GREEN HASSON JANKS

FOOD AND BEVERAGE REPORT

BEYOND START-UP: WHETTING THE APPETITE FOR GROWTH

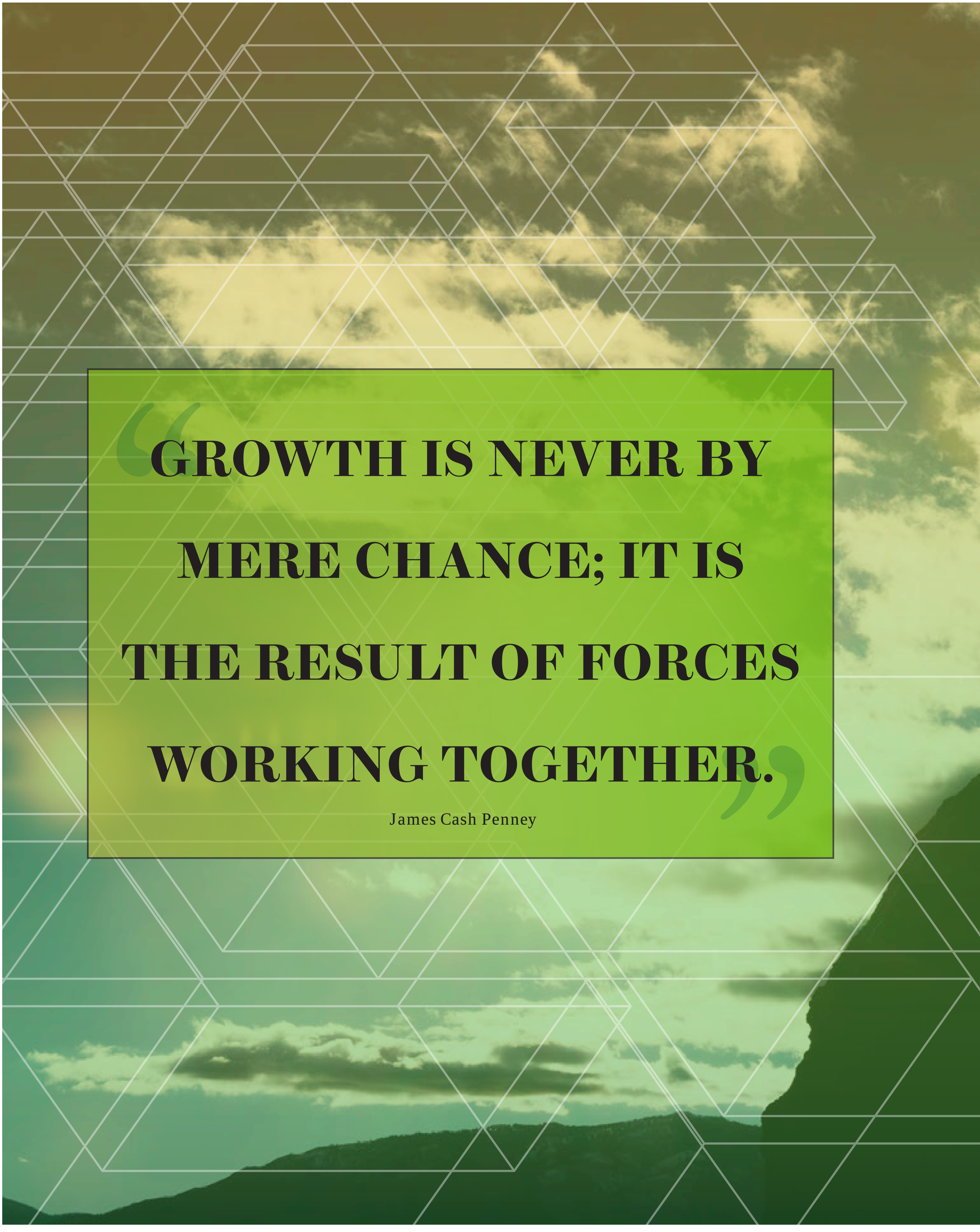

GROWTH IS NEVER BY MERE CHANCE; IT IS THE RESULT OF FORCES WORKING TOGETHER.
James Cash Penney

TABLE OF CONTENTS

INTRODUCTION

In the 2016 Green Hasson Janks food and beverage survey, West Coast business executives shared their views on growth. The news is good — in fact, 86 percent of survey respondents saw an increase in gross annual sales over the past calendar year — up from 78 percent in the previous year's survey — with only 14 percent seeing a decline. Even better news is that those taking the survey didn't see a major threat to growth on the horizon.

This year's report focuses on the stages of growth in a food and beverage company's lifecycle. There are many definitions for growth stages out there, but this paper will use:

STARTUP

CHALLENGES

- Managing Cash Reserves
- Managing Sales Expectations
- Accounting Management
- Establishing Customer Base
- Establishing Market Presence

EMERGING GROWTH

CHALLENGES

- Developing Revenue Sources
- Developing Customer Base
- Accounting Management
- Developing Effective Management Processes and Procedures
- Increasing Market Competitiveness

GROWTH

CHALLENGES

- Increasing Revenue
- Increasing Customers
- Accounting Management
- Effective Management
- Market Competition

EXPANSION

CHALLENGES

- Increasing Competition
- Accounting Management
- Moving into New Markets
- Adding New Products/ Services
- Expanding Existing Businesses

MATURITY

CHALLENGES

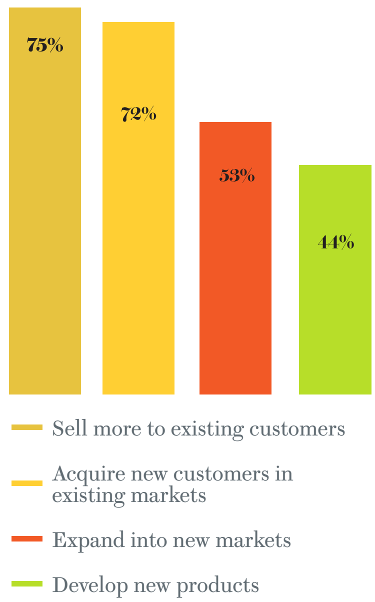
- Increasing Competition
- Accounting Management
- Moving into New Markets
- Adding New Products/ Services
- Expanding Existing Businesses
- Exit Strategy

SURVEY HIGHLIGHTS

80%

Survey respondents who reported growth of more than six percent over the past year

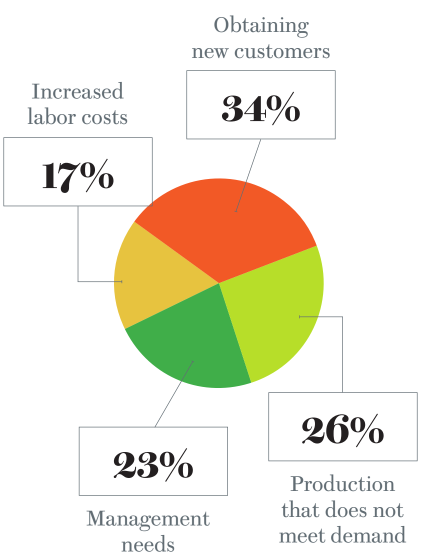
Top Growth Strategies for 2017



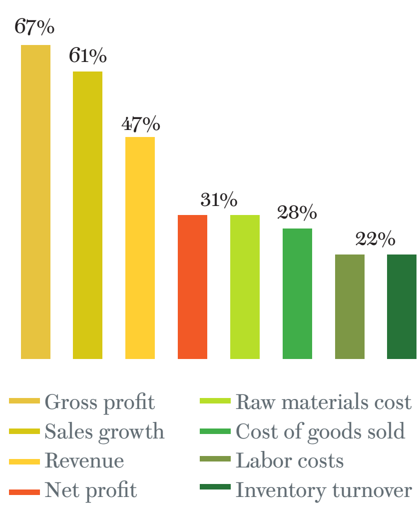
COST OF LABOR

Top threat to growth

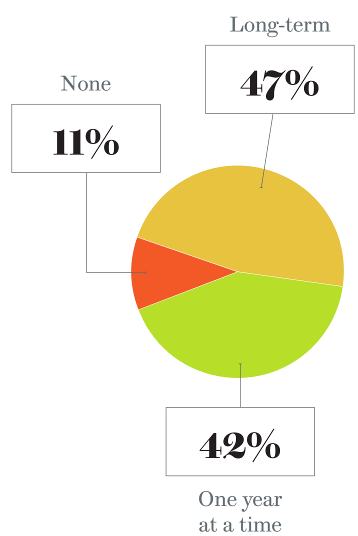
Top Challenges of Moving into a New Lifecycle Stage



Top KPIs used in Managing Growing Businesses



Varying Strategic Planning Timeframes



WHAT IS THE LIFECYCLE OF A FOOD AND BEVERAGE COMPANY?

Food and beverage companies often start with a great product or idea and a passionate person or team who thinks they can take that and build a business. The path can be long, winding and rocky, however. This report hopes to shed some light on how best to approach each of the stages of growth in a food and beverage company's lifecycle through hearing from executives whose companies are doing it right.

DEFINITIONS

The following summarizes a typical food and beverage company's path from startup through exit.

SURVEY RESPONDENTS DEFINED THEIR CURRENT GROWTH LIFECYCLE STAGE AS:

STARTUP

Typically, food and beverage companies in the Startup lifecycle stage aren't generating much (or any) revenue yet. The owner runs the operation and personally directs the actions of any subordinates. This stage involves innovation, proof of concept and sample runs before a substantial order is received. The main concerns are getting customers and delivering products and services. There may be revenues, but they are not yet able to fund exponential growth, and the major goal continues to be surviving.

6%

EMERGING GROWTH

In the Emerging Growth lifecycle stage, the business is moving beyond the owner(s) as sole manager(s). Products are getting market traction, and the pace of orders is increasing. Manufacturing and supply chain capabilities are in danger of falling behind the new level of demand, and the costs of meeting orders may become expensive as additional and extra-shift labor costs rise. In this phase, businesses may also require working capital and growth capital to fund the growth. They may also need to add managerial talent.

17%

GROWTH

In the Growth lifecycle stage, the business has stable revenue that allows the owner to use the business as a platform for major growth. The company and its products now have a track record. The business may need more capital and managerial talent and may need to focus on expansion of SKUs and product channels.

28%

EXPANSION

A business in the Expansion lifecycle stage has now grown substantially and achieved significant size, financial resources and managerial talent. Primary concerns include how to grow rapidly and how to finance that growth — delegation and cash flow are common concerns. Growth may come from expanding geographies, introducing new product lines or extending existing product lines. The business may again need additional financial resources in terms of extended credit facilities, expansion loans or even additional equity. Strategic partners and/or exit could also be options.

33%

MATURITY

Businesses that reach the Maturity stage are usually focused on consolidating and controlling the financial gains brought on by rapid growth. To continue succeeding, they also must work to retain the advantages of their small size.

16%

EXIT

Exiting companies are preparing for sale or acquisition. However, this does not mean that a company's exit is imminent. Planning may begin years in advance or may be a quick response to market conditions.

NAVIGATING A FOOD AND BEVERAGE COMPANY'S LIFECYCLE

At each stage of the growth arc, food and beverage company founders and owners will develop goals and a corresponding plan for growing into new lifecycle stages.

This report will focus on the key growth stages Green Hasson Janks sees its clients face, taking a closer look at the Emerging Growth, Growth, and Expansion stages. To provide inside perspectives, we talked to successful executives who are running companies in each of these lifecycle stages.

Questions Food and Beverage Companies Should Be Asking About Growth

Where am I in the growth lifecycle?

What is my appetite for expanding my business infrastructure?

Do I have access to capital?

Will my company be in business in two years (or will I own it if it is)?

Do I have the passion for actually running the business for the next 10 to 20 to 30 years?

What is my end game?

THE EMERGING GROWTH STAGE

THE EXPERTS

NATASHA CASE

FOUNDER AND CEO,
COOLHAUS

Founded in 2009, Coolhaus sells innovative small desserts through trucks and storefronts in Los Angeles, Dallas and New York City. Coolhaus' pre-packaged ice cream sandwiches, hand-dipped bars and hand-packed pints can also be found in 4,000+ gourmet grocery stores nationally, including Whole Foods and Sprouts, in larger retailers like Kroger and Safeway and now internationally in Asia and the Middle East.

VANESSA DEW

CO-FOUNDER,
HEALTH-ADE

Vanessa Dew is co-founder of Health-Ade, a Los Angeles-based maker of the popular fermented tea drink kombucha. The four-year-old company currently has more than 4,000 accounts and is sold in 42 states, including more than half of the Whole Foods regions. Health-Ade makes it their mission to inspire you to "Follow your gut!" and trust in yourself for a healthier and happier life.

Emerging Growth stage food and beverage companies have left the startup stage with successful products and a growing distribution channel. Working capital and growth capital may now be needed to fund further growth, plus they may also need professional management like a head of sales or marketing. They might have up to $20 million in revenue, which is going right back into the business to sustain current production and fund growth. Revenues and revenue growth are typically how Emerging Growth stage companies determine their success.

"We define growth by our revenue," explains **Natasha Case, founder and CEO of Coolhaus**. "Market share doesn't really work as a measure at this stage because you're compared with industry giants. Of course we want profitability, too. We want to become a $100-million brand, so we look at a number of factors to define where we want to go. Are we dominating the freezer? Do we have the right partners? Are we expanding distribution and manufacturing? Are we expanding geographically? Should we be staying independent or looking for investors? We're exploring all the ways we can grow and be the brand we know we can be."

Donald Snyder, partner leading the Green Hasson Janks Food and Beverage Practice, adds that this is a critical time to plan for future growth, saying, "There are several things a successful company must do to prepare: first and foremost is making sure there is proper cash flow. Other important areas are branding your company and your products, building out manufacturing capacity and having a strong business model and plan."

GROWTH STRATEGIES

The biggest question for Emerging Growth stage companies is how to grow successfully. Case explains how her company is facing this important issue. Coolhaus wants to expand and increase its sales, but it needs to do so in a way that doesn't dilute the integrity of the product and company.

> *"AT THIS STAGE IN OUR GROWTH, THE BIGGEST CHALLENGES ARE FINDING THE RIGHT TALENT, EXTENDING OUR SUPPLY CHAIN, AND HAVING GREATER VISIBILITY INTO WHAT THE MARKET IS DOING."*
>
> **VANESSA DEW**
> CEO, HEALTH-ADE

"The way Coolhaus grows always reflects the culture of the brand," she clarifies. "We tell our story, and we use visuals. We've succeeded at that because we have a point of view that reflects my architectural background. Being true to ourselves has been perceived well in the market, and we've gotten great PR and sales as a result."

Vanessa Dew, co-founder of Health-Ade, has a similar approach to growth and preserving Health-Ade's brand and product despite their growth.

"We committed to success from the beginning," Dew expands. "The first years were about conquering the farmers markets. We learned how to sell and what customers were looking for. From that, we started to learn that growth is all about the product."

Dew also says that talent is central to her growth strategy. Her main tactic is to ensure her team is staffed with the best people.

"Building a strong team is really important," she says. "Without that, you lose control. Our strategy is to build our infrastructure and hire the right people. We feel that people, in particular, are the intangible assets that make Health-Ade what it is."

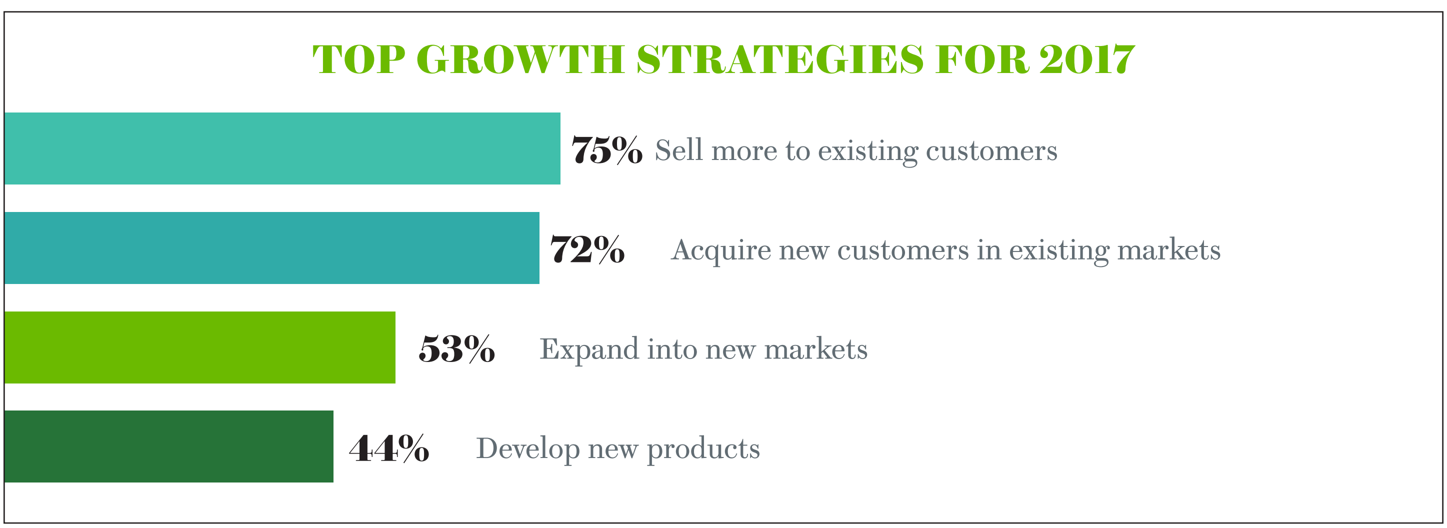
PRODUCT DEVELOPMENT

In the Emerging Growth lifecycle stage, products are getting market traction and the pace of orders is increasing. Manufacturing and supply chain capabilities are in danger of falling behind the new level of demand, however. The costs of meeting orders may become expensive as additional and extra-shift labor costs rise. Start-up food and beverage companies might have one main product or product line, but Emerging Growth companies must start thinking about how they will expand their products and product lines.

"From a product perspective, we have a brand book, and we connect the market to our visuals," Case says of Coolhaus. "We put it on the page and make it happen."

INVESTORS AND CAPITAL

For Emerging Growth companies, the business has often been largely self-funded or funded by friends, family and close business associates in the Startup stage. The goal is now to bring private equity into the mix or attract other strategic investors that see a complementary product or geographic fit. Businesses may also require working capital and professional management like an experienced CEO or head of sales.



"For us, it's about creating a company infrastructure and expanding," Dew explains about Health-Ade's strategy. "We want to grow very quickly, and capital is necessary for that. Believe it or not, our equity partner found us at a local Los Angeles gourmet shop and loved our brand, and a partnership developed. Once we knew them, they helped us and introduced us to people."

For those food and beverage companies that are considering raising money from investors or private equity, a key consideration is finding an investment banking team and developing a strong relationship. This process can take time, and companies should also be out there doing their own outreach with investors, strategic partners and lawyers. Case feels "it's key to be in the game. We're pursuing strategic partners, and we're being cautious and making sure that the best part of the brand will still be able to operate and not be overshadowed by big company culture."

Dew adds, "To grow, we needed a brewery facility and staff. The capital from private equity and family helped us grow to be able to meet the demand and enter into partnerships with companies like Whole Foods. Fast-growing companies need more and more capital. We had to decide what was best for the company, despite the fact that more capital infusion meant more dilution."

"THERE ARE SEVERAL THINGS A SUCCESSFUL COMPANY MUST DO TO PREPARE: *FIRST AND FOREMOST IS MAKING SURE THERE IS PROPER CASH FLOW. OTHER IMPORTANT AREAS ARE BRANDING YOUR COMPANY AND YOUR PRODUCTS, BUILDING OUT MANUFACTURING CAPACITY, AND HAVING A STRONG BUSINESS MODEL AND PLAN."*

DONALD SNYDER
Partner
Food and Beverage Practice Leader
Green Hasson Janks

STRATEGIC PLANNING

This is the lifecycle stage where food and beverage companies start to think longer term and plan. Some have a formal planning process, and some react in real time.

"At this stage, our planning is about being very in control of the financials," Case explains. "It's about having a budget, being accountable and having the board involved."

"Choose your own adventure. We all control our own destiny — shoot for what you want and make it happen. Don't be afraid to take risks." — **Natasha Case, Founder and CEO, Coolhaus**

THE GROWTH STAGE

THE EXPERTS

FARRELL HIRSCH

CEO AND PRESIDENT,
FUJI FOOD PRODUCTS

Farrell Hirsch is CEO and President of Fuji Food Products, Inc., a privately held company focused on delivering ready-to-eat healthy products free of artificial ingredients. Fuji Foods is a national food manufacturing company that produces a diverse range of refrigerated, frozen and shelf-stable products for more than 6,500 customers under the brand names Okami, FujiSan, Yoguri, Macho Mariachi, Wandering Gourmet and private label.

TERI VALENTINE

FOUNDER,
THE PERFECT BITE

Teri Valentine is the founder of The Perfect Bite, a Los Angeles-based food manufacturer. The company produces more than 200 SKUs for national and regional grocery chains across America and also through white labels. The Perfect Bite sells such products as premium appetizers, frozen vegetable blends, fresh salads, single serve meals, frozen dips, ready-to-bake scones and biscuits, unique breakfast solutions and gourmet side dishes.

SHARONE HAKMAN

FOUNDER,
HAK'S

Sharone Hakman launched Hak's after leaving his job as a financial advisor to pursue his passion in the culinary world. Hak's has grown into a global brand, differentiating itself through unique flavor profiles, clean ingredients and an elevated style. The company currently makes four barbeque sauce flavors, six cooking sauces and eight salad dressings, with plans to expand into cooked proteins in the near future.

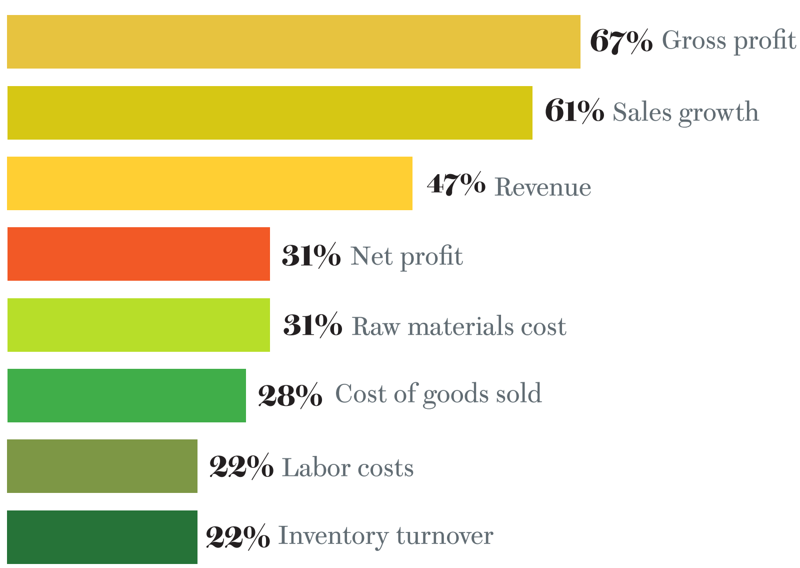
Growth stage companies have solid revenues and numerous steady customers. Companies in the Growth stage use various ways to measure their growth – dependent on their specific industry niches and their operating strategies. For example, **Farrell Hirsch, CEO and president of Fuji Food Products, Inc.**, says he measures growth through sales increases and EBITDA, while **Teri Valentine, founder of The Perfect Bite Co.**, says she uses their client structure to measure growth at The Perfect Bite, noting that they just made two private label deals for 3,000 stores that will start in 2017.

GROWTH STRATEGIES

Access to growth capital is a primary determinant of growth potential for a company in the Growth stage. **Donald Snyder, partner leading the Green Hasson Janks Food and Beverage Practice,** feels that there are four things companies should have in place to prepare for attracting additional outside capital:

“First, you want to show a steady increase in revenue — double digit growth for sure. Companies that are flat in revenue aren’t as attractive; second, you need to show steady and continued profits and EBITDA; third, you must have a strong management team in place — it’s one of the first questions you’ll get when asking for capital; and fourth, you absolutely must have a strong, detailed business plan. These are things you should be thinking about from day one.”

HOW RESPONDENTS MANAGE THEIR BUSINESSES



CHALLENGES

Challenges shift as food and beverage companies reach the Growth stage. Hirsch says his single biggest challenge is having enough physical bandwidth in his personnel to take on and execute growth initiatives.

"It's about employing and retaining quality people with the right qualifications for the positions," he explains.

Valentine agrees, saying, "We need to keep hiring the right people to keep growing."

"We're all looking for the same people that can drive businesses — people like R&D chemists and a VP of sales are hard to find." — **Farrell Hirsch, CEO and President, Fuji Food Products, Inc.**

Infrastructure can also be a challenge for companies in this stage as they continue to ramp up operations.

"Everything we produce must reflect our core mission of brand and product integrity," **Sharone Hakman, founder of Hak's**, explains. "It's a state of mind. You'll always have challenges. Commit to persevere. Keep the integrity of your brand and products, and make sure you never put that at risk. That takes true grit."

GROWTH STRATEGIES

To keep growing, many food and beverage companies expand product offerings.

Valentine notes that The Perfect Bite is "expanding and going outside of the frozen food category, building up several categories and innovating in vegetables for buyers like Kroger and Costco."

Hakman adds that Hak's "growth strategy has been to expand product offerings and get wider distribution."

Hirsch is also expanding product offerings and says Fuji Food Products, Inc. intends to continue growing by "talking to our customers and seeing what their needs are and dialing ourselves into meeting those needs. We'll position our factories and our workforce to support growth. We'll also improve our R&D innovation responsiveness and creativity."

> *"I'M ALWAYS IN START-UP MODE — BE AS RESOURCEFUL AS YOU CAN, EXECUTE AS EFFICIENTLY AS YOU CAN, TRY TO KEEP YOUR HANDS ON THE PULSE OF THE CONSUMER, WORK WITH PEOPLE WHO ARE PASSIONATE AND CAN HELP ADD VALUE AND TRY TO RUN AS LEAN AS POSSIBLE. THAT HELPS PUT OUT FIRES QUICKLY, EFFECTIVELY, AND PROPERLY."*
>
> **SHARONE HACKMAN**
>
> FOUNDER, HAK'S

There are many paths to success, however. Valentine has let The Perfect Bite's customers define what products she offers. She started out as a

THE POWER OF BENCHMARKING

BY RICK WEIS, MANAGER, GREEN HASSON JANKS

Analyzing historical data can help companies determine where they are in relation to their peers and it can be critical for maintaining a competitive edge. With this knowledge, food and beverage companies can position themselves for future growth.

In conducting a benchmarking study, benchmarked companies must be a strong fit, or "apples to apples" to be effective. It's also important to take the lifecycle stage into account. A Growth stage company might have different ratios than a more mature company — for example, at this stage they might have more debt, which is expected.

Even if a company isn't growing at a fast pace, a benchmarking study can help them be more efficient and more profitable by analyzing items like gross margins, net profit margins, and cash flow, and comparing them to peers. Accounting procedures might need to be updated — for example, they might be reporting too many expenses below the line (or too many above the line). This could result in mispricing their products because inventory is undervalued, which could affect their bottom line.

The cash conversion cycle is another key ratio that can be benchmarked for better performance. This measures how fast a dollar moves from when it goes out the door as inventory until it comes back as revenue. There are three components to consider: inventory turnover (the number of days it takes to sell the product), accounts receivable turnover (the number of days it takes to come back in), and accounts payable turnover (how quickly you have to pay your payables, allowing for any early payment discounts).

Collecting and analyzing benchmarking data is important in developing a business case for attracting growth capital. It's also important in anticipating industry or competitive trends, which can affect product development opportunities or identify potential gaps. It also promotes innovation and continuous improvement in every part of the organization.

caterer, and her partners were in insurance and entertainment: "The way we've approached all our growth has been about delivering on what was promised, making sure our quality was great and keeping to our standards of plain ingredients."

"We're just an honest company trying to do a good job, and it has paid off, and our customers really appreciate that." — **Teri Valentine, Founder, The Perfect Bite Co.**

PRODUCT DEVELOPMENT

Growth stage companies and their products now have a track record, and may need to focus on developing entirely new products or categories to keep growing. Farrell Hirsch explains how Fuji Foods is reinventing its products to match today's markets, saying "we've been doing store-delivered sushi, but we're now reinventing the manufacturing process to provide a product more similar to what you'd find at a sushi bar. Our product advances have opened the door for growth and expanding into new markets, distribution channels, and opportunities."

Donald Snyder, partner leading the Green Hasson Janks Food and Beverage Practice, notes that it's important to be well-prepared.

"You have to be able to meet your delivery requirements — when you get a big box store order, you're excited and you must deliver at all costs," Snyder expands. "You say yes, but do you have the manufacturing capabilities? If not, then how do you handle adding capacity and the right amount of labor? The success stories are those that prepare in advance."

Sharone Hakman adds, "I started with barbeque sauce, which is a highly saturated market dominated by huge companies. It makes it difficult for us, but consumers are reading labels and looking for healthier ingredients. We've now expanded to four barbeque sauces, six cooking sauces, and eight salad dressings. Next, we're doing cooked proteins."

The Perfect Bite has its own view on product development. Teri Valentine notes that because her company creates unique products according to customers' specifications, the focus isn't about trying to sell an existing product or product line, but meeting customer expectations. They are expanding their products by adding dry goods, salty snacks, and skillet meals on top of their frozen food offerings. "These products will be co-developed with our customers," she explains. "The constant is that all of our products will have a focus on being better tasting, good for you snacks."

INVESTORS AND CAPITAL

Growth stage companies have stable revenue that allows the owner to use the business as a platform for further growth. The business may need more capital and more professional management to become a household name. Most Growth stage companies will opt to solicit help from private equity firms or other strategic investors, but not all.

"We came to a point where we had to decide to either get a private equity company involved or do it ourselves," Teri Valentine says. "We decided to do it ourselves. We need to be ready and take on the right customers rather than worrying about bringing in the revenue solely."

STRATEGIC PLANNING

The Growth stage is when food and beverage companies tend to develop formal strategic planning processes. "When I joined the

"**IT'S IMPORTANT TO BE WELL-PREPARED.**

IT HAS TO BE ABLE TO MEET ITS DELIVERY REQUIREMENTS — WHEN YOU GET A BIG BOX STORE ORDER, YOU'RE EXCITED AND YOU MUST DELIVER AT ALL COSTS. YOU SAY YES, BUT DO YOU HAVE THE MANUFACTURING CAPABILITIES? IF NOT, THEN HOW DO YOU HANDLE ADDING CAPACITY AND THE RIGHT AMOUNT OF LABOR? THE SUCCESS STORIES ARE THOSE THAT PREPARE IN ADVANCE."

DONALD SNYDER
Partner
Food and Beverage Practice Leader
Green Hasson Janks

company, I did an analysis of current products versus the market, consumer expectations, our expectations and what we were offering relative to those expectations," Farrell Hirsch says. "This helped us see how we were defined in the market currently and where we wanted to be in the market through 2017."

Farrell says Fuji Foods will be doing a more in-depth five-year growth strategy next year that will focus on products and markets, and they will then take a deeper dive to look at where they can grow.

Sharone Hakman says, "It's important to have a detailed plan for where you see yourself in three to five years, but be willing and able to accept that it's always going to change — the market, consumers, your team, even you. Our plan can and has changed. We always stick to our guiding principle, though, which is 'everyday elevated.' Remember, changing course isn't necessarily failure, it might just be growth."

Other companies, such as the Perfect Bite, have a less defined visioning process. Teri Valentine explains that "we've just listened to our customers and looked for the opportunity. It's about what our partners need and getting it done."

> *WHEN I JOINED THE COMPANY, I DID AN ANALYSIS OF CURRENT PRODUCTS VERSUS THE MARKET, CONSUMER EXPECTATIONS, OUR EXPECTATIONS AND WHAT WE WERE OFFERING RELATIVE TO THOSE EXPECTATIONS. THIS HELPED US SEE HOW WE WERE DEFINED IN THE MARKET CURRENTLY AND WHERE WE WANTED TO BE IN THE MARKET THROUGH 2017.*

FARRELL HIRSCH

CEO AND PRESIDENT, FUJI FOOD PRODUCTS

THE EXPANSION STAGE

THE EXPERTS

JOHN LINEHAN

EXECUTIVE VP, STRATEGY AND BUSINESS DEV., KING'S HAWAAIAN

John Linehan is Executive Vice President, Strategy and Business Development for King's Hawaiian Bakery West, Inc. It offers sweet bread products and cakes; breakfast, lunch, dinner, appetizers and desserts; and breads that include mini sub rolls, sandwich buns, hot dog buns and hamburger buns. Founded in 1950 and based in Torrance, CA, with a baking facility in Oakwood, GA, the company provides its products through grocery and food retailer stores and online.

MARTIN KRUGER

COO, FOLLOW YOUR HEART

Martin Kruger is Chief Operating Officer at Earth Island/Follow Your Heart. Founded in 1970, Follow Your Heart started as a restaurant and market in Canoga Park, California, and served vegetarian soups, sandwiches and salads. The company then created its own line of all natural foods. Today the company produces branded products like Vegenaise, Vegan Gourmet dairy alternatives and Follow Your Heart salad dressings, which are distributed nationally.

ROGER O'BRIEN

CEO, SANTA MONICA SEAFOOD

Roger O'Brien is CEO of Santa Monica Seafood, the largest specialty distributor of fresh and frozen seafood in the southwestern U.S. Over the past 10 years, the company has completed six major acquisitions. Headquartered in Rancho Dominguez, CA, the company has over 200,000 square feet of office, processing, distribution, storage and retail space at 12 separate facilities across California, Nevada and Arizona.

Food and beverage companies in the Expansion lifecycle stage are still growing and still need resources like talent and cash to make it happen. Oftentimes this means adding production capacity and top-level talent to propel the business forward.

Martin Kruger, chief operating officer at Follow Your Heart, details how top and bottom line revenue growth are their core metric.

"We've added a tremendous amount of infrastructure to be able to achieve the kind of growth we want, plus we've expanded products and markets," Martin explains.

Roger O'Brien, chief executive officer of Santa Monica Seafood, says, "We define growth in a lot of ways, but we primarily focus on EBITDA and gross profit. Most of the analysts also look at revenue, but I actually put less emphasis on that and am willing to sacrifice some sales for higher gross profit."

John Linehan, executive vice president of Strategy and Business Development for King's Hawaiian, says, "We use a couple of lenses to define growth, and they're different from other companies. We measure revenue, profit and valuation, but we don't have goals around them. Instead, we look at the number of households where we have an engaged, trusting and respectful relationship and how often they invite us into their home. To put numbers to that, 10 years ago, six million households purchased our brand 1.2 times per year and now, 34 million households purchase our brand almost four times per year."

"Focusing on market share dehumanizes your consumer. It feels cold to treat the people that buy your product as share points." **— John Linehan, Executive Vice President of Strategy and Business Development, King's Hawaiian**

Kruger adds that "one of the keys for our company's growth has been to increase

> *ACQUISITION HAS BEEN OUR TOP GROWTH STRATEGY. THIS STAGE CAN BE HARD TO GO THROUGH INITIALLY, BUT LONG-TERM, ACQUISITIONS ARE THE BEST WAY TO GROW ORGANICALLY IN YOUR MARKETS AND ALSO EXPAND GEOGRAPHIC REACH.*
>
> **ROGER O'BRIEN**
>
> CEO, SANTA MONICA SEAFOOD

production capacity. We found a much bigger facility that is adjacent to our current facility and three times larger. We've also increased automation. That means cash flow is more important than ever. The balance sheet needs to work, and items like debt and the debt/equity ratio must be serviceable from a cash flow perspective."

Linehan focuses on reinforcing the brand value of Hawaiian food, noting that "the U.S. Senate recently passed a Resolution (S.Res.416) that we championed, creating National Hawaiian Food Week every year starting on the second Sunday in June. This reinforces our brand as being Hawaiian food rather than bread or anything else, and it will help build a new global category for Hawaiian foods. Making our food a cultural phenomenon is a path to growth, and we hope to make that week more fun than any other food holiday except for Thanksgiving."

CHALLENGES

Complacency can be a real challenge at this stage in a company's life. The revenues are good and growth is on track. Some may remain stuck in the mindset of the previous lifecycle stage without recalibrating their mindset.

With another view, O'Brien says, "We need to expand geographically because we are first or second in every geographic area where we currently operate. We can't get the growth we need without expanding geographically."

"There can be an ingrained mindset of how you do things at a small company," Kruger says. "People need to grow with the company, and you also need to go outside for talent who have the new disciplines required."

Linehan adds that "every stage in the growth lifecycle presents its own set of challenges. In the Expansion stage, a big challenge is keeping your brand promise at 100 percent — not 99 percent or 98 percent — as you grow. The other is culture and maintaining your values as you achieve success. The biggest threat to us is us because losing your business is much worse than someone taking it away."

Other top challenges for our subject matter experts included raw materials costs, and O'Brien notes that "it's getting harder to find stable sources for a dwindling perishable product."

Another major challenge cited by the subject matter experts was the availability of talent.

"People with the experience, skills and cultural fit are hard to find," Kruger explains. "The solution is to work hard to preserve the core of what got you here in the first place, and then use that as a base to grow effectively."

O'Brien agrees, noting that "finding quality senior managers is tough — it takes a long time, and we've even had to go outside the country."

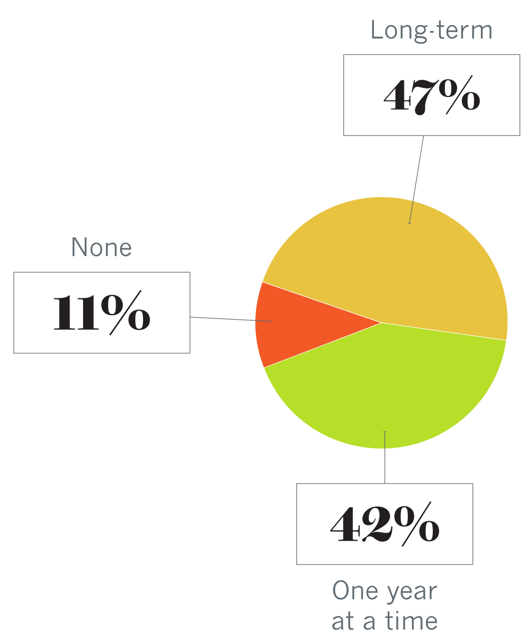
GROWTH STRATEGIES

Different companies approach growth differently at this stage, but expanding into new markets – whether through innovation or acquisition – seems key in order to reach new customer bases.

At Follow Your Heart, Kruger says that innovation is key.

"We're always innovating and creating new products — you need to have something new for customers," he expands. "We produce healthier products that appeal to three types of customers: those that want to make healthier choices like eliminating dairy or eggs; those that have ethical concerns and would prefer plant-based choices; and those that are concerned about the environment and want food that better uses land and water and leaves the smallest carbon footprint."

STRATEGIC PLANNING METHODS



O'Brien says that at Santa Monica Seafood they are "always working on organic growth with existing customers, but organic growth alone doesn't meet our growth goals, and taking on new customers in new markets is hard for us because we're already number one or two in every major area in which we have a presence. We think expanding into new markets is the easier and quicker way to grow — we have done six acquisitions in the last 10 years. We do an acquisition and then spend the next 1-2 years integrating it and finding the synergies. Then we start all over and find a new target."

Donald Snyder, partner leading the Green Hasson Janks Food and Beverage Practice, adds that "acquisitions are an excellent way to gain additional brands, SKUs and geographies. Some growing food and beverage companies use this as their primary growth strategy to great success, like Santa Monica Seafood. An acquisition needs to make sense on numerous levels, however. For example, the product lines should work together, either in tandem or as extensions of existing lines. Also, disparate systems may make post-acquisition integration difficult and expensive. Culture fit is also important, since the teams need to effectively merge along with the products. Acquisition can be a complex and difficult process, but it can be very rewarding."

> *"WE ALL NEED TO BREAK FREE FROM TRADITIONAL MINDSETS OF HOW WE'VE DONE IT ALONG THE WAY."*
>
> **MARTIN KRUGER**
> COO, FOLLOW YOUR HEART

Linehan offers an alternative growth strategy by noting that people often "join" some products' movements, like with Apple or Virgin America: "We want our customers to join King's Hawaiian and our Hawaiian food movement. We'll grow by continuing to find ways to engage with them. For example, we have great engagement with our social media sites on which people tell their King's Hawaiian stories. There's nothing more powerful than hearing about a guy with cancer who survived because all he was able to get down was King's Hawaiian food. And, by the way, we didn't make that story up!"

ACQUISITIONS ARE AN EXCELLENT WAY TO GAIN ADDITIONAL BRANDS, SKUS, AND GEOGRAPHIES.

SOME GROWING FOOD AND BEVERAGE COMPANIES USE THIS AS THEIR PRIMARY GROWTH STRATEGY TO GREAT SUCCESS, LIKE SANTA MONICA SEAFOOD. AN ACQUISITION NEEDS TO MAKE SENSE ON NUMEROUS LEVELS, HOWEVER. FOR EXAMPLE, THE PRODUCT LINES SHOULD WORK TOGETHER, EITHER IN TANDEM OR AS EXTENSIONS OF EXISTING LINES. CULTURE FIT IS ALSO IMPORTANT, SINCE THE TEAMS NEED TO EFFECTIVELY MERGE ALONG WITH THE PRODUCTS. ALL THAT SAID, ACQUISITION CAN BE A COMPLEX AND DIFFICULT PROCESS, BUT IT CAN BE VERY REWARDING.”

DONALD SNYDER
Partner
Food and Beverage Practice Leader
Green Hasson Janks

STRATEGIC PLANNING

Strategic planning is another area that must be tailored for each company, depending on its philosophy for operation and growth. Central components of any strategic planning process should be defining where the company wants to go and defining a carefully distilled number of tactics that will get them there. This will align everyone in management and ensure the right resources go to the plan.

“We do our strategic planning on several fronts: we have monthly board meetings; our nine-person leadership team meets quarterly offsite; we have a management team of 15 people that meets every three weeks; and we also have an outside board of advisors we meet with quarterly that is focused on business strategy,” O’Brien says of Santa Monica Seafood. “All these groups provide input to our business strategy.”

Linehan says that King’s Hawaiian wrote a strategic plan in 2006: “It caused us to grow by 658 percent over the 10 years we followed that plan. Now we’re working on a new version of the plan that will make us even better at what we do. The key is to focus on things that fit. We don’t stray beyond the parameters we’ve set.”

On a similar note, Kruger says that Follow Your Heart “started out with a formal five-year planning process that focused on capacity, innovation and marketing. Now we map a three-year plan for specific products and new products, adding at least one major new product line every year. I know what distribution points we’ll have three years from now, so it’s a specific plan around existing items with a launch every year.”


"Acquisitions have been our top growth strategy. They're extremely hard work initially, but long-term they're worth the effort since we believe this path is the best way to grow in existing markets and to also expand geographic reach into new markets."
ROGER O'BRIEN
CEO, SANTA MONICA SEAFOOD

CONCLUSION

Fast-growing companies face new or unforeseen risks like dropping everything to fulfill that first big contract; insufficient staff and labor; higher costs for raw materials, labor, packaging, distribution or advertising; quality issues; and inadequate controls. Any of these risks, if not handled early and directly, can sink a new company or at least result in lower potential profit. To address these risks, smart planning is necessary.

Even when companies are growing so fast that their managers wish there were 25 hours in a day, matching the business infrastructure to where they are — and where they will be — will save inevitable challenges later on. These are investments that have to be made. It may be an old axiom, but banks only lend when you don't need it. Doing what you need to do to be "bank-worthy" or "investor-worthy" will pave the way for future growth. Starting now is the best plan.

Also stay on top of industry trends. **Donald Snyder, partner leading the Green Hasson Janks Food and Beverage Practice,** sees certain sectors that are poised for significant growth in the next 12-24 months based on market trends.

"I feel that categories like protein snacks, such as jerky, and alternative types of protein, such as rice and pea protein, will continue to grow swiftly," he says. "This is actually a combination of consumers demanding high-protein foods and 'on the go' foods. Other trends I see growing are pre-prepared meals, poke products and plant-based foods."

Another interesting trend is the movement toward reduced food waste. Snyder explains that "it's not bad to eat fruits beyond their ideal freshness date, for example, which means being able to handle the fruit and cut off the edges rather than throwing them away. Consumers would like to see the industry reduce waste by 50 percent or more."

This is an exciting industry to be a part of. For any entrepreneur entering the food and beverage industry, the best advice is to follow your passion. That's what got you into this business, and that's what will sustain you during the long hours and hard work needed for a start-up. If you start to drift off into other products or lines without carefully planning, you will set yourself up for trouble. Get great advice, too — it's unlikely you'll have all the expertise you need in every aspect of the business.

A CHECKLIST

IS YOUR FAST-GROWING COMPANY WHERE IT NEEDS TO BE?

- Plant and Equipment
- Labor
- Managerial Talent
- Operations
- Distribution Channels
- Cash Flow
- Financing
- KPI Definition and Measurement
- Contingency Planning
- Enterprise Risk Mitigation
- Quality Assurance
- Strategic Planning
- Exit Strategies

THE SURVEY

KEY TAKEAWAYS

In the Green Hasson Janks 2016 Food and Beverage Survey and interviews with industry experts, it was found that there are many paths to growth for companies at all lifecycle stages. 2016 has been good to the survey respondents and interviewees, with almost 86 percent reporting revenue growth. Response to consumer demands for fresher, higher-quality ingredients has sparked opportunity, innovation and growth.

SURVEY RESPONDENTS

The survey results were gathered from industry executives that represented mostly mid-market and smaller food and beverage companies. Respondents came from a wide range of industry sectors:

- Meat/Poultry/Seafood
- Food Service
- General Distribution
- Produce
- Retail/Supermarkets
- Beverages
- Snack Foods
- Confectionery and Baked Goods

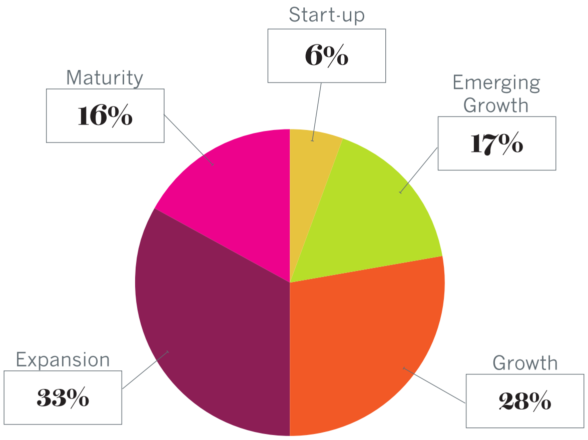
INDUSTRY GROWTH

Respondents were enthusiastic about industry growth and reported that 86 percent of their companies saw an increase in gross annual sales over the last calendar year, up from 78 percent in last year's survey. Only 14 percent saw a decline.

Respondents expect to keep growing in 2016, using tried and true methods like:

- Selling more to existing customers (75 percent)
- Acquiring new customers in existing markets (72 percent)
- Expanding into new markets (53 percent)
- Developing new products (44 percent)

HOW RESPONDENTS DEFINE THEIR CURRENT GROWTH LIFECYCLE STAGE



Those taking the survey also saw no major threat to growth on the horizon. Respondents cited a number of threats, but none were cited by the majority. Top answers included:

- Cost of Labor
- Government Regulations/Food Safety
- Manufacturing Capacity
- Increased Competition
- Pricing Competition
- Cash Flow
- Raising Capital
- Brand Recognition

Those taking the survey also saw no major threat to growth on the horizon. Respondents cited a number of threats, but none were cited by the majority. Top answers included cost of labor, government regulations/food safety, manufacturing capacity, increased competition, pricing competition, cash flow, raising capital, and brand recognition.

MOVING TO THE NEXT GROWTH STAGE

They saw several challenges that could impede their move to the next stage in their company's growth, however, including:

- Obtaining new customers (34 percent)
- Production that does not meet demand (26 percent)
- Management needs (23 percent)
- Increased labor costs (17 percent)

MANAGING THE BUSINESS

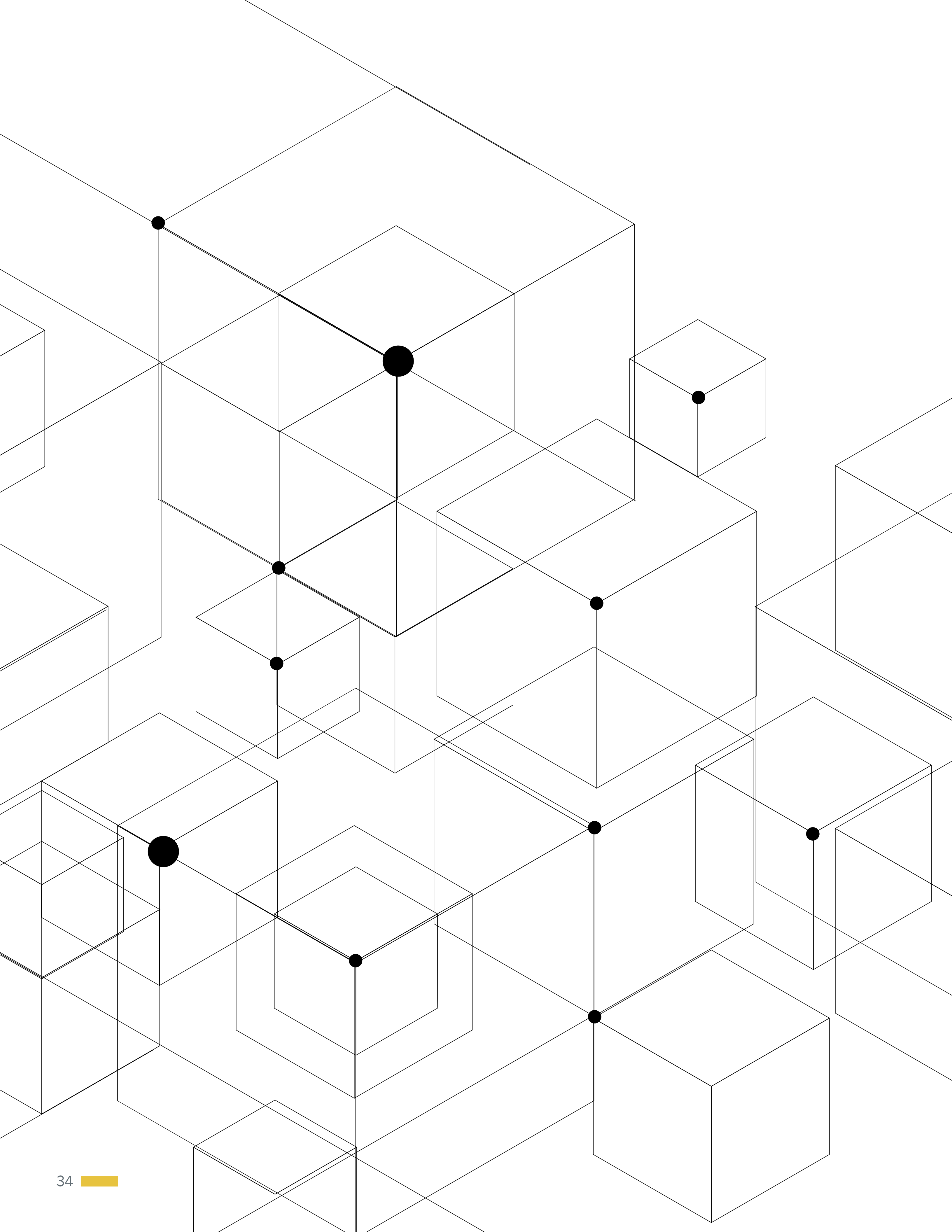
When asked what metrics or KPIs are most important to managing their business, respondents cited top answers as:

- Gross Profit (67 percent)
- Sales Growth (61 percent)
- Revenue (47 percent)
- Net Profit (31 percent)
- Raw Materials Cost (31 percent)
- Cost of Goods Sold (28 percent)
- Labor Costs (22 percent)
- Inventory Turnover (22 percent)

STRATEGIC PLANNING

Respondents were split between planning long-term (47 percent) and planning one year at a time (42 percent). Just 11 percent had no strategic planning process.

GREEN HASSON JANKS LLP EXTENDS ITS SINCERE THANKS TO ALL 2016 FOOD AND BEVERAGE INDUSTRY SURVEY PARTICIPANTS.



ABOUT THIS REPORT'S PRINCIPAL AUTHOR

DONALD SNYDER

Donald Snyder is a partner at Green Hasson Janks and heads the firm's Food and Beverage industry practice. Snyder has more than 25 years of experience in public accounting and chairs the firm's Accounting and Auditing Department, as well as the Quality Control Department. He provides audit, accounting and consulting services and is a well-known business consultant in the food distribution, food processing and manufacturing industries.

A popular industry speaker, Snyder also writes for the firm's *CPA Food Bites* blog, hosts a number of food and beverage networking groups and organizes and leads food executive roundtables. Snyder is involved in assisting clients with designing and assessing their internal accounting controls and has also written several articles on the subject of fraud prevention and detection. He has been nominated for a *San Fernando Valley Business Journal* award as one of the "Valley's Most Trusted Advisors."

Snyder holds a Bachelor of Science degree in Administration with emphasis in Accounting from the University of Colorado. He is a member of the California Society of Certified Public Accountants and the American Institute of CPAs. Snyder can be reached at djsnyder@greenhassonjanks.com.

"**I FEEL THAT CATEGORIES LIKE PROTEIN SNACKS LIKE JERKY AND ALTERNATIVE TYPES OF PROTEIN LIKE RICE AND PEA PROTEIN WILL CONTINUE TO GROW SWIFTLY.** *THIS IS ACTUALLY A COMBINATION OF CONSUMERS DEMANDING HIGH-PROTEIN FOODS AND 'ON THE GO' FOODS. OTHER TRENDS I SEE GROWING ARE PRE-PREPARED MEALS, POKE PRODUCTS, AND PLANT-BASED FOODS.*"

DONALD SNYDER
Partner
Food and Beverage Practice Leader
Green Hasson Janks

THE WAY COOLHAUS GROWS ALWAYS REFLECTS THE CULTURE OF THE BRAND. WE TELL OUR STORY AND WE USE VISUALS.

NATASHA CASE

FOUNDER AND CEO, COOLHAUS

Natasha Case founded Coolhaus in 2009 with Freya Estreller after working in architecture at Walt Disney Imagineering. They launched their architecturally-inspired, unique ice cream sandwich company from their barely driveable postal van at the Coachella Music Festival and built a loyal following over the festival weekend, returning to LA with an abundance of viral press, a rapidly building social media following, and an eager foodie audience. Today Natasha works as the CEO of Coolhaus, creating new product opportunities from development to design, building new relationships and innovating.

WE COMMITTED TO SUCCESS FROM THE BEGINNING. WE LEARNED HOW TO SELL AND WHAT CUSTOMERS WERE LOOKING FOR.

VANESSA DEW

CO-FOUNDER, HEALTH-ADE

Health-Ade was founded in 2012 by a husband and wife duo and their best friend — all looking to make the best tasting and highest quality kombucha you can buy, while finding ways to pioneer the scaling of this very natural process without succumbing to market pressures or compromised quality. Hand-crafted the "old-fashioned way" – the way nature intended – Health-Ade does everything possible to guarantee the best brew out there. Health-Ade heavily supports the REAL FOOD movement in their local communities and is actively expanding their reach to become a valuable national brand. Health-Ade makes it their mission to inspire you to "Follow your gut!" and trust in yourself for a healthier and happier life.

"EVERYTHING WE PRODUCE MUST REFLECT OUR CORE MISSION OF BRAND AND PRODUCT INTEGRITY. IT'S A STATE OF MIND."

SHARONE HACKMAN

FOUNDER,
HAK'S

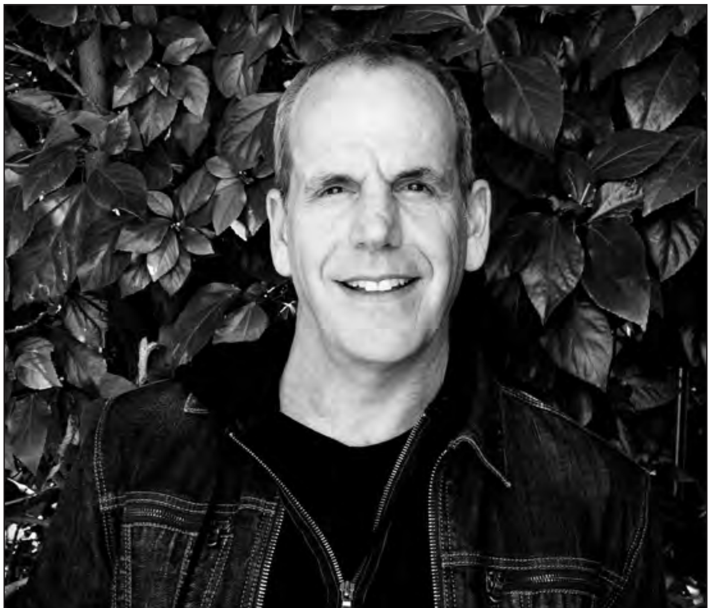
Formerly a financial planner, Sharone Hackman left the corporate world to follow his true love for food by pursuing a career as a chef. His standout performance on Fox's hit show *Master Chef* ignited a new vision for Hackman's aspirations in the culinary world. Now, a highly acclaimed chef, owner of a barbecue sauce company, dedicated family man and active lifestyle enthusiast, Hackman puts as much love into his food as he does into his zest for life. His celebrity clientele and international television success has not steered Hackman away from who he is: a man who creates love and passion through his food.

"WE'LL CONTINUE TO GROW BY TALKING TO OUR CUSTOMERS AND SEEING WHAT THEIR NEEDS ARE AND DIALING OURSELVES INTO MEETING THOSE NEEDS."

FARRELL HIRSCH

CEO AND PRESIDENT,
FUJI FOOD PRODUCTS

Farrell Hirsch has been chief executive officer and president of Fuji Food Products since January 2016. Most recently, he was chief executive officer and president of HACO US, where he was responsible for North American operations including: three operating companies and multiple manufacturing plants, P & L, sales and business development, production, strategic planning and budgeting, finance, research and development, quality control and supply chain. He previously held leadership positions at PureTek Corporation and Small World Toys.



INNOVATION IS KEY. WE'RE ALWAYS INNOVATING AND CREATING NEW PRODUCTS.

MARTIN KRUGER

COO,
FOLLOW YOUR HEART

Martin Kruger has more than 20 years of experience leading change in organizations as a chief operating officer and chief financial officer. His focus has been on execution of corporate strategy and organizational development to deliver revenue growth and increased profitability. His specialties include manufacturing and wholesale distribution, consumer packaged goods, natural food products and international distribution. In 2011, he joined Earth Island, the manufacturer of award winning Follow Your Heart products like Vegenaise, VeganEgg, non-dairy cheeses, salad dressings and gluten-free bread and tortillas.

WE WROTE A STRATEGIC PLAN IN 2006 THAT HAD FIVE BASIC ELEMENTS AND IT CAUSED US TO GROW BY 658 PERCENT.

JOHN LINEHAN

EXECUTIVE VP, STRATEGY AND
BUSINESS DEV, KING'S HAWAIIAN

John Linehan has more than 30 years of leadership experience in consumer goods and related industries. He has consistently developed and executed organizational and brand strategic plans that have accelerated successful and sustainable growth in revenue, profit and, importantly, in valuations. He began his career at Procter & Gamble before moving to the Clorox Company where, for 17 years, he held positions of increasing responsibility in sales, marketing, and general management across numerous product categories. He started working with King's Hawaiian as a consultant in 2006 and became executive vice president of Strategy and Business Development in 2008.

"WE'RE ALWAYS WORKING ON ORGANIC GROWTH WITH EXISTING CUSTOMERS, BUT ORGANIC GROWTH ALONE DOESN'T MEET OUR GROWTH NEEDS..."

ROGER O'BRIEN

CEO,
SANTA MONICA SEAFOOD

Roger O'Brien is CEO of Santa Monica Seafood, the largest specialty wholesale distributor of fresh and frozen seafood in the southwestern U.S., a position he has held for the past 11 years. He is also one of the founding directors of Catalina Sea Ranch, a marine technology company and the first offshore shellfish ranch in U.S. federal waters. Previously, O'Brien was an owner/operator of 3 Day Blinds for 12 years, growing that company into the largest manufacturer and retailer of hard window coverings in the U.S.

"THE WAY WE'VE APPROACHED OUR GROWTH HAS BEEN ABOUT DELIVERING ON WHAT WAS PROMISED."

TERI VALENTINE

FOUNDER,
THE PERFECT BITE CO.

As a caterer and restaurateur in Los Angeles since 1990, Teri Valentine created a business based on the philosophy that foods should be handmade from scratch and from the absolute best quality ingredients available. The Perfect Bite Co. started out with one appetizer in nine flavors and has expanded into all areas of consumer foods. Valentine's role includes meeting with customers to determine their product needs and designing delicious products that match those goals.

Green Hasson Janks

Founded in 1953, Green Hasson Janks believes that collaboration is the foundation for success. We work as a business advocate for our clients — providing personalized service and building long-term relationships to help position our clients for the future. Ranked as a top-20 largest accounting firm on the Los Angeles Business Journal's Book of Lists, the firm has 12 partners and more than 130 staff members that serve over 3,000 clients. The firm is a member of the American Institute of Certified Public Accountants (AICPA), the AICPA Governmental Audit Quality Center (GAQC), the California Society of CPAs and the California Association of Nonprofits (CAN) and the Public Company Accounting Oversight Board (PCAOB).

Green Hasson Janks is also an independent member of HLB International, a worldwide organization of professional accounting firms and business advisors represented in over 100 countries. This affiliation provides access to the subject matter experts of other member firms in most major cities around the world. Green Hasson Janks is the exclusive member firm of HLBI in Los Angeles County.

ABOUT OUR FOOD AND BEVERAGE INDUSTRY PRACTICE

In today's environment of business consolidation, increased competition and regulatory pressures, the food and beverage industry is facing its toughest challenges in years. Manufacturers, packers and co-packers, distributors, and retailers can all benefit by partnering with an accounting firm that understands the unique inventory, process and transactional issues facing the industry.

The food and beverage industry is one that can thrive even in the face of a struggling economy. It is, however, important for business owners and executives to know how to navigate financial, market and operational challenges to ensure a strong revenue stream and long-term viability. At Green Hasson Janks, we are often engaged to provide benchmarking, articles, consulting and best practice sharing to help food and beverage companies prepare for the future.

10990 Wilshire Boulevard, 16th Floor | Los Angeles, California 90024
Tel: 310 873-1600 | www.greenhassonjanks.com