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Charter Baking's Grand Plan

Armed with DSD routes, capital resources, a new bakery in Boulder, Colo., and mainstream baking industry experience, this newly formed baking company prepares to go where few natural and organic bakers have gone before.

It's official. Natural and organic breads are part of the mainstream baking industry. What once was looked upon as a niche category rife with small regional bakeries and ignored by most mainstream bakers, has transformed into an expanding category that slowly is capturing consumer dollars.

At the center of this development is Charter Baking, a pioneering company-established by a New York-based private equity firm, Charterhouse Group. The origins of Charter Baking stray far from what one typically expects to find in the natural and organic food industry. This is not a story of the little bakery that could.

Instead, this is a story about vision. It is a story about baking experience, both in the mainstream and organic industries. Most importantly, it is a story about potential.

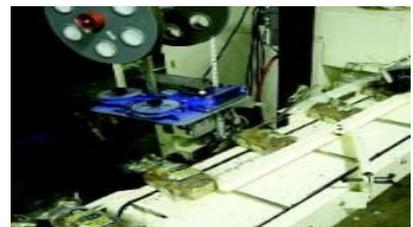
When Charterhouse Group started building a portfolio of bakeries, the limits of natural and organic bakeries suddenly disappeared. Capital resources became available. Experienced baking industry executives became available. DSD routes became available.

In a continually evolving bread aisle, Charter Baking has become the new kid on the block. In early 2005, the seeds of Charter Baking were planted when Charterhouse Group acquired Vermont Bread Co., Brattleboro, Vt. In June 2005, Charter Baking acquired Adams Baking Corp., Milford, N.J. Two months later, Charter Baking acquired Rudi's Organic Bakery, perhaps Charter Baking's most significant acquisition to date. Most recently, the company made its fourth acquisition: Superior Baking, North Grosvenordale, Conn.

These four bakeries now reside under the Charter Baking umbrella, keeping their individuality and brands, but benefiting from a new stream of resources, knowledge and



Rudi's Organic breads do not use dough conditioners or softeners.



Rudi's Organic Bakery has three automated packaging lines to package its bakery foods.

experience. Together, these bakeries represent a solid force in the fragmented natural and organic category.

"Our goal is to create an organic and natural destination with key retailers," John Foley, Charter Baking's president and chief executive officer, says. "Rather than dealing with three or four smaller natural and organic bakeries, we want to use all of our resources and become a one-stop shop for retailers."

Foley's vision is shared by Charter Baking executives, and is the reason that *Baking Management* awards the company with its annual Capital Investment of the Year Award. The award recognizes Charterhouse Group's investment in four bakeries, and Rudi's Organic Bakery's investment in a new automated plant in Boulder. The award also recognizes the company's investment in the future of the natural and organic baking industry.

Unified force

Creating a one-stop source for natural and organic breads and rolls requires three things: an experienced management team, strong brands and capital resources. Charter Baking has all three. The company's management team reads like a who's who in the food industry. Paul Mullan, former chief executive officer of Del Monte Foods, is the bakery's chairman and a strategic partner at Charterhouse Group.

John Foley, a former senior sales and marketing executive with Bimbo Bakeries USA, serves as chief executive officer. He manages a handpicked executive management team that includes Victoria Hartman, Charter Baking's vice president of sales and marketing; Tom Nash, Charter Baking's vice president of operations and supply chain, and another veteran of Bimbo Bakeries; and 25-year food industry veteran Paul Smith, the company's chief financial officer (for expanded bios, turn to page 24). Besides Mullan, the company's executive team all work out of Rudi's Organic Bakery in Boulder.

"The good thing about our team is the varied backgrounds we come from, whether it is natural, organic, frozen or the fresh DSD business," Nash says.

In addition to a strong management team, Charter Baking also benefits from a strong roster of brands that complements, not cannibalizes, each other. Although some overlap exists, each brand has its own brand promise, consumer and territory:

- The Rudi's brand is a USDA National Organic brand, meaning that more than 95% of its ingredients are organic. Rudi's Organic is the No. 1-selling brand of bread or baked good sold in natural food stores. Sandwich breads make up about 60% of the brand's sales, with artisan breads, and hamburger and hot dog buns accounting for the rest. This is the only national brand in the Charter baking portfolio.
- The Vermont Bread brand is a leading natural and USDA organic bread in the Northeast. The brand also contains a line of English muffins.

- The Baker brand consists of dense, European-style breads, granola, buns and rolls. The brand has significant distribution in New York and New Jersey.
- The Matthews brand is the No. 2 natural bread in Boston. The line includes sandwich breads such as 100% whole wheat bread, rolls and English muffins.
- Kasanof and Green Freedman are two well established deli brands sold in mainstream supermarkets in the Northeast.

"Each brand has its own niche," Hartman says. "You can have a Rudi's product with a Baker product and you are appealing to two different consumers."

The company learned this information firsthand through extensive consumer research conducted with resources from Charterhouse Group.

"Before, we did our consumer research with a core group of friends and neighbors," Hartman says. "With our new resources, we went to six different cities."

The consumer research gauged what each brand meant to consumers, and determined a brand's staying power and name recognition in various markets. The consumer focus groups also served as an educational forum for consumers that did not understand the difference between organic, natural and traditional breads.

DSD distribution

Consumer research also prepared Charter Baking for its most challenging task: establishing a comprehensive DSD route structure on the East Coast that carries all four brands on the same trucks and into stores. The company had a solid start due to existing routes operated by each individual bakery, but a significant amount of reorganization has been needed.

The company took a phased approach to the DSD rollout, slowly incorporating each brand onto a route. The first phase was integrating the Vermont Bread brand and The Baker brand. This initial phase proved extremely challenging because one bakery had used independent operators and the other bakery ran employee routes.

After Phase I was executed, the company began incorporating Rudi's Organic Bakery's brand into the routes. This task proved more challenging and involved transporting products from Boulder to a warehouse in Windsor, Conn. From there, the products are distributed to various depots for delivery to supermarkets on the East Coast.

"The East Coast is our test market because we're going to have all four brands in stores and on the shelf," Hartman says. "It will be important to let consumers decide which products work together and sell together. We will analyze these results and use them for our expansion plans."

Expanded capacity

The demands of the new route structure comes on the heels of Rudi's Organic Bakery's move into a new plant that is more than triple the size of its previous plant. The 61,300-

sq.-ft. plant boosts the bakery's capacity by 30% to 40% while reducing labor from 18 to 19 employees per line to 13 to 14 employees per line.

"We were at 100% capacity at the old plant, and we were still only filling about 70% of our orders," Hartman says.

The company's new plant is a mixture of equipment from its old plant and new equipment that provides an automated product flow that was absent at the old plant.

"We've been able to increase our output immensely, and automate so much more than at the old plant," Mary Goff, Rudi's plant manager, says.

The first instance of new automation occurs at the front of the line, where two indoor flour bins replaced 50-lb. flour bags. Each bin holds 75,000 lbs. of organic flour, with one bin containing wheat flour and the other bin holding white flour.

Making the conversion from bagged flour to bulk deliveries involved a significant amount of coordination with the company's flour supplier. Due to the limited use of organic flour, this was the first time the supplier had been asked to make bulk deliveries.

"Our flour supplier was very proactive and has committed trailers just for us," Goff says.

The company uses about three loads of flour per week. Flour is automatically conveyed through an ingredient handling system to the mixing department. The bakery uses five mixers to produce its doughs. Three 750-lb. vertical mixers handle the company's bread dough, and two smaller vertical mixers accommodate buns and rolls.

Rudi's Organic Bakery's organic products do not use dough conditioners or softeners, causing the bakery to employ a multi-phase mixing cycle. After mixing, the company uses a degasser to minimize holes or air pockets in its sandwich breads. After degassing, products ferment before entering the makeup line.

The baker's main line produces sandwich breads. The line is a combination of new equipment and equipment from its previous plant. Together, the equipment forms an automated makeup line, a first for Rudi's Organic Bakery.

The company's second line produces buns and rolls, and also represents a combination of old and new equipment. To automate the line, the company purchased a new finishing table, which not only increases capacity, Goff says, but also improves quality.

Despite its growth, the company still bakes its products in rack ovens to maintain flexibility. After baking, bread products cool for 90 minutes on a racetrackstyle cooler suspended from the plant's ceiling. Products are packaged on one of three automated packaging lines.

Nationwide distribution

Rudi's Organic Bakery's new plant gives Charter Baking a world-class facility to match its

impressive brand roster. The new plant also gives Charter Baking the ability to reach more retailers throughout the country.

"Our vision is to sell Charter Baking on the East Coast, West Coast and Colorado with DSD," Hartman says. "Then, we'll fill in the rest of the country with thaw-and-sell and third party distributor relationships."

This vision speaks volumes for the determination, dedication and resources of Charter Baking. As the baking industry, and in particular the bread industry, seeks to provide more healthful alternatives, Charter Baking has thrown its hat into the ring, sharing shelf space on the East Coast with mainstream brands.



Charter Baking's plant network

Charter Baking operates four dedicated manufacturing facilities in the United States. The following is a brief description of each of these locations.

- **Boulder, Colo.** - Located in north central Colorado, Rudi's Organic Bakery's plant is the largest Charter Baking facility at 61,300 sq. ft. Rudi's moved into this location in August 2005. The plant houses two lines that produce sandwich breads, artisan breads, and buns and rolls. Included in the facility are two large freezers totaling 19,715 sq. ft. Foods are produced under the Rudi's Organic label as well as contract baking brands.

All foods produced in the bakery are certified organic.

- **Brattleboro, Vt.** - Located in Southeastern Vermont, the Vermont Bread plant is 22,000 sq. ft. There are two production lines located in Brattleboro: a bread line and an English muffin line. The facility also houses raw material storage, packaging, shipping and administrative office areas. The Brattleboro plant produces natural and certified organic products under the Vermont Bread Co. label.
- **North Grosvenordale, Conn.** - Located in Northeastern Connecticut, the Superior Baking plant is 34,000 sq. ft. In addition, there is a detached building that serves as the administrative offices. The baking facility has three production lines that produce breads, rolls and croutons. Products are made under the Kasanof 's and Green Freedman brands, and contract baking brands.
- **Milford, N.J.** - Located in western New Jersey, this is the smallest of the Charter Baking company facilities. The facility has two floors totaling 11,000 sq. ft. The first floor houses two production lines for bread, roll and granola products. Also on the

first floor are six single rack ovens, packaging and shipping areas. Located on the second floor is the product mixing area and administrative offices. The location also has an active retail bakery storefront that sells bakery foods and coffee.

Charter Baking management team

John Foley, chief executive officer

Foley brings more than 25 years of management experience in the baking and consumer packaged goods industries to Charter Baking. He previously served as vice president of sales and marketing for Grupo Bimbo and general manager for Bestfoods/George Weston, where he was responsible for two plants and more than 500 employees.

Victoria Hartman, vice president of sales and marketing

Hartman has more than 20 years of experience in the natural and organic products industry. She maintained sales leadership positions with Celestial Seasonings and

Horizon Organic Dairy. She joined Rudi's Organic Bakery as vice president of sales in 2001, where she helped grow sales by 251% in four years.

Tom Nash, vice president of operations and supply chains

Nash has more than 20 years of experience in the baking industry, most recently serving as director of sales for Bimbo Bakeries, with responsibilities for \$125 million in sales in 11 states.

Paul Smith, chief financial officer

This former chief financial officer of Nancy's Specialty Foods has more than 25 years of experience in consumer food companies.



Front row, left to right:
John Foley, Victoria
Hartman, Erica Peterson,
director of Human
Resources. Back row, left
to right: Paul Smith, Tom
Nash.

Keith Seiz