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OUTLOOK

Restaurant Investing 2020 Style

The lowest unemployment rate in 50 years means gainfully employed Americans are apt to spend more money in restaurants, but less likely to take a part-time job working in one. The lowest interest rates in a generation mobilizes investors to buy and build more restaurants.

Most investors ignore these risks and try to pick winners and losers in an industry known for more of the latter than the former. Former Noodles CEO Kevin Reddy told attendees at the recent Restaurant Finance & Development Conference in November that its harder than ever to pick winners.

"Today, there is so much competition in every sector and every space that I don't know that there is an obvious best opportunity," said Reddy. That uncertainty hasn't stopped investors from sniffing around restaurant deals, even ones that have a limited operating history.

"You would be surprised at how far downstream many of the PE firms, who 10 years ago wouldn't write a check below $25 million, have gone. They are now looking at concepts with two or three units, and trying to get there as early as possible to try to extract that value for themselves, rather than having somebody else get there first," said P.J. Solomon banker Greg Grambling at the conference.

Investor interest is high on the franchise side, too, despite the higher labor costs and brand-mandated capital expenditures. PE sponsor Matt Ailey of GenRock Capital Management told conference attendees PE and family offices like franchise restaurant deals because they are easy to understand, they generate cash flow and there are opportunities to buy. His fund's portfolio company, Quality Restaurant Group, has assembled over 200 Pizza Hut restaurants, and just recently acquired 27 Arby's.

Franchise bankers see the increasing number of resales due to a variety of factors including a maturing ownership base, CapEx requirements and minimum wage pressure. The availability of capital and the willingness of asset-light franchise companies to let PE and family office buyers run the table on size, makes for a perfect union.

More than one lender at the conference expressed concern over all the consolidation activity. Michael Pura, managing director at J.P Morgan Chase said he was concerned about the development requirements that come with the refranchising of company stores and the roll-up of smaller franchisees.

"It is giving us some pause just around the amount of capital that is required, not only to buy the stores but to fund the development," said Pura.

National Franchise Sales VP Allan Gallup says franchisee buyers often underestimate the capital they will have to put back into the operation.

"In reality, when you are talking about a five or six multiple, you're talking about a 16-20% return, which sounds really attractive compared to anything else out there, but those are not real because of the CapEx, and what you really have to put back in," said Gallup.

Franchise investment banker Carty Davis has seen situations where mandated CapEx placed some franchisees in trouble with their lenders. "The lenders underwrote these loans at a time when the remodels and development were elective," said Davis.

One long-time restaurant investor and analyst doesn't like the risk-reward in emerging brands, either. Former Montgomery Securities restaurant analyst John Weiss told attendees when restaurant companies tout cash-on-cash returns of 30%, they often are excluding pre-opening costs, depreciation, and incremental G&A to handle the growth. "It's more like 16%," said Weiss.

The competitive moat surrounding most restaurant ideas isn't that wide and not every investor is comfortable with the risks in emerging brands. Enlightened Hospitality's Mark Leavitt told attendees the PE fund founded by Danny Meyer is very picky about investing in new brands. "For every deal we do, we look at a hundred deals," said Leavitt.

Still, with so much capital chasing the restaurant business these days, the 99 deals that Meyer & Company pass on should find a home—for now. However, Paul Edgerley, a former Bain Capital director (remember the big Outback and Dunkin' deals) and now co-founder of VantEdge Partners, spoke of his optimism about the long-term future of the restaurant business, but warned it's likely to get more challenging over the next 12 to 18 months.

"You should always be thoughtful about cyclical downturns, but now is the time when you specifically want to make sure that you invest in brands and businesses that are likely to do relatively well in a more challenging economic environment," advised Edgerley.

FINANCE SOURCES

PE Firm Genrock Becomes Arby's Franchisee

"The deal took a year to put together," said **Dan Collins**, principal with the investment banking firm **The Cypress Group**. "That's not particularly unusual today especially when significant real estate is included in the transaction. Additionally, most franchisors are very involved in the overall transaction process."

Collins was referring to his advisory on the sale of Arby's franchisee **Bentley-Miller Corp**, which was recently acquired by **Quality Restaurant Group**. Owned by **Rick Bentley** and **Carter Miller**, Bentley-Miller had 27 restaurants in five states west of the Mississippi. **Realty Income** provided sale/leaseback financing on 11 of the properties. **BBVA** provided senior debt on the transaction.

"There were seasoned restaurants, new restaurants, some remodeled, and on half of the locations the franchisee owned the real estate," he said. "When we started this, there were 25 restaurants with two locations under construction." Another complication as far as due diligence was concerned.

Collins says, of course, the valuation was important to the seller, "but we wanted Arby's to feel good about the buyer, too. We want to work collaboratively with the franchisor. We communicated with them what our client was trying to achieve (with the sale)—we try to have open communication with franchisors, to the extent we can."

Bentley's son Jon, who ran operations for Bentley-Miller Corp., was interested in staying on if the right buyer needed him. It turned out that having him stay on was a plus to the buyer.

"I am happy to say we checked all the boxes for our client: Great valuation, a buyer that Arby's is excited about, and someone with excellent operations experience is running the business for the buyer," Collins reported.

Quality Restaurant Group is owned by private equity firm **Genrock Capital Management**. The firm also owns more than 200 Pizza Hut restaurants.

"We were interested in growing another brand," said **Matt Ailey**, managing partner with Genrock. "And we like QSR: They generate cash flow, it's a somewhat defensive play—everyone understands it—and you can scale it quickly. There's a stability with a larger brand, too."

Their timeline for holding it is different than that of their PE peers. With patient, institutional capital behind them, "we're happy to hold it forever," said **Matt Slaine**, CEO of Quality Restaurant Group. "We are a long-term steward for these restaurants."

"Arby's is not an easy system to get into," added Ailey, so purchasing an existing portfolio or locations was the way to go for Genrock. As franchisors start to move to the asset-light model, he feels they will have more opportunities to grow with the brand. And, they may look at other restaurant concepts, as well.

"We don't have a burger brand, and we don't have Asian or Mexican," he added. He wants to look at more established brands, and different geographies than they are currently operating in.

And as is their philosophy, "I'd rather have three scaled brands where we are partners with the franchisor," said Ailey. "Private equity can do good things."

For more information, contact Dan Collins of The Cypress Group at (303) 680-4141 x 105, or at dcollins@cypressgroup.biz.

Encore Offers Nationwide Real Estate Services for Restaurants

From their offices in Farmington Hills, Mich., **Evan Lyons** and **Joe Lopez** still have a national reach when it comes to working with restaurant clients on their real estate plans.

"Joe and I like to focus our business on working with restaurant operators to achieve their operational and investment goals," said Lyons. Both executives are agents with **Encore Real Estate Investment Services**, a firm that advises both investors on buying or selling net-leased assets throughout the U.S., and restaurant clients on buying and selling their real estate assets.

"We transact in every state in the country, and we can be competitive in all of those markets," he reported. "Of course we have to boil down to the individual market and form a long-term plan with our clients." He says they dig into the area with local brokers and tap into the local leasing players. "We're checking boxes that meet our clients' returns."

Encore was founded a few years ago by Brandon Hanna, Deno Bistolarides and Ryan Vinco. The trio brought eight agents with them and in 2016, completed 156 transactions worth about $400 million. Today, they've built up their business to include 25 agents: In 2018, they completed 210 transactions worth $560 million.

"And we are planning to exceed those numbers in 2019," said Lopez.

What the two of them love about working for the company is the founders stress a foundation of collaboration between agents, and a sense of accountability to each other, the outside broker and the clients.

"It is about a certain work ethic," says Lopez. "We have a reputation for being team players with the brokers throughout the country."

Encore works with franchisors at a corporate level, but also with their franchisees. "We are able to customize these relationships to maximize the value of their portfolio," he said.

They provide site selection services: "We're working with several operators right now to source sites for new markets and redevelop existing ones," said Lyons. "We are providing our services to find those sites, as well as partnering with developers on the ground locally to help get that development off the ground."

And, they structure sale/leaseback transactions as a tool for an operator to retire, pay down debt, said Lopez. "It is a great way to cash out."

They also put their relationships to work when someone is looking for an acquisition. "Operators are often looking for additional ways to expand," he said. "Let's say they want to get in the taco business, we'll marry that with another client we have who might be selling."

They both like the restaurant industry because it is not as vulnerable to e-commerce as other retail sectors. And, it has a large human element that brings them great satisfaction at the end of the day.

"We get to affect businesses where people have poured their life into it," said Lyons. "We get to help them transition their business to a partner or their children. We can support the younger generation of operators. We can help them adopt a growth strategy.

"We are dealing with human beings who are making important decisions in their lives," he said. For more information, contact Joe Lopez at jlopez@encorereis.com, or at 248-702-0728; or contact Evan Lyons at 248-702-0298 or at elyons@encorereis.com.

Franchisee Sells Units in Three Wendy's Markets

Wendy's franchisee **Bridgeman Foods** has sold units in three of its markets, totaling 109 locations. The restaurants were located in Florida, purchased by **QFRM Holdings**; Kentucky, purchased by **Heritage Partners Group**; and Tennessee, purchased by **Wendy's of Bowling Green**. Investment banking firm **The Cypress Group** advised Bridgeman Foods on the divestitures.

All three transactions "turned out really well," said **Bill Pabst**, principal with Cypress and the advisor on the deals. "They were a fair price, and the buyers got great markets. And, they were highly qualified buyers, which Wendy's likes."

Pabst said he has done business with the Bridgeman family for years, and "it was a pleasure to work on this with them." Bridgeman Foods continues to operate more than 150 Wendy's in Wisconsin, St. Louis, Kentucky, Virginia and Georgia.

For more information, contact Bill Pabst at (303) 680-4141, ext. 104, or at wpabst@cypressgroup.biz.

Former Franchisee Joins Unbridled Team

According to **Jay Rutherford**, he's always found himself in the restaurant business. "I started in the family business right out of college," he said. His father, Jay Rutherford, Sr. operated a number of Long John Silvers for 17 years before buying into the Taco Bell system.

Rutherford senior also opened up Valvoline Instant Oil Change shops, where the younger Rutherford cut his teeth on that business by managing a store.

"But we soon found out the investment to get into a Valvoline was the same as Taco Bell, and Taco Bell's returns were so much better," he said. They sold the Valvolines and instead focused on building up their taco business. Later, in 2015, he and his dad hired **Rick Ormsby**, currently managing director of investment banking firm **Unbridled Capital** to sell their eight locations.

After the sale, "I thought, what do I want to do now?" said Rutherford. "About that same time, Bojangles' was on a development path in our area, and I knew the market well. I built up that business to five stores, finally leaving that in August."

His winding road of restaurant experience brought him to a point where he finally had to move on, he said. "I had been thinking about my career path for some time. It was a good time to get out for me personally. I had been keeping up with Unbridled Capital, and I have known Rick personally for 10 or 15 years at least. He has been a friend who's always been interested in me—I saw a good opportunity with Rick when he asked me to join the team."

As COO, Rutherford will be overseeing all aspects of the business, "a very difficult job," says Ormsby. Ormsby felt he needed to add that COO position if he wanted to grow the business and do what Ormsby himself does best: "Go see clients and drive the business."

"And I couldn't just have a deal guy or a finance guy do this. I knew this role would have to manage the entirety of the business. It's everything from finance and marketing to administration. It's difficult to find someone with that broad of a skill set," he said.

Ormsby had an ah-ha moment: "A really successful franchisee is the perfect kind of person to handle the broad responsibilities of managing a business," he said. "They balance the checkbook, develop new stores, lead HR and hire and fire, they handle customer complaints and deal with Pepsi and Dr. Pepper. They are good business people. Jay had all this. I knew he could handle these functions."

Six weeks into his new job as Chief Operating Officer for Unbridled, Rutherford says he is still learning, but is excited about what he brings to the table. "I can understand the franchisee's way of thinking, and their processes," Rutherford said.

And he has sold restaurants, which can be nerve wracking, he reports. "I understand their feelings 150 percent. This is their lifework, and maybe they are nervous, because they don't know what the next chapter will look like. I can talk through that with them."

For Ormsby, it signals to their franchise clients that "we believe heart and soul in franchisees, because that's the type of person we've brought into the company."

For more information, contact Jay Rutherford at 502-252-6427 or by email at jay@unbridledcapital.com.

Brookwood's Amy Forrestal Helps Clients Navigate M&A Market

The mergers & acquisition market for restaurant franchisees and multi-unit restaurant brands has changed dramatically over the past three decades, and Brookwood Associates' Amy Forrestal has had a front row seat to that evolution.

Originally, the market for franchisee sales was limited. The main buyer on franchise resales was often the franchisor. Franchisors have the right of first refusal, and it was common for them to buy the franchisee business when operators wanted or needed to sell. That started changing in the early 1990s.

"Wall Street started telling franchisors that wasn't a great use of their capital, and so we saw an opportunity to apply the M&A process to franchise restaurants," says Forrestal. The buyer pool began expanding to other franchisees that wanted to grow or add another brand. Private equity investors started to get involved in franchising in the late 1990s.

"Now there is a plethora of investors with all kinds of people wanting to own franchisees," says Forrestal. Buyer groups include private equity investors, family offices, entrepreneurs and other strategic buyers. "So, the investor base has broadened tremendously, which has driven multiples and has been good for the industry overall," she says. Investors like restaurants because they are generally a cash generating business with a model that is easy to replicate, she adds.

Forrestal started out her career nearly 30 years ago working in the M&A group at what is now Banc of America Merrill Lynch. She completed her first restaurant franchise M&A transaction in 1992 with a Taco Bell deal and continued to work with major restaurant franchise brands that include the likes of Wendy's, Pizza Hut, Applebee's and others.

Currently, Forrestal is a managing director at Brookwood Associates, an investment banking firm that focuses on middle-market companies across a broad range of industries with transactions and companies up to $250 million in value. She joined the firm in 2002 to start the firm's restaurant M&A group. She provides M&A acquisition services for restaurant clients on the buy and sell side, as well as advising firms on recapitalization strategies and with private capital raising. Forrestal was recognized by Mergers and Acquisition magazine in 2015 and 2016 as one of 35 top women in Mid-Market M&A.

Despite the larger pool of buyers that exist in the M&A market today, franchise restaurant businesses are seeing a wide range of multiples depending on the brand, financials and the specific situation. Sellers also can take some simple steps to get the highest and best value out of a sale. For example, Forrestal advises franchisees to get their costs in line and P&Ls in the best possible shape. Another tip is to make sure that real estate leases have options to renew. Operators should address term on a short-term lease for their best stores prior to a sale process, because that could hurt the value of the business if they lose a lease or terms increase dramatically, she notes. Operators need to look at the condition of units to see if they need any improvements or upgrades. "Importantly, you also need to understand how much growth is available within their market," she adds.

M&A has been a great fit for Forrestal. She loves the finance and analysis part of working on transactions. She earned a Bachelor of Arts degree cum laude with a double major in mathematics and economics from Duke University in 1987. "What I really like about this industry is the people," she adds. "They are in the hospitality industry, and it's fun to be around people who enjoy what they do and are in an industry that they enjoy." Contact Amy at 404-419-1570 or af@brookwoodassociates.com.

National Franchise Sales Advises on Sale of Five Guys and The Counter Locations

National Franchise Sales (NFS) provided advisory on the sale of:

• A Five Guys development agreement to **BC Restaurants, Inc.**, who was already an existing multi-unit, multi-state Which Wich franchisee. Prior to opening the first Five Guys location, the neighboring Five Guys franchisee in the San Francisco Bay area decided to exit the Five Guys system. NFS assisted the seller and the buyer on the sale of five existing Five Guys restaurants in addition to a development territory of nine additional units. NFS handled the lease assignment process with five different landlords, assisted in procurement of new financing and worked closely with the franchisor to move the process along as smoothly and swiftly as possible.

•Two **The Counter** restaurants in Los Angeles, also helping obtain financing for the buyer with **Live Oak Bank**. According to NFS, the other significant challenge in this transaction was in effectuating the lease assignments with less-than-cooperative landlords to satisfy the timing required for the liquor license transfers.

National Franchise Sales provides advisory on the sale and brokerage of multi-unit restaurants nationally. The firm has facilitated numerous sales, from single-unit transactions to multi-unit sales of more than 50 units. For more information, contact **Jerry Thissen**, president, at (949) 428-0481 or at jt@nationalfranchisesales.com.

Auspex Capital Completes Transactions for Wendy's Franchisees

Restaurant investment banking firm **Auspex Capital** led the following transactions for Wendy's operators:

Debt Placement: Franchisee **Wenspok Companies**, based in Spokane, Wash. recently acquired 12 Wendy's in the Lincoln, Neb. DMA. With this acquisition, Wenspok now operates restaurants in nine Western and Midwestern states with additional affiliate operations in Canada. The financing was provided by **Signature Bank**.

Sell-Side M&A Advisory: Starboard Group, a Coral Springs, Fla.-based franchisee owned by **Andrew Levy**, has sold 12 Wendy's restaurants in Pennsylvania and two in New Jersey to **Yellow Cab Holdings Group**. Levy, through various affiliated entities, continues to own and operate 100 Wendy's restaurants in Florida, Virginia, Alabama, Illinois, Wisconsin and Missouri.

Buy-Side M&A Advisory: NutmegWen, LLC, an affiliate of **CKA Management** which is owned by QSR veterans **Joe Cugine**, **Keith Kas** and **John Antonaccio**, has acquired one high-volume Wendy's restaurant in Connecticut from a franchisee who is exiting that market. CKA is a Hasbrouck Heights, NJ-based restaurant operating company which now owns and operates 68 Wendy's and 12 Taco Bell restaurants in New York, New Jersey, Connecticut and Pennsylvania. For more information about Auspex Capital, call **Chris Kelleher**, managing director, at 562-424-2455 or email him at ckelleher@auspexcapital.com.

Pizza Hut Franchisee Sells 32 Locations

CFL Pizza LLC recently sold 32 Pizza Huts in Ohio, Kentucky and Indiana. The restaurants were sold to new franchisee **Chaac Pizza Midwest, LLC**, led by **Luis Ibarguengoytia** and **Gauge Capital**. CFL Pizza's CEO and long-time franchisee, **Andy Rosen** will continue to operate Pizza Hut, Taco Bell and KFC restaurants throughout the Southern U.S.

Unbridled Capital advised CFL Pizza on the sale. Over the past 36 months, Unbridled has assisted Pizza Hut franchisees sell 500 restaurants through 11 transactions. For more information on Unbridled Capital, contact **Rick Ormsby** at (502) 252-6422, or by email at rick@unbridledcapital.com.

Barrow and Burks Join Atlantic Capital Bank

Atlantic Capital Bank has hired two restaurant finance executives as they expand their restaurant group: **Clinton Barrow** and **Jenise Burks**.

Barrow joins the bank as SVP with more than 25 years of restaurant finance experience, over eight of those years most recently with First Franchise Capital Corporation. He will be working on relationship management, says Smith, "bringing in existing relationships and developing new ones" with restaurant operators.

"When we interviewed him I knew it would be a perfect fit," said **Mike Smith**, head of the restauant group at Atlantic Capital. "His knowledge—he knows everyone and what's happening in the market. That's a huge value for our group. Our group here is barely five years old, so adding his franchise banking experience is a big win for us."

Barrow got into restaurant finance early in his career, and "I fell in love with this sector," he said. "Franchisees are great entrepreneurs. You can see the result of their hard work in their P&Ls. They have to stay focused on a daily and weekly basis and that's who I want to work with."

He's excited to join the bank because "we really get behind the due diligence. That allows us to get a clear view of what is going on and have more transparency with the operator."

Burks has spent the past 10 years in underwriting, most recently with CIT Bank's franchise finance group. She joins Atlantic Capital as vice president.

"We were intrigued by Jenise's desire to get into the relationship management side of things, especially with her expertise as an underwriter," said Smith.

"I'll have a dual role," said Burks. "To create new relationships but also support Mike, David (Sims) and Clinton. I love underwriting, but I am also very good with clients. I can use the skills I've cultivated over the years."

"It plays well to our culture here," said Smith. "We have to have strong underwriting: When we say we can do a deal, we can do the deal. Jenise has already helped us in vetting new franchise programs we are bringing in."

Atlantic Capital Bank has funded franchisees in 23 different brands since the group's inception. They work with smaller franchisees, whose average business is 10 to 20 units, and their average deal is $3 million. "But we have done larger deals, too," said Smith. "We'll actually partner up with larger banks who need participation help in franchise systems we're in—plus or minus $10 million. We aren't a threat to other banks leading those transactions, because we're not competing with them in that space." For more information, contact Mike Smith at mike.smith@atlcapbank.com, or at (404) 460-4426.

Former FastSigns President Brokers Franchise Businesses

"I was at FastSigns for 21 years, the last four as president," said **Larry Lane**, who has owned **VR Business Brokers** for the last 10 years. "As a franchisor, we were fairly active in helping franchisees in the resale process. I felt like we had an ethical responsibility to help, but it was for the betterment of the network, too."

Since he has owned a VR for a decade, he's seen franchisors who are active in helping resell franchisee businesses, while others "consider it nothing but a problem, and are a complete stumbling block throughout the sale process."

He has the VR office in Dallas, but the VR Business Brokers network is nationwide, each with individual owners. Lane mainly helps owners in Texas, but will work with franchisors nationwide when he is involved with other franchisees in their system. He also sells independent businesses.

His goal first and foremost is to educate the seller on what a reasonable price for their business is. "If you are two or three years out from selling," he explained, "you need to prepare to build more value in the business."

And franchisors usually don't provide that type of education. "They are mainly focused on selling new units, and not on the sale of existing franchisee units and how to value them. Some do have the desire to educate their franchisees, but they don't know how."

In addition to working directly with individual franchisees on their resale, he also wants is grow more relationships with franchisors that want to put a resale program in place. "We are not wanting to just place an ad and turn the lead over to the franchisor," said Lane. "We want to qualify the buyer, educate them on the brand, get them interested. Then it is an easier sell for the franchisor and franchisee."

He says they are a referral source for a resale, "but we are doing it with a much more focused effort to really promote that single opportunity and to get that buyer to the table." For more information on VR Business Brokers, contact Larry Lane at 214-733-8282, or at llane@vrdallas.com.

FINANCE INSIDER

Cowen analyst **Andrew Charles** predicts **Chipotle's** store-level AUVs will get back to the brand's previous peak of $2.5 million by 2021 and will reach nearly $3 million per store in 2024. Last year, Chipotle's average store volume was $2 million compared to $1.94 million in 2017. Charles cites the brand's growing mix of digital sales for pick-up and third-party delivery as reasons for the increase. Chipotle's stock, by the way, trades at a forward multiple of 26x EBITDA based on 2020 estimates.

The 15-unit, healthy bowl concept called **Bolay** was founded by **Chris Gannon** three years ago. His co-founder is his father, **Tim Gannon**, co-founder of **Outback Steakhouse.** The Gannons took a page from the early Outback investment playbook by selling equity interests in the first 10 stores, but not selling equity in the brand. Gannon junior told a Restaurant Finance & Development Conference audience that his father "fattened everybody up, and we are skinnying everybody down." Bolay plans to grow with debt and cash flow in the near term.

Jack in the Box will have an entirely new management team next year. Departing soon are long-time Jack employees **Lenny Comma**, CEO; **Carol Diraiomo**, investor relations; **Phil Rudolph**, chief legal; **Mark Blankenship**, EVP strategy; and **Paul Melancon**, VP controller.

Asking rents for ground-floor retail spaces in Manhattan decreased in 11 of the 17 corridors analyzed by the **Real Estate Board of New York**, and seven of the 11 statistical submarkets tracked by **Cushman & Wakefield**. Landlords are dealing with the increased supply of empty spaces by reducing rents and offering more tenant improvement dollars. Still, asking rents in New York would make most USA food operators cringe. A broker told the Monitor that **Sweetgreen's** new 3.0 "store of the future," a two-level location at Park Avenue and 32nd street, has rents starting at $500,000 per year, increasing to $600,000 by year seven.

Wendy's founder Dave Thomas's wife, Lorraine, passed away on November 24. Mrs. Thomas was involved in a number of philanthropic charities including **The Dave Thomas Foundation for Adoption**, which has been actively supported by Wendy's and the company's franchisees since its founding in 1992. The Thomas family remains a large multi-unit franchisee of Wendy's in Ohio.

Over the last 10 years, **KFC's** largest franchisee, **KBP Investments,** has completed 55 separate acquisitions and now owns and operates more than 730 KFC restaurants in 24 states. The company made 21 acquisitions in 2018, and 12 so far this year.

From **Diversified Restaurant Holdings** (a 64-unit **Buffalo Wild Wing** franchisee) proxy filing: "While Buffalo Wild Wings is in the process of developing a new building design standard and testing a variety of remodel options, they have communicated to franchisees that they are targeting a three-tier remodel program with costs ranging from $250,000 to $650,000, depending on the size and revenue profile of the restaurant."

Wonder why there are so many private equity and family offices getting into the restaurant business? According to a report by **EY**, there are now at least 10,000 single family offices in existence globally and at least half of these were set up in the last 15 years. The US private equity sector includes more than 3,800 private equity firms and 15,000 PE-backed companies in 2018. Large franchise brands are interested in these groups as a means to achieve market optimization (i.e. bring in a well-heeled franchisees that can help consolidate other franchisees interested in getting out of the system) and their potential for funding big development plans.

During the past two years, **Luby's** has closed 10 Luby's cafeterias, 22 **Fuddruckers** and seven **Cheeseburger in Paradise** restaurants.

Baird analyst **David Tarantino** sees the possibility of weakening restaurant sales in 2020 due to a contentious political year. Tarantino looked at the **Knapp-Track** casual dining benchmark and an equal-weighted composite of QSR chains during the April through December period of previous presidential election years and found comp sales lower than the trend in the previous 12 months. "The combination of softer same-store sales and an onerous cost inflation backdrop would translate to a more difficult earnings setup for restaurant chains that have company-operated business models," wrote Tarantino in a December 15 report.

Muscle Maker Grill has filed an S-1 to go public and raise up to $7 million in equity financing. If the risk factors listed in the offering prospectus are accurate, the company had better find funding soon. The fast casual franchisor, with eight company and 31 franchised restaurants, has an accumulated deficit of $29.7 million, short-term debt carrying interest rates of 12% to 15%, and a going concern opinion by its auditors on its financial condition.

What does it take to succeed as a regional multi-unit, multi-concept independent? Restaurant consultant **Larry Reinstein** says it is imperative to have strong culinary talent and beverage programs, an appealing environment and be willing to innovate constantly. "Where there is differentiation, there is success," says Reinstein.

The Adventures of Restaurant Deal Guy...

STATS AND QUOTES

LABOR WAS THE #1 CONCERN AT THE RECENT RFDC	
Speaker	**Comments**
Scott Svenson, CEO, Mod Pizza	"When we launched Mod, it was eight weeks after Lehman Brothers failed, and we went into an environment where unemployment was the highest in a generation, and today it's the lowest in a generation. When we started in the city of Seattle, the prevailing minimum wage was just over $8.00, and today the prevailing minimum wage is over $16.00."
Robert Schermer, CEO, Meritage Hospitality	"We're mad scientists. We are out there planting seeds with other concepts and developing them internally. We are really trying to focus on labor. Labor is a challenge and it is going to be a challenge going forward. There is going to be a model out there that works and we're tinkering on the side to see if we can come up with a concept that fits."
Jeffrey Gates, CEO, The Aquitaine Group	"We are a small regional group (seven restaurants in the greater Boston area) and we are looking at a $100,000 increase in our labor through all of 2020 due to the tip credit decrease. There is a Rube Goldberg effect. When we raise any wages slowly over the course of the year, it changes the whole wage structure in our business. We've been dealing with this for several years."
Kevin Burke, Managing Partner, Trinity Capital	"We have a number of clients with $15, $20 and $25 million of EBITDA in high-wage jurisdictions where over the next three years they're going to lose all of their cash flow if that doesn't change."
Kate Jaspon, CFO, Dunkin' Brands	"Everybody in the room feels that labor and the availability of labor is the number one concern and it's very difficult if you can't staff your current restaurant for us to continue to ask them to continue to open restaurants."
Mike Stringer Director, Casual Dining Group	"I spend more time telling people to put more team on than telling them to take people off."
Laurie Lawhorne, CFO, Mendocino Farms	"We've had a lot of success with our career ladder. Showing them a very concrete path coming in as a new hire all the way up to GM and what do they have to do to go up the rungs on the ladder and what does the pay scale look like."

INTEREST RATES				
	12/13/19	**Last Month**	**Year Ago**	**Trend**
Fed Funds Rate	1.75	1.75	2.25	↓
1-Month Libor	1.74	1.77	2.46	↓
3-Month Libor	1.90	1.91	2.79	↓
1-Year Treasury	1.65	1.57	2.69	↓
5-Year Treasury	1.66	1.69	2.75	↓
10-Year Treasury	1.82	1.88	2.91	↓
30-Year Treasury	2.26	2.36	3.16	↓
Prime Rate	4.75	5.00	5.25	↓

Quotes from the recent Restaurant Finance & Development Conference:

Veteran restaurant industry consultant Larry Reinstein talking about opportunities in restaurants: "Breakfast is the new lunch, and lunch is now a snack."

Former Del Frisco CEO Norman Abdallah on the expansion plans for small chains: "There is a lot of small regional brands that think they need to go plant a flag somewhere new to be able to grow. If you look at regional brands, stay in focus and mitigate risk, stay in a region, don't jump out.

Multi-unit franchisee Anil Yadav on his multi-brand growth strategy: "For the longest period of time we did not want to get out of California, and so every growth opportunity we had was within California, and now we want do everything away from California."

Salt & Straw founder Kim Malek on what advice she would give to operators in emerging brands: "My best advice is never to take anyone's advice. The number of times I sat across the table from someone who said 'let me tell you what you should do.' If I had done two-thirds of that or half of that, I wouldn't be where I am."

Restaurant finance lawyer Dennis Monroe on dealmaking: "You can't make a bad deal with a good partner and you can't make a good deal with a bad partner."

Franchise entreprenuer and current IFA chair David Barr on whether to seek debt or equity: "If your cash flows are extremely predictable and diverse and you are in slow growth mode, you start feeling like that's a debt discussion. When you are in high-growth mode, unpredictable cash flows, even if someone offers you debt, you might be better off with equity."

GenRock Capital Management's Matt Ailey on franchise pressures: "It's not just cost pressures, not just the top line challenges, it's also CapEx. These CapEx cycles that have been introduced over the past five years are largely unprecedented. Ten or 15 years ago, a remodel of a restaurant would cost $150,000; now it's $500,000."

MARKET SURVEILLANCE

HRI Holding Corp. (Houlihan's Restaurants)

Chapter 11 filing

Date Filed: November 14, 2019

Background: Founders Paul Robinson and Joe Gilbert opened Houlihan's in in a men's clothing store in Kansas City that was named "Tom Houlihan's." Expansion followed and the chain's heyday was the '80s and '90s. This isn't the first time Houlihan's has filed for bankruptcy—it's actually the third. In 1992, the company was acquired in bankruptcy by Florida investor Malcolm Glazer, who in 1995 also bought the Tampa Bay Buccaneers. With only two restaurants in Florida, Glazer had Houlihan's pay $10 million to the Bucs for naming rights to their first stadium. In 1998, the company filed bankruptcy again and an investment group, led by former TGI Friday's CEO Dan Scoggin, bought a majority interest, which had grown to include a number of casual dining restaurants including Darryl's and a steakhouse chain called J. Gilbert's. The entire chain was sold to Minneapolis investment firm Goldner Hawn in 2006 and then again in 2015 to an investment group consisting of York Capital Management and former Applebee's President Mike Archer. Today, there are still 47 company restaurants (34 are Houlihan's) and 21 franchised locations.

Reason For the Bankruptcy Filing: The company cites high occupancy costs, the liability of paying rents on closed restaurants and an unworkable capital structure that resulted in a default under its credit agreement.

Stalking Horse Bidder: Landry's, Inc., which is owned by Houston Rockets owner Tilman Fertitta, has agreed to pay $40 million in cash.

Creditors: A lending syndicate led by CIT Bank and Garrison Capital is owed a total of $42.3 million plus unpaid interest of $4.6 million. The company also has trade debt of $8.2 million, which includes approximately $1 million to US Foods. There are other liabilities totaling $22.5 million.

Financial Advisor: Piper Jaffray & Co.

Diversified Restaurant Holdings, Inc.

SAUC-NASDAQ

Buffalo Wild Wings franchisee to be acquired by private equity fund

Date Announced: November 6, 2019

Buyer: New York-based ICV Partners agreed to pay $130 million. In November, ICV acquired a majority stake in JK&T Wings, a 42-unit Buffalo Wild Wings operator in Michigan, Massachusetts and Louisiana. The Diversified and JK&T transactions are ICV's first foray into the restaurant business.

Purchase Price: According to the proxy filing provided to shareholders, ICV will pay approximately $130 million, consisting of $1.05 per share in cash plus assume approximately $94 million in debt owed to Citizens Bank.

Financial Advisor: Duff & Phelps

Valuation: A fairness opinion provided by Duff & Phelps arrived at an enterprise value range of between $110.5 million to $129 million. Based on the 2020 projections, the multiple of EBITDA paid by ICV will be approximately 6.3x.

INCOME STATEMENT

2020 Proforma Projections

Revenues	$160,600,000
Store-Level EBITDA	$24,600,000
Adjusted EBITDA	$20,400,000

BALANCE SHEET

As of September 29, 2019

Cash	$4,066,000
Long-Term Debt	$94,000,000
Shareholder's Deficit	($23,614,930)

Summary: Diversified owns and operates 64 Buffalo Wild Wing restaurants in Florida, Indiana, Michigan and Missouri. In 2018, the company completed a public offering of 6,000,000 shares of common stock at $1.00 per share. Twenty-seven of the company's restaurants are in the Stadia design, and the company's current plan is to remodel the remaining 37 restaurants.

Fat Brands, Inc.

FAT-NASDAQ

Best efforts securitization offering

Date Announced: October 10, 2019

Transaction: Fat Brands proposes to to issue $40 million of short duration, whole business securitization bonds to private and institutional investors. All notes will be collateralized by the company's franchise agreements and related royalties, franchise fees, store opening fees and management fees.

Use of Proceeds: The company will pay off $24 million in debt owed to Sardar Biglari's Lion Fund. It also plans to redeem a $10 million, 9.9% preferred stock.

Structuring Agent: Cadence, a New York-based digital securitization and private credit investment platform (not to be confused with Cadence Bank) is acting as a consultant.

Notes: $2 million of the notes will be sold via Cadence's private funding platform and the balance will be sold by the company on a best efforts basis.

INCOME STATEMENT

39-weeks ended September 29, 2019

Revenues	$17,253,000
Net Loss	($64,000)
Net Loss Per Share	($.01)

BALANCE SHEET

As of September 29, 2019

Cash	$311,000
Long-Term Debt	$24,383,000
Redeemable Preferred	$14,239,000
Shareholder's Equity	$6,161,000

Summary: FAT Brands is 80% owned by Fog Cutter Capital Group. It owns and franchises eight brands: Fatburger, Buffalo's Cafe, Buffalo's Express, Hurricane Grill & Wings, Ponderosa Steakhouses, Bonanza Steakhouses, Yalla Mediterranean and Elevation Burger. Combined, there are over 380 locations and 200 under development. In October, the company sold $1,177,000 of an 8.25% Series B preferred to investors. TriPoint Global Equities and Digital Offering, LLC acted as the company's exclusive selling agents for the offering on a "best efforts" basis.

ANALYST REPORTS

Jack in the Box, Inc.
JACK—NASDAQ
Hold
Recent Price: $76.27

Jack in the Box is now in official asset-lite territory with over 94% of its stores franchised. And, to the delight of the hedge fund crowd, the soon-to-depart CEO Lenny Comma pushed the company's debt level up to 5x EBITDA and reduced G&A spending to 1.6% of system sales. That of course, ticked off the franchisees who thought the company was partial to the shareholders and not them. With all the asset-lite support systems in place, why is the stock flat and Wall Street so cautious about the future? Well, for one, Comma disappointed them by refusing to provide color on first quarter sales trends. It could also be that JACK is facing anemic growth—adjusted EBITDA of $265 million to $275 million in 2020 compared to $259 million in 2019, and just 25-30 net, new units on tap? Ho hum.

Jefferies analyst **Alexander Slagle** still thinks JACK's stock is cheap versus other asset-lite franchisors (11x 2021 estimated EBITDA) yet maintains a Hold rating on its shares. He wrote in a December 11 report that "CEO transitions and retirements usually do not coincide with an acceleration in underlying fundamentals or a competitive environment getting easier." So true. JACK looks to be dead money for awhile, at least until a new CEO is named.

Shake Shack
SHAK—NYSE
Neutral
Recent Price: $59.97

Shake Shack reported positive comp sales of 2% (1.2% traffic) in the third quarter, but less than what Wall Street anticipated and the company's share price has declined 30%. Veteran restaurant watcher Roger Lipton points out that SHAK's traffic gains were "better than many of its peers," but "not enough to maintain a price earnings multiple of over 100x expected earnings." Consider the deterioration in Shake Shack's unit economics: Average weekly sales were $80,000 per week, down from $86,000 a year ago while food and paper costs, labor, occupancy and other operating expenses increased.

Baird analyst **David Tarantino** initiated coverage of the company on November 18 with a Neutral rating and a $66 price target. Tarantino likes the fact the company is in a growth mode and "positioned to deliver above-average revenue and earnings increases for an extended period." But Tarantino's positive view of the company's is "tempered somewhat by current valuation metrics, which already seem to be embedding many of the positive features of the longer-term growth story while seemingly leaving low margin for error amid an uncertain near-term fundamental outlook." That means buyer beware.

Potbelly
PBPB-NASDAQ
Neutral
Recent Price: $4.02

Investors always get concerned when a CFO departs a public company. What did he know? What's going on behind the scenes? **Potbelly's** CFO Tom Fitzgerald is leaving, but that's to take a better job with the rapidly growing Planet Fitness chain. Still, Potbelly is in a rough spot. It's closing more stores than opening, and despite some success on the franchise development side, operations are really struggling. Labor costs as a percentage of sales show no sign of easing. Same with occupancy costs. Subway and Jimmy Johns are offering $3.00 sandwiches and that will put pressure on future sales. In fact, until the recent third quarter, which was flat, the company has had negative traffic each quarter since 2015.

Nicolle Miller Regan of **Piper Jaffray** lowered her rating on Potbelly last week to Neutral from Overweight, citing a recovery that is taking longer than initially expected. Specifically, Regan cites traffic declines and shrinking EBITDA. Regan does see a few positives, that is, a company "with no gross debt position," and "the ability to deploy capital back to shareholders." On that later point, with a sandwich price war underway, Potbelly might be better off hanging on to their cash.

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MONDAY, MARCH 30, 2020

The State of Food On Demand
Tom Kaiser, Editor, Food On Demand
Nicholas Upton, News Editor, Food On Demand
Andrew Charles, Senior Analyst, Cowen & Company

Keynote: Gabrielle Hamilton
Gabrielle Hamilton, Executive Chef, Prune

Mastering Operations
Toby Espinosa, VP of Business Development, DoorDash
Steve Provost, Chief Concept Officer, Brinker International

Tracking the Shift in Consumer Expectations
Vishal Agarwal, Founder & CEO, ItsACheckmate.com
Eli Portney, CEO, Sense360
Sean Kashanchi, Sr. Managing Consultant, Gallup

TUESDAY, MARCH 31, 2020

Keynote: Postmates
Bastian Lehmann, CEO, Postmates

SeeLevel Delivery Study Phase III
Nicholas Upton, News Editor, Food On Demand
Lisa van Kesteren, CEO, SeeLevel HX

Virtual Reality: Making Money With Delivery-Only Kitchens and Virtual Restaurants
Fred LeFranc, CEO, Results thru Strategy
Jim Collins, CEO, Kitchen United
Steve Goldberg, CEO, Family Style
Alex Canter, CEO/Co-Founder, Ordermark

Boosting Off-Premises Volume: Catering, Delivery & Pickup
Ryan Palmer, Attorney, Gray Plant Mooty
Alex Ware, President, Foodsby

Special Presentation
Matt Sweeny, Founder & CEO, Flirtey
Nicholas Upton, News Editor, Food On Demand

Innovation Presentations
Packaging & Drones

Delivering a Customer Experience
Tom Kaiser, Editor, Food On Demand
Kim Bartmann, Owner, Bartmann Group
Nate Pollak, Co-Founder, Great American Grilled Cheese Kitchen
Kelly Seeman, Director of Enterprise, Uber Eats
Enrique Mendez, Co-Owner, Stone Bridge Pizza & Salad

Franchised Delivery Ops
Laura Michaels, Editor-in-Chief, Franchise Times
Tad Low, Sr. Director of Marketing, Field & Off-Premises, Moe's Southwest Grill
Brandy Blackwell, Director of Delivery & Catering, Dunkin' Brands
Jennifer Crawford, Dir. of Off-Premises & Field Marketing, Fazoli's

WEDNESDAY, APRIL 1, 2020

Google Fireside Chat

Designing the Restaurant of the Future
Amy Cheng, Managing Partner, Cheng Cohen
Michael Manion, Founder & CEO, Kitchen Podular
Mike Fogarty, Founder & CEO, Choice Markets
Corey Manicone, Co-Founder & CEO, Zuul

Third-Party Deep Dive
Get the scoop from executives of leading third-party delivery and catering brands on their plans, plus actionable ways restaurant operators can tweak, update and streamline their delivery programs in the coming year.

Additional panels to be announced

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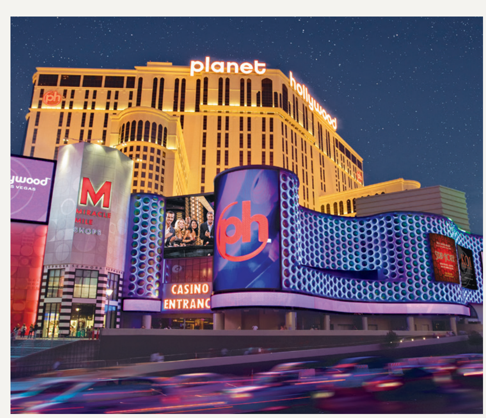

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A New Type of Marriage: Restaurants and Retail

It's not uncommon for restaurants to have a retail component. Normally these retail endeavors offer products related to the restaurant, such as sauces or frozen pizzas, or items leveraging the restaurant's name. A more recent trend I've seen is for a restaurant to be part of a broader retail environment. Ralph Lauren has had high-end restaurants in Polo stores for years. Major department stores have restaurants, more for convenience and sometimes, in the case of Ralph Lauren, to carry on the cachet of the brand. Even local restaurants are hooking up with retail brands in order to attract customers.

Restoration Hardware has its own restaurant with several very distinct and almost over-the-top design features. Their first major restaurant was in Chicago, and more recently, they opened a flagship store in Minneapolis. They've created a beautiful and large facility which would seem appropriate in a downtown area, but actually resides on the pad site of a suburban mall. The restaurant is a rooftop dining experience that is aesthetically one of the coolest restaurants I've seen.

Their thesis is this: The overall Restoration Hardware experience should be carried from shopping to eating, and if you look at their retail brand, a lot of it revolves around entertaining. Their furniture is entertainment-related and they offer chic décor for your house, which obviously includes the kitchen. Locating the restaurant on the top floor invites customers to go through the entire store, climb up the wide stairway to the rooftop and have a sensory shopping experience all the way to the restaurant.

I've noticed that in major cities retail is moving from downtown to the areas that are considered restaurant-rich. So it works both ways. Retail can attract people to the restaurants as well as the restaurants attracting people to retail. Consumers want the convenience of on-demand dining, so they can stop, park, shop and eat.

The Lululemon store in the Lincoln Park neighborhood of Chicago is another example. It measures more than 20,000 square feet and has yoga, high-intensity training and meditation, but it also houses a restaurant called Fuel. Located on the second level, Fuel serves $12 power bowls, $10 smoothies and other high-profitability items. Also in Chicago, The Table at Crate, located in the Crate & Barrel, is a full-service restaurant run by James Beard nominee Bill Kim. It occupies two levels and seats 75. An extreme example is Blue Box Café at Tiffany's in New York. It is small but very high end, and provides tea time and other fairly expensive experiences.

The one I thought was most interesting and seemingly unlikely is ABC Kitchen, located in ABC Carpet & Home in New York. It's not exactly a place where you would expect to find a restaurant; but the restaurant is a destination in itself, not merely a convenience of the shoppers. Other stores that have restaurants are Barnes & Noble with their coffee program and Bass Pro shops with their casual food lineup. Both allow shoppers to take a break and then continue shopping.

Navin Nagrani, managing partner at Hilco Global, which has been involved with many retail projects, calls the combination of restaurants and retail a sort of business Darwinism. Survival of the fittest in the retail competition depends on using excess space for profitable means, which is why retail establishments start tying in restaurant concepts. He also noted that these concepts are tailored specifically with the store's customers in mind. For example, in Restoration Hardware's case, the restaurants are designed more for millennials than they are for traditional, older customers. The central issue Navin stresses is relevance: A retailer needs to ask why the business exists today and how incorporating a restaurant might make this existence more relevant.

I spoke with Paige Stover, director of research and analytics at Forum Analytics, who did a wonderful presentation at the recent Restaurant Finance & Development Conference. They have developed a tool called ShopoGraphics, which allows them to analyze the pattern of consumer shopping traffic in various retail areas. By mapping out consumer shopping habits and movements within a specific area, they can match this data with a type of retail—and specifically restaurants—that would be the best fit for that area. This then gives the restaurants the ability to have a symbiotic relationship with the retail and attract the kind of customers that would appeal both to the retail and the restaurants. This is a quantum leap forward from merely performing a demographic analysis of the kind of consumers that the restaurant normally attracts and then trying to match the location with the demographics surrounding the restaurant. ShopoGraphics is much more effective because it analyzes the area that already has consumer traffic. This approach is, in my opinion, state of the art.

What does all this tell us about the state of restaurants and financial viability? It really reveals to me four things:

1. Restaurants need help in driving revenue and one of the ways to effectively do so is to have strong retail, either as part of the restaurant, around the restaurant, or to have the restaurant in a retail spot. All contribute to revenue.

2. You need to satisfy the consumers' need for convenience by combining a shopping experience with the ready availability of food on demand, very much an emerging trend.

3. Labor. Retail areas are staffed by people-oriented employees, which I believe will assist in attracting labor for the restaurant.

4. Occupancy cost. Obviously being able to have a restaurant affiliated, associated or connected with a retail location is going to lower your buildout cost for the concept and your overall occupancy cost. This is definitely a new kind of marriage which is going to continue.

Dennis Monroe is chair of Monroe Moxness Berg, a law firm which focuses on M&A, taxation and other business matters for multi-unit restaurant businesses. You can reach him at dmonroe@mmblawfirm.com, or at 952-885-5962.

M&A: Talkin' 'Bout My Generation

"Who's buying the meatless Whopper, anyway?" I asked Matt Perelman during an M&A panel I moderated at last month's Restaurant Finance & Development Conference.

"It's a millennial customer, not a core customer," Perelman explained. He'd know. Apart from his millennial status, his firm, Garnett Station Partners, merged their portfolio company, Cambridge Franchise Holdings, with giant Burger King franchisee Carrols Restaurant Group early this year. The deal made GSP the largest shareholder of the largest fast-food franchisee in the country, about 1,000 Burger Kings.

The meatless trend, exemplified by the Impossible Burger, appears to fit among "key drivers"—convenience, quality, experience and motivating investors, according to Brookwood Associates investment banker Anish Gandhi. "Consumers are spending more in restaurants, and how they are spending is changing," he claimed.

Gandhi also noted that several breakfast concepts fit the mold. Quality is often high and brunch, for instance, is a social experience enjoyed by millennials. Breakfast moreover is a profitable daypart and labor is easier to manage given open hours are comparably short, he added.

"You're starting to see diversification in breakfast concepts," the millennial Gandhi said. The panelists agreed, citing several brands—Breakfast Republic, Egg Slut, Snooze A.M., FirstWatch, and Another Broken Egg Cafe—with their own take on the morning daypart.

I asked if investors saw a future in casual dining. Henry Heinerscheid of PW Growth Equity said his firm is a "big believer in casual dining," though not in the legacy brands. "It has to be an authentic experience," he said of the type of restaurants the firm invests in. "And people want to see fresh ingredients."

Said Gandhi: "Casual-dining, now more than ever, has to address the experience side of the equation. And that's being driven by millennials."

PW has followed suit, making significant investments in recent years in Black Bear Diner, Luna Grill and MOD Pizza. Heinerscheid, also a millennial, sees growth opportunities as legacy chains begin to rationalize store counts. "As that real estate opens up, there will be lots of casual-dining restaurants going in," he predicted.

Alex Sloane, also of GSP (and a millennial), seconded that notion, saying real estate rationalization will provide growth for casual-dining brands "that can grow and should grow." In fact, GSP has a stake in fast-growing Twin Peaks. "It's a good example of how casual dining can work. For the past 14 months, it's been the fastest traffic grower in the industry," he claimed.

No conference panel, and certainly not one focused on generational change, is complete without the mention of third-party delivery. Indeed, one industry study predicted delivery sales will swell 20% per year for the next 10 years, to $360 billion. "Delivery is something that's on everyone's mind," Heinerscheid said. "But I can't say that everyone has figured it out perfectly yet. I don't even think the delivery guys know what the end game looks like."

Gandhi noted that a majority of restaurants now deliver via third parties with varying degrees of success. Yet he wondered about the sustainability of restaurants whose "core business" depends upon customers coming to the restaurant. "Are you providing millennials and Gen Zs an experience that will get them off of the couch instead of ordering in, because they have access to everything?" he asked.

A different generational issue cropped up during a franchise-focused M&A panel earlier in the day. Moderator John Gordon of Pacific Management Consulting Group wondered how 2019's mixed sales results were affecting transfers.

"There's an increasing volume of franchise resales," said Alan Gallup of National Franchise Sales, adding that CapEx issues no longer explain why. "The increased pressure upon margins combined with the ever-increasing age of the ownership base is going to continue to create franchise resales."

Stuart Adair of City National Bank noted he is seeing more "generational transfers," while C Squared Advisors' Carty Davis said that retiring franchisees were, in fact, spurring consolidation activity. Davis described the situation as "a tale of two cities, with some brands coming out of tough situations where multiples are compressed while others are doing well and commanding high multiples."

Capital Spring's Chad Spaulding advised franchisees that commanding higher multiples meant thinking hard about implementing technology. "It's a harder industry today, with more competition, lots of options for guests and margin pressure on the P&L," he explained, adding "operators need better resources to drive profits."

Such resources often come at a steep price unless franchisees can add stores to leverage costs. "If not," Spaulding said, "maybe you need to think about selling."

In the meantime, Adair noted he was encouraging franchisees to keep cash around while limiting distributions. Reason: "There are too many uncertainties and headwinds. This isn't the time to take capital out through distributions." Added Spaulding, "If you're taking distributions out every year, you should be thinking about selling."

The moderator invited the panel to opine on the availability of financing next year. "There will be less financing than in last couple of years," said Adair. He also noted at least eight to 10 fewer lenders in franchise lending than there were in 2010.

Davis begged to differ, saying plenty of capital will be available. However, he added, "lenders that have high concentrations of [legacy brands] in their portfolios are challenged." New lenders without such brands are not.

Gordon then wondered if some lenders would loosen lending standards. "Not looser, but I'd say [looser] around the edges," Davis replied.

—David Farkas

ANSWER MAN

What's happened to Papa John's founder John Schnatter?

He seems to have gone off the rails. Schnatter told a Louisville news audience that former Papa John's CEO Steve Ritchie (his protégé) and the board of directors "all used the black community and race as a way to steal the company. And, they stole the company and destroyed it." Later, Schnatter said that board members Olivia Kirtley and Mark Shapiro "should be in jail." Schnatter also criticized incoming CEO Rob Lynch for not having "pizza experience" and said the Papa John's employees "would be cheering and doing backflips" if he, Schnatter, were to come back to run the pizza chain. I can't imagine anyone in their right mind saying that on television, much less coming from a public figure and founder of a major restaurant brand. Analyst Howard Penney tweeted the other day he wished Schnatter would just go away. Don't count on it. The name Papa John is still on the pizza box. Schnatter's wife is now doing what the company did over a year ago: Divorcing the sod.

Chipotle's second cook line has Wall Street abuzz. What is your take?

Second cook lines have been around since Dick and Mac McDonald were buying multi-mixers from Ray Kroc. The next time you are in a McDonald's restaurant notice the double cook line so that when the store is busy, the crew can work on both sides of the line and handle more output. Casual dining chains in the go-go '80s built second lines to handle Friday and Saturday night crowds. Ever been inside a Portillo's? They have a separate grill line for the drive-thru. Jimmy John's has a second sandwich line for when it gets busy. Busy sitdown restaurants have divided their kitchens into various stations for years—grill, salad, prep, fry and dessert stations. It's all about keeping the ticket times tight so the guests don't wait. Brian Nichol has done a great job at Chipotle, no question, but I wish Wall Street would quit jacking him up as the inventor of the second line.

Delivery is no longer the panacea operators thought it was destined to be two years ago. The delivery companies can't seem to make money and the restaurant operators aren't getting rich. What do you see happening to delivery?

I see food delivery becoming a battle of the biggies. Independents and small restaurant chains aren't destined for much play in a DoorDash or GrubHub marketplace. I see delivery marketplaces becoming like the grocery aisle. McDonald's, Taco Bell and Wendy's, the ones with the big advertising clout, will pay up to be seen on the best real estate.

What about delivery for the smaller restaurant operator?

GrubHub announced they were going to add thousands of independents to their marketplace, not because they are in the Christmas spirit, but because they can charge the independents more money to offset the sweet deals they've served up to the big brands. I think there is a better way for independents, perhaps a co-op model where restaurants in a particular trade area can share the services of a driver.

I'd like you to comment on McDonald's CEO Steve Easterbrook's termination for violating company policy that stems from his relationship with an employee.

Easterbrook was a divorced man and one might argue what he did in his personal life was his own business. However, a CEO, especially one in a large public company with thousands of employees, must be held to a higher standard. I can imagine the matter with Easterbrook must have been egregious for the board to terminate him so quickly. His romantic relationship with an employee could have put McDonald's at risk of a lawsuit by her, or by any employee who felt negatively impacted in the work environment. At the very least, these relationships create an unnecessary distraction at work. Can you imagine being the supervisor of this employee when she was in a relationship with the CEO? When I started my career, I worked at a professional firm that had a strict policy against executive/subordinate relationships, and the policy even carried on to co-equal members of the staff who were romantically involved. One of the members of a couple, usually a woman back in those days, had to leave the firm. In one of my earlier jobs in the restaurant business, I worked for a guy who liked messing around with the staff. I can tell you from personal experience this is not good for morale. It is amazing to me that even with all the lawyers and HR rules today, CEOs still get this wrong. Easterbrook should have known better.

Answer Man, a former restaurant executive, has worked both in the front-of-the-house and the back-of-the-house in QSR, casual dining, fast casual, family dining, polished casual and fine dining. His first job paid $1.65 per hour. In retirement, he is contemplating getting an hourly job at a restaurant just to see how it feels to make $15 an hour.

RESTAURANT FINANCE MONITOR

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