



## State of New Jersey

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July 27, 2012

MEMORANDUM TO: The State Investment Council

FROM: Timothy Walsh  
Director

SUBJECT: **Proposed investment in Roark Capital Partners III, L.P. and related co-investment vehicles**

The New Jersey Division of Investment (“Division”) is proposing an investment of up to \$100 million in Roark Capital Partners III, LP (the “fund”) and up to \$75 million in related co-investment vehicles structured to invest alongside the main fund. This memorandum is presented to the State Investment Council (the “Council”) pursuant to N.J.A.C. 17:16-69.9.

The Division is recommending this investment based on the following factors:

**Opportunity to Invest With Top Quartile Firm with Differentiated Strategy:** Roark Capital Group’s (“Roark”) focus on franchising/multi-unit brand opportunities differentiates them from many of their mid-market peers and will diversify the Division’s portfolio, which currently does not have exposure to this strategy. In addition, based on the top quartile performance of prior Roark funds, we would expect the investment to generate attractive returns for the fund. We expect the fund returns to be augmented by potential co-investment opportunities which may be offered to the Division.

**Impressive Track Record:** Roark has invested over \$1.2 billion across 18 platform investments from 2005 through December 31, 2011, generating an overall Net TVM of 1.7x and a Net IRR of 16.5%. Both of the prior Roark Funds are top quartile relative to its peers. During Roark’s ownership they have demonstrated discernible value creation in both revenue and EBITDA growth throughout the portfolio while taking a conservative approach to using leverage.

**Co-Investment Opportunities:** Roark generates a meaningful amount of co-investment opportunities for its LPs (\$230 million in Fund II). By investing in Roark, the Division may have the option to increase its allocation through co-investing in select deals. There will be no management fee or performance fee on co-investments. It is also important to note that the Division will have discretion in regards to participating in each possible co-investment transaction that is offered by Roark to the Division.

A report of the Investment Policy Committee (“IPC”) summarizing the details of the proposed investments is attached.

Division Staff and its private equity consultant, Strategic Investment Solutions, undertook extensive due diligence on the proposed investment in accordance with the Division's Alternative Investment Due Diligence Procedures.

The fund utilized Lazard Frères & Co. LLC and Lazard & Co., Limited, (the "placement agent") as third-party solicitor in connection with the potential investment. Staff has determined that the placement agent and its representatives met the registration, licensing and experience requirements set forth in the Division's Placement Agent Policy (the "Policy"). Pursuant to the Policy, the fund has disclosed the contract between the fund and the placement agent, specifying the scope of services to be performed by the placement agent and the fee arrangement between the placement agent, the general partner and any other third party.

We will work with representatives of the Division of Law and outside counsel to review and negotiate specific terms of the legal documents to govern the investment. In addition, the proposed investment must comply with the Council's regulation governing political contributions (N.J.A.C. 17:16-4).

Please note that the investment is authorized pursuant to Articles 69 and 90 of the Council's regulations. The Roark Capital Partners III LP Fund and related co-investment vehicles will be considered buyout investments, as defined under N.J.A.C. 17:16-90.1.

A formal written due diligence report for the proposed investment was sent to each member of the IPC and a meeting of the Committee was held on July 18, 2012. In addition to the formal written due diligence report, all other information obtained by the Division on the investment was made available to the IPC.

We look forward to discussing the proposed investment at the Council's August 2, 2012 meeting.

Attachments

Fund Name: Roark Capital Partners III LP and Related Co-Investment Vehicles August 2, 2012

Contact Info: **Neal Aronson, 1180 Peachtree Street NE, Suite 2500, Atlanta, GA**

<b>Fund Details:</b>	
Firm AUM (\$bil.):	\$1.5 billion
Strategy:	Middle Market Buyout
Year Founded:	2001
Headquarters:	Atlanta, GA
GP Commitment:	At least 3% (No additional for co-investment)
<p><b>Key Investment Professionals:</b>  <u>Neal Aronson</u>, Founder and Managing Partner. Prior to Roark, served as Co-founder and CFO of USFS, leading the company's transformation into the tenth largest hotel company in the U.S.  <u>Jeffrey Keenan</u>, President- Prior to Roark, served as Co-Founder and Chairman of IESI Corporation, helping to grow IESI into the 3rd largest solid waste mgmt company in North America  <u>Ezra Field</u>, Managing Director. Previously served as a Managing Director at ACI Capital  <u>Erik Morris</u>, Managing Director. Previously served as a Partner at Grotech and as an M&amp;A Associate at Deutsche Bank and its predecessor entities.  <u>Robert "Toby" Chambers</u>, Managing Director. Previously served as a Principal of Rhône Group LLC and as an M&amp;A Associate at Salomon Smith Barney, Inc.  <u>Steven Romaniello</u>, Managing Director. Previously served as CEO of FOCUS Brands and President and COO of USFS  <u>Tony Scotto</u>, Managing Director. Previously served as a Managing Director at Oak Hill Advisors and as an M&amp;A Partner at Arthur Young  <u>Robert Sheft</u>, Managing Director. Founder and CEO of Simply Floored, a Roark portfolio company. Previously founder and CEO of RMA Home Services.  <u>Stephen D. Aronson</u>, General Counsel and Managing Director: Aronson joined Roark in 2005. In addition to his responsibilities as General Counsel, Aronson is actively involved in the execution of all Roark investments, financings, recapitalizations, and sales. Prior to joining Roark, Aronson was a Senior Vice President and General Counsel of USFS.</p>	

Investment Summary	Existing and Prior Funds												
<p>Roark Capital Group is an Atlanta-based private equity firm. Prior to founding the Firm in 2001, Neal Aronson was a co-founder and CFO of U.S. Franchise Systems which in a span of five years became the tenth largest hotel company in the United States. The team consists of 28 investment professionals possessing skill sets in key aspects of operations and finance. Roark is 100% owned by the management company and controlled by Neal Aronson, Managing Partner and Jeffrey Keenan, President. Messrs. Aronson and Kennan have known each other for over 22 years dating back to when the two worked together at Oak Hill Capital Partners (formerly Acadia Partners) in 1989. Roark Capital's investment strategy is to make control and structured equity investments in middle market companies headquartered in North America. Roark focuses on companies with select business attributes in targeted industries where the Firm's deep industry insight and operating experience can drive growth, create equity value, and help improve the outcome.</p>	<table border="1"> <thead> <tr> <th>Funds</th> <th>Strategy</th> <th>Returns</th> </tr> </thead> <tbody> <tr> <td>Pre-Fund Investments (a)</td> <td>Middle Market Buyout</td> <td>42% Gross IRR, 3.64x MOIC</td> </tr> <tr> <td>Roark Capital Partners, LP (b)</td> <td>Middle Market Buyout</td> <td>13.0%Net IRR, 1.76x Net MOIC</td> </tr> <tr> <td>Roark Capital Partners II, LP (c)</td> <td>Middle Market Buyout</td> <td>24.0% Net IRR, 1.55x Net MOIC</td> </tr> </tbody> </table> <p>(a) Pre-fund investments made with different investors outside of an institutional fund. Net returns not available, as carry and fee arrangements varied by deal and are not comparable to Fund I and Fund II performance.</p> <p>(b) Excludes June 2012 investment in Corner Bakery due to recency</p> <p>(c) Excludes Corner Bakery (June 2012), Arby's (July 2012) and GFL III &amp; IV (July &amp; December 2012) investments due to recency.</p>	Funds	Strategy	Returns	Pre-Fund Investments (a)	Middle Market Buyout	42% Gross IRR, 3.64x MOIC	Roark Capital Partners, LP (b)	Middle Market Buyout	13.0%Net IRR, 1.76x Net MOIC	Roark Capital Partners II, LP (c)	Middle Market Buyout	24.0% Net IRR, 1.55x Net MOIC
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**Vehicle Information:**

Inception:	2012 (Co-investments will be on an as established basis)	Auditor:	PriceWaterhouseCoopers LLP
Fund Size (\$mil.):	\$1.5 billion (Varies for each co-investment)	Legal Counsel:	Paul, Weiss, Rifkind, Wharton & Garrison LLP
Management Fee:	During commitment period, 2% on the first \$1.25bn and 1.75% on the next \$250mm. Thereafter, 1.75% on invested capital for 3 years then 1.50% for the remainder of the fund (0% for co-investment)	Accounting Firm:	Internal Accounting
Carry:	20% (0% for co-investment)		
Hurdle Rate:	8% (N/A for co-investment)		
Additional Expenses:	100% fee offset (Pro rata sharing of expenses based on specific co-investment opportunity)		

**NJ AIP Program**

Recommended Allocation (\$mil):	\$100 million (Plus \$75 million aggregate to co-investment vehicles)	LP Advisory Board Membership:	Yes
% of Fund:	6.67% (Co-investment fund % to be based on pro rata share)	Consultant Recommendation:	Yes
		Placement Agent:	Yes
		Compliance w/ Division Placement Agent Policy:	Yes
		Compliance w/ SIC Political Contribution Reg:	Yes