Global Food & Drink
Sector Review 2009
## Contents

### Report
- Introduction 3

### Report Highlights

### Deal Focus by Country

#### Americas
- Brazil 6
- Canada 8
- Mexico 10
- USA 12

#### Asia, Africa and Middle East
- China 14
- India 16
- South Africa 18
- Turkey 20

#### Europe
- France 22
- Germany 24
- Italy 26
- The Netherlands 28
- Poland 30
- Russia 32
- Spain 34
- United Kingdom 36

### Contacts 38

### Transactions 40
About the report

This sector review was coordinated by the Catalyst Corporate Finance research team on behalf of Mergers Alliance. To compile our findings we conducted interviews with our sector experts in each member firm within Mergers Alliance. We also surveyed owners and senior executives within food and drink (F&D) sector organisations and Private Equity investors worldwide.

Deal Focus

Within each country’s Deal Focus we review merger and acquisition (M&A) activity over a four year period, focusing on key deals and trends within the F&D sector. We also include a table of recent transactions where the target company is located in the country under review. Additionally, we provide an overview of the F&D sector as a whole, highlighting the market structure as well as commenting on the key trends and the factors influencing M&A. We end by providing predictions for M&A in the sector over the course of the next 18 months.

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 or omissions. Any such reliance is solely at the user’s risk.
At the time of writing, the world is faced with significant economic uncertainty. It is clear that this year and next will bring many challenges for all of us operating within the food and drink (F&D) sector.

However, as you will quickly see from the contributions by our sector experts across the world, there continue to be opportunities in all countries. In our own specialism of corporate mergers and acquisitions (M&A) there has been no respite in activity over recent months, often driven by rapidly changing trends.

You will find in our report a great deal of market-leading insight into the key issues facing the sector in 2009 and beyond. The growth of the discounter model, portfolio realignment and deleveraging amongst the F&D majors, the continued globalisation of brands and our views on the future of family-ownership in the sector all figure prominently in this report.

Our work also highlights the role played by the many ‘national champions’ that exist within the sector. At a time when many fear greater protectionism from the world’s leading nations, we explore how Governments are stimulating cross-border trade and co-operation.

We also see how acquisitions of mid-market\(^1\) businesses dominate F&D activity and how Private Equity investors have slightly different attitudes to investment in each country within our sector.

Regardless of how the current uncertainty unwinds, we at Mergers Alliance are ideally placed to help you. Whether you seek growth through acquisition, wish to restructure or realize value in your business, our international advisors are in a unique position to help you. Our member firms have a prominent position advising owners and managers in boardrooms across the world and are renowned for delivering award winning, partner-led advisory service with seamless international co-operation.

We hope you enjoy reading our report and welcome any thoughts or additions you might like to contribute.

Simon Peacock
Head, Mergers Alliance Food & Drink Sector Team
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\(^1\)Transaction values between US$25m and US$350m
We at Mergers Alliance believe the main factors to shape M&A in the food and drink sector over the next few years will be:

### National Champions

Our work shows that ‘national champions’ exist within the food and drink sector in most countries, and tend to operate in segments where a strong country-specific comparative advantage exists. Examples include beef processor JBS in Brazil and tea manufacturer Tata Tea in India. Dominant in their domestic, usually consolidated markets, many are now executing acquisition strategies overseas to drive growth. We estimate that there are in the region of fifty of these businesses operating globally today.

#### Canada

George Weston, a family controlled quoted company, disposed of non-core dairy and bakery businesses to focus on their retail chain Loblaw

#### USA

Coca-Cola and Pepsico are acquisitive in BRIC countries and have moved their portfolios toward healthier products

#### Brazil

Brazilian meat and poultry processors lead the world and have acquired businesses globally

#### The Netherlands

Anticipated liberalisation of the EU dairy market drove the Friesland/Campina dairy merger, creating a ‘national champion’

### Globalisation of brands

Global brands continue going from strength to strength. They have the financial muscle to dominate their categories and are generally the first to enter and consolidate new emerging markets. For example, Coca-Cola has not only acquired bottling capacity to secure control of the carbonated drink market in many countries, it is also acquiring regional and national juice brands to dominate the entire soft drinks market, often paying very high multiples and occasionally attracting the wrath of local competition authorities.

#### UK

Private Equity investors in the UK continue to back innovative, niche brands, using creative financing structures

#### France

Companies such as Danone and Pernod Ricard have disposed of non-core assets to deleverage

#### Spain

Anglo Dutch giant Unilever has disposed of olive oil brand Bertolli to SOS Cuetara of Spain
Ownership structure

The prevalence of family owned businesses in the food and drink industry is higher than in almost any other sector. The trend is particularly strong in continental European countries such as Italy and Germany. For example German Mittelstand companies encompass businesses of all sizes and sub-sectors, with many considered highly attractive M&A targets for domestic and overseas acquirors as well as Private Equity investors.

Variation in maturity of food and drink Private Equity markets

Private Equity investors have invested in all major global food and drink markets, although certain markets are considerably more mature than others. In the UK and The Netherlands, years of Private Equity activity have resulted in a highly developed market where it is common to see tertiary buyouts, with Private Equity houses happy to acquire businesses at different stages in their lifecycle.

Portfolio realignment & deleveraging

After a period of unreserved acquisitive expansion fuelled by cheap debt, many businesses are now actively deleveraging their balance sheets. Adjusting their strategies to focus on core brands, many are undertaking wide reaching disposal programmes to realign their portfolios. Prominent examples of this trend include leading French companies Pernod Ricard and Danone.

Discounters

The impact of the global economic downturn on consumer spending has benefited the highly-competitive discounter supermarket model, with consumers trading down to cheaper products. This competitive environment has resulted in some discounters, notably in Germany, pursuing vertical integration by acquiring their own production capabilities in certain categories.

Russia

Russian F&D companies will look to acquire in the CIS countries to access growth in those sectors which are heavily consolidated at home

China

New acquisition financing regulation will open up opportunities for domestic management buyouts funded by Private Equity

Germany

German Mittelstand companies will continue to be attractive mid-market M&A targets to domestic and overseas trade acquirors as well as Private Equity

India

Tata Tea has acquired both international and regional brands to achieve the number 2 position in the global tea market
M&A dominated by meat, poultry and dairy deals

Brazilian M&A activity has grown impressively fuelled by a strong national currency and high food commodity prices. Deal values in 2008 of US$4.9bn represented an increase of 56% compared to 2007.

One of the most acquisitive groups was the pork, poultry and beef processor Marfrig Frigorificos e Comercio Alimentos, which has made 14 acquisitions in South America, the US and Europe since 2007. In 2008 it acquired a group of businesses based in Brazil and Europe (combined revenues of US$2bn) from US based OSI Group. The US$496m transaction supported Marfrig’s strategy to gain direct access to international markets and diversify its protein mix.

Marfrig was not the only Brazil-based acquiror overseas. JBS acquired Australian Tasman (US$150m) and US SmithField Beef Group (US$580m) and only recently announced that it had decided to end its pursuit of National Beef Packing Company, the fourth largest producer in the US. In 2007 it paid US$1.4bn to acquire Swift Foods Co, the third-largest US beef and pork processor.

There was also important inbound M&A. Tyson Foods continued its international expansion with the acquisition of three Brazilian poultry companies including Macedo Agroindustrial. Tyson, the world’s second largest meat and poultry processor, said that the deal offered the potential to produce 816,000 birds per day and generate up to 70% of its Brazilian revenues from exports. Brazil is currently the world’s leading chicken exporter and third largest chicken producer behind the US and China.

Away from meat and poultry, Latin America’s largest Coca-Cola bottler, FEMSA, acquired Refrigerantes Minas (Remil) for US$364m. FEMSA, which is part of Mexican company KOF, said that the purchase of the bottler and brewer would give it a 30% share in Coca-Cola bottling in Brazil.

Private Equity (PE) has not played a larger role in the Brazilian F&D sector. A notable recent investment was GP Investments’ acquisition of the dairy business Lacticinios Morrinhos (LeitBom) in 2008 (US$180m), paying 4.9x historic EBITDA. Gávea Investimentos acquired and subsequently exited Ipanema Coffees and LAEP, a PE fund focused exclusively on the dairy industry, acquired the assets of Parmalat Brazil out of bankruptcy.

A high protein economy

Brazil is advantageously positioned to be a global supplier of meat and poultry. It has a large land mass, a favourable climate, access to low cost inputs (corn and soy) and a relatively low cost of labour. Innovation in agri-technology has continued to drive yield improvements. The recent sharp decline in global demand for poultry, beef and pork has been somewhat mitigated by access to new markets. China has for example recently approved Brazilian poultry, which will feed through to exports in 2009 and has also indicated it will approve Brazilian pork imports. The devaluation of the Real is also likely to help exports.
Brazil is a fragmented market

Despite F&D being the second most active M&A sector since 2005, the industry remains highly fragmented. The largest players retain relatively small market shares, mainly due to the scale of the country and presence of many regional players. Perdigão, one of Latin America’s largest food companies commands only a 17% home-market share in poultry and 7% in milk. Recent rumours of a possible tie up with Sadia may change this position.

Ownership of production is still largely in private hands and there are a limited number of publicly traded food companies. Many family owned regional companies operate under opaque corporate governance structures making them difficult acquisition targets, particularly for foreign acquirors.

The Government is supporting the sector through its funding, providing US$35bn of credit through the Agriculture and Livestock Plan. The Government’s development bank (BNDES) has also played a role as an investor in the sector and part funded Marfrig’s acquisition of OSI.

Trends in M&A

The economy is forecast to contract rapidly in 2009 after years of strong growth. Many companies have suffered from commodity price declines, weakening cash generation. Businesses have subsequently scaled back their M&A ambitions, especially beyond their borders, as in the case of JBS. We have also witnessed a wave of distressed M&A and bankruptcies, particularly in the ethanol sector.

There is uncertainty with regards to the ongoing treatment of tax breaks which allow companies to deduct 34% of the premium paid in acquisitions. The tax deductions are currently one of the great attractions for acquisitions in Brazil and speculation that they might be rescinded in the near future could mean a rush of deals in 2009.

Recent F&D Transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Stake</th>
<th>Description</th>
<th>Acquiror</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov-08</td>
<td>OSI Group Businesses</td>
<td>100%</td>
<td>Meat processing</td>
<td>Marfrig</td>
<td>496</td>
</tr>
<tr>
<td>Oct-08</td>
<td>Macedo; Avicola; Frangobras</td>
<td>100%</td>
<td>Poultry processing</td>
<td>Tyson Foods (US)</td>
<td>95</td>
</tr>
<tr>
<td>Jun-08</td>
<td>Refrigerantes Minas Gerais</td>
<td>100%</td>
<td>Bottling services</td>
<td>Coca-Cola FEMSA (Mexico)</td>
<td>364</td>
</tr>
<tr>
<td>May-08</td>
<td>Alimentos Bomgosto</td>
<td>100%</td>
<td>Pastas and baked products</td>
<td>Adria Alimentos do Brasil</td>
<td>348</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Montelac Alimentos</td>
<td>100%</td>
<td>Dairy products</td>
<td>Industria de Alimentos Nita</td>
<td>74</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Laticinos Morinhos</td>
<td>100%</td>
<td>Dairy products</td>
<td>GP Investments</td>
<td>182</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Cotoches</td>
<td>100%</td>
<td>Dairy products</td>
<td>Perdigão</td>
<td>40</td>
</tr>
<tr>
<td>Feb-08</td>
<td>Moinhos Cruzeiro do Sul</td>
<td>100%</td>
<td>Poultry processing</td>
<td>Marfrig</td>
<td>53</td>
</tr>
<tr>
<td>Jan-08</td>
<td>DaGranja Agroindustrial</td>
<td>94%</td>
<td>Slaughterhouse for pigs</td>
<td>Marfrig</td>
<td>58</td>
</tr>
<tr>
<td>Jan-08</td>
<td>Avicola Industrial Buriti Alegre</td>
<td>100%</td>
<td>Poultry processing</td>
<td>Sadia</td>
<td>31</td>
</tr>
</tbody>
</table>

Predictions

- M&A activity will slow down, as companies remain cautious, postpone unnecessary investments, preserve cash and brace themselves for uncertainty ahead.
- Whilst sellers do not believe timing to be opportune for valuations we expect to see moderate M&A activity in consolidating sectors; juices, pastas, dairy and beef.
- We expect continued diversification of the protein mix (e.g. beef players looking at dairy and poultry) as well as expansion in terms of geography. Players such as JBS will continue to look for targets overseas.
“Many large Canadian F&D companies will be forced to dispose of non-core and non-performing assets to maintain their competitiveness in the new, challenging global business environment.”

Blair Roblin, Solaris Capital Advisors

Transactions across a variety of sub-sectors

Despite transaction volumes falling in 2008, M&A deals were completed across a broad range of F&D sub-sectors including bread, meat and dairy.

The year began with Canada Bread Company’s US$66m acquisition of Aliments Martel Inc, a privately held Quebec-based manufacturer and distributor of sandwiches. The acquisition is the second in the sandwich market for Canada Bread. In 2006 the Company acquired Toronto-based Royal Touch Foods as part of a strategy to diversify into high growth, value-added food segments.

In June, XL Foods acquired fellow beef processor Lakeside Farm Industries for US$97m. Lakeside, a subsidiary of Tyson foods, was divested because it did not fit with Tyson’s long-term international strategy which is focused primarily in Asia, Mexico and South America.

In October, Saputo one of the leading consolidators in the Canadian dairy market acquired Neilson Dairy, the dairy division of Weston Foods for US$372m. The milk industry in Canada is highly regulated particularly in Quebec where the retail price of milk is set by the authorities. The deal was attractive to Saputo given the market leading position it was acquiring in the Ontario fluid milk and cream market.

Then in January 2009, George Weston made a second large disposal announcing it was selling its US bakery division to Grupo Bimbo of Mexico for US$2.4bn.

The proceeds from these disposals are expected to be invested in the struggling Loblaw supermarket chain in which George Weston has a 61% stake. George Weston is rumoured to be considering taking Loblaw private to facilitate a quicker turnaround programme. The turnaround is required to fend off the threat posed by US discounter Wal-Mart, who has been aggressively expanding its hypermarket chain throughout Canada since 2006.

Landmark Private Equity deal in 2008

Private Equity (PE) does not play a prominent role in the Canadian F&D market having completed only a handful of transactions over the last four years.

In September however, US PE firm Centre Partners completed the US$660m public to private acquisition of Connor Bros, North America’s biggest manufacturer and distributor of seafood products. The business operates globally and has a stable of four seafood brands; Brunswick, Beach Cliff, Bumble Bee and Clover Leaf.

Centre Partners has had a strategic relationship with Connor Bros since 2003 when they merged portfolio company, Bumble Bee into Connor Bros. One of the drivers for the 2008 acquisition was the positioning of Connor Bros’ canned fish product portfolio which is expected to benefit from the uncertain economic environment as consumers seek value products.

M&A activity in the F&D sector

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Strong family influence

The F&D industry in Canada is relatively fragmented and diverse. However, there are a number of family-controlled F&D conglomerates who have a significant influence in the market. A number of these conglomerates such as George Weston (retail), Maple Leaf Foods (food processing) and Saputo (dairy and bakery) are intent on growing their businesses whilst retaining their independence.

As an export-led economy, Canada has been hit by falling global demand due to the worldwide economic slowdown. During 2009/10 we expect a material impact on the Canadian F&D export market which is worth approximately US$18bn, particularly given the USA accounts for 70% of F&D exports. Other major export markets for Canadian products include Japan, China and Mexico.

Increasingly discerning consumers

The Canadian consumer’s demands and expectations of their food products are forcing the industry to adapt to provide greater product variety, increased convenience and healthier food options. Retail food sales of staple product lines have been sluggish during 2008. Growth has been exhibited in the products priced in the premium price bracket and those catering for the healthy eating trend.

Strategic M&A used to access growth markets

The Canadian F&D market is highly developed with domestic and international companies competing for market share. The high competition levels in staple segments of the market are driving many businesses to use strategic M&A to provide access to faster growing niches. For example, in 2007 Clearly Canadian, historically a beverage company continued its diversification strategy through the small bolt-on acquisition of My Organic Baby, a health food producer with products aimed at the baby market. Clearly Canadian was attracted by the highly specialised, niche growth market in which My Organic Baby operates. Consumer spending on baby products has shown double digit growth over the last five years.

Recent F&D transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Stake</th>
<th>Description</th>
<th>Acquiror</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct-08</td>
<td>Neilson Dairy</td>
<td>100%</td>
<td>Dairy</td>
<td>Saputo</td>
<td>372</td>
</tr>
<tr>
<td>Sep-08</td>
<td>Connor Bros</td>
<td>100%</td>
<td>Seafood</td>
<td>Centre Partners</td>
<td>660</td>
</tr>
<tr>
<td></td>
<td>(USA)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aug-08</td>
<td>B&amp;C Food Distributors</td>
<td>100%</td>
<td>Food wholesaler</td>
<td>Premium Brands</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>(USA)</td>
<td></td>
<td></td>
<td>Income Fund</td>
<td></td>
</tr>
<tr>
<td>Jul-08</td>
<td>Cereal Foods</td>
<td>100%</td>
<td>Flour milling</td>
<td>Dover Industries</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Canada</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jul-08</td>
<td>World Vintners</td>
<td>100%</td>
<td>Wine producer</td>
<td>Andrew Peller</td>
<td>9</td>
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<tr>
<td>Jun-08</td>
<td>Lakeside Farm</td>
<td>100%</td>
<td>Meat processing</td>
<td>XL Foods</td>
<td>97</td>
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<tr>
<td></td>
<td>Industries</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Mar-08</td>
<td>Timothys coffees</td>
<td>100%</td>
<td>Coffee and Tea</td>
<td>Sun Capital</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>(USA)</td>
<td></td>
<td></td>
<td>Partners</td>
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<tr>
<td>Feb-08</td>
<td>Billy Bee Honey Products</td>
<td>100%</td>
<td>Honey</td>
<td>McCormick &amp; Co</td>
<td>75</td>
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<tr>
<td>Jan-08</td>
<td>Aliments Martel Inc</td>
<td>100%</td>
<td>Sandwiches</td>
<td>Canada Bread</td>
<td>66</td>
</tr>
<tr>
<td></td>
<td>(USA)</td>
<td></td>
<td></td>
<td>Company</td>
<td></td>
</tr>
<tr>
<td>May-07</td>
<td>My Organic Baby</td>
<td>100%</td>
<td>Baby foods</td>
<td>Clearly Canadian</td>
<td>2</td>
</tr>
</tbody>
</table>

Predictions

- Many large F&D companies will be forced to dispose of non-core and non-performing assets to maintain their competitiveness in a new, challenging global business environment
- Companies which address the premium end of the market and the healthy eating niche are likely to prosper as older consumers with greater spending power become more quality and health aware
- Higher input costs in 2009/10 are likely to lead to food processors consolidating in order to drive through production and cost based synergies
M&A driven by corporate buyers

2008 ended with the announcement of Grupo Bimbo’s acquisition of the US fresh bakery business of Weston Foods for US$2.5bn from Toronto-based George Weston. Mainly funded through debt, the deal was estimated to have been completed on a multiple of 9x EBITDA. Grupo Bimbo, one of Mexico’s largest producers of baked-goods, is a seasoned acquirer and this acquisition follows a number of international deals over the last few years. The deal reduces Bimbo’s dependence on the domestic market and is somewhat typical of acquisition strategies adopted by the larger Mexican groups.

The other big deal of 2008 was the acquisition of Grupo Gigante for US$1.7bn by Soriana, Mexico’s second largest retailer behind Wal-Mart de Mexico (Walmex). Monterrey based Soriana acquired 206 supermarkets in order to expand out from its traditional base in Northern Mexico. The acquisition provides it with 47 stores in the Mexico City region, an area which has been difficult to expand due to competition and a lack of available real estate.

Traditionally US and Spanish companies are the principal foreign buyers of Mexican F&D businesses. In 2008 however, other European domiciled companies acquired local firms. Campari acquired two tequila businesses including Cabo Wabo for US$80m. UK based ED & F Man Group acquired 49% of Grupo Industrial Azucarero de Occidente, a sugar mills operator for US$93m.

In the consolidated soft drinks sector, Coca-Cola FEMSA, the second-largest bottler of Coca-Cola trademark beverages in the world and part owned by US Coca-Cola Company, acquired Jugos del Valle for US$450m. Jugos is Mexico’s second largest juice producer.

Private Equity (PE) activity whilst progressing slowly, remains relatively underdeveloped. Strategic acquirors still account for over 90% of all deals even in the mid-market and therefore Mexico remains a market for corporates. Active PE firms however include Carlyle Mexico, Advent and Nexxus Capital, who recently invested jointly with Grupo Pando in fish business Ybarra.

Mexico is a consolidated market

The F&D industry in Mexico is consolidated across most sectors with major players dominating their categories. La Costeña in fruit and vegetables, Grupo Bimbo in breads, biscuits and baked goods and Sigma Alimentos in meat products. Grupo Industrial Lala is believed to have a 54% share of the milk product market, further strengthened by the recent acquisition of the Mexican assets of the Italian group Parmalat.

“In highly consolidated markets, such as soft drinks and juices, acquisition multiples can be extremely high – 22x EBITDA in the case of Coca-Cola’s acquisition of Jugos del Valle. This acquisition was Coke’s only viable option to enter the Mexican juice market – hence the multiple!”

Luis Garcia, Sinergia Capital
A developing economy

The Mexican market shares many of the trends and characteristics of other developing nations. It tends to be focused on good value, discounted brands and products are purchased based on price rather than other buying points. Only a very small percentage of the population, for example, shops for groceries based on nutritional content although this is likely to change as the country wrestles with its growing obesity problem – currently ranked second globally for incidence rates.

The corner store plays a major part in grocery retail with an estimated 45% of Mexico’s F&D sold through independent local shops. The major retailers such as Wal-Mart, Soriana and Chedraui, whilst continuing to open new supermarkets, are developing ‘corner store’ formats for major metropolitan areas. Unlike the independent corner stores, the retail multiples are able to capitalise on the growing market for own label products, which are inherently attractive to the average cost conscious Mexican shopper.

The majority of F&D consumed in Mexico is produced locally with foreign multinational brands operating plants in the country. Local products tend to dominate the fresh produce and alcohol markets while international firms will often supply processed products. Importers have seen a drastic change in their position with the Peso losing c.35% of its value against the US dollar and it is likely that local producers will be in a position to once again enter those markets.

Tequila remains a fragmented sector

There has been substantial consolidation across both the soft and alcoholic drinks industry over the past five years. Coca-Cola and PepsiCo have acquired most regional cola players and all major fruit juice producers. The beer sector is also relatively consolidated, although the tequila production market is more fragmented and many firms continue to look to secure rights to distribute imported alcoholic drinks.

Due to the levels of consolidation in the food sector, larger companies do not feel compelled to make acquisitions to gain market share. They are able to exert sufficient competition to force rivals to disappear on their own accord. Acquisitions are typically used to enter new product niches or in acquiring local assets from overseas sellers.

Recent F&D transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
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<th>Description</th>
<th>Acquiror</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-08</td>
<td>Bakery division</td>
<td>100%</td>
<td>Baked goods</td>
<td>Grupo Bimbo</td>
<td>2,500</td>
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<tr>
<td>Nov-08</td>
<td>Destiladora San Nicolas</td>
<td>100%</td>
<td>Tequila</td>
<td>Davide Campari (Italy)</td>
<td>28</td>
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<tr>
<td>Oct-08</td>
<td>Longmont</td>
<td>100%</td>
<td>Meat processing</td>
<td>Sigma Alimentos</td>
<td>n/d</td>
</tr>
<tr>
<td>Sept-08</td>
<td>Carta Blanca de Ciudad J</td>
<td>41%</td>
<td>Brewer</td>
<td>Fomento Economico</td>
<td>60</td>
</tr>
<tr>
<td>Mar-08</td>
<td>Malta Cleyton</td>
<td>70%</td>
<td>Pet food</td>
<td>Evialis (France)</td>
<td>n/d</td>
</tr>
<tr>
<td>Mar-08</td>
<td>Qualitas Alimentos</td>
<td>49.9%</td>
<td>Meats and cheese</td>
<td>Xignux</td>
<td>n/d</td>
</tr>
<tr>
<td>Feb-08</td>
<td>Yavaron Industrial</td>
<td>100%</td>
<td>Canned fruits</td>
<td>Grupo Pando</td>
<td>n/d</td>
</tr>
<tr>
<td>Jan-08</td>
<td>Cabo Wabo Tequila</td>
<td>100%</td>
<td>Tequila</td>
<td>Davide Campari (Italy)</td>
<td>80</td>
</tr>
<tr>
<td>Jan-08</td>
<td>Grupo Gigante</td>
<td>100%</td>
<td>206 supermarkets</td>
<td>Organizacion Soriana</td>
<td>1,350</td>
</tr>
<tr>
<td>Jan-08</td>
<td>Azucarero de Occidente</td>
<td>49%</td>
<td>Sugar mills operator</td>
<td>ED&amp;F Man Group (UK)</td>
<td>93</td>
</tr>
</tbody>
</table>

Predictions

- With the current economic situation, we expect an increase in the forced sale of companies whose products are focused on the middle income population. These companies are likely to face increasing pressure due to down trading by their typical clientele to cheaper products.

- We do not expect M&A in 2009 to reach the levels of a couple of years ago due to the consolidated nature of the market, although there is an opportunity to acquire in sub-sectors which are much less consolidated. We would expect mid-market acquisitions by foreign firms as they take advantage of a depreciating Peso.

- Given their recent track record we would also expect to see some outbound M&A from firms such as Gruma, Grupo Bimbo, Lala and Sigma Alimentos to name a few.
Largest F&D deals in history completed in 2008

In November, InBev, the Belgium based brewer acquired Anheuser-Busch Companies Inc (AB) the US based beer group in a US$61bn transaction. The combined group now owns some of the most popular global beer brands including Beck’s, Budweiser, Stella Artois, Hoegaarden and Staropramen.

InBev acquired AB primarily for its 48.5% share of the American beer market. The transaction was also highly attractive to AB which has struggled in recent years to achieve revenue growth principally because its core market is growing at just 1.3% per annum. By leveraging InBev’s extensive distribution network in emerging markets, AB can improve the marketing of its brands in a number of fast-growing beer markets such as Eastern Europe and South America. The additional ‘sweetener’ to the deal was the expected merger synergy gain of approximately US$1.5bn over the next two years.

Earlier in the year, Mars, the world’s largest chocolate maker, acquired Wrigley for US$23bn to create the world’s largest confectionery group with a global market share of 14%, overtaking Cadbury Schweppes’ 10% share. The deal brought together companies controlled by two American dynasties, the Virginia based Mars family and the Wrigleys of Chicago. The strategic rationale for the deal was driven by Mars’ need to diversify its confectionery business and to enhance its potential for growth in the non-chocolate confectionery segment. Significant operational synergies are expected to be extracted from a rationalisation of the combined global sales force.

Transaction activity in 2008 was not limited to domestic mega deals, overseas trade acquirors were also active acquiring more than thirty US based F&D businesses. Notable transactions included the acquisition of Smithfield Beef Group for US$580m by Brazilian meat processing company JBS in April.

Major US F&D groups led outbound M&A transactions. Coca-Cola and PepsiCo have been acquisitive in the emerging economies, especially the BRIC nations as they seek out high-growth markets.

M&A activity in the F&D sector

The US F&D industry is mature, highly competitive and relies heavily on advertising, branding and product innovation to attract and then retain customers. The market is reported to be growing at 3.3% per annum and is forecast to be worth US$605bn by 2011. Like many Western F&D markets, the US is heavily weighted towards meat products which is the largest segment of the market accounting for more than 27% of sales.

Businesses operating in the F&D industry range from large diversified companies such as PepsiCo, Sara Lee and Tyson Foods to segment specialists such as Kellogg (cereals and snacks) and Land O’Lakes (dairy). Niche players tend to be privately owned and offer specialised local and regional products. Private Equity (PE) investors are also relatively active players in the sector having completed 130 deals (15% of total deal volume) in the last 4 years across nearly all F&D sub-sectors.

Competitive market requires differentiation

“We expect to see sustained M&A activity in the US F&D sector during 2009 as the larger players continue to realign their product and brand portfolios to meet the evolving needs of the US consumer.”

Bob Billow, Billow Butler & Company
Consumers feeling the pinch

The economic environment in the US has had a significant impact on the industry since consumers have become highly price sensitive as budgets become constrained. Growth in private label sales increased by 12% in the first half of 2008 according to Nielsen Company as US consumers traded down from more expensive branded products. As a result of this trend, branded food companies such as Kraft Foods have streamlined their brand portfolios by focusing on the more lucrative brands such as Jell-O.

The trend for trading down is not only affecting products stocked by supermarket chains. In response to declining sales, Starbucks the premium coffee shop chain has revamped its menu in order to incorporate less expensive items. In 2008 Starbucks also began to close stores for the first time in its history. Elsewhere in the restaurant sector, fast food chains such as McDonalds, KFC and Wendy’s have been the major beneficiaries as consumers seek out ‘low-cost calories.’

Robust transaction volumes

F&D M&A activity levels have been robust over the past four years due to many of the larger strategic players realigning their product portfolios to meet these changing consumer trends. Expectations that the US capital gains tax will increase has encouraged many private owners to crystallize the value they have created in their businesses.

In the middle market, acquirors have reluctantly accepted higher valuations of businesses that operate in the new high-growth niches such as health and organic foods, premium foods and ethnic cuisine. Due to a limited number of quality target businesses, competition is high among the strategic trade suitors which leads to high transaction multiples. Greek food company Vivartia paid a multiple of 10x historic EBITDA to acquire Nonni’s, a manufacturer of snack products. The premium multiple was attributed to Nonni’s strong position in the US market, technical know-how, distribution network and commercial potential as a platform from which Vivartia can expand further into the US.

Recent F&D transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Stake</th>
<th>Description</th>
<th>Acquiror</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov-08</td>
<td>Anheuser-Busch</td>
<td>100%</td>
<td>Brewer</td>
<td>InBev (Belgium)</td>
<td>61,000</td>
</tr>
<tr>
<td>Oct-08</td>
<td>Constellation Brands Inc</td>
<td>100%</td>
<td>Alcoholic beverages</td>
<td>Eight Estates Fine Wines</td>
<td>234</td>
</tr>
<tr>
<td>Jun-08</td>
<td>Nonni’s Food Company</td>
<td>100%</td>
<td>Bread and crackers</td>
<td>Vivartia (Greece)</td>
<td>320</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Wrigley</td>
<td>100%</td>
<td>Confectionery</td>
<td>Mars Inc</td>
<td>23,000</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Smithfield Beef Group</td>
<td>100%</td>
<td>Meats</td>
<td>JBS SA (Brazil)</td>
<td>580</td>
</tr>
<tr>
<td>Sep-08</td>
<td>Brownie IndyBake</td>
<td>100%</td>
<td>Pastries and cookies</td>
<td>Kellogg</td>
<td>41</td>
</tr>
<tr>
<td>Jun-08</td>
<td>Zephyr Egg Co</td>
<td>100%</td>
<td>Eggs</td>
<td>Cal-Maine Foods</td>
<td>27</td>
</tr>
<tr>
<td>Feb-08</td>
<td>Watts Brothers</td>
<td>100%</td>
<td>Frozen foods</td>
<td>ConAgra Foods Lamb Weston</td>
<td>233</td>
</tr>
<tr>
<td>Feb-08</td>
<td>Mothers Cake &amp; Cookie Co</td>
<td>100%</td>
<td>Pastries and cookies</td>
<td>Kellogg</td>
<td>12</td>
</tr>
<tr>
<td>Jan-08</td>
<td>Rosenblum Cellars</td>
<td>100%</td>
<td>Californian wine</td>
<td>Diageo (UK)</td>
<td>105</td>
</tr>
</tbody>
</table>

Predictions

- Realignment of product portfolios by larger F&D groups will continue to result in non-core divestures and strategic bolt-on acquisitions
- Major US food groups will continue to acquire companies in emerging markets, especially BRIC nations
- Private Equity houses will increasingly target businesses operating in niche segments of the F&D market, and those businesses which cater to new, but sustainable trends
M&A activity growing strongly

Domestic M&A across all sectors has, over the past four years, increased from US$20bn to around US$160bn in 2008, making China the biggest M&A market in Asia for the first time. Domestic M&A represented around half and much of the outbound deal volume consisted of Chinese companies taking stakes in foreign natural-resource companies. The F&D sector has mirrored the overall growth trend and has seen a rising number of smaller, mid-market deals as well as foreign inbound acquisitions.

The most high profile deal announcement of last year was Coca-Cola’s friendly, but politically sensitive, acquisition of the Huiyan Juice Group. Huiyan is the country’s leading fruit and vegetable drink producer, and Coke’s proposed US$2.8bn deal would have been the fourth-largest cross-border acquisition of a Chinese company. However the Chinese Ministry of Commerce (MOC) blocked the deal in March 2009 in what is seen as an important test of the country’s new Anti-Monopoly legislation, first enacted in August 2008.

MOC reasoned that the bundling of carbonated and juice products would weaken competition in the overall soft drinks market. Others interpreted the rejection as an indication of the Government’s intent to protect the domestic market from foreign intervention, a policy which could have implications for cross-border M&A.

Thirst for beer deals continues

The beer industry in China is one of the first in the F&D sector to start the process of consolidation. In May 2006, InBev China (a subsidiary of InBev) acquired 100% of Fujian Sedrin Brewery to secure an eighth of the Chinese beer market, positioning InBev strongly in the densely populated areas of Central and Eastern China. The transaction value of US$862m represented over 10x Sedrin’s net asset value.

In December 2008, Carlsberg acquired a key stake in Chongqing Beer Group, the fifth largest beer company in China and largest in Chongqing, a province with a population of 31 million.

In early 2009 we have seen a flurry of activity including Anheuser-Busch InBev’s disposal of its stake in Tsingtao Brewery Co to Asahi Breweries (Japan) for US$667m. China Resources Snow Breweries (CR Snow), SABMiller’s joint venture in China with Hong Kong listed China Resources Enterprise, has acquired three breweries in Anhui, Liaoning and Zhejiang provinces in three separate transactions for a combined US$110m. The majority of the consideration was paid in cash.

World’s third largest economy

China is now the world’s third-largest economy, trailing only Japan and the US. Chinese companies are still small in scale relative to the size of the industries they serve, particularly in areas where private ownership, rather than state-ownership, predominate. China’s private sector is filled with minnows, not whales.
The F&D industry accounts for only 22 companies in China’s Top 500. With the exception of the largest players such as Bright Food Group, China Yurun Food Group and Shuang Hui, the food and drink market is especially fragmented although it is among the country’s fastest growing sectors, with output currently rising by over 20% annually. The alcoholic drinks segment is by far the fastest growing.

Opportunities will continue to grow unabated driven by population growth and urbanisation where higher disposable incomes and higher consumption power will create demand for new products and services.

Food safety top of the agenda

Following last year’s tragic Sanlu ‘poison milk’ incident, food safety is a top priority for the F&D industry. Higher risk sectors such as dairy, meat and vegetable processing, vinegar and beverages will be most scrutinised. Manufacturers will increasingly need to fulfil new food safety regulation and it is inevitable that this will drive investment and present opportunities to acquire parties who can’t afford to comply with the regulation.

Key legislation change

Guidelines for the Risk Management of Merger and Acquisition Loans granted by Commercial Banks was issued in December 2008 by the China Banking Regulatory Commission (CBRC). This overturns longstanding restrictions on the granting of bank loans for equity investments in China. Under the Guidelines, onshore commercial banks are allowed to engage in M&A financing.

The initiative will expand the financing channels available to Chinese businesses and is expected to boost both domestic and outbound M&A activity and facilitate consolidation within Chinese industries.

We expect that the Guidelines will facilitate much more domestic management buy-out (MBO) activity, which has been constrained by the absence of acquisition financing. This will present more opportunities for Private Equity players to participate in these transactions.

Recent F&D transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Stake</th>
<th>Description</th>
<th>Acquirer</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-08</td>
<td>Chongqing Beer Group</td>
<td>18%</td>
<td>Beer</td>
<td>Carlsberg A/S (Denmark)</td>
<td>n/d</td>
</tr>
<tr>
<td>Nov-08</td>
<td>QinQin Foodstuffs</td>
<td>51%</td>
<td>Confectionary</td>
<td>Hengan International</td>
<td>33</td>
</tr>
<tr>
<td>Sep-08</td>
<td>Zhejiang Gongxiao</td>
<td>54%</td>
<td>Supermarkets and mini-marts</td>
<td>Hangzhou Tianian Wumart</td>
<td>22</td>
</tr>
<tr>
<td>Jul-08</td>
<td>Inner Mongolia Mengniu Dairy Food</td>
<td>9%</td>
<td>Dairy products</td>
<td>China Mengniu Diary</td>
<td>387</td>
</tr>
<tr>
<td>Jun-08</td>
<td>Zhenghang Food</td>
<td>100%</td>
<td>Cookies, crackers and biscuits</td>
<td>Kellogg Co (USA)</td>
<td>29</td>
</tr>
<tr>
<td>Jun-08</td>
<td>Heilongjian Province YuQuan Winery</td>
<td>100%</td>
<td>Winery</td>
<td>Shangri-La Winery</td>
<td>17</td>
</tr>
<tr>
<td>Jun-08</td>
<td>Yangji Andre Juice</td>
<td>50%</td>
<td>Juices</td>
<td>AGRANA Juice (Austria)</td>
<td>17</td>
</tr>
<tr>
<td>Jun-08</td>
<td>Guangzhou Grand Canyon</td>
<td>67%</td>
<td>Mineral water</td>
<td>China Water and Drinks</td>
<td>19</td>
</tr>
<tr>
<td>Jun-08</td>
<td>Hunan Ava Holdings</td>
<td>100%</td>
<td>Infant formula</td>
<td>CITIC Capital Partners</td>
<td>82</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Binzhou Andre</td>
<td>49%</td>
<td>Juices</td>
<td>Yantai North Andre Juice</td>
<td>14</td>
</tr>
</tbody>
</table>

Predictions

- China’s economy will stabilise rather than going into deflation. The overall performance of the F&D industry is expected to be relatively resilient in 2009. The Government’s US$4 trillion stimulus plan will help this.
- M&A will inevitably be impacted during 1H2009, where some projects have been postponed. There will be more opportunities for partnership with local F&D operators and M&A will pick up gradually during 2H2009.
- Longer term, the new financing regulations are expected to boost both domestic and outbound M&A activity and facilitate consolidation within the F&D sector. It will facilitate more management buy-out activity funded by mid-cap Private Equity.
“The Indian food and drink sector is still strong. Deal numbers will be lower than last year and valuations will be especially affected by the global downturn. Deals are however still there to be done, and we see many attractive opportunities in the Indian mid-market.”

Abhijeet Biswas, Singhi Advisors

Steady growth in M&A

Indian M&A activity in the food and drink sector has been growing steadily from a low starting point, with some very high profile acquisitions involving leading Indian corporates. This has been particularly true in the drinks sector, most notably alcohol and tea.

In 2007, spirits giant United Breweries (UB), led by the charismatic Vijay Mallya, paid almost US$1bn for the Glasgow based Scotch whisky distiller, Whyte & Mackay to plug a ‘missing link’ in the UB product portfolio. Diageo, the largest beer, wine and spirits company in the world is now understood to be negotiating with Mallya on making an investment in UB Group subsidiary United Spirits in the region of US$309m.

Tata Tea, a subsidiary of Tata Group (the largest private corporate in India), has employed an acquisition strategy to become the world’s second largest global tea group. Over the past decade it has acquired Tetley (UK) for US$432m, Good Earth Teas (USA), Jemca (Czech Republic) and Tata Coffee acquired the Eight O’Clock Coffee Company (USA). It has also just announced that it is set to acquire 51% in Grand, Russia’s tea and coffee major, expected to be completed in the first half of 2009.

Whilst tea is Tata’s primary focus the company is now steadily transforming itself into a broader beverages company. It recently acquired a 46% stake in Mount Everest Mineral Water and has launched T!ON, a tea and fruit-based cold beverage targeted at the youth market.

Some eight Indian tea companies have been acquired in the last year which indicates further consolidation in the part of the market not dominated by Tata and Unilever (Brooke Bond and Lipton).

M&A activity in the F&D sector

There has been gradually more and more interest in the food sector from India’s developing Private equity (PE) industry. Indivision India Partners (Future Group’s PE arm) has made a number of food related investments and acquired the multi-cuisine lifestyle restaurant chain, Blue Foods at the end of 2008 (US$38m).

Actis, a UK based fund which has US$1bn to invest in India acquired The Nilgiri Dairy Farm, a dairy and confectionary products manufacturer. Goldman Sachs invested in Punjab-based food major, Cremica, which makes biscuits, condiments and sauces and is also a major supplier to McDonald’s, Pizza Hut and Cafe Coffee Day.

Dutch based Rabo Equity Advisors is currently managing a US$100m dedicated Indian Food & Agriculture fund. The sector is attractive to PE investors for a number of reasons, not least its recession proof nature.
The world’s fastest growing middle class

India is one of the world’s largest emerging markets, with a population of over 900 million and a 250 million strong middle class which is rapidly growing. The Indian food market is consequently estimated to be now worth US$182bn.

Rapid urbanisation, increased literacy and rising per capita income, have all caused rapid growth and changes in demand patterns. It is estimated that 300 million consumers currently purchase processed and packaged food. This population is expected to grow to 500 million in the next five years. This extraordinary expansion will drive growth in the food processing industry at almost 20% each year.

India’s largest food companies command strong market positions. They include the food division of the conglomerate ITC, biscuit maker Britannia and the food division of Godrej. Godrej is partnering with several US players, such as Tyson Foods and Hershey, to develop its capacity to meet the demand for processed foods, primarily in meat and confectionary.

Despite the presence of these majors, the food sector is extremely fragmented, the majority of which are private companies. This leaves considerable opportunity for consolidation.

Final obstacles to FDI may be removed

As the global financial crisis has deepened, demand in the country and from its export markets has slowed. A lot of Indian companies are now reconsidering their strategies, especially with regards to M&A. This could be a missed opportunity for local firms given that valuations are at historic lows, although this could open the door to foreign buyers.

A number of barriers have remained however in cross-border M&A, such as the foreign direct investment (FDI) caps in the relatively undeveloped food retail sector. International companies have failed to gain a foothold due to current legislation protecting small, local retailers. Foreign equity ownership has only allowed up to 24% in the small-scale sector (SSI). The Indian Government is considering removing the current caps which would encourage greater investment by foreign food retailers. This would have a positive effect in the development of food retail within India.

Recent F&D transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Stake</th>
<th>Description</th>
<th>Acquiror</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-08</td>
<td>Fun Foods; VRB Foods</td>
<td>100%</td>
<td>Syrups and dessert toppings</td>
<td>Dr. August Oetiker KG (Germany)</td>
<td>23</td>
</tr>
<tr>
<td>Nov-08</td>
<td>Blue Foods</td>
<td>50%</td>
<td>Restaurant chain</td>
<td>Indivision</td>
<td>38</td>
</tr>
<tr>
<td>Nov-08</td>
<td>United Spirits</td>
<td>18%</td>
<td>Spirits</td>
<td>Diageo Pl (UK)</td>
<td>309</td>
</tr>
<tr>
<td>Oct-08</td>
<td>Gokak Sugars</td>
<td>87%</td>
<td>Sugars</td>
<td>Shree Renuka Sugars</td>
<td>14</td>
</tr>
<tr>
<td>Sep-08</td>
<td>RDHKS, SHRM, Allied</td>
<td>50%</td>
<td>Food service</td>
<td>Radhakrishna Group</td>
<td>25</td>
</tr>
<tr>
<td>Jul-08</td>
<td>Cream Bell</td>
<td>50%</td>
<td>Ice cream</td>
<td>Devyani Food Industries</td>
<td>95</td>
</tr>
<tr>
<td>Jun-08</td>
<td>Crown Beers</td>
<td>100%</td>
<td>Brews Budweiser beer</td>
<td>Anheuser-Busch (USA)</td>
<td>n/d</td>
</tr>
<tr>
<td>Jun-08</td>
<td>Godrej Foods</td>
<td>51%</td>
<td>Poultry processor</td>
<td>Tyson Foods Inc (USA)</td>
<td>n/d</td>
</tr>
<tr>
<td>Mar-08</td>
<td>Sanghvi Foods</td>
<td>50%</td>
<td>Wheat flour milling</td>
<td>Crawlas Limited (Cyprus)</td>
<td>17</td>
</tr>
<tr>
<td>Jan-08</td>
<td>Iceberg Industries</td>
<td>76%</td>
<td>Breweries</td>
<td>Cobra Beer (UK)</td>
<td>n/d</td>
</tr>
</tbody>
</table>

Predictions

- The F&D sector will remain strong. The focus will be on mass market processed products, which are good quality but economically priced. M&A will be targeted at brands rather than specific manufacturing units.

- M&A deal numbers will be lower in 2009 mainly due to funding constraints. However deals are still to be done, with many attractive opportunities still present in the Indian market, made even more compelling by the reduced valuation levels.

- It is expected that the alcoholic drinks and fast food and restaurant sub-sectors will attract most M&A activity in the short term, both inbound and outbound.
“We expect the larger South African F&D companies to continue to acquire overseas due to limited M&A opportunities in their home market.”

Pieter Venter, Bridge Capital Advisors

Limited M&A activity in F&D

Due to the highly consolidated nature of the F&D industry in South Africa, deal volumes have been limited over the past four years. In 2008 there were just nine reported M&A transactions in the F&D market.

In October, a consortium led by black empowerment group Brimstone Investment Corporation acquired Sea Harvest, a deep-sea trawler fishing company from Tiger Brands for US$66m. Brimstone, which listed on the Johannesburg stock exchange in 1998, seeks to be “Profitable, Empowering and to have a Positive Social Impact on the businesses and the individuals with whom it is involved”.

A number of market commentators suggested that Brimstone acquired Sea Harvest at a very ‘modest’ price, which may in part reflect Tiger Brands dim view of the future of the hake industry in which Sea Harvest is a major player. Tiger Brands will now concentrate on its other seafood business Oceana which operates mainly in mackerel, squid and lobster.

2006 the year of the large deals

Due to a lack of recent F&D M&A activity, we have to go back as far as 2006 for two of the largest reported transactions of recent times.

In April 2006, Cadbury Schweppes sold their South African branded soft drinks business, Bromar Foods, to Tiger Brands for US$190m. Tiger Brands is a large quoted food and healthcare company which owns brands across a number of food segments and has been one of the few consolidators in the South African F&D market.

It is believed that Tiger Brands paid a ‘significant’ multiple for the Bromar business given their strategic rationale for building a leading position in the South African soft drinks market.

In October 2006, UK food giant Associated British Foods (ABF) acquired South African sugar producer Illovo for US$804m. Illovo is the largest cane sugar producer in Africa and one of the world’s lowest cost producers. It is the leading producer in the Least Developed Countries (LDCs). The acquisition was in response to changes in the European Union sugar laws which will provide free access for exports to the EU from LDCs in 2009. In addition, ABF planned to increase plant capacity and use its expertise to improve operational efficiencies, co-product development, marketing and product innovation.

M&A activity in the F&D sector

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A largely consolidated industry

The South African food and drink industry reported sales of US$23bn in 2008. The industry for the most part is highly consolidated. A small number of large, quoted companies dominate the market such as Tiger Brands, Illovo, Tongaat and Pioneer Foods. Of these players, Tiger Brands has been the most active in the M&A market, having acquired a number of small businesses in addition to the 2006 Bromor deal.

F&D retail is dominated by ShopRite, Pick’n Pay, Woolworths and SPAR. A number of large privately owned independent chains have formed buying consortiums in an effort to compete with the major players.

The South African F&D market is very brand orientated. This characteristic is even exhibited among the low income groups in the country. However, despite the aspirational ‘lifestyle sell’ by the producers of branded goods, discounters and their private label products still represent a large segment of the market.

Growth from overseas M&A

The South African drinks sector is dominated by SABMiller, which is not only the largest beer distributor but also distributes Coca-Cola products in the country. SABMiller was formed through the 2002 acquisition of Miller Brewing Company by SAB plc. The company now operates seven breweries in South Africa with a portfolio of ten branded beers.

SABMiller has not made any material acquisitions in South Africa during the last four years. The company’s focus has been on outbound M&A, acquiring drinks businesses in emerging markets such as Vietnam, China and Romania.

Recent F&D transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Stake</th>
<th>Description</th>
<th>Acquirer</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov-08</td>
<td>Brett Four</td>
<td>51%</td>
<td>Food retailer</td>
<td>Massmart Holdings</td>
<td>n/d</td>
</tr>
<tr>
<td>Oct-08</td>
<td>Sea Harvest Corporation</td>
<td>73%</td>
<td>Fish</td>
<td>Brimstone Investment Corp</td>
<td>66</td>
</tr>
<tr>
<td>Jun-08</td>
<td>Mayo Dary</td>
<td>70%</td>
<td>Dairy</td>
<td>Clover Industries</td>
<td>18</td>
</tr>
<tr>
<td>May-08</td>
<td>Rolex Group</td>
<td>51%</td>
<td>Fruit, vegetables and fish</td>
<td>Lorrho</td>
<td>5</td>
</tr>
<tr>
<td>Dec-07</td>
<td>Franschloek Vineyard</td>
<td>100%</td>
<td>Wine producer</td>
<td>DGB</td>
<td>n/d</td>
</tr>
<tr>
<td>Sep-07</td>
<td>Premier Foods</td>
<td>100%</td>
<td>Milling &amp; Baking</td>
<td>Brait Private Equity</td>
<td>211</td>
</tr>
<tr>
<td>Jun-07</td>
<td>First Lifestyle Holdings</td>
<td>100%</td>
<td>Diversified foods</td>
<td>Foodcorp</td>
<td>164</td>
</tr>
<tr>
<td>Apr-07</td>
<td>DairyBelle Corporation</td>
<td>100%</td>
<td>Dairy</td>
<td>Standard Bank Private Equity</td>
<td>n/d</td>
</tr>
<tr>
<td>Oct-06</td>
<td>Illovo Sugar</td>
<td>51%</td>
<td>Sugar producer</td>
<td>ABF (UK)</td>
<td>804</td>
</tr>
<tr>
<td>Apr-06</td>
<td>Bromor Foods</td>
<td>100%</td>
<td>Soft-drinks</td>
<td>Tiger Brands</td>
<td>190</td>
</tr>
</tbody>
</table>

Predictions

- We expect the larger South African F&D companies to continue to acquire overseas due to limited M&A opportunities in their home market
- Due to the global economic environment we expect the F&D industry to stagnate in 2009 and not return to growth until 2010
- SABMiller will be the most acquisitive South African company overseas
Mega Private Equity deal in 2008

The Turkish food and drink industry has only seen modest activity levels over the past four years. Despite the global credit crisis and the relative immaturity of the Turkish Private Equity (PE) market, one of the largest F&D PE deals was completed in 2008.

In February, BC Partners led the US$3.2bn acquisition of Migros, Turkey’s biggest supermarket chain. BC partners fought off competition from a number of other PE and trade bidders to acquire Migros. Other interested parties were thought to include French retailer Carrefour in conjunction with Sabanci Holding, Croatia’s biggest food concern Agrokor and Turkish food group Ulker. Following the acquisition, Migros has embarked on an aggressive store opening programme, with 97 new stores in the first quarter of 2009, putting it in on track to meet its 2009 target of 400 new stores.

Another PE backed deal included Texas Pacific Group, a leading US based PE firm, acquisition of Mey Icki sanayi in a deal worth US$810m in 2006.

Foreign investment continues

Foreign investment in Turkey was most prevalent in 2007 with firms from the UK, France, Russia, Saudi Arabia, Kuwait and the US all making acquisitions in the F&D sector. The largest investment was the US$450m acquisition of Turkish gum business, Intergum by the UK company Cadbury Schweppes.

In the mid-market, Central Bottling Company (CBC), an Israeli manufacturer and distributor of Coca-Cola and other drinks products, acquired Turk Tuborg Bira ve Malt Sanayii, a Turkish brewery for US$166m from Carlsberg A/S. Jorgen Rasmussen, president and CEO of Carlsberg, has stressed that conditions in Turkey were challenging and by selling Turk Tuborg they were restructuring the business model to help generate more satisfactory returns. This deal is a prime example of how major global F&D companies are prepared to take difficult decisions to dispose of non-performing businesses.

M&A activity in the F&D sector

Increasing EU integration

EU regulations have prompted many changes in the market over the last few years. In 2004 a regulatory body was created called ‘General Directorate of Protection and Control’ which regulates food production, retail sale, and import and export registrations. This was followed in 2006 with the introduction of a programme to reform and strengthen the existing food quality control system and adapt it to meet current EU standards.

Integration into the EU is also changing the ownership structure of the Turkish F&D industry. In the past the Turkish Government has greatly influenced the production and trade of agricultural products, however in order to comply with EU regulations they have had to decrease their control.

The industry remains predominantly privately owned with only 21 publicly traded F&D companies. Deals involving a change in control or management are still very rare and there are currently only 21 publicly traded F&D companies.
Urbanisation driving changes in consumer behaviour

The Turkish F&D sector is rapidly expanding. Increased urbanisation, the introduction of a thorough legal framework and increased brand awareness among consumers have all helped drive growth in the sector.

Urbanisation is said to be changing the composition of the average food basket and is expected to significantly alter consumer diets with increased consumption of meats, fruit, vegetables and processed foods.

Rising incomes have also prompted a cultural change towards eating out. The restaurant sector is becoming increasingly popular although still undeveloped from a brand perspective. Apart from the ubiquitous fast food outlets, branded restaurant chains which populate the US and Europe have not yet penetrated the Turkish market.

Multiple factors driving M&A

M&A in the sector has mainly been driven by; local companies looking to gain market share abroad; larger companies looking to achieve domestic consolidation; and a change in management from family controlled businesses to corporate management.

Government efforts to liberalise Turkey’s overall business environment have attracted a substantial amount of foreign direct investment (FDI) and driven M&A across all sectors in recent years. The Government privatisation programme and the sale of assets from the Saving Deposits Insurance Fund (SDIF) have both attracted FDI to the country.

Increases in international trade over the last few years are mainly a direct result of Turkey’s economic development and GDP growth. Turkey has outperformed many of the Emerging Market countries and the full effects of the global downturn do not seem to have penetrated the market yet.

Recent F&D transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Stake</th>
<th>Description</th>
<th>Acquirer</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jul-08</td>
<td>Turk Tuborg</td>
<td>96%</td>
<td>Brewer</td>
<td>CBC Group (Israel)</td>
<td>166</td>
</tr>
<tr>
<td>Jun-08</td>
<td>Kerevitas Gida</td>
<td>51%</td>
<td>Diversified food</td>
<td>Yildiz Holding group</td>
<td>17</td>
</tr>
<tr>
<td>Feb-08</td>
<td>Migros Turk</td>
<td>50%</td>
<td>Food retailer</td>
<td>BC Partners (UK)</td>
<td>3,200</td>
</tr>
<tr>
<td>Jan-08</td>
<td>Unmas A.S.</td>
<td>50%</td>
<td>Flour manufacturer</td>
<td>Fresh Cake Gida</td>
<td>38</td>
</tr>
<tr>
<td>Nov-07</td>
<td>Yudum Gida</td>
<td>100%</td>
<td>Edible oil producer</td>
<td>Alfa International</td>
<td>70</td>
</tr>
<tr>
<td>Sep-07</td>
<td>Do adan Gida Urunleri</td>
<td>100%</td>
<td>Tea</td>
<td>Coca-Cola (USA)</td>
<td>50</td>
</tr>
<tr>
<td>Aug-07</td>
<td>Anadolu Tohum Sanayi ve Ticaret</td>
<td>53%</td>
<td>Seed producer</td>
<td>Vilmorin S.A.</td>
<td>6</td>
</tr>
<tr>
<td>Jul-07</td>
<td>Kopuzlar</td>
<td>100%</td>
<td>Retail</td>
<td>Saya Group (Gancak Yatirim)</td>
<td>10</td>
</tr>
<tr>
<td>Jun-07</td>
<td>Intergum</td>
<td>100%</td>
<td>Chewing Gum</td>
<td>Cadbury Schweppes (UK)</td>
<td>450</td>
</tr>
<tr>
<td>Apr-06</td>
<td>Mey Icki Sanayi ve Ticaret</td>
<td>90%</td>
<td>Alcoholic beverages</td>
<td>Texas Pacific Group (USA)</td>
<td>810</td>
</tr>
</tbody>
</table>

Predictions

- Whilst the global downturn has not yet dampened the market, lower company valuations will mean M&A activity will be limited in 2009
- Further EU integration and decreased Government control will create substantial change across the sector. We expect this to drive consolidation over the next few years
- The weakening Turkish Lira will not only affect the amount of food being imported but also the types of produce. This could attract greater inbound M&A
Deal volumes across most sectors in France plunged in 2008 compared to 2007, however the F&D sector remained relatively active. Whilst there were no mega domestic deals, there were some notable cross-border transactions.

The biggest deal by some margin last year was Pernod Ricard’s US$8.9bn acquisition of V&S Group, makers of Absolut vodka and Cruzan rum, from the Swedish Government. This was a highly contested auction and Pernod paid a huge premium, almost US$2bn above the expected deal value.

The transaction helped create the world’s second-largest alcohol maker behind Diageo. However, the deal has left Pernod heavily leveraged. As Pernod Chief Executive, Patrick Ricard argued “Absolut is the world’s No. 1 premium vodka brand and when a brand is for sale, it’s for sale. You buy it when it’s for sale or you miss it”. Pernod is now accelerating its deleveraging plan. Having disposed of Cruzan to Fortune Brands for US$100m, it has now reached agreement to sell Wild Turkey Bourbon to Italy’s Gruppo Campari for US$575m.

In the food segment, Danone has continued to be active since its US$16.6bn acquisition of Numico, a deal aimed at strengthening its position in the baby nutrition sector. It has been exiting the biscuit sector by selling its Biscuits & Cereals Division to Kraft and selling its stake in India’s biscuit and bakery business Britannia Industries for an estimated US$200m. Whilst a portfolio including water and probiotic yoghurts may not be the best combination for success in a recession, a booming baby food business could ensure Danone’s rides out the downturn.

Groupe Lactalis, the world’s number two dairy business, was able to acquire Numico’s French baby milk business as a result of Danone’s compliance with the European Commission’s monopoly ruling. Lactalis has also been acquisitive overseas entering the Romanian dairy market by acquiring LaDorna (US$65m) the third largest local producer. Dairy consumption in Romania is expected to grow to catch up with patterns in developed nations – currently two thirds of most European countries.

“Cross border transactions play a significant role in the French food and drink market. When the M&A markets recover, we expect to see continued outbound and inbound F&D transaction activity”.

David Terdjman, Marceau Finance

M&A activity in the F&D sector

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Deal Volume</th>
<th>Average Deal Value US$m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>500</td>
<td>1,000</td>
</tr>
<tr>
<td>2006</td>
<td>30</td>
<td>750</td>
</tr>
<tr>
<td>2007</td>
<td>15</td>
<td>500</td>
</tr>
<tr>
<td>2008</td>
<td>10</td>
<td>250</td>
</tr>
</tbody>
</table>

Source: Corpfin
Strong mid-market M&A activity

In France, the majority of M&A activity is generally in the mid-market across a wide range of sectors and 2008 was no exception. Family owned Groupe Polette, a high quality Auvergne and Savoy raw sausage producer, was acquired by Bell AG, a Swiss group which in 2008 initiated an international acquisition strategy. Fruidor, a specialist banana ripening and marketing business was acquired by Baninvest for US$63m, creating a worldwide distribution capability.

Private Equity (PE) involvement in the sector is relatively low in comparison to other Western European countries. The largest PE deal in 2008 was completed prior to the financial meltdown. Alpha Group acquired around 70% of the Frial Group from the two founding families via The Alpha Private Equity Funds. The management has invested alongside taking their stake in newco Glacies Holding to around 30%. Frial is a Bayeux-based company valued at over US$190m. Frial produces private-label frozen ready meals and frozen seafood. Barclays Capital acted as debt arranger and Fortis and Cadif provided mezzanine financing for the transaction.

Retailers battling with discounters

Analysis of consumer behaviour over the last 18 months is showing two key trends. First, discount retailers are winning market share from their more traditional large chain counterparts. This is principally a result of budgetary pressure at home driving consumers to trade down, but is also a result of the prominent locations discounters have established in and around big cities.

Second, healthy food sales are unexpectedly way behind forecasts. Despite the well known threats from obesity consumers have simply not changed their eating habits. Danone withdrew its healthy dairy products (Essensis) as sales didn’t meet expectations. Another development is that the price of private-label and value products is rising faster than that of branded foods across a number of categories in France.

Recent F&D transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Stake</th>
<th>Description</th>
<th>Acquirer</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov-08</td>
<td>Fruidor</td>
<td>100%</td>
<td>Bananas</td>
<td>Baninvest</td>
<td>63</td>
</tr>
<tr>
<td>Nov-08</td>
<td>Dole France</td>
<td>40%</td>
<td>Fruit and vegetables</td>
<td>Compagnie Frutiere</td>
<td>42</td>
</tr>
<tr>
<td>Oct-08</td>
<td>Cruzan Rum</td>
<td>100%</td>
<td>Spirits</td>
<td>Fortune Brands (USA)</td>
<td>100</td>
</tr>
<tr>
<td>Aug-08</td>
<td>Benedicta</td>
<td>100%</td>
<td>Mayonnaise and olive oil</td>
<td>Heinz (USA)</td>
<td>n/d</td>
</tr>
<tr>
<td>Jun-08</td>
<td>Numico baby milk business</td>
<td>100%</td>
<td>Baby milk and baby drinks</td>
<td>Groupe Lactalis</td>
<td>73</td>
</tr>
<tr>
<td>May-08</td>
<td>Groupe Polette</td>
<td>100%</td>
<td>Raw sausages and ham</td>
<td>Bell AG (Switzerland)</td>
<td>n/d</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Division of Groupe Aoste</td>
<td>100%</td>
<td>Processed meat</td>
<td>CA Traiteur et Salaisons</td>
<td>n/d</td>
</tr>
<tr>
<td>Mar-08</td>
<td>Fromageries Paul Renard</td>
<td>100%</td>
<td>Specialty cheese</td>
<td>Altarea</td>
<td>19</td>
</tr>
<tr>
<td>Feb-08</td>
<td>Frial</td>
<td>70%</td>
<td>Seafood</td>
<td>Alpha Group</td>
<td>133</td>
</tr>
<tr>
<td>Jan-08</td>
<td>Eckes Granini</td>
<td>100%</td>
<td>Fruit juices</td>
<td>MBO team</td>
<td>117</td>
</tr>
</tbody>
</table>

Predictions

- Consumers have clearly changed consumption behaviour from branded products to discounted ones. Sales volumes of branded goods will decrease and margins will consequently be squeezed.
- We expect smaller retailers to disappear in the coming years as large discounters and established retailers exercise increasing control over grocery retail in France.
- We are seeing a large decrease in M&A volumes in early 2009. We expect the M&A market to resume however in early-to-mid 2010.
- Danone, Pernod Ricard, Bongrain and Lactalis will continue to look to be acquisitive overseas for the foreseeable future.
M&A activity in F&D sector slowing

F&D transaction volumes have fallen year-on-year since 2005, partly due to the sector falling out of favour as investors focused on sectors with perceived higher growth potential.

There have been relatively few deals over US$100m in value and only one recent mega deal which saw the merger of Tengelmann’s Plus discount stores with Edeka’s Netto chain, the combined group will have revenues of US$14bn. The transaction, which was subject to regulatory approval, finally completed in January 2009 having been originally announced in November 2007.

Other landmark deals in 2008 included Aurelius AG’s acquisition of the drinks and spirits company Berentzen-Gruppe AG for US$60m. Aurelius is a quoted investment group which deploys private equity to acquire companies in ‘special situations’ with sales between US$25m and US$650m. Berentzen is Aurelius’ first investment in the F&D sector and was reportedly attracted by the company’s strong brand portfolio which includes Puschkín Vodka, Dornkärt, Bommerlunder and the core brand Berentzen.

Over the past four years, 50% of all German F&D deals were completed by foreign acquirors. Recent cross-border deals include Univeg Belgie’s US$73m acquisition of Atlanta AG the fresh fruits and vegetables group as part of a Univeg’s global expansion strategy. In 2007 Tate & Lyle Plc, the UK ingredients manufacturer, acquired G.C. Hahn & Co, a manufacturer of dairy stabiliser products for US$191m.

Germany remains a fragmented market

Beyond the dominant global F&D giants such as Nestlé and Procter & Gamble and the very large, family owned Mittelstand companies, the German F&D industry is highly fragmented, consisting mainly of small or medium sized companies (SMEs). These SMEs are typically focused on a specific food segment with established brands. They are of increasing interest to Private Equity (PE) investors such as Glide and Triacon who recognise the scope for consolidation among these players.

German F&D retailing is however highly consolidated with the top five F&D supermarket chains claiming a market share of approximately 75%. German customers are traditionally price sensitive and as a result discounters dominate the industry. Competition is fierce and retail margins are very low in comparison to other neighbouring European countries. This is one of the reasons Wal-Mart withdrew from Germany, selling most of its stores to the Metro supermarket chain in 2006, less than 10 years after entering the market. The recent merger of Plus (Tengelmann) and privately owned Netto (Edeka) highlights how the level of competition is driving even the largest players to seek ways to protect their market position.

M&A activity in the F&D sector

“Succession issues and structural size constraints among family owned Mittelstand F&D businesses are likely to lead to M&A opportunities for international and domestic acquirors.”

Stefan Constantin, CH Reynolds Corporate Finance

Source: Mergermarket, Capital IQ
Power of discounters grows

As a result of the current economic environment, the typical German customer has now become even more price sensitive but still focuses on product quality. Growth among discounter retailers is likely to be limited due to the highly competitive marketplace with companies such as Lidl, Aldi and Netto all competing for market share through aggressive price competition.

In response to the intense retail competition, some supermarket chains are beginning to vertically integrate their business by acquiring suppliers to broaden their ownership of the supply chain and by investing in their own F&D production facilities. For example, Rewe Zentral acquired Backerei & Konditorei Rothermel, a manufacturer of bakery products and Lidl has recently invested in their own chocolate production facilities to vertically integrate by organic means.

Many German companies have developed strong global brand names such as Haribo (sweets), Müller (dairy products) and Bahlsen (biscuits). Only the well established brands are likely to be able to grow their market share over the next 18 months while the second tier of brands will suffer as consumers revert to cheaper, premium private label products.

M&A opportunities continue to exist in the mid-market

Benelux and other European based PE houses and Hedge Funds have increased their presence and levels of investment in Germany in recent years. For example, IFR Capital, a London AIM listed company led by Heiner Kamps, established to acquire continental European food businesses has been highly active in Germany. IFR has made four acquisitions, Kamps Food Retail (US$171m), Homann Feinkost GmbH (US$117m), Hamker (US$38m) and Walter Rau Lebensmittelwerke GmbH (US$11m).

Germany offers an interesting investment landscape given the high number of family owned Mittelstand companies many of which have significant scope for growth but are hampered by succession issues and funding needs. Many of the larger Mittelstand companies are run very conservatively with little or no debt gearing. We believe the next 18 months will be an opportune time for them to engage in domestic and international M&A to strengthen their existing market position and to enter new growth markets.

Recent F&D Transactions

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<th>Description</th>
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<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-08</td>
<td>Scarabeus</td>
<td>100%</td>
<td>Soft drinks producer</td>
<td>The Coca-Cola Company (US)</td>
<td>n/d</td>
</tr>
<tr>
<td>Oct-08</td>
<td>Hamker</td>
<td>100%</td>
<td>Margarine and sauces</td>
<td>IFR Capital</td>
<td>42</td>
</tr>
<tr>
<td>Sep-08</td>
<td>Berenzen-Gruppe AG</td>
<td>81%</td>
<td>Spirits and alcoholic drinks</td>
<td>Aurelius AG</td>
<td>61</td>
</tr>
<tr>
<td>Sep-08</td>
<td>Zimbo Fleisch-und Wurstwaren</td>
<td>100%</td>
<td>Meat products</td>
<td>Bell Holding AG (Switzerland)</td>
<td>n/d</td>
</tr>
<tr>
<td>Aug-08</td>
<td>Atlanta AG</td>
<td>100%</td>
<td>Fruit and vegetable distributor</td>
<td>Univeg Belgie (Belgium)</td>
<td>73</td>
</tr>
<tr>
<td>Aug-08</td>
<td>Frostkrone Engel-Food</td>
<td>100%</td>
<td>Frozen snack foods</td>
<td>Argantis GmbH</td>
<td>n/d</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Deutsche Hefewerke</td>
<td>100%</td>
<td>Yeast manufacturer</td>
<td>Indawisa Holding AG (Switzerland)</td>
<td>n/d</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Harzer Grauhof und Rietenauer</td>
<td>100%</td>
<td>Mineral water bottlers</td>
<td>TRIACON Private Equity GmbH</td>
<td>n/d</td>
</tr>
<tr>
<td>Aug-07</td>
<td>Birkel Teigwaren</td>
<td>100%</td>
<td>Pasta producer</td>
<td>Grupo Ebro Puleva SA (Spain)</td>
<td>n/d</td>
</tr>
<tr>
<td>Jul-07</td>
<td>Homann Feinkost</td>
<td>100%</td>
<td>Herb and spice producer</td>
<td>IFR Capital</td>
<td>117</td>
</tr>
</tbody>
</table>

Predictions

- PE investors will increasingly be attracted to the defensive qualities of the F&D sector and will find the German market a target rich environment.
- The frequently unleveraged Mittelstand F&D businesses will become more active in the M&A market, including outbound M&A. At the same time, we expect to see continued inbound M&A activity from overseas buyers.
- Niche markets such as prepared raw vegetables and fruits are expected to prosper over the next 18 months.
- We expect discounters to look to acquire more production capacity.
High profile brands change hands in 2008

M&A activity in the Italian F&D sector fell marginally in 2008. However, the average deal value increased. There were a number of deals involving high profile food brands, notably the sale by Anglo / Dutch giant Unilever of the Italian based Bertolli olive oil and vinegar business to the Spanish olive oil manufacturer SOS Cuetara SA for a consideration of US$875m. The sale was part of Unilever’s strategy to divest non-core businesses which do not qualify as global brands. The olive oil market is not yet global and Bertolli had failed to penetrate markets beyond Europe and North America.

We also saw examples of overstretched Italian F&D leaders shedding assets after a period of debt funded acquisitions. Barilla disposed of Gran Milan to Sammontana in July 2008 for US$300m. During 2008 Parmalat also disposed of a number of overseas assets including their Mexican milk operations which were sold to Grupo Industrial Lala (Mexico) and their Brazilian milk business to Private Equity (PE) house LAEP (Brazil).

A number of family owned businesses were sold in 2008 including Palmera, a leading Italian tuna brand owned by the Palau family. Acquired by the listed French food group Bolton, whose combined brands (Rio Mare and ALCO) will give Bolton a dominant market position of the overall Italian canned fish market (40%).

The volume of PE backed transactions has remained constant over the past three years, accounting for approximately 10% of all F&D transactions. Whilst access to debt funding has been difficult of late, PE acquirors are still interested in the F&D sector and specifically premium branded, niche food businesses operating in traditionally Italian segments of the market.

A number of PE firms are pursuing buy and build strategies such as L Capital, the French PE fund sponsored by LVMH, who acquired the premium Italian food brands Conserve della Nonna and Fini. Natexis, a European PE investor acquired the dairy company Industria Lattiero Casearia for US$14m in September 2008.

Large family ownership

The Italian F&D industry is the third largest contributor to the country’s GDP. There are over 35,000 companies involved in F&D activities, generating global revenues of approximately US$165bn.

The ownership of Italian F&D businesses remains on the whole private, typically family owned. There are only eight F&D businesses quoted on the Italian stock exchange including, Davide Campari, Parmalat and La Doria. As a result the sector remains highly fragmented despite a notable increase in consolidation since 2004.

M&A activity in the F&D sector

Source: Mergermarket (Disclosed transactions only)
Consumers shifting to private label

In Italy there is a significant price premium (often up to 50%) placed on branded food products when compared to their private label equivalents. Consumers, with increasingly constrained budgets, are beginning to trade down, which is driving growth in the private label market, estimated at 20% per annum.

The major supermarkets chain will continue to place a growing emphasis on private label lines, which will also accelerate the long-term consumer shift from branded to private label food products. Italian F&D businesses serving the private label market will be desirable targets for multi-national trade acquirors seeking exposure to international, growing markets.

On the whole, the country remains very loyal to traditional Italian cuisine. To date, the market for foreign foods (e.g. Chinese, Indian or Thai) is still relatively immature and as such has not attracted significant corporate investment. However, as immigration to Italy continues, the growth in the popularity of ethnic foods, especially those from the Far East and Turkey, is likely to present opportunities for investors.

Wine industry set for change

The Italian wine industry is second only to France in production and has been growing rapidly in recent years driven by strong exports to the US.

The sector will undergo a period of change in 2009 as producers will no longer be able to give their products the label of Denominazione d’Origine Controllata (DOC).

The DOC label was first setup in the 1950s and has helped to sustain premium pricing on lower quality wines. This label will be replaced by less traditional acronyms and due to the lack of awareness among consumers, it is predicted that some domestic wine producers may lose market share to overseas rivals.

Recent F&D transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Stake</th>
<th>Description</th>
<th>Acquiror</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-08</td>
<td>Lodi (Parmalat)</td>
<td>100%</td>
<td>Dairy</td>
<td>Newlat SpA</td>
<td>14</td>
</tr>
<tr>
<td>Nov-08</td>
<td>D. Lazzaroni</td>
<td>90%</td>
<td>Biscuits</td>
<td>Ferax Merchant</td>
<td>35</td>
</tr>
<tr>
<td>Sep-08</td>
<td>Lattiero Cusatoria</td>
<td>100%</td>
<td>Dairy</td>
<td>Natexis Private Equity</td>
<td>14</td>
</tr>
<tr>
<td>Jul-08</td>
<td>Bertolli</td>
<td>100%</td>
<td>Olive oil and vinegar</td>
<td>SOS Cuatara (Spain)</td>
<td>875</td>
</tr>
<tr>
<td>Jul-08</td>
<td>Gran Milano</td>
<td>100%</td>
<td>Diversified foods</td>
<td>Sammontana SpA</td>
<td>300</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Itaipizza</td>
<td>100%</td>
<td>Pizza manufacturer</td>
<td>Bakkavor Group (Iceland)</td>
<td>90</td>
</tr>
<tr>
<td>Mar-08</td>
<td>Orzo Bimbo</td>
<td>100%</td>
<td>Coffee</td>
<td>Nutrition and Sante (France)</td>
<td>n/d</td>
</tr>
<tr>
<td>Mar-08</td>
<td>Inalca</td>
<td>50%</td>
<td>Meet products</td>
<td>JBS (Brazil)</td>
<td>335</td>
</tr>
<tr>
<td>Jan-08</td>
<td>Masrola Zootecnica</td>
<td>100%</td>
<td>Poultry</td>
<td>Arena</td>
<td>14</td>
</tr>
<tr>
<td>Jan-08</td>
<td>Palmera</td>
<td>100%</td>
<td>Tuna</td>
<td>Bolton Group (France)</td>
<td>n/d</td>
</tr>
</tbody>
</table>

Predictions

- The defensive nature of the F&D industry will help sustain deal volumes. Trade acquirors will outbid PE buyers who are suffering from debt funding constraints
- Those PE houses with access to debt funding are expected to continue to focus on the premium branded, niche food businesses operating in traditionally Italian segments of the market such as pasta, vinegar or cheeses
- We expect to see further consolidation in 2009/10 among staple foods manufacturers. Specifically those serving the basic dairy, breads and vegetable markets who are under significant pricing pressure
Trade and PE acquirors active during 2008

In December, following a year long review process by the European Competition authority, Friesland Foods and Campina were given clearance to merge and create one of the world’s largest dairy groups. This merger is part of a wave of consolidation expected in the European dairy sector prompted by the European Union’s commitment to abolish dairy quotas by 2015.

Earlier in the year, Royal Ahold the global supermarket holding company which owns Albert Heijn, the country’s dominant food retailer, disposed of grocery wholesaler Schuitema to CVC Capital Partners in a deal valued at around US$1bn. Disposing of Schuitema reduces Royal Ahold’s food retail market share in the country and as a result will lower the level of scrutiny placed on the company by the Dutch anti-trust authorities as they pursue other growth opportunities in The Netherlands.

Despite the effects of the financial crisis, there were still a number of Private Equity (PE) led transactions including the acquisition by Lion Capital, the UK based PE house, of Ad Van Geloven, a frozen food producer. This tertiary buyout followed previous PE transactions backed by Gilde (2001) and Egeria (2005) and demonstrates how certain PE houses are comfortable acquiring F&D businesses at different stages in their development cycle. Lion Capital invested in Ad Van Geloven’s international expansion phase.

PE will continue to drive deal activity

The F&D PE market in the Netherlands is one of the most developed in Europe with numerous PE funds competing for F&D assets. During the past four years 25% of all buyers of F&D businesses in The Netherlands were PE funds. This high volume of PE deals were in part sustained by banks such as Rabobank and ABN AMRO who specialise in supporting PE buy-outs in the F&D and agricultural sectors.

Dutch and European PE houses now own a large number of portfolio businesses of varying sizes operating across the entire F&D spectrum. Given the closed-end nature of many of the PE funds, we expect to see an on-going sell-side deal flow over the medium to longer term as PE houses begin to sell down their portfolios to prepare for the closing of their funds.

M&A activity in the F&D sector

Brand globalisation influencing cross-border M&A

The Dutch F&D industry is dominated by giants who own some of the world’s best known brands. In the alcoholic drinks segment, Heineken and Grolsch (beer) have developed a worldwide market presence. Unilever owns a broad portfolio of F&D brands including PG Tips (tea), Hellmann’s (mayonnaise) and Carte D’Or (ice cream). In Friesland Foods and Campina, The Netherlands can boast one of the largest and best known dairy product manufacturers in the world.

The globalisation of these F&D brands through increased international product marketing has and will continue to influence the level of cross-border M&A activity. The Netherlands has seen a significant level of overseas investment with 34 Dutch businesses being acquired by foreign acquirors (accounting for 22% of all deals).
between 2005 and 2008. Due to the current economic turmoil, several foreign acquirors are now reconsidering their overseas footprint. An example is UK chilled convenience food group Uniq, who is now disposing of its Dutch subsidiaries Uniq Sandwiches and Johma. Dutch based F&D businesses have also played their part in global M&A by acquiring 90 businesses in overseas territories during past four years.

**Premiums for branded businesses**

Empirical evidence shows that businesses which possess strong global brand portfolios command higher transaction multiples. SABMiller for example, acquired Grolsch at a valuation multiple of 14.7x historic EBITDA. Other types of F&D businesses which attract higher transaction multiples often operate in niches which serve high growth trends such as healthy eating or convenience.

F&D businesses which principally supply homogenised products such as basic food ingredients, providing little added-value during the production process, tend to transact at lower multiples.

**Private label growth encouraging bolt-on M&A**

Private labels are heavily promoted by the supermarket chains in The Netherlands which is causing a blurring between branded products and private labels in the eyes of consumers. The evolution of the private label market has resulted in three distinct categories of private labels:

- **Premium** - develops a unique brand of its own designed to increase customer loyalty
- **Standard** - is where retailers generate significant profit margin
- **Value** - reduces low-income customers tendency to trade down to discounter stores

In order to streamline and reduce costs from their supply chains, many supermarkets are now asking their approved suppliers to expand the range of products which they supply. This has acted as a trigger for bolt-on M&A transactions to expand F&D manufacturer’s product portfolio. The 2008 acquisition of soft drinks company Schippers by Refresco was partly a response to this trend. The deal also broadened Refresco’s customer base and increased production capacity.

**Recent F&D Transactions**

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Stake</th>
<th>Description</th>
<th>Acquirer</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-08</td>
<td>Campina BV</td>
<td>100%</td>
<td>Dairy products</td>
<td>Friesland Foods NV</td>
<td>n/d</td>
</tr>
<tr>
<td>Sep-08</td>
<td>Schippers</td>
<td>100%</td>
<td>Soft drinks</td>
<td>Refresco</td>
<td>n/d</td>
</tr>
<tr>
<td>Sep-08</td>
<td>Kruidenier Food Services</td>
<td>100%</td>
<td>Catering</td>
<td>De Vlag BV</td>
<td>n/d</td>
</tr>
<tr>
<td>Jul-08</td>
<td>Quality Bakers</td>
<td>100%</td>
<td>Bakery</td>
<td>Bakkersland Groep</td>
<td>n/d</td>
</tr>
<tr>
<td>Jun-08</td>
<td>Schuitema NV</td>
<td>100%</td>
<td>Food retailer</td>
<td>CVC Capital Partners</td>
<td>1,000</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Ad van Geloven</td>
<td>100%</td>
<td>Frozen snack foods</td>
<td>Lion Capital LLP</td>
<td>n/d</td>
</tr>
<tr>
<td>Feb-08</td>
<td>Koninklijke Grolsch</td>
<td>100%</td>
<td>Beer producer</td>
<td>SABMiller (South Africa)</td>
<td>1,200</td>
</tr>
<tr>
<td>Feb-08</td>
<td>Van Dijk Food Products BV</td>
<td>100%</td>
<td>Table sauces</td>
<td>Benois Capital Partners</td>
<td>n/d</td>
</tr>
<tr>
<td>Jan-08</td>
<td>Plusfood Groep BV</td>
<td>100%</td>
<td>Poultry and beef processing</td>
<td>Perdigao (Brazil)</td>
<td>54</td>
</tr>
<tr>
<td>Jan-08</td>
<td>Drie Mollen Holding BV</td>
<td>100%</td>
<td>Coffee and tea producer</td>
<td>CapVest Equity Partners LLP</td>
<td>n/d</td>
</tr>
</tbody>
</table>

**Predictions**

- Domestic and international PE investors will continue to be attracted to niche growth opportunities in Dutch F&D market
- M&A driven by strong strategic rationale for consolidation will continue in the meat processing and beverage markets
- We expect to see continued outward M&A activity as Dutch F&D companies acquire overseas to support their global footprints and to grow their brand portfolios
“The current M&A environment in the Polish F&D sector is a mixed picture. Market leaders and Private Equity investors are looking to take advantage of the opportunities arising from the stock market downturn and slowing real economy.”

Michael Harvey, IPOPEMA Securities

PE houses making acquisitions

During 2008, Polish M&A activity in the F&D sector saw transaction volumes more than halve compared to 2007. 17 transactions were completed in 2008, with an average deal value of US$37m. This underlying trend of falling volumes and rising average deal values has been seen across a number of territories as the impact of the global downturn has led to fewer, but larger acquisitions, as F&D companies seek to acquire scale in order to drive through operational synergies.

Despite the global financial crisis, one of the largest ever Private Equity (PE) transactions in the FMCG sector in Central and Eastern Europe (CEE) was completed during 2008. In September, Polish PE house Enterprise Investors (EI), acting jointly with several existing shareholders, acquired Warsaw quoted Kofola-Hoop (KH) for US$164m.

KH is a non-alcoholic drinks manufacturer, formed through the merger of Kofola and Hoop in May 2008 to create one of the largest drinks companies in the CEE region. KH owns a number of brands including Kofola and Hoop (cola), Jupi (fruit drinks) and Rajec (mineral water). The company also supplies products under private label to large retail chains.

EI, who will not delist the company, paid a premium of 48% over the share price of KH leading up to the deal. The premium reflected the quality of the brand portfolio, the potential for organic and acquisition led growth, and the quality and experience of the management team.

This transaction highlights a relatively new trend in Poland, which is likely to accelerate, of PE houses taking large or controlling stakes in quoted companies, whose share prices have been hard hit during the recent stock market downturn, or are now paying from having overextended operationally and financially.

Aims of international acquirors are changing

Approximately 40% of all Polish F&D businesses were sold in the last few years to overseas acquirors. Following the expansion of the European Union in 2004, international buyers were predominately concerned with establishing a footprint in these accession countries.

Today many international acquirors who have the footprint are now using M&A to consolidate their existing market position. In December 2008, Norwegian food group Rieber & Son acquired the Gellwe brand for US$59m to become the biggest company in the sweet bakery and dessert category in Poland. The acquisition of the brand will allow significant production synergies at Rieber & Son’s plant in Wloclawek and is highly complementary to their Delecta brand, providing geographic strength given the location of the two brands.

Other foreign companies will continue to seek bolt-on acquisitions especially in advance of Poland’s potential adoption of the Euro. Majors like Nestle, have recently announced their interest in acquisition targets in the Polish market.

M&A activity in the F&D sector

![Graph showing M&A activity in the F&D sector]

Source: Mergermarket, Capital IQ
Food and drink sector now dominated by the private sector

Over the last 20 years the Polish F&D industry has been transformed from a state owned and run operation to a sector dominated by private enterprise. Despite this huge transition, a large number of F&D businesses remain under state ownership. The government has committed to privatise 47 of these F&D companies by 2011 including KSC (Poland’s number one sugar producer) and ZT Lublin (tobacco).

The transition from state to private ownership has also helped to improve the efficiency and standards in the F&D supply chain. This in turn has enabled producers to provide a wider variety of products at competitive prices, which are now distributed through an extensive network of supermarkets in Poland. In comparison to the 1980s, Polish consumers now have vastly superior choice, and expectations, when it comes to the quality and variety of products on offer.

In general, the Polish F&D sector remains highly fragmented, with few companies in the sector generating sales of over US$100m. However, the consolidation process, which was previously dominated by global F&D players, has over the past 18 months begun to shift towards a clutch of fast growing and market savvy domestic Polish companies.

Discounters supermarkets rapidly growing

The discounter supermarket model accounted for 10% of total F&D retail expenditure in 2007. As the economic downturn begins to affect customers spending power, pricing is, more than ever, the key differentiator. The major beneficiaries of this trend are the discounter. In the first half of 2008, Biedronka a discount chain, grew revenues by 52%, highlighting the shift by consumers towards lower priced products.

The growing power of the modern distribution networks and private labels is putting pressure on producers and encouraging consolidation as the smaller non-branded producers are squeezed out of the market.

Recent F&D transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Stake</th>
<th>Description</th>
<th>Acquiror</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-08</td>
<td>Gellwe</td>
<td>100%</td>
<td>Cake products</td>
<td>Rieber and Son (Norway)</td>
<td>59</td>
</tr>
<tr>
<td>Sep-08</td>
<td>Kofola-Hoop</td>
<td>100%</td>
<td>Soft drinks</td>
<td>Enterprise Investors and KSM</td>
<td>164</td>
</tr>
<tr>
<td>Aug-08</td>
<td>Smak</td>
<td>75%</td>
<td>Fruit and vegetables</td>
<td>Prymat</td>
<td>11</td>
</tr>
<tr>
<td>Jan-08</td>
<td>Fometti</td>
<td>80%</td>
<td>Pastry producer</td>
<td>Societe Generale (France)</td>
<td>14</td>
</tr>
<tr>
<td>Sep-07</td>
<td>Superfish</td>
<td>100%</td>
<td>Fish processor</td>
<td>Graal</td>
<td>14</td>
</tr>
<tr>
<td>Aug-07</td>
<td>Browar Belzia</td>
<td>100%</td>
<td>Brewery</td>
<td>Kompania Piwowarska</td>
<td>88</td>
</tr>
<tr>
<td>May-07</td>
<td>PMB</td>
<td>85%</td>
<td>Meat products</td>
<td>Mispol</td>
<td>51</td>
</tr>
<tr>
<td>Feb-07</td>
<td>Agros Nova</td>
<td>60%</td>
<td>Fruit juices and preserves</td>
<td>Sonda</td>
<td>149</td>
</tr>
</tbody>
</table>

Predictions

- The run up to, and adoption of the Euro ( mooted for 2012) will see a further wave of interest from foreign strategic acquirors, and Poland will become an even more attractive acquisition market.
- Consolidation among F&D companies is forecast to continue in 2009. Niches we believe will be active include fish processing, dairy, confectionary and soft drinks.
- Outbound M&A by Polish F&D companies is likely to be restricted to targets within the CEE countries. They are however likely to be more cautious now their attention remains on the difficult domestic market.
“Foreign acquirors are likely to target the new fast growing niches such as frozen convenience foods. Domestic acquirors in consolidated industries will look to acquire in CIS countries as they seek growth opportunities.”

Maxim Tchistyakov, Northstar Corporate Finance

Active foreign acquirors

During 2008 a number of large multi-national companies made acquisitions in the Russian market. The US giant Kellogg Company acquired the United Bakers Group, a manufacturer of biscuits and cracker breads under the Yantar and Lyubyatovo brands for a reported US$100m. United Bakers Group will enhance Kellogg’s distribution and sales network in the country and increase market share.

Earlier in the year, there was evidence of consolidation in the ice cream market as Unilever acquired Inmarko, an ice cream manufacturer with revenues of US$160m. The acquisition formed part of Unilever’s strategy to strengthen their ice cream brand portfolio and gave Inmarko-Unilever a 16% market share in the Russian market. Iceberry ranked fourth by market share with 9.5% of the market, acquired fellow ice cream producer Vologodskoe Mrozhenoe to consolidate further its position as a leading player in the sector.

Highly consolidated beer market

The Russian beverage market has been one of the most active sub-sectors for M&A activity in recent years seeing deals in both alcoholic and non-alcoholic drinks.

Following the fall of the Soviet Union, the Russian beer industry in particular attracted significant levels of foreign investment as overseas acquirors sought to build a market share in a relatively undeveloped industry. As a result of this investment, the beer market is now highly consolidated with limited opportunities for M&A. Of the major players, only one domestically owned brewer, Ochakovo remains under family ownership.

In 2008 Baltika, Russia’s largest brewer (owned by Carlsberg), acquired Baku-Castel, a brewer based in Azerbaijan for US$50m. This deal highlights the shift in the focus of investors to the Commonwealth of Independent States (CIS) countries, where unlike in Russia, they can still find growth opportunities and attractive M&A targets.

The soft drinks market has also seen significant levels of foreign investment with approximately 70% of the industry now controlled by overseas companies who are attracted to this fast growing segment of the beverage market.

M&A activity in the F&D sector

Soft drinks under foreign ownership

In the carbonated drinks segment alone, 50% of the Russian market is controlled by Coca-Cola and PepsiCo. Although growth in these markets has been achieved predominately through organic means, both Coca-Cola and PepsiCo have incorporated strategic M&A to build market share.

In 2008 PepsiCo acquired the fruit and vegetable juice producer Lebedyansky, paying a full price of US$1.3bn which equated to a multiple of 12x historic EBITDA. The acquisition was in line with PepsiCo’s strategy to “transform our product line-up to include more beverages and foods that address the growing consumer interest in health and wellness”. In addition, the acquisition allowed PepsiCo to overtake Coca-Cola in terms of market share in the Russian soft drinks industry.
Opportunities in frozen foods

The majority of food sub-sectors in Russia are highly consolidated and do not offer many opportunities for mid-market M&A. The frozen convenience food segment is however one of the few high growth markets which remains relatively fragmented. 60% of frozen convenience food sales are accounted for by the top ten players, with MLM and Prodotki Pitania leading the market with 14% and 12% respectively. As the Russian consumer demands greater convenience, we expect to see a rise in M&A activity levels as acquirors seek exposure to this growing niche market.

Private label market still in its infancy

Despite being stocked by most supermarkets, private labels have failed to penetrate the market in a meaningful way compared to branded competitors. This is due to the Russian consumer’s desire for choice and also a function of the aggressive advertising of popular brands.

Over the last 18 months we have seen the development of premium product ranges. The frozen convenience food market has been one of the first to position products at this pricing level. Russia’s rapidly growing middle class which is seeking better quality and differentiated products is likely to drive this trend across other food segments.

Russian F&D retailers and producers have been subject to price fixing measures which limit profits to 10% on major food items. Given there are currently no plans to remove these limits imposed by local government, we believe this will dampen M&A appetite from foreign acquirors in the affected segments for example bread, eggs and milk.

Recent F&D transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Stake</th>
<th>Description</th>
<th>Acquiror</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov-08</td>
<td>Yugtransitservis</td>
<td>100%</td>
<td>Grain exporter</td>
<td>Valars</td>
<td>75</td>
</tr>
<tr>
<td>Jul-08</td>
<td>CampoMos</td>
<td>100%</td>
<td>Meat sausages</td>
<td>Atria Group (Finland)</td>
<td>104</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Baku-Castel (Azerbaijan)</td>
<td>100%</td>
<td>Brewer</td>
<td>Baltika Breweries</td>
<td>50</td>
</tr>
<tr>
<td>Mar-08</td>
<td>Lebedyansky</td>
<td>75%</td>
<td>Soft drinks</td>
<td>PepsiCo (USA)</td>
<td>1,300</td>
</tr>
<tr>
<td>Mar-08</td>
<td>Myagkov</td>
<td>100%</td>
<td>Vodka brand</td>
<td>Synergy Group</td>
<td>100</td>
</tr>
<tr>
<td>Mar-08</td>
<td>Sobol Aqua</td>
<td>100%</td>
<td>Soft drink bottler</td>
<td>PepsiCo (USA)</td>
<td>17</td>
</tr>
<tr>
<td>Feb-08</td>
<td>Inmark</td>
<td>100%</td>
<td>Ice cream</td>
<td>Unilever (Netherlands)</td>
<td>n/d</td>
</tr>
<tr>
<td>Feb-08</td>
<td>Vologodskoe Monchenee</td>
<td>100%</td>
<td>Ice cream</td>
<td>Iceberry</td>
<td>n/d</td>
</tr>
<tr>
<td>Jan-08</td>
<td>United Bakers Group</td>
<td>100%</td>
<td>Biscuits and cracker breads</td>
<td>Kellog Company (USA)</td>
<td>100</td>
</tr>
<tr>
<td>May-07</td>
<td>Tradicii Kachestva</td>
<td>50%+</td>
<td>Alcoholic beverages</td>
<td>Synergy Group</td>
<td>40</td>
</tr>
</tbody>
</table>

Predictions

- The trend for acquiring in the CIS countries is likely to expand to other F&D segments as Russian companies seek exposure to higher growth, less consolidated markets
- Despite the consolidated nature of the F&D market, there will continue to be pockets of M&A activity in fast growing niches such as frozen convenience foods
- Foreign companies will continue to be attracted to acquiring in Russia, especially if the Ruble remains weak in the short term
F&D sector is a bright spot in the economy

December 2008 saw one of the largest Spanish F&D deals in recent years as quoted player Ebro Puleva agreed to sell its sugar division, Azucarera Ebro, to UK based Associated British Foods (ABF) for US$537m. Azucarera’s strong retail brands and established customer base attracted ABF who saw an opportunity to strengthen their existing EU operations. Analysis indicates that ABF paid a full multiple of 9.3x 2008 EBITDA. This high multiple was driven in part by ABF’s belief that they can capture efficiencies and exploit the new refinery capacity about to be brought on stream.

In the first half of 2008, Panrico, the bread and bakery products group backed by Apax Partners, acquired Artich the biscuit business of Kraft Foods Iberica for a consideration of US$104m. Kraft’s disposal was a condition of the European Commission in granting clearance for Kraft Food’s US$8bn acquisition of Danone’s global biscuits business in 2007. Panrico Group has now secured a 12% share of the Spanish biscuit market.

French companies remain investors

The Spanish market has attracted a significant number of French investors such as LVMH (wines), Groupe Lactalis and Euroserum (both dairy), who have all made acquisitions in Spain during 2008. As neighbours and key European trading partners, we expect to see continued cross-border M&A between these countries.

The larger Spanish food groups have also been acquisitive overseas (for example SOS Cuétara acquired the Bertolli olive oil and vinegar business from Unilever in July 2008) however, the majority have now put acquisitions on hold and are in disposal mode as they prepare themselves for the new, tougher economic environment.

M&A activity in the F&D sector

Typically European market

The structure of the Spanish F&D industry is similar to many other continental European countries with a handful of very large companies dominating the market such as Pescanova and Campofrio and thousands of smaller, often family owned businesses operating in niche segments. This structure lends itself favourably to both strategic trade acquirors who can build scale through consolidation and Private Equity buyers who have a wide target base in which to pursue ‘buy and build’ strategies.
One of the most active F&D segments for M&A over the past two years has been the Spanish wine sector which had 11 transactions, accounting for 25% of all F&D deal activity. This sector is one of the most fragmented, characterised by small, often high quality producers.

During 2008 two Spanish wine businesses were sold to foreign acquirors. In February, the French luxury goods group LVMH acquired Bodega Numanthia Termes a producer of ‘super-premium’ wines from the Toro region in Spain for US$33m. Commenting on the transaction LVMH stressed that, “Super-premium Spanish wine is a very dynamic category, and the Toro region in Spain offers a lot of untapped potential for creating top-end wines and developing high-value exports”. In July, UK based Crawshaw Group acquired Viña Bajoza, the Spanish wine co-operative for US$18m.

Resilience of the restaurant sector

The Spanish people are renowned for their culture of eating out. Although the segment catering to the business market is suffering due to the economic slowdown, overall the restaurant and bar industry remains vibrant. The industry remains largely family owned, and is yet to see significant corporate investment which has homogenised the industry in other Western European countries.

The retail environment is however changing. Over the past three years, the consumption of private label F&D products has risen by 20% with the majority of Spanish consumers now buying private label products on a regular basis. Pre-cooked meals and prepared foods have also enjoyed significant growth as consumers move away from the traditional home cooking, preferring the convenience and speed offered by these products.

Consolidation in food retail expected

We expect to see continuing consolidation among the large F&D retail chains as they compete to offer lower and lower prices as the economic climate worsens.

In response to consumer’s preference for private label products, supermarkets are reducing the number of branded lines stocked and replacing them with private label goods. For example in early 2009 Mercadona, a major Spanish supermarket chain with a 20% market share, reduced its number of branded goods by 10%.

Recent F&D transactions

<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Stake</th>
<th>Description</th>
<th>Acquirer</th>
<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-08</td>
<td>Azucarera Ebro</td>
<td>100%</td>
<td>Sugar</td>
<td>ABF (UK)</td>
<td>537</td>
</tr>
<tr>
<td>Nov-08</td>
<td>Frigo</td>
<td>100%</td>
<td>Ice cream</td>
<td>Farggi SA</td>
<td>140</td>
</tr>
<tr>
<td>Jul-08</td>
<td>Bertoli (Unilever)</td>
<td>100%</td>
<td>Olive oil and vinegar</td>
<td>SOS Cuetara</td>
<td>875</td>
</tr>
<tr>
<td>Jul-08</td>
<td>Bodegas de Castilla</td>
<td>100%</td>
<td>Winery</td>
<td>CorporacionCan</td>
<td>38</td>
</tr>
<tr>
<td>Jul-08</td>
<td>Viña Bajoza</td>
<td>100%</td>
<td>Winery</td>
<td>Crawshaw Group (UK)</td>
<td>18</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Artiach</td>
<td>100%</td>
<td>Biscuit manufacturer</td>
<td>Panrico SA</td>
<td>104</td>
</tr>
<tr>
<td>Mar-08</td>
<td>Riespen S.L.</td>
<td>100%</td>
<td>Dairy business</td>
<td>Groupe Lactalis (France)</td>
<td>18</td>
</tr>
<tr>
<td>Feb-08</td>
<td>Aucola y Ganadera</td>
<td>100%</td>
<td>Meats and poultry</td>
<td>Nutreco (Netherlands)</td>
<td>28</td>
</tr>
<tr>
<td>Feb-08</td>
<td>Bodegas Numanthia</td>
<td>100%</td>
<td>Winery</td>
<td>LVMH (France)</td>
<td>35</td>
</tr>
</tbody>
</table>

Predictions

■ The resilience of the F&D industry will continue to attract investment from both domestic and overseas buyers (especially from France) as well as indigenous Private Equity funds

■ We do not expect to see significant overseas M&A by larger Spanish corporates in the short term

■ Segments of the market which will continue to consolidate over the next 18 months include wine and food retail
Slow down in M&A activity

There was a marked reduction in F&D M&A activity in the UK since 2007, despite seeing the completion of the largest deal in recent years. In April, Scottish & Newcastle (S&N), the brewer and drinks manufacturer was acquired by a Heineken and Carlsberg joint venture vehicle, which valued S&N at US$11.1bn. This marked a further episode in the ongoing consolidation of the global beer industry.

In July, Lion Capital, a consumer focused Private Equity (PE) firm acquired frozen food specialist FoodVest Group in a US$1.6bn secondary buy-out from CapVest. The frozen food industry is likely to benefit from the downturn as consumers trade down from fresh food to cheaper frozen food. We expect the industry to consolidate on a European scale and FoodVest is now likely to be at the centre of this. With the business delivering an EBITDA of US$103m in the previous financial year, Lion Capital paid a high multiple, partly funding the deal through US$1bn of debt.

In June, Associated British Foods (ABF), the multinational acquisitive food group, took control of Jordans, an independent cereal business in a cashless merger which gave ABF a 62% share in the combined entity. The deal ends the long running independence of family run Jordans’ which was founded in 1855.

This transaction demonstrates that some trade players in the food industry can cut out the private equity ‘middle-man’ if they can respond to the shareholders strategic requirements with a flexible deal structure. The Jordans’ shareholders were coming under increasing pressure from rising food prices and global competition. The opportunity to benefit in the short term from ABF’s buying power and over the long term the prospect of overseas expansion, made ABF an ideal partner.

High growth niches attract PE

The structure of the UK F&D industry continues to make it an attractive sector for PE investors because it has high growth and high margin niches, combined with strong brands which attract loyal consumers. Consequently the past couple of years have witnessed PE investors paying large valuation multiples for mid-market niche businesses.

In December 2007, Maximuscle, a manufacturer and distributor of sport nutrition products was sold by private shareholders to Darwin Private Equity for over 12 times historic EBITDA. In March of 2008, Langholm Capital sold Dorset Cereals, manufacturer of premium branded muesli, to Wellness Foods, who are backed by Lydian Capital, for a double digit multiple. Finally, one of the last deals completed before the global credit crisis, was the acquisition of Tyrells Potato Chips by Langholm Capital for an enterprise value of US$54m.

M&A activity in the F&D sector

Important sector to the UK economy

The UK is the world’s fifth largest grocery retail market and the largest in Europe. UK Consumers spend over US$230bn annually on food, drink and catering equating to approximately 21% of all household expenditure. It has one of the most diverse and innovative markets encompassing traditional European as well as ethnically influenced foods.
The confectionary and snacks, hot non-alcoholic and alcoholic drinks sectors are the most consolidated and dominated by global players with powerful brands, such as Cadbury Schweppes and ABF. Smaller players can prosper in certain niches, however they tend to be acquired quickly. Luxury organic chocolate producer Green & Blacks was acquired by Cadbury in 2005.

The more fragmented sectors, such as fruit and vegetables, meat and meat processors and biscuits, bread, cakes and pasta tend to be smaller businesses, typically family owned or have owners who are slow in consolidating.

Multiple trends driving change

Trends in consumer spending have been consistently focused on health, convenience and luxury. There have been a number of other growth niches including: ethical (organic and fair-trade), functional (diet supplements), dietary requirements (e.g. free from), ethnic foods and premium ready meals.

Traditionally there has been a consumer preference for brands, however this is being challenged by the well developed private label offerings of the big four retailers, which was a response to the threat posed by the discounter model. In the current economic conditions we believe that consumers will have a choice to make between shopping down in terms of price and sticking to trusted quality in terms of brands. A business which can address both of these aspects will be well positioned to sustain and grow revenues over the next 18 months.

Trends in M&A

M&A in the UK varies widely by sector. Activity in the fragmented sectors is driven by the consolidation aspirations of trade buyers who look to squeeze out synergies and the investment objectives of PE buyers who see value in pursuing buy and build strategies.

Less fragmented sectors which support innovation and growth have had a strong interest from PE over the last three years. As a general rule, PE firms complete around 20% of all deals, boosted in recent times by cheap debt. The days of unconstrained debt are over, and trade buyers are using their healthy balance sheets to acquire a higher proportion of the F&D businesses which are for sale.

Recent F&D transactions

<table>
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<tr>
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<th>Deal Value (US$m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug-08</td>
<td>Grampian Group</td>
<td>100%</td>
<td>Meat products</td>
<td>Vion NV</td>
<td>511</td>
</tr>
<tr>
<td>Jul-08</td>
<td>FoodVest Group</td>
<td>100%</td>
<td>Frozen foods</td>
<td>Lion Capital</td>
<td>1,606</td>
</tr>
<tr>
<td>Jun-08</td>
<td>Jordans</td>
<td>62%</td>
<td>Cereals</td>
<td>ABF</td>
<td>n/d</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Scottish &amp; Newcastle Plc</td>
<td>100%</td>
<td>Drinks manufacturer</td>
<td>Heineken and Carlsberg (JV)</td>
<td>11,066</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Tyrells Potato Chips</td>
<td>100%</td>
<td>Premium potato crisps</td>
<td>Langholm Capital</td>
<td>54</td>
</tr>
<tr>
<td>Mar-08</td>
<td>Dorset Cereals</td>
<td>100%</td>
<td>Premium branded muesli</td>
<td>Wellness Foods</td>
<td>73</td>
</tr>
<tr>
<td>Mar-08</td>
<td>Red Mill Snack Foods</td>
<td>100%</td>
<td>Snack foods</td>
<td>Tayto Crisps</td>
<td>n/d</td>
</tr>
<tr>
<td>Dec-07</td>
<td>Maximuscle</td>
<td>100%</td>
<td>Sports nutrition products</td>
<td>Darwin Private Equity</td>
<td>110</td>
</tr>
<tr>
<td>Aug-07</td>
<td>Patak’s Food</td>
<td>100%</td>
<td>Indian cooking sauces</td>
<td>ABF</td>
<td>n/d</td>
</tr>
<tr>
<td>May-05</td>
<td>Green &amp; Blacks</td>
<td>95%</td>
<td>Organic chocolate</td>
<td>Cadbury</td>
<td>29</td>
</tr>
</tbody>
</table>

Predictions

- Trade buyers and especially overseas buyers will think more creatively about their acquisition tactics and deal structures to beat the buyout houses to deals during 2009 and 2010.
- In the restricted credit environment, large F&D corporates with strong balance sheets will acquire. Those corporates who are leveraged will dispose of non-core assets to raise capital to re-invest in their strongly performing brands.
- Those PE investors with access to debt will continue to focus investment on growth, niche markets such as premium ready meals and ethically sourced foods.
Mergers Alliance is a dynamic international group of highly successful independent corporate finance firms focusing on middle-market M&A. The group comprises of 240 transaction professionals located in 42 offices around the world. In 2008 Mergers Alliance completed 62 deals worldwide with a transaction value in excess of US$4.5bn, placing Mergers Alliance in the top 20 M&A organisations in the world at the mid-market level.

For further information on Mergers Alliance and its member firms, please contact Stas Michael, Mergers Alliance Business Manager:

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Mergers Alliance Food and Drink Transactions

Sale of Red Mill Snacks to Tayto Golden Wonder
United Kingdom

Acquisition by Plethico of Natrol
India / USA

Advisor to One Equity Partners on the refinancing of Delicia
Germany / The Netherlands

Sale of Superior Food Group to Adelie Food
United Kingdom

Sale of Rosan-Agro to PKM Duda
Ukraine / Poland

Acquisition by Pescanova of Fricatamar
Spain

Acquisition by Refresco of Bavaria’s soft drinks division
The Netherlands

Sale of The Bun Basket to Wind Point Partners
USA

Sale of Kyusai Munakata to Nichirei Foods
Japan

The Netherlands

Sector Review 2009
International corporate finance

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Belgium  Germany  Russia
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Canada  Italy  South Africa
China  Japan  Sweden
Columbia  Luxembourg  Spain
Denmark  Mexico  Turkey
Dubai  The Netherlands  UK
Finland  Norway  USA