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## An Industry Prepped For Growth

There is nothing that confirms an emerging trend like a market leader taking a position in a niche marketplace. I begin this report with the significance of Starbucks purchasing juice company Evolution Fresh in November of 2011.

It can certainly be argued that Starbucks is at the forefront of understanding the tastes of consumers as it relates to their beverage preferences. The acquisition of Evolution further legitimizes the emerging trend of an increasingly health conscious consumer searching for options that sustain wellness. A cultural shift towards seeking out products of a higher quality to enhance health.

It is not just Starbucks noticing the upside potential in this trend towards health conscious consumers demanding healthy beverages, Campbell Soup purchased Bolthouse Farms, a seller of produce and premium juices in 2012 for $1.55 billion. Market leaders in the food and beverage industry are essentially telegraphing what their research tells of consumer habits going forward.

This is a dynamic among consumers that has been gaining momentum over the past 10-15 years. Witness the growth of Whole Foods (aptly referred to as Whole Paychecks for the premium they charge for "healthy"), a company that has revolutionized grocery offerings and presentation. The share price has increased 650% since 2000. Even more traditional grocers are taking notice, having entire sections dedicated to "organic" and "fresh" offerings. The consumer has an increasing appetite for health conscious choices that marks a significant change in consumption habits.

This from American Express Market Briefing from 2012:
**http://www.technomic.com/_files/Newsletters/Marketbrief/marketbrief_6-12.pdf**

*Juice—once seen as just a specialty or breakfast beverage—has emerged as one of the biggest menu trends in the restaurant industry. The interest in fresh fruit juices and juice blends is in line with the new health consciousness, in particular the emphasis on "5 a Day" consumption of vitamin-packed fruits and vegetables. But we're also seeing consumer boredom with soft drinks; consumption, while quite high, has been more or less flat for some time. Consumers are increasingly turning to noncarbonated alternatives, from flavored waters to iced teas to juices.*

*Bottom Line: With the drives toward both healthful eating and novel beverages, consumption of fresh juices in restaurants is up significantly—and has plenty of room to grow further, fueled by the potentially vast variety of juices, blends and additions that can be offered.*

*The quality and variety signaled by juice offerings make them an attractive point of differentiation for concepts of many types.*

This continuing trend towards collective consciousness of the products consumers choose to ingest on a daily basis will only grow as individuals become better informed of the options available to them.

## A Resurrected Brand Name

JMBA is one of the few established brand names in the juice category. The company was established in 1990, expanding rapidly through 2007, when those overzealous expansion plans led by a management team that was seemingly in over their heads caused the company to fall into turmoil. The stock price fell from a high of near $13 is 2006 to a low of .35 cents in 2009.

The problem with JMBA from 2006-2009 was very simple. In fact, it was the problem that most companies were facing during that very same time period, including Starbucks. They expanded far too rapidly and in a manner that was inefficient, gathering debt the entire time. The sweeping economic catastrophe that was 2008-2009 forced efficiency. JMBA has responded to that call, led by experienced CEO James White.

James White has a tremendous amount of experience in building consumer brands. He came to JMBA by way of Safeway where he built their “O” brand of organic products. Before Safeway, Gillette recruited him to orchestrate a turnaround as Senior VP of Business Development For Commercial Operations.

Pre-James White (2008), JMBA faced the following:

- $25 million in debt

- Comparable Store Sales -8.1%

- Net Loss $149 million

2009-Present the following picture has emerged:

- $35 million capital infusion taking debt down to zero

- Over $30 million in cash on the balance sheet

- Turning its first profit since 2007

- Franchise model replacing the previous business model of a majority company owned stores

- Focus on international expansion with 320 stores planned over the next 10 years

- Consumer branding projects that will bring JMBA products into the hands of the retail consumer through grocery partners

- Menu offerings focusing on breakfast and lunch options

- JambaGO initiative which will raise brand awareness, putting JMBA self-serve units in schools, gas stations, etc.

## The JMBA Brand

One of the most compelling propositions for investment in JMBA is the strength of the brand name alone. It has become the most recognized brand name in the juice industry. Jamba is:

- #1 in the smoothie industry for sales*

- #1 in terms of brand recognition**

- #3 for top of mind healthy food brand, ahead of Healty Choice, Lean Cuisine and Weight Watchers**

* StudyLogic
** IPOS/Synovate

That brand name is being further bolstered by efforts Jamba is making in three distinct ways:

1. The JambaGo platform that puts what are basically small self-service kiosks in foodservice locations at schools, gas stations, hospitals etc. Highly visible locations that boost the profile of the company through the planned numbers alone with 1500 units by the end of 2013.

2. Consumer branding initiatives that are bringing Jamba products into consumer hands at grocery retailers like Whole Foods, Walmart, Target and Safeway.

3. Expanding total units to 3,700 with 70% of those units being franchised, further establishing JMBA as the preeminent name in the fresh juice industry.

## Downside Risk and Future Potential

JMBA is a very simple story when you boil it down to its essence. You have the preeminent brand name in a burgeoning industry that is doing everything right in order to grow that brand into something that will be recognized globally. What is that kind of recognition worth in terms of market cap? These types of guesstimates based on any number of metrics are typically unreliable in nature. What I am here to tell you is what that kind of recognition is NOT worth. It is certainly NOT worth $238 million in market cap and a $3 share price. Meaning that risk in JMBA shares are minimal here.

As management continues to boost initiatives in a consumer market that continually demands improved products for health and well being, the risk cushion that JMBA has at these levels becomes more and more substantial. As brand awareness grows so does the upside potential for JMBA shares that are certainly trading at a discount to peers.

On a price to sales basis, you have the following:

- DNKN (Dunkin Donuts) = 6

- SBUX (Starbucks) = 3

- MCD (McDonalds) = 3.6

- JMBA (Jamba Juice) = 1

The company has a stated goal of becoming a $1 billion globally recognized brand by 2015. A goal that I believe to be easily obtainable given the current mix of management efforts and initiatives.

Upside potential in Jamba shares is very easily into the teens as continued growth efforts begin grabbing the attention of investors. A market capitalization over $1 billion for a market leader, in a competitive industry, that is prone to consolidation is not a stretch by any means. Especially when that market leader is growing across multiple consumer segments.

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