

OLGA'S KITCHEN - Privately Held "Up & Comer"

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Olga's Kitchen

Olga's Kitchen, founded in 1970, is owned by TEAM Schostak Family Restaurants (TSFR), which operates more than 100 restaurants (including 26 Olga's) throughout Michigan. TSFR also operates as a franchisee of Applebee's, Del Taco, and MOD Pizza, having sold its 60 franchised Burger King restaurants in 2015.

TSFR is led by executive chairman, Mark Schostak: President, Bill Angott: CFO, Ken Stanecki: and V.P. of Operations, Michael Kosloski. As suggested by their titles, the former provides strategic guidance while the latter is responsible for day-to-day decisions. Schostak is also partner in multiple Schostak family entities, which are involved in commercial and residential real estate, as well as many community and philanthropic activities. He has been prominent in both Michigan-based and national restaurant/franchise associations, has been part of the Young Presidents' Organization for over twenty years, and earned an executive MBA from the YPO Executive Education Program at Harvard Business School.

History

Olga's was created in 1970 by Olga Loizon, originally as a 10' x 10' booth in what was then the Continental Market in Birmingham, Michigan. The brand has consistently been viewed by Michigan natives with nostalgia, providing warm memories of their youth. While Olga's, fair to say, lost some luster over the years, TSFR viewed the brand as having a special place in Michigan's business history and consumer culture, still having potential for profit and growth. Going back to 2004, a Schostak affiliate entered into a joint venture partnership with Olga's, investing in 11 locations. Late in 2015, TSFR bought the Olga's corporation and gained control of then 25 locations. Since the acquisition, two new locations have been opened and several refurbished. One underperforming restaurant has been closed and one has been relocated out of an enclosed mall.

Concept

The menu has always revolved around its signature secret recipe bread, originally rolled, kneaded, baked and balanced by Olga herself. This full-service concept, historically in stores 3,500 to 4,000 square feet in size, serves a family oriented menu consisting of soups, salads, sandwiches and entrees. No alcohol is served. Under TSFR, the Mediterranean inspired menu has been updated to bring back the most popular items, using the highest quality locally sourced ingredients to produce the original Ham & Cheese Olga, Olga's Spinach & Cheese Pie, and the Orange Cream Cooler™. The decades long reputation, physical refurbishment in some cases, the fresh emphasis on high quality ingredients, the attractive platter presentations and the rejuvenated hospitality culture, have

combined to significantly improve sales trends over the eighteen months since TSFR acquired the brand.

Store Level Economics

Legacy locations are averaging in excess of \$1.35 million annually. 55% of the business is done at lunch, 45% at dinner, so the relatively equal dayparts offer two opportunities for improvement. Importantly, near 40% of the revenue (outside of the several mall based locations) is To-Go, and this portion has been growing at a double digit rate. Catering is very modest to this point, but can be built upon over time. New locations are expected to be 3,000 to 3,800 square feet, 10-15% smaller than the historical average, with a \$750K build-out cost, and targeted to generate \$1.5M annually. Prime costs (cost of goods plus labor, including benefits) run 58-59 points. We estimate that EBITDA at the store level is at least 20%, so the EBITDA cash return on \$1.5M would be \$300K, or 40% cash on cash return on the \$750K investment. There is a "Fast Casual" version of Olga's, originally converted from a Wendy's in 2011, that TSFR has cosmetically improved and is now annualizing in excess of \$1.5M. Within the next twelve months, a new and improved Fast Casual version is expected to be opened. The new Fast Casual Olga's, in addition to meeting the sales target above \$1.5M, promises to cut prime costs by 3-5 points.

A variety of physical and operational improvements were put in place to refresh the brand subsequent to the acquisition in late 2015. In spite of the challenging macro environment and competitive family dining sector, same store sales turned positive by period 7 of calendar 2016 and have been from 3% to 6% positive since. The several remodeled locations generated same store sales positive by double digits in the first quarter of 2017, nine points better than the "base" stores, especially impressive since industry benchmark sales were negative by 1.5%.

The Future

Olga's is expected to grow to approximately 35 locations over the next four to five years, no doubt mostly adding to the brand's Michigan presence. TSFR is expected to invest up to \$5 million to fund this expansion. Olga Loizon continues to play a role in the Company. As the Company puts it: "Olga's Kitchen is more than just a restaurant. It's a powerful connection to one woman's passion. The Olga's culture is one of family, connectivity and sharing a good meal with family and friends."

Our interest in Olga's is not because we believe the Company will be public any time soon, especially since the Schostak family is well-equipped to provide future investment capital. **We present Olga's to our subscribers as an example of what can be accomplished "market by market" by a dedicated multi-unit "independent", in this case by a well established brand that has been rejuvenated. Thirty or forty restaurants in Michigan will likely serve good food to happy customers, generate in excess of \$50 million in sales, and produce over \$10M of cash flow at the restaurant level. Olga's will generate a more than satisfactory return on capital for their owners. Equally important, especially to TSFR and the Schostak family, all**

kinds of positive contributions will be made to the local community, not the least of which will be the productive employment of over 1,500 (mostly) young people. Admirable, from any standpoint.