A study of global Consumer & Retail M&A activity by Mergermarket, in association with Squire Sanders

GLOBAL M&A SERIES CONSUMER & RETAIL 2013

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FOREWORD

Welcome to Squire Sanders' fourth edition of the Global M&A Series. Drawing from extensive data on M&A activity in the consumer and retail sectors, this report offers insight into the challenges and opportunities facing the industry on a global scale.

Dealmaking has remained a central part of many consumer businesses' growth strategies, thanks to the continual demand for new products and distribution networks. Large-cap deal flow was particularly robust as sizeable, healthy companies were able to take advantage of low interest rates and easy credit access.

The food and drink space has been particularly active over the past year. A number of food and drink conglomerates, including Kraft Foods and Sara Lee, have spun off branches to concentrate on faster-growing areas. Another driver is the rising popularity of health and wellness products, particularly pro-biotic dairy and baby food.

Even with these bright spots, M&A activity in the consumer sector shows weariness from the inhospitable macroeconomic climate. While deal volume has rebounded since the worst days of the crisis, value has been less quick to recover. Economies once considered sure bets for growth, including China, India and Brazil, slowed down in 2012, posing questions about future growth.

Regarding future developments, all eyes will be on emerging markets. More so than ever, consumer businesses have looked to tap into the rising spending power in developing economies. The number of deals with Asia-Pacific and Latin America-based targets has jumped up in the past few years. This trend is increasingly reciprocal, with emerging market businesses becoming global acquirers in their own rights.

The reports in this Global M&A Series focus on specific sectors – in this case, consumer and retail – to gain perspective into the factors fuelling investment and consolidation in the relevant industries.

William Downs
Global Practice Group Leader, Corporate and Corporate Finance
Squire Sanders
william.downs@squiresanders.com

CONSUMER & RETAIL OVERVIEW

In an era of households cutting back and weak confidence about the future, consumer and retail sector dealmaking has proven a bright spot for M&A. Fallout from the financial crisis was severe and continues to shape the consumer M&A market in many ways. However, other more positive factors with long-term implications are also at play and are influencing the business strategies of consumer companies looking to long-term growth areas for the future. In particular, the combination of constantly changing consumer tastes, the importance of scale and the rapid evolution of emerging markets increasingly compel large consumer companies to employ M&A as a key strategic tool.

Improved credit conditions for sure-footed corporates – and consolidation among struggling retailers and consumer food and products companies – further stoked activity in 2012, with dealmaking by both volume and value hitting highs not seen since the pre-crisis period. In total, 1,797 transactions worth a disclosed US$259.3bn came to market, marking year-on-year increases of 1% and 37% in volume and value terms.

Deal size trends

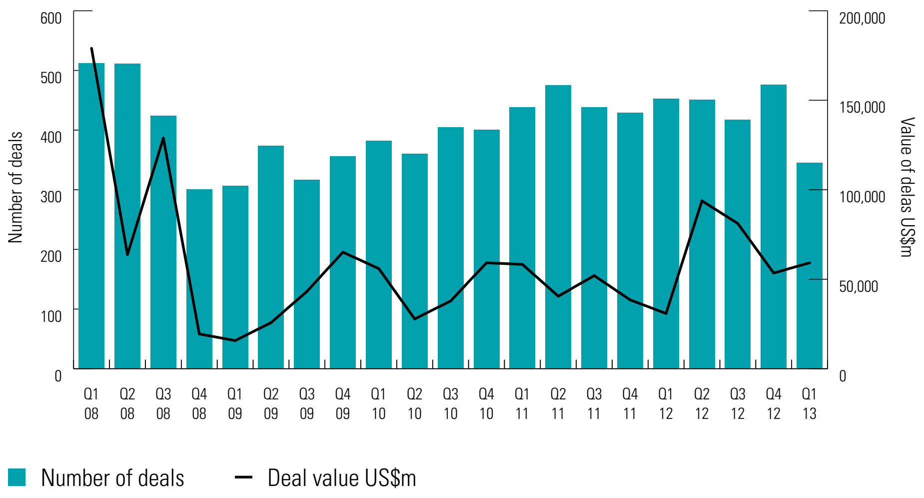
Within the consumer space (in which we include, alongside retail, the food and drink, fashion and clothing, beauty and personal care products, homeware and luxury goods sectors), large-cap deal flow has been remarkably buoyant. Last year 91 deals were announced carrying enterprise values above US$500m, compared to 83 in 2011. Unlike for small and medium firms (where financing by and large remains difficult), large consumer companies with reasonable leverage enjoy easy credit access at historically low rates.

A lack of quality targets and uncertainty about future growth in both developed and emerging markets pose the main challenges to M&A – the key growth markets of China, India and Brazil all registered a slowdown in 2012, for instance. On the bright side, improving consumer sentiment and an outlook for stronger growth in the US, signs of Eurozone stability and a pickup in activity in key emerging markets bode well for big-ticket deals this year and next.

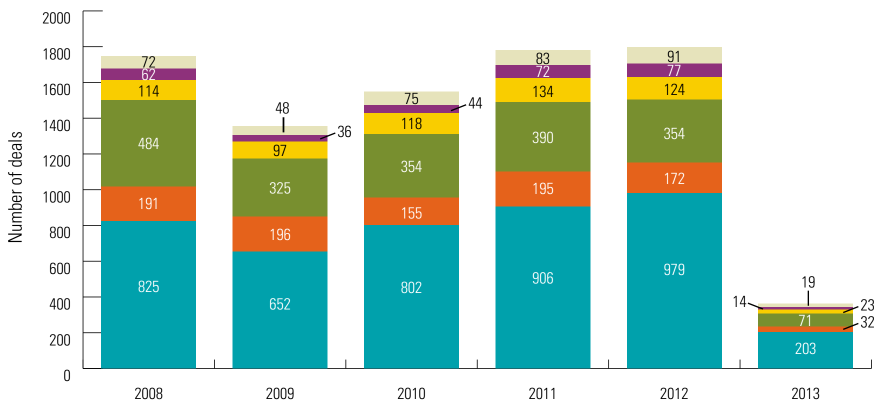
Regional perspectives

Breaking down deals by target geography points to a shift away from Western Europe towards

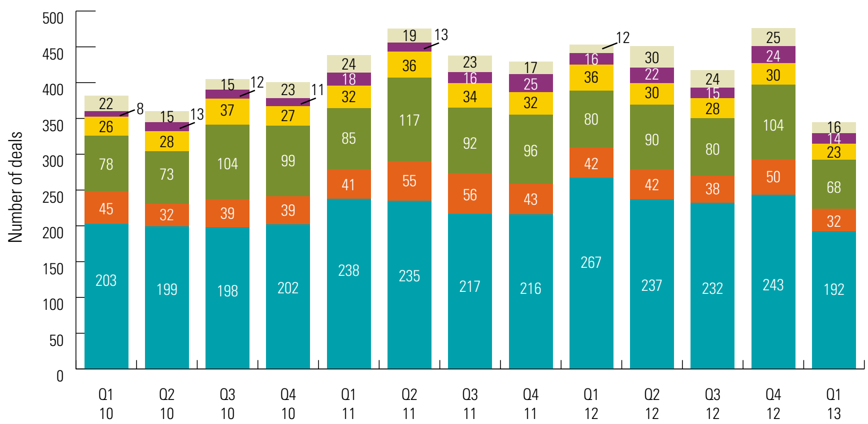
Consumer global M&A trends



Annual deal size splits by volume



Quarterly deal size splits by volume



Key for above two graphs:

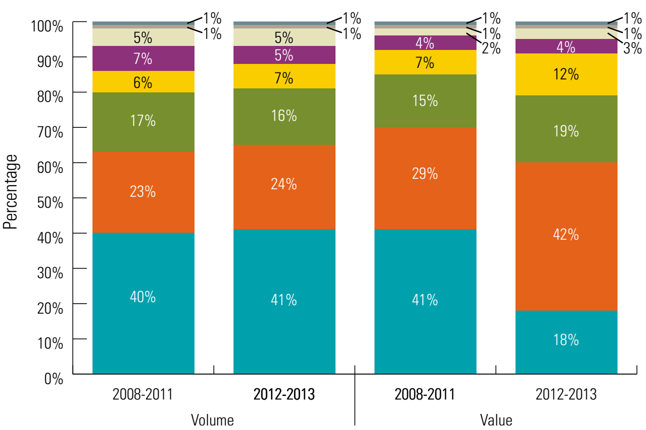
Not disclosed | <US$15m | US$15m-US$100m
US$101m-US$250m | US$251m-US$500m | >US$500m

Top consumer M&A deals, 2012-2013

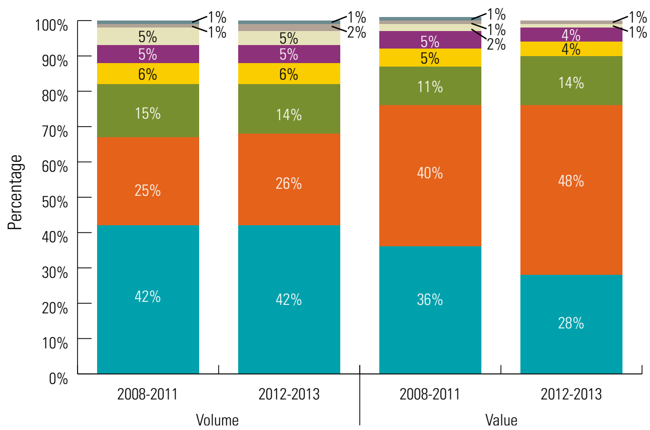
Announced	Status	Target	Subsector	Target country	Bidder	Bidder country	Seller	Seller country	Deal value US$m
Feb-13	P	HJ Heinz Company	Food & Beverage	USA	Heinz Buyout Consortium	USA			27,362
Aug-12	C	Kraft Foods Group Inc	Food & Beverage	USA	Kraft Foods Inc (shareholders)	USA	Mondelez International Inc	USA	26,294
Jun-12	P	Grupo Modelo SAB de CV (49.7% stake)	Food & Beverage	Mexico	Anheuser-Busch InBev NV	Belgium			20,100
Apr-12	C	Pfizer Nutrition	Food & Beverage	USA	Nestlé SA	Switzerland	Pfizer Inc	USA	11,850
Sep-12	C	Fraser & Neave Ltd	Food & Beverage	Singapore	TCC Group	Thailand			11,681
Nov-12	C	Ralcorp Holdings Inc	Food & Beverage	USA	ConAgra Foods Inc	USA			6,740
Jun-12	C	Alliance Boots GmbH (45% stake)	Retail	Switzerland	Walgreen Company	USA	AB Acquisitions Holdings Ltd	United Kingdom	6,690
Jul-12	C	Asia Pacific Breweries Ltd	Food & Beverage	Singapore	Heineken NV	Netherlands	Fraser & Neave Ltd; Kindest Place Groups Ltd	Singapore	6,593
May-12	C	DE Master Blenders 1753 BV	Food & Beverage	Netherlands	Sara Lee Corporation (shareholders)	USA	Hillshire Brands Co	USA	5,876
Apr-13	P	GD Midea Holding Co Ltd (58.83% stake)	Other consumer	China	Midea Group Co Ltd	China			4,917

C = Complete; P = Pending

Target region splits by volume and value



Bidder region splits by volume and value



Key for above two graphs:

- Western Europe
- North America
- Asia-Pacific
- Latin America
- Central & Eastern Europe & CIS
- Japan
- Middle East & North Africa
- Sub-Saharan Africa

CONSUMER OVERVIEW

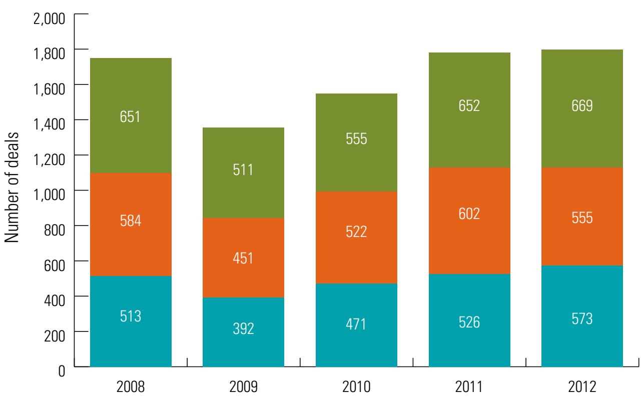
Top cross-border M&A deals, 2012-2013

Announced	Status	Target	Subsector	Target country	Bidder	Bidder country	Seller	Seller country	Deal value US$m
Jun-12	P	Grupo Modelo SAB de CV (49.7% stake)	Food & Beverage	Mexico	Anheuser-Busch InBev NV	Belgium			20,100
Apr-12	C	Pfizer Nutrition	Food & Beverage	USA	Nestle SA	Switzerland	Pfizer Inc	USA	11,850
Sep-12	C	Fraser & Neave Ltd	Food & Beverage	Singapore	TCC Group	Thailand			11,681
Jun-12	C	Alliance Boots GmbH (45% stake)	Retail	Switzerland	Walgreen Company	USA	AB Acquisitions Holdings Ltd	United Kingdom	6,690
Jul-12	C	Asia Pacific Breweries Ltd	Food & Beverage	Singapore	Heineken NV	Netherlands	Fraser & Neave Ltd; Kindest Place Groups Ltd	Singapore	6,593
May-12	C	D.E Master Blenders 1753 BV	Food & Beverage	Netherlands	Sara Lee Corporation (shareholders)	USA	Hillshire Brands Co.	USA	5,876
Apr-12	C	Statoil Fuel & Retail ASA	Retail	Norway	Alimentation Couche-Tard Inc	Canada			3,726
Apr-12	C	StarBev LP	Food & Beverage	Czech Republic	Molson Coors Brewing Company	USA	CVC Capital Partners Ltd	United Kingdom	3,498
Nov-12	P	United Spirits Ltd (53.4% stake)	Food & Beverage	India	Diageo plc	United Kingdom			3,354
Feb-13	P	Compania Cervecera de Coahuila	Food & Beverage	Mexico	Constellation Brands Inc	USA	Anheuser-Busch InBev NV	Belgium	2,900

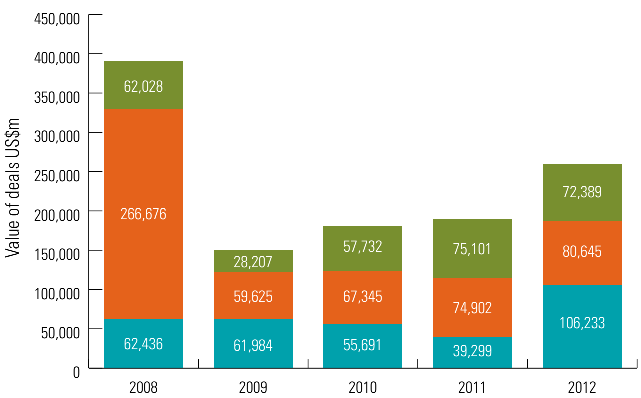
C = Complete; P = Pending

Consumer industry snapshots

Subsector splits by volume



Subsector splits by value



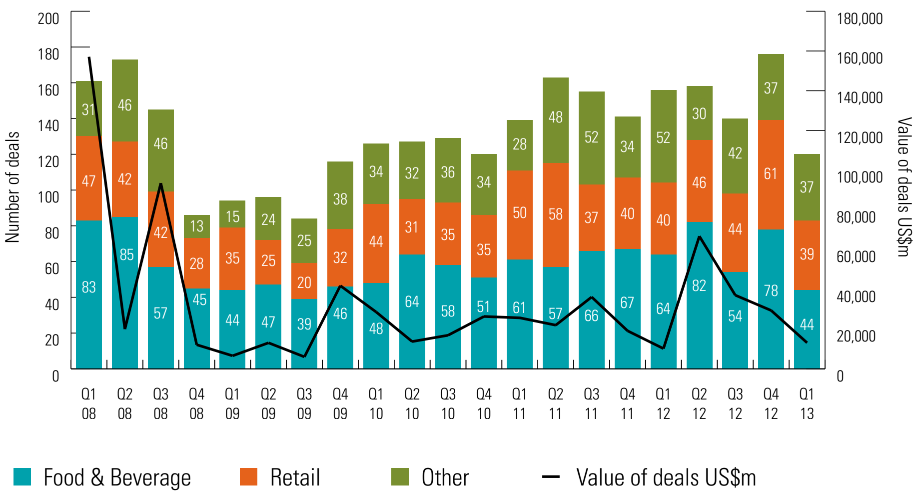
Key for above two graphs:

Food & Beverage | Retail | Other consumer both North America and emerging markets, with Western European M&A constrained by the volatile economic environment and anaemic consumer confidence.

Between 2008 and 2011 Western Europe accounted for 41% of M&A by value, but in 2012 and 2013 this fell to just 18%. At the same time North America increased its share of global consumer M&A from 29% to 42%, with investors buoyed by the more stable economic environment and steadily improving consumer confidence, particularly when compared to the weak markets across the Atlantic.

Emerging markets are also gaining prominence as an M&A target region, with Latin America increasing its share to 12% from 7% over the same time period and Asia-Pacific increasing to 19% from 15%.

Cross-border M&A by subsector



Food & Drink

The food and drink sector saw a big increase in M&A activity by value in 2012, supported by a flurry of cross-border deals and a number of company spinoffs, with firms rebalancing portfolios to better position themselves for opportunities in high growth sectors and markets.

The latter trend included food major Kraft Foods' spinoff of its North American grocery business to focus on its faster growing global confectionery and coffee businesses, which now operate under the name Mondelez International. In a similar vein, Sara Lee spun off its North American operations, focused on packaged meat, to concentrate on its coffee and bakery business, which continues as a separate unit named D.E Master Blenders 1753. Both moves leave the core businesses in a better position to invest in their faster growing brands, particularly in emerging markets. The positive shareholder response has led to speculation that other firms with somewhat incongruous operations, such as PepsiCo (soft drinks and snacks) and Unilever (food and personal care) could eventually follow a similar route.

In the food space a key trend driving M&A is the growth in products offering health and wellness benefits. Niches such as probiotic dairy and baby food are proving to be strong drivers of both revenues and margins, which therefore place them in high demand by food majors. This was demonstrated by Nestlé's US$11.9bn acquisition of Pfizer's infant nutrition arm as well as Reckitt Benckiser's US$1.5bn deal for supplements maker Schiff Nutrition International. At the other end of the spectrum, the increased popularity of store or 'own label' brands as a result of weak consumer confidence is pushing major brand builders to exit sectors where there is limited advantage to be built through branding and innovation. This was a key driver of Sara Lee's move out of packaged meat, and is also evidenced by Unilever's 2013 sale of its Skippy peanut butter brand for US$700m, which is one of a series of divestments over recent years in areas such as olive oil, frozen food and cheese. At the same time, other firms are focused on building scale to capitalise on the growing demand for store brands, as exhibited by Conagra's acquisition of Ralcorp in a deal worth US$6.74bn.

A high level of M&A in the alcoholic drinks sector over the past 20 years has left it one of the most consolidated areas of the consumer industry. This is particularly the case in the beer segment, which is reaching the final stages of the consolidation phase. In 2012 rumours circulated of a game-changing deal between two of the remaining majors, such as SABMiller and AB InBev. In the meantime, international brewers continue to pick off remaining independent assets in emerging markets, with AB InBev buying Mexico's Grupo Modelo, Canada's Molson Coors buying Czech-based StarBev and Heineken buying Singapore's Asia Pacific Breweries. In the spirits niche, emerging market expansion is also a key driver of M&A with Diageo leading the charge and picking up a 53.4% stake in India's United Spirits for US$3.4bn as well as Brazil's Ypioca Agroindustrial for US$454m.

Retail

M&A in the retail sector registered a small decline by value in 2012, with activity supported by considerable movement by private equity firms on both the buy-side and sell-side, but suppressed by the difficult retail environment in developed markets. For several global food retailers, including Carrefour and Tesco, a slowdown in domestic markets has meant that expansion through acquisitions has been put on the backburner as they refocus on core business activities and offload underperforming units.

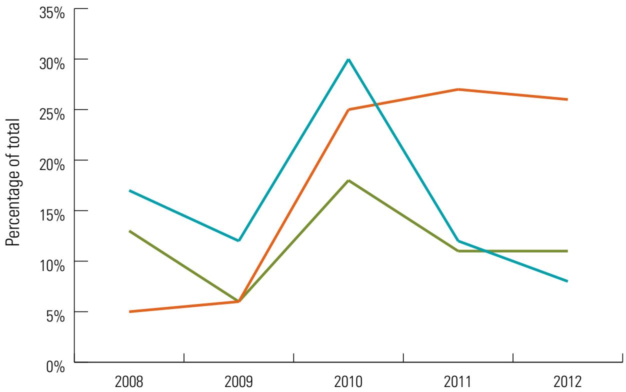
This trend saw Carrefour divest its Colombian operations to Chile-based Cencosud in a US$2.6bn deal alongside disposals of additional operations in Indonesia, Malaysia and Greece. For its part, Tesco offloaded a stake in its loss-making Japanese business to Aeon and also finally bit the bullet in the US, announcing it was looking for a buyer for its fledgling operations, despite having only entered the market in 2007 and spending over US$1.5bn trying to crack this tricky territory.

Problems from suppressed demand in home markets for Western companies have been further compounded by difficulties expanding in some of the more challenging emerging markets,

CONSUMER OVERVIEW

Private equity buyout share of subsector deals by volume

Private equity buyout share of subsector deals by value



Key for above two graphs:
— Food & Beverage — Retail — Other

particularly China. Tesco, Carrefour and Walmart have all shut stores in China over the past 12 months and reined in expansion plans as a result of a highly competitive local market, which has led to sales failing to meet expectations at some units. In developed markets a key trend in retail is a move towards more frequent shopping and an increased desire for convenience. This has bolstered the operations of North American convenience store operator Alimentation Couche-Tard, which has been a serial acquirer in North America. In 2012 the firm embarked on a new chapter of its expansion programme with the acquisition of Norway's Statoil Fuel & Retail for US$3.7bn. The attractiveness of high street operations also helped boost the price of the UK's Iceland Foods, which was acquired through a management buyout backed by Brait SA and the Landmark Group in a deal worth US$2.3bn.

This latter deal also highlights the robust level of private equity activity in the retail sector, with acquisitions buoyed by Kohlberg Kravis Roberts's successful sale of a 45% stake in pharmacy operator Alliance Boots to US counterpart Walgreen Company for US$6.7bn. This deal was the largest private equity exit of the year and, if Walgreen exercises its option to acquire the remaining 55% stake, would deliver a return of 2.2 times the original investment, despite being bought near the top of the market in April 2007.

An upsurge in PE activity in the retail sector suggests that many PE investors are anticipating improving economic conditions and a rise in consumer sentiment, in both North America and the stronger performing parts of Europe. Sizeable PE deals that support this suggestion in the US include Thomas H. Lee Partners' acquisition of US-based party supplies retailer Party City Holdings for a total consideration of US$1.7bn and Leonard Green & Partners and TPG Capital agreeing to acquire US-based thrift store chain Savers Inc from Freeman Spogli & Co for an estimated enterprise value of US$1.6bn.

In Europe, global private equity firm Advent International and the company's founding Kreke Family made a public tender offer of €1.5bn for all outstanding shares of Douglas Holding AG, which has five retail divisions covering perfume, books, jewellery, confectionery and fashion.

Other consumer sectors

M&A activity in consumer sectors outside of food, drink and retail hit a peak in 2008 thanks to a massive round of consolidation in the tobacco industry worth more than US$145bn. With the tobacco industry now heavily consolidated, M&A in sectors not covered by food, drink or retail has stabilised at a much lower level. In 2012 M&A in these sectors, which also includes manufacturers of personal care, homeware and clothing, fell to US$28.2bn from US$37bn in 2011. The largest deal in the space was the US$2.8bn acquisition

Heat Chart

	Retail	Other	Food & Beverage	Overall
Western Europe	161	145	121	427
Asia-Pacific	149	133	145	427
North America	120	72	124	316
Central & Eastern Europe & CIS	50	29	64	143
Latin America	35	11	64	110
Middle East & North Africa	10	2	7	19
Sub-Saharan Africa	5	2	12	19
Overall	530	496	435	1461

Key

Key
Hot
300
250
200
150
100
50
0
Cold

The Heat Chart shows 'company for sale' stories tracked by Mergermarket over 1/10/2012 to 31/03/2013. Opportunities are captured according to the dominant geography and the subsector of the target.

Top private equity deals, 2012-2013

Announced	Status	Target	Subsector	Target country	Bidder	Bidder country	Seller	Deal type	Deal value US$m
Feb-13	P	HJ Heinz Company	Food & Beverage	USA	Heinz Buyout Consortium	USA		IBO	27,362
Jun-12	C	Alliance Boots GmbH (45% stake)	Retail	Switzerland	Walgreen Company	USA	AB Acquisitions Holdings Ltd	Exit	6,690
Apr-12	C	StarBev LP	Food & Beverage	Czech Republic	Molson Coors Brewing Company	USA	CVC Capital Partners Ltd	Exit	3,498
Jan-13	C	Star Markets Company Inc; Shaw's Supermarkets Inc; Jewel-Osco stores (SuperValu); Acme Fresh Markets; SuperValu (Albertsons stores)	Retail	USA	Cerberus Capital Management, LP; Kimco Realty Corporation; Klaff Realty LP; Lubert-Adler Partners, LP; Schottenstein Real Estate Group	USA	SuperValu Inc	IBO	3,300
Feb-13	P	ICA AB (60% stake)	Retail	Sweden	Hakon Invest AB	Sweden	Royal Ahold NV	IBI	3,109
Jun-12	C	Party City Holding Inc	Retail	USA	Thomas H Lee Partners LP	USA	Berkshire Partners LLC; Advent International Corporation; Weston Presidio Capital	IBI, Secondary buyout	2,690
Mar-12	C	Iceland Foods Ltd	Food & Beverage	United Kingdom	Oswestry Acquico Ltd	United Kingdom	Landsbankinn hf; Islandsbanki	MBO	2,273
Oct-12	C	Douglas Holding AG	Retail	Germany	Advent International Corporation	USA		MBO	2,123
Feb-13	C	AssuraMed Holding Inc	Retail	USA	Cardinal Health Inc	USA	Clayton, Dubilier & Rice, LLC; GS Capital Partners	Exit	2,070
Jul-12	C	Lotte Himart Co Limited (65.25% stake)	Retail	South Korea	Lotte Shopping Co Ltd	South Korea	H&Q Asia Pacific; Eugene Corporation; IMM Private Equity Inc; Seon Jong Gu (private investor)	Exit	1,919

C = Complete; P = Pending

of swimwear and underwear manufacturer The Warnaco Group, which produces brands such as Calvin Klein and Speedo under license, by rival manufacturer PVH Corp, which is the world's largest shirt company and owns a portfolio of brands including Calvin Klein, Tommy Hilfiger and Van Heusen.

The consolidation of brands has been a major theme across the fashion, eyeware and beauty sectors over recent years, with the trend buoyed by economies of scale in manufacturing and distribution as well as the advantages afforded by additional scale when negotiating with key wholesale customers such as department stores. Other deals fitting with this trend in 2012 include L'Oreal's US$300m acquisition of Urban Decay cosmetics, while the acquisition of brands has also been an increasing stronghold for private equity. In 2012 the second largest deal in the non-food and drink consumer sectors was the US$1.7bn acquisition of Collective Brands, which owns shoe brands Robeez and Airwalk, by a consortium comprised of Blum Capital Partners and Golden Gate Capital alongside Wolverine Worldwide, which owns labels such as Hush Puppies, Wolverine and Keds.

Other private equity deals focused on fashion brands include the US$464m purchase of accessory firm Nixon Inc in a management buyout backed by Trilantic Capital Partners, from Billabong International for an enterprise value of US$464m as well as The Carlyle Group's acquisition of a 70% stake in Italian fashion house Light Force from DGPA Capital for an estimated consideration of €300m.

Outlook

A relatively slow first quarter for consumer dealmaking reflects a lull in the wider market, which can be partly attributed to a pause for breath after the massive upsurge in activity in the fourth quarter of 2012. On the flipside, the first three months of 2013 witnessed a steady stream of large, high-profile deals funded by debt, pointing to the underlying strength of credit conditions ready for companies to tap once they have the confidence. This includes the US$23.7bn leveraged buyout of food producer HJ Heinz by a consortium led by Berkshire Hathaway (BRK) and 3G Capital, which will be part-funded by US$14.1bn of new debt committed by JPMorgan and Wells Fargo.

Corporate confidence is weakest in Europe, while the Heinz takeover indicates how dealmaking in the US has steadily been improving on the back of improving sentiment. Despite this, its share of consumer M&A having fallen in recent years, Western Europe jointly tops Mergermarket's Heat Chart alongside the Asia-Pacific region, with 427 'company for sale' stories in both regions. This could suggest that the lull in dealmaking in the European region has generated pent up demand for European assets, which could be unleashed once signs of an improvement in the underlying consumer environment materialise.

In terms of sectors, retail had the highest number of 'company for sale' stories in the European region, bolstered by a large number of stories emanating out of the clothing sub-sector, which remains in constant flux due to the weak market conditions. In Europe the food and beverage sector is currently 'cooler', but in the Asia-Pacific and North America regions prospective food and beverage M&A remains 'hot'. This high level of M&A chatter is being driven by soft beverages and food ingredients in the Asia-Pacific region as well as dairy products and baked goods bolstering the figures in North America.

M&A SPOTLIGHT: EMERGING MARKETS

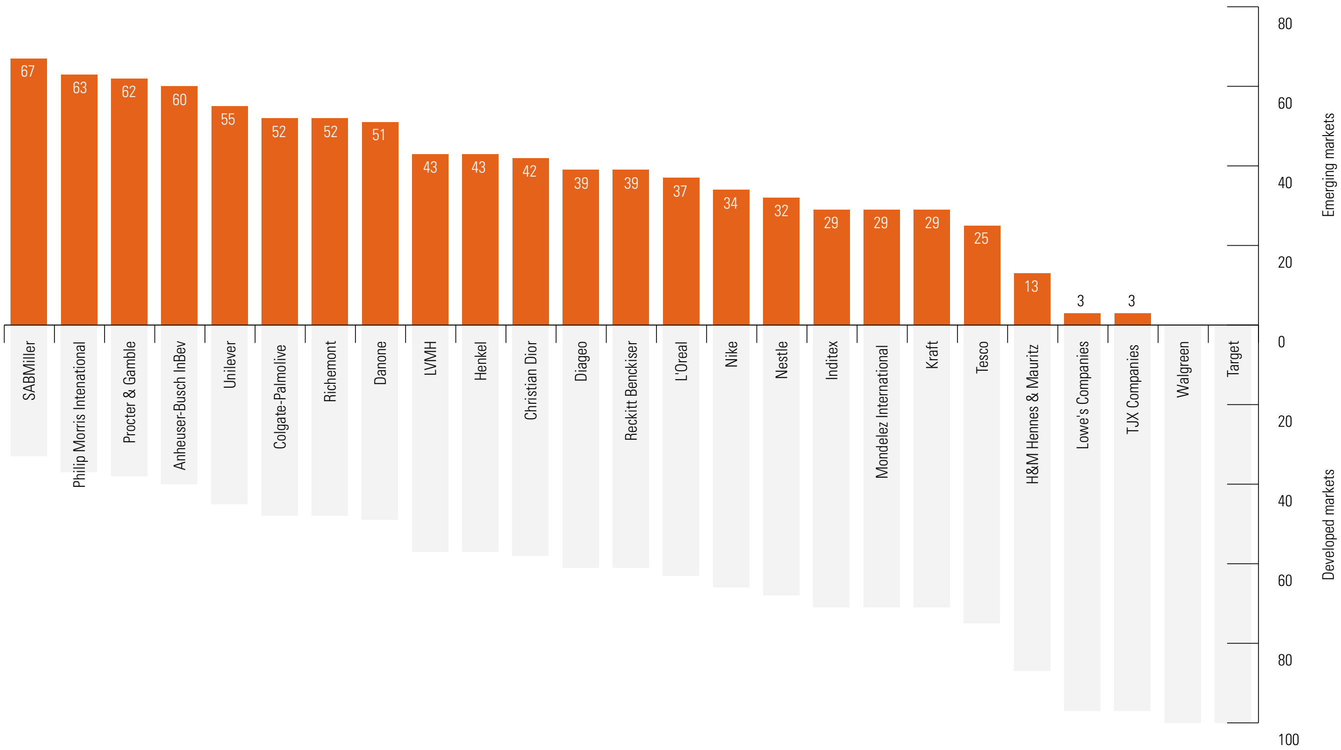
Rapidly rising spending power in emerging markets means that an emerging markets strategy is part of the growth plan for nearly all global consumer companies. Only a handful of the biggest publicly listed consumer companies by market capitalisation have no emerging market exposure. While some large consumer companies, including Nestlé and Unilever, have a long history of operating in emerging markets, others have only recently started to focus significant resources in this area. And many are using acquisitions to help build their emerging market operations.

Carefully selected M&A can reap swift rewards in this respect, as exemplified by the success of companies such as Heineken and Heinz. Not long ago Heineken had a limited emerging market presence but that has now changed thanks to the acquisition of the beer unit of Mexico's FEMSA and 2012's deal for Singapore's Asia Pacific Breweries, which has completely altered the beer maker's geographical balance. Heinz, meanwhile, has increased its emerging market exposure from 9% in 2005 to 21% in 2012 helped by strategic acquisitions in Mexico, Brazil and Russia. It is likely that this rapid advancement and the demonstrated capacity for building the Heinz brand in some of the fastest growing consumer markets will have been a factor in pushing Berkshire Hathaway and 3G Capital to fork out US$23.7bn to buy the firm in February 2013.

An appetite for emerging market assets is clearly a strong driver of M&A. However, as many companies have found to their cost, expansion into emerging markets can be tricky and may not deliver immediate returns. Lower spending power often means lower margins, while the need to compete aggressively for market share and develop distribution channels requires significant upfront investment, which can take its toll on working capital. Other risk factors include the possibility of lower reporting and anti-bribery standards in target markets, while deals based on a joint venture with a local operator have to be carefully structured to avoid conflicts of interest. French dairy company Danone provides an example of this danger, having been forced to extricate itself from joint ventures in both China and India after falling out with its local partners.

Nevertheless, the long-term rewards are enticing. Mergermarket data reveals that acquisitions in emerging markets have been rising consistently in value terms to hit a high of US$96.9bn in 2012, up by 38% on 2011 (and more than double the level of 2008). In contrast, deal volumes in 2012 were slightly down on the 2011 level, with the value figures supported by several blockbuster deals in the alcoholic drink sector: the US$20.1bn acquisition of Mexico's Grupo Modelo by AB InBev; Canada's Molson Coors US$3.5bn purchase of Czech Republic-based StarBev; Heineken's US$6.6bn deal for Asia Pacific Breweries; and

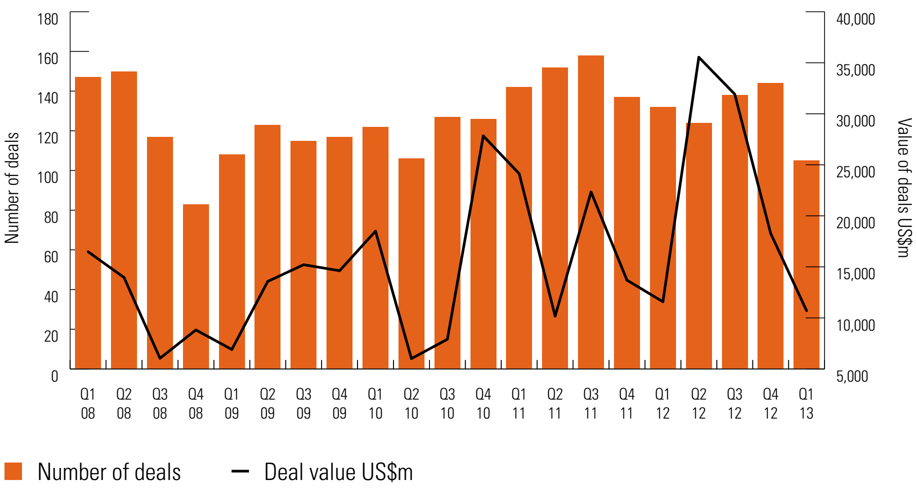
Corporate revenue share from emerging markets



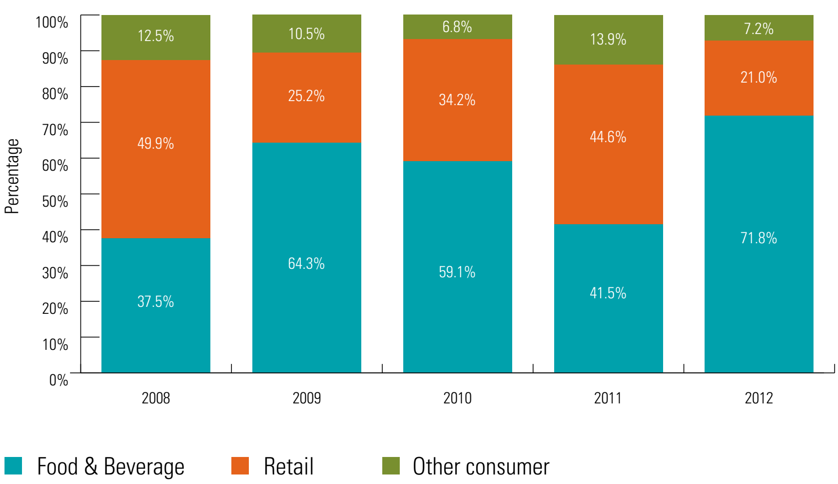
Source: Corporate revenue figures are taken from 2011 and 2012 annual reports and supplemented by Mergermarket research.

M&A SPOTLIGHT: EMERGING MARKETS

Emerging market consumer M&A trends



Emerging market consumer M&A sub-sector breakdown by value



Diageo's acquisition of a 53% stake in India's United Spirits for US$3.4bn. This spurt of activity meant that the food and beverage category accounted for 72% of deals with an emerging market target by value in 2012, up from 42% in 2011 and 59% in 2010.

BRIC slowdown impacts dealmaking

The deceleration in deal activity can be attributed to a significant economic slowdown in three out of the four BRIC markets. Slower growth may have unnerved corporate investors. Many require sustained economic outperformance to justify the high valuations currently associated with emerging market consumer companies. In China fears over a hard landing in the second half of 2012 were overplayed, but economic growth for the year as a whole did come in at its weakest level since 1999. India, which is already a long way behind the other BRIC states in terms of average income levels, registered GDP growth of a disappointing 4.0% in 2012 (down from 7.7% in 2011). Brazil registered growth of just 0.8%, down from 2.7% in 2011 and 7.5% in 2010, with an unwinding credit bubble and a lack of global demand putting the brakes on what had previously been one of the world's most dynamic consumer markets.

Out of the BRIC economies Russia was the most resilient performer in 2012, with GDP growth coming in at 3.4%, compared to 4.3% in 2011. This outperformance is reflected in the figures for dealmaking. Russia's share of BRIC M&A increased from 16% in 2011 to 25% in 2012. India also increased its proportion, from 7% to 28%. Although investment in India was stymied by the economic slowdown, there were also positives to be drawn from 2012 thanks to political movement towards making the market more open to investment. This included changes to FDI laws in the retailing sector that could eventually pave the way for global retailers to acquire local market leaders. China's value share, in comparison, fell from 44% to 21%, while Brazil's fell from 34% to 28%.

Top 10 emerging market M&A deals, 2012-2013

Announced	Status	Target	Subsector	Target country	Bidder	Bidder country	Seller	Deal type	Deal value US$m
Jun-12	P	Grupo Modelo SAB de CV (49.7% stake)	Food & Beverage	Mexico	Anheuser-Busch InBev NV	Belgium			20,100
Sep-12	C	Fraser & Neave Ltd	Food & Beverage	Singapore	TCC Group	Thailand			11,681
Jul-12	C	Asia Pacific Breweries Ltd	Food & Beverage	Singapore	Heineken NV	Netherlands	Fraser & Neave Ltd; Kindest Place Groups Ltd	Singapore	6,593
Apr-13	P	GD Midea Holding Co Ltd (58.83% stake)	Other	China	Midea Group Co Ltd	China			4,917
Apr-12	C	StarBev LP	Food & Beverage	Czech Republic	Molson Coors Brewing Company	USA	CVC Capital Partners Ltd	United Kingdom	3,498
Nov-12	P	United Spirits Ltd (53.4% stake)	Food & Beverage	India	Diageo plc	United Kingdom			3,354
Feb-13	P	Compania Cervecera de Coahuila	Food & Beverage	Mexico	Constellation Brands Inc	USA	Anheuser-Busch InBev NV	Belgium	2,900
Oct-12	C	Carrefour SA (Colombian Operations)	Retail	Colombia	Cencosud SA	Chile	Carrefour SA	France	2,621
Jul-12	P	Fraser & Neave Ltd (21.9% stake)	Food & Beverage	Singapore	Thai Beverage PCL	Thailand	Oversea Chinese Banking Corporation Ltd; Great Eastern Holdings Ltd; Lee Rubber Company (Pte) Ltd	Singapore	2,198
Jul-12	C	Lotte Himart Co Ltd (65.25% stake)	Retail	South Korea	Lotte Shopping Co Ltd	South Korea	H&Q Asia Pacific; Eugene Corporation; IMM Private Equity Inc; Seon Jong Gu (private investor)	South Korea	1,919

C = Complete; P = Pending

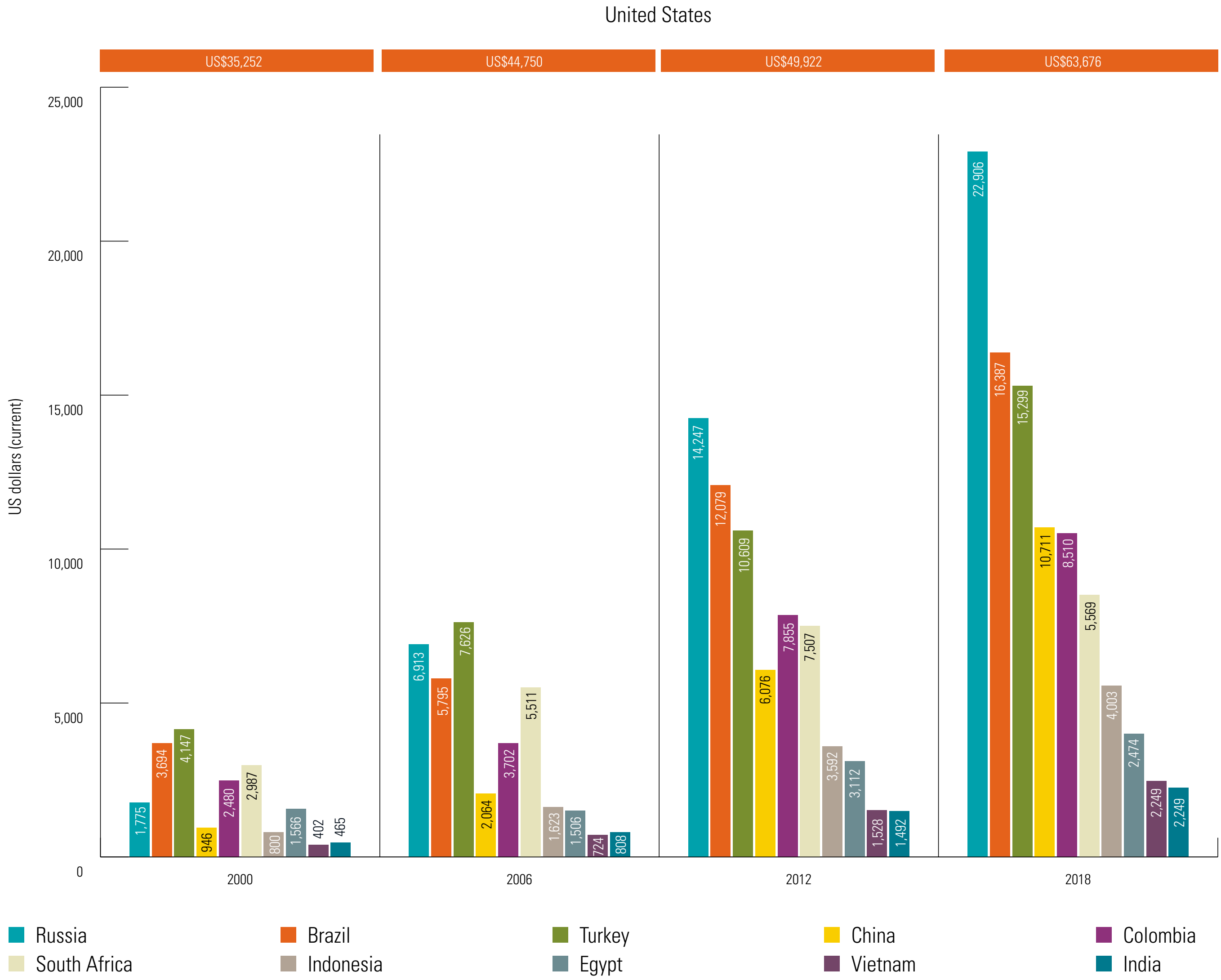
Assets in Colombia, Mexico and the Philippines in high demand

By region, Asia-Pacific accounts for the highest proportion of M&A by value, but Latin America registered the biggest increase last year, with M&A by value up by 88% on 2011. With dealmaking in Brazil currently subdued, this mammoth increase was driven by a ramp up in demand for assets in Colombia and Mexico. Colombia has quickly established itself as one of the region's most exciting consumer markets, while Mexico is becoming increasingly attractive thanks to a growth in consumer credit and a more positive economic outlook on the back of energy and fiscal reforms. As well as Anheuser-Busch's capture of Mexican beer maker Grupo Modelo, the past 12 months saw Chile-based Cencosud take control of Carrefour's Colombian operations for US$2.62bn and US retailer Costco Wholesale agreeing to buy the 50% stake in its Mexican subsidiary that it did not already own from Controladora Comercial Mexicana for US$759m.

In the Asia-Pacific region it was left to Indonesia, the Philippines and Singapore to pick up the slack left by the relative weakness of China. Indonesia's consumer sector has long been touted as one of the most attractive anywhere in Asia, with a population of 242m and GDP per capita forecast to increase from US$3,592 to US$5,569 over the next six years. However, here M&A was driven by consolidation among existing consumer players. The largest deal involving a foreign multinational saw Carrefour sell off its Indonesian operations to locally-based CT Corp taking in a deal worth US$672m. The relative lack of inbound investment perhaps points to the difficulties that foreign firms have had in cracking a market where many consumer industries are still dominated by conglomerates owned by local wealthy families.

M&A SPOTLIGHT: EMERGING MARKETS

Per capita GDP trends for select emerging market countries



Source: IMF, World Economic Outlook (April 2013)

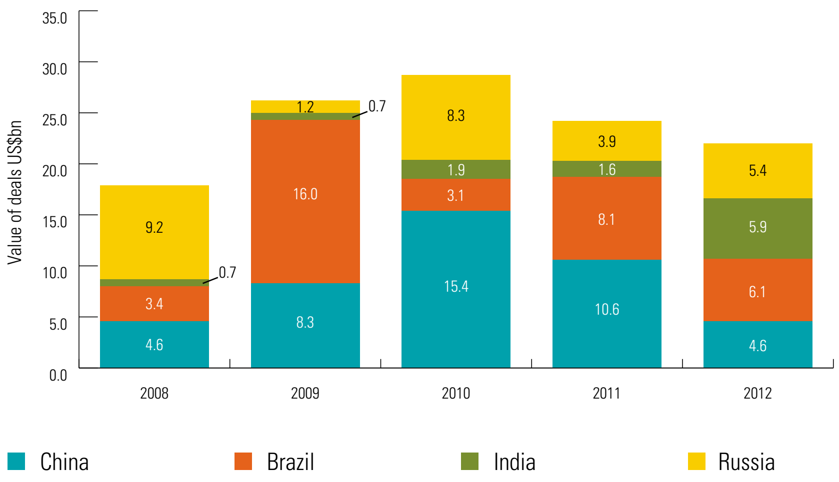
In contrast, the Philippines saw plenty of interest from global consumer companies with Mexico's Coca-Cola FEMSA (the world's largest Coca-Cola bottler) agreeing to acquire Coca-Cola Bottlers Philippines for US$689m in its first move outside of Latin America and Dutch dairy company Royal FrieslandCampina taking control of Alaska Milk Corporation for US$454m as part of its strategy of reducing its reliance on the mature European market.

EM-based firms show limited interest in developed market acquisitions

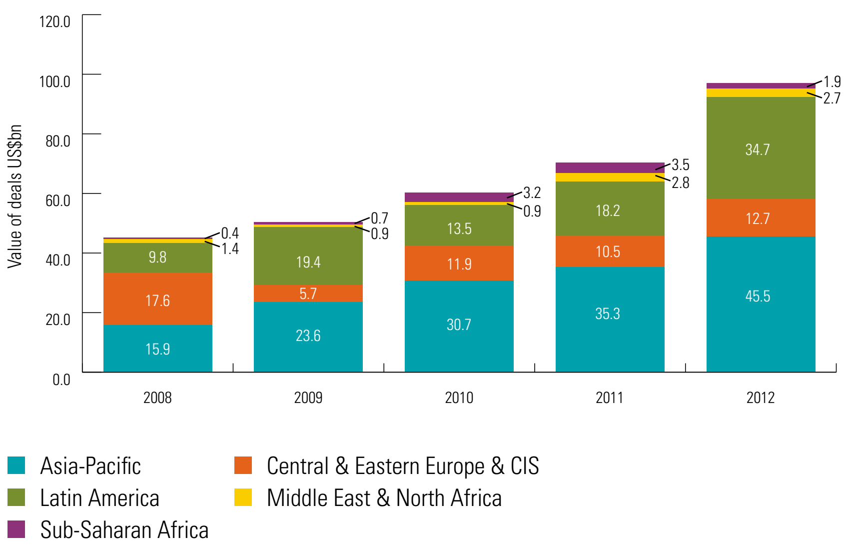
FEMSA's expansion into the Philippines was a notable deal stemming from an emerging market-based company. However, 2012 proved to be slightly muted in this regard, with the value of deals brokered by an emerging market acquirer coming in slightly below 2011. Last year's decline brought to an end the sustained upwards trend in such deals. During 2012 nearly 90% of deals undertaken by an emerging market acquirer were for emerging market targets, which is in line with the pattern witnessed before 2011, with dealmaking focused on domestic and regional consolidation.

Sizeable deals of this type over the past 12 months include Chile's Embotelladora Andina acquiring local rival Embotelladoras Coca-Cola Polar for US$956m and China Resources Snow Breweries taking control of China's Kingway Brewery Holdings for US$864m. While there have been some notable examples of emerging market acquirers buying developed market consumer targets, including China-based Bright Food's US$1.2bn acquisition of the UK cereal maker Weetabix, the undeniable superiority of

BRIC consumer M&A by value (US$bn)



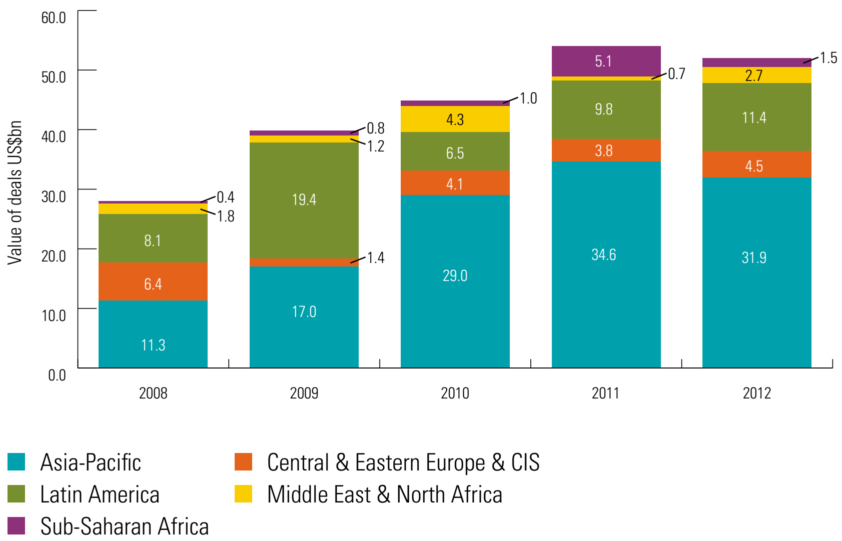
Emerging market consumer M&A by region (US$bn)



emerging consumer markets makes it no surprise that emerging market consumer firms struggle to justify using resources to expand into lower growth developed markets. Indeed, even the deal for Weetabix is partly based on the opportunity of leveraging a strong Western brand in the Chinese market, where a number of food scandals have led to consumer concern around the safety of local brands.

M&A SPOTLIGHT: EMERGING MARKETS

Consumer M&A with emerging market bidder by value



Top 10 emerging market acquisitions in developed markets, 2012-2013

Announced	Status	Target	Subsector	Target country	Bidder	Bidder country	Seller	Deal type	Deal value US$m
May-12	C	Weetabix Ltd (60% stake)	Food & Beverage	United Kingdom	Bright Food (Group) Co Ltd	China	Lion Capital LLP	United Kingdom	1,165
Jul-12	C	Valentino Fashion Group SpA	Retail	Italy	Mayhoola for Investments SPC	Qatar	Permira	United Kingdom	889
Mar-12	P	Sharp Corporation (9.87% stake)	Other consumer	Japan	Foxconn Technology Group	Taiwan			803
Dec-12	P	Everlife Co Ltd	Retail	Japan	LG Household & Healthcare Company Ltd	South Korea			444
Oct-12	C	North American Breweries Holdings LLC	Food & Beverage	USA	Cerveceria Costa Rica SA	Costa Rica	KPS Capital Partners LP	USA	388
Apr-12	C	Adelie Food Holdings Ltd	Food & Beverage	United Kingdom	India Hospitality Corp	India	Duke Street LLP	United Kingdom	349
Dec-12	C	Woodman Labs Inc (8.88% stake)	Other consumer	USA	Hon Hai Precision Industry Co Ltd	Taiwan			200
Jan-13	C	Lornamead Group Ltd	Other consumer	United Kingdom	Li & Fung Ltd	Hong Kong	Jatania Family	India	190
Mar-12	C	Crabtree & Evelyn Ltd	Other consumer	USA	Khuan Choo International Ltd	Hong Kong	Kuala Lumpur Kepong Berhad	Malaysia	155
Jan-13	P	K-Swiss Inc	Retail	USA	E-Land Co Ltd	South Korea			135

C = Complete; P = Pending

Q&A - UK

NICK ALLEN, GLOBAL INDUSTRY GROUP LEADER, MEDIA & CONSUMER BRANDS, SQUIRE SANDERS

Nick Allen is based in our London office and advises on mergers and acquisitions across a range of sectors including media, entertainment, technology and retail. He has particular experience in UK mid-market corporate transactions. Deals that Nick has worked on include advising the shareholders in Cath Kidston on a management buyout backed by TA Associates and acting for Darius Capital in its bid for Austin Reed.

MM: Despite the weak economic growth in developed markets, the consumer sector has been a resilient performer in terms of M&A. What would you attribute this to?

NA: In some ways, the strength of the M&A market comes down to economic weakness. Pressure on pricing in sectors such as food has driven consolidation, while weak consumer demand has encouraged firms to invest in faster growing emerging markets. In addition, we have seen more M&A emanating from emerging markets, with rapidly growing firms looking for targets in both emerging and developed markets.

Weakness in the market has caused many firms to build up significant cash buffers. Tighter credit conditions have had an effect on the size of deals being done, but many firms have cut costs and reined in investment since the onset of the downturn. They now have lots of cash to invest.

MM: We've seen a big increase in PE activity in the retail sector. Are PE firms betting on a pickup in economic growth and consumer sentiment?

NA: Unlike corporates, who have the option to focus resources on existing operations, private equity firms exist to do deals. They will continue to make acquisitions even when the economic environment is weak. A number of different firms have clearly identified an opportunity in the retail sector, and sentiment will have been buoyed by the successful exit from Alliance Boots. In the UK we have seen firms come in for struggling companies, such as Better Capital's investment in fashion retailer Jaeger. We have also seen firms invest in thriving low margin businesses, such as Clayton, Dubilier & Rice's US$932m deal for discount retailer B&M and, a few years ago, Charterhouse Capital Partners' deal for the low price card retailer Card Factory and the purchase of Poundland by Warburg Pincus.

The hefty valuations for these two companies highlights the pent-up demand for strong retailers. This was clearly the case in the sale of fashion and homeware retailer Cath Kidston. The sale was an absolute feeding frenzy with around 10 PE houses wanting to go through to the final bidding round. Such demand may partly be based on an anticipated pick up in the consumer market, but there are also retailers growing revenues at a tremendous rate in spite of the difficult backdrop.

That said, there's a question mark over the long-term exit strategy for retailers in other sectors. PE firms have been happy to switch retail investments between themselves, but for many brands there is no natural consolidator – as there would be in areas such as food or alcoholic drinks, for example. A strategic sale is therefore difficult to achieve. This difficulty was seen in the attempted sale of Dr Martens by its family owners, which failed to reach the required valuation despite it being a strong and growing business.

MM: In developed markets we've seen quite a few transactions driven by insolvencies due to the pressure from online shopping. How much further do you think this trend has to run?

NA: In certain sectors traditional retailers have been absolutely hammered. Internet shopping has gone from strength to strength in areas such as books, music and electronics. Even for fashion retailing, there is a move online. Here, the success of firms such as ASOS is notable. However, there are some fantastic retailers in the UK that show little interest in operating online, such as low cost fashion retailer Primark. Here the business model is partly built around selling items so cheaply that it encourages consumers to buy multiple items, and this model could be diluted by any move online.

While there can be convenience and price benefits from shopping online, a lot of the move away from the high street can also be attributed to the fact that many high streets aren't that attractive. The success of new shopping centres, such as Westfield in London, shows that consumers still want to shop in real stores where the environment is pleasant and they can be easily reached by public transport.

MM: Over the past 12 months weak domestic growth has pushed some major retailers to sell off overseas units to focus on their core domestic business. How do these two competing objectives need to be balanced?

NA: If a firm has the right offering, it is natural to pursue overseas growth. Before expanding internationally Cath Kidston was getting a large number of orders on its UK website from Japan so there was clearly pent-up demand there. Sometimes the demand isn't so obvious - sandwich retailer Pret A Manger plans to enter France were met with scepticism, but it recently revealed that its new Paris stores make more cash per shop than anywhere in the world. It now has plans to open a further 50 stores.

For a food retailer like Tesco, it is always difficult to enter a new market, such as the US in their case, and create a niche when there are already many thriving operators in that space. In retail there usually isn't enough fat in the margins to make mistakes. Firms don't have the luxury of waiting seven or eight years before seeing a return on their investments. This is particularly true for publicly listed firms, which are under intense shareholder scrutiny. In contrast, a retailer like Aldi had a pretty slow start in the US, but had the luxury of time because it is privately owned. It's recently enjoyed a massive wave of growth.

Q&A - RUSSIA

DAVID WACK, GLOBAL BOARD MEMBER AND PARTNER, CORPORATE AND CORPORATE FINANCE, MOSCOW, SQUIRE SANDERS

David Wack specialises in cross-border transactions involving companies based in Russia and the other countries of the former Soviet Union. David has worked on M&A and private equity deals in a range of sectors including retail and fast-moving consumer goods. Transactions that David has been involved with include representing Russian ice cream manufacturer Inmarko and its investors on its sale to Unilever and advising Agribusiness Partners on its exit from poultry processor Chicken Kingdom through a sale to OJSC Cherkizovo.

MM: Russia has been perhaps the most resilient of all the BRIC markets over the past 12 months, which has been reflected in high levels of consumer sector M&A. Do you have any comments on why this is?
DW: Historically Russia has been seen as a resource-driven economy, but over the past decade this has changed. Figures recently published by Sberbank suggest that 80% of Russia's economic growth since 2004 can be attributed to the rise in domestic consumption. This has helped to keep the economy resilient. It can also explain why the consumer sector remains so attractive for M&A. Growth in consumer debt has been accelerating, but the ratio of household debt to GDP is still very low and Russian households are among the world's least leveraged. Penetration remains relatively low for key consumer goods and services, both in the number of outlets and types of products available. Although there is sometimes a perception that a lot of wealth is concentrated among an elite, in fact there is a sizeable middle class and the country scores well compared to other emerging markets in terms of the distribution of wealth.

MM: Russia has been more open than some emerging markets in allowing foreign control of domestic brands. Has this helped in getting foreign firms to consider acquisitions in the Russian market?
DW: Russia certainly offers up an attractive opportunity and many international companies, such as Unilever, P&G, PepsiCo and Danone, have made bets on further growth in the market. Despite its challenges, a company that operates in tune with the local market is likely to find that Russia can be one of its most profitable places for doing business. That makes it an attractive market for investment, particularly as many consumer companies continue to be squeezed in home markets.

Russia's recent entry into the World Trade Organization has made the market even more open, and removed some remaining legal and competitive barriers. The online sector is one area where this is particularly noticeable. Previous barriers to entry had allowed Russian firms, such as Yandex in search and Ozon in online retail to gain a dominant position, but recently Google and Amazon entered the Russian market. Ultimately the domestic firms are likely to be positioned for a sale to an international operator.

MM: Despite rapidly rising income levels, Russia is faced with the demographic challenge of a declining population. What impact do you think this has on the attractiveness of the market and are there any other significant challenges?
DW: I would argue that demographics are not a major consideration for consumer companies. Russia has a population of 143m, 60m of which would be classified as middle class by the OECD. This represents the largest consumer base in Europe. Most of these numbers are concentrated in the Western part of Russia, so the positives outweigh the negatives by a long way. Moreover, Russia remains a net immigration country with 1.7 net migrants per 1,000.

Instead, the biggest challenge is logistics. Historically, most transportation in Russia was done by rail. This made sense for a centrally planned economy. In a consumer-driven market, however, it is more problematic. Countries also need good road networks backed by well-developed logistics infrastructure. Currently much of this infrastructure is regionally-based, and firms building an international presence have had to develop their own logistics operations, which adds significantly to the complexity of doing business. This has been a challenge to both internet and bricks-and-mortar retailers. It has been overcome by some firms, including IKEA and Zara, which now has its second most profitable unit in Russia. However, other than possibly Auchan it is notable that none of the big international grocery retailers has entered the market and been successful.

MM: Has there been much consolidation among domestic firms? If so, what is driving this?
DW: The big food retailers, such as Magnit and X5, have expanded by consolidating a large number of regional operators and there is further room for further consolidation, with possible tie ups between the larger players. In some sectors, including dairy, soft drinks and beer, consolidation has been driven by foreign operators. However, in others, such as spirits, consolidation has been driven by Russian companies.

There is certainly room for much greater consolidation in sectors such as food production. Currently Russia imports around 40% of processed food products, despite being a net exporter of grain and other agricultural products.

Q&A – CHINA

DAN ROULES, OFFICE MANAGING PARTNER, SHANGHAI, SQUIRE SANDERS

Dan Roules has over 20 years' experience in international transactions and has worked in emerging markets in both Asia and Europe. Based in China for more than 15 years, Dan has advised leading multinational retailers in China, Taiwan and Korea, on the full range of regulatory and commercial issues, including advice on e-retailing, brand protection and M&A of consumer goods companies.

MM: China is a country growing in prosperity, which is attracting a lot of interest from overseas companies. Which areas of the Chinese consumer markets are seeing the most excitement?

DR: There's a lot of interest in sectors such as food and beverages, homeware and luxury goods. After the financial crisis China became the most important target market for many consumer companies. However, it's a tough market and often companies enter with unrealistic expectations. CEOs sometimes project tremendous levels of growth, which can't be met through organic expansion. They have to be complemented with acquisitions. On this front, finding good targets and joint venture partners can be difficult.

More generally, Chinese consumers love brands. In a rising economy such as China's, labels have the ingrained use of projecting prestige and status. A number of high-profile safety scandals have also prompted consumers to opt for brands as a sign of quality. A key legal challenge for consumer companies is therefore brand protection. This is less of a problem for luxury goods where Chinese consumers generally want the real thing and consumers can often discern imitations through the proper sales channel. However, there is also a high level of counterfeiting in sectors such as personal care and food. Here it can be challenging for local consumers to discern if they are buying the real products, as counterfeits may be sold through the same channels.

MM: What are the challenges when attempting to use M&A as a route to expansion in the Chinese market?

DR: There is a perception the Chinese authorities can be a challenge when attempting acquisitions of popular local brands, as demonstrated by the blocked takeover of Huiyuan Juice by Coca-Cola in 2008. Partly as a consequence, the majority of deals in the consumer sector have been for minority stakes. A notable exception was Diageo's stake increase in spirits holding company Quanxing to 53% in 2011. This may suggest the government is becoming more open to foreign ownership of important local brands. But even so this remains a concern for M&A in the sector.

Another key challenge is that some targets, particularly those based in second and third tier cities, do not have the same kinds of practices as in developed markets. In particular, there are anti-bribery concerns, while books and records may not have been maintained to the standards required for international companies. It is also not uncommon to find that taxes and employee benefits have not been fully paid for a number of years.

MM: How does the recent retrenchment by several major international retailers reflect on the local retail market?

DR: Adapting to local tastes is a key challenge in all emerging markets, but in China it is particularly important. Chinese consumers have particular preferences and habits. As an example a low cost retailer from the US can't just enter China with the same business model, as there is a whole level of economy retailing that it is difficult to compete with. Modern retailers therefore have to offer something in addition to value to entice customers, with benefits such as free bus connections and high service levels proving to be of great importance.

The exit by Home Depot in 2012 after six years of investment provides another example, with the company unable to sell the merits of DIY to a sceptical Chinese consumer. This is not surprising given that most parts of the population usually live in apartments rather than houses and there is no do-it-yourself tradition of home improvement in China. However, the success of IKEA, whose products usually require self-assembly, shows that Chinese consumers are ready to alter their thinking when a retailer is also able to sell an aspirational lifestyle associated with Western Europe.

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William Downs
Partner
Global Practice Group Leader,
Corporate and Corporate Finance
+44 20 7655 1743
william.downs@squiresanders.com

www.squiresanders.com

Nick Allen
Partner, London
+44 20 7655 1523
nick.allen@squiresanders.com

Edward Dawes
Partner, Birmingham
+44 121 222 3423
edward.dawes@squiresanders.com

Steven Glover
Partner, Leeds
+44 113 284 7476
steven.glover@squiresanders.com

Jane Haxby
Partner, Manchester
+44 161 830 5144
jane.haxby@squiresanders.co.uk

Kai Mertens
Partner, Berlin
+49 30 72 616 8104
kai.mertens@squiresanders.com

Joachim Heine
Partner, Frankfurt
+49 69 1739 2400
joachim.heine@squiresanders.com

Rafael Alonso
Partner, Madrid
+34 91 426 4842
rafael.alonso@squiresanders.com

David Wack
Partner, Moscow
+7 495 258 5280
david.wack@squiresanders.com

Tony Reed
Partner, Paris
+33 1 5383 7400
tony.reed@squiresanders.com

Anthony van der Hauwaert
Partner, Brussels
+32 2 627 1120
anthony.vanderhauwaert@squiresanders.com

Radek Janecek
Partner, Prague
+420 221 662 275
radek.janecek@squiresanders.com

Julian Juhasz
Partner, Bratislava
+421 2 5930 3440
julian.juhasz@squiresanders.com

Peter Swiecicki
Partner, Warsaw
+48 22 395 5508
peter.swiecicki@squiresanders.com

Akos Eros
Partner, Budapest
+36 1 428 7155
akos.eros@squiresanders.com

Peter Teluk
Partner, Kyiv
+380 44 220 1414
peter.teluk@squiresanders.com

Kevin Connor
Partner, Riyadh
+966 1 276 7372
kevin.connor@squiresanders.com

Daniel Berick
Partner, Cleveland
+1 216 479 8374
daniel.berick@squiresanders.com

Stephen Mahon
Partner, Cincinnati
+1 513 361 1230
stephen.mahon@squiresanders.com

Don Hughes
Partner, Columbus
+1 614 365 2734
don.hughes@squiresanders.com

Steven Harris
Partner, Houston
+1 713 546 5845
steven.harris@squiresanders.com

James Hsu
Partner, Los Angeles
+1 213 689 5170
james.hsu@squiresanders.com

Eric Cowan
Partner, New York
+1 212 872 9814
eric.cowan@squiresanders.com

Robert Gregg
Partner, Northern Virginia
+1 703 720 7880
robert.gregg@squiresanders.com

James Morgan
Partner, Miami
+1 305 577 2875
james.morgan@squiresanders.com

Jeffrey Mullens
Partner, West Palm Beach
+1 561 650 7257
jeffrey.mullens@squiresanders.com

John Welch
Partner, Phoenix
+1 602 528 4940
john.welch@squiresanders.com

Nick Unkovic
Partner, San Francisco
+1 415 954 0275
nicholas.unkovic@squiresanders.com

Sungbo Shim
Partner, Beijing
+86 10 8529 86923
sungbo.shim@squiresanders.com

Daniel Roules
Partner, Shanghai
+86 21 6103 6309
daniel.roules@squiresanders.com

Mao Tong
Partner, Hong Kong
+852 2103 0381
mao.tong@squiresanders.com

Ignatius Hwang
Partner, Singapore
+65 9618 9619
ignatius.hwang@squiresanders.com

Edward Kim
Partner, Seoul
+82 2 6353 8357
ed.kim@squiresanders.com

Stephen Chelberg
Partner, Tokyo
+81 3 5774 1800
stephen.chelberg@squiresanders.com

Duncan Maclean
Partner, Perth
+61 8 9429 7483
duncan.maclean@squiresanders.com

Campbell Davidson
Partner, Sydney
+61 2 8248 7800
campbell.davidson@squiresanders.com

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For more information please contact:

Ben Thorne
Head of Publishing EMEA, Remark
The Mergermarket Group

Tel: +44 20 7010 6341
Email: ben.thorne@mergermarket.com

Part of The Mergermarket Group

www.mergermarketgroup.com

80 Strand
London
WC2R 0RL
United Kingdom

t: +44 20 7059 6100
f: +44 20 7059 6101
sales@mergermarket.com

11 West 19th Street
2nd fl.
New York, NY 10011
USA

t: +1 212 686 5606
f: +1 212 686 2664
sales.us@mergermarket.com

Suite 2001
Grand Millennium Plaza
181 Queen's Road, Central
Hong Kong

t: +852 2158 9700
f: +852 2158 9701
sales.asia@mergermarket.com