

From: Calabasas Capital <david@calabasacapital.ccsend.com> on behalf of Calabasas Capital <david@calabasacapital.com>
Sent: Thursday, October 30, 2014 10:06 AM
To: David Bonrouhi
Subject: Calabasas Capital Market Update & Industry Spotlight

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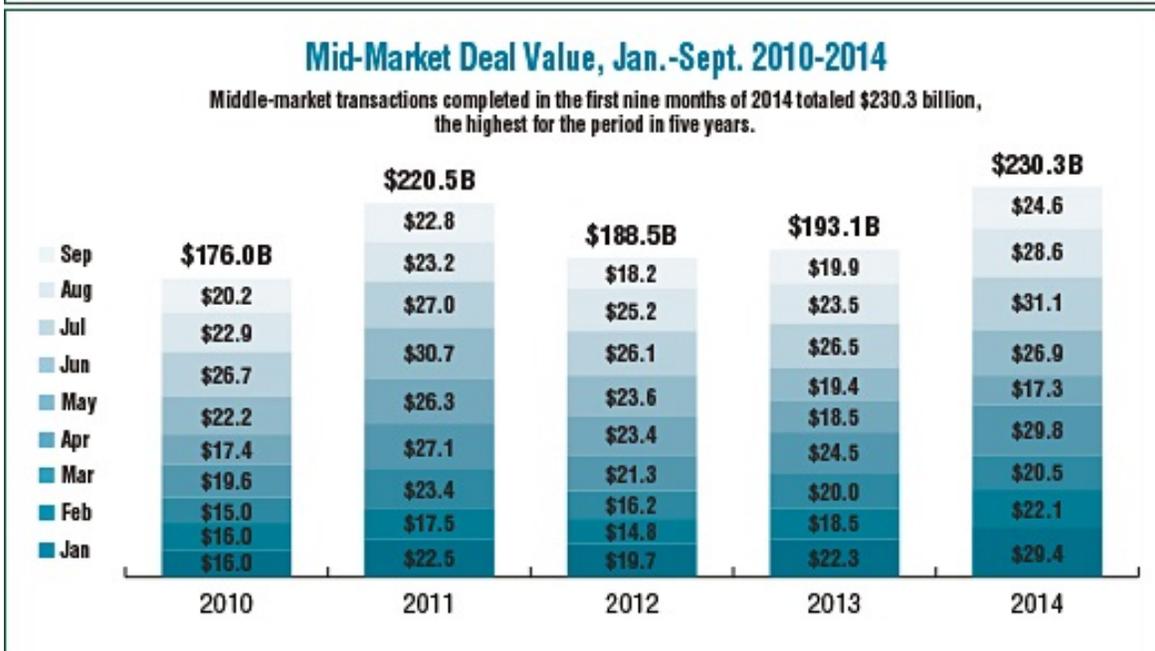
3rd Quarter 2014 Market Update & Industry Spotlight

June 2014

Dear David,

We hope you find our latest market update insightful. We have included a spotlight on a few of the key industries we have been tracking closely, including Business Services, Nutritional Supplements, Restaurants & Retail and E-Commerce and would you like to invite you to a great event next week.

U.S. Middle Market M&A*



- The first three quarters of 2014 delivered the highest middle-market deal value for the period in five years.
- Dealmakers have been predicting that 2014 would be a great year for M&A, and, so far, they're right.
- The first nine months of the year yielded 1,721 completed middle-market transactions, the second-highest deal volume for the January-through-September period in five years. Total deal value was \$230.3 billion, the highest for the period in five years

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Sources: Mergers & Acquisitions. Includes deals value between \$25MM and \$1Bn.

Business Services*

- In October 2014, TPG, a private-equity firm with \$66 billion in assets, acquired a majority stake in Creative Artists Agency, adding to its holding in Hollywood's biggest talent agency. The new funds provide CAA with capital to grow. TPG first invested in the Los Angeles-based agency in 2010. TPG, based in Fort Worth, Texas, is stepping up its investment at a time when technology is changing the entertainment business, giving artists represented by CAA new outlets, from Netflix to YouTube. "We are excited about expanding the ways we serve clients and taking advantage of countless new opportunities as technology, content, brands, sports and media converge," CAA said in the statement.
- In October, Santa Monica-based private equity firm Clearlake Capital Group acquired AmQuip Holdings, which provides equipment to the energy industry, from Altpoint Capital Partners. AmQuip, headquartered in Pennsylvania, provides manned and bare rental lifting equipment and services to the North American energy and industrial markets. The company has 13 branches that serve customers in 36 states. AmQuip has about 500 cranes that can lift between six and 716 tons.
- In August, 2014, Screen Engine, a Century City-based market research services firm to the film industry acquired North Hollywood-based, ASI Entertainment, a leading market research services firm to the television and cable TV industries.
- In August, a new private equity firm, Observer Capital, acquired NY-based SourceMedia Inc., the publisher of Mergers & Acquisitions, American Banker, the Bond Buyer, Financial Planning and Accounting Today, from PE firm Investcorp. "We believe the B-to-B market is poised for growth, particularly with the application of new digital technologies - and we see SourceMedia as an ideal platform from which to pursue that growth," said Joseph Meyer, who founded Observer Capital in 2013.
- In June 2014, Orange County-based Mophie, the maker of mobile battery cases, acquired Long Beach-based Submodal LLC. Submodal, is a web design and software development studio. Mophie says the deal helps it add digital development expertise.
- In June, Los Angeles-based Levine Leichtman Capital Partners purchased Smith System Driver Improvement Institute Inc. from Transportation Resource Partners. Texas-based Smith provides collision avoidance training for fleet vehicle drivers. The company trains driver through on-road, classroom and e-learning driver programs. Transportation Resource Partners is a private equity fund affiliated with Penske Corp. Last November, Levine acquired Genova Diagnostics, a clinical testing laboratory.
- In June, Calabasas, CA-based ValleyCrest Companies (landscaping) was acquired by KKR-backed Brickman Group Ltd, a Maryland-based landscape services company for an estimated \$1 billion. MSD Capital (Michael Dell) had acquired ValleyCrest in 2006.
- June, publicly traded IT consulting firm, Cognizant Technology Solutions, acquired Itaas Inc, a Duluth-based provider of digital video solutions.
- In May, private equity-backed Source Refrigeration & HVAC Inc., based in Anaheim, acquired Service Refrigeration Co. The Texas-based target provides commercial and industrial refrigeration and air conditioning services to the grocery, food distribution and industrial markets. Source Refrigeration & HVAC provides new system design and

installation, remodels and repair services for refrigeration and HVAC systems. The buyer is owned by Arsenal Capital partners while the seller was owned by Freestone Partners.

- In May, JMI Equity made an investment in Dean Evans & Associates Inc. Dean Evans, headquartered in Denver, provides facility scheduling and event management software. Baltimore, Md.-based JMI focuses on making software and technology investments.
- In April, Warburg Pincus acquired PayScale Inc, a Seattle-based provider of online compensation survey for \$100 million in cash, in a leveraged buyout transaction.
- In April , Apollo Global Management acquired Event Rentals Inc., an Inglewood, CA-based provider of party supplies rental services, in a leveraged buyout transaction.
- Balance Point Capital Partners LP, a unit of First New England Capital LP, acquired New Jersey-based Johnny on the Spot , which provides portable toilet rental services.
- In April, Fandango Inc, a unit of Comcast Corp, purchased a series of channels that will help scale up the site's online video offerings in a big way. The movie ticketing company has acquired the MOVIECLIPS network from YouTube brand management company ZEFR, which is based in Venice, CA. MOVIECLIPS is the most popular collection of licensed movie content on YouTube. The 25 YouTube channels in the MOVIECLIPS network have more than seven million subscribers and average 200 million views per month.
- In March, National Technical Systems Inc, a unit of Aurora Capital Group, acquired the testing business of Wyle Inc., an El Segundo-based provider of engineering, testing, and other technical support services, from Court Square Capital Partners.
- In March 2014, SFX Entertainment Inc. acquired Flavorus Inc, a Los Angeles-based provider of online ticketing services, for \$18 million in cash.

*Sources: Reuters; Mergers & Acquisitions; San Fernando Valley Business Journal.

Nutritional Supplements*

- According to IBIS, the vitamins, minerals and supplements ("VMS") industry is expected to grow at a 7% annual rate from \$32 billion in 2012 to an estimated \$56 billion in 2020.
- In July 2014, Hormel announced it was acquiring CytoSport, the maker of protein drink Muscle Milk from TSG Consumer Partners for \$450 million. CytoSport, headquartered in Benicia, California, is expected to help Hormel grow its specialty foods segment.
- In July, Alphaeon Corp. announced the purchase of Physician Recommended Nutraceuticals. PRN, headquartered in Pennsylvania, develops specialty omega-3 pills and liquid supplements - including Dry Eye Omega Benefits - that are designed to help people who have dry eyes or macular degeneration. The deal is worth up to \$55 million. Alphaeon is a subsidiary of Strathspey Crown Holdings LLC, a Newport Beach, California, private equity firm that partners with health care specialists. The buyer focuses on lifestyle health-care-related products, and it owns Teoxane Cosmeceuticals, a line of cosmetic-pharmaceutical products that claim to have anti-aging and skin-soothing qualities.
- In July, well-known diet brand Slim-Fast was acquired by Dallas private equity firm

Kainos Capital from Unilever. Slim-Fast makes branded weight-loss and meal replacement products, including snack bars, protein meal bars, protein meal shakes and protein shake mixes. The company's products are sold to retail customers in North America, the U.K. and Ireland. Unilever will retain a minority stake in the brand.

- In July, Kroger, the largest U.S. supermarket chain, said it would buy Vitacost.com Inc. in a \$280 million deal. Vitacost sells more than 45,000 products online, including vitamins, minerals, herbs, supplements, sports nutrition products and natural and organic foods. The deal also helps to expand Kroger's e-commerce capabilities and allows the supermarket giant access to the 16 states where it does not have supermarkets or other retail operations.
- In July, New York private equity firm MidOcean Partners made a minority investment in nutritional supplements company Nutrabort. Texas-based Nutrabort makes sports nutrition products consumed before and after workouts under the Cellucor, Neon Sport and Royal Sport brands.
- In June, Helen of Troy Ltd. acquired online supplement retailer Healthy Directions LLC in a \$195 million deal (est. 8x EBITDA) as a way into the vitamins and supplements market. The Bethesda, Maryland-based target sells doctor-branded vitamins, minerals and supplements online. Helen of Troy, headquartered in El Paso, Texas, focuses on consumer products, and it owns or licenses the Oxo, Honeywell, Pur, Braun, Vicks and Stinger brands. Healthy Directions was sold by funds controlled by American Securities and ACI Capital Co.
- In June, International Vitamin Corp. Inc. bought nutritional supplements maker Adam Nutrition Inc., which is headquartered in Mira Loma, California, to increase its manufacturing capacity. The company now has manufacturing, packaging and distribution capacities on the West and East coasts of the U.S. The deal also provides International Vitamin with a way to expand distribution channels and products for both companies, the company said in a statement.
- In June, Capstone Financial Group Inc. agreed to make a \$57 million investment in nutritional supplements company Twinlab Consolidation Corp.
- In February, Kainos Capital acquired InterHealth Nutraceuticals, which makes ingredients used in nutritional products, including herbal extracts and minerals.

*Sources: Reuters, Mergers & Acquisitions.

Restaurants & Retail*

- In October, Lemonade, a cafeteria-style fast-casual restaurant chain based in Los Angeles, with 15 stores, announced that private equity firm KKR acquired a minority stake. Interestingly, KKR funded this investment off of its own balance sheet, not from one of its funds.
- In September, JAB Holdings (owner of Peet's Coffee & Tea Leaf, Caribou Coffee and other retail chains) announced it was acquiring Einstein Noah Restaurant Group in a take-private transaction. The enterprise value of the transaction is \$474 million, including assumed debt, which represents a multiple of 10.5x EBITDA according to

publicly available financial statements.

- Los Angeles-based private equity firm Brentwood Associates made two retail acquisitions in just the past few months, including Marshall Retail Group in August and Z Gallerie in October. Las Vegas-based Marshall Retail Group is a leading specialty retailer for high-foot-traffic marketplaces with locations in major casino-hotels and airports across the U.S. Gardena, CA-based Z Gallerie is a leading lifestyle retailer offering a variety of unique home goods, including furniture, artwork, lighting, tabletop items, textiles and decorative accessories. Z Gallerie operates 55 retail locations across 20 states, and has a rapidly growing e-commerce business.
- In July, Berkshire Partners announced it was acquiring Portillo's, the largest privately held restaurant chain in the midwest, for an estimated \$875 million, which represents a multiple of 12.5x EBITDA. Portillo's, known for its hot dogs and Italian beef sandwiches, has 38 locations in Illinois, Indiana, California and Arizona, according to its website. Founded in 1963 by Dick Portillo out of a small trailer, Portillo's posted revenue of more than \$300 million and EBITDA of more than \$70 million last year. Other restaurants owned by Portillo's include Barnelli's Pasta Bowl, Luigi's House and Honey-Jam Cafe.
- In May, Sentinel Capital Partners and TriArtisan Capital Partners acquired TGI Fridays from Carlson, a global hospitality and travel company. The next month, Friday's announced plans to refranchise 247 stores in the Midwest and on the East coast for an estimated 5.0x to 5.5x EBITDA (after overhead).
- In February, KarpReilly acquired a controlling interest in Patxi's Pizza, a Sausalito, CA-based 12-unit rapidly growing full service restaurant chain. Patxi's is about to embark on major West Coast expansion plans, including the rollout of almost 60 new outlets in the next five years and new ovens that will help the company compete with fast-casual pizza chains.
- In January 2014, Lee Equity Partners, an affiliate of Thomas H. Lee, made a growth equity investment in Project Pie, a fast casual pizza chain based in Carlsbad, CA with six stores.

*Sources: Nations Restaurant News, Restaurant Finance Monitor, Mergers & Acquisitions

E-Commerce*

- Internet retail sales in the U.S. have grown at a compound annual growth rate of 13.5% since 2008, from approximately \$140 billion to \$263 billion in annual sales in 2013; compared to only 2.8% annualized growth in total U.S. retail sales.
- Internet retail sales have expanded from 3.5% of total U.S. retail sales in 2008 to an estimated 5.8% of total retail sales in 2013.
- Internet retailers finished 2013 with another strong Q4, posting an estimated 16.0% YOY growth on top of 15.6% YOY growth in Q4 2012.
- M&A activity was down for internet retailers during 2013 compared to the two prior

years, with 52 closed transactions during the year, but still significantly greater than the industry's 10-year average of 43 annual transactions.

- 2014 M&A activity signals a rebound from the prior-year period, driven by strategic acquisitions by retailers building their omni-channel sales and marketing capabilities.
- Strategic acquisitions should continue to drive strong M&A demand in the internet retail industry during 2014, and sustain favorable valuation multiples for acquisition targets.
- In April 2014, Vertana Group, based in New York City, acquired Los Angeles-based Collectible Diecast. Vertana Group has been acquiring specialty e-commerce business since 2012. Collectible Diecast was founded by two brothers in 2000 and is a leading destination for collectible toy car enthusiasts.
- In May, 2014, Wal-Mart acquired Simplicity's platform to speed up smartphone activation. This software will be integrated into Wal-mart Stores and Sam's Clubs later this year, according to Randy Hargrove, corporate spokesman. "We've seen more and more customers choosing where they purchase new smartphones based on where they'll get the best value for their trade-ins. Now, when they come to Wal-Mart they'll not only get low prices on the newest phones and exclusive offerings, but they'll also receive a much quicker process for getting their new phone activated," Karenann Terrell, chief information officer at Wal-Mart, said.
- In February 2014, Bel USA, parent company of supplier Bel Promo and distributor DiscountMugs, acquired certain assets (representing approximately \$35 million in revenue) of online promotional products distributor, Branders.com, based in San Francisco. Just one month earlier, Bel USA was acquired by private equity firm, Comvest Partners.
- In February, online retailer Active Boarder, based in Minneapolis, acquired Altrec Inc., an Oregon-based e-commerce firm out of bankruptcy for \$3.25 million. Altrec is an online retailer of outdoor clothing and equipment. Active Boarder sells snowboarding and other gear online at TruSnow.com, and is affiliated with Active Sports Inc., which operates the-house.com, another outdoor e-commerce retailer. Altrec's sales peaked at \$52 million in 2011 when they became a victim of a cyber-attack of credit card information. Altrec found no evidence the hackers actually acquired the information, but the incident caused delays in updating an inventory system and an expense in bolstering security.
- In January, The Home Depot Inc. bought Houston-based window covering giant Blinds.com from Global Custom Commerce. "The acquisition of Blinds.com positions us well for expansion in the quickly growing online window coverings market," said Home Depot Chairman and CEO Frank Blake, in a statement. "In addition, their unique sales and service model is one we hope to learn from as we continue to create even better interconnected retail experiences for our customers."
- In January, Raleigh, NC-based publishing company Lulu acquired Replay Photos, a Durham company that sells licensed sports and professional photography to consumers online. Replay Photos works with professional sports leagues, collegiate brands and Associated Press and Getty Images to provide hundreds of thousands of images to consumers. "Replay Photos' exclusive imagery and subject matter can be leveraged across Lulu's photo-specialty and publishing product lines to create a level of

personalization and localization that does not exist in the market today," said Tom Bright, president and CEO of Lulu, in a statement. Lulu is best known for helping authors self-publish books, but people also can self-produce calendars, CDs and DVDs.

*Sources: Internet Retailer, Tulley & Holland.

Save the Date: ACG 101 Event on Restaurants

Wednesday, November 5, 2014, 7-9 a.m.
Westlake Village Inn

Our moderators will be David Bonrouhi, Managing Director of Calabasas Capital, and Justine Hunter, a Partner with Moss Adams LLP.

Our panelists will be:

Mario Del Pero, CEO and Founder, Mendocino Farms and Blue Cow Kitchen & Bar. Mendocino Farms serves soups, salads and sandwiches in eight restaurants around Los Angeles, using locally sourced ingredients. Blue Cow, located in downtown Los Angeles, serves locally sourced foods, craft beers and seasonal cocktails in the upscale fast-casual restaurant.

Alan Jackson, Founder and Chef of Lemonade. Alan opened the first Lemonade cafeteria-style fast-casual restaurant in West Hollywood in 2007, and now has 13 more across the Los Angeles area and two in the Middle East. The private equity firm KKR recently acquired a minority stake.

Jim Mizes, President and COO of Blaze Pizza. Jim joined the company in mid-2013, the year after the first Blaze location was opened in Irvine by Rick and Elise Wetzel, founders of Wetzel's Pretzels. Today Blaze has 32 locations, most franchised, and plans to open 20 more in the next few months.

Erik Oberholtzer, Co-Founder of Tender Greens. Founded in 2006 to offer relaxed fine dining with an emphasis on fresh-picked produce and sustainability, the firm now has 17 locations, with more scheduled to open soon.

Paul Potvin, Chief Financial Officer for California Fish Grill. With nine Southern California locations, California Fish Grill has been serving quality seafood at affordable prices since 1998, including "the widest variety of fish tacos served anywhere." Based in Brea, the chain is backed by the private equity firm KarpReilly LLC.

To register please click [here](#)

Calabasas Capital is an Annual Sponsor of ACG 101 (the 101 Corridor Chapter of the Association for Corporate Growth).

About Calabasas Capital

Calabasas Capital is a boutique investment banking firm that provides the following financial advisory 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.

Thank you for continuing to keep us in mind for opportunities. Here's to a strong rest of the year for everyone.

Regards,

David Bonrouhi Andres Stokes Leslie Lum

Tel (818) 657-6130; Cell (213) 500-4135 | david@calabasascapital.com | <http://www.calabasascapital.com>

Calabasas Capital
26610 Agoura Road, Suite 120
Calabasas, CA 91302

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