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My Take On The Top 200 Franchisees

By Dennis Monroe

The Monitor 200 provides an interesting look at key franchisee operators who have a bearing on our industry and the financing world. The list over the last three years certainly has evolved, but many of the principals and the distribution of concepts that existed in 2014 have carried over to this year's list reflecting 2016 operations.

A few things have occurred to me after perusing the ranking:

Observation 1: We now have three operators who are billion-dollar franchisees. Not long ago there were none. Curiously enough, No. 200 on the 2015 list (which is reflective of their 2014 sales), had sales of $32 million. This year the No. 200 (which is reflective also of 2016) had sales of $45 million. This is nearly a 50% increase over the last two years at that spot. It is clear operators in this industry are either getting bigger or don't make the list.

Observation 2: Out of the top 15 operators this year, all but two were multi-concept businesses; that's down from last year when there were three. What is interesting is if you take the next 35 operations (which I'll call the Top 50), a third of the operators have just one concept. As we quickly move down the list, less than half of the operators in the bottom 50 have multiple concepts. It seems the smaller operators—while they aren't small—are still more focused on a single concept than trying to just grow revenue through multi-brands.

Observation 3: Further, this issue of concentration and diversification into multi-concepts tells us that when you get big, you basically can get overly concentrated in one system so diversification is key. The top operators have been dominated by Burger King, Yum! and Applebee's franchisees. With Applebee's having its unique problems, the operators have had to turn to other concepts or not expand. This also holds true with Pizza Hut. Top operators of family dining and casual dining have moved into QSR. Surprisingly, the top 15 operators have not embraced fast casual.

Observation 4: The No. 1 company, Flynn Restaurant Group, has 485 Applebee's as a primary concept, 232 Taco Bells and 97 Paneras as a secondary concept. MUY! Companies has an equal mix of Pizza Hut and Wendy's restaurants. It is clear the top-tier operators, when they expand, go into it big time.

Observation 5: What also strikes me in the top 50 operators is most choose well-known or tier-one or tier-two concepts. Except for the case of small developments in Au Bon Pain and Corner Bakery and Blaze Pizza, the other secondary concepts are all well known.

It is also interesting to note in the top 50 operators there are a couple of secondary concepts that seem to be dominant: Panera, Popeyes, and Sonic. I used to think QSR operators probably would not pursue casual dining brands, but that does not seem to be the case. An example of this is Pacific Bells, a large Taco Bell operator that has expanded and now operates 39 Buffalo Wild Wings. Casual dining operators lean toward simpler concepts in choosing a secondary expansion concept.

Observation 6: The bottom 50 operators do more experimentation with new concepts, particularly some of the emerging pizza and sub concepts. Their secondary concepts have substantially fewer units than their primary concepts.

Observation 7: What is curious about the Top 200 list is fast casual is not a dominant factor on this list, particularly among the larger operators. The exceptions seem to be Panera and McAlister's Deli, and perhaps Blaze Pizza.

Observation 8: Private equity's investment in the restaurant industry supports the financial objective of growing and deploying more capital. But, what is also striking is there continues to be a growing group of closely held company operators who have obtained adequate financing to do acquisitions and develop without the help of private equity. Also note that private equity needs to do acquisitions to provide the kind of growth they are looking for rather than development and/or organic growth. Once private equity is involved in a concept with an operator, they have an appetite to grow and swallow up smaller operators—thus, they continue to move up the list thorough acquisition.

Summary observations:

1. Multi-concepts are going to continue to be the way of the future. No one wants to put all of their eggs into one basket.

2. The availability of financing is allowing traditional operators to get bigger and bigger without the use of private equity.

3. Private equity, once they are into a system and active in the franchisee space, will grow and find other concepts besides the concept they initially invested in.

4. The smaller operators are no longer small. Revenues of $45 million is hardly modest. It is a major company.

5. Casual dining operators seem to be doing whatever they can to diversify, particularly into the QSR world.

6. There does not seem to be anyone in the Top 200 who is involved in what we call "polished casual."

And with that, I can hardly wait to see what next year's Top 200 brings.

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 in the restaurant industry. A former CEO of Parasole Restaurant Holdings, he is a dedicated restaurant investor. He is also an adjunct professor and Halloran Fellow at the University of St. Thomas School of Law. You can contact him at (952) 885-5999 or dmonroe@mmblawfirm.com.