



Minerco

April 12, 2016

MINERCO, INC. **(OTC – MINE - \$0.0297)**

Price Target: \$0.35

Rating: Speculative Buy

MINERCO, INC.

New Products Launch & Distribution Strategy to Drive Major Growth

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COMPANY SNAPSHOT

Minerco, Inc. is an emerging growth company specializing in the food and beverage industry. Its portfolio includes Athena Brands, Inc., The Herbal Collection™ and Coffee Boost™. Athena Brands, Inc. is a specialty beverage company that develops, produces, markets and distributes a diversified collection of forward-thinking, good-for-you, enhanced and healthful consumer brands. The Athena Brands portfolio includes Avanzar Sales & Distribution, LLC, *VitaminFIZZ®*, *Kids 50 - Yo Gabba Gabba!®*, and Island Style™.

KEY STATISTICS

Price as of 4/11/16	\$0.0297
52 Week High – Low	\$0.25 - \$0.0161
Est. Shares Outstanding	87M
Market Capitalization	\$2.6M
30-Day Avg. Vol.	1,415,000
Exchange	OTC

COMPANY INFORMATION

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INVESTMENT HIGHLIGHTS

With the re-launch of its popular flagship products and the launch of new products, emerging beverage company Minerco, Inc. is primed to generate meaningful growth and market share in its segment of the beverage market. Operating in the multi-billion dollar bottled water and carbonated soda spaces, Minerco should record growth rates at a premium to industry averages.

With its *VitaminFIZZ®* offering, Minerco has created a unique, new cross-category beverage category that combines the most popular beverage segments in the non-alcoholic beverage market, and could serve as an alternative to sodas. These include sparkling water and vitamin enhancement---plus caffeine, a new product slated for launch around the corner.

The recent acquisition/licensing of *Kids 50 - Yo Gabba Gabba!®*, should result in major sales to one of the most important target markets, children's beverages. Much like other company products, this drink offers a more healthful, reduced sugar alternative.

With a new targeted strategy of offering tasty, good-for-you beverages to consumers through sales to national accounts (such as retailers), the company could generate revenue at an annual run-rate of \$10M next year. That excludes the meaningful revenue generated by its majority-owned west coast distributor.

A \$30 million valuation is in the cards. While Minerco is currently an acquirer, M&A activity in the space is hot and it is not uncommon for beverage firms to be sold for 3x-5x revenue, once the \$10M in sales mark is reached. Even sub-\$10M in sales publicly traded peers trade over 2x sales. Our target price of \$0.35 reflects a 3x \$10M beverage sales figure. We rate these shares Speculative Buy.

COMPANY OVERVIEW

Tracing its roots to 2007, Minerco, Inc. is an emerging growth company specializing in the food and beverage industry. The primary entity in its portfolio is 81.8%-owned Athena Brands, Inc., a specialty beverage company that develops, produces, markets and distributes a diversified collection of forward-thinking, good-for-you, enhanced and healthful consumer brands. The Athena Brands portfolio includes *VitaminFIZZ®*, *Kids 50 - Yo Gabba Gabba!®*, *Vitamin Creamer®* and *Island Style™*. Other brands include *The Herbal Collection™* and *Coffee Boost™*.

Athena's mission is to formulate, design and acquire key products and brands to add to the Company's portfolio. In addition to its beverage brand transactions, Athena Brands acquired its Southern California distributor, Avanzar Sales and Distribution. Avanzar distributes 20+ brands to more than 7,000 high volume locations in SoCal. It should be noted that this subsidiary serves a strategic role for the overall Company, not the least of which is vertical integration of its business model.

Unique Positioning

We believe that Minerco's multi-pronged, yet integrated strategy that includes the reformulation, re-branding, and re-launch of key and new products following a brief dormant period is primed to produce major dividends, beginning in the second half of 2016.

Leveraging the popularity and growth in the consumption of zero calorie sparkling water, vitamin-enhanced beverages, and caffeine, the Company has created a new, hybrid class of product that is likely to generate considerable demand from national distributors and consumers alike. The soon-to-be launched Athena Brands' *VitaminFIZZ®* with Caffeine sparkling beverage mirrors the new wave of industry trends which include the introduction of cross-category and consumer (health) conscious-type products, where the greatest growth and penetration rates lie. These include Carbonated Soda Drinks and Bottled Water, representing multi-billion dollar markets.

The recent acquisition (license) of the popular and healthy juice alternative *Kids 50 - Yo Gabba Gabba!®*, appears set to emerge as a second major product line in an entirely different category for sale via the same channels as *VitaminFIZZ®* and could also lead to new licensing opportunities in the highly desirable kids' beverage segment.

Separately, the 75%-owned Avanzar Sales and Distribution not only is a meaningful revenue generator of primarily 3rd party products, but serves as a testbed and sales channel for Athena Brands' products and a potential finder of both future acquisition and licensing deals. Avanzar distributes products to some of the most trusted retailers in the United States, including **Kroger (NYSE – KR)**, Albertsons, HEB, Golub (Price Chopper), **Whole Foods (NASDAQ – WFM)**, **Walgreens (NASDAQ – WBA)**, 7-Eleven, **Tesoro (NYSE – TSO)**, Circle K, **Chevron (NYSE – CVX)**, Kmart, Gelson's and Winco.



The Seminal Moment in Company History

Following generation of \$2.45 million in revenue in fiscal 2015, sales during the six months ended January 31, 2016, were \$516,534, all of which was generated from sales from the Avanzar distribution business, with essentially no contribution from Athena Brands product sales. On the surface, this intentional dormancy has been viewed by some investors as a negative. In our view, not only was this quiet period a positive, it could prove to be a seminal moment in company history.

Judging from filings, shareholder letters and press releases, it is clear that in the second half of 2015 there was a difference of opinion regarding the direction and business model related to the complete acquisition of *VitaminFIZZ®* (along with its distribution and products) which led to conflict and a de-emphasis on branded products until the situation was recently resolved. With the pending re-launch of the *VitaminFIZZ®* series, along with *Kids 50 - Yo Gabba Gabba!®*, we believe that the new offerings and management's improved strategy of selling to and through multiple national accounts (such as supermarkets, major retail, etc.) will generate millions in revenue to Minerco.

There is a great deal of precedent in the beverage industry when internal disagreements (old strategy vs. new strategy) proved to be wrong and outdated, resulting in big mistakes. (The penultimate example is the sale of Starbucks (NASDAQ – SBUX) in 1988 from the Peet's Coffee guys to a group led by Howard Schultz for \$3.8 million, and the aborted "New Coke." Ouch.) We are confident in the successful execution of the Company's revised approach, just implemented in recent months, largely because it dovetails with the new industry trends, as outlined above.

Looking Ahead

Given the timing of the licensing and new product events, we believe that meaningful shipments will occur sometime during the second half of this calendar year. With that in mind, management noted in a recent filing that it targets revenue of \$5M in fiscal 2017 (beginning in August 2016). With the re-launch of the flagship offerings and the launch of new products, we believe that the revenue figure could be considerably higher as national accounts i.e., **Walmart (NYSE – WMT)**, Kroger, etc. begin to take delivery of new products in 2016 - 2017.

Considering one national account could account for \$1-2 million in annual twelve-month sales per product line, the \$5 million objective for branded beverage sales could prove conservative. In fact, we believe that a \$10M annual beverage revenue-run rate could be achieved sometime next year, which could assume a \$30M or \$0.35 valuation for Minerco. After all, a 3x-5x price-to-revenue multiple in buyouts is not uncommon in the current environment whereby larger firms are actively seeking to add specialty, hybrid drinks to their portfolios. Moreover, even on the low end, sub-\$10M in sales peers such as **True Drinks Holdings, Inc. (OTC – TRUU)** trade at multiples north of 2x revenue. In our view, **Minerco, Inc. (OTC – MINE)** offers investors a unique opportunity to invest in a company whose shares were trading water while management pressed the "pause button" only to recently press "play" in conjunction with the execution of key business development events that could transform the company and substantially increase its value. Therefore, we rate these shares Speculative Buy with a \$0.35 target price.

INDUSTRY OVERVIEW

Figure 1: BMC Industry Statistics

Source: www.CSPNet.com

U.S. LIQUID REFRESHMENT BEVERAGE MARKET* VOLUME AND GROWTH 2009 – 2014

Year	Millions of	
	Gallons	% Change
2009	29,256.9	--
2010	29,663.2	1.4%
2011	29,882.0	0.7%
2012	30,229.3	1.2%
2013	30,210.8	-0.1%
2014	30,876.4	2.2%

* Includes bottled water, carbonated soft drinks, energy drinks, fruit beverages, ready-to-drink coffee, ready-to-drink tea, sports beverages and value-added water.

Source: Beverage Marketing Corporation

U.S. LIQUID REFRESHMENT BEVERAGE MARKET CHANGE IN VOLUME BY SEGMENT 2013 – 2014

Segments	% Change 2013/14
Ready-to-Drink Coffee	10.7%
Bottled Water	7.3%
Energy Drinks	6.4%
Ready-to-Drink Tea	3.7%
Sports Drinks	3.0%
Value-Added Water	-0.9%
Carbonated Soft Drinks	-1.0%
Fruit Beverages	-2.8%
TOTAL LRB	2.2%

Source: Beverage Marketing Corporation

As one would expect, mega-multinationals **Coca-Cola (NYSE – KO)**, **PepsiCo (NYSE – PEP)** and other key brand names dominate the sales of the non-alcoholic beverage market, one of the largest in the world. In 2014, the top ten brands accounted for \$30.9 billion gallons, or 43% of the U.S. liquid beverage refreshment market, according to the Beverage Marketing Corporation (BMC). (<http://www.cspnet.com/category-news/beverages/articles/us-beverage-market-grows-22>). The bottled water market, one of the segments in which *VitaminFIZZ®* plays along with the popular carbonated water vertical, grew by over 7% from 2013 to 2014 which is high for the overall industry. Conversely, the overall space grew by 2.2% for the period.

The secular trends evident in 2014 are even more present in 2016. These include the consumer migration away from sugar-centric and high caloric beverages and toward zero calorie more nutritious alternatives. Ready to drink beverages, drinks with perceived health benefits, companies believed to be operated via socially conscious directives, along with sports drinks, and those with caffeine remain extremely popular selections, according to BMC and the SDR Ventures investment bank. Furthermore, SDR Ventures sees considerable M&A activity and at relatively high valuations for smaller firms offering specialty drinks that represent some of the trends and characteristics above. (<http://sdrventures.com/wp-content/uploads/2016/01/SDR-2015-Q4-Food-Beverage-Report-FINAL.pdf>). In fact, SDR Ventures notes that there were 49 beverage company M&A transactions in the fourth quarter of 2015 alone!

Distribution varies from company to company and can include direct sales to national accounts (national retailers and/or distributors), or regional/local direct and indirect distributor and retail sales. While targeting the small segments can provide companies with incremental sales initially, they can be inconsistent, time-consuming, and not cost-effective in terms of manpower and advertising/marketing dollars.

Conversely, the national account segment relationships can take time to develop and require a different type of advertising/marketing/promotion. Sales tend to be highly concentrated but these channels also tend to keep up with the Joneses, i.e., if one entity is selling a product line others tend to fall in line, especially if it is a new popular or unique product, thereby substantially increasing penetration, along with heavy targeted promotion.

A perfect example is Talking Rain, the producer of the wildly successful *Sparkling Ice* brand, and owner of over 25% of the carbonated water sub-segment, which is approaching a \$2 billion market and generates high growth and margins. In 2010, sales were \$10 million. In 2013, they reached \$350 million. How? In 2011, as the product gained notoriety management targeted the top 40 national accounts in a direct to warehouse campaign. By year-end 2012, the product was in 39 of the 40 targets. The *Sparkling Ice* story is relevant to Minerco as the Athena Brands' *VitaminFIZZ®* product is the first in a brand new beverage category that combines an enhanced sparkling water with vitamin enhancements such as Vitamin Water (acquired by Coca-Cola for \$4.2B in 2007) and could also include caffeine. Considering the incredible popularity of these brands and the popularity of these beverages and caffeine-infused drinks, Minerco will surely attempt to emulate the success of both brands, and perhaps also serve as an alternative for discerning diet soda consumers.

Licensing characters, names, titles, etc. for use in the sale of varying products can be a big contributor to food and beverage sales. The key is to acquire licensing rights to brands that have a timeless brand and characters, even if the underlying licensed brand itself may not appear timely, as meaningful value can be extracted via sales of the right product to the appropriate target market and consumer. Riding the coattails of this concept, Minerco has the opportunity to generate major traction with the recent *Kids 50 - Yo Gabba Gabba!* deal.

THE KEY BRANDS

Minerco's Athena Brands boasts a new product category, a new licensing deal for a product in the all-important children's beverage market, and a new, soon-to-be-launched CBD-based beverage.

Figure 2: The Flagship: VitaminFizz

Source: www.Minerco.com



Following a series of licensing and acquisition events, *VitaminFIZZ®* was fully acquired in late 2015. Launched in 2014, it is a zero calorie vitamin enhanced lightly sparkling water, similar in concept to the popular *VitaminWater®*, only in carbonated format. *VitaminFIZZ®* contains 100% of daily vitamin C, and 100% of daily vitamins B3, B5, B6, and B12. *VitaminFIZZ®* is also non-GMO (no genetically modified organism) and is certified Kosher. The 17 oz. slim plastic bottle packaging has been very well received. *VitaminFIZZ®* is currently available in six flavors: Lemon-Lime, Mango-Orange, Strawberry-Watermelon, Black Raspberry, Strawberry Lemonade and Coconut-Pineapple. *VitaminFIZZ®* is coded into

over 2,000 retail locations in Southern California, New York City and London markets and also has been / will be available online at **Amazon.com (NASDAQ – AMZN)**. The Company has produced over 132,000 cases as of November 2015.

Management believes that *VitaminFIZZ®* with Caffeine delivers a better-for-you fusion of delicious flavor, zero calories, vitamin enhancement and functionality, crossing the lines of multiple beverage categories. Therefore, *VitaminFIZZ®* could emerge as an alternative to typical and even diet sodas. Production of *VitaminFIZZ®* with Caffeine is scheduled for next month in California, with other production runs being scheduled in other regions.

Figure 3: Kids 50 - Yo Gabba Gabba!
 Source: www.Minerco.com

In late March, Athena Brands announced the acquisition of *Kids 50 - Yo Gabba Gabba!*, a fun, nutritious and delicious juice with half the sugar and calories of the standard children's juice. The combination of healthy refreshment with the *Yo Gabba Gabba!*® Brand licensing rights, based on a Nick Jr. show of the same name, is a perfect fit for the Athena Brands' good-for-you philosophy.

Athena's acquisition of *Kids 50 - Yo Gabba Gabba!* contemplates the assignment of the Licensing Agreement for exclusive use of the "Yo Gabba Gabba" trademark in the beverage category from DHX Media, Ltd.



Kids 50 - Yo Gabba Gabba! gives parents a healthy and convenient alternative that kids love as much as traditional juice boxes. It has 50% less sugar and calories than standard juice blends, and *Kids 50 - Yo Gabba Gabba!* has zero artificial sweeteners, preservatives or additives. Combining natural fruit and vegetable juices with reduced sugar and calorie content in popular *Yo Gabba Gabba!* packaging creates a healthier and unique option in the billion dollar children's beverage category.

Kids 50 - Yo Gabba Gabba! comes in four flavors: Brobee's Goofy Apple, Muno's Fruit Punch, Foofa's Pink Lemonade, and Break It Down Berry. Each 6.75 oz. juice box blends antioxidant-rich apples, carrots and acerola berries with water and plant-based sweetener Stevia for a 100% natural beverage that contains only 40 calories and 10 grams of sugar. *Kids 50 - Yo Gabba Gabba!* Current juice box packaging features everyone's favorite cast of characters from the hit television series and live stage show, and Athena plans to offer additional packaging options in the very near future. It is currently available in Southern California and select locations outside the region. Athena expects to expand the packaging options and geographic availability of *Kids 50 - Yo Gabba Gabba!* in Summer 2016.

Figure 4: The Herbal Connection
 Source: www.Minerco.com



With exclusive rights transferred from Athena Brands to Minerco last year, *The Herbal Collection*[™] (THC) is an assortment of ready to drink (RTD) teas enhanced with micellized Cannabidiol (CBD). Micelles are the atom sized stable aggregates of surfactant molecules, which form spontaneously in surfactant solutions. Micellization is the scientific process of coating a particle in a surfactant solution to yield a higher potency and absorption rate at delivery. The upcoming product lineup will be led by an all-natural Green Tea with Honey drink, containing CBD in a micellized format. The market test and initial sales will take place in Southern California through the Company's majority-owned distributor, Avanzar Sales and Distribution.

EXECUTIVE MANAGEMENT TEAM

Including the Athena Brands' Avanzar distributor team, Minerco has over 20 employees. Below are the key members of the overall Minerco executive management team.

V. Scott Vanis, Chairman, Chief Executive Officer

V. Scott Vanis has held the position of Chairman since March 2010. He has also served as Chief Executive Officer from March 2010 - September, 2012, and July 2014 - present. He is actively involved in day-to-day operations. Mr. Vanis brings a wealth of executive experience to Minerco, with a focus in specialized operational and financial services.

From June 2003 to the present Mr. Vanis has served as President of VSV Resources, LLC providing engineering consulting services to exploration and production companies, energy companies, national oil companies and foreign governments. He specialized in complicated, high risk operational procedures throughout the world. During his tenure with VSV, Mr. Vanis also served as a liaison consultant to multiple South & Central American governments to evaluate potential energy reserves and projects in their respective countries.

From May 2007 to July 2014, Mr. Vanis served as President of TC Energy International, S.A., which provides international finance and acquisition services to energy companies, national oil companies and foreign governments. Mr. Vanis facilitated the identification, acquisition and financing of high-value properties in Latin and South America. He still serves on TC Energy's Board.

From June 2001 to June 2003, Mr. Vanis was a Staff Petroleum Engineer with Pinnacle Technologies, Inc. and from June 2000 through June 2001 he worked for BJ Services, Inc. as a Field Petroleum Engineer.

Mr. Vanis holds of Bachelor of Science in Petroleum Engineering from The University of Tulsa.

Sam J. Messina, III, Chief Financial Officer

Sam Messina was previously Chief Financial Officer and member of the Board of Directors from July 2010 to July 2012 and rejoined the team on July 1, 2014 as Chief Financial Officer.

Mr. Messina previously worked at Workiva, LLC, formerly known as Webfilings, LLC, in their Professional Services Team. He previously worked at Minerco Resources, Inc. (OTC:MINE) as our Chief Financial Officer, Director, Treasury and Secretary from July 2010 - July 2012 and Alternative Energy Development Corporation (OTCBB: ADEC) as Chief Financial Officer and Director.

He previously worked at Qualcomm, Inc. (NASDAQ: QCOM) in various roles within their accounting and finance team from October 2006 to November 2009. Prior to that Mr. Messina served as the Chief Financial Officer of Pop3 Media Corp. (OTCBB: POPT) from July 2004 to July 2006. Mr. Messina holds a B.A. degree in Finance from the Loyola University Chicago and is a Certified Public Accountant in the State of California.

FINANCIALS

Following generation of \$2.45 million in revenue in fiscal 2015, sales during the six months ended January 31, 2016, were \$516,534, all of which was generated from sales from the Avanzar distribution business, with essentially no contribution from Athena Brands product sales. However, in a recent filing, management projected that it could generate more than \$3 million in revenue from beverage sales and could reach \$5 million in fiscal 2017. Considering the beverage segment re-launch is around the corner, and our belief that the Company will achieve success at the national account level, revenue could be produced at an annual run-rate of \$10 million sometime next year, even without the execution of additional product acquisitions/licensing in 2016.

RISK FACTORS

In our view, the biggest risk factors for Minerco are related to execution including potential logjams at the distribution points or if the products do not prove to be as popular as expected. While to a degree it is the “chicken and the egg” scenario as it relates to sales and distribution, the Company has already well surpassed the proof of concept stage, with 132,000 cases of *VitaminFIZZ*® sold. Thus, we believe that the existing and new *VitaminFizz*® product could prove wildly successful, along with the *Yo Gabba Gabba* drinks targeting kids, and could prove to be ubiquitous and available everywhere. If the initial sales ramp is muted, garnering national accounts and distribution points could prove to be difficult. Plus, competition for shelf space remains fierce among all players in the space, including from *Sparkling Ice*, *LaCroix* and others. Execution risks could push meaningful revenue generation out to a later date, or in smaller ramps, thus impacting the Company’s revenue ramp or time to profitability. These risks and competition from larger firms or even from newer entrants is a typical concern and is also consistent with firms of Minerco’s size and standing.

Volatility and liquidity are typical concerns for microcap stocks that trade on the over the counter market with small public floats. Moreover, the shares outstanding could increase due to potential capital needs or to execute acquisitions. However, since the proceeds of any future funding would likely be used in large part to close on M&A or penetrate the market with its flagship offerings, we believe that any dilutive effect from such a funding would be nullified by a related increase in overall market value.

VALUATION AND CONCLUSION

We believe that Minerco’s multi-pronged, yet integrated strategy that includes the reformulation, re-branding, and re-launch of key and new products following a brief dormant period is primed to produce major dividends, beginning in the second half of 2016.

Given the timing of the recent licensing and new product events, we believe that meaningful shipments will occur sometime during the second half of this calendar year. With the re-launch of the flagship offerings and the launch of new products, we believe that the revenue figure could be considerably higher as national accounts i.e., major retailers, etc. begin to take delivery of new products in 2016 - 2017.

Considering one national account could account for \$1-2 million in annual twelve-month sales per product line, we believe that a \$10M annual revenue-run rate could be achieved sometime next year, which could assume a \$30M or \$0.35 valuation for Minerco. After all, a 3x-5x price-to-revenue multiple in buyouts is not uncommon in the current environment whereby larger firms are actively seeking to add specialty, hybrid drinks to their portfolios. Moreover, even on the low end, sub-\$10M in sales peers such as **True Drinks Holdings, Inc. (OTC – TRUU)** trade at multiples north of 2x revenue. In our view, Minerco, Inc. (OTC – MINE) offers investors a unique opportunity to invest in a company whose shares were trading water while management pressed the “pause button” only to recently press “play” in conjunction with the execution of key business development events that could transform the company and substantially increase its value. Therefore, we rate these shares Speculative Buy with a \$0.35 target price.

RECENT TRADING HISTORY FOR MINERCO, INC.

(Source: www.Stockta.com)



SENIOR ANALYST: ROBERT GOLDMAN

Rob Goldman founded Goldman Small Cap Research in 2009 and 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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