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PE-backed Batteries Plus may be poised to charge onto the selling block

By [Sarah Pringle](#) Updated 02:47 PM, Mar-09-2015 ET

After giving [Batteries Plus LLC](#)'s franchise concept a jump for more than seven years, Atlanta private equity firm [Roark Capital Group](#) may be in a good position to exit its investment in the retailer of hard-to-find batteries and light bulbs.

"They [Roark] have to monetize," said Howard Davidowitz, chairman of New York-based Davidowitz & Associates Inc., which provides niche consulting and investment banking services to the retail industry. "It looks like they're trying to do some things to jazz it up, then they could package it. Something's going to have to happen at some point. The company has made a lot of moves."

[Hartland](#), Wis.-based Batteries Plus gained a foothold overseas on Sept. 8 by buying privately held [LED Hut Ltd.](#) for an undisclosed price. [LED Hut](#), with headquarters in Jersey (Channel Islands) and an operational base in Manchester, England, offers lighting products under the Lumilife product brand throughout Europe.

"According to its FDD (franchise disclosure document), Batteries Plus has been growing nicely and has scale," said Margaret Montague, who as managing director at McLean Group advises franchise and multi-unit concepts across various industries. "In 2013, the audited financial statements suggested that the company had realized approximately \$25 million in Ebitda. At that size, it's a really nice, sizable acquisition target."

A very likely exit scenario for Roark would be a sale of Batteries Plus to another PE fund, suspects Montague, who said an initial public offering is also a possibility. In a sale, Roark could fetch an exit multiple in excess of 10 times Ebitda, she added, implying a potential transaction could be valued at about \$250 million on the low end.

Originally founded in 1988 as [Batteries Plus Bulbs](#), the company was acquired by Roark on Nov. 6, 2007, for an undisclosed price after the Epstein Family, which had owned a majority stake, held an auction process that attracted a number of private equity firms. The franchise generated about \$200 million in sales across its 292 franchises and 15 company-owned stores at the time.

The company has more than doubled its footprint since that time, opening 42 new stores in 2014 to bring its total number of outlets to 640. With the new stores came a 10% increase to its workforce last year, bringing its total headcount to more than 550.

Batteries Plus said in a Jan. 6 statement that it plans to open an additional 50 stores in 2015.

Officials at Batteries Plus declined comment while those at Roark didn't return calls.

"Batteries Plus was very much a niche player in the marketplace, [but] now they've added bulbs," said Kevin Hein, who as a partner at **Faegre Baker Daniels LLP** leads the firm's franchise practice. "They really figured out a nice little niche where there are nice profit margins ultimately to the bottom line. It's a very smart play."

Hein has helped facilitate more than \$2 billion worth of deals, including **Sentinel Capital Partners LLC** and TriArtisan Capital Partners' acquisition of **TGI Friday's Inc.** on July 15.

"They are a category leader," said McLean's Montague. "You don't see any other competitors that are doing something quite like they've done. There's something to be said for having a physical presence for these types of products."

After Batteries Plus, the second-largest chain of franchised battery stores is Interstate All Battery Center, the retail operation of privately owned **Interstate Battery System of America Inc.**

Batteries Plus' physical storefronts are comprised of a wide array of specialty batteries and replacement batteries, with products for everything from laptops and cell phones to military equipment and car and truck applications. Beginning in 2010, stores also began offering an extensive line of light bulb products, including traditional table lamps and light fixtures, in addition to unique lamps for cars, healthcare equipment, aquariums and projectors.

Should Roark pursue a sale, the most likely scenario would be a secondary buyout to another private equity firm, according to industry sources.

"PE shops are buying up controlling interests in franchises at high multiples of Ebitda," added Francis N. Rodriguez, who as a partner at Kostopoulos Rodriguez PLLC concentrates on franchise law, business law and real estate law. "Based on this period of time for franchise companies---their high valuations---it would seem like it's an opportune time to exit."

"Franchising doesn't require a lot of capital," Faegre's Hein said. "In most cases, you're not adding a lot of staff and cost, which is why PE loves franchisors. You can grow Ebitda over a five- to seven-year period without a lot of capital investment."

While strategic buyers don't typically go after franchisors because of the business model, it's not outside the realm of possibilities, sources added.

Somebody such as a **Home Depot Inc.** (HD) or **Staples Inc.** (SPLS) could be interested in Batteries Plus if either were looking for a new way to grow revenue and pursued the company with the idea that they could buy the franchise and convert stores to company-owned ones, Hein said.

"There just have not been many examples, but that's not to say it can't happen," Montague added, pointing to **Sodexo Inc.**'s (SDXAY) acquisition of in-home healthcare franchise Comfort Keepers in August 2009.

But even if private equity sponsors are circling Batteries Plus, Roark might not be ready to monetize its investment, according to Hein. He described the PE firm as a "patient investor" and noted that Roark may feel no pressure to sell

despite entering its eighth year of investment.

"As I've watched Roark grow, they operate under a different premise than different private equity [firms]," Hein said. "They tend not to sell regardless of how much they've held them. They've had very few exits in that marketplace because they can just buy and hold."

In addition to Batteries Plus, Roark's portfolio includes franchise concepts **Anytime Fitness**, Home Service Store, Massage Envy Spa, Money Mailer, Primrose Schools, Pet Valu, Wingstop, and Focus Brands, the latter of which includes the Auntie Anne's, Carvel, Cinnabon, **Moe's Southwest Grill**, Schlotzky's and **Seattle's Best Coffee** nameplates.

Given its history, an eventual exit from Batteries Plus via a sale is probably more likely. Roark has yet to exit any multi-unit, franchise investments through an initial public offering, according to Darrell **Johnson**, CEO of FranData, which provides business information for the franchise industry.

While Batteries Plus appears to be growing at a rapid pace, potential sale prospects also depend on future growth possibilities.

"At some point, you're going to probably reach ultimate market penetration in the U.S., so you have to go internationally," Hein said. "I presume there is a demand for those things just like you have in the U.S."

The company's recent acquisition of LED Hut in Europe appears to give Batteries Plus "loads of potential," Davidowitz & Associates' Davidowitz added, indicating that it may have been, to some extent, a defensive move by the company.

"The problem with this company is, they are selling a commodity," Davidowitz said. "What that means is the only difference is price---that's why they got into the LED lighting business. When you sell a commodity, that means Amazon can sell it cheaper. There's no differentiation in product. There's no way to differentiate themselves."

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