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OUTLOOK

Higher Rates One More Impediment to M&A

Store rationalization is "la punchline du moment" in restaurant finance these days as multi-unit operators cull their cash-flow losers. Busy are the lease negotiators, restructuring officers, trustees, used equipment liquidators, and the real estate brokers who specialize in second-gen sites. It's right-sizing time for an industry that partied heartily during the zero-interest-rate days.

The underbelly of the restaurant industry has always been store closures, and market downturns force multi-unit operators to reassess their more-units-are-better strategy: "Am I better off running 20 stores that actually make money, or sticking with the 30 or 40 that have high rents and too much leverage, relying on the forbearance of my landlords and lenders to stay in business?" Hmmm, let's close a few stores.

Soft customer traffic and a labor-induced margin squeeze will explain most of the store closures and slowdown in M&A. Even the always-in-demand Taco Bell deals are on hold until traffic recovers from their recent foodborne illness incident.

But it's not just weak restaurant traffic and challenging P&Ls that's impacting M&A. Interest rates have been rising and the Federal Reserve is expected to raise short-term rates on September 16. Meanwhile, the 10-year treasury yield hovers around 5%, a level not seen since the financial crisis. Higher interest rates impact asset prices and tightens the purse strings of buyers.

Our new Monitor finance reporter Sam Wilmes introduced himself to a number of restaurant lenders over the past week to get their take on the M&A market and what impact a rising rate environment might have on deals:

Perspective no. 1: Rates aren't the primary blocker
"Interest rates are only slightly higher than historical averages. The perception is just skewed because of the ultra-low-rate environment following the Great Recession through late 2022. Deals are possible in any interest rate environment, though potential borrowers will become far more selective." — Todd Maldonado, BMO Franchise Group

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RESTAURANT FINANCE MONITOR'S
RFDC 2026
NOVEMBER 9-11 • WYNN LAS VEGAS
Let's Make a Deal!

Insights, connections and opportunity are reasons to attend the **Restaurant Finance & Development Conference,** which will be held November 9-11 at the **Wynn in Las Vegas**. The conference is all about the business side of restaurants and is especially important for restaurant owners, operators and financial executives who have an unparalleled opportunity to meet with leaders in finance to find financing, buy or sell restaurant businesses and real estate or find expansion opportunities.

This year's workshop lineup covers a range of topics including M&A and business sale prep, valuation, OpCo/PropCo structures, alternative financing ideas for construction and development, private equity appetite, crowdfunding, AI in restaurant finance, evaluating distressed companies, a multi-state tax seminar, finding and adapting existing real estate, non-traditional expansion, negotiating and documenting deals with celebrities, finding and paying fractional help and of course, lease negotiation.

Two sessions of note: An actual Harvard Business School case study will be presented by **Andy Pforzheimer** of Barcelona Restaurants and **Lauren Bailey** of Postino. The session is entitled "Growing a Company, Outgrowing a Team." And, in the second session, you'll hear the story of how **Michael McDermott** opened a Chi-Chi's Mexican Restaurant in suburban Minneapolis and raised over $3 million from crowdfunding to fund it.

If you are invested in the restaurant business, you can't afford to miss this year's event! **Register today at www.restfinance.com. Don't delay—last year's event sold out.**

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Wells Fargo Finances Large Restaurant Deals; Continues Expansion into Fitness

Wells Fargo Restaurant Finance announced three restaurant financing transactions that closed in the last couple of months:

• In July, closed on a $40 million upsize to the $225 million deal for **GSRS Holdings**, a Wingstop franchisee.

• In July, closed on an $82 million propco transaction for **B&G Foods**, a Taco Bell operator, after leading the opco syndication that closed at the end of last year.

• In June, led a $106 million deal for **C&R Restaurant Group**, a Taco Bell operator.

"Overall, we are seeing good (financing) activity in the restaurant business, but the experienced and well-capitalized operators who are expanding, they are being selective," said **Meghan Hinds**, managing director and head of the franchise finance group at the bank. "They are balancing development and operational costs, and that influences the payback period (on the financings). We help operators think about those dynamics."

And those dynamics are changing: "Restaurant operators are navigating a fluid environment, including changing consumer behavior and operational and labor costs."

While restaurant operators are evolving, she said the Wells Fargo group is, too. "We're not only a QSR lender," Hinds said. "Our customer profile falls into a wide variety of brands, segments and categories of the market." They finance restaurant owners in the brands that demonstrate operational strength and financial discipline.

And, as the lender community moved to other sectors, so did Wells Fargo. They finance operators in c-stores and hotels, and more recently added fitness to their roster.

"We saw an opportunity in fitness, and was able to leverage our expertise in franchise lending there," she explained. For instance, with Planet Fitness, "they are large enough that the addressable market could be captured, and we could enter and offer a strong balance sheet an attractive cost of capital. It's a natural extension of our business."

Because the group has been lending in franchise finance for over 25 years, through all economic cycles, "I think we can make a difference to that industry, too…we're actively engaging in dialog with smaller operators, all the way through to sponsor-owned platforms. We just led a syndication where we were left lead administrative agent on a Planet Fitness business. It was over-subscribed and a successful syndication."

For more information, contact Meghan Hinds at Meghan.Hinds@wellsfargo.com.

Unbridled Capital Provides Advisory to Taco Bell, Freddy's Franchisees

Investment banking firm **Unbridled Capital** recently provided sell-side advisory services to **Mas Restaurant Group LLC**, led by **Chad Motsinger**, on the sale of 43 Taco Bells in Ohio. The restaurants were acquired by existing Taco Bell franchisee **ABTB Ohio, LLC**, led by **Judd and Erica Wishnow**.

"Taco Bell has a blend of franchisees who don't have financial backers, and those who do," said **Rick Ormsby**, managing director with Unbridled Capital. "Some of our deals last year and this year did not have PE behind them. Taco Bell is one of the few brands who still has independent franchisees, especially for the scale of the brand."

Unbridled also provided sell-side advisory services to **FFC Midwest**, led by franchisee **Paul Hoover**, on the sale of nine Freddy's Frozen Custard & Steakburger restaurants in Arkansas. While the buyer's name was not disclosed, Unbridled found a buyer new to the system.

"As that brand and others grow outside of the big burger players, it is seen as an attractive place to look to invest," said Ormsby. "It is not a legacy QSR concept, but also not a start-up. This is the second Freddy's market we have sold for Chad; he's been heavily building in the 7 Brew space.

"I personally think this is a great brand," he added. "It is a challenging time to be operating, but it feels like there is a fair amount of people who want to own newer QSR brands. And, it's notable it attracted someone outside the brand—generally with legacy deals the buyers are existing franchisees."

Ormsby explained he's seen that smaller brands that are growing and are less institutional in nature "seem to be more friendly to new buyers outside of the system." For more information, contact him at 502-338-0162, or at rick@unbridledcapital.com.

Rockland Trust Announces Details on Franchise Finance Program

Rockland Trust recently released more details regarding their current franchise finance strategy going forward. According to **Helen Ye**, who recently joined the organization to lead the franchise team there, "Our loan size is $5 million to $35 million—we have several larger exposures, and expect that to continue to increase over time." They provide financing nationally to QSR, fast casual and multi-unit operators with at least five locations.

She also said they historically have been focused on sole-bank deals, but "we're expanding our strategy and my experience and partnering with other franchise banking institutions will make participations in multi-bank syndications another key focus."

Ye mentioned one point of differentiation they have from some banks: "We can offer loan terms of up to 10 years with fixed rates and financing with either SOFR-based loans or FHLB-fixed rate loans for some of our operators who don't want to use a swap."

Franchise lending is nothing new to Rockland. In 2019, SVP **Mark McGwin** started financing Dunkin' franchisees in the Northeast. Over the years, they expanded to other brands, as well as the territory in which they lend. Three years ago, **Sue Redsicker**, who has been in finance for 20 years herself, joined the bank and "we have doubled the size of the team as well as the portfolio. We have a diverse mix of franchise brands and operators," Ye said.

According to Rockland SVP **Dan Gillette**, "We like franchise because it is fairly east to see what the value of the businesses are. We can validate the businesses, as well, through numerous external resources…It is still somewhat of an untapped channel for us and we have big intentions to grow it…We brought in Helen to further focus our efforts, realizing this is a great opportunity for the bank."

And their portfolios have performed well, said Ye, "through all economic cycles and our borrowers remain resilient. Our industry expertise helps our customers navigate through the macro-economic challenges. Also, my team is supported by a dedicated credit team. We have the depth of experience that strengthens our banking relationships—we are a trusted advisor to our clients."

She added they have a strong balance sheet and are well capitalized to fund growth of the C&I business there, and "franchise is an important part of that growth strategy." For more information, contact Helen Ye at 781-258-6484, or at helen.ye@rocklandtrust.com.

Auspex Capital Completes M&A Advisory for Wendy's Franchisees

Investment banking firm **Auxpex Capital** competed the following advisory assignments for Wendy's franchisees:

Buy-side M&A advisory: Franchisee **Charter Hospitality Group**, a Wellesley Hills, Mass.-based company owned and operated by father-and-son team **Alan and Trip Botsford**, has acquired a high-volume Wendy's restaurant in Hooksett, NH, from **Twin Coast Enterprises**.

Sell-side M&A advisory: Franchisee **Eastern Indiana Management Company**, a Muncie, Ind.-based landlord and former Wendy's franchisee owned by siblings **Maggie, Kyle, and Brandon Gasser**, has completed the sale of three Wendy's restaurant properties in the Muncie area in three separate transactions. Auspex partnered with CBRE to facilitate the sale of the properties, which followed a 2025 transaction in which Auspex acted as the sell-side M&A advisor for the sale of EIMC's Wendy's restaurant business to Wenzak Inc.

For more information, contact Auspex Managing Director **Christopher Kelleher** at 310-721-3532 or email ckelleher@auspexcapital.com.

Citizens Advises Khan on Acquisition of Sonic Restaurants in Colorado

Usama Khan, a longtime restaurant operator with deep experience in the Sonic system, has acquired 17 Sonic restaurant locations across Colorado from the franchisor, **Inspire Brands**.

Khan is a seasoned restaurant operator with more than 30 years of experience in the quick-service restaurant industry, including extensive leadership and operating experience with the Sonic brand. Earlier in his career, he operated Sonic restaurants in the Colorado market and later spent more than a decade overseeing a large portfolio of Sonic restaurants in Arizona. Through this acquisition, Khan returns to Colorado as an owner and operator of 17 Sonic Drive-In locations.

Citizens Capital Markets & Advisory, an investment bank with expertise in the restaurant and multi-unit industries, served as exclusive financial advisor to Inspire Brands on the transaction. For more information, contact Citizens Managing Director **David Stiles** at 310-488-0884 or at David.Stiles@citizensbank.com

Pinnacle Financial Partners Adds Two Members to Restaurant Finance Team

Pinnacle Financial Partners has added **Veda Cloud** and **Chris Jones** as financial advisors on its Restaurant and Franchise Finance Services team. Cloud is based in Atlanta and Jones in Nashville. Both report to **Scott Tocci**, managing director of franchise finance, and will focus on serving restaurant, franchise and other multi-unit business clients.

"The restaurant team is growing," said Tocci, "and we are very glad to have them on board. They're the consummate pros...They are very much customer focused, but they have the expertise in this business…Veda and Chris have spent their careers working with sophisticated operators who need a financial partner who understands the business and can help them navigate complex needs. They know these industries, they know the people in them..."

Pinnacle focuses on serving larger multi-unit operators, supporting growth through financing acquisitions and recapitalizations, to name two.

"Restaurants and fitness operators continue to be our focus, but we're always looking at other franchise sectors, and the opportunities there," said Tocci. For more information, contact him at scotttocci@synovus.com, or at 404-431-4938.

The Buildable Group Leads Restaurant Build Out Projects for Multi-Unit Operators

"From a facility side, we have touched and worked on 43,000 restaurant sites nationwide," said **Carl Kjerrumgaard**, managing partner of **The Buildable Group**. "And on every project, you are thrown a curveball, but you approach those all differently. That's why industry knowledge is key."

The Buildable Group helps restaurant operators with growth plans by representing them during the build-out stage and acting as project manager. On the restaurant operator's behalf, they work with the contractors, architects, engineers, vendors and regulatory bodies, ensuring that the project is completed on time and to the restaurant owner's specifications.

Buildable works with both larger, established brands and emerging restaurant companies. For companies like Darden and Inspire, Kjerrumgaard said, "We can come in and act as an extension of their development and real estate teams. They own the design and budgeting, and we execute it, staying within that budget."

For emerging brands, "we act as their entire development department," he explained. "We become the entire department; or we can become 'throttable'—we can be turned on and turned off as needed."

And because they have worked on so many projects, they plan for the unexpected: For example, "think of a digital menu board that a brand would implement: Some don't think about the infrastructure behind it; you have to run the right power and data," he said. "All of that turns out to be much more of a process than just updating a menu board."

And, they bring in their own vendors to help, making it seamless for the operator. One of those is WeBuild, which provides restaurant millwork. Interestingly, WeBuild was founded to be the answer for fast-casual chain Everbowl's construction processes. Everbowl launched WeBuild to provide millwork, build-out and construction for its own locations.

"We are a good fit with Buildable Group because while we can be customer-facing, we don't need to be," said Jeff Fenster, founder of both Everbowl and WeBuild. "Most fabrication companies don't know what happens after they leave. We do, because we are a restaurant company, too. We understand operational needs and flow for both new builds and remodels."

For Michelle Anderson, CEO of Café Patachou, a 14-unit fast-casual restaurant chain with locations in Kentucky, Indiana and Ohio, the closer they can open a new location on time, the better. "It helps with hiring and training timelines, and new restaurant engagement in the general area where we are opening up. The more you slip on timelines, the more sales you lose."

So, communication with the Buildable team is paramount. "They pick up the phone when you call," she said. "They are part of our team from negotiating the lease to opening, contributing their expertise and building stores within our timeframe and budget."

Café Patachou has been able to utilize The Buildable Group's services beyond the typical. "Carl and team help us think through a new store prototype so we can manage expenses, and they have an understanding of the materials that make the Café special. They help us preserve those materials while not overspending on them."

With the recent rise in construction costs, Anderson said they have been trying to mitigate costs as much as possible, and they work with Buildable to use materials "that are more cost-effective in other parts of the store where the guest might not see or touch—without compromising on the core design elements that make it special."

For more information, contact Carl Kjerrumgaard at ctk@buildablecompanies.com, or at 919-376-7290.

SMBC MANUBANK Finances Popeye's Operator

"Sometimes what makes a deal noteworthy isn't the dollar amount or the acquisition of a new client," said **Subbu Viswanathan**, managing director with **SMBC MANUBANK** and head of the franchise finance group, "but the successful retention of a valuable relationship. Especially with numerous regional and national lenders vying for the borrower's business."

Recently SMBC MANUBANK's Franchise Finance team closed a $12.44 million refinancing and growth capital transaction for **ACE Brands**, a Popeyes owner-operator serving Kentucky and Indiana. ACE Brands became a client in 2022 and has since grown from a nine-unit acquisition to a 20-unit portfolio.

Relationship Manager Luis Gomez, Portfolio Manager Sandy Lee, and Viswanathan developed a financing strategy while helping navigate a complex transaction from underwriting through closing, Viswanathan reported.

"The transaction reflected a true cross-functional team effort," he said "It also reinforced that while competitive pricing and loan structure matter, the real differentiators were trust, responsiveness and a deep understanding of our client's long-term business goals."

For more information, reach him at sviswanathan@manubank.com or 213-376-7754.

Buying Underperforming Restaurants: Deal or No Deal?

When looking for a deal, restaurateurs often evaluate underperforming restaurants. Sometimes a franchisor is encouraging a sale. Lenders may believe an operator can't meet their obligations. And sometimes an owner concludes the business no longer works for them. While these present opportunities for acquisitive franchisees, they also create significant challenges. Success requires a disciplined evaluation process and a clear understanding of what can and cannot be fixed.

To clarify the areas where buyers should focus when evaluating opportunities, I talked to two industry insiders from Capital Insight: Brett Bishov, managing director and founder of the firm, who has worked across multiple facets of the business and brings a unique perspective to distressed situations, and managing director Mike Eagen, who has been in restaurant operations, commercial lending, and now investment banking. Several key themes emerged from our discussion:

1. Why have revenues declined?

When evaluating an asset, buyers must understand why sales have deteriorated and whether the decline can be reversed. Is it the brand? Have demographics around the various sites changed? Has competition increased? Is the problem operational, marketing, or simply poor management? Does the brand have staying power? Does it have a loyal customer base? Has it successfully navigated difficult periods in the past? Is it a strong concept overshadowed by temporary challenges? Understanding the cause is the starting point for any turnaround.

2. Can operational issues be fixed?

Many struggling restaurants suffer from executional rather than structural problems. Staffing issues, inconsistent operations, poor customer service, weak local marketing, and inadequate management can all contribute to poor performance. Buyers should evaluate whether the existing problems are operational and whether they possess the expertise and resources necessary to correct them. Do the problems stem from the operator rather than the concept? If that's the case, a buyer may be able to acquire assets at an attractive valuation and unlock value through better execution.

3. Evaluate the location and market.

Location is one of the most important factors in restaurant performance. Even strong brands can struggle in poor trade areas, while capable operators can generate meaningful improvements in well-positioned locations. Buyers should carefully evaluate traffic patterns, demographics, competitive pressures, visibility, accessibility and long-term market trends. If the operations were improved, does the site still have the potential to produce attractive sales?

4. Analyze fixed costs and occupancy obligations.

Distressed restaurants face challenges that extend beyond declining sales. Occupancy costs and lease structures, labor obligations and other fixed expenses can pressure cash flow. Can these be renegotiated or restructured? Sometimes the business can be repaired operationally, but the underlying cost structure makes profitability nearly impossible.

5. Identify sources of leverage in the transaction.

Lenders, landlords, franchisors and sellers may have motivations to reach a resolution quickly. If a buyer understands the various stakeholders and their objectives, they may negotiate more favorable terms. Eagan stressed the importance of understanding the capital structure and evaluating whether lenders may be willing to sell their debt at a discount. Bishov said many larger restaurant operators have debt syndicated among multiple lenders that often require consent from various parties, which can complicate negotiations and slow transactions. However, this can create attractive openings for strategic buyers who are patient and well-positioned.

6. Other factors involved in a distressed sale

Eagan and Bishov also mentioned sale-leaseback transactions. In some cases, landlords and real estate owners control portfolios of underperforming restaurants and have incentives to replace operators or reposition their real estate investments.

Both experts expressed caution regarding transactions involving active litigation, which often needs to run its course before value can be determined. Also, attempting to be overly strategic in bankruptcy situations can be challenging because outcomes do not always align with expectations.

Despite the challenges facing portions of the restaurant industry, Bishov and Eagan continue to see opportunities in the market, particularly when strong brands encounter temporary difficulties or when capable buyers can acquire locations from underperforming operators.

As with any investment, success comes down to understanding the issues, evaluating the stakeholders involved, and having a realistic plan to improve performance. Distressed restaurants are not for every buyer, but for those willing to do the work, they can offer compelling opportunities that are often unavailable through traditional acquisition channels.

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OpCo/PropCo: What to Know About Separating the Operation from the Real Estate

Shaz Khan and his partners own 12 Tono Pizzeria + Cheesesteaks, two Frank & Andrea (pizza and cheesesteaks) locations and a pizza-by-the-slice concept, Slice Craft, with a fourth concept, Gambino's Coal Fired Pizza, opening soon, all in Minnesota. Khan's group also owns about one-third of the land associated with several of its restaurants.

Real estate had never entered Khan's mind when he got into restaurants, but one of his business partners had owned a real estate brokerage and the group thought it made sense to leverage his knowledge and start owning the properties. And, they liked the control it provides over curb appeal. The group's PropCo, or property company, now gets a fair market rent each month from the OpCo, or restaurant operating company.

He thinks it's important to show the restaurant concepts can succeed without being reliant on land ownership.

"That's a really important distinction to make for not conflating the actual restaurant business with the real estate business," Khan said. "The real estate stands as a separate portfolio, managed separately with its own P&L."

It's not unusual for smaller companies such as Tono to establish OpCo/PropCo setups: However, their financing may not be as flexible as larger operators who often have multiple lenders for each segment. They're likely to be judged on a case-by-case basis and they may be more susceptible to getting overextended on debt, advised Vance Waldron, managing director of franchise finance with Huntington Bank.

"We're typically looking at this type of a structure once the entity is a little larger and more established," Waldron said. "Experience goes into it, as well, but obviously it's very relationship based. There is no one-size-fits-all and there's no 'This is how everybody has to do it.'"

S&L Companies, a large multi-unit Culver's franchisee with locations in five states, started investing in real estate when they had just three units, but now they own all the real estate. The company bought its first Culver's restaurant in 1994 and co-founders Jeff Liegel and Chad Stevenson leased the properties because they didn't have the funds to buy the real estate.

"We used everything from the U.S. Small Business Administration to community banks and when we had the down payments, we would look for another site, build a restaurant and be pretty patient," Liegel said. "When you're taking on the real estate, your capital requirements are a little more."

Liegel says they've refinanced a few times, and during one of those refinancings six years ago, at around 50 restaurants, they set up the formal OpCo/PropCo structure, to separate restaurant operations from real estate.

"We took all of our properties and set up a PropCo, paid off our business debt and rolled everything into a brand-new real estate loan, and it's non-recourse," Liegel said.

With a debt-free operating company, S&L is able to reload the OpCo's line of credit periodically, which they use to expand. Once they use up that line of credit, they pull out the real estate and put that into the PropCo with more permanent financing. Liegel says the fixed interest rate on the property loan provides security in knowing the debt payments, even in volatile times.

Because lenders typically have a different risk tolerance, the separation between operations and real estate has allowed S&L to work with 13 different banks, some of whom lend against the Culver's operation, some on the real estate, and some who work with both.

"It definitely opened up more opportunities for us," Liegel said, adding that it allowed the company to sign an 85-unit development agreement with Culver's on the East Coast."

Liegel recalls being surprised by the overall debt numbers, which he sees as the biggest risk. But the OpCo/PropCo format helped S&L speed up its growth. And the real estate provides both a backup plan—a so-far-never-utilized sale-leaseback program—and a way to help secure owner-operators for each of its locations, as is required by Culver's, to buy in for less.

"If we don't own the real estate, Culver's requires the owner-operator to have double the amount," Liegel said. "It goes from 25% to 50% of the business."

The OpCo/PropCo setup

While it's fairly common for larger companies to use the OpCo/PropCo structure, there's no reason smaller companies can't get the same benefits, said retired CPA Adam Berebitsky, who points out that most restaurant companies are closer to five to 20 locations than 200.

So, how do you set one of these up? The first step is having the proper legal structure, advised Brad Cashman, an attorney with Monroe Moxness Berg in Minneapolis. That almost always means using a Limited Liability Company (LLC) for the property company.

"It's going to offer you the most flexibility of any legal structure," he said. "The biggest, most obvious mistake would be to put the real estate into a C-Corp, and then not getting the benefit of capital gains rates and a pass-through income to the owners."

There may be situations where it makes sense to establish a C-Corp for the operating company, though most end up as LLCs, as well, said Cashman, who wants owners to discuss specifics with lawyers and accountants first, to determine the right fit. Second, Cashman advised, property and operating companies must be created and treated separately, with a proper lease rate and terms that are to be followed.

"Lenders can require it, franchise owners can require it," Cashman said. "If you ever do want to sell that real estate, you can keep that lease in place and it's really quite seamless."

Though smaller OpCo/PropCo entities won't benefit immediately from multiple banking partners, they will get tax benefits, minimize legal liability and benefit from typically ascending real estate values.

Benefits don't come without some risk

But OpCo/PropCos aren't risk free, said John Gordon, a 40-year restaurant veteran and owner of Pacific Management Consulting Group, especially for companies with a short operating history.

The operating company must follow through on rent payments, even during downturns, permanently removing from the restaurant funds it might need to grow and innovate. Separating the restaurant operations also increases the bookkeeping sophistication by several notches by creating a second set of books. That increases costs, especially if the entities are mismanaged.

"It's financial management 401 or 501. It's not 101 or 301 kind of treatment," Gordon said. "The need for bookkeeping and accounting becomes more complex. And the more complex your books are, you do open yourself up for audit risks."

But the benefits of real estate ownership are significant. Acquiring real estate is a wealth-building tool and separating them into a PropCo/OpCo limits liability, added Marc Boulanger, who owns Boulanger CPA and Consulting, though it only works if you follow the rules. Many operators make the mistake of not treating the companies as separate entities.

"The PropCo has to have separate books; rent can't just be a paper transaction," he said. "They need to handle accounting just the same way they do for their main business. A lot of people think it's simply a paper thing. It needs to be much more than that."

Being lackadaisical about keeping separate books or following through on rent can cost operators all of the tax breaks and wealth appreciation they set up the entities to achieve.

"If they're not treating it that way, attorneys can break that," Boulanger said. "They'll see it for what it is. All those pieces must be in place."

Get a good start

OpCo/PropCo experts emphasize the importance of getting guidance from legal, accounting and bank partners from the outset. If they choose not to create an OpCo/PropCo, or are unaware of the option but then want to create one later, that affects outstanding loans, said Alex Mattera, a partner at Pierce Atwood LLP.

"The problem they don't consider is they'll be violating their loan agreements in about a dozen different ways by doing that without the proper consents," he said. "It does change the way that lenders and other financing agencies look at the company."

Mattera echoed the need to stay current on rent and suggested having an independent third-party help establish the fair-market rate. "Then you're insulated from the risk that this is somehow insider dealing that breaches that corporate veil," Mattera said.

Berebitsky said the lease agreement should also cover who will pay for building improvements. There isn't a set requirement on that, though the PropCo often will cover the cost of the buildout, Berebitsky said, because typically it has more collateral and because those improvements can provide long-term benefits to the building. If that's the case, the arrangement should be reflected in the rent, ensuring the PropCo receives enough to cover the costs.

Cashman emphasized keeping it as simple as possible. Unless some individual property has some unique risk, or there are different investors, Cashman says one PropCo should suffice for holding all a company's real estate. Berebitsky and Cashman both added that PropCos need not own every building their OpCo operates, and shouldn't keep all their funds tied up in one company.

"That means 99% of your net worth is tied up in one concept," Cashman said. "Instead, you could sell a substantial portion of that real estate, keep the business operations and then invest those proceeds into something unrelated. From a pure diversification standpoint there is a point where owning all that real estate is putting a lot of eggs in one basket."

Berebitsky said restaurateurs need not own all their real estate to benefit significantly. These deals are in play for smaller companies and they create value.

"The ability for a smaller restaurant, multi-unit or franchise concept to own their real estate can be a very positive thing," Berebitsky said.

—Andy Tellijohn

Activist investor **Jeff Smith** of **Starboard Value** told Bloomberg he'd like Shake Shack "to layer on franchising in the U.S. in addition to growing their own stores." Smith said he thinks the company can get a higher multiple through franchising and achieve its 1,500-store growth target quicker.

How's the asset-light strategy at **Dine Brands Global (Applebee's, IHOP and Fuzzy's)** working out? So so, if you go by the company's recent quarterly report and dividend history. Last December, Dine slashed its quarterly dividend from $.51 to just $.19, citing a plan to acquire more of its stock. Shares are flat despite buying back approximately 900,000 shares during the first six months of the year. An analyst told the Monitor that it's simply a matter of time until the company sells Fuzzy's to "focus on key priorities." When Dine bought Fuzzy's in 2023 for $80 million, it had 138 restaurants. As of June 30, only 97 restaurants remain open.

Speaking of Houston, the original **Pappasitos** on Richmond in Houston is closing after 43 years. That restaurant, owned by the Pappas family, defined Mexican casual dining around the country.

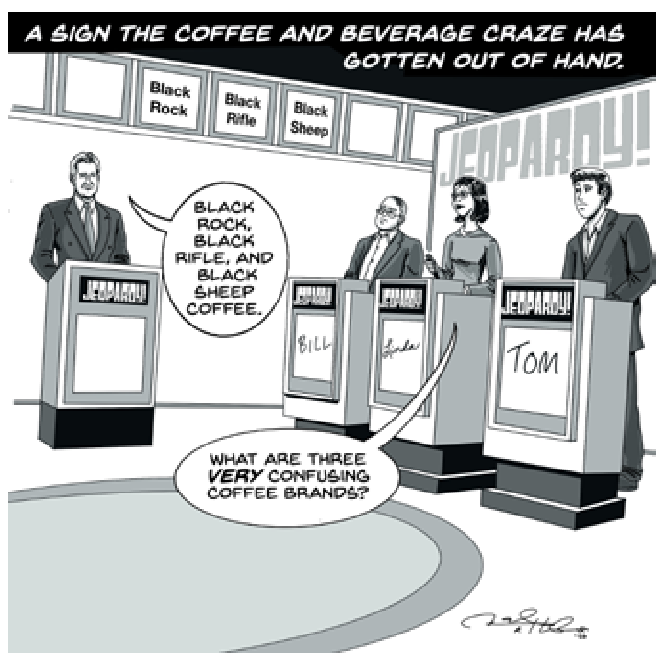
SPACs are back. Former Kona Grill CEO **Berke Bakay** completed a SPAC (special purpose acquisition company) last month, raising $100 million for **Three Lions Acquisition Corp**. Involved in a number of food hall ventures, Bakay is also co-founder and a shareholder of Phoenix Rising FC and Ipswich Town Football Club, a member of the English Premier League. According to the Three Lions prospectus, the company is looking to merge with a sports or hospitality business.

The 59-unit **Carl's Jr.** franchisee in Los Angeles (13 stores have since closed) that filed bankruptcy last April finally has a buyer for just some of the stores. Carl's franchisee **Amir Siddiqi** agreed to buy 21 stores in and around Los Angeles for $5.25 million. According to the bankruptcy filings, Carl's has expressed an interest in potentially taking over some of the remaining locations. Trustee Bradley Sharp testified it's been a "challenging case because of CKE's abilities to review potential franchisees with respect to the standards they require." Sharp's attorney referenced a $10 million offer that was submitted by a former Jack in the Box franchisee's family members, but was rejected by Carl's.

Quality Restaurant Group subsidiary, Quality Fresca, a 69-unit franchisee of **Moe's Southwest Grill** filed Chapter 11 on August 4. Quality Restaurant Group is the 52nd largest franchisee in the U.S., according to the Monitor's 2026 Top 200 ranking. In addition to Moes, the company is also a Pizza Hut, Arby's and Sonic franchisee. Interesting side note: The Moe's restaurants were acquired on March 9, 2020, from a group of franchisees. Talk about bad timing.

From **Bank of America** analyst **Sara Senatore** on **Jersey Mike's** unit economics: "Its current AUV sits near the middle of the franchised sandwich group, but the return profile leads the peer set. We estimate a 15-16% store-level EBITDA margin after royalty and advertising fees and a 36% cash-on-cash EBITDA return on fully invested capital, approximately 12 points above the next-highest peer. The compact 1,300-square foot prototype generates approximately $1,077 in sales per square foot, limiting the capital required to support each new opening. Management's long-term framework increases AUVs to $2.0 million and our calculated cash-on-cash EBITDA return to 54%."

Craft beer enjoyed its golden decade in the 2010s, but oversaturation, changing consumer behaviors and competition from alternative products started taking the fizz out of the market, even before the pandemic. There are more than 9,000 craft breweries operating in the U.S.—far more than 20 years ago, notes **Matt Gacioch**, staff economist for the **Brewers Association**. However, growth slowed before Covid and the count has declined since the pandemic. The Association's midyear survey showed a 4% decline in craft beer volume in the first six months of 2026 compared to last year. And 9,344 breweries were operating in 2026, down 1.8% from 9,515 a year ago. Recently, Exton, Penn.-based **Iron Hill Brewery** closed its 16 locations and filed bankruptcy. There are multiple reasons for the problems, including the proliferation of flavored malt beverages, ready-to-drink canned cocktails, non-alcoholic alternatives and THC-infused beverages. Gacioch said there are more craft beer drinkers now than ever before, "but they drink far less."



STATS AND QUOTES

WHEN FREE ADVICE IS WORTH MORE THAN YOU PAID FOR IT	
Fred LeFranc CEO, Results Thru Strategy	On the advice he received from his mother when he told her that he got a job, at age 12, at a pharmacy for $1.25 per hour: "When you go to work tomorrow, I want you to work at the level of which you want to be paid next." *The Business of Joy Podcast with Lisa Miller*
Patrick Doyle Exec Chair, Restaurant Brands International	On how restaurant businesses drive growth: "It's not going to be a new promotion that's going to do it. It's going to be that our marketing is talking about the truth, which is you're having a better experience at Burger King now than a year ago, and you're going to have a better experience a year from now than you do today." *Restaurant Brands International, August 8 earnings call*
Andrew Cherng Co-Founder Panda Express	NBC's Savannah Sellers asked Cherng if he ever thought Panda might not work, or if he thought it would have over 2,000 restaurants: "Definitely not the latter. To survive I didn't have a choice. Either I was going to get it done or get it done." *NBC Today Show, August 26*
Chris Doody Founder, Piada Italian	"How many restaurants are you going to build? How many restaurants are you going to build successfully, that's the key. " *Choppin' It Up Podcast with Michael Halen on Bloomberg*
Don Fox, Former CEO, Firehouse Subs	"The digital factor has also changed the nature of our interaction with the guest. Some of this has added value to the experience. On the other hand, it has reduced the opportunity for personal engagement, which makes it more challenging to 'wow' someone and forge a relationship." *Interview in Total Foodsevice June 2026*
Torsten Slok Chief Economist, Apollo Global Management	"The more debt you have, the more you are hurt by high interest rates, which is a different way of saying that high-quality companies with low leverage and actual earnings are more attractive both from a debt and equity perspective." *The Daily Spark September 7, 2026*

INTEREST RATES (%)

	9/11/26	Last Month	A Year Ago	Trend
Fed Funds Rate	3.75	3.75	4.50	↓
AMERIBOR Rate *	3.68	3.68	4.44	↓
30-Day SOFR**	3.62	3.64	4.35	↓
90-Day SOFR**	3.62	3.64	4.35	↓
1-Year Treasury	4.34	4.03	3.93	↑
5-Year Treasury	4.79	4.39	3.84	↑
10-Year Treasury	4.97	4.68	4.33	↑
30-Year Treasury	5.36	5.24	4.92	↑
Prime Rate	6.75	6.75	7.50	↓

*AMERIBOR is a benchmark interest rate based on overnight unsecured loans transacted on the American Financial Exchange (AFX).

**Secured Overnight Financing Rate

Investment advice from the late Benjamin Graham in his iconic book, The Intelligent Investor. "Investment of money and securities is unique among business operations, and that it is almost always based in some degree on advice received from others. The great bulk of investors are amateurs. Naturally, they feel that in choosing their securities they can profit by professional guidance. If the reason people invest is to make money, then in seeking advice, they are asking others to tell them how to make money. That idea has some elements of naïveté. Business people seek professional advice on various elements of their business, but they do not expect to be told how to make a profit. That is their own bailiwick. When they, or non-business people, rely on others to make investment profits for them, they are expecting a kind of result for which there is no true counterpart in ordinary business affairs."

A short snippet from a speech the late Charlie Munger gave to the business school at the University of Southern California in 1994: "The constant curse of scale is that it leads to big, dumb bureaucracy, which of course reaches its highest and worst form in government, where the incentives are really awful. That doesn't mean we don't need governments, because we do. But it's a terrible problem to get big bureaucracies to behave. And as things get very powerful and very big, you can get some really dysfunctional behavior. Look at Westinghouse. They blew billions of dollars on a bunch of dumb loans to real estate developers. They put in some guy who'd come up by some career path. I don't know exactly what it was, but it could've been refrigerators or something. And all of a sudden, he's loaning money to real estate developers building hotels. It's a very unequal contest. And, in due time, they lost all those billions of dollars."

Fallen Angel Restaurant Stocks: We Found Two Potential Diamonds in the Rough

As is many industries, a number of once high-flying restaurant stocks have corrected sharply. Stocks like BRC Inc. (Black Rifle Coffee Company-BRCC), Good Times Restaurants, operator of Bad Daddy's Burger Bar and Good Times Burgers & Frozen Custard (GTIM), and The One Group Hospitality, operator of well-known restaurant chains like STK, Benihana and Kona Grill (STKS), all trade at sub-$2-per-share prices and have plummeted 66% to 94% over the last five years, causing their stock market caps to decline to just $120 million, $16 million, and $53 million, respectively. Note: BRCC's closing share price on August 28 was $8.44, only because it implemented a 1-for-10 reverse split.

Investor interest has dramatically eroded and trading volume has nearly vanished in most of these fallen angels. For example, average daily trading volumes in BRCC, GTIM and STKS are only 118,000, 47,000 and 23,000 shares, respectively.

Most stocks which have plummeted from lofty levels to share prices below $2 never recover because specific economic conditions and fundamentals have moved adversely and/or they have taken on far too much debt in order to survive. STKS is a good example of such behavior. Its combined debt and preferred stock outstanding totaled about $550 million on June 28, up from just $72 million on December 31, 2022. However, two beaten-down restaurant stocks could prove to be exceptions to this and could potentially represent interesting opportunities for speculative investors: GEN Restaurant Group (GENK), which recently changed hands at approximately $1.91 per share, and Rave Restaurant Group (RAVE), which last traded at about $3.13.

• GEN Restaurant Group's stock has lost just under 90% of its value over the last five years. The company has 49 restaurants in 10 U.S. states and five in South Korea that offer traditional Korean and Korean-American food in a casual dining setting. It also operates a rapidly growing consumer packaged goods (CPG) business which could soon achieve an annual revenue run-rate of $35 million to $40 million. Notably, GENK's CPG business has secured purchase commitments from 100-plus U.S. Costco warehouses.

Most interestingly, on August 10, GENK received a non-binding letter of intent (LOI) from a so-far unidentified nationwide, multi-concept restaurant operator to acquire its U.S. restaurant operations for about $100 million. GENK would retain its CPG business and its South Korean-based restaurants, per the LOI. The offer reportedly includes the assignment of the U.S. restaurants' operating leases which represents much of the debt on GENK's balance sheet. GENK's Board is currently reviewing the LOI; its CEO has noted that "a transaction of this nature could make strategic sense." GENK's stock market capitalization is around $63 million.

Setting the LOI aside, GENK looks inexpensive on an enterprise value (EV)-to-revenue basis. More specifically, GENK's EV is about $245 million if we categorize its operating lease liabilities as debt. Given management's $215 million to $225 million revenue guidance for 2026, this suggests that GENK's EV-to-revenue ratio is only about 1.1x. On the other hand, GENK is not attractively valued on the basis of its essentially breakeven adjusted EBITDA over the 12 months ended June 30, 2026.

• A stock which has declined about 80% from its approximate $14 all-time high in March 2015, Rave Restaurant Group franchises, licenses and supplies Pizza Inn and Pie Five pizza restaurants. Unlike many pizza franchises, Pizza Inn not only had positive same stores sales growth (+2.3%) in the quarter ended March 29, 2026, it also opened (not closed) restaurants in the fiscal year ended June 30, 2026. RAVE trades at EV-to-trailing 12 months (TTM) revenue and EV-to-TTM-adjusted EBITDA multiples of 2.6x and 8.5x, respectively. RAVE's EV-to-adjusted EBITDA multiple represents a discount to the approximately 9x-to-10x average multiple of the casual dining restaurant group.

RAVE's balance sheet and cash flow position are both impressive. It had $12 million of aggregate cash and short-term investments ($0.84 per share) as of late March 2026 and no debt. Furthermore, the company generated $3.2 million ($0.22 per share) of free cash flow in the most recently reported 12 months.

Generally, small stocks, even those with solid fundamentals, which have little-to-no analyst coverage, face major hurdles in attaining fair-value pricing in the equity market. Perhaps the biggest of these obstacles is that without analysts actively following and writing about a company, relatively few potential investors even know it exists. A related issue is many investors require independent, third-party confirmation before they consider investing in any security.

Equally important, the operations and growth potential of a small company are negatively affected by a lack of analyst coverage. Simply put, such a void makes it harder for the company to raise the funds it needs to grow profitably: Any equity it raises will likely be done at a less advantageous, and more dilutive, price, and debt financings will carry higher interest rates.

Jim McFadden is a CFA and has 25 years of experience as a Wall Street analyst and portfolio manager.

FOLLOW THE MONEY

Treasury Secretary Scott Bessent seems to have already forgotten the trading principles that contributed to his personal investment success. My overview is that it is a lot easier to profit from the financial distortions created by others than to put in place policy capable of solving near impossible problems. After recently spending $10 billion to stem the decline of the Japanese Yen (the Japanese being the largest holder of U.S. Treasuries) on August 19th, the Treasury announced an increase in its purchases of 10- and 30-year U.S. Treasuries from $2 billion to $4 billion per "operation," and just days ago that was raised to $6 billion. While Bessent makes no secret of his desire to stem the rise in long term interest rates, his statement days ago that "I am the house" is telling in terms of self-deception. You heard it here first.

A buyer of "anything" when providing a support price higher than the natural supply/demand relationship would indicate, can defend the price only as long as they continue to bid. The sellers will keep coming and the buyer must be ready to BUY IT ALL. Bessent can't buy all the Yen or Treasury notes, so he would do best to get out of the way. He and Stanley Druckenmiller, the legendary macro-trader, worked with George Soros when they made billions in 1992 by shorting the British Pound. We think it likely Druckenmiller and Soros are currently short the Yen as well as U.S. Long Bonds.

Jersey Mike's (JMKE) started trading publicly on July 30th and was immediately, and appropriately, considered one of the "best of breed" publicly held restaurant companies. It happens there is weakness among the group of most highly valued (based on EBITDA multiple) restaurant names, namely CAVA Group (CAVA), Dutch Bros (BROS), Kura Sushi USA (KRUS), Chipotle (CMG) and Wingstop (WING). I consider these the "fab five" as comparables, all with unit level cash-on-cash returns of at least 35-40%, unit growth of at least 10% (slightly lower at CMG), earnings and EBITDA compounding at 15-20% annually or more, and four of the five virtually debt free.

While JMKE at $22per share trades about 24x trailing twelve months adjusted EBITDA, the five comparables are: CAVA at 34x, BROS at 23x, KRUS at 23x, CMG at 20x and WING at 17x. CAVA stock is down over 60% from its high, BROS down over 45%, KRUS down over 60%, CMG down over 40%, and WING down over 70%. I consider that KRUS, CMG and WING have provided sufficient food for thought (no pun intended) to bring their valuations to much more reasonable levels. CAVA and BROS have provided no material fundamental slowdown or question mark and are suffering merely from prices previously implying perfection or better.

In terms of evaluating franchisor JMKE's prospects, I note that four of the "fab five" consist primarily of company-operated locations, WING being the only franchisor. This is important because investors tend to provide higher valuations to "free cash flow," and "asset light" franchising companies so JMKE could have a higher valuation than three of the "fab five." Studying therefore the franchising operation of JMKE, it seems worth highlighting that adjusted EBITDA amounts to an abnormally high 69% of revenues, after stripping out franchisee advertising contributions, which flow through revenues and expenses as an approximate "wash." It turns out that JMKE receives, on top of a 6.5% royalty ($143 million for the 26 weeks ending June 30th), "other revenue ($117 million), which primarily includes supplier program payments, technology fees, initial franchise fees and upfront development fees in connection with franchise and area development agreements, and gift card income." While other franchising companies have similar revenue sources, the comparable EBITDA as a percentage of revenues, ex- advertising, is about 45% at WING, 28% at Domino's, 33% at Restaurant Brands, 44% at Yum Brands, and 48% at McDonald's. Offsetting this apparently larger burden on franchisees, there does not appear to be visible resistance, since Jersey Mike's 1,600-unit development backlog is 90% from existing franchisees and if sales continue northward, that should continue to be the case.

JMKE management's description of future opportunities includes some form of the initiatives that have helped WING, CAVA, BROS and the other public success stories. Investors love new names, searching (most of the time in vain) for the management team that does not stumble, and can overcome macroeconomic challenges as well. In this case, CEO Charlie Morrison made a lot of money for WING investors and franchisees and will likely be given the benefit of the doubt.

In conclusion, notwithstanding my desire to learn more about why JMKE's EBITDA margin is so much better than franchisor peers, it won't matter if systemwide same store sales (currently up 2-3%) are at least sustained, especially if the rate of increase (the 2nd derivative) should rise. Remember that each of the fab five, down so much from their highs, went up a lot before they came down to earth. My belief is that Morrison and Co. is likely to show progress, at least in the short to intermediate term, so I'm currently inclined to be long JMKE.

Roger Lipton publishes regularly at rogerlipton.com on the restaurant industry and fiscal and monetary conditions. He also advises restaurant companies and manages private investment portfolios within the gold mining industry. He can be reached at 646-270-3127 or lfsi@aol.com.

Continued fom page one

Perspective no. 2: Inflation and cost pressures shift priorities

"Operators continue to face lower transaction counts, COGS inflation, labor pressures, and a very cautious consumer. Current franchisees and other investors want to selectively deploy capital only into healthy, scalable brands that leverage technology to improve efficiency and reduce labor costs."— Kevin Contat, Director of Franchise Banking, Old National Bank

Perspective no. 3: Cash flow volatility kills deals

"Unpredictable store cash flows are the single largest factor in the M&A slowdown as lenders and buyers simply struggle to trust current quarterly earnings enough to back a deal. Traffic and profitability are the more important factors for the financial health of the franchisee but also their ability to finance deals." — John Dysart, Head of Franchise Finance at M&T Bank

"Uncertainty" is the word you hear when you talk restaurants with multi-unit operators and lenders, especially when discussing the legacy QSR hamburger and pizza segments. The question is whether the traffic slowdown in this segment is just a blip brought on by higher gas prices and other stresses on the consumer, or if there's a permanent change in consumer behavior.

During a recent webinar on franchise finance that I moderated for Franchise Times, Cristin O'Hara, Bank of America's restaurant group head, told me she was a "little concerned" about traffic problems but noted that some segments, particularly in casual dining, were doing well, and that independent restaurants were bucking the trend. "I think we have a story of winners and losers," said O'Hara.

Huntington Bank Managing Director Vance Waldron suggested that in addition to stress on the consumer's discretionary dollars, traffic is challenged because of competition.

"While the consumer is still spending, they're less willing to do that indiscriminately. There's just more options," said Waldron.

One of a kind

When in New York, I made a point to dine at Trattoria Dell'Arte, across from Carnegie Hall. My go-to is the chicken parmesan—smothered in mozzarella and topped with perfectly curled, crispy pepperoni. The dining room is usually buzzing with energy. I saw Jerry Seinfeld having dinner once, and another time sat a table away from Sean Connery. Its owner, Shelly Fireman, operated some of the highest-volume restaurants there and was one of the most memorable characters I've come across in the hospitality industry—and believe me, I've met a few.

Two moments with Shelly really stick with me: Back in the late '90s, he called to say he was expanding his Brooklyn Diner concept and wanted my take on whether franchising was the right path. I told him I'd be in the city the next week. When I arrived, his personal chauffeur picked me up in a Rolls-Royce limo to kick off a whirlwind, five-restaurant tasting tour of the very best of Shelly's restaurants. He talked at length about food and hospitality, and the early days of his first place in New York, The Hip Bagel, where Joan Baez, Bob Dylan, Andy Warhol and Barbra Streisand were regulars. It was a memorable night for me.

Another time we were having lunch at the Red Eye Grill when I asked for his take on Danny Meyer eliminating tipping across his Union Square Hospitality Group restaurants.

"Oh, I absolutely love it," Shelly grinned. When I asked him why, he delivered the punchline: "Because all his best servers are quitting and coming to work for me."

Shelly Fireman died in October at the age of 93, a one of a kind. But I was shocked to later read that Fireman Hospitality filed bankruptcy last month. I'm sure Covid had an impact, however, a quick read of the filing indicated the real problem: merchant cash advances, some $4.9 million spread over six different companies. That was the kill shot. As I've written extensively, merchant cash advance is a restaurant hit man. Had I known, I would have warned him to stay away.

—John Hamburger

RESTAURANT FINANCE MONITOR

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