



Case Study – Awrey Bakeries, LLC

www.awrey.com

Monomoy Finds Sweet Spot With Venerable Family Bakery

Since 1910, when Elizabeth Awrey turned to her wood-fired oven to make some extra money, Awrey home-baked breads and pastries have been part of the American landscape. From modest beginnings delivering baked goods from a Model T, the Awrey family oversaw decades of growth that even the Great Depression couldn't stop. Today, Awrey Bakeries is one of the leading producers of frozen baked goods for the U.S. food service trade, used by restaurants, hotels, schools, hospitals and other institutional customers. Awrey products are efficiently mass produced, but each recipe maintains the baked-from-scratch taste that earned Awrey's the title America's Hometown Bakery.

Monomoy bought Awrey out of bankruptcy in 2006. We reduced expenses by \$5 million in the first twelve months, managed through the largest increase in commodity costs in history, and were able to return capital to investors by early 2007. A second round of restructuring improved annual EBITDA by over \$3 million, reduced working capital by over \$2 million and paid down \$3 million of debt. In 2009, under Monomoy ownership, the acquisition of Atkins Elegant Desserts is expected to add \$2 to \$3 million of annual profit—and Awrey will see its best year ever.

The Awrey story

Awrey Bakeries, LLC is one of the two or three largest private commercial bakeries in the United States. Awrey manufactures finished frozen baked goods, including Danish, cakes, muffins, croissants, brownies, donuts, rolls and biscuits for the national food service market, the in-store bakery market and national restaurant chains. Its largest customers include Sysco, Gordon Foods, Baskin-Robbins and Dunkin Donuts. Awrey operates from a large commercial bakery facility located in Livonia, Michigan (near Detroit) and a specialty cake facility located in Noblesville, Indiana (near Indianapolis).

The challenge: A family business that lost its way

Along with Hilco Equity Partners, LLC we purchased Awrey for \$25 million out of Chapter 11 in August of 2006 with the goal of improving the Company to a 10% to 12% EBITDA margin business while substantially diversifying its end-use markets and developing new bakery products. In April of 2009, we acquired Atkins Elegant Desserts for the Awrey platform to extend the Awrey product line and create a lower-cost cake-making facility.

Awrey is a good example of the businesses we like to buy and own. At the time of our purchase, Awrey was a 90-year old family business operated by the third generation of the Awrey family. The company had a strong regional brand, a great relationship with its largest food service customer, and a skilled workforce. Over time, however, Awrey developed an unsustainable cost structure, too much customer concentration, and an inability to understand the basic profitability of its product families.

In 2005, after two years of rising costs and weak volumes related to the low-carb diet craze, Atkins filed for bankruptcy and put itself up for sale. Hilco and Monomoy bought the business for \$25 million in a complex and highly contested Section 363 bankruptcy sale process. Before closing the transaction, we negotiated a new, cost-saving labor agreement with the collective bargaining representative of Awrey employees and restructured the company's SG&A costs to reduce waste and upgrade talent. We retained a new Chief Executive Officer to lead the business out of bankruptcy but retained (and promoted) many of the incumbent managers.

We bought Awrey for the three basic reasons that make every Monomoy investment:

- A business that deserves to exist. While it's not a huge company at \$75 to \$80 million in annual sales, Awrey is the second-largest provider of frozen sweet goods to the food service channel and extremely important to its supply chain and customer base. Sysco, the largest food service company in North America, would need to retain five or six other bakery suppliers to replace Awrey's full-service product line. In addition, Awrey provides best-in-class fill rates and customer service and is likely the low-cost producer of several of its product lines. This is a franchise we can build on.
- Problems that we can identify and fix. Awrey presented a series of cost and product mix issues that we have addressed in dozens of manufacturing businesses, including a costly labor contract, an oversized SG&A structure, outdated purchasing practices, weak quality controls, poor labor productivity and basic confusion over which product lines actually make money for the business. We addressed a substantial portion of these challenges in the transaction itself by renegotiating the labor contract and resizing corporate overhead. The remaining issues presented core projects for a Monomoy investment and problems we can fix in any business.
- Opportunity to create value. Our initial investment case for Awrey also identified two areas of upside potential for the bakery investment: penetration of U.S. Foods, the second-largest food service distributor in North America, and development of an in-store bakery and national chain account business to supplement Awrey's strength in food service. Even modest success with either of these opportunities would allow us to take Awrey from a profitable \$75 million business to a very profitable \$100 million business.

Improving the business: New sales channels

Over the first 12 months of our ownership, the new chief executive officer and a new chief operating officer reshaped and refocused the company's senior management team to implement the Monomoy restructuring program. Working with the Monomoy operations group, the new team successfully implemented a series of business improvement programs that eliminated over \$5 million from Awrey's cost structure by early 2007.

Our initial cost-reduction phase at Awrey focused on improving labor productivity (a \$1 million savings), consolidating and rebidding the entire vendor base (\$1 million), reducing material waste (\$0.5 million) and reducing SKU count to improve product mix and profitability (\$0.5 million). These restructuring efforts, together with a few early sales wins, allowed Awrey to pay down substantial debt in 2006 and 2007 and positioned Monomoy to return capital to its investors in early 2007. In addition, Awrey launched an ambitious in-store bakery business in late 2007 with the goal of capturing \$10 to \$12 million of high-margin business with Walmart, Costco, Sam's and large national grocers by 2008.

Managing through success and setbacks

At Monomoy, we often say that business improvement is not a linear process. The spreadsheet may say that every restructuring proceeds smoothly, but the real world teaches that middle market turnarounds are better characterized as a series of successes and setbacks. Our job as hands-on owners is to secure the successes and manage through those setbacks to help our businesses achieve their potential and our investment goals.

Awrey is a case in point. Even as we over-achieved our initial investment goals, Awrey ran into two unexpected hurdles in 2007 and the first half of 2008. First, the cost of basic raw materials for a bakery – flour, sugar, eggs, butter and oil – increased by over 300% between January of 2007 and July of 2008. This was, by far, the largest commodity increase in history. This spike in commodity costs offset much of the good work Awrey completed in 2006 and 2007 and strained the company's resources as it battled daily to pass increasing material costs through to its customers.

Second, we overstated the value of creating an in-store bakery business at Awrey. The company developed terrific in-store bakery products and won substantial sales for the new product line, building a \$10 million business from scratch by late 2007. However, the project start-up costs exceeded budget, the fully loaded margins were less than we hoped for and the working capital costs of an in-house bakery business were substantial. In all, the new business line created more complexity for Awrey and not as much incremental cash flow as we wanted to see.

Faced with these two setbacks and the onset of the recession in mid-2008, we did the right thing as responsible owners: we replaced the senior management team—the team we had initially hired for the business—with a new CEO, a new CFO and a new head of food service

sales. Sometimes, a great peacetime management team is not necessarily the best wartime management team. And we truly needed a group of warriors to ensure that Awrey would prosper despite the collapse of the food service industry and casual dining in the recession.

Another round of improvements

In late 2008, the new management team launched a second wave of cost reduction, product mix improvement and sales discipline to battle the recession. The results have been impressive. Over the first six months of 2009, Awrey eliminated unprofitable products, improved basic sales margins, reduced labor content, eliminated overtime cost and outside warehouse expense, and re-deployed its asset base to its most profitable channels. These basic business improvements improved annual EBITDA by over \$3 million, reduced working capital by over \$2 million, paid down \$3 million of debt, and re-positioned Awrey as the supplier of choice in its market. In 2009, Awrey will enjoy its best year under Monomoy ownership and will achieve our basic investment goals despite the collapse of the casual dining and food service sectors.

Our experience at Awrey confirms that investing with urgency works—even in the face of significant setbacks and even at the bottom of the worst economic recession in 70 years.

Identifying areas for growth: Complementary acquisitions

In May of 2009, after substantially improving the basic Awrey business, Monomoy and Hilco acquired Atkins Elegant Desserts, Inc. (no relation to the Atkins diet), a niche manufacturer of cheesecakes, layer cakes and brownies. The Atkins acquisition will allow us to extend the Atkins product line into Awrey's much larger national distribution channel and will provide Awrey with a broader portfolio of products, services and price points for its customers. In addition, the acquisition will provide Awrey with a low-cost cake manufacturing facility that should substantially reduce production expense for both Awrey and Atkins.

Awrey has already integrated the Atkins product line and fully restructured its manufacturing operations to reduce operating and overhead expense. Awrey began selling Atkins products in July of 2009 and the addition of Atkins immediately made Awrey the most important supplier of cheesecake products to the food service and casual dining markets. Although Atkins was losing money when we bought the business, we expect the transaction to add \$2 to \$3 million in annual profit to Atkins.

We have completed our restructuring program and accomplished our basic investment goals at Awrey. We have taken the company from a broken, family-owned business to a successful, vibrant and profitable enterprise. With or without an economic recovery, Awrey Bakeries will make a good investment return for its investors, provide a home for its employees and their families and create tremendous value for its customers for years to come.

About Monomoy

Monomoy Capital Partners, L.P., is a leading private investment firm focused on constructive investing in middle market companies facing special situations. We target good businesses with annual sales of between \$40 and \$300 million, and implement customized business improvement programs that reduce operating expenses, increase profitability and encourage meaningful growth. Monomoy companies generate more than \$1.4 billion in combined sales, employ over 9,000 team members and operate approximately 40 facilities in North America, Europe, India, Brazil and China.

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