



# IS ROARK CAPITAL BUILDING A FRANCHISE BUBBLE?

Jordan Ash  
[jordan.ash@PEstakeholder.org](mailto:jordan.ash@PEstakeholder.org)

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# Key Points

## Is Roark Capital building a franchise bubble?

Roark Capital has collected billions from investors in recent years. Will those investors get it back?

Private equity firm Roark Capital recently launched fundraising for a new private equity fund, Roark Capital Partners VI, seeking \$5 billion.

Atlanta-based Roark specializes in buying and running franchise businesses, especially within the food and restaurant industry.

Roark Capital's last fund, Roark Capital Partners V, closed at \$5 billion in 2018 along with a \$1.5 billion sidecar fund.

- Roark raised at least \$10.5 billion from investors between 2012 and 2018. Yet as of September 2020, Roark had only returned around \$1 billion of that to investors.<sup>1</sup>
- As of September 2020, the Roark Capital Partners IV fund had generated an annual return (IRR) of just 0.09%.<sup>2</sup>
- One of the largest acquisitions of the Capital Partners IV fund was the sandwich chain Jimmy John's for close to \$3 billion in 2016. Jimmy John's sales per store was \$877,000 at the time<sup>3</sup> but has steadily decreased and was just \$753,000 in 2019.<sup>4</sup> A number of the other brands that Roark invested in via Capital Partners IV had sluggish growth in expansion.
- Some of the largest private equity investors have either exited investments in Roark Capital funds or held off on new investments.

ROARK  
CAPITAL GROUP



**BUFFALO  
WILD  
WINGS**



# Roark takes in billions, but will they return it?

Roark has grown quickly. The company currently manages \$25 billion in assets.<sup>5</sup> Just six years ago, in 2015, the company reported that it had raised \$6 billion since its founding in 2001.<sup>6</sup>

Roark Capital recently made its largest purchase ever with its \$11.3 billion acquisition of Dunkin Brands. Roark's purchase of Dunkin Brands at 23x EBITDA was one of the restaurant industry's most expensive transactions.<sup>7</sup>

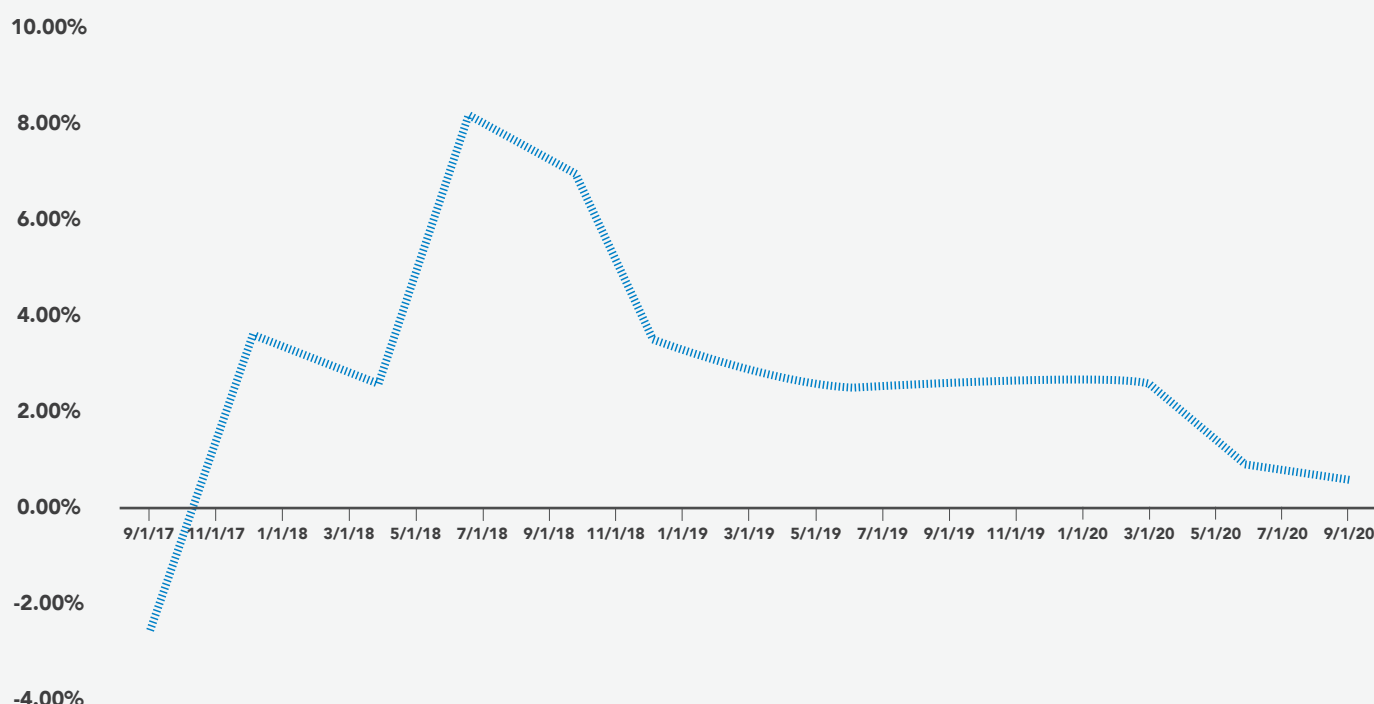
Roark raised at least \$10.5 billion from investors between 2012 and 2018. Yet as of September 2020, Roark had only returned around \$1 billion of that to investors.<sup>8</sup>



FUND	YEAR	SIZE (\$ MILLIONS)	DPI	DISTRIBUTIONS
Roark Capital Partners V	2018	\$5,000	0.00	\$0
Roark Capital Partners V Sidecar	2018	\$1,500	0.00	\$0
Roark Capital Partners IV	2016	\$2,500	0.06	\$150
Roark Capital Partners III	2012	\$1,560	0.55	\$858

# Roark Capital Partners IV performance lags peers

## ROARK CAPITAL PARTNERS IV ANNUAL RETURN (IRR)



The performance of Roark Capital Partners IV, which closed at \$2.5 billion in 2016, might give investors pause.

As of September 2020, Roark Capital Partners IV had generated an annual return (IRR) of just 0.09% and 1.0x multiple.<sup>9</sup>

### Underperformance predated COVID-19 pandemic

While the fund showed promise early on, generating an annual return (IRR) of 7.87% as of mid-2018, that number quickly plummeted and hovered at around 2% for all of 2019 and into 2020.<sup>10</sup>

The pandemic made a bad situation worse, giving the fund an annual return of just 0.09%.<sup>11</sup>

### What did Capital Partners IV invest in?

According to data provider Pitchbook, Roark Capital Partners IV invested in several companies, including:

- QualaWash Holdings (Jan '16)
- Orangetheory Fitness (Feb '16)
- Drybar (Jun '16)
- Miller's Ale House (Jul '16)
- Great Expressions Dental (Sep '16)
- Jimmy John's (Sep '16)
- Jim n' Nick's Bar-B-Q (July '17)
- Culver's (Oct '17)
- IMO Car Wash Group (Oct 17)
- Jamba Juice (Sept 18)



# Declining Sales and shrinking footprint at Jimmy John's

Roark made one of its largest acquisitions in September 2016 when it acquired sandwich chain Jimmy John's for close to \$3 billion.<sup>12</sup> Jimmy John's sales per store had been \$877,000 in 2015.<sup>13</sup> It has steadily decreased and was just \$753,000 in 2019.<sup>14</sup>

This was not an industry-wide problem. According to *Nation's Restaurant News*, 161 other food service chains had better percentage growth in sales per store than Jimmy John's in 2019<sup>15</sup> and 171 other chains did better than Jimmy John's in 2018.<sup>16</sup>

Jimmy John's also experienced a dramatic decrease in the number of new stores opened.

In 2015, the last full year before its acquisition by Roark, Jimmy John's opened almost 300 new stores, a 14% increase in the total number of locations, which was the fifth highest rate of growth among all restaurant chains in the U.S.<sup>17</sup> Since then, there has been a steady annual decrease in the number of new Jimmy John's stores opened and in the company ranking for rate of growth. In 2019, there were 16 fewer Jimmy John's stores than in 2018, which ranked the company's 118th out of all franchises in the US for rate of growth.<sup>18</sup>



## JIMMY JOHN'S SALES PER STORE (IN THOUSANDS)

<b>\$877</b>	<b>\$850</b>	<b>\$792</b>	<b>\$770</b>	<b>\$753</b>
2015	2016	2017	2018	2019

## JIMMY JOHN'S # OF NEW STORES

<b>296</b>	<b>242</b>	<b>108</b>	<b>48</b>	<b>-16</b>
2015	2016	2017	2018	2019

YEAR	# OF NEW STORES	PERCENTAGE RATE OF GROWTH	RANKING IN U.S. BASED ON RATE OF GROWTH
2015	296	14.04%	5
2016	242	10.06%	10
2017	108	4.08%	54
2018	48	1.74%	77
2019	-16	-0.57%	118

Source: *Nation's Restaurant News*



# Slow Growth

A number of the brands that Roark invested in via Capital Partners IV had sluggish growth in expansion.

## Orangetheory Fitness

Roark acquired the company in February 2016, and since then, the company has not grown as fast as its management expected it would.

- The company said that it would open 400 new studios in 2017.<sup>19</sup> However, the company opened fewer than 300 studios that year – less than three-quarters of what it had projected.<sup>20</sup>
- Orangetheory Fitness scaled back its goal for 2018 and said it would open 300 new studios that year.<sup>21</sup> However, it opened fewer than 200.<sup>22</sup>



an undisclosed amount of development capital in the company in July 2016 through Capital Partners IV.<sup>25</sup>

In July 2016, at the time of Roark Capital Partners IV's investment, Miller's Ale House had 75 restaurants,<sup>26</sup> and its website boasted that the company is "continuing to grow, opening 8-10 new restaurants per year."<sup>27</sup> However, five years later, the company has only 20 more restaurants – an average of 4 new restaurants per year.<sup>28</sup>

## IMO Car Wash Group

Roark acquired IMO Car Wash Group in October 2017. At the time, the company had 900 locations.<sup>23</sup> Roark merged the company into its Driven Brands division and nearly four years later has 912 locations.<sup>24</sup>

## Miller's Ale House

Roark acquired Miller's Ale House in July 2013 for \$240 million. According to Pitchbook, Roark invested

## Jim n' Nick's Bar-B-Q

When Roark acquired the Jim n' Nick's Bar-B-Q in July 2017, it had 37 restaurants.<sup>29</sup> It currently has a total of 38 restaurants<sup>30</sup> – just 1 more than it did four years ago.



# Large investors exit Roark, hold off on reinvestment



While Roark Capital's new fund has drawn investment from a number of institutional investors, some of the largest private equity investors have either exited investments in Roark Capital funds or held off on new investments.

The Canada Pension Plan Investment Board (CPPIB), one of the largest investors in private equity globally, had invested a total of \$250 million in Roark Capital Partners IV and V.<sup>31</sup>

Yet as of September 2020, CPPIB no longer reported investments in Roark, suggesting it had sold its stakes in the funds.<sup>32</sup>

The Teacher Retirement System of Texas, another large Roark investor, reported in April 2021 that it was not at that point underwriting an investment in Roark Capital's new fund, Roark Capital Partners VI.

Canada and Texas are not alone. Other large Roark investors that have opted out of successor funds include the Washington State Board of Investment, the New York State Common Retirement Fund, the New Jersey Division of Investment, the Fire and Police Pension Association of Colorado, and the Santa Barbara County Employees Retirement System,

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