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OUTLOOK

The More Things Change, The More They Stay The Same

It's easy to get caught up in the minutia of endless data, the mind-numbing rumblings of social media, or the intricacies of millennial purchasing behavior to explain why restaurant traffic is anemic and margins are compressed. As Bob Dylan once twanged, "you don't need a weatherman to know which way the wind blows."

Restaurant companies are challenged finding able workers at a reasonable cost. With unemployment low, turnover is high as employees move job-to-job for higher wages. No surprise here that companies report higher labor and training costs, and some are facing sales problems because they don't have enough employees to fully staff their restaurants. I've heard a few operators say they wish for a recession to loosen up the labor market. No thanks. Restaurants already have trouble passing through rising costs to customers. Just imagine the distress a real downturn would bring.

Let me take you back some 20 years ago to a much simpler time in the restaurant business. The days when data was sparse, the minimum wage was $5.15 an hour, technology consisted of talking to each other on the telephone and millennials were in preschool sharing their snacks. Surprise, surprise, the restaurant business faced similar challenges.

From the 1997 edition of the then-popular Chain Restaurant Industry Review & Outlook (produced by Franchise Finance Corporation of America):

Consumer resistance to menu-price increases will continue to require operational efficiencies. In this competitive environment, raising prices could mean losing customers.

From then restaurant analyst Wayne Daniels of Schroder Wertheim in a 1997 restaurant industry preview:

Industry profitability will likely decline due to lackluster comps and labor cost pressures.

From Steve Rockwell, then the Alex Brown restaurant analyst, in a 1997 report:

The largest cost concern for the restaurant industry is labor. We attribute the labor pressure more to the strong economy and low unemployment rate than to rising minimum wage because many companies are indicating that they already are paying wage rates above the higher minimum.

From then-Piper Jaffray analyst Allan Hickok in a 1997 report:

Labor will remain the #1 issue facing the industry. Strong chains attract the best employees, among other reasons, because they earn higher wages. Weaker chains have to settle for the "B" team and suffer a permanent competitive disadvantage.

From the 1998 Restaurant Industry Operations Report, produced by the National Restaurant Association:

In addition to the pressures of government-imposed taxes and regulatory matters, the biggest challenge facing restaurant operators is a lack of qualified/motivated workers. To ease labor challenges many operators are making efforts to improve productivity at their establishments. Such efforts involve modifying worker conditions, training and benefits to meet the needs of employees, as well as upgrading technology.

Ok, maybe I overdid the number of examples from the '90s to make a point. Substitute 2019 for 1997 or 1998 in these clips and it looks as if might be written today.

Finding and managing labor has always been tough. Right now, consumer demand for delivery is the single biggest conundrum operators face today because it forces them to play in a playground they aren't familiar with and can't control. You're seeing a wide range of maneuvers as restaurants experiment with menu pricing, packaging and delivery methods. The expense is high. Quality is shaky. The take rates paid to the third-party companies are all over the board. And, restaurants aren't quite sure they can trust the third-party delivery companies from stealing their customers.

To tell the truth, no one is really sure they can make money selling and transporting food. Some companies, such as Red Robin, barreled into delivery at the expense of their in-store dining. Others, such Texas Roadhouse and Darden, see delivery as a distraction and are content to stay on the sidelines.

Like 20 years ago, the restaurant business is still a battle to drive traffic and pass on labor costs. I'm optimistic well-capitalized and strong management teams will work through the current challenges. But, for others, I paraphrase the economist Burton Malkiel: "I'm not sure my optimism is justified."

—John Hamburger

FINANCE SOURCES

Capital One Spotlights Restaurants as New Vertical

"Our job is to be an investment-strategy restaurant finance group comparable to what plays in the equity market," said **Paul Westra**, with **Capital One Food & Beverage**.

Westra was a well-known restaurant industry research analyst for investment banking firms Stifel and Cowen & Co., and will now serve as managing director in credit and underwriting for restaurants at Capital One, which is offering conventional financing to the industry. He is joined by colleague **Colin Guheen**, also managing director, whose background includes GE Capital and Cowen & Co.

"Colin and I both have a 20-year Wall Street perspective," said Westra. "Where and when do you deploy capital? We're bringing that strategic investment thesis to the table."

Capital One's sweet spot is financing middle-sized and large franchisees and franchisors with double-digit EBITDAs.

Paul Baisley, who is managing director and group head of food, beverage and agriculture for Capital One, leads the charge on restaurants, and says they are focusing on "farm to fork." Because he and his team bank all sides of the food industry—the whole food chain, including suppliers—they bring more knowledge to bear for their clients.

"If a customer that's a wing concept is talking to us about the chicken market, we already know what's happening there, because we cover all the chicken processors," said Baisley. "We know a lot of folks."

And consumers are demanding more information about their food, and that's where the "farm to fork" becomes important once again. "People walk into a fast food franchise, they no longer blindly eat that hamburger," he said. "Things have changed. Our underwriters understand the supplier side and how that product is getting to the restaurants."

As the sixth largest bank in the nation, they can write big checks, said Baisley, but that's not necessarily what it is all about to them. They want to work with the "winners," and "get smart and take more risk. Go deep" with clients, he said. "We want to pick these customers and really support them."

Because Capital One has such a large database of private and public data, that give them a competitive advantage in helping their customers. "I can give a customer data on how their sales compares to others on a national and local level, and even customer satisfaction data.

Their differentiation, said Westra, is service. "It's quicker decisions and transparency. It's really a very sophisticated, but back to basics investment process," he says. For more information, contact Paul Baisley at 312-285-1690, or by email at paul.baisley@capitalone.com.

Trinity Advises on Sale of Little Caesars Locations

Trinity Capital recently served as the exclusive financial advisor to **T&T Sheroski No. 3**, a Little Caesars franchisee with 21 restaurants in Michigan, in the sale of its restaurants and related real estate to **Mac Pizza**, a newly formed entity. Trinity helped to manage the auction process, identify a buyer and advise the company through closing.

The Sheroski family was one of the first Little Caesars franchisees, and according to **Howard Lo**, managing director with Trinity and advisor to the company, it was a legacy franchisee that had certain elements that were "grandfathered in to certain offerings that aren't available to current franchisees." Those included a full, sit-down restaurant, delivery and menu items that were in the market years ago.

"Part of the transaction process was to identify the non conventional, get the buyer comfortable with what needed to change, and then receive franchisor approval," said Lo.

He's enthused that the restaurants are going to a buyer that is "growth focused, and is actively looking at new sites for development. Seeing these assets are going to a group very focused on operations and growing the business is very interesting. They have energy and are going to take it to the next level.

"I've been working with the Sheroskis for a long time," he added. "The transaction also fit their needs, and we made sure that family members got everything they wanted out of the deal."

For more information on Trinity Capital, contact Howard Lo at 310-268-8330, or by email at hlo@tcib.com.

Hung to Lead First Tennessee's Franchise Group

Restaurant lender **Tom Hung** has joined **First Tennessee Franchise Finance** as managing director, group head of franchise finance. He joins the bank from Citizens Bank, where he was managing director.

"He is experienced and credible in the space," said **Todd Jones**, EVP of wholesale banking, who brought Hung to First Tennessee. "And he brings expertise and success with private equity and sponsors. We want him to continue to build on our efforts there and take them to next level."

Hung is replacing Jones, whose promotion was reported in a recent issue of the Monitor. Hung reports to **Steve Hawkins**, executive vice president of wholesale banking. Jones first connected with Hung during their tenure at GE Capital Franchise Finance. "It's his style: He's driven, he's focused, and he gets things done," he said.

Hung reported he's been in the restaurant world since he was age 15, when he worked at McDonalds. He started his banking career in tech and media, but quickly found his way to restaurant finance, "and probably will be for the rest of my career. I'm dedicated to it."

Hung himself finds it "an incredible opportunity to be leading the team of talented and experienced individuals," he said. "My role is to lead the platform, but its about supporting the team and giving them the tools to continue to win in the marketplace." And, after talking with the bank's management, he feels they are committed to the sector.

Hung has known the team at First Tennessee since his days at GE, "and I am excited to build on what the team has already done."

Jones says he'll still be actively supporting the franchise finance group, even though he won't be directly leading it. For him it is a little bittersweet: On one hand he's leaving the team that was handpicked.

"We were all corporate refuges from GE. It was an unplanned displacement. We had that common ground, and then we all came together at a bank that welcomed us and wanted to grow this business line," he said. "It is unique, the way this team came together and started something from scratch. It has been a successful two and half years."

On the other hand, he's excited to watch it grow even further. "I look forward to seeing that continue under Tom's leadership," said Jones. You can contact Tom Hung at thung@firsttennessee.com, or at 480-375-9907.

City Capital Ventures Acquires Canadian BK Franchisee

Metronome Partners served as exclusive advisor to **The Redberry Group** in its sale to **City Capital Ventures**, a private investment partnership based out of Chicago. Redberry is one of the largest QSR companies in Canada, with 111 Burger King and 23 Pizza Hut restaurants. City Capital Ventures invests in opportunities for family offices.

It was a complicated transaction, said **Randy Karchmer**, managing partner with Metronome, based on the fact they needed to gain two separate franchisor approvals. "That complicates matters. But the main thing is that it just really is a terrific business with great metrics."

Redberry comprises 40 percent of the Canadian Burger King market, and the new Redberry management is ready to grow, said **Gary Graves**, now the chairman of the company.

Graves himself has a long history in restaurants, including tenure as chairman of Caribou Coffee. He says he has known **Dan Kipp**, co-founder of City Capital, for years, and was brought in early during due diligence of the transaction. He agreed to become chairman of the investment after the transaction closed.

Restaurant experience headlines the new Redberry board including Kipp, who at one time headed up PNC's restaurant group and was head of consumer and retail banking at Bank of America.

Rob Selati, president of Saxonworld Capital, founder of Madison Dearborn Partners and board member of Carrols Corp and Ruths Hospitality Group, has joined the board as well, and will use his extensive experience in the restaurant industry to advise the company.

"The growth opportunities are attractive," said Graves. "The base business is strong, as well as the management team. We think we can grow new units and remodel, as well." Most of the Burger King restaurants are not "in the modern image, and consumer scores would bear that out. We are excited about the opportunity to do the remodels and add new units because the market is underpenetrated."

And, there is opportunity to acquire existing locations, as there are a lot of franchisees with locations in the single digits. "We could do some strategic acquisitions, and that would be an incremental way to add value," he said.

While "job one is to do well with Burger King and Pizza Hut—we think there is some opportunity for growth in the Pizza Hut market—if we do those well, we could add another concept" sometime down the road, Graves added.

"Burgers and pizza are popular and we don't see that changing," he said. "They are not trendy, and they are well-respected brands. We are looking forward to being great franchise partners with them."

For more information, contact Randy Karchmer at 901-682-0160, or by email at rkarchmer@metronomepartners.com.

FranSite Represents Franchisees in Lease Negotiations

It all started eight years ago, reported **Dave Nicolson**, when a Texas client started to franchise. "Franchisees were not having good outcomes when they got home and tried to find a broker," he said. "We started to help them."

At the Texas-based real estate firm **Weitzman**, Nicolson and team realized they had built an efficient and cost-saving system to serve franchise businesses in site selection and negotiating retail and restaurant leases. Three years ago they branded their group there as **FranSite** to indicate their focus on franchises.

They have built up their network across the U.S. to approximately 140 brokers "who are ready to help franchisees," said Nicolson.

FranSite first meets with the franchisor to understand their real estate goals. If FranSite becomes a preferred vendor, they work with franchisees across the nation and the franchisee pays FranSite a fee.

"We manage the process with the broker," he reported. "We report into corporate. We package the deals and show them to corporate for their approval. Ten percent of deals have hair on them, and we get corporate more involved on them. Best case scenario, we have three great sites and we have to choose."

And they bring the power of volume with them. Developers and landlords are dealing with one source to negotiate the leases on multiple sites, rather than many small franchisees each negotiating on one or two locations. Those franchisees often don't have the knowledge or the leverage to negotiate with developers and landlords. There are so many items to consider, from HVAC to measuring the actual space, and "we are asking the right questions up front," he said.

"Certain concepts need a water line that is a certain size, for example. We want to make sure early on those things are there," he explained. "If it is not there, we have to move on to another site. But you have to know to ask those questions."

Franchisees are genuinely excited that we are going to be there for them," Nicolson added. "When they get through the process and they see the LOIs, and all the back and forth, they can't imagine not having us. And that's rewarding."

For more information, contact David Nicolson, president, at 210-581-8227 or by email at davidn@fransite.com.

FINANCE SOURCES

Gandhi Expects Shifting Consumer Trends to Spur More Capital Investment

Brookwood Associates Managing Director **Anish Gandhi** is a self-described "foodie" who has an avid interest in the product and trends impacting his clientele in the restaurant sector.

Gandhi took a fairly typical path into investment banking. He earned a Bachelor's degree in Business Administration from Emory University in Atlanta where he concentrated in finance and international business. He went on to work on Wall Street where he advised companies across industries on their mergers and acquisitions.

His focus shifted to restaurants when he joined Atlanta-based Brookwood Associates in 2011 and moved back to his hometown. "We are currently seeing fundamental shifts in consumer behavior trends across the restaurant industry leading to more investment in technology and broader delivery channels," says Gandhi. From a macro perspective, consumers are still spending more dollars eating out. How they spend those dollars is changing with three key factors – convenience, quality and experience – impacting spending patterns, he says. Those drivers are in turn impacting the capital that is flowing into the sector.

Brookwood Associates provides investment banking solutions to middle-market companies. Gandhi works in the firm's consumer retail group, which includes restaurants, retail, health and wellness and active living businesses including franchise and non-franchise companies. The firm's specialty is providing strategic advisory services for mergers and acquisitions, as well as companies that are looking to raise debt or equity for expansion or recapitalization resulting in a minority or majority ownership stake in their business.

Debt and equity remain abundant for restaurant expansion, and more of that capital is being directed at emerging concepts that are focused on consumer demands today with an eye on where they are headed in the future, notes Gandhi. Heightened competition for deal-making in the restaurant sector also is pushing investors to get involved with concepts at an earlier and earlier stage.

In addition, investors who feel they have greater expertise in the restaurant sector feel more comfortable taking on the risk of an early stage company that has demonstrated strong unit economics and scalability. "What that has done is create opportunities for concepts to access a variety of capital sources at a faster pace creating a more competitive dynamic for deal making compared to 10 years ago," he says. To that point, Brookwood advises on a range of deals that can be as small as $10 million up to over $300 million.

In the current marketplace, Gandhi also cautions clients to recognize capital can either be an igniter or an impediment to the future success of a business. "The key for operators that are looking to secure capital is really looking ahead five-plus years to envision where they want their business to be and ensuring that their capital partner is aligned in achieving the same long-term strategic goals," he says.

For more information, contact Anish Gandhi at 404-419-1572 or by email at ag@brookwoodassociates.com.

Auspex Assignments Include Taco Bell and Wendy's Locations

Auspex Capital, a financial advisory firm that focuses on multi-unit restaurant businesses, completed the following assignments for clients:

• **Debt placement and real estate acquisition advisor: Burger Tigers**, a Newnan, Ga.-based Wendy's franchisee, owned and operated by quick service restaurant industry veteran **Doug Augustine**, has obtained a total of $12.1 million of new loan commitments, including a $10.4 million real estate secured term loan and a $1.7 million real estate secured development line of credit. The financing was provided by **Huntington Bank**. The loans were used to purchase the real estate underlying five Wendy's restaurants and to provide capital for remodels of the locations. Burger Tigers currently owns and operates 13 Wendy's restaurants as well as the real estate underlying five restaurants. In addition to the 13 Wendy's restaurants, Augustine, through various other entities, owns and operates 13 Taco Bell restaurants.

• **Sell-side advisory:** Yorba Linda**,** Calif.-based Taco Bell franchisee **Chandan, Inc.**, owned and operated by long-time franchisee **Deepak Shah**, has sold four Taco Bell restaurants to **SERJ Taco California, LLC**. Three restaurants are located in the San Bernardino, Calif. metropolitan area and one restaurant is located in Big Bear Lake. The seller retained two properties which were leased to the buyer under long-term, triple-net lease agreements.

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

Dedicated Funding Focuses Its Equipment Financing on Restaurants

A few years ago "I was working with four or five banks who all did the same thing," said **Jared Curko** with **Dedicated Funding**. "Which bank was going to do the deal? You never knew where it was going to land. Now, everything I present here, as long as it is credit worthy, is funded in a timely manner."

Curko is speaking of his new position with Dedicated Funding, which provides equipment financing up to $250,000 to restaurant companies. Curko originates the loans, while Dedicated funds and services them. Their credit window includes a weighted, nine-metric system, from time in business to FICO scores.

"They are willing to understand the franchise sector," he said, and so far they have funded franchisees in the Burger King , Denny's, Domino's and Dunkin' concepts. However, they will be launching more all the time, said Curko. "I want to expand that to the 12 to 16 that I've been working with for the last 20 years," he reported.

Dedicated Funding sells its loans to **Territorial Bank of American Samoa**. According to Dedicated Funding Managing Partner and CEO **Grant Finch**, Dedicated was designed to support the bank, which is now over a year old. American Samoa is a small U.S. territory with a population of about 58,000 people. Territorial is the second public bank in the U.S., and it's backed by the government in American Samoa. The government there came up with the plan for a public bank after other banks were leaving the islands.

"To accommodate the charter, they recognized there wasn't much C&I lending on the island," said Finch. "and the bank can have 60 percent of their loan base off the island. We crafted Dedicated with the intention it would be a privately owned, stand-alone underwriting source. The bank can buy the loans as investments, which placated the examiners."

Finch and his team at Dedicated have worked together for years at other banks, "and because of our backgrounds, it was easy for the regulators to say 'you have the competancies to do this,'" he reported.

For Curko, the speed and efficiency is key for his franchisee customers. "Dedicated Funding has been a tremendous help," he said. "They get approvals done in a couple of hours, and they execute quickly."

For more information, contact Jared Curko at jared.curko@dedicatedfunding.com, or by phone at 732-540-0154.

Lincoln International Brings Global Emphasis to Investment Banking

"At Lincoln, we do more than M&A and growth equity," said **Charles Walder**, director with investment banking firm **Lincoln International**. "We have a number of product groups: M&A, growth equity, buy side, sell side, debt, acquisition financing, refinancing, dividend recaps and restructuring." All of these work across industry verticals, with Walder himself focusing on advisory services for restaurants as part of the firm's Consumer Group.

Lincoln was founded over 20 years ago, and is now a global entity with 500 employees and five offices in the U.S. and abroad: They have offices all over Europe, with locations in China, Tokyo, Mumbai and San Paulo to name a few.

"We have a very strong focus on being connected globally so we can provide the best possible solutions for our clients' needs," Walder reports. When the Monitor was talking to him, Walder was to soon board a plane to Tokyo, where he was to meet with Japanese investors who wanted to look at developing direct relationships with U.S. restaurant companies.

Walder works closely with clients from across the restaurant spectrum—franchisors, franchisees and independent chains seeking to expand via acquisition, secure growth financing or to address complex issues associated with the myriad changes occurring in the restaurant sector.

He has a nice mix of clients, he says, from entrepreneurs to portfolio companies of PE firms. He is currently working with a number of emerging concepts in terms of raising growth equity, as well as clients who are more mature that are pursuing a sale. Lincoln's debt advisory work includes acquisition financings, refinancings and dividend recapitalizations, all with the goal of helping clients achieve their strategic objectives. A couple of recent transactions include the cross-border sale of Bento Sushi, an owner-entrepreneur business that was sold to Yo! Sushi in London. Walder worked closely with the founders to find a strategic investor for Bento Sushi to partner and grow with. Lincoln also advised on the recent Benihana refinancing, working closely with both the company and its majority shareholder, Angelo Gordon, through all aspects of the financing.

And, "we've built a fantastic business with private equity and lenders across the restaurant universe," Walder said. "We spend a lot of time with strategic and financial equity and debt investors to understand what they're looking for in restaurant targets. We pride ourselves on using these insights and relationships to provide our clients with a myriad of options and ultimately marrying them with the right partner."

Walder loves working within the industry, so much so that he is personally invested in two Los Angeles-based restaurants. It is his charge to help restaurant operators grow, and be their strategic advisor to help them achieve their goals. "I like the constant evolution in the sector and enjoy working with the creative and dynamic entrepreneurs," he said. "It makes the whole space an exciting place to be." For more information, contact Charles Walder at cwalder@lincolninternational.com, or by phone at 213-283-3704.

FranBizNetwork Working to Refranchise Daphne's Locations

In mid-2018 **FranBizNetwork** was retained by **Daphne's California Greek** to refranchise their company-owned locations in Northern and Southern California. So far, 19 of 23 stores have been sold to several different franchisee groups. One six-unit transaction was financed via an SBA-guaranteed loan with **UBB Bank**. Another group of eight stores was financed via an SBA-guaranteed loan with **MUFG Union Bank**.

Daphne's California Greek was founded in 1991 and has been a pioneer of Americanizing Greek food. Daphne President **Michael Nakhleh** purchased the chain in 2017 from Yalla Mediterranean. He plans to continue developing new stores and will work with FranBizNetwork to identify well-qualified franchisees to take them over. Nakhleh also purchased 11 Noon Mediterranean restaurants in Texas and Boston and is working on converting them to Daphne's. Once the conversions are completed, there will be 34 Daphne's in operation.

Founded in 2014 by industry veterans **Carter Asefi** and **Emily Burns**, FranBizNetwork is a full-service brokerage firm specializing in the resale of franchise restaurants nationwide. For more information, contact Carter Asefi, CEO, at 925-391-2724, or by email at carter@franbiznetwork.com. Or, contact Emily Burns at emily@franbiznetwork.com or by phone at 925-391-2726.

FINANCE INSIDER

Chicken Salad Chick's recent acquisition of its largest franchisee, **Origin Development Group**, was brokered by **VRA Partners**, an Atlanta-based investment banker. Origin had 11 operating units in Atlanta, Augusta and Athens, Ga. Chicken Salad Chick plans to open 40 locations in 2019, a mix of company and franchisee locations. "The acquisition put us over our 20% company-operated model for the short term, but our goal of 20% for the long run doesn't change," CEO **Scott Deviney** told the Monitor. VRA provides M&A services to middle-market companies and private equity firms. For more information about VRA, contact **Christopher Reilly** at 404-835-1024 or creilly@vrapartners.com.

Burger King's largest franchisee, **Carrols Restaurant Group**, saw its store-level margin decline to 12.8% of sales in the fourth quarter, down 141 basis points from a year ago. The culprit? Higher promotion costs and increased labor. That pretty much sums up the entire QSR business.

Carrols' acquisition of **Cambridge Franchise Holdings'** 166 **Burger King** and 55 **Popeyes** restaurants is structured as a tax-free merger based on a transaction value of $238 million, or roughly 5.0 to 5.5 times pro forma restaurant-level EBITDA. Cambridge founders **Alex Sloane** and **Matt Perelman** founded the company while attending the Harvard Business School and will join the board of Carrols.

Basic Food Group's William Ferguson acquired six corporate **Famous Dave's** restaurants in Colorado for $4.1 million plus inventory.

Dell Technologies founder **Michael Dell's** family office loaned **Luby's, Inc.** $80 million consisting of a $70 million term loan and a $10 million revolver. The loans accrue interest at LIBOR plus 7.75% with steep mandatory principal payments on each yearly anniversary.

The newly formed **McDonald's** National Owners Association has gone public with its dissatisfaction with the brand. In a recent survey, 97% of the association's operators said they were not satisfied with the economics of their restaurants. Their latest target is the brand's dollar drinks promotion. This from an NOA letter to members: "For many of us, Dollar Drinks does not improve traffic and has a major impact on gross margin. Giving away margin is not a luxury we can afford."

Sardar Biglari's plan to turn around **Steak n Shake** is to refranchise its 413 company stores and model it after **Chick-fil-A**. Franchisees must make an upfront investment of $10,000 and pay a royalty of 15% of sales and 50% of profits. Steak n Shake's same-store sales declined 5.1% in 2018, while customer traffic went down by 7%.

Applebee's notes: Wall Street analyst **Mark Kalinowski** is bullish on **Dine Global Brands**, primarily because of the Applebee's turnaround. He cites troubles at other bar and grill brands such as **TGI Friday's** and **Ruby Tuesday** as the reason Applebee's has made up so much ground recently. With the company since 2007, Dine's Senior VP and Controller, **Gregg Kalvin** left effective March 8.

Forbes 2019 World's Billionaires List contained recognizable names in the restaurant industry and their net worths including **Dan Cathy** (Chick-fil-A) #272, $6 billion; **Tilman Fertitta** (Landry's and Houston Rockets) #394, $4.7 billion; **Marian Illitch** (Little Caesar's) #478, $4.7 billion; **Howard Schultz** (Starbucks) #617, $3.5 billion; **Lynsi Snyder (In-N-Out Burger)** #745, $3 billion; **Andrew & Peggy Cherng** (Panda) #838, $2.7 billion; **Jimmy John Liautaud** (Jimmy John's) #1349, $1.7 billion.

Red Robin is interviewing M&A firms to handle the sale of approximately 100 of their 484 company locations. They intend to use the proceeds to pay down some of their $203 million of long-term debt. Red Robin's restaurant traffic declined 4.5% in the fourth quarter.

A January investor survey conducted by **Bank of America Merrill Lynch** showed that half of the respondents said they would rather see companies using their cash to improve their balance sheets than spending money on capital expenditures, stock buybacks or dividends.

In 2006, **Gene Bicknell** sold his interest in **Pizza Hut's** largest franchisee, **NPC International**, to **Merrill Lynch Global Private Equity** for $165 million. Afterward, the State of Kansas came after Bicknell for $42 million in taxes, arguing he was a resident there, where NPC was located, not Florida where he had set up a residence. Earlier this month, a Kansas district court ruled in favor of Bicknell and ordered the state to pay him back $48 million in taxes, interest and penalties.

Papa John's founder **John Schnatter** will resign from the pizza chain's board of directors provided the company finds a replacement that "has business, restaurant, marketing, technology, accounting, finance and/or other relevant experiences or expertise....and is acceptable to the founder and the board." Schnatter owned roughly 31% of the outstanding shares of the company.

Overheard at a Recent Restaurant Lenders Convention

STATS AND QUOTES

OVERHEARD ON RECENT CONFERENCE CALLS	
Company	**Comments**
Brian Niccol CEO Chipotle	We're making 2019 the year of the General Manager. We want to improve the stability of the GM level....improve the development of our apprentices so they're ready to step in the growth opportunities.
José Cil President Restaurant Brands Intl	We continue to accelerate the pace of growth in the U.S. in 2018, having opened more than a 100 net restaurants (Burger King) in the year.
Denny Marie Post, CEO Red Robin	Dine-in traffic was down by a total of 4.2% for the year, which clearly is not sustainable and undermines the growth of our off-premise business.
Sardar Biglari CEO Biglari Holdings	For seven consecutive years, we registered industry-leading gains in customer traffic. But for the past three years, we have been in a decline, with same-store sales below the average for the industry. The work we left undone has led us in recent years to be a market laggard.
Gunther Plosch CFO The Wendy's Co.	In the fourth quarter of 2018, we ran $1 Any Size Fry offering ....pairing it with two premium limited-time offers. While our high-low offerings in the fourth quarter drove positive same-restaurant sales, they did not create the sales and profitability we had planned due to lower mix benefit.
Russ Bendell CEO Habit Burger	I don't believe delivery sales are as incremental as the third-party aggregators tell you they are...and, they certainly have costs associated with them. We charge a 25% premium to our online and in-store restaurant prices, but with commissions, fees, etc., you are not on par with someone that walked in the front door and spent money.
Steve Hislop CEO Chuy's, Inc.	We will complete the integration of the new labor management tool with our POS system during the first quarter and roll it out systemwide in the second quarter. While we likely won't begin to see benefits until the back half of 2019, this new tool will help us mitigate the ongoing labor pressures by optimizing our labor productivity as well as enhancing our sales projections.

Wall Street Journal columnist Holman Jenkins on the rise of socialism and the failure of the government-sponsored Airbus-380 airplane: "Governments can tax their own people until they rebel at the ballot box, refuse to pay or emigrate. They have no power, in our world, to dictate what kinds of goods and services and technologies (green or otherwise) the global marketplace will accept."

Starbucks founder and presidential candidate Howard Schultz speaking at a recent conference in Austin, Texas: "At the core of our country, which is foundational, is a free enterprise system. For us to start moving towards socialism is such an extreme position, and something that is inconsistent with the values and heritage and tradition of the country."

From Berkshire Hathaway co-chairman Charlie Munger talking on CNBC recently about finding good investments: "There will be opportunities in the future. There are times when they are easier to find and times which are harder. Now it's tougher. A, the valuations have come up, but, B, the competition sorting through those opportunities is more intelligent, more aggressive and more numerous. The net result is that people are going to get worse results."

Warren Buffet on a recent CNBC interview: "If you tell me that 3% long bonds will prevail over the next 30 years, stocks are incredibly cheap. Interest rates govern everything."

INTEREST RATES				
	3/13/19	**Last Month**	**A Year Ago**	**Trend**
Fed Funds Rate	2.50	2.50	1.50	↔
1-Month Libor	2.48	2.49	1.78	↔
3-Month Libor	2.61	2.68	2.12	↔
1-Year Treasury	2.53	2.55	2.03	↔
5-Year Treasury	2.42	2.53	2.62	↔
10-Year Treasury	2.61	2.71	2.84	↔
30-Year Treasury	3.02	3.04	3.10	↔
Prime Rate	5.50	5.50	4.50	↔

Restaurant Finance Monitor Stock Market INDEX			
	12-31-18	**03-13-19**	**YTD%**
RFM INDEX	**4,359.31**	**4,904.64**	**+12.5%**
S&P 500	**2,506.85**	**2,810.92**	**+12.1%**

The RFM Index shows how a basket of restaurant stocks trade in the stock market during a particular period. The index follows a strict rules-based methodology that weights QSR and Fast Casual at 70% with full-service making up the balance. For more information about the index go to www.restfinance.com.

MARKET SURVEILLANCE

RESTAURANT BARGAIN STOCKS TRADING AROUND $10.00 OR UNDER		
Company	**Recent Price**	**Monitor Comments**
BAB, Inc. (BABB)	$.70	There are only 76 franchised units and four licensed ones in operation. Still, the company earned $508,000 on royalty revenue of just over $2 million.
Carrols Restaurant Group (TAST)	$10.08	Restaurant Brand International's favorite and largest franchisee just announced a big acquisition—166 Burger Kings and 55 Popeyes.
Chanticleer Holdings (BURG)	$2.10	2018 was a transformational year for the better burger brand. They closed non-performers and made Little Big Burger the company's growth vehicle.
Diversified Restaurants (SAUC)	$.90	First positive same-store sales print in three years. Now back on the acquisition trail buying nine BWW restaurants in Chicago for $22.5 million.
Famous Dave's (DAVE)	$6.12	What drives Famous Dave's? A new menu and a renewed emphasis on to-go and catering orders.
Freshii Inc (FRHHF)	$1.72	Good and bad. Walmart Canada will start offering "Grab 'n Go" meals in 100 locations, but too many poor-performing existing stores need help.
Del Frisco's (DFRG)	$7.00	Activist Engaged Capital (9.99% owner) has a big position and now has an appointee on the board. Now it's time to see if bartaco is the real deal.
Fat Brands (FAT)	$5.36	Fat Brands gets a Sardar Biglari loan for $20 million at loan shark rates (20% annually) plus warrants.
IPIC Entertainment (IPIC)	$5.52	With 15 luxury restaurant-and-theater locations open, the goal is to become profitable one day—that is, before they run out of money.
Papa Murphy's (FRSH)	$6.20	Positive same sales in October, the first month of growth in 37, hopefully enough to cover $79.5 million in debt and new mandatory principal payments.
Good Times (GTIM)	$2.64	Bad Daddy's Burger Bar is the new growth vehicle, but rising labor costs at Good Times Burgers & Custard gums up a positive tale.
J. Alexander's (JAX)	$9.64	With average weekly sales of $115,800 per restaurant, it's hard to move the needle higher, but not enough to fully absorb rising labor costs.
Kona Grill (KONA)	$.95	CEO Marcus Jundt brought the old gang back together again and plans a return to scratch cooking, happy hours and fully staffed restaurants.
Luby's, Inc. (LUB)	$1.48	Michael Dell gives Luby's breathing room with an $80 million credit package. Not as opportunistic as Biglari with Fat Brand, only 7.75 bps over LIBOR.
Noodles (NDLS)	$7.38	Zucchini noodles drive a nice turnaround to $1.1 million AUV and 15% store-level margins. What's next in management's bag of tricks?
Noble Roman's (NROM)	$.48	Dairy Queen's largest franchisee in Indiana is becoming the first franchisee of the company's new Noble Roman's Craft Pizza and Pub concept.
Potbelly (PBPB)	$8.54	The turnaround is years away but that hasn't stopped the company from buying back stock—$1 million worth in the 4th quarter.
Rave Restaurant (RAVE)	$1.79	Stabilizing Pie Five is a tall task, however the once stodgy Pizza Inn records its eighth consecutive quarter of same store sales growth.
The One Group Hospitality (STKS)	$2.94	The hipster fine dining and club operator is getting notice, especially after Piper Jaffray recommended the stock last November.

Flynn Restaurant Group: "We can do anything we want."

Last June, Flynn Restaurant Group was ranked No. 1 on the "Monitor 200" ranking of the largest franchisees. With close to $2 billion in sales, it operated 460 Applebee's, 280 Taco Bells and 135 Panera Breads. The San Francisco-based franchisee should easily be Numero Uno again in 2019 after adding 368 Arby's units in December, acquired from U.S. Beef Corp.

The deal, the terms of which were not announced, made FRG Arby's largest franchisee. It was financed by FRG's financial partner since 2014, Toronto-based Ontario Teachers' Pension Plan.

I called founder and CEO Greg Flynn last month to inquire about Arby's and several other large restaurant franchise deals. "It's a combination of factors," he said by way of explaining a rationale for taking on so many units. "There's the scale of economies available to franchisees, the availability of capital and the growing appreciation on the part of franchisors that larger franchisee groups can be better partners for them."

Companies the size of FRG, in other words, can easily afford to finance (as well as execute) mandated initiatives given their scale versus smaller franchisees.

Flynn, who's 54, also talked about how he has organized his company to manage large acquisitions. "Think of it as a state/federal model. These states [i.e, brands] operate under a federal support structure," he said, mentioning FRG's 150-person office in Cleveland. "That's where everything happens outside of the restaurants—HR, IT, administration, finance, purchasing, training and real estate."

He meanwhile championed his staff, claiming FRG attracts top-ranked talent. "The whole thing is to get the best of both worlds—world-class operators with world-class support and scale economies on [both sides]," he boasted.

Flynn maintained that mixture allows for decentralization among his brands, which as been "proved out" over several acquisitions. "If we can genuinely empower our operators in the field to make decisions and execute and own the results of those decisions, not only do we get better results but they will like their jobs better," he said, adding "market presidents" (who oversee 20 to 60 restaurants) also accumulate significant equity in the process.

So, I wondered, if market presidents want to spruce up a few restaurants under their command with paint or decide to buy costly equipment, can they simply do so sans an "okay" from above? Flynn said they could. "In many restaurant companies you need permission to spend any capital for a capex project. I don't want to micromanage that," he insisted.

Flynn conceded decentralization runs the risk of the "mavericks out there" failing to report their plans and screwing things up. "We will trust people spending our capital. But it takes a couple of years to make sure they understand what's an appropriate expenditure," he said.

I also asked Flynn how much longer he wanted to operate restaurants. "I've been doing it for 25 years now, and I have another good 25 years to go," he said. "I can't imagine wanting to exit and don't see a need to. We generate enough cash to do anything we want. So there's also no need for a capital event."

Margin Compression: What's in your paradigm?

Everyone has margin compression issues right now," restaurant systems specialist James McGehee told me recently. "And on the West Coast it's all labor now." California's hourly minimum wage for businesses with 26 or more workers, for instance, jumped from $11 to $12 in January. It climbs to $15 an hour in 2022.

Compounding the problem, he added, is the industry's inability to drive incremental traffic. McGehee, who's based in Southern California, thinks the shift in what he dubs "revenue order mode"—i.e., dine-in, takeout, third-party delivery and drive-thru business—has yet to be fully understood by operators. Many still market their QSR and fast-casual restaurants as if dine-in traffic is the main revenue driver.

It's not. "I was at a burger concept comparing notes with their chief analyst," he recalled, declining to name the brand. "We nearly mirrored each other's [data]. Dine-in traffic was down 8% to 10%. Drive-thru, takeout and third-party delivery was up 6%, collectively, in traffic.

The NPD Group reported in December that as of last fall dine-in restaurant occasions remained flat (37% of all visits) year over year while in-home restaurant meals (32% of all visits) rose by 2%.

McGehee, a partner in Results Thru Strategy, cited a client who misunderstood this dynamic: "They have 70% of their business coming through the drive-thru. When we took apart their labor, 50% of their FOH labor was allocated to non-drive-thru. But dine-in was only 30% of revenue. 65% of marketing was dedicated to dine-in sales."

A seat-utilization study, he added, further revealed merely 25% usage. "They were living in a paradigm from the 1980s and '90s," he said.

McGehee claimed drive-thru endcaps are capable of changing the margin compression paradigm. That's because drive-thrus can increase AUVs by 20% to 25% "with development costs very comparable with a standard endcap without a drive-thru."

How is that possible? For one thing, he added, operators will only have to buy the outside order screens. The cost of pouring concrete, erecting road signs and painting lines is borne by the landlord. "We have nothing to do with that part of the drive-thru," McGehee maintained, "[because] the road is going right behind all the other tenants. So it is not part of the development cost."

—David Farkas

What's the Skinny On Consumer Perception of "Healthy" Eating?

It's an ongoing challenge to keep up with the latest health trends in the foodservice industry. "Healthy" is big news. Every day, we read headlines about new diets, public officials promoting healthier lifestyles, growing shelf space for healthy alternatives at grocery stores, the growing understanding of the relationship between diet and disease, changes in dietary guidelines, schools providing healthier offerings and more.

Foodservice is not immune to tackling the healthy issue. With consumers more informed than ever about what's good for them, and demands for unaltered foods growing, many operators are responding by adding more "real food" options to their menus. Falling into this desire for more healthy options on menus are plant-based proteins.

Satisfying consumers desire for plant-based proteins
A fourth of consumers in the U.S., many of whom aren't vegan or vegetarian, indicate they eat plant-based foods as well as animal proteins regularly, reports The NPD Group. Health, the environment and animal welfare are leading reasons why these proteins resonate with consumers. Examples of plant-based proteins include legumes, broccoli, quinoa, soy milk, green peas, seeds, oatmeal, soy, tofu, edamame, artichokes, etc.—the list is long.

Demand for plant-based proteins grows by double digit rates
The NPD Group reports higher demand for plant-based proteins is evidenced by the 20% growth in cases shipped of these proteins from broadline foodservice distributors to independents (1 to 2 units) and micro-chains (3 to 19 units) of which, many are fast casual concepts. All areas of the country realized double-digit growth in case shipments of plant-based proteins to operators with the West and Southern regions realizing the strongest growth.

Burgers represent the largest plant-based foodservice category with exceptionally strong growth in pounds shipped to operators, and it is plant-based burgers that are showing up the most on restaurant menus.

Who is the plant-based consumer?
Currently, 27 million consumers claim to be vegan, vegetarian or flexible vegetarian. Outside of these groups, 40% of consumers are increasingly eager to put more plants on their plates. Going forward, a number of 2019 forecasts identified plant-based meals as a hot trend. To that end, who are the consumers driving the growth of these proteins?

According to NPD's survey they:

• Tend to be educated, professional females 45+, living in households without kids.
• Consumers who suffer from food allergies, particularly milk, soy, or wheat.
• The heaviest users tend to be on a diet or have a medical condition.
• They check labels to find natural options including organic and non-GMO.
• They are knowledgeable and conscious about nutrition and look for products to meet these needs.
• Gen Z and Millennials are the largest and fastest-growing consumer groups who eat plant-based proteins.

Is plant-based eating a trend worth noting?
Is it a fad or is it really catching on as a healthful way to eat? Many chains, both QSR and full service, currently make plant-based proteins available to their customers. Some chains are doing more than others to build awareness of these offerings; 55% of the top restaurant chains in the U.S. offer at least one plant-based entrée, including White Castle, Carl's Jr., TGI Friday's, In-N-Out Burger and Chili's. The most popular item on menus is the "beyond meat burger."

However, questions remain about this market's opportunity. Are foodservice operators and manufacturers giving it enough attention to take advantage of the demand curve? More may be needed in terms of marketing initiatives to encourage consumers to purchase plant-based proteins.

It is important for operators to keep their website up-to-date. The restaurant website is where most operators provide information on their menu and it is the place consumers go first to see what is on the menu.

More point-of-sale information may be needed in the restaurant to encourage consumers to take advantage of the health benefits of plant-based proteins. Additionally, staff need to be trained so they can accurately answer customer questions and describe menu item content. Indicators or symbols on menus and menu boards of plant-based items will help increase awareness.

Market for plant-based proteins is evolving
The market for plant-based proteins is still evolving as consumers begin to leverage these items to satisfy their desire for more healthful and natural options.

Unlike previous healthy moves, plant-based foods taste good and are good for you. It will help to have several choices as variety is key to continued growth of these proteins.

Despite the growing interest in purchasing plant-based proteins, price could be a deterrent. Historically, when operators addressed the demand for healthier options, purchase incidence was low and were subsequently removed from the menu. Consumers indicated that they didn't taste good and the price was too high. They felt strongly that they should not have to pay more for "better-for-you" menu items.

The increased interest for plant-based proteins is a trend that is not going to fade. Not only do we have older generations driving growth of these products for health reasons, we have the younger generations (Gen Z and Millennials) leading the charge for healthier options on menus. Restaurant operators must take advantage of this trend to help move their business forward and stay competitive.

—Bonnie Riggs, Restaurant Industry Analyst

Reinventing your Restaurant Concept

By **Dennis Monroe**

Restaurant concepts, be they single-units, multi-units or chains, must evolve or, more extremely, "re-concept." There are many examples of restaurants that have tried to reposition themselves by reinventing their concept to attract new or bring back existing consumers. Let's look at a few examples of those who have tried—some have succeeded and some have not.

Obviously one of the best examples in recent years is Taco Bell. Twenty years ago you would not go out of your way to eat at Taco Bell: It had little appeal and a very limited customer base. What they have done since then is to reposition themselves and evolve. Their food quality and customer experience have greatly improved. Clearly, they listened to their customer base and are offering tasty and value-oriented products.

In that same vein, one of the best evolutions ever is Domino's. Domino's pizza was probably not the substandard product many considered it to be, but the chain nonetheless addressed product quality, first by altering their crust and then by creating an on-demand system with state-of-the-art technology and responsiveness to the consumer.

Everyone knows of a restaurant that's not working. They can change their name, change the concept, and sometimes relocate. But in most cases, I don't see a lot of individual restaurants that can effectively re-concept and significantly improve. Consider Lettuce Entertain You, particularly the Chicago-area \ one-off locations. If their concept isn't working, they'll just close it and convert to a different one. So it's really not re-concepting but just using the existing real estate to open a new restaurant.

The concept that, until recently, hadn't done a good job of evolving is Applebee's. Once the darling of casual dining, trends changed and their attempt to maintain the concept, but nip away at the edges by introducing hand-cut, wood-cooked steaks was a disaster.

There are five points that I would like to make about evolving, or re-concepting a restaurant.

The first point is that we should get away from the idea of "re-concepting" altogether. A decision to re-concept implies the original concept isn't working. It is better to evolve the concept, a la Taco Bell and Domino's. In neither case was the concept changed—they didn't even change their name. What they did do was start listening to customers and evolving to meet those customer needs, particularly Domino's with their technology emphasis.

The list of concepts that haven't evolved and sputter along for years is long and infamous. One of the most striking cases are some of the buffet concepts, which have mainly consolidated into certain geographic areas, rather than appealing to a broader set of consumers.

The second point concerns a name change. As with re-concepting, I haven't seen many cases where a name change has transformed the business. There are times that names have to be changed because of infringement or some other reasons, and those must be handled carefully. Sometimes an additional tagline can help out, but in most cases if the name itself has a negative connotation, then it's time to shut down and start over. You must always look at something more fundamental.

My third point concerns location. A concept may be good, but the site isn't appropriate anymore because the trade area has moved. I can recall an upscale seafood chain that built a unit in a downtown financial area. But the restaurant was right across from a workhouse, so not exactly in the right area to attract the kind of customers needed for high-end seafood. In that case, a relocation is a must.

Currently many mall locations aren't working very well, prompting the concepts to relocate. The concepts may still be good but just don't work in malls. Every restaurant company needs to constantly evaluate their locations to gauge if the site is appropriate, the demographics have shifted or the traffic has changed.

The fourth point to keep in mind concerns business format. There is a major trend these days for concepts to go from casual dining to fast casual and sometimes from QSR to fast casual or some hybrid format. Some brands are evolving to meet the needs of food-on-demand trends, putting in takeout counters or making delivery easier. A change in format is probably the number one thing that needs to be considered for concepts that are stalling. What is their delivery system? Is it meeting consumer needs? Who are their customers? The form of delivery is crucial and must match the preferences of the customer.

My fifth recommendation: ask whether the restaurant should be closed because the concept is no longer viable. Cut your losses and move on. If you developed some products that have consumer appeal, that's great, then maybe those products can be incorporated into another concept. But sometimes closing can be the very best thing you do, particularly if you have other restaurants that are doing well and can absorb staff from the closed restaurant.

So when you're thinking about modifying your concept, don't jump too quickly. The most important thing is to analyze who your customers are and which customers aren't coming anymore. Second, analyze the competition – what is working in your sector and what is not. Third, analyze your location. Fourth, analyze your service format. And fifth, see if you should really close the restaurant—there might be ways to extend your brand outside that restaurant.

A special thanks to my partner, John Berg, for his helpful input.

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BACK PAGE

The Franchisor/Franchisee Economic Relationship—It's a New World!

Almost everyone has noticed there is an increasing strain between franchisees and their franchisors. It is no accident new franchisee associations are being formed and existing organizations are getting more militant. There are many intangible reasons, and I think the main one is that too many franchisors do not treat their "zees" as partners.

How many times do I have to say this: The "asset light," and "free cash flow" model is not reflecting the necessary investments in the system to keep franchisees as profitable as possible. Many franchisees are especially bothered that their franchisors are spending hundreds of millions, sometimes billions of dollars buying back stock and making acquisitions, while leaving the franchised operators without the necessary new product development, technology upgrades, marketing initiatives, etc. etc.

With all of that in mind, the bottom line is the bottom line. Too many franchisees are suffering financially and under more pressure than ever. The typical franchise royalty is 5%, give or take a point, plus 2%, as an advertising contribution. There are often additional charges, not all that material in and of themselves, but adding to an already large burden.

Let's say the franchisee is fortunate enough to be making 17% to 18% store-level EBITDA (and remember, depreciation is not free cash in the long run) before royalties. Rebating seven points back to the franchisors out of 17 or 18 points starts to feel like a pretty big load, and there is still local G&A to cover. Even if store-level EBITDA, before royalties, is in the low 20s, seven points is significant.

Additionally, many franchisees of mature systems, such as those of Dunkin' Donuts, Burger King and Jack in the Box, are still making money at the store level because the leases were signed 10 or 15 years ago. That means occupancy expenses are lower than today's economics would allow. That's, of course, why so few new units are being built by many mature franchised systems, especially in the U.S. Today's economics do not allow it.

When Ray Kroc started franchising McDonald's restaurants over 60 years ago, the royalty was 1.9%. By the 1960s, franchisors had started charging 2% to 3%, and by the 1970s, 3% to 4%. By the '80s, those percentages reached 4% to 5%, while 5% seems to be the standard today, plus advertising and other fees.

At the same time, there are no material expenses that are lower as a percentage of sales for franchisees, certainly not occupancy expenses or labor, and food costs are unpredictable commodities. The biggest single negative trend, that no one would debate, is the immense competition that has become commonplace. Even in today's over-stored situation, within most chains there are more new stores being built than closing. This competitive pressure also has created the need for far more support from the franchisor, if the increasingly critical public is to be satisfied and the franchisee partner is to succeed. Over the last 50 years, as the franchisor should be providing more support and burdening the franchisee less, the trend has been just the reverse.

The answer: lower fees, especially ongoing royalties.

This specific suggestion will not be adopted by existing large chains, because it would be such an obvious reduction of the current royalty stream. However, well-established franchisors could, and should, absorb more of the additional systemwide needs, such as technology upgrades. "Mid- stage" franchising companies could put some part of the following suggestions in place.

If I were running an early stage franchising company, I would put in place a sliding scale royalty system, charging 2.5% to 3.0% at a modest sales level, higher if the franchisee does better. Give them a little room to make money if the store doesn't do quite as well as everybody hopes. If the store clicks, everybody is happy and 4% to 5% on the higher sales won't seem like such a burden.

For my multi-unit franchisees, I would charge lower up-front fees for development of second, third and additional stores, and this is sometimes already being done (whether admitting it to Wall Street or not). This is logical and appropriate, because less franchisor support is required as a franchisee builds local infrastructure.

It seems likely that a young franchising company adopting this strategy would have a huge competitive edge and the total royalty stream is likely to build more rapidly using this progressive approach. Profitable franchisees, and a more appropriate sharing of store-level profits in today's economic reality, make for a successful system in the long run.

—Roger Lipton, Restaurant Industry Analyst

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