



## SCOTT POTTER *San Francisco Equity Partners*

*Scott Potter, 42, has been managing partner of San Francisco Equity Partners (San Francisco) since founding the private equity firm in 2005. Previously, he was managing director North American private equity and venture capital at LMS Capital from 2003, svp of Inktomi Corp. from 2002, ceo/pres. of Quiver, Inc. from 1999, and evp of Worldres, Inc. from 1996. Earlier, he was a corporate finance attorney. San Francisco Equity Partners currently invests out of the \$100-million investment vehicle SFEP III, which closed in January 2011; the fund holds stakes in Method Home, Yes To, Inc., and Zoom Eyeworks, Inc.*

*In the following interview, Potter discusses the businesses and the outlook for each.*

### **HBCE: Describe today's San Francisco Equity Partners.**

**SP:** We are a private equity firm that invests in consumer product and consumer service companies, as well as related companies that service the retail environment; the latter sub-sector includes marketing, supply chain, and private label manufacturing services. We focus on businesses that have revenues of \$10 million to \$50 million and proven consumer brands, products, and services.

### **HBCE: How does the investment portfolio break down?**

**SP:** Currently, we own stakes in three consumer products companies — Method Home, Yes To Inc., and Zoom Eyeworks; two consumer service companies — Luxury Link and The Guild; and a business services company that is a legacy investment from before I started the firm and not a core part of our strategy.

### **HBCE: What does SF Equity Partners bring to each investment?**

**SP:** We bring more to the table than just capital. We are hands-on. We have at least one seat on each company's board, and I am chairman for three of our six companies. Often we get involved operationally and lend our knowledge of the distribution channels, although we are less hands-on with companies that already have a developed management team and track record. We view ourselves as partners of each business and stewards of their brands.

### **HBCE: What attracted SF Equity Partners to invest in Method Home?**

**SP:** Method Home was our first investment. At the time, anyone in our industry could see that "green" was a growth

trend. What differentiated Method Home was that co-founders Adam Lowry and Eric Ryan understood that building a big green brand in mass consumer categories required the development of multiple attributes. Investing in design, fragrance, and lifestyle branding, which had never been done before in home-care categories, was important. Also, while Method is predominantly a home-care brand, it plays in hand & body wash and personal care for babies and children. Green as an attribute has become commoditized over time, and I believe they understood that early on.

### **HBCE: What has been the total investment and stake in Method?**

**SP:** We don't disclose the exact figures, but having invested more than \$10 million, we are its largest shareholder.

### **HBCE: What have been the milestones?**

**SP:** The biggest milestone was the relationship we developed with Target early on. Target has the perfect consumer base for Method's brand proposition, and Method's success at Target proved that a green brand can play in mainstream distribution. We have since broadened our distribution in the food, drug & mass channel and continued to build it over the past year, particularly in food.

### **HBCE: How did Method perform in 2011, versus plan?**

**SP:** We experienced double-digit revenue and earnings growth relative to the prior year, in line with our plan.

### **HBCE: What has impacted results?**

**SP:** Expanded distribution, increased velocity in existing retailers, and the introduction of innovative products have

each played a role. We also entered France, building on several years of business in the U.K.

### **HBCE: What is the most important issue facing the business?**

**SP:** One is the macro-consumer environment. Method is a premium brand, and consumers are obviously under pressure. That can be a challenge, although consumers view Method as an affordable luxury for which they are willing to pay a little more.

The other issue is that Method's categories are brutally competitive. Large suppliers such as P&G and S.C. Johnson and mid-sized players such as Clorox can spend more on advertising.

### **HBCE: How do you interact with the co-founders and ceo Drew Fraser?**

**SP:** As an active board member, I work with the team on big strategic issues and setting yearly goals. We understand Method's retail environments and offer whatever counsel we can without crossing the line of running the business.

### **HBCE: What attracted SF Equity Partners to invest in Yes To Inc.?**

**SP:** We saw many of the same characteristics of home care in natural personal care category. Yes To fit our desire for a brand that had the credentials of a natural personal care brand that could resonate with mainstream consumers. When we became involved, Yes To's only U.S. customer was Walgreen, and it was performing well there. The incredibly impassioned founders, Ido Leffler and Lance Kalish, were able to connect with beauty editors and get media attention for the brand.

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## BUSINESSPROFILE

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**HBCE: What has been the total investment and stake in Yes To?**

**SP:** Without disclosing our exact stake, we led a \$14 million financing of the business in 2008 with investment partners.

**HBCE: What have been the milestones for Yes To?**

**SP:** Like Method Home, Yes To has built out its distribution. In addition to Walgreens, it is now growing rapidly at Target, Walmart, CVS, and Whole Foods. Yes To has been the fastest-growing brand in natural personal care by far for several reporting periods, and it is now the clear number-two mass natural personal care player behind Burt's Bees.

We've also extended the Yes To family of products outside of the Carrots franchise into Yes To Cucumbers for soothing and sensitive skin, Yes To Tomatoes for problem skin, and, recently, Yes To Blueberries as an age refresh line.

**HBCE: How did Yes To perform in 2011, versus plan?**

**SP:** It strongly exceeded plan. The company's annual sales are \$40 million-\$50 million. Yes To has the opportunity to be four to five times its current size through continued expansion of distribution, innovation, and international growth.

**HBCE: What has impacted results?**

**SP:** Yes To resonates well with consumers. It delivers on all of the key promises a mass personal care brand should — it has natural ingredients, high efficacy, and a positive brand message and is well-priced. Include a seasoned ceo/pres. that has meshed wonderfully with the founders and strong execution, and the result is an impressive performance.

**HBCE: How do you interact with ceo/pres. Joy Chen?**

**SP:** As chairman of Yes To, I talk with Joy frequently. She is an experienced, accomplished operator who does a great job running the business. We provide strategic guidance and perspective in terms of the entire retail channel, and we utilize our experience and resources to work with her on financial issues.

**HBCE: What is the most important issue facing the business?**

**SP:** Key is managing Yes To's growth by keeping the right infrastructure in place

and continuing to support the brand as its distribution expands.

**HBCE: What attracted SF Equity Partners to acquire Zoom Eyeworks in the fall of 2010?**

**SP:** The non-prescription reading glass market has great demographic trends with an aging population, and every retailer is in or entering the category. The space has been dominated by one large player, FGX, that competes primarily on scale and logistics, rather than brand, fashion design, and a strong consumer value proposition.

The category was ripe for bringing a different perspective to mass retailers and consumers. Zoom was a family-run business that has been around for many years, and its stable of brands — Zoom, ICU, Fisherman Eyewear, and the Dr. Dean Edell license — fits the characteristics the market needed. Our financial resources will help Zoom aggressively pursue a design and fashion strategy.

**HBCE: What was the purchase price?**

**SP:** We don't disclose purchase prices.

**HBCE: What have been the milestones?**

**SP:** The biggest milestone was recruiting our ceo Rob Robillard, who joined us in June. We needed a brand- and marketing-focused operator to make non-prescription reading glasses an accessory category in the beauty aisle instead of a form-function category across from the pharmacy. Rob gets that vision. In food, drug & mass, the fashion story is told most in the cosmetic aisle, and Rob has a history of that with Living Proof and L'Oreal.

We also had some recent customer wins that we cannot disclose yet.

**HBCE: How did Zoom perform in 2011 compared to plan?**

**SP:** It performed to plan. Zoom's annual sales were \$25 million-\$30 million at the time of purchase.

**HBCE: What is the most important issue facing the business?**

**SP:** Since we are slightly over a year into the acquisition, we have spent plenty of time getting our arms around the business, recruiting the team, and putting the building blocks in place for growth. Our plan was to keep the business stable while putting those blocks in place. For example, there is an existing sales team in place now that reports to Rob. He is

building the team, and an announcement on that should be out shortly.

Non-prescription reading glasses is somewhat recession-proof. It is also a category where we offer affordable luxury. So, continuing to bring fashion and design into this market and giving consumers more spurs on our results will increase as Rob executes the strategy.

We will invest in ICU, our fashion-forward boutique brand, as well as the company-owned brands. We may do more licensing, but there is an opportunity to build a brand in this category, the way Swatch did with affordable watches, that is synonymous with design and fashion. We understand the trends in high-end optical and translate that to a \$15-\$30 price point. Bringing that design to the masses, where women can own multiple pairs for multiple occasions, is something Zoom does well.

**HBCE: Describe the vision for SF Equity Partners and how it will evolve.**

**SP:** We will continue executing our strategy of being the go-to firm for high-growth consumer companies. We have created plenty of value for \$10 million-\$40 million companies and have become adept at helping those businesses grow to the next level. We don't aspire to raise massive amounts of funds and begin working on financial engineering transactions.

**HBCE: What health & beauty areas is SF Equity Partners looking at?**

**SP:** We continue to aggressively look at the natural arena as well as businesses that have a slightly different spin on distribution. Whether cosmetics, hair, broader personal care, or hair instruments, we seek brands with a unique point of distinction and consumer acceptance. Direct-to-consumer models are also of interest.

**HBCE: What is the most important issue facing you now?**

**SP:** While we are more detail-oriented around the specifics of the categories and brands in which we play, it's important to be more cognizant of the macro environment. It affects each company's strategies.

**HBCE: Complete this sentence: In two years, SF Equity Partners will be ...**

**SP:** ... investing out of a new pool of capital on a similar strategy, building great brands, and adding value to our institutional investors.