

Gaiam (GAIA) - The Genius of Jirka

Date: April 1, 2014

As a follow-up to my last [note on Gaiam](#), I wanted to share a few additional details on the Company post the release of their 10-K:

Proprietary Products and the Genius of Jirka

Gaiam's proprietary products fall under 2 brands: Gaiam and SPRI. These 2 brands represent 93% of the revenues in their branded products division in 2013. That is interesting as it's up significantly from the 70% they mentioned last year. What's more interesting is Gaiam's strategy for testing products and then pushing them through their retail channel. Per the [10K](#):

We sell our branded products across various sales channels. Non-proprietary products are only available through our e-commerce and catalog channels. **We use our e-commerce and catalog channels to test products before we develop them under our brand and distribute them through our other sales channels.** Because we use a multi-channel approach to our business, we are able to leverage our media and product development costs across all channels of our business.

In other words, Gaiam will put non-proprietary products on their website and test the response from customers. If they meet the Company's target, Gaiam will remake / redistribute the product under their Gaiam or SPRI brands and then push the product through their 38,000 store retail channel. This is absolutely genius as it reduces the investment / performance risk to the Company and its shareholders.

Jirka Rysavy's Compensation & Background

Jirka might be one of the most shareholder-friendly managers I have ever come across. From the K:

The board approved annual base salary for Mr. Rysavy was \$412,000, in 2013 and 2012 respectively. However, **he voluntarily requested that his salary rate be reduced** to reflect the decrease in his time devoted to our business during 2012 and 2011. As a result, Mr. Rysavy received an aggregate salary of \$47,585 during 2011 and \$60,000 during 2012. Mr. Rysavy served as our Chief Executive Officer until March 2009. He continues to serve as our Chairman and is our largest shareholder. Prior to 2013, at Mr. Rysavy's request, **he has not been given any bonuses or awarded any stock options in the last ten years.** Our compensation committee and our board of directors strongly believe that Mr. Rysavy's salary and overall compensation level are modest

given the importance of Mr. Rysavy to our future, his previous experience and business accomplishments and the market value of his skill set as an executive.

In 1995, a man named Stephen Solomon wrote an article in Inc Magazine about Jirka providing some fascinating color into his life. [See it here](#). Really. If you want insight into Jirka's approach, [read it](#).

So this week a buyside friend of mine decided to write Stephen Solomon and get his thoughts 20 years later (note that Stephen Solomon went on to win multiple industry awards and then founded the master's program for economic journalism at NYU, so he's an accomplished individual). His response is so very interesting:

From: Stephen D Solomon [REDACTED]
Sent: Saturday, March 29, 2014 10:43 AM
[REDACTED]
Subject: Re: Jirka Rysavy

Dear Matthew,

Thanks very much for your note and for your compliments about the article. I haven't stayed in touch with Jirka Rysavy, but he's a person I could never forget. I spent several days with him, and he was so unique as a business executive that I'm afraid that I barely was able to scratch the surface in the story.

Thanks again for writing.

Best regards,
Steve

--
Stephen D. Solomon
Marjorie Deane Professor of Financial Journalism
Associate Director, Arthur L. Carter Journalism Institute
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Jirka is 100% authentic - just the type of leader you would want if you were trying to build an authentic yoga apparel brand to compete against LULU.

Value and Valuation

Here's what you're getting for the price you pay today (click to get the xls file / notes):

Stock Price	\$7.20
Diluted Shares	24,002,803
Diluted Market Cap	\$172,820,182
- Cash	\$32,229,000
- Working Capital Surplus, ex-Cash, ex-RGSE	\$24,887,715
- Working Capital Adjustment on GVE	\$6,000,000
- Deferred Tax Assets	\$25,758,000
+ Debt	\$0
EV	\$83,945,467
- Real Goods Solar stock (RGSE)	\$3,423,285
- Cinedigm stock (CIDM)	\$1,834,190
- Louisville, CO property	\$24,000,000
Premium to Tangible Value	\$54,687,992
Value / Share	\$4.92
P / Value Multiple	1.5x

So for \$2.28 (the difference between today's price and the asset value per share), you are getting:

- A branded products business that generated \$150MM in revenues in 2013 at 40.4% gross margins and growing double digits.
- A TV business that is run-rating \$10MM in revenue and growing 100% year over year.

What a deal.