

Davi Luxury Brand Group, Inc.

OTCBB : MDAV

February 18, 2011 Close

DJIA: 12,391.25
S&P 500: 1,343.01
NASDAQ Comp: 2,833.95
Russell 2000: 834.82



DAVI

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COMPANY AND MARKET DATA

Recommendation: **Speculative BUY**

Stock Price 02/18/11:	\$1.12	Market Cap.:	\$84.00 M
52 Week Price Range:	\$0.75 – 2.60	Shares Outstanding:	75.0 M
Industry/Sector:	Personal Care Products	Float (est):	30.0 M

BASIS FOR RECOMMENDATION

- We are initiating a Speculative **BUY** rating for Davi Luxury Brand Group, Inc. (OTCBB: MDAV), a licensor, developer and marketer of luxury skincare products founded by Carlo Mondavi, grandson of American winemaking icon Robert Mondavi, using the powerful, natural antioxidants found in wine and grapes. Our rating does not reflect our strong belief in the Company or its model, but rather the limited operating and trading history. We look forward to a rating upgrade in the coming months.



- Solid Demand for Antiagers:** The skincare industry is generally considered to be largely “recession proof”, with overall sales increasing slightly in 2009 – even in the midst of the global economic meltdown - according to market research firm Euromonitor International. Within the world of cosmetics, skincare is clearly the star, accounting for a 23% value share of total sales. In the U.S., skincare is expected to swell by \$264 million from 2009–2014, largely driven by nourishers/antiagers. While cleansers and acne treatments, notably body and facial moisturizers, have reached maturity and are expected to see sales growth slow or even decline, the nourishers/antiagers category shows no signs of slowing down.
- Premium Market Growth:** Despite some trade down during the recession, premium skin care is set to see the biggest increase in value size of any premium segment, with \$2.6 billion predicted to be added over 2009–2014, equating to 40% of absolute growth in the entire premium beauty industry. This performance will be driven by strong demand for premium skin care in Asia, especially China.
- Strong Brand Recognition:** *The Mondavi name lends a significant competitive advantage to this type of product, one certainly not enjoyed by new market entrants.* Combined with superior delivery to the skin, the product line has the potential to be a marketer’s dream. Davi’s key distribution initially will be through companies in the lodging and travel industries, high-end retailers and direct-to-consumer sales through infomercials. The Company has already identified one international airline and a luxury hotel chain that intend to carry its line of skincare products.

BUSINESS / PRODUCT OVERVIEW

Davi Luxury Brand Group, Inc., develops, licenses and markets luxury skincare products founded by Carlo Mondavi, grandson of American winemaking icon Robert Mondavi, using the powerful, natural antioxidants found in wine and grapes. The Company markets its skincare products under the “DAVI Skin” and DAVI” brand names. The Company’s own *Antioxidant Meritage Complex* is designed to efficiently and effectively deliver the healing benefits of superior product ingredients directly to the skin.



Through special planting techniques at select vineyards, the grapes grown at these vineyards yield higher concentrations of minerals, vitamins, and nutrients than grapes from traditional winemaking vineyards. The minerals, vitamins and nutrients are found in a by-product of the wine making process called the pomace, which yields polyphenols in relatively high quantity. Polyphenols are the free radical scavengers that, among other things, help to protect collagen and elastin fibers and prevent the destruction of hyaluronic acid in the skin. Management believes that the use of this pomace will allow for the creation of skin crèmes that can help fight the natural aging process of the skin.

Company Strategy Brief

Product Development. Though Davi Skin has been licensing its name to amenity providers, the Company is currently developing its own line of skincare products that will be sold through established retailers and direct marketing channels. Once development is completed and a sales run rate is established, Davi plans to introduce more product lines.

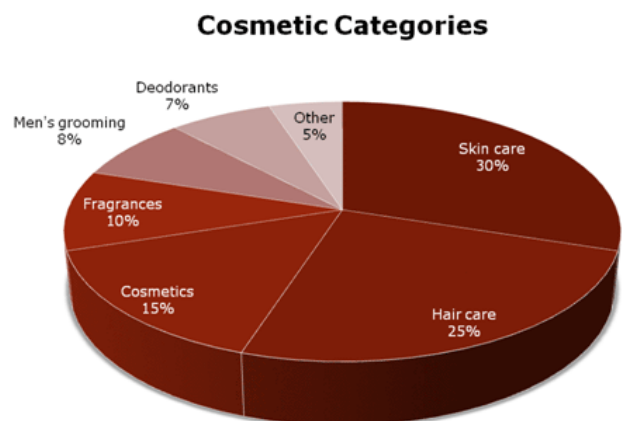
Sales Channel Expansion. The Company is continually striving to expand its multi-channel distribution, which is a key element of its strategy. Davi’s key distribution initially will be through companies in the lodging and travel industries – and direct-to-consumer sales through infomercials. Though these avenues present retail sales opportunities, the Company plans to follow close behind with other selected traditional retail partners. In addition, DAVI can market its products directly through physician practices. In recent years, cosmetic surgery and dermatology practices have quietly and steadily established a “medical retail” market in which skin care and other products are directly sold to patients.

Geographic Expansion. At Along with these other initiatives, Davi Skin management is already negotiating with potential partners with access to distribution in Japan and has had initial inquiries from potential partners in Hong Kong, China, Singapore and Korea. Asia and Western Europe are huge markets for the Company’s products.

MARKET OVERVIEW

The Cosmetics Market

The cosmetics industry is generally considered to be largely “recession proof”, though overall sales did decline slightly in 2009 according to market research firm Euromonitor International (It should be noted that while global cosmetic sales declined on a macro level, sales of skincare products increased). The manufacture of cosmetics is currently dominated by a small number of multinational corporations (some of which are mentioned in this report) that originated in the early 20th century, but the distribution and sale of cosmetics is spread among a wide range of different businesses.



Included in the general category of cosmetics are skin care products, the Company's primary focus and this the focus of this report. These include creams and lotions to moisturize the face and body which are often formulated for different skin types per range, sunscreens to protect the skin from UV radiation and damage, skin lighteners, and treatment products to repair or hide skin imperfections (acne, wrinkles, dark circles under eyes, etc.), tanning oils to brown the skin.

Within the world of cosmetics, skincare is clearly the star, accounting for a 23% value share of total sales in 2009, according to Euromonitor. While sales growth slowed somewhat in 2009, it was still positive. Growth in global skincare sales slowed to 3% in 2009, down from 5% in 2008, while the star category, nourishers/antiagers (9% value growth in 2008), slipped to 7% in 2009.

Despite this temporary growth reprieve, Euromonitor predicts that by 2014, skincare will increase its already sizeable lead in the beauty market to reach \$91 billion, driven primarily by the Asian market.

Antiagers

The U.S. skincare category is expected to swell by \$264 million from 2009–2014, largely driven by nourishers/antiagers. While cleansers and acne treatments, notably body and facial moisturizers, have reached maturity and are expected to see sales growth slow or even decline, the nourishers/antiagers category shows no signs of slowing down. Demand for antiaging products will be driven by the aging U.S. population, with the number of consumers over 50 set to rise by more than 10 million between 2009–2014.

Despite some trade down during the recession, premium skin care is set to see the biggest increase in value size of any premium segment, with \$2.6 billion predicted to be added over 2009–2014, equating to 40% of absolute growth in the entire premium beauty industry. This performance will be driven by strong demand for premium skin care in Asia, especially China. Even in Western markets such as the U.S., sales of premium antiagers have remained comparatively buoyant as consumers have, evidently, attached greater importance to fighting the aging process than other areas of beauty, and the perception of a link between price and efficacy remains strong for many consumers. Despite declines in many other areas of skin care, recession-hit France saw 3% value growth in premium antiagers in 2009, up from 1% in 2008, according to Euromonitor.¹

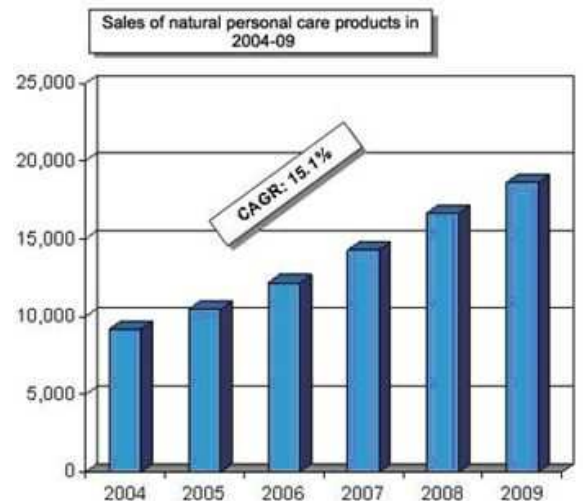
We can subcategorize also into natural personal care products. With today's focus on health and wellness (not just looks), it is no wonder that sales have shown consistent growth (15.1 CAGR) even in the midst of the global economic meltdown.²

Market Trends October/November 2009

Top 20 Global Beauty Companies Company Beauty Sales

1	Procter & Gamble	\$26.3 (U.S. Billions)
2	L'Oreal	\$25.8
3	Unilever	\$16
4	Avon	\$7.6
5	Beiersdorf	\$7.5
6	Estee Lauder	\$7.3
7	Shiseido	\$6.9
8	Kao	\$5.9
9	Johnson & Johnson	\$5.6
10	Henkel	\$4.4
11	LVMH	\$3.7
12	Coty	\$3.5
13	Chanel	\$3.0
14	Limited Brands	\$2.7
15	Mary Kay	\$2.6
16	Yves Rocher	\$2.5
17	Natura	\$2.1
18	Alticor	\$1.9
19	Kose	\$1.8
20	Oriflame	\$1.7

Source:
Regenotech



*All data in manufacturers' sales, unless otherwise indicated, manufacturers' sales refers to the price received by the marketer before distributor and/or retail markups. The above figure only includes four key regions: United States, Europe, Asia, and Brazil.

¹ <http://www.gcimagazine.com/marketstrends/segments/skincare/101889763.html>

² <http://www.regenotech.com/Cosmetics.htm>

PRODUCTS & DISTRIBUTION STRATEGY

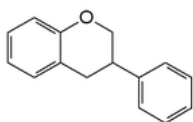
Using its name recognition, Davi Skin is initially focused on the premium segment of the cosmetic industry, i.e., products priced over \$70. The DAVI brand will be marketed throughout the U.S. (and eventually abroad), targeting the over-30 population and selected retailers. Initially launching with nine products, four for women and five for men, the Company intends to expand the DAVI line over the next three years to include a broad range of skin care products that address various skin care needs.



It is important to note that the Company has already been licensing the brand to amenity providers who have their own manufacturing contractors. While this has not been generating much revenue to date, it has provided test-marketing capabilities and opened doors to retail sales. We feel this is a smart strategy. DAVI has given the basic formula to these companies, who in turn produce it under the DAVI brand. With the basic formulation in place, the Company is fine-tuning its own formula for direct and retail sales. This is expected to be completed in Q2 of 2011, as the lead time on the first manufacturing run is approximately three months.

The initial DAVI line (men's and women's) includes facial moisturizers, creams, lotions, cleansers, scrubs, sunscreens and whitening products, formulated for targeted areas of the face. The product line is really led by *Le Grand Cru*, the Company's premium antiager. At the core of the formulation is DAVI's proprietary microencapsulated anti-aging antioxidant called *Meritage*, a unique blend of grape and fermented wine extracts, green tea, raspberry, black currant and bilberry extracts, rosemary and olive leaf extracts. Meritage is created through a unique double fermentation process and preserved in the formula until it is applied to the skin.

The Company has engaged one of the most respected and notable private laboratories in the country to work with the DAVI vision in creating a world-class luxury skincare line. This laboratory, located in New Jersey, has developed new products and reformulated existing products for top cosmetic companies including Estée Lauder and Revlon.

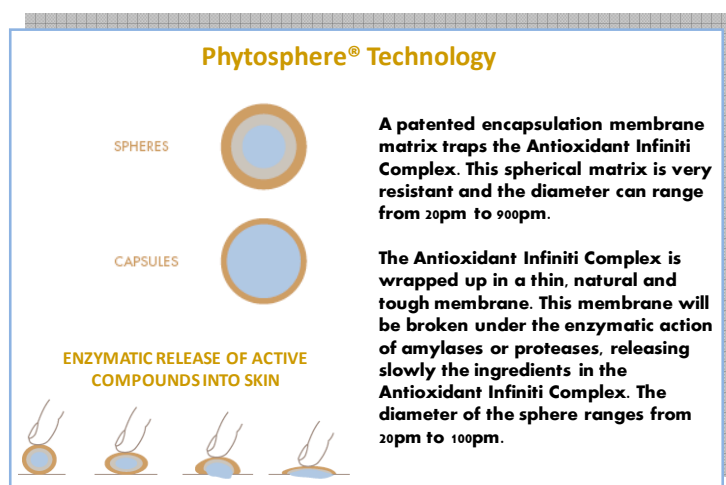


Isoflavan structure ³

Modern science has shown that grapes, their seeds and their by-products contain a set of powerful bioflavonoids. In the early 1990s, it was discovered that the grape seed contained a molecule that is an antioxidant 10,000 times more powerful than Vitamin E in fighting free radicals. In 1995, a French company, Caudalie, introduced its first products using the power of grape extracts for the skin. Today, Caudalie has 42 products, employs 180 people, and is sold in 25 countries worldwide, according to its website.³

Red wine has always been considered a great source of bioflavonoids, but they are also found in citrus fruits (rinds especially), berries, and green tea. Consumers and food manufacturers have become interested in flavonoids for their possible medicinal properties, especially their role in prevention of cancers and cardiovascular diseases. Although physiological evidence is not yet established, the beneficial effects of fruits, vegetables, tea, and red wine have sometimes been attributed to flavonoid compounds.⁴

In addition to using the highest quality ingredients in its own Meritage Complex, at the heart of the delivery system is the *Antioxidant Infiniti Complex*, which has been formulated with a patented Phytosphere® vector delivery system to encapsulate and deliver a complex of polyphenols and other nourishing ingredients directly into the



³ http://caudalie-usa.com/site/caudalie_original_story.html

⁴ <http://en.wikipedia.org/wiki/Flavonoid>

skin. Phytosphere® Technology is a unique encapsulation technique based on plant polymers that protects and effectively delivers active compounds. As a result of being encapsulated by the Phytosphere® technology, the active ingredients are protected against the environment until application onto the skin, therefore improving penetration and also regulating the release of the ingredients onto the skin.

In developing the Antioxidant Infiniti Complex that is the core of the DAVI line, the Company partnered with a specialty laboratory located France. The lab is a market leader in the development of active compounds and related technologies for the cosmetics industry and the industry of beauty in particular. The lab’s clients include the research and development teams of Avon, Beiersdorf, Coty, Chanel, Clarins, Estée Lauder, Henkel, L’Oréal, LVMH, Johnson & Johnson, Natura, Pacific, Shiseido, YSL Beauté, etc.

Distribution Strategy

The Company is continually striving to expand its multi-channel distribution, which is a key element of its strategy. The plan is to sell directly or through licensing agreements with third party distributors, to upscale department stores, specialty retailers, prestige hotels and resorts, salons and spas, on cruise ships, and in-flight and duty-free shops. Davi’s key distribution initially will be through companies in the lodging and travel industries – and direct-to-consumer sales through infomercials. Though these avenues present retail sales opportunities, the Company will follow close behind with other selected traditional retail partners. In addition, DAVI can market its products directly through physician practices. In recent years, cosmetic surgery and dermatology practices have quietly and steadily established a “medical retail” market in which skincare and other products are directly sold to patients.

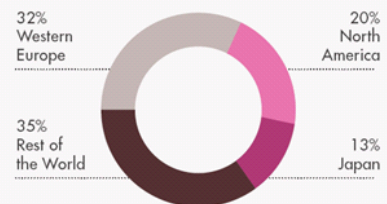
At the same time, while the initial focus is on the U.S. market, Davi Skin management is already negotiating with potential partners with access to distribution in Japan and has had initial inquiries from potential partners in Hong Kong, China, Singapore and Korea. Asia and Western Europe are huge markets for the Company’s products.

According to DAVI’s most recent filing, the Company has already identified one international airline and a luxury hotel chain that intend to carry its line of skincare products at a retail level once development of DAVI’s own products has been completed.

FORECAST - Global Duty Free & Travel Retail Sales 2007 - 2012 with Beauty Products’ Market Share



BREAKDOWN OF THE WORLDWIDE COSMETICS MARKET BY GEOGRAPHIC ZONE IN 2008¹



¹ Source: L’Oreal 2008 estimates based on manufacturer selling prices

KEY MANAGEMENT

Carlo Cesare Mondavi, Chairman & Founder

Mr. Mondavi grew up in the prestigious Mondavi winegrowing family from Napa Valley, California. His grandfather Robert Mondavi (founder of Robert Mondavi Winery) and father Tim Mondavi (winegrower at Robert Mondavi Winery) have instilled a legacy of family values and business ethics that he honors vigorously. Mr. Mondavi began working at the Robert Mondavi Winery in 1987. He now sits on the family council and actively

participates in special events for sales and marketing. Mr. Mondavi studied International Business at the University of Aix en Provence, France and Language Studies at the University of Milan, Italy. He founded Davi Skin in 2003 with the vision of improving skin health with the luxurious antioxidants found in wine and grapes.

Parrish Medley, President & Chief Executive Officer

Mr. Medley has over 20 years experience in the securities and investment banking industry. Mr. Medley joined Davi Skin in 2004 after having been employed as a venture capitalist and a private money manager from 1997 to 2004. His previous experience includes roles as a manager and financial consultant for numerous registered brokers / dealers, including Bear Stearns & Co. In 1990 Mr. Medley founded Palm Beach Tan, Inc. and grew it into a multi-chain business which was scheduled to go public prior to being purchased by a group of investors in 1997. Mr. Medley graduated from Southern Methodist University in 1986 with a Bachelor of Business Administration.

J. Bernard Rice, Chief Financial Officer

Mr. Rice began his career with IBM in sales as a medical specialist in Atlanta in 1977. In 1983, Mr. Rice entered IBM's finance fraternity and was an active pioneer of IBM's business approach to software as a strategic imperative. His work in business case structure and portfolio analysis led him to a role as IBM's finance director for application software in 1985, Executive Assistant to IBM Chief Financial Officer in 1989, and Chief Financial Officer and General Partner for IBM Venture Capital Group in 1993. In this role, Mr. Rice was highly involved with IBM's ventures with Apple Computer, Blockbuster Entertainment Joint Ventures, and investments in the media industry and video on demand pilots with Bell Atlantic and Cox Cable. Mr. Rice also was responsible for managing IBM's first steps in the consumer software arena.

INVESTMENT CONCLUSION

Capital Resources

As of the end of last year, the Company had a small working capital deficit and we expect that DAVI is operating fairly lean. In January, the Company raised \$575,000 from the sale of 1,150,000 common shares (at a price of \$0.50 per share) to two foreign investors. Management anticipates these funds will be sufficient to fund working capital needs during the development and initial roll-out of own products. In order to fully implement its business plan, however, the Company expects that it will need to raise up to an additional \$2 million.

Risk Factors

Competitive Threat. The skincare industry is increasingly competitive. The Company's competitors include larger companies that have significantly more financial resources, as well as the ability penetrate various markets faster.

Limited Trading History. The Company's shares have only been trading since late January and as of the date of this report, we would not consider the market for its shares liquid, although recent trading activity has picked up dramatically. Investors should be aware of the bid/ask spread and it should be noted that most reverse merger stocks start out like this. We expect liquidity to improve once market awareness increases and the shares find a consolidated price base.

Limited Operating History. DAVI is essentially a start-up operation, and like most fledgling companies, has no revenue or earnings as of the date of this report. Thus, as good as the name is – and as receptive as some major companies have been to carry the line – we need to approach things with some degree of caution. We believe in the story, however, and anticipate more predictability in the future.

Dilution. It appears the Company will surely need to raise additional capital to execute its plan of operation. All else being equal, the issuance of additional equity will cause dilution and could depress share price. Furthermore, there is no assurance that DAVI will be successful in obtaining additional funding.

Recommendation and Conclusion

Valuing a start-up, even with the solid potential of DAVI, but with a limited operating history and little visibility is a daunting task at best. Especially with development stage companies, estimating revenue and earnings is nearly impossible with any reasonable certainty. That makes traditional valuation methods such as discounted cash flow (DCF), and multiple comparisons, such as discounted forward price-to-earnings ratio (P/E), and discounted forward price-to-sales ratio (P/S), also an impossibility, or at least having limited value in our opinion.

With that said, we are initiating coverage of Davi Luxury Brand Group, Inc. with a Speculative BUY rating, not because we don't appreciate the Company or its model, but rather the limited operating and trading history.

We feel that the Company is certainly in a solid market and besides capital, has all the elements for success: a recognizable, high-end name (brand), with a product to match. It is obvious that demand is and will likely remain very strong for premium, natural antiagers.

Furthermore, we see the licensing strategy as a smart, cost-effective launch. While manufacturing is not controlled by the Company, it allows for revenue to be generated and brand recognition to be built at virtually no expense. With the new agreements in place, it seems apparent that management has the wherewithal to secure these contracts, and that well-established, large companies – many with household, luxury brand names - are receptive to the DAVI brand and see its potential.

Operating results and stock performance could be subject to volatility as the Company grows and we would expect fundamentals to improve once DAVI finishes development of its own product, expands production and begins a run rate of retail and DTC sales. With risk capital, we see DAVI as a solid long-term play in anticipation of stronger performance in FY2011 and beyond.

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About the Analyst

Randy Lewis, CFA, founder and Senior Equity Analyst of EquityNet, has more than 14 years experience in equity and portfolio analysis, as well as financial consulting and strategic planning. Prior to forming EquityNet, Mr. Lewis served as an equity analyst at SSI Investment Management, Inc., a \$500-million, money management firm, specializing in sophisticated, hedged investment strategies, and serving institutional and high net worth clients. Previous to SSI, Mr. Lewis was a financial analyst for Griffin Financial Services, the securities brokerage arm of Home Savings of America, the then-largest savings and loan in the U.S. Mr. Lewis has had several articles published, most recently in HFR Journal of Hedge Fund Research on the subject of merger arbitrage. He received his Bachelors Degree with honors in Finance from California State University, Fullerton, his MBA at the Anderson School of Management at UCLA, and has earned the Chartered Financial Analyst (CFA) designation. He is also an assistant professor of business at Pierce College in Los Angeles and a member of the National Association of Certified Valuation Analysts (NACVA).

Explanation of Ratings

- **STRONG BUY** – The analyst feels that the stock is significantly undervalued and holds superior long-term price appreciation potential.
- **BUY** — The stock appears attractively valued and the analyst feels the stock's total return will exceed that of the market over the next 12 months.
- **SPECULATIVE BUY** - Under current conditions, the stock for the most part appears to be approximate fair value, but short-term event(s) could dramatically alter the future landscape of the company in terms of revenue, earnings and cash flow.
- **HOLD** — The stock appears appropriately valued and the analyst believes the stock's total return will be relatively inline with the market over the next 12 months.
- **SELL** — The stock appears overvalued and the analyst believes the stock's total return will be below the market over the next 12 months.

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