

2x TREND WATCH

Notes and nibbles from the desktop of:

Andrew S. Whitman, Managing Partner

1634 N. Larrabee | Chicago, IL 60614

Phone: 312.337.9085 | Fax: 312.873.4509

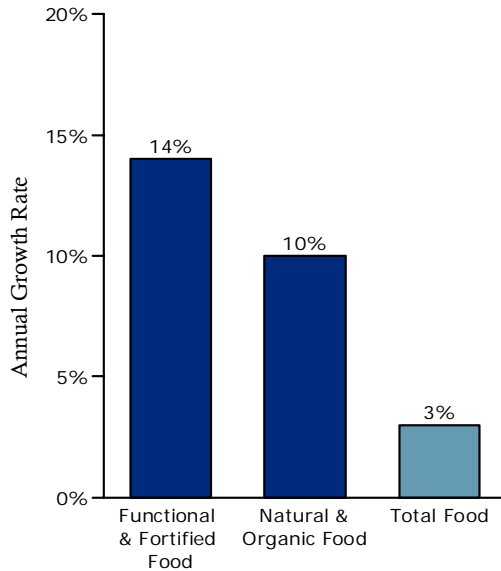
asw@2xManagement.com | www.2xManagement.com

A Sign of the Times. As a result of growing consumer interest, ever increasing presence of natural channel retailers and the distributors who serve them, and expansion of natural/organic offerings by the mainstream retailers, Natural Products *ExpoWest* was the busiest *Expo* I've ever experienced. The city of Anaheim, CA posted signs for the week leading up to *Expo* warning about "severe traffic congestion" during the show held March 23–26, 2006.

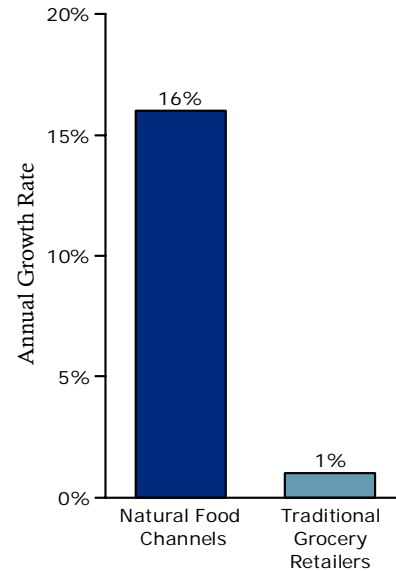


According to the show's organizer, record-setting crowds of over 43,000 industry attendees visited more than 3,000 exhibitors. A quick look at the historical and projected food growth explains why ...

**Annual Food Revenue Growth
(1997-2007P)**



**Annual Grocery Revenue Growth
(1999-2009P)**



Source: Adams Harkness, ISPA, IHRSA, NMI, Euromonitor, Marketdata

Industry stalwarts continued to boom – *Amy's Kitchen* was particularly visible – and many companies upgraded their presence this year with *Bob's Red Mill*, a leader in stone ground natural, organic and kosher whole grain flours and related products, clearly winning the prize. In addition, several dozen new companies were exhibiting at *Expo* – many with new and innovative products or with new spins on older ideas.

Overall, two very interesting themes break out after spending years emerging: (1) raw foods and (2) functional foods derived from exotic fruits and berries.

Pure. Simple. Unprocessed. RAW. After years of slow growth, the raw food movement has begun to accelerate. There are evermore books, magazines and websites dedicated to raw foods – plus 4 and 5 star restaurants exclusively serving raw food diets are popping up across the county. [You know exhibitors are the target market when someone is promoting a new movie *Raw for 30 Days* – a reverse version of *Super Size Me* where six people eat only vegan raw foods with fantastic results. Look for it at www.RawFor30Days.com since it's not too likely to be at the 20 screen mega theatre near you.]



Now, many people (including me) have questioned the viability of this lifestyle becoming broadly adopted. The term raw food itself scares off some people. Yet, at its root (no pun intended), the belief in raw food becomes more acceptable to a larger audience when viewed through the lens of purity and simplicity manifested via a lack of processing. Convenience-oriented “raw” products have finally come of age. *LäraBar*, one of the pioneers in the segment billed as “the original fruit and nut food bar”, continues to build a strong following with core flavors like Banana Cookie (ingredient statement reads: almonds, dates and unsweetened bananas – that’s it) and Apple Pie (dates, walnuts, unsweetened apples, almonds, raisins and cinnamon).



LäraBar platform extension *Mäya*, named for the ancient civilization credited with bringing us chocolate (food of the gods – and, were they right!), looks promising. Organic certified and made from Fair Trade cocoa, *Mäya* comes in flavors like Chocolate, Chocolate Coffee, and Chocolate Mint. Dairy, soy and gluten free to boot. The coffee variety was quite tasty!

LäraBar has the potential to emerge as a power brand with cross category appeal, maybe in juices or fruit/nut based snacks – especially if they evolve their branding to *Lära* (much like *BocaBurger* became *Boca* and then introduced products across multiple categories).

If imitation is the sincerest form of flattery, *LäraBar* founder Lara Merriken must be ready to explode from all the adulation. New entrants like *Raw*Revolution* and *SmartMonkey* were prominent. No question there’s “room at the inn” for new entrants, but whether they will get the traction they seek is yet to be determined.



Antioxidants in the Mist. Food & beverage manufacturers have been trying to develop functional foods for years, although slow to develop and often tucked away in the corners of the shows. Functional foods are ones that have the presence of something positive versus an absence of something negative. And, as we live longer, preventative health through better eating certainly is preferable to drugs later in life to treat ailments.



We’ve started to learn that better living can happen through fruits and exotic berries, many which come from Africa and South America. Starting with the less exotic, blueberries are rich in antioxidants and packed with vitamins A and C, potassium and folate. *Pom Wonderful* developed a huge business selling antioxidants to America (in juice format via a really cool shaped bottle), mostly in combination with other fruit juices (think cranberry juice blends). They’ve driven the pomegranate juice category to 2 year CAGR of +435% (!) and category sales just shy of \$100 million. So much so they cannot keep pace with the demand!

Now, we're ready to see the likes of açai (pronounced ah-sigh-ee) and acerola (commonly known as the Amazon Cherry) become mainstream! Açai is a nutritious and energy packed berry from the Brazilian Amazon which is consumed most often by locals as a bowl of berries. Not only does açai have more antioxidants than blueberries or pomegranates, but it contains healthy essential fatty acids, calcium, dietary fibers, iron and electrolytes. However, like cranberries for example, pure unsweetened açai can be too much for most people. Therefore, the right blends of açai took time to be developed. Skiing magazine said "Move over Red Bull, get out of the way latté; a tiny purple berry from Brazil could replace you both!" *Sambazon*, maker of "organic Amazon superfoods", makes Organic Ready-to-Drink Smoothies, Organic Smoothie Packs (mixes) and Pure Açai PowerCaps (supplement form). The RTD smoothies in particular are tasty ways to refuel and rejuvenate the palate and the body!



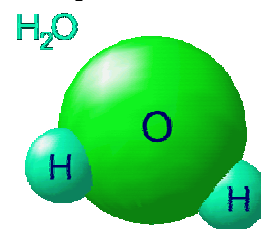
Other Noteworthy Tidbits ...

To Your Heart's Content. *Corazonas* are new heart healthy tortilla chips that are amazingly tasty and quite good for you. According to the Company, plant sterols, also known as phytosterols, are plant-based compounds that can help decrease low-density lipoprotein (LDL) cholesterol, aka "bad cholesterol." Plant sterols occur naturally in fruit, vegetables, whole-grain products and most vegetable oils, but usually at levels too low to effectively combat LDL cholesterol. However, recent scientific studies have shown that plant sterols can be added to other foods at sufficient levels to lower blood cholesterol and reduce risk for coronary heart disease. *Corazonas* has clinical tests to substantiate reductions in LDL cholesterol levels when you consume only a small, vending machine sized pack a day! So, go ahead ... snack to your heart's health ... I did and am healthier for it!



Put On a Happy Face. Many upscale restaurants have offered tea infused desserts for years. Now, *Smiles* organic tea infused gourmet chocolates brings together two compatible ideas. After three visits and way too many yummy samples, I was certainly smiling! ☺

Chemistry Professors Wrong? Is water not meant to be H₂O? *Penta Water* (profiled previously) is oxygenated water that claims to be clean, crisp, and provides optimal hydration. Now, competitor *Perfect Water* uses a "stabilizer" named Aquagen to molecularly-bind stabilized oxygen, thereby claiming their oxygenated water does not lose the "extra" oxygen when you open the bottle since the oxygen is suspended in the water. Not sure I (yet) believe the science behind the whole oxygenated water phenomenon, but people are paying lots of money for bottled water with extra oxygen! Will H₂O_{1.1} be next?



Takes All Kinds. There was even a bakery called *Nutrilicious* pushing their all-natural donut holes. Seemed out of place – but felt compelled to try them. Twice!

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.



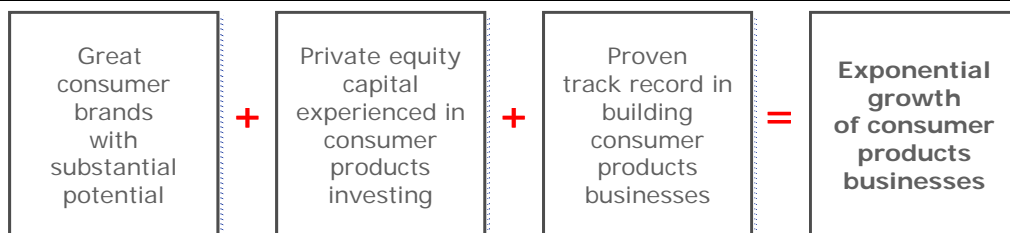


INVESTING IN AND OPERATING CONSUMER PRODUCTS BUSINESSES FOR EXPONENTIAL ANNUAL GROWTH

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.

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).

Contact Information

Andrew S. Whitman, Managing Partner

Phone: 312.337.9085

Fax: 312.873.4509

asw@2xManagement.com

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