

Serta Simmons Holdings Investment Summary

Transaction Summary

On October 1, 2012, Advent International (“Advent”) acquired Dawn Holdings, Inc., the parent company of Serta Simmons Holdings, LLC (“Serta Simmons” or the “Company”) from Ares Management (“Ares”) and Ontario Teachers’ Pension Plan (“OTPP”). As part of the transaction, Ares, OTPP and other existing shareholders rolled ~16% of their proceeds into new common equity. The total enterprise value of the Advent transaction was \$3.02 billion¹. Cohesive Capital Partners, L.P. (“Cohesive”) is acquiring \$12.6 million “Face Value”² of common equity (“the Investment”) of Serta Simmons from a rollover equity holder who wanted to monetize its remaining stake. Cohesive is purchasing the equity stake for a price of \$12.0 million, representing a 5% discount to Face Value. The implied enterprise value of Cohesive’s investment is \$2.96 billion¹, which represents 10.0x 2012E Pro Forma Adjusted EBITDA of \$296 million and 11.2x 2012E Pro Forma Adjusted EBITDA less Normalized Capex of \$265 million.

Company Description

Serta Simmons Holdings, LLC, the #1 bedding manufacturer in the U.S. with a 34% market share, was formed in 2010 when Serta International Holdco, LLC (“Serta”), which had been purchased by Ares and OTPP in 2005, purchased Simmons Holdco, LLC (“Simmons”) out of bankruptcy. Headquartered outside of Chicago, IL, Serta was founded in 1931 and manufactures its products in 20 facilities across the United States and Canada under the brand names of Serta Perfect Sleeper, SertaPedic, Perfect Day, iSeries, and iComfort. Serta’s products are sold through approximately 2,200 North American retailers representing over 12,800 retail doors. Simmons was founded in 1870 and is headquartered in Atlanta, GA. Simmons has 19 manufacturing facilities located throughout the U.S., Canada and Puerto Rico. Simmons’ mattresses are sold under the Beautyrest, ComforPedic and Natural Care brands and are sold through approximately 2,900 retailers, representing over 10,000 doors. Serta Simmons’ sales channels include furniture stores, specialty sleep shops, department stores, mass merchandisers, online retailers, and furniture rental stores.

Investment Highlights

- *Leading U.S. bedding market position:* The combined company is the #1 bedding manufacturer in the U.S. with a 34% market share. The #2 and #3 players, Sealy and Tempur-Pedic, hold 16% and 13% U.S. market shares, respectively (a combined 29% if the announced Tempur-Pedic/Sealy merger is consummated). The Company’s products span all mattress types (innerspring, memory foam, etc.) and price points in the market. The Company has also enjoyed rapid growth and market share gains in the fast-growing specialty bedding category which is expected to continue into the future.
- *Favorable market and industry characteristics:* The U.S. bedding industry has exhibited stable growth over the past 30+ years, driven by population growth, replacement cycles, pricing gains, and a shift in consumer preference towards premium mattresses. From 1980 through 2011, wholesale bedding sales increased at a 5.2% CAGR. In 2009 as a result of the severe housing depression, for the first time in industry history, both volumes and prices declined in the same year contributing to an overall market contraction of 9.5%. Delayed purchases from 2008-2009 created a significant amount of “pent-up-demand” that has driven growth in excess of historical levels in 2010 and 2011, a trend that is expected to continue in the near term.
- *Significant operational integration cost-saving opportunity:* Through June 30, 2012, management has realized \$45 million of cost savings from the integration of Serta and Simmons, with an additional \$7 million estimated to be achieved through the balance of 2012. There are an additional \$60-100+ million of opportunities that have been identified in areas including LEAN improvements, corporate functions, and consolidation of the manufacturing and distribution footprint.
- *Attractive financial characteristics:* The Company generates EBITDA margins in excess of 12% which should continue to improve from shifting mix to higher-profitability specialty bedding and the aforementioned cost savings opportunities. Additionally, modest capital expenditure requirements result in high free cash flow conversion³ (~85% – 95% throughout the investment period). Just-in-time manufacturing allows for minimal working capital requirements.
- *Diversified customer base:* No single retailer represents more than 6% of the Company’s revenue, and there is minimal overlap of major customers (only Macy’s, Sleepy’s, Sears, and The Brick are top-10 customers of both Serta and Simmons)
- *Experienced management team:* Advent and Management intend to keep Serta and Simmons as “separate” companies from a sales and marketing perspective, accordingly the Company benefits from having two CEOs with proven track-records who have served in both mattress manufacturing and retail sales capacities. Each CEO brings over 40 years of industry experience.
- *Strong “Jockey / Horse” match:* Advent has a long history investing successfully in the consumer and retail industries and has established itself as a top-performing private equity firm. Of the 41 funds in Citigroup Employee Fund of Funds I, LP (formerly managed by John Barber), Advent Global IV Fund is the best performer with an aggregate Multiple-of-Capital of 3.2x as of December 31, 2011. Ares and OTPP are also retaining significant equity stakes in the Company and have been investors in the mattress industry since 2005.

¹ Excluding transaction fees and expenses.

² “Face Value” is equal to the value per share paid by Advent.

³ Free cash flow conversion defined as Adjusted EBITDA less capex as a percentage of Adjusted EBITDA.