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OUTLOOK

Digital Hospitality

Hospitality as we know it has taken on a new meaning. Satisfying guests no longer means extended physical interaction. QSR operators have made money running 100% of their business through the drive-thru lane. Casual dining and fast casual operators have taken orders digitally and delivered meals curbside or through third-party sources. During the height of the pandemic, it was their only sales channel.

Digital ordering, menu optimization, loyalty, drive-thru speed and execution isn't the hospitality we were taught in Restaurant 101. But, it's the future.

Dining rooms are reopening, but for many operators that's not a positive thing. Fewer employees means higher productivity. Labor may become more plentiful from all the layoffs, but the government's generous unemployment benefits means wage rates will remain high.

The back-to-normal thesis says the economy is coming back to life and consumer behavior will return to the pre-Covid days. Consumers will go back to the dining rooms, while drive-thru and take-out sales will revert to the mean. A prominent restaurant CEO was recently quoted as endorsing this view, saying consumers have short memories.

My view is different. Memories may be short, but consumer trends that were accelerated in this crisis aren't likely to go away. Digital ordering, work-at-home, migration away from dense cities and the rise of the Millennials and GenZ as the power generations, are all trends that pre-date the Covid crisis. Capital will follow these trends.

The health scare and stay-at-home orders, coupled with shocking unemployment numbers, televised protests and riots, and now a national discussion on race, are powerful change agents for consumers.

These trends, plus an economy that screams price value, will drive the restaurant industry over the next few years.

Here's what I see:

Digital ordering and convenience—Pizza and wings were big winners. Drive-thru lanes are worth another two turns

Continued on the back page

Mark Your Calendar
Restaurant Finance & Development Conference
November 9-11, 2020 • The Wynn, Las Vegas

RFDC involves months of planning and that's what we're doing—planning to hold the 31st annual event on November 9-11 at the Wynn Hotel in Las Vegas.

Attendee registration will open on July 15 and we'll give you plenty of time to decide for yourself whether you wish to travel to Las Vegas for the conference.

Meeting room capacity restrictions at Las Vegas hotels are expected to be lifted between now and November, however, our intention is to lower the capacity this year to help attendees feel more comfortable. We have a large amount of convention space contracted at the Wynn and we're working with them to comply with federal and state requirements for sanitation and social distancing. The Wynn has published a 28-page, comprehensive safety protocol which is available on our website.

Next month, we'll offer our subscribers and prior conference attendees an opportunity to reserve a spot at the event. By August 15, we will open up registration online at www.restfinance.com until we reach capacity.

If you register and then decide not to attend for any reason, or if we are forced to cancel the event given a stay-at-home order, shutdown in air travel or overly restrictive limitations on meeting capacity, we'll refund your registration fee, no questions asked.

I'll relay more information on speakers, sessions and sponsors later, but I am excited to announce two outstanding speakers for this year's event—**Forbes Editor and author Rich Karlgaard**, and **Wall Street Journal editorial board member Jason Riley**. Plus, we've received commitments from many lenders, including Wells Fargo Restaurant Finance, Bank of America Merrill Lynch, Citizens Bank and First Horizon Bank to support the conference this year. I hope you will consider attending RFDC this year. It will probably be the most important event in the 30+ years we have been producing it.

—John Hamburger

FINANCE SOURCES

Cypress Group Grew Where it was Firmly planted: M&A

"I just like the people in this business," said **Dean Zuccarello**, founder and CEO of **The Cypress Group**, a boutique investment bank that focuses primarily on the multi-unit restaurant industry. "We have an interesting cast of characters, which keeps it fresh and interesting. And the relationships we've established over the years—there's something reassuring about that, too."

The Cypress Group celebrates its 30th anniversary in 2020, so those relationships he's talking about have been quietly built over a 30-plus-year career working on the deal side of the restaurant industry. His restaurant career was launched with his third job out of college as manager of financial analysis for Burger King Corporation in Miami, where he did financial modeling.

Over time, he was promoted to VP of Finance, and M&A fell under his purview. He got involved in M&A work when the franchisor was buying back franchisee locations, or when franchisees were selling to other franchisees.

"We would analyze it on the right of first refusal, that the buyer was coming in with the right amount of equity, or the general financial stability of the transaction," said Zuccarello.

When he started out after college, he envisioned having a career with a company, where he would "rise to success." But at Burger King, "I was exposed to the entrepreneurship of the franchisees. That opened my eyes to that world. They are all out there, scrapping it out and doing their thing," he said.

An ownership change at the franchisor led Zuccarello to conclude he wanted to move on, and he was watching how multi-unit franchisees were evolving.

"There was opportunity there," he remembers. "I had long talks with my wife, Kim, and I said, 'Look, I think there's something here I want to take a shot at.' I was determined. It probably took me six to eight months to land my first client." He closed his first deal about 18 months later.

His plan was to focus on the smaller M&A deals that typical large investment banking firms took no notice of. "I could have spatiality and a niche," he said. "I first focused on Burger King, because I had credibility and relationships there."

Through the years, the business added team members and became more sophisticated. The group has led some of the more high-profile deals of recent years, including executing the refranchising program for Wendy's, and the sale of mega-franchisee, U.S. Beef Corp's 368 Arby's.

"It's service," said Zuccarello, as to how he and the team have built the firm. "We've always been good at relating to the clients, and understanding their needs. And we tell our clients exactly what we think. We don't blow BS around; that candor and frankness has served us well."

He finds the last few years in the business some of the most interesting. The franchise model "lends itself well to professional capital—private equity and family office."

Previously most of the franchisees were family businesses, he said. They might have had 20 units and were borrowing capital to buy 10 more. Private equity and family office capital didn't play in the space.

"But then the lightbulb went on" for them, said Zuccarello, "and they wanted businesses where they could hit singles and doubles. We saw that money come in."

Franchisees on their own just can't grow and acquire, or finance all the initiatives that franchisors want, such as facility upgrades, new imaging or technology, he said, adding, "It is an expensive business to run, and it's even more expensive when you get larger. The stakes have become bigger and they require deeper pockets. That's why there has been so much consolidation.

"Personally, I think this has been an interesting development to see the Wall Street light go on and come into our world."

And his enthusiasm for what he does has not diminished during the current crisis. When asked what he sees happening on the other side of this, he said simply, "The restaurant industry will find its way. You will have people who will flourish, and brands that will go away. Brands will be invented, and some brands will be more valuable coming out of this. And there will be those who figure out how to make money on the opportunities."

For Cypress, the future is about doing what he says they do best: "We have a fabulous team—we are like family. And our bread and butter is M&A. There's no plan to triple the size of the business or anything like that. We have been approached about being part of something else, and we've really shied away from that. We like what we have here, right now."

And about that first client Zuccarello wanted to help to sell his business 30 years ago? He says with a laugh, "It was the one that got away. I could never get the client to pull the trigger." You can reach him at dzuccarello@cypressgroup.biz, or at (303) 680-4141.

Savory Fund Brings Incremental Cash, 'Operating Partners'

A newly minted private equity fund in the food and beverage industry looks to take an operations-first approach to investing $90 million. **Savory** is a new **Mercato Partners** fund, but unlike most other private equity funds in the space, it comes directly from an operating heritage.

Led by Marcato co-founder **Greg Warnock** and **Andrew Smith**, it's steeped in private equity legacy and Smith's recent background in franchise and non-franchised foodservice. Smith's former company, Four Foods Group, developed and operated a sprawling Kneader's and Little Caesars operation. As it did, it invested in novel growth brands like the Hawaiian food concept Mo'Bettahs, R&R BBQ and soda and retail concept Swig. Ahead of the new fund, Smith sold off all the Four Foods franchise operations, but retained 50 of his operating staff to keep working on the prior company investments which are now under Savory and all future concepts.

"If you think about all the different PE firms out there, none of them are doing it like this, they're the money. They might have an old Taco Bell COO that helps them advise," said Smith. "We do it with the brand every step of the way. That's where we saw it was going to be super unique. We can do it with a twist and the bag of cash we have now."

He said how the fund will put money to work is different, as well. Instead of cutting operators a single big check and an equally large development goal, he said the fund will invest a smaller amount of money and the team will help add locations or enhance the business with the concept operators.

"We don't go into a brand and buy in and then put in $10 (million) to $20 million on the balance sheet day one. We invest incrementally; we put in money as needed because we're operating partners in the business, there's no pressure of balance-sheet cash so we don't feel like we have to open stores or else," said Smith.

He said the model has proven out for the initial three brands that were formerly under Four Foods but converted to Savory investments.

"We believe we have a very clear path to being one of the highest performing PE funds out there just because of the veteran experience we have on the bench. The last few years, we have grown over 35 to 40 percent year-over-year. Same-store sales have been positive for all of them since we owned them," said Smith. "Even during Covid, we toughed it out like everyone else in those first few weeks. But we've been up positive same store-sales as if Covid wasn't around. Swig being one that has blown all of our socks off—we're still up 40 percent right now—and Mo'Bettahs is up double digits year-over-year."

The sweet spot for the new fund is between two and seven units, a level Smith and Warnock see as proof of duplication and where there's more data about what works. He said they'll go as high as 10 locations. There's also the potential for franchising as the brands mature, but Smith said Savory will spend time getting brands ready from a tech, documentation and design level for "a few years" before considering a franchise program.

NFS Advises on Smaller-Market Denny's—with Karaoke

If you have ever belted out "Dancing Queen"onstage while taking your turn at karaoke, it's likely been in a dimly lit bar. But in a Denny's? Yep, that exists. And dancing, too.

National Franchise Sales (NFS), a brokerage that focuses on the restaurant sector, recently sold a Denny's in Carson, Calif. that featured both. They also represented the buyer, **Hergar Corp.**, an existing two-unit Denny's franchisee. **Signature Bank** provided the debt in the transaction.

NFS Principal **Alan Gallup** is the advisor within the firm who specializes in buying and selling Denny's restaurants for NFS clients, and over the years, he says, "I have seen a lot."

"I got involved with the brand in the '90s," he said. Back in the '70s, Denny's stores in the suburbs or smaller communities included the fourth dining room, which could also be used as a bar and lounge. "It was good for the Kiwanis Club meeting in the morning, and good for dinner in the evening."

Out of 1,600 domestic units nationwide, Gallup estimates those that have a full bar number about 100. And the karaoke? "I've only come across one other," he said.

He tells the Monitor the bar business needs a different set of skills to manage. "You have to watch portion control, and there's more free flow of cash in there," he said. "It's just a different animal. One of the things we try to get our arms around is whether the buyers understand the business." According to him, the buyer was considered to be an "excellent operator," having turned around a low-volume Denny's in a few short years.

And if you are asking yourself whether or not you want to have a martini at Denny's, Gallup says to consider this: "Years ago, when Denny's opened in some of these rural communities, it was the nicest restaurant in town." The original Carson franchisee there "recognized there was some flexibility in the brand to fit it into the community." Voilá, a full bar and karaoke were established.

In the sale, NFS also negotiated with the landlord for a longer-term lease for the buyer. "We were able to obtain greater property control, which gives the buyer security of a long-term position," he said. The landlord took into account the buyer's business plan, the credit quality of the buyer and the gross rental, which made them comfortable with their new tenant.

Now, says Gallup, "The value of their real estate is better if they have 17 years of property control, and that maximizes the cap rate."

The seller's financials also needed some cleanup, which Gallup understands, since he has worked with hundreds of Denny's locations over the years. Having a dedicated brand manager with NFS "allows us to spot problems in historical financials, and make projections to the income. I have literally looked at hundreds of store-level P&Ls."

For more information on National Franchise Sales, contact Alan Gallup at ag@nationalfranchisesales.com, or at (949) 428-0483.

FINANCE SOURCES

Kraus Adds Debt Placement and Sponsor Experience to Investment Banking Firm

When **Bill Kraus** was a kid growing up in New Jersey, he knew when he grew up he didn't want to do what his dad did, be an attorney, or "one of those guys in a suit carrying a briefcase walking to the train station every morning to go into the city, and then riding it home again at night. Who wants to do that?"

He had an up-close vantage point to both: He watched his dad arrive home every night from the office, eat dinner with the family and then work again in the evening. And living two blocks from the train station gave him a perfect view of "those guys in a suit" coming and going every day.

Ironically, life took him right in that direction. After graduating from college, he went to work for the $30 billion AT&T Pension Fund as an analyst.

"I found myself probably working harder than my dad ever did," he said. If the boss wanted an analysis right away, he could find himself coming home at three in the morning after working all night to get the analysis right. And guess what? He had to ride the train, too.

But he liked the job, so that made it okay. "You're doing analysis, building a model, and when you get it right, the model works." And being a math guy, that was extremely satisfying to him.

Also, "when you are a young analyst, you are meeting a lot of smart people and it's aspirational," said Kraus. If you are a younger employee, you say, "How do I get into that guy's seat over there?"

Fast forward to today, and Kraus is based in Scottsdale, Ariz. (no more trains) and is managing director with **Arlington Capital Advisors**, co-leading the restaurant practice there with John Goldasich, also managing director. One of Kraus' tasks is to grow their debt capital markets advisory practice.

Arlington hired him because of "my experience on the debt side and covering sponsors. I have a broad network there. They were a small entrepreneurial shop and they were representing entrepreneurs. They never had a proactive sponsor coverage before this."

He got that experience in years of working for GE Capital Franchise Finance, his last and longest stop during his 20-year career at the company. When GE began to get out of the franchise finance business and sell their restaurant portfolios in 2015, Kraus joined "the broader private equity sponsor business, GE Antares," he recounted. "I was running the sponsor practice, and was there about 18 months."

Leaving there in 2017, he found he enjoyed the restaurant finance world and had a network, but wanted to do something different. "I had my own checklist," Kraus said. "I had worked for an enormous company, and I wanted to try something new and didn't want to be a lender anymore."

He mostly targeted boutique M&A advisory groups, and "Arlington just appealed to me." They were working with emerging brands, and it interested him that he could help entrepreneurs scale their business.

"And I wanted to learn the sell-side investment banking business," said Kraus. "A lot of us inside these transactions, we know what goes on, but the art of it is what I needed to learn." For the last few years, "they have been flexible and supportive with me being sidecar, and leading some transactions, too."

For clients, he says, they are solving for both bandwidth and expertise: "You may not have the talent in-house; someone who can go out and properly raise your debt facility."

They work with clients on debt placement mainly under $100 million. For instance, they advised private equity firm NRD Capital on their acquisition of Ruby Tuesday's, and arranged the debt financing on the acquisition, as well. They count as clients franchisees, franchisors and multi-unit independents.

He likes working with founders and businesses to help them grow and succeed, "particularly when the financial deal has been a catalyst for the company and its people to achieve goals and realize dreams. That's the reward," he says.

One benefit Arlington can provide to the operator is flexibility. "We can be creative on structuring. You don't really know what the market may be," he said. "For instance, we can do a combination of senior debt and junior debt. We are out in the market talking to equity sources and being resourceful. We have contacts and solutions across the spectrum."

Being resourceful may never be more important than today, as restaurant companies try to maneuver their businesses through Covid-19. Some restaurant operators are surviving and thriving—those with a drive through and others who "were oriented toward off premise," he said. "Several of our clients are doing quite well."

The next question will be if those companies' new normal is sustainable, as cities across the country begin to open up and offer diners more choices. "I don't think we know the answer to that yet," says Kraus.

And while Arlington had a busy start to the year, deals had to be put on hold during the crisis. "Hopefully we can put those back together once this clears up," he said. "I'm looking forward to being on the back side of this. We have a mandate to grow our debt capital practice and we are going to put a lot of energy into it."

For more information, contact Bill Kraus at (480) 513-1121, or at bkraus@arlingtoncapitaladvisors.com.

Encore Continues Selling Properties During Crisis

While business has slowed for many restaurant operators and suppliers throughout the sector since Covid erupted in the U.S. in March, **Encore Real Estate Investment Services** is still seeing deals get done. In fact, the investment sales brokerage firm sold 24 properties in April, up from their sales volume for the same month last year. And, since the first of the year ending May 1, they had sold 68 properties.

"The buyers we deal with are not generally first-time buyers," said **Evan Lyons**, senior director with Encore. "They don't get swayed by market change. We had been talking with them over the last 18 months that there would be a market change. We just didn't know it would be this. These buyers are in the business of real estate and they must transact."

Average cap rates for their net leased retail sales was 7.70%, and that was across the industry spectrum, including those outside of QSR, like pharmacies and dollar stores.

"We didn't see tremendous cap rate shift out of this (crisis)," said **Joe Lopez**, advisor with Encore. "We don't buy into the narrative that there is a covid discount today. The assets that we sell are leased to and guaranteed by fortune 500 companies that provide consumer goods or services to the community. These investments are designed to withstand economic shifts."

Cap rates did increase with certain multi-tenant assets, or under unique circumstances for a particular seller, said Lyons, such as those sellers who had an immediate need to sell their property. But, "the alternative is that we've seen cap rate compression in other retail products," he said.

"This goes back to lending," said Lopez. "Interest rates remain at historic lows which allows an investor to make a healthy return even at the lower cap rate level. The recent Fed announcement to keep rates low for the next two years will help to solidify investment values going forward."

For those restaurant operators who haven't seen the uptick in sales that some QSR operators have, "we have to be fully prepared to make a detailed case of the stability of the operator, drilling down to the old 'bricks and sticks' fundamentals, like what corner are they on, is it a university town, etc. We have to market that anecdotal information," said Lyons.

If they are a QSR that has good financials and a positive history of operation and growth, "we are seeing those can be structured with healthy cap rates, right up there with pre-covid numbers," he reported.

And while during the early weeks of covid, most restaurant operators had halted all new-unit development, some are "now pushing the 'play' button," said Lyons. "The point is, the folks who made conservative business decisions along the way, tend to be in better shape to capitalize on growth opportunities in this environment. If someone had plans to develop 20 stores pre-covid, they aren't probably going to do that. But they may do five. Any growth is positive."

Both Lyons and Lopez want to highlight that in 2019, conversations about ghost kitchens, smaller dining areas, and investment in tech or third-party delivery services were already happening. "This pandemic is the catalyst to accelerate that," Joe said.

For more information, contact Evan Lyons at (248) 702-0298 or at elyons@encorereis.com; or Joe Lopez at jlopez@encorereis.com or at (248) 702-0728.

Essex Advising on Debt Capital for Restaurants

"Having that experience, we understand the challenges of making payroll and working with landlords; managing through crisis," said **Fred Beilstein**, managing director with **Essex Capital**, referencing his time owning and managing a large, multi-unit Burger King franchisee.

It started years ago when Beilstein, along with his father Fred Beilstein Sr., ran a small investment company called Equicorp Partners where they conducted financial and operational advisory for businesses. Beilstein's father had experience in the restaurant industry, working for AFC Enterprises (then the owner of the Popeye's and Church's Chicken franchises), so advising restaurant company owners was a natural fit.

"It was there that the opportunity came up to buy this large Burger King franchise," Beilstein said. "I had a finance background, which then morphed into an operational background. It gave me an opportunity to act as an operator and cut my teeth in that world." The company eventually had grown to 110 restaurants with 3,000 employees when they sold the business in 2013.

Beilstein recently joined **Essex Capital**, which advises on debt financing for companies looking for acquisition financing, construction loans, new build financing and debt consolidation. He'll be concentrating on the restaurant industry as one of his verticals.

"We manage the whole debt placement process, and go out to the lenders who are doing the deals in the space," he said. "We are taking an investment banking approach to debt financing."

Right now, options for new debt financing are limited, as most lenders "are battening down the hatches with their existing portfolio," he said. But he can help with advice and leadership, helping companies think through strategy.

"When we owned the Burger Kings, many were in the panhandle of Florida when the gulf oil spill hit," he recalled. "I am not a stranger to crisis management, and I will give you my honest thoughts about how to deal with this crisis."

Today he is gathering as much information as possible from industry contacts and other lenders, "so when things do turn, we are ready to go. We want to know who's providing financing and which bank or lender will really look at the deal." For more information, contact Beilstein at 404-550-0577, or at fred@essexcapitalgroup.com.

FINANCE INSIDER

Greg Burns joined **Stonebriar Commercial Finance** earlier this year to finance restaurants. Burns has worked at other banks and companies in the restaurant finance arena such as CIT Bank, CTL Capital, William Blair & Company and AIG Commercial Asset Finance. As a non-bank lender, he says Stonebriar is in a unique position to finance certain restaurant deals during the downturn. In fact, his first two deals have LOIs and are acquisition transactions. For more information, contact him at (612) 940-0960, or at greg.burns@stonebriarcf.com.

Attorneys **Jordan Myers** and **Jonathan Edwards** of the law firm **Alston & Bird LLP**, advised **Fortress Investment Group** on the distressed debt acquisition, credit bid and ultimate purchase of **The Krystal Company**, which closed on May 18. Krystal had filed for bankruptcy protection on January 19. Edwards said the transaction came together quickly, with Fortress acquiring the debt of the prepetition lenders and then structuring a credit bid. You can reach Jordan Myers at 404-881-4618 or jordan.myers@alston.com, and Jonathan Edwards at 404-881-4985 or jonathan.edwards@alston.com.

Investors seeking distressed opportunities in the restaurant business would do well to have a strong operator on their team. **National Restaurant Hospitality Search**'s **Ron Stockman**, a former restaurant operator himself, has placed numerous C-suite executives with private equity and venture capital firms and is looking to do so again during this crisis. Stockman told the Monitor he has a number of quality operators looking for an opportunity to lead a well-funded turnaround project. For more information, contact him at ronstockman@nrhsearch.com.

Dine Global Brand's employment contract with CEO **Steve Joyce** expires in February 2021, and there are no automatic extensions. No surprise here that the **Applebee's** and **IHOP** franchisor is allowing Joyce's contract to expire. If Joyce were actually terminated, it would cost the company as much as two-to-three times his annual $1.0 million salary plus three years of bonus and targeted bonus. Joyce, a Florida resident, has been commuting back and forth to Dine's headquarters in Los Angeles and was paid $262,000 in housing and commuting expenses in 2019.

ProActive Communications says it delivers "winning strategies for clients with business, public policy or reputational challenges." Who could be more reputationally challenged than **Papa John's** founder and former CEO **John Schnatter**, removed as chairman and company spokesperson after it came to light in July 2018 that he used a racial slur during a marketing conference call. Schnatter's professionally created social media posts on Instagram and TikTok mimic a "Lifestyles of the Rich and Famous" format. In recent posts, Schnatter shows off his Louisville mansion, Bellagio-styled fitness center and personal golf course, and showcases his collection of Camaros and a personal helicopter nicknamed the "Papa Choppa." Since Schnatter was bounced in 2018, shares of the delivery pizza chain have risen approximately 45%.

Former Outback Steakhouse operating partner **Mark Diamond** has joined **Lawyer's Realty** as an agent specializing in restaurant and hospitality brokerage and consulting. Lawyers Realty is a St. Louis-based restaurant and retail real estate firm headed by St. Louis attorney and real estate broker **David Wright**. Wright told the Monitor he and Diamond have known each other for a number of years and that Diamond's restaurant operating background, combined with his real estate brokerage and legal background gives the firm a unique platform to assist multi-unit restaurant companies find sites or restructure existing leases. For more information about the firm, contact David Wright at david@lawyersrealtyco.com.

Pizza and entertainment restaurant company, **CEC Entertainment**,(**Chuck E Cheese** and **Peter Piper Pizza** and owned by **Apollo Global Management**) has formed a board restructuring committee and may file bankruptcy. Operations have been suspended at 86 company-operated stores, and the remaining locations are only open for carry-out and third-party delivery. The company has approximately $1 billion in outstanding debt and drew down $105 million of its revolving credit agreement on March 18. The company's $215 million of outstanding senior unsecured bonds were trading for as little as $.09 on the dollar. Unfortunately for the company, it used precious cash to repurchase $40 million of those notes in late 2019.

Softbank's $375 million investment in **Zume** made big news in 2018, as the San Francisco-based pizza-delivery company was valued at a whopping $4 billion. Now, Pepe and Bruno, the two robotic pizza makers introduced by the incredibly over-capitalized company, have been retired. A Monitor subscriber alerted us to a recent online auction of the entire pizza line, food trucks, vehicles and kitchen equipment of Zume. The company is now pivoting to packaging. In early January, the company's CEO **Alex Garden** said the company was "doubling down on our market-leading innovations in compostable molded-fiber packaging."

Overleveraged, underperforming and over-market leases: That's how founder **Mark Sellers** described his company, **BarFly Ventures**, in bankruptcy documents earlier this month. The parent of the 17-unit bar and grill concept, **Hopcat**, closed all of its stores on March 20, including two one-off brands, and furloughed 1,100 employees. Barfly owes three lenders, **Main Street Capital**, **Congruent Credit Opportunities** and **HMC Income Fund**, a total of $29.5 million. Various suppliers and landlords are owed $5.6 million. BarFly applied for and received a $6.6 million Paycheck Protection Loan and intends to reopen as soon as the various state restrictions are lifted. **Mastodon Ventures** is advising the company and will conduct a sale process.

Earlier this month, the Monitor caught a glimpse of a **McDonald's** "Dear Landlord" letter. It seems McDonald's sent quite a different letter than most landlords received from restaurant companies this season. To paraphrase the burger giant's missive: "The other guys in the restaurant business haven't paid rent and want concessions, but not McDonald's, because we honor our obligations." Hmm, wonder who McDonald's was taking a shot at?

Food, beverage and labor cost expert **Mark Kelnhoffer** has rescheduled his annual management seminars to Columbus, Oh. on August 3 and Washington, DC on September 21. For more information, contact him at mark@returnoningredients.com.

Hedgeye's **Howard Penney** is throwing serious shade on **Beyond Meat** (BYND), the plant-based meat manufacturer. During a June 5 webinar he said he didn't believe the company could dominate a forecasted $30 billion meatless product market by 2025—and therefore its share price ($133.53 at the time) was unsustainable. As evidence, he said the company's relationships with national fast-food brands were deteriorating, alleging product tests at McDonald's Canada, Tim Horton's and Dunkin' Brands had sputtered because sales hadn't improved. "Yes, these are all wonderful tests, but they do not seem to be moving the needle," the veteran analyst claimed. Penney also contended **McDonald's** USA wouldn't add a plant-based burger because such products complicated their drive-thrus, which have boosted service times with a simplified menu. To add injury to insult, Penney cited **Burger King's** 2019 launch of the Impossible Whopper, featuring Impossible Foods' meatless patty. Burger King's parent, RBI, reported the brand's comparable sales were 5% and 2.8%, respectively, for the 3rd and 4th quarters in 2019. "It was effectively a failure," he charged.

Yikes. According to recent market research firm **NPD**, 70% of Americans would rather eat at home than in a restaurant.

The **Pure Green** retail juice brand has only five locations in New York City and annual revenues of less than $3 million, but as of June 15, it has raised $1,043,725 of equity from a crowdfunding website. An "investor" in the Pure Green crowdfund offering receives no immediate ownership interest in the company, but instead becomes party to a so-called Crowd Safe Agreement, where by the buyer receives a discount on a future financing if a certain trigger events occur. A trigger event might be a subsequent equity financing, or a sale of the company. Investors also receive product perks from Pure Green for their investment dollars. For instance, an investor who puts in $25,000 would receive a $2,500 gift card, a 15% discount on all future juice products and a personal call with the brand founder, Ross Franklin, who by the way, owns 100% of the equity in the company. Pure Green plans to use the proceeds to offer franchises across the United States and says it aims to open 50 franchised locations by the end of the year. Pure Green utilized a crowdfunding portal called **Republic**, a platform launched in 2016. The 2012 Jobs Act passed by Congress established a framework for crowdfunding and the Securities and Exchange Commission wrote the rules. Crowdfunding must take place online through an SEC-registered intermediary, either a broker-dealer or a funding portal. A company is able to raise up to $1,070,000 in a 12-month period. According to Pure Green's offering documents, which are available on the SEC's EDGAR portal, the company paid Republic an 8% fee.

Throughout the months of April and May, **Auspex Capital** assisted in procuring approximately $250 million in Paycheck Protection Program (PPP) loans for more than 75 franchisees of numerous national brands, including Taco Bell, KFC, Pizza Hut, Wendy's, Burger King, Jack In the Box, Hardee's, Popeyes, Freddie's, Papa John's, El Pollo Loco and Corner Bakery. In addition to facilitating the procurement of the PPP loans, the company states, they are now working with clients to maximize PPP loan forgiveness. For more information contact Managing Director **Chris Kelleher** at ckelleher@auspexcapital.com or (562) 424-2455.

Covid-19 cut short CEO **Aaron Noveshen** and investor **Greg Dollarhyde's** search for growth capital for "premium" fast-feeder **Starbird**. "We went out looking for money at the end of last year and had started getting into negotiations," Dollarhyde said. "Then Covid showed up." The brand's largest shareholders, the duo intends to at least double the size of the five-unit fried chicken concept over the next three years (Starbird also operates a ghost kitchen in San Francisco). They're seeking to raise $6 million to $10 million in a second round of financing from private equity firms and high net-worth individuals. Dollarhyde added Starbird's most compelling metric is the brand's pre-pandemic AUV of $2.4 million. He credited omni-channel marketing, including catering, for recent "double-digit comps." Starbird units do not have drive-thru windows and there are no plans to add them, he said.

This according to **Barclay's Jeff Bernstein**: The three main third-party delivery apps have averaged approximately 1.5 million downloads per week since March, an approximate 42% increase versus the 2019 average: **DoorDash** (+68%), **GrubHub** (+49%) and **Uber Eats** (+6%).

Investor and analyst **Robert Emerson** has published *Milkman 2.0—The $6 Billion Opportunity in Food Delivery*. Emerson is the author of two previous books on the restaurant industry: *Fast Food: The Endless Shakeout* and *The New Economics of Fast Food*. "I think it's particularly relevant in light of the merger and funding activity in the delivery space," Emerson told the Monitor last week, referring to the announced acquisition of **GrubHub** by Dutch-owned, **Just Eat Takeaway**. Emerson's thesis is people are spending more money at restaurants than ever, but have been eating out less often. Emerson points out that the average American ate out about 185 times last year, whereas in 2000 they ate out about 216 times a year. The increase in restaurant sales, writes Emerson, "has been driven primarily by increased prices and the increase in dining at more expensive fast casual restaurants like Chipotle and Panera Bread rather than at traditional QSR competitors like McDonald's." Emerson sees a future of advanced cooking technology, ghost kitchens and third-party delivery. For more information, contact Emerson at robertemerson177@gmail.com.

Intrinsic Value is in the Eye of the Beholder

"Share repurchases only make sense if the shares are bought at a price below intrinsic value," wrote Warren Buffett in Berkshire Hathaway's 2016 annual report. Yet, in the same letter, Buffett acknowledged that calculations of intrinsic value aren't precise.

On the adjacent chart, the Monitor looked back at the efficacy of share buybacks over the past seven years in the fast-casual, casual and fine dining segments. While no one could have predicted the devastating impact of the coronavirus, most of our restaurant leaders need to recalibrate their intrinsic compasses. Only Darden's Gene Lee and Texas Roadhouse's Kent Taylor did right by their shareholders.

We wonder if the bosses at Brinker, Cheesecake, Bloomin' Brands, Dave & Buster's, BJ's, Dine Global, Ruth's, Red Robin and Potbelly hadn't been so aggressive buying back shares and adding debt over the past seven years, they would have a little extra financial security right now.

Many of the share buybacks look egregious in hindsight. The $123 million in shares bought back by Red Robin at an average price of $56 looks especially foolhardy today, given the company's recent pledge to its banking syndicate that it will raise $25 million of equity by November 23.

Ruth's Chris took the walk of shame in April, when it disclosed its receipt of $20 million in Paycheck Protection loan funds. What if Ruth's Chris, on the other hand, had not spent $152.5 million in share buybacks, losing $70 million in the process? They never would applied for PPP.

Other buy-high chains: Dine Global Brands, franchisor of Applebee's and IHOP, bought back $357 million in stock during the seven-year period we looked at and then drew down $223 million of its $225 million credit facility in March. And what of Cheesecake Factory that spent close to $900 million in buybacks at an average price of $46 and then sold $200 million of equity to Roark Capital for half the price?

I BET THEY WISH THEY HAD THAT BUYBACK MONEY BACK

Company	Dollar Volume of Share Buybacks 2013-2019	Avg Price Paid Per Share	Current Share Price	(Premium) Discount Paid to Buy Back Shares	Debt Added From 2013 to 2019
Brinker International (EAT)	$1.9 B	$46	$25.99	($821.2 M)	$578.6 M
Darden (DRI)	$1.5 B	$67	$75.94	$215.4	($1.95 B)
Cheesecake Factory (CAKE)	$861.2 M	$46	$24.23	($412.2 M)	$290 M
Bloomin Brands (BLMN)	$700.1 M	$21	$11.70	($303.9 M)	($445.7M)
Dave & Buster's (PLAY)	$628.4 M	$47	$16.60	($405.5 M)	$178.1 M
Denny's (DENN)	$473.4 M	$12	$11.62	-	$70 M
BJ's Restaurants (BJRI)	$461.2 M	$39	$22.68	($192.9 M)	$143 M
Dine Global Brands (DIN)	$356.6 M	$83	$49.28	($144.7 M)	$78.8 M
Texas Roadhouse (TXRH)	$210.9 M	$41	$52.06	$59.7 M	-
Ruth's Rest Group (RUTH)	$152.5 M	$18	$9.63	($70.0 M)	$19 M
Red Robin (RRGB)	$122.9 M	$56	$12.30	($96.0 M)	$81.9 M
Potbelly (PBPB)	$112.4 M	$12	$2.62	($87.7 M)	($15.2 M)
Cracker Barrel (CBRL)	$65.5 M	$133	$114.40	(9.0 M)	($65.0 M)
Noodles & Co. (NDLS)	$41.7 M	$16	$5.65	($27.0 M)	($53.2 M)
Fiesta Restaurant Grp (FRGI)	$17.0 M	$11	$7.04	($6.5 M)	($123.9 M)

STATS AND QUOTES

THE MANY CONSEQUENCES OF COVID-19	
Mortgage Bankers Association Survey of Home Lenders	With the average rate of a 30-year fixed-rate mortgage hovering around 3.4%, refinance activity is 176% higher than a year ago. The mortgage delinquency rate of 4.36% at the end of 2019 was the lowest in survey history, but is expected to rise to Great Recession levels—10% or more.
Datassential's research of 4,000 U.S. consumers	Some 57% of consumers see buffet-style restaurants as "too risky" while 47% of consumers would like to see curbside service continued even after the dining rooms open.
AlixPartners Consumer Pulse Survey	Consumers say that 86% of their stimulus money is allocated to savings, groceries, rent, mortgage, paying bills and debt. They intend to spend only 5% of the funds for restaurant-related purchases.
RFDC 2019 Speaker David Rosenberg	Rosenberg's motto is "deflation today, stagflation tomorrow." According to Rosenberg,"the economic hole is just far too big for inflation to become a problem for anyone."
Simon-Kucher & Partners and research firm Lucid survey of 647 consumers	The survey showed consumers expect to pay almost $2 more for the convenience of ordering delivery directly from restaurants, compared to what they expected to pay for delivery via third-party apps like DoorDash, Uber Eats and Grubhub.
New York Times survey of 511 epidemiologists and infection disease specialists	Only 16% said they would eat at a dine-in restaurant restaurant this summer, while 56% said they would eat at one after the next three-to-12 months. Only 3% said they would attend a sporting event, concert or play.
Federal Reserve Bank of Richmond study of wages and unemployment benefits	Wages in foodservice were less than $10 per hour in North Carolina, South Carolina, and West Virginia and more than $15 per hour in D.C. With unemployment insurance, workers receive the equivalent of almost $19 per hour in North Carolina, South Carolina, and West Virginia and nearly $21 per hour in D.C. No wonder, the study concludes, "the incentives might not be high for many of these workers to return to work before the end of July, when the additional $600 benefit expires."

INTEREST RATES (%)				
	6/15/20	**Last Month**	**A Year Ago**	**Trend**
Fed Funds Rate	.25	.25	2.50	↓
1-Month Libor	.19	.17	2.38	↓
3-Month Libor	.30	.38	2.40	↓
1-Year Treasury	.17	.15	2.00	↓
5-Year Treasury	.33	.31	1.85	↓
10-Year Treasury	.71	.64	2.09	↓
30-Year Treasury	1.45	1.32	2.59	↓
Prime Rate	3.25	3.25	5.50	↓

Oaktree Capital Founder HowardMarks on taking advantage of risk: "All great investments begin in discomfort."

Facebook Founder and CEO Mark Zuckerberg on the potential benefit to employers of remote work: "There is access to large pools of talent who don't live around the big cities and aren't willing to move there."

Author and Chapman University fellow Joel Kotkin explores the concentration of wealth and property and reduced upward mobility in his new book, The Coming of Neo Feudalism: "Democratic capitalist societies need to offer the prospect of a brighter future for the majority. Without this belief, more demands for a populist strongman or a radical redistribution of wealth seem inevitable. A form of 'oligarchic socialism,' with subsidies or stipends for working people, might stave off destitution while allowing the wealthiest to maintain their dominance. But the issue boils down to whether people—not just those with elite credentials and skills—actually matter in a technological age. By putting an 'absolute premium on labor-saving measures,' we may be creating more dependance on the state while undermining the dignity of those who want to do useful work."

National Federation of Independent Business Economist William Dunkelberg on consumer spending and savings: "Policies to support spending produced a major surge in personal income which collided with the anti-Covid-19 policies. Unable to easily spend the money, consumers 'saved' it (including debt reduction), producing a savings rate of 33%, a historic record. This 'pot' of money will find its way into the economy, but the pace at which it does will depend on how quickly the economy is reopened, which depends on the decisions of at least 50 levels of government and reports about the incidence of new Covid-19 cases."

Economist David Rosenberg on the state of the U.S. economy: "Has American exceptionalism now come to include a policy proposal being bandied about that would have the government actually give people an incentive payment to return to work? Isn't that the role of the actual paycheck?"

The Earnout Comes Into Its Own

It has been about three months since most state governments unceremoniously ordered restaurants to shut down on-premise dining to prevent the spread of Covid-19. Today, roughly two-thirds have received permission to re-open.

The re-openings have brought about waves of enthusiasm, according to Andrew Smith, whose Savory Fund invests in small restaurant companies. "Right now, everybody wants to act— and I'm sure you've heard it—as if this [pandemic] didn't happen," he says, only half-jokingly.

Smith isn't talking about carefree diners. He's referring to founders intent on raising capital. While conceding sales in the last three months "have been cataclysmic," they add those months don't really count. After all, sales were strong before Covid-19.

"And we're like, 'Well, that's great, but you can't just jump over three months and say it doesn't matter,'" he adds.

Jessica Kates of Rellevant Partners, which also provides growth capital to emerging brands, says she's heard founders describe pandemic-driven losses as a blip. "And we could say, 'That's true, and they're obviously exacerbated by that. But how do you know if sales are ever going to come back?' And you could go back and forth a bunch of times. An earnout avoids that."

Smith, Kates and other dealmakers I talked to say earnouts — a valuation approach that shifts the EBITDA (or sales) multipliers to reduce a buyers' risk —now makes sense to account for gaping sales holes that have resulted from the shutdown.

A private equity executive who requests anonymity tells me earnouts are "certainly more common today than they were before for obvious reasons, and the more significantly the concept has been affected by Covid, the more amenable the seller would be to an earnout."

He offers an example of how one might be structured: The buyer invests $10 million at a $40 million pre-money valuation—and the buyer owns 20% of the company. But if performance is x-percentage below plan, the ownership is now adjusted upwards to, say, 25% ($10 million on a $30 million pre-money valuation, which would have been the valuation originally if the investor knew the business wouldn't recover)."

Rob Hunziker of Advanced Restaurant Sales, who has done many earnouts, advises using sales-based earnouts when buying franchise restaurants. "Let's say sales are $10 million and the seller is projecting $15 million based on the trend of coming back after the pandemic. So the seller wants to get paid on $15 million," he says.

To accomplish that, he adds, a buyer acknowledges the $10 million in sales (a million in EBITDA) and offers a 5x multiple (or $5 million) which the seller gets at closing. Explains Hunziker: "But if the seller gets to $15 million in sales, and makes a million and a half—the buyer gives the seller a 5x multiple on that extra half-million bucks on the backend. Now the deal includes another $2.5 million," he says.

"I don't think there's any prohibition against it. But in this industry [the earnout] is generally done on EBITDA," offers investor and former restaurant CEO Greg Dollarhyde, who can recall only once using sales in an earnout.

Smith and Kates, however, are generally looking to do smaller deals than those in the examples above. For Kates, calculating multiples depends on the size of the target company. With early stage companies, she says, sales trends matter most because they've been shaped by the pandemic.

"We would look at what [the restaurants are] doing now and either annualize sales for the past few months or see what the comparable sales year-over-year have been and apply that to last year's sales," she says. Then she can assign a multiple to a pro forma run rate for 2020.

"And in terms of the earnout, you would have an agreement on a case-by-case basis with the founder and also on the milestones taking place at different periods of time," Kates adds. "So, if in six months sales come back x-percent, you get some part of the earnout. And if in a year from now we see those units coming back 100%, you get the rest of the earnout."

Smith's $90 million Savory Fund provides capital for growth-oriented, three- to 10-unit companies. "Earnout is on the table in every single case," Smith says of a half-dozen deals he's currently negotiating.

To arrive at an earnout multiple, Smith classifies the restaurants by age, labeling them as "mature" (open at least 18 months) and "immature" (open less than 18 months). He then compares store-level sales and earnings trends of both sets.

"When we do that, there is always going to be a [valuation] gap between one, two or three stores," he says, adding earnout valuations on immature restaurants recognize the contribution of founders, who typically remain with the company.

"We might say that one is going to be a $1.5 million store with this type of EBITDA. And that's where the earnout comes in handy. I'll pay you x-amount today. If that store hits that level, like we all think it will, we'll pay you the [earnout]," Smith explains.

Dollarhyde cautions investors who want to keep founders in place (practically a requirement with early stage investments) to remain vigilant during the earnout period. He recalls a deal where the seller's earnout was based on the number of restaurants the company opened, prompting the seller to open "anything."

Warns Dollarhyde: "What always happens in those situations is the seller has the tendency to keep a short-term view of the business to maximize the calculus of the EBITDA."

—David Farkas

What Have We Learned So Far from Covid-19?

By Dennis Monroe

It is said that unless we understand the past, we are destined to repeat our mistakes. So, a reflection on what we've learned thus far through Covid-19 is an important exercise.

The restaurant industry is diverse, and there have been winners and losers in this crisis. Obviously, restaurants with drive-thru windows and an efficient takeout and delivery system have done much better than full-service restaurants. The independent owners of upscale, neighborhood and downtown restaurants have been hurt. None more than the buffet sector, whose very existence is at stake. All that being said, let's look at what we can learn:

1. Government relief programs. Initially, the government provided the Payroll Protection Plan (PPP). This was the pillar of the government programs intended for the restaurant industry. Initially, the government programs did not recognize the reality of the industry. They provided for a short relief period of eight weeks. It basically applied to payroll expenses (75%) and in general, made it very very difficult to utilize the full amount needed to qualify for the forgiveness. Obtaining the funds certainly was fairly easy and the banks were responsive, but there were these initial issues. Fortunately, many of these issues were recognized through corrective legislation and we ended up with a fairly effective plan. It was extended to the lesser of 24 weeks or the end of the year. The percentage that needed to be used for payroll was reduced to 60% and there is a safety valve for the inability to hire back the same level of employees as prior to the pandemic because of business conditions. That being said, it is unfortunate we had to wait for these corrective provisions and Congress didn't recognize the specific needs of the restaurant industry, which has probably been as hard hit as any industry except for the hotel and recreational and travel industry.

While the PPP has been fixed, other government programs that have been deployed, particularly the Main Street loans, are slow to get going and have also created a lot of uncertainty within the banking community. That uncertainty causes banks to be cautious, particularly after they were overwhelmed with the PPP loans. We are all hoping the Main Street loans, which should be a great source of liquidity for our industry, will also be more fully defined and banks can deploy these funds.

2. Hourly employees. There were so many different approaches to handling employees, whether it was through furloughs, direct layoffs or continued payment, which was rare. We clearly need to have an overall plan for the restaurant industry, because what happens when these employees come back is key to long-term success. We should be looking particularly at the whole tipping system. We need a new paradigm wherein all employees are equitably compensated, and this will encourage long-term employment in the industry. The lower-paid, back-of-the-house kitchen and support workers need to share in the overall revenue and success of the restaurant. Introducing a service charge and menu price adjustments to provide a pool for all employees is crucial. Almost all good restaurants have tried to address this issue informally. Now we need formalization and widespread participation. We don't want restaurant employees to feel they are better off collecting unemployment.

3. Lenders/Banks. We've learned that the lenders by and large have been good to work with. They have almost routinely provided interest-only loans. Now we need to figure out a long-term solution. How do we structure debt covenants overall for the restaurant-lending community in such a way as to provide the flexibility necessary to deal with these extreme ups and downs? How can your lender be a resource in accessing the latest bank-administered loan programs? Also, how can they provide more efficient cash management and credit card services?

4. Landlords. In the future, leases need to be drafted in such way as to take into account the kinds of crisis situations as those caused by the pandemic. We've learned that for the most part landlords have been good about deferring rent and possibly adding it on to future years, or extending leases. These are only short-term solutions. We need landlords that participate with their restaurant tenants long term to deal with the uncertainty of sales levels and overall volatility. Key ideas are going to straight percentage rent or at least adjustable base rent. Or, possibly lease kick-out provisions if the restaurant just can't make it. Finally, we help with necessary capital expenditures to comply with social distancing.

5. Partnership in management. We've learned that in the future we will need to have a flatter management system. Employees will be playing multiple roles in both their line function and management. If we want our people to be career restaurant professionals, we must provide for growth and advancement.

6. Cooperation. We've learned that the restaurant industry is one of the most congenial and cooperative industries. This has not been a zero-sum game where there are limited winners and lots of losers. The goal has been to have as many winners as possible. Of course, there have been losers, and in many cases they are ones who just got tired of fighting the battle and decided it's not worth it, or just not worth the effort of trying to come back. We certainly need to continue to work together, sharing ideas, consulting with employees and consumers, and figuring out how to transform the dining experience in this new environment so consumers can feel safe.

The good news is there are dedicated legislators all over the country trying to get it right. Let us learn from our mistakes and hopefully we still have time to build a strong, viable and fun industry.

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.

Continued from page one

of EBITDA. Now that casual dining operators have gotten a taste of the possibilities of increased to-go and curbside sales, these owners have a big decision to make. Do they double-down on digital? And, when they reopen their dining rooms, how do they staff them? They better be careful. Dine-in customers will demand a higher level of service.

Work-at-Home—If just a small percentage of American workers were added to the 29% in 2018 (Bureau of Labor Statistics survey) who already said they would work at home, the number would be huge. More likely, it will be the businesses that promote remote work and downsize their office space. That's because businesses are reporting higher productivity from office workers working remotely during the pandemic. What impact will that have on downtown restaurants and those establishments located near suburban office parks? It's not unreasonable to expect downtown restaurants are more likely to be impacted than ones in the suburbs.

Migration Away From Dense Cities: According to a recent Harris Poll survey, "one-third of Americans are considering moving to a less densely populated area because of the novel coronavirus outbreak." Is it safe to assume that number will be higher in some of the cities that experienced rioting? Suburbia may see a restaurant renaissance, at the expense of chef-driven, high-rent, urban establishments that were so popular over the last decade.

The Dominance of Millennials and GenZ—Consider this from Boston Consulting Group: "Millennials, who have now overtaken baby boomers as the largest population segment, are on the cusp of their peak spending years, and will increase their per capita spending by more than 10% over the next five years. Gen Z consumers will increase their per capita spending by more than 70% in the same period, while both Gen X and baby boomers will decrease their spending."

This is the deathknell for zombie brands—those undercapitalized casual dining, bar and grill, and buffet chains built for the boomers and ones that breeze through bankruptcy every four or five years. Maybe the next time around, the credit bid will be replaced by a liquidation.

Store Rationalization—Restaurant growth was slowing pre-Covid and there were plenty of marginal restaurants. A significant number of independents have announced store closings. More to follow. Landlords have deferred rents for chain operators but have not made permanent concessions. This stalemate will continue until the PPP money earmarked for rent is gone.

Full-service restaurants are the ones to monitor. Right now the work-at-home people are eating breakfast in their own kitchen, not so much at the family restaurant. Casual dining restaurants and bar and grills need to ramp up dining room sales quickly to pre-Covid levels or the cash burn will get the best of them. Fine dining? A recession has never been good for these high check average places. And finally, those mall-based restaurant concepts are definitely at risk. One interesting development: mall-owner Simon Properties says it might want to buy JC Penney. Maybe Cheesecake Factory is next.

Capital Will Follow the EBITDA—For the second time in 12 years, big-brand QSR has survived the ultimate stress test. Restaurant lenders are heavily invested in QSR and that's a good thing now. However, today they must deal with a range of uncertainty. How do they look at their client's PPP loans on top of their existing ones? How do they value a restaurant company going forward? Pre-Covid, Covid, or post-Covid? Expect QSR borrowers to pay more for credit and see their leverage ratios tightened while the lenders pause to figure this all out.

All the talk of big pools of capital on the sidelines waiting to invest in restaurant deals is just that, talk. QSR valuations haven't receded and who would want to take on a casual dining turnaround right now? Emerging brands will have their day in the sun soon, but the cost of capital will be a night-and-day difference from a year ago.

The restaurant business is undergoing a major reset due to the pandemic, one that wasn't expected. Most of the trends, however, were in place prior to the virus, and they'll continue to remake the industry. You can't stop them now.

—John Hamburger

RESTAURANT FINANCE MONITOR

2808 Anthony Lane South, Minneapolis, Minnesota 55418

John M. Hamburger (jhamburger@restfinance.com) • Mary Jo Larson (mlarson@franchisetimes.com)

Subscription Rate: $495.00 per year. $750.00 for two years

TO SUBSCRIBE CALL (800) 528-3296 FAX (612) 767-3230 www.restfinance.com