Campari drinks up Jamaica’s Appleton rum

Italy’s Gruppo Campari, maker of the eponymous red aperitif, is buying Jamaican rum maker Lascelles de Mercado & Co LAS.JS to boost its presence in growing American markets, as sales in recession-hit Italy lose fizz.

Campari, also owner of Glen Grant whisky, said it agreed to buy an 81.4 percent stake from ailing Caribbean state-owned conglomerate CL Financial, valuing the target at $414.8 million, or around 330 million euros, making it Campari’s third-biggest acquisition behind Skyy vodka and Wild Turkey bourbon. Campari, which is also making a $4.32 per share offer to remaining minority shareholders, is aiming to expand in a rum market whose volumes have grown for 10 consecutive years. The United States is the largest rum market in terms of sales, with 35 percent of global premium rum volumes, Campari said. The strategy echoes that of bigger groups like Diageo and Pernod Ricard, which have been upbeat as strong international markets compensate for Europe. Diageo for instance raised its dividend last month, confident that buoyant demand for whisky and spirits in Asia and Africa would help it hit medium-term targets. CL Financial grew from its insurance company roots to be one of the biggest conglomerates in the Caribbean region. But in 2009 the government of Trinidad and Tobago took over the management of the company, whose liquidity troubles during the financial crisis sent economic shock waves across the Caribbean. Lascelles makes the Appleton Estate, Appleton Special/White, Wray & Nephew and Coruba brands. The acquisition, whose completion is expected by the fourth quarter of 2012, would boost Campari’s earnings per share in the first year of the deal, the group said. Chief Executive Bob Kunze-Concewitz also said it would strengthen the group’s spirits operations, its largest and most profitable business. Campari shares were up more than five per cent on the day. “We expect a positive stock reaction on the back of the very positive track record of integration and value creation as experienced in the past big acquisition in Campari’s history,” Mediobanca said in a note, raising its rating on the stock to “outperform” from “neutral”. Campari has historically grown through acquisitions and is targeting underlying sales growth of 5 per cent per year over the next five years, as it expands in fast-growing emerging markets to offset weaker demand in Europe. The group’s organic or underlying sales in Italy, which accounts for nearly a third of group sales, fell 1.6 per cent in the fourth quarter of 2011. Mediobanca estimated the acquisition would translate to a boost of around 1.5 euros in its “fair value” estimate for Campari’s shares, compared with its previous estimate of 5.37 euros. Campari said it would fund the deal through credit facilities underwritten by Banc of America Securities, Banca Intesa and Deutsche Bank. The financing pays an average spread of 265 basis points over Euribor and Campari will decide whether to term out or refinance a portion of the acquisition financing in 2012 and 2013. The company said the offer price corresponded to a multiple of 15 times June 2012 earnings before interest, tax, depreciation and amortisation, excluding possible synergies. The company said it expected the multiple to fall to 10 times in two to three years’ time. “This would mean roughly $13 million of incremental profits, which we expect will be recognized mainly at gross margin level,” CFO Paolo Marchesini said during a conference call with analysts. Kunze-Concewitz told Reuters in March he could spend up to 600 to 700 million euro on acquisitions as the group’s debts fell to 637 million euros or 1.9 times EBITDA (earnings before interest, tax, depreciation and amortisation). Campari spent a total of 31.5 million euros last year to buy Russian distributor Vasco and Brazilian brand Sagatiba in a relatively quiet year for deal-making compared with a recent buying history which included Cinzano in 1999, Skyy in 2001, Glen Grant in 2005, and its biggest-ever acquisition, of Wild Turkey bourbon, in 2009 for $575 million. Source: Toronto Star