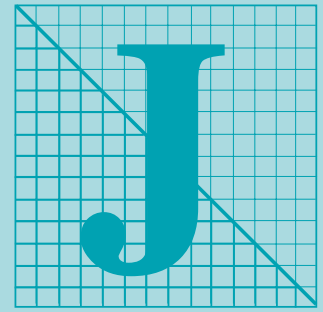


Johnston Company

C L I E N T P R O F I L E



Soup Company Entrepreneur: Kettle Cuisine CEO Jerry Shafir

After graduating from Yale, earning a law degree, and graduating from Harvard Business School, Jerry Shafir was ready for a new challenge: selling soup. In 1986 he and a partner with extensive culinary and technical expertise launched the business with \$30,000 from family contributions. They rented 4,000 square feet in a building in Revere and began production. Their fresh soup was chilled, packaged, and sold to restaurants and food service accounts. “I remember the week in 1989 when we first shipped 1,000 gallons of soup,” says Shafir. “It was a milestone we celebrated.”

Although today Kettle Cuisine ships an average of 50,000 gallons of soup a week, the company’s first few years were a struggle. In 1987 the company received its first bank loan, which was then pulled by the bank in 1989. Shafir took loans from family to buy out his partner and keep Kettle Cuisine operating. Sixteen-hour workdays were not uncommon. By 1992 his company had finally reached breakeven, but a capital deficit kept him struggling. He expanded from New England down the east coast, and from restaurants into deli and refrigerator cases of grocery stores. Sales growth continued and in 1994 Kettle Cuisine finally made a profit. “By 1996 we had positive equity, but we were still strapped for cash,” Shafir explains.

Financial Management, Strategic Planning

In 1999 he needed to borrow money to build out a new facility, so he hired Johnston Company to put together a package for the bank. “As a result of Jim’s efforts, we got a large loan from Fleet Bank. I hired Jim as my part-time CFO, and he instilled discipline in terms



of managing the financials and budget. Before I hired Jim I used to go months without looking at the financials of the company.” Johnston also did a search for a full-time financial controller and managed the hiring process. “The person we hired is still my controller today.”

Kettle Cuisine’s growth has changed Shafir’s role as CEO and president. “When I first started the company my focus was on task work, managing daily operations and making deliveries. I was the only salesperson for the first six years. Now I’m focusing on developing and building the organization, expanding the skills and responsibilities of my current employees and bringing in new people.” Shafir notes that Jim Johnston’s role has also expanded to one that’s more strategic. “Jim’s role is similar to that of a CEO advisor. He helps me set goals for myself as CEO and helps me focus my attention on achieving those goals.”

Forming a Board of Directors

Although Kettle Cuisine had grown, Shafir felt he was still spending too much time on tactical issues. “I knew I needed outside advice so I could focus on long-term success.” Shafir decided to form a Board of Directors for his company and he enlisted Johnston’s help. Johnston created a process and took charge of designing the Board’s purpose, role, and functioning. He gathered names of 40 candidates from food distributors, competitors, customers, the press, private equity firms, and analysts. He interviewed the top ten by phone and with Shafir selected the finalists for face-to-face interviews. The two top candidates both accepted Kettle Cuisine’s offer. Now, after two years of experience with the Board, Shafir says, “Both board members are former CEOs from the industry, yet bring a mix of food service versus retail experience, and operations versus sales and marketing experience. They are extremely frank and ask tough questions, stretching me to examine all aspects of my current business operations and to challenge my assumptions and practices. Their interaction with my management team has allowed me to better develop and expand my team to meet the challenges of a growing company.”

Johnston continues to work with Shafir to help prepare for Board meetings and to run them. Shafir cites the formation of his Board as an important step for the growth of his company and for his role as CEO. “The input I get from my Board has been invaluable. They are highly knowledgeable and experienced yet bring an outside, objective perspective.”

Revenue, Profitability, Growth

With the support of his Board and the market for high quality, prepared food products expanding, Shafir introduced an individual portion sized package of ready-to-heat soup for consumers sold under the Kettle Cuisine brand. “My decision to give the Kettle Cuisine brand visibility was a significant change in market strategy that created new business opportunities and challenges,” explains Shafir.

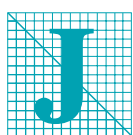
Kettle Cuisine’s annual revenue growth had been around 30% for several years through 2001. In 2002, with the impact of the terrorist attacks and the recession, growth slowed to 14%. In 2003, revenue grew 25%. The company has been profitable every year since the mid 1990s. Some of the post September 11 decline Shafir also attributes to changes in the distribution channels and the overcapacity among foodservice suppliers. Shafir explains that profitability has been more of a challenge because of new entrants, and he admits his focus has been on market share instead of profitability. He believes profitability can and will improve, but knows he needs to make some changes. “We first need to update our financial model to reflect the different lines of business we have now, and we need to get management useful information to look at key areas. “I want to stay out of the equity markets so I’m reluctant to finance except through debt and profits, but I know I need to look at how to address the profitability issue. Ultimately, valuation is driven by profitability, and my goal is to create value.”

Another goal is for Kettle Cuisine to become a national company in the next five years, but Shafir admits he needs to develop a new strategic business and market plan first. “I need a plan to sell to and service national accounts outside the Northeast before I commit resources. California may be the next new business geography to target, yet it is difficult to ship to California since my product has a limited shelf life.”

Over 50 varieties of Kettle Cuisine soups are now available in over 2,000 locations, including finer restaurants, delis and bakery cafes, and grocery chains such as Shaw’s and Whole Foods Market. Shafir employs 125 people, most of who are full-time, and runs two shifts to keep up with product demand. He expects to outgrow his 37,000 square foot facility by the end of 2004.

As for his Board, Shafir plans to add another director during 2004. “Their job is to get me to where I want to be in terms of revenue and profitability, and they are keeping me on track.”

Johnston Company provides part-time financial management, strategic and advisory services.



For more information contact Joan DeCoste, 781-862-7595 x3
Johnston Company • 1646 Massachusetts Avenue, Suite 22 • Lexington, MA 02420
www.johnstoncompany.com