

# analysis

## The supreme deal maker does it again

Premier Foods boss Robert Schofield may be salivating but has he bitten off more than he can chew with RHM? Beth Phillips reports

**P**remier Foods acquiring RHM? The very idea would have been dismissed as idle gossip not long ago. RHM tends to be tipped as a potential bidder in most takeover battles, after all. But this week it found itself on the receiving end of a £1.2bn offer from a company with a turnover half its own.

If Robert Schofield can pull off the deal, it will transform Premier into the UK's biggest food and drink supplier with sales of £2.68bn. But how will the integration of the two businesses work in practice? Is there a danger Premier could become too big? And will it have to offload any of its portfolio?

The deal, which has taken 15 months to thrash out, according to Premier's chief executive, certainly looks juicy on paper. Premier is offering one new share and 83.2p in cash for each RHM share, valuing RHM at 352.45p a share. It estimates its trading profit, currently at £168m, will increase to £338m. It also reckons it can save £85m in cost synergies. And it has set aside £100m for further acquisitions so the group can "continue to acquire great British brands" – a signal Schofield's empire building is far from over.

Though Premier has been on the acquisition trail for the past five years, Schofield acknowledges that the RHM deal is of a totally different order. "With our other acquisitions, we always said they were tremendous bolt-ons," he says. "This time it is different. RHM is not a bolt-on business. This is a transformation for Premier Foods."

Schofield wants to stretch the RHM brands in the same way he has Premier's, most notably Branston, and believes that the RHM brand with the biggest potential is Hovis. Extending the £380m brand from bread into categories such as cereal and biscuits has Schofield licking his lips. "Hovis is the most exciting brand in the portfolio. I could almost salivate over it," he exclaims.

There is also potential to extend a number of brands including Sharwood's, Loyd Grossman, Bisto, Ambrosia and Oxo into chilled, he suggests. RHM has already been moving ambient brands into chilled, with Sharwood's moving into sauces and Bisto entering roast potatoes. The combined group would be able to exploit the chilled capabilities of RHM and the technology used by Premier's vegetarian brand Quorn.

There has been speculation Premier could dispose of RHM's flour milling businesses and may have to satisfy the competition authorities by offloading either Bisto or Oxo.

However, Clive Black, of Shore Capital says he would be surprised if the regulator required many, if any, forced disposals. "Premier may be open to offers for specific brands where there is strong interest and so an attractive price, but we're not expecting any disposals for now."

Another analyst adds: "Premier hasn't got rid of many brands in the past. They tend to be acquisition rather than disposal driven."

Schofield has certainly got acquisitions and integrations down



### \* MUSICAL CHAIRS

RHM has been touted as a potential bidder for many food manufacturing groups in the past few months.

Earlier this year it lost out, ironically, to Premier in the sale of Campbell Soup Company's UK and Ireland businesses, but it was also linked to Northern Foods' speciality breads and cakes division and to Northern Foods as a whole following these disposals.

There were also rumours it was eyeing the cakes division of United Biscuits and Burton's Foods, which last month admitted it was "looking at options for the future development of the business".

However, now RHM has switched roles from acquirer to acquired, it leaves the door open for a number of food manufacturers to move in.

Analysts believe Northern Foods could be a strong contender for Burton's Foods.

Last month it raised more than £200m from the sale of 40% of its businesses, so it could use the proceeds to fund a deal.

Premier Foods may itself be in the running. It has set aside £100m for further acquisitions and could use its clout to go for either Burton's Foods, the cakes division of United Biscuits, or both.

to a fine art. "Premier is aggressive, good at acquisitions and good at integrating businesses," says Simon Peacock of Catalyst Corporate Finance. "It has carried out a number of deals and is good at making brands work," adds Evolution Securities' David Hallam.

As far as the physical integration of the two businesses goes, Premier plans to use its experience with Campbell's, its biggest acquisition to date, to integrate RHM in chunks. First it is expected to close RHM's HQ, before integrating RHM's culinary brands, customer partnerships and cakes businesses into Premier's grocery division. In parallel, it will rationalise its factory and supply chain.

Schofield is confident despite the scale of the task. "This is risk-adverse and very do-able. We have done this before and the process will be completed in three years."

The new business will be able to use its clout as a bigger manufacturer to get better deals with the multiples, he says, adding that he

**Schofield: 'This is risk-adverse and very do-able. We have done it before'**

also wants to "seriously explore" its logistics and routes to market.

However, size, is not everything, warns one executive at a major supplier. "Premier is very good at integrating this kind of acquisition, but I question the value of being big for the sake of being big. I am not convinced size per se creates additional power. What matters is category scale."

Premier will have to keep its customers on its side, adds Rowan Bradford at Kaisen Consulting. "It will be important for Premier to communicate the changes with them, and keep them involved so they know it can also work for them. If not, they'll go elsewhere."

If anyone can pull it off, Schofield can. And why stop at RHM? "The deal gives it the leverage to attack UB's cakes division and also Burton's," says one analyst. "It has the potential to become a big, diversified UK company." ■