

## M&A update

### Consumer Autumn 2017



“Consumer deals, be it holidays, body beautifying, burgers, blinds or beer, are holding up amid Brexit unknowns. Low to mid-ticket items are a deal sweet spot for both overseas trade and UK private equity. Consumers, dealing with many daily pressures to look and feel good, are the investment case behind many of the deals we are seeing.”

**Simon Peacock**  
Head of Consumer,  
Catalyst Corporate Finance

### A conscious consumer in an “experience” economy

Consumer and retail M&A activity in H1 2017 is characterised by investment in the “experience” economy. This is being driven by increased spending on leisure activities and eating out, and the conscious consumer becoming ever more aware of the health and wellbeing credentials of products and services.

### Key observations

#### **Despite geopolitical pressures on consumers, M&A volumes are holding up**

Against a backdrop of Brexit negotiations, falling consumer confidence and weaker spending, M&A volumes are holding up, especially for those companies associated with smaller to mid-ticket items. Across a range of items such as holidays, beauty products, nutrition and small home improvements, the consumer is cautious but continuing to spend. Deal premiums are being exhibited in those sub-sectors benefiting from this behaviour.

#### **UK private equity active in smaller assets**

UK private equity (PE) are actively investing in smaller assets where there is growth. Demand for drinks, biscuits and pet food is rising. Investing early in innovative brands in these niches is important. Such brands are often able to use their responsiveness to consumer needs and behaviour to transform product categories, thereby achieving high levels of loyalty and brand elasticity to drive rapid growth.

#### **Larger mid-market assets are being realised**

Some of the UK’s larger mid-market assets have been sold, demonstrating this is also a good time to do bigger deals. Given the potential undertaking of a hard Brexit and the low cost of finance, such deals may be harder to execute in two years’ time. Sellers also see the opportunity of a sale now and sacrificing some of the value in growth for certainty of a deal.

#### **Pricing is still going up**

Pricing for good consumer assets has risen steadily since 2011/2012. However, this does not seem to have reached a ceiling. Businesses with overseas growth, on-trend products and scale are in a strong sellers’ market with some assets selling for record high valuation multiples.

# In focus: Beverages



“Consumers are increasingly conscious of what they eat and what they want from food and drink. Counting calories is no longer just for fitness fanatics and we’re all a bit more aware that a can of full fat cola and packet of crisps probably isn’t the best snack. We’re also more interested in and engaged with the origin of what we consume. Brands like Clearly Drinks have propositions that are highly on-trend with an established route to market and further opportunities for new product development.”

**Liam McGuinness**  
CIL Management Consultants

## Interest from trade and PE

UK beverage sector M&A in H1 was spread evenly between strategic and private equity buyers. Many have been willing to pay premium prices, demonstrating broader consumer preferences for high quality, healthy and nutritional beverages.

Strategic buyers continue to be primarily UK-based, seeking synergies through the expansion of distribution networks, product offerings and manufacturing capacities. Marston’s £55m acquisition of Charles Wells was a 9x multiple on current EBITDA and 5.5x on post-synergy EBITDA, reflecting the opportunity to extend trading into new areas and bolster Marston’s premium beer offering, specifically in bottled and cask ale.

## Craft remains attractive at home and abroad

The growth in craft beer and spirits shows no sign of slowing and is reflected in recent M&A. In the last 12 months there have been around 20 transactions, most involving UK buyers. For example, Halewood Wines & Spirits has taken a minority stake in The City of London Distillery, majority stakes in Hawkshead Brewery and Liverpool Gin, a stake in Bajan Trading Company and acquired a

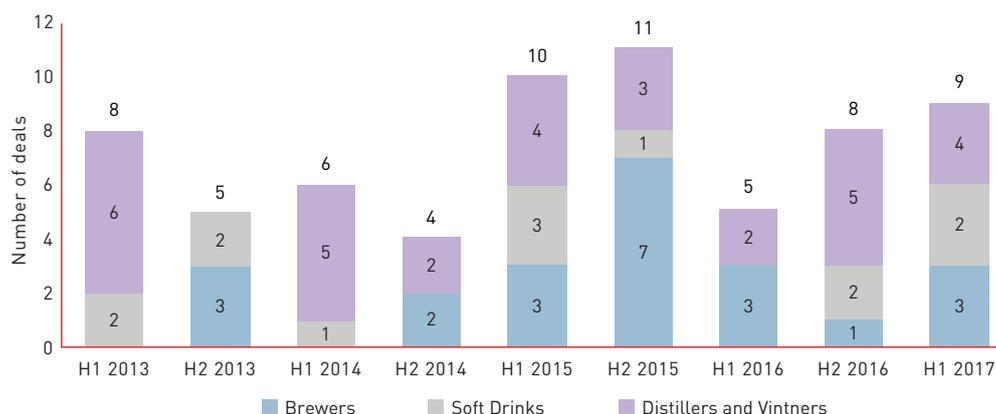
50% stake in The Pogues Irish Whiskey. The deals illustrate Halewood’s move towards craft brands targeting different price points and the strategic priority to capitalise on consumer preferences for alcoholic beverages made in smaller local breweries and distilleries.

Overseas investors have made significant acquisitions. US-based TSG Consumer Partners acquired a stake in BrewDog for £210m in preparation for a rumoured IPO, London-based gin producer Sipsmith was bought by US spirits manufacturer Beam Suntory to help expand Sipsmith’s international presence, and Italy’s Davide Campari-Milano acquired the London Dry Gin brand Bulldog Gin for almost £47m.

## Health and wellness

The convergence of indulgence and hydration is creating opportunities in healthy drinks, as demonstrated by NorthEdge’s acquisition of Clearly Drinks, a manufacturer of branded and private label low calorie flavoured waters. The US is ahead in this area with deals involving healthy teas, coconut water and drinks made from maple sap. Similar opportunities exist in the UK, with the most recent acquisition of Pukka Herbs by Unilever demonstrating this.

**Figure 1: UK M&A activity – brewers, soft drinks, and distillers and vintners**



Source: Mergermarket

# The conscious consumer supporting the rise of specialist brands

Consumers' desire for health, nutrition and wellness combined with their preference for provenance and heritage remains a major trend and influence on product development. Specialist and innovative brands with a well-defined focus on features such as 'health', 'natural', 'free from' and 'fresh' continue to disrupt the market and increase market share.

PE investors and trade acquirers are looking for opportunities across the different purchasing opportunities associated with a healthy lifestyle, from food and drink to gyms and pets.

- Associated British Foods gained access to the sports nutrition market by acquiring Reflex Nutrition, which sells protein supplements online, and High 5, which produces energy gel sachets, for £60m.
- British brands are highly exportable and investors and acquirers are especially attracted to the potential for significant sales through international roll-out. Lion Capital has invested £72m in international nutrition snacks and supplements producer Grenade, whilst Rutland Private Equity acquired branded pet treat specialists Armitage Pet Care given the rise in treating in the UK and Europe.

- International acquirers continue to target pioneering UK brands. This is highlighted by Hain Celestial's acquisition of Yorkshire Provender, Brazil's Natura €1bn bid for The Body Shop from L'Oreal and L1 Retail's £1.8bn acquisition of Holland & Barrett, an exit for Carlyle Group.

## Discretionary spending prioritises quality experiences

The growth of the experience economy reflects the preference of many consumers to prioritise discretionary spending on restaurants, travel and other leisure activities. PE has been active, placing a premium on those brands and companies that are enabling quality experiences and providing specialist and adventure travel. Recent deals include KKR's investment in Travelopia, Piper's investment in steak restaurant group Flat Iron and Mobeus' investment in Spanish tapas restaurant chain Tapas Revolution.

## Intentional indulgent snacks

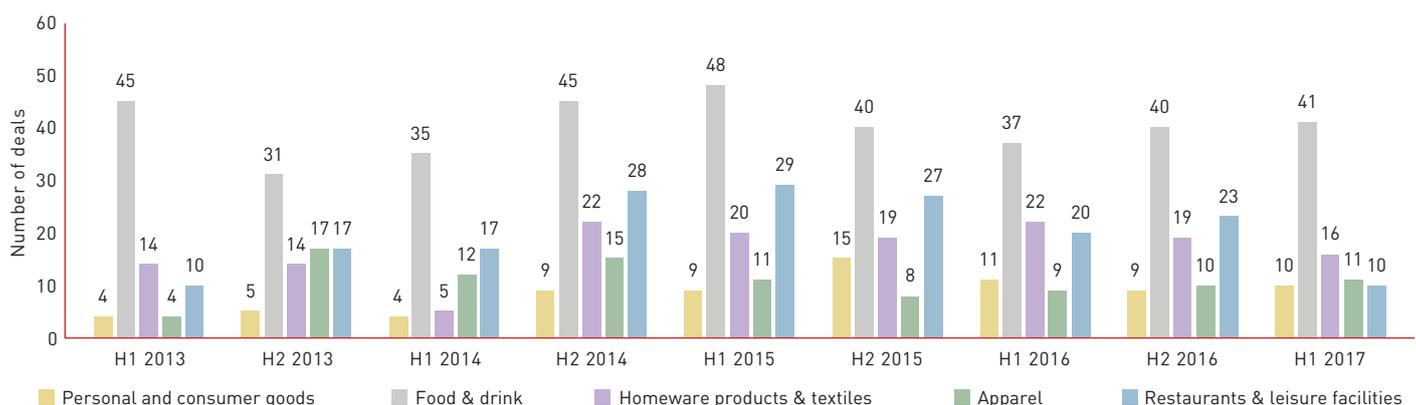
Consumers are still keen to have convenient, indulgent snacks and they typically remain loyal to established brands such as West Cornwall Pasty, acquired by Samworth's, and Addo Food Group (Pork Farms, Wall's) which LDC has backed in a secondary buy-out.



"PE is targeting divestment opportunities. Some major corporates are repositioning their portfolios to become more efficient and focus on core, faster-growing businesses. This is illustrated by Unilever's decision to sell its spreads business, GlaxoSmithKline's plans to divest its sports nutrition brand and Reckitt Benckiser disposal of its food business. The volume of PE funds looking for a home means financial investors are particularly keen to find assets, with 3G Capital's approach to Unilever a good example."

**Pippa Hunter**  
Senior Consumer Analyst,  
Catalyst Corporate Finance

Figure 2: UK M&A activity by consumer sector



## Selected transactions

Date	UK target	Target description	Acquirer	Country	Deal value (£m)
Oct-17	Musto	Professional sailing apparel	Helly Hansen	Norway	n/d
Sep-17	Armitage Pet Care	Premium pet food and accessories	Rutland Partners	UK	n/d
Jul-17	Standard Brands UK	Manufactures firelighters	SHS Group	UK	n/d
Jun-17	Travelopia	Specialist travel group	KKR	US	325.0
Jun-17	Sadlers Ales	Produces beers and ales	Halewood Wines & Spirits	UK	n/d
Jun-17	Flat Iron Steak	Operates a chain of steakhouses	Piper Private Equity	UK	10.0
Jun-17	The Body Shop	Manufactures and sells organic beauty and cosmetic products	Natura Cosméticos	Brazil	878.6
May-17	Hillary's Blinds	Manufactures blinds, curtains and shutters	Hunter Douglas	Netherlands	300.0
May-17	I Love Cosmetics	Manufactures bath, body and beauty scented products	GRI Group	UK	n/d
Apr-17	Addo Food Group	Packaged food and meat manufacturer	LDC	UK	n/d
Apr-17	Hill Biscuits	Manufactures and supplies biscuits	LDC	UK	n/d
Apr-17	BrewDog	Produces and markets beer	TSG Consumer Partners	US	213.0
Apr-17	Clearly Drinks	Manufactures soft drinks brands	NorthEdge Capital Partners	UK	n/d
Apr-17	Westbridge Food Group	Processes and supplies poultry and prepared food	CPF Investment	British Virgin Islands	60.0
Mar-17	City of London Distillery	Operates a gin distillery	Halewood Wines & Spirits	UK	n/d
Mar-17	Petface	Manufactures collars, leads, bedding and toys for pets	Velcro USA	US	n/d
Mar-17	Pet Food UK	Produces dog and cat food	Piper Private Equity	UK	n/d
Mar-17	Grenade	Produces weight loss products	Lion Capital	UK	72.0
Mar-17	Hawkshead Brewery	Produces and sells beer	Halewood Wines & Spirits	UK	n/d
Feb-17	Yorkshire Provender	Produces soups	Hain Celestial Group	US	n/d
Feb-17	Bulldog London Dry Gin	Produces gin	Gruppo Campari	Italy	46.8
Jan-17	Ministry of Cake	Produces desserts, cakes and puddings	Mademoiselle Desserts	France	n/d
Jan-17	Loungers	Café-bar chain	Lion Capital	UK	137.0

Source: Catalyst Corporate Finance, Capital IQ



## Smart advice

Catalyst advises business owners and management teams on:

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- Management buy-outs and buy-ins
- Raising private equity capital
- Raising and refinancing debt capital
- Equity Capital Markets

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- Local insight into M&A culture and tactics

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