Financial Firms Fill Up on Hunger for Food Sector

INVESTMENT: Creo eyes IPO for bundled businesses while Trinity serves up deals.

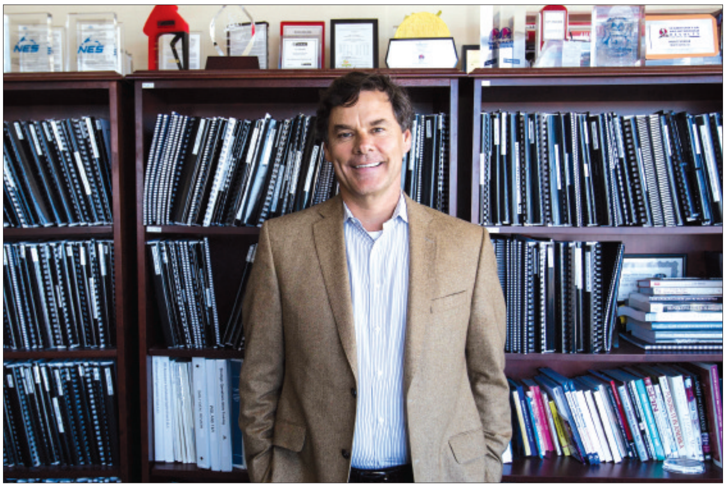
By MATT PRESSBERG *Staff Reporter*

Investors are drooling over food companies, pushing their valuations higher and turning up the flame on the IPO market. That has two local financial firms specializing in food companies getting ready for a feast.

Creo Capital Partners in Westwood is raising a new fund to boost its bundle of food businesses and roll them up for a potential IPO. And West L.A.'s **Trinity Capital**, an investment bank that advises on food and beverage and restaurant transactions, did 32 deals last year with a total value of $2 billion – one of its biggest years since the firm opened in 2000 – and said that it is even busier in 2014.

One factor fueling the appetite for food companies is that conglomerates such as Swiss giant **Nestlé** often find it easier to buy an innovative product than create it themselves. With interest rates at historic lows, they can borrow cheaply to make an acquisition.

Also, given the soaring success of food IPOs such as Denver fast-casual chain **Chipotle Mexican Grill Inc.** (its stock is up more than 1,600 percent since its 2006 market debut), investors don't want to miss out on the next must-have item or hot restaurant.



RINGO H.W. CHIU/LABJ

Full Plate: Managing Partner Kevin Burke at Trinity Capital in West Los Angeles.

'Mad scramble'

"There's a mad scramble both in product innovation as well as the majors trying to figure out who's going to win and who they're going to gobble up," said **Kevin Burke**, a managing partner at Trinity.

Rob Holland and **Gregory Bortz** co-founded Creo in 2005 without any specific intention of getting into food businesses. Their first investment was in frozen-food company **Oh Boy**, which ended up being appropriately named – it was a massive turnaround that required the finance guys at Creo to leave the corner office and go into the kitchen.

"We went in and literally ran the business," Holland said. "I was wearing a hair net."

Even though it was hard work to get that company in the black, Holland and Bortz fell in love with the industry and worked up an appetite for more food businesses.

"The reality is, and we can admit this today, was that we had bitten off more than we could chew," Holland said. "But it had a very happy ending because it led us to the food industry."

Creo has invested in 14 food companies, mainly frozen-food businesses and food service companies, and still owns 12 that it's combined in **Flagship Food Group**. Creo hired two veteran industry executives as managing partners to run Flagship at home and abroad: **Gary Lim** in North America and **Russell Maddock** in the United Kingdom.

The company just raised its third fund, which it plans to use to make acquisitions for Flagship with the hope of building it into a package large enough to take public. Holland wouldn't disclose the size of the fund, but said it is targeting businesses with annual revenue between $20 million and $100 million.

Creo is one of several local investment firms that have carved out a place at the table by focusing on food.

Laurel Crown Partners in Westwood recently invested in Chicago fast-casual chain **Native Foods Café**. West L.A.'s **First Beverage Group** hired veteran food and beverage industry investment banker **Nicole Fry** last month to grow its team. In addition, Trinity has been very active helping investors sell and refinance their food companies in a favorable market environment.

Public option

Private equity firms that invest in food companies have two basic exit strategies: roll a few companies up and take the bundle public or sell to a strategic buyer such as Nestlé. Holland thinks the former makes more sense for Flagship.

"If we keep growing the business organically and through acquisitions, we've got a ripe candidate for an IPO," he said.

However, Trinity's Burke said a successful roll-up exit is more challenging than it used to be.

"Ten or 15 years ago, any kind of scale meant something," he said. "Now you have to roll things up intelligently so that you're rolling up some margin, some synergy and it's not unwieldy."

Flagship does $300 million in annual revenue, 40 percent of that overseas. It includes brands such as frozen-food makers TJ Farms and Lilly B's as well as sauce company Chris & Pitts BBQ.

Holland believes that level of diversification makes it a legitimate IPO candidate.

"The companies trying to sell to Nestlé or whoever are probably developing a single brand," he said. "They're trying to invent the next specialty drink or specialty bar. We're going in a different direction."

It's the path chosen by New York private equity behemoth **Blackstone Group**, which acquired frozen-food company **Pinnacle**

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Real Estate: Apple Steps Up in Promenade Deal

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The one-story built-to-suit building at 1415 Third Street Promenade, constructed in late 2012 on the site of what used to be a three-story Borders Books & Music store, has stone-paneled side walls, a glass façade and a 34-foot-high glass ceiling. The last sale of the site came in July 2012, when the Apple store was under construction. The buyer then was denim manufacturer **Jordache Enterprises Inc.**

Jonathan Bennett, director of real estate for Jordache, said he was loathe to sell the building so soon after acquiring it, but the off-market deal was too good to turn down.

"When we sold it, it was not an easy decision, because we typically do not seek to sell properties that we buy," he said. "But this number allowed us to bring a lot of the future value of the property to the present a lot more rapidly than I expected."

Alan Cohen, an attorney at **Duval & Stachenfeld** in New York representing Bridgton, said his client used proceeds from a previous sale, along with some debt, to purchase the property for long-term hold.

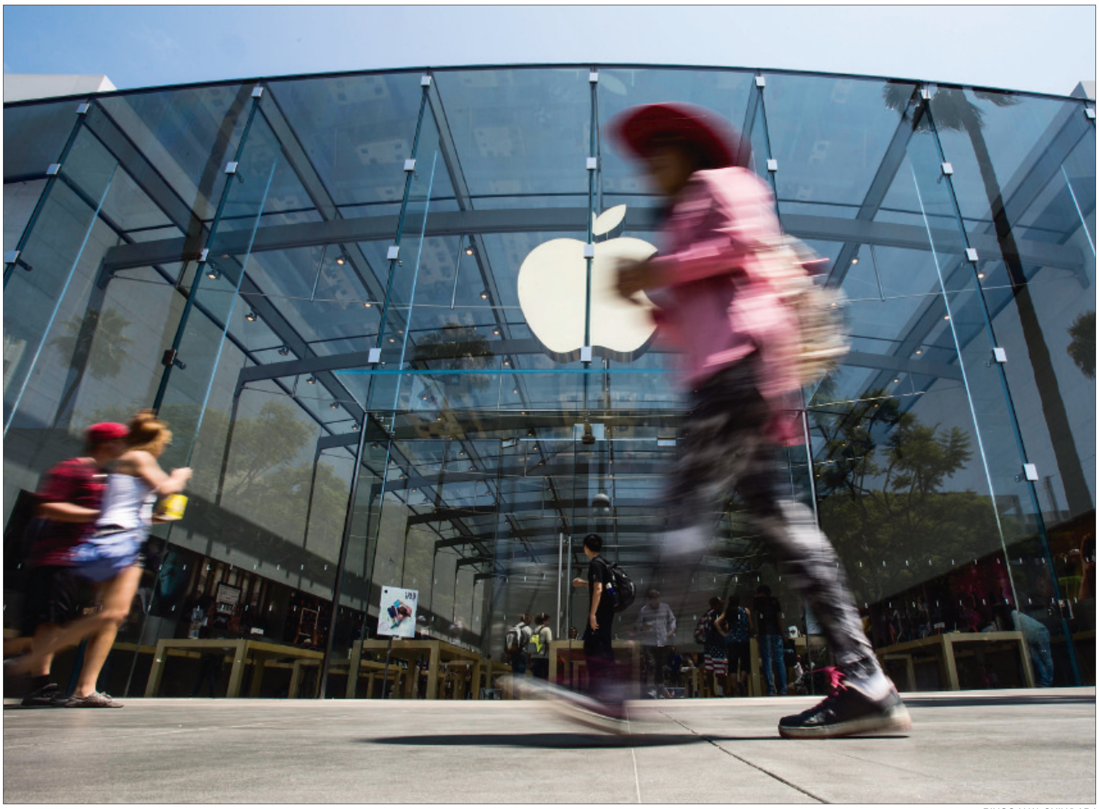
"They believe they paid market price," he said.

According to records at the New York Secretary of State, Bridgton is registered to **KLM Construction Inc.**, a private New York company owned by the Kefalidis family. Public records show the deal was financed by a 12-year, $43 million loan from **Massachusetts Mutual Life Insurance Co.** and were signed by **Elias Kefalidis** on behalf of the borrower.

The New York Post reported in May that KLM sold a Manhattan building occupied by Old Navy for $252 million and was in the market for a tax-advantaged 1031 exchange. As part of that, KLM purchased a 110,000-square-foot Manhattan office building for $129 million.

Late last year, KLM, through an entity called **Bevin West**, purchased the TLC Chinese Theatre on Hollywood Boulevard for $25 million from local developer **CIM Group**.

A call late last week to KLM was not returned.



RINGO H.W. CHIU/LABJ

High Tech, High Price: Passers-by in front of the Apple store on the Third Street Promenade in Santa Monica.

Meteoric rise

The latest sale of the Apple site is the second time it has traded in four years, during which it has appreciated by more than 280 percent. Jordache purchased the site from a partnership of Century City retail real estate firm **Blatteis & Schnur Inc.** and **ASB Capital Management** of Bethesda, Md. The partners originally acquired the building in 2010 for $26 million when it was still a Borders.

Dan Blatteis, a co-chairman of Blatteis & Schnur, said he first learned of the recent sale at a retail real estate conference in Las Vegas. He said he ran into Jordache's founding Nakash family there and was told the news.

"I looked at them and said, 'Congratulations, I'm really happy for you.' Then I turned around, went down the hall to the restroom and got very ill, emotionally," he said. "But that's the way life is. It was great for us at the time and it's great for them as well. This just goes to show you that if you buy quality, it only appreciates in time."

Jay Luchs, an executive vice president in the Century City office of **Newmark Grubb Knight Frank**, said that even though Apple's retail building is new and situated in a premier location, much of the property's value comes from its sought-after tenant.

"The sale says more about Apple than it does about the promenade," he said. "I doubt if there was the same size space next door for sale it would get close to that kind of price. The buyer gets bragging rights to have such a tenant in its portfolio."

Apple, which moved into the building in December 2012, typically signs 10-year leases with options to renew for an additional five years. That could keep Apple in the building through 2027.

Apple is known as a bankable, blue-chip tenant. In addition to its preference for long-term leases, the company boasts average annual retail sales of about $4,550 a square foot, the highest of any U.S. retailer, according to a recent report by New York market research company eMarketer Inc.

Randy Starr, a principal at **Avison Young** who has been a real estate broker on the promenade since before it was a hot retail street, said Apple is not likely paying a percentage of its sales for rent. Instead, the tech retailer is probably paying an all-inclusive rate similar to its neighbors.

"Deals on the promenade, at least those I've done, are strictly based on rent," he said. "But those prices have doubled in the last decade, from something like $14 a square foot a month on the 1400 block to $26 a square foot a month."

Investment: Food Frenzy Feeds Firms' Business

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Foods in Parsippany, N.J., in 2007 and took it public in March of last year. Pinnacle's stock is up 36 percent since the IPO.

According to data from PricewaterhouseCoopers, the second quarter of this year was one of the strongest periods for retail and consumer product IPOs in the last three years, with 13 offerings totaling $4.9 billion. Total deals were up 117 percent compared with the second quarter of last year and the total dollar value was 136 percent higher. Fast-food chain **El Pollo Loco Holdings Inc.** in Costa Mesa, with shares up 81 percent since its July 28 IPO, is just the latest food company to take the public markets by storm.

Strategic buyers

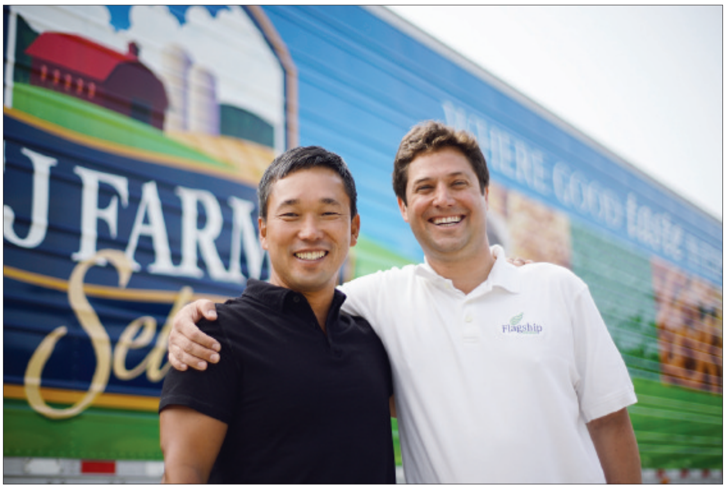
But if going public isn't the right choice, another option is selling to a strategic buyer such as Nestlé, which can also mean an extremely lucrative payoff. Burke said a purchase by a company like that gives access to its distribution network, which could double sales of any given food product without any new overhead expenses.

"The company is worth twice as much in the hands of Nestlé," he said.

Because of this growth potential and synergy, a strategic purchaser such as Nestlé is often willing to pay more for a good product than a strictly financial buyer such as an investment fund. That's pushing valuations of food companies higher, motivating owners to sell – and driving business to advisers such as Trinity.

Burke believes companies such as Creo that specialize in natural or organic foods are especially attractive targets as shoppers buy less soda and more tea and juice. It's hard to predict what Americans end up developing a taste for – who knew Sriracha would be this popular? – but according to **Bob Woolway**, a managing director at Trinity, following private equity money might be a good place to start.

"There's kind of a cadre of these private equity guys who focus on food and beverage," he said. "They've got a pretty good track record of picking the winners."



Sewing, Reaping: Flagship Food's Gary Lim, left, and Creo Capital's Rob Holland at a Flagship distribution center in Boise, Idaho.