2x Management, LLC

INVESTING IN AND OPERATING CONSUMER PRODUCTS BUSINESSES FOR EXPONENTIAL ANNUAL GROWTH

2x TREND WATCH

Notes and nibbles from the desktop of:

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Anuga, the giant European food show held every other year in **Cologne, Germany**, is by far the largest show I've ever attended. With 6,294 exhibitors from 108 countries, the show was attended by almost 175,000 people from 160 countries (which accounts for 84% of the independent states per the United Nations). Anuga is actually a compilation of 10 shows – in total probably five times the size of what we're used to in the United States. The ten shows are:

- Anuga Fine Food (general provisions and delicatessen products)
- Anuga Gourmet (higher end specialties)
- Anuga Chilled Food (fresh convenience with fruit, vegetables and fish)
- Anuga Meat (meat, sausage, game, poultry and more)
- Anuga Frozen Food (frozen food and ice cream products)
- Anuga Dairy (milk and dairy products)
- Anuga Bread, Bakery and Hot Beverages (bread, baked goods, spreads and hot beverages)
- Anuga Drinks (cold beverages)
- Anuga CateringTec (technology and services for catering of all kinds)
- Anuga RetailTec (technology and services for the retail trade).

Part of what makes the show seem so massive is the layout of the Koelnmesse Exhibition Centre, a series of 14 halls each with 2 or 3 floors. You could easily walk 30 minutes or more to get from one end to the other!

While some US companies of all sizes were present (e.g. Unilever, Coca-Cola, Birds-Eye, Riba Foods, Paul Prudhomme's Magic Seasoning Blends, etc.), they were a small minority of the exhibitors. Naturally given the show location in Germany, most exhibitors and attendees appear to be from European countries, followed by Asian exhibitors and more than a handful of South African companies.

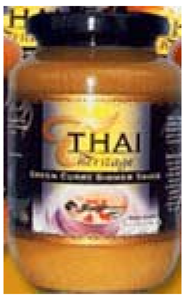
Summary: Overall, the show did highlight several ways that the US food business is different from Europe in particular. Europeans – as consumers, marketers and retailers – seem to be more food aware than Americans.

The following pages discuss 6 food topics (chilled, ethnic, organic/natural, convenience, functional and packaging) and showcase some of the more interesting and relevant examples.

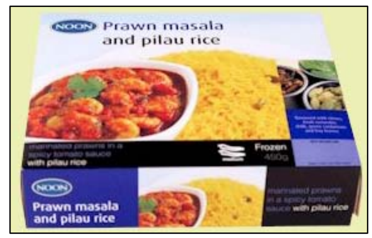
Refrigerated Foods Are King. Chilled foods, as they are known across the pond, are the predominant convenience food form in most European countries (and particularly dominant in the UK). Why? Europeans have better solved consumer needs while the US focused on Home Meals Replacement (HMR) for most of '90s. Unfortunately, consumers never wanted their home meals replaced! We just wanted them made easier. Simplified. Leave us with the good parts of the meal – the eating and the conversation.

The two terms I like best are "speed scratch" referring to 'homemade' meal preparation simplification and "easy meals" for the ready-to-eat and ready-to-heat meal varieties.

These chilled "easy meals" products, often executed as private label, are viewed as fresh and cook in less time than US frozen food. As a result, they have been a significant part of driving the retailer brands and therefore shopper loyalty. Private Label now accounts for 17% of global retail sales (+5% versus prior 12 months) according to ACNielsen. Geographically, European development is most advanced with private label accounting for 23% of total sales – highest in Switzerland (45%!), Germany, Spain, Belgium and the UK – versus 16% of sales in North America. Importantly, European private label products are no longer necessarily priced at a discount to national brands (e.g. chilled meals at *Tesco* or *Marks & Spencer* in the UK).



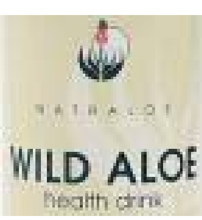
Indian And Thai Are Mainstream, Not Ethnic Foods. The immense breadth and depth of Asian foods of all varieties, but Indian and Thai in particular, was quite evident. Whether based in Thailand and expanding their export business to the United States (e.g. ***Narai Kitchen***, ***Thai Heritage***, many others) or based in the UK with a substantial and growing convenience food business (e.g. ***Patak's***, ***Noon***, many others), the sample plates were more often than not emptied in seconds! Watch out America – these brands are powerful in their home countries and all readying major expansions to the United States. I cannot wait!!



Organic and Natural. I'll Drink to That! Whether purchased for reasons of environmental sustainability, food safety, purity, taste, or broader availability in mass channels, the growth has been explosive. And, the US trails most European countries by a fair distance signaling we likely have considerable upside in organic and natural development. Most commonly referred to Bio in Europe, there were 46 brands listed in the Anuga directory alone using the word Bio in the brand name – including ***Bio Familia***, ***Bioland***, ***BioPro***, and my personal favorite ***Mister Bio***.

It was not a surprise to see organic and natural products in every imaginable category – including such niches as ***Highland Harvest Organic Scotch Whisky***, which I must admit I tasted (twice) after my second day of walking for 7-8 hours. And, a beer chaser too!

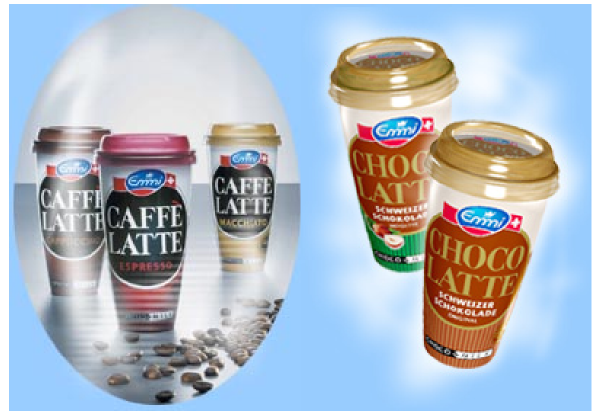
Not unpredictably, there was a well developed selection of natural and organic beverage offerings. Some of my favorites include ***Feel Good Drinks*** (their carbonated SKUs are, loosely defined, in a similar sandbox to ***Izze*** and ***Fizzy Lizzy*** in US but also offers non-carbonated beverage line) and ***Innocent*** (some aspects similar to ***Naked Juice*** but also offers milk-based and probiotic smoothie blends).



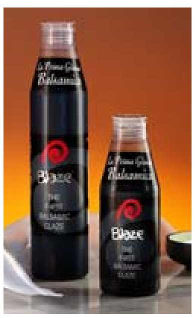
One of the more exciting beverages hails from South Africa where health and taste come together in an Aloe beverage. Well known for its contributions to good skin, aloe is also full of vitamins, minerals, and amino acids. Many people claim aloe is a contributor to keeping blood pressure and cholesterol in check. I've tried many aloe beverages in the past … and I don't want to be that healthy if it means terrible taste! But now ***Natraloe*** has the right blends of fruits, fruit juices, and in some cases rooibos (red) teas – yet all containing 50% aloe. Each of the flavors I tasted was very appealing. Finally!

The 3 C's: Convenience. Convenience. Convenience. Similar to the US, convenience sells in most languages as demonstrated by the power of chilled foods in addressing the European needs for meal convenience. Two other noteworthy examples from other usage occasions follow …

Caffe 4 Me. Convenient, ready-to-drink coffees have never been all that exciting to me as they are generally way too sweet or "fake" tasting in order to be shelf stable. Until now. ***Emmi*** of Switzerland is a leader in dairy products with ~ $1.5B revenue. The market leader in Switzerland (~75% of company sales), an emerging player across Europe and initial entrant into the US, ***Emmi*** appears to be a very innovative dairy company having launched ***Emmi miniCol*** (cholesterol lowering cheeses in 2004 that won the prestigious SIAL d'Or award) and ***Die Höhlengereiften*** (reasonably priced cave age cheeses). ***Emmi*** became publicly traded in December 2004 on the Swiss exchange.



Now they're really onto something! Their 3 SKU ***Emmi Caffe Latte*** line launched in 2004 was a big hit! Made with real ingredients, this could only be achieved in a refrigerated business system. And, for the chocoholics in the crowd (oh, yesssssss – that would be me) – their ***Emmi Choco Latte*** extension is a must have! Real Swiss chocolate and fine Swiss milk blended to perfection by the Maître Chocolatier (now that's a cool title!). Available in original and hazelnut flavors. Have both … I did!



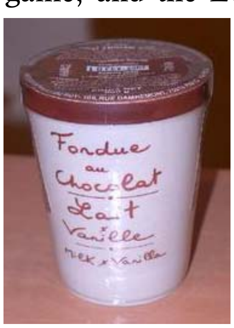
A Blazing Trail of Glory. Claiming to be "the first" balsamic glaze, Acetum s.r.l of Modena, Italy definitely got it right with **Blaze**. When pressed for time, who wants to reduce their own balsamic when the masters have done it for you? Not me!

Just two of the many convenience products that grabbed me … and I swear it was not the caffeine buzz!

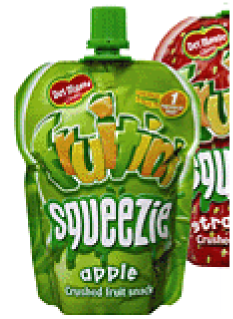
Functional Foods That Taste Better Than They Sound. Europe has long been ahead of the United States in terms of functional foods such as probiotics (originally a term meant as a proactive "good bacteria" for health vs. antibiotics after the fact) and prebiotics (a non-digestible food ingredient that stimulates production of "good bacteria" in the colon). Well, many functional foods like these were showcased (especially in the dairy section) and are surprisingly delicious.

But, most unusual in delivery format is ***Vital Ice***. These are no ordinary ***Popsicles***! The ***Energy Kick*** "lolly" (filled with real fruit juice and guarana, ginseng, and taurine as active ingredients) has appeal to the Red Bull crowd who is accustomed to the taurine "kick". The fruit puree and vitamin combination found in the ***Vitamin Kick*** SKU likely has more kid appeal. The latter reminds me of US-based ***Cold Fusion*** that was a fruit flavored protein/energy shot delivered via ice pop.

All Dressed Up with Someplace to Go. Packaging has always been a key part of the food innovation game, and the Europeans do it quite well. Some innovations were driven by necessity, such as lack of refrigeration spawning aseptic milk and shelf-stable, retort meals. Both continue to be important delivery systems today across many food and beverage categories. However, I saw many very clever packaging innovations sure to build nice businesses over time. Three in particular stood out.

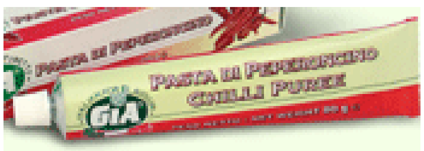


When in doubt start with chocolate. ***Fondue au Chocolat*** is a French-based company (of course!) that patented a ceramic "cup" that retains heat after microwaving so that the chocolate remains "fondue-able" for 45 minutes (4x longer than if packaged in glass or plastic). Would we call that having our chocolate hot and eating it too?



Fresh Del Monte Produce, Inc. (not the same as Del Monte Foods Co. in San Francisco, although at one time they were the same company) has a line called ***Fruitini Squeezie***, packaged in a small pouch like ***Capri-Sun*** but with a screw-top spout. ***Fruitini Squeezie*** is a nutritional "crushed fruit" snack available in various flavors. Most familiar to us would be the Apple SKU (think applesauce) but I thought the Blackcurrant and Peach items were far tastier. Each 3.2 oz. pouch is 99% fruit and fruit juice and contains no artificial flavors, colors or preservatives and is naturally fat free – plus it contains at least one serving of fruit! Delicious and good for you – can it be?

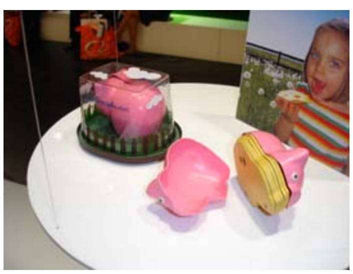
Lastly, I do admit to occasionally buying the pre-minced garlic at the grocery store. Is there another option?



GIA of Italy markets garlic puree, tomato paste, and 10 other pestos, purees, pastes – each in a tube. Why not? Tastes great. With 24 months of ambient storage shelf life before opening, I could see this being a standby option of choice.

But booze in a tube is just plain silly. And, that goes even discussing the name … ***GO Wodka***! If I want a cocktail, this will not be the way!

Anuga Dairy Forum. Finally, Anuga and Cologne's International School of Design partnered to help manufacturers and retailers address the challenges from discount brands and discount retailers: "pursue high quality, innovative products and great service instead of deep discounts and blister packaging." Students presented 21 ideas for products/packages and the following are my two favorite concepts. I hope one of the 21 gets commercialized …



1. ***"Sliced Piglet"*** – getting some kids to eat cheese or ask for cheese can sometimes be a challenge. While I know there are technical challenges, the core idea is an interesting one whether executed via processed slices or natural cheese. In this example, pre-sliced, pig shaped pieces of cheese come in a plastic pig that doubles as a toy after use. Food and fun in one!

2. ***"Energies" Cheese Tabs*** – combining the flavor of cheese with the healthy properties of coagulated lactic acid bacteria (is better than it sounds!) and the packaging delivery system of tabs! Extracts from spirulina algae (known as brain food) and taurine are added to the basic cheese ingredients to make for a prototype new functional food. Clever, portable, and good for you!

Auf wiedersehen from Cologne, Germany. For anyone who has not attended the Anuga show and is inclined to do so, I'd recommend it. Plus, there's plenty of beer, schnitzel and 'wurst to be had at **Früh am Dom** … just a stone's throw away from the Cathedral and the Köln Hauptbahnhof in the heart of Cologne.

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.

Andy

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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

Great consumer brands with substantial potential	+	Private equity capital experienced in consumer products investing	+	Proven track record in building consumer products businesses	=	**Exponential growth of consumer products businesses**

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).

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