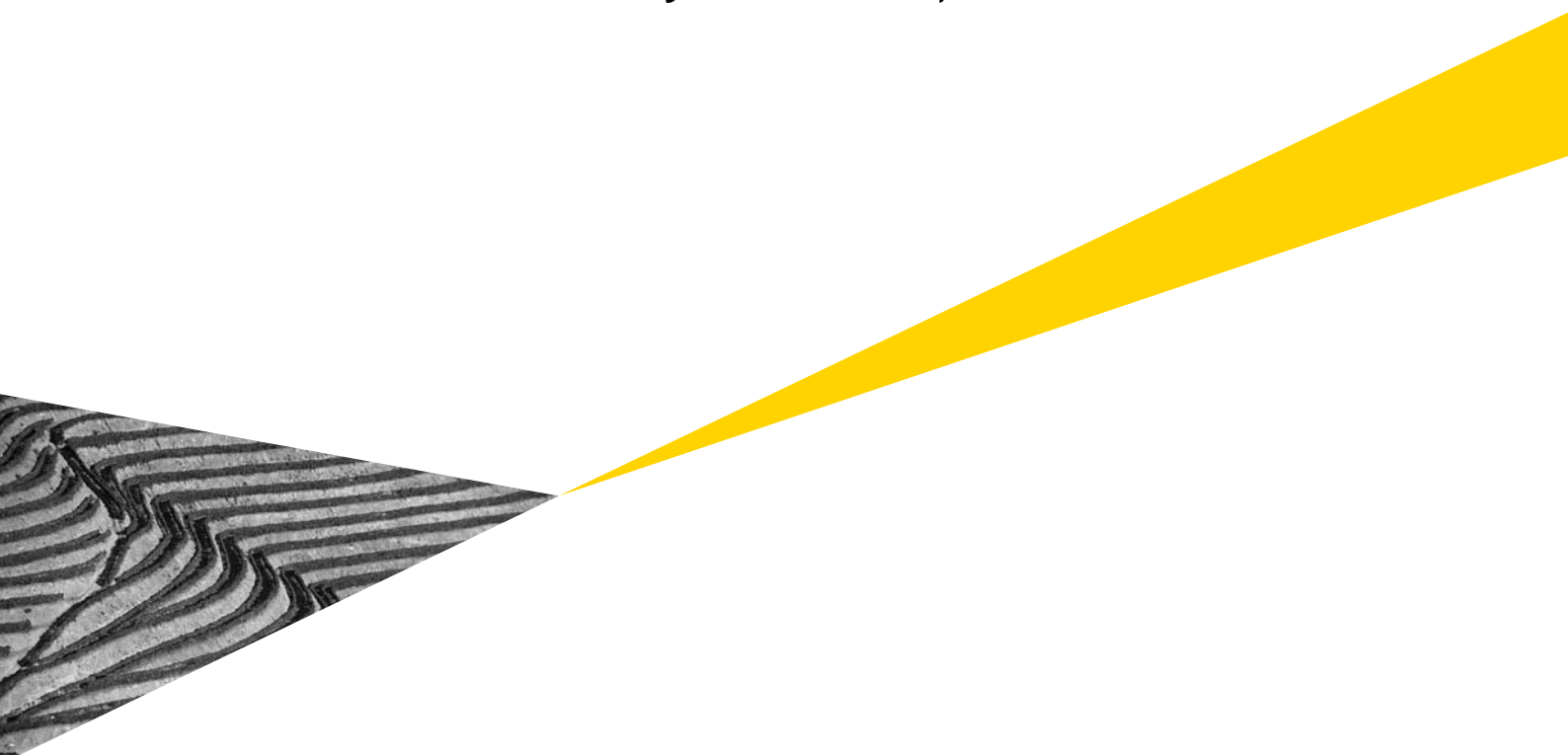


Issue 7
April–June 2011

**Consumer Products
Deals Quarterly**

Appetite, opportunity and uncertainty

Analysis of transactions in Q2 2011
in the global consumer products sector



Welcome



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

Conflicting forces have driven the level of consumer products M&A activity in the first half of the year. On the one hand, the market-leading companies in our industry are in robust financial health and are certainly not lacking the appetite or firepower to do deals. But from another perspective, against a backdrop of a European debt crisis that shows no sign of abating and a political dogfight to avoid a US debt default, it is remarkable how well the volume of deal activity has held up. In this issue we examine the key trends driving those transactions, and take a look ahead to consider whether opportunity or uncertainty will have the upper hand in the next few months.

Our analysis, as previously, is based on data collected by FactSet Mergerstat and on insight from our global professionals. 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
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Overview



Appetite, opportunity and uncertainty

Deal volumes recovered in Q2 11 after a weaker first quarter, but the bounce back was based on a larger number of smaller deals. There were no mega-deals in the quarter, but a number of hostile bids in the pipeline suggest that dealmakers retain their appetite for large transactions despite ongoing economic uncertainty.

Long-term trend in deal activity is still up

No recovery proceeds in a straight line. Not too much therefore, should be read into quarter-to-quarter volatility in activity, which in part reflects the inevitable impact on deal timing of the practicalities of mounting a bid for another company. To help smooth out these short-term variations, this quarter we have added a four-quarter moving average of deal volume and deal value. This indicator of the longer-term trend shows a gradual recovery in activity from the Q4 09 trough. The upward trend gained some momentum in the second half of last year, but the pace of recovery has now slackened somewhat in 2011.

This picture broadly fits with our analysis of the underlying macroeconomic and corporate landscape. We have previously highlighted that consumer products companies have regained the capability to do deals. They have improved their working capital positions, reduced their reliance on bank debt and accessed the capital markets, thereby regaining the confidence to put their balance sheets to work in M&A transactions. But not all companies have achieved this. The corporate landscape is divided into those which, having addressed their financing requirements, are thriving and well-placed to grow organically or through M&A and those which are struggling and lack the capital to compete, and which are likely to become the targets of M&A.

Economic headwinds remain strong

Consumer products companies, however, also recognize that they must decide on potential transactions within the context of a macroeconomic backdrop that has become even more uncertain in 2011. From our discussions with clients and our analysis of corporate performance it is clear that the top consumer products players are generating substantial cash flow and many have low debt to equity ratios. But the level of deal activity suggests companies are not fully deploying that cash flow in the M&A market, which can in part be explained by the various economic and geopolitical uncertainties they face.

Political instability in North Africa and the Middle East remains a concern. By the end of the second quarter though, economic concerns had moved center stage once more, with the ongoing eurozone debt crisis and the wrangling over the US budget raising fears over the potential for a double-dip recession. The eurozone debt crisis also potentially has even more far-reaching consequences, with companies now needing to consider the possibility of a eurozone break up in their scenario planning – an inconceivable situation just a few months ago. Meanwhile, at the

“Hard times and rapidly changing markets create opportunities for deal activity. Stronger companies are aware of this and want to take advantage of it.”

David Murray
Global Consumer Products Transactions Leader



corporate level, input cost inflation, particularly commodity prices, also remains a significant headwind, especially for companies lacking pricing power.

The net effect of these competing factors is to engender a degree of caution among dealmakers, particularly with regard to transformational deals. Companies appear to be thinking laterally, looking at ways to improve earnings and shareholder value without the large balance sheet impact of traditional M&A. These range from joint ventures and alliances to commercial contract arrangements that seek to improve the company's cost position, boost marketing strength and extract synergies.

Developed markets back in focus

The dominant investment theme in Q2 11 was the pursuit of higher growth and profitability in developed markets through consolidation and more sharply focused portfolios. This theme, which has various facets, was a factor in six of the quarter's top 10 deals:

- ▶ *The pursuit of scale through extension into new geographic areas.* Deals that fall into this category include the hostile bid by French dairy company Groupe Lactalis for the remainder of Italian rival Parmalat along with the purchase by L'Oréal, the Canadian fruit juice manufacturer, of Clement Pappas, the privately owned US-based cranberry juice maker.
- ▶ *Disposing of non-core assets that do not fit a focused strategy.* This theme was illustrated in the quarter by Procter & Gamble's sale of Pringles to Diamond Foods and Rémy Cointreau's sale of its champagne business to Société Européenne de Participations Industrielles (EPI).
- ▶ *Extending the brand portfolio to access new consumers in existing geographic markets.* J.M. Smucker's acquisition of the coffee brands and business operations of Rowland Coffee Roasters is a good example of this theme. The deal gave J.M. Smucker access to Hispanic customers and the espresso market.
- ▶ *Vertical integration to access the entire value chain.* Salmon products group Bakkafrost's purchase of fish feed producer Havsbrún fits this category.

A further top 10 deal, the acquisition by Mexico's Coca-Cola FEMSA of fellow Mexican Coke bottler GrupoTampico, also illustrates that, as emerging markets develop, they offer opportunities to extract economies of scale through consolidation.

Emerging markets attractive, but no easy ride

While not as dominant as in recent quarters, the theme of developed world companies strengthening their position in emerging markets was present in three of the top 10 deals: British American Tobacco's purchase of Productora Tabacalera de Colombia; McCormick's acquisition of Polish spice producer Kamis; and Diageo's buyout of SABMiller's minority stake in Kenya Breweries.

The second quarter, however, also provided evidence that converting faster emerging market growth into a profitable business can be very challenging.

In June, Campbell Soup announced that it was pulling out of its soup business in Russia, to concentrate on China instead. Russia and China, where Campbell has had a presence for four years, are the world's two largest soup-consuming nations, but of homemade, rather than pre-packaged soup. According to AP Newswires, "it wasn't just a matter of getting shoppers to buy Campbell, but to buy into the idea of store-bought soup at all."¹ Campbell still wants to increase its emerging markets exposure, but incoming President and CEO Denise Morrison said in a statement, "We believe that opportunities currently under exploration in other emerging markets, notably China, offer stronger prospects for driving profitable growth within an acceptable time frame."²

In May, Indian fabric whitener and detergent maker Jyothy Laboratories agreed to buy 51% of Henkel India for \$128m including debt. Naveen Trivedi, an analyst with Pinc Research said that, "Jyothy bought Henkel because the valuations suited them. It is a loss making company which they could afford to buy."³

¹ Associated Press Newswires June 29 2011 "Campbell Soup says it's eliminating 770 jobs, shutting down its effort to sell soup in Russia"

² Associated Press Newswires June 29 2011 "Campbell Soup says it's eliminating 770 jobs, shutting down its effort to sell soup in Russia"

³ "Jyothy Lab buys 51 pct in Henkel India", www.indianexpress.com May 6 2011



Global consumer products corporate and private equity (PE) transactions scorecard by sub-sector

Deals announced	Q2 11	Q1 11	Sequential change	Q2 11	Q2 10	Year-on-year change
Corporate deals by subsector						
Beverages	58	61	-5%	58	35	66%
Food	164	131	25%	164	147	12%
HPC	39	22	77%	39	26	50%
Tobacco	6	6	0%	6	1	500%
Total	267	220	21%	267	209	28%
PE deals by subsector (based on seller sub-sector)						
Beverages	7	6	17%	7	8	-13%
Food	41	23	78%	41	28	46%
HPC	8	1	700%	8	2	300%
Tobacco						
Total	56	30	87%	56	38	47%
Total consumer products (CP) deals by sub-sector, corporate and PE						
Beverages	65	67	-3%	65	43	51%
Food	205	154	33%	205	175	17%
HPC	47	23	104%	47	28	68%
Tobacco	6	6	0%	6	1	500%
Total	323	250	29%	323	247	31%

Indian press reports in early July also suggested that US confectionery group Hershey's and Godrej Group have called off their joint venture in India, following management differences over the running of the entity. Godrej has committed more brands to the JV and is reported to be frustrated at Hershey's slower pace of investment. Both companies declined to comment on press speculation.⁴ Although Hershey have emphasised India is an "important market for the company."⁵

⁴ "Godrej calls off JV with US based Hershey's", *The Economic Times* July 7 2011

⁵ "Hershey CEP coy on India JV amid overseas ambitions", www.just-food.com July 26 2011

"Successfully concluding an acquisition in emerging markets is a very challenging process that brings no guarantee of sustained profitability. The realisation is dawning that simply 'being in emerging markets' is not enough."

Andrew Cosgrove
Global Consumer Products Lead Analyst



Deal pipeline points to acquisition appetite

In the coming quarters, the difficulties in successfully transacting in emerging markets, alongside ongoing political uncertainty in some regions, can be expected to impact the pace of deal activity to some extent. Dealmakers, however, will continue to be attracted by the compelling nature of the emerging markets growth strategy. After the end of the second quarter, for example, Nestlé announced that it reached an agreement to buy 60% of Chinese sweets company Hsu Fu Chi for \$1.7b in cash.

Meanwhile, judging from recent takeover approaches, developed world global consumer products companies retain their appetite for mega-deals with consolidation as the rationale. In June, SABMiller made an unsolicited bid for Fosters, although the Australian beverage group rejected the A\$9.5b (US\$10.1b) offer as undervaluing the company.⁶ In May, ConAgra Foods, which made a hostile bid for Ralcorp in March, increased the level of its offer for the US foods group. Ralcorp (a major own brand producer) rejected the bid once again and in July announced plans to spin off Post Foods as part of its defense.⁷

Also in July, activist investor Carl Icahn made a \$10.2b bid for Clorox and invited other buyers to make offers. According to the Wall Street Journal, the bid for Clorox: “underscores how the company has missed out on the acquisitions and international expansion that has propelled the leaders of the consumer-products industry”.⁸ While not having progressed as far as a bid approach, renewed speculation has also emerged around Reckitt Benckiser.⁹

Overall, the consumer products market presents a complicated picture of companies with cash to deploy facing a tough and uncertain economic environment. However, it is an environment that is throwing up opportunities to acquire weaker rivals. On a quarter-to-quarter basis we would not be surprised if deal volume fell back in the coming quarter, but we expect continuing deal appetite will underpin a level of M&A activity consistent with the longer-term shallow recovery from the 2009 trough.

Data highlights Q2 11

Deal volumes increase

Deal volumes increased in Q2 11 rebounding from the first quarter’s decline. The total number of deals increased by 29% to 323, rising in the food and household and personal care sectors, but falling slightly in beverage. Tobacco deal volume was static.

Total deal value and average deal size both drop

Total disclosed deal value decreased by 46% from \$22.4b in Q1 11 to \$12.1b in Q2 11. The average transaction value for disclosed deals decreased from \$213m in Q1 11 to \$104m in Q2 11.

No mega deals were concluded in the quarter

There were no mega deals (with a value > \$5b) in the quarter. The largest deal was Lactalis’s purchase of a further 54.3% of Parmalat for \$3.5b. Adding in the prior purchase of a \$1.1b stake in Q1 11 brings the total consideration close to the mega deal threshold.

Corporate deals dominate the top 10 deals

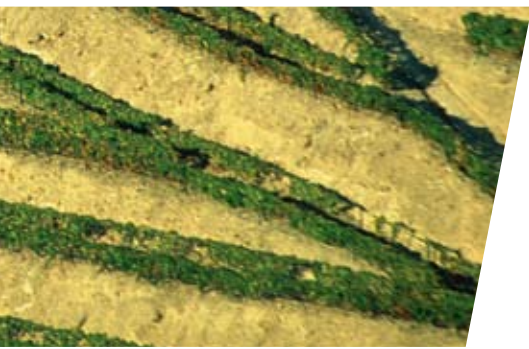
The number of deals by both corporate and private equity buyers increased in the quarter. Corporate deals represented 83% of total deals in Q2 11, a reduction of six percentage points from the previous quarter, but there were no private equity deals in the top 10.

⁶ “Foster’s rejects \$10b SABMiller bid”, Reuters June 21 2011

⁷ “Ralcorp to spin off Post Foods”, *Financial Times* July 15 2011

⁸ “Carl Icahn puts Clorox in play”, *The Wall Street Journal* July 18 2011

⁹ “About those Reckitt bid rumours”, ftalphaville.ft.com/blog July 5 2011



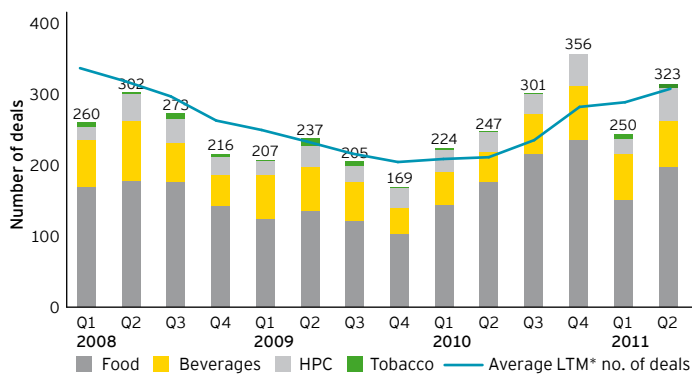
Volume and value

Volume rebounds but total and average deal value decline

Deal volumes increased by 29% (73 deals) between Q1 11 and Q2 11 with the HPC (household and personal care) sector recording the largest percentage increase (104%). Total deal values, however, declined by 46% and the average deal size declined by over 50%.

There were 323 deals in Q2 11, a 29% increase from the 250 deals in Q1 11. The four-period long-term moving average, which smooths out the sharp drop in first quarter 2011 volume, showed a more modest 7% increase (19 deals).

Deal volumes Q1 08 to Q2 11

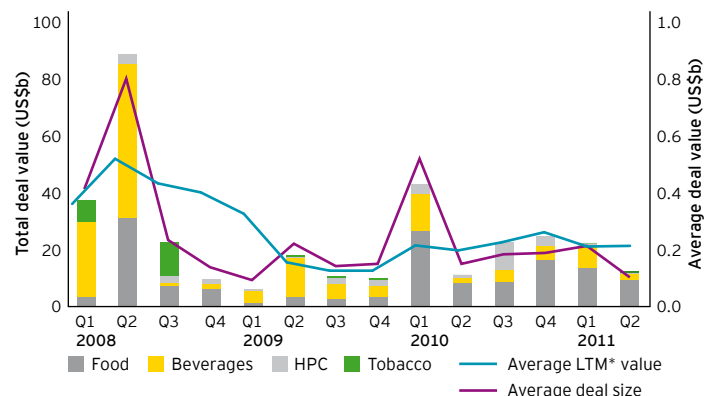


*LTM = Last twelve months

Pick up in activity not matched by value

Total disclosed deal value decreased by 46% from \$22.4b in Q1 11 to \$12.1b in Q2 11. The average transaction value for disclosed deals decreased from \$213m in Q1 11 to \$104m in Q2 11. Only two deals had a value greater than \$1b in Q2 11, compared with six deals in Q1 11. There were no mega-deals (with a value > \$5b) in the quarter.

Deal values Q1 08 to Q2 11



*LTM = Last twelve months

Top 10 deals



Developed market consolidation the dominant theme

The top 10 deals in Q2 11 had a combined value of \$9.3b, 44% lower than the Q1 11 total of \$16.7b. The main investment theme in Q2 11 was the pursuit of higher growth and profitability in developed markets through consolidation and more sharply focused portfolios.

Dairy deal leaves Italians sour

The hostile bid by Lactalis for the remaining 71% of Italian food group Parmalat that it did not already own, resulted in the second quarter's largest transaction. In March, privately held Lactalis, ultimately owned by Defitrans, the vehicle of France's Besnier family, raised its stake in Parmalat to 29%, prompting the Italian Government to pass a decree allowing Parmalat to postpone its AGM to allow Italian investors time to come up with a counterbid. Lactalis's response was to launch a €3.4b hostile offer for the rest of the company on May 23.

The European Commission competition authorities cleared the proposed acquisition in June and when the offer closed on July 8, Lactalis had succeeded in buying a further 54.3% of Parmalat for €2.46b (\$3.6b), bringing its stake to 83.3%. Parmalat shares will remain listed in Milan, as the French group did not reach the 90.5% stake that would have triggered a delisting. Including the \$1.1b Lactalis spent in March to buy a 15.3% stake, the total deal size is very close to the Ernst & Young mega-deal threshold of US\$5b.

However, with Parmalat now in foreign hands there are concerns within Italy that the company's €1.4b cash pile will be stripped out. According to the *Financial Times*¹⁰, Lactalis intends to make Parmalat "the world's biggest long-life milk company" by using its cash to buy Lactalis's milk businesses elsewhere in Europe. The *Financial Times* reports that, "in a move that has infuriated Mr Bondi (Parmalat's former CEO) and his allies, this could allow the French group to circumvent the Italian restrictions on dividend payments that were meant to stop the cash from being sucked out of Parmalat."

"The newly enlarged Lactalis Group will become the world leader for dairy products with nearly €15b in revenues and a presence in 55 countries."

Mike Sills
Global Co-Leader, Food

¹⁰ "Sour feelings as Parmalat falls to the French", *Financial Times* July 10 2011



Top 10 deals Q2 11

Buyer name	Seller name/unit name	Disclosed value (US\$m)	Announced	Deal type	Sector
Defitrans SARL (Lactalis)	Parmalat SpA	\$3,485	26/04/2011	Corporate	Food
Diamond Foods, Inc.	Procter & Gamble Co./Pringles Chips Business	\$2,518	05/04/2011	Corporate	Food
Fomento Economico Mexicano SAB de CV (FEMSA)	Grupo Tampico SA de CV/La Pureza Operations	\$780	28/06/2011	Corporate	Beverages
EPI SAS	Remy Cointreau SA/ Piper-Heidsieck Compagnie Champenoise SAS	\$589	31/05/2011	Corporate	Beverages
British American Tobacco PLC	La Productora Tabacalera de Colombia SA	\$452	26/05/2011	Corporate	Tobacco
Lassonde Industries, Inc.	Clement Pappas & Co., Inc.	\$390	17/06/2011	Corporate	Food
The J. M. Smucker Co.	Rowland Coffee Roasters, Inc.	\$360	16/05/2011	Corporate	Food
McCormick & Co., Inc.	Kamis SA	\$297	28/06/2011	Corporate	Food
Diageo PLC	SABMiller Africa BV/Kenya Breweries Ltd.	\$223	06/06/2011	Corporate	Beverages
Bakkafrost P/F	Aller Group A/S/Havsbrun P/F	\$214	11/04/2011	Corporate	Food

Procter & Gamble puts its chips on the table

Global consumer products companies sharpening their focus on the faster growing parts of their portfolios and divesting non-core businesses has been a recurrent theme in recent M&A activity. Procter & Gamble's second quarter sale of its Pringles business to San Francisco-based packaged foods company Diamond Foods falls into this category.

Diamond Foods purchased Pringles for \$2.5b, comprising \$1.5b in stock and the balance in assumed liabilities. The deal will more than double its sales in the US and the UK. Diamond is growing through acquisitions – it bought potato-chip maker Kettle Foods from private equity group Lion Capital in 2010 for \$615m – but still lags a long way behind PepsiCo's Frito-Lay snack business. "It (Diamond) is still a fraction of Frito-Lay's snack business, literally about one-tenth of the size," said Janney Capital Markets analyst John San Marco.¹¹

According to analysts at Credit Suisse Group AG¹² the deal makes strategic sense for both companies. "This transaction completes P&G's exit from the snacks business and allows the company to focus on its higher margin core businesses. From Diamond's perspective, the transaction will triple the size of their snack business and provide the company with an increased global presence and leverage across its supply chain network." Credit Suisse's only concern was that the 10x EBITDA multiple appeared a little low, but noted that the deal had been structured as a tax efficient split-merge agreement, which probably had an impact on valuation.

¹¹ Quoted in the Montreal Gazette April 6 2011

¹² "Portfolio repositioning continues with Pringles divestiture", Credit Suisse equity research note on Procter & Gamble April 5 2011



Rémy Cointreau sharpens its focus

A top 10 deal that illustrates the focus on higher growth core products is Rémy Cointreau's sale of its champagne business to EPI, a French family-owned luxury group, for an enterprise value of €412.2m (US\$589m). EPI, which paid an equity value of €146.3m and assumed approximately €240m of debt, will now control the Piper-Heidsieck and Charles Heidsieck champagne brands and Piper Sonoma, the sparkling wine brand in the US.

EPI already owns the French trademarks J.M. Weston and François Pinet shoes, Bonpoint children's clothes, Alain Figaret shirts and the Château La Verrerie winery. According to analysts at Deutsche Bank; "after the exit of Maxxium and the sale of its champagne assets, Remy Cointreau has emerged as a highly focused, high margin, high growth, niche spirits play with an enviable exposure to China (approx. 40% of profits) and a very strong balance sheet." Deutsche Bank also suggested that from Rémy's perspective the deal's value, which reflected around 3.7x sales, was "excellent" and "comfortably better than market expectations."¹³

Datamonitor, meanwhile, stated that the deal also made strategic sense for EPI. "The acquisition will perfectly complement EPI's other French luxury goods brands, which include J.M. Weston, Alain Figaret and Bonpoint. This new initiative will strengthen EPI's commitment to wine-making, initiated 20 years ago with Château La Verrerie."¹⁴

"Lassonde has gained a platform for further expansion in the US and will be able to leverage Clement Pappas's coast-to-coast network."

Gregory J. Stemler
Consumer Products Transactions Leader, Americas

Squeezing more out of the US juice market

In addition to portfolio rationalization, global consumer products companies are also targeting growth by building scale in mature markets. In the second quarter, the \$390m cash purchase by Lassonde Industries, the Canadian fruit juice manufacturer, of Clement Pappas, the privately owned US-based cranberry processor and juice maker, illustrates this theme. Under the deal Lassonde Industries will hold 71% beneficial ownership, the Pappas family 19% and the Lassonde family 10%.

Lassonde's fruit juice brands include Oasis, Allen's, Old South and Rougemont, while Pappas's core line of branded products is sold under the Ruby Kist label. Clement Pappas is also the second biggest US private-label fruit-juice provider, and the deal provides Lassonde with five plants and a cranberry receiving station spread across the US.

Datamonitor described the rationale for the deal as follows: "The acquisition of Clement Pappas will provide increased critical mass to support national customers throughout North America and benefit from combined logistics, distribution, purchasing and other economies of scale."¹⁵

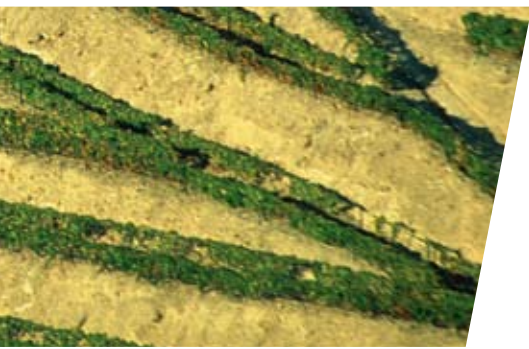
Smucker targets Hispanic coffee drinkers

Bolt-on acquisitions can also provide growth-enhancing opportunities to gain access to new customer segments as illustrated by J.M. Smucker's \$360 million acquisition of the coffee brands and business operations of Rowland Coffee Roasters. The retail coffee segment is already Smucker's largest business and the deal will add Rowland's Hispanic Cafe Bustelo and Cafe Pilon brands to its portfolio, which already includes other acquisitions such as Folgers and Kava. Smucker also manufactures jams, jellies and Jif peanut butter.

¹³ "Popping the Champagne", Deutsche Bank equity research June 10 2011

¹⁴ "Remy Cointreau to sell champagne division to EPI", Datamonitor's Financial Deals Tracker Update on May 31 2011

¹⁵ "Lassonde Industries to acquire Clement Pappas", Datamonitor Financial Deals Tracker June 21 2011



Rowland, a Florida-based family-owned business, is a leading producer of espresso coffee and the main Hispanic coffee company in the US. Equity analysts at Wells Fargo reacted favorably to the deal: "We believe the bolt-on acquisition provides Smucker's US retail coffee segment with increased exposure to the growing Hispanic population, with opportunities to expand distribution and marketing support of the acquired brands. Additionally, Smucker gains an entry into the growing espresso coffee category."¹⁶

Smucker also announced its intention to close Rowland's Miami production facility within three years to consolidate manufacturing, and has plans to consolidate distribution and marketing operations.

Capturing the entire value chain

The smallest of the quarter's top 10 deals is a transaction that illustrates a further aspect of the desire to maximize value creation in mature markets – vertical integration. In April, Faroe Islands salmon farming group Bakkafrost, which produces both branded and private label salmon products, agreed to purchase Havsbrún, a producer of fishmeal and fish feed, also based in the Faroe Islands, for DKK1.1b (\$214m) in cash and shares. The deal will allow Bakkafrost to control the entire value chain from salmon feed production through to value-added salmon products.

Further consolidation among Mexico's Coke bottlers

The pursuit of economies of scale through consolidation is widespread in mature markets, but this trend can also be seen in emerging markets. The \$2.3b all stock merger of Mexican bottlers Embotelladoras Arca, SA de CV and Grupo Continental SAB (Contal)

to form Arca Continental was one of the first quarter's largest deals. That deal created the world's third-largest Coca-Cola bottler, behind Mexico's Coca-Cola FEMSA and Greece's Coca-Cola Hellenic.

Faced with this increased competition from the merger of its local rivals, at the end of June Coca-Cola FEMSA, a bottling joint venture of The Coca-Cola Company and Mexican drinks group FEMSA, agreed to buy the beverage business of privately owned domestic bottler Tampico in an all-stock deal worth \$780m (MXN9.3b), including the assumption of MXN2.7b in debt. The combined group will bottle 45% of The Coca-Cola Company's volume in Mexico.

According to J.P. Morgan the transaction implies a multiple of 9.6x 2011 estimated EBITDA, which is broadly in line with previous transactions in the industry, but below Contal's valuation of 10.4x 2011 estimated EBITDA during the Arca-Contal merger.¹⁷ Dow Jones newswires stated that Coca-Cola FEMSA's Mexican production capacity is already stretched, and the Tampico purchase, which includes four bottling facilities, will allow capital expenditure on new plants to be delayed. Dow Jones also quoted Credit Suisse as describing the deal as a "transformational deal for the industry" because a large player showed willingness to invite a family-owned bottler to participate in broader growth opportunities.¹⁸

BAT gains a significant position in Colombia

While not as dominant a theme as in some previous quarters, Q2 11 still offered three examples of expansion by developed world companies into emerging markets among the top 10 deals.

In May, British American Tobacco agreed to purchase Productora Tabacalera de Colombia, (Protobaco) Colombia's second-largest cigarette company for \$452m. The purchase price reflects a multiple of 11.3x Protobaco's 2010 EBITDA¹⁹ and according to Mark Cobben, BAT's Director for the Americas, the acquisition "will strengthen and complement our position in an important market and fill a strategic gap in our Americas region."

"Consolidation, which is a well-established trend in the developed world, is now also starting to appear as an investment theme in emerging markets."

Jeremy Barnes
Transaction Advisory Services, Latin America

¹⁶ "Bolt-On Coffee Acquisition Both Strategic And Accretive", Wells Fargo Securities May 17 2011

¹⁷ "KOF Acquires Mex Coke Bottler", J.P. Morgan Latin American Equity Research June 29 2011

¹⁸ "Coke Fems In Contact With Coke Bottlers World-Wide", Dow Jones International News June 30 2011

¹⁹ "British American Tobacco Buys Colombia's Protobaco For \$452 Million", Figures quoted in Dow Jones Business News story May 26 2011



Colombia is Latin America's fourth largest cigarette market and, following the deal, BAT's market share will jump from 15% to 48.5%. Philip Morris International (PMI), through its Coltabaco affiliate, controls 51.5%. In 2010 Protobaco's leading brand, Mustang, had an 18% market share.²⁰

"Colombia is one of the few countries in Latin America where BAT could conclude a substantial deal without running into anti-trust problems."

Ed Hudson
Global Leader, Tobacco

BAT had previously tried to acquire Protobaco in 2009, but lost out to PMI. However, PMI was forced to withdraw its bid at the start of the year after Colombian regulators objected to the deal. The deal was viewed positively by analysts, with the *Financial Times*, for example, quoting Citigroup's research: "Beyond the cost synergies, the acquisition should alter the dynamics of the Colombian market favorably as there has been some price skirmishing in the market in the last couple of years, with the three players jostling for position while the sale was playing out. Furthermore, it should help strengthen BAT's dominant position in Latin America in general, and the north of South America in particular. BAT has a 90% market share in neighboring Venezuela and about 65% in both Peru and Central America/Caribbean."²¹

Spicing up the growth profile

In June McCormick agreed to acquire Poland's privately-held Kamis for PLZ830m (US\$297m) in cash. The deal extends McCormick's presence into Poland and other markets in Central and Eastern Europe. In Poland, Kamis has a 45% market share of the spice and seasoning segment and 30% of the mustard market and also owns distribution subsidiaries in Russia, Romania and Ukraine.

McCormick's second deal of the quarter was to enter a joint venture with Kohinoor, India's leading basmati rice and seasoning company, acquiring an 85% interest for \$115m. In 2010 McCormick also purchased a 26% stake in India's Eastern Condiments.

The deals are in keeping with McCormick's stated strategy of accelerating its exposure to emerging markets. According to analysts at Jefferies Private Equity, the Kamis deal will allow McCormick to reach its 2015 target of generating 12% of revenues from emerging markets, three years early. Jefferies also notes that although the Kamis acquisition is the most expensive of McCormick's three emerging market deals, it offers increased scale in the under-penetrated markets of Eastern Europe at a "still reasonable" multiple of 12x-13x EBITDA.²²

²⁰ "Colombia: BAT acquires Protobaco in a US\$452mil deal", South American Business Information May 27 2011

²¹ "BAT lights up in Colombia", Citigroup equity research quoted by Financial Times on blog.ft.com/beyond-brics May 26 2011

²² "Doubling Down on Emerging Markets", Jefferies equity research June 28 2011



“Africa is no longer considered the final frontier for consumer products companies and is now a genuine destination for market investment.”

Emmanuelle Roman
Global Markets Leader, Consumer Products

Diageo and SABMiller go it alone in East Africa

The third top 10 deal in the emerging market expansion category is part of the unwinding of a decade-long partnership between Diageo and SABMiller in East Africa. In June East African Breweries Ltd. (EABL), which is owned by Diageo, agreed to acquire SABMiller’s 20% stake in its Kenya Breweries subsidiary for US\$223m, giving EABL full control. Under the deal to undo cross-shareholdings, EABL will sell its 20% stake in Tanzania Breweries Ltd, a unit of SABMiller, by means of a public offer at a later date.

In 2002 SABMiller entered a deal to sell EABL brands through Tanzania Breweries in Tanzania, with EABL reciprocating by brewing and marketing SABMiller products such as Castle Lager and Redds in Kenya. That co-operation first showed signs of breaking down when EABL announced the acquisition of a 51% stake in Tanzania’s Serengeti Breweries in 2009 and ended its contract with Tanzania Breweries. Completion of this quarter’s transaction will bring all brewing and distribution agreements between the two sides to an end.

The unwinding of the cross-shareholdings and agreements could pave the way for greater competition in the beer markets of Kenya and Tanzania as each company markets its own brands. Business Monitor International for example, argues “now SABMiller has a genuine rival in Serengeti, which having made strong strides in the premium segment before it was bought out, can now count on EABL’s financial muscle and some of its best selling brands.”²³

²³ “East African Breweries Looking Good”, Business Monitor International July 5 2011

Sector focus



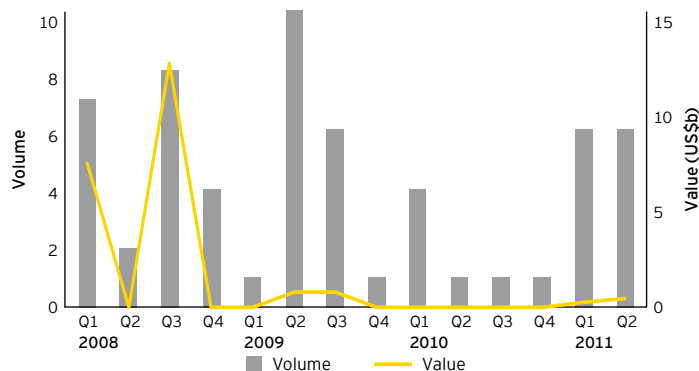
Tobacco makes a rare appearance in the top 10 deals

Deal activity increased in the HPC and food sectors in Q2 11, while beverage deal volumes declined slightly. Tobacco activity was stable at the relatively low level of six deals.

Tobacco

The highly consolidated nature of the tobacco industry means that there are relatively few large deals that can still be concluded. BAT's purchase this quarter of Colombia's Protobaco was a one-off opportunity for them to extend their strong presence in Latin America, made possible by PMI's failure to gain regulatory approval for its proposed takeover of the Colombian company (see Top 10 deals). Looking ahead, sector M&A activity is likely to focus increasingly on bolt-on opportunities and adjacent businesses, such as alternative nicotine delivery systems.

Number and value of tobacco deals Q1 08 to Q2 11

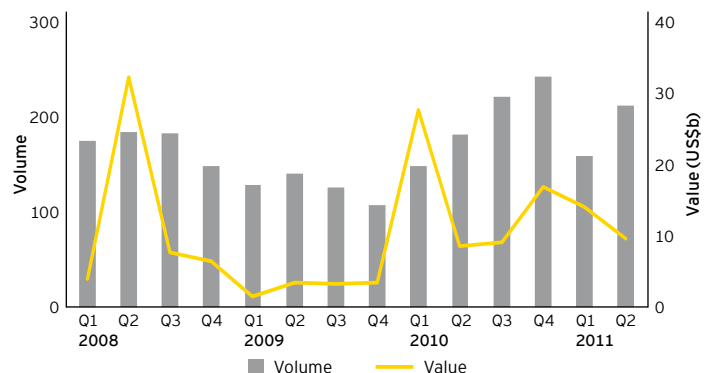


Source: Ernst & Young's analysis of FactSet Mergerstat data from Q1 08 to Q2 11.

Food

The food sector continued to dominate consumer products deal activity in Q2 11, accounting for 63% of transaction volumes. There were 205 food transactions in the period, an increase of 33% from the 154 deals announced in Q1 11. Total disclosed food deal value was \$9.3b, a decrease of \$4.2b (31%) compared to the previous quarter.

Number and value of food deals Q1 08 to Q2 11



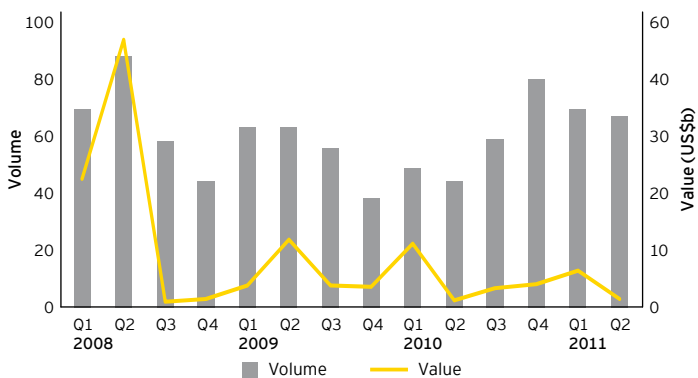
Source: Ernst & Young's analysis of FactSet Mergerstat data from Q1 08 to Q2 11.



Beverage

Compared with Q1 11, the volume of beverage transactions in Q2 11 was relatively stable, falling by just two deals to 65 transactions. Beverage transactions had a disclosed market value of \$1.9b in the quarter, a decrease of \$5.6b (74%) on the previous quarter. In Q1 there were three beverage deals in excess of \$1b, however in Q2 the largest deal was only \$780m.

Number and value of beverage deals Q1 08 to Q2 11

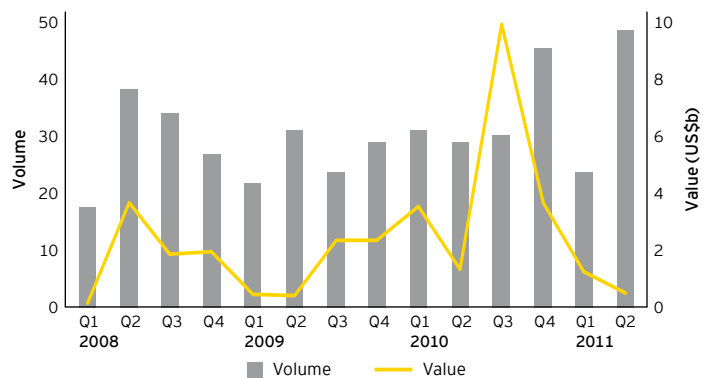


Source: Ernst & Young's analysis of FactSet Mergerstat data from Q1 08 to Q2 11.

HPC

The number of HPC sector deals doubled in the second quarter, rising from 23 deals in Q1 11 to 47 in Q2 11. HPC disclosed transaction value, however, fell to \$485m in the quarter, a decline of \$727m (60%). The previous quarter contained one HPC deal in the top 10 with a value of \$950m. There were no HPC deals in the top 10 in Q2 11 and the largest deal had a value of only \$130m.

Number and value of HPC deals Q1 08 to Q2 11



Source: Ernst & Young's analysis of FactSet Mergerstat data from Q1 08 to Q2 11.

Geographic focus

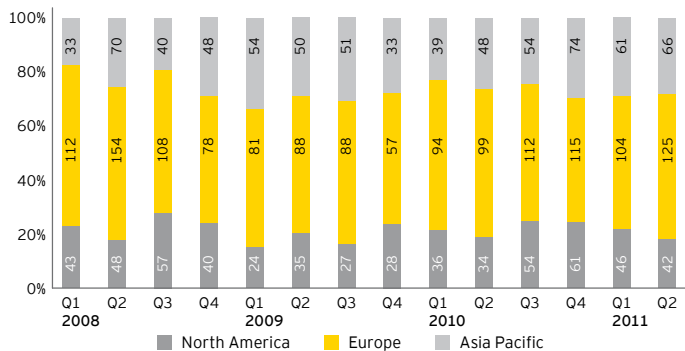


Europe remains most active region

Europe once again accounted for the largest proportion of cross-border deal activity in terms of volume in Q2 11, both as the buyer and seller. In the second quarter this dominance was also replicated in value terms, with Europe accounting for approximately 70% of buyer and seller value.

There were 123 cross-border deals in Q2 11, an increase of 12 deals compared to Q1 11. Europe's proportion of buyer region deal volume was static at 49%, but its share of seller region deals increased to 53% in Q2 11 from 46% in Q1 11. This increase meant Europe changed, in volume terms, from being a net buyer in Q1 11 (net two deals purchased) to a net seller in Q2 11 (net four deals sold).

Regional volume comparisons, Q1 08 to Q2 11

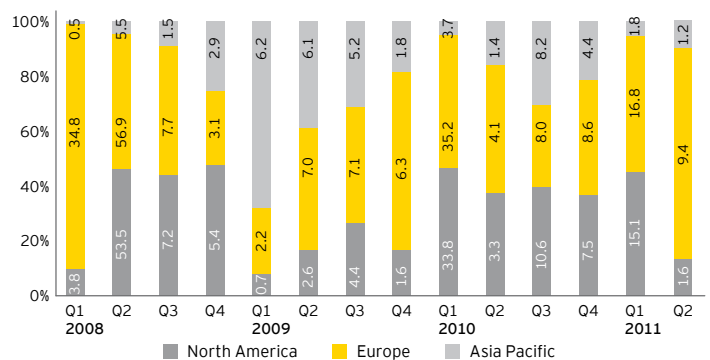


Source: Ernst & Young's analysis of FactSet Mergerstat data from Q1 08 to Q2 11.

Deals involving BRIC nations increased by 8 transactions (14%) to reach 64 deals, slightly below the long-term average of 67 deals per quarter. The increase in deal volume was led by Russia, with an increase of 10 deals to 29 deals. On a long-term moving average basis, Russia is showing strong growth in deal volumes in comparison to the other BRIC nations.

Europe accounted for 75% of buyer region value and 72% of seller region value in Q2 11. North America's share of buyer value declined by \$10.3b (91%) from Q1 11 to give a buyer value total of \$1.1b in Q2 11. From a North American buyer perspective, the first quarter included the \$6.1b purchase of Danisco by E.I.C. and a further five deals, all from the Q1 11 top 10 deals, with a combined value of \$4.4b. All of those transactions were individually larger than any North American buying deal in Q2 11.

Regional value comparisons, Q1 08 to Q2 11



Source: Ernst & Young's analysis of FactSet Mergerstat data from Q1 08 to Q2 11.

In Q2 11 deal values were disclosed for 48 of the 123 total cross-border deals (39%), equating to an average disclosed deal value of \$133m. In comparison in Q1 11 58 (52%) of the deals had a disclosed value, equating to an average of \$295m.



Methodology

Data source and industry scope

Consumer Products Deals Quarterly is based on Ernst & Young's analysis of FactSet Mergerstat data from Q1 08 to Q2 11. 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.

In January 2011 we reorganized the data set so that it can be segmented globally into four regions (Europe, Asia Pacific, Middle East and Africa, and the Americas). All data in the charts from previous quarters reflects this reclassification.

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 of 30 June 2011.
- ▶ 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.

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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.

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