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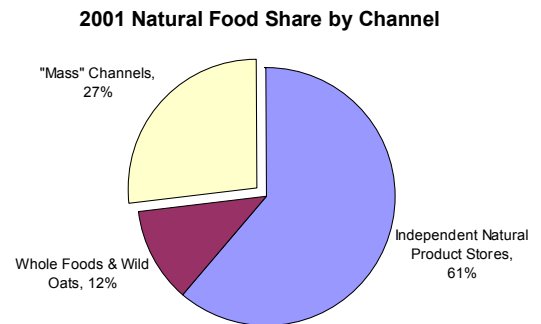
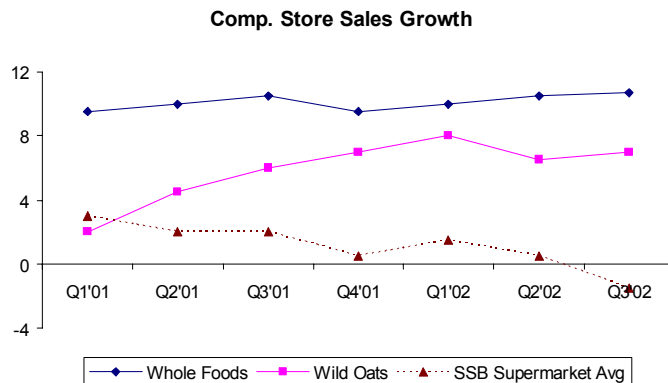
Natural and Organic products continue to boom ...

Growth across segments has been strong leading to \$34 Billion natural products industry.

Segment	CAGR 99-01	2001 Retail Volume
Natural Food	+14%	\$ 12 B
Natural Personal Care	+ 9%	\$ 4 B
Vitamin, Minerals, Supplements	+ 8%	\$ 18 B
Total US Natural Product Sales		\$ 34 B

Source: *Natural Foods Merchandiser*

Consumers continue to vote with their spending ... same store sales in leading natural channel retailers strong ... plus over one-quarter of industry sold in "traditional" retail venues (outside natural food channel).



Source: *Natural Foods Merchandiser*, Company reports, and Salomon Smith Barney.

... and, as a result, are of importance to the grocery industry.

Here are some takeaways from this year's *Expo West* in Anaheim (best one of many I've attended).

Food: more on-trend for consumers and better tasting than ever.

- Natural and organic meats were a continued force at the show driven by marketplace growth.
 - *Coleman Natural Products* (owned by George Gillett's Petaluma Holdings) continues to be a leader and doing great things. Gold standard of protocol: no hormones, no steroids, no antibiotics, and no animal by-products in the feed. Recently introduced natural uncured beef hot dogs. Great taste. And, who better to do this than the leader in natural beef?
- Asian flavors continue to be explosive.
 - *Thai Kitchen* – huge presence and great brand. Product breadth is amazing.
 - *Annie Chun's* – Annie herself was manning the booth. Very dynamic lady with great products. Hope she does well.

Food Continued ... more on-trend for consumers and better tasting than ever.

- Frozen entrees and snacks continue to grow.
 - *Amy's Kitchen*, a clear power brand in the natural food channel, continues to line extend ... into line of Bowls (organic version of *Uncle Ben's Rice Bowls*), additional "pocket" SKUs including breakfast, and more international flavors. Non-frozen entries include soups and pasta sauces.
 - Acirca Inc.'s certified organic *Walnut Acres* brand (owned by North Castle Partners) continues to roll. The integration/conversion of ShariAnn's looks great and their pasta sauces are delicious.
 - *Kettle Cuisine* might have a hit in the making with its *FRESH SOUP FOR ONE* entry when they are fully USDA organic certified – coming in summer 2003.
 - Alex Dzieduszycki, the founder of *Terra Chips*, is on to his next project. *ALEXIA* is an all-natural, kosher certified line of frozen potato products developed for the natural and specialty food consumer with a sophisticated palette. They are all-natural and supreme tasting versions of gourmet restaurant spuds. Favorites: *TRIO FRIES* (multi-colors like terra chips) and *OVEN REDS* (red potatoes with toppings like olive oil, parmesan, and roasted garlic).
 - *Seeds of Change* (owned by Masterfoods) makes great products. Potential is there I think.
- "Big 3" meat alternatives players continue to increase product quality and grow – largely at the expense of the smaller players.
 - Strong show for *Boca* under Kraft Foods' ownership of about 2 years. Their product extensions beyond the core burger patties are excellent (e.g. sausages, breakfast links/patties, crumbles).
 - *Gardenburger*, the #3 market share brand, wins the "Avis trying hardest" award starting from deep in the hole. Product quality upgrades continue to be first rate, terrific insight-based imagery (returns to their roots following early advertising fiasco), and great 2002/2003 new products. My personal favorite – the meatless meatloaf.
 - Market share leader *Morningstar Farms* (owned by Kellogg's) had remarkably little to say.
 - Upstart in the US *Quorn* (who had a huge presence last year) was MIA this year.
 - One brand to watch is *Veat* – good product texture! Great entrepreneurial team (also own the *Van's Waffles* brand – which is a winner in its own right).
- Bars continue to explode ... with interesting sub-trend in organic bars.
 - *Balance* – also under Kraft ownership of about two years, seems to be headed in a good direction. Many of Balance Gold extensions were great.
 - *Clif* – the imagery leader in my opinion – continues to do tremendous things. *Clif's Luna* (women's brand) continues to churn out top-notch flavor and texture extensions. Watch for *Mojo* news. Recent coup for *Clif*: getting certified for organic.
 - *PowerBar*, owned by Nestle, was very active in handing out samples of its *Pria* bar. "Deliciously Smarter Snacking." Tasty – but sorry to say I don't get it. Not sure consumers do either. One exception: the BITES line. *PowerBar* has line extended the brand into "popable" bite-sized "nuggets" – likely to be a winner given consumer's grazing behavior.
- More interesting and better tasting offerings in snacking and desserts.
 - *Bistro Garden* soufflés – small niche but excellent products.
 - *Baker's Breakfast Cookie* are terrific tasting – attempting to be the all-natural version of breakfast replacements (like *NutraGrain* bars) in a proprietary form. Will be one to watch. Tough consumer hurdle – cookies for breakfast – but boy are they tasty.
 - *No Pudge!* brownie mixes continue to offer "indulgence without the guilt" – think their offerings are the best I've ever seen them. 4 simple SKUs doing well.
 - Organic and natural breads were everywhere.

Beverages, beverages abound!

- *Oregon Chai* is ready to explode on the scene. Core products are first rate and the Iced Chai Teas (concentrates in aseptic packaging – just add water) are outstanding. I particularly like the peach and raspberry SKUs. Light and not too sweet. Big win in the making: ready-to-drink chai lattes (think *Starbucks Frappuccino* from the Pepsi/Starbucks joint venture). Available summer 2003.
- The soymilk folks continue to explode: Silk, WhiteWave, Vitasoy, EdenSoy, etc. Product offerings and flavor profiles continue to get better and better! And one to watch – Pacific Foods – they're doing a great job with their "Certified to the Source" program.
- Plethora of very interesting all-natural functional beverages.
 - Hansen's all-natural continues to do interesting things.
 - Watch for some of the smaller start-ups/imports: *Kalahari South African Rooibos* (red teas), *Amé* (light sparkling Asian ready-to-drink teas in cool packaging), *Acai* (pronounced AH-sci-EE – derived from berries of Amazonian locale bushes), and *Hawaii Noni* (ancient Polynesian health drink – needs work in flavor blending with more traditional juices to be less medicinal in taste).
 - "Big company acting small" award goes to Beverage Partners Worldwide (the Coke/Nestlé JV). Their entry *TEY* has tremendous imagery (tagline "Taste Tranquility") and great tasting offerings. One to watch. (Plus they gave away a cool CD with music "Sounds of Tranquility" – great relaxation music).
- Among the many water entries – kudos to Trinity Water. Not only do they have a terrific product offering, but packaging has a patent pending scratch off area where you can scratch in your name so you don't lose/confuse your bottle with other people. That's thinking!
- The coffee companies (most notably the big *Seattle's Best* booth and the smaller *Green Mountain* booth) are doing some good things on the Organic and also the Fair Trade coffee side. Will be interesting to see if they can explain Fair Trade to consumers over time.
- Serial organic entrepreneur Barney Feinblum's latest venture Organic Vintners is revving up an imported organic wine business – looks very promising.

Mega-Brand and Mega-Company ...

- Without question, Horizon Organic (Nasdaq: HCOW) is developing into the cross category Brand of Brands! With dominant market share in the organic milk world, *Horizon* has successfully expanded into other dairy and refrigerated categories (including the new organic *Fruit Jels*). Watch for more exciting news to come I'm sure.
- Similarly, Hain Celestial Group, Inc. (Nasdaq: HAIN) is the largest of the cross category manufacturers in the natural foods world. *Hain* has a presence in many of the top natural food categories, with natural food brands such as *Celestial Seasonings* teas, *Hain Pure Foods*, *Westbrae*, *Westsoy*, *Little Bear Organic Foods*, *Bearitos*, *Arrowhead Mills*, *Health Valley*, *Breadshop's*, *Casbah*, *Garden of Eatin'*, *Terra Chips*, *Harry's Premium Snacks*, *Boston's*, *Gaston's*, *Lima* and *BioMarche*, *Yves Veggie Cuisine*, *DeBoles*, *Earth's Best*, *Nile Spice*, *Soy Dream* and *Rice Dream*. Over the past year, Hain is really focusing their activities, particularly their category management and leadership in snacks.

Natural personal care is hot.

- Organic personal care seemed hot – why put something on your face that's full of garbage? *Burt's Bees* continues to be a winner in the making, although there may be some SKU over-proliferation.
- Natural personal care products aimed at kids – for example: Latex free bandages aimed to compete with Band-Aid, chlorine free diapers, etc.

Other noteworthy items ...

- www.AllOrganicLinks.com is a non-profit, web-based meeting place for the organic community. "A comprehensive, one-stop, listing system for the organic industry. Search our database for specific items or browse the listings categories below for information you may be interested in."

Show website: www.expowest.com

Hope these thoughts are helpful. Any questions? Call or e-mail me.



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