

INSIGHT



SPORTS NUTRITION

SECTOR SNAPSHOT

April 2019

BOURNE PARTNERS

What We Are Seeing and Hearing in the Market

- The “Amazon Effect” continues to be a talking point in most conversations with industry executives, as the company’s presence expands within the retail marketplace
 - Amazon recently introduced its OWN PWR private label sports nutrition brand along with Amazon-exclusive brands Enraged Nutrition, Flexatarian, and P2N Peak Performance Nutrition (as well as Amfit in Europe)
 - While these products (ranging from multivitamins to pre-workouts to plant-based proteins) are fairly new to the marketplace and it’s a little early to draw conclusions on long-term customer purchasing trends, Amazon has a leg up on competitors with its access to consumer data – and that of the vendors that sell on its platform
 - One potential benefit to other players in the space is that Amazon’s private label brands possess high visibility on the website and therefore serve as a means to drive consumer traffic not only to the company’s own products, but also to other brands in the same category
 - CEO of bodybuilding.com, Jas Krdzalic, envisions a bifurcation of winners and losers in the category, commenting that “Amazon has accelerated the path to either consolidation or exit strategies out of the space”
- Last year bodybuilding.com launched its own private label (some of the products had previously been offered and were “relaunched” through a coordinated marketing push)
- GNC (lost more than 95% of its market value in the past 4 years) and Vitamin Shoppe (lost roughly 90% of its market value in the past 6 years) continue to get squeezed as competition from superstores, warehouse retailers, and online merchants drain sales and profits
 - GNC has been prioritizing its international business which grew last year by 1.5% while Vitamin Shoppe is focusing on clearing out excess inventory, closing weaker stores, and promoting its expanding portfolio of – you guessed it! – private brands

Sources: NutraIngredientsUSA, BodyBuilding.com, S&P CapitalIQ

Market Dynamics & Developments

How big is the market and how is “sports nutrition” defined?

- Sports nutrition is a large and growing market, with different definitions of what is included in the category leading to a range of published industry sizes and growth rates:
 - For example, a December 2018 report from *Research and Markets* states “the global sports nutrition market size is expected to reach \$24.4 billion by 2025, expanding at a CAGR of 9.7%”...
 - ...while an April 2019 report from *Energias Market Research* states that “the global sports nutrition market is likely to generate a demand of \$64.8 billion by 2025, at a CAGR of 8.6%”



Functional food bars?



Ready-to-drink shakes?

What’s included in “sports nutrition”?



Energy chews?



Vitamin supplements?

How are market dynamics in the fastest-growing parts of the world?

- The Asia Pacific region is poised to see the most accelerated growth in the sports nutrition category, with industry resources pointing to an expected CAGR ranging from 9%⁽¹⁾ to 13%⁽²⁾

Taiwan & South Korea

Market is still relatively niche and most brands come from multinational companies⁽³⁾

China

Some local companies but products are generally similar to offerings from US and Australian brands that have greater consumer trust⁽³⁾

Japan

A number of local sports nutrition companies – with focus on rehydration products and protein powders – but innovation lags behind global leaders⁽³⁾

Australia

Well-established sports nutrition market that includes a wide range of local manufacturers and a lot of focus on cleaner supplements, but new product development falls behind that seen globally due to the size of the market⁽³⁾



What is the next wave of innovation and leading growth in the category?

- Pea is expected to be the fastest-growing raw material segment in the market over the next 5 years, based on a rise in demand for meat protein alternatives as well as these proteins being significant for consumers allergic to dairy and egg⁽⁴⁾
- Plant-based is expected to be the fastest-growing source segment in the market over the next 5 years, with rising preference among consumers for plant-based diets owing to increasing number of individuals turning vegan, vegetarian, or flexitarian⁽⁴⁾



(1) Allied Market Research (2) Research and Markets (3) Lumina Intelligence (4) Grand View Research

Other Industry Trends

Integration of Technology

- As technology develops, the fitness industry develops with it
- A few key developments over the last couple of years have included wearables and gadgets that allow people to track their workouts as well as track how their bodies are reacting to different fitness regimens, dietary restrictions, and supplements / nutritional products
- As technological developments continue to bleed into the industry, an opportunity develops for supplement and nutrition companies

“Wearable technology is expected to contribute to supplement sales growth, as consumers are now more interested in maintaining healthy lifestyles.”
– Cheryl Tay, Editor of Nutra Ingredients

Label and Ingredient Transparency

- A focus on “clean living” extends to sourcing of ingredients for a growing number of supplement users
 - Users have taken focus on label transparency (i.e. being more conscious that what is on the product label is actually what is in the product) and on the use of natural / organic ingredients
- While there are different views on the benefits, there is little argument that a market has emerged for more expensive, natural / organic products

“For [the average person], the concern [is] less about performance-enhancing steroids [or things of that nature]... [but] as consumers grow more adamant about labeling and transparency in general, its worth exploring why keeping the sports-supplement arena clean matters.”
– Kimberly Decker, Nutritional Outlook

Expanding User Base

- Over the last several years, there has been a broadening of the consumer base for sports nutrition and fitness companies to include an emphasis on women and to include the general health conscious consumer that may not be as directly focused on fitness and performance
- The expansion of the “health conscious” group opens up possibilities for product expansions and new marketing channels / strategies for supplement companies

“In addition to traditional core users and casual users... the new type of users are lifestyle users... who invest heavily in fitness as a fundamental aspect of a healthy, high-performance lifestyle.”
– Carolina Ordonez, Euromonitor International

Personalization

- In order to fully optimize physical activity, the body needs to be supported properly with nutrition and productive exercise
- As this approach to fitness and general health has gained momentum and marketing support, one-size-fits-all “boxed solutions” have given way to personalized supplement stacks, daily vitamin packs, and personalized routines and digital coaching that fit an individual’s fitness goals

“Personalized nutrition [allows a consumer to] understand more about his or her body chemistry, and what type of supplements would be of most value to them”
– Erasmo Schutzer, SVP of Consumer Health and Nutrition at Lonza

Trading Comps

- The table below captures some key valuation measures for publicly-traded companies in the nutrition / supplement market as of April 2019
 - This information can provide a helpful snapshot of current valuation metrics, but it is important to keep in mind that these figures are for a range of companies with very different sizes, margins, and growth profiles

USD in millions

Company	Ticker	Equity Value	Net Debt	Enterprise Value	Last Twelve Months		Margin Analysis		Enterprise Value /	
					Sales	EBITDA	Gross Profit	EBITDA	Sales	EBITDA
Twinlab	OTCPK:TLCC	\$160.3	\$75.8	\$236.1	\$75.6	(\$13.1)	17.7%	NM	3.1 x	NM
LifeVantage	NasdaqCM:LFVN	\$195.9	(\$14.6)	\$181.3	\$218.4	\$10.0	83.5%	4.6%	0.8 x	18.1 x
FitLife Brands	OTCPK:FTLF	\$6.2	\$0.2	\$6.5	\$17.1	\$0.7	39.5%	4.2%	0.4 x	9.0 x
Science in Sport	AIM:SIS	\$80.4	(\$10.2)	\$70.2	\$27.2	(\$6.4)	56.1%	NM	2.6 x	NM
Enervit	BIT:ENV	\$71.5	(\$1.4)	\$70.1	\$71.7	\$8.0	74.2%	11.2%	1.0 x	8.8 x
USANA Health Sciences	NYSE:USNA	\$1,973.5	(\$277.9)	\$1,695.6	\$1,189.2	\$204.5	83.1%	17.2%	1.4 x	8.3 x
Mix1 Life	OTCPK:MIXX	\$0.1	\$6.3	\$6.4	\$0.9	(\$3.7)	8.4%	NM	6.9 x	NM
Cyanotech	NasdaqCM:CYAN	\$19.0	\$6.5	\$25.5	\$32.2	(\$0.4)	32.2%	NM	0.8 x	NM
Herbalife Nutrition	NYSE:HLF	\$7,707.3	\$1,254.9	\$8,962.2	\$4,891.8	\$783.5	53.3%	16.0%	1.8 x	11.4 x
Mannatech	NasdaqGS:MTEX	\$43.3	(\$20.1)	\$23.2	\$173.6	\$3.3	80.1%	1.9%	0.1 x	7.0 x
Nature's Sunshine Products	NasdaqCM:NATR	\$178.3	(\$49.1)	\$129.2	\$364.8	\$17.6	73.8%	4.8%	0.4 x	7.4 x
<i>CapitalIQ, April 2019</i>	Median	\$80.4	(\$1.4)	\$70.2	\$75.6	\$3.3	56.1%	4.8%	1.0 x	8.8 x
<i>NM - Not Meaningful</i>	Mean	\$948.7	\$88.2	\$1,036.9	\$642.0	\$91.3	58.4%	8.6%	1.8 x	10.0 x

- Valuation metrics for this set of publicly-traded nutrition / supplement companies are roughly 1-2 x sales and 8-10 x EBITDA

Source: S&P CapitalIQ

M&A Transaction Comps

- This table highlights some of the most relevant M&A activity in the sports nutrition / supplements category for deals with publicly-disclosed valuation data points

USD in millions

Date	Target	Target Description	Buyer	Enterprise Value	LTM Revenue	LTM EBITDA	EV / LTM Revenue	EV / LTM EBITDA
Dec 2018	Nutrisystem	Provides weight management products and services in the United States	Tivity Health	\$1,340.7	\$692.7	\$88.4	1.9 x	15.2 x
Nov 2018	Sport-ph	Produces and sells sports nutrition products	Science in Sport	\$40.8	\$27.0	\$3.6	1.5 x	11.2 x
Oct 2018	Acenzia	Develops and manufactures supplements and natural health products	LiveWell Canada	\$14.9	\$4.2	NA	3.6 x	NA
Mar 2018	Nutranext	Develops, packages, and markets nutritional products and dietary supplements	The Clorox Compar	\$700.0	\$200.0	NA	3.5 x	NA
Nov 2017	NutraGenesis	Develops nutraceutical and functional ingredients for the dietary supplements	Innophos	\$28.0	\$12.0	NA	2.3 x	NA
Oct 2017	Rx Bar	Manufactures and sells protein bars made with all-natural ingredients	Kellogg's	\$600.0	\$120.0	NA	5.0 x	NA
May 2017	Nutraceutical International	Manufactures, markets, and distributes branded nutritional supplements	HGGC	\$426.5	\$237.0	\$43.1	1.8 x	9.9 x
Mar 2017	Reflex Nutrition	Produces and sells sports supplements for men and women	Associated British	\$75.0	\$18.8	NA	4.0 x	NA
Aug 2016	Vitaco Health	Develops, manufactures, and distributes nutrition products	Primavera	\$267.2	\$157.2	\$17.0	1.7 x	15.7 x
Nov 2015	thinkThin	Produces nutritious supplement snacks	Glanbia	\$217.0	\$83.5	NA	2.6 x	NA
Sep 2014	Isopure	Produces and sells nutritional supplement powders and drinks	Glanbia	\$153.0	\$72.9	NA	2.1 x	NA
Jun 2014	CytoSport	Produces sports nutrition products	Hormel	\$470.0	\$370.0	\$30.0	1.3 x	15.7 x
Dec 2013	Dymatize	Manufactures sports nutrition supplements for athletes and fitness enthusiasts	Post	\$195.0	\$195.0	\$31.0	1.0 x	6.3 x
<i>CapitalIQ, April 2019</i>			Median	\$217.0	\$120.0	\$30.5	2.1 x	13.2 x
<i>NA - Not Available</i>			Mean	\$348.3	\$168.5	\$35.5	2.5 x	12.3 x

- As expected, these multiples are slightly higher than those shown on the previous page as M&A deals are generally executed at a premium to a company's trading enterprise value

– Valuation metrics for this set of transaction comps are roughly 2-2.5 x sales and 12-13 x EBITDA

Source: S&P CapitalIQ

Recapitalization Activity

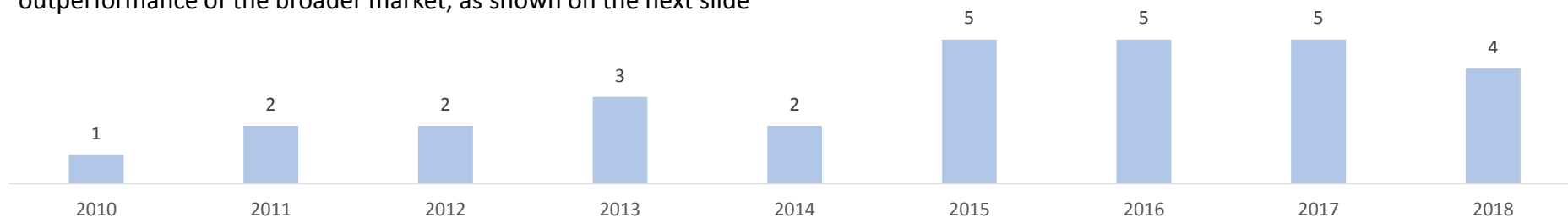
- The table below highlights recent capital raises in the sports nutrition / dietary supplements / nutritional supplements category

USD in millions

Date	Target	Buyer	Investment Size	Capital Raise Description
Feb 2019	Ritual	Norwest Venture Partners	\$25.0	Venture capital (Series B) funding led by existing investor
Aug 2018	Noho Health	Goldman Sachs Asset Management	\$29.0	Venture capital (Series B) funding round led by a new investor but including existing investors
Aug 2018	Herbalife Nutrition	Undisclosed	\$400.0	Public offering of 7.25% Senior Notes due 2026
Mar 2018	Ancient Nutrition	VMG Partners	\$103.0	Venture capital to innovate in new categories and expand probiotics business
Mar 2018	Foodspring	b-to-v Partners	\$27.2	Venture capital for internationalization and expansion into food retail
Oct 2017	MusclePharm	Amerop Products	\$13.0	Private investment of common shares to repurchase promissory notes
Jun 2017	Noho Health	RRE Ventures	\$13.9	Venture capital for investment in fulfillment systems and data science capabilities
May 2017	Bulletproof	CAVU Venture Partners	\$19.0	Venture capital for product launches and e-commerce/retail growth
Mar 2017	Twinlab	Golisano	\$3.3	Debt in form of unsecured promissory notes
Feb 2017	Labrada Bodybuilding Nutrition	Kingdomway	\$8.1	Private investment for 30% of the company
Oct 2016	Elysium Health	Breyer Capital	\$20.0	Venture capital for expanding operations of advanced supplement business
Jul 2016	Twinlab	Little Harbor	\$9.5	Growth equity for general corporate purposes of supplements business
Apr 2016	BA Sports Nutrition	Dr. Pepper Snapple Group	\$6.0	Growth equity for sports drinks business

CapitalIQ, April 2019

- Sports nutrition private placements and public offerings have increased since 2014, reflecting the category's steady growth and consistent outperformance of the broader market, as shown on the next slide



Source: S&P CapitalIQ

Valuation Trends (2010 – 2018)

- As mentioned on the previous slide, an index of publicly-traded sports nutrition and supplement companies (same as trading comps listed out on slide 5) has meaningfully outperformed the S&P 500 since 2015, reflecting the industry's strong growth and attractive market dynamics



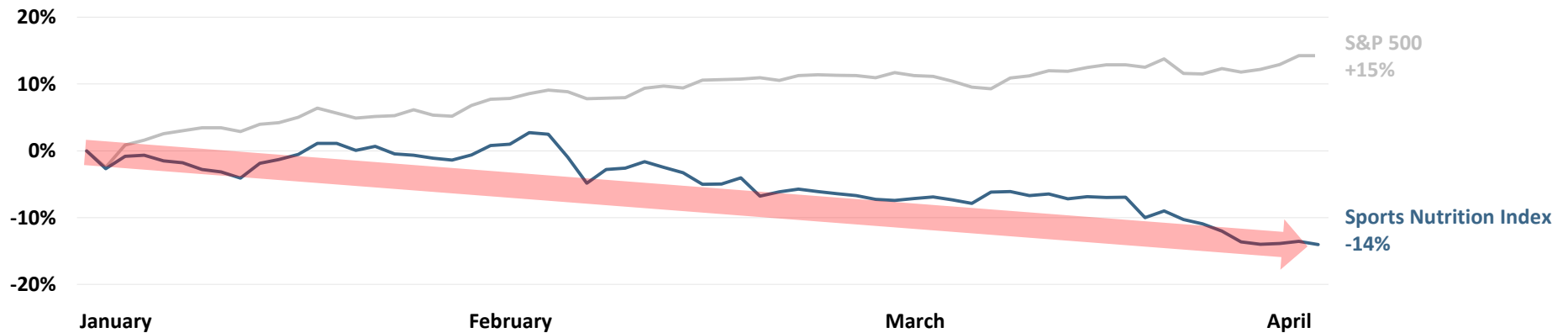
- Valuations as a multiple of EBITDA have consistently climbed as well – particularly during the last 5 years – though more in line with the broader market compared to the equity chart above, only slightly outperforming the S&P 500



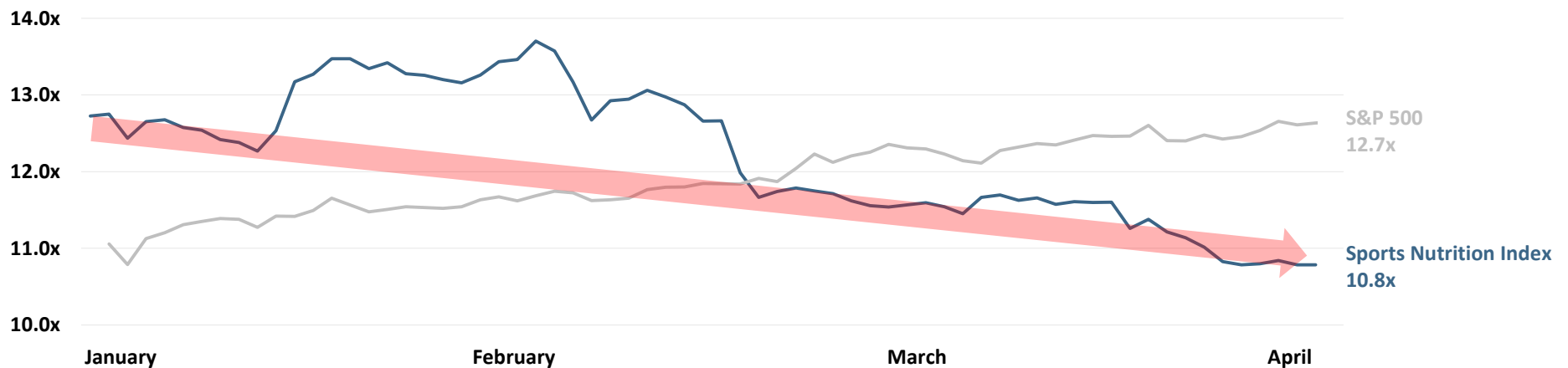
Source: S&P CapitalIQ

Valuation Trends (2019 YTD)

- However, publicly-traded sports nutrition and supplement companies have started to pull back so far in 2019, suggesting the industry may be slightly cooling and the market environment is favorable to explore a recap, locking in gains from the category's recent boom of the last 5 years



- While only a three-month period, sports nutrition company valuations as a multiple of EBITDA have also been dropping year-to-date, another indication that the category may be leveling off



Source: S&P CapitalIQ

About Us

- Bourne Partners is an investment banking firm focused exclusively on M&A and capital raising / recapitalization transactions involving pharma, pharma services, and consumer health / supplement companies
- Within the consumer health / supplement space, we have been covering sports nutrition companies for a number of years, attending the Arnold and Olympia industry events, frequently having conversations with executive management teams and investors, and executing a number of successful strategic transactions
- A snapshot of some supplement companies we have sold, invested in, or advised are shown to the bottom right, highlighting our experience in the space – with our firm’s total deal sheet exceeding \$6 billion in the last 5 years

Consumer Health / Supplement Deal Team



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Recent Consumer Health / Supplement Deal Experience



Investors
Retailer of vitamins and nutritional supplements



M&A Advisors
Nutraceutical supplement business



M&A Advisors
Consumer health supplement business



M&A Advisors
Consumer health products business



Investors
Manufacturer and distributor of nutritional supplements



Strategic Advisors
Men’s health supplement and nutraceutical business



Strategic Advisors
Consumer health products business



M&A Advisors
Consumer health products business



Over \$6 billion in M&A and capital markets transactions since 2015