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Sterling Investment Partners' Acquisition of Fairway Market

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Howie Glickberg, chief executive officer of Fairway Market, knew one thing: He did not have to sell Fairway Market, the chain of New York grocery superstores that his grandfather founded 75 years ago.

The grocery chain has achieved enormous success over the past several years, and he was not likely to consider exiting anytime soon. The stores have benefited immensely from Fairway's policy of refusing to accept "slotting fees" from distributors, the common practice in which food manufacturers pay a fee in exchange for preferential placement on grocery store shelves. Fairway, alternatively, chooses to provide foods and products that customers prefer and the concept seems to work.

For customers that means fresh produce and meats, an assortment of cheeses, organic breads and cereals, and more obscure brands that either can't be found or might be buried behind Kraft or P&G at other supermarkets. A testament to the theory can be seen in the long lines that, depending on the location, often stretch into the cereal and paper products aisles.

"[Fairway] certainly didn't need the money," says Sterling Investment Partners managing partner and cofounder Charles Santoro. What the company did need, however, was help overseeing its expansion. In short, Fairway was in danger of outgrowing itself.

Glickberg had looked into growth capital opportunities with his business partner. His financial adviser ultimately arranged an initial meeting between Glickberg and the Sterling team, which led to early discussions.

Then more discussions were held. Eventually, three years later and after many more discussions, Sterling inked itself a proprietary deal.

"The business met many of our operational criteria, but we also recognized that it was going to be an extremely difficult deal to structure on terms that would satisfy the multiple parties involved," Santoro says.

He describes that Howie Glickberg and certain members of the family were reticent about selling to a private equity firm, especially since Howie had planned to remain installed as Fairway's CEO. On the other hand, non family stakeholders were looking to sell. One was planning to retire, while the other wanted to move away from day-to-day operations. Also in the mix were Fairway's then nearly 30 members of upper management, who had received the equivalent of equity incentives for their contributions and food expertise.

"[We had to show] that we were a good partner and could help them grow to the next level without destroying the entrepreneurial magic of Fairway," Santoro says.

To do that required patience. "We didn't control the pace. The family controlled the pace," he says. But the firm did help its cause by going through, in thorough detail, every company that the firm ever held in its portfolio. And unlike more traditional deals, the Sterling team and Fairway's owners "really became partners in the business before any papers were signed."

Sterling outlined its vision for Fairway's growth throughout the New York metropolitan area, demonstrating how management could "remain food entrepreneurs within a larger, more structured environment." Moreover, the firm established how the company could streamline decision making to accommodate the rapid growth being sought.

Once management was on board, the final hurdle to cross was to get the lenders to buy into the story. CapitalSource and Golub Capital backed the deal, with senior financing and mezzanine, respectively, while Sterling covered the balance with equity, and company management rolled over a significant stake as well.

Prior to the deal, Fairway had opened up a new store in Brooklyn's Red Hook district, and following the buyout, valued at around $150 million, the new investors hit the ground running. Fairway is expected to open new locations in Westchester, Long Island, New Jersey and Connecticut. Santoro believes that with these openings, revenues could approach $750 million.

Since the close of the deal, Fairway's revenue has shot up nearly 20 percent, with Ebitda showing an increase of 35 percent. It took a while, but Santoro notes it was well worth the effort. And the lesson he took from the deal? "Don't give up," he says, with a laugh.