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FIRM PROFILE: CIRCLE PEAK STEERS CLEAR OF LAVA LAMPS, PET ROCKS

By Joshua Payne

Name: Circle Peak Capital

Founded: 2003

Hometown: New York City

Sectors: Consumer Goods, Wealth and Asset Management

Number of Portfolio Companies: 6

Target Acquisition Size: Companies generating EBITDA between $5 million and $40 million

The way **John Poerink** sees it, retailers and other consumer-goods companies face three main challenges. First, they are often compelled to maintain higher-than-desirable inventory levels that can tie up capital. Second, they frequently need to spend on aggressive marketing campaigns to sustain sales and earnings. Finally, they face the fad factor, which has been the demise or near-demise of the lava lamp, pet rock and countless other products.

But if you can master the tricky terrain of consumer goods, or at least grasp how to navigate it, there is money to be made. That's one of the tenets Poerink and **R. Adam Smith**, the principals of **Circle Peak Capital**, have put to use in building their buyout shop over the past four years. The firm, with four investment professionals total, seeks companies with limited near-term capital costs, including inventory; ones that have well-established products or services to reduce the need for extensive marketing; and ones that can serve as platforms for add-on acquisitions that lower the risk of loss should any one product fizzle. The strategy appears ready to bear fruit: Market watchers anticipate that portfolio company Rocket Dog, a designer and distributor of footwear that made its name in women's shoes and has expanded into men's and children's product lines, is gearing up for a public offering. It's a development that could pave the way for Circle Peak to launch its first fund.

Founded in 2003, New York-based Circle Peak, backed by a stable of wealthy individuals and families, often teams up with other buyout firms and banks to finance acquisitions on a deal-by-deal basis. By operating without a traditional fund, the firm has been under no pressure to deploy capital, and Smith and Poerink take pride in the firm's independent status. (They strongly resist any attempt to lump them in with other "fundless sponsors," which they see more as deal arrangers than deal sponsors.) Said Smith: "The idea was if we take a longer-term view of investments and focus on just private companies and the sectors that we know, then we can differentiate ourselves from the standard private equity firm that is either more generalist in nature or acting as a shorter-term investor."

Circle Peak invests $10 million to $100 million to take control stakes in retail, consumer-goods and wealth management companies generating between $5 million and $40 million of EBITDA. The firm has deployed roughly $200 million in equity in the last two years, in deals with transaction values ranging from $50 million to $500 million. Its six properties are Fischbein, a family of companies that make plastic bag manufacturing equipment; Hill & Valley Inc., a manufacturer of sugar-free baked goods; Luxury Optical Holdings Co., a high-end eyewear retailer; Rocket Dog, the footwear company; Shari's Management Co., a restaurant chain in the Pacific Northwest; and WealthTrust LLC, a holding company for investment advisory firms. Smith and Poerink look at roughly 500 deals a year with a goal of closing from one to three transactions annually.

Executive Partnering

Apart from its unusual industry focus, Poerink said, what sets the firm apart is its intense due diligence process, which costs

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R. Adam Smith

the firm $1 million on average, and its emphasis on partnering with operating professionals. Well before a deal closes, Circle Peak brings in an operating professional with considerable experience in the target company's sector to advise on the deal and, in some cases, to sit on its board of directors when the deal is done. As part of their operating strategy, Smith and Poerink rely on such professionals to help them craft growth plans that can take their companies from, say, $100 million in annual sales to $500 million.

Typical was the firm's landing of **Bernard Andrews**, former CEO and chairman of Eye Care Centers of America, as an operations professional to advise Circle Peak on the creation of Luxury Optical Holdings Inc. In May 2006, Circle Peak bought luxury eyewear chains Lunettes LLC, Morgenthal Frederics Opticians Inc. and Optical Fashion Center Inc., then placed them all under the Luxury Optical Holdings umbrella. Within a year the company grew from 28 to 50 stores. Andrews sits on the company's board and continues to help guide its progress.

John Poerink

Circle Peak Capital Portfolio Companies

Company Name	Industry	Acquisition Announced
Fischbein	Manufacturing equipment	May 2007
Hill & Valley Inc.	Sugar-free baked goods	Aug. 2005
Luxury Optical Holdings Co.	Upscale eyewear retailer	May 2006
Rocket Dog	Footwear designer and distributor	Feb. 2007
Shari's Management Co.	Buffet-style restaurant chain	Dec. 2005
WealthTrust LLC	Investment adviser	Nov. 2006

In a more recent deal, the firm brought in **Cathy Taylor**, the former CEO of high-end fashion retailer Cole-Haan, to work on the acquisition of Rocket Dog; the firm acquired the company at auction in February, teaming with **Golden Gate Capital**, a San Francisco-based buyout shop. Poerink believes Circle Peak's operating philosophy may have been more persuasive than its bid. "I think the sellers were comfortable that we would do right by this company," he said.

Rocket Dog is also an example of an acquisition that put Circle Peak's accumulated wisdom to work. The company's inventory risk is limited because it designs samples first, then manufactures shoes based on pre-orders. The result is that backrooms of stores aren't piled high with shoeboxes. Rocket Dog also has a strong brand with a loyal following, eliminating the need to pour excess capital into marketing. The company generates roughly $100 million in annual sales, which are growing at a rate of 50 percent a year, according to Poerink. "Sales continue to be very robust despite the tough retail environment," he said.

While Poernik and Smith decide on each deal together, they have carved out their own domains. Smith, a 15-year mergers-and-acquisitions veteran who logged time at LBO firms **Caxton-Iseman Capital LLC** and **Castle Harlan Inc**. before striking out on his own, focuses on wealth and asset management companies. Poerink, who joined the firm in 2005, has expertise in branded consumer goods stemming from years working in marketing and development at companies such as The Limited Brands, where he orchestrated the merger of the company's Structure and Express clothing divisions, and Benetton Group SpA, where he worked in international marketing and business development for the United Colors of Benetton and Sisley Brands.

His earlier experience in corporate business development has taught Poerink to approach consolidation plays with caution. At Benetton, Poerink saw the company acquire a slew of sporting goods companies including Nordica, Prince Sports Inc. and Rollerblade. The idea was to consolidate manufacturing, marketing, sales and distribution across the companies so they could all benefit. "Those operating synergies were much, much harder to implement and exploit than we'd ever have imagined," he recalled. Poerink came away from Benetton with a "much more realistic" view of what can go wrong and, more important, how to avoid it. In another lesson particularly relevant to the LBO world, Poerink learned the importance of truly understanding a company's cash flow. "There can be a tremendous amount of volatility in cash flows. Investors, from time to time, have a somewhat too rosy perspective of what the growth opportunities of companies are, and they forget that companies can also go substantially sideways," he said.

Of course, Circle Peak may be in for a major test of those lessons should the economy slow, as many are predicting it will. Should it guide its portfolio successfully through any downturn, the firm will have gone a long way to proving that it deserves to raise a traditional limited partnership and that its investment model is no fad. ❖