



Winter Fancy Food Show

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Building Value in your Business and How to Tell your Story to Investors

Bob Burke January 17, 2011





- Advisory work in assisting bringing natural, organic and specialty products to market across most classes of trade
- Write business plans for raising capital and growth strategies for management teams
- Co-Author/Publisher of the Natural Products Field Manual, Fifth Edition and The Sales Manager's Handbook
- Co-produce and co-lead seminars on "Becoming a More Effective Sales Manager in the Natural and Specialty Channel" and "Financing your Natural or Specialty Products Company"
- Serve as outside director of: Stonyfield, EcoFish, Nutrabella, American Halal, tsp Spices

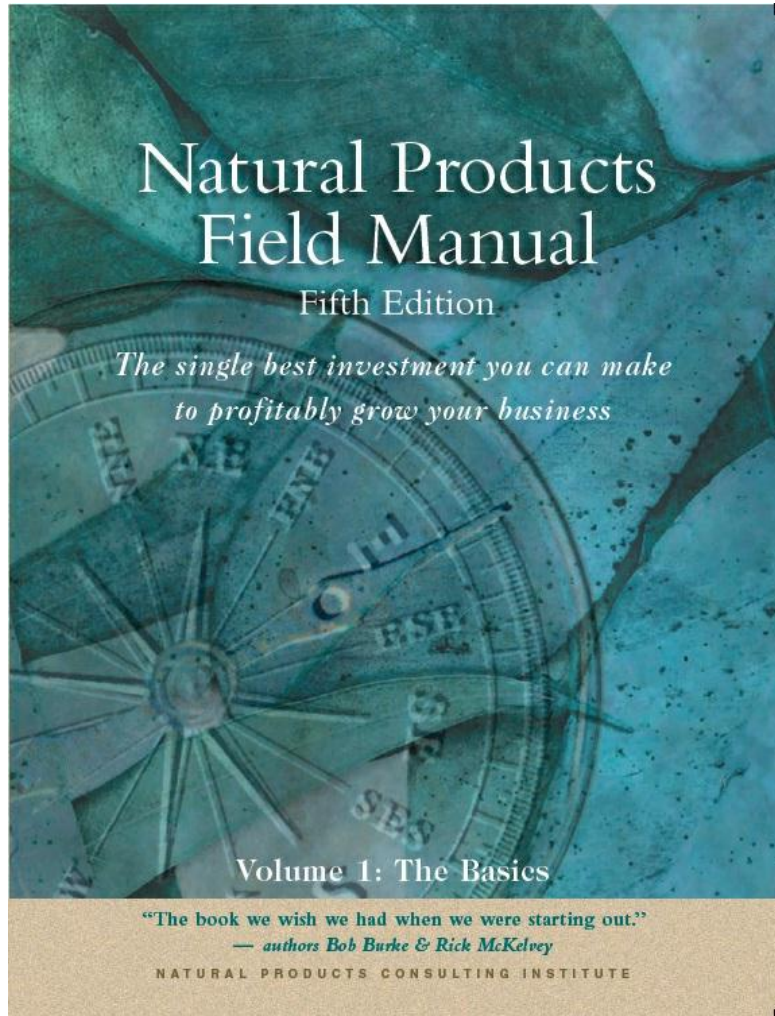
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Natural Products Field Manual

Now – Newly revised, updated, expanded Fifth Edition



- Complete, comprehensive, 4 volume, guide on “how to go to market” for natural, organic and specialty products
- Includes CD-Rom with directory of top natural retailers, mass-market natural buyers, distributors, brokers, industry resources, budget models, new item forms and store logos
- Practical, proven, best practices shared and illustrated by industry veterans
- Rich, insightful guest editorials by notable natural buyers, brokers and CEO’s
- \$20,000 in coupons
- Half Day consulting by author
- www.NPCInstitute.com

Building Value towards a Successful Exit

Q. Where are you taking your company?

A. For many it is finding a strategic buyer willing to pay an irrational price for their company

- What drives value to buyer
 - Strategic – faster entry into new sector, potential to grow into significant business
 - Financial – provide resources to accelerate growth, tee up for strategic buyer or IPO
- Buyers pay for:
 - Growth
 - Positive cash flow
 - Gross margin
 - Traction in a number of channels
 - Value of brand
 - ▶ Strength (that you own and is not impaired, and can serve as a platform for growth for the acquiring company)
 - ▶ Breadth
 - ▶ Note: specific examples apply to CPG's but most of this is transferrable to any business.

Focus is Essential in Building Company Value

- We can do anything, but we can't do everything
 - What is the one thing to pin your future on?
- Develop a criteria to evaluate and prioritize new opportunities
 - Revenue
 - Margin
 - Expected annual contribution
 - Management time and focus
 - Operational fit
 - Strategic fit

Growth

- Early stage...“cracking the code”
 - Optimizing pricing
 - Testing merchandising
 - Positioning in the category
- Category growth
- Brand growth
 - Maintain strong year over year sales growth – above 20%
- Pipeline fill – Distribution growth
- Velocity growth
 - Evidenced by Whole Foods Portal data
 - UNFI Supplier Insight
 - SPINS/IRI “Sales per point” of distribution growth
 - Other distributor or retailer data (e.g. if DSD)

Positive Cash Flow

- Investors/Acquirers prefer companies with positive cash flow in this climate
- Don't want to be funding losses, want capital to drive growth
- Should have a realistic cash budget that keys off your sales budget so you can anticipate shortfalls in advance
- What is the plan to get to breakeven cash flow
 - How many customers x sku's x turns x avg. price x contribution/case

Gross Margin

- Need a sustainable gross margin to have fighting shot at profitability
- Motto should be: “rewarding and forgiving gross margins”
- Defined: (“Net sales” – fully loaded COGS)/Net sales
- Generate above average gross profit margins (for your product type)
 - Most food companies 40%+
 - Most personal care companies 50%+
 - Most nutrition companies 60%+
- Should show that you can sell everyday at regular price not just on deal
- Show contribution margins of 18% or better – (profit after selling & marketing expenses and variable costs)
- Consistently generate an EBITDA above 10%
- A decent gross margin folded into a strategic buyer should yield attractive contribution for them

Traction in a Number of Channels

- Ideally you can demonstrate that you can succeed across a number of classes of trade:
 - Natural
 - Specialty
 - Grocery (supermarket)
 - Mass (Target, Wal-Mart)
 - Club
 - C-store
 - Military
 - Food Service
 - Spa
 - Table top (Bed, Bath & Beyond, W-S, Macy's)
- Go for validation and evidence of traction, don't fill out the channel, give acquirer room to grow.
- "Imagine the possibilities"

What do we mean by branding?

- A Brand is a promise:
 - Benefits – differentiating in way meaningful to your consumer
 - Values – what do you stand for?
 - Wrapped in a personality (Godiva and B&J both super-premium)
- A great brand has authenticity and ultimately builds an emotional connection with the consumer.
- A great brand will engender loyalty, often results in higher pricing and gross margins
- Everything you do – packaging, promotion, pricing, publicity, either reinforces and builds your brand or diminishes it.
- Consumers want stories, not just facts
 - Rich narratives help to establish a long-term emotional bond with consumers
- Your countervailing force against the power of the retailer and distributor is consumer demand...for your brand!

“Imagine the possibilities”

- Show the acquirer the running room on
 - ACV or distribution growth
 - Extending the brand into different categories
 - Upgrading and expanding the team
 - Upside on gross margin through synergies, scale, taking manufacturing in-house
 - Give the buyer access to channels they are not in.
- The message is that with the resources and know-how that a strategic or financial buyer can bring, they can run your \$20M business up to \$200M, and hence justify a bold valuation.

You'll need a core set of materials when you enter the fundraising market

Executive Summary

- 2-5 pages
- Something you can send to virtually anyone

Company Presentation

- May need two
 - Stand-up oral pitch
 - Detailed for investors

Business Plan

- Comprehensive 20-25 page document

Financial Model

- Detailed bottoms-up



**The goal of all of these:
Get a meeting**

A non-confidential Executive Summary is critical

- Cover all core parts of the business in 3-5 pages
- Topics (usually in this order – same for business plan)
 - Problem
 - Your solution
 - Business Model
 - Underlying magic, technology, unique selling proposition (secret sauce)
 - Marketing and Sales
 - Competition (features/benefits – comparison slide)
 - Team
 - Projections and milestones (Financials, historic & projected)
 - Status and timeline
 - Summary and Call to action
 - Exit strategy/market comps
 - Ask/Use of Proceeds
 - Capitalization to date

The Pitch

- The 10/20/30 Rule of PowerPoint
 - 10 slides
 - 20 minutes
 - No font smaller than 30 points
- Ten slides
 - Problem
 - Your solution
 - Business Model
 - Underlying magic, technology, unique selling proposition
 - Marketing and Sales
 - Competition (features/benefits – comparison slide)
 - Team (sometimes found more towards the back)
 - Projections and milestones
 - Status and timeline
 - Summary and Call to action

The Pitch

- 20 Minutes
 - People arrive late, leave early
 - Typical 1 hour time slots, do 20 minute pitch, 40 minute discussion
- Thirty Point Font
 - Headlines so you can tell story and audience won't read ahead of you.
 - If too dogmatic, find out age of oldest person and divide by two = optimal font size

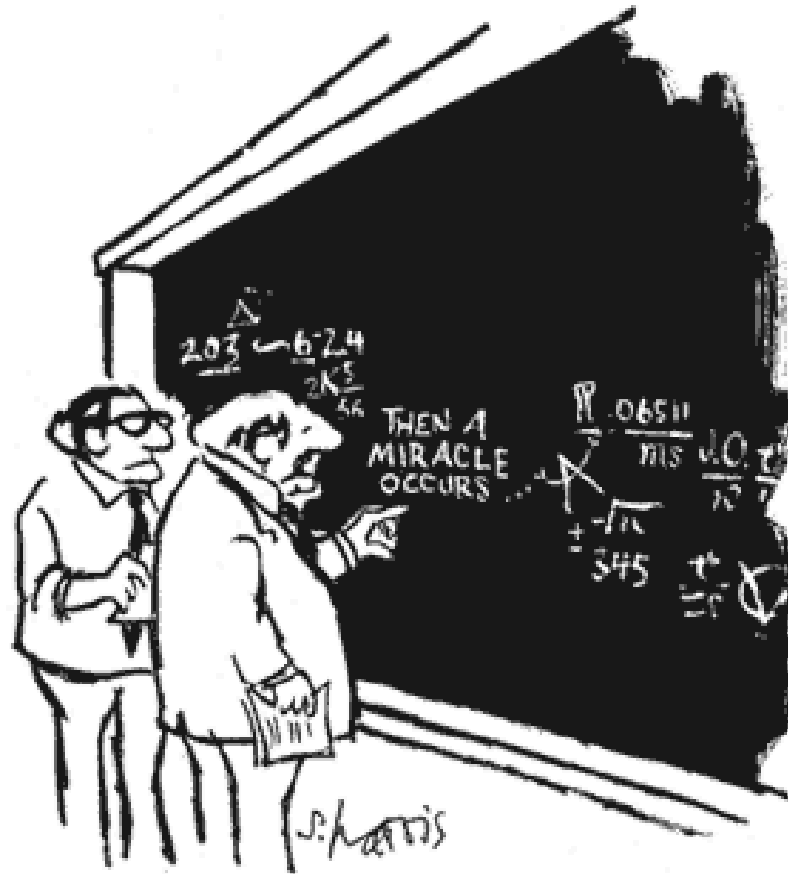
Business plans should be ~ 20 pages long and demonstrate comprehensive thoughtfulness

- Be concise; write well; look professional
- Same topics as Exec Sum, with more on
 - Company history
 - Market Overview
 - Operations
 - Management bios
 - Details on Sales/Implementation strategy
 - Sales cycle; go-to-market strategy
 - Financials:
 - Commentary on historic and gross margin; the “story behind the numbers”
 - Bottoms-up projections
 - Appendix
 - Management resumes
 - PR
 - Product details/sell sheets

Insights on the Business Plan Process

- Writing the plan not only helps explain the business to a prospective investor but helps the management team solidify:
 - Objectives (what)
 - Strategies (how)
 - Tactics (when, where, who)
- Make it a solo effort (creation of plan a team effort, writing should one person)
- Pitch, then write plan – Perfect your pitch (see what works what doesn't and then write plan)
- Put in the right stuff (same topics as prev. Executive Summary)
- Focus on Executive Summary – needs to be fantastic, eyeball sucking, pulse altering, for people to read beyond it.

Avoid "A.T.A.M.O."™ Moments



"I THINK YOU SHOULD BE MORE EXPLICIT HERE IN STEP TWO."

Understanding how a VC thinks and operates can help you in approaching one

- VCs see hundreds/thousands of business plans and get pitched endlessly
- Their goal: Time management

See 1000 Deals

Read 100

Talk about 50

Diligence light 10

Diligence heavy 5

Do 1-2



Investors look for a reason to say no

Referrals are almost always the best way to approach a potential investor

- Cold Calls
 - Voice mail; delete
- Submit plan via email: "Over the transom"
 - What does that say about how creative you'll be in getting customers?
 - Is that the best you can do? Creative?
- Get a referral
 - Find someone who really knows the VC
 - Startup-oriented corporate lawyers
 - Startup-focused or industry-focused recruiters
 - Portfolio companies: VC website, check portfolio...ask for coffee
 - Other entrepreneurs
 - LinkedIn search – get introduced

Summary on Materials for Investors

- Prepare
 - Executive Summary
 - Pitch
 - Business Plan
 - Financial Model
- Be
 - Concise
 - Compelling
 - Realistic
- Purpose of material is to get a meeting, not checks today
- Preempt obvious questions/concerns and be mindful issues which might knock you out of consideration.