

# the *Consumer*



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## ***Craft beer's a crowd-puller***

Could crowdfunding be the next big thing in the consumer goods market? The craft beer sector suggests it might.

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## ***Q4 2015 deals review***

Bumper quarter for Consumer deals, including the largest Consumer deal of the year in beer.

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## ***Focus on China***

Record year for Consumer deals in China, despite the economic slowdown.

Strategy& partner Adam Xu also gives his view on the trends in China's Consumer Goods M&A.

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## ***Client interview – Lotus Bakeries***

We talk to Lotus Bakeries CEO, Jan Boone after their recent exciting acquisitions in the fast growing snacking space.

# Letter from the editors



There have been two big talking points since the last newsletter. First, the long-anticipated AB InBev/SAB Miller merger, and also the growing number of China deals, despite the slowing economy. Both have big implications for the sector, which we explore in this issue.

At a cool \$117bn, AB InBev/SABMiller easily dominates this quarter's league table, bumping down substantial deals like the Keuring Green Mountain sale, which would otherwise have made the headlines. Consumer Goods remains a very active sector, with interest from all types of purchasers, and across all regions. Emerging markets are still active, both as buyers and targets, as are some of the high-growth segments we've been looking at in this publication for over a year, like health foods and cosmetics.

China's slowing rate of growth gave the world's stock markets a decided case of the January blues, but as we explore in our lead article, China is still generating significant M&A activity, both inbound and outbound, and as far as the Consumer Goods multinationals are concerned, it's a market they simply can't ignore. But there are challenges in doing it well, and all the more so if growth is slowing, and we look at this in more detail in this edition.

And finally we have a fascinating interview with the CEO of Lotus Bakeries, who were very active in 2015, with two exciting deals in the fast-growing healthy snacking space.

2015 turned out to be a fascinating year - here's hoping 2016 will be the same!

**Neil Sutton and Neil Coomber**

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# Craft beer's a crowd-puller

## Written by



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Could crowdfunding be the next big thing in the consumer goods market? The craft beer sector suggests it might. When AB InBev bought Camden Town Brewery for a rumoured £85m it caused almost as much froth in the beer market as AB InBev's proposed acquisition of SABMiller, though admittedly for very different reasons. We've all watched crowdfunding go mainstream over the last year or so, but for every Oculus Rift fairy tale (a Virtual Reality headset bought by Facebook for \$2bn) there have been hundreds of unhappy endings where investors made virtually nothing or lost all their money, as the UK Financial Conduct Authority is quick to point out. But the Camden Town deal was the first example of a UK consumer goods company that went from small-scale crowdfunding to a major trade sale – and they did it in under a year. So is this the start of something big?

It's easy to see why crowdfunding appeals to consumer goods companies. Crowdfunding is essentially a consumer market, so consumer brands are ideally placed to appeal to that investor base. Money can be raised at relatively little cost, and involve a tiny fraction of the equity a VC or business angel would demand. And managed well, the fundraising exercise doubles as a targeted marketing

campaign - every new investor is a potential brand champion, with their loyalty reinforced both by a sense of ownership, and by exclusive discounts and special promotions.

The UK crowdfunding market is still small at the moment, and some of the biggest successes so far have been in the drinks sector, especially craft brewing – not just Camden Town, but Chapel Down, and Brewdog, which has done several rounds of crowdfunding for both equity and bonds. Brewdog has been particularly adept at using the crowdfunding mechanism to build a consumer base, offering bigger discounts to bigger shareholders, and taking these discounts into account when quantifying the return on the shares. And even with those discounts, the healthy margins on craft beer mean that Brewdog is still getting a good deal. We have also seen examples of non-equity crowdfunding in the drinks sector, for example Naked Wines. Naked raises capital to invest in wineries and in return investors get discounts on wines, rather than an equity stake. This successful model led to the acquisition by Majestic Wines in 2015 for £70m. The scope for other consumer goods companies to do the same is clearly there, which means that, yes, crowdfunding could well become a significant disrupter, most obviously for the established VCs and business angels.

## Investors are paying a high price for the stakes they buy

On the other hand, investors are having to pay a high price for the stakes they buy. Brewdog's latest round valued the business in excess of 60x historic EBITDA, which is many times higher than the 10x to 20x multiples that would be typical for listed companies in the sector. But then again, the price reportedly paid for Camden Town by AB InBev implied a similar multiple, which translated to a 68% return on investment for its canny crowd funders according to the FT. So the real question is, was Camden Town an exception or the first of a new rule? With only one example to go on it's far too early to say, but definitely a case of Watch This Space...



# Q4 2015 deals summary

Written by



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The US\$ 117bn AB InBev/SABMiller merger may have been widely rumoured for a while, but it still packed a huge punch, coming in as the biggest consumer goods deal of the last decade and one of the top ten of all time.



## Top 10 global consumer deals in Q4 2015

### Consolidation

Target	Target Nationality	Target Description	Acquirer	Acquirer Nationality	Deal Value (US \$m)
SABMiller plc	UK	Manufacturer of beer and soft drinks	Anheuser-Busch InBev SA/NV	Belgium	117,406
Jarden Corp	USA	Home consumer products	Newell Rubbermaid Inc	USA	19,983
Keurig Green Mountain Inc	USA	Coffee	JAB Holding Company	Austria	14,263
MillerCoors LLC	USA	Beer brewery company	Molson Coors Brewing Co	USA	12,000
ConAgra Foods Inc (Private label)	USA	Own label food	TreeHouse Foods Inc	USA	2,700
Diamond Foods Inc	USA	Snack food	Snyder's-Lance Inc	USA	1,964
Ballast Point Brewing & Spirits Inc	USA	Craft brewer and distiller	Constellation Brands Inc	USA	1,000
Hypermarcas SA (Cosmetics)	Brazil	Personal Care - cosmetics	Coty Inc	Austria	985
Boulder Brands Inc	USA	Manufacturer of natural foods	Pinnacle Foods Inc	USA	966
HMK Mattress Holdings LLC	USA	Consumer Products - mattresses	Mattress Firm Holding Corp	USA	780

### Niche segments

Source: Dealogic; Deals above US\$50m; Acquired Stake 50%+  
\*Note: Deal value includes assumption of debt

### Post-acquisition divestment

#### No small beer...

The fourth quarter – and indeed the year – was dominated by the AB InBev proposed acquisition of SABMiller, which will be a genuine game-changer that will totally reshape the beer sector. In 24 of the world's 30 largest beer markets, the new business will have the #1 or #2 positions, and will produce around a third of the world's beer (notwithstanding likely disposals). As for those divestments, Molson Coors has already acquired the 58% stake in MillerCoors it didn't already own, and at \$12bn that in itself was the sixth largest deal in consumer goods last year. In addition, we have also just seen Asahi agree to acquire SABMiller's Peroni and Grolsch brands.

Another major deal in the last quarter was the acquisition by a consortium including investment vehicle JAB Holdings of Keurig Green Mountain. It was the biggest deal in the coffee segment to date, and JAB have now added the US-based pioneer of single-serve coffee pods to their other consumer brands, including Jacobs Douwe Egberts, and a majority stake in the cosmetics firm

Coty Inc. Coty also acquired the Brazilian cosmetics business Hypermarcas SA, which follows the acquisition of P&G's beauty business in Q3. Niche segments like health foods and craft beer also saw continued interest in the quarter, with Pinnacle Foods acquiring the natural foods manufacturer Boulder Brands, and Constellation Brands picking up the craft brewer Ballast Point Brewing. As we discuss earlier in this issue, AB InBev also brought the craft brewer Camden Town, a crowd funding success story.

#### Where now for the beer sector?

Every few years there's a deal that reshapes an entire industry; AB InBev/SABMiller is clearly one of those deals, so what does it mean for the rest of the sector? With such a dominant player, the other beer businesses will have to respond. One option is to consolidate in their turn; another is to seize the opportunity by acquiring strong brands that may have to be divested as part of the AB InBev/SABMiller approval process. This could allow the other beer players to either consolidate in specific markets or categories, or diversify into new ones, craft beer being one of the

most notable examples. The major brewers want a piece of this as well, as the AB InBev purchase of the Camden Town Brewery proves, and SABMiller have also bought Meantime in recent months. So even in the face of such a major merger, opportunities remain at both ends of the scale: both from consolidation, and specialisation.

The other factor that will take longer to play out is the impact on raw materials sourcing and distribution. AB InBev/SABMiller will have massive purchasing power here, and smaller players will need to think smart to ensure they don't get crowded out.

And finally, drinks in general. Major multinationals like Diageo have beer brands of their own, and will also be watching closely to see whether AB InBev/SABMiller can reverse the trend towards lower beer consumption in mature Western markets, or use their new scale and portfolio to challenge other drinks categories in markets like Africa and Latin America.

# A focus on China

Written by



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## Outlook for China

China published its lowest growth figures in 25 years in 2015 of 6.9% and the slowdown in the China economy is considered a key risk to global growth by the IMF. However, even with slower growth, China still adds the equivalent of a Sweden to its economy each year given the large base (\$10 trillion GDP). In the next ten years, China will add roughly 350 million to its middle class, equivalent to the current US population. We believe that China will continue to be an important growth driver for consumer goods.

We are also seeing increasing M&A activity in consumer goods, with 2015 being a record year. China was the most active country globally in M&A, announcing 117 deals compared to 72 in the US. It is interesting to see that over 80% of these deals in

2015 have been domestic and as highlighted by the table below, there have been some key domestic deals in the past few years.

In January there have already been some significant outbound deals announced. Haier bought the GE appliance business for \$5.4bn, Dalian Wanda acquired Legendary Entertainment for \$3.5bn and ChemChina is reportedly looking at a bid for Syngenta of \$43bn.

In the last 3 years, the most active sectors for outbound deals was food and agriculture. The largest outbound deal in consumer is Shuanghui's acquisition of Smithfields, a pork producer, for \$7bn in 2013. This trend is partly driven by Chinese consumers who are demanding better quality products following the series of food safety scandals in China, as well as food security.

## Chinese domestic deals

Target	Date	Target Description	Acquiror	Deal Value (\$m)
Shanghai Bacchus Liquor	2014	Alcoholic Beverages	Shanghai Bairun Flavor & Fragrance	7,172
Yashili International	2013	Dairy Products	China Mengniu Dairy	1,442
Yield Smart	2015	Wholesale Items	Renhe Commercial	1,044
Kingway Brewery	2013	Beer	"China Resources Enterprise; SABMiller "	858
Zhongpin	2012	Meat Products	Golden Bridge Holdings	783
Beijing Sanyuan Foods	2014	Dairy Products	"Beijing Capital Agribusiness/Fosun International"	750
China Huiyuan Industry	2013	Fruit Juice	China Huiyuan Juice	691
Zhongnan Diamond	2012	Precious Metals/Jewelry	Hunan Jiangnan Red Arrow	627
Sichuan Tuopai Shede Group	2015	Wine	SkyOcean Group	626
Qingdao Haier	2013	Household Appliances	KKR & Co LP	534
<b>Major outbound deal</b>				
Smithfield Foods	2013	Meat Products	Shuanghui International Holdings	7,099

Source: Dealogic and Financial Times; Deals above \$10m and 10% stake; 2012 - 2015



Target	Target Nationality	Business Area	Date	% Stake
Tnuva Food Industries	Israel	Dairy Products	May 2014	78%
Weetabix Ltd	United Kingdom	Flour & Grain	May 2012	60%
Tnuva Food Industries	Israel	Dairy Products	June 2015	35%
Manassen Foods Australia	Australia	Food Products wholesalers	August 2011	75%
Bright Dairy & Food	China	Dairy Products	July 2009	30%
Yunnan Yinmore Sugar	China	Sugar & Refining	August 2009	60%
Synlait Milk	New Zealand	Dairy Products	July 2010	51%
Shanghai Aquarius Drinking Water	China	Bottled water & soft drinks	March 2015	100%
Salov Spa	Italy	Olive Oil	October 2014	90%
Miquel Alimentacio	Spain	Food distributor and supermarkets	July 2015	72%
Diva Bordeaux	France	Wine	December 2012	70%

Source: Dealogic and Financial Times; Deals above \$10m and 10% stake; 2009 - 2015

Bright Foods, a firm controlled by the Shanghai government, has been particularly active overseas in the last few years. They already control Weetabix and Tnuva, an Israeli dairy company, and show no signs of slowing down. In 2015 they acquired a controlling stake in Spain's second largest food distributor Miguel Alimentacio, and an Italian olive oil producer, Salov.

Companies are keen to acquire foreign brands to capitalise on the trend of consumers trading up products as the rate of urbanisation increases and the middle class grows. The relaxation of the one child policy is also expected to drive more activity in the moms and babies sector. Goodbaby, a Chinese durable infant goods manufacturer, has already made two overseas acquisitions including Evenflo. CITIC and CMC acquired a 13% stake in Manchester City in December, and Wanda acquired the company behind Ironman. While these deals are not consumer goods, they all point towards a population with growing disposable income and time.

## How to get ahead in China

China is a vast market, both geographically and demographically, which can make it a daunting prospect for overseas businesses looking to start business there. And it will come as no surprise that there is no one right way to do that. It will depend on – among other things - your category, your international experience, your operational expertise, and your brand strategy. For brands, first mover advantage remains a key factor, as few Western names enjoy widespread brand recognition and those who get in first can secure leadership positions. Operationally, however, the safest assumption to make is that what works in Western markets will almost certainly not work there. For example, even the most successful foreign supermarket chains have struggled

to make their model work in China, including Tesco and Walmart, largely because economies of scale don't apply so far from home, buying premises is expensive, and distribution is tough. And the competition is tough, local operators have home advantage and name recognition, and e-commerce is a major disruptive force in grocery. Packaged consumer goods, by contrast, don't need the same investment in physical infrastructure, and over the last five years the big multinationals have done very well in China, riding the first wave of growth and establishing strong brand awareness. But now growth is slowing and they're facing new issues. A new generation of young consumers are looking for different things, and the channel landscape is definitely changing, as more shopping migrates online.

**Understanding digital**

China is already the world's largest e-commerce market – there are around 650 million people online, and 85% of those are on mobile. Social media platforms are the real digital powerhouse in China, and foreign businesses need to understand how these work in China, because it's not quite the same as in a market like the US: in the US, for example, people will search online by brand, but Chinese consumers are more likely to search by category. That means social media and 'online malls' are really important to build consumer awareness. And given China's huge geographical area, it's important to tailor your online offering to products with the right value to delivery cost ratio. For example, Kimberly Clark distributes its products both through small 'mom and pop' shops and online, but concentrates on higher-value items on the web, rather than products like tissues where the price can't justify the delivery costs.

**Managing distribution**

Distribution is always a challenge in China, and you basically have four possible routes to market: you can build your own system, which is very tough; you can use a local distributor, which is easier in practice but dilutes your control of your brand; you can operate through a joint venture with a local partner, which in theory gives you the twin advantages of local knowledge and shared risk; or you can short-circuit the whole process and buy a local business outright. In our experience, the JV approach remains the most popular, but can take a long time to agree and is complex. And even after it's operational, there are challenges to achieving real co-operation and aligning the parties' respective goals.

But whatever route you choose, and whatever category you sell, success in China will require a unique value proposition that tailors to Chinese tastes and needs, and which is clearly differentiated. Chinese consumers are much more demanding in terms of product and service than they were ten years ago, but on the other hand, the country's rapid urbanisation means it's getting easier to reach them, and digital is a huge opportunity if you understand how best to use it.



**Learning from the multinationals**

So how have the big multinational consumer goods companies managed the challenge of China? Here are some lessons learned:

**Nike**

Nike see huge growth potential in China, where its market share is still relatively low compared to its more established markets. Their strategy is to build a great Chinese company, rather than a US company with a Chinese operation, so they have a Shanghai HQ, and they're working actively with the Chinese government, which wants to see more participation in sports and exercise across the whole population. Nike's top target group in China is women and they're positioning their brand that way, using both in-store and online engagement. The WeChat website, for example, has over 500 million users and over 60% are searching for information about healthy lifestyles. Nike are also supporting events and activities like running clubs, and they're ultra-meticulous about where they locate their new physical stores.

**Their biggest challenges?** Managing their human capital and retaining talent, particularly in digital.



**Coca-Cola**

China is already Coca-Cola's third-largest business in the world and half its global growth, The Coca-Cola strategy is to approach China regionally, starting with the cities – there are 300 cities with over a million people, and that number is rising all the time as people migrate from the countryside. Product-wise, Coke are focusing – at least initially – on their core range, seeing huge upside as Chinese consumers gain more disposable income and trade up to Western brands.

**Their biggest challenges?** Margins are low, and media costs are high. Operating across the whole country – even on a region-by-region basis – is not easy, and it's tough to keep pace with changing consumer trends, and use channels like social media really well. Likewise Chinese business has traditionally been done on the basis of personal relationships, which strengthens the position of existing suppliers.



# Client Interview: Lotus Bakeries



The Belgian biscuit maker, Lotus Bakeries, snapped up two UK snack companies in the last few months. So what's behind this buying spree, and what does it tell us about the sector? We ask Jan Boone, CEO of Lotus Bakeries.

Lotus bought Natural Balance Foods, the owners of the Nakd and Trek brands, in August, for over £60m, and then fought off a number of other interested buyers to secure Urban Fresh Foods and its Bear fruit snacks range, for what's thought to be more than £70m. Lotus is a family firm, established in 1932 by the grandfather of the present CEO, Jan Boone. It already had a very successful international business, and one of the few brands in the segment to translate successfully overseas, the Biscoff caramelised biscuit. We asked Jan about his company's growth strategy, and what made Natural Balance and Urban Fresh Foods such a tasty buy.

#### **What attracted you to these two businesses?**

We see growth in our sector coming from the two ends of the spectrum – 'indulgence' at one end and healthy snacking at the other. We want a strong presence in both. In indulgence it's about providing the right formats – for example, individually wrapped biscuits as a 'little sin' to enjoy over coffee. Healthy snacking is a growing segment that's getting more shelf space and growing strongly. There it's all about authenticity – strong brands with a great story, and which really live up to their healthy credentials, because not all of them do! Both of these businesses offered us that - Natural Balance Foods doesn't process its products at all, and only uses completely natural ingredients, while Urban Fresh Foods opens up the kids' 'healthy sweet' market as well. And buying both of them gives us real leadership in the category.

#### **Was the fact that both are from the UK a factor?**

Actually it was. The UK is the biggest consumer market in Europe, which means there's still lots of potential for growth in these businesses' home market. The way the UK food retail sector works is also easier than in other comparable markets, like France for example. In the UK, decisions are taken centrally by the supermarkets, rather than locally or regionally, which allows products to be deployed quickly, and with less time and effort for us. The UK is also ahead of the curve when it comes to the take-up of healthy snacking, so the fact that they were both from the UK was a real advantage.

#### **What are your plans for these brands?**

Our next step is to take them both overseas – there aren't many food brands that have genuine international potential, because tastes vary so much across the world. In terms of biscuits, Oreo has done it, and our Biscoff brand has done it, but most can't. But we think these brands can. One thing we've learned is that you can't take a product internationally if its taste is too extreme – it can't be too bland, but it can't be too spicy either, or too much tied to one national palate. And you shouldn't make the mistake of trying to adapt to those palates with different international variations – in our experience it's much better to stick to your original formulation. That will be our plan with our new brands. We see big potential for these brands in the Netherlands, Belgium and the US, where stores are allocating a lot of shelf space to the healthy segment. Also in countries like Germany, France, Spain and Italy, where healthy snacking has been slower to take off, but is definitely going to catch up.

#### **How will you integrate them into your existing business?**

In fact we won't, not entirely. A lot of what's attractive to us in these brands comes from the passion of their owners. They're both young entrepreneurial businesses, with committed and engaged employees who really believe in what they're doing. Natural Balance, for example, started with the founders' vision of a wholefood revolution, and that energy and commitment still drives them today. We'll encourage them to collaborate where that makes sense – in warehousing or logistics, for example – but we'll allow them to make the best decisions for their own brands. They're already growing at over 30% a year, and we want to give them the freedom to succeed.

Looking ahead, Jan sees two key trends in his category: at the indulgent end, the development of more new formats like single pack 'treats'; and at the healthy end, greater transparency on labelling and product information for a consumer groups that's typically very well informed. That's two interesting trends to watch for in a segment that's been on our radar for a while.

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# PwC recent consumer credentials

## Urban Fresh/Bear Nibbles

Lotus Bakeries' acquisition of Urban Fresh Foods, the maker of Bear fruit snack bars and Urban dried fruit

*Advised by PwC*

## Salad Signature

IK Investment Partners acquisition of Salad Signature N.V., the leading manufacturer of spreadable salads in the Benelux, from AAC Capital

*Advised by PwC*

## Bakkavor Group

Baupost Group's investment in Bakkavor Group, the UK-based food supplier

*Advised by PwC*

## Iglo Foods

Nomad Holdings acquisition of Iglo Foods, Europe's largest branded frozen-food company

*Advised by PwC*

## Tesco

MBK Partners, Canadian Pension Plan and Temasek's acquisition of Tesco's South Korean Homeplus business for £4.2bn

*Advised by PwC*

## General Electric Appliance

Qingdao Haier's acquisition of General Electric Appliance Business, for \$5.4bn, the largest transaction in the global home appliances history

*Advised by PwC*

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