23 July 2015

Britvic plc

Acquisition of Empresa Brasileira de Bebidas e Alimentos SA for R$580m (£120.8m)

The Board of Britvic plc (“Britvic”) announces today the acquisition (the “Acquisition”) of Empresa Brasileira de Bebidas e Alimentos SA (“ebba”).

Summary

- ebba is a high quality independent soft drinks company in Brazil;
- ebba is the number one supplier of liquid concentrates (dilutes) and the number two supplier of ready-to-drink (“RTD”) nectar drinks in Brazil;[1]
- ebba’s key brands, Maguary and dafruta, lead the liquid dilutes category, with a growing presence in RTD nectar drinks;
- The transaction provides Britvic with immediate access to the sixth largest soft drinks market and the largest concentrates (dilutes) market globally;
- Britvic intends to accelerate growth in ebba by building on the existing strong platform and route to market investing behind the ebba brand portfolio, extending existing brands into new sub-categories and introducing Britvic brands to the Brazilian market;
- ebba reported net revenue of R$437.2m and EBITDA of R$45.0m in its FY2014 financial statements;
- Britvic’s clear ambition is to at least double ebba’s[2] EBITDA and significantly grow margins by 2020;
- Under the terms of the Acquisition, the enterprise value of ebba is R$580m (£120.8m), with an effective acquisition cost of R$545.4m (equivalent to £113.6m), payable in two tranches[3];
- The Acquisition will be partly funded from the proceeds of a placing of new ordinary shares.

Rationale for the Acquisition

In May 2013 Britvic outlined its strategy to drive long-term sustainable growth for shareholders. A core pillar of the strategy is to pursue international expansion by capitalising on global opportunities in the kids, family and adult categories, where Britvic has the leading brands in its core markets.

The Acquisition will give Britvic immediate access to the sixth largest soft drinks market globally (R$84.3bn / £17.6bn as of 2014) which has achieved a retail sales value growth CAGR of 13.6% and a volume growth CAGR of 4.0% over the last five years. Brazil has the largest concentrates (dilutes) category globally (R$6.6bn / £1.4bn as of 2014) and a fast growing juice drinks category[4] (R$10.2bn / £2.1bn as of 2014), with a volume growth of c.9.9% over the last five years.. Brazil is an attractive market with a current population of over 200 million, which is expected to reach 218 million by 2025, with an increasingly younger and more affluent demographic[5].

Britvic has spent a considerable amount of time analysing the Brazilian market and conducting due diligence on the Acquisition and believes that the Brazilian soft drinks market is relatively underdeveloped when compared with other markets in which Britvic operates. Specifically, the liquid dilutes category has lacked investment whilst the juice drinks category under-indexes in share[6]. In addition, in Britvic’s view, the kids category is currently commoditised, whilst there is no discernible adults category and a lack of engaging soft drinks fixture in-store. Britvic is confident that these current characteristics provide a backdrop against which to drive attractive future growth.

The ebba business has brands that enjoy high levels of awareness and relevance to consumers, similar to Robinsons in the UK and Teisseire in France. Leading national brands, broad market presence, a well established infrastructure and a strong management team are key characteristics of the ebba business today.

Commenting, Simon Litherland, Chief Executive Officer of Britvic, said:

“The acquisition of ebba represents a unique opportunity to acquire a high quality business in a substantial soft drinks market, with exciting future growth potential. ebba operates in categories where Britvic has a proven capability of building new markets, accelerating innovation and establishing brand leadership. We have been in dialogue with ebba for some time and have completed a significant amount of due diligence in assessing the value and prospects of the business and the wider marketplace.

ebba’s brands are particularly strong, and have a relevance to Brazilian consumers similar to the ones which Robinsons, MiWadi and Teisseire enjoy in their home markets. I am particularly pleased that the management team, led by João Caetano de Mello Neto, will continue to lead the business.

We have identified opportunities to invest behind these leading brands, introduce new brands, and harness our group capability. As a result, we are confident we have a fantastic opportunity to drive long-term growth in the kids, family and adult categories and deliver significant shareholder value over the coming years.”

Financial profile
The ebba management team has delivered strong growth in the past few years, with both top-line revenue and EBITDA growth. This growth has been driven by innovation and distribution gains with limited marketing investment.

Reported net revenue has grown from R$292.4m in 2012 to R$419.7m in 2013 and R$437.2m in 2014, which represents a CAGR of 22.3% over the period. EBITDA has grown from R$30.6m in 2012 to R$43.6m in 2013 and R$45.0m in 2014, which represents a CAGR of 21.3% from 2012 to 2014. EBIT margin has remained fairly stable throughout this period, achieving 8.1% in 2012, 8.0% in 2013 and 7.5% in 2014.(7)

As at December 2014, ebba had R$373.7m in total assets and reported a profit before tax for the full year of R$4.9m.(7)

Outlook and potential to deliver significant shareholder value
Britvic has clear plans to drive revenue growth and to at least double EBITDA by 2020, alongside an opportunity for significant margin expansion(2). Over the next two years, Britvic intends to accelerate growth in ebba by strengthening the business, investing in the brand portfolio and re-investing already identifiable cost savings of at least R$10m to drive future growth. As a consequence, Britvic expects EBITDA to be broadly flat in 2016 and 2017 compared to 2015 before increasing from 2018 onwards.

The business case has been developed whilst recognising the impact of the current economic environment in Brazil. In the short-term, Britvic expects that current economic weakness will translate into lower revenue and EBITDA in 2015 as compared to 2014. It is anticipated that in 2015 revenue will be lower by c.5% and EBITDA c.10%, reflecting the challenging market conditions being currently experienced.

Looking forward GDP growth in Brazil is expected to recover from next year whilst the total soft drinks market volume is forecast to grow 3.1% CAGR and juice drinks volume forecast to grow 9.1% CAGR from 2014 – 2019(4). In addition, Britvic anticipates there will be positive consumer trends with increasing demand for Stills and "better for you" products and increased emphasis on differentiation and sophistication in brands, product and packaging innovation.

Whilst Britvic's future ambitions for ebba are built on the expectation of a moderately improved macro backdrop, with both the economy and the soft drinks market forecast to deliver future growth, Britvic believes that the major driver of growth will come from self-help initiatives including introducing Britvic's brands into Brazil, cost savings and improved market execution.

Leveraging previous international experience
Building on the experience gained from the acquisitions in Ireland and, more recently, France, Britvic's plans are expected to be achieved by a clear framework that will:

- Focus on developing the kids, family and adult categories;
- Re-invest cost savings in marketing, A&P, people and infrastructure;
- Deploy Britvic best practise – marketing, category and revenue management expertise;
- Extend brands into new sub-categories; and
- Introduce existing Britvic brands into the market, including "new to market" concepts.

Integration
ebba will operate as a standalone business unit and João Caetano de Mello Neto, ebba's CEO, will sit on Britvic plc's Executive Committee. A clear integration plan will be put in place focussed on marketing, innovation and category management; supply chain; delivery of cost savings; and legal, risk and financial governance. A dedicated programme management office will oversee delivery of the integration, having proven capability in delivering strategic cost initiatives.

Principal Terms and Financing of the Acquisition(3)
The headline enterprise value of R$580m (£120.8m), which through the use of a forward contract to satisfy the deferred consideration tranche, reduces to an effective enterprise value of R$545.4m at current R$:£ exchange rate of 4.80 (equivalent to £113.6m). The enterprise value comprises two stage payments each of R$193.8m, with second payment two years from completion and repayment of ebba debt of R$192.5m. This represents an effective 2014 EV/EBITDA multiple of 12.1X and a multiple of 12.9X based on headline enterprise value. The Acquisition is subject to fulfilment of closing conditions and it is anticipated the Acquisition will complete by the end of September.

The consideration for the Acquisition, associated transaction costs, working capital and investment in the business will be partly funded from the proceeds of a non-pre-emptive cash placing (the "Placing") of up to 12,361,455 new ordinary shares in the Company (representing up to 4.97 per cent of Britvic's existing issued ordinary share capital).

The Acquisition incorporating the effects of the placing is expected to be marginally dilutive to EPS in the first two years of ownership. Thereafter the Acquisition is then expected to become EPS accretive from year 3. It is also expected to exceed the Britvic WACC from year 4 onwards.

Following the Placing, the impact on expected leverage at the 2015 year end is anticipated to be broadly neutral taking into account completion of the Acquisition and the payment of the initial consideration, repayment of existing ebba debt and associated transaction costs.

Britvic will acquire ebba from members of the Tavares de Melo family, a group of industrialists with numerous business interests in Brazil.

Overview of ebba

Brands overview and market positions

ebba's two brands, Maguary and dafruta, both operate in the categories of liquid concentrates (dilutes) and ready-to-drink (RTD) juice-based products. The brands combined market share makes ebba the leading supplier in the liquid dilutes market in Brazil, with a market value share over 50%.(1)

Dating back to the 1950s, Maguary is the liquid dilutes category leader and is available in a range of flavours and pack formats, including PET, Tetra and cans. Maguary has 90% brand awareness(8) and has 31% market value share of liquid dilutes. Maguary has extended reach into the children's categories and RTD nectar (10% market value share of RTD nectar drinks). dafruta, the number two brand in the liquid dilutes category, has a strong regional heartland and is available in PET, Tetra and cans. Established in the 1980s as a mid-range price offering, dafruta now has 20% market value share of liquid dilutes and is also available as an RTD in the children's category and in RTD nectars, where it has 4% market value share of RTD nectar drinks.

ebba Infrastructure

ebba has a commercial and marketing head office in São Paulo with the business support functions located in Recife and the supply chain support functions located in Araguari. ebba has two production locations in the states of Ceara and Minas Gerais with a strategic proximity to fruit growing regions. With a broad market presence ebba has relationships with all the key retailers in the Brazilian market and its brands are present across all routes to market. The majority of business is in the off-trade, although it has a presence in the on-trade. Through a national sales force ebba both sells direct to the major retailers and to smaller outlets through the wholesale network.

ebba Management

ebba has a strong management team, led by João Caetano de Mello Neto, who will remain with the business following the transaction. João Caetano has been Chief Executive Officer of ebba since 2011, overseeing a period of significant growth. He has worked in the food & beverage sector for 24 years, and has held senior management positions including 14 years at The Muller Drinks Company (7 years as CEO).

Pedro Magalhães is the Chief Financial Officer, having joined ebba in 2009 and serving as CFO since 2011. Pedro previously worked in the private equity sector. He will also remain in the business after the Acquisition. Fabio Levalessi serves as Commercial Director of ebba, having been with the company for 3 years, and has a broad experience across the food & beverage sector in Brazil, with more than 10 years' experience with Ambev, J. Macêdo and Heineken. Gustavo Gonçalves is the Industrial Operations Director, having joined ebba in 2014. Previously he was Chief of Industrial Operations of ITAMBÉ for 4 years.

Note (1): Analysis of ebba supplied Nielsen Data to March 15. Category definitions - concentrates (dilutes), mixed with water to create a juice-based soft drink. These are available in both a powder and liquid format. Nectars, contain a minimum 25% fruit juice. Juice drinks, contain between 10% and 25% fruit juice.
Note (2): Using 2015 as the base year. 2015 estimate is based on ebba management forecast adjusted for Britvic due diligence on the expected outcome for the year.
Note (3): The enterprise value comprises a payment of R$193.8m on completion of the Acquisition, a second tranche payment of R$193.8m payable two years from completion, and the repayment of ebba debt of R$192.5m. This headline enterprise value of R$580m reduces to an effective enterprise value of R$545.4m (equivalent to £113.6m) through the use of a forward contract rate of R$:£ 5.8 to satisfy the deferred consideration tranche of R$193.8m. The final split of the Enterprise Value between debt and equity will be subject to the level of debt and working capital acquired at the completion date.
Note (4): Euromonitor International Passport 2014 to 2019 market report issued February 2015. Juice drinks defined as juice, juice drinks and nectars. R$:£ 4.80
Note (5): United Nations World population prospects report published 2013.
Note (6): Euromonitor International Research 2014.
Note (7): 2015 estimate is based on ebba management forecast adjusted for Britvic due diligence on the expected outcome for the year. All historical financial information is taken from the audited statutory accounts. 2013 numbers agree to the restated comparatives in the 2014 statutory accounts following the reclassification of leases from operating to finance. ebba's audited statutory accounts were prepared under Brazilian GAAP, which is broadly consistent with IFRS. Following completion of the Acquisition, ebba's financial reporting will be restated as required to ensure alignment with Britvic accounting policies, for example in 2014 some promotions estimated at R$6m will be reclassified from overheads to revenue. The initial fair value/acquisition accounting will be determined provisionally on completion, and will be finalised within 12 months in line with IFRS.

Note (8): Source: ebba marketing study June 2012 copernicus & officina Sophia prompted awareness.

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Britvic will be hosting a webcast today at 08:15am. The webcast can be viewed at: http://www.britvic.com/investor-centre/results-and-presentations/2015.aspx

There will also be an opportunity to ask questions at the end of the formal presentation, to participate in the Q&A please dial:

Participant dial-in numbers

Location you are dialling in from	Number you should dial
United Kingdom	020 3059 8125
All other locations	+ 44 20 3059 8125

Participant Password: "Britvic" - must be quoted to the Operator in order to gain access to the conference.

Notes to editors

About Britvic plc

Britvic is one of the leading branded soft drinks businesses in Europe. Britvic is the largest supplier of branded still soft drinks in GB and the number two supplier of branded carbonated soft drinks in GB. Britvic is an industry leader in the island of Ireland with brands such as MiWadi and Ballygowan, and in France with brands such as Teisseire and Pressade. Britvic is listed on the London Stock Exchange under the code BVIC and is a constituent of the FTSE 250 index.

The securities mentioned herein (the "Securities") have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. There will be no public offering of the Securities in the United States.

This announcement may contain certain forward-looking statements with respect to certain of Britvic's plans and its current goals and expectations relating to its and ebba's future financial condition and performance which involve a number of risks and uncertainties. Britvic cautions readers that no forward-looking statement is a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements sometimes use words such as "aim", "anticipate", "target", "expect", "estimate", "intend", "plan", "goal", "believe", or other words of similar meaning. Examples of forward-looking statements include, among others, statements regarding Britvic's future financial position, income growth, impairment charges, business strategy, projected costs, estimates of capital expenditure, and plans, dividend growth and objectives for future operations of Britvic and other statements that are not historical fact. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances, including, but not limited to, UK domestic and global economic and business conditions, the effects of continued volatility in credit markets, market-related risks such as changes in interest rates and exchange rates, the policies and actions of governmental and regulatory authorities, changes in legislation, the further development of standards and interpretations under International Financial Reporting Standards ("IFRS") applicable to past, current and future periods, evolving practices with regard to the interpretation and application of standards under IFRS, the outcome of pending and future litigation or regulatory investigations, the success of future acquisitions and other strategic transactions and the impact of competition – a number of which factors are beyond Britvic's control. As a result, Britvic's actual future results may differ materially from the plans, goals, and expectations set forth in Britvic's forward-looking statements. Any forward-looking statements made herein by or on behalf of Britvic speak only as of the date they are made. Except as required by the Financial Conduct Authority, the London Stock Exchange or applicable law, Britvic expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this announcement to reflect any changes in Britvic's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.