

SECTOR SNAPSHOT



UK FOOD & BEVERAGE M&A ACTIVITY AND VALUATIONS FOR H1 2016



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Food & beverage M&A activity marginally down in the lead up to Brexit

M&A activity in the UK food & beverage industry slowed marginally in H1 of 2016 with **84** deals completed involving UK and Irish companies (targets and acquirers).

This is down on the **105** deals completed in H2 of 2015 but broadly in-line with the **85** deals completed during the same period in 2015. Only **34** deals were completed in Q2 of 2016 with uncertainty ahead of the EU referendum likely impacting upon deal volumes with a number of business owners and

corporates adopting a 'wait and see' approach. Despite a slight softening in M&A volumes, the food & beverage sector has remained resilient in the face of uncertainty, particularly when compared to UK H1 M&A activity across all sectors which was down by 70% on the same period last year (Merrill Lynch).

Brexit Impact

The vote to leave the EU has impacted upon the food & beverage industry in a number of ways. The drop in the value of the pound, whilst negatively effecting UK food importers, is making UK food exports cheaper. There is also the future issue of access to EU labour in an industry that relies heavily on overseas workers. Other potential issues include:

Trade relationship

The UK will need to negotiate new trading terms with the European Single Market. The importance of the UK's relationship with the EU is evident in the numbers with over 60% of agricultural exports (by value) currently sent to the EU. The level of tariffs to be levied on goods traded with the EU will depend on the trading relationship that is negotiated.

Farming subsidies

UK farmers will face a period of uncertainty following the loss of £3 billion worth of subsidies currently received under the EU Common Agricultural Policy (CAP). Whilst no guarantees have been given, it is possible that some sort of alternative subsidy regime may be introduced.

Protected status of national foods

The national heritage of UK foods tied to particular regions is currently protected by EU law. There is some concern that leaving the EU may make these speciality food products vulnerable to cheap knock-offs. It is likely that the UK government will implement similar protections in order to limit cheap imitations.

Regulatory framework

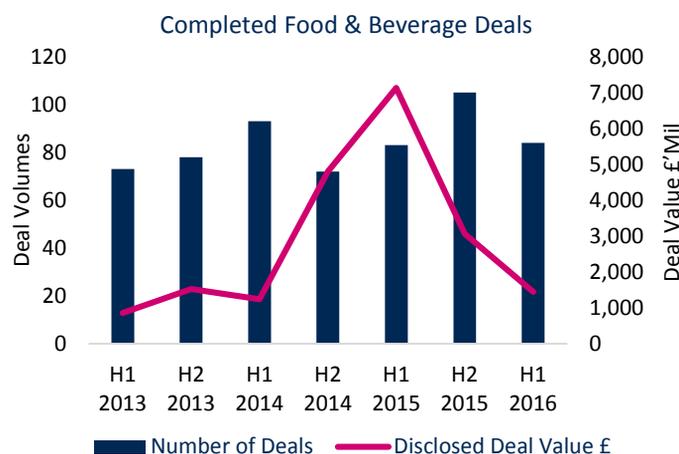
At present, EU regulations cover a whole range of issues such as food hygiene and labelling. The UK faces a significant task to implement its own regulations post-Brexit. Whilst these are unlikely to stray too far from the EU regulations, the UK may look to improve in areas such as labelling which has long been seen to place a disproportionate cost on UK companies.

Orbis View

Despite the concern over Brexit, we have seen a 'business as usual approach' with business owners and large corporates continuing to drive deal volumes in the sector. This reflects the fact quality businesses with strong fundamentals will always attract interest but also the view of individuals and corporates who are unwilling to put strategic decisions on hold whilst the uncertainty of Brexit unfolds. In addition:

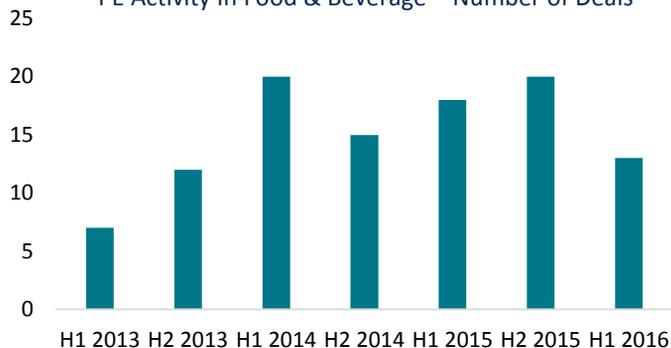
- Liquidity remains strong with large corporates in the sector having cash on their balance sheets with which to do deals.
- Private equity houses will continue to invest in a sector they like with many only having a limited time in which to deploy uninvested funds.
- UK food companies continue to be attractive to overseas purchasers. The fall in the value of the pound may enable overseas acquirers to get a comparatively cheaper deal on UK assets.

Food & Beverage M&A Activity



Private Equity Transactions

PE Activity In Food & Beverage – Number of Deals



PE interest in restaurants/bars has typically dominated M&A activity within the food & beverage industry. A number of such deals that were completed in Q1 2016 included the majority stake investment in branded restaurant group Gauchos by Equistone Partners.

Q2 2016 saw a number of PE deals completed outside of this area. Livingbridge acquired a majority stake in luxury biscuit maker Thomas J Fudge (£11m t/o) in a multi-million pound undisclosed deal. This adds to Livingbridge's previous investments within the sector which includes Vietnamese casual dining chain Pho, fruit juice manufacturer Refresco and fruit importer Empire Trade.

In addition, Kingsley Capital Partners and ESO capital invested £20.5m into Janan Meat Limited, the largest dedicated halal lamb and mutton provider in the United Kingdom.

PE backed Tyrells made its second overseas acquisition in the last 12 months by completing a deal for German organic crisp maker Aroma Snacks. This gives Tyrells access to the fast growing organic food market whilst also increasing its international footprint.

LIVINGBRIDGE

Have invested in

THOMAS J. FUDGE'S
REMARKABLE BAKERY est. 1916

For undisclosed value

Tyrells
Hand Cooked English Crisps

Have acquired

aroma
snacks

For undisclosed value

EQUISTONE

Acquired majority stake in

GAUCHO

For £100m

Freshstream

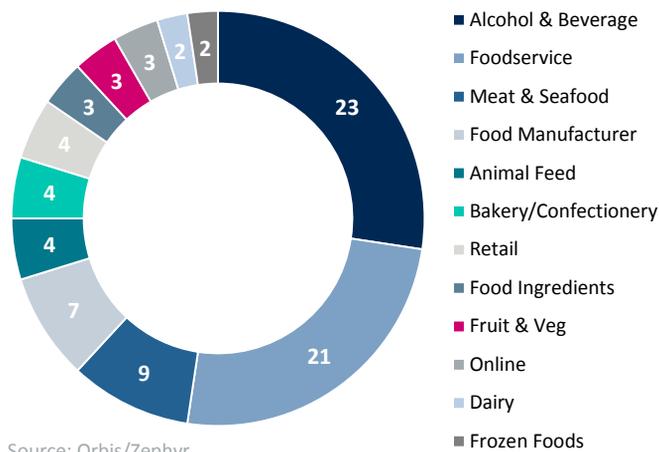
Have acquired

Lunch Garden
RESTAURANT

For undisclosed value

Food & Beverage M&A Activity

No. of Food & Beverage Deals by Sub-Sector - H1 2016



Source: Orbis/Zephyr

An Active Alcohol & Beverage Sector

The alcohol and beverage sector saw continued consolidation with **11** deals completed in Q2 taking the H1 total to **23**.

The largest deal in H1 2016 saw Diageo offload the majority of its UK wine business to Australia's Treasury Wine Estates for **£407m** as it looks to focus on its core strength within the spirits market.

The popularity of UK and Irish heritage branded spirits continues to be evident with a number of acquisitions and investments completed by overseas companies. These include the **£281m** acquisition of Scottish whisky distillery BenRiach by US spirit and wine business Brown-Forman Corp. In addition, US based spirit group Sazerac acquired Irish Distillers Paddy Irish Whiskey brand (undisclosed) and Mark Anthony, the Canadian wine and spirits firm, bought a stake in Irish start-up Glendalough Distillery (c. £4.6m).

Deal activity continues in the booming craft beer sector with Scottish brewer Innis Gunn (estimated turnover c. £15m) acquiring Perth based brewer Inveralmond in a crowdfunded deal.

Within alcohol retail, AIM listed Conviviality Retail, the owner of Bargain Booze, acquired wine wholesaler Bibendum (£60m deal value). This further expands their presence in the pub and hotel market following their acquisition of Matthew Clark Wholesale (£200m deal value) in 2015.

BROWN-FORMAN

Have acquired

ESTABLISHED 1898
THE BenRiach
DISTILLERY COMPANY LTD

For GBP 281m

Conviviality Plc

Have acquired

BIBENDUM PLB
GROUP

For GBP 60m

Foodservice Sector Resilient

Foodservice M&A during H1 has been dominated by the **£2.2bn.** acquisition of Brakes by US multinational Sysco Corporation (approved by the European Commission in June).

This deal was reflective of a buoyant foodservice market in the lead up to Brexit. Whilst Brexit is likely to impact consumer confidence within the sector, the eating out market was operating at historically high levels pre-vote and is likely to remain vibrant even if the rate of growth slows. In addition, the eating out sector within hotel and leisure is likely to benefit from a falling pound which will make the UK a more desirable destination for overseas visitors.

In addition to the Brakes/Sysco deal, fresh food group Bidvest Fresh (part of Bidvest 3663) acquired premium catering butcher Knights Meats for an undisclosed fee. This adds to Bidvest Fresh's expanding portfolio of fresh food companies.

A number of deals have also been completed within the catering sector. Soho Coffee Co. entered into a joint venture with independent caterer CH&Co Group, which sees the fresh food and coffee brand acquire all 15 of CH&Co's Apostrophe coffee chain sites. In addition, Compass Group acquired Dutch based exclusive events caterer Famous Flavours in a move to strengthen its position in the events market.



Have acquired



For undisclosed value



Have acquired



For GBP 2.2bn

Other Selected M&A Deals



Have acquired



For GBP 99m



Have acquired



For GBP 77.7m



Have acquired



For GBP 40m



Have acquired



For undisclosed value

Clairfield & Orbis Transactions



Has been sold to



Orbis advised
FineFrance UK Limited



Has been sold to



Clairfield International
advised Klements

About Orbis

Orbis is a mid-market corporate finance boutique advising on a wide range of M&A transactions covering the food & consumer sector in addition to industrials, technology, media & telecoms, and healthcare. Orbis also has an active investment portfolio held through its investment vehicle Intrinsic Equity.

If you are considering your strategic options for enhancing the value of your business or your client's business, please contact either Gary or Steve.

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