

Health Care Leads Sectors Attracting Capital

Health Care, Media, and Food Were Key Industries Gaining Investors in the 2007 U.S. Hispanic Market

// by SCOTT WILLIAMS

THE VERDICT IS NOW IN ON HOW HISPANIC-OWNED COMPANIES AND THOSE MARKETING TO HISPANIC CONSUMERS FARED IN 2007.

By most accounts, it was a robust year for many Hispanic markets. A number of successful mergers and acquisitions and increased private equity investments generated a healthy flow of capital, stimulating sectors such as health care, media, food, and technology.

Mergers and acquisitions, while not matching the deal-making exuberance of the 1980's and 90's, took place at a brisk pace throughout almost all

sectors, but the bigger moves were made by private equity firms. Unlike the 1980's, when fewer Hispanic investment companies and brokers took part in the capitalization efforts, many Hispanic-owned private equity firms were involved last year. Four of the larger private equity players were: Hispania Capital Partners, MBF Healthcare Partners LP, Hercules Technology Capital Growth Inc., and Palladium Equity Partners LLC.

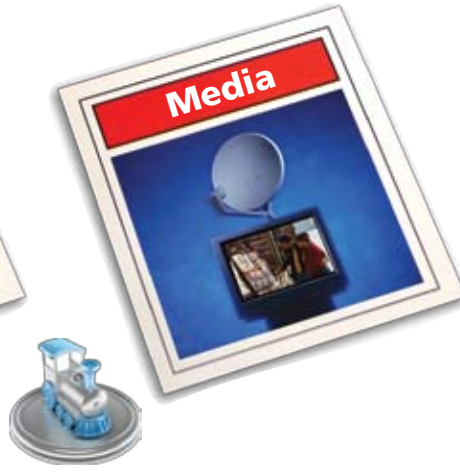
Let us look at how they and some of the other Hispanic leaders in the investment and retail fields fared in 2007. Consider this a financial snapshot of the growing Hispanic

influence on the American economy.

Investing in Health

"It was a year of acquisitions for us," says Mike Fernandez, chairman of MBF Healthcare Partners in Coral Gables, Florida. The \$225 million private equity fund reports annual earnings of between \$5 million and \$25 million and focuses on health care companies. "We spent about \$100 million on a number of transactions (up 50 percent from previous years), including investments in the two largest Hispanic-owned pharmacy chains in the nation," he says.

One of the chains, Navarro



Mike Fernandez

Discount Pharmacies in South Florida, announced a vigorous expansion plan based on the new capital from MBF Healthcare Partners. The family-owned Navarro chain, the largest Hispanic-owned drugstore chain in the United States, plans to open up to five new stores in South Florida every year for the next few years. Navarro has 20 existing stores that capture about a 17 percent market share in South Florida, with annual sales of about \$250 million.

Part of the expansion plan stemmed from a merger between Navarro and Sedano's Pharmacy & Discount Store Inc., another leading Hispanic drug retail company with 11 pharmacies in the South Florida market. The merged entity, with capital from MBF

Healthcare Partners, plans to increase its presence throughout the United States.

Health care has been a safe haven for investments, according to Mr. Fernandez. "Health care normally is insulated more in down markets," he says. "We particularly like this sector because health care represents 14 to 15 percent of the GNP consumption. That is expected to increase to 23 percent over the next 10 years."

Here are some other deals announced by MBF.

- The acquisition of Wren Medical Systems Inc., a Chicago-based distributor of sophisticated nutritional therapy products, by portfolio company Medical Specialties Distributors LLC.
- The purchase of Nutri-Force Nutrition Inc. by portfolio company

\$150 million to \$500 million range.

- Last year, MBF made some substantial internal moves, announcing the initial public offering of 18.75 million shares at \$8 each and granted underwriters an option to purchase as many as 2.8 million units at a later date, bringing the total raised to \$170 million.

Media Investments Loom Large

Media companies were also popular with private equity firms. Hispania Capital Partners, based in Chicago, purchased two media companies through Hispanic Yellow Pages of America (HYPA), which it formed in 2004 with several Hispanic publishers. HYPA purchased Travel Media Northwest Inc. and Hispanic Impact Media Inc. for undisclosed prices. HYPA, which publishes Spanish yellow

Often, the best opportunity for investors to see sizeable returns is when overall market conditions are less favorable.

-- Jennifer Rossa, managing editor of Dow Jones Private Equity Analyst

FDC Vitamins LLC. The move created a fully integrated nutritional company to capitalize on FDC's branded nutritional products.

- MBF's biggest deal, however, may come this year. Although Mr. Fernandez did not disclose the name of the participants, he says MBF plans to purchase a health care company in the

page directories in Illinois, Colorado, Arizona, and Nevada, is expected to reach around one million Hispanic households with this purchase.

"In order to provide a comprehensive Spanish yellow pages to the residents of the Northwest region, we needed Hispania as a partner to help attain our goals," says Sri Naidu, president »

“We continue to see strong deal flow in the Hispanic market, aligned with our investment focus... We believe that opportunities and investments will increase as Hispanic companies continue to grow and mature.”

— Marcos A. Rodriguez, founder and managing director of Palladium Equity Partners.

of Travel Media and Hispanic Impact Media.

Here is a look at other significant media deals:

- ACON Investments, a Washington, D.C. private equity firm, expanded its media and publishing holdings through ImpreMedia LLP. In 2007, Impremedia purchased the Tribune Co.'s Hoy publication and its weekend publication, Fin de Semana, along with Rumbo, the leading Spanish-language newspaper network in Texas. Rumbo has newspapers in three of the nation's top 10 Hispanic markets: Houston, San Antonio, and the Rio Grande Valley.
- Rumbo, which first started publishing in July 2004, has struggled despite praise for its product. The paper published five times a week in Houston and San Antonio before dropping to - once a week in January

of 2007. Rumbo was already publishing once a week in the Rio Grande Valley.

- “Acquiring Rumbo's network of newspapers in Texas expands ImpreMedia's national footprint to seven of the top 10 Hispanic markets,” said Erich Linker, senior vice-president of sales for ImpreMedia. “This allows ImpreMedia to provide advertisers a larger, national platform to present their brand messages while building sales volume locally.”
 - Before the Impremedia purchase, Rumbo was published by Meximerica Media, which is backed by Pinto America Growth Fund LP and Rustic Canyon Partners. The two private equity funds invested \$18 million in Meximerica Media in 2005 to complete the building of what was then four daily Rumbo editions, including one in Austin that has since ceased publication, and to publish elsewhere.
 - Two other Hispanic-owned media companies also announced new rounds of financing in 2007. Batanga, a Miami media and entertainment company, raised \$30 million from Tudor Ventures and H.I.G. Ventures. The funds will be used to expand Batanga's marketing efforts and develop social media product and online content catering to the bicultural Latino consumer, says Rafael Urbina, chairman and CEO.
 - Movida Communications Inc., a provider of prepaid wireless services to Hispanic consumers, received commitments of \$40 million in funds and trade financing from Plainfield Asset Management LLC and The Cisneros Group of Companies, one of the largest privately held media, entertainment, technology, and consumer products companies in the world.
- Money for Marketing**
- PR Newswire announced the acquisition of three Hispanic marketing companies in early 2007. Manny Ruiz, president and co-founder

of the Miami-based Hispanic PR Wire, LatinClips, and Hispanic Digital Network, says the purchase by PR Newswire will give it the resources needed to communicate with the fast-growing Hispanic market.

“The tangible benefits of this partnership will be immediately evident to our clients in the form of 24/7 hours of operation, expanded product offerings and soon-to-be-launched new communications services,” he says.

Another Hispanic-owned marketing firm, Latin Force LLC, merged with Geoscape International Inc. in June to create Latin Force Group, due to the backing of Goldman Sachs Urban Investment Group. The merger of Latin Force with Geoscape International Inc., a preeminent multicultural consumer intelligence and data analytics company, creates a leader in “integrated marketing services targeting the U.S. Hispanic consumer,” says David J. Perez, Latin Force CEO. Latin Force Group provides integrated marketing services for more than 25 percent of Fortune 100 companies.

Hercules Technology Growth Capital Inc., which provides growth capital in the form of venture debt (investment in the form of debt rather than equity) and equity to technology and life science companies, had a busy year, with an IPO that raised \$108 million. Directed by CEO and chairman Manuel A. Hernandez, who cofounded the company in 2003, Hercules is a NASDAQ-traded firm that primarily finances privately-held companies backed by leading venture capital and private equity firms.

Three companies in the Hercules portfolio held IPOs of their own in 2007 and at least six Hercules-portfolio companies were acquired by other companies; AT&T spent \$121 million to purchase Interwise, a global provider of voice, Web, and video conferencing services to businesses, »



and EchoStar spent \$380 million to buy Sling Media, Inc., a digital lifestyle company offering consumer services and products.

Hercules Technology continued to provide venture debt to an array of companies in the technology and life science sectors, including:

- \$20 million to Panacos Pharmaceuticals Inc., a biopharmaceutical company developing antiviral and HIV therapies;
- \$22 million in debt financing to Tectura, a later-stage global provider of Microsoft integrated business solutions; and
- \$22.5 million in debt financing to Ikano Communications, Inc., a late-stage company that provides private-label, wholesale and retail Internet services.

Preparing for Down Markets

Institutional investors seem to be anticipating down times for privately-owned businesses due to the turmoil in the credit markets. Private equity funds focusing on distressed investment opportunities grew to \$45 billion in 2007 compared with a then-record \$16 billion in 2006, according to Dow Jones Private Equity Analyst (DJPEA).

Jennifer Rossa, managing editor of DJPEA, told the San Francisco Business Times in January that private equity investors are positioning themselves to capitalize when overextended companies encounter trouble in the coming months and years. "Often, the best opportunity for investors to see sizable returns is when overall market conditions are less favorable," she said.

Palladium Goes for Gold

One of the most active Hispanic-owned equity firms in 2007, was

Palladium Equity Partners LLC, a Manhattan-based private equity firm with \$750 in capital under management. Here is a look at some of the action that took place in the Palladium board rooms this year:

The company announced in January that it had completed a \$58.3 million recapitalization of Prince Minerals Inc., a leading producer and marketer of specialty mineral products and a subsidiary of Palladium portfolio company Prince Mineral Holdings Corp. The recapitalization, financed by three major financial institutions (not including Palladium), generated a dividend for Palladium and positioned Prince Minerals Inc. for additional growth. Net sales have quadrupled from \$23 million since 2003, when Palladium purchased the company, to \$110 in 2006, according to Marcos A. Rodriguez, founder and managing director of Palladium.

"Palladium had a busy and productive 2007," says Mr. Rodriguez.



Marcos A. Rodriguez

"We closed eight proprietary platform transactions in 2007 across our focus industries, geographies and investment themes."

Among those deals is the acquisition of Castro Cheese Company, a leading manufacturer, marketer, and distributor of Hispanic cheeses and creams. Castro Cheese, located in Houston, markets its products

under the "La Vaquita" brand and is the second-largest Hispanic cheese company in that nation, according to Information Resources Inc.

"We continue to see strong deal flow in the Hispanic market, aligned with our investment focus, which includes Hispanic-owned companies and companies targeting Hispanic consumers," Mr. Rodriguez says.

Five out of Palladium's eight transactions are Hispanic market deals, and three of the companies are Hispanic owned.

Palladium has committed to invest as much as \$10 million in Starfire Systems Inc., of Malta, New York, a global developer and manufacturer of nanostructured advanced ceramic materials and finished products used for electronics, transportation, aerospace, and other industries.

Other Palladium deals in 2007 included undisclosed investments in Todobebe Inc., a Miami multimedia company focused on Hispanic parenting; Sahale Snacks, a Seattle-based producer of branded and private-label all-natural, gourmet snack food products; and DailyMe Inc., a media company that provides personalized news and information on demand via the Internet.

Overall, 2007 will go down in the books as a healthy one for Hispanic investors and retailers. Some companies, of course, struggled to secure investment, but for the most part, the Hispanic investment sector continues to flex its muscles and grow ever stronger. "We believe strongly that opportunities and investments across the board will continue to increase as Hispanic companies continue to grow and mature," says Palladium's Mr. Rodriguez. □



New York:
1270 Avenue of the Americas
Suite 2200
New York, NY 10020
212.218.5150

California:
11726 San Vicente Boulevard
Suite 300
Los Angeles, CA 90049
310.820.4009