HT CAPITAL ADVISORS, LLC

Organic and Natural Foods and Supplements

Merger & Acquisition Market
Fourth Quarter 2005

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Fourth Quarter Summary

The fourth quarter of 2005 saw a pioneer of the branded natural foods business struggle to stay afloat. Gardenburger in October filed for Chapter 11 protection. Others had brighter days during the quarter. Stacy's Pita Chip Company completed a successful exit, selling to Frito-Lay, as did Annie's Naturals salad dressings, selling to private equity-backed Homegrown Naturals.

Elsewhere, a number of ingredient and supplement transactions were completed, in such varying areas as dietary minerals and ingredients, branded supplements, and omega-3 fatty acids.

Data on transaction multiples this quarter were scanty. Rumor, combined with offsetting doses of intuition and skepticism, suggests price-to-sales and price-to-EBITDA multiples finished 2005 where they started – a full turn (1x) on revenue and double digit turns on EBITDA.

Merger & Acquisition News Clips

Gardenburger, Inc. filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code. *October 14, 2005*

Balchem Minerals Corp. agreed to acquire **Chelated Minerals Corp.**, a manufacturer of mineral dietary supplements and feed supplements, for approximately $17 million. Additional terms were not disclosed. *November 2, 2005*

LycoRed, an Israeli supplier known for its flagship natural tomato lycopene peoduct Lyc-O-Mato, acquired **Buckton Scott Nutrition,** which sells a broad range of dietary supplement ingredients. Buckton Scott's sales are estimated at between $20-30 million, and LycoRed's global sales are similar in size. Terms were not disclosed. *November 11, 2005*

Kellogg Co. acquired the assets of **Stretch Island Fruit, Inc.**, an Allyn, Washington-based producer of natural fruit snacks. Terms were not disclosed. *November 14, 2005*

PepsicCo announced it had agreed to purchase **Stacy's Pita Chip Company**, a maker of all-natural pita chips distributed nationwide. The company will become a business unit of **Frito-Lay North America**. Randolph, MA-based Stacy's sales are approaching $60 million, and the company has 100 employees. Terms were not disclosed. *November 21, 2005*

H.J. Heinz Company and **The Hain Celestial Group** agreed to explore the sale of approximately 6.1 million Hain shares owned by Heinz. *December 2, 2005*

Private equity firm **ABN AMRO Capital France** purchased the $290 million **Nutrition & Sante** business unit from **Novartis**. Nutrition & Sante functional food brands include Gerble and Cereal, slimming products Gerlinea, Pesoforma and Milical and sports nutrition brand Isostar. Terms were not disclosed.
December 5, 2005

Homegrown Naturals Inc. and its majority owner **Solera Capital** acquired **Annie's Naturals**. Annie's produces and sells 26 salad dressing flavors and 14 condiments, including marinades, barbeque sauces, and ketchup across the U.S., Canada, Western Europe, Japan and Korea. Terms were not disclosed. *December 5, 2005*

Bristol Farms, Inc., a unit of Albertsons, Inc., acquired **Lazy Acres Market**, a retailer of natural and organic food products. Terms were not disclosed. *December 5, 2005*

Natural Alternatives International Inc. (NAI) announced the acquisition of **Real Health Laboratories Inc.** RHL markets branded supplements and other lifestyle products, generating annual sales of nearly $12 million. Terms were not disclosed.
December 9, 2005

Lonza acquired the DHA business of **Nutrinova**, including patents. Nutrinova's DHA is a fermentation-based ingredient derived from natural microalgae and one of the most important omega-3 fatty acids. Lonza is a manufacturer of chemical intermediates, active ingredients and biopharmaceuticals and has 5,700 employees. Nutrinova, a subsidiary of **Celanese Corp.**, supplies ingredients to the food, beverage, and pharmaceutical industries and has 240 employees. Terms were not disclosed.
December 22, 2005

SunOpta Inc. acquired **Hahamovitch**, a $5.2 million Montreal-based distributor of kosher and specialty foods Terms were not disclosed. *December 22, 2005*

Market Notes

Nearly two-thirds (65%) of Americans have tried organic foods and beverages, jumping from just over half (54%) in both 2003 and 2004. The market for organic foods continues to grow, with 27% of Americans indicating they consume more organic foods and beverages than they did one year ago.
(Source: *2005 Whole Foods Market Organic Trend Tracker*)

At an estimated $500-550 million per year, **the market for natural and organic beef accounts for less than 1 percent of overall U.S. beef production, but is growing at about 20 percent annually**. Overall beef production of 24.6 billion pounds this year is down from 25.1 billion in 1995.
(Source: *National Cattlemen's Beef Association*)

The United States imported as much as $1.5 billion in organic food in 2002, while exporting as little as $125 million worth of organic products. U.S. growers face distinct disadvantages, according to a recent USDA study. Growing crops without chemicals requires more workers to cultivate the crops, and cheap labor is plentiful in poorer countries. Canada has a shorter growing season, which means fewer weeds to pick. The European Union directly subsidizes farmers to grow organic crops.
(Source: *The Des Moines Register, October 8, 2005*)

Driven by health conscious parents with higher disposable incomes, **sales of organic baby food have jumped nearly 18% since last year** – double the overall growth of organic food sales.
(Source: *ACNielsen*)

Predictions and expectations of the organic industry of the future:

- The organic industry is expected to **grow at a "sturdy" rate over the next 20 years**, though it will not match the 20 percent growth so common in recent years.
- By 2025, **14 percent** of the average U.S. household's budget will be **devoted to organic products**.
- **The average consumer household in 2025 will buy organic products on a regular basis**, including clothing, cleaning products, and personal care items.
- **Sales of organic fiber and textiles will continue to grow** and will comprise six to seven percent of all U.S. clothing by 2025.
- **Organic products will be sold anywhere and everywhere in 2025.** Increased sales in restaurants are expected.
- **Organic acreage will increase** in the U.S. as demand for products grows.
- **Younger shoppers will continue to gravitate toward organic foods**, particularly as Gen Xers pass on their belief systems.
- **Ethnic shoppers**, including Asians and Hispanics, will continue to be **more likely to buy organic** in proportion to their general population representation.
- **Government support of organic agriculture will be crucial** to maintain the industry's growth potential.
- In 2025, **organic meat, dairy products, alcohol**, and "**stage of life" foods** (consumed during pregnancy, nursing, infancy, puberty, and senior years) **will be most popular**. **Convenient, ready-to-eat and prepared foods will proliferate** to meet the demands of consumer's hectic lifestyles. **Interest will grow in organic items that mimic conventional food brands**.

(Source: *Organic Trade Association*)

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