CSM 1.0 is history

CSM N.V., DIEMEN, THE NETHERLANDS, PLAYED AN IMPORTANT PART IN THE EUROPEAN BAKERY IMPROVERS MARKET FOR ALMOST 15 YEARS. IT IS NOW SELLING THE DIVISION TOGETHER WITH ITS NORTH AMERICAN COUNTER-PART AND THE COMPANY NAME TO THE AMERICAN PRIVATE EQUITY GROUP RHÔNE CAPITAL

When the Unilever Group announced the sale of its bakery improvers division to the Dutch CSM Group in July 2000, the latter address had been well-known in the industry on both sides of the Atlantic for a long time. In the mid-nineteen-nineties the group had already bought a series of companies in the USA that manufactured bakery ingredients, glazes, fillings and even ready-made cake mixtures or baked goods. It became known in Germany at the latest since the takeover in 1998 of the bakery improvers division of Boehringer Ingelheim in Bingen, with a turnover of more than DEM 300m. The turnover sold by Unilever to CSM amounted to EUR 860m. Around one third of this was accounted for by operations in Germany (Meistermarken, Ulmer Spatz, Diamalt). Other focal points were in Great Britain (Arcady Craigmiller) and the Benelux countries (Unipro). A total of 18 factories throughout the whole of Europe changed ownership. The price was EUR 700m. Unilever was advised in the deal by Goldman Sachs, and CSM by ABN Amro. In 2001, after the takeover was complete, CSM had total sales of EUR 3.6bn, 61 % of which originated from the bakery sector, 1.04bn of it being accounted for by the European and 1.16bn by the North American bakery division. CSM made 21 % of its turnover from confectionery, 8 % from sugar, 6 % from biochemicals and 4 % from food (brands such as Hak, Honig and de Ruyter). This was followed by two years of further portfolio optimisation through acquisitions and sales of numerous companies. Reconstruction was mentioned for the first time in the 2004 annual financial report. The European bakery division, called BSEU (Bakery Supplies Europe), was suffering due to the high raw materials costs and weak economy in Europe. The annual report also stated for the first time the growing importance of the out-of-home market. The planned success story seemed to have faltered, and the EBITA slid drastically downwards. A fundamental restructuring entitled "Change for Growth" together with the sale of individual companies were announced. That became a reality for the flavourings manufacturer Dreidoppel in Langenfeld, Germany. Gerard Hoetmer took over the helm at CSM N.V. in May 2005. His new restructuring and savings program was called 3S (Strong company, Sharp team, Solid performance) and was intended to ensure greater efficiency and growth. Altogether nine factories were closed, three of them in France alone, where

++ table 1: CSM in figures (expressed in m EUR)

year	CSM total turnover	Bakery Supplies Europe (BSEU)	EBITA (BSEU)	Bakery Supplies North Amercia (BSNA)	EBITA (BSNA)	Share of turnover in % (BSEU + BSNA)
2001*	3,620.0	1,040.4	68.6	1,162.3	52.9	61.0
2002*	3,418.0	1,067.7	78.2	1,053.8	54.5	62.0
2002 cy*	3,421.0	1,104.5	86.3	1,050.7	56.8	63.0
2003	3,484.0	1,128.1	88.5	1,066.2	56.8	63.0
2004	3,475.0	1,148.8	77.7	1,047.0	55.7	63.2
2005	2,618.0	1,085.6	43.2	1,025.0	63.5	80.6
2006	2,421.0	1,041.9	43.5	1,084.1	68.5	88.0
2007	2,486.0	1,059.4	72.5	1,116.1	75.2	88.0
2008	2,599.3	1,092.5	56.6	1,181.2	71.1	86.5
2009	2,555.9	1,013.3	45.3	1,187.3	94.0	86.1
2010	2,990.1	1,022.6	61.8	1,567.1	123.4	86.6
2011	3,112.6	1,078.0	38.4	1,628.0	94.9	86.0
2012	3,315.7	1,118.0	33.1	1,781.0	123.6	87.0

Until 2002 the financial year ran from 1st October to 30th September. From 1st October 2001 to 31st December 2002 it was a 15-month period of financial year. Since 2003, the financial year corresponds with the calendar year (cy).

source: CSM

Who is Rhône Capital?

Rhône Capital is the private equity division of the Rhône Group LLC, which has installed its headquarters in the prestigious Rockefeller Plaza, New York, USA. The Group was founded in 1995 by two billionaires, Robert Agostinelli and Steven Langman. They specialize in buying, selling and merging companies, shareholdings and re-capitalizations, and are said to have a preference for European and transatlantic businesses. The Group maintains offices in Paris and London. Agostinelli (60) is a self-made man who graduated as a Bachelor of Arts/Science from St John Fisher College in Rochester, New York, which is also his birthplace, and as a Master of Business Administration from Columbia University in New York. He was one of the founders of the international mergers & acquisitions business (buying, selling and merging companies) of Goldman Sachs before moving to the Lazard Freres & Co LLC investment bank, New York, in 1987. Together with Steven Langman he founded their own company in 1995, which now manages various capital funds. Last year Forbes estimated Rhône's managed assets to be USD 8.5bn (approx. EUR 6.5bn) and Agostinelli's private fortune to be USD 1bn (approx. EUR 0.8bn). Agostinelli is regarded as being politically right-wing; among other things he supported the election campaign fund of McCain and Palin and also the supporters' committee of the New York Mayor Rudolph Giuliani. The description of Steven Langman (50) is very similar. He is also an American. However, his alma mater is the London School of Economics, where he graduated with a Master's degree. Prior to that he gained a Bachelor's degree at the University of North Carolina. Like Agostinelli, he started his career in the M&A Division of Goldman Sachs and moved to Lazard in 1987. In 1993 he became the youngest Senior Managing Director ever appointed by Lazard. Langman supports various social establishments, as well as political candidates such as Mitt Romney, and is regarded as a Republican supporter. Rhône's portfolio is highly diversified. Rhone probably attracted most public attention in 2010 when the finance group acquired 40 % of the English premier club Liverpool FC. Among others, Rhône has invested in the cosmetics group Coty, as well as in a French yacht builder and an English toy store chain. In 2010 the group acquired Utex Industries, which specializes in sealing oil and gas wells, then sold it again two years later. In the same year Rhône entered the shipping industry for the first time by, together with partners, founding Euromar LLC, which finances, trades in and operates ships. Rhône also became active in Germany in 2011. It bought the carbon black division of Evonik Industries AG (formerly Degussa), which manufactures products for the rubber industry. The list could be continued for a long time. Companies are constantly being added, while others are sold. The period of ownership varies. The natural resin manufacturer Arizona Chemical, Jacksonville, Florida, bought in 2006, is still in the portfolio, as is the shareholding in Fraikin, an American car rental company, whereas LWB Refractories, York, PA, was bought in 2007 and already sold again in 2008. +++

everything now operated as Délice de la Tour. Further closures of production facilities and distribution centres were announced and implemented. BSEU's sales remained unsatisfactory, although the new American pastries was in line with the trend. Business in the USA went better, but here again enforced economies and restructurings ruled with an iron grip. Production units were closed and companies merged. The program of savings in Europe continued and there was yet another restructuring; this time the plan was for a new pan-European management level to achieve the turnaround. It began by restructuring the research and development departments. The sale of the confectionery division in 2005 and the sugar division in 2006 once again gave CSM room for manoeuvre and the ability to enable a total of EUR 153.3m to flow back to the owners in 2007 through dividends and the redemption of shares. The bakery sectors in Europe and North American accounted for 80 % of CSM's sales in 2005. But the big turnaround never really succeeded, in spite of or because of ever more restructurings and efforts to economise. Sales with the baking trade in Europe stagnated and attempts were made to hive off unprofitable industrial businesses, whereas frozen baked goods brought growth. The out-of-home market was the big hope to allow yet another change of course. If investments were made, they were mostly in producers of ready-made baked goods. The new donut factory in Germany started up in 2007 and CSM bought Kate's Cake in the UK, a manufacturer of cookies, cakes, muffins and shortbread, with which the plan was to conquer the out-of-home market. The acquisition of Titterington's, a manufacturer of scones, muffins, cakes and pastries, had the same objective in the USA. In combination, so it was said, it would now be possible to serve globally operating clients in the out-of-home market. CEO Gerard Hoetmer praised the year, saying that the change strategies of the previous years had paid off. According to the financial statement, the plan in 2008 was to continue with the creation of more efficient, more effective organisation structures. In plain language that meant Europe and North American would each have a single hierarchically organized management structure, specialized production facilities and technology-based research and development. At the same time the intention was to refocus on growth, also through acquisitions. That began in the same year with the purchase of Harden Fine Foods in the UK, a specialist for so-called Mini-Bites, small ready-to-eat pieces of cake. Hoetmer now saw only limited opportunities for growth in Germany, CSM's biggest market sector in Europe. There was a corresponding reorganization, and the workforce was downsized. The 3.1 % sales growth in Europe ▸

Acquisitions

IN

1994 **Henry&Henry Inc**, USA
1996 **Orth,** USA
1997 **Karp's Inc.,** USA
1997 **Malaco Group,** Sveden
1997 **Witco,** USA
1997 **Confetti Quins,** USA
1998 **Credit Valley Foods,** USA
1998 **Adam Foods,** USA
1998 **Koehl,** USA
1998 **Boehringer Backmittel GmbH & Co. KG,** Germany
1998 **Cahokia Flour Company,** USA
1998 **VanderBilt Flour,** USA
1998 **Lucks Co Seattle,** USA
1998 **Kircos Flour,** USA
1998 **Warren Flour,** USA
1999 **Federal Bakers,** USA
1999 **Frank A. Serio & Sons,** USA
1999 **Steel City Milling, Inc.,** USA
1999 **Leaf Group,** the Netherlands
1999 **St. Louis Bakery,** USA
1999 **JTL, Inc.,** USA
2000 **Unilever European Bakery Supplies Service,** Europe
2000 **J.R.Short Ingredients Lines,** USA
2000 **Continental Sweets,** Belgium/France
2001 **Socalbe,** Italy
2002 **Promalte Arcady,** Portugal
2002 **Panduave,** Portugal
2002 **Carels Goes,** the Netherlands
2002 **Glucona,** the Netherlands/USA
2002 **Besser Service,** Italy
2003 **Carpro,** USA
2003 **BS Unilever,** Hungary
2003 **Friesland Coberco,** Belgium/France
2003 **Readibake,** United Kingdom
2006 **CGI Desserts (Camelot Desserts),** USA
2007 **ADM's Specialty Bakery Ingredients,** USA
2007 **Wilke Resources,** Inc., USA
2007 **Titterington's,** USA
2007 **Kate's Cakes,** UK
2008 **Harden Fine Foods,** UK
2010 **Best Brands,** USA
2011 **GIAS, s.a.,** Tunisia
2011 **Classic Cakes Ltd.,** UK
2012 **The Cookie Man Ltd.,** UK +++

was contrasted with a revenue decline of 6 % in 2008. In the USA, the initial effects of the financial crisis reached the company in 2008, sales of premium products suffering most as a result. H.C. Brill, which reported severe profits losses in 2007, was drastically restructured following the example of Caravan Ingredients, and was now planned as a strong supplier for in-store bakeries in supermarkets. BSNA, the bakery division for North America (Bakery Products North America), launched for the first time a range of "authentic" raw materials for Hispanic bakeries in the shape of Trigal Dorado. 2009 was a year definitively marked by the crisis. BSEU and BSNA both lost sales volume, as well as turnover volume in their own respective currencies. For the first time consumers showed reluctance in the out-of-home market, and were more inclined to buy products in supermarkets and then eat them at home. CSM responded to the importance of baked goods in the out-of-home sector and in supermarkets, which was growing nonetheless, with new offerings of semi- or fully-baked frozen products. At the same time an attempt was made to break ground in trend markets such as "Health & Wellness", "Premium" or "Enjoyment". But the crisis wasn't over yet. BSEU returned to volume growth in the frozen baked goods business in the second half of 2010, but calculated over the whole year the 2010 sales volume was 0.6 % below that of the previous year. Margins grew in 2010, but in the second half-year rising raw materials costs consumed more than the growth. But the EBITA rose again thanks to savings programs. In North America, CSM successfully took a strategic step forward with the purchase of the raw materials manufacturer Best Brands (annual turnover USD 538m, approx. EUR 414m). Together with H.C. Brill, it now also made Best Brands legally a part of the BSNA. The rise in sales concealed the fact that all the other parts of the BSNA were suffering from loss of volume (1.3 %) and falling margins.

In the 2011 annual report, CSM clearly presented itself for the first time not only as a supplier of bakery ingredients but also as a supplier of bakery products, thereby clearly demonstrating the changed understanding of itself by the CSM Group, which saw the sale of finished and semi-finished frozen baked goods as an independent, growth-friendly market. The annual report mentioned the intensive collaboration with the British food retail group ASDA, where CSM was now responsible for 15 % of in-store cake sales, as an example of a successful cooperation in this market. Purac was also presented more clearly than in past years, a subsidiary that started in the past with lactic acid and now manufactured organically-based chemicals and bio-plastics. In his statement, Gerard Hoetmer wrote about a clear structural change in the European bakery market away from artisan production and towards baking stations in the retail and to out-of-home consumption. According to Hoetmer, the sales volume in Europe had dropped by 2.6 %, and the decreased ability of the BSEU to generate cash flow compelled him to make a valuation adjustment of EUR 249m on the EUR 695m company value of the European division. The next savings program was established, and the plan was for the organization to be simplified and the product portfolio for the European market to be cut back. According to Hoetmer, 30 % of the European business failed to comply with CSM's requirements regarding its performance, and either it improved this or "strategic actions will follow". Around EUR 100m of turnover was said to have already been planned for sale. Everything was allegedly OK in North America after the acquisition of Best Brands, but the number of employees was

Disposals

OUT

1997 **Droste bv,** the Netherlands
1999 **Fher Productos Básicos para Alimentación,** Spain
1999 **Möwe Teigwarenwerk GmbH,** Germany
1999 **Audisio Srl,** Italy
1999 **MSC Lebensmittel GmbH,** Germany
2000 **Elisabeth Shaw Limited,** UK
2000 **Confectionery Leaf,** Germany
2001 **Honig Merkartikelen bv,** the Netherlands
2001 **Alldra bv,** the Netherlands
2001 **Koninklijke De Ruijter bv,** the Netherlands
2001 **Anco NV,** Belgium
2001 **Frank Brady business,** UK
2001 **Leaf Ireland Limited,** Ireland
2001 **Famous Names Limited,** UK
2001 **Baukje Bakprodukten bv,** the Netherlands
2001 **HAK bv,** the Netherlands
2001 **L'Art du Pain business,** France
2001 **Venz bv,** the Netherlands
2001 **Leaf Parrys Limited,** India
2002 **Sweet activities,** China
2002 **Coffee and tee activities Socalbe,** Italy
2003 **BakeMark Auburn,** Massachusetts Branch, USA
2004 **Dreidoppel GmbH,** Germany
2004 **Lachaise,** France
2004 **Nedalco,** the Netherlands
2005 **BakeMark Sweden,** Sweden
2005 **CSM's Sugar Confectionery Division,** Europe
2005 **BakeMark Finland sales office,** Finland
2006 **Jantje de Goede,** the Netherlands
2007 **CSM Suiker,** the Netherlands
2007 Gluconic acid business, **Purac America**
2007 Frozen bread activities, **Délices de la Tour**
2007 Viennoiserie activities, **Délices de la Tour**
2007 **QA Products,** USA +++

reduced by 330 nonetheless. The baked products market in Europe appeared decreasingly attractive for CSM. It was scarcely possible to increase sales volumes, and there was pressure on margins. The EBITA earned by the BSEU had now drastically collapsed, and reached its lowest value of EUR 33.1m in 2012. The BSNA was in a better position in this respect. Its EBITA had risen continuously in the past ten years, albeit with repeated large fluctuations. For that reason CSM also logically saw its future in the "developing countries". From a starting point in Tunisia, CSM attempted in 2011, in a joint venture with the domestic company GIAS s.a., to conquer the North African baked goods market with raw materials and margarine, and a new factory for ready-mixes for bread and fine baked products was opened in Shanghai. Nevertheless, 2012 was the decision year. CEO Hoetmer announced in July that they planned to sell the bakery divisions, and to concentrate in future on biotechnology at Purac and enzyme technology at Caravan. The program was called Strategic Transformation, and ended in early 2013 with the announcement of the buyer: Rhône Capital, an American private equity group. According to CSM, the company value in this transaction, which will also include the sale of the CSM name, is EUR 1.05bn. Around EUR 850m of this will come into the coffers, while the remainder will stay in the pot as pension supplements etc.

The baked products market in Europe has changed greatly in the period of almost 15 years during which CSM N.V. in Diemen rose to become the world's biggest supplier of bakery raw materials. This has not involved a big drop in amounts consumed, but instead the distribution channels have changed drastically and with them the production structures. The causes of this lie firstly in consumer behavior and secondly in the economic developments of the past few years. CSM is not responsible for this, but it probably is for the way it has served the market and managed its businesses. The 15 years are likely to have brought only limited benefits to the shareholders. EUR 700m was put on the table in 2000 just for the Unilever subsidiary, and all the other acquisitions in total probably swallowed up yet more funds. The parts of the two bakery divisions that were sold probably rang the till to the tune of at most the proverbial 'peanuts'. They are now getting back EUR 850m. That doesn't look like moneymaking. +++