Total deal value jumps higher

Analysis of transactions in Q1 2014 in the global consumer products sector
Contents

Data analysis 4

Total deal value jumps higher
Value soars on the return of megadeals
Data highlights Q1 14
Top 10 deals in Q1 14

Investment themes 7

Notable trends in Q1 14
Heightened uncertainty is prompting boardroom caution
Serial acquirers are putting more capital to work
Activist shareholders are making their presence felt
The trend of portfolio optimization is continuing

Spotlight on corporate divestment 9
Profitable brands flourish when non-core brands are shed

Deal analysis 10

Top 10 deals in Q1 14
Suntory takes aims at the US bourbon market
L’Oréal buys back Nestlé stake, sells Galderma
AB InBev takes back Oriental Brewery
Temasek takes full control of Olam
Grupo Bimbo expands North American footprint
Swiss baker Aryzta plays consolidation role
Hershey triples its China exposure
Hain Celestial acquires in the UK again
Welcome to *Consumer Products Deals Quarterly*, a report from EY that analyzes acquisitions and disposals in the global consumer products sector.

While dealmakers remain confident in an economic recovery, the rationale for consolidation continues to be compelling. Organic growth in many mature market sectors has become challenging, and companies need to pursue acquisitions to grow the top line. The tone of discussions at recent industry conferences, however, has become more cautious, with many corporates emphasizing the risks and challenges of M&A as much as the opportunities it affords. Companies are concerned about slowing growth in the emerging market economies on which they increasingly rely, and the risk of political instability has been highlighted by recent events in the Ukraine. While in the West, pressure from activist shareholders is underpinning a renewed focus on operational efficiency.

These concerns, which we explore in this issue, help explain the muted trend in deal volumes. At the same time, however, the serial acquirers – companies that combine both financial strength and acquisition know-how – are putting more capital to work. This is clearly illustrated by the announcement of three megadeals this quarter, and we expect to see more megadeals announced in the next two quarters.

Portfolio optimization is an important recurring theme in the consumer products industry, and many of the larger players are selling businesses and brands that they no longer consider core. In this edition, we also take a closer look at the divestment process and suggest best practices to help ensure value is created rather than destroyed.

Our analysis is based on data collected by Thomson Reuters, and as usual we have drawn on the insights of our global professionals. We hope 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.

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Data analysis

Total deal value jumps higher

Total deal value in Q1 14 increased fourfold compared with Q4 13, halting four consecutive quarters of declines. Three megadeals, with a value greater than US$5b, were announced during the quarter. Total deal volumes, however, increased by just 2% compared with the previous quarter and have been broadly stable for the last three quarters.

Value soars on the return of megadeals

While overall deal volumes in Q1 14 were very similar to the levels recorded in the third and fourth quarters of last year, total value told a different story, jumping to US$41b in Q1 14 from US$9b in Q4 13. This total slightly surpassed the Q1 13 level, which was bolstered by the acquisition of Heinz and matched the highest quarterly total in the survey period, recorded in Q3 12.

The sharp increase was underpinned by the announcement of three megadeals during the quarter: Suntory Holdings’ acquisition of Beam, AB InBev’s purchase of Korea’s Oriental Brewery and L’Oréal’s buyback of 8% of Nestlé’s long-held stake. The related sale of L’Oréal’s half of the Galderma skin-care joint venture was also not far below the megadeal threshold.

These were the first megadeals announced since May 2013 when China’s largest meat processing company, Shuanghui International Holdings, agreed to buy US pork producer Smithfield Foods in the largest-ever Chinese takeover of a US company. There were also only four megadeals announced during the whole of 2013.

We believe this upward shift in value is set to continue in 2014. The timing of these larger transactions is always difficult to pinpoint, but based on our client relationships and knowledge of the deal pipeline, further megadeals are likely to be announced in the next couple of quarters.

Data highlights Q1 14

Deal volumes remarkably stable

First-quarter deal volumes increased by a modest 2% to 287 deals from 281 in Q4 13. The four-period long-term moving average of total deal volume decreased from 302 deals to 287 deals.

Corporate transaction volumes rise, but private equity activity declines

The balance between corporate and private equity transactions within total deal volume was also very stable. Corporate deals rose by 3% from 229 to 236 transactions (82% of total deal volume), while private equity deals fell by just 1 deal to 51 deals (18% of total deal volume).
Renewed beverage consolidation in the spotlight

The four biggest deals in Q1 14 were split evenly, with two from the household and personal care sector and two from the beverage sector. The remaining top 10 deals were all in the food sector, with disclosed values ranging from US$340m to US$2.6b.

Top 10 deal activity dominated by acquisitions in developed markets

Of the quarter’s 10 largest acquisitions, 7 involved a target company in a developed world market. The remaining three deals involved targets in Asia – China, South Korea and Singapore.

<table>
<thead>
<tr>
<th>Buyer name</th>
<th>Buyer region</th>
<th>Target name</th>
<th>Target region</th>
<th>Disclosed value (US$m)</th>
<th>Announced date</th>
<th>Deal type</th>
<th>Sector</th>
<th>Cross-border or in-border</th>
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</thead>
<tbody>
<tr>
<td>Suntory Holdings</td>
<td>Japan</td>
<td>Beam Inc.</td>
<td>United States</td>
<td>$13,933</td>
<td>13 Jan 2014</td>
<td>Corporate</td>
<td>Beverages</td>
<td>Cross-border</td>
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<tr>
<td>L’Oréal SA</td>
<td>France</td>
<td>Nestlé SA</td>
<td>Switzerland</td>
<td>$8,200</td>
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<td>Corporate</td>
<td>HPC</td>
<td>Cross-border</td>
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<td>Oriental Brewery Co. Ltd.</td>
<td>South Korea</td>
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<td>Beverages</td>
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<td>Switzerland</td>
<td>Galderma Pharma SA</td>
<td>Switzerland</td>
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<td>Corporate</td>
<td>HPC</td>
<td>In-border</td>
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<td>Temasek Holdings</td>
<td>Singapore</td>
<td>Olam International Ltd.</td>
<td>Singapore</td>
<td>$2,620</td>
<td>14 Mar 2014</td>
<td>PE</td>
<td>Food</td>
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<td>Grupo Bimbo SAB de CV</td>
<td>Mexico</td>
<td>Canada Bread Co. Ltd.</td>
<td>Canada</td>
<td>$1,664</td>
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<td>Aryzta AG</td>
<td>Switzerland</td>
<td>Cloverhill Pastry-Vend LLC</td>
<td>United States</td>
<td>$673</td>
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<td>Hershey Co.</td>
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<td>Shanghai Golden Monkey Food</td>
<td>China</td>
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<td>Hain Celestial Group Inc.</td>
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<td>Tilda Ltd.</td>
<td>United Kingdom</td>
<td>$358</td>
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<td>Food</td>
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<tr>
<td>Aryzta AG</td>
<td>Switzerland</td>
<td>Pineridge Bakery Inc.</td>
<td>Canada</td>
<td>$340</td>
<td>10 Mar 2014</td>
<td>Corporate</td>
<td>Food</td>
<td>Cross-border</td>
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</tbody>
</table>
The top 10 deals had a combined value of US$38b – 93% of total disclosed deal value

Global consumer products corporate and PE transactions scorecard by subsector

<table>
<thead>
<tr>
<th>Deals announced</th>
<th>1Q14</th>
<th>4Q13</th>
<th>Seq % change</th>
<th>1Q14</th>
<th>1Q13</th>
<th>YoY % change</th>
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<tbody>
<tr>
<td>Corporate deals by subsector</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Beverages</td>
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<tr>
<td>Food</td>
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<td>151</td>
<td>5%</td>
<td>158</td>
<td>205</td>
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<td>HPC</td>
<td>31</td>
<td>29</td>
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<td>31</td>
<td>28</td>
<td>11%</td>
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<tr>
<td>Tobacco</td>
<td>7</td>
<td>3</td>
<td>133%</td>
<td>7</td>
<td>4</td>
<td>75%</td>
</tr>
<tr>
<td>Total</td>
<td>236</td>
<td>229</td>
<td>3%</td>
<td>236</td>
<td>292</td>
<td>-19%</td>
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<td>PE deals by subsector (based on seller sector)</td>
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<td></td>
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<td>Beverages</td>
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<td>40%</td>
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<td>13</td>
<td>8%</td>
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<td>Food</td>
<td>32</td>
<td>34</td>
<td>-6%</td>
<td>32</td>
<td>38</td>
<td>-16%</td>
</tr>
<tr>
<td>HPC</td>
<td>5</td>
<td>8</td>
<td>-38%</td>
<td>5</td>
<td>4</td>
<td>25%</td>
</tr>
<tr>
<td>Tobacco</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>52</td>
<td>-2%</td>
<td>51</td>
<td>55</td>
<td>-7%</td>
</tr>
<tr>
<td>Total consumer products (CP) deals by sector, corporate and PE</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Beverages</td>
<td>54</td>
<td>56</td>
<td>-4%</td>
<td>54</td>
<td>68</td>
<td>-21%</td>
</tr>
<tr>
<td>Food</td>
<td>190</td>
<td>185</td>
<td>3%</td>
<td>190</td>
<td>243</td>
<td>-22%</td>
</tr>
<tr>
<td>HPC</td>
<td>36</td>
<td>37</td>
<td>-3%</td>
<td>36</td>
<td>32</td>
<td>13%</td>
</tr>
<tr>
<td>Tobacco</td>
<td>7</td>
<td>3</td>
<td>133%</td>
<td>7</td>
<td>4</td>
<td>75%</td>
</tr>
<tr>
<td>Total</td>
<td>287</td>
<td>281</td>
<td>2%</td>
<td>287</td>
<td>347</td>
<td>-17%</td>
</tr>
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</table>
As political risks rise and emerging market growth slows, many dealmakers are noticeably more cautious and are focused on driving operational efficiency. The strongest serial acquirers, however, still have an appetite for large transactions as they seek to optimize their portfolios in pursuit of top-line growth.

Heightened uncertainty is prompting boardroom caution

Consumer products executives remain confident in the global economy and confidence in the availability of credit is high, according to the latest EY Capital Confidence Barometer (CCB). However, over the next 6 to 12 months, political instability and slowing growth in emerging markets are perceived as the most important economic risks. The situation between Ukraine and Russia is also tempering the buoyant outlook and increasing focus on global political instability.

In the face of this uncertainty, greater caution is evident in the boardroom. While 61% of executives surveyed for the CCB report expect overall deal volumes to improve in the next 12 months, the proportion expecting to pursue an acquisition themselves has dropped to 30% from 33% six months ago. Companies are expected to continue their cautious approach on capital allocation, with operational efficiency and distributions to equity stakeholders potentially creating better ROI than acquisitions.

Serial acquirers are putting more capital to work

Whether businesses are acquiring or selling, M&A is an inherently risky and disruptive process, which can prompt some companies to favor internal investment rather than acquisitions. Equity markets have also rewarded companies for consistency, cost cutting and lack of risk-taking.

More broadly, M&A requires a level of resources that many companies lack, unless they have been recently active in the acquisition market. For these reasons, it is the serial acquirers and disposers of businesses that are currently the most active dealmakers. The first quarter’s list of top 10 deals contains many familiar names: L’Oréal, Nestlé, AB InBev, Grupo Bimbo, Aryzta and the Hain Celestial Group. Several of these groups are very large international players, and the scale of acquisitions they need to undertake in order to move the needle on their growth profile is significant.

“With developed markets still subdued and emerging markets slowing, the large consumer products groups need to find new sources of growth. To move the needle, that means they have to do megadeals. But, given the risks, they are looking to find them in products and geographies they know well rather than in new areas.”

**Andrew Cosgrove**
Global Consumer Products Lead Analyst
EY

Even among the strongest companies, which are undertaking large acquisitions, there is a clear tendency toward focusing on areas and businesses that are already well known to the acquirer in order to reduce the risks involved. In this quarter’s top 10 deals, for example, AB InBev bought back the Oriental Brewery business that it sold to private equity in 2009, L’Oréal bought back part of Nestlé's stake in its business, Nestlé bought the half of Galderma it did not own and Temasek tendered for the remaining shares it did not already own in Olam International.

The first quarter was also notable for the number of deals where the acquirer moved into a new geographic area within developed markets and generally within familiar categories. For example, Suntory Holdings expanded its US presence with the purchase of Beam, while Grupo Bimbo and Aryzta made acquisitions in North America and Hain Celestial Group bought a further UK-based business. This probably reflects both the growing uncertainty over emerging market growth and the difficulty potential acquirers are facing in finding attractive, suitably priced assets that are for sale in those countries.

Activist shareholders are making their presence felt

A further reason explaining why some consumer products groups are being more circumspect about acquisitions is the pressure being applied by activist shareholders. According to the April 2014 CCB, shareholder activism is prompting action in boardrooms. Shareholder activists typically focus on...
organizations with high expense ratios; multiple, disparate and sometimes non-core operating units; and a poor history of capital allocation. The boardroom response has been to focus on operational efficiency (cost reduction), spinoffs of non-core units through strategic divestments and returning capital through buybacks and dividends.

The purchase of Heinz by 3G Capital Management and Berkshire Hathaway at the start of last year has also had a huge impact on the whole sector. 3G is expected to reduce costs and drive productivity improvements and may use Heinz as a platform for further acquisitions. Competitors and peers are therefore looking again at their own levels of operational efficiency.

The trend of portfolio optimization is continuing

Companies are reshaping their businesses in pursuit of a more optimal brand portfolio and geographic market exposure, both by disposing of non-core and lower-growth units and by acquiring faster-growing and/or higher-margin businesses.

“Shareholder activism can be a positive catalyst, without which companies might struggle to push through changes. Many companies believed that growth in emerging markets would be sufficient to fuel growth, but now that they are not seeing the expansion in their top line that they had expected, they are having to address their internal problems.”

Greg Stemler
Global Consumer Products Transaction Advisory Services Leader
EY

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“Portfolio optimization creates two sides to the M&A story. On the one hand, companies are looking to dispose of non-core assets. On the other, they are looking to acquire attractive assets, which creates high demand for the relatively small number of suitable candidates, many of whose existing owners may be reluctant to sell.”

David Murray
EMEIA Consumer Products Transaction Advisory Services Leader
EY

Part of the reason that deal volumes haven’t picked up is that there are insufficient acquisition opportunities. The equity valuation gap between buyers and potential sellers is one explanation for this scarcity of suitable candidates, but it may also be because the current owners simply do not wish to sell. For example, in the wake of Suntory’s acquisition of Beam, some commentators have highlighted Brown-Forman, the spirits company that owns brands including Jack Daniel’s and Southern Comfort, as a potential target. The company, however, which has significant family ownership of its stock, appears determined to stay independent.

For example, in the wake of Suntory’s acquisition of Beam, some commentators have highlighted Brown-Forman, the spirits company that owns brands including Jack Daniel’s and Southern Comfort, as a potential target. The company, however, which has significant family ownership of its stock, appears determined to stay independent.2

The slowdown in emerging markets and heightened awareness of political stability may also be having an impact on the perceived attractiveness of potential targets in the short term. However, while this may be true to an extent in “established” emerging markets, consumer products companies are continuing to seek out opportunities in more “frontier” emerging markets.

Spotlight on corporate divestment

Profitable brands flourish when non-core brands are shed

For many businesses, divestments are now a fundamental part of their strategy, and leading companies are bringing the same rigor to selling assets as they do to acquisitions. Companies can create shareholder value by regularly assessing whether each business unit in their portfolio is contributing to strategic goals and long-term growth. The recent 2014 EY Global Corporate Divestment Study, based on interviews with 720 corporate executives, provides empirical evidence that strategic portfolio management leads to more effective divestment outcomes.

Consumer businesses have historically found it difficult to let go of brands. For example, 39% of respondents said they would be very reluctant to sell an iconic or legacy brand. Executives also remain reticent about brand divestments when they need to generate revenue growth: key concerns include selling assets without a replacement earnings stream already lined up and potential earnings dilution. As a result, many CP companies allow less-favored brands to die off slowly, rather than monetize what could be valuable assets for a buyer prepared to invest.

The commodification of categories, which makes it hard to differentiate a company’s products, is prompting the sector to reassess its portfolios more strategically. Further, companies that have delayed divesting weak brands often realize a significant discount in sale value. The 2014 EY Global Corporate Divestment Study analyzes leading approaches to portfolio review and divestment and identifies three leading practices for companies to improve their strategy:

1. Know your core business

Meet regularly, analyze rigorously and look outside the company for external verification. Portfolio reviews should be conducted regularly to determine the strategic path forward and whether markets have shifted sufficiently to warrant a divestment. Of the 146 consumer products companies surveyed, 81% reported achieving higher valuation multiples when a divestment was based on a definition of core operations that had been updated in the last 12 months.

2. Make better-informed decisions

Companies need the right infrastructure to make effective portfolio decisions, and nearly half of executives believe a dedicated team would improve their portfolio. The most successful teams are led by an executive with the authority to make decisions and recruit the appropriate professionals with diverse skill sets in areas including strategic, financial, organizational understanding and sales. For many companies, there is a clear need for improvement in data quality to allow the right analytics to be run. External advisors, too, where appropriate, can provide additional operational, strategic or sector insight.

3. Take action

Once the portfolio review provides compelling insight, management should not hesitate to act on it. Investors in companies that choose to sell non-core units in a low-growth category, or with a weak competitive position, view such decisions positively. Even if a disposal is earnings dilutive in the short term, these assets are usually starved of both capital and management attention. Delaying a sale will likely erode value. Acting early to maximize value and reinvest capital in areas where it can be most effective often pays off over the long term.

Many companies still rely heavily on opportunistic divestments, either selling because a buyer approached them or because they need fast cash. Companies need to monitor key financial and operational metrics continuously to determine potential divestments strategically rather than opportunistically.

Q: What factors have motivated you to consider a divestment?

- Product type/fashion-off-trend: 58%
- Decreasing demand/market share: 44%
- Technology in decline: 35%
- Falling prices because of new advances: 26%
- Damaged brand dropping down rest of portfolio: 23%
- Rising manufacturing costs: 16%

Q: What factors might limit your desire to divest a brand?

- Regulatory reasons: 53%
- Brand establishes overall value of the company: 46%
- Legacy/iconic brand: 39%
- Could decrease access to customer base/shelf space: 38%
- Relationships internationally: 23%
- Need the management team of the brand: 6%

Deal analysis

Top 10 deals in Q1 14

Suntory take aim at the US bourbon market

In January, Japan's Suntory Holdings agreed to acquire US-based spirits firm Beam, which produces Jim Beam and Makers Mark bourbons, for US$13.9b. Suntory paid US$13.9b in cash and assumed US$1.8b of Beam's debt, giving an enterprise value of US$15.7b. According to analysts at Barclays, the valuation represents a 25% premium to Beam's closing price the day before the announcement and values the company at a trailing EV/EBITDA multiple of 20.0x.4

The rationale for the deal is to gain access to one of the world's most attractive liquor markets. On the back of renewed consumer demand for classic cocktails, sales of spirits such as bourbon have been growing strongly. According to the Distilled Spirits Council of the United States, bourbon sales in the US grew by 6.8% in 2013 compared with 2012, while revenue increased 10.2% to US$2.4b as prices also rose. The largest increases were in premium and super-premium spirits.5 The deal creates the world's third-largest premium spirits group and boosts Suntory's US market share from less than 1% to 11%.6

"By acquiring Beam, Suntory gains both meaningful participation in one of the most profitable spirits markets and controls an iconic brand which they can leverage in emerging markets."

Andrew Cosgrove
Global Consumer Products Lead Analyst
EY

L’Oréal buys back Nestlé stake, sells Galderma

In two related deals in February, L’Oréal, the world’s largest cosmetics maker, agreed to pay €6b (US$8.2b) to buy back 8% of its shares from Nestlé and to sell its half of the Galderma skin-care joint venture to the Swiss group. To finance the buyback, L’Oréal will pay €3.4b in cash for 27.3m shares and exchange its half of the Galderma joint venture for a further 21.2m shares, which puts an equity value of €2.6b and an enterprise value of €3.1b on the skin-care company.

Nestlé has held an almost 30% stake in L’Oréal since 1974, when L’Oréal heiress Liliane Bettencourt sold around half of her stake. Nestlé and Bettencourt agreed not to sell their stakes without offering the other the chance to buy them, but that agreement is due to expire on 29 April this year. After the deal, Nestlé’s stake will fall to 23.3% from 29.4%, and the Bettencourt Meyers family’s stake will rise to 33.3% from 30.6%.

At first glance the deal appeared to show that the companies’ long-term relationship was beginning to unwind but uncertainty remained after Nestlé Chairman Peter Brabeck-Letmathe said Nestlé’s remaining stake was “strategic” and “long term.”7

According to the Financial Times, the transaction underlines Nestlé’s determination to become less dependent on traditional foods and beverages and more committed to science-based nutrition, health care and “wellness.” Galderma, for example, will become the core of a new division called Skin Health. Last year, Nestlé bought Pamlab, which manufactures food products for people suffering from depression and cognitive impairments, and in 2012 bought a stake in Accera, which makes similar products for Alzheimer patients. On the disposal side, in February this year, Nestlé sold sports nutrition brands PowerBar and Musashi to Post Holdings for an undisclosed sum.

AB InBev takes back Oriental Brewery

In January, AB InBev announced that it had re-acquired Korean brewer Oriental Brewery (OB) from private equity groups KKR and Affinity Equity Partners for US$5.8b. AB InBev sold the business in July 2009 as part of the deleveraging it undertook following the US$52b Anheuser-Busch acquisition in 2008. AB InBev had the right to reacquire OB at a pre-agreed EBITDA multiple within five years of the original sale, which was set to expire in July 2014. Analysts at Société Générale said the deal’s value reflected 11.6x OB’s 2013 EBITDA. The sale is Asia’s biggest ever for private equity, excluding flotations, and represents a return of more than five times KKR’s and Affinity’s investment.

Temasek takes full control of Olam

In March, Temasek Holdings, the Singapore Government’s investment company, announced a tender offer for the remaining 48.6% stake it does not already own in Olam International, the global integrated supply chain manager and processor of agricultural products and food ingredients, for US$2.6b. The all-cash offer is being made by Breeden Investments, a subsidiary of Temasek, which is leading a consortium, including Olam founding family shareholders, that owns a combined 52% stake. The price reflected a 12% premium to the last closing price before the offer was made. “Temasek is already a large holder of Olam so they probably know the business better than everybody else,” said Robert Aspin, the Singapore-based head of equity investment strategy at Standard Chartered Plc. “The fact that they are willing to pay a premium is indicative of the value that they see in the underlying business.”

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Grupo Bimbo expands North American footprint

Mexico’s Grupo Bimbo announced in February that it had agreed to purchase the entire share capital of Canada Bread Company from Maple Leaf Foods, which currently holds 90% of the stock, for C$1.8b (US$1.7b). Maple Leaf intends now to focus on its consumer packaged meats business. Canada Bread is the market leader in packaged bread and the second largest player overall in the Canadian bread market. Analysts at Morgan Stanley said the transaction would increase Grupo Bimbo’s footprint in Canada and provide access to new markets (UK). In terms of valuation, the deal reflected a multiple of 10.1x estimated 2014 EBITDA.13 According to analysts at Santander, “consolidation should lead to a 30-basis-point margin expansion, even before synergies. Synergies could lead to a 21%-35% increase in EBITDA in the next five years.”14

Swiss baker Aryzta plays consolidation role

Swiss bakery group Aryzta made two North American acquisitions during the first quarter, buying Chicago-based Cloverhill Bakery for US$673m and Canada’s Pineridge Bakery from private equity group Swander Pace Capital for US$340m. Pineridge is a leading Canadian specialty bakery that manufactures and markets frozen and fresh specialty baked goods. The company sells private-label and branded products in the food service, in-store bakery, convenience and grocery channels in North America. Cloverhill Bakery produces individually wrapped pastries for retail and food service customers.

Aryzta has been an active dealmaker in recent years. In 2010, the group paid a combined US$1b for US groups Fresh Start Bakeries and Great Kitchens, and in 2013 bought privately owned German baker Klemme. Pineridge and Cloverhill will diversify Aryzta’s business model and are expected to generate double-digit-earnings-per-share growth in fiscal 2015, according to the company’s estimates.15 Davy Research analyst John O’Reilly said the acquisitions would ensure Aryzta was less “dependent” on existing channels. “These look to be designed to diversify bakery operations from near total dependence on frozen par-baking and from in-store preparation.”16

“The bakery sector remains a fragmented market, and serial acquirer Aryzta has been an active force in the consolidation process in both Europe and North America, which has further to run.”

Mike Sills
Global Consumer Products Assurance Leader
EY

Hershey triples its China exposure

Hershey has agreed to acquire an 80% stake in Chinese confectionery and snack food company Shanghai Golden Monkey Food for US$584m. The US group will acquire the remaining 20% on the first anniversary of the transaction. Analysts viewed the deal favorably, which fits with the company's strategy of expanding its emerging market exposure. According to Wells Fargo, Hershey gains in-country manufacturing assets at a time when its existing capacity is tightening and instantaneous access to local distribution and sales personnel, which would be costly and time-consuming to build organically. The deal also provides a potential platform for further M&A in a fragmented industry. Barclays highlighted that the deal would increase Hershey's exposure to the non-chocolate confectionery category in China, which is roughly four times the size of the chocolate category, and improve access to traditional retail channels – Hershey currently operates mainly in the modern trade.

“Shanghai Golden Monkey is a transformational deal for Hershey. It is a very attractive asset that will significantly increase Hershey’s scale in the Chinese market. This is critical as Hershey aspires to win in China through building scale in distribution as well as making inroads into new categories.”

Yew-Poh Mak
Transaction Advisory Services, China EY

Hain Celestial acquires in the UK again

In January, the Hain Celestial Group announced the acquisition of UK-based Tilda, a branded basmati and specialty rice company, which is credited with first bringing basmati rice to the Western world, for £217m (US$358m). US-based Hain has acquired several UK businesses in recent years. Last year, the company bought Ella’s Kitchen Group, which makes branded organic baby food products provided in easy-to-carry pouches. In 2012, Hain acquired the Hartley’s, Gale’s, Robertson’s, Frank Cooper’s and Sun-Pat brands from Premier Foods, and in 2011 bought the New Covent Garden Soup Company. According to Janney Capital Markets, the Tilda deal, which is Hain’s largest since Celestial Seasonings in March 2000 (US$420m), reflects a 9.0x EBITDA multiple, implying solid profitability for a company that is growing in the mid-to-high single digits.

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Methodology

Data source and industry scope

*Consumer Products Deals Quarterly* is based on EY’s analysis of Thomson Reuters data from Q2 11–Q1 14. Data was pulled from the Thomson Reuters database using standard industrial classification codes together with EY’s identified deals.

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

Deal activity and valuations may fluctuate slightly based on the date that the Thomson Reuters database was 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.
- Private equity deal activity includes full and partial-stake transactions and was analyzed based on acquisitions by firms classified as private equity, 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 private equity).
- Joint ventures were not included.
- The value and status of all deals highlighted in this report are as of 14 March 2014. Q1 2014 represented deals announced between 15 December 2013 and 14 March 2014.
- All dollar amounts are in US$ unless otherwise indicated.
- There is no minimum US$ deal threshold.
- Only disclosed deal values (as per Thomson Reuters) 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.
- The disclosed value as stated in the top 10 deals table is the total value of consideration paid by the acquirer, excluding fees and expenses. The dollar value includes the amount paid for all common stock, common stock equivalents, preferred stock, debt, options, assets, warrants and stake purchases made within six months of the announcement date of the transaction. Liabilities assumed are included in the value if they are publicly disclosed. Preferred stock is included only if it is being acquired as part of a 100% acquisition. If a portion of the consideration paid by the acquirer is common stock, the stock is valued using the closing price on the last full trading day prior to the announcement of the terms of the stock swap. If the exchange ratio of shares offered changes, the stock is valued based on its closing price on the last full trading day prior to the date of the exchange ratio change. For public target 100% acquisitions, the number of shares at date of announcement is used.
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Consumer products companies are operating in a brand new order, a challenging environment of spiraling complexity and unprecedented change. Demand is shifting to rapid-growth markets, costs are rising, consumer behavior and expectations are evolving, and stakeholders are becoming more demanding. To succeed, companies now need to be leaner and more agile, with a relentless focus on execution. Our Global Consumer Products Center enables our worldwide network of more than 16,000 sector-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 assist you in making more informed strategic choices and help you execute better and faster.

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