

M&A update

Consumer Autumn 2015



“A combination of low financing costs, a search for growth and rising consumer and property indices is propelling consumer M&A activity in 2015. Although pricing feels a little frothy in the sector, the underlying fundamental conditions have a favourable future outlook.”

Simon Peacock
Head of Consumer,
Catalyst Corporate Finance

A year of two halves

Whilst global consumer deal volumes have remained static over the last five years, 2014 saw a sharp rise in deal values. Now in 2015 we are seeing a year of two halves for UK mergers and acquisitions (M&A): the first half activity slowed whilst the general election unravelled, and the second half is rising as consumer confidence is high and private equity (PE) funds need to deploy cash. With UK consumer sentiment at its highest level since 2007 and increasing pressure from investors and shareholders, M&A is being driven by acquisitions of differentiated core offerings in key markets and divestments of mediocre offerings in the squeezed middle markets.

Key observations

The rise of the Hourglass Consumer

The Hourglass Consumer state occurs when the economy struggles and consumers maintain their spending on luxury items while shopping down with the balance of their spend towards value items, for example, driving a Range Rover Sport to grocery shop at Lidl. Within this trend the middle market becomes increasingly squeezed. Premium mixer Fever-Tree has seized significant market share from mid-brand Schweppes since its founding in 2005 and discount retailer Primark has prospered, even as consumer spend recovers. These market dynamics create an M&A demand for brands and businesses that have positioned themselves appropriately for the needs of the Hourglass Consumer.

Large-scale consolidation in the ‘safe’ UK food and drink sector

Five of the 12 largest global consumer deals announced in 2014 were in the food and drink sector, with a combined deal value of almost \$30 billion. A prominent theme was

the rise of emerging markets buyers such as Turkey’s Yildiz, which saw off stiff competition from Kellogg’s and Burton’s Biscuits in an endurance race to purchase United Biscuits. This deal demonstrates the confidence created by consistently performing ‘safe’ UK brands for overseas buyers who are saturated in their own domestic markets. This year has seen the momentum continue with China’s Bright Foods’ acquisition of the remaining 40% in Weetabix and Philippines-based Monde Nissin’s purchase of Quorn Foods.

PE investment continues to have an important role

Following a positive 2014, PE transactions slowed in the first half of 2015 due in part to the uncertainty surrounding the general election. Post the election this has reversed and PE continues to play an important role in terms of transactional expertise and ability to add value against the backdrop of a debt and initial public offering (IPO) market that still remains fluid.

In focus: Household – interiors and exteriors

Key themes

- PE has continued to invest in consumer businesses, especially in household interiors and exteriors. Deals include CBPE's investment in Sofa.com, Rutland's backing of Gardman, Ares' acquisition of Farrow and Ball and Promethean's purchase of Sofa Brands International (SBI).
- Listed businesses are using their access to public funds to consolidate in their sector as demonstrated by the recent acquisition of Interfloor by Victoria PLC.
- The UK furniture chains queuing up to float prior to the general election (including DFS and ScS) may be joined by online retailer made.com, but the IPO markets remain fluid.

Furniture and upholstery activity increasing

The British furniture industry is a mature, established and sometimes overlooked highly skilled and traditional industry. Manufacturing turnover is £9.4 billion, with over 8,000 companies and 115,000 skilled individuals being employed. In 2014 the upholstered furniture market was worth £1.7 billion and is forecast to increase by around 2.7% in 2015. Several factors contribute to this uplift, including a sustained improvement in the housing market, low interest rates and steadily rising consumer confidence. Ecommerce is an important part of how this traditional industry is changing and expanding. Growing consumer confidence and omni-channel disruption supports a range of exit or funding options available to upholstery businesses, illustrated by recent transactions in the sector, including PE investments in Sofa.com (CBPE), Sofa Brands International (Promethean) and IPOs from several UK furniture suppliers.

Value not volume drives property market growth

Growth in household interiors and exteriors is inextricably linked to the performance of the property market. Although still lagging pre-recession levels, UK property transactions have

increased annually over the last five years. As house prices continue to rise but volumes stall, house sellers are likely to continue to spend on their interiors and exteriors if it means improving the saleability of their home in a competitive but value rewarding market (see Figure 1).

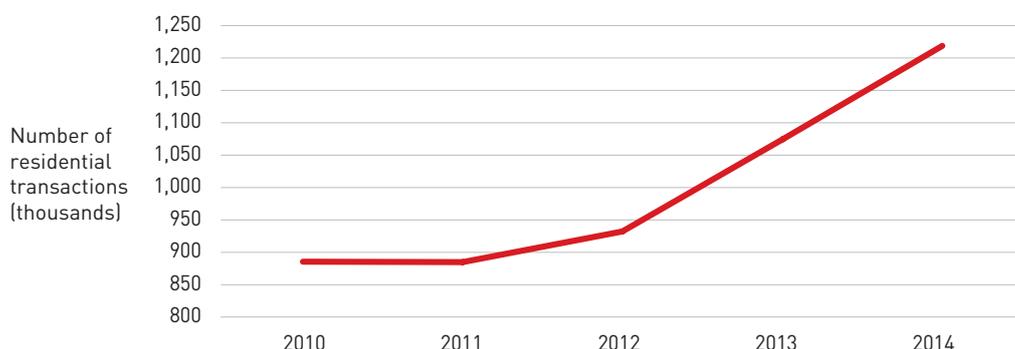
Promethean a pre-emptive buyer for SBI – investment in interiors

One of the UK's most successful furniture manufacturers, Sofa Brands International (SBI), was sold in January to pre-emptive PE buyer Promethean. The business was undergoing a period of strategic change and looking for further opportunities to harness growth. Promethean showed its understanding of the opportunity in the sector, demonstrating the current PE appetite for household interior spend.

Rutland backs Gardman – growth support for exteriors

Illustrating strong appetite in the PE market to tap into the wider household exteriors growth opportunity, Rutland Partners recently backed the secondary management buy-out of Gardman, the UK's leading supplier of garden products. The transaction includes a significant investment (£5 million) to grow the business.

Figure 1: Annual UK property transactions



Source: Office for National Statistics

M&A analysis

Subdued M&A activity increasing

M&A appetite in the first half of 2015 was dampened by the general election (see Figure 2). Concerns over potential policy changes resulted in a constrained deal environment. However, following the Conservative election victory, M&A activity increased by 53% in June, with the outlook for the second half strong. Deal flow is also supported by a huge pool of mid-market UK private equity funds that need to deploy significant cash levels into what is a more settled UK political landscape where consumer confidence is rising.

Online growth and Hourglass Consumer trends remain key

UK online retail sales are forecast to reach £52 billion in 2015, a year-on-year increase of 16%. With ecommerce and the Hourglass Consumer driving growth in consumer spending, 'bricks and mortar' and 'middle ground' retailers need to maintain the ability to draw in their customers. This trend is illustrated by Italian online fashion retailer Yoox's acquisition of UK's Net-a-Porter, creating the world's largest luxury online retailer. This deal shows how established luxury goods retailers are being disturbed by technological giants entering top-end luxury goods as

they move towards a modern accessible omni-channel approach.

Portfolio optimisation important in the consumer sector

Nomad Foods' £1.9 billion acquisition of frozen food firm Iglo has been this year's largest UK food and drink deal, providing the company with an anchor to further expand its range of well-known brands and products. Portfolio optimisation has been a key M&A theme in 2015, both via strategic investment and cost restructure. A number of companies are also using divestment to refocus on higher growth and exit non-core elements. Proctor & Gamble, for example, has culled some 100 brands as part of its strategy to focus on 65 core brands across 10 categories.

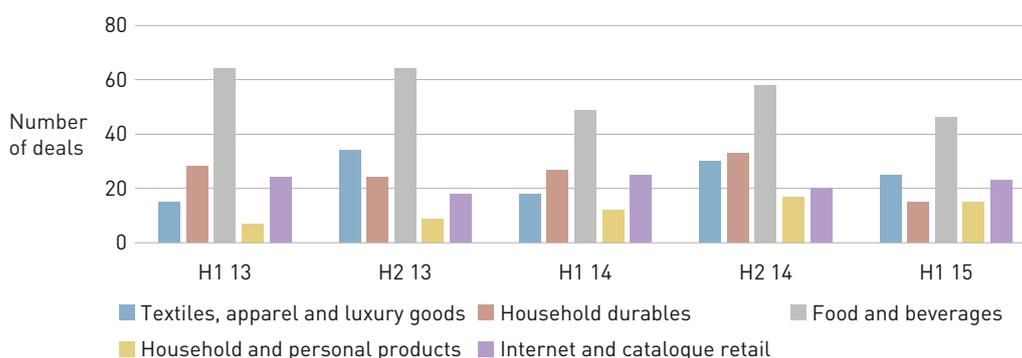
Variable stock market reactions to recent Consumer flotations

New share offers in the consumer space are being greeted with varying degrees of enthusiasm. In November 2014 premium drinks company Fever-Tree enjoyed a share price jump of almost 28% in its first day of trading (and has since more than doubled in price), whilst more recently shares in sofa chain ScS Group plunged by around the same percentage following a profit warning.

Key themes

- Market dynamics are improving in H2 2015 post the general election, with portfolio optimisation and availability of private equity funds a key theme.
- Global players are reassessing strategies and divesting non-core assets that do not fit with important emerging consumer trends such as the Hourglass Consumer.
- Corporate combinations are becoming more popular as companies look to develop high growth/premier margin product lines and adapt to meet customer demand.
- An omnichannel retail experience is becoming increasingly important.
- UK stock markets have had varied reactions to IPOs in the consumer space.

Figure 2: UK M&A activity by consumer sector



Source: Mergermarket

Selected transactions

Date	Company	Country	Target Description	Acquirer	Country	Deal value (£m)
Sep-15	Benfield Motor Group	UK	Automotive retailer and distributor	Lookers plc	UK	87.5
Sep-15	Aqualisa	UK	Manufacturer of showers	LDC	UK	n/d
Sep-15	Interfloor Group	UK	Manufacturer of carpet underlay	Victoria PLC	UK	65.0
Aug-15	TM Lewin Shirtmakers	UK	Clothes makers and retailers	Sankaty Advisors	US	100.0
Jul-15	Seabrook Crisps	UK	Producer and supplier of potato crisps	LDC	US	35.0
Jun-15	Thorntons plc	UK	Chocolate retailer	Ferrero International	UK	30.0
Jun-15	The Groucho Club	UK	Exclusive members club	Graphite Capital Management	UK	40.0
Jun-15	Gardman	UK	Garden products manufacturer	Rutland Partners	UK	n/d
May-15	Weetabix (40%)	UK	Cereal manufacturer	Bright Foods	China	n/d
Apr-15	Napier Brown Foods	UK	Ingredients and chilled foods	Tereos Participations	France	34.0
Apr-15	Naked Wines	UK	Online wine retailer	Majestic Wine	UK	70.0
Mar-15	Microgard	UK	Protective clothing manufacturer	Ansell	Australia	59.0
Mar-15	TotalStay Group	UK	Online accommodation provider	JacTravel	UK	n/d
Mar-15	Holiday Inn Portfolio	UK	Hotel chain	Cerberus Capital Management	UK	225.0
Mar-15	Net-a-Porter	UK	High end online fashion retailer	Yoox	Italy	n/d
Mar-15	BHS Group	UK	Department store chain	Retail Acquisitions	UK	70.0
Feb-15	Mydeco	UK	Online furniture market place	Monoqi	Germany	n/d
Feb-15	Sofa.com	UK	Omnichannel retailer of furniture	CBPE Capital	UK	n/d
Jan-15	Sofa Brands International	UK	Branded sofa manufacturer	Promethean Investments	UK	n/d

Source: Catalyst Corporate Finance



Smart advice

Catalyst advises business owners and management teams on:

- Company sales
- Management buy-outs and buy-ins
- Company acquisitions
- Raising private equity capital
- Raising and refinancing debt capital

Global reach

Our international partnership is present in 50 cities worldwide and provides:

- Access to overseas buyers
- Local insight into M&A culture and likely tactics
- International M&A research
- Identification of overseas targets and acquisition execution

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