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Putting a positive spin on Tower sale

Investment banker Lloyd Greif says buyers will look beyond the venerable record company's troubles and see the jewel within.

By Dale Kasler
Staff Writer

It's a battered company in a deeply troubled industry.

So why would anyone want to buy Tower Records?

Because it has a great name and considerable cachet in the entertainment world, a hard-to-define allure that brings in customers. Wipe out much of its debt -- and, perhaps, alter its product offerings -- and it's a company poised to grow again.

That's how Lloyd Greif, the veteran Los Angeles investment banker just hired to sell Tower, sees it.

"I've been doing this 22 years -- this is a very salable company," said Greif, whose clients have included Bumble Bee Seafoods, Pinkerton Security and the Skechers USA footwear company. "What's underneath that debt is very viable, very strong."

But some experts aren't so sure. Several analysts who follow Tower's fortunes question whether Greif can find a buyer for the West Sacramento-based music retailer. Even with much of its debt erased, skeptics say, Tower's problems run so deep that it's unclear if anyone will even try to turn Tower into a prosperous business again.

"I'm not sure who would want to step into this hornet's nest," said

analyst Barry Sosnick, who tracks the music retailing industry at Carmel-based consultant Adams Media Research. "No one leaps up as being apparent or as being especially anxious" to buy Tower.

Much of the skepticism stems from the staggering problems facing all music retailers. Wherehouse Entertainment Inc., owner of the Wherehouse Music chain, is in Chapter 11 bankruptcy reorganization, while Best Buy Co. is desperately seeking a buyer for its troubled Sam Goody chain.

Some experts believe the era of the big music retailer is ending, as consumers increasingly buy their compact discs from bookstores, discount department stores and e-commerce companies like Amazon.com.

A new survey by the Recording Industry Association of America this week said that only 37 percent of U.S. music purchases last year were at specialty, music-only stores like Tower -- a record low. The downloading phenomenon, in which consumers buy or steal music directly from the Internet, is another huge threat.



Lloyd Greif says Tower already has some potential suitors, including "nontraditional buyers" who want to use the chain to market other kinds of entertainment. "There may be some casualties in the industry," he said. "Tower's not going to be one of them."

"It's nearly inevitable that there will be...significantly less packaged music sold at retail," said Colin McGranahan of Sanford C. Bernstein & Co. in New York. "What will be sold, will be sold at stores like Wal-Mart and Best Buy."

Tower -- after two years of slumping sales, mounting losses and three brushes with bankruptcy -- found itself in a new and apparently climactic crisis April 29. On that day, the company disclosed that it might miss a \$5.2 million interest payment on its bonds.

Facing again the possibility of a bankruptcy-protection filing, Tower negotiated a tentative plan that would give bondholders an ownership stake in the company,

cancel much if not all of the bond debt and put the retailer up for sale. Sacramento's Solomon family, the company's owners and founders, hired Greif's firm to find a buyer.

It's not clear if Greif faces a deadline. If the interest goes unpaid, the bonds would go into default in about two weeks. That would trigger default on Tower's bank loans as well. But that doesn't necessarily translate into bankruptcy if bondholders and bankers are willing to be patient. Greif said Tower's creditors are "on board" with the sale, which he expects to proceed "at a pretty good clip."

His hiring kicked off an industrywide guessing game, with executives wondering if a Tower purchaser would come from the retailing industry, the media and entertainment business, or somewhere else.

"It's anybody's guess," said Chief Executive Glen Ward of Virgin Entertainment Group North America, a leading Tower competitor. Asked if his company would make an offer, he said, "We're watching the situation with interest."

Added Jerry Comstock, chief executive at Warehouse: "If there's an investor out there who believes that at the end of the day there will be room for a free-standing, specialty music retailer, there will be interest in Tower."

Greif said several potential buyers have shown an interest in buying Tower, including "nontraditional buyers" who see the chain as a vehicle for selling "other forms of home entertainment."

There are "companies that want to use this distribution channel and want to use that brand," said Greif, president of Greif & Co. "There's going to be some eyebrows raised at who's going to come away with the prize."

While Tower has moved heavily into the DVD business in the past year or so to supplement its CD selection, Greif said a new owner could diversify the product mix

even further. He envisions Tower as a hangout, a place that sells lifestyle as much as product, along the lines of bookstore-and-coffee chains like Borders.

But making that strategy work could be iffy, mainly because Tower's brand appeal has been eroded so much in the past few years, said Andrew Flynn of the San Francisco brand-consulting firm Prophet.

Blame it on the Web. Flynn said some of Tower's core audience -- music fans who love to browse the stacks for rare CDs -- has been lured away by the Internet, where the selection is even broader. As a result, the idea of a Tower "lifestyle" resonates with fewer consumers than in the old days, he said.

"The uniqueness of Tower as an experience has been nibbled away," he said.

Greif, however, insisted that Tower still has a special place -- "that cachet, that reputation, that clout" -- among music and entertainment lovers. It's that stature that will keep Tower going regardless of the troubles afflicting other chains.

"There may be some casualties in the industry," he said. "Tower's not going to be one of them."

This apparently isn't the first time Tower has explored a sale. Two years ago, when Tower debt problems began surfacing, Chicago investment bank Chilmark Partners said it approached at least seven potential buyers for Tower's U.S. stores, including bookseller Barnes & Noble, British entertainment retailer HMV Media and several merchant banks. The effort failed.

Chilmark made this disclosure as part of a lawsuit against Tower for breach of contract. Tower, which is countersuing Chilmark, denied that Chilmark tried to sell the U.S. business.

One thing that is clear is that Tower already has sold what many industry analysts believe was its most valuable asset -- its 51 Japanese stores, sold last fall to a Tokyo investment firm for more

than \$125 million. The deal was necessary so Tower could pay down some of its bank debt and avoid bankruptcy, industry analysts say.

The Japanese stores earned operating profits of \$11.3 million in the prior fiscal year vs. a \$53.8 million operating loss at the U.S. stores. Tower officials say the U.S. stores have been more successful on a cash-flow basis -- a different measure of profitability -- but industry analysts are unconvinced.

"The Japanese asset was really the plum asset," said an industry executive who asked to remain anonymous.

In hiring Greif, Tower has chosen a small but growing investment bank with a lengthy list of deals to its credit. In recent years, it arranged the sale of Bumble Bee and helped Skechers purchase part of L.A. Gear. Greif also helped arrange the merger of the top two residential real estate firms in Southern California.

In selling a company, one of his strong suits is his ability to highlight overlooked but promising segments of the business.

"He identifies for potential suitors the jewels that lie within," said former colleague Steven Cesinger.

That seems to be his strategy with Tower, as Greif stresses the possibility of selling other products in Tower's stores.

Greif, 47, has spent his career working with entrepreneurs and growth companies; he donated \$5 million to the University of Southern California, where he got his master's degree in business, to start a center for entrepreneurship that bears his name.

"This deal is right up our alley," he said. Among interested parties, Tower is seen as "a platform for growth," he said.