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# Organic and Natural Foods and Supplements

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Merger & Acquisition Market  
First Quarter 2005



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## First Quarter Summary

Merger and acquisition numbers were off during the first three months of 2005, which was most likely the result of typical first quarter doldrums (transaction volume across industries is often lower in a first quarter due to the race to complete deals prior to the end of the year). However, the quarter was not without some key trends.

Venture financing grabbed the headlines as nearly half of the quarter's deals highlighted in this report involved growth capital injections. Subject companies ranged from manufacturers of supplements to beverages to functional ingredients.

On the buyout front, a pair of transactions provided new valuation benchmarks, as Chiquita announced it would buy Fresh Express for over 9 times "proforma" EBITDA (in what can only be described as a masterfully creative use of "synergies"); and Sunset Brands agreed to buy US Mills for nearly 10 times EBITDA. These two data points continue to demonstrate that buyers are willing to pay higher prices to acquire potential growth.

In other news, Wild Oats may soon be put in play as retail grocery buyout artist Burkle established a toe-hold of nearly 10% of its outstanding stock.

## Merger & Acquisition News Clips

**IZZE Beverage Company** completed a \$6.35 million equity financing led by Sherbrooke Capital. Uses include acceleration of market expansion and development of a new category of "healthy sodas". Terms were not disclosed.

*January 21, 2005*

Functional ingredient developer **Advanced BioNutrition Corp.** raised a \$7.5 million second round of private equity. The financing was led by SAM Equity Partners Ltd. and BASF Venture Capital GmbH. Terms were not disclosed.

*January 21, 2005*

**American Capital Strategies Ltd.** invested \$20 million in Ontario, Canada-based **Seroyal International** and **Seroyal USA**. Seroyal markets and distributes supplements and homeopathic products under the Genestra and Unda brands.

*February 3, 2005*

**Sunset Brands** agreed to acquire **US Mills, Inc.**, a marketer of natural, organic and specialty ready-to-eat cereals, hot cereals, cookies and crackers for \$20 million in aggregate consideration. Products include Uncle Sam cereal, Erewhon, New Morning, Farina and Skinner's Raisin Bran. US Mills had revenues of \$15.8 million and operating cash flow in excess of \$2 million in its latest fiscal year, implying a price-to-sales multiple of 1.27 times and price-to-EBITDA multiple of 9.8 times.

*February 21, 2005*

**Apple and Eve** acquired the branded juice business of **Northland Cranberries** for \$10.8 million and an agreement to buy \$6.7 million worth of cranberry concentrate over the next 12 months.  
*February 23, 2005*

Functional food company **Brand New Brands** raised \$15 million in venture capital from Unilever Ventures and Burrill & Co., among others. Terms were not disclosed.  
*February 23, 2005*

**Chiquita Brands International, Inc. (NYSE: CQB)** announced it would acquire the **Fresh Express** unit of **Performance Food Group (Nasdaq: PFGC)** for \$855 million in cash, which equates to 0.86 times revenues and 9.4 times “expected adjusted pro forma EBITDA”. Fresh Express is the number one seller of packaged salads in the U.S., with 40 percent retail market share and approximately \$1 billion in revenues. Fresh Express is also a leading supplier of fresh cut fruit.  
*February 23, 2005*

Canadian organic supermarket chain **Planet Organic** announced it would acquire **Newfound Health’s** 17 franchise stores throughout the province of Alberta. Terms were not disclosed.  
*February 24, 2005*

Billionaire grocery store investor Ron Burkle spent \$19.8 million through his **Yucaipa Cos.** since late February buying 2.6 million shares of **Wild Oats**. He now controls 9.2 percent of the organic and natural grocer.  
*March 24, 2005*

**Organic To Go**, a privately held company in Seattle, Washington, offered to purchase most of the assets of bankrupt sandwich and soup restaurant chain **Briazz Inc.** for \$1.35 million in cash and notes.  
*March 25, 2005*

## Market Notes

**Sales of enriched and fortified products, or “functional foods”, topped \$10 billion in 2004.** Bakery and cereal products are by far the top sellers, but snack foods and confections are growing most rapidly.

(Source: Mintel International)

**Sales of organic foods and beverages were up 18% to \$10.9 billion in 2004.** Paradoxically, penetration into U.S. households dropped from 40% in 2003 to 30% (62 million households) in 2004. Experts say this may be due to higher dedication among satisfied households, and reluctant households “dropping out”. Also, consumer awareness of organics is said to have reached the 90% level, according to the *2005 Organic Consumer Trends Report*.

(Source: The Natural Marketing Institute)

A study suggests that **organic milk has more health benefits than non-organic milk**, with higher levels of vitamin E, omega 3 fatty acids and antioxidants which help beat infections.

(Source: Danish Institute of Agricultural Research)

Another study suggests that **organic ketchup contains higher levels of lycopene**, which is believed to protect against certain cancers.

(Source: Agricultural Research Service)

Dominick’s, a unit of Safeway, Inc., unveiled a new store format called “Lifestyle” which featured **double the selection of organic foods** than its traditional store format.

(Source: Chicago Sun-Times)



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