M&A: When Multiples are This High, Can You Pay Top Dollar Without Overpaying?

Christopher J. Kelleher, Managing Director

The Panel

JAMES BODENSTEDT, President, MUY Companies

SHOUKAT DHANANI, President, Dhanani Group

RAHUL AGGARWAL, Partner, Brentwood Associates

CHRIS POPPE, Senior Vice President, City National Bank

Overview

The EBITDA multiples being paid for restaurant businesses have been increasing rapidly for at least the last 24-36 months.

- Many experienced industry participants strongly believe that prices have reached irrational levels.
- Other thoughtful industry players are just as convinced that even at the current elevated prices, there are still plenty of good deals to be made.
- Are buyers now invariably overpaying when they do a deal in the current market?
- While restaurant businesses are certainly much more expensive than they have been in recent years, good deals are can still be had by a thoughtful, diligent and strategic buyer.

One thing is clear…

To be successful with an acquisition at today's high prices, the restaurant entrepreneur will need to improve the business he is buying.

Value Drivers

Realizable Economies of Scale

Strong Brand Momentum

Positive Macroeconomic Considerations

Turnaround Situations

Compelling Roll Up Opportunity

Regional Economic/Demographic Play

“Tape On” Deal

Cheap Capital

Tax Considerations

Locking Up a Market or Locking Out a Competitor

Political Advantage

Economies of Scale

Economies of Scale

- Operating Cost Efficiencies
- Overhead Efficiencies
- Advertising Efficiencies
- Financing Efficiencies
- Access To Better People
- Brand Influence
- Market Influence

Operating Cost Efficiencies

- Bank charges
- Insurance
- Technology
- Service Contracts
- Employee Benefits

Overhead Efficiencies

- Leverage Existing Senior Management Team
- Leverage Existing Technology Infrastructure
- Leverage Existing Field Management
- Leverage Existing Policies and Procedures

Advertising Efficiencies

- Larger and broader media buys
- Access to advertising channels not available to smaller companies
- Spreading ad costs over a larger store base reduces per store cost
- Increased influence/control over local advertising co-op
- Improved access to advertisers and ad agencies

Financing Efficiencies

- Record low interest rates
- Longer amortizations
- Effective interest rate risk management
- Flexible terms
- Lower transaction costs

Access to Better People

- Financial resources to attract and retain talented people
- True career paths
- Growth opportunities
- Better and more comprehensive employee benefits
- Access to professional management tools, systems and controls

Brand Influence

- Better access to the franchisor's executive suite
- Availability of leadership positions on important franchisee committees and boards
- Brand clout at the local or regional level

Market Influence

- Higher profile at City Hall
- First call from real estate agents
- Employer of choice in the local community
- Access to the highest profile sponsorships

Christopher J. Kelleher
Managing Director

Chris has more than 25 years of experience in capital formation, M&A advisory, debt restructuring and strategic advisory services to multi-unit restaurant industry entrepreneurs. Chris joined Auspex Capital in 2005, and is currently responsible for the overall management of the firm.

Prior to joining Auspex, Chris was a principal at High Point Capital Partners, Inc., a financial advisory and consulting firm specializing in financing for multi-unit retail companies. Chris was also a partner at Trinity Capital, LLC. At Trinity Capital, He led the system wide franchisee debt restructuring and recapitalization programs sponsored by Taco Bell Corporation and Burger King Corporation. The two programs, on a combined basis, involved more than 350 franchise companies and nearly $4.1 billion of total debt.

Previously, Chris was Senior Vice President at Franchise Mortgage Acceptance Company. At FMAC, he served as the Chief Credit and Operations Officer for the Energy Finance Division where he administered a $1.4 billion loan portfolio and was a member of FMAC's senior loan and senior management committees. Chris was also a Vice President of Citicorp's Franchise Finance Division where he specialized in loan syndications. Prior to Citibank, Chris held associate positions at investment banking firms Paine Webber and Prudential Bache.

Chris has been a frequent author on franchise finance related matters, and his views are regularly published in the Restaurant Finance Monitor, and Franchise Times, among others. He received his undergraduate degree, with honors, from Occidental College. He was awarded cum laude and Phi Beta Kappa designations. Chris earned his MBA in finance and accounting from UCLA's Anderson Graduate School of Management. Chris is the father of four daughters.