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# Organic and Natural Foods and Supplements

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Merger & Acquisition Market  
First Quarter 2007



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## First Quarter Summary

Highlighting the first quarter were two defining transactions in the retail segment of the natural food industry. In February, the U.S.'s two biggest natural food specialty retailers, Whole Foods and Wild Oats, agreed to combine to create a larger footprint, more channel power, and, in theory, a more profitable combined entity. Then in March Planet Organic Health Corp., a publicly held Canadian retailer, made its entrée into the U.S. with the purchase of Mrs. Green's. Planet Organic aims to roll up the smaller store segment of the market with additional acquisitions in the U.S.

## Merger & Acquisition News Clips

**Purity Life Health Products** of Toronto, a division of **SunOpta Inc.** (Nasdaq: STKL), announced the acquisition of the **Herbon** brand of cough drops and lollipops. Herbon cough drops and lollipops contain Echinacea and are designed to relieve symptoms of the common cold. Terms were not disclosed. *January 12, 2007*

**The Qualicaps Group** of Greensboro, NC, a global supplier of empty two-piece gelatin and non-gelatin capsules and equipment, acquired **Pharmaphil Inc.** of Windsor, Ontario, a manufacturer of empty gelatin capsules. Qualicaps is owned by private equity firm The Carlyle Group. Terms were not disclosed. *January 12, 2007*

**The Coca-Cola Company** (NYSE: KO) announced it would purchase **FUZE Beverage, LLC**, maker of FUZE® enhanced juices and teas. The acquisition includes all FUZE brands, including the Vitalize, Refresh, Tea and Slenderize lines under the FUZE trademark, WaterPlus enhanced water products, and license rights to the NOS® Energy Drink brands. The transaction for the non-carbonated drink maker was expected to close by the end of the first quarter. Financial terms were not disclosed. *February 1, 2007*

**Herbalife Ltd.** (NYSE: HLF) received an unsolicited proposal from **Whitney V L.P.**, an affiliate of private equity firm J.H. Whitney, to acquire all of the Company's outstanding common stock for \$38 per share in cash. Whitney and its related parties currently own approximately 27% of HLF's outstanding stock. The \$38 offer represented a 15% premium to HLF's recent price of \$33, and an enterprise value-to-EBITDA multiple of just under 9x. The stock had traded in the low \$40s as recently as December 2006. Whitney subsequently withdrew its offer after HLF replied that the bid was too low. Whitney, along with Golden Gate Capital, had bought Herbalife in 2002 and took it public in 2004. *February 2, 2007*

**Organic To Go**, the Seattle organic café and catering company, effected an IPO by completing a reverse merger into a public shell called SP Holding. The company's stock now trades on the over-the-counter bulletin board under the symbol SPHG.OB. In the first nine months of 2006, O-To-Go has sales of \$6.7 million and a net loss of \$4.6 million. *February 14, 2007*

New York-based private equity firm **Apollo Management LP** sold **GNC Corp.** to a partnership between **Ares Management LLC** and the **Ontario Teachers' Pension Plan of Toronto**. GNC is the largest specialty retailer of dietary supplements. The purchase price of approximately \$1.65 billion was 1.1x GNC's 2006 sales of \$1.5 billion. Apollo acquired GNC from Royal Numico NV for \$750 million in 2003. In 1999, Royal Numico had paid \$2.5 billion for GNC. *February 16, 2007*

**SIG Strategic Investments, LLLP**, an affiliate of the Susquehanna International Group of Companies, acquired substantially all of the assets of **U.S. Mills, Inc.**, a developer and marketer of high quality cereal and snack food brands. U.S. Mills' brands include Uncle Sam, Erewhon, New Morning and Skinner's. Terms were not disclosed. *February 16, 2007*

Rice bran researcher and marketer **NutraCea** completed a \$50 million private placement of its common stock to institutional and accredited investors at a price of \$2.50 per share. Investors also received warrants to purchase additional shares at an exercise price of \$3.25 per share. The proceeds will be used to expand the company's plants domestically and internationally. No additional valuation benchmarks were released. *February 19, 2007*

**Whole Foods Market, Inc.** (NASDAQ: WFMI) announced it planned to acquire all of **Wild Oats Markets'** (NASDAQ: OATS) outstanding common stock in a cash tender offer. The transaction would combine Whole Foods with its largest competitor, giving it greater critical mass in certain geographic markets and adding other geographic markets. In addition, WFMI expects to recognize significant synergies through G&A cost reductions, greater purchasing power, increased utilization of support facilities and new team member talent. WFMI's offer of \$18.50 per OATS share represented a 23% premium to OATS' one-month average closing price. The expected enterprise valuation of \$700 million is approximately 0.6x revenues and 13.8x EBITDA. *February 21, 2007*

**FoodShouldTasteGood Inc.**, a marketer of natural tortilla chips, received an investment from **Sherbrooke Capital Partners LLC**, a venture capital fund focused on the health and wellness industry. Sherbrooke's other investments have included Oregon Chai, Izze Beverage, and Immaculate Baking. Terms of the investment were not disclosed. *March 20, 2007*

**Planet Organic Health Corp.**, the Canadian natural products company with business interests in manufacturing, distribution and retail, announced it would acquire the shares of **Mrs. Green's Natural Market**, based in Scarsdale, NY. Mrs. Green's is a natural foods retailer operating from eleven stores in the New York/Connecticut area. The purchase price was not to be disclosed until the closing of the transaction. Mrs. Green's had revenues of \$38.1 million and EBITDA of \$4.8 million in 2006. Mrs. Green's is Planet Organic first retail acquisition in the U.S. *March 20, 2007*

## Market Notes

**Nearly 31 million hectares of farmland are currently certified organic**, according to *The World of Agriculture: Statistics and Emerging Trends 2007*. **The global market for organic products reached 25.5 billion euros in 2005**, with the leading markets in North America and Europe.

(Source: *Organic Trade Association*)

**American Baby Boomers are triggered to enter the “World of Wellness” through certain key life events or a combination of events.** Some events are gradual physical changes such as weight gain, menopause or acid reflux; others are health scares like high cholesterol or high blood pressure, learning of the preventable death of a friend or family member and becoming aware of genetic predispositions toward certain disease that one has inherited.

(Source: *Hartman Group*)



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