

YOU DON'T HAVE TO REINVENT THE WHEEL. VISIT THE GRAVEYARD, DON'T END UP THERE! - available to non-subscribers

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I have followed the restaurant industry for four decades; have invested hundreds of times in chain restaurant companies (public and private). Have lost more times than I normally like to admit, and fortunately have earned a lot more than I have lost. I consider it “therapeutic” to review some of the previously public companies that have disappeared. I have studied them all, invested in and/or advised some of them, and interfaced with virtually all of the management teams. Industry legends such as Norman Brinker (Brinker Int'l), Dave Thomas (Wendy's), Jim Patterson (Long John Silver's), Harold Butler (Denny's), Jim Collins (Sizzler), Allan Karp (Karp & Reilly), and many others were keynote speakers at my annual Restaurant Industry Conference during the eighties and nineties.

Among the companies that appeared (in no particular order) were: Max & Erma's, Po Folks, Rax Restaurants, Shoney's, Sizzler, Skolniks, Uno Restaurant, Magic Restaurants, GD Ritzzy's, D'Lites, Checkers, Daka International (Fuddruckers, Champps), GB Foods (Green Burrito), TPI Restaurants, Vicorp, Ground Round, Morgan's Foods, Bayport Restaurant (Crabhouse), Blimpie, Boston Chicken, Main Street and Main (TGIF), Wall Street Deli, American Family Restaurants, Austin's Steaks & Saloon, Boston Restaurant Associates (Pizzeria Regina), Italian Oven, New World Coffee, Pudgie's Chicken, Rattlesnake Holding, Shells Seafood Restaurants, Rally's, Buffets, Ciao Cucina, Logan's Roadhouse, Rainforest Café. Most of these companies are GONE, None are publicly held any longer.

There are many others that didn't necessarily appear at my conference. Remember Chi Chi's and Ryan's Family Steakhouse, two of the most attractive concepts from the early eighties. Both had fully loaded sales/investment ratios over 2:1 at the time.

Today there are established companies such as McDonald's, Wendy's, Jack In The Box, Yum Brands, Chipotle, Panera and others, as well as a new crop of publicly held companies such as Papa Murphy's, Noodle's, Potbelly, Habit Restaurants, Wing Stop, Rave (Pizza Inn and Pie Five), Zoe's, One Hospitality (STK), Ignite (Joe's Crab Shack and Brick House Tavern), Del Frisco's, Fiesta (Pollo Tropical and Taco Cabana, Del Taco and others. The obvious message for restaurant managers, investors, lenders, analysts and investment bankers: There are lessons to be learned; hopefully I've learned a few, how about you?

You've Asked Rog:

A manager of my local Chipotle tells me that his sales have firmed up again since the slowdown this summer. Maybe the decline in the stock (from 760 to 720) has been overdone?

Rog answers:

I would canvas more than one store, in more than one region, before drawing any "anecdotal" conclusions. One of the first questions I ask employees as I canvas retail establishments, which I do, is: "How long have you been with the Company?" Sometimes an employee has been there just a couple of weeks, sounds great but has no real perspective. Meanwhile CMG is trading at one of the highest valuations in the industry so I would wait for a better buying opportunity.

You've Asked Rog:

I hear from a couple of McDonald's franchisees that this new CEO, Steve Easterbrook, is making a lot of sense to most. Sales are apparently still "flattish" but he sounds good so far. Is there an opportunity here?

Rog answers:

He just became CEO earlier this year, so it will take a while because this is an awfully big ship to turn around. I think the biggest appeal of the stock here is the secure dividend, and the possibility of some sort of monetization of their royalty stream or huge real estate holdings. Upside here I don't know, but there shouldn't be much risk at this level.