RESTAURANT FINANCE MONITOR®

Volume 24, Number 9 • Restaurant Finance Monitor, 2808 Anthony Lane South, Minneapolis, MN 55418 • ISSN #1061-382X

September 18, 2013

OUTLOOK

Potbelly's IPO Under Watch

Fresh on the heels of a successful Noodles & Company initial public offering in July (it is up 150%), Wall Street is pitching another restaurant deal to satisfy the fast-money crowd pining for the next Chipotle.

The investment bankers have nominated Potbelly as its second IPO star, not because toasted subs are hot products again or the company is outpacing other sandwich chains. No, this offering is coming to market because the IPO market is receptive and the private equity fund owners sense a big payday.

Potbelly's largest investor is Starbucks CEO Howard Schultz's investment fund, Maveron. Maveron's been an investor in the chain since 2001 and now owns 28% of the company. Schultz even served on Potbelly's board for a time. As outlined in the recently filed offering document, the company hopes to raise $75 million, $50 million of which is earmarked for a cash dividend to existing shareholders. So much for raising growth capital for a growing business.

Potbelly now operates 280 domestic company-owned stores and franchises six units. It franchises 12 units overseas. The company opened 31 new stores in 2012 and is likely to open the same number in 2013. It reported $275 million of revenue last year and adjusted EBITDA of $31 million. That works out to be around $1 million in sales for each 2,300 square foot location.

Potbelly was struggling in 2008 and had only $4 million of EBITDA when it hired Aylwin Lewis, a former Sears and Yum Brands executive. Lewis took over for Bryant Keil, an entrepreneur who bought the original Potbelly restaurant in Chicago in 1995 and led the company for 13 years.

One restaurant executive told me Keil did a great job as founder and architect of Potbelly's growth from an individual concept to multiple-unit chain status. Keil, he said, unlike most entrepreneurs, was smart to turn it over to professional managers. Lewis added the focus.

Potbelly employs a company-operated model, much like Chipotle and Schultz's Starbucks. It is selectively franchising, and according to its IPO offering documents "does not expect franchise activities to result in significant revenue in the near term." Because of the development focus, Potbelly's growth has been steady, but not compelling.

Continued on Page 6

Opening Finance Power Session Set For November Restaurant Finance & Development Conference

The **Restaurant Finance & Development Conference regularly features the top players in restaurant finance** and this year's conference is no exception. The conference opening Power Session provides attendees with **valuable market intelligence** about restaurant equity, debt and M&A markets. If you are planning a transaction in 2014, or just interested in where the industry and finance market is heading, you can't afford to miss this session. Here is our opening Power Session line-up:

Where the Smart Money is Mobilizing in 2014: Veteran Wall Street analysts **Michael Kelter of Goldman Sachs** and **Andy Barish of Jefferies**, join consultant **Jon Jameson of the Bellwether Food Group** to discuss their 2014 outlook for the QSR, Casual, Fast Casual, Family and Fine Dining segments. Jameson will also spotlight the top new concepts in the country and who's mobilizing for growth.

Rising Interest Rates: What Does it Mean for Capital Availability: This panel will focus on debt availability and the impact of rising rates in the restaurant space. Panelists include experienced restaurant bankers **Bob Bielinski of CIT; Nick Cole of Wells Fargo; Kevin Burke of Trinity Capital**; and **Trey Brown of GE Capital Franchise Finance.**

M&A Roundup: Valuations, Deal Flow and Sale and Acquisition Opportunities in 2014: This panel will comment on the current restaurant acquisition and sale market and includes bankers **Adam Birnbaum of Grandwood Capital** and **Jim Walsh of Jefferies. Operators include Greg Flynn of Flynn Restaurant Group (Applebee's and Taco Bell Franchisee)** and **Douglas Newhouse of Sterling Investment Partners (a private equity fund that owns SoCal Pizza, a large Pizza Hut franchise).**

We're also excited to welcome **KISS! founder and brand expert, Gene Simmons**, **actor and producer Henry Winkler**, and **Fox News contributor and Pulitzer Prize Winner Charles Krauthammer** as keynote speakers.

The conference is **November 4-6, 2013** at the **Wynn Hotel in Las Vegas.** Check out the entire line-up at www.restfinance.com. Register now and avoid disappointment! Last year's event sold out.

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FINANCE SOURCES

Trinity Advises on Sale of 62 Yum Restaurants

Trinity Capital, a investment banking firm that focuses on the multi-unit restaurant industry, recently served as an advisor to **Gateway Bells** in their sale of 62 Taco Bell, Pizza Hut and KFC restaurants to **Bell American Group**, a subsidiary of **Flynn Restaurant Group**.

Trinity developed and managed a highly competitive process that yielded a buyer "that represented the optimal combination of brand conformity, price and ability to close," the firm stated in a release. **Kevin Burke**, Managing Director with Trinity, told the Monitor in an interview that Gateway Bells owner Don Ghareeb wanted to semi-retire. Ghareeb himself had upgraded the operations and personnel when he purchased the locations years ago. Trinity sold the restaurants to Bell American in two pieces due to capital gains restrictions.

Flynn Restaurant Group is "a hard negotiator, but they operate a good and efficient system. They give you a fair price because they are so efficient," said Burke. "From IT to insurance to payroll, they just obliterate their costs." In other words, they can make their purchase work for them. And, because Flynn Restaurant Group has a good relationship with the franchisor, the sale "was easily approved by the brand."

Flynn will also have a higher percentage of ownership in the St. Louis DMA, which is also attractive, said Burke. "By having that controlling ownership in the area, they can offer a continuity of service and operations, and they control the customer experience there. They can set the standard for their market" and that accelerates success.

For more information on Trinity Capital, contact Kevin Burke, Managing Director, at (310) 268-8330, or by e-mail at kburke@ trinitycapitalllc.com.

TM Capital Advises Goldco on 14-Unit Acquisition

TM Capital, an investment banking firm whose focuses include the restaurant sector, recently advised Burger King franchisee **Goldco, LLC** on its acquisition of 14 units from **Fast Food Enterprises #2 LLP**. It is TM Capital's second advisory assignment with Goldco.

The investment banking firm advised **PNC Riverarch Capital**, a private equity firm, on its acquisition of a controlling interest in Goldco, from private investment firm Equicorp Partners, at the end of last year. It included Goldco concurrently acquiring 33 restaurants in Broward County, Fla., from franchisor Burger King Worldwide.

In one day, the franchisee became a 95-unit concern, said **Mike Locker**, Managing Director with TM Capital, who also worked on the deal. Fred Beilstein, Jr., is CEO, and Fred Beilstein III is CFO, of Goldco.

"We've been retained as their buy-side advisor," said Locker, "and we are currently reaching out to franchisees in the BK system, particularly in the Southeast. The franchisees finally believe they've unlocked the key (to success in the system), and the long-term outlook is positive. But do aging franchisees want to reinvest, or do they want to exit? We are accelerating an exit for them, if they choose."

The plan is to grow Goldco to 200 locations, and Locker says they have a healthy pipeline and continuing dialogue with franchisees. "We want people to know we are a good buyer, and that we can get to the finish line," he said. "We're not just putting together offers." He said each franchisee has their own unique demands, and so they are being flexible with structure.

PNC Riverarch, a part of PNC Bank, are extremely active, he added, and looking for other opportunities in the space.

"We have money to spend, and we believe in the long-term prospects of the brand," said Locker.

TM Capital is an investment bank based in New York, Boston and Atlanta that advises clients in completing mergers, acquisitions, financings, restructurings, and other strategic and financial transactions. For more information on TM Capital, contact Mike Locker at (404) 995-6252 or by e-mail at mlocker@tmcapital.com.

Capital Insight Completes Recapitalization for Second Largest Golden Corral Franchisee

The bankers with **Capital Insight**, an investment banking firm, acted as the exclusive financial advisor to **Platinum Corral, LLC**, in the recapitalization of the company's senior secured debt. The company operates 28 Golden Corral restaurants in the Southeastern and Midwestern United States.

The recapitalization was for $55 million, which included a $20 million senior term loan with **United Capital Business Lending** and $35 million in a sale/leaseback with two capital suppliers, **STORE Capital** and **Spirit Realty Capital**.

Platinum Corral's owner "wanted more bandwidth to grow his business, and this structure is a lot less restrictive for the company and their growth," said **Greg Landry**, managing partner with Capital Insight. They don't want to "worry about tripping convenants all the time and they want to grow."

In a separate transaction, Capital Insight acted as operational advisor to **Cave Creek Capital** in its acquisition of 74 Denny's and five Del Taco restaurants. According to Landry, the private equity firm wanted to improve and grow the assets, but sought to have a professional assessment from Capital Insight before making the investment.

The services included onsite visits to 60 Denny's locations, 14 of which were operated within Pilot Flying J Travel Centers, and five Del Taco's; P&L analysis and asset quality assessments of each restaurants. It also included recommendations on where execution could be improved to enhance asset performance and potential return on investment post acquisition.

"We were able to give thoughts on corporate culture, operational procedures, and just the entirety of the business," said Landry. "We needed to understand the company from the inside out."

For more information on Capital Insight, contact **Brett Bishov**, *Managing Partner at (480) 556-1864, or by e-mail at bishov@ capitalinsightllc.com.*

Auspex Capital Closes on Refinancings, M&A Advisory

Auspex Capital, a boutique investment banking firm, recently closed on the following deals:

• *Buy-side M&A and Debt Placement Advisory:* Represented **Gen2 Tacos, LLC** and **Gen2 Properties, LLC**, a Kingman, Ariz.-based Yum Brands franchisee in securing a $6.5 million senior secured term loan, including a $1 million line of credit for the acquisition of eight Taco Bell restaurants from the franchisor. The transaction was financed by **Regions Bank**. Gen2 Tacos and Gen2 Properties are owned by long time Yum Brands franchisees Mark Peterson and Krystal Burge who now own and operate 140 Yum Brands restaurants throughout Arizona, Southern Utah and Southeastern California.

• *Buy-side M&A and Debt Placement Advisory:* Represented **Mas Bells, LLC** and **Mas Tierra, LLC**, a Phoenix, Ariz.-based Taco Bell franchisee in securing a $7 million senior secured term loan for the acquisition of six Taco Bell restaurants from the franchisor. The transaction was financed by **City National Bank**. Mas Bells and Mas Tierra are owned by franchisees Ross Vogt and Arlen Korer, who now own and operate 45 Taco Bell restaurants in Phoenix.

• *Buy-side M&A and Debt Placement Advisory:* Represented **Full Tacos, LLC**, a Phoenix, Ariz.-based Taco Bell franchisee in securing a $2.5 million senior secured term loan, including a $1 million line of credit for the acquisition of five Taco Bell restaurants from the franchisor. The transaction was financed by **Bank of America**. Full Tacos is owned by **David Divine**, who now owns and operates 18 Taco Bell restaurants in Phoenix and New Mexico.

• *Buy-side M&A and Debt Placement Advisory:* Represented **WMM, Inc.**, a Phoenix, Ariz.-based Taco Bell franchisee in securing a $4.33 million senior secured term loan, including a $1.0 million line of credit for the acquisition of four Taco Bell restaurants from the franchisor. The transaction was financed by City National Bank. WMM is owned by Skip Chase, who now owns and operates 10 Taco Bell restaurants in Phoenix.

• *Buy-side M&A and Debt Placement Advisory:* Represented **Atlantic Restaurants, LLC**, a Seattle, Wash.-based Taco Bell franchisee in securing a $5.2 million senior secured term loan, including a $1 million line of credit for the acquisition of seven Taco Bell restaurants from the franchisor. The transaction was financed by City National Bank. The company is owned by Yum Brands franchisee Amin Vakil, who also owns and operates six Yum Brands restaurants in Seattle.

Auspex Capital is an investment banking and financial advisory firm specializing in the restaurant industry. For more information, contact **Chris Kelleher** *at 562-424-2455 or by e-mail at ckelleher@auspexcapital.com.*

Faris Lee Completes Sale of Applebee's Sites

Faris Lee Investments, a retail-specialized investment advisory firm, has completed a portfolio sale consisting of three NNN-leased, single-tenant, free-standing restaurant properties occupied by Applebee's in the states of Maryland, West Virginia, and Virginia. All three properties offered franchisee-guaranteed leases with 15 years remaining.

Matthew Mousavi, **Patrick Luther**, and **Nicholas Coo** of Faris Lee represented both the buyer and the seller in the transaction. The seller was **Noble AP II, Ltd.** a privately owned real estate company based in Florida, and the buyer was **Store Master Funding V, LLC**, a net-leased REIT based in Arizona.

Faris Lee Investments is a national real estate investment advisory firm, comprised of three integrated business platforms; Faris Lee Investment Banking, Faris Lee Capital and Faris Lee Advisors. The company's retail investment advisors and financing experts develop strategies for all retail acquisitions and dispositions and guide clients through complex transactions. For more information on Faris Lee Investments, contact **Rick Chichester**, *President/COO at (949) 221-1800, or by e-mail at rchichester@farislee.com.*

Weichmann Completes Sell-Side Advisories

Weichmann & Associates, a boutique investment banking firm, provided sell-side advisory to Ruby Tequila's, a five-unit Mexican chain, in its sale from **Palisade Capital Management** to **The Chalak Group**. The Chalak Group franchises The Genghis Grill and Baker Brothers, and is also a Yum Brands franchisee with approximately 30+ units.

"I get deals with some hair on them," said **Craig Weichmann**, Founder of Weichmann & Associates. As he explained, the former president of the concept was the landlord on two of the five locations, which also involved lawsuits. "It was a clean sale, and the company got control of the real estate."

Weichmann & Associates also advised on the sale of five-unit pizza and burger concept **EZ's Brick Oven & Grill** to The Chalak Group. Weichmann brough four bidders to the table. The chain, once at 14 units, struggled with a loss of focus and tired units, explained Weichmann. Restaurants were culled, and today, "the new leadership knows how to refocus and add energy to a once-tired operation."

The investment banking firm also completed the following:

• A non-traditional financing for Texadelphia, an 18-unit quick-casual cheesesteak restaurant chain. The company refinanced the debt with a minority equity investment from the parent company of the Golden Chick chain. That gives the owner a five-year window to expand, said Weichmann.

•Valuations for Marco's Pizza and Newk's Eatery. For Marco's, it's about providing shareholders with this information for an annual report, while Newk's wanted to guage where they were. "It's always good to have this information," said Weichmann.

For more information on Weichmann & Associates, contact Craig Weichmann at (214) 284-4951, or by e-mail at craig@meyermetzcp.com.

FINANCE SOURCES

TMC Financing Completes Second Financing with Church's Franchisee

TMC Financing, a Certified Development Company, recently provided SBA 504 financing for two Church's Chicken locations for franchisee **Amjad (AJ) Rashid** in Las Vegas.

The first location had a total project cost of more than $1.3 million, with TMC providing $491,000 for that location. The second site, which is still under construction, has a total project cost of $1.058 million, with TMC providing $383,000. The borrower put 15% down, while Town & Country Bank, based in Las Vegas, was the lender on both transactions. **Cindy Santilena**, senior vice president with TMC, worked with Rashid on the financing.

Rashid is a first-time restaurant franchisee and owner. With 20 years in the IT world, he was working 15 hours a day, and was often on call 24 hours a day at his corporate job. He had the hours and drive of an entrepreneur, "but the rewards weren't as great." If he was going to work that hard, he should build a business for himself, he thought.

He joined the Church's ranks because a good friend was a Church's franchisee and was successful with the brand. "They help you from falling down," he said. "I'm happy to give them a royalty because they give the information to be successful."

He plans on building No. 3 in 2014, and will go back to TMC for financing help. "Cindy has been patient and so cooperative when I had a lot of questions," he added. The executives at both TMC and Town & Country "are really good people."

"Because SBA loans are partially guaranteed by the government, it makes financing franchises less risky for lenders while providing better opportunities for the business owner," said **Barbara Morrison**, President and CEO of TMC Financing.

SBA 504 loans offer restaurant owners below-market, fixed-rate financing for the acquisition, renovation or construction of commercial real estate. In August, the 504 rate was 5.69%, she said, fully fixed for 20 years.

TMC Financing provides SBA 504 real estate financing throughout California and Nevada, and is the No. 1 Certified Development Company in Northern California and Southern Nevada. During the past 30 years, TMC has provided more than $7.2 billion in SBA 504 financing for more than 4,200 businesses, including more than 300 women-owned businesses. For more information on TMC Financing, contact **Barbara Morrison**, *President & CEO, at barbara@tmcfinancing.com, or by phone at (415) 989-8855.*

Mansbach Forms Aethos Consulting Group

David Mansbach, an expert in hospitality executive search and compensation consulting, has formed **Aethos Consulting Group** with two other partners. Mansbach was formerly president-the Americas at HVS Executive Search in New York, where he specialized in the restaurant business. The firm will have offices in London, Hong Kong and New York.

"I plan to continue my work helping restaurant companies and private equity funds upgrade their hiring strategies, and provide them with compensation consulting and organizational development," said Mansbach.

Mansbach has just launched a "to-the-point" executive compensation study covering the key elements of senior leadership compensation trends. He advises any organization wishing to participate in the study to go to www.aethoscg.com/restaurantcompensationsurvey. Survey participants will receive a complimentary copy of the report.

For more information about Aethos, contact David Mansbach at (516) 286-0150 or by e-mail at dmansbach@aethoscg.com.

CIT's Bielinski Provides Restaurant Sector Update

Merger and acquisition activity has generally been slow in 2013, but activity may be picking up. That's according to **Bob Bielinski**, Managing Director of corporate finance for retail and restaurants at **CIT**.

Bielinski believes the lack of M&A deal volume is part of what's causing favorable borrowing conditions—the capital that would normally finance acquisitions is available because the deals aren't happening. As a result, Bielinski says there is a very competitive lending environment.

What's causing the slowdown in M&A activity?

Bielinski says the sales performance in 2013 is turning out to be very similar to performance of the last few years— "there's generally steady improvement, but not without bumps in the road." Plus, many of the 2010 private equity transactions, according to Bielinski, were either turnaround situations, which take longer to prepare for sale, or acquired by strategic buyers. For 2011 transactions, he expects to see private equity owners begin to look at divestiture options next year.

For a copy of Bielinski's report go to http://www.cit.com/wcmprod/groups/content/@wcm/@cit/documents/images/2013-restaurant-sector-update.pdf.

Brentwood Associates: Smaller is Better

This is the first in a series of occasional articles that examine how private equity firms acquire and manage their restaurant portfolios.

"If the concept is relevant and has extraordinary unit economics, Brentwood [Associates] will look at smaller situations."— Managing Director Amy Forrestal of Brookwood Associates.

"Brentwood tends to focus on earlier stage, higher growth type companies." —Managing Director Damon Chandik of Piper Jaffray.

"Brentwood has been willing to pursue acquisitions maybe considered a little too small by other firms." —CIT Managing Director Bob Bielinski.

So how does the consumer-oriented private equity firm itself think about its four restaurant assets?

"We've been fortunate that some really interesting [concepts] have crossed our radar," declares Managing Director Rahul Aggarwal. "We try to be nimble and react to situations as they come, as opposed being didactic and saying there's only going to be x-number of retail or catalog businesses or restaurants in our portfolio."

The firm demonstrated its nimbleness last year by adding to two women's online catalogs to a portfolio of mostly mid-market consumer companies within months of each other.

Since 2011, Brentwood has acquired three restaurant brands and sold one. It added its latest restaurant company in July, acquiring a large stake in Huntington Beach, Calif.-based Lazy Dog Restaurant & Bar with its latest fund. The 12-unit full-service brand was founded in 2003. Brentwood also owns 20-unit Veggie Grill and the 90-unit Zoe's Kitchen, plus big Yum Brands franchisee K-Mac Holdings.

Brentwood sold Pacific Island Restaurants to Nimes Capital late last year, after acquiring the 80-plus unit franchise, which operates Taco Bells and Pizza Huts in Hawaii, Guam and Saipan, in 2004.

Restaurants nonetheless appear to be the safer bet today for a firm that has typically acquired small- and medium-size companies since the early 1990s. That's because, Aggarwal reasons, restaurants are not exposed to the same kind of "disruptive business models" (read: online) that continue to undermine brick-and-mortar retailers.

Restaurants, after all, provide an experience and a product that's produced on-site. To date, no Internet entrepreneur has figured out how to do that virtually and deliver it to a customer. "So there's sustainability as the result of being what they are and being safer in an economy where some businesses are being turned on their ear every day," he says.

The economy, however, is a different story – and one that doesn't look promising for foodservice operations. Same-store sales dropped two-tenths of a percent in August, compared with a 1 percent drop in July and flat sales in June, reported Black Box Intelligence, a restaurant benchmarking company. The Bureau of Economic Analysis reported that disposable income, on which restaurants depend, had inched up just two-tenths of a percent from March to July.

Yet Aggarwal remains upbeat, arguing the risk of owning restaurants "is not quite as correlated with GDP as you might think." He cites differences in commodities, consumers, and geographies, which attenuate the impact of an up-and-down economy.

"We don't want an entire fund of restaurants by any stretch of the imagination," he declares, adding that of the firm's 11 companies in Brentwood's last fund just three were restaurants.

But the firm's partners do want to latch onto what Aggarwal describes as share-taker and new-guard brands. "We are much more focused them," he says. Enter Lazy Dog, the first full-service restaurant Brentwood has backed. But investing in a budding casual-dining chain when that segment's performance has been dismal since 2009? Aggarwal concedes that from the outside the concept could be mistaken for a mass-casual-dining eatery "with a slightly better build out."

However, he adds, inside Lazy Dog there's "a very inventive menu with a lot of interesting flavor profiles that you don't see at this price point. Its multiple dayparts work for families, foodies and people going out on a date. We are in the very early innings of how great this concept is." Aggarwal declined to share its four-wall unit economics.

Investment bankers claim the private equity firm doesn't invest in restaurants that have less than "extraordinary" growth prospects and ROI. Forrestal, who represented the sellers of Zoe's Kitchen, cites cash-and-cash returns of 50 percent or better. The Mediterranean fast-casual, for example, had 19 units when it was acquired in 2007; today it boasts 90 company-owned and franchised outposts.

Aggarwal maintains that while unit economics are certainly crucial they don't predict future performance. As important is the company's management. "Is there a team here that can open stores effectively? Because unit economics change every time you open a new store. Both concepts Veggie Grill and Lazy Dog are in Southern California, but the thesis is they will open more stores not in Southern California. So all that matters as opposed to just can we get a cash-on-cash return that makes sense. That isn't a totally sustainable strategy."

"They'll need 20-30 [Lazy Dogs] before they know anything, or get some G&A leverage," says consultant John Gordon of Pacific Management Consulting Group. "They are smart financial types yet seem to recognize they need operators on board. They are founder- friendly."

— David Farkas

OUTLOOK

Continued from Page One

Potbelly is just one of many sandwich concepts competing for the lunch trade. It's a crowded space. Frankly, there are faster growing and better-run sandwich chains than Potbelly.

Potbelly's Illinois neighbor, Jimmy John Liautaud has almost 1,700 Jimmy John's stores open, five and a half times as many stores as Potbelly. Liautaud opened 231 stores in 2012 and this year will opened 275 to 300 new locations, 73% of them, he pointed out to me in an email, are to current owners.

According to franchise disclosure documents, Jimmy John's average unit volume is almost $900,000 per store compared to Potbelly's $1,069,000. For a potential franchisee looking to invest in one or the other, Jimmy John's sounds like the better deal. It costs around $400,000 to open a new Jimmy Johns location, while a new Potbelly costs upwards of $600,000.

Founders Chris and Robin Sorensen of Firehouse Subs opened 95 stores last year and plan on opening more than 100 new ones this year. The pair have over 600 locations now open, primarily franchised, including 30 company-owned ones. Chris is a former firefighter and accomplished guitar player. Robin, also a former firefigher, has lived and breathed the sandwich business since 1995.

Firehouse Sub stores average around $700,000 in annual sales and its investment range ranks between a Jimmy John's and a Potbelly. Greg Delk, the company's director of franchise development, told me the United States franchise market for Firehouse is essentially sold out to area developers.

Jersey Mike's plans to open 125 stores this year, and will have almost 700 locations by the end of the year. The chain plans to double the number of units it franchises within five years. Peter Cancro, its founder and CEO, bought the company when he was 17 years old and is still actively involved in the brand's expansion plans.

Potbelly has plenty of catching up to do to keep up with these fast-growing sandwich chains. The big three—Jimmy John's, Firehouse Subs and Jersey Mikes—were recently ranked among the 10 fastest growing big restaurant chains in the U.S., according to the Chicago-based consulting firm Technomic.

There are many other up-and-coming chains in the sandwich category, too; some with unique consumer propositions. Capriotti's (96 units) roasts whole fresh turkeys overnight, and should end up with over a hundred stores by the end of the year. Erbert and Gerbert's, a Wisconsin-based chain, has 70 stores open.

Jason's Deli (250 stores) and McAlister's Deli (312 stores) have higher unit volumes than Potbelly and are expanding. Penn Station (257 stores) specializes in cheesesteak sandwiches and fresh cut fries. They grill their subs instead of toasting them. Even Schlotzsky's, which tapped out at over 750 stores in 2001 and closed hundreds of stores, is growing again with a new prototype.

The big elephant in the lunch room we haven't discussed is Subway. It cranked out 822 domestic stores last year and now has over 26,000 stores operating in the U.S. Its marketing budget, now approaching $400 million, is larger than all of the sandwich chains' marketing budgets combined. Subway is everywhere, although its average unit volumes pale in comparison to Potbelly and the others.

Sandwich elitists would argue Potbelly is more upscale than a Subway or Jimmy Johns, and could dominate the high end of the sandwich market. However, the lunch business is proletarian not bourgeoisie. Lunch is food for the body, not the soul. The rising popularity of food trucks, dollar menus, convenience store food offerings and taco shops is evidence of lunch's class neutral status. Lunch is all about value and speed of service, the latter of which Potbelly needs to work on.

I'll admit to not being a big fan of Potbelly. The portions seem small and the service is painfully slow. The interiors are brooding and they look to me like a Benedictine monk consulted on the design. The smart money invested in this one, but it's clearly not the best player in the segment.

Keep in mind the sandwich segment is not without casualties. Quiznos once had 5,200 units. It was considered upscale too. The chain has less than 2,000 in the U.S. now. Blimpie once had 2,000 units. It now has 600. Togo's, once owned by Dunkin Donuts and Baskin Robbins, had 450 stores at one time. It has 250 now, although it is growing again.

Potbelly hasn't set land-speed records for growth. Its company-store model chews up capital to build new units. The franchise model seems more suited to the sandwich business, and Potbelly has been reluctant to adopt it. That may change once the company is public and the "suits" have cashed out.

Adam Birnbaum, managing director of Grandwood Capital, an investment banking firm, thinks the Potbelly offering will be successful and isn't surprised by the big dividend paid to existing Potbelly shareholders from the IPO proceeds.

"I don't think it will hamper the public market reception as restaurants are still basking in the glow of the Noodles deal," said Birnbaum.

Jimmy John, the Sorensen brothers, and Peter Cancro will be keeping a close eye on the Potbelly IPO.

Cracker Barrel's Groundhog Day

Shareholders of Cracker Barrel Old Country Store should pray the proxy battle between itself and Sardar Biglari is never settled. Cracker Barrel stock, which is up 67% this year, and has climbed 243% since Biglari began accumulating it in April 2011, will collapse of its own weight if this fight is ever settled.

Sardar Biglari is the largest shareholder of Cracker Barrel, and his current holding, 4.7 million shares, represents just shy of 20% of the outstanding shares. His stake sports a market value of almost $500 million, double what he paid for it.

Biglari owns almost three times as many shares as the next largest shareholder—The Vanguard Group. His shares dwarf the measly 189,000 shares owned by Cracker Barrel's directors

and executive officers, most of which were granted to them, by themselves, of course. That's how public company officers and directors get rich.

For the third straight year, Biglari is agitating to gain two board seats for himself and his partner, Phil Cooley. And, like the movie Groundhog Day starring Bill Murray, Cracker Barrel's board has the gall to deny Biglari a spot among its venerable directorship. The company even instituted a special anti-Biglari "poison pill" in April 2012 that dilutes any shareholder who acquires 20% or more of the company. They really dislike this man.

Despite the "no skin in the game" disparity, Cracker Barrel's board and management team had the nerve to suggest the company's 2013 strong share performance was the result of the company's "six strategic priorities" adopted in 2011. Talk about rubbing it in Biglari's face. He's the reason the stock is up.

He started buying Cracker Barrel in April 2011 when it traded around $44. Biglari reached his mandatory 19.99% limit in November 2012 acquiring stock in that time frame for around $60 per share. Since the beginning of 2013, Cracker Barrel's stock has been on a tear. It's risen from around $63 per share to over $107 per share yesterday. The company's enterprise value is approximately $2.8 million, roughly 11 times EBITDA.

Today, the interest in Cracker Barrel comes from investors in two camps: Those who believe the company will ultimately be sold to Biglari, or another third party at a premium. And, investors who like the company's annual $3-per-share dividend and its propensity to increase it.

Biglari is in no hurry to throw in the towel, despite the odds against him getting on the board this time. He's already turned down two buyback offers from Cracker Barrel's board to repurchase his interest, most recently in February for around $70 per share. The company is paying Biglari $14.2 million in annual dividends and has increased it, recently by 50% in June. As long as investors believe Cracker Barrel will pay more, Biglari is in the driver's seat.

Never content to just sit on his gains, Biglari is upping the ante. He's lobbying the company for special $20 per share dividend, $94.5 million of which would go to him. He is going to force a special meeting to make shareholders vote on it. Cracker Barrel must come up with some cash to appease him.

The worst possible outcome for Cracker Barrel shareholders would be to let Biglari on the board. It would eliminate the takeover premium Biglari brings to the table each year with his annual proxy fight.

The second worst possible outcome would be for Cracker Barrel to buy out his interest. Without Biglari, or the threat of takeover, that would eliminate the sideshow and leave investors to focus on a stale, 40-year old family dining concept that gets most of its same store sales gains from price increases.

BK Wants To Avoid the Ackman Touch

The activist investor, William Ackman, most recently of J.C. Penney long and Herbalife short fame, is also a major investor in Burger King. According to Burger King's most recent proxy filing, Pershing Square Capital Management, the investment fund controlled by Ackman, owns 12% of the outstanding shares of the company.

In a recent letter to his suffering investors, Ackman acknowledged his investments in retail have not fared well. The fund has suffered major losses in J.C. Penney, Target and Borders in past years. His recent $500 million loss in J.C. Penney is noteworthy. He recruited former CEO Ron Johnson, an Apple executive, to Penneys. Johnson was responsible for the Penney's extreme makeover and subsequent sales decline. Just recently, Ackman picked a fight with fellow Penney board members over the timing of Johnson's replacement, and then exited his share position at a huge loss. Talk about picking up your toys and stomping home!

Starbuck's CEO, Howard Schultz, ripped Ackman in a recent interview on CNBC with Maria Bartiroma, calling Ackman's attack on the JC Penney board and interim CEO, Myron Ullman, as a "despicable act." Ullman, it should be noted, is on the board at Starbucks.

What does Ackman see in Burger King?

According to Ackman, Burger King trades roughly in-line with Dominos, Dunkin Donuts and Tim Hortons, all of which are similar, 100%-franchised QSR concepts. However, Ackman sees in Burger King, a "superior global footprint and global brand awareness, which, when coupled with the company's global joint venture business model should allow for superior long-term growth and investment returns."

Ackman sees the company refinancing approximately $1.4 billion of high-interest rate debt which he says would "save the company $.11 cents per share on an after-tax basis. He also says Burger King has less leverage than its peers and could choose to increase its leverage to return a large amount of capital to existing shareholders in the form of a dividend and/or share repurchase." Ackmann also says he likes the "strength and execution of the BKW management team" and "high growth business model."

Burger King franchisees, not exactly enamored with the senior executive team, are praying Ackman's stock picking prowess doesn't clip them as it did Penney's.

—John Hamburger

P.S. I'm looking forward to seeing all of you at our November conference at the Wynn. We are expecting another large turnout. We are looking for a few more up & coming companies to participate in our "Pitch Sessions." If you are an early stage venture looking for start-up capital, this is your chance. E-mail me if you are interested at jhamburger@restfinance.com.

CHAIN INSIDER

It's apparently difficult to find good spots to build a doughnut shop in Los Angeles, as Dunkin' Donuts is finding out. We're hearing that Dunkin' has had to step in for franchisees and find sites there, and even buy locations to lease them to franchisees, because rent costs there are so high. Dunkin' is eager to break into the Los Angeles market. But lest anyone think Dunkin' is alone, we've also heard that Krispy Kreme's franchisee there is opening locations further into the suburbs for the very same reason.

We can't think of any refranchising program in recent memory that has been as competitive as the one Wendy's just announced. The first clue was the move into the system by the big Pizza Hut operator NPC International, mere weeks before the refranchising was announced. Large operators don't go into a new brand unless that brand has a refranchising program in place. Then there was the 30-unit purchase by big Wendy's zee Junior Bridgeman, who brought Detroit Pistons guard Chauncey Billups with him. Now there's this: we've heard about a well-regarded existing Wendy's franchisee that was turned down as a buyer. The reason? He's too small.

Michael and Aaron Serruya, owners of the Canadian frozen yogurt chain Yogen Fruz, purchased the Arizona franchisor Kahala last month. Kahala owns Cold Stone, the ice cream chain that has struggled with franchisee relations, and the shrinking sub chain Blimpie. But it also owns Cereality—which, observers might recall, was briefly one of the hottest stories in franchising. Diners bought cereal by the bowl. Staff uniforms were pajamas and slippers. College kids loved it. So Kahala bought it in 2007 … and then the concept fell off the map. Today, Cereality has just two locations, both co-brands. Apparently, diners realized they were buying cold cereal from a restaurant.

Catterton is apparently on the prowl for some health-food chains. According to reports, the private equity group is close to a $22 million investment in the Chicago-based health food chain Protein Bar. It's also close to an apparent $15 million investment in the Austin-based health food chain Snap Kitchen.

Has Subway reached its peak? Maybe. The company, which had enjoyed a nice run thanks to that long-running Jared campaign and then $5 footlongs, apparently isn't getting much traction with its latest discount, the $4 lunch. We were told that same-store sales have been down this year, and traffic growth has been a struggle at the chain (and a recent story in the New York Post echoed the same thing). Lower-cost concepts have generally struggled to add sales, and we'll note that some of the fastest and best performing concepts out there right now are its direct competitors. But we do wonder whether it has grown too large, at least in the U.S.

Former Piper Jaffray investment banker, Darren Acheson, co-founded Mill City Capital in 2010 and has made five equity investments. In late 2012, the firm, based in Minneapolis, made an investment in JMH Premium, a Utah company that manufactures soup and flavor bases, gravies and other specialty products sold to chefs, restaurants and food manufacturers. Mill City is currently raising capital for a new fund and is looking to invest in companies with EBITDA of $7.5 million to $25.0 million, primarily ones located in the Midwest.

Veteran restaurateurs **Richard Reeves and Mark Krumin** have organized Tap House Ventures, LLC to own, manage and finance the development of up to 10 new **World of Beer** franchise locations in Florida, North Carolina, South Carolina, Rhode Island/Massachusetts. The company is looking to raise $10.5 million from up to 10 EB-5 investors. (See Dennis Monroe's article about the EB-5 program on the next page.) Reeves and Krumin are currently the largest franchisees in the system operating 10 franchised World of Beer stores. **Paul Avery**, the former president and COO of Outback Steakhouse, is a major investor in the franchisor.

Steve Johnson, the former CEO of F&H Acquisition Corp, which owns and operates the Champps, Fox & Hound, and Bailey's restaurant concepts has joined the board of **Good Times Burgers & Frozen Custard**.

EB-5 Program Opens A New Finance Avenue For Restaurants

By Dennis L. Monroe

The restaurant community has recently embraced a unique tool to secure additional capital for restaurant development. Restaurant owners who have proven concepts and need to develop are taking advantage of the EB-5 Program, also known as "buying a Green Card." This legislation was enacted in 1990 to stimulate the U.S. economy through job creation and capital investment by foreign investors. (There is also an entrepreneur-oriented program known as EB-1, which we will discuss in a future article).

The EB-5 Program offers permanent legal residence to an immigrant who will invest either $500,000 (for target areas) or $1 million in a U.S. business that creates 10 verifiable new full-time jobs for U.S. citizens or legal residents. The 10-new-jobs requirement is upheld stringently in cases where the investors target a stand-alone business.

A less demanding—and more popular—option allows investors to invest in so-called Regional Centers, entities created by business owners to promote economic growth in a designated geographical area. In these cases both direct and indirect job creation within the area will count toward the EB-5 requirement. A vast majority of EB-5 investments are made through Regional Centers.

Aside from making separate, individual investments, EB-5 investors can pool their funds to invest in an enterprise, again with the object of creating at least 10 new jobs per pool member. All jobs created by a pooling arrangement are distributed evenly among investors.

The EB-5 Program has attracted a number of investors from Asia—mainly China, South Korea and Taiwan—and has enjoyed considerable success in the hospitality industry. We recently have seen restaurant owners and even franchisors of restaurant concepts actively seek out groups that can secure appropriate types of foreign investors.

Let us look at a sample structure for the use of this program. In most cases the restaurant group will connect with an EB-5 specialist (who will often turnkey the investment process). The specialist lines up the investors, conducts the due diligence on the concept, provides a term sheet, and retains both immigration and corporate/securities attorneys (the latter must be familiar with establishing an investment product, which is really a private placement, as the vehicle to invest in the restaurant target).

The investment vehicle needed to satisfy the EB-5 requirements can take various forms, but the structure needs to be equity, not debt. The investment needs to continue until all governmental requirements are completed.

The funds received through the private placement are usually invested in a newly established restaurant entity; and these funds are used for any real estate, equipment and soft costs. In the case of a franchise restaurant, the restaurant investment entity that owns the assets would then enter into an agreement with the franchisee who is approved by the franchisor. The operating partner normally oversees this process. The investor does not need to be involved in the day-to-day management of the business but does need to have some meaningful involvement.

The EB-5 investment is similar to the type of approach used in attracting private equity investors, except in most cases the foreign investor does not have the type of control rights and say that the private equity group does. Further, the foreign investor generally has a defined exit strategy, which is normally some type of put or call provision after five years, which allows the target company to take the investor out. If the investor is not taken out, the investor would have a put right at the end of the same five-year period to obtain his investment back. If the company cannot pay back the investor's investment, there may be a forced sale provision allowing the investor to sell the company and get back his investment.

Given the above structure, there are a lot of hoops that need to be jumped through. Securing an attorney who is familiar with and involved in the EB-5 Program is necessary to develop a successful approach. In addition, it is necessary to have full compliance with the various security laws (both private placement and credit investor) and potential state filing requirements. This is a securities offering; and the fact that there is a foreign investor gives rise to additional hoops along the way.

Here is the timeline for the EB-5 investor. In most cases, the immigrant investor will be investing in a shelf-ready investment put together by the promoter or the restaurant group. There is a three- to six-month waiting period for investor approval. Once approved, the investor has six months to land in the United States. A filing is required within 20 to 24 months after landing. The permanent U.S. visa approval is 10 to 12 months after the filing of the proof of job creation.

For restaurant owners seeking alternative sources of financing to grow their system, the EB-5 Program may be a good fit, particularly if the restaurant concept is one that has a lot of bricks, mortar and significant investment. The program is a cheap way of gaining the potential investment dollars with minimal strings attached for the operator and the restaurant concept.

Dennis L. Monroe is a shareholder and Chairman of Monroe Moxness Berg PA, a law firm specializing in multi-unit franchise finance, mergers and acquisitions, and taxation. For more information, contact Dennis at (952) 885-5999. For previously published articles, please refer to our Web site at www.MMBLawFirm.com.

Potbelly Corporation

PBPB

Initial Public Offering (Subject to Completion)

Date Filed: August 29, 2013
Offering size: $75 million
Price per share: To be determined
Underwriters: Bank of America Merrill Lynch; Goldman Sachs; Baird, Wlliam Blair; Piper Jaffray
Use of Proceeds: The company will use approximately $49.9 million of the proceeds to pay a cash dividend immediately prior to the closing date of the offering. The remaining net proceeds will be used for working capital and general corporate purposes.

INCOME STATEMENT

Twenty-six weeks ended June 30 2013

Revenues:.....................$146,930,000
Net Loss:................................($7,524,000)
Net Loss Per Share..........................($1.77)
Adjusted EBITDA.................$16,183,000

BALANCE SHEET

As of July 2, 2013

Cash:..................................$21,747,000
Long-term Debt:.................$19,162,000
Shareholders' Deficit:........($175,095,000)

SUMMARY:
Potbelly Sandwich Works is a neighborhood sandwich concept offering toasted sandwiches and salads. As of June 30, 2013, the company consisted of 286 stores in the United States. Of these, six were operated by franchisees. There are 12 franchised stores located in the Middle East. The company has had positive comparable sales in twelve of the last thirteen quarters.

As of June 30, 2013, American Securities, Benchmark Capital Partners, Maveron Equity Partners, Oak Investment Partners, Oxford Blackpoint Venture Partners, Sheila Keil and WI-Potbelly LLC owned in the aggregate shares representing approximately 82% of the outstanding voting power of the company

Buffalo Wild Wings

BWLD

Plans to develop PizzaRev restaurants in the Minneapolis/St. Paul market

Note: In an investor conference call on July 30, 2013, Buffalo Wild Wings CEO, Sally Smith, stated the company was "actively looking for potential sites for our own PizzaRev locations in the Minneapolis metro area." Smith said the company hopes to open a PizzaRev store by the first quarter of 2014.

INCOME STATEMENT

Six months ended June 30, 2013

Revenues:.....................$609,371,000
Net Income........................$32,868,000)
Net Income Per Share....................$1.75

BALANCE SHEET

As of June 30, 2013

Cash:..................................$23,499,000
Shareholders' Equity:..........$420,785,000

Summary:
In March 2013, Buffalo Wild Wings acquired a minority interest in PizzaRev. PizzaRev is fast casual pizza restaurant serving build-your-own pizzas and beverages. There are currently six PizzaRev restaurants located in the Los Angeles area.

Previously, Smith told investors that "PizzaRev is an exciting first step in pursuing additional domestic growth through emerging brands."

According to PizzaRev's recently filed franchise disclosure document, PizzaRev restaurants averaged approximately $612,000 for the 26-week period ending June 30, 2013. Food costs for the same period approximated 30%.

Buffalo Wild Wings CEO, Sally Smith and Kathleen Benning, Executive Vice President of Global Brand and Business Development, serve on PizzaRev's board of directors.

Buffalo Wild Wings continues to search for additional emerging restaurant concepts with high growth potential.

Aramark Holdings Corporation

Initial Public Offering (Subject to Completion)

Date Filed: September 9, 2013
Offering Size: $100 million
Use of Proceeds: The company plans to repay some of its existing debt, including a portion of the outstanding term loans due July 26, 2016 under our senior secured credit facilities.
Underwriters: Goldman, Sachs & Co.; J.P. Morgan; Credit Suisse; and Morgan Stanley

INCOME STATEMENT

Nine months ended June 28, 2013

Revenues:.....................$10,430,000,000
Net Income........................$30,000,000)
Net Income Per Share....................$.15

BALANCE SHEET

As of June 28, 2013

Cash:..................................$98,000,000
Total Debt:.................$6,217,000,000
Shareholders' Equity:........$829,000,000

SUMMARY:
Aramark provides food, facilities and uniform services to education, healthcare, business, sports, leisure and corrections clients. The company operates in 22 countries in North America, Europe, Asia and South America has approximately 267,000 employees.

Approximately 80% of the company's operating income comes from North America.

In 2007, ARAMARK, formerly a public company was taken private by investment funds affiliated with GS Capital Partners, CCMP Capital Advisors, J.P. Morgan Partners, Thomas H. Lee Partners and Warburg Pincus. In addition, approximately 250 senior management personnel took part in the transaction.

ANALYST REPORTS

McDonald's
MCD-NYSE
(Neutral)
Recent Price: $97.71

McDonald's is the largest restaurant chain in the world by system sales. The Chicago-based burger giant has nearly 35,000 restaurants worldwide, many of them franchised, in 119 countries.

McDonald's had a decent August. The company's global same-store sales grew 1.9%, thanks entirely to a surprising 3.3% improvement in Europe. Asia's comps fell 0.5%, and in the U.S. comps grew 0.2%. That was "in line with expectations," said **Lazard Capital Markets** analyst **Matthew DiFrisco**. He believes that Monopoly, "and a likely improving consumer environment from July," drove what he sees as an acceleration in the two-year trend. He also believes that the coming introduction of Mighty Wings to McDonald's menu should provide a "slight boost" to comps in September, driven by "trial traffic." But the big improvement came in Europe, where McDonald's was apparently strong in the UK, France and Russia. Nevertheless, DiFrisco kept his neutral rating on the stock, which he said, "reflects our expectations" that global comps will contract in the near-term "as competition remains high," and without any comp catalysts. "We expect a more gradual recovery."

Red Robin Gourmet Burgers
RRGB-NASDAQ
(Hold)
Recent Price: $68.78

Red Robin Gourmet Burgers is the burger-centric casual dining chain based in Greenwood Village, Colorado. The company operates 480 restaurants, 134 of which are franchise owned.

Watch out, Red Robin. Here comes Wendy's and Ruby Tuesday's. The two burger chains, one a QSR, the other a casual diner like Red Robin, have come out with their own high quality pretzel bun burgers recently. And that, according to **Wunderlich Securities** analyst **Bob Derrington**, is one reason he downgraded Red Robin to Hold from Buy. Of course, that's not the only reason. After all, the company's shares have more than doubled over the past year. Derrington loves the job management has done at Red Robin, but he said much of that work is already reflected in the shares. The shares, "having attained 96% of our price target juxtaposed with the potential risk from increased competition including new better-burger competitors, we have adopted a more cautious approach and have moved our rating from Hold to Buy."

Yum Brands
YUM-NYSE
(Neutral)
Recent Price: $72.65

Yum Brands is based in Louisville, Kentucky and is one of the largest restaurant companies in the world. It operates Taco Bell, KFC and Pizza Hut in the U.S., but also has substantial holdings in China and other countries. The company operates or franchises about 39,000 restaurants worldwide.

China again did Yum Brands no favors. The big Louisville company reported that its same store sales fell 10% in China in August, below consensus expectations of a 7.3% decline. KFC's comps fell 12%, while Pizza Hut's comps there grew 3%. **Citi** Analyst **Greg Badishkanian** said that the company's brand image is "slowly recovering," and he expects a strong bounce-back in 2014. "This year, the poultry supply issue and avian flu affected KFC," Badishkanian said. He noted that there was 70%-plus awareness of the poultry supply issue, and many consumers considered that to be industry wide, but KFC was impacted the most. In response, KFC launched "Operation Thunder" to rebuild consumer trust. As a result, consumers' views of the KFC brand have been improving. Badishkanian noted that the company believes this should help launch a comeback next year.

ANSWER MAN

Answer Man's Thoughts On The Stock Market

What advice would you give to those interested in investing in the stock market?

Do it yourself. I'm not a big fan of financial planners. Of course they preach a diversified portfolio of stocks and bonds, with the mix arranged according to your age and level of risk. There is nothing wrong with that advice, it's just that you won't get rich. A planner says a young person just out of college should be heavily weighted in stocks (for more risk), while an 83-year old business owner should be invested in bonds. Well, guess what? The 83-year-old businessman, Warren Buffett, number two on the Forbes 400, is 100% invested in stocks.

Not everyone has the ability of Buffett, nor the capital.

Consider the alternative: Financial planners put their clients in mutual funds where managers buy stocks according to their relative size and risk. What I've noticed is the small cap funds buy Apple, the midcap funds buy Apple and the large cap funds buy Apple. The mutual fund takes a cut and so does the planner. Imagine this going on with every mutual fund and financial planner in the country. The more money these guys manage, the more they follow the herd and underperform the market. Once you factor in the fees, you are missing out.

How hard is it to buy Apple direct?

Anyone can open a Fidelity or Scottrade account and buy any stock in their own account, sans all the big fees. It all depends on how much time and effort you want to put into research.

Let's say I am interested in putting in the time to invest on my own. Do you follow anyone's advice?

I would heartily recommend studying Warren Buffett. You can download his annual reports from the Berkshire Hathaway web site. Also, find his letter on line he wrote to Katherine Graham of the Washington Post where he gives his theory of investing. This gives you insight into how the guy thinks. He's compounded gains at a 20% clip too many years to ignore him.

Give me a snapshot.

Buffett's logic is this: If you are making business decisions in your job on a daily basis, why not consider purchasing a common stock using the same thought process as if you were purchasing a business to add to your company? Buffett looks to buy pieces of businesses, that because of the fluctuation of the market, are trading at a fraction of their long-term value. The difference between this method and simply investing in a mutual fund according to Buffett, "is a matter of attitude, whereby the results of the business become the standard against which measurements are made rather than quarterly stock prices."

Who else would you recommend studying?

Howard Marks. He's recently written a book called *The Most Important Thing Illuminated*. Buy it. Marks is the chairman of Oaktree Capital Management, a Los Angeles-based investment firm. He believes the market is always swinging between fear and greed, optimism and pessimism. When the market reaches an extreme, errors occur because of actions of the herd. A good example of this would be Facebook. Investors clamored to buy the stock when it came public at $38, and when it didn't go up, the herd bailed out. When the stock hit a low of $17.73, there was universal pessimism and many analysts said it would go lower. The investors who had superior insight into Facebook bought the stock at a huge discount. Today, it's $45 per share.

Give me a restaurant example.

In March 2009, AFC Enterprises (Popeyes) traded at $3.87 per share. CEO Cheryl Bachelder was already making progress converting the chain to its new format—Popeyes Louisiana Kitchen. The company earned $.75 a share for the year ended in 2008. It was primarily franchised and had little debt. Yet, the stock was trading at a fraction of its intrinsic value. Someone with superior insight into AFC should have "backed up the truck" as they say, and bought the stock. Yesterday AFC closed at $43.81. Marks would argue the investor has more at risk today, when everyone is in love with stocks, than it had four years ago when no one wanted to be near them.

So you need to take a contrary view of things?

Marks states few people are able to act as a true contrarian. When the market is suffering, more people become bearish. Likewise, Marks says when the market is up big, no one says "I'm in trouble." Instead, they send in more money. You could see it with houses. In 2009 and 2010, a few hearty souls stepped up to the plate and bought houses. Now that housing prices are on the mend, there are more buyers than sellers.

What would Marks say about restaurant stocks now?

He'd be skeptical. Look at the market's reaction to the Noodles IPO. It's almost tripled. Marks' argument would be investors in high-multiple restaurant stocks are too risk tolerant, and security prices embody more risk than they can return. Look at YUM brands. Their business has collapsed in China, but the market doesn't seem to care.

RESTAURANT FINANCE MONITOR

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Subscription Rate: $395.00 per year. $650.00 for two years.

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