

Tuned-Up Assets

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Equity firm Transom is humming along with investment in music industry businesses.

By Clough, Richard

SKIPPER Wise could see that his microphone company was falling apart.

Blue Microphones, a Westlake Village company that specializes in high-end audio recording equipment, had been going strong for more than a decade, but by 2008, Wise knew that the business wasn't keeping up with things--operations were disorganized and orders weren't being filled.

"We just didn't have the money or the skill set to make the company profitable enough," Wise said. "Being around as long as I had, I was able to recognize that I was at the end of the line."

So he sold a majority stake in the company to Transom Capital Group, a newly established Century City private equity firm on the prowl for a deal. The turnaround started almost immediately.

Transom used its funds to bulk up staff, improve inventory management and other operational concerns, and find new sales outlets. The result was increased efficiency.

"These guys came in and in the first two weeks started radically changing things," said Wise, who stayed on as president of the company. "They've come in, cut the head off, built a new body and put the head back on."

Blue products are now sold in many of the nation's largest retailers, such as Best Buy. The company is projecting 2009 sales in the eight-figure range--double what it recorded last year.

The Blue turnaround is the biggest success story of Transom's brief history. Founded early last year, the private equity firm is now utilizing its hands-on approach with several additional portfolio companies. At a time when private equity firms are finding the investment landscape to be unforgiving terrain, Transom is going strong.

In the process, Transom is making a name for itself as the rock 'n' roll private equity firm.

Transom recently announced the acquisition of Cinder Block Inc., a leading maker of concert apparel and other music-related merchandise for bands such as the Yeah Yeah Yeahs and TV on the Radio.

"That's really our niche. We can play in that field," said Russ Roenick, managing director of Transom. "We didn't target doing just music-related deals. But I will say we've had such a degree of success with Blue Microphones that we felt very comfortable understanding the ins and outs of the music industry and being able to succeed there."

Searching for deals

The firm used its industry connections to bring in Will Merrick, the former head of digital programming at MTV, to help grow Cinder Block.

Though Transom is looking beyond music-related companies, Wise said the firm, populated by youthful and outgoing people, seems to be drawn toward companies in the industry.

"I don't know if they'll ever buy a scrap metal company," he said, "but it doesn't seem like it's up their alley."

Launched in January 2008, Transom began looking for investment opportunities in middle-market companies in the consumer, media and industrial sectors. The firm's founders came from companies as diverse as computer giant Microsoft Corp. and Beverly Hills private equity firm Platinum Equity.

Transom's attraction to music-related companies was influenced by several of the founders, including Roenick, Principals Adam Fraser and Brian Biggott, and Managing Director Ken Firtel. Fraser, Biggott, and Roenick came from management consulting firm McKinsey & Co. Firtel was from Platinum Equity.

Soon after Transom's launch, however, the economy fell apart, which has slowed progress throughout the private equity world.

"The private equity industry is going through a difficult period," said Jeffrey Lovell, chief executive of private equity firm Lovell Minnick Partners LLC in El Segundo. "It's a function of the investor marketplace. Fewer dollars are going into private equity."

Despite that, Transom managed to close its debut fund earlier this year. But Roenick admits that the economy made the going rough.

"It hurt for a while there," he said. "I thought we had the worst possible timing."

The firm had initially planned to invest in companies and then provide guidance at a board level, as many private equity investors do. But when they realized that the economy was not going to improve any time soon, they decided to put their experience to work.

"It forced us to become much more actively involved in these companies to help them succeed," Roenick said.

For Blue Microphones, Transom grew the work force from a dozen to more than 40. Among-the new jobs filled were specialized positions such as electrical engineers who were brought in to design new products. Transom also hired in-house sales representatives rather than continuing to rely on third parties.

The firm quickly addressed one of Blue's biggest weaknesses: inventory management. Apple Inc. had been selling the company's microphones in its stores, but Blue had trouble keeping its inventory stocked and delivering products on time.

Transom's management solutions allowed Blue to polish its operations--much to the relief of Wise, an accomplished jazz player who built the microphone business as an offshoot from his love of music.

"They brought a sense of organization and a sense of unity by being hands-on that this company wholeheartedly needed," he said.

Transom is not the only firm getting more involved with its portfolio companies.

With the evaporation of many attractive investment opportunities and debt financing increasingly difficult to come by, private equity firms have struggled to complete deals in this economy. Those that have are increasingly taking a more hands-on approach to their portfolio companies than in the past, said John Mack, executive vice president of Imperial Capital LLC, a Century City investment banking firm.

'Back to basics'

"The theme you hear from a lot of people today is we're back to the basics of private equity: Doing fewer deals and being involved more intimately in the deals they do," Mack said.

Transom is now working to overhaul Cinder Block, the largest independent music merchandise company in the United States.

The firm has ambitious plans for Cinder Block, including expansion of its product lines.

Since artists today can't rely on sales of recorded music as much as in the past, Roenick said, it is more important than ever for bands to capitalize on other revenue sources.

"One of the big growth areas in music is in touring," he said. "As a result, artists need more merchandise--they need T-shirts, hoodies, posters, concert programs. Right now, this is a growth area in the music business, as opposed to all the rainy-day stories you've heard about the music business over the last couple of years."

Transom Capital Group

FOUNDED: 2008

CORE BUSINESS: Making private equity investments in established middle-market companies in media, entertainment, industrial and consumer industries

EMPLOYEES: 6 (5 in 2008)

GOAL: To add value to its portfolio companies by improving operational efficiencies and increasing revenue

THE NUMBERS: The firm's first portfolio company, Blue Microphones, doubled its revenue and quadrupled its workforce since Transom's acquisition in April 2008

By RICHARD CLOUGH Staff Reporter