

Reed's nears profitability amid thirst for healthful drinks

Reed's adds kombucha to its line of low calorie drinks with perceived health benefits as the L.A. beverage maker seeks a return to profitability.

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Christopher J. Reed founded Reed's Inc. in 1989, two years after crafting his first non-alcoholic Original Ginger Brew. Today, the beverage maker sells 24 drinks, including seven ginger beverages. Above, Reed holds up a bottle of Extra Ginger Brew. (Anne Cusack, Los Angeles Times / April 2, 2013)

• Reed's at a glance



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By Adolfo Flores, Los Angeles Times

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In college, Christopher J. Reed discovered meditation and healing herbs, including ginger, which became his favorite.

So when he went into business for himself, Reed chose to launch a brand of ginger-based drinks. He said he spent hours at UCLA's library researching century-old recipes that would extol the root's health benefits, such as muscle recovery and nausea relief.

Some 90 recipes and a messy Venice kitchen later, Reed crafted his first non-alcoholic Original Ginger Brew in 1987. Two years later, he started operations from a small San Fernando Valley brewery that let him fill bottles one by one. Reed glued on the labels by hand.

Today, Reed's Inc. sells 24 drinks, four candies and three ice cream flavors to about 14,000 supermarkets and specialty and natural food stores nationwide, including Trader Joe's and Whole Foods, from its 13,000-square-foot factory in Gardena.

About 1% of its \$30 million in sales last year came from Asia, Canada and Europe.

The company's seven ginger beverages, including an energy drink, contain 8 to 26 grams of ginger, along with pure cane sugar. Reed uses a beer-oriented technique to carbonate the beverages.

Early on, he took steps to build the company quickly, buying the Virgil's Root Beer brand from the Crowley Beverage Co. in 1999 and the rights to China Cola in 2000.

Reed said the natural food bandwagon he jumped on is still gaining speed.

"It seemed like a fad, but to be honest with you, it keeps going," Reed said.

The latest

Last fall, Reed's launched its line of kombucha drinks, a type of fermented tea, in four flavors: Goji Ginger, Hibiscus Ginger Grapefruit, Lemon Ginger Raspberry and Cranberry. This year, the company plans to introduce four new flavors.

Drinkers of kombucha believe it has healing and cleansing attributes. The drink, made from a colony of yeast and bacteria, has gained mainstream popularity.

Accomplishments

Last year, revenue jumped to \$30 million from \$25 million the previous year. About \$5 million came from private-label sales — bottling Reed's did for other drink makers. The company bottles beverages sold under the Martinelli's and Izze names, among others.

Consumers are drinking less soda. Beverage Digest, a trade publication, reported that sales of carbonated soft drinks fell 1.2% last year and that consumption of 8-ounce bottles dropped to 9.2 billion cases — down to 1996 levels.

More people are concerned with soda's link to obesity, diabetes and other maladies, opting for more water and teas, the trade publication noted, even though energy drinks have continued to increase in popularity.

Reed's wants to set itself apart by offering healthful drinks. A 12-ounce bottle of Coca-Cola contains 140 calories, 39 grams of sugar and 45 milligrams of sodium. In contrast, one of Reed's 13.5-ounce kombucha drinks has 30 calories, two grams of sugar and 10 milligrams of sodium.

Kombucha accounted for 8% of the company's sales last year, and Reed expects it to generate as much as 15% of sales this year and help the company become profitable.

The shift to lower calorie drinks with perceived health benefits, or "awakening" as Reed called it, opens the door for his company's niche products.

"I bet my life on this trend in 1989," Reed said with a laugh.

Challenges

The company, which went public in 2006, hasn't posted a profit for 15 years. It lost \$524,000 last year, an improvement over losses of \$941,000 the previous year.

"That's not bad from losing \$5 million in 2007," Reed said.

Consumer sales haven't been high enough to offset the costs of running the company, and revenue from bottling drinks for other companies has been lower than expected.

Reed said the company hopes to garner as much as \$7 million this year from bottling for private labels, which would be a 40% increase over last year.

He said his high hopes for turning a profit this year are based on rising revenue — it has doubled in three years — and the introduction of new flavors for its kombucha.

The company also plans to step up promotions to increase its recognition among shoppers.

Analyst opinion

Joseph Munda of Sidoti & Co., the lone analyst who covers Reed's, has rated the company's stock a buy.

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