

CPG Investor Perspectives - Show 1

Growth & the Primary Trend in the Functional Beverage Segment

In today's show, you'll hear investor perspectives on COVID-19's impact on the CPG sector.

This is Investor Perspectives, I'm the host of Investor Connect, Hall T Martin, where we connect startups and investors for funding.

It's the time of COVID-19. The consumer product goods space is currently undergoing tremendous change across the U.S. The lockdown has disrupted the supply chain, manufacturing, and distribution. Retail is undergoing a transformation as consumer products move online and the market shifts to functional benefits prioritizing wellness. We have investors and startup founders describe the impact of COVID-19 on the consumer product goods market.

Our guests are:

1. [Ronan McGovern](#), Founder, [Point 5 Brewing](#)
2. [Paul Janowitz](#), CEO & Founder, [MANTRA Labs](#)
3. [Sarah Foley](#), Partner, [SWAT Equity Partners](#)
4. [Richard G Riccardi](#), CEO, [Riccardi Ventures](#)
5. [Cisco Sacasa](#), Operating Partner, [Bee Cave Capital](#)

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Our first guest is Ronan McGovern, Founder, Point 5 Brewing

[00:04:47] **Hall Martin:** Hello, this is Hall Martin with Investor Connect. Joining us today is Ronan McGovern, founder of Point 5 Brewing. Point 5 is a nonalcoholic beer that is brewed for refreshment, fully fermented and has alcohol precisely removed? Ronan, thank you for joining us.

[00:05:05] **Ronan McGovern:** Yeah, absolute pleasure. Thanks for the invite Hall.

[00:05:09] **Hall Martin:** %. So I wanted to talk today about the functional beverage trend that's going on in the consumer product goods sector today. Before we get into that, can you tell us a bit more about your work and what you do?

[00:05:22] **Ronan McGovern:** Absolutely. At Point 5, we're working on a nonalcoholic beer where our goal is to get the closest possible to an original beer on taste. It's a simple goal, maybe not as easy to get there, but that's where we're going Hall. And so, we're an online-only business at the moment. We distribute across the US. And, I suppose, what's remarkable about our product is the technology we use to make it, which is based on some of the work that I originally did at MIT, where I learned about membranes and desalination.

[00:06:00] **Hall Martin:** Oh cool. So tell us about the growth in the functional beverage segment, what do you see going on there?

[00:06:07] **Ronan McGovern:** So let me make a few comments about nonalcoholic beer specifically, and I also want to make a comment on like a drinkability trend that I see. So starting with nonalcoholic beer, there has been huge growth in Europe. There are countries in mainland Europe that have hit 10% of their beer consumption is now nonalcoholic. Even in Ireland, where I'm from, and very surprising to me, it's moving up to single digits at the moment. In the US, we are at an earlier stage with that where probably below 1% of beer is nonalcoholic right now. But it is growing fairly rapidly, I would say. And some of the drivers there, Hall, are, I think, health is one; people being performance conscious, not wanting to have the effects of alcohol; people looking for lower calories, and, of course, alcohol is often up to half of the calories in a beverage; and then drink driving, you know, people being a bit more conscious. So I think that are some of the trends that are leading to growth in this nonalcoholic category. And just changing tack on that same question, there's been a huge growth in say the hard seltzer space, everybody now are familiar with sort of White Claw and the _____, and they've taken serious chunk out of the beer market, probably even more serious than craft beer, if you think about it. And the way I see that is people do want to explore, and that's kind of fun about craft, you can try out a new IPA or a new Belgian wheat. But people also want something that's drinkable, that they can be loyal to and they can come back to, and that's a big part of my philosophy with Point 5 is developing a brand that is going to be something you're going to want to come back to. I think that's a good business model, and I think it's what the consumer ultimately wants, although it's maybe not a very vocal crowd, I think it's a very important crowd.

[00:07:58] **Hall Martin:** Let's talk more about the hard seltzer discussion. That seemed to rise pretty quickly, and I was always curious is what do you think is driving that trend, why do people like hard seltzer so much?

[00:08:12] **Ronan McGovern:** Well, I think drinkability, it's not a particularly strong flavor, it's easy to drink. And where there's a trend of really strong craft beers, there's only so much IPA that you can really keep drinking. And I think people do ultimately want something simple, and I think that was part of the large success of say, Bud Light, Coors Light, say, back 20 years ago. I think there's a similar dynamic that's driving the success of White Claw and hard seltzer, it's just in a different form today.

Our next guest is Paul Janowitz, CEO & Founder, MANTRA Labs

[00:02:48] **Hall Martin:** Joining us today is Paul Janowitz, CEO and founder of Mantra Labs. Mantra Labs is a comprehensive suite of clean, great tasting and biorhythm-matched products and a simple on-the-go system to fuel and optimize your body and mind all day, every day. Paul, thank you for joining us.

[00:03:24] **Paul Janowitz:** Thanks, Hall. Good to be here.

[00:03:26] **Hall Martin:** Can you tell us more about your work and what you do?

[00:03:29] **Paul Janowitz:** Yeah, so it changes every day as an entrepreneur, you know that. Chief bottle washer, I think is the ongoing joke. My latest venture is I am running a CPG nutrition startup, which I figured how hard could that be, and forgot how hard doing a startup is. But we make, for lack of a better term, super powder. So we make stuff for hydration, focus, energy and rest. We kind of took a data science driven approach to it, everything is clinically backed. It's a better for you clean label version and then synergistically blended to meet different functions that we all have throughout the day called Rise, Go and Rest.

[00:04:13] **Hall Martin:** Great. Well, let's talk about the growth in the functional beverage segment. What's the primary trend you see there?

[00:04:20] **Paul Janowitz:** Yeah, so the big trend, you kind of put it in the question is functional beverage. So beverage, both RTD and powdered form, and RTD is ready to drink, is obviously a large segment. It's approaching \$100 billion a year when it comes to the functional beverage segment. So that includes everything from ketogenic coffees to hydration powders to Gatorade. And what we're seeing is a lot more dialed-in nutrition that is tied to different functions, whether those are probiotics and gut health with drinks like kombucha or whether it's sleep aids with drinks like our Rest that encompasses magnesium citrate and melatonin and other ingredients or functional hydration and energy. And then we're also seeing a big growth with this COVID pandemic and working from home in focus. So functional beverages that allow you to focus, work, and watch your children and teach school all at the same time, so maybe it's a lack of focus, but doing a lot of things at once. So you're seeing a lot of growth across the functional beverage industry from those perspectives.

Our next guest is Sarah Foley, Partner, SWAT Equity Partners

[00:03:43] **Hall Martin:** Joining us today is Sarah Foley, partner at SWAT Equity Partners. SWAT Equity Partners is a venture capital firm formed to discover, incubate and invest in emerging consumer brands across various product, service and commerce sectors. SWAT is leveraging its partners dynamic combination of lethal marketing, branding and creative capabilities, coupled with extensive operating investment and financial expertise to identify innovative consumer brands and prudently accelerate their growth. They believe strong brand identities are as important to long term as financial and investment performance. Team members had invested in or played a senior executive operating or board of director role in many consumer branded companies over the past 20 years. Sarah, thank you for joining us.

[00:04:32] **Sarah Foley:** Thank you, Hall. It's a pleasure to be here, and I'm excited to have a conversation about something we do every day, which is consumer beverage.

[00:04:42] **Hall Martin:** Well, that's great. Well, tell us more about your work and what you do as an introduction.

[00:04:47] **Sarah Foley:** Happy to. So, as you mentioned, SWAT Equity Partners is a venture firm, we're focused on consumer brands, and we believe that covers a wide swath of products and services. We also like to look at technologies that help power those brands, typically around ecommerce capabilities are ways in which their operations can get further streamlined. But for the most part, we look at a lot of different products and services. We've got investments across apparel, bev, household products, beauty and wellness, to name a few categories. But we generally like companies that are in the seed to series A stage, that also is probably better defined as they have a minimum level of traction, which we typically define through revenue, so that we can understand how that product or service is fitting within the market it was intended to address and the consumer's kind of pain points that they have a solution for. And I would say that minimum level is roughly a million or \$2 million of annual sales, if that helps kind of define or focus a bit more.

[00:05:56] **Hall Martin:** Yeah, that's very helpful. We have a lot of startups looking to see if this is a good fit for their deal, and having criteria makes a big difference and getting the right ones. So let's talk about the growth in the functional beverage segment has been blowing and going at a great rate these past few years. And what do you see as the primary trend in this segment today?

[00:06:17] **Sarah Foley:** I think one of them, a pretty strong one in my opinion, is the whole clean ingredient and wellness movement in general. We, as consumers, are getting smarter and more sophisticated about what ingredients are going into the food and beverages that we consume. The fewer ingredients the better, the less processed the better; and again, the kind of cleaner the ingredients the better; that can be more all natural, too organic. But we're just as I think focused on what we're consuming is what we might be applying topically, if you will, to our bodies, and it's a part of an overall wellness trend that I think is fantastic and not just here to stay, but going to continue to grow. So I think the next category of trend around functional beverages is what is the intended purpose of a particular ingredient or a few ingredients that serves that particular function. For example, energy is one; cognitive focus is another one that I'm seeing a lot more pop up; and those types of ingredients range from better, all natural forms of caffeine to even nootropics. You're seeing CBD as a big functional ingredient, right, which does carry more mind related I think functionality, whether it's focused or anxiety management, but there are so many different ways in which one can develop a product that's

targeting a particular type of symptom around the way we want to think and the beverage way is a fantastic form to do it in.

Our next guest is Richard G Riccardi, CEO, Riccardi Ventures

[00:07:12] **Hall Martin:** Joining us is Richard Riccardi, founder of Riccardi Ventures and cofounder of DFW CPG. Richard leads an ecosystem building organization, bringing those in DFW with an interest in CPG, starting with food and beverage together to learn, share, and support the mutual success of their businesses. Richard, thank you for joining us.

[00:07:36] **Richard Riccardi:** Well, it's great to be here, Hall. I appreciate the invitation.

[00:07:39] **Hall Martin:** Well, great. Well, can you tell us more about your work and what you do?

[00:07:43] **Richard Riccardi:** Okay, so I probably have two predominant things that I do, and one is, I kind of act as a connector and mentor through DFW CPG. Like I said, bring – like you mentioned, bring all those together in DFW with an interest in food and beverage CPG to help each other out. Kind of my other vocation, if you will, will be that of an angel investor in food and beverage CPG. So one of the things I've done is, specifically to our topic today, I do have an investment in a large and traditional supplement company that has a workout energy beverage. And then kind of beyond that, in terms of my experiences, I'm a voracious, absolutely voracious reader of industry newsletters. And so, as anyone who does the same, knows there's a great deal of activity in the functional food and beverage market.

[00:08:32] **Hall Martin:** Great. Well, let's talk about the growth in the functional beverage segment. What can you tell us about it?

[00:08:39] **Richard Riccardi:** Well, I'll probably take a start by taking a little bit of a step back and just saying, you don't have to look at the IRI data, all you have to do is go into a grocery store or retailer to know the incredible amount of real estate/shelf space that's devoted, I'll say, to non-soda beverages. And clearly, they would not be there, but for giving the retailers an excellent return on their investment for that shelf space. I mean, it kind of put it in context, just think about this, 25 years ago, if you would have said, hey, we're going to – you should sell bottled water, people would think you are absolutely insane, and that'd be sure to fail. But I think one of the macro trends that's occurred here is the importance of hydration to our overall health. I mean, again, I think it wasn't that long ago, where that if you drank water when you were exercising, that was a sign of weakness and especially if you are a rough and tumble Texas high school football player. And certainly that has all changed today _____ I think that's just one of the big things about the beverage segment to begin with on an overall basis.

[00:09:49] **Hall Martin:** And so what's the primary trend in this segment that you're seeing – it seems like there's a lot going on, but what would you call out on it?

[00:09:56] **Richard Riccardi:** Okay. So I would talk about functionality and the functionality of beverages has moved kind of in lockstep with the functionality trends in food and the supplement space. So again, a macro trend here, it's no longer that a food or beverage product isn't bad for you, like, it doesn't have a lot of sugar, it doesn't have a lot of artificial ingredients that doesn't cut it anymore, or that it's dye compliant, it's keto or Whole30. That's insufficient. This product must do something positive for you, and it kind of goes in step with the food-as-medicine movement. So the kind of functionality in my mind, probably started with like the energy shots, you think about five-hour energy, and then how it morphed into energy drinks like Monster. Functionality, again, if you went to the last Expo West in 2019, you

would have seen every conceivable reason for water to exist, including no reason. There's a brand of water just is Just Water. There was an unaltered water there that purported to make you happy. And actually, it had nothing in it. It just said when you drink water, it makes you happy. And then, of course, there's high pH, low pH water, mineral water, collagen water, rose water, all with some sort of alleged benefit. _____ talk about functional benefits, you know, there's cognitive health, pre-workout, post-workout, collagen for your skin and joints, digestive health, immunity building, anti-inflammatory, and there's combinations like hydration and wellness. And Austin's own Bhoomi Cane Water is a testament to that, it's special hydration along with wellness. I think a very significant and maybe not the primary trend is the CBD enhanced water, just like you find CBD enhanced foods and supplements. What they're trying to do is clearly capitalize on the innumerable benefits attributed to CBD, whether it be calm or sleep or mood boosting. You hear so much, you think it might cure COVID, but it certainly doesn't. Now, one of the things that I think is attractive about this space that many feel is attractive, is that there is a lot of whitespace because, traditionally, we haven't had CBD infused beverages. It's not like cereal that we've had and you don't find a new cereal. No. There's not been any CBD beverages. But there's been a tsunami of competition and products flooding the market. I mean, think about it, even Ocean Spray has launched a CBD infused product. If I can editorialize here for a second, I think there's some concerns here, and the first one being it's still uncertain regulation. It's remarkable how many products have been launched when regulation is still so uncertain. And then just with respect to beverages, there's an incredible marketing cost for any beverage brand. And so, you know, that would be some of my editorializing and comments about that.

Our final guest is Cisco Sacasa, Operating Partner, Bee Cave Capital

[00:07:05] **Hall Martin:** Joining us today is Cisco Sacasa, operating partner at Bee Cave Capital. Bee Cave Capital is an early stage fundless investment firm that focuses on Texas based businesses and entrepreneurs committed to doing great things and doing good. Bee Cave Capital has been investing in a wide array of businesses since 2003. Over the years, they have developed expertise with consumer packaged goods, healthcare and technology focused companies. Their successful exits have included Life360, Silvertail Systems, and nVision. Current portfolio includes Open Lending, Tecovas, Civitas Capital Group and Z5 Inventory. Cisco, thank you for joining us.

[00:07:42] **Cisco Sacasa:** I'm super excited to be here. Thanks for having me.

[00:07:46] **Hall Martin:** Great. Well, tell us a little bit about your work and what you're doing these days.

[00:07:49] **Cisco Sacasa:** So like some folks, I have dabbled in various projects. One of the things I'm doing, the operating partner for Bee Cave Capital, as you mentioned. I'm an operator, an integrator by nature, so I understand and I know how to run businesses. I'm on the deal flow side, but more importantly, I know how to dissect the business and understand where risks and opportunities are, so I know what needs to get fixed to drive greater enterprise value. I also have a little side gig as a CEO of HireBetter, which is an executive search firm, and we work, you know, a lot of our clients are in the CPG and technology space. So we get to see, work with clients on both sides as a capital partner, and as a talent partner, and they are both great clients and great people and companies we work with.

[00:08:49] **Hall Martin:** That's great. Well, you've worked a lot in the CPG space, so let's talk about the growth there and what you see going on in the consumer product goods space these days.

[00:08:58] **Cisco Sacasa:** Yeah, it's been truly remarkable what's transpired in CPG over the last, say, 10 years, both in Austin where I live, but throughout the country. Back in the day you saw large CPG

companies spend significant amount of money on R&D in their own labs. And now we've seen a major shift that large companies, the strategics are looking at the startup community to drive the innovation, and then they swoop in and buy proven products that fit with the trends that we're seeing from the consumer side. That's been a pretty significant shift. In Austin, specifically where I live is 10 years ago, we had a few CPG startup type companies, and that's been absolutely exploded. There's a ton going on, innovation is happening everywhere, in everything, and it is so much fun, I'm so excited to see that come to life.

[00:10:05] **Hall Martin:** Great. Well, let's talk about one of the trends, functional beverages, what do you see going on there?

[00:10:11] **Cisco Sacasa:** Yeah, we absolutely see a ton of activity in functional beverages. Consumers, it's very clear, right, that consumers are moving more and more towards a healthy lifestyle, moving away from sugars and stuff that's bad for you. And there's a strong trend towards health and fitness and both in snacking, in beverages and other foods. There's a ton of activity happening in the functional beverages, trying to _____ whether it's herb infused or specific functions to the things that you're doing, whether it's exercising, dieting or whatever it is happening in your life, finding the right fit, and always looking for that edge of not only is it functional, but actually making it taste great, and finding that combination of the two is the ultimate goal.