

Global Consumer Goods

Sector Report 2012



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Report

About the report

This sector report was edited by Andre Johnston of the Mergers Alliance central team. To compile our findings we conducted interviews with our sector experts from each member firm within the Mergers Alliance partnership. We also surveyed owners and senior executives within consumer good sector organisations and private equity investors worldwide.

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Other sector reports available to download from mergers-alliance.com include:

- Global Cleantech Report
- Global Engineering Review
- Global Food & Drink
- European Plastic Packaging

Deal Focus

Within each country's Deal Focus we review merger and acquisition (M&A) activity, focusing on key deals and trends within the consumer goods sector with an emphasis on branded goods.

We have included tables of recent transactions where the target company is located in the country under review. Additionally, we provide an

overview of the consumer goods sector as a whole, highlighting the market structure as well as commenting on the key trends and the factors influencing M&A.

We provide our own insight on how we think the market might play out over the coming 18 months and attempt to identify key investment opportunities.

Key terminology: FMCG (Fast moving consumer goods) CF+T (Cosmetics, fragrances and toiletries) y-o-y (year on year), CAGR (Compound annual growth rate) BRIC (Brazil, China, India, Russia). All deal values are in US dollars unless otherwise stated.

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Introduction



Caution and uncertainty continue to affect the major economies and depress consumer confidence levels, especially in the US and Europe. Whilst the consumer product industry has been particularly exposed to the prevailing economic conditions we are optimistic that confidence will improve in 2012, creating new opportunities across all consumer markets.

As you will see from our report, mergers and acquisitions (M&A) activity in the sector has been progressively rising since the nadir of the global downturn in 2009. The report highlights that despite very challenging markets transactions are being completed in many different consumer segments and geographies. In addition a large proportion of these deals are cross-border transactions reflecting the increasingly global characteristics of the sector.

Our report also contains a great deal of market-leading insight into the key issues facing the sector in

2012 and beyond: how emerging markets are critical to consumer product company growth; why multi-channel sales strategies are driving investment activity and how companies at the value, premium and luxury ends of consumer markets are benefiting from those operating in the middle of the market. Our work also highlights the level of private equity investment in the sector and how mid-cap companies and global corporates are shaping their acquisition strategies.

As the global recovery takes hold, we at Mergers Alliance are ideally placed to help you. Whether you

seek growth through acquisitions, wish to restructure or realise value in your business, our international advisors are in a unique position to help you. Our member firms have a prominent position in boardrooms across the world and are renowned for delivering an award-winning partner-led advisory service with seamless international cooperation.

We hope you find our report enlightening and welcome any feedback on our observations and conclusions.

A handwritten signature in black ink, appearing to read 'Andy Currie'.

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Report Highlights

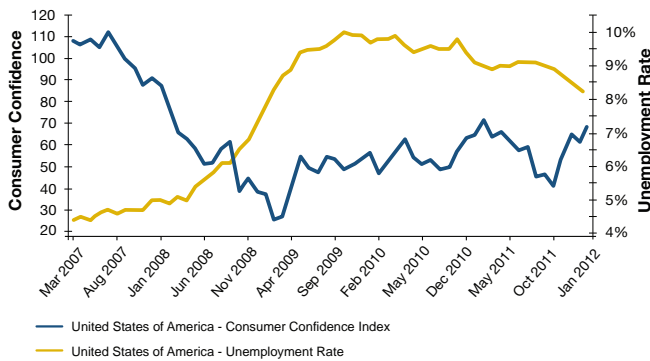


We at Mergers Alliance believe the main factors to shape M&A in the consumer goods sector over the next three years will be:

Consumer confidence ready to recover

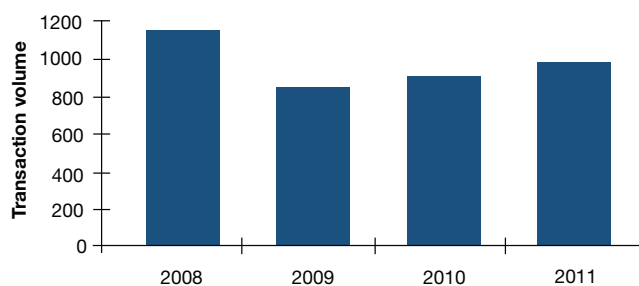
Whilst there remains much uncertainty in the global economy, the latest consumer polls indicate that consumer confidence has reached a plateau and that tentative signs of a recovery are emerging (see Figure 1).

Figure 1: **Consumer confidence**



We expect this recovery in consumer confidence, which may be slow initially, to feed into consumer markets over the next two years. Consequently this will further stimulate corporate and institutional investment and M&A activity across the consumer goods sector (see Figure 2).

Figure 2: **Total deal volume global**



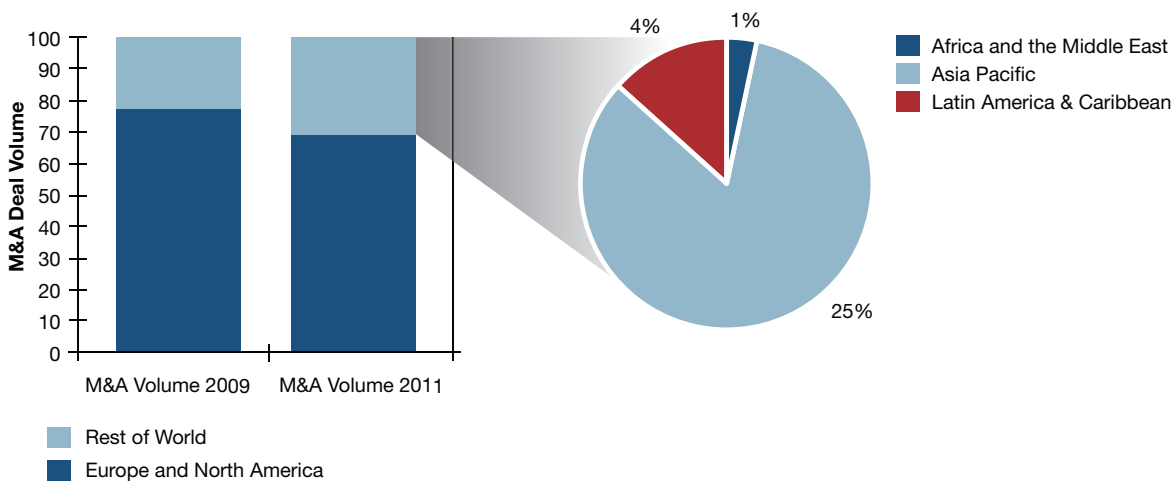
Emerging markets rising

Consumer goods companies have recognised that emerging markets are a requisite for growth rather than just a complementary source of revenue. We expect this corporate focus to drive more Western investment into emerging economies directly through acquisitions or joint ventures.

Our research shows the rise of consumer sector M&A in emerging markets and in particular Asia. Since 2008, the proportion of M&A in these economies has increased by over a fifth to represent 30% of all deals globally (see Figure 3).



Figure 3: **Emerging markets**



The deal flow is two way. Indian consumer companies Godrej and Gitanjali have been among the ten most active acquirers globally over the past three years, having completed 15 deals between them. As with other BRIC headquartered multinationals, they have set ambitious growth plans and have acquired branded goods companies in both developed and other developing countries.

Report Highlights

“M&A is now one of the main growth strategies for consumer companies domiciled in mature economies.”



Adoption of multi-channel sales approach driving M&A

Almost all consumer product companies have adopted a multi-channel retail distribution model, which included high street retail, online, mail order and television distribution. Online shopping accounted for the majority of overall retail sales growth in a number of developed markets during 2011 and is set to continue to dominate growth.

Companies in the US, UK, Germany and the Netherlands have been particularly active in acquiring online businesses and we expect further consolidation to occur across the developed economies.

The Chinese market is forecast to become the biggest home shopping market globally – the B2C e-commerce market growing at 75% CAGR up to 2014. It is inevitable that successful local online businesses will be targets of both acquisitive overseas and local buyers.

Pressure on brands has intensified

Consumers in developed markets have been increasingly focused on price and brand equity. Whilst this has meant growth at both the premium end and value end of the branded goods spectrum, there has been intense competition and margin pressure in the middle. Many of these brands have found themselves competing directly against their distribution networks, which have developed private labels offerings – currently growing at 10% in the US and 6% in Europe.

This has created a number of ‘distressed’ sales and both corporate and private equity investors such as Sun Capital have capitalised on these opportunities. We expect further distressed opportunities to emerge in the short term.

Private equity continues its love affair with consumer brands

The private equity industry has an established track record of working with private businesses to expand the distribution of consumer branded products in most developed countries. This trend has continued through the economic downturn although the focus has moved away from single channel retail distribution to multi-channel distributed products.

Some of the more well known specialist sector investors such as L Capital and Change Capital have been active recently as well as global players like Carlyle Group, Oaktree Capital, Eurazeo and Blackstone Group.

High prices paid for high-end brands

During the past three years corporate and private equity activity in the luxury and premium segment has risen to reflect the increase in demand for premium goods from Asia, Russia and South America.

European luxury brands have been in particular demand and commanded high prices. The leading French luxury conglomerate LVMH has made seven acquisitions since 2008 including Italian jewellery maker Bulgari. Jimmy Choo, the iconic British lifestyle brand, was acquired for c. \$930m by Labelux, the Austrian firm, which includes Bally and Belstaff amongst its portfolio. VF Corp, the leading US branded apparel conglomerate, acquired Timberland for \$2.2bn, at a valuation of 12.3x historic EBITDA.

We expect to see the luxury and premium brand conglomerates continue to consolidate the market and provide the best exit route for investors, who would have considered an IPO in previous years.

Companies in lower growth, mature economies need to acquire

M&A is now one of the main growth strategies for consumer companies domiciled in mature economies. Companies that have reached a

ceiling in terms of organic growth due to the mature and consolidated nature of their respective markets, will be compelled to pursue globalisation strategies.

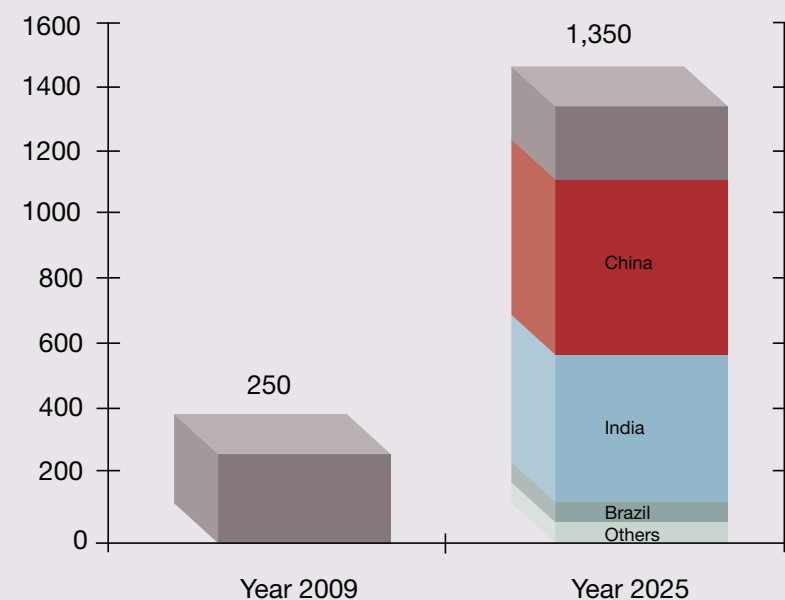
The larger multinationals already have global sales and distribution operations, and are generally the first to acquire in emerging markets however, we expect to see more mid sized businesses acquire in BRIC countries as the risks become more understood and the M&A approach more accepted.

Consumer power

A consumer tidal wave is on its way in the form of the BRIC countries. Whilst the economies in each country vary significantly, their consumer markets are characterised by a largely untapped rural consumer population, expanding middle classes and the high income disparities between the rural and urban populations. It is estimated that one billion more consumers will emerge in less than 15 years.

Whilst the consumption of basic goods such as food, beverages and clothing have grown most in line with GDP, the consumption mix is changing. Certain sub-sectors, such as skin-care in China and India and cosmetics and baby diapers in Brazil, are growing faster than GDP. As a result, competition for local brands is intensifying and acquirers are paying high premiums as consolidation takes place. We expect premiums to remain high as demand for these brands and companies exceed supply.

One billion new middle class consumers



Source: McKinsey & Company

Brazil



“With the rise in consumer income and the emergence

of 30 million new consumers, the Brazilian consumer market has attracted global attention. Despite substantial consolidation in recent years there are still plenty of M&A opportunities.”

Felipe Monaco,
Broadspan

A BRIC success

Brazil's appeal to investors grows day by day and is quickly becoming one of the most appealing of the BRIC's thanks to its booming economy and improving business conditions.

Brazilian GDP grew 7.5% in 2010 and is estimated to expand by 3.4% in 2012, mainly driven by its internal market, which benefits from record high employment and rising income levels. This social migration process is reaching over 30 million people who are either joining the consumer base or are increasing their consumption habits.

The upper, middle and lower-middle (or A-B-C) income segments now represent 74% of the population vs. 49% in 2005 thanks to the sharp increase in lower income consumer spending power. A strong commitment to economic stability, along with a structurally sound financial sector, has contributed to consumer confidence and capital expansion which should have a positive effect on general economic growth.

Population increase driving diaper market

Multinationals are becoming increasingly attracted to the baby diaper segment. In September 2011 personal care giants Svenska Cellulosa Aktiebolaget (SCA) acquired baby diapers and wet wipes specialists Pro Descart Indústria E Comércio for US\$71m.

Domestic consolidation is also taking place, in August 2010 multi-billion dollar Brazilian conglomerate Hypermarcas acquired the Brazil based diapers, tissues and feminine care producer Mabe from Grupo PI Mabe in a US\$195m transaction which represented an estimated 8.5 x EV to EBITDA ratio. Hypermarcas also acquired two other leading diaper Brazilian companies (Pom Pom in November 2009 for US\$173m and Sapeka in March 2010 for US\$211m) establishing its national leadership with a 35% market share.

The baby diapers segment has experienced double digit growth over the past few years - a trend that is expected to continue due to the increasing purchasing power of the consumer and relatively high birth rates.

Footwear IPO alerts sellers

Arezzo, Brazil's leading footwear company that holds an 11% market share and operates through franchises as well as its own stores, went public in January 2011 raising US\$339m. A large chunk of the proceeds (roughly 35%) will be used to acquire smaller brands. It has been reported that other local footwear companies are also currently seeking acquisitions both domestically and overseas. Expect substantial consolidation activity in this sub-sector over the next 18 months.



Strong private equity involvement

Private equity involvement in the Latin American market is becoming increasingly evident.

The Carlyle Group looked to expand its consumer portfolio by acquiring a 51% stake in Scalina, Brazil's largest manufacturer and retailer of women's hosiery and lingerie, for approximately US\$160m. In the last five years, the Brazilian lingerie market has outpaced GDP growth by circa 100%; a figure that can be attributed to the proliferation of the middle class and the rising number of women with expendable incomes.

Indeed, women are quickly becoming a major economic force and are expected to have a profound effect on consumption habits. The cosmetics, fragrances and toiletries (CF&T), footwear and apparel segments are all expected to be boosted.

Closer to home, in May 2011, Latin American private equity fund Southern Cross acquired a controlling stake in Brinox, a kitchenware manufacturer with revenues of US\$80m in 2010. Apart from the major players, the kitchenware market is highly fragmented and Southern Cross hopes to benefit by continuing its buy and build strategy - acquiring other associated brands through Brinox.

Consumers switching to brands

Although Brazil is becoming increasingly prosperous, the consumer base is still composed of mostly lower to middle income consumers; consequently pricing is still central to consumer choice. However, branding has been gaining traction over the past several years with shoppers becoming more willing to spend that extra amount on quality branded products.

Due to the highly fragmented nature of the apparel market in particular (the top five players hold just 16% of the total market share) we expect the growing eagerness to buy brands rather than generic to drive M&A directed at emerging Brazilian clothing brands.

E-commerce maturing

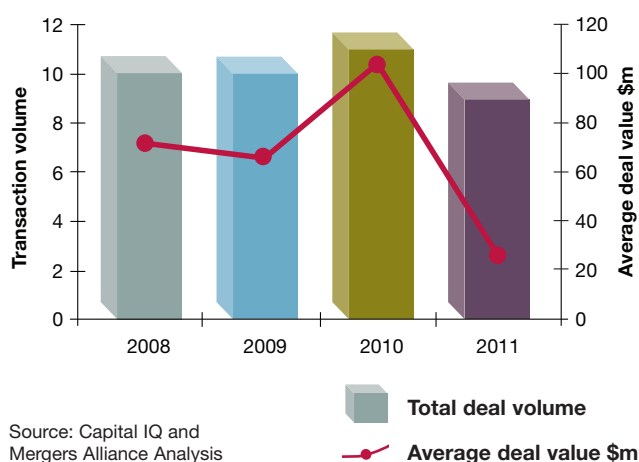
Local consumer firms that have traditionally sold their brands in retail stores are expanding into e-commerce, a channel growing at over 30% per annum. Consequently, we anticipate moves by consumer firms looking to expand their distribution network to acquire domestically domiciled online retail specialists.

Overall, the Brazilian consumer market has experienced a boom in recent years, however several inefficiencies still exist, such as fragmented markets. This should nonetheless encourage major consumer players, foreign and domestic, that have their own distribution channels and that rely on economies of scale.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US\$m)
Feb 12	Natura Cosméticos S.A.	Cosmetics	Lazard Asset Management LLC (USA)	n/d
Oct 11	Bobstore	Apparel	InBrands	32
Sep 11	Descart Indústria E Comércio	Baby diapers	Svenska Cellulosa Aktiebolaget (Sweden)	71
May 11	Brinox Metalúrgica	Kitchenware	Southern Cross Group (Argentina)	n/d
May 11	Ecologie/ Nick&Vick	Cosmetics	Bombriil	9
Feb 11	VR Kidswear and VR Menswear	Apparel	InBrands	n/d
Jan 11	Perfex (Johnson & Johnson)	Household cleaning	Hypermarcas	17
Nov 10	Colgate-Palmolive, Pom Pom Soap	Soap	Hypermarcas	50
Nov 10	Scalina	Hosiery; lingerie	The Carlyle Group (USA)	160
Aug 10	Mabesa do Brasil	Diapers	Hypermarcas	195

M&A activity



Mexico



“The development priority of many firms has been outward of late to take advantage of the rapidly growing middle class. Solid macro fundamentals along with the increase in consumer credit, rolled out by both department and specialist stores, has led to a surge in Mexican consumerism. With this, Mexico remains one of the more attractive emerging market propositions.”

Christian Garcini Garcia,
Sinergia Capital

Sound fundamentals

The Mexican consumer goods sector swept through the global economic downturn unimpeded, experiencing 6% compound annual growth over the past three years.

Consumer growth is expected to at least equal GDP growth which is currently at 4%. Indeed, a rising middle class may push growth in consumer goods higher still. Other positive indices include a relatively low inflation rate (at 3.14%) and stable consumer confidence levels. Moreover, consumer credit is recovering after a sharp contraction in 2009 and is expected to reach 2007 levels in 2012.

Overall deal volume in consumer goods has traditionally been low relative to the general market; however, it has been steadily rising since 2009.

Multinationals investing in Mexico

Large multinationals have sought to capitalise on concentrated sector growth. One such firm was Svenska Cellulosa Aktiebolaget, the Swedish consumer goods giant and owner of brands such as Bodyform and Tempo. In July 2010 it agreed to acquire Copamex S.A, a baby diaper business that targets the Mexican and Central American market, for US\$50m. The deal involves the rights to the brands Tessy Babies and Dry Kids among others and will take advantage of the growing Mexican and Central American baby diaper market.

Brand integration

An increasingly common theme in Mexican consumer oriented M&A has been for diversified consumer companies to buy smaller brands to then incorporate into their product lines.

In October 2010, Genomma Lab Internacional SAB, a Mexico based developer and marketer of over-the-counter pharmaceutical and personal care products, agreed to acquire the Pomada de la Campana, Galaflex, Affair, Vanart and Sante Haircare brands for a total consideration of US\$85m. The brands, that reported combined annual sales of US\$38m in 2009, will be incorporated into Genomma's already extensive portfolio of over 90 brands

Largest luxury market in Latin America

The luxury goods market is the second most important in Mexico after the mass segment. Indeed, Mexico rates above Argentina and Brazil with 55% of the total sales of luxury goods in Latin America. According to AC Nielsen, 6.4 million Mexicans will have annual incomes of over US\$60,000 by 2030. A number of major international luxury brands rely on the affluent Mexican consumer as much as they do the European. Hugo Boss for example derives c. 15% of its global sales from Mexico.

Apparel acquisition opportunities

We expect the trend of Mexican brands being bought with the intention of being integrated into the buying company's product line to continue. We expect this trend to take place in the apparel sector in particular, where a number of successful local brands have emerged. These include:



- Julio: Quality clothing at low prices. It currently has 48 stores and 15 franchises in Mexico.
- Ivonne: The brand has positioned itself as one of the leading companies in selling fashion and accessories to a wide segment of the female population. Has recently opened its first stores in the US.
- Marsel: It currently has 20 stores in shopping malls across the country, Marsel has been expanding at a fast pace.
- Highlife: Clothing for men; one of the market leaders in the sector.
- Andrea: Catalogue sales of shoes with a large share of the Mexican market.

In our view the above present a good opportunity for foreign firms looking to invest in the infrastructure of some well established and potentially high growth Mexican brands.

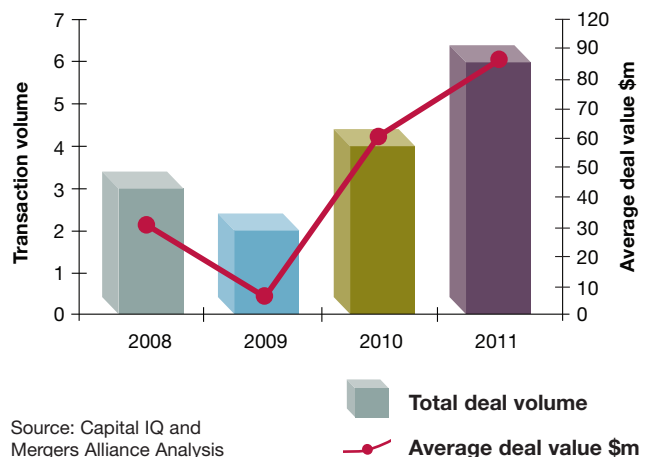
“The luxury goods market is the second most important in Mexico after the mass segment. Indeed, Mexico rates above Argentina and Brazil with 55% of the total sales of luxury goods in Latin America.”



Recent transactions

Date	Target	Description	Acquirer	Deal Value (US\$m)
Oct 11	Scientific-Atlanta de Mexico	Set-top boxes	PCE Paragon Solutions kft (Hungary)	45
Aug 11	Moda Holding S.A.P.I. de C.V.	Footwear	Nexxus Capital, S.C. developer	n/d
Aug 11	Various Brands	Various brands	Genomma Lab Internacional SAB	85
Jul 11	Toshiba Electromex	Electronics	Just International Ltd. (Taiwan)	n/d
Oct 10	Colgate-Palmolive (Mexican brands)	Personal care	Genomma Lab Interacional SAB	29
Jul 10	Copamex, S.A. de C.V.	Personal care	Svenska Cellulosa Aktiebolaget (Sweden)	50
Mar 10	Laboratorios KSK	Natural products company	Takashi Tsuru Kayaba	n/d
Mar 10	Impco, S. de R.L. de C.V.	Household appliances	Sylvan Holdings Pte. Ltd (Singapore)	n/d
Jan 09	Iconix Brand Group, Inc	Various brands	New Brands Americas LLC (USA)	6
Aug 08	Barajas y Naipes de Mexico	Leisure equipment	Cartamundi NV; Copag da Amazônia S.A.	n/d

M&A activity



USA



“The US consumer products M&A activity has

proven to be rather resilient in this volatile environment. Given the strong corporate balance sheets, and backlog of aging owners of privately-held CP companies, we are bracing for a strong surge of M&A activity over the next few years.”

Brian Mulvaney,
Headwaters MB

Strategies change on macro deterioration

As goes the consumer so goes the consumer products industry and the consumers throughout the world are still recovering from the local and global recession and personal deleveraging.

The US consumers buying behaviour has fundamentally changed from the mid-2000's and consumer goods manufacturers and the retail channels will continue to have to adjust to this new buying paradigm.

The continued contraction of credit availability to the consumer (be it from credit cards, home equity loans, 401k) combined with declining assets, dropping consumer confidence and increased unemployment, has made the US consumer more price sensitive, decrease discretionary spending and become more willing to consider alternative channels for key purchases.

The consumer goods manufacturers have also faced a dramatically changing environment in the US. Rising inflation on the back of monetary stimulus has meant that companies have faced rising commodity prices while at the same time being pressured to maintain, if not lower, its retail pricing. Many branded companies faced new competition from private label offerings. In addition, companies remain challenged by tight credit markets, a volatile dollar and increasing employee benefit costs.



Stable M&A levels

Despite volatile economic conditions affecting the consumer space, the annual number of transactions has

remained relatively constant since 2008 through the end of 2011 at approximately 200 reported transactions per annum. While most of the deals had undisclosed value and terms, the ones that did disclose exhibited an increased average transaction size from a low in 2008 through 2010. This increase in the average deal size was reflective of the financial turmoil in 2008 in which many of the sellers were "distressed" and buyers had limited sources of capital. Average deal size spiked in 2010 as there were five US\$1bn+ transactions including NBTY and Alberto-Culver for US\$4bn each, whereas the largest disclosed deal in 2008 was only US\$500m.

Approximately 13% of the companies acquired in the US have been bought by a non-US based entity. In 2011, there was an increase in cross-border transactions which was driven by the weak dollar and a desire for European and Chinese companies seeking "foothold" acquisitions in the US.

Large deals and hostile takeovers

VF Corp, one of the leading owners of branded apparel companies, added Timberland to its portfolio in June 2011 in a US\$2.2bn deal. This valuation was a 40% premium to Timberlands recent stock price, 1.2 x revenue and 12.3 x EBITDA.

Timberland, which was publicly traded but family managed, had suffered a decline in profitability and was facing investor criticism. By being acquired by VF, Timberland's cost structure should improve and sales will benefit from VF's global distribution network. VF, which owns such brands as Vans, North Face, JanSport, Reef, Wrangler and Lee has stated that it will continue to look to build its brand portfolio in all of its categories both in the US and overseas.

M&A driving company growth

The US consumer goods market is comprised of over 7,500 companies of which only 330 are publicly traded and just over 1,000 are private equity backed. Of this group, 350 companies disclosed revenue that totalled US\$323bn, lead by Procter & Gamble (P&G) with US\$79bn and the next nine accounting for US\$114bn.

Of note, the industry growth of the top companies has been nominal with the top 10 companies only growing 0.6% in three years and 2.2% in five years, whereas the top 50 companies have grown 1.5% in three years and 4.6% in five years. The highest growth category in the top 50 was apparel, with PVH (Calvin Klein, Tommy Hilfiger) growing 88% in five years through acquisitions. Most of the other top 50 companies experienced low or no organic growth and the few that did have some growth were primarily driven by acquisitions (e.g. Jarden).

Changing shape of the consumer industry

The retail distribution channels have evolved quite significantly over the past five years. The “bricks & mortar” stores that are doing well are the luxury retailers and the discount retailers. Non-traditional channels such as online

and direct response (e.g. infomercials and direct mailers) continue to take a larger share of the consumer’s wallet, which has required the consumer goods manufacturers to develop multi-channel strategies.

Indeed, in order to compete, many companies are challenging their traditional business models in order to deliver a better experience to the consumer. Some of these changes include brand building using social media, creating exclusive product features for retailers, changing warranty/return policies, willingness to offer private label products, entering new countries and use of alternative channels such as direct-to-consumer, multi-level marketing and discount chains.

New strategies and new markets

Over the next few years the US consumer goods market is expected to remain at the low-single digit growth rate, but will have more dramatic changes within the different consumer sectors and distribution channels.

We expect to see growth at both ends of the branded goods spectrum and a decline in the middle. Meaning that high-end brands like Nike and Coach and value brands like Costco’s Kirkland and Target’s Cherokee will continue to

grow, but brands that fall in the middle with medium quality at full prices will continue to decline.

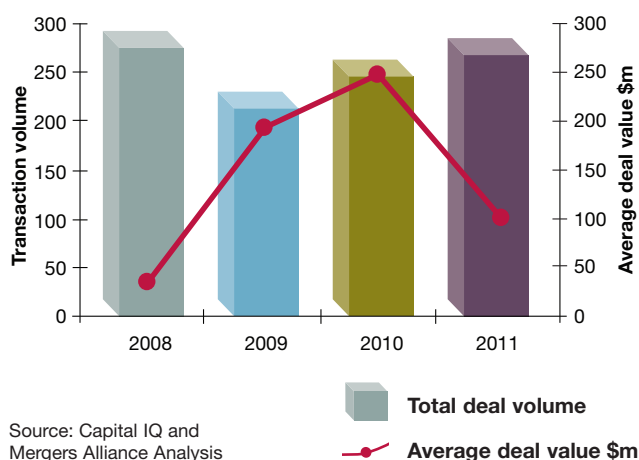
Lastly, US companies will have to develop ways in which to enter the higher growth emerging markets such as Brazil and China in order to fuel growth and to establish sourcing and manufacturing internationally in order to lower costs and increase capacity.

While the larger companies already have global sales and distribution networks, many of the mid-size companies (e.g. sales of \$50-500 million) do not. In order to mitigate the risk of these new market launches, US companies are becoming more receptive to joint ventures, acquisitions or distribution agreements with companies either domiciled or established in those target markets. As has been the case over the last few years, this continual need for changing strategies will drive M&A activity in the US and internationally.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US\$m)
Dec 11	Kukdong Apparel (America) Inc.	Apparel	Kukdong Corp.	11
Dec 11	Baby Trend, Inc.	Juvenile products	GIA Investments Corp.	45
Sep 11	JAKKS Pacific	Toys	Oaktree Capital	608
Jun 11	Timberland Co.	Apparel & footwear	V.F. Corp.	2,200
May 11	Acushnet Company (Titleist)	Recreational equipment	FILA (Korea)	1,200
May 11	Volcom	Apparel	PPR SA (France)	607
Jan 11	Rafaella Apparel	Apparel	Perry Ellis	195
Jan 11	Klipsch Group	Consumer electronics	Audiovox	232
Dec 10	Sara Lee Shoe Care (Kiwi brand)	Household products	SC Johnson	323
Sep 10	Alberto-Culver	Personal care products	The Carlyle Group	3,900

M&A activity



China



“China is the most significant prize in the consumer

goods sector. The middle-class in China is increasingly becoming a wealthy one with a growing appetite for consumer goods. Companies, both domestic and foreign, will vie for market share through M&A.”

Andre Johnston,
Mergers Alliance

Steady shift to a more consumer driven economy

The Chinese consumer class, riding on the wave of constant macroeconomic growth, has been expanding at a rapid rate.

Just seven years ago 4.2 million households were earning US\$10,000 a year, that household figure has since risen to just over 20 million and rising. Despite this, consumption still only makes up 35% of GDP compared to 70% in the US. It is clear that the consumption capacity of the Chinese has not come close to realising its full potential. Indeed, analysts expect China's consumer market to grow to three times the size of the US market over the next two decades.

China's 12th five year plan, which runs until 2015, places an emphasis on balancing the economy to be more higher-value-add consumer driven and less reliant on cheap exports. Even with this, China will remain a relatively frugal state relative to its western counterparts and saving will remain firmly entrenched in the culture; an economic dynamic that can only prove supportive to the long term health of the economy.

Large interest in home appliances

China has been a fairly active hub of consumer goods M&A in recent years and although there was a contraction in 2010, 2011 surpassed the peaks in both volume and average deal value. Interestingly, over half of all transactions over the past three years have been cross-border.

Recent among them was renowned Swedish outdoor recreational brand Hestra-Handsken's acquisition of a 50% stake in outdoor sportswear and equipment firm Zhejiang Pinghu Huashen in February 2011 for an undisclosed sum. In the same month French electrical appliances company SEB Internationale acquired a 20% stake in kitchenware appliances brand Zhejiang Supor for US\$526m.

Indeed, the past three years has seen M&A targeted at home appliance electronics firms gather pace; further deals included the purchase of Shenzhen based United Opto-Electronics, a firm engaged in the design and manufacturing of projection televisions and related products, by keypad specialists Karce International Holdings for US\$346m and the majority stake purchase of Hefei Royalstar Industrial, by its domestic peer Wuxi Little Swan for US\$78m.

Homegrown brands take to the world stage

China is home to a number of multibillion dollar brands, some of which have had more exposure to Western markets than others. The brands range from electronics to sporting goods and top among them is multinational computer firm Levono. The company manufactures and markets desktop, tablet and notebook computers. Currently the world's number two PC brand, the company has already been active in global M&A with its acquisition of IBM's personal computer division in 2005 being its most high-profile deal. Looking ahead it recently stated that it is looking for overseas acquisitions to expand its nascent mobile device division.

The next two biggest non food and drink consumer companies are Anta and Li-Ning, both sporting goods firms that design sports apparel and equipment under their own brand names. Li-Ning surpassed Adidas domestically in 2009 to become the second largest sports brand by market share (after Nike). In the same year it bought Hong Kong based sportswear firm Kason Sports for US\$24m. Anta meanwhile has ambitiously declared its intention to open 10,000 new stores across China.

Personal care opens its borders

Due to its substantial growth prospects one industry that has been more active than most in M&A has been the CF&T (cosmetics, fragrances and toiletries) segment.

In December 2010 Coty Inc, the world's largest fragrance company headquartered in Paris and New York and privately owned by German holding company Joh. A. Benckiser, acquired a majority stake in TJoy Holdings, a Jiangsu Province based brand that manufactures skin care products, for US\$400m. Although Tjoy has negligible market share (estimated at 1%) Coty was attracted to one of the Chinese firm's lucrative skin whitening and male skincare products lines. These products have been experiencing high double digit growth in recent years.

In 2008 Johnson & Johnson China Investment Co, a subsidiary of New Jersey based Johnson & Johnson, bought Beijing Dabao Cosmetics, one of China's best known cosmetic brands (the firm had previously been majority state owned). The purchase has so far facilitated Johnson & Johnson's entry into the Chinese market through Dabao's 3,000 mainland outlets.

Interestingly, there has been notable outbound involvement as well; China Investment Corporation invested US\$50m into French beauty and home products firm L'Occitane International during its floatation.

Luxury sensibilities

By 2015 China is set to overtake the US and Japan to become the world's largest luxury market. Heavy tariffs levied on certain consumer goods such as a 50% duty on cosmetics and a 30% duty on high-end watches are to be repealed with further reductions on import tariffs to follow. Such a move may actually discourage China targeted M&A by foreign luxury companies as home advantage no longer becomes a prerequisite to penetrating the market.

Currently, only a small fraction of the population can afford premium goods, most of whom are confined to the major cities, however, prosperity and goods are now swelling into the second and third tier cities.

Monetary policy could influence M&A

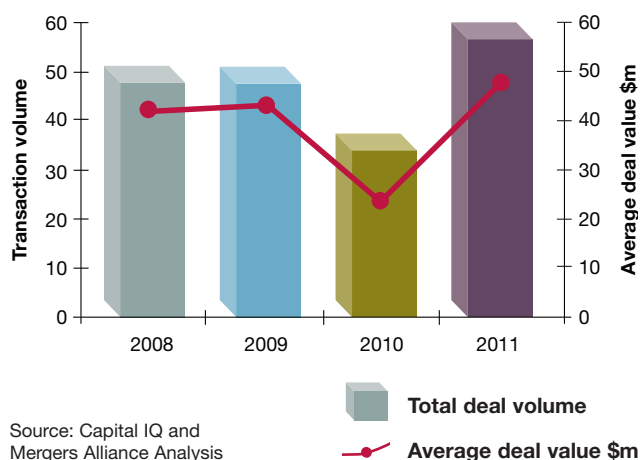
If the Chinese government stops artificially suppressing its currency and allows the RNB to float freely (which may happen sooner than anticipated due to domestic inflation concerns) the consumer's purchasing power will rise sharply. Not only will this enable the Chinese to outbid foreign consumers on products they themselves make, it will also provide Chinese firms with the additional purchasing power to participate in outbound M&A more aggressively.



Recent transactions

Date	Target	Description	Acquirer	Deal Value (US\$m)
Dec 11	Shanghai Watches Company Limited	Watches	Shenzhen Fiyta Holdings Ltd	7
Dec 11	Shenzhen Changhong	Consumer electronics	Sichuan Changhong Electronics Group	32
Nov 11	Yiwu Nengdali Garments Co.,Ltd.	Apparel	China Fashion Holdings Ltd.	n/d
Aug 11	Parel Cosmetics Ltd.	Cosmetics	Ming Fai Holdings Limited	5
Aug 11	BSW Household Appliances	Electronics	Bosch and Siemens Home Appliances (Ger)	19
Aug 11	FAB Enterprise	Electronics	Wizzard Software	15
Mar 11	Zhejiang Putian Electric	Household appliances	Elica SpA (Italy)	42
Feb 11	Zhejiang Supor	Housewares and specialties	SEB SA (France)	526
Feb 11	Zhejiang Pinghu Huashen	Sportswear and equipment	Hestra-Handsken AB (Sweden)	n/d
Apr 08	United Opto-Electronics	Electronics	Karce International Holdings	346

M&A activity



India



“Consumer companies have often struggled to

penetrate the disparate and often volatile Indian market as modern retail chains are relatively weak and the majority of consumer goods are sold in traditional shops. Entering these markets requires powerful independent distribution networks, therefore, most would be better off acquiring or partnering with local established brands.”

Sujay Kotak,
Singhi Advisors

Growing middle class boosts M&A

India is one of the world's most lucrative consumer markets and there is still ample room for expansion in a country where, similar to China, consumption makes up less than half of the total GDP.

A number of multinational consumer giants have had a presence in India for decades: Unilever initially entered the Indian market in 1930 and Procter & Gamble commenced its first operations in the 1950's.

M&A participation in the sector although always evident, has increased over the past five years thanks to favourable consumer drivers including high GDP growth, a growing middle class (which is expected to swell to around 500 million by 2025) and a rise in per capita income for rural inhabitants.

High valuations in personal care

India's personal care market is growing rapidly thanks to the rise in the population's purchasing power and increasing health awareness. The sector has attracted many overseas cash rich buyers. Unfortunately, the number of brands for sale has not satisfied demand which has contributed to the high multiples being paid.

This was illustrated by the bidding war, involving both multinational and domestic players, for Paras Pharmaceuticals, a household and personal care company. The auction was eventually won by UK based Reckitt Benckiser who bid a sizable US\$725m (price/sales multiple of over 8 x). Reckitt is the world's largest producer of personal and household products boasting global brands such as Durex and Vanish. As well as extending these brands already discernable presence in India, the acquisition will allow Reckitt to expand its product line through Paras' own extensive portfolio which includes brands such as D'Cold, Moor and Dermicool.

Foreign private equity interest in Indian apparel

Disposable income in India is growing at 5% annually; yearly growth of the apparel sector however is c. 13%. This figure can be partly attributed to more money being in the hands of young people and an increase in demand for office wear by both men and women.

The past three years have seen the growth in apparel reflected in the M&A market where many of the consumer transactions took place.

A number of financial funds competed to invest in Genesis Colors, a company that owns a variety of premium fashion labels. Investors included L Capital, the private equity arm of luxury conglomerate LVMH, who recently acquired a 40% stake. Previously, UK based Henderson Global Investors acquired a 12% stake for US\$17m and US based venture capital firms Sequoia Capital and Mayfield Fund contributed US\$26m. The new funds have been used to open new branches, market one of its flagship brands, Satya Paul, and fund future acquisitions.

In 2010 private equity firms Bain Capital and TPG Capital purchased undisclosed stakes in Indian kids-wear firm Lilliput for US\$86m. The new funds will allow one of India's most recognisable kids-wear brands to extend its product range as well as its store footprint. The deal is also seen as a precursor to its initial share offering that is said to be taking place over the next 12 months.

Seeking global coverage

A growing number of Indian firms are seeking international exposure to both hedge against domestic competition and to capitalise on some of the lucrative diaspora market. Historically, Indian firms have sold identical product lines in the targeted overseas markets to the ones sold locally, however, firms are now customising their brand portfolio to better suit the tastes of international consumers. M&A has helped facilitate the cross-over and one such example was the acquisition of UK based CF&T company Keyline

Brands by Godrej Consumer Products, the consumer division of the Indian conglomerate. The buy enabled Godrej to introduce new product ranges to the UK and Europe as well bring Keyline's brands to the Indian market. Indeed, Godrej has been one of the world's most acquisitive consumer companies over the past three years. A trend that we expect to continue as firms in emerging markets go out of their way to achieve global coverage.

Outlook

The majority of the rural population will emerge from subsistence consumption to a level that consistently consumes tailored, though still affordable, products. The market potential in terms of volume for mass premium products and FMCG's is considerable. We believe this holds true for products in beauty and skin care products in particular and this is where we expect further M&A activity to take place over the next three years.

Despite its eclectic language structure and vast landmass, the current Indian consumer climate is relatively homogenous. Nonetheless, a rise in purchasing power and an increase in scale will necessitate more complex business models with regards to branding and general operations. An effort than can be facilitated by foreign expertise.

Industry insight

Name: Vivek Gambhir
Company: Godrej Group
Position: Chief Strategy Officer



“At Godrej Consumer Products we have a financial goal of what we call 10x10, which essentially means 10 times the size in 10 years. We expect to grow organically by around 15-20% over the next 10 years both in

India and through our global operations. On top of that, we expect a 10% compounded annual growth rate from acquisitions. This would be financed by the surpluses generated each year and by maintaining a debt equity ratio of about 1:1.

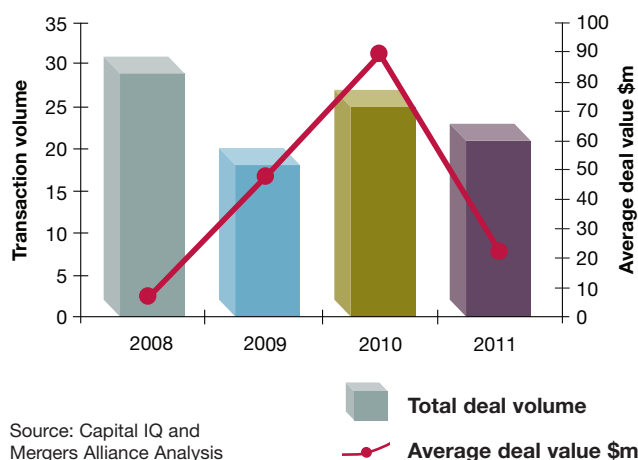
10 times in 10 years is a compounded annual growth rate of about 27%, which we fully expect to achieve. Ultimately our growth aspirations are indicative of the Indian consumer market as a whole.”

The Godrej Group is an Indian conglomerate headquartered in Mumbai, India and has a turnover of US\$2.6bn. Godrej Consumer Products is a leader among India's FMCG companies, with leading household and personal care products.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US\$m)
Sep 11	Genesis Colors	Apparel	L Capital, Henderson Mayfield (Various)	43
Jun 11	Darling Group Holdings	Hair care	Godrej Consumer Products Ltd.	100
Apr 11	Henkel India Ltd.	Fabric care	Jyothy Laboratories Ltd.	170
Apr 11	Weekender Clothing	Apparels for children	Madhusudan Securities (Vietnam)	21
Jan 11	Maya Appliances Industry	Household appliances	Koninklijke Philips Electronics (Egypt)	n/d
Dec 10	Naturesse Consumer Care	Hair care	Godrej Consumer Products	n/d
Dec 10	Paras Pharmaceuticals	Healthcare	Reckitt Benckiser (UK)	725
Dec 10	Essence Consumer Care Products	Fabric care	Godrej Consumer Products	n/d
Dec 10	Bachi Shoes India Private	Footwear	Tata International	26
Sep 10	Lilliput	Kids apparel	Bain Capital, TPG Capital (USA)	86

M&A activity



Japan



“The flat Japanese population growth and

shrinking consumer goods market in Japan is underpinning M&A activity in this sector. We expect to see more consolidation of marginal local consumer products companies along with MBOs and private equity investment, while the stronger companies look abroad to the higher growth markets in the BRICs, South East Asia and Africa.”

Tomoki Tanaka,
IBS Yamaichi Securities Co Ltd

Factors determining M&A

Major economic drivers of M&A in the consumer goods sector in Japan include demographics, deflation and the strong yen to name a few. According to the 2010 census, the population of Japan in 2010 was 128 million, virtually the same as in 2005.

The percentage of the population aged 65 and over reached 23%, the highest in the world, followed by Germany and Italy at 20%. Mature and shrinking markets in Japan have led to consolidation among domestic consumer goods companies. Deflation in Japan has created price competition putting pressure on margins, further forcing players to consolidate to find cost synergies. The strong yen has also levelled the domestic playing field attracting foreign global players to the market. Global consumer brands such as H&M and Zara in apparel and Ikea in furniture have been successful in Japan.

At the same time these factors have also been drivers for outbound M&A as Japanese consumer companies seek faster growing markets abroad.

Great East Japan earthquake impacts M&A

Prior to the impact of the Lehman shock, Japan saw a number of major mid and large-sized consumer deals. Panasonic acquired Sanyo electric in a deal worth US\$12bn. Moreover, foreign buyers made selective acquisitions such as Newell Rubbermaids purchase of the baby stroller company Aprica. In 2009 consumer sector deals declined on the back of the market uncertainty following the global credit crunch.

In 2010 deal volumes and values quickly rebounded from a realisation that the consumer market was relatively unaffected compared to other developed economies. However, this changed dramatically in March 2011 with the Great East Japan earthquake

as deal value plunged briefly once again reflecting the uncertainty surrounding the after-effects of the earthquake. In 2011, Japanese corporations turned to outbound M&A as a risk diversification measure and to take advantage of the strengthening yen against major foreign currencies.

Reorganisation of Japanese electronics takes place

The much predicted reorganisation of Japan's consumer electronics industry was realised in 2008 with the start of the acquisition of Sanyo Electric by Panasonic Corporation.

The initial 50.2% stake in the listed Sanyo Electric amounted to over US\$12bn. With major electric companies like Hitachi, Toshiba and Mitsubishi surging domestically, Sanyo could not compete by itself in many of its product areas. In 2011, Haier Group Company of China, acquired nine subsidiaries of Sanyo which mainly produced washing machines and refrigerators in Japan and Asia.

M&A was not limited to domestic players seeking consolidation. In 2008, Bain Capital saw a brand enhancing opportunity in the Japanese audio electronics market by acquiring the Tokyo Stock Exchange listed D&M Holdings for US\$686m. Bain purchased the stakes of RHJ International and Phillips and D&M was delisted from the stock exchange. D&M holds audio electronic brands such as Denon, Marantz, and McIntosh.

Strong yen driving foreign expansion

Given the strong yen and healthy cash balances, Japanese corporations are increasingly seeking M&A opportunities in growing markets outside Japan to build up existing overseas networks in Europe and North America and diversify their brand offerings.

In sportswear, athletic shoe manufacturer Asics Corporation acquired the Swedish outdoor clothing and equipment manufacturer Haglofs Holding AB for US\$133m in 2010. Asics plans to expand the Haglofs brand in Japan and Asia. Recent reports indicate that Goldwin, another sports clothing manufacturer, is also looking to acquire in an attempt to balance their winter sporting goods product sales with a spring/summer sports portfolio.

In cosmetics, Shiseido Co acquired the San Francisco based mineral makeup company Bare Escentuals Inc. for US\$1.5bn. The deal solidified Shiseido's entry into the global natural cosmetics segment and also follows the pattern created by other dominant global players such as Estee Lauder who acquired natural brand Aveda. Rather

than increasing their presence by establishing their own natural cosmetics brands, they have purchased already proven brands and helped them grow.

Electronics majors merge to ward off competition from South Korea

Although, as mentioned, Japanese consumer electronics companies still have a dominating presence in Japan, they have retreated somewhat in overseas markets. Sony, Panasonic and Sharp; the major Japanese brands, have fallen behind Korean giants Samsung and LG in global market share, particularly in flat panel television displays. In an effort to maintain market competitiveness the smaller firms have

sought alliances: Pioneer, a former television manufacturer, has made capital tie-ups with Mitsubishi and Sharp and now concentrates on audio and car navigation systems. JVC and Kenwood combined in 2008 to form JVC Kenwood Holdings. The three television majors will need to raise their presence in growing overseas markets in Asia, South America and Africa in order to maintain share and we do not rule out some major acquisitions by them going forward.

Predictions

For consumer goods companies in Japan, the strong yen, waning demographic trends and a deflationary environment in the domestic market will continue to encourage the major brand companies to seek new opportunities abroad for at least the next three to five years.

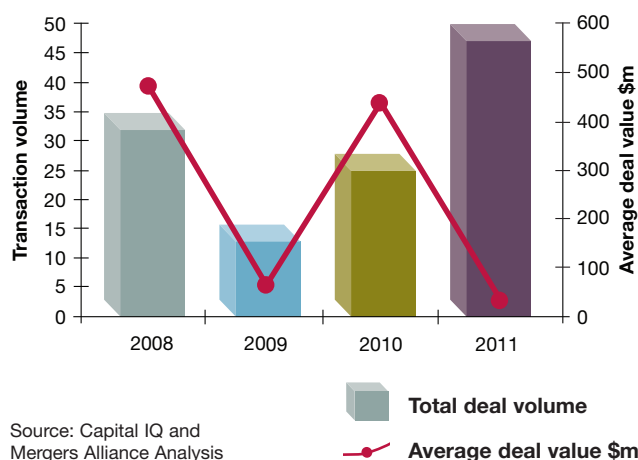
Luxury and premium products will be in a steady state of decline, as maturing Japanese consumers seek value. Marginal players in each segment will likely become opportunities for MBOs, private equity, and foreign-capital multinationals.



Recent transactions

Date	Target	Description	Acquirer	Deal Value (US\$m)
Dec 11	Asty, Inc.	Cosmetics	Kenkou Corporation	n/d
Dec 11	Wave International Co. Ltd.	Apparel brand	Tokyo Style	13
July 11	SANYO Electric Co, 9 Subsidiaries	Kitchen goods	Haier Group	n/d
July 11	Pentax Ricoh Imaging	Digital cameras	Ricoh	n/d
May 11	Kawashima Selkon Textile	Curtains, home interior	JS Group	180
Jan 11	Prime Japan Inc.	Wedding jewellery	Baring P.E. Asia (Hong Kong)	n/d
Oct 10	Kasco Corp.	Golf products	Mamiya-OP Co. Ltd.	26
Oct 10	Sanei International	Apparel	TSI Holdings	315
Jun 09	Kracie Holdings	Toiletries & cosmetics	Hoyu Co. Ltd.	261
Dec 08	SANYO Electric	Electronics	Panasonic Corp.	1,230

M&A activity



Turkey



“The Turkish consumer goods sector is quickly

becoming highly attractive to investors. This has been especially evident in the ready wear/apparel sector. Although deal volume has been low in the past, there are numerous active deals in the market and in the pipeline.”

Ozkan Yavasal,
Daruma Corporate Finance

Turkish consumer market in an advantageous position

Eurozone uncertainty and trouble in the Middle East have not prevented the rapid growth of the Turkish consumer market.

Factors such as rapid urbanisation; an increasingly organised retail segment (318 shopping malls by the end of 2012); an influx of foreign brands creating conducive competitive conditions; and highly favourable demographics, that are increasingly trending towards more western lifestyles, are all benefiting the consumer sector.

European multinationals target personal care market

French CF&T giant L'Oréal expanded its presence in the fast growing Turkish personal care market with the purchase of Canan, one of Turkey's leading hair care companies. Most of Canan's US\$26m turnover comes from its Ipek brand. Closing the deal the consumer products president for L'Oréal noted:

“The Turkish cosmetics market is expanding strongly and has a very large growth potential. The acquisition of Canan will bolster our positions in hair-care products, the largest segment in the market.”

It is reported that L'Oréal is looking to pursue further M&A in high growth emerging markets with Turkey still high on its radar.

Elsewhere, Svenska Cellulosa Aktiebolaget continued its trend of targeting personal care companies in emerging markets with its acquisitions of San Saglik Urunleri SanTic and Komili Kagit ve Kisisel Bakim Uretim. The former is an adult diaper and under pads company whilst the latter specialises in baby diaper and feminine care products.

The acquisitions are in line with SCA's strategy of pursuing inorganic growth in Europe and in other parts of the world.

Investors look to lively apparel market

The rise in the appetite for clothing brands has been significant, however, it is only recently that investors have looked to M&A as a means of capitalising on this demand. In December 2010 the owner of Turkish footwear company Yesil Kundura, purchased a majority share in Ceylan Giyim in a deal worth US\$101m. Ceylan Giyim's primary activities are the production and marketing of adult sportswear and fashion wears. It operates 54 retail stores and two online stores.

Private equity activity in this space has also been apparent: In October 2010 newly-formed private equity fund Eurasia Capital Partner (a fund focused on equity and equity-related investments in Turkish companies) along with the Balkan Accession Fund, acquired a 50% share in Wenice Kids, a children's clothing brand that sells in more than 300 shops in 46 countries. The investors hope to help realise Wenice's ambitious intention of entering another 40 markets by the end of 2012 and establishing itself as one of the world's top ten children's clothing brands.

Consumer spending reaching new heights

Turkey has quickly become one of the most dynamic and fastest growing consumer markets. It should be noted that such rapid growth may slow next year if the macro conditions in Europe worsen (Turkey's biggest export market is the EU, and by some margin).

Nonetheless, Turkey's estimated consumer spending level of US\$6.9bn in 2010 is expected to almost double to US\$13bn by 2014. These growth expectations have stemmed from the growth of the retail sector, increasing affluence and the emergence of domestic brands to complement the influx of foreign players.

In parallel with this rise in consumer spending (which has already surpassed pre-crisis levels) we expect to see an increase in M&A movements.

“Although the majority of investments have been channelled into durables, Dabur’s US\$68m acquisition of Hobi Cosmetics illustrates that the Turkish consumer brands market is not limited to sub-sectors such as apparel.”



Recent transactions

Date	Target	Description	Acquirer	Deal Value (US\$m)
Dec 11	Sanpan Isitma Sistemleri San	Decorative products	Zehnder Group AG (Swi)	n/d
Aug 11	San Saglik Urunleri San.Tic.	Personal products	Svenska Cellulosa Aktiebolaget (Swe)	15
Jun 11	Komili Kagit ve Kisisel Bakim	Baby diapers, feminine care	Svenska Cellulosa Aktiebolaget (Swe)	49
Dec 10	Ceylan Giyim	Ready-wear apparel	Kamil Engin Yeşil (Private individual)	101
Nov 10	İpek Giyim Mağazaları	Apparel	CarrefourSA	30
Oct 10	Wenice Kids	Childrens apparel	Eurasia Capital Partners	n/d
Jul 10	Hobi Cosmetics	Cosmetics	Dabur Group (India)	68

M&A activity

