth.

Companies in the US, UK, Germany and the Netherlands have been particularly active in acquiring online businesses and we expect further consolidation to occur across the developed economies.

The Chinese market is forecast to become the biggest home shopping market globally – the B2C e-commerce market growing at 75% CAGR up to 2014. It is inevitable that successful local online businesses will be targets of both acquisitive overseas and local buyers.

Pressure on brands has intensified

Consumers in developed markets have been increasingly focused on price and brand equity. Whilst this has meant growth at both the premium end and value end of the branded goods spectrum, there has been intense competition and margin pressure in the middle. Many of these brands have found themselves competing directly against their distribution networks, which have developed private labels offerings – currently growing at 10% in the US and 6% in Europe.

This has created a number of ‘distressed’ sales and both corporate and private equity investors such as Sun Capital have capitalised on these opportunities. We expect further distressed opportunities to emerge in the short term.

Private equity continues its love affair with consumer brands

The private equity industry has an established track record of working with private businesses to expand the distribution of consumer branded products in most developed countries. This trend has continued through the economic downturn although the focus has moved away from single channel retail distribution to multi-channel distributed products.

Some of the more well known specialist sector investors such as L Capital and Change Capital have been active recently as well as global players like Carlyle Group, Oaktree Capital, Eurazeo and Blackstone Group.

High prices paid for high-end brands

During the past three years corporate and private equity activity in the luxury and premium segment has risen to reflect the increase in demand for premium goods from Asia, Russia and South America.

European luxury brands have been in particular demand and commanded high prices. The leading French luxury conglomerate LVMH has made seven acquisitions since 2008 including Italian jewellery maker Bulgari. Jimmy Choo, the iconic British lifestyle brand, was acquired for c. $930m by Labelux, the Austrian firm, which includes Bally and Belstaff amongst its portfolio. VF Corp, the leading US branded apparel conglomerate, acquired Timberland for $2.2bn, at a valuation of 12.3x historic EBITDA.
We expect to see the luxury and premium brand conglomerates continue to consolidate the market and provide the best exit route for investors, who would have considered an IPO in previous years.

**Companies in lower growth, mature economies need to acquire**

M&A is now one of the main growth strategies for consumer companies domiciled in mature economies. Companies that have reached a ceiling in terms of organic growth due to the mature and consolidated nature of their respective markets, will be compelled to pursue globalisation strategies.

The larger multinationals already have global sales and distribution operations, and are generally the first to acquire in emerging markets however, we expect to see more mid sized businesses acquire in BRIC countries as the risks become more understood and the M&A approach more accepted.

**Consumer power**

A consumer tidal wave is on its way in the form of the BRIC countries. Whilst the economies in each country vary significantly, their consumer markets are characterised by a largely untapped rural consumer population, expanding middle classes and the high income disparities between the rural and urban populations. It is estimated that one billion more consumers will emerge in less than 15 years.

Whilst the consumption of basic goods such as food, beverages and clothing have grown most in line with GDP, the consumption mix is changing. Certain sub-sectors, such as skin-care in China and India and cosmetics and baby diapers in Brazil, are growing faster than GDP. As a result, competition for local brands is intensifying and acquirers are paying high premiums as consolidation takes place. We expect premiums to remain high as demand for these brands and companies exceed supply.
A BRIC success

Brazil’s appeal to investors grows day by day and is quickly becoming one of the most appealing of the BRIC’s thanks to its booming economy and improving business conditions.

Brazilian GDP grew 7.5% in 2010 and is estimated to expand by 3.4% in 2012, mainly driven by its internal market, which benefits from record high employment and rising income levels. This social migration process is reaching over 30 million people who are either joining the consumer base or are increasing their consumption habits.

The upper, middle and lower-middle (or A-B-C) income segments now represent 74% of the population vs. 49% in 2005 thanks to the sharp increase in lower income consumer spending power. A strong commitment to economic stability, along with a structurally sound financial sector, has contributed to consumer confidence and capital expansion which should have a positive effect on general economic growth.

Population increase driving diaper market

Multinationals are becoming increasingly attracted to the baby diaper segment. In September 2011 personal care giants Svenska Cellulosa Aktiebolaget (SCA) acquired baby diapers and wet wipes specialists Pro Descart Indústria E Comércio for US$71m.

Domestic consolidation is also taking place, in August 2010 multi-billion dollar Brazilian conglomerate Hypermarcas acquired the Brazil based diapers, tissues and feminine care producer Mabesa from Grupo PI Mabe in a US$195m transaction which represented an estimated 8.5 x EV to EBITDA ratio. Hypermarcas also acquired two other leading diaper Brazilian companies (Pom Pom in November 2009 for US$173m and Sapeka in March 2010 for US$211m) establishing its national leadership with a 35% market share.

The baby diapers segment has experienced double digit growth over the past few years - a trend that is expected to continue due to the increasing purchasing power of the consumer and relatively high birth rates.

Footwear IPO alerts sellers

Arezzo, Brazil’s leading footwear company that holds an 11% market share and operates through franchises as well as its own stores, went public in January 2011 raising US$338m. A large chunk of the proceeds (roughly 35%) will be used to acquire smaller brands. It has been reported that other local footwear companies are also currently seeking acquisitions both domestically and overseas. Expect substantial consolidation activity in this sub-sector over the next 18 months.

Strong private equity involvement

Private equity involvement in the Latin American market is becoming increasingly evident.

The Carlyle Group looked to expand its consumer portfolio by acquiring a 51% stake in Scalina, Brazil’s largest manufacturer and retailer of women’s hosiery and lingerie, for approximately US$160m. In the last five years, the Brazilian lingerie market has outpaced GDP growth by circa 100%; a figure that can be attributed to the proliferation of the middle class and the rising number of women with expendable incomes.
Indeed, women are quickly becoming a major economic force and are expected to have a profound effect on consumption habits. The cosmetics, fragrances and toiletries (CF&T), footwear and apparel segments are all expected to be boosted.

Closer to home, in May 2011, Latin American private equity fund Southern Cross acquired a controlling stake in Brinox, a kitchenware manufacturer with revenues of US$80m in 2010. Apart from the major players, the kitchenware market is highly fragmented and Southern Cross hopes to benefit by continuing its buy and build strategy — acquiring other associated brands through Brinox.

**Consumers switching to brands**

Although Brazil is becoming increasingly prosperous, the consumer base is still composed of mostly lower to middle income consumers; consequently pricing is still central to consumer choice. However, branding has been gaining traction over the past several years with shoppers becoming more willing to spend that extra amount on quality branded products.

Due to the highly fragmented nature of the apparel market in particular (the top five players hold just 16% of the total market share) we expect the growing eagerness to buy brands rather than generic to drive M&A directed at emerging Brazilian clothing brands.

**E-commerce maturing**

Local consumer firms that have traditionally sold their brands in retail stores are expanding into e-commerce, a channel growing at over 30% per annum. Consequently, we anticipate moves by consumer firms looking to expand their distribution network to acquire domestically domiciled online retail specialists.

Overall, the Brazilian consumer market has experienced a boom in recent years, however several inefficiencies still exist, such as fragmented markets. This should nonetheless encourage major consumer players, foreign and domestic, that have their own distribution channels and that rely on economies of scale.

**Recent transactions**

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Description</th>
<th>Acquirer</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb 12</td>
<td>Natura Cosméticos S.A.</td>
<td>Cosmetics</td>
<td>Lazard Asset Management LLC</td>
<td>n/d</td>
</tr>
<tr>
<td>Oct 11</td>
<td>Bobstore</td>
<td>Apparel</td>
<td>InBrands</td>
<td>32</td>
</tr>
<tr>
<td>Sep 11</td>
<td>Descart Indústria E Comércio</td>
<td>Baby diapers</td>
<td>Svenska Cellulosa</td>
<td>71</td>
</tr>
<tr>
<td>May 11</td>
<td>Brinox Metalúrgica</td>
<td>Kitchenware</td>
<td>Southern Cross Group (Argentina)</td>
<td>n/d</td>
</tr>
<tr>
<td>May 11</td>
<td>Ecología/ Nick &amp; Vick</td>
<td>Cosmetics</td>
<td>Bombrl</td>
<td>9</td>
</tr>
<tr>
<td>Feb 11</td>
<td>VR Kidswear and VR Menswear</td>
<td>Apparel</td>
<td>InBrands</td>
<td>n/d</td>
</tr>
<tr>
<td>Jan 11</td>
<td>Perflex (Johnson &amp; Johnson)</td>
<td>Household</td>
<td>Hypermicas</td>
<td>17</td>
</tr>
<tr>
<td>Nov 10</td>
<td>Colgate-Palmolive, Pon Pon Soap</td>
<td>Soap</td>
<td>Hypermicas</td>
<td>50</td>
</tr>
<tr>
<td>Nov 10</td>
<td>Scalina</td>
<td>Hosiery; lingerie</td>
<td>The Carlyle Group (USA)</td>
<td>160</td>
</tr>
<tr>
<td>Aug 10</td>
<td>Mabesa do Brasil</td>
<td>Diapers</td>
<td>Hypermicas</td>
<td>195</td>
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The development priority of many firms has been outward of late to take advantage of the rapidly growing middle class. Solid macro fundamentals along with the increase in consumer credit, rolled out by both department and specialist stores, has led to a surge in Mexican consumerism. With this, Mexico remains one of the more attractive emerging market propositions.”

Christian Garcini Garcia, Sinergia Capital

Sound fundamentals

The Mexican consumer goods sector swept through the global economic downturn unimpeded, experiencing 6% compound annual growth over the past three years.

Consumer growth is expected to at least equal GDP growth which is currently at 4%. Indeed, a rising middle class may push growth in consumer goods higher still. Other positive indices include a relatively low inflation rate (at 3.14%) and stable consumer confidence levels. Moreover, consumer credit is recovering after a sharp contraction in 2009 and is expected to reach 2007 levels in 2012.

Overall deal volume in consumer goods has traditionally been low relative to the general market; however, it has been steadily rising since 2009.

Brand integration

An increasingly common theme in Mexican consumer oriented M&A has been for diversified consumer companies to buy smaller brands to then incorporate into their product lines.

In October 2010, Genomma Lab Internacional SAB, a Mexico based developer and marketer of over-the-counter pharmaceutical and personal care products, agreed to acquire the Pomada de la Campana, Galaflex, Affair, Vanart and Sante Haircare brands for a total consideration of US$85m. The brands, that reported combined annual sales of US$38m in 2009, will be incorporated into Genomma’s already extensive portfolio of over 90 brands.

Multinationals investing in Mexico

Large multinationals have sought to capitalise on concentrated sector growth. One such firm was Svenska Cellulosa Aktiebolaget, the Swedish consumer goods giant and owner of brands such as Bodyform and Tempo. In July 2010 it agreed to acquire Copamex S.A, a baby diaper business that targets the Mexican and Central American market, for US$50m. The deal involves the rights to the brands Tessy Babies and Dry Kids among others and will take advantage of the growing Mexican and Central American baby diaper market.

Largest luxury market in Latin America

The luxury goods market is the second most important in Mexico after the mass segment. Indeed, Mexico rates above Argentina and Brazil with 55% of the total sales of luxury goods in Latin America. According to AC Nielsen, 6.4 million Mexicans will have annual incomes of over US$60,000 by 2030. A number of major international luxury brands rely on the affluent Mexican consumer as much as they do the European. Hugo Boss for example derives c.15% of its global sales from Mexico.

Apparel acquisition opportunities

We expect the trend of Mexican brands being bought with the intention of being integrated into the buying company’s product line to continue. We expect this trend to take place in the apparel sector in particular, where a number of successful local brands have emerged. These include:
Julio: Quality clothing at low prices. It currently has 48 stores and 15 franchises in Mexico.

Ivonne: The brand has positioned itself as one of the leading companies in selling fashion and accessories to a wide segment of the female population. Has recently opened its first stores in the US.

Marsel: It currently has 20 stores in shopping malls across the country, Marsel has been expanding at a fast pace.

Highlife: Clothing for men; one of the market leaders in the sector.

Andrea: Catalogue sales of shoes with a large share of the Mexican market.

In our view the above present a good opportunity for foreign firms looking to invest in the infrastructure of some well established and potentially high growth Mexican brands.

### Recent transactions

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<thead>
<tr>
<th>Date</th>
<th>Target Description</th>
<th>Acquirer Description</th>
<th>Deal Value (US$m)</th>
</tr>
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<tbody>
<tr>
<td>Oct 11</td>
<td>Scientific-Atlanta de Mexico</td>
<td>Set-top boxes</td>
<td>PCE Paragon Solutions kft (Hungary)</td>
</tr>
<tr>
<td>Aug 11</td>
<td>Moda Holding S.A.P.I. de C.V.</td>
<td>Footwear</td>
<td>Nexus Capital, S.C. developer</td>
</tr>
<tr>
<td>Aug 11</td>
<td>Various Brands</td>
<td>Various brands</td>
<td>Genomma Lab Internacional SAB</td>
</tr>
<tr>
<td>Jul 11</td>
<td>Toshiba Electromex</td>
<td>Electronics</td>
<td>Just International Ltd. (Taiwan)</td>
</tr>
<tr>
<td>Oct 10</td>
<td>Colgate-Palmolive (Mexican brands)</td>
<td>Personal care</td>
<td>Genomma Lab Internacional SAB</td>
</tr>
<tr>
<td>Jul 10</td>
<td>Copamex, S.A. de C.V.</td>
<td>Personal care</td>
<td>Svenska Cellulosa Aktiebolaget (Sweden)</td>
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<tr>
<td>Mar 10</td>
<td>Laboratorios KSK</td>
<td>Natural products company</td>
<td>Takashi Tsuru Kayaba</td>
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<tr>
<td>Mar 10</td>
<td>Impco, S. de R.L. de C.V.</td>
<td>Household appliances</td>
<td>Sylvan Holdings Pte. Ltd (Singapore)</td>
</tr>
<tr>
<td>Jan 09</td>
<td>Iconix Brand Group, Inc</td>
<td>Various brands</td>
<td>New Brands Americas LLC (USA)</td>
</tr>
<tr>
<td>Aug 08</td>
<td>Barajas y Naipe mexico</td>
<td>Leisure equipment</td>
<td>Cartamundi NV; Copag da Amazonia S.A.</td>
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### M&A activity

Source: Capital IQ and Mergers Alliance Analysis

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The luxury goods market is the second most important in Mexico after the mass segment. Indeed, Mexico rates above Argentina and Brazil with 55% of the total sales of luxury goods in Latin America.
The US consumer products M&A activity has proven to be rather resilient in this volatile environment. Given the strong corporate balance sheets, and backlog of aging owners of privately-held CP companies, we are bracing for a strong surge of M&A activity over the next few years.”

Brian Mulvaney, Headwaters MB

Strategies change on macro deterioration

As goes the consumer so goes the consumer products industry and the consumers throughout the world are still recovering from the local and global recession and personal deleveraging.

The US consumers buying behaviour has fundamentally changed from the mid-2000’s and consumer goods manufacturers and the retail channels will continue to have to adjust to this new buying paradigm.

The continued contraction of credit availability to the consumer (be it from credit cards, home equity loans, 401k) combined with declining assets, dropping consumer confidence and increased unemployment, has made the US consumer more price sensitive, decrease discretionary spending and become more willing to consider alternative channels for key purchases.

The consumer goods manufacturers have also faced a dramatically changing environment in the US. Rising inflation on the back of monetary stimulus has meant that companies have faced rising commodity prices while at the same time being pressured to maintain, if not lower, its retail pricing. Many branded companies faced new competition from private label offerings. In addition, companies remain challenged by tight credit markets, a volatile dollar and increasing employee benefit costs.

Large deals and hostile takeovers

VF Corp, one of the leading owners of branded apparel companies, added Timberland to its portfolio in June 2011 in a US$2.2bn deal. This valuation was a 40% premium to Timberland’s recent stock price, 1.2 x revenue and 12.3 x EBITDA.

Timberland, which was publicly traded but family managed, had suffered a decline in profitability and was facing investor criticism. By being acquired by VF, Timberland’s cost structure should improve and sales will benefit from VF’s global distribution network. VF, which owns such brands as Vans, North Face, JanSport, Reef, Wrangler and Lee has stated that it will continue to look to build its brand portfolio in all of its categories both in the US and overseas.

Stable M&A levels

Despite volatile economic conditions affecting the consumer space, the annual number of transactions has remained relatively constant since 2008 through the end of 2011 at approximately 200 reported transactions per annum. While most of the deals had undisclosed value and terms, the ones that did disclose exhibited an increased average transaction size from a low in 2008 through 2010. This increase in the average deal size was reflective of the financial turmoil in 2008 in which many of the sellers were “distressed” and buyers had limited sources of capital. Average deal size spiked in 2010 as there were five US$1bn+ transactions including NBTY and Alberto-Culver for US$4bn each, whereas the largest disclosed deal in 2008 was only US$500m.

Approximately 13% of the companies acquired in the US have been bought by a non-US based entity. In 2011, there was an increase in cross-border transactions which was driven by the weak dollar and a desire for European and Chinese companies seeking “foothold” acquisitions in the US.
M&A driving company growth

The US consumer goods market is comprised of over 7,500 companies of which only 330 are publicly traded and just over 1,000 are private equity backed. Of this group, 350 companies disclosed revenue that totalled US$323bn, lead by Procter & Gamble (P&G) with US$79bn and the next nine accounting for US$114bn.

Of note, the industry growth of the top companies has been nominal with the top 10 companies only growing 0.6% in three years and 2.2% in five years, whereas the top 50 companies have grown 1.5% in three years and 4.6% in five years. The highest growth category in the top 50 was apparel, with PVH (Calvin Klein, Tommy Hilfiger) growing 88% in five years through acquisitions. Most of the other top 50 companies experienced low or no organic growth and the few that did have some growth were primarily driven by acquisitions (e.g. Jarden).

Changing shape of the consumer industry

The retail distribution channels have evolved quite significantly over the past five years. The “bricks & mortar” stores that are doing well are the luxury retailers and the discount retailers. Non-traditional channels such as online and direct response (e.g. infomercials and direct mailers) continue to take a larger share of the consumer’s wallet, which has required the consumer goods manufacturers to develop multi-channel strategies.

Indeed, in order to compete, many companies are challenging their traditional business models in order to deliver a better experience to the consumer. Some of these changes include brand building using social media, creating exclusive product features for retailers, changing warranty/return policies, willingness to offer private label products, entering new countries and use of alternative channels such as direct-to-consumer, multi-level marketing and discount chains.

New strategies and new markets

Over the next few years the US consumer goods market is expected to remain at the low-single digit growth rate, but will have more dramatic changes within the different consumer sectors and distribution channels.

We expect to see growth at both ends of the branded goods spectrum and a decline in the middle. Meaning that high-end brands like Nike and Coach and value brands like Costco’s Kirkland and Target’s Cherokee will continue to grow, but brands that fall in the middle with medium quality at full prices will continue to decline.

Lastly, US companies will have to develop ways in which to enter the higher growth emerging markets such as Brazil and China in order to fuel growth and to establish sourcing and manufacturing internationally in order to lower costs and increase capacity.

While the larger companies already have global sales and distribution networks, many of the mid-size companies (e.g. sales of $50-500 million) do not. In order to mitigate the risk of these new market launches, US companies are becoming more receptive to joint ventures, acquisitions or distribution agreements with companies either domiciled or established in those target markets. As has been the case over the last few years, this continual need for changing strategies will drive M&A activity in the US and internationally.

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<table>
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<tr>
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<th>Deal Value (US$m)</th>
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<tbody>
<tr>
<td>Dec 11</td>
<td>Kukdong Apparel (America) Inc. Apparel</td>
<td>Kukdong Corp.</td>
<td>11</td>
</tr>
<tr>
<td>Dec 11</td>
<td>Baby Trend, Inc. Juvenile products</td>
<td>GIA Investments Corp.</td>
<td>45</td>
</tr>
<tr>
<td>Sep 11</td>
<td>JAKKS Pacific Toys</td>
<td>Oaktree Capital</td>
<td>608</td>
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<tr>
<td>Jun 11</td>
<td>Timberland Co. Apparel &amp; footwear</td>
<td>V.F. Corp.</td>
<td>2,200</td>
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<tr>
<td>May 11</td>
<td>Acushnet Company (Titleist) Recreational equipment</td>
<td>FILA (Korea)</td>
<td>1,200</td>
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<tr>
<td>May 11</td>
<td>Volcom Apparel</td>
<td>PPR SA (France)</td>
<td>607</td>
</tr>
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<td>Jan 11</td>
<td>Rafaeilia Apparel Apparel</td>
<td>Perry Ellis</td>
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<td>Jan 11</td>
<td>Klipsch Group Consumer electronics</td>
<td>Audivox</td>
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<tr>
<td>Dec 10</td>
<td>Sara Lee Shoe Care (Kiwi brand) Household products</td>
<td>SC Johnson</td>
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<td>Sep 10</td>
<td>Alberto-Culver Personal care products</td>
<td>The Carlyle Group</td>
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</tbody>
</table>

M&A activity

[Graph showing M&A activity from 2008 to 2011 with total deal volume and average deal value per year.]
Steady shift to a more consumer driven economy

The Chinese consumer class, riding on the wave of constant macroeconomic growth, has been expanding at a rapid rate. Just seven years ago 4.2 million households were earning US$10,000 a year, that household figure has since risen to just over 20 million and rising. Despite this, consumption still only makes up 35% of GDP compared to 70% in the US. It is clear that the consumption capacity of the Chinese has not come close to realising its full potential. Indeed, analysts expect China’s consumer market to grow to three times the size of the US market over the next two decades.

China’s 12th five year plan, which runs until 2015, places an emphasis on balancing the economy to be more higher-value-add consumer driven and less reliant on cheap exports. Even with this, China will remain a relatively frugal state relative to its western counterparts and saving will remain firmly entrenched in the culture; an economic dynamic that can only prove supportive to the long term health of the economy.

Large interest in home appliances

China has been a fairly active hub of consumer goods M&A in recent years and although there was a contraction in 2010, 2011 surpassed the peaks in both volume and average deal value. Interestingly, over half of all transactions over the past three years have been cross-border.

Recent among them was renowned Swedish outdoor recreational brand Hestra-Handskens’s acquisition of a 50% stake in outdoor sportswear and equipment firm Zhejiang Pinghu Huashen in February 2011 for an undisclosed sum. In the same month French electrical appliances company SEB Internationale acquired a 20% stake in kitchenware appliances brand Zhejiang Supor for US$526m.

Indeed, the past three years has seen M&A targeted at home appliance electronics firms gather pace; further deals included the purchase of Shenzhen based United Opto-Electronics, a firm engaged in the design and manufacturing of projection televisions and related products, by keypad specialists Karce International Holdings for US$346m and the majority stake purchase of Hefei Royalstar Industrial, by its domestic peer Wuxi Little Swan for US$78m.

Homegrown brands take to the world stage

China is home to a number of multibillion dollar brands, some of which have had more exposure to Western markets than others. The brands range from electronics to sporting goods and top among them is multinational computer firm Levono. The company manufactures and markets desktop, tablet and notebook computers. Currently the world’s number two PC brand, the company has already been active in global M&A with its acquisition of IBM’s personal computer division in 2005 being its most high-profile deal. Looking ahead it recently stated that it is looking for overseas acquisitions to expand its nascent mobile device division.

The next two biggest non food and drink consumer companies are Anta and Li-Ning, both sporting goods firms that design sports apparel and equipment under their own brand names. Li-Ning surpassed Adidas domestically in 2009 to become the second largest sports brand by market share (after Nike). In the same year it bought Hong Kong based sportswear firm Kason Sports for US$24m. Anta meanwhile has ambitiously declared its intention to open 10,000 new stores across China.

“China is the most significant prize in the consumer goods sector. The middle-class in China is increasingly becoming a wealthy one with a growing appetite for consumer goods. Companies, both domestic and foreign, will vie for market share through M&A.”

Andre Johnston, Mergers Alliance
Personal care opens its borders

Due to its substantial growth prospects one industry that has been more active than most in M&A has been the CF&T (cosmetics, fragrances and toiletries) segment.

In December 2010 Coty Inc, the world’s largest fragrance company headquartered in Paris and New York and privately owned by German holding company Joh. A. Benckiser, acquired a majority stake in TJoy Holdings, a Jiangsu Province based brand that manufactures skin care products, for US$400m. Although TJoy has negligible market share (estimated at 1%) Coty was attracted to one of the Chinese firm’s lucrative skin whitening and male skincare products lines. These products have been experiencing high double digit growth in recent years.

In 2008 Johnson & Johnson China Investment Co, a subsidiary of New Jersey based Johnson & Johnson, bought Beijing Dabao Cosmetics, one of China’s best known cosmetic brands (the firm had previously been majority state owned). The purchase has so far facilitated Johnson & Johnson’s entry into the Chinese market through Dabao’s 3,000 mainland outlets.

Interestingly, there has been notable outbound involvement as well; China Investment Corporation invested US$50m into French beauty and home products firm L’Occitane International during its floatation.

Luxury sensibilities

By 2015 China is set to overtake the US and Japan to become the world’s largest luxury market. Heavy tariffs levied on certain consumer goods such as a 50% duty on cosmetics and a 30% duty on high-end watches are to be repealed with further reductions on import tariffs to follow. Such a move may actually discourage China targeted M&A by foreign luxury companies as home advantage no longer becomes a prerequisite to penetrating the market.

Currently, only a small fraction of the population can afford premium goods, most of whom are confined to the major cities, however, prosperity and goods are now swelling into the second and third tier cities.

Monetary policy could influence M&A

If the Chinese government stops artificially suppressing its currency and allows the RNB to float freely (which may happen sooner than anticipated due to domestic inflation concerns) the consumer’s purchasing power will rise sharply. Not only will this enable the Chinese to outbid foreign consumers on products they themselves make, it will also provide Chinese firms with the additional purchasing power to participate in outbound M&A more aggressively.

Recent transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target Company</th>
<th>Description</th>
<th>Acquirer</th>
<th>Deal Value (US$m)</th>
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<td>Shenzhen Fiyta Holdings Ltd</td>
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<td>Sichuan Changhong Electronics Group</td>
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<td>Apparel</td>
<td>China Fashion Holdings Ltd</td>
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<td>Ming Fai Holdings Limited</td>
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<td>Electronics</td>
<td>Bosch and Siemens Home Appliances (Ger.)</td>
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<td>Wizzard Software</td>
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<td>Housewares and specialties</td>
<td>SEB SA (France)</td>
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<td>Feb 11</td>
<td>Zhejiang Pinghu</td>
<td>Sportswear and equipment</td>
<td>Hestra-Handskenen AB (Sweden)</td>
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<td>United Opto Electronics</td>
<td>Electronics</td>
<td>Karce International Holdings</td>
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</table>

Deal Focus - China

Source: Capital IQ and Mergers Alliance Analysis

Monetary policy could influence M&A

If the Chinese government stops artificially suppressing its currency and allows the RNB to float freely (which may happen sooner than anticipated due to domestic inflation concerns) the consumer’s purchasing power will rise sharply. Not only will this enable the Chinese to outbid foreign consumers on products they themselves make, it will also provide Chinese firms with the additional purchasing power to participate in outbound M&A more aggressively.
Growing middle class boosts M&A

India is one the world’s most lucrative consumer markets and there is still ample room for expansion in a country where, similar to China, consumption makes up less than half of the total GDP.

A number of multinational consumer giants have had a presence in India for decades: Unilever initially entered the Indian market in 1930 and Procter & Gamble commenced its first operations in the 1950’s.

M&A participation in the sector although always evident, has increased over the past five years thanks to favourable consumer drivers including high GDP growth, a growing middle class (which is expected to swell to around 500 million by 2025) and a rise in per capita income for rural inhabitants.

High valuations in personal care

India’s personal care market is growing rapidly thanks to the rise in the population's purchasing power and increasing health awareness. The sector has attracted many overseas cash rich buyers. Unfortunately, the number of brands for sale has not satisfied demand which has contributed to the high multiples being paid.

This was illustrated by the bidding war, involving both multinational and domestic players, for Paras Pharmaceuticals, a household and personal care company. The auction was eventually won by UK based Reckitt Benckiser who bid a sizable US$725m (price/sales multiple of over 8x). Reckitt is the world’s largest producer of personal and household products boasting global brands such as Durex and Vanish. As well as extending these brands already discernable presence in India, the acquisition will allow Reckitt to expand its product line through Paras’ own extensive portfolio which includes brands such as D’Cold, Moor and Dermicool.

Foreign private equity interest in Indian apparel

Disposable income in India is growing at 5% annually; yearly growth of the apparel sector however is c. 13%. This figure can be partly attributed to more money being in the hands of young people and an increase in demand for office wear by both men and women.

The past three years have seen the growth in apparel reflected in the M&A market where many of the consumer transactions took place.

A number of financial funds competed to invest in Genesis Colors, a company that owns a variety of premium fashion labels. Investors included L Capital, the private equity arm of luxury conglomerate LVMH, who recently acquired a 40% stake. Previously, UK based Henderson Global Investors acquired a 12% stake for US$17m and US based venture capital firms Sequoia Capital and Mayfield Fund contributed US$26m. The new funds have been used to open new branches, market one of its flagship brands, Satya Paul, and fund future acquisitions.

In 2010 private equity firms Bain Capital and TPG Capital purchased undisclosed stakes in Indian kids-wear firm Lilliput for US$86m. The new funds will allow one of India’s most recognisable kids-wear brands to extend its product range as well as its store footprint. The deal is also seen as a precursor to its initial share offering that is said to be taking place over the next 12 months.

Seeking global coverage

A growing number of Indian firms are seeking international exposure to both hedge against domestic competition and to capitalise on some of the lucrative diaspora market. Historically, Indian firms have sold identical product lines in the targeted overseas markets to the ones sold locally, however, firms are now customising their brand portfolio to better suit the tastes of international consumers. M&A has helped facilitate the cross-over and one such example was the acquisition of UK based CF&T company Keyline
Brands by Godrej Consumer Products, the consumer division of the Indian conglomerate. The buy enabled Godrej to introduce new product ranges to the UK and Europe as well bring Keyline's brands to the Indian market. Indeed, Godrej has been one of the world’s most acquisitive consumer companies over the past three years. A trend that we expect to continue as firms in emerging markets go out of their way to achieve global coverage.

Outlook

The majority of the rural population will emerge from subsistence consumption to a level that consistently consumes tailored, though still affordable, products. The market potential in terms of volume for mass premium products and FMCG’s is considerable. We believe this holds true for products in beauty and skin care products in particular and this is where we expect further M&A activity to take place over the next three years.

Despite its eclectic language structure and vast landmass, the current Indian consumer climate is relatively homogenous. Nonetheless, a rise in purchasing power and an increase in scale will necessitate more complex business models with regards to branding and general operations. An effort than can be facilitated by foreign expertise.

Recent transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Description</th>
<th>Acquirer</th>
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<td>Hair care</td>
<td>Godrej Consumer Products Ltd.</td>
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<td>Apr 11</td>
<td>Henkel India Ltd.</td>
<td>Fabric care</td>
<td>Jyothy Laboratories Ltd.</td>
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<td>Apr 11</td>
<td>Weekender Clothing</td>
<td>Apparel for children</td>
<td>Madhusudan Securities (Vietnam)</td>
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<td>Maya Appliances</td>
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<td>Koninklijke Philips Electronics (Egypt)</td>
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<td>Sep 10</td>
<td>Lilliput Kids apparel</td>
<td>Bain Capital, TPG Capital (USA)</td>
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</table>

M&A activity

“At Godrej Consumer Products we have a financial goal of what we call 10x10, which essentially means 10 times the size in 10 years. We expect to grow organically by around 15-20% over the next 10 years both in India and through our global operations. On top of that, we expect a 10% compounded annual growth rate from acquisitions. This would be financed by the surpluses generated each year and by maintaining a debt equity ratio of about 1:1.

10 times in 10 years is a compounded annual growth rate of about 27%, which we fully expect to achieve. Ultimately our growth aspirations are indicative of the Indian consumer market as a whole.”

The Godrej Group is an Indian conglomerate headquartered in Mumbai, India and has a turnover of US$2.6bn. Godrej Consumer Products is a leader among India’s FMCG companies, with leading household and personal care products.

Industry insight

Name: Vivek Gambhir
Company: Godrej Group
Position: Chief Strategy Officer
The flat Japanese population growth and shrinking consumer goods market in Japan is underpinning M&A activity in this sector. We expect to see more consolidation of marginal local consumer products companies along with MBOs and private equity investment, while the stronger companies look abroad to the higher growth markets in the BRICs, South East Asia and Africa.”

Tomoki Tanaka
IBS Yamaichi Securities Co Ltd

Factors determining M&A

Major economic drivers of M&A in the consumer goods sector in Japan include demographics, deflation and the strong yen to name a few. According to the 2010 census, the population of Japan in 2010 was 128 million, virtually the same as in 2005. The percentage of the population aged 65 and over reached 23%, the highest in the world, followed by Germany and Italy at 20%. Mature and shrinking markets in Japan have led to consolidation among domestic consumer goods companies. Deflation in Japan has created price competition putting pressure on margins, further forcing players to consolidate to find cost synergies. The strong yen has also levelled the domestic playing field attracting foreign global players to the market. Global consumer brands such as H&M and Zara in apparel and Ikea in furniture have been successful in Japan.

At the same time these factors have also been drivers for outbound M&A as Japanese consumer companies seek faster growing markets abroad.

Great East Japan earthquake impacts M&A

Prior to the impact of the Lehman shock, Japan saw a number of major mid and large-sized consumer deals. Panasonic acquired Sanyo electric in a deal worth US$12bn. Moreover, foreign buyers made selective acquisitions such as Newell Rubbermaids purchase of the baby stroller company Aprica. In 2009 consumer sector deals declined on the back of the market uncertainty following the global credit crunch.

In 2010 deal volumes and values quickly rebounded from a realisation that the consumer market was relatively unaffected compared to other developed economies. However, this changed dramatically in March 2011 with the Great East Japan earthquake as deal value plunged briefly once again reflecting the uncertainty surrounding the after-effects of the earthquake. In 2011, Japanese corporations turned to outbound M&A as a risk diversification measure and to take advantage of the strengthening yen against major foreign currencies.

Reorganisation of Japanese electronics takes place

The much predicted reorganisation of Japan’s consumer electronics industry was realised in 2008 with the start of the acquisition of Sanyo Electric by Panasonic Corporation.

The initial 50.2% stake in the listed Sanyo Electric amounted to over US$12bn. With major electric companies like Hitachi, Toshiba and Mitsubishi surging domestically, Sanyo could not compete by itself in many of its product areas. In 2011, Haier Group Company of China, acquired nine subsidiaries of Sanyo which mainly produced washing machines and refrigerators in Japan and Asia.

M&A was not limited to domestic players seeking consolidation. In 2008, Bain Capital saw a brand enhancing opportunity in the Japanese audio electronics market by acquiring the Tokyo Stock Exchange listed D&M Holdings for US$686m. Bain purchased the stakes of RHJ International and Philips and D&M was delisted from the stock exchange. D&M holds audio electronic brands such as Denon, Marantz, and McIntosh.

Strong yen driving foreign expansion

Given the strong yen and healthy cash balances, Japanese corporations are increasingly seeking M&A opportunities in growing markets outside Japan to build up existing overseas networks in Europe and North America and diversify their brand offerings.
In sportswear, athletic shoe manufacturer Asics Corporation acquired the Swedish outdoor clothing and equipment manufacturer Haglofs Holding AB for US$133m in 2010. Asics plans to expand the Haglofs brand in Japan and Asia. Recent reports indicate that Goldwin, another sports clothing manufacturer, is also looking to acquire in an attempt to balance their winter sporting goods product sales with a spring/summer sports portfolio.

In cosmetics, Shiseido Co acquired the San Francisco based mineral makeup company Bare Escentuals Inc. for US$1.5bn. The deal solidified Shiseido’s entry into the global natural cosmetics segment and also follows the pattern created by other dominant global players such as Estee Lauder who acquired natural brand Aveda. Rather than increasing their presence by establishing their own natural cosmetics brands, they have purchased already proven brands and helped them grow.

**Electronics majors merge to ward off competition from South Korea**

Although, as mentioned, Japanese consumer electronics companies still have a dominating presence in Japan, they have retreated somewhat in overseas markets. Sony, Panasonic and Sharp; the major Japanese brands, have fallen behind Korean giants Samsung and LG in global market share, particularly in flat panel television displays. In an effort to maintain market competitiveness the smaller firms have sought alliances: Pioneer, a former television manufacturer, has made capital tie-ups with Mitsubishi and Sharp and now concentrates on audio and car navigation systems. JVC and Kenwood combined in 2008 to form JVC Kenwood Holdings. The three television majors will need to raise their presence in growing overseas markets in Asia, South America and Africa in order to maintain share and we do not rule out some major acquisitions by them going forward.

**Predictions**

For consumer goods companies in Japan, the strong yen, waning demographic trends and a deflationary environment in the domestic market will continue to encourage the major brand companies to seek new opportunities abroad for at least the next three to five years.

Luxury and premium products will be in a steady state of decline, as maturing Japanese consumers seek value. Marginal players in each segment will likely become opportunities for MBOs, private equity, and foreign-capital multinationals.

**Recent transactions**

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Description</th>
<th>Acquirer</th>
<th>Deal Value (US$m)</th>
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<td>Wave International Co. Ltd.</td>
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<td>Tokyo Style</td>
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<td>July 11</td>
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<td>Kitchen goods</td>
<td>Haier Group</td>
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<td>Pentax Ricoh Imaging</td>
<td>Digital cameras</td>
<td>Ricoh</td>
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<td>May 11</td>
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<td>Curtains, home interior</td>
<td>JS Group</td>
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<td>Baring PE. Asia (Hong Kong)</td>
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<td>Hoyu Co. Ltd.</td>
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<td>SANYO Electric</td>
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<td>Panasonic Corp.</td>
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**M&A activity**

- Source: Capital IQ and Mergers Alliance Analysis
- Total deal volume
- Average deal value $m
“The Turkish consumer goods sector is quickly becoming highly attractive to investors. This has been especially evident in the ready wear/apparel sector. Although deal volume has been low in the past, there are numerous active deals in the market and in the pipeline.”

Ozkan Yavasal, Daruma Corporate Finance

**Turkish consumer market in an advantageous position**

Eurozone uncertainty and trouble in the Middle East have not prevented the rapid growth of the Turkish consumer market.

Factors such as rapid urbanisation; an increasingly organised retail segment (318 shopping malls by the end of 2012); an influx of foreign brands creating conducive competitive conditions; and highly favourable demographics, that are increasingly trending towards more western lifestyles, are all benefiting the consumer sector.

**European multinationals target personal care market**

French CF&T giant L’Oréal expanded its presence in the fast growing Turkish personal care market with the purchase of Canan, one of Turkey’s leading hair care companies. Most of Canan’s US$26m turnover comes from its Ipek brand. Closing the deal the consumer products president for L’Oréal noted:

“The Turkish cosmetics market is expanding strongly and has a very large growth potential. The acquisition of Canan will bolster our positions in hair-care products, the largest segment in the market.”

It is reported that L’Oréal is looking to pursue further M&A in high growth emerging markets with Turkey still high on its radar.

Elsewhere, Svenska Cellulosa Aktiebolaget continued its trend of targeting personal care companies in emerging markets with its acquisitions of San Saglik Urunleri San Tic and Komili Kagit ve Kisisel Bakim Uretim. The former is an adult diaper and under pads company whilst the latter specialises in baby diaper and feminine care products.

The acquisitions are in line with SCA’s strategy of pursuing inorganic growth in Europe and in other parts of the world.

**Investors look to lively apparel market**

The rise in the appetite for clothing brands has been significant, however, it is only recently that investors have looked to M&A as a means of capitalising on this demand. In December 2010 the owner of Turkish footwear company Yesil Kundura, purchased a majority share in Ceylan Giyim in a deal worth US$101m. Ceylan Giyim’s primary activities are the production and marketing of adult sportswear and fashion wears. It operates 54 retail stores and two online stores.

Private equity activity in this space has also been apparent: In October 2010 newly-formed private equity fund Eurasia Capital Partner (a fund focused on equity and equity-related investments in Turkish companies) along with the Balkan Accession Fund, acquired a 50% share in Wenice Kids, a children’s clothing brand that sells in more than 300 shops in 46 countries. The investors hope to help realise Wenice’s ambitious intention of entering another 40 markets by the end of 2012 and establishing itself as one of the world’s top ten children’s clothing brands.

**Consumer spending reaching new heights**

Turkey has quickly become one of the most dynamic and fastest growing consumer markets. It should be noted that such rapid growth may slow next year if the macro conditions in Europe worsen (Turkey’s biggest export market is the EU, and by some margin).

Nonetheless, Turkey’s estimated consumer spending level of US$6.9bn in 2010 is expected to almost double to US$13bn by 2014. These growth expectations have stemmed from the growth of the retail sector, increasing affluence and the emergence of domestic brands to compliment the influx of foreign players.
In parallel with this rise in consumer spending (which has already surpassed pre-crisis levels) we expect to see an increase in M&A movements.

Although the majority of investments have been channelled into durables, Dabur’s US$68m acquisition of Hobi Cosmetics illustrates that the Turkish consumer brands market is not limited to sub-sectors such as apparel.

Recent transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target Description</th>
<th>Acquirer Description</th>
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<td>Jun 11</td>
<td>Komili Kagit ve Kasisel Balam Baby diapers, feminine care</td>
<td>Svenska Cellulosa Aktiebolaget (Swe)</td>
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<td>Dec 10</td>
<td>Ceylan Giyim Ready-wear apparel</td>
<td>Kamil Engin Yesil (Private individual)</td>
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<td>Jul 10</td>
<td>Hobi Cosmetics Cosmetics</td>
<td>Dabur Group (India)</td>
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M&A activity

Source: Capital IQ and Mergers Alliance Analysis
France

Luxury goods leading the M&A market

France is well known for its luxury brands with global leaders such as LVMH, PPR, Hermès, Chanel and L’Oréal (but also numerous small and mid-sized independent companies) prospering. As such, transactions featuring luxury brand companies are over-represented, and strongly fuel the M&A market.

The market is considered very attractive due to its profitable, fast growing and noncyclical characteristics. Moreover, French global market leaders are now competing with new strategic buyers from emerging countries like China. As a consequence, premium assets are in high demand and transaction multiples are surging.

Recent activity included the acquisition of Bulgari by LVMH, the IPO of L’Occitane on the Chinese Stock Exchange and the battle between LVMH and the Hermès Family for the control of Hermès. LVMH, the world’s largest luxury goods company, unveiled a US$5.2bn all-share deal to take over Italian jeweller Bulgari. The company acquired 50.4% of Bulgari, issuing 16.5 million shares in exchange for 152.5 million shares held by the Bulgari family.

The French firm also bought the rest of Bulgari’s shares at 12.25 Euros a share - a premium of about 60%. As part of the deal, the Bulgari family became the second-biggest family shareholder of LVMH.

Luxury giants seeking new brands and routes to clients

LVMH, PPR and L’Oréal are looking towards consolidation on a global scale and are actively surveying mid-market opportunities to strengthen their brand portfolio.

They are also looking to reinforce their distribution networks in the BRIC economies, where they hope to grow at a multiple to local GDP thanks to the emerging middle classes and the increasing number of high wealth individuals.

Luxury brands are also adjusting to an environment where buying power is shifting to emerging markets. Furthermore, consumers in developed regions are making luxury purchases across a widening range of distribution formats, including outlet stores and online.

Private equity buyers very active

M&A in the consumer goods sector has been very active over the past two years, fuelled by the cash stockpiles held by the global leading players and private equity firms that have sought to make deals and spend their cash after two years of macroeconomic uncertainty and limited access to financial leverage.

Recent deals of particular interest included the sale of Spotless, the French maker of laundry and cleaning products, to BC Partners, a UK-based private equity group, in a deal valuing the company at about US$826m. Axa private equity, which built Spotless up through six bolt-on acquisitions over five years, has more than doubled its initial equity investment in the company. BC Partners saw off competition for Spotless from rival buy-out groups Bridgepoint and Lion Capital.

The Spotless transaction illustrates the appetite for French brands and the high proportion of deals completed by private equity houses offering valuations comparable to strategic industrial players. 2011 was especially productive for private equity due to the banking leverage that was available until August of that year, which enabled LBO France and LFPI Gestion to acquire men’s underwear maker Eminence, L Capital to acquire Captain Tortue and EDRIP to finalise an MBO for children’s apparel brand Sun City.
Corporates likely to spur M&A activity in 2012

The consumer branded goods market will be affected in the coming months by the downgraded growth forecasts and a tough debt market. We therefore expect private equity activity to be limited and the market to be supported by industrial players which have sound balance sheets and a strong inclination to further expand into emerging markets.

The sector attractiveness, combined with the increasing appetite of Asian strategic acquirers, is generating higher competition for M&A transactions and pressure for higher multiples.

Development of own-brand ranges by mass-retail

Many of the mass market brands are now competing against their distribution networks, which are increasing their margins through developing their own product ranges and private labels. Decathlon (40% market share of the French sporting goods retail market) epitomises this new trend. It is increasingly selling its own-branded products and carrying out self-innovation rather than simply retailing third-party branded products.

Recent PE transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Description</th>
<th>Acquirer</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 12</td>
<td>Briconord Sarl</td>
<td>Home improvement products</td>
<td>Evolem</td>
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<td>Aug 11</td>
<td>Captain Tortue</td>
<td>Door to door sales apparel</td>
<td>L Capital</td>
<td>83</td>
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<tr>
<td>Jul 11</td>
<td>Paul &amp; Co</td>
<td>High end apparel</td>
<td>Change Capital (UK)</td>
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<tr>
<td>Jul 11</td>
<td>Sun City</td>
<td>Childrens apparel</td>
<td>Edrip + Management (UK)</td>
<td>69</td>
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<tr>
<td>Jun 11</td>
<td>Le Tanneur et Cie</td>
<td>Leather goods</td>
<td>Qatar Luxury Group (Qatar)</td>
<td>40</td>
</tr>
<tr>
<td>Jun 11</td>
<td>Eminence</td>
<td>Underwear brand</td>
<td>LBO France</td>
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<tr>
<td>Jun 11</td>
<td>The Kooples</td>
<td>Fashion apparel</td>
<td>LBO France</td>
<td>n/d</td>
</tr>
<tr>
<td>Feb 11</td>
<td>Sergent Major</td>
<td>Childrens apparel</td>
<td>Edrip + Siparex</td>
<td>n/d</td>
</tr>
<tr>
<td>Sep 10</td>
<td>Sandro Maje Claudie Pierlot</td>
<td>Fashion apparel</td>
<td>L Capital and Florac</td>
<td>n/d</td>
</tr>
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<td>Feb 09</td>
<td>Spotless</td>
<td>Laundry/ cleaning products</td>
<td>BC Partners (UK)</td>
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</tbody>
</table>

M&A activity

Source: Capital IQ and Mergers Alliance Analysis
A balanced and stable consumer market

Following the stuttering global economic recovery in 2010 and first half of 2011, macroeconomic risks rose again in Q3 2011.

With sovereign balance sheets saddled by debt burdens, financial market instability and deteriorating market confidence (amplified by “high-spread” countries) the growth prospects in advanced European economies remain uncertain. Germany’s performance in this context has been above-average: Price adjusted GDP growth for 2011 was 2.7% with real wages growing by 1.9%. Consumer spending increased by 1.6% while inflation remains relatively low at 2.3%. Moreover, the unemployment rate experienced a slight decrease of 0.6% to level at 6.6%.

Generally, rather robust consumer spending throughout 2008-2011 ensured relative stability in consumer goods M&A.

Private equity investors active

As mentioned, through 2008 to 2011 the number of transactions in the consumer goods industry in Germany remained generally stable, averaging 50 deals per year.

During 2011 there were a notable number of large-scale cross-border deals that were supported by favourable financing conditions for financial investors at the time.

In July 2011, Blackstone Group agreed to acquire Jack Wolfskin, the functional apparel and equipment brand, from Barclays Private Equity (UK) and Quadriga Capital Services (Germany) for US$982m - equivalent to a multiple of 2 x 2011 sales and 8 x the acquisition price paid in 2005 by Barclays. The transaction underpins the continuing high growth expectations of the outdoor sector driven by changing lifestyle trends in developed countries and the ongoing internationalisation of the industry.

In the mid-market, UK based 3i Group recently acquired Amor GmbH in a secondary buyout. The supplier of jewellery, marketed internationally under the Amor brand, was acquired from Pampiona Capital for an estimated US$140m. This implied a multiple of approximately 6.3 x EBITDA 2010. 3i Group intends to extend Amor’s distribution channels internationally and strengthen its brand position.

Also in the mid-market, ACapital recently acquired the family owned Mustang, the fashion brand for an undisclosed amount.

Made in Germany

Germany is home to a number of global power brands, included among them are: Adidas AG, Bosch & Siemens, Beiersdorf AG (Nivea), Puma SE and Hugo Boss. Their products range from sportswear to home appliances, from skincare to high-end clothing. All these firms are pursuing targeted M&A strategies to support their ambitious growth plans.

From 2008 to 2011 sports and lifestyle apparel companies Adidas and Puma completed several cross-border deals focused on both the extension of their existing brand portfolio and the consolidation of the companies position in foreign markets.

Both companies have been targeting sales growth of up to 50% by 2015, partially supported by inorganic expansion. This was exemplified by Adidas’ acquisition of Ashworth Inc, the listed US based retailer of golf apparel. They also recently acquired US
performance sports brand Five Ten. Puma SE meanwhile acquired the Cobra Golf brand from Acushnet Company; in addition they purchased Dobotex International, the Dutch exclusive licensing partner of a variety of fashion, sports and sports-lifestyle brands.

During the same period, Beiersdorf AG laid out its strategic intention to focus on its core brands – primarily Nivea, Eucerin and La Prairie – while streamlining and partially divesting its non-core brands.

In the textile segment HUGO Boss acquired 15 mono-brand stores and related assets of the Moss Bros Group (the listed UK fashion retailer) in Q1 2011 to further expand their store network.

**Opportunities abound despite power brands dominance**

The total sales volume of German consumer goods is estimated at US$50bn, with the top five brands accounting for US$27.7bn.

The industry’s sub-sectors generally have their distinctive market leaders (the aforementioned power brands), while the rest of the market is populated by a broad array of mid to small-cap players (many family-owned) leaving room for consolidation opportunities.

This was illustrated in 2009 when strategic investors acquired assets of insolvent consumer companies as well as underperforming assets at favourable valuations (this was particularly evident in the apparel industry e.g. Baemuler AG and Rosner GmbH & Co).

**Factors determining future M&A**

Cross-border M&A activity involving German consumer goods companies buying foreign targets has been largely triggered by companies striving to internationalise their distribution networks but also by their need to upscale and to secure additional growth platforms (e.g. premium brands targeting emerging markets).

Domestic growth opportunities in the German consumer goods market stem primarily from the ongoing lifestyle changes and rising environmental consciousness of the consumer. To capitalise on these trends, companies need stringent brand positioning and distinctive brand value propositions, as well as efficient distribution and communication channels - often a prerogative of the larger market players.

We expect these factors to support consolidation trends going forward.

**Recent transactions**

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Description</th>
<th>Acquirer</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
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<td>Dec 11</td>
<td>Run &amp; Style GmbH &amp; Co. KG</td>
<td>Sports apparel</td>
<td>Maier Sports GmbH &amp; Co. KG</td>
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<td>Oct 11</td>
<td>Mustang - Bekleidungswerke</td>
<td>Fashion apparel</td>
<td>ACapital</td>
<td>n/d</td>
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<td>Jul 11</td>
<td>Jack Wolfskin Ausruestung f/uer Outdoor apparel and footwear</td>
<td>Blackstone Group L.P. (UK)</td>
<td>📊 982</td>
<td></td>
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<td>Jun 11</td>
<td>Medion AG Electronics and IT</td>
<td>Lenovo Group Limited (HGK)</td>
<td>📊 261</td>
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<td>Apr 11</td>
<td>SLV Elektronik GmbH Lighting systems</td>
<td>Cinven Ltd. (UK)</td>
<td>📊 772</td>
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<td>Apr 11</td>
<td>d&amp;b audiotechnik GmbH Electronics</td>
<td>Odewald &amp; Compagnie</td>
<td>n/d</td>
<td></td>
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<tr>
<td>Feb 11</td>
<td>Siteco Lighting solutions</td>
<td>Osram GmbH</td>
<td>n/d</td>
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<td>Feb 11</td>
<td>Weco Polstermoebel Furniture under WEGO brand</td>
<td>Mebeplast S.A. (Poland)</td>
<td>n/d</td>
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<td>Jan 11</td>
<td>PAIDI Moebel GmbH Furniture for children</td>
<td>DZ Equity Partner GmbH</td>
<td>n/d</td>
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<td>Dec 10</td>
<td>Amor GmbH Jewellery manufacturing/retail</td>
<td>3i Group PLC (UK)</td>
<td>📊 140</td>
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**M&A activity**

![Graph showing M&A activity with source: Capital IQ and Mergers Alliance Analysis](image-url)
Consumer confidence nosedives
A European debt crisis and contagion concerns have put a damper on economic growth in Italy and has forced the government’s hand to initiate broad austerity measures.

There are now real fears that another recession is imminent as Italian firms struggle to regain competitiveness.

To compound these sentiments the most recent local statistics show Italian consumer confidence fell to its lowest level in over three years. Spending will likely remain static over the next six months with growth (if any) being achieved on the back of industrial expansion.

Firesale prices for brands
Although there has been a y-o-y dip in deal volume due to deteriorating macro conditions (although 2011 saw a slight recovery), consumer goods led M&A has remained relatively active owing to a plethora of esteemed local brands (actively involved in the market) and enthusiastic international participation.

There has also been substantial private equity involvement in Italian brands as well as a number of important IPOs - Prada, Ferragamo. Conspicuous by their absence however are local trade buyers, which can be attributed to the small to mid-sized Italian companies lacking the required financial strength to support M&A.

Another characteristic has been the high valuations; Moncler, Moleskine, Coin and Braccialini all had at least nine times EBITDA valuation multiples. It should be noted, disrupted economic conditions have also led to opportunities involving buying underperforming marquee brands at discounted prices - the bankruptcy of Mariella Burani and Ittiere groups led to the firesale of the Gianfranco Ferrè, Mandarinina Duck, Malo and Arcte brands.

Luxury reigns supreme as international markets up the stakes
Similar to France, international awareness for premium local brands is as high as ever thanks to an ever growing affluent class in the developing world.

One of the most high profile global deals over the past 18 months was the acquisition of Italian luxury consumer group Bulgari by its French counterpart Louis Vuitton Moët Hennessy (LVMH) in an all-share transaction for US$5.2bn. The mega deal will reinforce LVMH’s worldwide growth aspirations and allow it to double its jewellery and watches businesses while improving its purchasing and distribution operations. The high purchase price, which was at a 60% premium to Bulgari’s average share price, was partly due to multiple bidders and partly due to the current favourable conditions of the luxury market.

Another recent premium transaction was the acquisition of the Mogliano Veneto based apparel firm Belstaff by the Swiss luxury holding company Labelux for US$161m in June 2011. The rationale behind the purchase of the predominantly menswear firm was to extend Labelux’s coverage in Asia, particularly China where menswear is one of the country’s fastest growing luxury sectors.

Private equity eager to acquire luxury
Interestingly, private equity involvement has been focused in the luxury/premium segments due to the mass segments heavy working capital, high debts and low barriers to entry. One of the most high profile deals was the minority stake sale of the high-end brands holding group Moncler SpA to Eurazeo private equity fund for US$572m. The 45% equity acquisition will support Moncler’s entry into markets such as China and the US. Its brands include Moncler, Marina Yachting and Henry Cotton.
Outbound deals prevail

Outbound deals have been more prevalent compared to domestic consolidation over the past three years with heavy involvement by some of the world’s most important consumer companies.

Luxottica, the world’s largest eyewear company (Ray-Ban, Oakley) was busy finalising acquisitions in Mexico, New Zealand, Israel and Turkey; while Giochi Preziosi, the world’s fifth largest toymaker, acquired a 25% stake in France based toy distributor King Jouet. Elsewhere, furniture firm Elica SpA acquired three companies in China and India.

Recent transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Description</th>
<th>Acquirer</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 11</td>
<td>Coccinelle S.p.A.</td>
<td>Fashion accessories</td>
<td>E.Land World Company Ltd. (Kor)</td>
<td>20</td>
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<tr>
<td>Sep 11</td>
<td>Omas Srl</td>
<td>Writing instruments</td>
<td>Ming Fung Jewellery (HK)</td>
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<td>Aug 11</td>
<td>DiT Group</td>
<td>Jewellery</td>
<td>Gitanjali Gems (India Corporate)</td>
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<td>Aug 11</td>
<td>Bulgari</td>
<td>Jewellery</td>
<td>LVMH (France)</td>
<td>2,470</td>
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<td>Aug 11</td>
<td>Moncler</td>
<td>Sportswear</td>
<td>Eurazeo (France)</td>
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<td>Jul 11</td>
<td>Braccialini</td>
<td>Leather accessories</td>
<td>NEM</td>
<td>36</td>
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<tr>
<td>Jul 11</td>
<td>Toy Watch</td>
<td>Jewellery</td>
<td>J.Hirsch &amp; Co</td>
<td>n/d</td>
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<tr>
<td>Jul 11</td>
<td>Mandarina Duck</td>
<td>Leather accessories</td>
<td>E.Land Co (S, Korea)</td>
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<td>Feb 11</td>
<td>Gianfranco Ferré</td>
<td>Fashion</td>
<td>Paris Group (UAE)</td>
<td>n/d</td>
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<td>Dec 10</td>
<td>Cantieri Navali Lavagna</td>
<td>Luxury yachts</td>
<td>Nauticstar Marine (China)</td>
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<tr>
<td>Jul 10</td>
<td>Barovier &amp; Toso</td>
<td>Glass accessories</td>
<td>AVM Private Equity</td>
<td>17</td>
</tr>
</tbody>
</table>

Underlying currents of the consumer brand market

The Italian consumer products industry is relatively fragmented with thousands of companies with turnovers ranging from US$1-100m. The industry as a whole still has a family owned flavour to it. Curiously, there are a distinct lack of domestically based mass market brands as most have been bought out by foreign players.

Moving to mass-premium, most small to mid-sized Italian companies are struggling to position themselves in an increasingly value conscious consumer market. There has been an ongoing disconnect between what a company sells a product for and its actual market value. Price points have both been lower to increase volume or higher to make up for lost volume. Even with these adjustments, margins have remained low.

Cross-border will remain king

Given the propensity for large Italian companies to look for growth opportunities abroad (rather than acting as consolidators domestically), we expect the current trend of foreign big cap companies raiding the country for strong historical premium brands to continue. The acquisition mood will be driven by undisputed brand equity on one side and by opportunism on the other.

In terms of valuations, we expect multiples to remain in the high range and for bargains to be few and far between.

M&A activity

![Graph showing M&A activity over years](image)
The consumer sector remains an interesting M&A proposition with lots of consolidation and economies of scale activity taking place. Multi-channel sales will increasingly gain importance as producers reach their customers more and more via e-commerce in an attempt to increase margins. Watch for strategic activity in this space.”

Bart Jonkman, BlueMind Corporate Finance

Slump in confidence
Declining GDP growth and rising inflation have led to a decrease in the purchasing power of the consumer. Although a recovery is on its way, consumer confidence has been hit which has negatively impacted the sales of consumer goods.

2010 consumer goods M&A volume sunk compared to previous years, however, 2011 was much healthier with more deals closed in the first three quarters than the whole of 2010.

Strong private equity interest
Interestingly, more than one third of all deals were cross-border, which underlines the international orientation of Dutch businesses.

In apparel a quarter of deals had private equity investment. Several well known private equity firms including GIMV and NIBC invested in this sub-sector.

In 2011 clothing conglomerate Liz Claiborne sold its loss making Mexx brand to a joint venture that included US headquartered private equity firm the Gores Group in exchange for a minority of the equity. According to Liz Claiborne’s CEO, the reasons for the sale of the troubled brand were risk mitigation and debt reduction and to focus the company’s attention on growing its core brands. Liz Claiborne acquired Mexx in 2001 for US$264m. In September 2011 Gores Group paid just US$85m.

Also in 2011 US private equity firm Sun Capital acquired Amsterdam based fashion brand Scotch & Soda for an undisclosed sum. Scotch & Soda sells its designer apparel through 5,000 department and third party retail stores in over 30 countries. Kellwood, a holding company backed by Sun Capital, aims to grow Scotch & Soda’s US market share.

Consumer giants pursuing international acquisitions
Dutch-British multinational consumer powerhouse Unilever (turnover US$63.1bn) has been highly acquisitive in recent times after years of reorganisations and disposals as they look to step up growth.

Recent developments within the company have shown increased investments in the fast growing home and personal care divisions. The recent US$3.7bn acquisition of US based Alberto Culver; a company active in beauty and personal care, highlights this new strategy. Another large-scale deal took place in 2010 when Unilever acquired the home and personal care activities of the US based Sara Lee for US$1.85bn. These acquisitions enforce Unilever’s market position and brand portfolio of diversified products across a range of price segments.

If past activity is any indication, expect electronics multinational Philips (turnover US$36bn) to continue its acquisitive tendencies. Recent buys include the purchase of Saeco, an Italian producer of high quality coffee machines, and the purchase of China based kitchen appliances firm Povos. In addition, Philips recently acquired the Spanish luminaires company Indal to boost Philips’ European market position.

The electronics giant recently laid out its intention to increase its M&A activity in the coming years to support its projected growth of 4-6% per annum until 2013.

Consolidation in games segment
In 2010 M&R de Monchy, a company active in games, puzzles and toys, acquired Jumbo Spellen, a Dutch company active in party games.

The company has invested large amounts in marketing and sales in key markets such as the Netherlands, Belgium and Germany. Most recently it acquired the remaining 55% shares of King International further consolidating its share of the traditional games market.
**Multi-channel gaining significance**

With high street sales suffering, an increasingly important trend has been multi-channel sales. Indeed, reports have shown that 69% of Dutch consumers buy products via two or more channels.

Online sales in particular have risen significantly in recent years and are expected to keep growing as large retailers and brand stores aim to intensify growth via a multi-channel approach. Private label retailer C&A recently announced the launch of its online store in the Netherlands and Germany; with France, Austria and Poland all set to follow. It is expected that online sales will account for 25% of its total sales in the medium term.

Next to electronics, clothing and shoes are the largest non-food product segments online. Online sales now represent 6% of total sales across these sub-sectors. We expect the trends in multi-channel sales, in combination with the attractiveness of branded goods, to create interesting opportunities for financial and trade buyers alike.

**Industry insight**

*Name: Arjo Stammes, Company: Avedon Capital Partners (formerly NIBC) Position: Partner/Investment Director*

- **How do you feel about M&A in this sector over the next 18 months?**
  - For the Benelux and German region we believe that the consumer M&A in general will to a large extent depend on the ability of European politicians to mitigate the challenges facing the EU. At best we feel neutral about expected M&A activity in this sector for the coming 18 months.

- **What do you expect to be the principal internal drivers of M&A activity in the consumer goods industry over the next 18 months?**
  - We expect that the regions with the most favourable economic growth and consumer confidence will be South America and Asia. Although, we expect that there will be M&A activity for strong companies in this sector in North-West Europe as well.

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<table>
<thead>
<tr>
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<th>Target Description</th>
<th>Acquirer Description</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Dec 11</td>
<td>Van Nicholas B.V. Titanium bicycles</td>
<td>KOGA B.V.</td>
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<td>Sep 11</td>
<td>Mexx Clothing designer, clothing retailer</td>
<td>Gores Group LLC, USA</td>
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<tr>
<td>Aug 11</td>
<td>Sapph Underwear</td>
<td>Mr Roland Kahn</td>
<td>n/d</td>
</tr>
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<td>Jul 11</td>
<td>Delvaux Leather handbag and accessories</td>
<td>Fung Brands Ltd, HK</td>
<td>n/d</td>
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<td>Jul 11</td>
<td>Scotch &amp; Soda Apparel</td>
<td>Kelwood Company (Sun Capital) USA</td>
<td>n/d</td>
</tr>
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<td>Jun 11</td>
<td>Koninklijke Gazelle Bicycle manufacturer</td>
<td>Pon Holdings BV</td>
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<td>May 11</td>
<td>Ego-Lifestyle Computer accessories</td>
<td>Valued NV</td>
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<td>May 11</td>
<td>Hedgren Creations Travelbags</td>
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<td>May 11</td>
<td>Dirk Bikkembergs Apparel</td>
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<tr>
<td>Apr 11</td>
<td>Philips (TV Division) Television set manufacturer</td>
<td>TPV Technology Ltd (SM)</td>
<td>n/d</td>
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</tbody>
</table>

**M&A activity**

Source: Capital IQ and Mergers Alliance Analysis

*Note, the majority of closed deals over the past two years had undisclosed deal value.*
A growth economy in an unsettled continent

The Polish economy continues to realise solid growth, and despite somewhat of a slowdown of late, the growth forecast for 2012 remains healthy at 3.2%.

The Polish consumer sector has been progressing by leaps and bounds, with retail spending increasing over 40% between 2005 and 2010, from US$100bn to US$142bn, and an estimated volume terms increase of 28% from 2005 to 2009. The spending increase has been underpinned by Poland’s strong economic performance over the period, and its healthy resilience during periods of global economic slowdown.

Consumer spending has been reinforced by a long-term base effect from spending rising from a lowly starting point and the rapid development of a vibrant middle-class, falling unemployment, rising disposable incomes and increased product availability.

The emergence of new modern shopping mall formats has changed the retail landscape dramatically in recent times and are now ubiquitous in most urban areas. Consumers meanwhile have had growing access to a range of consumer finance options, particularly credit cards and bank loans. However, consumer debt levels remain relatively low as mortgage lending has not yet come close to reaching Western European levels.

M&A activity remains low

Transaction activity in Polish M&A in the broadly defined consumer goods category has been relatively sparse with transactions peaking in 2010.

In 2011 there were seven transactions. This limited number largely reflects the scarcity of locally owned brands, and the common desire by the industry leaders in fragmented sectors to be the catalyst for consolidation.

The most noticeable trend has been the consolidation process in the fragmented cosmetics sector which continues to gather pace, with Dermika acquired by Swedish personal care firm Cederroth, and Sarantis acquiring the Kolastyna brand.

Foreign brands dominate but local leaders evident

Over the past decade, starting from a very low benchmark, branding has become increasingly implanted in consumer behaviour. Foreign owned companies have built up a strong position in recent times, attracted by the size of the local market; either growing their global brands from scratch since the 1990’s or, more recently, from strengthening locally acquired names, or indeed developing new names built on local acquisitions.

Although foreign brands dominate the high street, there are a number of highly successful ‘national champions’ that have grown to become leaders in their sector and in several cases across the region. One of the most dynamic of these firms is LPP, a designer and distributor of clothes that owns a brand portfolio that includes Cropp and Promo Stars. Increasingly, these national champions are tapping the local stock market to fund growth.

While the major growth trends create a positive long-term backdrop, they also operate with a consumer base which is extremely cost conscious relative to Western European consumers and one that usually exhibits limited product loyalty and that generally favours local products.
Online shopping picks up but still immature

Consumer spending remains predominantly a bricks and mortar affair, even so, companies like Empik have been looking to acquire leading players in the online space (although its attempt to acquire control of leading online bookstore Merlin was recently blocked by the Competition Authority) to secure and defend their position. While online spending is growing exponentially from a low base, it still remains a niche activity, constrained by internet access, the relatively low income levels of the computer savvy, payment and security constraints and poor logistics.

Decelerating economy should spur M&A

Slightly slower growth in Poland, a weakening zloty and stagnant growth across the EU will make the business environment somewhat difficult over the next 18 months. Growth will be further constrained from rising rents, slowing new space availability, and an increasingly cautious consumer.

Private equity interest in consumer firms has always been strong, but broadly constrained by limited deal opportunities and aggressive pricing. We expect this tightening environment to accelerate the process of consolidation.

Recent transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Description</th>
<th>Acquirer</th>
<th>Deal Value (US$m)</th>
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<tr>
<td>Jun 11</td>
<td>LPP S.A.</td>
<td>Fashion apparel</td>
<td>Grangeford Limited (UK)</td>
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<td>DURLIN East Europe Sp. z.o.o.</td>
<td>Household and personal products</td>
<td>Durlin France S.A. (France)</td>
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<td>Mar 11</td>
<td>Kazar Footwear Sp z.o.o.</td>
<td>Footwear</td>
<td>Gino Rossi S.A.</td>
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<tr>
<td>Nov 10</td>
<td>Rosetex</td>
<td>Personal products</td>
<td>SSL International plc (UK)</td>
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</tr>
<tr>
<td>Oct 10</td>
<td>Dermika Sp. z.o.o.</td>
<td>Cosmetics</td>
<td>Cederoth</td>
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<td>Oct 10</td>
<td>ROY S.A.</td>
<td>Mens apparel</td>
<td>Skyline Interim Management Sp.</td>
<td>n/d</td>
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<td>Jun 10</td>
<td>Grupa Kolastyna S.A.</td>
<td>Household &amp; personal products</td>
<td>Sarantis Polska S.A.</td>
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<tr>
<td>May 10</td>
<td>Effect System S.A.</td>
<td>Leisure equipment</td>
<td>Lubawa S.A.</td>
<td>n/d</td>
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<td>Sep 08</td>
<td>Artman S.A.</td>
<td>Apparel</td>
<td>LPP S.A.</td>
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<td>Mar 08</td>
<td>Cederoth Ozdobnego</td>
<td>House-ware</td>
<td>INVEStcon GROUP S.A.</td>
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</tr>
</tbody>
</table>

M&A activity

Source: Capital IQ and Mergers Alliance Analysis
We expect Russia’s imminent WTO membership to have the same great impact it had on China’s economy since 2001. It will help open up more trade and access to the Russian consumer market and ultimately more investment opportunities in consumer goods including in M&A.”

David Wolfe, Northstar Corporate Finance

Economy well placed

Post 2008 crisis, the Russian economy has demonstrated a trend towards a general recovery along with solid growth in private consumption buoyed by a recovery in demand and increases in consumer lending.

Consumer companies are by and large in good health with many securing working capital, deleveraging their operations, and training their focus on enhancing operating profitability. By the end of 2011 the inflation rate dropped to 4.2% with growth expected to remain steady for 2012 at around 4%, driven by domestic demand. Progressively rising oil prices may push this figure higher.

Unilever takes over Russian cosmetics market

Deal activity over the past 18 months in terms of volume and value has remained lively thanks to some notable deals in the CF&T space. Most of the corporate activity in consumer goods has been focused on consolidating particular sub-sectors such as the apparel and household products segments, although there has been some notable foreign interest, particularly from financial buyers in Western and Northern Europe.

Consumer goods in 2011 was marked by a deal that is likely to change the competitive landscape of the entire cosmetics sub-sector. In December 2011 Unilever acquired 82% of Russian beauty cosmetics company Concern Kalina for US$682m. Concern Kalina is Russia’s largest local personal care company with leading positions in skin and hair care, and sells its products primarily in Russia, Ukraine and Kazakhstan.

The deal will go some way in strengthening Unilever’s competitiveness and brand portfolio in Russia. Crucially for the Anglo-Dutch multinational, the purchase of Concern Kalina will give it a leading position in CF&T and hair care, as well as establishing a foothold in the oral care segment. It is generally the case that when FTSE 100 companies have acquired in emerging economies FTSE 350 and private companies start to follow. We expect more FDI into Russian consumer goods.

Private equity likes shoes

Another significant recent transaction was the acquisition of a 36% stake in the Monarch Group, a leading footwear producer and retailer in Russia and Ukraine, by United Capital Partners Group (UCP) for US$30m.

Since 2001, Monarch has been the leading footwear retailer in the middle and lower-middle price segments. This area of the footwear market has proven to be the most resistant to the crisis-driven volatility of consumer demand, and in the post-crisis environment is demonstrating steady growth. The group operates a portfolio of private labels consisting of Monarch, Elite by Monarch, Kaiser, Good Shoes and WildCat.

Financing, provided by investment firm UCP as a result of the additional share capital, will be used to support the group’s business expansion in Russia, strengthen its leading position in the Ukrainian market, and promote its private label brands.
Balance account surplus boosts consumerism

One of our Japanese clients, when touring Russian acquisition opportunities in the consumer goods sector commented that ‘Russia is not a developing economy, it is a re-emerging economy’. However, its re-emergence into the global economy has taken some short cuts. First, Russia has taken advantage of its enormous wealth of natural resources to quickly get hard currency via exports, especially oil and gas. Consequently, its current account balance was US$86bn in 2011, the fifth largest in the world. It has used the proceeds from its trade surplus to support the import of consumer goods rather than manufacture them.

Global companies have generally exported their consumer goods to Russia and retail of imported goods has grown rapidly.

For example, L’Oréal has been importing its goods into Russia via a joint venture structure with a local distributor. In 2011, however, it opened up its first manufacturing facility to produce its brands locally. Nevertheless in terms of brands in general, Russia has had success maintaining some local brands which have attracted foreign investors such as Proctor & Gamble in the past.

Largest European consumer market in 10 years?

We expect there will be some opportunities in the consumer goods sector in the near future, especially since the Russian economy continues to grow faster than that of the developed world. Russia’s membership into the WTO, which will be ratified sometime in 2012, will also spur growth in the consumer goods sector as well as present a number of M&A opportunities.

According to Goldman Sachs, Russia’s GDP could overtake that of Italy’s as soon as 2017, and in the decade 2020 to 2030, overtake France, the UK and ultimately Germany. The result would be that within 10 years Russia could become the largest consumer market in Europe.

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<td>Bath furniture</td>
<td>Roca Corporacion Empresarial, S.A. (Spain)</td>
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<td>Alatant Factory</td>
<td>Hosiery products</td>
<td>Toffia</td>
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<td>Monarch Group</td>
<td>Footwear</td>
<td>United Capital Partners Group</td>
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<td>Furniture</td>
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<td>Feb 10</td>
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<td>Porcelain products</td>
<td>Evolutis Porcelain Limited</td>
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<td>Jun 09</td>
<td>Swedwood Eispovo LLC</td>
<td>Furniture</td>
<td>IKEA Torg LLC</td>
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<td>Jan 09</td>
<td>Harmony Plus</td>
<td>Personal products</td>
<td>JSC ARNEST</td>
<td>n/d</td>
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</table>

M&A activity

Source: Capital IQ and Mergers Alliance Analysis
The uncertainty surrounding the Spanish economy, which has significantly affected consumers, businesses and financiers alike, is expected to continue. We expect consumer M&A activity in Spain to be dominated by cross-border deals. Divestment of non-strategic assets by companies trying to optimise their core business operations will also likely continue.

Iñigo González Gaytán de Ayala, Norgestion

Suffering consumer goods sector

After a period of sustained growth supported by a loose monetary policy, the credit bubble finally burst in 2008 and financing for households and companies has been significantly restricted since. As a result the unemployment rate has remained high and consumer confidence has been hit.

Recent studies show that the average expenditure per household decreased by an additional 6% in 2011 compared to 2010. This, in turn, has had a profoundly damaging effect on industrial and business activities, especially in sectors that rely most on financing and sectors that tend to be more cyclical in nature.

Consumer branded goods companies (especially those below the luxury and premium classes) have been affected as the overall sector encompasses a variety of highly cyclical sub-sectors.

Nonetheless, even in this challenging environment the margins of Spain’s largest consumer groups, including Grupo Inditex (Zara, Massimo Dutti, Bershka), Grupo Fagor (Fagor, Edesa, Aspes), and BSH Electrodomésticos, are all expected to remain buoyant.

Cosmetics and apparel attractive

In the midst of all of the economic uncertainty, deal activity has remained relatively stable with volume and average deal value peaking just before the height of the downturn. There was some notable activity in the CF&T segments. Of note was the acquisition of multi-faceted cosmetic products firm Dermofarm Laboratorios S.A by pharmaceutical and personal care specialists Istituto Ganassini Spa Ricerche Biochimiche.

Deals in footwear and apparel retail have also featured and included JD Sports Fashion’s acquisition of a stake in sports retailer Sprinters and Atlas Capital acquiring a 40% stake in footwear retailer Tino Gonzalez. With regards to branded apparel noteworthy was the acquisition of a minority stake in Pepe Jeans in a cross-border deal involving the Spanish private equity firm Artá Capital and the French private equity firm L Capital Management.

Austerity may bolster M&A activity

The troubled Spanish financial system (primarily its problematic solvency ratios), the impairment of real estate assets and the ongoing precariousness surrounding the EU zone has slowed investment and inhibited M&A in Spain. However, some important dynamics have emerged which are driving M&A activity.

Foreign companies are acquiring Spanish consumer companies to take advantage of opportunities arising from the lowered EBITDA multiples valuation expectations.

Spanish companies have developed overseas acquisition strategies to supplement stunted domestic consumption. We expect the focus to be on emerging South American companies.

Companies will continue to divest non-strategic assets, with the intention of preserving their businesses by focusing on optimising their core activities.

Multi channelled sales developing

The development of online sales and other channels of distribution, as well as the innovation and development of new products and services have been, and will continue to be, some of the more important factors driving activity.
Industry insight
Name: Carlos Gordillo Cruz
Company: ProA Capital
Position: Investment Director

How do you feel about M&A in consumer goods over the next 18 months?

Pessimistic. Even if our focus was on all of Europe, we do not foresee a better scenario panning out over the next 18 months. In our opinion the market will continue along with low M&A activity and difficulties in raising acquisition debt due to global debt market restrictions.

What do you consider to be the most significant obstacle to M&A activity in the consumer goods sector?

The lack of liquidity in the system. Banks are facing serious problems financing their balance sheets. These problems have been passed down to companies (which are having trouble investing or even financing their working capital requirements), as well as individuals. Banks are heavily restricting credit lines. Unless this gets resolved, a return to a growth path and an auspicious M&A market will be delayed.

Are you worried about the general fiscal status domestically and its effect on the consumer goods sector?

It is expected that the recent change of government in Spain will reduce the tax burden on people and businesses, which should have a positive impact on savings and consequently consumption long term.

What do you expect to be the main domestic driver of M&A activity in the consumer goods industry over the next 18 months?

Recovery in the acquisition debt financing market, which today is very limited, especially in the mid-market segment. With a complex organic growth scenario, value creation for private equity deals should come from companies deleveraging.

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<td>Dec 11</td>
<td>Punt Mobles S.L.</td>
<td>Furniture</td>
<td>Valcapital Gestión SGECP, S.A.</td>
<td>n/d</td>
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<td>Jul 11</td>
<td>Eureka Kids</td>
<td>Toys</td>
<td>Nazca III</td>
<td>14</td>
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<td>Jul 11</td>
<td>Comdipunt S.A.</td>
<td>Apparel &amp; clothes</td>
<td>Barcel Euro S.L.</td>
<td>n/d</td>
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<td>Jun 11</td>
<td>Sprinter Megacentros</td>
<td>Apparel &amp; clothes</td>
<td>JD Sports</td>
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<td>May 11</td>
<td>King Espana Complementos</td>
<td>Household products</td>
<td>Bunzl Plc (UK)</td>
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<td>Mar 11</td>
<td>Grupo Tino Gonzalez</td>
<td>Apparel &amp; clothes</td>
<td>Atlas Capital Private Equity</td>
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<td>Misako</td>
<td>Apparel &amp; clothes</td>
<td>Garcia Family; Torres Family</td>
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<td>Mediterranea de Servicios</td>
<td>Household products</td>
<td>PHS Sirkonien</td>
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<td>Suquinsa S.A.</td>
<td>Personal care</td>
<td>Ubesol, S.L.</td>
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<td>Jul 10</td>
<td>Pepe Jeans, S.L.</td>
<td>Apparel &amp; clothes</td>
<td>L Capital Management (Fr)</td>
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</table>

M&A activity

Source: Capital IQ and Mergers Alliance Analysis
Understanding consumer demands key to success

The key to success in the UK during the economic downturn has been understanding changing consumer demands. Consumers increasingly want customised products and more personalisation. Furthermore due to increasing internet access, consumers are better informed about prices and products. The internet has also created a more informed consumer with purchasing decisions based on reviews and social media comments. The consumer has become impatient and demands real-time service 24/7 with products available at any time through any channel.

The successful consumer products companies have adapted their business models both organically and by acquisition to ensure online platforms and multi-channel marketing and sales strategies can be implemented to meet these changing consumer demands.

M&A activity focused on distribution

Historically, the UK high street has proved attractive to investors due to the predictable, sustainable cash flows and the ability to roll out successful formats. A significant amount of the UK high street has been bought and sold by private equity over the last 5 to 10 years.

However the changing shape of the consumer industry with a shift from ‘bricks and mortar’ to online retailing has changed the M&A focus of private equity. Competition for online assets from trade acquirers has driven up valuations as evidenced by the acquisition of Kiddicare by retailer Morrisons plc for US$110m (23 x EBITDA). Private equity have competed hard to make some high profile investments including Bridgepoint’s recent secondary buy-out of Wiggle, formerly owned by ISIS.

There has been less activity in the UK consumer goods sector although luxury and premium branded product businesses have continued to attract significant multiples such as the acquisition of Jimmy Choo by Labelux and acquisition of Kurt Geiger by Jones Group.

Beauty products sector displays the lipstick effect

The lipstick effect is the theory that when facing an economic crisis consumers will be more willing to buy lower price point premium products that still generate the feel good factor. For example instead of buying expensive designer coats, people will still buy expensive lipstick and cosmetics.

The M&A appetite for beauty products has also continued through the economic downturn as evidenced by the investment by private equity firm LDC in Original Additions, the acquisition of Liz Earle by Avon and the acquisition of St Tropez by PZ Cussons for US$98m, which was an exit for LDC.

Private equity continues love affair with brands

Private equity has a long established track record in the UK of working with owner managers to expand the distribution of consumer branded products in the UK and overseas markets.

“Consumer demands have changed markedly of late due to both the economic environment and the proliferation of online retail. This has created new opportunities for companies and investors and driven a lot of the recent M&A activity in the industry. We expect this to continue for some time.”

Steve Currie, Catalyst Corporate Finance
The trend has continued through the economic downturn although the focus has moved away from single channel retail distribution to multi-channel distributed products including high street retail, online, mail order and television.

They have also been active in more traditional consumer product areas where the downturn in the market has resulted in ‘category killers’ with strong consumer brands, which have increased market share in declining markets as competitors have failed in the more testing economic environment. This is evidenced by the acquisition of Brintons, the manufacturer of carpets by The Carlyle Group and the acquisition of Sharps bedrooms and bathrooms by Sun European Partners. We expect further similar opportunities to emerge.

**M&A outlook for 2012**

The M&A environment for the consumer sector has become tougher with increasingly volatile trading conditions and a darker consumer outlook. Corporate buyers have regularly outbid private equity for many transactions paying valuations of 10 x to 20 x plus EBITDA.

M&A activity has polarised between luxury or premium branded businesses at one end of the market and discounters at the other. The mass market has increasingly become less attractive due to the lack of differentiation and competitive advantage of many businesses.

The consumer sector has suffered as the UK government’s austerity measures impact on consumer confidence. With the IPO market for businesses likely to remain closed through 2012 and an increasing nervousness from debt providers we expect corporate acquirers to continue to consolidate consumer markets to offset the slower rate of growth in their core business.

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<tr>
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<td>Dec 11</td>
<td>Wiggle</td>
<td>Online cycling and sporting goods</td>
<td>Bridgepoint Capital</td>
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<tr>
<td>Dec 11</td>
<td>Jacques Vert</td>
<td>Women's clothing</td>
<td>Sun Capital</td>
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<td>Sep 11</td>
<td>Brintons</td>
<td>Residential and commercial carpets</td>
<td>The Carlyle Group</td>
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<td>Moonpig.com</td>
<td>Online card retailer</td>
<td>Photobox</td>
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<td>Jul 11</td>
<td>Original Additions</td>
<td>Beauty products</td>
<td>LDC</td>
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<td>Sharps Bedrooms</td>
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<td>Myprotein</td>
<td>Sports supplements and nutrition</td>
<td>The Hut Group</td>
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<td>Jimmy Choo</td>
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<td>Silentnight Group</td>
<td>Beds and mattresses</td>
<td>H.I.G. Europe</td>
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<td>Jojo Maman Bebe</td>
<td>Maternity wear and baby clothing</td>
<td>Magenta Partners</td>
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</tbody>
</table>

**M&A activity**

Source: Capital IQ and Mergers Alliance Analysis
Merger Alliance is a group of award winning corporate finance specialists who provide high quality advice to organisations that require international reach for their M&A strategies. Over the past 12 months our partner firms have collectively completed over 100 deals, in 30 countries worldwide with an aggregate value of over US$3 billion.

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Mergers Alliance consumer goods transactions

**India / France**
- Sale of *Maharaja Whiteline Industries* to *Groupe SEB*

**USA**
- Sale of *Provo Craft* to *BAML Capital Partners*

**Netherlands**
- Sale of *IMS (Gymna Uniphy)* to *Uniphy*

**India / Japan**
- Sale of *The Bombay Burmah Trading Corporation* to *Aica Kogyo Co*

**Turkey**
- Advisor on Project Financing of *Gulsan Sentetik Dokuma San*

**France**
- Acquisition of *Afibel* by *Damartex SA*

**Poland**
- Advisor on the IPO of *Harper Hygienics*

**UK**
- Advisor on the Management Buyout of *Farrow and Ball*

**Italy / France**
- Sale of *Dondup* to *LVMH*

**USA**
- Sale of *Ariat International* to *LNK Partners and Brentwood Associates*

**UK**
- Advisor on Debt Restructuring of *Original Additions*

**Netherlands**
- Sale of *King International* to *M&R De Monchy*
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The webpage is about International corporate finance focusing on various countries globally.