

**GYMB 9.125% 12/1/18 ~94.65 (~10.5% yield) Caa3/CCC**

**Bottom line:** Believe current yield compensates for risks. Positive free cash flow, turnaround story, buying back bonds.

**Background:** Gymboree is a children's clothing retailer comprised of three main brands: Janie & Jack (comp Neimans, Saks), Gymboree (comp GAP), and Crazy 8s (comp Old Navy, Children's Place). The company was purchased by Bain in Oct 2010. As part of the PE firm's restructuring, the company has been expending the lower-end value concept (Crazy 8s). The CEO was paid a bonus of \$30mm upon take-out and arguably "took the eye off the ball" letting inventories build, suffering from a spike in cotton prices, and generally missing on orders. He was replaced in 2013 with Mark Breitbard, former GAP North America President, CEO of Gymboree effective 1/14/13.

**Note:** Gymboree (GYMB) debt was downgraded to Caa3 by Moody's on 12/18 (rated CCC by S&P since 2012) following disappointing quarterly results.

**Color from DB Global Markets Analyst:**

Positives

- **New, capable management:** "Fixable problems and the right team in place to do it." Former President of GAP North America hired in Jan13. He was responsible for turning around Baby GAP, GAP Kids and Old Navy. Lead-time in retail is 9mos for design, 6mos for shipping, so now through next 6mos is when the "show me" story of the turnaround plays out.
- **Cash Generation:** Positive FCF, no maturities until a revolver (undrawn) in 2017, then a term loan in Feb18 and these bonds in Dec 18. Company bought back 54mm of this 400mm issue last year and we anticipate another 20-30mm bought back this year. Please see below/attached and let us know your thoughts. One-time \$1mm charge related to e-commerce glitch is behind them.
- **Turnaround, "Show-Me" Story:** Lower guidance already behind us, disappointing 4Q priced in. Revamped, low-end "Crazy 8" concept cap-ex to pause and begin to monetize in '14.

Risks:

- Competitive pressure, promotional environment in retail, inventory, input costs, cap-ex risk, and execution on design.

Full report from DB Global Markets Credit Research (12/13/13) and direct conversation with the analyst, Karru Martinson, available. The bonds have traded in a ~91-99 range over the last 12 months.