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OUTLOOK

Ten Years After

The thing I remember most about the financial crash was watching the meltdown of CNBC's Maria Bartiromo and Jim Cramer. Lehman Brothers had just failed and AIG and the banks needed a bailout. Bartiromo was near tears on September 29, 2008, after Congress rejected the bailout bill and the market declined $1.2 trillion dollars that day. Cramer, a few days later, told NBC viewers to "take whatever money you might need during the next five years, please take it out of the stock market right now."

In our October 2008 newsletter, we dubbed the financial crisis a "nationwide margin call." Housing speculation was the prime culprit and the complex securitization exacerbated the decline. Political infighting made it worse.

Many heeded Cramer's call. By November 1, the Dow Jones Average declined an additional 10% and would finish the year down 34%. Restaurant stocks dropped 39% that year as traffic fell precipitously. Domino's Pizza, burdened by debt and dreadful quality, hit a low of $3.56 per share.

Restaurants were dead money at the 2008 Restaurant Finance & Development Conference in November. We joked that the banks should have placed signs outside their booths reading "we have no bananas today." Lenders tried to put a happy face on it, saying they were still in the game, but we knew most of the loans were simply covenant default extensions.

The seeds of today's economic expansion were planted in the years following the crash. Unprecedented fiscal and monetary stimulus have become the norm—deficit spending, quantitative easing, ultra low interest rates and now a trillion dollars plus in tax cuts. These forces are driving lending, employment, manufacturing, construction, consumer spending and yes, restaurant and real estate valuations. Domino's trades at $285 now, almost 20x EBITDA. Even middling restaurant chains want 10x or more.

Listen to the pundits now shouting "buy, buy, buy!" It's different this time they say, because we have a White House that understands business. But, it's not too early to ponder these questions: What if the deficit becomes a major issue and the tax cuts are reversed? What if more interest rate hikes drain the liquidity?

Our admonition from 10 years ago is still the same: Let the other guys be the big shots. Pay attention to running your business. Keep your debts low and always have plenty of dry powder on hand. You'll sleep better, too.

Looking Forward to Seeing You In November!
Restaurant Finance & Development Conference
November 12-14, 2018 • Wynn/Encore, Las Vegas

I've watched multi-unit franchisees over the years become insular in their own brands. Some franchisees I believe, McDonald's as one extreme example, have little interest in what's going on in the rest of the restaurant industry. They know McDonald's, that's their business. Plus, few franchisees operate multiple brands and don't often get an opportunity to see how things are done in different systems. I think they're missing the boat, frankly.

That's why the **Restaurant Finance & Development Conference** each November is so important to multi-unit franchisees who attend. Not only is it an opportunity to meet with their lenders and provide an update to them on their businesses, it's also an opportunity to meet with franchisees from different systems and compare notes. How is your franchisor treating you? What services are they providing, or should be providing? How are you handling recruiting or construction or expansion? Regular conference goers know the networking at the **Restaurant Finance & Development Conference** is best in class, and often the most valuable takeaway is the chance to talk with other operators. Restaurant owners and their financial officers will get even more value from attending the conference, because the focus is so business oriented.

In the past three issues of the Monitor, we've announced our speaking lineup that includes author and travel TV host **Rick Steves,** the economist **Dr. Arthur Laffer,** our opening keynote speaker, Panera founder **Ron Shaich**, CNBC Fast Money's **Guy Adami**, and Finish Big author **Bo Burlingham**. A more complete agenda can be found on our website.

If you haven't already registered, it's time make plans to attend. The conference is the most efficient place for dealmaking and the most focused information in the industry.

Register online at www.restfinance.com.

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FINANCE SOURCES

Thayer Leads Regional Area for BBVA Compass

Franchise finance executive **Zac Thayer** recently joined **BBVA Compass** to head up the bank's restaurant origination efforts in the Midwest and Northeast U.S.

Thayer has a long history of restaurant financing experience, starting with AMRESCO back in 2002. There he was on the portfolio management side doing workouts with Burger King and Denny's operators.

"It was a great place to learn the business; looking at businesses that had reached their end, and figuring out how to get them back on their feet and keep the lights on," said Thayer. He left AMRESCO for GE Capital Franchise Finance, where he managed restaurant portfolios there, as well.

In 2014, he went to the sales side of the equation, and helped the company put together a sales group in an area of restaurants "we thought were underserved" by the capital markets—although they were smaller franchisees, they had some scale in their system.

"We wanted to make those connections early on," said Thayer.

Add to his résumé tenure with CapitalSpring, and Thayer is ready to help BBVA Compass grow in his regions. He says the bank is enthused with the restaurant group's results over the years, and "we have the green light to grow."

"We get excited about people with growth plans," he said. "And helping them realize their dreams—that's the whole business for me." You can reach Zac Thayer, senior vice president, food franchise finance at (312) 279-6531, or by email at zachary.thayer@bbva.com.

Crescent Franchise Solutions Provides Holistic Exit Planning

The examples are endless of well-known entrepreneurs or entertainers dying without a will or a trust, and chaos ensues—probate court. The principals of **Crescent Franchise Solutions** help multi-unit restaurant operators avoid that chaos.

"We really want to help business owners," said **Brent Hillerich**, founding partner with the firm. "Most of their net worth is tied up in the business." They haven't made time to plan their exit strategy, whether that means planning their retirement or writing a will, despite the fact that "every owner will have a transition."

Hillerich and **Brian Grogran**, also a founding partner, both come to the table with relevant experience in addition to holding their Series 66 licenses, as well as financial planning certifications for the last 15-plus years. Hillerich has tenure with YUM Brands, where he worked as a financial counselor to franchisees. Grogran was a leasing director for real estate developer Simon Konover.

"We started focusing on franchisees, because of my background at YUM," said Brent. "Brian has a REIT background—we compliment each other very well."

The two say that they like to approach exit strategies differently than most. One thing they've learned is the need to listen and observe family dynamics first, then bring the business side of the puzzle to bear—and that can take some time.

"We will spend hours understanding what has driven the business owner to get where they are today," said Grogran. "which I think is unique. That family part of it, we spend a lot of time on it—the front end—before we get to the solutions, which are holistic."

Each family situation is different: Is there a child in the business? What about the children not involved in the company? What if they all are in the business? How does the owner pick a successor? What if there are no family members in the company? How do they find a successor from within?

The pain point for most business owners is they just don't want to think about it. "And, they really don't think there is a way to replicate their income after a successful transition," Hillerich added.

Understanding the franchise angle of the equation is important, as well. Franchisors have FDDs with certain ownership requirements. "That's the challenge a franchisee has—finding a buyer who qualifies," he said.

"We had a franchisee client whose franchisor did not allow private equity buyers," Hillerich recalled. "With our experience in the industry, we were able to gather documents from other franchisors and pull language to change this particular franchisor's document. We helped the franchisor make the adjustment, but still protect their interests. And the franchisee was able to sell their business, as well."

With the average age of franchisees on the higher end, this type of planning is good for the franchisor, too, said Grogan. "There is such a move toward consolidation, this is a huge opportunity for these people within these brands."

For more information on Crescent Franchise Solutions, contact Brent Hillerich at 941-923-3663, or by email at bhillerich@crescentfranchise.com.

Auspex Capital Provides Sell-Side Advisory on Franchisee Deals

Morgan's Foods, a Dallas, Texas-based YUM! Brands franchisee owned and operated by restaurant entrepreneur **Tabbassum Mumtaz**, has sold nine Taco Bell/KFC co-branded restaurants in Pennsylvanis, West Virginia, and New York to **Charter Central, LLC**.

Chicken Little Ventures, a Memphis, Tennessee-based limited liability company owned and operated by franchisees **Sean Tuohy** and **Michael Roe**, has completed the sale of 28 KFC restaurants, including two co-branded KFC/ Taco Bell restaurants in Ohio to **Premier Restaurant Ventures,** a 78-unit KFC operator.

For more information about Auspex Capital, contact **Chris Kelleher**, managing director, at 562-424-2455 or by email ckelleher@auspexcapital.com.

Nunes: A Career in Calculating Risk

When he was a kid, he wanted to grow up and be a pilot or a race car driver. “Something with speed,” said **Daniel Nunes** with a laugh. “I liked risk.” Fast forward to today, and you’ll find his 25-year career in banking still about taking risks, albeit the right kind.

Nunes, who is the Credit Risk Manager with First Tennessee Bank’s Franchise Finance group, an entity that provides financing to franchisees, franchisors and restaurant chains, says taking some risk is part of the job. “The easiest thing to do is to say no,” he said of approving transactions. “Then you’re right 100% of the time. We get paid to take risk, to make a return. Sometimes you have to take the risk, but it is a calculated one.”

Nunes definitely has had the opportunity to evaluate some deals. After graduating college, he was recruited by Chemical Bank into the credit training program.

“I just liked credit,” he said. “Every deal was different. When I was doing C&I, I learned early that every transaction was unique and every borrower had a different story.”

His résumé includes tenure at names like Wells Fargo and Bank One, but his first exposure to the franchise sector came when he was recruited into the structure group (ultimately sponsor finance) at GE Capital Franchise Finance in 2005. He also has a real estate background and “GE was doing sale/leasebacks, and a lot of customers had real estate.” It was a fit.

When GE Capital’s portfolios were sold in 2016, GE colleague Todd Jones was recruited to launch a franchise group with First Tennessee Bank. “I was looking for my next step, and Todd picked the team he wanted to have,” said Nunes. “We took a portfolio and had to optimize it. It’s been a great two years.”

And while he learned a lot at GE, and credits the organization for just that, he knew there were GE processes they could change at their next venture.

At GE, “someone in credit was the last person you talked to,” he said. The relationship manager had the deal, and pushed it to the underwriter to make it work.

“We flipped that here,” says Nunes. “I’m engaged with the relationship managers right away and I look at the transactions up front. When they go back to the borrower and have that conversation, it is more as an advisory role. When we come back with a term sheet, we can execute on it.”

Part of his experience includes the deals he shouldn’t have approved. “Not every deal worked out over the years,” he said. “You look back. That's a learning experience. But I think I’ve been fortunate in making decisions overall."

"When you are working with a borrower, you can get a feel for character,” he added, and that takes years of experience.

“Some of it shows up in diligence and other assessments you make along the way that help gage your credit decision.”

That assessment is all part of the puzzle, said Nunes. “I’m never bored. Every deal is different and I learn something new from each one.” You can reach him at DNunes@firsttennessee.com.

Ball Launches Restaurant Advisory Firm

Investment banking veteran **Jeb Ball** has launched **Guideboat Advisors**, an advisory services firm specializing in emerging brands, franchisors, multi-unit franchisees and independent businesses.

Guideboat’s expertise includes M&A, restructuring and general corporate finance issues. Most recently managing director for investment banking firm Brookwood Associates, Ball believes Guideboat Advisors gives him an opportunity “to work with younger brands and have an impact." The fun part for Ball is finding the right financial solution for each client, as well as for the investor.

Guideboat’s work with emerging concepts therefore focuses on bringing founders and potential investors together. “There is a high level of interest from institutional investors, especially in private equity circles, in investing in those brands,” Ball said. “There’s tremendous interest in fine fast, fast casual and polished casual, for example. And the valuations remain very attractive for sellers and those raising capital.”

He adds that Guideboat Advisors is also cost effective for smaller brands. “The larger investment banking firms are interested in emerging brands, although their cost structure often serves as a barrier,” Ball noted.

He says Guideboat promises a relationship approach to deals that lead to beneficial outcomes for founders and investors.

“I’m going to be involved on each assignment from start to finish,” Ball said. “I listen to the client’s objectives, and I give honest and objective advice.”

Over a 30-year career in investment banking, Ball has gained an understanding that often founders do not have the time to identify the best investor for their business.

"That’s not what they do for a living. But they also don’t want to leave anything on the table,” he said. An experienced investment banker "is going to make sure nothing gets lost in the process,” he said. For more information contact Jeb Ball at (704) 705-3654, or at jeb@guideboatadvisors.com.

Unbridled Advises Papa John’s on Sale of Units

Unbridled Capital recently provided sell-side advisory services to **Papa John’s International** on the sale of its 30 locations in the Minneapolis area. The market was sold to existing franchisee **Ricky Warman** and related entities.

Unbridled Capital acted as refranchising agent for Papa John’s in this transaction. For more information, contact Managing Director **Rick Ormsby** at 502-252-6422 or rick@unbridledcapital.com

DEAL INSIGHT

Why So Much? Three Experts Weigh in on High QSR Multiples

By Dennis Monroe

I have been very confused by the high valuations certain QSR concepts are obtaining on sale. After working in the restaurant and franchise marketplace for almost 40 years, I have seldom seen EBITDA multiples this high.

There was a significant uptick during the securitization years of the '90s, but to see the kind of multiples we're seeing today, particularly for Taco Bell, Burger King and Wendy's, has just been extraordinary. I decided that I would ask some restaurant M&A experts about the state of this market. They are David Stiles, managing director at Trinity Capital LLC; veteran restaurant banker Jeb Ball, founder of Guideboat Advisors; and Dean Zuccarello, founder and long-time industry observer from The Cypress Group.

Let's start with David Stiles. Stiles said that he's seen multiples as high as 10x to 11x EBITDA, but a normal buyer is going to probably pay more in the 8x range. He also made a point that it's not just the QSR industry seeing the high multiples, but other segments of the industry, except casual dining. Stiles emphasizes that private equity firms and family offices are experiencing "capital overhang"—that is, they've made money on their investments and have a significant amount of cash to invest. Additionally, he says that private equity and family offices "continue to be awakened to the attractive cash flow available from franchise businesses."

The real key here is buyers are willing to pay premium multiples for quality opportunities. When it comes to multiples, Stiles maintains that 8.5x can still be justified after you factor in some strategic new builds and smart remodels. Of course we can never forget leverage.

He concludes by saying that while he has seen 10x to 11x multiples, in his experience, those should be considered specific situations that are justified by such considerations as geographic protection, or leveraging overhead.

Jeb Ball, like Stiles, emphasizes that there is a lot of "dry powder" available. With that being said, he maintains that this market continues to be attractive. He cites low commodity costs which continue to benefit restaurants; financing availability remains strong; and the availability of leverage results in less cash and a higher return even at higher multiples.

Ball believes the overall economy is still perceived to be strong, and those restaurant concepts that are doing well will continue to grow. He thinks there is still a strong perception of growth opportunities in this space—I'm not sure that I agree with the perception, but I do believe the perception exists.

Finally, he said because franchisees are growing older (particularly in some of the mainline concepts), there is a willingness to sell and that there are enough buyers out there to create competition for deals. Competition seems to be a clear reason for the high multiples.

Dean Zuccarello emphasizes the overall strength of the economy and in the debt market, which creates the overall higher demand and appropriate leverage. As we noted earlier, because of the large amount of investable funds, buyers are looking for deals, and franchising seems to be very attractive.

Zuccarello adds that the QSR performance has been solid, where other segments have been showing weakness, so more funds are going to QSR deals. In addition, family offices are more willing to buy into franchise transactions. He places special emphasis on the trend toward consolidation, also noted by the other contributors. Finally, when I shared with him my puzzlement at the high Taco Bell multiples, he responded: "I can't explain Taco Bell, either. They are clearly the only ones in that field, but I still feel that there is more downside risk to those multiples in the future."

What did I take away as a summary of the comments from my three experts?

First, they all emphasize availability of capital. Two, private equity and family offices are comfortable with the cash flow model of QSR. Three, leverage continues to be available at very low rates. Four, there is a lot of competition for deals.

And, there is clearly a trend towards consolidation. As we saw in the Monitor 200 ranking of the largest franchisees, the big operators are getting bigger and consequently able to add stores even if they pay a higher multiple.

There still seems to be, as one of our famous Federal Reserve chairmen once said, "irrational exuberance." I think multiples are historically too high and that possibly right now casual dining multiples, particularly Applebee's, are too low.

Dennis Monroe is shareholder and chairman of Monroe Moxness Berg, a law firm specializing in multi-unit restaurant finance, M&A and taxation. Dennis and his partner John Berg will be conducting a pre-conference workshop for multi-unit restaurant operators at this year's Restaurant Finance & Development Conference on Monday, November 12 at 12:30 pm. The topic is Tax- Efficient Structures After the Tax Cuts and Jobs Act of 2017. In the meantime, you can reach Dennis at 952-885-5999 or by email at dmonroe@mmblaw.com.

The Dealmakers: Strategics' New Appetite for 'Fixer-Uppers'

Longtime industry observer Craig Weichmann has spotted a reversal of sorts in the type of restaurant companies buyers now want. The change, he says, stems from the underperformance of the trendy fast-casuals investors once lusted after.

"A huge percentage of them didn't work," contends the former Morgan Keegan analyst, citing 19-unit Noon Mediterranean, an Austin, Tx.-based fast-casual that filed for bankruptcy protection in August. "Now 2017 was an active [M&A] year, but it began a shift towards the kinds of things buyers were going after."

Since last year, Bertucci's, Jamba Juice, Zoe's Kitchen, Tilted Kilt, Mooyah Burgers & Fries and Hurricane Grill — all of which have which hit speed bumps (or worse) — have been traded to operating companies or franchisors. (A few others, like Barteca Restaurant Group, picked up in a $325 million deal by steakhouse operator Del Frisco, have not.)

What turn of events has, almost suddenly, put so many strategic buyers into the deal market? And why are distressed chains luring them into it?

The availability of capital at attractive interest rates has played a role, says Salsarita's Fresh Mexican Grill CEO Phil Friedman, who acquired the mostly franchised Charlotte, N.C.-based fast-casual in 2011. "The fuel for deals is available, and that makes the opportunity for acquisitions look better," he explains. "True, hope always springs eternal, but if you have the ability to carry the debt, it gives you the time to get your returns—especially if you are buying a fixer-upper."

ARC Group (OTC: ARCK), a Jacksonville, Florida-based company that franchises Dick's Wings & Grills, for example, recently acquired 47-unit Tilted Kilt. The beleaguered brand, whose servers are scantily clad, had shuttered nearly half of its Celtic pub-style units over the last two years. Terms of the deal were not announced. This month, ARC paid $12.5 million to buy Fat Patty's, a 4-unit casual-dining chain with AUVs estimated at $2.5 million. (The company also acquired 18 franchised Applebee's from Apple Gold this year.)

"There is a big opportunity for acquisitions in the market today," declares FAT Brands CEO Andy Wiederhorn. His Los Angeles-based company paid $12.5 million in July to acquire 51-unit Hurricane Wings, a strategic complement to its Buffalo's Cafe and Buffalo's Express, which also sell wings. Last October, FAT (NASDAQ: FAT) acquired the franchisor of Ponderosa and Bonanza Steakhouses.

Wiederhorn, whose own family office controls FAT Brands, believes there's more companies with 50 to 200 units to be had. The public markets, he claims, are no longer excited about restaurants, put off by rising rents, higher labor costs and skidding traffic. (He reminds me that FAT brands is the only restaurant company to have gone public in the last three years.)

To date, outside family offices have provided the company with a significant amount of growth capital. "With a family office you are usually dealing with individuals who express whether they want to do a deal or don't, principal to principal and things go very quickly," says Wiederhorn. "Life is too short and there are lots of deals to get done. You can't waste time with people who are going to change terms on you."

When it came to Tilted Kilt, ARC Chairman Seenu Kasturi says his team saw brand value and a chance to improve franchise operations. "We can take learnings from our other brands and help franchisees make better decisions about their business," he said. We also wanted to refocus our core roots in terms of the Irish/Scottish experience and guest experience," he explained. Kasturi is confident ARC CEO, Rick Akam, who helmed Hooters of America for nearly 20 years, can accomplish these feats.

Kasturi wouldn't reveal the multiple of EBITDA that ARC paid for Tilted Kilt but says valuations for "stagnating franchisors with dependable royalty streams" are roughly 6x EBITDA, though may reach 12x EBITDA. He adds prices for asset-light public companies are much higher.

Indeed, as we reported last month, Focus Brands paid an estimated 13.5x to take Jamba Juice private. That may sound like an over-the-top multiple for a brand struggling to get customers in the door, but Focus has systems and personnel in place that will (in theory) lower that multiple by several points.

It's the model franchisor FAT Brands (NASDAQ: FAT) is following. "We have integrated Hurricane already. Accounting and legal were consolidated immediately," Wiederhorn said, though conceding a long delay due to a funding issue made integration easier.

According to Weichmann, who advised Hurricane Grill seller John Metz, the chain's royalty flow was healthy but overhead hindered growth. Companies like FAT Brands, on the other hand, can manage brands at a lower cost given leverage from their other properties.

"Their strategy is low overhead and a decent revenue stream," Weichmann adds, "and the market will like seeing that. That's what they are betting on."

Wiederhorn is also betting on a pipeline from private equity firms eager to unload underperforming restaurant brands. "They have a lot of stuff that if they could have gotten rid of they would have," he says. "So they're looking for someone like us."

Friedman, on the other hand, begs off the question whether Salsarita's, whose performance has improved under his stewardship, is on the block. "I'll answer it this way," he says. "As an owner, if you put your business into good shape, frankly, you should be operating it like you're not wanting to sell."

—David Farkas

FINANCE INSIDER

Coca-Cola's announcement that it will acquire **Costa Coffee** and its 4,000 retail units primarily across the UK, reminds us of the days when the big consumer product and food manufacturing companies owned restaurant chains. **Pepsico**, of course, once owned **Taco Bell**, **KFC** and **Pizza Hut** before spinning the brands off in 1997. **General Mills** owned **Red Lobster** and **Olive Garden** until it spun off the chains and created **Darden Restaurants** in 1995. **Pillsbury**, a large food manufacturer which was acquired by **Diageo** in 1988, once owned **Burger King**, **Godfather's Pizza** and **Häagen-Dazs**. And, animal feed manufacturer **Ralston Purina** owned **Jack in the Box** for 17 years.

RMH Franchise Holdings, Applebee's second largest franchisee with 147 open restaurants, filed bankruptcy last May. Since then, there have been a number of twists and turns. **Dine Global Brands CEO Steve Joyce** decided to take a stand against RMH and other franchisees not paying royalties. In a lawsuit filed in bankruptcy, Dine Global claimed RMH's franchise agreements relating to locations in Arizona and Texas were terminated prior to the filing. RMH, on the other hand, claims their bankruptcy was caused by the actions of Applebee's, including then CEO Julia Stewart's disasterous wood-fired grill program in 2016, launched without adequate testing. RMH would like to reorganize. They cite a rising business value because of the elimination of losing stores (13 have been closed) and an improved business picture due to Applebee's $1.00 drinks and all-you can eat promotions. RMH's private equity sponsor, **ACON Equity Partners**, which has a $33 million claim against the company (it had guaranteed a BMO Harris loan)has agreed to put up an additional $10 million in cash if the RMH plan is confirmed. Dine Global and the senior lenders would like the company sold. All this should be decided by December.

Hats off to **Mill Road Capital** for the right call on **Noodles & Company.** Back when the fast casual restaurant chain was on its heels 15 months ago, Mill Road bought 8.9 million shares for $31.5 million. Last month the investment firm sold 2.2 million of those shares for $10 per share in a secondary offering. At a recent price of $12.30 per share, Mill Road's gain on the overall trade is in excess of $70 million.

On the web site of **Real Mex Restaurants**, it states the company has been the "authority in Mexican Cuisine since 1954." That was when Larry Cano opened the first El Torito restaurant in Encino, CA. Cano eventually sold the chain to W.R. Grace Company, an industrial conglomerate, that also owned **Del Taco**. In addition to El Torito, Real Mex owns Acapulco Restaurants and Chevy's and is controlled by two private equity firms—**Tennenbaum Capital Group** and **Z Capital Group**. Real Mex filed bankruptcy again for the second time in four years last month. About half as many stores are operating than four years ago. As we've written many times in the past, it's awfully hard to kill off a restaurant chain, although the current owners are trying real hard.

Roger Lipton has been named to the board of **Diversified Restaurant Holdings** (SAUC—NASDAQ), the largest franchisee of **Buffalo Wild Wings**. Last month, Diversified raised $5.7 million in additional equity in an offering managed by **Dougherty & Company**. The company has been paying down debt to **Citizen's Bank** while waiting for Buffalo Wild Wing's new owner, Inspire Brands, to come up with a new game plan for the brand.

How hot is the M&A market? Plenty hot if you consider the recent deal Jamba Juice made with **Roark Capital**. The proxy filing disclosed that **North Point Advisors**, Jamba's financial broker, contacted 24 strategic buyers and 166 financial buyers as possible suitors for Jamba. A total of 87 companies entered into non-disclosure agreements. Fifteen of those companies submitted indications of interest. Eventually, three companies submitted competitive bids. North Point will be well-compensated for their extensive rolodex. Jamba has agreed to pay them $3.5 million at closing.

National Franchise Sales Senior Managing Director **Helen Trent** and Managing Director **Rebecca Black** completed the sale of 18 **Applebee's** units in July for struggling Applebee's franchisee, Apple Gold, owned by long-time franchisee Michael Olander. The Applebee's stores were in Oklahoma, Arkansas, Kentucky and Indiana. The buyer was **Seenu Kasturi**, a multi-unit restaurant owner and current president of ARC Group, which owns and franchises the **Dick's Wings & Grill** brand. Trent and Black told the Monitor that this was the second Applebee's franchise the pair had brokered, the first being stores in Utah owned by former franchisee John Prince. As for the Apple Gold/Kasturi deal, Trent said the deal was agreed upon last fall, but took until July to transfer all the liquor licenses. For more information about the transaction or other National Franchise Sales offerings contact Helen Trent at ht@nationalfranchisesales.com or Rebecca Black at rb@nationalfranchisesales.com.

Keep an eye on **Huey Magoo's Chicken Tenders**, the Orlando-based fast casual brand. With seven high-volume stores in the Orlando area, CEO Andy Howard just announced a multi-unit **Papa John's** franchisee signed a 46 store development agreement for Atlanta.

The Adventures of Restaurant Deal Guy...

STATS AND QUOTES

WHAT TO MAKE OF THE DIVERGENCE OF ECONOMIC EXPERTS?	
Economist	**Comments From Leading U.S. Economists**
National Economic Council Director Larry Kudlow	The U.S. is the hottest economy in the world. Our entrepreneurs, our large and small businesses, our workforce and our unemployment rate, we're crushing it right now.
Federal Reserve Chairman Jerome Powell	The economy is strong. Inflation is near our 2% objective, and most people who want a job are finding one.
Cal Berkeley Professor Robert Reich	Last year, about 40% of American families struggled to meet at least one basic need—food, health care, housing or utilities. All of which suggests we're careening toward the same sort of crash we had in 2008, and possibly as bad as 1929.
Atlanta Federal Reserve CEO Raphael Bostic	My modal outlook is for expansion to continue at an above-trend pace for the next several quarters. Yes, there are downside risks, chief among them the effects of (and uncertainty about) trade policy. But those risks are countered by the potential for recent fiscal stimulus to have a much more transformative impact on the economy than I've marked into my baseline outlook.
Gluskin Sheff Economist David Rosenberg	How weird it is to have the longest bull market in equities in the context of the weakest economic expansion of all time? How you square that circle, is the long arm of central banks.
Yale Economist Robert Shiller	We've set a record on the length of bull market. That has to be for most investors, a worrisome sign, because we've had 13 bull markets since 1930. How much are people paying attention to this?
Economist Paul Kasriel	Although the yield curve is flattening, the U.S. economy in the aggregate shows no sign of flagging. But remember, the behavior of the yield curve is a leading indicator. Unless it is different this time, the Fed will have set the U.S. economy on a course for, at least, significantly slower real economic growth in 2019 and, at worst, a recession. In addition, the U.S. stock market is likely to perform considerably worse in 2019 than it has in 2018.

INTEREST RATES				
	9/12/18	**Last Month**	**A Year Ago**	**Trend**
Fed Funds Rate	2.00	2.00	1.25	↑
1-Month Libor	2.13	2.07	1.24	↑
3-Month Libor	2.33	2.32	1.32	↑
1-Year Treasury	2.56	2.42	1.27	↑
5-Year Treasury	2.87	2.75	1.75	↑
10-Year Treasury	2.97	2.87	2.17	↑
30-Year Treasury	3.11	3.03	2.78	↑
Prime Rate	5.00	5.00	4.25	↑

From BDO's Adam Berebitzky on the status of 100% bonus depreciation: Tax reform included a welcome tax break for restaurants: 100% bonus depreciation for new or used restaurant equipment, furniture and fixtures and land improvements. Yet in what was likely an inadvertent omission, the new law included one provision that's caused confusion and uncertainty—the failure to assign a 15-year tax depreciation recovery life to Qualified Improvement Property (QIP), making it seemingly ineligible for 100% bonus depreciation. QIP encompasses the asset categories of Qualified Leasehold Improvements and Qualified Restaurant Property, both of which were eligible for bonus depreciation under prior law. Restaurant industry leaders and the AICPA have publicly vocalized the need for a technical correction to fix this error in order for restaurants to obtain 100% expensing for QIP. On August 8, 2018, the IRS and Treasury issued proposed regulations that addressed many aspects of bonus depreciation. While many were hopeful that this guidance would clarify the QIP issue, it did not; Congressional action is needed to issue the necessary technical corrections to the tax reform bill. It is unlikely Congress will act until after the mid-term elections this November. Congressional action is needed soon, for purposes of both year-end tax planning and the preparation of 2018 tax returns. Without such action, QIP would be depreciated over 39 years without bonus depreciation—a result that does not appear to be the one intended."

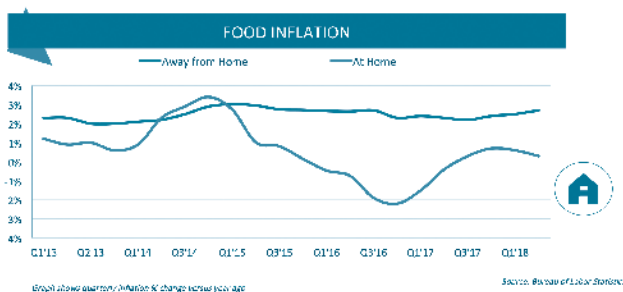
Restaurant Finance Monitor Stock Market INDEX			
	12-29-17	**9-12-18**	**YTD%**
RFM INDEX	4,359.31	5,090.21	+16.7%
S&P 500	2,673.61	2,888.92	+8.0%

The **Restaurant Finance Monitor Index** shows how a basket of restaurant stocks trade in the stock market during a particular period. It follows a strict rules-based methodology that weights QSR and Fast Casual at 70% with full-service making up the balance. For more information on the index go to www.restfinance.com or contact Dan Weiskopf at dweiskopf@accessetfsolutions.com.

Price Value Relationship – It's Out of Whack

It is a well-known fact that restaurant operators have had to raise menu prices to offset increased operating costs. However, have they taken too much price? Are they pricing themselves out of the market? Traffic has shown little to no growth because of consumers cutting back on the number of visits they make to restaurants. One of the key reasons behind this behavior is the increased cost of a restaurant meal—operators have just taken too much price, raising prices two to three percent quarter after quarter in hopes of increasing sales. I would suggest that the lift in the price paid for a meal from a restaurant would be even steeper if it were not for the fact that consumers have found ways to manage what they spend when they do visit a restaurant. We are at a point where consumers are saying "this is not a good value for what I am paying."

There are only three ways restaurant operators can increase sales: they can increase reach—get more bodies through the door. They can drive purchase frequency—get more visits from those who are currently visiting. Or, they can raise menu prices which is the least favorable option especially in light of the food inflation gap—at-home vs. away-from home. This, I believe, is one of the greater challenges facing the restaurant industry. I have learned over many years of tracking consumer behavior that whichever has the least upward momentum is where consumers will shift more of their food dollars. While the gap has narrowed recently, restaurants are still at a disadvantage. With prices escalating quarter after quarter, the convenience of purchasing a meal from a restaurant tends to fly out the window. Suddenly, cooking at home doesn't seem to be such a big chore; especially, if we have that "blended meal" …in-home meals that are a blend of dishes prepared and items purchased from a foodservice establishment. Many consumers, Millennials in particular, have become more accustomed to eating at home and the challenge is—how are you going to get them out of the home and back in the restaurant?



Price really matters

So, let's decipher how much price really matters when deciding to visit a restaurant. With the NPD CREST survey, consumers are asked what influences their decision to visit a restaurant was based on. Consumers (43%) indicate that price, outside of convenience, has the most influence…twice as important as treating myself and food variety/quality which rank second and third in the decision-making process.

Additionally, I reference an NPD report "Losing Our Appetite For Restaurants" where nearly 40% of consumers who said they had cut back on visiting restaurants did so because of price. Three out of the top six reasons for visiting restaurants less often were related to price: cheaper to eat home – prices too high – restaurants are a bad value. If restaurant operators are to succeed in this challenging marketplace, they must address their value proposition – it currently does not seem to resonate well with consumers.

How consumers react to higher menu prices

As restaurant operators have continued to increase the cost of a meal, consumers have found ways to manage their checks. If they have not cutback on visiting restaurants, they will modify their spend in a number of ways. They will trade down – go to less expensive restaurants, visit at less expensive meal occasions or order less expensive menu items. They will order fewer items like appetizers, desserts, beverages, those add-on items that are so important to building the check. They will take advantage of deals when they are considered to be a good deal. Don't take them for granted, they know a good deal when they see one.

However, all is not lost. There are ways to increase visits, even in difficult times like these. Consumers are more interested in loyalty programs. This enticement to visit restaurants more often has more than doubled in terms of its appeal to consumers. But, it must be worthwhile and easy to use and that is where technology comes into play. The need today is to communicate with customers at any time, wherever they are which means reaching out to them via their mobile devices. Mobiles are tools for consumers of all ages, and the expectation is that most of their needs can be met through these devices.

And, very important, treat me well. While food quality is incredibly important, it is the experience diners have from the minute they walk in the door to the minute they exit that counts. The closest correlation to overall customer satisfaction is related to service. Remember, it can be hard to win back a disappointed customer. Avoid disappointing them at all costs. Poor service is one of the leading reasons customers leave a restaurant with no intention to return. Restaurant operators meeting this need are thriving in a marketplace that is struggling.

Engaging customers remains the key to every operator's success. In this challenging environment, there are many examples of large chains, small chains, and independents that thrive because they provide consumers a combination of great experience, superior food quality, and excellence in service. In other words, they give people a compelling reason to visit. These fundamentals are necessary for success across every industry segment.

—Bonnie Riggs, Restaurant Industry Analyst

Steak 'n Shake Mimics Chick-fil-A with Operating Partners

The 415-unit Steak 'n Shake is looking to inject some entrepreneurial spirit into the company as it grapples with brutal declines. To do so, it announced a program that would allow operational partners to invest $10,000 in the brand and in return get 50% of the restaurant profits. Sardar Biglari, CEO of Biglari Holdings, the owner of Steak 'n Shake said he wanted to give operators the chance to replicate his own early business career.

"I started my company with $15,000 and built a thriving enterprise," said Biglari. "We are seeking to harness the power of entrepreneurs and to create a company of owners."

The concept has hit some hard times. In a February shareholder letter from Biglari, he wrote operating income for company-operated locations dipped to just $1,000 on average in 2017, a staggering drop from $83,300 in 2016. And it hasn't gotten better—same-store sales dipped 2.5% and traffic dropped 6.8% in the first half of the year according to SEC filings released in July. An average of $500 share of profits for a prospective operator isn't all that enticing but averages are made of extremes. More than 35% percent of the company operated "Classic" restaurants up for grabs see $2 million in sales or more.

VP and company spokesperson Judy Kadylak said the people who are already doing the heavy lifting in those restaurants would likely be the first operator partners.

"That's what really inspired Sardar," said Kadylak. "Looking at our high performers and asking how they can take the next step and become an owner without the financial obstacle, that's really where this came from."

Similar models past and present are mostly encouraging. Seasoned restaurant folks will remember Sambo's "fraction of the action" program. The unfortunately named coffee-and-value dining chain grew to more than 1,100 locations, fueled in part by a similar management partnership model that awarded up to 50% of the profits. When the company went public in 1969, it grew on the backs of these partners who, legend says, worked hard seven days a week for their slice of ample profits. But according to a 1981 New York Times finance article it all came crashing down in 1977 when the SEC stated the company could not count "fraction of the action" receipts as sales because they retained the right to buy back the stakes. The program was killed and the hard-working managers left and their entrepreneurial spirits left in droves.

Working for equity or a slice of the profits has been popular in Silicon Valley more recently. And franchisees have always given star performers a chunk of the action, adding them to the equity table. And as those operators start their own companies, the practice is growing.

A few have formalized the equity stake. Atlanta-based Burger King consolidator GPS doles out equity to key people, incentivizing more and more growth to keep those profits growing. Four Foods Group out of Salt Lake City does the same, giving up equity to day-to-day operators to keep them entrepreneurially minded.

"It's such a tough business that you must get people that are committed. That range of 30 to 40 percent ownership really does incentivize them," said founder and CEO Andrew Smith.

The greatest example of modern day profit sharing at the corporate level is Chick-fil-A. Operators buy in for $10,000, run the restaurants and split profits with the parent company. On paper, the Steak 'n Shake program is almost a direct copy of the practice at the core of the ever-growing chicken concept, except Steak 'n Shake costs $10,000 too.

Both include a lengthy, in-store training program, both lop 15% off the top as a royalty fee and both dole out 50% of the pre-tax operating profits. And both are limited to one location, keeping that profit-minded operator at the ground level where it's getting increasingly difficult to keep good people.

"I think their motivation would be to get a skin in the game kid of operator in the units, that's a very powerful thing," said John Hogodon, of Los Angeles-based Franchise Consulting Group.

There are some tricky spots. One is who determines what is a pre-tax profit. If the owners start engineering things (and Biglari has a reputation as a financial engineer) then that operator could be working hard for not much—and that won't last. The Steak 'n Shake program also adds a handful of fees including equipment rental fees, management fees, hardware and software report. Management said to assume it would all add up to 15%, but that's based on historic performance for the restaurants, according to the franchise disclosure document. Certainly there is some wiggle room for the lawyers, but operators who sign on might not appreciate how much corporate wiggles when it comes time to split the profits. That all comes down to execution, "and who know show it will be executed," said Hogodon.

Similar programs have kept it simpler.

"Outback and several casual dining brands did the operating partner concept," said John Gordon, principal at Pacific Management Consulting Group. "It just doesn't seem like it needs to be that complicated."

Finally, there's the cultural piece. Chick-fil-A is commonly referred to as "cult-like" when it comes to service and hospitality from corporate down to store-level management. Not to denigrate the classic burger brand, but Steak 'n Shake is not known as a cult of hospitality. Perhaps the profit-minded operators will bring that culture with them.

—Nicholas Upton

Zoes Kitchen

ZOES-NASDAQ

Will be acquired by Cava Group

Date Announced: August 2018

Transaction: Zoe's agreed to be acquired by Cava Group, operators of CAVA Grill, a fast-casual restaurant chain with 66 units specializing in Mediterranean cuisine.

Valuation: Cava will pay $12.75 per share, an approximate $300 million valuation. The equity is being provided by Act III Holdings, an investment fund created by Ron Shaich, Panera Bread founder, and Cava investors Swan and Legend Venture Partners and Revolution Growth.

Investment Banker: Piper Jaffray advised Zoes; Morgan Stanley advised Ron Shaich; Citigroup represented Cava Group.

INCOME STATEMENT

28 weeks ended July 9, 2018

Revenues	$183,673,000
Net Loss	($22,392,000)
Net Loss Per Share	($1.15)

BALANCE SHEET

As of July 9, 2018

Cash	$1,708,000
Long Term Debt	$18,500,000
Shareholder's Equity	$110,693,000

Summary: Zoes went public at $15 per share in April 2014 valuing the company at roughly $275 million. Insiders sold 3.8 million shares in a secondary offering in November 2014 at $32 per share.

According to Jefferies analyst Andy Barish, "the transaction appears fair at a $300 million enterprise value, implying 16.8x our existing 2018 EBITDA estimate of a depressed $18 million, and a trailing multiple of approximately 13.5-14x, in-line with other growth multiples and transactions."

The Wendy's Company

WEN-NYSE

Sells 12.3% ownership stake in Inspire Brands (Arby's)

Date Announced: August 16, 2018

Transaction: Wendy's sold its 12.3% ownership interest in Inspire Brands (Arby's and Buffalo Wild Wings) back to the company for $450 million. Wendy's said it expects approximately $335 million of cash proceeds, net of tax.

Use of Proceeds: Wendy's said the cash proceeds "will provide future financial flexibility" and an increase in its share repurchase program—it just authorized an additional $100 million through December 27, 2019.

Summary: The Wendy's Company sold Arby's, valued at roughly $430 million, to an affiliate of Roark Capital in 2011. Wendy's retained an 18.5% interest in Arby's, which was later renamed Inspire Brands. Inspire then bought Buffalo Wild Wings in February 2018 for $2.9 billion, which it financed with approximately $2.1 bilion in debt and $485 million senior unsecured notes, $900 million of additional equity provided by Roark. Wendy's had the opportunity to participate in the additional equity call, but declined, and saw its ownership stake diluted from 18.5% to 12.3%.

Wendy's initial decision to hold on to an interest in Arby's was a wise one. When they sold Arby's, their stake was valued at $83.25 million. In 2013, they received a $40.1 million dividend, a $54.9 million dividend in 2015, for a total of $95 million. Combining the dividends with the buyout amount of $450 million, Wendy's received $535 million before tax on their $83.25 retained interest.

Speaking of Wendy's, BMO Capital Markets analyst Andrew Strelzik indicates in an August 30 research report that he likes the new Wendy's Smart 2.0 units. He cites franchisee demand and the benefits of a smaller building footprint of 2,100 to 2,400 square feet that includes similar average unit volumes as the larger stores, but 200-300 basis point improvement in margins.

Jamba, Inc.

JMBA-NASDAQ

Will be acquired by Focus Brands, a portfolio company of Roark Capital

Date Announced: August 2, 2018

Price: $13 per share in cash.

Enterprise Value: Approximately $200 million.

Transaction: According to the proxy statement filed in connection with the sale, Jamba's financial advisor, North Point Advisors, calculated the purchase price multiple to be approximately 12.3x Jamba's estimated EBITDA for 2018.

Financial Advisor: North Point Advisors

INCOME STATEMENT

26 weeks ended July 3, 2018

Revenues	$45,466,000
Net Loss	($248,000)
Net Loss Per Share	($.02)

BALANCE SHEET

As of July 3, 2018

Cash	$9,095,000
Shareholder's Deficit	($10,258,000)

Summary: Jamba Juice was founded in 1990 and capitalized on the smoothie craze. It became a public company in 2006 after it was purchased by Services Acquisition Corp., a SPAC (special purpose acquisition vehicle), for $265 million. A private placement was completed the same day, raising $225 million in equity.

Today, Jamba Juice operates 51 company and franchises 737 stores as of July 3, 2018. The sale of the company was expected. Activist investors James Pappas and Glenn Welling gained board seats in 2015 and pushed the company to refranchise. At the time the pair joined the board, there were over 263 company stores. That process is almost complete.

Focus Brands is a portfolio company of Roark Capital. Focus operates and franchises the following foodservice brands: Carvel, Cinnabon, Schlotzsky's, Moe's Southwest Grill, Auntie Anne's and McAlister's Deli.

Noodles & Company

NDLS-NASDAQ

Primary and secondary offering of 9,775,000 common shares

Date: July 23, 2018

Transaction: The company sold 2.5 million new shares of common stock and three institutional shareholders—L. Catterton, Mill Road Capital and Argentia—sold 7,275,000 shares.

Price per Share: $10.00

Proceeds: The company netted $23.8 million after paying underwriting discounts and commissions.

Underwriters: Jefferies LLC; Citigroup Global Markets; RBC Capital Markets; SunTrust Robinson Humphrey; and C.L. King & Associates.

INCOME STATEMENT

Fiscal year ended July 3, 2018

Revenue............................$227,921,000
Net Loss..............................($9,510,000)
Net Loss Per Share.........................($.23)

BALANCE SHEET

As of July 3, 2018

Cash..............................$3,640,000
Long Term Debt.................$62,743,000
Shareholder's Equity..........$26,169,000

Summary: The company picked a good time to raise capital and the two selling shareholders who bailed the company out in 2017, felt the same way. That's because comparable sales in the second quarter were up 5.4%, the first positive sales quarter since 2015. Adjusted EBITDA was $9.1 million in the second quarter, a 4.4% increase over the prior year.

Noodles & Company went public in June 2013 selling shares for $18 and the stock traded as high at $47 in October 2013. In March 2017, with sharestrading under $4, the company raised $50 million in preferred and common equity from L. Catterton and Mill Road Capital.

Brinker International

EAT-NYSE

Sold 143 restaurant properties and leased them back over a 15-year term

Date Announced: August 16, 2018

Proceeds: $443 million

Buyers: SunTrust Equity Funding, an affiliate of Sun Trust Bank, bought 45 properties for $143 million. Four Corners Property Trust bought 46 properties for $150 million and disclosed an initial leaseback cap rate of 6.35%. Realty Income bought 45 properties for $147 million.

Leaseback: The leases are for 15 years with options to renew and were structured as operating leases.

Use of Proceeds: The company said the cash proceeds will provide future financial flexibility and an increase in its share repurchase program.

INCOME STATEMENT

Fiscal year ended June 27, 2018

Revenue.........................$3,135,417,000
Net Income......................$125,882,000
Net Income Per Share..................$2.75

BALANCE SHEET

As of June 27, 2018

Cash.......................$10,872,000
Long Term Debt..........$1,499,624,000
Shareholder's Deficit.....($718,309,000)

Summary: Brinker CFO Joe Taylor told a conference call audience the company had $412 million of EBITDA in 2018 along with free cash flow of $183 million. That, along with borrowed funds, went to pay dividends and share repurchases. During the year, the company paid out $70 million in dividends (the current rate is $1.52 per share) and bought back 7.9 million shares totaling $303 million. Taylor said the lease-adjusted leverage of the company increased to 4.16x EBITDAR at year-end, but after using the sale-leaseback proceeds, he expected it to decline to the 3.7 to 4x range. After the sale of the properties, Brinker continues to own approximately 35 properties.

Del Frisco's Restaurant Group

DFRG-NASDAQ

Sold $90 million of equity and issued $310 million of debt securities

Date Completed: August 30, 2018

Equity Transaction: Sold 11,250,000 shares of common stock at $8.00 per share.

Debt Transaction: The company issued a $310 million syndicated, loan due in 2025. The loan priced at 95, which means the company only received 95% of the proceeds. The loan carried an interest rate of Libor + 6%. The company also obtained a $50 revolving line of credit. Moody's assigned a B3 Rating to the syndicated debt, which is considered speculative and subject to high credit risk. Leverage incorporating the equity issuance, debt financing and Barteca acquisition will be approximately 4x expected 2018 EBITDA .

Investment Banker: Piper Jaffray and J.P. Morgan Securities served as joint book-running managers on the equity piece, while J.P. Morgan and Citizen's handled the debt placement.

PRO-FORMA BALANCE SHEET

As of June 26, 2018

Cash.......................$4,446,997
Long Term Debt.................$374,787,115
Shareholder's Equity.........$188,139,000

PRO-FORMA INCOME STATEMENT

Combined Del Frisco's and Barteca
Twenty-six weeks ended June 26, 2018

Revenues......................$247,561,000
Net Loss.............................($7,745,000)

Summary: The company acquired Barteca Holdings for $325 million in June 2018—at an approximate multiple of 15x Barteca's 2017 EBITDA. Barteca consists of two concepts—Barcelona and bartaco. There are 33 restaurants operating in 12 states and DC. The company plans to focus on its Del Frisco's Steakhouse (average check $116) and is looking to sell its Sullivan's Steakhouse concept, which according to Piper analyst Nicole Miller Regan, is expected to lose $9 million in 2018.

ANSWER MAN

The Restaurant Industry's Only Non-Fake News Source Answers the Questions of the Day

Will John Schnatter ever regain control of Papa John's?

Not likely, even though Schnatter still owns 30% of the company. He's in the penalty box for at least a few more seasons and then it's probably time to retire. CEO behavior is under scrutiny all over the country and even the slightest faux pas will put you out on the street. Papa John's is a consumer brand and a public company and it must abide by the new social construct regulated by social media. If Twitter says you are a bad boy, you are a bad boy. If Papa John's is sold, perhaps new owners would bring him back, but the chances he'd be the spokesman again are no better than 50-50. My guess is he'll be forgotten by then. However, let's face it, he's not an ideal spokesman to lead a Millennial renaissance, or for that matter, drive the team to compete on a daily basis with Domino's, Pizza Hut, Marco's, Mod, Blaze, Topper's and the hundreds of other pizza competitors. You have to give the current CEO, Steve Ritchie, credit for standing up to Schnatter. That took some guts. Ritchie and his board have marginalized the guy rather quickly. Besides, Schnatter has much to gain by getting out of the way and allowing Ritchie's management team an opportunity to sell more pizzas. That will eventually drive the stock higher and improve Schnatter's net worth. Right now, he's interested in restoring his reputation and feeding his ego.

I'd like to ask you about three recent deals— Del Frisco's acquisition of Barteca, Cava Group's announced hookup with Zoe's Kitchen, and Focus Brand's pending acquisition of Jamba Juice. These are strategic deals, but aren't they classic examples of late-cycle exuberance?

Each of the transactions was unique and the buyers have their own motivation. Let's see how it plays out. Del Frisco's deal to buy Barteca was expensive. I think they paid something like 15x trailing EBITDA, plus the debt package was more costly than anticipated. They're gambling that Barteca's two concepts—bartaco and Barcelona— have a better growth runway than the steak brands. I think we can all agree on that point. However, the question here is whether Del Frisco's has the chops to handle a growth scenario. Speaking of debt, the company intended to borrow $390 million, but instead borrowed $310 million at Libor +6% over seven years. The notes were sold at 95, which means the company only received $294 million. The company was forced to sell equity on the cheap to make up the difference. That tells me the market isn't yet enamored with the company's path.

Cava's deal to buy Zoe's Kitchen was a headscratcher. But then I saw Ron Shaich was involved as an investor, so I thought maybe there is something else here. My initial thoughts were this: What would a nice fast casual growth concept like Cava possibly want with a distressed, miss-the-mark QSR brand like Zoe's, and especially when it costs $300 million? Sites? Employees? Because both are Mediterranean concepts? Maybe it's a deal? Zoe's went public in 2014 at $15 per share and is now selling out for $12.75 a share to Cava and Company. The public shareholders didn't fair well on this deal. and most of the insiders bailed at $32 or higher, which after the fact looks like a pump and dump. Now, I mentioned Ron Shaich is involved and he must see something for him to get back into the game so soon after selling Panera.

The third deal, Focus Brands and Jamba, I understand, but I still don't get it. Jamba at one time was touted as the next Starbucks, only with smoothies. That was not a wise assessment, in retrospect. Coffee is addicting, smoothies are fattening, duh. I remember an early franchisee, a fellow I knew with a large territory, raised millions of dollars to expand Jamba. He couldn't make a buck and got out quick. By then, most investors had figured out the same thing—that the beverage space is crowded and Jamba was a unit-economic pickle. Jamba's balance sheet tells the whole story. As of July 3, Jamba had $380 million in accumulated deficits. No one has ever made money in this brand. Here is how I'd describe this deal: Activist investors realize they are holding a losing hand and auction it to a couple of PE firms likely to outbid each other. So, what does Focus want to do with it? Jamba just completed a a couple of big refranchising deals and Focus is a royalty play, so there you go.

Answer Man, a former restaurant executive, has decided against making an environmental statement and will not purchase a Tesla. He told us he likes the car all right and can take Elon Musk in small doses. It's Tesla's $11 billion dollars of junk-rated debt that gives him the willies.

RESTAURANT FINANCE MONITOR

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