



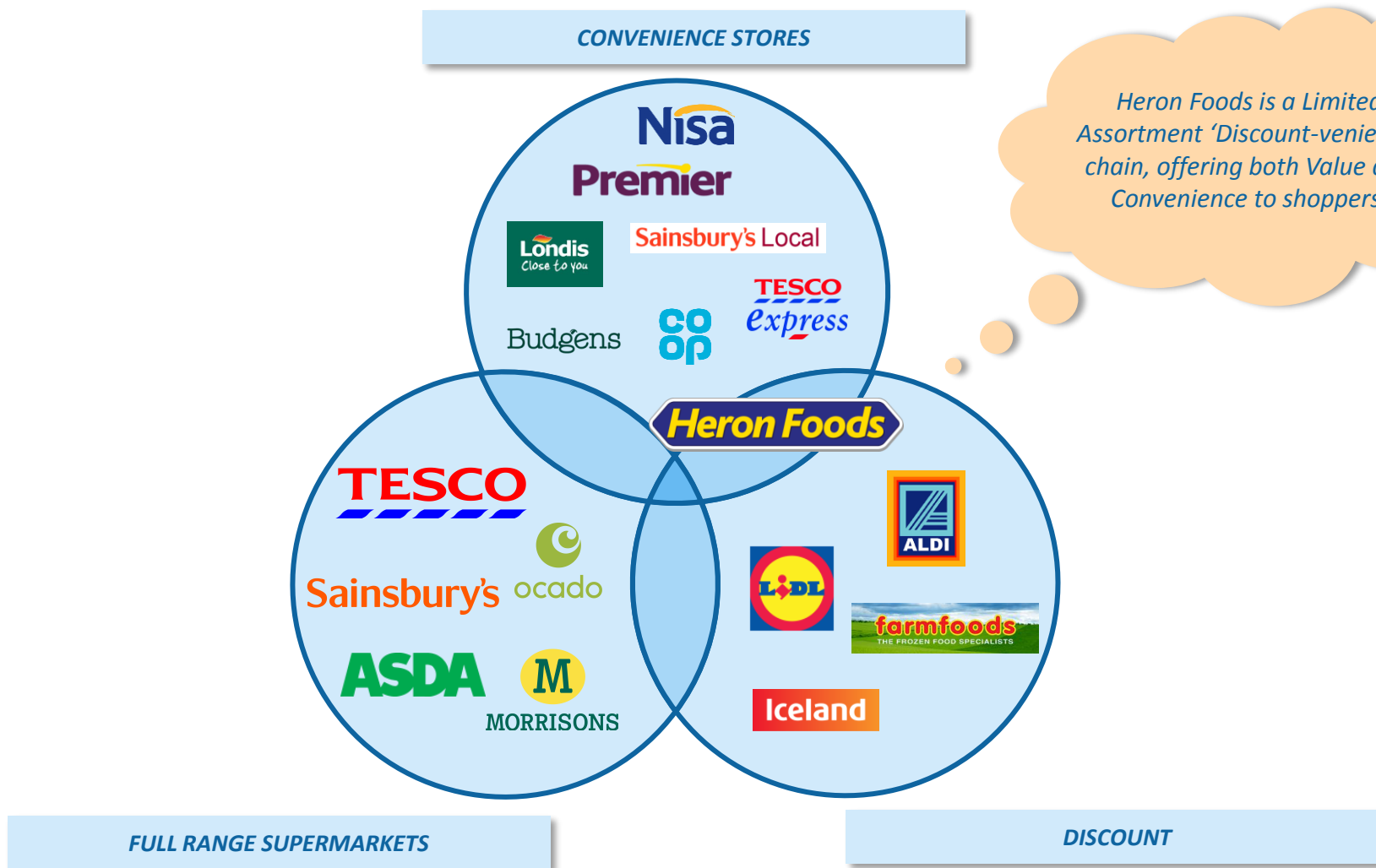
b&m

Heron Foods

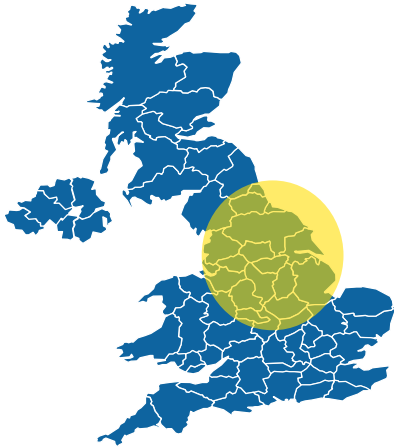
**Acquisition of
Heron Foods**

2 August 2017

UK Grocery: Heron sits in the two attractive segments



Heron gives B&M an additional discount brand to roll out



- *Frozen food specialist, established c.40 years ago, founded and managed by Heuck family in Hull*
- *251 company-operated stores averaging c.2,500 ft² of retail space, trading primarily across the North and Midlands*
- *Located primarily in Town-Centre High-Streets (153 stores), local Neighbourhoods (80 stores) and Shopping Centres (18 stores)*
- *Sales are Ambient (50%), Frozen (25%) and Chilled (25%) with strong local reputation for Frozen (c. 1,200 SKUs in total, Heron Foods does not sell Fresh foods)*
- *50% of shoppers walk to store. Some 46% visit every week and 34% visit every day. Mostly CDE socio-economic demographic. Average spend of c.£5.00.*
- *Company-owned and operated Distribution Centre (262,000 ft²) located in Hull, that incorporates frozen and chilled facilities. Company-owned and operated multi-temperature transport fleet.*



Strategic Rationale

WHAT IT ADDS

- Group gains an additional UK discount brand for roll-out
- Group enters new but complementary product categories: frozen & chilled
- Group gains a new small store format to broaden its reach in its core home market

SYNERGIES

- Improved buying power / scale benefit with B&M on Ambient Food
- Trial B&M's Alcohol range and bestselling FMCG ranges into Heron
- Transfer Best Practice on Auto-Replenishment, store roll-out and IT systems

SIMILAR MODELS

- Limited Assortment Discounters
- Low cost and founder-led K.I.S.S. culture
- Differentiated from other discount grocery models by primarily selling Big Brands at Big Savings rather than Own Label grocery

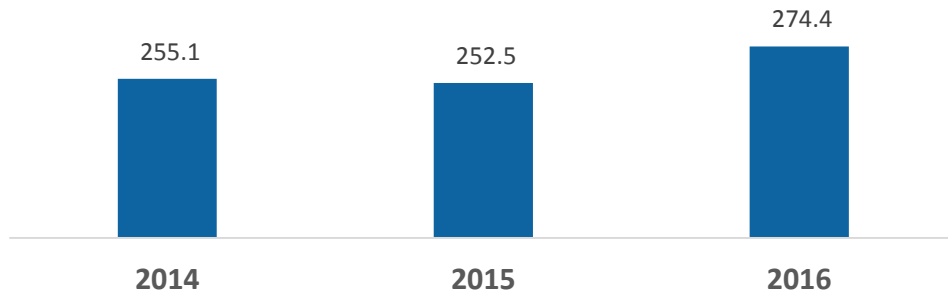
GROW HERON

- Regional player with 251 stores can expand nationally, already opening 10-20 stores p.a.
- Well positioned to exploit industry consolidation in Convenience Store segment
- Build upon strong LfL momentum

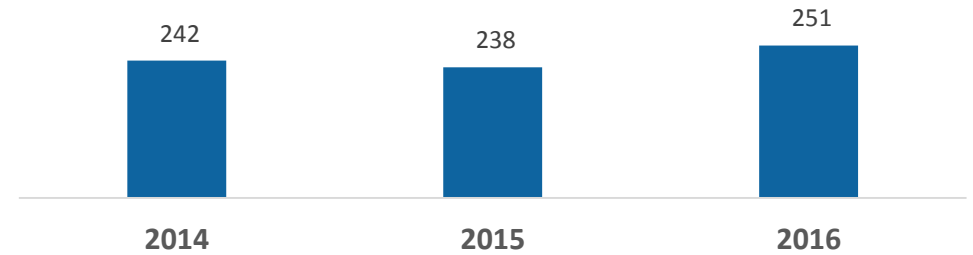


Financial Profile

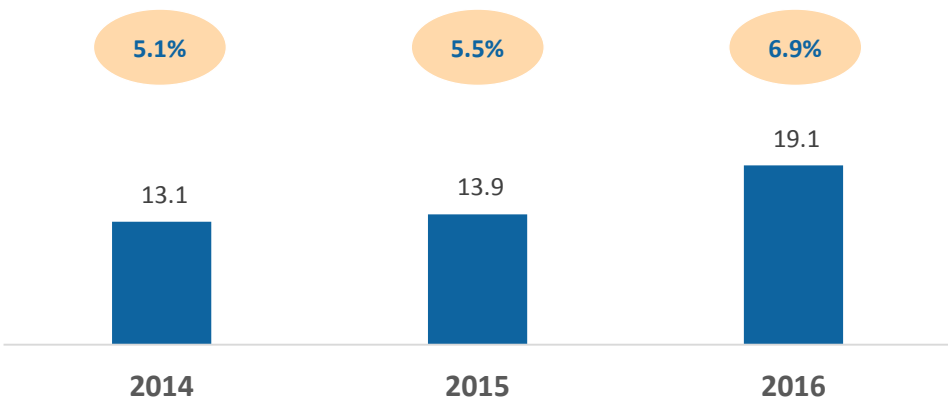
REVENUES, £M



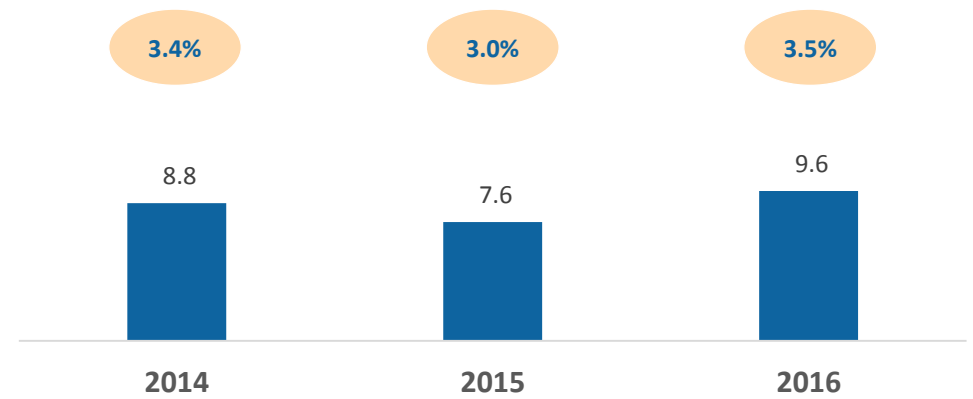
STORE #'S, END OF PERIOD



EBITDA, £M



CAPEX, £M



Note: Heron's Financial Year-End is 31st December



 % of Revenues

Transaction Summary

1

Valuation

- *Implied EV of £152m, representing 8 times EBITDA of £19m (YE 31 December 2016)*
- *Implied Equity Price of £125m at 2 August 2017 for 'Locked Box' balance sheet as at 31/12/16, including maximum deferred consideration of £12.8m*
- *Net Financial Debt of £23.2m as at 31 December 2016 assumed by the Group*
- *Heron Group includes £24m of freehold property*

2

Payment

- *Consideration of £112.1m paid at completion for 100% of share capital*
- *Funded from existing cash resources*
- *Incremental deferred consideration up to £12.8m payable based on the EBITDA performance of the Heron group up to 31 March 2019.*

3

Service Agreement with sellers

Service agreement agreed with Andrew and David Heuck (respectively Buying and Finance directors) whilst Michael Heuck (Property Director) will be retiring as planned.

