Lead Left Interview – Ian MacTaggart and Joan McCabe (Part 2)

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This week we continue our conversation with Ian MacTaggart, President & COO, and Joan McCabe, Managing Director, Brynwood Partners. Founded in 1984, Brynwood Partners is a controlled oriented, operationally-focused lower middle market private equity firm that is consumer sector focused and has established a strong niche in the corporate carve out sector. Brynwood is currently investing Brynwood VII, a $420 million fund that closed in September 2013.

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The Lead Left: *Do you look at overseas opportunities? What is your sourcing strategy?*

Ian MacTaggart: Brynwood is U.S. focused although we will also evaluate select investment opportunities in Canada. We look for consumer opportunities where we can leverage our relationships and have the ability to identify and drive cost savings. This expertise for our fund is resident here in the U.S., so naturally, this is where we focus our efforts. Recently, we have sourced most of our transactions through corporate development officers at the major consumer companies as we have remained disciplined in our investment approach and have avoided competitive auction processes.

TLL: *And I suspect that you don't waste much of your time at auctions.*

Joan McCabe: We really search for corporate orphans, where we feel we can drive value and have not sourced many of our investments through auctions recently. The acquisition of the iconic Juicy Juice brand is our most recent corporate brand acquisition.

It is a brand that under prior ownership did not get the focus that our dedicated management team will bring to it. We will rely on our management teams to run our portfolio company investments but we will provide them with as much support as they need so that we can achieve our desired result.

TLL: *Do you look at private label businesses?*

Joan: Yes, since we're at the value end of consumer spending, we understand private label. We owned a private label pizza business called Richelieu Foods, Inc. which was a very successful investment for us.

Ian: Where we own our assets, such as at DeMet's Candy Company, we will leverage the asset base to produce and sell both branded products and select private label products. DeMet's Candy Company owned a successful brand in the U.S. called Turtles. Additionally, the company manufactured a private label chocolate candy for a leading retailer here in the U.S. We recently sold DeMet's Candy Company to Ulker, the owners of the Godiva brand.

TLL: *How do you boost promotional dollars at your companies?*

Joan: One example is Zest. We looked at where our sales were weak regionally – in the Southeast – and teamed up with NASCAR to sponsor the #17 Zest-car driven by Roush Fenway Racing's Rickey Stenhouse, Jr. This partnership has given us great visibility with our consumers and lets our retail partners know that we are serious about growing and supporting the Zest franchise.

Ian: Many of our brands are value-oriented so we need to be innovative. For example, in our pizza business at Richelieu Foods, Inc., we spent millions of dollars on pizza manufacturing machinery and equipment enabling the company to provide retailers with products that they desired. As a result of our significant investment, we were able to emulate a lot of the offerings of quick service restaurants, but at a value price, and were able to deliver to retailers exactly what they needed.

TLL: *Does the internet help or hurt you?*

Ian: People will always shop in stores, especially for the types of products that we tend to invest in. Across our portfolio, we do keep a close eye on sales trends and where available, utilize the internet as an important distribution channel for our products. Additionally, many of our portfolio companies promote their brands utilizing social media, which we view as a valuable and economical way to reach our consumers.

TLL: *What's been the biggest surprise of your strategy?*

Ian: How successful our corporate carve-out strategy has been over the past 10 years. We have become very good and reliable partner to corporations in this niche. To date, we have acquired 41 brands from 15 different corporate sellers.

TLL: *Why don't big companies get it? Why can't they fix these orphan brands themselves?*

Ian: Big companies do get it, but they're doing it on a bigger scale, globally. It is very smart for them to constantly evaluate their portfolios and to divest smaller, non-core brands that are not getting the attention that they deserve. In doing so, these companies can maximize the values that they receive for their brands. We can be flexible in transaction structures and become a partner to corporate sellers. We recently entered into a unique joint venture agreement with Mondelez Global with our Back to Nature investment in Brynwood VI. Today, this investment owns the Back to Nature and SnackWell's brands. Mondelez Global remains as significant minority partner in this joint venture.

Joan: The recession was really a turning point for Brynwood. The value segment of consumer spending, including private label, grew as a result of the recession and that is where our efforts are focused.

Ian: Some of our smaller deals seem to have received outsized attention by the media. For example, Bit-O-Honey, which we purchased into our Pearson Candy Company platform in Brynwood VI, received national attention, owing to the strength of its brand equity. Bit-O-Honey is now thriving as part of our Pearson Candy Company investment.

TLL: *Speaking of recessions, when's the next one coming?*

Ian: The truthful answer is that we don't know. In our diligence, we look for investment opportunities where we can apply our investment skills with our operating knowledge. We like to identify underperforming brands that need focus, investment or improvement. We like to think that we can produce strong investment returns in almost any economic environment. Some of the firm's best investments were generated during the recent global economic recession.

TLL: *Not to have you getting a bunch of phone calls, but do you use bankers for your sell-side deals?*

Ian: Yes, most of the time, but not always.

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