

# OIC Research Group | Analyst Group Report

Analysts: Iris Lee, Samael Morillo, Maria Bozga, Issac Tse

Mar 25, 2024

## Kirin's US\$1.2bn Acquisition Of Blackmores

### Transaction Summary

Announcement Date	April 27, 2023		
Transaction Size	US\$1.2bn		
Close Date	August 10, 2023		
Deal Structure	Cash and Debt		
TEV/Revenue	1.2x	TEV/EBITDA	8.3x

### Deal Background

- Kirin offered **US\$62 per share** and financed through accessible cash reserves and existing debt facilities. In addition, normalized EPS is expected to be accretive from the first year.
- Kirin **intensifies its focus on the health and wellness sector**, aiming to enhance its global competitiveness while meeting evolving consumer preference. With **global health spending projected to surge 35% by 2050**, Kirin faces challenges such as a decline in sales from 2.67 million kiloliters in 2015 to 1.87 million kiloliters in 2021.
- From Blackmore's perspective, this acquisition will enable it to leverage Kirin's investments and successes in the pharmaceutical sector, while also providing an attractive **exit for the struggling target's shareholders**.

### Deal Rationale

#### Acquirer

- **Broadened customer base:** As the habits of the younger generation evolve and alcohol industry regulations tighten, **Kirin is redirecting its focus to healthcare**. Leveraging Blackmores' existing technology and product line, Kirin aims to support its development in specific areas such as immunization solutions.
- **Tactical integration:** By leveraging Blackmores' comprehensive distribution networks and capabilities, Kirin seeks to **accelerate the integration of specialized materials**, including combining Lc-plasma into immune supplements, Citicoline into beverage supplements, and HMOs into digestive supplements and milk powder.
- **Market expansion:** Kirin strategically **positions itself to significantly expand its export market footprint in the APAC region**, where Blackmores commands market shares of 18% and 31% in Australia and Thailand respectively, with the goal of more than doubling its presence by 2025 or beyond.

#### Seller

- **Greater Market Projection:** An increase in advertising and marketing efforts for the Blackmores brand in China is anticipated. Indonesia is expected to emerge as the top growth market, with the **vitamins industry projected to grow annually by 9.9% until 2027**.
- **Strategic Sell-off:** The Blackmore's Board of Directors preferred the Kirin buyout over selling to a private equity firm, concerned about potential job cuts and quality reductions. **Kirin, as a strategic industry buyer, presents optimism for innovation and brand expansion**.

#### Acquirer

Kirin (TYO: 2503)



Kirin is one of **Japan's leading beer manufacturers**, renowned for its high-quality brews and rich heritage dating back to 1885. It operates across alcoholic beverages, soft drinks, dairy foods, health foods, and pharmaceuticals. **Its top 3 markets are Japan, America, and Oceania.**

Founded Year	1907
HQ	Tokyo, Japan
Sector	Brewers
Market Cap	US\$11.3bn
FY23 Revenue	US\$15.2bn
FY23 EBITDA	US\$1.9bn

% Stock Price Change After Announcement Date



#### Target

Blackmores (ASX:BKL)

BLACKMORES®

Blackmores is an Australian health supplements company manufacturing an extensive range of products, including vitamins, minerals, and herbal supplements. **Its products are primarily sold in 13 markets across Southeast Asia and China.**

Founded Year	1938
HQ	Sydney, Australia
Sector	Personal Care Products
Latest Valuation	US\$1.2bn
FY22 Revenue	US\$448.1mm
FY22 EBITDA	US\$48.7mm

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## Short-term Implications

- **Revenue growth opportunities:** This transaction presents Blackmore with a chance to rebound from the setbacks of COVID-19 and a prolonged period of subdued returns. Following the acquisition announcement, Blackmore's shares surged by 23%, marking its most significant gain in over seven years. Meanwhile, Kirin aims to achieve **annual revenues of US\$1.5bn by 2027, boasting a targeted operating margin of 15%, and anticipating generating US\$3.7bn in sales from its health sector within the next decade.**
- **Distinct strategic approach:** While competitors like Asahi Group Holdings Ltd concentrate on fortifying their market share through alcohol-centric ventures, Kirin adopts a divergent strategy. Kirin is strategically **expanding into healthcare and pharmaceuticals to mitigate reliance on the shrinking domestic beer market**, which has contracted by a third since its peak in 1994. After this deal, Kirin subsequently acquired several healthcare business such as Thorne Healthcare, Orchard Therapeutics, and Welltus. The aim is strategically shifting into the healthcare sector, given that Japan's healthcare expenditure accounts for more than **11.5% of GDP, ranking fourth globally.**

## Long-term Upsides

- **Diversification in core operations:** This transaction not only bolsters Kirin's original healthcare business but also enhances its ability to cater to diverse customers, acknowledging the burgeoning potential of the healthcare sector. Kirin's future strategy includes **launching a new range of vitamin products in multiple countries starting in 2025**, expanding their iMUSE division of functional drinks and beverages. The **APAC vitamin revenue is expected to reach US\$156.3mm in 2027**, making it the fastest-growing region. Additionally, Blackmores plays a pivotal role in providing channels and brand awareness for customers, **with its recognition rate exceeding 60% in Indonesia and Malaysia.**
- **Strengthening APAC presence:** This partnership will accelerate Kirin's entry into **high-growth Asian markets like Thailand and Singapore**, complementing its original markets in Japan and America, and enable expansion into new regions. The proposed acquisition between the two companies underscores the efforts made by Blackmores over the past three years to **reposition the business for sustainable and profitable growth**, thus positioning it in a better stance of the global market.

## Risk and Considerations

- **Lack of precedents:** After the announcement, Kirin shares dropped by 3% as analysts concerned about potential overpayment. The **absence of comparable precedents in the same geographical distribution complicates Kirin's integration efforts.** This includes aligning product lines, integrating techniques into existing equipment, and realizing synergies, all complicated by differing company sizes.
- **Volatile Japanese yen:** Given that this acquisition involves cross-country transactions, both companies may face exchange rate fluctuations when converting revenue into their respective currencies. **The Bank of Japan's recent shifts in monetary policy and rising interest rates further compound these challenges, potentially impacting income and profit calculations.**
- **Revenue generation uncertainty:** **As the healthcare industry continues to invest in research and development for new drugs undergoing clinical trials**, which often take years to complete, **operational uncertainties such as government regulations concerning the development of new medicines may adjust slowly** to current trends, potentially posing challenges to sustained growth and profitability. This challenge is particularly significant for Kirin, which is currently grappling with revenue stability, and for Blackmores, whose performance has weakened post-pandemic due to its reliance on daigou from China.

## Precedent Transactions

Announcement Date	Target	Acquirer	Target Location	% Acquired	Deal Size (US\$)	EV/Sales	EV/EBITDA
Apr 27, 2023	Blackmores	Kirin	Australia	100%	1.2bn	2.9x	22.5x
Jul 19, 2019	Cub	Asahi	Australia	100%	10.6bn	7.0x	14.9x
Apr 17, 2019	DuluxGroup	Nippon Paint	Australia	100%	3.0bn	2.4x	16.8x
Feb 27, 2019	Allied Pinnacle	Nisshin Seifun Group; Nisshin Flour Milling	Australia	100%	679.6mm	NA	NA
<b>Mean</b>						<b>4.7x</b>	<b>15.8x</b>
<b>Median</b>						<b>4.7x</b>	<b>15.8x</b>