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& C O M P A N Y, I N C.

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As stressed numerous times over the years the key to long term investment success is owning companies that prosper regardless of the economic and political climate. During the sharp market decline over the past three years, this approach resulted in a positive return for our clients over this most difficult period. Likewise during the first quarter of 2003 our portfolio experienced a decline of less than 1% while the market was buffeted by weak economic growth and the Iraq war. With the rally of the first two days of April, our return for this year is currently +2.3%

As an illustration of what we mean when discussing the benefits of owning a great business, this month's letter focuses on Avon Products. Ironically when prospective clients look at our portfolio, the most frequently asked question is: "Why own Avon?" The answer is that while direct selling has limited growth potential in the United States, the growth potential in international markets, where Avon gets almost three quarters of its business, is in the upper double digit range. Consequently during a time when many companies are scaling back their outlook, Avon presented the following update at an analysts meeting last week.

- Due to robust business in Europe and Asia, first quarter earnings will exceed analyst's expectations.
- With the success of new products and high growth in new markets such as China and India, the goal for compounded annual revenue growth is being raised from 10% to 12-13%.
- The benefits of ongoing programs to automate Internet order input, inventory management and the distribution network worldwide, profit margins will increase 1% annually with a goal of reaching a 20% operating margin by 2007.

This positive news caused Avon's stock to appreciate a new high and now stands with a gain of 7.5% so far this year. We have owned Avon since 1991 and our original purchases have appreciated more than 500% over the past twelve years. During this period there have been many occasions where the various elements of the media were beating their drums of gloom and doom with vigor and the market encountered periods of panic selling. This 500% gain would not have been achieved if on chose to join the panic selling and arbitrarily sell a company like Avon that has proven its ability to grow despite economic conditions or even two Iraq wars.

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