

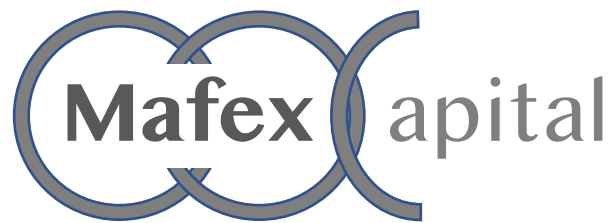
Cross-border Commercial Due Diligence report for Blooming Tea

(fictional brand)

on behalf of

(fictional investor)

as a potential buyer



Assignment: assess the growth potential for Blooming Tea in selected markets

- Mafex Capital intends to acquire Blooming Tea, a UK company with £ 10 million turnover in the UK market and approximately € 5 million in several other markets: the Netherlands, France, Spain
- The company has plans for the German market and is exploring other European markets
- Mafex requires a business case to support this proposed expansion

Our due diligence approach

Brand analysis & USP's



Blooming Tea

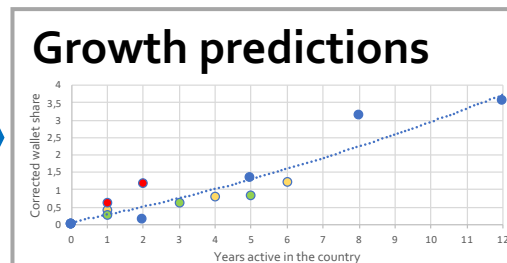
Initial market selection



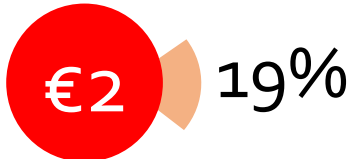
Regulations check



Competitor research

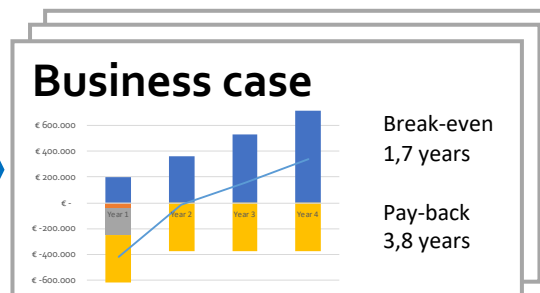


Margin contribution



Key cost elements

- Initial investments
- Retail listing fees
- Marketing costs



Conclusions

first then then



Done for multiple countries

Brand analysis

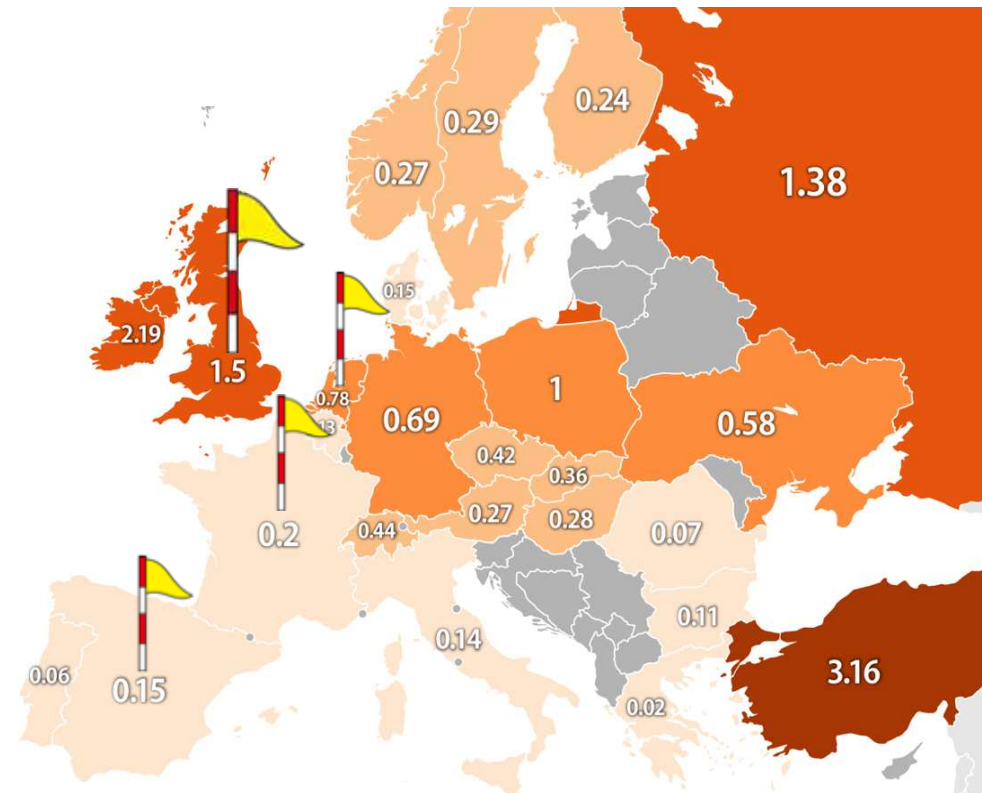
Blooming Tea: the natural tea



- Blooming Tea is already an established brand in the UK
- The tea distinguishes itself from mainstream brands because:
 - The tastes are not mainstream and bold
 - The ingredients are all natural (although not organic)
 - The packaging is modern and stylish
- The brand story focuses on going back to nature and drink tea as it was supposed to be

Initial country selection: potential new markets based on tea consumption in Europe

- Turkey has the highest consumption, but local production and a different tea culture present challenges.
- Russia is under sanctions, and the Belarus economy is small
- Germany is a key market to consider
- Sweden could serve as an entry point to the Nordics countries
- Poland, Czechia, Hungary, Austria and Switzerland are potential options



annual tea consumption in kg per capita



existing market for Blooming Tea

Regulations check

- Tea is generally classified under HS code 0902xxxx and herbal tea under HS code 21012090
- There are no import duties from the UK to the EU
- Import duties from the UK to Switzerland are 4,1%
- As Blooming Tea already exports to France, we foresee no regulatory issues for export to other EU countries and Switzerland

Type of tea	HS-code
Green tea in packings < 3kg	09021000
Other green tea	09022000
Black tea in packings <3kg	09023000
Other black tea	09024000
Herbal tea	21012090

Germany: a first look at Edeka's assortment, the main supermarket chain



Germany: market analysis

- The mid-range market is fully occupied by German players, selling under € 2
- Discount retailers offer their own private label brands
- Premium organic brands occupy the high-end, selling for € 3 and above
- For 'medical teas' the market is taken by Bad Heilbrunner
- There is a noticeable gap between € 2 and € 3: option for Blooming Tea

Yogi, Cupper, Pukka and other organic brands, above € 3

Blooming Tea

Meßmer and Teekanne
€ 1,75 - € 2

Bad Heilbrunner
€ 1,45 - € 1,90

Private label brands like Westcliff or Goldmännchen
€ 0,89 - € 1,50

Germany: The primary competition in this segment comes from DM's Teaya 'Taste my world' brand.

Teaya TASTE MY AFRICA	Teaya TASTE MY ITALY	Teaya TASTE MY INDIA	Teaya TASTE MY NEW ZEALAND	Teaya TASTE MY WORLD
				
1,25 € 2,45 €	2,45 €	1,25 € 2,45 €	2,45 €	2,45 €
Teaya Kräutertee 'taste my Africa' mit Honigbusch,..., 34 g 0,034 kg (36,76 € je 1 kg) ★★★★★ (307)	Teaya Früchtetee 'taste my Italy' mit Zitrone, weißem..., 34 g 0,034 kg (72,06 € je 1 kg) ★★★★★ (437)	Teaya Kräutertee 'taste my India' mit Tulsi, Ingwer &..., 34 g 0,034 kg (36,76 € je 1 kg) ★★★★★ (374)	Teaya Kräuter-Tee 'taste my New Zealand' mit Manuka..., 34 g 0,034 kg (72,06 € je 1 kg) ★★★★★ (451)	Teaya Teemischung 'Taste my World' Probierpackung (16..., 32 g 0,032 kg (76,56 € je 1 kg) ★★★★★ (139)
Hinweise	Hinweise	Hinweise	Hinweise	Hinweise
Online nicht verfügbar	Online verfügbar	Online nicht verfügbar	Online verfügbar	Online verfügbar
Verfügbarkeit in einem dm-Markt prüfen	Verfügbarkeit in einem dm-Markt prüfen	Verfügbarkeit in einem dm-Markt prüfen	Verfügbarkeit in einem dm-Markt prüfen	Verfügbarkeit in einem dm-Markt prüfen

Apfel, white hibiscus,
blackberry leaf, lemon grass

Tulsi, lemon grass, liquorice,
ginger root, cinnamon

Lemon grass, appel,
liquorice, chicory root

DM holds less than 5% of the market and exclusively offers this brand in its stores

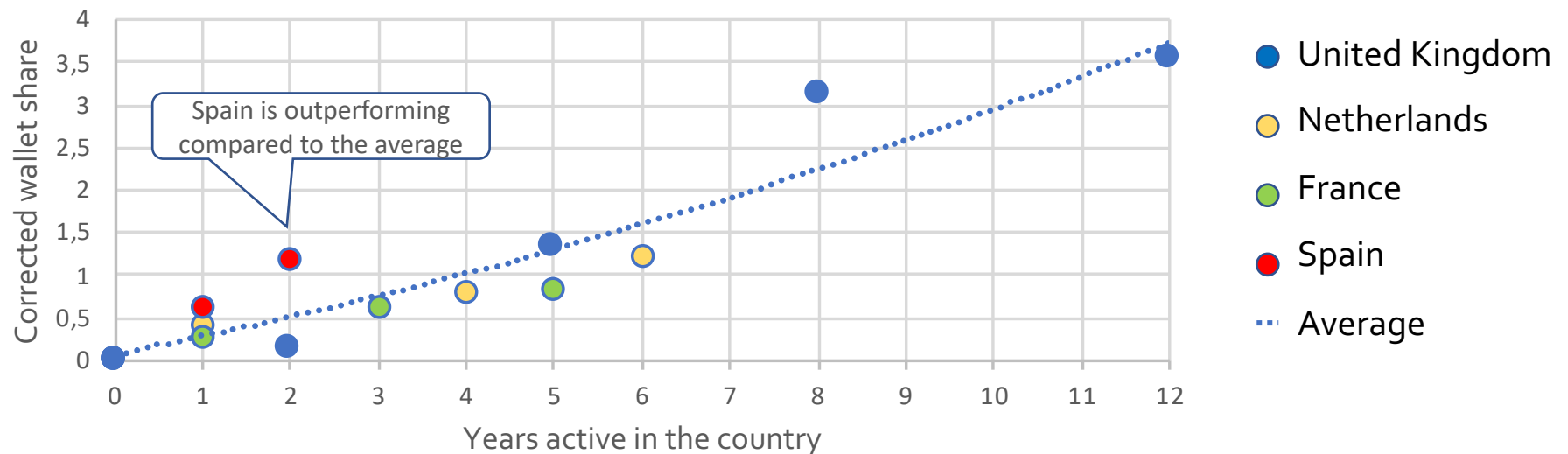
This research was done for all potential markets

Summary of the outcomes:

Country	Low segment brands	Mid segment brands	High segment brands	Competition intensity
Germany	Westcliff, Goldmannchen	Teekanne, Meßmer	Yogi, Cupper, Clipper	High
Sweden	Lipton, Euroshopper	Teekanne, Twinnings	Kahls, Johan & Nystrom	Medium
Poland	Saga, Big Active	Teekanne, Lipton	Dilmah, Kusmi	High
Czechia	Pickwick, Teekanne	Lipton, Ahmad	Oxalis, Sonnentor	Medium
Hungary	Pickwick, Teekanne	Lipton, Ahmad, Herbaria	Demmers, Sir Mortong	Medium
Austria	Teekanne, Spar	Lipton, Sonnentor	Demmers, Kusmi	High
Switzerland	Lipton	Twinnings, Teekanne	Sirocco, Mariage Frères	High

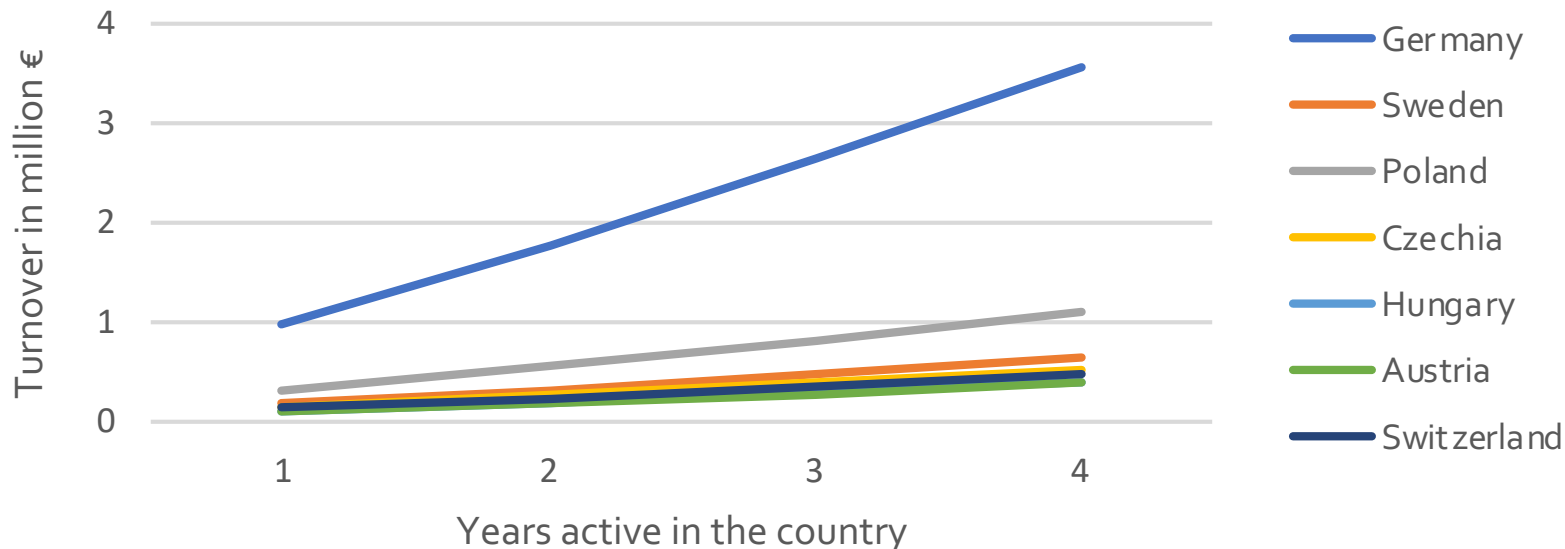
Expected turnover growth can be projected based on performance in existing markets

- We have scaled actual turnover data for the UK, the Netherlands, France and Spain to a wallet share (€ per million GDP ppp)
- The average gives a basis for turnover predictions in a new market



This growth curve can be applied to new markets, adjusting for the competitive intensity

- As Germany is the biggest market with the most buying power, most growth can be expected there, despite the strong competition



Not all turnover is margin

Country	Suggested retail price		Without VAT		Wholesale price for retailer		Cost Price DDP Retailer warehouse		Margin		As % of wholesale price
Germany	€	2,45	€	2,29	€	1,37	€	1,10	€	0,27	20%
Sweden	€	2,65	€	2,37	€	1,42	€	1,13	€	0,29	20%
Poland	€	2,35	€	2,24	€	1,34	€	1,11	€	0,23	17%
Czech	€	2,45	€	2,19	€	1,31	€	1,12	€	0,19	15%
Slovakia	€	2,35	€	2,24	€	1,34	€	1,12	€	0,22	17%
Hungary	€	2,85	€	2,24	€	1,35	€	1,12	€	0,23	17%
Austria	€	2,45	€	2,23	€	1,34	€	1,12	€	0,22	16%
Switzerland	€	2,50	€	2,39	€	1,43	€	1,17	€	0,30	21%

Based on competitor research

Entering a new market requires an initial investment, irrespective of market size

Key cost elements

- Travel to the country and some market research
- Identifying and convincing the right local partners
- Contracting negotiations & logistics setup
- Packaging translations
- Website translations or social media setup

Initial estimate based on our model

- We classify tea packages as a Standard product
- Entry into these markets from the UK is averagely complex
- Estimated base costs 50,000 EUR

Nr	Offering	Market: Simple	Average	Complex
1	Standard product	20.000 EUR	50.000 EUR	80.000 EUR
2	Remote service	30.000 EUR	50.000 EUR	80.000 EUR
3	Product with installation	70.000 EUR	100.000 EUR	150.000 EUR
4	Customized product	70.000 EUR	100.000 EUR	150.000 EUR
5	Customized solution	100.000 EUR	150.000 EUR	250.000 EUR

Specific for retail distribution: **listing fees** for the first (half) year

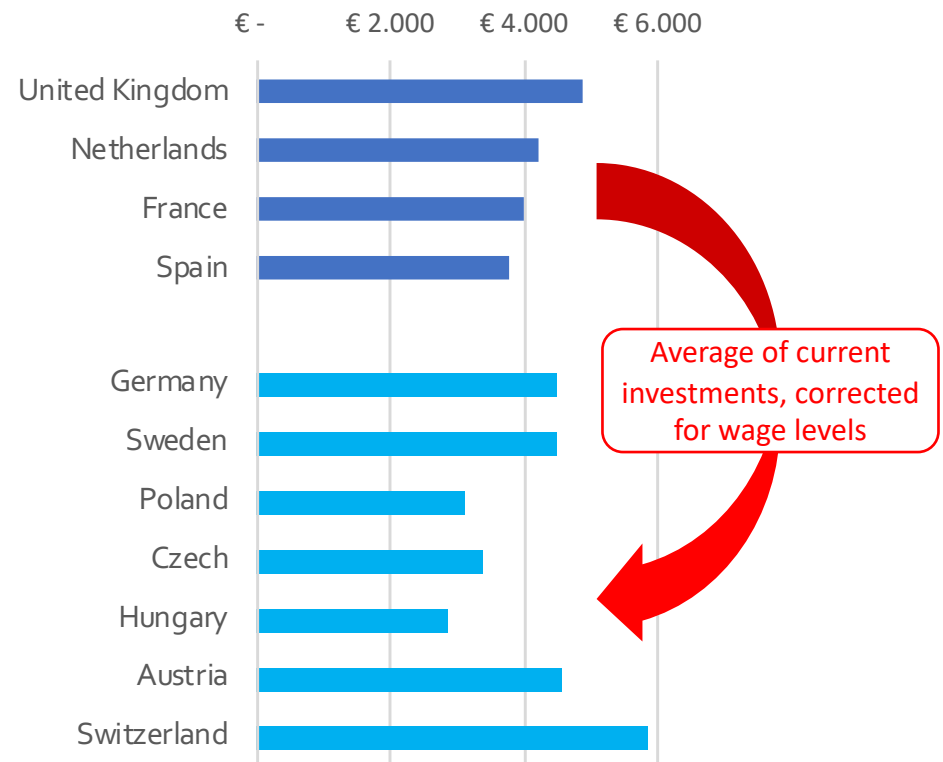
- Retailers often charge listing fees for just putting your product on their shelves
- Shelf space is limited; introducing a new product requires removing an existing one that generates a margin.
- Listing fees offset the risk that a product will not sell: which is common for most introductions
- Listing fees vary by retailer and product category
- An example of a listing fee could be € 200 per supermarket per SKU

A low-demand Meßmer tea package in a German Edeka supermarket might sell three times daily, generating a €0.40 margin per package. To give Blooming Tea 180 days to promote their product, Edeka foregoes $3 \times €0.40 \times 180 = €216$ in margin per outlet. Therefore, a listing fee of €200 per SKU per supermarket can be considered as fair.

Any distributor or retailer will require an investment in marketing to promote the brand

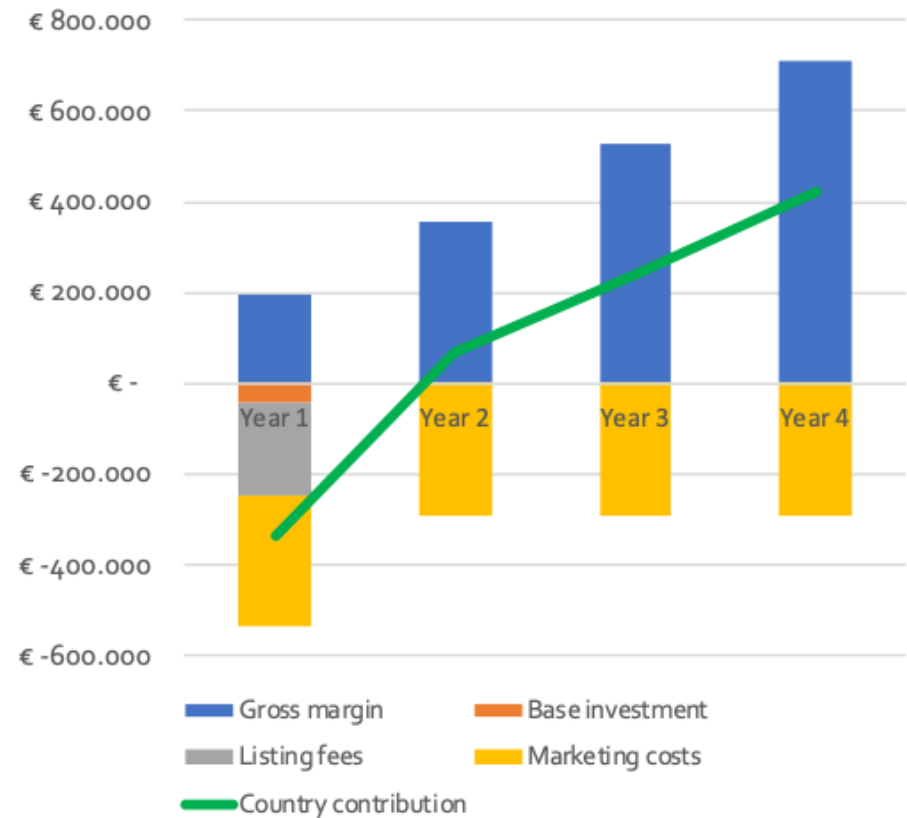
- Retailers only invest in their own store brands or private labels
- You will need to co-invest in promoting your brand, through sampling, events or advertising
- Similar to what you are doing in current markets
- Costs vary based on wage levels and the target audience size in the country

Marketing costs per million people per year

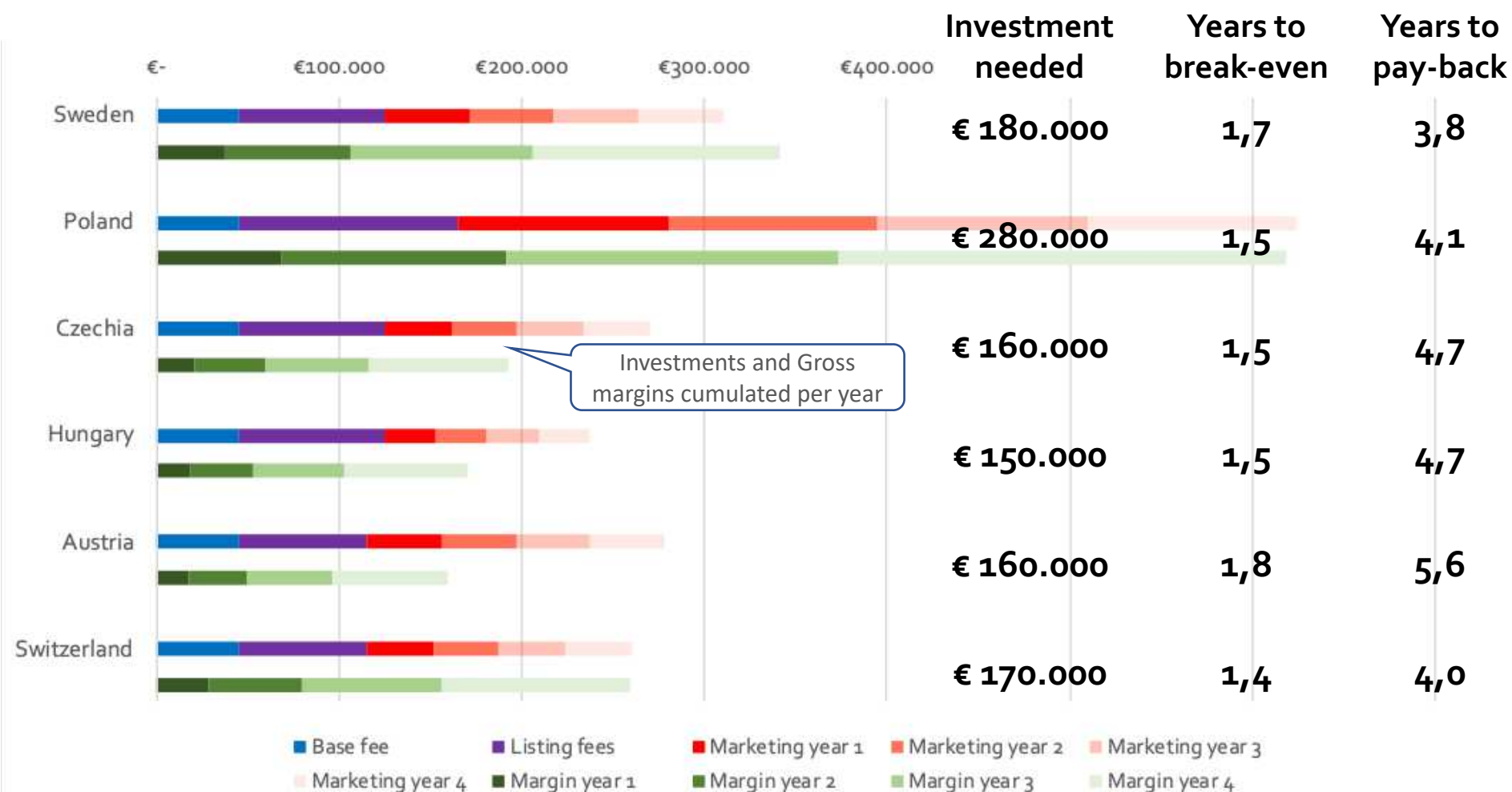


The full business case for Germany

- Expected turnover to reach €3,5M by year 4
- Gross margin 20% of turnover
- Base investment € 50.000
- In year 1 listing fees for 1000 outlets at € 200 each
- Annual marketing costs € 373.000
- Investment needed of € 450.000
- Break-even point after 1,8 years
- Pay-back period of 3,2 years



The business case for the other markets with break-even and pay-back times



Conclusions

- Germany offers the shortest payback period but requires up to € 450.000 in investments
- Sweden is also interesting but represents a much smaller market
- Poland is highly competitive with potentially low margins, making it less attractive, a situation similar to Czechia, Hungary, and Austria
- Switzerland could be an option if the projected gross margins can be achieved, which depends on retailer negotiations

