

Winslow Environmental News

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Food Pyramids and Exercise Regimens: What's a Body To Do?

BY ELLEN PFEIFER

You've finally decided to shed those extra pounds and keep them off for good. Or, maybe, you're at risk for diabetes, cancer, or heart disease and want to take preventative measures. Perhaps you want to insure that your kids are getting all the nutrients they need and developing good eating habits. In short, you are ready to adopt a new, healthier plan of eating and exercising. But you find yourself utterly confused by all the nutritional and life style information reported in the media.

Should you go high protein and low carbohydrates or high carbs and low protein? Should you limit fat intake to less than 20% of calories, 25% to 30%, or more? How much dairy do you really need to consume? How

Please see *BODY* page 4

FEATURED COMPANY

UNITED NATURAL FOODS: CERTIFIED ORGANIC AND GROWING

BY CELINE SUAREZ

DAYVILLE, CT – WHEN YOU LAST SANK YOUR TEETH INTO AN ORGANIC PEACH, YOUR PLEASURE WAS PROBABLY ENHANCED BY KNOWING SOMETHING ABOUT THE NATURAL METHODS USED FOR GROWING THE FRUIT. BUT DID YOU CONSIDER THE DISTRIBUTION CHAIN THAT BROUGHT THE PEACHES TO YOUR LOCAL GROCER? WERE THE FRUITS STORED IN A CERTIFIED ORGANIC WAREHOUSE? SUCH CONSIDERATIONS ARE NOT AS FAR-FETCHED AS YOU MIGHT THINK.

United Natural Foods (NASDAQ: UNFI) believes that natural foods are only



as pure as the methods used to transport them from organic farm to the consumer's shopping bag. The Dayville, CT based company is the country's leading organic and natural foods distributor and, in September, became the first to be certified organic from coast-to-coast. With deliveries to more than 7,000 supermarkets, super naturals (large scale all-natural grocery stores), and



“mom-and-pop” retailers, the company distributes over 30,000 items. **Just what is an organic distribution network?**

Unlike most food distributors, UNFI has a mission besides getting the food from farm to grocery store quickly, in the proper quantity, and in a fresh, undamaged condition. It intends for food to arrive untainted by chemical pesticides or cleaning agents,

packaged in a minimum of protective and recyclable

Please see *UNITED* page 7



MARKETBEAT PAGE 2

Growth in a Zero Growth Economy

To find it, look for companies that are small, creative and very focused



PORTFOLIO UPDATE PAGE 6

Vermont PureTaps New Water Source

Agreement inked with Town of Bennington, VT to access Morgan Springs

PATSKY NAMED PORTFOLIO MANAGER

Winslow Management Company is pleased to announce the appointment of Matthew Patsky, CFA, as Portfolio Manager. Patsky joins Winslow from Adams, Harkness & Hill, the emerging growth investment bank that merged with Winslow in 1999,



where he was Director of Equity Research. He will work with President Jackson W. Robinson to make portfolio investment decisions.

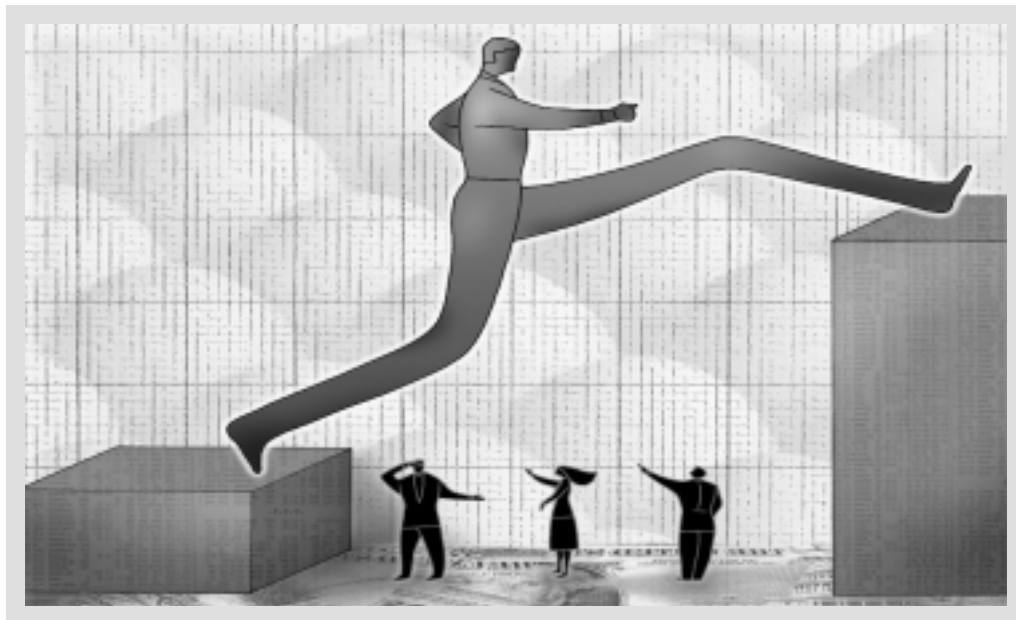
While at AHH, Patsky supervised 21 research analysts focused on companies in the technology, healthcare and specialty consumer products segments.

As an analyst, he was responsible for developing the "Healthy Living" investment theme and selecting the group of companies that comprise that widely recognized investment category. He also wrote the first report on socially responsible investing ever published by an investment bank.

Before joining Adams, Harkness & Hill, Patsky was an analyst for Robertson Stephens, focusing on natural foods, beverages and nutrition. He earned his bachelor's degree from Rensselaer Polytechnic Institute (RPI) in Troy, N.Y. and is a chartered financial analyst (CFA). He is a member of the Association for Investment Management and Research (AIMR) and the Social Venture Network.

Growth Stocks for a Zero-Growth Economy

BY JACKSON W. ROBINSON



With global economies at a standstill, no recovery in sight, and the stock markets in full retreat, the key question for equity investors is what stocks will be the next market leaders? The answer – at once obvious and complex – includes companies that can meet or beat their business milestones and financial expectations in a zero growth environment.

While economic growth will surely return at some point, nobody can predict when. Companies that are dependent on economic expansion to enhance their own revenue and profits will continue to struggle and disappoint investors. By contrast, companies that can prosper independently of the economy are sure to attract investors who are seeking superior returns.

What types of companies produce sustainable growth in an unsustainable economy? We believe the most likely candidates are firms in relatively

new, small markets or emerging segments of large existing markets where demand is unhampered by a lackluster economy. Healthy Living® and renewable energy are examples of the former while biotechnology and medical products – segments of America's thriving healthcare industry – exemplify the latter.

Of course, being in an economically sheltered market category with the right product or service is not the only ingredient for leadership in the stock market. But it may tip the balance today when other critical attributes such as quality managements, strong balance sheets, and solid corporate governance are insufficient to generate uninterrupted growth.

Some of the burgeoning markets we have identified include organic foods, green energy, biotechnology, and medical products. In the accompanying table, we have listed 11 companies in those seg-

ments whose growth rates are unfettered by the current global economic malaise. With market capitalizations ranging from a low of \$40 million (Quantum Fuel Systems) to a high of \$2.4 billion (Whole Foods Markets) for an average of \$499 million, this Winslow growth portfolio is a small cap agglomeration. This shouldn't be surprising since successful high growth companies targeting emerging markets tend to be small, creative, and very focused.

The valuation statistics for these 11 Winslow companies reflect average estimated earnings growth of +34% over 3-5 years. They boast a price-to-earnings ratio of 20x 2003 estimated earnings indicating that these stocks are selling at 60% of their growth rate, commonly referred to as a PEG ratio of .6. These statistics compare favorably to similar financial averages for the S&P 500 index. Given that many of the companies in the S&P 500 are closely aligned with the economy, we believe that they will be lucky to grow at 10%. With a PE of 17x, the S&P is selling at a PEG ratio of 1.7, almost three times higher than this Winslow portfolio.

One of the companies in the portfolio is United Natural Foods (UNFI), featured on page one of this issue of WEN. Servicing a broad range of retailers that sell natural and organic foods to a small but increasing percentage of their customers, UNFI is expected to grow at +20% as U.S. consumers continue to demand safer, healthier foods and products.

Currently not followed by Wall Street analysts because of some prior and not yet fully resolved oversight issues with Medicare, Polymedica (PLMD) is perhaps the most undervalued growth company in the portfolio. Servicing less than 5% of the diabetes population in the U.S. through its Liberty Medical subsidiary, PLMD is selling at .14x its growth rate of +28%. With diabetes a growing problem in the U.S., Liberty Medical is providing health products and services that enhance the quality of life for hundreds of thousands of people.

With the overall economy stagnant, we believe companies such as these represent the investor's best opportunity for generous returns in an otherwise disappointing stock market. □

Successful high growth companies targeting emerging markets tend to be small, creative, and very focused.

Name	Closing Price (\$)*	Mkt Cap (millions \$)	LT Growth (est.%)**	EPS (est. \$)**	PE (x)	PEG
Atherogenic Inc.	6.25	175	35	-0.85	NA	NA
Conceptus, Inc.	15.22	323	50	-1.44	NA	NA
Horizon Organic Holdings	15.60	159	22	0.42	37.1	1.67
Polymedica Corp.	26.25	319	28	3.80	6.9	0.25
Quantum Fuel Systems Technology	2.25	40	50	-0.83	NA	NA
Surmodics, Inc.	29.53	509	48	0.86	34.4	0.72
Thoratec Corporation	7.81	442	40	0.46	17.1	0.42
United Natural Foods, inc.	22.40	428	20	1.29	17.4	0.88
Vestas Wind Systems A/S	12.97	216	20	1.23	10.5	0.53
WebEx Communications	11.18	454	40	0.53	21.2	0.53
Whole Foods Market Inc.	42.97	2430	20	1.70	25.3	1.26
Average		499	34	NA	21	0.6
S&P 500	827.37	7630	10	48.00	17	1.7

*As of October 1, 2002 **Data and estimates courtesy of FactSet, Bloomberg, and Winslow

THE SKINNY ON HYDROGENATED OILS

These days its not uncommon to see "partially hydrogenated" oils listed as ingredients under the Nutrition Facts on most conventional snack food labels. But why is it that "health food" stores like Whole Foods refuse to stock products containing anything hydrogenated?

During hydrogenation, oils are heated and hydrogen bubbles pass through the double bond structure of fatty acids (good fats) in the oil. Fatty acids pick up hydrogen atoms, causing the oil to thicken. If the oil is fully hydrogenated it becomes a solid, but when partially hydrogenated its consistency resembles butter. Food producers often opt for this longer lasting butter-substitute that is cheaper and adds richer flavor to the food. Unfortunately, hydrogenated oils contain high levels of trans-fats, which interfere with metabolic processes that allow the body to absorb the necessary amounts of fatty acids.

Numerous studies and warnings from the American Heart Association, the National Cancer Research Institute, the New England Journal of Medicine and others have linked hydrogenated oils and trans fats to everything from heart disease, to high cholesterol, cancer, and diabetes. One doctor has even labeled them "silent killers" because they build up in the body and cannot be broken down.

So what to do? Start reading labels of prepared foods, incorporate fresh fruits and vegetables into your snacking routine, and go for "good oils" like those contained in nuts, olives, and fish (even egg yolks and real butter are better alternatives). Most importantly, vote with your wallet to show food producers that you care about the quality of ingredients in the foods you choose.

BODY continued from page 1

much do you need to exercise?

Given the avalanche of nutritional information coming out of many different scientific studies (not to mention the unsubstantiated theories of diet gurus), it's no wonder the average consumer is bewildered. Nonetheless, the accelerating pace of

research in the last decades is yielding ever-refined information on the types and quantities of foods we need and their effects on disease prevention. The same is true of exercise and the benefits it confers.

Consider two examples: the food pyramid and the exercise prescription.

The original Pyramid

Most recently revised in 1992, the U.S. Department of Agriculture's food pyramid was

designed to show at a glance how the food groups ought to be balanced in a healthy diet. It replaced the old "Basic Four" schematic in which the different food categories were given equal emphasis. While the "Basic Four" was intended "to prevent nutrient deficiencies," the pyramid recognized that "both nutrient adequacy and excesses

are of concern" (USDA web site). The pyramid and its complementary Dietary Guidelines for Americans recommended specific nutrient levels for proteins, vitamins and minerals, fats, cholesterol, sodium and fiber.

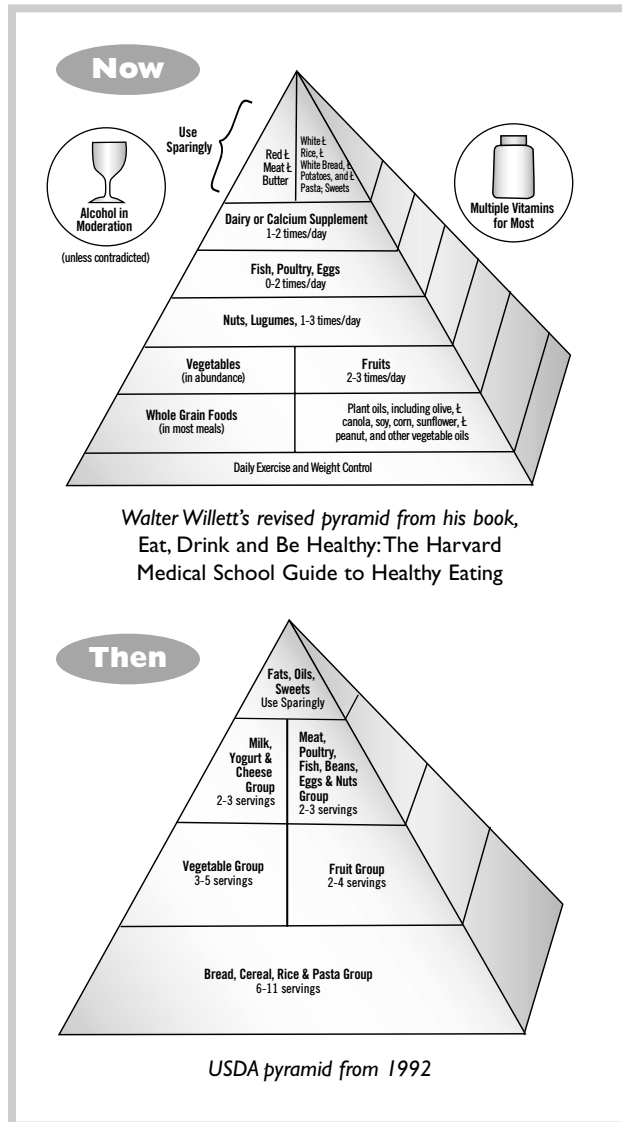
Probably the most noteworthy element of the pyramid was the new emphasis it placed on carbo-

hydrates, fruits and vegetables which were to be the foundation of a good diet.

The new paradigm

Since the pyramid was released a decade ago, researchers have challenged some of the assumptions on which the schematic is based. Indeed, even the revised Dietary Guidelines for Americans of 1995 offer updated USDA recommendations that are not reflected in the pyramid.

Probably the



most vocal critic of the USDA pyramid has been Dr. Walter C. Willett, chairman of the Department of Nutrition at the Harvard School of Public Health and one of the leaders of the Nurses' Health Study and the Health Professionals Follow-up Study. In 2001, Dr. Willett published his findings and a modified food pyramid (see accompanying graphic) in the

book, "Eat, Drink and Be Healthy: The Harvard Medical School Guide to Healthy Eating." Claiming the USDA pyramid is wrong "because it ignores the evidence that has been carefully assembled over the past 40 years," he cites several faults, and offers the following—sometimes startling – corrections:

- Not all fats are bad. Indeed, "polyunsaturated and monounsaturated fats found in olive oil and other vegetable oils, nuts, whole grains, other plant products and fish are good for your heart." It is "perfectly fine to get more than 30% of your daily calories from fats as long as most of those fats are unsaturated." But avoid the trans fats.
- Not all "complex" carbohydrates are good. The USDA recommendations are "too simplistic" because they don't differentiate between whole grain and refined grain carbs. The former are good for you because they don't result in "swift, high spikes in blood sugar" or a "high glycemic load." The latter, including potatoes, put stress on the body's insulin producing organs and "are implicated in the perilous pathway to heart disease and diabetes."
- Some forms of proteins are preferable to others. These include fish, beans, nuts, and chicken. Even the egg is not as bad for you as previously thought. Despite its cholesterol content, a whole egg packs a lot of important nutrients and "no research has ever shown that people who eat more eggs have more heart attacks than people who eat few eggs."
- Getting enough calcium doesn't mean you need to consume a lot of dairy products, particularly those high in fat. Supplements may be just as good.
- It's important to keep your weight down and to exercise regularly.

- Alcohol in moderation" (one drink a day for women, one or two a day for men) cuts the chances of having a heart attack or dying from heart disease by about a third and also decreases the risk of stroke."

- Take a multivitamin "as a cheap and effective... life insurance policy."

Move it or gain it

Everybody recognizes that regular exercise is a critical component of good health. Until recently, however, the generally accepted prescription was a minimum of 30 minutes of exercise on most days or burning the equivalent of 2000 calories a week through physical activity.

However, last month the Institute of Medicine of the National Academies revised the amount of physical activity considered optimum to one hour or more per day. In a thousand-page report, the institute reported that "30 minutes per day of regular activity is insufficient to maintain body weight in adults in the recommended body mass index (BMI) range of 18.5 to 25 and to achieve all the identified health benefits fully." Therefore, it stipulated 60 minutes of "daily moderate intensity physical activity (e.g. Walking/jogging at four to five mph)" not only to combat weight gain but also to lower risks of illness, improve mood, alleviate and slow the progression of arthritis, and prevent bone loss). Considering that 60% of Americans do not exercise regularly and that 25% are completely sedentary, this goal represents a considerable challenge.

However, there is an urgent need for the record number of overweight and obese adults (now one-third of the population) to achieve a lower, healthier weight. Transforming their lifestyle to include regular exercise and more nutritious, lower-calorie foods won't be easy. But for anyone willing to make the commitment, the rewards are great, both in day-to-day wellbeing and greater longevity. □

Not all fats are bad. Indeed, polyunsaturated and monounsaturated fats found in olive oil and other vegetable oils, nuts, whole grains, other plant products and fish are good for your heart.

PORTFOLIO UPDATE

Polymedica (NASDAQ: PLMD)

WOBURN, MA – In mid-September, Polymedica's Liberty Medical Supply subsidiary announced a groundbreaking partnership with the Church of God in Christ (COGIC) to target diabetes.

COGIC has a membership of 5 million people, 90 percent of whom are African-American. Diabetes is a major health concern for African-Americans who are twice as likely to develop the condition, and four times as likely to die from it. COGIC estimates that 15 percent of its members have diabetes and about half of them are unaware of it.

Liberty Medical sells and mails the medical supplies prescribed by doctors for diabetes management – from lancets and blood test kits to insulin and syringes. COGIC Membership Services CEO and Bishop Jerry L. Maynard II selected Liberty “because it's the nation's largest direct to home supplier” and as a member of the church he wants “to deal with diseases that affect [his] people.”

Liberty will handle all paperwork for the COGIC members, and will mail medications and supplies to their homes. Those

who qualify will have their diabetes medications paid for by Medicare. COGIC members who are on health plans will also be able to work with Liberty to receive the supplies they need.

According to Polymedica's Interim CEO, Samuel L. Shanaman, the COGIC partnership is an exciting opportunity to reach customers directly as a group and “broaden marketing and outreach efforts.” Liberty's products and services will be highlighted by COGIC and Liberty at each of the church's 10 major meetings throughout the year, including an upcoming event expected to convene more than 70,000 members.

Wave Systems (NASDAQ: WAVX)

LEE, MA – Wave Systems recently announced that LogicEase, a leading provider of business solutions for the financial services industry, will use Wave's SignOnline® software applications to ensure the integrity of digital contracts.

Essentially, the SignOnline SmartSignature™ and SmartSAFE™ software creates a “signature” on a PDF file that is legally binding. As a result, an institution can view, manage, store, and transfer sensitive signed and unsigned documents. Official papers can be signed, verified, and stored in minutes at a fraction of the cost and using fewer resources.

LogicEase will use Wave's product as a complement to its own ComplianceEase software, which was developed to assist financial firms in complying with anti-predatory lending laws. SignOnline will further automate LogicEase's compliance software.

In the short term, Wave will be storing sensitive security information using its SmartSAFE capabilities. In the longer term, LogicEase will develop its own storage capacity.

In another attractive feature of the deal, ComplianceEase will serve as a reseller of Wave's SmartSignature and SmartSAFE capabilities to the financial services industry.

Vermont Pure Holdings

(AMEX: VPS)

RANDOLPH, VT – In early October, Vermont Pure announced an agreement with the Town of Bennington to purchase water from the Morton Springs town source. This new partnership will allow VPS to supply natural spring water to its bottling operation in Halfmoon, NY.

Morgan Springs is a secondary water source for the Town of Bennington. The daily flow rate is 1.7 million gallons per day and is one of the largest free flowing springs in the eastern U.S.

Revenues from the new partnership will be used to help the town pay for capital improvements and stabilize water rates for its municipal customers.

The company is careful to comply with all state regulations on water withdrawal. Monitoring meters are placed downstream from extraction sites to ensure that proper levels of water are allowed to “flow through.” It also has several sites from which it draws water so as not to take too much from one location.

Vestas Wind Systems A/S

(DKK: VWS DC)

RINGKØBING, DENMARK – “The

German election has confirmed the broad commitment to wind energy in Germany, and we expect a positive German market also in the coming years,” said Sven Sigaard, Managing Director of Vestas Wind Systems A/S. Following reelection of Gerhard Schroeder in Germany and receipt of new turbine orders from Germany, Danish wind stocks Vestas and NEG Micon were up more than six percent in one day, as September came to a close. In the U.S., Congress is expected to pass an energy bill containing an extension of the Production Tax Credit (PTC), which will be a positive factor for driving share prices higher and financing new wind power installations in the US.

On September 20, Vestas announced an order for 35 units of the V80, the company's 2.0-megawatt wind turbine, by Gesellschaft für Handel und Finanz mbH, GHF located in Leer/Ostfriesland, Germany. Placed through the company's 100% German owned subsidiary, Vestas Deutschland GmbH, the deal is worth approximately 60 million Euros (about 58 million USD). The turbines are expected to be delivered in late 2002-early 2003, and will be installed on wind farms in Beeskow/ Brandenburg and Sallgast/Saxony.

Vestas' German market got yet another boost six days later when Energiequelle GmbH of Bremen ordered an additional 28 V80 units. This order has a value of 55 million Euros (about 54 million USD). The turbines will be located in wind farms in Brandenburg, Lower Saxony, Saxony, Hesse, and Rhineland-Palatinate.

UNITED continued from page 1

materials, and uncontaminated by other non-organic products. According to CEO Michael Funk, many customers encouraged the company to seek organic certification and the company spent 6-9 months fine-tuning all its processes before submitting to inspection. Then, Quality Assurance International (QAI), a leader in such certification, conducted a comprehensive review of the company's operations,

recycling program for paper, cardboard, and plastic wrap, and pallets are repaired and reused throughout the facilities.

The company also owns its own fleet of delivery trucks. Along with safety procedures, all drivers are taught correct handling of organic goods. In particular, certain chemicals are not permitted for cleaning the trucks, and vehicles may not transport anything but natural products.



purchasing, and paper trail procedures.

The organizing principle

UNFI's delivery network is divided into three geographical regions: Eastern, Central (where it does business as Rainbow Natural Foods), and Western (as Mountain People's Warehouse). Recently, the company acquired Blooming Prairie Cooperative, in the Midwest, and signed a letter of intent to merge with Northeast Cooperative, a major northeastern distributor.

The company's business organization consists of three segments: trucks, warehouses, and offices. As the largest piece of UNFI's operations, the warehouses were the primary focus for the certification process. In maintaining these facilities, the company may only use cleaning agents compliant with USDA National Organic Program standards. Workers are extensively trained in food handling and safety procedures. The company participates in a major

Walking the walk on both ends of the supply chain

Mr. Funk believes that UNFI should be responsible for educating retailers so they in turn can educate shoppers. The company works hard to increase retailers' awareness of the benefits of natural and organic products. It also sends representatives to client stores to provide guidance in effective merchandising and display of products such as "the store within a store" concept. Such assistance has become indispensable for large supermarket chains locked in fierce competition with "supernaturals."

On the other side of the supply chain, UNFI works with its vendors to encourage minimal use of packaging and to increase recycled content. As a major donor to the Organic Trade Association, UNFI aims to create more marketing opportunities

Please see UNITED page 8

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UNITED continued from page 7

for farmers, and to promote more sales and cultivation of organic goods.

What about GMOs?

Because there are currently no government regulations covering the content or labeling of GE (genetically engineered) ingredients in foods, the company sets its own standards that suppliers must meet. UNFI monitors GE content via affidavits certified by all its vendors. However, without laws mandating GE screening, Mr. Funk acknowledges that affidavits will not be a sufficient measure for monitoring food content. Therefore, he has joined

in the effort to develop national policies for GE foods, sitting on an advisory group working to create a set of standards and testing criteria. In the meantime, UNFI will rely on the affidavit policy as the current best practice.

An outlook of growth in a declining market

Despite UNFI's recent loss of a contract with Wild Oats Markets (NASDAQ: OATS) representing approximately 13% of sales, the company's future looks positive. As OATS transitions into a new distribution partnership with United Natural competitor Tree of Life, supply difficulties plaguing the relationship have driven some limited business back to UNFI in the short term. The Blooming Prairie acquisition coupled with a minor workforce reduction and the unexpected OATS sales should counteract any negative impact the contract loss would have on UNFI's growth rate for the year. Long term, the analyst consensus of 20% growth stems from the natural and organic food industry's apparent recession-resistant characteristics.

Representing 20 to 25% market share in natural products distribution, United Natural Foods demonstrates leadership as a growth company and as a valuable corporate citizen. □

United Natural Foods has joined in the effort to develop national policies for GE foods, sitting on an advisory group working to create a set of standards and testing criteria.

Do you realize how much the **environment** could mean to your **investments?**

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