Zacks Small-Cap Research

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Green Polka Dot Box (GPDB-OTC)

GPDB: *Update on Recent Initiatives*

OUTLOOK

Green PolkaDot Box's Health Merchant program and sales of appetite suppressant Appethyl have shown early momentum, according to management. Although both initiatives have experienced delays, the company attributes the greater than 80% year-over-year revenue improvement it registered in 1Q 2015 to early results from both new programs and believes that the initial responses provide proof of concept of their potential.

Current Recommendation	**Hold**
Prior Recommendation	N/A
Date of Last Change	10/06/2014
Current Price (5/5/15)	$0.33
Target Price	**$0.60**

SUMMARY DATA

52-Week High	**$3.47**
52-Week Low	**$0.26**
One-Year Return (%)	**-85.3**
Beta	**-4.44**
Average Daily Volume (sh)	**14,002**
Common Shares Out (mil)	**13.9**
Market Capitalization ($mil)	**$4.6**
Short Interest Ratio (days)	**2.9**
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 2015 Estimate	**N/A**
P/E using 2016 Estimate	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Retail-Mail Ord**

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 A	0.3 A	1.5 A
2015	0.7 E	0.3 E	0.3 E	0.5 E	1.8 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	$0.18 A	$0.35 A	$0.24 A
2015	-$0.01 E	-$0.03 E	-$0.03 E	-$0.02 E	-$0.09 E

Quarters might not sum reflecting rounding, share count changes

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

Disclosures begin on page 8

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KEY POINTS

- Green PolkaDot Box's Health Merchant program and sales of appetite suppressant Appethyl have shown early momentum, according to management, but both initiatives have experienced delays. Nevertheless, the company believes that initial responses to each provide proof of concept of their potential.
- Management attributes its 1Q15 revenue improvement – GPDB pre-announced 1Q15 revenue of $711,840, up 80+% year-over-year – to early results from both new programs. Appethyl sales were $270,000 in January, with sales through Amazon in early January ahead of expectations.
- Unforeseen technology challenges delayed the commercial launch of the Health Merchant program, which is now expected to debut this month. With three revenue streams – enrollment fees plus monthly service fees plus product orders – management expects this business to contribute significantly to revenue and cash flow once it is up and running.
- We also believe the market opportunity for GPDB's core business is significant, as consumer interest in organic products is growing rapidly.
- The company expects to add new distribution capabilities to increase inventories and facilitate order fulfillment. A second distribution center in Tennessee is planned to serve the eastern United States. This would lower shipping costs to the region by 66%, according to management, and enable shipment of frozen and refrigerated foods to the mid-west and eastern U.S., which will benefit the company's agreement with Amazon.

OVERVIEW

Green PolkaDot Box (OTC:GPDB), a membership club that offers its members organic and natural products at attractive prices, has launched initiatives to accelerate its growth. These include its *Health Merchant* program and marketing and distribution of appetite suppressant Appethyl. Both have shown early momentum, according to management. Although there have been delays, the company believes that the initial responses to both the Health Merchant program and Appethyl provide proof of concept of their potential. Management remains optimistic about both initiatives.

Appethyl sales were $270,000 in January, with sales through Amazon in early January ahead of expectations. The company pre-announced that 1Q15 revenue reached $711,840, which represents a greater than 80% year-over-year increase. Management attributes this improvement to early results from both initiatives, which the company believes bodes well for their prospects.

We also believe the market opportunity for GPDB's core business is significant, as consumer interest in organic products is growing rapidly. According to the Organic Trade Association (OTA), sales of organic products reached $35.1 billion in 2013 and are expected to expand 14% from 2014-2018.

HEALTH MERCHANT PROGRAM UPDATE

In November 2014, GPDB unveiled a new *Health Merchant* program to enable health professionals and others to launch a turnkey, self-branded online health products store, with Green PolkaDot Box providing back office and logistics. The company's target market for this program includes doctors with disease prevention practices, nutritionists, chiropractors, gym operators, personal fitness trainers and pharmacists, among others.

Depending on which package the health practitioner selects, for $300 up to $1,995 *Health Merchant*s get an online health and wellness store that offers a broad range of natural products at competitive prices. For a $100 monthly service fee, GPDB handles the logistics, from product acquisition, inventory storage, website hosting and maintenance, liability insurance, online order processing to shipping and customer service.

*Health Merchant*s also get access to a media kit including informational videos that GPDB will update frequently. Green PolkaDot Box also offers weekly specials, supported with electronic marketing. The company believes these promotions enable a higher than average conversion of first time website visitors into repeat customers.

Initially, management had indicated that about 400 potential applicants had expressed interest in the *Health Merchant* program following its late November 2014 introduction. The company enrolled 29 health merchants over the Thanksgiving weekend in anticipation of a January 2015 launch. However, following some unforeseen technology challenges, the launch was delayed. The company now expects to debut the Health Merchant program this month, with a national tour for management to meet with health merchants. GPDB expects to establish 1,000 health merchant sales by July 31, 2015 and anticipates that this will translate into significant revenue and cash flow. Specifically, the company anticipates $2.0 million from enrollment fees plus potentially $100,000 / month in service fees that Health Merchants commit to pay plus revenue from the orders that Health Merchant stores generate.

Health Merchant Program Revenue Streams



Source: Company reports

Management remains optimistic about the *Health Merchant* program and believes it could augment the revenue and cash flow of its core direct-to-consumer business significantly. If the program is as successful as management expects, the company envisions adding new distribution capabilities. This would enable GPDB to increase its inventories and facilitate order fulfillment and shipping to support expanding the Health Merchant program.

To serve the eastern United States, management intends to purchase a second distribution center located in Tennessee and expects that it will reduce costs of shipping to the region by 66% and enable shipment of frozen and refrigerated foods to the mid-west and eastern U.S., which will benefit the company's agreement with Amazon (AMZN-not rated).

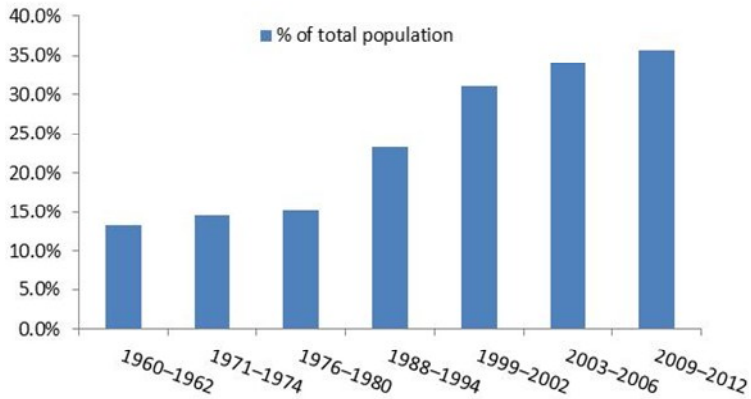
APPETHYL UPDATE

On June 24, 2014, Green PolkaDot Box announced that it had 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 and reduce blood glucose levels. It was developed at Sweden's Lund University, according to Greenleaf Medical. Appethyl received the award for Best New Ingredient at the 2013 Nutracon conference. Amazon and specialty retailers such as GNC (GNC-not rated) and The Vitamin Shoppe (VSI-not rated), among others, will carry Appethyl.

Subsequently, GDPB announced that it had begun to market Appethyl in the U.S. GPDB engaged Marketing Maven PR, a public relations firm, to promote Appethyl through various media including magazines, in-theater advertising and an electronic direct sales campaign. Appethyl was featured on the cover of *First for Women* magazine. Management credits this exposure for driving Appethyl sales to $270,000 in January. The company also noted that Appethyl sales through Amazon in early January were ahead of expectations.

Through an agreement with Digital Target Marketing, a national advertising agency, GPDB is also launching an electronic direct sales campaign for Appethyl. People who participate in a 1-week free trial of Appethyl then purchase monthly supplies after the trial ends unless they cancel. GPDB pays Digital Target Marketing on a cost-per-acquisition basis only for people who convert to paying customers.

Domestic Obesity Trends, 1960s-2012 (%)



Source: CDC

Obesity rates have been on the rise, a primary factor, we believe, behind what Bloomberg pegs as the $40 billion domestic weight loss industry. This could portend significant commercial potential for Appethyl, 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.

FINANCIAL UPDATE

As noted, Green PolkaDot Box pre-announced that 1Q15 revenue reached $711,840, which represents a greater than 80% year-over-year increase. Management attributes this improvement to early results from the Health Merchant program and Appethyl, which the company believes bodes well for their prospects.

However, the company remains under-capitalized, which has constrained its ability to build inventory levels at times. Management intends to build inventory to fulfill orders for the Health Merchant program, Appethyl and its Amazon agreement.

Given the delays in launching the Health Merchant program and Appethyl, we are lowering our 2015 revenue forecast to $1,845,295 from $3,225,138 to be conservative and lowering our price target to $0.60 from $2.00. As the company builds inventory and commercializes both programs, we expect to see sequential growth in the back half of the year.

RISKS

- GPDB is under-capitalized, which could constrain inventory levels.
- The company will likely need to seek additional short-term funding that could dilute shareholders.
- The Health Merchant program could experience further delays.
- 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 (WMT-not rated), Krogers (KR-not rated) and others expand their organic selection of competitively priced organic products, it could hurt GPDB.

PROJECTED INCOME STATEMENT AND BALANCE SHEET

Green Polka Dot Income Statement & Projections ($)

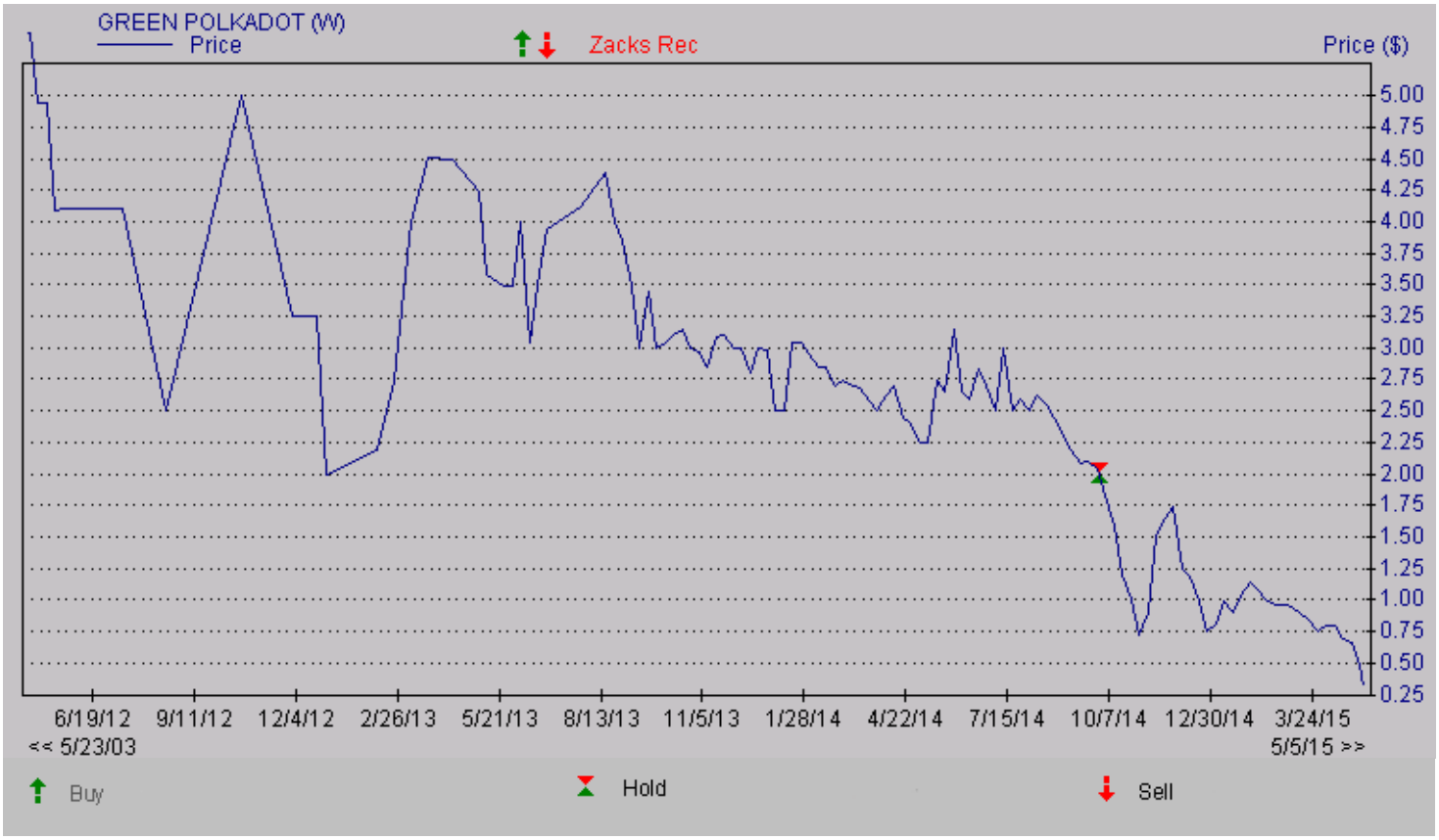
	1Q14A	2Q14A	3Q14A	4Q14A	2014A	1Q15E	2Q15E	3Q15E	4Q15E	2015E
Total sales	**$394,965**	**$497,698**	**$315,394**	**$326,469**	**$1,534,526**	**$711,840**	**$348,389**	**$328,010**	**$457,057**	**$1,845,295**
Cost of sales	462,412	377,202	443,085	358,435	1,641,134	427,104	261,291	246,007	274,234	1,208,637
Gross profit	(67,447)	120,496	(127,691)	(31,966)	(106,608)	284,736	87,097	82,002	182,823	636,658
Wages & professional fees	990,818	511,477	321,631	(84,047)	1,739,879	305,549	308,605	311,691	314,808	1,240,653
Development costs										
Advertising, promotion & marketing costs	12,978	54,370	18,411	57,601	143,360	17,490	17,665	26,498	51,671	113,325
Warehouse expenses & supplies	10,712	23,362	28,425	16,107	78,606	27,004	27,274	27,547	27,822	109,646
Rent expenses	15,649	18,077	35,005	15,139	83,870	17,503	17,678	17,854	18,033	71,067
Depreciation & amoritization	23,016	32,873	28,031	23,023	106,943	26,629	26,896	27,165	27,436	108,126
Loss on disposal of assets	-	-	-	-		-	-	-	-	
G&A	128,103	136,212	210,004	1,279,514	1,753,833	147,003	148,473	149,958	151,457	596,890
Total Operating Expenses	1,181,276	776,371	641,507	1,307,337	3,906,491	541,178	546,590	560,712	591,227	2,239,708
Op'g income / (loss)	(1,248,723)	(655,875)	(769,198)	(1,339,303)	(4,013,099)	(256,442)	(459,493)	(478,710)	(408,405)	(1,603,050)
Interest income (expense)	(95,540)	(204,808)	(128,150)	(151,988)	(580,486)	(150,000)	(150,000)	(150,000)	(150,000)	(600,000)
Amortization of debt discount	(62,294)	(108,112)	(47,488)	-	(217,894)	-	-	-	-	-
Amortization beneficial conversion features	(18,694)	2,401	(2,733)	(3,285)	(22,311)	2,000	2,000	2,000	2,000	8,000
Gain (loss) on derivative valuation	(1,300,077)	241,096	3,152,978	5,627,556	7,721,553	250,000	250,000	250,000	250,000	1,000,000
Other	-	-	-	-	-	-	-	-	-	-
Total Other Income (Expense	(1,476,605)	(69,423)	2,974,607	5,472,283	6,900,862	102,000	102,000	102,000	102,000	408,000
										-
Pretax income / (loss)	(2,725,328)	(725,298)	2,205,409	4,132,980	2,887,763	(154,442)	(357,493)	(376,710)	(306,405)	(1,195,050)
Taxes	-	-	-		-	-	-	-	-	
Net income / (loss)	**(2,725,328)**	**(725,298)**	**2,205,409**	**4,132,980**	**2,887,763**	**(154,442)**	**(357,493)**	**(376,710)**	**(306,405)**	**(1,195,050)**
Per share data:										
LPS	**($0.23)**	**($0.06)**	**$0.18**	**$0.35**	**$0.24**	**($0.01)**	**($0.03)**	**($0.03)**	**($0.02)**	**($0.09)**
Avg. shares out	11,890,000	12,176,168	12,303,571	11,918,853	12,072,148	14,028,536	14,070,622	14,112,833	14,155,172	14,091,791

Green Polka Dot Balance Sheet ($)

	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Cash	$149,027	($37,576)	$21,133	$160,274	$1,035	$17,965	$0	$0	$0
Accounts receivable	75,191	-	-	-	50,423	50,423	94,137	93,714	93,714
Inventory	420,327	390,714	333,297	380,581	192,342	204,732	304,549	401,650	561,599
Prepaid assets	10,941	11,007	8,403	7,000	7,000	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	502,364	662,313
Fixed assets	381,954	356,874	384,325	358,876	598,048	593,162	565,288	633,047	621,744
Security deposits	10,994	10,994	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	230,592	238,876
Total assets	**3,982,322**	**1,932,665**	**4,124,239**	**1,313,436**	**1,135,626**	**1,141,897**	**1,232,441**	**1,376,997**	**1,533,927**
Accounts payable & accrued expenses	971,828	1,169,018	1,210,322	973,914	1,235,104	1,419,907	1,608,985	1,886,664	1,833,434
Checks drawn in excess of bank balance	-		25,494	11,370	-	-	27,067	41,128	7,788
Convertible notes payable	549,160	1,521,885	2,004,569	2,941,333	951,762	1,047,875	1,253,642	1,863,773	3,031,584
Convertible notes payable - related party	703,074				1,135,106	1,197,398	1,397,398	1,397,398	1,135,106
Loan payable-other	71,444	71,444	71,444	71,444	71,444	71,444	71,444	131,444	131,444
Reward point liability	2,933,888	681,038	3,366,087	395,711	275,784	257,621	250,473	230,592	238,876
Deferred revenue	1,470,034	1,174,147	895,447		-	-			
Deferred revenue	187,634	207,744	139,979	93,087	93,087	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	7,479,816	1,852,272
Current portion of long-term debt			34,685	6,161	6,161	6,161	6,161	6,161	6,280
Current portion capital lease	52,219	28,475	-	32,354	32,354	32,354	32,354	32,354	15,195
Total current liabilities	**8,240,400**	**9,505,069**	**11,709,351**	**8,372,023**	**13,376,800**	**14,997,520**	**15,373,405**	**13,162,417**	**8,345,066**
Loan payable of current portion	-		42,118	34,479	31,637	29,477	27,316	25,156	32,604
Capital lease	129,362	147,275	122,291	131,949	125,876	125,876	125,876	125,876	66,812
Total long-term liabilities	**129,362**	**147,275**	**164,409**	**166,428**	**157,513**	**155,353**	**153,192**	**151,032**	**99,416**
Total liabilities	8,369,762	9,652,344	11,873,760	8,538,451	13,534,313	15,152,873	15,526,597	13,313,449	8,444,482
Total stockholders' deficit	(4,387,440)	(7,719,679)	(7,749,521)	(7,225,015)	(12,398,687)	(14,010,976)	(14,294,156)	(11,936,452)	(6,910,555)
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**	**1,376,997**	**1,533,927**

Source: Company reports, Zacks

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