



Private Equity Bridges the Gap

A private equity partner is one avenue to address your business and personal objectives.

by Mark D. Working

Contrary to financial theory, private business owners do not make corporate capital allocation decisions independent of their personal circumstances. The theory doesn't translate into practice, because the life cycle of a business and the investment horizon and risk tolerance of the private owners are rarely in sync. A more holistic perspective of a privately held business suggests that the business and the owner(s) be thought of as one, and the needs of both are intertwined.

The traditional solution to the divergent needs of business and ownership has been to sell the company to a new owner. But, this may be a less-than-ideal solution for the owner or family that wishes to be involved in running, or being associated with, the business. Fortunately, products have evolved in today's capital markets to bridge the gap between the needs of both business and owner(s). Two examples where former clients of ours have grappled with quite different businesses and personal situations illustrate how external capital can enable both personal and business objectives to be achieved simultaneously.

Tom Campion left the corporate world to start a young men's apparel store, Above the Belt. From humble beginnings, Above the Belt evolved into a sophisticated distribution channel for teen apparel and outdoor gear, targeting the "alternative" segment of the market. As the evolution continued to a fast-growing, mall-based retailer, the name changed to Zumiez and the need for more depth in the management team was recognized. Rick Brooks joined the company as an owner and, over a period of time, became the company's President. This change left Tom with time to direct the creative merchandising side of the business. Business boomed and the growth in new stores and territories rocketed up.

At the same time that the business was evolving and growing, so was Tom, a man with a wide variety of interests. One of his keenest passions is environmental protection. Tom's desire was to establish and fund a foundation that could support the issues he felt so strongly about. Unfortunately, the demands

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of the business for capital in its growth phase meant that either the business would have to be slowed or his personal goals put on hold.

Jim Coles has the reputation in the world of Classes 7 and 8 heavy-duty trucks of operating the most successful dealer in the Peterbilt Motors network. After earning a degree in engineering and spending the early years of his career working on equipment distribution for Caterpillar, Jim decided he needed to find out what he could accomplish on his own and bought a small dealership in Casper, Wyoming. Later, he merged that dealership with a failing Peterbilt dealership in Seattle, Western Peterbilt. Twenty years later, the reach of his dealership organization extends from Alaska, south into Northern California. At Paccar, owner of Peterbilt Motors, Jim is recognized

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as having developed the model for dealerships of the future. Western Peterbilt is a multi-dimensional firm that sells new and used equipment, rents and leases equipment, sells parts, provides a complete slate of maintenance services, and handles customer financing needs. At the same time that opportunities to transfer his industry-leading business model to a broader network were being presented, several other personal goals tugged at him. Mounting concerns about personal risk for him and his family, together with discomfort with ceding control to a burgeoning management team, placed a constraint on the growth of the business.

A private equity partner was the solution to bridge the gap between the needs of the business and the personal objectives of the owner, in each case. After careful consideration of a variety of alternatives, both Tom and Jim took on private equity partners. In the case of Zumiez, a deal was negotiated with Brentwood Associates, a Southern California-based private equity firm that focuses on consumer products investments, with an emphasis on lifestyle marketing. Brentwood purchased a position in the company from the current owners. Tom took a few chips off the table, providing him the opportunity to direct funds towards achieving other personal goals outside of Zumiez and devote its cash flow to the accelerating growth of the business. Tom and Rick took on a partner with specialty retail experience and contacts to help guide the business forward. In the spring of 2005, Zumiez issued public stock (NASDAQ symbol, "ZUMZ"), providing its many employees a market for their options and raising capital for further expansion. Recently, a secondary offering occurred to increase the breadth of public ownership and allowed Tom and Brentwood some further liquidity.

Jim Coles also took on a partner, Greenbriar Equity Group, a transportation specialty investment firm, led by Gerald Greenwald, the former Vice Chairman of Chrysler and Chairman of United Airlines. As part of a recapitalization, Jim was able to monetize a significant share of his holdings,

while remaining as CEO and maintaining a meaningful investment. By bringing on a new partner with extensive transportation industry contacts and experience, the new ownership group plans to jointly develop a succession plan for executive management of

the business and build the bench strength to allow the Western Peterbilt business model to be exported to other dealership entities.

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business owners' business and personal objectives. In today's market, there are a wide variety of capital alternatives available to creatively address these issues. ♦



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