

THE BEACON:

The latest news and happenings at HarborHouse



Boats in the water. Pulling the optimization levers. Acquisitions in progress.

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"The cure for anything is saltwater – sweat, tears, or the sea."
— Isak Dinesen

Friends,

GREETINGS FROM BLUE HILL, ME (44.4140° N, 68.5867° W)

What a difference a quarter makes. It was only in our last newsletter, in April, that we were describing the serene quiet of a late-winter snowfall, where today summer has indeed found its way to the coast of Maine. Blue Hill is a place transformed in the summer. Wildflowers. Blueberries (and pie!). Monarch butterflies. Boating. Beach picnics. Swimming. Hiking. Lobster rolls. Fresh oysters. Ice cream stands.

HOWEVER, lest you have the idea that coastal-Maine-in-the-summer is some kind made-for-TV-fairyland, you should know that Downeast feels very different this year, mostly because of the absence of two things: tourists and lobstering. In a typical year, the summer population swells to roughly 4x the off-peak number. But the whole issue of COVID-era tourism management has been a challenging and much-debated issue here in Maine. While the state promotes itself as an open-door "vacationland" (literally), the reality on the ground is far more complex. This tension is exacerbated by the additional complexities and gravity of COVID-19, as you'd imagine. Maine has the oldest average population in the U.S. — population density won't get us, but age eventually will. Transmission has been almost non-existent in our county so far, but some blooming is inevitable, and reports are cropping up of outbreaks here and there. We have friends who've been thinking long and hard about whether or not to accept house guests, to continue to welcome summer-rental visitors, honor contracts, refund security deposits, etc. The upshot is that there are noticeably fewer people here this summer, at least thus far. That's good for our physical health, but it's really hurting the local economy.



For example, the lobster industry has basically ground to a halt. In the face of climate change, demand cycles, processing capacity, etc., Maine lobstering has historically been a benchmark model for the virtues of intentional management of supply-and-demand, regulatory compliance, sustainability, margin preservation, industry partnerships, etc. This year, however, is something altogether different. With little-to-no fine dining happening, demand has fallen off a cliff, which has decimated wholesale pricing. As such, most lobstermen have opted to leave their boats ashore and their traps dry. The result is an eerily empty seascape, and one that speaks to a number of real, existential-level issues for the industry.

Even more unfortunate and disturbing has been some of the local reaction to the current wave of racial issues/activism. We were gratified to see that, a few weeks ago, people began putting up hand-painted Black Lives Matter signs on the main road over Caterpillar Hill and in downtown Blue Hill. But only a week later we began seeing that some of these signs were de-faced (someone had sprayed red spray paint over the images). And subsequently there have been a number of similar incidents of people painting/posting BLM images, only to have other people paint over the images. Back and forth. There were certainly tremors of racism in downeast Maine, particularly given the low level of racial diversity. But to see this so blatantly and tangibly now is still a bit unnerving, to be sure. It's all precipitated quite a few, in-depth dinner table conversations with our kids. They've attended a couple recent rallies in Ellsworth and on Deer Isle, and are currently busy at work designing/painting BLM signs to be posted in the windows of the Brooklin General Store. We'll spare you our socio-political diatribe (since there's no shortage of that on the airwaves these days), but you can probably surmise where we land on all of this. For now, suffice it to say we have our share of social, economic, and political tensions ... even here in "vacationland".

UP ON STEP

On a lighter note, the "HHP fleet" went in the water a couple weeks ago. Brendon's boat, a beautiful 25-foot Rampage (which he SAYS he bought used and only *looks* brand new) has been serving as our mobile, HHP boardroom, where we've been endeavoring to have our in-person "management meetings" every Wednesday afternoon. Lug our laptops on board, pack a little lunch, cruise out into some harbor or other (often with a view of Acadia National Park), kill the engine, float around with the entire bay to ourselves, eat a bit of lunch, discuss pressing HHP business, national politics, parenting strategies, cooking, pack it up, cruise back home. The toughest part of the day is usually just hauling the dinghy in and out of the water, stumbling over the rocks and seaweed (and once Brendon figures out a simple out-haul system, we won't even get *that* bit of exercise).



My boat, an old Grady White which even on its best day would never be mistaken for new, also just went into the water this past week. It's currently moored in Brooklin's Center Harbor - home to the esteemed Brooklin Boat Yard and the Wooden Boat School. If a winning real estate formula is to have the cheapest house in the best neighborhood, then I figure I'm winning with this boat. I'm pretty sure that whenever my boat is on the mooring, it dramatically lowers the value of all the other boats in the harbor. But at least it runs, isn't all that expensive to

maintain, has little pretense, and is a good learning platform. And honestly, the worst day on my boat is often superior to whatever else I'd be doing on land. If truth be known, I seem to be more drawn to sailing than to powerboating, so I may be swapping out the boat for a sailboat in the near future, but maybe more on that process in the next newsletter.

TURNING THE KNOBS OF E-COMMERCE

We've mentioned it in passing before but one of the things we've been working on has been to clean up, optimize, grow, and manage our initial, fledgling Amazon brand. It's in the kitchenware space and currently has 2 SKUs: an 8-inch chef's knife, and an associated paring knife. (If you're interested in checking it out you can find them here: <https://www.amazon.com/CHEFS-KNIFE-Professional-Japanese-Stainless/dp/B0768KB9DF>. While we can't give you an Amazon discount here, if you do buy one and leave a review, let us know, and we'll be happy to mail you a jar of Nervous Nellies jam (<https://www.nervousnellies.com>), or something equally tasty from our local bounty. A review may also score you an invite to the next HHP annual meeting on Brendon's deck.

We won't dive into all the minutiae of the full optimization process here, but thought you might like a quick snapshot of a few of our key metrics for the first half of the year (as compared to last year), since many of you seem interested (or at least do your best to humor us and feign interest).

NUNCHI, H1 (2020 vs. 2019)	H1 2019							H1 2020						
	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	TOTAL	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	TOTAL
Visitors to AMZN Store	883	1150	825	546	494	605	4503	1620	1580	1284	1889	2639	2764	11776
YOY %								83%	37%	56%	246%	434%	357%	162%
Sold Units - Month	9	75	97	63	57	38	339	63	71	52	87	149	177	599
YOY %								600%	-5%	-46%	38%	161%	366%	77%
Ordered Product Sales	\$ 588.67	\$ 3,290.94	\$ 4,069.44	\$ 2,515.59	\$ 2,356.09	\$ 1,994.87	\$14,815.60	\$ 5,048.86	\$ 4,917.96	\$ 4,179.24	\$ 7,476.42	\$11,724.00	\$14,213.00	\$ 47,561.02
YOY %								758%	49%	3%	197%	398%	612%	221%
Full-Year Revenue (2020 proj.)							\$48,724.36							\$161,263.48
YOY %														231%
Organic Revenue (vs. PPC)							44%							50%

A quick rundown:

- **“Visitors to AMZN Store** is the number of unique visitors (“browsers”) that click on our listings over the period. Our products/listings have always been fairly competitive, but we simply weren't driving enough traffic to them, historically. As you can see, we've dramatically improved this.
- **“Sold Units per Month”**. Our sales are definitely ticking up. We just placed another inventory order from our supplier. We're already ordering for the holiday season (believe it or not), and want to make sure we give our manufacturing partner enough lead time to produce the volume at high quality (something we're continually tightening the screws on).
- **“Ordered Product Sales”**. This is our monthly sales number (in dollars) which, as you can see, we've more than doubled, and continues to trend upward.
- **“Projected 2020 Revenue”**. We've driven a significant improvement with respect to revenue. Our current plan suggests that we should end this year somewhere between \$160,000 and \$210,000 (depending on the strength of the holiday season). We're also modeling the introduction of 1-2 additional SKUs which would add incremental growth for 2021.
- **“Organic Revenue”**. We generate sales in 2 ways: 1) via advertising (“pay-per-clicks”, or PPC), or 2) “organically”, not driven by a specific ad. As you'd expect, the ads can be expensive, and so the more the sales mix skews toward “organic”, the higher the profit margin. Given the early importance of visibility and reviews (discussed above), we don't want to necessarily “take our foot off the gas” of advertising at this point, but it's really positive to see the organic sales picking up. They now represent slightly more than half of our volume.

Much of the initial focus for Keith and his optimization team has been on upgrading the branding and listing quality (text, photos/video, etc.), and Amazon-specific advertising performance (which is a very technical, algorithm-

driven exercise). The next set of priorities will be: a new knife introduction to our existing dynamic duo (more on this to come), packaging redesign (improving design as well as margin), and upgrading the product website. Since much of our early focus has been optimizing the performance of the chef knife, we'll also begin working on improving the paring knife, since it carries even better margin. Thus far we've been hitting/exceeding our monthly plan numbers. Assuming we sustain this for the next 18 months, we'll have taken an online brand with limited initial market value and will have generated \$500K+ in saleable market value (in addition to the monthly profitability and cash flow). More importantly, this has been a stellar, smaller-scale "proving ground" for our team, which we believe will prove to be ever-more-valuable to us in the days ahead as we seek to grow our portfolio of businesses.

ON THE ACQUISITION HUNT

The acquisition process has been a bit of a mixed bag for us, thus far. Given the number of Amazon brands/businesses, the market and the opportunity are large. But, frankly, we've been pretty underwhelmed by the quality of many of these businesses that we've looked at, particularly the newer/smaller businesses. We've kissed a lot of frogs. Given the ubiquity of e-commerce during the pandemic, valuations have become pretty rich as sellers look to unload often shaky businesses at the top. To be sure, the vast majority of them do end up being bought ... but (thankfully) just not by us. With that said, our latest assessment is not that our underlying thesis is wrong, but we need different bait. So, we'll continue to maintain relationships with the brokerages, but we're also more aggressively expanding our purview to identify and vet potential off-market targets. And we are pushing our target size threshold up, to consider 7-figure transactions.

This is already bearing fruit for us. For instance, this past week we've executed an NDA in our pursuit of a very well-run, high growth/profitability company in the life sciences/supplements space. They're generating ~\$4M revenue on a few e-commerce platforms (including \$2M+ on Amazon USA). But they also have a robust and fast-growing wholesale business, which they transact over their website, and then fulfill from a distribution facility in upstate NY. The business, as it stands, generates \$1M+ profit, *before* optimization. And the fact that this is a non-brokered deal affords us the opportunity to have more substantive, candid interface with the owners, and the ability to think through a whole range of alternative partnership and/or acquisition options. Incidentally, there may be room for some level of additional investors/participation on this deal, so if you're interested, definitely let us know asap.

MAKING THE CAMP BETTER

We also continue our work to support a couple of Maine-based venture funds, and their portfolio companies. We're still serving in a board member/observer capacity on 2 of these companies (both in the water testing/filtration space). Both companies are weathering the COVID-19 market challenges, and have availed themselves of the government's small-business relief funding. But, despite all the challenges, they've each recently raised \$2M+ in short-term investment capital, and are in preparations to launch a more substantive investment round. We recently renewed our contract with the Maine Venture Fund, and are now talking with them about how we might set up an "Amazon portal" to afford some of their smaller, Maine-based CPG companies access to the Amazon marketplace. More on this to come.

Okay, that's it for now. As always, let us know if you have anything you want to kick around, have an interest in hearing about investment opportunities, (or just want to be removed from distribution ASAP). We'd love to hear how you're doing and what you're up to. If the quarantine has taught us anything, it's how precious our relationships really are. We're thankful for you. May you and yours be healthy and well, and enjoy a terrific summer.

Cheers,

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