University of Florida
Master of Science in Finance

Finance Professional Speaker Series
September 23, 2005
Cow Capitalism
What I learned in School
BA Finance & Marketing
Marketing 101

• Find a legitimate (not perceived) need and fill it with a legitimate solution.
• I learned “Lesson 101” over, and over, and over again.

Find a Need and Fill It!
The Real President
Ronald Reagan

• Republican
• Reaganomics
• Remember the 1980’s?
  – Tax rates – max 70%
  – Stagflation – Keynesians gone awry (Demand Side Economics)
  – Unemployment
  – Misery Index = unemployment + inflation
    • 1980 – 1981 was 18, now at 8
  – Unemployment: Warren Bros. circa 1980 -
Reagan / Gorbachev

- Won cold war / No shots fired
- Reagan admired the Russian people
- He collected Russian stories
- They were self-denigrating
- “Too High Up”
The Bravo! Story

Pierce-ism:
“Business is a lot like sex…”
Bravo! began doing business in China

- Ministry of Agriculture, China National Government
- China’s “Little Emperors”
- “Pasteurizing a Poverty Stricken Region”
- Quality “Western” Brands
- Premium Pricing vs. Pricing Strategy
The Result:

It was like “lighting a $100 Cuban cigar to keep warm.”

- The Chinese National Government was the wrong partner.
- Little Emperors were growing, but still only 15 – 20% of the population.
- Pasteurized milk needs refrigeration.
- Western products were expensive for the masses.
- The Chinese business culture is “Knock Off and Conquer”.
- Absentee Management
  - Palm Beach … Shanghai
Business to Personal Life Lesson

“Your greatest strength will always be your greatest weakness.”

• Right Concept
  – Great tasting / High Quality
  – Branded / Co-branded
  – Great Packaging – Graphics & Technology
  – Demographically (kids) profiled

• Wrong Continent - Asia
“Two roads diverged in a wood,
and I . . . I took the one less traveled by, and that has made all the difference.”

Robert Frost.
Moved out of China in 2000

• Board fight
• CEO forced to resign
• Abandoned $2 MM Shanghai plant
• Sold 2nd plant to Chinese employees
• Stopped selling milk in China
• Began here in the U.S.
Employed the Coca-Cola Business Model with Milk

- Developed Kits (syrup) and Brands
  - Looney Tunes / Slammers brands
- “Borrowed Equity” with Looney Tunes Slammers = Good for you / edgy single serve “shot”
- Signed up 5 regional dairies in the Quality Chek’d Co-Op
- **Failed**: dairies controlled allocation of resources, i.e., distribution, promotion & product development
  - “Classic Opposite of Brand Management”
“It takes a great setback to make a great comeback.”

Vince Lombardi
Moved Strategy to Co-Packing ESL

Goal:

“Make a Branded Beverage out of Milk”
New Space: “Milk, the Final Frontier”

- Arizona
- Nantucket Nectars
- Snapple
- Gatorade
- So-Be
- Tea
- Juice
- Combination
- Electrolyte
- “Fortified”
Transition Milk to a Beverage from a Food

• “Mother Nature’s most perfect food”
  – “Good–For–You” platform

• Today’s world:
  – Better-For-You vs. Good-For-You
    • Diet Coke vs. Coke
Milk Processing 101

• Pasteurized  - HTST
• ESL  - Sterile processor
• Shelf Stable  - Sterile filled, Sterile package
Classic Harvard Business School
Case Study
Entry Barrier
Right Product, Wrong Channel

• Prohibitive limitations with refrigerated milk
  – Marketing: End Cap displays
  – Vending: spoiled milk
  – Storage: home, warehouse, spoils
  – Chilled distribution: competition / fragmented
Tetra – Prisma Experiment

- Milk tastes great and is shelf stable
- Glorified box – Prisma
- Developed great packaging, branding, flavors
- Sold 7-Eleven system wide; 5,300 stores
A Complete Flop

• Benefit to:
  – Processor: margin / refrigerated space
  – Brand owner: price / selling expense
  – Store keeper: inventory storage / new product
  – Distributor: warm trucks / new product

• Consumer response:
  – Not fresh = Not good

• Lesson:
  – Features must be a benefit to consumer
“Whether you think you can or think you can't, you're right.”

Henry Ford.
Dog Food Conventions

The consumer is the one who matters!
Accepted limitation to 180 day ESL

- Requires refrigeration
- Released to warehouse & customers like:
  - Grocery stores
  - Mass merchandisers
- Wrong product / wrong channel
  - Relatively successful with grocers
- Real action for single serve milk in “Immediate Consumption” channel
- Dairy industry controlled chilled distribution
  - Kept us out
“If we had asked the people what they wanted, they would have said faster horses.”

Henry Ford.
Interim ESL Strategy

• Broaden products, sku’s, demographic profiling
  – Different strokes for different folks
  – Pro Slammers / Slim Slammers / Moon Pie / Marvel / Master Foods / Starburst / Milky Way / 3 Musketeers
GOOD MORNING AMERICA
It’s a New Day for Milk!
July 2003

• Jasper Products obtains FDA approval for shelf stable plastic bottle milk
• Cadbury funds filler machine
  – “Take or Pay”
  – Introduced “Raging Cow”
    • 4 flavors
    • 50/50 milk
    • Fragmented distribution
    • Market priced with milk products
Question: Would you select this name?

- 3 countries dealing with Mad Cow disease “killer”
- China slaughters 100,000 cows that year
- Consumers don’t like to be cheated
  - 50/50 milk can’t compete
- Watch Quaker “Chillers”
  - Same thing
"Don't worry about people stealing your ideas. If your ideas are any good, you'll have to ram them down people's throats."

Howard Aiken.
Slammers is a 3-Legged Stool

1) Product development
   a) Uniquely fortified
   b) Great taste
   c) Formulated with demographic profiles

2) Brands
   a) Pro Slammers
   b) Slim Slammers
   c) Moon Pie
d) Marvel
   i. Spiderman – Chocolate Web – Spidey Sense
   ii. Hulk – Cookies & Green – Strength
   iii. Wolverine – Fierce Caramel – Healing
   iv. Capitan America – Red, White & Blue Vanilla – All around health
   v. Electra & Dare Devil – Dark Strawberry - Senses

3) The critical 3rd leg: Distribution
   a) Ambient / D-S-D system
b) Coca-Cola Enterprises
   i. Largest DSD in the world
   ii. 80% of all Coke in N. America & Europe
   iii. 74,000 employees
   iv. $18 BB in sales
   v. 42 BB units sold per year
   vi. 54,000 trucks
   vii. $2.4 MM vending & coolers

   • To replicate CCE = thousands of distributors
   • Alternative to DSD = warehouse
     – Could not possibly compete
     – DSD forces shelf compliance – critical
     – 3 times the sales per store
“Even if you’re on the right track … you’ll get run over if you just sit there.”

Will Rogers.
• A-V Material\Starburst Slammers Radio Spot, 2005 Patriot Festival, Boston.wma
• Master Distribution Agreement
  – November 1, 2005
  – 3-year goal: 420 MM unit run rate = 1% of CCE’s 42 BB unit sales
Financing Chronology

- Should be case study for micro-cap corporate financing options:
  - Alphabet soup style”
    - Common
    - Preferred
    - Notes
    - Debentures
    - Options
    - Warrants
Stock Issuances

- 1997
  - 4.0MM Restricted Common
  - 1.0MM Free Trading Common
  - 2.5MM Restricted Convertible Preferred
- 1998
  - 1.5MM Convertible Preferred Series C
- 1999 - 2000
  - 4.0MM Convertible Preferred Series D, E & F
- 2001
  - 1.5MM Convertible Preferred Series G
- 2002 - 2003
  - 6.0MM Convertible Preferred Series H, I, J & K
- 2005
  - 2.5MM “L” Convertible Debenture - Self Liquidating

TOTAL 23.0MM

All Quasi Equity or Equity Total Cash Raised: $27MM
Shares outstanding: 110 MM Fully diluted: 235MM
Sales History / Forecast

$3.5MM - $14MM - $85MM - $225MM - $450MM

Current valuation: $150MM
Next year: $400MM
Three years: $1.7BB

Current share price: $0.65
Objective: 3 yrs $5 - $7
“There are risks and costs to a program of action. But they are far less than the long-range risks and costs of comfortable inaction.”

John F. Kennedy.
All You Need to Know to Run a Public Company

• Trading Platforms
  – NASDAQ - Negotiated
  – NYSE, AMEX - Auction

• “Bull to Bear” - Logic?
Alphabetical Terms

- Anti-dilution provision
- Death spiral
- Equity line of credit
- Floating rate convertible
- Most favored nation provision
- Naked short
- Phantom income
- Pipes
- Ratchet provision
- Reverse merger
- Self liquidating notes
- Warrant coverage percentage
Numbers & Letters

- 504
- 506
- SB-2
- SB-2-11
- S-8
- 10-Q, 10-K
- 8-K
- 13-D
- NDA
- GAAP
- SOX (Sarbanes-Oxley)
Lessons From 28 Years!

• Set goals - you may not make them, but they will make you.

• Perseverance
  – Schuller
    • “Tough times never last, tough people do.”
  – Remain focused - Long term
    • “Stand for something, fall for anything.”
  – Think positive - Possibility thinking
    • “Success comes in Cans, not Can’ts.”
  – Follow your dream - Divine intervention
    • The impossible just takes longer
  – Never quit
    • No one can make you fail if you don’t quit
  – Use O.P.M. - Equity
    • Run out of $ with equity; OK. Run out of $ with debt; ‘Broke’.
    • No one ever went broke using equity
"It's not that I'm so smart it's just that I stay with problems longer."

Albert Einstein.
Advice

• Study hard
  – Henry Ford resented Thomas Edison
    • “The $50,000 Fee”
The Station