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Private Equity Goes Franchise

How one firm made good on their franchise expertise

BY PAULA SCHAAP | Atlanta-based private equity firm Roark Capital Group has an interesting focus: the world of franchisors. Although many of the firm's portfolio companies are in the restaurant business, it has ranged wide in the franchise field: from a battery retailer, to a direct mail advertiser, even to an educational program provider.

Managing Director Steve Romaniello talked to *Alternative Universe* about what makes their franchise portfolio companies tick.

Alternative Universe: You and founder Neal Aronson came out of the hotel businesses, how did you end up in the private equity end of things?

Steve Romaniello: Neal and his uncle, who was the former COO of Holiday Inn, formed U.S. Franchising Systems in 1995 for the hotel franchising business. They brought me over from Holiday Inn and I met Neal. We had terrific success with that company and we ultimately sold it in 2000 to certain interests of the Pritzker family out of Chicago where I stayed for a year.

Neal left and formed Roark Capital Group and he and I were fortunate to join forces a year later. We started making capital acquisitions with Carvel Ice Cream.

AU: Why did you make that jump from the hotel to restaurant franchise companies?

SR: I'm not sure it was a conscious jump to go into restaurants. What we really liked was the franchise model.

AU: Are most of your investments in the restaurant business at this point?

SR: It's about half-and-half, restaurant and other. Our portfolio companies now are primarily in the franchise area: that is what we would consider our area of expertise.

AU: Do you have any main private equity competitor for the franchise field, or are you unusual in that regard?

SR: I think we're unusual in the depth of the market that we go into. I've been doing franchising for 20 years. We have people on our staff who have been CEOs, presidents and heads of sales and development for franchise companies. In recent years, some of the competitors who also focused in this area have vacated the market.

AU: Why is that?

SR: I think they've had some difficulties and they're less active in the pursuit of new investment opportunities than we are. We were fortunate in that we raised our second institutional fund in January of 2008 [for a little more than \$1 billion] and we now have a little more than \$900 million of capital that is yet to be deployed. We are working on this fund and adding staff to our organization as we go out and make these investments.

AU: Can you speak to something that Roark Capital acquired that was your big success story?

SR: Batteries Plus is one of our biggest success stories. It is a specialty retailer that meets all the criteria we were looking for. It has an extraordinarily well-rounded management team who really under-

stands retailing and franchising and understands the relationship with the franchisee.

AU: We've obviously been in a recession for 18 or 19 months. You have a lot of consumer business, such as restaurants, some of which don't do well in a recession while others do.

SR: It's pretty interesting. We have a very diverse portfolio of restaurant concepts. We have Schlotzsky's Deli, which, as recently as last week has been doing incredibly well. A lot of that has been due to their positioning, but also the fact that they have a lot of stores in Texas, and that area has generally performed better than areas like Las Vegas or southern Florida. And now you take a look at Cinnabon which is placed largely in venues that are challenged: airports and enclosed malls, so it hasn't fared as well. But all in all, the portfolio as a whole is doing quite well and faring, in my estimation, far better than the industry in general.

AU: Why was the decision to go into education with the Primrose Schools investment and when was the investment made?

SR: That investment was made last year as an investment from our second institutional fund. We have for a long time felt that the trend toward education is a strong and enduring one. Primrose is a leading franchisor of pre-kindergarten schools and they do very high quality educational programs for children who are six weeks to five-years-old and they've even recently instituted after-school learning programs for six- to 12-year-olds.