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3rd Quarter  
Market Update  
& Industry Spotlight

## Middle Market M&A

- According to Thomson Reuters, M&A activity remained slow in the second quarter of 2013.
  - 418 deals worth \$1 billion or less closed, which is a 5% drop from the number of deals in the first quarter and about 25% less than the second quarter of 2012.
  - At \$53.7 billion, deal value was slightly higher in the second quarter than the preceding quarter's \$52.8 billion but lower than the same quarter a year ago, when deal value came in at \$65.3 billion.
- Despite the down quarter, dealmakers remain optimistic about the balance of the year. "We have an abundance of capital available in the debt markets, private equity funds with a fair amount of capital at their disposal-all of these things should be factors to show an increase in M&A activity," says Ted Koenig, chief executive of Chicago-based lender Monroe Capital LLC.

Source: Anthony Noto, Mergers and AcquisitionsSourceMedia.

## Healthy Foods Industry

Organic food sales in the U.S. have increased at annual rate of 12% to \$27 billion in 2012 from about \$11 billion in 2004, according to the U.S. Department of Agriculture.

Organic food sales accounted for more than 3.5% of total U.S. food sales in 2012.

Sprouts Farmers Market (Nasdaq: SFM) went public on August 1, 2013. Sprouts is a 163-store supermarket chain that sells natural and organic food, and that is backed by Apollo Global Management LLC (NYSE: APO) and Silver Canyon Group.

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Sprouts' shares surged 123% on its first day of trading, the best IPO the market has seen in two years.

In July, VMG Partners, a Newport Beach based private equity firm focused on consumer brands, sold Sea Cliff, N.Y.-based portfolio company Robert's American Gourmet Food LLC to B&G Foods Inc. (NYSE: BGS) for \$195 million. The portfolio company does business as Pirate Brands and makes Pirate's Booty, Smart Puffs and Original Tings brand snacks.

According to Michael Mauzé, co-founder of VMG, "Consumers are looking for healthy snack alternatives, and Pirate's Booty offered that." After investing in Pirate Brands in 2008 alongside Mike Repole, co-founder of Vitaminwater and chairman of Pirate Brands, VMG grew Pirate Brands' distribution to more than 70% of the total possible outlets it could be sold in, up from 50%.

"Strategic buyers are looking for authentic brands in those spaces, and those authentic brands are getting built by the entrepreneurs out there. It's hard to take an unhealthy brand and even reformulate it to make it healthy," says Mauzé. "It's much easier for a large consumer products company to buy a healthy brand with healthy attributes than to create one."

According to Molly Ashby of Solera Capital who is on the board of publicly traded Annie's, "Retailers - grocery, mass, club - are rapidly expanding their product offerings in the sector, which is also fueling industry growth."

Source: "Snack Time - Sweeping shifts in U.S. lifestyles propel a wave of food and beverage deals" by Allison Collins. Mergers & Acquisitions, August 14, 2013.

## Restaurant Industry

- In March, Buffalo Wild Wings made a minority investment in PizzaRev, which at the time was a three-store chain based in Northridge. Since then, the company has opened two more stores, announced plans for an additional two stores and just recently sold its first franchise to Buffalo Wild Wings.
- In June, Sun Capital acquired Aliso Viejo-based Johnny Rockets, a 1950s-style diner with 300 restaurants in 30 states and 16 countries. According to John Gordon, principal of Pacific Management Consulting Group in San Diego, the company's asking price was in the range of \$100 million to \$150 million, which would be about nine to 13x EBITDA of about \$12 million.
- In January, Santa Monica-based vegetarian fast-casual chain Veggie Grill raised another \$20 million from existing investors led by Brentwood Associates. The funds will be used to support the company's plans to double its unit count over the next 18 months-the chain currently has 16 units, mostly in Southern California but with some locations in Northern California, Oregon and Washington.
- In July, Wendy's announced plans to refranchise 425 company-owned stores within the next 12 months. The locations are all west of the Mississippi in Albuquerque, Austin, Dallas, Hawaii, Los Angeles, Phoenix, Portland, Oregon, Sacramento and

Salt Lake City. According to Restaurant Finance Monitor, the stores are expected to sell for approximately \$340,000 each, which would be 5.5x store level EBITDA of \$62,000 each; however, the price could be reduced if corporate is compelled to provide incentives for remodels.

- In January, Beverly Hills-based Sprinkles Cupcakes raised equity capital from KarpReilly LLC, a private equity firm with multiple past and present foodservice investments. Sprinkles operates 11 bakeries in multiple cities, the Sprinklesmobile cupcake food truck and a gourmet cupcake vending machine.
- Last December, two local firms were involved in deals involving multi-unit franchisees of national brands. Sterling Investment Partners bought the 224-unit Southern California Pizza, the largest Pizza Hut franchisee in California. Also, Nimes Capital, decided to get into the franchise business by purchasing 80-unit Pacific Island Restaurants, the largest franchisee of Taco Bell and Pizza Hut in Hawaii. According to National Restaurant News, the prices for large franchisees have increased from the historical EBITDA multiples of 4 - 5x to recent levels of 6 - 7x and sometimes more.

Sources: Nation's Restaurant News and Restaurant Finance Monitor.

## Branded Apparel Industry

In August of this year, Authentic Brands acquired Spyder, a Colorado-based an outdoor ski and snow brand. This is the first winter sports brand acquisition for Authentic Brands, which already owns Judith Leiber, Andrienne Vittadini and Viking. New York-based Authentic Brands, in partnership with Los Angeles-based private equity firm Leonard Green & Partners, manages consumer brands.

In June 2013, Joe's Jeans Inc. (Nasdaq: JOEZ) announced it was buying Hudson Clothing Holdings Inc. for \$97.6 million. Los Angeles-based Hudson designs and markets women's and men's apparel, focusing on denim. Joe's Jeans, headquartered in Commerce, focuses on denim and other types of apparel for men, women and children. Boston private equity Fireman Capital Partners acquired a controlling stake in Hudson in 2009.

In May, TowerBrook Capital Partners LP announced it was taking True Religion Apparel Inc. (Nasdaq: TRLG) private in an \$835 million transaction.

In February, Iconix Brand Group Inc. (Nasdaq: ICON) bought London denim label Lee Cooper for \$72 million

In June, Sycamore Partners' purchased pop-culture retailer Hot Topic Inc. (Nasdaq: HOTT) for about \$625 million-a deal which is emblematic of PE focus on brand name properties that resonate with consumers.

Source: "Joe's Jeans Pays \$97.6M for Hudson Clothing" by Allison Collins, Mergers & Acquisitions, July 2013.  
Source: "Authentic Brands Adds Spyder to Portfolio" by Allison Collins, Mergers & Acquisitions, August 2013.

## Telecom, Media & Technology Industries

The middle market TMT sector remained active in the second quarter with a number of

**deals:**

- In August, 2013 Silver Lake Sumeru, the middle market private equity arm of Silver Lake Partners announced in a Reuters press release that it had acquired a controlling interest in BlackLine Systems, a fast growing Calabasas-based financial software provider that boasts Boeing Co and AT&T as clients, for \$200 million.
- In June, The Riverside Company, a private equity firm, announced it had acquired Blue Microphones, of Westlake Village, a leading innovator of microphone technology and design for professional studios, live performance and consumers for home and portable electronics. Blue Microphones was previously owned by a Los Angeles-based private equity firm, Transom Capital Group.
- Sinclair Broadcast Group Inc. agreed to buy four small-market television stations owned by Cox Media Group for \$99 million, the latest deal for Sinclair in a string of 30 mid-market acquisitions over the past year and a half.
- Global Telecom & Technology, Inc. (GTT), a telecommunications service provider, acquired the global data services business of Neutral Tandem, Inc. (doing business as Inteliquent), a provider of intelligent networking to solve challenging voice interconnection and interoperability issues, for \$54.5 million. The global data business had revenues of \$69.5 million and provides IP transit and ethernet services.
- GLENTEL, Inc., a Canada-based provider of telecommunications services and solutions, has agreed to sell its tower business assets to SBA Communications Corporation, a US-based owner and operator of wireless communications infrastructure, for a consideration of CAD12 million (\$12.01 million).
- According to a USA Today article published on August 26, the Tesla Model S outsold all models from other luxury brands Porsche, Volvo, Lincoln, Land Rover and Jaguar during the first half of the year in state of California, as reported by the California New Car Dealers Association, based on new-vehicle registrations. As of 9/9/2013, according to Yahoo Finance, Tesla's (Nasdaq: TSLA) market capitalization was \$19.4 billion, 15x trailing 12 months revenue (not earnings), which is an increase of 371% (up almost 5x) since the beginning of this year

Source: MergerMarket and Mergers & Acquisitions, June to August 2013.

Thank you for continuing to keep us in mind for opportunities.

Regards,  
David Bonrouhi  
Andre Stokes  
Leslie Lum

**About Calabasas Capital**

Calabasas Capital is a boutique financial advisory firm providing the following investment banking services primarily to lower-middle-market privately-held companies, business owners and entrepreneurs:

**Sell-Side and Buy-Side Mergers & Acquisitions**

Private Equity & Debt Capital Raising

Acquisition Financing

Financial Restructuring

Late-stage Venture Capital Raising

Sales of non-core assets/divisions of larger public and private companies

Our principals have significant investment banking and private equity experience working with companies in a broad range of manufacturing and services industries with particular expertise in consumer products and services (food, apparel, footwear, electronics, household goods), retail (including restaurant chains), healthcare, business services (online and offline, including financial, marketing, printing, equipment rental, post-production, and building maintenance), digital and traditional media, telecom, technology (eCommerce, software, IT services) and industrial manufacturing and distribution.

Regards,



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