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# AVRIO INSIGHT

## WHAT'S NEW AT AVRIO

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February 26, 2009

Botaneco Specialty Ingredients Inc. ('Botaneco') today announced that it has received milestone payments of non-dilutive funding from AVAC totaling CDN\$1,173,000. [full story..](#)

January 22, 2009

Origin BioMed Inc., a privately-held Canadian consumer health products company, today announced that it has been awarded as one of the Red Herring Top 100 Global Companies. [full story...](#)

## FEATURE ARTICLE

### Natural Prosperity in a Tough Economy

Companies that capitalize on the latest trend to include natural ingredients in their products will not only perform well, but may even thrive despite the economic meltdown. Natural health products, functional foods and the natural personal care industry are expected to weather the tough times ahead, both for companies with strong core brands and for start-ups with innovative products and solid business plans.

#### Attracting investors will require creativity and a strong plan

According to John Barrymore, founder and managing director of [6Pacific Partners](#), the biggest problem facing the natural health channel is the lack of innovation during the investment phase. "We're not running low on money, we're running low on inspiration," says Barrymore. He adds that there are "ten years of investable capital out there," which will be accessible to those companies showing true innovations in the marketplace.

"There is more money out there than ever before - \$400-800 billion in private equity capital," says Brent Knudsen, Managing Partner and Founder of [Partnership Capital Growth Advisors](#), "but it will take a creative approach to accommodate an uncertain market." He suggests that there are three types of companies that investors are looking for right now:



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1. distressed businesses that need capital
2. businesses with strong fundamentals but don't have access to capital, and
3. companies with a revolutionary "changing of the world" strategy.

Aki Georgacacos, partner at [Avrio Ventures](#), agrees that companies looking to gain investors must have a strong brand plan, and must be able to demonstrate how they can gain traction in the marketplace. Companies must be able to differentiate their products from the masses.

Steve Allen, VP of [New Ventures Nestlé](#) agrees, and adds that green packaging, environmental responsibility, and sustainability are key components in gaining marketplace share. Grant Ferrier, [Nutrition Capital Network](#) (NCN) CEO and Co-founder, suggests that innovative, non-traditional marketing is an effective way to generate a strong return in sales.

### **Investment climate**

In January of this year, NCN conducted a survey to examine the opinions of investors towards shifting trends in nutrition and health & wellness companies in light of the financial difficulties faced in 2008. The results of the survey and a panel discussion were presented during a teleconference on February 5, entitled "Raising Capital in a Tough Environment: Key Tips and Insights."

In general, the response to the survey was fairly optimistic. Most believed that the market would return to its former high by 2011-2012, and many were still interested in investing in companies with a good business model. Interest was highest in later stage companies with profitability, while the greatest decrease in interest (about 50%) was shown for early stage companies with revenues of \$1-5 million. About one-third (36%) of those surveyed indicated a decreased interest in pre-revenue startups.

"Canada is not a great place to raise capital for the pre-commercial phase," says Georgacacos, "and there will be a greater need for angels and friends & family investments." He adds that there is money available in the growth and commercialization stages for those companies with a good product and a good plan. He predicts that there will be a growing shortage of good co-investors, causing venture firms to cluster their investments in defined verticals within the sector.

### **Valuations down, but money still available**

According to one-third (33%) of the survey respondents, valuations have had a noticeable decline, down 20-30% in their chosen sectors, and almost half (46%) believe that valuations will decrease another 5-15% in the next year. Georgacacos has been seeing higher discount rates and lower valuations in Canada, but added that private company valuations have not been declining as fast as public companies.

Allen advises that companies should be "honest with themselves" about valuations. He adds that only the best companies with impeccable credit will be able to raise capital in the coming year, but agrees that there is money available for the right opportunities. He suggests that there are a lot of different pools with

\$2-10 million in equity from high net worth individuals and groups, but it will require time, preparation and active effort to access these funds.

### **Few exits expected for 2009**

Barrymore suggests that valuations in the growth capital market are not as important as the structures that are in place, such as when ownership is exited. For 2009, the investors surveyed predicted that there would be very few exits, if any at all. Georgacacos agrees, citing that it will take an added round or two to get to exit

### **M&A activity unpredictable, but opportunities abound**

Opinions were mixed on the prospective corporate M&A activity for 2009. Some expect activity to accelerate due to lowered valuations and a need for liquidity, while others felt activity would decrease or remain static due to excessive caution and low credit. For those with access to cash, new assets may be acquired for next to nothing. Knudsen agrees, suggesting that “the best returns have come during times like these for those that can take advantage of the opportunity.”

### **Opportunities by channel**

Investors remain interested in “recession-proof” companies such as those in the personal care industry. Emphasizing the natural elements of a product can be an advantage despite the tough economy. The average consumer has access to an ever-increasing variety of affordable personal care products that contain “natural-inspired” or “pseudo-natural” ingredients. These lower-priced products contain natural extracts but rely on synthetics for their functional performance.

In a recent report, research firm [Kline & Company](#) predicts that increasing operating margins will put pressure on companies that provide high-end luxury products like Estée Lauder, while sales will remain strong with companies like Avon, Johnson & Johnson, and Procter & Gamble who provide lower priced items.

“Companies that continue to employ effective marketing, efficient operations, sustained R&D expenditures, and steady innovation are the ones that will remain profitable and hold market leadership positions in uncertain times,” says Laura Mahecha, industry manager for Kline Market Research division.

### **Proof needed for “natural” claims**

Growing consumer demand for “natural” products has led to increased research to substantiate performance claims of naturally-derived ingredients such as botanicals, proteins, peptides, enzymes, and marine actives. Products with substantiated actives yield prices up to 10 times higher than unsubstantiated. Botanical actives comprise the largest share of the US marketplace at 30%, and are expected to grow by 8% annually over the next few years, according to a recent report by Kline & Company.

Sales are increasing in the natural and natural-inspired segments of the personal care industry, and show no signs of slowing down. Consumer demand for natural

ingredients combined with an enhanced environmental awareness will ensure that this segment remains strong.

### **Demand for natural and organic foods increasing**

The same consumer awareness driving the natural personal care industry can be seen in continued demand for natural and organic food ingredients. Growth rates in this sector are expected to rise throughout 2009, according to UK-based research and consulting firm [Organic Monitor](#). Falling demand for organic ingredients has caused prices to drop, which may help to stabilize this sector as demand comes into line with supply.

Market research company, [Mintel](#), reported that “natural” was the most common label description used by the food and beverage industry in 2008 global product launches. This was a 9% increase over 2007, and the natural category is expected to continue to increase in 2009. “Food and drink manufacturers today realize that natural and pure have become healthy eating ideals, as people look for holistic, genuine nutrition they can trust.” Says Lynn Dornblaser, leading new product expert at Mintel.

In another report, Mintel predicts that green products, including organic food, will continue to grow by 19% to 2013. Senior research analyst Marcia Mogelonsky says, “True value includes health and safety benefits, quality, convenience, appeal and trust, all at a reasonable price. Companies who provide those benefits, as well as appease shoppers’ green sensibilities, will enjoy success despite the recession.”

### **Functional foods gaining popularity**

Along with natural products, functional foods are also gaining market share. These are foods that provide benefits other than nutrition, such as fortified or enhanced foods.

According to food consultants [The Hartman Group](#) in their recent report entitled Opportunities in Functional Foods, these enhancements have to be perceived by the consumer as inherently functional to be successful in the marketplace, such as adding probiotics to yogurt or vitamin B to cranberry juice.

An additional strength of this approach is “a higher ability to have ownable brand-level distinctions in a category since a proprietary ingredient can be the added nutrient” cites the report.

### **Simplicity is key**

“The more scientific and opaque the formulation and the more potent the health benefit, the more consumers would rather just have a pill and a doctor involved,” say The Hartman Group.

Ingredients company [Tate & Lyle](#) agrees. They surveyed several food and beverage companies and concluded that, “foods with functional, recognizable ingredients, such as dietary fiber, on the label are in. Ingredients requiring an advanced degree in biochemistry to understand are out.” They identified functional foods, especially those pertaining to digestive health, immune function and weight

management, as one of the top consumer trends for 2009.

### **Mood foods important new market segment**

While functional foods affect physical health, mood foods are products that claim to uplift mood, reduce stress, and enhance cognitive function by stimulating neurotransmitters in the brain. Nutritional premix supplier [Fortitech](#) has identified mood foods, along with products promoting digestive health and those aimed at improving sleep, as the top three categories on the rise.

“Due to the lack of a standard definition of the mood foods category and the nascent global market, the size of the global mood foods industry is uncertain. However, due to a low sales base, the mood foods market will continue to experience a robust growth rate,” writes Kline & Company in their report Mood-Enhancing Foods and Beverages: The ‘Fun’ in Functional Foods.

Proof of efficacy will be key in the long-term success of new functional and mood foods, along with consumer education and careful market positioning, but this channel is expected to experience healthy growth rates in the upcoming year.

### **The bottom line**

Companies with an innovative product in the natural health channel who can provide potential investors with a solid business plan will perform well despite the bleak outlook for 2009. Opportunities exist for both investors and small companies to capitalize on the public’s growing demand for natural, organic and green products. Effective marketing and efficient operations will be key factors in determining the longevity of companies in these uncertain times.

## **COMPANY PROFILE – ORIGIN BIOMED INC.**

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### **Who we ARE**

[Origin BioMed Inc.](#), Halifax, Canada, is an innovative OTC drug company currently expanding North American markets for its exclusive family of over-the-counter drugs for neuropathic pain management.

Origin BioMed has successfully attracted a strong Board and management team, including senior OTC/pharma personnel and public/private biotech finance experience. Current staff consists of 26 full time and 8 part time positions at the company’s head office, 12 sales representatives in Canada and the U.S., and a strong international business, regulatory and technical advisory network.

### **What we DO**

The company's patented product brand, Neuragen<sup>®</sup>, targets the neuropathic pain market listed primarily in the diabetic sections of drug stores. Neuragen is the most effective Rx or OTC offering on the market today.

The company holds 18 patents or pending patents, and 14 trademarks in the U.S. and Canada. Several other patent filings are in progress as a result of the

company's R&D activity, to be used for additional protection of existing products or for out-license to the pharma industry.

Origin BioMed's current revenue run-rate is in excess of \$7 million (based on annualized YTD revenue), and is climbing more than three times per year. The company projects revenue in excess of \$50 million/year by 2011.

### **Who we SERVE**

Neuragen is the first OTC product for relief of diabetic neuropathy (a condition experienced by 50% of diabetics). Neuragen targets an OTC addressable market (represented by 6.6 million diabetics with neuropathy who are actively seeking treatment) conservatively estimated at \$400 million, within the larger \$4 billion total neuropathic pain market, where there are very few options for fast-acting topical drugs.

The company is continuing its U.S. drug store chain entry, with assistance from several key industry insiders. A full national launch with CVS/pharmacy and Rite Aid (11,500 stores combined) and other major chains occurred in June 2008. Walgreens and other chains have launched in February 2009, bringing the total North American drug store count to 28,000 stores by March 2009. All major U.S. drug wholesalers have been signed, including McKesson, Cardinal Health and Amerisource Bergen.

## **BUSINESS BRIEFS**

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March 6, 2009

Federal Agriculture Minister Gerry Ritz and MP Rick Casson (Lethbridge) announced a \$15.5 million investment in the Canadian Triticale Biorefinery Initiative (CTBI) research network. [full story...](#)

March 5, 2009

Canadian natural and organics food group SunOpta has reported record revenues despite the economic downturn, attributing the increase to its business strategy combined with continued interest in healthy foods. [full story...](#)

February 24, 2009

Health Canada launches the Natural Health Products Online Solution, a secure online system for processing licence applications for product, site, and clinical trial authorizations for natural health products in Canada. [full story...](#)

February 23, 2009

Ontario government tables new Green Energy Act to boost renewable energy, economic growth and create a culture of conservation. [full story...](#)

February 18, 2009

TorQuest Partners and Cameron Capital announced that they have each made a new investment in Herbal Magic Inc., Canada's largest franchisor and operator of commercial weight loss centres. [full story...](#)

February 18, 2009

NanoBio Corp., a biopharmaceutical company developing dermatological products, anti-infective treatments and intranasal vaccines, announced today that it has acquired \$12 million in series B equity financing with Perseus LLC and other existing investors. [full story...](#)

February 11, 2009

Alberta-based SinoVeda nets \$2.9 million investment for pre-commercial development of a unique line of human phytomedicinal products. [full story...](#)

## UPCOMING EVENTS

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March 23-25, 2009

The **Algae Biofuels World Summit** in San Francisco, CA will be the first major event where all the communities in the algae biofuels value chain come together to discuss how to build a new algae biofuels industry.

[More information](#)

March 25, 2009

Webinar offered by dicentra Inc. in partnership with the WCFN entitled **Bringing Products to Canada for Beginners: Understanding Basic Regulatory Requirements for Natural Health Products**.

[More information](#)

March 25-26, 2009

**Wellness '09: At the Forefront of Food & Health** will be held in Chicago, IL.

[More information](#)

April 4-7, 2009

**Food Update 2009** will be held in Ponte Vedra Beach, FL and will address critical questions for those working in and around the food industry.

[More information](#)

April 21, 2009

**Nutrition Capital Network's Fourth Investor Meeting** will be held in New York City and will present professionally screened companies to motivated financial and strategic investors in the nutrition, health, wellness, natural & organic and green products arena. Companies interested in raising growth capital are invited to apply through **March 20, 2009**.

[More information](#)

May 27-29, 2009

**Canada's Venture Capital and Private Equity Association** will be hosting its Annual Conference in Calgary, AB.

[More information](#)

June 2-3, 2009

**Trace R&D: A Research and Development Conference and Strategic Workshop for Agriculture and Food Traceability** will be held in Winnipeg, MB.

[More information](#)