



# GVG: 2010 OUTLOOK

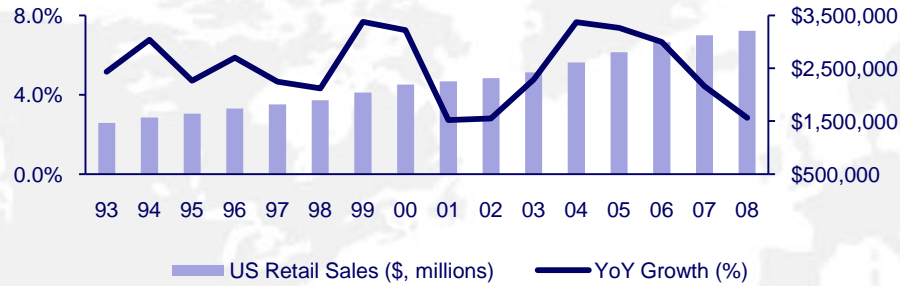
Preferred Private Equity Partner For The Retail & Consumer Sector



*Partners in Growth*

# Sector Outlook: News Headlines Are Misleading, Strong Tailwinds

## US Retail Sales<sup>1</sup> 1993 – 2008: Stable, Growing Sector



Source: <sup>1</sup>US Commerce Department

- 2008 retail spending (ex. food, autos) was \$3.2 trillion - ~25% of GDP, 1/3<sup>rd</sup> of all consumer spending
- Consumer/retail spending grew through all economic cycles
- Gross margins stable (grown slightly) over past 20 years

**Market Share:** 25% of retailers likely to go bankrupt – i.e. 10-15% of retail supply likely to disappear. Bankruptcies and store closings (200,000+) have already erased \$30 billion of retail supply across jewelry, consumer electronics, home, softlines

**Consumer Demographic, Lifestyle Trends:** Growing at double digit (several times GDP/retail growth) - aging of baby boomers, multi-channel, ethnic, health and wellness, obesity, greening, mobile are just some of those trends

**Multi-Channel Operating Platform:** Double digit EBITDA growth potential - driving traffic, larger “drop ship” inventory selection, cross channel promotions, sales and customer service -- superior business model

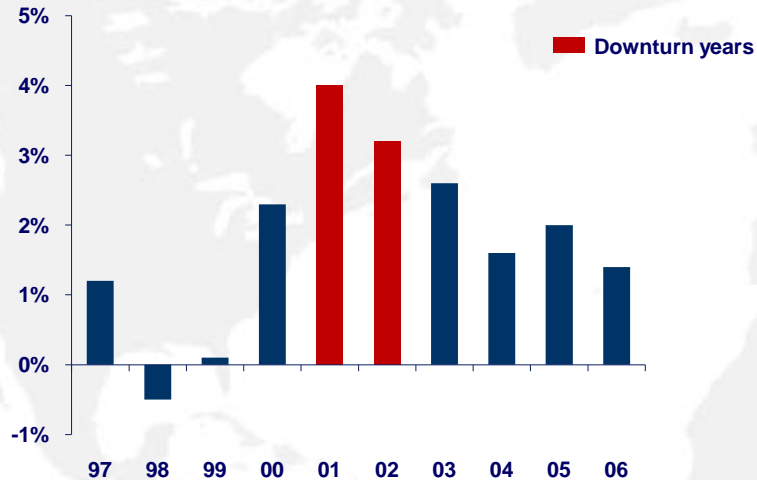
**Globalization:** 10-25% revenue growth opportunity for most mid-market retailers – low cost of market entry/testing using the internet channel

Source: Forrester Research, ICSC, Alix Partners

# Deal Outlook: Downturns Yield Superior Investment Opportunities

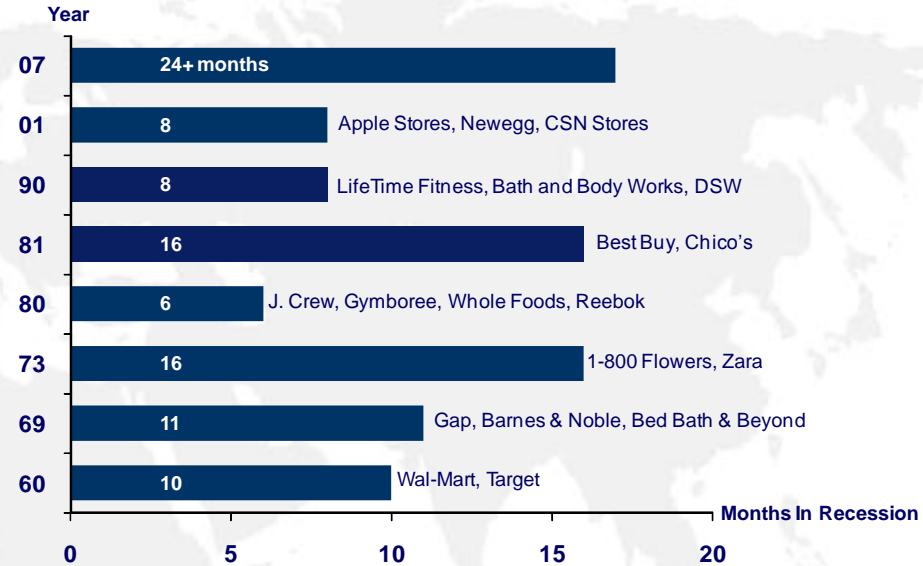
## Deals from downturns generate higher excess returns: 3x+

Average acquirer excess return



Source: 02/09 – Bain White Paper “Winning In Turbulence”. Dataset of 24,000 transactions (1996-2006). “Excess returns” - superior return to peers not bought in downturns.

## Downturns were the crucible that created these retailers



Source: Company Data, GVG Capital Group analysis

## Downturns in the retail/consumer sector offer attractive value creation opportunities

- Financially and strategically easier to consolidate fragmented categories, and buy out mom-and-pop operations
- Brands, inventory and customer lists available in fire sales
- Lower real estate costs and bankruptcies create opportunities to roll out new stores with minimal initial outlay
- Tremendous opportunity to recruit and poach top talent

# Near Term Opportunity: Market Share Consolidation

## Bankruptcies, Store Closings Can Create New Short-Term Winners

Retail Category	Noted Bankruptcies	Store Closings	Revenues Freed Up	Likely Winners
Softlines	Mervyn's, Goody's, Steve & Barry's	Sears, Charming Shoppes, Dilalrd's	\$8B	JC Penney (JCP), TJX Companies (TJX)
Home Goods	Linens 'N Things, Levitz, Wicke's	Home Depot, Pier 1, Cost Plus	\$5B	Bed Bath & Beyond (BBBY)
Consumer Electronics	Circuit City, Tweeter, CompUSA	Regional and Local Chains	\$15B	Amazon (AMZN), Best Buy (BBY)
Toys	KBToys	Regional and Local Chains	\$1B	Toys R Us, Wal-Mart (WMT)
Jewelry	Fortunoff, Finlay, Whitehall Jewelers	Zales	\$2B	Blue Nile (NILE), Signet Jewelers (SIG)

Source: Company Data, GVG Capital Group Analysis

# Long Term Macro Trends: Driving GVG Investment Focus



For detailed perspective on the 5 key trends, please visit the Ideas Section of [www.gvgcapital.com](http://www.gvgcapital.com)

# Key Investment Themes For 2010

## Orphan Divisions In Conglomerates

- Non-strategic, underperforming divisions marked by lack of investment and senior management focus
- **Targets: Orphan divisions in large conglomerates**
- **Example:** Lands End division of Sears

## Companies That Should Not Be Public

- Onerous costs as a % of EBITDA to comply with Sarbox; risk aversion stifles pursuit of high growth opportunities
- **Targets: Companies with <\$25 million EBITDA, outstanding growth potential**
- **Example:** Bluefly (BFLY) , Delia's (DLIA)

## Well Run Private Companies

- Entrepreneur or private equity owned business that need capital to help support growth, liquefy founders
- **Targets: Companies with \$100 million to \$1 billion in revenues**
- **Example:** Dots - OH based 400 store apparel chain , Bluestem Brands - MN based multi-channel retailer

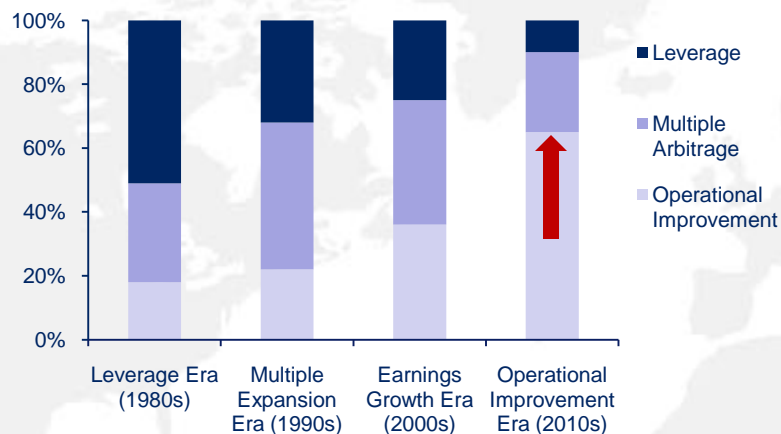
## Companies With Too Much Debt

- Fundamentally strong brands/companies that took on excessive leverage in go-go days
- **Targets: Companies that can be acquired for a discount to their outstanding debt**
- **Examples:** Oriental Trading, Brookstone

**WHY GVG?**

# GVG Founded To Capitalize on Key Value Drivers in PE & Retail Sectors

## Key PE Value Creation Driver: Operating Expertise



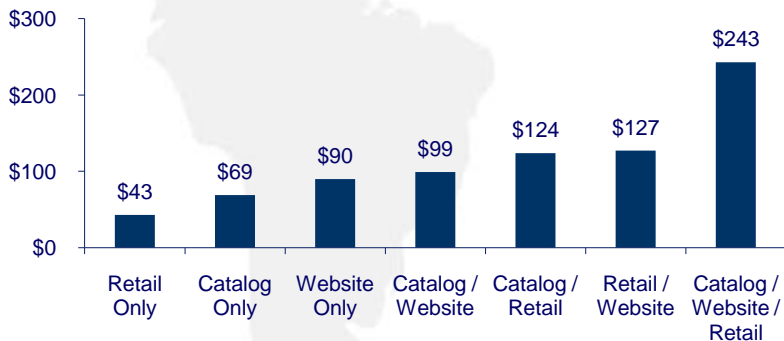
Source: Goldman Sachs, Boston Consulting Group-IESE Estimate Feb. 2008  
Based on data from 32 private equity firms for period 2000-2006

## PE Value Creation Lessons – Bain, McKinsey, BCG

- High correlation with industry and operating expertise; poor correlation with firm, fund or deal size, or geographic/sector diversification
- Deep specialized proprietary industry knowledge, thesis
- Early focus on “right” team, strategy and operating plan
- Active ownership – focus on value creation, execution – by GP’s with relevant operating experience

## Retail/Consumer Value Creation Driver: Multi – Channel Customers Outspend Others By 4-7x

### Average Annual Spend By Type of Customer



Source: DMA

## Retail Value Creation Lessons – McKinsey, Forrester

- Over 70% of all retail sales in 2009 have a multi-channel component – discovery, purchase, service
- Consumers use the internet 200 billion times/day to search for products and services
- Consumers spend more time online than all other media combined
- 80%+ of US HH have broadband access, shopped online

# Hands-On, “Best Practices” Approach To Value Creation, Governance

**\$30 billion+ proven track record of value creation; converted experience and insights into “best practices” toolkit , methodology for PE owned retail/consumer companies.**

## GVG Proprietary Toolkit For Value Creation: Retail/Consumer

- Pre-Closing 100 Day Planning Process & Deliverables
- Performance Monitoring Dashboards
- Governance Communication Program
- Leadership OnBoarding Program (for new CEO, senior hires)
- mc<sup>3</sup> Value Creation Methodology – 2X+ EBITDA (depicted here)

## GVG Proprietary Methodology For Value Creation: mc<sup>3</sup>

### Traditional Retail Drivers

- Shut down/ sell underperforming and non-core stores, catalogs, websites
- Drive supply chain, IT/operations efficiency
- Improve merchandise mix and productivity e.g. private label
- Freshen up brand
- Optimize advertising, circulation
- Up-sell credit cards and warranties
- Re-vamp in-store/website customer experience, catalog creative
- Improve customer service, cancels/returns handling
- Benchmark and reduce operating costs; clean up balance sheet

### mc<sup>3</sup> Drivers\*

- Multi-channel retail
- Multi-channel traffic generation – intelligent advertising
- Cross channel inventory management and selling
- Globalization
- Social networking
- Database marketing/ personalization
- List monetization
- Strategic M&A/Roll-Ups

- **2X+ EBITDA Growth in 3-4 years**
- **Significantly higher top line growth**
- **Increased category market share**
- **Superior operating margins**

## “Hands-On” Partnership Model

- Pre-closing, partner with management to develop and finalize strategy, operating plan, and budgets
- Superior at evaluating and recruiting key executives, on-boarding, motivation, retention
- Save time and money on critical projects by leveraging network, participating as required from sounding board to interim team member
- Active monitoring – daily flash reports, weekly calls, monthly operating reviews
- Focus management on growth, winning in marketplace, KPI's

# Investment Focus

We pursue buyouts, growth equity investments, recaps, carve-outs, and public-to-privates. We can move quickly in special situations because of our sector focus, network and expertise.

## Investment Criteria

- **Sector:** Specialty retail, direct to consumer, catalog, internet, vertically integrated consumer businesses
- **Revenues\*:** \$100 million+
- **EBITDA\*\*:** \$10 million+
- **Investment size\*\*:** \$25 million+ equity check
- **Brand Equity:** Top 3 in category based on awareness, likeability, sales
- **Merchandise Profile:** 35%+ gross margins; defensible niche – insulated from big box/discounters; lends itself to multi-channel platforms
- **Category Trends:** Highly fragmented – ripe for consolidation; projected to grow faster than retail average; tailwinds from changing consumer trends
- **Cyclical:** Defensible in a cyclical downturn
- **Geography:** North America, Europe and Asia
- **Control:** Economic control preferred; strategic control required

## Reality Check?

Can the company survive two to three years of economic distress?

Would we still invest if the leverage was zero?

Will this company/concept continue to be relevant in a decade?

\*Smaller companies in case of add-on's or specific proactive initiatives

\*\*Flexible in this economic environment