



**CITY OF BEVERLY HILLS
STAFF REPORT**

Meeting Date: October 7, 2008

To: Honorable Mayor & City Council

From: Alison Maxwell, Director Economic Development and Marketing

Subject: Update and Presentation by JT Brands of Product Development in Relation to JT Brands' License of the Beverly Hills Shield Logo.

Attachments:

1. **JT Brands "The Beauty License" (An Over View of JT Brands License)**
2. **JT Brands Update for Ad Hoc Committee**

INTRODUCTION

This item provides an update and presentation to Council by JT Brands relating to JT Brands' license of the Beverly Hills' shield logo for the development of branded perfumes and cosmetics.

DISCUSSION

The City owns the trademark of the Beverly Hills shield logo. In March 2007, the City unanimously approved a license agreement with the Beverly Hills Chamber of Commerce to manage development of sublicense agreements for the purposes of promoting and protecting the Beverly Hills shield brand and developing royalty revenue. The City also approved the selection of Bradford Licensing Associates (BLA) as the license agent for the Beverly Hills shield brand to market the brand to potential licensees and to provide business expertise in the development of a cohesive licensing program.

In June 2008 the first major license agreement was completed for the license of the new Beverly Hills shield logo. The agreement is with JT Brands and provides a global exclusive license in trademark class 3, which includes cosmetics, make-up and perfume. The agreement is between the Beverly Hills Chamber of Commerce and BLA and JT Brands. The core terms of the agreement were developed in close consultation with the Council Committee for the Chamber of Commerce that also

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oversees Licensing matters (Mayor Brucker and Council Member Briskman). Attached to this staff report is a summary of the critical elements of that agreement outlining royalty revenue and minimum payments.

This is the first ever agreement of its kind to license the Beverly Hills shield logo and is promised to yield significant royalty revenue. It is not surprising then that it is of interest to City Council and some community members to have more information on the project. As such, staff has asked Geoff Thompson, President of JT Brands to make a presentation to City Council on the project and the product development and roll-out process.

Also attached to this staff report is an overview of the JT Brands company and an outline of the Beverly Hills project, prepared by JT Brands.

FISCAL IMPACT

An outline of the minimum required royalty payments as well as the overall percentage royalty payments is attached to the report.

In accordance with the City's contract with the Chamber of Commerce, royalty revenue and the various costs of registering the trademark are split on an equal basis between the City and Chamber of Commerce, minus allowable fees and expense for BLA.

RECOMMENDATION

Receive presentation.


Alison Maxwell, Director Economic
Development and Marketing



The Beauty License

September 2008





Executive Summary

Beauty brand licenses are a lucrative business generating substantial revenues for Licensors. As an experienced beauty products manufacturer and distributor, JT Brands, Inc. ('JT', the Licensee) will provide the City of Beverly Hills ('BH', the Licensor) with a completely engaging, upscale line-up of BH Branded Beauty products with the accompanying steady stream of licensing income.

There is considerable activity in the sector fueled by the retailers demand for recognizable brands. For example...

Nicole Miller Signs Global Fragrance License...

Brand & Licensing News, August 2007

Mexican guitar legend, Carlos Santana has signed a fragrance licensing agreement with ...

Cosmetics International, March 2005

Jimmy Choo, maker of the world's most coveted shoes, has signed a ten year fragrance licensing deal.

Beauty News.com, 2007

The JT Company

Geoffrey Thompson co-founder of Jivago Inc. in 1995 established JT Brands Inc. www.jtbrands.com in 2006 to acquire the distribution and/or licensing rights for emerging or established international brands in the beauty sector. The Company has already acquired the rights to the upscale Ultraceuticals skin-care brand www.ultraceuticals.com in the USA and 46 countries and the rights to the 'super-niche' Nez a Nez fragrances www.nezanez.net in the USA and 21 countries. Both brands are leaders in their categories. JT also won the rights to the 'Juicy Jewel' fragrance, bath and body line for the USA and worldwide. See www.jtbrands.com/juicyjewel. Additionally JT will open an Ultraceuticals Skin-care Clinic in Beverly Hills in late 2008. JT was recently awarded the BH Trademarks license for the Beauty category.

JT Brands develops, manufactures and distributes its brands through the retailers and distributors developed through Thompson's 14 years in the beauty industry. In that time Thompson led Jivago Inc. to become one of the leading 'independent' beauty companies reported by WWD Beauty Biz in 2006. Thompson and his team took the Jivago brand to a top 15 fragrance brand at Nordstrom and top 30 at Neiman Marcus

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during that time. See...

http://www.neimanmarcus.com/search.jhtml?N=0&Ntt=jivago&_requestid=35796

Thompson operated the company profitably for 10 consecutive years and maintains a stake in the company. Additionally he launched the brand in over 40 countries and retains those distributor relationships today. The Company will apply the same winning formula to the development and launch of the BH branded Beauty products. Prior to founding the Jivago Inc. company Thompson's company was one of the largest licensees of the BUM Equipment and Mossimo brands.

The Company will distribute the branded BH beauty products through its established network of US retailers and international distributors. A number of leading international distributors have already committed to distribute or have signed letters of intent to purchase and distribute the BH branded beauty products. Jacomo Productions a division of Sarbec Industries, a \$400 Million French cosmetic and fragrance supplier has already committed to produce the BH beauty products on a contract basis. JT has contracted with Bormioli Luigi, one of the worlds leading perfume bottle makers, to manufacture the glass perfume flacons.

The Beverly Hills Shield Beauty License

The Beverly Hills Shield license is a worldwide license for the International Class 3 category of products including fragrances, bath and body products, skincare and personal care. JT is an FDA approved cosmetic and fragrance importer and is already producing and selling its brands in all of those categories. JT as Licensee guarantees the Licensor (BH) with ongoing royalties based on the sales volumes of the licensed BH Beauty products.

Localized Creative Strategy:

JT has adopted a strategy of **localizing the creative development** of the BH Branded products as much as possible. We have already hired **Zoltan Pali**, the architect for the Wallis Annenberg Center for the Performing Arts in BH, to provide creative design and development input for the container portion of the project. We have also tapped **Robert Du Grenier**, the renowned glass maker who created the Harry Winston glass features in their BH store to assist with the development of the BH limited edition perfume flacons. We are working with a **local Botanist** to seek out any indigenous plants and flowers that may be referenced in the development of the BH Organic range of bath and body products. JT also recently made an agreement with a leading **BH dermatologist** to commence the development of its BH Skincare line.

Strategic Launch Plan:

JT Brands will create a complete range of fragrance, skin-care, hair-care, cosmetic and beauty products utilizing the BH Shield trademarks. The BH products will be launched in March 2009 and expand to cover the complete range of International Class 3 Beauty and Personal Care items.

JT's Distributor customers are some of the world's best from Nordstrom and Neiman Marcus in the USA to Paris Gallery in Dubai and El Corte Ingles in Spain. JT has also



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developed store concepts for BH (see fig. 5.) in order to secure permanent retail space for BH products in the stores.

The Beverly Hills Shield fragrance collection will be the first to ship in early 2009 and is targeted at the upscale consumer. The BH Shield products will involve innovative but classic designs and rich scents and formulae inherent in the luxury perception of the BH marque in order to establish the products in upscale distribution.

Product Detail (Retail Prices)

Perfume. \$75 - \$150.	Eau de Parfum, Eau de Toilette, Pure Perfume, Travel Sizes.
Bath & Body. \$35 - \$100+	Shower Gels, Soaps, Exclusive Body Creams (\$100+), Body Lotion, Body Scrub, Body Powder, Deodorants, Hand Cream, Bath and Massage Oils, Aromatherapy, Candles.
Haircare. \$18 - \$28	Shampoos, Conditioners, Sculpting products, Hair repair.
Skincare \$50 - \$180	Advanced Skincare for anti-ageing, clear skin and pigmentation.
Cosmetics & Toiletries	To launch in 2010. Color make-up and household toiletries.

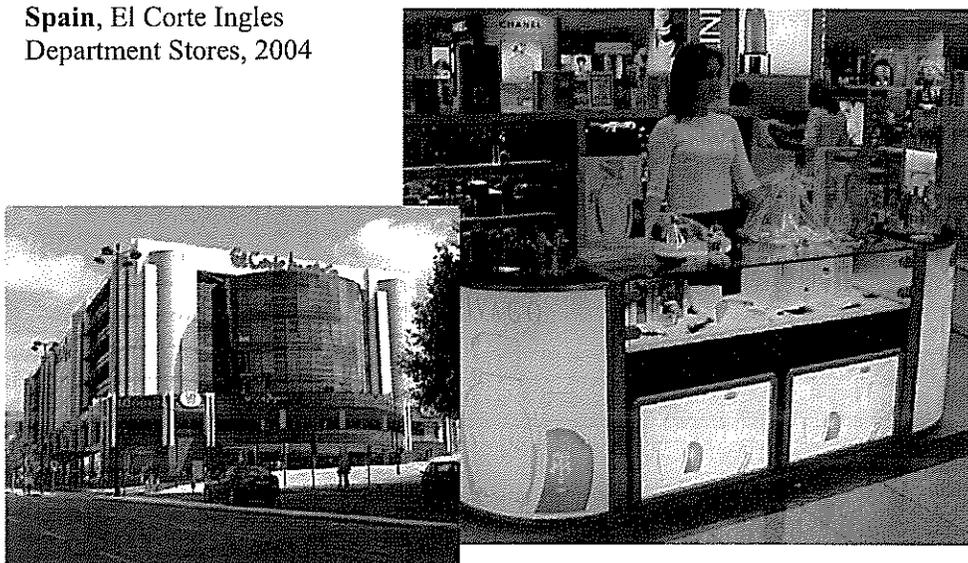
* **Organics** will be a major theme for both BH Shield and Love BH XX products. As there are no legacy Beauty products under the BH brands, we can launch Natural and Organic products upfront – two of the hottest categories in Beauty.

Projected BH Beauty Wholesale Revenues

2009	\$2,500,000	2012	\$15,000,000
2010	\$5,000,000	2013	\$20,000,000
2011	\$11,000,000		

Previous Launch Activities conducted by Geoffrey Thompson

**Spain, El Corte Ingles
Department Stores, 2004**





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**Dubai, UAE, Paris
Gallery (Al Fahim Ent.)
2005**



**New York, Saks Fifth
Avenue, 1998**





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Tel Aviv, New
Hamashbir, 2004

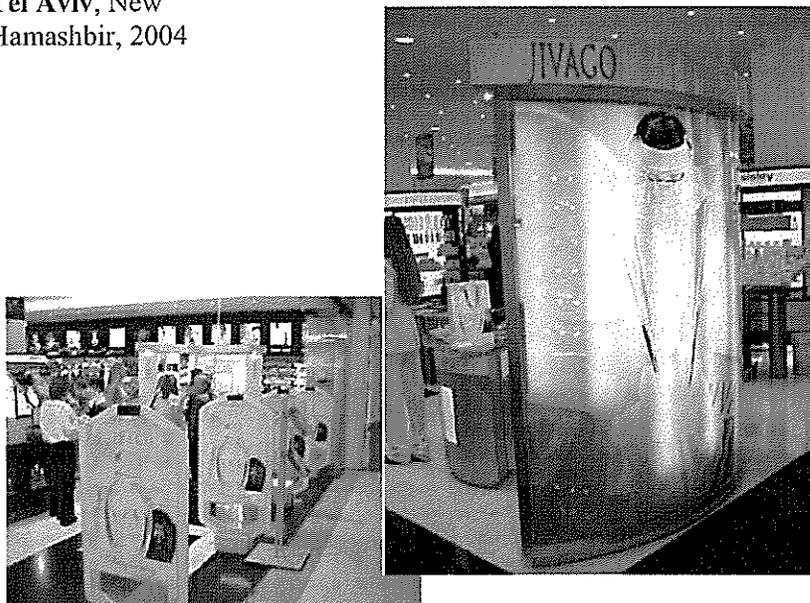


Figure 5. proposed Beverly Hills 'in store' Beauty outpost.





Selected Quotes...

"As in the rest of the cosmetic and toiletries market, women are the primary consumers, with women's fragrances accounting for almost two-thirds of total sales. Targeting [younger] market segments is a more recent development, and one which holds strong potential for premium fragrances. Not only are they more affluent, today's young women are generally more sophisticated consumers than ever before, boding well for premium fragrances.

Ralph Lauren, Christian Dior and Yves Saint Laurent are just three of the high-end fragrance franchises that have begun targeting a younger demographic."
Global Cosmetic Industry magazine, 2008. 'Appealing to the Younger Set.'

"The beauty market has come a long way. The global market now boasts sales of \$112.8bn (at the manufacturers level, Beauty & Business), the skincare category has more than doubled to \$33.1bn, cosmeceutical brands now account for 11% of prestige skincare sales in the US, and celebrity fragrances represent 7% of the selective market there compared with 2% just 10 years ago."

NPD Beauty 2007

Marketers are also excited about the number of new consumers for beauty products in the future. This means men, older women and of course the new consumers in emerging markets.

International Cosmetic News, October 2007

"We will see a rapid increase in the number of new consumers in Eastern Europe, Asia, Latin America, India and Africa in the coming years."

L'Oreal CEO, Jon Agon, October 2007

"There will be room for smaller, more agile players to develop product categories that their larger counterparts are not doing so well.

International Cosmetic News, October 2007

JT Brands Update for Ad Hoc Committee

October 6, 2008

Product	Essential oils, lotions, creams, soaps, shampoos, cosmetics, organics
Description	Fragrance, bath & body care, skincare, hair care, toiletries, cosmetics
Territory	Worldwide exclusivity with performance criteria. Incremental rollout plan - U.S., Middle East, EU and selected SE Asia (initial group)
IP Class	International Class 03
Price Point	Luxury price point within product & line
Term	5 year with one 5 year option
Guaranteed Min	\$1,295,313 over 5 years (paid quarterly): Year 1 - \$101,250 (\$12,656 upfront x2; \$25,313 x3) Year 2 - \$131,563 (\$25,313 x1; \$37,500 x2; \$31,250 x1) Year 3 - \$237,500 (\$31,250 x1; \$68,750 x3) Year 4 - \$350,000 (\$68,750 x1; \$93,750 x3) Year 5 - <u>\$475,000</u> (\$75,000 x1; \$100,000 x4) \$1,295,313
Royalty Details	6% on first \$3.0M (net wholesale sales) 5% on next \$3.0M - \$15.0M 4% over \$15.0M
Distribution	High end department, specialty, boutique, online and BH City store
Quality Control	Extensive and detailed
Est. 1 st Ship Date	Late Q1 2009 (may slide to Q2 2009)
Revenue Split	Net of BLA earnings and expenses, the City & Chamber split revenues 50/50
Marketing Fund	\$100,000 of early net/net earnings are committed to a marketing fund for product development (e.g. - style guide) and ad/promo expenditures to stimulate additional licensee interest: <ul style="list-style-type: none"> • 100% of first \$50,000 net/net earnings • 65% of next \$76,923 of net/net earnings