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Doughnuts to dollars

Investment firm looks to fatten its stores' bottom lines

BY JOHN GOLDEN



John Troiano, left, and Peter Marrinan.

It hasn't yet taken the trans fats out of the doughnuts, but a private equity firm from Manhattan has taken a 20-store Dunkin' Donuts chain in Westchester County out of bankruptcy and into the international brand's latte-dispensing present.

Since acquiring through U.S. Bankruptcy Court in late 2005 a score of outdated franchise stores formerly owned by Food Management Group L.L.C. of Eastchester, The Beekman Group L.L.C. has fattened its Dunkin' Donuts portfolio by acquiring two more stores in Westchester and five in the Bronx. It serves about 5 million cups of coffee annually at its Dunkin' Donuts stores in Scarsdale, Harrison, Pleasantville, Greenburgh, White Plains, Yonkers and Goldens Bridge, according to a company spokesman.

Seven of its stores include Baskin Robbins ice cream shops, another top brand of Dunkin' Brands Inc. The Beekman Group (TBG) also operates a Taco Bell restaurant in tandem with its Dunkin' Donuts and Baskin Robbins shops in The Galleria shopping mall in downtown White Plains.

TBG paid \$18 million for its initial purchase, according to bankruptcy court records. However, the firm's managing partner, John G. Troiano, indicated that sale figure might have changed, though he would not disclose the final purchase price.

Troiano said his private equity firm has since invested \$2.5 million in additional Dunkin' Donuts store purchases and about \$2.5 million too in improvements to outdated stores.

Dunkin' Brands Inc. executives in Canton, Mass., apparently are pleased to do business with the well-financed private equity firm from Manhattan's East Side. TBG recently acquired exclusive rights from Dunkin' Brands to develop Dunkin' Donuts stores in Westchester County and a portion of the Bronx, said Peter Marrinan, chief executive officer of TBG Food Acquisition Corp. He said the company is seeking municipal approval of its plans to open three more stores in Westchester communities.

The Beekman Group typically invests in small middle-market companies of \$10 million to \$50 million in revenue, Troiano said. That investment strategy is in marked contrast to the prevailing trend among private equity funds. In December 2005, for example, the same month in which TBG bought the Dunkin' Donuts chain out of bankruptcy, a consortium of global private equity firms consisting of Bain Capital Partners L.L.C., Carlyle Group and Thomas H. Lee Partners L.P. agreed to purchase Dunkin' Brands Inc. for \$2.425 billion in cash. Dunkin' Brands in fiscal year 2006 reported \$6.1 billion in international sales and \$5 billion in U.S. sales.

Pursuing that middle-market growth strategy with the Dunkin' Donuts brand, The Beekman Group plans both to acquire existing stores and develop new stores as it branches out into Putnam County and New Jersey, Troiano said. The company's five-year goal is to own 75 Dunkin' Donuts stores in the tri-state area, he said.

"Westchester is the basis, the initial platform where our management team is operating," he said.

At its Westchester stores, The Beekman Group has replaced antiquated cash registers with point-of-sale computer terminals that track sales volume and inventory in real time and process credit cards and gift cards. Customer orders are posted on visual-display units that eliminate the shouted exchanges between counter clerks and food preparers more suited to the golden age of diners and improve accuracy in filling orders and speed of service. Espresso machines and full menu offerings have been added and a remodeling program is in progress to bring up all stores to the 57-year-old Dunkin' Donuts franchise's recast image as a "bakery-cafe, like a Starbucks," Troiano said.

The Beekman Group has remodeled three of its Westchester stores and three more remodeling projects are in the planning stage. Its remodeled stores have brought a 15 percent to 18 percent return on investment, Troiano said.

The firm also has invested in its human resources. At its Scarsdale store, it has opened a training classroom staffed by a full-time trainer for its approximately 300 employees in Westchester County. Unusual in the fast-food industry, the company also offers

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subsidized health insurance benefits for manageriallevel employees and employee-paid health benefits packages for other workers. The formal training and fringe benefits have helped lower managerial attrition while raising career opportunities, stabilized the work force and reduce the impact of counter-clerk turnover on customer service, Peter Marrinan said.

"We have invested a significant amount in people and I think that the returns on that investment are outstanding," he said.

A longtime resident of the Crestwood section of Yonkers, Marrinan joined The Beekman Group in February after 13 years with Dunkin' Brands, where he oversaw the operations of more than 600 Dunkin' Donuts stores in metropolitan New York. The soft-spoken executive is representative of TGB's philosophy of "active, hands-on investment" built upon a close working alliance between its financial team and experienced operating management.

On a recent summer morning, Marrinan and Troiano watched and smiled as a rear parking lot filled with cars and a steady stream of customers passed through the front door of their newly remodeled Dunkin' Donuts store on Halstead Avenue in the village of Harrison. The customer traffic moved more quickly than the vehicular traffic outside the small store, where street repairs were under way.

"We do 70 percent of our business between 7 and 10 a.m.," said Troiano, a Harvard Business School graduate and a former partner and managing director of Onex Corp. before founding TBG in 2004. He knows that business volume pattern in part because, after acquiring the undermanaged bankrupt chain, he personally "counted people for six months" at various stores to recreate the business.

As a private equity firm, it's rewarding "to see the fruits of our labor at work," Troiano said, "something you can touch, you can feel, you can see."

Taking the trans fats out of the baked goods at Dunkin' Donuts? That is in the works, Troiano and Marrinan said.

The Westchester stores' baked goods are shipped from The Beekman Group's central kitchen at one of its stores in the Bronx. The New York City Board of Health has set a July 2008 deadline for restaurants to eliminate the use of unhealthy trans fats when preparing foods.

Its muffins are already trans fats-free, but Dunkin' Donuts researchers are still at work testing alternative oils for its 52 varieties of doughnuts to meet the city's deadline, a Dunkin' Donuts spokesman said.

"It's hard to make a good doughnut" without those outlawed fats, Troiano said.



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