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Long Time Flowdesign Client Start – Up Honest Tea Sells Stake to Coca-Cola Co.

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Coca-Cola is now 40 percent more Honest.

Recently, the soda giant purchased 40 percent of Honest Tea, best known for its leadership in the organic ready-to-drink tea category. Honest, a mission driven, socially- and environmentally-conscious company, is giving up two of its five board seats to Coke, which has an option to purchase a majority stake in Honest in three years.

The \$40-\$50 million cash infusion from Coke is expected to allow Honest access to access untapped markets, better-prices for raw materials and transportation, and Coke's vaunted marketing expertise and consumer insight. It is the first investment on the part of Coke's Venturing and Emerging Brands (VEB) unit, which was started last year to locate and invest in companies that might fill out the company's beverage portfolio.

Behind the strength of its low-calorie, lightly sweetened organic drinks, the tea and juice maker has grown at a slow but steady rate in the past 10 years. Last year it had sales of nearly \$23 million, although that missed reported growth targets. Coke, meanwhile, has had trouble establishing itself as a consistent player in the RTD tea market, which has shown significant growth in the past three years.

"Honest Tea is the leader in the fast growing organic tea space, an area where CCNA does not currently compete," according to Coke spokesman Scott Williamson. "We believe CCNA's tea brands, as well as Honest Tea's tea brands, can thrive in the current beverage landscape."

Despite recent struggles with growth, the investment was realized with terms that Honest co-founder Seth Goldman called favorable to furthering the company's brand and mission.

"We didn't have a gun to our head or anything like that," he said. "It was more a matter of seeing the tremendous opportunity out there where we could realize the potential to expand the brand more quickly and effectively with the help of the world's largest cola company."

For at least the next three years, Goldman, co-founder Barry Nalebuff, and longtime advisor Gary Hirshfeld, the CEO of Stonyfield Farm Yogurt, will hold three of the five board seats. The arrangement, according to "TeaEO" Goldman, will allow Honest to maintain control of its mission as it enters new markets.

"They are doing this because they recognize the value of what we're doing," he said. "The goal is to build Honest Tea and let them tap into what we're doing. This isn't selling out, they're buying in."

The idea behind taking an investment from Coke is that the company will be able to scale up its business, and thereby improve its mission, as well. Last year, Goldman pointed out, Honest purchased 2.4 million lbs. of organic tea leaves – a number that could increase by ten times that amount with the new investment from Coke.

"I think with the Honest brand, we're more of a model of change right now, because we're small," he said. "But I want us to be an agent of change."

Nevertheless, the investment allows Goldman to offer Honest's financial backers a return on their investment, and also may set a timetable for the business to change radically down the line.

"After three years, I am under no illusion of what might happen," Goldman said.

After bungling previous "New Age" acquisitions like Mad River and Fresh Samantha, Coke had withdrawn from investing in innovative brands for several years, finally loosening its purse strings in late 2006 with the purchase of Fuze Beverages and then a massive, \$4.1 billion pickup of vitaminwater maker Glaceau and the formation of the new VEB unit.

Goldman said the Glaceau investment, in which the brand has maintained its core character while entering the Coke system, was encouraging when he began to seriously consider the deal, and that Honest itself had reached a point where he was confident the brand's values would remain intact.

"Before three years ago, if someone bought us, we wouldn't have achieved the size or presence of a brand where I would have been confident in maintaining control of the company or the products," he said. "We opted for something that gives us the chance to continue to build the brand under our stewardship with the same management team and same approach. If this were a sale, I'd be having a different conversation."

Although Coke's marketing expertise will be available to Honest, that does not mean the company will immediately be injected into the beverage giant's beverage portfolio of offerings at events like trade shows.

"As the Coca-Cola Company is only a minority investor, Seth Goldman and his management team will continue to run Honest Tea as an independent business, so marketing-related questions like trade show presence etc, would be theirs to make," according to Williamson.

Source: BevNET.com Staff

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