

Ares Management takes controlling stake through debt of Bain-backed Guitar Center

By **Chris Witkowsky** - 4 April 2014

Guitar Center, a retailer of musical instruments and recording equipment, has completed a transaction that has reduced its total debt by about \$500 million and annual cash interest expense by more than \$70 million. As part of the deal, **Ares Management** has exchanged a portion of its holdings of the company's debt into preferred stock and taken a controlling interest in Guitar Center. **Bain Capital**, which acquired Guitar Center in 2007 in a deal valued at \$2.1 billion, will retain partial ownership along with board representation.

Press Release

Guitar Center, the world's largest retailer of musical instruments and recording equipment, today announced the successful completion of financial transactions that greatly improve the company's financial position. As a result of these transactions, Guitar Center's total debt has been reduced by approximately \$500 million and annual cash interest expense has been reduced by over \$70 million. The improved financial position of the company will enable Guitar Center's management team to further invest in its people, store base and brands to accelerate growth.

As part of the transactions, affiliates of the Private Equity Group of Ares Management exchanged a portion of their holdings of Guitar Center's debt into preferred stock and assumed a controlling interest in the company. Affiliates of Bain Capital retained partial ownership of the company, along with representation on the Board of Directors.

Concurrently with the partial debt-to-equity exchange, Guitar Center completed a refinancing of its remaining indebtedness with proceeds from new senior secured notes, senior unsecured notes, and a new revolving credit facility. Aside from carrying a lower interest burden, the company's new debt

structure provides for substantially more flexibility and improved credit terms over the next five years.

“This new capital structure is the culmination of a lot of hard work over the last year. Further, it marks a significant moment for Guitar Center as we strengthen our company and welcome Ares Management and its retail expertise alongside that of Bain Capital. We now have the necessary resources to expand our footprint and to invest in our people, stores and product assortment. Guitar Center is well positioned to expand our multi-channel offering nationally and to significantly accelerate growth through new services and a strong focus on improving our customer experience. We believe that 2014 is going to be a landmark year of exciting change for Guitar Center and our valued vendor partners.” – Mike Pratt – CEO, Guitar Center

“These transactions significantly enhance Guitar Center’s financial position. On a cash flow basis, we expect to save more than \$70 million a year in cash interest expense. In addition, the removal of the restrictive term loan covenant and extension of the maturity dates of our facilities provides us with financial flexibility to execute our strategic plan and to grow the business.” – Tim Martin, Chief Financial Officer, Guitar Center

Proskauer Rose LLP acted as legal advisor to Ares. Kirkland & Ellis LLP acted as legal advisor to Bain Capital and to Guitar Center. BofA Merrill Lynch, Deutsche Bank Securities, J.P. Morgan and RBC Capital Markets acted as joint bookrunners on the new Secured and Unsecured Notes. Wells Fargo Capital Finance and Bank of America Merrill Lynch acted as joint lead arrangers on the new revolving credit facility.

About Guitar Center

Guitar Center is the largest retailer of musical instruments and related products. We operate Guitar Center and Music & Arts retail stores across the United States. We also are the largest direct response retailer of musical instruments and related products through our subsidiaries Musician’s Friend, Inc., Music123, Inc., Woodwind & Brasswind, Inc., and their catalogs and websites. This year marks the 50th anniversary of Guitar Center’s historic first-

steps to helping people make music. Guitar Center is all about enabling musicians and non-musicians alike to experience the almost indescribable joy that comes from playing an instrument. All we sell is the greatest feeling on earth.

About Ares Management

Ares Management LLC is a leading global alternative asset manager with approximately \$74 billion of assets under management and approximately 700 employees in over 15 offices in the United States, Europe and Asia. Ares Management's Private Equity Group has approximately \$10 billion of assets under management, targeting investments in high-quality franchises across multiple industries, including current retail and consumer investments in 99¢ Only Stores LLC, Floor and Decor Outlets of America, Inc., National Bedding Company LLC (Serta), The Neiman Marcus Group LLC, Simmons Bedding Company and Smart & Final Holdings, Inc. For more information visit: www.aresmgmt.com

About Bain Capital Private Equity

Founded in 1984, Bain Capital one of the world's foremost privately-held alternative investment firms, with more than \$70 billion of assets under management. With deep experience investing in and building businesses around the world, the firm has made private equity, growth, and venture capital investments in more than 450 companies, across a variety of industries including consumer/retail, financial services and institutions, healthcare, industrials, and technology, media and telecommunications. Bain Capital has offices in Boston, New York, Chicago, Palo Alto, London, Munich, Tokyo, Shanghai, Hong Kong, Mumbai and Sydney. For more information please visit <http://www.baincapitalprivateequity.com/>.