THE DEAL, THE WHOLE DEAL AND NOTHING BUT THE DEAL **V7.ISSUE 10**

ACQ

Tug of war

Despite downturn companies fight for top talent

This Issue:

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A clean sweep

Brian Ratzan, managing director at Vestar Capital Partners, discusses the firm's recent acquisition of Unilever's North American laundry business with ACQ's Phil Grainger.

The firm

In 1988 seven principals of The First Boston Corporation's Management Buyout Group left to found Vestar Capital Partners. Since then Vestar has completed 65 transactions in companies with a total value of over $30bn.

Now a leading global private equity firm, Vestar has grown to include more than fifty investment professionals in the United States, Europe and Asia. Six of the seven founders continue to manage the firm.

Headquartered in New York, with offices in the US, Europe and Asia, Vestar invests globally in companies that range in value from $250m to $3bn.

Vestar's investment team is organized into five industry groups, each focused on a particular sector of the economy and its products and services: Consumer, Diversified Industrial, Healthcare, Financial, and Media & Communications.

A key to the firm's strategy is Vestar Resources, a group of seasoned business executives and management consultants with backgrounds in operations, finance, strategy, and legal and tax services. They can provide expertise in any number of areas where a newly independent management team may need assistance: marketing and sales, product innovation, supply-chain management, information technology, and so on.

The firm is currently on its fifth investment fund, managing a committed equity pool of $3.7bn, with total assets under management of $7bn.

"The partners in the firm are the largest investors in the fund as a group, we committed over $150m to Vestar V. That's very important to us because we view ourselves as principals and not just money managers. When we make an investment we are investing alongside our Limited Partners, and for us that's the ultimate discipline."

Brian lists Vestar's international reach, its history and track record, its industry expertise across different sectors and its strategic/operational capability as the firm's distinguishing characteristics.

"The group has been together a long time. The founders have remained together, the professionals here for the most part have been here a long time, so there's a real history of working together over many years."

2008

2008 was a successful year for Vestar, with the firm making two other investments besides the Unilever deal:

Press Ganey Associates, Inc. - the leading provider of health care performance improvement solutions. Press Ganey provides quality improvement solutions to more than 40% of all U.S. hospitals and more than 7,000 health care facilities nationwide.

Radiation Therapy Services, Inc. – the U.S. leading provider of radiation therapy services to cancer patients. The company's 84 treatment centres are clustered into 27 local markets in 16 states.

"Our portfolio is pretty healthy. We've invested in a significant amount of businesses that tend to be a little more recession resistant. We have a lot of healthcare exposure, we've invested in consumer staples, and for the most part we have stayed away from some of the more cyclical industries. For example, we haven't done an industrial deal in the US the last few years as we felt like multiples were very high and earnings were at peak levels.

"We feel good about the investments we made in 2008. We've returned a significant amount of capital over the last few years so overall despite a very difficult environment given the health of our portfolio we feel good about entering 2009."

Huish

In 2007 Vestar acquired Huish Detergents, Inc, the largest manufacturer of private label laundry detergent and fabric softeners in North America. The company had a dominant share of the private label detergent business, and the leading value brand in Sun.

"We felt really good about the private label category

> "We think there's going to be more relationship type deals over the next 12-36 months as companies look for capital and are looking for partners to help them get through difficult times. We're optimistic about that"
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in detergents. It has low penetration relative to some other categories, so it was a real opportunity to grow private label, and to continue to grow Sun."

At the time, Huish was moving to a two times concentrate, which resulted in smaller bottles, lower freight costs, and lower inventory costs for retailers. This benefited everyone in the value chain, and made the company a much more attractive investment target.

"We thought that this was an industry that over time would consolidate. Procter & Gamble has the dominant number share with over 50% of the category, mostly with the Tide brand. We felt that with Huish and the others there was an opportunity to consolidate the other 50% share."

Unilever

In late 2007, Vestar learned that Unilever was looking to sell their branded detergent business in the US. The Unilever business brought with it some excellent brands, including: All, Wisk, Sunlight, Surf, and Snuggle. Vestar also acquired Unilever's manufacturing plant in Baltimore.

"These were some terrific brands we thought we could acquire and put together with the Huish infrastructure. We could benefit from Huish's manufacturing expertise, sales expertise, and distribution, and put that together with some very good brands, acquire the marketing and R&D capabilities that reside in Unilever, and create a terrific consumer products company with over a 20% market share: a clear number two in a very good category."

"We were able to effectively get an exclusive with Unilever pretty quickly in the process. We had six months to work the transaction, to do our work on the cost structures, the synergies, and watch the business."

Given the state of the environment last year, the financing was the main challenge in the deal. Vestar were able to leverage their existing capital structure and keep it in place. They added an incremental term loan to the facility and then raised over $600m in mezzanine financing, one of the largest mezzanine issues last year.

"We did about 25 one-on-ones with mezzanine sources. We got a very positive reaction and were able to get that financing done, combined with seller financing. Unilever invested $375m into the combined entity in the form of a preferred stock. We, and some of our limited partners, then invested more equity into the deal, Vestar invested a total of roughly $450m into the transaction."

Vestar brought in Neil DeFeo as CEO of the combined company. Neil spent over 20 years at Procter & Gamble, at one point overseeing the global laundry business. He was also the CEO of Remington Products, a former Vestar portfolio company, as well the CEO of Playtex, before joining the Huish board.

Brian describes Remington and Playtex as "brand revitalisation stories", and believes that Neil's experience in this area will be invaluable in stimulating the Unilever brands.

Dave Lundstedt, president of Sun Products, also has a prior relationship with Vestar, as he was the CEO of Prestone Products, another former Vestar portfolio company. Dave's experience in both branded and private label business is important for Sun.

"Sun is off to a terrific start. One of the things you've seen in consumer products in the last couple of months is a real shift towards value and private label, and those are areas that Sun focuses on. We've had double digit sales and EBITDA growth over the last number of months and we're well ahead of initial expectations on the deal."

2009

Brian is optimistic about the next 12 months, stating that the firm is only a deal or two away from being in the market to fund raise for Vestar VI. He believes that there will be interesting investment opportunities for the firm, and that the current state of the market and valuations play to the firm's strengths.

"We think there's going to be more relationship type deals over the next 12-36 months as companies look for capital and are looking for partners to help them get through difficult times. We're optimistic about that.

"It's going to be a tough economy. We're certainly not expecting the credit market to recover soon or quickly, and we do however think there will be investment opportunities, a lot fewer, but should be more attractive." **ACQ**

DETAILS

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