



An Offer to the Krispy Kreme Doughnut Corporation for a First Right of Refusal or First Right of Development Concerning a New Product Line and Service

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Date: September 1, 2021

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I. ABOUT CAMERON MOSTAGHIM

My name is Cameron Mostaghim and, by way of background, I am a California born US resident currently residing in the Los Angeles metro area. I am currently 47 years of age and am educated with four degrees, all of which were conferred with honors. My areas of study are varied. I possess an Associate Degree in Social Sciences affording general education and insight into human behavior. I have an AAS and BFA degree in Fashion Design with an undeclared minor in Production Management. To that end, those degrees provided me with numerous areas of information to afford an understanding of design processes, design aesthetics, product profiling and differentiation, marketing research, and production efficiencies including work flow optimization, scheduling, time and process studies, as well as other general business matters including accounting and cost optimizations. Finally, I possess a law degree and, although I passed the bar exam in California in 2009, I do not practice law and do not have a law license for reasons that are too involved and complicated to discuss here.

I would describe myself as part analyst, advisor, designer, strategist, and writer. My broad skill set affords me the ability to understand the complexities of a situation and the relation of interdependent working parts. To that end, from my efficiency-based evaluation mindset, I am often able to see the existence of solutions to problems that were unrealized or not adequately contemplated in the first instance. Those abilities are part of the “value added” that I bring in conjunction with a job, should my engagement or retention be desired. Above and beyond my education, my work experience is additionally diverse. It has included simple retail sales jobs involving customer service, meeting sales goals, and merchandising display efficiencies. Prior apparel industry specific jobs have provided skills concerning design aesthetics, production scheduling, quality control compliance, and documentation and storage of data within information systems. I have held administrative jobs that included functions typical to that job class up through providing direct support to corporate officers. I have supervised employees, provided on the job training after acquiring operations familiarity, and have had the occasion to formally prepare standard operating procedures manuals concerning work processes.

Finally, my prior legal work history has encompassed litigation in a variety of areas from personal injury, labor and employment, business law matters, and post-judgment matters including significant experience with appellate law, processes, and procedure. My last job, a referral through a friend, primarily involved insurance coverage and claims assessments matters with report writing concerning coverage analysis and investigative facts required for completing coverage determinations. I am a three-time published award-winning legal writer involving public policy topics and have just recently completed an informational autobiographical short story concerning an international trip that I am in the process of attempting to bring to publication. In all, my knowledge, skills, and experience provide a demonstrable ability to conceptualize, evaluate, and execute, and prior employment has occasionally afforded confirmation of those skills with metrics-based evaluations.

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II. INTRODUCTION TO THE PROPOSAL

As mentioned, this proposal is for the formal development of an already conceived new product line and service that, although it is specific to a doughnut shop retailer, is first being presented to Krispy Kreme for a few important reasons. First, with breadth of Krispy Kreme's existing available network of approximately 350 domestic stores and 1400 global stores, your company affords an ideal distribution channel for bringing the new product line to market. Second, with Krispy Kreme's standardized ongoing large-scale production manufacturing of doughnuts, the new product line would not require the addition of any new manufacturing equipment and would only require the most minor process modification seemingly at the final glazing (*i.e.*, icing) step of the production process for implementing this would-be new product line. Third, a name for the product line has already been conceptualized that plays on Krispy Kreme's company name making it a natural addition and easy integration into your company's existing line of product offerings. To be clear, this proposal is for a ***new product line and service*** to be offered by Krispy Kreme, if it chooses, and is **not** simply the creation of new varieties of doughnut flavors, though that may be part of the overall newly developed products and service to be offered, which have not been finalized in all elements.

I love a good doughnut as I am sure you probably do as well. As Krispy Kreme has broadened the expansion of its brand significantly through the past two decades with the opening of numerous locations and modified its business structuring for optimization, I am certain that – from a pure business sense – Krispy Kreme continues to look for new ways to diversify and expand its business operations to further increase revenues and maintain its dominant position both as a corporation in the United States and as a worldwide global brand.

III. RELATED CONSIDERATIONS

Of mention, independent of this proposal, I recently mailed a proposal to several major film studios for the production of a television series called Executive Entrepreneur: Concept to Creation. That film production would be an entertainment based docu-series focusing and providing information insight into taking a product or service idea from concept to market with each season focusing on different products or services within different industries, ideally bringing the concept to market within a one-year time period. I mention this at this preliminary juncture because this proposal is theoretically one that could be the basis of one season of that film production, assuming the idea were ultimately picked up by one of the studios or networks and all parties were in agreement. To that end, there is the possibility of significant media advertising exposure should that overlay film production come to fruition prior to any action on this offer and proposal.

IV. BENEFITS TO KRISPY KREME AND FRANCHISEES

As I understand, in addition to revenues from its franchising agreements, Krispy Kreme has exclusive distributorship agreements in place with its franchisees that affords corporate revenues from the sale of raw materials supplied to its franchisees. My research reading also indicated that some franchisees have expressed dissatisfaction with Krispy Kreme's own direct supply and distribution of doughnut products that have, whether intended or not, consequently captured a portion of market share revenues that would have otherwise been realized by the franchisees.

This proposed product line and service could restore any possible damaged goodwill in the franchisor-franchisee relationships by providing the stores a new product line and service that, by its nature, is not suitable for direct production by Krispy Kreme absent Krispy Kreme operating and running free standing stores itself. Not only is any potentially damaged goodwill restored with franchisees, by pursuing this proposal, Krispy Kreme potentially creates new incentives to attract additional franchisees.

In sum, the franchisees benefit with a new product line and service that would be exclusive to the Krispy Kreme brand and the revenues that accompany that new product line and service offering. The Krispy Kreme corporation potentially benefits 1) through any profits realized on the sale of materials that will be integrated into the distribution channels for sale to the franchisees, 2) increased revenues from additional franchise agreements attending the renewed attractiveness of Krispy Kreme as a franchise business opportunity, 3) with a unique product and service offering specific to Krispy Kreme, and 4) with increased global brand recognition and prominence.

V. PRICE RESEARCH AND PROJECTED PRICING

I have reviewed information on current product price points via the Krispy Kreme mobile app for the Los Angeles metro area and that price information is repeated here for verification and reference purposes. It seems that Krispy Kreme currently sells its basic glaze doughnut for \$1.79 each and its other varieties for \$1.99 each, with the exception seemingly being the newly added smores flavored doughnuts offered at \$2.29 each. It is unclear why the new smores flavored doughnut varieties are priced at \$2.29 other than perhaps marketing and the novelty of a new product. If there is a higher materials cost, that is not immediately apparent as most doughnuts typically utilize similar ingredients. Information review further indicates that a glazed dozen retails for \$14.49 and a mixed dozen retails for \$15.49; an approximate averaged cost of \$15.00 per dozen. In light of the existing Krispy Kreme price points, the proposed price point for the would-be new product line and service, if adopted, would be \$2.59 per unit without allowance for the 10+ quantity discount that is applied to the one dozen sales unit. The proposed per dozen cost would be \$24.00. From a cost comparison standpoint, the newly developed product line and service would represent a 37% increase in the price point (or \$0.70) at the individual unit level as compared to the average cost of both the plain and assorted variety doughnuts and a 60% increase in the price point (or \$9.00) at the per dozen unit level, as based upon the averaged glazed/mixed per dozen cost of \$14.99.

As you can see, the new product line and service has the potential for creating significant additional revenues, though you may be rightfully wondering what justifies the increased and elevated price point. At this juncture, all I can say is the would-be new product line and service is both new and unique and it is not known to exist in any competitor doughnut chains. Mutual partnership through engaged services will afford Krispy Kreme disclosure and the first right of refusal or right of development concerning the information about how and why the would-be new product line and service justifies the increased price point. Again, because the new product line is not known to exist in any competitor doughnut chains, the risk of internal cannibalized sales is negligible and offset with the higher retail unit price points in any event.

VI. THE OFFER

Over the past few years, I have found myself amidst unusual circumstances that have provided an opportunity to conceptualize numerous ideas, products, and services of my own creation. I refer to the various ideas as “concepts” both because they are not yet existing and they have yet to be made “solutions” until implemented. Some of these “concepts” are would-be client specific while others are generally suitable to any number of companies within the business class to which the product or service would be implemented. In many instances, the “concepts” have the potential to be “true solutions” in that they solve or resolve a specific situation or problem rather than just being products developed for the sake of revenue creation, though the later does certainly apply in some instances. As mentioned, this current proposal could be implemented by any doughnut retailer, though Krispy Kreme is being afforded an option for a first right of refusal or development for the above stated reasons.

At this juncture, I am offering my services to Krispy Kreme as a specialty consultant. As a specialty consultant, and in conjunction with the first right of refusal or development, I will disclose to Krispy Kreme the would-be new product line and service, the name of the product line created for Krispy Kreme in particular, and provide an explanation of the product line, identify the known minor manufacturing process modification required for implementation, and explain how it will be implemented. Of course, the agreement would be in contractual form and provide additional contingencies for the purchase of the product line and service if Krispy Kreme were to proceed with its implementation. It would also address additional consulting support and implementation assistance to be provided by myself and create a good-faith deadline specific to the implementation of the entire product line and service with a roll out strategy.

VII. THE PROPOSAL

As mentioned, I understand Krispy Kreme to be a multi-billion dollar corporation with approximately 368 domestic stores in the United States and a total of 1400 stores worldwide. It was apparently valued at \$1.35 billion dollars in 2016 in conjunction with its acquisition and privatization when it was acquired by JAB Holding Company. As stated, should you decide to engage me, one of the predominant benefits is the “value added” contribution that I am capable of providing, both in the context of the would-be new product line and service if implemented, but additionally the revenues that would flow from their implementation. As such, my services are being offered on a varying fee schedule arrangement. That is, Krispy Kreme is being offered the opportunity of a first right of refusal or development and a varying fee structure based upon how Krispy Kreme will decide it would ultimately proceed.

For the opportunity to receive the above information concerning the specifics of the would-be product line and service (*i.e.*, the first right of refusal or right of development), my requested fee is \$##### exclusive of ancillary costs and expenses for development of any presentation materials, travel costs, and similar expenses. If Krispy Kreme thereafter decided to implement the proposed product line and service, the contractual agreement would provide for additional fees that could be paid in full immediately, paid over two-year period to allow for expensing in tandem with revenue generation, or a reduced front end buy in fee with a per store fee paid as adopted and strategically implemented by the franchisees and any corporate operated store locations. To elaborate, in addition to the \$##### fee for disclosures and the first right of refusal or development, the various additional fees are based upon the method by which Krispy Kreme might elect to proceed:

Option	Initial Fee & Accompanying First Rights	Fees for Adoption and Implementation	Total Cost
Option #1 (Paid Immediately)	\$#####	\$#####	\$#####, exclusive of ancillary costs and expenses
Option #2 (Paid over two years)	\$#####	\$#####, paid in quarterly payments over two years' time	\$#####*, exclusive of ancillary costs and expenses
Option #3 (Variable payment in conjunction with staged roll out)	\$#####	\$##### payable once at time of first implementation in any store with an additional one time \$### per store fee with each adoption and implantation at the store level.	Varied based upon adoption and implementation at the store/franchisee level, but not less than \$#####* if never implemented or \$#####* with implementation in the first store.

*Stated costs exclude ancillary costs and expenses

As with any business venture, there is a potential for significant financial reward and a potential risk of failure of a return on investment. While I recognize that my requested compensation may be viewed as excessive in light of the less than fully disclosed details of the above-mentioned concepts, when one considers Krispy Kreme's last \$1.35 billion valuation in 2016 and the prospect of the potential additional revenues to be added from my services if the product line and service were implemented and successful, I believe the requested compensation is more than fair in light of the totality of circumstances.

VIII. ESTIMATED COST-BENEFIT AND BREAK-EVEN ANALYSIS

What follows is a rough approximation of the break-even analysis that demonstrates why Krispy Kreme cannot afford to pass on this opportunity. Krispy Kreme makes doughnuts that, in the basic sense, involves the main ingredients of flour, eggs, water, sugar, and powdered sugar. Since overhead and labor costs are typically fixed or limited within a specific range, they are not factored into this cost analysis discussion as they would continue to exist independently of whether the new product line and service were adopted for implementation or not. As the basic doughnut ingredients are not particularly expensive and would be less expensive when purchased in wholesale bulk quantities, it is estimated that the materials cost for one glazed doughnut unit is about \$0.25, again exclusive of overhead costs. The following estimated cost analysis is based on this assumption of a \$0.25 per unit raw materials cost.

Utilizing the least expensive cost acquisition option referenced above, the total acquisition cost for the new product line and service is \$#####. (See Option #1 breakdown referenced above). That cost, equates to a \$### per store cost breakdown, as based upon the 1400 worldwide store count. Although the would-be developed new product line and service seems to require new ingredients that are not currently utilized in conjunction with Krispy Kreme's current variety of doughnut offerings, those additional materials are not perceived or believed to be particularly expensive. Starting with the premise of a \$0.25 per unit raw materials cost, and allowing for a \$0.50 per unit raw materials cost for the would-be developed new product line and service, only ### individual units would need to be sold, per store, to cover and recapture the averaged \$### per store fee. (\$### averaged per store fee / \$2.59 per unit retail sales cost = ### sale units). This is the unadjusted cost that does not factor the raw materials costs involved in production. With ### units being the unadjusted number of units without allowance for raw materials cost, those ### units would cost \$## based upon the assumed \$0.50 individual per unit raw materials cost. That averaged \$### per store adjusted cost would equate to an adjusted sales figure of approximately ### units to cover and recapture the averaged \$### per store cost and \$## projected estimated raw materials cost. (\$### averaged per store cost with added raw materials fees / \$2.59 per unit retail sales cost = approximately ### sale units).

With the continuing and ongoing daily production of doughnuts that occurs in Krispy Kreme's stores, the sale of ### units at a \$2.59 retail price point is a very minimal number of items that would need to be sold to cover and recapture the averaged per store implementation costs. With an anticipated ###-unit required sales volume to cover and recapture the averaged per store

acquisition costs, Krispy Kreme cannot, economically speaking, afford to pass on this potential business opportunity. This is an easy assessment to make because:

- Krispy Kreme is a high-volume production output operation,
- Krispy Kreme already has all the infrastructure facilities, and presumably supply chains, in place that are necessary to implement the would-be new product line and service,
- The proposed product line and service is not currently known to exist within any current doughnut retailers,
- The ###-unit per store sales volume target number to cover and recapture costs should be relatively easy to accomplish,
- Krispy Kreme would have exclusivity and novelty in conjunction with the roll out of the new product line and service that, with proper promotional advertising, should aid in a quick turnaround time for recapture of costs and expenses, and
- The potential future revenues are limitless after the initial recapture of costs and expenses is realized from the projected ###-unit sales volume target number.¹

As you can see from the foregoing, despite an absence of guarantees concerning business endeavors, significant thought and contemplation has been afforded to this concept and the would-be new product line and service that demonstrates the potential upside significantly outweighs the downside risks. Moreover, with the proposed first right of refusal or right of development, the downside risks have been significantly reduced to a modest \$##### expense affording no further obligation, though I am confident Krispy Kreme will concur with my assessment of the upside and potentially limitless additional future revenues.

IX. STRATEGIC IMPLEMENTATION

I recognize this offer comprises a complex multi-stage sequence of events. To allay any initial hesitancy concerning how this offer and related proposal would be implemented, while definitive scheduling can and will be further developed as necessary, the following additional information is presented.

If Krispy Kreme would like to proceed, in order to prepare the information that comprises the proposal for consideration of ultimate acceptance and adoption by Krispy Kreme in conjunction with a presentation, the following process is being suggested:

- 1) Telephone communications are initiated and a tentative date is set for initial draft preparations of contracts, any needed non-disclosure agreements, and agency or cooperation agreements,

¹ There are additional ancillary costs for setup and/or display implementation, but those costs are also anticipated to be relatively minimal and one-time in nature.

- 2) A formal in person meeting is scheduled, subsequent to the date for draft preparation of contracts and documents, to meet and further discuss the offer, the preparation of the eventual formal proposal, and execute documents,
- 3) Once contracts are signed and first stage payment of fees and expenses are coordinated, work on preparation of the formal proposal will be undertaken,
- 4) An advertising agency or graphic design company would be engaged to assist in preparation of presentation materials,
- 5) Formal product line and service work up and finalization would be undertaken,
- 6) Best cost assessments would be undertaken using any preferred Krispy Kreme vendors for best valuation of projected expenses in implementation,
- 7) A plan for product line and service roll out will be created or scheduled for potential eventual implementation,
- 8) Formal presentation materials specific to the proposal will be created,
- 9) Formal presentation materials will be produced and finalized,
- 10) Sample products for the end presentation will be created and prepared if practical, and
- 11) A formal presentation will be scheduled to be provided to Krispy Kreme and JAB Holding Company, if desired.

In addition to the foregoing, the following is reasonably anticipated as needed:

- 1) Initial \$##### payment and an expense account with not less than \$#####,²
- 2) Specification of whether the end resulting presentation materials would be needed in physical or electronic format, or both,
- 3) Reasonably unrestricted access to at least one Krispy Kreme corporate run store location or franchisee operated location to understand operations procedures to enable the proposal of any operations modifications needed to implement the new product line and service (only to the extent that Krispy Kreme desired that information to become part of the end presentation),
- 4) Access to any preferred Krispy Kreme supply vendors and contractors to enable cost assessments for implementation (only to the extent that Krispy Kreme desired that information to become part of the end presentation),
- 5) Access to Krispy Kreme's website and mobile application developer to ascertain lead times and information needed for potential product line and service integration (only to the extent that Krispy Kreme desired that information to become part of the end presentation), and
- 6) Limited authorized use of corporate trademarks, trade dress, distinctive text fonts and color ways, and other marks solely for preparation of presentation materials and presentation purposes.

² Access to an expense account is needed as a practical matter, though discussions will be entertained concerning cost shifting of expenses if Krispy Kreme adopts and implements the end business proposal.

X. SUMMARY AND CONCLUSION

To avoid any confusion or misunderstanding, I want to clarify and reiterate what this specific proposal is and what it is not. Again, I am offering to provide specialty consulting services with a first right of refusal or right of development for adoption and implementation of the would-be new product line and service. I am not making any assurances that the ideas have not at some point been formulated or considered by Krispy Kreme management, though presumably they have not or the concept to be disclosed and presented would have been implemented at Krispy Kreme or some other competing doughnut retailer. Likewise, as the implementation of the would-be new product line and service will require minor adaptation to Krispy Kreme's standardized franchisee operations, the estimated cost-benefit and breakeven analysis is an estimate and not an assurance of implementation at the estimated and projected raw materials cost. What I am able to assure is that, for a modest preliminary fee, there is the potential for significant additional revenues to Krispy Kreme if the concepts are successfully developed and implemented as new products and a service within the Krispy Kreme line of consumer offerings.

If Krispy Kreme or JAB Holdings Company would like to further discuss this consulting proposal, my contact information is found within the "About Me" section and the prefatory cover letter. I look forward to the possibility of further discussing this matter and co-formulating a mutually agreeable arrangement. Likewise, if additional background or other information is requested concerning me, please do not hesitate to inquire.

Thank you again for the taking time to consider this proposal and I look forward to hearing from you in the near future.