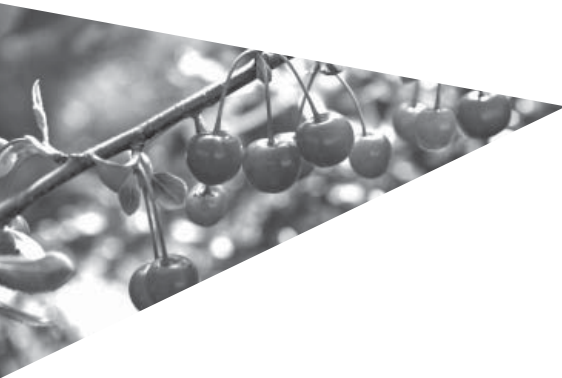


Issue 4
July-September 2010

Consumer Products Deals Quarterly

Sustaining the momentum

Analysis of transactions in the global
consumer products sector





Welcome

Contents

Overview	1
Broadening and deepening deal activity	
Volume and value	5
Pace of volume expansion doubles with deal size creeping back up	
Top 10 deals	6
HPC forges ahead in big deals, but food still leads by volume	
Private equity	10
Moving up a gear	
Geographic focus	12
BRICs and brands	
Cross-border deals	
Sector focus	14
HPC tunes into the emerging market beat	
Methodology	19
Contacts	20

Welcome to the fourth issue of *Consumer Products Deals Quarterly* – a report from Ernst & Young that analyzes acquisitions and disposals in the global consumer products sector.

In our last issue, readers may recall that we maintained an optimistic outlook on deal activity. That optimism has been borne out in the third quarter by the highest level of deal activity in the global consumer products sector since the second quarter of 2008.

We did acknowledge that the considerable economic uncertainties that companies face would, from time to time, temper their enthusiasm, particularly for the largest deals. As we enter the final quarter of the year, that economic uncertainty remains, but consumer products companies appear willing to look beyond the near term and continue to announce transactions. Many household names announced deals this year, while the transactions currently under discussion suggest that the recent robust level of deal momentum will be maintained into the end of the year.

Our analysis, as previously, is based on data collected by FactSet Mergerstat and on insight from our global professionals. In this report, we assess what's driving deals today, which geographies and subsectors are most active and who the key players are. Building out our analysis of key trends, we also look ahead to consider what may happen in the deal space in the next few months.

We hope that this data and the perspectives we offer will be of use to the leaders of consumer products companies and to the financial investors who continue to focus on this sector. We are happy to provide further insight on request.

David Murray
Global Consumer Products Transactions Leader
dmurray@uk.ey.com

Overview



Sustaining the momentum

Deal activity in global consumer products continued to increase in the third quarter, with total volume exceeding 300 transactions for the first time since Q2 08. Confirming the positive tone, the rise in volume was accompanied by an increase in both total deal value and average deal size. We don't expect that the fourth quarter will produce a further acceleration in deal flow, but with a healthy pipeline of deals under discussion, we believe that this quarter's improved level of activity will be maintained into the end of the year.

The sector's big names step up

In the third quarter, large consumer products companies continued to look beyond near-term economic uncertainty to put the cash accreting on their balance sheets to work – both in driving synergies in developed markets and pursuing growth in developing markets. Reckitt Benckiser and Unilever topped this quarter's deals leader board, both announcing US\$3.5b plus transactions. And taking a step back to look at 2010 as a whole, a significant number of the sector's biggest names have all announced deals – Kraft, Heineken, Nestlé, Shiseido and Coca-Cola – and this we believe is set to continue.

Of course, there will still be bumps on the road ahead. In the background, the economic outlook remains far from certain, with policymakers nervously eyeing economies they hope will be strong enough to withstand far-reaching public debt reduction programs. This uncertainty may keep companies more focused on doing bolt-on deals, rather than "betting the house" on a mega deal, but we believe they will not be deterred from making acquisitions. Indeed, the prospect of prolonged low growth in Western countries strengthens the rationale for deals that give access to the faster growth of emerging markets, or which bolster market position in developed economies. The drivers are in place for further deal activity.

"Companies are still accumulating cash, they are looking to focus their businesses and improve their cost structures, and private equity is able to finance medium-sized deals. These are the 'up escalators' driving activity – the 'down escalator' is the expectation of continuing turbulence, especially in the developed economies."

Patricia Novosel
Global Food Co-Leader



Subsector deal breakdown Q3 10, sequential change versus year-on-year

Deals announced	Q3 10	Q2 10	Sequential change (%)	Q3 10	Q3 09	Year-on-year change (%)
Corporate deals by subsector						
Beverages	46	35	31%	46	45	2%
Food	161	147	10%	161	105	53%
Household and personal care (HPC)	24	26	-8%	24	18	33%
Tobacco	-	1	-100%	-	5	-100%
Total	231	209	11%	231	173	34%

Private equity (PE) deals by subsector (based on seller sector)						
Beverages	11	8	38%	11	9	22%
Food	53	28	89%	53	17	212%
HPC	5	2	150%	5	5	0%
Tobacco	1	-	-	1	1	0%
Total	70	38	84%	70	32	119%

Total Consumer Products (CP) deals by subsector, corporate and PE						
Beverages	57	43	33%	57	54	6%
Food	214	175	22%	214	122	75%
HPC	29	28	4%	29	23	26%
Tobacco	1	1	0%	1	6	-83%
Total	301	247	22%	301	205	47%

Recurrent investment themes drive deal activity

In previous issues of *Consumer Products Deals Quarterly* (CPDQ), we have identified the broad investment themes we believe underpin much of the recent deal activity in the global consumer products sector. In the current quarter, the top 10 deals provide further examples of transactions, which fit into the following categories:

- ▶ The search for scale and new, or faster growing, product opportunities in developed markets
- ▶ The pursuit of emerging market growth by developed world businesses
- ▶ The growth of private label manufacturers, which is attracting interest from both corporate and PE buyers
- ▶ Expansion into the developed world by emerging market companies as they seek to become new global challengers



HPC takes center stage in the big deal arena

The level of deal activity in the household and personal care (HPC) subsector was consistent with the earlier quarters of 2010 (29 deals in Q3 10 compared with 28 in the second quarter and 30 in Q1 10). But by announcing the three largest deals of the third quarter, HPC dominated mid- to larger-sized transactions. The purchase of Ontex International by Goldman Sachs and TPG is the latest illustration of the continuing interest in private label manufacturers by both corporate and private equity buyers. Reckitt Benckiser's purchase of SSL International and Unilever's purchase of Alberto-Culver are both representative of efforts by large consumer products companies to achieve scale in developed markets and to focus their portfolios on faster-growing or higher margin categories. But these two deals also illustrate consumer products companies' sharper focus on emerging market opportunities. SSL, for example, provides opportunities in Russia and Asia, while Unilever is expected to use its existing global distribution network to introduce newly acquired brands into emerging markets.

PE activity surges

Private equity deal volumes increased by 84% (an increase of 32 deals) compared with the previous quarter, and by 119% (an increase of 38 deals) against the same quarter in 2009. Private equity was active on both sides of the market, appearing as a buyer in 2 of the top 5 deals in Q3 10 and as a seller in 3 of the top 10 deals.

The combination of healthier debt markets, a closer alignment of buyers' and sellers' price expectations and corporates looking to deploy the cash on their balance sheets has contributed to the increase in activity.

BRICs and beyond

The expansion of emerging market companies into the developed world is one of the important underlying themes driving consumer products M&A activity. This quarter provided evidence that the trend is broadening out beyond the BRIC countries to include companies based in other developing nations, which are looking to leverage already strong market positions.

The purchase in Q3 10 of Sucrogen by Singapore's Wilmar and the acquisition of MW Brands by Thai Union Frozen Products are part of this widening theme. Thai Union's deal, which gives it control of the John West brand among others, illustrates the appetite of emerging market companies for household name developed brands. Since the end of the quarter, reports that China's Bright Food is potentially interested in United Biscuits and, alongside other Chinese and Mexican buyers, in possibly acquiring Yoplait from its private equity owners offer further support for this trend.

Maintaining the positive trajectory

Continuing economic uncertainty means we do not expect a further acceleration in the level of deal activity in the fourth quarter. We would be surprised to see a similar percentage increase in total deal volume, as was seen between Q2 10 and Q3 10. Transactions currently under way, however, are being concluded and sentiment is robust enough that potential buyers are not making use of material adverse change clauses to abandon transactions. In these circumstances, and from what we gather from our own market intelligence regarding the deal pipeline, we expect that deal activity in the final quarter of the year will be similar to the current quarter.



Confidence as a precursor to deal activity

Beyond the end of the year, the outlook is more difficult to gauge. The latest Ernst & Young bi-annual capital confidence barometer released in October – based on 1,000 senior executives' assessment of business conditions over the next six months – points to declining confidence. The number of companies looking to take advantage of inorganic growth opportunities in the next six months declined relative to the previous survey in April, and the fall was more pronounced among consumer products companies than in the survey as a whole.

April's survey had shown a marked increase in consumer products companies looking for M&A opportunities compared with the end of 2009 – an increase in confidence that was followed by rising deal activity in Q2 10 and Q3 10. If rising confidence is an indicator of subsequent appetite for acquisitions, the falling barometer might indicate a negative impact on deal activity as we move into 2011. It is worth noting, however, that the survey also found that a growing proportion of companies expected to make acquisitions in emerging markets and through joint ventures and alliances, which is in keeping with previously identified investment themes on the direction and size of deal activity.

Data highlights Q3 10

Deal volumes continue to rise

Deal volumes rose in Q3 10 by 54 (22%) to 301, from 247 in Q2 10. This is the first time deal volumes have exceeded 300 since Q2 08. There was a rise in deal volume in every subsector except tobacco, which remained flat.

Total and average deal value increasing

Total deal value increased from US\$11.2b to US\$22.5b – the top 10 deals in the quarter had a total value of US\$15.1b, against US\$7.8b in the previous quarter. Reckitt Benckiser's proposed acquisition of SSL International for US\$3.8b was the largest deal in the quarter, twice the size of the largest deal in Q2 10, which was Goldman Sachs' acquisition of Michael Foods Inc for US\$1.7b. Average deal value also increased against Q2 10, nudging up to US\$174m from US\$140m.

Private equity activity spikes higher

There were 70 PE deals in the quarter, accounting for 23% of total deal volume, in comparison with 38 deals in the previous quarter (15% of total deal volume). PE deal volume has not exceeded 20% in any of the previous quarters since we began keeping records in Q1 07. In addition, 2 out of the top 10 deals featured PE as the buyer.

Food subsector still leading deal volumes

Food drove the total increase in deals in the consumer products sector with an increase of 39 food deals against the previous quarter. At 214, the volume of deals recorded in the food subsector this quarter is ahead of the average of 203 for the period from Q1 07 to Q4 08.

But HPC dominates the top end of the quarter's largest deals

The top 10 deals in Q3 10 had a combined value of US\$15.1b – 67% of total deal value in the period, in contrast to a total combined value of the top 10 deals in Q2 10 of US\$7.8b – 61% of total deal value. This quarter's three largest deals were all HPC deals: Reckitt Benckiser's US\$3.8b purchase of SSL International; Unilever's acquisition of Alberto-Culver for US\$3.7b and Goldman Sachs purchase of Ontex International from Candover Partners for US\$1.5b. Of the remaining top 10 deals, 4 were food and 3 were beverage deals.



Volume and value

Pace of volume expansion doubles with deal size creeping back up

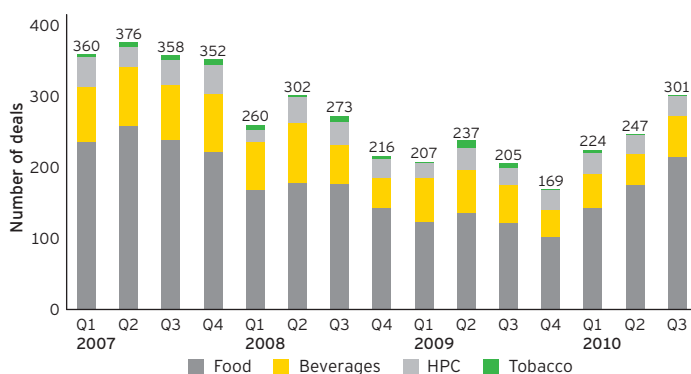
Deal volumes rose for a third successive quarter in Q3 10 and at a much faster pace than in Q2 10. The positive volume trend was accompanied by a rise in total value and average deal size, which was driven by an increase in the number of large deals.

Food still leads, but volume expansion broadening

There were 301 consumer products deals in Q3 10, an increase of 54 (22%) from 247 in Q2 10. Global consumer products deal volumes rose for the third successive quarter, suggesting that the sector is through the worst of the recession. But despite this consistent run of growth, in the sector as a whole, total volume was 75 deals short of the peak since we began keeping records (376 in Q2 07).

Once again, food drove the total increase in deals in the sector. Unlike Q2 10, however, when food was the only subsector to record an increase in deal volumes against the prior quarter, in the current period the volume expansion was more broad-based. Deals in the beverage sector increased by 14 (33%) against the prior quarter to 57 deals, and the number of HPC transactions increased by 1 to 29 deals. The number of tobacco deals remains consistent with Q2 10.

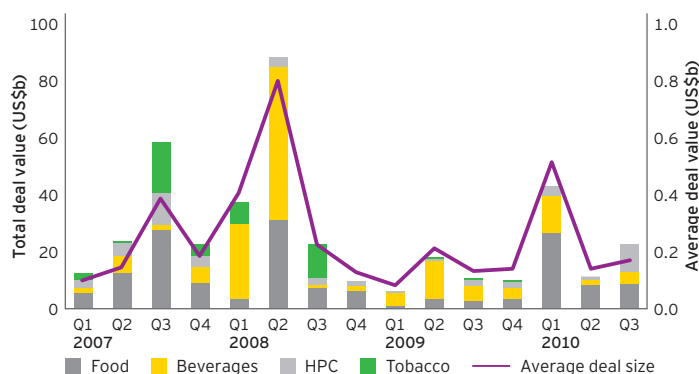
Deal volumes Q1 07 to Q3 10



Value reinforces volume message

The positive picture drawn by the broad-based volume expansion was underlined by an increase in Q3 10 of both total value and average deal size. Total deal value in Q3 10 was US\$22.5b, an increase of US\$11.3b (101%) against Q2 10. This was driven by the return of a higher volume of large deals. While there were no mega deals larger than US\$5b, there were three deals with a value over US\$1.5b in Q3 10, compared with only one in Q2 10 (Goldman Sachs' US\$1.7b acquisition of Michael Foods). Average disclosed deal value was US\$174m, an increase of US\$34m (24%) against Q2 10. Of the 301 total announced deals, 129 (43%) have disclosed values, compared with 32% in Q2 10.

Deal values Q1 07 to Q3 10



Top 10 deals



HPC forges ahead in big deals, but food still leads by volume

The top 10 deals in Q3 10 had a combined value of US\$15.1b – 67% of total deal value in the period, in contrast to a total combined value of the top 10 deals in Q2 10 of US\$7.8b – 61% of total deal value. Out of the top 10 deals, the largest 3 were HPC deals. Of the remaining deals, 4 were food and 3 were beverage deals. Private equity firms were buyers in 2 of the top 10 deals.

The food subsector's prominence in the top 10 deals diminished in Q3 10. In the second quarter, food occupied 6 of the first 7 places in the top 10 deals, but in the third quarter, its place at the top of the podium was taken by the HPC subsector, which accounted for the biggest 3 deals. Those 3 transactions, ranging in size from US\$1.5b to US\$3.8b, are also among the year's top 10 deals.

Thematically, the third quarter's deals were varied, but all fit into the investment themes identified in previous editions of CPDQ: the search for scale and new product opportunities in developed markets; the pursuit of emerging market growth by developed world businesses; the growth of private label manufacturers; private equity's appetite for consumer products; and the move by emerging market companies into the developed world, as they seek to become new global challengers.

Top 10 deals Q3 10

Buyer name	Seller name/unit name	Disclosed value (US\$m)	Announced	Deal type	Sector
Reckitt Benckiser Group PLC	SSL International PLC	3,798	21 July 2010	Corporate	HPC
Unilever PLC	Alberto-Culver Co.	3,699	27 September 2010	Corporate	HPC
Goldman Sachs Group, Inc./TPG Capital LP	Candover Partners Ltd./Ontex International NV	1,547	15 July 2010	PE	HPC
Wilmar International Ltd.	CSR Ltd./Sucrogen Ltd.	1,128*	5 July 2010	Corporate	Food
Permira Advisers LLP	Unilever NV	1,044	19 July 2010	PE	Food
Kirin Holdings Co. Ltd.	Seletar Investments Pte. Ltd./Fraser & Neave Ltd.	979	26 July 2010	Corporate	Beverages
Green Mountain Coffee Roasters, Inc.	Littlejohn & Co. LLC/Van Houtte, Inc.	890	14 September 2010	Corporate	Food
Thai Union Frozen Products Public Co. Ltd.	Trilantic Capital Partners Executive LLC/MWBrands SAS	885	28 July 2010	Corporate	Food
Cott Corp. (Canada)	Cliffstar Corp.	569	7 July 2010	Corporate	Beverages
Asahi Breweries Ltd.	Tingyi-Asahi Beverages Holding Co. Ltd.	520	28 September 2010	Corporate	Beverages

* Equity value as used by Mergerstat. Enterprise value is US\$1.5b



In search of new growth in developed markets

The quarter's biggest deal, the US\$3.8b cash purchase of condom maker SSL International by Reckitt Benckiser, provides the buyer with exposure to a new product category – and one in which the target company is already an established global leader. SSL provides a high margin expansion into health and personal care, which will help Reckitt diversify away from the slower-growing household cleaners market. Equity analysts at Sanford C. Bernstein calculated that Reckitt paid a multiple of 18 times EBITDA. Tapping into a second theme, the deal also provides Reckitt with a strong developing world business, for example, in markets such as Russia.

Only slightly smaller than the Reckitt/SSL deal, Unilever's US\$3.7b proposed cash purchase of US-based personal care company Alberto-Culver provides scope for considerable synergies and adds scale to Unilever's presence in the key hair care product segment. Unilever paid a reported multiple of 14.8 times EBITDA for Alberto Culver, which owns brands including TRESemmé and VO5. The deal will allow Unilever to overtake Procter & Gamble as the world's leading company in hair conditioning, maintain its position as the second largest in shampoo and overtake Henkel to become the third largest in hair styling products.

Personal care is a strategic category for Unilever and is growing rapidly. According to Paul Polman, Unilever's Chief Executive, 10 years ago, personal care represented 20% of group turnover, which, before the latest acquisition, had expanded through organic growth to more than 30%.¹ For Alberto-Culver, competing in global markets against larger players such as Unilever and L'Oréal, was an increasingly tough proposition. A sale to Unilever represents

a better creation of value for shareholders, while the prospect of higher US capital gains taxes for high net worth individuals may have influenced the timing of the deal.

Green Mountain Coffee Roasters US\$890m (C\$915m) cash purchase of Canadian coffee producer Van Houtte, from private equity group Littlejohn & Co., also fits the theme of pursuing scale in mature markets, but with a focus on new products – in this case the growth opportunities provided by “single dose” packaged coffee products. Littlejohn invested in Van Houtte just over three years ago in a 2007 take-private transaction for approximately C\$600m and was ready to exit its successful investment.

Corporates backing the private label trend

Moving in the other direction across the border, Ontario-based Cott Corp, the world's largest private label carbonated soft drink provider, acquired Cliffstar, the largest private label fruit juice maker in North America, for US\$569m. The deal is an expansion to acquire scale and diversification in mature markets as well as illustrating the continuing growing importance of private label. The deal, which creates the world's largest maker of private label soft drinks, reduces Cott's dependence on the carbonated soft drink market, while the increased scale will provide it with a better bargaining position with major private label clients, such as Safeway. Cott said that, adjusted for deferred compensation and earnout, the purchase price was equivalent to just under five times EBITDA.

¹ The Wall Street Journal, 28 September 2010.



Market penetration by own label brands is on a long-term upward trajectory, although positioning by individual retailers on the “brands versus private label” issue can shift over time. In September, for example, WalMart’s new US President and CEO Bill Simon, speaking at a Goldman Sachs retail conference, appeared to back away from the private label trend, saying that: “We are a house of brands. We prefer to sell national brands. They show our value better.” At the other end of the spectrum, in October, Marc Bolland, the new CEO of Marks and Spencer, said that the company would re-examine the move made two years ago to sell branded goods alongside its own label foods for the first time in its 85-year history. Speculation is that the review could lead to a scaling down of the number of branded products on sale.

WalMart’s preference for brands reflects its exceptionally strong bargaining position with manufacturers, while Marks and Spencer’s position reflects a company that will only consider third-party brands when pushed. But the important underlying issue is not the speed at which retailers’ own brands grow. Of greater significance from an M&A perspective is the realization by corporate and financial buyers – given the long-term upward trend in market penetration – that own label manufacturers are a source of growth and often provide scope for consolidation in fragmented markets.

“Increasing market penetration by private label, which is well established as a deal driver for both corporate and PE acquisitions in the food sector, is also an important investment theme in the HPC sector.”

David Murray
Global Consumer Products
Transactions Leader

Private equity and private label

PE operators are continuing to buy into the private label theme. In the second quarter, Goldman Sachs bought Michael Foods, in part to take advantage of private label growth opportunities. This quarter, Goldman was back in the market, alongside TPG Capital, to purchase Ontex International, the private label disposable hygiene products manufacturer, from Candover Partners for US\$1.5b.

During the recession, Ontex fared relatively well, benefiting from consumers switching to its products, which are cheaper than Procter & Gamble’s premium brands – the company’s EBITDA for 2009 increased to €150m, compared with €95m the previous year. The timing of the transaction may have been influenced by the travails of Candover, which has been one of the highest profile PE casualties of the downturn. In the last year, Candover has sold more than US\$5b of assets, including German publisher Springer Science & Business Media and Dutch fund administrator Equity Trust as well as Ontex.

Birds Eye scores a bull’s eye

The quarter’s other significant PE transaction was the purchase of Unilever’s Findus Italy frozen food businesses and assets for US\$1b by Birds Eye Iglo Group, a portfolio company of Permira Advisers. The deal brings the Italian frozen food business back together with the rest of Unilever’s European Frozen Foods business, which Permira bought from Unilever four years ago for €1.7b. Permira beat competition from rival PE group Lion Capital, which also already owns a frozen food business (the Findus Group). Permira eventually paid about nine times 2009 EBITDA and the deal will give Birds Eye Iglo, which is already strong in the UK and German markets, access to Europe’s fourth largest frozen foods market. The hotly contested auction for Findus Italy illustrates the continuing appeal of cash generative consumer products categories, such as frozen food, for investors. For Unilever, meanwhile, the sale will allow it to focus on categories it considers core.



Emerging market growth opportunities

Acquiring minority stakes in businesses is an established route into emerging markets for developed world consumer products companies. The third quarter's top 10 deals provide two examples of this investment theme, both by beverage companies.

One of the deals represents a diversification into Chinese food businesses by a Japanese brewing group. Asahi Breweries and Itochu Corporation, the Japanese trading group, have been involved in the Chinese beverage industry since 2004, through their investments in Tingyi-Asahi Beverages Holdings Co. (TAB), which has become a leading producer of non-carbonated beverages including ready-to-drink teas, juices and bottled waters. Asahi wants to continue to support TAB, but also to develop and diversify its food businesses in Greater China through cooperative agreements.

At the end of the third quarter, Asahi announced that it had agreed to pay US\$520m for a 6.54% stake in Ting Hsin Holding Corp, which operates packaged food manufacturing and distribution, restaurant chains and retail businesses – including Tingyi Holding Corp, which specializes in the production and distribution of instant beverages and confectionery products mainly in China. Asahi and Itochu, which already owns approximately 20% of Ting Hsin, have jointly established a new holding company, which will hold a stake of 25.23% in Ting Hsin. On the other side of the transaction, Asahi has sold 8% of its c.40% stake in TAB to Ting Hsin, also for US\$520m.

Earlier in the quarter, Kirin Holding's Co., Japan's largest brewer agreed to acquire a 14.7% minority stake in Fraser & Neave Ltd. for US\$979m from Seletar Investments Pte, a subsidiary of Temasek Capital Pte, Singapore's sovereign wealth fund. Fraser & Neave is a Singapore-based property developer that also makes Tiger beer, as well as bottling and marketing Coca-Cola Co. products such as Sprite. Kirin will gain a stake in Singapore's biggest soft-drink maker by market share and the deal will help strengthen its business in South East Asia, where the company has previously said that its position is weak. The transaction should also provide synergies, for example, by Fraser & Neave selling the products of National Foods, Australia's biggest producer of milk and juice, which Kirin purchased for US\$2.5b in 2007. Temasek, for its part, will realize a 48% profit on the Fraser & Neave shares, which it bought in 2006.

New global challengers

In the second quarter, we highlighted the emerging trend for developing world companies, particularly in the BRIC countries, to seek overseas acquisitions as part of the process of creating new global challengers – with Brazilian meat processor Marfrig Foods' acquisition of US-based Keystone Foods Holdings providing a clear example.

The third quarter's top 10 deals provide further evidence of this trend, with the US\$1.13b purchase of CSR Limited's newly spun-off sugar business, Sucrogen, by Wilmar International, the Singapore-based agribusiness group. Sucrogen operates sugar and renewable energy businesses and participates across all aspects of the sugar value chain. It is the largest Australian raw sugar producer, the second largest exporter of raw sugar globally and a leading exporter to the Asian region, through Queensland Sugar Limited.

Wilmar is already a major operator in the edible oils market, with interests in oil palm cultivation and oilseed crushing. Sucrogen provides a good strategic fit with this existing portfolio of processed agri products and will allow Wilmar to expand into the sugar market across Asia, where demand is growing. Wilmar, which beat China's Bright Food in the fight for Sucrogen, will also gain access to the refined sugar markets in Australia and New Zealand, providing exposure to developed world branded consumer good markets.

On a similar theme, Thai Union Frozen Products PCL, the world's largest producer of canned tuna, agreed to buy MW Brands, which sells under the John West, Petit Navire, Hyacinthe Parmentier and Mareblue brands, from Trilantic Capital, the former buyout arm of Lehman Brothers, for US\$885m. MW Brands has leading market positions in France, the United Kingdom, Ireland, the Netherlands and Italy and the deal will boost Thai Union's European sales to more than one-third of its total, up from 11% currently. The purchase price was reported to be equivalent to a multiple of 8.2 times 2010 EBITDA. Thai Union believes that "the combination of these two highly complementary businesses will unlock synergies and create a leading global seafood company with broader sources of supply and end-markets."

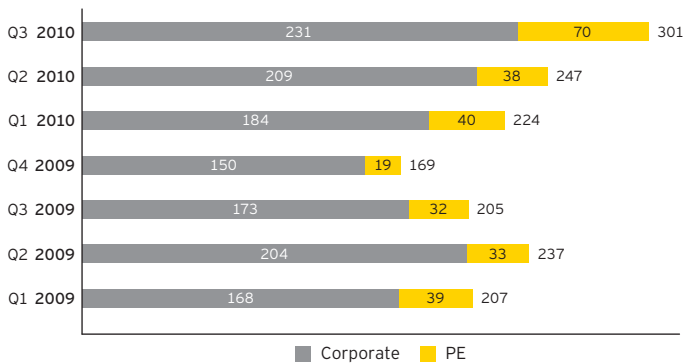
Private equity



Moving up a gear

PE was a purchaser in a larger proportion of deal volume (23%) than in any of the previous quarters since we began keeping records in Q1 07. The value of PE deals in Q3 10 grew by 33% compared with the previous quarter and was more than four times the level seen in the same period a year ago. A better financing market, a closer alignment of buyers' and sellers' price expectations and an easier fundraising environment help explain this burgeoning level of activity.

Corporate/PE deal breakdown Q3 10



The third quarter marked a step change in the level of PE activity in the consumer products sector, which can be explained by the combination of several contributory factors:

- ▶ We have previously highlighted that leverage multiples are increasing in private equity-backed transactions, through a combination of renewed bank appetite for lending and the availability of bond finance, allowing private equity to secure debt funding for high-quality mid-sized transactions. Prior to being bought by Goldman Sachs in the second quarter, for example, Michael Foods' debt stood at 3.5 times EBITDA – post-acquisition it jumped up to 5.8 times, a high level for post-credit crunch markets.
- ▶ Private equity is active on both sides of the market, appearing as a buyer in 2 of the top 5 deals in Q3 10 and as a seller in 3 of the top 10 deals. The potential for exits in secondary transactions (selling to another PE company) – such as the third quarter sale of Ontex International to Goldman Sachs by Candover Partners – helps improve market liquidity.
- ▶ There are signs that the private equity fundraising environment is improving. According to data from Preqin, the independent research firm, which focuses on the alternative assets industry, US\$57b was raised by global private equity in Q3 10, a 16% increase on the US\$49b collected in Q2 10. Preqin describes conditions as “still challenging, but further improvement (is) expected in Q4 10 and beyond.” With more capital flowing in the front door, PE appetite for deals can be expected to increase. Also, as current funds approach the end of their investment term, PE will face increasing pressure to secure exits.



Private equity deals by subsector Q3 10

PE deals by subsector (based on seller sector)	Q3 10	Q2 10	Q1 10
Beverages	11	8	10
Food	53	28	26
HPC	5	2	3
Tobacco	1	–	1
Total	70	38	40

PE activity in the consumer products sector continues to be concentrated in the food subsector, which reflects the prevalence of food sector deals within total activity. Food is by definition the broadest sector within consumer products and is less consolidated than the other non-food subsectors and we believe that PE will continue to be active in this category. This quarter's competition between rival PE groups for Unilever's Findus Italy frozen food business illustrates this trend. (See Top 10 deals for more detail).

The resurgence in PE activity, as well as helping drive deal volumes, is likely to underpin deal multiples. At the height of the M&A boom in 2005-07, PE involvement in transactions helped to push prices higher. While, in the foreseeable future, investors will be unable to leverage deals to the same extent as during the boom, PE's presence and the gradual return of leverage will continue to support valuations.

"Private equity is definitely back. Leverage won't return to boom-time levels in the foreseeable future, but competition for assets from private equity buyers will underpin valuations."

Gregory J. Stemler
Americas Consumer Products
Transactions Leader

Geographic focus



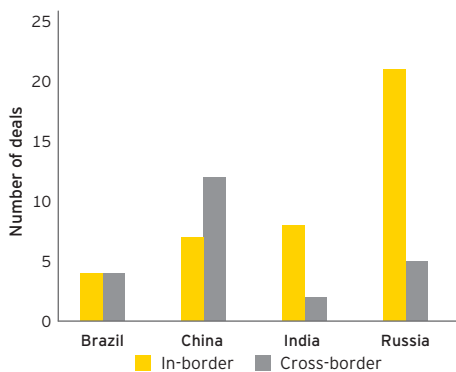
BRICs and brands

While in-border deals continued to dominate the increased volume of BRIC deals announced in Q3 10, there was further evidence that BRIC businesses – and other emerging market companies – retain an appetite to acquire developed world brands.

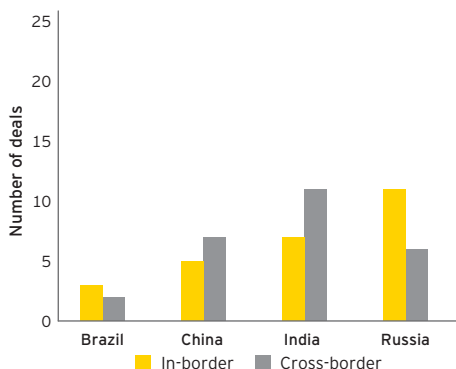
Consolidating at home, but looking abroad

Deals involving the BRIC nations increased by 11 (21%) to 63 deals in Q3 10, with an increase in all BRIC nations except India, where deal volumes fell from 18 in Q2 10 to 10 in Q3 10. In-border deals accounted for 63% of total BRIC deal volume.

BRIC in-border/cross-border deals Q3 10



BRIC in-border/cross-border deals Q2 10



Despite the preponderance in total volume of in-border deals, Q3 10 provided further evidence of the expansion of emerging market companies into the developed markets. Among the quarter's top 10 deals, the purchase of Sucrogen by Singapore's Wilmar and the acquisition of MW Brands by Thai Union Frozen Products show that this investment theme is widening out to include more than just the BRIC nations (see Top 10 deals for more detail).

Thai Union's deal, which gives it control of the John West brand among others, illustrates the appetite for household name developed world brands among emerging market companies. Since the end of the quarter, reports of further deals in the pipeline offer additional support for this investment theme.

China's Bright Food was reported to be in exclusive talks to acquire PE-owned United Biscuits, the makers of McVitie's biscuits, Jacob's crackers and Twiglets. The deal, if concluded, could be valued in excess of US\$3b, which would make it the largest ever international acquisition by a Chinese company in the food sector. According to United Biscuits, the company holds the leading or number two positions in its core markets of the UK, the Netherlands, France, Belgium and Ireland. The deal would not only give Bright Food access to developed world markets, it would also allow the company to sell United's brands in the rapidly growing Chinese biscuit market.

Bright Food's intentions are as yet unclear and the Chinese group has also been mentioned as a potential suitor for PAI Partners' stake in French yoghurt maker Yoplait, which the PE group was reported to be considering selling. Mexico's Grupo Lala and China Mengui Dairy are also reported in the press to be interested in acquiring the stake alongside PE buyers such as BC Partners and Lion Capital.



Cross-border deals

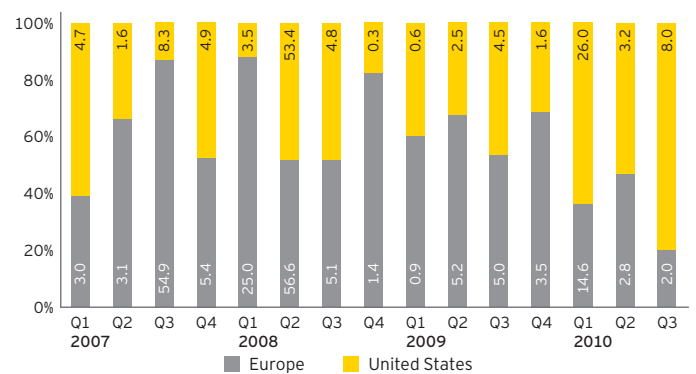
Europe remained far more active than the US as buyers in cross-border deals, although this trend may soon have run its course.

US still lagging in cross-border deals

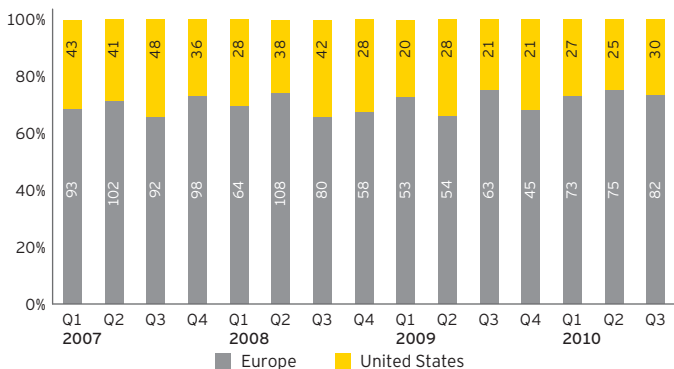
Europe (excluding the UK) continued to dominate cross-border deals with its share of buyer region deals remaining broadly consistent with the prior quarter at 39% (40% in Q2 10). Including the UK in Europe brings the share in Q3 10 to 43%.

The US, meanwhile, continues to lag behind. In value terms, since the beginning of 2008, US-based companies have been net sellers in cross-border deals by slightly more than a ratio of 2:1. If we exclude the US\$19.1b purchase of Cadbury by Kraft, then the ratio jumps to more than 5:1. And in Q3 10, US companies remained subdued as cross-border buyers. The proportion of cross-border deals with US companies as buyers decreased by 3 percentage points to 9%.

Europe/US value comparisons (US\$b) Q1 07 to Q3 10



Europe/US volume comparisons Q1 07 to Q3 10



This trend, however, may be about to change. Those US companies that were hard hit by the financial crisis and ensuing recession used transactions as a means of rightsizing their businesses, strengthening their balance sheets and generating liquidity. US companies are now in much better financial health, having reduced debt and improved their working capital positions. There is also a limit to the extent to which excess capital can be deployed to raise dividends and buy back share capital. Increasingly, the cash being generated by US consumer products companies is likely to be used for transactions and we would be surprised if, in the coming year, US businesses were net sellers in cross-border deals.

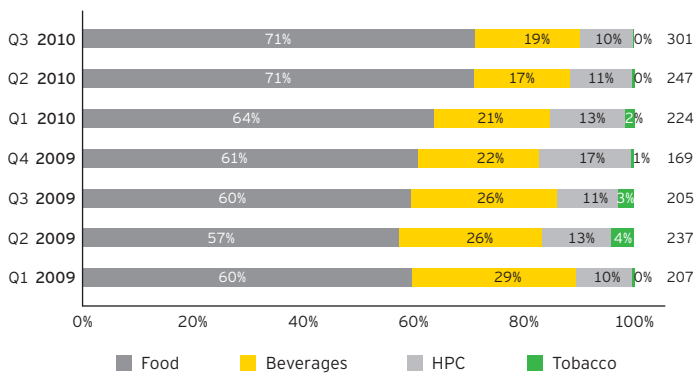


Sector focus

HPC tunes into the emerging market beat

Food and beverage deals accounted for 90% of total deals in Q3 10, with food matching the 71% share recorded in the second quarter. The total volume of HPC activity in the third quarter was little changed from the first half of the year. The focus of that activity illustrates HPC companies' efforts to tap into the rapid growth of personal care in developing markets.

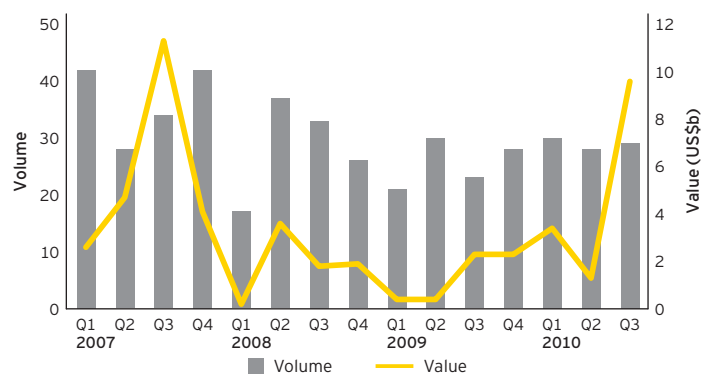
**Total deals announced by subsector (volume)
Q1 09 to Q3 10**



Caring for the middle classes

HPC is a more consolidated subsector than food, but the acquisitions this quarter by Reckitt Benckiser and Unilever (see Top 10 deals for more detail) show that scope remains for further consolidation – a theme we expect to continue in both HPC and food. Recent strong financial results reported by companies in the prestige sector also suggest possible future deal activity at the high end of the market.

Number and value of HPC deals Q1 07 to Q3 10



“Deal activity in HPC is likely to be increasingly driven by a focus on emerging market growth opportunities.”

Steve Wills
Client Service Partner, Global Consumer Products



Rising disposable incomes and an emerging middle class in developing countries are underpinning rapid growth in the HPC market. On some estimates, for example, China's skincare market is now the third largest in the world behind the US and Japan. The Indian skincare market, while much smaller, is also growing rapidly and has trebled in size in the last five years.

Consumer products companies are aware of the opportunities this trend presents. Part of the rationale for Reckitt Benckiser's move on SSL was to grow HPC revenues in emerging markets in Russia and Asia. And Reckitt is not alone. Procter & Gamble, which historically concentrated more on North America and Europe than developing countries, is increasing its focus on emerging markets, such as Brazil. Procter & Gamble estimates that beauty-conscious Brazilians, who are among the world's biggest consumers of personal care products, spend just US\$6 per capita each year on Procter & Gamble products, compared with an equivalent figure for US consumers of US\$110.²

In the third quarter, L'Oréal CEO Jean-Paul Agon said that there is a "great deal of appetite" for cosmetics in countries like China, Indonesia, the Philippines and Brazil, and stated his belief that cosmetics were an "important product" that contributed to quality of life and that a "strong, sturdy" cosmetics market would continue to develop in these countries.³ Meanwhile, Unilever's stated strategy is to focus more on faster-growing emerging markets, and Chief Executive Paul Polman has set a target of adding one billion new customers in those markets.⁴

Channel surfing

At first glance, the purchase of Alberto-Culver, with its portfolio of strong European and US brands might not appear to fit with Unilever's stated intention. The acquisition clearly fits in with the search for scale in developed markets, but on closer inspection, it is also consistent with a push into developing world HPC markets since. Unilever will be in a position to leverage its existing global distribution network, and introduce new brands into emerging markets.

The need to build a distribution network can be a barrier to organic growth in developing markets, while there are only a limited number of potential local brand acquisition targets. For those without established distribution networks, acquisitions to acquire channels as much as brands may drive deal activity.

"Emerging market HPC is more of a channel play than a pure market share play. Consumer products companies will create market share through ownership of channels."

Jeremy Barnes
Transaction Advisory Services, Latin America

² *Brazi: P&G introduces new products to captivate class C consumers*, Brasil Economico, 9 August 2010, via Dow Jones Factiva.

³ *Event Brief of Interim 2010 L'Oréal SA Earnings Conference Call - Final*, CQ FD Disclosure, 26 August 2010, via Dow Jones Factiva.

⁴ Bloomberg Business Week, 11 March 2010.



Evidence of the same “distribution synergies” theme can also be found in the beverages sector. This quarter’s acquisition of a stake in Fraser & Neave by Kirin is in part motivated by the latter’s desire to sell Australian milk and juice produced by National Foods through Fraser & Neave’s distribution channels.

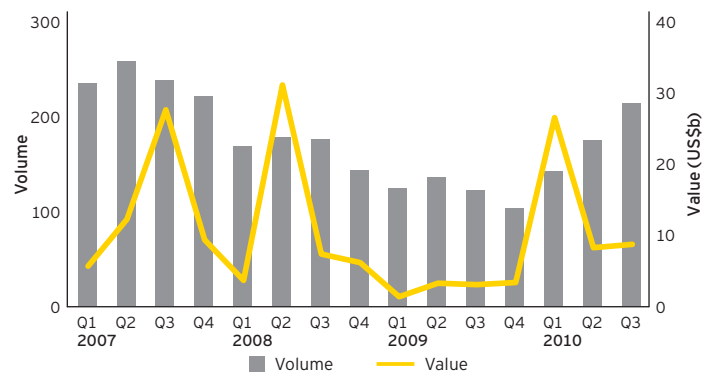
A further theme, particularly relevant for large acquisitions of companies with branded products, is the potential for subsequent spin-off transactions in the wake of the initial deal.

In large takeovers, regulatory approval is often dependent on subsequent disposals in specific areas. To gain EU approval for its purchase of Cadbury’s, Kraft was required to sell the Wedel chocolate brand in Poland and the Kandia chocolate and cake business in Romania. In the short term, post-deal divestments tend to be driven by regulators, and in the longer term, by the combined entity deciding which parts of its portfolio are core and which are non-core. There has been speculation, for example, that Reckitt Benckiser might look to sell the Dr. Scholl brand to Merck, which already owns the US Dr. Scholl business. Unilever, meanwhile, in Q3 10 sold Findus Italy to PE as it focuses on building its personal care brands.

Food: consolidation to continue

From a trough in deal volume of 103 deals in Q4 09, the food subsector has recorded three consecutive quarters of growth in deal activity, culminating in 214 deals in Q3 10. The consolidation trend is well established and we believe it is set to continue as food producers react to the squeeze from volatile and rising input prices on one side and retailer pressure on the other.

Number and value of food deals Q1 07 to Q3 10

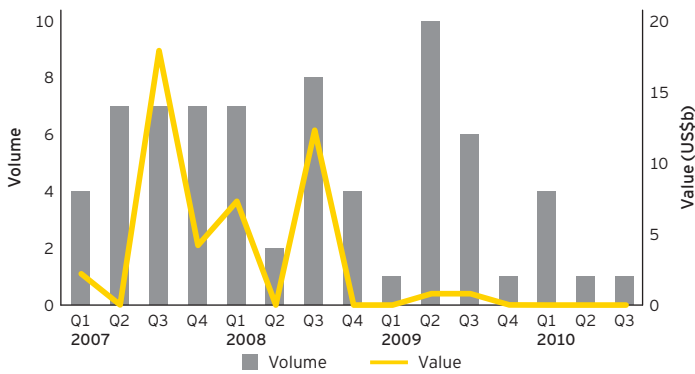




Tobacco: time to quit in Japan

There was no significant deal activity in the highly consolidated tobacco sector in Q3 10. Substantial excise changes announced in Japan at the end of the quarter, however, point to a potential catalyst for future deal activity.

Number and value of tobacco deals Q1 07 to Q3 10



Tobacco companies are accustomed to a tightening regulatory and tax burden, but the move by the Japanese Government to raise tobacco taxes by 40%, effective from 1 October, is of a sufficiently large size that it could potentially spur deal activity. Japan has one of the highest smoking rates in the developed world – more than a third of men are smokers, although only 12% of women smoke – and the tax increase is partly motivated by health concerns. After an initial surge in demand to stock up before the tax became effective, demand is expected to drop sharply. Japan Tobacco, the country's biggest producer and the world's third largest tobacco company, shipped an extra one month's supply to meet demand before the tax hike, but the company expects sales to drop by 25% over the year starting from October. Faced with a domestic market in sharp decline, Japan Tobacco and its rivals may be forced to look at overseas acquisitions to bolster revenues.

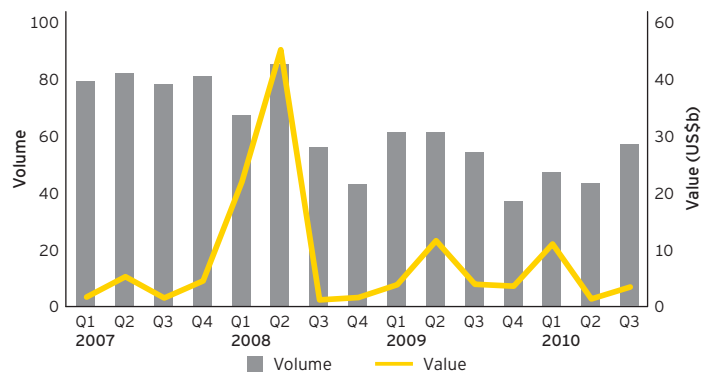


Beverages: from holy water to beer

Total beverage deal value increased from US\$1.6b in Q2 10 to US\$4.1b in Q3 10. Total beverage deal value as a proportion of total sector deal value increased slightly from the prior quarter at 18% (15% in Q2 10).

Two of the quarter's top 10 deals involved Japanese companies – Kirin and Asahi – pursuing emerging market opportunities in Asia (see Top 10 deals for more detail). News released after the end of the quarter suggests potential for further deal activity to exploit the emerging market potential in the beverages market – this time in Africa.

Number and value of beverage deals Q1 07 to Q3 10



In October, the Ethiopian Government announced its intention to privatize three breweries controlling about 37% of the country's beer market. SABMiller, the world's second largest brewer by volume, is expected to be among the frontrunners to buy the Meta Abo, Bedele and Harar breweries as it tries to build on its presence in the bottled water market in Ethiopia. Last year, SABMiller bought and has since invested a further US\$20m in Ambo, an Ethiopian naturally sparkling water, with claimed healing properties, which lend it the nickname "holy water."

Ethiopians consume only about a third as much beer as the rest of the continent but demand is forecast to grow strongly. Castel Groupe currently controls 62% of the Ethiopian beer market through its Dashen and Kombolcha operations. Since 2001, Castel and SABMiller have been joint venture partners in 18 African countries after an agreement in which Castel took a 38% stake in SAB's African business and SAB took a 20% stake in the privately-owned French group's beer and soft drink operations in Africa. Castel recently denied newspaper reports that it was in takeover talks with SABMiller.



Methodology

Data source and industry scope

Consumer Products Deals Quarterly is based on Ernst & Young's analysis of FactSet Mergerstat data from Q1 07 to Q3 10. Data was pulled from the FactSet Mergerstat database using standard industrial classification codes.

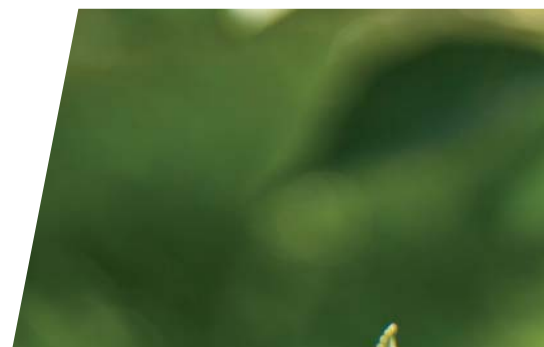
For the purposes of this publication, our definition of consumer products is only those companies in the food, beverages, tobacco and HPC subsectors.

Deal activity and valuations may fluctuate slightly based on the date that the FactSet Mergerstat database is accessed.

Qualifying deals

- ▶ Deals include transactions between companies in the four consumer products subsectors; consumer products companies acquiring businesses in other subsectors; and non-consumer products companies acquiring consumer products companies
- ▶ PE deal activity includes both full- and partial-stake transactions and was analyzed based on acquisitions by firms classified as PE, alternative investment management groups, certain commercial banks, investment banks, venture capital and other similar entities
- ▶ For non-consumer products acquirers, deals were classified based on the consumer products sector of the seller
- ▶ Equity investments were included (corporate and PE)
- ▶ Joint ventures were not included
- ▶ The value and status of all deals highlighted in this report are as at 30 September 2010
- ▶ All dollar amounts are in US\$ unless otherwise indicated
- ▶ There is no minimum US\$ deal threshold
- ▶ Only disclosed deal values (as per FactSet Mergerstat) are used in all value analyses
- ▶ As used in this report, "total value" refers to the aggregate value of deals with disclosed values for the period under discussion

Contacts



Region	Contact	Email/telephone
Global/EMEIA	David Murray Global Consumer Products Transactions Leader	dmurray@uk.ey.com +44 (0)158 264 3248
Asia Pacific	Robert Partridge Transaction Advisory Services Leader	robert.partridge@hk.ey.com +852 2846 9973
	John Davies Consumer Products Leader	john.davies@au.ey.com +61 39 288 8503
Japan	Michael Buxton Transaction Advisory Services Leader	michael.buxton@jp.ey.com +81 3 5401 7100
Americas	Gregory J. Stemler Consumer Products Transactions Leader	gregory.stemler@ey.com +1 312 879 3351
Latin America	Jeremy Barnes Transaction Advisory Services	jeremy.barnes@ey.com +1 305 415 1379

Country	Contact	Email/telephone
Brazil	Alfredo Della Savia Consumer Products Leader	alfredo.dellasavia@br.ey.com +55 11 2573 3788
Russia	Dmitry Khalilov Retail and Consumer Products Leader	dmitry.khalilov@ru.ey.com +7 495 755 9757
India	Ajay Arora Transaction Advisory Services	ajay.arora@in.ey.com +91 124 464 4000
China	Tony Tsang Transaction Advisory Services Leader	tony.tsang@cn.ey.com +86 21 2228 2358

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com

How Ernst & Young's Global Consumer Products Center can help your business

The global recession has reset the consumer products landscape. Value-seeking consumers, intensified competition, increased commodity costs and growth opportunities in emerging markets are driving change. Consumer products companies now need to be leaner and more agile, with a relentless focus on execution. If you lead a consumer products business, you need to anticipate trends, identify implications and make informed decisions that support your business goals. Our Global Consumer Products Center enables our worldwide network of over 13,000 industry-focused assurance, tax, transaction and advisory professionals to share powerful insights and deep sector knowledge with businesses like yours. This intelligence, combined with our technical experience, can help you accelerate and improve your execution. We can help you to realize the full value of your transactions, improve customer and brand profitability, drive down costs and build an agile and resilient supply chain. If you want to compete powerfully in your market, we'll help you achieve your potential today and tomorrow.

© 2010 EYGM Limited.

All Rights Reserved.

EYG no. EN0251



In line with Ernst & Young's commitment to minimize its impact on the environment, this document has been printed on paper with a high recycled content.

This publication contains information in summary form and is therefore intended for general guidance only. It is not intended to be a substitute for detailed research or the exercise of professional judgment. Neither EYGM Limited nor any other member of the global Ernst & Young organization can accept any responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication. On any specific matter, reference should be made to the appropriate advisor.

The opinions of third parties set out in this publication are not necessarily the opinions of the global Ernst & Young organization or its member firms. Moreover, they should be viewed in the context of the time they were expressed.

1020934.indd (UK) 11/2010. Creative Services Group.