

## **SOMETHING VENTURED: Consumer Brands Lure Private Equity**

BY MARIETTA CAUCHI

### **CONSUMER BRANDS**

NEW YORK (Dow Jones)--Private equity is capitalizing on brand-conscious consumers and investing in companies that can deliver those "must-have" luxuries.

Well-known names such as Neiman Marcus and Dunkin Donuts have recently been scooped up by large buyout shops - but the best bargains are to be had at the lower end of the market, experts say. "The trick is to identify underdeveloped or orphan brands that need revitalizing - the more highly developed brands will go for a premium," says Adam Smith, managing partner of **Circle Peak Capital**.

Since its launch almost three years ago, the New York-based private equity firm has made five investments in the consumer brand sector, most recently acquiring three U.S. luxury optical retail chains in March to create Luxury Optical Holdings Co. Luxury Optical, which comprises 25 stores in retail sites round New York City, Las Vegas, Los Angeles and Atlanta, will be used as a consolidation platform - the three distinct brands will be retained and developed in new markets and further optical brands are likely to be added.

Along with optical fashions, Circle Peak also has invested in restaurants and branded packaged foods - and Smith is unconcerned that rising interest rates might affect consumer-spending. "It's a large and growing segment of the economy, and the sector is being driven by the middle market consumers in the West 'trading up' and those outside the West increasingly wanting Western brands," he says.

John Rose, director and head of private equity at Boston Consulting Group, says opportunities exist at both ends of the market - luxury and value-branded goods - for private equity buyers. "Consumers are making fundamental decisions about what luxury goods to trade up to and what items they can trade down to, so that they can afford the luxury goods within the context of a

household budget," he said in an interview. It's the middle that's getting squeezed - the mid-priced fashions and beauty products, the middle segments of the auto and appliance markets, he adds.

Latest figures from the U.S. Department of Labor show consumer spending on branding-related goods was a massive \$3.28 trillion in 2005, up 10% from \$2.99 trillion in 2004. BCG expects the growth to continue at the same overall rate for at least another year and likely beyond 2006, but that the growth will come from the trading up and trading down space while the middle market remains flat.

Circle Peak's Smith says that private equity investment is resilient to cyclical pressures like rising interest rates and even geo-political crises because of the three-to-five year investment period. JH Partners LLC, a San Francisco-based private equity firm focused on consumer brands stays invested in its portfolio companies for even longer - on average between six and eight years - some 15 years in the case of Bare Escentuals. "It's a combination of the cyclical nature of consumer spending and our own patience - we are happy to stay in there as long as we can continue to grow value," says Jeff Hansen, partner of JH Partners LLC.

Staying invested and growing value has benefits for the private equity firm, as well as its investors. In June, the firm recapitalized Bare Escentuals for the seventh time, bringing the capital returned to JH Partners and joint investor Berkshire Partners LLC to approximately 2 1/2 times equity invested on just the last two refinancings. And later last month, the company filed to sell up to \$287.5 million worth of common stock on Nasdaq. JH Partners declined to comment on the transaction, but the firm will retain a stake in the company, according to the SEC filing.

Hansen describes JH Partners' portfolio companies as "wounded eagles" rather than "orphan brands" but the concept is the same - companies that aren't performing as well as they should because they have been mismanaged, under-marketed or otherwise neglected by their previous owners. As well as other well-known U.S. brands such as Peet's Coffee & Tea Inc. and Design Within Reach Inc., JH Partners has recently invested outside the U.S. In April, it invested in Jurlique - an Australian skin care company that makes organically grown products - and in December it bought Italian luxury fabric and linen company Frette S.p.A. JH Partners plans to grow both companies in the U.S. where they currently have limited exposure as well as expanding in other markets.

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