



CAPITAL ADVISORS, LLC

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# Organic and Natural Foods

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Merger & Acquisition Market  
Third Quarter 2004



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## Third Quarter Summary

Merger and acquisition activity in the third quarter of 2004 fell victim to the normal summertime doldrums. Divestitures marked one theme however, as Nestle, Homegrown Natural Foods, and Garden of Life chose to concentrate on their main businesses after selling non-core subsidiaries.

The continuing roll-up of small retailers and distributors was another theme in the quarter, as Albertson's and Nutraceutical International in the U.S., and Planet Organic in Canada, acquired properties in the small retail channel, and SunOpta continued to roll-up the small distributor channel.

Pricing information was in relatively short supply in the quarter. Given the generally small nature of most transactions, and thus no materiality requirement on the part of the buyer to release terms, this quarter resulted in few benchmarking multiples. However, based on the Lifeway and Riviana transactions, sales multiples continued to approximate one-times sales, and EBITDA multiples exceeded eight-times (in the case of Riviana).

## Merger & Acquisition News Clips

**Solera Capital LLC** acquired the **Fantastic Foods, Inc.** and **Napa Valley Kitchens, Inc.** subsidiaries of **Homegrown Natural Foods, Inc.** Homegrown sold its original brand, Annie's Homegrown, to Solera in August 2002. Terms were not disclosed.

*July 2004*

**Nestle USA** divested Libby's **Kerns** nectars juice business to **Stremick's Heritage Foods** in the U.S. and Mexico. Terms were not disclosed.

*July 9, 2004*

**Orbit Brands Corporation** (NASDAQ: OBTV), which focuses on the acquisition and development of high growth companies in the consumer goods sector, purchased **Malibu Beach Beverage Group LLC**, a manufacturer of low carb new age beverage products. Financial terms of the stock and cash transaction were not released.

*July 12, 2004*

**Fresh Organics, Inc.**, a subsidiary of Utah-based **Nutraceutical International Corp.** (NASDAQ: NUTR), acquired health food retailer **Cornucopia Market** of Carmel Valley, California.

*July 15, 2004*

**Lifeway Foods, Inc.** completed the acquisition of **Ilya's Farms**, a producer of fine gourmet cream cheeses based in the Philadelphia area. The purchase price was \$575,000 in cash, or approximately 0.96 times sales or 28.8 times pre-tax income.

*July 26, 2004*

**Milestone Partners**, a Philadelphia area private equity firm, partnered with management to acquire a controlling interest in **Good Health Natural Foods, Inc.** Good Health is a Northport, NY-based producer of natural and organic salty snacks such as *Olive Oil Potato Chips* and *Veggie Stix*. Terms were not disclosed.

*July 26, 2004*

**Planet Organic** closed on its acquisition of supplement manufacturer **Trophic Canada, Inc.** to continue its plan of vertical integration within the natural products industry. The purchase price was CDN\$6 million in stock and assumed debt.

*August 12, 2004*

**Garden of Life** sold its **Beyond Organic Ingredients** division to **RFI Ingredients**, to allow it to focus on its supplements and communications businesses.

*August 12, 2004*

**Planet Organic** acquired **Sangster's**, a 35-store retail chain with locations across Canada, for CDN\$4 million, with \$2 million on closing and the balance via the issuance of 3 million shares plus the assumption of \$110,000 of Sangster's debt.

*August 17, 2004*

Canadian soy supplier and natural product distributor **SunOpta, Inc.** acquired **Kofman-Barenholtz Foods Ltd.**, a distributor of kosher and specialty grocery products across Canada with revenues of approximately CDN\$11 million. The cash consideration was not disclosed.

*September 2, 2004*

Spanish dairy producer **Ebro Puleva SA** completed its acquisition of publicly-traded rice manufacturer **Riviana Foods, Inc.** The combined companies will become a global producer of rice with particular strength in North America and Europe. The tender offer was completed at \$25.75 per share of Riviana, just 2% above the closing price before the deal was announced on July 23. The enterprise value of \$375 million equates to 0.95 times trailing 12-month sales and 8.45 times trailing EBITDA.

*September 5, 2004*

**Planet Organic** acquired organic retailer **Great Ocean Natural Foods** located in Halifax, Nova Scotia for a purchase price of CDN\$2 million in a combination of cash, stock and the assumption of liabilities.

*September 8, 2004*

**SunOpta** acquired 51% of **Organic Ingredients Inc.** of Aptos, California, a provider of a wide range of certified organic ingredients including processed fruit and vegetable based ingredients, sweeteners and vinegars with \$15 million in sales. As part of the transaction, SunOpta has an option to acquire the 49% minority position in 2005. The cash consideration was not disclosed.

*September 13, 2004*

**Albertson's, Inc.** (NYSE: ABS) acquired Southern California fresh, gourmet and specialty food retailer **Bristol Farms**, marking Albertson's entry into one of the industry's fastest growing segments. Bristol has over \$112 million in sales revenue. Terms were not disclosed.

*September 21, 2004*

## Market Notes

**Twenty-seven percent of Americans are eating more organic products than one year ago**, according to the 2004 Whole Foods Market Organic Foods Trend Tracker survey.

(Source: Whole Foods Market)

In August, **Dean Foods Company announced a restructuring plan to consolidate its three branded businesses: White Wave, Horizon Organic, and Dean National Brand Group.** The strategy is intended to help Dean leverage its scale and increase profitability, as well as to increase investment in marketing and innovation.

(Source: Company reports)

**Fifty four percent of Americans have tried organic foods and beverages**, and nearly one in ten use organic products regularly.

(Source: Whole Foods Market)

**Organic pet food sales are growing at nearly three times (63%) the rate of human organic food sales.** However, organic pet food sales of \$14 million still represent a tiny fraction of domestic pet food sales of \$15 billion.

(Source: Organic Trade Association)

Organic food companies are beginning to invest more dollars in a long neglected area: marketing. **Horizon Organic** just started its first major consumer advertising effort this quarter, after being bought by **Dean.** **Hain Celestial Group** will begin licensing the Sesame Street characters for its Earth's Best brand of cereals and snacks for children and toddlers. And **Stonyfield Farm**, the organic yogurt company, is increasing its marketing spending this year 28% to \$7.5 million.

(Sources: Forbes.com and company reports)

**Prices for organic produce and products have held steady for more than half of the nation's organic farmers**, according to the Fourth National Organic Farmers' Survey. Meanwhile, 26% of farmer respondents indicated that their organic prices went up, while 15% indicated that their prices went down.

(Source: Organic Farming Research Foundation)

As the low carb trend begins to wilt, industry watchers are saying the **fiber-enriched products could be the next big wave in product innovation.**

(Source: ProductScan Online)



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