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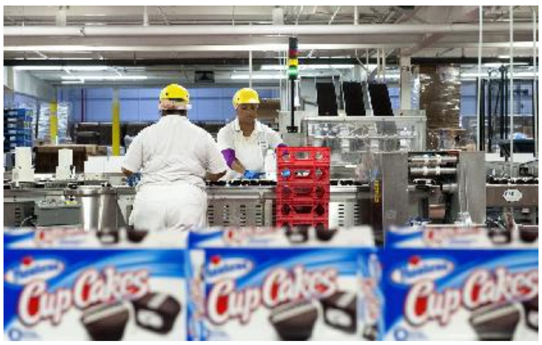
BUSINESS

Hostess Brands, Purveyor of Twinkies and Ho-Hos, Returning to Wall Street

Snack maker completes complex transaction with investment vehicle Gores



Production workers aid in the process of boxing finished cupcakes at the Hostess plant in Emporia, Kan. *PHOTO: AMY STROTH FOR THE WALL STREET JOURNAL*

By **ANNIE GASPARRO**
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Hostess Brands LLC is expected to start trading as a public company on Monday, serving as the first widespread test of investor appetite for the snack brands since they were bought out of liquidation almost four years ago.

The 86-year-old brand behind the famous Twinkies is due to list on the Nasdaq Stock Market with the ticker symbol TWNK.

It comes to the market at the time when healthier snacks like kale, quinoa and gluten-free cookies are gaining popularity. But some investors say iconic, indulgent brands like Twinkies, Ho-Hos and Ding Dongs have a special place in American culture.

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Hostess is going public via a complex financial transaction using a so-called publicly traded special-purpose acquisition company, or SPAC, an increasingly popular way for companies to go public without launching a risky initial public offering.

The acquisition company in this deal is investment group Gores Holdings Inc., created more than a year ago to buy a then undetermined company. In July, Gores said it was planning to buy Hostess from its private-equity owners and on Thursday, its shareholders agreed to go through with the transaction.

Alec Gores, founder and chief executive of the Gores Group, said he and other investors were initially concerned that Hostess didn't fit into the current healthy eating trend, but he believes it has growth potential.

"It's an iconic brand, part of Americana," he said.

Hostess said it generated $620.8 million in revenue and $88.8 million in profit last year.

Gores Holdings shares, which are expected to trade under the symbol TWNK from Monday, traded up 5% on Thursday.

The listing is a big turnaround from November 2012, when Hostess shut down its factories following a nationwide strike by members of its baker's union in protest of a court-imposed labor contract that cut wages and other benefits.

Four months later, Dean Metropoulos—known for turning around ailing brands such as Bumble Bee tuna and Chef Boyardee—teamed up with Apollo Global Management LLC to buy the Hostess snack cake brands and four factories out of liquidation for $685 million in cash and loans.

By July 2013, they were shipping products to stores again.

The investment firms started with very little but had one big advantage: The new Hostess came without the pension costs, union contracts and $1.3 billion worth of debt that weighed down its previous owners.

The old Hostess employed 19,000 people. The new Hostess currently employs about 1,200, but it also doesn't include all the brands the old company had, such as Wonder bread.

Apollo and Mr. Metropoulos cut down on manufacturing and distribution costs, partly by doubling the shelf life of their snack cakes to 65 days.

They invested more than $130 million in upgrading aging facilities with larger ovens and robots that can pack Twinkies into boxes. They also switched to third-party drivers and a central distribution system, rather than delivering their snacks directly to every store.

For the stock market transaction, Gores put up $375 million in equity, while other investors, including Apollo and Mr. Metropolous, put in a $350 million investment.

Mr. Metropoulos and Apollo, who will hold a 42% combined stake in the company, are set to make 10 times their initial $185 million cash investment in the original deal, people familiar with the matter have said.

Hostess Chief Executive Bill Toler, whose favorite Hostess snack is the Ho-Ho, said things were chaotic at first. "It took us the better part of a year to get orders right," he said. "I took a lot of arrows in the first six months I was in the job," he said.

Now Hostess is focusing on new products, like peanut butter Ho-Hos, which are coming out soon, and the recently launched deep fried Twinkies.

The company says it will never shy away from its indulgent nature.

"It's a balance," said Mark Stone, chief of the investment vehicle Gores Holdings, who spent the summer meeting with fund managers hoping they would invest. "A kale salad for lunch, and at 3 p.m., a Ho-Ho for a snack."

—Corrie Driebusch and Julie Jargon contributed to this article

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