



Webinar

Serving Up Distress

Key Considerations for
the Restaurant Industry

October 1, 2020

Proskauer»

Presenters



Vincent Indelicato
Partner
vindelicato@proskauer.com
+1.212.969.4248



Yuval Tal
Partner
ytal@proskauer.com
+1.212.969.3018



Kristian Herrmann
Senior Counsel
kherrmann@proskauer.com
+1.310.284.5602

Agenda

- Restaurant Industry Overview and Impact of COVID-19
- Distressed M&A Issues
- Considerations for Restaurant Investing
- Q&A



Restaurant Industry Overview & Impact of COVID-19

Primary Restaurant Categories

- Quick Service Restaurant (QSR)
 - Limited Menus / \$5-\$8 price point per person / approximately 200,000 restaurants in 2019 / 15 employees per unit / approximately 3.8 million QSR employees nationwide in 2019
 - “Front of the House Staff” (Approx. 1 staff every 12 tables per shift); “Back of the House” (Approx. 4 staff for every 50 customers per hour); Supporting Staff (Approx. 1-2 per shift)
- Fast Casual
 - Blend of Casual Dining and QSR / \$12 price point per person / substantially same employee numbers as Casual Dining
- Casual Dining
 - Extensive menu / \$15 price point per person
 - “Front of the House Staff” (Approx. 1 staff for every 5-6 tables per shift); “Back of the House Staff” (Approx. 4 staff for 50-60 cover restaurant per shift); Supporting Staff (Approx. 1-4 per shift)
- Fine Dining
 - Extensive menu / \$50+ price point per person
 - “Front of the House Staff” staff (Approx. 1 staff for every 4 tables); “Back of the House Staff” (Approx. 6 staff for 50-60 cover restaurant per shift); Supporting Staff (Approx. 1-4 per shift) Possible commercial relationships with celebrity chefs or restaurateurs / operators

Other Considerations

- Restaurant includes a number of different businesses:
 - Real Estate
 - Services
 - Brand (franchise)
 - Technology – booking; searching
 - Data
 - Delivery
- Typically, owned / operated by different parties
 - Restaurants may be a stand-alone operation or may be part of a larger mixed-use development (hotel, mall, casino, etc.)

Operating Models

- Franchise
- Corporate-Owned
- Management Structure (Fine Dining)
- Opco / PropCo Structures

Restaurant Workforce / Employment Matters

- Very labor intensive business
 - Pre-COVID, employed roughly 16 million people in the U.S. (roughly 10% of the working population)
- In 2019, 35% of restaurant operators indicated that they currently had job openings, which proved difficult to fill (especially “Back of the House” positions)
- Minimum Wage Modifications
- Employee Classification
- Immigration Certification

Financial Performance

- Prior to COVID-19, restaurant sales were estimated to reach a record high of \$863 billion (4% of the US GDP¹), with 2020 sales projected to be up approximately 3.6% relative to 2019²

1. The Market Realist. “The Restaurant Industry: An Overview.”
Available at: <https://marketrealist.com/2019/09/the-restaurant-industry-an-overview/>
2. Nation’s Restaurant News. “U.S. restaurant sales to reach record \$863B in 2019, NRA says.”
Available at: <https://www.nrn.com/sales-trends/us-restaurant-sales-reach-record-863b-2019-nra-says>

Restaurant Industry Food-and-Drink Sales: 2019 Projections

	2018 sales (billions)	2019 sales (billions)	Percent change	Real percent change
COMMERCIAL RESTAURANT SERVICES	\$ 767.8	\$ 795.4	3.6%	1.1%
Total eating-and-drinking places	\$ 592.0	\$ 613.0	3.6%	1.1%
Eating places	\$ 570.8	\$ 591.0	3.6%	1.1%
Full service restaurants	\$ 274.8	\$ 285.3	3.8%	1.5%
Limited-service (quick service) restaurants	\$ 239.1	\$ 246.7	3.2%	0.7%
Cafeterias, grill-buffets and buffets	\$ 6.1	\$ 6.0	-1.9%	-4.4%
Snack and non-alcoholic beverage bars	\$ 41.8	\$ 43.7	4.6%	2.1%
Social caterers	\$ 9.0	\$ 9.4	4.1%	1.8%
Bars and taverns	\$ 21.2	\$ 22.0	3.7%	1.7%
Others	\$ 175.8	\$ 182.4	3.8%	1.3%
NONCOMMERCIAL RESTAURANT SERVICES	\$ 62.5	\$ 64.6	3.4%	0.7%
MILITARY RESTAURANT SERVICES	\$ 2.8	\$ 2.9	3.0%	0.5%
TOTAL	\$ 833.1	\$ 862.9	3.6%	1.1%

1. Nation's Restaurant News. "U.S. restaurant sales to reach record \$863B in 2019, NRA says."
Available at: <https://www.nrn.com/sales-trends/us-restaurant-sales-reach-record-863b-2019-nra-says>

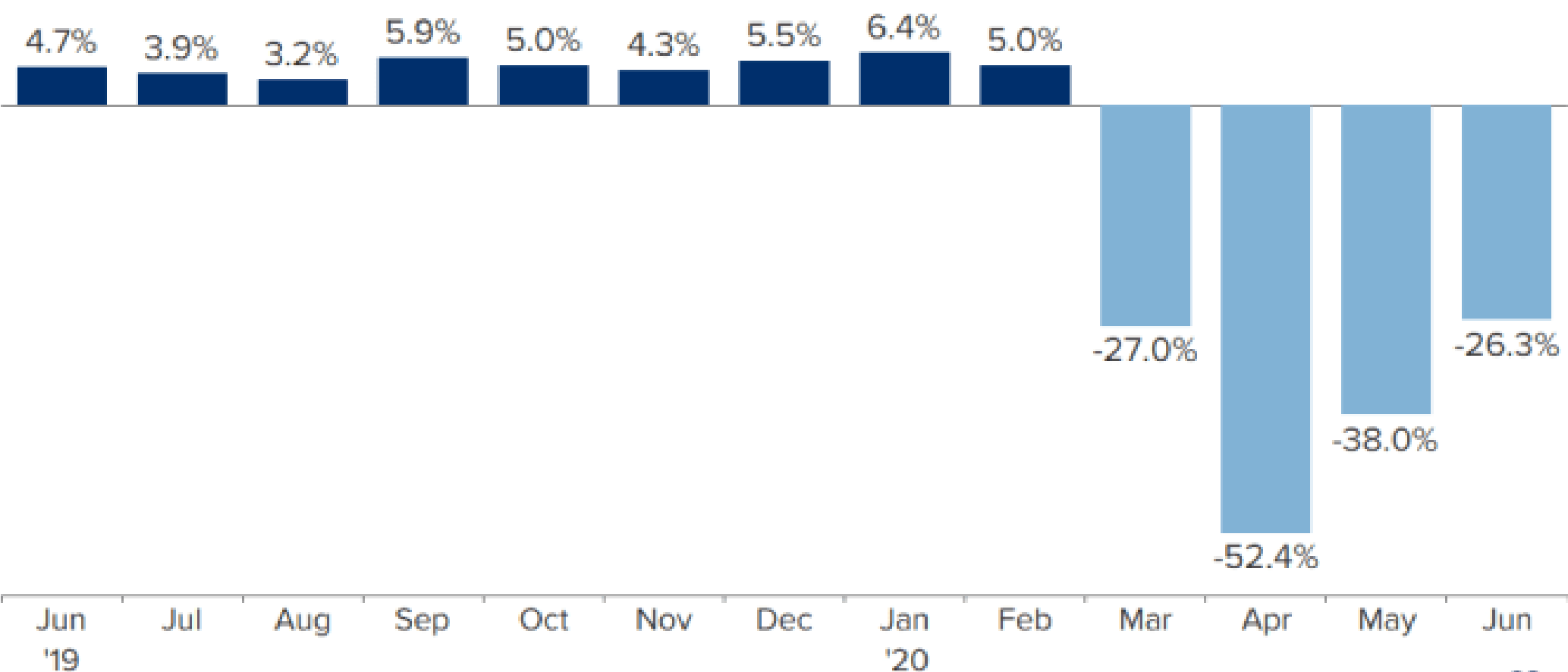
COVID-19's Effects

- The restaurant industry has been significantly impacted by the COVID-19 pandemic
 - Full service restaurants have been disproportionately impacted by the virus, as compared to Pizza, Specialty, and QSR, which have been somewhat more insulated given the nature of their businesses (e.g., larger and established off-premises businesses (delivery, drive-thru, takeout), rather than dine-in focused services; smaller physical footprints with more manageable lease exposure)
 - Significant Number of Restaurant Closures
 - Over 500 Restaurants per day are closing permanently or long-term – e.g. in NYC 1,300 restaurants closed permanently between March and July alone
 - National Restaurant Association indicates that over 100,000 restaurants have closed since the pandemic began (nearly 1 in every 6 restaurants)
 - 40% of restaurant operators say they will be forced out of business in the next 6 months if there is not additional federal aid
 - Experts project that 25% of all restaurants in the United States will never open their doors again
- Three million workers (of the normally 16 million) still unemployed in the industry
- Between March and June 2020, eating and drinking place sales levels were down more than \$116 billion from expected levels, based on unadjusted data¹

1. National Restaurant Association. "Restaurant sales hit a pandemic high in June, but were far below normal."
Available at: <https://restaurant.org/articles/news/restaurant-sales-hit-a-pandemic-high-in-june>

COVID-19's Effects (cont'd): Restaurant Sales Compared to Last Year

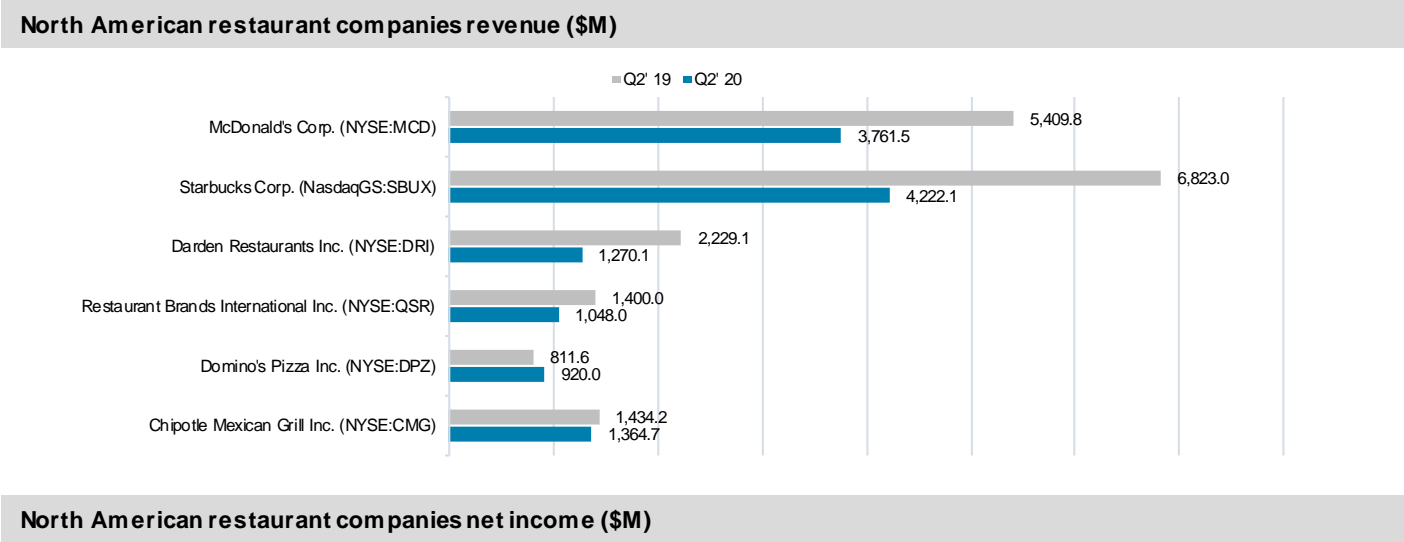
Year-over-year change in sales for food services and drinking places



SOURCE: U.S. Census Bureau. May and June are preliminary estimates.



COVID-19's Effects (cont'd)



Data compiled: Aug. 26, 2020.
Includes reported revenue and net income figures for selected restaurant companies for the quarter ended on or about June 2020 and the year-ago quarter.
Source: S&P Global Market Intelligence

COVID-19's Effects (cont'd)

- Besides an unprecedented decline in revenue, restaurants face other concerns as a result of the COVID-19 pandemic
 - Landlords refusing to negotiate on rent
 - Enhancing liquidity through revolver draws
 - Uncertainty in the capital markets
 - Negotiating credit agreement amendments as a result of defaults
 - Adopting health and safety measures (as well as general business practices) that are compliant with federal and state COVID-19 regulations and recommendations

Notable Recent Chapter 11 & Chapter 7 Bankruptcy Filings

- Chapter 11
 - Sizzler Restaurants
 - Le Pain Quotidien
 - BRIO Tuscan Grille
 - Logan's Roadhouse
 - Fig & Olive
 - NPC International Inc. (Pizza Hut & Wendy's Franchisee)
 - IHOP (CFRA Holdings)
 - Krystal Burger Chain
- Chapter 7
 - Sweet Tomatoes & Souplantation (Garden Fresh Restaurants)

Chapter 11 Restaurant Considerations: What's On The Menu?


- Landlord Dynamics
- Lien Impairment
- Credit Bid Issues and Purchase Price Allocation
- Liquor Licenses
- The Perishable Agricultural Commodities Act (PACA) / The Packers and Stockyards Act (PASA)
- Gift Card Programs
- The Hibernation Strategy
- Franchisor Consent

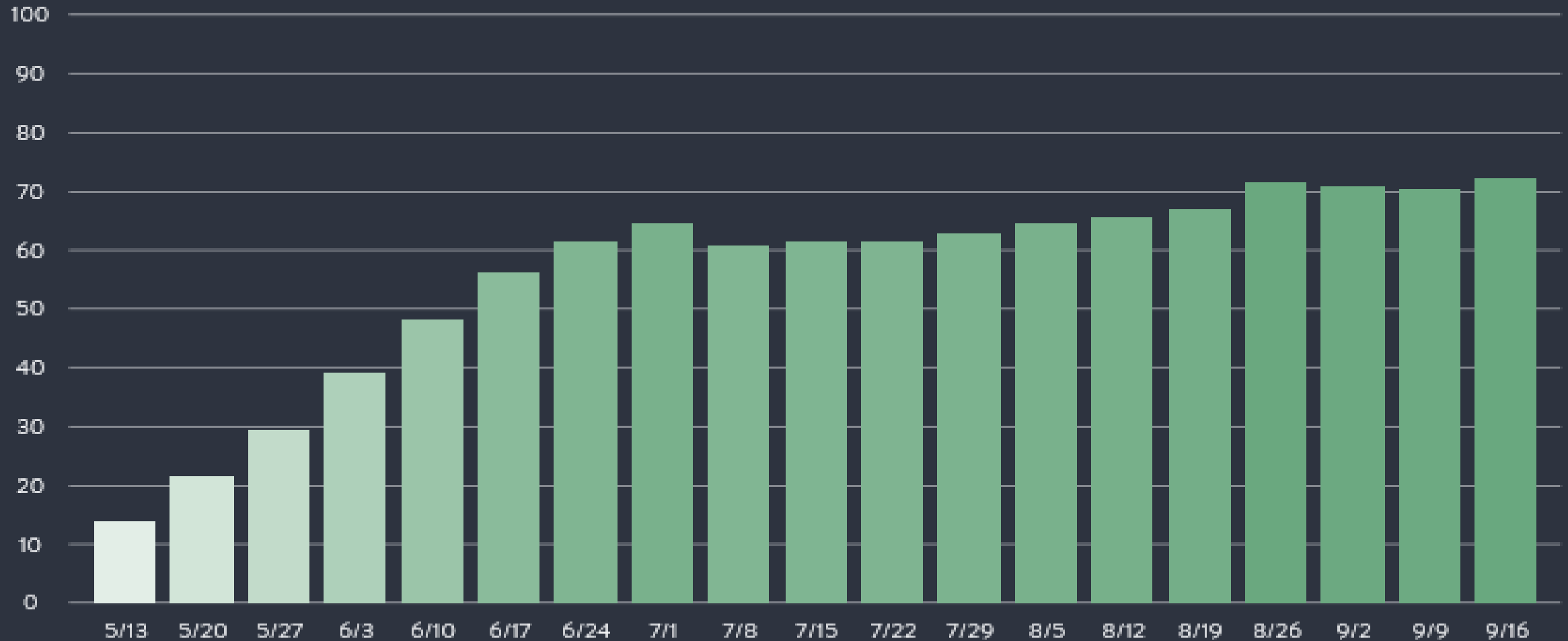
Some Recovery in Light of Partial Re-Opening & Innovation

- CARES Act
 - Federal paycheck protection program (PPP)
 - Employee Retention Credit
- Local “response legislation” – for example in NYC, where enforcement of personal liability provisions in commercial leases or rental agreements involving COVID-19 impacted tenants were temporarily prohibited
- Much of the recovery is attributed to the popularity and (limited) success of outdoor dining
 - For example, nearly 10,000 restaurants have set up outdoor seating in New York City; however, restaurants are still only operating at a fraction of 2019 volume (during the week of August 14th, NYC restaurants were doing about 23% of 2019’s volume in terms of seated customers)
- Innovation and adaption by certain restaurants / brands has limited adverse impacts (e.g., Chipotle drive-thru digital pick up lane; ghost kitchens)

United States

Percentage of restaurants taking reservations

Closed  Open 

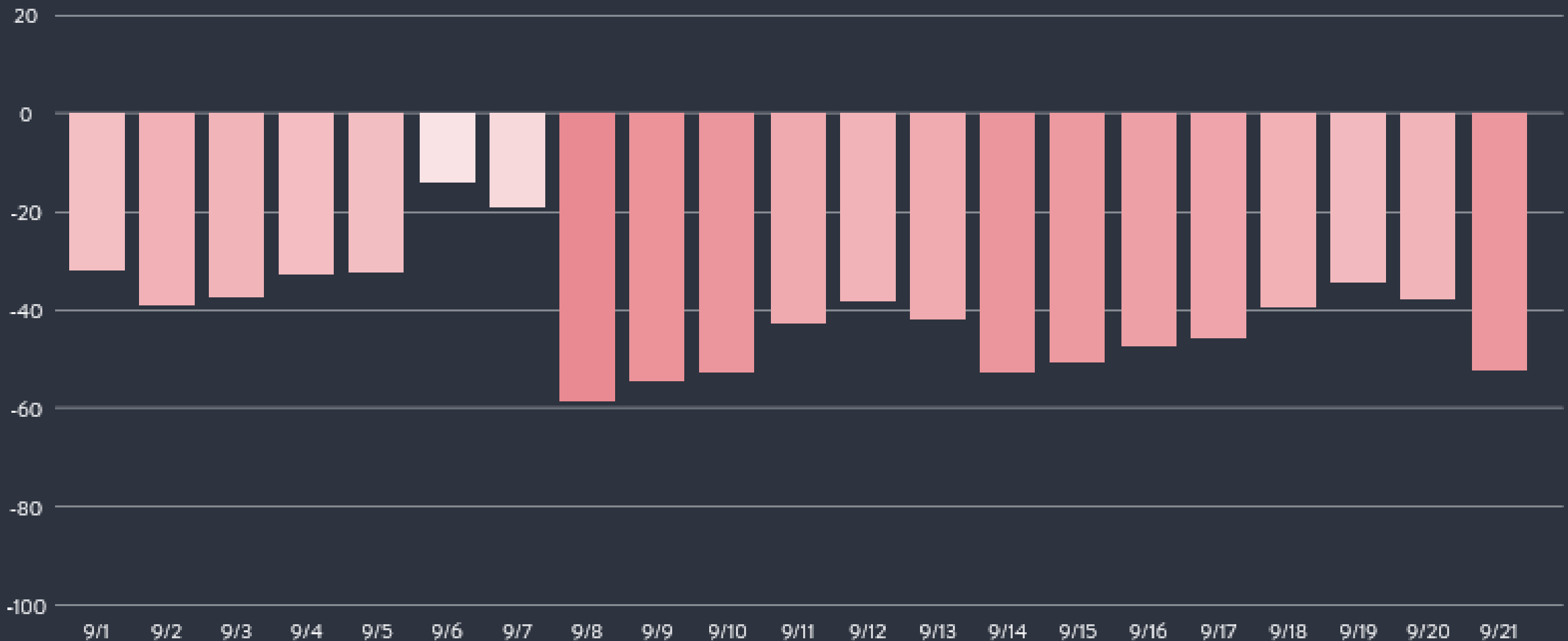


Source: <https://www.opentable.com/state-of-industry>

United States

YOY Seated diners - walk-in and reservations

Decline  Growth 



Source: <https://www.opentable.com/state-of-industry>

Recovery is Still Limited

- Credit agreement amendments are on a fast-approaching timeline
 - Financial covenants are expected to be reinstated in the first half of 2021, although in most instances at looser levels than their pre-amendment counterparts
- Restaurants continue to lag behind as the equity markets have rebounded, mostly due to concerns over COVID-19 re-openings
- Impact of weather and approaching seasonal changes (e.g., hurricanes, west coast fires, upcoming winter months in northern states and corresponding impact on recent outdoor dining model expansion)
- Percentage of restaurants accepting reservations has improved in the last few months

Investment Opportunities

- Acquiring assets at a good price
- Restructuring commercial arrangements
- Update and innovate business plan

Q&A

Presenters



Vincent Indelicato
Partner
vindelicato@proskauer.com
+1.212.969.4248



Yuval Tal
Partner
ytal@proskauer.com
+1.212.969.3018



Kristian Herrmann
Senior Counsel
kherrmann@proskauer.com
+1.310.284.5602



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