

Global Gardens Group

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Global Gardens' Veggemo beverage targets fast-growing dairy alternative space with fresh approach

With typical acerbic wit, the late columnist Mike Royko once offered his readers a simple rule for eating healthily: "If you enjoy it, you can't have it; if you don't like it, you can eat all you want."

That was a little over three decades ago, when there was probably some element of truth to Royko's tongue-in-cheek guideline. Today, however, the list of products that not only are tasty but also good for you is long and growing.

Global Gardens Group (CNSX:VGM) made that list a little longer on November 5 when it released a product line aimed squarely at the highly popular almond and soy milks that many health-conscious adults view as a refrigerator staple.

Veggemo is a vegetable based dairy alternative that tastes delicious and feels so much like milk, according to the company, that even devoted milk drinkers will be hard-pressed not to give it serious consideration. Factor in the absence of bad stuff like trans fats and cholesterol and one begins to understand why the Global Gardens management team so deeply believes it has a winning combination on its hands.

That combination might never have come together were it not for a fateful meeting four years ago between now president and chief executive officer (CEO) Rob Harrison and vice president (VP) of Marketing, Wade Bayne.

Harrison had traveled to Vancouver from Ontario to see an early version of the product at an incubator group founded by executives from Lululemon. Bayne had been invited to the office that day as well, and the two experienced consumer goods executives quickly found themselves on the same page. "We both perceived a huge opportunity," says Harrison.

Bayne, whose background includes executive positions at names like Molson Coors and Procter & Gamble, explains that being in the right business at the right time is everything. "In an industry that is enjoying great growth, even an average company can do well, whereas in an industry that is flat or declining, a strong company will struggle," he says.

"So, before you choose where you want to be, find an industry that has strong growth driven by factors that are sustainable."

Harrison, who has advised the likes of Heinz, Nabisco and Nestle, claims that the dairy alternative beverage category is growing at double-digits per quarter, which compares to 1-2% growth for consumer goods overall in Canada.

And then there is dairy itself.

"You see dairy milk declining on a per capita basis for the last 25 years and people migrating to our category," explains Harrison. "As marketers, you see exponential growth, a new category, great margins and strong demand from consumers, and we believe this shift is going to continue."

Harrison says the alternative dairy industry is now valued at over \$2 billion in North America.

Share Information

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Sector: Food & Beverages [T3]

Website: globalgardensgroup.com

Company Synopsis:

Global Gardens Group creates & markets innovative non-dairy products that offer an appealing option to traditional dairy.

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In the four years since Harrison and Bayne met at the incubator, countless versions of the beverage have been created, a number of which were taken out for testing with large groups of consumers. The main tests took place in two waves: the first led to the conclusion that protein was breaking too strongly through the flavor matrix, thus causing consumers in the trials to report a slightly bitter taste.

"Protein doesn't taste good," says Bayne, "so you have to mask it and we spent three months getting that right."

The next wave of testers liked the taste but said they would prefer the product to possess a little more body, "so we dialed up the texture to replicate a 1% or 2% milk," says Bayne.

One might wonder how a vegetable-based drink manages its slightly off-white color. Bayne credits ingredients such as potatoes, organic potato starch, tapioca and a white-yellow pea sourced from Belgium for the milk-like hue. "It is not an artificial colour," he points out emphatically, adding that genetically modified, or GMO, ingredients are similarly banned from the Veggemo recipe.

With the product perfected, the fourth quarter of 2015 was chosen for the start of an aggressive yet prudent roll-out.

"There are two things you measure in this business, and the first is distribution," explains Harrison.

"We had set out to be in 450 stores at the end of the first quarter of 2016 and it appears the number is going to be closer to 800."

Six months from the beginning of product roll-out the goal is to be in approximately 1,800 stores across Canada, including those run by several of the leading chains.

The roll-out continues in further stages to include chilled Veggemo (the first phase involves shelf-stable product, which is packaged in an environment such that the beverage remains fresh on the shelf for up to 14 months) and the addition of stores in the United States.

Looking a bit further out, Harrison says the company has its eye on the global marketplace, as North America accounts for only 18% of dairy alternative beverage sales volume worldwide. There are many attractive markets for Global Gardens to consider, he says, both for sheer size and, in some cases, high levels of lactose intolerance within the population.

A product can be fantastic, but if people don't try it they will never know. Harrison and Bayne have already considered the appeal factor from multiple angles and have a game plan to ensure that consumers across the country find the product if not one way, then another. This, of course, drives the second metric Harrison was hinting at: sales per point of distribution, or how many units you are selling at each store.

Key to this is the brand and its character, which Bayne describes as "light-hearted, approachable and playful." A naturopath in Colorado that Harrison and Bayne refer to as a "guru" asserted that many healthy food choices brand in such a way as to appeal to hard-core health food consumers; because of this, however, they effectively alienate a large percentage of "average" consumers not drawn to a product branded in that fashion.

The packages for Veggemo's three flavors - original, unsweetened and vanilla - are each different but share a common visual theme characterized by happy animals in fantasy-like nature settings. To say they stand out sitting amid rows of competitor's containers, almost all featuring a white beverage splashing into a glass or cereal bowl, is an understatement.

Then there is in-store product demonstration, which begins this month.

"We will be doing product tastings at about 1,000 stores so that shoppers can come and try Veggemo before they make a purchasing decision," says Bayne.

Prices for Veggemo, which at first will be offered only in the 946ml size, will differ from region to region and by retailer, but the company's suggested retail price is \$3.49. This is in the middle of the category and at a level that leaves a very nice margin both for the retailer and for Global Gardens, and the company's margin can be expected to climb in later years as economies of scale and other efficiencies take root.

Research indicates that a consumer making a health and wellness purchase decision tends to be less price sensitive than an average consumer, and because Veggemo is so innovative it is essentially creating a new segment of non-dairy beverages. Indeed, at the recent Grocery Innovations Canada show, Veggemo was chosen as one of the 10 most innovative products, which is quite an accomplishment given that there were some 300 products at the show.

While one eye will always be on profit, Harrison understands that execution of the business plan is the most important thing as the company begins to establish the brand.

"The gross margin is great and the selling price is great, but it is really about the management team, the category growth and how we have positioned this product," he explains. "We have a point of differentiation that is research-based and are selling an everyday consumer good resistant to recession."

Investors seem to share Harrison's belief. When the company went out to raise capital in the second quarter of this year, its target was \$2.5 million. It ended up with \$4.3 million.

A commitment to running lean and mean should help to make those funds stretch a long way. A team of just five people has brought the company to its current state, with an aversion to owning fixed assets serving to keep costs mostly on the variable side of the ledger. "We are a company that fits the times," says Harrison. "Who wants to own fixed assets and a factory with lots of people when there are groups whose business it is to do that?"

Going onto shelves in the likes of Walmart, Save-On-Foods, IGA Market Place, Calgary Coop, Metro Quebec, Thrifty Foods and London Drugs there is bound to be at least one retailer close to most people in Canada carrying Veggemo no later than April. Try it. You might like it, and if you do...you can have as much as you want.

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