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“Pure Play” CBD Distribution Company, Cool Blue Distribution is bringing the benefits of Value Pricing, Quality Control, Operational Efficiencies to this New and Growing Industry



Cool Blue Distribution

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“Our mission is simple...bring the same efficiency, quality, and choice that we have come to demand (if not expect) from mainstream wholesale distribution to the young but exploding cannabis industry. All of our products are 3-7% less than published wholesale pricing and more often than not, we can get your order to you faster than going direct to the manufacturer. Choice, efficiency, value, and quality! Doesn't get any simpler than that.”- Don Flanagan

CEOCFO: *Mr. Flanagan, what is the concept behind Cool Blue Distribution, today?*

Mr. Flanagan: Cool Blue Distribution is a “pure play” CBD distribution company. We represent eight to ten nationally known; well-financed, well-scienced brands. Upon inception, almost four years ago, the desire was to bring some of the standard distribution benefits like value pricing, quality control, operational efficiencies to a new industry; at the time the cannabis industry was not realizing any of those things like mainstream distribution and other industries had.

CEOCFO: *What has developed over time to change or enhance the older distribution approach?*

Mr. Flanagan: I would say a handful of companies like ours. There are mainstream distribution companies that operate in other industries that have started to participate in the cannabis and the CBD industry. Again, Cool Blue is a company that focuses specifically on CBD and hemp extract products, where other distributors may be experts in the space of healthcare or natural foods or supplements and they have taken on CBD as a SKU or a handful of SKUs, where again, our business was built to service the retailers that are focused on the CBD industry itself.

CEOCFO: *Why does that make a difference?*

Mr. Flanagan: That is because I think, the industry continues to evolve; right now we are in a period of chaos, clutter and confusion. I like to call it the “*Three C's*”. When I started this business, I am going to say that there were a couple dozen CBD companies. Now there are over one thousand at last look. It has been a tsunami of opportunities for many people and many businesses and people just dove in trying to get their

piece of the pie while it was still hot. I believe that there will be a wash out.

There will be a kind of a "coming to Jesus" period in this industry where, whether it is financing or lack thereof, whether it is regulations, companies setting the high bar, there will be a settling down. I think those that specify in the industry and are industry experts, those that focus on education and wellness as opposed to "How can I give you cheapest stuff, fastest?" I think that is going to matter. I do not think that a CVS, not that I am picking on CVS; but I do not think a CVS employee will be as educated about a topical that is on their shelves as an entrepreneurial retailer that has a CBD store will be about what it does on those shelves.

CEOCFO: *How do you work with retailers? There are so many of them and as you said, they are just sprouting up everywhere. How do you help them get started, perhaps how you help them understand the difference in products?*

Mr. Flanagan: That is a good question. Three or four years ago when we started, we made some bets some brands, the Charlotte's Webs, the Treatibles, the CBD for Lifes; these are organizations that were in the space when we got started. Again, there were far, far fewer than there are today. We have stuck by those brands. We do not profess to have the only "great" brands in the industry, but we do like to say that all of our brands are great. How does a retailer getting to this space benefit from us? Again, it is kind of bread and butter stuff.

We like to think we have taken some of the homework off their plate; meaning that if you choose a brand that is the Cool Blue catalog, it will be a trusted, well-scienced, well-financed brand that should survive the upcoming storm. From the pure retailer standpoint, we allow you, on a single invoice to purchase multiple brands, hundreds of SKUs, all from the same distributor.

Since we are one of the only companies that offers a bulk discount, we are targeting those retailers that are serious about growing the category and as you buy more from us you can realize bulk discounting which helps on the margin side, which we all know in the retail space is critical. Therefore, from a very basic standpoint, again, quality of brand, operational efficiencies and value pricing seems to be things that I would be hard-pressed to find a retailer that does not value one, if not all three, of those things.

CEOCFO: *What type, if any, regulations or regulatory issues do you fall under or as a distributor are you exempt?*

Mr. Flanagan: We are covered under product indemnification by all of our brands. We are technically a pass-through business. We buy in pallets, sell in cases. We buy in big boxes, we sell in smaller boxes. Therefore, we trust and have confidence in the practices and processes of our manufacturers. Again, it is one of the reasons that we have chosen the Family of Brands that we have. Again, with the confidence, when it comes to labeling and quality control and standards, they are leading the industry as opposed to following what everyone else may or may not be doing.

CEOCFO: *How are you reaching out to retailers?*

Mr. Flanagan: I have got a sales team of almost ten commissioned sales reps around the country. We are now in over 450 stores in over forty states. We have been focused on a very organic growth pattern, trying to stay disciplined and within our own shoes here as we grow, because again, it is a chaotic, cluttered and confusing industry. Many of the customers we get find us, given that we are focused on the CBD industry specifically. I have got aggressive reps out there that, in their regions around the country, do make outbound phone calls, so it has been a slow and steady growth. It has actually been fast and steady, without any real focus on social media or outbound marketing. We are not even bothering to play in that space. Part of the reason is because we focus exclusively on B2B sales. Many of the outbound marketing and social media strategies of focused on B2C, but we have no interest in competing online against those manufacturers, given that they are our partners.

More recently, what has been a wonderful opportunity for us is that since we have been in the industry I have been talking to my manufacturers and my partners about seeing distribution as strategic verses opportunistic. We get calls on a daily basis of new up-and-coming brands, local brands that see what we have done, see what we have built and want to be in our catalog. That is an opportunistic play. *"Boy, if I can get my brands in front of a couple hundred stores, that might be a way to grow some stuff,"* and I have no issue with that. I understand that strategy, it is just not ours. I have been speaking to brands, especially our Family of Brands, about distribution as "strategic". What do I mean by that? It just means that in this world that is growing so fast and so chaotically, the manufacturers are always going to be focused on their B2C, whether it is the commerce of it, the sales or the relationship between their brand and their consumers. That should be a focus and since the 2018 Farm Bill has more traditional and larger customers wanting to get into the space, there are many resources dedicated towards national accounts, big box or whatever you want to call it. We do not want either of those extremes. We do not want the big national accounts. We are not built for it nor is it our strategy.

We do not want the consumer-direct business either. We are not built for it and it is not our strategy. We want everything in between. We want the small-to-medium business retailer and what we have been successful in selling or explaining to our manufacturers, our partners, is *"Why do you want it? Is it not easier to send one shipment on a pallet to me and you deal with me and we pay you and so on and so on, instead of having hundreds and hundreds of smaller accounts with direct relationships that again, eat up resources for accounts receivable, customer service and so on."* We are trying to plant ourselves firmly in that option for SMB, Small, Medium Businesses, and in 2019 was the first year where many of our manufacturers decided to transition some of their direct wholesale business to us and we are now realizing some gains from that. Therefore, that has been a big driver for our business in the past couple of years; our partners trusting us with their existing customers and us doing what we do best in that world.

CEOCFO: *Do retailers understand the need for quality? Can you get that across to them or do the businesses coming to you understand it already?*

Mr. Flanagan: I think it is an interesting question. I think the retailers do understand the need for quality. I think ninety percent of them would not have gotten into this business just to kind of run ramshod through it. I think there are always some retailers that have taken on CBD because it is a fad or they see it as this new thing and they do not want to miss out. They will take in whatever comes across their desk first. *"If we do not have something on our shelves we are missing out."* I think they are in the minority. I think that most people that are getting into this not only see the power and the growth, but they do understand quality and they look for quality and value and so on.

Where I think they are challenged, and this is just speculation on my part, is the consumer is not ready to understand what quality means. They do not know the difference between a cheap CBD versus a high quality, an isolate versus a full-spectrum, what the labeling means and represents. They do not understand exactly how CBD works. They do not understand that often, potency is directly linear to cost per milligrams, so they could say, *"I am going to buy something inexpensive,"* which likely correlates to a low dose and then they complain because it did not work. Therefore, I think the retailers are stuck between a desire and understanding to bring quality to the marketplace, but they are tasked to service a consumer base that is just looking to try this stuff and may or may not want to spend a lot of money, so they are forced to make decisions and find a balance between low cost and high quality. I do not know if you can do that in any singular brand, but you can leave that to us, but you can do it across brands. We carry brands of multiple cannabinoid profiles, multiple price points, and multiple potency levels. That is a category strategy for retailers as opposed to a brand or a products category for retailers.

CEOCFO: *How do you decide what products to add or perhaps what products to no longer carry? What goes into that decision?*

Mr. Flanagan: That is another good question! My answer today was different than it was three years ago when we started. When we started this thing three and one half years ago, I like to say it was a PowerPoint and a smile, and I began calling the brands that I knew and heard about; the Charlotte's Webs, the CBD for Lifes, and the Treatibles. We were fortunate that some of them took the chance on us back when CBD distributors did not exist and we are very loyal to those relationships that started early and that have grown. There is always a business element to our decision making. Every quarter or so we will take on new brands and we have gotten better at this over time. Some of them that we thought were going to be homeruns just were not and for some that is still unexplained, but we will do an analysis every couple of months or so and just see how certain brands are selling and, quite frankly, if they do not sell a certain percentage, we need to find space on the shelf for something else. That is kind of a pure business decision based on the numbers.

The most important one is that we try to set a bar or at least have a criteria list of table stakes kinds of stuff. At a very high level, again, because we try to think like retailers, we want brands that are known

around the country, not just local brands, because we are a national company. We want brands that look the part. They have got good packaging; they have got good marketing support when they can, because this stuff has to look on the shelf. It cannot look like it was just made in a garage. We have basic quality metrics. You have got to have hemp certificates and COA's for all of your products. You have got to have practices and processes that are leading the pack, not basically just winging it.

We have also started just trying to do our best in assessing financial stability or otherwise. We also do not want to jump in with bringing on brands that are not going to make it twelve months from now. We want to be able to say, as I said earlier in the interview, that we believe that the Family of Brands that we put together is going to be standing when this whole thing shakes out. Therefore, the relationship, to me, matters, how I get along with my contacts or the execs at a company, because I think this is about partnership, not simply just moving products across in boxes. The quality of the product and the company has to meet the high bar of what we call table stakes in the industry now. Then we will also do an internal business analysis after the fact, to see if we keep a product or we swap it out with something else.

CEOCFO: *Do you need to maintain a large inventory?*

Mr. Flanagan: I would call that real-time inventory. First, we buy pallets from the manufacturers and we ship cases. We do not repackage. We do not do anything to the package, to the labeling; we do not do anything to the finished product. We are not dealing in bulk hemp. We are not manufacturing or producing any products. Secondly, we have a handful of trusted partners that also trust us, so we have been able to negotiate terms and processes where yes, we can maintain a relatively large amount of inventory on hand. With a couple of customers, we have negotiated drop ships so we can carry more of their catalog on some of the more long tail, less popular items in their catalog. However, that is the business. We are a constant balancing act of our inventory in and out our accounts receivable and our accounts payables, quite frankly.

My COO was a wizard at all of the above, so she is the one that kind of does that juggling act on a daily basis, to make sure that our manufacturers know where we are, what we have and what we stand and then we have enough inventory to fill the orders that our crack sales team bringing. Every so often, you will have a manufacturer out of stock on something. It happens. Every so often, because of the explosive growth in the this industry, a run will go on a certain product that we did not see coming and we will be out of stock for something; never for more than a couple of days or a week, but again, that is the nature of the beast. It is, "How do I get boxes from the producers warehouse to the retailers shelves as quickly as efficiently as possible." Because we are small and nimble, relative to our partners, we can often turn orders around much quicker than out manufacturers would in direct wholesales and not only are our customers now realizing potential cost benefits coming from us if they buy in bulk, but they are actually being able to manage their turns faster, because we can manage the inventory turns faster as well.

CEOCFO: *Why choose Cool Blue Distribution?*

Mr. Flanagan: Cool Blue Distribution services over 450 customers in over 40 states across multiple verticals. We sell only high-quality, world-class, high-CBD, cannabinoid-rich hemp-extract products, including:

- Pet products from Treatibles (recently rated the #1 CBD pet treat by Green Rush Daily)
- CBD for Life (recently rated the #1 Cannabis Hair and Skin Product for Women by Green Rush Daily)
- CBD Luxe
- MoonPicks by CannaFoods
- CBDfx
- Green Roads World, (Ranked “#1 CBD Company” by Brightfield Research Group)
- Charlotte’s Web... The World’s Most Trusted Hemp Extract™!

Our mission is simple...bring the same efficiency, quality, and choice that we have come to demand (if not expect) from mainstream wholesale distribution to the young but exploding cannabis industry. All of our products are 3-7% less than published wholesale pricing and more often than not, we can get your order to you faster than going direct to the manufacturer. Choice, efficiency, value, and quality! Doesn’t get any simpler than that.

We hope you'll check out our catalog and give us a shot.

