RESTAURANT FINANCE MONITOR®

Volume 31, Number 3 • Restaurant Finance Monitor, 2808 Anthony Lane South, Minneapolis, MN 55418 • ISSN #1061-382X

March 19, 2020

OUTLOOK

Picking up the Pieces When the C-Virus Wanes

Helicopter money is on the way. Steve Mnunchin and Larry Kudlow say so. Cooped up American citizens will soon be cashing government checks and running to their neighborhood drive-thru to buy hamburgers and tacos, after first stopping by a federal toilet paper dispensary.

Airlines, casinos, cruise lines and hotels are lined up for their share of the booty, but don't count on much being left for restaurants, which, by the way employs three times as many people. The banks were there for a reckless Donald Trump in the '80s, while the Feds protected the banks in 2008, but the pair could give a rip about the corner diner.

No one in our great industry will come through Covid-19 unscathed. It's haircut season for owners, managers, crew, distributors, vendors, landlords, investors and bankers. So far at least 40 states have dictated some form of operating restriction, from outright closures to strict requirements for dining room capacity. Even the impregnable asset-light franchisors, whom Wall Street believed would continue to cash royalty checks even after a North Korean nuclear attack, are getting creamed. I can't imagine too many franchisees paying royalties this month, can you?

For years we've talked about the restaurant industry being understaffed, over-stored and over-overleveraged. We've long believed a recession would wipe out 20% of the outlets. But now it looks as if the virus, the collapse of crude oil, and the Federal Reserve's deity toward President Trump's plea for zero interest rates, will accomplish it in one month.

QSR restaurants are likely to survive, especially the Big 4—McDonald's, Chick-fil-A, Starbucks and Taco Bell. The others—Burger King, Domino's, Wendy's, Dunkin' and Raising Cane's—anyone with efficient drive-thru and delivery operations, will endure.

According to NPD, 72% of QSR traffic in 2019 came from drive-thru, take-out and delivery. Skeleton crews will keep QSR stores open while Americans eventually will tire of confinement and meals at home. They'll be anxious to get out for some fresh air, while a stop at a restaurant will seem like sport. Look for QSR sales to slowly ramp up over the next two weeks.

Compare that potential to that of full-service restaurants, where the vast majority of dining is in-house. Most full-service restaurants simply do not generate enough off-premise business to keep the doors open. Imagine what it must be like to own a sports-themed restaurant without sports; a Mexican cantina without margaritas; or a family dining restaurant where plates of bacon and eggs are the number one seller. Closing the doors is heartbreaking and means the staff will be laid off and managers will become free agents.

The reality is this: The 20% of the restaurants we thought would close during a recession will close now. A big national emergency provides cover for some restaurant operators to throw in the towel. Just look at the list of recent bankrupt companies on page 9 and ask yourself how many more stores they'll need to close permanently, after closing so many temporarily. The energy needed to rehire and the cost to buy inventory and train staff to resume operations is daunting.

Where the hell is the rent and bank money supposed to come from if a restaurant closes, or sales are compromised? Banks and landlords have no other option but to work with their restaurant clients.

The benefit of fewer restaurants will accrue to restaurants that stay open. I remember a Miami Denny's franchisee using generators to keep his restaurants open in 1992 after Hurricane Andrew. He coined it for weeks.

Things will improve for restaurants as the country resumes activities. You have to remain optimistic the restaurant business will prosper again, but with fewer locations. Restaurants will also be held to a higher sanitation standard in the future. That's a good thing, but expensive for some.

So, what happens next?

Restaurant lenders were reassessing their underwriting criteria, having experienced some defaults in the past year. They'll hit the reset button on private equity funds that insist on pulling every last dime out of their portfolio companies, or franchisees who insist on high leverage. Asset light won't change but investors now understand the vulnerabilities. Sale-leasebacks might actually pick up as battered restaurant companies look to build their cash. There will be opportunities for well-capitalized operators and new concepts. The strong will survive.

Financial engineering in the restaurant space will be on hold for a few years. And, that's a good thing.

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Investment Firm Uses Lesser-Known Immigration Program to Fund Restaurants

Investment firm **Global Pacific Management** (GPM) was launched 18 months ago to use an immigration program to fund restaurants. While many people know of the EB5 program, GPM is tapping into a different one for their funding: the L-1/EB1C.

According to the U.S. Citizenship and Immigration Services website on the L-1/EB1C program: "You may be eligible for an employment-based, first-preference visa if you…are a multinational executive or manager."

In effect, these individuals invest in a U.S. company and are able to transfer here as an executive. The L-1/EB1C has two steps: First, the investor applies through the L-1 visa program, which is a two-to-six-week process. This allows the investor to be in the U.S. for up to seven years with the visa.

Second, an immigration attorney then helps the investor with the EB1C application for a green card, which takes two to three years.

This is in stark contrast to the EB5 program that allows foreign investors to obtain a visa with an investment in a U.S. business. Because of its popularity, it now takes around 10 years for a Chinese National investor to obtain a green card through the program, according to **Chris Bright**, a partner in GPM.

"All of our investors are owners of businesses, mainly in China. These businesses can be quite substantial," he said. "They are transferring themselves to the U.S. through this program."

The typical profile they see is someone who has children, and a strong desire to send them to the U.S. to attend a university. "Ultimately, the owner of the business would like to reside part time, if not full time, in the U.S.," he reported.

And despite the COVID-19 virus, "investor interest hasn't slowed at all," said Bright. "We have a real-time situation here, where our investors want to see the business they are investing in. So, investors are going to a non-quarantined country, residing there for two weeks, then traveling to the U.S."

For Global Pacific Management partners Bright, Dennis Shen and Steve Button, they put the pieces together for the company when a friend wanted to buy out his partner from their restaurant business. Shen had experience with the L-1/EB1C, and the three formed Global Pacific to help monetize the friend's 10 stores. Their investor now has a 100 percent interest in the stores, using the L-1/EB1C program.

Today, "we are actively seeking other investments," he said, "and are looking for franchisees, franchisors and other multi-unit restaurant companies that want to monetize some of the units in their portfolio." That could mean funding for remodels, acquisitions and more, or to take out an owner who wants to exit.

"And what's unique is that we are offering the option for sellers to buy back their locations at par three to four years down the road, once our investors have their green cards," said Bright.

GPM is looking to work with restaurant operators who have five or more restaurant locations. They will invest in a minimum of two units at $350,000 to $700,000 per location.

While the foreign investor is considered an executive of the company in which they have invested, GPM will manage the business for the foreign investor. Bright himself has been a senior executive in restaurants for years, and currently serves as president of zpizza International, a fast-casual pizza chain based in California.

GPM "receives a fee based on the profitability of the enterprise," he said. "We earn a percentage of the profits. The benefit to the investor is we are generating our fees from profits not sales." In other words, the GPM team is motivated to drive efficiencies. "This is an opportunity to see where we can help improve the business."

So far they have invested in 15 locations with franchisees of three different concepts: zpizza, Yogurtland and Ike's Love of Sandwiches.

"We do have a backlog of $8 million right now, and we expect that to grow," said Bright, referring to the capital waiting on the sidelines to be invested. For more information on Global Pacific Management contact Chris Bright at c.bright@zpizza.com, or at 949-278-5888.

6S Real Estate Development Offers Full Spectrum of Services to Restaurant Industry Operators

With over 60 years of combined real estate experience, the leadership of **6S Real Estate Development** offers the full scope of real estate services for multi-unit restaurant companies, says **Jacob Scher**, vice president of real estate for 6S.

The company specializes in build-to-suit development and ground leases, as well as providing direct-leasing opportunities to their clients. And, they have a full team that does brokerage and site selection.

"We operate as your real estate arm," says Scher, "from everything to site selection to every stage of development. We see it through until your doors are open to sell tacos or burgers."

That includes financing the project. "When we do the whole project, 6S can fund and pay for the entire project, and then put the lease in place," he says. Because they receive funding from a real estate hedge fund, "we have unlimited funding. It allows us to go out and do the volume we want."

And it also helps keep pricing lower for the restaurant operator. "The deep funding allows us to have the resources to have a lower return on projects," Scher reports. "We can do deals that others may not be able to."

He also says they are flexible on the type of construction: ground up, demolition and rebuilds, and repurposing an existing building.

"We're flexible, so we can do a myriad of structures," he says. "That flexibility allows us to find happy mediums that work for everyone."

They can work with operators on a single unit, or "we have the capability of doing a hundred at a time. We can handle a very large pipeline."

It's economies of scale. "With our model, we try to view everything as a partnership," he says. "We want repeat business, and we fine tune the economics of the deal so everyone is winning."

"It is a matter of experience on our side, and understanding what the owner is looking for," he says. "It is as simple as you want economics and the rent, but you still want to get the quality of work; get it done the right way," says Scher. Even if they have to take a hit because of something that happens with the project, "we are going to keep our word" to the client.

"It's our company culture and at the end of the day it is about good people," he says. "At the end of the day it is about good people and who you want to do business with." For more information on 6S Real Estate Development, contact Jacob Scher at jscher@6sdevelopment.net, or at (731) 420-3833.

JCM Advises on Sale of 47 Dunkin' Restaurants

JCM Franchise Development recently provided M&A advisory for **Cafua Management Company** (CMC), for the sale of 47 Dunkin' restaurants in Southeast Florida. JCM also provided the buyer, **Southeast Enterprise Holdings** (SHE) with debt placement services.

The combined collaboration resulted in the firm's largest single transaction for an incoming franchisee in the state of Florida. In total, the aggregate value for the transaction was $76.5 million, with **Northern Bank & Trust Company** providing the credit facility for the acquisition and a development line of credit for SEH's additional territory rights for continued growth within Southeast Florida.

Over a period of almost two years, JCM led the facilitation, coordination and ultimately the closing of a very complex transaction.

"With a deal of this magnitude, there are many moving parts that demand excellence at every level to achieve a successful outcome," said **Gary Joyal**, CEO and managing partner of JCM.

JCM represents restaurant operators on M&A, financing, private equity and family office services. For more information, contact **Jeffrey Richard**, director, at jrichard@joycapmgt.com or at 508-747-2237.

Long-Time Developer Joins Embree Asset Group

"After leading Royal Seal since 1982, you have to ask why?" says **Gene Colley**, executive vice president of **Embree Group**. "It was a natural fit."

Colley is referring to restaurant real estate developer Embree Group's acquisition of his company, Royal Seal Development, in 2019. "I have known some of the principals (of Embree) for over 30 years. There were many reasons that our development team joined theirs, but the biggest reason was access to almost unlimited development capital."

Colley worked for Embree back in the '90s. "I was a partner with Embree Construction building nothing but restaurants—hundreds of them." So it seems that experience, combined with leading Royal Seal, tells him he can't escape the restaurant industry. Not that he'd want to.

"It's in my blood," he says. "I've been doing restaurants since I was 20 years old. I was working for a guy who was building houses and remodeling kitchens. My first commercial project with him was to remodel a Winchell's Doughnuts kitchen." After that experience, he dropped out of college to open up his own kitchen remodeling company. Within two years, he operated the second largest home remodeling company in Kansas City.

But a referral from the Winchell's owner to a Pizza Hut franchisee helped him change course to the restaurant industry, and he's even "designed restaurants, and helped people with their proformas," he recalls. "I have really enjoyed the challenges and have made lifelong contacts along the way."

He likes working with Embree, again, because it's "not an off-shoot of a larger company nor was it started on a whim. There has been careful consideration given to every piece of this company as it has been built." Embree Construction was launched by Jim Embree in 1979 to build and remodel single-tenant retail and restaurant buildings. Embree Asset Group, the development company, was started in 1995, and a few years ago Embree Capital Markets was launched.

"Our selection of services is what separates us from the majority of the crowd," he said. "From our financing to our construction services" allows them to be a one-stop shop for real estate. They can do it ala carte, or head up the entire process for a restaurant operator.

Another differentiator from other companies "is the financing," Colley says. "Most all the developers we compete with have to source their own financing. We have 12 or 15 banks that do our debt financing when we need it, but we also have capital sources around the world in our capital markets funds."

He's also impressed with the depth of relationships Embree has with customers. "They trust we will make the right decision to protect them and do what is in their best interest," he says. For more information, contact Gene Colley at (817) 491-6400, or at gcolley@embreegroup.com.

FINANCE SOURCES

Second Career in Finance Pays Off for Sterling National Bank's Baldwin

Bankers aren't known for taking big risks, but Lindy Baldwin did just that when she decided to not just change jobs back in 2010, but start a whole new career.

Baldwin was working as an optometry assistant in 2010 when a friend suggested she try finance. "She explained to me that even without experience, 95% of the job is personality, and personality isn't something you can teach. She said the other 5% of the job, we can teach you," says Baldwin.

The economy had just started to turn in 2010. So, deciding to leave job security in exchange for what was still a rocky financial field was not an easy choice. But Baldwin was intrigued to try something new that also had opportunity for professional growth.

She started working in a sales support position on a team at First Franchise Capital, where the group was consistently a top producer. "We worked as a team to uncover franchise opportunities, analyze financials and close loans," says Baldwin. The six years spent learning the business also proved she had a knack for the business.

In 2016, Baldwin took advantage of an opportunity to move into a leadership role managing transactions as vice president and managing director of Franchise Finance at Sterling National Bank. At the time, the bank had just purchased one-third of the GE Capital Franchise Finance portfolio and was looking for someone to grow the business. Currently, Baldwin is in charge of sourcing franchise business loans for new franchisee and franchisor clients, as well as working with current customers in the existing franchise portfolio.

"I help structure the loan to be as flexible as the borrower needs it to be, while working closely with them to ensure prompt and worry-free closing," says Baldwin. Sterling typically serves tier-one and -two QSR concepts with loan amounts ranging between $500,000 and $100 million. The group also works with non-restaurant franchise brands such as Planet Fitness and Orangetheory Fitness, among others.

Over the past decade, there's been a proliferation of lenders in franchise finance and restaurant operators have a myriad of capital choices. Lender competition is fierce and real, notes Baldwin. The amount of capital in the franchise space continues to support M&A activity and new store development across many concepts, including the likes of Taco Bell, Popeyes, Dunkin and KFC to name a few, she says.

For franchisees navigating in that environment, it's crucial to work with a trusted lending institution that is experienced in franchise lending and the customer's specific category or concept, says Baldwin.

"That knowledge and understanding helps the franchisee continue their day-to-day operations without having to explain to someone how and why something is needed to get their financing," she says. In addition, M&A activity has been active with multiples that have skyrocketed. As such, it is important to work with a lender that has a clear understanding on the M&A multiples of EBITDA and how much a franchisee should be paying an acquisition, adds Baldwin.

For more information, contact Lindy Baldwin at 402-312-2542 or lbaldwin@snb.com

Auspex Capital Completes Debt Placement Transactions for YUM! Brands, Burger King and Wendy's Franchisees

Financial advisory firm **Auspex Capital** recently closed the following debt placement transactions for their clients:

• YUM Brands franchisee **T&K, LP** and its affiliates, a Northern California-based company operated by long-time franchisee **Taylor Loesch**, has obtained a total of $22,472,500 in new loan commitments to refinance its existing debt and provide funds for acquisition, development and remodels. The new loan commitments included a $12.7 million business loan from **First Midwest Bank** and a $9,772,500 real estate loan from **First Horizon Bank**.

• Operated by franchisee **Michael Laird** and based in Phoenix, Ariz., **MCL Holding Company**, MCL Scor Holdings, Laird Real Estate, and their subsidiaries (MCL), recently obtained a total of $20.1 million of new loan commitments from **BBVA USA**. The loans were used to refinance existing debt, fund new restaurant development and remodels, and provide seasonal working capital. Laird, through various affiliates, currently owns and operates 31 Burger King restaurants in the Phoenix and Tucson metropolitan areas.

• **Kas Foods, LLC**, a Hasbrouck Heights, New Jersey-based Wendy's restaurant operating company owned and operated by long-time quick-service industry veteran, **Keith Kas**, has obtained a total of $10.543 million of new loan commitments, including a $9.043 million senior secured term loan, a $1 million development line of credit and a $500,000 revolving line of credit. The loans were used to refinance existing debt, provide capital for remodels and provide seasonal working capital. The financing was completed by **Huntington Bank**. Kas, through various entities, owns and operates a total of 66 Wendy's restaurants in New York, New Jersey, Connecticut and Pennsylvania.

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

Is There Equity Participation in Your Future for Your Key Employees?

By Dennis Monroe

Obviously with the cost of labor and the shortage of key management personnel for restaurants, operators need to be creative, particularly in promoting participation in the ownership for key employees to incentivize and develop the kind of culture necessary for success. This article will outline five different approaches that can be taken with employees to provide the kind of upside in equity younger employees in particular want in this very demanding business.

1. Stock appreciation rights: We are seeing more of what we call stock or membership appreciation plans. We recently implemented a plan for a very large multi-unit operator, and the appreciation rights participation went all the way down to the assistant manager and supervisor level.

The plan works as follows: the company or the store in which the manager is involved has a starting value. Normally, it's just a multiple of store operating profit less any debt, or sometimes it's just a multiple of store operating profit.

Then the management team shares in the appreciation of the value. The appreciation is divided into units, and employees are granted a certain number of units. Upon either termination of employment (other than for cause), retirement, disability or death, the employee receives the then-current value of the store, less the starting value times their percentage (units) of the appreciation. For example, if the store was valued at $1 million (which was five times store operating value of $200,000), and the store operating profit increases to $300,000, that would make the value $1.5 million. If the employee was entitled to 2% of the appreciation, they would be entitled to a payment of $10,000. That's 2% x the appreciation. It's common to have the pool of appreciation somewhere in the neighborhood of 20% to 30% to be shared by the management team.

What's unique about this approach is that when the payments are made, they are a tax deduction for compensation, or what we call deferred compensation. This appreciation right can either be implemented at the corporate level, regional or at the individual store level. It is a great way to encourage the employees to drive increased value of the company.

2. Profits interest: In this instance, an employee—at the store, regional or corporate level—has an actual legal interest in the profits from that individual entity. If each store is in a separate entity, then the profits interest can be at the individual store level; otherwise it can be applied at the holding-company level.

The employee (in most cases, management) gets a share of the profits distributed to other owners. This does not necessarily include equity participation on sale, but it does include a current distribution of profits and also the tax obligations. This is implemented through an operating agreement. Also, this profit interest shifts tax on the portion that is distributed to the manager. The IRS has ruled the grant of the profits interest is not taxable.

A great example of this is the classic Outback incentive plan which has been in existence for years. Outback does require some employee investment, and then they receive a percentage of the cash flow generated by the restaurant each year.

3. Straight profit sharing: The major form of incentive compensation is a straight sharing of the store or company's profits. This is paid as a bonus monthly, quarterly or annually. This profit sharing is usually computed on amounts over established budgets, and these come in various formulas. Many companies are using this approach. Shake Shack, Chuy's and Texas Roadhouse are just a few examples we have found.

4. Restricted stock: Another common approach, particularly for non-chain restaurants, is restricted stock. These are shares of ownership in the company granted to the employee. It can be at any entity level. The restriction on this stock, to deter premature selling, normally is tied to employment, usually something around two to five years. There may be some tax obligation for the employee created upon the grant of the stock. Normally an election can be made for the IRS to determine the value on restricted stock. This Section 83(b) election discounts the interest substantially, so we can normally avoid most of the tax. This is a great way for people to participate, but it means that they do become real partners, subject to the restrictions and buy-sells.

5. Options to buy and buy-in: This approach involves a right to buy the restaurant. One of the companies most notable for this is Chick-fil-A. They have allowed franchisees to buy into the franchise at a de minimis amount or to have the right to buy-in. We have also set up buy-ins with large operators where individual managers have the right to buy a store under a given set of circumstances, such as an expiration of a certain number of years. We worked with a large QSR operator who gave individual store managers, after they have been in that position for 10 years, the right to buy the store or have a right of first refusal. Normally, the manager has to come up with some cash and then buys under an installment note. Even if a store is not in an individual entity, this option can be implemented by an asset sale.

These are five ways that companies can effectively provide ownership and equity for key employees. While there is every other combination you could ever imagine, these five have shown a good record of success. You certainly should be looking at them to attract and keep employees.

(Special thanks for all the wonderful research from Allison Cole, a student at the University of St. Thomas Law School and an extern at Franchise Times Corp.)

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

Talk about good timing for former CEO **Michael Ansley** and the shareholders of **Diversified Restaurant Holdings,** and their lender, **Citizens Bank**. New York-based **ICV Partner**s paid $130 million on February 25 to acquire Diversified, the 64-unit franchisee of **Buffalo Wild Wings** in Florida, Illinois, Indiana, Michigan and Missouri. ICV also bought a majority stake in a 42-unit B-Dubs operator in November. Can you imagine running a Buffalo Wild Wings operation right now without March Madness?

Timing was also good for **Andy Wiederhorn** and **Fat Brands**, the franchisor of **Fatburger**, **Buffalo's Cafe**, **Ponderosa** and **Bonanza.** On March 6, just before the market meltdown, Fat Brands issued $40 million of senior notes and senior subordinated notes rated BB and B to a single institutional investor. The notes, two equal tranches of $20 million each, one yielding 9% and the other 6.5%, were collateralized by the company's franchise agreements and royalties. Fat Brands paid off $24 million in debt owed to **Sardar Biglari's Lion Fund** and redeemed a $10 million, 9.9% preferred stock. **Cadence**, a New York-based digital securitization and private credit investment platform (not to be confused with Cadence Bank) acted as the consultant. Cadence Head of Capital Markets, **Prath Reddy**, believes the Fat Brands securitization structure could be replicated within the broader franchise community for first-time issuers. For more information about the deal structure, contact Prath Reddy of Cadence at prath@withcadence.io.

Father and daughter team, **Oz Bengur** and **Dinah Bengur** plan to develop **Pitango**, a gelato concept with five locations in the Baltimore and Washington, DC area. The Bengurs entered into a joint venture with the concept founder, **Noah Dan,** to expand the brand nationally. Dan retained the existing five locations and development rights in Baltimore. The Bengurs told the Monitor a Franchise Disclosure Document has been completed for Pitango, and they will begin selling franchises soon. Pitango stores are approximately 1,200 square feet and average approximately $620,000. The gelato is made from organic milk and free-range eggs. Oz Bengur comes from an investment banking background—he and Charles Bryan formed a middle-market advisory firm in 1991 named **Bengur Bryan**. Bengur has been a principal in a number of Papa John's franchises since 1995 and he and Dinah are the largest franchisee of the 450-location Hand and Stone massage and spa concept with 17 units.

Do you think the highly leveraged **Tilman Fertita** (prime assets are **Golden Nugget, LLC**. and the **Houston Rockets**) is sweating bullets? Casinos…closed. NBA….closed. Fine-dining restaurants….all but closed. Tourist attractions.... closed. As of last June, according to Moody's, the casino and restaurant portion of Fertitta's empire, had debt to EBITDA in excess of 6.5x.

Beekman Group won the bidding war for the 15-unit, Columbus-based **Condada Tacos,** a build-your-own taco restaurant that sports AUVs of $3.5 million and a 35% liquor mix. The Monitor learned the purchase multiple for Condada exceeded 20x the company's 12-month run-rate EBITDA. Beekman is a New York-based private equity firm, with $800 million under management, lead by founder and CEO, **John Troiana**. Beekman previously made a control investment in 2017 in **Another Broken Egg Cafe** and is one of the largest **Dunkin'** franchisees in the New York market. Beekman also owns the seven-unit **Ted's Cafe Escondido** in the Oklahoma City area. **BMO Capital Markets** represented Condada on the recent deal.

That was investor **Matthew Ailey's GenRock Capital Management** acquiring 67 **Moe's Southwest Grill** stores earlier this month to go along with their 200 **Pizza Huts** and 27 **Arby's** stores. Ailey told the Monitor in November he was interested in QSR, "because they generate cash flow, it's a somewhat defensive play, everyone understands it, and you can scale it quickly."

How bad are casual dining companies getting hammered? During the recent coronavirus stock market selloff, **Brinker International's** 5% senior unsecured notes due in October 2024 were yielding 16.5%, while the beaten-down Brinker common stock is down 75% since the beginning of the year and provides a dividend yield of almost 18%.

Muscle Maker Grill (GRIL) completed its IPO on February 12, selling 1,540,000 shares at $5.00, a major accomplishment for a concept that so far only has 40 restaurants, 34 of which are franchised. The deal has been a disappointment now that the stock is trading around $3.60. The company's prospectus said it has an accumulated deficit of $29.7 million and "expects to continue to incur substantial operating and net losses for the foreseeable future."

Investment manager **Roger Lipton** admits in one of his blog posts (www.rogerlipton.com) to really liking **Starbucks**, but thinks the coffee subscription programs offered by **Panera** and **Burger King** will slow comp sales. Lipton did the math on his daily habit in his post. His grande soy latte costs $6.04 daily in Manhattan, a total of $2,200 annually. Panera's monthly coffee program is $8.99 for any size and flavor. Burger King's deal is $5.00 per month. At **McDonald's** you can get any size coffee for $0.99. Dunkin' Brands is $2.00 per cup. As for Starbucks, Lipton says if there were a Panera or McDonald's between his Starbucks and his office, he would be tempted to adjust. He thinks others will and says that Starbucks will see slowing comp sales because of it.

Farnum Street, a four-unit **Original Pancake House** franchisee, is acquiring the 14-unit independent restaurant operator, **Parasole Group**. Minneapolis-based restaurant finance attorney, **Dennis Monroe**, introduced Farnham to Parasole's founders, **Phil Roberts** and **Pete Mihajlov.** Roberts and Mihajlov are best known for creating **Buca Di Beppo** (now owned by **Planet Hollywood**) in 1993 and taking it public in 1999. The pair also developed an upscale seafood concept called **Oceanaire** in 1998, and sold an interest to New York-based PE firm, **Clarion Capital Partners,** in 2004. Oceanaire was eventually acquired by Landry's in 2010.

James Rutherford is the new restaurant analyst at **Stephens, Inc.**, replacing **Will Slabaugh**. Slabaugh left to become the chief investment officer at **Dobbs Brothers Management**, a family office with interests in the restaurant business.

If the coronavirus should push the United States into recession this year, which restaurant chains would fare well during an economic slowdown? That's the question **Baird Equity Research** analyst, **David Tarantino**, posed to clients earlier this month. Tarantino looked back at chain restaurant comp sales performance during the 2008-2009 recession and found the top performers were **McDonald's**, **Wingstop** and **Chipotle**. He believes those brands provided a "good everyday value proposition," whereas the brands that had the weakest trends were those the consumer would consider more discretionary. Tarantino cited Starbucks, which saw weekday afternoon traffic declines (comps averaged negative 4%) and casual dining chains as examples. "Not surprisingly, the impacts were lowest for highly franchised quick-service names (due to durability of their consumer occasions and business models) and greatest for casual dining companies (discretionary occasions, high degree of operating leverage)," wrote Tarantino in his March 4 report.

CNBC Mad Money's **Jim Cramer** praised restaurant lender **First Horizon National Corporation** on his March show. "Everyone has given up this. You are getting First Horizon at almost a 5% yield. It's doing remarkably well. I'm not allowed to own stocks. If I could own a stock I would own First Horizon. Bryan Jordan is a good manager," said Cramer on his March 6 show. The Tenneesee-based regional bank has an active national restaurant lending program overseen by **Thomas Hung**, managing director and group head. He reports to former GE Capital Franchise Finance banker **Todd Jones**, who was recently promoted to Executive Vice President of Wholesale Banking for First Horizon.

Former **New York Giants** wide receiver, **David Tyree**, (remember the famous "Helmut Catch" in Super Bowl XLII) and is wife, Leilah, are opening the 100th restaurant in the **Clean Juice** franchise system next month in Morristown, New Jersey.

We tuned in March 12 when **Capital Spring**'s **Jim Balis** was speaking with **CNBC's** Kelly Evans regarding the Covid-19 virus. Balis made the point that QSR restaurants and restaurants that have a good delivery operations will be okay during the downturn. Balis did say that casual diners will have to make up their sales via off-premise solutions.

McAlister's Deli's CEO **Joe Guith** told an audience at the Franchise Investment Conference held earlier this month the 470-location fast casual chain averages $1.64 million per year per store and generates a 13% store-level margin after royalty and depreciation.

Chicken Salad Chick CEO **Scott Deviney** teamed up with **Eagle Merchant Partners** in 2015 when they bought the brand—then 32 units—from founders Kevin and Stacy Brown. Today there are 144 open (42 company) and Deviney told a Franchise Investment Conference audience in Dallas earlier this month he sees potential for 2,000 locations. Stores average $1.25 million per year. The company was recently acquired by **Brentwood Associates**.

Inspire Brands is promoting "cross-brand development" to prospective franchisees, trying to attract sophisticated, multi-unit operators who want to build **Buffalo Wild Wings**, **Jimmy John's**, **Arby's** and/or **Sonic** stores. The company is also looking to make additional acquisitions according to **Joe Sieve**, VP of franchise development, who spoke at the recent **Franchise Investment Conference** in Dallas.

Some restaurant bankers foresee giving some relief to borrowers in the near future. "We are talking about this right now with senior management of our bank," said one restaurant lender, who asked not to be named. "If we can defer payments out to at least three months, we may have to do that. What are you going to do, put people into workouts?"

Dan Holland, who heads up **Cadence Bank**'s restaurant group told the Monitor, "Every situation is unique. Every borrower is unique, with their own set of circumstances. We are looking carefully at every situation on a case-by case-basis, while continuing to monitor developments that are taking place and the impact these will have on the industry." He added that, "Cadence stands ready to assist borrowers as best we can."Another lender said **operators who have syndicated loans** might find things a little stickier because they have numerous banks to contact to get payment relief on one facility. If one bank says no, the deal is off. However, "I can tell you that the way banks behaved in the past with situations like this, it has been with **a spirit of cooperation**," he added. "People need time, but it is my strong suspicion that banks will react very similarly as before."

OUTLOOK

The Ultimate Challenge for Restaurants: Surviving Covid-19

The challenges for restaurants from the Covid-19 virus are formidable. Already, some state and local governments have ordered restaurant interiors to either be closed or capacity constrained. Expect those requirements to be a national mandate soon. Fortunately, carryout, delivery and drive-thru operations are spared. Things are bleaker for sit-down restaurants that don't have carryout or delivery capability.

The focus of the column this month is survival and what you can do to stay in business and protect the long-term viability of your restaurant operation. Two things are paramount, and we'll discuss them both in more detail, below: First, keep your employees informed and try to keep them working as much as possible. Second: Restaurants are notorious for running with negative working capital. As sales slow, cash must be protected at all costs. Curtail all non-food, non-labor cash outflow immediately.

Here are some ideas to ensure the viability of your business at least until the all-clear signal is given.

1. Communicate, Communicate, Communicate. Now is not the time to crawl into a hole. Keep your employees informed and working as much as possible. They know the situation with the virus and the community need for social distancing, but what they don't know is how it will impact them. Set up a communications and scheduling team just to deal with employees. Encourage the ones you can't keep to sign up for unemployment as soon as possible. You will need your employees to eventually return to work. Employers who do not take care of their employees, as best they can, face a difficult recovery.

Also, make sure to keep the safety of your employees and customers front of mind. They must also know that you're concerned for their safety. You will need a designated point person for communicating with customers, vendors and landlords. As for the bank, get a phone meeting ASAP to share your plan.

2. New Store Development and Remodeling. Stop all new development and image enhancement projects immediately. It makes no sense to build new restaurants or remodel others right now. Forget about your franchise development agreement. It doesn't mean anything right now. You need to preserve cash for your operation and that means stopping the cash going out the door towards construction.

3. Royalties. If you are a franchisee, defer the payment of royalties and ad fees immediately. Let's get one thing clear: You will eventually be required to pay these royalties and ad fees back, however the asset-light franchisors understand they need you to stay in business to support their stock value and not spook Wall Street any more than they are already spooked.

4. Rent. You've paid March rent, but if your store is temporarily closed, call or send your landlord an email and let them know you can't pay the April rent right now due to something completely out of your control. Tell them you need to get through this crisis first, and that you will eventually be back in touch with them to either pay them, or restructure the lease. Keep in mind that workouts happen all the time in real estate. As a precaution, remember to disable any auto-pay features on your bank account.

5. Off-Premise. This is where the game will be played in the next few months. Focus all of your efforts on delivery and takeout. Staff only those employees needed to run that aspect of the business.

6. Utilities. Municipal utility companies are not going to turn off your power and light during a crisis. Use them as the bank as long as they will let you.

7. Bank Credit Agreements. Start the discussion immediately with your lender. Ask the bank to suspend any principal payments for the next 90 days, with a right to extend for another 90, if circumstances dictate. Banks are in better shape than they were in the 2008 financial crisis and right now you need their help.

8. Taxes. There may be penalties for non-payment of sales and use, and real estate taxes. It's not optimal, but for this crisis, the states and the counties, especially the ones that shutdown your dining rooms, are not going to shut you down.

9. Marketing and Advertising. Focus you spend on your loyal customers. Curtail all unnecessary media, unless it is used to drive delivery, take-out and drive-thru orders. Radio advertising is worthless right now as no one will be in their cars driving to and from work. Television might work, especially with so many people stuck at home.

10. Store Rationalization. If you can keep the restaurants open, that will be your best bet. However, you may be forced to close restaurants located near sports venues, malls and airports. Make sure you have security around them. As people get bored with staying home, vandalism and looting could occur.

I'm not a medical doctor but one can only hope the Covid-19 will start to dissipate by mid-to-late April. People will be anxious to get out of the house and start attending sporting events and visiting your restaurants again. There may be some disaster assistance available to restaurant owners via the Small Business Administration but it will probably come after the fact. Don't count on the government doing anything for you.

The important point here is to use any means necessary to stay in business so you can serve guests once again when this pandemic is over.

STATS AND QUOTES

COMMON THEMES FROM RECENT RESTAURANT BANKRUPTCIES	
American Blue Ribbon Holdings (Baker's Square and Village Inn)	How do you solve the viability problem of two prehistoric brands in this sales and margin environment? Simple: Stick it to the landlords and vendors and go with the same plan that put you in bankruptcy in the first place.
BL Restaurants (Bar Louie)	Another Sun Capital restaurant deal goes up in flames. The lenders are expected to take over the company after the March 20 auction.
Cosi Inc.	Perhaps the Delaware bankruptcy court judge will finally put Cosi out of it misery.
Craftworks (Logan's Roadhouse, Old Chicago, Rock Bottom and Gordon Biersch)	Their filing refers to the company as the "nation's leading operator and franchisor of steakhouses and brewery and craft-beer focused casual dining restaurants." If they are so leading, why did they just close 37 stores and file bankruptcy?
Granite City Food & Brewery	$40 million in senior debt was reduced to a $12.5 million recovery, as the Granite City restaurants go to BBQ Holdings and Cadillac Ranch goes to Tilman Fertita.
HRI Holding Corp. (Houlihans Restaurants)	An acquisition of 17 Houlihan's restaurants from a franchisee didn't pan out. Plus, high occupancy and rents on closed locations killed the cash flow. Tilman Fertita's Landry's, Inc. gets the 47 restaurants for $40 million.
Krystal	The iconic brand will emerge from bankruptcy in better shape having just body-slammed its vendors and landlords. Most bankruptcies never close enough stores, though, and don't address the real problem—bad management.
SD Holdings (Sonic and Mod Pizza Franchisee)	The 73 Sonics were levered up with $22 million of senior debt, a 40-store sale-leaseback deal and approximately $10 million owed to a bevy of cash advance lenders.
Three Dough Boys (Mr. Gatti's Franchisee)	Three partners bought 13 corporate Mr. Gatti's stores in Texas in 2018 for $4 million and couldn't service the debt. Five will be sold for $350,000. Mr. Gatti's and the Happy State Bank are owed $3.9 million. Poof!

INTEREST RATES				
	3/16/20	Last Month	A Year Ago	Trend
Fed Funds Rate	.25	1.59	2.40	↓
1-Month Libor	.61	1.65	2.48	↓
3-Month Libor	.89	1.69	2.63	↓
1-Year Treasury	.29	1.49	2.51	↓
5-Year Treasury	.49	1.42	2.40	↓
10-Year Treasury	.73	1.59	2.59	↓
30-Year Treasury	1.34	1.89	3.02	↓
Prime Rate	3.25	4.75	5.50	↓

President Donald Trump speaking to restaurant executives on March 17: "I think you're really going to like what we're doing."

On how to manage during a crisis according to the late GE CEO Jack Welch, in his 2005 book, Winning: "Assume the problem is worse than it appears. Managers can waste a lot of time at the outset of a crisis denying that something went wrong. Don't let that happen to you. Skip the denial step, and get into the mind-set that the problem will get bigger, messier and more awful than you possibly imagine."

Wall Street Journal editor at large, Gerard Baker, describing his father who turned 100 years old this month: "He is from an era when life was defined primarily by duty, not by entitlement; by social responsibilities, not personal privileges. The primary animating principle throughout his century has been a sense of obligation—to family, God, country."

BMO Capital Markets analyst Andrew Strelzik discussing the importance of a restaurant brand's digital engagement with consumers in a recent research report: "The trend of digitally enabled restaurant outperformance is likely early innings and should continue. Digitization allows restaurants to better understand their customer base and more easily personalize guest experience, ultimately yielding more meaningful guest engagement, retention and satisfaction. The ability to increasingly leverage digital ecosystems—particularly as the depth of customer data increases—should create superior sales growth potential for digitally-enabled brands."

Hoisington Capital Management's Van Hoisington and Lacy Hunt prophetic January comments about the downward direction of interest rates: "Over the past 65 years, yields on long-dated risk-free U.S. treasury securities moved in the same direction as core inflation on an annual basis roughly 80% of the time. We believe that there is a high probability that this relationship will hold in 2020 as inflationary pressures continue to subside."

Chapter 11: Making the Pain Go Away

Given a recent spate of restaurant bankruptcies, I wondered how company executives prepare themselves for the ordeal of a Chapter 11 filing. It turns out most probably do not—unless they had already experienced one under guidance from a workout specialist like Jonathan Tibus of Alvarez & Marsal. In this slightly edited Q&A, Tibus, who has lately overseen reorganizations at Kona Grill, Real Mex Restaurants, Ignite Restaurants and Krystal, talks inside baseball about the bankruptcy process and offers tips for easing the pain. Where are some of the pain points of a Chapter 11 filing?

For one thing, you are hamstrung regarding new initiatives, like rolling out menu items or marketing programs. You can't always pay your pre-petition vendors. You can't always commit [to anything] because most of the bankruptcies are 363 sales. So no new point-of-sale systems, for instance, because a buyer may come along and have another type of POS system.

Store closures, layoffs?

My opinion is, always close all the stores you want to before you file. That way, you are not doing phased-closings, which is bad for morale, for press, for the sale process. If you are doing a reduction of force, do that ahead of time, too, so you go in with a good story: "We are either going to emerge by plan or a sale. But through this period, we aren't rocking boats. We're setting the stage for the future and getting out as quickly as we can."

To whom are you telling this story?

At that point, you are telling the world, en masse: vendors, employees, landlords and press. You're saying, all the things we were going to do are done. Now, we are using the bankruptcy process to, in effect, clean all this up and getting out. This way gives you a less rocky and quicker bankruptcy. The joke I use is, "Get in, be excellent and get out."

In other words, efficiency matters.

If you see the bankruptcy coming and you have some runway, the more you can get done before you file — and the better off you'll be. You can dictate how efficiently you file, how inexpensively you file, and how cleanly you file. That's how you maximize value.

Should a struggling management team be borrowing—that is, using debtor-in-possession (DIP) financing at this point?

It's basically nice to have, because it shows you are driving toward a solution. Though nice to have, it also entails the expense of documentation—and you could be fighting about DIP with unsecured creditors. So it's nice to have as a liquidity backstop, but from an administrative standpoint, it's easier not have a DIP.

Are you making the call as the workout guy about whether to borrow or not?

Normally, it is me who makes it. Managements don't always have the experience or knowledge with the process. So we build cash flow the way it's supposed to be built. We can comfortably make it without having to borrow more money. Or you say we can't. We should now discuss terms with our current lenders to find additional financing.

Your advice to managements, then?

If you have enough to cash to manage through the entire bankruptcy, not having to borrow more funds is a good thing.

You mentioned bankruptcy is unfamiliar to some management teams. How do you educate them?

Every situation is a little different. Certainly, you want to include the inner circle at the outset. When someone like me comes in, by the way, bankruptcy is not always a forgone conclusion. You say it's is a possibility. So you start with smaller circle of people and expand as you get closer to filing. With my CFO and CEOs, I always want them to know about the sale process, because it's important to have a level of trust. There is always intrigue around the sales process, and I don't want them to be a part of the palace intrigue so I always keep them involved. It's a relief for everyone once you are in [bankruptcy] because you've maintained preparedness to file and have kept it to people who need to know. Now, it's public.

Do you explain the impact that credit bidding could have in sales process?

If a lender is going to make a credit bid, it can be seen as a positive. That's because it is likely the lenders don't have a platform like a strategic [company] would—which, in turn, would mean the loss of all the headquarters jobs. So credit-bidding is a positive from that perspective because they will buy the company as is, and no mass layoffs on the way out of bankruptcy.

Employees do lose jobs during the process, nonetheless.

I guess maybe I am cynical now. I've gotten to the point now where I believe when you close a store a good employee finds a job right away. A regional [manager] would find somewhere to go. I don't get sad about it. Employees are moving to other places within the system. I have never closed a store and not have everyone placed shortly after that.

Lastly, which bankruptcy terms should managements become familiar with?

Section 503(b) (9), which says every good delivered within 20 days of the filing date gets priority status. First-day motion, or FDM, the documents allowing a company to continue to pay payroll, rents, et cetera. And administrative claim, which is any expense incurred post-filing necessary to preserve the estate once your credit is better.

—David Farkas

The Evolution of Convenience Stores as Formidable QSR Competitors

Restaurant industry competition continues to intensify as the market becomes more fragmented and direct competition is no longer just the restaurant around the corner. Many non-traditional fast food outlets, convenience stores in particular, are making headway in the foodservice arena by offering elevated levels of prepared meals, service and ambiance. Convenience stores, now with over 155,000 locations nationally have become a viable meal option.

QSRs are in a battle for market share as many convenience stores morph into a segment that industry experts coin "Food-Forward" c-stores. The realization that foodservice could be an avenue for growth while lessening dependence on typical c-store offerings was appealing. As a result, many convenience store operators began to place more emphasis on improving the quality of their food and beverage offerings as well as provide consumers more options that compete directly with other fast food concepts.

Ramping it up

Realizing the fruits of their efforts, c-store operators are looking to leverage their marketplace positioning in new, more aggressive ways. Over the past decade, c-stores' efforts to capture share of stomach has only intensified. According to The NPD Group, consumers made nearly 13 billion visits to c-stores for prepared meals and snacks in the year ending December 2019. More notably, c-stores have notched double-digit traffic growth during the lunch and dinner dayparts—the traditional wheelhouse of quick-service restaurants.

Historically, c-stores have conveniently satisfied consumer needs for morning meals and afternoon or evening snacks. Yet, they have been able to achieve strong traffic growth not only at these core day parts, but also at other times. QSRs offering morning meals are the most likely to feel the impact of c-stores on their customer base. Between-meal purchases and snacks are another vulnerable time of day.

C-store restaurant market share position

C-stores' share of total restaurant industry traffic is 20.1% as of YE December 2019 as reported by NPD. A large share position relative to QSR—with a current traffic share position of 62.1%. The c-store share position has grown overtime as a result of the "food-forward" convenience store chains. Their growth has been strong in a relatively stagnant marketplace. Looks like somebody is eating "somebody's" lunch.

Food forward c-stores—A group to reckon with

A sizeable group of c-store chains have been identified as being on the leading edge of providing consumers with more prepared meals and snacks that address consumers' desire for variety and quality food at reasonable and affordable prices. The food-forward convenience store chains prominently leading the charge are Sheetz, WaWa, Cumberland Farms, Casey's, Race Trac, Kwik Trip, Quick Check, Royal Farms, and Nice N Easy. And, stay tuned as 7-Eleven makes its way into the "food-forward" group.

7-Eleven, by far the largest c-store chain with over 9,000 locations, purchased Laredo Taco Company in 2018. The chain started adding Laredo Tacos units in some of their existing locations last year and plans to continue expansion of these units in their stores. Laredo specializes in handmade tacos and other Mexican street foods, all made from scratch. The QSR Mexican concept is intended to compete directly with other QSRs at the lunch and dinner dayparts.

And, it's not just about the food

These "food-forward" concepts are more focused on the foodservice "experience." While food prepared onsite and food quality are key reasons food-forward buyers visit these concepts, attention also has been given to other aspects of the visit experience. Restroom cleanliness and overall store appearance are visit drivers, as well. As additional c-store operators with limited foodservice capabilities realize the opportunity to grow their business by focusing on food and the experience, the battle for market share within the QSR arena will only intensify.

And, c-stores also seemingly hold advantages in price, a historically key driver of quick-service visits. NPD reports that the average ticket for prepared foods and snacks at c-stores is $3.00, nearly $3.00 less than traditional QSRs with an average check of $5.80. The difference in the average ticket is heavily influenced by daypart differences—as more c-store operators focus on the lunch and dinner dayparts the price gap will narrow.

The quick-service response

Make no mistake: This is an intensifying battle, and c-stores have fired their shots. The question now is: How do fast food operators respond amid the heightened competition and increased channel blurring?

QSR operators need to broaden their perspective of their competition. Not only must they monitor and win against direct competitors for visits, they also must be aware of efforts being made by c-stores and, especially, food-forward c-stores.

A strategic, thought-out response to c-stores' increasing gains is necessary, a process that must begin with operators acknowledging c-stores as direct competition as much as they do the nearby sandwich shop, pizza parlor and hamburger joint.

Including retail in the QSR arena delivers new and very different insights about the structure of a market. Life is now more complicated for QSR operators. Channels have blurred. The growth of alternatives to QSRs will continue. The challenge for QSRs is to stand out given all the competition in the larger arena.

Once a world of smokes, Cokes and salty snacks, convenience stores have morphed into something different, something almost unthinkable even a decade ago: a place for dining and a viable alternative to traditional quick-service restaurants.

—Bonnie Riggs

A Franchisee's Dream Ends with a Tax Bill and Cash Squeeze

What a way to go. To be taken down by an unexpected tax bill and a no-margin-for-error capital structure. That's what coldcocked Yaron Goldman's SD Holdings, a 73-unit Sonic and 14-unit Mod Pizza franchisee that sits in bankruptcy court waiting to be carved up by creditors.

This is the story of what happens to a good restaurant operator when he tries to play financial engineer.

Yaron Goldman is an operator's operator. He began working at a McAlister's Deli in 1996 while attending the University of Alabama. He'd eventually become the second largest franchisee in the system, running 77 stores at the highwater mark. Goldman's company, SD Holdings, was ranked in 2017 as the 126th largest franchisee in the country.

"Goldman was a great franchisee," former McAlister's CEO, Phil Friedman, remembers during a recent conversation with the Monitor. A former lender of Goldman's described him as a "an excellent operator who added new restaurants thoughtfully." Goldman told our columnist, David Farkas, in 2014 that he preferred to finance new restaurants internally, because every lender wants 30 or 40 percent down."

In addition to McAlister's, Goldman had become a franchisee of Seattle-based Mod Pizza, eventually building 14 stores. He began winding down his McAlister's ownership in 2016 and 2017, selling 42 restaurants to Dale Mulvey, a fellow franchisee. He sold the remaining stores to four groups.

Goldman was hungry to replace his McAlister's with another large franchise. It didn't take long to find one. He cut a deal in 2017 to acquire 64 Sonic stores from Tacala, a large multi-unit Taco Bell franchisee. Then the financial engineering began.

Simultaneously with the Tacala transaction, Goldman arranged to buy the real estate underlying 40 of the locations, owned by the franchisor, Sonic Corp. However, instead of holding on to the real estate, Goldman flipped the properties at closing to a real estate investor. His profit from the flip, we estimate to be approximately $18 million, was used as equity to fund the Tacala acquisition.

Later, Goldman acquired an additional nine Sonic restaurants. In addition to Sonic and Mod, he also became a franchisee of Fuzzy's Tacos and built three restaurants in 2018 and 2019.

Restaurant owners know all too well how money flies out the window when you are developing new restaurants. Cash flow became a challenge in late 2018, and then Goldman was hit by a financial tsunami. Remember the clever property flip used to finance the Sonic acquisition? Well, it turned into a nightmare when Goldman's accountants told him he owed a 40% short-term capital gains, approximately $7 million.

Goldman used up his remaining cash, plus an advance from his secured lender, Bridge Funding, to pay the tax. Goldman's senior loan with Bridge had jumped to $21 million, just about the time his Sonic stores went into their usual winter sales swoon. To fund the cash squeeze (Bridge said no more money), Goldman made the mistake of signing on with a number of cash advance lenders.

Merchant cash advance, as we've written in the past, is absolutely the most expensive source of funding for restaurant owners. In a merchant cash transaction, a restaurant operator agrees to sell future credit card receipts to the lender at a steep discount, and then commits to repay the advance on a daily basis from future credit card chits. The interest rate is egregious, often exceeding 100%, and cash flows are compromised as future sales go to pay the lenders.

Between December 2018 and December 2019, Goldman sold approximately $8 million of future sales to nine different merchant cash lenders for $5.8 million. The cash out was so overwhelming that Goldman was unable pay landlords or vendors, much less his royalties. An attempt by Goldman to sell the company fell through in late 2019 and he had no other option but to file bankruptcy in February.

It looks as if the Sonic stores will be sold to the franchisor for $15 million, plus assumption of the leases. The Fuzzy Tacos have been closed and the Mod Pizza stores are up in the air.

Franchisees reading this story may think they would never find themselves in Goldman's position. However, let me point out one thing: The development and remodeling requirements the big asset-lite franchisors are placing on franchisees puts tremendous pressure on their cash flows. Franchisees with already too-high leverage ratios and big lease payments brought on by too many sale-leasebacks might find themselves in the same camp as Goldman.

Given all the financial engineering that's taken place in the restaurant business, the margin for error is very thin.

RESTAURANT FINANCE MONITOR

2808 Anthony Lane South, Minneapolis, Minnesota 55418

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

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