

Hybrid Acquisition Model

- Based on the Cisco Systems model of early investments in promising technologies
- Time to market and first mover advantage are now relevant to the Food & Beverage Industries
- Helps facilitate the Entrepreneur's willingness to complete the transaction

Equity Infusion & Call Option

Example

- First Tranche is 20% stake for \$4 million – placing a total value at \$20 million
- Call Option at a valuation of 2.5 X revenues between months 42 and 60

Equity Infusion & Call Option

Example continued

- If the company has reached critical mass and is one of continued interest, then Equity Parent exercises the option at a pre-determined market-favorable valuation metric (See White Wave/Dean Foods Example)
- If the company has *not* developed, Equity Parent does not exercise option and either holds, sells back to the entrepreneur or sells its interest to an investor

New World Model

Dean Foods & White Wave



● Creating Leverage: 1 + 1 = 3

- Boulder based company founded by Steve Demos, 55, in the 1970's. Demos is an earring-adorned Buddhist who once lived in a cave in India.
- Demos makes tofu in a bathtub in the late 70's.
- White Wave introduces Silk, an organic soy milk brand, in 1996 – just as the organic boom was taking off. The soy milk category was virtually non-existent at the time.
- Company focuses on health/gourmet channels – avoiding slotting fees and traditional marketing costs.
- White Wave approached several companies – including KO – for funding in 1999. All balked except Dean, who buys a 25% stake in White Wave for **\$5 million**.

● The Dean Era

- Dean allows White Wave to remain **autonomous** and **operate entrepreneurially**.
- Dean provides White Wave **capital resources** and **leverage** – contacts, manufacturing, etc.
- Sales soar – expected to reach \$420 million in 2005, +31% over 2004.
- Dean buys remaining 75% equity in White Wave in 2004 for \$224 million.

The right strategy can dramatically change momentum and business performance

New World Model

Dean Foods & White Wave



- **White Wave transforms Dean Foods**

- White Wave was the first of several acquisitions into the specialty/gourmet end of the milk industry by Dean Foods.
- **Silk** and these other brands have transformed Dean Foods from a low margin milk producer into a Wall Street standout with a growing stable of high margin, high growth brands.
- Result – Dean **profits have tripled** in 4 years! With \$10.8 billion in 2004 revenue the company is bigger than Kellogg and HJ Heinz. Dean's **stock price has doubled** since 2000, far outpacing the food industry average. 2004 overall sales were **+17.8% !**
- White Wave is aggressively pushing new products, new channels to capitalize on its momentum – **Silk** now has 65% of the soy milk market.
 - Starbucks takes on Silk.
 - Vitamin enriched children's version of Silk, high calcium version for pregnant women products introduced.
 - New innovative flavors introduced, major push into schools vending.

New World Model

Dean Foods & White Wave

- **A Calculated Strategy**

\$ 5m	- 25% equity stake – with an option to buy the remaining 75% at a pre-determine strike point
\$ <u>224m</u>	- cost to purchase remainder of White Wave
\$ 229m	- Total Cost to buy White Wave
\$ 420m	- 2005 Revenues
\$ <u>1,260m</u>	- 2005 Market Value (3 X's Revenue)
18%	- Dean Foods purchase price/market value

Strategy break-even point – 206 White Waves

If Dean put a \$5 million equity stake in 206 companies and 205 failed, the strategy would break even.

Equity Infusion & Call Option

- Entrepreneur retains majority stake and control – and other benefits
- Equity Parent involvement is a self-fulfilling prophecy – access to brand awareness, infrastructure, distribution capability, expertise and resources
- For same dilution as Venture Capital money, Entrepreneur gets “Smart Money”

Equity Infusion & Call Option

- Growth will be much faster as window of opportunity is very small
- Equity Parent provides a pre-determined strategy and actually helps increase the purchase price
- The Entrepreneur's opportunity is "All of a grape versus part of a watermelon"

Advantages for the Equity Parent

- Access to a large funnel of developing products
- A new, nimble, low cost, market-sensitive “R&D” arm
- Minor resource allocation to entrepreneurial skunk works projects
- Diversify product development portfolio – small investment in several projects

Advantages for the Equity Parent

- \$5 million each in 5 projects versus \$100 million in one project
- Entrepreneurial spirit improves the success rate
- Very cost-effective consumer acceptance testing
- Call Option structure provides the right, but not the obligation to buy

Advantages for the Equity Parent

- The misses are \$1- \$10 million instead of \$100 - \$200 million
- Potential damage in the press is all but eliminated
- Management resources are not dissipated
- If successful, the total investment is a fraction of a market acquisition

Organizational Benefits for the Equity Parent

- Very efficient learning about a new product category
- Use this investment as a “platform” for additional acquisitions
- Target higher margin categories and institutionalize them
- Create a more entrepreneurial culture
- Wall Street will notice the higher margins, product launch successes and a more nimble company

Already Have an M&A Department?

- Let them focus on “move the needle” acquisitions
- This is a different model than previous acquisition models
- Opportunity to move quickly on several small acquisitions in the same timeframe as one big one
- Dealing with Entrepreneurs is a different mindset

MidMarket Capital

Industry Focused

- 25 year Coca Cola veteran
- 27 year Hunt-Wesson/ConAgra veteran
- M&A practice has technology company roots and has used creative structures to bridge the deal gap between big buyer and unlimited optimism of the Entrepreneur

MidMarket Capital

Industry Focused continued

- Firms needing capital seek us out
- Buy Side Client – We limit competition (you get first and maybe only look)
- MMC becomes “shepherd of the deal”
- Ongoing support. MMC can provide the voice of reason during the Call Option Period