Grant Thornton
An instinct for growth™

Smart money in food and beverage
Tracking growth in turbulent times

Highlights

- The acquisitions of UK and Irish food and beverage (F&B) businesses by overseas acquirers doubled from 7% in 2011 to 14% in 2012
- 2012 was a robust year for Mergers and Acquisitions (M&A) activity, with deal volumes up 17% and value up 64% compared to 2011 figures
- 2012 was the strongest year yet for private equity (PE) activity since the downturn hit in 2007
- New product development (NPD) is still cited as the number one driver for growth with the UK and Irish governments and private enterprises increasingly investing in research and development (R&D) initiatives in the sector
- Inbound M&A activity in 2012 demonstrated that there was heightened interest from overseas investors for UK and Irish F&B businesses

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Foreword

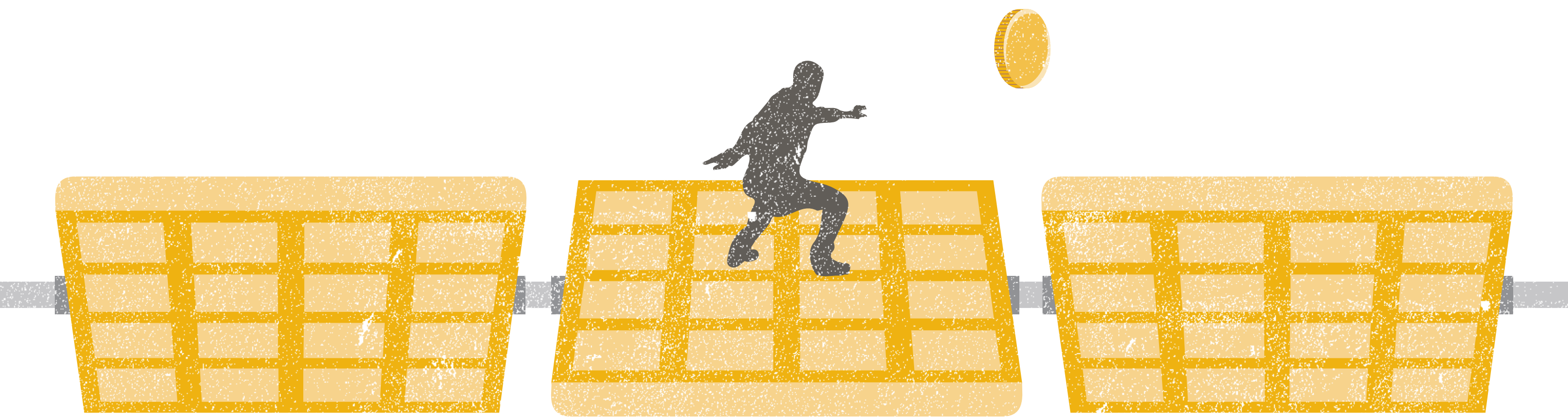
Trefor Griffith
Head of Food and Beverage, UK

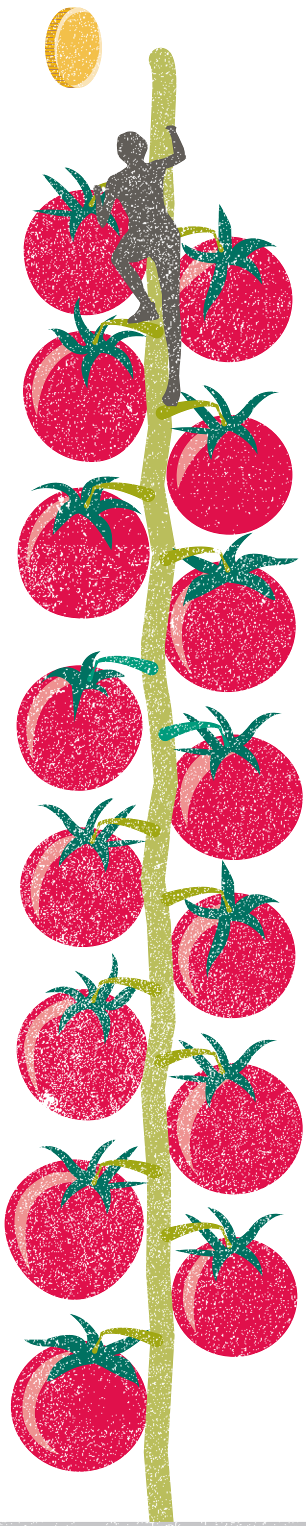
Ciara Jackson
Head of Food and Beverage, Ireland

In early 2012 Grant Thornton UK LLP and Grant Thornton Ireland conducted a research project, the aim of which was to better understand the factors driving investor interest in the food and beverage (F&B) sector. The report, 'Where is the smart money going in Food & Beverage?', (Smart Money) was launched in May and assessed the views of senior representatives from corporates and private equity (PE) houses investing in the sector across the UK and Ireland and focussed on investor predictions, drivers for growth, consumer trends, consolidation and access to finance.

This report looks back over the predictions that PE and corporate investors made in early 2012 and reflects on what actually happened, why and how we can help and also highlights any consistent and emerging trends. The key predictions made in our May 2012 Smart Money report were:

- **PE activity will increase** – our research showed that 80% of PE houses planned to invest, and 32% said investment value would increase. At Grant Thornton we predicted that although the volume of deals would increase, the value would remain at the lower end of the market
- **Acquisition of businesses will be a route to new products and markets for investors** – 60% of PE houses and 80% of corporates interviewed for the report said acquisition was a key driver for growth
- **R&D and NPD are key to stability and growth** – both corporate and PE respondents viewed NPD as the key driver of growth for the sector over the next 12 months
- **There are major opportunities awaiting to be seized in emerging markets** – expansion into overseas territories was the third most popular driver of growth for the sector





Since the launch of Smart Money we have been listening to the businesses and industry leaders we work with every day to gain an insight into exactly what is needed to boost business growth.

2012 was a busy and unpredictable year for the F&B sector in the UK and Ireland. Economic conditions at the beginning of the year were tough with the UK economy suffering a double dip recession, while in Ireland the domestic economy remained depressed. Having said that, it was clear that there was significant activity in the sector, driven by the need for growth in a generally flat market, the need to minimise costs and streamline operations given the significant pressures arising from a reduction in consumer spending.

Despite the economic uncertainties there were several acquisitions of UK and Ireland F&B companies by overseas acquirers. In fact, activity doubled, going from 7% in 2011 to 14% in 2012. Some of the most high profile deals include:

- China based Bright Food's acquisition of Weetabix
- Japanese corporate Mizkan's acquisition of Premier Food's Hayward's pickles, Sarson's vinegar brands and Branston sweet pickles and table sauces
- German based Intersnack's acquisition of KP Snacks.

(More examples can be found on page 28).

This activity was driven partly by the opportunity to access UK and European markets and partly by the huge continuing growth of emerging market middle classes, which has also contributed to changing tastes, demand for better food hygiene and interest in high quality Western brands.

In both the UK and Ireland, F&B businesses account for the highest portion of manufacturing output and the sector is seen by both governments as holding key opportunities for overall economic recovery and growth. This importance is reflected in future export strategies, with Ireland in particular outlining ambitious plans to reach a target of €12 billion in exports by 2020 (compared to €9 billion in 2012). With a domestic population of approximately 4.6 million compared to approximately 60 million in the UK, it's clear why exports are vital to the future of Ireland's F&B businesses and there are many lessons that the UK can learn from Ireland to boost its own ability to export.

A Grant Thornton UK report, commissioned by the Department for Environment, Food and Rural Affairs (Defra), to be published in early 2013, will identify the main market access barriers for UK F&B exports, mapped against the ease with which the barriers could potentially be addressed.

Although the economic uncertainty will continue, PE activity was at its highest levels in 2012 since the start of the downturn in 2007, giving a positive outlook for investment in the F&B sector in 2013.

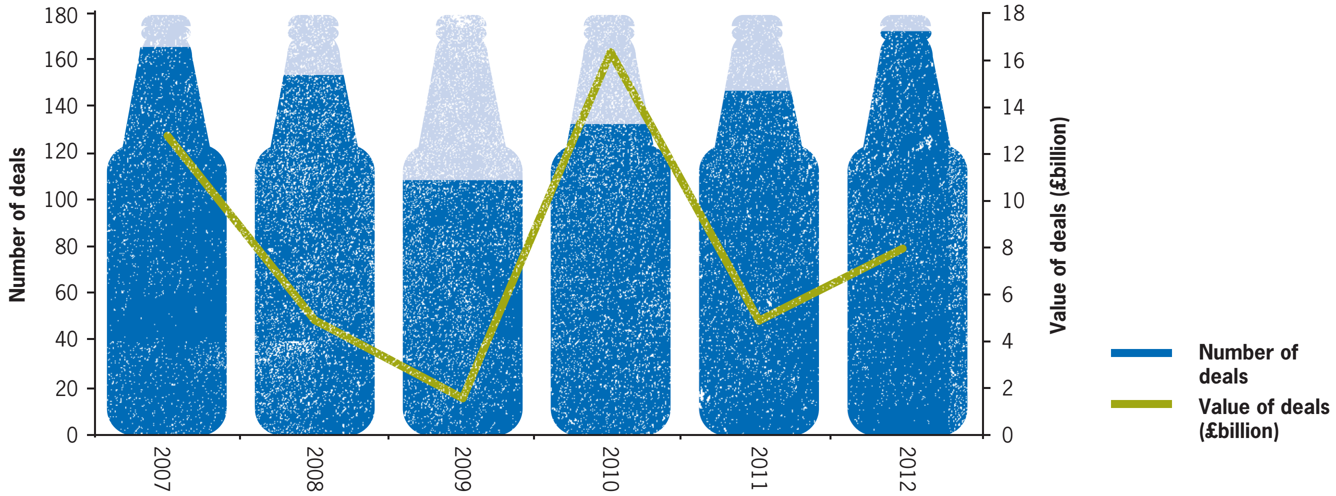
Investor landscape

Over the last five years M&A activity in the F&B sector has been unpredictable. 2009 saw both deal volumes and values fall to their lowest point in some time. Since then, the volume of deals completed has been rising steadily whilst deal value has been changeable, which could be attributed to a need for restructuring and consolidation. Despite this there has been a notable increase in investor activity from outside the UK and Ireland in homegrown F&B businesses.

In the Smart Money report a higher percentage of corporate investors (80%) than PE investors (60%) predicted that acquisition would be one of the main drivers for growth in 2012. 46% of corporates forecast that their investment in the sector would increase, a trend that emerged early in the year, as seen by Kellogg's acquisition of Pringles and Wessanen's acquisition of Clipper Teas in the first quarter of the year.

2012 was a robust year for M&A with deal volumes up 17% on 2011 and value's up 64%. Symington's, Kerry Group and Greencore have all contributed significantly to this activity and are classic examples of large corporates where acquisitive growth is embedded into the DNA of the business, enabling them to break into new markets, acquire quality brands, boost innovation and generally strengthen and consolidate their portfolios.

M&A activity in the F&B sector, 2007–2012



Source: Grant Thornton UK LLP data

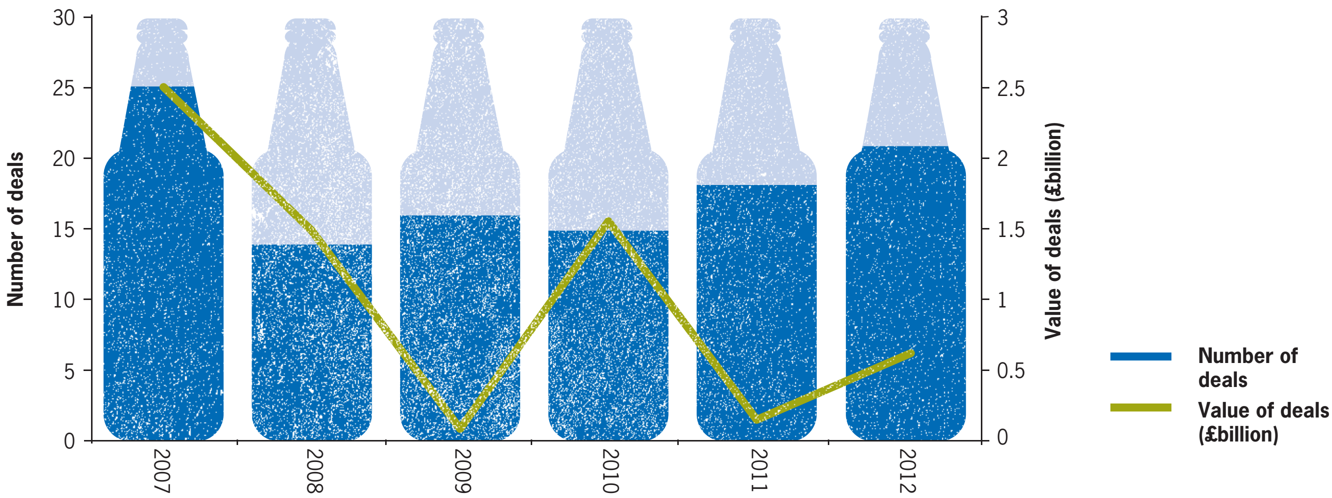
Though acquisition is deeply embedded into the growth strategies of many larger businesses, not all corporates have historically been as active as they have been recently. Hain Celestial for example had been rumoured for many years to be looking for opportunities to acquire in the UK and Ireland but it's only in the last 18 months that significant acquisitions have been announced. These acquisitions include Daniels Group, Premier Food's spreads business and Cully & Sully in Ireland.

We believe that one reason for this increased activity is driven by a need to reduce the group's exposure to volatile economic conditions (fluctuating exchange rates, and commodity prices) by broadening its geographical base. This corresponded with a number of realistically priced businesses becoming available in western markets that fitted strategically with the group's portfolio. Similarly, Hain Celestial sought to utilise the marketing expertise of Cully & Sully in order to feed it into the Daniels Group acquisition.

The findings from Smart Money showed that PE investors did not expect to see a huge amount of change in the levels of investment in 2012, although over 80% of those interviewed did plan to invest in the sector.

2012 PE activity reflected this to some extent with steady growth and the number of deals rising by 17% on 2011 figures. Quarter three (q3) witnessed a significant dip in PE activity with volume down 57% on quarter two (q2) figures. However, by the end of quarter four (q4) deal activity had reverted back to q2 levels and was up 100% on q3, making 2012 the strongest year yet for PE activity since the downturn in 2007.

Announced PE activity in the F&B sector, 2007–2012



Source: Grant Thornton UK LLP data

"Over the last 12 months at Grant Thornton, we have worked with a number of acquisitive corporates and PE houses to assist them with their plans to acquire and/or invest in the F&B sector. It's very clear that there is a significant appetite from UK based acquirers and investors, with more coming from overseas and some of this appetite has followed through to completed transactions.

The major barrier that we have seen has been the value aspirations of the owners of businesses, not because their businesses aren't valuable, more that in most cases it's because profits have been depressed due to the significant external pressures on businesses operating in the sector and whilst some acquirers will pay an element of future value they aren't often able to get comfortable with paying too much value in advance of forecast improved performance."

Trefor Griffith, Head of Food and Beverage, Grant Thornton UK

To get an inside view we asked Steven Petrow, Managing Director of Change Capital Partners for his thoughts on the current state of the market and what factors make for a potentially profitable investment.

Change Capital Partners is a specialist PE firm focused on consumer related businesses, so far it has invested close to €400 million in the sector. Steven works with partner companies originating new investment and business opportunities and putting together transactions.

Would you say the F&B market is a more or less attractive place to invest than this time last year?

In the UK I would say that it's more or less the same, while across Europe the picture is more volatile. Consumers are continuing to be careful and more selective about how they spend their money and on what. Having said that, people have to eat, so although the downturn has impacted how consumers fill their shopping baskets it's really what goes in to them that is changing rather than a dramatic reduction in the value of goods purchased.

What do you think will be the main driver for growth in the F&B sector in the next 12 months?

Businesses seeking growth need to be aware of the changing way that people are purchasing food and beverages. Because of an increased awareness of value for money, consumers are looking for products that either fulfil basic needs at a low cost, or cater to a desire for a 'little treat', something luxurious or premium that is perceived as being 'worth it'. Businesses that are catering to either the value or the premium ends of the market (or both) are seeing continued growth and should do so going forward. Catering solely to the squeezed middle in the current climate is a bad idea.

"We were pleasantly surprised and encouraged by the predictions of investors in our Smart Money report but we did question whether or not they would be able to deliver. One of the key reasons that PE hasn't been able to complete as many deals as perhaps their balance sheets would allow is an increased level of trade interest in acquisition. Not only do some corporate acquirers have significant buying power, their core advantage is the synergies they can bring to the table. PE buyers tend to be very discerning, often focussing on niches and brands. The types of businesses that are most attractive to PE buyers are rarely offered at low prices, which, allied to the lack of debt availability in the market and strong completion from corporate acquirers, makes it very difficult for them to achieve sufficient returns."

Michael Neary, Corporate Finance Partner, Grant Thornton Ireland

What do you see as the main areas of opportunity in the F&B sector?

One of the key things to note about the polarisation of growth to the value and premium ends of the market is the selectiveness of consumers, particularly in the premium arena. Though consumers want to treat themselves, they still want to feel as if they are getting good value for money, so catering for small indulgences to be enjoyed at home is a huge area of opportunity. Products such as premium chocolate, high end alcoholic drinks and quality pre-prepared, healthy meals are particularly interesting. These types of products make consumers feel good about themselves without having to outlay the cash that you might spend at a restaurant or in a bar. We believe businesses playing in this arena offer interesting investment opportunities.

Would you say that you invested more, less or the same amount in the sector in 2012 compared to previous years? Why?

At Change Capital Partners we invested roughly the same amount in 2012 as the previous year. One of our exciting recent acquisitions is Macduff, the UK's largest independent processor of shellfish. The wild-caught products, mainly langoustines, crabs and scallops play well with more selective customers, offering a feel-good, healthy and relatively inexpensive meal that can be enjoyed at home. Since acquiring the business we have successfully managed to squeeze the most value out of the product without compromising on quality, for example creating efficiencies in the manufacturing process, reducing consumer preparation times and shrinking package and portion sizes.

What are the current weaknesses you see most commonly in F&B businesses? Do these make them a less attractive investment?

Rather than there being any common weaknesses in businesses, the industry as a whole is more at risk from volatility in the economy. Though in the UK economic growth figures are starting to look more positive it's not out of the realms of possibility that we could face another upheaval, even to the level seen in 2009. Austerity measures and the continued uncertainty of conditions in Europe are all risk factors and necessitate action to maintain growth in the face of considerable headwinds. Therefore complacency and unwillingness to change are the biggest enemies of growth.

Access to finance

In the first Smart Money report both corporate (73%) and PE (86%) investors in the F&B market identified availability of funding as a key barrier to M&A activity. Access to capital is a challenge for many businesses in the F&B sector. In a relatively short period of time, we have moved from a period of low regulation and a plentiful supply of cash, to an era of high regulation and limited availability of capital.

We believe that a two tiered bank lending environment is emerging. Banks continue to lend to large profitable corporates, who have strong balance sheets and growing profits. At the other end of the scale, some small and medium enterprises (SMEs) are finding access to finance via the more traditional routes continues to be a challenge.

Though bank funding is still hard to come by, particularly for small to medium sized consumer businesses, the picture for availability of capital has been improving. This is largely due to a number of new, non-bank entrants in the market offering a wider range of alternative financing options.

"Banks tend to view consumer businesses as high risk. This is a combination of bad experiences in the past and the high risk nature of investing in the type of business that has high customer concentration and is at the mercy of volatile raw material costs, pressured margins and rapidly shifting consumer buying trends. Own label suppliers in particular tend to be very reliant on and exposed to dominant multiples. For those looking to raise finance, whether to enable growth, to release value or refinance, it is often advisable to explore alternative sources of funding beyond simply traditional bank debt. With many new non-bank debt providers in the market, the cost of capital and level of risk associated with alternative sources of finance is an important consideration when deciding what is best for your business."

David Ascott, Corporate Finance Partner, Grant Thornton UK

Asset based lending

Throughout 2012 there was a continued shift toward the acceptance of asset based lending (ABL) as a way to meet working capital needs. This was seen in the gradual increase in the number of businesses in the F&B sector that are now financed by some form of ABL.

However, the shift has not been as seismic as many predicted partly driven by the slowdown in the economy and partly by the reluctance of businesses to refinance when the economic outlook has been uncertain.

"An ABL facility has a number of advantages for both the lender and the borrower. For businesses a revolving ABL facility can flex to reflect the collateral based movements in a business' balance sheet throughout the trading cycle. It can provide additional working capital facilities and provide cash to fund in entrepreneur's growth ambitions.

At the same time the lender has a secured facility that can shift with the trade cycle unlike an overdraft, and one that is more capital efficient. The flow of information for both parties is enhanced with the customer at the centre of the ABL facility, via the funding of the individual invoices.

In the last six months we have also witnessed a number of transactions in the sector funded by a combination of ABL, senior debt and PE sponsors. The view in corporate finance is that these are set to continue in 2013."

David Riley, Advisory Partner, Grant Thornton UK

ACCESSING CAPITAL FOR GROWTH – Top ten tips

1. THE NEW FUNDING LANDSCAPE CALLS FOR A NEW APPROACH
2. DON'T JUST RELY ON TRADITIONAL FUNDING SOURCES – THEY MAY HAVE DRIED UP!
3. DEFINE YOUR FUNDING REQUIREMENT CAREFULLY – QUANTUM, DURATION AND NATURE (IE WHAT EXACTLY IS BEING FUNDED – CAPITAL EXPENDITURE, WORKING CAPITAL, INVESTMENT EXPENDITURE)
4. CONSIDER THE OPTIMUM MATCH TO MEET THIS REQUIREMENT
5. DEVELOP A ROBUST BUSINESS PLAN TO SUPPORT YOUR FUNDING REQUIREMENT
6. MARKET THE PLAN TO YOUR EXISTING FUNDERS – BUILD ON EXISTING RELATIONSHIPS BUT EXPLORE ALTERNATIVES
7. SELL THE PLAN TO NEW SOURCES AS A DEBT RAISING PROJECT
8. PREPARE FOR DUE DILIGENCE – ANTICIPATE AND TACKLE WEAK AREAS IN THE PROPOSITION
9. CONTINGENCY PLANNING IS KEY – WE ALL NEED A PLAN B!
10. NEGOTIATE THE NEW LANDSCAPE TO SECURE BEST TERMS

Driving growth through innovation

NPD and R&D was and still is a vital driver for growth in the F&B market. The findings of Smart Money found that 73% of PE investors and 87% of corporate investors saw NPD as the main driver for growth.

"Creating a culture of smart innovation helps F&B businesses anticipate new trends, access new markets and technologies, and invest with speed and scale. In order to develop scale, share risks, and fund innovative projects, the fusion of science, public and private sector resources will become more commonplace. Initiatives that can develop, control and apply major new technologies are those that will succeed in the future. We believe successful innovation will be realised more and more through collaborative relations between state agencies, universities and industry."

Ciara Jackson, Head of Food and Beverage, Grant Thornton Ireland

In the UK and Ireland, both government and private enterprises are increasingly investing in R&D initiatives in the sector, in many situations working together to provide the best possible support for innovation.

Private sector investment:

- **Mars Chocolate R&D Facility, Slough, UK** – in September 2012 Mars opened the doors to a new £6 million research facility, which is responsible for delivering new products to European markets and contributing to Mars' global innovation pipeline. It is Mars' largest R&D facility in Europe with over 100 R&D associates working on projects including NPD and packaging, design and sensory science
- **Kerry Group Global Technology & Innovation Centre, Ireland** – this new €100 million R&D centre will serve as a focal point for Kerry Group's NPD, housing cutting-edge facilities for new technologies, scientific research, innovation and applications research across food, beverage and pharmaceutical markets. The new campus, to be based near Dublin, will create 800 highly skilled jobs by 2015 and has been heralded by the Irish government as a great boost for the sector and for Ireland's reputation as a globally renowned country for food production and innovation. The Irish government, through Enterprise Ireland, has contributed €30 million to support this investment
- **Nestlé UK and Ireland** – towards the end of 2011, Nestlé announced the investment of £110 million in its Tutbury site in Derbyshire creating a world class coffee manufacturing facility. The extension to the existing NESCAFÉ Dolce Gusto plant is set to treble its production capacity and create 300 new jobs by 2013

Government investment:

Recognising the importance of innovation as a driver of growth and profitability, both the UK and Irish governments have in place a series of services and schemes to encourage innovation.

UK government incentives for R&D:

- **R&D Rate Relief** – in Grant Thornton UK's July 2012 edition of Bite Size we provided a summary of HM Revenue & Customs (HMRC) latest initiative to boost innovation at the small to medium end of the market. Under the changes, from 1 April 2012 the rate of tax relief for companies with less than 500 employees meeting other size conditions and carrying out R&D moved from 200% to 225%. This equates to valuable additional tax relief of up to 30% of qualifying spend. Further more, loss making companies may surrender losses to HMRC in return for cash payments of around 25% of qualifying spend, which can be important to cash flow
- **'Above the line' tax credit** – further details of a fundamental overhaul of the large company scheme for relief for R&D expenditure, to be introduced from April 2013, should be revealed shortly. It is proposed that relief is provided as a credit to be shown above the tax line rather than as an enhanced deduction from taxable profits. The aim is to make the relief more visible to those involved in investing in R&D, and will likely provide immediate cash benefits to loss making large companies
- **The Patent Box** – from 1 April 2013 the government is introducing a preferential regime for profit arising from patents, known as a Patent Box. This will allow companies to apply a reduced 10% corporation tax rate (phased in over several years) to profits attributed to patents and certain other similar types of intellectual property (supplementary protection certificates, regulatory data protection and plant variety rights). The Patent Box will apply to worldwide income from existing as well as new patents

"We are currently working with a range of clients to ensure that they obtain the full benefit of these reliefs. Our team of specialist advisers will help you to put together a robust claim, either as a stand-alone project or as part of a wider tax compliance service. Our excellent reputation with HMRC and our established relationships with the new R&D units within HMRC put our clients in a strong position."

Samantha Vanags, Head of R&D Tax, Grant Thornton UK

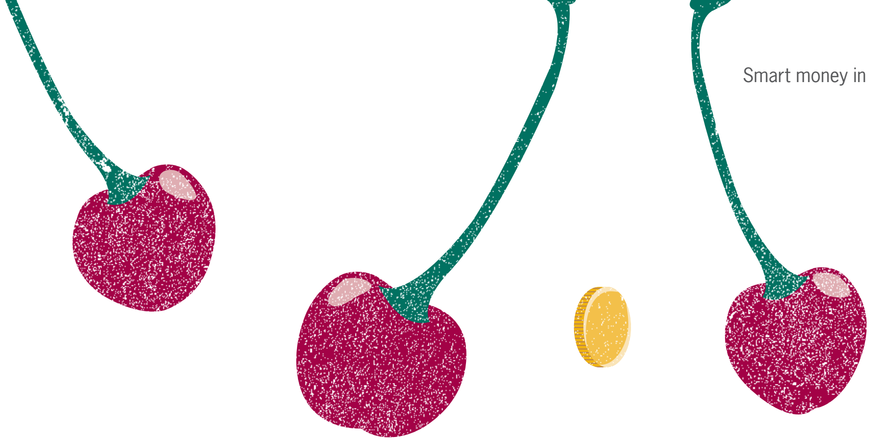
Irish government incentives for R&D:

In Ireland, qualifying R&D work refers to those activities carried out by the company's employees, which aims principally to achieve or resolve a scientific or technological advancement.

- **R&D tax credits** – introduced in 2004 for corporate entities as a means of stimulating investment in R&D activity. The ways in which the relief can be utilised have changed over the years making it relevant to a wider range of businesses, not just confined to 'men in white coats' carrying out work in a laboratory. Some of the key points worth noting in relation to the R&D tax credit relief are as follows:
  - A tax credit of 25% of qualifying R&D spend is available for corporate entities, in addition to the normal corporation tax deduction, resulting in an overall potential tax benefit of 37.5%
  - The R&D credit can be used as follows:
    - to shelter corporate tax paid
    - to claim as a cash rebate over a maximum of three years
    - to remunerate key R&D employees, due to recent Finance Act changes
  - The range of activities that the R&D credit can apply to is extremely wide. Examples of qualifying R&D relevant to the food industry includes technological advancements that result in increased plant performance, production output, modification of a product (such as change of consistency, change of product mix) or advancements in food packaging

"Companies involved in research, development and innovation in Ireland have a real opportunity to avail of the tax reliefs afford by R&D tax credit. At Grant Thornton Ireland we have a dedicated team with the experience and knowledge to guide companies in making these claims. We assist companies to identify those projects that qualify, we help to ensure their claim is maximised and also that qualifying claims are made within the required time periods. We provide this service both to existing clients and also on a stand-alone project basis."

Sasha Kerins – Director, Tax, Grant Thornton Ireland



Other government initiatives to support innovation:

- **UK – Food Processing and Manufacturing Efficiency** – a £15 million investment from Defra this initiative, announced in March 2012, channels funds towards R&D projects that increase efficiency, sustainability and competitiveness. A further £500,000 will be dedicated to micro and SMEs to provide feasibility studies that will deliver better and more cost-effective systems and processes
- **England – GrowthAccelerator** – an initiative launched in May 2012, delivered by the private sector and led by Grant Thornton UK. Funded by the Department for Business, Innovation and Skills (BIS), GrowthAccelerator provides high potential growth businesses (fewer than 250 employees, turnover of less than £40 million) with the know-how and ability to achieve sustainable growth

  GrowthAccelerator's specialist 'Making Innovation Happen' experts work with high growth businesses to build and maintain an innovation culture

  Business benefits include:

  - Introducing new innovation and creativity tools and methodologies into the business, to help generate novel solutions to current problems and make innovation happen
  - Support to hardwire the principles of innovation into the organisation
  - Creating a more innovative culture within the business enabling the building of differentiated products and services
  - Developing innovative leaders within the company's senior management team
  - Learning to commercialise ideas, develop innovation strategy and generate profitable Intellectual Property (IP)
  - Access to a £3,000 grant from the Intellectual Property Office (IPO) to hire an IP professional to audit IP and give businesses a clear picture of its intellectual assets so that it can develop a long-term IP strategy
  - Leveraging partnerships with funding organisations to source advice and funding for innovation projects
  - Utilising the profile of GrowthAccelerator within the International Open Innovation Community to connect with companies seeking innovations to expand their product/service offering or access export markets

Find out more at **www.growthaccelerator.com**

- **Ireland and Wales – Irish Exporters Association – Food chains for competitive advantage (FCCA)** – a programme aimed at assisting small to medium F&B businesses address key market opportunities through innovation in NPD and branding in the food chain. The programme applies both to Irish and Welsh SMEs providing a complete package of assistance through delivery of tailored one to one mentoring and workshops. The programme is part funded by the EU's European Regional Development Fund, is run by the Irish Exporters Association with the support of Bord Bia Ireland (Irish food board) and Menter a Busnes [sic] in Wales (an independent economic company that provides support and advice to individuals and groups who want to start or develop businesses)

  Find out more at **www.irelandwales.ie**

- **Ireland – Food Works** – a collaboration between three of Ireland's state agencies to identify, mentor and take to market Ireland's next generation of innovative, scalable, exportable food entrepreneurs. Teagasc (Irish agriculture and food development authority in Ireland) is providing R&D technical support and Bord Bia is providing international marketing and consumer trends information and Enterprise Ireland will provide export advice and also part fund investment in new businesses

  Find out more at **www.foodworksireland.ie**

- **Ireland – Food for Health Ireland** – a collaboration of state agencies, industry and universities, who are working together to transform Irish milk from a basic commodity to a functional food (beyond basic nutrition promoting health or reducing the risk of certain diseases). With the ending of the milk quota in 2015, milk supply is forecasted to increase by 50%. The groundwork is being laid to profitably capitalise on this opportunity

  Find out more at **www.fhi.ie**

"When we looked at Foods Works initially we knew that the products must be truly innovative if they are to succeed both on the domestic market but also more importantly on the export market where the real success is so we have some pretty exciting projects coming down the tracks. There's been a big movement in the whole area of healthier food products whether it's for adults or for children and also healthy products that are very specifically tailored to a specific consumer need."

Mary Morrissey, Bord Bia, Foodworks Programme Leader

CASE STUDY
Innovation as a driver for investment

McDonalds sources 20% of the beef for its European restaurants from Ireland and recently chose an Irish Farm as the 'McDonalds flagship farm' for beef in Europe. This is a result of the industry's relentless drive for innovation from farm to fork. At a farm level, the Bord Bia quality assurance beef scheme ensures the establishment of a benchmark for the carbon footprint of Irish beef production that is transparent, traceable and sustainable; while all stakeholders along the supply chain (farmers, processors and distributors) are focussing on efficiency and competitiveness to reduce costs and facilitate enabling technologies for NPD and innovation.

INNOVATION IN THE F&B SECTOR – Did you know?

- There are over 3.6 million published patents in the agri-food sector worldwide – UK applicants are ranked 8th and account for 4.2% of all worldwide agri-food published patents[1]
- Every year the UK F&B introduces around 10,000 new products[2]
- The F&B industry is a core element of the UK manufacturing economy, representing over 15% of manufacturing turnover and employment[2]
- The F&B sector in the UK invests over £1 billion into R&D, resulting in over 8,500 new products in 2011[3]
- Ireland produces approximately 10% of the world's infant formula through manufacturers such as Danone and Abbott[4]. Enterprise Ireland values the global market for infant formula in the region of €7 billion[5]
- Ireland is a global leader and innovator in food quality standards. The Bord Bia beef Quality Assurance Scheme, ensures that Ireland produces enough beef annually to meet the consumption requirements of 30 million European customers[6]

[1] Intellectual Property Office Informatics Team, June 2012
[2] UKTI, October 2012
[3] http://www.tdf.org.uk/statsataglance.aspx
[4] Bord Bia findings
[5] http://www.exportfoodanddrink.org/index.php/fcca
[6] Food and Drinks Industry Ireland (FDII)

Organic growth through performance improvement

Challenging market conditions have forced businesses to reduce costs whilst still maintaining strong performance. The most successful growing businesses are running the most cost efficient operations and for investors, these streamlined, resourceful businesses are very desirable.

Grant Thornton's Performance Improvement team has been working with F&B clients across a range of challenges to help businesses achieve high efficiencies.

Three key themes currently at the heart of our client's needs include:

1. **Cost cutting** – carefully designed and implemented cost cutting options help margin maintenance whilst reducing overhead costs. Focussing on core competences in manufacturing combined with managing a robust supply chain helps businesses remove some of the costs of their peripheral and least efficient processes. Equally, process simplification drives further value and efficiency from back office support functions, with outsourced and shared service delivery options still very popular due to the level of value for money achievable
2. **Operational planning and efficiency** – the need to balance capacity with costs, combined with changing order patterns and volumes are forcing businesses to look at the way they operate. There is no longer the option available to run large facilities at low utilisation levels to ensure capacity is available for future growth. Work and activity studies are becoming increasingly popular again and returning to the heart of costing and planning models
3. **Business intelligence** – 50 years on from the inception of the balanced scorecard, many organisations still operate blind or on inflexible, out of date information packs. Making the right decision based on sound, timely information across all levels of the organisation is critical. Business priorities can change quickly and frequently and management information needs to be flexible enough to respond and support these needs. It is often overlooked that a handful of appropriate measures, targets and indicators can help focus efforts and encourage the right behaviours across various agendas including cost, quality and health and safety

"F&B businesses are operating in a tough and competitive environment on a daily basis. Our Profit Improvement teams work with our clients to optimise the profitability, and in some cases, the sustainability of their businesses."

Ciara Jackson, Head of Food and Beverage, Grant Thornton Ireland

Within the Performance Improvement team, the Strategy and Commercial Advisory (SCA) specialists work closely with F&B clients to position companies for sustainable growth by undertaking commercial reviews to assess and fine-tune business models, as well as assisting clients with unlocking their potential for growth and developing their growth strategy.

- **Business model** – a commercial assessment focused on analysing the company's performance in the context of current and future market and competitor environment can determine if the business model is appropriate to support the business strategy and boost performance. In the difficult economic context, companies undertaking such an exercise can then reap the benefits of positioning the company for future growth
- **Growth strategy** – performance improvement and the quest for sustainable growth are encouraging businesses to step out of their comfort zone and target new customers/geographies or expand into new sectors. A structured, evidence-based approach to market opportunity assessment and market entry strategy is an indispensable investment decision tool for businesses that run cost efficient operations. Taking this approach to strategic investments ensures critical success factors and risks are identified early on and only the most relevant opportunities with the highest chance of success are pursued in a targeted way

"Ahead of our investment in the management buy-in of the cake manufacturing division of McCambridge Fine Foods, we needed a fuller understanding of the production infrastructure and capabilities of its nine UK and overseas manufacturing sites. Specifically, we needed to understand how we could develop the sites to enable them to produce in greater quantity, at lower cost but most importantly higher quality. We engaged Grant Thornton UK's Operational Deal Services team to perform a full bottom up assessment of each site to help us achieve that goal, working closely with them throughout the due diligence process to fold in its conclusions and recommendations into our business plan. With Grant Thornton UK's work, we were able to hit the ground running on day one after completion, which should ultimately mean that we can hit our strategic goals far more quickly than would otherwise have been achievable."

Richard Babington, Investment Director, NBGI Private Equity Ltd

CASE STUDY – Performance Improvement

The Performance Improvement team's instinct for growth helped a leading F&B ingredients manufacturer enhance the efficiency of its operations and overall profitability.

Our client was a £75 million turnover company with circa 280 staff. The business had delivered very strong year on year sales growth and was forecasting further domestic and international growth over the next few years. This posed a problem as operations were already asset intensive and fixed cost production facilities were already operating 24/7. It appeared that significant capital investment would be required and increased fixed production costs incurred to deliver these increases.

Performance Improvement was engaged to support the board to identify, develop and implement a focussed business solution across operational performance and reporting.

Working collaboratively with the client's management team, our team delivered a 15% increase in overall plant capacity along with the added benefit of reduced operational costs through more effective use of production lines. All of this was without the need for the capital expenditure that had been anticipated.

Further value for the client was realised through:

- a simplified and rationalised product base to facilitate working capital reduction and production efficiency.
- implementation of a management control and reporting system and a new planning and forecasting system. These brought control and clarity of performance and provided a structured system to plan capacity and improve customer service
- a full inventory analysis highlighting redundant and slow moving lines together with a margin analysis to highlight non profitable lines. This helped the business make informed decisions over customer and product mix
- a procurement improvement programme which delivered savings of between 10% and 15% across fleet cars, office spend and packaging.

Government initiatives to support performance improvement:

- **Manufacturing advisory service (MAS)** – launched in England in 2002, MAS is funded by the Department for Business, Innovation and Skills (BIS). It now plays a vital role in helping manufacturers in England to share knowledge, improve productivity and achieve success in an increasingly competitive global economy. In early 2012 the delivery of MAS was taken over by a consortium of private sector firms, led by Grant Thornton UK. MAS's network of specialist advisors work with business leaders to create clear business strategies, develop new ideas, improve processes and grow supply chains

Find out more at **www.mymas.org**

- **Enterprise Ireland (EI)** – the Irish government organisation is responsible for the development and growth of Irish businesses in world markets. It works in partnership with Irish enterprises to help them start, grow, innovate and win export sales on global markets.

  EI's Lean Business Programme is a business transformation programme that applies lean business tools and techniques to Irish companies to help them address efficiency, productivity and costs to improve competitiveness in international markets. The Lean Business Offer is tiered, supporting businesses of all sizes and all stages of development

Find out more at **www.enterprise-ireland.com**

"The primary focus of MAS is to deliver strategic and technical support to SMEs and to deliver business growth with matched funding. However, for larger enterprises MAS also offers specialist support to help develop the supply chain. MAS can work with SME suppliers on the large enterprise customers given agenda, improving strategic alignment with customer requirements. Support can be offered at four optional levels of involvement, ranging from almost anonymous, in which the large enterprise provides MAS with a list of supplier contacts, to fully involved, in which the customer openly supports MAS in identifying supplier projects. This support is free to large enterprises and can be an easy win purchasing department initiative."

Richard Hallett, MAS Food Sector Supply Chain Specialist, Grant Thornton UK

CASE STUDY – Ming foods

Ming Foods is a Kent-based entrepreneurial food manufacturer that has been supported by MAS over a number of years. Sam Duong, CEO at Ming Foods, started making traditional high quality Chinese pancakes for UK oriental restaurants that could compete on equal terms with imported pancakes. The secret of their success, he explains, is replicating hand-made quality with product innovation using an in-house developed automated process.

Working with MAS helped Sam realise that rather than 'just making pancakes' his business had mastered the challenging techniques required for thin pastry manufacture. This wider strategic vision has opened up new product potential using proven thin pastry technology and prowess. As the business has grown, the MAS advice, industry knowledge and experience has helped to avoid the potential pitfalls of expansion, particularly the management of cash flow.

In addition to new UK customers, Sam has his eyes set on Europe (which is mainly supplied from China), aiming to increase his export trade from 10% to 25% of turnover as part of doubling business size in the next two years. A move to new premises is required to accommodate this business growth and MAS has been able to support Ming Foods with grant funding for the factory design and commissioning plan.

Overseas expansion and emerging markets

In the Smart Money report the investors we surveyed highlighted expansion into new territories as a key growth opportunity for UK and Irish companies. After NPD and M&A, expansion into new territories was named the third most important driver for growth. There are two core measures of global expansion that best indicate how the F&B sector is performing in this regard – export data and inbound M&A activity.

Exports

UK

In 2011 UK food and non-alcoholic drink exports totalled £12.1 billion, an increase of 11.4% on the previous year. Research conducted by Grant Thornton UK on behalf of the Food and Drink Federation (FDF)[7] suggested that British companies still see significant barriers which prevent them from taking full advantage in developing markets. These barriers include:

- difficulty of transporting food further afield without the ability to invest in regional manufacturing facilities, particularly for SMEs
- financing implications including hedging and/or letters of credit which can cause issues with bank facilities, this can lead to risk taking and potential losses if it goes wrong
- lack of support and effective direction from the government.

Further, markets with limited growth opportunities such as the USA, France, Germany, Spain and Ireland together account for over half of all UK agri-food and drink exports[8]. These are markets, which are geographically close, have a large number of ex-pats and have historic cultural links to the UK but have limited opportunities in terms of private consumption forecasts when compared with emerging markets.

"Given the huge current and predicted growth in the middle classes in the BRICs and the current low level of exports the size of the prize is huge. When compiling our research for the FDF, our conversations with trade bodies in other developed countries highlighted that we are not the only ones looking to export more to the emerging markets – the key questions are can we be a leader here and if we are to be a leader, what do we do to enable that?"

Trefor Griffith, Head of Food and Beverage, Grant Thornton UK

[7] Sustainable growth in the food and drink industry, Grant Thornton and the Food and Drink Federation (2011)

[8] Driving Export Growth in the Farming, Food and Drink Sector: a plan of action, Defra, UKTI and Industry (January 2012)

In January 2012, Defra, UK Trade & Investment (UKTI) and industry leaders launched 'Driving Export Growth in the Farming, Food and Drink Sector: a plan of action'.This strategy outlines the opportunity for export growth and key ways in which the UK can unlock export potential. Activity includes:

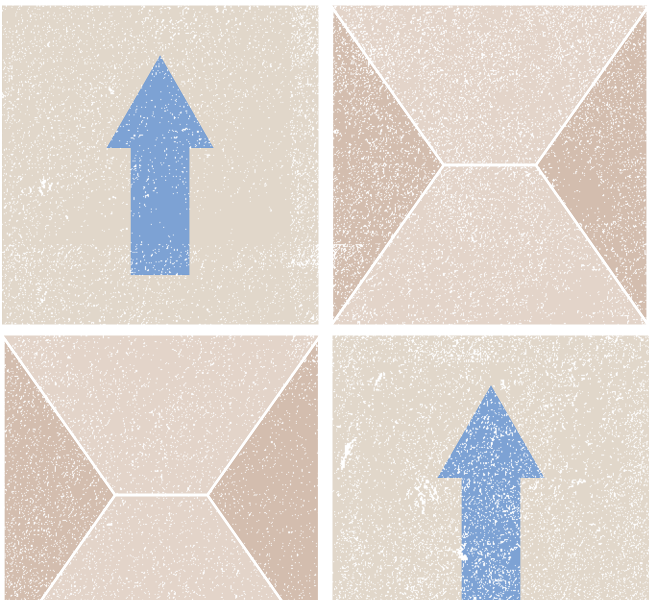
- working to open markets and remove trade barriers
- helping to build a business mindset of exporting as a key route to growth
- encouraging more SMEs to explore overseas opportunities and supporting those who already export to do more
- shifting the focus of the sector towards the opportunities of emerging economies where there is the greatest future growth potential.

CASE STUDY – Defra

In July 2012, Grant Thornton UK's SCA team was commissioned by Defra to identify key market access barriers for UK F&B exports, establish where the most significant barriers are and map these against the ease with which the barriers could potentially be addressed. The engagement follows the commitments made in the government and industry's Export Action Plan (published January 2012) to take full advantage of the potential for growth through overseas trade. Ultimately, the project will inform government policy and identify where effort should be focussed to achieve the greatest potential gain from reducing trade barriers that impact UK agri-food exports in the medium term. The final report is due to be published by Defra in early 2013.

OPEN TO EXPORT – Building an export community

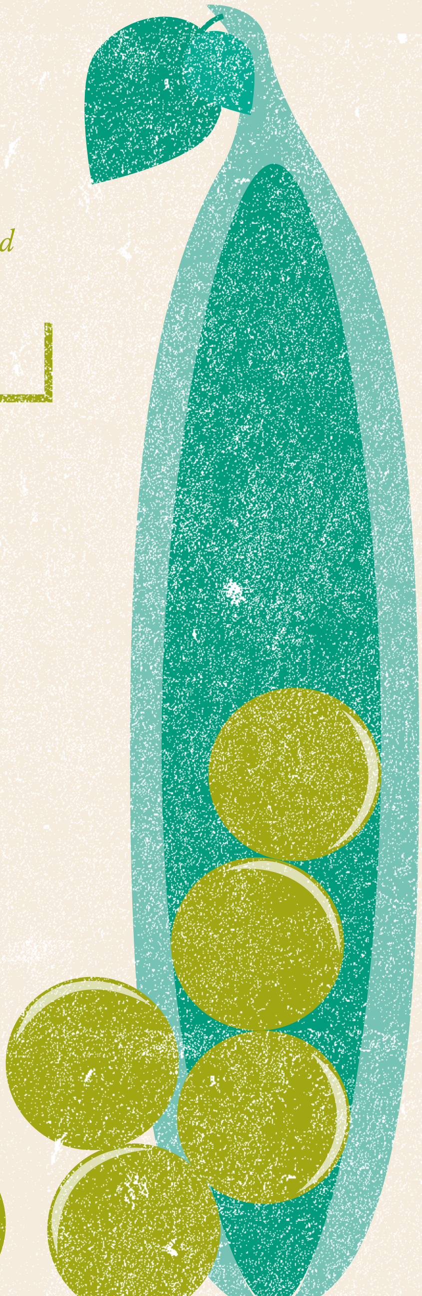
Open to Export is a community driven service for SMEs, looking for support in exporting from the UK. The service is delivered by hibu (formerly Yell Group), in partnership with UKTI.
http://opentoexport.com



"Food and drink export is an incredibly important part of Scotland's economic growth strategy and Scottish businesses are already making fantastic progress. The ten year export target set by Scotland Food and Drink in 2007 has already been surpassed and in 2011 Scottish exports were worth £5.4 billion, up 19% on the previous year.

This extraordinary success has been achieved largely because of the huge demand for Scotch Whisky and a focus on developing premium, aspirational brands aimed predominantly at the markets in Asia and America. In addition to Scotland Food and Drink, support for businesses is also available from programmes such as the Scottish Manufacturing Advisory Service as well as from various industry bodies. To ensure that Scotland takes advantage of upcoming international platforms such as the Commonwealth Games in 2014 and the next Ryder Cup the government is also offering £1 million of support to businesses."

James Chadwick, Director, Food and Beverage, Grant Thornton UK (Scotland)



Ireland

With a population of 4.6 million, Ireland produces enough food to feed 36 million people[9]. Ambitious targets have been set to grow this number to 50 million by 2020. The value of Irish F&B exports reached an all-time high of €9 billion in 2012. The sector accounts for two thirds of exports by indigenous businesses in Ireland, its success has a significant economic multiplier effect in creating jobs due to it being a major purchaser of local raw materials and services.

There are approximately 600 F&B businesses throughout the country that export upwards of 85% of food and seafood production to more than 160 countries worldwide. In 2011, the value of F&B exports grew two and a half times faster than exports from the economy in general and accounted for 10% of exports and 8% of GDP.

The Irish Dairy Board (IDB) is Ireland's largest dairy exporter with exports close to €1 billion in 2011. Its core markets for dairy exports are the UK, Germany and the US, where it has been successful with brands such as Kerrygold and Dubliner Cheese. The iconic Kerrygold brand is the number one butter in Germany and the number one imported butter brand in the US. As the IDB seeks to build the sales of Irish dairy products, new markets and new products are being targeted.

Already the IDB is building markets successfully in Africa, in countries like Algeria, Angola and the Democratic Republic of Congo, where it exports Irish milk powders under the Kerrygold and Beo brands.

Irish F&B exports to Asia are estimated at €370 million for 2011, representing an increase of 40% on the previous year. The main components of the trade are dairy ingredients (including infant formula), pig meat, fish and alcohol beverages. China (including Hong Kong) is by far the largest market accounting for €187 million, a 47% increase on the 2010 figure of €127 million. By August 2012, export of dairy, meat, beverages and seafood reached €174 million for the year. Infant formula makes up a large percentage of this, with opportunities arising from Ireland's reputation for high quality food safety. The market is increasingly seen as an opportunity for the Irish dairy industry in China, especially in infant formula.

Beef is one of Ireland's largest exports, at €1.9 billion for 2012. Over 90% of Irish beef is exported, with over 50% going to the UK. The reputation of Irish beef has been built based on high standards of regulation and food safety, a natural green environment, and a heritage of grass fed cattle. The integrity of Ireland's food supply chain is the bedrock that underpins an F&B industry that contributed €9 billion to Irish exports last year. All stakeholders in the meat business, from farmers through to supermarkets, are under severe pressure to sustain profitability. Years of effort and investment has been devoted to building Ireland as a food brand that stands for sustainability and quality. The recent issue with traces of imported horse DNA in beef burgers could translate into millions of euros lost for the industry. Now, more than ever, it is vital that the industry collaborates to create a resilient supply chain that can deliver cost efficiencies whilst ensuring Irish produce maintains its international reputation.

[9] Minister for Agriculture, Food and the Marine, Simon Coveney

While the UK remains the primary destination for Ireland's F&B exports (42%), followed closely by the rest of the EU (31%), what is really interesting are the growth expectations looking east. In 2012, growth in the Irish F&B sector was led by Asia (25%) and Africa (8%). In fact, the continued diversification of Irish F&B exports to Asia has seen strong growth of 75% in the last three years. This is being driven by an increased focus being placed on emerging markets by both Irish government and industry. Recent initiatives and success stories in emerging markets include:

- announcement by Kerry Group that they are entering a partnership agreement with Beingmate of China for the supply of Irish dairy ingredients for infant nutrition applications in China
- Glenisk (organic yoghurt manufacturer) announced a partnership with Gorta to develop a dairy processing plant in Kenya's Rift Valley
- the IDB commissioned a new dairy packaging plant for its Kerrygold brand in Algeria
- Asian sales accounting for 20% of Rosderra Meats exports with their strategic co-operation with Giant Yurun Group in Nanjing, placing them in a strong position to grow pork exports to China
- Connolly Red Mills secured the first licence to import horse feed into China in 2011
- Silver Hill Foods (fully integrated family owned duck company) is exporting to all European countries, the Middle East, Far East and China supplying retailers, wholesalers, as well as top-end restaurants
- Jade Ireland Seafood, a joint venture between four Irish seafood companies, with an office in Shanghai, is an attempt to collaboratively establish a presence in the lucrative Chinese seafood market. Collectively, through Jade Ireland, they can now provide customers in China with a diverse range of live and value added seafood products including crab, lobster, mussels, prawns, scallops, and white fish.

CASE STUDY – Irish Seafood is a key market for export growth

The Irish government recently announced a plan to double the value of Ireland's ocean wealth to 2.4% of GDP by 2030 and increase the turnover of Ireland's ocean economy to exceed €6.4 billion by 2020.

Irish seafood exports grew to €493 million in 2011, representing an 18% increase year-on-year. Approximately 25% of Irish seafood exports end up in markets outside of the EU. For its pelagic fleet, which fishes for mackerel, herring and blue whiting, Nigeria and Russia are among the main markets for these species. Irish shellfish exporters are continuing to make significant gains in markets like Asia, having secured success particularly in the export of live brown crab.

Total exports of Irish seafood to China in 2011 were €2.9 million. Latest data up to July 2012, details exports at €5.3 million. This equates to an 80% increase on 2011 before year end. This dramatic increase demonstrates the new business relationships Ireland has developed with key Chinese buyers in recent years. Trade in pelagic seafood accounts for €2.1 million of total exports in 2011 and €4.7 million of exports up to October 2012. The demand for premium Irish shellfish, mainly crab and crustaceans, is also growing solidly and expected to be valued at over €1 million during 2012-2013.

EXPORTS – Did you know?

UK

According to figures from the FDF (August 2012) the highest growth export markets for the UK in the first half of 2012 compared with the same period the previous year included:

- United Arab Emirates: +37.8% to £80 million due to a 169% increase in chocolate which makes up 15% of all food and non-alcoholic drinks exports to the market. Fish and seafood exports to the UAE also rocketed by 151% due mainly to a surge in frozen fish up by over 6000%
- Saudi Arabia: +24.5% to £66 million helped by a 98% increase in cheese, a 217% increase in soft drinks and a 118% increase in chocolate
- Hong Kong: +20.2% to £64 million due to a 29% increase in frozen pork, a 273% increase in concentrated or sweetened milk and cream exports, and a 164% increase in specialised food preparations
- 27% of Food and Drinks exports are destined for international markets (e.g. Africa and Asia), UK (42%) and other EU (31%)

Ireland

- Ireland is the largest net exporter of beef in the Northern Hemisphere, 99% of Irish beef is exported to the UK (52%) and other European countries (47%). Ireland is over 800% self-sufficient in beef
- More than 85% of all Irish dairy products are exported. Ireland is 375% self-sufficient in milk
- Irish whiskey exports continue to lead the export performance of Irish beverages in 2012 with double digit growth reported. Exports were helped during the year by an ever improving presence in the United States and in 2012 Irish whiskey surpassed single-malt Scotch in US sales volume, while other markets such as Russia, Canada, Australia and France also recorded strong growth
- Ireland produces 50% of all global cream liqueur
- Irish cider performed very strongly to non-traditional markets outside of the UK with growth in excess of 20% reported. This increase was driven by North America, Australia and Finland where good growth was recorded in both the on and off trades. Other markets to emerge in 2012 include Russia, Malaysia and South Korea. This was reflected by Irish drinks group C&C purchasing Vermont Hard Cider Company for €234m in December 2012. The purchase gives C&C more than 50% of the small but rapidly expanding US alcoholic cider market, offsetting decreased sales in the UK and Ireland, the company's two biggest markets

Please note: At the time of going to print the second half of the 2012 UK export figures had not been released.

Inbound M&A activity

Inbound M&A activity in 2012 demonstrated that there was heightened interest from overseas investors for UK and Ireland F&B businesses. In 2011, 93% of foreign acquirers of UK and Ireland assets were based in Western Europe (including the UK and Ireland), with acquiring companies from the rest of the world accounting for only 7%. Though domestic markets still account for the majority of M&A activity, investment from emerging markets is also increasing. 2012 witnessed an increase to 14% in acquirers from markets outside of Western Europe to the UK and Ireland.

The main factors motivating this interest are:

- the emerging middle classes and subsequent changes in consumer tastes across the BRICs and the rest of Asia
- the high value of British and Irish brands
- the safety, security and sustainability of supply that both Britain and Ireland offer
- the advantageous position providing a gateway to Europe
- strong trade and industry links with the US and China.

The changing tastes of the emerging middle class in the BRICs and the rest of Asia

As seen in our Smart Money report there is a rapidly growing middle class in the emerging markets, particularly Asia and the BRICs, who have growing levels of disposable income and are increasingly travelling to the West. These consumers are developing an appetite for Western premium products.

A recent UK trade mission hosted by Owen Paterson, the Environment Secretary, sought to capitalise on this trend, taking executives from 40 UK F&B companies on a trip to China in November 2012 to generate sales and boost exports. In addition to representatives from cheese, yoghurt, chocolate and beer companies looking to capitalise on Chinese consumers' changing diets, premium tea providers Teapigs and Imporient also took part in demonstrating the opportunities for niche, innovative businesses.

"Enterprise Ireland promotes Ireland as a manufacturing and R&D location to global food, beverage and natural resource companies. Our objective is to bring new greenfield and joint venture investors into the country, to join the existing cluster of global names in Ireland like Kraft, Danone, Pernod-Ricard, Kerry Group, and HJ Heinz."

David Butler, Senior FDI Executive, Food Division, Enterprise Ireland

In Ireland the Minister for Agriculture, Food and the Marine, Simon Coveney, led the largest ever agri-food delegation to China in April 2012. The trade delegation included 51 companies and 127 individuals who are active in China across the broad spectrum of the agri-food, agri-tech, bloodstock and beverages sub-sectors. Ireland views China as a key strategic trade partner not only from a trading perspective but in terms of sharing expertise and experience in sustainable food production. China has a strong demand for imports of quality food, given the size of its population and concerns over food security and safety. Ireland is strategically placed to be a key supplier of quality meats, dairy products, beverages, seafood and other products and services to China.

Overall, emerging and growth markets, most notably China and India, are experiencing consumer demand on a global scale, shifting from staple foods towards more processed and prepared food products. There is also a shift from a rice based diet to a more protein and dairy based diet. This is evidenced by the growing demand for exported goods from the UK and Ireland. The opportunities are enormous, with both governments understanding the need for public-private co-operation in 'selling' both respective food sectors to the Chinese government and people.

The UK and Ireland have many quality F&B businesses with world-leading food production standards and advanced manufacturing technology and processes. These factors provide a sound platform on which to build operations that can fulfill the growing demand from emerging markets, and are a key reason why UK food businesses are so attractive to foreign corporates.

"The F&B market continues to be of interest to Indian and UK companies as demonstrated by the recent Diageo-United Spirits transaction at the end of 2012. We recently helped Indian leisure company India Hospitality Corp (IHC) acquire the UK's Adelie Foods Group, an independent group that supplies ready-to-eat food to leading retail chains and food service outlets. Our successful involvement in this transaction continues to demonstrate our experience and reputation to bridge the gap between the UK and Indian-based firms. We truly understand Asian customs and attitudes in a business context as well the opportunities and challenges of the UK F&B market."

Anuj Chande, Head of South Asia Group at Grant Thornton UK

High value British and Irish brands

Many foreign acquisitions have been motivated by the opportunity to acquire strong brands, a fact consistent with the findings from Smart Money which showed that branded goods were the most attractive niche for corporate buyers and the second most attractive niche for PE investors (after healthy eating). This demand for famous brands is also apparent in emerging markets where increasingly affluent consumers prize brands for quality, status and food safety standards.

Some examples of the high value foreign buyers who have invested in British and Irish F&B brands in 2012

Brand	Acquirer	Acquirer country of origin	Deal value (£ million)	Driving factors
Robert Wiseman	Müller Dairy	Germany	279.5	– Consolidation of supply chain – Compete with largest market players
Weetabix	Bright Food	China	1,200	– Acquire UK manufacturing expertise and techniques – Tap into established brand equity to quickly build market presence in both the UK and China
Premier Foods Hayward's pickles and Sarson's vinegar brands Premier Foods Branston sweet pickles and table sauces brands	Mizkan	Japan	41 and 92.5	– Opportunity to take product to Japanese market – Market conditions driving up price of yen means Japanese manufacturers are on the look-out for foreign expansion to manage costs
Bruichladdich Whisky	Remy Cointreau	France	58	– 'Heritage brand' to assist move into premium whisky market
Zetar Confectionery	Zertus	Germany	42.7	– To accelerate its domestic and international expansion plans
Cully & Sully	Hain Celestial	USA	Not disclosed	– Quality Irish brand to complement similar UK brands such as Covent Garden Soup
Cooley Whiskey	Beam Inc.	USA	63.3	– Capitalise on global growth in demand for Irish whiskey
KP Snacks	Intersnack	Germany	500.4	– Further expansion into UK market – Acquisition of iconic brand

"In an unpredictable market, businesses want to be sure that they are making the most of their brand portfolio. Predominantly, high value brands are changing hands between large multinational businesses looking to either offload product lines that don't fit with future strategies or to buy in brands that do. For foreign investors looking to expand into new markets, purchasing high value brands, which are few and far between, bolsters their chance of success providing them with ready-made brand equity with customers as well as existing production and manufacturing facilities. All of which enables the acquirer to hit the ground running through their investments."

Trefor Griffith, Head of Food and Beverage, Grant Thornton UK

In terms of outbound M&A neither the UK nor Ireland demonstrated any significant activity or increase in activity in 2012. The UK and Ireland are home to several very large multinational businesses such as, Diageo, Cadbury's/Kraft and Nestlé to name a few and by their nature these businesses are constantly seeking opportunities for expansion into new territories. There was some activity in the sector in 2012, July saw R&R Ice Cream plc acquire Eskigel Srl, an Italian based manufacturer, giving it a major presence in Europe's largest ice-cream market. In October Westons Cider acquired World Brands Australia (WBA), as part of its focus on international growth, simultaneously taking advantage of the booming Australian cider market.

In Ireland, it was primarily the largest corporates who were seeking entry into emerging markets, particularly in the Dairy sector where outbound investment was being used to prepare operations for increased milk production when EU quotas are abolished in 2015. Kerry Group and Glanbia plc. have both announced joint ventures with businesses in China to supply dairy ingredients and processing.

A trend that we noticed in 2012 is that both inbound and outbound investment is occurring between the United States and Ireland. Irish global food behemoths such as Glanbia and Kerry Group have had tremendous success in the US market to date, due to strong business and cultural synergies and the management teams of both understanding of the opportunities that the American sports nutrition and food ingredients market has to offer.

Glanbia's acquisition of Aseptic Solutions, a US dietary beverage company for €50 million in July 2012, is in line with the company's pre-existing growth strategy and was funded using only existing credit facilities.

Greencore has also been acquisitive and in order to build its food-to-go offering in the USA it acquired Market Fare Foods in April and HC Schau & Son in June. The commonalities/synergies of corporate mind-sets, business cultures and market growth potential are the key drivers of M&A growth between both American and Irish corporates.

CASE STUDY
A special relationship – the USA

The USA has continued to be an important market for UK and Irish businesses in 2012 with large US corporates looking to Ireland in particular to corner the production facilities to meet growing demands from US consumers. Beam's acquisition of Ireland's last independent whiskey facility, Cooley's in January 2012, is an example of this as the distillery and production facility manufactures the three leading Irish whiskey brands, allowing Beam control of the lion's share of the market.

Meanwhile in the UK, F&B exports to the USA rose 11% in the first half of 2012 compared with the same period in 2011[10]. This increase is largely driven by a need to spread assets and risk beyond domestic and European markets, many businesses are targeting premium sub-categories such as biscuits, granola, chocolate and luxury crisps.

[10] Food and Drink Federation – June 2012

Security, safety and sustainability

The geographic location and political stability of the UK and Ireland are also important factors for global investors. Located at the mid-point between East and West, with limited risk from natural disasters which disrupt the supply chain and high standards of regulation to ensure world-leading safety and hygiene, the UK and Ireland offer a safe, stable base for global expansion.

Food safety is a major issue in developing markets in particular and is likely to continue to be a strong differentiator for the UK and Ireland.

Sustainability is also a strong differentiator for both the UK and Ireland. A recent report into sustainable businesses by Grant Thornton UK's Energy, Environment and Sustainability team found that food and beverage sector respondents were far more likely than other sectors to fully embed sustainability goals into their supply chain[11].

"At Grant Thornton, we believe the definition of sustainability goes beyond the 'greenness' of food production, to include the equally important need to share the financial reward for effort and risk across all participants in the sector. Achieving sustainability will involve fundamental changes in productivity, smart innovation, pricing transparency, co-operation and alignment across the food supply chain."

Ciara Jackson, Head of Food and Beverage, Grant Thornton Ireland

CASE STUDY
Origin Green – Ireland

The Irish Food Board, Bord Bia has devised a sustainability charter known as Origin Green. The programme encourages Irish food and drink businesses to sign up to an agreed set of sustainability objectives, progress against which is monitored annually. Since launching in June 2012, some 164 companies accounting for almost 60% of Irish food and drinks exports have signed up to the programme. This is the only programme in the world that operates on a national basis and commits to actively measuring and reducing the carbon footprint of each provider. Similar programmes are now in active development across the entire range of primary production sectors. Measurement and performance criteria will also be introduced around water and biodiversity, with all the programmes collectively forming a platform for Origin Green.
www.origingreen.ie

[11] Sustainable Businesses, Navigating towards a more sustainable future, Grant Thornton UK (2012)

Conclusion and what's next?

As this report shows, 2012 was an interesting year, with plenty of surprises. It has cemented the fact that those businesses with a clear focus on efficiency, forward planning and versatility are well positioned to grow profitably.

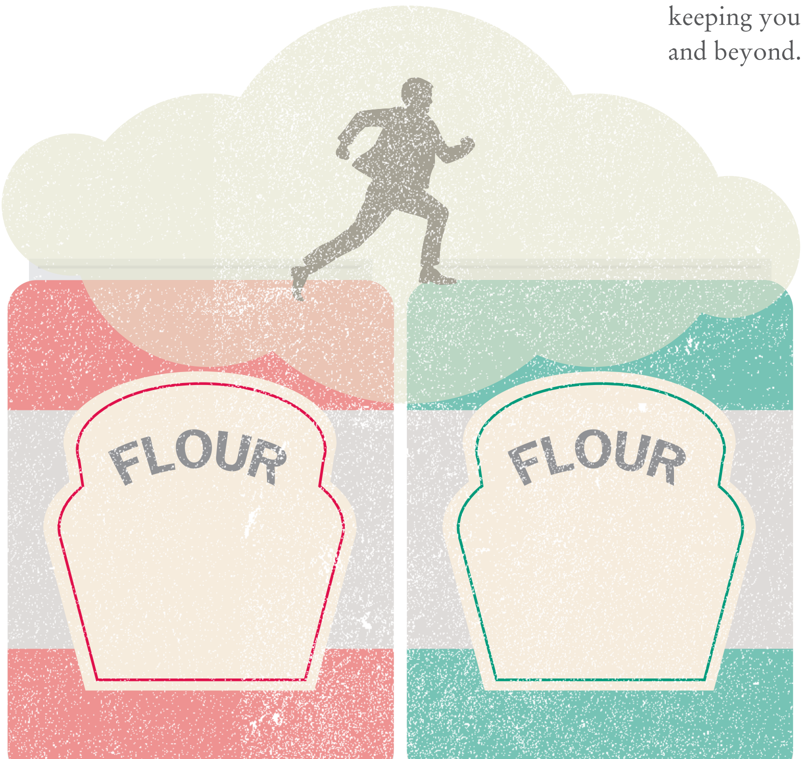
What has also become clear is the importance of the global market, particularly regions outside of Western Europe who are looking to the UK and Ireland for excellence in manufacturing processes and brand innovation. Introducing a fresh set of eyes to international expansion strategies, in terms of working with an external advisor such as Grant Thornton UK or Ireland, can really work to mitigate risk and avoid making costly mistakes. We are also assisting clients to:

- validate investment strategies
- choose the right markets and navigate them effectively
- make the transition simpler (by introducing them to people on the ground at our Grant Thornton offices in local markets like China, India and Russia).

M&A activity in the sector is still continuing at a pace, albeit in slightly different directions and investors are still exercising caution with their capital. **There are always opportunities for businesses with a strong leadership team, an ability to adapt quickly to changing circumstances, a dynamic and evolving business plan in place and a deep understanding of underlying financial performance**. Vendor multiple expectations are generally adjusting down annually which will continue to aid M&A activity. In most cases corporates hold the whip hand over PE and we would expect this to continue.

Looking forward, our sector has demonstrated not just resilience but a phenomenal capacity for growth and we believe it will continue to do so.

Our regular industry updates, Bite Size and the Growth Optimism Indicator survey are intended to keep you informed and provide a frequent sample of the sentiment in the marketplace. We look forward to keeping you updated and working with you in 2013 and beyond.



About us

Grant Thornton UK LLP

Dynamic organisations know they need to apply both reason and instinct to decision-making. At Grant Thornton UK LLP, this is how we advise our clients every day. We combine award-winning technical expertise with the intuition, insight and confidence gained from our extensive sector experience and a deeper understanding of our clients.

Through empowered client service teams, approachable partners and shorter decision-making chains, we provide a wider point of view and operate in a way that's as fast and agile as our clients. The real benefit for dynamic organisations is more meaningful and forward-looking advice that can help to unlock their potential for growth.

In the UK, we are led by more than 200 partners and employ over 4,000 of the profession's brightest minds, operating from 27 offices. We provide assurance, tax and specialist advisory services to over 40,000 privately-held businesses, public interest entities and individuals nationwide.

Global strength

Grant Thornton* is one of the world's leading organisations of independent assurance, tax and advisory firms. Over 35,000 Grant Thornton people, across 120 countries, are focused on making a difference to clients, colleagues and the communities in which we live and work.

Grant Thornton Ireland

Grant Thornton Ireland provides assurance, tax and specialist advice to businesses to help them unlock their potential for growth. Grant Thornton has significant experience in the F&B sector from the farm gate through to processing and retail. Our experience means that we can readily identify the critical issues affecting your business and then quickly provide specific solutions. The firm comprises over 400 partners and staff operating from offices in Dublin, Limerick, Kildare and Galway.

Grant Thornton's Food & Beverage sector

The F&B sector is one of Grant Thornton's key focus sectors, not only for the UK and Ireland but also internationally, consisting of experienced industry champions from around the world. We work together to offer a full range of services to a diverse range of businesses throughout the food and beverage supply chain, from agriculture producers, multinational food and beverage manufacturers through to the major supermarkets. Our expert advice is based on extensive experience in the sector and demonstrable client service, knowledge and contacts, enabling us to readily identify the critical issues affecting businesses and then quickly providing specific solutions across all territories.

* Among Grant Thornton International member firms. All information correct as at 1 December 2012.

Contact

For further information on any of the issues explored in this report contact:

Trefor Griffith
Head of Food and Beverage
Grant Thornton UK LLP
T +44 (0)20 7728 3210
E trefor.a.griffith@uk.gt.com

Ciara Jackson
Head of Food and Beverage
Grant Thornton Ireland
T +353 (0)1 680 5640
E ciara.jackson@ie.gt.com

For other queries, please contact your local Grant Thornton office:

UK:

Belfast
T +44 (0)28 9067 7000

Birmingham
T +44 (0)121 212 4000

Bristol
T +44 (0)117 305 7600

Cambridge
T +44 (0)1223 225600

Cardiff
T +44 (0)29 2023 5591

Edinburgh
T +44 (0)131 229 9181

Gatwick
T +44 (0)1293 554130

Glasgow
T +44 (0)141 223 0000

Ipswich
T +44 (0)1473 221491

Kettering
T +44 (0)1536 310000

Leeds
T +44 (0)113 245 5514

Leicester
T +44 (0)116 247 1234

Liverpool
T +44 (0)151 224 7200

London
T +44 (0)20 7383 5100

Manchester
T +44 (0)161 953 6900

Milton Keynes
T +44 (0)1908 660666

Newcastle
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Northampton
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Norwich
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Thames Valley
Oxford
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Sheffield
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Southampton
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Ireland:

Dublin
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