

High Brew Coffee's latest fundraising could be its last, CEO says

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High Brew Coffee, a venture capital-backed producer of branded canned cold-brew coffees, may not need to raise further capital following its most recent raise, said CEO David Smith. On 18 May, the Austin, Texas-based company secured USD 20m from **Charles Street Partners**, according to a report by the *Austin American-Statesman*. That brings the total raised to nearly USD 50m, based on figures from securities filings.

The company's cash burn rate is slowing and it now has sufficient capital to get through 2019, said Smith. In fact, it "could be the last money we raise," but he added, there "could be a need for a little more depending on circumstances."

High Brew has also been able to build an experienced management team that gives the company "room to run," he said. The timing of a potential exit depends on when High Brew reaches a level beyond which it will be hard to grow with its own resources, said Smith.

Regarding an exit, Smith said major beverage companies would be logical buyers for High Brew Coffee, including its existing investor **Dr Pepper Snapple Group** [NYSE:DPS], which was acquired by **JAB Holdings**-owned **Keurig Green Mountain** for USD 18.7bn in January. The company has raised capital every year since 2014. Smith said he learned much from his first venture, **Sweet Leaf Tea**, which sold in 2011 to **Nestle** [VTX:NESN] after 13 years in business. In May 2017, Smith told this news service that High Brew Coffee's sales in its third year of operation exceeded Sweet Leaf Tea's revenue during its eleventh year of business. Sweet Leaf had USD 70m in revenue when it sold, Smith said at that time. Early investors in High Brew include **CAVU Ventures**, run by Christopher Clayton, who co-founded Sweet Leaf Tea with Smith, and Dr Pepper Snapple Group.

Through his Sweet Leaf Tea experience, Smith has helped High Brew Coffee to grow more rapidly and has raised capital commensurate with that growth opportunity, he said. Dr. Pepper/Snapple is the company's nationwide distributor and High Brew consults with them on new product launches to make sure the launches works within their distribution system, Smith said. Dr. Pepper/Snapple is "definitely" a logical buyer but so too are "all the other major beverage companies out there," Smith said.

Stu Strumwasser of boutique investment bank Green Circle Capital Partners, agreed that Dr. Pepper/Snapple would be the most logical contender for High Brew, although a deal would be unlikely in the near term, because its new owner, JAB Holdings, is still "digesting the deal." The banker continued that High Brew Coffee would likely fetch 4x-7x revenue in the event of a sale. Strumwasser explained that revenue multiples are typical in the beverage space as companies in the capital-intensive sector do not usually generate positive cash flow. As consumers' tastes have shifted towards healthier low-sugar beverages, large soda producers such as **Pepsi** [NASDAQ:PEP] and **Coca Cola** [NYSE:KO] have channeled their lost market share

into acquiring emerging beverage brands, which has spiked competition in beverage company auctions and driven up multiples, he added.

The ready-to-drink coffee segment is one of the fastest growing beverage segments and that creates significant competition, said Smith. In addition to **Starbucks** [NASDAQ:SBUX], there are as many as 150 brands in the marketplace, said Smith. Strumwasser characterized High Brew as one of the leading producers of ready-to-drink coffee products, a space he said is becoming increasingly crowded.

Proceeds of High Brew's most recent capital raise will finance celebrity endorsements, digital marketing, other promotion efforts and expansion of its distribution, Smith said. Although the company's products are widely available, High Brew wants to build its presence in the food service channel where it is "just scratching the surface" and with convenience stores, which is relatively "untapped," said Smith.

The company has three new product lines in development including a sparkling coffee beverage that it exhibited at the Expo West conference, he said.

Dr. Pepper Snapple Group did not respond to requests for comment.

by Mark Druskoff in Houston and Emily Fasold in Chicago