
Leveraged Buyouts – An Overview

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Agenda

- Introduction
- Overview of Private Equity
- Firm & Fund Structures
- Anatomy of an LBO
- Keys to Successful Buyouts
- Case Studies

Selected BSMB Investments



Capital



NEW YORK & COMPANY



AÉROPOSTALE

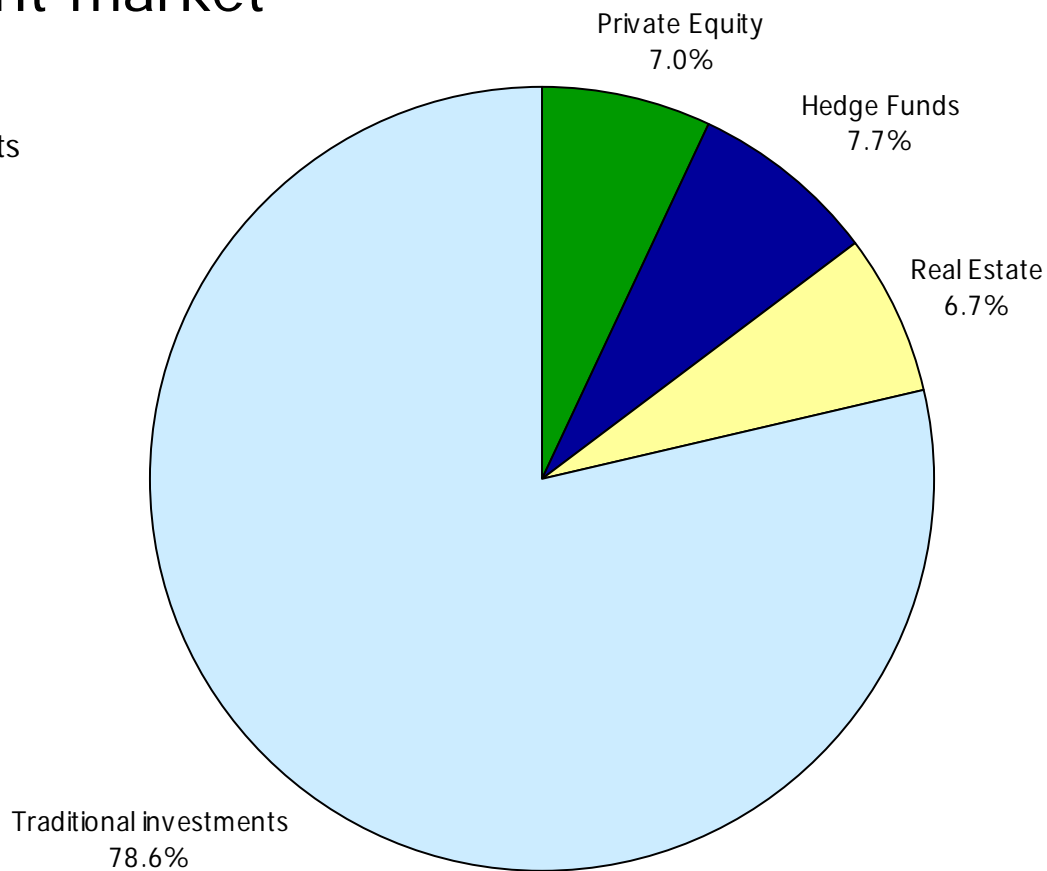


MULTI PACKAGING SOLUTIONS



Alternative investments comprise over 20% of the investment market

North America
% of Total Assets



What is private equity?

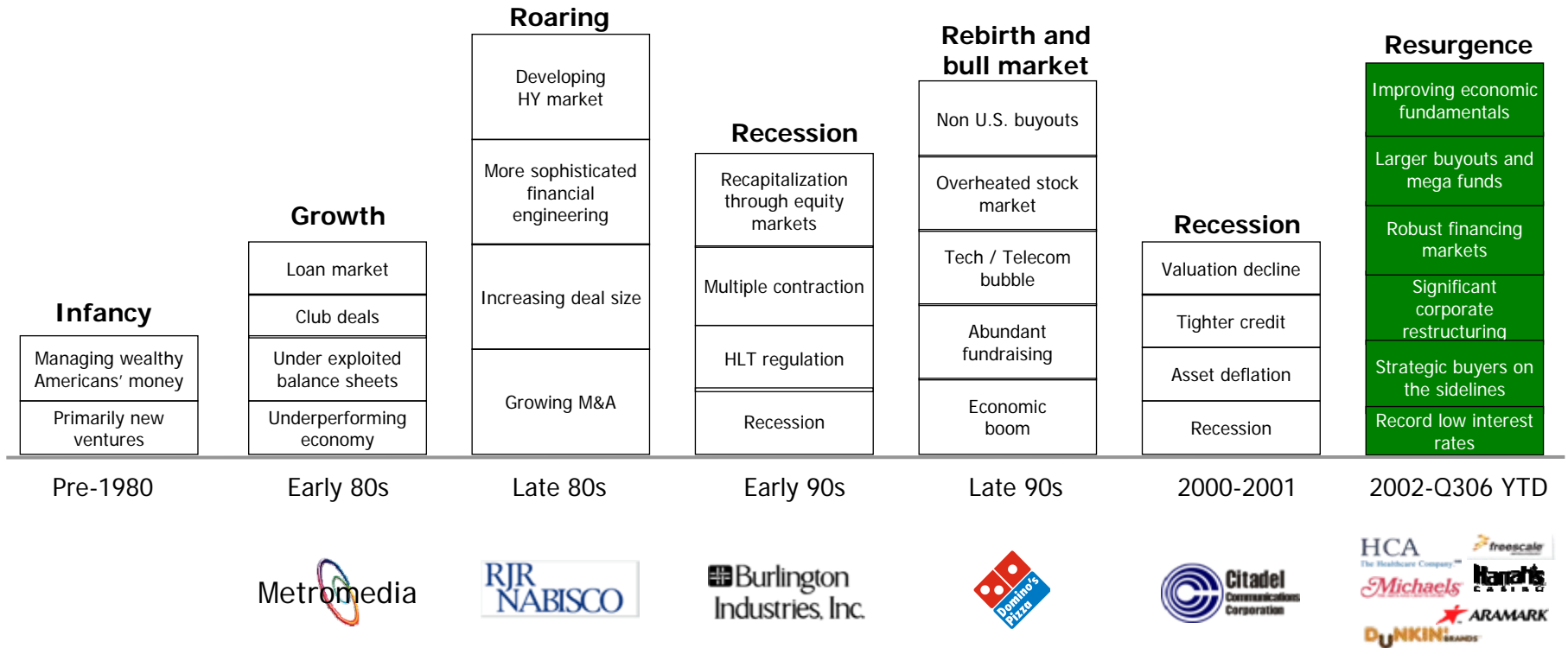
- Investing in securities of a company, usually not public, through a negotiated process
- Includes investments in the following categories:

Venture Capital	Buyout	Special Situations	Mezzanine
<ul style="list-style-type: none">• Equity capital for the creation or expansion of smaller companies, usually in high tech or emerging industries• Investment across separate stages: seed stage, second stage, third stage, late stage	<ul style="list-style-type: none">• Equity capital for the acquisition of larger and mature companies with established cash flows• Investments are financed using a mix of debt and equity	<ul style="list-style-type: none">• Equity capital for financially and/or distressed companies	<ul style="list-style-type: none">• Debt capital between equity and debt for acquisition of refinancing transactions• Participating in equity appreciation through conversion features such as warrants, etc.

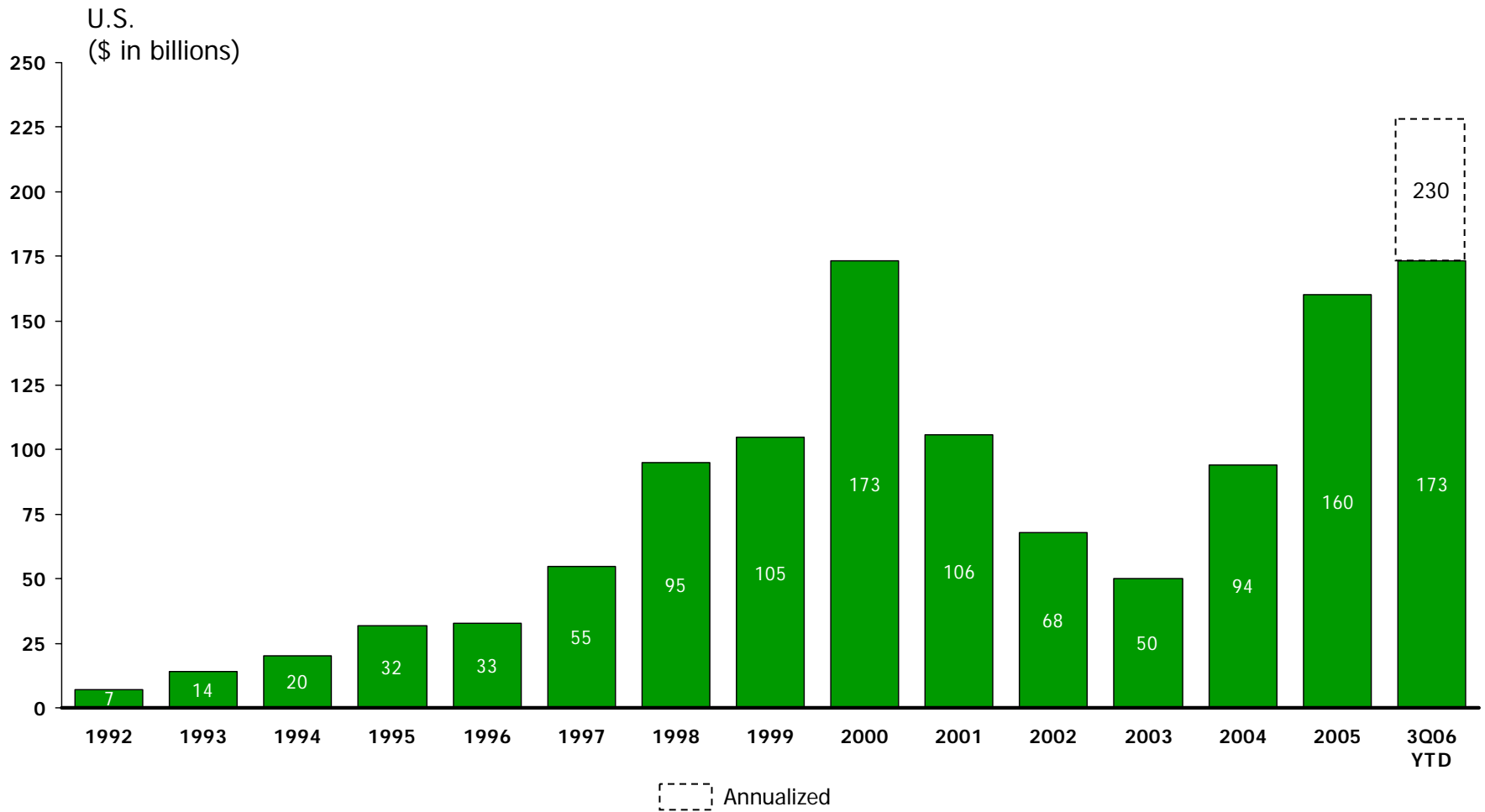
The basics of buyouts

- Raise capital in limited partnerships
- Find businesses with strong cash flow potential
- Reduce risk by a high degree of control and legitimate access to non-public information
- Prudent use of leverage
- Align interests with management through significant incentives, triggered upon a liquidity event
- Illiquid asset class, requires a long term commitment
- Potential profits realized through various exit strategies: initial public offerings (IPOs), trade sales, refinancings

Evolution of the private equity industry

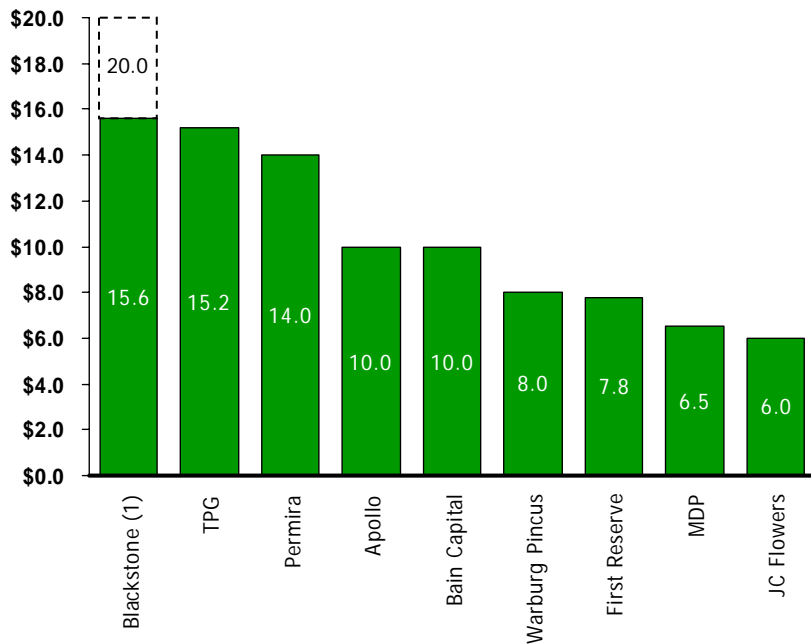


Record levels of private equity funds have been raised increasing the buying power of investors

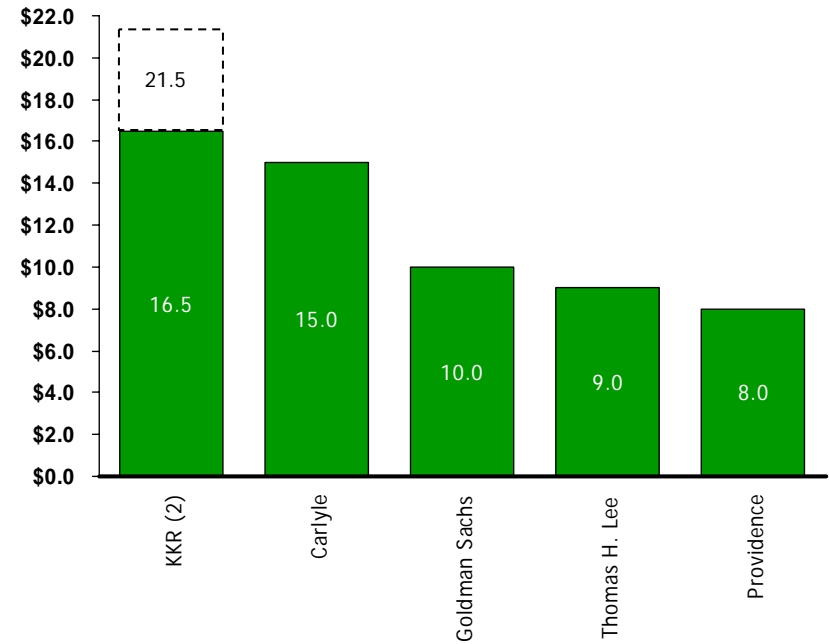


As a result, major private equity firms continue to grow in size, expanding the buying power of mega-funds

Selected closed U.S. funds
(\$ billion)



Private equity funds currently fundraising
(\$ billion)



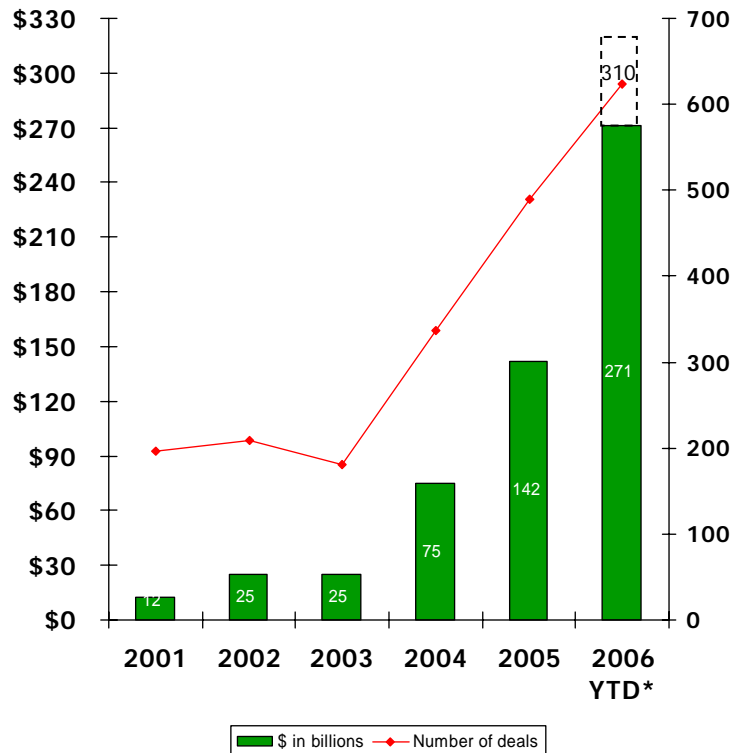
(1) Blackstone plans to raise an additional \$4.4bn to reach a total of \$20bn

(2) Includes \$5bn publicly traded investment vehicle; excludes €4.5bn European fund

Source: Buyouts Magazine, Private Equity News, JPMorgan

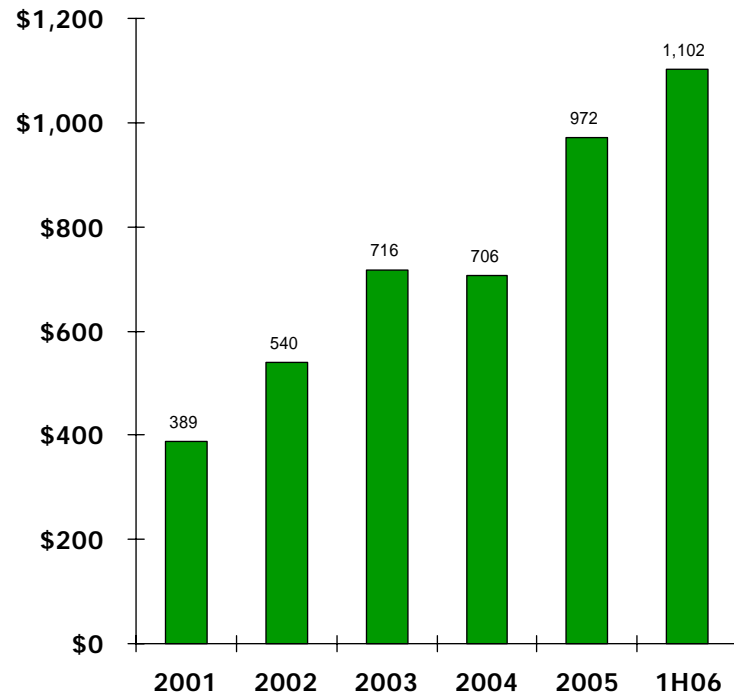
Growth in fund size has driven growth in LBO volume and average deal size

U.S. LBO Volume



Annualized

Average LBO Size**
(\$ in millions)

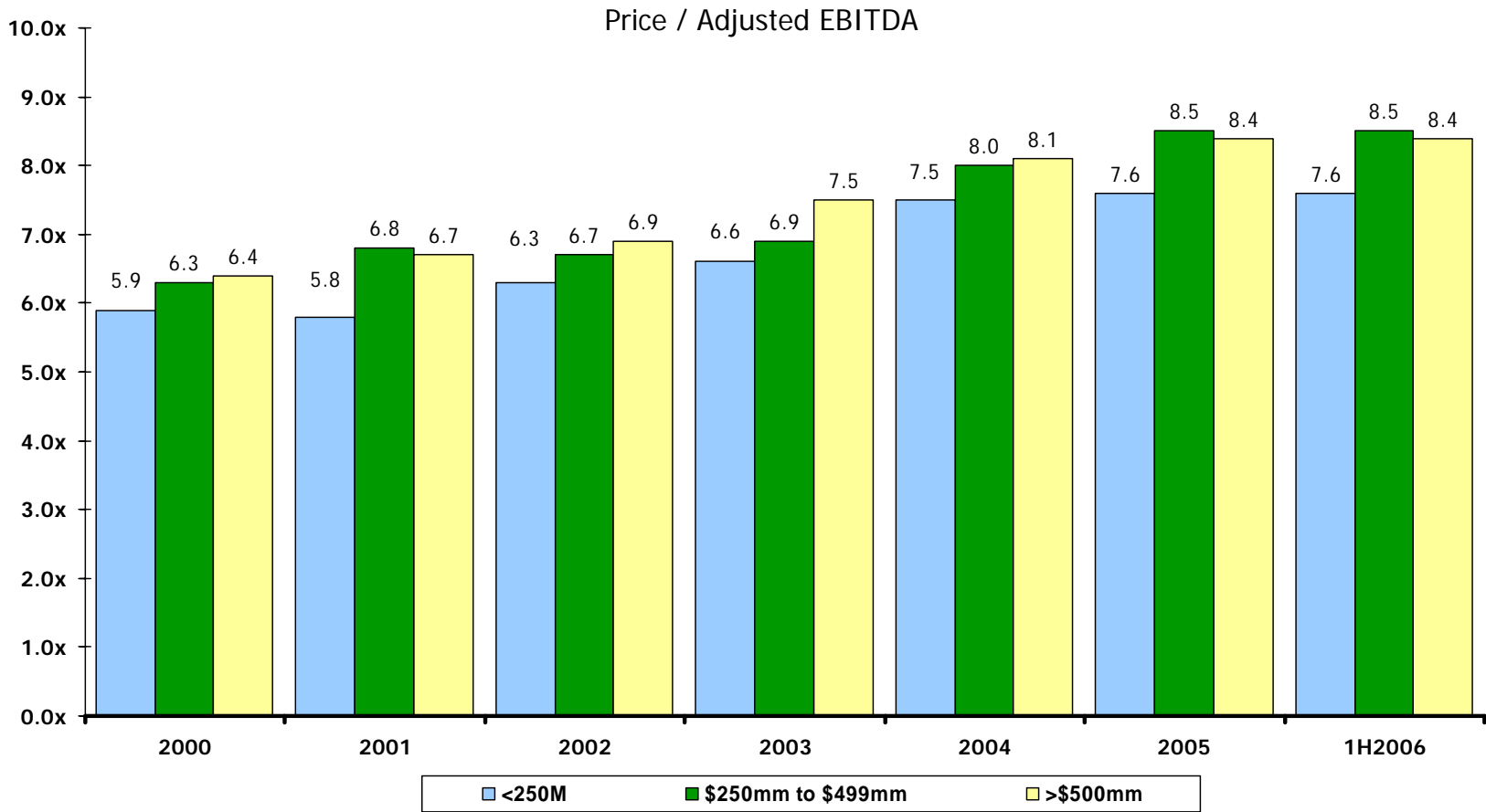


* YTD as of 11/13/06

** Based on S&P sample set

Source: Thomson Financial; Standard & Poor's

Increased competition and capital have driven up purchase prices

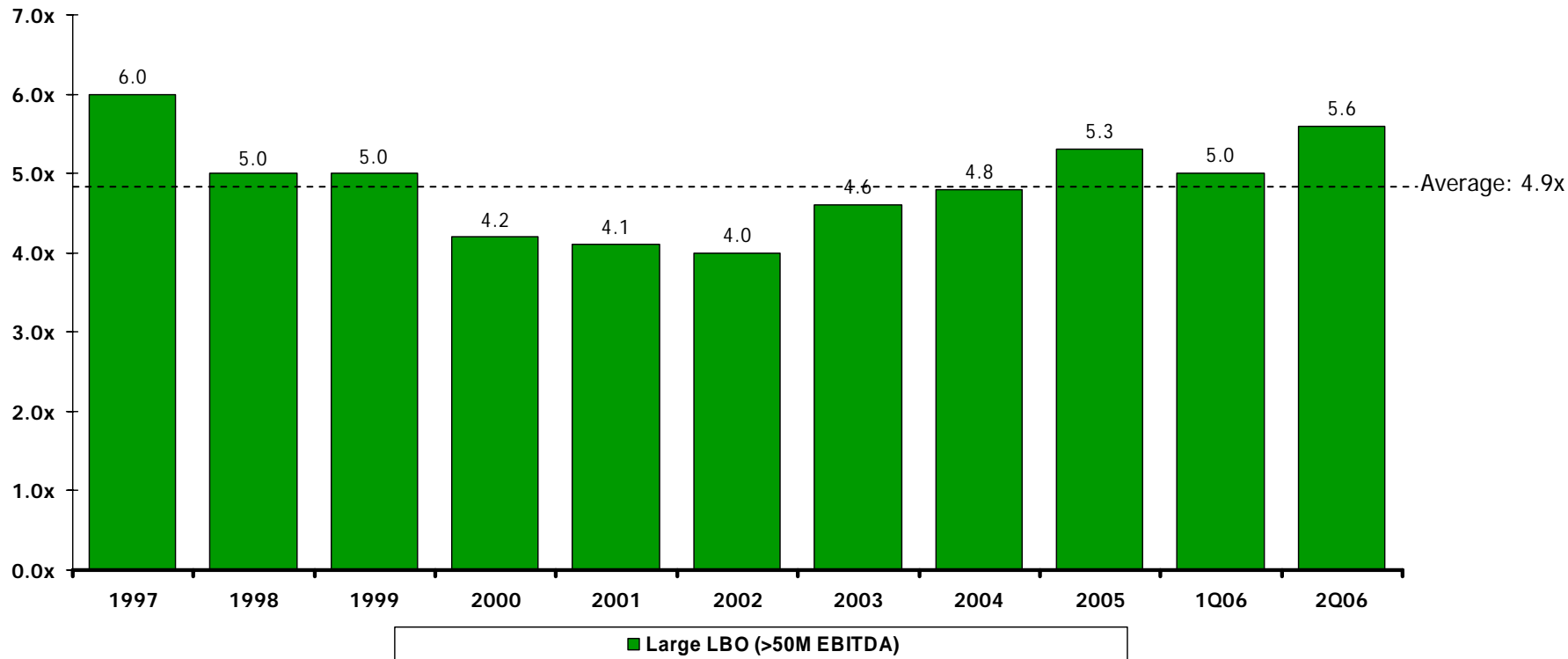


Drivers of increased multiples

- Macroeconomic growth
- Quality of businesses
- Increased efficiency in market
- Competition
- Available leverage

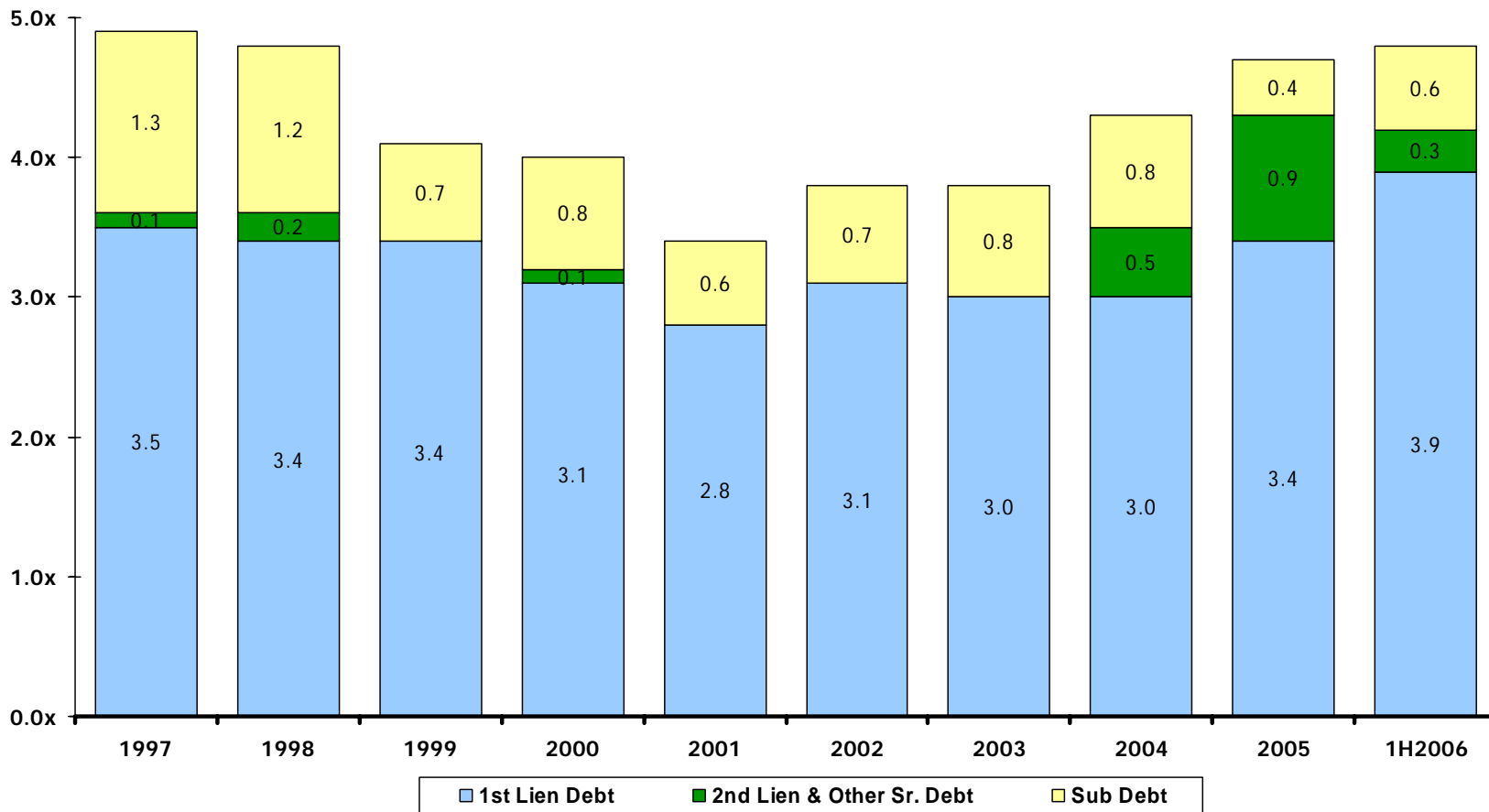
Leverage levels have been creeping up along with valuations

Average total debt / EBITDA



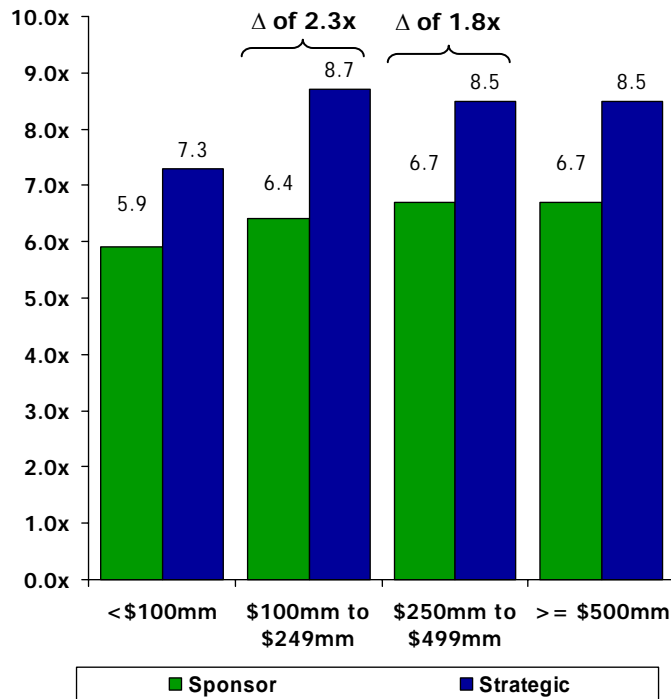
Average debt multiples of middle market LBO loans

For the years ended December 31, 1997-2005 and the quarter ended June 30, 2006

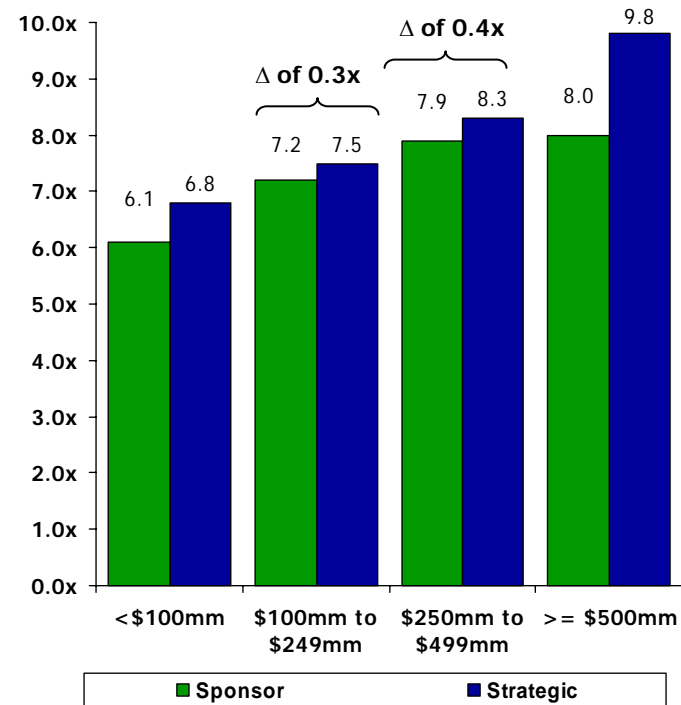


Private equity players have become more competitive with strategic buyers in terms of acquisition multiples

Price/Adjusted EBITDA Multiples
For the Year Ended December 31, 2000



Price/Adjusted EBITDA Multiples
For the Trailing Twelve Months Ended October 31, 2005





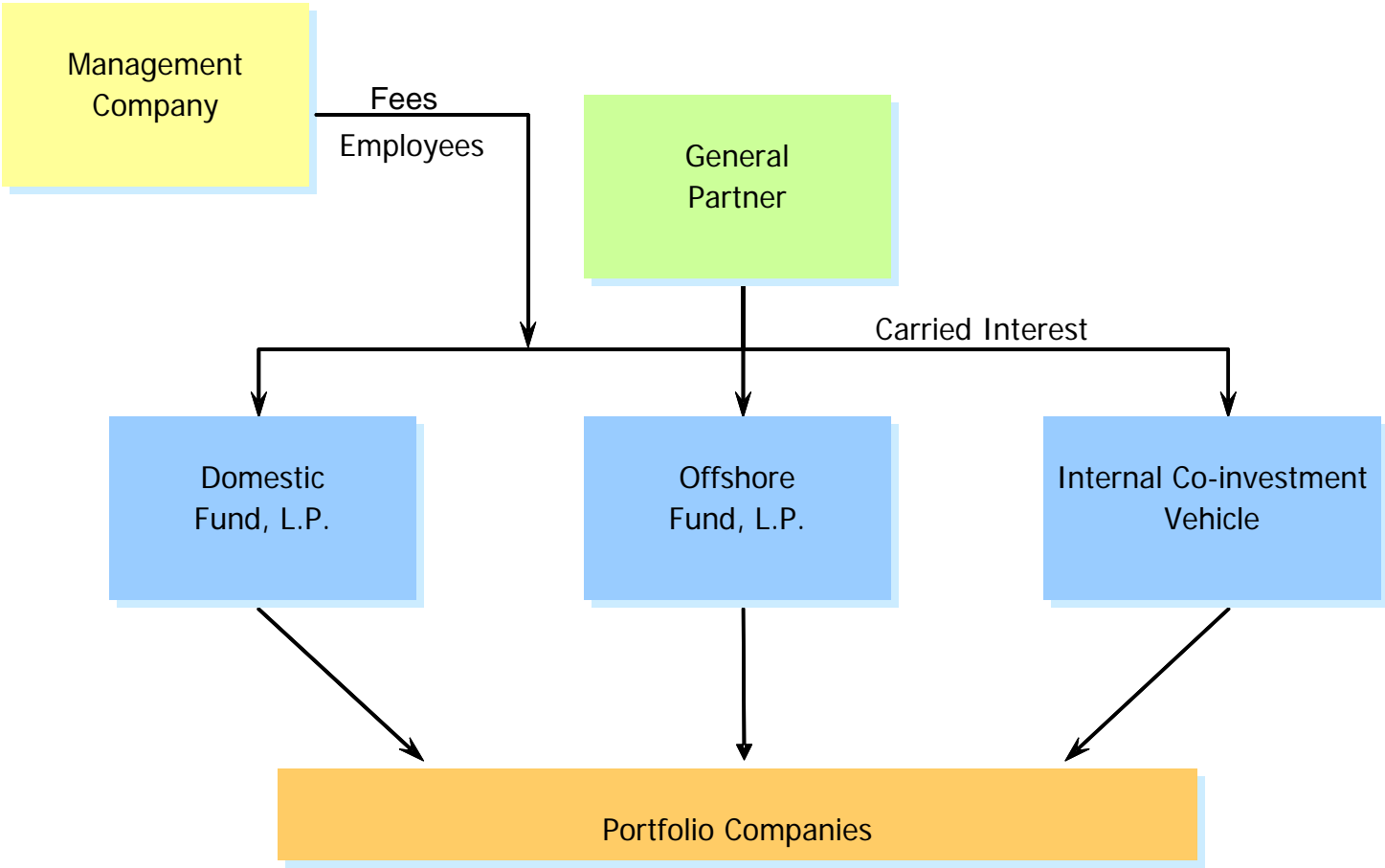
Firm and Fund Structures

Private equity firms

- Fund structures
 - Committed capital, partnership structures
 - Run by General Partner and Management Company
 - How do PE firms make their money?
 - Management Fees
 - Carried Interest
 - Transaction Fee splits
 - Principal co-investment
 - Waterfalls
 - Firm structures
 - CEO, COO/CFO
 - Deal Teams
 - Operating Partners

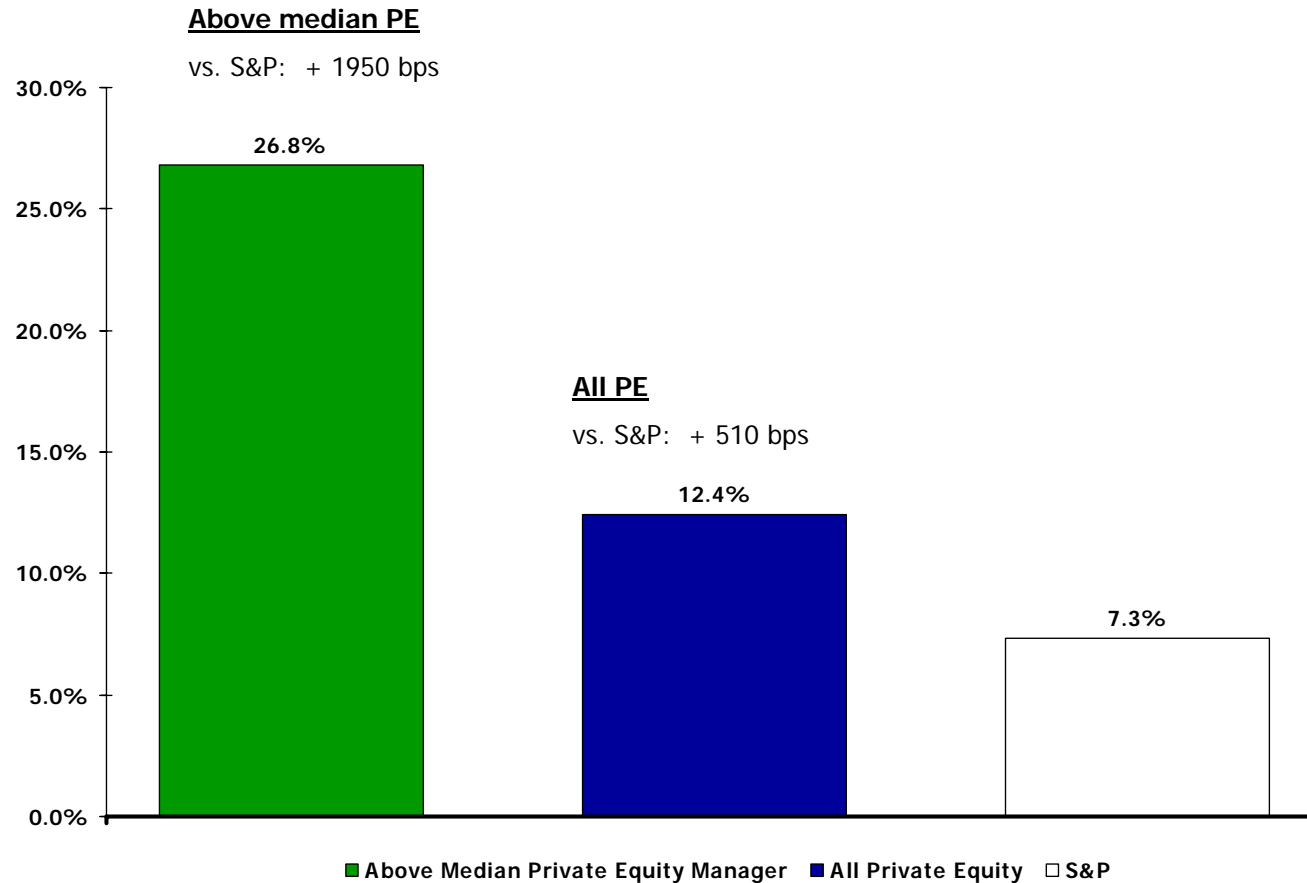


Private equity firms - Structure



How do PE firms differentiate themselves?

- Returns and track record



NB: 10-year returns through 12/31/05.

Source: Lehman Brothers, Thomson Venture Economics/National Venture Capital Association's Private Equity Index

Other Differentiating Factors

- Diversity of team
 - Operating Partners and Deal Executers
- Sector focus
- Access to proprietary deal flow
- Depth of experience
 - Investing across multiple cycles
- Speed to close
 - Dedicated lines of credit/all equity closes



Anatomy of an LBO

Anatomy of an LBO

- What is an LBO?
- Who is a good LBO candidate?
- Who are the players?
 - Private equity firms
 - Co-investors
 - Acquisitive companies
 - Senior lenders
 - Acquisition debt and revolvers
 - Subordinated lenders
 - Hedge Funds
 - Company management



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Key factors in executing an LBO

- Industry and company dynamics
 - A stand-alone investment thesis
- Valuation
- Leverage available
- Exit strategy
- Management, management, management!

Extensive Due Diligence

Example: Gator Industries, Inc.

Dollars in thousands

Assumptions:	
Acquisition price (6.0x 2005 EBITDA)	\$ 1,200.0
Date of investment	12/31/05
Hold period	5 years
Sale price (6.0x 2010 EBITDA)	1,650.0
Sale date	12/31/10
Financable leverage (4.5x 2005 EBITDA)	900.0
Financable equity commitment	300.0
Assumed total cost of debt	13.0%

Company Financial Projections:

	2005A	2006	2007	2008	2009	2010	CAGR
Revenues	\$ 1,000.0	\$ 1,050.0	\$ 1,100.0	\$ 1,150.0	\$ 1,200.0	\$ 1,250.0	4.6%
EBITDA	200.0	215.0	230.0	245.0	260.0	275.0	6.6%
Depreciation/Amortization	(50.0)	(55.0)	(60.0)	(65.0)	(70.0)	(75.0)	
EBIT	150.0	160.0	170.0	180.0	190.0	200.0	5.9%
Interest expense, net	-	-	-	-	-	-	
Pre-tax income	150.0	160.0	170.0	180.0	190.0	200.0	
Taxes (at 40%)	(60.0)	(64.0)	(68.0)	(72.0)	(76.0)	(80.0)	
Net income	90.0	96.0	102.0	108.0	114.0	120.0	
Depreciation/Amortization	50.0	55.0	60.0	65.0	70.0	75.0	
Capex	(60.0)	(60.0)	(65.0)	(65.0)	(70.0)	(70.0)	
Changes in working capital	(10.0)	(12.0)	(14.0)	(16.0)	(18.0)	(20.0)	
Free Cash Flow	\$ 70.0	\$ 79.0	\$ 83.0	\$ 92.0	\$ 96.0	\$ 105.0	

Example: Gator Industries, Inc. - Unlevered

Unlevered Case:

	2005A	2006	2007	2008	2009	2010
Status quo pre-tax income	150.0	160.0	170.0	180.0	190.0	200.0
Pro-forma transaction adjustments:						
Interest expense	-	-	-	-	-	-
Pro-forma pre tax income	150.0	160.0	170.0	180.0	190.0	200.0
Taxes (at 40%)	(60.0)	(64.0)	(68.0)	(72.0)	(76.0)	(80.0)
Pro-forma net income	90.0	96.0	102.0	108.0	114.0	120.0
Depreciation/Amortization		55.0	60.0	65.0	70.0	75.0
Capex		(60.0)	(65.0)	(65.0)	(70.0)	(70.0)
Changes in working capital		(12.0)	(14.0)	(16.0)	(18.0)	(20.0)
Pro-forma free cash flow		79.0	83.0	92.0	96.0	105.0
(Investment)/Sale proceeds	(1,200.0)	-	-	-	-	1,650.0
Net cash to sponsor	\$ (1,200.0)	\$ 79.0	\$ 83.0	\$ 92.0	\$ 96.0	\$ 1,755.0

IRR	13.2%
Times equity returned	1.46

Example: Gator Industries, Inc. - Leveraged

Leveraged Case:

	2005A	2006	2007	2008	2009	2010
Status quo pre-tax income	-	160.0	170.0	180.0	190.0	200.0
Pro-forma transaction adjustments:						
Interest expense	-	(117.0)	(117.0)	(117.0)	(117.0)	(117.0)
Pro-forma pre tax income	-	43.0	53.0	63.0	73.0	83.0
Taxes (at 40%)	-	(17.2)	(21.2)	(25.2)	(29.2)	(33.2)
Pro-forma net income	-	25.8	31.8	37.8	43.8	49.8
Depreciation/Amortization		55.0	60.0	65.0	70.0	75.0
Capex		(60.0)	(65.0)	(65.0)	(70.0)	(70.0)
Changes in working capital		(12.0)	(14.0)	(16.0)	(18.0)	(20.0)
Pro-forma free cash flow		8.8	12.8	21.8	25.8	34.8
(Investment)/Sale proceeds	(300.0)	-	-	-	-	750.0
Net cash to sponsor	\$ (300.0)	\$ 8.8	\$ 12.8	\$ 21.8	\$ 25.8	\$ 784.8

IRR	24.5%
Times equity returned	2.62

Other Considerations of Buyout

- Management equity rollover
- Option incentives
- Shareholders Agreement
- Control and governance (BOD)
- Tax structures
 - C-Corp versus LLC
 - Preferred versus common

Keys to Success

- Management, management, management!
- Buy right
- Grow right
- Exit right
- Mitigate risk
 - Vigilant oversight
 - Activism
 - Prudent use of leverage
 - Structure



Case Studies

Case Study: Aero Products International, Inc. A Trivest Partners, L.P. portfolio company

Business Description: Producer and marketer of premium air filled bedding products

Investment Rationale:

- Category creator
- Enormous growth opportunities
- High cash flow generation and rapid senior debt repayment
- Compelling retailer economics

Sourcing:

- Relationship with management
- Met with Aero owner who spent winters in Florida
- Trivest closed deal five months after meeting

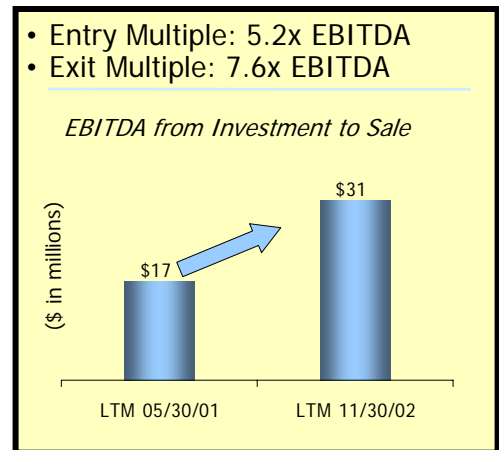
Structure: Senior and subordinated debt

Value-Add:

- Provided deep equity opportunities
- Mandated product offering expansion
- Shifted advertising focus
- Built out finance and accounting departments



Date:	April-01
Invested:	\$30mm
Realized:	\$179mm
Gross IRR:	220%
Multiple:	6.1x



Case Study: New York & Company (NYSE: NWF)

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Business Description: Private label, mall-based specialty retailer of women's wear-to-work and weekend casual apparel and accessories

Investment Rationale:

- Non-core division of Limited Brands
- Opportunity to rationalize costs and expand
- Strong and experienced management team
- Attractive and relatively underserved customer base

Sourcing:

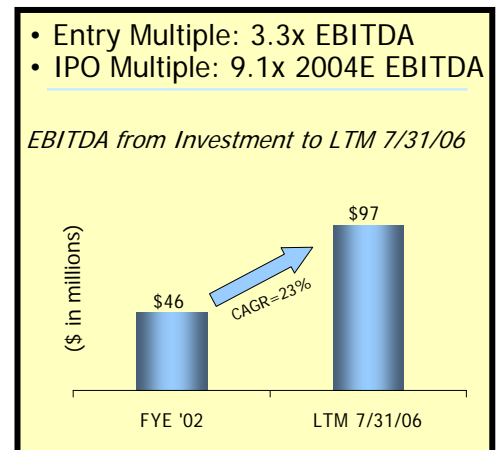
- Retail industry expertise
- Prior success with corporate orphans
- Favorable valuation and ability to close quickly
- Reputation as value-added partner

Structure: Tax-efficient, seller paper, 30 day close

Value-Add:

- Accelerated rebranding
- Developed "stand-alone" infrastructure for brand
- Developed the accessory store within-a-store concept

Date:	Nov-02
Invested:	\$63mm
Realized:	\$253mm
Unrealized*:	\$412mm
Total*:	\$665mm
Gross IRR*:	124%
Multiple*:	10.6x



* Unrealized value based on NWF's closing market price of \$13.08 as of September 29, 2006.

Case Study: Aearo Technologies



Business Description: Global leader in the hearing, eye, face, head and respiratory segment

Investment Rationale:

- Strong and stable cash flow
- Strong management team
- Attractive platform with accelerating new product introduction pace
- Increasing margins through productivity improvement
- Ongoing distributor consolidation favors leading suppliers

Sourcing:

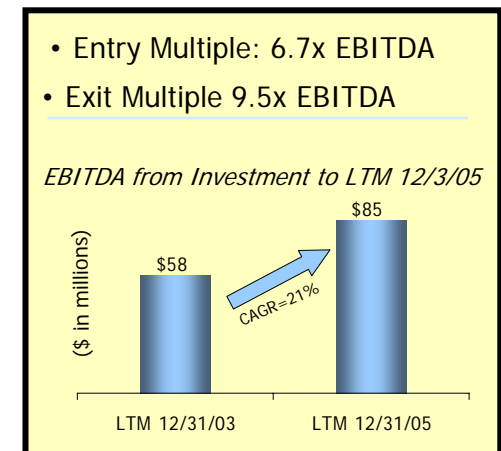
- Relationship with Seller and past history with management
- Industrial and Consumer Products industry expertise

Structure: Primarily preferred position

Value-Add:

- Initiated several cost-saving efforts
- Advised on numerous add-on acquisitions and one business line divestiture
- Led recapitalization; returned \$68.1 million






























Date:	Apr-04
Invested:	\$80mm
Realized:	\$338mm
Gross IRR:	125%
Multiple:	4.2x



The future of private equity

- Here to stay
 - More than 175 funds with > \$1 billion of committed capital
- Increasing flight to quality
- Operational experts on staff
- Larger fund sizes means access to more companies
 - Deals exceeding \$40 billion are possible
- Hedge funds entering market
- Regulatory oversight

Record sizes of announced deals in recent years

Announced	Target Name	Sponsor(s)	Deal size* (\$ billion)
2006		BainCapital  	\$33.0
1988			\$30.1
2006		 PRIVATE EQUITY THE CARLYLE GROUP  	\$27.4
2006		 	\$26.6
2006			\$17.4
2006		 The Blackstone Group THE CARLYLE GROUP 	\$16.3
2005		 The Blackstone Group  Apax PARTNERS 	\$15.3
2006		 	\$15.3
2005		  THE CARLYLE GROUP	\$15.0
2005			\$12.5

- 9 of the 10 largest global private equity transactions have been announced during the past 18 months
- Growing importance of PE consortia

* Deal size includes equity and debt
Source: Morgan Stanley, news runs, Merger Market