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FEEDBACK AND SUGGESTIONS, PLEASE

## Case History: AeroGrow International

### Background

AeroGrow is the manufacturer, marketer and distributor of the first “kitchen crop appliance”, an aeroponic kitchen garden marketed as the AeroGarden. It took 3 three years in R&D to perfect the technology. After launching our sales and marketing efforts, in only 36 months, the company went public on NASDAQ and had sold \$87 million in products and attained a public market cap of \$150 million. Investor returns ranged as high as 900%, and I departed, considering retirement.

### Stair Step Funding Process

I initially raised capital through four consecutive Direct Public Offerings, each with progressively higher valuations. The cumulative raise totaled \$5 million.

After becoming a public company, it became that much easier to raise money and I subsequently raised an additional \$25 million through PIPE Offerings. (“PIPE” stands for “Private Investment in Public Equity” – once a company is public, this kind of financing is done regularly and quite easy.)

### How the Funds Were Used to Build the Business

Having a flow of consistent funding gave us the time to continue our research and development without worrying that we would run out of money, and it allowed us to recruit three world-class C-level executives: a CMO who was expert in direct response, a VP of Sales considered to be the best in the kitchen appliances market, and a CFO.

Before we launched, we also hired a public relations firm that specialized in kitchen products and gardening products. We were featured in hundreds of newspapers, magazines and TV shows, including The Today Show, The View, The Ellen DeGeneres Show, the New York Times, Time Magazine, The Economist, Woman's World and the movie I Am Legend featuring Will Smith.

The major catalyst to our growth was a combination of the development and airing of infomercials and 60-second TV spots. These created a high level of excitement and awareness in the marketplace, as well as generating orders.

The second major catalyst was our national sales manager developed a highly enthused national rep network that were both excited about the revolutionary nature of our product and the extensive media rollout support. Combined with the infomercial campaign, this network aggressively stimulated demand and got us into more than 8,000 stores, including national retail outlets like Williams Sonoma, Bed Bath and Beyond, Target, and Costco as well as Main Street stores.

We set up our own telemarketing group to take sales directly as well as to do marketing research inexpensively. We found out who our customers were and why they were buying, determined the best price points, and refined our messages both to consumers and to retailers. Our growth was staggering. Retailers who hadn't yet been contacted called begging for our products.

AeroGrow's success built momentum and opened big doors. We were extremely popular on HSN and QVC and ranked #1 on one of Amazon's “Most Wished For” list two years running. We also placed the AeroGarden with national catalogs like Williams Sonoma, Sky Mall, Brookstone and others.

These efforts created a database of half a million customers and prospects – a gold mine that, through direct mail and email, produced a sizable revenue stream. That led us to develop our own catalog division.

## Results

Through these efforts – made possible by funding – the AeroGarden quickly became an international phenomenon. Sales rose from \$13 million in Year 1 to \$35 million in Year 2 to \$39 million in Year 3. The company went public on the NASDAQ, and the stock price rose from \$5.00 to \$10.25 prior to my retirement.

## Final Comments

The original funds I raised allowed me to create a powerful momentum in the marketplace which, in turn, made it easy to raise more money. After the first \$5 million, I raised an additional \$25 million through PIPES offerings. Under my watch, the company grew from \$0 to \$87 million in revenue in three years and reached a market cap of \$150 million with investor returns of up to 900%.

I retired right before the market collapse. AeroGrow had to incrementally withdraw from retail stores that produced far lower profit margins and higher overhead and now sells only direct to the consumer.

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