



Capstone Partners

JUVENILE PRODUCTS

Q1 2017

CONTACT

Sophea Chau

Director

(617) 619-3307

schau@capstonellc.com

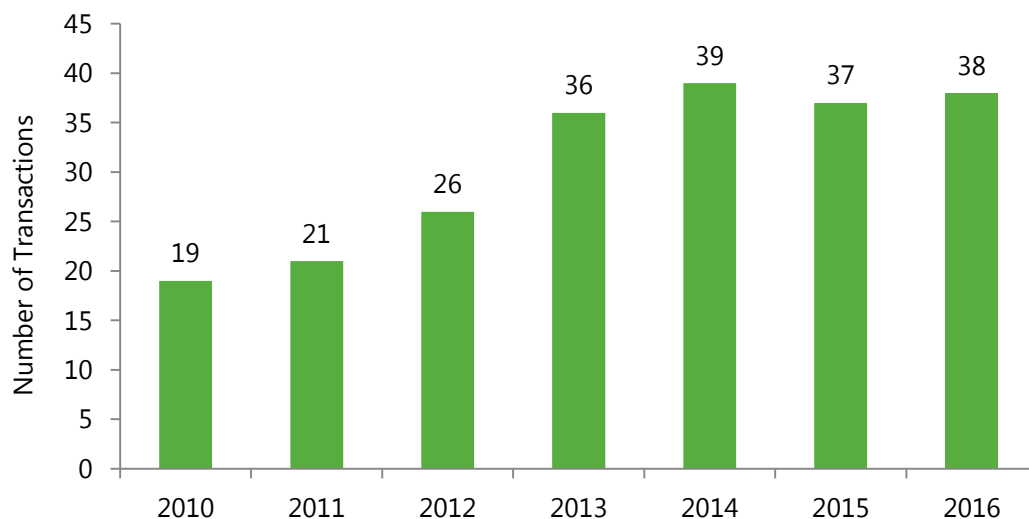
M&A OVERVIEW

Increased levels of disposable income and strong demand for premium products have driven M&A activity in Juvenile Products through the end of 2016.

US employment, a good economic barometer, has reached a record 73 months of straight growth dating back to October 2010, according to the Bureau of Labor Statistics. This growth has also translated into increased disposable income with levels reaching about \$12.8 trillion in November, the second highest amount on record. As Americans continue to hold steady jobs and have rising levels of disposable income, spending on both discretionary and non-discretionary items, such as juvenile products, increases. The number of working women has also increased in recent years, with many opting to delay motherhood until later in life. As a result, household spending power at the time of childbirth has grown, driving demand for premium products.

These factors have contributed to robust M&A activity in the Juvenile Products industry in 2016. With 38 transactions being either completed or announced in 2016, M&A transaction volume remained consistent with the heightened volume of previous years. In addition, average disclosed deal value increased in 2016, reaching \$84.4 million as compared to \$76.6 million in 2015. There was an uptick in acquisitions by strategic buyers, who accounted for 60.5% of acquisition volume in 2016, compared to 55.3% in 2015. Financial buyers remained active in the industry, especially in add-on acquisitions through portfolio companies.

M&A Activity: Juvenile Products



Sources: Capital IQ; Capstone Partners LLC Research

BOSTON

CHICAGO

LONDON

LOS ANGELES

NEW YORK

ORANGE COUNTY

PHILADELPHIA

SAN DIEGO

SILICON VALLEY

TAMPA

KEY TRENDS AND DRIVERS

There are a number of drivers and trends that have had a significant impact on industry growth as well as M&A activity within the Juvenile Products industry. Below are a few of these factors:

- ▶ **Safety** – Safety has become a leading driver of demand and acquisition volume in this industry, especially in the baby products segment. Parents are almost always willing to pay a premium for products that ensure the safety of their child, thus driving consistent demand.
- ▶ **Brand Strength** – With new products continually coming to market, companies differentiate themselves by their brands. Brands that are memorable, easily recognizable, and are associated with reliable and high quality products will drive customer loyalty and thus demand in 2017. Buyers are willing to pay premiums for strong brands in this industry.
- ▶ **Technology Enablement** – Drones, robots, smartphone connected toys and wearable technology are a few examples of popular toys in 2016. The ability to combine affordable technology with existing and new types of toys is driving growth in the industry and providing a whole new dimension of experiences for children.
- ▶ **STEM Learning** – Toys and games that target STEM learning continue to be a growing sector of the Juvenile Products industry. Parents hope that through engagement with STEM toys, children will improve spatial, reasoning, critical thinking and problem-solving skills. The popularity of such toys can be seen in the Parents' Choice Awards 2016 gold medal winners which included toys such as Code Gamer, Kids First: Robot Engineer and Kids First Science Laboratory.

ACTIVE BUYER PROFILE: SPIN MASTER

Headquartered in Toronto, Spin Master has been producing popular toys for children since its founding in 1994. This past year was no exception, as the company developed one of the hottest toys of the holiday season, Hatchimals. Even at a sticker price of \$60, some parents trying to buy the toy were paying anywhere between \$200 to \$500 on sites such as Amazon and eBay. The ability to develop innovative new toys is one reason that Spin Master has been able to consistently drive growth, represented in the 64.6% increase in share price over the last twelve months and a 22.8% increase in revenue for Q3 2016, compared to that as of Q3 2015.

Another reason for Spin Master's growth is its appetite for acquisitions. Since Q4 2015, the Company has made five acquisitions totaling over \$250 million in disclosed value. While most acquisitions have been focused on adding new brands to their portfolio (e.g., Etch A Sketch, Uno Card games, etc.), the most recent acquisition of Swimways in August will help expand Spin Master into new segments. Anton Rabie, Chairman and Co-CEO of Spin Master, commented, "In addition to our solid financial performance, the quarter was highlighted by the continued successful execution of our growth strategy. This was evidenced by our entry into the growing Outdoor and Sports Toys category through the acquisition of Swimways Corporation, and our ability to innovate as demonstrated by the introduction of Hatchimals."

JUVENILE PRODUCTS: SELECT M&A TRANSACTIONS

Ann. Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	LTM EBITDA
11/30/16	Halo Innovations	aden + anais	Develops safe sleeping products for children such as swaddles, wearable blankets and bassinets.	CF	CF	CF
11/09/16	FILIP Technologies	Smartcom Mobility Solutions	Develops a wearable smart locator and voice watch that enables children to easily reach their parents.	-	-	-
10/19/16	The Step2	Backyard Discovery	Manufactures and sells preschool and toddler toys.	-	-	-
10/18/16	Studio Fun	ReaderLink Distribution	Publishes and markets fun and educational hands-on books for children ages 2 to 12.	-	-	-
10/05/16	Dream Big Toy	1067 Studios	Produces dolls and books for girls.	-	-	-
10/04/16	FAO Schwarz	ThreeSixty Group	Engages in toys retailing.	-	-	-
09/28/16	Lafayette Puzzle	Cra-z-Art	Manufactures and sells toy puzzles online.	-	-	-
09/21/16	InSensi	Nucleus	Develops a device which enables children to stay in touch with their parents.	-	-	-
09/13/16	Berkshire Blanket	SUMEC Textile	Manufactures blankets, apparel and accessories for children and adults.	-	-	-
08/02/16	Swimways	Spin Master	Manufactures leisure and recreational water products.	\$93.5	1.0x	-
07/27/16	Peds	Gildan Activewear	Manufactures foot apparel and legwear for babies, children, women and men.	\$55.0	0.7x	-
07/06/16	First Act	Jazwares	Produces learning tools and music-related toys for babies and preschoolers.	-	-	-
07/01/16	KAS Direct	S. C. Johnson & Son	Develops baby products for bathing, diapering, hand hygiene, home, laundry, outdoors and skincare.	-	-	-
05/26/16	Best Made Toys	SJ Partners	Manufactures and sells toys.	-	-	-
05/25/16	K'NEX Brands	Cathay Capital	Offers engineering toys, educational toys, building sets, cars, rods, connectors and blocks.	-	-	-
05/09/16	Baby Tula	ERGO Baby Carrier	Manufactures baby carriers, ring slings, woven wraps, blankets and infant accessories.	\$82.0	3.3x	6.3x
05/03/16	Children's Wear Digest	18F Virginia	Offers children apparel through catalogs and online.	-	-	-
04/27/16	Baby Trend	Alpha	Offers car seats, strollers, joggers, travel systems, high chairs, walkers, bouncers and various collections.	\$94.0	-	-
02/11/16	Ohio Art Company	Spin Master	Offers lithography services and manufactures Etch a Sketch and Doodle Sketch.	-	-	-
02/11/16	Sprig Toys	BeginAgain	Develops kid-powered toys such as play sets, vehicles, outdoor tools and story building products.	-	-	-
02/05/16	LeapFrog	Vtech	Creates technology-based learning products and related proprietary content.	\$93.3	0.2x	NM
02/02/16	Lamrite West	Michaels	Manufactures arts and crafts supplies.	\$150.0	-	-
01/27/16	Editrice Giochi	Spin Master	Manufactures board games.	\$93.5	1.0x	-
01/06/16	Maykah	Patch Products	Develops toys that encourage girls to take an interest in science, technology, engineering and math.	\$17.0	-	-

Note: Transactions highlighted in blue have been completed by Capstone Partners
Source: Capital IQ, company press releases and public filings; LTM = last twelve months; EV = Enterprise Value

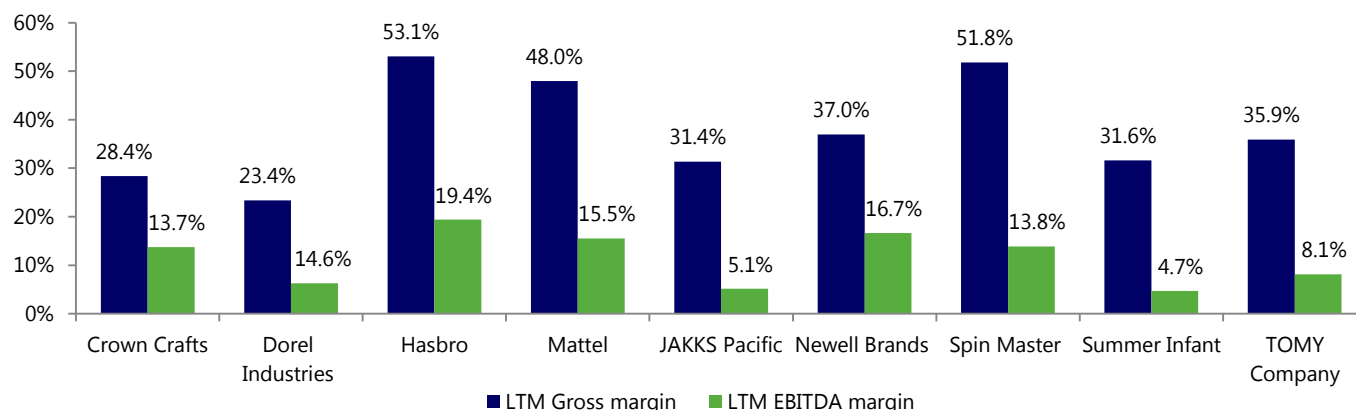
PUBLIC COMPANY TRADING & OPERATING DATA

Company	Price 01/19/17	% 52 Wk High	Market Enterprise		LTM			3-Yr An. Rev Growth	EV / LTM	
			Cap	Value	Revenue	EBITDA	Margin		Revenue	EBITDA
Crown Crafts, Inc.	\$7.65	74.7%	\$76.7	\$66.5	\$77.2	\$10.6	13.7%	(1.3)%	0.9x	6.3x
Dorel Industries Inc.	\$27.05	87.0%	\$879.7	\$1,357.2	\$2,623.4	\$164.7	6.3%	2.7%	0.5x	8.2x
Hasbro Inc.	\$84.55	95.5%	\$10,550.8	\$11,458.5	\$4,855.2	\$940.6	19.4%	5.9%	2.4x	12.2x
Mattel, Inc.	\$30.47	87.7%	\$10,422.1	\$12,558.5	\$5,622.0	\$872.8	15.5%	(5.3)%	2.2x	14.4x
JAKKS Pacific, Inc.	\$5.55	56.9%	\$88.7	\$251.7	\$703.0	\$36.2	5.1%	3.8%	0.4x	7.0x
Newell Brands Inc.	\$47.55	85.8%	\$22,938.1	\$35,083.0	\$10,688.9	\$1,780.5	16.7%	24.1%	3.3x	19.7x
Spin Master Corp.	\$24.73	84.5%	\$2,514.1	\$2,626.4	\$1,074.5	\$148.7	13.8%	0.0%	2.4x	17.7x
Summer Infant, Inc.	\$1.89	77.5%	\$35.0	\$82.4	\$199.6	\$9.4	4.7%	(3.5)%	0.4x	8.8x
TOMY Company	\$10.44	91.7%	\$904.6	\$1,203.5	\$1,406.1	\$113.8	8.1%	(2.6)%	0.9x	10.6x

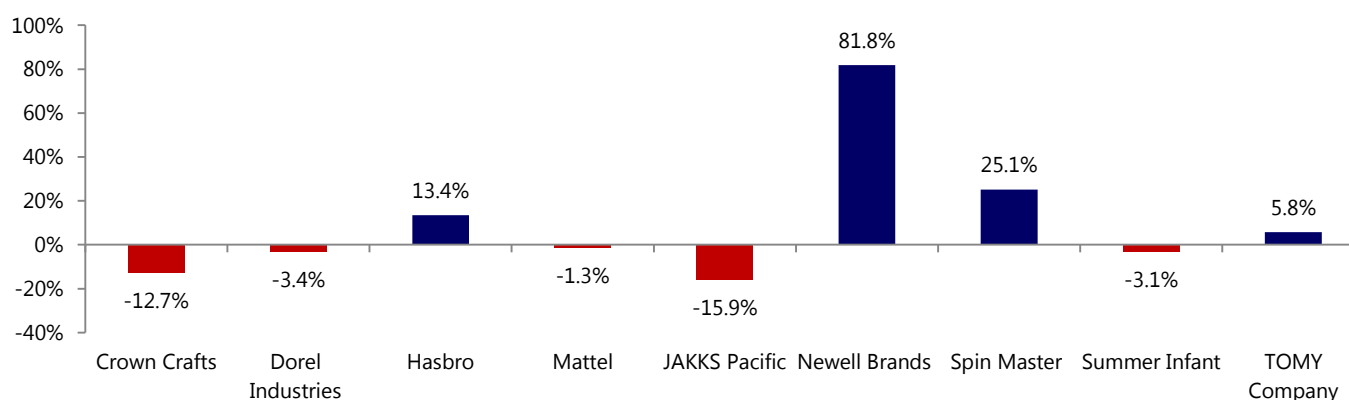
LTM = Last Twelve Months
EV = Enterprise Value
\$ in millions, except per share data

Mean	11.5%	2.6%	1.5x	11.6x
Median	13.7%	0.0%	0.9x	10.6x
Harmonic Mean	8.9%	NA	0.8x	10.0x

Last Twelve Month Margin Performance



Last Twelve Month Revenue Growth



Source: Capital IQ as of January 19, 2017

CAPSTONE PARTNERS: COMPLETED CONSUMER PRODUCTS & SERVICES TRANSACTIONS

Capstone Partners has completed several transactions within the consumer products & services sector which span the manufacturing, retail, wholesale and services sectors including a variety of companies offering diverse products such as those related to juvenile, food, pet, drug and nutraceutical, and recreation products and services. Capstone's experience in the sector provides us with insight into the valuable attributes and likely valuation of a target company, the active buyers in the industry and the nuances of transactions in this space.



has been acquired by



In December, Capstone Partners announced that it successfully advised Halo Innovations, Inc. (HALO) on its acquisition by aden + anais, a portfolio company of private equity firm Swander Pace Capital. Halo is a mission-driven, award-winning leader in the design, manufacturing and marketing of infant health and safety products in both the retail and hospital space. As the category creator for wearable blankets and swaddle products under its HALO® SleepSack® line, the Company has grown to be a world-class brand, becoming the number one most trusted brand for new parents, hospitals and childbirth educators. Based in Brooklyn, NY, aden + anais provides a variety of muslin fabric products including swaddles, sleeping bags, security blankets, and bib and burp cloths. Sophea Chau, Capstone's Director and Head of Juvenile Products, commented, "The juvenile products industry is highly active with deals trading at premium multiples. We could not ask for a better outcome and are excited for HALO's management, shareholders and employees."



has been acquired by





has been acquired by




has been acquired by




has been acquired by




has been acquired by




has been acquired by





strategic joint venture





has been acquired by




has been acquired by

has been acquired by



A Premier Provider of Early Education & Childcare Services

has been acquired by




has been acquired by



THE JUVENILE PRODUCTS TEAM



Sophea Chau, Director, Head of Juvenile Products
schau@capstonellc.com • (617) 619-3307

Sophea specializes in mergers & acquisitions, private placements and financial advisory services. Her responsibilities include providing financial and valuation analysis, performing due diligence, asset positioning and strategy articulation. Prior to joining Capstone, Sophea was an analyst at FTN Midwest Securities, a full-service investment banking firm based in Cleveland. While working in their New York office, she focused on M&A advisory for middle-market companies in a variety of industries, including healthcare, pharmaceutical services and marketing & advertising. Sophea is Vice President of the Columbia Alumni Association of Boston and holds a Bachelor of Arts in Economics from Columbia University.



Jacob Voorhees, Managing Director
jvoorhees@capstonellc.com • (617) 619-3323

Jacob is a founding member of Capstone Partners. He focuses on asset positioning, strategy articulation, due diligence and negotiations coordination. Formerly, Jacob was with Andersen Corporate Finance LLC, where he focused his efforts on the software and direct marketing industries. He started his career in New York City with Rabobank International, a multi-national Dutch investment bank headquartered in Utrecht, the Netherlands. While at Rabobank International, Jacob worked in the mergers and acquisitions group focusing on cross-border transactions in the consumer products, food and beverage industries.



CAPSTONE'S OFFICE LOCATIONS

BOSTON

176 Federal Street
3rd Floor
Boston, MA 02110
(617) 619-3300

CHICAGO

200 South Wacker Drive
Suite 3100
Chicago, IL 60606
(312) 674-4531

LONDON

42 Brook Street
London W1K 5DB
United Kingdom
+44 (0) 203 427 5068

LOS ANGELES

401 Wilshire
Suite 1200
Santa Monica, CA 90401
(858) 926-5950

NEW YORK

340 Madison Avenue
10th Floor
New York, NY 10173
(212) 634-0855

ORANGE COUNTY

23046 Avenida de la Carlota
Suite 600
Laguna Hills, CA 92653
(949) 460-6431

PHILADELPHIA

1515 Market Street
12th Floor
Philadelphia, PA 19102
(215) 854-4063

SAN DIEGO

12707 High Bluff Drive
Suite 200
San Diego, CA 92130
(858) 926-5950

SILICON VALLEY

228 Hamilton Avenue
3rd Floor
Palo Alto, CA 94301
(650) 319-7370

TAMPA

1550 W Cleveland Street
Suite 10
Tampa, FL 33679
(813) 251-7285

ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is an award-winning investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. Over the past 15 years, Capstone has earned a reputation as one of the most innovative firms in the industry, offering corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. The firm maintains seven industry practices, including: Business Services, Consumer Products, Education & Training, Government Services, Health & Medical, Manufacturing & Industrial, and Technology & Telecom. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in 70 offices across 31 countries.

**For more information
about our expertise,
please visit
www.capstonellc.com**



Capstone Partners

World Class Wall Street Expertise. Built for the Middle Market