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Bite Size

Recent activity in the food and beverage sector

Summer 2013

Welcome to the latest edition of 'Bite Size', our quarterly overview of activity in the food and beverage sector.

This edition provides analysis of M&A activity in the second quarter (Q2) of 2013 together with some advice from our tax team around supply chain security and AEO status.

In addition to this is a Q&A session with Jean Louet at Andros UK discussing their rapid growth and his views on the market.

We hope you find this newsletter useful. If you have any further questions or queries or would like to know how Grant Thornton can help you and your business please do not hesitate to contact me.

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Supply chain security and AEO

Authorised Economic Operator (AEO) status is an accreditation by Customs Authorities of a business' management of its supply chain security obligations. Every supply chain has a multitude of participants, including manufacturers, assembly plants, and processors, through to shippers, forwarders, storage providers, distributors and retailers. All have their own part to play in ensuring the security of their own element of the supply chain, so in any supply chain, the greater the take-up of AEO, the more secure it is perceived, leading to faster clearance times and enhanced customs facilitation. AEO accreditation shows others in the supply chain that your activity meets security standards to a level which is satisfactory to Customs, and thus enjoys the benefits of 'trusted trader'. In future, AEO traders will suffer less intrusion from Customs at point of import, and will benefit from guarantee waivers, in instances where non-AEO traders will need to take out financial guarantees.

In practical terms, the inclusion of other AEO authorised participants in the supply chain increases the levels of confidence in the security of the whole end-to-end supply chain. The recent issue of horsemeat finding its way into the supply chain for beef-based products is an excellent example of a significant risk which could have been reduced, if not eliminated, by AEO accreditation of key players in the supply chain. Whilst AEO is primarily aimed at ensuring supply chain security, the protection of brand reputation is not to be underestimated when considering the benefits that AEO brings. An increasing number of businesses now insist that their supplier is AEO accredited, or equivalent, and that they in turn impose the same requirement on their own suppliers. This not only reduces a company's customs risk profile, but also gives an advantage when competing against non-AEO peers. It only takes one breach of a supply chain to produce a damaging newspaper headline.

Our Customs team is happy to speak with any clients who may wish to consider applying for AEO, or need to address any specific supply chain risks, please contact:

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Bonne Maman®

We asked **Jean Louet, Managing Director at Andros UK** a few questions about their rapid growth and his views on the market, please refer to the back page for the full Q&A.

M&A activity - Q2 2013

Q2 2013 - a steady uptick in activity after a subdued first quarter, but caution prevails

Having experienced a shaky start to 2013, the encouraging news is that deal activity has begun to recover with Q2 2013[1] volumes up 21% on the previous quarter, bringing them back in line with deal volumes of the same time last year.

It's not all positive news however, deal values remain largely stagnant, only 6% up on last quarter. In terms of deal value, this year is considerably more modest than last year with values down 30% on Q2 2012 figures.

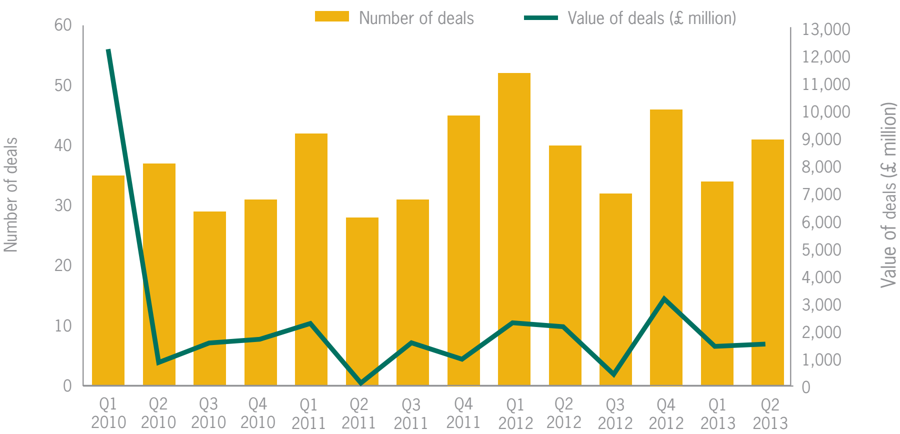
...however, Private Equity activity is considerably less circumspect

Private Equity (PE) has seen a strong increase in activity with Q2 2013 experiencing a 100% increase in deal activity on the previous quarter and an increase of 20% in deal value. In fact, PE deal values have been steadily on the up again since Q3 2012 and not only that, the value of PE deals in the first half of 2013 outstrips the value of deals for the whole of the previous year approximately four times over.

...perhaps signalling an increased appetite amongst PE for bigger transactions

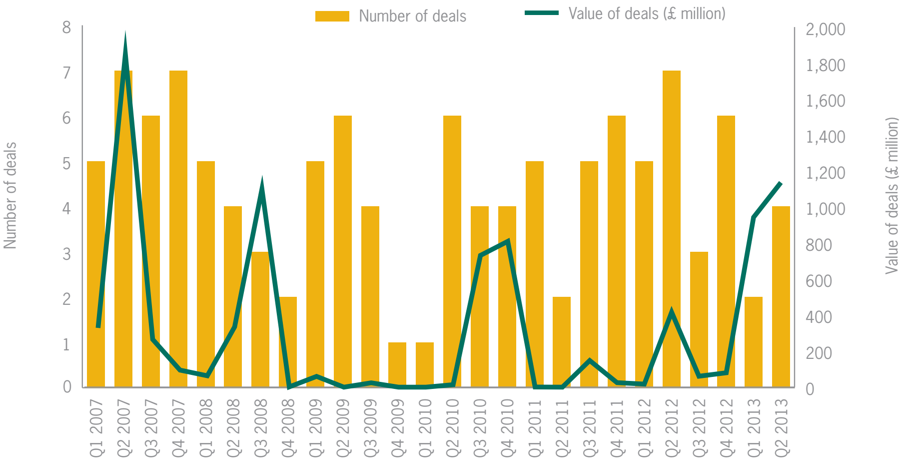
It would seem that this increased value of PE backed deals may indicate an escalating amount of PE activity in the big ticket space. Indeed, both of the large deals that took place this quarter (the acquisitions of Euro Cater and R&R Ice Cream) are PE deals. Does this indicate an increase in activity amongst the larger PE houses who have recently faced tough competition from trade buyers in the race to acquire prestigious consumer brands? We need only think back to December 2012 when Intersnack was victorious in the race to acquire KP Snacks, despite tough competition from several PE houses. Alternatively perhaps trade buyers are becoming slightly more cautious in light of market conditions and less aggressively acquiring.

Announced M&A activity in food and beverage - quarterly



NB: the spike in 2010 deal values is attributable to the Q1 acquisition of Cadbury by Kraft for £11.9 billion

Announced PE activity in food and beverage - quarterly



> "As anticipated in the last edition of Bite Size, M&A activity levels are beginning to pick up and through conversations with our clients I am detecting there is an air of cautious optimism. Those in the food and beverage sector really do feel that things are beginning to improve; that many have begun to resolve operating issues brought about by the economic climate, raw material price fluctuations and damaging food scares. Whilst some of this optimism could be attributed to the amazing sunshine we have recently been experiencing, it is underscored by this increased deal activity and the continued interest in UK business from abroad. However, we must still bear in mind that corporates remain somewhat cautious about whether to hold on to cash for reinvestment."
>
> **Trefor Griffith**
> Head of Food and Beverage

Business failures decline for the third consecutive quarter

In Q2 2013 the rate of business failure declined once again, this time down 14% on the previous quarter.[2]

This is encouraging news and provides some hope for the beginning of a recovery in the sector.

It is however, interesting to note that the first half of 2013 has experienced exactly the same number of business failures as the first half of 2012. So perhaps its as well to remain cautious until we have visibility on Q3 2013 numbers.

This quarter the sub-sector that has seen the most distressed activity has been that of Bakery. It was speculated in last quarter's Bite Size that perhaps the Meat, Fish &

Deals summary - Q2 2013

Poultry sector would begin to see the effects of the horsemeat scandal in the coming months, however there is no evidence of this filtering through to administrations and liquidations just yet.

Foreign investment in UK and Ireland based companies picks up pace

Acquisitions of UK and Irish companies by foreign entities increased in Q2 2013 with activity being 67% up on Q1. In fact, foreign investment in UK and Ireland appears to be steadily increasing. In Q2, 27% of all investment in UK and Irish companies was foreign (i.e. the acquirer being based outside of the UK and Ireland), whilst in Q1 2013 and Q4 2012 that figure was at 16% and 18% respectively. This is an increase of approximately 10% on the previous quarters. Of that investment, Europe and the United States are consistently the most active domiciles of acquirers.

This is confirmed if you look at the Deals Summary for Q2 2013. Of all the deals featured, half of them have been acquired by US or Europe based companies. Cloetta, a Scandinavia based confectionery company which itself, though listed, has PE investment in the form of Nordic Capital has bolstered its natural confectionery offering with the acquisition of Goody Good Stuff, US based Flagship Food Group (also PE backed, in the form of Creo Capital) has acquired foodservice dips, sauces and menu solutions company, Atlantic Foods, Hain has continued with its buying spree, acquiring Ella's Kitchen with a view to expanding its children's foods portfolio. R&R Ice Cream has changed PE hands, going from Oaktree Capital (US headquartered) to PAI Partners (France headquartered) following its acquisition of major competitor Frederick's Dairies, not to mention the indirect acquisition of Plum Baby by US based Campbell's Soup Company in June (which is not included in the Deal Summary as technically Campbell's acquired Plum Baby's US parent, Plum Organics rather than acquiring a UK or Ireland company directly).

Large deals with disclosed values (>£250m deal value) [3]

Sector	Date	Target	Acquirer	Deal value (£ million)
Dairy/Frozen	Apr-13	R&R Ice Cream	PAI Partners SAS	715.5
Catering	Apr-13	Euro Cater A/S	Intermediate Capital Group	572.2

Mid market deals with disclosed values (£50m - £250m deal value)

Sector	Date	Target	Acquirer	Deal value (£ million)
Alcoholic Drinks	Apr-13	Burn Stewart Distillers	Distell Group	160.6

Small deals with disclosed values (<£50m deal value)

Sector	Date	Target	Acquirer	Deal value (£ million)
Alcoholic Drinks	Jun-13	Cornish Orchards	Fuller, Smith & Turner	3.8
Dairy/Frozen	Apr-13	Fredericks Dairies	R&R Ice Cream	49.0

Key undisclosed deals

Sector	Date	Target	Acquirer	Deal value (£ million)
Confectionery	May-13	Goody Good Stuff (FTF Sweets)	Cloetta AB	ND
Bakery	May-13	Giles Foods	Warburton's	ND
Meat, Fish & Poultry	May-13	Atlantic Foods	Flagship Food Group	ND
Functional	May-13	Ella's Kitchen	Hain Group	ND

However, whilst geographies such as India, Africa and the Far East do not appear to be acquiring UK and Irish assets in any kind of volume, their interest should not be underestimated. Some will undoubtedly follow in the footsteps of Bright Food Group (China), Mizkan (Japan) and IHC (India) and continue to make strategic acquisitions when good and ready. As exemplified by South Africa's Distell Group's acquisition of Burn Stewart Distillers in April for £161 million with the specified purpose of enhancing their global footprint as well as to capitalise on Burt Stewart's 'heritage' reputation.

Notes

[1] All deal activity is based on announced date of the deal and includes deals where there has been any UK or Ireland involvement (target or acquirer). Administrations, liquidations and receiverships are collated but not counted as M&A unless they have subsequently been acquired.

[2] Business failure data includes administrations, receiverships and liquidations. For the purposes of collating failure statistics, all 'failures' are counted irrespective of whether they were subsequently acquired.

Only business failures announced in the press are included in the count for years 2007-2011. For 2012 onwards London Gazette data will also be included.

[3] Deal values are primarily sourced from corporate websites, however if no press release is available they are sourced from deal database BvD Zephyr or from press commentary released at the time of the deal. Deal values may subsequently be amended pending earn outs or other finance arrangements or/and as further detail is released by the acquirer.

Sources: All deal data is gathered as it takes place from numerous sources including trade press, BvD Zephyr and ThomsonReuters.

Q&A with Andros UK

Andros UK, a subsidiary of France's Andros Group, has grown rapidly since entering into the UK market with its signature product Bonne Maman jam in 1984. We asked Jean Louet, Managing Director, a few questions about Andros UK's rapid growth and his views on the market:

1. Andros UK grew by more than 30% in 2012, a fantastic achievement in difficult economic circumstances, how did you achieve this and what was your biggest challenge?

By the introduction of innovative products and by gaining market share for both brands and chilled desserts. Also, by focusing on fewer priorities. Not diverting from the core values of Andros: producing efficiently, good, simple foods. Not falling into the traps of fashions and trends. Also by raising our technical expertise. The biggest challenge was finding the right people.

2. Over the next 12 months what will be the key factors driving the businesses' growth?

Continued innovation, getting our customers to understand and support our business model and meeting their needs on time, every time and investing further in our business.

3. What do you think will be the biggest challenge in the food and beverage sector over the next 12 months?

Continued inflation. Not giving in to the temptation of an easy fix in the face of food quality concerns or lower consumer spending.

4. Are you coming across more international competition?

Only in the sense that some British companies with whom we compete are being acquired by international companies such as Muller and Hain Celestial. Plus, despite the noise around sourcing locally, the supply of foodstuffs has genuinely become global and with pressure from consumer buying power a cheaper offer from anywhere in the world will always be considered.

5. What is the biggest opportunity as you see it for food and beverage manufacturers over the next five years and how are you addressing that?

There is so much opportunity to innovate in 'fresh foods', in new packaging, in new tastes and flavours that will capture the consumers' imagination and needs. The future will belong to the pace-setters who are fastest to get there. By the same token, there is also a need to regain the consumer's interest in the 'pleasure' side of eating and drinking. There is a distance that has been created in 'modern consumption' whereby food is turning increasingly into a non-emotional convenience. Andros has always emphasised the need for simple, natural recipes, preserving the nature of good ingredients and giving the consumer a moment to remember. It will continue to do so and communicate more about it.

Looking forward

Whilst its great to see that there is some optimism in the sector an air of caution is also advisable. Deal volumes may be up but overall values do not appear to be rising spectacularly, the economic environment remains challenging, the full effects of the horsemeat scandal may be yet to come and the successful completion of deals can by no means be guaranteed, as the collapse of the Barr-Britivic merger demonstrates.

Nonetheless, businesses continue to streamline their operations, large corporates continue to shed non-core brands (the latest being GlaxoSmithKline's Lucozade and Ribena, and Unilever's Peperami - all of which are rumoured to be up for sale) and for the right company both PE and Trade are prepared to offer fair value, often vying for the same business, creating strong competitive tension. All this will make for an interesting next few months in which it is anticipated we will see more deal activity.

What do you think?

Your thoughts and opinions are important to us. Please let us know what you think of this newsletter by contacting:

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Click here to download our case study which shows how Andros UK's rapid growth is supported by transfer-pricing and ongoing strategic advice from Grant Thornton

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