

# Royal Unibrew acquires Hartwall and reinforces its market position significantly



COMPANY ANNOUNCEMENT NO 33/2013 - 11 JULY 2013

## Royal Unibrew acquires Hartwall and reinforces its market position significantly

- Conditional agreement to acquire Finland's second-largest brewery group, Oy Hartwall Ab.
- Acquisition expected to strengthen Royal Unibrew's earnings per share (EPS) before integration costs already in 2014.
- Acquisition price based on enterprise value of DKK 3.3 billion funded through bank debt and a directed issue to Hartwall Capital Oy Ab of up to 9,995% of Royal Unibrew's existing share capital.
- Extension of partnership with Heineken in Finland and the Baltic countries.
- Dividends and share buy-backs put on hold, but will resume in 2015 from a stronger earnings base.

Royal Unibrew A/S has today entered into an agreement with Heineken International B.V. to acquire Finland's second-largest brewery group, Oy Hartwall Ab (Hartwall). The acquisition is subject only to approval by the Estonian competition authorities and to the customary consent from business partners. The acquisition price of DKK 2.8 billion is based on an enterprise value of DKK 3.3 billion. The valuation of Hartwall is based on the multiples applying to other strong regional breweries such as Royal Unibrew.

The acquisition is in line with Royal Unibrew's strategy of being a strong, focused regional brewery player with leading positions in the markets for beer, malt and soft drinks in the Nordic and Baltic countries, supplemented by strong niche market positions, for example in the Italian super premium market and international markets for malt drinks.

The acquisition will allow Royal Unibrew to expand its position as the second-largest brewery group in the Nordic and Baltic countries and to broaden and strengthen its earnings base, as well as to expand its portfolio of own brands.

*"We really value Hartwall's market position, strong brands and considerable innovation, and the acquisition of Hartwall supports Royal Unibrew's strategy very well. Hartwall and the Finnish market are in many ways similar to our Danish operations, and we are confident that, as a long-term focused owner, in a close partnership with the company's management and employees, we will be able to increase Hartwall's commercial and operational strength and thus improve earnings," said Henrik Brandt, CEO of Royal Unibrew.*

Royal Unibrew will put dividend distributions and share buy-backs temporarily on hold until 2015 while integrating Hartwall and reducing the debt raised for the acquisition. The Hartwall acquisition is expected to increase Royal Unibrew's net profit and earnings per share before integration costs already from 2014, and Royal Unibrew expects to resume both dividend distributions and share buy-backs in 2015 on the basis of higher earnings and a larger cash flow.

Pro forma consolidation, 2012 figures	Royal Unibrew*	Hartwall	Consolidated
Volumes, (million hectolitres)	5.4	3.0	8.4
Revenue (DKK million)	3,330	2,302	5,632
EBITDA (DKK million)	605	373	978
EBIT (DKK million)	480	209	689
EBITDA margin (%)	18.2	16.2	17.4
EBIT margin (%)	14.4	9.1	(11.7**) 12.2
Employees	1,635	862	2,497

\*excluding Impec \*\* after estimated amortisation derived from acquisition

### **Hartwall profile**

A multi-beverage business with a broad product range, Hartwall holds a clear runner-up position in Finland. With its own brands as well as international brands, Hartwall is the market leader in the categories of mineral water, cider and Ready To Drink (RTD) and a strong runner-up in the categories of beer, soft drinks and energy drinks. Non-alcoholic beverages account for 43% of revenue, whereas beer, cider and RTD make up 44%. The business unit Hartwa-Trade operates agencies for a number of international wine and spirits brands and contributes 13% of Hartwall's revenue.

Hartwall is headquartered in Helsinki and operates two modern and well-invested production facilities in Lahti (all products but mineral water) and Karijoki (mineral water). A distribution network of 21 terminals supplies approx 15,000 off-trade and on-trade Hartwall customers directly. Hartwall sells about 90% of its production in its domestic market and the rest is exported, especially for cross-border trade in the Baltic countries.

### **Partnerships with Heineken and PepsiCo**

Royal Unibrew and Heineken have simultaneously agreed to extend their partnership to the effect that, anchored in a bottling agreement for 10 years, Royal Unibrew and Hartwall have the right to produce the Heineken brand for Finland, Estonia, Latvia as well as Lithuania. Extending the partnership with Heineken will strengthen Royal Unibrew's earnings base in the long term. Already, Royal Unibrew produces the Heineken brand in Denmark and distributes Heineken in the Baltic countries, and Hartwall is a distributor of Heineken in Finland.

Also the collaboration with PepsiCo will be fortified as both Hartwall and Royal Unibrew have for several years license-produced Pepsi, which holds a strong position in both the Finnish and Danish markets.

### **Funding the acquisition**

Royal Unibrew has renegotiated its credit facilities and has received unconditional commitments for long-term credit facilities from its main bankers to fund the acquisition.

Subject to completion of the Hartwall acquisition, Royal Unibrew will also carry out a directed issue to the Finnish investment company Hartwall Capital Oy Ab (Hartwall Capital). The company is owned by the Hartwall family, who founded the Hartwall Brewery in 1836 and was the owner until the merger with Scottish & Newcastle in 2002. Until 2008, the family was a significant shareholder of Scottish & Newcastle.

The directed issue will consist of up to 1,008,500 shares, corresponding to up to 9.995% of Royal Unibrew's existing share capital and up to 9.09% of the share capital after the issue. The capital increase will be subscribed at the average share price for a number of days prior to closing. In addition, Hartwall Capital will acquire 37,500 of Royal Unibrew's treasury shares, corresponding to 0.4% of the share capital before and 0.3% after the issue. The shares will be sold at a price matching the subscription price of the capital increase. Calculated at the share price on 10 July 2013, Royal Unibrew's proceeds from the capital increase and the sale of shares will aggregate DKK 572 million.

*"In Hartwall Capital we will have a long-term and committed shareholder with unique knowledge of the Hartwall Brewery and its markets as well as of the Finnish business sector in a broad sense. Their support is important to Royal Unibrew in this new market," said Kåre Schultz, Chairman of Royal Unibrew's Board.*

To further facilitate the integration of Hartwall and strengthen the understanding of the Finnish market, the Board of Directors will propose that a Finnish candidate be elected to the Board, and Royal Unibrew's Executive Board will set up a Finnish Advisory Board for the Hartwall Brewery in cooperation with Hartwall Capital.

### **Outlook for 2013**

Royal Unibrew's previously announced outlook for 2013 was revenue of DKK 3,325-3,450 million, EBITDA of DKK 575-625 million and EBIT of DKK 450-500 million (see Company Announcement No 11/2013 of 7 March 2013). The acquisition of Hartwall will boost Royal Unibrew's revenue and operating profit in 2013, but the effect will depend on the actual date of closing of the transaction.

### Financial targets and capital structure

Royal Unibrew expects the acquisition of Hartwall to create value for Royal Unibrew's shareholders, in spite of a continued slight structural decline in the Finnish market due to eg changed consumer behaviour and increasing indirect taxes. Royal Unibrew sees a number of opportunities for strengthening Hartwall's business and for optimising operations, and against that backdrop the acquisition is expected to increase Royal Unibrew's net profit and earnings per share before integration costs with effect from 2014.

Considering the debt burden resulting from the acquisition, the Board of Directors closes the extraordinary distribution programme and the ongoing share buy-back programme (see Company Announcements No 11/2013 of 7 March 2013 and No 20/2013 of 30 April 2013). The programmes will be closed effective today, and the Board of Directors will also recommend to the Annual General Meeting in 2014 that no ordinary dividends be paid in respect of 2013. Based on the strong cash flows from both its current activities and from Hartwall, Royal Unibrew expects to reduce the debt raised for the acquisition to the effect that the Group can resume dividend distributions as well as its share buy-back programme in 2015.

*"Royal Unibrew will remain a stable, non-cyclical share consistently providing its shareholders with a high cash return on their investment, and the acquisition will not divert our current focus on capital discipline. However, we will pause distributions until 2015, while we integrate Hartwall and reduce Royal Unibrew's debt. After that period, we will resume dividend distributions and share buy-backs on the basis of higher earnings and a larger cash flow," said Kåre Schultz, Chairman of the Board.*

The Hartwall acquisition will change one of Royal Unibrew's financial targets: The previous target of a medium-term EBIT margin around 14% is replaced by an EBIT margin target of 13%. Amortisation of acquired intangible assets resulting from the Hartwall acquisition is estimated to affect EBIT margin negatively by 0.5%. Calculated on the basis of pro forma consolidated financial statements and after estimated amortisation derived from the acquisition, Royal Unibrew including Hartwall had an EBIT margin of 11.7% in 2012.

The other capital structure and distribution targets remain unchanged:

- The equity ratio should amount to at least 30%.
- Net interest-bearing debt should not exceed 2.5 times EBITDA.
- The Company should have an ordinary dividend payout ratio of 40–60%, and dividend distributions are expected to resume in 2015 (for the 2014 financial year).
- Share buy-backs will be made when the capital structure targets have been met. As already mentioned, the conditions for share buy-backs are expected to be met in 2015.

### Completion of the transaction

The Hartwall acquisition is subject only to approval by the Estonian competition authorities and to the usual consent from business partners, which are expected to be received in Q4 at the latest. The transaction is expected to be closed a few days after the receipt of approval. Subject to closing of the transaction by 28 August 2013, Royal Unibrew will update its outlook for 2013 in connection with the publication of the Interim Report for Q2.

Nordea Investment Banking has acted as financial advisor.

After closing, an extraordinary general meeting will be convened at which the Board will propose the election of a Finnish member to Royal Unibrew's Board of Directors.

Yours sincerely  
Royal Unibrew A/S

Henrik Brandt  
CEO

*Please direct any inquiries regarding this Announcement to:*

Henrik Brandt, CEO, tel (+45) 56 77 15 13

Lars Jensen, CFO, tel (+45) 56 77 15 05

[www.royalunibrew.com](http://www.royalunibrew.com)

**Conference call at 8.30 (CET)**

Royal Unibrew will be hosting a conference call (audiocast) today, 11 July, at 08:30 (CET), at which Henrik Brandt and Lars Jensen will give an outline of the transaction. Attendees are requested to call in five minutes before the starting time at one of the following telephone numbers:

SE: +46 850556474

DK: +45 35445580

FI: +358 981710460

UK: +44 2033645374

US: +18557532230

The conference call will also be webcasted on our website: <http://investor.royalunibrew.com/index.cfm> or <http://storm.zoomvisionmamato.com/player/royalunibrew/objects/s9hm21v6/>, where the related presentation will also be available.

**Press conference at 09:45 (CET) in Helsinki**

Royal Unibrew will be hosting a press conference today, 11 July, at 09:45 (CET) (10:45 local time), at which Henrik Brandt and Lars Jensen will present the agreement together with Tom von Weymarn, Chairman of the Board, and Bertel Langenskiöld, Managing Director, both of Hartwall Capital. The press conference will be held at Hotel Haven, Unioninkatu 17 in Helsinki.

**Information meeting at 15.15 (CET) in Copenhagen**

Finally, Royal Unibrew will be holding an information meeting for analysts and investors today, 11 July at 15.15, at which Henrik Brandt and Lars Jensen will be present. The information meeting will be held at Nordea, Strandgade 3, Copenhagen K.

*Royal Unibrew produces, markets, sells and distributes quality beverages. We focus on branded products within beer, malt and soft drinks, including soda water, mineral water and fruit juices. Royal Unibrew is a leading regional player in markets in Western and Eastern Europe. The Company's main markets are Denmark, Germany, Latvia, Lithuania, Estonia and Italy. In the international malt drinks markets, we are among the market leaders in the premium segment in the Caribbean, Central America, Africa as well as cities in Europe and North America with a high concentration of people of Caribbean and African descent.*

The Announcement has been prepared in Danish and English. In case of discrepancy, the Danish version shall prevail.