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Investors Attracted to What Javo Is Pouring

By MIKE ALLEN - 4/24/2006

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Javo Beverage Co. isn't fighting the growing global domination of Starbucks Coffee.

Instead, the Vista-based company that reorganized about six years ago is perking along, riding on the growing taste for lattes and iced coffee drinks.

"We're putting people in the Starbucks business by making dispensing-based specialty coffees and iced lattes," said Chairman and Chief Executive Officer Cody Ashwell. "You see all those lines at Starbucks. Well, we're taking people out of those lines."

Javo doesn't directly compete with Seattle-based Starbucks. It produces coffee extracts and flavored syrups that are used by restaurant chains, major distributors and other food manufacturers to make other products.

About three years ago, the company signed an agreement to provide the coffee for Wolfgang Puck Gourmet Lattes, a bottled drink that does compete with Starbucks on the shelves of supermarkets.

Then in February, Javo Beverages struck a deal with Caribou Coffee to provide Caribou with the coffee-flavored concentrate used in the ice cream it sells. Minneapolis-based Caribou is the nation's second largest coffeehouse operator behind Starbucks.

Things are falling nicely into place for Javo, which saw its sales triple last year, largely thanks to a growth along all its customer segments.

Key Deals

In 2004, Javo signed some key distribution agreements with several major food distributors, including Sysco, U.S. Food, and Performance Food Group. Last year, the firm expanded on those relationships, and gained even more exposure, Ashwell said.

"We had to go market by market to build a national footprint, and then we had to overlap that with getting national accounts," he said.

Another big turning point for Javo came in August when it was selected to be the supplier to the Compass Group's American Division.

Compass Group PLC, based in London, is the world's largest food service contract operator with annual sales of more than \$21 billion.

Thanks to that relationship, Javo's dispensed coffees are being delivered in thousands of large-scale food service purveyors, from casinos to hospitals to company cafeterias.

"The business is exploding as more people are looking for a high quality beverage they can serve that can compete with Starbucks," said Javo President Gary Lillian.

The recent spate of positive news for Javo sent its stock, traded on the Over the Counter Bulletin Board under the ticker JAVO.OB, from about 30 cents in early March to 47.5 cents as of April 19, giving it a market capitalization of \$71 million.

The average daily volume of stock trading hands is more than 150,000. The price has appreciated about 45 percent during the past year.

While growth last year came from all of Javo's business segments, the one that has the greatest potential comes in the retail dispensing of Javo's bag and boxed products.

A typical outlet might be a national chain convenience store that offers iced coffee drinks through a machine that automatically mixes it. Other venues for the product include fast-food restaurants, casual restaurants, both in national chains or independently owned. Ashwell declined to reveal customer names.

A Technology Angle

Most won't associate coffee with technology, but when Ashwell first got interested in Javo's predecessor firm, the La Jolla Fresh Squeezed Coffee Co., the thing that got him excited was the company's proprietary technology used to extract coffee flavors from the beans.

At the height of the dot-com boom, Ashwell recognized the process' potential, and took a small stake in the business.

"It was the first generation of extraction technology that I saw could have some broad applications across the food industry."

Ashwell and several other investors put up about \$360,000 for the controlling interest in La Jolla Fresh Squeezed Coffee in 1999. The following year, it conducted a reverse merger with another small public company, and changed the firm's name to Javo Beverage.

In 2001, Ashwell, by then Javo's CEO, helped put together a new business plan and arranged a capital infusion of \$6 million from outside investors.

In subsequent capital rounds, Javo has raised \$8.7 million in debt and equity financing, bringing the total to nearly \$15 million.

Javo reported a net loss of \$4.8 million on \$6.2 million in revenue last year, but the red ink was expected, and it isn't as bad as appears.

Because Javo's financing was structured as a debt/equity vehicle, about half the loss, or \$2.4 million for last year, is considered a non-cash loss, said Chief Financial Officer Richard Gartrell.

As the company gains sales and maintains control of its overhead, profitability is just around the corner, he said.

Ashwell said this year Javo is on track to report an operating profit. For the first quarter, sales already more than doubled to \$2.4 million.

Employment at Javo stood at 33 recently, but should rise to about 42 by year-end, Ashwell said. The new jobs include national account salespeople, operations and administrative personnel. When the new Javo buyers took over, they moved the company from Miramar to North County, where most of them live.

With things looking rosy, Ashwell admitted he's been approached a few times to sell Javo, but he said it's not in the cards.

"We're not interested in selling," said Javo's top shareholder with about 6 percent of the stock. "We believe the value of this company is growing exponentially."

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