



CAPITAL ADVISORS, LLC

---

# Organic and Natural Foods

---

Merger & Acquisition Market  
Fourth Quarter 2004



Stephen C. Tardio  
*Managing Director*  
(312) 920-9003  
[stardio@htcapital.com](mailto:stardio@htcapital.com)

## Fourth Quarter Summary

Continued intense interest in the natural and organic foods sector on the part of private equity funds was in evidence during the fourth quarter of 2004. These financial players typically are control buyers (though sometimes minority investors) of companies who are looking to expand from entrepreneur revenue levels of \$20-50 million, and sellers of those same businesses in a three-to-five year horizon to large, strategic buyers at base EBITDA levels of \$5 million and above.

The headline transaction in the fourth quarter was North Castle's sale of EAS, Inc., the nutritional products company, to Abbott Laboratories. EBITDA multiples of greater than 6x are not the least bit uncommon for companies with the size and growth profile of EAS. And for a strategic buyer such as Abbott, a multiple of 8x is not necessarily expensive, given the revenue and cost synergies it is likely to experience.

Vitamins, minerals, and supplements (VMS) and health and beauty aids (HBA) deals highlighted the quarter, given other transactions involving M.D. Labs, Levlad, and Pilgrim's Natureway.

## Merger & Acquisition News Clips

**Sunset Brands, Inc.** acquired **Low Carb Creations, Inc.**, a producer of low carb brands. Terms were not disclosed. *October 7, 2004*

**Abbott Laboratories, Inc.** announced that it had entered into an agreement to acquire nutritional foods company **EAS, Inc.** from private equity firm **North Castle Partners** for \$320 million in cash. EAS manufactures dietary supplements and weight management products including shakes, nutrition bars, and protein drinks under the brand names EAS, AdvantEdge, Myoplex and Body for Life. Based on approximate expected sales and EBITDA of \$340 million and \$40 million, respectively, in 2004, the purchase price equated to 0.94x sales and 8.0x EBITDA. *October 11, 2004*

**Ocean Spray Cranberries, Inc.** finalized the sale of its wholly owned subsidiary **Milne Fruit Products, Inc.** to family owned agribusiness company **Wyckoff Farms, Inc.** Milne, with \$30 million in sales, is one of the larger fruit processors in the Pacific Northwest. It processes Concord grapes, cranberries, cherries, and other berry fruits into 100% all-natural juice concentrates, puree concentrates, and customized fruit blends and premixes. Terms were not disclosed. *October 12, 2004*

**Compound Natural Foods, Inc.** acquired **Pure Nature, LLC** and its Hydrocharge product line of naturally formulated sports drinks. Terms were not disclosed. *October 21, 2004*

**Enjoy Life Foods, LLC** purchased the Perky's line of all-natural breakfast cereals from **PGP International**, a division of **ACH Food Companies**. Perky's is best known for its Nutty Rice and Nutty Corn cereals, produced in a nut-free environment with gluten-free ingredients. Terms were not disclosed. *October 19, 2004*

**Nutraceutical International Corporation** acquired **Pilgrim's Natureway LLC**, a \$4 million, ten outlet retailer of branded nutritional supplements based in Seattle, Washington. Terms were not disclosed. *October 22, 2004*

**Roll International Corporation** acquired **FIJI Water LLC**, the second largest selling imported water brand in the U.S. Terms were not disclosed. *November 26, 2004*

New York private equity firm **Harvest Partners, Inc.** completed its acquisition of personal care product maker **Levlad, Inc.** and its subsidiary **Arbonne International, Inc.** Levlad and Arbonne, a multilevel marketer of more than 250 Swiss herbal and botanical formulations, generated revenue of \$200 million in 2004. Levlad's 650 employees make natural and organic shampoos, conditioners, soaps and other products under the Nature's Gate and Nature's Gate Organics brands that are sold via specialty retailers such as Whole Foods Market and Wild Oats Markets. Though no terms were disclosed, it is believed that the purchase price was close to 6x EBITDA. *December 1, 2004*

Ingredient supplier **Health Sciences Group, Inc.** acquired **Apple Peel Technologies, Inc.** a wholly owned subsidiary of **UTEK Corporation**. APTI holds the exclusive worldwide license to a patent-pending process to produce Apple Peel Powder developed at Cornell University. Terms were not disclosed. *December 9, 2004*

**Pivotal Private Equity LLC** acquired **M.D. Labs**, one of Arizona's largest providers of health foods products (over \$50 million of gross sales) such as protein powder, fiber products, extracts and 100% organic herbal teas. Both parties are based in Phoenix. Terms were not disclosed. *December 20, 2004*

**United Natural Foods, Inc.**, announced the acquisition of **Select Nutrition Distributors, Inc.** a privately owned distributor of health and beauty aids and vitamins, minerals and supplements to health food stores, pharmacies, practitioners, sports clubs and spas. Select Nutrition carries over 14,000 products, representing over 450 manufacturers, to approximately 5,000 customers nationwide from warehouses in Pennsylvania and California. Terms were not disclosed. *December 21, 2004*

**Kraft Foods, Inc.** agreed to sell its yogurt business to Canadian dessert producer **CoolBrands International, Inc.** for \$59 million, or approximately 0.66x 2004 estimated sales. The transaction included licenses to the Breyers, Crème Savers, and Light 'n Lively brands. *December 22, 2004*

## Market Notes

**Whole Foods Market reported revenues approaching \$4 billion** for its latest fiscal year, up 23% from a year earlier. Whole Foods expects fiscal 2005 capital expenditures to exceed \$300 million.

(Source: Whole Foods Market)

**Retail sales of organic foods are estimated to have exceeded \$15 billion in 2004.**

The organic market in the U.S. is expected to reach \$30.7 billion 2007, with a five-year compound annual growth rate of 21.4% between 2002 and 2007.

(Sources: Organic Trade Organization and Datamonitor)

Consumers can expect to see the **mass marketing of organic foods, drinks and other products to continue**, especially in everyday supermarkets. Supermarkets accounted for 37 percent of organic sales in 2003, and they are continuing to eliminate obstacles to wider market penetration such as price, quality and distribution.

(Source: Organic Trade Organization)

**More U.S. consumers are abandoning low carb diets**, with the percentage of Americans following the diets dropping to 4.6% from 9% in January.

(Source: NPD Group)

**Organic brands tend to fail for a variety of reasons**, including:

- Not entering a “gateway” category such as pasta or snacks.
- Not positioning as “special” or “gourmet” that would stand out.
- Not comparable or better in taste than conventional alternates.
- Environmental mission itself does not resonate with mainstream consumers’ approach to shopping.
- Little effort put into creating a community, story or experience around the brand.

(Source: The Hartman Group)

**American consumers’ opinions on genetically modified (GM) foods remain relatively stable and somewhat contradictory**, and can be summarized as follows:

- Awareness of GM foods is still relatively low. Roughly half (43%) of consumers have no opinion, while those that do are divided equally into “basically safe” vs. “basically unsafe” camps.
- Though they do not know much about the regulation of GM foods, consumers support a strong regulatory system.
- Americans remain most comfortable with the GM of plants, rather than animals.
- Consumers are most supportive of those uses of biotechnology that they feel will directly help them and their families.

(Source: The Pew Initiative on Food and Biotechnology)



New York  
(212) 759-9080

Chicago  
(312) 920-9003

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

### Investment Banking Services

- Mergers and Acquisitions
- Divestitures
- LBOs and Management Buyouts
- Recapitalizations and Restructurings
- Strategic Partnerships
- Capital Raising
- Valuations and Fairness Opinions
- Private Equity