Global Consumer Goods

Sector Report 2012

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France

> "The French consumer brand M&A market will be driven by the luxury sector where multiples are ever-increasing as a consequence of sector characteristics (high growth, profitable and non cyclical) and the increasing appetite of Asian strategic buyers generating higher competition with established world leaders."
>
> Michel Degryck,
> Capital Partner

Luxury goods leading the M&A market

France is well known for its luxury brands with global leaders such as LVMH, PPR, Hermès, Chanel and L'Oréal (but also numerous small and mid-sized independent companies) prospering. As such, transactions featuring luxury brand companies are over-represented, and strongly fuel the M&A market.

The market is considered very attractive due to its profitable, fast growing and noncyclical characteristics. Moreover, French global market leaders are now competing with new strategic buyers from emerging countries like China. As a consequence, premium assets are in high demand and transaction multiples are surging.

Recent activity included the acquisition of Bulgari by LVMH, the IPO of L'Occitane on the Chinese Stock Exchange and the battle between LVMH and the Hermès Family for the control of Hermès. LVMH, the world's largest luxury goods company, unveiled a US$5.2bn all-share deal to take over Italian jeweller Bulgari. The company acquired 50.4% of Bulgari, issuing 16.5 million shares in exchange for 152.5 million shares held by the Bulgari family.

The French firm also bought the rest of Bulgari's shares at 12.25 Euros a share - a premium of about 60%. As part of the deal, the Bulgari family became the second-biggest family shareholder of LVMH.

Luxury giants seeking new brands and routes to clients

LVMH, PPR and L'Oréal are looking towards consolidation on a global scale and are actively surveying mid-market opportunities to strengthen their brand portfolio.

They are also looking to reinforce their distribution networks in the BRIC economies, where they hope to grow at a multiple to local GDP thanks to the emerging middle classes and the increasing number of high wealth individuals.

Luxury brands are also adjusting to an environment where buying power is shifting to emerging markets. Furthermore, consumers in developed regions are making luxury purchases across a widening range of distribution formats, including outlet stores and online.

Private equity buyers very active

M&A in the consumer goods sector has been very active over the past two years, fuelled by the cash stockpiles held by the global leading players and private equity firms that have sought to make deals and spend their cash after two years of macroeconomic uncertainty and limited access to financial leverage.

Recent deals of particular interest included the sale of Spotless, the French maker of laundry and cleaning products, to BC Partners, a UK-based private equity group, in a deal valuing the company at about US$826m. Axa private equity, which built Spotless up through six bolt-on acquisitions over five years, has more than doubled its initial equity investment in the company. BC Partners saw off competition for Spotless from rival buy-out groups Bridgepoint and Lion Capital.

The Spotless transaction illustrates the appetite for French brands and the high proportion of deals completed by private equity houses offering valuations comparable to strategic industrial players. 2011 was especially productive for private equity due to the banking leverage that was available until August of that year, which enabled LBO France and LFPI Gestion to acquire men's underwear maker Eminence, L Capital to acquire Captain Tortue and EDRIP to finalise an MBO for children's apparel brand Sun City.

Corporates likely to spur M&A activity in 2012

The consumer branded goods market will be affected in the coming months by the downgraded growth forecasts and a tough debt market. We therefore expect private equity activity to be limited and the market to be supported by industrial players which have sound balance sheets and a strong inclination to further expand into emerging markets.

The sector attractiveness, combined with the increasing appetite of Asian strategic acquirers, is generating higher competition for M&A transactions and pressure for higher multiples.

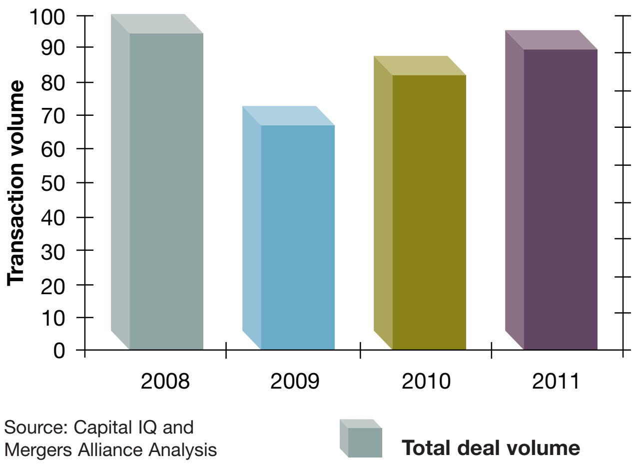
Development of own-brand ranges by mass-retail

Many of the mass market brands are now competing against their distribution networks, which are increasing their margins through developing their own product ranges and private labels. Decathlon (40% market share of the French sporting goods retail market) epitomises this new trend. It is increasingly selling its own-branded products and carrying out self-innovation rather than simply retailing third-party branded products.

Recent PE transactions

Date	Target	Description	Acquirer	Deal Value (US$m)
Jan 12	Briconord Sarl	Home improvement products	Evolem	n/d
Aug 11	Captain Tortue	Door to door sales apparel	L Capital	83
Jul 11	Paul ka	High end apparel	Change Capital (UK)	69
Jul 11	Sun City	Childrens apparel	Edrip + Management	69
Jun 11	Le Tanneur et Cie	Leather goods	Qatar Luxury Group (Qatar)	40
Jun 11	Eminence	Underwear brand	LBO France	206
Jun 11	The Kooples	Fashion apparel	LBO France	n/d
Feb 11	Sergent Major	Childrens apparel	Edrip + Siparex	n/d
Sep 10	Sandro Maje Claudie Pierlot	Fashion apparel	L Capital and Florac	n/d
Feb 09	Spotless	Laundry/ cleaning branded products	BC Partners (UK)	826

M&A activity



Source: Capital IQ and Mergers Alliance Analysis

Germany

"We expect many family owned mid-size companies to trigger further consolidation and be the main participant in consumer goods M&A. Despite the challenging current economic climate, M&A activity in the sector should remain stable."

Stefan Constantin,
C.H. Reynolds Corporate Finance

A balanced and stable consumer market

Following the stuttering global economic recovery in 2010 and first half of 2011, macroeconomic risks rose again in Q3 2011.

With sovereign balance sheets saddled by debt burdens, financial market instability and deteriorating market confidence (amplified by "high-spread" countries) the growth prospects in advanced European economies remain uncertain. Germany's performance in this context has been above-average: Price adjusted GDP growth for 2011 was 2.7% with real wages growing by 1.9%. Consumer spending increased by 1.6% while inflation remains relatively low at 2.3%. Moreover, the unemployment rate experienced a slight decrease of 0.6% to level at 6.6%.

Generally, rather robust consumer spending throughout 2008-2011 ensured relative stability in consumer goods M&A.

Private equity investors active

As mentioned, through 2008 to 2011 the number of transactions in the consumer goods industry in Germany remained generally stable, averaging 50 deals per year.

During 2011 there were a notable number of large-scale cross-border deals that were supported by favourable financing conditions for financial investors at the time.

In July 2011, Blackstone Group agreed to acquire Jack Wolfskin, the functional apparel and equipment brand, from Barclays Private Equity (UK) and Quadriga Capital Services (Germany) for US$982m - equivalent to a multiple of 2 x 2011 sales and 8 x the acquisition price paid in 2005 by Barclays. The transaction underpins the continuing high growth expectations of the outdoor sector driven by changing lifestyle trends in developed countries and the ongoing internationalisation of the industry.

In the mid-market, UK based 3i Group recently acquired Amor GmbH in a secondary buyout. The supplier of jewellery, marketed internationally under the Amor brand, was acquired from Pamplona Capital for an estimated US$140m. This implied a multiple of approximately 6.3 x EBITDA 2010. 3i Group intends to extend Amor's distribution channels internationally and strengthen its brand position.

Also in the mid-market, ACapital recently acquired the family owned Mustang, the fashion brand for an undisclosed amount.

Made in Germany

Germany is home to a number of global power brands, included among them are: Adidas AG, Bosch & Siemens, Beiersdorf AG (Nivea), Puma SE and Hugo Boss. Their products range from sportswear to home appliances, from skin care to high-end clothing. All these firms are pursuing targeted M&A strategies to support their ambitious growth plans.

From 2008 to 2011 sports and lifestyle apparel companies Adidas and Puma completed several cross-border deals focused on both the extension of their existing brand portfolio and the consolidation of the companies position in foreign markets.

Both companies have been targeting sales growth of up to 50% by 2015, partially supported by inorganic expansion. This was exemplified by Adidas' acquisition of Ashworth Inc, the listed US based retailer of golf apparel. They also recently acquired US performance sports brand Five Ten. Puma SE meanwhile acquired the Cobra Golf brand from Acushnet Company; in addition they purchased Dobotex International, the Dutch exclusive licensing partner of a variety of fashion, sports and sports-lifestyle brands.

During the same period, Beiersdorf AG laid out its strategic intention to focus on its core brands – primarily Nivea, Eucerin and La Prairie – while streamlining and partially divesting its non-core brands.

In the textile segment HUGO Boss acquired 15 mono-brand stores and related assets of the Moss Bros Group (the listed UK fashion retailer) in Q1 2011 to further expand their store network.

Opportunities abound despite power brands dominance

The total sales volume of German consumer goods is estimated at US$50bn, with the top five brands accounting for US$27.7bn.

The industry's sub-sectors generally have their distinctive market leaders (the aforementioned power brands), while the rest of the market is populated by a broad array of mid to small-cap players (many family-owned) leaving room for consolidation opportunities.

This was illustrated in 2009 when strategic investors acquired assets of insolvent consumer companies as well as underperforming assets at favourable valuations (this was particularly evident in the apparel industry e.g. Baeumler AG and Rosner GmbH & Co).

Factors determining future M&A

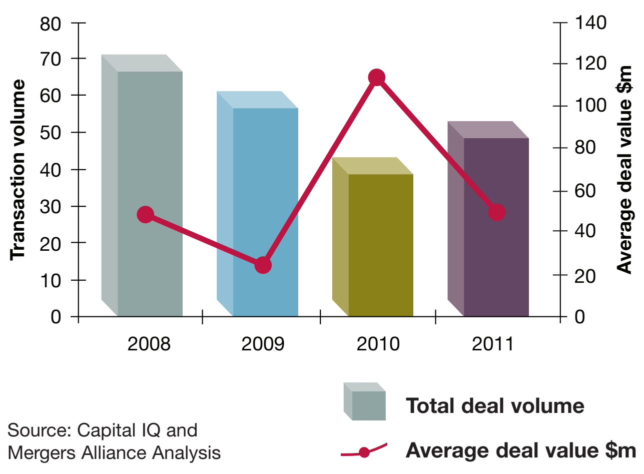
Cross-border M&A activity involving German consumer goods companies buying foreign targets has been largely triggered by companies striving to internationalise their distribution networks but also by their need to upscale and to secure additional growth platforms (e.g. premium brands targeting emerging markets).

Domestic growth opportunities in the German consumer goods market stem primarily from the ongoing life-style changes and rising environmental consciousness of the consumer. To capitalise on these trends, companies need stringent brand positioning and distinctive brand value propositions, as well as efficient distribution and communication channels - often a prerogative of the larger market players. We expect these factors to support consolidation trends going forward.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US$m)
Dec 11	Run & Style GmbH & Co. KG	Sports apparel	Maier Sports GmbH & Co. KG	n/d
Oct 11	Mustang - Bekleidungswerke	Fashion apparel	ACapital	n/d
Jul 11	Jack Wolfskin Ausruestung fuer	Outdoor apparel and footwear	Blackstone Group L.P. (UK)	982
Jun 11	Medion AG	Electronics and IT	Lenovo Group Limited (HGK)	261
Apr 11	SLV Elektronik GmbH	Lighting systems	Cinven Ltd. (UK)	772
Apr 11	d&b audiotechnik GmbH	Electronics	Odewald & Compagnie	n/d
Feb 11	Siteco	Lighting solutions	Osram GmbH	n/d
Feb 11	Weco Polstermoebel	Furniture under WECO brand	Mebelplast S.A. (Poland)	n/d
Jan 11	PAIDI Moebel GmbH	Furniture for children	DZ Equity Partner GmbH	n/d
Dec 10	Amor GmbH	Jewellery manufacturing/ retail	3i Group PLC (UK)	140

M&A activity



Source: Capital IQ and Mergers Alliance Analysis

Italy

> "Household spending capability, already undermined by the global recession, has been further hit by the increase in VAT on consumer goods, drawing consumers towards low cost products. Mid-range brands are suffering and are being targeted by stronger competitors looking for acquisitions at convenient multiples."
>
> Nuccia Cavalieri,
> Ethica Corporate Finance

Consumer confidence nosedives

A European debt crisis and contagion concerns have put a damper on economic growth in Italy and has forced the government's hand to initiate broad austerity measures.

There are now real fears that another recession is imminent as Italian firms struggle to regain competitiveness.

To compound these sentiments the most recent local statistics show Italian consumer confidence fell to its lowest level in over three years. Spending will likely remain static over the next six months with growth (if any) being achieved on the back of industrial expansion.

Firesale prices for brands

Although there has been a y-o-y dip in deal volume due to deteriorating macro conditions (although 2011 saw a slight recovery), consumer goods led M&A has remained relatively active owing to a plethora of esteemed local brands (actively involved in the market) and enthusiastic international participation.

There has also been substantial private equity involvement in Italian brands as well as a number of important IPOs - Prada, Ferragamo. Conspicuous by their absence however are local trade buyers, which can be attributed to the small to mid-sized Italian companies lacking the required financial strength to support M&A.

Another characteristic has been the high valuations; Moncler, Moleskine, Coin and Braccialini all had at least nine times EBITDA valuation multiples. It should be noted, disrupted economic conditions have also led to opportunities involving buying underperforming marquee brands at discounted prices - the bankruptcy of Mariella Burani and Ittierre groups led to the firesale of the Gianfranco Ferrè, Mandarina Duck, Malo and Arcte brands.

Luxury reigns supreme as international markets up the stakes

Similar to France, international awareness for premium local brands is as high as ever thanks to an ever growing affluent class in the developing world.

One of the most high profile global deals over the past 18 months was the acquisition of Italian luxury consumer group Bulgari by its French counterpart Louis Vuitton Moët Hennessy (LVMH) in an all-share transaction for US$5.2bn. The mega deal will reinforce LVMH's worldwide growth aspirations and allow it to double its jewellery and watches businesses while improving its purchasing and distribution operations. The high purchase price, which was at a 60% premium to Bulgari's average share price, was partly due to multiple bidders and partly due to the current favourable conditions of the luxury market.

Another recent premium transaction was the acquisition of the Mogliano Veneto based apparel firm Belstaff by the Swiss luxury holding company Labelux for US$161m in June 2011. The rationale behind the purchase of the predominantly menswear firm was to extend Labelux's coverage in Asia, particularly China where menswear is one of the country's fastest growing luxury sectors.

Private equity eager to acquire luxury

Interestingly, private equity involvement has been focused in the luxury/premium segments due to the mass segments heavy working capital, high debts and low barriers to entry. One of the most high profile deals was the minority stake sale of the high-end brands holding group Moncler SpA to Eurazeo private equity fund for US$572m. The 45% equity acquisition will support Moncler's entry into markets such as China and the US. Its brands include Moncler, Marina Yachting and Henry Cotton.

Outbound deals prevail

Outbound deals have been more prevalent compared to domestic consolidation over the past three years with heavy involvement by some of the world's most important consumer companies.

Luxottica, the world's largest eyewear company (Ray-Ban, Oakley) was busy finalising acquisitions in Mexico, New Zealand, Israel and Turkey; while Giochi Preziosi, the world's fifth largest toymaker, acquired a 25% stake in France based toy distributor King Jouet. Elsewhere, furniture firm Elica SpA acquired three companies in China and India.

Underlying currents of the consumer brand market

The Italian consumer products industry is relatively fragmented with thousands of companies with turnovers ranging from US$1-100m. The industry as a whole still has a family owned flavour to it. Curiously, there are a distinct lack of domestically based mass market brands as most have been bought out by foreign players.

Moving to mass-premium, most small to mid-sized Italian companies are struggling to position themselves in an increasingly value conscious consumer market. There has been an ongoing disconnect between what a company sells a product for and its actual market value. Price points have both been lower to increase volume or higher to make up for lost volume. Even with these adjustments, margins have remained low.

Cross-border will remain king

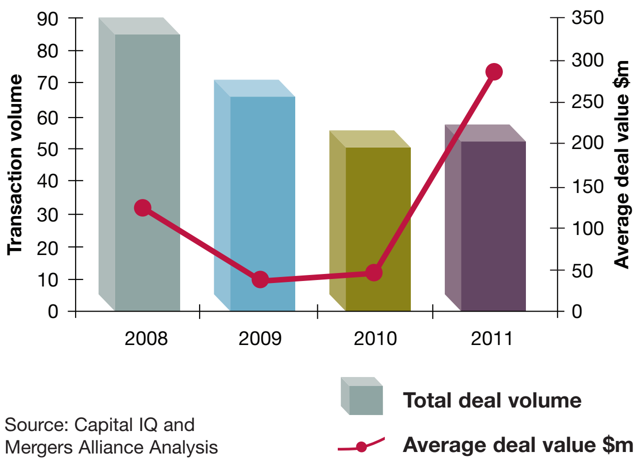
Given the propensity for large Italian companies to look for growth opportunities abroad (rather than acting as consolidators domestically), we expect the current trend of foreign big cap companies raiding the country for strong historical premium brands to continue. The acquisition mood will be driven by undisputed brand equity on one side and by opportunism on the other.

In terms of valuations, we expect multiples to remain in the high range and for bargains to be few and far between.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US$m)
Dec 11	Coccinelle S.p.A.	Fashion accessories	E.Land World Company Ltd. (Kor)	20
Sep 11	Omas Srl	Writing instruments	Ming Fung Jewelry (HK)	51
Aug 11	DIT Group	Jewellery	Gitanjali Gems (India/ Corporate)	11
Aug 11	Bulgari	Jewellery	LVMH (France)	2,470
Aug 11	Moncler	Sportswear	Eurazeo (France)	572
Jul 11	Braccialini	Leather accessories	NEM	36
Jul 11	Toy Watch	Jewellery	J.Hirsch & Co	n/d
Jul 11	Mandarina Duck	Leather accessories	E-Land Co (S. Korea)	66
Feb 11	Gianfranco Ferrè	Fashion	Paris Group (UAE)	n/d
Dec 10	Cantieri Navali Lavagna	Luxury yachts	Nauticstar Marine (China)	18
Jul 10	Barovier & Toso	Glass accessories	AVM Private Equity	17

M&A activity



Source: Capital IQ and Mergers Alliance Analysis

The Netherlands

"The consumer sector remains an interesting M&A proposition with lots of consolidation and economies of scale activity taking place. Multi-channel sales will increasingly gain importance as producers reach their customers more and more via e-commerce in an attempt to increase margins. Watch for strategic activity in this space."

Bart Jonkman,
BlueMind Corporate Finance

Slump in confidence

Declining GDP growth and rising inflation have led to a decrease in the purchasing power of the consumer. Although a recovery is on its way, consumer confidence has been hit which has negatively impacted the sales of consumer goods.

2010 consumer goods M&A volume sunk compared to previous years, however, 2011 was much healthier with more deals closed in the first three quarters than the whole of 2010.

Strong private equity interest

Interestingly, more than one third of all deals were cross-border, which underlines the international orientation of Dutch businesses.

In apparel a quarter of deals had private equity investment. Several well known private equity firms including GIMV and NIBC invested in this sub-sector.

In 2011 clothing conglomerate Liz Claiborne sold its loss making Mexx brand to a joint venture that included US headquartered private equity firm the Gores Group in exchange for a minority of the equity. According to Liz Claiborne's CEO, the reasons for the sale of the troubled brand were risk mitigation and debt reduction and to focus the company's attention on growing its core brands. Liz Claiborne acquired Mexx in 2001 for US$264m. In September 2011 Gores Group paid just US$85m.

Also in 2011 US private equity firm Sun Capital acquired Amsterdam based fashion brand Scotch & Soda for an undisclosed sum. Scotch & Soda sells its designer apparel through 5,000 department and third party retail stores in over 30 countries. Kellwood, a holding company backed by Sun Capital, aims to grow Scotch & Soda's US market share.

Consumer giants pursuing international acquisitions

Dutch-British multinational consumer powerhouse Unilever (turnover US$63.1bn) has been highly acquisitive in recent times after years of reorganisations and disposals as they look to step up growth.

Recent developments within the company have shown increased investments in the fast growing home and personal care divisions. The recent US$3.7bn acquisition of US based Alberto Culver; a company active in beauty and personal care, highlights this new strategy. Another large-scale deal took place in 2010 when Unilever acquired the home and personal care activities of the US based Sara Lee for US$1.85bn. These acquisitions enforce Unilever's market position and brand portfolio of diversified products across a range of price segments.

If past activity is any indication, expect electronics multinational Philips (turnover US$36bn) to continue its acquisitive tendencies. Recent buys include the purchase of Saeco, an Italian producer of high quality coffee machines, and the purchase of China based kitchen appliances firm Povos. In addition, Philips recently acquired the Spanish luminaires company Indal to boost Philips' European market position.

The electronics giant recently laid out its intention to increase its M&A activity in the coming years to support its projected growth of 4-6% per annum until 2013.

Consolidation in games segment

In 2010 M&R de Monchy, a company active in games, puzzles and toys, acquired Jumbo Spellen, a Dutch company active in party games.

The company has invested large amounts in marketing and sales in key markets such as the Netherlands, Belgium and Germany. Most recently it acquired the remaining 55% shares of King International further consolidating its share of the traditional games market.

Multi-channel gaining significance

With high street sales suffering, an increasingly important trend has been multi-channel sales. Indeed, reports have shown that 69% of Dutch consumers buy products via two or more channels.

Online sales in particular have risen significantly in recent years and are expected to keep growing as large retailers and brand stores aim to intensify growth via a multi-channel approach. Private label retailer C&A recently announced the launch of its online store in the Netherlands and Germany; with France, Austria and Poland all set to follow. It is expected that online sales will account for 25% of its total sales in the medium term.

Next to electronics, clothing and shoes are the largest non-food product segments online. Online sales now represent 6% of total sales across these sub-sectors. We expect the trends in multi-channel sales, in combination with the attractiveness of branded goods, to create interesting opportunities for financial and trade buyers alike.

Industry insight

Name: Arjo Stammes,
Company: Avedon Capital Partners (formerly NIBC)
Position: Partner/Investment Director

- **How do you feel about M&A in this sector over the next 18 months?**
- For the Benelux and German region we believe that the consumer M&A in general will to a large extent depend on the ability of European politicians to mitigate the challenges facing the EU. At best we feel neutral about expected M&A activity in this sector for the coming 18 months.

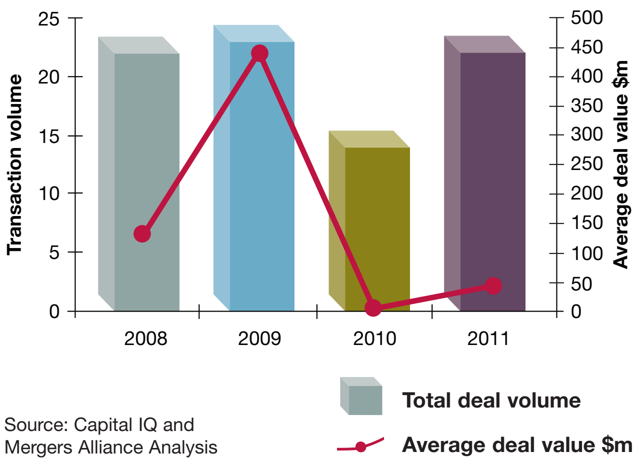
- **Which regions do you expect to witness significant M&A activity in the consumer goods industry over the next 18 months?**
- We expect that the regions with the most favourable economic growth and consumer confidence will be South America and Asia. Although, we expect that there will be M&A activity for strong companies in this sector in North-West Europe as well.

- **What do you expect to be the principal internal drivers of M&A activity in the consumer goods industry over the next 18 months?**
- In these economic circumstances we expect that strong companies will improve their market position at the expense of weaker competitors. Consequently, we expect that most M&A activity will come from the market leaders in their respective niche segments of the market.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US$m)
Dec 11	Van Nicholas B.V.	Titanium bicycles	KOGA B.V.	n/d
Sep 11	Mexx	Clothing designer, clothing retailer	Gores Group LLC, (USA)	85
Aug 11	Sapph	Underwear	Mr Roland Kahn	n/d
Jul 11	Delvaux Createur	Leather handbag and accessories	Fung Brands Ltd (HK)	n/d
Jul 11	Scotch & Soda	Apparel	Kellwood Company (Sun Capital) (USA)	n/d
Jun 11	Koninklijke Gazelle	Bicycle manufacturer	Pon Holdings BV	n/d
May 11	Ego-Lifestyle	Computer accessories	Value8 NV	n/d
May 11	Hedgren Creations	Travelbags	Unnamed Bidder	n/d
May 11	Dirk Bikkembergs	Apparel	Zeis Excelsa SpA (Ita)	n/d
Apr 11	Philips (TV Division)	Television set manufacturer	TPV Technology Ltd (BM)	n/d

M&A activity



Source: Capital IQ and Mergers Alliance Analysis

***Note**, the majority of closed deals over the past two years had undisclosed deal value.

Poland

"Growth in Polish consumer goods is dynamic, and while M&A activity here outside retail has been low key, opportunities are likely to become more frequent."

Michael Harvey,
IPOPEMA Securities

A growth economy in an unsettled continent

The Polish economy continues to realise solid growth, and despite somewhat of a slowdown of late, the growth forecast for 2012 remains healthy at 3.2%.

The Polish consumer sector has been progressing by leaps and bounds, with retail spending increasing over 40% between 2005 and 2010, from US$100bn to US$142bn, and an estimated volume terms increase of 28% from 2005 to 2009. The spending increase has been underpinned by Poland's strong economic performance over the period, and its healthy resilience during periods of global economic slowdown.

Consumer spending has been reinforced by a long-term base effect from spending rising from a lowly starting point and the rapid development of a vibrant middle-class, falling unemployment, rising disposable incomes and increased product availability.

The emergence of new modern shopping mall formats has changed the retail landscape dramatically in recent times and are now ubiquitous in most urban areas. Consumers meanwhile have had growing access to a range of consumer finance options, particularly credit cards and bank loans. However, consumer debt levels remain relatively low as mortgage lending has not yet come close to reaching Western European levels.

M&A activity remains low

Transaction activity in Polish M&A in the broadly defined consumer goods category has been relatively sparse with transactions peaking in 2010.

In 2011 there were seven transactions. This limited number largely reflects the scarcity of locally owned brands, and the common desire by the industry leaders in fragmented sectors to be the catalyst for consolidation.

The most noticeable trend has been the consolidation process in the fragmented cosmetics sector which continues to gather pace, with Dermika acquired by Swedish personal care firm Cederroth, and Sarantis acquiring the Kolastyna brand.

Foreign brands dominate but local leaders evident

Over the past decade, starting from a very low benchmark, branding has become increasingly implanted in consumer behaviour. Foreign owned companies have built up a strong position in recent times, attracted by the size of the local market; either growing their global brands from scratch since the 1990's or, more recently, from strengthening locally acquired names, or indeed developing new names built on local acquisitions.

Although foreign brands dominate the high street, there are a number of highly successful 'national champions' that have grown to become leaders in their sector and in several cases across the region. One of the most dynamic of these firms is LPP, a designer and distributor of clothes that owns a brand portfolio that includes Cropp and Promo Stars. Increasingly, these national champions are tapping the local stock market to fund growth.

While the major growth trends create a positive long-term backdrop, they also operate with a consumer base which is extremely cost conscious relative to Western European consumers and one that usually exhibits limited product loyalty and that generally favours local products.

Online shopping picks up but still immature

Consumer spending remains predominantly a bricks and mortar affair, even so, companies like Empik have been looking to acquire leading players in the online space (although its attempt to acquire control of leading online bookstore Merlin was recently blocked by the Competition Authority) to secure and defend their position. While online spending is growing exponentially from a low base, it still remains a niche activity, constrained by internet access, the relatively low income levels of the computer savvy, payment and security constraints and poor logistics.

Decelerating economy should spur M&A

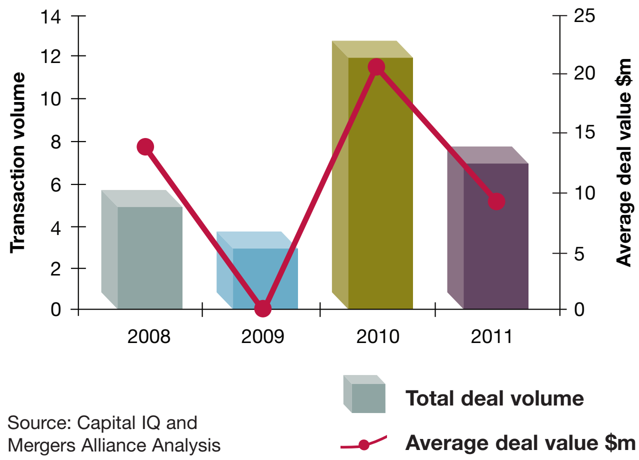
Slightly slower growth in Poland, a weakening zloty and stagnant growth across the EU will make the business environment somewhat difficult over the next 18 months. Growth will be further constrained from rising rents, slowing new space availability, and an increasingly cautious consumer.

Private equity interest in consumer firms has always been strong, but broadly constrained by limited deal opportunities and aggressive pricing. We expect this tightening environment to accelerate the process of consolidation.

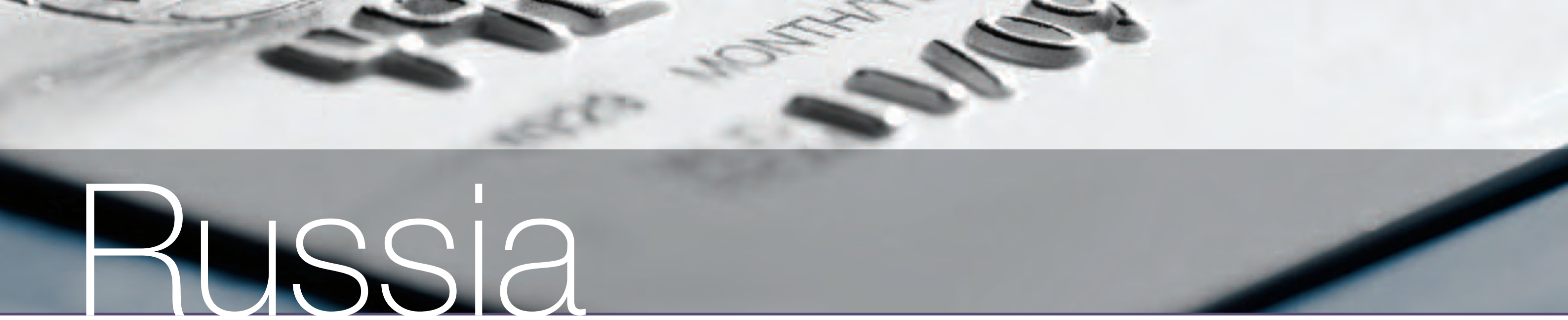
Recent transactions

Date	Target	Description	Acquirer	Deal Value (US$m)
Jun 11	LPP S.A.	Fashion apparel	Grangeford Limited (UK)	n/d
Jun 11	DURLIN East Europe Sp. z.o.o.	Household and personal products	Durlin France S.A. (France)	n/d
Mar 11	Kazar Footwear Sp z.o.o.	Footwear	Gino Rossi S.A.	n/d
Nov 10	Rosetex	Personal products	SSL International plc (UK)	5
Oct 10	Dermika Sp. z.o.o. Industry	Cosmetics	Cederroth	15
Oct 10	ROY S.A.	Mens apparel	Skyline Interim Management Sp.	n/d
Jun 10	Grupa Kolastyna S.A.	Household & personal products	Sarantis Polska S.A.	3
May 10	Effect System S.A.	Leisure equipment	Lubawa S.A.	n/d
Sep 08	Artman S.A.	Apparel	LPP S.A.	184
Mar 08	Cederroth Ozdobnego	House-ware	INVESTcon GROUP S.A.	27

M&A activity



Source: Capital IQ and Mergers Alliance Analysis



Russia

"We expect Russia's imminent WTO membership to have the same great impact it had on China's economy since 2001. It will help open up more trade and access to the Russian consumer market and ultimately more investment opportunities in consumer goods including in M&A."

David Wolfe,
Northstar Corporate Finance

Economy well placed

Post 2008 crisis, the Russian economy has demonstrated a trend towards a general recovery along with solid growth in private consumption buoyed by a recovery in demand and increases in consumer lending.

Consumer companies are by and large in good health with many securing working capital, deleveraging their operations, and training their focus on enhancing operating profitability. By the end of 2011 the inflation rate dropped to 4.2% with growth expected to remain steady for 2012 at around 4%, driven by domestic demand. Progressively rising oil prices may push this figure higher.

Unilever takes over Russian cosmetics market

Deal activity over the past 18 months in terms of volume and value has remained lively thanks to some notable deals in the CF&T space. Most of the corporate activity in consumer goods has been focused on consolidating particular sub-sectors such as the apparel and household products segments, although there has been some notable foreign interest, particularly from financial buyers in Western and Northern Europe.

Consumer goods in 2011 was marked by a deal that is likely to change the competitive landscape of the entire cosmetics sub-sector. In December 2011 Unilever acquired 82% of Russian beauty cosmetics company Concern Kalina for US$682m. Concern Kalina is Russia's largest local personal care company with leading positions in skin and hair care, and sells its products primarily in Russia, Ukraine and Kazakhstan.

The deal will go some way in strengthening Unilever's competitiveness and brand portfolio in Russia. Crucially for the Anglo-Dutch multinational, the purchase of Concern Kalina will give it a leading position in CF&T and hair care, as well as establishing a foothold in the oral care segment. It is generally the case that when FTSE 100 companies have acquired in emerging economies FTSE 350 and private companies start to follow. We expect more FDI into Russian consumer goods.

Private equity likes shoes

Another significant recent transaction was the acquisition of a 36% stake in the Monarch Group, a leading footwear producer and retailer in Russia and Ukraine, by United Capital Partners Group (UCP) for US$30m.

Since 2001, Monarch has been the leading footwear retailer in the middle and lower-middle price segments. This area of the footwear market has proven to be the most resistant to the crisis-driven volatility of consumer demand, and in the post-crisis environment is demonstrating steady growth. The group operates a portfolio of private labels consisting of Monarch, Elite by Monarch, Kaiser, Good Shoes and WildCat.

Financing, provided by investment firm UCP as a result of the additional share capital, will be used to support the group's business expansion in Russia, strengthen its leading position in the Ukrainian market, and promote its private label brands.

Balance account surplus boosts consumerism

One of our Japanese clients, when touring Russian acquisition opportunities in the consumer goods sector commented that ‘Russia is not a developing economy, it is a re-emerging economy’. However, its re-emergence into the global economy has taken some short cuts. First, Russia has taken advantage of its enormous wealth of natural resources to quickly get hard currency via exports, especially oil and gas. Consequently, its current account balance was US$86bn in 2011, the fifth largest in the world. It has used the proceeds from its trade surplus to support the import of consumer goods rather than manufacture them.

Global companies have generally exported their consumer goods to Russia and retail of imported goods has grown rapidly.

For example, L’Oréal has been importing its goods into Russia via a joint venture structure with a local distributor. In 2011, however, it opened up its first manufacturing facility to produce its brands locally. Nevertheless in terms of brands in general, Russia has had success maintaining some local brands which have attracted foreign investors such as Proctor & Gamble in the past.

Largest European consumer market in 10 years?

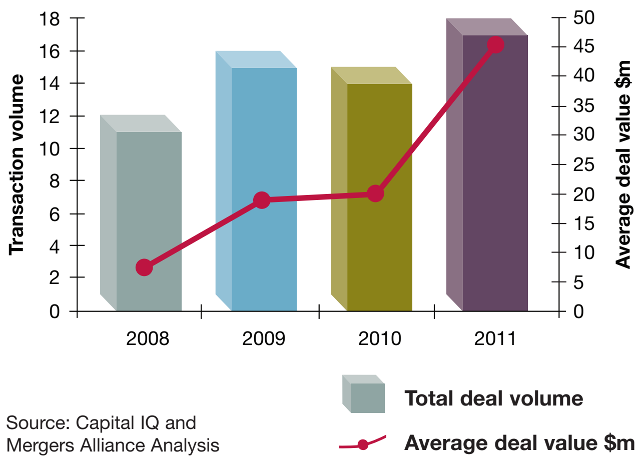
We expect there will be some opportunities in the consumer goods sector in the near future, especially since the Russian economy continues to grow faster than that of the developed world. Russia’s membership into the WTO, which will be ratified sometime in 2012, will also spur growth in the consumer goods sector as well as present a number of M&A opportunities.

According to Goldman Sachs, Russia’s GDP could overtake that of Italy’s as soon as 2017, and in the decade 2020 to 2030, overtake France, the UK and ultimately Germany. The result would be that within 10 years Russia could become the largest consumer market in Europe.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US$m)
Nov 11	Concern Kalina	Cosmetics	Unilever Plc (UK-Netherlands)	682
July 11	OAO Melon Fashion Group	Apparel	East Capital Explorer AB (Sweden)	20
Apr 11	Akvaton	Bath furniture	Roca Corporacion Empresarial, S.A. (Spain)	n/d
Mar 11	Atalant Factory	Hosiery products	Totall	n/d
Jan 11	Monarch Group	Footwear	United Capital Partners Group	30
Jul 10	Askona Holding	Furniture	Hilding Anders International AB (Sweden)	67
Jun 10	Moskvichka OAO	Apparel and accessories	ZAO MDM Aktiv	n/d
Feb 10	Imperial Porcelain Manufactory JSC	Porcelain products	Evolutsia Porcelain Limited	n/d
Jun 09	Swedwood Esipovo LLC	Furniture	IKEA Torg LLC	n/d
Jan 09	Harmony Plus	Personal products	JSC ARNEST	n/d

M&A activity



Source: Capital IQ and Mergers Alliance Analysis

Spain

"The uncertainty surrounding the Spanish economy, which has significantly affected consumers, businesses and financiers alike, is expected to continue. We expect consumer M&A activity in Spain to be dominated by cross-border deals. Divestment of non-strategic assets by companies trying to optimise their core business operations will also likely continue."

Iñigo González Gaytán de Ayala, Norgestion

Suffering consumer goods sector

After a period of sustained growth supported by a loose monetary policy, the credit bubble finally burst in 2008 and financing for households and companies has been significantly restricted since. As a result the unemployment rate has remained high and consumer confidence has been hit.

Recent studies show that the average expenditure per household decreased by an additional 6% in 2011 compared to 2010. This, in turn, has had a profoundly damaging effect on industrial and business activities, especially in sectors that rely most on financing and sectors that tend to be more cyclical in nature.

Consumer branded goods companies (especially those below the luxury and premium classes) have been affected as the overall sector encompasses a variety of highly cyclical sub-sectors.

Nonetheless, even in this challenging environment the margins of Spain's largest consumer groups, including Grupo Inditex (Zara, Massimo Dutti, Bershka), Grupo Fagor (Fagor, Edesa, Aspes), and BSH Electrodomésticos, are all expected to remain buoyant.

Cosmetics and apparel attractive

In the midst of all of the economic uncertainty, deal activity has remained relatively stable with volume and average deal value peaking just before the height of the downturn. There was some notable activity in the CF&T segments. Of note was the acquisition of multi-faceted cosmetic products firm Dermofarm Laboratorios S.A by pharmaceutical and personal care specialists Istituto Ganassini Spa Ricerche Biochimiche.

Deals in footwear and apparel retail have also featured and included JD Sports Fashion's acquisition of a stake in sports retailer Sprinters and Atlas Capital acquiring a 40% stake in footwear retailer Tino Gonzalez. With regards to branded apparel noteworthy was the acquisition of a minority stake in Pepe Jeans in a cross-border deal involving the Spanish private equity firm Artá Capital and the French private equity firm L Capital Management.

Austerity may bolster M&A activity

The troubled Spanish financial system (primarily its problematic solvency ratios), the impairment of real estate assets and the ongoing precariousness surrounding the EU zone has slowed investment and inhibited M&A in Spain. However, some important dynamics have emerged which are driving M&A activity.

- Foreign companies are acquiring Spanish consumer companies to take advantage of opportunities arising from the lowered EBITDA multiples valuation expectations.
- Spanish companies have developed overseas acquisition strategies to supplement stunted domestic consumption. We expect the focus to be on emerging South American companies.
- Companies will continue to divest non-strategic assets, with the intention of preserving their businesses by focusing on optimising their core activities.

Multi channelled sales developing

The development of online sales and other channels of distribution, as well as the innovation and development of new products and services have been, and will continue to be, some of the more important factors driving activity.

Industry insight

Name: Carlos Gordillo Cruz
Company: ProA Capital
Position: Investment Director

- **How do you feel about M&A in consumer goods over the next 18 months?**
- Pessimistic. Even if our focus was on all of Europe, we do not foresee a better scenario panning out over the next 18 months. In our opinion the market will continue along with low M&A activity and difficulties in raising acquisition debt due to global debt market restrictions.

- **Where would you be most willing to invest globally?**
- As a regional Iberian fund (Spain and Portugal), our investment strategy has been very conservative. 2010 was a year of lows with regards to entering a market; however, that is starting to recover. We are still wary of a second recession which we believe is entirely possible. With this in mind, we believe it is key to invest only in top class assets with good exposure to markets with better economic perspectives - i.e. Latin America exposure in the case of Spain. With that said, if the European crisis does not get resolved, emerging economies will also be impacted.

- **What do you consider to be the most significant obstacle to M&A activity in the consumer goods sector?**
- The lack of liquidity in the system. Banks are facing serious problems financing their balance sheets. These problems have been passed down to companies (which are having trouble investing or even financing their working capital requirements), as well as individuals. Banks are heavily restricting credit lines. Unless this gets resolved, a return to a growth path and an auspicious M&A market will be delayed.

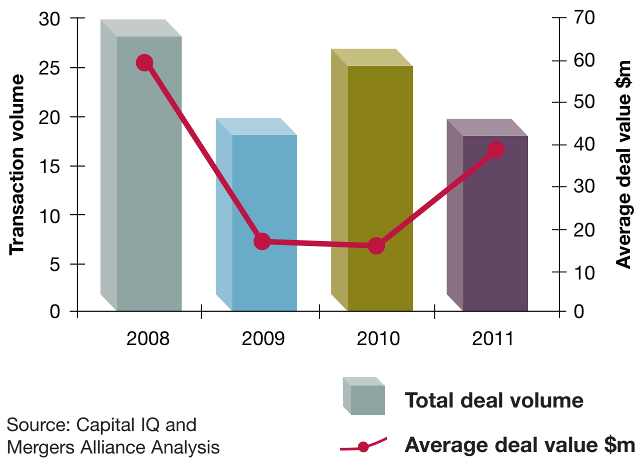
- **Are you worried about the general fiscal status domestically and its effect on the consumer goods sector?**
- It is expected that the recent change of government in Spain will reduce the tax burden on people and businesses, which should have a positive impact on savings and consequently consumption long term.

- **What do you expect to be the main domestic driver of M&A activity in the consumer goods industry over the next 18 months?**
- Recovery in the acquisition debt financing market, which today is very limited, especially in the mid-market segment. With a complex organic growth scenario, value creation for private equity deals should come from companies deleveraging.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US$m)
Dec 11	Punt Mobles S.L.	Furniture	Valcapital Gestión SGECR, S.A.	n/d
Jul 11	Eureka Kids	Toys	Nazca III	14
Jul 11	Comdipunt S.A.	Apparel & clothes	Barcel Euro S.L.	n/d
Jun 11	Sprinter Megacentros	Apparel & clothes	JD Sports Fashion Plc (UK)	29
May 11	King Espana Complementos S.L.	Household products	Bunzl Plc (UK)	n/d
Mar 11	Grupo Tino Gonzalez	Apparel & clothes	Atlas Capital Private Equity	15
Nov 10	Misako	Apparel & clothes	Garcia Family; Torres Family	n/d
Oct 10	Mediterranea de Servicios	Household products	PHS Serkonten	n/d
Oct 10	Suquinsa S.A.	Personal care	Ubesol, S.L.	n/d
Jul 10	Pepe Jeans, S.L.	Apparel & clothes	L Capital Management (Fra)	112

M&A activity



Source: Capital IQ and Mergers Alliance Analysis

United Kingdom

“Consumer demands have changed markedly of late due to both the economic environment and the proliferation of online retail. This has created new opportunities for companies and investors and driven a lot of the recent M&A activity in the industry. We expect this to continue for some time.”

Steve Currie,
Catalyst Corporate Finance

Understanding consumer demands key to success

The key to success in the UK during the economic downturn has been understanding changing consumer demands. Consumers increasingly want customised products and more personalisation. Furthermore due to increasing internet access, consumers are better informed about prices and products. The internet has also created a more informed consumer with purchasing decisions based on reviews and social media comments. The consumer has become impatient and demands real-time service 24/7 with products available at any time through any channel.

The successful consumer products companies have adapted their business models both organically and by acquisition to ensure online platforms and multi-channel marketing and sales strategies can be implemented to meet these changing consumer demands.

M&A activity focused on distribution

Historically, the UK high street has proved attractive to investors due to the predictable, sustainable cash flows and the ability to roll out successful formats. A significant amount of the UK high street has been bought and sold by private equity over the last 5 to 10 years.

However the changing shape of the consumer industry with a shift from ‘bricks and mortar’ to online retailing has changed the M&A focus of private equity. Competition for online assets from trade acquirers has driven up valuations as evidenced by the acquisition of Kiddicare by retailer Morrisons plc for US$110m (23 x EBITDA). Private equity have competed hard to make some high profile investments including Bridgepoint’s recent secondary buy-out of Wiggle, formerly owned by ISIS.

There has been less activity in the UK consumer goods sector although luxury and premium branded product businesses have continued to attract significant multiples such as the acquisition of Jimmy Choo by Labelux and acquisition of Kurt Geiger by Jones Group.

Beauty products sector displays the lipstick effect

The lipstick effect is the theory that when facing an economic crisis consumers will be more willing to buy lower price point premium products that still generate the feel good factor. For example instead of buying expensive designer coats, people will still buy expensive lipstick and cosmetics.

The M&A appetite for beauty products has also continued through the economic downturn as evidenced by the investment by private equity firm LDC in Original Additions, the acquisition of Liz Earle by Avon and the acquisition of St Tropez by PZ Cussons for US$98m, which was an exit for LDC.

Private equity continues love affair with brands

Private equity has a long established track record in the UK of working with owner managers to expand the distribution of consumer branded products in the UK and overseas markets.

The trend has continued through the economic downturn although the focus has moved away from single channel retail distribution to multi-channel distributed products including high street retail, online, mail order and television.

They have also been active in more traditional consumer product areas where the downturn in the market has resulted in ‘category killers’ with strong consumer brands, which have increased market share in declining markets as competitors have failed in the more testing economic environment. This is evidenced by the acquisition of Brintons, the manufacturer of carpets by The Carlyle Group and the acquisition of Sharps bedrooms and bathrooms by Sun European Partners. We expect further similar opportunities to emerge.

M&A activity has polarised between luxury or premium branded businesses at one end of the market and discounters at the other. The mass market has increasingly become less attractive due to the lack of differentiation and competitive advantage of many businesses.

The consumer sector has suffered as the UK government’s austerity measures impact on consumer confidence. With the IPO market for businesses likely to remain closed through 2012 and an increasing nervousness from debt providers we expect corporate acquirers to continue to consolidate consumer markets to offset the slower rate of growth in their core business.

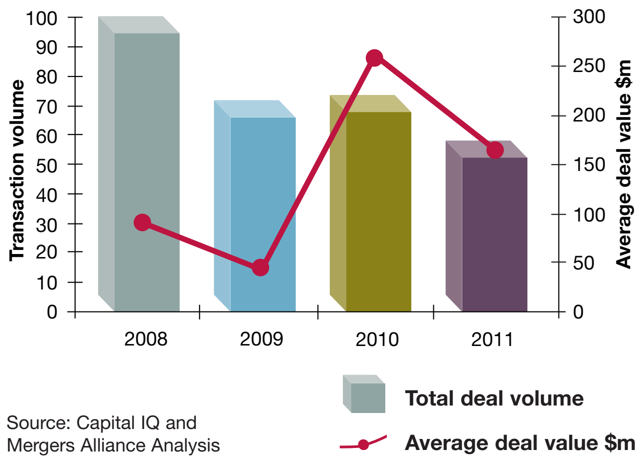
M&A outlook for 2012

The M&A environment for the consumer sector has become tougher with increasingly volatile trading conditions and a darker consumer outlook. Corporate buyers have regularly outbid private equity for many transactions paying valuations of 10 x to 20 x plus EBITDA.

Recent transactions

Date	Target	Description	Acquirer	Deal Value (US$m)
Dec 11	Wiggle	Online cycling and sporting goods	Bridgepoint Capital	288
Dec 11	Jacques Vert	Womens clothing	Sun Capital	66
Sep 11	Brintons	Residential and commercial carpets	The Carlyle Group	32
Jul 11	Moonpig.com	Online card retailer	Photobox	192
Jul 11	Original Additions	Beauty products	LDC	n/d
Jul 11	Sharps Bedrooms	Bedroom and home office furniture	Sun European Partners	n/d
Jul 11	Myprotein	Sports supplements and nutrition	The Hut Group	95
May 11	Jimmy Choo	Shoes and accessories	LABELUX Group (Germany)	932
May 11	Silentnight Group	Beds and mattresses	H.I.G. Europe	n/d
May 11	Jojo Maman Bebe	Maternity wear and baby clothing	Magenta Partners	n/d

M&A activity



Source: Capital IQ and Mergers Alliance Analysis

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