

Natural & Organic Products

Coverage Report

“Market Intelligence for Business Owners”

Q2 2012



Capstone Partners
Investment Banking Advisors

BOSTON | CHICAGO | LOS ANGELES | PHILADELPHIA



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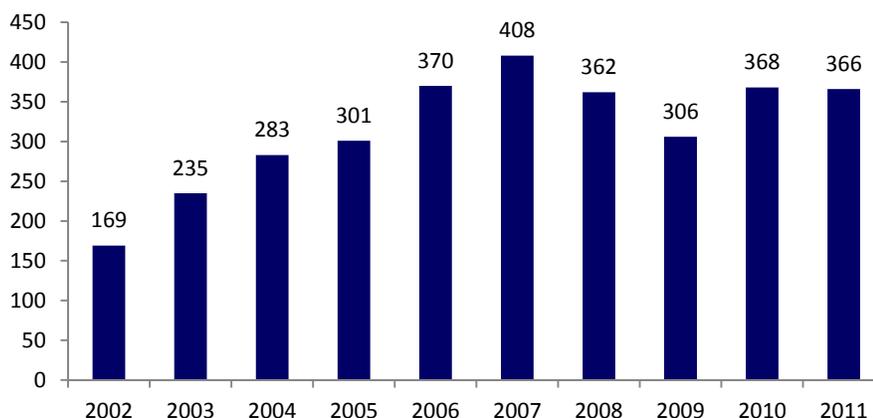
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MERGER & ACQUISITION TRENDS

An attractive category within the consumer staples industry, the natural & organic products sector is experiencing strong M&A activity, as is the industry as a whole. An estimated 366 consumer staples transactions were reported closed in 2011. This number is about equal to the deal count of 2010. The following chart shows that the consumer staples industry's M&A activity has largely recovered from the recessionary decline of 2009 and is again experiencing a healthy climate.

Consumer Staples Transactions



Source: Capital IQ

Natural & organic products companies are enjoying a unique market era. The industry has matured enough to provide a stable return for investors, but is still young enough to enjoy double-digit growth. As a result, conventional food, personal care and household goods companies are looking to make acquisitions into this high growth and higher margin arena. These companies realize that the natural category is cannibalizing sales of traditional products and they are compelled to include these high-performing items in their product offerings.

Once an acquisition is made, the larger consumer products companies use their highly efficient systems to manufacture, market, distribute or retail the natural & organic products. These conventional marketers have deep pockets and they utilize superior product development capabilities, established distribution networks and massive marketing and advertising budgets to fast track their products. As a result of acquisitions by such major marketers, the new reality for private companies in the natural & organic space demands efficiency and economies of scale. Competition has intensified and many mid-size firms are feeling the pinch, further fueling M&A activity.

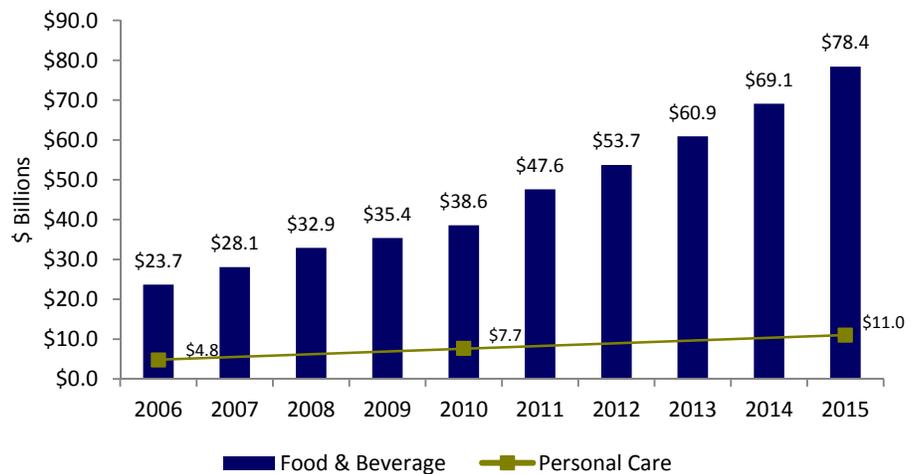
Private equity firms are also attracted to the space. The market is rich with opportunities and is still highly fragmented, making it ideal for middle-market private equity firms to gain a foothold or expand their presence. Private equity has made investments in nearly every segment of the natural & organic products space, including fresh foods, prepared foods, coffee and tea, sports and fitness beverages, nutritional supplements, vitamins, personal care items and household goods.

Surging demand for natural and organic products has transformed a small market niche into a double-digit growth sector...it is easy to see why natural & organic products are garnering so much investor attention.

INDUSTRY GROWTH ATTRACTS BUYERS AND INVESTORS

Generally speaking, flourishing industries and businesses tend to attract investors and motivate buyers looking to capitalize on the opportunity, resulting in heightened M&A activity. Such is the case with the natural & organic products space. Surging demand for natural and organic products has transformed a small market niche into a double-digit growth sector. U.S. retail sales of natural & organic food and beverages now stand at about \$47.6 billion and are projected to increase to \$78.4 billion in 2015, representing a healthy growth rate of over 13% compounded annually. Natural & organic personal care and household products are also enjoying healthy sales growth. As part of a larger and mature category (food and packaged goods) that generally exhibits only minimal sales growth, it is easy to see why natural & organic products are garnering so much investor attention.

Natural & Organic Products Sales



Source: Packaged Facts, Nutrition Business Journal

Factors contributing to the growth in sales of natural and organic products, as well as the attractiveness of the space to acquirers include the following:

- ▶ **Concept credibility:** The USDA's organic food standards have supported the legitimacy and build-out of the category.
- ▶ **Focus on nutrition:** The public's growing awareness of nutrition's role in long-term health and its concern over food safety have resulted in higher demand for natural and organic alternatives to conventional products.
- ▶ **Availability and convenience:** The mainstreaming of natural and organic products has drawn food industry giants and other large manufacturers and retailers into the space. Natural and organic foods are now sold in 82% of retail food stores and the majority of sales occur at traditional retailers and mass merchandisers.
- ▶ **Plenty of room for expansion:** Despite healthy growth in recent years, natural and organic products still hold only a small market share.
- ▶ **Favorable demographics:** Organic and natural products are positioned toward two key age groups: young adults aged 20 to 29 and baby boomers aged 55 to 70. These age groups represent growing segments of the population.
- ▶ **Improvements in the economy:** Although the sector performed surprisingly well during the recession, a growing economy should support additional purchases of natural and organic products, which tend to be premium priced.

SELECTED NATURAL & ORGANIC PRODUCTS TRANSACTIONS

Date	Target	Target Business Description	Acquirer	Enterprise Value (mm)	EV / LTM	
					Revenue	EBITDA
Pending	Herborium Group, Inc. (OTCPK:HBRM)	Engages in the development and marketing of botanical based medicinal products.	China Health Resource, Inc. (OTCBB:CHRI)	-	-	-
Pending	Sunflower Farmers Markets	Operates 13 natural & organic food stores in Colorado, Arizona, New Mexico and Nevada.	Sprouts Farmers Market/Apollo Global Management	-	-	-
May-12	Asantae Holdings International Inc. (TSXV:JVA)	Produces and markets nutritional products in the United States and Canada.	Two Kings LLC	-	-	-
May-12	LovingEco, Inc.	Owns and operates a social commerce platform that offers eco-friendly products at discounted prices.	JP Selects LLC	-	-	-
Apr-12	Naturally Fresh, Inc.	Manufactures natural dressings, sauces and dips.	Treehouse Foods, Inc. (NYSE:THS)	\$25.0	0.3x	-
Apr-12	Earth Fare, Inc.	Operates a chain of natural & organic supermarkets in the United States.	Oak Hill Capital Partners	\$300.0	-	-
Apr-12	Wholesome Sweeteners	Provides organic, natural and unrefined sweeteners.	Arlon Group	-	-	-
Mar-12	New Chapter	Produces and distributes whole food supplements.	Procter & Gamble	-	-	-
Mar-12	Green Planet Bioengineering Co. Limited (OTCPK:GPLB)	Manufactures bio-ecological products and over-the-counter products utilizing tobacco extractions.	Global Fund Holdings Corp.	-	-	-
Feb-12	FoodShouldTasteGood, Inc.	Produces specialty, gourmet and natural chips.	General Mills, Inc. (NYSE:GIS)	-	-	-
Feb-12	Trilogy Fragrances Inc.	Manufactures natural and organic fragrances for use in household, personal care and spa products.	Symrise AG (XTRA:SY1)	-	-	-
Feb-12	Alacer Corp.	Manufactures dietary supplements and nutritionally enhanced products.	Pfizer Inc. (NYSE:PFE)	-	-	-
Feb-12	The Wholefood Farmacy Corp.	Offers whole food meals, soups, smoothie mixes and healthy snacks.	WHAM Inc. (OTCPK:WFMC)	-	-	-
Feb-12	GeneWize Life Sciences, Inc.	Manufactures health, beauty and wellness products.	Capsalus Corp. (OTCBB:WELL)	\$5.0	0.6x	-
Feb-12	Zizzaz, LLC	Manufactures vitamin and energy powder mix products.	Tracksoft Systems, Inc. (OTCBB:TKSS)	\$1.0	-	-
Jan-12	EVOL Foods	Manufactures natural and organic frozen meals and snacks.	Alliance Consumer Growth; Bee Partners; Revelry Brands	-	-	-
Jan-12	Colorescience	Manufactures science-based mineral cosmetics.	SkinMedica	-	-	-
Dec-11	Blue Pacific Flavors, Inc.	Develops natural and organic fruit flavors and ingredients for food and beverages and cosmetics.	Wilmar Europe Trading B.V.	\$12.0	-	-
Dec-11	Certain Assets including All Natural and Organic Tooth Pastes	Dental care products including natural tooth paste and natural and organic mouth rinse.	White Smile Global, Inc. (OTCBB:WSML)	\$3.0	-	-
Dec-11	Sahale Snacks	Produces and distributes premium and natural snack food products.	Palladium Equity Partners	-	-	-
Dec-11	Milk Specialties Company	Manufactures milk protein and whey-based products for the sport nutrition and healthy lifestyle industries.	HM Capital Partners LLC	-	-	-
Dec-11	PACT Apparel, Inc.	Produces and markets organic cotton clothing.	Revelry Brands	-	-	-
Nov-11	Initiative Foods	Manufactures organic and conventional baby food.	Hunt Growth Capital; Rustic Canyon/Fontis Partners	-	-	-
Nov-11	The Graymor Chemical Co, Inc.	Distributes nutraceutical, pharmaceutical and vitamin bulk ingredients.	RFI Ingredients, Inc.	-	-	-
Nov-11	Evolution Fresh, Inc.	Produces and markets fruit and vegetable products, specializing in natural and organic products.	Starbucks Corporation (NasdaqGS:SBUX)	\$30.0	-	-
Nov-11	Kelatron	Manufactures mineral nutrients for nutritional supplement, nutraceutical and health food segments.	Bain Capital; Innophos Holdings	\$21.0	-	-

LTM = last twelve months; EV = enterprise value Sources: Capstone Partners LLC research; Capital IQ; public filings and press releases

CAPSTONE PARTNERS: COMPLETED CONSUMER PRODUCTS & SERVICES TRANSACTIONS

Capstone Partners has completed several transactions within the consumer products & services space. These transactions span the major categories of manufacturing, retail, wholesale and services. They include a wide range of companies offering a diversity of products such as those related to food, pet, juvenile, drug and nutraceutical, and recreation products and services. Capstone’s experience in the consumer products & services sector provides us with insight into the valuable attributes and likely valuation of a target company, the active buyers in the industry and the nuances of transactions in this space.

 <p><i>has been acquired by</i></p> 	 <p><i>has been acquired by</i></p>  <p>a portfolio company of NORDIC CAPITAL</p>	 <p><i>has divested</i></p>  <p>America's Place To Race™</p>	 <p><i>has been acquired by</i></p> <p>Senior Members of Doc's Drugs, Ltd.</p>
 <p><i>has secured financing from</i></p> 	 <p><i>has partnered with</i></p>  <p>BRANFORD CASTLE, INC.</p>	 <p><i>has been acquired by</i></p> 	 <p><i>has been acquired by</i></p> 
 <p><i>has been acquired by</i></p> 	 <p><i>acquisition advisory</i></p> 	 <p><i>has recapitalized with</i></p>  <p>BLACK CANYON CAPITAL</p>	 <p><i>has been acquired by</i></p> <p>AN INDIVIDUAL INVESTOR</p>

ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a leading national investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. Capstone maintains various industry specialties including one in Natural & Organic Products. The firm also possesses merchant banking capabilities to actively co-invest in transactions.

Additional information about Capstone Partners can be found at www.capstonellc.com.

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