

B. Riley and Great American Group to Combine through Stock Swap

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B. Riley, a boutique investment bank, primarily known for their small cap research, will combine with the Great American Group (GA), which is a national advisory, liquidation, auction business. Bryant Riley will become the CEO and Chairman of the new combined firm. The two headquarters are located in Los Angeles.

Deal Structure

B. Riley to receive 80MM shares at \$0.50/share - \$40MM; 25% ownership; largest shareholder

- Essentially exchanging the assets from B. Riley for \$40MM.

Private placement of 200MM shares at \$0.25/share - \$50MM; \$30MM to repay debt; \$20MM outstanding

Current outstanding 30MM shares at the market \$0.50/share - \$15MM

<http://apps.shareholder.com/sec/viewerContent.aspx?companyid=ABEA-3MIGXZ&docid=10001958>

Total equity: \$105MM

Total shares: 310MM shares

Post reverse split: 15.5MM shares (@ 1 for 20 reverse stock split)

Elliott International owns 45MM shares, or 15%.

Private placement - \$51MM from accredited investors at \$0.25/share, inclusive of principals from B. Riley. I believe this is where the arbitrage opportunity lies for B. Riley. They are buying the co. at a discount. How could they sell shares to investors at a lower cost than the market? Doesn't this create instant arbitrage? Preferential treatment.

The proceeds from the private placement will go toward paying down the \$50MM face value of debt on their balance sheet. 2 executives from GA funded the debt, but are willing to take a 38% haircut by accepting \$30MM. The remaining \$20MM will be used for corporate purposes.

An additional 200MM shares will be issued as a result of the private placement (\$51,000,000 / \$0.25). Currently, 30MM shares outstanding. Including the 80MM shares given to B. Riley, there will be 310MM shares outstanding and post the reverse split, will come down to 15.5MM shares, and the stock price will go from \$0.50/share to \$10/share.

B. Riley

The implied revenue for B. Riley was \$20MM and EBITDA about \$8MM. Seems quite cheap for B. Riley. And, in actuality, B. Riley is the acquirer, who will manage the company.

B. Riley would probably have remained a regional bank, relegated to small deals in California, operating their annual conference. It would have been a quaint business model. But Mr. Riley seems to be much more ambitious than most boutique investment bank owners. Don't let his down-to-earth persona fool you. He has an impressive track record, starting up his first brokerage at the age of 28.

Recently launched an equity fund (Ticker: BRILEYTR.IND) recently which tracks the BUY ratings from the research department. Currently is down 9% YTD.

Great American Group (GA)

B. Riley was the investment bank which helped IPO Great American Group. B. Riley was a board member of GA. GA operates an appraisal, liquidation, auction business for businesses that are typically going out of business and need to liquidate their inventory. They recently launched a real estate business that deals with leases held by the retail stores. Revenue is minimal at \$2-3MM annually. They have a nation-wide footprint with multiple sales offices. We assume there will be closures as a result of the combination. Also, they have a presence in Europe.

GA Valuation

The current net tangible book value for GA is a negative \$10MM, excluding the \$5MM goodwill value. However, once the \$50MM face value of debt, which was financed through 2 senior management members from GA, is retired at a 38% discount, or \$30MM, the net tangible book value should rise to \$15MM. The financing for the debt retirement will be through a targeted \$50MM private placement. Currently, the outstanding shares is \$30MM, and at \$0.50/share, the total equity is valued at \$15MM, or a 1.50x Price/net tangible book multiple.

Main Point

Mr. Riley didn't lose his investment bank. Rather, through his majority stake in GA, he now controls an international finance business catered to corporate clients, while essentially retaining his 100% stake in the I-bank, through GA's holdings. Strategically, the combination serves both parties since GA's IPO went bust and the combination breathes back life into the business, and B. Riley is now able to expand their footprint geographically, and even go into the turnaround/distressed investment business. The auction/liquidation business which presumably picks up in a bear market is a perfect hedge for the I-bank business model.

In fact, Mr. Riley IPO'd his Bank while retaining a majority voice in the business, albeit in an OTC board.

The deal is similar to the recent Daum-Kakao stock swap merger. Kakao stakeholders, of course, will be the majority stakeholder of the combined entity, and both businesses complement each other well – web portal

and instant messaging.