

# CUBA BEVERAGE COMPANY

## The Next Energy Drink Category Killer

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### CUBA BEVERAGE COMPANY (OTC:PK - CUBV - \$0.086)

Price Target: \$0.75

Rating: Speculative Buy

#### COMPANY SNAPSHOT

Cuba Beverage Company is the producer of an all-natural, healthier energy beverage alternative to the traditional energy drinks. The energy drink industry is expected to approach \$17 billion in North America alone, and is the fastest growing segment of the beverage industry. The Company's tasty line of beverages includes many flavors and will soon be available in major supermarkets and other outlets in the U.S as well as the Caribbean and China. The popular Cuba Beverage name is a social media darling and the product is priced to sell relative to the competition.

#### KEY STATISTICS

Price as of 8/27/12	\$0.086
52 Wk High – Low	\$0.28 – 0.002
Est. Shares Outstanding	52.36M
Market Capitalization	\$4.5M
3 Mo Avg Vol	41,400
Exchange	OTC:PK

#### COMPANY INFORMATION

Cuba Beverage Company  
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 San Diego CA 92101  
 619.255.8958  
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[info@cubabev.com](mailto:info@cubabev.com)

#### INVESTMENT HIGHLIGHTS

**Cuba Beverage Company is poised to emerge as the next category killer in the multi-billion dollar market.** The Company produces a flavorful, healthier alternative to the popular energy drinks whose highly publicized side effects include heart palpitations.

**According to a study published by Bloomberg Industries, the global energy-drink market grew 14% in 2011 to \$41.5 billion, accounting for 8.7% of the \$498 billion global soft drinks industry.** While this segment accounts for the fastest growing portion of the industry, consumers are seeking alternatives to unhealthy caffeine and taurine-laden beverages.

**Cuba produces what may be the holy grail of energy drinks.** The *Cuba Herbal Energy Juice* line is caffeine free, taurine free, with no artificial ingredients or preservatives, and is only 66 calories per serving. Plus, each can is priced \$1.00 less than leader Red Bull and is right-sized for the consumer.

**A number of milestones should drive the stock substantially higher.** The Company is on the verge of shipping tens of thousands of cases for sale this year and at the rate in which new distribution sign-ups are occurring we believe the Company could reach \$3M in sales in 2013 and \$10M in 2015.

**The stock could be a ten-bagger. CUBV's margins are huge and we believe it can generate \$0.03 in EPS next year and \$0.10 in 3 years.** In the near term, a 25x multiple on FY13 EPS forecasts suggests a price target of \$0.75, which is nearly 10x its closing price. If Cuba becomes a cult hit, as many new energy drinks do, the numbers could be even higher. With 15,000 Facebook likes already, it is a real possibility. We rate CUBV Speculative Buy.

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## COMPANY OVERVIEW

Founded in 2007, Cuba Beverage Company was formed to capitalize on the fast-growing energy beverage sector and was established in response to the increasing market desire for a natural and healthier alternative to the traditional and ubiquitous energy drinks. The Company's proprietary natural ingredients blend includes natural herbs such as green tea extract, ginseng extract, guarana extract, and yerba mate extract. Cuba Herbal Energy Juice combines powerful antioxidants with its energizing herbs to produce a great-tasting energy boost-providing beverage that is low calorie and fat free, and contains no high fructose corn syrup. The Cuba Beverage scientists ensured that the drink will not result in the typical caffeine jitters and crash that are associated with the traditional energy drinks such as Red Bull, Monster, Amp, Rockstart and others.



Image 1. Cuba Herbal Energy Juice  
Source: Cuba Beverage Company Website

The Company's line of beverages comes in a variety of delicious flavors:

- Grape
- Pear
- Apple
- Pomegranate
- Cranberry
- Orange
- Passion Fruit
- Blueberry

Even at the earliest of stages, Cuba Beverage has garnered an impressive following in social media. For example, the Company already has nearly 15,000 likes on Facebook from consumers around the globe--and this is prior to the start of selected, mass distribution targets.

Following a recent quiet period, Cuba Beverage has fully re-emerged as a force in the energy drink space and is in the midst of a 27,000 case production run that will have product shipped to major retail supermarket outlets in Southern California, the Caribbean, and China. Plus, management has secured dozens of point-of-sale distribution centers, including supermarkets, big box discount centers, convenience stores, etc. Once sold, this production run alone will result in roughly \$500,000 in revenue, which could all be booked in the last few months of 2012, with up to \$3M targeted for next year.

Company Report

Some of the key distribution agreements in which the Company has signed include Five Star Beverage, Cayman Energy Drink, APSCO, and the Army and Air Force Exchange Service, which could ultimately make the product available at all Army and Air Force military installations. Since the product is a healthy alternative to the caffeine-charged drinks that have in many cases have simply been removed from the shelves, the product has even been sold in schools in Southern California, South Florida, and even hospitals.

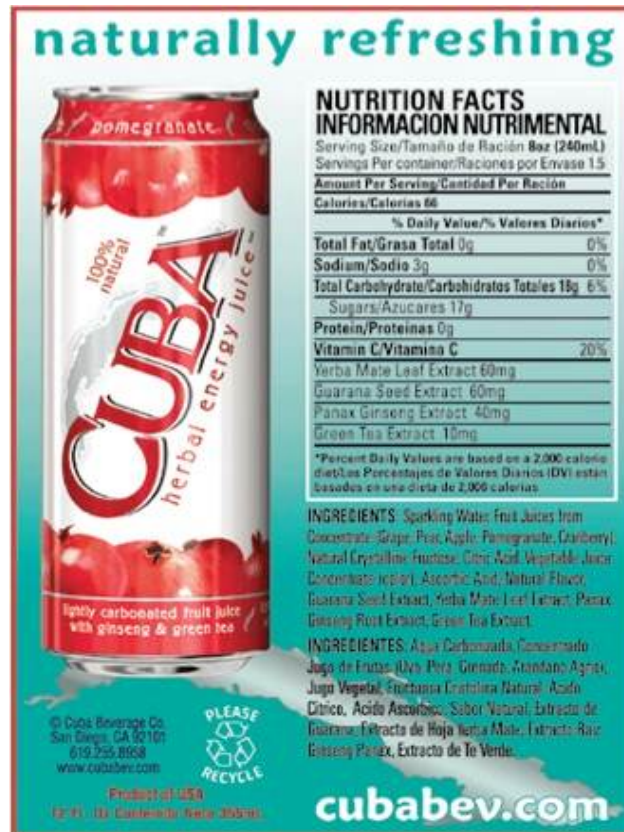


Image II. Cuba Beverage Label  
Source: Cuba Beverage Company Website

**INDUSTRY OVERVIEW**

According to a study published by Bloomberg Industries, the global energy-drink market grew 14% in 2011 to \$41.5 billion, accounting for 8.7% of the \$498 billion global soft drinks industry. A recent issue of a beverage industry trade publication noted that in the U.S., sales in the energy drinks category increased 15.7% for \$6.9 billion in sales, according to SymphonyIRI Group, for the 52 weeks ending May 15 in U.S. supermarkets, drug stores, gas and convenience stores and mass merchandise outlets, excluding Wal-Mart.

Top-seller Red Bull posted \$2.3 billion in sales, which is a 14.3% rise, but volume was followed closely by Rockstar, Amp, the newly reformulated WhoopAss, and others.

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While the popularity hasn't waned, the desire for healthy energy drinks is on the rise, as the negative side effects associated with the energy drinks sector remains on center stage. For example, too much caffeine can cause people to sweat and experience heart palpitations, Douglas Weaver, former president of the American College of Cardiology. These issues plus the "caffeine crash" are often cited as negatives, even by hardcore energy beverage consumers.

As a result, we expect that the Cuba energy line will have significant success. It should be noted that it is not uncommon for new entrants to gain quick, viral popularity, driving sales substantially higher even in the earliest of stages.

## **COMPETITIVE ADVANTAGES**

In our view, Cuba Beverage has substantial competitive advantages over its competition. These include:

- An all-natural low calorie product, free of caffeine and taurine
- Clear alternative to energy drinks banned or removed from shelves in certain venues like schools and hospitals
- Broad product line
- Solid and growing distributorships with major players
- Less expensive (\$1 less) than leader Red Bull and with smaller form factor
- An estimated 50% or higher gross margin
- Opportunity for significant sales abroad
- Early stage company already has substantial social media and cult following

## **THE CUBA BEVERAGE EXECUTIVE TEAM**

### ***Alex C. Procopio – Chief Executive Officer***

Mr. Procopio brings management and entrepreneurial experience from having founded four companies, two of which were responsible for beverage sales and distribution. Prior to founding CUBA Beverage Company in 2007, from 2003 to 2007 Mr. Procopio acted as the President and CEO of American Trading Services, LLC. His responsibilities included day-to-day operations, sales, production and distribution. Mr. Procopio was the founder and chief negotiator in all-international sales of U.S. agricultural products throughout countries including Mexico, Trinidad and Tobago, Ghana, Nigeria, the Dominican Republic and Cuba. He has extensive contacts throughout the Caribbean and Latin America, including premier food and beverage distributors. Mr. Procopio is also fluent in Spanish and Italian. He is very knowledgeable of the production process and has overseen all previous production.

### ***Mark S. Zouvas – Chief Financial Officer***

Mr. Zouvas has a BA from the University of California at Berkeley (Accounting and Philosophy). After graduating, he joined Price Waterhouse where he performed services for clients in the banking and real estate industries. He was formerly a licensed real estate broker and an accountant in the state of California. Mr. Zouvas was involved in commodities trading and served as the CFO for an independent clearing firm on the Chicago Mercantile Exchange. He has also been a CEO and CFO of several publicly traded entities and has excellent knowledge of SEC and FNRA reporting guidelines. Mr. Zouvas' responsibilities have included asset development and fund raising. He has had over twenty-five years of experience in preparing investment summaries and has raised over \$500 million through debt and equity offerings to investors both domestically and abroad. Mr. Zouvas passed all parts of the California CPA exam in 1991.

**Company Report****RISK FACTORS**

In our view, CUBV's biggest risk factors revolve around the magnitude of popularity of the product and the resulting sales. While to a degree it is the "chicken and the egg" scenario as it relates to sales and distribution, if the product is proven wildly successful, it will be ubiquitous and available everywhere. If the sales ramp is muted, garnering additional distributors and distribution points could prove to be difficult. Plus, competition for shelf space remains fierce among all players in the space. Execution risks could push meaningful revenue generation out to a later date, or in a smaller initial ramp, thus impacting the Company's revenue ramp or time to profitability. Competition from larger firms or even from newer entrants is a typical concern and is also consistent with firms of Mantra's size and standing.

**CONCLUSION**

There is a lot to like about Cuba Beverage Company. Liberty Gold Corp. With a number of milestones on the horizon, including the completion and sale of a 27,000 case production run and additional distributorships and sales abroad, the stock could be a ten-bagger.

Based on our back-of-the-envelope calculations, CUBV's margins are huge and we believe it can generate \$0.03 in EPS next year and \$0.10 in 3 years. In the near term, a 25x multiple on FY13 EPS forecasts suggests a price target of \$0.75, which is nearly 10x its closing price. If Cuba becomes a cult hit, as many new energy drinks do, the numbers could be even higher, as it has a virtual litany of advantages over the existing energy drink leaders. With 15,000 Facebook likes already, it is a real possibility. Thus we rate CUBV Speculative Buy.

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## Analyst: Robert Goldman

Rob Goldman has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

## Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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