



QUINN M&A
Mergers & Acquisitions
Providing the Total Solution

*Expert Guide on the Sale,
Merger and Valuation of Food and
Beverage Manufacturing Businesses*





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Food and Beverage Manufacturing Industry at Glance

Total Industry Revenues: \$100.6 billion

Total Industry Exports: \$27 billion

Total Industry Profit: \$7.6 billion

Annual Revenue Growth Rate (2017 to 2022): 1.5%

Total Number of Businesses: >10,000

The food and beverage manufacturing industry in Australia has been an integral part of the Australian economy for a number of decades. In more recent times the industry has been driven by an increased demand for a variety of Australian products from China, which now sees revenues from exports exceed \$27 billion.

Annual revenue for the food and beverage manufacturing industry is expected to continue growing over the next five years at a rate of approximately 2%, with exports continuing to grow as a source of revenue. The continuation of the export boom is also expected to contribute to a number of new firms entering the market.

With the number of new entrants into the industry growing, in the short term employment is expected to rise. However, this is likely to be accompanied by a significant investment in automation, which in the medium to longer term is expected to reduce the industry's reliance on labour.

It is expected demand for food and beverage products will grow over the next 5 years. However, a complication will likely arise from an expected reduction in demand for sugar based product with customers expected to preference health based products and those with a high level of convenience. This is expected to be driven by government moves to incentivise against unhealthy products, the population becoming more health conscious and technology enabling greater convenience.

Major Players

Coca Cola Amatil

As it stands Coca Cola Amatil are the largest beverage manufacturer in the country with the largest portion of its revenue coming from soft drinks. The company also has a high market share of a number of other sub-sectors including fruit juice and bottled water. The company's profits have been impacted through competitive pressures and changing consumer preferences, which will be of a concern moving forward.

Food Investments Pty Limited

Food Investments is a foreign owned proprietary company. The company conducts a diverse number of activities include bread and baking, flour and milling and smallgoods, resulting in a resilient revenue stream. On top of this Food Investments Pty Limited has recently reported improved efficiency, and will continue to expand through further acquisitions and inorganic growth.

Industry Park Pty Ltd

Is a foreign owned Australian proprietary company, trading as JBS Australia. They entered the Australian market in 2007 through the acquisition of Swift Australia Pty Ltd. The company accounts for approximately 20% of the \$21bn revenues in the Australian meat processing industry, and has established itself through a number of acquisitions including Tatiara Meat Company for \$30m, and Rockdale Beef for \$40.5m

Wilmar Sugar Australia Limited

Having previously been Australian owned and operated as Sucrogen, Wilmar International Acquired the company in 2010 for \$1.8 billion and now dominates the sugar manufacturing market in Australia, accounting for over 47% of market share. Wilmar has developed their own international trading arm and has begun targeting new revenue streams such as supplying electricity to the Queensland grid on a commercial basis, by using the cane by-product bagasse, which should provide stability into the future.

Murray Goulburn Co-operative

Is an Australian-owned public dairy company deriving a significant portion of their revenue from exports through their Devondale and Liddells brands. The company has diversified and is now taking advantage of the high demand for milk powder products in China. A growing concern has been the falling milk supply since the company cut prices they would pay local farmers. Subsequently they have lowered revenue predictions and been subject to a number of take-over bids.

How to Value Your Food and Beverage Manufacturing Business

Food and beverage manufacturing businesses have been valued at between 2.5 and 7 times normalised EBIT*. This varies significantly between different types of food and beverage manufacturing businesses.

Key drivers impacting on the value of food and beverage manufacturing businesses are outlined below:

Lower Valuations

- Minimal growth prospects
- Poor quality facilities
- Requirement for capital expenditure
- Product risk
- Poor customer relationships
- Narrow product range
- Reducing demand for sector
- Significant Tax obligations

Higher Valuations

- Diversified product and revenue streams
- Growth prospects
- Innovative manufacturing processes or product
- More than one facility
- Proven exporting record
- Quality systems, procedures and protocols in place and regularly reviewed
- Diversified product mix
- Strong customer relationships



Shareholders seeking to maximise the value of their food and beverage manufacturing businesses in preparation for exit should consider how characteristics driving higher valuations can be developed and fostered within their businesses.

*Normalised EBIT is Earnings Before Interest and Tax, with adjustments made for any irregularities in earnings. These could include non-recurring items (like profit made on asset sales) or non-commercial expenses.

Major Transactions Timeline

2017

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- July** Bellamy's Organics acquired 90% of Camperdown Powder for \$28.5m in order to better enter the Chinese Market.
 - June** Synlait Milt acquired New Zealand Dairy Company for \$33m.
 - April** Private Equity Group Navis acquired Mainland Poultry for NZ\$300m.
 - February** Freedom Foods Group acquired sports nutrition company Power Foods International for \$20m.
 - February** Select Harvests acquired Jubilee Almond Orchards for \$26.5m.
 - January** A group comprised of Pacific Equity Partners and Pinnacle acquired Allied Mills a flour and milling company for \$317m.
 - January** Bega Cheese acquired Mondelez Australian Grocery Business for \$460m.

2016

- 
- December Murray River Organics acquired Food Source International for \$5.6m and Australian Organics Holdings for \$12.5m.
 - December Raphael Geminder acquired 43% of Green's Foods for \$24m.
 - August Universal Robina Corp acquired Snack Brands Australia for \$600m.
 - June Pacific Equity Partners acquired Patties Foods for \$232m.
 - May Blackmores acquired Global Therapeutics for \$23m.
 - April McCormick & Co acquired Gourmet Garden for \$150m.

Selling Your Food and Beverage Manufacturing Business: What you need to know

Below, we discuss key considerations that generally impact on the success of food and beverage manufacturing business sales.

The Size of the Business

Larger food and beverage manufacturing businesses are generally disproportionately valued in the market compared to their smaller counterparts. Why is this?

Often, larger businesses in the food and beverage manufacturing industry are sought after by publicly-listed or private-equity backed industry buyers, who are regularly willing to pay a premium to secure well established, food and beverage manufacturers whose expansive productions can combine to generate significant cost reduction synergies.

Many times, those publicly-listed or private equity backed companies don't demonstrate the same level of interest in acquiring smaller food and beverage manufacturing companies as they do not offer the larger entity sufficient strategic benefits and economies of scale to warrant completing an acquisition.

The Strength of Exporting Capacity

The strength and potential a food and beverage manufacturing company has in regards to exports plays a crucial role in its valuation. Over 25% of revenues for Australian companies in the industry are generated from overseas. Being able to utilise this aspect or having a proven record in doing so, can significantly impact on the company's saleability and sale value.

Differentiation and Diversity of Product Offering

Those food and beverage manufacturing businesses that provide a differentiated product range are in a stronger position than those with a limited number of product lines. A diverse product range generally means the company is well positioned to

meet the needs of a dynamic customer base, and adapt to take advantage of new opportunities. Companies with a diversified product range are often subject to higher valuations.

Reliable and Strong Customer Relations

Food and Beverage manufacturers often rely heavily on their relationships with customers for their ongoing prosperity. Strong customer relations enable manufacturers to pass on costs and easily adjust prices during fluctuating economic periods to meet changing market supply and demand. If relations aren't well established it can be the source of significant risk and lower the valuation of a business.

Threats from overseas

Ideally an Australian food manufacturing company will have a unique competitive advantage that cannot be easily replicated by overseas rivals. This can be in the form of fresher produce, more reliable product screening, or economies of scale which can all add value to a food and beverage manufacturing company's valuation.

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Quinn M&A

Quinn M&A is a specialist business transactional advisory firm, offering expert advice to help our clients achieve success when selling, merging, valuing and acquiring medium-sized businesses.

Quinn M&A has expertise in advising on transaction and valuation matters across a range of industries, including:

- Food and Beverage Manufacturing Businesses
- Financial and professional services
- Aged care
- Technology

With seven convenient office locations on the East Coast of Australia, Quinn M&A focuses on building long-lasting relationships and providing superior client service in a confidential, timely and cost effective manner.

At Quinn M&A our experienced and dedicated team can provide you with the total solution, including advice in the following areas:

- Business sales
- Mergers
- Acquisitions
- Business and company valuations
- Due diligence
- Exit planning
- Specialist taxation advice
- Legal advice

With our expertise we are able to transact on national and international mergers, acquisitions and sales.

We understand that the quality of our work is a critical factor in earning your trust. Consequently, we strive to meet the highest professional standards. When you choose Quinn M&A, you can rest assured that you will benefit from our expert knowledge, our breadth of experience and advice, which ensures your matter will be dealt with in a thorough and professional manner.



Our Directors

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Michael has 30 years' experience as a Chartered Accountant and over 25 years as a practising Lawyer. Michael has a thorough understanding of the food and beverage manufacturing industry, having advised numerous clients on accounting, legal, transaction and valuation matters specific to the food and beverage sector.

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Stephen is an experienced transactional advisor and business valuation expert, engaging with clients across a broad range of industries, including multiple clients in the food and beverage sector. Stephen has assisted clients in the food and beverage industry with valuing their businesses for the purpose of succession planning and has advised on a number of food and beverage manufacturing industry sales and mergers, giving him a unique understanding of the industry.

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