



Q&A On M&A: Roark's Steve Romaniello Talks Restaurant Deals



For the restaurant industry, a recession can mean feast or famine. For Roark Capital, the plan is to chow down.

The Atlanta-based buyout firm looking both for new restaurant acquisitions and add-on to its FOCUS Brands platform, which already includes Carvel, Cinnabon, Moe's Southwest Grill, Schlotzsky's, Seattle's Best International and McAlister's Deli. Roark's \$1 billion fund, which closed in 2008, is 30% deployed.

I spoke with Steve Romaniello, a managing director with the firm, on being "on-trend," bidding for cheese, deal multiples, and zigging while everyone else is zagging.

What's the firm's outlook for restaurant performance this year? Will sales improve?

We think its going to be another difficult year. Not quite as bad as last year, but we don't expect to see meaningful improvement in many segments until we start seeing employment growth again. And no one has any idea when that will be.

How has that played out in your own companies?

It's been mixed. We have brands in a variety of segments. We have a fast casual restaurant called Moe's Southwest Grill, which, in recent months has seen significant growth in same store sales, the latest report I saw was mid-to-high single digit increases. We also have Cinnabon, which is largely in shopping malls, and that has had a more difficult go of it lately.

What initiatives did you put in place to weather the economic storm for companies like Cinnabon?

We were fortunate that we guessed right back in late 2007 and started putting programs in place to tighten the belts and watch our costs and start a lot of work. To zig while everyone was zagging, so to speak. We wanted to be in the position to invest in our menu, staff, and service, while most of the industry was in the difficult place and not as easily able to do those things. So, with our Schlotsky's restaurants, we renovated the stores put in new POS (point of sale) systems, we reevaluated the menu, and we added some limited time products. We finished 2009 with positive comparable store sales. At Moe's, we improved the quality of the food and cleaned up the environment of the store, and we started measuring the quality of the service more intensely. We believe this has led to this last six months of growth.

Those companies are all a part of FOCUS brands, which is your restaurant portfolio company comprised on six different restaurant brands that are a bit of a motley crew. What is the benefit of having them all grouped together, particularly when some, like Moe's are growing more than others, like Cinnabon?

Each brand has its own operating team with a brand president who is responsible for that menu, standards, price cuts etc., and there are some shared services which allow us to be more efficient. Then they can work together with some of the brands. They have their own brand presence and operations in Texas. However, much of their accounting is handled in Atlanta. When we go out to bid on cheese, we'll look at Moe's and Schlotsky's cheese volume so they can buy together for better prices. We also took the Cinnabon brand and downsized it so it can fit within a Schlotsky's restaurant. For \$25,000, we put a Cinnabon into our Schlotsky's stores and saw an incremental sales increase with a 50% profit margin. We were able to do that because we could control the brand in our company-owned stores, and we're now making that available to franchisees. There are lots of examples of things like that. We focus hard on the brand, maintaining its integrity, while leveraging the benefits of scale.

Will you continue adding brands to the company, or are you seeking to buy new platforms?

Both. We're looking for add-ons and new platforms. The team at FOCUS is ready for more.

What's your ideal restaurant investment right now?

I would guess prefer franchised but we are now investing in franchisees of brands we like as well. But I'd prefer a franchisor. We like brands that are on-trend and have the wind at their backs. We're looking for talented management

teams—people with experience and passion for the brand. And if I had to pick in terms of space, we are more comfortable in the QSR up to the casual dining space.

So food type isn't a preference?

Not really. We have a couple of treat brands, a sandwich chain, Mexican food, and coffee. As long as its on-trend.

What is “on-trend” right now?

Today's consumer is eating out less frequently, and when they do they are looking for a total experience. They're being less adventurous and they're looking for a deal. And they'd like it to be at least perceived as fresh and even healthy.

Does that company exist?

Yes, if you look at Moe's, for example. It has a really cool atmosphere, the food is awesome, it's fast and all the food is fresh—there are no freezers or microwaves in the restaurants. It's convenient and, being fast casual, there is no 20% tip you are going to get in a full service restaurant. The best-performing chains these days hit on most if not all of those criteria.

Can you name a few others?

Chipotle does this well. So does Panera Bread.

A few restaurant deals out there are happening, but at multiples as high as 8x. For example last year's buyout of Church's Chicken, and the ongoing auction for Papa Murphy's. Are only the best companies for sale? Are there deals out there at lower multiples?

We are seeing for every good one there are some that are not-so-well positioned and they aren't commanding the prices you're talking about.

Are they actually selling though?

It's not on people's radar screen, but smaller companies are trading at a lower level.

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