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## Jeans, Healthy Snacks Draw Investors

By JOSEPH PEREIRA

Consumer spending is slumping, and designer duds are hitting the discount racks. So why is Paul Fireman -- the man who founded athletic shoe maker Reebok and then sold it to Adidas AG four years ago -- in talks to invest \$33 million in a small company that makes \$175 pants for well-heeled fashionistas?

Mr. Fireman says that Los Angeles-based Hudson Jeans has fast-growing sales, solid profit margins and an expensive fabric that sets it apart in a crowded market. And he says he is looking for more such opportunities.

Mr. Fireman and his \$300 million investment fund are part of a surprising growth trend: venture investing in consumer-goods companies. Last year, while total venture-capital investing fell 8.3% to \$28.8 billion, venture investments in consumer-products companies rose a healthy 31% to \$485 million, according to the VentureSource unit of Dow Jones.

The consumer companies that are attracting venture capital make everything from high-tech fabric to "green" car components and healthy snacks. Their backers say they are well-suited to the recession because consumers will cut back less on clothes, eco-friendly products and food than other purchases. Such companies typically require capital in smaller bites than the information-technology and life-sciences concerns that have dominated venture investing in recent years.

In a downturn, Mr. Fireman says, "consumers will still buy," but they will be more discerning and they will gravitate toward fresher, hotter consumer goods. The recession "hits the bigger brands harder," he adds.

In November, VMG Equity of San Francisco acquired a controlling stake in Robert's American Gourmet Foods, a healthy-snack maker based in New York. In October, JH Partners LLC., San Francisco, acquired the 30% it didn't already own in La Perla Group, a women's lingerie concern based in Italy. And in September, New York-based Falconhead Capital LLC purchased a controlling position in Not Your Daughter's Jeans, a California-based jeans maker. Terms of these deals haven't been disclosed.

Sarah Robinson, a VentureSource research analyst, says that in a way consumer goods are benefiting from the recession. "Because of the decline in the entire economy, investors are looking at industries that may not require as large an investment as others," she says.

Brad Poorman, chief executive of Colorado-based Cocona Inc., a maker of special fabrics that wick sweat and mask odor in athletic wear, says 28 venture firms left him cards after he made a 15-minute presentation at a private-equity investment conference last week in Colorado where he was trying to gauge interest for future funding needs. Cocona, backed by Fairhaven Capital Partners LLC, makes its fabric from carbon culled from discarded coconut shells. Brands that use it include New Balance, Dockers, Patagonia, Merrell and Izod.

The big motivators in the consumer goods arena are interest in healthy living, fashion and environmentally friendly cars. "Our research shows that there is a growing number of firms interested in nutrition and wellness products," says Illya Nykin, a managing director of Prolog Ventures, a St. Louis-based venture capital firm that provided early-stage financing last year for the health-food concerns Asoyia Inc., Corazonas Foods Inc. and Attune Foods Inc.

"People still read food labels and are concerned about their health no matter how bad the economy," he says.

Asoyia, based in Iowa, makes cooking oils without hydrogenated fat. Corazonas Foods, of Los Angeles, includes cholesterol-lowering ingredients in its potato and tortilla chips, which are sold at Kroger Co., Safeway Inc. and other outlets. Attune Foods, based in San Francisco, adds digestive aids and immune-system enhancers to its granola and chocolate snacks.

Mr. Fireman's son, Dan, who is a managing partner of the recently formed Fireman Capital Partners, says the firm is looking for profitable companies with revenue from \$50 million to \$300 million. Hudson Jeans would be the Firemans' first investment. The company buys premium denim from Italy and makes the pants in Los Angeles. The material is designed to have a slight stretch to it that creates "a snug and tight look," says Peter Kim, Hudson's chief executive, who inherited the company from his Korean immigrant parents.

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