

M&A update

Consumer Autumn 2016



“The EU referendum was a shock to the consumer system. However, its immediate economic impact needs to be put into context against a UK consumer who is still spending. At Catalyst we are still seeing consistent M&A activity in the Consumer sector with a weak sterling driving particular interest from overseas trade and private equity.”

Simon Peacock
Head of Consumer,
Catalyst Corporate Finance

Consumer comfort in the Brexit storm

Consumer and retail M&A activity in 2014 and 2015 was characterised by high deal volumes, relatively high valuations and mega deals. This year, despite Brexit, we are continuing to see deal volumes for large, lower-risk businesses at 2015 levels. However, the valuations and liquidity that drove the “frothy” seller’s market a year ago are giving way to a more balanced environment.

This year is characterised by a potential tightening of credit markets and lower valuations, especially for smaller companies with riskier, more volatile cash flows and, of course, the Brexit factor. Overall, there is still an active M&A market in consumer retail, but it has become a more rational one. There is a better balance between buyers and sellers and more reasonable deal values for higher-risk acquisitions.

Key observations

Consistently high M&A activity

Food and drink is still a key subsector in terms of deal volumes, representing nearly one in two of every deal happening for the last three quarters in the Consumer sector. Acquirers are looking for both indulgence and health trends. “Made in Britain” heritage is also a strong theme from sectors as wide as furniture to hospitality, and especially where exports are an important part of the growth model.

Mega deals “froth” now balanced

Deals in the beer subsector in particular drove up both value and valuation metrics in 2015. This year we are seeing a return to a more balanced economic pricing model. Valuations are partly demand and supply driven. However, wider economic issues such as the UK EU referendum, oil price decline and potential interest rate uncertainty have cooled some buyers’ views on value.

US buyers are active

US trade and private equity have shown increasing interest in UK consumer assets. Particular focus has been on assets with opportunities to fast track the modernisation of rollout of the sales and retail platform of more traditionally established sectors from cycling to snacking and “craft” food retail.

UK private equity are more focused

UK private equity (PE), historically very active in casual dining, has been more selective, for example around which formats and food brand concepts in which to invest. This selective approach has led to a number of high profile sale processes in the casual dining sector stalling having not reached desired valuations.

In focus: restaurants, bars and pubs

“A declining population and aging society have created a very competitive restaurant market in Japan with limited growth prospects. Restaurant operators such as Toridoll are now seeking growth opportunities through M&A overseas. They are particularly attracted to emerging brands in Asian or healthy food in fast food and fast casual formats, and freshly cooked food prepared in an open kitchen. The open kitchen format provides customers with a lively, entertaining experience that has become a signature concept for Toridoll’s noodle restaurants in Japan, as well as its brands overseas such as Wok to Walk.”

Owen Hultman
Executive Vice President,
Catalyst’s Japanese partner firm

Private equity increasingly focused

Whilst M&A activity in the casual dining, bars and pubs sector has slowed over the last year with 15 transactions of significant size compared to 19 for the previous 12 months, PE continues to dominate the buyer population. Caledonia recently announced the MBO of Liberation Group, the operator of pubs, bars, eateries, brewery and retail and wholesale chains. The £118m acquisition of Liberation delivers strong cash flow generation and dividend yield for Caledonia, which is an ideal fit with the investment criteria sought by Caledonia’s unquoted portfolio. Equistone acquired Gaucho Grill for the second time in ten years in a £100m deal in January. Leading the investment proposition within the Gaucho group is its sister brand, Cau, which now has 16 restaurants in the UK and one in Amsterdam. It serves Argentinian dishes in contemporary surroundings at a slightly lower price point than Gaucho.

A recent investment in Gaucho by Luke Johnson, who has a successful record with Patisserie Valerie and Pizza Express, suggests an IPO could be next.

In the bars and pubs sector, Graphite Capital, which has a successful record of investing in the niche, has recently acquired New World Trading Company for £50m, generating a 6.1x return for LDC. New World operates nationally under five brands: The Botanist, The Oast House, Smugglers Cove, The Trading House and The Club House.

Few strategic trade acquirers

Eclectic’s £16m reverse takeover of Brighton Pier Group plc marks a shift in strategy away from its focus on running bars for students and young professionals, reflecting challenging trading conditions. Casual Dining Group (CDG) has been the key strategic acquirer recently, extending its brands to six and portfolio of sites to almost 300 ahead of a rumoured IPO next year. Whilst its acquisition of Las Iguanas appeared to be bona fide support of the Latin food & cocktail brand, the La Tasca acquisition is reported to be motivated by its geographic footprint, allowing some of CDG’s core brands to expand into the La Tasca estate, thereby significantly reducing the tapas chain’s presence in the UK.

Spotlight: the emergence of overseas trade buyers

Catalyst’s recent UK market mapping exercise identified over 80 multi-site restaurant operations of a notable size, split almost evenly between privately owned and PE-backed businesses across the fast food, fast casual, casual dining, fine & formal dining, and coffee & juice bar segments.

Of these, Ed’s Easy Diner, Bill’s Restaurant and Pizza Hut UK Restaurants have failed to meet shareholders’ valuation expectations in recent sale processes. This reflects an apparent cooling of the market. Average EV/EBITDA forward multiples in the 12 months to June 2015 were over 12.0x compared to 9.0x to June 2016. Positioning of fast growing chains rumoured to be coming to market in the early part of 2017 will be heavily scrutinised, and the robustness of underlying profitability will be of particular interest to increasingly focused UK PE buyers and a shrinking domestic strategic acquirer population.

Strategic trade buyers will continue to emerge once operators demonstrate their model works in multiple territories. Toridoll’s recent investment in Wok to Walk gives it access to the European market and enables Wok to Walk to accelerate the growth of its 60-strong estate throughout Europe, the US, Africa and South America.

Bobby Fletcher, Catalyst Corporate Finance

M&A analysis

The hourglass consumer is forcing a focus on core offerings...

The ongoing impact of new entrants is forcing some businesses to divest non-strategic assets that distract from their stronger, core offering. In response to the market share gains achieved by the hard discounters Aldi and Lidl and the threat of new entrant Amazon Fresh, Tesco has sold coffee shop chain Harris + Hode (to Cafè Nero), restaurant chain Giraffe, Euphorium Bakery and Dobbies Garden Centres.

...supporting demand for premium brands

The success of recent IPOs shows strong investor appetite for businesses which are demonstrating a differentiated brand, premium positioning and high growth expectations. LDC has followed the successful flotation of Fever-Tree with the IPO of Joules, generating a 2.4x return. The IPO of Hotel Chocolat valued the business at circa 27 times its latest reported EBITDA. And Investcorp has sold the upmarket crisp brand Tyrells to US-listed Amplify Snacks for £300m, or nearly three times what it paid three years ago.

...and demand at the discount end

Steinhoff won over shareholders at discount retailer Poundland with what will be a circa £610m deal.

Consistent consumer appetites are pushing market leaders to target convenience/healthy on-the-go consumption

Consumer demand for health, indulgence and convenience continues to support major growth opportunities.

One of the fastest-growing food & drink segments is plant-based dairy alternatives – Ben & Jerry’s, for example, has recently launched its first non-dairy range of “ice cream” which focuses on taste and indulgence. This trend is driving strategic and PE activity. Major manufacturers are targeting brands which successfully combine health and taste, as illustrated by Danone’s \$12.5bn acquisition of WhiteWave which sells the Alpro brand in Europe, and those brands which enable them to diversify away from fizzy drinks, as demonstrated by Coca-Cola’s \$575m acquisition of Unilever’s AdeS soya brand in Latin America.

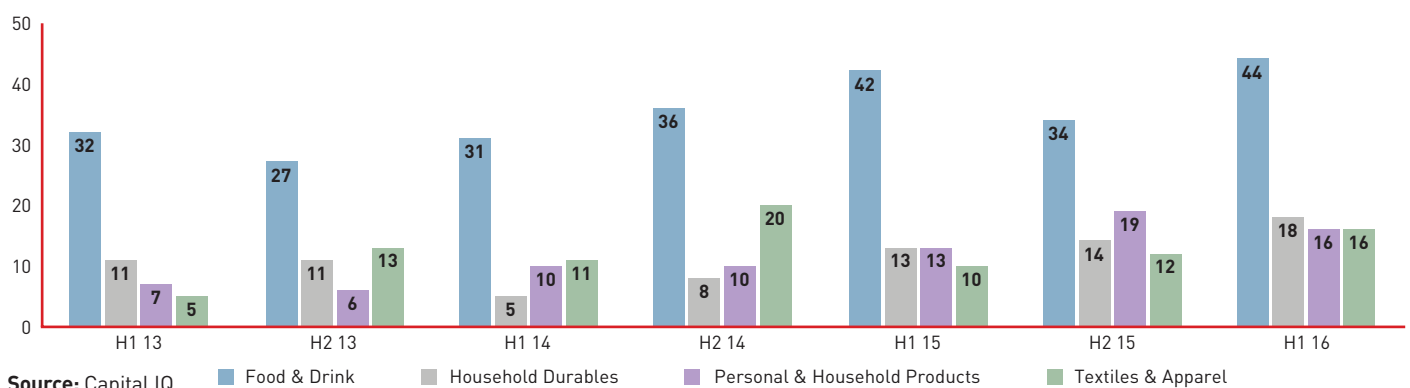
Healthy food-to-go chains have attracted investment; LDC has backed the management buy-out of Vital Ingredient while Whitbread plc has acquired a stake in Pure. In both cases, the investment will support significant outlet expansion into new cities.

Discretionary spend holding up in travel and hospitality

Whilst consumer confidence levels are being watched closely, discretionary spend by higher earners in areas such as holidays and leisure remains strong and this is supporting M&A. In particular, consolidation of booking sites is continuing with TripAdvisor acquiring HouseTrip, Accor acquiring Onefinestay, Phoenix Equity Partners investing in Travel Chapter and Bridgepoint Development Capital acquiring CRUISE.co.uk.

There is also ongoing demand for high quality UK manufacturing business that are capturing consumer spend on hospitality and home interiors. US-based PNC RiverArch Capital has acquired Steelite International and NorthEdge has backed the management buy-out of Belfield Furnishings.

Figure 1: UK M&A activity by consumer sector



Selected transactions

Date	Company	Country	Target description	Acquirer	Country	Deal value (£m)
Sep-16	Gourmet Burger Kitchen	UK	Premium burger restaurant chain	Famous Brands	South Africa	120.0
Aug-16	Tyrrells	UK	Manufactures premium snack foods	Amplify Snack Brands	US	300.0
Aug-16	CRUISE.co.uk	UK	Online cruise holiday website	Bridgepoint Development Capital	UK	52.0
Jul-16	Belfield Furnishings	UK	Upholstered furniture, soft furnishings, caravan interiors	NorthEdge Capital	UK	n/d
Jul-16	The Liberation Group	UK	Pub, restaurant and drinks business	Caledonia Investments	UK	118.0
Jul-16	The Seafood Pub Company	UK	Operates gastro-pubs	Penta Capital	UK	18.0
Jun-16	New World Trading Company	UK	Operates pubs and restaurants	Graphite Capital	UK	50.0
Jun-16	Giraffe	UK	Restaurant chain	Boparan Restaurants	UK	n/d
Jun-16	Steelite International	UK	Manufactures tabletop solutions for the hospitality industry	PNC RiverArch Capital	US	n/d
Jun-16	Blinds 2go	UK	Online blinds retailer	Hunter Douglas	Netherlands	n/d
Jun-16	Radley + Co	UK	Designs and manufactures handbags and accessories	Bregal Freshstream	UK	n/d
Jun-16	Dobbies Garden Centres	UK	Specialist garden centre retailer	Midlothian Capital Partners	UK	217.0
Apr-16	The Brighton Marine Palace and Pier Company	UK	Owms and operates Brighton Pier	Eclectic Bar Group	UK	18.0
Apr-16	Texon International	UK	Manufacturer of structural footwear components	Navis Capital Partners	Hong Kong	n/d
Apr-16	Thomas J Fudge's	UK	Manufacturer of premium biscuits	Livingbridge	UK	n/d
Apr-16	Vital Ingredient	UK	Operates a chain of made-to-order salad and soup bars	LDC	UK	n/d
Mar-16	Premier Foods	UK	Manufactures branded and own label food and beverage products	McCormick & Company	US	1,123.2
Mar-16	MPM Products	UK	Produces pet food for cats and dogs	ECI Partners	UK	n/d
Feb-16	Kitbag	UK	Operates as a sports online retailer	Fanatics	US	11.6
Jan-16	Gaucho Holdings	UK	Restaurant group focused on Argentinian cuisine	Equistone Partners Europe	UK	100.0

Source: Catalyst Corporate Finance

 <p>Steelite International</p> <p>Sale to</p>  <p>PNC RiverArch Capital</p>	 <p>Belfield Furnishings</p> <p>Management buy-out</p>  <p>NorthEdge</p>	 <p>interfloor</p> <p>Sale to</p>  <p>Victoria PLC</p>	 <p>Bowlplex</p> <p>Sale to</p>  <p>The Original Bowling Co.</p>
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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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