

THE TRANSFORMING HEALTHY BEVERAGE LANDSCAPE: WHO OWNS WHAT

PART 1 OF A TWO-PART SERIES // BY MICHAEL BURGMAIER

As sales of traditional Carbonated Soft Drinks (CSDs) continue to fall and Americans look for healthier alternatives, large beverage companies have responded by both acquiring emerging brands and innovating from within.

Interestingly, however, consumers (and even beverage entrepreneurs) often do not know which brands are owned by the large Beverage Companies, nor do the entrepreneurs appreciate the sheer number of potential buyers for their own companies.

As an investment banker in this space for many years, it is always interesting to take a company to market; so often, we find that a buyer who had been viewed by the seller as a “non-starter” can be the ultimate buyer.

Coke and Pepsi have made several acquisitions in the healthier, emerging beverage brand space: Honest Tea, Zico, Izze, Naked, Odwalla and ONE, for example – and my money is solidly in the

camp that the acquisitions have still really just begun. Through these acquisitions, the large strategics bring healthier alternatives to the mass of consumers through more retail channel exposure. Additionally, acquisitions help fuel investment in additional emerging brands. It creates a virtuous cycle. This is all good.

This month, BevNET asked me to lay out this transforming landscape and discuss which beverage companies own which “healthier” (a subjective term, I agree) brands. It turned out to be an interesting exercise. In this article, I also discuss some of the larger, independent beverage companies as well as sizeable, Private Equity-backed ones – perhaps the next wave of brands

to be acquired. The exercise unveiled trends, helped solidify thoughts around why certain brands get acquired – and why others do not – and perhaps most importantly, can serve to remind us that the buyer universe for beverage entrepreneurs is far greater than just Coke, Pepsi and Nestle Waters.

First, let's take stock of the buyers: To simplify things, I divided them into four buckets: (1) The big three “high profile beverage buyers” – Coca Cola, Pepsi and Nestle Waters; (2) other high profile beverage (and food and beverage) companies: Dr Pepper Snapple, Campbell's, Hain, Starbucks, Pfizer, Hormel, ITO EN, Sara Lee, Sunsweet, Danone, TATA and Hershey; (3) other companies – a very long list that we put as over 100 companies capable of buying – like Apple & Eve (before they were acquired by Lasso de in June) who acquired The Switch Beverage Co. earlier in 2014; and (4) financial buyers – an important group, as there is over \$320 billion of private equity out there looking for a home – or a place to plant a transactional trophy.

Chart 1 below highlights some recent deals by buyer type.

What jumps out there? Nine juice deals: Innocent, Bolthouse, Blue Print, Evolution, The Switch, Apple & Eve, Route 66, Juicy Juice and Zola. Four tea deals: Honest Tea, Sweet Leaf, Teavana and Tea Forte. Three coconut water deals: Zico, ONE and Zola. Within this group, the most notable transactions are Bolthouse (\$1.55 billion), Teavana (\$620 million) and Cytosport (\$450 million); they cover companies in juice, tea, and protein – all hot areas. Compared to those bigger deals, Evolution (\$30 million) and Blue Print (\$25MM plus earn-outs) seem like the bargains – or premature sells.

SO WHO OWNS WHAT?

Large beverage companies have been very busy over the last 10 to 15 years with both acquiring and developing their healthier/alternative beverage brand portfolios.

Charts 2 and 3 on page 40 depict which large beverage companies own which brands (the year indicates what year the brand was acquired – or started internally).

WHICH LARGE BRANDS ARE STILL OUT THERE SOLO?

Not every large beverage brand is owned by one of the large, public players though. Although many young companies love to quote the Vitaminwater multiple (as a reality-based investment advisor, I ask you to please stop doing that) or imagine they will be the next Seth Goldman, there are other options out there besides selling. In fact, there are several large independent beverage companies of scale in U.S., and quite a few have more than \$50 million in sales, as well as PE-backed companies and smaller public beverage companies as well. **Chart 4 on page 40** lists just a few examples of the healthier beverage brands of note.

Interestingly, just a few months ago the “Large (>\$50MM) PE-Backed” list would have also included Apple & Eve and Muscle Milk. But PE-Backed also means “must sell.”

Over the past four years, at Silverwood Partners we've been involved with more than 10 beverage transactions – both sales and investments – with many of those fall-

CHART 1. RECENT BEVERAGE ACQUISITIONS BY BUYER TYPE

HIGH PROFILE BEVERAGE BUYERS		OTHER HIGH PROFILE F&B COMPANIES		OTHER COMPANIES		FINANCIAL BUYERS	
BUYER	TARGET	BUYER	TARGET	BUYER	TARGET	BUYER	TARGET
Coca Cola	Zico	Hormel	CytoSport (Muscle Milk)	Apple & Eve	The Switch	Brynwood	Juicy Juice
Coca Cola	Innocent	Campbell's	Bolthouse	Lasso de	Apple & Eve	The Yucaipa Companies	Brew Hub
Pepsico	ONE	Hain	Blue Print	Healthy Brands Collective	Tempt	Horizon Capital	Bolstavan Wineries Group
Nestle Waters	Sweet Leaf	Starbucks	Teavana	Sun Orchard	Fruit 66	Emigrant Capital	Zola
Coca Cola	Monster (1/6 of company)	Starbucks	Evolution Fresh	White Rock	Fizzy Lizzy	Emigrant Capital	Boylan Bottling
		Pfizer	Alacer (Emergen-C)	Big Red	Hydrive	Kainos Capital	Slim-Fast
		Sara Lee	Tea Forte	Big Red	Thomas Kemper		
		Sunsweet	Function				

ing under the “not publicly known” category. To be successful, emerging BevCo winners need differentiate and show a path to becoming very large. The beverage data out there is helpful: yes, people need to drink; they want healthier alternatives;

they are abandoning traditional CSDs; extending legacy brands further and further no longer works; and almost always, the best innovation comes from outside. Build it, grow it and they will come...

Michael Burgmaier is a Managing Director with Silverwood Partners, an investment bank specializing on the healthy/active living and premium consumer space. 2013/14 announced beverage transactions for Silverwood include The Switch Beverage Co., KeVita, Essentia Water and Spindrift.

CHART 2. BRANDS OWNED BY THE BIG PLAYERS

COCA COLA	PEPSI	NESTLE	CAMPBELL'S	DPSG
2014 Monster (partial ownership)	2012 ONE	2011 Sweet Leaf 2009 investment	2012 Bolthouse Farms	2002 Snapple (acquired by Cadbury)
2013 Zico	2007 Naked	2010 Tradewinds (acquired by Sweet Leaf)	1948 V8	2000 Nantucket Nectars (acquired by Cadbury)
2012 Core Power	2000 SoBe	Many water brands. Notables include Poland Spring and Resource		
2011 Honest (Aid, Kids, Fizz, Tea)	1998 Tropicana			
2009 illy issimo (RTD only, JV with illy)	1994 AcquaFina			
2007 Glaceau (Smartwater, Vitaminwater)	1994 Starbucks (RTD coffee drinks, JV with Starbucks)			
2007 Fuze	1991 Lipton (RTD only, JV with Unilever)			

CHART 3. OTHER NOTABLE STRATEGIC OWNERSHIP

SUNSWEEET	ITO EN	KRAFT	MONSTER*	WHITEWAVE	OCEAN SPRAY	KELLOGG'S
2011 Function	2013 Jay Street (created)	2011 MiO (created)	2011 Pre	2004 Horizon Organic	2011 Ocean Spray 100% Premium	2013 Kellogg's To Go
2010 C20 (investment)	2002 Tea's Tea (created)	1981 Capri Sun (created)	2009 Peace Tea* (created)	2002 Silk	2008 Cran Energy (created)	2009 Kellogg's Special K Protein Shake
2010 Ayala's Herbal Water (investment)	1989 Oi Ocha	1975 Country Time (created)	1935 Hanson's*			

*Now owned by Coke; Peace Tea, Hanson's

CHART 4. HEALTHY BEVERAGE BRANDS OF NOTE

LARGE, INDEPENDENT PRIVATE WITH SCALE	LARGE (>\$50MM) PE-BACKED	SMALL PUBLIC CO.'s
Arizona Talking Rain (Sparkling Ice) GT Kombucha (Millenium Products, Inc.)	Sunny D (J.W. Childs) Sambazon (Verlinvest) Vita Coco (DPSG distribution)	Reeds Jones KonaRed Corp. Healthy Brand Collective (non-trading – Cell-nique, High Country Kombucha, Tempt)