

&pizza – Privately Held “Up & Comer”

Date : August 9, 2017

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INTRODUCTION

Michael Lastoria, founder and CEO of **&pizza**, provides us with a current lesson in brand building, leadership by example, and “walking the talk”. This Washington, D.C. based company opened its 22nd location (all company operated), the first in New York City, about two months ago, with a second location to follow this fall, and Michael has moved to NYC to oversee the introduction into this challenging market. On each of my personal visits, five times since opening, Michael has been front and center, involved with the customers and the staff to a degree that is admirable.

MANAGEMENT BACKGROUND

Thirty seven year old Lastoria’s background, and personal appearance (long hair, beard and casual dress) may be far from conventional, but his brand building wisdom and commitment to the task at hand are easy to discern. Raised in a small farm town in Western NY, college educated at Westmont College in California (it *can* be done without Harvard Business School), Michael started a marketing and media services company in NYC at 22 years of age, built it to three offices and 100 employees over four years, and sold to a private equity firm in 2006. **&pizza**, as he describes it, is a natural reflection of his life’s experience, but especially his desire to build a legacy not only as a successful business but a contribution, including the corporate culture, to society at large. Lastoria’s brand building vision is to “elevate everything”. The **& ampersand** is about connecting people through pizza, and Lastoria views the brand long term as broader than just pizza. As he puts it “the & brand represents craft products, reimagined. It’s our version of the truth”. While **&pizza** pursues “The Truth”, the “anti-establishment” vibe is clearly apparent in the stores, and customers are responding to an impressive degree as described by the economic results below. Many of the employees are pierced and/or tattooed. The employees are “The Tribe”, designed to unite employees in a common cause. The screening process and training is intense. Employee rewards include “swag” and tiers of achievement include designation as Troublemaker, Rebel, and Maverick.

THE UNITS

&pizza locations are “fast casual”, serving customized pies in a manner similar to MOD, Blaze, Pieology and others. However, the leadership, the products, the employees, the physical surroundings, and also the economic rewards are “differentiated”. The unit sales are over \$1,000 per square foot, averaging well above \$1.5M in only 1,500 to 1,800 square feet. Store level EBITDA has been about 23%, after 28-30% cost of goods and 26-28% labor, generating a cash on cash store level return of over 50%. The average investment per store is \$775,000. The pies are oblong in shape, with a choice of three crusts, loaded with a broad choice of ingredients. 28-30% CGS is high in the pizza business so the price/value perception of the product is excellent.

Customers are well serviced by an enthusiastic crew, since 26-28% labor is plenty when sales are over \$1,000 per sq.ft. Flavor combinations, including soft drinks, cookies, water, tea, everything but craft beers are **\$pizza** branded. Customers can choose from generous toppings or nine signature pizzas such as “American Honey” that features a drizzle of Mike’s Hot Honey, spicy tomato sauce, mozzarella balls, pepperoni, arugula, goat cheese and red pepper chili flakes. Customers can also “craft” their drinks by mixing unique house-created flavors. Some companies in this segment run Prime Costs well below the total of 56% in this case, but **&pizza** “makes it up in volume”, and generates a return on capital at least as high as other participants. The lunch and dinner dayparts are about equal at 50% of total sales.

The locations are heavily concentrated in the Mid-Atlantic region: D.C., VA, MD, Philadelphia, and now NYC. The first location opened in Washington, D.C. in 2012. By the end of 2014, there were 7 units, plus 6 in both '15 and '16, with an objective of 8 additional locations in '17. The 23rd opening will be at Astor Place, in New York City’s Greenwich Village, this fall.

BRAND BUILDING

Among the somewhat unconventional brand building initiatives have been a roller skating team handing out free pizza cards in D.C., delivering free pizza to local offices, sponsoring an all deaf rugby team and teaching sign language to “tribe” members. In terms of anti-establishment vibe, free tattoos are offered to employees and the first arriving customers at a new store (22 at the 22nd location on 28th Street, 23 at Astor Place, etc. etc.). The company prides itself on paying \$2.00 over the minimum wage in all jurisdictions except one and guests can earn Loyalty tiers. There is a division of the Company called **&Charity** that works with community organizations.

INVESTORS AND STRATEGIC ADVISORS

In terms of capital and strategic influence, \$40M of funding has been provided to date. Earliest financial supporters have included Sandy Beall, founder and developer of Ruby Tuesday’s. Other investors and Board members include Mark Verdi (current Partner at AVALT, former Bain Capital leadership team), and today’s Chairman of the Board is Highland Capital’s Edward Albertian (long, successful & prominent career at Staples, Inc.).

EXPANSION PLANS

Expansion plans are adequately aggressive, as evidenced by eight new locations planned for 2017 on a base of 19 but Lastoria is more concerned about maintaining operating standards than maintaining the pace of expansion. He has raised capital well ahead of his needs, knowing that any company could have a short term stumble and then the capital would not then be available. He has wisely (in our opinion) avoided the temptation to build stores too far from the Washington, D.C. base so the Company should be able to deal with unforeseen challenges most effectively.

CONCLUSION

&pizza trails, in terms of size, the largest participants in the fast casual pizza category. The Company, however, takes a back seat to nobody in terms of the economic success at the unit

level. There is no doubt in this analyst's mind that Michael Lastoria has the operating skills, the strategic insight, the brand building wisdom, and the dedication to the challenge, to take this Company a long way.