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**US  
SELECT  
PRIVATE  
OPPORTUNITIES  
FUND**

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# Fund Update

November 2012

# About the Fund

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## Structure

Unique \$70m joint venture formed in June 2012 between Dixon Advisory Group and Cordish Private Ventures LLC

- \$60m – US Select Private Opportunities Fund (Australia)
- \$10m – Cordish Private Ventures

## Investment strategy

Invest in premier US-based small and mid-market private equity funds and privately held companies

- Replicate Cordish Private Venture's strategy utilised over the past 15 yrs
- Focus on boutique, hard to access, smaller funds that have proven strategies in specialised investment areas

## Objective

Achieve superior risk-adjusted equity returns primarily from capital gains over a five-to-ten year investment horizon

# Fund Advisory Board



**Jonathan Cordish**  
**Chairman of US Select**  
**Managing Director**  
BA (Brandeis Univ.),  
MBA (Wharton)

- Partner of The Cordish Companies
- President of Cordish Private Ventures
- Chairman of Cordish Media



**Jonathan Sinex**  
**Principal**  
BA (Middlebury College),  
MBA (Univ. of Virginia)

- Principal at Cordish Private Ventures
- 8 years of Private Equity, operations and finance experience



**Margaret Cordish**  
**Principal**  
BA (UPenn),  
MBA (Columbia)

- Executive of The Cordish Companies and Cordish Private Ventures
- 12 years of investing and financial experience



**Alan Dixon**  
**Managing Director, Dixon Advisory**  
BCom (ANU), CA

- 18 years investment experience







**Alex MacLachlan**  
**Managing Director, Dixon Advisory**  
BA (Cornell),  
MBA (Wharton)

- 20 years investment experience

# Key objectives for 2012 already complete

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- 1** Establish presence of US Select with managers as new investor in small U.S. private equity funds 
- 2** Close on the two funds originally earmarked for US Select (Prometheus & Trivest) 
- 3** Begin process of assessing other funds currently raising capital 
- 4** Seek to close one or two new high quality fund investments by year end 

# Deal flow & due diligence

- 471 total funds currently raising capital in US
- 83 met US Select's broad investment criteria of buyout funds between US\$50m-\$500m

**CPV has already assessed 64 of these 83 funds**

50 Funds	Passed initial full screen
29 Funds	In-person full day meetings
10 Funds	Detailed due diligence
4 Commitments	3 additional firms in final due diligence stage <sup>1</sup>

1. 12 other firms are strong opportunities

# The results

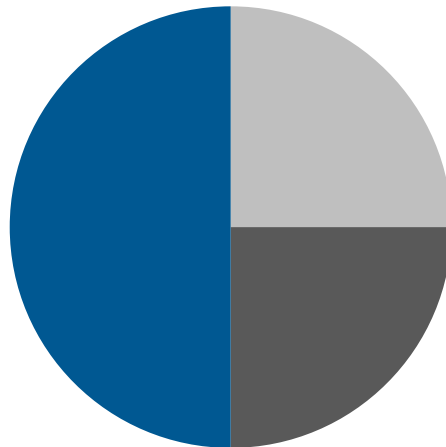
- **\$40m committed to four funds**
  - **57% of Fund capital**
- **\$5m called and invested as of November**
- 3 additional funds in later stage due diligence, representing another \$20m in commitments, plus evaluating 2 attractive direct co-investment opportunities
- Anticipate being fully committed by the end of Q1 calendar year 2013

# The results

## Commitments to date (\$10 million each)

- Prometheus Partners IV
- Trivest Partners V
- Encore Consumer Capital Partners II
- KarpReilly Capital Partners II

### Investment Focus of Funds



- Restaurants/Retail
- Business Services/Manufacturing
- Consumer



# Prometheus overview

## Executive summary

- \$50m Fund IV organised to invest in nationally franchised restaurants
- Best in class operators with 15 years of experience in buying and managing franchises in QSR industry
- Proprietary deal flow leads to low purchase price multiples
- **Strong and consistent returns from simple and enduring businesses**

## Current portfolio: 313 restaurants



76 units



190 units



47 units

# Why Prometheus?



**Strong & consistent returns from simple & enduring business model**

**Earnings growth is created by:**

- Improvement of operations and cash flow
- Leveraging of overheads
- New store development
- Store remodeling & upgrades
- Sale-leasebacks
- Insurance co-op & self-insurance

*Better control labor & food costs*

*Scale reduces per unit costs*

*5% per annum store growth*

*20% sales growth*

*Maximise the value of the fee properties*

*25% annual cost savings*

**➔ 50 - 100% increase in net restaurant cash flows**

+ Annual principal amortisation & recapitalisations

+ Potential multiple expansion

**= 20% targeted net IRR to investors**

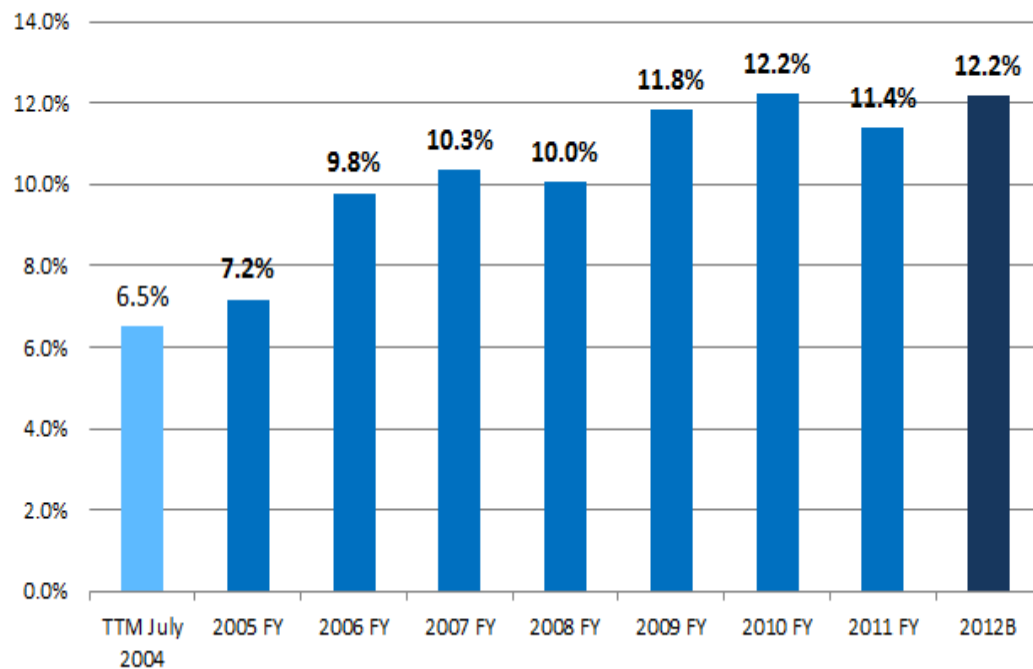
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# Prometheus case study



- Original acquisition: 23 IHOP Stores in North & South Carolina & Tennessee in '05
  - Annual cash flows growth of 20+%
- Operational improvements increased margins from 6.5% in 2004 to 11.4% in 2011
  - Reduced overhead through automation and head count reduction
  - Labor margin improvements: tighter labor scheduling controls, increased spans of control for area supervisors, and bonus plan implementation

IHOP Platform: EBITDA Margin



# Trivest Partners overview

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## Executive summary

- US\$415m Fund V organised to invest in lower middle market founder/family-owned businesses that have never before accessed institutional capital
- Exclusive focus. Highly recognized brand – oldest private equity firm in the Southeast US
- Cohesive, long-tenured team (3 partners avg. 21 years at firm)
- **30+ year history with consistent strategy and track record**

## Strategy/focus

- Acquire high quality, growing businesses at value prices (avg. of ~5.5x EBITDA) through its unique deal sourcing model
- Employ modest leverage which allows businesses to invest in growth initiatives
- Sector focus:
  - Manufacturing/distribution
  - Business services
  - Consumer

# Why Trivest ?

## Compelling investment environment

- Founder/family-owned sector provides attractive investment prospects
  - 90% of US companies with EV below \$250m are family/founder-owned
  - 1/3 of these companies' principal shareholders are 55+ years old
  - Succession, estate planning and capital gains uncertainty driving volume

## Creative deal sourcing

- Over the past 10 years, Trivest has built a “best-in-class” deal sourcing model
  - Continuous marketing to over 10,000 deal generators/intermediaries

## Post closing value creation

- Experience over 30+ years, 4 prior funds and over 50 portfolio platform companies enables Trivest to add significant value to its companies

## Superior returns

- Prior investment funds have generated a realised gross 3.2x multiple since 2000 and 2.5x since inception

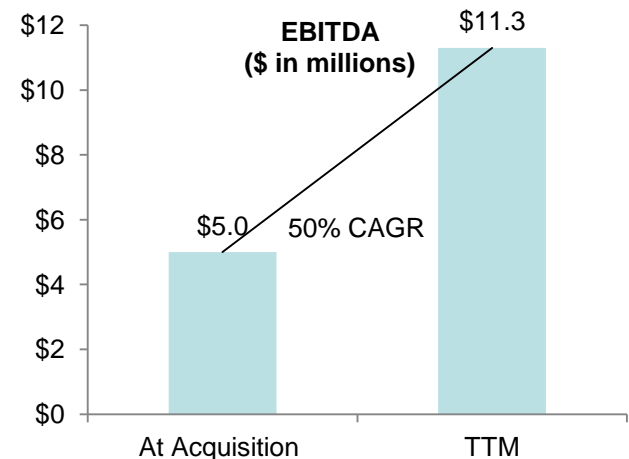
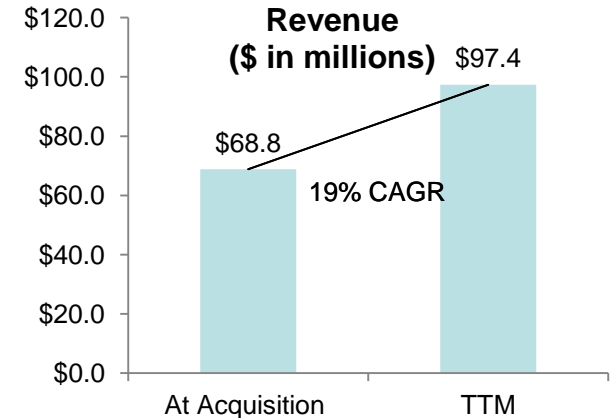
# Trivest case study – Ryko

## Business description & investment rationale:

- Largest provider of managed car wash systems in North America: equipment, chemicals and service
- Dominant player: ~40% market share
- Recurring revenue from service contracts
- Strong margins & diverse base of customers (+2,000)

## Value creation:

- Recruited a new CEO
- Executed US\$3.0m of cost reductions
- Completed three add-on acquisitions
- Revenue and EBITDA growth: 42% & 126%
- 1.8x invested capital already returned through dividend recap and sale-leaseback



# Trivest – portfolio

## Business services:



## Manufacturing & distribution:



## Consumer:



# KarpReilly overview

## Executive summary

- US\$220m Fund II
- Founders Alan Karp and Chris Reilly have worked together in private equity for over 20 years
- One of the strongest and most impressive track records in middle market investing
- **Largest GP commitment (as a % of fund) in the industry – strong alignment of interests with LPs**
- Attractive initial investment opportunities

## Strategy/focus

- **Specialised focus solely on consumer sector**
- Targeted segments:
  - Apparel & Branded consumer products
  - Retail
  - Restaurants
  - Building products
- Transactions structured as private company recapitalizations where founders are seeking a value-added partner



# Why KarpReilly?

## Experienced and talented management team with significant experience

- Principals have a 25 year track record of generating superior returns
- Unusually deep and experienced team of partners who have worked together for many years

## Sector and operating expertise

- Experience in investing in over 40 consumer growth businesses to date enables the firm to be a value-added partner to its portfolio companies.

## Differentiated sourcing strategy

- “Go-to guys” in the consumer space

## Largest GP commitment as a % of fund size in the industry

- Alan Karp and Chris Reilly are collectively the largest investor in the Fund

## Stable investor base

- JP Morgan, BlackRock, and AT&T have been investors with Alan Karp and Chris Reilly since 1987 or 1991
- US Select only one of two new investors in the fund

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# Why KarpReilly?

The principals have one of the strongest track records investing in consumer businesses and have invested in, sat on the boards of and nurtured some of the leading success stories in the industry, including:

**Retail:** Dollar Tree Stores, Bob's Discount Furniture, Ollie's Bargain Outlet

**Restaurants:** Mimi's Café, Café Rio, Miller's Ale House

**Apparel:** Charlotte Russe, Tommy Bahama, Trina Turk

**Consumer Products:** Targus Group, Norcraft Companies

KarpReilly | LLC  
private equity investors



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# Encore Consumer Capital



## Executive summary

- US\$200m Fund II investing in proven consumer products companies in the lower middle market with highly attractive growth prospects
- Led by 3 Managing Directors who have been working together for much of the past 18 years
- Strong track record with both Encore Fund I and partners' experience at previous firm, Swander Pace Capital

## Strategy/focus

- Targeted segments:
  - Food & beverage products
  - Pet products
  - Personal Care products
  - Household products
- Focus on products sold through supermarkets, to leverage expertise and experience of management in this area

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# Why Encore?



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## **Attractive industry fundamentals and favorable targeted sectors' trends**

- Consumer staples industry has proven to be more stable than discretionary items
- Typical company attributes: high frequency of purchases, necessity of purchase, brand awareness and loyalty, established and mature markets, minimal technology risk

## **Experienced and talented management team with significant operating experience**

- Principals have demonstrated a strong track record of investing in consumer product companies and bring a unique blend of operating, financial and consulting experience to the partnership

## **Unique relationship with Encore Associates provides competitive advantage in sourcing and post-closing value creation**

- Encore Associates has 15 shareholders with backgrounds at leading consumer companies such as Procter & Gamble, Safeway, Keebler, Kroger, Dial, Clorox, Del Monte, Albertsons, Georgia Pacific, Colgate, Phillip Morris, Acosta and Longs Drugs

# Encore case study – Aidells



## Business description & investment rationale:

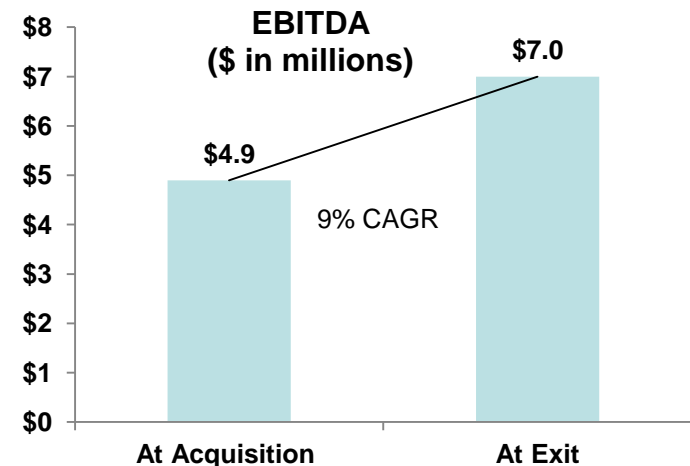
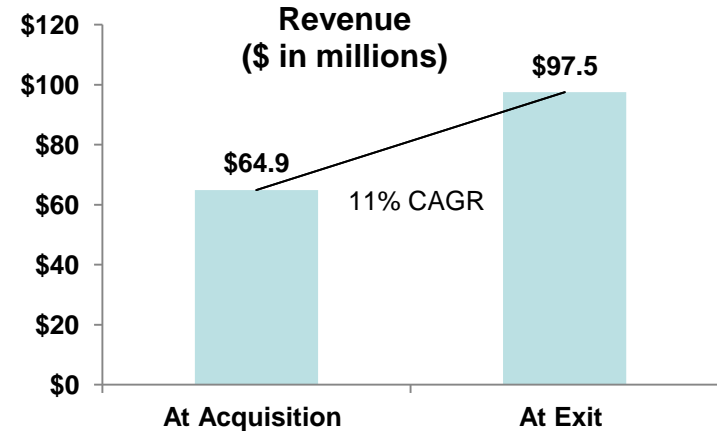
- Leading brand of premium poultry sausage & meatballs
- Sourced through an existing relationship
- Opportunity to expand retail grocery distribution and broaden product line
- High customer concentration scared away most financial buyers

## Value creation:

- Proved out retail grocery expansion strategy
- Invested in brand building to increase purchase frequency and household penetration
- Right sized product to enhance margins
- Launched new products and reformulated product line to become all natural
- Enhanced product by extending shelf life from 56 days to an industry leading 120 without compromising taste or safety

**Sold to Sara Lee Corporation in May 2011 for US\$87m**

**Generated 3.7x gross multiple and a 36% IRR**



# Encore – portfolio

ISOPURE



MyChelle  
DERMACEUTICALS



Sold to Sara Lee (NYSE: SLE)



tarte  
high-performance naturals



Food & beverage, pet, personal care, household products  
*frequent repeat purchase items*



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# Appendix



# **a. Private Investment Overview**

# Private investments: overview

Private investments are investments in unlisted companies at various stages of their development. Investments are often made through equity

## Types of private investments

### Venture capital

- Investments in start-up and early-stage companies
- Often in developing cutting-edge technologies and products
- High risk but offer higher potential returns

### Expansion capital management

- Used to grow and expand an established company
- Company often capital constrained but has good prospects

### Management buy-outs (MBOs)

- Buy existing mature business, usually with management
- Company generally has strong profit history and cash flows

### Other types of private investments

- Distressed/turnaround – investments in businesses with liquidity or solvency problems often conditional on a business implementing a restructuring program
- Mezzanine financing – unsecured debt financing provided to companies that are in growth phase but may not have access to equity finance

# Private investments: characteristics

## Key characteristics

<b>Control</b>	<ul style="list-style-type: none"><li>• Controlling stakes in target companies</li><li>• Active operational role</li></ul>
<b>Expertise</b>	<ul style="list-style-type: none"><li>• Fund managers use their expertise to identify, conduct due diligence and select investments</li><li>• Private investment managers have greater access to information on target investments</li></ul>
<b>Alignment of interests</b>	<ul style="list-style-type: none"><li>• Board representation and management agreements allow direct involvement by fund managers</li><li>• Company management team hold sizable equity stakes in own business</li></ul>
<b>Performance</b>	<ul style="list-style-type: none"><li>• Have the ability to generate higher returns than traditional passive investments</li></ul>
<b>Uncertain cash flows and illiquidity</b>	<ul style="list-style-type: none"><li>• Investors do not have access to their capital during the life of the investment, nor can they sell their shares on a liquid capital market</li><li>• Investment has limited life-span, and self-liquidation means invested capital is returned over that timeframe</li></ul>
<b>Medium-to-long term</b>	<ul style="list-style-type: none"><li>• Typically 5-10 year investments</li><li>• Sufficient time for transformational ownership to enhance cash flows</li></ul>

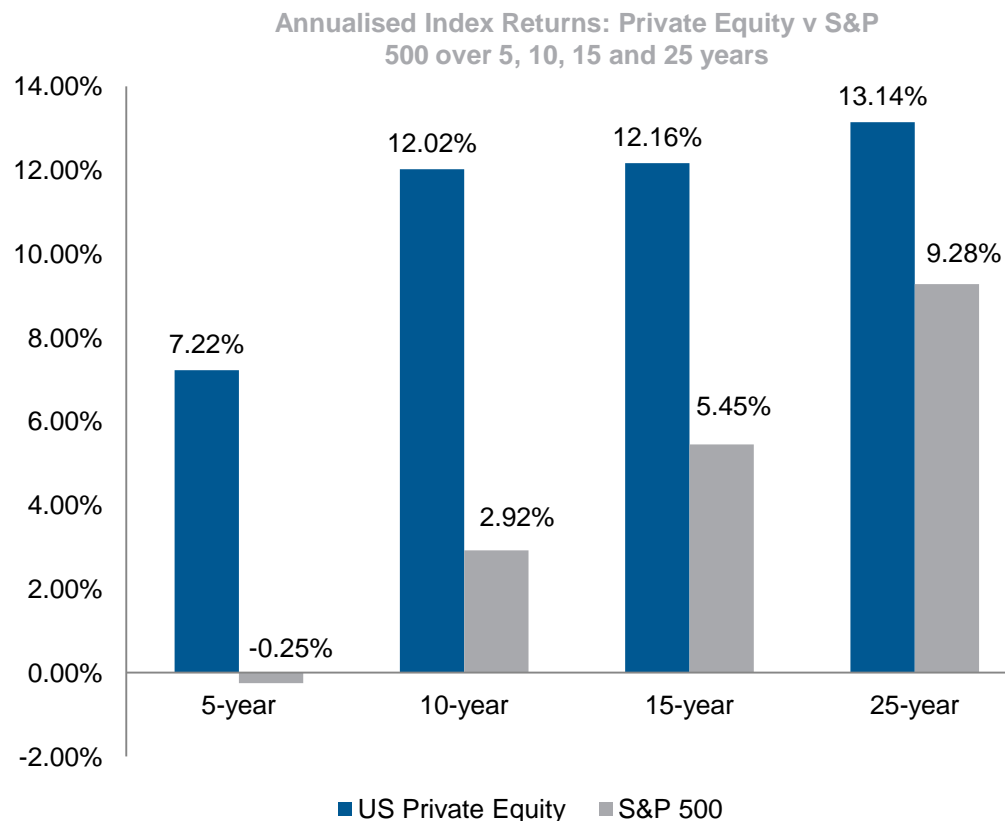
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# Private investments: benefits

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## Consistently outperformed public equities

- This outperformance persists over a 5, 10, 15 and 25 year periods
- Outperformed S&P 500 in last two downturns
- Internet crash (Q2 2000 to Q1 2003) outperformed by 15%
- Recent financial crisis (Q3 2007 to Q1 2009) outperformed by 21%



Source: Cambridge Associates

## **b. Additional Information on Funds**

# Prometheus Fund IV, L.P. – update

**Final closing of the fund occurred on Sept 30, 2012 with US\$49.35m in commitments**

- US Select made a US\$10m commitment, representing over 20% of the Fund
- Jon Cordish and Jonathan Sinex are members of the Fund IV Advisory Board
- Prometheus principals committed US\$3m (6%) to the Fund

**Initial investments: US\$1.6MM of US Select capital called to date**

- 1) Mid Atlantic Pizza – 21 Pizza Hut restaurants closed in December 2011
  - 11% LTM sales growth (through 9/3/2012)
  - Paid down ~US\$500k in debt through operating cash flows
  - US\$329k invested in capex, two additional units expected to open in Q4
- 2) 3-Unit IHOP acquisition closed June 2012
  - EBITDA up 8% since June
- 3) 6-Unit IHOP acquisition – in process (expected to close by end of Nov)

# Trivest Fund V – update

**Final closing of the fund occurred on Oct 1, 2012 with US\$415m in commitments**

Due to strong support from existing investors and significant demand from new limited partners, Trivest Fund V surpassed its original target of US\$325m and accepted commitments up to its cap of US\$400m (excl. GP commitment)

- US Select made a \$10m commitment, representing 2.4% of the fund.
- Trivest principals contributed US\$15m (3.6%) to the Fund
- No investments have been made and no capital has been called to date
- Trivest anticipates making its first capital call in early 2013

# KarpReilly Capital II – update

**Final closing of the fund occurred on October 5, 2012 with \$220m in commitments**

- US Select made a \$10m commitment, representing 4.5% of the fund
- Due to the Fund only having 5 LPs, KarpReilly works closely with all of their investors
- KarpReilly Principals committed more than any other investor to the Fund

**Initial investments: US\$2.3MM of US Select capital called to date**

- 1) Urban-inspired footwear and apparel retailer** for the 16-34 year old African American and Hispanic customer
  - Currently operates 35 stores located primarily in urban neighborhoods and regional malls throughout CT, MA, RI and NY
  - Strong sales and EBITDA growth since 2007 even during the GFC
  - Very strong relationship with Nike (and Michael Jordan)
- 2) US food retailer** with 10 company-owned locations in US (anticipated to close Q4)
  - Pioneer of the cupcake bakery category and foremost leader in freshly-baked artisanal cupcakes poised for significant growth
  - Generates industry leading financial results



# Encore Capital II – update

**Final closing of the fund occurred on November 5, 2012 with US\$200m in commitments**

- US Select made a US\$10m commitment, representing ~5% of the fund
- Jon Cordish and Jonathan Sinex are members of the Fund II Advisory Board
- Encore principals committed US\$4m (~2%) to the Fund

Initial investment: Thundershirt LLC

Company overview: innovative, branded therapeutic pet products company that developed the leading drug-free solution to dog anxiety, a condition affecting over 50 million dogs worldwide

Investment thesis:

- Offers a unique, innovative solution for the US\$760m market related to dog anxiety problems
- Talented and motivated management team capable of running a larger company.
- Significant growth opportunities through distribution expansion, introductions of new products, and international rollout
- Upside potential to achieve a 4x return with strong downside protection through preferred structure and conservative leverage

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