

## Deal Memo - Kahawa 1893

To: info@dbtventures.com  
From: Luke R. Diaz (luke@dbtventures.com)  
Date: Friday, February 26, 2021  
Re: Kahawa 1893 Seed Investment Recommendation

Please add your comments to the doc async by 3/5.

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### Executive Summary

I am recommending we invest \$100k in [Kahawa 1893](#) at a 2x EBITDA multiple. My conviction is based on Kahawa's impressive strength across three pillars:

1. Team
2. Product
3. Distribution

Maggy Nyamumbo, founder and CEO, is a charismatic force with unparalleled grit. She has created a small yet tasty portfolio of premium African coffees. Kenya's arabica coffee beans are consistently rated the #1 or #2 best in the world. Kahawa has an opportunity to get into Trader Joe's (as the first black-female-owned brand) which could unleash an ESG tailwind with future retailers. This money would be used to ramp production to meet growing orders.

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### Introduction to the Company

[Kahawa 1893](#) is a premium African coffee business founded in 2017 by Margaret "Maggy" Nyamumbo. Maggy grew up on her grandfather's coffee farm in Kenya's famed Kisii region, renowned for producing some of the world's best arabica coffee beans.

Maggy took note that 90% of the labor on coffee farm come from women, but these women were not adequately compensated because they didn't own the land (and a paternalistic culture). After completing her

MBA from Harvard, and an investment banking career on Wall Street, Margaret founded Kahawa 1893 to bring equity to the coffee world with an innovative model.

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## Market Opportunity

People drink a staggering amount of coffee. According to a 2020 report from Specialty Coffee Association (SCA), the market size is between \$80-90 billion per year. About half of the market is “specialty” where [Kahawa 1893](#) would compete.

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## Business Model

The majority of their sales, 80-90%, comes from DTC online which is currently around \$20k/month. The opportunity is to expand into retail/grocery/wholesale and scale up roasting capacity. Given [Kahawa 1893](#) matches all consumer “tips” for the farmers, their business model could also be considered social entrepreneurship which captures hearts and does good for the world, albeit with a modest hit to gross margin.

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## Financial Analysis

A lot of the financial due diligence was focused on the rationale behind their projections. Since they haven't yet landed a big grocery account, their business is mostly DTC via Kahawa1893.com. Maggy is susceptible to overconfidence when it comes to revenue forecasts. I suspect their lack of experience with sell-through forecasting will be a material challenge (and opportunity) to revenue planning.

### Projected Revenue (2022-2024)



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## Management Team



**Margaret “Maggy” Nyamumbo**  
Founder, Kahawa 1893

When I first met Maggy at [Sextant Coffee Roasters](#) in summer of 2020, she left me with two distinct impressions:

- **Tenacious:** beneath her outwardly stoic demeanor was a relentless fighter. It wasn't "if" it was "when." I sensed a deep, emotional commitment to the Kahawa mission. She isn't a brittle lifestyle founder. She's all-in. Points for persistence.
- **Resourceful:** Maggy didn't have all the answers, but she referenced people who could help her figure it out. In other words, she knows her circle of competence well, and can intentionally draw on her network (e.g. Harvard, finance, industry groups) to solve problems. Points for problem-solving.



**Corey Stary**  
Partner, Kahawa 1893

Corey first introduced me to Maggy, his then-future business partner. From my experience at Clearbit, Corey is a unique individual for 3 reasons:

- **Selling:** Corey is a sales professional with a strong enterprise experience, e.g. #1 AE at Clearbit for 2+ years. He is very effective at running complex, collaborative sales cycles. +\$.
- **Obsessive:** saying Corey is detail-oriented is a platitude. He is obsessive over details because he knows the details are what make the difference in a ruthlessly competitive market. Points for operational excellence.
- **Comfort with discomfort:** Corey doesn't shy away from awkward, pointed questions. He is more interested in getting to the truth—an outcome—than the preceding theatrics. Points for problem-identification and sales efficacy.

## Product/Technology Assessment



Kenyan Single Origin  
Medium Roast



Single-Serve Bags  
Medium Roast



Serengeti Blend  
Dark Roast



Safari Blend  
Medium Roast



Ethiopian Single Origin  
Medium Roast



1893 Espresso  
Medium-Dark Roast



Decaf Blend  
Medium Roast



Back of Bag  
Tipping via QR Code

Kahawa's "coffee in a tea bag" product is excellent. It is superb coffee, freshly ground, and ready to brew like tea - perfect for traveling/trips. That said, the unit economics are (at least currently) upside down, i.e. they are too costly to produce and therefore unprofitable. Might have to kill it.

#### Kahawa 1893 Product Reviews

- "Top 5 Black-Owned Coffee Brand" – *The Coffee Review*, 2020
- "A Best Gift for Coffee Lovers" – *New York Magazine*, 2020, awarded to single-serve bags
- 92/100" – *The Coffee Review*, 2020, awarded to Safari Blend

#### Customer Traction

Mostly DTC + opportunity to get into Trader Joe's. Corey has mentioned some corporate account opportunities, e.g. be the coffee served at Facebook, but I have yet to see any of that materialize yet.

#### Risks and Mitigation

Risks	Mitigation
<p><b>Sell-through:</b> placement with a large grocer doesn't necessarily equate to revenue. Novelty is a double-edged sword that may entice some dynamic shoppers, but also alienate habitual shoppers. Sales is king, distribution is queen.</p>	<ul style="list-style-type: none"> <li>• Prioritize grocer/retailer ability to help drive sell-through via in-house mktg</li> <li>• Increase investment in brand, packaging, and differentiation</li> </ul>

	<ul style="list-style-type: none"> <li>• Consider a CPG placement consultant</li> </ul>
<p><b>Commodity competition:</b> the ruthlessness of <a href="#">the coffee wars</a> is not lost on me. Coffee is a commodity and competition is relentless. Competition can spark an all-out assault on sales and EBITDA.</p>	<ul style="list-style-type: none"> <li>• Out-compete them</li> <li>• Focus on premium value, not price</li> <li>• Focus on Kahawa's moat: premium Africa coffee, black-female owned, ability to tip the female farmers</li> </ul>
<p><b>Working capital:</b> making coffee is (very) working capital intensive and A/R can lag by months. This creates financial strain on the business and can impede sales via production delays.</p>	<ul style="list-style-type: none"> <li>• Credit facility to ease cash flow strain</li> <li>• Once established, negotiate tighter A/R terms with Trader Joe's</li> </ul>
<p><b>Supply chain stability:</b> despite Maggy's deep family connections with Kisii, the green beans Kahawa buys in Kenya are not immune to the laws of economics. Growing a water-intensive commodity in an inflationary market could result in crop switching.</p>	<ul style="list-style-type: none"> <li>• Diversify coffee supplier regions</li> <li>• Investigate roast-at-origin to potentially sweeten/subsidize the spot</li> </ul>
<p><b>Brand name confusion:</b> in a Facebook-esque "<i>Drop the the</i>" moment, I asked Maggy about Kahawa's numerical brand counterpart: 1893. My modest-conviction perspective, which I shared with her, is: the 1893 in Kahawa 1893 is unnecessary and potentially detracts from the overall brand potential due to 1) potential consumer confusion and, to a much lesser extent, 2) SEO/SEM complexity for DTC marketing.</p>	<ul style="list-style-type: none"> <li>• Maggy respectfully disagreed and affirmed 1893 as a key part of the brand's message :)</li> </ul>

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## Valuation and Terms

My ideal valuation (and method) is **2x EBITDA** to dampen market vacillations. However, revenue multiples are in the **3-10x range** based on recent and historical comps. Maggy seems to lean toward revenue multiples given their stage.

The big question is Trader Joe's: will they get the contract? Will the product sell-through? Will the contract expand? Might need to introduce them to Mike Brossier (Chili Onion Crunch) to investigate TJ's vendor practices.

### Comps

- [Super Coffee valued](#) at \$200MN on \$26MN in sales in 2019 (7.7x), projected to \$70MN in 2020 and \$150MN in 2021
- [Laird Coffee IPO](#) valued at \$180MN with 2019 sales of \$13MN (13x)

Candidly, I don't want to get too distracted by valuation and would default to being founder-generous. I really like Maggy and I think she's going to accomplish big things. It would be an honor just to be in her corner. As the first check in, I don't really care what the valuation is. I care that Maggy has the capital to achieve her vision.

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## Competitor Analysis



# COMPETITOR COMPARISON

BENEFIT	Kahawa 1893	Black & Bold	Verve	Peet's
<b>SOCIAL IMPACT:</b> Sourced from women farmers	✓	✓		
<b>INNOVATIVE TECH:</b> Tip farmers with QR code on bag	✓			
<b>HIGH QUALITY:</b> 100% Arabica and specialty coffee	✓	✓	✓	✓
<b>RARE ORIGINS:</b> Rare, high-grade beans sourced from Africa	✓		✓	
<b>FARM DIRECT &amp; SUSTAINABLE:</b> Sourced directly from farms we have relationships with	✓			
<b>SMALL BATCH LOCAL ROASTING:</b> Hand-roasted in small batches in the Bay Area, California	✓	✓	✓	
<b>MINORITY OWNED:</b> Woman, Black, & LGBT owned and operated	✓			

More competitive research is needed.

## Exit Strategy

- **Acquisition:** If Kahawa can execute and achieve their ambitious sales goals, e.g. \$20m by 2024, I suspect the likelihood of acquisition is quite good (50-60%). Potential acquirers include: CPG brands (e.g. Nestle), holding companies (e.g. JAB/Keurig), among others.
- **IPO:** If Kahawa exceeds its growth plans, an IPO is not out of the cards. But I'd like to **heavily discount my optimism here** given current revenue and competitive risks.

## Y Factors

Y Factor is my catch-all for things that don't fit neatly into deal memos. In the case of Kahawa 1893 I'd like to highlight two things:

1. **Maggy:** I'm betting on her more than the coffee. She has a unique mix of tranquility + fire in the belly. I sense deep determination, grit, and a bit of a chip-on-the-shoulder, damn-the-torpedoes mentality that will make her a formidable competitor (in anything she undertakes).
2. **ESG tailwinds:** as a black female born in Africa, Maggy has already overcome insane odds to get to where she is. Thankfully, American culture is at a place where we are (finally) starting to celebrate and prioritize diverse backgrounds. While the VC community is still figuring this out, consumer brands are years ahead. I think this cultural "ESG tailwind" for lack of a better term will increase the opportunity set for Maggy and Kahawa. And when these opportunities come, Maggy will surely shine.

## Appendix

[Kahawa 1893 Info Deck](#) (Feb 2021)

