



Capstone Partners

JUVENILE PRODUCTS

Q3 2016

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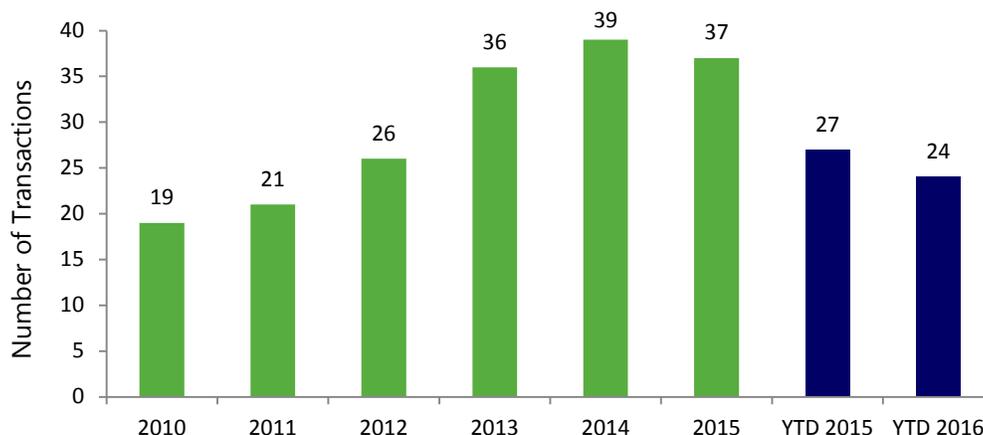
MERGER & ACQUISITION ACTIVITY

Through September 15, 24 transactions have been announced or closed in the Juvenile Products industry, which is consistent with the level of M&A activity in 2015. The industry continues to draw a blend of both strategic and financial suitors. Financial buyers with existing portfolio companies accounted for five of the nine financial deals, as they sought to consolidate in the industry and diversify their product/brand offerings. This year, almost half of the acquired companies manufactured leisure products, including instruments, crafts and branded items such as Angry Bird and Disney toys. As consumer confidence improves and per capita disposable income increases, the industry can expect to profit from enhanced consumer spending.

SEGMENT HIGHLIGHT: INFANT PRODUCTS

Eco-friendly, natural and organic, brand-named clothing, and tech savvy nursery tools are currently in high demand. In July, S.C. Johnson acquired Babyganics, a manufacturer of organic and plant-based baby care products, for an undisclosed amount. "They are one of the fastest growing private companies and their unique and innovative products are a great complement to our portfolio of trusted brands," said Fisk Johnson, Chairman and CEO of S.C. Johnson. While demand for brand-named clothing remains high, M&A activity over the past several years has increased consolidation. In 2016, 55.7% of the revenue from children's apparel came from just four companies (Carter's Inc., The Gymboree Corp., Ascena Retail Group and The Children's Place Retail Stores Inc.). Technology will be an attractive entry point into the infant products industry as parents seek to ensure their child's safety through baby wearables that track vital signs, nursery monitors that sync to smartphones and other high-tech devices.

M&A Activity: Juvenile Products



YTD ended September 15, 2016

Sources: Capital IQ; Capstone Partners LLC Research

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CHICAGO
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SEGMENT HIGHLIGHT: JUVENILE DURABLE GOODS

Cribs, changing tables, car seats, dressers, strollers and other juvenile durable goods are necessary items for new parents. Currently the market is experiencing increased growth as consumer spending improves and the quality and branding of these necessities promotes greater demand. Companies that create brand salience can expect increased sales and customer loyalty. Concerns about safety will also drive parents to seek trusted brands. In 2016 alone, the US Consumer Product Safety Commission recalled five different strollers due to falling and choking hazards or risk of injury to kids. In addition, consumers are seeking a unique shopping experience. When consumers are not buying through major retailers online (a channel which continues to gain popularity), they are buying in stores that provide a compelling atmosphere. Companies will be more attractive within the industry if they invest resources in the buying experience and the ambiance of their stores. The Trans Pacific Partnership (TPP), a 12-country trade agreement that affected approximately 18,000 tariffs, is another shift that will influence players in the industry. The implementation of TPP will make it cheaper to import items from Asia Pacific, IBIS World notes, which will enable more companies to design, manufacture and market products created overseas. Overall, M&A activity is expected to increase in the Juvenile Durable Goods segment, as consolidation continues.

SEGMENT HIGHLIGHT: TOYS

The Toy segment is incredibly diverse as companies explore ways to not only amuse children, but also to bolster creativity, brainpower, practical skills, physical activity and artistic traits. Technology is playing a major role in the landscape of the industry, as toys continue to shift from being inanimate objects to responsive, interactive devices. Drones, robots controlled by smart bands or smartphone apps, toys-to-life and Barbie's fitted with touch screens are a few of the diverse items on the market. One-third of babies are touching a smartphone or tablet screen before they walk or speak, and one in seven babies use these devices for an hour a day by age one, according to Einstein Healthcare Network. Companies such as Sago Sago Toys and TOCA BOCA (both acquired by Spin Master in April) are finding great success in developing educational apps as well as "apps for play." Items that focus on science, technology, engineering and math will be particularly attractive as parents try to boost their child's brain power at an early age. Patch Products acquired Maykah, a company that develops building toys for girls, earlier this year for \$17.0 million. Maykah's building sets include a variety of pieces, motors and circuits to promote cognitive development and spatial skills, and to encourage girls to take an interest in STEM. There is also a movement towards retro and creative toys, according to the Toy Industry Association. This is mostly driven by millennial parents who have grown nostalgic for toys from their past including board games, crafts and outdoor activities. One example is the Ohio Company's February sale of Etch A Sketch to Spin Master. Anton Rabie, Spin Master's Co-CEO, noted that the vintage toy has been "popular for more than 50 years and we look forward to building on this foundation of fun and creativity." Millennial parents will be looking for ways to "un-plug" with their children, as well as to promote healthy lifestyles, according to the market research group NPD.

NOTABLE JUVENILE PRODUCTS TRANSACTIONS

Several notable transactions have already been completed or announced in this industry through Q3 2016. Capstone has outlined select transactions below, followed by a more comprehensive list on the following table.

- ▶ **Spin Master expands into outdoor sports industry with acquisition of Swimways (August 2016)** – Toy manufacturer Spin Master Corporation (Spin Master) acquired pool, beach and backyard toy and sporting goods creator Swimways Corporation (Swimways) for \$93.5 million in cash. The acquisition will improve Spin Master’s sales during the non-toy selling season and expand the Company’s international presence through global sales. “We are passionate about the category,” said Spin Master Co-CEO Anton Rabie, “and look forward to inspiring an active lifestyle by infusing Spin Master’s innovation and fun into the outdoors in order to satisfy many parents’ preference for healthier lifestyles and more creative outdoor play.” Since making its Initial Public Offering in Q3 2015, Spin Master has acquired five companies including four domestically and one abroad (Swimways, Sago Sago Toys, TOCA BOCA, Ohio Art Company’s Etch A Sketch and Editrice Giochi).
- ▶ **ERGObaby buys competitor Baby Tula (May 2016)** – ERGObaby Carrier, Inc. (ERGObaby), owned by Compass Diversified Holdings (CODI), bought New Baby Tula LLC (Baby Tula) for \$82.0 million at an EBITDA multiple of 6.3x. Both ERGObaby and Baby Tula manufacture premium ergonomically designed baby carriers. Baby Tula will operate as a subsidiary of ERGObaby and will maintain its current leadership. “We are pleased to once again take advantage of CODI’s financial strength to make an accretive and strategic add-on acquisition that will increase value for our shareholders,” said CODI CEO Alan Offenber. “The addition of Baby Tula will strengthen ERGObaby’s already attractive industry positioning through product extension as well as channel and geographic expansion.” Baby Tula Co-Founder, Ula Tuszewicka, added, “We are proud to be joining forces with ERGObaby, a company whose culture and passion for babywearing is similar to our own.”
- ▶ **Mattel acquires baby wearable company Sproutling (January 2016)** – Mattel Inc. (Mattel), a global toy designer and manufacturer, acquired Sproutling, Inc. (Sproutling), a producer of smart technology for the “nursery of the future.” Sproutling offers a wearable baby monitor which slips over a child’s ankle and allows caretakers to track the baby’s heart rate, motion and position via smartphone. This transaction is Mattel’s second recent acquisition in the technology industry. Prior to Sproutling, Mattel bought Fuhu, Inc. (Fuhu), the designer of nabi, an Android based learning tablet for kids, for \$95.0 million. “These acquisitions strengthen our digital and smart technology capabilities, and they create ample opportunities to develop and bring to market new technology-enabled play and learning products, based on Mattel’s established portfolio of global consumer brands for children and families,” said Sid Mathur, Mattel’s Global Head of Strategic Development and M&A.

JUVENILE PRODUCTS: SELECT M&A TRANSACTIONS

Ann. Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EBITDA
09/13/16	Berkshire Blanket	SUMEC Textile	Manufactures blankets, apparel and accessories for children and adults.	-	-	-
08/02/16	Swimways	Spin Master	Manufactures leisure and recreational water products.	\$93.5	1.0x	-
07/27/16	Peds	Gildan Activewear	Manufactures foot apparel and legwear for babies, children, women and men.	\$55.0	0.7x	-
07/06/16	First Act	Jazwares	Produces learning tools and music-related toys for babies and preschoolers.	-	-	-
07/01/16	KAS Direct	S. C. Johnson & Son	Develops baby products for bathing, diapering, hand hygiene, home, laundry, outdoors and skincare.	-	-	-
05/26/16	Best Made Toys	SJ Partners	Manufactures and sells toys.	-	-	-
05/25/16	K'NEX Brands	Cathay Capital	Offers engineering toys, educational toys, building sets, cars, rods, connectors and blocks.	-	-	-
05/09/16	Baby Tula	ERGO Baby Carrier	Manufactures baby carriers, ring slings, woven wraps, blankets and infant accessories.	\$82.0	3.3x	6.3x
05/03/16	Children's Wear Digest	18F Virginia	Offers children apparel through catalogs and online.	-	-	-
04/27/16	Baby Trend	Alpha	Offers car seats, strollers, joggers, travel systems, high chairs, walkers, bouncers and various collections.	\$94.0	-	-
04/21/16	Sago Sago Toys & TOCA BOCA	Spin Master	Develops children's physical and digital toys including applications for iOS and Android.	-	-	-
02/11/16	Ohio Art Company	Spin Master	Offers lithography services and manufactures Etch a Sketch and Doodle Sketch.	-	-	-
02/11/16	Sprig Toys	BeginAgain	Develops kid-powered toys such as play sets, vehicles, outdoor tools and story building products.	-	-	-
02/10/16	Laser Pegs Ventures	Great White Shark Opportunity Fund	Offers national geographic products, MPS products, educational blocks, games and original sets.	-	-	-
02/05/16	LeapFrog	Vtech	Creates technology-based learning products and related proprietary content.	\$73.3	0.2x	-
02/04/16	LMC Right Start	giggle	Offers strollers, feeding products, nursery furniture, toys and books, travel gear and safety products.	-	-	-
02/02/16	Lamrite West	Michaels	Manufactures arts and crafts supplies.	\$150.0	-	-
01/29/16	Sproutling	Mattel	Develops a technology system that monitors baby vital signs.	-	-	-
01/27/16	Triboro Quilt Manufacturing	Gerber Childrenswear	Distributes infant and toddler clothing and bedding products.	-	-	-
01/21/16	SparkBox Toys	Pley	Offers educational toy rentals for children under the age of four.	-	-	-
01/12/16	StarWalk Kids Media	Isabella Products	Creates and delivers children's eBooks.	-	-	-
01/06/16	Maykah	Patch Products	Develops toys that encourage girls to take an interest in science, technology, engineering and math.	\$17.0	-	-
12/21/15	Convaid	Etac	Manufactures pediatric strollers, wheelchairs and other mobility products for kids, adults and geriatrics.	-	-	-
12/07/15	Blue Matrix	KBIDC	Produces water toys under the Hydro Toys brand, including the award-winning ZORBZ water balloon line.	-	-	-
12/07/15	Fuhu	Mattel	Offers nabii, an Android based learning tablet, that immerses kids in rich and engaging experiences.	\$95.0	-	-

PUBLIC COMPANY TRADING & OPERATING DATA

Company	Price 09/15/16	% 52 Wk High	Market Cap	Enterprise Value	LTM			3-Yr An. Rev Growth	EV / LTM	
					Revenue	EBITDA	Margin		Revenue	EBITDA
Crown Crafts, Inc.	\$10.14	99.5%	\$101.3	\$88.9	\$82.1	\$11.7	14.3%	1.9%	1.1x	7.6x
Dorel Industries Inc.	\$28.43	96.1%	\$921.7	\$1,436.9	\$2,631.4	\$157.1	6.0%	2.7%	0.5x	9.1x
Hasbro Inc.	\$79.93	90.3%	\$10,023.9	\$10,666.3	\$4,646.5	\$885.8	19.1%	4.6%	2.3x	12.0x
Mattel, Inc.	\$31.73	91.3%	\$10,807.8	\$12,643.2	\$5,618.4	\$868.1	15.5%	(4.7)%	2.3x	14.6x
JAKKS Pacific, Inc.	\$8.95	87.1%	\$142.5	\$264.0	\$737.2	\$45.6	6.2%	5.3%	0.4x	5.8x
Newell Brands Inc.	\$50.40	90.9%	\$24,302.9	\$36,722.6	\$8,264.3	\$1,420.1	17.2%	14.0%	4.4x	25.9x
Summer Infant, Inc.	\$2.08	85.2%	\$38.4	\$87.5	\$201.2	\$8.9	4.4%	(5.1)%	0.4x	9.8x

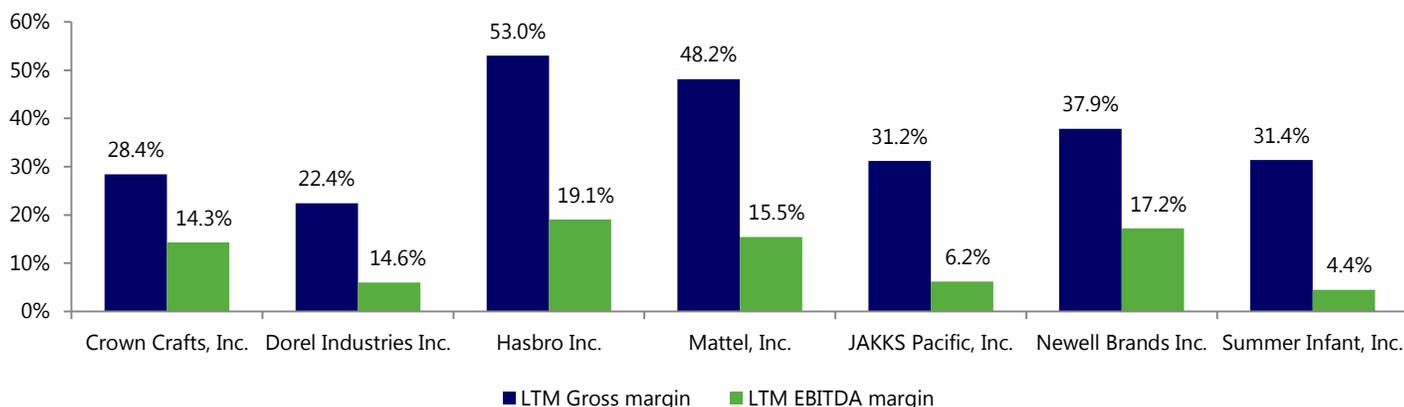
LTM = Last Twelve Months

EV = Enterprise Value

\$ in millions, except per share data

Mean	11.8%	2.7%	1.6x	12.1x
Median	14.3%	2.7%	1.1x	9.8x
Harmonic Mean	8.8%	NA	0.8x	9.9x

Last Twelve Month Margin Performance



Last Twelve Month Revenue Growth



Source: Capital IQ as of September 15, 2016

CAPSTONE PARTNERS: COMPLETED CONSUMER PRODUCTS & SERVICES TRANSACTIONS

Capstone Partners has completed several transactions within the consumer products & services sector. These transactions span the major categories of manufacturing, retail, wholesale and services including a variety of companies offering diverse products such as those related to juvenile, food, pet, drug and nutraceutical, and recreation products and services. Capstone's experience in the sector provides us with insight into the valuable attributes and likely valuation of a target company, the active buyers in the industry and the nuances of transactions in this space.

CONFIDENTIAL

corporate sale
(IN PROCESS)

**Infant Products
Manufacturer**

**MASTER[®]
CUTLERY**

has been acquired by

CHAMPLAIN

enaroo[™]
by american innovative

has been acquired by

PATCH[®]
a portfolio company of
TOPSPIN PARTNERS

**YUKON
CHARLIE'S[®]**
MEAT SYSTEMS

has been acquired by

Kwik-Tek[®]
a portfolio company of
**GUARDIAN
CAPITAL PARTNERS**

Tiny Love

has been acquired by

DOREL

Zuji[®]
THE INTERNET...OUR WAY

has been acquired by

SABAN

B-O-B

has been acquired by

Britax
a portfolio company of
NORDIC CAPITAL

Johnson Creek[™]
Smoke Juice & Electronic Cigarettes

strategic
joint venture

Republic Tobacco

**media source
incorporated**

has been acquired by

Riverside

**FRIEDRICH
1883**

has been acquired by

Corinthian Capital

**DOC'S[®]
PHARMACY**

has been acquired by

**Senior Members of
Doc's Drugs, Ltd.**

**A Premier Provider
of Early Education
& Childcare Services**

has been acquired by

**Bright Horizons
FAMILY SOLUTIONS[®]**

**BIRDOLA
PRODUCTS**

has been acquired by

UNITED PET GROUP, INC

TROPHY RIDGE

has been acquired by

**ESCALADE[®]
SPORTS**

slime

has been acquired by

FRIEND SKOLER & Co

**INTERLEUKIN
GENETICS**

acquisition
advisory

**Alan James
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JUVENILE PRODUCTS TEAM



Sophea Chau, Director

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Sophea specializes in mergers & acquisitions, private placements and financial advisory services. Her responsibilities include providing financial and valuation analysis, performing due diligence, asset positioning and strategy articulation. Prior to joining Capstone, Sophea was an analyst at FTN Midwest Securities, a full-service investment banking firm based in Cleveland. While working in their New York office, she focused on M&A advisory for middle-market companies in a variety of industries, including healthcare, pharmaceutical services and marketing & advertising. Sophea is Vice President of the Columbia Alumni Association of Boston and holds a Bachelor of Arts in Economics from Columbia University.



John Ferrara, Founder & President

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John Ferrara, the founder and principal shareholder of Capstone, serves as the firm's President and Managing Partner. Over his extensive career in investment banking, venture capital and management consulting, John has executed over 100 related engagements representing in excess of \$6 billion in value. John was formerly a Regional Managing Partner with Andersen Corporate Finance, where he founded the Boston office and held various national and global leadership positions. He started his career in Lehman's Brothers' M&A group in New York, London and Riyadh, later becoming a founding member of Rodman & Renshaw's M&A practice in New York. He earned an MBA in Entrepreneurial Studies from The Anderson School at UCLA and the London School of Economics, during which time he founded and operated a corporate finance advisory boutique, JG Atlas Advisors, and its related investment arm, Atlantis Capital Partners. He holds dual BA degrees from Wesleyan University and is qualified as a General Securities Principal.



Jacob Voorhees, Managing Director

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Jacob is a founding member of Capstone Partners. He focuses on asset positioning, strategy articulation, due diligence and negotiations coordination. Formerly, Jacob was with Andersen Corporate Finance LLC, where he focused his efforts on the software and direct marketing industries. He started his career in New York City with Rabobank International, a multi-national Dutch investment bank headquartered in Utrecht, the Netherlands. While at Rabobank International, Jacob worked in the mergers and acquisitions group focusing on cross-border transactions in the consumer products, food and beverage industries.

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ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a premier investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides M&A, corporate restructuring, private placement and financial advisory services. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, New York, Orange County, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in 70 offices across 31 countries.

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about our expertise,
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