BUY AND BUILD: WM PARTNERS AND ITS STRATEGY FOR THE HEALTH & WELLNESS SECTOR

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Few private equity firms can claim their very first acquisition posted its best-ever month during a financial crisis, but this past March, Ultima Health Products, Inc. did just that. A portfolio company of WM Partners L.P., Ultima, a provider of sugar-free electrolyte hydration products, is benefitting from a greater consumer trend towards health and wellness while self-quarantining.

Ultima's performance helps prove the WM Partners thesis that investments in health and wellness businesses benefit from the defensive nature of the sector, even during such challenging market conditions. Based in Fort Lauderdale, WM Partners acquires lower middle-market companies with brands in the natural consumer health space – the types that can be found in Whole Foods and increasingly more in mass retailers and online.

The firm focuses on companies in the natural personal care space, functional foods, and natural remedies segments to grow them operationally and prepare them for a future exit to a large strategic buyer, such as a consumer products or pharmaceutical company. "There are very strong tailwinds in our target sectors: fast-growing, fragmented and defensive," says Ernesto Carrizosa, Executive Managing Director for WM Partners who leads the firm's deal team.

That growth potential in this space makes these smaller, more innovative companies ideal acquisition targets for larger players with slower growth and deep pockets in the market for innovation to meet consumer demands. "The consumer market for food is growing around 2%, in most cases, while a related category, functional foods, is growing over 10% year-over-year. Our target sectors represent a $290 billion-plus U.S. market, and they are generating significant growth," says Carrizosa.

The firm's strategy involves operational value creation with little leverage – 35% debt to equity or 4.0x debt/EBITDA at most. "We're looking to consolidate brands, scale them to a level that they're over $100 million in revenues and build a strong infrastructure so they become attractive for these large strategic acquisitions," explains Vanessa Gabela, Principal. "We look to grow the companies organically." The firm also identifies synergies between its portfolio companies.

PROVING THE THESIS

WM Partners was launched in 2015 by industry veterans Alejandro Weinstein and Jose Minski, both of whom have extensive experience in the health and wellness space. Weinstein previously ran CFR Pharmaceuticals, which he grew into a global business by acquiring similar companies in emerging markets – primarily in Asia and Latin America. In 2011, Weinstein took the company public in Chile, London, and New York – one of the largest IPOs in Chile at that time – and embarked on an emerging markets roll-up strategy. By the time he sold the company to Abbott Laboratories in 2014, CFR Pharmaceuticals had a presence in more than 26 countries.

As the former co-founder and COO of Trolli, Inc., Minski led the company from a startup venture to its eventual sale to Texas Pacific Group. During Minski's 19-year tenure as CEO of Wellnext (later renamed Nutranext) – he led all the firm's acquisitions since 2001.

Looking for the next venture after selling CFR, Weinstein contacted Minski, a longtime friend. With the idea of making equity investments of $15 million to $75 million in lower-middle market companies in the Vitamins, Minerals and Supplements and Natural Personal Care sectors, the team rolled Wellnext into WM Partners' Fund I portfolio. The plan was for the firm to acquire businesses in the space and leverage Wellnext's manufacturing capabilities to expand into various distribution channels and product categories, creating scalability for their ensuing portfolio companies.

The firm's thesis resonated with investors and its inaugural fund closed in 2017 with more than $307 million in commitments. This exceeded the $300 million target thanks to strong support from fund of funds, global private equity investment and advisory firms, insurance companies, and family offices. With deployable capital at the ready, WM Partners turned acquisitive.

A TIMELY EXIT

In the ensuing months, WM Partners acquired four leading brands in the vitamins, minerals, and supplements space at an average purchase price of less than 10x EBITDA at a time when most comparables were selling at more than 12x. Wellnext, which was renamed Nutranext, became the umbrella for several niche brands with strong sales: NeoCell, a leading brand of collagen products; Natural Vitality, a provider of magnesium-based health products; and direct-to-consumer supplements providers Stop Aging Now and Vitamin Research Products.

The strategy was working perfectly. Nutranext had become what the team envisioned – a scalable platform that would be attractive to a potential buyer in the highly fragmented U.S. supplements market by acquiring and integrating leading brands. The contract manufacturing company turned vertically-integrated developer, manufacturer, and marketer of dietary and nutritional supplements was now generating over $240 million in sales with greater margins than it had experienced in the past.

The winds of change, however, were starting to blow. It became a seller's market with similar companies being acquired at significant multiples to EBITDA, which could only be sustained for so long. An exit would be the most prudent move for WM Partners and its stakeholders as a recession was looming on the horizon, despite initial plans for a later exit. "We needed to get out before we started seeing multiples drop but were fortunate that we had developed relationships with several potential buyers over the years," recalls Carrizosa.

Fortuitously, Nutranext was a strategic fit for a major player, The Clorox Company, who was in the market for brands in the fast-growing vitamins, minerals and supplements category with attractive gross margins. The multinational manufacturer and marketer of consumer and professional products acquired Nutranext in 2018 for $700 million, or 3.5x 2017 sales, and WM Partners was able to exit its entire portfolio at a healthy multiple.

The WM Partners team is currently about $200 million into its $400 million target for Fund II and has already deployed some of that capital – the aforementioned Ultima Health Products. Acquired in July 2019, Ultima's products are on-trend with natural, no sugar and non-GMO ingredients. "This was a proprietary deal with strong revenue and gross margins that we believed had strong tailwinds and where we could implement our operational value creation strategy," says Carrizosa.

As WM Partners looks to scale Ultima and its other portfolio companies to the next level, it stands to benefit from consumer trends toward exercise and nutrition. "Just by walking outside you see a lot of people exercising and we think all of that is going to continue," says Gabela. "We believe these behaviors during COVID-19 are going to continue and will also continue to help our strategy."