

Vodka on the Rocks? Maspex to Acquire CEDC, the Global Alcohol Distributor, for €850mln

Introduction

On November 3rd, 2021 Maspex Group (“Maspex”) announced they had reached a definitive agreement to acquire CEDC, a Polish subsidiary of the Roust Corporation (“Roust”) with a deal resulting in a PLN3.89bn (c.€850mln) valuation of CEDC making Maspex the new leader of the Polish vodka market. This is the latest of Maspex’s 20 acquisitions since their founding in 1990, wherein they consistently push the envelope of the Polish food & beverage market and because of it has now grown to become the largest Polish food group.

While both parties have agreed to the transaction, it is still pending consent from the Office of Competition and Consumer Protection (UOKiK) and analysts believe it may be at risk in an event of default by the Russian Standard Bank (“RSB”), through which the founder of both the RSB and Roust Roustam Tariko owns 28.1% of Roust’s shares through. Despite initial attempts of the primary bondholder Citibank to take a 49% stake in RSB after the default failing in a Moscow arbitration court, Citibank’s confidence in an appellate court overturning the decision could prove dangerous. If successful, the current financial state of the bank teetering on the edge of bankruptcy could harm CEDC as if the bank goes into administration, the deal could be reversed as part of the proceedings.

Maspex Group

Maspex is a Polish multinational food corporation headquartered in Wadowice. It was founded in 1990 and has grown mostly through acquisitions in Central and Eastern Europe, allowing it to quickly become the region’s pre-eminent food producer, being the frontrunner of the Polish pasta market as well as the largest fast-food producer in Eastern and Central Europe.

Maspex was already the market leader in non-alcoholic beverages in Poland, the Czech Republic, and Slovakia, as well as a leading manufacturer of similar beverages in Hungary, Romania, Bulgaria, and Ukraine before they acquired CEDC, and now, with a resultant employee count and a yearly turnover of 9,200 and PLN 11bn (c.€2.37bn) respectively it aims to build “another strong area of its activity based on the competences of the company’s employees, modern production facilities and unique brands”.

Roust Corporation

Roust Corporation, owned and founded by Russian businessman Roustam Tariko, is the world's second-largest vodka manufacturer and Central and Eastern Europe's largest spirits corporation. Their forward-facing corporate strategy focuses on the further growth of its brands primarily in Russia as well as their global brand internationally, hence their decision to sell CEDC after 7 years of value-adding ownership.

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CEDC was acquired by Roust in 2013 and since then has become the preeminent alcoholic beverages company in Poland while aiming to offer “consumers the most authentic brands across alcohol categories.” Being the producers of over 19mln nine-litre cases of legendary polish brands such as Żubrówka, Sopolica, Absolwent and Bols, they managed to build a 47% market share in Polish vodka, up from 22.7% since their acquisition and a culminating with a turnover of PLN5.7bn (c.€1.23bn). Despite the acquisition, CEDC brands will continue to be distributed by Roust Corporation in important international countries, and Russian Standard and Gancia brands will continue to be distributed by CEDC in Poland.

Deal Rationale

CEDC is worth PLN3.89bn (about €850bn), according to the deal. It became the market leader in all vodka categories of the Polish market after being acquired by Russian Standard in 2013, raising both its vodka market share to 47% and EBITDA to about €100mln. The deal is in keeping with Roust Corporation's strategy, which focuses on furthering its growth in Russia and expanding its worldwide brands internationally. CEDC products will continue to be distributed by Roust Corporation in important international countries, while Russian Standard and Gancia brands will continue to be distributed by CEDC in Poland.

Maspex intends to invest in creating a contemporary production backdrop following the takeover, which will be achievable thanks to CEDC's employees' skills. The latest purchase, which is Maspex's 20th, will allow the firm to treble its turnover, according to Krzysztof Pawiski, co-owner, and CEO of Maspex Group. The renowned Polish brands will be consolidated into one firm because of the purchase, which will improve Maspex's market position. It will also allow the formation of Poland's largest supermarket conglomerate, with aforementioned potential revenue reaching €2.37bn.

Alcoholic Beverages Industry

Currently valued at approximately €436.8bn, the global alcoholic beverage market is expected to grow at a compounded annual growth rate (CAGR) of 8%, reaching €642.8bn in 2025. The industry is, by many measures, dominated by Europe. Over half of all wine and around a quarter of alcoholic drinks, in general, are produced in the continent. The European market is expected to grow slower than the rest of the world, however, at a CAGR of 3.5%.

Premiumization of the industry remains to be one of the major factors driving this growth. It is the process characterized by an increased focus on flavour, high-quality ingredients, and more appealing packaging. The most conspicuous example is the rising market share of craft beer and prestigious spirit brands. To take a closer look at vodka for the purposes of this article, the internationally renowned yet available in most stores like Grey Goose, Belvedere, Absolut, Ciroc, and Żubrówka can be considered premium, while ultra-expensive brands like Eye of the Dragon, Russo-Baltique and DIVA Premium are referred to as “super-premium”. Younger consumers are the key drivers of premiumization. 54% of 18–34-year-olds are likely to choose a premium alcohol brand versus just 35% of those over 55.

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The European market is highly consolidated. The most significant companies and their brands are the following.

Company	Country of origin	Key brands	Market Cap in billions (€)
Diageo	United Kingdom	<ul style="list-style-type: none"> · Guinness · Black Label · Smirnoff · Gordon's · Tanqueray 	103.7
Bacardi Ltd.	Cuba	<ul style="list-style-type: none"> · Bacardi · Patron Tequila · Grey Goose · Bombay Sapphire 	Private
Anheuser-Busch InBev	United States	<ul style="list-style-type: none"> · Corona · Beck's · Hoegaarden · Budweiser 	78.5
Heineken Holding	Netherlands	<ul style="list-style-type: none"> · Heineken · Edelweiss · Birra Moretti 	48.35
Pernod-Ricard	France	<ul style="list-style-type: none"> · Chivas Regal · Absolut · Olmeca Tequila · Martell 	46.68

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Eastern Europe is unique in that it includes some of the most alcohol-consuming populations in the world. In fact, 10 of the 20 highest alcohol consumption per capita countries are in the Central and Eastern Europe region as defined by the OECD. The market in the region used to be dominated by vodka but beer has been steadily increasing its share since the 1990s. These countries are also the largest producers and exporters of vodka. Poland exported 48.5 thousand metric tonnes of vodka in 2020, followed closely by Ukraine and Latvia at 34.8 thousand and 30 thousand metric tonnes, respectively.

Alcoholic beverages is one of the few industries that did not get negatively affected by Covid-19, one study even shows that consumption actually increased during the pandemic. As the world emerges from lockdowns, whether the new drinking habits stick with people remains to be seen. Nevertheless, the industry will keep growing and premiumization is expected to take hold of more drinks in the years to come.

Turmoil Ahead

CEDC is also the largest importer of foreign spirits in Poland. It is responsible for the distribution of such wine brands as Carlo Rossi, Barefoot, and Gancia and color alcohols: Grant's, Glenfiddich and Tullamore DEW, Metaxa, Jägermeister, Cointreau, Campari, Aperol, and Remy Martin.

After the pandemic limitations, bars around the world have just recently begun to fill up again. Still, fans of Aperol spritz and Negroni may be in for some bad news: their favorite drinks may become more costly. As a result of rising logistical costs and supply-chain interruptions, Campari Chief Executive Officer Bob Kunze-Concewitz believes the Italian beverages producer must become "more aggressive" on price in the future. The CEO's objective is to maintain the brand's "good momentum" and sales mix to alleviate tensions and guarantee that the company can take new steps to become more efficient and provide for the future. cost reorganization

The rise in Spritz, a symbol of nights spent laughing and joking with friends, is undoubtedly bad news for aperitif drinkers. Nonetheless, Campari, a firm founded in Milan in 1860, could not defend its manufacture in any other way. A decision that appears to conflict with the fact that the company had a 12.8 percent gain in sales from July to September when anti-Covid rules were lifted, and it could resume drinking through aperitifs take-away meals.

Adjusted operating income (EBIT) was a whopping €137mln (\$159.4mln). So, excluding acquisitions, sales and exchanges, we're talking about 16% growth over the same period last year. The group's best-selling aperitif, L'Aperol Spritz, saw sales growth of 15.5% in the third quarter alone. However, Kunze Concewitz added that the price of specialty drinks like Aperol e Campari could rise faster than competing drinks like vodka. For example, the CEO himself explains that tequila prices have risen twice in 18 months and could rise again by 2022. Therefore, price increases seem to be the only solution to protect the profitability of this vital group.

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Financial Advisors

During the deal negotiations, Maspex' legal guidance was carried out by the Rymarz-Zdort law firm, while Ernst & Young provided financial services. Roust Corporation hired J.P. Morgan and the UK law firm Skadden, Arps, Slate, Meagher & Flom LL.

TAGS: Maspex, CEDC, Roust, CEE, Alcohols, Aperol, EY, JP Morgan

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