

# SPECIALTY INDUSTRIES spotlight

## Bottled Water Industry

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### RAPID GROWTH AND CONSOLIDATION

The bottled water industry has seen significant mergers and acquisition activity in the last four years. While industry revenues grew by more than 13% last year, consolidation of small and mid-size bottled water companies continues to increase the margin pressures now felt by regional firms. The premium valuations currently being paid for bottled water companies present owners with a viable alternative to future earnings pressure from the industry's larger players. Furthermore, access to a strategic partner's capital and mature marketing and distribution channels is a way for bottlers and distributors to capitalize on their strong regional presence and take their company to the next level.

### VALUE DRIVERS

RCW Mirus believes the following points are critical in driving premium pricing for middle market bottled water companies:

- ▶ **Market Share**— Players with dominant market share of a given territory can influence pricing for all competitors regionally.
- ▶ **Customer Intimacy** - Consistent, responsive customer service further insulates companies from competitive pricing pressures because satisfied customers generally will not risk inconsistent service for a potential price reduction. The long-term effect of superior service is a dependable, long-lasting customer base.
- ▶ **Route Efficiency** – A rise in the number of customers per month increases the number of deliveries per driver, which directly drives profitability.

Additional points that drive purchase price are:

- ▶ **Marketable Brand** – Regional brands with a strong customer and regional presence receive premiums in the M&A market.
- ▶ **Scale** – Those companies that possess dominant market share in a particular region or possess significant market share in several regions are currently advancing premiums.

### RECENT TRANSACTIONS

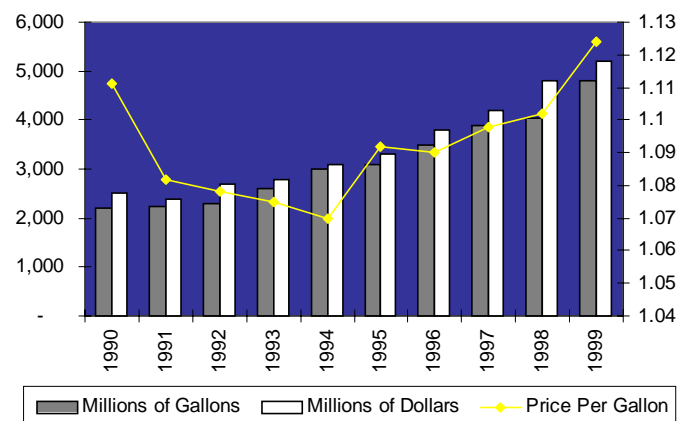
The tremendous expansion of the industry is fueling consolidation at attractive prices for owners. The following is a list of recent transactions:

- ▶ Group Danone acquired Naya, Inc. - June 2000, \$34 million
- ▶ North Castle Partners acquired Saratoga Beverage - June 2000, \$58.8 million
- ▶ Vermont Pure acquired Crystal Rock Spring Water - May 2000, \$63.2 million
- ▶ Group Danone acquired McKesson Water Products - January 2000, \$1.1 billion
- ▶ Suntory acquired Great Pines Water - April 1999, \$19 million

Mirus' research of recent disclosed M&A transactions shows that bottled water companies are valued at an average of 11x EBITDA with a corresponding price-to-sales ratio between 1.2x and 2.9x sales. It is important to note that firms with healthy EBITDA margins drove the most value from a price-to-sales standpoint.

### INDUSTRY TRENDS

The dynamic growth of the U.S. bottled water industry has been driven by a number of trends including favorable demographics and a societal increase in health consciousness. The matured tastes of older generations are seeking more natural, less caloric beverages. Additionally, younger Americans are increasingly active and understand the importance of drinking water for health and wellness. These trends have culminated in the relative decline of carbonated beverage consumption as sales of all non-carbonated beverages including bottled water, natural and fruit beverages, and sports and energy drinks continue to surge.



The entire bottled water industry, including foodservice, home delivery, on-premise, vending and convenience, totaled \$5.9 billion in 1999, with volume of water consumed up 12.8 percent over 1998. In fact, bottled water has been the fastest growing segment of the beverage industry. Since 1991, bottled water per capita consumption grew 75% from 8.8 gallons to 15.5 gallons annually. If the industry continues to grow at its current rate, within the next ten years, it will be the second largest segment of the beverage industry, behind only soft drinks. Although U.S. bottled water consumption has more than doubled over the past ten years, comparatively speaking, it is still low in relation to European countries like France that tout an annual consumption level of 35 gallons per capita. This implies that there is significant room for growth, and industry will continue to expand long into the 21<sup>st</sup> century.

**If you would like to discuss consolidation and mergers and acquisitions in the bottled water industry, please contact Jeffrey Hamon at 617-338-1333.**