

**From:** Richard Kahn <[REDACTED]>  
**To:** Neale Attenborough <[REDACTED]>  
**Cc:** Chris Lawler <[REDACTED]>, Tyler Shean <[REDACTED]>  
**Subject:** Re: Next  
**Date:** Wed, 30 Aug 2017 11:16:54 +0000

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I would add that you are selling an offshore vehicle formed under an agreement that puzzles me. The whole co is not for sale and if so we might argue along some similar but less exaggerated lines multiples of large biz from years ago. I guess if you find the dramatically too low, you might offer to buy out Faith and Joel, using your formulas. with a premium for control. Jeffrey is set to join the call and has authority to make the decision to accept or reject.

Richard Kahn  
HBRK Associates Inc.  
575 Lexington Avenue, 4th Floor  
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Pho [REDACTED]  
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Cell [REDACTED]

On Aug 30, 2017, at 6:25 AM, Richard Kahn <[REDACTED]> wrote:

i already pointed out currency exchange, board fees etc. as a bad number in your calculations. sorry...the other transactions that we know very well are far from relevant. . if faith and joel walk there is NO business which is hardly the same idea as IMG where multi divisions exist and succession is planned. I do not know what cash was on the balance sheet when you bought it. The open gate transaction to summarize was a stepping into your shoes for only 6 million or roughly the same as the current offer. taking out cash 14 of the 15 mil which has not come out. and even on your calculation of 8 cash would mean 3.2 to you back then... and then leveraging the biz. / the liability to the buyer was no where near that to golden gate. sorry. . . We can go back and forth on comps and can show mom and pop [at 1 to 3](#) times ebitda. . so lets try to short circuit a tiresome unnecessary excercise, as i see it the current bid offer is 5 bid and approx 9 .2 offer. open gates 6 + 3.2 from 2 years ago with more growth potential and lower cash out. multiples from before digital photos and amazon. sorry.....I am suprised that you would inflate current Ebitda, pull multiples from many years ago to biz that are tangential. leave out liabilites even of lawsuits that you know about, and then pick a cash number to subtract for enterprise value. If I have misunderstood and you are not really sellers then I will not be insulted if you decide to cancel our call.

Richard Kahn  
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Te [REDACTED]  
Fa [REDACTED]  
Ce [REDACTED]

On Aug 29, 2017, at 10:40 PM, Neale Attenborough <[REDACTED]> wrote:

Richard,

Not funny at all, just factual.

I think if we are to ultimately agree on value it will be important we agree on a set of facts:

1. TTM EBITDA is \$6.7Million. If you disagree, please let us know precisely what items you disagree with in the number and we can discuss.
2. The current cash balance for the company is \$13.1 Million.
3. The past three comparable transactions for companies in this market average an enterprise value at ~10x multiple of EBITDA
  - a. Wilhelmina: 7x (average meaningful trading multiple since 2010)
  - b. Creative Artists Agency: 10x (TPG acquisition, 2014)
  - c. IMG: 13x (WME acquisition, 2013)
4. We invested \$18 million for a 42% stake in the business, implying an enterprise value of \$42.9 million.
5. We received a bona fide offer from OpenGate Capital which would have resulted in \$18 million in proceeds for us (and in fact a \$17 million distribution to Faith and Joel), and while they were, as you point out, contemplating leverage in the <3x EBITDA range, it is in fact a relevant data point and an independent look at value.
6. One other note that is relevant to us, is that when Elite Models in Europe contacted us with an interest in buying the company, Faith told me to relay to them that they would not contemplate selling to Elite for less than \$100 million (which at the time was a +10x synergy-adjusted EBITDA value). Ultimately they walked based on that value requirement.

I would hope you agree that the following is a commonly agreed upon formula for value:

- a. Enterprise value = EBITDA x Market Multiple
- b. Equity Value = Enterprise Value + net cash (or – net debt).

One matter of judgment is what of the cash balance is “excess cash”. Joel has said he believes all the cash is due to the models. The facts show that in the ordinary course of business the collection of receivables offsets the payables and in the past three years, the cash balance has only fluctuated at most by \$3 million, meaning anywhere from \$8-10 million on the balance sheet should be considered to be “excess cash”, not needed for day-to-day operations. I have attached both a three year cash balance tracker and a current balance sheet for your review.

Using the above, a very modest calculation of value would be \$6.7 million of EBITDA x 5 multiple (a 50% discount to the market) or an enterprise value of \$33.5 million and if we took a conservative view of what excess cash is at the moment of \$8 million, would result in a total equity value of \$41.5 million. Our 42% would equate to \$17.4 million of proceeds to us. That is at a multiple that has been deeply discounted to the market comps that were actually paid for companies in the same business.

We are, however, willing to take much less than this very discounted value calculation, as I have mentioned to you before. However, your proposal of \$5 million of proceeds to us represents an equity value of \$11.9 million ( $\$5/.42$ ), an enterprise value of \$3.9 million ( $\$11.9 \text{ million} - \$8 \text{ million of excess cash}$ ) or an EBITDA multiple of 0.58x ( $\$6.7 \times 0.58 = \$3.9 \text{ enterprise value}$ ), a level that is far too low for us to accept.

I look forward to our discussion tomorrow morning.

Neale

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**From:** Richard Kahn [mailto: ]  
**Sent:** Friday, August 25, 2017 11:51 AM  
**To:** Neale Attenborough  
**Cc:** Chris Lawler  
**Subject:** Re: Next

Pretty funny Neale...

Even the silly open gate proposal was in essence stepping into your shoes for only 6 million cash. BACK THEN !!

Then proposing to distribute what they estimated to be almost the full total (14 of the 15 million) of cash on the balance sheet. Chris i must point out that is more than it totals today. Then having Joel, Faith, etc leverage themselves up by borrowing at 7 percent against the entire co in order to make a further distribution of an additional 15 million which on paper creates a highly inflated enterprise value. He only proposed 6 million cash infusion which is around the same amount that you are currently being offered. They valued faith and joels ongoing equity (that they proposed they "keep in") silly, at 8mm which is roughly the same as we suggested. Financial engineering done well is like lipstick.. however not done well is also like lipstick. :) This is a personal service business, no more no less and suggesting that they leverage themselves up so you that they can pay themselves a higher salary fails the HBS first year class that i am aware you have taken. Regarding the 18 million, we have distributions from Next directly to the former shareholders of the claxon offshore entity of approx 3. Regarding the receivables you can ask millie... sorry

PS Faith and joel will have to borrow the money to buy you out at 5. . can be done, but not so easy. they have never taken out real money from the company in any form: salary etc.... hence they have little net worth and current lenders are not that comfortable with the potential liabilities....

On Aug 24, 2017, at 4:50 PM, Neale Attenborough <[REDACTED]> wrote:

I look forward to our conversation.

For the record, we did actually pay \$18MM for 42% of this business in 2008. At the time that represented an ~8x multiple of EBITDA. That is not a fictitious number. In addition we did receive a bid for about the same amount from Open Gate Capital, a reputable private equity firm. I do not understand why you say that it is "hardly legitimate". While I did say we didn't expect to receive what we paid, I did not say it was immaterial.

I don't follow most of what you say below and look forward to hearing your clarification. However, can you please clarify one statement specifically? What do you mean when you say the current receivables have not be reviewed in years?

Thanks,

Neale

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**From:** Richard Kahn [mailto:[REDACTED]]  
**Sent:** Thursday, August 24, 2017 3:45 PM  
**To:** Neale Attenborough  
**Cc:** Chris Lawler  
**Subject:** Next

confirmed thank you

We have reviewed your statements that you sent to us along with the K-1's and some financials. Frankly, some of the numbers are inaccurate as a result of millie. Your annual financial statements were reviewed but not audited - shame on all of you... Your calculation of Ebitda includes things like adding back foreign exchange costs? board fees etc. That is not the way we look at what is unfortunately for all merely a personal service business.

Faith and Joel make up the business, nothing more. We calculate the Ebitda, which we think is an odd way of measuring value of a personal service biz with lots of competition and small growth opportunities if any. Giving you the benefit of the doubt, and ignoring how much you paid or if some of that money was repaid directly to the former owners of Claxon and not truly understanding what you described as a fixed tax payment per quarter (ie based on what I think looking back over the past three years) ebitda looks like 4-5 million. We have bought many small biz and usually pay mom and pops for 1- 3 times ebita or more usually 4 times net income. We are finding it difficult to get to more than a 15 million total value for Next ( not including liabilities). The 18 million dollar bid that you mentioned Faith said was hardly legitimate. I think further review of the accounting tax etc. is probably a waste of all our time. As you rightly said, what you initially paid is somewhat if not totally immaterial to todays value. You have not factored in the liabilities, both reputationally and fiscal yet. I think the 5 million cash offer or 6m over time is fair. I look forward to our conversation on tuesday. As another note, the current receivables have not been reviewed for years...

Rich

On Aug 24, 2017, at 3:28 PM, Neale Attenborough <[REDACTED]> wrote:

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<Mail Attachment.ics>

<170829 - Next - Jun'17 Balance Sheets.pdf>

<170816 Next - Min Cash Analysis.pdf>