

SPECIALTY INDUSTRIES spotlight

Specialty Food Industry

APRIL 2001

RAPID GROWTH AND CONSOLIDATION

The specialty foods segment underwent significant consolidation in 2000. Rapid growth rates in key demographics, including health-conscious consumers should make the small- and mid-sized acquisitions of niche food companies more profitable in the long run than many of the recent mega-mergers in the industry. The premium valuations currently being paid for specialty foods companies present owners with a viable alternative to future earnings pressure and competition from the industry's larger players. Furthermore, access to a strategic partner's capital and mature marketing and distribution channels is a way for small companies to catapult a strong regional brand to the next level.

VALUE DRIVERS

RCW Mirus believes the following points are critical in driving premium pricing for mid-market specialty foods companies:

- **Marketable Brand** – Brands with strong regional customer recognition have the potential to be launched nationally and internationally, and hence receive up-front premiums in the M&A market;
- **Market Share** – Companies that possess dominant market share in a particular region or even a significant market share in several regions are currently enjoying premium valuations;
- **Product Synergies** – The ability for an acquirer to leverage and combine acquired brands, e.g. Kraft's cheese products along with Nabisco's crackers, drives significant value to a buyer, and,
- **Distribution Synergies** – The ability to drive incremental profit by removing duplicative distribution channels, particularly on a global distribution basis, can have a significant impact on value.

RECENT TRANSACTIONS

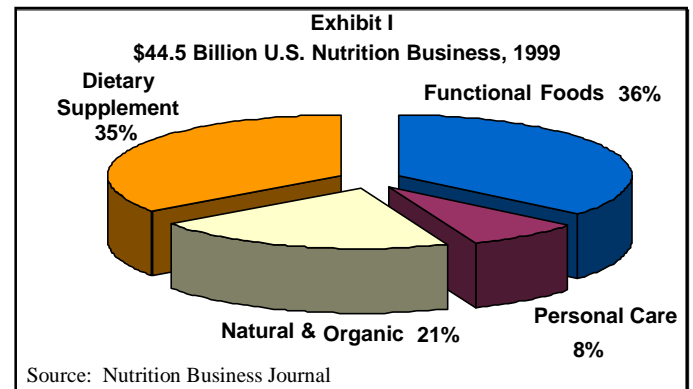
The tremendous expansion of the specialty foods segment of the industry is fueling consolidation at attractive prices for owners. The following is a list of recent transactions in the space:

- **PepsiCo acquired South Beach Beverage** – October 2000, \$370 million
- **Cadbury Schweppes acquired Snapple Beverage Group** – September 2000, \$1.45 billion
- **North Castle Partners acquired Saratoga Beverage** - June 2000, \$58.8 million
- **Unilever NV acquired Ben & Jerry's Homemade** - April 2000, \$339 million
- **Hain Food Group acquired Celestial Seasonings** - March 2000, \$386 million
- **Kraft Foods acquired Balance Bar** - January 2000, \$269 million

Mirus' research of recent disclosed M&A transactions shows that specialty foods companies are valued at an average of 19.0x EBITDA with a corresponding price-to-sales ratio between 0.9x and 3.7x sales.

INDUSTRY TRENDS

Unilever's \$20.3 billion acquisition of Best Foods and Philip Morris's \$14.9 billion acquisition of Nabisco represents just a few of the many high profile mergers among mammoth food companies that have had historical growth that has been marginal at best. This is contrasted with the recent dynamic growth of the U.S. "specialty food" industry. While a clear-cut definition of the specialty foods segment is difficult, recent revenue and growth figures are impressive, as shown in Exhibit I. For instance, the organic and natural food products segment is expected to generate sales of up to \$60 billion by 2003 according to the CEO of Whole Foods Market Inc., John Mackey. Furthermore, the health foods market has retail revenues of about \$26 billion per year and is growing at a rate of 13% per year compared to the \$450 billion food processing market which is growing at less than 2% per year, according to *Forbes Magazine*.



Key drivers for this growth include a general societal increase in health consciousness and an expanding younger demographic that consumes specialty foods. Healthy foods for an active lifestyle continue to grow in popularity as shown by the success of innovative products such as SOBE, Nantucket Nectars Fresh Samantha and Red Bull. The health-conscious over-45 demographic is projected to grow from 99 million today, to over 144 million by 2030, representing a 45% increase, according to *Nutrition Business Journal*. Trends such as these imply that there is significant room for growth and consolidation, and the industry will continue to expand far into the 21st century.

If you would like to discuss consolidation and mergers and acquisitions in the food and beverage industries, please contact Jeffrey Hamon at 617-338-1333.