

"How to Successfully Grow a Business by Acquisition"

Alwin Thompson

- Delighted to be here today to talk to you about how we have successfully grown Inter Link Foods plc
- The first thing to say is that it might not suit every business, but if you are thinking of growing your business in this way I hope the next 30 minutes will give you some important insights into how we have approached it
- I am going to start with a bit of background on ILF, our first acquisition which set us on our way - that was back in 1994 - with eight more acquisitions since then
- Why pursue acquisitions as a strategy?
- After that I am going to explain our criteria for acquiring businesses, look at some of the practical aspects of the process and, crucially, how we fund our acquisitions
- I am also going to touch on the spirit of acquisition and the importance of courtship - the all-important winning of the hearts and minds of the workforce
- Then I will talk briefly about what happens postacquisition to a new business - its integration & development
- And finally just give you a flavour of our achievements to date and a summary of some the lessons we have

learnt over the years which I hope you will find interesting and useful. But don't become a competitor!

Who are Inter Link Foods plc?

- Manufacture cakes for multiples
- 3rd largest cake manufacturer in the UK
- On track to be 2nd largest in near future
- Our brokers forecast this year £93m v £70 m to April 2004

- 8 manufacturing sites
- 4 distribution sites for CFTC, 1200 employees
- Soreen - the market leader in malt loaves

Crossfield Foods-April 1994

- The very first acquisition - £1.4m turnover (actually making a £350,000 loss) with 35 potential redundancies
- We saw a market opportunity to challenge dominant Mr Kipling
- We knew supermarkets wanted a credible alternative
- The business had plant & machinery, a skilled workforce, but no sales strategy
- We secured £200k backing

from 3i and saved the jobs

- Then the hard work began
- We recognised that the first 12 months would be very challenging
- Once we could see strong signs of recovery we looked at expansion
- Today Crossfield Foods employs 170 people and is a thriving part of our business

So why acquisitions?

Quite simply to deliver our business strategy

- To respond to the needs of the major multiples -to provide a credible alternative to a dominant manufacturer
- To provide a wide product range and new product development - innovation is the key in our marketplace
- Each acquisition has opened up new opportunities for cross-selling & further development

- It is also important to say that we have not just grown by acquisition. Over the last 10 years we have seen doubledigit organic growth of the businesses we have acquired

Setting the criteria for acquisition

- Product range - something we currently don't manufacture
- Greater influence with existing customers
- Good, strong management - we need to identify people with like-minds, so it's not going to be a mammoth task to integrate teams and individuals
- Do the cultures match? We have looked and walked away when the fit has not felt right
- Cross-selling opportunities
- The ability to add value to the business - provide funds for plant & machinery or sales and marketing expertise
- Ensure the consideration of the purchase is commensurate with the risk - never over pay

Examples of meeting the criteria

- The Creative Cake Company - gave us a new range of licensed cakes and took us forward in Tesco
- Newton House - gave us new products in the form of ice-topped buns and access to new customers - Iceland and Safeway
- Hoppers - gave us a range of mince pies. Last Xmas 35 million, this Xmas 65 million. We provided investment of £2.6 million to support that growth

Practical aspects of acquisition

- Recognise the length of time it is going to take - on average it can take a year
- Don't be afraid to walk away - we have withdrawn at varying stages of discussions
- Keep your eye on the ball - acquisitions are timeconsuming, don't lose focus on main business
- Rigorously observe due diligence process. Be involved in this exercise.
- Commit time to courtship to give marriage best chance of success
- Make the most of good fortune

Lisa bakery, Oldham

- Three pieces of good fortune
- Chatting to a friend in the industry gives an early warning of a sale
- State-of-the-art new machinery - recently replaced after an oven explosion

q Owner turns out to be allergic to flour

Funding our acquisitions

- By 1998 we had made two acquisitions. We wanted to buy more businesses. We realised it was going to take a long time to fulfil our ambitions from operating cash flow, without further funding

The acquisition trail

1994	April	Acquisition of Crossfield Foods for £0.4m
1995	December	Acquisition of Lisa Bakery for £1.5m
1998	August	Raised £2.1m net of costs and admitted to trading on AIM (share price 110p)
2000	March	Acquisition of Maid Marian for £0.9m
2001	January	New factory opened at Shadsworth,
	January	Blackburn
	January	Raised £5.3m net of costs (share price 265p)
	February	Acquisition of Newton House for £4m
	March	Acquisition of Cakes for the Connoisseur for
	June	£2.7m
	October	Acquisition of the Creative Cake Co for

		£5.4m Acquisition of William Lusty Limited for £0.4m Named AIM Company of the Year
2003	January February	Raised £6.1m net of costs (share price 285p) Acquisition of Soreen for £8.4m
2004	January	Acquisition of Hoppers Farmhouse Bakery for £5m

- Little balance sheet strength and no appetite from the bank
 - Investment by VCs = dilution
 - Needed tenacity and determination to take the next step - we headed for flotation

The flotation journey

- We had turnover of £8.6million and £450,000 in pre-tax profit
- a We were minute in Stock Market terms
- We were knocked back on several occasions, but we never gave up due to the confidence in our business strategy
 - Mark Brady and Brewin Dolphin
 - In the end Friends Ivory Sime and Close Brothers put in £1million each
 - Against the odds we had raised the necessary capital to push on with our acquisition strategy
- a We were admitted to trading on AIM with a share price of £1.10. Today we are at £5.25

- In 2001 we were voted AIM Company of the Year - which was a very special moment
- We have spent £28 million on acquisitions, 50% of which is raised in equity, 50% bank debt which reflects the financial strength flotation has given us

The spirit of acquisition

- This is about courtship, the winning of the hearts and

minds of the workforce. You have to recognise that businesses are collections of people who in the early days of an acquisition don't know you - they are nervous, suspicious, highly concerned about their futures

- You have to do a lot of work here, getting to know a senior management team and building mutual trust - do what you say and say what you do.
- You have to go into acquisitions with both teams sharing the same vision and the same goals
- We welcome entrepreneurial new businesses with new ideas, new skills and new people
- You have to demonstrate your track record and the opportunity for individuals to share in success and fulfil their own aspirations

Integration & development

- So you've brought them to the altar, you enjoy the honeymoon and then the work really begins
- Our aim is to help the acquired businesses generate wealth and share it with employees, we reward well - we want a good workforce, a happy workforce
- We empower individuals to take control of their company's destinies with our assistance
- We build a spirit of inclusiveness within the group and actively look for opportunities for businesses

to work together and open more doors

So where are we now?

- The Group has just delivered its fifth successive year of record turnover, profit and earnings per share
- In the last six years sales are up 709% from £8.6m - £70m to April 2004
- Profit before tax is up 12 times from £400k to £5 million to April 2004
- Net assets of £21m compared to nothing in 1998
- This year we will bake

);- 65million mince pies - more than one mince pie per head of UK population

115 million chocolate mini rolls - enough to stretch to Beijing

30 million Soreen malt loaves - placed end to end would get us to Cairo

75 million Bakewell Tarts - would reach San Francisco

And finally,

the key acquisition

lessons

- Acquisition is not necessarily the right route for everyone
- Never, never, never over pay - work hard to get the price right. Consideration commensurate with risk
- Invest your time in 'courtship'

D to get to know the business and its management team

D to assess the fit between its culture and your own

J Integrate and develop the businesses and share the rewards

Question -Ann Bruce, Croydon

I was wondering if you could tell me how the Morrisons acquisition of Safeway has affected Inter Links business?

Answer - Fortunately we benefited from that because Morrisons were a bigger customer to us at the time than Safeway were so we've been lucky in that transaction and we've gained business from that.

Question - Jim Antrup, Evesham

It was a fascinating presentation the road map through the acquisition, one of the key points you made was how important it was to have good companies and good management because you didn't want to run them, but then you said you didn't like the empowerment word. Can you explain what you meant there?

Answer - Yes, we don't want to run them so that's the point I was trying to make because if we buy another three businesses we can't divide the Inter Link board by three so we look to buy a business with good strong management, we look to support them, we look to empower them, that's the word I didn't like. We say look this is your business, this is your budget, we're here to help to assist, to fund or whatever you do but this is your profit center, your salary, your bonus whatever depends on your performance but if you need a helping hand we'll be there.

Question - Patrick Farnsworth, Hull

You mentioned bonuses, how important is financial incentive to the management in getting them motivated?

Part of the equation, not all of the equation because I think other things are vitally important to people like their life style, like their quality of life, like they are happy at work, that they are fulfilled in what they are doing, they're achieving their aspirations or their targets or they've made 2000 mince pies in the hour. Whatever their total sort of involvement in the business, I think that's more motivational than money, that's why we like it to be a warm business, we don't like it when people leave. We don't understand it when people leave because we want people to work hard, be committed, be rewarded but all the softer quieter things are equally as important than money, so its part of the whole but my no means the major incentive to motivate people.

How to grow a business successfully by acquisition



Alwin Thompson, Executive Chairman

British Society of Baking
Autumn Conference 2004



Who are Inter Link Foods plc?



Crossfield Foods – our first acquisition



Why acquisitions? Best way of delivering our business strategy



Setting the criteria for acquisition



Winning examples

The acquisition trail

1994	April	Acquisition of Crossfield Foods Ltd for £2.8m
1995	December	Acquisition of Lisa Baking for £1.5m
1996	August	Raised £2.5m via IPO which was admitted to listing on the London Stock Exchange
2000	March	Acquisition of Malt Makers for £3.5m
2001	January	Have factory opened at Blandford, Wiltshire
2001	January	Raised £5.5m via IPO which was admitted to listing on the London Stock Exchange
2001	January	Acquisition of The Great House for £1.5m
2001	February	Acquisition of Cakes for the Connoisseur for £2.7m
2001	March	Acquisition of The Cakeshop for £1.5m
2001	June	Acquisition of William Long Limited for £8.5m
2001	October	Named AM Company of the Year
2003	January	Raised £8.5m via IPO which was admitted to listing on the London Stock Exchange
2003	February	Acquisition of Hoppers Pastries for £1.5m
2004	January	Acquisition of Hoppers Pastries for £1.5m



Practical aspects of acquisition



Making the most of good fortune



Funding our acquisitions



London
STOCK EXCHANGE

The flotation journey



The spirit of acquisition



Integration and development



So where are we now?



The key lessons

Question -John White, London

I wonder if you could say a little bit about the corporate governance of Inter Link?

Could you just enlarge on the question?

About the structures that you have and why you have chosen those particular routes and whether they've changed as you've grown?

Not a lot is really the answer because as a business that had a venture capitalist there were disciplines within that business that the venture capitalist required and quite honestly

disciplines that management would want anyway. So we then float in 1998 and the actual transition was from a corporate governance point of view honestly very little. People say to me, oh you've floated, you've lost control, it's not your business anymore. I truly don't see it that way, in fact they are correct because now 1200 people own the business as opposed to two of us where we initially began, but it is definitely our business to run, we make the decisions, we see shareholders twice a year with half year results and full year results. We explain what we are doing, but if we are producing the results they are quite happy, so its not the sort of pressure cooker that people believe it to be if you are producing the results. From a corporate governance point of view you need non-executive directors but when we were a VC company we had a nonexecutive chairman from the VC so we've not felt a lot of corporate governance. There's an awful lot spoken, an awful lot written that make it far more complicated than it is, and make it sound a lot more worse than it actually is, but if you are doing the right things for the business in the right way and you are an honorable honest person, you shouldn't have a problem and as an AIM listed company there is probably less corporate governance than the full list. But if you take your responsibilities seriously whatever it is, whether it's a venture capital business or an AIM listed or a full listed business, if you are doing the job properly and you are looking after the business and other peoples money you go to bed and sleep, then you should be fine.