

# Natural and Organic Consumer Products

VOLUME V, ISSUE IV

## Merger & Acquisition Market - Fourth Quarter

### Special points of interest:

- Price-to-revenue transaction multiples this quarter clustered around 1.0x.
- Transactions involving large public consumer companies such as Kellogg, Clorox and Lance continued.
- Consumers are beginning to demand more information, if not proof, of health claims and rationale behind pricing.

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**Stephen C. Tardio**

Managing Director

(312) 920-9003

**Steven M. Rathbone**

Vice President

(212) 759-9080

**Thomas J. Albanese**

Analyst

(212) 759-9080

### Fourth Quarter Summary

Consumers are beginning to demand more information as to the basis for pricing and functional health claims of natural and organic products.

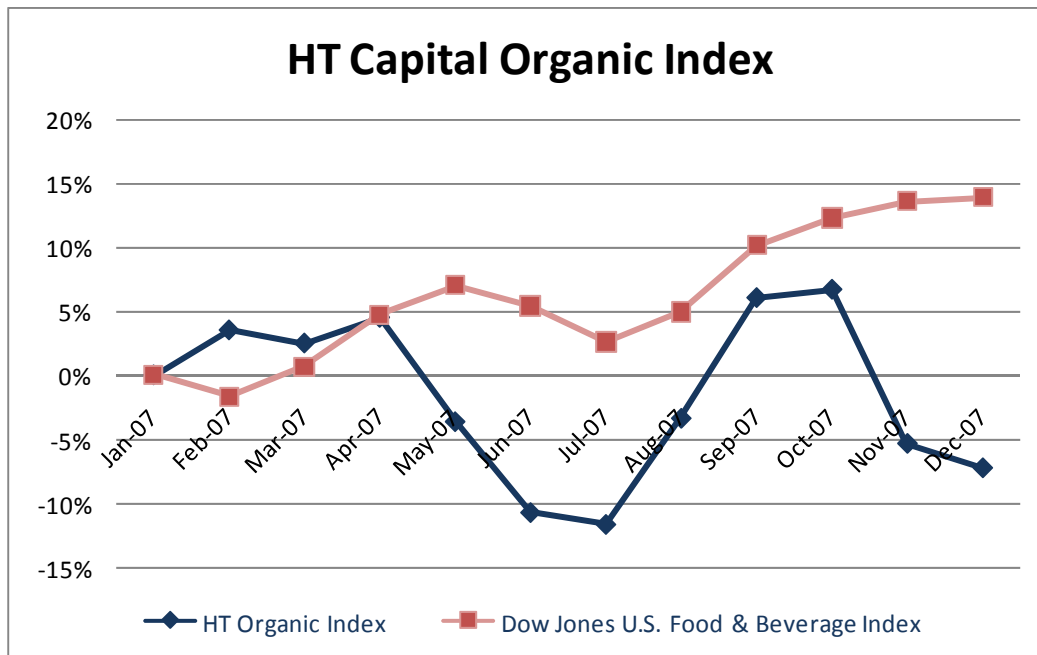
In a recent survey, more than 7 out of 10 people indicated that doing business with environmentally friendly companies is important. Natural and organic companies are thus looking for ways to call attention to their environmentally friendly policies. Sustainability and Fair Trade policies are fast becoming hot topics as they start to move into the mainstream.

The M&A transaction market ran the gamut of the distribution channel from ingredient suppliers to manufacturers to distributors to retailers. Notable deals included Kellogg’s purchases of Bear Naked and Gardenburger, Clorox’s acquisition of Burt’s Bees for \$1 billion, Lance’s purchase of a non-controlling stake in Late July

Snacks, and UNFI’s purchase of Millbrook. Disclosed price-to-revenue multiples were 1.0x, 0.8x, and 1.0x, with two outliers at 0.3x and 7.5x.



### HT Capital Natural & Organic Index<sup>1</sup>



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

## Merger & Acquisition News Clips

- **Amish Naturals, Inc.** (OTC: AMNT) acquired **Prima Pasta, Inc.** for \$0.45 million in cash. Prima Pasta, Inc is a manufacturer of artisan pasta. The acquisition is expected to allow Amish Naturals to expand production capacity with an additional distribution center in the Western U.S. and to enhance its portfolio of pasta products. No additional financial terms were disclosed.

*October 1st, 2007*

- **United Natural Foods, Inc.**, (NASDAQ: UNFI) and **Millbrook Distribution Services Inc.**, owned by Distribution Holdings, Inc., reached a definitive merger agreement whereby Unfi Merger Sub, Inc., a subsidiary of United Foods, Inc., will acquire all the outstanding shares of Distribution Holdings Inc. for \$84 million, implying a price-to-revenue multiple of 0.3x.

*October 5th, 2007*

- **Amish Naturals, Inc.** also announced the cash acquisition of 30-year-old **Schlabach Amish Wholesale Bakery** for \$0.30 million. Schlabach Amish Wholesale Bakery is a producer of natural gourmet foods like whole grain cereal products, nutrition bars and granola. Terms were not disclosed.

*October 10th, 2007*



- **Organic To Go** (OTC: OTGO) closed on the acquisition of privately owned **Brother's Restaurant & Deli** chain for \$3.01 million, adding three retail cafes and two catering facilities. The purchase price represented a price-to-revenue multiple of 1.0x.

*October 15th, 2007*

- **Fresh Express, Inc.**, a producer of bagged salads and a subsidiary of Chiquita **Brands International, Inc.** (NYSE: CQB), acquired privately held **Verdelli Farms**, a regional, family-owned processor of value-added salads, vegetables and fruit snacks. Verdelli Farms has annual revenues of approximately \$80 million. Terms of the transaction were not disclosed.

*October 16th, 2007*

- **Clorox** (NYSE: CLX) reported that it would pay total consideration of \$1.05 billion for Durham, N.C. based natural personal care manufacturer **Burt's Bees**. Burt's Bees was founded in 1984 by beekeeper Burt Shavitz to market beeswax candles. The company soon added soap, lip balm, and perfume to its product line. The company was bought from company co-founder Roxanne Quimby by PE firm **AEA Investors** in 2003 for \$180 million.

*October 30th, 2007*

- **Swander Pace Capital** sold **Eagle Pack Pet Foods**, a leading producer of super premium natural dog and cat food, to family-owned private equity firm **Berwind Corporation**. Terms of the transaction were not disclosed.

*October 31st, 2007*

## Merger & Acquisition News Clips (continued)

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- **Kellogg Co.** (NYSE: K) purchased granola company **Bear Naked Inc.** and meat analog company **Gardenburger** for a combined \$122 million. Bear Naked grew 160% in 2006, surpassing \$20 million in wholesale sales. Kellogg is an experienced shopper, having already purchased Kashi cereals and the Morningstar Farms, and the Worthington and Loma Linda vegetarian brands.  
*November 1st, 2007*
- Canadian specialty foods company **Lassonde Industries Inc.**, (TSX: LAS.A) located in Rougemont, Quebec announced in November of 2007 that its subsidiary Lassonde Specialties Inc. has entered into an asset purchase agreement for CAD 18.9 million for the assets of **Mondiv Food Products Inc.**, a private label manufacturer of specialty sauces, bruschetta, tapenades and artichoke antipastos. The purchase price represented a price-revenue multiple of 0.8x.  
*November 14th, 2007*
- **VMG Equity Partners** bought a 20% stake in a niche tea company **Mighty Leaf**, who makes handcrafted, whole leaf teas in silken, biodegradable pouches. Mighty Leaf reportedly had sales of \$20 million in 2006. Terms of the transaction were not disclosed.  
*November 15th, 2007*
- Israeli flavorings and ingredients company **Frutarom Industries, Ltd.** (TASE: FRUT) has acquired the assets of plant extract company **RAD Natural Technologies Ltd.** for \$9.0 million in cash and contingent payments. RAD's sales totaled to \$1.2 million in 2006, implying a price-to-revenue multiple of 7.5x.  
*November 15th, 2007*
- **Plethico Pharmaceuticals Ltd.** (BSE: 532739.BO) has approved a definitive merger agreement under which **Natrol Inc.** will sell all of its outstanding shares of common stock to Plethico for \$4.40 per share or a total of \$80.8 million. Plethico manufactures and distributes pharmaceutical and allied healthcare products in India. Natrol, Inc. has a portfolio of health and wellness brands. Implied transaction multiples were enterprise value-to-revenue of 1.0x, equity value-to-net income of 40.0x, and 1.6x book value.  
*November 18th, 2007*
- Natural and organic ingredient and food product supplier **SunOpta Inc.** (NASDAQ: STKL) acquired **Tradin' Organic Agriculture B.V.**, a Dutch supplier of a wide variety of organic products including frozen and fresh fruits and vegetables, dried fruits, and several other organic ingredients. Tradin' Organic reportedly has revenues of 85 million Euros. Terms of the transaction were not disclosed.  
*November 29th, 2007*
- **SunOpta Inc.** also acquired **Neo-Nutritionals, Inc.**, a developer and manufacturer of numerous natural health products in tablet, capsule and powder form. They sell their products to both branded natural health products companies and as private label brands to natural health retailers. Neo-Nutritionals had revenues of CAD 4 million in 2006. Transaction terms were not disclosed.  
*December 6th, 2007*
- Snack company **Lance, Inc.**, (NASDAQ: LNCE) of Charlotte, NC, purchased a non-controlling minority equity interest in **Late July Snacks LLC**. Late July Snacks, LLC is a privately held company that manufactures organic snack foods such as organic dark chocolate and green tea sandwich cookies, and cheddar cheese crackers. Financial terms were not disclosed.  
*December 7th, 2007*

## Market Notes

- Mintel research found that **bottled water, awareness of food miles, and experiential shopping are among the 10 trends projected for the New Year.** While bottled water has experienced explosive sales, a change could be coming soon as more consumers become aware of the environmental impact of bottled water. In addition, manufactures are discussing companywide environmental initiatives and focusing on the food miles of their products and their overall carbon footprint. Experiential shopping describes the efforts of stores to expand the number and types of experiences offered within their store to perk consumer interest.

(Source: *Mintel*)

- Two thousand eight is likely to see **Fair Trade-certified products become more prevalent in the U.S., Latin America and Asia markets.**

(Source: *Mintel*)

- **More consumers are demanding that additives, preservatives, colors, flavors, and unknown ingredients listed on food labels be removed from foods entirely.** To address

some of the consumers concerns, food companies will try to explain the importance of the misunderstood ingredients while others will expand their “junk-free” labeling.

(Source: *Westwick-Farrow Pty Ltd.: Food Processing*)

- According to a recent study, **consumers are willing to pay more for green environmentally friendly products in 2008 despite a potentially tougher economic year ahead.** Consumers aren't just thinking about the type of products they buy but also the impact the product has on the environment. More than 7 in 10 people surveyed indicated it was important or very important to do business with environmentally friendly companies. Consumers that support organic foods and purchase organic products do so for produce, dairy products and child/baby food products.

(Source: *MamboTrack: Mambo Sprouts Marketing*)

- **As supply chains continue to consolidate, it is important for organic companies to find new niches.** While some may focus on independent retailers, other companies will try to use the Internet as a tool for establishing delivery schemes as well as establishing consumer relationships directly.

(Source: *FoodNavigator*)

- A European Commission-funded study found that **organic fruits and vegetables contain 40% more antioxidants than non-organic foods.** It was also found that organic foods contain higher levels of iron and zinc.

(Source: *Nutrition Business Journal*)



**HT CAPITAL ADVISORS, LLC**

437 Madison Avenue  
New York, New York 10022  
Tel: (212) 759-9080  
Fax: (212) 759-0299

70 W. Madison St.  
Chicago, Illinois 60602  
Tel: (312) 920-9003  
Fax: (312) 920-8925

**For more information regarding the current transaction environment, or to discuss how HT Capital might be of service to your company, please contact Steve Tardio in our Chicago office, or Steve Rathbone and Tom Albanese in our New York office.**

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