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CAPITAL ADVISORS, LLC

Organic and Natural Foods

Merger & Acquisition Research
First Half 2004 - Review



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First Half 2004 Summary

On the heels of three years of sluggish activity, 2004 is shaping up to be the best time in recent history for an active merger and acquisition market. The total number of transactions and the “marquee” value of certain transactions accelerated in the organic and natural sector in the first half. Pricing multiples varied widely. For those relatively few transactions whose terms were released, revenue multiples continued on the order of one times sales. Multiples of cash flow (in terms of EBITDA, or Earnings Before Interest, Taxes, Depreciation and Amortization) were firmly entrenched in double digits (i.e. greater than ten times), based primarily on anecdotal evidence.

Large acquirers such as Hain Celestial and Kerry established new platforms for growth in the first half, by buying access to new distribution channels, new meal channels, and new geographies. Smaller companies with niche consolidation strategies continued to pick up smaller properties through acquisition.

Given the extremely positive growth prospects in the organic and natural sector, we believe that with the underlying strength of the M&A market there exists an opportunity for small and mid-sized companies to realize a valuation that outpaces traditional valuations at what is typically considered a relatively early stage of the business lifecycle.

Merger & Acquisition News Clips

Groupe Danone acquired an additional 40% stake in **Stonyfield Farm** for an undisclosed price, and now holds an 80% stake in the company. With sales of approximately \$140 million in 2003, Stonyfield Farm is the largest organic yogurt producer in the U.S.
January 12, 2004

Natural/Specialty Sales, Inc., a wholly-owned subsidiary of **Acosta, Inc.**, reached an agreement to purchase **Specialty Partners**, a specialty and natural foods sales and marketing company, from **Tree of Life, Inc.** Terms were not disclosed.
January 15, 2004

Whole Foods Market agreed to acquire **Fresh & Wild Holdings** for about \$38 million, or 1.27 times revenues. The transaction marked the first overseas venture for Whole Foods. Fresh & Wild owns and operates seven natural food stores in the U.K.
January 16, 2004

SCOLR, Inc. sold its probiotics division to an investment group led by management for \$2.7 million.
January 20, 2004

Monterey Pasta Company acquired an 80% interest in **CIBO Naturals, LLC**, plus an option to purchase the remaining 20% in four years at a predetermined price, for \$6 million in cash and a \$1 million loan. CIBO produces a variety of refrigerated gourmet natural sauces and spreads including fresh pesto sauces, flavored cheeses, bruschetta toppings and tapenade spreads.
January 28, 2004

Laboratories Ordesa, a subsidiary of Spanish bakery products company **Nutrexpa SA**, acquired **Sodilac** from **Wyeth Inc.** for \$31.1 million, or 0.83 times revenues. Sodilac manufactures baked goods and nutritionally enhanced baby food and cereals.
February 25, 2004

The Hain Celestial Group's Belgian subsidiary acquired **Natumi AG**, a German producer of non-dairy beverages and desserts marketed principally to retail channels in Europe. Terms were not disclosed.
February 25, 2004

Queench, Inc. announced the acquisition of **So Soya+, Inc.** and **Bay Hill Impex, Ltd.**, producers and distributors of healthy soy-based products and flavored carbonated water beverages, respectively. Terms were not disclosed.
March 11, 2004

Kerry Group acquired **Oregon Chai** and **Extreme Foods** for a total consideration of \$96 million. Oregon Chai is a leading manufacturer of chai tea lattes and mixes. Extreme Foods develops and markets ready-to-use ice blended flavored beverages for the foodservice industry.
March 23, 2004

Kraft Foods acquired **Veryfine Products**, the ready-to-drink beverage company whose products include 100% juice and juice drinks, Fruit2O flavored waters, and Balsam's spring water. Terms were not disclosed. *March 29, 2004*

Corn Products International acquired a 75% stake in **GTC Nutrition, LLC**. GTC supplies ingredients used in such products as beverages, soy products, dairy products, baked goods, medical foods, nutritional supplements, candies, mints, chewing gums, and animal foods and feeds. Terms were not disclosed. *April 8, 2004*

Leiner Health Products underwent a \$650 million recapitalization, as **North Castle Partners** reduced its stake in the company and **Golden Gate Capital** invested in the company, which is America's largest store brand manufacturer of vitamins, minerals, supplements and diet aids. *April 21, 2004*

SunOpta Inc. acquired **Supreme Foods Ltd.**, a leading distributor of certified organic, natural, kosher and specialty grocery products across Canada. Supreme is profitable and had sales of approximately C\$25 million. Terms were not disclosed. *May 1, 2004*

Kerry Group announced the acquisition of flavor businesses **Manheimer Inc.** (U.S.), **Flavurence** (U.S.), **Laboratorios Krauss** (Mexico) and **Fructamine** (Italy). Total consideration was 170 million euros, or 1.54 times sales and 11.3 times EBITDA of the acquired businesses. Manheimer supplies natural flavors for the beverage, confectionary, meat and soup industries, and fragrances for home environmental, personal care, household and industrial products. Flavurence supplies natural fruit flavors to food and beverage producers. Laboratorios Krauss has a strong presence in sweet flavors in the bakery sector. Fructamine produces naturally extracted flavors for the European savory, bakery and soft drink markets. *May 10, 2004*

Nutraceutical International Corp. acquired **Natural Balance**, a Colorado manufacturer of energy, weight loss and sports nutrition products. The purchase price was approximately \$9 million in cash, or 0.90 times sales. *May 14, 2004*

Nutraceutical International Corp. acquired the Montana Big Sky brand of specialty bee products, including bee pollen, royal jelly and propolis, from **Montana Naturals, Inc.** The purchase price was \$600,000 in cash, or approximately 0.67 times sales. *May 14, 2004*

The Hain Celestial Group acquired the Ethnic Gourmet and Rosetto brands of frozen entrees and other foods from **H.J. Heinz**. The brands had combined annual sales of approximately \$30 million. The acquisition gives Hain a \$50 million platform in the frozen food category. Terms were not disclosed. *May 20, 2004*

SunOpta Inc. acquired **Distribue-Vie Fruits & Legumes Biologiques Inc.**, which specializes in the distribution of organic fresh produce in Quebec. Distribue-Vie is profitable and had sales of approximately C\$7 million. Terms were not disclosed. *May 31, 2004*

SunOpta Inc. acquired **Snapdragon Natural Foods** from its parent **I-D Foods Corporation**. Snapdragon distributes natural and organic groceries and frozen products to both the mass market and natural food retailers across Canada. Terms were not disclosed. *May 31, 2004*

Danisco acquired **Rhodia Food Ingredients**, a probiotic business that includes cultures, hydrocolloids and food safety products. The purchase price was approximately 320 million euros, or 1.52 times sales. *June 1, 2004*

The Hain Celestial Group acquired **JASON Natural Products**, a fast growing natural health and body care products company, opening a different aisle in the natural channel for Hain. JASON had sales of \$20 million in its last fiscal year. Terms were not disclosed. *June 3, 2004*

Market News and Notes

U.S. organic food and non-food sales grew by approximately 20 percent in 2003, to a total of \$10.8 billion, according to the Organic Trade Association's (OTA) 2004 Manufacturer Survey. Organic foods represented \$10.38 billion, up 20.4 percent from the previous year, while non-food products (personal care products, supplements, etc.) grew by 19.8 percent, to reach \$440 million. (Source: OTA)

According to the OTA, **U.S. organic food sales gave grown between 17 and 21 percent** each year since 1997 (nearly tripling), while **total U.S. food sales only grew in the range of 2 to 4 percent** per year over that period. Organic food sales now represent approximately 2 percent of the market. (Source: OTA)

The Manufacturer Survey also noted that **organic fruits and vegetables represented about 42 percent of organic food sales**, while the organic meat, poultry and fish segment represented only 1 percent of sales. (Source: OTA)

The **meat, fish and poultry category is the fastest growing organic category**, up 78 percent in 2003. Other fast growing categories are snacks (29.6%), sauces and condiments (23.5%), breads and grains (22.9%) and dairy products (20.3%). (Source: OTA)

In 2003, **over 40 percent of total organic food sales were handled through supermarkets and grocery stores, mass merchandisers, and club stores.** Independent natural product and health food stores and natural grocery chains handled 48 percent of sales. (Source: OTA)

Studies show that approximately **45 percent of American consumers purchase organic products**, with 10 percent being frequent buyers. (Source: OTA)

Rather than buying organic foods primarily because of environmental concerns, **consumers consider health attributes, taste and food safety to be more important.** (Source: The Hartman Group)

More than half of heavy organic buyers have household income below \$50,000, and African Americans, Asian Americans and Hispanics are more likely to purchase organic foods than the general population. (Source: The Hartman Group)

More than 60% of consumers cannot name a single organic brand. Instead, **“organic” and “natural” are the brands.** (Source: The Hartman Group)

The organic attribute does not supercede all others in the purchasing decision for most consumers. **Purchasing decisions are made on a product-by-product basis**, and most consumers are looking for balance and are buying many conventional items along with organics. (Source: The Hartman Group)



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