BlueMind Fabulous 40

'A question of to eat or to be eaten'

Consolidation of private label and fresh food producers

BlueMind
corporate finance strategy

The concentration of strength in the worldwide food retail market and the global rollout of leading brands is forcing the Dutch food industry to scale up. Suppliers of fresh products and private label producers are catching up. They therefore dominate the Fabulous 40 study, that charts the fastest growing companies in the Dutch food and drink industry.

Anyone who wants to survive in the competitive food market, where the margins have been under pressure for years, needs to scale up. That adage applies to the trade, but no less to the food industry. Jointly with BlueMind, one of the largest corporate finance offices in The Netherlands, Foodmagazine has conducted a study into the growing diamonds of the Dutch food industry. Where is the growth and what are the underlying trends?

'In the past years there have been more acquisitions than in the nineties'

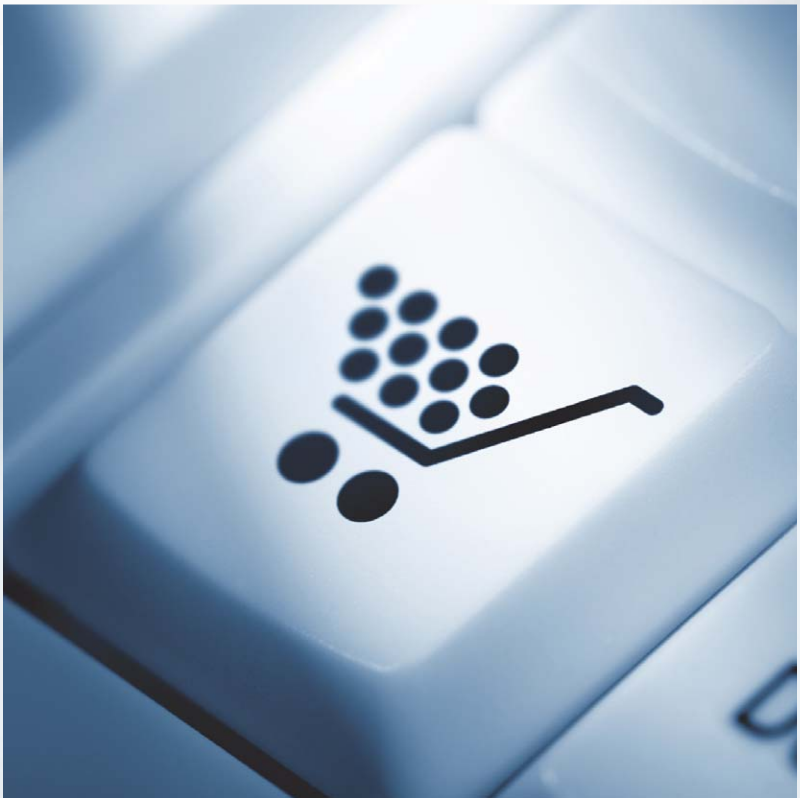
The figures and trends apply to the period 2006 – 2008.

Annually, the Dutch food industry generates a turnover of more than 50 billion euro, and therefore a quarter of the total Dutch industrial production. The food industry contributes 10 percent to the gross domestic product and generates over 20 percent of the total exports. Dutch multinationals have a strong international presence. There are no less than seven Dutch companies in the top 100 of world players in the food industry. The European top 25 contains the five Dutch food giants, i.e. Heineken, FrieslandCampina, Unilever, Nutreco and Wessanen. "The Dutch food industry is competitive in nature. This means that the smaller, as well as the major players, constantly have to adapt their strategy to the new requirements of the changing market conditions. Also, the nationally oriented players face increasing competition from abroad. The food industry increasingly has to face the fact that the fragmented market of twenty years ago no longer exists. There is continental or even global competition", according to Jan Willem Jonkman, managing partner of BlueMind Corporate Finance Strategy.

Growth in fresh food

In the list of the forty fastest growing food producers, the large number of producers in the fresh food categories is striking. No less than 32 of the 40 companies included in the Fabulous 40 are active in fresh or frozen food. Also, practically all the companies are active in the private label market. Approximately ten companies produce leading brands, but most of those combine that with the production of private label brands. Jonkman states: "From this we can deduce that corporate developments follow consumption trends. On the floor of the supermarkets, fresh food and private labels are winning shares away from the leading brands. We will see acquisitions in that area, because companies want to enhance their position in growth markets. This is where the future profits are".

Apart from dairy producer Vreugdenhil, the top ten companies have all implemented strategic acquisitions in the past three years. Five of the ten fastest



growing companies are fully or partially owned by private equity firms. Van Loon Vlees and Van Rooi Meat have more than doubled their turnover in the past three years. Farm Frites, number forty on the list, still had an annual 7.5 percent growth.

Economic crisis

The economic crisis barely influenced the turnover in the food industry. Consumers have not started eating less during the recession, although they did adapt their eating patterns. The supermarkets were still in the plus by more than 3 percent in the past year. Still, it is not easy for producers to find financing for current operations and new activities. This endangers the position of those companies who were already unsteady before the crisis hit. These conflicting trends mean that, although the number of mergers and acquisitions was lower in 2009 than in 2008, significant deals are still being made. "The number of transactions in the food industry has certainly not stopped, as in some other industries. The markets are open. There have been more acquisitions in these past years than in the nineties. Private equity firms drive this development. In 2008, Lion Capital acquired snacks producer Ad van Geloven. Gilde, that acquired Johma from Uniq in the beginning of 2010, purchased Plukon Poultry in April 2009. Van Hessen was sold in November 2009 to the management and Janivo. Before that, Heinz had already purchased Wyko Sauzen and SABMiller had acquired Grolsch. The crisis did not change the market circumstances. In a volume business, growth is essential."

For various reasons, the crisis has made the food industry become even more attractive for private equity and other investors. Jonkman: "In many industries, the turnover is under pressure and the prospects are bleak. This is different in the food sector. Whoever is in front can score. In a period of economic recession, companies with

Jan Willem Jonkman, Stephanie Clerx and Marleen Vermeer, BlueMind: "Private label makers can force growth by placing the most advantageous conditions with the retailers."

strong strategies shall stand out from weaker companies. Additionally, the food industry has a limited clientele, which is attractive for investors. The number of retail companies is easy to keep track of, enabling growth through existing customers."

Jonkman says that Johma is a good example. "The company is strong with its A-brand. The new owner Gilde, that invests in several food companies and already owns the Belgian company Hamal Signature, operating in the same category, is confident that this relationship can be continued. The company wants to sell private label through the same customers. Continental Bakeries and Refresco are applying the same strategy on a European level. They take over factories with an attractive product line and sell the products through retailers with which they are already working elsewhere in Europe."

Survival strategy

The BlueMind partner acknowledges that scaling-up is of all times, but that the rise of the private equity in the food industry is a development that has matured in the past decade. The private label market, including fresh food, is thus given an opportunity to catch up. Smaller companies are, by definition, less capable to build up and support major brands, and therefore focus mainly on private label. According to Jonkman, this is the best survival strategy for small, innovative companies. However, many of these companies are still eligible as a target for acquisition. "The private label market is a volume business. Purchasing power is extremely important and constantly becoming more so. It is not simple to place product innovations in the market successfully and to realize independent growth. Taking over a company is a good strategy to realize

'In food, if you are in front, you can score'

Company	Industry	Turnover 2008 in million €	Turnover 2007 in million €	Turnover 2006 in million €	Growth percentage	Takeover
1. Van Loon Vlees	Meat processing	110.513	65.749	49.648	49.20	x
2. Van Rooi Meat	Meat processing	274.510	164.136	138.004	41.04	x
3. Refresco	Beverages	1246.498	951.613	660.139	37.41	x
4. Van Dijk Food Group	Sauces and fats	187.664	124.780	113.360	28.67	x
5. Continental Bakeries	Bakery products	265.829	213.988	169.838	25.11	x
6. Koopmans Meel	Bakery products	77.696	58.970	49.656	25.09	x
7. Plukon Royal	Poultry processing	614.198	496.415	408.370	22.64	x
8. Klaas Puul	Seafood	157.513	156.450	105.538	22.17	x
9. Storteboom Food Group	Poultry processing	331.806	292.678	223.189	21.93	x
10. Vreugdenhil	Dairy	450.141	399.435	304.306	21.62	
11. Hyproca	Dairy and infant food	34.889	35.386	24.034	20.48	x
12. Meneba	Bakery products	376.300	308.743	261.529	19.95	x
13. Remia	Sauces	200.393	147.945	143.864	18.02	x
14. Huuskens	Fresh food	86.164	73.864	62.509	17.41	x
15. Van Rijsingen Groep	Fresh food	88.222	75.437	64.818	16.67	x
16. Vergeer Holland	Dairy (cheese)	246.711	215.966	181.380	16.63	x
17. Euroma	Flavorings, spices, sauces	71.612	59.420	53.091	16.14	x
18. Van Hessen	Meat processing (intestines)	169.510	130.652	127.011	15.53	
19. Vezet	Vegetables	160.718	150.972	120.508	15.48	
20. Westland Kaas Groep	Dairy (cheese)	137.631	116.756	104.258	14.90	
21. Banketbakkerij Merba	Bakery products	53.033	45.444	41.123	13.56	
22. Cooperatieve Zuivelinvesteerders	Dairy	99.239	89.879	77.385	13.24	
23. G.P.S. Nunspeet	Poultry processing	124.067	125.258	97.460	12.83	x
24. Cono Kaasmakers	Dairy (cheese)	169.018	160.217	132.890	12.78	
25. Bavaria	Beverages	501.468	434.738	401.225	11.80	
26. Rouveen Kaasspecialiteiten	Dairy (cheese)	80.485	79.325	64.537	11.67	
27. Burg Groep	Oils	76.948	71.386	61.909	11.49	x
28. Peka Kroef	Potatoes	98.174	98.171	79.284	11.28	
29. Sonneveld	Bakery products	55.807	50.261	45.166	11.16	
30. Bakx Foods	Snacks	16.568	15.873	13.587	10.43	x
31. United Soft Drinks	Beverages	71.583	65.118	58.850	10.29	
32. Ad van Geloven	Snacks	179.591	171.842	147.853	10.21	x
33. Van Oers Snacks	Snacks	105.586	98.870	87.083	10.11	
34. Verstegen Spices and Sauces	Flavorings/spices/sauces	81.200	75.131	68.454	8.91	
35. Borgesius	Bakery products	67.228	58.393	56.717	8.87	x
36. Menken Combinatie	Meat products, salads, sauces	81.334	80.354	69.127	8.47	
37. Zeelandia Groep	Bakery products	357.790	338.462	305.042	8.30	x
38. VION	Meat processing	8540.396	6996.025	7340.874	7.86	x
39. Uniekaas	Dairy (cheese)	144.535	134.719	124.643	7.68	x
40. Farm Frites	Special potato products	315.580	340.530	273.360	7.45	

Recent food deals in The Netherlands

January 2010	Gilde acquires Johma Salads and Uniq Sandwiches from Uniq plc.
November 2009	Van Hessen is sold to the Janivo management and Private Equity firm Janivo.
May 2009	NPM Capital extends its interest in Royaan from 52 to 94 percent.
April 2009	Plukon purchased from Cebeco by Gilde and Plukon managing director Peter Poortinga.
September 2008	Ad van Geloven purchased by Lion Capital.
May 2008	Merger between Campina and Friesland Foods.
March 2008	Takeover Wyko Sauzen by the Heinz Company.
February 2008	SABMiller acquires Grolsch.
January 2008	CapVest Equity Partners acquires a controlling interest in the coffee roasting firm Drie Mollen Group.
January 2008	Strikwerda sells K.B. Soufflé Specialist BV to Ruisfood BV.
January 2008	The Van Dijk Food Products BV management team acquires the company from Fortis MeesPierson.
December 2007	Fortis Private Equity and Clearwood acquire Maitre Paul from Nestle.
November 2007	Danone acquires Numico.

growth. Makers of generic brands are mostly judged by their cost structure and product quality by the retailers who want to enhance the growth of their private label. They expect differentiation from the leading brands, and cost leadership from the generic brands, because that is where the retailer makes money. This means that for the generic brand producers it is question of 'survival of the fittest'. It is a question of to eat or to be eaten."

According to Jonkman, the food retail market and the A-brands have led the way for the private label makers in trying to achieve scaling-up. In the past decades, the food retail market was typified by an accumulation of consolidation battles. The same development took place with the leading brands. "It is noticeable that the larger players on the market perform best. On the Dutch food retail market, Albert Heijn increased its dominance. The smaller chains have problems, as do proprietary brands. Studies, such as the Intro Top 20, prove that major innovations are practically always generated by the large leading brands manufacturers. They have the budgets to force growth."

The private label makers are last in line in that consolidation movement. "That is inevitable. Previously, it was possible to enter into contracts for fifty stores or make agreements on a store level. By now, purchasing has become virtually completely centralized. The smallest purchasing party in The Netherlands owns some 750 stores. Due to increasing regulations, quality control is also an issue. That means investments, which put pressure on operations. The right to exist of small producers is at stake."

'Generic brand producers are faced with survival of the fittest'

Private label makers have two major advantages over the leading brand producers when dealing with facilitating expansion. "Growth can be forced by

Dairy companies drop out of the list

The merger between Friesland Foods and Campina in 2008 was a major event in the field of mergers and acquisitions in the food industry. However, the merged company FrieslandCampina is not included in the Fabulous 40. The turnover figures of the new company are difficult to compare one-on-one to those of the previous period. Before the merger, Campina had a turnover of 4.032 billion euro, Friesland Foods 5.075 billion euro. After the merger, FrieslandCampina had a turnover of 9.454 billion euro. If the turnovers of both companies for the previous years are added up, after the merger FrieslandCampina would realize a growth of 6.73 percent annually. This means that the company has dropped out of the top 40.

Refresco arms itself against shrinking margins

The beverages giant Refresco generates growth upon growth with its 'buy and build' strategy. In 2000 the new company, the result of a management buyout of Menken Drinks and the acquisition of the German company Krings, started with a turnover of 85 million euro. This is 1.2 billion euro now. "We aim to become Europe's leading juice and soft drinks producer. At the moment, we have nineteen production locations in eight countries. The strategy behind each acquisition is that it has to enhance our growth and simultaneously lower our cost structure. Independently, we are also growing faster than the market average. Our growth is driven by our focus on cost-leadership in all markets", says CFO Aart Duijzer.
Refresco focuses specifically on the private label market and also conducts the filling process for several leading brands. Duijzer does not want to share which brands these are. Refresco does not have a research & development department. "We offer innovation on demand. We do not develop new soft drink ideas on our own initiative, but we are very capable to design our production process based on our customers' wishes. Because we do not want to reinvent the wheel ourselves, we keep the costs low."
Refresco is partially owned by venture investor 3i,who supported a management buyout in 2003. The investors Stadir and Kaupthing are also financing the growth. "We are not afraid of two or three acquisitions a year in existing or adjoining markets. The market is consolidating rapidly, because scaling-up and cost efficiency are the only weapons against shrinking margins. We want to grow to a turnover of over 2 billion euro", says Duijzer. "These companies often operate inefficiently or they lack focus. This means that inevitably there comes a time when they cannot ward off the pressure of the margins with cost reductions. As a leading European company, we are often able to use the capacity more efficiently and thus make a profit from the acquisitions."

Number one in organic growth

The Vreugdenhil Group supplies diary ingredients in powdered form to eighty countries worldwide. Vreugdenhil supplies its customers from four production locations in The Netherlands, a factory in Lithuania and trade offices in Spain, New Zealand and Italy. Its customers include many well-known leading brand producers and customers in the institutional market. The general managing director, Jan Vreugdenhil, recognizes the organic growth numbers of over 21 percent on average annually, in the period 2006 – 2008. "In 2002 and 2005, we took over two Nestle factories and invested in the production lines. The capacity utilization improved considerably. Also, during that period, the diary prices increased substantially. Our growth is therefore due to the production of more and more valuable kilos of dairy products."
Due to the decrease of the price of raw materials last year, Vreugdenhil does not expect to achieve the level of the 2008 turnover. The dairy company wants to realize growth by expanding the number of customers and markets and by have customers buy more and new products. "We make milk powders from different inputs specific for the different customers, customized in fat and protein levels to their production process", says Vreugdenhil. "We also produce milk powders in two factories from milk supplied by our own farmers. This is how we control the whole chain from the milk to the customer. When we acquired the milk factory in Gorinchem, we also acquired the supply contracts with a thousand farmers. This guarantees the continuous supply of milk and we can grow in the production of dairy products specific to our customers."

Standard for growth

The Fabulous 40 study is the Dutch equivalent of the British Fast 50 study that was published in the British trade journal The Grocer. The companies included in the Fabulous 40 have to comply with five predetermined selection criteria, i.e.: the companies are active in the food and beverages production industry, with their main location in The Netherlands; the turnover is at least five million euro in one of the three years measured and they have annual accounts that have been deposited on time; the companies are not listed on the stock exchange; and the majority of the shares are owned by Dutch shareholders, respectively foreign private equity parties.
To collect the required information, data was used from, among others, the Chamber of Commerce, Reach and Amadeus, corporate information, public information from websites and interviews. The standard for growth is the growth rate of turnover for the years 2006, 2007 and 2008, the so-called CAGR method (Compound Annual Growth Rate). The study was exclusively developed for Foodmagazine and conducted by BlueMind.
If there is any lack of clarity, discussion on inclusion in the list, or if you have any suggestions to improve the accuracy or otherwise, please contact Stephanie Clerx, BlueMind Corporate Finance: stephanie.clerx@bluemind.nl or (073) 623 87 74.

placing the most advantageous purchasing conditions with the retailers. This is less applicable to A-brands. Leading brands depend on the consumer. Retailers cannot escape a successful leading brand. The balance of power is different for generic brands. Private label makers depend far more on the retailers. Also, it is simpler to take over a production location and thus tap into a new market, than to develop a new leading brand. After all, the shelf space for leading brands is under pressure."

Sexy products

In the study, BlueMind charted the acquisitions for each assortment group for the period 2000 – 2009. The majority of the acquisitions took place in the sectors alcoholic beverages, meat, bakery and cooking products and dairy products. A product group such as frozen food is lagging behind. "That market is considered less sexy. The shelf is fairly complex. Also, companies prefer to invest in markets with more of a fresh food image, because that is where the consumption growth still is", says Jonkman.
Although the requirements for scaling-up are different for each product group, growth is necessary in all categories in order to survive. "Meat is a huge business. Other laws apply to the meat business than to the sauces market, which is more fragmented. In the meat, as well as in the bakery industry, surplus capacity has been taken out of the market by acquisitions."
Many acquisitions took place in the alcoholic beverages industry, especially in the first years. Companies conducted international acquisitions, especially to expand the distribution network of existing brands. "In the beer market, players such as InBev, Heineken, Anheuser-Busch and SAB-Miller established themselves globally. No brewer can ignore that trend. If you stay behind, you lose the connection."
The BlueMind researchers expect that changing consumption choices will lead to acquisitions and growth in other product segments. Jonkman predicts: "Previously, consumers focused more on functional food, taste, huge enjoyment and ethnic food. The consumers' focus now seems to shift to food concepts that offer value for money, convenience, sustainability and health. That is what we will see in the coming issues of the Fabulous 40."

Van Rooi profits from Van Pelt's downfall

In 2008, the Van Rooi Meat Group acquired the bankrupt Van Pelt Vlees for four million euro. Acquiring Van Pelt Vlees was a strategic choice for Van Rooi. The company was already active in slaughtering and upgrading, and with Van Pelt (Scherpenzeel) , they also scaled up to retail.
Van Rooi Meat is a family business led by the brothers Marc and Addie and their father, Martien van Rooi. The company, active in the entire chain, has five locations in The Netherlands. With Van Pelt, Van Rooi wants to specialize in prepackaging for each strategy chosen by the retailer. It also wants to further develop its capacity as supplier of oven products and rolled meat in aluminum trays/top seal. Apart from packaging, Van Rooi also annually expands its share in the number of pig slaughters. The company now has a ten percent share in the pig slaughtering market. In 2009, there were 1.41 million slaughters.

Lidl brings good growth rate for Van Loon Vlees

Van Loon Vlees was founded in 1971 when Jos van Loon started a butcher's shop as part of the HorecaGroothandelsCentrum [Catering Wholesale Center] Jan Louwers in Eindhoven. Van Loon initially focused on catering, later also on food service. At present, his son Erik van Loon is the sole shareholder and manages the company together with his brother Roland. Currently, approximately half of the turnover is fresh or frozen prepackaged products for retail. The company realizes independent growth, but also acquired other companies in the past three years for 7 million euro, including a beef processing company in Roosendaal last year.
However, Van Loon achieved its largest growth rate by focusing on delivering meat to discount stores, such as Lidl. This strategy meant that the turnover of the meat processor from Brabant doubled in two years' time. In that respect, the recession that started in 2008 certainly paid out for Van Loon Vlees. Another explanation for Van Loon's growth rate is the discovery of a method whereby pieces of meat can be attached to each other, using enzymes. This means that pieces of meat that are too small or too thin can as yet be used. The market for this meat, for which there is a great demand especially in the food service and catering industry, shall only expand in the coming years.

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