

LOHAS

*Lifestyles of
Health and Sustainability*

GOES

Mainstream



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HeadwatersMB.com



BILL HARRISON
MANAGING DIRECTOR
HEAD OF CONSUMER
INVESTMENT BANKING
HEADWATERS MB

“ A marketplace shift toward health and sustainability is building in both momentum and impact, and transforming the purchase decisions and lifestyle choices of consumers across demographics. Companies that meet the rising opportunities presented by these new consumers with products that are healthier for them and good for the environment can achieve greater pricing power, stronger brand awareness and a base of loyal customers. ”

There's a new mantra within the US business and consumer communities and its voice is resonating more strongly now than ever before – the Lifestyles of Health and Sustainability (LOHAS) sector is as good for a company's bottom line as it is for society.

The LOHAS sector is devoted to consumer goods and services dedicated to health and wellness, the environment and sustainable living. From its humble beginnings more than 30 years ago, this vibrant and virtually untapped sector is thriving as the benefits of healthy lifestyles and environmental awareness grow as top-of-mind priorities among audiences ranging from C-suite executives to the global investment community.

The LOHAS sector is also being embraced just as enthusiastically by mainstream US consumers¹, who in rising numbers and across all age groups and geographic regions are making health, wellness and the environment a higher priority in their lifestyles – from day-to-day behavior to purchasing decisions. Among the many ways they are expressing their enthusiasm is by paying a premium for healthy and sustainable products, which plays a pivotal role in measuring ROI. Also, with LOHAS lifestyles now deeply entrenched in our culture and becoming a fundamental priority, mainstream consumers are taking more responsibility for their own well-being.

The LOHAS sector is growing swiftly and currently represents an estimated US market size of approximately \$290 billion.

The LOHAS sector is growing swiftly and represents an estimated US market size of approximately \$290 billion². Fueled by a dedicated base of supporters and advocates, the sector delivers benefits to a rising number of companies as well as to investors and other stakeholders worldwide:

- Stronger brand value, customer loyalty and competitive position by offering products that are healthier for and more attractive to consumers
- Greater ROI due to improved price points, decreased costs, higher unit volume sales and greater product diversification
- Reduced operating costs through energy efficiency, and less resource consumption and waste

In a business environment where even the most established and iconic sectors and brands are struggling to maintain their grasp on their hard-won market share, the LOHAS sector is building in strength, influence and momentum, and is continuing to distinguish itself ever-more dramatically among mainstream US consumers.







Market Growth

Healthy and sustainable products have unquestionably entered the mainstream and are being adopted by a widening and diversified consumer base.

According to a survey by the Natural Marketing Institute (NMI), *The State of Sustainability in America 2015: Trends & Opportunities*, more than one-half of mainstream US consumers choose to buy or use environmentally friendly and sustainable products when given the choice.

The LOHAS sector reflects health and sustainability's expanding consumer footprint by embracing six distinct yet complementary sub-markets, each offering goods and services that meet consumers' ever-changing sustainability preferences and needs. Sub-markets include Personal Health, Green Building, Eco-Tourism, Alternative Transportation, Natural Lifestyles and Alternative Energy.

LOHAS SUB-MARKETS

SUB-MARKETS	ESTIMATED ANNUAL MARKET SIZE (\$ BILLION)	GOODS / SERVICES
 PERSONAL HEALTH	\$117	Natural, organic and nutritional products; Integrative health care; Dietary supplements; and Mind/body/spirit products
 GREEN BUILDING	\$100	Home certification, Energy Star appliances, Sustainable flooring, Renewable energy systems and Wood alternatives
 ECO-TOURISM	\$42	Eco-tourism and Eco-adventure travel
 ALTERNATIVE TRANSPORTATION	\$20	Hybrid vehicles, Biodiesel fuel and Car-sharing programs
 NATURAL LIFESTYLES	\$10	Indoor and outdoor furnishings, Organic cleaning supplies, Compact fluorescent lights, Social-change philanthropy, and Apparel
 ALTERNATIVE ENERGY	\$1	Renewable energy credits and Green pricing

Source: www.lohas.com/about

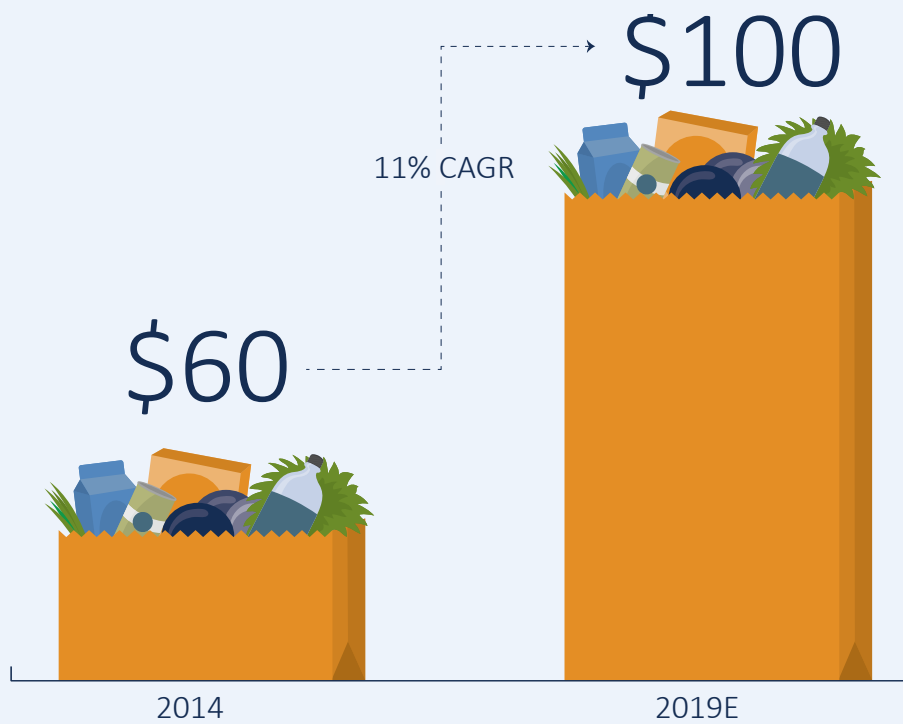
Natural and organic products is a LOHAS segment that is also continuing to experience remarkable growth. According to Natural Foods Merchandiser's *2014 Market Overview*, the segment grew by more than 10 percent in 2013, climbing to nearly \$110 billion. Among the factors fueling growth, and consumer preferences for healthier products and lifestyles, are the following:

- An aging population
- Mounting concerns over the ethical treatment of animals, Genetically Modified Organisms (GMOs)³ and other food-supply issues

- Stronger preferences for locally sourced ingredients
- Heightened awareness of allergies, food-related diseases and other health conditions

All-natural and organic food and beverages, a subset within the natural and organic products segment, also continues to prosper. Analysts estimate that by 2019, US retail sales will reach \$100 billion, representing an impressive 11 percent compound annual growth rate (CAGR) from 2014 levels of \$60 billion.

US ALL-NATURAL AND ORGANIC FOOD AND BEVERAGES SALES (\$ BILLION)



Source: USDA, Economic Research Service using data from *Nutrition Business Journal* and *Packaged Facts*
Note: Includes natural and organic fruits and vegetables, beverages, meat/fish/poultry, dairy and packaged/prepared foods

With a strong growth rate, combined with wellness as a rising societal priority being affirmed by new product-purchasing habits, many LOHAS analysts

and observers believe there has never been greater opportunities to invest and participate in the healthy and sustainable products segment.

Buying into Healthy Lifestyles

There are two roads companies can take to fully benefit from LOHAS sector growth: buy or build. In rising numbers, both strategic (corporate) and private-equity buyers, recognizing the near-mass movement toward healthier and more sustainable living, are choosing to buy.

Among the sector features that are attracting strategic buyers are market share and the authenticity factor that consumers value most. For private-equity buyers, their interest is being piqued by the sector's

fragmented structure, pricing power of certain companies and overall returns driven by robust long-term sector growth and increasing scale.

North Castle Partners, TSG, Catterton Partners, Sherbrooke Capital, Pegasus Capital Advisors and Greenmont Capital Partners are just a few of the private-equity firms adopting a more dedicated focus on the natural and organic products market. The following is a small sample of transactions, many of which are sizeable, that have occurred in the LOHAS sector.



SELECT LOHAS TRANSACTIONS (\$MM)

DATE	TARGET	ACQUIRER / INVESTOR	ENTERPRISE VALUE
Mar-16	That's How We Roll, LLC	Clearlake Capital Group, LP	---
Feb-16	Zola	KarpReilly	---
Feb-16	Silk Therapeutics, Inc.	Kraft Group, LLC	\$6
Feb-16	Harvest Innovations, LLC	Archer-Daniels-Midland Company	---
Feb-16	Panos Brands	Hammond, Kennedy & Whitney	---
Jan-16	Boulder Brands, Inc.	Pinnacle Foods, Inc.	\$968
Jan-16	Dr. Lucy's	LaSalle Capital	---
Jan-16	Epic Provisions	General Mills	---
Nov-15	neat foods	Atlantic Natural Foods	---
Nov-15	Revolution Foods	Investment Group	\$35
Nov-15	thinkThin	Glanbia	\$217
Oct-15	Diamond Foods	Snyder's-Lance	\$1,925
Oct-15	BrightFarms, Inc.	WP Global Partners	\$14
Oct-15	Sunrise Growers, Inc.	SunOpta, Inc.	\$450
Oct-15	Beyond Meat	Kleiner Perkins Caufield Byers	---
Oct-15	Quorn	Monde Nissin	\$833
Sep-15	Willamette Egg Farms, LLC	M.G. Waldbaum Company	\$90
Sep-15	Love Child (Brands), Inc.	GreenSpace Brands, Inc.	\$7
Sep-15	Alpine Valley Bread Company	Flowers Bakeries, LLC	\$120
Sep-15	Green Giant	B&G Foods	\$765
Aug-15	Niagara Natural Fruit Snack Co., Inc.	SunOpta, Inc.	\$12
Jul-15	Sprout Organic Foods	North Castle Partners	---
Jun-15	Vega	WhiteWave Foods	\$550
Jun-15	Garden Fresh Gourmet	Campbell Soup	\$231
May-15	Applegate Farms, LLC	Hormel Foods Corporation	\$775
Feb-15	Enjoy Life Foods, LLC	Mondelez International	---
Jan-15	Chiquita Brands International	Sucocitrico Cutrale	\$1,277
Dec-14	Nature's Pantry	Natural Grocers by Vitamin Cottage	---
Nov-14	Garden Protein International	Pinnacle Foods, Inc.	\$155
Oct-14	Annie's	General Mills	\$821
Sept-14	So Delicious	WhiteWave Foods	\$195
Aug-14	Vitacost.com	The Kroger Co.	\$253
Aug-14	Rudi's Organic Bakery	The Hain Celestial Group	\$61
July-14	Flagstone Foods	Bay Valley Foods/Treehouse	\$875
July-14	WILD Flavors GmbH	Archer Daniels Midland	\$3,097
July-14	Healthy Directions	Helen of Troy Limited	\$195
May-14	Van's International Foods	The Hillshire Brands Company	\$165
May-14	New Frontiers Natural Marketplace	Whole Foods Market	---
Apr-14	DIANA S.A.S.	Symrise AG	\$1,796

Source: CapitalIQ

Changing Lifestyles, Climbing Consumer Demand and Other Drivers

The burgeoning LOHAS sector can be traced to a number of groundbreaking milestones. Among the earliest is the 1969 passage of the National Environmental Policy Act (NEPA), which established the first national policy for environmental sustainability.

The Act's purpose is to *"foster and promote the general welfare, create and maintain conditions under which man and nature can exist in productive harmony, and fulfill the social, economic and other requirements of present and future generations."*

More than 45 years later, health and sustainability have progressed from being primarily recognized in niche markets to being championed in all corners of the US consumer population, with double-digit growth expected for the foreseeable future.

In 2014, more than 90 percent of mainstream US consumers – compared to 83 percent in 2004 – had an understanding of health and sustainability, and with a broader understanding comes a committed relationship that consumers have with the LOHAS sector, and the companies that welcome and embrace it⁴.

LOHAS stands positioned as a prime growth and investment opportunity, largely due to a critical shift in consumer priorities, behavior and purchasing patterns, as well as to changes in a number of other core areas. For example, three out of four mainstream US consumers believe it is "somewhat" to "very important" to live an environmentally friendly and sustainable lifestyle, with the majority (57 percent) incorporating environmental friendliness and sustainability into their everyday lives⁴.

Consumer Priorities and Behavior

Consumer behavior is now more sustainability-driven for a variety of reasons, including a more proactive approach to living a longer and healthier life, conserving resources, saving money, and contributing to society. Also, greater numbers of consumers believe that waste and consumption are too prevalent in today's society and are doing their part to save, reuse and live more environmentally friendly. The NMI survey identifies additional insights into consumer-behavior trends:

- Fifty-five percent of mainstream US consumers in 2014 felt more personally responsible for protecting the environment than they had in the past, up from 49 percent in 2009.
- Fifty-two percent believe "concern about" the environment is not a fad and is "here to stay."
- Approximately 85 percent "believe we live in a wasteful society" and "save and reuse things."

Members of all age groups are incorporating some form of sustainability into their daily lifestyles in new and different ways, at varying levels, and for a variety of reasons.

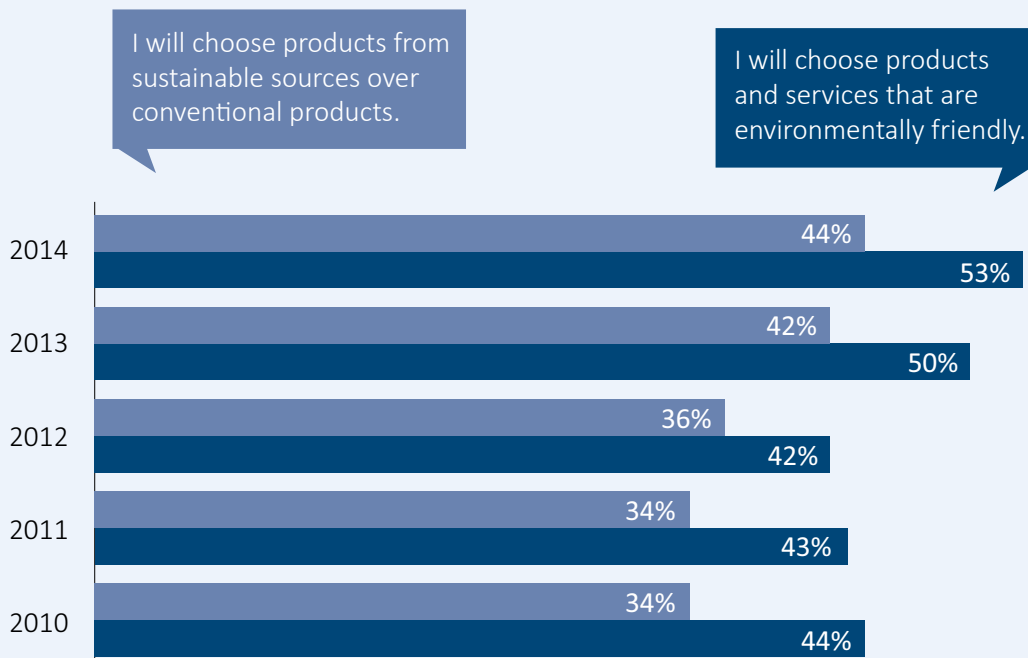
Members of all age groups are incorporating some form of sustainability into their daily lifestyles in new and different ways, at varying levels, and for a variety of reasons. Interestingly, when believing we live in a wasteful society, and in saving and reusing items, Boomers (born between 1946 and 1964) and Matures (born before 1945) register the highest ratings among NMI survey participants – surpassing Millennials (born between 1977 and 1998) and Generation Xers (born between 1965 and 1976). These findings indicate that older generations are among the key demographics not only in healthy living and sustainability but also in the LOHAS sector.

Purchasing Decisions

The shift that is transforming mindsets in consumer priorities and behavior is having an equally strong impact when purchasing decisions are made. Whether buying organic produce or switching to natural and environmentally friendly products, consumers are purchasing products that are as safe and natural for their bodies as they are for the environment. The results have been indelible inroads by sustainable, environmentally friendly products in the conventional-products marketplace, and immense strides in becoming the products of choice for a broadening base of engaged consumers.

SUSTAINABLE VS. CONVENTIONAL PRODUCT SELECTION

(% of the General Population (GP) who completely/somewhat agree with the following statements when given the choice to buy or use a product or service)



Source: NMI, *The State of Sustainability in America 2015: Trends & Opportunities*

With more than one-half of mainstream US consumers choosing environmentally friendly products and services, the success and adoption of those products

and services by a greater number of consumers has become more firmly entrenched in markets across the US.

Cross-category Demand

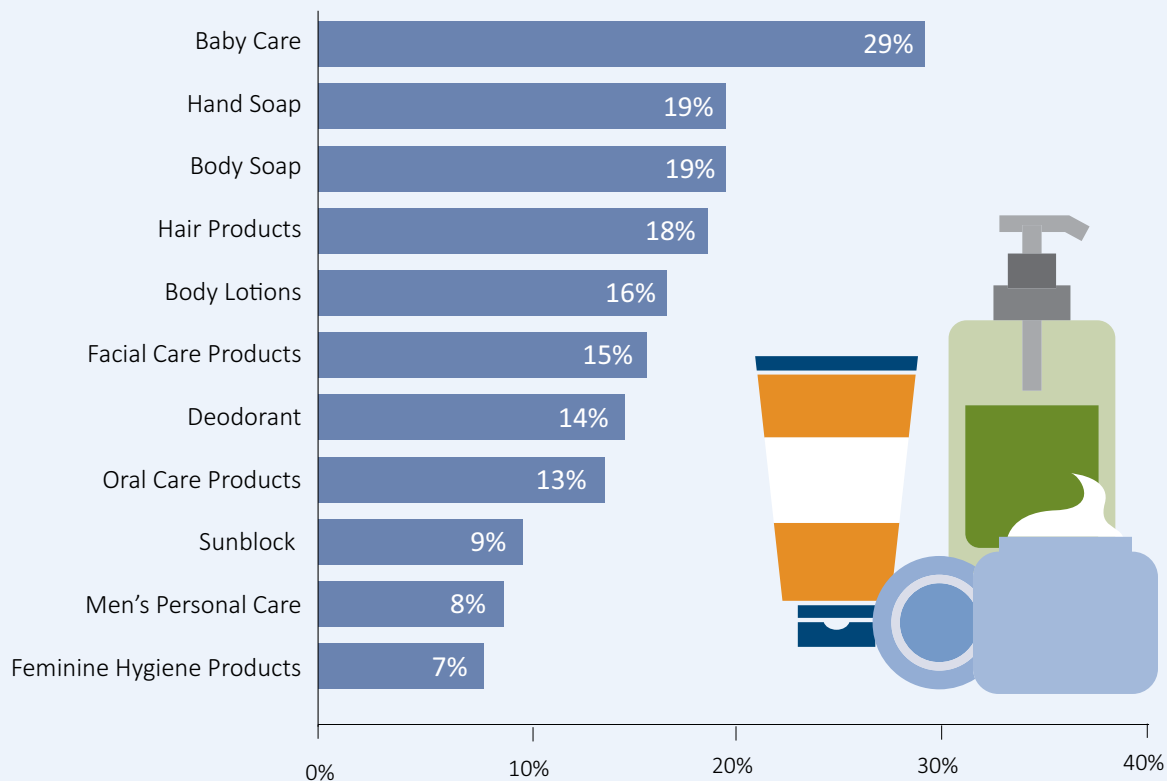
Natural/organic personal care products is an additional market segment where mainstream US consumers continue to show their interest and allegiance – and where strong growth opportunities are ready to be realized.

There are a number of key factors that are driving more mainstream US consumers to natural/organic personal care products – and to the LOHAS sector. Consumers are placing a higher premium on their health and wellness, and have become increasingly aware of the potential negative health implications associated with toxins. Many are taking a firm stand

against products that contain those toxins, even if the products are among their favorite brands – 30 percent would completely abandon their go-to product if it contained synthetic pesticides or GMOs⁴.

By understanding the motivations that are driving new priorities, behavior and purchasing decisions among consumers, companies can formulate effective strategies for engaging them, and winning their support and loyalty, year after year. With loyalty comes evangelical consumers who are often not only less price sensitive but also loyal advocates for their favorite companies.

GENERAL POPULATION USE (OR PURCHASE) OF NATURAL/ORGANIC PERSONAL CARE PRODUCTS IN A SIX-MONTH PERIOD (2015)



Source: NMI, *The State of Sustainability in America 2015: Trends & Opportunities*

Built-in Customer Base

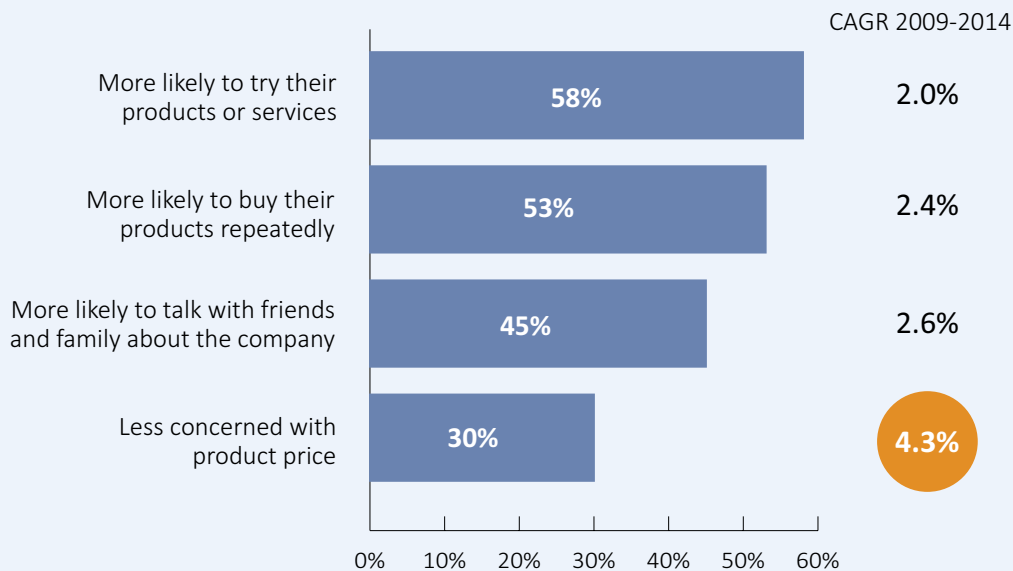
Sustainability has a bottom-line influence that crosses not only the full range of goods and service brands but also consumers who purchase them.

According to the NMI survey, the impact of knowing a company is concerned about its business practices and their effect on the environment and society has significant sway among mainstream US consumers. It also increases their desire to try a product, builds company loyalty and even encourages them to share their opinions.

Consumers have also recently become less price sensitive, with the CAGR of “price insensitivity” reaching 4.3 percent – the highest among survey responses. These findings illustrate the extent to which consumers are being influenced by social and environmental initiatives.

CONSUMER VIEWS ON SUSTAINABILITY

% of the General Population/GP indicating “Knowing that a company is mindful of its impact on the environment and society makes me...”



Source: NMI, *The State of Sustainability in America 2015: Trends & Opportunities*

TRENDS ON THE RISE

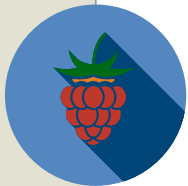
As health and sustainability trends continue to emerge, they are further distinguishing the LOHAS sector before companies, investors and consumers alike. For instance, a number of key macro trends influencing the health and sustainability marketplace was spotlighted at the Natural Products Expo West in March 2015, which drew a record-setting attendance of more than 70,000.



Transparency Advancements: Consumers are increasingly demanding, and expecting, that they be informed of food ingredients. To stay competitive, brands are meeting this demand with technology and other transparency and product-traceability approaches.



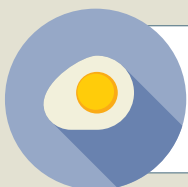
Emphasis on Simplicity: Brands continue to embrace innovation through minimal processing and a short list of nutrient-dense ingredients, without compromising taste.



Paleo Era: Paleo-positioned products, based on the Paleolithic diet regimen of lean meat, nuts and berries, are becoming more prevalent in most every product category.



Paper and Packaging Innovation: Advances that include edible cups as well as packaging that features sustainability-friendly cookbook authors continue to make strides in consumer education and shelf stability.



Protein: Natural and organic brands are responding to consumers' desire for products that contain more protein.

Millennials and Beyond

Purchasing organic produce and natural consumer-packaged goods, driving a hybrid automobile, and recycling are only a few ways the majority of mainstream US consumers are participating in some form of LOHAS activity, and Millennials are among the top champions of this booming lifestyle.

With over 80 million individuals strong, Millennials are the largest generation of young people in history and without a doubt, one of the key demographics driving health and sustainability. NMI research reveals they are a tremendously influential consumer group that has a vastly different set of lifestyle attitudes, values and priorities from previous generations, and are revolutionizing the way business is conducted.

Characterized as technologically savvy, Millennials are intelligent, educated, often impatient and flexible to change. They demand authenticity and transparency from companies, and are early adopters of products that are compatible with their values. They also make purchase decisions with an eye toward community impact, and use social media to share opinions and exert their influence. From a market-size standpoint, Millennials represent the largest generational demographic, and as such they wield the sizeable loyalty and allegiance needed for enduring LOHAS sector growth, progress and financial returns.

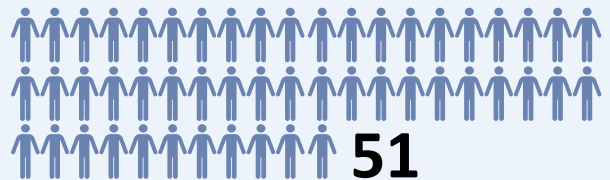
Despite their remarkable size, influence and economic clout, Millennials are only one part of a larger group that is integrating health, sustainability and an environmental awareness into their day-to-day lives. Approximately 75 percent of mainstream US consumers believes it is important to live an environmentally friendly and sustainable lifestyle, with Matures, somewhat surprisingly, generating the highest response percentage (80 percent), and Millennials (75 percent), Boomers (74 percent) and Generation X (73 percent) closely behind.

GENERATIONAL POPULATIONS IN THE US (MM)

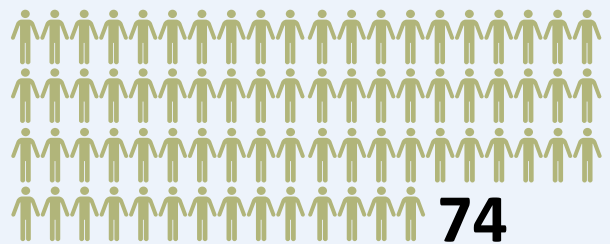
20



Matures (born before 1945)



Generation X (born 1965-1976)



Boomers (born 1946-1964)



Millennials (born 1977-1998)

Source: NMI, *The State of Sustainability in America 2015: Trends & Opportunities*; www.forbes.com

Redefined Company Priorities

The move toward safe and sustainable products has become so pervasive that it can be found in areas ranging from the personal care sector to candy companies and mass retail – and among top industry brands.

Crystal Deodorant – An Authentic Road to Success

For more than 30 years, Crystal Deodorant has been methodically building a fiercely loyal customer base – without the bloated marketing budgets, excessive publicity or costly celebrity endorsements that are so often associated with many products today. Rather, the company has grown its legions of dedicated customers and advocates, and profile-raising brand reputation, through a steadfast commitment to authenticity, consistency and focus.



Health and Wellness Trailblazer

In 1984, more than a decade before the rise of the LOHAS sector, Crystal Deodorant launched its first product, Le Crystal Naturel®, a safe, healthy and effective deodorant that contains no harsh chemicals such as aluminum chlorohydrate, aluminum zirconium, parabens or other unwanted and harmful ingredients.

Le Crystal Naturel was an immediate hit with department stores and consumers alike, and remained the company's sole product until 1992, when Crystal Stick, with its distinctive and highly recognizable pink packaging, was introduced. Crystal Stick brought the company nationwide distribution through major drug-store chains, where it has remained on store shelves for the past 25 years.

Since the launch of Crystal Stick, Crystal Deodorant has been broadening and diversifying its product portfolio to target men, women and on-the-go consumers.

Competing with Industry Power Players

While introducing new products and widening and diversifying its customer reach, Crystal Deodorant has continued to build on its success and competitive standing among industry heavyweights Unilever, Procter & Gamble and Colgate-Palmolive through its commitment to product safety and efficacy.

Independent third-part testing consistently shows that Crystal deodorants are far safer than comparable products. For example, a study performed by the Environmental Working Group for Skin Deep featured a safety guide for personal care products based on a regulatory database of known toxic chemicals. Guide scores range from 1 (safest) to 10 (most harmful). The guide shows that Crystal deodorants scored 1.1 to 1.8, as compared with 4.7 for the next closest competitor.

Crystal Deodorant's proven safety record has generated product and company endorsements from cancer centers across the US, leading to significant word-of-mouth marketing, lifelong customers and continued product validation. Also, while many natural products sacrifice efficacy for safety, Crystal deodorants' main ingredient, potash alum, has been scientifically proven to inhibit the growth of bacteria that causes body odor, without compromising consumer safety.

Equally important is the company's ability to convert first-time purchasers into long-time customers. Internal company surveys reveal that Crystal Deodorant enjoys a remarkable 83 percent Net Promoter Score. A score higher than 50 is considered great and a score higher than 70 is considered excellent.

Hundreds of small independent deodorant brands are aggressively competing for distribution, coveted shelf space and consumer attention. However, Crystal Deodorant's proven reputation for safety and efficacy, combined with a devoted customer base, has positioned the company as the only independent brand with meaningful market share in the fast-growing natural deodorant segment.

Beacon for Financial and Strategic Buyers

In 2014, Crystal Deodorant received an unsolicited offer from a potential buyer interested in acquiring a majority stake in the company. While the offer was within an acceptable range for ownership, the company retained Bill Harrison, head of Consumer Investment Banking, and Tyler Comann, managing director, at Headwaters MB to determine the appropriateness of the offer, solicit additional buyers and increase the value of the initial bid.

Given Crystal deodorants' established record for safety and efficacy, loyal customers and proud history, the Headwaters team knew multiple buyers who would be highly interested in the company. Headwaters advised the company to run a closely targeted sale process, contacting potential buyers who had the most successful track records and a known or demonstrated interest in acquiring companies with characteristics similar to Crystal Deodorant.

Headwaters' strategy attracted significant attention from both financial and strategic buyers, largely due to the following reasons:

- Buyers, regardless of their size and resources, recognized that they could not replicate Crystal Deodorant's long and authentic history of providing the safest deodorant products on the market.
- Crystal Deodorant's large base of dedicated customers has a strong desire to purchase new products from the company.

Other key advantages include the company's significant potential for geographic expansion and command of market share over competitors. They also include favorable industry trends such as consumers' increasing willingness to pay a premium for better-for-you products.

After receiving, evaluating and carefully weighing multiple bids alongside the Headwaters team, Crystal Deodorant selected its desired partner, proceeded to an expedient and successful closing, and achieved a valuation that was 50 percent higher than the original offer.

Unreal Brands, Wal-Mart, Costco, McDonald's and Dunkin Donuts – Now on Board

Personal care is not the only sector with a renewed focus on customer health and wellness. Candy manufacturer and marketer Unreal Brands has reformulated its flavor contents to offer candy that has no GMOs, corn syrup, preservatives or other "fake" ingredients. Its products now include only sustainable palm oil, grass-fed dairy, traceable cacao and other natural ingredients.

Wal-Mart has been improving the quality of its fresh fruits and vegetables since mid-2013 by purchasing its produce from local growers. The company also launched a produce-training program for 70,000 associates that teaches them how to better handle fruits and vegetables. Additionally, Costco saw its sales of organic produce more than double to nearly \$3 billion from 2012 to 2014.

In March 2015, both McDonald's and Dunkin Donuts made health and sustainability key parts of their sourcing initiatives. McDonald's announced it will no longer buy chickens treated with antibiotics, based partly on the concern that the overuse of antibiotics for poultry may diminish their effectiveness in fighting disease in humans. Many restaurant industry analysts view McDonald's decision as an additional step in its ongoing efforts to improve its health perception among US consumers in the wake of disappointing US sales the last several years.

Dunkin Donuts is removing titanium dioxide from its powdered sugar products. Titanium dioxide is a food-coloring ingredient used to brighten white substances and has been criticized by consumer advocacy groups for potential health risks. Although the FDA allows small amounts to be used in food, titanium dioxide is also used in sunscreens, cosmetics, paints and coatings.



Measuring ROI

Most businesses that have implemented socially and environmentally responsible initiatives measure ROI using a number of multifaceted approaches that include qualitative and quantitative metrics focusing on positive results.

Optimized operations and cost savings, stronger brand loyalty, enhanced brand value, and a lowered environmental impact are among the many favorable results identified in the NMI survey.

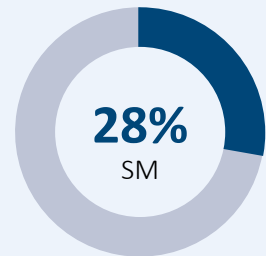
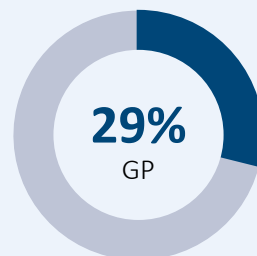
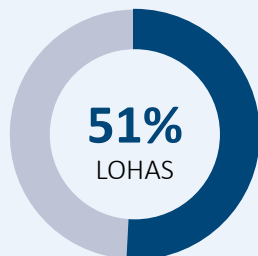
Consumers' willingness to pay a premium for sustainable products is an additional metric influencing ROI, and a distinct advantage for the LOHAS sector. The NMI survey measured the willingness to pay a premium and brand loyalty among the General

Population (GP), Sustainable Mainstream (SM) and LOHAS consumer segments.

Although environmentally friendly and sustainable products are typically priced higher than the competition, the NMI survey shows that nearly 30 percent of the GP is willing to pay a 20 percent premium for them. Additionally, over 50 percent is more likely to make repeat purchases when they know a company is mindful of its environmental impact.

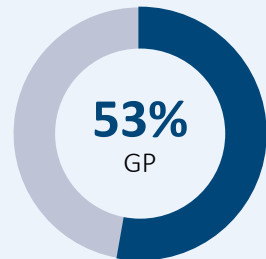
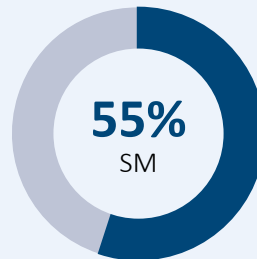
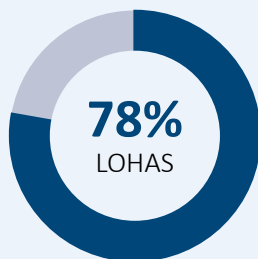
WILLINGNESS TO PAY A PREMIUM

"I am willing to pay 20 percent more for products that are made in an environmentally friendly and sustainable manner."



BRAND LOYALTY

"Knowing a company is mindful of its impact on the environment and society makes me more likely to buy their products repeatedly."



Note: General Population (GP) refers to US adults 18 and older. Sustainable Mainstream (SM) refers to consumers within the GP who are adopting some sustainable attitudes and behaviors and feel somewhat empowered they can make a difference. LOHAS consumers are a subset of the GP that are considered highly engaged and integrated into the sustainable lifestyle by virtue of their purchasing decisions, behavior and personal habits.

Source: NMI, *The State of Sustainability in America 2015: Trends & Opportunities*

From Small Company to Multinational Buy-in

LOHAS sector expansion was originally driven by small, independent and mission-driven companies determined to make natural, healthy and safe products.

These small companies performed virtually unnoticed for many years. Then, as health and sustainability rose more aggressively to the forefront of consumer consciousness, other companies, including multinational companies and leading brands, have charged full speed into the market and the LOHAS sector, and have experienced explosive growth.

Clorox's acquisition of Burt's Bees, Campbell's acquisition of Plum Organics and Colgate-Palmolive's acquisition of Tom's of Maine are just a few examples of multinational acquisitions of leading LOHAS brands.

In addition to acquisitions, many multinationals are launching their own eco-friendly, socially responsible and natural product lines. For example, Publix and Clorox are enjoying tremendous success with the launch of their Green Wise and Green Works natural household and cleaning product lines. Whole Foods and Starbucks, which launched the Whole Trade and Ethos Water product lines, are focusing on products that promote fair trade, sustainability and corporate responsibility.

Companies and brands that are skilled in promoting their sustainability efforts are often rewarded with high ratings of "good corporate citizenry" by their customers, which can often translate to brand loyalty and repeat purchases. These companies' commitment to environmental and social issues has positioned them as good corporate citizens in the eyes of US consumers.

LEADING BRANDS AND COMPANIES IN THE LOHAS SECTOR



ACQUIRED



ACQUIRED



ACQUIRED



ACQUIRED

BARE ESSENTIALS



ACQUIRED



LAUNCHED



LAUNCHED



LAUNCHED



LAUNCHED



Opportunities Ahead

LOHAS represents a seismic and permanent shift in consumer attitudes and behavior.

It continues to gain momentum among mainstream US consumers as healthy lifestyles, sustainability and environmental awareness further extend their reach across all age demographics. Companies not offering healthier products or sourcing products in a more sustainable way are missing a critical opportunity to connect with new customers and strengthen their relationships with existing customers, charge a premium for their products, and improve margins. However, most importantly, those that understand and capitalize on the changing tides of sustainability that are reshaping how business is being performed can lead their industries today and for years to come.

Strauss Brands: Living Its Mission of Ethical Farming Practices

Randy Strauss
Co-president and CEO
Strauss Brands Incorporated

Randy Strauss, co-president and CEO of Strauss Brands Incorporated, spoke with Bill Harrison, managing director, head of Consumer Investment Banking at Headwaters MB, about Strauss's landmark journey to humane and sustainable farming practices, and the far-reaching benefits they bring to the company, consumers and society.

Company Snapshot

Strauss Brands, which was founded in 1937, is a third-generation, all-natural branded and private-label meat company based in Milwaukee. The company continues to build on the family legacy of “Good for the Animals, Good for the Earth and Good for You,” and on its commitment to humane and ethical livestock-raising practices. This commitment has been prominently recognized by The Oprah Winfrey Show and *O, the Oprah Magazine* as well as by *The Washington Post*, *The New York Times*, and chef and author Anthony Bourdain, among others. The company's farming practices have also earned a number of awards and

widespread acclaim as well as acknowledgements from People for the Ethical Treatment of Animals (PETA) and the Humane Society of the United States, two of the world's most active and respected animal rights groups.

“Thank you for your compassionate choice to eliminate veal crates from your operations. Your decision will dramatically reduce the suffering of calves.” – Note with flowers sent to Strauss from People for the Ethical Treatment of Animals (PETA)

After more than 75 years, brothers and co-presidents Randy and Tim Strauss are carrying on the family's proud tradition of growth, evolution and farm-fresh products that have made Strauss one of the country's leaders in sustainably and humanely raised meats.

"Strauss's pasture-raised practices are what persuaded us to carry veal at all. People feel more comfortable purchasing the product because they feel confident in how it was raised." – Theo Weening, Global Meat Buyer for Whole Foods Market

BH: How would you describe Strauss's earliest roots and the company's evolution?

RS: My grandfather founded Strauss in 1937 as a veal packer and processor in the Milwaukee area, focusing on delivering the highest quality products and customer service in the Midwest. Since then, quality has remained our number-one priority, our product line has expanded to include lamb and grass-fed beef, and we have become our industry's foremost innovator and thought leader in natural, sustainable and humane farming methods. In fact, our deep LOHAS roots have distinguished Strauss as the first meat company in the US to use humane methods to raise calves and eliminate traditional industrial-farming methods, and the inhumane treatment of animals.

BH: When did you and Tim join the company, and what operational changes did you make?

RS: Tim and I grew up in the business, and as teenagers began working side-by-side with our father and grandfather. After attending college and returning to the business, we became concerned with the treatment of livestock and knew there had to be a more humane, more environmentally friendly and overall better way to raise them.

After a lot of soul searching and extensive research, we decided to take the company in a more positive and more progressive direction with new business practices

that allowed all our livestock to be raised in the way nature intended – humanely, ethically and naturally. Our livestock, after all, is making the ultimate sacrifice for us and deserves the best possible life experience and living conditions. Our commitment to that belief is as strong today as it was then, and it will continue to drive all that we do at Strauss.

BH: How does Strauss differentiate itself from other grass-fed meat companies?

RS: Our livestock is 100 percent grass-fed and grass-finished for its entire life, unlike some companies that negate the benefits of grass feeding when they switch to grain feeding during the latter stage of the animals' life in order to increase their size. We recognize that for our customers and their families to fully enjoy the benefits of grass-fed beef, it must remain consistently at the highest quality level, even if achieving that level results in higher costs for us. We simply believe it's the right thing to do.

"Strauss's commitment to improving calves' quality of life reflects changes in the industry to create at least a better baseline for standard care." – *The New York Times*, "Veal Farmers Adopt More Humane Methods," August 2014

BH: Can you provide some insights into the Strauss mission statement of "Good for the Animals, Good for the Earth and Good for You"?

RS: Our mission, which is based on our core belief of living a natural and sustainable life, is honest and straightforward, and underlies not only who we are as a company but who we are as contributors to society.

Good for the Animals: All our animals are free- or group-raised by our network of family farmers, whose ethics and sustainability beliefs are perfectly in sync with our own. Our veal calves are never chained or tethered, and our beef is fed a 100 percent grass-fed diet with no hormones or antibiotics. Those practices

have been proven to provide animals with a healthier, natural life.

Good for the Earth: We support and encourage sustainable grazing and pasture management, which benefits our environment in many ways. Reduced greenhouse gases, lower levels of topsoil erosion, improved ground-water absorption, less need for chemical fertilizers and lower fossil-fuel consumption, as compared with industrial-raising practices, are just a few benefits of natural pasture raising. Overall, pasture raising casts a minimal carbon footprint when compared with traditional grain-fed methods.

Good for You: All-natural, grass-fed meat is a superior product to traditional grain-fed products and provides significant health benefits to consumers. The benefits are so significant that it's worth becoming a meat eater if you're not already!

“Comparatively, putting cattle out on the pasture, these animals will typically have a higher quality of welfare, a better life than most of the chicken and pigs who are raised and killed for food in our country. The decisions these companies have made are historic and will help end one of the [cruellest] and [most] inhumane practices associated with factory farming: the veal crate.” – Paul Shapiro, Vice President of Farm Animal Protection, Humane Society of the United States

BH: Staying on the health-benefits theme, why choose grass-fed practices over the traditional grain-fed?

RS: The health benefits of grass-fed practices extend to both the animal and to consumers. Grain, unlike grass, is not the diet that nature intended for bovine livestock, as their digestive systems cannot process grain effectively, so it runs against the core values of being natural and sustainable. The animals' inability to process grain naturally, along with being confined in massive feed lots, often lead to sickness and disease,

which must then be treated with large amounts of antibiotics. That treatment cycle continues until the animals are harvested, so their lives are replete with unnatural diets, inhumane conditions, constant sickness and antibiotics.

The purchasing public, which ultimately consumes those animals, has become more educated in the quality of their food and the dangers of antibiotics in food sources, and their heightened awareness guides our feeding practices.

BH: What are the specific health benefits from free-raised, grass-fed meat?

RS: The health benefits of free-raised, grass-fed meat are tremendous and have been objectively proven. For example, our free-raised veal is lower in cholesterol and saturated fat, and has less total fat, than chicken breast. Also, our free-raised, grass-fed beef is lower in total fat, calories and cholesterol, and is substantially healthier than conventionally raised, grain-fed/grain-finished beef. Compared to grain-fed beef, grass-fed beef has been shown to have three times more of the beneficial conjugated linoleic acids (CLAs) and twice the beta-carotene, and is higher in omega-3s, all of which have heart-health benefits and may reduce cancer risks.

Those benefits are quickly rising in consumer consciousness, and among the sectors where we are seeing increased demand for healthier alternatives to traditional meat are school systems, hospitals, assisted-care residences and other healthcare facilities.

BH: In an industry as established and entrenched as veal, how difficult was it to make the shift from traditional methods to humane and ethical standards?

RS: It was without a doubt a difficult transition, though unquestionably the right one. Since the industrialized, high-production farming industry was extremely set in its ways, we encountered some strong headwinds,

resistance to change and even a few threats because our humane and ethical-raising methods ran counter to the traditional operating and economic models of other companies. We also worked with the United States Department of Agriculture (USDA) to define pasture-raised veal, which did not exist in their eyes before our involvement.

We are most proud of our free-raised method because the animals are raised without hormones or antibiotics in wide-open pastures alongside their mothers and their herd, drinking mothers' milk and fresh water. Their confinement is defined only by the stars above them.

We always believed in what we were doing and are proud to have led this meaningful change. Many companies in our industry have since followed our example, but what we were able to achieve in months – transitioning to free-raised methods – has taken them more than a decade to accomplish.

“Strauss Veal [has converted] its operations to crate-free group housing systems, where calves will be able to turn around, walk and socialize with one another. Veal crates are inhumane and archaic and do nothing more than subject a calf to stress, fear, physical harm and pain. These overdue decisions are perhaps the most monumental advances for animal welfare in the history of modern North American agribusiness.” – Randy Strauss, Co-president and CEO of Strauss Brands

BH: Why are healthy and sustainable practices so important to you, Tim and the entire company?

RS: Tim and I have been passionate about healthy and sustainable practices since we first began working at Strauss, and long before LOHAS became mainstream. Ethical agriculture not only stands for our long-term commitment to the humane treatment of animals and the protection of our environment, but also reflects a customer priority that has grown tremendously

and continues to rise in significance each year. Our family name on every package continually affirms our dedication to humane and ethical standards, and to our customers' rising expectations.

BH: What is your position on the perception, correct or incorrect, that grass-fed beef does not taste as good as traditional grain-fed meat?

RS: Most of the grass-fed meat that we tested from around the world was clearly lacking in taste, and the American palate did not respond well to its flavor, unlike in Australia and New Zealand where it has a long history. However, our complex and proprietary system of genetics, animal and grass types, and husbandry practices, as well as some trial and error that is part of any successful process, have resulted in excellent tasting products from animals that are raised as nature intended. In taste test after taste test, our grass-fed meat has won hands down, even when compared with traditional corn-fed beef, and has become the meat of choice for leading chefs across the country.

BH: How do you raise the animals to ensure they are in fact treated humanely and ethically?

RS: We seek out family farmers and ranchers who share our philosophy, then bring them into our network and contract with them to raise the animals according to our exact specifications. Each family farmer or rancher must agree to our code of ethics, conduct and policies in order to be approved. Many have been with us for more than 30 years. We also have a dedicated livestock team that visits each family farmer to verify that our practices are being followed in every way.

BH: How were you able to earn acknowledgements from animal rights groups considering their position on meat-processing companies?

RS: PETA, the largest animal rights group in the US, learned of our humane and ethical practices and sought us out, without any proactive steps on our

part, and subsequently came to better understand our business practices, family legacy and values. The Humane Society of the United States, another leading animal rights group, realized that consumer desire for meat will continue, so rather than trying to disrupt our business, the group agreed that we are leading a change they would like to see adopted by all meat processing companies – a commitment to ethical and humane methods when raising animals and managing operations.

“Was the animal raised outdoors? Free-range and free-roam varieties are good choices, but ask if the animals are raised outside or just have “access” to the outdoors. For veal, look for the Strauss Free Raised brand. (“Free raised” calves roam outside with their mothers – never tethered indoors.)” – O, the Oprah Magazine, “Meet Your Meat,” July 2010

BH: What growth opportunities are you most excited about and what do you attribute to such growth?

RS: We have a number of different brands that are experiencing strong customer demand, particularly in the grass-fed beef category. Among the factors driving demand are a range of different sized purchase options – no need for customers to purchase an entire carcass or side of beef – and, unlike other companies, unlimited availability of high-demand steak primals. We also provide the highest quality food-safety standards and an extensive variety of packaging options.

Looking ahead, we believe that the next five to seven years will see dramatic top-line growth in our business due to a combination of increased consumer demand for healthier products and the desire to have animals treated humanely. Those features, working together,

are critical to having products that meet not only our own high standards and expectations but also those of our sophisticated customer base.

BH: Which award or recognition are you most proud to have received?

RS: The truth is, we take tremendous pride in all that we have accomplished in an industry that was resistant to change, and among our proudest accomplishments is our customers’ brand loyalty. Strauss brands can be found everywhere, from the menus at our customers’ favorite restaurants to the kitchens of their must-watch cooking programs. Restaurants as well as supermarkets are proud to call out the Strauss name as the benchmark for quality and integrity. Also, our customers reach out each day to thank us for our commitment to producing great tasting meat with a high standard of animal welfare, and for me and my brother, that is the most meaningful award we could ever receive.

“I just wanted to thank you for providing a quality, natural product the way God intended. In a world of hidden GMOs, pesticides and powerful, strong-armed industry leaders that choose profit and secrecy over the preservation of the health of our children and sustainability of the natural resources of the planet, it is refreshing to find a transparent company that sees what is really ultimately important – the good of the earth and the health of our families and future generations...because it’s the right thing to do. Thank you, thank you, thank you!” – Strauss customer

To find a Strauss retailer in your area, please visit StraussBrands.com.

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Endnotes

¹ US consumers are classified as the General Population (GP) consisting of US adults over the age of 18.

² Source: www.lohas.com

³ GMOs are animal and plant organisms whose genetic material has been altered using genetic engineering to develop desired or useful traits. Although genetic engineering has many positive applications in medical, agricultural, pharmaceutical and other fields, it is considered by some to introduce unpredictable outcomes and potentially negative side effects.

⁴ Source: Natural Marketing Institute, *The State of Sustainability in America 2015: Trends & Opportunities*

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