Zacks Small-Cap Research

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Green Polka Dot Box (GPDB-OTC)

GPDB: *Positioning to Benefit From Rapid Growth of Market for Organic Products; Initiating Coverage*

Current Recommendation	**Hold**
Prior Recommendation	N/A
Date of Last Change	10/06/2014
Current Price (6/9/14)	$1.84
Target Price	**$2.00**

OUTLOOK

Green PolkaDot Box is a membership club that offers its members attractive prices for online purchases of natural and organic foods and products. The natural products market has expanded rapidly and is projected to grow 14% from 2014-2018. We believe the company is positioning itself to benefit from this anticipated strong growth, as a one-stop shopping site offering competitively priced products, convenience and fast delivery. A recent agreement to provide products to Amazon could be a catalyst for accelerated revenue growth, in our view.

SUMMARY DATA

52-Week High	**$3.47**
52-Week Low	**$1.80**
One-Year Return (%)	**-39.7**
Beta	**-4.44**
Average Daily Volume (sh)	**6,723**
Shares Outstanding (mil)	**12.2**
Market Capitalization ($mil)	**$22.5**
Short Interest Ratio (days)	**0.2**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**87**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2013 Estimate	**N/A**
P/E using 2014 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Retail-Mail Ord**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	0.4 A	0.4 A	1.0 A	1.1 A	2.9 A
2013	1.2 A	0.9 A	1.7 A	0.5 A	4.3 A
2014	0.4 A	0.5 A	0.3 E	0.4 E	1.6 E
2015					3.2 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	-$0.30 A	-$0.13 A	-$0.12 A	-$0.24 A	-$0.72 A
2013	-$0.40 A	-$0.04 A	-$0.14 A	-$0.66 A	-$1.26 A
2014	-$0.23 A	-$0.06 A	-$0.06 E	-$0.06 E	-$0.40 E
2015					-$0.25 E

Quarters might not sum reflecting rounding, share count changes

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

Disclosures begin on page 17

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KEY POINTS

- Green PolkaDot Box is a membership club that offers products to its members at attractive prices. In that respect, it is similar to Costco or Sam's Club. However, Green PolkaDot Box's retail operation is online only, similar to the Amazon model, and it specializes in natural foods and products that are organic and non GMO.
- The market for organic foods and products is large and growing rapidly. According to the *Nutrition Business Journal*, domestic sales of organic products through conventional retail channels reached an estimated $28.4 billion in 2012, which represented more than 4% of total food sales. It is forecast to grow 14% from 2014-2018.
- Fruits and vegetables comprise the largest category of organic food sales, at 43% of total sales. To meet growing demand for organic produce, GPDB is developing one of the country's first large scale Living Produce farms.
- GPDB has registered approximately 25,000 members and its membership base continues to grow, reflecting its own promotional efforts and a growing network of affiliate marketing partners.
- While the industry is highly competitive, the company believes that it can maintain and grow its membership base by offering better prices than competitors. GPDB strives to maintain prices that, on average, are 10%-15% below those offered by competitors.
- Management also believes that GPDB is one of few online companies that can ship custom picked frozen orders with 1-2 day delivery, including a variety of organic products.
- Green PolkaDot Box has signed an agreement with Amazon and expects the Amazon relationship to help drive revenue growth.
- GPDB is still a "show me" story at this early stage, in our view. Nevertheless, for investors who can assume higher than average risk, we believe **the shares represent an option on its ability to leverage the relationship with Amazon and others in order to capitalize on the rapid growth of the organic food market.**

OVERVIEW

Utah based Green Polka Dot Box (OTC:GPDB) is a membership-based online specialty retailer that offers its members low prices on a broad range of natural and organic products, including fresh produce, grocery, meat and seafood, bakery, dairy, frozen foods, body care and natural household items, catering to consumers' growing interest in choosing more healthful items. Through volume discounts, reflecting the scale of its membership base, and by driving revenue in exchange for some margin, the company is able to offer attractive prices to its members. GPDB also does not have the overhead of a bricks-and-mortar retail network. The company offers a broad range of organic and natural brands, including *Organic Valley, Late July, Amy's, Annie's, De Boles,* a Hain's Celestial brand, and many others.

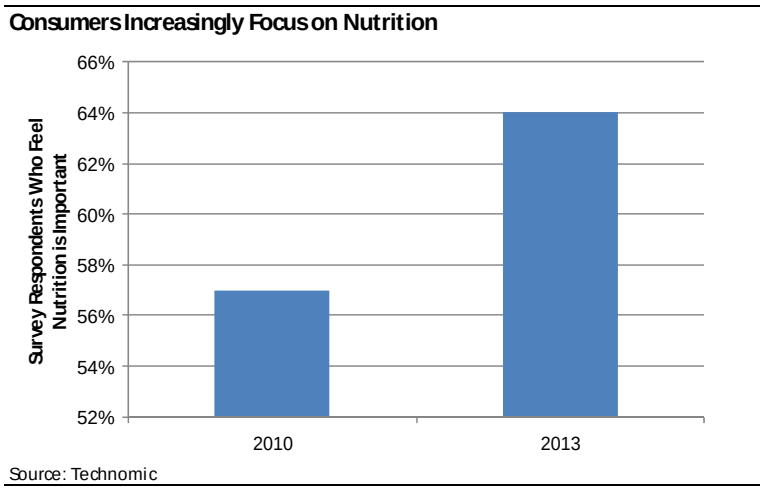
As well, the company is developing its own farm to further improve its access to organic produce at competitive prices. Consumer demand for organic products is growing at double-digit rates, which is one factor behind the premium pricing that many organic products command. For example, a half-gallon container of private-label organic milk sold at a 60% price premium compared to non-organic and a half-gallon container of branded organic milk sold at a 109% price premium, according to the USDA's (U.S. Department of Agriculture) Economic Research Service 2006 survey. Supermarket chain Kroger's organic *The Simple Truth* brand generally sells at premium prices, as do many other supermarket private label organic brands. **GPDB's strategy is to maintain prices that, on average, are 10%-15% lower than competitors' prices.**

Large food industry players such as Krogers (KR-not rated), General Mills (GIS-not rated), Walmart (WMT-not rated) and others are expanding their presence in organic food category, which we believe underscores the attractiveness of this market. GPDB differentiates itself by offering a broader selection than these conventional retailers, at attractive prices and with the convenience of online shopping and quick delivery. With premium prices on many organic products often making them cost prohibitive for consumers, we view GPDB's strategy positively. Moreover, GPDB's broader selection of natural products is another advantage, in our view. It can be a **one-stop shopping site that offers consumers attractive prices and the ability to shop for natural products conveniently** through the company's online store.

On August 28, 2014, the company announced that it would become a domestic product provider on Amazon.com. Management believes the Amazon opportunity is a likely catalyst to grow revenue. At the same time, GPDB has developed partnerships with several large affiliated marketing sites to help raise awareness of its service, grow the membership base and, in turn, boost sales and revenue.

COMPANY BACKGROUND

Green PolkaDot Box is a membership club that offers natural products to its members at attractive prices. In that respect, we believe it is similar to Costco (COST-not rated) or Sam's Club. However, Green PolkaDot Box's retail operation is online only, similar to the Amazon (AMZN-not rated) model, and it specializes in natural foods and products that are organic and non GMO (genetically modified). In success, we believe the company could capitalize on consumers' rapidly growing demand for organic foods and personal products. GPDB promotes its service to health conscious consumers, a group that is growing as a percent of the total population. For example, 64% of consumers feel that it is important to eat healthy and pay attention to nutrition, up from 57% in 2010, according to food industry consulting firm Technomic, which published a 2013 *Healthy Eating Consumer Trend Report*.



The company's marketing largely has been through affinity organizations such as *NaturalNews.com,* the *Organic Consumers Association, National Health & Wellness Club* and several others. Recently, GPDB has also begun to employ an affiliate marketing strategy that is similar to promotional campaigns used by other retailers such as drugstore.com. The company's affiliate marketing partners have a combined reach to over 25 million consumers. Management has indicated that it plans to add many additional affiliates that are specifically focused on its target health conscious consumer base.

Making Organic Products Affordable

The company sells a broad range of fresh and packaged foods from manufacturers such as *Late July*, *Cocozia, Once Again, Perfect Bar* and many others. GPDB offers over 1,800 dry goods, fresh, frozen and refrigerated products and continues to expand its product selection. Because its members are interested in purchasing organic and natural products, GPDB can use the scale of its membership base to obtain attractive prices from vendors. As noted, the company targets offering prices that are 10%-15% lower than competitors' prices, on average. For example, *Once Again* unsalted peanut butter is listed for $5.99 on Green Polka Dot Box compared to up to $8.99 on other sites.

The company's Mt. Pleasant, Utah distribution center opened in September 2013. GPDB can ship custom frozen and packaged products within 1-2 days of order from the Utah facility. As its membership base grows, management expects to lease a new distribution center in Tennessee in order to service the eastern portion of the country. The company estimates the cost of launching the second facility at roughly $300,000, plus inventory requirements. With two distribution centers, management expects to be able to deliver frozen and refrigerated foods to most of the continental U.S. within 1-2 days.

Expanding Marketing Channels to Drive Membership

GPDB has registered approximately 25,000 members since launching operations in 2012 and approximately 17,000 have placed at least one order. The company's membership base continues to grow, as it promotes the service through affinity organizations and affiliate marketing. Statistics indicate that its target market of health-conscious consumers is growing dramatically, as noted.

The strong growth in consumers who believe healthful foods are important – essentially the company's target market – portends well for growth in memberships, we believe, once awareness of the service builds. Up until now, GPDB has relied primarily on the previously noted affinity channels to drive awareness of its membership club. Management believes that the ongoing expansion of its affiliate marketing program and the potential impact of its new Amazon relationship could be **catalysts for significant growth in awareness and, in turn, revenue.**

In its early days, the company offered a complimentary membership, as well as lifetime memberships. Green Polka Dot Box has roughly 1,400 legacy members who purchased lifetime memberships. While the company no longer offers these, those early members are grandfathered as either Founding Trust members or Charter Lifetime members. Going forward, the only membership category offered is the standard $49.95 per annum membership. If the company's marketing campaign is successful, **we believe the membership base could become an attractive source of annual cash flow** for GPDB over time. Costco, for example, has been able to achieve member renewal rates of roughly 90% in the U.S. and Canada by offering its members discount pricing.

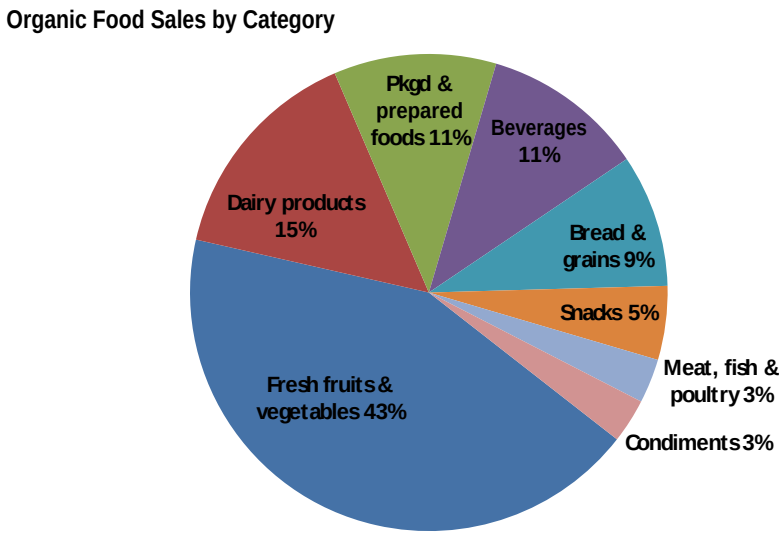
How is Organic Different?

According to the USDA, products that are grown, cultivated or produced organically use methods that preserve the environment and avoid most synthetics such as pesticides and antibiotics. Organic foods also generally emphasize the use of renewable resources and prohibit the inclusion of GMOs (genetically modified organisms).

GMOs were first used with the introduction of the Flavr Savr tomato in 1994.[1] Since then, GMOs have become a key component of the food industry worldwide. The technology has evolved over time to grow GMO tomatoes to have a longer shelf life and to extend the growing season of many types of fruits and vegetables, as strawberries and other fruits are modified to grow yearlong instead of only during their natural seasons. Earlier this year Vermont became the first state to mandate labeling of foods that contain GMO.

Congress outlined general organic tenets In the Organic Foods Production Act of 1990. The USDA then published an Organic Rule to implement national organic standards. The USDA defines organic standards, ranging from soil and water quality of organic crops to what food additives are allowed in the preparation of organic packaged foods. The USDA implemented its Organic Rule in 2002, mandating that in order for products to be labeled as organic, they must be cultivated or raised using the organic methods it had outlined and they must be certified by an accredited agency. The U.S. also has organic equivalency agreements with Canada, and Europe. Organic farms and processors are inspected annually to ensure that they comply with the standards.

Living Produce Growing Center

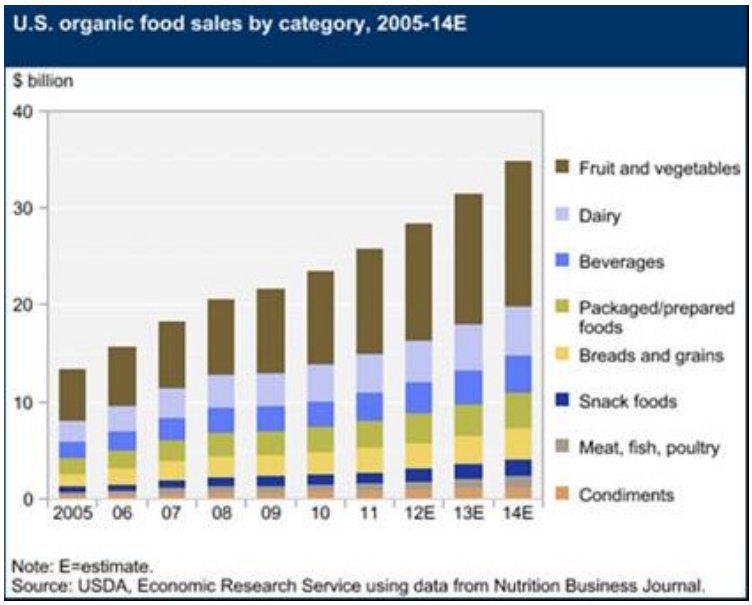


Source: Nutrition Business Journal

Fresh fruits and vegetables represent the top selling category of organically grown food, according to the *Nutrition Business Journal*, accounting for 43% of 2012 U.S. organic food sales. Dairy products account for 15% and packaged and prepared foods and beverages each account for 11%.

GPDB is developing a large scale Living Produce farm, using vertical growing towers and aeroponic technology and a patented water soluble organic fertilizer. In an aeroponic environment, plants are grown in an air or mist environment, without soil. Advantages of using aeroponic production methods over conventional and greenhouse plant production include greater nutrition uptake by the plants, a faster growth cycle, a contained growing environment that protects crops from pests and greater water conservation.

Demand for organic produce has grown dramatically since 2005, as illustrated in the chart below. It is expected to continue to rise. In response, the number of farmers' markets in the country has expanded from 1,755 in 1994 to more than 8,144 by 2013. Nevertheless, a recent USDA survey indicates that most farmers' market managers would like to see an increase in the number of organic farmers in order to meet consumer demand in many markets. Management believes this could portend well for GPDB's living produce initiative.



The farm is being developed in Spring City, Utah and will encompass a 40-acre hydroponic, vertical growing facility, once it is fully developed. In general, the use of vertical farms grown in greenhouses has increased over the past decade, reflecting the many advantages cited above, including that they can minimize the use of pesticides and herbicides because plants are grown indoors in a controlled environment.

The company has developed a patent pending vertical aeroponic technology that uses up to 95% less water than conventional organic farming. GPDB expects to fund this project through a combination of crowd funding and private equity. Management targets raising at least $3.9 million to complete Phase I of the farm development, including a 10,000 square foot testing greenhouse. The company has already funded over 10% of the capital it needs for Phase I and expects to fund a significant portion of the balance through bank financing backed by Utah Farm Service Agency or USDA loan guarantees.

GPDB has already purchased the land for Phase I, secured a building permit and broken ground. The company has placed anchor pins to facilitate eight greenhouse bays, including a two-bay processing facility. Management plans to grow at least 11 varieties of organic and non-GMO tomatoes, cucumbers, squash, peppers, lettuce, herbs, beans, peas and strawberries. GPDB targets completion of Phase I by mid-2015. The company believes it can reap up to 6,000,000 annual pounds of produce to distribute to its members and potentially to farmers markets and restaurants. With this production, management believes GPDB can reduce average produce prices that it offers.

The plants can live for up to one week after harvest and GPDB expects to be able to deliver them within one day of harvest. Because the farm is located in an indoor, climate-controlled environment, management anticipates year-round cultivation. Moreover, by lengthening the growing cycle, management expects to obtain much higher yield than standard growing methods. GPDB can maintain a sterile environment because the farm is indoors. As noted, indoor farms have less environmental impact than traditional farming methods*, as* produce grown using vertical technology uses about only 10% of the land normally used for production and less than 95% of the water. GPDB plans on using low energy cost geothermal heating and cooling systems to minimize environmental impact.

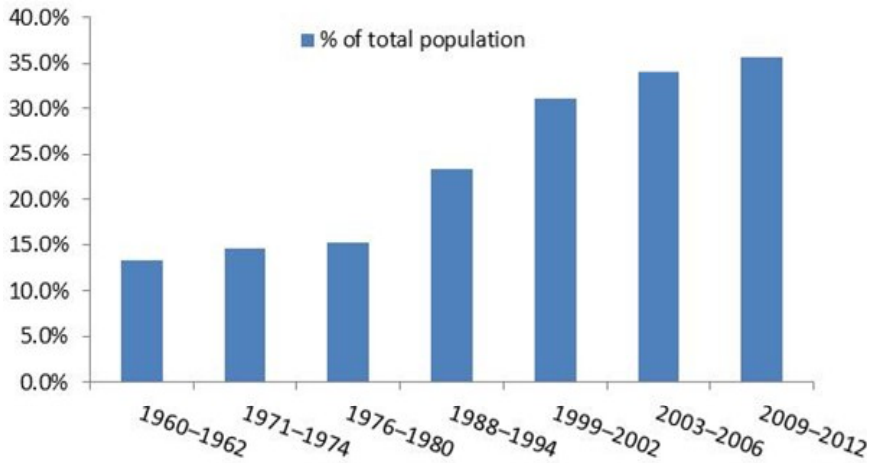
The company has already received commitments for the expected harvest. For example, in October 2013, GPDB secured a 20-year contract with Minneapolis based J&J Distributing for the sale of Living Produce vegetables. J&J Distributing is a national organic produce distributor that has been in operation for over 20 years. The company also secured a 10-year contract with Miami based Fresh Organics LLC. The company estimates that the aggregate value of these combined contracts could be over $680 million

over the life of the contracts. The company will begin to fulfill both contracts once additional Living Produce Growing Centers are established in Minnesota and Florida.

Other Value Added Products & Services

Management believes that it can further add value to its service by offering members specialty natural and organic products that are difficult to obtain elsewhere. For example, Green PolkaDot Box announced on June 24, 2014 that it has entered into an agreement with Sweden's Greenleaf Medical to be the exclusive domestic licensor of Appethyl, a spinach-based product that uses natural ingredients to suppress the appetite. It was developed at Sweden's Lund University, according to Greenleaf Medical. Given the rising incidence of obesity, this product could have significant commercial potential, in our opinion. According to the CDC, 34.9% of American adults are obese. Obesity rates in adults and children have more than doubled since the 1970's, according to the National Center for Health Statistics. Health conditions that are related to obesity include heart disease, stroke, type 2 diabetes and certain cancers. Moreover, obese people average $1,429 higher per annum spending on medical care than people of average weight.

Domestic Obesity Trends, 1960s-2012 (%)



Source: CDC

In addition to Appethyl, management has also indicated that it is in discussions for exclusive distribution of other innovative natural products. In addition, to facilitate the interface at its e-store, GPDB has developed proprietary shopping technologies such as *On the Dot*™ auto-ship subscription software and the *My Shopping List*™ order system.

GPDB became publically traded through a reverse merger on February 29, 2012. The company intends to up-list its shares to a major stock exchange next year, which we believe would be positive for the shares.

AFFILIATE MARKETING

Management expects to leverage affiliate marketing as a key component of its strategy to grow its membership base. Earlier this year, GPDB launched a campaign to sign affiliates to market its service and products and has joined several affiliate marketing networks. In general, affiliate networking allows e-commerce sites such as Green PolkaDot Box to tap into a network of affiliates and publishers who incorporate the site into their blogs, tweets, pins, posts and other content. If an affiliate's content results

in a sale, the affiliate then receives a commission. Many of the networks that GPDB has joined, such as LinkTrust, ShareASale, Performance-Based, Rakuten LinkShare and Commission Junction, are among the largest affiliate marketing networks.

For example, Performance-Based.com is an affiliate network comprised of more than 15,000 affiliates focused on green and organic products. It has been involved in affiliate marketing since 1998. Chicago-based ShareASale has a marketing network of over 800,000 affiliates. ShareASale has been involved in affiliate marketing since 2001 and has a network of more than 3,900 merchants. Commission Junction and Rakuten LinkShare are the two largest affiliate marketing networks. Specifically, Rakuten LinkShare has over 150,000 affiliates who reach millions of consumers. ShareASale is smaller, according to the New York Times.[1]

The company announced in July 2014 that its affiliate marketing relationships comprised a network of more than 1,150 affiliates who reach about 25 million health conscious consumers. Through these networks, GPDB gains access to bloggers, coupon sites and other affiliates that promote its service for a fee. There is no cost for GPDB unless the affiliate generates a new member for GPDB. An active affiliate that refers an average of at least one new member a month earns a $15 acquisition fee for each membership referral, plus $2 on every order the new member places. Orders from new members typically average at least $100 or more.

Affiliate marketing networks are commonly used by online retailers. In fact, Forrester Research estimates that affiliate marketing fees will reach $3.4 billion this year. Management has indicated that it expects to formulate agreements with additional specialty affiliate marketers that are particularly focused on the natural and organic market.

Amazon Relationship

In July 2014, the company announced that it had been selected as a Pro Merchant by **Amazon to expand Amazon's organic and non-GMO product selection**. The company's pricing strategy for products it offers on Amazon will be consistent with its general strategy to offer prices below those offered by competitors. When it can, GPDB intends to offer prices below those that consumers can find on *Amazon Prime* and to provide free shipping. Once its farm is operating, GPDB also expects to be the only provider of Living Produce® on Amazon. Management believes that the Amazon relationship could be a catalyst for significant growth in revenue.

MARKET OPPORTUNITY

Organic Market Overview

The market for organic foods and products is large and growing rapidly. According to the *Nutrition Business Journal*, domestic sales of organic products through conventional retail channels posted a 12% CAGR from 1997 to 2011 and reached an estimated $28.4 billion in 2012, which represented more than 4% of total food sales. Sales of organic products reached $35.1 billion in 2013, according to the Organic Trade Association (OTA). The market is expected to expand 14% from 2014-2018.

We believe the growth in sales of natural and organic foods reflects several trends, including heightened understanding that healthful eating is important to remaining healthy and a better-educated and more affluent population. We also believe that the growing incidence of obesity and obesity linked medical problems is a factor driving increased interest in natural products. With obesity rates in adults and children having more than doubled since the 1970's, according to the National Center for Health Statistics, the focus on making healthier food choices likely continues to rise, in our opinion. As noted,

[1] NY Times, *Surviving the Dark Side of Affiliate Marketing*, December 4, 2013

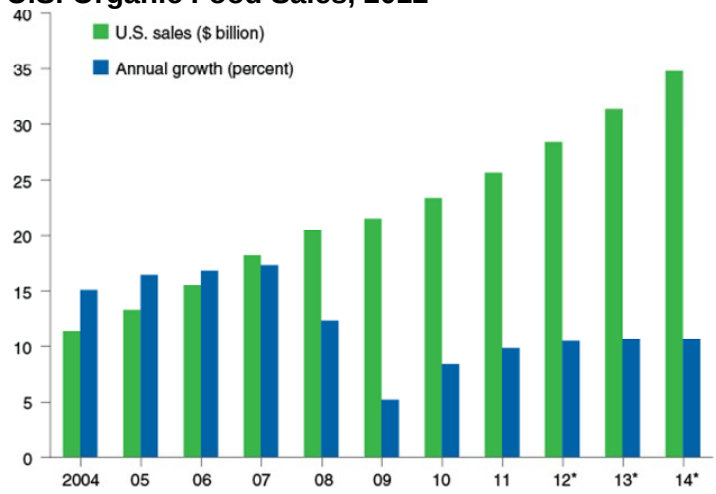
Technomic's Healthy Eating Consumer Trend Report indicated that 64% of U.S. consumers believe it is important to eat healthy foods, up from 57% in 2010. Moreover, 50% of consumers would also like to see healthier choices in restaurants.

The *Nutrition Business Journal* writes:

> This overall demand for healthy products is driven by many factors, including increased awareness about the benefits of eating healthy, a greater focus on preventative health measures, and the rising costs of health care. We believe customers are attracted to retailers with comprehensive health and wellness product offerings. As a result, food retailers are offering an increased assortment of fresh, natural and organic foods as well as vitamins and supplements to meet this demand.

We believe the attractive growth prospects of this market is underscored by recent initiatives that larger retailers have launched. For example, Kroger, the country's second largest grocery chain, rolled its *Simple Truth* natural and organic brand out to its stores nationally in 2012 and has recorded strong growth from this category. Kroger's organic product revenue has surpassed $1 billion from *The Simple Truth* and other brands, according to trade publications. General Mills recently announced that it would acquire natural and organic food producer *Annie's Homegrown* for $820 million. General Mills purchased another organic foods company, *Small Planet Foods,* in 2000 and its portfolio of organic food brands also includes *Cascadian Farm, Muir Glen* and *Food Should Taste Good*. Walmart recently announced a partnership with health food manufacturer Wild Oats to expand its organic food selection at attractive prices. Walmart is also the 2nd largest distributor of Hains Celestial organic foods, accounting for about 11% of Hains' FY14 sales.

U.S. Organic Food Sales, 2012



*Estimated.
Source: USDA, Economic Research Service using data from *Nutrition Business Journal*, 2013.

COMPETITION

The three primary channels for organic food sales are conventional grocery stores such as Krogers noted above, natural food stores and direct-to-consumer markets. There are about 20,000 natural food stores in the country that offer organic products and the industry estimates that a majority of conventional grocery stores also sell some organic products. Many mainstream grocery chains have in-house organic brands, including Safeway's *O Organics* and *Eating Right,* Albertson's *Wild Harvest* and Publix's *GreenWise*

brands. In fact, according to the OTA, roughly 93% of organic food sales are through conventional and natural food supermarkets. OTA estimates the remaining 7% are made through farmers' markets and other channels, including online.

Including all non-food items, natural product sales through all retail channels including specialty health stores, conventional food, drug and mass merchandisers, online, mail order, farmers markets and other were approximately $81 billion in 2012, which represented a 10% increase over 2011, according to *Natural Foods Merchandiser*. This compares to a 3% year-over-year increase for the broader U.S. grocery industry, which is a factor, we believe, driving increased interest from conventional retailers.

The industry for organic food and products is highly competitive. In addition to other online membership clubs, the company also competes with membership warehouses such as Costco and Sam's Club that carry a limited selection of organic products at discounted prices, as well with specialty health food stores, conventional retail supermarkets and chains such as The Good Earth, Whole Foods, Sprouts Farmers Market and Trader Joe's.

Whole Foods
Austin, Texas based Whole Foods Market (WFM-not rated) describes itself as "the leading retailer of natural and organic foods" and the 12th largest overall domestic food retailer, based on 2012 *Progressive Grocer* sales rankings. The first Whole Foods Market store opened in 1980 and since then the company has expanded to a footprint of 362 stores, located primarily in the U.S. and Canada, with a store network in the U.K., as well. Whole Foods Market does not have an online presence and does not ship orders to consumers. The company generated $12.9 billion in revenue in its fiscal year ending September 29, 2013.

The Fresh Market
While it is not expressly a retailer of organic foods and products, The Fresh Market (TFM-not rated) is a specialty retailer that focuses on fresh and premium products and includes a number of organic products in its offerings. The Fresh Market opened its first store in Greensboro, North Carolina in 1982. In the 1980s and early 1990s, The Fresh Market expanded its presence throughout the southeastern United States. In 1996, the company entered Florida, and as of January 26, 2014, it had 33 stores in Florida, making the state its largest market. The company continues to enter new markets, opening stores in the Midwest in 2005, the Northeast in 2009, California in 2012 and Texas in 2013. In all, The Fresh Market operates 151 stores located in 26 states nationwide. The company has an online e-commerce site that primarily sells packaged goods. It generally uses standard 5-day delivery UPS shipping and indicates on the website that it requires two to four days to pack and ship the order. The Fresh Market generated $1.5 billion in revenue in its fiscal year ending January 26, 2014.

Sprouts Farmers Market
Sprouts Farmers Market (SFM-not rated) describes itself as "one of the largest specialty retailers of natural and organic food in the United States." The company was founded in 2002 and, as of February 27, 2014, operated 170 stores in nine states. One of its stated strategies is to offer value pricing. It does not have an online e-commerce site and does not ship products direct-to-consumers. Sprouts Farmers Market generated $1.5 billion in revenue in its fiscal year ending January 26, 2014.

Amazon Prime
Amazon Prime is an online membership club that offers members access to its various products for a $99 annual fee. It operates on a similar model to club warehouses. Amazon Prime's online membership gives consumers access to free shipping on physical products, unlimited digital content streaming and books through Kindle.

GPDB's Competitive Advantages

GPDB has a broader selection of natural products than most of the other retailers noted above. This enables it to be more of a one-stop shopping site, in our view. Moreover, many other retailers that emphasize organic and natural foods and products, such as Whole Foods and Trader Joe's, do not offer the convenience of direct-to-consumer shipping. The company believes that its logistics allows it to ship consumer orders quickly and efficiently. In fact, management believes that GPDB is one of very few online companies that can ship custom frozen orders including a variety of organic products with 1-2 day delivery. The company expects to grow its membership base by offering prices that are lower than consumers can find at other channels. As noted, GPDB's strategy is to keep its overall prices some 10%-15% below competitors' prices, on average. Moreover, once the living farm is operational, GPDB will have access to living produce that can ship and remain alive for up to one week.

MANAGEMENT

CEO President and CEO Rod Smith has extensive experience in launching start-up companies, having taken a private company he founded public. The company, InContact (SAAS-not rated), now has a market capitalization of over $500 million. He also has substantial experience in marketing health products. He founded the predecessor of BuyersOnline in January 1996 and served as its President, CEO and Chairman of the Board until 2001. From January 1993 to November 1995, he was an independent distributor of health and beauty products provided by NuSkin International, a consumer products network marketing organization.

CFO Christopher Foley has 28+ years of business experience, having worked previously at several large companies, including General Electric, Johnson & Johnson and American Express Financial Advisors in a financial capacity.

William Roberts, a member of the company's Board of Directors, is the President and Chief Operating Officer at GEICO insurance, which is a subsidiary of Berkshire Hathaway (BRK-B-not rated).

FINANCIAL HISTORY

2014 comparisons to 2013 are not apples-to-apples, according to management, as 2013 sales included the impact of non-cash spending by lifetime members using their reward points. As the lifetime and charter member categories have been eliminated, the impact of their spending reward points is significantly lower in 2014.

The company's rewards points liability on its balance sheet was $250,473 at June 2014, down from $2.9 million at the end of the fourth quarter of 2012. As it continues to phase these legacy points out, we believe the company's fundamentals – and anticipated growth – can become more discernible. In the first six months of 2014, the company recorded total revenue of $892,663 and a net loss of $3.45 million.

Separately, GPDB is not fully reporting but plans to be fully reporting to the SEC in early 2015.

VALUATION

Green Polka Dot Box Peer Analysis

Company	Ticker	10/3/2014 Price	52-Week High	52-Week Low	Revenue ($M) 2013A	Revenue ($M) 2014E	Revenue ($M) 2015E	EPS 2013A	EPS 2014E	EPS 2015E
Amazon	AMZN	322.74	408.06	284.38	74,450	90,900	109,220	0.59	(0.10)	1.92
Annie's, Inc.	BNNY	45.90	52.38	27.86	203	241	280	0.86	0.90	1.15
Costco	COST	127.09	127.32	109.50	105,160	112,370	121,420	4.49	4.60	5.14
GNC Holdings	GNC	38.62	60.98	30.84	2,630	2,630	2,770	2.85	2.84	3.16
Hains Celestial Group	HAIN	103.30	103.97	72.34	2,150	2,760	2,990	3.17	3.83	4.36
Krogers	KR	52.88	53.63	35.13	98,380	108,810	113,770	2.85	3.30	3.67
Sprouts	SFM	29.49	49.45	25.73	2,440	2,950	3,530	0.48	0.68	0.87
The Fresh Market	TFM	36.14	53.76	28.60	1,510	1,750	2,000	1.40	1.57	1.82
Vitamin Shoppe	VSI	43.92	55.20	36.90	1,090	1,230	1,370	2.28	2.27	2.69
Whole Foods Market	WFM	38.21	65.59	36.08	12,920	14,200	15,860	1.47	1.53	1.71

	FY	Mkt Cap ($M)	EV / Revenue 2013A	EV / Revenue 2014E	EV / Revenue 2015E	P/E 2013A	P/E 2014E	P/E 2015E
Amazon	Dec	149,119	2.0x	1.6x	1.4x	547.0x	nm	168.1x
Annie's, Inc.	Mar	785	3.9x	3.3x	2.8x	53.4x	51.0x	39.9x
Costco	Aug	55,704	0.5x	0.5x	0.5x	28.3x	27.6x	24.7x
GNC Holdings	Dec	3,475	1.8x	1.3x	1.3x	13.6x	13.6x	12.2x
Hains Celestial Group	Jun	5,202	2.7x	1.9x	1.7x	32.6x	27.0x	23.7x
Krogers	Jan	25,700	0.4x	0.2x	0.2x	18.6x	16.0x	14.4x
Sprouts	Dec	4,419	1.9x	1.5x	1.3x	61.4x	43.4x	33.9x
The Fresh Market	Jan	1,750	1.2x	1.0x	0.9x	25.8x	23.0x	19.9x
Vitamin Shoppe	Dec	1,340	1.2x	1.1x	1.0x	19.3x	19.3x	16.3x
Whole Foods Market	Sept	13,803	1.0x	1.0x	0.9x	26.0x	25.0x	22.3x

Source: Company reports, Yahoo Finance, Zacks

Green PolkaDot Box's founder and CEO has extensive industry experience, but the company itself has only a short operating history. We believe this is one factor that makes comparing it to other natural products players difficult. Whole Foods, for example, has a nearly 35 year history and therefore would not be a direct benchmark for a start-up such as Green PolkaDot Box, which in success would likely have a higher growth rate in these early years, in our view.

In the near-term, we believe this expected growth might be masked by the impact of non-cash reward point spending, as noted previously. We initiate coverage with a Hold rating and $2.00 price target. The company is phasing out its rewards points liability, which had declined to $250,473 at June 2014, down from $2.9 million at December 2012. As these legacy points decline further, we believe the anticipated growth likely becomes more discernible. Conservatively assuming a 25% membership base increase, our $2.00 price target equates to a market cap / member of roughly $779, which would put GPDB shares on a par with Costco on that metric, despite what we would expect to be substantially higher near-term growth, in success.

Larger retailers' expansion within the natural product niche underscores the attractive growth prospects the category offers, in our view. There are only a few ways for investors to gain exposure to this space and GPDB represents one of the few pure plays, we believe.

At the current price, we believe the risk / reward ratio on GPDB shares could be attractive for investors who want exposure to this niche and have a higher than average risk tolerance and longer time horizon. Our outlook on the company is positive, reflecting initiatives that management is taking, such as competitive pricing, the living produce project and relationship with affiliated marketers and Amazon. We believe **the shares represent an option on the company's ability to leverage the relationship with Amazon and others in order to capitalize on the rapid growth of the organic food market.**

RECENT NEWS

- In September, 2014, GPDB appointed Salt Lake City-based HJ Associates as its auditor, which management believes will help the company become fully reporting.
- In May, GPDB has also hired a full-time CFO, Christopher Foley, which management believes is another forward step towards achieving full reporting status.
- On May 14, 2014, GPDB announced an agreement with three shareholders who will participate in funding for the Living Produce project.

RISKS

- One of the biggest risks for Green Polka Dot Box, in our view, is that its affiliate marketing strategy fails to make a meaningful impact on the membership base and it needs to find new ways to raise awareness of its service.
- Overall, membership growth could be slower than the company anticipates or might never materialize.
- Competition in the organic product category continues to increase, which could make it difficult for GPDB to execute its growth strategy.
- As conventional supermarket chains such as Walmart, Krogers and others expand their organic selection of competitively priced organic products, it could hurt GPDB.
- Similar to many other developing companies, GPDB is under-capitalized and will likely need to seek additional short-term funding until sales reach a higher level.

INSIDE OWNERSHIP

Insider Ownership

	Shares Owned	% Beneficially Owned
Rod Smith	6,549,564	41.40%
William Roberts	6,188,888	33.40%
Robert Corl	1,673,332	12.20%

Source: Company reports

In addition to the common shares, the company issued 63,200 preferred shares in the first quarter of 2014, raising $379,200. The preferred shares pay an 8% preferred dividend and also entitle holders to participate in 1.0% of the company's gross revenues on a pro rata basis, beginning 90 days from their issuance and continuing as long as they remain outstanding.

PROJECTED INCOME STATEMENT AND BALANCE SHEET

Green Polka Dot Income Statement & Projections ($)

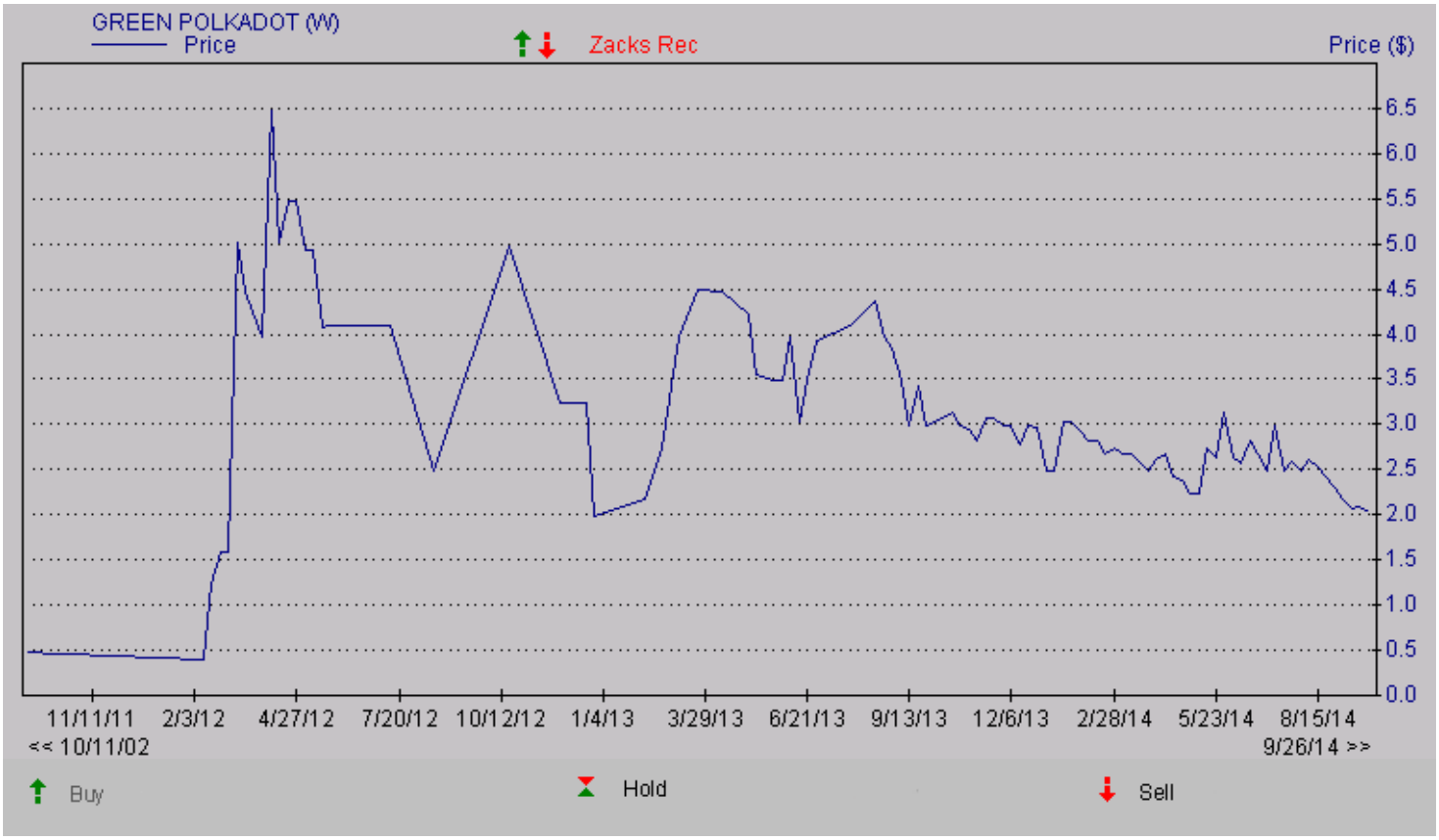
	1Q13	2Q13	3Q13	4Q13	2013	1Q14A	2Q14A	3Q14E	4Q14E	2014E	2015E
Merchandise	818,713	441,057	737,227	396,180	2,393,177	394,765	420,270	212,236	297,131	1,324,402	2,781,245
Other include'g membership revenue	418,883	412,867	1,004,141	100,473	1,936,364	200	77,428	65,000	91,000	233,628	443,893
Total sales	**$1,237,596**	**$853,924**	**$1,741,368**	**$496,653**	**$4,329,541**	**$394,965**	**$497,698**	**$277,236**	**$388,131**	**$1,558,030**	**$3,225,138**
Cost of sales	1,169,031	994,987	843,919	646,959	3,654,896	462,412	377,202	210,114	294,160	1,343,888	2,558,745
Gross profit	68,565	(141,063)	897,449	(150,306)	674,645	(67,447)	120,496	67,122	93,971	214,143	666,393
Wages and professional fees	325,391	479,359	1,275,344	957,016	3,037,110	990,818	511,477	550,000	550,000	2,602,295	2,342,066
Development costs		7,724	7,142	(14,866)							
Advertising, promotion and marketing costs	50,419	39,731	41,788	24,584	156,522	12,978	54,370	57,632	57,978	182,958	181,129
Warehouse expenses and supplies	160,237	25,405	64,608	53,509	303,759	10,712	23,362	24,764	24,912	83,750	79,563
Rent expenses	8,181	18,308	38,132	32,090	96,711	15,649	18,077	18,185	18,295	70,206	66,696
Depreciation and amoritization	30,444	30,251	29,066	19,189	108,950	23,016	32,873	33,070	33,269	122,228	122,228
Loss on disposal of assets	-	-	-	13,810	13,810	-	-	-	-	-	-
General and administrative	106,547	173,004	238,158	305,193	822,902	128,103	136,212	144,385	145,251	553,951	166,185
Total Operating Expenses	681,219	773,782	1,694,238	1,390,525	4,539,764	1,181,276	776,371	828,036	829,705	3,615,388	2,957,865
Op'g income / (loss)	(612,654)	(914,845)	(796,789)	(1,540,831)	(3,865,119)	(1,248,723)	(655,875)	(760,914)	(735,733)	(3,401,245)	(2,291,473)
Interest income (expense)	(158,371)	(76,234)	(159,224)	(57,031)	(450,860)	(95,540)	(204,808)	(204,808)	(204,808)	(709,964)	(819,232)
Amortization of debt discount		(44,846)	(96,629)	(144,624)	(286,099)	(62,294)	(108,112)	(108,112)	(108,112)	(386,630)	(432,448)
Amortization of beneficial conversion features	(234,630)	(123,200)	(587,999)	(21,085)	(966,914)	(18,694)	2,401	2,401	2,401	(11,491)	9,604
Gain (loss) on derivative valuation	(3,350,199)	689,994	114,675	(5,729,349)	(8,274,879)	(1,300,077)	241,096	241,096	241,096	(576,789)	(200,000)
Other	-	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense	(3,743,200)	445,714	(729,177)	(5,952,089)	(9,978,752)	(1,476,605)	(69,423)	(69,423)	(69,423)	(1,684,874)	(1,442,076)
Pretax income / (loss)	(4,355,854)	(469,131)	(1,525,966)	(7,492,920)	(13,843,871)	(2,725,328)	(725,298)	(830,337)	(805,156)	(5,086,119)	(3,733,549)
Taxes	-	-	-	-	-	-	-	-	-	-	-
Preferred dividend	-	-	-	-	-	-	-	(2,772)	(3,881)	(6,654)	(32,251)
Net income / (loss)	**(4,355,854)**	**(469,131)**	**(1,525,966)**	**(7,492,920)**	**(13,843,871)**	**(2,725,328)**	**(725,298)**	**(833,109)**	**(809,038)**	**(5,092,773)**	**(3,765,800)**
Per share data:											
LPS	**($0.40)**	**($0.04)**	**($0.14)**	**($0.66)**	**($1.26)**	**($0.23)**	**($0.06)**	**($0.06)**	**($0.06)**	**($0.40)**	**($0.25)**
Avg. shares out	10,777,045	10,934,853	10,993,995	11,274,687	10,995,145	11,890,000	12,176,168	13,176,168	14,176,168	12,854,626	15,176,168

Green Polka Dot Balance Sheet ($)

	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Cash	$149,027	($37,576)	$21,133	$160,274	$1,035	$17,965	$0
Accounts receivable	75,191	-	-	-	50,423	50,423	94,137
Inventory	420,327	390,714	333,297	380,581	192,342	204,732	304,549
Prepaid assets	10,941	11,007	8,403	7,000	7,000	7,000	7,000
Total current assets	655,486	364,145	362,833	547,855	250,800	280,120	405,686
Fixed assets	381,954	356,874	384,325	358,876	598,048	593,162	565,288
Security deposits	10,994	10,994	10,994	10,994	10,994	10,994	10,994
Deferred costs	2,933,888	1,200,652	3,366,087	395,711	275,784	257,621	250,473
Total assets	**3,982,322**	**1,932,665**	**4,124,239**	**1,313,436**	**1,135,626**	**1,141,897**	**1,232,441**
Accounts payable & accrued expenses	971,828	1,169,018	1,210,322	973,914	1,235,104	1,419,907	1,608,985
Checks drawn in excess of bank balance	-		25,494	11,370	-	-	27,067
Convertible notes payable	549,160	1,521,885	2,004,569	2,941,333	951,762	1,047,875	1,253,642
Convertible notes payable - related party	703,074				1,135,106	1,197,398	1,397,398
Loan payable-other	71,444	71,444	71,444	71,444	71,444	71,444	71,444
Reward point liability	2,933,888	681,038	3,366,087	395,711	275,784	257,621	250,473
Deferred revenue	1,657,668	1,381,891	1,035,426	93,087	93,087	93,087	93,087
Derivative liability	1,301,119	4,651,318	3,961,324	3,846,649	9,575,998	10,871,673	10,632,794
Current portion of long-term debt			34,685	6,161	6,161	6,161	6,161
Current portion capital lease	52,219	28,475	-	32,354	32,354	32,354	32,354
Total current liabilities	**8,240,400**	**9,505,069**	**11,709,351**	**8,372,023**	**13,376,800**	**14,997,520**	**15,373,405**
Loan payable of current portion	-		42,118	34,479	31,637	29,477	27,316
Capital lease	129,362	147,275	122,291	131,949	125,876	125,876	125,876
Total long-term liabilities	**129,362**	**147,275**	**164,409**	**166,428**	**157,513**	**155,353**	**153,192**
Total liabilities	8,369,762	9,652,344	11,873,760	8,538,451	13,534,313	15,152,873	15,526,597
Total stockholders' deficit	(4,387,440)	(7,719,679)	(7,749,521)	(7,225,015)	(12,398,687)	(14,010,976)	(14,294,156)
Total liabilities & stockholders' deficit	**3,982,322**	**1,932,665**	**4,124,239**	**1,313,436**	**1,135,626**	**1,141,897**	**1,232,441**

Source: Company reports, Zacks

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