August 2018

Aeternus Industry Report

Organic Food

Trends & Developments

Introduction

The development of organic food & beverages has been one of the most noticeable trends in the Food industry. Rapid growth figures fueled by increased demand and the introduction of new innovative products and services have created new challenges for companies across the entire supply chain. Transformation to an organic product portfolio has proven to be difficult for the incumbent producers whereas M&A could be a valuable strategy to achieve the latter.

The Agri-Food Industry in The Netherlands accounts for approximately 7.5% of the global Industry. With more than €48 billion of value added and 10% of employment, the Netherlands is the second largest country based on total export value of Agri-Food products. Aeternus is well experienced in the market and believes that in the near future, the market for Organic Food in particular will experience more M&A activity. This Industry report not only highlights the latest trends in the market, but also developments and key issues from an M&A perspective.

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Booming Market

From the consumer perspective, organic food products are now perceived as staple goods. Times where organic products are considered a specialty items are over. Several studies have shown that consumers perceive organic food to be more healthy, which has proven to be the main driver of growth in demand. However, increase in demand is also to be attributed to transparency and awareness. Consumers demand transparency as to how organics are produced and the environmental impact.

As growth in demand requires companies to adapt, the market is always developing. We observed several interesting developments in the international market.

- We observe that the conversion rate to organic for a certain product category does not depend on demand but on to what extend organic product are actually available for purchase (product availability). In addition to this, willingness to pay extra for organic instead of conventional products, does not seem to depend on product category. Therefore, conversion rate is mainly related to the availability of organics in a particular category. Consumers buy more organic products, if more organic products are available.

- The market for grocery items is shifting away from its conventional structure. On-demand eCommerce is penetrating the market; consumers tend to buy groceries more frequently or opt for home delivery. This requires supermarkets to replenish their stock more frequently. Today, a major part of organic products in supermarkets are fresh products, requiring suppliers to adapt to these higher frequencies of distribution and limit the amount of time organic good spend in transit.

Organic Agriculture

The major restriction to growth of the market is that producers are not able to find enough reliable resources to be able to keep up with strong growth in demand. As mentioned before. we observe that conversion rate potential varies significantly across product categories. Items such as coffee and rice are difficult to produce organically, as organic production requires more labour and resources putting pressure on profitability. In addition to this, it is also true that producers are facing difficulties in expanding production without sacrificing on the "organic" factor of new resources. On the other hand, governments are now proactively supporting organic farming because the toxic footprint is lower compared to conventional farming.

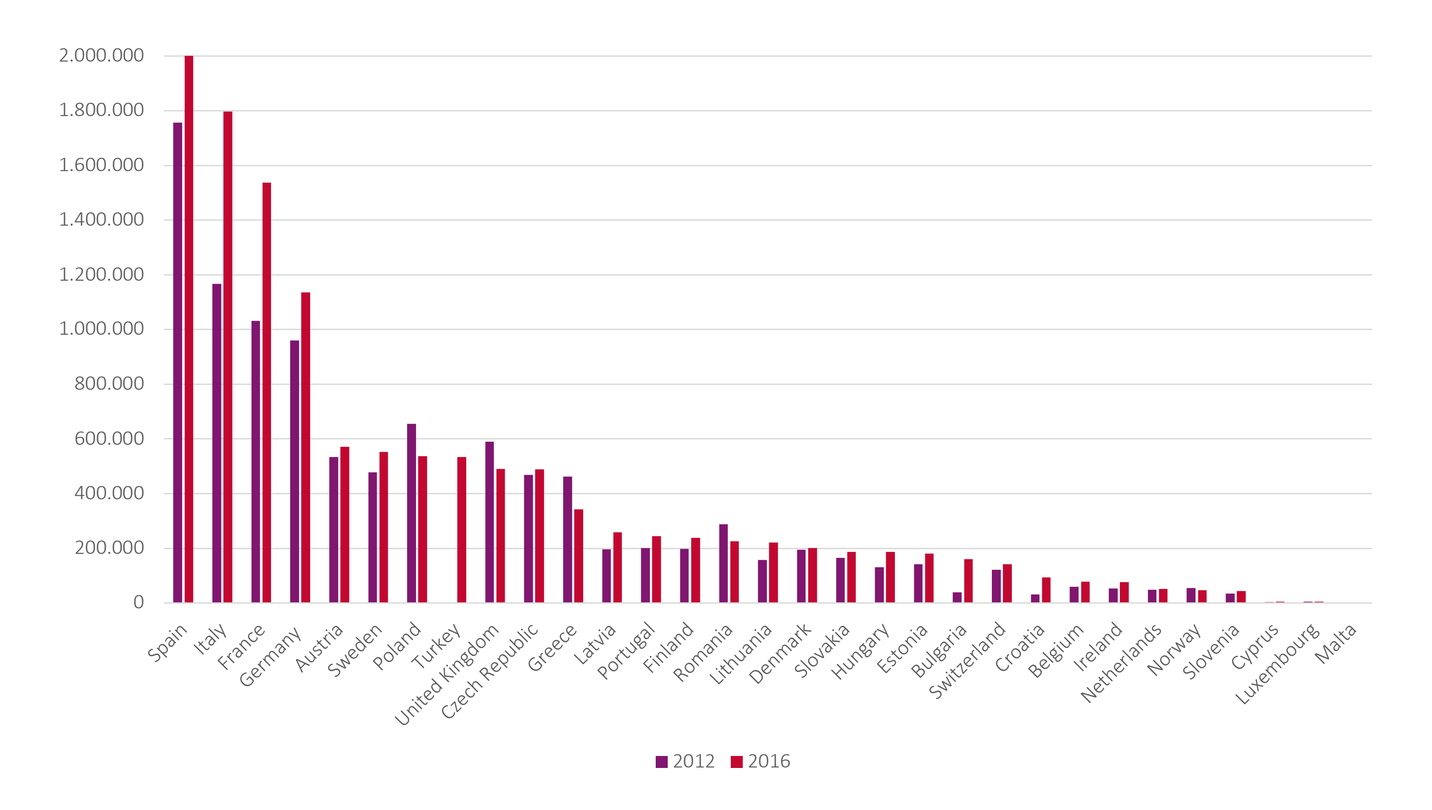

Figure 1. Total organic agricultural area in the EU area, 2012 and 2016 (ha). Source: Eurostat.

According to Eurostat, the organic agricultural land in the EU has increased from 5.0 million ha to 11.1 million ha in the period between 2002 and 2015. As displayed in figure 1, the majority of organic land is situated in the Mediterranean countries Spain, Italy and France. Despite large amounts of organic agricultural land, these countries still have low penetration rate of organic products, as seen in figure 2 later in this article. As a matter of fact, this figure almost seems a reverse image of figure 2. Given this we expect these markets to experience high growth and expect to observe more acquisitions of organic producers or investors entering these markets.

International Trends

Based on figures by Rabobank, sales of organic food are expected to grow at more than 7% in Europe and the US which is approximately 3 times total food consumption growth. However, growth is not predicted to occur equally across the US and Europe. When looking at Europe, it is easy to observe that Northern European countries outperform Southern countries in terms of the penetration rate of organics (figure 2). Although willingness to pay extra for organic products has increased, overall demand is still related to prosperity, and other social and economic factors. In addition to this, discrepancies in penetration rate of organics is also related to distribution. In countries such as Denmark and Austria, the large supermarkets capture the highest part of sales whereas in other countries sales is more evenly distributed between supermarkets and specialty stores.

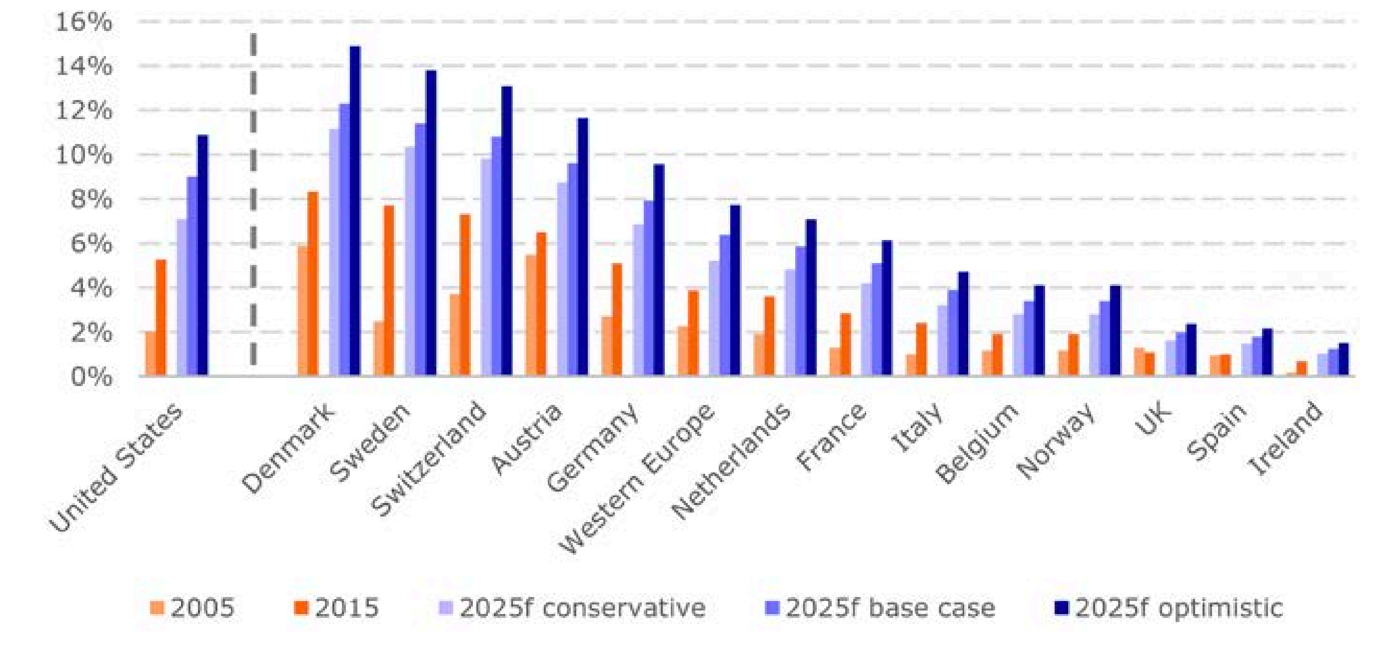

Figure 2. Organic penetration rates in Western Europe and the US, 2005-2025. Source: Euromonitor, Rabobank; Organic Is Good For You!

Despite the fact that such growth figures are undoubtedly significant, the highest growth figures in demand for organic food are expected to be observed in Asia. Although current market share in Asia is only 1%, growth figures are projected to exceed 10%, enabling Asian countries to catch up on Europe and the US. Countries such as the Four Asian Tigers (Hong Kong, Singapore, South Korea and Taiwan), but also China and India are showing the highest increase in demand for organic food products. The main reason for this being the upcoming middle class in combination with growing awareness.

Organic food in the Netherlands

Put into European perspective, the market for Organic food in the Netherlands is to be characterized as in the intermediate stage. According to Bionext, the leading Dutch association for organic food, the market for organic food was valued €1.4 billion in 2016, 3% of total food products. The large supermarket chains capture approx. 55% of sales whereas specialty stores capture 25%. The remaining 20% is captured by food service companies, local markets and other related companies. As of today, the largest specialty stores are Ekoplaza, Natuurwinkel and Odin. We observe that after 2016, growth figures of specialty stores have been declining as the large supermarkets are more proactively expanding their organic portfolios.

Although the market share of 3% is far behind countries such as Denmark (8%), market growth which is projected to be 10% in 2017 and 2018, is in line with neighboring countries. Rabobank forecasts market share to double and reach 7% by 2025.

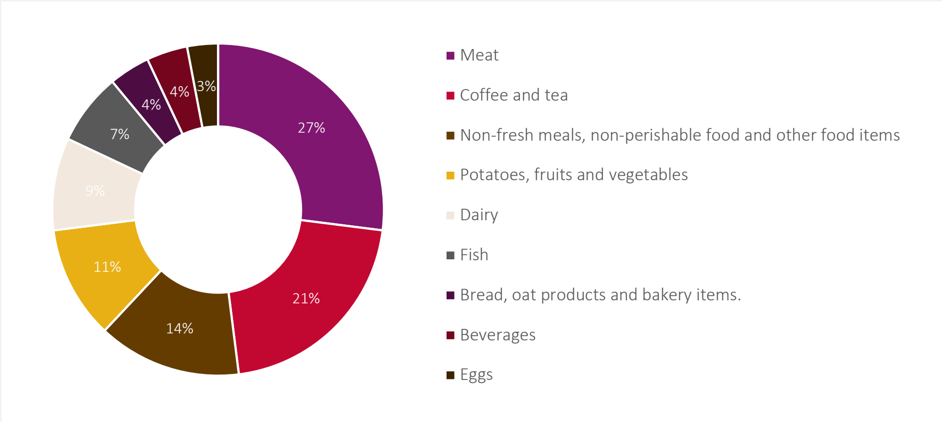

Figure 3. Share of total market value of organics per product category in the Netherlands. Source: Wageningen University, CBS, Monitor Duurzaam Voedsel 2016.

Although the market is rapidly growing, there are still significant differences between product categories, which can be seen in figure 3, describing market share of organics per food category. As mentioned before, product availability plays a vital role in conversion rate. A good example of this is the market for Potatoes, fruit and vegetables, as seen in figure 4. Suppliers are often strongly dependent on producers from developing countries, limiting the short term potential to convert to organic.

Organic agricultural area equals 3.1% compared to 6.2% on average in Europe. Given this low share combined with limited growth of agricultural land in general, it will be very difficult for product categories related to agriculture, such as potatoes, to catch up on conversion rate.

Using M&A to become organic

In the last 10 years the US and European market for organic food has been strongly influenced by small, innovative producers pressurizing established players who are struggling to maintain their dominant position in the food market. In Europe, with the exception of the dairy industry, large players are still struggling to convert their portfolios into fully or partially organic.

In the US, the major producers are actively acquiring smaller organic producers, also internationally, to swallow up the organic products in their portfolio. In 2017, the multinational Danone acquired Whitewave in exchange for $12.5 billion. This was followed by Amazon acquiring Whole Foods Market for $13.7 billion, Amazon's largest ever acquisition.

As mentioned before, the Asian market is undergoing rapid transformation, mainly to be attributed to the evolving middle class. We therefore expect the Asian market to attract more multinational investors in the market for organic food.

Although in Europe we observe a lower number of acquisitions, we also see the multinationals actively acquiring smaller players. Also in 2017, Unilever acquired the British organic herbal tea business Pukka Herbs ltd followed by an acquisition of the Brazilian natural and organic food business Mãe Terra. Both acquisitions will enable Unilever to profit from the rapidly expanding organic market. M&A activity in the Netherlands is largely covered by Wessanen, with several acquisition in the past 5 years.

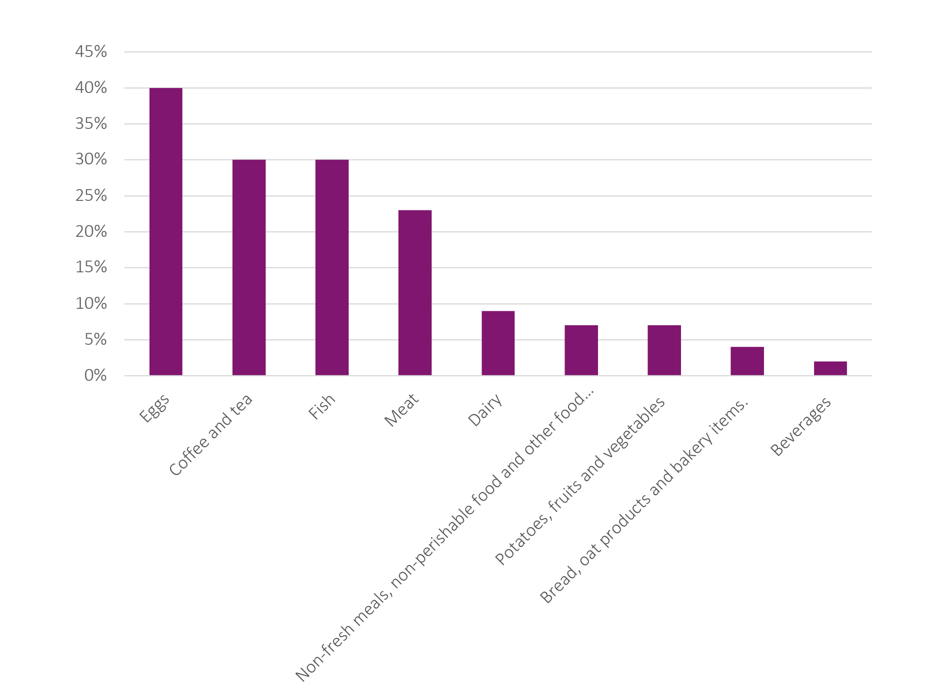

Figure 4. Market share of organics per food category in the Netherlands. Source: Wageningen University, CBS, Monitor Duurzaam Voedsel 2016.

Case Study: Wessanen

Wessanen is a good example of a successful player in the market for organic food with revenues of €625.8M in 2017, 9,8% more than the year before. The company builds upon a long history starting in the late 18th century. In 2010, the company announced a new corporate strategy solely focusing on organic food after a long period of being active in several areas of the food market. This involved selling several companies that were no longer in line with the company's new core activity, organic food. A clear focus on core brands and core categories as a foundation for further expansion. As of today, unlike many other large players in the market, Wessanen is purely active in the market for organic food with a clear mission: "Our organic food, your natural choice". Wessanen's strategy to focus purely on organic food has proven to be successful which allowed the company to undertake rapid international expansion in European markets. Not only has Wessanen managed to profit from first mover advantages of capturing market demand, but also has it proven to be successful in expanding market presence in Europe. This expansion has also been supported by acquisitions of international players, with 4 acquisitions of leading companies in Europe in 2016 and 2017 alone.

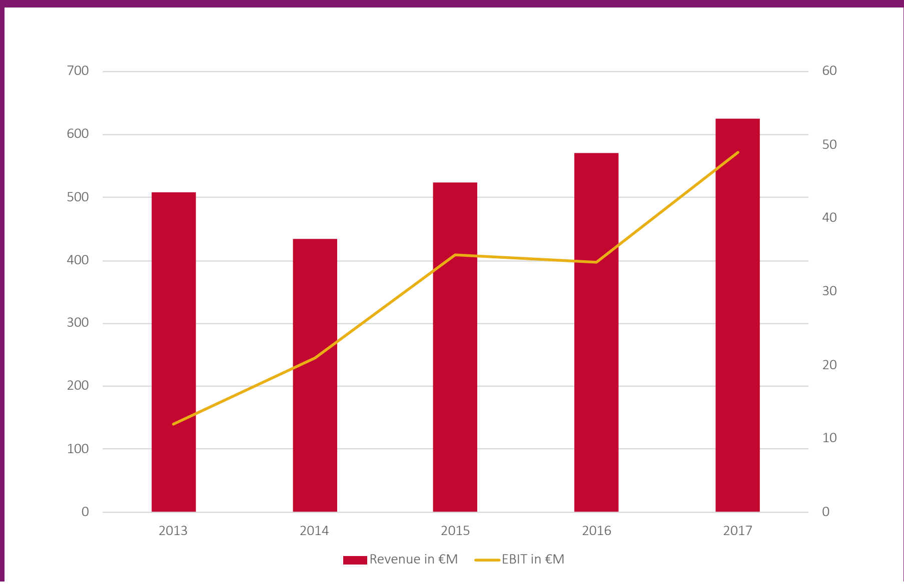

Figure 5. Revenue and EBIT of Royal Wessanen N.V. Source: Wessanen.

M&A activity in the Netherlands

Acquiror name	Acquiror country	Target name	Target country	Date	Description
Udea	NL	**De Zaai-Ster**	NL	Jan 2017	Udea, Franchiseholder of the Ekoplaza stores, acquires the bio wholesaler De Zaai-Ster B.V.
Wessanen	NL	**Biogran**	ES	Dec 2016	Wessanen acquires Biogran, the leading manufacturer and distributor of organic brands in Spain. With this accquisiytion of €67M Wessanen will strongly increase market acces in Spain.
Wessanen	NL	**Mrs Crimble's**	GB	July 2017	Wessanen acquires the UK's leading gluten-free brand Mrs Crimble's
Obela	AU	**Florentin**	NL	June 2016	The Israelian Hummus producer Obela acquires Florentin, a Dutch company engaged in the development and manufacture of bio/organic hummus, falafel, spreads and pita bread products.
Wessanen	NL	**IneoBio**	FR	May 2016	Wessanen acquires the French company Inebios, owner of the Destination brand for bio coffee and tea.
Wessanen	NL	**Piramide**	NL	March 2016	Wessannen acquires Pirmaide, a long established tea brand in the Netherlands and leader in the Health Food Stores channel, to extend its presence in the Tea market.
Cérélia	FR	**Bioderij**	NL	September 2015	The French food company Cérélia acquires Bioderij B.V., one of the largest producers of pancakes.
Wessanen	NL	**Abafoods**	IT	January 2015	Wessanes acquires Abafoods, a European expert in organic vegetal drinks in exchange for €52M. It produces a range of cereal drinks using rice, coconut, almond, oat, spelt and soy. With this acquistion Wessanen will strengthen its R&D capbilities but also its market presence in Italy, where the market for organic food is sinigifinactly growing.
Vroegop Ruhe & Co	NL	**Natudis Nederland** **Hagor** **Kroon**	NL	February 2014	Vroegop acquires Natudis, a large wholesaler of biological food products.
Green Organics	NL	**BioCore**	NL	May 2013	The Green Organics Group takes over all Biocore's business activities related to vegetables.
Wessanen	NL	**Alter Eco**	FR	April 2013	Wessanen acquires Alter Eco, the largest player int market for organic and fair trade products such as chocolate, coffee, tea and juices.

Table 1. Recent M&A Activity in The Netherlands

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Aeternus Corporate Finance

Aeternus is an independent corporate finance office with subsidiaries in Eindhoven and Venlo, the Netherlands. Founded in 2006, working both nationally and internationally. Our clients include midsized and mid corporate businesses. We have strong expertise in business services, manufacturing, agricultural technology, and food-related industries. Aeternus is specialized in all topics related to company value: determining value, increasing value, and creating value. "Focus on Value" is our distinctive approach.

Our specialized knowledge and ample experience in national and international transactions allow us to achieve the best possible result for our clients.

We only strive for the best. For the best, you have to investigate. Therefore we analyze beyond numbers. We want to know everything that can be relevant for the best deal. In addition to our corporate finance knowledge, expertise in specific industries is important to create added value. Every industry has its own developments, legislature and specific characteristics.

Aeternus has specialized industry teams that focus on their own area of expertise. These teams are well informed of all developments within your sector or industry and are familiar with the most important players on the market. Not only do they perform desk research to stay aware of recent developments, they also maintain contact with their colleagues in international networks and a variety of other consultants, advisors and professional associations.

Aeternus is a member of M&A Worldwide. This membership enables Aeternus to offer buyers and sellers with international ambitions outstanding services. Aeternus acted as an advisor in dozens of international transactions in the past decade, both for Dutch companies selling their companies to foreign buyers and Dutch companies buying a company abroad.

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