

Fall 2009

Well, fall seems to have arrived a little early here in New England. Unless you like rain or you're a farmer, it was an unpleasantly cool, sometimes nasty summer and the weather gods have just stayed at it: early frost, early snow and cool, cool, cool. Most New Englanders would say it's so we don't get accustomed to global warming. It clearly must have affected our heroes at Fenway (the Red Sox, if you live beyond our shores). They couldn't win on the road (in places like Florida, California and Texas), but, blessedly, no one else could overcome the weather here. So, they got to the playoffs almost in spite of themselves, and then decided an early fall was a good thing and promptly folded ingloriously in three straight to the Los Angeles Angels. Like a lot of folks these days, this season-ending slump has apparently created an opportunity for them to take a "hard look" at things.

Speaking of taking hard looks, we've been pushing our powers of observation especially hard this year and have been fortunate to come up with four additions to our portfolio. Before reviewing them, though, a quick update.

Through both 2008 and 2009 we continued to strengthen our operating partnership, Berkshire Partners. We have welcomed five talented newcomers to the private equity investment staff as Senior Associates during this period. In addition, we have built the core investment team to manage our new investment fund, the Stockbridge Fund. Stockbridge, our regular readers may recall, applies the principles developed in our private equity investing to long term investments in publicly listed companies. Developed first with internal capital, Stockbridge, under Rob Small's leadership, has commenced marketing its fund to outside investors. Three members of the team, Neil Wagner, Jon Meyer and Anil Seetharam, earlier in their careers were Associates at Berkshire Partners. Stockbridge is off to a strong start and the exchange of ideas that has arisen from the work and daily interaction of both staffs already has turned into two investments for Berkshire Fund VII. We are all delighted!

We have also taken the opportunity to invest in new facilities, technology and support services. Our goal is focused, responsive execution, whatever we are doing. At this writing we are happy indeed with our new colleagues and the investment made to support them and us.

But back to the investments, and in chronological order. Early in the year, consistent with our goal to support management teams in growing their businesses, we invested additional capital to help National Vision (the value retailer of eyeglasses) acquire a regional competitor, Eyeglass World. This add-on acquisition gives the company an additional platform to pursue its strategy to be America's leading provider of affordable optical products. National Vision's management made significant progress throughout the year in growing its base business and integrating Eyeglass World, and has strong momentum going into 2010.

In the spring, we undertook a new collaboration with our old friends at Crown Castle International. To do this, Berkshire Partners created a wholly owned entity, Tower Development Corp. (TDC), that is acquiring or providing the funding to build infrastructure (primarily towers) for wireless carriers. Crown Castle is identifying, developing and managing these sites and some years down the road has an option to buy TDC if it chooses. At Berkshire we believe strongly in the demand for new wireless infrastructure and believe equally strongly that the team at Crown Castle is the right team with which to be allied in this venture. And just because we believe this, as CCI's common stock was also selling at what we believed to be a depressed level, we also bought some of it through open market purchases.

In recent weeks we have completed two additional transactions, one a growth capital investment and the other an investment in a recapitalization of a family-owned business. This fall, we made a growth equity investment in United Biosource Corporation, a leading provider of outsourced services to many of the world's leading pharmaceutical and biotech companies. More specifically, UBC is focused on helping its pharmaceutical and biotechnology clients collect, analyze and publish scientific evidence related to the safety, economic value and medical efficacy of pharmaceutical products in the peri- and post-approval environment. Over the past several years we have seen regulators, payors, physicians and patients demand more and more evidence to support the safety, efficacy and value of pharmaceutical products seeking FDA approval as well as those drugs which have already been approved. We expect this trend to continue and believe UBC is well-positioned as a leading resource around drug safety and efficacy. We are excited to partner with the UBC's founders, Ethan Leder and Mark Klein, to support the company's service expansion and acquisition strategy in the years to come.

Finally, we recently announced our latest venture into the value retail industry, an investment in Grocery Outlet, the operator of 135 deep-discount grocery stores in the western United States. The company is able to offer extremely low prices by sourcing

excess inventory from food manufacturers at discounted rates and passing those savings on to consumers. Grocery Outlet is a third-generation family-owned business that was founded by Jim Read in 1946. We are partnering with the Read family and management in this investment and are excited to jointly expand the concept in the years to come. All totaled, we shall have invested or committed more than \$500 million in 2009.

We have been fortunate during this period to have had a portfolio of operating companies with strong leadership that have performed well. While certainly not all have grown through this downturn, a majority have grown year on year operating profits through 2008 and 2009 year to date, thanks to exceptional management. Having undertaken considerable refinancing of many of these businesses in 2006 and 2007, chiefly on a covenant light or maintenance covenant free basis, they have had few credit issues and more than adequate liquidity with which to manage execution of their business plans. Both debt structure and the liquidity have been essential to successful operation of these companies during the recession; and we are grateful for all these folks have done. With about half of our \$3 billion seventh private equity fund available for investment and with a deep team ready to work on new opportunities, we have redoubled our always active efforts to find new business opportunities. As we took our own “hard look” in early 2009, it led us through a process that has taken us to the four investments we have made in 2009. As economic conditions recover, we hope you will join in with us as we search for more good ideas. And while you do, we can follow the fun at Fenway as the Sox take their “hard look” and retool for 2010. And, if you really feel inspired, let us know. An evening at Fenway is a great place to talk things over.

BERKSHIRE PARTNERS