

## Small Purchases

*When Roark Capital Group invests in family businesses, price is only part of the equation*

By LI YUAN

**T**HE FIRST MEETING was like a blind date.

Roark Capital Group was on the prowl for a new investment, a company with strong growth potential in need of capital. And William "Pete" Pike had been looking for years for a partner to help expand his established family company, Pike Family Nurseries.

A mutual business acquaintance of the two Atlanta-based companies introduced Shawn Welch, a Roark partner, to Randy Pike, Pete's youngest son, early last year, and a nearly yearlong courtship began that would end with Roark taking a majority stake in the Pikes' business.

In some ways, the acquisition was like any company buying another. But when it comes to the purchase of a small business, the stuff that's important is often on a whole different plane.

Roark, for its part, needed to know the Pikes' business inside and out to be sure it had the brand reputation and customers to meet Roark's goals for growth, as well as the leadership to get it there. The Pikes wanted to be sure that Roark shared their business philosophy, that its other investments were sound, and that the family would still run the business.

"When you think of businesses being bought and sold, you think of lawyers and investment bankers, the highest price wins, and it's all very cold and canonical," says Neal Aronson, founder and managing partner of Roark. "In small family companies, all those conventional approaches many times go out the window. It's much more about really spending time, getting to know people, really building trust and rapport and a real relationship."

Indeed, if investing in small businesses was as simple as having the highest price, Pike Family Nurseries might have taken an investor years ago. Investment companies started knocking on Pete Pike's door

in 1997, and over the years he turned away some 50 of them. It was only when he found one that he felt he could trust the family name with that he agreed to sell a majority stake.

"This business has been my life," Mr. Pike says, in explaining how hard it was to find an acceptable investor. "I started it in my 20s and have worked at it every day for almost 50 years." It took a lot of soul-searching, he says, to make the decision.

### Hands Off

Roark's emphasis on partnership made that decision a lot easier. Mr. Welch met with the Pike family up to three times a week, sometimes sipping iced tea on the Pikes' porch on the weekends while discussing their business philosophies. The deal was clinched in large part because Roark agreed that Randy Pike should succeed his father, who was ready to hand over the reins of the company, as president and chief executive.

That type of arrangement is at the heart of Roark's strategy for making its investments in small businesses pay off. Generally, Roark focuses on family-owned or franchise businesses valued at \$20 million to \$250 million, a niche where it finds that it can have a big impact on the realization of a company's growth potential. It plans to hold the companies it invests in for five to 10 years, making them larger and more profitable before taking them public or selling them to other companies, says Mr. Aronson. Roark expects the companies it invests in to grow between 10% and 50% a year.

As an investor that has a stake in several small companies at the same time and eventually plans to sell them, Roark has no interest in taking over the management of those businesses, as often happens in big corporate takeovers. It prefers to leave a company's management in place and to bolster it not only with money, the way a bank could with a loan, but also with advice on how to expand.

With Roark's backing, for example, Randy Pike is looking at sites in five Southern states where the company might want to expand beyond the 26 stores it

operates in the Atlanta metropolitan area. Besides funding the company's planned expansion, he says, Roark has provided expertise for strategic planning, even advice for the best store locations in new cities.

"While traditional banks can only provide financing," Mr. Pike says, "an investment company provides not only financing but also people resources." Roark leaves him alone, though, to manage it all, he says.

### No Lectures

Mr. Aronson says his own experience in running a hotel-franchising business before he founded Roark taught him to understand and appreciate the many challenges a small-business owner may face. "Instead of lecturing to a small-business owner, we listen to the challenges and the goals of the owner and the senior management team, share experiences and mistakes we made in the past, and then help design a plan that meets the owners' and the executives' personal needs," he says.

He often finds that small-business owners don't think big enough or don't know how to execute a large-scale growth plan. So Roark's job includes encouraging management teams to test new ideas. For instance, soon after acquiring ice-cream maker Carvel Inc. in November 2001, a board of directors put in place by Roark challenged the management team to increase the variety of products to help franchisees increase their sales. In the first 18 months after the acquisition, Carvel produced about 20 new products, including new smoothies, new cup sizes and new flavors. They turned out to be very successful, says H. Scott Pressly, a Roark partner and vice president.

Roark helped Carvel grow in other ways, as well. At the time of the acquisition, the ice-cream maker had been losing 30 to 50 franchise stores a year for a decade and had just 350 stores left, down from a peak of close to 1,000. After the acquisition, Carvel added 45 people to its franchise division, which provides training, service and marketing for franchisees. Roark also provided more money for marketing and advertising. Carvel franchised more than 80 new locations this year and plans to open about 150 stores in 2005 in more than 30 states.

Of course, sometimes a small business mostly just needs the money to fund ideas it already had. Money for market research was on the wish list of Money Mailer LLC's management team when Roark

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### *Avoiding Trends*

acquired the company in May 2003. Money Mailer reached more than 16 million homes in 2003 with 120 million envelopes full of coupons and advertisements for its clients. Its revenue that year exceeded \$66 million. But in its 24 years of operation, it had never conducted customer research to test the effectiveness of its mailings. With Roark's backing, the marketing department was given a research budget of \$225,000 spread over the remainder of 2003 and 2004, and that will grow to \$250,000 in 2005.

Roark also provides assistance in other areas that many small businesses don't have the resources to tackle, helping them, for instance, to modernize manufacturing facilities, upgrade their technology or grow through acquisitions of their own.

### **Avoiding Trends**

Founded in 2001, Roark was named after the protagonist in Ayn Rand's classic "The Fountainhead"—Howard Roark, an architect who refuses to succumb to conventional wisdom. Mr. Aronson says one of his life goals is to control his own destiny and be able to always "do the right thing" instead of the popular thing, a goal he believes many small-business owners share. Roark won't follow the latest trend, he says, but "will support its portfolio companies and management partners, in good times and bad, as long as the fundamental long-term opportunity remains intact."

After working at two large private-equity funds, Mr. Aronson co-founded U.S. Franchise Systems Inc., a hotel franchiser, in 1995. From their Atlanta base, he and his partner started modestly, buying Microtel Inns, which had only 27 hotels open or in development, for \$17 million. In five years, they built U.S. Franchise into the 10th-largest hotel-franchise company in the country, with 1,100 franchises open or under development under three brands. They sold U.S. Franchise in November 2000 for about \$100 million.

Today, in addition to Pike Family Nurseries, Money Mailer and Carvel, Roark's investment portfolio includes Fastsigns International Inc., a franchiser of signs and graphics outlets, and U.S. Arbitrage Finance II, which invests in loans that are guaranteed by the Small Business Administration and the Department of Agriculture. On Nov. 4, Roark acquired the Cinnabon bakeries chain as well as the franchising rights of Seattle's Best Coffee in Hawaii and in 11 countries.

"Marriage" is a word that Mr. Aronson and executives of Roark's portfolio companies use repeatedly when describing how their partnerships work. In Pike Family Nurseries, Roark has found a happy partner. Selling a majority stake in the family business was a tough decision to make, says Randy Pike, but "it was the wise thing to do." ■■■

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