Nation's Restaurant News

Five trends for 2013: Financial forecast

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2013 Forecast & Trends

The strong will get stronger

In terms of the restaurant industry's financial performance, 2013 will offer two different narratives, said Kevin Burke, managing partner of Trinity Capital LLC. Stronger firms will take share from the weaker, and weaker firms will continue to suffer amid the slow recovery and the overhang of the financial crisis.

This will be true in both limited service and casual dining, he said. Bigger companies will figure out how to take share from others through products and promotions. These top firms also are learning how to harness social media, while smaller companies don't have the resources or talent base to do the same. The four weapons that will cleave the big guys from the little are: value menus, social media, TV advertising budgets and products.

In terms of lending, Burke said, the environment will be closely correlated to the financial health of the money-center banks, which has yet to be determined in 2013.

Questionable growth

The Patient Protection and Affordable Care Act will put a lot of stress on the industry and will limit the ability of restaurant companies to grow, said Gary Levy, hospitality industry practice leader for CohnReznick LLP. As one of the largest employers in the nation, the industry's potential loss of jobs could greatly affect the nation's economic recovery, he said.

Private equity will seek emerging brands

More private equity investments will be made in emerging growth concepts, Levy predicted. This will give operators the ability to attract capital that, in the past, was never available.

Borrowing will be bifurcated

Companies with strong cash flow and real assets for collateral should be able to access the debt markets, while companies with weaker cash flow and no collateral are likely to have difficulty borrowing from traditional lenders, said Steve Rockwell, partner in the consulting firm Results Thru Strategy and a columnist for Nation's Restaurant News.

Private equity should continue to be a source of capital for the industry, with new firms turning their attentions to restaurants and a growing trend toward smaller private equity investments. This latter development is positive since the public market continues to demand relatively large initial public offerings. While there are a number of companies rumored to be poised for IPOs, low interest rates and strong demand from private equity are likely to limit the number of companies that ultimately go public.

The borrowers’ market will continue

Rates and structures will continue to move in favor of borrowers until there is enough good economic data that the Federal Reserve feels it is safe to change its aggressive monetary stance, according to Nick Cole, executive vice president at Wells Fargo Restaurant Finance Group.

Cole said he also anticipates that private equity firms will quickly shift from their dividend-recap frenzy in the fourth quarter of 2012 and aggressively hunt for new deals in 2013 while borrowing conditions remain favorable.

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