

Circle Peak Focuses on Eyewear

*Ari Nathanson
May 15, 2006*

Hindsight, the saying goes, is 20/20, but Circle Peak Capital is betting on its foresight, after staking its claim in the luxury eyewear market through a deal for three privately-owned eyewear retail chains. The New York firm is partnering with DLJ Merchant Banking Partners and Goode Partners in the transaction.

The three companies being acquired — Lunettes LLC, Morgenthal Frederics Opticians Inc. and Optical Fashion Center Inc. — now serve as the core of a new platform company called Luxury Optical Holdings Co. Terms of the three separate transactions were not disclosed.

Circle Peak became privy to the luxury eyewear market in mid-2005, when it teamed up with former Richemont Group executive Pierre Keyser.

Keyser had been in takeover discussions with the owners of the three companies for years, and needed a capital partner to consummate the acquisitions. Keyser now sits as the CEO of Luxury Optical.

Also joining the team is Bernard Andrews, the former head of Eye Care Centers of America, the 380-store eyewear retailer that Golden Gate Capital acquired from Thomas H. Lee Partners for \$450 million. Andrews will serve as a senior operating advisor and board member.

“In dealing with the smaller businesses it was essential to have a familiar operating voice with these entrepreneurs throughout the process,” Circle Peak Managing Partner R. Adam Smith said, adding that each company will keep its unique identity and brand name going forward.

Asked about Circle Peak’s attraction to these particular properties, Smith noted that it was a combination of the companies’ reputations on top of other factors.

“These are three of the largest and longest-standing chains in the business—all three are very profitable and very well run,” he said, adding, “The founders were all well-suited to selling and to bring us in as a partner to transition the businesses over time.”

The amalgamated group consists of about 25 stores that each offer fashion eyewear brands, including several lines exclusive to the group. Locales include New York, Las Vegas, Boston, Los Angeles and Atlanta.

“Luxury optical retailing is a highly profitable segment of a very fragmented industry where an educated buyer can conserve and improve the products and services provided to customers,” Smith said.

On top of organic growth, the firm will also look to future add-ons as an “important part” of the platform.

The luxury eyewear market in the U.S. is valued at less than \$1 billion, and is fed by a balanced assortment of “want-to-haves” (the fashion conscience shoppers) and “need-to-haves” (those more concerned with high-end products), according to Smith.

Hedge fund Magnetar Capital Fund LP provided a one-stop debt financing package for the deal, which consisted of a term loan A and a senior stretch term loan B. It also co-invested in the equity portion of the deal.

The luxury eyewear space has been a popular destination for private equity dollars in recent months. London-based Bridgepoint Capital agreed to acquire French eyewear retailer Alain Afflelou SA from its namesake founder and Apax Partners, which took a minority stake in the company in 2000.

DLJ, Circle Peak’s co-investor in the eyewear deal, also increased its minority stake in Italian eyewear maker Safilo SpA earlier this year. DLJ originally invested €270 million (\$277 million) in the company, which designs and manufactures products for Polo Ralph Lauren, Yves Saint Laurent, Stella McCartney and Gucci, in late 2002.
