

Natural and Organic Consumer Products

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Merger & Acquisition Market - Third Quarter 2007

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Special points of interest:

- The first half of 2007 was very strong for food business mergers and acquisitions, with a total of 290 transactions.
- Transaction themes this quarter included ingredient suppliers and strategic deals to ensure sources of supply.
- The Asia-Pacific region is expected to be the fastest growing organic foods and beverage market going forward. It is currently experiencing a 28% compound annual growth rate.



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Third Quarter Summary

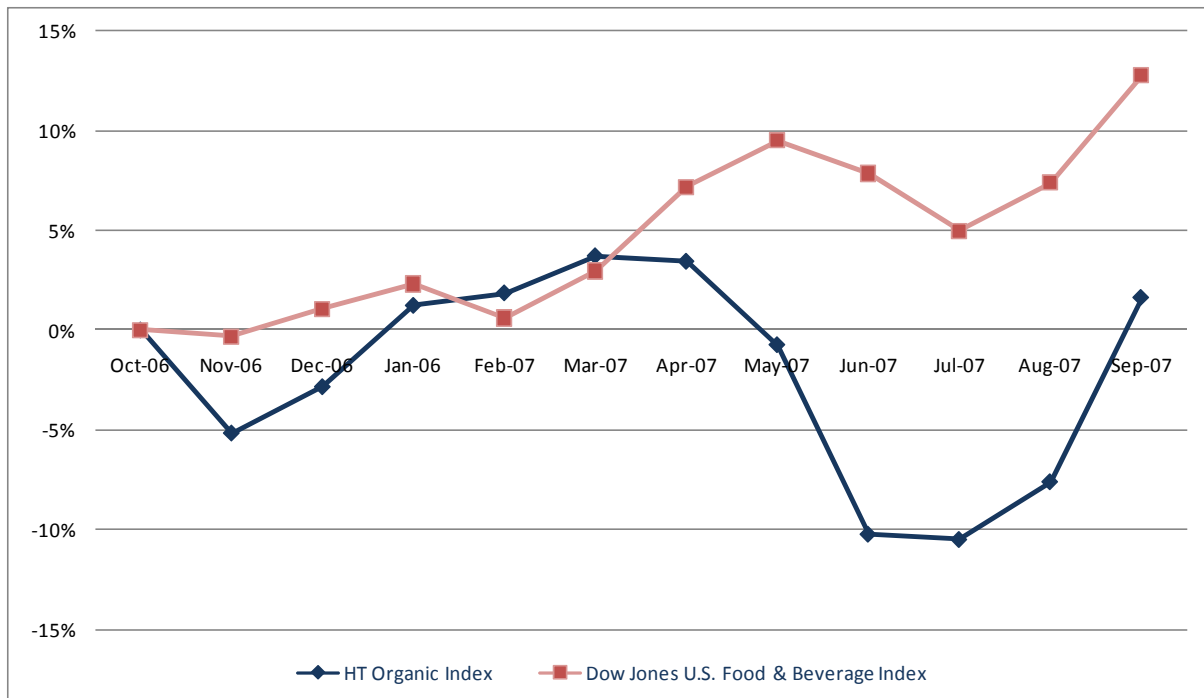
The global organic foods and beverages market continues to experience double digit growth. The U.S. represents the largest market for organic food as sales remain robust and are expected to reach \$43 billion by 2010. Transaction volume was very strong in the first half of 2007 for food business mergers and acquisitions, with a total of 290 deals. It is expected that transaction volume for all of 2007 will outpace that of 2006.

Notable deals included the acquisition of Plainville Turkey Farm by Hain Celestial Group, and the acquisition of Alexia Foods by ConAgra. Unfortunately, there were no financial terms disclosed of any substance in the quarter on which to base multiples for comparison purposes.

Several transactions this quarter involved ingredients manufacturers, suppliers, or IP holders, while others involved strategic acquisitions that allowed manufacturers to ensure their sources of supply or ramp-up production capabilities.



HT Capital Natural & Organic Index¹



¹ Natural and Organic Index is composed of the following stocks: HAIN, STKL, WFMI, LWAY, GXYP, UNFI, NUTR, WNI, NTY, and NATR.

Merger & Acquisition News Clips

The Solae Company, a soy protein supplier and joint venture between DuPont (NYSE: DD) and Bunge Limited (NYSE: BG), acquired *Prolisse*, a soy protein product line of **Cargill**. The transaction included the patented membrane technology for processing isolated soy protein (ISP). Financial terms of the transaction were not disclosed. St. Louis-based Solae Company has approximately \$1 billion in revenue.

July 11th, 2007

According to Food Institute, there were 290 food industry mergers and acquisitions announced during the first six months of 2007, compared to 237 transactions in the same period of 2006. **Food business mergers and acquisitions for 2007 were on track to outpace 2006's total transactions of 464.**

July 23rd, 2007

ConAgra Foods, Inc. acquired privately-held **Alexia Foods Inc.**, a maker of all-natural frozen potato products, and natural and organic appetizers and artisan breads serving restaurants and grocery retailers. Established in 2002, Alexia generates approximately \$35 million in annual sales. Terms were not disclosed. Private equity firm TSG Consumer Partners held a stake in Alexia.

July 23rd, 2007



Organic To Go acquired **Scott's Gourmet Sandwiches**, a quick serve restaurant chain comprised of two cafes and a corporate catering business located in San Diego.

July 24th, 2007

Sunopta Inc. (NASDAQ: STKL) acquired the soymilk manufacturing assets of **Prosoya Corporation**. The addition of the Heuvelton, New York buildings, machinery and equipment will allow Sunopta Inc. to more effectively serve its East Coast customers. Financial terms were not disclosed.

August 7th, 2007

Hain Pure Protein Corp., a joint venture of **The Hain Celestial Group, Inc.** and **Pegasus Capital Advisors** acquired **Plainville Turkey Farm, Inc.**, a supplier of natural and antibiotic-free whole turkeys and turkey products that generated roughly \$30 million in revenue in its last fiscal year. Terms were not disclosed. According to Plainville, the deal was necessary to properly capitalize its 10 to 20% annual growth rate.

August 29th, 2007

Glanbia PLC acquired Canada-based **Pizzey's Milling**, a producer and marketer of nutritional ingredients derived from flax seeds, a primary source of plant-based Omega-3 fatty acids. Glanbia is an international dairy foods and nutritional ingredients group. Terms were not disclosed. Pizzey's had gross assets of CDN\$9.9 million.

September 24th, 2007

Market Notes

A survey of 1,004 consumers showed that approximately **92% of Americans feel any imported foods should have labels indicating the country of origin.** Also, current rules and regulations prohibit food companies from labeling their foods as “natural” if that food contains artificial colorings and additives. However, this falls short of consumer expectations as **86% of consumers expect the “natural” label to describe foods that have no artificial ingredients.**

(Source: *Consumer Reports-National Research Center*)

Other surveys found that **28% of Americans are looking for Kosher products,** and another found that **27% of Americans are consuming organic and natural foods.**

(Sources: *Mintel International Group, Whole Foods Markets*)

In an effort to reduce the growing rate of childhood obesity, the Federal Trade Commission (FTC) has put pressure on companies to market products responsibly. A direct outcome of this can be attributed to Campbell Soup Co., General Mills, and PepsiCo, Inc. enacting policies that will limit their advertising to children under the age of 12. (Source: *Detroit Free Press, July 18*)



A complaint, filed with USDA by The Center for Food Safety, urged the USDA to prevent the practice of labeling seafood imports as “organic.” *Consumers Union* and *Food and Water Watch* have also spoken out against the regularity of allowing seafood to be labeled as “organic” believing it is a deceptive and misleading practice.

(Sources: *USDA & The Center for Food Safety*)

The global organic foods and beverages market is experiencing double-digit growth and is expected to exceed \$86 billion by the year 2009. In the U.S., sales will remain very strong and could reach \$43 billion by 2010. The Asia-Pacific region is expected to be the fastest growing organic foods and beverage market, experiencing a 28% compound annual growth rate.

(Source: *Global Strategic Business Report: Organic Foods & Beverages*)

The functional foods and drinks market is projected to reach \$109 billion by 2010, with the beverage market representing \$34 billion in sales. Innovative products and consumer health demands for nutritional food have been fueling the growth of the food and beverage market.

(Source: *Global Strategic Business Report: Functional Foods and Drinks*)

The year 2006 proved to be one of the most active years for new launches of consumer packaged goods, as 5% of new brands reached \$50 million or more in year-one sales. New food and beverage brands show **consumers’ increased desire for weight management, wellness, and health focused lifestyle without sacrificing taste or convenience.**

(Source: *Information Resources Inc.*)

Some 33.3% of natural product consumers said they would rather choose organic items over local produce, whereas 36.1% expressed the opposite. The remaining participants polled were unsure which to choose.

(Source: *Mambo Sprouts Mambo Track*)

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