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What the Lenders Are Thinking

By Dennis Monroe

Working through the pandemic and watching the ups and downs of the financing world, I saw obvious winners and losers. The QSR world, particularly with drive-thrus, along with those with efficient takeout and delivery, were winners.

There were many hard-pressed sectors of our restaurant community too, particularly independents, white tablecloth restaurants, family dining, buffets and even casual dining. They had a difficult time, depending on their off-premises plans or access to government programs. Bank financing for these groups remains a problem. Given this dichotomy, I asked four experts to give me their view of restaurant lending today and perhaps provide a crystal ball into next year.

Bill Wildman of **Pinnacle Commercial Capital** has been involved in restaurant lending for over 30 years and has his finger on the pulse of what it takes to finance many different type of concepts. Bill made it clear there is money available from lenders but not a desire for a lot of risk, regardless of rate. He said family and casual dining is still tough to finance, no matter how it performed during Covid. Bill participated in several franchise system meetings of casual concepts that were sparsely attended by lenders.

He says the Covid winners, classic first-tier QSR concepts that gained sales, such as Wingstop, enjoy easy access to funding. Second-tier QSR concepts will have a tougher time getting funds if the quality of the operator is in any doubt.

Next, I spoke to **Bob Bielinski**, managing director of **AB Private Credit Investors**, one of the more creative capital providers in the restaurant franchise finance world.

First off, Bob said there is more money than deals and lenders are still looking at performance, not just Covid performance but long-term performance. The drive-thru component is important, plus lenders are now more favorably inclined toward the pizza sector.

Bob believes casual dining is a little on the negative side and suggests to wait a little longer and see how your post-Covid sales compare to 2019. He also described new concepts that are strong, including Slim Chickens, that can expect good access to funding.

Bob stressed looking at "sustainable EBITDA and analyzing the extent to which the sales bump during the pandemic is sustainable. Some concepts, like Slim Chickens, were not well-known before the pandemic, but definitely benefited. Whether this translates to long-term success remains to be seen. Sonic also experienced a positive Covid bump. It is possible that guests who hadn't gone to Sonic in a while have reacquainted themselves with the concept and the pandemic brought in new consumers. That might help Sonic keep higher sustainable EBITDA as a result of Covid."

Next, I spoke to **John Black**, national franchise finance manager of **Signature Bank,** a franchise lending group. He made it clear the bank was proactive when the pandemic started, providing deferrals to all of its customers for April, May and June in 2020. When the July payment came along, 85% to 90% of their customers made full P&I payments that month. Now the bank is focused on providing development lines for new store development. John said there was very little new store growth during 2020, and such growth as there was started in the fourth quarter of the year. It is very much sustainable, and they are very keen on providing funding.

John discussed some of the success stories they have been involved with during the pandemic. He is very bullish on Domino's and feels that Papa John's and Popeye's have done very well. Today, he said, the funding is available at very competitive rates, but focused on the top-tier QSR concepts.

The last person I spoke to was **Brad Cashman**, a partner and head of our firm's lending group. Brad has done more lender restaurant projects during the pandemic than almost anyone else on the legal side. He said we have a case of haves and have nots, and the haves are very lucky. They not only survived the pandemic, they've thrived. If they're looking for credit for acquisitions or refinancings and fit into the top-tier "bucket," they have negotiating clout when it comes to cross-collateralization, covenants and personal guaranties, and, most importantly, rates.

He added casual dining operators still have access to funding, but must have things going in their favor such as an advantageous geographic location, low leverage, extensive operating history and performance and strong guarantors.

Brad's final point was sale/leaseback investors are very aggressive right now. Investors believe the triple-net-lease, single-occupancy restaurant sites are currently a good place to park money, and this has created a competitive environment where cap rates are strong and properties sell quickly.

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So what did I learn from these four conversations?

1. Everyone is going to look at Covid-affected EBITDA when evaluating a potential borrower.

2. There are significant funds, particularly for the strong operators of the tier-one concepts, focusing on growth and new store development.

3. You probably are not going to get many lenders to allow you to take money off the table. You will have to use it for growth or acquisitions or other longer-term projects.

4. Casual and family dining concept operators will encounter a less-receptive lending environment than in the past. They will probably have to wait and show a track record for 2021.

5. Concepts that are not tier-one QSR, or are casual, especially non-franchise chain-type restaurants, are going to find it difficult to find funding from a national lender. In the past, because of the competition, some had stepped into this area of lending, but this seems unlikely now.

6. There is still plenty of lender money, particularly for strong operators in good geographical locations. Others will have to be very creative.

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.