TM Capital Gift and Home Accessory Report

Industry Spotlight

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Over Two Decades of Consumer Products Excellence

creativeco-op
has completed a recapitalization led by
Eureka Growth Capital™

mudpie®
has completed a recapitalization led by
Lineage Capital, LLC

Jennifer Convertibles
has been acquired by
Haining Mengnu Group Co.

Patton Picture Company
has been acquired by
Linsalata Capital Partners

Constantine
a portfolio company of
Lineage Capital, LLC
has been acquired by
Milliken®

alternative®
has completed a recapitalization with
Rosewood Capital
Equity Partners for Consumer Growth Companies

Seneca Salem Inc
innovative | labeling | solutions
has been acquired by
WS Packaging Group, Inc.
Leaders in Printing and Packaging Worldwide
a portfolio company of
J.W. Childs Associates, L.P.

Nautilus Inc
has acquired
Pearl iZUMi

ChildLife®
has been acquired by
Escalade Sports

Central Garden & Pet
has acquired
Gulfstream Home & Garden, Inc.
exclusive marketer of
Sevin
Over'n Out! Fire Ant Killer

Bauer
a portfolio company of
Kohlberg & Company
has acquired
Inaria

Wolf Camera
has been acquired by
Ritz Camera

Catalina
has acquired through a U.K. public cash offer
Ring

Arm & Hammer
Church & Dwight Co., Inc.
has acquired
Clean Shower

Arm & Hammer
Church & Dwight Co., Inc.
has acquired
Brillo
and other household brands from
The Dial Corporation

Martin Himmel, Inc.
has sold
Gold Bond®
to
Chattem

Reckitt Benckiser
has sold
Plastic Wood®
to
RPM

Reckitt Benckiser
has sold the worldwide
3-IN-ONE® Lubricants Business
to
WD-40

Reckitt Benckiser
has sold
Carpet Fresh
Airwick Neutra Air
to
Block Drug Company, Inc.

Reckitt Benckiser
has sold
Woolite Carpet Cleaner
to
Playtex Products, Inc.

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Introduction

Past Themes Revisited

Comedian Lily Tomlin could have been describing the anemic global economy over the last four years when she famously said, *"things are going to get a lot worse before they get worse."* Fortunately, the economic tide appears to be turning. While vendors in the Gift and Home Accessory ("GHA") market have not been immune to significant, sustained economic headwinds, the sector has demonstrated continued resiliency. In fact, the prolonged market downturn has served to further underscore several industry themes TM Capital first discussed in 2010:

Strong Getting Stronger – Healthy GHA vendors have capitalized on the continued market uncertainty to displace troubled competitors and aggressively win market share. These leading vendors have made sustained investments in continued product design, logistics efficiency, sourcing expansion, inventory management and channel extensions. More conservative vendors have reduced both the number of product introductions and the design "risk" of those new catalog additions—opting instead to focus on historically strong product lines. Vendors are also cautious when pre-committing to manufacturing quantities, submitting initial re-order volumes and extending credit to retailers. Stronger, more aggressive vendors have not only been able to stay ahead of the design curve with fresh, vibrant catalog additions, but have also provided retailers with higher levels of inventory availability for replenishment.

Vendor Culling – Independent retailers are behaving rationally by gravitating to vendors that can provide: 1) a continually refreshed product line; 2) a history of high margin sell through; and 3) immediately available inventory. The depressed economic cycle has widened the gap between strong and weak vendors. Today, retailers are sourcing from an ever narrowing group of trusted vendors. As the economic tide turns and consumer spending trends improve, we believe these preferred vendors are positioned to disproportionately benefit.

Category Expansion – The most innovative GHA vendors are accelerating efforts to provide retailers with multi-category product assortments and the opportunity to "fill a store" with coordinated products from a single source. As we noted in our previous report, several dominant vendors were ranked highly in the 2009 Giftbeat rankings across multiple, diverse categories. For example **Mud Pie** and **Ganz** ranked highly in the Baby, Wine Themed, Tabletop, and Monogram categories. Today, these leaders have continued their category expansion with Mud Pie ranked as one of the premier Fashion Accessories vendors and Ganz scoring highly for Personal Accessories and Message Jewelry in the 2012 rankings. The drive towards multi-category offerings will also spur strategic mergers and acquisitions (M&A), as evidenced by Ganz's 2012 acquisitions of **Beyond a Bag** and **Midwest-CBK**.

Independent Retailer Resiliency – The independent specialty gift and home retail channel is critical within the GHA market. In part due to high concentrations of second career entrepreneurs and empty nesters, this market is particularly prone to broader macroeconomic conditions and susceptible to considerable retailer churn. Remarkably, after analyzing sales trends at several leading vendors, we have found that the number of independent retailer customers they service has grown during the downturn, despite overall churn throughout the specialty retail landscape. Further, an internal joint study commissioned by a consortium of the larger vendors identified limited sales overlap and considerable white space at the independent retail level.

Viewed broadly, we believe that notwithstanding chronic undercapitalization and ongoing churn among independent retailers, the category is here to stay—and likely to grow. Unlike so many other specialty retail categories seeing disintermediation—first by big boxes and more recently by direct-to-consumer—independent GHA retailers are insulated by several distinct category attributes:

- **Growing Supply of New Entrants** – As aging baby boomers face continued employment uncertainty, the desire to gain control of their economic destinies is driving increasing numbers of prospective entrepreneurs towards independent business opportunities. Coupled with low barriers to entry (including a growing supply of storefront real estate available at attractive rates), this trend assures an ongoing supply of new retail entrants with unique styles that will facilitate a selling environment characterized by…

- **Consultative Selling** – Unlike lookalike chain store plan-o-grams, each independent GHA retailer offers a unique style-based value proposition and provides consumers with purchasing inspiration through consultative selling. We believe the GHA consumer genuinely values the "relationship" he or she builds with an independent retailer who knows and helps shape the customer's tastes while offering valuable, time-saving advice. This personal relationship also helps encourage consumers to comfortably share personal information, which the best independent retailers capture and mine to further embed themselves in the lives of their customers by leveraging…

- **Online Selling Tools** – Independent retailers are rapidly embracing online selling and community building tools, which provide the traditional neighborhood store with a robust e-commerce and social media platform to directly engage customers in a way mass retailers cannot easily replicate. We believe that online tools will become an important tool for GHA vendors to strengthen customer relationships, facilitate additive "push marketing" ("Come see what just arrived in my store. It complements the piece you bought last month!") and combat the big box disruption seen in other specialty channels.

Design Borrowing – Given the sheer volume of products represented in the GHA sector (with some vendors offering over 10,000 SKUs), it is a practical impossibility to fully protect products from infringement. Vendors have taken different approaches to mitigating creative copying. **Mariposa**, **Reed & Barton** and **Simon Pearce**—design leaders best known for high-end tabletop and lighting products crafted from metal and glass—have built formidable consumer brands. By tastefully yet prominently stamping and packaging their products with their brand, these companies differentiate their offerings from more generic imitations. Others have turned to exclusive licensing and collaboration arrangements with noted artists such as Kelly Rae Roberts (**Creative Co-Op** and **DEMDACO**) to help build barriers to infringement.

New Topics Explored

In this edition of *TM Capital's Gift and Home Accessory Industry Spotlight*, we examine a new set of evolving dynamics within the industry, including:

Institutional Investment – Private equity investors are increasingly eyeing the GHA space, and several high profile institutional investments in the sector have recently been consummated. Capital deployments in the space create liquidity for owners and promote continued expansion and operational sophistication. These investments also serve as a validation of the overall attractiveness and growth prospects of the industry. In the following pages we examine the market landscape and the implications of partnerships between private equity investors and leading GHA vendors. These investments, coupled with strategic consolidations, are spawning an environment of dynamic growth.

Economic Optimism Building – Our market tests suggest that significant momentum is building in 2013 and beyond. Initial reports from vendors at the January 2013 show in Atlanta were quite positive, offsetting a "pause" in purchase order volume across the board during the late summer and fall of 2012. A number of macroeconomic conditions are coalescing, which we believe point to continued improvement in the overall health of the GHA market.

Rising Cost of Manufacturing in China – The center of the GHA manufacturing universe, China's enormous, cost effective labor force—in conjunction with strong supply chains and reliable logistics infrastructure—has created the world's foremost export-oriented economy. Despite the cost benefits that US companies continue to reap from China sourcing, it has become significantly more difficult to profit solely from China's inexpensive labor. We examine the evolving situation in China and its impact across the industry.

China Retail: Open for Business? – The evolution of the urban Chinese middle class has produced an enormous and rapidly expanding consumer market—already the largest in the world. Given that the vast majority of GHA products are produced in China, we explore the country's viability as an end market for GHA sales.

Evolution of the Candle Market – The candle sector has been the longstanding consumable staple of the GHA industry. In this issue, we explore trends that are driving this segment and how technology may ultimately create a paradigm shift in this traditional craft business.

Direct vs. Indirect Sales Force – Nuanced as gift and décor wholesaling may be, a tactical sales strategy often separates winners from losers in the fragmented and competitive market. In this issue, we consider the factors involved in crafting a winning sales strategy.

Market Participants – Barbell Market

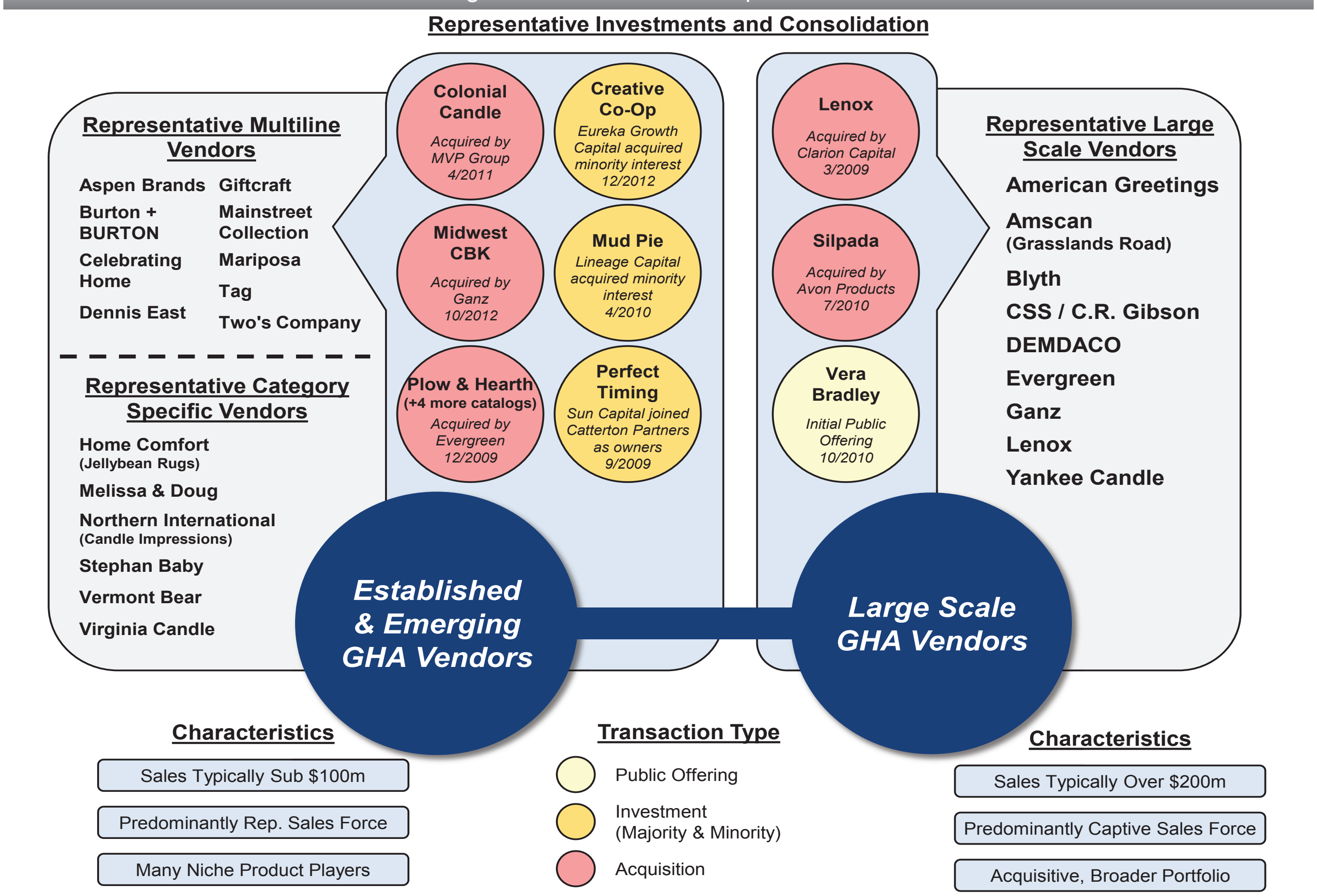
The GHA market is large—estimated to be over $53 billion by Home Accents Today—and the landscape is highly fragmented, with hundreds of vendors vying for position in the US wholesale market. Market participants range from large, publicly traded companies with diversified product portfolios spanning several categories to smaller, independent niche-focused vendors. TM Capital characterizes the market as "barbell" in shape. As shown in **Figure 1**, the heavyweights on the right hand side of the barbell reap benefits of scale such as favorable manufacturing terms, efficient overhead allocation and dedicated sales teams. These vendors also use their prominence to:

- **Define Categories** – e.g. **Yankee Candle** in candle/home fragrance and **Vera Bradley** (NasdaqGS:VRA) in fashion accessories;
- **Consolidate Market Segments** – e.g. the consolidation of the greeting cards and stationery niche by **CSS** (NYSE:CSS) with its 2007 acquisition of **C.R. Gibson**; and
- **Span Multiple Categories** – e.g. party supplies giant **Amscan** with its giftware subsidiary **Grasslands Road**.

Large scale vendors also continue to evolve their market strategies. For example, **Blyth** significantly reduced its wholesale gift and candle focus with the sale of **Midwest-CBK** and **Colonial Candle**, while **Yankee Candle** has increasingly built scale in the mass channel—though indications are that Yankee may now be refocusing its attention to the independent channel. These evolving dynamics represent significant opportunities for emerging GHA vendors.

The emerging vendors clustered on the left side of the barbell typically generate sales under $100 million and compete for retailer spend on the basis of product quality, design appeal and customer service. Happily, these emerging players are supported by a diverse community of specialty retailers nationwide. Moreover, the convergence of gift shops, home furnishings retailers and fashion apparel boutiques carrying an ever-broadening spectrum of home décor, fashion apparel, jewelry and accessories has expanded the addressable market of "lifestyle stores" through which GHA vendors can market their products.

Figure 1. GHA Barbell-Shaped Market



Source: TM Capital

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Evolving M&A Trends and Changes in the Competitive Landscape

Despite retailers' appetite for diverse inventory, the parallel trends of *vendor culling* (retailers buying from a "short list" of preferred vendors) and *category expansion* (vendors broadening their product offerings) have challenged the viability of such a fragmented supplier market. Particularly in a difficult economic climate, retailers are consolidating their purchase orders among vendors whose products generate proven sell-through and margin potential. Vendors that successfully move towards the sparsely populated center of the barbell and are best able to demonstrate sustained sales growth and profit margins are most commonly the targets of strategic acquisition or the recipients of institutional investment.

Successful wholesalers have not shied away from accommodating specialty retailers with broader product lines, despite the product sourcing and marketing challenges of a credible category expansion plan. As **Giftcraft** is proving with the successful launch of its *Charlie Paige™* leisure apparel line, accessories such as scarves and handbags are particularly appealing for their healthy margins and low inventorying and shipping costs. **Creative Co-Op**, urged on by customer requests for a coordinated line of fashion jewelry to complement the Company's home décor styling, successfully launched its *Embellish* line in June 2012. To succeed, a company's design, costing and marketing teams must approach fashion categories as "consumable," with gift-oriented pricing, a perceived value that motivates impulse buying and frequently refreshed lines that encourage repeat purchases.

Mid-sized GHA vendors, attempting to broaden their product portfolios and bolster their market presence, will accelerate the steady stream of M&A activity we've observed since the beginning of 2010. **Figure 15**, found on page 19, lists the most notable transactions completed over this period. **Ganz** recently acquired **Midwest-CBK** in November 2012. The seller, **MVP Group International**, had acquired both Midwest and **Colonial Candle** a year prior from **Blyth** (MVP Group retained the Colonial Candle brand). In another headline deal, **American Greetings Corp.** doubled down on paper goods with its acquisition of **Schurman Fine Papers (dba: Papyrus)**, which will result in an integrated retail platform and direct-to-consumer business model. Going forward, we expect to see a surge in cross-category acquisitions as vendors build critical mass and pioneers of tangential gift sectors—such as **1-800-Flowers**, **Dancing Deer Baking Co.**, **Edible Arrangements** and **Swiss Colony** in the consumables market—seek increased penetration of the independent retail channel.

Institutional Investment

After a protracted period of inactivity in the aftermath of several disastrous institutional investments in the GHA sector in the late 1990s and early 2000s, institutional appetites for compelling investment opportunities in the industry have reemerged since 2010. As a result, attractively positioned GHA vendors seeking to migrate towards the middle of the barbell, but lacking the capital for strategic investments or acquisitions, have a compelling alternative—an institutional private equity community primed with uninvested capital ("dry powder") and eager to invest in the space.

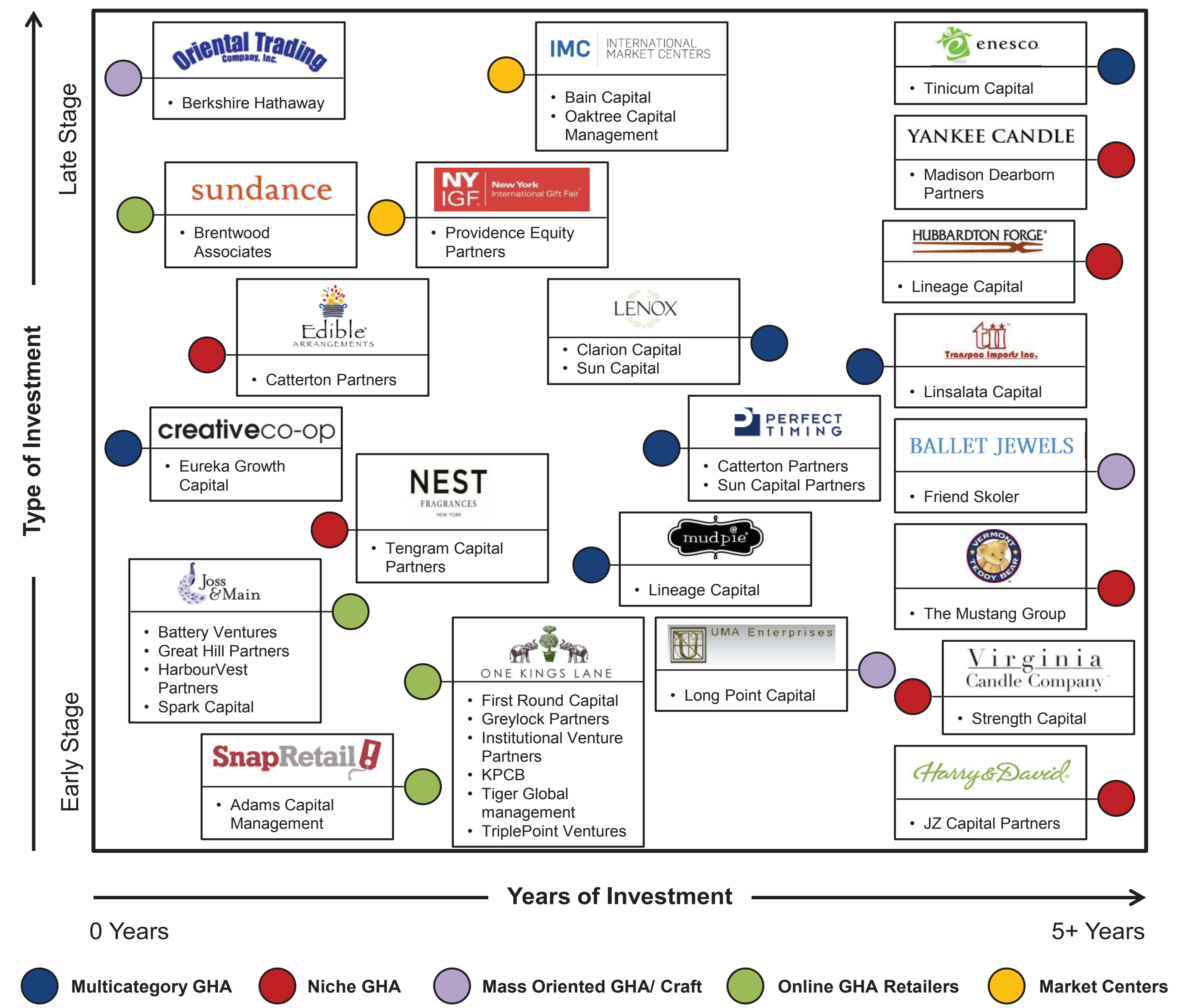
As shown in **Figure 2**, when the GHA sector emerged from the recession with improved profitability and growth prospects, private equity firms took notice. Following a minority investment from **Lineage Capital** in early 2010, **Mud Pie** has grown significantly—aggressively attacking the leisure apparel and accessories market. In the summer of 2012, **Edible Arrangements** announced a strategic partnership with leading consumer-focused private equity firm **Catterton Partners** to implement its global expansion. **Creative Co-Op** recently completed a minority recapitalization with **Eureka Growth Capital** that brought on board a financial sponsor with valuable experience, capital and strategic skills to assist the Company in achieving its expansion and growth initiatives. Institutional capital has also flowed into innovative, direct-to-consumer online retailers in the GHA space such as **Gilt Groupe**, **HauteLook** (a subsidiary of **Nordstrom**), **Joss & Main** (a subsidiary of **Wayfair**), **One Kings Lane**, and **Rue La La**.

GHA Garnering "Bulge Bracket" Attention – Larger financial sponsors, sensing a market with strong growth dynamics, have also deployed significant capital into the sector. **Madison Dearborn Partners**—already an important GHA industry stakeholder with its investment in **Yankee Candle Company**—doubled down and entered the specialty retail space with its acquisition of **Things Remembered**. Moreover, a consortium led by **Bain Capital** and **Oaktree Capital Management** invested an unprecedented $1 billion in the newly formed **International Market Centers**—consolidator of the iconic GHA showroom assets in Las Vegas, NV and High Point, NC. Even the "Oracle of Omaha," Warren Buffet, planted his flag with **Berkshire Hathaway's** headline-grabbing acquisition of **Oriental Trading**, the mail order craft and party supply merchant. These recent deals represent a vote of confidence not only in the subject companies, but also in the prospects of the broader industry.

TM Capital served as the exclusive financial advisor to both Mud Pie and Creative Co-Op in their respective transactions.

Our in-depth, first-hand experience in crafting compelling investment theses around GHA companies demonstrates that institutional private equity firms are eager to deploy capital on favorable terms to finance the liquidity and growth initiatives of the best emerging GHA vendors. This burgeoning interest among financial sponsors—driven by a strong outlook on returns—is underpinned by a number of factors including resilient industry performance and the outsized growth opportunities for GHA vendor consolidation "winners." Overall, this interest validates the long-term viability of the industry and promises to drive further M&A activity as strategic and financial parties jostle for position in a growing market.

Figure 2. Institutional Investments in the GHA Industry



Source: TM Capital

Economic Optimism Building

Macroeconomic Indicators

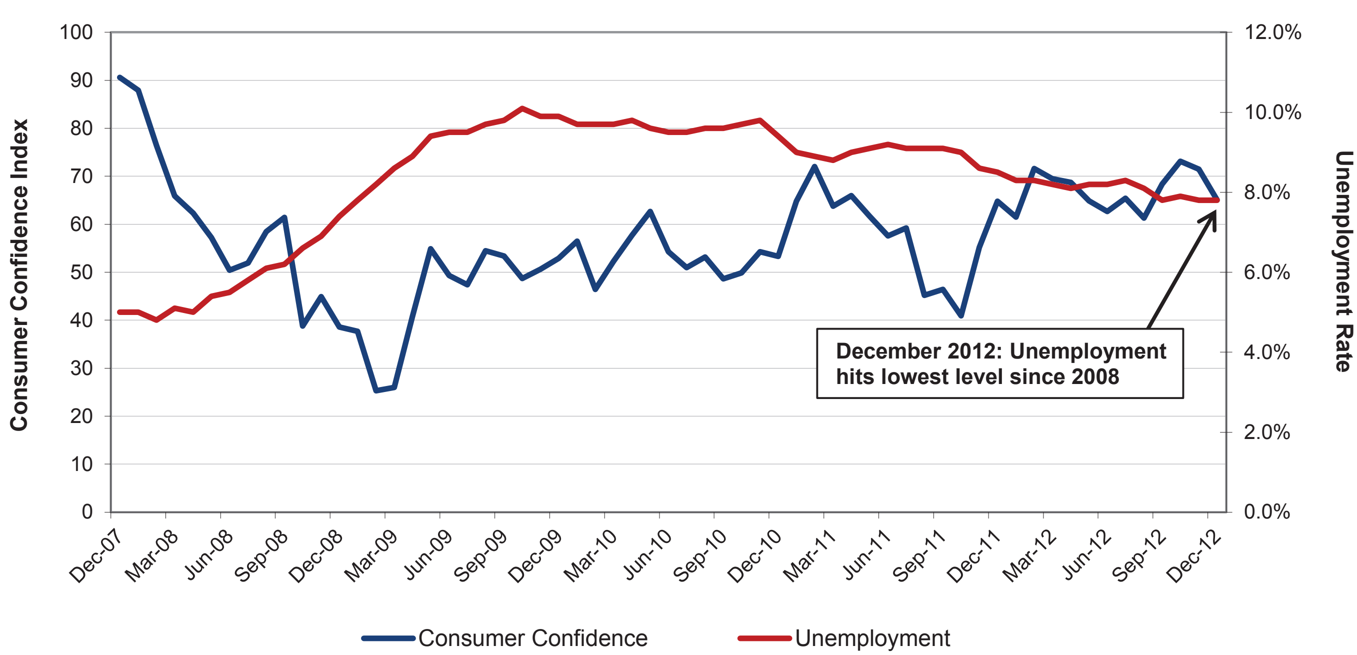
As the US economy continues to emerge from a recession that wreaked havoc on consumer confidence—testing the staying power of independent and mass retailers alike—GHA wholesalers can look ahead to a largely positive forecast for 2013. A host of macroeconomic indicators suggest strong medium and long-term growth prospects for the industry. As shown in **Figure 3**, consumer confidence surged in the final quarter of 2012, reaching its highest level since February 2008 before faltering amidst fiscal cliff concerns at year's end. We believe that this increase in consumer confidence is driven by indications of strength in the housing market, stock market performance and the gradually declining unemployment rate. Even more importantly, a thawing US housing market has helped homeowners rebuild equity and consequently boosted confidence in spending. We believe that increased consumer confidence foreshadows improving overall purchasing behavior.

> "Now that we have the capital, we can undertake major initiatives… We're sending the gift and home decor industries a huge message."
>
> **Robert Maricich**
> ***CEO, International Market Centers***
>
> IMC INTERNATIONAL MARKET CENTERS

It All Starts At Home

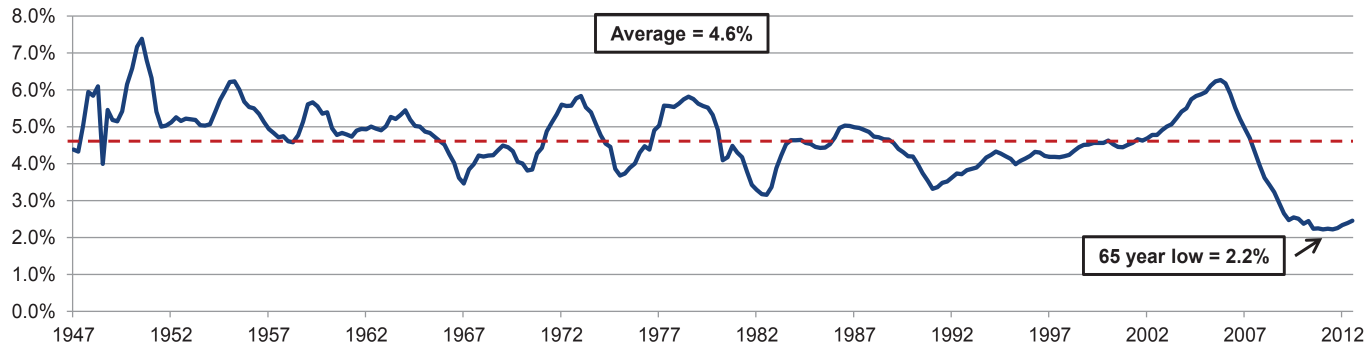
Historically, GHA spending levels have been correlated with the health of the housing sector. Housing starts averaged about 1.1 million annually throughout the 1990s and early 2000s before growing to 1.5 million between 2004 and 2006. As the housing market collapsed in 2007, starts took a major hit—reaching a trough of 478,000 annualized new housing starts in April 2009 followed by anemic growth through 2010. Over the last year, as existing inventory has declined and foreclosures have slowed, starts have begun their return to homeostasis—reaching 954,000 in December 2012, the highest mark since the summer of 2008. According to a report by Goldman Sachs Global ECS Research, this upward trend should continue with housing starts reaching 1.2 million by the end of 2013 and continuing to rise further through 2016. The return to positive household formation will drive activity in the GHA sector as new household formations drive demand for furnishings and accent pieces. Moreover, **Figure 4** shows that private residential fixed investment as a percentage of GDP—which reached a 65 year low in 2010—has finally begun a slow climb back towards its

Figure 3. US Consumer Confidence and Unemployment Rate



Source: Bureau of Labor Statistics, The Conference Board

Figure 4. US Private Residential Fixed Investment (% of GDP)



Source: Federal Reserve Bank of St. Louis

historical norm. Investment in the home living environment has historically translated to increased purchasing volume within the independent home décor community. We believe that consumers, emboldened by financing options and rising home equity, are ready to loosen their purse strings.

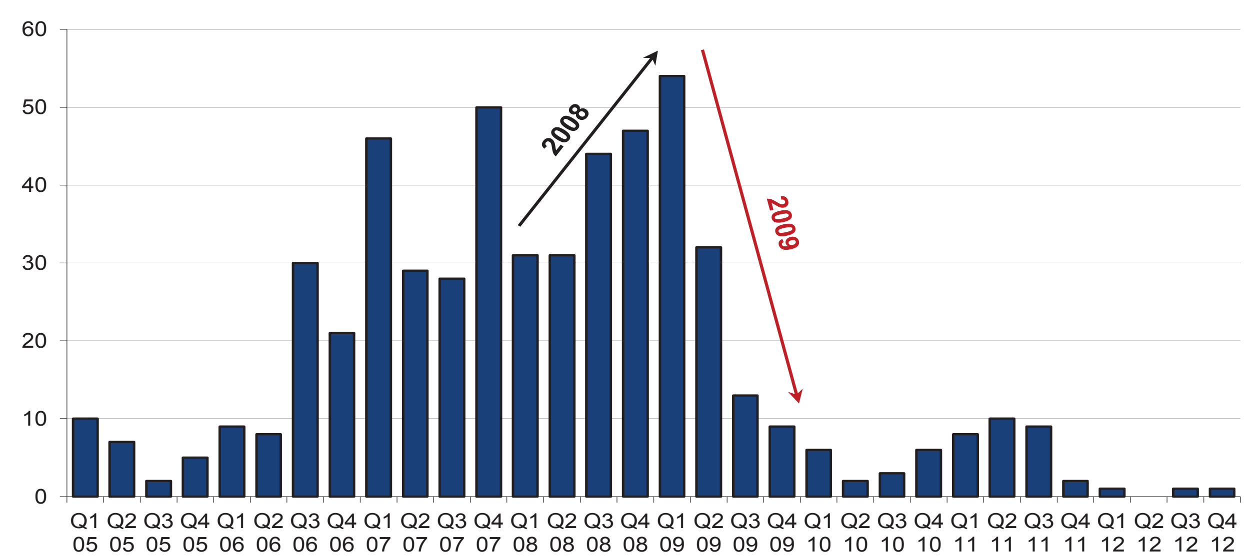
A Brightening Retail Environment (Despite an Autumn 2012 "Pause")

TM Capital's analysis of sales trends at several leading GHA vendors points to growth in the addressable base of independent retailer customers since the height of the downturn. As shown in **Figure 5**, the "creative destruction" of 2007 – 2009 appears to have effectively "cleaned out the old brush." In stark contrast to the explosion of retailer bankruptcies that rocked the market at the height of the recession, retail insolvency largely disappeared from the headlines in 2012. Moreover, the allure of self-employment in a difficult labor market and high retail vacancy rates have prompted many entrepreneurs to open new retail outlets.

Most independent retailers are small, undercapitalized entrepreneurs whose businesses are particularly sensitive to short-term market disruptions. The resulting "accordion phenomenon" is endemic to the GHA retail space: shop owners delay purchase orders and retrench at the first sign of economic turbulence and aggressively rebuild inventory as the clouds clear.

Autumn 2012 – Overwhelmed by a storm of negativity surrounding the 2012 Presidential Election and Congressional gridlock over the "fiscal cliff," the accordion contracted in

Figure 5. Specialty Retailer Bankruptcies by Quarter, 2005 - 2012



Source: S&P Capital IQ, TM Capital

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the last few months of 2012. Anecdotal evidence suggests that this contraction was most severe in the most hotly contested swing states, in which retailers were bombarded with attack ads that exaggerated the economic downturn and depicted a grim economic future. Customers in independent retail stores during the holiday season also cited uncertainty over future take-home pay as a reason for their hesitation to spend freely. The vendors we track most closely all felt the effects of this "pause" yet remain universally optimistic.

> "Independent retail has been successful through the downturn due to the high regard in which consumers hold their personal relationships with individual merchants. I see a world in which the independent retailer and the online retailer can co-exist."
>
> **Peter Cameron**
> ***CEO, Lenox Corporation***
>
> LENOX

Early 2013 Returns – The domestic economic skies have not fully cleared, but a combination of positive economic forces appears to be taking hold. The upward movement in employment levels, consumer sentiment and household equity suggest an increasingly positive consumer spending environment. With the election behind us and an 11th hour deal by Congress to defuse the fiscal cliff, the clouds of uncertainty have scattered. Evidence suggests that the accordion has, once again, begun to expand. Initial reports from vendors at the January 2013 show in Atlanta were quite positive. For example, home décor vendor **Kalalou** celebrated its single biggest show day in the Company's 25 year history.

New Retail Channels Evolving – Additionally, the online GHA channel has continued to evolve, with online "flash sale" retailers such as **Gilt Groupe**, **HauteLook**, **Joss & Main**, **One Kings Lane**, and **Rue La La** generating over $2 billion in 2012 sales, according to IBISWorld. The rapid growth of these increasingly important customers bodes well for GHA vendors—in the fourth quarter of 2012 Gilt Groupe and Rue La La generated sales increases of 30% and 50%, respectively, over the prior year period. Moreover, with considerable financial support from strategic and institutional investors alike, this budding sales channel will continue to grow in promise. **Nordstrom Inc.** (NYSE:JWN) acquired HauteLook for $210 million in February 2011, while Gilt Groupe and One Kings Lane have each raised over $100 million in venture financing over the last two years.

Case Study: Creative Co-Op Inc.

December 20, 2012

creativeco-op

has completed a recapitalization led by

Eureka Growth Capital™

The undersigned served as financial advisor to Creative Co-Op Inc. in commection with this transaction.

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Creative Co-Op, the 2012 *Retailers' Choice Manufacturer of the Year*, engaged TM Capital to explore a minority equity transaction. The company ultimately chose to partner with Eureka Growth Capital, a leading private equity firm with significant experience investing in owner managed, growth oriented businesses. As part of the transaction, Eureka acquired a non-controlling equity position in Creative Co-Op and the existing management team will continue to lead the Company, maintaining ownership control. The transaction brought on board strategic and financial resources to assist the Company in accelerating its already impressive growth. In partnership with Eureka, Creative Co-Op will continue to build on its customer-oriented heritage with gift products and home decorative accessories worthy of its slogan: ***Designed by Us—Inspired by You.***

"We interviewed multiple firms in our search for an advisor and are extremely fortunate to have found TM Capital. Their industry knowledge, thoughtful approach, and wealth of deal experience were instrumental in guiding us through a complex process that ultimately resulted in an extremely positive outcome for all parties. TM Capital will forever be a great friend of Creative Co-Op, and we look forward to the opportunity of working with them again in the future."

– Lee Wang
Executive Vice President, Creative Co-Op

Thinking Globally About GHA

China – The Undisputed Leader in Manufacturing

China is the worldwide leader in consumer product manufacturing. China's enormous, cost effective labor force, in conjunction with strong supply chains and reliable logistics infrastructure, has created the world's foremost export-oriented economy.

Changing Currents in Overseas Labor Costs

Despite the benefits that US companies continue to reap from China's focus on exports, it has become significantly more difficult to profit solely by leveraging the country's inexpensive labor. China's hourly wages grew explosively at a compound annual rate of 18.0% between 2007 and 2012—a stark contrast to the moderate 2.3% growth in the US—and wage arbitrage opportunities continue to narrow. The Economist Intelligence Unit (EIU) projects wages in China to continue to grow at a compound annual rate of 12.4% through 2016, in contrast with 2.5% projected wage appreciation in the US. Although EIU calculations demonstrate a staggering average hourly labor cost discount in China relative to the US in absolute dollar terms, the additional costs associated with doing business overseas contribute to a more difficult "tipping point" analysis. For example, as this wage-pressure pushes Chinese production further inland, rail freight will add to logistics costs and extend delivery timeframes, further driving cost increases.

Figure 6 – Labor Costs Per Hour (CAGR)

	2007 - 2012	2012 - 2016E
China	18.0%	12.4%
Thailand	8.9%	7.7%
Indonesia	5.9%	8.3%
Phillipines	5.4%	5.3%
India	5.2%	13.6%
United States	2.3%	2.5%
Mexico	(0.6%)	6.2%

Source: Economist Intelligence Unit, TM Capital

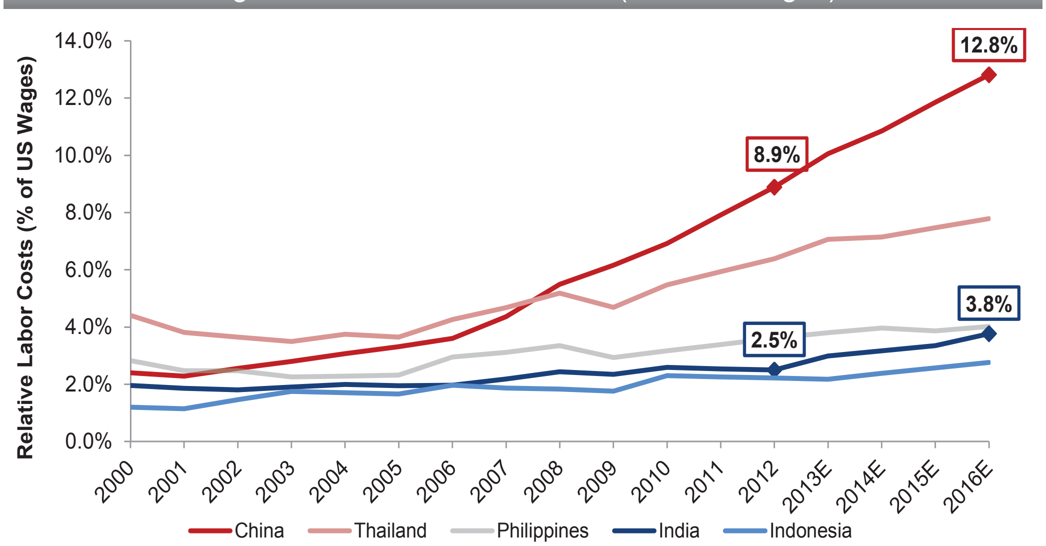
No Turning this Ship Around – China's advantage will continue to narrow as the economy grows, the workforce ages and the government implements the 13% annual minimum wage growth target outlined in its 12th Five Year Plan. This, along with relentless global political pressure on China to allow its currency to appreciate, threatens to further reduce the competitiveness of China's labor market and motivate many producers to consider fulfilling labor-sensitive purchase orders in second tier manufacturing countries such as India and Thailand at labor savings that, according to the EIU, may already exceed 50%.

Continued Importance of China Sourcing

Despite the growing cost advantages of moving production elsewhere, buying teams remain well aware of the qualitative benefits of Chinese manufacturing. For instance, with an estimated 215 million industrial workers, China's "manufacturing machine" is approximately 58% larger than that of Southeast Asia and India *combined*.[1] Superior productivity, value-added product design capabilities (from years working with Western buyers) and time tested infrastructure (highways, railways, power supply, and port cargo capacity) help mitigate the impact of higher wages.

GHA product teams in the US still prefer China as they are often able to find on-trend products among factory stock items to complement—or even inspire—their internally developed collections. Moreover, they are eager to collaborate with manufacturers offering to "transfer" design trends from their work with other vendors. Most importantly for vendors coping with tight wholesale calendars and working capital constraints, China's machine excels in its reliability and is ranked first among the "low cost" Asian nations in World Bank Group's 2012 Logistics Performance Index, as shown in **Figure 8**.

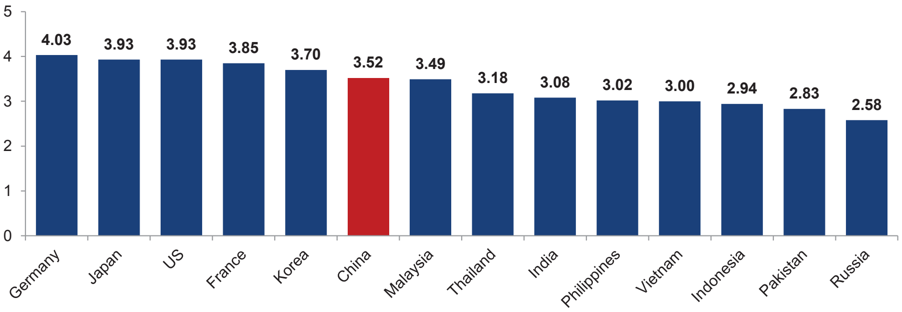
Figure 7 – Relative Labor Costs (% of US Wages)



Source: Economist Intelligence Unit, TM Capital

[1] Boston Consulting Group, "Made in America, Again" (8/25/11)

Figure 8 – Logistics Performance Index (5=Best, 1=Worst)



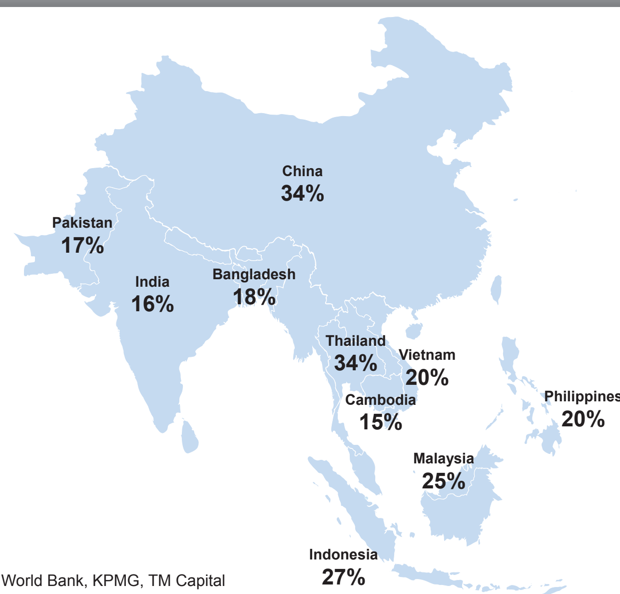
Source: World Bank Group Statistics 2012

Alternative Sourcing Options

Although we believe China will anchor GHA manufacturing for the foreseeable future, sourcing managers must begin to build flexibility and diversification into their supplier bases by experimenting beyond China. While unable to replicate China's "one-stop-shop," many other countries in South Asia are providing formidable alternatives due to labor cost advantages and recent investments in infrastructure and manufacturing capacity. India, for example, has emerged as the leading challenger to China despite its manufacturing sector's relatively low contribution to GDP. The subcontinent is renowned for home textiles such as rugs, curtains and throws—which account for more than 80 percent of its GHA production—and has budding wood and metal manufacturing industries producing home furnishings. Other Southeast Asian countries such as Indonesia, Vietnam and Thailand boast strong trade organizations with a deep pool of artistic workers knowledgeable regarding Western aesthetics. **Figure 9** illustrates the manufacturing clout of neighboring countries that can compete as a lower-cost alternative to China.

"China Plus" Strategy – The ability of these alternative, low-wage manufacturing centers to absorb Chinese production volume remains highly questionable, and, as shown in **Figure 10**, their infrastructures pose significant reliability concerns. Finicky power grids, inefficient transportation networks and lower-volume ports cause unpredictable production schedules and logistics headaches—unwelcome problems for a vendor seeking new suppliers. Although buyers of high-volume, labor intensive products may move en masse to lower-cost havens, the reality is that wages as an input cost are declining in importance—particularly given the economies of scale and productivity gains of Chinese factories. However, even entrenched players with deep relationships in China, such as **Evergreen Enterprises**, continue to explore alternative sourcing opportunities. Similarly, in addition to its company-owned factory in Guangxi, China, **Uttermost** actively seeks products from dozens of third party manufacturers and maintains a staff of product development and quality control professionals in China, Indonesia and India. Smart buying teams will pursue a "China Plus"

Figure 9 – Manufacturing in Select Asian Countries (% of GDP)



Source: World Bank, KPMG, TM Capital

Figure 10 – Comparison of Manufacturing Conditions in Representative Asian Countries

	Labor Wages	Quality of Labor Force	Physical Infrastructure	Fixed Costs (Land, Raw Materials)	Tax & Regulatory Environment
China	3.2	3.2	3.7	3.5	3.1
India	4.1	2.8	2.7	4.2	3
Indonesia	3.8	3	3.2	3.8	3.5
Japan	3.3	4.3	4.3	3.1	3.8
South Korea	3.3	3.8	3.9	3.4	3.7
Thailand	4.3	3.8	3.5	3.8	3.3
Vietnam	4.1	2.8	2.7	3.7	3.3

Source: Deloitte China Manufacturing Competitiveness Study 2011
Note: (1 = Poor, 5 = Highly Competitive)

strategy that maintains a stable of preferred manufacturers in China while funneling upwards of 25% of orders to other emerging markets that provide unique production capabilities or preferable economics.

> "Despite holding a controlling interest in several of our Chinese suppliers to ensure product quality and pricing control, we are continually exploring manufacturing opportunities in countries that provide attractive pricing, special capabilities or strong access to specific materials."
>
> **Chris Wornom**
> ***Business Development & Acquisitions Manager, Evergreen Enterprises***
>
> EVERGREEN ENTERPRISES, INC.

GHA in the USA?

If GHA vendors are unable to pass through China-sourced product price increases to their retailer customers, they are left with a few obvious choices: 1) accept lower margins; 2) reduce product content and quality; or 3) "roll the dice" on the suspect logistics infrastructures of second tier overseas manufacturing nations. If none of these options are attractive, another less obvious but potentially more interesting alternative may be to put the option of manufacturing in the US—long an inconceivable notion—back on the table. After factoring in freight and logistics costs, in addition to US productivity advantages, some US companies—especially those involved in industries where freight and logistics comprise a large percentage of total cost of goods sold compared to labor—are approaching their tipping point and considering whether to "onshore" at least a portion of their manufacturing.

Admittedly, the GHA industry is not known for capital intensity, supply chain complexity, knowledge clustering and other factors that typically sustain domestic manufacturing. Shipping costs and productivity advantages alone cannot justify onshoring production of categories with high "labor to logistics" ratios such as tabletop, accents and accessories. We believe, however, that domestic manufacturing—on at least a limited scale—could deliver significant competitive advantages for a brave first mover, particularly in categories such as regional specialty items, higher-end "hand-made" products, difficult-to-ship items and customizable products that benefit most from the following advantages:

- **Brand Value** – The market perception of *Made in America* should not be underestimated. Based on a survey of actual consumer buying behavior conducted by Boston Consulting Group, more than 80% of US consumers were willing to pay a premium (ranging from 10% to 60%) across a broad range of product categories for items manufactured in the US.

- **Speed-to-Market** – With shortened product lifecycles and intense competition for retailer wallet share, the time spent bringing a product concept from the storyboard to the retail shelf can often make or break a product line. Retailers are reluctant to repurchase from vendors whose stale products collect dust. By adding a degree of US manufacturing (particularly for "trendier" items at the mercy of fleeting design trends), vendors can enhance sell-through performance and their market reputation. Moreover, with each of the 90 plus days that inventory may sit on an ocean freighter between the ports of Shenzhen and Long Beach, inventory risk mounts and margin potential decreases.

- **Design Protection** – With adherence to strict intellectual property laws, US manufacturers provide a safe haven for vendors with trend-setting product designs, warding off copycats. Equally important, GHA wholesalers gain confidence that they are not unwittingly infringing on the rights of others when seeking design advice

Spotlight: Vermont Teddy Bear

Each Vermont Teddy Bear creates a personal and unique relationship with its recipient. Moreover, the company's product quality, along with its unique *Made in America* promise, are critical to the company's success. Employees in its Shelburne, VT facility handcraft every teddy bear, lending a personalized touch to each of the hundreds of thousands of furry gifts sold annually. Heritage, quality and local production are core to Vermont Teddy Bear (a portfolio company of private equity investor **The Mustang Group**). "The name Vermont means something to our customers," remarks CEO and fifth generation Vermonter Bill Shouldice, "and we are proud to use the Yankee craftsmanship as a key differentiator for our business." This strikes a chord with consumers eager to buy into the Green Mountain lifestyle. The unique products—coupled with the personal connection they create—command a premium value at retail. With a lifetime guarantee supported by free admission to the Shelburne "bear hospital" for any mishaps, the relationship between Vermont Teddy Bear and its customers extends far beyond the point of purchase.

or purchasing "off-the-shelf" items from factories. In addition to avoiding the costs and distraction of defending IP cases, onshore quality control avoids the challenges of sourcing agents and reimportation.

A Bright Future for *Made in America* – The US candle market, discussed in detail on **page 14**, is unique among GHA categories for its firm embrace of domestic manufacturing. Approximately three of every four candles sold in the US bear *Made in America* stickers, and several major players such as **Candle-lite** (a subsidiary of **Lancaster Colony Corporation**) and **Root** manufacture exclusively in the US. Granted, robust import regulations provide domestic manufacturers with significant cost advantages not enjoyed by other GHA categories. The candle sector has, however, set the standard for domestic manufacturing by nurturing and successfully promoting a "craft" heritage that stresses the premium value and authenticity of locally-produced items.

Several wholesalers across a range of categories have embraced *Made in America* to imitate the success of US candle manufacturing, and independent retailers are increasingly showcasing *Made in America* products within their shops. Other consumable gift categories benefit from nearby manufacturing facilities, as is the case with the bath and body offerings of **Primal Elements** and **Sweet Grass Farms**. Paper products companies such as **Peter Pauper Press** and **Pumpernickel Press** stress the domestic quality and personalization of their manufacturing. Fashion jewelry vendors such as **Novo Beads** and **Silver Forest** emphasize on-trend designs and hand finished touches. Manufacturers of more durable, high-end products benefit from the flexibility, customization and brand value afforded by local production, as is the case with **Hubbardton Forge's** line of hand-forged, Vermont made lighting and accessories.

Given this momentum, certain cross-category GHA wholesalers are competitively manufacturing in the US. For example, **The Salem Collection** designs and manufactures all of its wooden décor in North Carolina, and **Manual Woodworkers & Weavers** has manufactured its broad lines of home décor, wall hangings and soft goods in the US since 1932. **Reed & Barton** has recently begun manufacturing certain high-end picture frames in the US. As an indication of the growing emphasis on domestic manufacturing, the Atlanta International Gift & Home Furnishings Market in January 2013 introduced a temporary *Made in America* exhibit that featured over 50 vendors selling a wide array of GHA products that were fully assembled in the US. AmericasMart representatives expect the number of vendors featured in this exhibit to double or triple for the July 2013 market.

Due to the current limited availability of mass produced, US manufactured GHA products, a first mover with an effective marketing strategy may have the ability to create a differentiated competitive advantage.

International Sales as an Engine for Growth

International Sales

International accounts are a growing customer base for many US GHA vendors. Vendors often sell goods to customers in Canada, South America, Europe and Australia, typically treating these markets as an extension of the US. Alternatively, companies like **Lenox Corporation** are considering strategic acquisitions of GHA vendors overseas to enhance their international presence. Although specific approaches to international sales differ, most vendors employ some form of partnership with distributors or sales representatives in the countries they serve. Given that the majority of international sales are accomplished via turn-key distributor relationships, these efforts do not require significant incremental investment (beyond inventory) and impose modest demands on management's time.

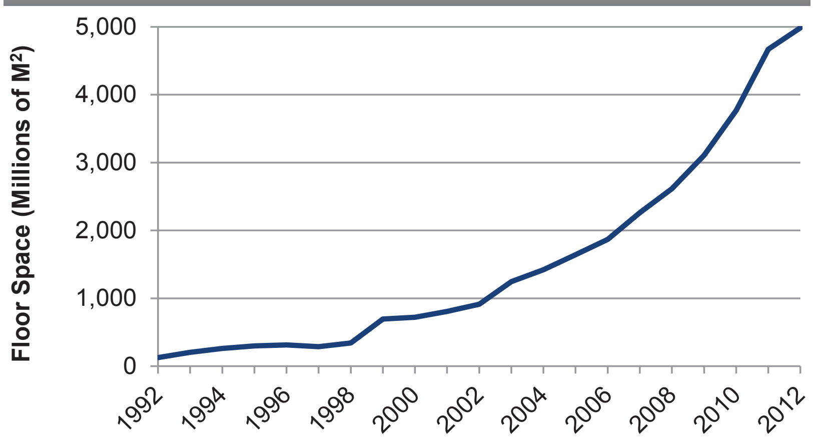
The China Market Opportunity

China is a different animal. The country most familiar to US vendors from a manufacturing standpoint is rapidly evolving into a dominant consumer marketplace. A rising middle class of over 700 million people, leading the largest housing formation explosion in world history, has wholesalers and retailers alike taking notice. As the CFO of **Home Depot** Carol Tomé put it, "China is too big to ignore."

Unprecedented Urbanization – The National Bureau of Statistics of China (NBS) marks 2012 as the first year in which China's urban population, numbering 691 million, exceeded its rural counterpart. This is driven by unprecedented migration to industrialized coastal cities as residents leave their family farms for the opportunity to earn greater incomes as part of a modern day industrial revolution. In addition to boosting demand for housing and home related products, continued urbanization creates a population density that is more effectively reached by retail storefronts.

Growing Chinese Demand for Décor – As disposable household income continues to grow rapidly, residential expenditures grow in lockstep. Moreover, wealthy Chinese citizens continue to spend lavishly. According to a survey conducted in 2010 by **Red Star Furniture Group**, a large Chinese furniture and décor retailer and portfolio company of **Warburg Pincus**, new homeowners in China's five largest cities spend on average $6,000 - $8,000 to furnish their homes. This new generation of trend-conscious urban homeowners—with increased disposable income and an appetite for Western designs—creates a customer ripe for tapping by US vendors. Importantly, the cachet of *Made in America* extends to the Chinese consumer. Nearly 50% of Chinese consumers prefer a product made in the US to a China-made product of equivalent price and quality, and over 60% are willing to pay more for *Made in America* goods.[2] Although the products sold by many of these US companies in China are not actually manufactured in the US, we believe that association with an American brand and Western design ethos provides a level of distinction and prestige that will command premium pricing.

Figure 11 – Chinese Residential Property Under Construction



Source: Bloomberg

Complex Retail Environment

As simple as it may appear for US companies to sell goods to a newly ravenous Chinese consumer base, the complexities of exploiting the Chinese market cannot be overstated. Despite the approximate 10% annual growth in retailer store counts and floor space to meet increased demand for home products in urban centers, the GHA retail market remains a highly fragmented and complex landscape.[3] Factory-controlled stores selling "leftovers" not bought by American vendors flood the market with narrow product assortments and paltry merchandising. Domestic retailers such as **Qumei** and certain international brands have outlined near term expansion plans.

In an attempt to better serve consumers by consolidating retailers into a single, organized space, operators such as **Red Star Furniture Group** are developing home furnishing oriented malls. These retail centers provide one-stop-shopping for everything from construction materials and fixtures to furniture, home décor and gift products. Despite these advances, the consumer retail market remains underdeveloped in China and many multinational firms have struggled to navigate the turbulent waters. Certain retailers have retreated to safer grounds while others, despite early struggles, have reoriented their strategies based on lessons learned.

Home Depot – Home Depot has struggled to find a foothold in China since entering in 2006 with the acquisition of 12-store big-box home improvement chain **Home Way**. Its biggest problem was DIY's lack of appeal to a culture centered around cheap, "do-it-for-me" labor. Additionally, Home Depot was unable to establish the streamlined distribution channels that underpin its US business model because, despite the company's long term relationships with Chinese vendors for its North American stores, these suppliers were in many cases not licensed to sell their products in China.

In September 2012, Home Depot announced the suspension of its China "big-box" initiative. This set into motion what Tomé called a "nightmareish [exit]," highlighted when Home Depot's Chinese directors of legal, operations and HR were briefly taken hostage by an irate team of home décor

[2] Boston Consulting Group
[3] Li & Fung Research Centre

installers and previous employees.[4] In contrast to the big-box approach, Home Depot's new strategy revolves around smaller format stores that specialize in one or two product types (e.g. paint and flooring) and its **Home Decorators Collection** concept, which has successfully sold home décor and furniture in China since its launch in June 2012.

IKEA – IKEA has been a notable success story since entering China in 1998. Central to this success has been its focus on providing a unique and informative shopping experience through suggestive merchandising. Consumers, eager to understand home décor but looking for guidance, encounter fully furnished Western-style showrooms—a key differentiator. IKEA operates 11 outlets and has announced plans to accelerate its expansion by opening three new outlets annually through 2016.

Other Market Entrants – Vertically-integrated manufacturers **Ashley Furniture**, **Ethan Allen**, **Delta Children**, **La-Z-Boy**, and **Magnussen Home Furnishings** have announced aggressive plans to establish their brands in Asia over the next decade through company-owned stores, franchises and partnerships with local firms. Taking a cue from IKEA's success, these retail outlets will feature showroom-style merchandising which further educates the market while combating price competition from generic factory outlets. By assertively establishing a strong retail presence, these brands are delivering a vote of confidence in the future of both the China GHA retail environment and the Chinese consumer.

Beyond the large international retailers and furniture brands, certain players in "our" trade show driven domestic GHA world have, with success, begun to penetrate the Chinese consumer market. For example, **Creative Co-Op** has established **Creative Home**—its own proprietary wholesale and retail brand in China. The Company has generated outstanding (and profitable) growth since launching its venture in 2009 and has since opened multiple Creative Home branded storefronts in various cities throughout China.

Segment Spotlight: Evolution of the Candle Market

State of the Candle and Home Fragrance Sector

The candle sector has long been the leading "consumable" product category within the GHA industry. Despite suffering contraction due to a particularly challenging consumer environment in the early years of the recession, the candle market managed a 0.9% CAGR from 2007 – 2012, peaking at 2.3% in 2012 according to research by IBISWorld. As with other consumable gifts, candle sales rely heavily on impulse purchases and consumer confidence—wallets loosen during economic upswings and tighten as conditions sour. The National Candle Association (NCA) currently sizes the US market at $2 billion before accounting for accessories and specialty products such as reed diffusers, wax melts and potpourri. Fortunately, the market should grow steadily over the next five years as disposable income grows and consumers indulge in higher quality gift purchases.

Encroachment from CPG Conglomerates – In recent years, and despite the recessionary environment, traditional candle manufacturers have faced mounting competition from the mass channel. Large CPG conglomerates such as **S.C. Johnson (Glade)**, **Procter & Gamble (Febreze)** and **Reckitt Benckiser (Air Wick)** have significantly disrupted the market for home fragrances by throwing their weight behind mass-market mechanical diffusers and room sprays. These companies have also used their heft to edge into the candle market, marketing innovations such as Air Wick's color-changing candles and Glade's *2in1* fragranced candles.

Industry Leaders Refining Strategies – Meanwhile, **Yankee Candle**, which was taken private by **Madison Dearborn Partners** in 2006, remains the undeniable category leader and boasts a vertically-integrated manufacturing model with large-scale operating efficiencies, a sizable retail footprint and considerable brand equity. Despite these advantages, Yankee has struggled to position its products as "affordable luxuries" in tough economic times and has cozied up to big box retailers. After the bankruptcy of key account **Linens 'n Things** and a fruitless attempt to replace the house brand of **Pier 1 Imports**, Yankee has realized a degree of success helping **Target** gain a foothold in home fragrance. Seeing a chance to dethrone the king, **Limited Brands (Bath & Body Works)** has leveraged its past acquisitions of **White Barn Candle Co.** and **Slatkin & Co.** to take market share. By combining the buzz of Harry Slatkin's widely-renowned candles with engaging merchandising at its boutique-style stores, Bath & Body Works realized compound annual operating income growth of 33.6% CAGR from 2008 – 2011 and effectively fired a shot across the bow at Yankee's specialty retail candle dominance.

[4] Atlanta Business Chronicle, "The Inside Story of Home Depot's Retreat from China" (10/19-25/12)

Positioning of Independent Candle Manufacturers

Mid-sized candle vendors face a promising future as discretionary spending rises and specialty retailers—spurned by Yankee in favor of big box distribution and challenged by the private label offerings of Bath & Body Works—eagerly seek product differentiation. Consumers value the craft heritage of candles, compelling retailers to stock brands perceived to be "authentic" and locally-produced. While such a positive consumer sentiment is a boon for the industry, US manufacturing succeeds primarily due to hefty anti-dumping duties imposed on Chinese imports. The Department of Commerce stymied a flood of cheap imports in 1986 with the imposition of a 54.2% duty on Chinese petroleum wax candles that doubled to 108.3% in 2004. The government has further established its support for the industry by extending the levy to blended wax and broadening the scope to cover all imports except birthday, utility and figurine candles.

Differentiation in a Highly Competitive Market – Although domestic manufacturing clearly has the upper leg on importers, the 400 candle makers the NCA estimates currently operate in the US create a highly competitive environment. As the market improves, vendors are vying to separate themselves from the pack. **MVP Group International**, a brand holding company specializing in offshore sourcing of mass market and private label candles, broadened its portfolio to target the specialty retail channel with higher-end, domestically produced candles through its April 2011 acquisition from **Blyth** of the **Colonial Candle** brand, which proudly manufactures all of its candles in North Carolina. Candle makers are also turning to innovative production and marketing techniques to build their brands and market share. **Virginia Candle Company** made a name for itself by capturing the crackling warmth of natural wood with its *WoodWick* collection of candles and diffusers. **Kringle Candle Company** emphasizes high quality fragrance across its diverse range of candle products. With products designed to mesh with virtually any décor, Kringle Candle even features a *Gentlemen's Line* of masculine fragrances with suiting wool packaging and pewter crests. **Gold Canyon Candles** (a portfolio company of private equity investor **Unique Investment Corporation**) and the *GloLite* line by **PartyLite** (a division of Blyth) have proven the viability of "multi-level marketing" (MLM) through their party hosting sales models. Internet sales of candles are growing at double digit rates as smaller vendors endeavor to level the playing field with large-scale manufacturers by taking their craft directly to the consumer.

The Flameless Opportunity

Perhaps the most significant opportunity in the candle sector is the "flameless" category. A handful of ground-breaking vendors have taken the market by storm—driving candle innovation to the extreme by removing the flame altogether. These electronic candles are often made of traditional wax materials and mirror the look of traditional flame candles, but without the inherent safety risk of an open flame. According to the NCA, candles are the culprit in more than 15,000 residential fires in the US annually. The flameless candle innovation promises to expand the category by allowing consumers to use candle light in settings where safety concerns would heretofore have been a deterrent, such as bedside or in a bathroom. As such, the flameless category has the potential to both expand the overall candle market and capture significant share of this multi-billion dollar segment.

Spotlight: Northern International

Northern International, doing business as Candle Impressions, has been a pioneer in the flameless candle category since its founding in 2003. Its battery-operated candles—-made with real wax and embedded with low-power LED technology—impart a lighting effect that is virtually indistinguishable from the flow and flicker of a burning wick. Candle Impressions' exceptional growth has validated the flameless category as a safer, cleaner and cost-effective alternative to its traditional brethren.

Unwilling to rest on its laurels—or, for that matter, its technology patents—Candle Impressions has continued to expand the flameless category through innovation. The Company emphasizes product development and refreshes its broad assortment of pillars, votives, candle holders, wall sconces and outdoor fixtures to appeal to consumers across multiple channels. By improving technology and championing the advantages of flameless candles, Candle Impressions will continue to be at the forefront of this innovative and growing GHA category.

Candle IMPRESSIONS®

The In-House vs. Outsourced Sales Model

The art of bringing on-trend and profitable product lines to market cannot be neatly broken down into discrete design, sourcing and marketing components with standardized best practices. Executives, however, face a fairly binary decision when it comes to selling into the independent retail channel: leveraging an in-house sales force or relying on third party manufacturers' representatives ("sales reps"). Nuanced as gift and décor wholesaling may be, a tactical sales strategy often separates winners from losers in such a fragmented and competitive industry.

Independent Sales Reps: Market Penetration at a Reasonable Price

Building an in-house sales team capable of profitably calling on the diverse array of independent retail doors in the US is a daunting task. Independent sales agencies are thus a vital part of the GHA ecosystem, providing a platform for new entrants to market their products and allowing established vendors to focus their time and resources on product development. These firms boast professional salespeople with well-established customer relationships. By plugging into third-party sales networks, vendors can immediately achieve broad market penetration at a rationalized, performance-based price.

As an added benefit, the best sales reps can uncover cross-selling opportunities by bringing product lines from multiple vendors into a sales call. For example, an independent rep with a strong history selling table top items to a small gift boutique can leverage that relationship to effectively introduce a vendor in a complementary category (e.g. fashion jewelry) not carried by the boutique. The vendor achieves the benefits of de facto category expansion through its independent rep without the associated risks.

Captive Sales Force: Strategic Control of the Customer Relationship

While independent sales reps provide a platform for emerging vendors to market their products and build their brands, the development of an in-house sales force should be a key strategic milestone for established, multiline vendors. Cost presents the greatest hurdle. In addition to the hefty up-front investment necessary to establish an effective sales management structure, vendors must be willing to bear the fixed overhead of a full-time, nationwide field sales organization. As a prerequisite to parting ways with their independent sales reps, vendors must be able to provide a comparable level of attention and deliver broad, frequently refreshed product lines that warrant regular sales calls. Only companies that have nurtured a strong wholesale brand will be able to maintain customer relationships after migrating from independent reps.

For companies that can overcome these obstacles, strategic control of an in-house sales force provides several compelling advantages. **Evergreen Enterprises** looks back on its 2005 deployment of a direct sales force as a natural evolution towards increased market control and cost efficiency. The multiline vendor recently expanded into Canada with tremendous success by onboarding the established sales force of now-defunct **Russ Berrie**. By corresponding directly with retailers, vendors take ownership of the full customer experience, build brand equity and glean first-hand information. This leads to a feedback loop between the

Figure 12 – Choosing a Field Sales Strategy

Independent Sales Rep Firms	Benefit	In-House Sales Force
Standardized, scalable pay-for-performance costs	←	Commissioned, but less flexible cost structure
Access to established relationships	←	Gradual penetration as salespeople build contacts
Lack of influence over sales calls	→	Better articulation of product value
Multi-line approach opens new doors	←	Single-line focus limits addressable market
Retailers buy from preferred reps	→	Retailers build relationship with wholesale brand
Professional sales organization	←	Greater overhead and sales management duties
"Arms-length" consultant for retailers	→	Avoids agency conflicts
Broad geographic coverage	←	Territory expansion imposes risks
Degree of separation from retailers	→	First-hand, granular market intelligence
Reliance on past performance	→	More reliable forecasting

Source: TM Capital

"The Gift & Home industry over many years of trial and error has perfected a two pronged approach to generating sales. Both models work extremely well because of dedicated, talented salespeople. The choice that a vendor makes is more dependent on the size and maturity level of their company.

While the rep agency model is perfect for new, relatively small vendors, all companies of substantial scale and profitability should start the process of building an in-house sales team. This is simply the right thing to do from a time management standpoint. Dedicated salespeople will focus entirely on acquiring as much "real estate" as possible in the stores they call on because those products are their sole avenue for income.

Invariably, inside sales forces will always sell more SKUs, across the entire line of offerings, of any company that executes and manages the sales process well. **It is no accident that virtually every company in this industry that achieved and exceeded $100 million in revenue over the last 40 years had their own in-house sales force."**

Randy Eller
President, Eller Enterprises

captive sales force and design engine that informs product development and guides future merchandising and pricing decisions. Designers can work with salespeople to develop customized sales pitches that best articulate a product line's value. Innovative vendors are equipping their salespeople with tablet-based sales applications that feature digital catalogs, highlight sales promotions and provide valuable insight into past order activity of customers and their local competitors. Vendors can also track sales performance at a granular level and set benchmarks and best practices accordingly. Overall, companies with control over their sales functions can manage customer expectations and ensure that their products are "top of mind" when retailers make purchasing decisions.

Avoiding the "Big Bang" – Transitioning from "Independent" to "Dedicated"

Given the cost constraints and time required to develop credible customer relationships, shifting from an outsourced model to in-house sales may best be accomplished via a gradual transition rather than an immediate switch. Outsourcing the sales function does not mean offloading responsibility. The best up-and-coming GHA vendors employ a formalized sales management team to service key accounts and keep tabs on regional rep firms. The primary focus, however, is the development of successful product lines with high sell-through rates and strong margins at retail. A reputation for saleable merchandise sets in motion a virtuous sales cycle: retailers gradually become customers of the vendor rather than the sales rep, and multi-line reps are eager to give the vendor preferred, "first item out of the bag" status on their sales calls. With established customer relationships and a core sales management team in place, vendors can pursue a hybrid sales strategy that places full-time salespeople in under-penetrated territories without alienating high performing rep firms. Just as mid-sized vendors don't exclusively source products through buying agents, an effective sales strategy need not be determined by scale of operations alone. Growth-oriented companies that target underserved markets to test their in-house sales capabilities may be pleasantly surprised by the return on their investment.

Spotlight: Giftcraft

Over the years, Giftcraft has built a highly successful business model supported by three pillars: design leadership, operational sophistication and a dedicated sales force. Underwhelmed by the level of attention from its multi-line sales reps, the Toronto-based company decided in 1997 to build a dedicated sales team to better articulate Giftcraft's value to the US independent retail market. This bold go-to-market strategy shift has paid dividends over the past 15 years and continues to drive Giftcraft's growth.

Today, Giftcraft is one of the few players in the industry with an in-house sales force covering all of the US and Canada focused solely on the promotion and effective merchandising of the Company's products. Giftcraft synchs its product development, marketing and sales functions around a methodical merchandising calendar to manage customer expectations and optimally position its product lines. With product development and sales under one roof, customer relationships inform product design and merchandisers refine selling strategies in a seamless and highly synergistic process.

Giftcraft's 15 years of sales experience, established market penetration and nationwide sales infrastructure are a considerable asset for a GHA vendor of its size. With continued product innovation and the recent hire of George Kacic (formerly a senior sales executive at Ganz) to direct its US sales strategy, Giftcraft is poised for continued growth in the North American GHA market.

Market Valuations and Consolidation

Why Industry Valuations Have Defied Broad Economic Headwinds

Figure 13 provides operating and valuation data for TM Capital's GHA Index. The index is comprised of significantly sized public companies with minimum revenues of $50 million. The economic downturn has certainly hampered the growth of large, public GHA vendors, as evidenced by the index's median compound annual growth rate of only 1.4% over the past five years. The industry, however, has shown remarkable resilience during the downturn. Each company in the index has improved profitability since 2009 except **Build-a-Bear Workshop**, whose expansive retail footprint limits operating flexibility, and **Kid Brands**, which endured margin pressure from its high concentration of large mass retailer customers. The median enterprise value for the group is currently 6.3x latest twelve month EBITDA, just shy of the five year average of 6.4x. As shown in **Figure 14**, EBITDA multiples most recently surpassed this high water mark in the third quarter of 2012 before deflating in the face of a soft retail market and macroeconomic uncertainty. Nevertheless, market valuations remain well above the recessionary trough and have begun to rebound steadily in the new year.

The equity performance of publicly traded GHA stocks paints an even brighter picture for the industry. As shown in **Figure 15**, the TM Capital GHA Index has grown 21.0% over the past 5 years, overcoming a challenging environment that has for several years kept the S&P 500 index below its Q4 2007 levels.

Figure 13 – TM Capital GHA Index, Operating and Valuation Data

Selected GHA Company Operating Data

($ in millions, except per share data)

Company	Price Per Share 1/15/2013	% of 52-Week High	Cash	Net Debt	5 Year Sales CAGR	LTM Net Sales	LTM Margins Gross Profit	LTM Margins EBITDA	LTM Margins EBIT	EPS
1-800-Flowers.com Inc.	$3.68	15.8%	$5.8	$56.7	(0.6%)	$719.9	41.3%	5.5%	2.9%	$0.21
American Greetings Corp.	16.54	94.6%	63.3	293.5	(0.3%)	1,750.0	55.5%	8.6%	6.2%	(0.23)
A.T. Cross Company	10.67	85.6%	20.8	(3.7)	3.3%	177.4	54.9%	10.4%	7.2%	0.71
Blyth, Inc.	17.11	37.1%	182.2	(90.2)	1.1%	1,299.3	64.1%	8.2%	7.4%	2.82
Build-A-Bear Workshop Inc.	4.41	50.5%	22.1	(22.1)	(4.5%)	381.9	40.0%	4.6%	(1.0%)	(1.34)
Crown Crafts, Inc.	4.90	74.2%	6.3	(6.3)	1.8%	81.2	23.8%	11.7%	10.4%	0.52
CSS Industries Inc.	22.52	96.4%	9.8	(9.8)	(5.6%)	384.9	29.9%	10.3%	8.3%	1.59
Kid Brands, Inc.	1.61	43.3%	1.1	54.3	8.0%	234.6	23.1%	1.3%	0.0%	(3.95)
Lancaster Colony Corporation	71.07	90.7%	192.7	(192.7)	3.8%	1,147.8	21.8%	14.9%	13.2%	3.71
Vera Bradley, Inc.	23.00	58.3%	4.5	30.9	1.6%	513.1	56.5%	22.0%	20.0%	1.57
	Median	66.2%	$15.3	($5.0)	1.4%	$449.0	40.6%	9.5%	7.3%	$0.61
	Mean	64.6%	$50.9	$11.0	0.9%	$669.0	41.1%	9.8%	7.5%	$0.56

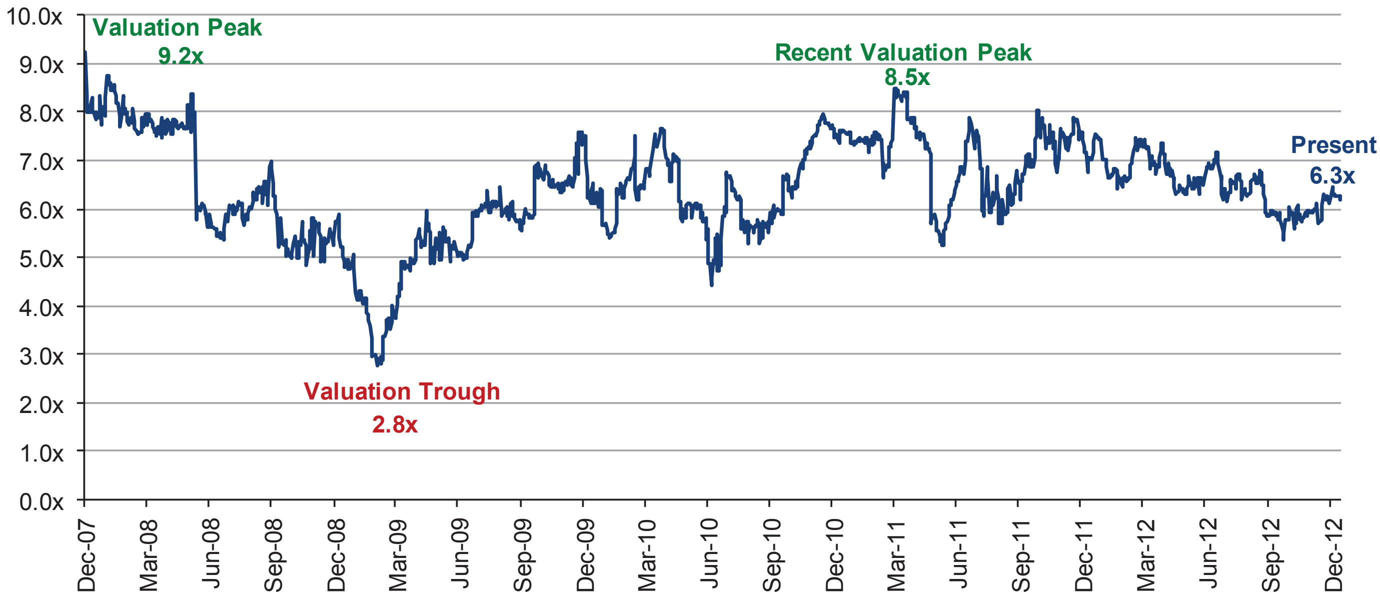
Selected GHA Company Valuation Data

($ in millions)

Company	Market Value of Equity	Enterprise Value	EV Multiples LTM Net Sales	EV Multiples LTM EBITDA	EV Multiples FY 2012P Net Sales	EV Multiples FY 2012P EBITDA	Market / Book Value	P/E
1-800-Flowers.com Inc.	$238.8	$295.5	0.4x	7.4x	0.4x	6.3x	1.5x	17.9x
American Greetings Corp.	476.0	769.6	0.4	5.1	0.4	NA	0.7	NM
A.T. Cross Company	139.8	136.1	0.8	7.4	0.8	6.9x	1.6	15.1
Blyth, Inc.	291.9	334.3	0.3	3.1	NA	NA	2.7	6.1
Build-A-Bear Workshop Inc.	72.8	50.6	0.1	2.9	NA	NA	2.0	NM
Crown Crafts, Inc.	48.0	41.7	0.5	4.4	NA	NA	1.3	9.4
CSS Industries Inc.	215.6	205.8	0.5	5.2	NA	NA	0.9	14.2
Kid Brands, Inc.	35.2	89.4	0.4	28.9	0.4	NA	0.9	NM
Lancaster Colony Corporation	1,940.1	1,747.4	1.5	10.2	1.5	9.4	3.3	19.2
Vera Bradley, Inc.	932.9	963.8	1.9	8.5	1.8	8.1	5.5	14.6
Median	$227.2	$250.6	0.48x	6.3x	0.59x	7.5x	1.6x	14.6x
Mean	$439.1	$463.4	0.68x	8.3x	0.87x	7.7x	2.1x	13.8x

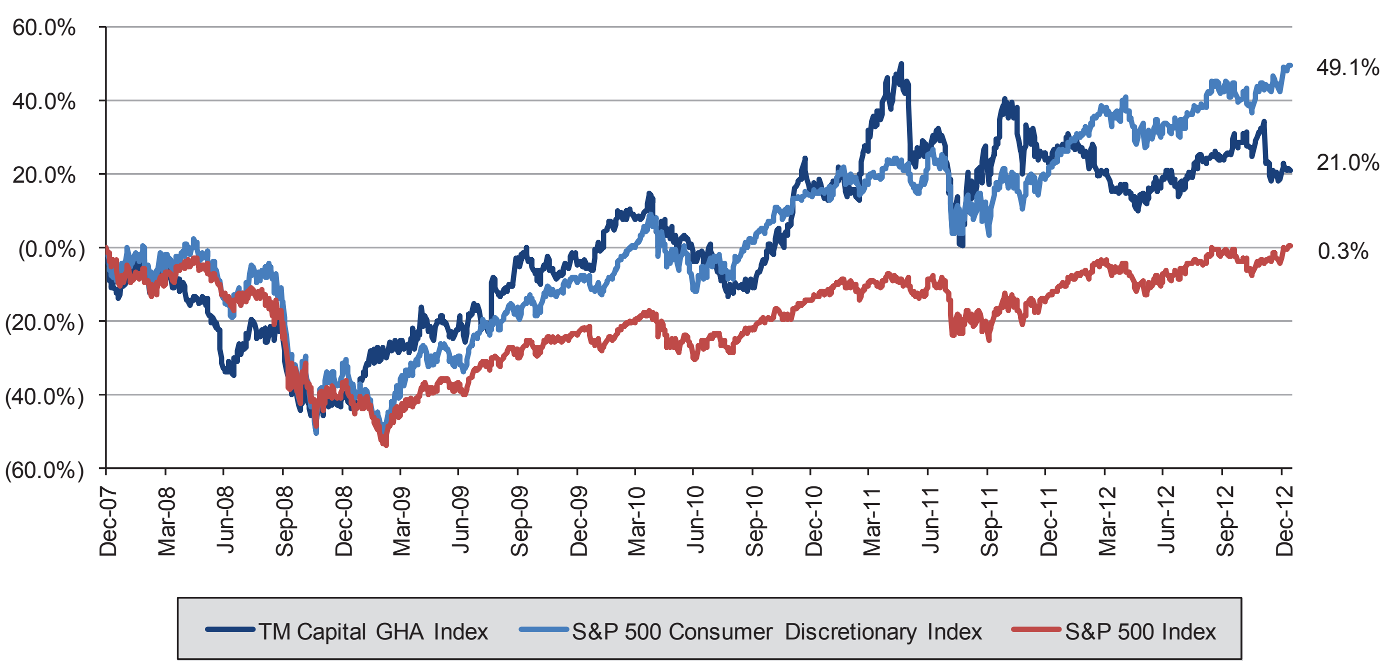
Note: Market valuation data as of January 15, 2013
Source: S&P Capital IQ, TM Capital

Figure 14 – TM Capital GHA Index, Median Historical LTM EV/EBITDA Multiples



Source: S&P Capital IQ, TM Capital

Figure 15 – TM Capital GHA Index (Value-Weighted)



Source: S&P Capital IQ, TM Capital

Investment and Liquidity Options for GHA Vendors

Given the market dynamics in the GHA sector, which point to increased market consolidation and heightened operational sophistication among industry leaders, business owners should be cognizant of the evolving competitive landscape and educate themselves regarding both capital formation and liquidity alternatives. Building a successful GHA business often requires a lifetime of effort and personal investment, and business owners may have a range of financial and strategic motivations for pursuing a transaction. Deals are not "one size fits all." Rather, any transaction must be crafted to address the unique objectives of the client. Contrary to popular belief, owners may often use specialized tools from the financial toolbox to address their liquidity and growth capital objectives without selling the business, retiring or even ceding control.

Owners of GHA businesses typically have a significant portion of their personal wealth tied up in their company's equity and may desire to diversify. Without diversification, successful business owners with too much net worth concentrated in their business may become overly risk averse, foregoing important growth opportunities such as category expansion to protect their investment. By selling a portion of their equity to an outside investor, existing owners can "take a few chips off the table" and free the company to pursue a more aggressive growth strategy—effectively reducing downside exposure while improving the potential upside. Committed owners confident in their company's prospects may want to increase their stake by buying out an inactive shareholder. Undercapitalized owners may seek to finance large growth initiatives such as geographic expansion or the development of an internal sales force by bringing external investors to the table. Finally, business owners considering retirement or pursuing other interests can realize the value they've created through a 100% sale.

TM Capital has a wealth of in-depth, first-hand experience in crafting value-maximizing investment theses and structuring transactions that meet the specific strategic and financial objectives of leading GHA vendors—most recently for **Creative Co-Op** and **Mud Pie**. Described below are three primary paths to liquidity.

Minority Recapitalization – A minority recapitalization involves the sale of up to 50% of the company's equity to a financial investor (such as an institutional private equity firm). Along with the equity raised, minority recapitalizations typically involve a modest amount of debt to further fund the transaction and limit equity dilution. Beyond simply writing an investment check, the financial partner will often prove valuable in professionalizing the business and guiding its growth. Although the seller retains ownership control of the business, the investor typically has the right to approve major strategic decisions and an opportunity to achieve liquidity on their investment at some point in the future. A minority recapitalization is ideal for the owner seeking diversity for wealth management purposes. Importantly, this type of transaction affords the seller a "second bite at the apple": the opportunity to significantly profit from a larger transaction a few years down the line.

Figure 16 – Liquidity Transaction Alternatives

	Minority Recapitalization	Majority Recapitalization	100% Sale
Benefits	▪ Moderate liquidity ▪ Retain ownership and operating control ▪ Value-added financial partner ▪ "Second bite at the apple"	▪ Substantial liquidity ▪ Retain operating control ▪ Preserve work culture ▪ Shareholder reinvestment opportunity and incentives	▪ Full liquidity ▪ Greater resources for growth of the business ▪ Maximize valuation today
Considerations	▪ "Only" moderate current liquidity ▪ Certain major strategic decisions may require investor approval ▪ May use borrowing capacity ▪ Commitment to provide investor with liquidity in future	▪ Change of ownership control ▪ Major strategic decisions will require investor approval ▪ Uses borrowing capacity ▪ Debt service requirements	▪ Loss of control ▪ Possible culture changes ▪ Potential management changes ▪ Unlikely to capture further value for projected upside

Source: TM Capital

Majority Recapitalization – A majority recapitalization involves the sale of more than 50% of the company's equity to a financial investor. The investor's valuation in a majority recapitalization reflects a "control premium" that compensates the seller with a higher valuation in exchange for relinquishing strategic control of the business. The investor typically also raises a substantial level of debt to help fund the transaction. Investors often prefer that key members of the existing management team execute employment agreements and maintain a small stake (10% – 20%) in the company to ensure incentives are aligned for a smooth transition, although retirement preferences are certainly taken into consideration. A majority recapitalization is ideal for the seller interested in facilitating an ownership transition while maintaining a reduced equity stake that still benefits from further potential upside in the business.

100% Sale – A 100% sale provides the seller with full liquidity from their business and can be consummated with either a private equity firm or a strategic buyer. Strategic buyers can provide the highest valuations due to the expectation of synergies with their existing businesses. Often, the buyer will provide current management the opportunity to remain with the business, should they so desire. A 100% sale is ideal for an owner endeavoring to either relinquish financial exposure to the business or retire.

Conclusions

The $50 billion plus GHA sector has demonstrated resilience over the last several years despite a depressed consumer purchasing environment and sustained economic headwinds. The market landscape continues to be highly fragmented and nuanced, although aggressive market share gains by leading players continue to widen the gap between strong and weak vendors. Today, retailers are sourcing from an increasingly select group of preferred vendors who have accelerated product innovation, on-hand inventory availability and a consistently high value quotient. As the economic environment brightens and consumer spending trends improve, we believe these leading vendors are positioned to disproportionately benefit.

Enduring Strength of Independent Retail – The independent retail community, while forever fickle and sensitive to near-term market disruptions, has demonstrated considerable staying power. While online competitors in other sectors have disintermediated many retailers, the GHA independent retailer remains largely insulated from generic online infringement. Unique product offerings discourage price comparisons while personal consumer relationships and a one-on-one, consultative sales process have entrenched specialty retailers in the market. Vendors that continue to cater to the independent base while selectively exploring alternative channel opportunities are best positioned to advance their market share position.

An Industry Primed for Growth – The overall attractiveness of the GHA sector, coupled with growing sophistication among vendors, has spurred significant investments from leading institutional investors. While these investments serve as a validation of the overall health and growth prospects of the industry, they also foreshadow continued consolidation in the GHA sector. With increased financial firepower, sponsor-backed vendors will further improve systems and efficiencies while seeking to expand category offerings. Strategic M&A initiatives will focus on building multi-category product assortments to improve top line growth. As positive macroeconomic conditions coalesce and vendor culling continues, industry participants will need to position themselves strategically by proactively refining their merchandising processes, weighing a sales agency network against a dedicated sales force, evaluating international expansion and considering alternative sourcing opportunities.

Whereas design leadership was once the dominant factor for success in the GHA sector, this increasingly sophisticated industry now requires advanced operations, dynamic systems and seasoned business acumen. We anticipate that the evolution of the industry will accelerate during the next economic upswing, a period which will generate considerable value creation opportunities for progressive GHA vendors and their investors.

Contact TM Capital

TM Capital is a leading middle market investment bank with a focus on the Gift and Home Accessories sector. Over the last two decades, TM Capital has worked with many of the leading players in the space and has advised on several of the industry's most noteworthy transactions. Via our published research and successful transaction history, TM Capital is proud to have helped define the investment thesis for the Gift and Home Accessory sector. For more information please contact any of our team members listed below.

JAMES S. GRIEN
Partner
(404) 995-6235
jgrien@tmcapital.com

CRAIG M. GIBSON
Partner
(617) 259-2204
cgibson@tmcapital.com

PHILIP S. KRIEGER
Associate
(404) 995-6242
pkrieger@tmcapital.com

KEVIN M. ATCHUE
Analyst
(617) 259-2209
katchue@tmcapital.com

Figure 17 – M&A Transactions in the GHA Sector (2010 – 2012)

($ in millions)

Closed	Target	Acquiror/Investor	Target Business Category	Enterprise Value
04/01/2012	American Greetings Corp. (NYSE:AM)	Weiss Family (individuals); Koch AG Investment	Greeting cards, stationery & paper goods	$878
01/22/2013	KIVA Designs, Inc., KIVA brand and related assets	baggalini, Inc.	Bags, totes, wallets and personal accessories	
01/04/2013	Napa Home & Garden, Inc.	Cunningham Family (founders); C&F Enterprises	Home accents, garden décor and tapletop items	
12/21/2012	Easy Aces, Inc. (dba: Fred & Friends)	Lifetime Brands, Inc. (NasdaqGS:LCUT)	Novelty housewares, tabletop items, party goods and personal accessories	$24
12/20/2012	Creative Co-Op, Inc.	Eureka Growth Capital	Home decorative accessories and giftware	
12/14/2012	The Madison Park Group	Southworth Co.	Specialty stationery, gift and accessory wholesale and retail	
11/19/2012	Kathie's Christmas Ltd.	Christmas Tree Hill, Inc.	Retailer of Christmas themed gifts and collectibles	
11/02/2012	Oriental Trading Company, Inc.	Berkshire Hathaway Inc. (NYSE:BRK.A)	Direct marketing and distribution of party, craft and teaching supplies and novelties	$500
10/02/2012	Midwest - CBK, Inc.	Ganz, Inc.	Gifts, home décor, fashion accessories and plush toys (excludes Colonial Candle brand)	
10/01/2012	Southern Candle, Inc.	Integrity Design & Displays, Inc.	Scented jar candles	
09/21/2012	NEST Fragrances, LLC	Tengram Capital Partners, LLC	Scented candles, reed diffusers and fragranced bath & body products	
07/09/2012	CardsDirect, LLC	The Occasions Group, Inc.	Custom imprinted greeting cards, stationery & paper goods	
07/06/2012	Sundance Holdings Group, LLC	Brentwood Associates, Inc.	Catalog/online retailer of handmade jewelry, accessories, clothing and home décor	
06/25/2012	Alexander Doll Company, Inc.	Kahn Lucas Lancaster, Inc.	Handcrafted collectible dolls	
06/08/2012	Santa's Best Craft, L.L.C., Various Holiday Lines	Dyno Seasonal Solutions, LLC	Holiday products including ornaments, stockings and tree skirts	
06/05/2012	Party City Holdings Inc.	Thomas H. Lee Partners, L.P.	Designer and retailer of party supplies and social expressions	
05/10/2012	Things Remembered, Inc.	Madison Dearborn Partners, LLC	Specialty retailer of personalized gifts	$295
04/30/2012	SC Christmas, Inc., Sports Division	Evergreen Enterprises, Inc.	Sports-themed licensed holiday décor and home products	
05/03/2012	International Market Centers, L.P.	Bain Capital Private equity	Showroom & exhibition space operator for the furnishings, home décor and gift industries	$1,000
02/23/2012	ICA Home Décor	JLA Home, Inc.	Wall décor, framed art, mirrors and clocks	
01/31/2011	Lulalu (fka: Mayfair Lane, LLC)	Jasper + Black LLC	Magnetic gift products and accessories	
01/30/2012	Beyond a Bag	Ganz, Inc.	Multi-use totes, packs and duffel bags	
01/18/2012	Omni Sales Group	Bailey Street Holding Company, Inc.	Sales agency repping home, gift and collegiate lines	
01/16/2012	Burlington Basket Company	LaMont Limited	Decorative baskets and bassinets targeting nurseries, homes, etc.	
01/03/2012	International Wine Accessories Inc.	Sonoma Wine Accessories	Wine cabinets, stemware, accessories and home décor	
11/16/2011	AC Moore Arts & Crafts	SBAR's, Inc.	Specialty retailer of arts, crafts and floral merchandise	$53
11/15/2011	Iron Stop, Inc.	Woodstream Corporation	Wind spinners and windchimes	
11/06/2011	Creative Tops Holdings Ltd.	Lifetime Brands, Inc. (NasdaqGS:LCUT)	Brand holding company comprising decorative tabletop and dinnerware products	$18
09/20/2011	Sur La Table, Inc.	Investcorp Bank B.S.C. (BAX:INVCORP)	Specialty retailer of cooking and entertaining products	
09/06/2011	Team Sports America Inc.	Evergreen Enterprises, Inc.	Licensed sports-themed garden, patio, pool, home and gift products	
08/23/2011	George Little Management, LLC (NYIGF)	Providence Equity Partners LLC	Producer of GHA tradeshows, notably the New York International Gift Fair	$173
08/16/2011	William Ashley China Ltd.	Fairfax Financial Holdings Limited (TSX:FFH)	Specialty retailer of crystal, silver, giftware, tabletop accessories and chocolates	
08/11/2011	Crimzon Rose, Inc.	Li & Fung Limited (SEHK:494)	Mass market fashion jewelry	$135
08/10/2011	Jay Strongwater LLC	Aurora Brands LLC	Luxury home furnishings, collectibles and personal accessories	
08/10/2011	Linea Marketing Group, Inc.	AZ Home & Gifts	Contemporary home décor and lifestyle accessories	
08/08/2011	Danielson Designs, Ltd.	Ganz, Inc.	Wood wall décor, frames and accessories for creative gifting	
07/05/2011	Napa Home & Garden, Inc.	Teters Floral Products, Inc.	Home accents, garden décor and tapletop items	
07/05/2011	Avaline Gila Group LLC	Camsing Global, LLC	Promotional gifts	
06/24/2011	Lallie Inc.	Southworth Co.	Thermographic stationery	
06/23/2011	Popshots Studios	Up With Paper	3D pop-up greeting cards and stationery	
06/06/2011	Simblist Group	Ivystone Group	Sales agency repping décor, home fragrances, bath & body, gifts and fashion accessories	
05/27/2011	Midwest - CBK, Inc.	MVP Group International, Inc.	Gifts, home décor, fashion accessories and plush toys (includes Colonial Candle brand)	$36
05/25/2011	Lot 26 Studio, Inc.	Artissimo Holdings, Inc.	Canvas wall art, memo boards and adhesive wall decals	
05/18/2011	Bluefish Home, LLC	Imports by Four Hands L.P.	Blown glass and ceramic home décor and furnishings	
05/10/2011	Fine Stationery Solutions, Inc.	1-800-Flowers.com Inc. (NasdaqGS:FLWS)	Online retailer of stationery and gifts	$3
04/25/2011	Tiny Prints, Inc.	Shutterfly, Inc. (NasdaqGS:SFLY)	Online retailer of greeting cards, photo books, stationery and gifts	$357
03/23/2011	Brunschwig & Fils, Inc.	Kravet Fabric, Inc.	High-end decorative fabrics, wall coverings, home décor and accessories	$7
02/15/2011	William Ashley China Ltd.	McLean Watson Capital	Specialty retailer of crystal, silver, giftware, tabletop accessories and chocolates	
01/01/2011	Brookfield Awards	RCB Awards, LLC	Awards and gifts	
12/31/2010	Cardstore, Inc.	American Greetings Corp. (NYSE:AM)	Online customized greeting card platform	
11/17/2010	Another Line, Inc.	Lodis Accessories, Inc.	Belts, handbags and fashion accessories	$7
09/20/2010	Sterling Indutries	ELK Lighting Inc.	Decorative accessories, portable lighting and accent furniture	
08/31/2010	Reiman Media Group, Country Store Catalog	Potpourri Group Inc.	Catalog retailer of apparel, fashion accessories, home accents, garden and gift products	
08/10/2010	Super Rad Corporation	FBC Holding, Inc. (OTCBB:FBCD)	Licensed toys, figures and housewares	$2
07/28/2010	Silpada Designs, Inc.	Avon Products Inc. (NYSE: AVP)	Handcrafted sterling silver jewelry	$727
06/11/2010	Swoozie's	Gart Capital Partners	Specialty retailer of gift products, greeting cards and custom printed items	
06/03/2010	Fox Premier Sales LLC	The Southern Link Ltd.	Sales agency repping garden, baby, jewelry, home fragrance, bath & body and gift products	
05/04/2010	Sharp & Sally, LLC	English Paper Company, LLC	Greeting cards and stationery	
04/01/2010	Mud Pie, LLC	Lineage Capital, LLC	Innovative branded giftware, baby apparel, home accents and fashion accessories	
03/23/2010	Provo Craft and Novelty, Inc.	BAML Capital Partners	Craft, hobby, and education products for school projects	
03/11/2010	Lee Middleton Original Dolls, Inc.	The Alexander Doll Company, Inc.	Handcrafted collectible dolls	
02/28/2010	Aroma Naturals, Inc.	Jeffrey Light (an individual)	Candles, home fragrance and aromatherapy products	
02/12/2010	MVP Group International, Inc.	Primacy Industries Limited	Home fragrance and candle products	
01/01/2010	Plow & Hearth, LLC (Madison Brands)	Evergreen Enterprises, Inc.	Multi-channel retailer Plow & Hearth and four other catalog retail brands	$17

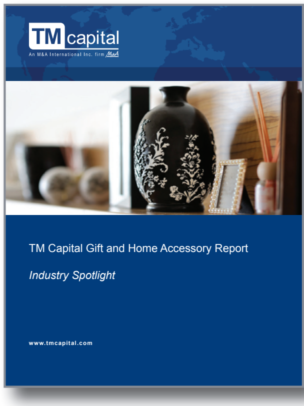
Source: S&P Capital IQ, TM Capital

TM Capital's Demonstrated Expertise across Key Industry Verticals

TM Capital applies an expertise-based research approach in all of our industry concentrations, resulting in extraordinary outcomes for our clients. Join our research mailing list and learn more at www.tmcapital.com/research.

Research	Recent Transactions

Gift and Home Accessory



creativeco-op

has completed a recapitalization led by

Eureka Growth Capital™

mudpie®

has completed a recapitalization led by

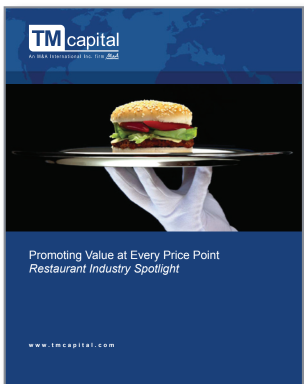
Lineage Capital, LLC

Patton Picture Company

has been acquired by

Linsalata Capital Partners

Restaurant



PNC Riverarch Capital

has acquired

Burger King oldco

a portfolio company of

Equicorp Partners™

Back Bay Restaurant Group

has sold

Atlantic Fish, Charley's, Joe's American Bar & Grill, Abe & Louie's, Coach Grill

to

Tavistock Group

Smith & Wollensky

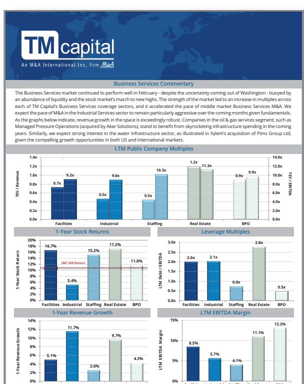
has been acquired by

Bunker Hill Capital

and

Patina Restaurant Group

Business Services



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SMYTHSON
OF BOND STREET

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Greenwill SA

Completed by member firm
Cavendish Corporate Finance,
United Kingdom

Raleigh Cycle Limited

RALEIGH

has been acquired by

THE PREMIER EUROPEAN CYCLE GROUP
ACCELL GROUP

Completed by member firm
Cavendish Corporate Finance,
United Kingdom

Anthony Nicholas Group Limited
(trading as Fields)

fields

has acquired

Fraser Hart
JEWELLERS SINCE 1936

Completed by member firm
IBI Corporate Finance,
Ireland

EURETCO

has sold

SPORT 2000

to

ANWR·GARANT
NEDERLAND

Completed by member firm
Holland Corporate Finance,
Netherlands

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New York

641 Lexington Avenue
30th Floor
New York, NY 10022
Tel: (212) 809-1360

Boston

200 Clarendon Street
25th Floor
Boston, MA 02116
Tel: (617) 259-2200

Atlanta

15 Piedmont Center NE
Suite 1010
Atlanta, GA 30305
Tel: (404) 995-6230

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An M&A International Inc. firm
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