

THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

LMCA



ALLAN FELDMAN is President and Chief Executive Officer of LMCA. He has more than 30 years' experience in marketing and management, including over 20 years in brand extension licensing. Prior to forming LMCA in 1983, he was Group Vice President for Chromalloy America and spent seven years at Rockwell International as Director of New Business Ventures. Prior to Rockwell, he was Special Assistant to the Director General of Rank-Xerox (Benelux, the overseas arm of Xerox Corporation). He is a member of the American Management Association, American Marketing Association, Licensing Executives Society and International Trademark Association (INTA). He serves on committees of INTA, Licensing Executives Society and the Intellectual Property Management Institute. Mr. Feldman sits on the Board of the Licensing Industry Merchants Association and is a frequent speaker on trademark licensing and brand

building, both in the US and abroad. His industry articles have been widely published. Mr. Feldman earned an MBA from the University of Chicago, and studied at the University of Louvain in Belgium and the London School of Economics. He holds a BS from Roosevelt University, and studied architecture at the University of Illinois.

(ZAW602) TWST: Would you give us a brief history of your company and an overview of what you do?

Mr. Feldman: Founded 20 years ago, LMCA has pioneered the field of brand extension licensing. We help major corporations expand into new business arenas — products and services that are strategically attractive, but typically outside of their own core competencies. And we do this in a very favorable way: through brand licensing relationships. Our licensing alliances enable companies to extend into new areas without having to invest a cent in plant, equipment, inventory, organization, advertising or any of the other traditional costs involved in expanding a business.

TWST: Give us an example of what exactly you mean by that.

Mr. Feldman: One good example is Winchester Company, the global supplier of sporting ammunition. They were looking for a way of diversifying their business and overcoming the advertising re-

strictions involved in their core business. Their objectives were clear: expand the business, increase earnings and enhance awareness of their brand. What LMCA did was to extend them into a number of new lines. First we brought them into a range of security related products — safes, locks, personal defense spray and law enforcement products. Winchester brand safes, in fact, has been the best selling safe line in North America for five years. We then extended Winchester also into a host of sporting venues beyond shooting.

For example, we've brought Winchester into the fishing business; there's a full line of Winchester brand fishing equipment. In addition, we brought Winchester into the archery business and the billiards business. The product diversification has been quite wide. At this point we have a total of 22 licensee partners that operate throughout North America and certain parts of Western Europe. Winchester earnings have benefited and there is a coordinated licensee effort to extend and build advertising support for the brand.

TWST: What are some of companies that you've worked with in the past, and what are some of the companies that you are working with now?

Mr. Feldman: We have quite an extensive client roster. The list includes Arm & Hammer, Black Flag, Eastman Kodak, Frigidaire, Honeywell, Mack Truck, Mensa, Red Wing Shoes, Roto-Rooter, United Airlines, Westinghouse, and units of Becton Dickinson, Cadbury-Schweppes and 3M. All are current and active clients. LMCA worked on the Eddie Bauer Ford Explorer license, and we are pleased to state that Kodak has been a client for almost 20 years. Bristol Myers, Energizer, Mars, Mobil, Motorola, Procter & Gamble, Ralston Purina, Samsonite, The "21" Club, Time Warner and Winnebago are other companies that we have worked with throughout the years.

TWST: How do you identify companies that are ideally suited for what you do, and how do you market yourself?

Mr. Feldman: Most of our business, about 70%, comes from referrals. As pioneers in this arena, companies that are looking at brand extension licensing come to learn about LMCA pretty quickly. We've engineered brand licenses in many different industries and the success generated for our early clients is increasingly visible to managers interested in change and innovation.

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We also identify brands that we feel can benefit from our work and we in turn contact those brand owners. We work on behalf of brand owners, and also provide services to manufacturers that could benefit from the use of a third party mark. LMCA also consults on the topic of brand licensing. We completed a piece of work recently for a large industrial concern that was in the process of spinning off one of its divisions. We worked with their Board on structuring a license associated with the spinoff that would work for all parties based upon some complex goals. LMCA also operates a Mensa Process™ Division which provides brainstorming services on a wide range of marketing, competitive and other business issues.

TWST: What are the economic factors at this point? Is it specific to what you do?

Mr. Feldman: When we first got started, overall brand-related licensing activity in North America accounted for about \$2 bil-

lion. Today's published numbers indicate overall activity at about \$18 billion, but we believe this estimate to be very conservative. The reporting structure used in establishing activity levels is still in the process of development. We think that overall activity is closer to \$40 billion, and we estimate overall global activity to be in the neighborhood of \$100 billion.

A trade magazine, *License!*, rates the top licensing programs in terms of overall sales. The April 2004 issue identified six brand licensing programs that were each selling over \$1 billion a year in licensed products. The top 25 brand programs sold an average of approximately \$600 million a year. So brand licensing can be a meaningful component of a corporation's overall business mix. Economic and competitive trends strongly support continued growth.

TWST: How fast is this market growing in your estimate?

Mr. Feldman: The market is growing in very significant ways. Although licensing has its origins in the entertainment business (Disney, Warner Brothers, Dreamworks, Viacom, NFL, Nascar, etc.) it has consistently been evolving into a strategic business tool being used by Fortune 500 consumer and commercial companies. Promotional, short-term opportunistic applications are giving way to longer-term licensing strategies which generate substantially higher earnings.

Higher and higher levels of management have embraced licensing strategies, especially within the last two to three years. You probably read recently about the license granted by IBM Corporation to a Chinese concern as it relates to a continuation of IBM's personal computer business, for example. So licensing is becoming increasingly strategic in nature, increasingly sophisticated and increasingly meaningful in earnings potential.

TWST: How do you rate among your peers in terms of penetration?

Mr. Feldman: LMCA is the pioneer in this area; we're, in fact, the only company dedicated exclusively to strategic licensing. We do not do promotional work; and we are the only organization that is solely focused on corporate brand extensions, not entertainment or merchandise licensing. Also, referring back to the *License!* magazine ranking, LMCA manages more of the top ranked programs than any other organization in the country. We

have earned the recognition as leaders in the strategic application of brand licensing.

TWST: How does your financial model work? Do you work on a fee basis?

Mr. Feldman: We generally charge a startup fee to a client, but that's not what makes this all go round. We partner with our clients, and we engineer and, in turn, oversee, long-term win-win licensing relationships that benefit our clients in meaningful ways. So our orientation is really a long-term approach to conceiving these programs in ways that are strategically meaningful and valid. We bring licensee partners to our clients that can execute these opportunities in significant, innovative and successful ways. We share in the earnings that are generated for our clients. We take a commission on the income that's generated, and the startup fees we charge are returned to our clients as royalty earnings start to be generated.

We have grown for each of the last 16 years, generally at a low double-digit rate.

TWST: How big is the staff, and could you share with us the expertise of some of the key members of the management team?

Mr. Feldman: There are a total of 22 key managers in the firm at this point. We're headquartered in Manhattan and have a regional office in the Midwest, St Louis, and another in California, San Diego. We are in the process of expanding on a global basis. We are extending into Western Europe and the Pacific Rim, specifically China. We have done work in over 100 countries around the globe at this point in time. As we look forward, we see increased emphasis on global expansion. We just have completed a substantial deal on behalf of one of our clients in India with a very exciting company. We've been adding to staff. We brought on a Chief Operating Officer in 2004, and we're expanding staff both domestically and overseas.

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TWST: What is the strategy for success as you look ahead?

Mr. Feldman: The strategy for success is about thinking intelligently about a brand's equity and then developing extensive ideas for the brand that are true to that equity and that provide solid strategic value to our clients. That's the starting place; and then we have a great track record in identifying and securing licensee partners that can take our concepts and achieve long-term success in the marketplace.

TWST: Are there some industries that you haven't worked with that you would like to work with?

Mr. Feldman: Again, brand licensing is evolving. We've worked in a great number of different industries. There are things that are just beginning to emerge in commercial and B2B brands and in service industries that we find to be very exciting. Co-branding is also a relatively new area that holds a great deal of promise. We're continually establishing new applications and approaches to brand extension.

TWST: You are a private company. Are you profitable? What are your revenue streams like?

Mr. Feldman: We are private and profitable. We have been profitable for a long while. While our revenue and earnings are confidential, what we can say is that the business has been very stable.

My background, to a fair degree, is indicative of the thrust of the firm and really parallels the skills that other key people bring into the firm. I have an MBA from the University of Chicago in international business and marketing, and I studied at the University of Louvain, in Belgium, and also the London School of Economics. My focus has always been on corporate development; working for billion-dollar corporations that are interested in doubling their size. I've always helped companies grow by pursuing new products, extending into new markets, creating strategic alliances, joint ventures, merger or acquisition. I held management positions with Rank-Xerox, the global arm of Xerox Corporation, Rockwell International, Continental Group and I have consulted with various portfolio companies of Citibank, The Equitable, First Chicago and others.

The background of our Chief Operating Officer, Beth Schlansky, is in retail with a substantial focus on new product development, licensing and merchandizing. Our combined backgrounds create a focus on marketing, business development, strategic alliances and deal making. Each of our managers has strong creative capabilities. We are always looking for new business opportunities and working to identify unique directions for each of our client brand equities.

TWST: Give us a realistic picture of your company two to three years down the road.

Mr. Feldman: More international work. We will continue to work for clients that are highly recognizable in consumer and/or business-to-business sectors. We will continue to bring our clients global opportunities. We will grow overseas-based clients wishing to create North American brand awareness, world brand awareness and regions outside of their home country. We are aggressively expanding our offshore offices into the Far East and into Europe. We're continually looking to evolve brand licensing as a strategic business tool and finding new applications for our clients all the time.

TWST: Any other points of discussion you wish to bring in?

Mr. Feldman: Brand extension licensing is a terrific new and creative business tool. It is in the process of emerging and along the way it is finding an increasingly important place for itself within the business mix of companies that want to enhance their market position and pursue new areas of growth.

TWST: Thank you.

ALLAN FELDMAN
President & CEO
LMCA
156 West 56th Street
Suite 1400
New York, NY 10019
(212) 265-7474
www.lmca.net