



## Meet The Manager

### Atlanta's Do-It-Yourself Investor

An interview with Roark Capital Group's Neal Aronson, which appeared June 13, 2003 in PrivateEquityCentral.net. Reprinted with the permission of PrivateEquityCentral.net.

*Roark Capital would like to thank its families for their continued love and support. The Atlanta buyout firm draws its capital from wealthy family groups, hedge funds and other institutional investors on a deal-by-deal basis. Roark Capital's founder, Neal Aronson, says this structure has never slowed the firm down on the deal front, and in fact gives him a flexibility not found in a typical limited partnership structure. Aronson cut his private equity teeth working at Acadia Partners (now Oak Hill Capital Partners) and Odyssey Partners before striking out on his own to do deals with his own capital. His first independent move was to co-found U.S. Franchise Systems, a franchiser in the lodging industry. Roark also owns Carvel Corporation, a 69 year-old ice cream brand with more than 400 franchise stores and 5,700 supermarket outlets. Roark Capital focuses on smaller investment opportunities that Aronson's former employers won't touch. Aronson spoke recently with PrivateEquityCentral.net about life without a fund, the attractions of the buyout market beyond New York, and how he plans to capture the dollars of local business owners.*

### **PrivateEquityCentral.net: Your firm recently acquired Money Mailer, a direct mail marketing company. What did you find attractive about this company?**

Neal Aronson: Money Mailer's primary customers are 30,000 local merchants - pizza shops, frame shops, dry cleaners - anybody that plays at the local level. The reason the product works is that it delivers to the consumer 30 or 35 valuable coupons in an oversized envelope, while the local businesses share the cost of postage and the envelope with all the other advertisers - so it's cost-effective marketing.

It's also the most targeted advertising and marketing program for local merchants. Money Mailer mails these coupons to peoples' homes that live within three to five miles of the merchants' storefronts. That's where 90% to 95% of a local merchant's business comes from. It ends up being the most cost-effective way for a local merchant to generate trial and awareness.

Local business is a large, vibrant part of our economy. What attracted us to Money Mailer is that we really do understand and appreciate the local business owner. You'll find that all marketing is moving toward a targeted approach. We can market directly to a certain ethnicity, a certain income level, but more importantly, to a certain geography.

In addition, one of our areas of focus at Roark is the franchise industry. The way Money Mailer gets to the local business owners is through its network of 250 franchisees. They have a very successful franchise business model, which makes their growth prospects outstanding.

**PEC: Is Money Mailer competing with the yellow pages?**

NA: There are really two ways that local businesses can reasonably advertise and market – one is through direct mail and the other is through the yellow pages. Most of our customers use both.

**PEC: Of course, the largest private equity firms are buying up yellow pages companies in hopes of targeting the same type of local business marketing dollars. . .**

NA: What the big firms like is the diversified customer base, recession resistance and one of the only true forms of cost-effective advertising for a local business. Many of those same principles are why we're interested in Money Mailer, but at a completely different scale in terms of purchase price.

**PEC: You used to be a principal at buyout firm Odyssey Partners in New York. How does your experience at Roark in Atlanta differ from your New York buyout days?**

NA: Our goal at Roark is to stay away from anything that attracts Odyssey or Oak Hill. It's to take the large-cap buyout experience, combine it with my operating experience at U.S. Franchise Systems, and apply it to small-cap companies, where the competition for transactions is less, and as a result, the purchase-price multiples are lower, while at the same time our ability to influence the outcome post-closing is much greater. At Roark, we are a hands-on, value-added investor. We stick to industries that we understand and have experience in and can bring something to the table.

**PEC: You used to work for the Bass family at Oak Hill. What did you learn there?**

NA: We had \$1.7 billion of capital, and in 1989, there were only a handful of people that had that much money to invest. We were one of the few 800-pound gorillas because we had a large amount of capital and a sterling reputation. I learned the fundamentals of the buyout business at Acadia and forged great, long lasting relationships there.

**PEC: Why were you not tempted to stay in the 800-pound gorilla buyout market?**

NA: Today there are a large number of extraordinarily well-capitalized private equity firms with really, really smart people. The whole objective of Roark is not to prove that we are even half as smart of those guys, it's just to stay away from them and the large pools of money. We're going to go somewhere else. And somewhere else is away from New York and focused on deal sizes that are too small and not interesting to the large pools of capital. We have no ego; we just want to win.

I have experience working for those places and a lot of great friends there. In fact, many of them are Roark investors. I loved what I did, but when it was for my own account and my own money – I invest a significant amount of my own money in Roark deals – I wanted to be hunting where the smartest guys aren't interested.

**PEC: You raise capital on a deal-by-deal basis. How does that work?**

NA: We have a great, stable group of investors who have made money with us for a long period of time. We continue to add additional investors over time – wealthy families, hedge funds and other institutions, etc.

What we do is go to one of our large families or institutions and they'll commit the entire amount for the transaction, and then I can sell them down over time. So what that means is that Roark can get deals done very quickly. Before we send in our letter of intent, we already have a committed transaction. That works fine for the seller.

**PEC: Any plans to raise a fund?**

NA: We haven't decided. We can invest up to \$100 million in any one transaction with the families that we work with today, and we can do that very quickly – faster than I think we could with a fund. I think the question is whether we have the time for 12 months of fund raising. At some point we definitely will consider a fund. But today we are spending more of our time focused on investment opportunities. Money isn't a problem for us.

**PEC: Without a management fee, how do you pay for your basic expenses?**

NA: I fund them myself. That obviously puts a much bigger burden on me, but it gives us a lot more flexibility. It allows us to spend all of our time focused on finding good deals and getting them done rather than spending 12 months on the road fund raising.

**PEC: Do you not weigh your losing deals against your winning deals when paying yourself carry? How do your investors feel about this?**

NA: I think they think it's fair, because they have the right to say yes or no to a deal. The difference with a fund is that an investor doesn't have a decision to make. They don't have the right to say, "Gee, I don't like that company or that industry."

We have a great stable of investors and we're constantly adding people. If somebody decides not to participate in one particular deal for any reason, it's not a problem.

**PEC: But instead of spending time raising a blind-pool fund, don't you now spend time convincing investors on a deal-by-deal basis about the merits of individual opportunities?**

NA: We do have to spend time on that and I think that is why at the appropriate time, we would raise a blind pool. But at least today I only fund raise when I have a transaction ready to go, as opposed to spending a full 12 months raising a fund. And because we have a growing group of investors that have invested with us for a long time, the process of raising money for a deal happens very quickly.

I'm not saying our structure is better than blind pools. It's just different. There are some real sacrifices on my part to do this structure. For instance, I don't have a \$10 million-per-year management fee coming in from a \$500 million blind pool. I personally have significant exposure if there are dead deal costs. So that's the trade that I make.

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