

August 2014



TULLY &
HOLLAND

FLAVORS & FRAGRANCES INDUSTRY UPDATE

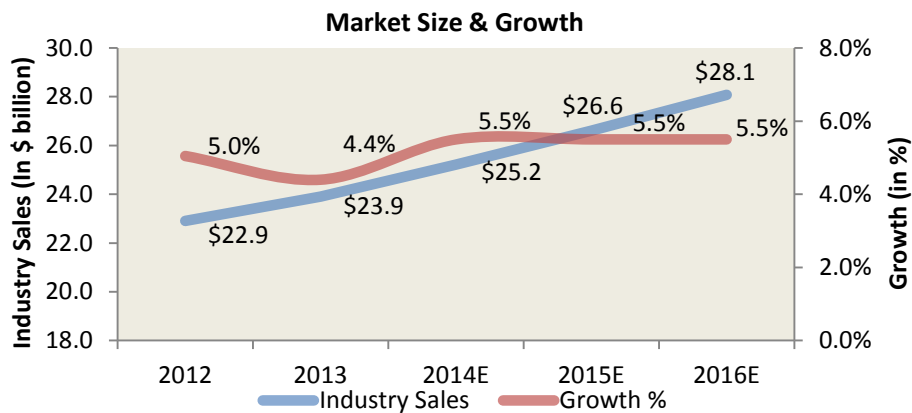


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FLAVORS & FRAGRANCES – A BACKGROUND

Industry Growth Trends & Forecasts

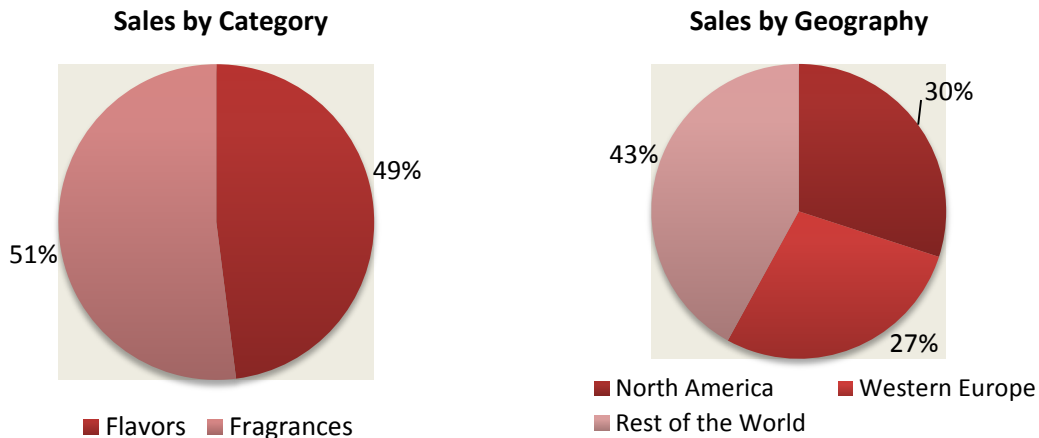
Flavors and Fragrances (F&F) is a \$25 billion industry globally, growing at a compounded annual growth rate of around 4.5% since 2006. Its growth has traditionally been linked to broad consumption trends and new product development activity by its Consumer Packaged Goods (CPG) customers. Over the recent past, industry sales have grown in the mid-single digit range and we expect that to continue as a result of favorable demographic and industry specific drivers. Specifically, increased consumption in emerging markets, recovery in developed economies, and innovation are likely to fuel growth going forward.



Source: Leffingwell & Associates, Tully & Holland, Inc.

Industry Segments

The industry is almost equally split between Flavors and Fragrances. By end use, Beverages and Savory are the most prominent sub-product categories for flavors while Cosmetics, Soaps and Detergents are the largest sub-product categories for fragrances. The industry currently derives close to 57% of its revenues from the developed markets in North America and Western Europe while 43% of the revenues come from rest of the world.



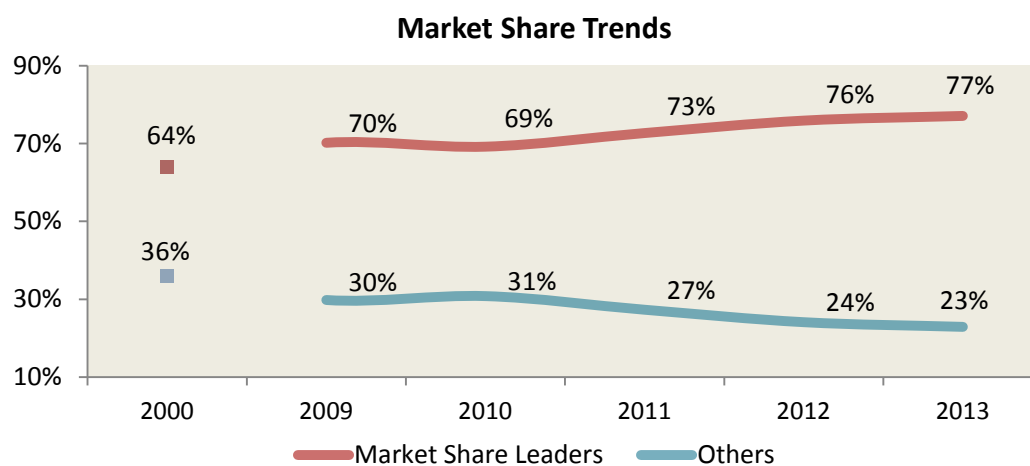
Source: Leffingwell & Associates, Tully & Holland, Inc.

THREE KEY TRENDS

Consolidation

Spread between Market Share Leaders and Middle Market companies is growing

The Flavors and Fragrances industry has increasingly become concentrated over the years as companies vie for increased scale along with a global delivery model. Top 10 companies in the industry together account for nearly 77% of the industry sales today as compared to 64% in 2000. Achieving scale is necessary in order to sustain the level of investments in R&D and Supply Chain needed to service the competitive and global CPG industry. Further, since consumers are gravitating toward ethnic foods, it is imperative that F&F companies form local JVs or acquire local companies to establish operations in markets globally in order to have access to a diverse supplier base.



Source: Leffingwell & Associates, Tully & Holland, Inc. *Market share leaders include top 10 F&F companies by market share

Key M&A Transactions by Large F&F companies that have contributed to consolidation

Year	Target	Acquirer	Deal Value (\$MM)
2014	Aromor Flavors & Fragrances Ltd.	IFF	88
2014	DIANA S.A.S.	Symrise AG	1,796
2013	Belmay, Inc.	Symrise AG	NA
2008	Chr. Hansen, Inc., Flavor Division	Symrise AG	110
2007	Danisco A/S, Flavours	Firmenich International SA	612
2006	Quest International Nederland BV	Givaudan SA	2,162
2002	Bjørge Biomarin AS (nka:Firmenich Bjørge Biomarin AS)	Firmenich International SA	NA
2000	Bush Boake Allen Inc.	IFF	1,023

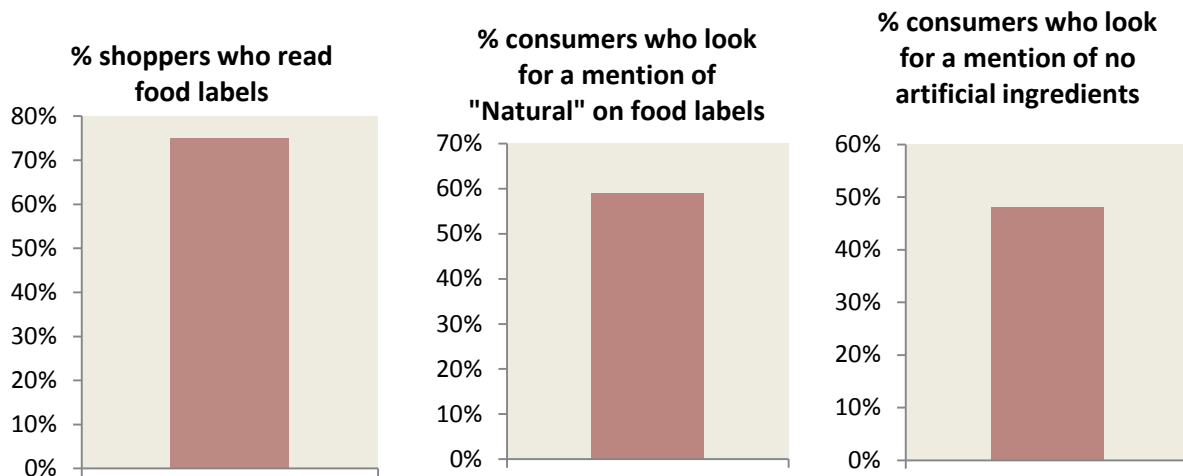
Source: S&P Capital IQ

Although we do not expect any more large-scale consolidation among the top 5 players due to antitrust concerns as well as due to CPG customers' effort at maintaining supplier diversification, middle market companies with revenue between \$20 million and \$250 million will continue to be active acquisition targets in the near future. In fact, Givaudan's CEO Gilles Andrier recently indicated to the *Wall Street Journal* that the company is selectively looking for acquisitions. Along with large F&F companies, acquisitive managements in allied industries such as Agriculture are exploring ways to enter the F&F industry through mergers & acquisitions. Archer Daniels Midland (ADM)'s proposed acquisition of Wild Flavors GmbH is a case in point.

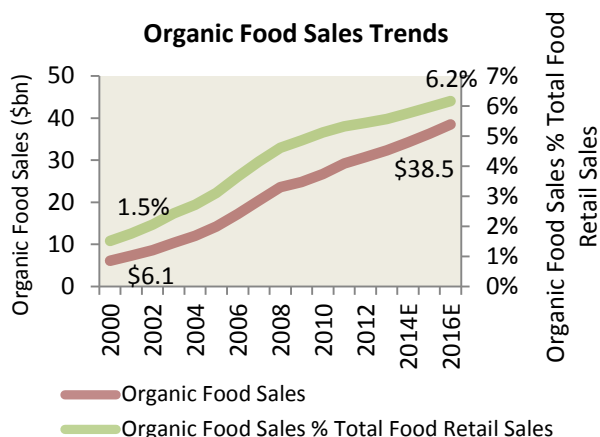
Evolving Consumer Tastes & Preferences

Health & Wellness on the minds of consumers

Today's shoppers, more than ever, are researching about the ingredients and nutritional content in food products available on retail shelves. Recent surveys indicate that a significant number of consumers look for mention of the words "Natural", "Local" or "Organic" before buying a product. Further, heightened attention on the part of the consumer when it comes to a product's Salt, Fat and Sugar content, has made CPG companies demand from F&F suppliers sensory flavors that could help minimize the use of such substances. Givaudan's Sense It™ and IFF's customized flavors for fat reduction are allowing these companies to take share by offering customers solutions to tap into the overall health & wellness trend.



Source: Consumer Reports® National Research Center – Food Label Survey, Food Marketing Institute - Shopping For Health 2013



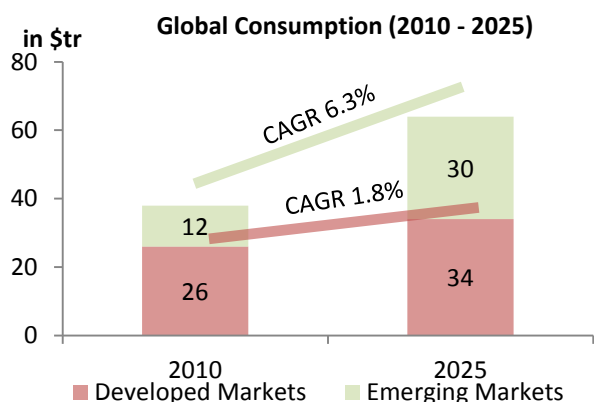
As a result of the increased focus on food safety and content, organic food sales as a percentage of overall food sales have gone up from 1.5% in 2000 to 5.6% in 2013. While, traditionally, organic products have not necessarily contained organic flavors or fragrances, sophisticated and demanding consumers are leading the charge on that front as well. As a result, companies such as Kerry and National Flavors have developed an extensive portfolio of organic flavors to leverage this growing trend.

Source: Organic Trade Association, United States Census Bureau, Tully & Holland, Inc.

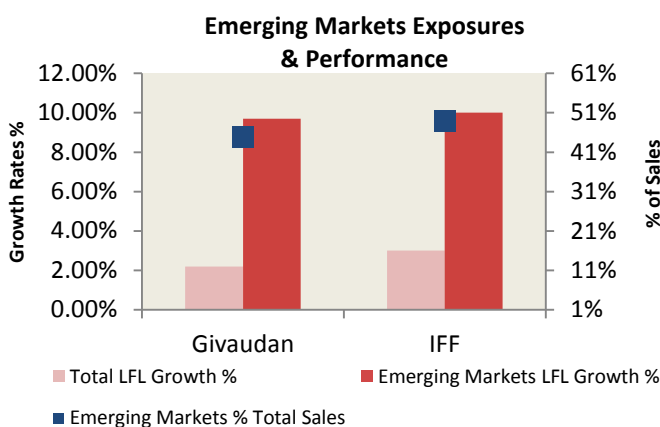
Emerging Markets delivering solid growth

Consumption levels in the emerging markets are catching up to the West

After decades of investment in infrastructure and capacity building, policy makers in emerging markets are shifting their focus to consumption growth. The annual per capita consumption in emerging markets in many CPG categories continues to lag that of developed economies by a substantial margin. Higher consumer credit coupled with rising incomes will lead to a sustained period of above-average consumer spending in the emerging markets, thereby benefiting CPG companies and their F&F suppliers.



Source: McKinsey & Company – “Winning the \$30 trillion decathlon”



Source: Givaudan, International Flavors & Fragrances, Inc., *Growth rates & Market Shares are for full year 2013, * LFL stands for Like-for-Like Sales and excludes one-time items

F&F companies with exposure to emerging markets have a significant competitive advantage, not only due to above average demand growth in these markets but also due to the customer base; i.e., CPG companies looking to work more with suppliers who can service demand on a global level. Not surprisingly, a study of the last five years performance of companies such as Givaudan and IFF indicates that revenue contribution from emerging markets has continued to inch up every year.

Notable M&A Transactions in Emerging Markets

Transaction Announcement Date	Target	Transaction Value (\$MM)	Buyers	Geographic Locations
01/15/2014	Aromor Flavors & Fragrances Ltd.	88.0	International Flavors & Fragrances Inc.	Africa / Middle East
11/25/2013	Aroma, S.A.	13.0	Frutarom Switzerland Ltd.	Latin America and Caribbean
11/18/2013	PTI Global ZAO	50.3	Frutarom Industries Ltd.	European Emerging Markets
10/29/2013	Universal Fragrances Company Limited	18.5	Jovory Special Opportunity Fund SPC	Latin America and Caribbean
11/18/2009	Futura Labs Group	35.3	Symrise AG	Africa / Middle East
11/22/2006	Quest International India Limited	83.0	Givaudan (India) Private Limited	Asia / Pacific

Source: S&P Capital IQ

CONCLUSION

Flavors & Fragrances industry is well-positioned to experience a period of sustained growth backed by an emerging markets consumption boom, coupled with R&D investments in Health & Wellness promoting solutions and niche areas such as Ethnic Flavors. At the same time, the evolving dynamics are requiring F&F companies to focus, more than ever, on building a global delivery model and staying attuned to consumer trends.

Additionally, the industry has continued to tread on the path of consolidation and we see no reason for that not to continue going forward. Large companies are continuing to look for scale and a differentiated product portfolio. As a result, mergers & acquisitions involving small to mid-sized F&F businesses are likely to be a familiar sight over the next couple of years.

ABOUT TULLY & HOLLAND

INVESTMENT BANKING SOLUTIONS FOR FOOD AND CONSUMER COMPANIES

Founded in 1992, Tully & Holland, Inc. is a leading US investment bank that provides merger & acquisition advisory services and private placements to consumer companies with special emphasis on foodservice companies, retailers, and food & beverage manufacturers and distributors.

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