From: Richard Kahn [redacted]
Sent: Wednesday, September 6, 2017 8:18 PM
To: jeffrey E.
Subject: Fwd: Next

Richard Kahn
HBRK Associates Inc.
575 =exington Avenue 4th Floor
New York, NY 10022
tel [redacted]
fax
cel

Begin forwarded message:

From: =/b>Neale Attenborough [redacted]

Subject: =/b>RE: Next

Date: =/b>September 6, 2017 at 4:16:37 PM =DT

To: =/b>Richard Kahn [redacted]

Cc: Chris Lawler [redacted] Tyler Shean [redacted]

I do not agree to your premise on the face =f it because we are already starting at a substantially discounted =aluation in light of these contingent liabilities already. This =s why I want them detailed precisely.

I am sure you or your =lient (who would know them much better than we do) can articulate what =hey are specifically.

From: Richard Kahn [mailto [redacted]
Sent: Wednesday, September 06, =017 4:12 PM
To: Neale Attenborough
Cc: Chris Lawler; Tyler =hean
Subject: Re: Next

neale,

frankly, I don't have them, however I =ould have thought you did... lets try to see if there is a deal and =hen we all can agree on what the contingencies are...

you will certainly agree that if they pertain to the period =f your ownership you will be responsible for your share...and =ctions relating to liabilities after closing is another story

thank you

Richard Kahn
HBRK Associates Inc.
575 =exington Avenue 4th Floor
New York, NY 10022
tel[redacted]
fa[redacted]
ce[redacted]

On Sep 6, 2017, at =:51 PM, Neale Attenborough [redacted] <mailto[redacted]> wrote:

What are the specific actions you refer to as Paris, Milan =nd New York, with case numbers and a summary of the cases.

From: Richard Kahn [mailto[redacted]
Sent: Wednesday, September 06, =017 3:47 PM
To: Neale Attenborough
Cc: Chris Lawler; Tyler =hean
Subject: Re: Next

contigent liabilities are paris, milan, and the new york =awsuit that is looking to form a class...

this is obviously =eparate and apart from all actions that might be brought that would be =elevant to the time of your ownership.

Richard Kahn
HBRK Associates Inc.
575 Lexington Avenue 4th Floor
New York, =Y 10022
tel[redacted]
fa[redacted]
cel[redacted]

On Sep 6, 2017, at =:16 PM, Neale Attenborough [redacted]
<mailto[redacted] wrote:

We =ave a term sheet ready and will forward once we receive the list of =ontingent liabilities you would like us to consider, as we agreed on =ur last call.

On Sep 5, 2017, =t 10:02 AM, Richard Kahn [redacted]
<mailto[redacted]> wrote:

When can I expect your term sheet with details that =e discussed explaining exactly what entity will be selling what...<=:p class="">
I would assume your offer of 8 million cash and 1 million a =ear for three years would allow for the litigation expense and =iability (if any) to come out of the future payments... so =robably 5 years needed...
Please advise
Thank you

Richard Kahn
HBRK =ssociates Inc.
575 Lexington Avenue 4th =loor
New York, NY 10022
tel [redacted]
fax
cell

On Aug 31, 2017, at =:02 AM, Neale Attenborough [redacted]
<mailto[redacted] wrote:

As we agreed yesterday:

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

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

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

Thanks.

On Aug 31, 2017, at 5:55 AM, =ichard Kahn [redacted] <mailto[redacted]>=wrote:

To move this along I would suggest the =ollowing: a rough detailed draft of a term sheet with seller =ompanies detailed. how many entities? an amount of cash =eft back and an amount of dollars also spread over a number of years. =nbsp;default suggestions and your ideas on how =o deal with liablity. ie ny class action =aiting to be certified. . others like paris =tc. thank you.

Richard Kahn
HBRK Associates Inc.
575 Lexington Avenue, 4th Floor
New York, NY 10022
Tel [redacted]
Fax
Cel

On Aug 30, 2017, at 7:16 AM, =ichard Kahn [redacted] <mailto[redacted]>=wrote:

I would add that you are selling an offshore vehicle formed =nder an agreement that puzzles me. The whole co =s not for sale and if so we might argue along some similar but less =xagerrated 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 =r reject.

Richard Kahn
HBRK Associates Inc.
575 Lexington Avenue, 4th Floor
New York, NY 10022
Phone [redacted]
Fax [redacted]
Cel

On Aug 30, 2017, at 6:25 AM, =ichard Kahn [redacted] <mailto[redacted]>=wrote:

i already pointed out currency exchange, board fees etc. as a =ad number in your calculations. sorry....the other =ransactions that we know very well are far from relevant. . if =aith and joel walk there is NO business which is hardly the same idea =s 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 =hoes for only 6 million or roughly the same as the current offer. =nbsp; taking out cash 14 of the 15 mil which has not come =ut. and even on your calculation of 8 cash would mean 3.2 to you =ack then... and then leveraging the biz. / the liability to =he buyer was no where near that to golden gate. sorry. . = We can go back and forth on comps and can show mom and =op at 1 to 3 <x-apple-data-detectors://1> times ebitda. . so lets =ry to short circuit a tiresome uncessary excercise, as i =ee it the current bid offer is 5 bid and approx 9 .2 =ffer. open gates 6 + 3.2 from 2 years ago with =ore growth potential and lower cash out. multiples from before =igital photos and amazon. sorry.....I am suprised that you would =nflate current Ebitda, pull multiples from many years ago to biz =hat are tangential. leave out liabilites even of lawsuits that =ou know about, and then pick a cash number to subtract for =nterprise value. If I have misunderstood and you are not really sellers =hen I will not be insulted if you decide to cancel our call.

Richard Kahn
HBRK Associates Inc.
575 Lexington Avenue, 4th Floor
New York, NY 10022
Tel [redacted]
Fax
Cel

On Aug 29, 2017, at 10:40 PM, =eale Attenborough [redacted] <mailt[redacted]>=wrote:

Richard,

Not funny at all, just =actual.

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

1. TTM EBITDA is $6.7Million. If you =isagree, please let us know precisely what items you disagree with in =he number and we can discuss.
2. The current cash balance for the company =s $13.1 Million.
3. The past three comparable transactions for =ompanies in this market average an enterprise value at ~10x multiple of =BITDA
   a. Wilhelmina: 7x (average meaningful trading =ultiple since 2010)
   b. Creative Artists Agency: 10x (TPG =cquisition, 2014)
   c. IMG: 13x (WME acquisition, =013)
4. We invested $18 million for a 42% stake in =he business, implying an enterprise value of $42.9 million.
5. We received a bona fide offer from =penGate Capital which would have resulted in $18 million in proceeds =or us (and in fact a $17 million distribution to Faith and Joel), and =hile they were, as you point out, contemplating leverage in the =lt;3x EBITDA range, it is in fact a relevant data point and an =ndependent look at value.
6. One other note that is relevant to us, is =hat when Elite Models in Europe contacted us with an interest in buying =he company, Faith told me to relay to them that they would not =ontemplate selling to Elite for less than $100 million (which at the =ime was a +10x synergy-adjusted EBITDA value). Ultimately they =alked based on that value requirement.

I would hope you agree =hat the following is a commonly agreed upon formula for =alue:

a. Enterprise value = EBITDA x Market =ultiple
b. Equity Value = Enterprise Value + net =ash (or – net debt).

One matter of judgment =s what of the cash balance is “excess cash”. Joel =as said he believes all the cash is due to the models. The facts =how that in the ordinary course of business the collection of =eceivables offsets the payables and in the past three years, the cash =alance has only fluctuated at most by $3 million, meaning anywhere from =8-10 million on the balance sheet should be considered to be “exc=ss 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 =odest calculation of value would be $6.7 million of EBITDA x 5 multiple =a 50% discount to the market) or an enterprise value of $33.5 million =nd if we took a conservative view of what excess cash is at the moment =f $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 =arket 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 =efore. However, your proposal of $5 million of proceeds to us =epresents an equity value of $11.9 million ($5/.42), an enterprise =alue of $3.9 million ($11.9 million - $8 million of excess cash) or an =BITDA multiple of 0.58x ($6.7 x 0.58 = $3.9 enterprise value), a =evel that is far too low for us to accept.

I look forward to our =iscussion tomorrow morning.

Neale

From: Richard Kahn [mailto[redacted]
<mailto[redacted]

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

Pretty funny =eale...

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

Then proposing to distribute =hat they estimated to be almost the full total (14 of the 15 million) =f cash on the balance sheet. Chris i must point out that is more =han it totals today. Then having Joel, Faith, etc leverage =hemselves up by borrowing at 7 percent against the entire co in =rder to make a further distribution of an additional 15 million which =nbsp;on paper creates a highly inflated enterprise value. He only =roposed 6 million cash infusion which is around the same amount that =ou are currently being offered. They valued faith and joels =ngoing equity (that they proposed they "keep in") silly, =t 8mm which is roughly the same as we suggested. Financial =ngineering done well is like lipstick.. however not done well is also =ike lipstick. :) This is a personal service =usiness, no more no less and suggesting that they leverage themselves =p so you that they can pay themselves a higher salary fails the HBS =irst year class that i am aware you have taken. Regarding =nbsp;the 18 million, we have distributions from Next directly to =he former shareholders of the claxon offshore entity of approx 3. =nbsp;Regarding the receivables you can ask millie... =orry

PS Faith =nd joel will have to borrow the money to buy you out at 5. . can be =one, but not so easy. they have never taken out real money =rom the company in any form: salary etc.... hence they have =ittle net worth and current lenders are not that comfortable with the =otential liabilities....

On Aug 24, 2017, at 4:50 PM, Neale Attenborough
[redacted] wrote:

I look forward to our =onversation.

For=the record, we did actually pay $18MM for 42% of this business in =008. At the time that represented an ~8x multiple of =BITDA. That is not a fictitious number. In addition we did =eceive a bid for about the same amount from Open Gate Capital, a =eputable private equity firm. I do not understand why you say =hat ii is "hardly legitimate". While I did say we =idn't expect to receive what we paid, I did not say it was =mmaterial.

I =on't follow most of what you say below and look forward to =earing your clarification. However, can you please clarify one =tatement specifically? What do you mean when you say the current =eceivables have not be reviewed in years?

Thanks,

Neale

From: Richard Kahn [mailto[redacted]
<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 =ith the K-1's and some financials. Frankly, some =f the numbers 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 =ike adding back foreign exchange costs? board fees etc. =nbsp;That is not the way we look at what is unfortunately for =ll merely a personal service business.

Faith and Joel make up the business, nothing =ore. We calculate the Ebidta, which we think is an odd way =f measuring value of a personal service biz with lots of competition =nd small growth opportuinties if any. Giving you the =enefit of the doubt, and ignoring how much you paid or if some of =hat money was repaid directly to the former owners of Claxon and not =ruly understanding what you described as a fixed tax payment per =uarter (ie based on what I think looking back over the past three =ears) ebitda looks like 4-5 million. We have bought many =mall biz and usually pay mom and pops for 1- 3 times ebita or more =sually 4 times net income. We are finding it =ifficult to get to more than a 15 million total value for Next (not =ncluding liabilities). The 18 million dollar bid that you mentioned =aith said was hardly legitimate. I think further review of the =ccounting tax etc. is probably a waste of all our time. As you =ightly said, what you initially paid is somewhat if not totatly =mmaterial to todays value. You have not factored in the =iabilities, both reputationally and fiscal yet. I think =he 5 million cash offer or 6m over time is fair. I look forward =o our conversation on tuesday. As another note, the current =eceivables have not been reviewed for years…

Rich

On Aug 24, 2017, at 3:28 PM, Neale =ttenborough [redacted]
<mailto[redacted]>=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 =s strictly prohibited. If you received this transmission in error, =lease notify the sender by reply e-mail and then destroy the message. =pinions, conclusions, and other information in this message that do not =elate to the official business of Golden Gate Capital shall be =nderstood to be neither given nor endorsed by the company. Where =pplicable, any information contained in this e-mail is subject to the =erms and conditions in the relevant governing agreement.

<Mail Attachment.ics>

</=lockquote>

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

<170816 Next - Min =ash =nalysis.pdf>

<=blockquote>

=/blockquote>

=