

2x TREND WATCH

News, notes and nibbles from the desktop of:

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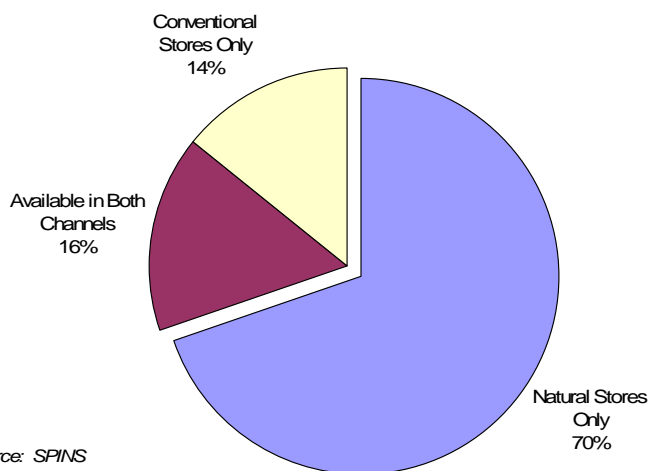
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EXPO Returns to Baltimore Better Than Ever! After many years in Washington D.C., Natural Products Expo returned to Baltimore for *ExpoEast* on October 5 – 7, 2006. Given the continued expansion of the natural products industry in the United States showing a 9.1% growth across all retail and direct-to-consumer sales channels in 2005 to exceed \$51 billion¹, it was not a surprise to see record show attendance of 20,000 retailers and manufacturers. However, to truly understand the exponential potential of the sector, we need only consider that the vast majority of the products have yet to hit broad scale distribution. Think about what will happen when the 70% of natural/organic offerings

available only in stores like Whole Foods, Wild Oats and natural channel independents² are available to a broader shopping population.

AVAILABILITY OF 247,000 SKUs ACROSS CHANNELS



Source: SPINS

So What Happens Next? Many wonder what will happen when a specialty “niche” organic brand has universal distribution. A large public company CEO recently asked me what I thought would happen when “Brand X Organics” is shelved at Wal*Mart next to a value priced brand in the category. While no one knows for sure, I believe the simple answer is that both the Brand X volume and household penetration will grow. Some worry that Wal*Mart will squeeze pricing, which is at least true in part from the taking of

lower margins than some other retailers. Importantly, however, sheer increases in brand and category volume will drive organic blueberries, almonds, or dozens of other raw materials in short supply to become more plentiful and therefore lower raw material costs.

What will be the impact to the equity of “Brand X” from being available ‘everywhere’? Again, by example, look to brands like *Iams* pet food and *Nexus* hair care. These brands took on somewhat different perceptions than when they were more exclusively distributed. Not better or worse – just different.

The following notes explore takeaways from the last several days – across three macro-level trends and a few particularly noteworthy products ...



¹ Source: New Hope Natural Media.

² Source: SPINS.

“Free From” To Add Some Sales? In foreign markets, especially in central and western Europe, consumers are quite accustomed to shopping in the Free From section. Given the frequency of childhood peanut allergies and adult onset (or diagnosed) Celiac disease just to name a couple, retailers have carved out a specific section exclusively to shelve products free from gluten, dairy, nuts, egg, or other common allergens. In discussions with *Tesco* executives in the UK, significant contributing factors to the explosion of the sector included dramatic increase in product quality and creation of a FREE FROM section. According to the Celiac Disease Foundation, one out of 133 Americans are affected with celiac disease (or about 2.3 million people). I hope our colleagues here in the US will learn from these experiences since every third product at *EXPO* was labeled as “gluten free”. Reminded me of “low carb” craze – everyone wants in and the vast majority of the products taste worse than the box they came in but most of these brands are just a few million dollars in revenue. Some of the better products were previously profiled and are archived at www.2xManagement.com/news.html.

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Bread
Cereal
Energy Bars
Free From

The Last (Largely) Open Frontier. Did you know that the surface area of our skin makes it the largest organ in the human body. If a consumer is buying natural and organic foods, beverages, nutritional supplements or herbal remedies, why wouldn't she or he explore natural and organic personal care products? Well, millions of Americans are, as the natural/organic segment is growing at over twice the rate of the overall category (+22% vs. +9%) to total \$4.9 billion³. Based on consumer usage patterns, future expected shopping and other trended consumer data, that figure could easily rise to nearly \$11 billion in 2009³. Hain-Celestial certainly has an early lead having purchased 5 brands including *Zia*, *J/Ä/S/Ö/N* and *Heather's*. *Burt's Bees* continues to lead with new product development and merchandising. But, *Avalon Organics* is the category standout. Over the past 2+ years, *Avalon Organics* has removed any ingredients that, while certainly approved for use, don't meet the highest standards set for the ultra-discriminating organic personal care user. This information rich brand speaks clearly via packaging and marketing materials. *BABY Avalon Organics* takes the brand brilliantly into a new sector in a way that positions them as a leader in the face of first rate brands like *California Baby*.



Fresh From The Freezer? For years, we have believed that baby food is the most underdeveloped category in the natural food channel. *Earth's Best* is addressing this void and sales are booming. *Gerber* has finally entered shelf stable organic baby food. So, given these facts (and the baby “echo boom” to come), it was no surprise to see two of the several entrepreneurs in the frozen organic baby food space exhibiting at *EXPO*. *Happy Baby* and *Plum Organics* have great products that have entered the market in the last several months and are poised to see if they can create a new category. Pure, simple and delicious tasting with no preservatives ... just pureed fruits and veggies with maybe a hint of flavoring like mint to aid digestion. That's it. About 10 years ago, several companies tried unsuccessfully to launch frozen baby food, but might have been ahead of their time. Will this newly (re-) born category grow up? I think so ...



³ Source: Natural Marketing Institute.

Other noteworthy unique finds include ...

LIV NATURAL – fresh off a launch only weeks ago, *LIV* is an exciting new beverage coming from two NJ based entrepreneurs. The first credible 100% all-natural entry into the sports drink market has no artificial colors, flavors or sweeteners like high fructose corn syrup (HFCS). *LIV* is sweetened with agave nectar and, of course, is formulated to replace the electrolytes needed after physical activities. Today, *LIV* is available only in a dozen or so fitness centers, bagel shops and delis ... but look for it coming to a store near you. Aaaaaaaah!



www.liv-natural.com



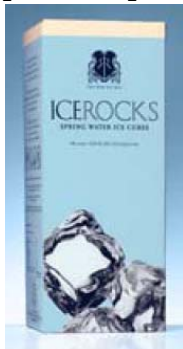
SINUS BUSTER – gives a whole new meaning to Hank Williams, Jr. song “Are you ready for a rumble?” This homeopathic nasal spray is a hot item using capsaicin as the active ingredient. Not familiar with capsaicin? It’s hot pepper extract. So, *Sinus Buster* will wake you up and clear you out with an inhaled shot of pepper spray and purified water. Special formulations, like *Allergies* and *Stop Smoking*, are available using other blended ingredients to address situational needs homeopathically. WOW, I feel better already!

www.sinusbuster.com

NATURAL DENTIST – since 1991, *The Natural Dentist* has been selling oral rinse formulated both to improve oral health and to avoid potential links between oral bacteria and other serious health problems such as heart disease, stroke, diabetes and complications with pregnancy. What’s interesting is that *The Natural Dentist* formula proved, according to their clinic research, to be more effective at killing germs than the leading over-the-counter mouthwash brands. Its blend of herbal ingredients – without alcohol, harsh chemicals, or artificial sweeteners, dyes, or preservatives – relieves inflamed gums and reduced gingival bleeding. Now, *TND* has launched a product specifically for kids with braces. Nice berry taste too!



www.thenaturaldentist.com



ICE ROCKS – while not exhibiting at *EXPO*, bottled water veteran Stu Levitan and his colleagues were making the rounds showing off *ICE ROCKS*, secured ready-to-freeze ice cubes made from spring water. These cubes are sealed in disposable, recyclable containers which look like ice cube trays. (Remember those?) Perfect for people enjoying premium beverages of all types or concerned about purity of ice cubes. After all, why not have that 20 year single malt scotch on the (Ice) rocks.



www.icerocks.com

Restaurant Stops on the Tour. Finally, I found time to enjoy some of the restaurant highlights of Baltimore including crabs (*Obrycki's*), lump crab cakes (*Mo's Fisherman Wharf*), Afghan (*Helmand*), Italian (*Sabatino's*) and, of course, cannoli (*Vaccaro's Little Italy*). Worth the stops!! ☺

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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.

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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. Focus areas include food, beverage, personal care, home care and pet care – including in the organic/natural, specialty/gourmet and ethnic sectors. 2x Management brings a proven track record in building branded consumer products businesses.

FORMULA FOR SUCCESS



VALUE-ADDED RESOURCES

2x Management brings extensive consumer products industry experience in building established businesses, transforming under-performing businesses and creating new businesses. Seasoned *Industry Insiders* add immediate value via their expertise, contacts and connections. 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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