Private equity deals put more money to work following a rise in quarterly M&A deal volumes

Latest research from leading business and financial advisory firm Grant Thornton UK LLP confirms that deal volumes in the food and beverage sector rose slightly in Q4 2013 compared to Q3 2013 as the number of private equity backed deals increased by 60% in the same period.

Overall deal volumes dropped by 21% in 2013 compared to 2012 suggesting firms remain focussed on improving operational efficiency. More encouragingly there was a 20% fall in the volume of distressed deals compared to the previous year.

Claire Elcock, director at Grant Thornton in Leeds, commented: “Despite the return to economic growth, UK food sales volumes are continuing to decline and market conditions remain tough, depressing total transaction volumes and disclosed values. However, a close analysis of M&A activity in Q4 2013 and for the year as a whole, hints towards a cautiously optimistic future.”

While the volume of private equity deals decreased by 10% in 2013 compared to 2012, the year ended strongly. Volumes in Q4 2013 were 60% higher than in Q3 and a third higher than in Q4 2012. When
looking at value terms, this positive upswing in private equity deals is even more apparent, with total disclosed value in Q4 2013 outstripping the third quarter by 284%. For the full year, total value increased by 449% compared with 2012.

Claire Elcock continued: “A number of the industry’s largest deals this year have been private-equity backed and with many firms now sitting on cash reserves that need to be deployed, we expect private equity to remain a key market trend in 2014.”

Portfolio rationalisation underpinned M&A activity in the last year and it will continue to play a pivotal role in the coming 12 months. With many large players poised to streamline their product lines this year – Nestlé is placing an increased focus on nutritional excellence while Unilever is reducing its overall exposure to food – this trend will be an important driver for deals.

The UK food industry remains attractive to a variety of potential buyers, despite foreign ownership declining in volume terms over the last year. In 2013 22% of acquirers were foreign compared with 29% in 2012 but, in similar vein to private equity, foreign owners had a prominent role to play in the year’s highest profile deals. US-based Hormel Goods acquisition of Unilever’s Skippy Peanut Butter brand and Japan-based Suntory’s purchase of GlaxoSmithKline’s Lucozade and Ribena brands is testament to this.

Three drinks companies made their UK market debut in 2013 and a number of trends suggest that activity in this sector, with the possibility of further listings, is set to continue. UK wine is a fast growing but fragmented market and further consolidation can be expected. Changing consumer tastes are driving the success of product innovations, such as flavoured ciders and premium spirits, and many companies are increasingly focusing on higher-margin niche markets. Meanwhile, emerging markets will offer a new lease of life for brands losing momentum in the UK.

Claire Elcock added: “In the face of challenging market conditions, pressure will continue for food and beverage producers to improve efficiency, invest in new product development and seek new export opportunities. It is promising to note that the UK government is becoming more active in supporting overseas trade as we have long lagged behind neighbouring European countries in export performance.”

All deals research is produced for the quarterly Bite Size publication available from the Grant Thornton UK website.

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Photo shows: Claire Elcock, director at Grant Thornton in Leeds

Notes to editors

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