

The Restaurant Finance Monitor 200: Seven Observations

By Dennis Monroe

Once again in 2022, I have the opportunity to give my thoughts on the Monitor's Top 200 ranking of the largest restaurant franchisees in the nation based on sales, that appears in the Restaurant Finance Monitor every July. In this annual review, I always draw from my experience with this list in previous years to shed light on the future.

Pre-pandemic, it was clear the large franchisees were getting larger and diversifying, with some even looking at emerging concepts. Valuations didn't seem to be an issue and certainly financing wasn't a problem, particularly for the major franchise concepts.

During the pandemic, the national concepts, specifically those QSR brands with drive-thrus such as Taco Bell, continued to be an area of focus for large franchisees. Now that the pandemic is waning and diners are returning to restaurants once again, let me speculate a little about what I see are new trends for the balance of 2022 and 2023 for the Top 200.

Here are my thoughts:

Concept Concentration

Within the top 50 franchisees, a significant number of them have decided to concentrate on a smaller number of concepts; to go deep versus broad. There are exceptions: Most notably Flynn Restaurant Group and Sun Holdings continue to broaden their holding with six or more concepts. But in general, the large operators are focused on one or two concepts. The dream of many early-stage restaurant concepts to attract large operators to become their franchisees doesn't seem to be happening. In fact, you don't see many of the top franchise operators venturing into emerging concepts.

Focus on What Works

While the trend is that the largest operators operate multiple concepts and like diversification, there are still 35, or roughly one third of the top 100, that are still single-concept owners. In the rankings of the second 100, 57 of them, or roughly half, are single-concept operators.

Professional Managers:

Another trend I've noticed is that the Top 200 companies have significantly transitioned their management structures from founders to senior managers—which means these businesses are being operated by true professional managers. We are seeing fewer titles of founder and chairman and more titles of experienced operators who have been brought in to run these companies.

Groups Missing

Obviously the pandemic took its toll on the restaurant business. In previous years, buffet concepts, the food/entertainment sector and family-fun pizza concepts all had a significant presence. Now, with few exceptions, these concepts don't seem to be a focus of the top operators.

Expansion Opportunity

There has been a growth in the number of franchise-holding companies such as Focus Brands, Inspire Brands and Gala Holdings acquiring concepts they can grow through skilled management, technology and marketing. With the concentration of concepts into these sophisticated owners, there are more opportunities for the franchise operator to acquire stores through refranchising or obtain development rights in order to take advantage of their management and systems.

Labor is King

Look at the unit growth in the Top 200 and notice that it skews towards concepts with a lower labor model, such as fast casual or QSRs with drive-thrus.

Financing

Finally, most of the growth is in concepts that can be readily financed by the major lenders. This is why I think there has been such growth in numbers and acquisitions between large and smaller groups of the same concept. Looking at other lists, particularly of pure restaurants, not operator franchisees, you see the top brands are predominantly QSR. Even though the consumer may be looking at other options post pandemic, the major QSR concepts that are the easiest to finance are still on top.

So here, in a nutshell, are my takeaways for the 2022 Top 200 franchisees:

1. The big continue to get bigger.
2. Diversification has slowed down.
3. Emerging concepts are not attracting the big operators.
4. Our industry continues to attract key professional managers to run these businesses.
5. The acquisition market is driven by concepts that are readily financeable.

And because times aren't as predictable as they once were, I can't wait to see what 2023 will bring.

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 business. You can reach him at dmonroe@mmbllawfirm.com, or at 952-885-5962.