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OUTLOOK

It's a Covid-19 World After All

The predictions are in. Social distancing is the norm. Food will be consumed at home instead of restaurants. Pizza and drive-thru and delivery are kingmakers. Casual dining and fine-dining and crowded dining rooms are relics. Workers like it so much at home that office buildings are obsolete. No one will travel again. Movie theaters and sports, forget about them for now. You will always have a middle seat between you and the next passenger. Masters reruns are just fine.

The trouble with predictions, as the Nobel Prize winning economist, Daniel Kahneman, said, "are that the penalties for incorrect predictions are negligible, and a year later people won't remember them."

I have listened to many predictions in the past month about the restaurant business, from the smart crowd on one hand, and from others who are obviously stressed out at home with two much time on their hands. The coronavirus has caused a panic. The Drudge Report headline sticks in my mind with a prediction that 150 million Americans would get the virus and 15 million people would die from it. Panic.

Panic arises from uncertainty, especially ones that involve loss of life. The mandated shutdown of businesses, the mass layoffs and the disruption of so many people forced to work at home, has also created a financial panic.

The restaurant industry exists within a highly connected consumer economy and is dependent on the level of personal income and consumer spending, both of which are measured expertly today. However, the last pandemic that hit the United States was the Spanish flu of 1918 and 1919, when economic measurement tools weren't as sophisticated. One thing they did well was measure deaths. The Spanish flu killed as many 40 million people world-wide and close to 700,000 people in the United States.

The Spanish flu consisted of two waves, the first in the spring of 1918, and then again in the fall of 1918 and spring of 1919. In a 2003 economic paper, economists Elizabeth Brainerd and Mark Siegler, found that consumption fell and savings increased, something you can understand watching today's coronavirus business shutdowns and home confinement. The business cycle peaked in August 1918 and reached a trough in March 1919, when the second wave dissipated.

A study of the economic impact of the Spanish flu just released by Federal Reserve economists, Sergio Correia, Stephan Luck, and Emil Verner, cite the negative impact on the economy brought on by social distancing techniques to flatten the mortality curve. Schools, vaudeville theaters and churches were ordered closed, and authorities required masks and the isolation of individuals with positive flu tests.

Correia, Luck and Verner found the pandemic lead to a sharp fall in economic activity over the next few years from both supply and demand-side effects. Where social distancing techniques were implemented more aggressively, interestingly enough, the economists found no additional adverse effect on local economic outcomes.

If one fears the coronavirus resurging in the fall and next spring as it did with the Spanish flu, non-pizza, non-drive-thru and delivery inefficient restaurant owners, will find themselves in the same boat they are in today. Social distancing and crowded dining rooms are like placing two north poles of a magnet near each other.

Already, restaurant lobbyists are anticipating a delay in a return to normal and have begun lobbying Congressional members and the Administration to not only increase Paycheck Protection Plan benefits, but stretch them to December.

The U. S. economy will eventually experience a rebound that much is for sure, but it may not come as soon as we in the restaurant business want. Previous economic panics in American history, such as the Panic of 1893 or 1907, are useful in estimating the timing of improved economic activity. In both financial panics, banks, investments firms and thousands of businesses failed, and it took four-to-five years for the economy to regain its pre-panic strength.

What all of this means is that restaurant owners should not expect a V-shaped recovery, but rather a gradual return to normalcy over the next 12-24 months. Customers will come back to restaurant dining rooms only when they feel comfortable doing so, and not a minute too soon. A recessionary economy also means value will be the primary desire of the consumer.

So many aspects of the restaurant business will be changed by the coronavirus. Here are some of my predictions:

Continued on the back page

FINANCE SOURCES

Arlington Capital Closes Wagamama Joint Venture

nvestment banking firm **Arlington Capital Advisors** recently served as exclusive financial advisor to **The Restaurant Group plc** (TRG) in its joint venture partnership with **Conversion Venture Capital** (CVC2) as financial partners and **Robert Cornog Jr.** and **Richard Flaherty** as operating partners for the development of TRG's wagamama U.S. business.

TRG, which owns 650 restaurants across the U.K. and worldwide, is the operator of 200 wagamama restaurants, a brand, the company says, "that takes its inspiration from the best flavors of Japan, China and Korea to create unique recipes that have a modern and nourishing twist…" The brand has garnered attention as celebrities and patrons alike have sung its praises across social media. Most of the units are located in the U.K., but about 25% are worldwide, including five split between Boston and New York City.

An earlier deal with another fund a few years ago started the U.S. expansion, but it ultimately stalled because the locations the fund was locking into were "on Main and Main," explained **John Goldasich**, managing director with Arlington, who was the lead investment banker on the recent joint venture. "They thought they needed to make a splash here, and the rents were too high. But this brand was built in the U.K. neighborhood by neighborhood."

Goldasich says there was great interest from different constituencies on this latest outreach, from private equity to larger, existing franchisees here in the U.S. "TRG wanted to make sure they were placing the brand in the hands of capable and credible operators." When CVC2 presented Cornog and Flaherty to TRG, it helped seal the deal. Cornog and Flaherty are industry veterans in the restaurant sector, most recently as senior leaders with Punch Bowl Social.

"We have a growth strategy and we remain committed to it," Cornag said. "It may be delayed because of Covid-19, but ultimately we are not changing our projections." He sees expanding to 50 restaurants over the next few years. With a base of operations in the Northeast, "I think we'll move down the seaboard and develop a regional strategy." And it could be that some of those locations will be in secondary markets.

After 50 locations, further growth "will depend on how the brand grows and evolves, and how the consumer grows and evolves," said Cornag. "It wouldn't be unreasonable to say there could be 150 locations in the U.S."

For him, he's excited to work on a brand like Punchbowl Social again, and team up with Flaherty a second time. "We're introducing this menu and approach—engaging hospitality—to a much broader audience," he stated. "It's a cool brand, an exciting experience and I am looking forward to growing the business."

For more information on Arlington Capital Advisors, contact John Goldasich at 205-563-6936, or at john@arlingtoncapitaladvisors.com.

Auspex Capital Completes Transactions for Burger King and Taco Bell Franchisees

"Despite very challenging market conditions brought on by the Covid-19 pandemic, we have been able to complete both M&A and debt placement transactions for valued clients," said **Chris Kelleher**, managing director of **Auspex Capital**. The boutique financial advisory firm recently closed the following:

• **Sell-side M&A advisory:** Burger King franchisee **O&M Restaurant Group, Inc.**, an Oklahoma City, Ok.-based company owned and operated by franchisee **David Ostrowe**, has sold 13 Burger King restaurants, including the real estate underlying four of the locations to **Switchgrass-VI, LLC**. Switchgrass is a subsidiary of Switchgrass Holdings, LLC, which is the largest Burger King franchisee in Oklahoma.

• **Debt placement advisory:** Franchisee **Janice Sutherland**'s companies, **J.A. Sutherland, Inc.** and **JAS Properties, LLC** (collectively "JAS"), recently obtained a total of $26.5 million of new loan commitments, including a $19.5 million senior secured term loan, a $6.0 million development line of credit and a $1.0 million revolving line of credit. The loans were used to refinance existing debt, purchase generators, provide capital for remodels of the restaurants and provide seasonal working capital. The financing was completed by **Fifth Third Bank**. JAS, which is based in Red Bluff, Calif., owns and operates 24 Taco Bell restaurants in Northern California and Southern Oregon.

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

Trinity Capital Provides Sell-Side Advisory to BK Franchisee

Trinity Capital, a division of Citizens Capital Markets, recently served as the exclusive financial advisor to **Jan Co., Inc**, a Burger King franchisee in Rhode Island, Massachusetts and Connecticut on the sale of 47 restaurants to **JSC Acquisitions LLC**. The Trinity team orchestrated the sale process along with guiding Jan Co. through due diligence, purchase and sale agreement negotiations and the franchisor approval process. **Northern Bank** provided debt financing for the transaction.

The Jan Co. has "been in it for 50 years, and they are a great developer," said **Kevin Burke**, managing partner with Trinity Capital. "The brand is iconic and strong, and Jan Co. was a solid franchisee in a great market. Everybody saw the fundamentals of the deal were intact and that this franchisee will do well" going forward with the acquired locations.

"We were happy to get the deal done in a challenging environment," he added. For more information on Trinity Capital, contact Kevin Burke at kburke@tcib.com, or at (310) 231-3100.

Mohr Capital Growing Restaurant Investments

"The buyer pool has shrunk," said **Rob Solls**, director of retail investments and acquisitions with **Mohr Capital**, regarding investors interested in retail and restaurant real estate during the current crisis. But he's not sitting on the sidelines. "We are putting offers out to sellers and we're getting a response."

Mohr Capital is a real estate investment and development company headquartered in Dallas, Texas. The family office has largely invested in office and industrial in the past, but is growing their retail and restaurant portfolio.

When they focus on buying existing assets, their goal is to add value for the tenant. In one instance, he says, they bought a Wendy's in Scottsdale, Ariz. "and we worked with Wendy's to decrease the rent," he said. "We gave them some free rent up front and they signed a 20-year lease with us. That's the type of situation we look for. It is about understanding how to look at an asset and create additional value."

For a seller, working with a family office is expedient, he says. "We're one source of capital; one decision maker. We can be aggressive, get answers quickly and make decisions. In a time like now, having cash is important. People are looking for relief, and we are trying to provide that."

Mohr has a development arm, aptly named **Mohr Development**, which steps in when a restaurant operator is rolling out new sites. The Mohr team can help with planning the roll out strategy, from everything from site selection and entitlements, to ground up construction and growth capital. "It just depends what they need," Solls said. If the restaurant operator has their own inhouse real estate team, they may only need a few of the Mohr Development services.

"We are typically focused on value-add pad and strip center development or redevelopment for national credits or substantial regional retailers and restaurants concepts," Solls added.

A recent redevelopment example: "In Houston, we had a local restaurant operator who was ready to move on, and we redeveloped it into two national credit retailers," Solls reported. He thinks those casual dining chains that are closing stores permanently could be retrofit opportunities going forward, possibly being split in two, as well.

And, Mohr even takes advantage of speculative acquisitions for development or to re-tenant. "That's finding that great corner that might be a gas station today—we can choose to use the existing structure or raze it, and build something new and add a ground lease," he said.

"More than anything," Solls said, "we really try to be the group that focuses on the relationship and thinking long term. We don't need to squeeze every penny out of a deal. We (Mohr and tenant) are going to be in business together for the next few years." For more information on Mohr Capital, contact Rob Solls at rob@mohrcap.com or at 469-363-5181

Unbridled Capital Provides Advisory on Sale of Moe's Locations

Investment banking firm **Unbridled Capital** recently provided sell-side advisory to **Brad Chasteen**, **Michael Silverman**, **Guy Campbell** and **Rob Atkisson** on the sale of their 67 Moe's Southwest Grill restaurants in Florida, South Carolina, Virginia, Washington, DC and Maryland. The restaurants were sold to **Quality Fresca**, a new division of Quality Restaurant Group, which now becomes the largest franchisee in the Moe's system.

"With four different sellers, this was not a simple transaction. Unbridled was deeply invested in our success; quickly prepared to solve any problems that arose," said Chasteen.

As a condition of this closing, Unbridled will make a charitable contribution to the No Kid Hungry Program, a national partner with Moe's whose charitable mission is simply to end childhood hunger in America. Unbridled has recently completed dozens of successful sell-side M&A transactions totaling over 1,000 restaurants with a closing rate of 95%.

For more information,contact **Rick Ormsby,** managing director at 502-252-6422 or rick@unbridledcapital.com.

Retail Solutions Changes Name; Offers RE Services to Restaurant Companies

Retail Solutions recently changed its name to **Resolut RE**, because "we outgrew our name," said **David Simmonds**, president of the company.

Founded in 2008, Resolut RE is a real estate brokerage company that has six offices in Texas, two in New Mexico and one in Louisiana.

Even though they provide services to retail and restaurants, some individuals on their team work with office and industrial accounts.

"We are still retail people, most of us," Simmonds said, but for those others outside of retail, "they needed a more level playing field. We were getting feedback that the name was pigeon holing us."

For retail and restaurants however, they still locate, negotiate, and lease or purchase retail space, buildings, sites or build-to-suits for franchisors and franchisees, and will also sublease or sell surplus retail space, buildings and sites. Simmonds says they have "world-class research" to help with site selection. For franchisors, they can identify markets and estimate how many locations each will support. They can also help identify franchisee territories within the market.

"And the franchisor doesn't have any representation agreements" with Resolut, Simmonds said. Once the plan is laid out, they work directly with the franchisees.

For more information on Resolut RE, contact David Simmonds at 512-474-5557, or at david@resolutre.com.

FINANCE SOURCES

Kraus to Grow Debt Capital Advisory at Arlington Capital Advisors

"I had my own checklist: I've worked for an enormous company, and I wanted to try something new and didn't want to be a lender at a regulated institution anymore," said **Bill Kraus**, managing director with boutique investment banking firm **Arlington Capital Advisors**, of his decision to join the Arlington team three years ago.

He is a 20-year GE Capital alum: From 2005 to 2015 he was with GE Capital Franchise Finance where he ran the sponsor practice for the company. "My off ramp from GE was when my restaurant loan portfolio was sold to CPPIB along with the broader private equity, sponsor finance business, GE Antares," he reported. He spent another 18 months with the Antares group before leaving in 2017.

"I primarily wanted a broader experience and Arlington was working with emerging restaurant brands and craft brewers," Kraus said. "Working with entrepreneurs was appealing to me—working with them as they scale their business. It's one of the reasons that I chose to go to Arlington."

For the investment banking firm, Kraus' experience working with debt and sponsors was something they wanted to leverage as they built their debt capital markets advisory practice.

"I have a broad network of lender and sponsor contacts," he said. "They were a small entrepreneurial shop and they were mostly representing founders and entrepreneurs. They never had a formal sponsor coverage effort before me joining."

He heads up the restaurant group there with Arlington Managing Director John Goldasich, and the two are growing that debt capital markets advisory practice. They can be hired by private equity, or an operator: franchisees, franchisors and multi-unit independents.

"There's two sorts of issues we're helping to solve for, expertise and bandwidth," Kraus reported. "You may or may not have the talent in-house; someone who can go out and properly raise your debt facility." They generally will do placements of $20 million to $25 million and higher, and want to be known for providing flexible solutions.

"You don't always know what the market may be for capital raising," he said. "It may have to be a combination of senior debt and junior debt, or debt and equity. On one deal, we were out in the market talking primarily to equity sources. But being resourceful, and having contacts across the spectrum, we ultimately provided a hybrid debt and equity solution for our client."

Like everyone else, things changed when Covid-19 hit the industry. He said they had a busy start in 2020, but some deals had to be put on hold because of virus. "Hopefully we can put those deals back together again once this clears up."

In his advising role, today he's seeing lenders being flexible during this period "and giving 90 days of grace. They are deferring principal and/or interest," he said. He says lenders will be thinking about how quickly their restaurant customers can bounce back.

He's an optimist: "I tend to believe it is going to come back and return to normal sooner than later. Is there a lingering effect where people don't want to get to together in crowds? I just don't think so in the long run."

He wants to get back to business. "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) 272-2498, or at bkraus@arlingtoncapitaladvisors.com.

FranBizNetwork Assists in Sale of Restaurants

Restaurant brokerage **FranBizNetwork** recently closed on the sale of these restaurants:

• Three Hungry Howie's pizza locations located in Alabama. Seller **BE Pizza Inc.** sold to buyer **Gurwinder Singh**.

• A Checker's/Auntie Anne's restaurant located in Virginia. Seller **Haymarket Fast Foods Inc.** sold to buyer **RHA&S Enterprises, Inc.**

• In the West, a Fatburger restaurant sold by **Daily Fresh Burger & Hot Wings** to **JR Burgers, Inc.**

• Little Caesars located in Northern California for **EKA Marin Pizza, Inc.** The buyer was **Henry Luevano**.

For more information, contact **Carter Asefi** at 925-391-2724 or at Carter@Franbiznetwork.com.

Guidant Changes Process for SBA Program

Guidant Financial, a firm that helps companies secure financing to start, buy or grow a business, recently announced they will no longer charge loan packaging fees to borrowers, a big change to the company's program. The SBA updated guidelines in March for how brokers and agents can earn fees: They must either charge the borrower or the bank, but they cannot do both.

"When faced with the decision to charge clients or the banks we bring deals to, it was an easy choice," said **David Nilssen**, Guidant CEO. The company will collect a "good faith deposit" from the borrower, which is refundable at close, or if Guidant cannot place the loan.

Guidant has been packaging SBA loans since 2008, and their average transaction size is $300,000. "That type of borrower is ignored by the traditional banking community," he said.

In addition to placing funding under the SBA 7(a) program, Guidant also provides financing under ROBS (Rollovers for Business Startups), where funds from an individual's retirement account are rolled over to fund a business. For more information, contact David Nilssen at (888) 472-4455, or by email at david.nilssen@guidantfinancial.com.

Capital Options for a post-COVID-19 World?

By Dennis Monroe

We will emerge from this crisis. Restaurants will reopen. The public is hungry for a return to normalcy and restaurant dining. Let's discuss some options for reopening your restaurant. With the help of my partners, Chris Mumm and Matt Duffy, who have been focusing on the issues involving Covid-19, here is guidance regarding the future.

From a financial standpoint, what are your options when the restaurant reopens? The most significant has been the SBA Paycheck Protection Program loans. While the program is currently out of money, it's like to be refinded soon. Also, many states are providing emergency small business loans. I am aware that many restaurant owners already have submitted applications to the extent they can.

Also, proactively approach your existing lenders. Put together a conservative pro forma, then ask for an extension of existing credit, and additional credit in order to re-open your business. Your successful reopening is your lender's best chance at repayment in the long run.

Also, I believe investors will step up. Private investors might provide slightly above-market loans that are probably not convertible into equity, but amortizable. These loans will likely include interest in the neighborhood of 8%-9%, with interest-only payments for probably six months, and then ideally, a five-year amortization. These are estimates, but should be a good approximation if we emerge from this crisis in the relative near term. These types of loans represent a good opportunity for investors, particularly with capable restaurant owners.

Another capital source may be franchisors. In the past, franchisors created special investment offerings to raise funds for their franchisees, or obtain special lines of credit for the benefit of the franchisees. We believe franchisors will use creativity in an effort to provide alternative souces of capital for their franchisees.

Sources of funding we typically rely on when a new concept is growing should be revisited. They include options such as private placements, crowd funding (both equity and rewards approach), landlord assistance and friends and family.

Restaurant operators often rely on suppliers to help them manage short-term cash flow, but suppliers will be less predictable now. They may not be able to extend credit in the short-term, but the larger ones, particularly the national food and broadline suppliers, might access public credit markets to provide funding. When it comes to back payments owed to suppliers, they might need to provide payment terms, possibly including loans repaid through future purchases.

We expect there may also be other development companies, and possibly some non-profits, that step up in light of these unique circumstances to provide working capital funding to restaurants, particularly in more distressed areas.

What can you expect from your landlord once you reopen? Not all landlords are in the same financial position. Some are highly leveraged and need to make mortgage payments to their lenders—they're in a similar position as you.

Other landlords have more flexibility because they own their buildings outright. We've seen flexibility from lenders, which helps to ease the immediate burden on landlords and restaurant owners. And, an increasing number of landlords are cooperative and flexible on rent payments. That said, they will want to get back to normal as soon as possible and will expect you to repay any rent deferrals. You may be able to offer to extend your lease term, or provide personal guarantees if they aren't already a part of the lease. Also, look at percentage rents, particularly on the low side and then on the upside, so landlords can obtain some recovery.

Your landlord may have funds available to support capital improvements and might spend money on advertising, all with the goal of retaining a long-term tenant. Don't be afraid to ask for what your business needs.

Is business interruption insurance applicable? Beth Ewen's article on page 10 suggests there could be. However, it usually requires a triggering event resulting in a "physical loss" (e.g. fire, storm, flood, etc.), making coverage for Covid-19 unlikely. Since there are differences in policies, you should review yours with a lawyer to confirm if a triggering event has occurred. Also, some states are exploring legislative changes to insurance policies, including business interruption insurance, making pandemics a triggering event.

We're also fielding questions about back taxes. In Minnesota, sales tax has been deferred for at least a month. While things like payroll, sales and other taxes may not be forgiven, I'm hopeful that payment plans, interest and penalty abatement will be. There may even be some forgiveness. The government will be overwhelmed with these requests, so they will need to put some fixed guidelines in place.

Employees are your lifeblood. They're on the front lines and feeling the impact of the economic decline. They may be cautious moving forward, and to win them back, consider a new model: more profit sharing. As your restaurant improves financially, employees can share in the success. In this model, management will be a smaller group with a flatter structure. profit sharing can take many forms—discuss this idea with your attorney and accountant.

My final thought concerns tipping. Many restaurants have had problems with the traditional tipping model as it doesn't provide a broad base for paying staff, particularly the back of the house. The solution appears to be a straight service charge/gratuity, which would be owned by the restaurant and then divided by the management as they see fit to adequately compensate their workers. This is subject to state and local law, and some courts have even ruled on this issue.

These are just a few initial thoughts. We need to have an open forum, so if you have any suggestions or creative ideas, email them to me, and we'll work as a clearinghouse for some of these important ideas that will surely emerge.

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.

FINANCE INSIDER

Unfortunately, **Chick-fil-A** will go from having the best year in history in 2019 to having its worst year in 2020. Earlier this month the company filed its annual Franchise Disclosure Document, where we first got a glimpse of the record year for sales and profits in 2019. Total company revenue was $3.8 billion in 2019 compared to $3.0 billion in 2018, an increase of 26.7%. Net earnings were $670.1 million in 2019 versus $434.5 million in 2018, an increase of 54.2%. Total system-wide sales from franchised and company-operated restaurants were $12.2 billion in 2019 compared to $10.0 billion in 2018, an increase of 21.4%.

Restaurant CEOs for President Trump's **Great American Economic Revival Industry Group** for Food & Beverage has all the heavy hitters in restaurants including Chris Kempczinski, McDonald's; Gene Lee, Darden; – James Quincey; Dan Cathy, Chick-fil-A ; John Chidsey, Subway; David Gibbs, YUM Brands; Todd Penegor, Wendy's; Jimmy John Liautaud, Jimmy John's; and chefs Wolfgang Puck, Thomas Keller, Jean-Georges Vongerichten and Daniel Boulud.

Cheesecake Factory board member **Herbet Simon** is chairman emeritus of the board of Simon Property Group which is acquiring **Taubman Centers** for $3.6 billion. Taubman made news in March after it warned all of its mall tenants, including Cheescake that, despite the coronavirus, they were expected to meet their lease obligations. Hah! After laying off 41,000 employees due to the virus, Cheesecake wrote a letter to landlords, including both Simon and Taubman, telling them that they can't pay April rent.

Probably the quickest $140 million loss in the history of the restaurant business, that was family restaurant operator **Cracker Barrel's** misadventure with **Punch Bowl Social**, a chains of nightclub and gourmet dining emporiums. Last July, Cracker Barrel went into debt to the tune of $90 million to buy out L. Catterton's interest in 17 Punch Bowls and later funded an additional $50 million for expansion. The dream of opening 100 superbars doing $7 to $8 million ran smack into Covid-19, where social distancing trumps a crowded nightclub scene. Drawing down $490 million to max out its $950 million line of credit to protect its 664 Cracker Barrell stores, the company cut off Punch Bowl's funding. According to Punch Bowl CEO **Robert Thompson**, all of the locations have closed and the employees have been laid off. Thompson said the company was working with an alternative lender, **CrowdOut Capital**, on strategies to reopen "as soon as it is safe and practicable."

Loan to own is a risky strategy. **Bar Louie** topped $252 million in revenue in 2019 and even with that couldn't drum up a buyer in bankruptcy. Prior to its filing in January, its investment banker cobbled together 73 executed confidentiality agreements of which seven potential buyers emerged. Three parties submitted LOIs. After the bankruptcy...nada. No bids means the company has called off the auction and will seek approval to the sell what's left of the business to its lenders— **Antares Capital** and **MidCap Financial**.

Tilman Fertitta is on the ropes. His restaurant and gaming companies have been crushed by the coronavirus. The **Golden Nugget** casinos in Las Vegas, Laughlin and Atlantic City, and most of his casual dining brands are closed. Fertitta has been a proponent of cheap debt and financing a myriad of acquisitions in the past year—**Del Frisco's**, **Houlihan's**, **The Palm**, **Restaurants Unlimited** and **Cadillac Ranch**. Fertitta just borrowed $300 million via Landry's Finance, Inc, at a reported interest rate of 14% over LIBOR. He's securing the loan with the assets of his internet gaming subsidiary and pushing the funds upstream to Golden Nugget along with a $50 million equity check. The funds will add more debt to his already $2.5 billion+ in debt that penciled out to 7x EBITDA, prior to the crisis. Standard & Poors said that it expects leverage to remain 8x or more through end of 2021, that assumes he can reopen soon.

Add one more convention to the list of postponements this year due to the Covid-19 virus. The **International Shopping Center's** annual **RECon Convention** in Las Vegas, held at the same time as the National Restaurant Association show in Chicago, was suspended until further notice. The organizers are evaluating alternative dates for later in the year. The NRA show has cancelled its show permanently and will regroup next year. **Mark Kelnhoffer's** Restaurant Institute has postponed their cost management summit to Monday, August 3, 2020 at the Nationwide Hotel & Conference Center in Columbus.

This from tax attorney **Dennis Monroe**: "It took a major pandemic for Congress to fix the tax glitch that prohibited restaurants from quickly writing off interior improvements on their restaurants and which instituted a 39-year recovery period and not eligible for bonus depreciation. The retroactive fix in the Cares Act presents an opportunity for restaurant owners who made tenant improvements or otherwise placed qualified improvement property into service on or after January 1, 2018. If you were prohibited from accelerating the depreciation of this property on your tax returns, consider revising your prior returns to take full advantage of this accelerated depreciation and reduce your taxable income."

Might the coronaivirus and stable pizza sales save **NPC International**, **Pizza Hut's** largest franchisee? Unlikely according to Moody's Investors Service. NPC has not paid interest and debt service in 2020 on its 1st and 2nd lien term loans. 2nd lien lenders will regret they agreed to a covenant lite structure with NPC. Moody's says that 2nd lien lenders are subject to a 180-day standstill before they can exercise available remedies.

The **Waffle House** Index is a real guide used by FEMA to gage the stage of a crisis, usually one that's weather-driven. Because the family dining chain is open 24/7 and only closes its doors in extreme situations, it's been a pretty accurate measurement. For instance, in 2005 during Hurricane Katrina Waffle House closed 107 restaurants, it's all-time high. During the current pandemic, the chain has closed 670 restaurants. But to put it all in perspective, there are still approximately 1,330 Waffle Houses open as of April 13.

Remember when **lower gas prices** were always seen as a positive development for consumer spending and restaurants. Not anymore, now that restaurants are under siege and the U.S. is the largest producer of oil and gas in the country.

Former Qdoba CFO and veteran finance professional, **Michael Cullom**, has joined **Moss Adams** as director of its Restaurant and Hospitality National Practice.

Warren Buffett's famous quote about "only when the tide goes out to do you see who is swimming naked," is apropos to **Luckin Coffee**, the Chinese coffee retailer that was pegged as the next Starbucks. Can you believe Luckin fabricated sales to the tune of RMB 2.2 billion, or $311 million between the second and fourth quarters of 2019? Luckin Stock dropped more than 80% following this disclosure, and trading has been halted.

No surprise here. **JP Morgan Chase Institute** revealed that 50% of small businesses had less than 15 cash buffer days, which is understandable when you see the demand for the government's Paycheck Protection Program loans.

Asset lite is still in demand by bond investors, albeit more expensive than a year ago. Both **Yum Brands** and **Restaurant Brands International** issued senior notes last week during the height of the coronavirus panic to shore up their cash. Yum sold $600 million of senior notes due 2025 at an interest rate of 7.75%. Restaurant Brands sold $500 million in 1st lien senior secured notes with a yield of 5.75%. Why the difference in pricing? YUM's subsidiaries (Taco Bell, Pizza Hut and KFC) did not guaranty the indebtedness. Restaurant Brands subsidiaries (Burger King, Tim Horton's and Popeyes) did.

Larry Devries and **Dean Haskel's** National Retail Concept Partners, (NRCP) have teamed up with the workout firm, **Dundon Advisers**, to provide restructuring advice to troubled restaurant operators. Haskel told the Monitor the combo team can be of assistance to secured lenders, sponsors and other equity investors that have restaurant investments underwater. Dundon's restaurant and retail practice is led by Jonathan Feldman and Matthew Dundon. For more information contact Dean Haskell at dhaskell@nrcpartners.com.

Former **Dairy Queen** CEO **John Gainor** is part of the **JANA Partners Group** that just secured two seats on the Bloomin Brands board after a proxy threat. JANA reported ownership of 7,985,439 shares, or 9.2% of the company as of April 8. Unfortunately for JANA's partners, they paid $126.2 million, or $15.80 per share. Bloomin's shares closed on April 9 at $9.12 per share, resulting in a unrealized loss for JANA of $53.3 million. Gainor's career began in his family's transportation business and he was part of a group that bought Supply Solutions, Burger King's distribution business. Gainor got a call in 2002 from then DQ CEO Chuck Mooty, who asked him to run DQ's supply chain. Five years later, Mooty resigned and Gainor was given the top job and stayed there until retiring in 2017.

The hotel business has been hurt just as bad as the restaurant business by the cornavirus. **CBRE's** hotel advisory group predicts U.S. hotels will achieve an occupancy of 42.7% in 2020, a 35% decline in occupancy over 2019. CBRE expects it will take until 2023, three full years for the hotel industry to recover from the impact of COVID-19.

Will the coronavirus force **Dine Global Brands** to spin off IHOP? That's an excellent question and one that will be put in front of Dine's shareholders at their May 12 meeting, compliments of Houston investor, **James Pappas**. Pappas submitted a proposal urging Dine board members and management to pursue a spin-off of the 1,800-unit family dining chain. Pappas is no stranger to restaurant proxy contests. He acquired shares in Morgan's Foods—a public **KFC** and **Taco Bell** franchisee—in 2012 and lobbied for the sale of the company, which was sold to Apex Restaurant Management for $5.00 per share in 2014. Pappas and partner, Glenn Welling, gained board seats in **Jamba Juice** in 2015 and pushed the company to refranchise. Jamba Juice was later sold to **Focus Brands** for $200 million in 2018. Dine Global Brands, CEO, **Steve Joyce**, is under pressure to do something to create shareholder value and may be forced to consider an IHOP spinoff to placate shareholders who question the company's royalty reliance on casual diner **Applebee's**. On April 16, in response to the Covid-19 crisis, Dine suspended stock buybacks and said it was evaluating its $3.00 annual dividend. On March 18, Dine drew down a total of $220 million of its available revolving credit line.

Not only is **Wingstop** killing it in delivery and take-out sales, but food costs are down because chicken wing prices have collapsed. After spiking around Super Bowl time at $1.90 per pound, chicken wings are now selling for slightly over $1.00. According to the USDA and **Arrowstream**, that's a level not seen since 2011.

Piper Sandler latest consumer research is a good-news and bad-news story for restaurants. While 60% of respondents are likely to go to restaurants as soon as they reopen, 62% will be more sensitive to eating in a crowded restaurant. That being said, 50% of respondents are currently visiting restaurants for drive-thru or pick-up. and food delivery is happening an average of 2.4x per week.

No one expected casual diner **Darden Restaurants** not to pay their April rent, especially when CEO Gene Lee aid the company would do the right thing for their stakeholders. Their largest landlord, Four Corners Property Trust, confirmed Darden did pay their rent on time in an announcement on April 14. The public real estate investment trust said it received approximately 87% of rent owed to it for the month of April and that included rent from Darden, which represents roughly 70% of the REIT's annual rent.

Small business? One concept **Ruth's Hospitality Group** took advantage of two Employer Identifcation Numbers (EIN) and was able to borrow the max $10 million per EIN, or $20 million in total from what turned out to be, the underfunded Paycheck Protection Prgram.

COVAD 19 UPDATE

Don't Take Denials As Last Word on Interruption Insurance Say the Lawyers

By now, most restaurant operators with business interruption insurance have heard bad tidings from their brokers: forget about getting coverage for your claims.

But Nancy Sher Cohen in Los Angeles, who leads Lathrop GPM's Insurance Recovery & Counseling team, calls that fake news. "Do not give up," she said, despite those denial letters citing exclusion clauses for pandemics. "This is a unique and first-time experience, so provisions in contracts will be litigated. There are many arguments that can be made."

Sher Cohen, who specializes in representing policyholders, knows about unique cases. She represented the institutional lender holding the mortgages for the World Trade Center towers 1, 2, 4 and 5 after the 9/11 attacks.

John Holland, an attorney with Dady & Gardner in Minneapolis who represents franchisees, advises operators to pull their insurance policies and read them carefully, or have their lawyer do so.

"It's not light reading by any means," he said. "The specific language of your policy will affect your ability to file a claim."

While the policy might exclude a virus as a coverable claim for property damage, for example, "you may have a business interruption policy that specifically references a shutdown by civil authority," as is happening nationwide.

He said operators shouldn't necessarily be put off by fears of time-consuming litigation. "The reality is most cases that get filed get resolved long before a trial," and many times a letter exchange or phone call can result in resolution. "I don't have the view that it's pointless by any means, exploring this."

Two additional types of insurance may also come into play, according to Richard Shore and Brandon Levey with Gilbert LLP, and Michael Devorkin at Golenbock Eiseman Assor Bell & Peskoe.

Contingent business interruption coverage may apply if a supplier cannot supply you, causing losses to your restaurant. For instance, if your supplier of fruits and vegetables shuts down or if trade between the U.S. and another country is suspended, making it difficult or impossible to obtain certain food items. Policy language is "paramount" in such cases, they write.

Third-party liability coverage may apply if customers allege they contracted the coronavirus due to exposure at your restaurant. "Such coverage typically pays defense costs and liability," they write. "This type of coverage is typically purchased in multiple layers, and the amount of coverage for a given year can be substantial."

The attorneys note the restaurant industry and other sectors "have been so hard hit by COVID-19 losses that it is likely that there will be massive coverage litigation. Rather than incurring the costs associated with litigating individual claims, restaurants with limited coverage may be best served by taking steps to preserve their rights to insurance coverage, and then seeing how the rules of the road develop in the context of other coverage litigation."

On the other hand, large, multi-unit operators may want to file litigation themselves in order to help shape the future of coverage, write Shore, Levey and Devorkin.

Chef Thomas Keller, of French Laundry fame, became the most high-profile restaurateur to sue over his claim denial, filing against Hartford Fire Insurance Co. in Superior Court in California the week of March 23. Others have followed, including Scratch Restaurants LLC suing Farmers in California and Onion Tavern Group suing Society Insurance in Illinois. The famous Billy Goat Tavern in Chicago sued, too, seeking class-action status for similarly situated claimants.

Claims will be in the "many billions of dollars, if not trillions," Ben Lenhart of law firm Covington told the Wall Street Journal in early April, and insurance carriers are starting to mobilize.

On March 31, for example, over 30 policyholder groups and the major insurance trade association requested creation of a federal recovery fund to compensate businesses hard-hit by COVID-19, according to Washington, D.C.-based law firm Crowell & Moring, meaning they're seeking risk-sharing from the feds.

That same week, a letter to members of California's congressional delegation from insurer organizations said insurance "cannot account for a situation in which losses are catastrophic and nearly universal." Meanwhile, at least three state legislatures, including Louisiana, Pennsylvania and New York, were discussing proposals to compel insurers to pay for business interruption claims.

Robert Zarco, a Miami-based attorney well-known for suing franchisors in high-profile lawsuits on behalf of franchisees, is now targeting insurance carriers.

He circulated a letter in late March offering Zarco, Einhorn, Salkowski & Brito's services to fight such denials on a 30 percent contingency basis, meaning clients don't pay unless he wins, with a "small upfront fee" that he wouldn't specify.

He believes he can mount arguments that could force insurers to pay those claims, "at a time when they need it most."

"Mostly the clients I'm getting are multi-unit operators, I'm getting hotels, auto dealerships, a lot of the bigger players, that are losing hundreds of thousands of dollars. I have received in the last five days, 150 calls," he said in late March. "I'm going to take the bull by the horns while everybody's moping and groping."

Sher Cohen, the Los Angeles attorney, outlined a couple of promising arguments she and fellow Lathrop GPM attorneys will use to counteract denials of claims.

Continued on page 10

STATS AND QUOTES

WHAT THE FUTURE OF RESTAURANTS LOOK LIKES	
Andrew Strelzik, BMO Capital Markets	Payroll relief funds through the CARES Act are not the savior for casual diners with potential liquidity issues. We estimate these funds add at most one month of incremental liquidity.
David Palmer, Evercore ISI	However, for Starbucks and Chipotle, the (PPP) loan may not be as necessary and carry with it brand risk. Does accepting CARES "bail out" money represent negative press risk if smaller chain competitors are also accepting these dollars, and federal money is going toward the payment of employees?
Lynn Collier, Loop Capital	Studies indicate that consumers are becoming extremely concerned about COVID-19 and conserving cash given expectations that the economic shutdown will last months, not weeks. In summary, we believe the damage to the restaurant industry will be severe with many permanent store closures, particularly among independents.
Andy Barish, Jefferies	Clearly this (Payroll Protection Plan) will help some smaller chains/independents get through the current COVID-19 business/cash crunch and maybe get to the other side with the loan forgiven; however, for many of the public restaurants in full-service this amount extends cash burn by just weeks, not months.
Nicole Mill-er Regan, Piper Sandler	Our most recent conversations have focused on when and how restaurants might re-open. Companies are modeling as early as mid-May up to as late as end of June. Our models are synced to the end of June. Stores are likely to open market by market, at half capacity, with only one daypart.
Andrew Charles, Cowen	The current priority is remaining visible through building awareness of carry-out/delivery options, selling raw goods to consumers (if sales are below a certain threshold) and building goodwill by keeping frontline workers (healthcare professionals, first responders, etc.) nourished.
Howard Penney, Hedgeye Risk Management	The Cares act will soften the blow, but it is not going to save many franchisees (and independent) restaurants who are already distressed.

INTEREST RATES

	4/13/20	Last Month	A Year Ago	Trend
Fed Funds Rate	.25	1.75	2.50	↓
1-Month Libor	.86	.75	2.48	↓
3-Month Libor	1.32	1.05	2.60	↓
1-Year Treasury	.27	.38	2.53	↓
5-Year Treasury	.44	.70	2.42	↓
10-Year Treasury	.76	1.31	2.61	↓
30-Year Treasury	1.39	1.56	3.02	↓
Prime Rate	3.25	4.25	5.50	↓

Microsoft founder Bill Gates talking with CNBC's Becky Quick about the coronavirus and reopening the U.S. economy
"The behavior of people in terms of people wanting to travel, or go to events, or even go to a restaurant, it's been has been utterly changed by the concerns about this disease. Until we can say say to people that we're tracking this thing so well that actually going out to your job, to a car factory, to a construction site that those are safe enough, that we feel condident you can do those things. No one should think the government can wave a wand and all of a sudden the economy is anything like it was before this happened. That awaits either a miracle therapeutic that has an over 95% cure rate, or broad usage of the vaccine."

Former chief economist at Western Asset Management, Scott Grannis, writing on his blog, Calafia Beach Pundit, about the economic impact of the coronavirus:
"To date, the most consequential result of this novel coronavirus has come from the hand of government, thanks to multiple decrees from governors, mayors, and public health officials mandating the closure of a broad swath of the US economy. Arguably, the cost of shutting down the economy in terms of jobs, living standards, and money has been far greater than the cost of virus-induced deaths, which have turned out to be orders of magnitude less than initially predicted, even by models which factored in severe social distancing. As I like to put it, the shutdown of the US economy will prove to be the most expensive self-inflicted injury in the history of mankind."

A restaurant lender (who didn't want to be identified) talking about the SBA's attempt to quickly roll out the Payroll Protection Program loans to banks and borrowers:
"It's like they are telling us to run across the bridge as fast as we can and they are still building the bridge."

First, carriers are asking policyholders to prove a case of coronavirus shut down their restaurant, but that is impossible given the lack of testing. "So, under those circumstances, we believe that the insurers should presume that there was coverage, that there was property damage." Her firm is commissioning modeling studies of the coronavirus spread that she believes will shore up the argument.

Second, after the SARS outbreak in 2006, many carriers added a virus exclusion to their policies, which in many cases contradicts existing pollution and other clauses.

"If the policy as a whole is ambiguous in any way," she said, "then the courts are allowed to interpret the contract in a way that's against the drafter of the contract, and here that's the carrier."

Her advice to policyholders: No. 1, "give notice to carriers that you will be filing a claim. Do not be discouraged by your broker telling you there's no coverage."

No. 2: "You need to involve counsel, because a lot of these arguments depend upon some legal analysis and are not easily made by a restaurant."

No. 3, in her considerable experience, 'no' is not an acceptable answer. "We are inundated with requests, particularly in the restaurant arena," she said. "We are working seven days a week, what feels like 24 hours a day, responding to requests from carriers for more information, dealing with the clients who had no hope, who we're trying to give some hope to."

—Beth Ewen

Operators Organize to Pressure Insurers for Claims

Adam Halberg is hoping Zurich Insurance does the right thing and covers Barcelona Wine Bar's business interruption policy on all 18 locations. The upscale restaurants' dining rooms have been shuttered by states' orders since mid-March. CEO Halberg isn't particularly hopeful. "We have not been given a yes [from Zurich]," he said. "The insurance industry circles the wagons."

As a result, Barcelona Wine Bar has joined forces with the Business Interruption Group, a "non-profit that insists insurers pay owed businesses losses caused by the coronavirus," according to its website (werbig.com). BIG accuses insurance companies of using specious arguments in a "disinformation campaign" to deny coverage. It also threatens legal action and has hired attorney John Houghtaling of Gauthier, Murphy and Houghtaling LLC.

The group is led by high-power chefs, including Daniel Boulud, Cat Cora and Thomas Keller of French Laundry fame. Keller's policy reportedly includes a business interruption provision when a civil authority issues a directive to close due to loss of property.

Boulud, who operates eight restaurants and has laid off about 700 employees, has yet to sue his insurance company for denying his claim. "We are rallying behind Houghtaling. He's has been a very good advisor to us," he told the Monitor, adding the group also wants the federal government to provide financial relief to insurers.

Asked if Barcelona Wine Bar is likely to sue Zurich, Halberg said, "We certainly hope it wouldn't come to that. Zurich has been a good partner for years. We'd like to see them lead the way on the insurance industry doing the right thing."

That may be the best restaurants operators can hope for. "In the context of natural disasters," according to recent article in the National Law Review, "courts have generally held that civil authority orders issued prior to actual, physical damage of an insured property do not trigger business interruption coverage."

The Monitor spoke with an insurance executive experienced in restaurants who told us that lawyers are giving their restaurant clients a false hope by pushing a narrative that has been litigated before, always in favor of insurance companies. "The vast majority of restaurant shutdowns are not as a result of a property loss, which is what triggers business interruption coverage, or even a virus in the building, but the result of government action."

Pandemic Musings: Industry Execs, Investors Speak

The Covid-19 pandemic is ruining restaurant sales for the foreseeable future; but it is also providing some executives with practical lessons. It taught Salsarita's CEO Phil Friedman, for example, the usefulness of freezers — equipment the fresh-product burrito chain had so far done without.

"What we learned is that we might want to use freezers so we can get [meat] proteins in a frozen state. Right now, I can't receive more than I can handle — and then we're getting one truck a week and half-orders," he told me in a recent phone call. "I won't do it immediately, but I probably should add freezers to have more hold capacity."

For former RARE Hospitality chief executive Phil Hickey the lesson is: "Better to remain conservative. Key is to be alive when the recovery comes. And it will come — eventually," he texted. "Cash preservation is critical. Assume that this slowdown will last for many months, not just a couple months."

As of this mid-April, there's talk among the country's leaders of re-opening some businesses, albeit slowly over the summer. Covid-19, meanwhile, has sickened 555,371 people and killed 22,056.

Pivot to Off-Premise

I talked to several restaurant executive and investors about the damage to their businesses and ones they invest in. The breathtaking falloff in sales — 65% — in the last two weeks of March shocked the industry.

"We have reported on restaurant sales and traffic since the last Great Recession, and this is something far beyond anything the industry has experienced," Black Box Intelligence noted in early April.

Said a restaurant executive-turned-investor who, like others, didn't want their names used because of sensitivity to things like refusing to pay rent, applying for SBA-backed loans and furloughing thousands of employees: “If you’d asked me two months ago how would I run my business with just 15% of sales, I’d have laughed that the question is ludicrous. Now, I’m taking calls everyday from people who that’s happened to.”

Drive-thru-equipped restaurants have fared better. While Friedman conceded Salsarita’s overall sales were off by about 40%, corporate units with drive-thru windows were holding their own.

“They’re doing well,” he claimed. Of the 15 company-run restaurants he’s closed three and five “are on the bubble.”

Bottomed Out?

Still, sales and traffic remain depressed as of this writing. The NPD Group, for example, reported domestic guest counts “declined by 41% in the week ending April 5 compared to same week a year ago, following a 42% decline in the prior week ending March 29.”

Does this data indicate the industry has reached the proverbial “bottom” now that the country was experiencing the “full effect of on-premise dining closures”? Asked with the assumption customers were switching to off-premise options.

It was likely for QSR and fast-casual chains. Yet full-service restaurants, many which now emphasize takeout and delivery, still got hammered in first week of the month. NPD added that annual comparable guest counts dropped by 79% in the week ending April 5, the same depressing slump as two weeks earlier.

The pivot to a takeout and delivery model is scarcely worthwhile, maintained the former restaurant executive, who described it as a PR move to remain relevant to locals. “The most any restaurant I’m involved with are doing 15% to 40% [of sales], with most being in the 20% range. “It’s barely enough to keep operating,” he declared.

Zero-Sales Scenarios

How long any restaurant can remain open is a matter of intense speculation among investors. A private equity executive whose firm has made majority and minority investments in restaurant brands (having both franchised and company locations) told me the firm has been modeling a future zero sales.

“We try to do it in as draconian a way as possible,” he explained. “We’ve tried to run out how long we can last. So far, all the companies [would be] in good shape through June with no positive cash inflow.”

To help them control fixed costs, the firm is no longer charging franchisees an IT fee and had re-negotiated a contract with a foodservice distributor to get franchisees the same terms as company-owned restaurants. “They were being charged 18 percent,” the executive recalled.

Just Say No

Saying no to landlords has become a rallying cry, thanks to the Cheesecake Factory’s well-publicized “To Our Landlords” letter on March 25 from Founder and CEO David Overton. In 250 words, Overton said the company’s 294 restaurants couldn’t pay April’s rent due to the pandemic.

Unsurprisingly, restaurant execs quickly fell in line with Overton. “The Cheesecake Factory is completely representative of our industry. The vast majority of us are not in a position to make April rent,” said a multi-unit franchisee who also dispatched a similar letter to his restaurants’ landlords.

“Why would we pay [landlords] when the landlords probably won’t be paying [their lenders]?” said the former executive turned investor. “So under no circumstances should we be sending rents to landlords until we figure this thing out.”

He believed the government would step in under the next phase of the CARES Act to provide relief to lenders. The lenders would in turn provide the same to landlords.

Yet woe to operators whose lease is held by mom-and-pop landlords. “The harder landlord to deal with is the single guy,” the former executive added. “Those are the guys who screw you, ‘Pay me!’”

McDonald’s Official Upset with Zees Lack of Action

McDonald’s Corp., like many franchisors, has given franchisees significant support to help blunt the financial impact of the COVID-19 pandemic. But apparently corporate officials believe franchisees nonetheless remain a stingy lot, according to a letter from McDonald’s USA President Joe Erlinger to franchisee Blake Casper, chairman of the independent National Operator Association (NOA). The Monitor reviewed portions of the letter.

The financial support has so far consisted of $900 million of additional equity and generous rent and service fee deferral terms for franchisees who sales have slid 25% or more in recent weeks.

Pointing to salary cuts among McDonald’s own senior officials, Erlinger accused Casper’s group and one other of failing to respond to challenges that would have required them to spend money. Griped Erlinger: “. . . similarly, the National Franchisee Leadership Alliance (NFLA) and NOA could demonstrate tangible leadership during this crisis” taking the same steps as company-owned outposts. They include:

Committing to completing wellness and temperature checks at the beginning of every restaurant employee’s shift.

Reviewing current policies and ensure that not only all crew get free food while they are working, but a 50% discount when they’re off work.

Endorsing two weeks of pay for any restaurant employee whose health is impacted by COVID-19.

Supporting 10% “hero” pay for crew members who are working during this crisis over the next 60 days.

Casper did not return calls seeking comment.

—David Farkas

Franchising: In April 2018, I gave a speech at the Grant's Interest Rate Observer conference in New York. I criticized the restaurant asset light model and high market multiples awarded asset-light-franchisors. I argued that royalty income was not impregnable, and that share buybacks, dividends and franchisee support cuts, all the while increasing leverage on themselves and their franchisees, wouldn't end well. Wall Street is now on to this shell game, where one side of the franchise contract was getting fabulously rich, while the other side faced operating headwinds alone. Wall Street must demand an accounting of the financial well-being of a brand's franchisees before they put forth a valuation. I doubt it will be a pretty picture, especially during this crisis.

Franchisee Consolidation: It's been a trend, but that's because cheap debt was flowing. My guess is the banks are on to this and will be much tighter going forward on leverage ratios. Plus, I have a question for the CEOs of the big brands: Do you really want to have a significant majority of your income dependent on big, over-leveraged franchisees?

Emerging Brand Valuations: Four-wall EBITDA valuations for the hot concepts are kaput. When I first heard private equity was buying businesses based on this formula, I told our readers burn rate might be a better analytic tool. I'd focus on that metric right now.

Covenant lite loan structures: Suggest to your lender you want your credit renewal to contain the same covenant light terms and conditions as your last one. Watch them smirk.

Paycheck Protection Loans: PPP loans are the lifeblood of the industry right now. Businesses in 1918 and 1919 never received a dime. Anyone in restaurants or franchising who got a PPP loan should write a thank you note to the International Franchise and National Restaurant Associations.

Value: Take this to the bank: Value outperforms, especially during recessions.

Restaurant Supply: My heart goes out to independents, the majority of which operate sit-down restaurants. I know how hard this is and how much blood, sweat and tears they've invested in their restaurants. The virus is going to result in a large number of restaurant closures, and I'm afraid many independents will throw their keys back to the landlord. Any restaurant that wasn't making money going in to March will be on the chopping block too. The restaurant business will no longer be in an oversupply situation.

CAPx: Don't expect anyone to grow themselves out of this crisis. Real estate development are usually first on the chopping block. Once they've departed, it takes years for a brand to ramp up development.

Post Covid-19: Do you remember the scene in *The Graduate* where a neighbor friend of Mrs. Robinson tells the young Dustin Hoffman to focus his career on "plastics." You could say the same thing today in the restaurant business about "off-premise."

New Concepts: America is a creative bunch. There are millions of laid-off restaurant workers right now. The entrepreneurial ones are dreaming up new concepts to replace the hundreds of dead brands that weren't making money going into March, and aren't going to return after the crisis is over. It will take two to three years to clean up this mess, but then watch out, new ideas and energetic operators will have a much broader runway.

I have been in and around the restaurant business for almost 40 years and watched restaurants come and go, some bruised by macro conditions and others by their own hand. I remember the oil collapse and the savings and loan crisis hit restaurants hard in the '80s. The first gulf war nailed them in the early '90s, while 9/11 took them down for a few months. The big financial crisis of 2008-2009 did a lot of damage, but the industry came back. I expect it will this time too, but as I said earlier, it's going to take a few years to clean up.

Where was the Monitor cartoon this issue?

Like you, I couldn't think of anything funny this month.

What About RFDC?

People keep asking about the **Restaurant Finance & Development Conference,** which is scheduled for November 9-10 at the Wynn Hotel in Las Vegas. Two weeks ago I was on an analyst call with Hedgeye's Howard Penney. I told Howard that I was going to hold the conference, if people are willing to attend, whether I had 3,000 people, or 50 people, which was the number we had at our first conference in 1990. Our team is developing modifications to our program. Towards the end of the next month, or in early June, we'll announce the details.

—John Hamburger

RESTAURANT FINANCE MONITOR

2808 Anthony Lane South, Minneapolis, Minnesota 55418

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

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