
From: jeffrey E. <jeevacation@gmail.com>
Sent: Wednesday, August 30, 2017 10:45 AM
To: Richard Kahn
Subject: Re: Next

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

=div class="gmail_extra">

On Wed, Aug 30, 2=17 at 6:25 AM, Richard Kahn <[REDACTED]> >wrote:

i already pointed out currency e=change, board fees etc. as a bad number in your calculations. =orry....the other transactions that we know very well are far from relevan=. if faith and joel walk there is NO business which is hardly the =ame idea as IMG where multi divisions exist and succession is planned.♦=AO I do not know what cash was on the balance sheet when you b=ught it. The open gate transaction to summar=ze was a stepping into your shoes for only 6 million or roughl= the same as the current offer. taking out cash 14 of the 15 =il which has not come out. and even on your calculation of 8 cash wo=ld 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. so=ry. . . We can go back and forth on comps and can show mom and=pop at 1 to 3 times ebitda.. so =ets try to short circuit a tiresome uncessary excercise, as i =ee it the current bid offer is 5 bid and approx 9 .2 offer. ♦=AO open gates 6 + 3.2 from 2 years ago with more growth potential an= lower cash out. multiples from before digital photos and amazon.♦=AO sorry.....I am suprised that you would inflate current Ebitda, pu=l multiples from many years ago to biz that are tangential. leave ou= liabilites even of lawsuits that you know about, and then pick a ca=h 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 to cancel=our call.

Richard Kahn
HBRK Associates Inc.
57= Lexington Avenue, 4th Floor
New York, NY 10022
[REDACTED]

On Aug 29, 2017, at 10:40 PM, Neale Attenborou= <[REDACTED]> <mailto:[REDACTED]> >wrote:

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:</=>

2. ♦=A0 The current cash balance for the company is \$13.1 Million.

4. ♦=A0 We invested \$18 million for a 42% stake in the business, implying an enterprise value of \$42.9 million=

6. ♦=A0 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 relay to them that they would not contemplate selling to Elite for less than \$10= million (which at the time was a +10x synergy-adjusted EBITDA value).♦=A0 Ultimately they walked based on that value requirement.</=pan>

I would hope you agree that the following is a commonly agreed upon formula for value:=/span>

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 balance is “excess cash”. Joel has said he believes all the cash is due to the models. The facts show that in the ordinary course of business the collection of receivables 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 million on the balance sheet=should be considered to be “excess cash”, not needed for day-to-day operations. I have attached=both a three year cash balance tracker and a current balance sheet for you= review.

Using the above, a very modest calculation of value would be \$6.7 million of EBITDA x 5 multiple (a 0% 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.=C2♦ Our 42% would equate to \$17.4 million of proceeds to us. That is at a multiple that has been deeply discounted to the market comps that were actually paid for companies in the same business.

We are, however, willing to take much less than 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), an enterprise value of \$3.9 million (\$11.9 million - \$8 million of excess 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 morning.

Neale

From: Richard =ahn [mailto: [REDACTED]
Sent: Friday, August 25, 2017 11:51 AM
To: Neale Attenborough
Cc: Chris Lawler
Subject: Re: Next

Pretty funny Neale...

Even the silly open gate proposal was in essence ste=ping into your shoes for only 6 million cash. BACK
THEN !!</>

Then proposing to dis=ribute what they estimated to be almost the full total (14 of the 15 milli=n) of cash on the balance sheet. Chris i must point out that is more=than it totals today. Then having Joel, Faith, etc leverage themselves up by borrowing at 7 percent against =he entire co in order to make a further distribution of an additional 15 m=llion which on paper creates a highly inflated enterprise value.◆=A0 He only proposed 6 million cash infusion which is around the same amount that you are currently being offered. The= valued faith and joels ongoing equity (that they proposed they "keep=in") silly, at 8mm which is roughly the same as we suggested= Financial engineering done well is like lipstick.. however not done well is also like lipstick. :) Th=s is a personal service business, no more no less and suggesting that they=leverage themselves up so 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 distributi=ns from Next directly to the former shareholders of the claxon offshore en=ity of approx 3. Regarding the receivables you can ask millie...◆=A0 sorry

PS Faith and joel wil= have to borrow the money to buy you out at 5. . can be done, but not so e=sy. they have never taken out real money from the company in a=y form: salary etc.... hence they have little net worth and cu=rent lenders are not that comfortable with the potential liabilities.... =C2◆

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

I look forward to our con=ersation.

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For the record, we did actually pay \$18MM for 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 amount from Open Gate Capital, a reputable private equity firm. I do not understand why you say that it is "hardly legitimate". While I did say we didn't expect to receive what we paid, I did not say it was immaterial.

</=>

I don't follow most of what you say below and look forward to hearing your clarification.♦=A0 However, can you please clarify one statement specifically? What do you mean when you say the current receivables have not been reviewed in years?

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Thanks,<=u>

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Neale

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From: Richard Kahn [mailto:██] Sent:♦=A0 Thursday, August 24, 2017 3:45 PM To: Neale Attenborough Cc: Chris Lawler Subject:=C2♦Next

confirmed thank you

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

Faith and Joel make up the business, nothing more.=C2♦ We calculate the Ebidta, which we think is an odd way of measuring value of a personal service biz with lots of competition and small growth opportunities if any. Giving you the benefit of the doubt, and ignoring how much you paid or if some of that money was repaid directly to the former owners of Claxon and not truly understanding what you described as a fixed tax payment per

quarter (ie based on wh=t I think looking back over the past three years) ebitda looks like 4-5 million. We have bought ma=y small biz and usually pay mom and pops for 1- 3 times ebita or more usua=ly 4 times net income. We are finding it difficult to ge= to more than a 15 million total value for Next (not including liabilities). The 18 million dollar bid that you mentioned Faith said was =ardly legitimate. I think further review of the accounting tax etc.=is probably a waste of all our time. As you rightly said, what you i=itially paid is somewhat if not totatly immaterial to todays value. You have not factored in the liabilities,♦=A0 both reputationally and fiscal yet. I think the 5 million cash o=fer or 6m over time is fair. I look forward to our conversation on =uesday. As another note, the current receivables have not been reviewed for years...

Rich

On Aug 24, 2017, at 3:28 PM, Neale Attenborough <=a href="mailto:[REDACTED]">=p>

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<Mail Attachment.ics>

<170829 - Next - Jun&#=9;17 Balance Sheets.pdf>

<170816 Next - Min Cash Analysis.pdf>

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=C2◆ please note

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