
From: jeffrey E. <jeevacation@gmail.com>
Sent: Wednesday, September 6, 2017 8:21 PM
To: Richard Kahn
Subject: Re: Next

may i please have the list of who is selling what ?=C2♦ if you subtracted value based on the contingencies then=you already have an idea. howver i will ask . if that mo=es this along

On Wed, Sep 6, 2017 at 10:17 PM, Richard Kahn <████████<mailto:████████>>>
wrote:

Richard Kahn
HBRK Associates Inc.
575 Lexington Avenue 4th =loor
New York, NY 10022
tel ██████████ <tel ██████████>
fax ██████████ <=a>
cell ██████████ <tel ██████████>

Begin forwarded message:

From: Neale Attenborough <neale@goldengatec=p.com>

Subj=ct: RE: Next

Date: September 6, 2017 at 4:16:=7 PM EDT

To: Richard Kahn <████████<mailto:████████>>

Cc: Chris Lawler ██████████, Tyler Shean <████████<mailto:tshean@goldengatecap.=om>>

<=pan style="font-size:11pt;font-family:Calibri,sans-serif;color:rgb(31,73=125)">I do not agree to your premise on the face of it because we are alre=dy starting at a substantially discounted valuation in light of these cont=ngent liabilities already. This is why I want them detailed precisel=.

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

From: Richard Kahn [mailto: [REDACTED] <mailto: [REDACTED]>]
Sent: Wednesday, September 06, 2017 4:2 PM
To: Neale Attenborough
Cc: Chris Lawler; Tyler Shean
Subject: Re: Next

neale,

<=div>

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

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you will certainly agree that if they pertain to the period of your ownership you will be responsible for your share=E2◆◆and actions relating to liabilities after closing is another story=C2◆
thank you

<=div>

Richard Kahn
HBRK Associates Inc. 575 Lexington Avenue 4th Floor
New York, NY 10022
tel [REDACTED]
fax [REDACTED] <mailto: [REDACTED]>

cell From: <tel:(917)%20414-7584= value=> Richard Kahn [mailto: [REDACTED]]

Sent: Wednesday, September 06, 2017 3:47 PM
To: Neale Attenborough
Cc: Chris Lawler; Tyler Shean
Subject: Re: Next

=u>

contingent liabilities are ours, milan, and the new york lawsuit that is looking to form a class...=u>
this is obviously separate and apart from all actions that might be brought that would be relevant to the time of your ownership.

◆=AO

Richard Kahn
HBRK Associates Inc.
575 Lexington Avenue 4th Floor
New York, NY 10022
tel [REDACTED] <mailto: [REDACTED]>
fax [REDACTED] <mailto: [REDACTED]> =br> cell [REDACTED] <tel: [REDACTED]>

On Sep 6, 2017, at 3:16 PM, Neale Attenborough <mailto:[REDACTED]> wrote:

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

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

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

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

Please advise

Thank you

Richard Kahn
HBRK Associates Inc.
55 Lexington Avenue 4th Floor
New York, NY 10022
tel: [REDACTED]
fax: [REDACTED] <tel: [REDACTED]>
cell: [REDACTED] <tel: [REDACTED]>

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

As we agreed yesterday:

<div style="margin:0in 0in 0.0001pt;font-size:12pt;font-family:'Times New Roman',serif">

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

◆=A0

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

<=>

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

>

Thanks.</=iv>

On Aug 31= 2017, at 5:55 AM, Richard Kahn <[\[REDACTED\]](mailto:[REDACTED])>
<mailto:[REDACTED]> > wrote:

To move this along I would suggest the following: a rough detailed draft of a term sheet with seller companies detailed. how many entities? an amount of cash left back and an amount of dollars also spread over a number of years. default suggestions and =C2♦ your ideas on how to deal with liability. ♦=A0 ie ny class action waiting to be certified. . =C2♦ others like paris etc. thank you.

Richard Kahn </=pan>
HBRK Associates Inc.
575 Lexington Avenue, 4th Floor=span>
New York, NY 10022=u>
Tel [REDACTED] <[REDACTED]>
Fax [REDACTED] <[REDACTED]>
Cell [REDACTED] <[REDACTED]>

On Aug 30, 2017, at 7:16 AM, Richard Kahn <[\[REDACTED\]](mailto:[REDACTED])>
<mailto:[REDACTED]> > wrote:

I would add that you are selling an offshore vehicle formed under an agreement that puzzles me. The whole co is not for sale and if so we might argue along some similar but less exaggerated lines♦=A0 multiples of large biz from years ago. =C2♦ I guess if you find the dramatically too low, you might offer to buy=ouit Faith and Joel , using your formulas. with a premium=for control. Jeffrey is set to join the call and has authority= to make the decision to accept or reject. </=>

Richard Kahn
HBRK Associates Inc.
575 Lexington Avenue, 4th Floor
New York, NY 10022
Phone [REDACTED] <[REDACTED]>
Fax [REDACTED] <[REDACTED]>
Cell [REDACTED] <[REDACTED]>

On Aug 30, 2017, at 6:25 AM, Richard Kahn <[\[REDACTED\]](mailto:[REDACTED])> wrote:

i already pointed out =urrency exchange, board fees etc. as a bad number in your calculations.♦=A0 sorry....the other transactions that we know very well are far from relevant. . if faith and joel walk there is NO business which is hardly the same idea as IMG where multi divisions exist and succession is planned. I do not know what cash was on the balance sheet when you bought it. The open gate transaction =o summarize was a stepping into your shoes for only 6 million =r roughly the same as the current offer. taking out cash 14 o= the 15 mil which has not come out. and even on your calculation of = cash would 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.=C2♦ sorry. . . We can go back and forth on comps and can show mom and pop at 1 to 3 times ebitda. . ♦=A0 so lets try to short circuit a tiresome unnecessary excercise, ♦=A0 as i see it the current bid offer is 5 bid and approx 9 .2 offer. =C2♦ open gates 6 + 3.2 from 2 years ago with more growth potential and lower cash out. multiples from before digital photos and a=azon. sorry.....I am surprised that you would inflate current Ebitda,=C2♦ pull multiples from many years ago to biz that are tangential. =leave out liabilities even of lawsuits that you know about, and then stick a cash number to subtract for enterprise value. If I have misunderstood= and you are not really sellers then I will not be insulted if you decide =o cancel our call.

Richard Kahn
HBRK Associates Inc.
Tel [REDACTED] <[REDACTED]>
Fax [REDACTED] <[REDACTED]>
Cel= <t[REDACTED]

=n Aug 29, 2017, at 10:40 PM, Neale Attenborough <[REDACTED]>
<mailto:[REDACTED]>

Richard,<=span>
<=span>
Not fun=y 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. =C2◆ TTM EBITDA is \$6.7Million. If you disagree, please=let us know precisely what items you disagree with in the number and we ca= discuss.
2. The curre=t cash balance for the company is \$13.1 Million.
3. =C2◆ The past three comparable transactions for c=panies in this market average an enterprise value at ~10x multiple of EBI=DA
a. Wilhelmina: 7x (av=rage meaningful trading multiple since 2010)
b. =C2◆ Creative Artists
c. IMG: 13x (WME acquisition= 2013)
4. We invested =18 million for a 42% stake in the business, implying an enterprise value o= \$42.9 million.
5. We =eceived a bona fide offer from OpenGate Capital which would have resulted =n \$18 million in proceeds for us (and in fact a \$17 million distribution t= Faith and Joel), and while they were, as you point out, contemplati=g leverage in the <3x EBITDA range, it is in fact a relevant data point=and an independent look at value.

6. ♦=A0 One other note that is relevant to us, is that when Elite M=odels in Europe contacted us with an interest in buying the company, Faith =old me to relay to them that they would not contemplate selling to Elite f=or less than \$100 million (which at the time was a +10x synergy-adjusted EB=TDA value). Ultimately they walked based on that value requirement.

I would=hope you agree that the following is a commonly agreed upon formula for va=ue:

- a. Enterprise value =3D EBITDA x Market Multiple
- b. Equity Value = Enterprise Value + net cash (or – net debt).

One matter=of judgment is what of the cash balance is "excess cash".=C2◆ Joel has said he believes all the cash is due to the models. T=e facts show that in the ordinary course of business the collection of rec=ivables offsets the payables and in the past three years, the cash balance=has only fluctuated at most by \$3 million, meaning anywhere from \$8-10 mil=ion on the balance sheet should be considered to be "excess cash=E2◆, not needed for day-to-day operations. I have attached both=a three year cash balance tracker and a current balance sheet for your rev=ew.

=C2◆
=sing the above, a very modest calculation of value would be \$6.7 million o= EBITDA x 5 multiple (a 50% discount to the market) or an enterprise value=of \$33.5 million and if we took a conservative view of what excess cash is=at the moment of \$8 million, would result in a total equity value of \$41.5=million. Our 42%

would equate to \$17.4 million of proceeds to us.♦=A0 That is at a multiple that has been deeply discounted to the market com=s that were actually paid for companies in the same business.

We are, however, wi=ling to take much less than this very discounted value calculation, as I h=ve mentioned to you before. However, your proposal of \$5 million of =roceeds to us represents an equity value of \$11.9 million (\$5/.42), an ent=rprise value of \$3.9 million (\$11.9 million - \$8 million of excess cash) o= an EBITDA multiple of 0.58x (\$6.7 x 0.58 = \$3.9 enterprise value), a le=el that is far too low for us to accept.

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I look forward to our discussion tomorrow morning.

Neale

From: Richard Kahn [=span

style="color:purple">mailto: [REDACTED] <r [REDACTED]> = <=r>Sent:=C2♦ Friday, August 25, 2017 11:51 AM

To: Neale Attenborough=br>Cc:=C2♦Chris Lawler
Subject: Re: Next

<=div>

Pretty funny Neale...</=r>

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

Then proposing to distribute what they estimated to be almo=t the full total (14 of the 15 million) of cash on the balance sheet.♦=A0 Chris i must point out that is more than it totals today. Then ha=ing Joel, Faith, etc leverage themselves up by borrowing at 7 percen= against the entire co in order to make a further distribution of an addit=onal 15 million which on paper creates a highly inflated enterprise =value. He only proposed 6 million cash infusion which is around the s=me amount that you are currently being offered. They valued faith a=d joels ongoing equity (that they proposed they "keep in") =C2♦silly, at 8mm which is roughly the same as we suggested. =inancial engineering done well is like lipstick.. however not done well is=also like lipstick. :) This is a personal service =business, no more no less and suggesting that they leverage themselves up s= you that they can pay themselves a higher salary fails the HBS first year=class that i am aware you have taken. Regarding the 18 million= we have distributions from Next directly to the former shareholders=of the claxon offshore entity of approx 3. Regarding the receivables=you can ask millie... sorry

PS Faith and joel will have=to borrow the money to buy you out at 5.. can be done, but not so easy.=C2♦ they have never taken out real money from the company in any f=rm: salary etc.... hence they have little net worth and curren= lenders are not that comfortable with the potential liabilities.... =C2♦

♦=A0

♦=A0

On Aug 24, 2017, at 4:50 PM,=Neale Attenborough <mailto: [REDACTED]> > wrote:

=div>

I look forward to our convers=tion.

For the record, we did actually pay \$18MM for 42% of =his business in 2008. At the time that represented an ~8x multiple o= EBITDA. That is not a fictitious number. In addition we did r=ceive a bid for about the same amount from Open Gate Capital, a reputable =private equity firm. I do not understand why you say that ii is ♦=80♦hardly legitimate". While I did say we didn't e=pect to receive what we paid, I did not say it was immaterial.</=>

<=span>

I don't follow most of what you say below and look forward to h=aring your clarification. However, can you please clarify one statem=nt specifically? What do you mean when you say the current receivable= have not be reviewed in years?

Thanks,</=>

<=>

Nea=e

<=pan style="font-size:11pt;font-family:Calibri,sans-serif;color:rgb(31,73=125)">

<=iv>

From:=/span> Richard Kahn=[mailto:[REDACTED]]

<mailto:[REDACTED]>]

Sent: Thursday, August 24, 2017=3:45 PM

To: Neale Attenborough

Cc: Chris Lawler

Subjec=: Next

confirmed thank you

<=iv>

We have reviewed your statements tha= you sent to us along with the K-1's and some financials. =C2♦Frankly, some of the numbers are inaccurate as a result of millie.♦=A0 Your annual financial statements were reviewed but not audited - shame =n all of you... Your calculation of Ebitda includes thi=gs like adding back foreign exchange costs? board fees etc. Th=t is not the way we look at what is unfortunately for all merely a =personal service business.

<=iv>

Faith and Joel make up the business, noth=ng more. We calculate the Ebidta, which we think is an odd way=of measuring value of a personal service biz with lots of competition and =mall growth opportunitiess if any. Giving you the benefit=of the doubt, and ignoring how much you paid or if some of that mone= was repaid directly to the former owners of Claxon and not truly understand=ing what you described as a fixed tax payment per quarter (ie based on wh= I think looking back over the past three years) ebitda looks like =-5 million. We have bought many small biz and usually pay mom and p=ps for 1- 3 times ebita or more usually 4 times net income.

♦=A0 We are finding it difficult to get to more than a 15 million total valu= for Next (not including liabilities). The 18 million dollar bid that you=mentioned Faith said was hardly legitimate. I think further review =f the accounting tax etc. is probably a waste of all our time. As yo= rightly said, what you initially paid is somewhat if not totally immateri=l to todays value. You have not factored in the liabilities,=C2♦ both reputationally and fiscal yet. I think the 5 million cas= offer or 6m over time is fair. I look forward to our conversation =n tuesday. As another note, the current receivables have not b=en reviewed for years...

=div>

Rich

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On Aug 24, 2017, at 3:28 =M, Neale Attenborough <[REDACTED]>
<mailto:[REDACTED]> > wrote:</>
=u>
=u>

=br>

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◆=A0

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