
From: Richard Kahn <[REDACTED]>
Sent: Wednesday, September 6, 2017 7:36 PM
To: jeffrey E.
Subject: Fwd: Next

please advise on list of contingent liabilities

thank =ou

Richard Kahn
HBRK Associates Inc.
[REDACTED]

Begin forwarded message:

From: =/b>Neale Attenborough <[REDACTED]>

Subject: =/b>Re: Next

Date: =/b>September 6, 2017 at 3:16:06 PM =DT

To: =/b>Richard Kahn [REDACTED]

Cc: Chris Lawler [REDACTED], Tyler Shean <[REDACTED]>

We have a term sheet ready and will forward once we =eceive the list of contingent liabilities you would like us to =onsider, as we agreed on our last call.

On Sep 5, 2017, at 10:02 AM, Richard Kahn <[REDACTED]> wrote:

When can I expect your term sheet with details that we =discussed explaining exactly what entity will be selling what...

I would assume your offer of 8 million cash and 1 =illion a year for three years would allow for the litigation expense =nd liability (if any) to come out of the future payments... =o probably 5 years needed...

Please advise
Thank you

Richard Kahn
HBRK Associates Inc.



On Aug 31, 2017, at 7:02 AM, Neale Attenborough <[REDACTED]> wrote:

As we agreed yesterday:

We will lay our a term sheet which includes the deal I spoke of =esterday. It will include all the entities that will be involved =nd the concept of some cash paid over time.

You will detail exactly which potential liabilities you speak of below =ou would like us to consider.

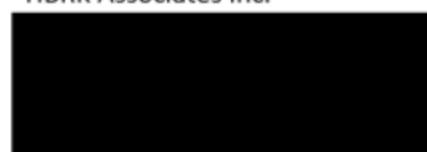
We can then see f it is possible to hammer out a deal.

Thanks.

On Aug 31, 2017, at 5:55 AM, Richard Kahn <[REDACTED]> =rote:

To move this along I would suggest the following: = rough detailed draft of a term sheet with seller companies =etailed. how many entities? an amount of cash left back =nd an amount of dollars also spread over a number of years. default =suggestions and = your ideas on how to deal with =iablity. ie ny class action waiting to be =ertified. . others like paris etc. thank =ou.

Richard Kahn
HBRK Associates Inc.



Cell [REDACTED]

On Aug 30, 2017, at 7:16 AM, Richard Kahn [REDACTED] =rote:

I would add that you are selling an offshore vehicle =ormed under an agreement that puzzles me. The =hole co is not for sale and if so we might argue along some similar but =ess exaggerated lines multiples of large biz from years =go. I guess if you find the dramatically too =ow, you might offer to buy out Faith and Joel, using your =ormulas. with a premium for control. Jeffrey =s set to join the call and has authority to make the decision to accept or reject.

Richard Kahn
HBRK Associates Inc.
[REDACTED]

On Aug 30, 2017, at 6:25 AM, Richard Kahn [REDACTED] =rote:

i already pointed out currency exchange, board fees etc. =s a bad number in your calculations. sorry....the other =ransactions that we know very well are far from relevant. if faith and joel walk there is NO business which is hardly the same =dea as IMG where multi divisions exist and succession is =lanned. I do not know what cash was on the balance =heet when you bought it. The open gate =ransaction to summarize was a stepping into your shoes for only 6 million or roughly the same =s the current offer. taking out cash 14 of the 15 mil =hich has not come out. and even on your calculation of 8 cash =ould mean 3.2 to you back then... and then leveraging the biz. = the liability to the buyer was no where near that to golden gate. =orry. . . We can go back and forth on comps and can show =om and pop at 1 to 3 <x-apple-data-detectors://1> times ebitda. . so lets try to short =ircuit a tiresome unnecessary excercise, as i see it the =urrent bid offer is 5 bid and approx 9 .2 offer. open =ates 6 + 3.2 from 2 years ago with more growth potential and =ower cash out. multiples from before digital photos and amazon. sorry.....I am suprised =hat you would inflate current Ebitda, pull multiples from many =ears ago to biz that are tangential. leave out liabilites even of =awsuits that you know about, and then pick a cash number to subtract for enterprise value. If I have misunderstood and you are =ot really sellers then I will not be insulted if you decide to cancel =ur call.

Richard Kahn
HBRK Associates Inc.
[REDACTED]

On Aug 29, 2017, at 10:40 PM, Neale Attenborough [REDACTED]

Richard,

Not funny at all, just factual.

I think if we are to ultimately agree on =value it will be important we agree on a set of facts:

1. TTM EBITDA is \$6.7Million. If you disagree, please let us know =recisely what items you disagree with in the number and we can =discuss.

2. The current cash balance for the company is \$13.1 Million.

3. The past three comparable transactions for companies in this market average =n enterprise value at ~10x multiple of EBITDA

a. Wilhelmina: 7x (average meaningful trading multiple since 2010)

b. Creative Artists Agency: 10x (TPG acquisition, 2014)

c. IMG: 13x (WME acquisition, 2013)

4. We invested \$18 million for a 42% stake in the business, implying an =enterprise value of \$42.9 million.

5. We received a bona fide offer from OpenGate Capital which would have =resulted in \$18 million in proceeds for us (and in fact a \$17 million =distribution to Faith and Joel), and while they were, as you point out, =nbsp;contemplating leverage in the <3x EBITDA range, it is in fact a relevant data point and an independent look at =value.

6. One other note that is relevant to us, is that when Elite Models in Europe =contacted us with an interest in buying the company, Faith told me to =elay to them that they would not contemplate selling to Elite for less =han \$100 million (which at the time was a +10x synergy-adjusted EBITDA value). Ultimately they walked based =n that value requirement.

I would hope you agree that the following =s a commonly agreed upon formula for value:

a. Enterprise value = EBITDA x Market Multiple

b. Equity Value = Enterprise Value + net cash (or – net debt).

One matter of judgment is what of the cash =alance is “excess cash”. Joel has said he =elieves all the cash is due to the models. The facts show that in =he ordinary course of business the collection of receivables offsets the =ayables and in the past three years, the cash balance has only =luctuated at most by \$3 million, meaning anywhere from \$8-10 million on =he balance sheet should be considered to be “excess cash”, not needed for day-to-day operations. I have =ttached both a three year cash balance tracker and a current balance =heet for your review.

Using the above, a very modest calculation =f value would be \$6.7 million of EBITDA x 5 multiple (a 50% discount to =he market) or an enterprise value of \$33.5 million and if we took a conservative view of what excess cash is at =he moment of \$8 million, would result in a total equity value of \$41.5 =illion. Our 42% would equate to \$17.4 million of proceeds to =s. That is at a multiple that has been deeply discounted to the market comps that were actually paid for companies in the same =usiness.

We are, however, willing to take much less =han this very discounted value calculation, as I have mentioned to you =before. However, your proposal of \$5 million of proceeds to us represents an equity value of \$11.9 million (\$5/.42), =n enterprise value of \$3.9 million (\$11.9 million - \$8 million of =xcess cash) or an EBITDA multiple of 0.58x (\$6.7 x 0.58 = \$3.9 =enterprise value), a level that is far too low for us to accept.

I look forward to our discussion tomorrow =orning.

Neale

From: Richard Kahn [mailto:
Sent: Friday, August 25, 2017 =1:51 AM
To: Neale Attenborough
Cc: Chris Lawler
Subject: Re: Next

Pretty funny Neale...

Even the silly open gate proposal was in essence stepping into your =hoes for
only 6 million cash. BACK THEN !!

Then proposing to distribute what they estimated to be almost the full =otal (14 of the 15 million) of cash on the balance sheet. Chris i =ust point out that is more than it totals today. Then having =oel, Faith, etc leverage themselves up by borrowing at 7 percent against the entire co in order to make a further distribution =f an additional 15 million which on paper creates a highly =nflated enterprise value. He only proposed 6 million cash =nfusion which is around the same amount that you are currently being offered. They valued faith and joels ongoing equity (that =hey proposed they "keep in") silly, at 8mm which is =oughly the same as we suggested. Financial engineering done =ell is like lipstick.. however not done well is also like lipstick. =nbsp;:) This is a personal service business, no more no less and suggesting =hat they leverage themselves up so you that they can pay themselves a =igher salary fails the HBS first year class that i am aware you have =aken. Regarding the 18 million, we have distributions from Next directly to the former shareholders of the claxon offshore =ntity of approx 3. Regarding the receivables you can ask =illie... sorry

PS Faith and joel will have to borrow the =oney to buy you out at 5. . can be done, but not so easy. =hey have never taken out real money from the company in any form: =nbsp;salary etc.... hence they have little net worth and current =enders are not that comfortable with the potential liabilities....

[REDACTED] On Aug 24, 2017, at 4:50 PM, Neale Attenborough
=rote:

I look forward to our =onversation.

For the record, we did actually pay \$18MM =or 42% of this business in 2008. At the time that represented an =8x multiple of EBITDA. That is not a fictitious number. In addition we did receive a bid for about the same =mount from Open Gate Capital, a reputable private equity firm. I =o not understand why you say that ii is "hardly legitimate"= While I did say we didn't expect to receive what we =aid, I did not say it was immaterial.

I don't follow most of what you =ay below and look forward to hearing your clarification. However, =an you please clarify one statement specifically? What do you mean when you say the current receivables have not be reviewed in =ears?

Thanks,

Neale

<mailto:[REDACTED]

From: Richard Kahn [mailto:[REDACTED]]

Sent: Thursday, August 24, 2017 =:45 PM
To: Neale Attenborough
Cc: Chris Lawler
Subject: Next

confirmed thank you

We have reviewed your statements that you sent to us along with the =-1's and some financials. Frankly, some of the =umbers are inaccurate as a result of millie. Your annual =inancial statements were reviewed but not audited - shame on all of =ou... Your calculation of Ebitda includes things like adding back foreign exchange =osts? board fees etc. That is not the way we look at =hat is unfortunately for all merely a personal service business.

Faith and Joel make up the business, nothing more. We =alculate the Ebidta, which we think is an odd way of measuring value of = personal service biz with lots of competition and small growth =opportunities if any. Giving you the benefit of the =oubt, and ignoring how much you paid or if some of that money was repaid =irectly to the former owners of Claxon and not truly understanding what =ou described as a fixed tax payment per quarter (ie based on what I =think looking back over the past three years) ebitda looks like 4-5 million. We have bought many small biz and =usually pay mom and pops for 1- 3 times ebita or more usually 4 times =et income. We are finding it difficult to get to more =han a 15 million total value for Next (not including liabilities). The 18 million dollar bid that you mentioned Faith said was hardly =egitimate. I think further review of the accounting tax etc. is =probably a waste of all our time. As you rightly said, what you =initially paid is somewhat if not totally immaterial to todays value. You have not factored in the liabilities, =oth reputationally and fiscal yet. I think the 5 million cash =ffer or 6m over time is fair. I look forward to our conversation =n tuesday. As another note, the current receivables have =ot been reviewed for years...

Rich

[REDACTED] On Aug 24, 2017, at 3:28 PM, Neale Attenborough wrote:

Disclaimer: This message contains information that may be =onfidential and/or privileged and is intended only for the person(s) =amed. Any use, distribution, copying or disclosure to any other person is strictly prohibited. If you received this =transmission in error, please notify the sender by reply e-mail and then =estroy the message. Opinions, conclusions, and other information in =his message that do not relate to the official business of Golden Gate Capital shall be understood to be neither given nor =ndorsed by the company. Where applicable, any information contained in =his e-mail is subject to the terms and conditions in the relevant =overning agreement.

<Mail Attachment.ics>

<170829 - Next - Jun'17 Balance Sheets.pdf>

<170816 Next - Min Cash Analysis.pdf>

=