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Sent: Tuesday, February 18, 2014 8:55 PM
To: David Bonrouhi
Subject: Calabasas Capital Market Update & Industry Spotlight

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CALABASAS CAPITAL

1st Qtr 2014 Market Update & Industry Spotlight

February 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 Consumer Products & Services, Restaurants, and E-commerce.

Middle Market M&A

- According to FactSet Research Systems Inc., M&A activity in 2013 over all was down approximately 12% from 2012 in terms of deal volume but lower middle market deal volume was down almost twice as much at about 21%.
 - In 2013, the number of lower middle market deals (between \$10 million and \$250 million in size) was 976 as compared to 1,229 in 2012, a drop of 21%.
- M&A activity in 2013 in terms of dollar value of deals overall was up 16% over 2012, however, this metric is skewed by a 35% increase in large deals of \$1 billion or more. Lower middle market deal value was actually down 17%.
 - In 2013, the dollar value of lower middle market deals (between \$10 million and \$250 million in size) was \$64.9 Bn as compared to \$78.1 Bn in 2012, a drop of 17%.
- According to Thomson Reuters, in 2013, the middle market experienced strong valuations (as measured as a multiple of EBITDA) during the year, even though M&A activity wasn't overwhelming.
 - Middle-market purchase price multiples (\$25 million to \$1 billion) averaged 9.2x EBITDA through the first three quarters of 2013, which was well above the 2012 level of 7.9x.
 - According to GF Data, in 2013 valuations for private equity acquisitions valued between \$25 and \$50 million increased to an average EBITDA multiple of 6.9x in 2013.

- Leverage Multiples
 - According to S&P, total leverage multiples increased to 4.8x EBITDA in 2013, with senior leverage at 4.1x and sub debt making up the difference - these are levels not seen since 2007.

Sources: SourceMedia/Mergers and Acquisitions, Thompson Reuters, FactSet Research Systems, S&P.

Consumer Products & Services

Recent notable deals and market trends in the lower middle market segment of the consumer products and services industries include:

- In February 2014, Jos. A. Banks agreed to acquire Eddie Bauer, the outdoor clothing retailer, from Golden Gate Capital, for \$825 million, which represents a multiple of 13x EBITDA.
- In February 2014, Coca-Cola agreed to buy a 10% stake in Green Mountain Coffee Roasters, which in return will be the official maker of the soda giant's single-serve cold beverages, built on its popular Keurig pod-based system.
- In February 2014, TPG Growth, the middle market and growth equity investment platform of TPG, announced the acquisition of a majority stake in e.l.f. Cosmetics, one of TSG Consumer Partners' fastest growing cosmetics brands in the U.S.
- In January 2014, Crestview Partners and Maybrook Capital Partners teamed up to acquire denim company NYDJ from Falconhead Capital. Terms were not disclosed, but the deal brought Falconhead a return of three times its invested capital on the deal, according to Mergers & Acquisitions, a publication of SourceMedia.
- In January 2014, Allied Beverages Inc., a major Southern California beer distributor, was acquired by Reyes Beverage Group, one of the largest companies in the industry for approximately \$225 million.
- In December 2013, publicly traded Arden Group, parent of Gelson's Markets, an operator of 17 distinctive, full service specialty grocery stores in Southern California, announced it agreed to be acquired by TPG, the global private investment firm, in an all cash transaction valued at approximately \$394 million, which represents an estimated 11.4x multiple of trailing 12 months' EBITDA.
- In December 2013, Leonard Green & Partners LP agreed to buy Lucky Brand Jeans for \$225 million.
- In December 2013, Canada Goose, the maker of expensive winter jackets with distinctive red, white and blue arm patches, sold a majority of the company to Bain Capital. According to DealBook, Ryan Cotton, a principal at Bain Capital, said Canada Goose was "a unique global brand that exudes authenticity."
- In November 2013, Yucaipa Cos. completed the acquisition of Fresh & Easy

Neighborhood Market from Tesco PLC by assuming its primary liabilities and leases. In a Chapter 11 filing made a few weeks following the sale announcement, Fresh & Easy said it operated nearly 170 stores in Arizona, California and Nevada, and employed more than 4,000 people.

Sources: SourceMedia/Mergers and Acquisitions; Los Angeles Business Journal, Wall Street Journal.

E-commerce

- In February 2014, MyWebGrocer, acquired Buy4Now Technology Group in a deal that will take MyWebGrocer global. Buy4Now, headquartered in Dublin, provides e-commerce software services to grocery and retail clients in Europe.
- In January 2014, Gores Group acquired Zmags Corp., a digital publishing and ecommerce software company that markets a self-service platform that allows people to create commerce experiences for customers on tablet, mobile, social and web channels.
- In December 2013, Amazon Fresh expanded to San Francisco, its third market.
 - In October 2013, eBay acquired Shutl, the UK-based marketplace that uses a network of couriers to deliver local goods within a couple of hours of an online purchase. According to Techcrunch.com, eBay President Devin Wenig said at a media event in New York that "approximately 75% of what people buy is local, found within 15 miles from their home" and that "Traditional retail isn't going away. But it is transforming, and that creates enormous opportunity within the \$10 trillion total commerce market."
 - In June 2013, HGGC, a middle-market private equity firm formerly known as Huntsman Gay Global Capital, acquired MyWebGrocer, Inc. a Vermont-based 14-year-old company that provides Web and digital marketing services for brick-and-mortar grocers, for approximately \$100 million. MyWebGrocer's 2013E revenue was \$50 million and it is profitable.
 - In June 2013 Amazon expanded its Amazon Fresh e-grocery business to Los Angeles in. This was the second city Amazon Fresh entered after entering its first market, Seattle, five years ago.
- In May 2013, according to Internet Retailer, Wal-Mart bought two technology companies to add to its e-commerce research and technology arm @WalmartLabs. OneOps builds cloud-based, automated software to help speed up the process of developing new e-commerce products for customers. Tasty Labs is a social media software development firm. Wal-Mart did not say how it paid for either company.
 - Wal-Mart has acquired about a half-dozen technology startups since founding @WalmartLabs in 2011 and is on track to reach \$9 billion in global e-commerce sales this year, it says.
 - Walmart.com is No. 4 in the Internet Retailer Top 500 Guide and No. 134 in the Social Media 300, which ranks retailers by the percentage of traffic to their web sites from social networks.
 - According to Gordon Brothers' 2013/2014 Grocery Industry Insight, as megastores like Walmart and Target continue to expand their grocery stores, smaller local supermarkets have faced serious competitive headwinds. Approximately 50% of Walmart's revenue stems from grocery sales. While specialty grocers such as Whole Foods will most likely be immune from these competitive forces, the industry as a whole is expected to shift towards large

super retailers.

Sources: TechData, Internet Retailer.

Restaurants

- In January 2014, Sentinel Capital Partners acquired Checkers Drive-In Restaurants, which operates about 800 Checkers and Rally's locations.
- In January 2014, Leon Black's Apollo Global Management announced that it had agreed to acquire CEC Entertainment, which operates 577 Chuck E. Cheese's restaurants, for \$1.3 billion, including the assumption of debt.
- In 2013, Catterton Partners a Greenwich, Conn.-based private-equity firm, which had a big pay day when Noodles & Co. completed its IPO, acquired a number of emerging yet relatively small fast casual chains, including:
 - Protein Bar, a Chicago-based chain with 12 locations, for \$22 million in September
 - PIADA Italian Street Food, an Italian fast casual chain with 14 locations based in Columbus, Ohio
 - Snap Kitchen, a Texas-based, 10-unit "healthy takeaway brand," for \$13 million in September
 - Bruxie, a gourmet waffle sandwich restaurant concept based in Orange County with six locations
- In December 2013, Darden Restaurants announced its intentions to sell or spin off its Red Lobster chain, which along with Olive Garden has been a drag on profits. Clarence Otis, Darden's chairman and chief executive, acknowledged that the casual-dining segment was under pressure. He said the segment had experienced "relatively low levels of consumer demand in each of the past several years" and "additional unexpected softness since June."
- In December 2013, Ruby Tuesday, Inc. announced it hired investment bank Goldman Sachs to explore strategic alternatives. Operating about 703 of its namesake restaurants and franchising another 75, Ruby Tuesday has struggled with declining same-store sales and profits for some time. The company also operates and franchises about 29 locations of the fast-casual Lime Fresh concept.
- In December 2013, Roark Capital Group acquired a majority stake in CKE Inc., owner of the Carl's Jr. and Hardee's burger chains. Roark Capital already had a portfolio of 17 restaurant brands.
- In November 2013, Carlson, the Minneapolis-based parent company of the TGI Fridays casual-dining chain, said it is undertaking a corporate review of strategic alternatives, including a possible sale of the restaurant brand. The nearly 50-year-old Fridays operates about 920 restaurants in more than 60 countries.
- In October 2013, Centre Partners acquired the Captain D's Seafood Restaurant chain from Sun Capital Partners. Known for its hand-breaded fish tenders, Nashville, Tenn.-based Captain D's operates and franchises 527 restaurants in 25 states and on military bases around the world.

- In September 2013, Los Angeles-based Coffee Bean & Tea Leaf was acquired by a group of private equity firms led by New York-based Advent International, along with two Hong Kong-based groups, CDIB Capital and Mirae Asset Private Equity.
- In June 2013, Brentwood Associates acquired Huntington Beach-based Lazy Dog Restaurant & Bar, the popular West Coast restaurant concept with 12 locations that is known for its eclectic menu of memorable family favorites reinterpreted with bold new flavors. CEO and founder Chris Simms will continue to lead the existing management team and expects to continue to grow the Lazy Dog brand.
- In February 2013, Fortress Investment Group invested \$20mm in Umami Burger.
- In January 2013, TSG Consumer Partners made a significant minority investment in a minority equity investment in My Fit Foods LLC, a Houston-based rapidly expanding chain of retail outlets providing fresh, healthy, pre-portioned meals and snacks at affordable prices.

Sources: Nation's Restaurant News and Restaurant Finance Monitor

2014 Outlook

According to Forbes, the following factors are widely expected to contribute to an active M&A market in 2014:

1. Continued favorable credit markets and lending environment enable higher leverage levels
2. Historically low interest rates
3. Increased corporate cash and finite-lived private equity capital reserves
4. Large inventory of companies owned by private equity firms (nearly 18,000 according to the Private Equity Growth Capital Council) that may seek liquidity given strong prevailing market conditions
5. Healthy stock market performance - the S&P 500 was up nearly 30% in 2013 - which may push companies to demonstrate sustained growth through M&A to validate share prices
6. Recent uptick in cross-border M&A activity

Save the Date: ACG 101 Event on the Local Agriculture Industry

Wednesday, March 5th, 2014, 7-9 a.m.

Spanish Hills Country Club, 999 Crestview Avenue, Camarillo CA

For more information and to register please go to www.acg101.org

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. All the best in 2014.

Regards,

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