



# Capstone Partners

## NATURAL & ORGANIC PRODUCTS

## Q3 2016

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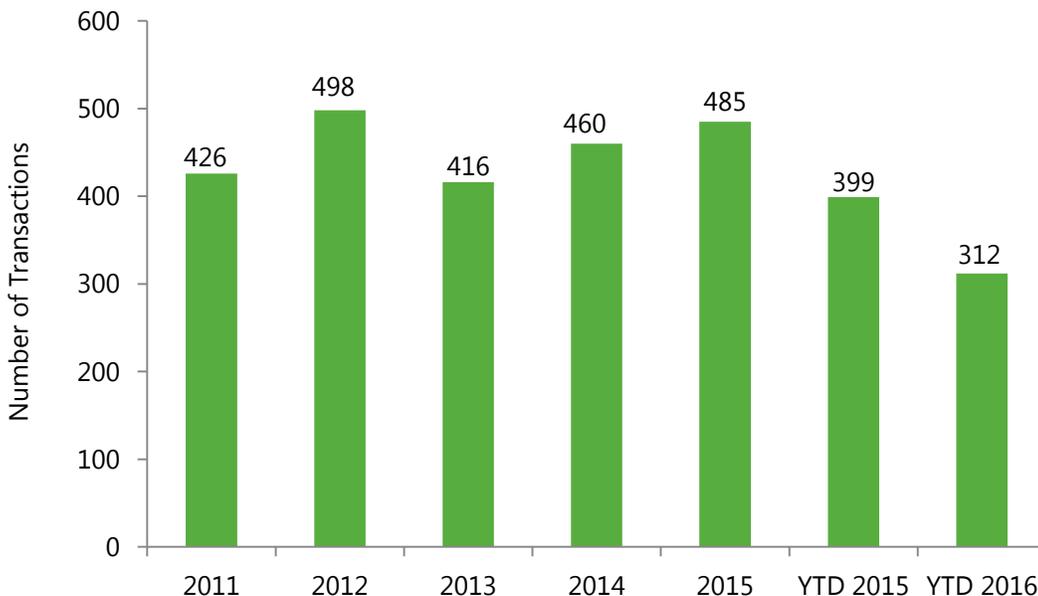
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### MERGER & ACQUISITIONS OVERVIEW

While overall middle market deal volume has decreased through Q3 2016, M&A activity within the Natural & Organic Products industry remains strong. Overall M&A volume declined from 9,093 transactions being announced or completed in 1H 2015, to 7,531 in 1H 2016, a decrease of 17.2%. The broader Consumer Staples and Vitamins/Nutritional Supplement market was also impacted with deal volume decreasing from 399 transactions announced or completed through September 2015, to 312 in the same period in 2016. However, year-over-year activity in the Natural & Organic subsector has increased, with M&A volume growing from 46 announced transactions through the end of September 2015, to 69 over the same time period in 2016. Additionally, natural & organic companies have received premium valuations in 2016 with a median EBITDA multiple of 11.9x and revenue multiple of 2.0x.

M&A activity in this industry has been fueled by growing consumer demand for natural & organic products, which has motivated potential buyers and investors. Revenue reached \$43.3 billion in 2015, a growth of 10.8% year-over-year, while total household penetration of organic products reached 75.0%. Private equity buyers who are seeking either platform or add-on acquisitions for their current portfolio have been active and account for 17.4% of deal volume, 12 transactions, in total. Strategic buyers who are looking to diversify their offering in response to fast-changing consumer preferences have completed 82.4% of deal volume or 57 deals overall.

### Consumer Staples and Vitamin/Nutritional Supplements Transactions



YTD ended as of September 30, 2016

Source: Capital IQ and Capstone Partners LLC Research

- BOSTON
- CHICAGO
- LONDON
- LOS ANGELES
- NEW YORK
- ORANGE COUNTY
- PHILADELPHIA
- SAN DIEGO
- SILICON VALLEY
- TAMPA

## KEY TRENDS AND DRIVERS

There are a number of trends and drivers that have had a significant impact on industry growth as well as M&A activity within the Natural & Organic Products industry. Capstone has identified a few of these trends below.

- ▶ **The health & wellness boom** – Since 1997, the Natural & Organic Products industry has grown at a CAGR of 14.0% through 2015, vastly outpacing growth in various tangential industries. After years of double-digit growth, the health & wellness products segment has become mainstream, despite once being a fringe category. Companies that have strong brands in this category have seen rising demand from acquirers, resulting in increased deal volume and premium valuations.
- ▶ **Stricter USDA regulations** – In April 2016, the US Department of Agriculture (USDA) announced that it would propose a new rule to “ensure consistent application of the USDA organic regulations for organic livestock and poultry operations and maintain confidence in organically labeled products.” In an effort to grow consumer confidence in organic products, such regulations have become increasingly common as the demand for organic goods develops. Producers of organic goods have started to experience mounting scrutiny from the USDA to ensure that every stage of the supply chain complies with organic standards. However, as producers grow, it becomes progressively difficult to maintain detailed oversight throughout the entire supply chain. For example, Patagonia, an \$800.0 million brand known for its socially responsible behavior, recently came under fire because one of its wool suppliers, Ovis 21, had mistreated sheep during shearing, according to the Wall Street Journal. For producers of natural & organic products, it is imperative not only to follow the strict USDA regulations for every stage that they control but also to diligently ensure that partners at every stage of the production process meet those standards as well. Organic producers who have a strong grasp on regulatory demands are highly attractive to acquirers. In fact, in most cases, meeting up-to-date regulations is a prerequisite for completing a deal.
- ▶ **Increased demand for contract manufacturing** – The complexities and costs of maintaining an organic brand have driven producers towards contract manufacturing services. Contract manufacturers provide a strong value proposition, as they absorb the responsibility for ensuring regulatory compliance, supply chain management and manufacturing flexibility. As a result, brands are able to focus additional resources on sales and marketing, which are crucial areas for product success. Contract manufacturers that provide comprehensive organic services have seen a rise in demand from producers. To keep up with demand, some contract manufacturers have turned to private equity groups to accelerate growth. Profiled on the following page, Riverside’s acquisition of a stake in Bentley Labs exemplifies this trend. Additionally, strategic buyers are seeking contract manufacturers to diversify their service offerings and capitalize on industry growth.

## NOTABLE TRANSACTIONS

Several notable transactions were completed or announced in the Natural & Organic Products industry through Q3 2016. Select transactions are outlined below, followed by a more comprehensive list on the following table.

- ▶ **Whitewave acquired by Danone (July 2016)** – In what is possibly the largest natural & organic acquisition to date, Danone has agreed to acquire The WhiteWave Foods Company (WhiteWave) for an enterprise value of \$12.5 billion and an EBITDA multiple of 24.9x. WhiteWave produces various brands such as Horizon Organic milk and Silk soy milk, which have both developed popularity among consumers who are looking to purchase “better for you” products. Food giants have had a particularly difficult time developing their own brands in this sector and have frequently turned to acquisitions to gain market share in the Natural & Organic Products industry. Emmanuel Farber, Danone’s CEO, commented, “The purchase will allow us to double the size of our US business and become the world leader in organic. I am convinced Danone is uniquely positioned to continue WhiteWave’s development.”
- ▶ **Clorox expands its health and wellness portfolio with the acquisition of Renew Life (May 2016)** – The Clorox Company (Clorox) recently announced its acquisition of Renew Life Formulas (Renew Life), a producer of digestive health products, for \$290.0 million at a multiple of 2.5x revenue. Named for its flagship bleach product, Clorox has made multiple acquisitions aimed at bolstering its Lifestyle product offerings. In 2007, Clorox acquired Burt’s Bees for \$1.2 billion and then in 2012, acquired Aplicare, HealthLink and Soy Vay for a combined \$97.0 million. The latest acquisition of Renew Life will further diversify Clorox’s brands and give Clorox access to the \$1.3 billion probiotics market in the US. Brenno Dorer, Clorox CEO, commented, “For more than 100 years, the Clorox portfolio has been firmly rooted in health and wellness, first through the disinfecting properties of bleach, and later extending into Brita and Burt’s Bees to meet the needs of health-conscious consumers. The Renew Life acquisition is consistent with our strategy to accelerate growth through bolt-on acquisitions of leading brands into fast-growing categories with attractive margins.”
- ▶ **Riverside acquired a stake in Bentley Labs (March 2016)** – Private equity firm The Riverside Company (Riverside), recently acquired a stake in Bentley Laboratories (Bentley Labs) for an undisclosed amount. Bentley Labs provides contract manufacturing services for beauty and pharmaceutical companies including organics, skin and hair care, and fragrances. The acquisition will provide the Edison, NJ-based Bentley Labs with the capital and experience necessary to expand its product offerings and capabilities through organic growth and acquisitions. Riverside’s investment exemplifies the growing demand for contract manufacturers that can provide product development, regulation expertise and manufacturing services to this industry. Hal Greenberg, Riverside’s Managing Partner, commented, “Unlike many contract manufacturers that simply fill orders, Bentley is able to help formulate and develop products as well. Their expertise and track record of providing value-added services help ensure customer loyalty. We see many compelling avenues for growth at Bentley.”

**NATURAL & ORGANIC PRODUCTS: SELECT M&A TRANSACTIONS**

Ann. Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EBITDA
09/19/16	Seventh Generation	Unilever	Manufactures plant-based detergents and household cleaners.	\$700.0	3.5x	-
08/31/16	Promax	NuGo Nutrition	Develops organic and energy protein bars.	-	-	-
08/11/16	Gourmet Guru	United Natural Foods	Distributes fresh and organic food.	-	-	-
07/29/16	Dr. Smoothie Brands	Bevolution	Produces organic smoothies, whole foods, supplements and nutrition bars.	-	-	-
07/27/16	Aurora Algae	Reliance	Develops high-performance algae-based products for pharmaceutical, nutrition and aquaculture markets.	-	-	-
07/25/16	Original ChopShop	Hargett Hunter Capital	Operates a healthy fast casual restaurant that offers fresh and organic bowls, salads, sandwiches and juice.	-	-	-
07/15/16	Taylor Maid Farms Coffee	InHouse Ventures	Roasts specialty organic coffee.	-	-	-
07/14/16	US Pharma Lab	Granules Pharmaceuticals	Manufactures minerals, vitamins, amino acids and specialty dietary supplements.	-	-	-
07/14/16	Coast of Maine Organics	Gemini Investors	Produces organic plant food and compost-based soils to flower and vegetable growers.	-	-	-
07/07/16	WhiteWave	Danone	Develops branded plant-based food and beverage products.	\$12,475.3	3.0x	24.9x
06/20/16	Perrigo's Vitamins Bus.	IVC Industries	Manufactures vitamins and nutritional supplements.	-	-	-
06/17/16	nature soy	Keystone Capital	Produces soy and vegetarian products to grocery stores, supermarkets and natural food stores.	-	-	-
06/16/16	Pure of Holland	Kashi	Produces nutritious and healthy snack foods.	-	-	-
06/13/16	Send Me Gluten Free	EdgiLife Media	Operates an online platform to deliver gluten free food products on subscription basis.	-	-	-
05/23/16	Ada's Natural Market	Healthy Choice Markets	Operates a natural and organic grocery store in Florida.	-	-	-
05/11/16	Vitacyclix	MORRE-TEC Industries	Manufactures skincare and nutraceutical products.	-	-	-
05/10/16	Abe's Market	Direct Eats	Operates an online store for natural products.	-	-	-
05/03/16	ReNew Life Formulas	Clorox	Produces digestive health products and functional foods.	\$290.0	2.5x	-
05/02/16	Resources of Nature	Vantage Specialty Ingredients	Develops natural ingredients and products for the cosmetic and personal care industry.	-	-	-
05/02/16	Boundless Nutrition	Amplify Snack Brands	Offers nutritional snack bars and cookies.	\$30.8	-	-
04/28/16	Aubrey Organics	Nutraceutical International	Manufactures personal care and lifestyle products.	-	-	-
04/28/16	Gaspari Nutrition	Hi-Tech Pharmaceuticals	Produces sports nutrition products and supplements.	-	-	-
04/27/16	BioZone Laboratories	Flavor Producers	Provides contract manufacturing services to the health, beauty and pharmaceutical industries.	\$9.8	-	-

**NATURAL & ORGANIC PRODUCTS: SELECT M&A TRANSACTIONS (CONTINUED)**

Ann. Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EBITDA
04/19/16	NatureWax	Cargill	Manufactures vegetable oil-based waxes used to make candles.	-	-	-
03/29/16	Bentley Laboratories	The Riverside Company	Provides outsourced manufacturing services for the beauty and pharmaceutical industries.	-	-	-
03/22/16	VEEV Spirits	Luxco	Produces organic ready-to-drink cocktails, alternatives to vodka and carbon-neutral spirits.	-	-	-
03/10/16	Natural Dynamics	Wellnext	Offers supplements for restoring magnesium level and balancing calcium intake.	-	-	-
03/08/16	Youlab Global	ForU	Manufactures nutritional and skin care products for women.	-	-	-
03/07/16	Global Organic Specialty Source	Albert's Organics	Distributes wholesale organic produce.	CF	CF	CF
02/29/16	Reaction Nutrition	SDC Nutrition	Produces nutritional capsules and supplements for weight loss, athletic performance and muscle building.	-	-	-
02/24/16	Europa Sports	Sheridan Capital	Distributes nutritional and sports supplements, sports drinks and accessories.	-	-	-
02/23/16	American Fruits And Flavors	Monster Beverage	Manufactures and distributes fruit-based products and fruit concentrates worldwide.	\$690.0	-	-
02/20/16	SAVI Health	Modere	Manufactures products that support cellular health and well-being.	-	-	-
02/18/16	Aloha Medicinals	Advantage Capital	Produces organic medicinal mushrooms.	-	-	-
02/12/16	The Fresh Diet	New Fresh	Delivers meals and nutritionally balanced snacks directly to consumers.	\$9.7	-	-
02/10/16	Stop Aging Now	Wellnext	Manufactures vitamins and supplements, skin care products and pet supplements.	-	-	-
02/05/16	Rise Labs	One Medical	Develops a mobile app that connects users with their own personal nutrition expert.	-	-	-
02/02/16	Panos Brands	HKW	Provides a portfolio of natural, and specialty food and beverage products.	-	-	-
02/02/16	Vitamin World	Centre Lane	Manufactures vitamins, minerals, herbs and nutritional supplements.	\$25.0	-	-
02/01/16	Albion Laboratories	Balchem	Manufactures nutritional and mineral products for animals, plants and humans.	\$111.5	2.1x	10.7x
01/25/16	Swanson Health	Swander Pace Capital	Produces and sells vitamins and supplements, natural health care products and organic foods.	-	-	-
01/15/16	Greenling	Farmhouse Delivery	Delivers local organic meals and groceries in Texas.	-	-	-
01/13/16	Epic Performance	NutraFuels	Provides nutritional products for sports.	-	-	-
01/06/16	Lucky Jack	Private Investor	Produces organic cold brew coffee.	-	-	-
12/31/15	Nutritional Health Labs	World Health Solutions	Offers natural plant based medicines.	-	-	-
12/22/15	Complete Nutrition	Dominus Capital	Operates a chain of nutritional supplement retail stores.	-	-	-

**CAPSTONE PARTNERS: SELECT CONSUMER PRODUCTS & HEALTH TRANSACTIONS**

Capstone Partners has completed several transactions in the consumer products & services and health & medical sectors. These span the major categories of manufacturing, retail, wholesale and services. They include a variety of companies offering diverse products including food, pet, drug and nutraceutical, juvenile, recreational, and health & medical products and services. Capstone's breadth of experience provides us with insight into the attributes and nuances that active buyers are seeking in target companies in the industry.

<p><b>CONFIDENTIAL</b></p> <p>corporate sale (IN PROCESS)</p> <p><b>A Branded Organic Food Company</b></p>	<p><b>CONFIDENTIAL</b></p> <p>corporate sale (IN PROCESS)</p> <p><b>Contract Manufacturer of Supplements and Nutritional Products</b></p>	<p><b>Global Organic Specialty Source, Inc.</b></p> <p>has been acquired by</p> <p><b>Albert's ORGANICS</b> <b>unfi</b> <small>DRIVEN BY NATURE</small></p>	<p><b>TDOC</b> <small>AIR-CHARGED CATHETERS</small></p> <p>has been acquired by</p> <p><b>Audax Group</b></p>
<p><b>YUKON CHARLIE'S</b> <small>WINTER SYSTEMS</small></p> <p>has been acquired by</p> <p><b>Kwik-Tek</b> <small>a portfolio company of GUARDIAN CAPITAL PARTNERS</small></p>	<p><b>FRIEDRICH</b> 1883</p> <p>has been acquired by</p> <p><b>Corinthian Capital</b></p>	<p><b>Zui</b> <small>THE INTERNET...OUR WAY</small></p> <p>has been acquired by</p> <p><b>SABAN</b></p>	<p><b>B-O-B</b></p> <p>has been acquired by</p> <p><b>Britax</b> <small>a portfolio company of NORDIC CAPITAL</small></p>
<p><b>Invivo</b> <small>HealthCare Associates, Inc. ...Helping Kids Be Kids®</small></p> <p>has been acquired by</p> <p><b>POST CAPITAL</b></p>	<p><small>Wildlife Feeding Specialists</small> <b>BIRDOLA PRODUCTS</b></p> <p>has been acquired by</p> <p><b>UNITED PET GROUP, INC</b></p>	<p><b>SMA</b> <small>Surgical Monitoring Associates* Guardian of the Nervous System®</small></p> <p>has been acquired by</p> <p><b>SC SpecialtyCare</b> <small>Your Trusted Clinical Partner</small></p>	<p><b>AGGU * MET LASER, inc.</b></p> <p>has been acquired by</p> <p><b>RiversidePartners, LLC</b></p>
<p><b>NEPG</b> <small>New England Precision Grinding Company</small></p> <p>has been acquired by</p> <p><b>RiversidePartners, LLC</b></p>	<p><b>slime</b></p> <p>has been acquired by</p> <p><b>FRIEND SKOLER &amp; Co.</b></p>	<p><b>INTERLEUKIN GENETICS</b></p> <p>acquisition advisory</p> <p><b>Alan James Group, LLC</b></p>	<p><b>malibu</b></p> <p>has recapitalized with</p> <p><b>HH HORIZON HOLDINGS</b> <b>BLACK CANYON CAPITAL</b></p>

THE NATURAL & ORGANIC PRODUCTS TEAM



**Mark Surowiak, Director**

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Mark is a Director in the Philadelphia office, supporting the management of the Atlantic Region. Previously, Mark served over 10 years as a senior investment banking professional in Morgan Stanley Smith Barney's Capital Strategies Group. Over his career, Mark has focused on developing deep credentials and expertise in the sale and recapitalization of privately held businesses. Mr. Surowiak's experience spans a broad range of industries, including the consumer products, post-secondary education, government and defense contracting, manufacturing and outsourced business services sectors. Prior to investment banking, Mark enjoyed a career in the social services field. Mark is a graduate of Illinois State University with a BS in Business Administration. He is a Series 7 and 63 Registered Securities Representative.



**Eric Williams, Managing Director**

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Eric serves as Managing Director and Head of the Atlantic Region for Capstone, based out of Philadelphia. Prior to Capstone, Eric was responsible for managing the Eastern region for Morgan Stanley Smith Barney's Capital Strategies Group and its predecessor, Citi Capital Strategies. Eric has more than 20 years of experience managing strategic sale assignments and leveraged recapitalizations for owners of privately held companies. He is head of Capstone's Health & Medical practice and has successfully completed over 100 transactions in sectors including contract manufacturing, pharmaceutical outsourcing, medical devices and health care services. In 2013, he received the "M&A Deal of the Year" M&A Advisor award for his work on the acquisition and majority recapitalization of Invo HealthCare Associates, Inc. He has also executed complex cross-border transactions with foreign buyers based in London, Germany, Sweden and Switzerland and has structured deals with leading private equity groups and strategic corporate buyers. He graduated cum laude from the University of California and is a Series 7 and 63 Registered Securities Representative as well as a Series 24 Registered Securities Principal.



**Daniel Schultz, Director of Business Development**

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Dan oversees Capstone's national business development and industry coverage activities, working closely with current and prospective clients of the firm on matters related to corporate sales, recapitalizations, mergers & acquisitions and growth financings. Prior to spearheading the firm's business development and market initiatives, he was a Vice President in Capstone's M&A group, managing numerous successful transactions across a variety of industries. Dan also gained hands-on transaction experience as an investment banker at Headwaters MB. He started his career with Ernst & Young's National Professional AABS practice in New York and later worked in Assurance and Advisory Business Services in the Denver office. Dan received a BE in Biomedical Engineering with a Business Minor from Vanderbilt University. He earned an MBA and a Master of Accountancy from the Daniels College of Business at the University of Denver.

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## ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a premier investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides M&A, corporate restructuring, private placement and financial advisory services. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, New York, Orange County, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in 70 offices across 31 countries.

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about our expertise,  
please visit**

**[www.capstonellc.com](http://www.capstonellc.com)**



# Capstone Partners

World Class Wall Street Expertise. Built for the Middle Market