

HT

CAPITAL ADVISORS, LLC

Organic and Natural Foods and Supplements

Merger & Acquisition Market
Second Quarter 2006



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Second Quarter Summary

The market for natural and organic products continues its rapid growth trajectory as American shoppers spent \$51 billion on natural and organic products in 2005, \$14 billion of which was organic foods. Major retailers such as Wal-Mart are committing more resources to the area now that the sector has critical mass. Billion-dollar, multinational food companies are pursuing natural and organic companies with less than \$50 million in annual sales, an unorthodox and almost unheard-of tactic in traditional M&A circles. All these trends can be traced to the far superior growth prospects of the segment versus conventional products.

M&A price-to-sales valuation multiples logged in the second quarter of 2006 included 1.5x, 1.94x, and 2.23x.

Merger & Acquisition News Clips

Supervalu Inc. became the nation's second-largest supermarket chain after it acquired **Albertson's Inc.**, including 49 Albertsons and 2 Bristol Farms in Orange County. Terms were not disclosed. *May 4, 2006*

Lonza Group AG of Switzerland, a specialty chemicals company, has expanded its portfolio of nutrition businesses by acquiring **Larex Inc.**'s vertically integrated **Larch Arabinogalactan** business manufacturing arabinogalactan, a natural soluble fiber extracted from harvested trees. Terms were not disclosed. *May 18, 2006*

Nestlé Australia purchased the Australian business of **Uncle Tobys**, a maker of cereals and nutritious snacks, from **Burns Philp Ltd** for A\$890 million, or 2.23x sales and 11.3x 2005 EBITDA. Tobys sales totaled A\$400 million in 2005, with approximately A\$79 million in EBITDA. This move underscores Nestlé's strategic focus on nutrition, health and wellness and strengthens its positions in Australia. *May 25, 2006*

McCormick & Company agreed to acquire **Epicurean International**, a company providing easy-to-prepare Asian foods, for \$97 million in cash, corresponding to 1.94x 2005 sales and 11x 2005 EBITDA. Epicurean's sales have grown at a compound annual rate of 32 percent since 2002. *June 8, 2006*

Metagenics Inc., a leader in the U.S. dietary supplement and medical foods industry, acquired **Biodynamics NV**, a manufacturer and distributor of nutritional products in Benelux. Metagenics also acquired Biodynamics' other businesses, including **Special Nutrition Europe** (a shipping and logistics company), Dutch distributor **Euro-Nutri**, and a 28% interest in French distributor **Bionutrics**. Terms were not disclosed. *June 9, 2006*

Mason Vitamins, Inc. was acquired by green tea manufacturer **Ito En (North America) Inc.**, becoming the first wholly owned subsidiary of Ito En's U.S. operations and taking its new parent into the supplement market. Mason had sales of \$17.8 million and operating income of \$2.9 million for the last fiscal year ending December 2005. Terms were not disclosed. *June 14, 2006*

Amerifit Nutrition Inc., a portfolio company of **Charterhouse Group Inc.**, purchased the **Culturelle** probiotic supplement brand from **ConAgra Foods**. Culturelle contains Lactobacillus GG, a patented probiotic strain clinically proven to maintain healthy intestinal tract and strengthen the immune system. Terms were not disclosed. *June 16, 2006*

LycorRed announced the acquisition of **H. Reisman Corp.**, a U.S. supplier of natural carotenoids and a subsidiary of **Pharmachem Laboratories Ltd.** Terms were not disclosed. *June 16, 2006*

The Hain Celestial Group acquired the **Linda McCartney** brand (under license) of frozen, vegetarian meals (the leader in Britain's meat-free category) from the **H.J. Heinz Company**, including a manufacturing facility in Norfolk, England. Terms were not disclosed. *June 16, 2006*

Stonyfield Europe, a new organic dairy firm co-owned by U.S. based **Stonyfield Farm Inc.** and Paris based **Groupe Danone**, with 20% and 80% equity interests respectively, acquired a 37% interest in Irish family-owned organic dairy leader **Glensik**. Terms were not disclosed. *June 23, 2006*

Nestlé S.A. reached an agreement with private equity groups including **ACI Capital** and **MidOcean Partners** to acquire the weight management company **Jenny Craig**, whose sales were in excess of \$400 million over the last twelve months, with double-digit organic growth. Nestlé will pay approximately \$600 million, corresponding to 1.5x sales. *June 23, 2006*

Mitsui Foods, Inc. signed a purchase agreement with global processed fruit and vegetable products leader **Hartog Foods, Inc.**, which will be integrated in to MFI's newly created Ingredients Division. Terms were not disclosed. *June 26, 2006*

Milestone Partners acquired **Higher Power Nutrition** and its subsidiary **Bodybuilding.com**, a leading online retailer of nutritional supplements and fitness-related products. Terms were not disclosed. *June 30, 2006*

Market Notes

Preliminary findings from the Organic Trade Association's 2006 Manufacturer Survey showed **U.S. organic food sales totaled nearly \$14 billion in 2005**, representing 2.5 percent of all retail sales of food. Organic foods' share of total food sales is up from 1.9 percent in 2003. According to survey results, sales of organic foods are **expected to reach nearly \$16 billion by the end of 2006**. Non-food products, including personal care, flowers, pet food, fiber (linen and clothing), household cleaners, and nutritional supplements, grew by 32.5 percent to reach \$744 billion in sales in 2005.

(Source: *Organic Trade Association*)

American shoppers spent more than \$51 billion on natural and organic products combined in 2005. **Most sales – 80.9 percent – came from the natural retailing and mass-market channels**. In natural products stores, food sales grew 12.1 percent, and organic food sales specifically grew 15.7 percent. Supplements sales rose by 8.2 percent, and natural personal care sales increased 12.1 percent.

(Source: *The Natural Foods Merchandiser*)

The US organic dairy sector racked up \$2.1 billion in sales in 2005, up 24 percent from 2004. Organics now make up 3.5 percent of all dairy products sold in the US.

(Source: *Organic Trade Association*)

Organic meat sales are continuing to grow strongly in North America with 51% growth in 2005, **however they seem hindered by undersupply**. The US market for organic meats has indeed become **highly import-dependent** with products coming from Latin America, Australasia and Canada, mostly because of high production costs and inadequate distribution infrastructure for US producers.

(Source: *Organic Monitor 2005 Report*)

Major supermarkets are broadening their organic food offerings and developing low-cost, private-label brands to compete with products offered by specialty stores. To that matter, Wal-Mart plans to double its organic offerings this summer in some stores and sell organic foods at just 10% above conventional food price points, Kroger Co.'s line grew to 275 items since 2002, and Supervalu Inc. is introducing a line of 50 organic products and plans to offer 300 by mid-2007.

(Source: *The Wall Street Journal, May 4, 2006*)



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