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FEATURED COMPANY

CHIQUITA BRANDS: A TURNAROUND THAT IS HERE TO STAY

BY ELLEN PFEIFER

CINCINNATI, OH – CHIQUITA BRANDS INTERNATIONAL (CQB: NYSE), FORMERLY KNOWN AS THE UNITED FRUIT COMPANY, HAS A TROUBLED HISTORY TO LIVE DOWN. HOWEVER, EMERGING FROM BANKRUPTCY IN 2002, THE CORPORATE PHOENIX HAS DEDICATED ITSELF TO ENVIRONMENTAL AND SOCIAL RESPONSIBILITY. ITS REFORMATION HAS BEEN CERTIFIED BY THE RAINFOREST ALLIANCE AND SOCIAL ACCOUNTABILITY

International's SA8000 labor standard. The company has also pledged itself to communicate with employees, stakeholders, and the public in an "open, honest and



straightforward" manner.

What's more, with new management in place, Chiquita is paring down debt, reducing costs, and refocusing on its core fresh produce business. As a result, it has come back strong from 2002 and exceeded analysts' predictions for the first nine months of 2003.*

"The Octopus" with tentacles everywhere

Based in Cincinnati, OH, Chiquita is the second largest producer/marketer of bananas in the world and the largest distributor of fresh fruit. It is one of the three giant agribusinesses (the others are Dole and Del Monte) that control two-thirds of the banana market.

Founded in 1899 by Minor Keith, a Costa Rican banana grower,

the company joined forces with Boston Fruit Company to become United Fruit. With such innovations as the first refrigerated ships (1903) and the extension of railroads through Latin

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Best-in-Class Companies: Green Investments or Greenwash?

BY CELINE M. SUAREZ

What makes a company Best-in-Class (BIC) when it comes to environmental performance? How does one differentiate between truly green practices and just plain greenwash? Lately, we at Winslow have been evaluating some prime contenders for BIC designation, and this has spurred closer analysis and much discussion on these questions.

How is a BIC designation determined?

We define BIC as follows: those companies that exhibit the best environmental performance within their selected industry, and have gone well beyond their peers in reducing their negative environmental impacts. Best-in-Class companies are generally in the forefront of change within their sector – making important strides in notori-

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MARKETBEAT PAGE 2

Turnaround as Point of Inflection

Identifying a company's point of inflection can lead to rewarding investments.



PORTFOLIO UPDATE PAGE 6

Ionics Acquires Ecolchem

Move should significantly augment Ionic's existing capabilities

UPDATE: FRENCH HEAT WAVE MORE DEADLY THAN REPORTED

Nearly 15,000 people died in August during the record heat wave in France, according to scientists at INSERM, the



National Institute of Health and Medical Research. That's even more than was reported in the last issue of WEN, when we cited French Health Ministry statistics saying that 11,435 people died during the heat wave. Those statistics covered only the first two weeks of August.

The heat wave also threatened the 58 nuclear reactors in France. According to Britain's *The Independent*, the government was considering rationing electricity because the reactors could not be adequately cooled.

Points of Inflection

BY JACKSON W. ROBINSON

Inevitably, emerging growth companies stumble. Some never recover. Those that pull through generally do so only after a makeover – often in management – that repositions the company for renewed and profitable growth. We call that turnaround the company's “point of inflection.”

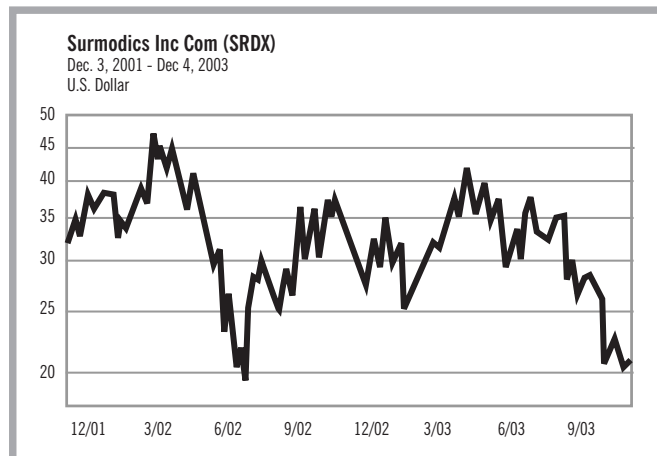
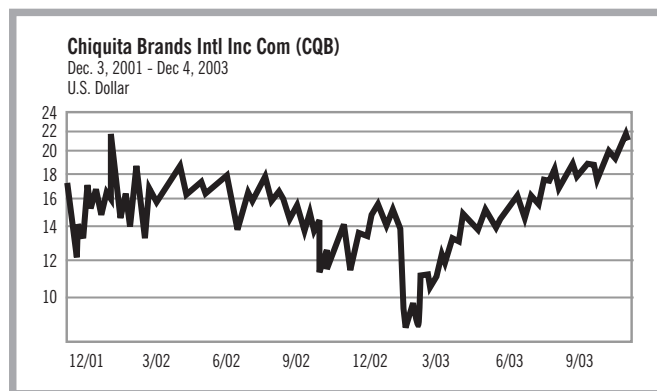
An emerging growth company can falter for many reasons. Sometimes it simply gets tripped up

worse yet, the risk of financial failure. Because boards of directors of public companies abhor the thought of bankruptcy or chronically poor results, they will inevitably force a change in management. New leadership can be a point of positive inflection for a struggling growth company.

While management shortcomings tend to be the primary reason that emerging growth

companies stumble, there are other problems that include: product change or obsolescence, new competition, change in the marketplace, capital structure, unmet financing needs, technological difficulties, or partnering issues. As well, there are always extraneous challenges such as the economy, weather, war, and strikes – very real problems that are usually beyond the control of companies. Nevertheless, real growth companies tend to weather most adversities, especially when they are well managed.

When an emerging growth company falters, so too does the price of its stock – which can fall to record-breaking lows. If the problem is fixable and gets fixed, the low stock price can represent



*Data source for graphs: FactSet research. **Past performance does not guarantee future results.

as the result of normal growing pains. For example, some successful new companies expand so fast that they outgrow their founding managements- entrepreneurs who simply don't have the capacity or interest to manage people and systems on a large scale. More often than not, such company founders are reluctant to recognize or even admit their short-comings, which leads to lackluster results or,

that company's point of inflection and a wonderful opportunity for investors to get a share of the action. Usually investors have plenty of time to research these situations because the company has to re-establish itself as a bona-fide growth company.

To get a sense of points of inflection for companies and their stocks, we have selected charts for two Winslow holdings that we believe are at or

near their points of inflection: Chiquita Brands (CQB) and SurModics (SRDX).

Featured in this issue, Chiquita Brands became financially overextended in 2001 and went through a re-organization in 2002 including a change in leadership. As the underlying fundamentals for the company remain strong, the company now has the opportunity to grow using its highly regarded brand name.

SurModics was and still is on a steep growth path applying its core technologies to the drug delivery market. Unfortunately its primary partnership with Johnson & Johnson (JNJ) for drug-coated stents is faced with a new and improved technology from a competing product that in and of itself will

reduce future earnings growth prospects for SRDX. However, new products and applications are on the way, which, if successful, will rekindle the growth at SRDX, putting the company and its stock squarely at its “point of inflection” today.

In looking over the Winslow portfolio, we note that many of the holdings are in companies that are either at or through their points of inflection. The table below lists ten of our holdings, and each company has been or is coping with serious issues. More often than not, the solution has been a change in management.

Emerging growth companies can be very rewarding investments, especially when the investor successfully identifies their points of inflection. □

In looking over the Winslow portfolio, we note that many of the holdings are in companies that are either at or through their points of inflection.

Points of Inflection

COMPANY (TICKER) / DESCRIPTION	ISSUE	SOLUTION
Atherogenics (AGIX): Drug development company focused on inflammatory conditions.	Lost business partner (2001)	Seeking new partner
Avid Technology (AVID): Software company focused on digital media creation for film, video, audio, news, games, and more.	Product obsolescence (2001)	Launching new line of products
Chiquita Brands (CQB): Fresh and pre-cut fruit company.	Multiple issues around pricing, management, and leverage (2002)	Reorganization, new management team, stronger focus
Dot Hill Systems (HILL): Storage solutions for IT infrastructure.	Business model ineffective for markets addressed (2001)	Launched new business model
Harris Interactive (HPOL): Internet-based market research firm.	Decline in traditional business of phone and mail survey participation (2001)	Introduced internet-based market research model
Ionics (ION): Company engaged in the manufacture of water purification systems for home and industrial use.	Unfocused business model (2003)	New CEO and business model
Polymedica (PLMD): Parent company of Liberty Medical, offering medical supplies for diabetics and other conditions.	Dept. of Justice and SEC investigations (2001)	New management team to resolve investigations
Sonic Solutions (SNIC): Supplier of authoring systems for digital media creation, such as DVDs.	Product transitions (2001)	Introduced new products and partnerships
Surmodics (SRDX): Leading provider of surface modification solutions for medical device and biomedical applications.	Competition for coated stents increased (2003)	New applications for core technologies in coronary, ophthalmic, and neurologic markets
United Natural Foods (UNFI): Wholesale distributor to the natural and organic foods industry.	Information system breakdown (1999)	New management implemented new system and made acquisitions

By becoming
good environmental
citizens, we believe
BIC companies
inherently add value
to their businesses.

BEST-IN-CLASS continued from page 1

ously dirty industries. The management teams at BIC companies are taking proactive approaches to environmental risk management and adopting sustainability as a business strategy. They seek to improve their finances through the protection of local and global ecosystems, prevention of pollution, waste reduction, and energy efficiency.

BIC companies make green as they go green

By becoming good environmental citizens, we believe BIC companies inherently add value to their businesses. According to the San Francisco-based non-government organization Business for Social Responsibility (BSR), such value creation can fall into the following categories:

- **Access to Capital:** Companies that have implemented sustainability practices are more likely to be viewed as attractive to investors and financiers, in part because these initiatives are key indicators of management quality.
- **Asset Retention:** By making resources more productive, companies retain more value from the same amount of inputs.
- **Brand Image:** By appealing to ecological as well as economic sensitivities of consumers, businesses can increase customer loyalty.
- **Competitive Advantage/Market Share:** A company that makes efforts to go beyond compliance with current regulations can develop innovative advantages over its peers. Also, applying sustainable principles to the design and manufacture of products can help to bring new products to the market. Consumers are quick to take notice.
- **Employee Relations/Productivity:** Workers are happier in companies whose values are viewed as being in alignment with their own. Also, healthier work environments have been shown to

significantly increase worker productivity.

- **Return on Investment (ROI):** By taking a longer-term view of capital investments, particularly around sustainability initiatives, companies can make financial decisions that yield greater ROI over the life cycle of the venture. (For more information on the above and on other business sustainability issues see www.bsr.org.)

In a dirty industry, is “best” good enough?

The problem with investing in Best-in-Class companies is that they are often involved in environmentally un-friendly businesses in the first place. Some might argue that such investment rewards a company that is destroying nature. However, we believe that even marginal improvement within large dirty industries should be endorsed and that environmental innovators deserve support. We believe that BICs set the pace and that their competitors are forced to follow their example. In becoming environmental leaders, BIC companies also impact other businesses with which they have supply agreements or partnerships. By seeking better alternatives to traditional methods of doing business, they put pressure on partners and suppliers to consider these issues as well.

At Winslow, we look for companies that are standing apart from their industry peers in sustainability. These leaders will change the face of resource-intensive industries. For example, as population rapidly increases, large agribusiness will continue to dominate the food production and distribution sector. Far from going away, this sector will only grow larger. A BIC player in this space is Chiquita Brands International (see Featured Company article). After years of declining performance and eventual bankruptcy, a new management team has taken the helm and not only pledged to improve the financials, but to establish a new culture

of transparency, corporate ethics, and high environmental standards. The company has been publishing annual corporate responsibility reports and has received several awards recently for its efforts. Of course no company is faultless, and in projecting its new corporate image, Chiquita has also been candid about its imperfections and areas needing continued improvement. Fruit producers Dole and Del Monte are lagging behind in the movement toward expanded corporate responsibility. While Dole, on its website, touts out of date information on environmental programs from 1999 and broadcasts an old newsletter from 2000, Del Monte's website avoids the subject of sustainability altogether. Neither company has adopted an initiative as comprehensive as an annual corporate responsibility report nor has set for itself the goal of transparency, but that is likely to

change with the trend set by Chiquita.

The key to any BIC company's success in achieving its goals is to take the long-term view. Environmental responsibility is never a finished task. It requires long-range planning, effective benchmarking, and continual improvement. In certain industries like energy, water, and transportation, it may even require investments into alternative technologies that will actually change a company's line of business altogether. Such is the case with British Petroleum (BP). Though Winslow does not invest in fossil fuels, we have watched approvingly as BP – seriously concerned with the finite supplies of fossil fuels – hedged its risk by investing in technologies like photovoltaics to eventually move “Beyond Petroleum.” This strategy not only makes good financial sense, but also good sense for the environment. □

Environmental responsibility is never a finished task. It requires long-range planning, effective benchmarking, and continual improvement.

ROBINSON TALKS GREEN AT BROWN

The evidence is building that companies that are good to the environment are also good to their shareholders.

In a recent lecture series addressing students, faculty, and administrators at Brown University, Winslow Management founder Jack Robinson shared examples that make a compelling case for green investing. For example:

- Socially screened assets have increased in value 126% since 1995, while S&P 500 stocks have increased in value 31%.
- Environmentally responsible companies outperformed irresponsible companies over three-year, five-year, 10-year and 15-year periods, according to a 1997 Duke University study by R.R. Clough.
- In specific industries, including the energy, plastics,

automotive and grocery industries, most green companies significantly outperform industry averages.

Robinson also discussed the Winslow Green Index,* an equally weighted index of 100 “green-screened” companies, which has increased in value 73.08% for the period of August 1, 1999 through September 30, 2003. The benchmark Russell 2000 has increased in value only 16.83%. The annual return over the period was 14.07% for the Winslow Green Index, in spite of the bear market of the past three years, while the annual return for the Russell 2000 was 3.8%.

These results, Robinson observed, are contrary to popularly held business beliefs that money spent on environmental concerns is a drag on profitability.

* The Winslow Green Index is an equally weighted index of 100 “green screened” stocks selected by Winslow Management Company. The green screen evaluates issuers on the basis of factors such as minimizing environmental impact, compliance with environmental regulations, and a proactive environmental policy. Winslow adjusts the component stocks in the WGI on a quarterly basis. As of September 30, 2003, the average market capitalization of the issuers included in the WGI was \$7.87 billion. The results of the WGI do not reflect the results of an actual trading in a client or proprietary account managed by Winslow. The Russell 2000 index is an unmanaged index of the 2,000 smallest stocks, based upon market capitalization, in the Russell 3000 index. Returns for both the WGI and Russell 2000 Index are calculated monthly, assume reinvestment of dividends and, unlike an investment in a mutual fund or other account, do not reflect any fees, charges or expenses. An investor cannot invest directly in either index. Past performance does not guarantee future results. Returns and principal values fluctuate and you may lose money investing in securities, including securities of environmentally friendly issuers.

PORTFOLIO UPDATE

SurModics, Inc.

(NASDAQ: SRDX)

EDEN PRAIRIE, MN – Competition for coated or drug-eluting stents (DES) has been heating up in recent months and SurModics has been feeling the pressure. The small Minnesota-based company, in partnership with Johnson & Johnson (NYSE: JNJ), has been focusing on manufacture of the stents in the first commercial application of its core technology. However, Boston Scientific (NYSE: BSX) has captured market share from JNJ in the DES arena, resulting in a temporary setback for SurModics.

Though the company posted solid results in Q4, projected revenue growth is slowing. The market for SurModics' drug coating technology was expected to increase well beyond DES, and the company is turning its attention to other products. It is currently investigating the application of its technology to ophthalmic, coronary, and neurologic drug delivery devices. Also, the company is pursuing relationships with other stent and medical device manufacturers to explore new opportunities. However, SRDX has not revealed a timetable or

detailed plan for expansion. This makes it difficult for analysts to predict future long-term growth rates.

Harris Interactive

(NASDAQ: HPOL)

ROCHESTER, NY – With the launch of the national "do not call" registry, market research firm HPOL encountered a temporary setback that should actually enhance the longer-term growth of its Internet polling business.

Before the company moved into the Internet polling arena, it relied on telephone and mail surveys. However, as its Internet-based market research moved to the forefront, the company predicted that its phone polling business would decline at a rate of about 3-5% per year. As it turned out, phone polling remained relatively flat until the government earlier this fall approved the "do not call" registry. Abruptly, HPOL experienced a steep Q3 drop-off in its nighttime, consumer-based, telephone survey business.

According to one of its own polls, the company discovered that 42% of list registrants erroneously believe that market research surveys are prohibited by "do not call" regulations. Even though HPOL's surveys were allowed, the poll data made it clear that consumers don't want unsolicited phone calls of any kind these days.

Though the company experienced a Q3 decline in contracts and sales, it expects to benefit as its higher margin Internet research supplants the increasingly vulnerable phone survey business.

Quantum Technologies

(NASDAQ: QTWW)

IRVINE, CA – In November 2003, Quantum Technologies publicized several developments that demonstrate the increasingly widespread acceptance of its fuel cell and hydrogen technologies.

In one announcement, the company revealed that Representative Christopher Cox (R-CA), Chairman of both the House Homeland Security Committee and the Policy Committee, has secured \$2 million in the FY'04 Defense Appropriations Bill for QTWW to participate in the US Army Hydrogen Infrastructure Program. That program is designed to move the armed services toward greater energy efficiency by developing a self-sustaining, transportable power generation/refueling system for fuel cell vehicles and machinery operating in remote locations. In a company press release, Alan Niedzwiecki, President and CEO of Quantum, praised Congressman Cox for his support. "This program is important to the nation's defense, especially with fuel comprising 70 percent of the supplies transported by the Armed Services to support battlefield operations. By producing hydrogen fuel on the battlefield, this program has the potential to demonstrate a pathway to address key logistic issues."

Also, in late November, WestStart-CALSTART, a transportation technologies organization that focuses on cleaner, greener vehicles, announced that it is coordinating the National Fuel Cell Bus Technology Initiative. The \$150 million

project seeks to address the challenges of fuel cell and hydrogen vehicle commercialization. Quantum, among others, is a key industry leader supporting this initiative, which aims to reduce technical and cost barriers to the use of hydrogen and fuel cells in the transit sector.

Ionics, Inc. (NYSE: ION)

WATERTOWN, MA – In late November 2003, water-filtration company Ionics announced that it has signed a definitive agreement to acquire Ecolochem, Inc., and its affiliated companies. Terms of the deal include \$200 million in cash and approximately 4.91 million shares of Ionics common stock.

Ecolochem is a privately held company headquartered in Norfolk, VA and is a leading supplier of emergency, mobile water treatment services to the power, petrochemical, and other industries. According to Ionics, the transaction should significantly augment ION's existing capabilities and result in a versatile global company with projected revenues of over \$450 million. What's more, because Ecolochem has a large customer base built up over a long history, the merger should help Ionics meet its goal of increasing recurring business revenue.

Under the deal, Ecolochem shareholders will be entitled to name two additional directors to Ionics' nine-member board. Unanimously approved by Ionics' directors and agreed to by Ecolochem's shareholders, the acquisition is expected to close in early 2004.

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America, the company expanded rapidly—to the point that it was known as the "octopus." It currently operates in more than 40 countries and has sales in 60 nations. However, success came at the price of ruthless business and labor practices, environmental degradation, and the corruption of host-country governments.

A Banana Primer

"Bananas is my business," Carmen Miranda used to say, and in fact, bananas are a critical source of income and nourishment for huge populations in Africa, Asia, the Caribbean and Latin America. The fourth most important staple crop along with corn, maize, and rice, the fruit is grown by millions of small farmers.

However, bananas are particularly vulnerable to diseases such as the leaf fungus, Black Sigatoka, and more recently a new strain of the deadly Panama Disease. This is because the plant is asexual and cannot reproduce through seeds. Every plant is a genetic clone, propagated through cuttings. Creating new hybrids to promote disease resistance is difficult, time-consuming and expensive. As a result, big growers have resorted to copious use of fungicides.

Chiquita Reinvents Itself

After filing in early 2002 for Chapter 11 protection to restructure \$940 million of public debt, Chiquita has used the opportunity of bankruptcy to clean up its act. With a new board and new Chairman and CEO, Cyrus Friedheim, the company began reducing costs by selling two produce distribution companies, five ships, and its vegetable canning business. It also completed the sale in June 2003 of its unprofitable and troubled banana division in Armuelles, Panama.

Perhaps most important, Chiquita redoubled its efforts to become a responsible world citizen. In 2002, all Chiquita-owned Latin American farms and 46% of the independent farms from which it buys bananas were certified to the environmental stan-

dards of the Rainforest Alliance. This accomplishment came after nearly a decade of cooperation and collaboration with the alliance. Currently, Chiquita adheres to the following environmental standards:

- Zero tolerance for deforestation
- Reduction in pesticide use
- Protection of wildlife
- Conservation of water and soils
- Better pay for workers
- Environmental education
- Housing and safety standards for workers

In practical terms, certification meant "planting buffer zones along streams, managing all wastes, filtering process waters from packing plants, recycling plastics and agrochemical containers, protecting forest patches, repairing housing and sanitary facilities as well as other infrastructure, and reducing or controlling agrochemical use," according to the Rainforest Alliance.

Interestingly, there has been an impressive pay-back for this investment in environmental responsibility. Chiquita spent "\$20 million to make required capital improvements, but reduced banana production costs by more than \$100 million, partly due to reduced agrochemical inputs and improved worker health and safety," the alliance reports.

In reforming its labor practices, Chiquita signed a historic labor rights agreement in 2001 with the International Union of Food Workers (IUF) and COLSIBA, a coalition of banana workers unions. It also adopted the SA8000 standards of Social Accountability International and committed itself to respect the conventions of the International Labour Organization. As a result, the company's Costa Rican operations were certified to SA8000 in early 2003 and the divisions in Colombia and Panama are on their way to certification.

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Transparency in reporting progress

Understanding that Chiquita not only had to make reforms but also to reestablish its credibility, the company has taken steps to ensure transparency in self-reporting. According to Jeffrey Zalla, corporate responsibility officer, treasurer and vice president, the company no longer denies its notorious past, but strives to enunciate its new corporate objectives, report honestly on its efforts to meet those goals, and engage its critics in straight-talking dialogue.

Apparently, stakeholders and the environmental

*Past performance does not guarantee future results.

community like what they see. In April 2003, Chiquita joined Ben & Jerry's Homemade as winners of the first-ever Award for Outstanding Sustainability Reporting presented by the Coalition for Environmentally Responsible Economies (CERES) and the Association of Chartered Certified Accountants. The award recognizes best practice in reporting on sustainability issues by U.S. corporations. In October, Chiquita also received Social Accountability International's Corporate Conscience Award for Innovative Partnership.

Best of all, the company's new responsibility seems to be enhancing the bottom line. At the end of Q3 2003, net debt was just \$276MM compared with more than \$500MM last year. The company also expects to exceed its 2003 cost savings target of \$40MM and to realize an additional \$25MM in gross cost reductions next year. Its Q3 EPS and EBITDA were \$0.13 and \$25.4MM respectively, which is modestly higher than the \$0.11 and \$24.9MM estimated by analysts at BB&T Capital Markets.

With figures like that, the company's namesake mascot – the girl in the ruffled skirt and tutti fruiti hat – might be moved to sing. "I'm Chiquita Banana, and I'm here to say, sustainability is here to stay." □

Understanding that Chiquita not only had to make reforms but also to reestablish its credibility, the company has taken steps to ensure transparency in self-reporting.

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