

Why Rising Interest Rates and a \$15 Wage Will Upend a Decade of Financial Engineering in the Restaurant Business

**John Hamburger
Restaurant Finance Monitor**



Change in Franchise System Makeup

	2007	2017			2007	2017
Jack in the Box	35%	88%		Sonic	80%	94%
McDonald's	65%	92%		Burger King	88%	100%
KFC	75%	97%		Domino's	93%	97%
Taco Bell	75%	90%		Popeye's	96%	98%
Pizza Hut	76%	99%		Tim Horton's	98%	99%
Applebee's	77%	100%		IHOP	99%	100%
Wendy's	79%	95%		Dunkin	100%	100%

The Asset Light Pitch

1. Eliminate Capital Expenditures
2. Insulate the Brand from Day to Day Operating Issues
3. Separate Product and Promotion from Store Operations
4. Lower G&A Expense
5. Increase Leverage
6. Higher Valuation

How Is Big Franchise Valued?

Company	EV/EBIT DA	Unit Growth		Company	EV/EBI TDA	Unit Growth
Domino's	21.0x	72%		Wendy's	16.5x	0%
Yum-KFC	18.7x	58%		Dunkin	15.0x	57%
Pizza Hut		49%		McDonald's	15.0x	19%
Taco Bell		29%		Jack in the Box	13.5x	5%
RBI-Popeyes	17.0x	52%		Sonic	11.0x	7%
Burger King		52%		DIN-Applebee's	9.5x	-7%
Tim Hortons		52%		IHOP		19%

How Leveraged is Big Franchise?

Company	Debt/E BITDA	Debt Added Since 2012
Wendy's (WEN)	7.5x	\$1.4B
Dunkin Brands (DNKN)	6.2x	\$1.2B
Domino's (DPZ)	6.0x	\$1.6B
Restaurant Brands (QSR)	5.2x	\$9.0B
Dine Global (DIN)	5.2x	\$73M
Sonic (SONC)	4.6x	\$187M
YUM (YUM)	4.2x	\$6.9B
Jack in the Box (JACK)	3.8x	\$709M
McDonald's (MCD)	2.7x	\$15.9B

How Leveraged is Little Franchise?

Company	Debt/EBITDA
Five Guys	6.7x
Hardee's/Carls Jr.	6.0x
TGIF	5.6x
Arby's	5.3x
Church's Chicken	5.2x
Jimmy Johns	5.2x
Focus Brands	4.8x

Billion Dollar Franchisees

	Company	Sales	Units	Concept
1.	Flynn Restaurants	\$1.8 B	474	Applebee's
			248	Panera
			130	Taco Bell
2.	NPC International	\$1.3 B	1,144	Pizza Hut
			384	Wendy's
3.	Carrols (TAST)	\$1.1 B	807	Burger King
4.	Dhanani Group	\$1.0 B	501	Burger King
			240	Popeye's

Other Top 200 Franchisees

	Company	Sales	Units	Concept
5.	MUY Brands	\$939M	364	Pizza Hut
			312	Wendy's
			79	Taco Bell
6.	Manna	\$856M	261	Wendy's
			125	Chili's
			23	Golden Corral
			22	Blaze Pizza
			17	Fazoli's

Public Company Franchisees

	Company	Sales	Units	Concept
3.	Carrol's (TAST)	\$1.1B	807	Burger King
39.	Meritage Hospitality (MHGU)	\$312M	247	Wendy's
69.	Diversified Restaurants (SAUC)	\$166M	65	Buffalo Wild Wings

Franchisee Concentration

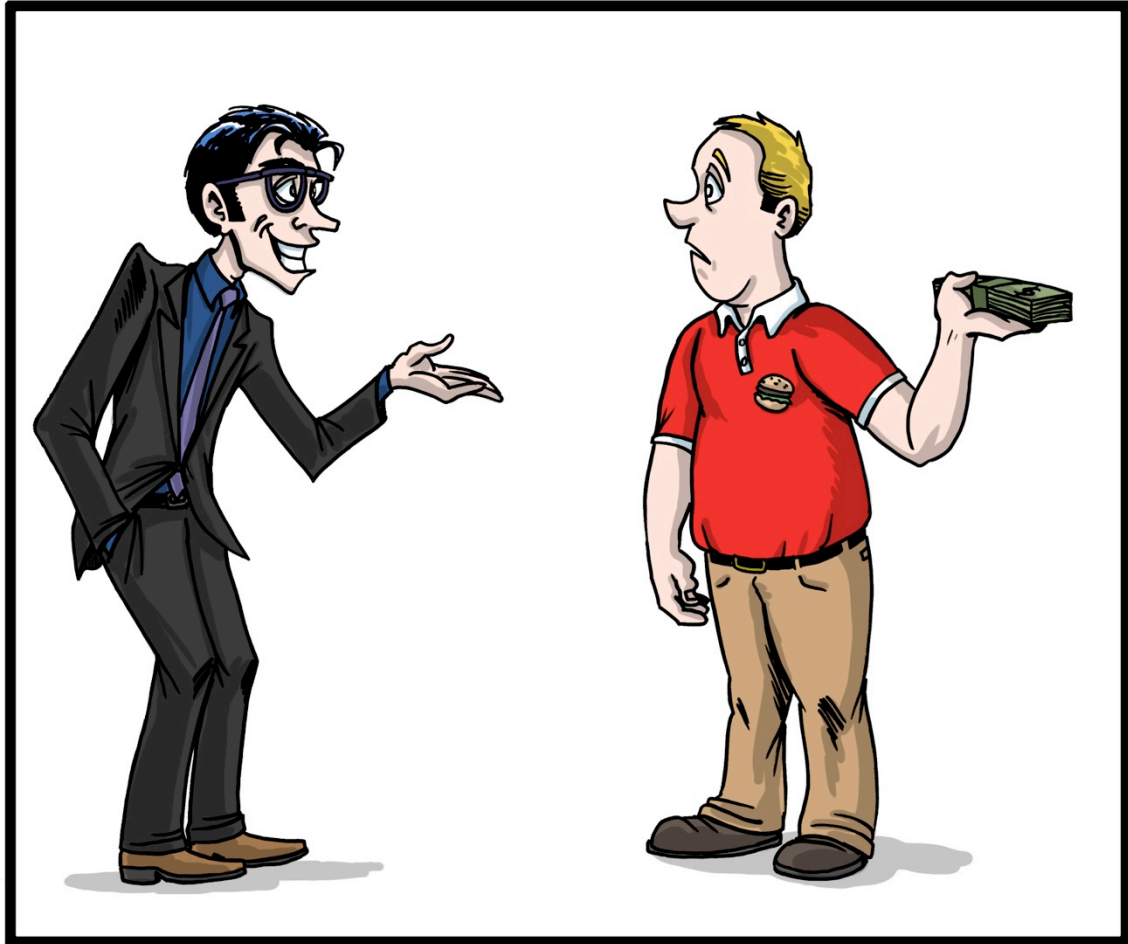
	Brand	Zees	# Units	System
1.	Pizza Hut	30	4,054	69%
2.	Burger King	22	3,027	43%
3.	Wendy's	26	2,955	55%
4.	Taco Bell	38	2,910	51%
5.	Applebee's	23	1,758	95%
6.	KFC	23	1,446	37%
7.	Subway	6	990	4%
8.	Panera	14	872	79%
9.	Arby's	9	776	35%
10.	Popeye's	9	719	35%

Typical Franchisee Capital Structure

	Carrols (TAST)	Meritage Hosp (MHGU)	Diversified Rest (SAUC)
Funded Debt	280,327,000	108,619,000	113,929,000
EBITDA	83,632,000	23,178,000	18,666,000
Debt to EBITDA	3.6x	4.7x	6.1x

How Franchisees Leverage Their Income Statements

	6% Rent	7% Rent	8% Rent
Sales	\$1,500,000	\$1,500,000	\$1,500,000
Rent	\$90,000	\$105,000	\$120,000
Sale @Cap Rate 6%	\$1,500,000	\$1,750,000	\$2,000,000



John Hamburger

- jhamburger@franchisetimes.com
- www.restfinance.com
- www.franchisetimes.com