

2x TREND WATCH

Notes and nibbles from the desktop of:

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The annual food industry trade show relay races have come and gone again: FMI 2005 / Spring 2005 Fancy Food Show / All Things Organic 2005/ United Produce Expo 2005/ US Food Export Showcase 2005 (all co-located in Chicago, IL during May) and 2005 Natural Products ExpoWest (Anaheim, CA during March). In total, well over 100,000 people spent a collective 6 days scouting out various products and companies of all sizes.



Show attendance was at record levels – especially for the FMI show which benefits from co-location (show attendees can visit multiple shows with a common badge). Other overall observations include:

- Big companies are not innovating – at least not at the mainstream shows like FMI – while smaller companies are. Historically, the biggest companies would unveil major new initiatives at the FMI Show. However, after many years of gradual evolution, this year showed that the industry behemoths are less aggressive in major innovation efforts – and when they have major new platforms, they don't wait for the shows to unveil them. The smaller companies, however, with higher tolerance for risk and more limited resources to “make hay” out of their new products, continue to showcase them prominently at the industry shows. Therefore, as a broad generalization, the FMI Show had little news while the smaller shows were full of newsy items!
- Some industry heavyweights continue to drop out of the shows (or at least downsize their space given their lack of news). This year, Sara Lee was noticeably absent – joining Heinz, Schwan's, and others who no longer exhibit at FMI.
- More and more mainstream food companies have developed products specifically for the natural channel and have exhibited at ExpoWest, including *Hershey's SmartZone* nutrition bars. Kraft's *Boca* and *Back to Nature* lines and the combined Dean Foods/White Wave businesses (*Silk* and *Horizon Organic*) continue their natural channel innovation paths.

The following are a few of the highlights ...



Whole New Kind of Jerky! For years, the beef jerky/meat snacks category has been growing at record rates – the fastest growing snack food for the past decade, even before the high-protein/low-carb craze. Total annual sales now approach \$3 billion! Beginning in July, Oberto Sausage Company will unveil *Oh Boy! Oberto Beef Jerky Crisps* – thin oven-roasted beef jerky slices that resemble a potato chip in terms of size and the way you reach (repeatedly) into the bag. Available in Original, Smokey BBQ, and Sweet Mesquite flavors. Seems like a big idea ... taking a half step from two familiar places – chips and beef jerky. And, with the power of Frito-Lay who delivers the product in their DSD network, there's no question the product will achieve broad distribution. After that ... consumers can vote with their wallets. Wouldn't be surprised if this entry is the top selling new item introduced in 2005.

Natural-ly Convenient Extensions in the Meat Case.



In a tasty move, the number and quality of value added offerings from the natural and organic protein brands are increasing. Brands like *Coleman Natural*, *Petaluma Poultry*, *Bell & Evans*, *Niman Ranch*, and others are continuing to introduce outstanding and convenience oriented foods, leveraging their natural/organic heritages but in combination with leading edge flavor and manufacturing technologies. Not a surprise – but our tummies will be glad that trend is continuing!!



The Perfect Individual Cup of Coffee? First there was *Keurig*, mostly in office settings. Now Kraft's *Tassimo* (in partnership with Braun on the equipment side), Sara Lee's *Senseo* (with Philips), and Proctor & Gamble's *Home Café* (with *Black & Decker* and *Krups*) are all fighting to position themselves as the market leader in this emerging segment. No question there's something pretty snazzy about these machines, especially when you can have a single cup brewed fresh with exactly the flavor variety and caffeine level you want. It's not quite a "half double decaffeinated half-caf, with a twist of lemon" as Steve Martin said in the *LA Confidential* movie, but fresh-brewed and convenient nonetheless. I personally like the *Tassimo* and the *Keurig* versions, but we'll see how things develop.



A New Frontier. The team at Frontera Foods, a joint venture between food industry alums and world renowned chef Rick Bayless, introduced their first foray into frozen foods at Natural Products ExpoWest. With SKUs like chorizo sausage pizza, they capture delicious Mexican inspired flavors in America's favorite format – pizza. Assuming they've got the distribution system in hand, the products are A+ and should do well. Tastes great – no question about that.

Other Noteworthy Tidbits.

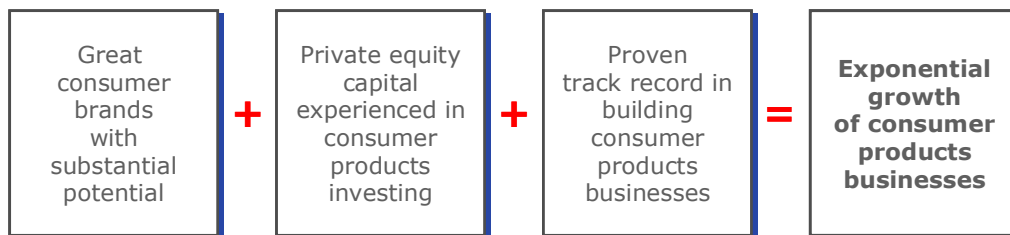
- “NoYes, Soup for You!” Seven years after the last episode of *Seinfeld* aired on May 14, 1998, it's like déjà vu all over again! Led by investor Chairman John Bello, the founder of SoBe beverages, these *Soup Man* brand refrigerated products are made under the strict supervision of “Soup Nazi” Al Yeganeh. The 15 ounce gusseted stand-up pouches are ready-to-heat and enjoy, as I did. Wonder what took them so long ...
- Unilever has introduced refrigerated *Country Crock Side Dishes* in a convenient ready-to-heat format. Seems like a great way to extend their home and hearth equities into a new category. With delicious “comfort food” items like Homestyle Mashed Potatoes, Chicken Rice with Herbs, Elbow Mac & Cheese, and Garlic Mashed Potatoes – I'm in heaven.
- *Fred's Incredible Muffins!* is a tiny Maplewood, NJ based start-up with great promise. All natural and individually packaged, each 2.5-ounce muffin has 10 grams of protein, is high in healthy fiber, rich in antioxidants and has only 160 calories. Most importantly, the Banana Walnut, Wild Blueberry, Lemon Poppy and Pumpkin Spice flavors will leave no crumbs behind!

Hope these thoughts are helpful. If I can add perspective, please feel free to contact me at 312.337.9085 or asw@2xManagement.com. Notes from prior food shows, natural product shows, ethnic products shows, and other consumer products industry shows are available under the News section at www.2xManagement.com.

Overview

2x Management invests in consumer products businesses capable of growing exponentially via infusion of capital and management expertise. 2x Management brings proven leadership in building consumer products businesses.

Formula for Success



Investment Profile

Branded consumer products businesses with \$20–200 million in revenue. Focus areas include food and beverage, organic/natural and ethnic products, pet care, and other non-durable branded consumer products.

Capital Availability

2x Management provides capital in conjunction with Catterton Partners, the leading private equity firm with an exclusive focus on providing equity capital to growing middle market consumer companies in North America. Available investment capital totals over \$1 Billion.

Management Resources

2x Management brings extensive consumer products industry experience in building established businesses, transforming under-performing businesses, and creating new businesses. Seasoned consumer products leader is ready to help companies realize full potential. 2x Management can provide functional support or management team members depending on the needs of the business, including Operations, Finance, Marketing, Sales or others as appropriate (e.g. Strategy, IT, R&D).

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