

Retail & Consumer



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Overall, the entire retail and consumer sector is performing well compared to many other sectors. Its performance in the next six months will be dependent on the level of unemployment, consumer and business confidence and the ability to access financing.

Few transactions have occurred in the retail and consumer goods sector in Australia in financial year 2009 compared to levels seen at the height of the economic cycle. There has also been a considerable decline in private equity (PE) activity, predominantly due to banks limiting the ratio at which they lend to PE organisations. This decline has resulted in corporations finding themselves in a relatively more advantageous position to buy assets, particularly so for corporations with strong balance sheets. The market has seen an overall decline in valuations, resulting in fewer owners deciding to sell unless absolutely necessary. Assets are still being divested however. Most recent retail and consumer transactions have been relatively small in size. However, in the last six months two major transactions have occurred in the beverage sector, both involving major Japanese corporations. Asahi finalised its purchase of the Schweppes business from Cadbury Schweppes in April 2009. That same month, Australian brewer Lion Nathan was taken over by Japanese brewer Kirin.

Recent announcements in May 2009 include the proposed acquisition by Woolworths of up to nine store leases from Macro Life (a retailer of organic produce). June 2009 found Australian United Retailers Limited (FoodWorks) entering into a contract to purchase 45 supermarkets and eight associated Liquor Land stores from Coles Supermarket (a Wesfarmers-owned retailer). The acquisition, valued at AUD\$35 million, would deliver the most significant growth for the company since its internal capital raising in 2007. Additionally, in mid-April Coles agreed to sell its interest in online pharmacy business Pharmacy Direct to RX Direct Pty Ltd

As the global financial crisis continues, China's economy has slowed, mainly due to shrinking exports. However, the impact of the financial crisis is not as severe in China as in many other countries. China's Consumer Price Index fell 1.4% year-on-year in May, which was the fourth consecutive monthly decline. As a result of this, fewer deals were closed in the past six months. Both corporate and PE investors are still actively looking for investment opportunities in China. One interesting phenomenon this year is that of Chinese companies going abroad, taking the opportunity to hunt for cheap assets. For example, Suning recently acquired a minority interest in an electronic appliance chain in Japan. Although the investment size of this deal is small, the trend and the strategic moves of many other Chinese companies bear watching.

In India the retail and consumer goods sector has not been spared the impact of the global economic slowdown. The volume and value of M&A transactions and PE investments in the period January to June 2009 were relatively lower when compared to the deal activity in the corresponding period of 2008. In the current business environment, most retail and consumer goods companies have been focusing on meeting their current business challenges. Published data over the last six months suggest that approximately 6% of deals (i.e., M&A transactions and PE placements) that occurred in India from January 2009 till now were in the retail and consumer goods space. PE transactions are limited since fund houses are exercising caution.

Going forward, it is expected that most Indian retailers, which are currently cash-strapped, will explore opportunities for fresh funds infusion. Wellness, healthcare and jewellery are some of the areas that are seeing increased attention from PE players and strategic investors. These areas are expected to do well, considering the increasing role that lifestyle and wellness is playing in Indian consumers' lives, habits, activities and preferences.

A total of 140 M&A transactions were announced in the retail and consumer sector in Japan, 88 of which were completed during the first half of 2009. The Japanese retail and consumer goods sector continues to go through consolidation, horizontally and vertically. Several of the larger companies have remained active in pursuing outbound acquisitions. Mega mergers previously announced among a dozen department stores have taken effect during the first half of 2009, while more recently it has been rumoured that Takashimaya Department Store is in alliance discussions with H2O Retailing (which is itself the product of a merger between Hankyu and Hanshin Department Store). The consolidation means that the various historically symbolic stores are becoming four major department store groups, namely Mitsukoshi-Isetan Holdings, Millennium Retailing, J-Front Retailing, and H2O Retailing.

In specialist retailing, Fast Retailing Group launched a tender offer to acquire 100% of Link Theory Holdings for about US\$300 million and continues to express an appetite for further acquisitions, both domestically and internationally. Dai Nippon Printing, a major printing and semiconductor company, became the majority shareholder of two book retail chain stores: Junk Do Shoten and Book-Off Corporation. It has previously been common for publishers to operate retail book stores, but this move signifies an early shift towards the vertical integration of the book business across printers (physical creation), publishers (content creation) and retailers.

Within the food and beverage sector, the major beverage companies that undertook a number of major deals in Oceania and Asia last year have remained active. Kirin Holdings announced an intention to increase its stake in Philippines' San Miguel Beer to 48% through a JPY131.6 billion investment, while Asahi Breweries has acquired a minority stake in Tsingtao Brewery of China from Anheuser-Busch InBev of Belgium for JPY59.3 billion. Other outbound activity has involved a number of relatively smaller deals, such as the acquisition by Imuraya Seika, a Japanese snack maker, of 83% of LA/IC, a Los Angeles-based ice cream maker for JPY400 million. Domestic consolidation within the dairy sector has continued after the merger of Meiji Dairies and Meiji Seika last year, with Snow Brand and Nippon Milk Community announcing a merger through creation of a new holding company in a deal valued at JPY13 billion.

In compliance with WTO commitments, the Vietnamese government opened the door for foreign retailers in January 2009, allowing 100% foreign ownership of retail and distribution entities. In June, Unilever announced the acquisition of 33.33% in Unilever Vietnam Joint Venture Co. from its local partner Vietnam National Chemical Corporation (Vinachem). In March, SABMiller acquired a 50% interest in SABMiller Vietnam JV Co Ltd, a beer producer and wholesaler, from its joint venture partner Vietnam Dairy Products Joint Stock Co (Vinamilk), a manufacturer and distributor of dairy products.

There was also a notable deal between two domestic companies. International Consumer Products Corp. (ICP), one of the fastest growing privately-owned FMCG companies in Vietnam, took over a 51% stake in Thuan Phat Foodstuff Joint Stock Company. The deals made by Unilever and SABMiller have shown the commitment of major foreign multinationals to Vietnam. On the other hand, the ICP deal indicates a dual trend: some companies are taking advantage of the opportunities arising from the financial crisis to expand their business while others are increasingly willing to sell non-core parts of their businesses. Foreign companies already well established in Vietnam, such as Metro of Germany, Big C of France and Lotte Mart of Korea, also continue to expand. The expectation is for more consolidation and major new entrants as well.

There were no major acquisitions in Thailand in the last six months, just M&A movements resulting from business group restructuring. The largest transaction in terms of deal size was the acquisition of Minor Corporation PCL by Minor International PCL. Recently, S&P Syndicate PCL acquired 90% of Patra International Restaurant and Thai Beverage PCL acquired Chang Beer International and Mae Khong Distillery Co., Ltd There are several investors expressing interest in entering the market through acquisitions and partnerships. These M&A transactions are expected to take place once investors have a clearer view of market growth and political stability.

There have also been some strategic movements by foreign investors in Malee Sampran, the market leader in fruit juice, canned fruit and cereal beverages. In addition, major players like Nestlé still look to expand their presence in Thailand. Political turmoil and other factors such as the global financial crisis have had a negative impact on consumer confidence. Nevertheless, a few strong players such as CP group, SCG and Minor Group are still very opportunistically acquisitive throughout the region. ■