HT Capital Advisors, LLC

Organic and Natural Foods and Supplements

Merger & Acquisition Market
Second Quarter 2005

Stephen C. Tardio
Managing Director
(312) 920-9003
stardio@htcapital.com

Second Quarter Summary

The second quarter of 2005 saw a dramatic rise in the volume of M&A transactions in the organic/natural foods and supplements space. In the natural flavoring segment, the landscape was altered significantly as suppliers Chr. Hansen, Technology Flavors & Fragrances, the extracts business of A.M. Todd Botanical Therapeutics, and Pure World were all acquired and their market share consolidated into others'. Supplements and personal care were also hot areas, with Burham Labs, Zia Natural Skincare, Solgar Vitamin & Herb, SISU and Haleko all sellers. Buyers included Hain Celestial, who is intent on entering adjacent markets.

In food and beverage categories, Cadbury Schweppes, Sun Opta, Starbucks and U.K. company Premier Foods were all buyers, Dean Foods spun off Tree House, and little known enhanced water company Le-Nature announced it was a seller.

Purchase price-to-sales multiples held firm well above 1.0x (or in some cases, 2.0x or even 4.0x) and EBITDA multiples remained high, in excess of 10.0x for consistently profitable companies with high revenue growth prospects.

Merger & Acquisition News Clips

Technology Flavors & Fragrances (AMEX: TFF) announced a merger agreement with **FFG Industries**, a portfolio company of private equity firm Nautic Partners. TFF manufactures flavors and fragrances for natural and artificial flavored beverages, confections, foods, pharmaceuticals, aromatherapy products, perfumes and health and beauty products. FFG makes flavor and fragrance ingredients used in the food, beverage, home environment and personal care industries. Based on the selling price of approximately $25 million, a 1.5x multiple of sales was implied. The company posted negative EBITDA for the period trailing the transaction. *April 1, 2005*

The Hain Celestial Group purchased San Francisco-based **Zia Natural Skincare**, whose natural personal care lines include facial care, masks, aging treatments and cosmetics. The acquisition follows Hain's purchase of Jason Natural Cosmetics last year. Zia's sales are in the range of $10 million. Terms were not disclosed. *April 7, 2005*

Country Life Vitamins, independently owned by the Drexler family, announced a joint venture with **Kikkoman** of Japan, to "utilize Kikkoman's world-class research and development capabilities and global distribution infrastructure to develop new products and introduce its brands to consumers worldwide". *April 7, 2005*

Starbucks Corporation acquired **Ethos Water**, a small, privately-held bottled water company started in 2002. Starbucks plans to sell Ethos Water in its stores throughout the U.S. and to donate proceeds to charities promoting safe drinking water in underdeveloped countries. Terms were not disclosed. *April 12, 2005*

European private equity firm **PAI Partners** acquired Danish ingredient supplier **Chr. Hansen** for approximately $1.2 billion. Hansen supplies cultures, probiotics, enzymes, colors, flavors, seasonings, sweeteners, tablet coatings and excipients to over 30 countries around the world. PAI intends to use Hansen as a growth platform in terms of geographic expansion and acquisitions. Terms were not disclosed. *May 12, 2005*

NOW Foods, an independent, family-owned supplement manufacturer with sales approximating $100 million, acquired natural personal care product contract manufacturer **Burnham Labs**. Terms were not disclosed. *May 12, 2005*

Cadbury Schweppes bought organic chocolate company **Green & Black's**, after having acquired 5% of the U.K. company in 2002. Green & Black's is one of the fastest growing confectionery brands in the U.K, and will continue to be run on a standalone basis. G & B's U.S. sales are estimated at $2-3 million, which its U.K. sales are in the $20-30 million range. Terms were not disclosed. *May 19, 2005*

SunOpta Inc. acquired **Earthwise Processors LLC** of Moorhead, Minnesota. Earthwise has annual revenues in excess of $10 million, and is a vertically integrated producer of organic and "identity preserved" non-genetically modified grains, primarily focused on soy. The acquisition expands SunOpta's supply base and product offerings, and allows for operating synergies. Terms were not disclosed. *May 24, 2005*

Premier Foods plc acquired **Marlow Foods**, also based in the U.K and the owner of meat alternative brand Quorn, for $314 million. Marlowe was owned by Montagu Private Equity Ltd. Implied multiples of the transaction were 2.2x sales and 11.0x EBITDA. *June 5, 2005*

Naturex, S.A. announced that it would acquire **Pure World, Inc.** of Bedminster, New Jersey. Pure World develops, manufactures and sells botanical extracts which are used by cosmetic, food, flavor, nutraceutical and pharmaceutical industries to manufacture finished products for the consumer market. Naturex is based in France andsells 100% natural ingredients to the food, flavor and nutraceutical industries, but derives 90% of its sales outside that country. The purchase price was $36.8 million, implying a price-to-sales multiple of 1.0x and a price-to-EBITDA multiple of 12.3x. *June 7, 2005*

U.S nutritional supplement company **NBTY Inc.** acquired substantially all of the assets of **Solgar Vitamin and Herb**, a division of Wyeth Consumer Healthcare for $115 million. Solgar's products are sold at nearly 5,000 stores in the U.S. and in 40 countries globally. Solgar's $104 million in sales implied a price-to-sales multiple of 1.1x. *June 9, 2005*

NBTY Inc. also acquired **SISU Inc.**, a $14 million Canadian supplement manufacturer based in British Columbia. SISU has a 25-year history and sells mainly to independent health food stores in Canada. Given a purchase price of $8.2 million in cash and assumed debt, the implied price-to-sales multiple was 1.7x.
June 9, 2005

Frutarom announced the purchase of the Flavorings Extracts business of **A.M. Todd Botanical Therapeutics**. The business generated less the $2 million in sales annually at the time of purchase at a price of $325,000, implying a price-to-sales multiple of 0.18x. *June 15, 2005*

SunOpta Inc. acquired **Cleugh's Frozen Foods** of Buena Park, California, a third generation business with annual sales in excess of $50 million. Cleugh's focuses on processing natural and organic frozen fruits and vegetables for the retail private label, food service and industrial markets. The purchase price was not disclosed.
June 20, 2005

Weider Nutrition International sold its **Haleko** sports supplement business in Europe to Croatian investment firm Atlantic Grupa. Weider received $15 million for Haleko, implying a price-to-sales multiple of 0.23x. Haleko was running a net operating loss. *June 22, 2005*

Privately-owned bottled water company **Le-Nature Inc.** was preparing to seek a buyer. The Latrobe, Pennsylvania producer of vitamin-enhanced waters and bulk tea concentrates purportedly has sales of $250 million and EBITDA of $90 million, and is thought to be able to bring a price of $1 billion, implying multiples of 4.0x sales and 11.1x EBITDA. *June 23, 2005*

Dean Foods Company completed a spin-off of its TreeHouse Foods subsidiary, by transferring by means of a share dividend 98.3% of TreeHouse's outstanding stock to Dean shareholders. Included in the spin-off is TreeHouse's Second Nature brand.
June 27, 2005

The Hain Celestial Group formed a joint venture with private equity firm **Pagasus Capital Advisors** to purchase the poultry processing facility assets of **College Hill Poultry** of Fredericksburg, Pennsylvania. The acquisition includes the Raised Right brand of natural and organic free range chicken, which is grown without antibiotics or animal or protein by-products. Terms were not disclosed. Hain will control 50.1% of the venture. *June 27, 2005*

Market Notes

American shoppers spent nearly $45.8 billion on natural and organic products in 2004. Natural product sales increased 6.9% across all sales channels, including supermarkets, mass marketers, direct marketers and the internet. Sales of organic products rose 14.6% in natural products stores.
(Source: *The Natural Foods Merchandiser's* 24th Annual Market Overview)

Kraft Foods is "actively looking" to acquire healthy food and drink brands, Chief Executive Roger Deromedi said.
(Source: Kraft Foods, Inc.)

Nestle is likely to add small healthy food companies to its portfolio as part of an effort to improve its nutritious product offerings.
(Source: *International Herald Tribune*, April 9, 2005)

Widespread shortages of organic milk have been experienced lately, as demand far exceeds the industry's ability to supply. The Organic Trade Association projects 17.3% growth in the sales of organic milk between 2004 and 2008.
(Source: *The Washington Post*)

A new company, **Brand New Brands**, **has been formed with $15 million in venture capital money** to develop healthy food and beverage products. The founders include ex-executives of GNC, the Republic of Tea, and Odwalla.
(Source: *Functional Foods & Nutraceuticals*, June 2005)

The Agriculture Department announced it would **no longer allow the round, green "USDA Organic" label on personal care and cosmetic products**, due to doubtful legal standing.
(Source: *USA Today*)

Predicted new hot trends in the organic and all-natural markets include **wine, green tea and white tea; "cause" marketing** for personal care products**;** increased product offerings in **household cleaners and baby products; soy** as a key ingredient**; and bamboo-related products**.
(Source: Mintel Intl.)

Organic juice sales in North America are expected to increase by 21.4% in 2005.
(Source: Organic Monitor)

Two consumer packaged goods segments, **organic and no/low sugar, have proven much better able to sustain strong sales growth**, than other segments.
(Source: ACNielsen)

U.S. sports nutrition and weight loss product sales grew by 14% in 2004 to reach $15.6 billion. Forecasts are that these products will sustain annual growth rates of 5-7% over the next 8 years.
(Source: *Nutrition Business Journal*)

HT CAPITAL ADVISORS, LLC

New York
(212) 759-9080

Chicago
(312) 920-9003

Paris
(33) 6-89-25-69-41

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