



A Global View of M&A in Consumer Markets:

2010 and beyond

KPMG INTERNATIONAL



AUDIT ■ TAX ■ ADVISORY





Contents

Introduction	4
About the report	6
What's driving deals?	6
Differing views on prices	10
A new role for Private Equity	10
Looking ahead, key buying trends for 2010-11	12
Country reports	13
About KPMG	32
Appendix	33
Consumer Markets M&A values and volumes, January 2009 – June 2010	

Contributors

In addition to the KPMG member firm professionals who were interviewed for this paper, we would like to acknowledge the contributions of:

- Katie Bishop
- Elaine Pratt
- Daya Underwood
- Jeffrey Wagland

Introduction



Willy Kruh
Global Chairman,
Consumer Markets
KPMG in Canada
+1 416 777 8710
wkruh@kpmg.ca

Mergers and acquisitions (M&A) is an important strategy for consumer companies, both for growth throughout the business cycle, and for market entry. But, following a year in which both the number and the value of M&A deals were significantly down, it is far from clear what form M&A activity in the next 18 months will take, and how much there will be.

We do have a few clues to ponder. The acquisition of UK confectionery maker Cadbury by Kraft Foods – one of the biggest recent consumer markets deals, concluded in early 2010¹ – suggests one emerging theme for consumer M&A: large companies with fairly strong balance sheets, using their financial strength and stock market credibility to generate the growth that, in a depressed market, only acquisitions can deliver. Another possible theme is around companies' acquisitions of their suppliers in a bid to improve their ability to control costs.

But for most consumer companies considering any M&A activity, the key question will be financing. Will banks come back into the market as providers of M&A financing? Will stock markets and corporate bond markets be receptive to the stock and bond issues that companies may have to resort to in order to finance purchases?

To explore these questions and pick up some insights into the next phase of international consumer markets M&A activity, we conducted detailed interviews with senior KPMG M&A professionals around the world covering the US, Canada, Spain, the UK, Poland and Central Europe, Russia, South Africa, Australia, China and Hong Kong, India, Brazil, Argentina, and Mexico.

Not surprisingly, the interviews revealed that the recent economic downturn was clearly not felt equally in all markets. By the same token, the prospects for recovery in consumer markets, and therefore M&A activity in the sector, also differed markedly from country to country.

This divergence of views from so many countries and regions gives us a good idea of where we might expect growth to come from in the next 18 months and where markets may take more time before they recover. Incorporated into this report, these interviews will be useful to anyone involved in the consumer sector, and indeed to anyone with an interest in the future shape and direction of global growth.

I want to thank all those who shared their perspectives for this study. I hope that readers will find their insights both interesting and valuable.

Willy Kruh
Global Chairman, Consumer Markets
KPMG in Canada

¹ Source: Thompson One Banker





About the report

The willingness of retailers and food, drink, and consumer goods (FDCG) manufacturers to consider merging or acquiring new businesses is an important indicator of their underlying levels of confidence in the ability and desire of consumers to spend. And for economies built on consumer spending, it is also a key indicator of the underlying faith in their medium to long-term health.

By this measure, the interviews with senior KPMG M&A professionals who specialize in the consumer markets sectors paint a global picture of a stuttering and inconsistent recovery. From a low point in 2008 and 2009, some countries, like Poland and Russia, are enjoying a buoyant revival in confidence and activity while others, such as the US and Spain, languish.

These interviews were completed in July 2010. The respondents are leaders in their field, with a close, detailed knowledge of what is happening in their own markets, combined with KPMG's global perspectives on M&A activity around the world. The countries covered were the US, Canada, Spain, the UK, Poland and Central Europe, Russia, South Africa, Australia, China and Hong Kong, India, Brazil, Argentina, and Mexico.

Detailed comments on each of these countries and regions can be found later in the report. Here, we draw out some of the global themes that our interviews revealed, and put them in the context of the global volume and value figures for the past two years.

What's driving deals?

Perhaps the most important message coming out of our study is that there has clearly been an economic recovery underway, although it recently seems to have stalled.

In the food, drink and consumer goods (FDCG) sector, deal values hit US\$49.1 billion in Q1 2010, a significant improvement on the low point of US\$10.1 billion in Q1 2009, while volumes reached 770 deals, compared with a low of 711 in Q2 2009. But in Q2 2010 values fell back to US\$18.9 billion and volumes hit 669, a 12-month low.²

In the retail sector things look a little better, with values reaching US\$15.6 billion in Q2 2010, more than three times the Q1 2009 low of US\$4.1 billion, while volumes were up from 341 in Q3 2009 to 382 for Q1 2010 and 375 for Q2.³

^{2,3}Source: Thompson One Banker

Note: Please refer to the Appendix for additional information on deal values and volumes



Global confidence declines

However, looking at global M&A activity as a whole, the latest edition of KPMG's Global M&A Predictor, published in early July 2010, showed a clear turnaround in sentiment. Although the Predictor showed forecast net debt to EBITDA ratios coming down by 20 percent—indicating increased deal-making capacity—forward PE ratios have tumbled by the same amount, suggesting that deal-making appetite is under severe pressure.

The previous Predictor, released in January 2010, showed forward PE ratios up by seven percent and net debt ratios forecast to fall by 18 percent, indicating that the M&A market would once again be open for business. But confidence has ebbed during the past six months and it now seems evident that prospective corporate purchasers have yet to re-open their war chests.

From a statistical point of view, the problem arises from six months of flat or falling market prices. Although analysts raised their forecasts of projected 2010 earnings by 18 percent between December 2009 and June 2010, prices fell by five percent globally. This has resulted in a diminished forward PE ratio of 11.9x—down 20 percent from the 14.8x predicted in December.

David Simpson, Head of Global M&A at KPMG and a partner in the UK firm, attributes the loss of market confidence directly to disquiet over a possible double dip recession and the possible fall-out from sovereign debt defaults. But he points to increased earnings expectations and reductions in forecast net debt ratios as evidence that the foundations for future M&A activity are being laid.

"I said back in January that I foresaw the market reopening in 2010 and I still expect that," he says, "However, that reopening will now come later than we originally thought—and it is dependent on fears of recession and sovereign debt coming to nothing."



Underlying forces at work

Despite this setback, there are deals still being made. Much of the FDCG value in the early part of the year came from two huge deals – the US\$18.7 billion acquisition of Cadbury by Kraft Foods in September 2009, and the February 2010 acquisition by Coca-Cola of their bottling business for US\$13.4 billion.⁴ Between them, these two deals neatly illustrate two of the forces currently at work in many economies.

The Kraft deal was an opportunity for the company to expand its geographical scope and fill gaps in its product line at an advantageous price. This is a logic that is being pursued by many companies with strong balance sheets. They are looking for target companies in varying levels of distress, under pressure either through being overstretched themselves, or from shareholders looking for a way out. With debt still virtually unavailable in many markets, companies with cash can drive some very good bargains.

The Coca-Cola deal, coming hard on the heels of a similar transaction from PepsiCo, illustrates a more fundamental lesson taught by the recession. Peter Turner from KPMG in Australia makes the point when he says, “The downturn has demonstrated that companies that are more vertically integrated have greater control over their margins. So, as companies refocus on growth, they are considering vertical acquisitions that improve margins and provide greater flexibility.”

It would be wrong, however, to see these deals purely as defensive moves. The PepsiCo deal offered opportunities to innovate through acquiring new production facilities, and to widen distribution networks while tailoring distribution by channel. The company is using market conditions to improve its efficiency and lay the groundwork for future strategic growth.

Cost reductions still paramount

This is not an especially widespread strategy. Another KPMG study⁵, looking at current thinking in global supply chain management and due to be published later in the year, suggests that while approximately 40 percent of manufacturing companies are considering bringing some of their supply chain in-house, only around 20 percent are actively planning to acquire more of their suppliers over the next two years. Where companies have been acquiring, approximately 60 percent say they have been re-acquiring supplier capacity that had previously been outsourced.

Respondents to this survey confirmed Peter Turner’s comments above on the importance of greater flexibility of supply as a driver for acquisition. But they placed a heavy emphasis on taking opportunities to reduce costs, suggesting that those who want to acquire (and are able to) will be looking to do so as quickly as possible, while corporate valuations remain low.

Others are seeing these circumstances as an opportunity to consolidate and take capacity out of an over-expanded sector.

⁴Source: Thompson One Banker

⁵Source: KPMG Global Manufacturing Survey 2010

Reducing fragmentation

This is especially the case in the former communist states of Eastern Europe and Russia, where a combination of big state-owned brands coming onto the market and fragmented consumer goods and retail sectors are providing opportunities.

These states are not always easy places for international companies looking to acquire, and much of the activity is among indigenous companies looking to develop more efficient regional networks. But Ken Ryan of KPMG in Slovakia reports that many of the stronger local brands “are bought by Private Equity groups who then prepare them for sale, either splitting off individual components of the business or consolidating brands into a single business.” There is clearly opportunity here for those willing to take a risk, and who have the right local commercial, legal and political contacts.

Looking specifically at the global retail sector, some commentators have said that, for the time being at least, the biggest strategic deals have been done and any new deals will be small because “that’s all that’s left”.

Buyers have been polarized between those looking for value retailers in the expectation that consumers are reducing their expenditure, and those looking for access to high end, luxury brands. The former tend to be concentrated in the US and Europe, while the latter can be found in Australia and, to some extent, in China, where recession does not seem to have significantly dented the appetite in big cities for luxury goods.



Differing views on prices

Although there is a broad consensus among the KPMG member firm professionals interviewed that M&A activity is set to rise further in the consumer sector, many are saying that in their markets prices still have some distance to fall before this can happen.

KPMG in the UK, the US and Spain all reported potential vendors staying out of the market through an unwillingness to accept the prices on offer. Some of this is due to the falls in property prices that each of these countries have experienced, but there is also a lingering feeling that the high prices seen in the mid-2000s may still be achievable in today's market.

As David McCorquodale from KPMG in the UK says, "Many owners are not yet convinced about pricing. They have simply not come to terms with the fact that the pricing structures driven by leverage and Private Equity from 2000 to 2007 have gone, so they are just holding on."

John Cummings from KPMG in the US agrees. "There will be a difficulty in determining price, because we have not seen any drastic cuts, and vendors seem to be holding on in the hope that the market will improve – we are in for a long slog."

This is in distinct contrast to Poland, where vendor expectations have fallen substantially. The deals may be smaller than elsewhere in the world, but the market is active and KPMG in Poland's Kris Klamut reports good prospects for the year.

In Australia, in the first half of the year at least, pricing was less of an issue. As Peter Turner of KPMG in Australia points out, rising share prices at that stage helped bridge the gap in expectations between vendor and seller, which led vendors who had dropped out of the market and put their plans on hold to consider coming back in.

More recently, with share prices static or falling, many have decided to remain out of the market until price volatility declines and price rises can be expected to stick.

The UK market has followed a similar pattern, with share price gains in the first half of the year being lost in the summer. The relative confidence of the first and second quarters has faded, but even in these circumstances there are banks willing to finance good business propositions, and PE houses willing to take on the debt in the expectation that they can refinance in a year or two.

In a global context, prices remain low by comparison with their peaks in 2007. But in this market, it is local factors that dominate pricing. It is the vendors who realize this and adjust their expectations accordingly who are completing deals.

A new role for Private Equity

Although private equity buyers might seem quiet today by comparison with the powerful influence they exerted in the early to mid 2000s, they are still active participants in markets around the world.

We have already mentioned their role in Central and Eastern Europe and Russia—modernising old brands and bringing together a fragmented market. This seems to be a pattern. In India, Argentina and China, for example, PE houses are reported to be very active, doing relatively small value deals to consolidate a market, or taking small stakes in local businesses with a view to providing expertise to help their medium to long-term development.

Bringing business skills

This longer-term view is not one that has been normally attributed to PE houses, but in truth they always were more than the single-minded financial engineers that some held them to be. In this market, where increases in value are hard to come by, they are bringing real business-building skills to the table.

In one set of circumstances this might involve helping a relatively small but promising business to grow. In another, it can mean vying with large corporates who can improve the performance of their acquisitions simply through the application of scale.

To compete in this arena, PE houses are having to take on the role of value-adding owner-operators, rather than just financial backers. The strategy is to be nimble, and to focus strongly on the potential synergies of bringing businesses together to create new and better enterprises.

The food sector is often attractive to PE houses, as evidenced recently by the acquisition of Michael Foods by a private equity unit of Goldman Sachs, and by the sale by Norwegian food maker Rieber & Son of their seafood business, King Oscar, to a PE buyer. Often PE firms look to acquire the non-strategic assets of larger food sector companies, where simply cutting out the corporate overhead enables them to enhance margins straight away.



Looking ahead, key buying trends for 2010-11

The consensus among the interviewees is that food and drink will be an active sector in the coming year. This is partly because of the underlying inelasticity of demand as well as the need for consolidation in an overstretched market. It is also because of a belief that most of the large-scale deals in the retail sector have already been done, leading investors looking for big acquisitions to look elsewhere.

Those PE houses not actively involved in developing markets are predicted to come back in force when market conditions improve. Many are sitting on accumulated funds, but the expectation, in the US at least, is that future deals will probably require a

higher percentage of equity and less debt, leading to demands for even higher internal rates of return. Prices will have to fall further before this particular equation can be made to work.

More broadly, there are signs of a recovery in consumer spending in most of the economies we surveyed. The exception, and it is a major exception, is parts of the US, where the interviewees are predicting a long time before markets recover. Elsewhere, in economies less severely affected by the financial crisis of the past two years, the mood is one of consolidation, reorganization, and preparation for the next phase of global growth.

Country reports

In this next section we have brought together detailed interviews with senior KPMG M&A professionals in a number of member firm countries. They discuss the current conditions in their markets, their views on the underlying developments affecting M&A activity in the consumer markets sectors in the near term, and their outlook for M&A activity in the 12-18 months ahead.

Americas

United States
Canada
Mexico
Brazil
Argentina

Asia Pacific

China and Hong Kong
Australia

Europe, Middle East & Africa

Spain
United Kingdom
Central and Eastern Europe
Poland
South Africa
Russia
India

United States

The market upturn is coming, but against the background of reduced consumer spending and high unemployment, it will be a long slog

AMERICAS



Rob Coble
National Leader
Corporate Transactions
and Restructuring
KPMG in the US
+1 404 222 3014
rcoble@kpmg.com

The past three years have laid the foundations for some very good M&A opportunities. Financial buyers, in particular, are showing increasing interest in a number of distressed companies which are expected to come to market, while strategic buyers who have cut costs and managed their working capital are now looking to buy.

We expect most of this activity to take place in the food and drink sector, where companies with strong balance sheets are in a good position due to the relative lack of debt available. Another element will be deals involving stock, as we have seen shares in certain companies make great gains in value, to the point where they become good acquisition currency.

It is the middle market that is suffering most. Small deals financed with cash or stock are going through, and very large deals which are too compelling to refuse are being financed, but medium-sized transactions, which comprise 75 percent of deal activity, are not happening because the finance is not available.

We are seeing a couple of plays common to the consumer sector—either to gain more products and geographical reach through acquisition, or to gain real estate. A lot of retail companies want to expand and need the real estate to reach more potential customers. The real estate market has yet to bottom out, so acquiring companies that have attractive locations is one way to expand at a relatively low cost.

Private equity will return to the market, but for the moment it is still grappling with what to do with its cash commitments. When it does return, it will be with a different structure so that private equity deals will require a greater proportion of equity in relation to debt than previously. This means that private equity houses will require a far higher internal rate of return than before and this may favour the strategic buyer.

All these expectations are against a background of reduced consumer spending, because employment is still falling and economic indicators are still poor. When the recovery does come, though, we will see different patterns of consumer behaviour—far more cost-conscious and value-oriented and less interested in premium brands.

This will also drive consolidation, as there will be pressure upon companies to supply products at lower price points, to rationalize their product ranges, or to re-package their products to appeal to a more health conscious consumer.

For instance, we will see horizontal integration where businesses acquire products that are healthier, cheaper and better value, cross-border consolidation to broaden distribution channels, and vertical integration to drive down costs—such as the recent deals that saw both Coca-Cola and PepsiCo acquire their bottlers.

// We will see horizontal integration where businesses acquire products that are healthier, cheaper and better value, cross-border consolidation to broaden distribution channels, and vertical integration to drive down costs. **//**

From the perspective of the south-western United States, there are definitely deals to be done in the consumer sector, but these are the result of a pronounced downturn, a downturn that some businesses have simply not weathered. There are a number of organizations, particularly in retail, that are wide open for M&A activity.

This is against a background of retrenchment and a cutback in consumption on all levels which is very reminiscent of the late 1970s. We believe that we will see a rise in inflation over the next two or three years simply because we have printed money for the last two years, while tax rates will be increased.

Higher rate tax payers in particular are very likely to find their tax burden much heavier, and it is the big spenders among consumers that are the engine of the economy.

The reaction of both consumers and businesses has been to batten down the hatches. Both are saying: "I can't control the stock market and I don't see an upside for my business, but I can control how much money I spend". So now, instead of fuelling the economy through spending, both consumers and businesses are paying off their debts and mortgages and that will drag the economy down.

The most visible casualties in the consumer sector are at the high end of the market – such as executive limousines and sports cars, jewelry, and restaurants. The most successful sectors are those offering value – the fast-food restaurants and the low-end groceries, for instance, because people will either eat cheaply or cook at home.

There are a few grocery store chains that have not done a good job in creating value that are on the block and we expect to see some consolidation. But there will be a difficulty in determining price, because we have not seen any drastic cuts and vendors seem to be holding on in the hope that the market will improve. Our view is that it will not improve for some years – we are in for a long slog.



John Cummings
Business Effectiveness
National Leader
KPMG in the US
+1 214 840 2130
johncummings@kpmg.com



Canada

Good prospects and reasons for optimism

AMERICAS



Peter Hatges
Head of Corporate Finance
Canada and the Americas
KPMG in Canada
+1 416 777 3614
phatges@kpmg.ca

Many of the recent refinancing and acquisitions in Canada have been successful due to the inherent stability of Canadian lenders, who are used to funding Canadian companies for growth abroad.

Prospects for an increase in transactions in the Canadian consumer sector look good.

The proximity of the US means that most consumer goods companies in Canada are relatively small. This has two primary impacts: it means they are attractive targets for foreign businesses looking to expand in North America; and to expand themselves, they usually need either to enter the US market or to venture further afield. So potential M&A targets tend to be international in nature.

RIM, the company behind the Blackberry, is a typical example. It is a uniquely Canadian company but its markets are largely outside Canada. Similarly, Lululemon Athletica, which opened its first store in 2000 in Vancouver, has enjoyed massive growth since then, focused as much on the US as on Canada.

There are signs of activity from strategic investors in the consumer sector, looking for consolidation to grow and reap economies of scale, to reach different markets and to take advantage of existing brands. For example, there are a number of Canadian nutraceuticals (food or food products that provide health and medical benefits) firms that are expanding via M&A in the US and elsewhere, buying brands and products.

For expanding Canadian companies, M&A is not the only path open to them. They are also expanding their asset base and growing their physical presence. Whichever route they choose, finance isn't proving to be too much of a problem as the banking system has remained relatively strong. Many of the recent refinancing and acquisitions in Canada have been successful due to the inherent stability of Canadian lenders, who are used to funding Canadian companies for growth abroad.

The finance packages are usually a good combination of debt and equity. In particular, over the last three months, the Canadian debt markets have been the most robust they've been for two years.

This leads us to expect that private equity groups will re-emerge this year, acting as a catalyst for further activity. Over the past year, Private Equity has been largely absent from the M&A market – globally it has taken part in only 4.9 percent of transaction activity in 2009, according to figures from Thomson Reuters, a drop of 67 percent on the previous year. This means that the private equity houses are still sitting on a lot of cash, which some estimate to be as much as US\$1 trillion, that is likely to kick-start the M&A market.

There are plainly problems still to be overcome, but a strong recovery is on its way, led by rising consumer consumption.

Mexico

Revival driven by market consolidation and strategic buyers looking for a route into the US

AMERICAS

Mexico has strong trading links with the US and is a platform for a lot of exports into the country. Historically, this has meant good opportunities to acquire Mexican-based companies that export to the US, as well as companies that serve the local market. As the market has started to recover in 2010, we have seen increasing appetite for these kinds of deals from strategic buyers and, to a lesser extent, private equity funds.

Strategic buyers in Mexico tend to fall into two categories: we have multi-nationals from the US or EU buying into the local market, like Heineken's US\$5.5bn acquisition of Mexico's second largest brewer, FEMSA, earlier this year; or Mexican top 500 companies buying up domestic, US or Latin American competitors. This is particularly the case in markets like dairy, bakery or retail, like dairy company Grupo Lala's 2009 acquisition of National Dairy Holdings and Farmland Dairies LLC, two US-based dairy companies.

Transaction levels fell in 2009, but are on the way up again. This has been helped by the nature of consumer markets M&A activity in Mexico, which is dominated by small to medium-sized deals of between US\$25m to US\$50m. This means that for well-capitalized companies with strong balance sheets there are attractive strategic opportunities.

As the situation improves, we expect to see investment by overseas companies increasing. Foreign direct investment fell by 50 percent in 2009, but is expected to bounce back in 2010 as foreign investors, led by the US, Spain and other EU countries, pursue growth in Latin America.

We expect strategic acquisitions to lead the consumer markets M&A recovery, as the synergy and integration opportunities available enable these investors to offer a higher price than other types of investors.

Private Equity is expected to play a more significant role in consumer markets M&A over the coming 12 to 24 months. It is still a relatively new phenomenon in Mexico, representing only a small percentage of transactions, with a total value of less than 0.1 percent of GDP. But recent legal and regulatory changes allowing Mexican institutional investors to invest in private equity funds have heralded a flurry of fundraising activity that is expected to continue for another six to 12 months. Companies serving the domestic market – such as consumer companies – are seen as rich pickings for these funds and are expected to provide a further boost to deals levels in 2011 and into 2012.

As an indication of their growing strength, private equity funds have been able to raise locally over US\$1bn in the last year, with another US\$1bn predicted over the next year. By contrast, initial public offerings in the Mexican stock market raised around US\$1bn in total over the same period.



Victor Esquivel

Partner, Transaction Services

KPMG in Mexico

+52 55 5246 8689

esquivel.victor@kpmg.com.mx

// We expect strategic acquisitions to lead the consumer markets M&A recovery, as the synergy and integration opportunities available enable these investors to offer a higher price than other types of investors. **//**

Brazil

Latin American projects that were put on hold are now back on track

AMERICAS



David Bunce
Head of Corporate Finance
Latin America and Brazil
KPMG in Brazil
+55 11 3245 8001
dbunce@kpmg.com.br

// In Brazil, the effects of the recession are beginning to dissipate. All that really happened was that projects were put on hold for a while. //

Brazil has weathered the past year relatively well, getting back to annual GDP growth of above five percent. A lot of that growth is around the burgeoning middle-class and the strong domestic market of around 200 million people, many of whom are moving up the social scale, with demands to match.

The effects of the recession are beginning to dissipate. All that really happened was that projects were put on hold for a while. For instance, private equity houses that had just gone through a round of fund-raising held off while they assessed the situation, but it was not long enough for vendors to lower their price expectations.

The 'business as usual' approach is evidenced by even more private equity houses opening offices here—Warburg Pincus arrived recently and in June 2009 South African lender Standard Bank established its private equity unit in Brazil, with a focus on consumer goods, retail, logistics and transport.

There is also little sign of the restrictions on funds found elsewhere. Brazil received an investment grade credit rating for the first time from Standard & Poor's in 2008, so financing for both international and domestic players became more available. We've also seen an increasing number of leading domestic companies listing on the stock market in the past few months, specifically to raise acquisition finance.

The country's banks are also still active. Not only is there a very active development bank, the BNDES, a federal public company that can provide acquisition finance, but Brazil's private banks never got caught up in buying sub-prime mortgages or derivatives and they remain very well-capitalized.

We expect to see continuing consolidation in consumer markets over the next few months, particularly in the supermarket/hypermarket sector. For instance, since entering the market in 1995 with just two supercentres and three 'Sam's Club' warehouse stores, Wal-Mart Brazil has grown, mainly by acquisition, to around 315 stores. Carrefour has also entered the market and grown aggressively through acquisition, and Grupo Pão de Açúcar, a Brazilian chain, has also been buying regional chains.

This competition is now spilling out into other forms of retail, such as mini-markets and convenience stores, and associated areas such as electrical retailing, pharmacies and gas stations.

Argentina

*A high-value platform from which to enter
Chile and Brazil*

AMERICAS

The prospects for the mergers and acquisitions market in Argentina are very good, but have to be seen in the context of a particularly Argentinian financial landscape.

Here many businesses are family-owned and have little access to financial markets and stock exchanges – for instance, it is very rare to see an IPO in Argentina. So, one of the few routes to growth is to find private investors and then to carry out a total or partial sale in which the owner sells a percentage of the business in order to incorporate the investor. This is true of all parts of the market, including the consumer sector.

At the moment, there are partial and total sales taking place with strategic and financial investors, involving both domestic and international players, but there are few outright mergers except those driven by events outside the country, such as the Kraft and Cadbury deals.

We are also seeing private equity houses raising finance to buy businesses in the region because there are many opportunities here. Many businesses are now at the stage where they are ideal for this type of private equity investment. They are relatively cheap and the country itself is an ideal platform from which to enter neighbouring markets such as Chile and Brazil. Although inflation does erode the value of the original investment, buyers are unconcerned because the returns far outweigh the risk and the long-term macro-economic picture is healthy.

Deal sizes, though, tend to be relatively small because most deals involve family-owned businesses. There are few deals of more than US\$100 million and most are much less.

The sectors that are attracting most interest among investors include pharmacies, food, agribusiness and consumer finance. Consumer finance has been very important over the past few years, as it has driven economic growth by financing consumer consumption. For instance, home appliance retailers began selling goods on installment plans. One effect of this is that the consumer finance element has become at least as important as the original core business – if not more so.

As consumption (and inflation) continues to rise, it is being fuelled by this form of credit, but the firms that provide it need to raise the money themselves in order to lend to consumers. The result is that they must get additional finance from somewhere. The sources that are favoured are structured finance or M&A, or a mixture of the two.



Claudio Boueke
Head of Private Equity
KPMG in Argentina
+54 11 4316 5924
cboueke@kpmg.com.ar

// Although inflation does erode the value of the original investment, buyers are unconcerned because the returns far outweigh the risk and the long-term macro-economic picture is healthy. **//**

China and Hong Kong

Government policy is aiming to turn China from an export-based economy to a consumer-based one. But for foreign companies, prices are high and opportunities are limited

ASIA PACIFIC



Ryan Reynoldson
Transactions & Restructuring Leader
Consumer Markets
KPMG in China
+86 108 508 7089
ryan.reynoldson@kpmg.com.cn

Chinese M&A activity in consumer markets is very buoyant, driven largely by the Chinese government's policy of moving from an export-based economy to one based on consumer spending. For example, the Government's recent US\$600 billion stimulus plan included encouraging bank lending and 'big ticket' purchases, such as cars and white goods, in rural China.

The market reflects this, whether it is international companies trying to enter, or domestic companies developing global ambitions. In this environment, the retail sector is increasing annually by 15-17 percent, fuelled by consumer spending that is growing at the rate of 20 percent a year. Even in the depths of the global financial crisis, these figures only dipped a few basis points.

The collapse of the debt market has had limited impact here because the size of deals is much smaller, and they often involve minority stakes. Private equity houses can simply write a cheque, while strategic investors fund acquisitions from their balance sheets. For instance, TPG Capital LP and Hony Capital bought a 10.95 percent stake in Wumart Stores for US\$212.9 million during the height of the crisis. In this market, Private Equity typically does not engage in leveraged buyouts or takeovers, but acts far more like a venture capitalist.

Foreign investors face a problem here, as prices are high and the number of opportunities is limited. The very best companies have been bought while good businesses that might have been for sale a few years ago are now choosing to remain independent. This is where Private Equity has been active, buying up stakes of 10-20 percent and providing financial and operational expertise, believing that these Chinese businesses will lead consolidation in the future.

The signs are that the private equity houses are right. In 2009 there were 50 percent more domestic M&As than cross-border M&As. There are some very acquisitive Chinese businesses that do not even feature on the radar outside China. For instance, Cofco, the largest oils and food importer and exporter in China and a leading food manufacturer, has made a large number of acquisitions in its food and drink supply chain that have not been reported.

Local companies have an implicit advantage because, although there are no longer any official rules restricting foreign ownership, they will always get more cooperation in matters such as zoning laws for development. In the consumer sector, domestic buyers have proved to be more flexible and better able to understand the contingent liabilities, such as tax, than international players.

// The international businesses that are doing well, and are positioned to gain from consolidation in their sector, possess skills that the domestic rivals have yet to develop. //

As a relatively immature retail market, China's consumer sector favours businesses that are supply-oriented and can squeeze down prices rather than those that are consumer-oriented. So, for example, the US electronics chain Best Buy is finding it tough because it is built around the customer experience. It cannot compete on price because it does not have the depth of relationships with suppliers that domestic competitors have. It may be a little ahead of its time.

The international businesses that are doing well, and are positioned to gain from consolidation in their sector, possess skills that the domestic rivals have yet to develop. For instance, in the food retailing sector, Walmart, Carrefour and Tesco are competing well against the domestic chains because they have such a good grasp of supply chain management, procurement and pricing. And it is these skills that the private equity firms expect to instil in the domestic businesses in which they have invested, putting them in a stronger position to benefit from consolidation.

The tremendous growth in the consumer sector and the consequent growth in the M&A market are held back by the lack of a social safety net for the average citizen – medical insurance is inadequate and people do not believe that government pensions

will be sufficient. This has led to a very high savings rate – the Chinese are always prepared for that rainy day. When the government is fully able to address this through some form of social insurance then consumer consumption could explode.

Nevertheless, recent consumer research⁶ found that 44 percent of respondents would spend the same if not more in 2010 than in 2009 across a whole raft of consumer sectors, which reflects not only official approval for consumer spending, but also shows that the rate at which China is becoming urbanized is not slowing down.

Given this background, it is natural that the M&A market in the consumer sector remains strong. Despite recent concerns over the possibility that Chinese economic growth may falter, there is no sign yet of any decline in the growth of the country's appetite for consumer goods.

⁶ "Refined Strategies: Luxury extends its reach across China." KPMG in China, May 2010



Australia

The market is active with brand consolidation and cross-border integration as key factors

ASIA PACIFIC



Peter Turner
Director, M&A Advisory
KPMG in Australia
+61 (3) 9288 6022
pturner@kpmg.com.au

// Strategic buyers that have been busy strengthening their own financial position are now re-entering the market with recapitalised balance sheets. //

Despite a short-term dampening effect brought about by some volatility in the equity markets and interest rate rises by the Australian Reserve Bank, the underlying outlook for M&A activity in Australia is positive. This is for two key reasons; the economic situation is improving and rising share prices have helped bridge the gap in expectations between vendor and seller. There have been two IPOs recently that illustrate the point: Myer, Australia's largest department store chain, and Kathmandu, an outdoor equipment retailer.

Strategic buyers that have been busy strengthening their own financial position are now re-entering the market with recapitalised balance sheets and are refocusing on growth. At the same time, financial buyers are increasingly active with either equity to invest or portfolio assets to exit.

The result is that we are seeing transactions starting to complete, with considerable buyer interest in deals and a strong level of enquiries from both potential sellers and buyers.

For instance, we recently completed the partial sale of Lorna Jane, a national women's apparel retailer, to CHAMP Ventures, a Sydney-based private equity house, and saw at firsthand the substantial buyer interest that exists for attractive businesses.

Among the trends we have noticed is the return of vendors who had put their plans on hold because of the financial crisis, the emergence of mid-market businesses that, with no capital of their own, are now being considered as potential acquisitions

by the larger players, and businesses like Lorna Jane that are raising expansion capital to fund growth.

In terms of buyers, we are seeing some renewed interest, tempered a little by interest rate rises and a slight deterioration in retail conditions, in those retail businesses that prosper towards the height of the economic cycle as the outlook for consumer spending improves.

Much of the M&A activity has been horizontal integration, but many companies are looking at vertical opportunities as a way of improving their business. The downturn has demonstrated that companies that are more vertically integrated have greater control over their margins. So, as companies refocus on growth, they are considering vertical acquisitions that improve margin and provide greater flexibility.

We have seen a reasonable level of interest in Australia from international consumer markets companies. This is particularly the case in food and drink, but can be seen throughout the consumer market sector, because the Australian market is reasonably well-consolidated. This means that M&A is an attractive entry point for international players if they want scale and market share.

A recent example is the partnership between the US hardware operator, Lowes, and the large Australian retailer, Woolworths, which recently jointly made a takeover offer for the Australian-listed hardware operator, Danks.

The road to recovery may not be smooth, but the Australian market is clearly on its way.

Spain

Prices need to fall further, but are being prevented from falling by vendors holding out for the market to improve

EUROPE, MIDDLE EAST & AFRICA

M&A activity within the consumer sector in Spain will definitely improve – but that is because we are starting from nothing. The market almost disappeared in the past year as liquidity dried up, buyers declined to buy and businesses focused on improving performance.

The market is showing signs of movement, but it will not be a vintage year. This is due, in part, to the nature of the Spanish economy in which most companies in the consumer sector are either family-owned or multi-nationals, and neither is under any pressure to sell. The sale of family businesses rarely depends purely upon the price they can raise or the financial pressures they face.

Despite all the signs that the prices need to come down steeply, there are no bargains and prices are not much cheaper than three years ago, as potential vendors hold out for the market to improve. Even so, we see good opportunities in the Spanish market and have detected movement both domestically and abroad to take advantage.

Domestically, there are companies that want to grow by acquisition but cannot raise debt, and so are looking at mergers; while inbound investment is coming from investors who could not afford to enter the market in the previous two decades, but are now finding new opportunities.

During the 1990s, and up to 2007, Private Equity was very aggressive and paid large multiples, pricing out strategic investors looking to tap into the rapidly growing consumer market. Those private equity houses

have either reached the end of their investment cycle, or have been forced to re-structure their finances and to invest more equity. The result is that many private equity houses are not only ready to exit their investments, but likely to do so at a price that strategic investors are willing to pay, particularly in the food retail sub-sector.

There are examples in the food and non-food retail industry, and also in consumer goods production, of financial players having to accept debt-for-equity swaps to keep companies alive. Their strategy is to buy some time to see if the global economy improves over the next two to three years. We feel that these companies will ultimately be acquired by large corporates which can both raise the cash required and find the synergies that justify the transaction.

We also see that domestic players are realizing that they have to diversify geographically as local consumption remains weak, so we would not be surprised to see some Spanish companies acquiring/joint venturing abroad to gain international presence.

However, we are afraid that the background for all this activity will be continuing stagnation in consumer consumption. We expect consumption to be hit badly by July's increase in VAT from 16 percent to 18 percent, and by continuing difficulties in the real estate sector, which was one of the main drivers for Spain's prosperity in the last decade.



Jorge Rioperez
Head of Corporate Finance
KPMG in Spain
+34 91 456 8080
jrioperez@kpmg.es

// The market is showing signs of movement, but it will not be a vintage year. //

United Kingdom

Strong business propositions will still attract support, but it is value businesses and those with a convincing strategy for success in a recession that are proving popular

EUROPE, MIDDLE EAST & AFRICA



Tim Clifford
Partner, Transaction Services
Consumer Goods & Retail
KPMG in the UK
+44 20 7694 8396
tim.clifford@kpmg.co.uk

// What we are seeing is a change in the elements that make a good growth story, so people are looking for trends that will be an advantage in a recession. **//**

In 2010 the UK retail sector will see mergers and acquisitions improve mildly on 2008 and 2009 but we will not see any return to the levels of 2007. The deals that are done will reflect the adage that there is always room at the top: there is always a market for good businesses with a convincing growth story.

What we are seeing is a change in the elements that make a good growth story, so people are looking for trends that will be an advantage in a recession. For example, there is a market for value-oriented brands and value-oriented retailers and a recognition that business models that have got very flexible cost structures, such as e-commerce, play well during times of uncertainty. Similarly those businesses that are defensive by their very nature, because they are good generators of cash, are also popular.

The result of this can be seen in the due diligence that we are seeing, which concentrates on forecasting demand in the future and what it means for projection of earnings, as opposed to looking at historical performance and the quality of earnings. There is no point in spending lots of time looking backwards if the future doesn't relate to the past. So forecasting consumer demand is a key element in fuelling deals in the consumer sector. Activity in the M&A market over the next year or so will be determined by four major elements.

First, there are the financial institutions that have businesses they now want to sell. These include investment banks that have acquired businesses as debt-for-equity swaps and private equity houses that invested through the recession. Both will be under pressure to exit within the next 18 months.

Second, there are corporates with strong balance sheets who can fund acquisitions; and third, those companies wanting to dispose of stressed and distressed businesses that they deem non-core.

The fourth element is the debt market, which is still difficult and so will restrain the degree of leverage that is available.

This last factor favours those corporates doing small or mid-sized deals that they can fund out of their existing facilities, because deals that require packages of debt are not only harder to assemble thanks to the banks' caution, but expensive. Banks are typically charging far higher arrangement fees and much higher premiums for debt.

But that has not taken the private equity houses out of the market, as shown by recent deals such as KKR's acquisition of Pets at Home from Bridgepoint, and Charterhouse buying The Card Factory from its founders. Banks are still willing to lend Private Equity against high quality businesses with strong brands that generate cash and have strong business propositions.

Central and Eastern Europe

The market is active with brand consolidation and cross-border integration as key factors

EUROPE, MIDDLE EAST & AFRICA

The outlook in Central and Eastern Europe (CEE) is looking positive as the effects of the credit crunch begin to ebb and the fundamental strengths of the region re-assert themselves.

The countries that comprise the region⁷ share a good infrastructure network and low production costs that make them ideal as production bases to supply the European Union, as well as potential stepping stones to markets to the east. The majority of the countries in the region are already members of the European Union and some are also members of the euro-zone.

The past few months have also seen a narrowing of the gap between the expectations of buyers and sellers, with vendors gradually adjusting to the realities of the marketplace and accepting that the peaks of 2007 were just that – peaks – and that the current climate will not accommodate their price expectations.

Another positive factor is that this region was shielded from some of the worst effects of the credit crunch. Neither businesses nor consumers had access to or incurred as much indebtedness as many of their western European and US cousins.

The banks in Central Europe have also remained largely in good shape with loan portfolios continuing to perform. They have become more conservative and some restrictions have been placed on them by parent companies, but the bigger players are still active and have retained an appetite for deals.

Similar behavior can be seen in consumer spending. Consumers restricted their spending as their confidence flagged and worries about job security increased, but now consumer spending is picking up.

This is reflected in deals where the food and drink sector in particular is becoming quite active, particularly the meat sub-sector. This is driven in part by the demands of larger retail chains such as Tesco and Carrefour and their strategy of having a leaner supply chain forcing consolidation within the market. Another factor is regional consolidation driven by local private equity companies that are seeking an exit, and by larger players that are looking for strategic acquisitions.

A new phenomenon is that the major local players in various sectors are looking across borders to integrate horizontally, which just would not have been realistic a few years ago.

There has also been a lot of consolidation in the market based around brands with strong local affinities, often dating back to socialist times when there were few alternatives to choose from. Sometimes these are bought directly as a strategic acquisition, but more often they are bought by private equity groups who then prepare them for sale, either by splitting off individual components of the business or consolidating the brands into a single business.



Kenneth Ryan
Head of Transaction
Services in Central Europe
KPMG in Slovakia
+421 2 5998 4424
kennethryan@kpmg.sk

// The major local players in various sectors are looking across borders to integrate horizontally, which just would not have been realistic a few years ago. //

⁷ Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Serbia, Slovakia, Slovenia

Poland

Larger and more stable than its neighbors, Poland is attracting international interest

EUROPE, MIDDLE EAST & AFRICA



Krzysztof Klamut
Partner, M&A Advisory
KPMG in Poland
+48 22 528 1220
kklamut@kpmg.pl

// We expect the supermarkets and the food chains to become very active over the next two or three years. //

The prospects for consumer markets M&A in Poland over the next year look very good.

Following the global crisis in 2008 and 2009, Poland survived extremely well – it is the only country in the European Union that had a positive GDP growth – and this has changed perceptions. It is now widely recognized that Poland should not be seen in the same light as other emerging economies in the region; it is larger and more stable.

According to the figures, overall M&A activity in 2009 for the whole of Central Europe was essentially the same as in 2008. But this is a very different market to Western Europe. The average transaction size is far smaller – more than 50 percent of transactions in Central Europe are valued at less than 10 million euros. This means that the nature of the buyers and the finance they use is very different.

For example, many of the private equity houses that are active in Western Europe do not operate here because the deals are not big enough.

The deals that have taken place over the past year have employed a wide range of financing options. Some are financed from internal cash flows and internal cash reserves' while others are more a swapping of shares rather than paying cash.

But now the banks have started to show an interest again, though on a far more limited extent than before the credit crunch. There are also some high net worth individuals who have built up considerable wealth over the past three years

having exited their original businesses and who are now looking for new opportunities. The sector where we are seeing most activity is in food and drink, while we expect the supermarkets and the food chains to become very active over the next two or three years. There is great potential for consolidation here as the sector is extremely fragmented.

We also expect a lot of transactions where the deal is generated outside Poland. For example, where a Polish subsidiary is put up for sale by a new owner, as is the case with Vattel.

The European Commission has demanded that Kraft sell the Wedel brand, which it acquired as part of the Cadbury deal, to comply with competition regulations.

Another important factor is the share prices on the stock exchange. They have recovered reasonably but are still nowhere near 2008 levels, and this has brought down vendor expectations. There are now some very attractive assets for sale at reasonable prices.

South Africa

South African acquisitions are a good vehicle for buyers wanting to establish themselves in Africa

EUROPE, MIDDLE EAST & AFRICA

Our view of consumer markets in Southern Africa is increasingly optimistic and we think the prospects for mergers and acquisitions are improving.

But there have been difficulties, both in Private Equity and the availability of debt from the banks, which mirror the patterns of M&A activity in Europe and the US.

There are very well-established private equity houses in South Africa and Private Equity was a substantial contributor to general corporate finance and M&A activity, so when that declined it had a serious impact on the level of activity in general. We think, though, that a lot of private equity houses are sitting on uncommitted funds and are now looking for opportunities.

There are signs, too, that the banks are becoming active again, though the rate varies from institution to institution, depending on whether they have become over-exposed to the consumer markets.

Debt is also becoming cheaper, as there was a 50 base point reduction in March that took interest rates to their lowest level for more than 20 years. Consumer spending is also starting to increase and is adding generally to the positive sentiment and the belief that the recession has not been as deep or as long as previously feared.

All of these factors play to the country's strengths in the consumer sector. South Africa has a well-established retail industry and the country is seen as springboard into Africa, so if global companies want

to participate in this market then a South African acquisition is a good entry vehicle. It is an established path as some of the retail companies that now have very successful enterprises across Africa and in the Indian Ocean islands such as Mauritius, started here.

The food sector is also likely to see more activity in the coming months as there are some very strong companies in South Africa that want to acquire extra brands and products.

But, for the moment, the bulk of the transactions taking place are from companies that have strong balance sheets and healthy cash flows and so can finance acquisitions without having to raise too much in the way of debt.

Over the coming months, we expect to see strategic buyers emerge that want to establish their presence on the continent. In terms of consumer markets, these are more likely to be investors from the West, as investors from the East are more interested in resources such as coal, manganese and platinum in Africa.



John Geel
Managing Director
Transactions &
Restructuring Advisory
KPMG in South Africa
+27 11 647 7393
John.Geel@kpmg.co.za

// South Africa has a well-established retail industry and the country is seen as springboard into Africa, so if global companies want to participate in this market then a South African acquisition is a good entry vehicle. //



Russia

International players are busy consolidating fragmented markets

EUROPE, MIDDLE EAST & AFRICA

Mergers and acquisitions in the consumer sector are recovering as the Russian, Ukrainian and Kazak markets reassert themselves.

Before 2008 we saw a lot of activity in the consumer sector, particularly in groceries and automotive retail, because higher disposable income had fuelled rapid growth over the previous decade.

But 2009 was stagnant as the financial crisis hit consumer sentiment. The only deals taking place were distressed sales forced by the banks.

Now, the macro-economic environment has stabilized and consumer spending is growing once more, albeit slowly, so we are seeing more interest in the consumer sector, which has immense potential for consolidation.

A common theme in Russia and the CIS (Commonwealth of Independent States) is that markets are far more fragmented than in the West. For instance, in the grocery sector, the typical Western market would see three or four businesses accounting for 70 percent, while in Russia the largest player only has 10 to 12 percent of the total market. The drivers towards consolidation are the same as in the West – the need for efficiency and regional networks – and will result in a handful of national retail chains such as X5, Magnet and Dixis, acquiring regional chains.

International players such as Metro Cash & Carry and the French group Auchan are also entering the Russian market and growing swiftly, mainly through opening new outlets

throughout the Russian regions, taking market share from other chains and continuing the trend to consolidation.

The trends we can see in grocery retail can be seen in other retail sectors, such as electronics, automotive, pharmaceuticals and clothing - and all have the same end-game in sight, where a handful of players control around 60 percent of the market. That has already happened in the beer sub-sector, for instance, where around 80 percent of the beer market in Russia is held by four key international players: Baltika Breweries (Carlsberg Group), SUN InBev, Heineken and Efes.

Another feature of the M&A market is the stream of international companies that is entering, attracted by the massive growth that Russia offers. In the decade before the crisis, personal incomes doubled. This is likely to continue as Russia develops, in common with all the BRIC (Brazil, Russia, India, China) countries.

The international players that are already here have been very successful, for example Metro and Ikea.

Looking two to three years into the future, the prospects for M&A in consumer markets is extremely good as the stimulus for the Russian economy is commodity prices, and these are continuing to rise, with oil hitting around \$80 a barrel, for instance. Combine it with a move towards consolidation in the market and increasing interest from international players, and the stage is set for a very active market indeed.



Richard Sharman
Partner, M&A Advisory
KPMG in Russia
+7 495 626 54 44
ext: 13944
rsharman1@kpmg.ru

// In the decade before the crisis, personal incomes doubled. This is likely to continue as Russia develops. //

India

A busy market driven by consolidation and economic growth

EUROPE, MIDDLE EAST & AFRICA



Nandini Chopra
Executive Director &
Practice Head
Consumer and Retail
Corporate Finance
KPMG in India
+91 22 30 902603
nandinichopra@kpmg.com

We are witnessing robust recovery in M&A in the Indian consumer markets. The household and personal care segment, which is largely consolidated in India, has witnessed significant outbound M&A activity in the last two years. Large Indian players, such as Godrej, Wipro, Dabur and Marico, have made multiple acquisitions across Asian and African markets. Godrej has been leading the pack having announced five acquisitions in the last six months including Nigeria-based Tura, Indonesia-based PT Megasari Makmur Group, Argentina-based Argencos SA and Issue Group, and the balance 51 percent stake in its JV, Godrej Sara Lee, from Sara Lee. These companies are all poised to become global FDCG (food, drink and consumer goods).

The domestic household and personal care market is likely to continue to see deal interest from strategic players in 2010 because it requires significant marketing and advertising spend, as well as distribution channel investments, to build scale. Players with limited financial muscle and brand portfolio are expected to yield to their larger counterparts. However, the lack of large acquisition targets and the number of acquirers looking for opportunities means valuations will continue to be at a premium.

The food and drink sector in India is unlikely to see any large deals because the local brands have not scaled up beyond the US\$20-25 million mark and the larger deals have already taken place. We saw a lot of inbound transactions with names such as Dr. Oetker (Germany), Tyson Foods (US) and Orkla (Norway) acquiring or tying up with Indian companies, but since Sodexo SA, the listed French food and facilities management firm acquired Radhakrishna Hospitality Services for US\$125 million in March last year, activity in this sector has been relatively slow.

India's retail market, pegged at over US\$400 billion in 2010, is expected to grow to US\$600 billion by 2013. However, it remains a highly fragmented segment, characterized by the more than 12 million 'mom and pop' stores. Organized retail has witnessed a degree of consolidation driven by the expansion of modern retailers such as Future Group, Shopper's Stop, Reliance Retail and Aditya Birla Retail, which have taken 5-6 percent of the retail pie.

// We expect significant M&A activity in the household and personal care segment, with leading Indian players expanding across the Asian and African markets. //

The opportunity presented by this market has gathered significant interest from most large international retailers such as Wal-Mart, Tesco, Metro, IKEA, Carrefour, and Woolworths (Australia).

Entry by these players has been restricted due to the regulations governing foreign direct investments in multi-brand retailing, which attempt to protect domestic retailers and the 'mom and pop' stores. However, global retailers such as Wal-Mart, Metro and Tesco have still entered India through franchises and partnerships in their cash and carry wholesale businesses.

Modern retailers are also squeezing the margins of India's own FDCG companies, which are relatively small and also under pressure from the multi-nationals, such as Hindustan Unilever and Procter & Gamble. This has pushed Indian FDCG businesses into consolidation as many believed they had reached the limit of their growth. We believe the pressures behind this will continue throughout 2010 and result in increased transaction volumes.

Private equity is also very active in the retail and consumer sector. Genesis Colors, which concentrates on luxury brands, has investments from private equity investors such as Sequoia Capital, SVB India Capital, Henderson Equity Partners and Mayfield. Lilliput, a kidswear retailer, saw investors change hands between private equity investors from Everstone Capital to Bain Capital and TPG Capital.



About KPMG

KPMG is a global network of professional firms, providing audit, tax and advisory services, with an industry focus. With more than 123,000 people worldwide, the aim of KPMG member firms is to turn knowledge into value for the benefit of clients, people, and the capital markets.

Consumer Markets Sectors

KPMG is organized by industry sectors across our member firms, to provide in-depth industry knowledge and professionals highly experienced in the industries in which their clients operate.

Our Consumer Markets sectors--Retail and Food, Drink and Consumer Goods--are served by a global network comprising audit, tax and advisory professionals around the world, including the Americas, Europe, the Middle East, Africa and Asia-Pacific. This network gives us the ability to provide consistent services and thought leadership to our clients, while always maintaining a strong knowledge of local issues and markets.

Transactions and M&A Advisory Services

Our Global Transactions and Mergers and Acquisitions advisory professionals work with consumer markets companies to help assess and analyze proposed transactions, highlighting the value drivers, risks and opportunities in the deal. We remain involved through the life cycle of the deal, helping to develop appropriate accounting, finance and tax structures as well as advising on post-deal and integration strategies.

KPMG fosters an environment of innovation, open communication, collaboration, integrity and respect. For clients, we believe we are a valuable source of information, contacts and business opportunity.

Appendix

**Consumer Markets M&A values and volumes,
January 2009 - June 2010**

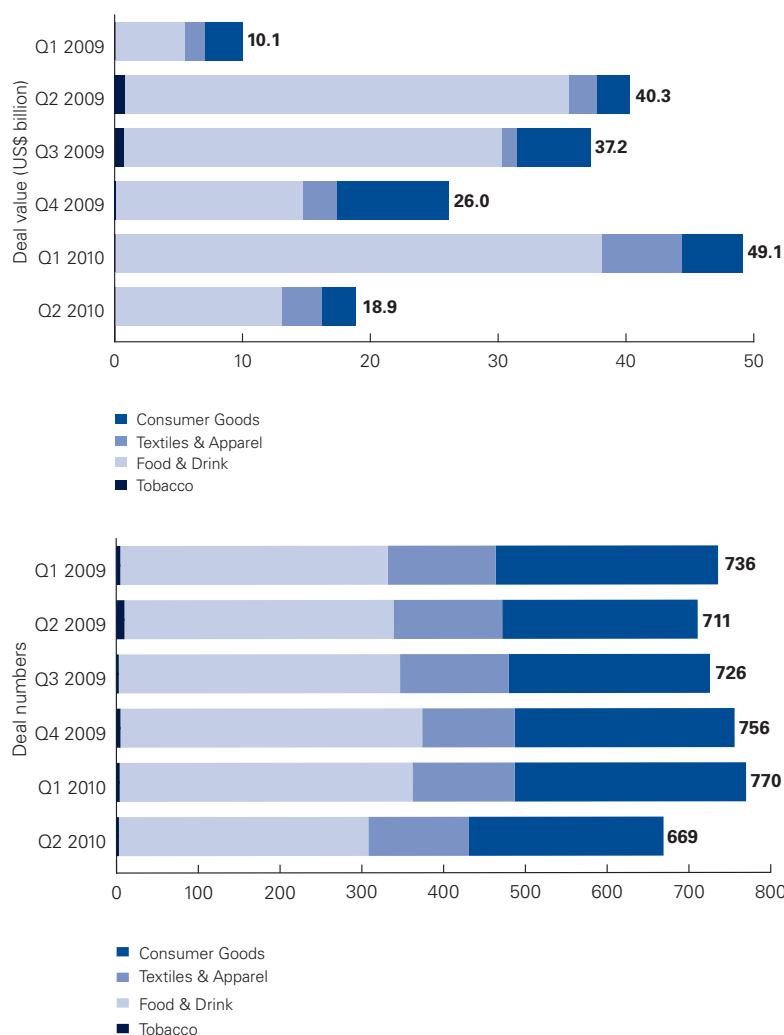


M&A activity in the Food, Drink and Consumer Goods (FDCG) sector

Highlights

- The average deal value decreased 14.8 percent quarter-on-quarter (q-o-q) in Q1 2009 and then increased 314.5 percent in Q2 2009. In Q3 2009 and Q4 2009, however, it again decreased 9.6 percent and 32.8 percent respectively. In Q1 2010, the average deal value increased 84.9 percent before decreasing 55.6 percent in Q2 2010.
- The overall mergers & acquisitions (M&A) deal value increased 88.4 percent in Q1 2010. However, it declined 61.5 percent q-o-q in Q2 2010, as the deal values decreased in the Food & Drink subsector (65.7 percent), Textiles & Apparel (49.8 percent) and Consumer Goods (43.0 percent).
- The Food & Drink subsector remained the highest contributor to the overall deal volume in the FDCG sector in all the quarters during January 2009 – June 2010, with 45.6 percent share of the total deal volume in Q2 2010.
- M&A deal volume experienced a q-o-q decline of 2.8 percent in Q1 2009 and 3.4 percent in Q2 2009. However, in Q3 2009, deal volume increased 2.1 percent and continued to rise in Q4 2009 (4.1 percent) and Q1 2010 (1.9 percent). Thereafter, it decreased 13.12 percent in Q2 2010.

Value and volume of FDCG sector M&A Q1 2009 – Q2 2010



Source: Thomson OneBanker, accessed on July 5, 2010

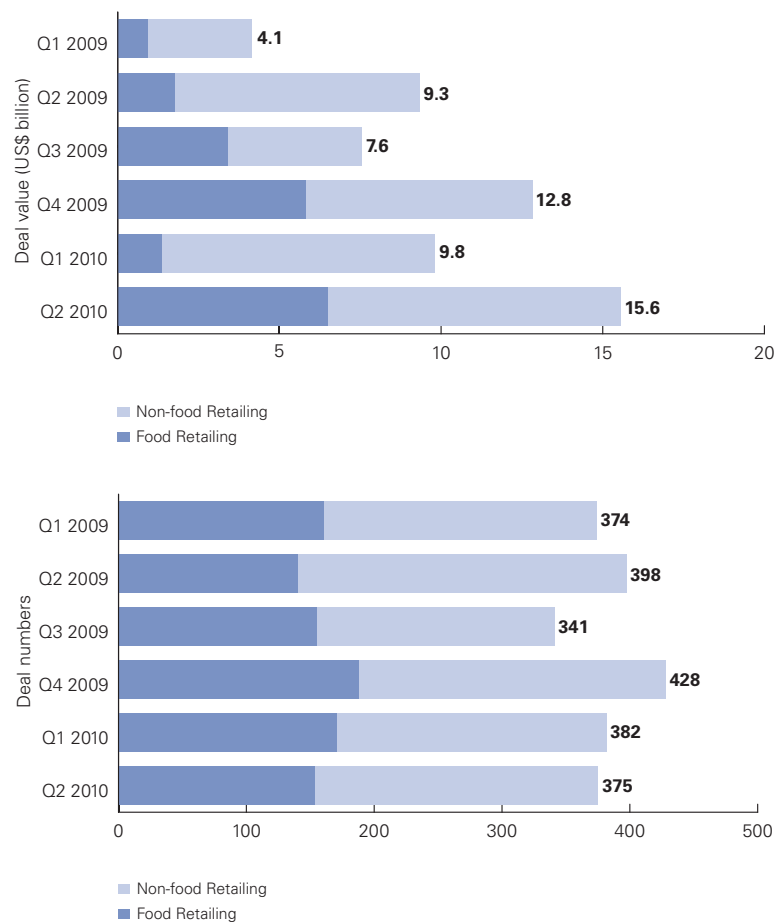
Note: The Consumer Goods subsector includes Household and Personal Care Products, Home Furnishings, and Other Consumer Goods

M&A activity in the Retail sector

Highlights

- The average deal value in the retail sector declined 43.5 percent q-o-q in Q1 2009, before increasing 111.3 percent in Q2 2009. However, it again declined 5.3 percent in Q3 2009. In Q1 2010, it declined 14.2 percent before increasing 61.5 percent in Q2 2010.
- During the past 18 months, the Non-food retailing subsector dominated the M&A activity in terms of both value and volume for all the quarters. In Q2 2010, the Food retailing subsector contributed 41.8 percent and Non-food retailing subsector contributed the remaining 58.2 percent to the total deal value.
- The total M&A deal value declined 43.8 percent q-o-q in Q1 2009 and increased 124.9 percent in Q2 2009. However, the deal value decreased 18.9 percent in Q3 2009. In Q4 2009, the deal value again increased 69.5 percent. It decreased 23.5 percent in Q1 2010 and increased 58.5 percent in Q2 2010.
- M&A deal volume declined 0.5 percent q-o-q in Q1 2009, and increased 6.4 percent in Q2 2009. However, in Q3 2009, it decreased 14.3 percent, and again increased 25.5 percent in Q4 2009. In Q1 2010, it showed a decline of 10.7 percent, and further decreased 1.8 percent in Q2 2010.

Value and volume of Retail sector M&A Q1 2009 – Q2 2010



Source: Thomson OneBanker, accessed on July 5, 2010.

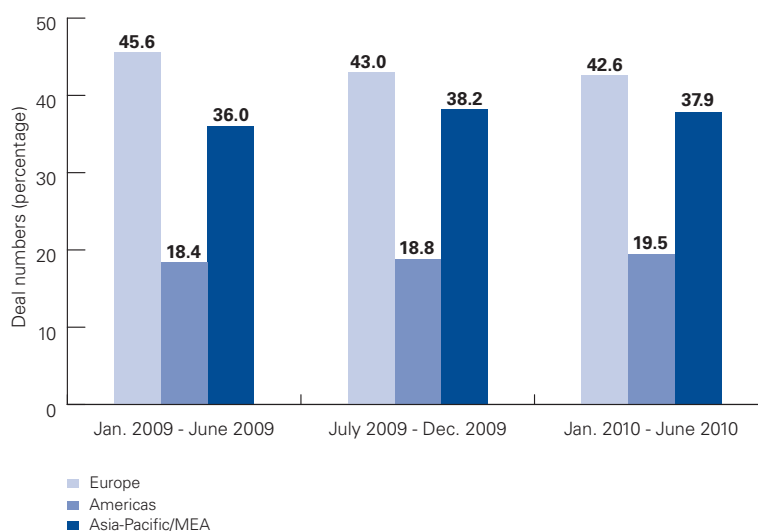
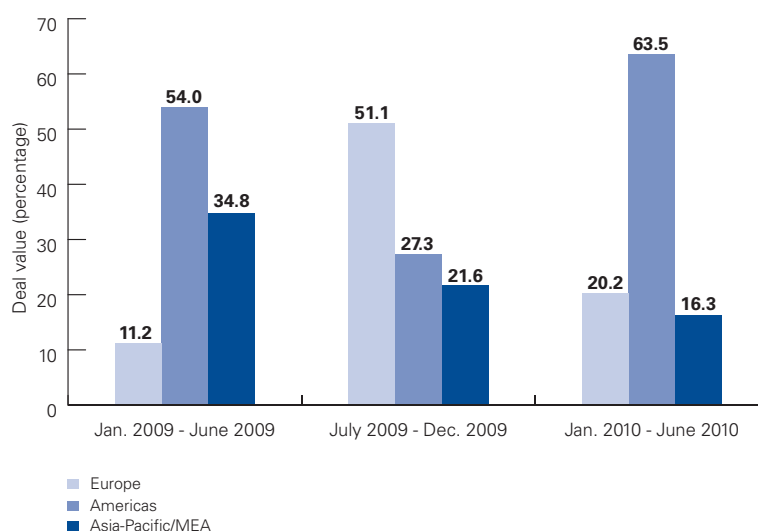
Note: The Non-food Retailing subsector includes Discount and Department Store Retailing, Home Improvement Retailing, Apparel Retailing, Computer & Electronics Retailing, Internet and Catalog Retailing and Other Retailing.

M&A activity in the Food, Drink and Consumer Goods (FDCG) sector – by Region, Jan 2009 – June 2010

Highlights

- During January – June 2009, Americas dominated the M&A landscape, accounting for 54.0 percent of the total deal value. However, in terms of deal volume, Europe grabbed the highest share of 45.6 percent.
- However, during July – December 2009, Europe dominated in terms of both deal value and volume, accounting for 51.1 percent and 43.0 percent shares, respectively. The Americas accounted for 27.3 percent of the deal value, down from their 54.0 percent share during the previous half year. Asia-Pacific/MEA accounted for 38.2 percent of the deal volume and 21.6 percent of the deal value during this period.
- During January – June 2010, Americas accounted for 63.5 percent of the deal value. Both Europe and Asia-Pacific/MEA experienced half-yearly declines in their percentage shares in deal value and volume during the period.

FDCG M&A by geographical region

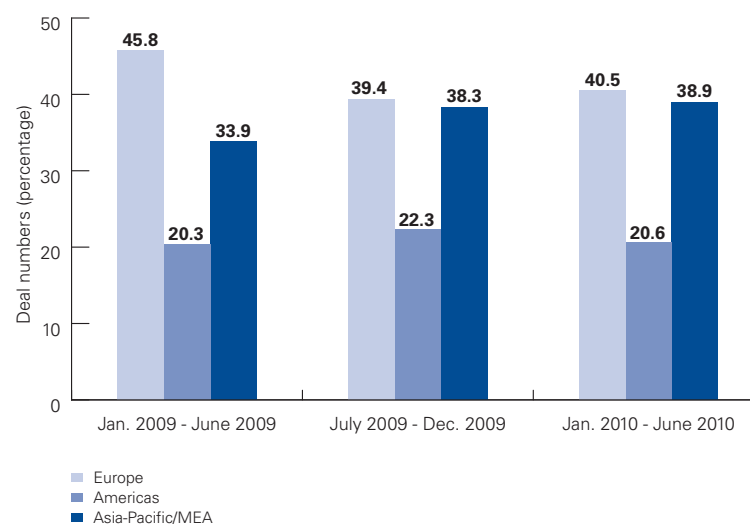
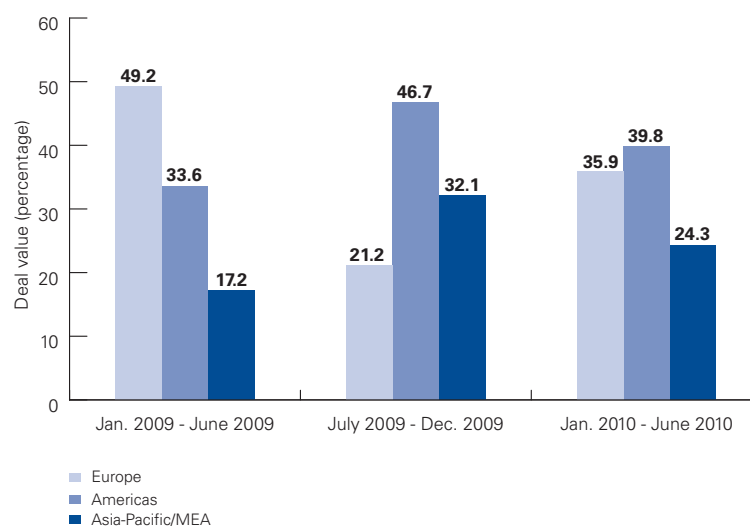


M&A activity in the Retail sector - by Region, January 2009 – June 2010

Highlights

- During January – June 2009, Europe dominated the retail sector deal volume with the highest share (45.8 percent). It was followed by Asia Pacific/MEA, which accounted for 33.9 percent. In terms of deal value, Europe contributed 49.2 percent and Asia-Pacific/MEA accounted for 17.2 percent during this period.
- During July – December 2009, Americas dominated the total deal value, accounting for a 46.7 percent share. It also accounted for a 22.3 percent of the deal volume during the period. In terms of deal value, Americas was followed by Asia-Pacific/MEA, which accounted for 32.1 percent of the deal value.
- During January – June 2010, Americas accounted 39.8 percent, Europe 35.9 percent and Asia-Pacific/MEA 24.3 percent of the total deal value in the retail sector. However, in terms of deal volume, Europe contributed 40.5 percent, whereas Asia-Pacific/MEA and Americas accounted for 38.9 percent and 20.6 percent shares, respectively.

Retail M&A by geographical region



Source: Thomson OneBanker, accessed on July 5, 2010.

Note: The Non-food Retailing subsector includes Discount and Department Store Retailing, Home Improvement Retailing, Apparel Retailing, Computer & Electronics Retailing, Internet and Catalog Retailing and Other Retailing.





Global Consumer Markets Contacts

Willy Kruh
Global Chair, Consumer Markets

KPMG in Canada
+1 416 777 8710
wkruh@kpmg.ca

Mark Larson
Global Sector Head, Retail

KPMG in the US
+1 502 562 5680
mlarson@kpmg.com

Mark Baillache
Global Audit Sector Lead, FDCG

KPMG in the UK
+44 20 7311 4716
mark.baillache@kpmg.co.uk

Katie Bishop
Global Executive

KPMG in the UK
+44 20 7311 6296
katie.bishop@kpmg.co.uk

Julian Thomas
Global Advisory Lead

KPMG in the UK
+44 20 7694 3401
julian.thomas@kpmg.co.uk

John Atkinson
Global Audit Sector Lead, Retail

KPMG in the US
+1 612 305 5459
jwatkinson@kpmg.com

Elaine Pratt
Global Marketing

KPMG in Canada
+1 416 777 8195
epratt@kpmg.ca

Ladenka Klein
Global Tax Lead

KPMG in Germany
+49 221 2073 1921
lklein@kpmg.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No-one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

Designed by Over the Woods

Publication name: Merger & Acquisition Activity in Global Consumer Markets

Publication number: 100715

Publication date: July 2010

© 2010 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

KPMG and the KPMG logo are registered trademarks of KPMG International Cooperative ("KPMG International"), a Swiss entity.