

Company Name: Koninklijke Wessanen NV
Ticker: WES NA; **Market Cap:** EUR 180m; **EV:** EUR 410m
Shareholders: FF: 100%

Current Price: € 2.6

Entry price: € 2.5

Target Price/Upside : € 3.4+ per share (35%+ upside from entry price)

Type of Idea: Break-up, Activist **Duration:** 3-6 months

Description: Royal Wessanen is a multinational food company that engages in developing, sourcing, producing, marketing and distributing organic, natural, and specialty food products in North America and Europe. It offers health food products and premium taste food products through supermarket chains, mass merchandisers, independent grocers, natural/health food stores, specialty/ethnic stores, bars, and restaurants in Europe (40% of 2008 sales) and North America (60%). Distribution services account for 62% of 2007F sales versus 38% for Branded products.

Share Price Graph:



Investment Recommendation

On 22 April 2009, Koninklijke Wessanen NV announced its plans to look into exiting its US distribution and branded businesses. (constituting 60% of group sales and 40% of its EBIT). On 10 June 2009, Wessanen communicated it was in an 'orientation' phase to determine the sale price of its US businesses. On 15 June 2009, Wessanen announced on 15 June 2009 that it discovered accounting irregularities in its US branded business.

Wessanen fell 25% of 67c to EUR 2.6 after its accounting irregularity announcement and is currently trading at a 20-30% discount to both US food distributors and European/US food manufacturers. We see significant upside if Wessanen were to dispose its US activities to the likes of United Natural Foods, Nash Finch or a PE house, who all have displayed acquisitive interest in this cash generative, consolidating food(service) landscape. After such a disposal to take place in 2H09, we believe Wessanen could become a pure play European branded natural/organic foods high margin company, which could be interesting for the likes of Unilever or other food groups, wanting to gain further exposure to the growing organic/natural foods market.

Investment Valuation

We believe getting in under EUR 2.5 a share is an attractive risk-return proposal, given the downside trading SOTP valuation of EUR 2.4 (obtained by applying a 0 valuation for the US branded business where the accounting irregularities were found AND applying a 20-25% peer discount valuations for its other European/US food distribution and branded production businesses) and an upside US distribution sale scenario valuation of EUR 3.5 a share (obtained by sale price of US distribution in line with lowest exit multiple of food distribution deals and a 0 valuation for the US branded business).

Positive Risks

Wessanen's US distribution business attractive asset in consolidating specialty/organic foodservice industry:

- Characterized by large players (Sysco, United Natural Foods, Ahold) in process of consolidating smaller, private companies
- Strong PE interest for cash generative food distribution businesses (cfr Jan-08 Blackstone \$1.3bn acquisition of Performance Food Group for 9.5x 2008 EBITDA and 14.4x 2008 EBIT)

Wessanen's US distribution business highly likely to attract interest from United Natural Foods (UNFI), the largest player in US natural foods distribution:

- Acquisition of WES US business would reduce its exposure to Whole Foods from 36% (expected at 50% in 2012) to around 25-30%, and would enable access to broader specialty food distribution business
- End-07, UNFI bought Millbrook for \$79m (0.3x 2007 Sales), the distributor of specialty (ethnic & gourmet foods), to increase its share in the supermarket chain channel: significant synergies potential with Wessanen's US business

Further anticipated margin expansion to increase sale price:

- Operating margins to benefit from lower fuel prices (10-15% of costs with average diesel price down 44% YoY)
- After retailers' inventory de-stocking peaking in January, high operational leverage profile and low 1Q09 utilization levels to generate further margin expansion for 2H09 and FY10

Strong market growth of distributed natural and organic foods/drinks at CAGR of 10% for 2009-2012:

- Exposure to softening consumer spending that isn't leading to declines but rather moderated growth
- Benefiting of strong trend of natural and organic items moving mainstream

Currently European branded growth at 3.5% disguises 6-7% organic/natural foods growth disguised by -1% growth of their 25% business of frozen foods: in process of accelerated disposal of frozen food to reinvest in higher margin/higher growth natural/organic

Negative Risks

Risk of debt covenant breaches: given absence of 2009 dividend payments, stringent capex and upcoming US sale proceeds, likely to receive temporary waiver from the banks in case of covenant breach

Increased price pressure from supermarkets channel

Next Events

29-Jul-09

2Q09 results

2H09

Expected announcements/news flow of disposal US activities

SOTP Analysis

€m	Trading Valuation; 0 value US branded business				Notes	Trading Valuation; value for US branded business				Notes	Sale US Distribution business, 0 value US branded business				Notes	Sale US distribution and branded business				Notes
	Stand-alone trading; Marginal margin expansion; No US sale; 0 value for US branded business					Stand-alone trading; Marginal margin expansion; No US sale					Sale US branded business in line with lowest exit multiple of food distribution exit multiples; 0 value for US branded business					Sale US Business in line with food distribution exit multiples and Jan-08 Performance Foods deal				
	Sales 2010	EBIT 2010	Multiple	Value		Sales 2010	EBIT 2010	Multiple	Value		Sales 2010	EBIT 2010	Multiple	Value		Sales 2010	EBIT 2010	Multiple	Value	
US Branded Products	138.1	0.0	6.4x	0.0	0 value for branded business where accounting irregularities found 20% discount to United Natural Foods multiple	138.1	6.9	6.4x	43.9	20% discount to Hain Celestial multiple	138.1	0.0	8.0x	0.0	0 value for branded business where accounting irregularities found 20% discount to United Natural Foods multiple	138.1	6.9	8.0x	54.9	In line with Hain Celestial
US Distribution	862.4	12.9	8.9x	115.5		862.4	12.9	8.9x	115.5	20% discount to United Natural Foods multiple	862.4	12.9	11.6x	150.1	multiple of food distribution exit multiples	862.4	12.9	11.6x	150.1	In line with lowest exit multiple of food distribution exit multiples
Europe Branded Products	552.0	38.6	7.7x	297.8	25% discount to European Food conglomerates	552.0	38.6	7.7x	297.8	25% discount to European Food conglomerates	552.0	38.6	7.7x	297.8		552.0	38.6	7.7x	297.8	25% discount to European Food conglomerates
Europe Distribution	173.6	6.9	6.9x	47.8	20% discount to Sligro multiple DCF	173.6	6.9	6.9x	47.8	20% discount to Sligro DCF	173.6	6.9	6.9x	47.8	20% discount to Sligro multiple DCF (Central costs -50% after US exit)	173.6	6.9	6.9x	47.8	20% discount to Sligro multiple DCF (Central costs -50% after US exit)
Corporate Costs		-8.5		-67.1			-8.5		-67.1			-4.3		-33.6			-4.3		-33.6	
Total EV	1726.1	50.0	7.9x	394.0		1726.1	56.9	7.7x	437.9		1726.1	54.3	8.5x	462.1			61.2	8.5x	517.0	
Net Debt + Pensions				231.3					231.3					231.3					231.3	
Total Equity Value				162.7					206.6					230.8					285.7	
Number of shares				68.4					68.4					68.4					68.4	
Share Price €				€ 2.38					€ 3.02					€ 3.38					€ 4.18	
Premium/(Discount) from €2.5 entry price				-4.8%					20.9%					35.1%					67.2%	

Exit Multiples for Food Distribution businesses:

Announced Date	Target/Issuer	Total Transaction Value (\$mm)	Buyers/Investors	Enterprise Value/Revenues	Implied Enterprise Value/EBIT	Implied Enterprise Value/EBITDA	Equity Value/LTM Net Income
04/22/2008	Schuiteima NV	1,433.23	CVC Capital Partners Ltd.	0.3x	11.6x	6.6x	20.0x
01/18/2008	Performance Food Group	1,344.66	VISTAR Corporation	0.2x	14.4x	10.8x	24.0x
05/07/2007	Van Houtte Inc.	530.38	Littlejohn & Co. LLC; Fonds de solidarité FTQ	1.5x	16.1x	8.2x	21.6x
03/05/2007	Topps Co. Inc.	384.91	Madison Dearborn Partners, LLC; The Tornante Company, LLC	0.9x	18.2x	14.3x	33.8x
04/08/2003	MARR SpA	106.71	Barclays Private Equity Ltd.; Arca Impresa Gestioni SGR SpA	0.5x	13.7x	10.2x	71.7x
07/07/2000	Distriborg SA	87.99	Royal Wessanen NV	0.6x	18.4x	10.9x	28.7x
11/02/1998	The Oshawa Group Limited	1,486.31	Sobeys Inc.	0.3x	20.0x	12.3x	38.4x
Average transaction multiples				0.6x	16.1x	10.5x	34.0x

Comps Analysis:

Company	Ticker	Stock Price	Number of Shares	Market Cap (Local)	EV	P/E				EV / Sales				EV / EBIT			
						2007A	2008A	2009E	2010E	2007A	2008A	2009E	2010E	2007A	2008A	2009E	2010E
US Branded																	
Hain Celestial	HAIN US	16.27	40.68	662	925	12.4x	12.0x	12.1x	10.4x	0.9x	0.8x	0.8x	0.7x	9.9x	9.4x	9.1x	8.0x
LifeWay Foods	LWAY US	12.4	16.82	209	206	66.2x	109.2x	39.3x	35.4x	5.3x	4.6x	3.4x	2.9x	46.5x	39.1x	23.2x	21.5x
US Distribution																	
United Natural Foods	UNFI US	25.32	42.94	1,087	1,421	21.6x	21.0x	18.2x	16.2x	0.5x	0.4x	0.4x	0.4x	15.0x	14.3x	12.3x	11.2x
Nash Finch Co	NAFC US	27.79	12.82	356	682	10.2x	8.7x	NA	7.3x	0.2x	0.1x	0.1x	0.1x	8.1x	8.1x	NA	6.3x
Sunopta Inc	STKL US	1.98	64.69	128	304	312.4x	NA	19.9x	8.9x	0.4x	0.3x	0.3x	0.3x	68.0x	NA	14.0x	NA
Sysco	SYYS US	23.29	589.9	13,739	15,309	13.0x	12.9x	13.2x	12.5x	0.4x	0.4x	0.4x	0.4x	8.5x	8.2x	8.3x	8.0x
Europe Distribution																	
Sligro	SLIGR NA	18	44.26	797	929	10.7x	11.2x	10.7x	9.8x	0.4x	0.4x	0.4x	0.4x	9.7x	9.4x	9.2x	8.6x
Europe Branded																	
Danone	BN FP	34.54	523.8	18,092	28,959	13.9x	13.8x	13.0x	11.7x	2.0x	1.9x	1.9x	1.8x	14.2x	13.2x	12.5x	11.7x
Unilever SA	UNA NA	17.2	2791.9	48,021	57,073	12.6x	12.0x	13.4x	12.0x	1.4x	1.4x	1.4x	1.4x	10.9x	10.8x	10.6x	9.7x
Nestle	NESN VX	39	3615.6	141,008	155,804	13.2x	7.8x	13.5x	12.8x	1.4x	1.4x	1.4x	1.3x	10.8x	9.9x	9.9x	9.5x
Weighted Food Average						27.9 x	11.9 x	13.6 x	11.5 x	0.8 x	0.8 x	0.8 x	0.7 x	14.0 x	10.7 x	10.7 x	9.5 x

Wessanen	WES NA	2.6	68.36	178	409	3.1x	5.2x	7.4x	5.8x	0.3x	0.3x	0.2x	0.2x	6.5x	7.0x	8.8x	7.6x
Premium/Discount to weighted Food average								-46.0%	-49.5%			-68.5%	-67.7%			-18.1%	-20.4%

Company	EV / EBITDA				EBIT Margin				Sales Growth		
	2007A	2008A	2009E	2010E	2007A	2008A	2009E	2010E	2008A	2009E	2010E
US Branded											
Hain Celestial	8.3x	7.9x	7.7x	6.7x	9.58%	8.91%	8.57%	9.10%	13.27%	7.08%	7.80%
LifeWay Foods	37.6x	32.4x	19.8x	NA	11.46%	11.87%	14.77%	13.28%	14.90%	35.28%	20.10%
US Distribution											
United Natural Foods	12.4x	11.5x	10.1x	9.2x	3.15%	2.92%	3.26%	3.39%	13.46%	3.73%	6.10%
Nash Finch Co	5.4x	4.7x	5.0x	4.6x	1.86%	1.80%	NA	1.97%	3.77%	13.44%	3.67%
Sunopta Inc	15.6x	6.8x	7.7x	5.8x	0.56%	2.41%	2.10%	NA	31.14%	-1.91%	6.69%
Sysco	7.1x	6.9x	6.9x	6.7x	4.94%	4.99%	5.01%	5.16%	2.65%	-1.01%	0.89%
Europe Distribution											
Sligro	6.9x	6.3x	6.2x	5.9x	4.64%	4.55%	4.64%	4.88%	4.94%	0.37%	1.61%
Europe Branded											
Danone	11.7x	10.7x	10.2x	9.6x	14.03%	14.37%	15.09%	15.33%	4.40%	0.52%	5.56%
Unilever SA	9.2x	8.3x	8.8x	8.2x	13.05%	13.07%	13.25%	13.97%	0.84%	0.68%	3.58%
Nestle	8.8x	8.2x	8.1x	7.8x	13.42%	14.26%	14.15%	14.25%	2.19%	1.18%	3.80%
Weighted Food Average											
	9.5 x	8.4 x	8.3 x	7.7 x	10.0%	10.2%	10.4%	10.7%	5.9%	2.0%	4.4%
Wessanen											
	5.0x	5.2x	6.1x	5.4x	3.99%	3.67%	2.73%	3.11%	1.46%	6.49%	2.12%
Premium/Discount to weighted Food average											
			-26.4%	-29.8%							

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